

Aligning reward and talent management to achieve organisational success

Introduction

In these challenging times, organisations are under tremendous pressure to contain costs; yet, at the same time, they must manage rapid change as globalised markets react so quickly and, of course, they must continue driving towards long-term business goals. Surely these are incompatible objectives? Change demands investment, while cuts and redeployment sacrifice the long-term to immediate survival. HR can offer an approach that integrates talent management and reward and that will go some way to balancing these seemingly conflicting needs and making a substantial contribution to business success.

Where are we now?

Many organisations have talent programmes and all have reward schemes, but so many fail to get the best from either. Talent management is too often aimed at a small group of people in the organisation: those believed to have high potential, to be future leaders, or of particular worth. This has created egos and elites, bidding up pay for this group that is often disconnected from genuine results. It has created envy, disenchantment and disengagement among those excluded from favour, as the elite fail to deliver, which further reinforces the performance shortfall. Then organisations have to recruit externally because the process has also failed to provide the capabilities needed, when and where they are needed.

Above all they have chased themselves around in circles trying to identify, motivate, retain and develop pivotal talent that will make a real difference, when they are pursuing a mirage. In fact, roles are too interconnected for any one to be a game-changer. Single individuals rarely make that extraordinary difference without a team effort (although most incentive plans assume that they do) — even the leader who is a strategist with insight needs marketing and financial support, the contribution of technologists and logistics experts, and advice on managing and motivating the team. Anyway, markets and technologies are moving so fast that the pivotal role today may be obsolete tomorrow.

As for reward, we commonly find that people often do not truly understand the value of their reward programmes — which can be a terrible waste of money. For example, according to a 2007 employee survey, 76% of people did not understand their benefits. But even when they do, the messages communicated through the pay system often conflict with the culture and values in which the organisation is investing considerable time and effort through talent management and learning and development programmes. So, the organisation is paying for one thing, while hoping for another, and probably getting something else entirely.

Reward programmes carry significant messages about what is important within an organisation. If you want to see what an organisation values, look at what it pays for, not what it says!

Organisations need to align the reward systems with the talent messages. It can easily go wrong. For example, many organisations have benefits that are service-related, such as holidays or pension plans; they may have long-service awards. But where is long service reflected in the talent agenda or values? It usually isn't. Or consider the following real example of the damage caused by delivering mixed messages.

A professional services firm found that the behaviours encouraged by its pay and promotion system focused line managers' efforts exclusively on increasing revenue and developing client relationships. However, senior management recognised that, to remain competitive, the organisation had to improve internal teamwork and communication and, above all, provide better support and opportunity to junior staff to take on more demanding and productive roles. So the talk was of development, mentoring and building successful teams. Unfortunately, none of these was rewarded through pay, promotion or even recognition.

So, unsurprisingly, managers devoted their time and effort to building short-term revenue at the expense of investing some of that effort in good people management. This was creating

dissatisfaction among their staff and was leading to high staff turnover, which was, in turn, impacting adversely on client service. Training and communications programmes, directed to driving better people management, were failing because the messages of the reward programmes inevitably won through. So senior management were persuaded to align the reward scheme with the talent objectives — to find ways of rewarding behaviour associated with managing people, as well as rewarding those that maximised today's performance. This turned around the situation and the result was a measurable improvement in business performance over the medium term without any slowdown in short-term performance.

Where do we need to be?

In today's business climate, the fear of missing opportunity, the need to manage risk while, at the same time, encouraging innovation, and, of course as always, the need to boost the bottom line, are the key boardroom preoccupations. If the organisation is to meet these challenges effectively, it is essential to have people with the right capabilities available when they are needed. In our fast-moving world, there is no time to take stock, recruit or train. If you spot a bandwagon in the distance, you are already too late.

Effective talent management must start with a focus on the future. This includes engaging everyone with the business strategy, and business goals, so that people discuss how to take advantage of future business challenges and opportunities. A focus on the future must include identifying the capabilities that will be needed to carry out the strategies, so that people also think about how they can develop these capabilities. Talent management is all about making those capabilities available when needed. It is important to emphasise that the goals and strategies must, themselves, be coherent — it is easy during the negotiation between different interests in a company to reach compromises that will eventually lead to competing aims and mixed messages. Since the approach described here is about reinforcing a coherent message those incompatibilities must be recognised and resolved before they become a serious problem.

The goals and strategies must be expressed as a vision for the organisation that matches its values and becomes a shared understanding. While management helps to guide individual behaviour, it is a shared understanding of what the organisation is trying to achieve that enables the individual to recognise the right things to do without being told, and that equips the individual with the ability to create, or spot opportunity and swiftly take advantage of it.

Talent management should aim to direct the development of people's capabilities in line with the vision, values and shared understanding. This means providing individuals with meaningful work opportunitiesⁱ that will stretch them, deliver immediate benefits to the organisation, while also providing people with the skills for future roles, or changing roles. Achieving this requires outstanding people management on the part of line managers, or certainly better line management than we have on the whole known in the past. ACE's International HR Barometer 2011, for example, found that only 22% of the 760 HR respondents from mainly international businesses across Europe were confident that their line managers owned their people management responsibilities.ⁱⁱ

How can we get there?

While line management has always been important, it is even more so today if the organisation is to adapt rapidly to change, and mitigate the risk to the business of not having the right people in the right place at the right time. Moreover, effective line management also leads to increased productivity and discretionary effort, meeting yet another boardroom concern by adding to the bottom line. But people management is even more complex now in today's matrix structures, flexible and virtual teams, and joint venture and partnership working. It is not the straightforward linear relationship it once was.

Reward practices must be aligned with these talent management aims of building effective line management, encouraging people to constantly learn and develop, and uphold organisational values. The first question this raises is can behaviours and values be incorporated into performance management? The conventional approach uses competency assessments, but competencies are often unwieldy and inconsistently applied, and it is hard to objectively link them to pay, or appraisal ratings. Other approaches are seeking to create a link between values and appraisal ratings, or even pay awards, which are then dependent on evidence that the individual through his or her actions has upheld organisational values. If this evidence is lacking, then the rating or award is reduced, even if the person has hit or exceeded the numbers.

For this approach to be successful, it is vital that values are clear to all and consistently upheld

by top management. So often, corporate values are just empty words that mean all things to all people. Perhaps another approach is to link appraisal ratings, and full pay awards to evidence that someone is constantly striving to learn, and embrace change? This is, after all, one of the most important of all organisational capabilities.

How can performance management be directly linked to pay? Linking pay and performance can be complex. First, line managers must be able to differentiate high performance from the satisfactory. Then you must resolve whether reward and recognition are backward or forward-looking: for achieving short-term, local aims, or to reflect someone's value and future potential to the organisation? While pay can be used to reflect performance to date as well as future potential, recognition is about acknowledging the great things people do: catching someone doing something right. You can certainly reinforce the efforts and results of actions immediately; you do not need to wait for an appraisal meeting.

But recognition, like performance management, does not sit squarely with the reward function or with learning and development, but somewhere between them. Effective recognition can have much more impact than pay. But, if left with the pay people, it may end up as an adjunct to other reward programmes. It needs to be integrated into the whole approach to talent management. If recognition is considered an important behaviour of managers it needs to be part of the leadership framework and some practical guidelines need to be developed.

The line manager is the key player in reward, as well as talent. Pay and bonus reviews are golden opportunities for managers to reinforce the performance and potential message and so interpret, for example, the numbers in the pay notification letter. We know that it is relative pay that is more important to most people than absolute: how I feel about my bonus in relation to the bonus others get based on my perception of their performance. However, a CIPD Reward survey management found that most employers who give their line managers a formal role in delivering messages around pay are not confident in their capability to do so responsibly. Surprisingly, confidence in line managers' capabilities is lowest for the largest organisations. This is despite larger organisations being slightly more likely to provide coaching and development to line managers.^v

Do your line managers know how to have meaningful conversations with people about pay, performance and careers? Do they know how to assess performance and support people in their development, guiding them and giving them appropriate experience? Do they strive to align individual aspirations with future organisational needs? HR's role is to help develop these skills in line management. Reward schemes must reinforce these behaviours and must not, for example, discourage line managers from allowing their key people to move to development roles in other departments. All these processes are highly interconnected — the line manager, after all, has a line manager who must understand and be motivated to manage his or her direct reports.

Reward programmes should support the talent management programmes and reflect the vision and values established without getting in the way. For example, if a long-term team-oriented approach is desired, then reward should reflect this rather than being short term and based on individual performance. Programmes should, in their design and application, reinforce the role of line managers so that they have meaningful conversations around reward and how it relates to the talent agenda.

Concentrating on reward can mask other issues that are more important for an individual. For example, in one organisation a divisional director saw that one of his executives was not as committed as she had been. The divisional director believed that she was unsettled and might be looking outside for more money. She was important to the division as she brought in considerable revenue. So the director asked the HR director to have a chat with the executive. The HR director found that she wanted a conversation not about money, but how she was to be developed, as she did not want to do that role for much longer. Her boss could only see the revenues and the substantial bonuses the executive was getting and thought she wanted more.

Another point where reward and talent management should come together is in retention. In the example above, the executive might have moved because she wanted to be developed rather than wanting more pay. But it is important to consider some simple cash retention plans for key people. They will never work on their own; the whole employee "deal" must be right. But if everything is going well, they help get over any problems that might otherwise lead to someone looking elsewhere. But financial retention plans must be simple and worthwhile. The longer the retention period the higher the amount needs to be. Three years is the sensible maximum, given the fast moving pace of change in most organisations. A significant amount of cash in terms of a percentage of salary (perhaps one to two times salary at the end of three years) will generally reduce the likelihood of people actively looking, and maybe even resisting the head hunter's

calls. But even if they go, and the competing organisation buys out the retention bonus, you have at least made it more expensive for the opposition.

One of the pivotal roles of HR in all this is to collect and maintain data on people to help senior managers make better decisions about people. You have to know the skills, abilities, aspirations and potential of your workforce. How do you collect this data? How do you review it? How do you match it with line management assessments and judgments? How do you create a succession plan that aligns individual and organisation development to deliver those all-important capabilities when and where they are needed, thus mitigating the people risk to the business? Almost certainly a large part of this process must be devolved. It is not possible to construct an all-knowing HR function that can do this centrally; rather the HR function is a critical enabler of the process in partnership with line management.

HR must pose the questions for individuals and the organisation as a whole; what are the desired behaviours? Are the right behaviours being driven through the reward scheme? There is no simple template for designing the appropriate scheme. This comes from taking ideas and then thinking through the potential unintended consequences that may follow. There is then a process of adjusting the scheme here and there to end up with a result that minimises undesirable outcomes while maximising desired behaviours.

What is key is that all HR practices are aligned around the organisation's business and cultural goals so that they drive the organisation in one direction, rather than being separate initiatives pulling in different ways. People working in reward and talent management functions need to continue to develop their deep skills, but critically must work together to make this happen.

References

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