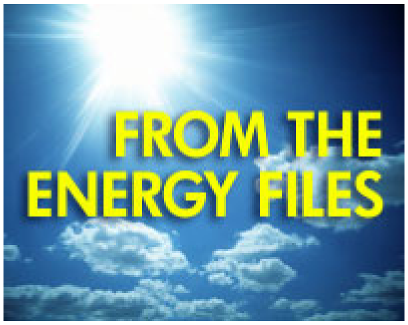

What are the Energy Files?

Over 1 million data points on employee energy at work and open-ended comment data on what is making energy increase and decrease. The raw data, the research studies, and case studies make up the Energy Files. To learn more go to www.leadershippulse.com or www.eepulse.com.

Does Pay Affect Leader Productivity?

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The topics of pay and motivation along with pay for performance are "hot." It may be the overall lack of salary increases and bonuses over the last few years or the rise in new books on the topic spurring interest. Whatever the cause, I have been asked quite a bit lately what I think about pay as a motivator.

As they say "back in the day," I did a lot of research in the area of compensation, so that is one reason people ask me this question. In addition, I have access to quite a bit of data from the leadership pulse research and findings from studies done within companies.

My answer goes something like this:

What I know is that if a company changes its executive compensation plan, the firm will then see different behaviors from the people running the firm. Does that mean pay motivates? What does seem to be the conclusion one can make from this is that the pay system sends a signal about what is important in a company, and top executives move quickly when their boss, the Board of Directors, makes changes in compensation. In addition, if the signaling process works for people at the very top of the business, why do we think it would not work for everyone else?

In addition, there is research to support the notion that "you get what you pay for." Therefore, employees may not sit around all day waiting for a carrot or a stick to figure out what to do at work; however, they pay attention when a formal rewards system is in place that states publicly what will be rewarded and what is no longer important. In other words, behavior will change when the pay plan is altered.

What about pay is important?

Therefore, if pay sends a signal, then what can we learn about that signal? What matters to employees?

In the Winter, 2010 Leadership Pulse we examined pay for performance for the leaders and managers who participate. This particular set of questions was provided to our team through a partnership with Sibson, a consulting firm that was doing studies on pay for performance with other samples. They were able to aggregate their data from projects done with the World at Work, their own clients and the Conference Board. A power point document with their complete results is available at http://www.eepulse.com/news.html.

In this article, we use that pay-for-performance data and link it to employee energy at work. Because energy has been validated, used since 1996, and found to predict performance in terms of productivity and sales, it provides a high value metric to determine what about pay might be affecting leader performance and productivity. In this particular round of pay-related questions, we used 12 items that focused on pay for performance issues. We did not ask about amount of pay or benefits but perceptions of the link between different components of pay and performance.

Energy and Pay-for-Performance

In order to understand how these pay-for-performance items related to energy we ran a regression analysis with energy as the dependent variable and each of the 12 questions, with control variables, as independent variables. In other words, we used the regression analysis to test which questions were important and the level of impact the pay-related items had on employee energy at work. We ran the analysis with energy overall and the gap between energy today and energy where most productive (we ask both questions, and the gap is predictive of performance). The results for both equations were the same.

Of all the questions used in the leadership pulse, only three were statistically significant in positively predicting energy (when these question answers were higher, then energy was higher). The three significant questions are below and listed in order of importance:

1. The way my company links pay with performance is fair and effective for all employees.

2. Company goals and objectives are reflected in the performance evaluation process used for managers (from senior management to first-line supervisors).

3. The teams in our company that seem to receive more rewards (formally and informally) are clearly the highest performing teams.

Questions that were not significant dealt specifically with bonus payments, overall performance management process and how informal rewards are used. Questions focused on individuals were not significant, but the items above that dealt with the company overall and groups (teams, managers overall) were important in driving energy.

Process fairness more important

The results, although of course limited in that we did not ask the complete range of questions that one could include in a larger scale survey of pay, seem to support learning from a large and established body of work on fairness. What we know from this research is that procedural fairness (process of how pay is determined and delivered) tends to be more important than distributive fairness (actual pay outcome or decision) in predicting outcomes.

This means that the method by which pay (or lack of pay) is decided and distributed is critical in determining whether employees will accept the message and be satisfied with the pay decisions. When procedures are fair, even with negative outcomes, positive employee behaviors can result.

Does pay motivate?

Let's go back to the question we started with – does pay motivate? The question is incomplete. The inquiry should be what behaviors are motivated by the pay system. Pay sends signals to employees. First, it sends a message about what's important and what is not critical. Changes in pay will lead to changes in how employees behave because pay is an important signaling event. Pay practices let employees know what you expect of them.

Pay system signal drives behaviors

The way pay is administered sends a signal about the values of the firm. If pay and rewards are administered in ways that employees perceive as fair, then employees are more likely to accept outcomes of the pay process, even when undesirable. Many companies over the last few years have been in a situation where pay increases have not occurred, or they have been delayed. These firms are worried that their top talent will leave for better pay and benefits when the recession lets up and more jobs are added to the economy. This does not have to be the case if the rules of communication and procedural fairness are followed.

Does pay affect energy and productivity?

The answer is yes, but it's not more than pure money that affects energy. Do not get me wrong, more money certainly cannot hurt; however, the energy-related studies we have done in broad samples and in client organizations demonstrate, as does the analysis in this article, that fairness of the pay system is critical in driving energy and high productivity.

Improving fairness of pay systems

Below are a few tips for improving employee perceptions of pay system fairness:

- Keep it simple – pay is an area where less is more. The move to abandon performance appraisal is a step in this direction. Why do we use long, detailed, painful performance appraisal forms when the budget for merit increase is what – 2%, 3%? Why not just give everyone who is meeting a base level of requirement (set as high as you'd like) a cost-of-living adjustment (which is what the merit budgets are these days) and then find other ways (bonus, promotion, incentives) to reward people who go "above and beyond." It is a very sane idea that today is getting more interest than ever before. Keeping it simple means less detail to explain, less process to hide under, and it leads to perceptions that the process is fairer.

- Explain the pay process – provide employees with a logical explanation of the basis for pay decisions. They may not like the news; however, knowledge is better than mystery and rumor.

- Manager underperformers – the #1 employees talk about when they claim pay unfairness is the person who is not performing but who gets salary increases and promotions. One bad experience creates a virus that spreads and spreads until morale is dramatically and negatively affected.

- Avoid practices built to manage the deviant – for some reason, there are many HR practices alive and well because of the possible abuse of one or two deviant types. Avoid creating policies that will be perceived as unfair by 95% of the employees in order to be "safe" and have a practice that will catch the 5% or less who are deviants.

Pay is an organizational process that communicates goals to employees. The prudent organization should be checking in regularly to learn from employees, exactly what the pay system is saying today.