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TOTAL REWARDS: PEOPLE WANT MORE THAN MONEY

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Since many leaders are concerned about how pay and rewards are managed, we recommend a talent management solution of total rewards that better uses scarce dollars.

What's in store for pay and rewards in 2004? In 2003, pay adjustments were at an all-time low. Many organizations reduced staff and froze or even cut pay and reward levels and reduced benefits. Few improved how they rewarded people—just providing stable jobs was a major challenge. Organizations had more applicants than they needed.

But late in 2003, the scene changed. Many CEOs changed their focus from "How can we best cut our workforce?" to "How can we get our talent in shape for better times?" Predictions for 2004 are for a slow-but-steady economic recovery. And some economic sectors may see a much better rally. But workforces are unhappy with the state of pay and rewards. CEOs see this as a challenge. For 2004, CEOs are calling for more value from dollars spent on pay and rewards.

TOTAL REWARDS FOR 2004

Leaders know that 2004 may be the "window of opportunity" year to align pay and rewards with their goals and missions. People work for more than pay. They also work for the chance to grow, learn, apply new skills, and add more value. Employees want a compelling future with an organization they can be proud of—one that provides great products and services customers want. They also want a positive workplace where they are respected and valued. And they hope to be led by managers who coach, train, develop, listen, and communicate effectively.

In short, 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. People in teams want pay and rewards focused on achievement of shared goals. And as they acquire new skills and apply these to reach goals, they want total pay to reflect this clearly.

No single total reward solution fits all. But those that provide a progressive reward solution in each component of total rewards best attract and retain the top talent. In 2004, leaders will use total rewards to communicate how best employees need to add value. And they will focus on the top 20 percent of their performers to ensure the "best of the best" are rewarded and retained.

CEOs want total rewards to be part of the talent solution, not part of the problem. The need to rebound from leaner times will make aligning total rewards with business directions a priority. CEOs know that "you get what you reward." CEOs need to clarify what people are expected to do and how they are expected to do it, and then use total rewards to help them accelerate initiatives and make them real to workers.

CEOs have charged HR leaders to be proactive in linking pay and rewards with goals and with new directions.

THREE NEW PRIORITIES

We have identified three reward priorities for 2004:

1. **Identify and reward your top talent.** Define the criteria for the top 20 percent of your talent in fair, objective terms and reward them accordingly. Identify the employees who possess the most critical skills and who achieve desired outcomes. Develop and use skill and performance criteria for the top 20 percent of the workforce and design ways to expend more of the dollars and other rewards on these key people. Revamp your talent management tools.
2. **Emphasize three key success measures.** CEOs need to know what's most important to their success. And people need to know what objectives, measures, or accomplishments are essential to receiving the top rewards. They can then focus on meeting the key goals. People need simple tools that help them achieve the most important goals. In 2004, try emphasizing three critical goals. Make these goals clear and show people what they must do to achieve them. These goals are more likely to be shared goals that require people to collaborate. The CEO and direct reports first set their top three goals and priorities, and then these goals are "translated" to be relevant to others who are accountable for meeting these priorities. This ensures that everyone is on the same performance page.
3. **Repair performance management.** Identify the best people for doing what you most need done and have a feedback-and-review process that supports your performance management. Reward talent for achieving important goals. Managers need some tools to receive feedback on performance and coach employees so they improve continuously. This means "fixing" the entire performance management solution. Examine the entire performance review cycle, including goal setting, management coaching, performance review, feedback, and setting new goals. Managers must understand what employees are supposed to do, coach them to do it, and evaluate performance fairly. The performance management system must be focused on the top goals.

CEOs want total rewards to be aligned with new plans and initiatives. Pay-and-reward designs need to be geared to performance improvement. Pay and rewards are often 50 percent or more of the total operating costs. Leaders who design a reward program that accelerates performance are in high favor.

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