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Entitled or not?

There's nothing wrong with reward strategies that include generous benefits and incentives—unless, of course, a culture of entitlement develops. Una Diver looks at why this happens and what you need to do to fix it.

No organisation sets out to create an entitlement culture and yet, over time, some businesses find that aspects of pay, benefits, incentives and other rewards have become a right and not a privilege. If not addressed, an entitlement mentality (what we've dubbed 'entitle-itus') can take hold and undermine the effectiveness and growth capability of the entire organisation.

Don't misunderstand—there is nothing wrong with reward strategies that include generous benefits, attractive on-target incentives, or even a relatively egalitarian approach to pay. However, a problem does arise when you operate these practices and employees are disengaged, on-the-job performance is mediocre and the culture becomes one of hand-outs rather than rewards for value and contribution.

How an entitlement culture develops

There are several reasons why an entitlement culture grows within an organisation. They include:

- **A paternalistic corporate culture.** If senior management believe that part of their role includes 'taking care of the flock', they are more likely to treat all staff in a relatively egalitarian manner and less likely to differentiate employees and their rewards (eg, pay increases, incentives and benefits). This sends a subtle message that "you will be taken care of around here".

- **A focus on retention—of everyone.** As recently as 2008, New Zealand was experiencing almost full employment and many organisations were struggling to attract and retain staff. Some organisations responded to this challenge by adopting approaches to rewards that included relatively modest differentiation in pay increases, incentive / bonus payments for everyone and the broad use of benefits, recognition payments and other reward mechanisms. This is a great way to retain average and low performers, but is far from 'best practice' for retaining key talent who crave recognition and differentiation from their peers. This sends a message that "everyone's valued the same around here".

- **Pay practices.** Some policies and practices support entitlement. For example, a two-step approach to base pay increases—where everyone gets a ‘market adjustment’ to retain their relative position against the midpoint, then a further adjustment to recognise performance. This sets the expectation that there will be some form of pay rise for everyone and shifts the emphasis to an automatic movement rather than movement based on value and contribution. This sends a message that “pay-for-performance is a secondary consideration”.

- **Lack of understanding.** If managers and employees have only ever known a culture where everyone gets ‘something’ or there is little differentiation, they will expect this approach is de rigeur. Therefore, a pay practice that supports ‘sameness’ will send a message of “you will always get what you have always had around here”.

- **Perceived equity/fairness.** Some believe that fairness equates to treating everyone the same—and as a result, everyone is entitled to the same share of the pie. Others feel that factors such as tenure (which does not necessarily correlate to the individual’s value to the organisation) are the appropriate means to differentiate rewards. Both of these examples send a message that time spent in the role is more important than value provided. This will eventually give rise to a culture of entitlement.

Signs and symptoms

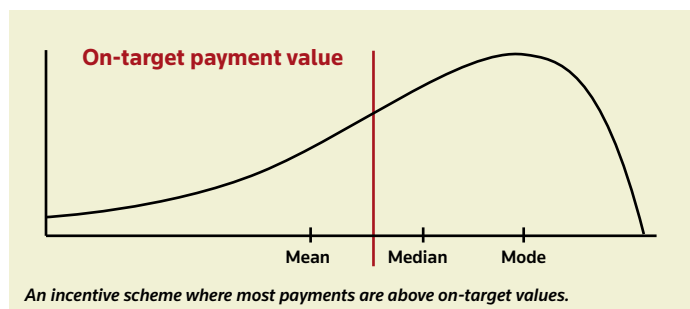
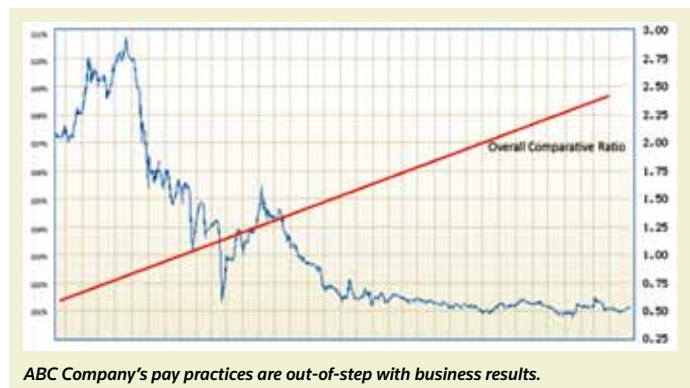
How do I know if my organisation has bred an entitlement culture? Apart from the obvious day-to-day symptoms that can be observed, the following tests can provide you with insight.

1. Base pay practice vs company performance. The graph (top right) sets out some analysis recently completed for publically listed ABC Company. The board of this organisation was concerned about the rising cost of salaries in a period where key measures of performance (such as share price) were trending downwards.

The picture is clear—and difficult to reconcile. ABC Company’s share price (in blue) is in the doldrums. However, the overall comparative ratio (ie, how base salary compares to stated market practice) is steadily rising. In this case, base pay keeps on increasing regardless of shareholder return. This is a clear indicator that pay practices are out-of-step with business results and suggests an automatic approach to salary increases each year.

2. The relationship between position in range, tenure and performance. If your organisation is committed to a pay-for-performance culture, and progression through the salary range is based on on-the-job performance results, then an analysis of the relationship between performance rating and position in range (PIR) will help you to confirm the success of this policy.

If there is a positive relationship between employee’s performance rating and their position in the pay range (ie, strong performers



are paid better than average performers), you can be confident that your pay-for-performance culture is delivering the results you seek. Conversely, if the relationship is weak (or negative) there may not be enough differentiation between the value of the increases you provide to strong performers versus other employees.

The relationship between tenure and PIR is also worth exploring—if there is a stronger relationship between tenure and PIR than there is between performance and PIR (ie, longer-serving employees are paid more, regardless of performance on-the-job) serious questions need to be asked about the effectiveness of your fixed pay review methodology.

3. Incentive payments and overall company performance. The bottom graph above illustrates an incentive scheme where most payments were above on-target values. And that’s fine—until you understand that this organisation only achieved 95 percent of budgeted revenue in that financial year.

Broadly speaking, incentive payments should correlate with financial results. In a year where the organisation has exceeded financial targets, this type of ‘right skewed’ incentive curve would be welcomed. However, if the majority of your sales force are receiving above target incentive payments and budgets aren’t being achieved, entitlement may have crept into the incentive programme.

4. Engagement survey scores. Engagement scores are also a

great indicator of what's really happening in your organisation. Getting to the heart of employee responses can help highlight some of the cultural sub-text operating in an organisation. For example, employees may complain that, on the surface, we espouse being a high-performance culture but, in reality, company practices support the complete opposite.

In addition, employees are seeking a better return on investment for time spent in an organisation. This includes 'fair pay' for the work performed and an investment in their development and career opportunities. Smart organisations are focusing on how to get this equation right, particularly for key talent. This is a clear departure from an egalitarian culture to one that focuses clearly on differentiation and recognition of value.

Consequences of an entitlement culture

While employees develop 'entitle-itus' for a host of reasons, the symptoms of the malady are the same regardless of the underlying cause. Under an entitlement culture, the following negative pay-related behaviours inevitably emerge:

1. Decreased motivation when 'entitlements' aren't received. An entitlement mentality will generally demotivate quickly. Employees become unwilling to accept the non-payment (or reduced payment) of performance-linked incentives if they have grown to expect them over time—or (worse) if the company has continued to make payments when targets have not been achieved.

2. Reluctance to accept changes—even positive ones. When pay-related practices are changed—even for the better—established economic theory suggests that employees with a strong entitlement mentality will focus on the threat to their pay rather than the potential gain. In these cases, the potential of losing a small amount of fixed income in favour of increased variable pay, makes resistance to change very high in an entitlement-led culture.

3. Excessive risk taking. Although perhaps slightly counter intuitive, an entitlement culture can lead to excessive risk taking to maintain incentive pay levels, often to the detriment of the organisation. There are many examples of senior management and employees making questionable decisions in order to reach or maintain performance targets.

Fixing 'entitle-itus'

As you would expect there is no quick fix to this problem, but rather it requires a sustained and consistent programme of managing and shaping employee expectations across the organisation. Like anything to do with pay, communication is an important part of the equation, and can be used effectively to reduce an entitlement mentality. Here are some of the top tips that we recommend:

- Avoid announcing your entire pay increase budget—employees will automatically expect that if the budget is 3.0 percent then they should expect to receive that as a minimum;
- Separate the payment of annual salary increases from performance bonuses/incentives;
- Communicate firmly and often that incentives need to be re-earned each year—avoid referring to monthly or annual payments which suggest an entitlement;
- Don't oversell your incentive programmes. Communicate not only the maximum that can be earned, but also emphasise the consequences of not achieving targets;
- Remain consistent and avoid discretionary payments of structured incentive plans. Discretionary payments send a message that, regardless of performance, a payment may be forthcoming;
- Cap fixed pay increases over the maximum of the pay range—there comes a point where an organisation needs to ensure it is receiving an appropriate level of value and contribution from employees whose pay is well above typical market levels. Failure to cap spiralling salaries supports an entitlement culture;
- Provide regular and honest feedback on performance. Avoid sugar coating performance discussions. Appropriate feedback helps employees to maintain realistic expectations, particularly around pay;
- Remember there are more 'tools in the toolkit' than just pay in order to recognise and reward employees. If trading conditions have been tough and payouts are likely to be low, then consider other intangible benefits such as career development, attendance at conferences, flexibility or other personally motivating initiatives to keep employees engaged;
- Ensure fairness and consistency—your pay-related programmes are more likely to be seen as credible if there are clear and transparent processes that employees view as fair to all.

Taking action

An entitlement mentality can be the death knell of performance-related pay programmes for those employees who consider that they should receive annual incremental pay increases as their right. Changing negative aspects of a culture and rooting out entitlement to make way for a performance-based culture isn't easy.

Change of this nature requires a unified and sustained effort by the leadership and a complete overhaul of policy and practice, but the rewards will be worth it.

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