

## Economic Downturn Influencing Rewards Strategy

While more and more companies are realizing how valuable it is to reward their employees, the global recession, in turn, is prompting businesses to change their reward strategies, according to a study released in February by Hay Group, a global management consulting firm based in Philadelphia.

“The severe contraction in the global economy brought on by the financial crisis has had profound implications for the way organizations are using reward systems to deliver their business strategy,” said Tom McMullen, Hay Group’s North American Reward Practice Leader.

The study, called “The Changing Face of Reward,” examines how the business drivers of rewards are changing due to the impact of the global downturn and other macroeconomic trends in the global economy.

In 2009, Hay Group surveyed more than 700 organizations to get their opinions across the spectrum of reward strategy to design to implementation issues—their levels of current focus, as well as their future focus. Respondents were asked to assess the current and future focus of their reward programs as it applies to their organizations.

Several months ago, Hay Group followed up its research with face-to-face interviews with reward specialists in 230 organizations across the globe to get a deeper understanding of the drivers of change in reward in their organizations and what specifically they were focusing on two to three years out. For the research, Hay Group gathered information from about 1,000 organizations in more than 60 countries.

Hay Group’s research resulted in three distinct findings:

1. Companies are looking for ways to balance the need to reward executives and employees responsibly, with growing interference in the process from regulators and governments.
2. The recruitment and retention of key talent continues to be an important strategy. With the market for these individuals remaining strong despite the downturn, the focus is on motivating, engaging and rewarding critical high performers.
3. The use of bonuses is increasing. Incentives are a critical lever for motivating performance and employee engagement, and provide flexibility of the reward cost base.

“We conducted two research studies in the past year that probed this, and to better understand the changes in reward. The focus of our research was what’s currently happening and what’s changing in broad-based reward programs (as opposed to executive reward programs),” McMullen said. “The interviews we conducted focused on the business issues facing clients, their HR/talent issues and reward issues. In this way, our analysis of what’s happening in rewards is rooted in the business issues organizations are facing and what they’re planning for the future.”

He added, “We’ve found in our work ... that benchmarking of common market practice or even best market practice is of little interest. The real interest to these companies is what organizations are thinking about doing in the future.”

The study also indicated that, in certain circumstances, bonuses are back. Variable pay (i.e., bonuses) is a key lever to motivate and engage employees in an organization’s goals. The top-performing

companies are using variable pay strategically, which is increasing the opportunity for more to benefit from incentive schemes, and providing incentive opportunities further down through the company to show that individual performance affects the success, or otherwise, of the business.

Employers also have learned from the economic downturn that having a higher proportion of compensation linked to performance builds an important component of flexibility into the overall management of costs, and can preserve jobs and talent.

McMullen said there’s a strong focus in organizations today on base pay and short-term incentive (STI) design. While this focus will continue, it is expected that more focus in the future will be on STI design as well as long-term incentive (LTI) design. In Hay Group’s interviews, many organizations indicated that their focus in the STI and LTI variable pay space is going to be on tightening up the pay-for-performance linkage and mechanics; rebalancing metrics (short-term vs. long-term, financial vs. non-financial, corporate vs. team vs. individual); improving consistency in plan design and establishment of core financial hurdles; and enhancing communication of the program and establishing line of sight between team and corporate performance measures and individual accountabilities.

Furthermore, McMullen explained that organizations are focusing on five core areas in pay-for-performance: one, multiple and differentiated rewards (both tangible and increasingly the intangible rewards, such as non-financial recognition, meaningful work, career development), are channeled more to top performers in key roles; second, building line management skills in better managing performance, including goal setting, coaching performance and recognizing and rewarding performance; third, clarifying what performance really means that includes the right metrics and the communications that are wrapped around this; fourth, balancing individual, team and enterprise targets for variable pay; and, finally, aligning, communicating and reinforcing individual goals and targets to overall strategy.

What all this means for rewards, in general, is that more organizations will be focusing on improving the alignment in their reward programs. Alignment, that is, in terms of better alignment of rewards with the organization’s business strategy, human capital and talent strategies and organization, team and individual performance.

“We see more emphasis on reward systems that are balanced between the needs of the employee with the needs of the organization, focused on total value of rewards and have a strong focus on implementation as well as design,” McMullen said. “This emphasis on rewards will have an impact on the role and accountabilities of the reward professional, which will in turn have a corresponding effect on the requirements for these roles. We see a number of skills that will need to emerge for most reward professionals.”

Those skills, he said, include: business acumen, which involves the awareness of business issues and opportunities and how they affect an organization; consulting work, which relies on persuasion more so than formal organization authority; total rewards, indicating that many organizations have not effectively optimized the motivational value of the suite of intangible rewards; and, finally, HR marketing. Marketing and communications skills are essential in ensuring that reward programs are effectively organized. **PIP**