How to Create High-Performance Pay

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How does an employer really engage a workforce and make each employee a stakeholder in the company's success? Paying everyone competitively isn't enough—nor is merely following best or prevailing practice. And competing for a "Best Place to Work" or "Employer of Choice" designation is more likely to reinforce an entitlement mentality than a performance culture. While most company leaders know paying for performance makes good business sense, there is a knowing-doing gap between believing something adds value and actually implementing it.

This is where companies have a huge opportunity to win in the competition for high-performing talent—the people with the critical skills and competence, plus the ability to translate these capabilities into measurable results. High performers want their performance acknowledged and meaningfully rewarded. The goal should be to create the "Best *High-Performance* Place to Work." Why? Because it is the only pay solution that makes solid business sense and create a culture where paying for performance is "how it is done here."

In terms of concrete actions businesses can take, this means ignoring conventional wisdom and considering practical business solutions that get the best people and help make the business a success. The goal is to bend leaders' minds a bit with certain executable actions:

- Focus pay first on the top-performing 20% of the workforce that may provide about 80% of the value to the business. The business will be well served if this talent pool is fully engaged by meaningful rewards.
- Put everyone in the company on incentives or variable pay with business metrics that emphasize both customer and company goals. Variable pay communicates values and directions, and it fights entitlement.
- Make performance management really work. Go beyond form design and make performance management a tool of business excellence. Create a high performance place to work by providing feedback, coaching, recognition and early course corrections.
- Make business goals the center of total rewards. If a total rewards component does not add business value, reject it entirely. Top-performing companies get and keep the best talent, and high performing talent rejects a culture of entitlement.

Arguably, pay is the largest opportunity expense a business must manage effectively. If a company isn't going to pay for performance, what will it pay for and why? Performance metrics that are focused on both the customers' and company's goals are critical because many companies appear to lose contact with their customers, especially when it comes to the design of pay.

Take GM and Ford as examples. When they ruled the auto industry, these companies shared their success among the employees, union, management and shareholders—but ignored the customer. Japan and Germany put the customer first and won the auto market. The same thing happened when the legacy airline industry was hit with deregulation. Management, unions, employees and shareholders got their share at the expense of customers, and new entries (like Southwest Airlines) took the market here, too.

Will the U.S. government continue bailing out these companies? Probably not, as the situation has changed. Helping these companies survive may not be worth it because of the difficulty in improving efficiency and competing for the long term.

The Engagement Opportunity

Research shows that the best HR ROI is an incentive plan that includes non-management employees. And the top-performing 20% of the talent pool are attracted to pay-for-performance businesses. CEOs want improved ROI from compensation costs because people costs leverage all performance opportunities. And in a short-supply talent market, if you want to hire the people who are the bread and butter of your enterprise, you have to hire them away from someone else.

Talent needs to be engaged to be stakeholders. Some 50% or more of the workforce are not engaged, and studies show that 8 of 10 employees are planning to find a new employer. It is not just paying more because there is a surplus of capital chasing a limited talent pool and the skills and competencies it brings. Sixty percent of new jobs will require skills and competencies that only 20% of the workforce now has, and that's why top performers (who want pay for performance) are needed. It's not just a nice thing to do anymore—creating a best high-performance workplace is essential to any enterprise's future.

Creating the 'Best High-Performance Workplace'

No company has been anointed as a "best place to work" because it based total rewards on a strategy that engages talent by focusing on pay for performance, skill and competency. The way to become a "best place to work" is to apply and go through a qualification process that often focuses on offering more liberal benefits and workplace amenities that don't create a win-win between the workforce and the business. So the potential of creating entitlements is significant. Some best-place-to-work organizations are cutting health and retirement benefits on one hand and offering sabbaticals and shared jobs on the other—not the way to engage a workforce during times of scarce talent.

1. **Quality Talent Pays—and Should Be Paid:** How often do you hear CEOs challenge the business to get as many average performers as possible? The cry of, “Let’s be average!” is just not something often heard. Some businesses may end up being average because they don’t get the people they need to contribute, but it seldom is a business strategy or a part of the talent-management agenda. High performers serve as a magnet for more excellent performers with the skills a business needs. One CEO said, “Even if we have only a total of $2 for pay adjustments in any year, we are giving this to our top performers.”
2. **Variable Pay Works—and Proves It:** A well-designed variable pay or incentive plan generates returns/gains of about four times the cost of employee payments. A typical incentive plan generates a return of about twice the cost. Nothing in the arena of total rewards gives the return that variable pay does. It communicates goals and priorities and provides the opportunity for managers and people to dialogue and discuss goals and how to achieve and exceed them. Variable pay is the agile reward for performance—it does not create entitlement if designed well, and it can be cause for celebration in the achievement of either individual or shared goals.
3. **Performance Management Isn’t Just a ‘Form’—It’s Money in the Bank:** If talent management is the effective organization of the total talent acquisition, motivation and development process, performance management is at the center of it all. A talented leader once said, “Every time a manager and employee are talking about work, there is a performance feedback and improvement opportunity going on.” That tells it all about the performance management *process*. The most important role of a leader, manager, supervisor, etc., is coaching, teaching and providing guidance on the “what” and “how” of getting to where the employee wants to be to be valuable. High-performance workplaces develop talent to be valuable.
4. **Business Goals Equal Business Results—Other Goals Do Not Matter:** People are hired by businesses to help make the business a success and to subsequently share in that success. If goals for performance management and variable pay do not relate to the achievement of company business goals, then what are organizations paying for? Talented people want to add value. They want to be able to answer the question, “How do I make this enterprise successful?” and be proud of the answer. This means cascading business goals and translating them into metrics and objectives the workforce can influence to define success. If a goal is not business directed, it is not adding value or improving the link between the workforce and the business.

There is no evidence that adding new benefits to the total rewards offering of any company does not create more entitlement. Companies have learned this and are now laboring under the burden of entitlement cultures to get global business traction. The United States Postal Serviced turned performance around by focusing on key business goals through pay for performance for just the leadership team and professional staff, and the improvement in operational and bottom-line performance was startling.

The Future

Unless it is important to get the company's name in the newspaper or in a magazine for employee branding, it is not valuable to merely become a "best place to work." However, becoming a "best high-performance place to work" by offering total rewards to engage top talent is worthwhile. The time is ripe to focus on how best to accelerate and sustain high performance through a proactive talent formula. The suggestions in this paper are basic "blocking and tackling," but also involve a course correction—and this is where the opportunity for meaningful advantage rests.