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BRING PRACTICAL TOTAL REWARDS TO YOUR ORGANIZATION

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CHALLENGING HR LEADERSHIP FOR 2004

HR leaders deserve the chance to play a more essential role at the business strategy table. CEO's say they're universally concerned about how pay and rewards, a major business opportunity cost, are managed. The HR press reports that HR leaders spend the majority of their time on the “softer” elements of HR—training, development, and nearly everything other than pay and rewards. This article, based on a 2003 presentation at the PHIRA conference, encourages considering a talent management solution of total rewards that better use scarce reward dollars and help HR leaders become stronger players in formulating business strategies.

STATE OF WORKFORCE PAY AND REWARDS

What value have pay and rewards added in 2003? What's in the cards for total rewards in 2004? Information gathered from CEOs and heads of HR give some solid clues. In the final analysis 2003 won't go down as a healthy year for organizations or jobs. Pay budgets were very limited. WorldatWork indicates that pay adjustments for 2003 were at an all time low. Many organizations reduced staff and froze or even cut pay and reward levels. Reductions in employee benefits continued. Organizations had little interest in improving how people were rewarded. Just providing jobs that are stable proved to be a major challenge. Few segments of the workforce were viewed as “scarce talent.” Organizations had more applicants then they needed. HR leaders continued to struggle for a partnership in their organization's leadership process.

CEOs tell us that late in 2003 the HR scene began to clear. The focus for many CEOs changed from “how we cut back our workforce effectively” to “how we get our talent capability in shape for much better business times.” Business predictions for 2004 are for a slow but steady overall economic recovery. And in some economic sectors a much better “rally” than that. But organizations are left with workforces that are unhappy with the state of pay and rewards. CEOs see this as a challenge as they find selective talent shortages in key areas. The largest talent gap is for employees with critical skills plus a proven track record of translating what they know into meaningful and measurable outcomes. For 2004 CEOs are calling for more value from dollars spent on pay and rewards. And HR leaders are listening more intently to this message than they have for at least a decade. The state of total rewards in 2003 and 2004 is summarized in Exhibit 1.

Exhibit 1

THE STATE OF WORKFORCE PAY AND REWARDS	
REALITIES OF 2003	**PREDICTIONS FOR 2004**
Business sluggish at best but better than 2002	Recovery in some economic sectors
Pay budgets 4% at best	Preliminary plans < 4%
Layoffs and pay freezes	Disenfranchised workforces
Few scarce talent challenges	Some skills become more scarce
Little momentum for pay and reward improvements	Value-added from HR leaders a CEO priority
HR struggles for role at business strategy table	CEOs demand value-added from HR leadership relative to pay and rewards

TOTAL REWARDS FOR 2004

HR leaders are challenged by the possibility that 2004 may be the "window of opportunity" year to align pay and rewards with their organization's business. And, in return get CEO credit for adding key value to the organization. People work for more than pay. They also work for the chance for *individual growth*. The opportunity to learn and apply new and valuable skills. To keep updated and become increasingly more valuable. Employees want a *compelling future* with an organization they are proud of. They want to work for an organization that provides great products and services customers want. Employees want to see where they are going from a career perspective. They want to be challenged to continually see how they fit in the future of their organization. Also, employees want a *positive workplace* where they are respected and valued. They want to work with people who are challenged and positive. And employees unanimously hope to be led by managers and supervisors they respect and admire. They want leaders who coach, train, develop, and inform. Employees want managers who communicate effectively and listen to the issues that concern people.

And of course employees work for *total pay*. This includes pay, benefits, and the recognition and celebration for what they do. And they want these rewards to be linked to the value they add to the organization. Employees in teams want pay and rewards focused on achievement of shared goals. And as they acquire the skills the organization needs and apply these go reaching critical organizational goals, they want total pay to reflect this in clear terms.

No single total reward solution fits every organization. But it's clear the organizations that provide a progressive reward solution in each component of total rewards are best able to attract and retain the top talent they need. For 2004 organizations will increasingly use total rewards to communicate how best employees need to add value. This means focusing on the top 20% of the performers in their workforce. The goal being to make sure the "best of the best" are rewarded and retained. The components of total rewards are shown in Exhibit 2.

Exhibit 2

TOTAL REWARD COMPONENTS	
Individual Growth	**Compelling Future**
Total Pay	**Positive Workplace**

CEOS WANT FASTER REWARD CHANGE

CEOs want reward change to lead organizational change rather than merely trail along in the tracks of major new directions and initiatives. They want total rewards to be part of the talent solution, not part of the problem. This will be an essential issue in 2004. The need to get all the help they can get to rebound from leaner business times will make aligned total rewards a priority. One CEO said, “If you haven't changed rewards to align with essential business directions, you haven't changed anything.” CEOs have come to believe “you get what your reward.” Getting the right messages to employees about what they are expected to do and how they are expected to do it is part of this issue. And they want total rewards to help them accelerate business initiatives and make them “real” to the workforce.

For 2004 CEOs have chartered HR leaders to be proactive in the linking of rewards with business goals. One President said, “Getting a chair at the strategy table will require that our head of HR does a quality job of aligning one of our major opportunity costs, pay and rewards, with new directions our organization must follow to thrive.” So the days of glacial pay and reward changes may be ending. A new era of CEOs who want “more bang for their pay and reward bucks” seems to be on the horizon.

THREE PRIORITIES FOR NEXT YEAR?

Now, we've told you that CEOs will be putting more emphasis on total rewards in 2004. And that they want rewards to help lead organizational change. They also hope to get faster total reward change to match the need to rapidly revitalize and leverage rewards for better times ahead. Each CEO has specific areas of emphasis. However, clearly the top reward priorities for 2004 are:

- **First Priority**—Reward Top Talent
- **Second Priority**—Emphasize 3 or 4 Key Success Measures
- **Third Priority**—Repair Performance Management

The story is clear for key leaders. Identify and reward the best people you have. Emphasize a few critical goals and objectives and make them clear and understandable. Show employees what they must do and how to do it. And CEOs want to put some meaningful “beef” in performance management. Identifying the best people for doing what the organization needs most and having a performance feedback and review process that supports this goal. The top priorities are summarized in Exhibit 3.

Exhibit 3

REWARD PRIORITIES FOR 2004	
REWARD PRIORITIES	**OVERVIEW**
Reward Top Talent	Focus on the top 20% of the workforce. Those with proven ability to translate key skill into measurable results.
Emphasize Top 3 to 4 Success Measures	Cascade a few key goals and make them understandable and achievable at all levels.
Repair Performance Management	Develop a process and tool for performance review that “really” works. Make it a critical link to receiving total rewards.

Reward Top Talent

The clear priority is to define the criteria for the top 20% of the organization's talent in a fair, objective, and equitable fashion and reward these “superkeepers” accordingly. The economic downturn taught company leaders they weren't equipped to identify the employees with the most critical skill who were able to translate this ability to perform into measurable outcomes. As a result layoffs often took people without knowledgeable regard to their individual value to the organization. Many top people “disappeared” by “accident.” CEOs identified this as a major defect in performance management and reward planning.

Popular 2004 plans are to quickly develop and implement skill and performance criteria for at least the top 20% of the workforce. The goal also is to design ways to expend more of the dollars and other rewards the organization has on these key people. In many instances this means revamping a number of critical talent management tools.

Emphasize 3 or 4 Key Success Measures

CEOs want to answer the question, “What's important to the success of the organization?” in 2004. What key objectives, measures, or accomplishments are essential to receiving the top rewards? CEOs have come to realize that employees can best focus on just a few key goals. They believe most of their organization's talent management tools are overly complex. They believe these tools cause employees to try to accomplish goals that are easiest—not those that are most essential. Tools that help accomplish only a few very important goals are what they want. A major benefit from focusing only on the top goals is that such goals are more likely to be “shared goals”—requiring that employees collaborate to achieve them.

“Cascading goals” is how some companies pick the top 3 or 4 targeted success measures. It's a process of “top down” goal setting. The CEO and direct reports first set organizational goals and priorities for which they are responsible. These goals are translated to be relevant to others accountable for helping the company meet the most critical priorities. So a few “cascaded” goals are assigned to the talent management tools to ensure everyone is on the same “performance page” as the CEO and other top leaders.

Repair Performance Management

To reward top talent in exchange for achieving the most important 3 or 4 company goals, organizations need some “tools” to identify the top people with the goals that define the top 20% of achievers. And the most mentioned tools that need attention in 2004 are related. At the top of the list are the manager and the preparation needed to provide feedback on performance and coach employees so they improve continuously. This means "fixing" the entire performance management solution—not just the “form” needed to deliver the message. Focusing instead on the *process* used to evaluate and improve. This means the entire performance review cycle including goal setting, management coaching, performance review, feedback, and setting new goals for the next performance period.

The manager is key to understanding what employees are supposed to do, coaching them to do it, and evaluating performance objectively and fairly. One executive told us, “Our performance management system has too many notes, Mr. Mozart. And the ‘notes’ or goals it has aren't focused on the most important objectives people must help this organization achieve.”

SOME CONCLUSIONS

Increasingly organizations have focused on strategies of total rewards. While the “mix and match” varies based on goals and culture, the top organizations provide reward opportunities in each of the four total reward component areas. Some organizations will emphasize providing a positive workplace and the opportunity for individual growth. Others will prefer a total reward solution that looks first to total pay and providing an exciting and compelling future.

Since 2000 when our book, *Pay People Right! Breakthrough Reward Strategies to Create Great Companies*, was published, many organizations have escaped from the “trap” of one-dimensional pay solutions, and moved to total rewards. CEOs want total rewards that are aligned with new plans and initiatives for 2004 are “in the hopper.” And these solutions have intensified the emphasis on pay and reward designs geared to performance improvement. Pay and rewards are often as much as 50% and more of the total operating costs of organizations. And the HR leader that emphasizes a reward program that accelerates performance with be in high favor during the next year.

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