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Over the past two decades, we have had the privilege of conducting more than 20 research studies where we have engaged WorldatWork members to share their insights on key issues of rewards program management. During this time, our work has been guided by a few overarching objectives:

- There had to be little (if any) previous research done on the subject
- The topic must be of broad interest to readers, provocative and timely

Given these criteria, we typically met a few times to discuss what might be interesting and meaningful topics and then narrowed them to a short list of a couple of ideas and pitched them to our research partners at WorldatWork for validation and further refinement. Collaborating with WorldatWork, we built out a survey instrument and then fielded the survey to the association membership. We would often supplement this with surveying of Korn Ferry and Hay Group clients (note: Hay Group was acquired by Korn Ferry in 2015). We would typically report back these findings at the annual WorldatWork Total Rewards Conference and then write an article based on our findings for the *WorldatWork Journal* (now *The Journal of Total Rewards*).

The purpose of this article is to summarize some of the highlights of what several generations of WorldatWork members have shared with us as well as our perspective on these findings. (Our commentary in this article comes directly from studies where we surveyed WorldatWork membership. These studies are listed at the end of this article and can be accessed from www.worldatwork.org.) Our past research initiatives can be grouped into a few major themes:

Table stakes. Foundational topics focusing on what makes rewards programs effective. These research initiatives include:

- Evaluating rewards program effectiveness
- Rewards alignment: high hopes and hard facts
- Linking compensation policies and programs to organizational effectiveness
- Annual cash incentives: best practices.

Elephants in the room. Topics that are the "tough nuts to crack." We all acknowledge the challenges, but what are the solutions? Topics in this group include:

- Rewards communications for improving employee understanding of pay
- Rewards fairness: slippery slope or manageable terrain?
- Retention of key talent and the role of rewards
- Pay fairness: insights from rewards leaders
- The impact of rewards programs on employee engagement.

The future. While no one can predict the future, it's still fun to try. These topics took a stab at how the future of rewards program management will unfold:

- Rewards next practices
- The future of work and impact on rewards
- The future role of compensation professionals according to your colleagues.

Guilty pleasures. Topics that are a bit narrower, but interesting, nonetheless. These include:

- Rewarding great ideas: can incentives encourage innovation?
- Taking control of your counteroffer environment
- Is there merit in merit pay?

With the exception of a couple of topics (i.e., rewards program effectiveness, impact on employee engagement and counteroffers), these have been unique and stand-alone research initiatives on our part. Regarding the repeat topics, we felt that they were important enough to examine longitudinally. We also assumed

WorldatWork members' perspectives on these topics may have evolved over time. WorldatWork has seen the longer-term value of these efforts as several of these surveys have become the basis for the subsequent longitudinal WorldatWork-directed "Compensation Programs and Practices Survey."

WHAT DID WE LEARN?

If we step back and reflect on all of this work, a few things rise to the top in terms of what we've learned from WorldatWork's membership and how this has shaped our perspective on the state of total rewards in organizations today:

- Rewards effectiveness is a function of organization behavior and process
- There is a greater payback in effective implementation than design
- Common practice is not always best practice.

Rewards effectiveness is a function of organization behavior and process

Most rewards research initiatives focus on the "what" of rewards programs. For example: What programs are provided by organizations? What practices are used to administer them? Are these programs viewed as effective? One of the more profound realizations for us is that the mindset of the organization — and related behavior of its leaders — regarding rewards dramatically shapes how it is perceived and managed in the organization. If rewards are viewed by executives and HR leaders as a cost of doing business, the obvious goal is to minimize it. If rewards are viewed as an investment, the obvious goal is to optimize the return on this investment.

Our research indicates that Fortune magazine's "Most Admired Companies" were much more likely to have an investment mindset than companies who did not make this list. These leading organizations evaluated rewards ROI (64% vs. 38% of all companies) and 21% of them (vs. 9% of all companies) report using financial or operational data in addition to perception data in assessing rewards ROI.

Organizations with executive and HR leaders who view rewards as an investment tend to focus more attention, energy and resources on:

- Aligning their rewards strategy with the organization's people and business strategy and ensuring that the strategy goes beyond platitudes and "Mom and apple pie" statements such as "We pay fairly," "We pay competitively" and "We pay for performance." What do fair, competitive and performance really mean? A rewards strategy is an articulation and blueprint for how the organization will win the war for talent. Yet, we found that many organizations have not effectively clarified, aligned and communicated their rewards strategies. We also found that only 60% of organizations had a documented compensation philosophy that was shared broadly with employees. It is difficult to achieve clarity and understanding when a statement of rewards intent does not exist.
- Ensuring that rewards programs align with both the employees' and organization's interests. While there have been improvements made in this area during the

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past 10-15 years, most organizations continue to design their rewards programs in the ivory tower of corporate HR, finance and operations vs. formally including line manager and employee input. Our research showed that only 20% of organizations actively utilize employee input in rewards program design and only 40% utilize people manager input in rewards design. Organizations with an ROI mindset are more likely to be proactive in understanding how employees perceive the rewards program, especially high-performing and high-potential employees.

- Communicating the linkage between rewards and performance. This is a key differentiator of success. Highly effective organizations spend much more time on creation and alignment of key messages and principles of the rewards program, how to best deploy these messages and how to assess that these messages are being understood by employees. Organizations that see their rewards programs as an investment want to ensure their employees understand the pay program's purpose and design so that they achieve the behaviors they need.
- Equipping managers to be more effective in managing rewards for their employees. More effective organizations spend substantially more time in ensuring people managers have the confidence and tools they need to communicate changes in rewards programs.
- Measuring and assessing the return on the organization's rewards investment. As seen earlier, more effective organizations measure the ROI of their rewards programs using a combination of objective financial, operational and human capital metrics in addition to perceptions of effectiveness from managers and employees.

Greater payback in effective implementation versus design

We learned from WorldatWork members that there is a "knowing-doing" gap in total rewards management. The term, coined by Stanford University professors Jeffrey Pfeffer and Robert Sutton, refers to a disconnect between understanding a problem vs. the ability to solve the problem. Despite organizations having more access to data and information on rewards effectiveness than ever before, many organizations struggle to improve rewards effectiveness. This has been found consistently in our studies.

Time and time again we've seen the primary differentiator of rewards program effectiveness is NOT a unique or differentiated strategy or innovative rewards program design, but the ability to align leaders around the direction of the business strategy and rewards philosophy, policies and programs as well as success in communicating and implementing these changes. Effective rewards implementation also connects to a bigger picture and a case for change. Identify the three or four elements that managers and employees must know and understand about a particular aspect of the rewards program, instead of overwhelming them with all of the intricacies, design elegance and detailed administrative provisions of the program — few of which most managers and employees will comprehend or care about. Employees are more apt to accept change when they understand it and understand the context for why the change was made. Rewards play a key role in this discussion.

Like it or not, rewards professionals need to be communicators and marketers, or at least be willing to collaborate with communications and marketing professionals within their organizations. We have also learned that "one-off communications" have limited value, and the best way to increase the likelihood that rewards programs will have a positive effect is by understanding what is important to employees and communicating to employees in messages, media and platforms they understand and accept. A key to successful implementation is an understanding of the customer base (i.e., employees) and targeting rewards communications based on this group's unique information needs and interests. The less than 25% of organizations using marketing strategies and tools to communicate rewards policies and programs do find them effective. Among those organizations that apply rewards marketing techniques, 56% characterize branded programs as effective or very effective. Seventy-four percent said the same for segmented communications and 49% percent found promotions or contests to be effective or very effective.

Give us a rewards program of average design with superior implementation any day over a sophisticated and quality design with an average implementation.

Said another way, give us a rewards program of average design with superior implementation any day over a sophisticated and quality design with an average implementation.

Common practice is not best practice

In several of our initiatives, we found a few common market practices are not necessarily best practices. We've mentioned a few examples already. Here are a few more:

- **Performance and reward differentiation**. Lack of differentiation in performance and rewards has been a common lament of respondents since we've been doing this research. Organizations typically report no more than a 1.5X differential in base pay increases between average and outstanding performers. For example, in a year with a 3% increase budget, the outstanding performers receive 4.5%. Most organizations desire to provide greater differentiation and at least a 2X differential between these groups (e.g., 6% to the top performers in our example). However, given that most organizations treat the majority of their employees with an increase (95% in recent surveys), coupled with lack of performance differentiation, this results in the common, but not best market practice data we see. Fortune magazine's "Most Admired Companies," however, do find a way to differentiate and typically provide a 2X differential in base pay increases to their outstanding performers. How? They tend to make the tougher decisions on restricting those employees eligible to receive increases, with less than 95% getting raises.
- **Salary increase budget surveys**. Caveat emptor on interpreting annual salary increase budget survey information you receive from WorldatWork or various consulting organizations. We're not convinced that participants understand what they are reporting in these surveys and what they are analyzing when they get this information back. In our fiscal management of compensation program research, we found that almost half (44%) of 600 respondents incorrectly interpreted the definition of a base salary increase budget. To compound matters, we found that the reported increase budget information was the highest-rated factor in determining an organization's salary increase budget. More internally focused criteria, such as the organization's ability to pay, desired competitive position and organization performance, were considered not as important.
- **Communications transparency**. WorldatWork members have told us that there is a critical divide in terms of their desire to make rewards programs and policies more transparent and their reluctance to actually follow through with pay transparency. For example, only 60% of organizations have a documented compensation philosophy that is shared with employees and only 33% of reward leaders rate their rewards communications as effective or very effective. Although pay transparency is offered as a way to increase pay fairness and equity, there is still a reluctance in many organizations to make rewards systems more transparent. These barriers often include the perceived likelihood of increasing employee relations concerns, the potential for litigation and increased outside scrutiny and concerns over distracting the workforce. Organizations that have a solid underpinning to rewards are more willing to be transparent, while those

with less of a solid foundation are more opaque. Put another way, if an organization has a good rewards story to tell, it will usually tell it. If not, organizations tend to be silent.

- **Counteroffers**. We have asked WorldatWork members a couple of times over the years to inform us about their use of counteroffers. Note: a counteroffer is the practice of an organization attempting to retain an employee after they've been provided an offer from another organization. While we found most organizations routinely offer counters under certain conditions, 96% do not have a clarified and documented counteroffer strategy or policy. This creates confusion when managers are in the 11th hour, seeking guidance in deciding whether to provide a counteroffer, what it might consist of and who should make the offer. Again, common practice is not best practice.

GOING FORWARD

Benchmarking is important in informing rewards program decision making. As discussed, beware of a follow-the-herd mentality in using benchmarking information. Organizations operating in an increasingly VUCA (volatile, uncertain, complex and ambiguous) business environment will likely have an increased emphasis on benchmarking. Organizations (from analysts to leaders) take comfort in knowing what others are doing and that their policies and programs are not too far off market norm.

Realize that there are different levels of value-add in benchmarking information — and we have employed various combinations of these in our research with WorldatWork. These are:

- Level 1 - Common practice information: obviously better than having no benchmark data.
- Level 2 - Best practice information: which is common practice used by the "best" organizations. "Best" will be defined differently across surveys, but those surveys often use financial (e.g., long-term growth, profitability, total shareholder return [TSR]), operational (e.g., quality, customer loyalty) and reputational (e.g., crowdsourced data, most admired/best company lists) criteria for identification.
- Level 3 - Next practice information: these are rewards practices that organizations are strongly considering adopting in the future. This allows organizations to stay ahead of outdated (and perhaps flawed) thinking. This information is at its best when next practices can be segmented between better performing organizations and peers.

While external benchmarking should inform rewards decision making, it should not direct it. At the end of the day, your organization requires a strategy, design and supporting enabling processes that are fit-for-purpose for your organization and not someone else's. Your organization doesn't mimic its competitor's business strategy, nor should you copy your competitor's rewards strategy. Differentiated and bold rewards strategies create a distinct advantage in the labor market for attracting, retaining and motivating employees.

AUTHORS' NOTE

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Not only were we struck with the willingness of WorldatWork members to share their perspective on rewards programs over the years, but their willingness to provide sometimes brutally honest assessments, which were sometimes negative regarding the effectiveness of programs that they have implemented. Specific references to these research initiatives are provided below. All are available on the WorldatWork website (worldatwork.org).

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