What Can I Do to Retain My Best People without Creating Entitlements?

What Get's Good People to Stay?

Examining the cultural dynamics that encourage or discourage an employee's longevity in an organization reveals four primary reasons people stay or go. In exit interviews held by employers large and small, a variation on one of the following themes commonly emerges.

- "I'm not confident about where the company is headed"
- "I don't feel I fit in here"
- "I'm not sure there's a future or career path for me with this company"
- "I have a better financial opportunity somewhere else"

These responses reveal the four key issues that most quality employees evaluate when determining whether or not the total rewards value proposition of a company is compelling to them. These represent the counter point to the reasons most people leave a company:

- Compelling future
- Positive work environment
- Opportunities for personal and professional growth
- Financial rewards

When evaluating a workforce in the context of these four variables, it is important to realize that progressive companies must learn to strike the right balance in each of these areas without instilling an entitlement mentality. High performance organizations understand the economic underpinnings that sustain the organization and enforce those thresholds as they construct and carry out their rewards philosophy. They seek to create a unified vision for growing the business without over indulging the desires of employees.

Entitlement versus Ownership Mentality

The balance just described means that a business strives to infuse the organization with a cultural thought process that is ownership based. The opposite of an ownership mentality is entitlement.

In most organizations, these two mindsets represent polar opposites and evoke a strong gravitational pull in one direction or the other. The key to success is to break free of the entitlement paradigm; move past the "whatever" mode of thought and land firmly in the ownership camp. Let's examine each of these.

Entitlement

Employees that demonstrate an attitude of entitlement have not yet learned that value is only earned as value is created. In most cases, such employees have been trained to think in these terms in part through the way their rewards systems have been structured - or by precedents that management has set in addressing individual concerns and desires. Here are just a few examples of how this is manifest or evolves.

- Annual bonuses are paid each year without a structured, tested formula for determining payouts
- Employees feel they deserve stock in a closely held business that employs them
- Management feels trapped in incentive plan schedules that don't correspond with critical performance thresholds (e.g. incentives are paid based on individual performance even during periods of unprofitability)
- Employees aren't meeting target, no less superior, key performance indicators and yet expect income increases each year
- There is no rewards philosophy in the organization that guides decisions about pay
- Employees communicate an attitude of skepticism regarding management plans and sometimes even undermine efforts directed at change and progress
- Long-time employees have a "tenured" mentality that communicates they feel deserving of a role in the company (and corresponding increasing compensation) regardless of performance

If your organization is experiencing these symptoms, don't be too discouraged. You are not alone. Unfortunately, such trends are all too common particularly in privately owned businesses. Such a profile usually emerges because as the business has been built over time, an ad hoc means of addressing compensation issues have emerged to first secure and then retain key people. The end result has been a patchwork effort at addressing something that should be strategically aligned with the business plan of the company.

"Whatever!"

A second less than ideal mindset that can often emerge with employees of a business is perhaps best described by a term teenagers use when they aren't willing to concede a point—but have become bored with the discussion. "Whatever!" It means simply that the issue just isn't that important to them—they're neither hot nor cold on it. In essence "whatever" is short for saying, "you can do whatever you want with/about (fill in the blank) because I don't really see that it's going to impact me all that much."

Employees in this mindset are obviously not yet fully committed nor engaged in performance yet. Although they may not have an entitlement mentality, they also don't yet see the relationship between the company achieving its goals and their ability to achieve their own – especially financially.

Employees with a "whatever" mentality are dangerous because they are more likely to be persuaded by associates with an entitlement mentality than by ownership. In other words, company leadership has not yet captured their minds and hearts. Again, this is common in organizations that are not yet strategic in their approach to building rewards systems and programs. This mindset also emerges in organizations where there is much talk about change, improvement, promises, strategy and opportunity, but little corresponding action is ever taken.

Ownership

In a company where an ownership mentality has emerged, employees and shareholders draw the same conclusion about "what's important." Key people behave in a way that reflects an understanding of where the company is headed and a commitment to its achievement.

An ownership mentality, however, does not just occur because employees come to understand better what the company wants to achieve. This is an assumption too many business owners make. "I have told my employees about my vision and what I expect of them—why are they not more focused? Why am I not seeing the results I anticipated?"

Employees invest their talents in helping a business achieve its growth goals because the following factors have been properly aligned in their engagement with that company:

- *"I <u>understand</u> the company's goals."* This means they understand all of the implications of that vision and its potential fulfillment both to the shareholders and to themselves. They understand "what's important" and why.
- *"I <u>believe</u> the company will achieve the goals it has set."* Beyond understanding is belief. One can understand the direction the company is taking without believing it is achievable.
- *"Achievement of the company's goals is <u>important</u> to me."* This now turns understanding and belief into importance. Until this occurs, there is no engagement on the part of the employee and, therefore, no ownership mentality develops. Conversely, we pay attention to things that are important assuming they are meaningful to us personally.
- *"I see how I can make a <u>contribution</u> to the goals of the company."* At this stage, an employee's passion begins to be unleashed because he sees the relationship between what he understands, why it's important to him and how he can contribute. This occurs when an employee recognizes the unique abilities he has and is given the opportunity to have them not just utilized by the business but magnified.
- *"I see the <u>connection</u> between the company's goals and the achievement of my own goals."* When this occurs, an employee finds meaning in what he is doing. Because the application of his time, effort and talents is fulfilling ends he wants to achieve, he is willing to commit and engage. The more meaning he finds, the more passion he applies to work he does.

Understanding, importance, belief, contribution and connection. When these five things are at work in an employee's mind and heart, there is a different thought process in which he engages as he comes to work each day. His daily decision making follows a pattern that might best be described by these questions:

- *"What has to happen?"*
- *"What can be enhanced?"*
- *"What might be hindered?"*
- *"What impact can I have?"*

In other words, an employee that is engaged in this way has developed an ownership mentality.

The Path to an Ownership Mentality

The ability to transition from an entitlement mentality to an ownership mentality begins with a commitment to change and a belief that a greater cultural experience can be realized. That commitment and belief must be coupled with a dose of humility; a recognition on the part of company leadership that they don't have all the answers and that it might need help charting a course to a better result.

Those, however, that commit themselves to making positive changes should consider adopting the following seven step process for creating a more unified financial vision within the company - one rooted in an ownership mentality.

Step One – Communicate a Compelling Future

The ability to convey to another person a passion about the future implies that you have that picture clear in your own mind. Presumably your present company is different than your future company will be. If so, you need to be able to articulate how it is different, in concrete terms. That future then needs to have meaning and purpose - which is what makes it compelling.

Here is a list of key questions company ownership should answer about the future company if they are going to communicate a compelling vision:

- What will the company look like?
- What will it do?
- How big will it be?
- How will it create external value?
- How will it create internal value?
- Why is this compelling?
- What will happen to Present Company (once future company is realized)?

Step Two – Present a Clear Path

A future becomes more compelling when the path to its fulfillment is clearly laid out and defined. As a result, companies that are ambitious about growth must be able to match their vision definition with a strategy statement and accompanying business plan.

Employees need to be able to see that the path to the company's future is not only clear, but achievable. For this to happen, the business plan must have the following characteristics.

- Key initiatives that are clearly defined
- Remember that simplicity equals clarity
- Remember that achievability equals believability

Step Three – Define Opportunities

Once a company's future has been defined and a plan for its achievement has been created, key talent wants to know where it fits in. "What is my role and what is expected of me in that role? How will my unique abilities be applied and magnified?"

Knowing the role one has in the future of an organization is, in part, what makes that future compelling. Likewise, if there are opportunities to grow as the company grows, then an employee is going to see their role and sphere of influence differently than if such things are undefined.

Consequently, employers wanting to develop an ownership mentality in their culture will make sure the following are clearly mapped and articulated.

- Opportunities for professional growth
- Opportunities for personal growth
- Career Paths are available and flexible
- "Entrepreneurialism" is recognized and reinforced
- Creativity is rewarded

Step Four – Nurture Openness

Companies that want employees that are "invested" need leadership that is willing to open channels of communication with key people on issues of vital importance to ownership. Certainly, we can't expect employees to think like owners if they don't know what ownership is thinking about.

Organizations that do this successfully commit to and/or communicate about the following:

- Education - teaching employees critical issues especially about the economics of the business
    - Respect for capital investment and risk
    - Understanding how growth is financed
    - Clarity about profits
- Ongoing discussion about growth and profits
- What "down times" look like and how the company should respond
- What we do when business is slow
- What it means to have a "partnership" relationship in the company

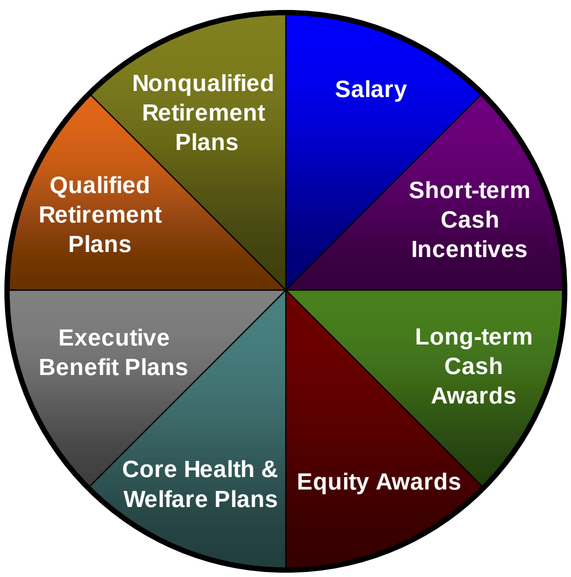
Step Five – Set Clear Pay Standards

Compensation is a strategic tool that is used (in part) to define roles and expectations, mandate focus and execution, create motivation and engagement, and articulate financial standards and outcomes. If any or all of those things are to be achieved, a company must develop a philosophy of how it will pay its people and what guiding principles will undergird its rewards strategies.

The starting point in this effort is the development of a rewards philosophy statement. Such a document should clearly answer the following kinds of questions:

- Why do we pay?
- How do we pay?
- At what level do we pay?
- Who participates in each pay component?
- How do we share value during good times?
- What happens during down times?

A philosophy statement is a way of looking at the components of a compensation "pie" and determining which should be part of your company's mix and how much weight should be given to each. (See the pie chart below.) Although not every company is going to have every component, it should be able to articulate the balance the organization will try to maintain between guaranteed versus incentive compensation and short-term versus long-term pay.



Here is a sample of what a philosophy statement framework might include for a given company:

- We pay salaries at market (not necessarily to be above market)
- We provide significant upside for exceeding annual expectations (goals must be meaningful)
- We provide significant long-term wealth accumulation opportunities for helping to sustain growth (we share value)
- We provide benefits at market with upside value in strong years (flexible benefit structure)

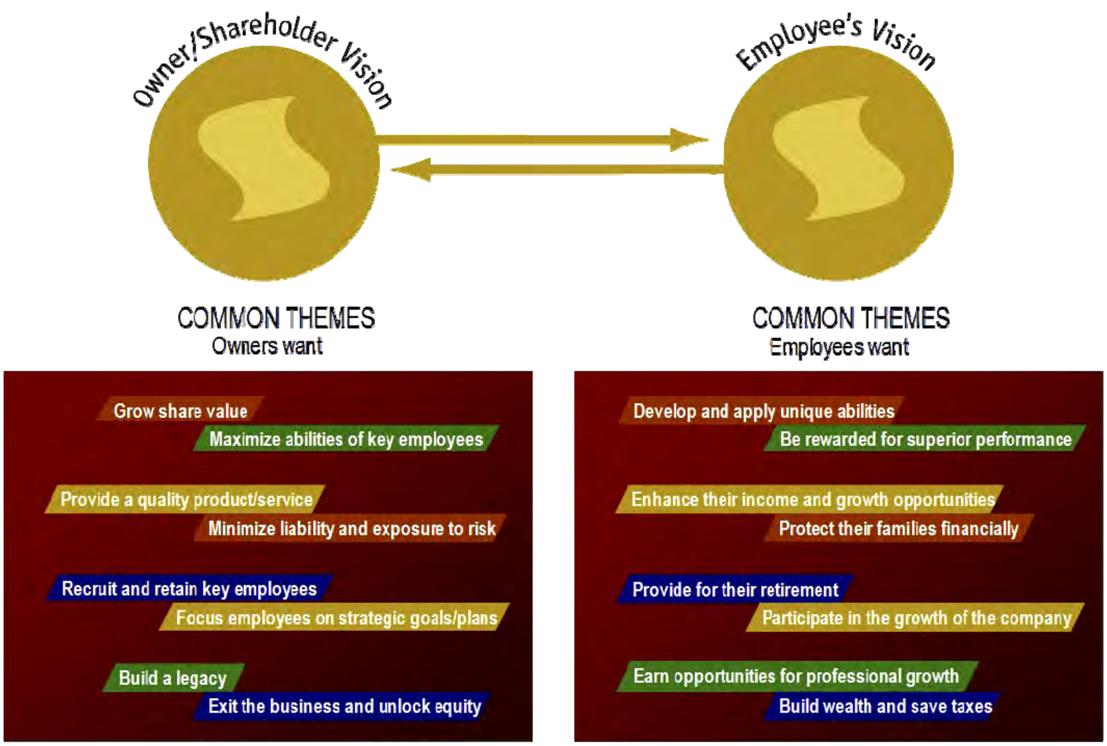
Step Six - Share the Wealth

A clear pay standard and philosophy provides the foundation upon which a company can then develop strategies to share the value that employees help to create. In doing so, there is a recognition that if a person financially participates in growth their efforts have helped to unleash, he or she will feel invested in the success of the future company. When that participation aligns with their personal wealth building objectives, an ownership mentality begins to emerge.

It is important to recognize that in sharing the wealth of the organization, there needs to be economic prioritization guiding the strategies that are developed. The prioritization creates two imperatives. Any strategies that are developed must:

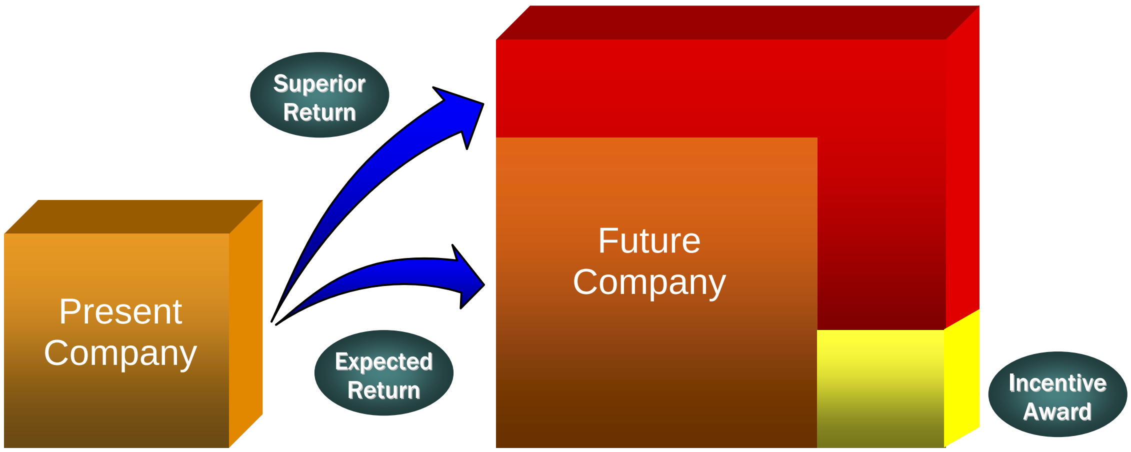
- Place shareholder value creation first
- Make the value that is shared meaningful

By ordering things this way, the company protects the interest of shareholders while enabling a greater commitment and engagement on the part of key people. Through this approach to building pay strategies, a business is recognizing the interdependent nature of the two visions that exist within an organization—that of ownership and that of employees. (See graphic below.)



Likewise, sharing the wealth within a pay for performance framework means that the company is recognizing that compensation is an investment — one they are willing to make to fuel a superior return. The elegance of this approach is in its self financing nature. Value is only paid out if value is created.

Consequently, strategic compensation design in this context anticipates the future equity value that might be created through superior performance. Ownership then determines how much of the additional value it is willing to share (invest) in order to generate that return. Compensation design, then, becomes a process of "reverse engineering" to arrive at a structure and payout plan that can be presented to employees in current, simple and clear terms. "If you perform this way, you will receive this value in the future."

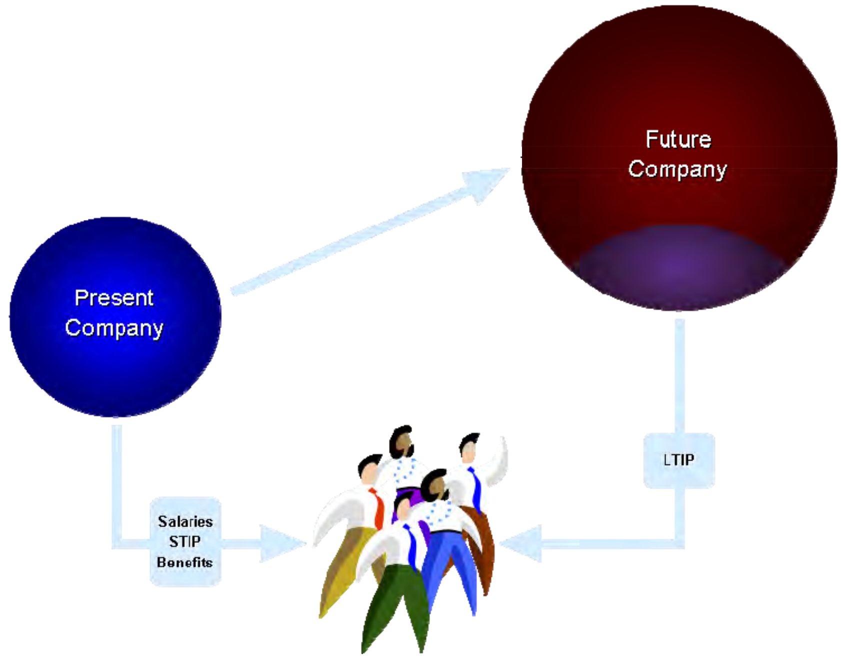


Step Seven — Balance Short and Long-Term Rewards

The biggest challenge most companies face is in balancing how much of their compensation should be paid out for short-term performance and how much for long-term. Some of this tension can be relieved when a company surrenders to the following two key principles:

- The present company is financing the development of the future company; therefore, short-term performance needs to be adequately rewarded to maintain a consistent effort and focus
- If a company has a long-term business plan (more than one year), then it needs a long-term compensation plan that reinforces it

These two ideas can resolve many of the compensation dilemmas that companies face. As a general rule of thumb, approximately half of incentive compensation should reward short-term performance and half should be devoted to long-term results. In employee terms, one focuses on the cash flow and standard of living issues that are of concern and the other addresses wealth building ambitions that most quality employees possess. For the company, consistent short-term execution builds patterns of success that create a culture of confidence. The unique culture that emerges through this approach is the foundation of a competitive advantage and the basis of breakthrough growth. As superior growth occurs, shareholders experience the equity increase they sought and are therefore happy to "share the wealth" with those that helped to create it.



Hopefully, it is apparent that such an approach to sharing wealth transitions employees from an entitlement frame of mind, past a "whatever" reaction and into an ownership mindset. Employees that are rewarded on the same basis as an owner tend to think more like one.

In Conclusion

An entitlement mentality is a painful, cancerous mindset to have in an organization. As a result, it is important to examine the practices a company might be perpetuating that are enabling that mindset to continue. Through proper diagnosis and commitment to the steps outlined in this summary, a company can steadily and surely create a new way of thinking on the part of its workforce—one that reflects the ownership commitment the company will need to reach the heights it is capable of achieving.

VisionLink is a national compensation consulting firm focused on helping companies envision, create and sustain compensation strategies that will be key drivers of results and increase the productivity of employees.

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