

# The Value of Merit Based Recognition

Lisa Henry, CEO  
Greenway Group

One of the top business challenges for firms today is attracting and engaging top talent. We think there may be components of merit based recognition that help engage and reward top talent *and* encourage innovation.

Greenway's clients are businesses in the architecture, design, and engineering professions however, we learn a lot about what other industries are doing that generate innovation and superior results for those companies. I currently study as an executive scholar at Kellogg School of Management at Northwestern University and the subject of merit based recognition is often discussed in the context of talent engagement and creating an innovation culture. Many top performing companies in a myriad of industries motivate their individual performers and teams with merit based recognition. In the spirit of the shopping the market of ideas we will explore the concept in this article so you can determine if it rises to the level of consideration in your firm. Currently, in A&D firms that we have worked with, 100% meritocracies are not the norm. At Greenway, we think that there is a place for *components of merit based recognition relevant to design practices seeking to engage top talent and reward ideas leading to innovation.*

## THE BEST IDEAS WIN

Our perspective on meritocracy is being influenced by the ways corporate cultures are changing, building, and fostering innovation and engagement among staff. A meritocracy model is emerging which rewards individuals based on their ideas and ability to influence the organization and lead to innovation. In companies that successfully employ a meritocracy people forge their own path to leadership, not simply by working hard and smart, but also by coming up with good ideas that have the ability to positively impact their team and their company. New avenues of innovation have been opened up because one person had an idea and spoke up, gained the trust and respect from teammates so people listened, and, as a result, was able to influence direction of an initiative (or start a new one).

Within a company's culture, everyone may have a voice, but some are listened to more than others. At some firms, the people who have the best ideas are listened to and gain influence. They have earned the right; they are leaders whether or not they are defined as such in the organizational chart.

Given the right channels for communication and encouragement, thought leaders and influencers emerge and a 'talent based' not a 'tenure based' reward /bonus system reflects that. Implementing a merit based culture and compensation requires a commitment from leadership to demonstrate the how the principles of a meritocracy work. The real nuts and bolts of creating a merit based culture depend on how variations in employee performance are measured and managed.

At its best, a merit culture can help a firm stay on the cutting edge and bring to light the best ideas. It also helps keep associates engaged in the goals of the firm and can foster genuine leadership. It should be expected that people will do their jobs well. It is the above and beyond efforts of associates that enable a company to innovate and excel. The highest performers at the highest-performing companies shoulder a sense of responsibility for moving their organizations forward. They are engaged and hold themselves accountable for projects.

Merit based recognition is an understanding between the staff and management that high performance and rewards are unequivocally linked. In its simplest terms, merit based recognition means providing employees with better compensation and opportunities to advance as they do more for the company. Under a merit based model, promotions and reviews continue as usual, but tenure isn't emphasized as it might be in a traditional office.

Accordingly, three consistent factors appear to be present and correlate with successful merit cultures:

- 1) People are empowered.  
Regardless of whether a person is an individual contributor, a manager/ leader, he or she knows what success in their role means and has the tools they need to drive the organization forward.
- 2) Passion is fostered throughout the firm.  
People perform best in roles they are truly excited about. When it comes time for performance reviews and reward, they are not just promoted and given a new title, but are encouraged toward a path that will enable them to follow their passion. It might be to take on additional projects or mentor and lead a team. They help set their own direction to help the firm achieve its vision.
- 3) Leaders create a listening culture.  
Good leaders know they get better information by listening and that no one person has all the answers. In a successful meritocracy, firm leaders ensure that the best ideas are able to emerge. They set the tone of the workplace and encourage an environment that promotes listening and sharing. Ideas are allowed to surface and flow freely in successful meritocracy cultures.

#### THE KEY: ROLE CLARITY AND 'KEY SUCCESS INDICATORS'

Our work with firms in the areas of merit-based compensation generally begins by establishing Role Clarity for *all* roles, which is accomplished by creating a "roles and responsibilities matrix" of staff within an existing or newly modified organizational structure. Once the matrix is completed, we work with internal teams and develop Key Success Indicators (KSIs) for each of the roles. Key Success Indicators are the specific activities that are measurable and, when achieved, result in desired performance to achieve a

firm's operational and strategic goals.

In our experience, a critical and often overlooked component of creating a true merit-based plan is for team members to participate in annual goal setting conversations, which lead them to first to identify, and then agree to what they will accomplish within their respective roles to move the company toward its objectives. It is up to firm leaders to create the culture, along with a process and timetable the associates (with their supervisor) to review, edit, and agree upon the Key Success Indicators. Firm leaders can then use them as benchmarks to measure performance and serve as a basis of merit-based compensation awards.

For example, Key Success Indicators for a project manager in the critical area of project delivery include routinely (i.e., weekly, monthly) updating costs on contracts to identify — as early as possible — project cost over-runs, potential scope issues, implement timely change orders, minimize project profit erosion, maintain project profitability, etc., all of which can significantly impact the bottom line. Such specific KSI's for project managers can then be utilized to gain accountability to effectively manage this component of their responsibility in a timely fashion.

Individual's KSI's are generally developed within several of five critical areas of the firm's business but there can be others determined by the unique priorities of the firm and related to their strategic plan goals.

- Project delivery
- Financial metrics, i.e., utilization, profit goals, etc.
- Business development
- Employee performance
- Client satisfaction

One of the key benefits to creating categorized Key Success Indicators is that they can be tied to the strategic plan used for overall firm-wide strategic planning. This presents an opportunity to link the goals of the firm and each individual's role in helping to achieve firm-wide goals. In short, it's a visualization tool to link both firm goals and individual goals.

## DISCRETIONARY COMPONENT

Merit performance plans are predominately objective, though there is no such thing as a perfect objective plan. Any plan allows for discretion and subjectivity. It is simply not always possible to assess the contributions of top performers solely through a set of objective criteria or KSIs. Since these individuals are often put in charge of the firm's most complex projects, the need to have a component of subjective analysis of their performance.

A pure merit performance plan could end up undervaluing a key employee's overall contributions, particularly on difficult or unusual projects where certain skills are difficult to measure. A discretionary and subjective component of the plan will allow you the ability to reward an employee based on your own

assessment of the value of the employee's various contributions.

One of the critical issues that often results in plan failures is that the merit performance plan becomes an administrative burden. The plan must be easy to routinely (typically monthly) monitor and track. We encourage clients to prioritize an ongoing review process and create useful tools and templates internally that streamline and effectively administer their plan.

## MERIT-BASED COMPENSATION

Merit-based compensation frequently involves giving employees a permanent pay raise based on past performance within a specific time period. Often the company's performance appraisal system is used to determine performance levels and the employees are awarded a raise, such as a three percent increase in pay. One potential problem that we have seen with merit pay is that employees come to expect pay increases. In companies that give annual "merit raises" without a different raise for increases in cost of living, merit pay ends up serving as a cost-of-living adjustment and creates a sense of entitlement on the part of employees with even low performers expecting them. A best-practice is to de-link merit pay from annual cost of living (or other raise) and make merit pay truly dependent on Key Success Indicator performance within a relatively objective appraisal system.

To motivate employees effectively, the size of the merit increase must be significant enough to make a noticeable difference to employees. Some studies show that a merit increase of less than seven percent is unlikely to have ANY IMPACT on employee performance. An alternative that an increasing number of companies employ is to award merit pay as a lump sum bonus and not tie it to a "merit increase" in base pay. As a result, the employee receives the pay increase in one payment, hopefully motivating him/her, and the company continues to pay the same base salary while controlling salary budget costs in the long-run.

Executives and HR directors we have worked with have shared additional factors they consider when determining the merit bonus payout to individual employees in addition to achieving their KSI goals:

- Where is the employee's pay currently in the current salary 'pay band' for the job?
- Has performance increased since the last merit pay?
- Is the employee considered a "critical talent"?
- What is the long-term potential for the employee with the organization?

If the firm is using an individual's Key Success Indicators within a well-designed system, it will give the employee a framework and a personal stake in seeing that their efforts result in increased productivity in addition to a boost in success for the organization as a whole.

**We think there may be components of a merit based compensation approach that are worth considering for firms who are looking for ways to engage their critical contributors and reward those who contribute the best ideas and drive the success of the firm.**

**Greenway Group**  
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719.634.4770  
[www.greenway.us](http://www.greenway.us)