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# Reward Fairness: Slippery Slope or Manageable Terrain?

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Management faces numerous challenges in determining how to reward employees. It must balance market competitiveness, internal equity, organizational performance and individual performance considerations. Notably, issues of "fairness" underlie each of these areas. No matter how sophisticated their design, reward programs, policies and practices that are not perceived as fair will not successfully attract, retain and engage employees.

Justice and equity are related concepts that have long been associated with perceptions of pay fairness. Specifically, reward fairness and the related constructs of pay justice and equity have been found to be strongly related to employee attitudes, including: pay satisfaction (Cowherd and Levine 1992; Folger and Konovsky 1989; Lee, Law, and Bobko 1999; Miceli and Mulvey 2000; Shaw and Gupta 2001; Tekleab, Bartol, and Liu 2005); commitment (Cohen and Gattiker 1994; Dulebohn and Martocchio 1998); intention to quit (Miceli, Jung, Near, and Greenberger 1991); and perceived organization support (Miceli and Mulvey 2000). Perceptions of reward fairness also have been found to impact employee behavior such as absenteeism and citizenship behavior (Lee 1995; Colquitt et. al. 2001); individual performance (Cohen-Charash and Spector 2001; Colquitt et. al.); and organization outcomes, such as employee turnover and customer satisfaction (Simons and Roberson 2003).

Although it is known that employee perceptions of reward fairness are strongly related to employee attitudes, behaviors and performance, it is less clear what impact reward practices have on these perceptions. In other words, do certain types of reward programs or policies more closely align with perceptions of fairness than other programs or policies?

To survive and thrive, organizations must ensure that reward programs are rooted in principles of fairness in order to motivate and engage employees from different backgrounds and experiences. The challenges of creating fair reward systems become even more pronounced as organizations develop a global presence and attempt to integrate rewards strategies across countries with different legislative requirements, traditions and cultures and accepted business norms. This study examines how management defines what constitutes fair rewards and the tools reward professionals use to create reward programs, policies and structures that are perceived as fair.

## DATA COLLECTION AND SAMPLE CHARACTERISTICS

A sample of 5,000 WorldatWork members, primarily mid-level to senior reward professionals, was invited to participate in this study. The survey, which required about 15 minutes to complete, was open from Nov. 15, 2010 through Dec. 20, 2010. A total of 568 WorldatWork members from around the world participated in the research. The 11 percent response rate is considered good for a survey of this type and length.

Ideally, the authors would have liked to survey employees directly about their perceptions of reward fairness, but from a practical perspective, few organizations allow such access. Since reward professionals are accountable for the design and administration of reward program and policies, the authors thought that they would be the single most knowledgeable resource within their organizations regarding employee perceptions and concerns of reward fairness and equity. They also would provide the best view regarding how senior management within their organizations assess the impact of reward programs on employee perceptions of fairness.

Figures 1 through 3 indicate that the organizations sampled in this research study are diverse. Figure 1 shows that respondents represented organizations that ranged in size from less than 100 to more than 40,000 employees. The largest group, 35 percent, was organizations of between 100 and 1,000 employees.

Figure 2 shows the diverse range of industries represented by the respondents. The largest was professional, scientific and technical services at 17 percent. More than half (56 percent) of the compensation professionals who responded represented industries with less than 3 percent of the sample.

FIGURE 1 Participant Demographics by Organization Size

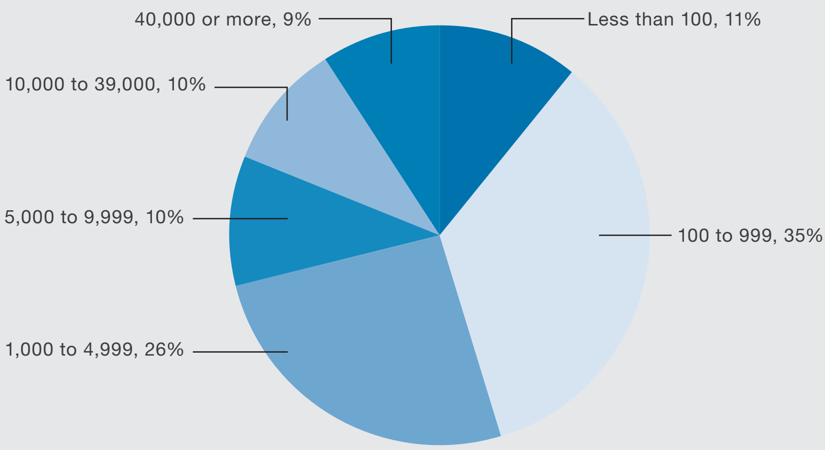



FIGURE 2 Participant Demographics by Industry Sector

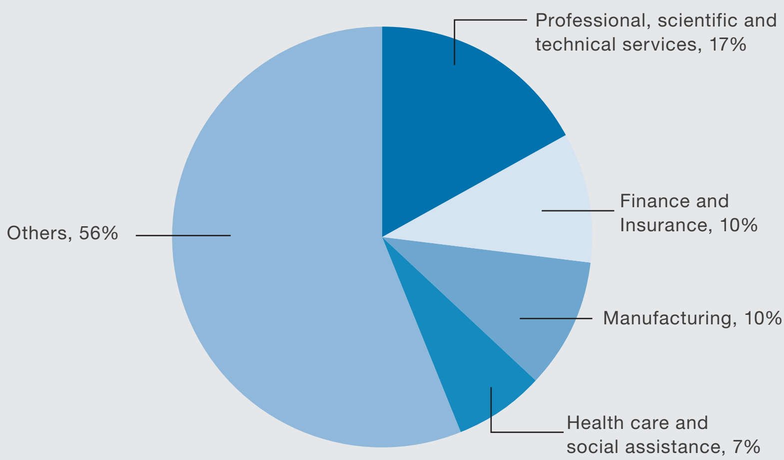
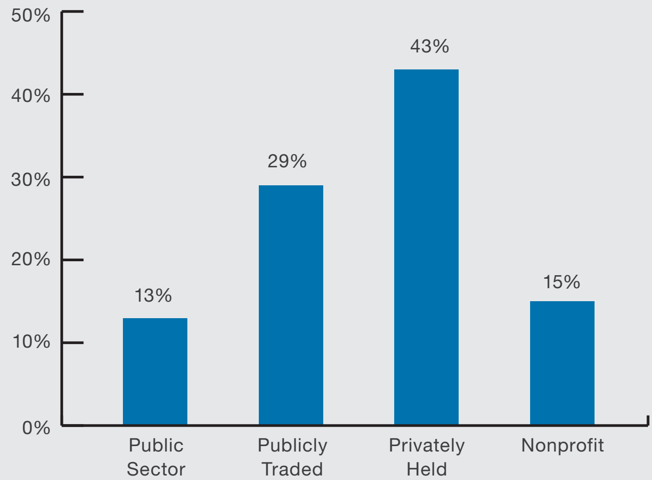



Figure 3 shows that organizations in different sectors of the economy are represented, with private sector/privately held the largest at 43 percent.

Finally, the majority of respondents were from organizations in the United States (76 percent). Other countries represented were: Canada, 17 percent; the United Kingdom, 6 percent; China, Germany, Singapore and Mexico, all at 4 percent; Brazil and Australia, 3 percent; and Switzerland and Russia, 2 percent. Respondents from other parts of Europe, Asia-Pacific and the Middle East each made up less than 1 percent of the sample.

The research findings presented in a series of tables that group responses to statements in terms of internal perceptions of fairness, external perceptions of

**FIGURE 3** Participant Demographics by Organization Type




fairness, and determinants of fairness. The first four tables report the findings from the overall sample. The impact of organization size (i.e., number of employees) and type (i.e., public sector, private sector-publicly traded, private sector-privately held, and nonprofit/not-for-profit) are discussed and the tables reporting these findings can be found in "Report for Respondents Reward Fairness: Slippery Slope of Manageable Terrain?" by Dow Scott, Tom McMullen and Mark Royal at www.worldatwork.org.

## FINDINGS AND IMPLICATIONS

The survey's findings and implications are presented in the following sections:

- Employee concerns about internal equity and fairness
- Employee concerns about external equity and fairness
- Determinants of reward fairness
- Perceived importance of reward fairness among senior management
- Reward fairness and organization demographics
- Suggestions to increase employee perceptions of reward fairness
- Impact of internal rewards equity.

### Employee Concerns About Internal Equity or Fairness

Table 1 shows the extent to which reward professionals report that employees express concern about internal equity and fairness among major elements of a total rewards program. The allocation of merit increases and career development opportunities are most frequently identified as reward elements where employees express fairness concerns. Employees also more frequently express fairness concerns about the total amount they are paid and about the recognition

**TABLE 1** How Often Do Employees Express Concerns About the Lack of Internal Equity or Fairness of the Following Reward Elements? (Frequency scores are response percentages).

| | Mean (Standard Deviation) | (1) Constantly or Persistently | (2) Frequently | (3) Occasionally | (4) Seldom | (5) Never |
|---|---|---|---|---|---|---|
| Base-pay amount | 3.13 (.84) | 2.2% | 19.2% | 45.1% | 30.2% | 3.3% |
| Base-pay/merit increases | 2.98 (.85) | 2.9 | 25.3 | 44.7 | 24.5 | 2.5 |
| Job leveling or grading | 3.46 (.94) | 1.2 | 14.1 | 36.6 | 33.9 | 14.3 |
| Job titles | 3.46 (.92) | 1.4 | 13.6 | 34.3 | 38.7 | 12.0 |
| Variable pay (incentives bonuses) | 3.42 (.96) | 1.8 | 15.0 | 35.2 | 35.0 | 13.0 |
| Flexible work arrangements | 3.53 (.94) | 2.0 | 10.3 | 36.6 | 35.4 | 15.8 |
| Recognition | 3.15 (.92) | 2.6 | 21.2 | 42.4 | 26.7 | 7.1 |
| Health-care benefits | 3.66 (1.00) | 1.8 | 12.3 | 25.7 | 38.9 | 21.3 |
| Retirement benefits | 3.90 (.94) | 1.4 | 5.5 | 25.0 | 38.2 | 29.9 |
| Employee development or training programs | 3.34 (1.00) | 3.4 | 16.4 | 35.0 | 32.9 | 12.3 |
| Career development opportunities | 2.95 (.96) | 5.3 | 26.3 | 42.0 | 20.6 | 5.7 |

they received versus other elements of the rewards they receive. If there is a general theme here, it is that reward professionals report that employees express the most concern about those reward elements where their managers make individual judgments about the level of rewards that employees receive.

Reward professionals report the least internal equity concerns about "health-care benefits" and "retirement benefits" decisions. One might anticipate this response because these rewards are typically extended to virtually all employees in a group and management does not tend to individually differentiate in terms of who will receive them or the individual levels of value to be received.

The authors were surprised, however, that almost 50 percent of organizations reported that employees seldom or never expressed concern about fairness concerns around variable pay (i.e., incentives and bonuses). Although one might think of incentives and bonuses as an individually derived reward, employees may think of it as reward over which their supervisor has little control. Often incentive or bonus funding and payouts are largely based on corporate or team performance and individual payout targets are often based on the position and grade level of the employee. Thus, individual performance as judged by an employee's supervisor may have little overall perceived effect on the size of the bonus/incentive. One might also attribute this lack of concern to the fact that variable pay programs often are explained by management when they are rolled out, throughout the year as corporate and business unit performance is reported, and again when payouts occur.

Table 1 shows that for most elements of reward programs, reward professionals say that only 10 percent to 20 percent of employees "constantly or persistently"

**TABLE 2** How Often Do Employees Express Concerns About the Lack of External Equity or Market Competitiveness of the Reward Elements? (Frequency scores are response percentages).

| | Mean (Standard Deviation) | (1) Constantly or Persistently | (2) Frequently | (3) Occasionally | (4) Seldom | (5) Never |
|---|---|---|---|---|---|---|
| Base-pay amount | 2.94 (.83) | 3.3% | 24.3% | 50.8% | 18.4% | 3.3% |
| Base-pay/merit increases | 3.14 (.94) | 3.7 | 19.9 | 42.1 | 27.1 | 7.2 |
| Job leveling or grading | 3.80 (.89) | 0.4 | 6.6 | 28.8 | 40.7 | 23.5 |
| Job titles | 3.68 (.88) | 1.2 | 8.0 | 28.5 | 46.1 | 16.2 |
| Variable pay (incentives bonuses) | 3.45 (.99) | 2.1 | 15.6 | 32.3 | 35.6 | 14.4 |
| Flexible work arrangements | 3.68 (.96) | 2.0 | 8.2 | 30.0 | 39.0 | 20.8 |
| Recognition | 3.61 (.93) | 0.8 | 11.9 | 29.9 | 40.7 | 16.8 |
| Health-care benefits | 3.64 (.99) | 1.6 | 11.7 | 27.6 | 38.9 | 20.2 |
| Retirement benefits | 3.88 (.94) | 0.8 | 7.6 | 23.1 | 39.9 | 28.6 |
| Employee development or training programs | 3.57 (.99) | 2.5 | 12.3 | 29.3 | 39.1 | 16.8 |
| Career development opportunities | 2.95 (1.00) | 3.3 | 19.1 | 36.6 | 29.6 | 11.3 |

or “frequently” express concerns about elements of reward programs as they relate to internal equity or fairness. All in all, most compensation professionals believe that their reward programs are considered reasonably internally equitable by their employees.

## Employee Concerns About External Equity or Fairness

Table 2 shows the extent to which reward professionals report that employees express concern about external equity and fairness among major reward elements. As is true for concerns about internal equity, reward professionals indicate that employees have the most external fairness concerns about the allocation of base pay, career development opportunities and merit increases relative to the external market. Again, these reward elements individually differentiate employees and have major influence on their financial well-being and status. However, concerns about recognition were not perceived as being as prevalent from an external perspective. The authors suspect that even though recognition is an individually focused reward, it is not easy for employees to compare what is done in the employee’s organization in this regard to other organizations. In general, there was not a significant variation in the degree of concern expressed about lack of fairness between internal and external fairness perspectives.

More than 50 percent of respondents indicated that employees were “seldom” or “never” concerned about external reward equity or fairness as it related to retirement, job leveling or grading, job titles, health-care benefits, recognition, and employee development or training programs decisions.

**TABLE 3** Identify the Two Most Important Criteria in Determining Reward Fairness for Your Organization. (Frequency scores are response percentages).

| | Base-pay | Variable Pay | Non-financial rewards |
|---|---|---|---|
| Seniority/tenure at organization | 22.2% | 8.1% | 25.5% |
| Time in job | 23.9 | 5.8 | 16.7 |
| Work responsibilities associated with the job | 63.7 | 20.2 | 18.0 |
| Individual potential | 16.4 | 12.7 | 19.7 |
| Individual performance | 63.2 | 55.3 | 37.7 |
| Team/Department/SBU performance | 10.2 | 27.3 | 23.1 |
| Overall organizational performance | 19.4 | 51.9 | 16.5 |

## Determinants of Reward Fairness

Table 3 lists the criteria believed to most directly influence perceptions of reward fairness. Respondents were asked to select the two criteria they thought were the most important in driving perceptions of reward fairness for base pay, variable pay and nonfinancial rewards. While respondents were asked to identify two criteria for each type of reward, some reported only one criterion, and thus the columns do not add up to 200 percent.

For base pay, reward professionals believe that work responsibilities associated with the job and individual performance are the criteria that most impact perceptions of reward fairness. Each of these factors was chosen by more than 60 percent of the respondents. The factors chosen least frequently were team/department/business unit performance (10 percent) and individual potential (16 percent).

For variable or incentive pay, individual performance (55 percent) and overall organizational performance (52 percent) were chosen as the most important criteria impacting perceptions of reward fairness. The least important factors for variable pay, as may be expected, are organizational seniority or tenure (8 percent) and time in the job (6 percent). It was somewhat surprising to learn that overall organization performance was used almost twice as frequently as a criterion than team, department or the strategic business unit (SBU). The authors thought that SBU would have played a bigger role as a performance criterion.

Finally, the top driver of the perceived fairness of nonfinancial rewards was reported to be individual performance (38 percent), with responses to other factors more evenly divided among criteria than were previously noted as impacting either base pay or variable pay.

Overall, reward professionals believe individual performance is a primary determinant of reward fairness for the three main categories of rewards — base pay, variable pay and nonfinancial rewards. However, work responsibility is also identified as a primary driver of reward fairness for base pay, so one should not lose touch with the importance of job-valuing processes, such as market pricing and job evaluation, or suffer the consequences.

**TABLE 4** How Important Are Each of the Following in Determining Rewards in Your Organization? (Frequency scores are response percentages).

| | Mean (Standard Deviation) | (1) Very Important | (2) Important | (3) Somewhat Important | (4) Not Important |
|---|---|---|---|---|---|
| Consistency with what has been promised to the employee | 1.73 (.79) | 45.90% | 38.00% | 13.50% | 2.50% |
| Consistency with organization reward philosophy, goals or objectives | 1.61 (.74) | 52.8 | 35.1 | 10.4 | 1.7 |
| Consistency with how other employees in similar jobs are rewarded within the organization | 1.88 (.76) | 33.3 | 48.4 | 15.8 | 2.5 |
| Consistency with how other employees in similar employee groups (but not similar jobs) are rewarded within the organization | 2.24 (.81) | 17.1 | 47.5 | 29.4 | 6 |
| Consistency with how employees are rewarded in other organizations | 2.62 (.81) | 7.7 | 35.1 | 44.3 | 12.9 |

In terms of the importance of broader factors in determining how rewards are distributed, Table 4 indicates that consistency with the organization's reward philosophy, goals or objectives is most important in determining rewards in organizations versus other factors. Also important are consistency with what has been promised to the employee and consistency with how other employees in similar jobs are rewarded within the organization (i.e., internal equity). Given the historical importance placed on external equity by executives and HR leaders particularly prior to the economic downturn, the authors were somewhat surprised that consistency with how employees are rewarded in other organizations was considered the least important criterion in determining the rewards employees receive. This could, to some degree, be a remnant of current economic conditions and the use of more organization-specific criteria determining rewards.

### Perceived Importance of Reward Fairness Among Senior Management

Survey participants were asked to provide insight into how senior management perceived the importance of designing pay systems that were perceived as fair. Since reward professionals work closely with senior managers to design, update and implement programs, the authors think that they would have credible insight into the perception of senior managers. According to reward professionals, senior management is most likely to rate internal reward fairness as an important, but not critical, objective (42 percent of respondents). Only 8 percent of respondents said that internal reward fairness was not considered as an important factor in their reward system design. Senior managers had similar views about external reward fairness. Almost half said that external reward fairness was an important, but not critical, objective (44 percent). Only 6 percent of respondents said that external reward fairness was not considered as an important factor in reward system design.

## REWARD FAIRNESS AND ORGANIZATION DEMOGRAPHICS

Organizational characteristics were examined to determine if reward programs and policies have different impacts on employee perceptions of fairness and equity in different organizational contexts. The authors found two organizational characteristics that were associated with important differences in employee perceptions of fairness: organization size (number of employees) and organization type (public sector, private sector-publicly traded, private sector-privately held and nonprofit/not-for-profit). The analysis from which the following implications are derived can be found in Tables 5-8 of the final study report at www.worldatwork.org.

Organization size influenced the concerns expressed by employees about the lack of internal equity or fairness as it related to base-pay amounts, merit increases, job leveling or grading, job titles, variable pay (i.e., incentives and bonuses), retirement benefits, and career development opportunities. Specifically, reward professionals consistently indicated that more concerns about rewards were expressed by employees in larger organizations than in smaller organizations. One might have thought that because larger organization are more likely to have more formalized, consistent and structured reward systems and larger HR staffs, employees might express fewer concerns about the rewards they receive. However, managers and executives in smaller organizations are more likely to know most of their employees and may be likely to provide a personal touch and understanding regarding employee reward program concerns than is possible in larger organizations.

The researchers found that organization size influenced the concerns expressed by employees about the lack of external equity or fairness as it related to base-pay amounts, merit increases, job leveling or grading, job titles, variable pay (i.e., incentives and bonuses), and retirement benefits. Although reward professionals consistently indicated that more concerns about rewards were expressed by employees in larger organizations than in small organizations, reward professionals in midsized organizations indicated similar levels of concern related to external fairness and equity as did respondents in large organizations.

Reward professionals from different types of organizations indicated significant differences in employees' expressed concerns about the lack of internal equity or fairness, (i.e., job leveling or grading, job titles and variable pay). Specifically, more concerns were expressed by public-sector respondents related to job leveling or grading and job titles than among respondents in the private sector. However, reward professionals reported that employees in the private sector — privately held and private sector — publicly traded organizations expressed more concerns than employees in either public sector or nonprofit/not-for-profit organizations about variable pay. Since public-sector organizations seldom provide an opportunity for variable pay, this likely explains why there are fewer concerns.

Organization type was related to significant differences in employee concerns about the lack of external equity or market competitiveness, i.e., job titles, variable pay and employee development and training. Specifically, more concerns were expressed by public-sector organizations related to job titles than the other organization types. However, reward professionals reported that employees in the private sector — privately held and private sector — publicly traded organizations expressed more concerns then either the public sector or nonprofit/not-for-profit about variable pay and employee development and training.

### Suggestions to Improve Employee Perceptions of Reward Fairness

To obtain insight about which reward programs, policies and practices enhance employee fairness, the survey asked reward professionals to respond to two open-ended questions:

- In terms of improving employee perceptions of internal and/or external reward fairness, what is your organization doing that works particularly well?
- What, if anything, has eroded employee perceptions of internal or external reward fairness in your organization?

A total of 338 of the survey respondents included observations about what worked particularly well to enhance employee perceptions of reward fairness in their organization. As shown in Figure 4, reward communications was, by a wide margin, the most significant theme reported in terms of the factor that impacts perceptions of reward fairness (at 62 percent of all open-ended responses). Communication sub-themes include distilling down to core messages, the frequency of communications, senior leadership involvement in communications, as well as the creativity and innovation of communications. Fourteen percent of organizations said conducting market pay surveys enhanced perceptions of fairness. Other factors that received a substantial number of responses include reward strategy and design (9 percent), a culture of openness and transparency (7 percent) and nonfinancial recognition programs (4 percent).

**FIGURE 4** Improving Employee Perceptions of Reward Fairness

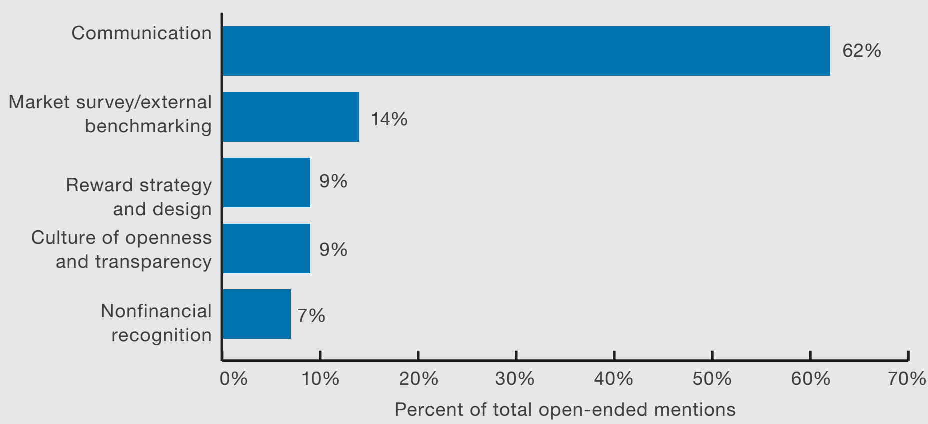


**FIGURE 5** Perceptions of Reward Fairness: What Erodes Perceptions of Fairness (Top 5)

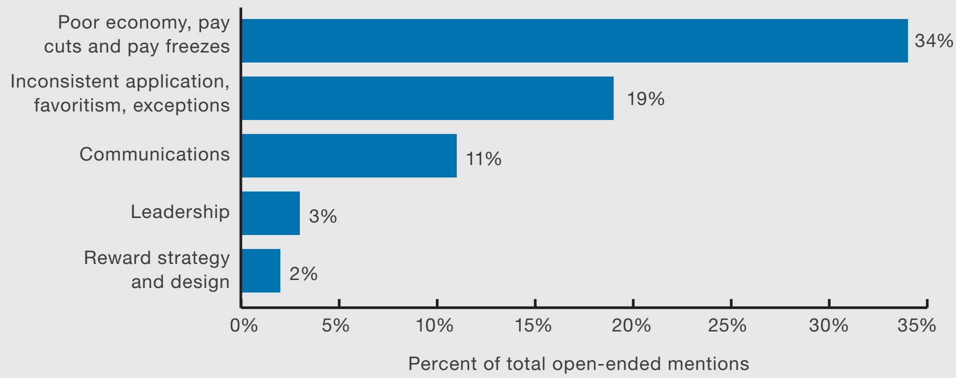



Figure 5 shows the programs, policies and practices reward professionals believe erode employee perception of fairness in their organizations. The 349 observations are much more diverse than those regarding factors that enhance perceptions of fairness and equity. Pay cuts, lack of pay increases, pay freezes, reduced incentive amounts and benefit reductions were the top reasons, cited by 34 percent of respondents, indicating that issues and challenges surrounding fairness in reward systems resulting from the recession are still top of mind in terms of employees. However, inconsistent treatment, favoritism and exceptions in a variety of situations also are attributed to the erosion of employee perceptions of fairness (19 percent). Poor reward communications and lack of transparency also were identified as eroding reward fairness (11 percent). Other factors identified as eroding employee perceptions of fairness or equity include leadership and management, layoffs, mergers and acquisitions, and restructuring.

### Impact of Internal Reward Equity on Employees

Finally, the survey asked reward professionals about what influence they believe internal reward equity or fairness has on "employee engagement," "employee motivation" and "employee satisfaction." More than half of reward professionals believe that it is "extremely influential" for engagement (56 percent), motivation (53 percent) and satisfaction (55 percent). Few reward professionals think that engagement, motivation and satisfaction are only "mildly influential" or have "no effect or neutral" influence, 10 percent, 12 percent and 11 percent, respectively.

## CONCLUSIONS

This study reaffirms that reward fairness is critically important. This study contributes an understanding of how reward professionals believe the programs and policies they design influence employee perceptions. The headlines from this study are:

- Reward professionals believe that employees express different levels of concern about different reward elements. As such, reward professionals need to pay particular attention to fairness issues where individual performance is the primary criterion for rewarding employees, as compared to reward programs that are distributed to employees based on membership (e.g., retirement and health-care benefits) or on team or group results (e.g., incentives).
- Various facets of reward communications are paramount for creating perceptions of reward fairness and equity, and communicating reward issues poorly can erode these perceptions.
- The recession has had a substantial corrosive impact on employee perceptions of reward fairness and equity. As such, organizations and their reward professionals need to work to regain employee trust in reward systems.
- Reward decisions based on individual measures of performance are important in establishing reward programs that are perceived as fair. Employees are more likely to be concerned about fairness issues if individual performance is not rewarded or recognized.
- The frequency of reward concerns expressed by employees in large organizations is higher than in smaller organization. Although larger organizations may have more formally structured reward programs, policies and structures, they would be well advised to give more attention to issues of perceived fairness and equity and to more fully understand the employee's perspective in reward program values.
- Organization type also has influence on the concerns employees express about the reward programs. Fairness issues are different for reward professionals in private-sector organizations and those in not-for-profit or government sectors.
- Reward professionals believe that employee perceptions of fairness and equity have a strong influence on employee engagement, commitment and tenure. To foster and maintain high levels of employee motivation, perceptions of fairness should be monitored and actions taken if they deteriorate.

## RECOMMENDATIONS

Based on this research and the authors' consulting work with organizations, following are seven actions for improving the perception of reward fairness in organizations:

**1 |** Understand your employees' perspectives. The best reward programs are the ones that balance the needs of the organization and the employee, but most organizations do not do an adequate job in understanding their employee perceptions and preferences in the reward program. In fact, previous research by the authors showed that about one in five organizations adequately communicates reward programs. Organizations would be well-served by periodically probing employees' and managers' perspectives of fairness and equity via in-depth surveys and focus groups.

**2 |** Decode your organization's value system. This is important because the organization's mission and values are best understood by senior leadership, which developed them, and are least understood by employees and first-level managers. This also pertains to the organization's reward strategy. Moreover, few reward program strategies explicitly address how fairness and equity are defined and managed. In fact, most reward strategies and philosophies are not sufficiently robust, consist of platitudes and need to be made more explicit. Most organizations need to scratch out their reward philosophy and strategy in more detail and align them with their organization's value system.

**3 |** Define what fairness means in your reward programs. Extending the previous point, how does your organization define fairness (or unfairness) in your reward program? As part of your reward strategy, consider articulating the rationale for the following points and at least equip managers with this rationale.

- What aspects of fairness/equity cause us the most/least concern?
- Should reward programs and policies vary by employee group?
- What types of internal comparisons cause us the most/least concern?
- What values should we be recognizing in nonfinancial reward programs?
- How do we resolve disconnects between internal and external job values?
- What is the degree of openness/transparency in reward communications?
- What is the degree of consistency or decentralization in design and execution in rewards?

**4 |** Focus on rewards that most impact fairness. Fairness in rewards must extend beyond monetary rewards. The ones that matter most to employees are:

- Job design and work valuing systems — organizations need to develop credible criteria, outcomes and, most importantly, processes to manage these systems
- Career development platforms — as the demand for development experiences will usually exceed the supply, clear processes for allocating opportunities are essential
- Performance management processes — matching rewards to contributions requires that performance is appropriately planned, assessed and differentiated
- Recognition processes — recognition should be viewed as a form of (positive) performance management and managers equipped on how to most effectively provide it

**5 |** Develop management capability. At the end of the day, it is the employee's manager who has the most impact on the climate/employment experience of the employee and specifically, whether that employee feels he/she has been treated fairly. Human resources can help managers do a better job by helping them understand the climate they create for their employees, where gaps exist and the behaviors necessary to improve the climate they create for their employees. Human resources can also help build the skills for the manager.

Three key climate criteria the authors see as directly related to perceptions of fairness and a healthy work climate are:

- Clarity — do employees really understand what is important and what isn't?
- Standards — do people know what they are held accountable for, is the work challenging and is meaningful feedback provided?
- Rewards — what are the organization's reinforcement mechanisms and are they consistent relative to employee contributions?

**6 |** Develop strong communication processes. Most organizations have reward philosophies, but relatively few have written them down and even fewer report high levels of employee understanding. The best reward programs poorly implemented will often be less effective in motivating high levels of employee performance than average programs that are well-communicated and well-executed. If the rationale behind reward program elements is not clearly articulated, employee confidence in fairness is likely to be low. Effective communications starts with clarity in key messages and how they are sustained over time.

**7 |** Measure effectiveness. How do you know if your reward programs are fair if you don't measure the effectiveness of them? Most organizations actually don't measure the effectiveness of their reward programs. In previous research, the authors found that less than one-third measure reward ROI. This is largely an organization mindset issue. Organizations and their managers who see reward programs as a cost of doing business have an ultra focus of their evaluation efforts on cost control and benchmarking. Organizations and leaders who view reward programs as an investment focus on optimizing the return on their rewards expenditures. They are more likely to be proactive in determining how employees perceive reward fairness issues and in closing their gaps.

## AUTHORS

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