

# REWARD STRATEGY AND PRACTICE

## Activating the Line: How Management Tools Can Make Reward Programs Really Work

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*This article examines how the HR-line manager connection can be improved in the area of reward program management. It draws on research among managers and HR that indicates both the willingness and the necessity for a new approach to their relationship and working methods as they apply to reward programs. We look further into the concept of beyond-cash total rewards and we outline the toolkit that managers need to put it all into effect. Given the latitude, tools and the active support of HR, properly empowered line managers can indeed breathe new life into reward strategy and implementation.*

### MANAGERS ON THE FRONT LINE

Thomas Edison once said “Vision without execution is hallucination.” Said another way, business strategy, however well conceived, can succeed only when it is effectively implemented. This is especially true of effective reward-program execution, where the role of the line manager is critical. HR, its directors and teams may be responsible for formulating reward strategy, but it falls to line managers to make those policies and programs work.

Line managers are eminently well qualified to do so. In our experience and in many research studies, employees trust

their immediate supervisors above all others in the organization—more so than senior leaders and HR. Over and above cash compensation, managers strongly influence the range and impact of the non-financial rewards their organization provides. Getting this right can have profound and far-reaching effects on business performance and profitability, as non-financial rewards such as recognition, career development and meaningful job designs are often the most important factor in retaining talent.

But it is no easy task. Conflicting priorities, limited bandwidth, archaic HR protocols and mutual frustration all converge in hampering relations between

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HR and line managers, to no one's benefit. Hay Group research<sup>1</sup> has revealed that a large majority of organizations are failing to execute their reward programs with any great success. In a Hay Group study of 1,200 organizations across 80 countries, only 30 per cent of organizations were seen as effective at implementing their total rewards programs.

Yet, according to a separate Hay Group study<sup>2</sup> and our work with clients, the primary differentiator in successful reward programs is in execution rather than program design. The study, jointly conducted by Hay Group, WorldatWork and Loyola University Chicago, indicates that implementation-related issues—including reward com-

munications, leadership and line manager involvement and supporting management processes were seen as the common key to positive outcomes.

As we have noted, it is line managers who translate strategic decisions made at the top of the organization into processes that guide employees at every level towards strategy-aligned actions. Human capital and reward policies are a vital element of that. But managers in many organizations are poorly equipped to make a success of reward program implementation, and there is evidence that many HR functions are providing inadequate support. Clearly, HR must develop better ways to enhance managers' effectiveness in re-

ward execution—and to define their own role in helping make rewards programs more successful. We believe that the way forward is 'activating the line', by which we mean strengthening relations between HR and managers so that the managers have more freedom to act within the framework of company HR policy.

There is a need for a new approach to HR-line manager relationship as it relates to reward program management and this goes beyond compensation to total rewards management. Given the means and the active support of HR, properly empowered line managers can indeed breathe new life into reward strategy and implementation.

### **Making good things happen**

We firmly believe that management's role should not be confined to the traditional functions of planning, organizing and controlling.

Line management is the lynchpin to making good things happen within the organization. Reward programs are one of their most powerful tools to achieve that. Given those tools, and a solid foundation of HR support, managers can be more effective in planning, developing and reviewing employee performance, and in reinforcing it via the organization's total rewards offering. They will communicate the purpose and relevance of those programs. And they are likely to have the most impact on the non-financial rewards their organization provides.

Line managers also play the major role in shaping the organization's working climate and in creating career development and growth opportunities for their employees.

As a result, managers often have the most important influence on their employees' engagement in the organization. They represent the organization's values and, at their best, engage employees' hearts and minds. They are trusted more than any other entity in the organization—more than senior leadership, and more than HR.

Hay Group retention studies over many years have found that workers tend to leave bad bosses rather than bad organizations. The role of the impact of line managers cannot be overstated.

**REINVENTING THE RELATIONSHIP**

It is not all smooth sailing in the worlds of HR and line management. Communications can break down, initiatives can be thwarted, tensions take their toll. Frustrations all too easily arise. But there is also general agreement on the way forward. Keenly aware of these potentially damaging undercurrents, Hay Group recently conducted research<sup>3</sup> into opinions on both sides of this partnership. While it can make uncomfortable reading, these findings also offer clear insights towards a far more constructive, cooperative future for HR and line managers alike. And among the most significant results of improved—‘activated’—HR-manager relations will be greater success in implementing reward policy, and the enhanced business performance and ROI that delivers.

One obvious factor to emerge from the research is that HR teams are feeling the strain. As cost-saving cuts bite, many HR departments are losing headcount and/or budget, with the ratio of their people to total employees steadily decreasing. At the same time HR’s work is not decreasing. In most organiza-

tions, there is a need for HR to be a stronger strategic business partner than ever before. The everyday work requests are also not decreasing. HR is often slowed down by the important everyday requests and queries for information and decision-making from line managers. Two-thirds of HR directors estimate that their team spends 21-50 per cent of its time dealing with such matters. Nearly half (43 per cent) agree or strongly agree that this is too long and is preventing them from taking on more strategically important initiatives.

Our research found that line managers take a somewhat different view. Almost half of them (UK 48 per cent / USA 41 per cent / China 39 per cent) feel that HR teams are slow to respond and 39 per cent (UK 41 per cent / USA 29 per cent / China 47 per cent) believe that Google is a better source of information than HR. Many line managers (UK 58 per cent / USA 42 per cent / China 45 per cent) think that the procedures for hiring, promoting and resource planning are convoluted and inefficient. A healthy minority of organizations (UK 40 per cent / USA 23 per cent / China

26 per cent) feel that HR actively obstructs them from making these decisions themselves.

In regards to reward program effectiveness, the situation is similarly perilous, with many organizations and their managers insufficiently prepared to take on the critical role of reward implementation. This is reflected in the findings of a Hay Group study<sup>4</sup> of 1,200 organizations into HR and line management opinions about the effectiveness of line managers’ influence on reward programs—see Figure 1:

- Less than 34 percent of organizations believe their managers manage the ‘pay for performance’ relationship effectively.
- Less than 34 per cent of organizations believe that their managers are effective at implementing and communicating their total reward programs

In addition to the relatively low ratings across most areas, it is notable that HR tends to have a lower opinion of line manager effectiveness in implementing reward programs than do line managers themselves.

**The voices of frustration**

Many managers do not believe their organization’s reward programs are helping them to achieve their objectives. The following remarks from senior reward leaders recorded by Hay Group researchers are typical of that widespread view.

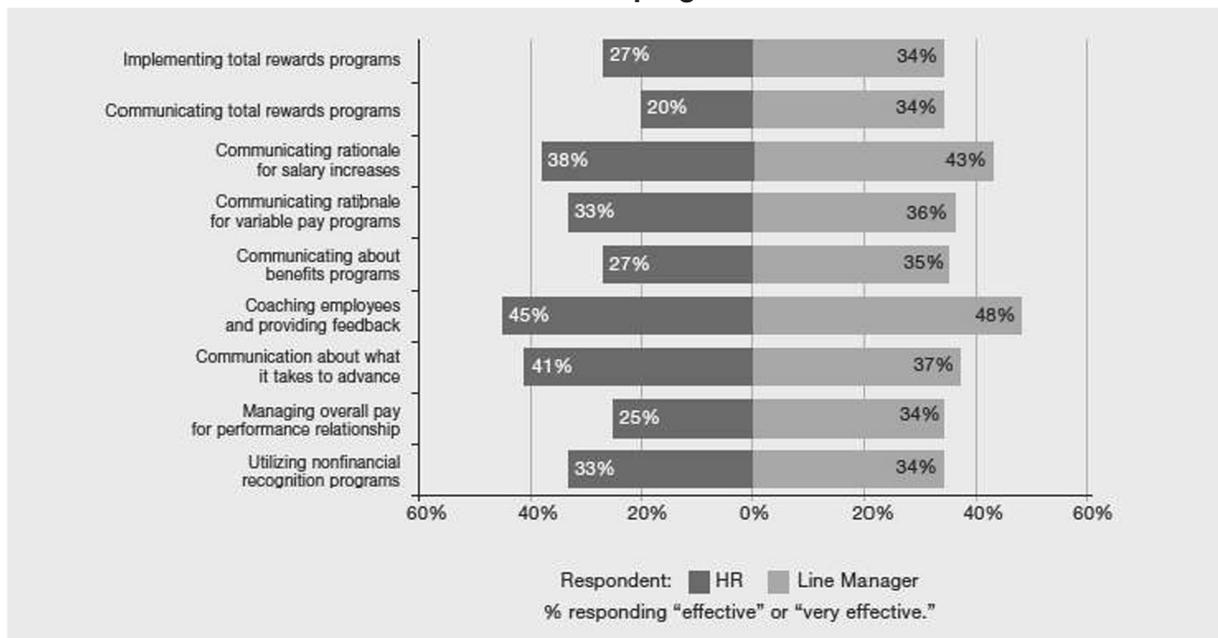
“I’m accountable for making huge business decisions, but I can’t spend \$15,000 to reward some of my best people. What’s wrong here?”

“My employees see no connection between what they achieve and the amount of their bonus.”

“I am told that we must pay the market, but our HR department can’t show me decent benchmarks as to what my people are worth.”

“There is more management attention around here in terms of staying within the compensation budget than in delivering superior business results.”

**Figure 1: Most organizations get poor marks for utilizing line managers in effectively implementing their reward programs<sup>5</sup>**



**TOTAL REWARDS: MORE THAN THE MONEY**

Critics of an organization’s reward programs often focus on cash compensation alone. As we have seen, however, employees are motivated by far more than monetary gain.

Hence the importance of communicating the range and application of non-financial re-

wards in addition to cash compensation and benefits—a task best undertaken by line managers, by virtue of their close and trusted relationship to their employees. HR, in turn, must work with managers to foster a ‘total rewards’ mindset and framework across the organization.

We define ‘total rewards’ as the sum total of salary, bonus,

equity, health and pension benefits, paid time-off and other financial rewards, plus the non-financials that include career development opportunities, training, work climate, flexible work schedules, recognition and meaningful job design. These elements, shown in Figure 2, represent the principal reasons an employee joins an organization, works produc-

tively and stays for the long term.

Managers need to think about how they best use these non-financial rewards. For example, they can get a lot out of designing jobs and career paths so that employees understand how

to progress to the next level. Individuals who demonstrate the required capabilities will be promoted, under-performers will not; the path is clear.

Non-financial rewards are, increasingly, much more than icing on the cake or a nice to

have. They have become central to the competitiveness of many employer value propositions to current and prospective employees and are critical to their recruiting and retention strategies.

### Non-financial rewards are the REAL deal

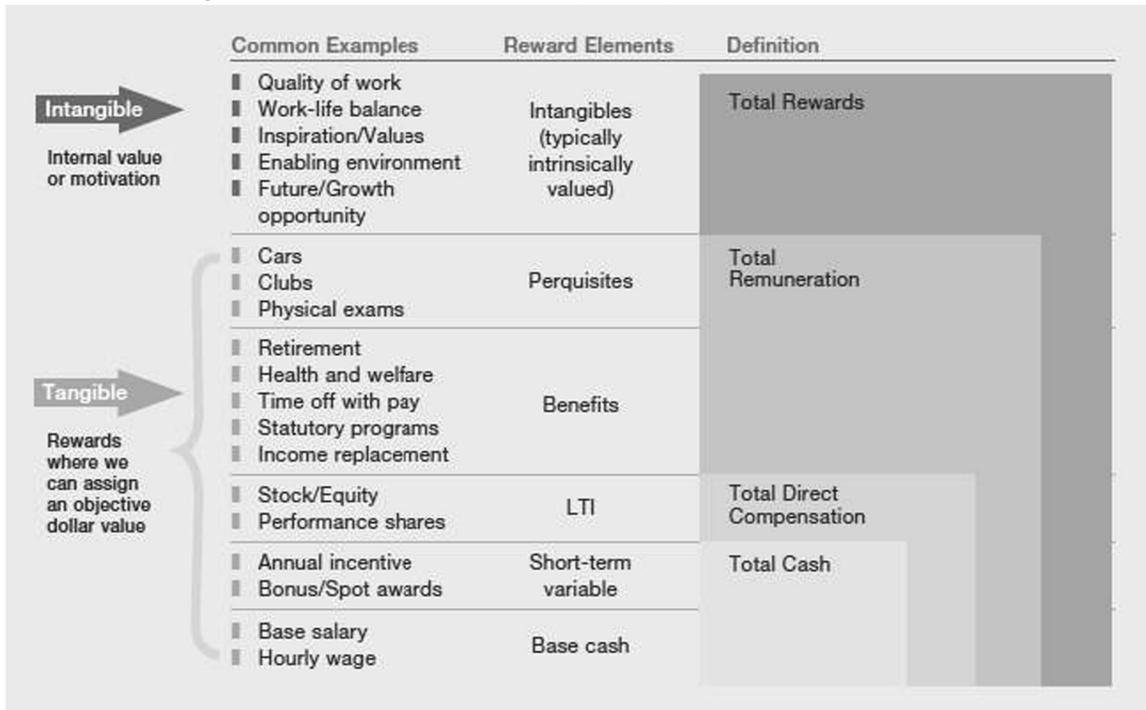
Applebee's, the US restaurant chain, identified four types of reward that the company could offer its employees:

- Rewards (financial compensation)
- Engagement (enjoyable and fulfilling work)
- Advancement (personal and professional growth opportunities)
- Life (a healthy, work-life balance).

Branded the "REAL Deal", Applebee's aligned all of its reward programs under the appropriate heading. In doing so, they realized the need to strengthen their offering in the Advancement and Life categories so as to create a total reward program with powerful appeal to its employees.

"When you really look at why people come to work for us, it's not for the money", said Applebee's Vice President of Performance and People Systems Scott White. "People are primarily joining because they are committed to this idea of being a good place to work, of having good leaders and letting people have an enjoyable work experience in a very tough industry."<sup>6</sup>

Figure 2: More than cash—Hay Group’s total rewards model



**TOTAL REWARDS TOOL KIT**

HR has a key role to play in encouraging line managers to realize how they can implement reward programs, and in giving them the tools to do so. Those tools can reward employees, drive organizational achievement and generate a positive return on their investment in people. They include those detailed below. The most successful organizations are those where HR plays a direct role in helping managers to understand when and how to use rewards.

**Work climate:** Hay Group research<sup>7</sup> shows that up to 30 per cent of the variance in business results may be attributed to differences in the work climate

created by line managers. HR can support managers by making them aware of that fact, and of the effect of work climate on employees and business performance. By providing tools with which they can assess their current climate, managerial styles and coaching, HR can greatly enhance managers’ ability to improve them.

**Determining the value of work:** The structure of organizations and their employee’s roles, their operating processes and job descriptions as well as their work climate—are typically created by line managers. Line management is therefore the best resource available to HR to align job documentation with actual work performed and

compensation paid. HR should ensure a transparent and inclusive relationship with managers in designing and valuing work, and in communicating with employees.

**Base cash programs:** When base salary increases are made, line managers are often better placed than HR to communicate the rationale for the raise. They hold the key to accurate goals and performance ratings and the alignment of those ratings with pay. HR’s role is to advise and equip managers to do this more effectively and to see best practices across the organization.

**Variable pay programs:** An organization’s variable-pay pro-

gram depends heavily on effective communication of its objectives and on helping employees to see how their individual role connects with overall objective and performance.<sup>8</sup> Doing so gives employees more meaning to their work, which in turn drives engagement and discretionary effort.

**Recognition programs:** Employee recognition programs have evolved from a traditional ‘thank you’ program to a sharper focus on employee engagement, management development and alignment with key business values. This is a sig-

nificant opportunity for HR to promote more widespread use of non-financial recognition programs throughout the organization.

**Performance management:** HR can lead line managers to recognize and make use of the tools at their disposal to reward employee performance. These include base salary increases, promotions and future career development, new project opportunities, training, public recognition, increased exposure to senior leadership and greater empowerment in making key decisions—all the elements,

indeed, of a well designed total reward program.

**Employee development:** Professional and management employees are at least as concerned about their opportunities for personal development and growth as they are with rates of pay. Because managers are key players in their employees’ personal development, HR must encourage and equip them to identify employee needs and to create work and opportunities that enhance an individual’s advancement.

“The people we hire, and the focus we put on their development as leaders, are critical to P&G’s ability to innovate and compete. Nothing I do will have a more enduring impact on P&G’s long-term success than helping to develop other leaders.”

A G Lafley, Chairman and CEO, Procter & Gamble

## ACTIVATING THE LINE

HR and line managers agree: the power to act decisively on people management issues must be extended from the central HR function down the line to managers. A recent Harvard Business Review article<sup>9</sup> revealed that this is becoming a worldwide trend. But, for it to work effectively, HR will need to relinquish a degree of control and entrust line managers with tools and information to manage their people better, while retaining its role as the steward over the organization’s human capital asset.

HR leaders have an opportunity to engage in more active partnerships with their line managers. They can help them become more successful by supporting their individual development, ensuring they fully understand the strategic intent of HR programs and not just the technical details. They can ensure managers’ involvement in the design and refinement of rewards programs, and in sharing best practice in reward program implementation across the organization.

Managers, for their part, must (if they do not already) accept a new level of accountability for everyday staff operations, within a policy framework defined by HR and, ultimately, corporate strategy as a whole.

Closer relations with HR give line managers the power to act autonomously and help them perform better. When they perform better, so do their teams. And when that happens, both HR and the organization will benefit.

This is the essence of ‘activating the line’, and it applies

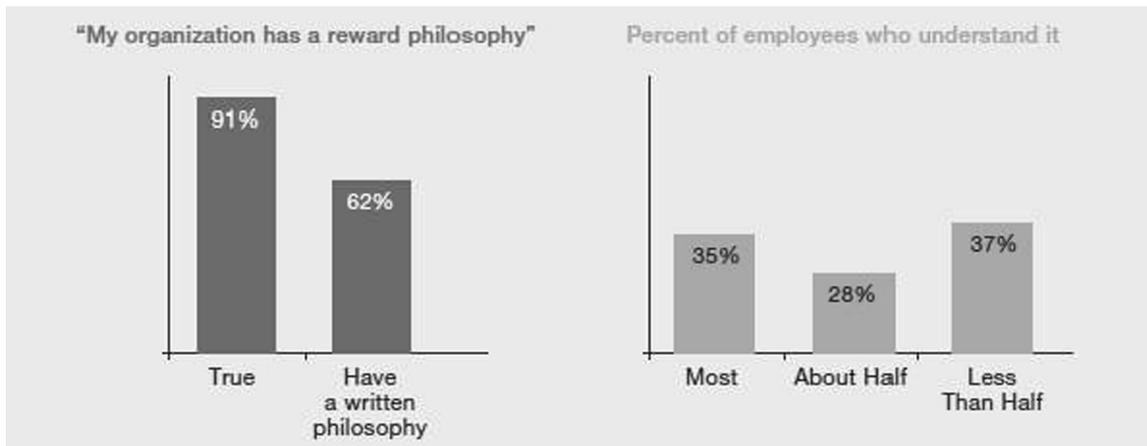
with equal force to the implementation and effectiveness of reward programs.

Organizations attempt this with varying degrees of

success. While all organizations have a rewards program, lack of understanding, lack of clarity in roles, and reinforcement means that far from all employees actually understand it.<sup>10</sup> But

a reward program can of course serve as a motivator only if it is understood and accepted—when employees know what is expected of them and how they will be rewarded.

**Figure 3: Is the reward program message getting across?**



Resolving this problem begins with HR identifying and segmenting the communication message for different employee groups. Managers must receive intelligence about rewards before their employees, and they need to have ready access to the right information to answer the inevitably tough questions.

This is a particular challenge.

As Hay Group research shows line managers find HR slow in responding to requests for information. HR managers need to find a new way to communicate which reflects the way that line managers already consume information.

Development in technology—and specifically in mobile technology—mean that there is an

opportunity like never before to put in the hands of line managers what they need, when they need it to 'activate' themselves and their employees.<sup>11</sup> If HR—as the 'owner' of the policies are willing to facilitate this process it will not only free them up for more strategic activities but will also enable the line to do what it is willing, and indeed wants, to do.

"The company's philosophy is that the line manager should do as much of the implementation and communication of the compensation program as possible. When it comes to salary planning, rewards and everything else around the total cash piece, the responsibility and accountability for communicating and implementing is the line manager's. HR's role is to provide the tools and assistance necessary to make them successful."

Liz Baldock, senior vice president, HR and Learning,  
American Modern Insurance Group (AMIG)

**NOTES:**

<sup>1</sup>Hay Group: "Global Line Managers Impact on Reward Program Effectiveness Study." McMullen and Stark, 2007.

<sup>2</sup>Hay Group: 'Reward Next Practices Research', Scott and McMullen 2013.

<sup>3</sup>Hay Group: 'Bringing the line to life'. Survey of 600 line managers and 50 HR Directors across the US, UK and China, 2013.

<sup>4</sup>Hay Group: 'Global Line Managers' Impact on Reward Program Effectiveness'. Tom McMullen and Mel Stark, 2007.

<sup>5</sup>ibid.

<sup>6</sup>Jensen, McMullen and Stark, 2007.

<sup>7</sup>Krista Anderson and Guorong Zhu, Organizational Climate Technical (OCSII) Manual, Hay Group McClelland Center for Research and Innovation, October 2002.

<sup>8</sup>Scott, McMullen, Wallace and Morajda, 2004.

<sup>9</sup>Harvard Business Review: 'HR for Neophytes'. Cappelli, October 2013.

<sup>10</sup>Scott, McMullen, Sperling and Wallace, 2003.

<sup>11</sup>Hay Group Activate is a suite of business apps that put information and guidance based on proven methodologies into the hands of line managers but fully controlled by HR. For more information visit: [www.atrium.haygroup.com/activate](http://www.atrium.haygroup.com/activate).