The Missing Link:

Improving your organisation, by linking reward to performance

Presented by:
I. Introduction

An increasing number of successful, large organisations are achieving better results, and greater employee engagement, by linking reward directly to performance.

This approach is no longer just for sales people. Instead, it can be highly effective at all levels, and in all functions of an organisation. But to be successful, it has to be implemented correctly.

Therefore, this Guide explains:

- how a well-structured, performance-based reward system can improve your business;
- how you can make sure it’s successful; and
- what approach you should take, using 3 key steps.

Written with input from leading HR professionals, this guide provides valuable and realistic insight into building a successful performance-based reward culture – one that can literally transform your business.

A successful performance-based reward culture can literally transform your business.
II. How a well-structured performance-based reward system can improve your business

Creating a performance-based reward culture may seem like an abstract vision for some. However, many senior executives see it as an important tool for achieving success. That’s because it can unlock employee potential, retain and motivate your high-performers, and ultimately deliver healthier financial results.

The key business benefits of performance-based reward include:

- Clearer goal alignment
- Focused development and career planning
- Increased employee engagement and motivation
- Improved retention
- Greater cost savings

Clearer goal alignment

Performance-based reward allows you to directly align your employees’ objectives to your wider business goals. This is critical to the success of your organisation.

Communicating your goals, and tracking each employee’s progress against them, is essential, and delivers a range of positive results:

- employees are more productive, and focused on achieving the right things for your business;
- they develop a shared responsibility, as goals are cascaded to everyone in the organisation; and
- managers monitor employees’ progress throughout the year, and offer immediate reinforcement or coaching, to keep performance on track.

A strong performance-based reward culture can unlock performance potential and deliver healthier financial results.
Focused development and career planning

By aligning individual objectives to business goals, you can focus your learning and development activities on the things that matter to your business. In turn, this will help you to increase the capability of your employees, and lead to improved business results.

Through unlocking and nurturing employee potential, you can work with employees to plan and develop their careers in your organisation. This will help you with both talent management and succession planning activities.

Increased employee engagement and motivation

As you provide greater clarity to your employees about your business goals, and your expectations of their individual results and reward, they will become more focused on their performance.

By regularly reviewing that performance, providing recognition and feedback, and giving them the support to develop their capability, your relationship with them will improve, and become easier to manage.

Employees will feel more engaged with the organisation, and motivated to perform at maximum levels. They will want to go the extra mile - for their own benefit, and for the good of the business – knowing that managers truly value their efforts. Without doubt, this will lead to both individual and organisation-wide success.

Improved retention

If employees are engaged, motivated, and rewarded appropriately, they will want to stay with an organisation. According to Giga Information Group, retention can be improved by up to 27% in a performance-based reward culture.

In a well-structured system, managers have easy access to all the information they need to reward individuals for actual performance. This allows them to track that performance against defined expectations, and reward accordingly. That way, employees can directly influence their own financial reward - which many HR experts say is crucial to retaining high-level performers.

Greater cost savings

Targeted learning and development will potentially save you money on ‘wasted’ activities, which do not have any direct impact on the goals or success of the organisation.

Improved retention rates will lead to a reduction in advertising, recruitment, induction and development costs, to back-fill roles.

Perhaps most importantly, a well-structured performance-based reward system, can save you thousands of pounds each year, by helping you to avoid rewarding individuals whose performance does not contribute to the achievement of business goals.
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III. Ensuring performance-based reward is successful in your organisation

It’s important to realise that there is no ‘one-size-fits-all’ approach to developing a performance-based reward culture. To be successful, you have to customise and tailor a system that’s unique to your business needs and existing HR processes.

The HR professionals who contributed to this guide believe the answers to the following questions provided invaluable feedback in setting expectations, and shaping a meaningful performance-based reward culture.

- Are the tasks that people are working on moving the organisation forward? How can you tell?
- Are your managers engaged with your employees throughout the year to make sure they carry out, and achieve, their objectives?
- Are individuals delivering against what's expected? Who is, and who isn’t?
- Are you objectively ensuring that bonuses, salary increases, and promotions, are given to those high-performing individuals that you can’t afford to lose?

Performance-based reward is not about management setting up a system, and employees simply following suit. There are key psychological and emotional realities that have to be in place. In fact, it’s common for organisations to ask the right questions and build the right system without thinking about the ‘human side’ of performance pay.

Therefore, for a performance-driven culture to be successful, it’s important to gauge the attitude of your employees. In general, employees have to:

- desire higher pay;
- have the skills and capabilities to improve performance; and
- trust their employer to administer the scheme fairly, and pay if they improve their performance.

These become incentives for employees to buy into a performance-based reward system - something seen as essential by companies who have successfully implemented one.

To be successful, you have to tailor a performance pay system that’s unique to your business needs and HR processes.
IV. Three key steps to building a successful performance pay culture

A successful performance-based reward culture depends on the integration of three key areas of HR – performance management, reward strategy and goal alignment.

Step 1: Performance management

The first, and most important step, is being able to continuously measure and manage employee performance in a quantifiable way. Many organisations fail, or are unable, to do this, and end up with an arbitrary or subjective review process.

Performance reviews are critical to maintain a level of performance management that will support a thriving performance-based reward culture. However, reviews have to be regarded as more than just an annual event. This can be achieved by formalising a process of performance reviews on a monthly, quarterly, or project-by-project basis. This will inevitably create a better dialogue between employees and managers.

Too often, performance reviews are seen as a tedious requirement. Ironically, they form the primary basis for reward and overall career-building. By evaluating individual objectives that link to higher-level organisational goals, performance reviews are a pillar of performance management.

Like any strategic initiative, performance-based reward requires planning, discipline, and flexibility.
IV. Three key steps to building a successful performance pay culture

Step 2: 
Reward strategy

To implement a true performance-based reward system, organisations need to develop an appropriate reward strategy. There are several approaches that can be used.

Employees can be rewarded by increased salary and bonuses, and additional financial benefits such as shares or pension contributions. They may also be rewarded with gifts, such as travel or luxury items.

However, most successful organisations have based their reward strategy on a ‘structured incentive scenario’. This means that employees understand, ahead of time, the precise relationship between performance and the incentive. A survey of organisations, across industries, reveals two common approaches:

- Annual bonuses and salary increases — based on a typical review cycle with performance ratings linked to organisational goals.
- Goal-driven incentive plans — which fall outside the annual review process and are tied to the achievement of specific, time-based objectives.

Regardless of the chosen approach, reward policies must be fair, consistently followed, controlled, and subject to review and oversight.

The key is to implement reward policies that are fair, consistently followed, and subject to review and oversight.
IV. Three key steps to building a successful performance pay culture

Step 3: Goal alignment

To be able to manage, measure, and reward the right performance, leadership teams have to establish organisational goals, linked to a clear vision.

Once established, these goals need to be clearly communicated, and explained, to all employees in an organisation. In fact, leading industry analysts estimate nearly 95% of workers are unaware of their employer’s top goals.

Goal alignment has been one of the most significant advances for HR practices. When managers and employees can see, and clearly understand, how their individual objectives fit into the organisation’s business goals, then a performance-based reward system begins to thrive and directly contribute to improved financial results. For high-performers, this means making sure that goals are aligned with activity within their control—not solely on functions they cannot directly influence.

Finally, the success of aligning employee and organisation goals depends on an open dialogue with senior management. This is the only way to ensure business strategy is woven into all HR efforts.

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By integrating these elements into your HR processes, your organisation can establish a true performance-based reward culture.

The result is a more energised and engaged workforce, who clearly understand how their contributions affect overall success, and know they’re being rewarded fairly for their efforts.

**The overall business results can be enormous, with:**

- retention of top talent;
- higher levels of performance throughout your organisation; and
- greater revenue and profits.
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