

Outcome over hours

The shifting focus of
employee performance

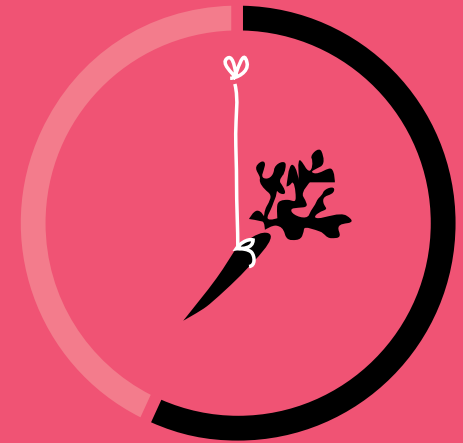
JASON MORGA AND KRISTI STEPP



Globally, only 38 percent of employees are happy with their salary.



But, 57 percent are willing to do something about it by choosing performance incentives over guaranteed overtime pay.



First, the bad news: it is likely your employees are unhappy with how much you're paying them.

HOWEVER, THERE IS A SILVER LINING: AMID ECONOMIC UNCERTAINTY AND GREATER COMPETITION FOR HIGH-VALUE ROLES, OUR 2013 KELLY GLOBAL WORKFORCE INDEX RESEARCH FOUND THAT EMPLOYEES ARE ALSO INCREASINGLY WILLING TO CHOOSE HIGHER RISK FOR GREATER REWARD.

THE SECOND PART of the *2013 Kelly Global Workforce Index* takes in the perspectives of over 120,000 employees from 31 countries to gauge trends in workplace performance. It found that far less than half of employees worldwide believe their salary is fairly weighted to their performance.

What's more, 57 percent of employees would choose variable pay with bonuses for good performance over guaranteed pay for overtime hours. This sentiment spans the globe, with a particular emphasis in the rapidly developing economies in the Asia-Pacific (APAC) region.

When we first looked at the issue of performance pay in Europe in 2005, only 20 percent of respondents reported having some aspect of their salary – whether profit sharing, bonuses or sales commissions – tied to their performance outcomes. In 2013, 39 percent of respondents in the Europe, Middle East and Africa (EMEA) region receive monetary incentives for exceptional performance. The global average is 44 percent.

The growing popularity of performance pay marks a shift in mindset, as well as remuneration practices. While employees' dissatisfaction with their pay may dismay many HR managers, it does suggest employees are confident in their ability and value to employers.

Human Resource (HR) managers can harness this confidence by proposing the introduction of more performance-based pay structures within the organizations they support. In doing so, they can find a better alignment between the interests of the business and its employees, whether the employees are full-time, contractors or independent consultants.

The increase in performance pay has given managers the ability to change how they gauge employee productivity. Rather than tallying the number of hours spent in the office, many are now increasingly gauging employees on the outcomes they achieve.

This increased focus on outcomes means greater flexibility for employees and managers alike. Our *2013 Kelly Global Workforce Index* shows both parties are using high-speed broadband and increased mobility to foster modern working arrangements, such as telecommuting. Greater flexibility is also prompting workers to explore new global sources of business services, including crowdsourcing.

These developments mark the beginning of a new era in workplace performance, one that favors outcomes over hours and provides greater freedom and flexibility for both employers and employees. But what considerations should you take before migrating more of your incentive strategy to performance pay? And how can it be used to realize broader business benefits?



OUTCOME OVER HOURS



GREATER FLEXIBILITY – THE APPEAL OF TELECOMMUTING



USING CROWDSOURCING TO NURTURE INNOVATION



LESSONS FOR HR MANAGERS



Outcome over hours



Forty-six percent of workers believe they would perform at a higher level if their pay was tied to their performance. With the opportunity to directly impact organizational performance, why not give employees what they want?

“When you pay workers for their time, they’re willing to give you as much of it as you are willing to pay for. But, that doesn’t necessarily mean they’re maximizing productivity during that time.”

– Tony Bradley, *PC World*¹

Most employees believe they’re worth more than what they’re being paid. But many also believe they would be more productive if an aspect of their pay was tied to their performance. Pay earned for achieving specific goals has the potential to both drive productivity and change employee perspectives on their worth to the company.

The *2013 Kelly Global Workforce Index* supports the notion that most employees are not satisfied with the level of remuneration they receive from employers. Respondents were asked to what degree the pay or compensation they received for their work was equitable. Globally, only 38 percent believe they are paid a fair amount for their work.

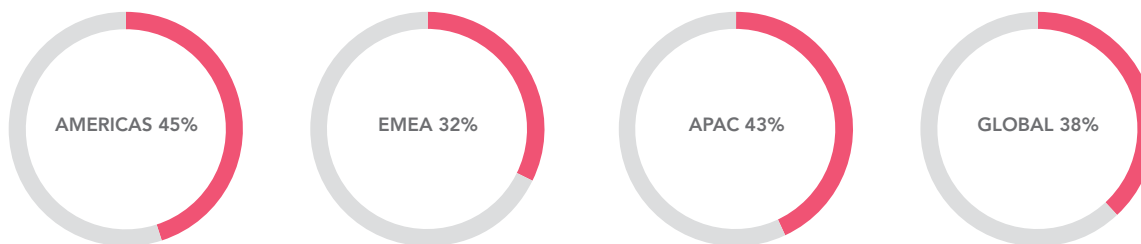
¹ Tony Bradley, “Why Telecommuting Is Good For Employees and Employers”, *PC World*, January 2011, www.pcworld.com/article/216447/telecommuting_is_good_for_employees_and_employers.html.

While the term “equitable” can be read in a broad sense – encompassing fairness to all employees and to the employer – we feel it is safe to narrow respondents’ answers to how they perceive fairness to themselves.

The question also raises an interesting idea for employers and HR managers. If employees don’t see their rate of pay as fair, it implies they are confident in their capabilities and quality of work. Employers can harness this confidence by shifting to a remuneration structure that offers incentives for performance.

FIGURE 1: PAY EQUITY BY REGION

To what degree do you agree or disagree that the pay/compensation you receive for your work is equitable? (% Agree by Region)



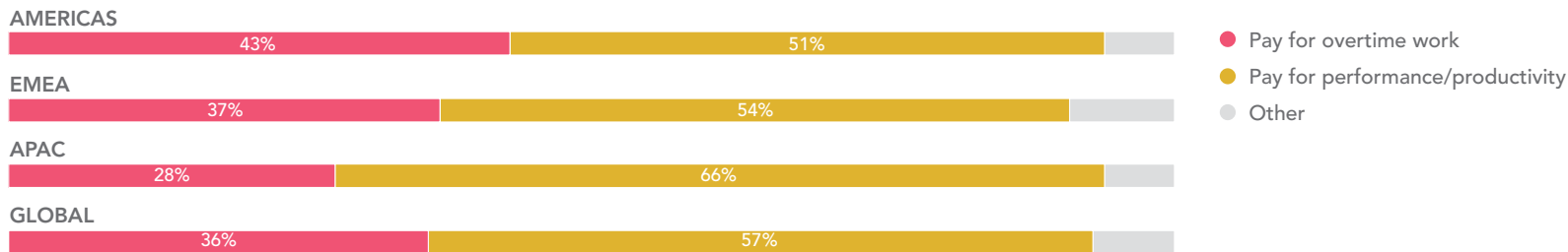
The idea that employee confidence invites performance-based remuneration is shown in Figure 2. In every region, if employees were offered the choice between extra pay for overtime hours and a salary that varied based on performance, a vast majority would choose the latter.

Providing financial performance incentives can benefit employers with more engaged and motivated workers. For example, research published by The London School of Economics' Centre for Economic Performance shows that profit sharing can improve performance without placing excessive pressure on employees.²



FIGURE 2: PREFERRED PAY OPTION

If you were offered either pay for overtime work or pay for performance/productivity, which would you prefer? (% by Region)



² Alex Bryson, Richard Freeman, Claudio Lucifora, Michelle Pellizzari, Virginie Pérotin, 'Paying for Performance: Incentive Pay Schemes and Employees' Financial Participation', Centre for Economic Performance, The London School of Economics, February 2011, cep.lse.ac.uk/conference_papers/26_05_2011/pellizzari.pdf



Performance pay also benefits the employee, with a promise of reward for hard work and good results. It can help employees see their remuneration as a total compensation for work performed, rather than a base level of pay for a base level of performance, and can prompt them to take greater ownership of their work. Tying profit share to production or quality milestones, for example, can greatly improve an employee's diligence and productivity.

Where are your employees?

This year's *Kelly Global Workforce Index* shows that employees' preference for performance-based remuneration is strongest in the APAC region, followed by EMEA and the Americas.

However, the number of employees receiving performance-based pay lags behind employee willingness to participate in this type of pay system. Although 66 percent of APAC employees would choose performance-based pay given the chance, only 59 percent currently have some aspect of their remuneration tied to work objectives.

Globally, this discrepancy is considerably greater: 57 percent find the idea of performance pay appealing, although it is only an option for 44 percent of employees. This suggests that despite the growing popularity of linking pay to performance, there are still opportunities for employers to fully realize the advantages of doing so.

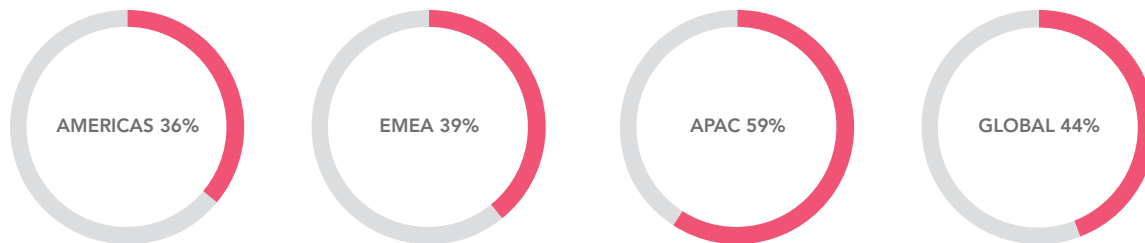
When considered by country, it becomes clear that the global average of performance-based pay is increased by fast-growing economies in the APAC region. This growth has allowed APAC employers to add performance-based pay to total compensation packages. As it's not a fixed cost, performance pay gives them a way to motivate employees while allowing the flexibility to adapt to changing market conditions.

China, Indonesia and Thailand are the standouts, with 75 percent of employees in each country already receiving performance-based remuneration of some kind. This may be due to the



FIGURE 3: INCIDENCE OF PERFORMANCE PAY BY REGION

Is any of your pay/compensation variable, such that a portion is dependent upon your individual performance/productivity targets? (% Yes by Region)



emphasis in these countries on industries that are well-suited to performance pay, such as manufacturing. The Deloitte *2013 Global Manufacturing Competitiveness Index* demonstrates that China and India are among the top five most competitive manufacturing nations in the world, with Thailand and Malaysia not far behind.³

India shows a similar level of commitment to performance pay as its APAC counterparts, with 67 percent of respondents reporting its use in their workplaces. In 2011, the gross domestic product growth rates of China, Indonesia and India were 9.3 percent, 6.5 percent and 6.3 percent, respectively, all well above the global average.⁴

This country-by-country breakdown also reveals that there is a wide spread in the global adoption of performance pay. The practice is common among many Russian businesses and the majority of Polish businesses. Singapore and Hong Kong show similarly high instances to China, Indonesia and Thailand, further reinforcing APAC's lead. Conversely, less than a third of respondents in Australia, Denmark, Ireland, Norway, Sweden, the UK and the US receive performance incentives. This may stem from the difficulty in managing performance-based pay in the knowledge-based economies of these countries.

³ Deloitte, *2013 Global Manufacturing Competitiveness Index*, November 2012, www.deloitte.com/assets/Dcom-Global/Local%20Assets/Documents/Manufacturing/dttl_2013%20Global%20Manufacturing%20Competitiveness%20Index_11_15_12.pdf.

⁴ The World Bank, "GDP Growth (annual %)", accessed July 2013, data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG

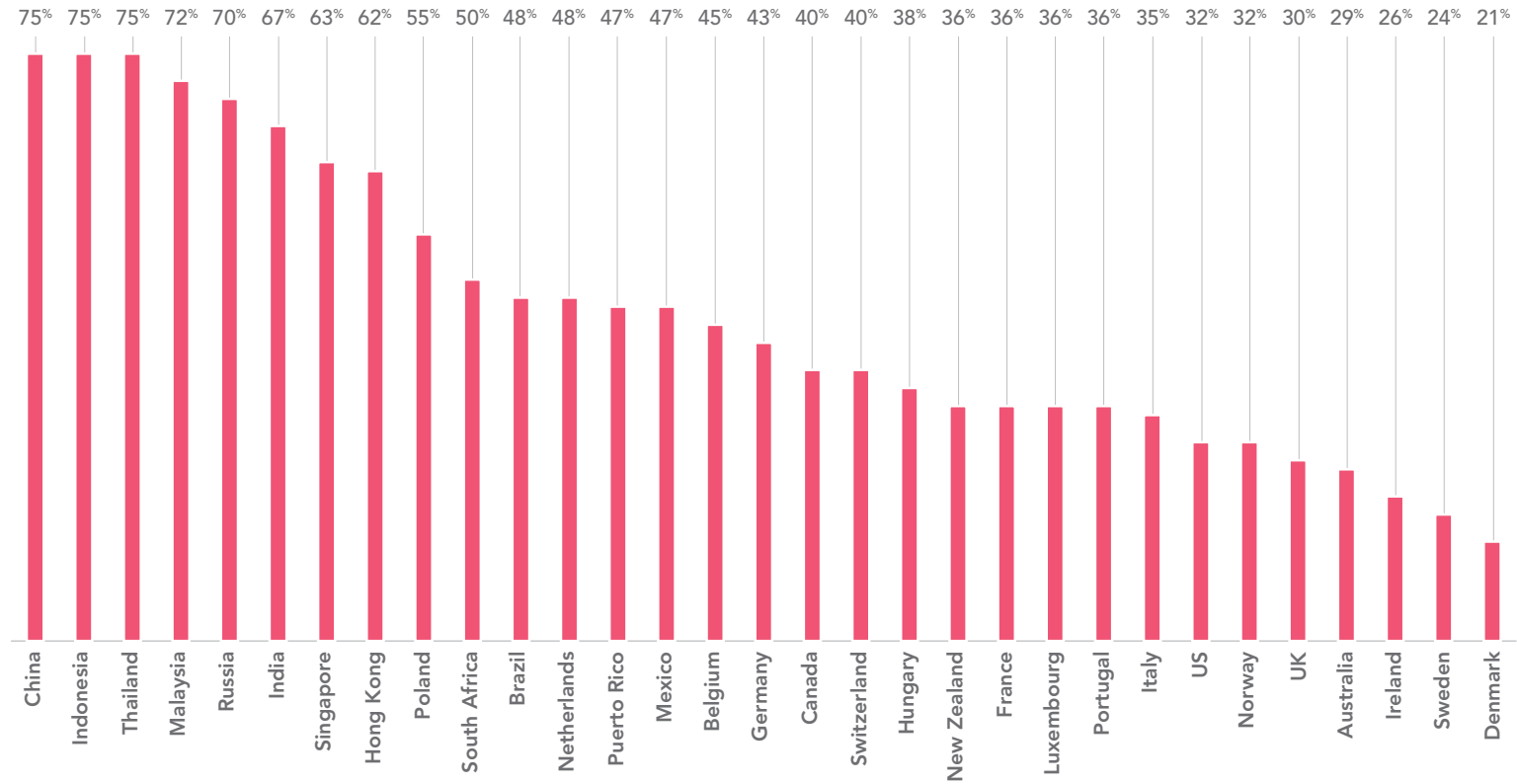
Considered as a whole, Figure 4 shows that developing and advanced economies are polarized in approaches to performance pay. For example, in the EMEA region, the prevalence of performance-based pay in Eastern European countries (along with Russia and South Africa) is much higher than in more conservative Western European countries. Similarly, Brazil, Puerto Rico and Mexico show much higher incidences of performance pay than the US.

This polarization could imply a level of vitality among businesses in developing economies that is generally not as apparent in developed nations. Is it possible that the uncertainty and increased competition brought on by the global financial crisis has led to a greater focus on productivity and performance in less prosperous economies?

Businesses with employees based in these economies may find there are substantial productivity gains to be made as a result of implementing performance pay and outcome-focused managerial practices.

FIGURE 4: INCIDENCE OF PERFORMANCE PAY BY COUNTRY

Is any of your pay/compensation variable, such that a portion is dependent upon your individual performance/productivity targets? (%Yes by Country)



The generation factor

“Incentive compensation programs that give employees at all levels of an organization a chance to benefit when a company prospers can naturally boost motivation (always assuming solid individual performance in order for one to share in financial rewards).” – Victor Lipman, management contributor, Forbes.com⁵

Our *2013 Kelly Global Workforce Index* also reveals that age is a major variable affecting which employees receive performance-based remuneration.

Performance pay is most common among Generation X. These workers tend to have accumulated a substantial level of experience over their careers. They have the advantage of mature and rich skill sets, and as such are valuable assets to employers, who are now looking for new ways to retain and challenge the highest performing workers in this category.

At the same time, some Gen X workers are motivated by the prospect of advancing into senior roles currently held by Baby Boomers, no doubt driven by the monetary demands of family or personal assets. These factors likely contribute to the higher than average incidence of performance pay among members of this demographic.

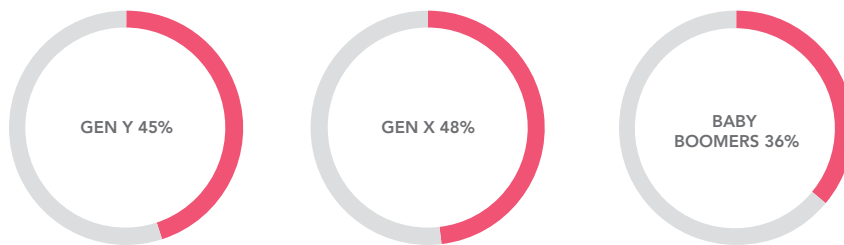
⁵ Victor Lipman, *Forbes*, “5 Easy Ways To Motivate – And Demotivate – Employees”, March 2013, www.forbes.com/sites/victorlipman/2013/03/18/5-easy-ways-to-motivate-and-demotivate-employees

Although they are less experienced, Generation Y employees are also motivated by the prospect of advancement. Though their relative inexperience works against them when it comes to pay levels, employers appreciate their latent value – 45 percent of Gen Y employees are paid according to their performance, at least in part.

The Baby Boomer generation is the most advanced in terms of skills and remuneration. Though performance-oriented incentives are still used in this group, employers recognize that Baby Boomers have a different set of priorities. In recent years, these workers have

FIGURE 5: INCIDENCE OF PERFORMANCE PAY BY GENERATION

Is any of your pay/compensation variable, such that a portion is dependent upon your individual performance/productivity targets? (%Yes by Generation)



become more likely to favor quality-of-life benefits – such as more paid leave – over monetary performance benefits.⁶

For companies powered by mostly Gen X and Gen Y employees, it may be worth offering performance incentives to improve productivity. Although it is a lesser focus, performance pay still holds value for employers of Baby Boomers.

Skill set variations: how performance pay leads to salary satisfaction

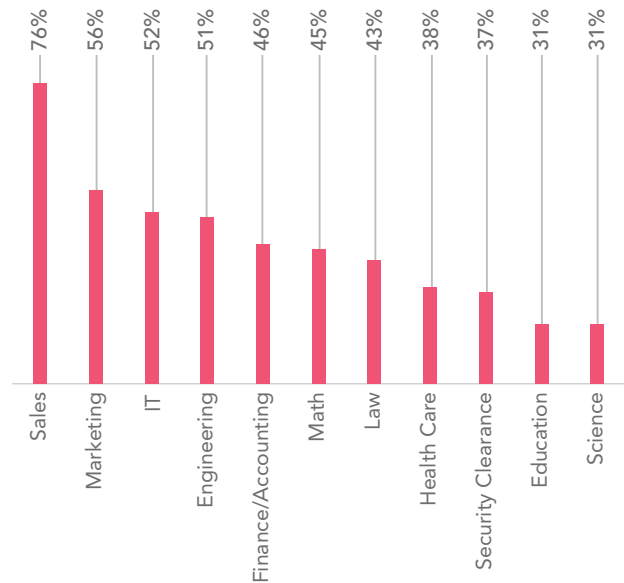
An employee’s profession and skill set also play a part in determining the likelihood of performance-based pay. The *Kelly Global Workforce Index* shows that performance pay dominates in a few key skill categories, particularly sales (where 76 percent of employees are on a variable salary), marketing (56 percent), IT (52 percent) and engineering (51 percent). Healthcare and education both linger at 38 and 31 percent, leaving all to wonder if change in these categories would drive better outcomes.

An interesting trend emerges when employee perspectives on the fairness of remuneration are considered by skill set. A relatively high percentage of workers in IT and sales – industries with traditionally high levels of performance pay – believe they are paid fairly for the work they perform. To a slightly lesser extent, this is also the case in engineering, finance and marketing.



FIGURE 6: INCIDENCE OF PERFORMANCE PAY BY SKILL SET OR PROFESSION

Is any of your pay/compensation variable such that a portion is dependent upon your individual performance/productivity targets? (%Yes by Professional/Technical employees)



⁶ Bob Nelson, "Incentives for All Generations", Inc., February 1999, www.inc.com/articles/1999/02/16431.html

The common perception of fair pay and high incidence of performance incentives in these skill sets suggests a correlation: employees who are given the opportunity to work harder for monetary incentives are more likely to be content with their salaries, and may subsequently be more productive and happier in their jobs.

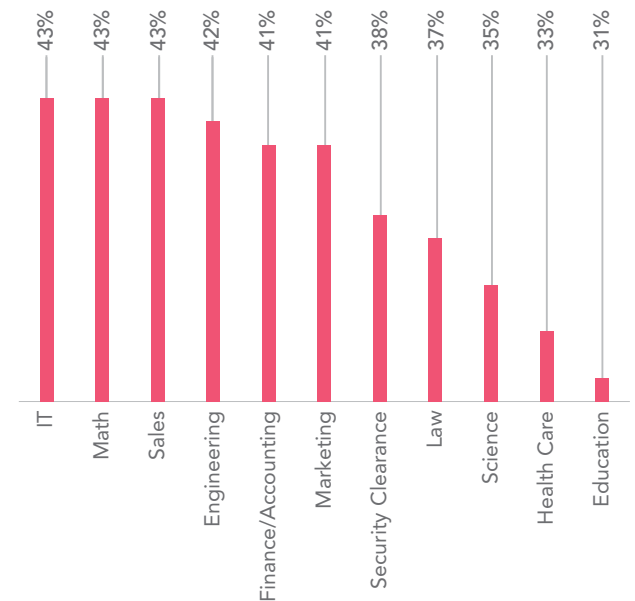
Keep in mind that “happiness” does not equal commitment or a willingness to put forth more discretionary effort. There are plenty of low-performing companies that have a happy workplace, and vice versa. Finding a performance-based pay and incentive formula that builds emotional commitment and facilitates discretionary effort is a worthy goal for any organization.

This correlation also reinforces the concept that performance pay can help retain employees and drive higher engagement levels. Recent research conducted by Dale Carnegie Training shows that 69 percent of disengaged employees are willing to leave their job for a 5 percent pay increase.⁷ Performance pay helps to defuse this issue: offering monetary performance incentives not only helps keep employees focused on their work, it also gives them the power to realize that 5 percent pay increase without having to find another job.



FIGURE 7: PERCEPTION OF PAY EQUITY BY SKILL SET

To what degree do you agree or disagree that the pay/compensation you receive for your work is equitable? (% Agree by Industry)



⁷ Dale Carnegie Training, 'Building a Culture of Engagement: The Importance of Senior Leadership', 2012, www.dalecarnegie.com/assets/1/7/Building_a_Culture-The_Importance_of_Senior_Leadership.pdf.

Greater

flexibility

– the appeal of telecommuting



A focus on outcomes over hours can make remote employees easier to manage.

“The key to benefitting fully from the advantages of [telecommuting] and avoiding burnout is to maintain employee engagement.” – Kirsten Sundin, past Graduate Research Assistant for the Center for Advanced Human Resources Studies⁸

Traditional management practices rely on observing the hours an employee spends in the office and gauging their level of activity over that time. By introducing productivity-based incentives, managers can shift their focus from hours to outcomes.

Instead of monitoring each staff member’s office hours, managers can track employee performance based on the quality and timeliness of their work, regardless of how it gets done. This approach empowers employees and keeps them engaged, as they have more autonomy and control over their tasks.

As performance-oriented management means managers no longer need to constantly observe staff, it can open up the possibilities for more flexible modes of working, such as telecommuting.

⁸ Kirsten Sundin, “Virtual Teams: Work/Life Challenges – Keeping Remote Employees Engaged”, 2010, www.ilr.cornell.edu/cahrs/research/whitepapers/upload/Spring10Mtng_RemoteWorkersEngaged.pdf

It's important to note that telecommuting and remote work may not be practicable for all organizations or specific functions within a company or department. For example, a retail sales associate or a production supervisor may not have the ability to work offsite, due to the nature of their role. In this case, the manager and HR lead should find other ways to motivate the employee.

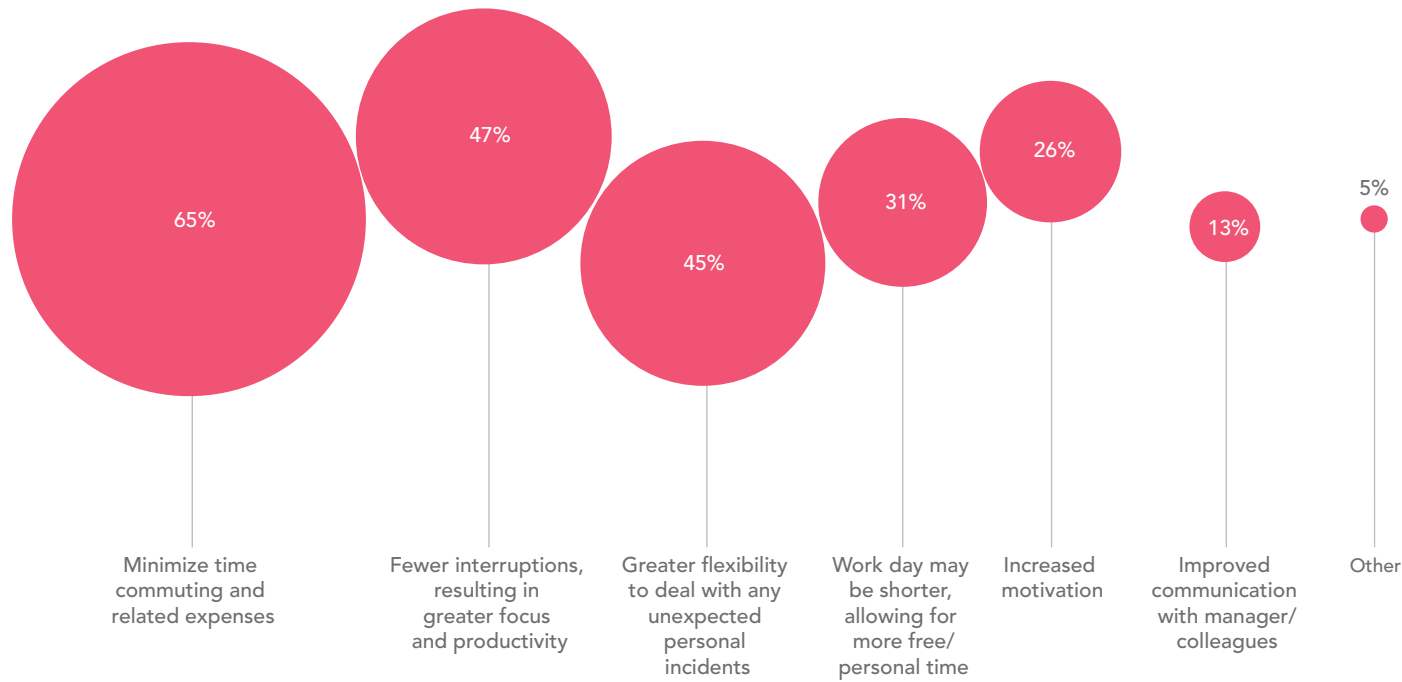
It's also important to note that this style of work will not be practicable for all individuals, even if they work in a department or skill set that lends itself to telecommuting. This requires managers to understand the relative strengths and weaknesses of their entire team and consider telecommuting needs on a case-by-case basis.

Telecommuting benefits

The *2013 Kelly Global Workforce Index* shows that organizations are already beginning to embrace these possibilities. Over a quarter of respondents work remotely for at least part of the working week. Like figures relating to performance pay, the incidence of telecommuting is notably more popular in the APAC region than in the EMEA and Americas.

FIGURE 8: PERCEIVED BENEFITS OF TELECOMMUTING

What are the advantages of working from home/remotely? (% Globally, working from home/remotely for a portion of the week. Multiple responses allowed)



Telecommuting presents benefits for employers and employees alike. The *2013 Kelly Global Workforce Index* shows that staff most value telecommuting for its ability to minimize the amount of time and money spent commuting to and from work every day. Fewer commute hours not only means happier, more productive staff, it can also improve productivity. With the right technology, time previously lost to travel can now be used to continue working – a benefit equally shared by the employee and the employer.

Telecommuting can also make an organization appear more attractive for recruiting purposes. For example, a two-hour commute may deter a prospective employee. With telecommuting, an employer can reduce the number of days the prospect needs to be in the office from five to three. This eliminates eight hours of travel time a week and offers the perk of being able to work from home.

While time spent with colleagues is valuable for collaboration and innovation, today's open-plan offices can create stressful working environments. Another major benefit of telecommuting for staff is the ability to escape the constant distractions of an office. Forty-seven percent of respondents to the *2013 Kelly Global Workforce Index* said the greatest benefit of telecommuting was the increased focus and productivity of being outside a busy office environment. Similarly, 26 percent indicated that working remotely motivates them more than working in the office.

There are also substantial personal benefits. In total, 45 percent of respondents noted that telecommuting offers greater flexibility to deal with unexpected personal events. Many also said it offers a better work–life balance, allowing for shorter working days and more personal time.

Broader considerations for remote workers

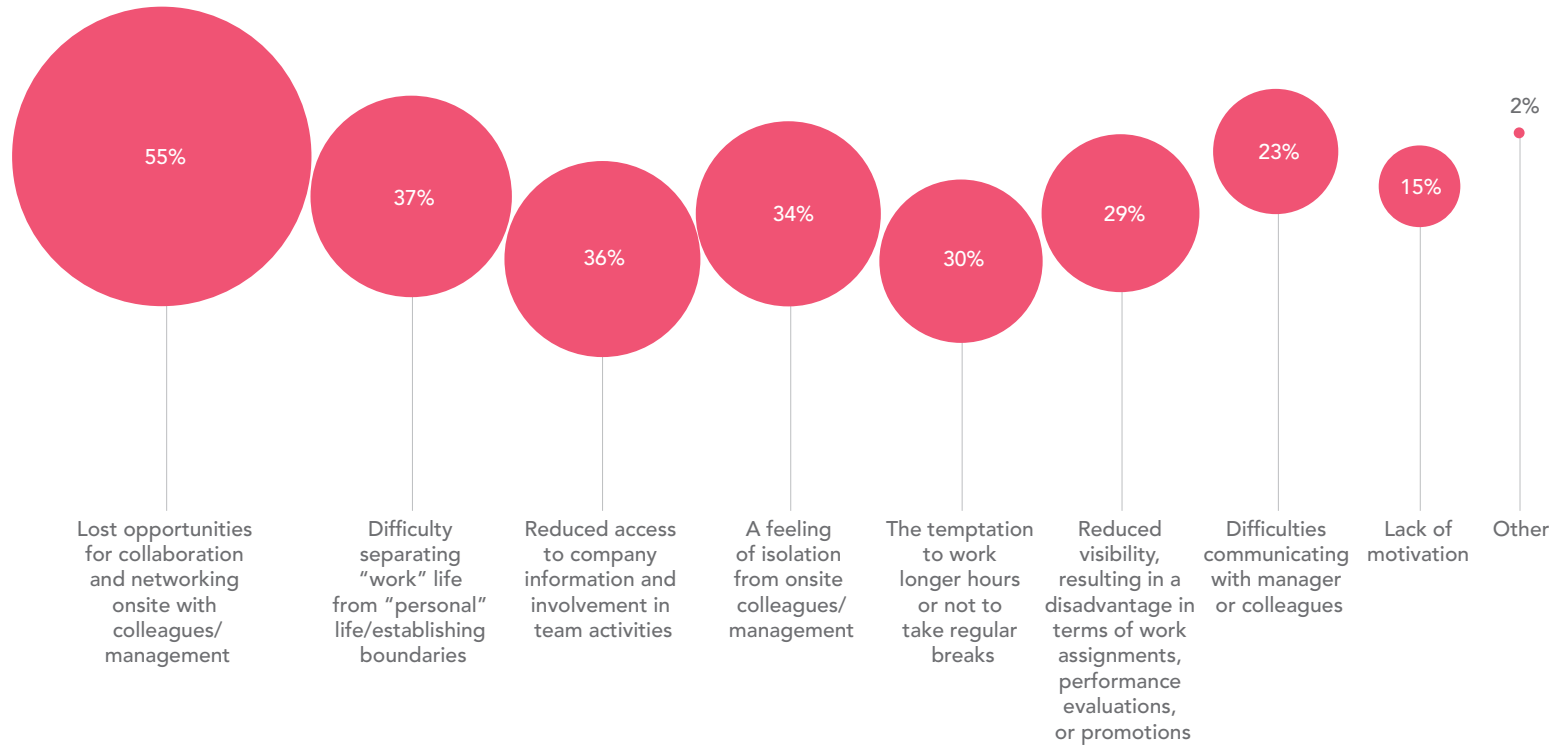
The basic benefits of telecommuting are greater productivity and more pleasing work arrangements, both of which have clear advantages for employers and employees. However, the shift to remote work significantly changes the relationship between employee and employer, and can introduce difficulties for both.

More than half of the respondents to the *2013 Kelly Global Workforce Index* noted that telecommuting can mean fewer opportunities for collaboration with onsite staff, and many acknowledged potential difficulties in communicating with managers or colleagues.

Over a third of employees noted the potential difficulty of establishing a healthy work–life balance while working from home, and 30 percent identified a tendency to work longer hours or not take regular breaks. Many also said that reduced visibility could disadvantage them in terms of work assignments, performance evaluation and promotion, and that telecommuting could isolate them from the supportive environment of an office.

FIGURE 9: PERCEIVED DISADVANTAGES OF TELECOMMUTING

What are the disadvantages of working from home/remotely? (% Globally, working from home/remotely for a portion of the week. Multiple responses allowed)



Getting the best from remote workers

To make the most of telecommuting, organizations should first take the time to consider potential difficulties. Realigning management to focus on outcome- and productivity-oriented milestones is a good first step, as it allows employees to adjust their own work-life balance accordingly. Remote staff can monitor their own productivity and weigh the value of performance incentives against free time on their own terms.

But an emphasis on outcomes shouldn't be the only change organizations make to accommodate staff working remotely. To counter the risk of isolation and the practical disadvantage of less face-time with other staff, it's important for businesses and HR managers in particular to create new communication processes between remote and office-based staff.

It is also advisable for employers to carefully assess employees' suitability for telecommuting. Studies suggest that employees with strong social and communication skills and sound technical proficiency are likely to be better suited to remote work than more introverted, less technically inclined workers.⁹ In the end, balance is the key for all employees and employers.

⁹ Kirsten Sundin, "Virtual Teams: Work/Life Challenges – Keeping Remote Employees Engaged", 2010, www.ilr.cornell.edu/cahrs/research/whitepapers/upload/Spring10Mtng_RemoteWorkersEngaged.pdf

Using crowdsourcing to nurture

innovation

Over 30 percent of employees are interested in improving their work performance with crowdsourcing.

The renewed focus on outcomes over hours has led employees to investigate new ways of working to reach performance milestones.

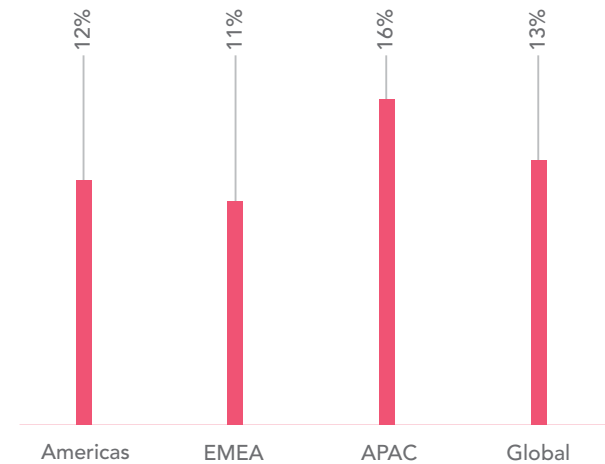
Crowdsourcing is the practice of sourcing services, ideas and content from large online groups offering a rich knowledge base in particular fields. In theory, it allows staff to disrupt workflows that rely on traditional suppliers by meeting the demand through niche online communities – a tendency that is second nature to the Gen Y worker. Keen organizations recognize this as one of Gen Y’s strengths and allow them to crowdsource from their social networks as a source of innovation.

The 2013 *Kelly Global Workforce Index* found that employees are only just beginning to consider work-related crowdsourcing. To date, few have used crowdsourcing in a professional context; only 13 percent reported having done so.



FIGURE 10: EXPERIENCE WITH CROWDSOURCING

Have you had any work experience related to “crowdsourcing”? (% Yes by Region)



Once again, the incidence of practical crowdsourcing is considerably higher in the APAC region than it is in the Americas and EMEA.

However, interest in the potential use of crowdsourcing is comparatively high. Globally, a third of respondents indicate that they would be interested in exploring crowdsourcing to help them meet performance objectives. The strongest inclination towards using crowdsourcing is in the APAC region, where over a third of employees showed interest.

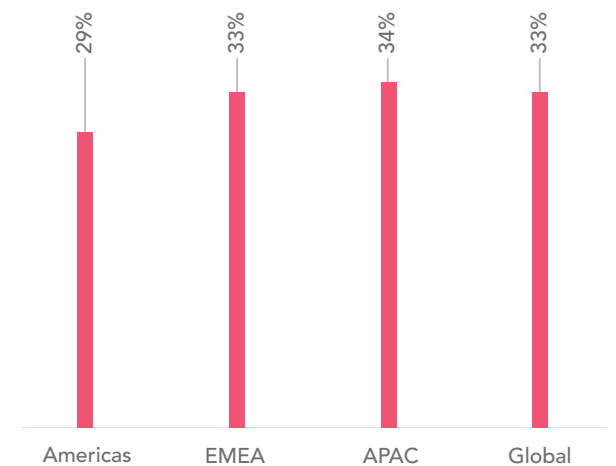
Faced with the prospect of greater rewards for better performance, employees are keen to find new ways of bringing value and innovation to their work. While methods such as crowdsourcing are still very much fringe practices, employers can benefit by explicitly acknowledging the potential benefits of this new approach.

In the same way that Google leaves a portion of the working week open for employees to focus on creative endeavors, businesses adopting performance-based remuneration and outcome-focused management should tacitly encourage employees to consider lateral, emerging methods of improving their productivity.



FIGURE 11: INTEREST IN CROWDSOURCING

To what degree would you be interested in completing "crowdsourcing" work?
(% Interested by Region)



Lessons

for HR Managers



The *2013 Kelly Global Workforce Index* shows that the uptake of performance-based pay has developed quickly over the past decade. Close to half of employees globally believe that they would be more productive if their pay was linked to their performance.

The benefits of this trend are clear: with distinct, measurable performance goals and more autonomy, employees take greater ownership over their work, and have a better sense of their own worth. In turn, businesses enjoy the productivity of more highly motivated employees.

Based on the trends outlined in this paper, we recommend four key steps for businesses considering a shift to performance-based remuneration and outcome-focused management.

1. Consider performance-oriented incentives

Most employees like the idea of being paid according to their performance level. Consider how a shift to performance pay might lend greater autonomy and engagement to employees and motivate them to perform at higher levels. At the same time, keep in mind that the country in which a business is located may affect the likelihood of staff responding well to such incentives, and legal regulations may dictate program design.

2. Assess employee motivation

The effectiveness of performance-based pay varies according to the age of workers. Gen X and Gen Y workers in developing countries are most likely to be responsive, whereas Baby Boomer employees in developed countries are less likely to value the opportunity. While these observations are far from prescriptive, they may help businesses establish how they approach the shift to performance pay and outcome-focused management practices.

3. Investigate flexible working arrangements

The self-motivation and outcome-oriented management encouraged by performance pay lends itself to flexible working arrangements. Businesses stand to improve productivity by allowing staff to telecommute. At the same time, HR – in partnership with direct managers – needs to create new communication processes between remote and office-based staff to avoid isolation and preserve innovation. Additional training and developmental courses for managers supervising remote workers are also recommended.

4. Encourage new roads to innovation

The greater levels of autonomy and flexibility offered by performance pay allow employees to explore promising new modes of empowerment. While businesses needn't prescribe the use of emerging practices such as crowdsourcing, acknowledging their potential value will encourage staff to find ways of using them productively.

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