THE BAARDA MODEL

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A framework for employee reward management

Rolf Baarda

Warden Press

ISBN:
Paperback: 978-94-93202-08-5
E-book: 978-94-93202-09-2

Original title: *Agile belonen. Het waarderen van toegevoegde waarde* (Culemborg: Van Duuren Management, 2019). Translated from the Dutch by Terry Ezra @ Taalente, Kaatsheuvel.

Cover design: Sander Pinkse Boekproductie, Amsterdam
Interior design and lay-out: Holland Graphics, Amsterdam
Photo author: Arna Schoemans, Drunen
This edition is published by Warden Press, Leiden.

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The Baarda Model: paying for value

'My question is, where does your passion for job classification come from? You are so passionate and enthusiastic when you talk about your field.'

This was just one of the many questions that were fired at me when I announced that I was going to write a book about a subject in which so many of our clients were interested. These are clients who bring us in to advise them about their remuneration policy. 'That is why,' I wrote in the announcement, 'I have a simple request, which is, if you were allowed to ask me one question about my profession, what would it be?'

They let me know, and how!

'What a good idea!' was often how the (more than forty) replies began, and as I expected, the questions were very diverse.

They were either strategic ('Can remuneration contribute to work pleasure and a better world?') or tactical ('How can I make employees conscious of what I expect in return for the salary I pay?'), but also operational ('What if an employee doesn't recognise him or herself in the result of the Baarda Performance Indicator?').

A lot of questions were about the future ('In ten years' time, will our employees be paying themselves?') and motives ('Are bonuses meant to reward, or to punish?').

What triggered me when I read all the questions was that the real question behind them all was how to make salary meaningful for employees and the organisations in which they work, given that employees' motives for working differ, and that companies are as distinct as their strategic objectives.

Progress comes from frustration. In this book, I have written about my dissatisfaction with current remuneration systems and why they often work so badly, why they don't contribute to work happiness.

Not that this book is the last word on the subject, I just want to share with you what I have discovered, my answers to the questions that were put to me. And who knows? Perhaps this book will offer the advice you seek, insights and perhaps some inspiration.

Waalwijk, 2021
Rolf Baarda

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WHAT IS AGILE REMUNERATION?

Remuneration management is in a crisis. The old ways of paying employees aren't working any more. Expert systems, such as job classification, may lead to results in classically led companies, companies which rely heavily on hierarchical relationships, standardisation, specialisation and the division of labour and where the weight of the position or job is central. You can let external experts set the salaries, and employees may well feel that the pay is fair.

However, in organisations where positions hardly exist or are constantly changing, where work is organised in projects and personal initiative is highly valued, these instruments are unlikely to result in pay ratios that employees think are fair. In these companies, it's not about the position, it's about the role that an employee plays, what he or she can do and the confidence that others place in them. Just saying that a certain position scores 125 points to justify a monthly salary at grade 10 won't cut it any more. It won't be accepted.

There is also another disadvantage with the old-fashioned method of job classification: it doesn't matter how well you do your job, it won't lead to a difference in pay, even if the way you do it is substantially better. Talent, ambition and mentality vary, but a job classification system doesn't take account of that. It measures the job title, not the individual, and an organisation consists of more, or should consist of more, than just titles.

Yet another disadvantage of this old-fashioned approach to pay is that the workforce plan limits everyone's career development. Whether someone has worked on their development or not, whether they can carry more responsibility or not, is irrelevant. There are no prospects, at least not in respect of salary, whilst prospects are precisely what make us happy and optimistic, particularly if they are within our reach. It has been known for a long time that challenging but realistic goals are hugely motivational. No bonus can match that. This is why many an employee becomes hopelessly frustrated if no one can tell him or her what they have to do to get further in their career. There goes your motivation!

So how should you do it? If you don't pay the position, how should you pay your employees? How do you reward their commitment and expertise? Or do you pay for their intellect or for their loyalty to your company? And what about performance-related pay? Can we do anything with that, or are bonuses actually dangerous? Or at least 'not done'?

HOW DO WE DIVIDE THE POT?

'Where I want to get to, and I don't know if we ever will, is that we drop a bag of money on the table and people have to decide for themselves how it should be divided.' I have heard so many clients say that. And when they do, they all look as if the angels have revealed paradise to them. Everyone takes their rightfully earned share and is content. What an idyllic prospect!

Yes, I think cynically, that would save you a lot of trouble. How do we divide the pot, so that I, the boss, don't get the blame? Having a business is great, as long as you don't have to deal with people.

A company in Amsterdam has started a brave pilot: employees set each other's salary with an app based on 'feeling'. 'We think this is fair', is what the organisational psychologist working at the company said to the Dutch *AD Magazine.*

The firm has about 45 employees and is active in marketing, IT and organisational science. They also deal with other things differently: unlimited days off, everyone can express their opinion on anything and even the intern can run the company. All the salaries are public and soon, those salaries will be dependent on colleagues' assessments.

So, what did they do? They developed the *SentimentsApp*, which people use daily to assess each other. The main instruction is, 'Assess you colleagues based on how you feel about them.'

Employees can enter how good that feeling is by means of a horizontal scroll bar. It doesn't matter if the feeling is because of the colleague's contribution or commitment. All the different assessments are added together and it's the average that counts.

The organisational psychologist now demonstrates some self-criticism, 'The thing I'm personally worried about, is the shift in motivation. That our employees will now work for [just] high scores and money.'

That's what I think too. ➜

In fact, I'm certain of it. Motivation theories are quite emphatic: extrinsic stimuli – the daily use of the app – ensure that extrinsic motivation replaces intrinsic motivation. Only the money and scores are important. At a stroke, the entire impressive culture of 'We want to achieve something beautiful' and 'It's always a joint effort' is destroyed. Worse still, you now have the means to hit your colleague in his wallet or her purse. You just have to slide that bar to the left, and Bob's your uncle.
However brave such initiatives might be, you mustn't experiment with terms and conditions of employment, particularly if the experiment is devoid of any theoretical basis, because, as Ronald Morcus, the then CEO of Oxyma, once said to me, 'You can only do it right once.' And he was absolutely correct.

Remuneration is not an experiment! It's perfectly fine to have your own ideas and opinions about the subject, but let us undertake a fundamental analysis first. This is why, in this chapter, we are going to look at whether there are good and bad systems of remuneration where the amount of salary an employee is to be paid can be determined objectively. If it appears – and this won't surprise you – that there are neither good nor objective systems, then we will go back a step further in the analysis to understand what we do consider to be fair remuneration. Does something like that actually exist? Or is it an illusion?

Fair remuneration means that the employee thinks that they are receiving that to which they have a right and, just as importantly, which motivates them. Luckily, there are things we can say about that. So much, in fact, that we can take a step further after the analysis towards receiving an answer to the question: how do we decide with an employee how high the remuneration should be so that the result is entirely acceptable to both parties, and without reducing that remuneration to a crude negotiation, making a deal or an endless democratic process?

1.1 GOOD AND BAD REMUNERATION SYSTEMS DON'T EXIST

Research tells us that, in respect of remuneration methods, it doesn't matter which system you choose. Indeed, whether you have a fantastic performance management system with generous bonuses, or the exact opposite, fixed salaries, it doesn't make any difference. The only thing that is important is whether it is fair. This is what your staff pay attention to, this is what motivates them.

André de Waal, known for his unremitting research into the success factors of High Performing Organisations or HPOs, published an article with his fellow professor Paul Jansen, 'The Bonus as Hygiene Factor'. In it, they concluded that there are twelve characteristics that are necessary in order to become an HPO:

1. a fair fixed and variable remuneration for performance delivered
2. remuneration systems that reward values and strategy
3. payments linked to long-term successes
4. remuneration based on performance
5. group remuneration
6. a flexible remuneration system
7. a remuneration policy that places the emphasis on intrinsic reward

8. shares

9. remuneration for skills (skill-based pay)

10. remuneration for results.

That's a lot, but there isn't much more than that. Are all those elements really important to become an HPO? No, not really. Jansen and De Waal observed that there is a negative correlation with some elements of remuneration, such as a share plan and an emphasis on intrinsic reward, or performance-related and skill-based pay, because these are not obvious combinations.

In other words, you don't have to tick everything off on the list. The important thing is that you have a carefully devised system of remuneration, and that employees regard it as fair. That is, that they receive a salary that equates to their commitment, performance and market value.

This is why, according to Jansen and De Waal, remuneration systems are 'hygiene factors'. This term was coined by the American psychologist Frederick Herzberg and refers to matters that are, at best, reasons not to be unsatisfied, but which will never elicit a great deal of enthusiasm, like a network for mobile telephone communication, for instance. People take for granted that they can ring someone on their telephone, and get furious if they can't.

1.2 OBJECTIVITY IS AN ILLUSION

In her bestseller *How Performance Management Is Killing Performance – and What to Do About It,* Tamra Chandler attacks the current way of conducting performance reviews. She presents evidence that the evaluations are subjective, that, for example, 60% of the assessments are a projection of the assessor's own behaviour on the person that they are assessing. Others share her opinion. 'Without objective criteria, performance reviews are primarily about sympathy, antipathy and other arbitrariness', wrote the Dutch management guru Ben Tiggelaar in his weekly common in the *NRC* newspaper. 'Of all the factors in the work environment, the immediate manager has the biggest impact on employee performance. Whoever judges employees negatively, judges him or herself negatively. Whoever says that you have to do better next year, is actually saying that they themselves have to do better. Except most managers don't know this. They aren't happy with what they see, but don't realise that they are looking in a mirror.'

And there is more criticism. Fundamental criticism. Assessments make the assessed defensive. Consciously or unconsciously, an employee often feels attacked by the assessor. We people are naturally over sensitive to criticism. And because a performance appraisal is not automatically a safe interview, we often leave essential matters unsaid, because who speaks freely about their positive and negative points if it can have consequences for how you are paid?

The insecurity is also exacerbated by the fact that the emphasis in such interviews is usually on the negative. This can only be expected, everyone is by nature more alert to what can go wrong, and we pay less attention to things that have gone well and deserve a compliment. The emphasis is often on 'points for improvement', while research has demonstrated that building on what is already good, the strong points, results in so much more: a better atmosphere at work, increased motivation, better performance and more satisfied clients.

Authoritative sources say that 20% of managers can't or won't carry out a performance appraisal, 20% like to do it and are good at it and 60% do it because they have to. Not much reason for hope. To summarise, not only do few people like appraisals, the majority of managers and employees hate them. They regard it as climbing a mountain. Not only do appraisals not lead to more commitment, they usually have the opposite effect, and if appraisals can't be avoided, then we are mild in our judgement: the appraiser and the appraised have to be able to work together afterwards. 'This is why men are assessed more positively than women, not because they are better, but because they are prepared to voice their opinion, and managers don't want conflict', according to Kilian Wawoe, assistant professor of Human Resources Management at Vrije Universiteit in Amsterdam.

Is that it? Is there anything more to be said about the subject? No. Unfortunately, there is another important point of criticism, that results and performance have little to do with each other. The results an employee achieves are at least partly due to colleagues, clients and/or circumstances. They are rarely, if ever, attributable to the efforts of one individual alone. This also relates to yet another point of criticism touched upon earlier, that there is often a lack of objective criteria. Setting clear and measurable goals by, or for, employees is extremely difficult, sometimes even impossible.

If so many employees hate them and the results are questionable to say the least, how can we decide salaries satisfactorily? Does it matter how high they are? We shall see.

1.3 DOES MORE PAY MAKE YOU HAPPIER?

Money does make you happy. That was the conclusion of Nobel prize winner Daniel Kahneman and the economist Angus Deaton from Princeton University in the journal of the National Academy of Sciences, but they also demonstrated that there is a limit to that happiness, an annual income of €60,000, to be exact. If you earn more, you may well be more satisfied, but you won't be any happier.

The researchers sent out 450,000 questionnaires. The respondents assessed their lives on a scale from zero to ten, where zero was the worst. People who earn a lot of money are more satisfied with their lives than people who earn less. A feeling of happiness also increased with income, but only up to a ceiling of approximately 75,000 dollars. 'We concluded from that that money can buy satisfaction, but not happiness', according to Kahneman and Deaton (ANP, 2015).

Arie Pieter Veldhoen, the 'captain', as he calls it, of the Monitor Groep, a consultancy for employee satisfaction, was more emphatic: 'Work happiness is more important than pay. Happiness at work means that you and I can get into a flow, free from stress and boredom. That we go like a rocket, in a manner of speaking.'

But what is that then, 'work happiness'. Veldhoen worked out that happiness at work corresponds with feeling at home, enjoying your work, a clear direction that offers security and continuity and a coaching style of leadership.

So, not more money?

Veldhoen summarises it like this, 'The most important thing about a salary, is how fair it is. A salary that is too low drags your happiness down. Let's be clear about that. However, a good salary is a bad predictor of happiness at work, because there is only a correlation of 0.2 between the two, and that isn't much.'

1.4 FIXED AND VARIABLE REMUNERATION

A good salary is apparently not the same as a fair salary. It's now high time that we explored the concept of 'fairness', because that might be the key to the solution. For the purposes of this analysis, let us look at what 'fixed' and 'variable' salaries are meant to achieve. The answer is simple and yet fundamental. A fixed salary is meant to pay for the quality of an employee, the variable salary rewards his or her performance, or that of the team.

Why? Quality is the input of a position, that which an employee contributes in order to fulfil his or her obligations. Performance is the output, the results of the process. The fixed salary rewards the added value: the knowledge and skills required for the job and the problem-solving capacity required to apply them to the work situation.

This fixed form of remuneration in fact rewards individual development, the knowledge and skills that someone has acquired and honed over the years. Development is therefore an emphatically long-term prospect, as is fixed remuneration. The more you learn, the more, and the more difficult, things you can do, the more money in your pay packet. And it stays there, because once you've learnt to swim, for example, you never forget. That is more or less the idea behind it.

Fixed salary	Variable salary
Quality	Quantity
Learning	Performance
Added value	Result
Long term	Short term

Table 1.1 *Essential differences between fixed and variable remuneration*

Variable remuneration is different. It rewards the effort and performance now, the short-term. This may seem obvious. In practice, however, almost no organisation applies the difference between fixed and variable remuneration consistently. If you perform well, you get a fixed salary, irrespective of whether you have got better at what you do or not.

The first condition for a fair salary is consequently: pay a salary for what it is meant to be paid, in this case, quality. You link the variable part to the activities.

1.5 SENSE OF FAIRNESS PLAYS AN IMPORTANT ROLE

I mentioned earlier that how people feel about the salary is much more important than the amount, which is an absolute number. And that feeling is by definition subjective and relative.

In order to understand that 'good feeling', the concept of 'fairness' is important. Fairness is different for everyone. What one person thinks is fair, is seen by the other as an injustice. That's why there isn't one fair form of remuneration. What is important, however, is its justification.

RONALDO'S ARRIVAL CHALLENGES SENSE OF FAIRNESS

Turin was up in arms. After the announcement that Ronaldo had been bought by Juventus, the factory workers considered going on strike. Fiat is owned by the Agnelli family, who also own Juventus, but while Ronaldo cost the club 100 million plus an annual salary of about a third of that, wages at the Fiat factory had been frozen for years to avoid bankruptcy.

Two things are important here: fair exchange and distributive justice. Fair exchange has to do with the feeling that someone has when they compare themselves with people from outside of their organisation. Distributive justice is about a fair division of salaries within the organisation. Both forms of justice play a role in judging what is adequate, and what not.

Fair exchange is related to market conformity: what is the market rate for a position? This demands an objective standard, a maximum. Unfortunately, we will never reach agreement on this. Amounts that are ridiculously high for one, are irresponsibly limited for another. This is why the difference between salaries can sometimes be immense.