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## Assessing Rewards Effectiveness: A SURvey of Rewards, HR, and Line Executives

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# Assessing Rewards Effectiveness: A Survey of Rewards, HR and Line Executives

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**H**uman capital is typically the first or second largest financial expenditure most organizations make, and senior executives have learned that it must be managed strategically and efficiently. This is, in large part, the driving reason why senior management is asking rewards professionals to justify recommendations for pay increases, incentive plans, employee-benefits programs and investments in non-financial rewards such as career development, recognition and organization climate improvement.

However, as was learned from a related study with WorldatWork in 2005, 9% of organizations reported that they formally evaluated the return on investment (ROI) of its compensation programs and 62% do not assess their compensation program – either formally or informally (Scott, McMullen, and Sperling 2005). A second study in 2013 found that attempts to use formal ROI measures to evaluate rewards programs had increased to 11% (Scott and McMullen 2013). Although this was a modest 2% increase, a staggering 48% of respondents said they planned to assess rewards programs more rigorously and frequently during the next two to three



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years. Other research, primarily conducted in the United Kingdom, confirms limited focus in rewards program evaluation (Corby, White, and Stanworth 2005; Armstrong, Brown, and Reilly 2011). A UK E-rewards survey (2009) of rewards and HR professionals found that reluctance to evaluate pay programs was primarily attributed to lack of resources and time (48%) but also included the lack of information or data (19%), senior-management indifference (15%), organizational changes (10%) and lack of analytical skills (8%).

In recent years, senior executives have placed more importance on human capital in terms of optimizing productivity and cost effectiveness, engaging employees, developing and retaining talent and aligning the rewarding of human capital with business strategies (for example, the “CEO Challenge 2014” report). In this regard, rewards professionals are increasingly being asked to provide evidence that rewards strategies, programs and policies do indeed support these core human capital objectives. The primary method for accomplishing this is to develop methods and supporting processes to assess rewards-program effectiveness.

ROI analysis can provide important information in terms of the contribution rewards programs make to the organization’s “bottom line” and providing senior management with a means for comparing investment alternatives for scarce financial resources. However, as spelled out in the authors’ previous research (Scott, McMullen, and Morajda 2006), assessing the effectiveness of rewards programs more comprehensively offers substantial benefits including:

- 1 | Identifying problems early in a rewards program’s rollout so corrections can be made before resources are wasted or other damage is done
- 2 | Providing necessary feedback for improving program effectiveness in a constantly changing business environment
- 3 | Holding management responsible for implementing the rewards program
- 4 | Building employee and management commitment to the rewards program by engaging them in the evaluation and using their input to correct problems
- 5 | Reinforcing pay values, policies and programs to employees and managers.

The focus of this research is to:

- 1 | Examine the extent to which senior management is committed to evaluating the effectiveness of its rewards programs
- 2 | Identify how rewards programs are evaluated
- 3 | Assess the effectiveness of these evaluations methods
- 4 | Identify the level of commitment to evaluate rewards programs in the future
- 5 | Identify the challenges associated with assessing rewards programs.

There has been a change in the assessment of rewards programs as predicted by rewards professionals (Scott and McMullen 2013; McMullen 2009). By examining the interest in assessing rewards programs, the methods used and perceptions of effectiveness of those methods, this study took a more comprehensive approach than previous research on the topic. These findings are used to formulate

recommendations as to how rewards programs can be most effectively evaluated so as to optimize their value and impact on organizations.

#### DATA COLLECTION METHODS AND RESPONDENT CHARACTERISTICS

Members from U.S.-based compensation associations (e.g., Columbus Compensation Association - Ohio; Chicago Compensation Association - Illinois) and Hay Group (an HR management-consulting firm) solicited rewards, HR and senior executives to participate in the research initiative between March and April 2014. The questionnaire required 10 to 15 minutes to complete.

Of the 386 respondents participating in the study, 60% were rewards professionals, 24% were HR professionals and 16% were C-suite executives. Most respondents were from North America (69%) and Europe (29%) with a few from Asia (2%) and Latin America (1%).

Participating organizations were fairly evenly distributed by size. Approximately 29% of respondents represented organizations with fewer than 1,000 employees; 26% had between 1,000 and 5,000 employees, 24% had 5,000 to 20,000 employees; and 22% had more than 20,000 employees. When size is defined by revenue, organizations are again divided into four categories: those with revenues less than \$250 million (23%), \$250 million to \$1 billion (24%), \$1 billion to \$5 billion (28%) and more than \$5 billion (26%).

Respondents were from a diverse range of industries; the largest representation came from manufacturing (22%); finance and insurance (14%); retail trade (10%); professional, scientific and technical services (8%). The remaining 46% was distributed throughout other industries. The organizations were also diverse in terms of ownership. Respondents represented publicly traded/listed companies (44%), privately owned companies (34%), government (9%), not-for-profit (8%) and other (5%).

Respondents represented a good mix of companies from North America and Europe.

Findings from the questionnaire are presented as per the five areas of focus identified in the previous section, followed by conclusions and recommendations as to how management can assess rewards program effectiveness.

#### INTEREST IN REWARDS ASSESSMENT

An important driver of the level of assessment of rewards policies and programs is the interest of senior management in determining their effectiveness. Table 1 shows the level of interest C-suite executives, rewards and HR professionals say that senior leaders have for assessing effectiveness of rewards programs on specific dimensions. These percentages represent the relative share of respondents who indicated either interest or considerable interest in the specific approach for assessing rewards-program effectiveness.

C-suite executives indicated they are most interested in how rewards programs impact employee motivation and effort. They also expressed strong interest in

Table 1 | Senior Management's Interest in Assessing Rewards Effectiveness

Items	C-suite % Interest	HR % Interest	Comp.% Interest	Average % Interest
The ROI of the organization's entire suite of rewards programs	60%	54%	58%	58%
The ROI of individual rewards programs (i.e. base, short-term incentives, long-term incentives, benefits, etc.)	65%	57%	62%	61%
How externally competitive the rewards program is for benchmark jobs	71%	73%	78%	76%
How total labor costs compare with competitors	78%	75%	64%	67%
How rewards programs align with the business strategy and culture of your organization	75%	75%	78%	77%
How rewards programs link to enterprise or corporate performance	82%	77%	81%	79%
How rewards programs link to team, department or unit performance	63%	62%	59%	60%
How rewards programs link to individual performance	78%	74%	75%	75%
How well employees understand their rewards programs	74%	67%	62%	65%
How rewards programs support overall employee engagement or commitment	78%	78%	69%	72%
How rewards programs affect employee motivation and effort	83%	75%	62%	68%
How rewards programs affect employee retention or turnover	72%	72%	64%	68%
How rewards programs compare to "best practices" in other organizations	71%	65%	66%	66%
How rewards programs may discriminate based on protected class status (e.g., age, gender, race)	40%	39%	36%	38%

assessing how rewards programs align with the business strategy and culture of their organizations, how rewards programs link to individual performance, how labor costs compare to competitors and how rewards programs support overall employee engagement or commitment. Senior management's stated interest in employee motivation, engagement, alignment and link to performance indicates a fundamental understanding that rewards program effectiveness is multidimensional and solely not a cost reduction or ROI assessment issue.

Senior leaders indicated the least interest in how rewards programs supported protected class/diversity initiatives; the ROI of the organization's entire suite

of rewards programs; how rewards programs link to team, department or unit performance; and the ROI of individual rewards programs (i.e., base, short-term incentives, long-term incentives, benefits, etc.). Given the reported increased emphasis in assessing ROI in recent years by CEOs and CFOs, it is interesting that ROI assessment was a least-preferred rewards-assessment strategy. As is described later, senior leaders are seemingly more interested in the leading indicators of rewards effectiveness rather than the *trailing* indicators of effectiveness, such as formal ROI measurement.

The disconnect between the interest of C-suite leaders relative to HR and rewards professionals perceive the interests of senior management to be is apparent in Table 1. How rewards programs affect employee motivation and effort was the top priority of C-suite executives (83%), but rewards professionals indicated that their perception of C-suite interest on this dimension was toward the bottom (62%).

C-suite executives also indicated that they were considerably more interested in employees understanding their rewards programs, the relationships between rewards and retention and how labor costs compared with competitors – more so than rewards professionals. However, given the emphasis on ROI, note that both C-suite executives and rewards professionals had low relative interest in ROI-related assessment processes. Impact of rewards programs on discrimination and protected classes and the link between rewards programs and team, department and unit performance also had low relative interest from each group.

#### METHODS USED TO ASSESS REWARDS-PROGRAM EFFECTIVENESS

Table 2 shows the extent to which rewards assessment methods are reported to be in use within their organizations. According to respondents, the methods most often used to assess program effectiveness are:

- ☐ Exit interviews or surveys of departed employees (92%)
- ☐ Informal manager feedback regarding rewards-program effectiveness (91%)
- ☐ Purchased compensation surveys from compensation-survey providers to compare compensation levels (89%)
- ☐ Informal employee feedback regarding rewards-program effectiveness (88%)
- ☐ Formal feedback from employee engagement surveys (85%).

The methods all survey participants reported as least used:

- ☐ ROI calculating rewards-program investment relative to results (58%)
- ☐ Rewards-focused formal manager feedback, such as surveys, focus groups or interviews (59%)
- ☐ Rewards focused formal employee feedback, such as surveys, focus groups or interviews (61%)
- ☐ Assessed value of human capital, such as replacement cost of talent (63%)
- ☐ Free compensation surveys from Internet sites or recruiting firms to compare compensation levels (64%).

**Table 2 | Methods Used to Assess Rewards Programs Effectiveness**

Items	C-suite % Used	HR % Used	Comp. % Used	ALL % Used
Return on investment (ROI) calculating rewards program investment relative to results	53%	57%	59%	58%
Employee or work unit productivity	66%	67%	67%	67%
Assess the degree to which rewards programs are aligned with the business strategy	71%	77%	88%	82%
Key talent turnover rates among high potential employees, key jobs or high performance employees	72%	75%	85%	81%
Bench strength (staffing pipeline) for key positions	72%	80%	85%	82%
Informal employee feedback regarding rewards-program effectiveness	88%	87%	88%	88%
Informal manager feedback regarding rewards-program effectiveness	92%	88%	93%	91%
Formal feedback from employee-engagement surveys.	75%	77%	89%	85%
Reward-focused formal employee feedback (e.g. surveys, focus groups or interviews)	53%	61%	62%	61%
Reward-focused formal manager feedback (e.g. surveys, focus groups or interviews)	54%	60%	59%	59%
Purchased cash compensation surveys from compensation survey providers to compare compensation levels	84%	87%	95%	89%
Free cash compensation surveys from Internet sites or recruiting firms to compare compensation levels	66%	65%	63%	64%
Purchased total remuneration surveys (i.e., cash compensation plus benefits values)	77%	82%	86%	82%
Reward program design surveys from survey comparisons, consultant assessment, etc.	69%	67%	81%	75%
Total current labor cost benchmarking with competitors	63%	53%	68%	65%
Turnover rates across most occupations and jobs	78%	81%	86%	83%
Rejection or acceptance of job offers	62%	68%	73%	70%
Exit interviews or surveys of departed employees	91%	94%	92%	92%
Time required to fill job openings	71%	77%	78%	76%
Assessed value of human capital (e.g., replacement cost of talent)	65%	65%	61%	63%
Protected-class analysis (e.g., gender, race, age, etc.)	52%	56%	72%	66%

Due to the resource requirements involved in assessing ROI for rewards programs and the value of human capital, it is easy to understand why these programs are not as frequently used for assessing rewards effectiveness as other methods. However, it is more difficult to understand why organizations do not solicit formal feedback from managers and employees about rewards programs, as opposed to relying more on informal feedback. It is somewhat reassuring, however, to see that purchased compensation surveys are most-often used to assess pay programs as opposed to those offered for free (89% and 64%, respectively).

One might also wonder why differences in perception of program-assessment methods use are occurring among C-suite executives, HR professionals and rewards professionals. Eight out of 21 methods (more than one-third) have at least a 10% difference in estimated rewards assessment methods used. For example, senior managers report that “protected-class analysis” is used 52% of the time and compensation professionals indicate 72% use.

#### EFFECTIVENESS OF METHODS

Table 3 shows how respondents rated the effectiveness of rewards-assessment methods used by their organizations. The percentages indicate those who rated the noted method as effective or very effective. Across all methods, there was considerable variation in levels of rated effectiveness from a low of 19% to a high of 78%.

All respondents combined (i.e., C-suite executives, HR professionals and rewards professionals) rated the following programs as the most effective assessment process:

- Purchased cash compensation surveys from independent compensation-survey providers to compare compensation levels (78%)
- Purchased total remuneration surveys, which includes all cash compensation elements and the value of benefits programs to compare programs, which includes cash compensation plus benefits values (74%)
- Formal feedback from employee-engagement surveys (62%)
- Assessment of the degree to which rewards programs are aligned with the business strategy (60%).

Note that purchased compensation and total remuneration surveys (78% and 74%, respectively) were considered the most-effective tools in assessing rewards-program effectiveness. It is also noteworthy that formal feedback from engagement surveys are so highly rated (62%) given how few questions are usually directly asked about rewards in these surveys.

All respondents (i.e., C-suite executives, HR professionals and rewards professionals) rated the following programs as least effective:

- Free cash compensation surveys from Internet sites or recruiting firms to compare compensation levels (19%)
- Formal ROI, calculating rewards-program investment relative to results (33%)
- Rejection or acceptance of job offers (35%).



Table 3 | Rated Effectiveness of Rewards Method Assessment

Items	C-suite % Used	HR % Used	Comp. % Used	All % Used
ROI calculating rewards program investment relative to results	53%	57%	59%	58%
Employee or work unit productivity	66%	67%	67%	67%
Assess the degree to which rewards programs are aligned with the business strategy	71%	77%	88%	82%
Key talent turnover rates among high-potential employees, key jobs or high-performance employees	72%	75%	85%	81%
Bench strength (staffing pipeline) for key positions	72%	80%	85%	82%
Informal employee feedback regarding rewards-program effectiveness	88%	87%	88%	88%
Informal manager feedback regarding rewards-program effectiveness	92%	88%	93%	91%
Formal feedback from employee-engagement surveys.	75%	77%	89%	85%
Rewards-focused formal employee feedback (e.g. surveys, focus groups or interviews)	53%	61%	62%	61%
Rewards-focused formal manager feedback (e.g. surveys, focus groups or interviews)	54%	60%	59%	59%
Purchased cash compensation surveys from compensation survey providers to compare compensation levels	84%	87%	95%	89%
Free cash compensation surveys from Internet sites or recruiting firms to compare compensation levels	66%	65%	63%	64%
Purchased total remuneration surveys (i.e., cash compensation plus benefits values)	77%	82%	86%	82%
Rewards program design surveys from survey comparisons, consultant assessment, etc.	69%	67%	81%	75%
Total current labor cost benchmarking with competitors	63%	53%	68%	65%
Turnover rates across most occupations and jobs	78%	81%	86%	83%
Rejection or acceptance of job offers	62%	68%	73%	70%
Exit interviews or surveys of departed employees	91%	94%	92%	92%
Time required to fill job openings	71%	77%	78%	76%
Assessed value of human capital (e.g., replacement cost of talent)	65%	65%	61%	63%
Protected-class analysis (e.g., gender, race, age, etc.)	52%	56%	72%	66%

Free compensation surveys had the lowest rated effectiveness at 19%, likely largely due to their poor reputation for providing credible data. Formal ROI calculations and rejection or acceptance of job offers also received low ratings (33% and 35%, respectively). Table 3 shows that almost one-half of methods (10) scored below 50% effectiveness. This may indicate the challenges faced by rewards professionals to assess program effectiveness against these dimensions.

As shown in Table 3, approximately one-third of the ratings varied by at least 10 percentage points across the C-suite, IIR professionals and rewards professionals respondents. Rewards professionals perceived ROI calculating rewards-program investment relative to results and time required to fill job openings as substantially more of an effective methodology than C-suite executives; whereas C-suite executives perceived exit interviews, purchased remuneration surveys, formal and informal feedback from managers and engagement surveys substantially more effective than rewards professionals. Perhaps viewed another way, rewards professionals take more comfort in formal data-based measures while senior executives are more comfortable with directional indications of effectiveness based on perception.

#### FUTURE FOCUS

Table 4 identifies where respondents intend to place future emphasis on the assessment of rewards-program effectiveness. The percentages in the table indicate more emphasis will be placed on those methods in the next two to three years. The areas where respondents intend to place the most future focus on rewards effectiveness assessment include:

- Degree to which rewards programs are aligned with the business strategy (50%)
- Bench strength (staffing pipeline) for key positions (45%)
- Key talent-turnover rates among high-potential employees, key jobs or high-performance employees (41%)
- ROI calculating rewards-program investment relative to results (39%).

Alignment with the business strategy is seen as the most important future focus area across rater groups and to C-suite executives in particular. It is interesting that rewards professionals view ROI assessment in general as a much-more important focus in the future than do C-suite executives. However, C-suite executives also place more future focus in assessing leading indicators of rewards effectiveness as opposed to trailing indicators of rewards effectiveness.

#### CHALLENGES OF ASSESSING REWARDS-PROGRAM EFFECTIVENESS

Table 5 indicates the most significant challenges identified in assessing the effectiveness of rewards programs is the lack of budget, time and/or resources. Although all agree this is the primary challenge, rewards professionals see it as a much more significant challenge than either C-suite executives or HR professionals. The lack of methodology or expertise was perceived as being the second most

Table 4 | Future Use of Rewards Assessment Methods

Items	C-suite % More Future	HR % More Future	Comp % More Future	All % More Future
ROI calculating rewards program investment relative to results	24%	35%	41%	39%
Employee or work-unit productivity	23%	23%	19%	20%
Assess the degree to which rewards programs are aligned with the business strategy	59%	52%	50%	50%
Key talent-turnover rates among high-potential employees, key jobs or high-performance employees	31%	39%	43%	41%
Bench strength (staffing pipeline) for key positions	46%	49%	42%	45%
Informal employee feedback regarding rewards-program effectiveness	30%	26%	26%	27%
Informal manager feedback regarding rewards-program effectiveness	28%	27%	26%	28%
Formal feedback from employee engagement surveys.	36%	40%	27%	31%
Rewards-focused formal employee feedback (e.g., surveys, focus groups or interviews)	33%	31%	28%	30%
Rewards-focused formal manager feedback (e.g., surveys, focus groups or interviews)	29%	35%	31%	33%
Purchased cash compensation surveys from compensation survey providers to compare compensation levels	19%	19%	21%	21%
Free cash compensation surveys from Internet sites or recruiting firms to compare compensation levels	9%	6%	5%	7%
Purchased total remuneration surveys (i.e., cash compensation plus benefits values)	28%	26%	29%	27%
Rewards-program design surveys from survey comparisons, consultant assessment, etc.	19%	26%	19%	21%
Total current labor cost benchmarking with competitors	23%	20%	26%	25%
Turnover rates across most occupations and jobs	17%	18%	23%	21%
Rejection or acceptance of job offers	19%	23%	19%	19%
Exit interviews or surveys of departed employees	15%	20%	19%	19%
Time required to fill job openings	25%	28%	14%	18%
Assessed value of human capital (e.g., replacement cost of talent)	31%	34%	29%	29%
Protected-class analysis (e.g., gender, race, age, etc.)	17%	23%	16%	17%

Table 6 | Challenges of Assessing Rewards Program Effectiveness

Item	C-Suite % Agree	HR % Agree	Comp. % Agree	All % Agree
Lack of senior-management interest or commitment	34%	41%	45%	44%
Lack of budget, time or resources to invest in assessment of rewards programs	66%	65%	80%	75%
Lack of methodology or expertise (e.g., not sure how to get reliable and valid information)	63%	52%	50%	53%
Not convinced enough value will be achieved to justify the investment	28%	39%	38%	38%

significant challenge. Senior management sees this as more of a challenge than do rewards or HR professionals.

Finally, it is quite telling that one-third of the respondents are unconvinced that adequate value will be achieved to justify the investment in assessment of rewards programs. However, senior management is less-skeptical than rewards professionals (28% and 38%, respectively).

#### CONCLUSIONS AND RECOMMENDATIONS

The authors' findings provide a substantially more-detailed examination of rewards-program effectiveness assessment processes than previous studies. Overall, the authors found the following:

- Senior management has strong interest in assessing the effectiveness of rewards programs; in fact, rewards and HR professionals generally underestimate senior-management's interest
- Rewards programs are more frequently assessed than reported in previous studies
- Multiple methods are typically used to assess programs. These include employee perceptions of rewards programs and how those programs impact performance and retention
- Substantial variation exists in the degree to which assessment methods are considered effective
- The variation in perceptions of interest and program effectiveness across senior executives in the C-suite, rewards professionals and HR professionals indicate "disconnect" in assessing rewards program effectiveness.

These findings indicate substantial opportunities for improving the assessment of rewards programs. First, not only does senior management have considerable interest in assessing rewards-program effectiveness, they also seem to understand that assessment has multiple dimensions. Second, respondents identified a number

of methods for assessing rewards programs they deem more effective than other methods. Third, rewards professionals, HR professionals and senior managers have substantially different perceptions as to the priorities associated with assessing rewards programs and the effectiveness of these methods.

As discussed earlier, there is considerable value in assessing the effectiveness of rewards programs. One important insight it reinforces is the divide in organizations between those who think of rewards as a cost to be managed versus an investment to be optimized. This theme is referenced in an earlier future of rewards practices study (Scott and McMullen 2013). On one side of the divide are those who tend to view pay programs as a *cost of doing business*. Professionals holding this belief tend to have an orientation on focusing their evaluation efforts on cost control and benchmarking. On the other side are rewards and HR professionals who view rewards programs as an investment and are concerned about optimizing the ROI. As a result, they are more likely to be proactive in determining how employees perceive their pay program, especially high performers and high-potential employees. Furthermore, those that see rewards programs as an investment want to ensure their employees understand the pay program's purpose and design. They are interested in how the pay program shapes desired employee behavior. As such, they are more interested in obtaining a more comprehensive assessment of their rewards programs.

Based on these findings and the authors' extensive rewards experience, organizations should use multiple methods for assessing rewards-program effectiveness. A systematic and rigorous approach should be followed. To assess the program's effectiveness, one not only needs to know if the incentive programs are linked to desired results (e.g., are commission levels related to both individual and aggregate sales levels) but that employees perceive the program as competitive, relevant and fair and that managers and employees understand the program goals and how to effectively participate in the rewards program. In some cases, calculating ROI or assessing the cost of replacing talent may be justified.

To ensure that rewards programs indeed drive employee behavior and results in the desired areas for an organization, a rigorous assessment process should be established. This process involves:

- ❖ Clearly stated goals for reward programs from which specific evaluation criteria can be established
- ❖ Measurable criteria for assessing the effectiveness of the rewards program that includes financial, operational and employee perception data
- ❖ Rigorous data-collection process that collects the right data from the right sources and minimizes error
- ❖ Correctly applied statistical tests to determine if rewards programs have a significant and positive effect on desired employee behavior and results. Longitudinal evaluation analyses can be particularly relevant to organizations

REWARDS programs designed with embedded assessment process that are continuously monitored and updated to maintain effectiveness.

Readers interested in a detailed description of a rewards-assessment framework can learn more in Scott, Morajda, and McMullen (2006) published in *WorldatWork Journal*. ■

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