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WINNING THE TALENT GAME: TOTAL REWARDS AND THE BETTER WORKFORCE DEAL!

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The next decade may prove to be the best of times for companies and workforces, bringing good financial performance and good work to do. However, some dramatic but positive course corrections are necessary, especially in the workplace. More jobs are chasing fewer talented people. Companies have elected to try to "grow to greatness" rather than just emphasize cost reduction.

Growth means good talent becomes hard to find—people with skills near the core competency of the company are often scarce. Increasingly, the definition of "scarce" (which once meant shortage of "knowledge workers") is extending to include all people with skills that are essential to the business. Getting the right people in the right roles is central to a thriving business.

To attract the people they want, many companies are just "cranking up" their pay levels—trying to buy the talent they need by paying more and more. However, this may not be delivering the best results. Further, skills that are scarce now may not remain so in the future: now IT skills are scarce, but many remember when aerospace engineers were in short supply. Just paying more can lead to an eventual imbalance between what people are paid and how much their skills are worth in the longer term.

Therefore, agility and flexibility are important. While it is tough to abandon solutions that have worked in the past, it may now be necessary. So, hold onto your hats—it's likely we'll be looking for a new way to spell the word *change* before long.

Although companies have sought status as "employers of choice" or tried to become "the best place to work in the world," this has yet to prove essential to a company's bottom line. Merely improving the quality of work life may be only part of what a winning business is made of. It is more likely important that, in exchange for making the workplace attractive, people add value—this is a win-win business situation.

The future belongs to companies that can successfully enter into a *better workforce deal* with the people they need—making people the priority for the future. This may be a no-brainer to many, but it is news to others. Total rewards are part of the formula for success.¹

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The modern workplace is transforming rapidly. Speed is critical, placing intense pressure on what we do, how we do it, and how fast we do it. The leader and change agent are well placed to champion major organizational revolution, and to be part of a move to total rewards and the better workforce deal. In the past, human resource revolution was more of an evolution—slow but sure.

Now companies don't have time to spend years designing bureaucratic, costly, and time-consuming HR solutions, and this applies especially to pay and rewards. But it takes courage to adapt pay and rewards to match the speed of business progress. The only thing that is easy to do is to pay people more, but this is not always possible or practical.

While many tools such as training, development, and new recruitment strategies take time to affect the existing workforce, changing pay affects everyone and does it quickly. Pay is a "hot" change and communications item. It gets everyone's attention and does it *now*. Many companies are fast to make "cold" workforce changes, but changing total rewards and the deal they make with their people has a more powerful effect. This requires grit.

Thus, there is time to gain an advantage if you move briskly ahead, because many will be immobilized, providing a dramatic opportunity for those with a propensity to act.

IMPORTANCE OF REWARD ALIGNMENT

We believe that if you have not changed total rewards to align with the business goals of your company, you have not truly made change. It does not make sense to couple major improvements in company goals, organization, and vision to a reward solution that fails to communicate this new direction to the workforce. Our research on reward designs in a host of business situations since our first exploration of total pay in 1992 bears this out.²

It takes a much more powerful business initiative to overpower rewards that aim the workforce in a different direction than it takes if you use rewards to help communicate the future.³ This alignment can be accomplished in a positive way that does not demoralize or disenfranchise the workforce.

Whether we research the role of pay in small teams,⁴ the key reward elements to acquiring scarce talent,⁵ the role of competencies and skills in pay,⁶ or other areas of exploration, pay and rewards continue to prove helpful in communicating what is expected and in gaining workforce acceptance and commitment.

THE BETTER WORKFORCE DEAL AND TOTAL REWARDS

All companies must eventually face two major workforce revolutions (and better sooner than later):

- The realities of the *better workforce deal*
- The migration to *total rewards*

These radical changes reflect the fact that enterprising businesses are building positive and aggressive cases for changing total rewards and total pay. They are not merely created by human resource needs; they are caused by companies' need to find the best people they can in order to be successful. Rewards are a part of the answer.⁷

We are now in at least the third generation of "deals" between companies and people. Exhibit 1 summarizes the evolving workforce deal. The better workforce deal may not be the last of the deals that companies and people make, but it is a start in the right direction.

The Old Deal

The first deal—the *old deal*—assumed that people would work for one organization for a full career and that the enterprise would take care of them. In the old deal through the 1980s, the company largely protected the workforce from the realities of the business. Entitlement and tenure were the primary determiners of pay and other rewards. Then the primary customer of pay and other rewards was the workforce—people "owned" their jobs. How people add value to the business had little emphasis. People received pay adjustments even in the absence of continued growth in skill and competency.⁸

The New Deal

Flattening, rightsizing, downsizing, delayering, and outsourcing ended the old deal. By the 1990s, a *new deal* that we've heard a lot about had replaced it and disenfranchised some of the world's best workforces. This new deal required that people come more than halfway and make sacrifices just to keep their jobs. People had to continue to learn new skills and how to perform more effectively.

It was a time when more people were chasing fewer jobs, when chainsaw reengineering was in vogue, and when some believed that people were a commodity and all that counted was the numbers.

This "shrink to greatness" view of business emphasized cost cutting and staff reductions that were unparalleled in business history. Although this process is still underway in some businesses, there is little to suggest that companies following this strategy accomplish anything other than to create havoc and lose the commitment and trust of their workforce.⁹

The Better Workforce Deal

The new deal largely ended with the realization that people are the only source of advantage and are essential to growth (also, scarce talent makes sticking with this deal a poor choice). As companies come to believe that they must grow to survive, this is impossible with a workforce that is so downtrodden that it cannot support growth. People work for more than pay. Seldom are the best-performing companies in the world the highest payers, "buying" the commitment and trust of their workforce. Instead, they offer their workforce a better deal.

Stephen R. Covey talks about a: win-win or "no deal" workplace.¹⁰ That means that if both the enterprise and the people don't come out winners, neither should make the deal and they should go about their business elsewhere. In the *better workforce deal* the company and the workforce come halfway. The business invests in people, and people meet it by learning new skills and competencies and performing to reach organizational goals. It's a positive deal—not one where one party is a winner and the other a loser. (See Exhibit 1.)

Exhibit 1

THE EVOLVING WORKFORCE DEAL	
Deal	Characteristics
Old deal	<ul style="list-style-type: none">• Paternalism• Career employment• Balanced toward workforce
New deal	<ul style="list-style-type: none">• Tough love• Employability• Balanced toward organization
Better workforce deal	<ul style="list-style-type: none">• Mutual accountability• Win-win partnership• Balanced more equally
Source: Zingheim, Patricia K., and Jay R. Schuster. <i>Pay People Right! Breakthrough Reward Strategies to Create Great Companies</i> . San Francisco: Jossey-Bass, 2000.	

Common business sense is in vogue. For example, many intuitively believe people perform best when they are reasonably happy. Somehow, this has become the newly rediscovered "rocket science" of the new century (replacing reengineering, perhaps). Investing in people, providing training and learning opportunities, more meaningful involvement and participation for workers, business-aligned goals that communicate what is expected, and feedback that shows how people get from where they are to where they need to be are the "latest things."

And so are a successful enterprise that everyone is proud of and a positive and enjoyable workplace. We predict that the future goes to companies that are best at making better workforce deals. Your company, too, can join their ranks. It means the enterprise must prosper to remain a super place to work—it must have a compelling future to share with the workforce.

NEW TOTAL REWARDS

In the 1990s total pay was new. It involved base pay, variable pay, benefits, and recognition and celebration.¹¹ Many organizations gradually moved to total pay as they began to realize that some pay tools do certain things better than others. For example, base pay does a great job of emphasizing the external market place, the skills and competencies the workforce needs and applies to play its roles, and the sustained track record of outcomes that individuals generate to add value to their business.

On the other hand, variable pay is the paramount tool for rewarding performance for both short-term and long-term results. While total pay remains a key component of total rewards, it is increasingly evident that it takes more than just total pay to provide a better workforce deal.

Businesses realize that total pay cannot always do it all. This has created some musings about total rewards and what makes them important. The challenge of early concepts of total rewards was that they were unlinked with the business process. They lacked a strong business case and relationship to the business.

It was hard to answer the tough-minded businessperson who questioned, "Why are we doing this?" It was just as hard to convince a workforce that changing rewards was "good for them." We suggest that the new concept of total rewards comprise four total reward components:

1. Compelling future;
2. Individual growth;
3. Positive workplace; and
4. Total pay.

Consider these the components an enterprise uses to develop a better workforce deal with people. No one best way exists to put them together, and one business can emphasize one component over others. However, it is likely that the business with a more balanced view of total rewards will be better positioned to avoid needing to emphasize one, say total pay, to make up for shortfalls elsewhere. Let's look at each of these.

Compelling Future

Unless companies grow and profit, little else matters. Unless they can afford it, nobody—shareholders, leaders, or workers—gets anything. In exchange for making a difference, people want to know their company has a positive vision and a set of values they can support. Super people want to work for super enterprises. They want to work for companies they are proud of. They want a deal where they win when the business wins and where they are stakeholders in the future of the business. This means that the future of the business must be something the workforce is willing to bet on.

Individual Growth

People want to grow, add value, and make a difference. Wise companies are realizing this and are increasingly moving to invest more heavily in people's growth and success. No matter how collaborative the workplace, people are individuals and want to keep their individuality. Companies invest in programs of career enhancement and development. They are providing meaningful training that is preparing people to fill the ever-changing roles the enterprise needs them to fill. This implies a need for positive and constructive programs of performance measurement and management, including feedback about what is expected, how people are doing, and what is needed to do even better.

Positive Workplace

People want a pleasant place to work. They want workplaces designed around people and focused on helping them be a success. Whether they work in an office or factory or are virtual workers, the workplace counts. But this doesn't just mean the physical surroundings. It also means leaders and colleagues. Everyone wants to work for a leader they respect and will follow.

They want colleagues who pull their weight and from whom they can learn. They want people they look forward to working with, talking with, and solving problems with. They want to do interesting work that makes a difference. No matter their level of work or the role they play, people want to feel that what they do is important and to understand how doing it well helps their company. This all requires open communications and building understanding of what the enterprise is about and where people fit in, as well as trust in and commitment to the workforce on the company's part.

Total Pay

Total pay is important in the context that people work for money. Despite all the talk about how money isn't very important, ask people whether they would come to work tomorrow if they knew they were not getting paid. Total pay is the accelerator of business communications. It can be a lead element in change, and unless it is aligned with the critical messages the enterprise wants the workforce to hear, it can be corrosive and negative.

People want total pay designed around their role and their needs. It is essential for all four elements of total pay to play a role in total rewards. This means base pay, to reward the person's individual ongoing value; variable pay, to emphasize results and needed outcomes; benefits, to provide protection from life and health hazards, as well as vacation and holidays; and recognition and celebration, to make the whole thing positive and more fun. The total reward components are shown in Exhibit 2.

Exhibit 2

TOTAL REWARD COMPONENTS: THE BETTER WORKFORCE DEAL	
Individual growth	Compelling future
Total pay	Positive workplace
Source: Zinghelm, Patricia K., and Jay R. Schuster. <i>Pay People Right! Breakthrough Reward Strategies to Create Great Companies</i> . San Francisco: Jossey-Bass, 2000.	

REWARDING SCARCE TALENT

Businesses have a number of choices as they compete for the talent they need for success. They can continue on a path of paying talent like commodities such as beans and pork bellies. Or they can change to a posture of total pay, using its elements (base pay, variable pay, benefits, and recognition and celebration) in concert to provide an attractive total pay package. A third possibility is total rewards (compelling future, individual growth, positive workplace, and, of course, total pay).

Commodity Pay

This is a strategy of paying more rather than paying smart. Anyone can play this game if he brings enough money to the party. It involves more cash compensation, often combined with signing bonuses and more stock options. Some scarce talent professionals have become "talent gypsies," who roam companies looking to make a deal that pays them more. The result is no continuity and no opportunity given to a company to prove that it is a solid choice as a longer-term employer.

This does not mean that our other alternatives will necessarily permanently stabilize a business's workforce. We are living in times when it is unlikely, and perhaps inappropriate, for people to spend their entire career at one place. But it is possible that paying people as though one were buying commodities does not give the enterprise even a ghost of a chance to gain value from the time a talented individual becomes a member of its workforce.

Total Pay

A total pay solution suggests that a balance between the four elements of total pay can make the company more attractive to a talented workforce comprising scarce skills. The company has a chance to mix and match the elements of total pay to appeal to the specific workforce it wants to attract. The company assembles base pay, variable pay, celebration and recognition, and benefits to provide the best combination for itself and its workforce.

For example, base pay does a good job of paying for individual ongoing value along three dimensions: (1) the skills and competencies the business needs and the individual applies to successfully perform his or her role in the enterprise; (2) consistent, sustained performance over time by applying what the individual knows to generate needed results and outcomes; and (3) the value of his or her talent in the competitive labor market.

To some companies, the competitive practice dimension is most important. Others want to place more emphasis on skill and competency or on converting these to measurable results. The advantage goes to the company that can mix and match to suit its situation.

Variable pay rewards individual and group or team results. The company has the flexibility to decide how deep in the enterprise to use variable pay, what measures and goals to emphasize, and where the money for variable pay will come from. Further choices are where to measure results (at the individual or team level, for example), whether variable pay should involve cash or some form of equity such as stock options, and the time period over which to measure performance.

Companies vary greatly in how they celebrate and recognize. Some are boisterous and some are not. In any case, recognition and celebration can play a powerful role in support of base pay and variable pay if they focus on advancing the business. Benefits can also play a role. Some companies provide choices through cafeteria plan benefits, others emphasize increasingly portable benefits, and still others offer benefits that interest more virtual workers or that provide work/life balance to make the workplace attractive to a specific type of worker.

TOTAL REWARDS

It's becoming increasingly evident that people work for more than pay or even total pay. The better workforce deal is one of total rewards that make work more attractive and fulfilling. Here the emphasis is on people (in total). The very best talent is interested in partnering with a business that provides a compelling future, individual growth, a positive workplace, and total pay.

But this is not just free lunches and time off to attend classes. It involves exciting and interesting work, colleagues, and leaders. It suggests that the company will get business that people want to do so they grow and learn. And, of course, it means providing something unique about the place of work that makes people want to participate every day.

THE FUTURE OF REWARDS

The "secret sauce" of differential advantage is making the workplace attractive to people who add value to the business. Certainly we have missed the boat with many things we have tried to do with our people in the past. The critical ingredient is not just making your company a better place to work—it is making the company a better *business* place to work. Base the deal you make with your workforce on win-win and not win-lose.

Offer a work environment that emphasizes total rewards rather than just total pay. This may not be the only solution to making your company and workforce winners, but we'll bet it beats whatever solution comes in second!

ENDNOTES

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