

The Future of Talent Compensation: It's Personal

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As the landscape of talent management continues to evolve in the face of globalization and technology, competitive levers in the talent war, too, will shift. Stretching far beyond traditional compensation packages, personalized rewards and incentives are becoming increasingly paramount in hiring, developing and retaining talent. Any successful measure to increase workforce productivity will lead to immediate (if not sustained) competitive advantage.

In a May 2008 webcast for members of the Human Capital Institute, Tom Wilson, president of The Wilson Group, shed light on what will be required from designers of compensation when creating a strong rewards program for the future. Leaders must acknowledge and understand several components in order to make the new personalized package successful: organization and individual needs; implications on rewards systems; challenges; and ideas for how to create an effective process.

Tomorrow's Worker and Workplace

"There are few systems that impact performance as well as the connection between measures and rewards," said Wilson. "In the changing climate of industry, now is the right time for an organization to make changes to its incentives and rewards systems."

Wilson cites the following three forces as key to reshaping the working environment:

- Faster-paced globalization across suppliers, customers and competitors
- Technology that is increasingly accessible, less expensive and integrated into most jobs, including the Internet's impact on recruitment, onboarding, retention, development and pay of employees
- A global workforce that is becoming larger, smarter and more diverse – and working faster.

Organization & Individual Needs

It starts with understanding the individual needs and desires of talent, and how to recognize their accomplishments in ways that are rewarding to them and beneficial for the organization. Doing so will help management find ways for both the organization and the individual to achieve what it is they really want.

The organization wants market leadership and shareholder value, which are driven by financial results, resource utilization and the customer experience. People want, according to Wilson, factors such as career opportunities, meaningful work, an appealing company culture, job security, benefits and work/life balance, and of course meaningful total compensation. According to a study by HCI and SilkRoad Technologies, the most important factors that comprise a positive talent brand are clear: good compensation and work/life balance.

What people value in their workplace, however, varies widely by demographics. For example, development and career opportunities are most valued by those aged 18 – 33, and the ability to influence work practices is of higher value to those between the ages of 34 and 62. Financial security and flexibility in addressing personal needs are of highest importance to workers above the age of 40.

Implications on Rewards Systems

Organizations should develop rewards and bonus strategy to help talent and management understand what is expected and what they need to provide. A rewards strategy should be just as important as a business strategy – they both provide an effective means to allocate resources and make timely decisions.

Consider the four drivers of a successful performance, according to Wilson:

- Measures and Goals: Talent needs to know what to do.
- Feedback and Discussions: Talent needs to know how well they're doing.
- Competencies and Abilities: They need to know how to do it.
- Rewards and Consequences: Talent should have a reason for doing what they do.

"Measures give rewards relevance and rewards give measures meaning," said Wilson. "Rewards affect performance in several ways." The three critical aspects to effective rewards are Timeliness (there shouldn't be much time between an accomplishment and its reward); Importance (a reward should be important to the individual receiving it, whether it is a "thank you" or a financial bonus); and Probability (people will assess the chance of achieving the desired goal and receiving the desired reward).

Base Pay Systems

The emerging marketplace impacts base pay systems. Technology in particular makes a significant impact because people have more access to credible pay information, and new technology enables companies to manage pay systems globally. While internal equity of pay is important to people, they need to understand how their pay is determined and what they need to do to increase their income. "It's a tall order, but confidence in the pay decisions is often more important than the amount of the pay decision," according to Wilson.

Benefits and Services

The changing business world also affects employee benefits and services. Benefits include both income protection and access to lower cost services, and they have greater impact on attraction and retention than on performance. Organizations can use benefits and services to differentiate themselves in the marketplace. Technology provides more information and more choices. There are opportunities to truly personalize programs and services. "Now we have the technology to offer different kinds of benefits to different kinds of people who are at different stages of their lives," said Wilson.

Pay for Performance

Variable pay is developing into the strongest lever organizations have to support a pay-for-performance culture, according to Heiko Dorenwendt, Senior Consultant of Talent & Consulting Line and Broad-Based Compensation Practice at Hewitt Associates.

He explains, "Many organizations have struggled and are continuing to struggle with merit pay systems and how to achieve substantial differentiation of merit increases, and variable pay can deliver on that more effectively than any other programs that we're aware of." Dorenwendt goes on to say that variable pay spending "is a very substantial investment that needs to be managed carefully." According to The Wilson Group's surveys, organizations spend between 15% and 50% of their net income on variable pay plans.

Another part of this trend is the use of special recognition programs, which can be very effective to generate excitement and engagement among employees. "Yet they are much less costly than other cash variable pay programs." Dorenwendt discusses the basis of variable pay and what recent studies have shown regarding this growing trend.

According to The Wilson Group, 80 percent of U.S. companies are using one form or another of variable pay programs, such as corporate-wide, business unit and individual bonus plans. However, 50 percent found these programs to be only “somewhat effective.” The gap is caused by many employees who don’t feel as though they have little involvement in goal setting or ability to impact the larger group’s performance. Basically, talent often feel too far removed from the process, said Wilson.

Creating an Effective Process

Customizing compensation plans require a process that integrates the firm’s strategy with what their people want and need to succeed. Knowing this will help assess current programs and create affordable and sensible incentive plans. Integrating your recognition programs with performance pay can ultimately lead to improved revenue and gross margins as well as talent satisfaction and retention.

To help identify the cause of a problem or situation, ask:

- Do people know what’s important and how to make the biggest impact?
- Do they receive feedback to know when they’re doing well?
- Do they have a reason for doing their job well (which is used more: positive or negative consequences)?

Then consider what changes will have the greatest impact with the least effort. Look at salary levels and job titles, increase employee benefits and services choices, enhance variable pay (cash and/or equity based), and expand workplace opportunities such as career progression, promotions, recognition, and meaningful work.

Remember employees determine the value of rewards based on their own frame of reference. Executives tend to appreciate variable pay, equity awards and challenging work more than base pay increases and recognition. Sales people seek recognition and variable pay. Operational and service employees want secured pay, recognition, meaningful work and an opportunity to earn more.

A total reward philosophy will enable each program to do what it does best for the individual and company.

- Base Pay: Reflect competencies, responsibilities and career progression.
- Variable Pay (cash): Reward results that people can truly impact.
- Equity-based Pay: Linked to actions and results that build the long-term value of the enterprise.
- Special Recognition: Reinforce “how” results are being achieved, the desired actions and special contributions.
- Performance Management (talent): Focus on utilizing and developing one’s “unique abilities” linked to business goals, meaningful work and career opportunities.

In order to create a future-focused process, today’s talent leaders must

- Know what their organization and people want, focusing on the segments that share common perspectives.
- Define the root causes of performance challenges or key drivers of desired performance.
- Create solutions that leverage what really is working and address the weakness of existing programs and processes.
- Remember that the process does matter. Find the areas that provide the highest positive impact for the least amount of effort. Reinforce, build and improve.

“It’s not about using someone else’s best practices,” said Wilson. “Real value is created by a process that is based on understanding why things work and applying this to your unique situation.”