



As employers prepare for the future, it is critical that their people strategies include reexamining and improving the strength and balance of their employee value exchange: the combination of rewards employees get (both intrinsic and extrinsic) and the expectations of performance and engagement that employers set for employees. Several conditions make the near-term future a good time to correct any imbalances that have developed in an organization's employee value exchange and prepare for a stronger economic environment:

- Unemployment is high, and it may be years before most organizations can expect to experience an overall talent shortage. As a result, while some roles remain hard to fill, others are more fungible.
- Employees' intentions to leave their jobs and their sense of job security have both decreased. As the economy improves, they may begin to act on their pent-up desires to "find greener pastures."
- Some reward programs that have been delayed or cut back may reemerge. Because employee expectations have been reduced, ineffective programs — those that do not balance the employee value exchange — can be reevaluated.

Sibson Consulting thinks that despite all the challenges, disarray and ambiguity that organizations now face, this is the time to break the mold rather than wait and hope the old formulas will work again. With that in mind, this article offers an overview of several strategies for rebalancing the employee value exchange.

Reduce Employees' Sense of Entitlement

Over the past few decades, organizations have emphasized the importance of employee retention, internal equity and market competitiveness. Many, however, have discovered that while this focus tends to retain the *most* employees, it often fails to retain the *best* performers. A large number of companies have cut or frozen pay and/or benefits in the past few years, and some are looking to halt or even reverse these tactics as economic conditions improve. This creates an opportunity to strategically enrich the total rewards program based on performance and business needs, reinforcing positive behaviors and contributions rather than returning to the old model.

Organizations that emphasize results over retention will keep the highest performers, pressure the lowest performers to improve and motivate better performance overall. This, however, requires moving away from the mindset that everyone is entitled to *some* increase and *some* bonus, despite differences in individual performance, which can be difficult.¹ It also means that health care plans and other benefits should reward employees who are more judicious about using them. Other reward mechanisms, such as training and development, can be made available only to the most critical and high-performing talent segments.

Rebalancing the Employee Value Exchange

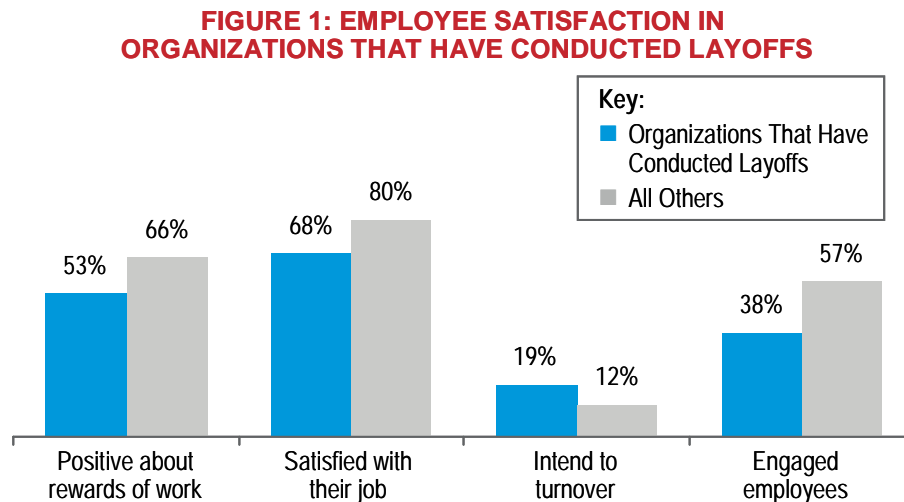
Over the years, Sibson has seen several general approaches that have been quite effective in reducing employee entitlement. These include reserving all (or at least a significant part) of the organization's merit budget for high performers. Short- and long-term incentive programs need to be geared towards differentiating employees by rewarding their real impact on improving company performance. Organizations must also clarify to employees why pay ranges are in place and emphasize that not everyone will get to the top.

Some organizations have found that a good way to reduce employee entitlement is to link their benefits plans to company performance and/or individual performance/behavior. They have introduced such results-oriented elements as discretionary §401(k) matches that are based on company performance, wellness incentives that reward outcomes and health plan contributions that are linked to desired behaviors. Furthermore, employees are more aware of the true value and affordability of their health care benefits, representing an opportunity for employers to change the way in which they provide or share in the cost of this coverage.

Increase Employee Engagement²

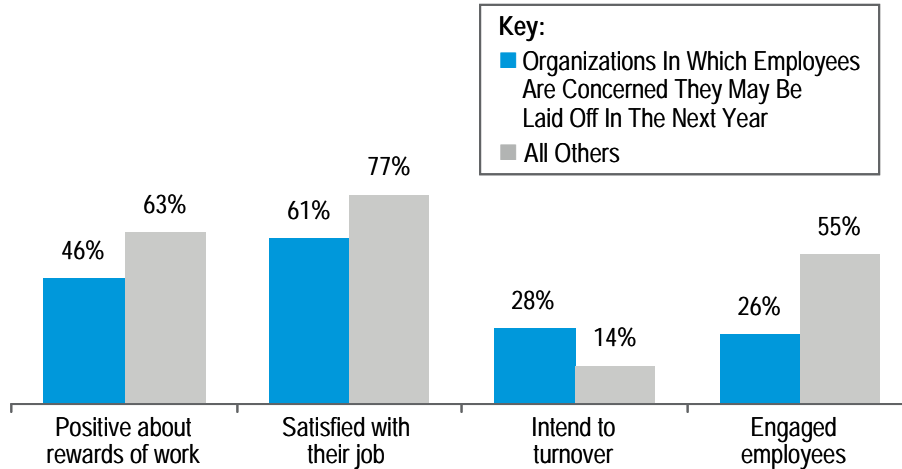
Employees who are highly engaged understand the organization's strategy and how they can best contribute. They know they are needed, valued and cared for and think their organization is the best place for them.

Sibson's latest *Rewards of Work (ROW) Study* indicates that improving satisfaction and engagement is particularly important in organizations that have conducted layoffs or in which employees are concerned they may be laid off in the next year. (See Figure 1 and Figure 2, on the next page.) (See also the full-page text box on page 4, "[Results of Sibson Consulting's Latest Rewards of Work Study](#).")



Source: Sibson Consulting's 2009 *ROW Study*

FIGURE 2: EMPLOYEE SATISFACTION IN ORGANIZATIONS IN WHICH EMPLOYEES ARE CONCERNED THEY MAY BE LAID OFF IN THE NEXT YEAR



Source: Sibson Consulting's 2009 *ROW Study*

The *ROW Study* results suggest that one of the best ways employers can drive engagement and performance is by improving leadership presence and communications. This is an area where organizations can make a positive impact relatively quickly and inexpensively.

Employers must be proactive; the best way to control the message is to be the messenger. An organization that does not communicate regularly and according to plan is missing an excellent opportunity to manage the message. Furthermore, the message must be presented by key leaders, confirming the organization's direction and ability to cope with the continued economic challenges, as well as the value employees bring to the firm.

While other rewards-related resources (e.g., pay increases, bonuses, discretionary matching contributions) may be scarce, information is not. Sharing thoughts, plans and expectations with employees builds trust and strengthens affiliation. Given the inclination of each demographic group to respond differently to various forms of communication, employers that leverage common messages and themes across multiple media have the best chance of reaching the largest percentage of their total population.

It is important to ensure that messages address what employees want and need to hear. Targeted messages that are tailored for each key audience and cascade throughout the management structure to employees have the greatest impact. In addition, establishing multiple feedback channels and/or mechanisms and responding appropriately to the information received can ensure that information flows both ways and that employers address employees' information needs.

Choose the Right Leaders and Set the Right Goals

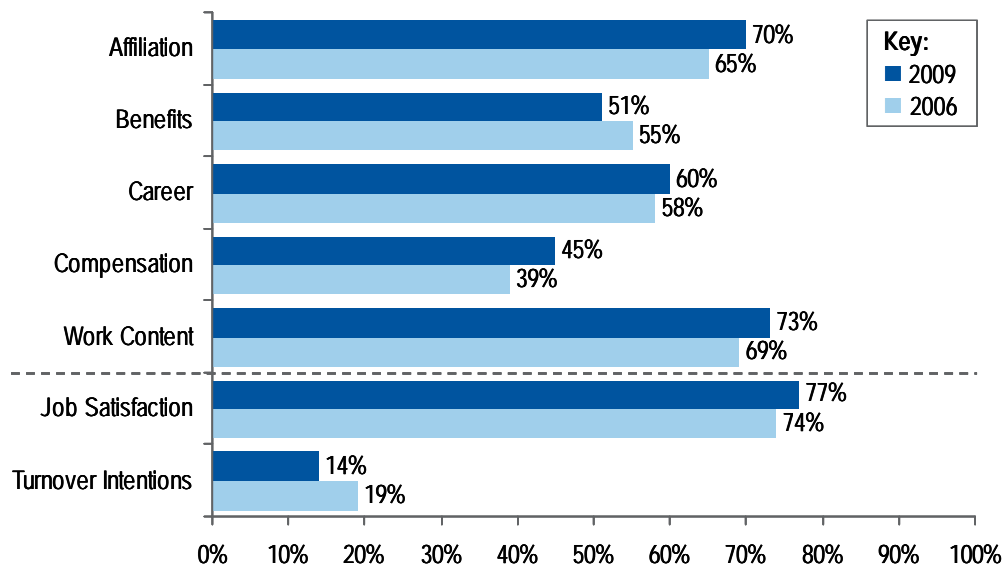
While most organizations want more from their employees, many fail to be explicit about their expectations. The leadership simply hopes that the managers are setting and communicating goals and standards and linking individual objectives to departmental and organizational objectives. Many organizations also lack the systems and/or programs they need to transfer their goals and objectives from leadership to managers to employees, which presents an opportunity to energize performance management.³

Results of Sibson Consulting's Latest *Rewards of Work Study*

For more than a decade, Sibson Consulting has conducted a *Rewards of Work (ROW) Study* to gather data on employees' attitudes about their work, including what attracts them and what motivates them to stay and be engaged. Understanding these rewards is important because it is part of the employee value exchange. Satisfaction with these rewards drives employee engagement, which has a significant impact on key business outcomes such as growth and productivity.

Sibson's 2009 *ROW Study* of almost 2,000 American workers is the fifth *ROW Study* Sibson has conducted since 1997. The results indicate that employee satisfaction has increased for four out of the five elements of ROW: compensation, career, work content and affiliation. Satisfaction with benefits has declined. Job satisfaction has also increased while turnover intentions have decreased. (See Figure 1 below.)

FIGURE 1: RESPONDENT FAVORABILITY RATINGS FOR REWARDS ELEMENTS, JOB SATISFACTION AND TURNOVER INTENTIONS: 2009-2006



Source: Sibson Consulting's *ROW Study*, 2006 and 2009

Although employee engagement results improved in 2009 compared to 2006, they are still below the level desired by most employers. (See Figure 2, below.)

FIGURE 2: EMPLOYEE ENGAGEMENT — RESPONDENT RATINGS IN 2006 AND 2009

		Knowing What To Do	
		No	Yes
Wanting To Do It	Yes	ENTHUSIASTS 2006: 4% 2009: 4%	ENGAGED 2006: 47% 2009: 52%
	No	DISENGAGED 2006: 27% 2009: 27%	RENEGADES 2006: 22% 2009: 17%

Source: Sibson Consulting's *ROW Study*, 2006 and 2009

Rebalancing the Employee Value Exchange

In reality, performance management is typically perceived by employees (along with their managers) as a compliance exercise driven by HR that “takes too much time” and “is a waste of effort because nothing comes from it.” Some of these negative perceptions result from a lack of manager capability and skill to properly execute the performance management process, including articulating objectives, evaluating performance and giving (and receiving) effective feedback.

An effective performance-management process requires leaders who set clear and executable strategies that are driven through the business planning process and identify managers/champions throughout the organization who lead by example. They then verify that these managers are setting the right expectations that are aligned with business strategies and goals, manage actual performance accordingly and conduct effective assessments throughout the period as well as at year-end. Of course, it is important to ensure that the managers set individual goals that reflect the organization’s and the unit’s stretch goals and that they are regularly adjusted for business performance. Goals and assessments also need to match the business cycle, be calibrated across groups and be designed in such a way that they cannot be gamed.

Clarify the Rebalanced Value Exchange

This is a good time to reset an organization’s value exchange for future years. To find out what is needed, it is important to ask a number of questions, including the following:

- Does the organization have a distinctive strength in the rewards it offers its employees?
- Has it clearly defined what it expects of employees?
- Does the organization have empirical evidence regarding what elements of total rewards drive engagement?
- Are these strengths and expectations clear and consistent?
- What elements should be moved up or down on the organization’s priority list, and why?
- Are there things the organization has hesitated to change due to concerns about employee satisfaction?
- Are these elements still off limits, based on the current business/economic environment and the organization’s objectives for the next five to ten years?

As Sibson works and speaks with clients, several shifts have emerged in the value exchange between employees and employers. Employers are strengthening the affiliation their employees feel in an effort to make employees feel good about working for the organization. In compensation and benefits, while it is still important to manage overall costs, employers are evaluating the return received from benefits and are looking to reinvest their dollars in ways that encourage employees to share the responsibility for their overall wellbeing. There is a focus on differentiating rewards for individuals based on behavior, with employers providing benefits at different levels based on an employee’s level or ownership of their health status.⁴

More emphasis is being placed on individual and group or team performance. Sibson is seeing a slow shift from an entitlement mentality to a performance orientation in terms of total rewards. This allows organizations to expect more from their employees and is reflected in more challenging individual goals and objectives with rewards that are clearly differentiated. For example, a 3 percent merit budget can be spread between 2.5 percent and 3.5 percent and given to more than 90 percent of employees, or it can be spread from 0 percent to 8 percent and given to 60 percent of the eligible workforce, with no increase in costs.

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Organizations are also expanding individual job roles with a focus on depth as well as breadth within the role and the ability of employees to be flexible and be able to perform duties that may be outside their current job and comfort zone. There is less focus on traditional advancement and more emphasis on lateral job enrichment.

Regardless of which of the above strategies an organization embraces, it needs to clearly define and communicate its value exchange to its employees. Sibson has found that organizations with a well-understood value exchange have higher levels of workforce engagement and performance. Performance expectations have increased at most organizations, which creates a need to use rewards and other mechanisms effectively to reinforce the connection between those expectations, organizational results and the availability and distribution of rewards.

Conclusion

Rather than simply waiting for the “good old days” to return, successful organizations will embrace the significant changes these challenging times have brought and will be proactive in addressing their approach to rewards. Sibson encourages organizations to challenge themselves and their employees in new ways and to offer a new value exchange that will be more engaging and rewarding for both the company and its people.

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http://www.sibson.com/publications/perspectives/volume_18_issue_1/rebalancing.html.

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¹ For more information on what to do about an entitlement mentality within an organization, see the article "[*Reducing the Sense of Entitlement: Pay for Performance for 2010 and Beyond*](#)" in the July 2009 issue of *Perspectives*.

² Sibson defines an engaged employee as one who understands what he or she needs to do at work and wants to do it. Engagement is an important outcome, driven by elements of total rewards.

³ Sibson Consulting's [*Effective Performance Management Scorecard*](#) can reveal how an organization's performance management compares to others' and how it ranks according to the criteria needed to ensure success. Completing the scorecard will take no more than five minutes.

⁴ For more information on how to measure and improve the health status of an organization, see the article "[*Is Your Organization a Healthy Enterprise?*](#)" in the July 2009 issue of *Perspectives*.