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From Dry Promotions to Burnouts: Time to rethink performance rewards system

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Problem of Practice: *Ever since 'The Great Resignation'[1] after Covid-19, when record numbers of employees left their job, the need for companies to keep employees engaged and motivated has intensified. Most HR executives are now looking at ways they can maximize employee engagement. Research by Dutta and team[2] suggests that traditional tools, such as promotions, can trigger unintended, sometimes negative consequences, when used on a standalone basis. The answer lies in a balanced mix of performance management levers which can be set up by carefully borrowing from the best practices*

Traditional reward systems

With the employees' increasing focus on work-life balance and better work opportunities, there is now a need to move from traditional standards of performance measurement and rewards to metrics which appeal to employees and can create a better engaged and more productive workforce. The last few years have seen how businesses are recognising the need for appraisal systems which not only reward performance but also help employees progress. In the simplest terms, performance management systems can be defined as all the metrics, policies, procedures and tools such as promotions and incentives that help in evaluating, enhancing and rewarding employee performance. Most performance management systems are often not used to their proper potential and such improper use can result in disengaged workers, leading to lower productivity, more errors and higher employee attrition, which can then increase a company's cost due to the cost of filling vacancies and the cost of knowledge loss. Considering all these factors, the value of annual incentives for the employees assumes more importance for the company. It is here that the findings of research by Dutta and team[3], which studied the impact of promotions and incentives on employees over time in India, assume importance.

The research links employee motivation and satisfaction to the rewards. Overall, most reward systems work on the basis

[1]Featured in the 2021 special issue of *Human Resource Management*, authors Debolina Dutta, Kunal Kamal Kumar, and Sushanta Kumar Mishra in their article: "Unintended consequences of promotions: Importance of annual incentives for performance management systems." – identified the limitations of traditional performance management tools such as promotions, and how to use them more effectively.

Promotions are a signal that a particular employee has potential to handle more than their present capabilities. Hence, rewards which are not commensurate with the effort put in by the employees have a negative impact

that employees put in the required effort to achieve desired results to be fairly rewarded. Sounds simple?... But in practice the reward has to be commensurate with the employee's effort and should be valued by the employee. Let's take a case of an employee who is called to work on weekends for an urgent project and is promised a reward for the extra work. If the employee is given a 'free beverage of your choice' at the café down the street, after putting in more than required work hours and sacrificing their personal time, then they will feel demotivated, as the reward is not commensurate with their efforts. But if the employee is promised extra time off or given monetary reward for the loss of personal time, then the reward has a value for them and they will be motivated to perform better in future.

Incentives and fit

Promotions are a signal that a particular employee has potential to handle more than their present capabilities. Hence, rewards which are not commensurate with the effort put in by the employees have a negative impact. For example, if an employee gets a promotion and better job title but sees no growth or learning opportunity, they may feel de-motivated. Hence there is a need for a system where performance management metrics, rewards and employee engagement initiatives are in sync and contribute to an overall increase in employee productivity and engagement.

Let's consider the case of an Area Sales Manager who gets promoted to Director of Sales and Business Development. The employee, who was used to looking after the sales of a particular city and had 6 people reporting to them, now is in charge of the Western division and has 25-30 people reporting to them. The employee has received an upgrade in their responsibilities and functions but, at the same time, also in their stress level. They are now being counted as a part of the directors' tier but they have the lowest experience and the most to prove. The employee will value the promotion more if they get adequate resources, like an assistant to manage their workload or a mentor from among the directors to guide them on handling the new responsibilities and job scope, to help them perform the job better.

Sometimes, organizations also offer promotions which are not accompanied by financial rewards or any changes in the job profile, known as 'dry' promotions. Though the study did not find any adverse effects of dry promotions on the employees' intent to stay with the organization, it may not always be a positive thing. Most employees look at promotions as opportunities to test out their capabilities and interest in managerial roles as well as chart out their career path. The research shows that while employees appreciated opportunities for promotion but if these chances are not accompanied by proper incentives, it adversely affects their motivation and job satisfaction levels. There is also a perception that the employer has been unfair to them.

Such employees may not quit immediately after getting a 'dry' promotion but they may start doing the bare minimum, as they are dissatisfied due to the lack of incentives, and may later become voice of dissent. A study shows that companies can lose more than $300 billion[4] or more in productivity each year due to unmotivated employees.

Solution in action

The industry has also been making changes over the last decade. The big question now that most organizations face is how to retain employees and keep them happy by giving them the right incentive. The simple answer is when promotions and incentives hold sufficient value, employees show 'unusual initiative and persistence' on the job. A great example of putting in place a good performance management system is Deloitte. In April 2015, HBR ran a cover story[5] on Deloitte, the professional services firm, which scrapped its annual performance review[6] and bell-curve based 'rank and yank' performance measurement in favour of a system that provided performance development through continuous feedback.

Since then, several marquee companies like Accenture, Adobe, Microsoft, and GE[7] have also replaced their annual performance reviews with systems that provides continuous feedback and performance development rather than performance measurement. Adobe, for example, replaced its annual reviews and ratings with a system of "ongoing, two-way conversations" between managers and employees called 'Check-in'[8]. The company found that its previous performance management process was "cumbersome and bureaucratic," and the ranking system inhibited teamwork and often left employees feeling undervalued. 'Check-in' addressed these shortcomings by enabling real-time feedback on performance and career growth. Since 2017, Adobe has regularly featured in the top-10[9] of Fortune's Best Workplaces in Technology. Beyond this example of Adobe, is there more systematic evidence of such 'check-ins' leading to better employee engagement? Another study by Tripathi and team[10] examined the way employee satisfaction has changed under the new system among technology companies in India. The most positively perceived features were continuous feedback, joint goal setting by employee and supervisor, staffing, training and development, as well as the overall work environment.

So, if a company is planning to change its performance management system, it has to remember that employees care about promotions, incentives as well as the potential rewards and benefits they bring. Their satisfaction, when these rewards carry the commensurate level of value or attractiveness, will reflect in their work and in the commitment toward the company. When the organization manages to create this 'in-sync' approach towards rewards, the next level is to set joint goals, provide continuous feedback and align systems related to staffing, training and development with the new performance management system. Thus, there is a need to link human resource systems to create strategic value for the organization.

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As an employee are you happy with the performance management system at your organization? As a manager, which takeaways seem more relevant to you and do you have any insights for us? You can let us know at ***mpi@spjimr.org***

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