Reward system assignment

Business

REWARD VS. RECOGNITION Although these terms are often used interchangeably, reward and recognition systems should be considered separately. Employee reward systems refer to programs set up by a company to reward performance and motivate employees on individual and/or group levels. They are normally considered separate from salary but may be monetary in nature or otherwise have a cost to the company. While previously considered the domain of large companies, small businesses have also begun employing them as a tool to lure top employees in a competitive job market as well as to increase employee performance.

As noted, although employee recognition programs are often combined with reward programs they retain a different purpose altogether. Recognition programs are generally not monetary in nature though they may have a cost to the company. Sue Glasscock and Kimberly Gram in Productivity Today differentiate the terms by noting that recognition elicits a psychological benefit whereas reward indicates a financial or physical benefit.

Although many elements of designing and maintaining reward and recognition systems are the same, it is useful to keep this difference in mind, especially for small business owners interested in motivating staffs while keeping costs low. DIFFERENTIATING REWARDS FROM MERIT PAY AND THE PERFORMANCE APPRAISAL In designing a reward program, a small business owner needs to separate the salary or merit pay system from the reward system. Financial rewards, especially those given on a regular basis such as bonuses, gainsharing, etc. should be tied to an employee's or a group's accomplishments and should be considered " pay at risk" in order to distance them from salary. By doing so, a manager can avoid a sense of entitlement on the part of the employee and ensure that the reward emphasizes excellence or achievement rather than basic competency. Merit pay increases, then, are not part of an employee reward system. Normally, they are an increase for inflation with additional percentages separating employees by competency.

They are not particularly motivating since the distinction that is usually made between a good employee and an average one is relatively small. In addition, they increase the fixed costs of a company as opposed to variable pay increases such as bonuses which have to be “ reearned” each year. Finally, in many small businesses teamwork is a crucial element of a successful employee’s job. Merit increases generally review an individual’s job performance, without adequately taking into account the performance within the context of the group or business. DESIGNING A REWARD PROGRAM The keys to developing a reward program are as follows: Identification of company or group goals that the reward program will support •Identification of the desired employee performance or behaviors that will reinforce the company’s goals •Determination of key measurements of the performance or behavior, based on the individual or group’s previous achievements •Determination of appropriate rewards •Communication of program to employees In order to reap benefits such as increased productivity, the entrepreneur designing a reward program must identify company or group goals to be reached and the behaviors or performance that will contribute to this.

While this may seem obvious, companies frequently make the mistake of rewarding behaviors or achievements that either fail to further business goals or actually sabotage them. If teamwork is a business goal, a bonus system rewarding individuals who improve their productivity by themselves or at the expense of another does not make sense. Likewise, if quality is an important issue for an entrepreneur, the reward system that he or she designs should not emphasize rewarding the quantity of work accomplished by a business unit. Properly measuring performance ensures the program pays off in terms of business goals.

Since rewards have a real cost in terms of time or money, small business owners need to confirm that performance has actually improved before rewarding it. Once again, the measures need to relate to a small business' goals. As Linda Thornburg noted in HR Magazine, " Performance measures in a rewards program have to be linked to an overall business strategy…. Mostreward programs use multiple measures which can include such variables as improved financial performance along with improved customer service, improved customer satisfaction, and reduced defects. When developing a rewards program, an entrepreneur should consider matching rewards to the end result for the company. Perfect attendance might merit a different reward than saving the company $10, 000 through improved contract negotiation. It is also important to consider rewarding both individual and group accomplishments in order to promote both individual initiative and group cooperation and performance. Lastly, in order for a rewards program to be successful, the specifics need to be clearly spelled out for every employee.

Motivation depends on the individual's ability to understand what is being asked of her. Once this has been done, reinforce the original communication with regular meetings or memos promoting the program. Keep your communications simple but frequent to ensure staff are kept abreast of changes to the system. TYPES OF REWARD PROGRAMS There are a number of different types of reward programs aimed at both individual and team performance. VARIABLE PAY Variable pay or pay-for-performance is a compensation program in which a portion of a person’s pay is considered “ at risk. Variable pay can be tied to the performance of the company, the results of a business unit, an individual’s accomplishments, or any combination of these. It can take many forms, including bonus programs, stock options, and one-time awards for significant accomplishments. Some companies choose to pay their employees less than competitors but attempt to motivate and reward employees using a variable pay program instead. According to Shawn Tully in Fortune, “ The test of a good pay-for-performance plan is simple: It must motivate managers to produce earnings growth that far exceeds the extra cost of [the program].

Though employees should be made to stretch, the goals must be within reach. ” BONUSES Bonus programs have been used in American business for some time. They usually reward individual accomplishment and are frequently used in sales organizations to encourage salespersons to generate additional business or higher profits. They can also be used, however, to recognize group accomplishments. Indeed, increasing numbers of businesses have switched from individual bonus programs to one which reward contributions to corporate performance at group, departmental, or company-wide levels.

According to some experts, small businesses interested in long-term benefits should probably consider another type of reward. Bonuses are generally short-term motivators. By rewarding an employee's performance for the previous year, say critics, they encourage a short-term perspective rather than future-oriented accomplishments. In addition, these programs need to be carefully structured to ensure they are rewarding accomplishments above and beyond an individual or group's basic functions. Otherwise, they run the risk of being perceived as entitlements or regular merit pay, rather than a reward for outstanding work.

Proponents, however, contend that bonuses are a perfectly legitimate means of rewarding outstanding performance, and they argue that such compensation can actually be a powerful tool to encourage future top-level efforts. PROFIT SHARING Profit-sharing refers to the strategy of creating a pool of monies to be disbursed to employees by taking a stated percentage of a company's profits. The amount given to an employee is usually equal to a percentage of the employee's salary and is disbursed after a business closes its books for the year.

The benefits can be provided either in actual cash or via contributions to employee's 401(k) plans. A benefit for a company offering this type of reward is that it can keep fixed costs low. The idea behind profit-sharing is to reward employees for their contributions to a company's achieved profit goal. It encourages employees to stay put because it is usually structured to reward employees who stay with the company; most profit-sharing programs require an employee to be vested in the program over a number of years before receiving any monies.

Unfortunately, since it is awarded to all employees, it tends to dilute individual contributions. In addition, while profit is important, it is only one of many goals a company may have and is, according to Jack Stack in Inc. , " an accumulation of everything that happens in the business over a given period of time" and is therefore difficult for most employees to connect their actions to. Stack argued that "[employees] have to be able to see the connection between their actions, decisions, and participation, and changes in [a company's goals]. Like bonuses, profit sharing can eventually be viewed as an entitlement program if the connection between an employee's actions and his or her reward becomes murky. STOCK OPTIONS Previously the territory of upper management and large companies, stock options have become an increasingly popular method in recent years of rewarding middle management and other employees in both mature companies and start-ups. Employee stock-option programs give employees the right to buy a specified number of a company's shares at a fixed price for a specified period of time (usually around ten years).

They are generally authorized by a company's board of directors and approved by its shareholders. The number of options a company can award to employees is usually equal to a certain percentage of the company's shares outstanding. Like profit-sharing plans, stock options usually reward employees for sticking around, serving as a long-term motivator. Once an employee has been with a company for a certain period of time (usually around four years), he or she is fully vested in the program. If the employee leaves the company prior to being fully vested, those options are canceled.

After an employee becomes fully vested in the program, he or she can purchase from the company an allotted number of shares at the strike price (or the fixed price originally agreed to). This purchase is known as " exercising" stock options. After purchasing the stock, the employee can either retain it or sell it on the open market with the difference in strike price and market price being the employee's gain in the value of the shares. Offering additional stock in this manner presents risks for both the company and the employee.

If the option's strike price is higher than the market price of the stock, the employee's option is worthless. When an employee exercises an option, the company is required to issue a new share of stock that can be publicly traded. The company's market capitalization grows by the market price of the share, rather than the strike price that the employee purchases the stock for. The possibility of reduction of company earnings (impacting both the company and shareholders) arises when the company has a greater number of shares outstanding.

To keep ahead of this possibility, earnings must increase at a rate equal to the rate at which outstanding shares increase. Otherwise, the company must repurchase shares on the open market to reduce the number of outstanding shares. One benefit to offering stock options is a company's ability to take a tax deduction for compensation expense when it issues shares to employees who are exercising their options. Another benefit to offering options is that while they could be considered a portion of compensation, current accounting methods do not require businesses to show options as an expense on their books.

This tends to inflate the value of a company. Companies should think carefully about this as a benefit, however. If accounting rules were to become more conservative, corporate earnings could be impacted as a result. GROUP-BASED REWARD SYSTEMS As more small businesses use team structures to reach their goals, many entrepreneurs look for ways to reward cooperation between departments and individuals. Bonuses, profit sharing, and stock options can all be used to reward team and group accomplishments.

An entrepreneur can choose to reward individual or group contributions or a combination of the two. Group-based reward systems are based on a measurement of team performance, with individual rewards received on the basis of this performance. While these systems encourage individual efforts toward common business goals, they also tend to reward underperforming employees along with average and above-average employees. A reward program which recognizes individual achievements in addition to team performance can provide extra incentive for employees. RECOGNITION PROGRAMS

For small business owners and other managers, a recognition program may appear to be merely extra effort on their part with few tangible returns in terms of employee performance. While most employees certainly appreciate monetary awards for a job well done, many people merely seek recognition of their hard work. For an entrepreneur with more ingenuity than cash available, this presents an opportunity to motivate employees. In order to develop an effective recognition program, a small business owner must be sure to separate it from the company’s reward program.

This ensures a focus on recognizing the efforts of employees. To this end, although the recognition may have a monetary value (such as a luncheon, gift certificates, or plaques), money itself is not given to recognize performance. Glasscock and Gram noted in National Productivity Review that effective recognition methods should be sincere; fair and consistent; timely and frequent; flexible; appropriate; and specific. They go on to explain that it is important that every action which supports a company's goals is recognized, whether through informal feedback or formal company-wide recognition.

Likewise, every employee should have the same opportunity to receive recognition for their work. Recognition also needs to occur in a timely fashion and on a frequent basis so that an employee's action does not go overlooked and so that it is reinforced to spur additional high performance. Like rewards, the method of recognition needs to be appropriate for the achievement. This also ensures that those actions which go farthest in supporting corporate goals receive the most attention. However, an entrepreneur should remain flexible in the methods of recognition, as employees are motivated by different forms of recognition.

Finally, employees need to clearly understand the behavior or action being recognized. A small business owner can ensure this by being specific in what actions will be recognized and then reinforcing this by communicating exactly what an employee did to be recognized. Recognition can take a variety of forms. Structured programs can include regular recognition events such as banquets or breakfasts, employee of the month or year recognition, an annual report or yearbook which features the accomplishments of employees, and department or company recognition boards.

Informal or spontaneous recognition can take the form of privileges such as working at home, starting late/leaving early, or long lunch breaks. A job well done can also be recognized by providing additional support or empowering the employee in ways such as greater choice of assignments, increased authority, or naming the employee as an internal consultant to other staff. Symbolic recognition such as plaques or coffee mugs with inscriptions can also be effective, provided they reflect sincere appreciation for hard work.

These latter expressions of thanks, however, are far more likely to be received positively if the bestower is a small business owner with limited financial resources. Employees will look less kindly on owners of thriving businesses who use such inexpensive items as centerpieces of their reward programs. Both reward and recognition programs have their place in small business. Small business owners should first determine desired employee behaviors, skills, and accomplishments that will support their business goals. By rewarding and recognizing outstanding performance, entrepreneurs will have an edge in a competitive corporate climate.