

The Role of Line Managers and HR in Reward Program Effectiveness



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When considering effective reward-program implementation, too frequently the role of the line manager is neglected. Line management is the lynchpin to executing effective reward programs. Beyond tangibles like cash compensation, managers have the most influence on the array of intangible rewards the organization provides. And, often, these intangible rewards are the drivers in the company's "employer of choice" platform and the primary vehicles in attracting and retaining talent.

Unfortunately, a majority of organizations get failing marks when it comes to effectively implementing their reward programs. In a study of 1,200 organizations in 80 countries, 30 percent of organizations are seen as effective at implementing their total rewards programs. Attention should not be limited to line managers in addressing these shortcomings. While line managers are insufficiently prepared to take on these accountabilities, many HR functions are inadequately supporting their line managers in reward-program implementation.

This paper explores the issues around reward-program effectiveness and the key role that line managers play in

this regard. It also explores how the human-resources function must also step up and find better ways to leverage the manager's role and better define the role they could play in helping make rewards programs successful. Managing people effectively is incredibly hard work, but it's the kind of work that rewards organizations that do it well.

Hay Group research and the company's work with clients found that the key differentiator in successful reward programs is great execution as opposed to elegant design. In a national study conducted last year by Hay Group, WorldatWork and Loyola University Chicago, the areas that reward professionals said were primary differentiators in their reward programs were largely implementation-related issues—reward communication effectiveness, aligning reward programs with business priorities and organization values and operationalizing the pay for performance relationship.

Further, Hay Group's "Global Line Managers Impact on Reward Program Effectiveness Study" (McMullen and Stark 2007) reported that most organizations give themselves failing marks when it comes to effectively implementing their reward programs.

THE MANAGER'S CRITICAL ROLE

In effective reward-program implementation, consider first the line manager's role. Line management is the lynchpin to "making things happen" within the organization. Given that managers take the lead role in planning, coaching and assessing employee performance and reinforcing performance via reward outcomes, it should also be within their role to influence the employee regarding the intent and relevance of the organization's reward programs.

Managers also have the most influence on the array of intangible rewards the organization provides. Often, these intangible rewards drive the company's "employer of choice" platform and are the primary vehicles in attracting and retaining talent. In this context, managers play a significant role in creating the work climate of an organization and in creating development and career growth opportunities for employees.

Moreover, the immediate supervisor is often the lead influencer in the employee's satisfaction with the organization. Hay Group's retention studies during the years found that, in many situations, when it comes to voluntary employee turnover, people tend to leave bad bosses rather than bad organizations.

Employees also trust their managers more than any other authority role in the organization—more than senior leadership and more than HR. A management role is not just about the traditional functions of "planning, organizing and controlling." Managers also play the important role of acting as the "standard bearer" of organization values—the parental figure within the company. To be effective, managers need to engage employees' hearts and minds as well as live and model appropriate values and behavior.

But there is a problem. Many managers don't believe their organization's reward programs are helping them achieve their objectives. Many times, the authors heard a manager say the following (Jensen, McMullen and Stark 2007):

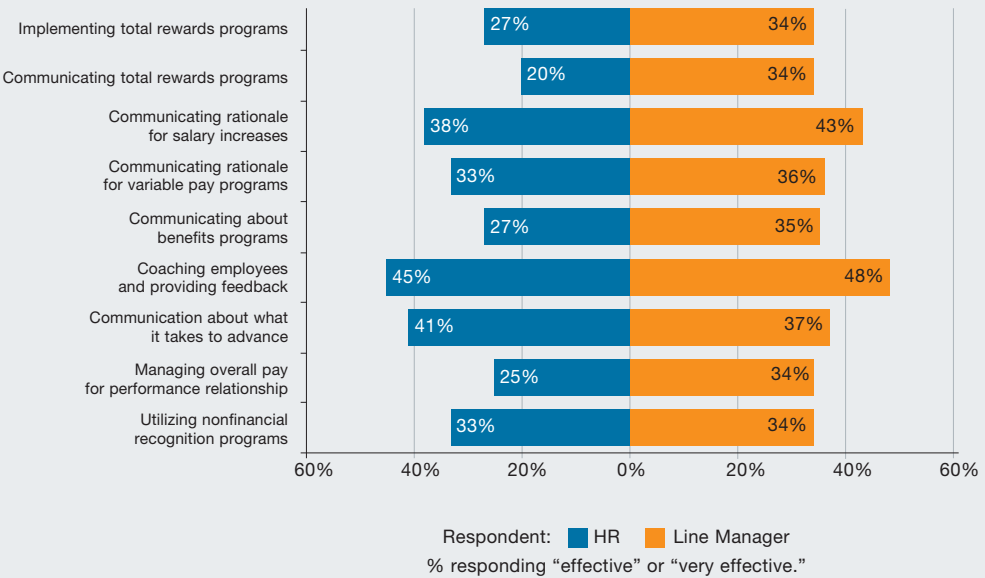
- “I’m accountable for making huge business decisions, but I can’t spend \$15,000 to reward some of my best people. What’s wrong here?”
- My employees see no connection between what they achieve and the amount of their bonus.”
- “I am told that we must pay the market, but our HR department can’t show 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.”

So, many organizations and their managers are insufficiently prepared to take on this critical role. This is reflected in the following findings in the Hay Group “Global Line Managers Impact on Reward Program Effectiveness Study” of 1,200 organizations:

- Less than 40 percent of organizations believed that their managers are effective at communicating reward programs (from base pay to variable pay, benefits, and financial and nonfinancial recognition programs).
- 35 percent of organizations said their managers are effective at developing connections for employees between their work and business results.
- 28 percent of organizations believe their managers manage the “pay for performance” relationship effectively.

Figure 1 summarizes HR and line management opinions concerning the perceived effectiveness of the line manager’s influence on reward programs. In addition to

FIGURE 1 Line Managers’ Impact on Reward Program Effectiveness (McMullen and Stark 2007)



the relatively low ratings across most areas, the HR function tends to have a lower opinion of line-manager effectiveness in reward-program implementation than do line managers themselves.

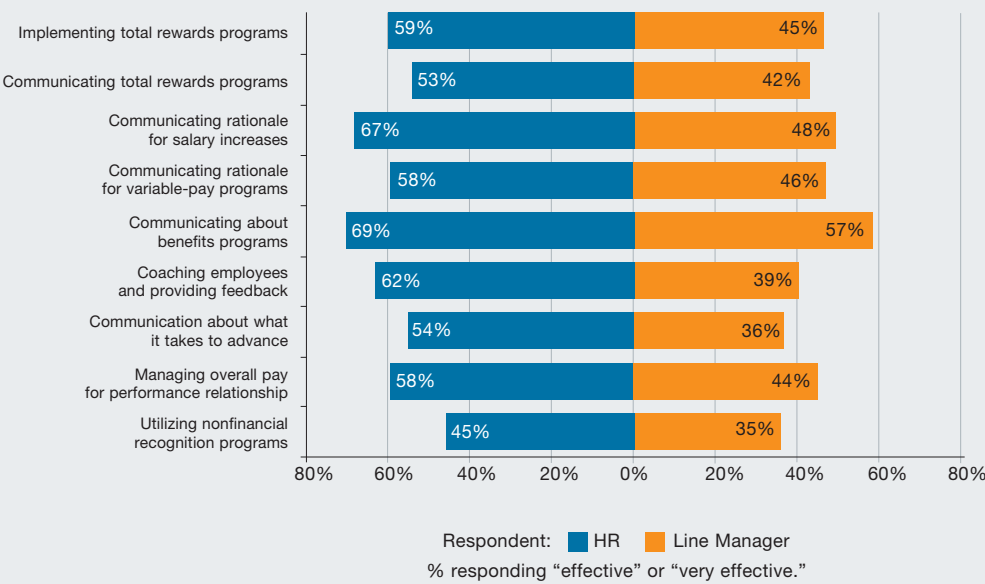
WHERE IS HR?

The authors cannot limit attention to line managers in addressing these shortcomings. While line managers may be insufficiently prepared to take on reward-program implementation accountabilities, many HR functions are inadequately supporting their line managers in this regard. Figure 2 summarizes data from the study concerning the perceived effectiveness of HR support provided to line managers.

While the ratings, in general, are higher for HR support of line managers in the same reward areas as shown in Figure 1, it is troubling to see the substantial gaps in the effectiveness ratings of the HR function between HR and line management respondents. For example, a 23-percent gap exists between HR and line management’s opinion of the effectiveness of line managers in their ability in coaching employees and providing feedback. This raises several interesting questions.

- Can HR change if it lacks the awareness of the gap existing between its own opinion and that of line management of HR’s effectiveness?
- With many needs across many areas, how will HR prioritize where to focus its attention and resources?
- Given a fairly dismal track record, is line management prepared to partner with the HR function to more positively affect reward programs?

FIGURE 2 HR Support Provided to Line Managers (McMullen and Stark 2007)



One might think that the HR function would minimally be focused on leveraging best reward implementation practices across the organization, but this also does not seem to be happening. Only 36 percent of companies report that HR is effective at leveraging best practices across the organization related to reward-program implementation. Few business schools or academic programs focus on the manager's influence on reward programs, and few organizations offer management-development programs to help remedy this blind spot for most managers. Hay Group's study revealed that less than 36 percent of organizations thought they did an effective job of education, training and leveraging best practices in the area of rewards.

WHAT SHOULD ORGANIZATIONS DO?

Hay Group's research and consulting experience indicates that most managers are insufficiently prepared to effectively execute and impact their organization's reward programs. This may lead one to suggest that the data are suggesting a "call to arms" or at least a wake-up call for HR to do something more impactful than current practices suggest.

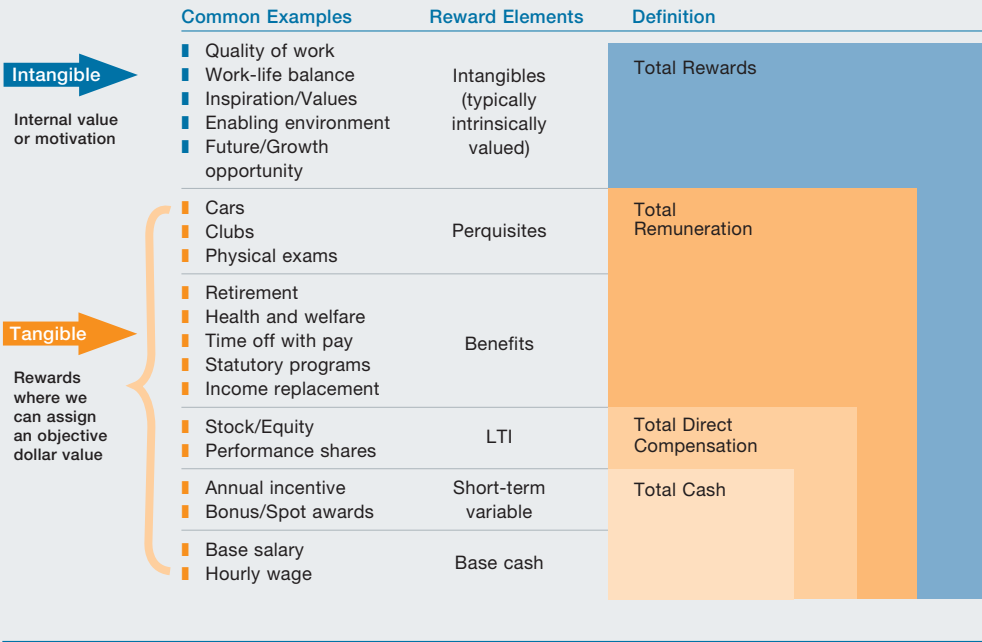
The HR function has a key role to play: it can work with managers to educate them about how to influence employees in this area and execute reward programs effectively. And senior leaders need to turn their attention to the issue. They need to understand the pivotal role that managers play in influencing the employee's view of rewards. Senior leaders also need to appreciate how managers' impact on rewards can—assuming it is a positive influence—reinforce the talent-management processes within the organization.

SHAPING THE ORGANIZATION'S VIEW OF REWARDS

One area where HR can play is in helping shape the organization's view of rewards. When managers criticize their organizations' reward programs, they often focus on cash compensation. Employees, however, are motivated by far more than cash. So, before criticizing how unfairly cash compensation is allocated to employees, managers would be best advised to consider how to communicate about and use the range of intangible rewards at their disposal as well as the monetary ones. Effective HR functions work with managers in developing a "total rewards" mindset in the broadest context to achieve business success.

Total rewards represent the reasons an employee comes to work at an organization. Intangible rewards, far from being "nice to have," have become core to many employers' "value propositions" to current and prospective employees. Intangible rewards are critical to the overall recruiting and retention strategy and typically have a meaningful influence on the organization's competitive reward strategy. As the manager is the key deliverer of intangible rewards to the employee, HR functions would be well-served by working with line managers to create a total rewards framework that is useful for the manager.

FIGURE 3 Hay Group Total Rewards Model



As Figure 3 illustrates, total rewards is, in effect, the sum total of what an employee receives from the organization. This broader characterization of rewards is becoming more common in the market. As such, it is in the best interest of any organization, from a financial and an “employment branding” perspective, to leverage this broader definition of rewards.

Applebee’s, the restaurant chain, does exactly this. Applebee’s identified four types of rewards (translating to the acronym REAL) that the company offered:

- Rewards (financial compensation)
- Engagement (ensuring work is fun and fulfilling)
- Advancement (personal and professional growth opportunities)
- Life (ensuring everyone has a healthy, balanced life).

Applebee’s branded its program the “REAL Deal.” According to Applebee’s Vice President of Performance and People Systems Scott White, “we took all of our HR programs and aligned them under each category of the REAL Deal to see what we have currently offered. There were many components under Rewards, a few under Engagement and Advancement, but even fewer things under Life. After strategic sessions with senior executives, which were designed to determine where Applebee’s would win in the marketplace, it was decided that when you really look at why people come to work for us, it’s not for the money. 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” (Jensen, McMullen and Stark 2007).

THE MANAGER'S TOTAL REWARDS TOOL KIT

The HR function has a key role to play in influencing line managers, both in having managers realize their effect on reward programs and building managerial confidence to act on this potential. Managers have tools available to them to reward employees in their organizations, to drive organizational success and generate a positive return on their investment in people. Organizations achieving the highest level of success are the ones where HR plays a direct role in influencing line managers in knowing when and how to use these tools. Some tools include:

- Work climate
- Determining the value of work
- Base cash programs
- Variable pay programs
- Recognition programs
- Performance management
- Employee development.

Work Climate

Recent Hay Group research (Anderson and Zhu 2002) shows that up to 30 percent of the variance in business results can be explained by differences in work climate created by the manager. Work climate is influenced and generated by individual, manager-specific behaviors and management styles that set the tone for a particular work unit, such that employees in positive work climates are more likely to engage in discretionary effort in support of their work unit. Managers who are attuned to climate and who can enhance the work environment create an aspect of total rewards that money cannot buy.

This is underscored by Scott White at Applebee's who says, "Probably the most important thing in this whole area of rewards is having a good boss, because they set the right kind of work climate in the organization. We have found that many people work here because they want a place where they feel comfortable and can be themselves, they want a balanced life, and they want to be treated with respect in a culture of integrity."

One way in which HR can effectively support line managers is in making them aware of the effect a robust work climate can have on employees and overall performance. By education and in providing tools by which managers can assess their current climate, managerial styles and coaching, HR can heavily influence managers' ability to shape and improve work climate.

Determining the Value of Work

It is typically line managers who design the structure of organizations and its jobs. Managers can also make their work areas more dynamic, move work processes around, and be creative and flexible with their job roles as circumstances dictate. So, it makes sense that line management is the best resource available to HR to

ensure that job documentation reflects work being performed and that matches to external compensation surveys make sense. But, how many times does line management confer with HR when it comes to redesigning roles (versus “just getting the right dollars for the job”) or HR operating in a vacuum when it comes to job leveling and market-pricing activities? Many HR functions can be more transparent and inclusive with managers in job leveling and market-pricing processes. And, managers can better partner with HR to ensure that they understand the “rules” and processes of designing and valuing work so they can effectively communicate and manage expectations of employees.

Base Cash Programs

While HR may be accountable for the design of base cash programs, managers clearly and directly affect them. It is more often the manager—and not HR—who plays the real role in ensuring that there is a clear message track to employees regarding the rationale for base-salary increases. Given a tight linkage between the performance-management system and the base-salary increase program in most organizations, managers are key to ensuring proper differentiation in performance ratings and in pay aligning with differentiated performance. HR has a role to play in terms of counselling managers on how to do this more effectively.

Variable-Pay Programs

Previous research with WorldatWork and Loyola University Chicago on variable-pay program effectiveness found that two of the top three improvement areas required in an organization’s variable-pay program are more effective communication of variable-pay program objectives and creating a better line of sight between organization objectives and individual employee accountabilities (Scott, McMullen, Wallace and Morajda 2004). Frequently, managers don’t spend much time ensuring the clarity of the “internal contract” with employees. This line-of-sight opportunity is about helping employees see how their role is connected with the organization’s performance. This is important on several fronts, but mainly because it gives employees more meaning to their work, which drives engagement and discretionary effort.

One example of a practical tool that HR can use to support managers in this area is the “personal impact map,” which lays out the linkage between organizational success drivers and individual work processes. A sample of such a map is provided in Figure 4 on page 38 for a floor associate working in a retail drug store. Again, the key emphasis is to show a connection between how the business achieves success and how a particular role adds value.

The authors have audited many variable-pay programs in organizations, with a number of them bordering on the incomprehensible. That is, these pay programs have too many measures, measures that are too vague, overlapping measures and they really don’t do a good job at communicating what’s important. HR’s opportunity to

FIGURE 4 Personal Impact Map



work with managers can make a real impact in terms of making the variable-pay program messages clear, which reinforces to employees where they should be spending their time.

Recognition Programs

HR and line managers in many organizations do not leverage the motivational power of nonmonetary reward and recognition programs. Hay Group employee opinion data suggest that approximately one-half of employees report that their contributions are recognized when they perform well.

Organizations are getting more serious about this, however, and approximately 85 percent of organizations report having instituted some form of recognition program (Abrahamsen and Boswell 2003). Some are adding recognition programs to management-development curriculum. Recognition programs are also evolving from a traditional focus on “thank you” programs to ones that focus on employee engagement. And some organizations are starting to emphasize the importance of effective recognition processes in their management-development programs.

The best recognition programs are ones aligned with organizational objectives, reflecting the mission, vision and values of the organizations and are an integrated part of the rewards program, rather than stand-alone or ad-hoc plans. This integration is typically evidenced by a formal recognition strategy (and meaningful recognition program budgets) that is linked to the business plan and overall HR strategy.

Some most effective recognition programs don’t financially cost the organization because employees value simple and personal gestures from the company’s senior leaders which recognize their efforts. Carl Smith, compensation manager at Caterpillar Corp., agrees. “We have dozens of recognition programs across our organization. Our managers can hand out spot cash rewards. But we find nonfinancial

recognition is typically the most powerful, especially when it is given by our leaders,” he said. “We get more mileage from public recognition from a manager when it’s done in small groups or privately. It’s inexpensive and it goes a long way” (Jensen, McMullen and Stark 2007).

HR can play a significant role in promoting more widespread use of nonfinancial recognition programs, promoting best practices and in leveraging their use throughout the organization.

Performance Management

The manager’s effect on performance management is substantial. Managers are the center of the performance-management process. It is the manager who must know how to translate organizational “must-wins” into departmental “must-wins” and to cascade goals that make sense for the department. It is the manager who ensures that employees know what they need to do for the organization to succeed and, as previously stated, it is the manager’s role to ensure clarity in role design and ultimately hold employees accountable for what they do.

Perhaps the most important aspect of performance management is the ongoing “blocking and tackling” of providing periodic feedback and constructive criticism. This is perhaps the biggest miss and the biggest opportunity for managers. Dick Brown, CEO of EDS, reinforces this point by saying that “a leader should be constructing his appraisal all year long and giving his appraisal all year long. You have 20, 30, 60 opportunities a year to share your observations. If, at the end of the year, someone is truly surprised by what you have to say, that is a failure of leadership. By failing to provide honest feedback, leaders cheat their people by depriving them of the information that they need to improve” (Charan 2006).

At the time to review and to reward performance, many managers tend to avoid the difficult conversations accompanying poor performance ratings. Accordingly, when final performance ratings are assigned for the year, the same patterns apply. Employees need to understand and appreciate the difficulty in achieving high ratings. Providing them with the necessary information needed to excel helps to challenge them continually and raise the standard of excellence across the organization. HR needs to work with managers so they realize that they have a broad range of vehicles at their disposal to reward employee performance that includes, but isn’t limited to, 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.

HR can play a substantive role in improving how managers leverage the performance management process. Heineken USA reinvigorated its performance calibration process by convening meetings with managers at a given level across the organization to discuss specific information on their employees’ competencies. According to Amy Nenner, vice president of HR at Heineken USA, “We have an open and candid conversation about the person, getting input from other people who may have

worked with that individual. The calibration process results in a collective rating on each employee with which the line manager would be comfortable. If the manager was not content with the rating, the dialogue would continue. What we didn't do was take away the manager's responsibility or authority, but HR gave them a much greater perspective" (Jensen, McMullen and Stark 2007).

HR provided Heineken's line managers with the performance-management tools and, perhaps more importantly, a supportive process so that each manager had the ability to more consistently and confidently evaluate employee performance. Many more underperformers were identified through the calibration process and placed on performance-development plans. According to Nenner, "we're having much more candid and transparent conversations than we've ever had before, and it's making a positive impact on our business."

Employee Development

While pay factors into why people leave their employers, professional and management employees tend to be more concerned about their opportunities for personal development and growth. The manager is the key influencer in an employee's personal development. Chairman and CEO of Procter and Gamble A. G. Lafley, a perpetual *Fortune* Most Admired Company said, "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" (Holstein 2005).

Hay Group employee-opinion norms suggest, however, that many employees aren't getting the advancement-related support they seek from their managers. Less than one-half of employees surveyed consider their managers to be doing a good job of counselling them in their career development. To keep more of their best people, HR in most organizations would do well to focus managers on the need to attend continually to the development of their employees and to ensure that they are being positioned for and placed in the roles that best align with their skills and capabilities. The importance of nurturing and developing talent, and promoting from within is born out by the fact that those who do this well can pay less for their talent than other organizations (the authors' research suggests 5 percent less). But without top-management commitment to sensible job/role progression within the organization, the line manager's job will be made much more difficult. Still, HR can work with and encourage individual managers to identify employee needs and shape work or look for opportunities that can enhance an individual's development.

THE MANAGER'S ROLE IN COMMUNICATIONS

Managers have a primary role to play in communicating the organization's rewards program. HR can help managers in ensuring that they have a clear and simple message track for telegraphing the primary components of the rewards program and what they are intended to achieve.

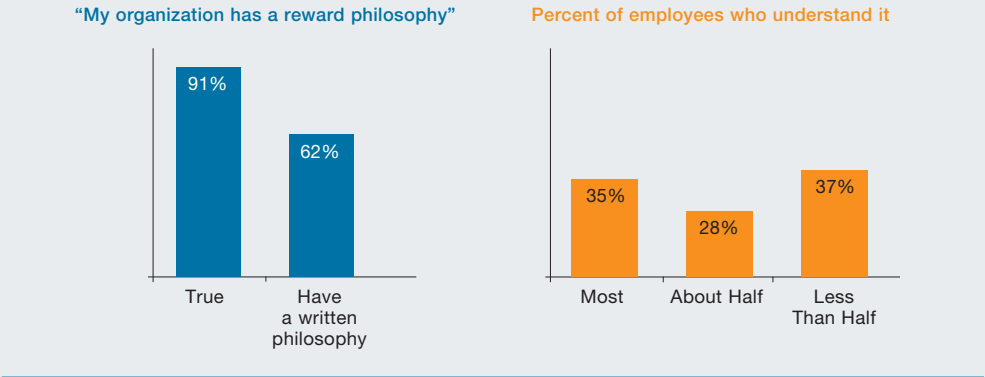
Communication is the key to ensuring that the reward program is delivering what it was designed to do. Communications can be the “make or break” behind a successful rewards program. But many organizations have a long way to go. Figure 5 shows that while most organizations do have a rewards philosophy, lack of documentation and reinforcement of that philosophy results in a poor track record of employees who understand it (Scott, McMullen, Sperling and Wallace 2003). The reward program can serve as a motivator only if it is understood and then accepted by employees. Employees perform better when they know what is expected of them and how they will be rewarded. Moreover, employees *expect* to be kept informed about things affecting them and become upset and/or disengaged when this doesn’t happen.

The organization is best-served when HR does a good job at identifying and segmenting the communication message for different employee groups. Managers need to hear communications before employees hear them and need to have additional communication tools available to them because they are the primary resource to answer the tough questions about the rewards program from employees. This goes beyond a launch e-mail and/or set of PowerPoint factoids. Managers need “plain speak” talking points and discussion protocols for one-to-one discussions with employees.

According to Liz Baldock, senior vice president, HR and learning, at American Modern Insurance Group (AMIG), “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” (Jensen, McMullen and Stark 2007).

“We give managers a standard presentation to give to employees,” added Caterpillar’s Smith. “They get talking points with suggestions on what to advise their employees based on their job level or type of situation. Some supplement what we give them and others don’t make it a priority. This shows up in employee opinion surveys,”

FIGURE 5 Effectiveness of Reward Communication (Scott, Sperling, McMullen and Wallace 2003 and the Hay Group Employee Opinion Database)



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he noted. “Managers who make it a priority usually get better results from the employee-opinion surveys.”

Will excellent communications limit complaints about a program that slows compensation growth or one that shifts guaranteed compensation to variable pay? Probably not. But good communications will blunt much of the grumbling by making a sound business case for change.

THE ROLE OF HR

Managing people effectively is hard work, but it's the kind of work that rewards organizations that do it well. Of course, HR has much work to do in better using and preparing managers in this regard. Because of its unique role within the organization and with regard to capability building, the HR function has a critical role to play in facilitating managers' success and

leveraging the best management practices across the organization. HR needs to better understand the criticality of the role that managers should play and the enhanced role they themselves could play in helping make rewards programs successful.

Many HR and rewards professionals have an opportunity to make a difference in their organization by engaging in a more active partnership with their line managers and helping them become more successful by supporting their individual development, ensuring they really understand the strategic intent of HR programs (and not just the technical details), ensuring their involvement in the design and refinement of rewards programs and in leveraging the best practices in reward-program implementation across the organization.

Done well, the HR function, in concert with line management, can collectively and positively influence how employees perceive and value total rewards in light of this new, more comprehensive framework. ■

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Mel Stark (mel_stark@haygroup.com) is a vice president and the Regional Reward Practice leader in the New York Metro office of Hay Group. In his practice role and in his personal consulting, he is focused on adding clarity to clients' operations through cultural diagnostics, job analysis, work measurement, accountability mapping and organization design. Building commitment in client's employees is also stressed through the effective implementation of holistic reward programs. He holds a bachelor's of arts from The American University in Washington, D.C. and has earned an master's degree in business administration from Bernard M. Baruch College and an advanced professional certificate in organizational behavior and development from New York University's Graduate School of Business Administration. He is co-author of the book *The Manager's Guide to Rewards*.

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