

Are You Ready for Pay for Performance?



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Most organizations recognize that pay-for-performance plans can play a vital role in their overall talent management strategy. They understand the value of creating a “performance culture,” using compensation to attract, motivate and retain top talent in a competitive environment where qualified talent is scarce and, often, “loyalty is for sale.”

Across-the-board raises are becoming a thing of the past because they do not sufficiently reward the high performers nor recognize the leaders of tomorrow who drive organizational success. Business results are absolutely dependent on a talented work force. The risks of not addressing performance and compensation, therefore, are high and maintaining a “status quo” approach should be closely evaluated.

Despite this broad recognition of the benefits of pay-for-performance strategies, our experience indicates that many compensation managers in large organizations are still only considering this kind of program. They have yet to actually deploy an effective pay-for-performance program. Our own survey of compensation managers showed that, while close to 65 percent of respondents said their talent management strategy included compensation, less than 30 percent had implemented aggressive pay-for-performance programs.

These compensation managers identified three primary impediments to moving to pay-for-performance plans:

1. Lack of corporate commitment,
2. Inadequate budget, and or
3. Overload of tactical tasks and not enough time to focus on strategic objectives.

From our experience with companies such as PepsiAmericas that have successfully created a pay-for-performance model, we have identified several characteristics common to successful deployments. To improve the chances for success, organizations should consider these eight lessons:

1. Commitment to pay-for-performance plans must come from the top. Senior management must clearly demonstrate that change is imperative: The status quo is a formula for failure.
2. Line of business managers throughout the organization need to take responsibility for pay-for-performance programs. This is not a human resources exercise; it is a business program. Managers must have tools and training to drive a successful program and apply it to the needs of the business. Managers are the drivers of performance, not the HR department.
3. Employees must have well-defined, achievable and measurable goals. Individual goals should be aligned clearly with departmental and corporate goals, and employees should see how their individual contributions impact the bottom line. Be clear with what is at stake.
4. There must be consistency in how goals are established and measured across the organization, and standards in how

achievement is recognized and rewarded. It is important that every employee is being measured consistently, and that the evaluation is not dependent on who is doing the review or in which department the employee works. Inconsistency and inequity will yield confused, disillusioned and disengaged employees.

5. In evaluating compensation, look outside your own organization. Compensation levels and performance standards should be evaluated relative to the industry in which the organization competes. What is the industry currently paying for the position in your region? What are the standards for competence and background in particular positions? Ensure there is a means to provide relevant industry salary and performance data into the pay-for-performance process.
6. Identify the top performers who have the greatest impact on the bottom line. Be aware that these are likely to extend beyond senior management; they may well include, for example, store managers, call center supervisors, engineers or delivery drivers. Focus pay-for-performance plans on these key positions.
7. Pay-for-performance strategies should include all elements of compensation: bonus, stock options and benefits, as well as salary. Though most organizations may have limited flexibility around salary increases, variable pay can be a powerful way to align pay with performance. Communicating total rewards (including comprehensive benefits) to employees can help strengthen the message.
8. Ensure that performance programs are integrated with a full talent management strategy. Tying compensation to recruiting and succession planning can help attract, engage and retain top talent and build a strong leadership pipeline. By contrast, managing compensation in a silo, separated from recruiting and performance, will limit the impact of pay-for-performance programs.

Pay-for-performance plans can serve to help align corporate goals, business unit goals, and individual manager and employee objectives. Additionally, it identifies and drives retention of top performers and helps to fill the leadership gap pipeline—the No. 1 challenge identified in a recent Bersin & Associates study of more than 700 companies. Integrating performance and compensation further centralizes data and information about an individual. It opens up the lines of communication between managers and HR, enabling initiatives such as “quality of hire” and providing a powerful business tool. **B&C**

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