

HaRe Group newsletter: 14 October 2004

Subject: Total rewards for talented people

Kaplan, Norton, Gates and many great business leaders would agree that an organisation's true competitive advantage comes from its talented employees. Global research on the needs of these talented people has generally identified six priorities:

- Challenging work
- Career/ personal development opportunities
- Leadership quality
- Open communication
- Recognition
- Financial rewards for performance

To deal with these priorities, many successful organisations are now adopting a "total rewards" approach. The four elements of total rewards are typically:

1. Remuneration: base pay package, bonus/incentives, equity
2. Benefits: employee/family health & welfare, financial security, sabbaticals
3. Development: performance management, training, career planning
4. Environment: organisation culture, work design/flexibility, quality of work life

Each element should be tuned to meet strategic business objectives and the need for managing costs & future growth. Using this holist approach, employers are exploring more cost effective solutions to keeping their best people, rather than pouring more cash into higher salaries. Pushing up base pay is not delivering longer term employee retention. Base pay policies above the market median are becoming rare.

However, a lesser emphasis on base pay does not mean less remuneration overall. The weight of remuneration is shifting to variable financial incentives - in both cash and equity. An executive meeting performance targets is a common trigger for a large contingent payment; top executives may receive a sum equal to their base package. Clearing progressively higher performance hurdles usually delivers progressively greater payments.

Performance hurdles, for both fixed and variable pay, are tending to include how results are achieved. For example, Dell has explicit corporate values that reflect the company's preferred culture; each value element has measurable commitments on how work should be done; each "how" measure is monitored for managers' performance & remuneration reviews; half of each employee's performance rating is based on the "how" measures. (ref: AFR BOSS, October 2004)

Given these developments, effective communication of performance expectations and total remuneration "opportunity" is critical, especially with some local research saying that higher pay is the greatest driver of employee initiated job change (ref: Talent2, 10 August = <http://www.talent2.com.au/ExploreTalent2/MediaCentre.aspx>)

Your valuable employees also need constructive feedback on their efforts - their achievements should be recognised to ensure that they remain fully engaged with the objectives of your business. Of course, your performance management system must be capable of communicating your business objectives and be capable of focussing the efforts of your employees on the things that matter most to business success.

Since most studies of market leaders report the success of proactive talent management, every employer should be keen to invest in attracting and retaining quality employees. A holist "total rewards" approach will contribute greatly to engaging quality people and building competitive advantage.

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