



E-MAIL sz@schuster-zingheim.com • PHONE 310 471-4865 • WEB SITE www.paypeopleright.com

DEVELOPING TOTAL PAY OFFERS FOR HIGH PERFORMERS

Patricia K. Zingheim and Jay R. Schuster

Article published in *Compensation & Benefits Review*, July/August 2008

The total rewards professional needs to be substantively involved in fashioning the engagement offer for the best talent—the people the organization cannot do without for business success in good or slow economic times. The supply of top-performing people with unique skills and competencies that match the organization's core business or new enterprise solutions is scarce. One role for the pay and rewards professional is to help the organization's leaders get at least their share of the top performers. This article suggests how this may be accomplished and suggests some strategic actions to take to become a partner in the talent-hiring process and help make a difference in what is provided for the high performers after they become employees.

Why is it critical to engage talent from the start? Studies have suggested that employee engagement is lagging—some employees are not contributing to the success of the organization. Depending on the study, research has shown that only 15% to 45% of any workforce are engaged and 50% are open to changing employers. Studies since 1992 about what high performers want have consistently indicated that engaging and keeping your share of the best talent depends on providing the following:

- pay for performance on a competitive total rewards platform,
- pay adjustments and rewards visibly based on people achieving business results and growing in value in terms of skills and competencies,
- concrete performance feedback on how people are doing and what they can do to perform better, and
- a balanced total rewards approach that creates a win for people when the business wins.

It is not an issue of improving the pay and benefits of every employee, but a focused challenge to make the workplace attractive to the high performers.

TALENT ENGAGEMENT

What is the track record on retaining talent, including the top performers who are scarce in any economic environment? Gallup studies have reported that as much as 55% of any workforce are not engaged, and Towers Perrin found that one third of all workforces are negative. CNN has suggested that

8 of 10 people are currently looking for a new job and employer. The record is not good, but the opportunity to become a strong leader in workforce engagement is within reach.

Every contemporary “what makes engagement work” study shows that pay does count for high performers. The best employees consistently believe that they should be paid above competitive rates for their performance, skills and competencies and that as they grow, which they believe they must do to prove their worth, financial rewards should follow the value they add to the business closely. Also, research has shown that organizations that pay for performance are likely to outperform those that do not. It makes sense for leaders to make their organizations attractive to the most talented employees, who are likely to be working for some other organization that values them, and also to make it attractive for high performers in their organization to remain and continue to add value.

THE REAL DEAL

Some corporate leaders understand that if they start with the right rewards formula at the time of hire, they will not need to change the deal they offer to their people to create a high-performance workplace. The challenge many organizations face is gaining acceptance and alignment with a new approach to total rewards that pays for performance, skill and competence because this is often a significant cultural change from what exists in the organization at the time the change process is undertaken.

An organization choosing to be unique can gain advantage because many organizations believe that liberal and relatively assured compensation is the way to attract and retain people. Too many organizations are hesitant to offer pay and rewards geared to attract the best talent and as a result never compete for top performers. However, once organizations realize that high performers want performance, skill and competency growth rewarded and that performance management metrics linked to business goals are the best way to design rewards programs, they try to change the deal. And they get resistance from employees because they no longer offer the original deal provided when employees joined the organization.

The reasons for starting with a deal focused on top performers and rewarding high performance include the following:

- The initial offer is the time to engage candidates, meet their needs and prove to them that performance, skill and competence count. It is much easier to establish a workplace in which excellence is rewarded from the start than it is to change an entitlement culture to a performance culture.
- The deal made with employees when they join the organization should be the right one for the business and the best talent. It should suggest a win-win for the employee and the organization, communicating the organization’s expectations and indicating that people are important to business success.

To brand your organization as a high-performance workplace that is interested in acquiring and retaining talent who make up the top-performing 20% of the workforce, it is best to communicate what it is like to work at the organization at the point of hire. It is very hard to change the message about what it is like to work in an organization once the workforce has created the expectation that everyone, even the top performers, will be treated identically without regard to their value to the organization.

THE BUSINESS CASE

A total rewards strategy and the practices to implement that strategy define the deal an organization provides to people to engage them and enlist their assistance in achieving business goals. A strategy that is attractive to the top performers reflects the win-win between the organization and the workforce and is customized to be attractive to the talent the organization’s leaders believe constitutes the best chance of achieving goals.

Total rewards programs often define four components of total rewards: individual growth, compelling future, positive workplace and total pay. Each of these components includes the elements that are most often associated with total rewards as they relate to providing the opportunity for individual growth that is important to top performers; a compelling business future that people can support; total pay that recognizes and rewards performance, skill and competence and reinforces a high-performance organization and a positive workplace that defines what it is like to work in the organization.

To help define the offer that can best position an organization to acquire and retain the best talent, total rewards should be consistent with a high-performance workplace:

- *Individual growth:* Careers that emphasize the individual and provide a transparent definition of how high performance and acquisition and application of critical skills and competencies to accomplish work are part of the deal. The emphasis is more on “if you do this, here are what the growth opportunities will be like” and less on “trust me” with an unclear road to success. This means not just jobs that the employees can work into but paths to continually grow and develop throughout the time they are with the organization.
- *Compelling future:* The organization has demonstrated potential to afford top performers and the ability to reward them for applying their skills to make the business a success. People (the best talent, anyway) want to be part of the organization’s future. They want to add value over time and receive comparable rewards. And for some generations, this means a strong technology-supported future.
- *Total pay:* In addition to the competitiveness of the total pay package, how are the elements of total pay—base pay, variable/incentive pay, benefits and so forth—designed to focus on high performers? It is not merely how much total pay the organization offers, it is how it is offered and what it delivers in terms of value for investment.
- *Positive workplace:* For the top performers, the workplace should be one that visibly and clearly acknowledges performance, not one that shares what is good about working there without regard for performance and value added to the business. It is the chance to be led by and work with great people and to be energized by work colleagues. This is not to be interpreted as getting something for nothing or entitlement—top performers want a great place to ply their craft.

The challenge is designing a strategy and the resulting practice that makes the organization attractive to the best and most talented people at all levels and in all career paths.

ELEMENTS OF OFFERS

Offer letters cannot be everything to everybody from a total compensation perspective. It is essential to make choices, and most wise leaders hope to make the decisions in favor of what gets the best talent and retains them. Companies that have a low ratio of employees to revenue—for example, oil companies—may have an easier chance of doing this. But most organizations must prioritize how they will allocate total pay elements (base pay, incentives/variable pay, benefits and recognition) to get the most bang for the buck.

- *Base pay:* Base pay is a fixed cost that must be reasonably competitive because it is typically the price of admission for attracting people to the organization. Top performers, however, want base pay to increase as their performance, skill and competency improve over time. This means not just an annual adjustment but a base pay solution that is calibrated to how they grow in value to the organization. This requires a base pay system linked closely to a performance management system that monitors performance and skill growth and responds accordingly.

- *Incentives/variable pay*: This is a variable cost with “reusable” dollars that vary based on performance and rewards outstanding performance in 1 year or performance period without building in fixed compensation costs. Because fixed pay is not the “gift that keeps on giving” regardless of current performance, incentives have become a larger element in rewarding the top performers for business results, and organizations are continuing to increase incentive opportunities.
- *Work–life benefits*: An opportunity to balance successful performance at work with life outside work must be offered contingent on performance and increasing value to the organization; for example, flexible scheduling and telecommuting require the individual to continually and consistently meet performance expectations for the benefit to continue. Too often they become an entitlement, but high performers want to be selectively rewarded. Unless work–life benefits can be designed to meet this standard, they are likely to communicate that performance is not valued in the organization.
- *Recognition*: Verbal and written recognition (thank yous or appreciation for specific accomplishments and contributions) can be valuable in rewarding high performance in any organization, although some organizations may need leadership training to make recognizing and celebrating strong performance and business results the natural “way things are done here.”

What is the message given to potential best talent? What comes through to the individual your organization needs and wants is key to whether or not they choose to join you.

FASHIONING THE OFFER

After spending considerable time and effort finding the right person for the role the organization needs to fill, it does not make sense to lose this individual by providing an offer that does not communicate his or her importance to the organization and does not close the deal.

- *Base pay*: Give them a base salary solution that reflects a growing and progressive future. This certainly means more than consideration for an annual merit adjustment or a promise of remaining competitive. The offer should describe how the employee can grow both in career and in value to the organization and the resultant base pay. It is not a guarantee but communicates the factors enabling potential salary growth. The more definitive the offer can be in providing the course the employee can follow to grow in terms of base pay, the better. Answer the question about possible career paths based on employee performance and interests and how base pay growth parallels this career path. The more information the organization provides, the more likely it is that the candidate will be interested in joining the organization.
- *Incentives/variable pay*: The best talent want to be financial stakeholders in the organization’s performance—only incentive eligibility for everyone can accomplish this. What is the incentive opportunity and, in specific terms, what are the measures and the goals that are to be achieved to receive these awards? High performers are interested in incentives that are based on goals they can strongly influence—metrics that have closer line of sight for the employee. They want to know that their incentives are not only meaningful but that excellent performance can indeed earn them these incentives. Year-end discretionary bonuses based on trust will not be viewed as part of achievable total pay for a top performer. They want incentives they can have an impact on and really receive.
- *Recognition*: The best talent view feedback as recognition. That is, the best talent regard recognition less as the sort of thing organizations purchase from vendors, like trinkets, and more as acknowledging success and encouraging more of the same. Communicating to the best talent that they will have access to continual feedback about their work is essential and often requires that the role of manager and leader be redefined to include coaching, feedback and recognition as key accountabilities.

The objective is constructing the offer to respond to the reasons why the best talent want to work for and remain a part of an organization—base pay that recognizes their value to the organization and other rewards and recognition that reflect their contributions and results to the organization.

CONCLUSIONS

It is hard to change pay. Many organizations involved in change processes defer changing how pay is delivered until the last because it is a “hot” change item—pay changes get everyone’s attention. They are universally “noisy” and difficult to do effectively. That is why the initial engagement offer should suggest that the organization is not just competitive relative to total pay; rather, it has customized the proposal to make it attractive to the best talent who add the most value. So it makes good business sense to do some thinking about the design of engagement offers. Here are some points to consider:

- Fashion the offer around what the best employees want. This means a pay package that reflects the value they add and the skill and competency they bring to the table.
- It is acceptable if some talent goes to organizations offering an entitlement culture communicated by how they pay and reward. The goal is getting more than your share of the top-performing 20% of the talent pool, and they want pay for performance.
- Human resources professionals copy the practices of others. Building a business case for engagement of top performers that gets you the best talent possible, however, is not likely to be a copy-cat way of doing offers of talent engagement.

Getting off on the right foot is essential for effective talent management. Take a look at the messages your employment offers communicate and ask yourself, “If I were in the top 20% of the talent pool in terms of performance, skill and competence, is this an offer I would accept?”

Patricia K. Zingheim and Jay R. Schuster are partners in Schuster-Zingheim and Associates, Inc., a pay and rewards consulting firm in Los Angeles (310-471-4865). They are recipients of WorldatWork’s 2006 Keystone Award, the highest honor in the total rewards profession. They are the authors of three books, *High Performance Pay* (WorldatWork, 2007), *Pay People Right!* (Jossey-Bass Publishers) and *The New Pay*. Their Website is www.paypeoplewright.com.