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BUILDING THE CASE FOR PAYING FOR PERFORMANCE

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Actions by HR leaders are the most important variables in determining ways in which pay and other rewards—from bottom to top throughout the organization—are structured. The stakes are high.

Have you ever seen a positive newspaper article written about executive compensation? Have you heard of any organization that became a "best place to work" because its executive pay and rewards served as a model for the workforce in general? Now, Sarbanes-Oxley and new SEC regulations have entered the equation along with potential trouble brewing on the heated battlefields of stock options and restricted stock.

So why is HR so central? Pay and rewards can either boost the HR leader's journey to the strategy table or lead to a slippery slope to career oblivion. This is because pay and rewards can be linked to performance, at every level of the organization, but often are not. And this matters especially because pay and rewards are often a primary cost of doing business.

HR leaders are the educators, teachers, and the "jostlers" of leadership teams regarding the value of rewarding results—and at the coaching core of the moral and ethical fiber of the organization, they provide the educational compass for talent management.

Educating others about ways to honestly and fairly reward skill, competence, and performance is the critical initiative HR leaders can champion. They have the opportunity to help close the knowing/doing gap between what the CEO knows should be done to reward performance and current practice and, thus, accelerate business performance rather than submit to the temptation to follow prevailing practice and merely give lip-service to rewarding performance.

The educational tools to help create a performance culture are right in front of HR leaders. No special studies or surveys need to be undertaken to gather them. Here's an example of what you need to get the teaching process rolling:

- Rank as much of the workforce as possible based on performance (not only based on what people do, length of service, or where they report). Rank workforce members from top to bottom in terms of results achieved and critical skills and competencies. Does total compensation correspond with this ranking? Are the top-performing 20 percent of the workforce paid significantly more than others? Is it financially worthwhile for them to join the ranks of those who make a positive performance difference?

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- Based on the ranking process, how effective is the performance management system in identifying the high performers; those who can join the ranks of the best performers; those who are "keepers" or solid, stable performers; and those who are not making the grade? If the performance system is inadequate, why is it ineffective and what should be done about it?

- Gather all pay-and-reward legal filings and consultant reports for five years. Has executive compensation, and the compensation of the workforce in general, increased in years when organizational goals were met or exceeded and decreased when performance lagged goals? It is hard to build a business case for excellent workforce performance when key metrics are missed.

- What do the government filings for executive compensation show? How was competitive practice defined and executed—under the same survey comparison group or has it changed? If comparisons have changed, do you know why and what the impact was? What metrics were used? Do metrics and goals cascade below the senior executive team, or is there a double standard—one for executives and one for others? If practice differences exist, what is the result of these differences?

These are just examples and vary based on the situation. The goal is to build the information needed to "steer" the ship toward understanding the value to be gained from enhancing the alignment between pay and performance. Once the HR leader has gathered information on current practices, a future can be charted.

After assembling and analyzing the information, the next step is to build an educational business case for rewarding performance. One way a business case for paying for performance can be engineered is:

- Use the information gathered to educate senior leadership on the current linkage between pay and performance. Where are the strengths and weaknesses? Is the organization making it worthwhile for high performers to stay? What is needed to improve—any urgent actions to take now? Over time?

- Using the analysis of what exists as a foundation, develop a business case for rewarding performance. Plenty of "punch" is available. For instance, the fact is organizations that reward performance and make this transparent to the workforce are most likely to achieve or exceed key organizational goals compared to those that pay for other than performance.

- The best-in-class people—the high-performing 20 percent of the workforce—want to work in organizations where performance, skill and competency growth are financially worthwhile. On the other hand, employees who are not likely to meaningfully add value to the organization will seek organizations that pay only for tenure and entitlement.

- Talent management studies show that less than 20 percent of any workforce is truly engaged—meaning they care how the organization performs, strive to help it succeed, and want to build a career within the organization. Are these engaged people the high performers in your organization? If not, rewarding performance can help. About 50 percent of any workforce will entertain an offer elsewhere. How does this fit with who your high performers are?

- In most economies, more jobs are chasing fewer highly talented people. Competitive pay, benefits, and paying for performance are consistently among the top five organizational realities people seek. How does your organization compare in branding itself as a high-performance culture that reinforces that the best people are needed and wanted?

- Outline practical and reasonable go-forward transition tactics. Make it clear that changing to paying for performance is "noisy," and championing and role modeling are required. Show how

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the result improves on existing practice and can advance talent ROI. Draft a possible total-rewards strategy that includes rewarding performance—show "where the beef is" and the importance of the change.

The timing is right. CEOs are asking HR leaders to spend more time working on getting more mileage from a key business cost—pay, benefits and other rewards. Yet surveys show that HR leaders are more likely to emphasize "softer" issues, such as training and development than "hot-change" opportunities like truly paying for performance.

Few organizations worldwide strongly differentiate pay based on performance. With little regard for performance, tenure is often the strongest predictor of how much people are paid. So the door for calibrating priorities is clearly open and waiting—those "being earnest" can certainly lead the way through that door. It can be the most important career move and valuable contribution that an HR leader makes.

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