Total Rewards in an Era of Pay-For-Performance

by Larry Comp and Terry Lauter Comp April 2009

It wasn't too long ago that the hot topic across Corporate America was the anticipated skills shortage, and how to prepare for the upcoming "talent war." In anticipation of this doom and gloom scenario, forward-thinking companies intensified their efforts to determine why employees leave & join organizations, and how to structure their "Total Rewards Programs" to better attract and retain talented team members. Some looked to models such as the 4-Quadrant Total Rewards Model, below, to guide them in their efforts to become an "Employer of Choice" and, therefore, minimize the likelihood of experiencing an exodus of quality team members.

TOTAL REWARDS MODEL

PAY → Base Pay → Incentive Pay → Capital Accumulation	**BENEFITS** → Health Care Coverage → Retirement Savings → Paid Time Off
DEVELOPMENT → Skill Development → Coaching & Feedback → Career Development	**LEADERSHIP** → Trust & Respect → Progressive Leadership → Challenge/ Opportunity for making a Meaningful Contribution

Fast forward to our current economic recession. Most companies are NOT experiencing any type of dramatic turnover, and there doesn't seem to be a shortage of qualified candidates for many positions. As some companies continue to reduce their staffs and cut budgets "to the bone," many leaders are realizing that their Total Rewards Programs are entirely too rich for their current levels of profitability and may have contributed to a bit of an entitlement culture. For the first time we can recall, our consulting practice has been called upon repeatedly to help our clients significantly reduce their total compensation expenditures - but to do so in a manner that is fair, equitable, understandable and legally compliant, while yielding a strong pay-for-performance relationship – no easy task. A few recent cases are included below for illustrative purposes:

- A $450M global manufacturing leader needing to better align/ integrate their sales and operations efforts with renewed emphasis on profitable revenue growth.
    - Sales compensation expenditures were reduced by $2M, while providing an attractive upside "kicker" for significant achievement.

- A $300M company in the Food and Beverage industry needed to better align rewards with company/ individual performance.
    - Incentive compensation expenditures were reduced by $1M in line with market trends and the company's new pay-for-performance culture

Interestingly, in both of the above cases, these change initiatives haven't led to much grumbling or any noticeable turnover. Perhaps this is largely attributable to a realization by employees that we are living in more challenging times, in addition to the companies' efforts to communicate clearly and empathetically why they were doing, what they were doing.

Some day, the current economic crisis will be over and, hopefully, we will have learned some valuable lessons. One that stands out in our minds is that Total Rewards Programs often represent a company's largest expenditure, and, as such, should be designed carefully and thoughtfully. More specifically, these programs should meet their intended objectives, regardless of the economy. This means that frequent, regular status checks are needed, to insure that these programs truly reflect current conditions and reward the type of performance needed to drive Company goals. In other words, the Total Rewards Model of a few years back will not likely fit today's world. It's a good time to polish up the design to match the unusual business conditions we now face. Talent will always be needed, but rewards can and should vary depending on the short and long-term goals of each company.

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