

NEW PAY

New Pay Report 21/22

**NEW WORK NEEDS NEW PAY
– WHO ELSE?**

A qualitative and quantitative study of the relationship
between corporate culture and rewards
initiated and published by New Pay Collective

Content

Introduction	04
Summary – Key Insights	06
Link between compensation and company culture	08
Cultural maturity of organizations	10
What’s new about New Pay?	12
New Pay in practice – the status quo	18
The seven New-Pay-dimensionen: relevance and design options	22
Fairness	22
Flexibility	24
Transparency	26
Participation	28
We-Thinking	30
Permanent Beta	32
Self-Responsibility	36
Conclusion and final remarks	40
About the study	42
Literature	48
Imprint	49

Introduction

New Work has become the most talked about business hashtag in recent years.



New Work has become the most talked about business hashtag in recent years. What on an international scale is being referred to as the “future of work”, implies that working environments need to adapt if companies strive to remain successful in the future.

Employees seek for meaning in their work, strive for self-responsibility and want a career that fit their personal needs. There are many ways how New Work is defined and applied in practice: the new design of physical environments, meeting structures, functional roles or even mindset-shifts with respect to ownership and purpose. Despite all these changes, one element remains unchanged: [Compensation](#).

In most organizations, compensation is regarded as an operational process, ideally running silently

in the background. For many, talking about money is a touchy subject. Considering all the changes taking place in our work environment, shouldn't we explore the potential of rewards? Is there a shift in our perception of rewards with shifts in organizational demands and individual needs? Do we already consider new demands from employees and organizations and to what extent, when reviewing and designing our remuneration models?

Starting already in 2017 to explore answers to these questions, we asked our network to share and learn from each other's experiences, embarking on a journey to uncover the advantageous aspects of rewards. As a result, New Pay became an integral part of the discussion, and what seemed obvious at the beginning of this study, has been proven to be true: [New Work needs New Pay!](#)

In cooperation with the University of Pforzheim (Germany), two master-theses analyzed the inter-dependance between New Work and New Pay.

By examining the New Pay dimensions, the connection between different compensation models and the cultural maturity of organizations, five key questions set the foundation:

What is the relationship between corporate culture and compensation?

- Is it possible to differentiate compensation approaches based on cultural maturity?
- What impact has the cultural maturity of an organization on the design of the compensation system?
- Is there a need for a culturally appropriate compensation?
- Can interdependencies between the New Pay dimensions be found?

This research project is based on theoretical-methodological models and two empirical studies.

Its design includes a qualitative expert survey, and a quantitative online survey of more than 200 participating employees from various industry branches, across all company sizes.

Our aim is to provide inspiration, constructive ideas, and recommendations for designing an effective compensation system and put it into practice.

We wish you an insightful reading!

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Keywords

New Pay, compensation systems,
corporate culture, cultural maturity,
New Work

Summary

Key Insights

In a working world evermore dependent upon collaboration and cooperation, company-specific compensation systems, are increasingly gaining momentum. Corporations implement necessary frameworks, through structures, processes, and rules – this is applied for compensation frameworks as well. Those frameworks regulate what is being rewarded and what is not and become an orientation tool that indicates what is important to an organization and how it wants to evolve in

the future. A compensation system that fits the corporate culture has a positive impact on value creation, innovation, and employer-branding.

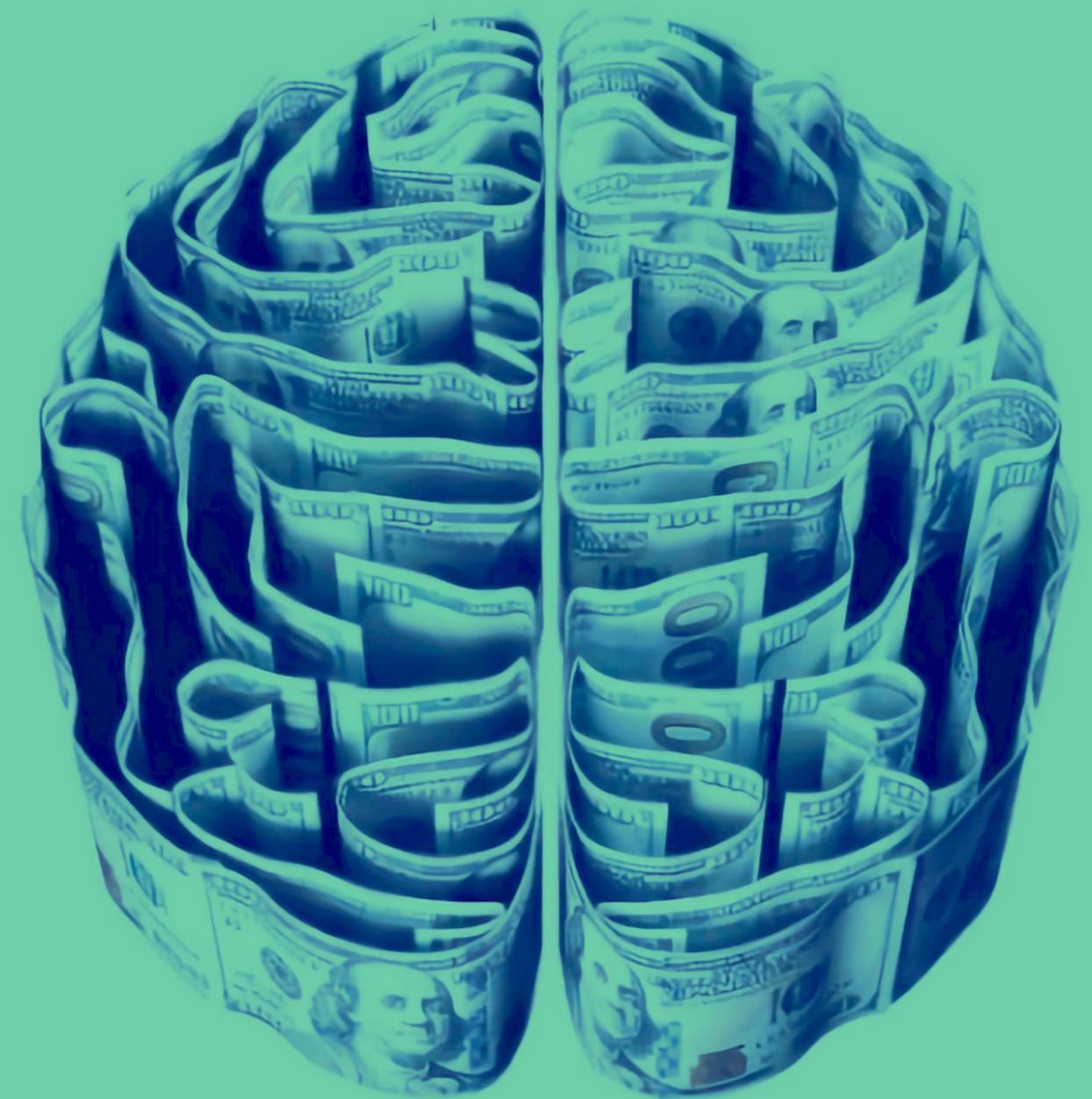
The New Pay Dimensions (Fairness, Transparency, Self-Responsibility, Participation, Flexibility, We-Thinking and Permanent Beta) provide organizations with reference points to further develop their compensation system in alignment with the corporate culture.

THIS RESEARCH PROJECT PROVIDES THE FOLLOWING KEY FINDINGS:

- The **compensation system** must fit the corporate culture and is consequently **unique** to each company. Addressing this issue is essential to identifying the requirements for the remuneration system.
- **Six of the seven** New-Pay-Dimensions are relevant to organizations, **regardless of cultural maturity**. This implies that all organizations, not just "new-work companies", can benefit from the New Pay paradigm.
- More than half of the participants (**53.3**) asserted the **need for change** - but only **12.1%** of the companies in the study are actively addressing this need.
- The central factor relating to compensation is **fairness** (**56.9%**). In addition to distributive justice, **procedural justice** showed to be particularly important to employees.
- For many employees, **Participation** is not (yet) relevant. Although we see it as higher organizational necessity, the importance of "participation" came in fourth place (**22.8%**).
- Taking **personal responsibility** for one's own salary or that of their colleagues is attractive to only **8.9%** of the participants. In addition, our findings show that small, simply structured New Work companies are best at implementing personal responsibility.

The employees' assessment of the New Pay Dimensions does not recommend adjusting for the desired weighting in the remuneration system. Among the participants designing remuneration systems, some come to different proposals.

The way different target groups prioritize the New Pay Dimensions proves that there is a great demand for explanation and communication.

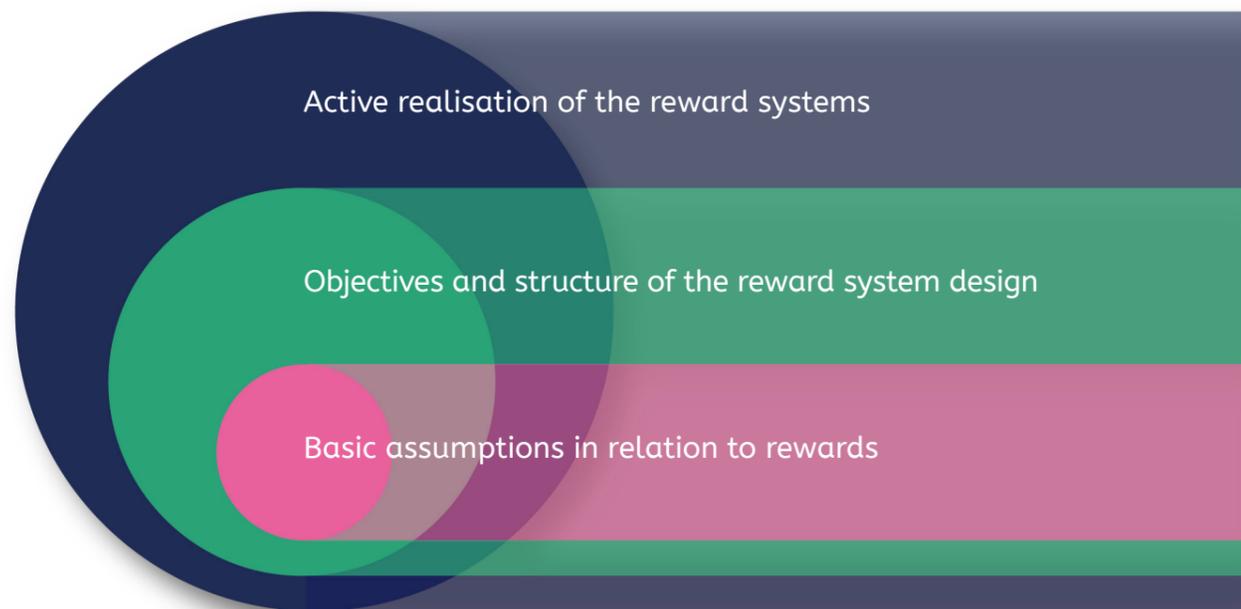


Compensation & Corporate Culture

The connection between compensation and corporate culture

For most employees, compensation is primarily an operational process. At the very least, they know how, and with what they are paid – and depending on the transparency of the organization, possibly how their colleagues are remunerated, as well. In other words, they are aware of how compensation systems are implemented.

The compensation philosophy, goals, and strategy underlying remuneration systems are a crucial element of the corporate culture. But how do decision-making processes take place? What distribution of power is reflected by them? Which criteria determine employees' compensation and recognition?



THE THREE LEVELS OF REWARD SYSTEMS

Compensation systems are based on fundamental assumptions that organizations and individual employees have about remuneration. Nevertheless, the ways companies design compensation systems, as well as their underlying objectives, remain for countless employees a closed book. These objectives, however, determine the design, (e.g., which behavior should be rewarded by means of the compensation system), and also how the method is ultimately implemented. The compensation system of an organization sets the framework for cooperation and value creation and is thus culture-shaping. The acceptance and success of a compensation system ultimately depends on how efficient its fundamental assumptions, design and implementation work together as a unit. This is mainly because employees primarily act according to the values of the organization – following official processes, comes second. Peter Drucker already knew: “*culture eats strategy for breakfast*” (Göd, 2018, p. 302).

Conversely, compensation has a significant impact on a company's culture: *behaviors that compensation rewards become dominant behaviors*. This, in turn, determines what is important to an organization, what it stands for, and what its values are (Lawler, 1995, pp. 14-16; Ulmer, 2017, p. 12).

Two insights derive from this:

- Compensation systems are both a reflection and an influencing factor of an organizational culture.
- Compensation systems must fit the desired organizational culture in order to be successful.

The culture of an organization is not static, however – it evolves over time. Consequently, it seems reasonable to conclude that organizations have different needs in the design of their compensation system, depending on their cultural maturity. We examined this assumption through a theory-based evaluation, as well as empirically.

Compensation & Corporate Culture

Cultural maturity of organizations

Just how do you observe changes in corporate culture? And what helps to classify cultural development? As a matter of fact, the culture of an organization can be observed, but not measured. It is possible, however, to assess and evaluate key cultural factors by means of so-called **maturity models**.

Maturity models describe a gradual development of world views, value systems and organizational principles. Changes that society and organizations have undergone over time are grouped here into so-called maturity levels using (most common: stereotypical) patterns. This grouping, in turn, makes it possible to assign the cultural factors of an organization to a specific maturity level.

Well-known examples of maturity models are “Spiral Dynamics” (according to Beck and Cowan (1996, 2014)) and a similar system described by Laloux (in the management bestseller “Reinventing Organizations”. 2014, 2015). We used these two approaches as the basis for the studies.

Both models show the historical development over the past 100,000 years. Although maturity models describe this development in levels, the individual levels are equivalent - none is better or worse than another. Instead, each level is considered appropriate in a particular context.

As levels increase, so does complexity: progressed levels have learned to cope with a more complex environment. In total, Beck & Cowan describe nine levels and Laloux seven. The most widely used levels in contemporary practice are “Orange” and “Green” (The designation of these two levels is identical in both models. The models sometimes choose different names for other levels.).

Modern performance-oriented business organizations are often at the orange maturity level, whereas organizations at the green maturity level and above are considered what could be called **New Work organizations**.

Basically, maturity models describe ideal types, i.e., they only represent reality to a limited extent. While ideal types represent homogeneous cultures, the culture of an organization can be far more heterogeneous - different locations, departments, or professional groups form subcultures spreading across different maturity levels. In our qualitative research, it became clear that none of the surveyed organizations could be assigned exclusively to one specific maturity level. We also found out, that there was always one maturity level that dominated in the companies. Nevertheless, all of them showed a very individual distribution between orange, green and occasionally, additional cultural characteristics.

The participants in the study gave the following reasons for the **heterogeneity of their corporate culture**:

- Size and age of the organization
- Diversity of various departments and areas of responsibility
- Diversity of (international) locations
- Leadership (and its influence on individual teams)
- Organizational change, transformation processes and corresponding company tenure
- Individual reasons (e.g., gender, personality, age/generation, level of education)

Evidently, larger, or more complex organizations tend to think in terms of group differences, while smaller organizations see differences as individually determined.

Excursus

WHAT CONSTITUTES DIFFERENT DEGREES OF MATURITY?

- Organizations in the **orange maturity level** are characterized by formal hierarchies and values such as efficiency, effectiveness, and striving for success and status. Managers delegate tasks, control and evaluate performance based on individual target agreements. Tasks are often more important than relationships and the drive for achievement encourages competition. At the same time, orange organizations focus on innovation, which requires more collaboration and openness. Employees are seen as a crucial resource for achieving the company's goals.
- The **green maturity level** represents the next stage in the development. Green organizations can be described as a form of social network focusing on collaboration, community, and trust. Decisions are made by employees as a team, taking into account diverse perspectives and individual needs. Organizations are aligned around shared values, striving for meaningfulness and sustainability. Many parallels to numerous New Work companies can be seen here.
- Further maturity levels are characterized by authoritarian systems (red), or rigid rules and processes (blue or amber). In their pure form, these characteristics were more relevant in the past. However, only some aspects of these maturity levels are practicable today and play a role in far less organizations than before.
- New maturity levels (yellow or teal) striving for effectiveness, global common good and integration of different value levels are conceivable, as well. These are intended to be more responsive to a complex world but are mainly theoretical and only rudimentary in practice. The individual levels of maturity merge into each other and exist in parallel.

Seven Dimensions What's new about New Pay?

Compared to classic remuneration, New Pay represents a new design approach:

1. New Pay reflects the principles of Fairness, Transparency, Self-responsibility, Participation, Flexibility, We-thinking and Permanent Beta (New Pay Dimensions, Franke, Hornung & Nobile, 2019).
2. New Pay reinforces corporate culture and delivers a company-specific reward solution which effectively supports the organization's vision for the future.
3. New Pay takes a holistic look at interactions within an organization and scrutinizes forms of remuneration, reward processes and decision-making patterns according to their contribution to people development, motivation, value creation, profitability, and sustainability.
4. New Pay respects the needs of the organization and the employees alike and brings them together in an appreciative reward and development process.

To some degree, New Pay builds on the existing approaches of classic remuneration systems and develops them further, but in some cases, the structure of its design stands in direct contrast to them:



TRADITIONAL REMUNERATION SYSTEMS

NEW PAY

Assessment basis for distributive justice, subjective assessment of performance appraisal criteria	.....	Fairness Procedural & distributive justice
Intransparency & Secrecy (Exception: regulated systems)	.....	Transparency transparent processes or salaries
Responsibility for salary level and performance evaluation lies with management or experts (management & control instrument)	.....	Self-Responsibility Co-determination in performance evaluation and rewards
Management & experts make relevant decisions regarding the design of the compensation system	.....	Participation Employees are involved in the design of the reward system
Standardized processes, Cafeteria system, if applicable	.....	Flexibility Consideration of individual needs
Focus on individual performance, hierarchical differentiation	.....	We-Thinking Team performance, egalitarian
Rigid processes, possibly rigid regulations	.....	Permanent Beta Adaptability

Based on this comparison, we examined the respective remuneration principles for a fit to the cultural maturity levels - with an astonishing finding: Apart from the dimension of self-responsibility, the design of remuneration according to the New Pay approach is advantageous both in "green" New Work organizations and in "orange" performance-oriented business enterprises.

Excursus

CULTURAL MATURITY & COMPENSATION

The extent to which specific design requirements for reward systems can be derived from the cultural maturity level.

#Fairness

- **Orange:** The claim to justice in orange organizations is characterized by the performance principle. This means that those who perform better also deserve more success, improved career opportunities, more pay, and privileges. That is why compensation systems that differentiate according to performance are a good fit.

According to orange values, agreeing on (individual) targets and measuring and rewarding performance based on them, is considered to be fair. In traditional compensation systems, however, the assessment of performance is frequently influenced by subjective judgments and political behavior. Performance is expected but is not being fully mapped. Value creation that cannot be measured directly, is ignored (e.g., contributions to teamwork or organizational development). Even in orange organizations, many employees consider this unfair because they do not see their performance properly recognized. Here, too, New Pay approaches are more suitable, as they replace unclear, subjective criteria with a holistic view of the results.

- **Green:** Green organizations follow a different approach to justice: An essential value is the community, and the behavior of employees ought to be aligned with it. Reward systems should therefore promote cooperation and collaboration. Perceived justice (=fairness) arises primarily from procedural justice which is reflected in equal processes for all. New Pay approaches are better equipped to meet this requirement.

#Permanent Beta

(ability to adapt and learn)

- **Orange:** Orange organizations usually profess the values of “innovation” and “reliability”. This implies that systems, structures, and processes must be regularly adapted to this claim challenge – and the reward systems, as well. According to our qualitative survey, however, orange organizations are characterized by rigid and long-lasting processes. Organizations are aware of this discrepancy and perceive it as a disruptive factor. But many – especially larger organizations – tolerate it. They shy away from the risk of change, even though they could booster their innovation goals with New Pay adaptability.

- **Grün:** Green organizations also require adaptability to internal and external needs. Effectiveness and efficiency are less of an issue here – it’s all about considering and integrating the needs of different stakeholders. Since classic remuneration systems are rarely being adjusted and revised, New Pay fits better with objectives in green organizations.

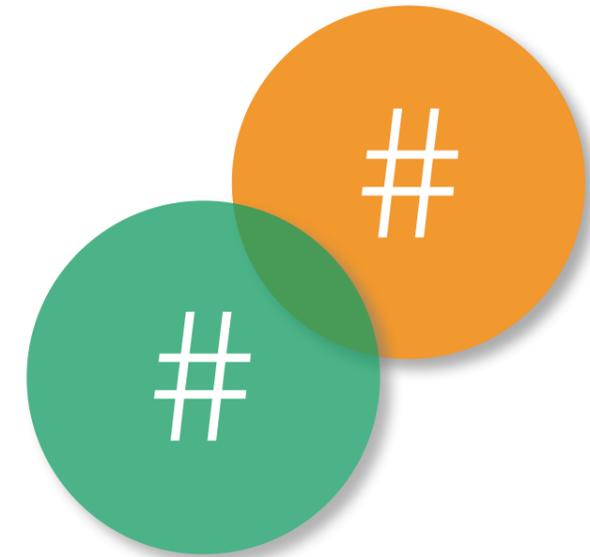
#(Self)-Responsibility

- **Orange:** In orange organizations, responsibility for processes and rituals are primarily shaped by career aspirations and hierarchy. In such systems, individuals interpret their status as a sign of success which entitles them to give instructions and steer others in the direction they want. The corporate culture is shaped by the assumption that people only do things if they derive personal benefits from them. Hence, the desired behavior is directed and controlled by extrinsic incentives. Self-responsibility, as defined by New Pay, presupposes trusting the employees’ willingness to perform. This is not yet the case in any of the orange organizations surveyed, because self-responsibility pertaining rewards, contradicts classic performance culture and is consequently, incompatible.

- **Green:** In green organizations, the focus is on interpersonal bonds and harmony within the community. Hierarchy and power are considered disruptive factors. Instead of being subdued by authoritarian instructions and rigid rules, employees should act according to shared values and make decisions on their own. Green organizations trust their employees to being less concerned about their personal benefit but taking responsibly, congruent with their intrinsic motivation. Control instances and extrinsic incentives, common in traditional remuneration systems, are therefore neither necessary, nor effective.

Our qualitative survey proves that in green organizations, a certain degree of self-responsibility for one’s own salary is more often possible, but top-down responsibility and individual negotiation frequently persist. This can be observed especially in larger, more complex organizations, which have a greater need for structures. Here, orange parts of the corporate culture dominate.

(Source: Deutsch & Elbert, 2017, pp.94-117, Laloux, 2015, pp. 26-34, Lawler, 1995, pp. 15-19, Loevinger, 1976, pp. 20-23, Franke et al., 2019, p. 82).



Continued from page 13

What's new about New Pay?

The results of our quantitative survey prove that **six of the seven New Pay Dimensions are relevant for organizations, regardless of their cultural maturity.** Merely the characteristics and significance of the New Pay Dimensions differ according to cultural maturity. The self-responsibility dimension is the only exception: for many organizations it is not yet relevant. However, the higher the level of organizational maturity, the more likely people are to agree that **employees without formal management responsibility should earn as much as managers** (mean values: orange 5.54 vs. green 5.68; rising trend: yellow: 6.77).

In our qualitative survey, we asked compensation & benefit professionals about their wishes for adjustments in their own compensation systems. They aspired for change in five of seven dimensions, thus confirming our theoretical analysis.

The respondents expressed the following concerns for change:

- Introduce measures such as team bonuses or opportunities for employee participation
- More fairness through uniform structures and processes
- More transparency
- More opportunities for participation in compensation issues



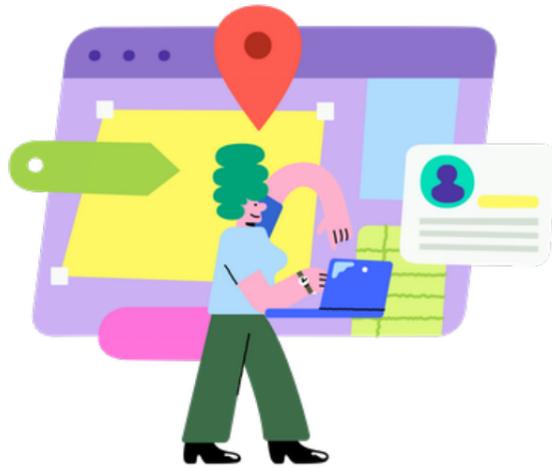
THE IMPORTANCE OF THE NEW PAY DIMENSIONS

New Pay Dimension	Performance-oriented companies (Orange)	Community-oriented enterprises (Green)
Fairness	X	X
Flexibility	X	X
Transparency	X	X
Participation	X	X
We-Thinking	X	X
Permanent Beta	X	X
Self-Responsibility		X

X = relevant, **X** = particularly relevant

Our findings allow the following conclusion: **classic remuneration is largely inappropriate, even for classic business enterprises.** A new form of compensation is needed - the seven dimensions of New Pay provide a suitable basis for rethinking and (re)designing one's own reward system.

How to New Pay in practice – the status quo



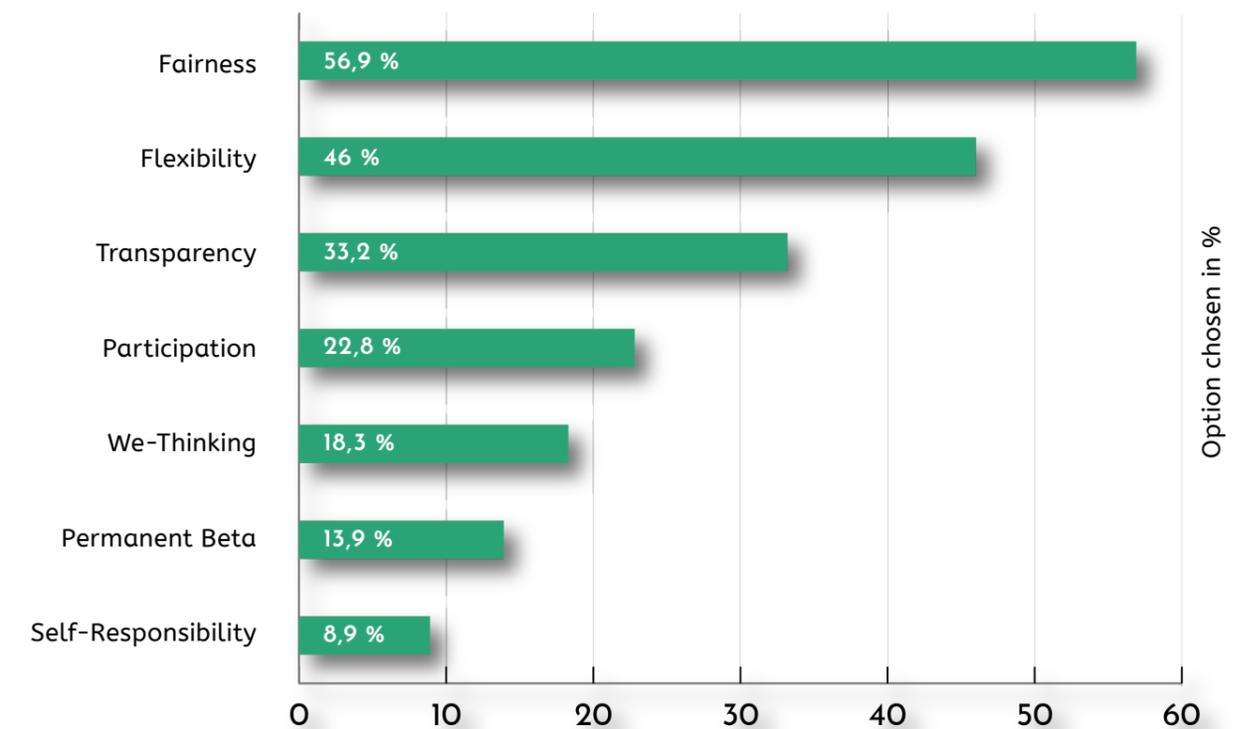
New Pay has been shown to be significant for the majority of companies. The specific design of the dimensions, however, depends on the degree of maturity. Contingent upon the corporate culture, it is advisable for organizations to devote more attention to certain dimensions in the reward system.

In our quantitative survey, participants were asked to rate the importance of the **seven dimensions for compensation and reward systems** on a scale from 1-8 (1 = not at all important, 8 = very important). In addition, they had the opportunity to agree or disagree with specific statements using another 8-point scale (1 = fully disagree, 8 = fully agree) and their choices were evaluated using statistical test procedures (e.g., we assumed significant agreement when the value was 6 and above, with a 5% margin of error).

To acquire further insights, we occasionally ranked the answers in relation to each other, formulated hypotheses, and tested them. The **focus was on the employees' perspective**, because their experience and the associated assessments (of the reward system) provide the best indicators of cultural fit and development needs.

Regardless of whether companies are already taking New Pay into account, we asked which New Pay dimensions were particularly important to employees in relation to the compensation systems. In our survey, the participants were able to select two of the seven dimensions.

What is particularly important to you in regards to the compensation system? (2 choices of options)



Employees want Fairness in the first place (56.9%), followed by Flexibility (46 %) and Transparency (33.2%). The dimensions Participation (22.8 %), We-thinking (18.3 %) and Permanent Beta (13.9 %) selected to less extend. In comparison, Self-responsibility was important for the fewest employees (8.9 %).

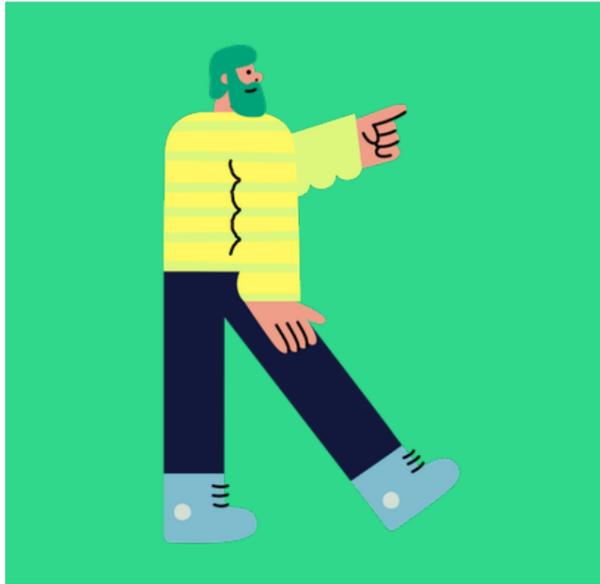


Self-responsibility ending up last, is consistent with the finding that this dimension is only relevant to New Work organizations. We presume that hardly any employee came across this dimension and thus cannot relate to it. For a similar reason, Participation “only” ranked 4th. Although many companies are increasingly emphasizing the importance of cooperation and collaboration, it is not (yet) common practice to design compensation systems in a participatory way. This shows that employees in organizations lacking cultural experience or explanatory communication, fall back on their basic assumptions and value systems, repeating a narrative compatible to the social custom or their realm of experience.

The most frequently selected dimensions in the ranking were those that paid attention to the employees’ individual needs (Fairness, Flexibility, Transparency). The dimensions Participation, We-Thinking and Permanent Beta, on the other hand, focus more on the sense of community in a company and the functionality of its implemented systems. Being instructed to select only two of the seven dimensions, the majority apparently has chosen according to their individual needs, from the standpoint of personal benefits.

!! Our results are thus a reflection of the status quo, considering the individual needs of the participants, but do not necessarily indicate how organizations should prioritize their activities. Rather, they imply the need for stronger communication of organizational contexts and the opportunities they can create for employees.

The seven New-Pay-Dimensions relevance and design options



The exact meaning New Pay dimensions entail, the relevance those dimensions currently have in practice, and New Pay design options for organizations depending on their degree of maturity:

1

New Pay Dimension Fairness

Fair salaries? Who doesn't wish for that! Yet, what many wish from their reward model, resembles a utopian ideal. The reason: Fairness is always in the eye of the beholder. Fairness should therefore be understood as **perceived justice**. On the one hand, a fair salary may mean something different for everyone and can be measured by different standards: e.g., performance, social aspects or simply the same requirements for everyone. On the other hand, employees compare their pay to their own performance, as well as, to the performance and compensation of others. Experiments have shown that if the comparison happens to be negative, it

causes a deep sense of injustice. For companies, this can prove highly detrimental. **Perceived fairness** is an essential motivational factor: if employees feel unfairly rewarded, it undermines their motivation, willingness to perform, and their loyalty to the employer.

Comparison of importance of procedural & distributive justice
(mean values)



Rating the importance of procedural justice (top) & distributive justice (bottom);
Scale from 1 (not at all important) to 8 (very important)

However, the distribution of money according to certain factors such as education, age, or performance (distributive justice), often found in classical systems, does not seem to fulfil the sense of Fairness. Comprehensible, appropriate, and reliable processes (procedural justice) are much more important. Comparing the two aspects of justice, procedural justice (mean value 7.01) is more crucial to the respondents than distributive justice (mean value 6.48). Consequently, people are not necessarily concerned with equality, but rather with equal treatment!

Our analysis has shown: Fairness is at the heart of New Pay and thus related to all other dimensions. A high level of participation and transparent compensation processes leads to a higher perceived fairness. Besides, a certain degree of transparency is needed to make fairness perceptible.

How can we measure then, whether employees perceive their compensation system as fair, if fairness is influenced by subjective perception? Reports about how satisfied employees are with their compensation system showed that the more satisfied employees are with their compensation system, the more likely they are to rate it as fair.

IMPLEMENTATION TIP: The goal should be a fair compensation system - this applies to every organization, regardless of its cultural maturity. A first step in evaluating how employees think about the fairness of the current system, are **satisfaction surveys**. However, when companies include such questions - (e.g., in their employee survey), they should ask **what exactly** employees are satisfied with: their own salary, their relative salary, knowledge of the system, relevant criteria, their relationship with those responsible for their compensation?

More than often, companies differentiate between employees, and pay them different salaries (the only exception is the standard salary). If differentiation is still desired, reliable, and comprehensible processes are all the more important. Classical assessment bases, such as criteria catalogues, are also applicable for this purpose. Nonetheless, to achieve a high degree of procedural fairness, the criteria should apply equally to all and be transparent.

2

New Pay Dimension Flexibility

More and more employees value a good work-life balance. The desire for more autonomy has never been as strong as in recent years. Employees not only want to be able to choose where they work, but also to have sovereignty over their time spent working. Time is increasingly seen as the new currency: **free time, flexibility and freedom of choice are part of the rewards.**

It is therefore not surprising that Flexibility (46%) was selected as the second most important dimension of rewards. **Employees would like to have a choice regarding flexible compensation components (mean value 6.51).**

Importance of flexibility to employees

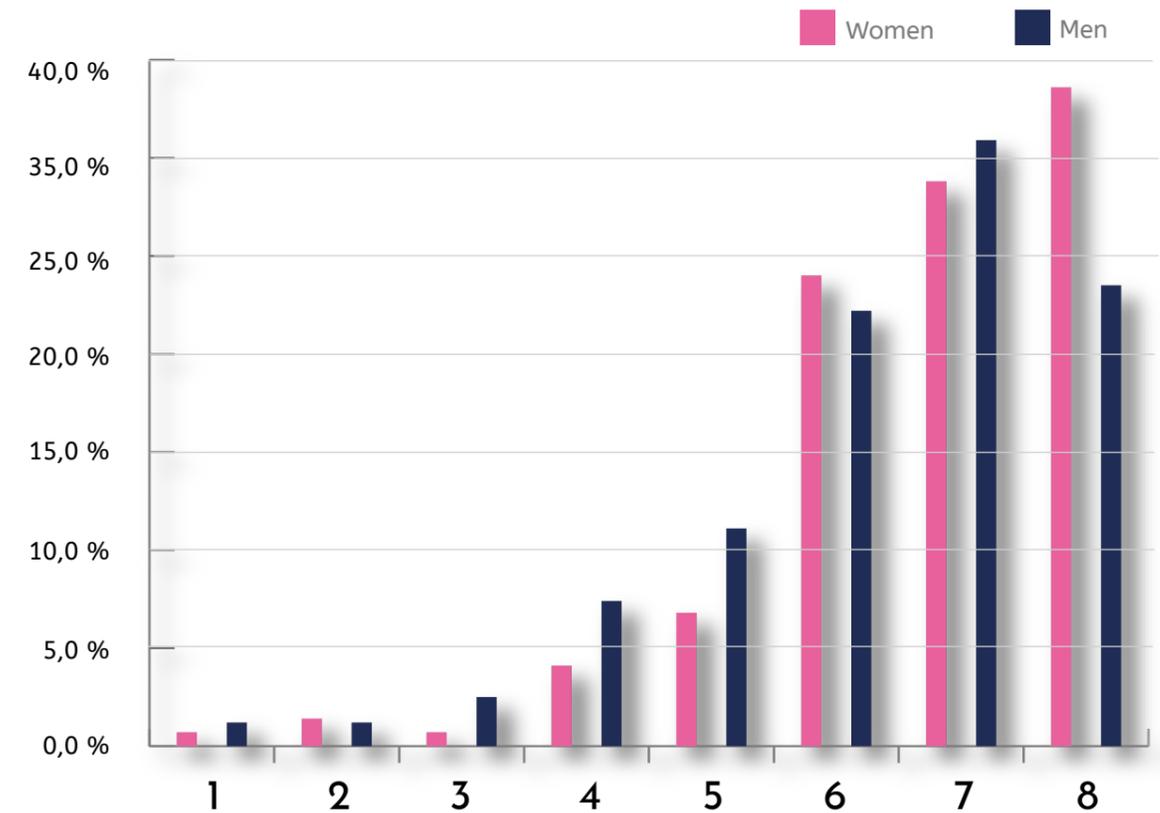


Rating the importance of make adjustments to the system according one's life situation (above) and the desire for flexible compensation components in general (below)

Traditional compensation systems offer only limited flexibility (i.e., cafeteria models). These systems, however, merely focus on additional salary components and benefits. New Pay goes a step further and allows employees to choose their total compensation according to their individual needs. For example, employees can choose between more vacation days, more pay, or fewer working hours per week. In addition to classic criteria, companies should consider other culture- and value-oriented elements as a basis for freedom of choice in addition to classic criteria - for example, social responsibility for family members or psycho-social burdens.

When needed, employees ought to be able to change their decisions derived through the flexibility of the remuneration system. The **desire to be able to adjust the compensation components depending on the life situation finds significant approval (mean value 6.63).**

Adjustment of flexible compensation components depending on the living situation



Importance of adaptation; Scale from 1 (not at all important) to 8 (very important)

The gender difference is evident: **Opportunities for adaptation are more important to women than men.** The reason, presumably, are classic gender roles which sadly persist. Women, for example, usually bear the brunt of parenting or partake in more care-work, which unfortunately, at times, impairs full-time employment. As a result, women often have a greater need for flexibility than men who work fulltime with little or no interruption.

Even organizations that are strongly performance- and control-oriented must ensure more flexibility in order to attract skilled workers.

As in hardly any other dimension, the Flexibility issue reveals that, irrespective of organizational culture: social change, the impacts of digitalization and the Corona pandemic are driver for change in remuneration. While flexible policies and compensation systems tend to be the hallmark of New-Work organizations, flexibility is becoming increasingly important for both employees and employers.

IMPLEMENTATION TIP: While flexible compensation systems are important, not every company needs the same level of flexibility. A good rule of thumb is, that the more flexible an organization's structures, processes, and working habits are, the more flexible the compensation system, its structures, components, and design, should be. Thus, for rather traditional companies, it makes sense to ensure flexibility in a structured and systematized way. Optional approaches akin to cafeteria systems, offering structure and simultaneously keeping the administrative effort manageable, merit serious consideration.

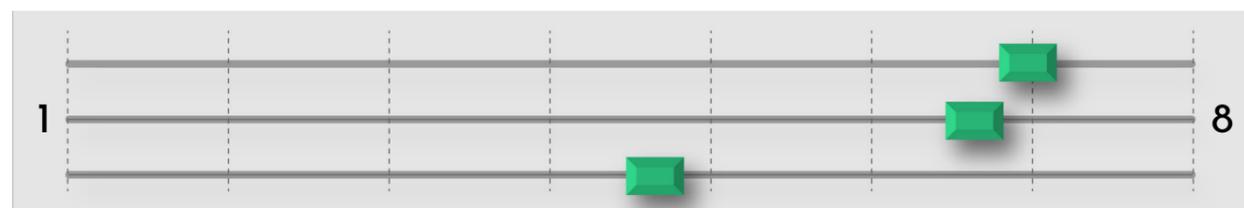
3

New Pay Dimension Transparency

Traditional compensation systems are often characterized by a lack of transparency. Long-standing, contractually regulated confidentiality clauses, even though often legally inadmissible, prevented open dialogues about compensation systems. Despite these restrictions, the experts in our qualitative survey indicated that employees nonetheless do talk about their salaries with their peers - leading to speculation, hearsay, and mythmaking. With greater transparency, New Pay takes this gossip out of the “hallways and coffee kitchens” and makes it public.

However, the degree of salary transparency varies. While in some companies it refers to salary processes or rough salary bands, others publish individual salary levels of all their employees - internally, or even externally. Since salaries are personal data, though, companies can only make them transparent with the consent of the employees. Voted in 3rd place, wishing for more salary transparency ranks high among many employees. Society, however, remains ambivalent about openly discussing compensation (Smit & Montag-Smit, 2019).

Importance of salary transparency for employees



Salary transparency with regards to the procedure (top) and with regard to the reference group (middle), importance of knowing the salary level of all employees (bottom)

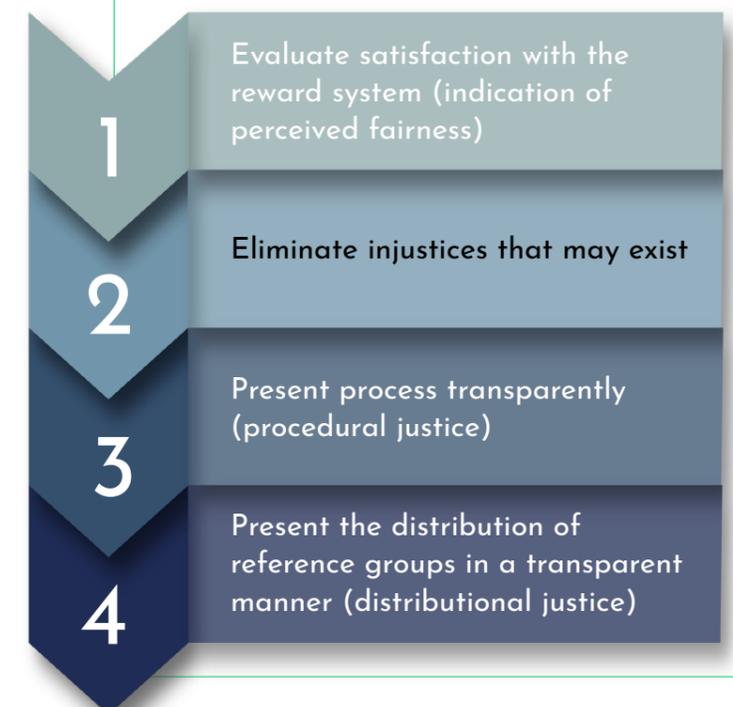
The results of our research project show: Generally, employees care more about understanding the compensation process (mean 6.97) than to know the distribution or the salary levels of other employees. They want transparency regarding the salary level of their reference group (an equal or equivalent job within the company, mean 6.65), but are rather reluctant learning about the salary level of all employees in the company (mean 4.67). Consequently, pay transparency seems to be an emotional issue, should be implemented prudently, and not as an end in itself.

Transparent reward systems prevent employees from speculating and reduce uncertainty about one's status compared to others. This interpretative framework promotes perceived fairness and has a positive effect on trust and acceptance. Transparency, however, can also lead to social conflict and foster tension in the workforce. Above all, caution is advised when salary differences cannot be explained - e.g., when negotiation rounds show substantial salary discrepancies over the years. The rule here is fairness before transparency.

Transparency helps to detect and eradicate injustice. If it is not used as an instrument for improvement, though, it can intensify, rather than reduce dissatisfaction.

By way of an EU bill for fair pay, discussions about the Gender Pay Gap or platforms that publish salary ranges, companies are pressed to deal with the issue of transparency. In the future, those companies striving to increase transparency would have a clear advantage over their competitors. Our results also underpin the importance of transparency for procedural justice. At the very least, the processes and criteria should be transparent, so that employees do not need to speculate about the adequacy of their compensation system.

IMPLEMENTATION TIP: Employers should assess the transparency needs of their personnel. The more important transparency becomes in the corporate culture, the more important it is to have a high degree of transparency in remuneration. Companies, though, should keep in mind that transparency is only then beneficial, if the processes and structures are adequate, comprehensible, and reliable. In dealing with the dimensions of fairness and transparency, we recommend the following course of action:



4

New Pay Dimension Participation

The participation dimension describes the possibility for employees to actively take part in the design, further development, and implementation of their compensation system. Determining its criteria, the weighting of components and the execution of remuneration procedures is then no longer exclusively handled by management, but instead moving to **the center of the organization**.

In our study, the participants generally endorse participation in the (further) development of the compensation system (**mean value 5.55**). Those already involved in the design of compensation systems, rate the participation of employees as more relevant than others (**mean values: participates: 6.04; does not participate: 5.40**).



Importance of participation for employees



Importance of participation for employees who design the compensation system (top) and for employees who do not take part in the design of the compensation system (bottom)

A likely explanation for this discrepancy is that employees already involved in the design of the compensation system are better equipped to assess its feasibility and benefits. Furthermore, our qualitative expert survey found that even if participation is offered or wished for(!), employees show no interest in participation when they perceive the system to be fair and their interests were accounted for.

The participation dimension reflects the employees' need for partnership and desire to be included on an equal footing. A participatory compensation system is a collective agreement that integrates the various individual interests of employees or employee groups. Our study demonstrates that opportunities for participation boost up acceptance and satisfaction. Participation also promotes a more holistic view of the compensation system. The extent to which the planned processes correspond to the reality employees experience, makes them more competent in assessing the modus operandi of their compensation.

IMPLEMENTATION TIP: There is a close dependency between corporate culture and the recommended level of participation. The more importance an organization places on collaboration, and puts it into practice, the more important it is for employees to participate in the remuneration system. Organized and systematic participation is essential for constructive employee participation. This includes good moderation of participative processes and clear, comprehensible (decision-making) rules, along with expertise and system transparency of the overarching strategy and financial resources.

5

New Pay Dimension

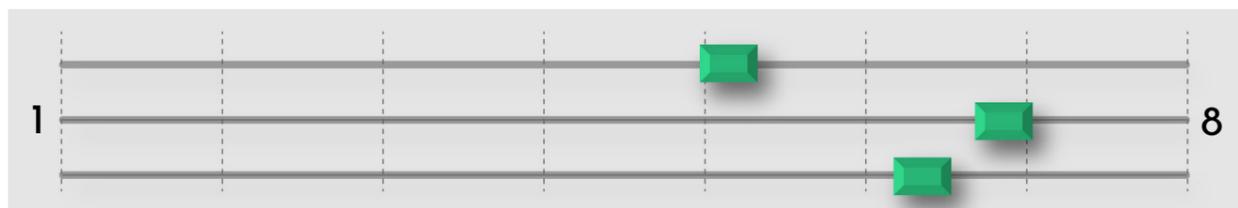
We-Thinking

Classic compensation is often characterized by individual, performance-based salary components intended as a control instrument and motivational incentive. This was common practice for a long time, but in recent years the trend steadily shifted from individual bonuses to collective profit-sharing (Grunau, Kampkötter & Sliwka, 2021). In contrast to individual bonuses, team, group- or organization-wide bonuses (“we-bonuses” vs. individual bonuses) have a positive effect on collaboration, integration of different perspectives, and a free flow of information.

Once employees understand **performance** as a **collaborative value creation process** ensuring success through cooperation, there is a need for alternative incentives and frameworks (Note: These should be aligned with the company’s purpose and value creation).

The participants were impartial to whether team bonuses make more sense than individual financial incentives (**mean 5.16**). However, they would all like to benefit equally from the company’s success (**mean 6.87**).

“We-bonus”



Employees agreeing that team bonuses make more sense than individual incentives (top) vs. employees should benefit from the company’s success (bottom); Rating of the statement: “The meaningfulness of the work is just as important to me as bonus payments” (middle)

Employees are often (still) focused on individual performance bonuses because these supposedly convey personal appreciation. When implementing “we-bonuses”, though, the importance of personal feedback should not be neglected. This is where non-monetary aspects come into play: intangible incentives such as **meaningfulness of the work**, free time or appreciation become as relevant to rewards, as financial incentives. “The meaningfulness of the work is just as important to me as bonus payments” received significant agreement in our survey (**mean value 6.38**).

In addition to collective profit sharing, “we-thinking” also stands for **value orientation** in the design and further development of reward systems. The “we” spans beyond the company, encompassing society and the environment, as well. Approval increases when salary processes and criteria defined in the remuneration system, are based on common values. Regulations are then accepted, even if they deviate from personal preferences or interests.

IMPLEMENTATION TIP: The extent to which companies should completely forego individual bonuses depends not only on the employees’ radius of activity, but also on the culture. The more community, collaboration, and collective performance, evolve - the more suitable variable compensation based on salary components (e.g., team or company bonuses), will become. The field of activity plays a substantial role, as well. In many lines of work, cross-functional collaboration or cooperation with customers is essential - which is why, even in sales, or software programming, “we-bonuses” are gaining importance. Enterprises should therefore ensure that their compensation system does not contradict shared values, but rather builds on them.

6

New Pay Dimension Permanent Beta

In addition to the flexibility of compensation components, New Pay also includes the **adaptability** of the entire compensation system to changing conditions (permanent beta). Compared to traditional compensation systems, characterized by rigid processes, and in part, obsolete regulations, **New Pay** responds swiftly to fluctuating internal and external needs. In the spirit of a learning organization, misguided mechanisms of action in the current remuneration system should be promptly removed.

An eagerness for change would benefit virtually all industries today and is the reason why the Permanent Beta dimension gains momentum, irrespective of corporate cultures geared towards innovation, agility, and a willingness to experiment. Our findings confirm that employees want their compensation system to evolve when there is a need for it (**mean 7.13**).

Adjustment of reward systems



Agreement by employees that compensation systems should be developed as needed.

A need for adjustment can be triggered by economic fluctuations, revised organizational cultures or a shift in preferences and values of the workforce.

Depending upon the market situation of the organizations, the labor market and the composition of the workforce, employees may perceive a certain distribution of salary budgets as fair at one point in time, and later as outdated.

The participants **significantly agreed to the benefit of compensation systems corresponding to the corporate culture (mean value 6.77)**. The more employees embrace this view, the more open they are to the further development of compensation systems, if necessary.

Cultural fit of rewards



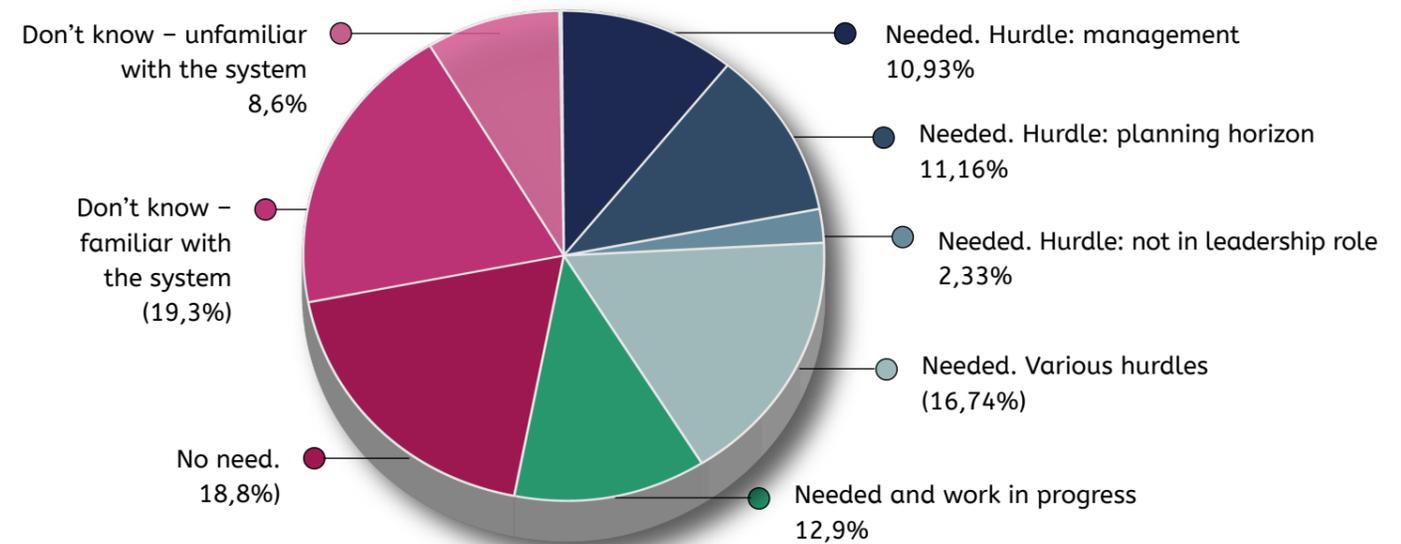
Agreement by employees that compensation systems should correspond with the corporate culture.

The need for adjustment pertaining compensation is overwhelming: the question of whether a change in compensation would be necessary was affirmed by more than half of the participants (53.3%) in our quantitative study. After all, 12,1% of them are employed by enterprises which are already addressing this issue; for the other 41.2% percent, an adjustment or further development is still pending.

Imprecise forecasts and predictions, the repercussions of the Corona pandemic or changes in corporate structures (11.2 %), managers (11%) plus a diversity of other reasons (16.7%), undermine this endeavor. According to our results, employees without management responsibility, virtually never oppose change (2.3%).

Fewer than 20% of our participants believed that their compensation system sends the right message on how to thrive as an organization, while 19.3% had no opinion whatsoever whether a change in their current remuneration system is necessary, despite being familiar with it. This implies a classic distribution of tasks and a rather rigid understanding of roles, in which employees abstain from passing judgment on regulations, even if directly affected by them. We also found out, that 8.6% of the participants were unacquainted with their reward system and unsure of how to assess the question.

Need for Change of The Reward System



Leaders see the need for change significantly more often (64.7%) than employees without management responsibility (47.5 %). Employees without management responsibility are even less likely to be confident in their judgement as to whether a change in the remuneration system is necessary (35.3%), than leaders (11.8 %).

Apparently, many employees do not know that a change in the compensation system is currently in progress. A quarter of the participants involved in their compensation system indicated that a change is in the works, compared to barely 8% of employees who were not involved. Furthermore, those engaged in the process were significantly more convinced that they have now an adequate compensation system. Within this group, 31.7% believed this to be true, vs. 15% of those not involved in the design of the compensation system. This clearly shows that there is a lack of communication and integration of the employees' interests.

IMPLEMENTATION TIP: Identify and address necessary potential for change, by not only following current trends, but reflecting upon real need and blind “activism”, as well. We recommend using reflective questions scrutinizing the status quo, e.g.:

- What works well?
- Where is need for change and action required?
- Which contradictions and areas of tension are evident?
- Which are the recurring conflicts between employees and leaders?
- Where is a need for honoring qualification and communication regarding pay procedures?

Thus, to ensure acceptance and fairness when adjusting their compensation systems, organizations should verify whether its overall system, structure, and individual components, remain logically comprehensible and reasonable to its workforce.

7

New Pay Dimension Self-Responsibility

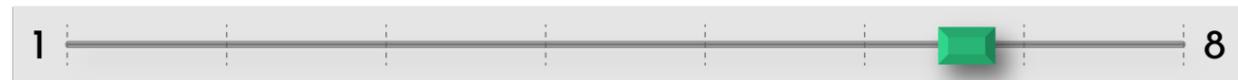
Self-responsibility for rewards means being able to co-determine or co-design one's own compensation, or that of other employees. Genuine employee participation goes far beyond the usual form of salary negotiation. Individual negotiations tend to be characterized by an imbalance of power and information, detrimental to the employees.

As political behavior, it can also undermine the strive for fairness. Self-responsibility and corresponding participation are hence only possible when relevant information is made available and **salary settings** take place **on an equal footing**. Our results clearly show that employees want to have a say in issues pertaining their salaries (**mean value 6.74**).

This might very well be because managers already review and decide on compensation matters. Across the board, the low approval ratings indicate that managers also prefer not to interfere with the compensation of their colleagues. The expectation that employees with greater personal responsibility earn similar amounts to managers, is by far more evident.

To gain a better understanding pertaining the needs of employees nowadays, we asked specifically **who should decide on compensation**.

Co-determination of own salary



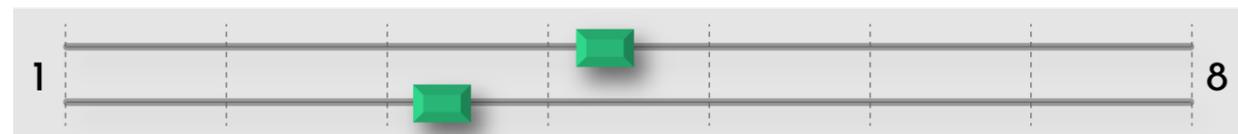
Agreement of employees to the statement that they want to have a say in their own salary

Self-set salaries have a positive impact on the personnel's creativity, autonomy competence, loyalty to the organization and intrinsic motivation. When employees perform with a high level of autonomy conducive to the success of the organization, they expect a stronger say in salary issues and that taking responsibility is being appreciated and financially rewarded. "Employees without formal management responsibility, but who take on responsible tasks, should earn just as much as managers" received

significant agreement in our survey (**mean value 6.38**).

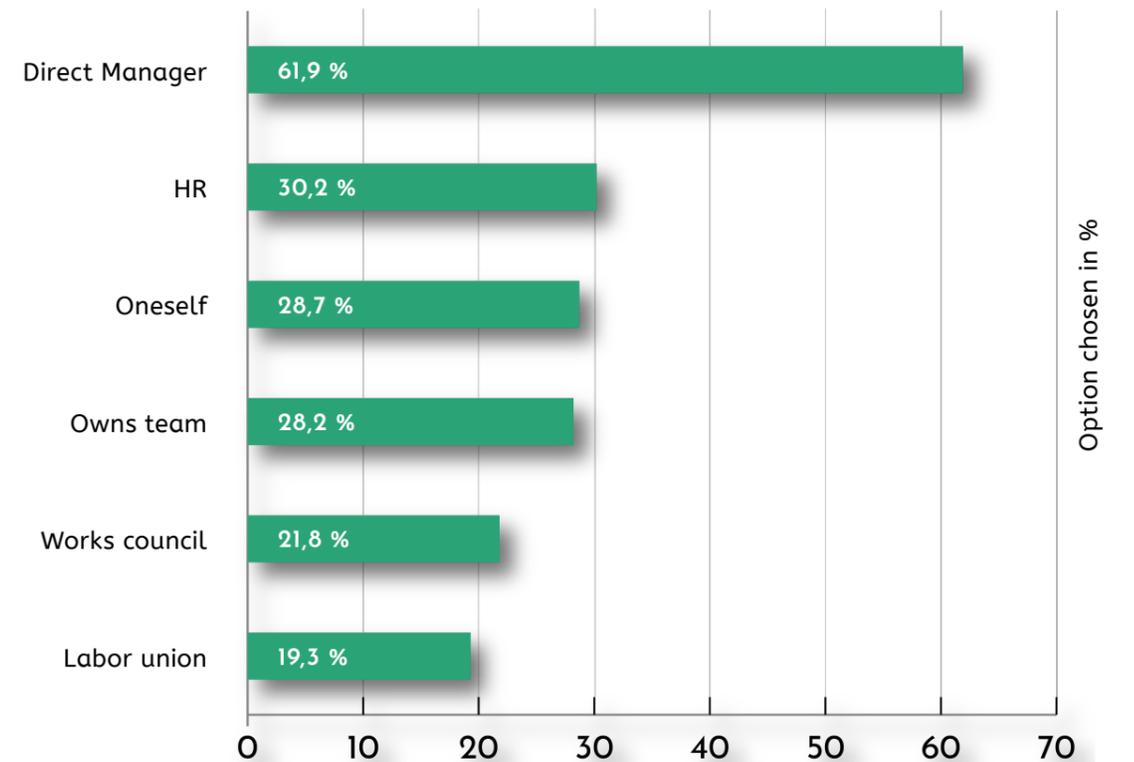
While our participants want to have a say in their own pay, they are hesitant discussing the compensation of their colleagues. Those with managerial responsibility, however, are less reluctant to have a say in the compensation of others, than those without (**mean score managerial responsibility: 4.36 vs. no managerial responsibility: 3.63**).

Co-determination on the salary of colleagues



Consent of managers to have a say in the salary of other employees (top) and consent of employees without management responsibility to have a say in the salary of others (bottom).

Who should decide about salaries?





As illustrated above, the majority is more likely to trust their direct managers with salary decisions (61.9%), than any other instance.

The group comparison revealed that employees who selected “personal responsibility” as one of the two most important dimensions, predominantly choose Oneself (55.6 %), vs. those who did not favor “personal responsibility” (significantly lower at 44.4%).

The fact that teams and individual employees are increasingly operating in a self-organized manner is one of the current trends in the world of work. Transferring this development to self-responsibility is not an easy task. Our study shows that **self-responsibility for pay is only desired in New-Work organizations.**

Moreover, the expert-interviews revealed another restriction: self-organization is easier to implement in smaller companies with simple organizational structures. As the size of the company increases, even highly self-organized enterprises must implement either some form of structure that limits self-responsibility for rewards, or transfer it to another instance (e.g., a salary council). Thus, responsibility is again focusing on the system, instead on individual pay – a solution strongly related to the dimension of participation.

IMPLEMENTATION TIP: While New Pay approaches are beneficial in the other six dimensions, “self-responsibility” is the exception: Many employees do not (yet) want to take responsibility for their own salaries, but then again, not many organizations endorse “self-responsibility”.

Consequently, finding out whether one’s own organization fulfils the prerequisites (e.g., because it has already developed New Work to large extent or has a simple organizational structure), is imperative. For organizations with a greater need for structuring, a participative implementation would be a first step in the right direction (e.g.: by entrusting selected employees with a representative role).

For self-responsibility in one’s own compensation to work, employees must distinguish between personal interests and corporate interests, weighing them up against each other. This requires a remarkable degree of self-reflection and it is easier for employees in smaller, more manageable organizations.

What's behind it?

Conclusion and final remarks



New Work needs New Pay – that was the premise of New Pay and its seven dimensions. The basic assumption was that a new form of collaboration also requires new forms of rewards. Our study shows that corporate culture does indeed have a major influence on the design and effectiveness of compensation systems. Due to social changes and shifting values within the workforce, even high performance-oriented organizations with traditional models of power distribution in the organizational structure, need New Pay.

Corporations should address the need for change, preferably, by giving the diverse perspectives of their staff serious consideration. A participatory assessment is an essential first step on the road to more commitment. Companies need to check if their compensation system suits the corporate culture and provides a helpful, coherent framework for progress. The analysis of the corporate culture can be carried out, for example, via maturity models.

Companies can also refer to the New Pays dimensions through iterative learning and development phases in line with the Permanent Beta principle, when adapting their compensation systems to organizational- and environmental changes.

Before companies begin to (re)design their compensation system, they should analyze the cultural diversity of their organization. Compared to homogeneous cultures, where the necessary requirements are easier to derive at, heterogeneous cultures require greater flexibility in the compensation processes, and if necessary, also area-, or country-specific solutions. In this case, it is important to identify possible subcultures, and analyze their fit with the compensation system.

THE FOLLOWING QUESTIONS MAY BE HELPFUL IN DETERMINING THE NEED FOR CHANGE:

- How satisfied are employees with the current compensation system?
- To what extent does the remuneration system support the sustainability of the organization?
- Which areas of tension are noticeable in the organization?
 - Are there differences in departments or occupational groups?
 - What is the focus of consideration: individual or team?
- Which areas of tension currently give rise to the greatest potential for conflict?

FOUR LESSONS FROM PRACTICE

The experts in the qualitative survey, who already reward according to the New Pay approach, point out **four main lessons** from their “New Pay journey”:

I. Breaking the taboo: Concerns regarding pay are not easy to talk about, but definitely worth it! Those daring to align the compensation system with the organizational culture, will profit from committed staff, dedicated to the company.

II. baby-steps implementation: Working with a team of volunteers on rewards, takes the tension out. Start with a pilot team. Adjustments can be made incrementally – there is no need for instant solutions. Share the experience gained with the employees on a regular basis.

III. Idealism with pragmatism: No compensation system will make ALL employees happy. There will be individual employees whose personal preferences and values differ from the novel solution. Employees should be offered room to discuss all aspects of their personal needs. While fairness is almost never entirely achievable, reaching the best possible match between employees’ personal needs, and those of the organization, remains the common goal.

IV. Changeloop: Nothing is set in stone. The culture of an organization and the external demands are prone to change. That is why making adjustments, by putting the compensation system repeatedly to the test, is important. Regular retrospectives and feedback loops have proven to be helpful, as well.

There is no blueprint for the ideal solution. **The design of the compensation system is as unique as the culture of the organization itself.** What works for one company may cause problems in another. Each organization should therefore develop and implement an individual compensation system, tailored to its specific needs.

We started by posing the question New Work needs New Pay. Who else? and came to the conclusion: **All companies need New Pay – to what extent depends on the corporate culture.**

Yes, there will be challenges on the way but also novel and valuable insights leading to useful solutions.

We wish you a brave, successful and rewarding New Pay journey.

Research Design About the study

This study report is based on final thesis of Melanie Decker and Hanna-Lena Buhl in the M.Sc. Human Resources Management at Pforzheim University under the supervision of Prof. Dr. Stephan Fischer.

In cooperation with the “New Pay Collective”, employees and company representatives were surveyed on both the corporate culture and the remuneration system applied in the company using a qualitative expert survey and a quantitative online survey.



Qualitative survey

Participants: Experts from 12 companies in Germany, Austria and Switzerland.

Composition of the sample:

6 respondents each at the orange and green maturity level

Type of companies: Size from 25 to 10,000 employees, start-ups, medium-sized companies and global players

Industries: diverse (consulting, electronics, mobility services, IT, software development, medicine, textiles, communication, advertising, industry, pharmaceuticals)

Positions: HR manager, compensation manager



Composition of the sample (qualitative)

Figure K: Sampling Scheme

No.	Position	Industry	Ownership structure	Number of employees	Location DACH	International scope	Diversity of Portfolio	Type of collective participation	Complexity ¹	Maturity level ²
B1	HR-Consultant	Consulting	Partnership	ca. 100	D	national	(rather) low	n/a	(rather) low	Orange
B2	Head of People DACH	Electronics	Public (partly)	ca. 500; Group ca. 7.000	D	32 countries; HQ (UK)	(rather) high	Work Council & EU Employee	(rather) high	Orange
B3	HR Business Partner	Mobility Services	Public (until 2017: family owned)	ca. 600; Konzern ca. 10.000	D	40 countries HQ (F)	(rather) high	Work Council	(rather) high	Orange
B4	Service Owner Finance	IT/Software Development	Single owner	185 – 190	D	national	(rather) low	None	(rather) low	Green
B5	Remuneration Council (+Marketing)	Medical	Purpose Organsiation	25	D	n/a	(rather) low	None	(rather) low	Green
B6	Director HR & Organisation	Textil	Familiy owned, Single owner	ca. 550	D	2 countries +3 int. employees)	(rather) high	Employee Participation	(rather) high	Green
B7	Career & Salary Framewok	Agentur	Single owner	75	D	n/a	(rather) low	None	(rather) low	Green
B8	HR Manager	Industrie	Familiy owned, Single owner	66 –70	A	national	(rather) high	Collective Agreement (A)	(rather) high	Orange
B9	People & Organisational Culture	Textile	Single owner	ca. 250	CH	27 countries	(rather) high	None	(rather) high	Green
B10	People & Culture	Agency	Privaty Equity	95/96	D	n/a	(rather) low	None	(rather) low	Green
B11	Specialist Comp & Ben	Pharma	Single owner	ca. 10.400	D	120 countries	(rather) high	Work Council & Tariff	(rather) high	Orange
B12	Head of Payroll DACH	IT		4.600 – 4.800	D	70+ countires	(rather)	Work Council	(rather) high	Orange

¹ Complexity is evaluated based on the number of employees, international scope, diversity of portfolio and regulations (as in type of collective participation). For the assessment as (rather) complex 2 out of 4 requirements need to be met:

- Number of employees > 150 (the limit of 150 is based on Dunbar’s number as a cognitive limit of social relations (Dunbar, 1993))
- International locations (individual employees working abroad are disregarded)
- Diversity of portfolio – high (e.g., industrial or commercial)
- Regulation by work council / collective agreements is given

² The assessment of the maturity levels from the preliminary analysis are confirmed by the results of this study, which is why no further differentiation is made here.

Quantitative study

The quantitative study results are based on the data collected via an online questionnaire between November 16, 2020, to December 31, 2020. 418 subjects participated in the survey and answered questions about the culture and compensation system of their companies.

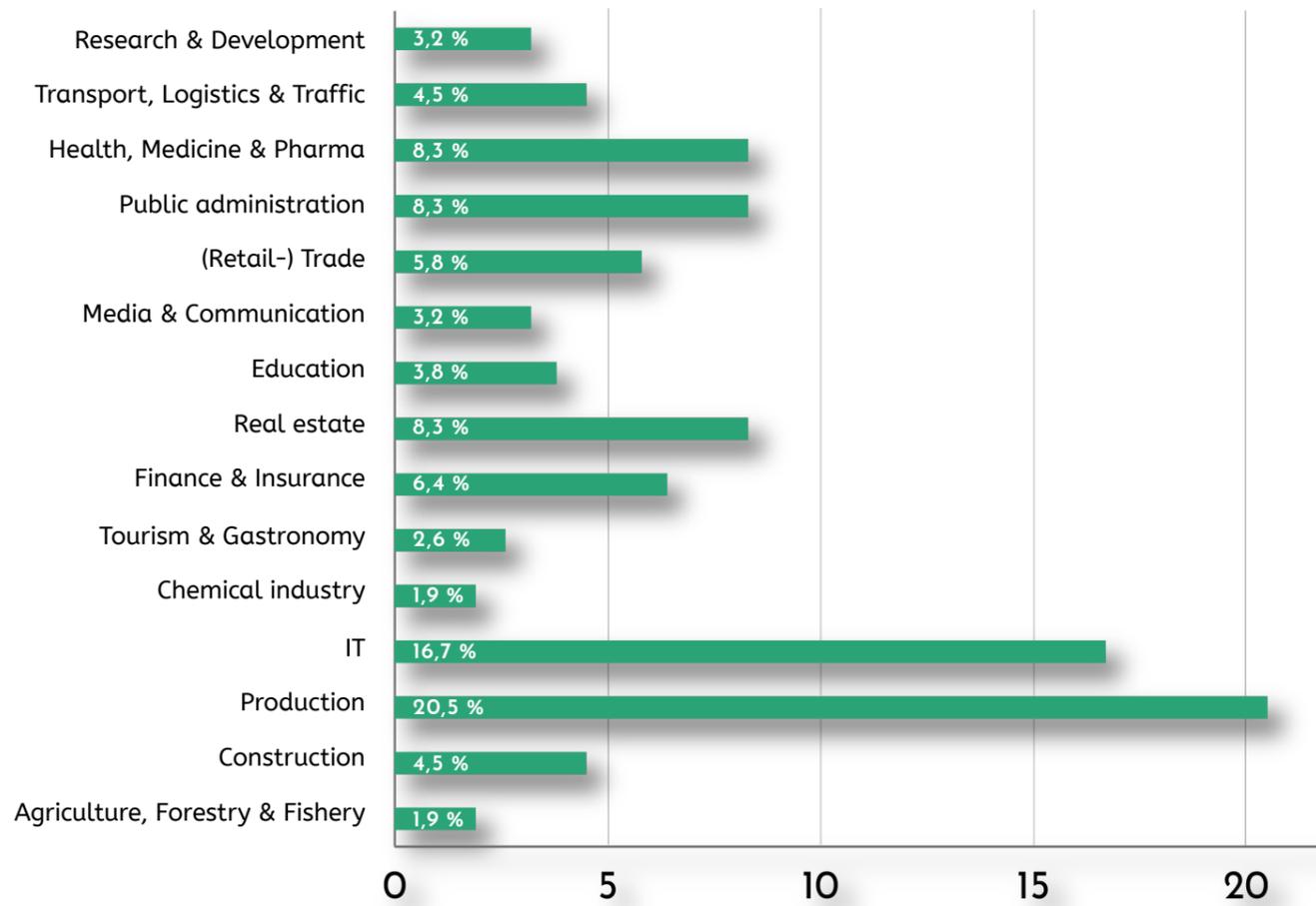
They were employed by a diversity of organizations, varying in size and industry sectors. For most of the questions (apart from those pertaining to the need for change unrelated to cultural maturity),

we evaluated the answers from 202 employees with a cultural maturity level.

The participants were divided into two groups: Those who were actively involved in the design of compensation systems in their company ("compensation experts") and those who were not ("non-compensation experts").

Distribution of industries within the sample (quantitative)

Figure 14: Distribution of industries within the sample



Source. Own representation

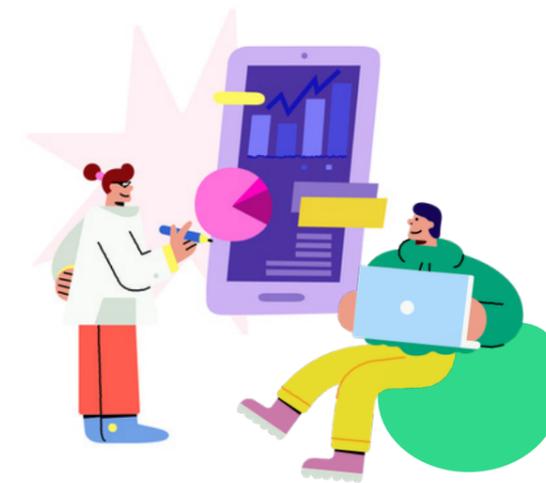
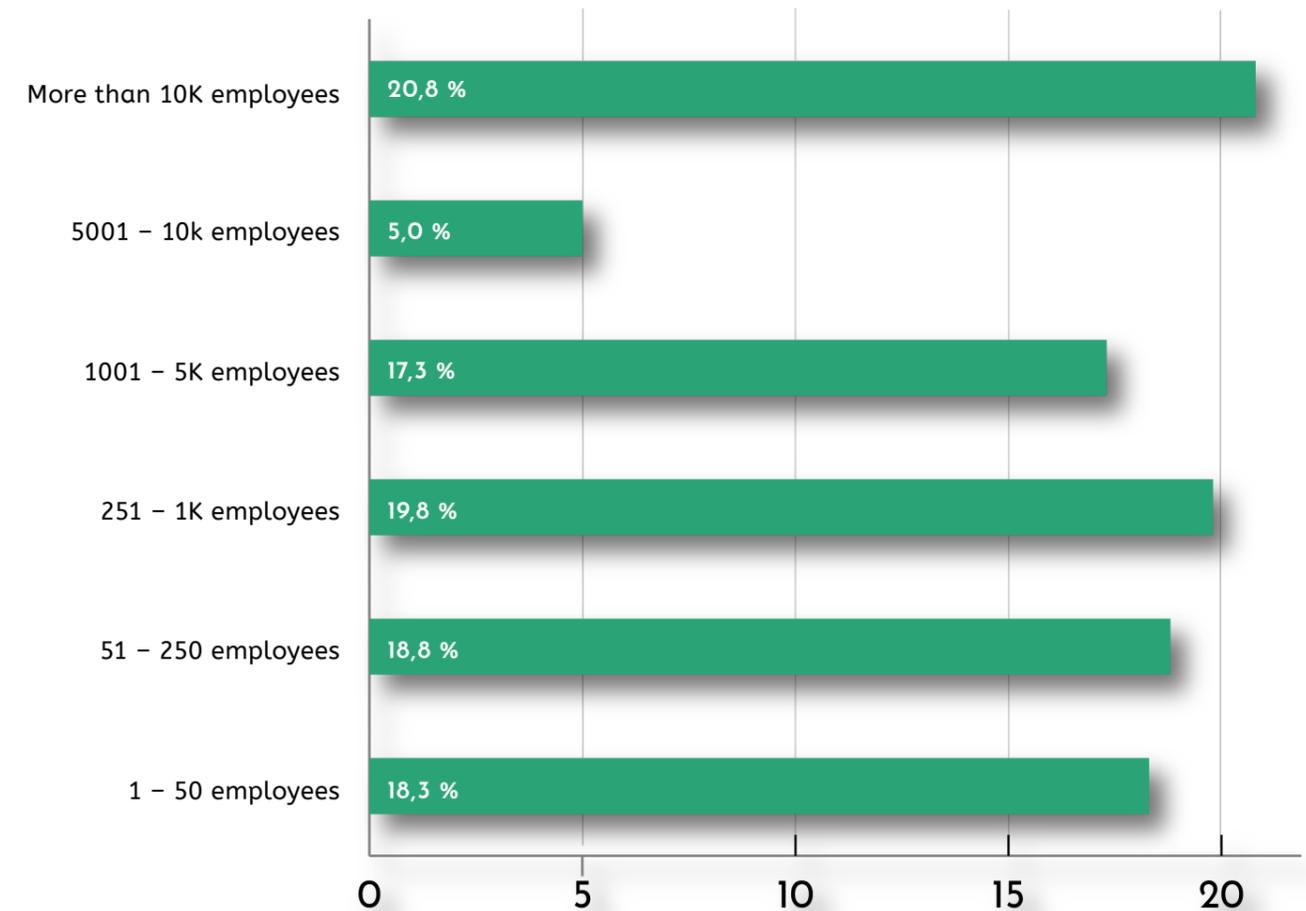
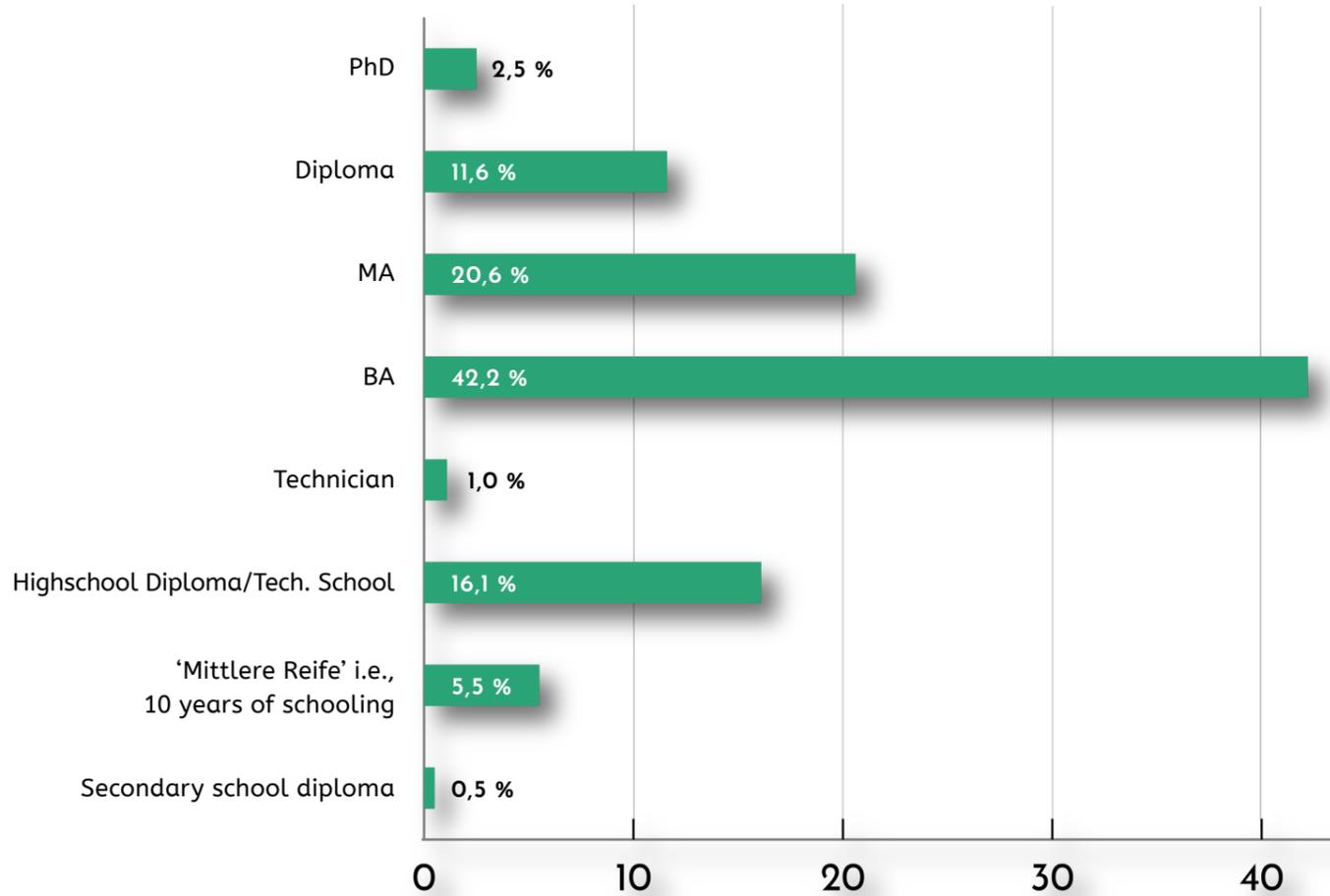


Figure 15: Distribution of organization size



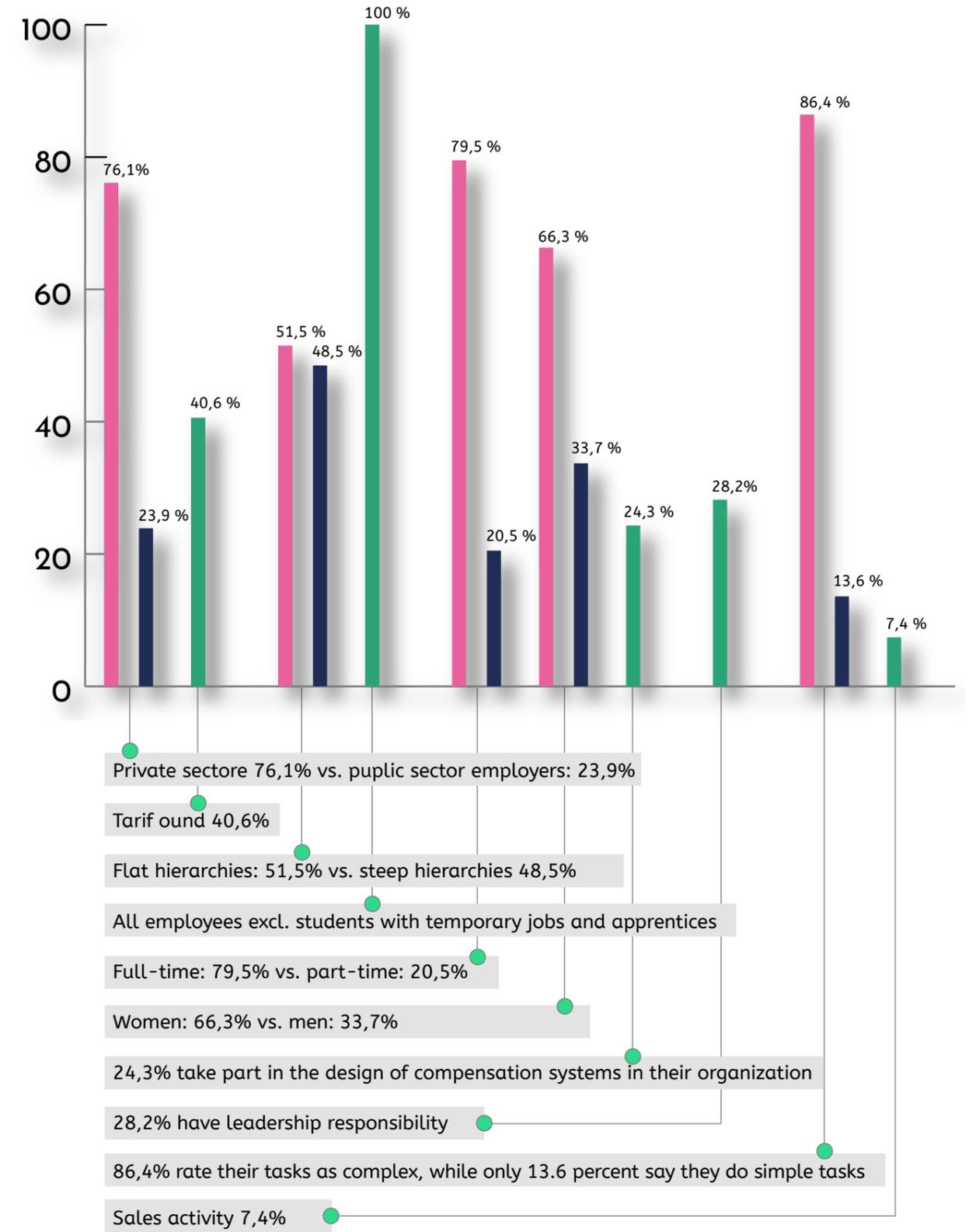
Source. Own representation

Figure 16: Educational Levels within the sample



Source. Own representation

Organizations



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ABOUT US

The New Pay Collective is an alliance of organizational facilitators, consultants and compensation experts who work together to develop the concept of New Pay across organizations.

More information about current New Pay initiatives is available on: www.new-pay.org verfügbar.

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