



SOUTHERN REGION IPMA-HR
ENGAGING TALENT AND
CREATING A
HIGH-PERFORMANCE
WORKFORCE THROUGH
PAY AND REWARDS

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JAY R. SCHUSTER, Ph.D. AND PATRICIA K. ZINGHEIM, Ph.D.



1541 BEL AIR ROAD, LOS ANGELES, CA 90077-3021 • (310) 471-4865 PHONE • (310) 471-4859 FAX • E-MAIL: sz@schuster-zingheim.com

Visit our Website: www.paypeoplewright.com



AGENDA

- **What people and organizations want**
- **Public sector challenges**
- **Results of a study of retention, pay and rewards practices for scarce talent in public sector**
- **Approaches to create high-performance pay**
 - **Performance management**
 - **Base pay**
 - **Variable pay**
- **Moving forward on change process**

...Answer your questions



WHAT DO PEOPLE WANT?

- **Total rewards**
- **Surveys show differences in employment stage**
 - **Hire**
 - **Total compensation competitiveness and work-life balance**
 - **Career advancement opportunities**
 - **Salary increases linked to performance**
 - **Retention / engagement**
 - **Learning/development opportunities and skill growth**
 - **Employer reputation**
 - **Compensated for contribution using fair, consistent criteria**
 - **Management's relationship with individual**

...Generational differences

...Individual differences

TOTAL REWARD COMPONENTS

Individual Growth

- Investment in people
- Development and training
- Performance management
- Career enhancement

Compelling Future

- Vision and values
- Company growth and success
- Company image and reputation
- Stakeholdership
- Win-win over time

Goals Results

Total Pay

- Base pay
- Variable pay (short and long-term)
- Benefits or indirect pay
- Recognition and celebration

Positive Workplace

- People focus
- Leadership
- Colleagues
- Work itself
- Involvement
- Trust and commitment
- Open communications

Source: Patricia K. Zingheim and Jay R. Schuster, *Pay People Right! Breakthrough Reward Strategies to Create Great Companies*, San Francisco: Jossey-Bass, 2000.



WHAT DO ORGANIZATIONS WANT?

- **Provide value to customers by providing quality services/products that**
 - **Meet specifications**
 - **Delight the customer**
 - **Are efficiently provided/produced**
 - **Are delivered on time**
- **Same for public sector**
 - **Customers: taxpayer and beneficiaries**

*...Employee/employer value proposition
must create win-win relationship
for all stakeholders*



SOME QUESTIONS

- **How many are struggling with retention of scarce talent?**
- **How many believe you have a scarce-talent retention advantage?**
- **How many say you have performance-based pay?**
- **How many really have performance-based pay?**
- **How many are involved in culture, retention, pay and reward changes?**



PUBLIC SECTOR CHALLENGES

- **Scarce-talent interests do not match traditional public sector practice**
 - **Want to be rewarded for skills and performance**
 - **Less interested in public sector advantages: job security and retirement after 1-employer career (unless near retirement age)**
- **Retaining valuable employees who early retire from organization and take second career in private sector**
- **Rigid systems that do not meet scarce talent needs**
 - **Statutory regulations**
 - **Civil service system**
 - **Union rules**

*...Traditional value proposition is no longer working,
especially for scarce talent*



SAMPLE SCARCE TALENT IN PUBLIC SECTOR

- **Mostly skilled, technology-based professionals—e.g.**
 - **Engineering**
 - **Computer science**
 - **Medical / healthcare (e.g., RNs, physicians)**
 - **Science (e.g., chemists)**
 - **Finance / accounting**
- **Some represented, technology-based people**
 - **Mechanics (e.g., vehicle)**

... Compete for talent with private sector



STUDY OF “TOUGH MARKET” CITIES

- ***Forbes Magazine*** identified 100 “Best Cities for Jobs” based on economic/market data
- **SZA** targeted 20 cities for a study of workforce retention, pay and rewards
 - 11 of top 20 and all in top 41
- **Conducted structured interviews with senior leaders**
- **What are cities doing to address retention, pay and rewards for scarce talent?**

...Are cities' practices working to form high-performance practice?



WHY STUDY CITY WORKFORCES?

- **Test the effectiveness of traditional public sector retention, pay and rewards practices in scarce-talent markets**
- **Cities often good examples of public sector human resource practices in action**

...Findings may be applicable to other public sector organizations



FIVE SOLUTIONS FOR SCARCE TALENT

- 1. Pay competitive salaries with private sector for scarce talent**
- 2. Provide training / development to enable career opportunities**
- 3. Reward skills and performance**
 - Continue to move forward with and strengthen acceptable approaches**
- 4. Continue competitive benefits if affordable**
- 5. Enhance communications**

... Focus on scarce talent or skilled professional talent

SOLUTION #1: PAY COMPETITIVE SALARIES: SALARY STRUCTURE

| Feature | Traditional Practice | New Objective |
|----------------------------|--|---|
| Salary structure | Classification system / job duties | Work around classification system / exceptions; include essential skills and skill growth |
| Job valuing | Internal equity—overpay less scarce skills and underpay scarce skills | Labor market, including private sector and top payers for best people with scarce, critical skills |
| Job value increases | Length of service and years of experience | Knowledge-based / skills application and performance |
| Pay movement | Cost-of-living, across-the-board increases | Accelerate pay movement for scarce skills through pay budget |

- **Competing for scarce talent with private sector**
 - **Must pay scarce talent competitively**
 - **Paying competitively is less expensive than turnover**

SOLUTION #2: PROVIDE TRAINING / DEVELOPMENT TO ENABLE CAREER OPPORTUNITIES

- **Accelerate careers for scarce-skilled talent**
 - **Provide attractive career paths and career opportunities so scarce talent stays after organization has trained them**
- **More in-job development for new contemporary skills and refreshing skills, not just rules and regulations**
- **Provide career growth based on**
 - **Acquisition and demonstration of essential skills—not just rigid job descriptions**
 - **Taking on more responsible, value-added roles**
 - **More accountability**
- **Career coaching**

...Making acquiring and applying skills worthwhile



SOLUTION #3: REWARD SKILLS AND PERFORMANCE

- **“Pay for performance” are often “fighting words”**
- **Determine “case for change”**
- **Determine acceptable approach for organization**
 - **Many organizations are measuring and evaluating skills / performance through performance management—good at identifying poor performance**
 - **May start with rewarding increasing scarce skills (acquisition and usage)**
 - **Keeping up-to-date**
 - **Advanced, broader or deeper skills**
 - **Reward outstanding and/or solid performance (scarce talent or skilled professional talent)**

SOLUTION #3: REWARD SKILLS AND PERFORMANCE (CONT.)

| Feature | Approach for Performance-Based Pay |
|-----------------------------|--|
| # of orgs. | • 14 of 20 reward performance and/or skill growth |
| Eligibility | • Typically nonunion |
| Metrics | <ul style="list-style-type: none"> • Skill acquisition, especially scarce skills • Results or performance on goals • Performance on responsibilities |
| Reward | <ul style="list-style-type: none"> • Outstanding performance only (10% - 15% top performers) • Acceptable and higher performance |
| Form of award | <ul style="list-style-type: none"> • Cash lump-sum payment most common (13 of 20 organizations) • Salary increase • Choice of cash lump sum, time off, merchandise, payment towards childcare/eldercare |
| Award de-termination | <ul style="list-style-type: none"> • Supervisor using performance scorecard and/or point system • Review/evaluation/selection team or committee |
| Frequency | • Annual or quarterly |



SOLUTION #3: REWARD SKILLS AND PERFORMANCE (CONT.)

- **Typically do not force “merit salary increases” based on individual performance**
 - **Limited salary increase budgets for differentiating performance**
 - **Fixed pay, not variable pay**
- **Some start with recognition plans and evolve them**
 - **Merchandise → Cash awards**
 - **Add performance to skill acquisition**
 - **Improve/refine performance measurement**
- **Typically do not use incentive plans (prospective goals & award opportunity) prevalent in private sector for individuals/teams/organization**



SOLUTION #3: REWARD SKILLS AND PERFORMANCE (CONT.)

- **Lump-sum payments or awards**
 - Budgets range from 1% - 3% of payroll budget
 - Awards range from 0.5% - 10% of base pay, most commonly 3% - 5%
- **Consider lump-sum payments for specific talent situations**
 - Rewards that acknowledge success in terms of a project, cost, customer, etc., that addresses improvement
 - Performance bonus for scarce talent
 - Recognition awards for outstanding contributions

*...Re-earned, reusable dollars so people
continue to grow and add value*

SOLUTION #3: REWARD SKILLS AND PERFORMANCE (CONT.)

Recognition

| Feature | Traditional Practice | New Objective |
|----------------------------------|------------------------------|--|
| Objective for recognition | Length of service | Value added, outcome-related (new skill, successful project, breakthrough idea, team success) |
| | Not performance-based | Top performers |
| Approach | Games, gimmicks | Professional, sincere |
| Award | Merchandise | Cash, time off |

- **Except for verbal/written recognition, broad use of recognition now**
 - **Has less impact than prior years**
 - **Is viewed as having less retention value than other solutions**

SOLUTION #4: CONTINUE COMPETITIVE BENEFITS IF AFFORDABLE

- **Communicate advantage of public sector's stronger benefits**
 - **Time off**
 - **Flexible scheduling**
- **Consider adding childcare and eldercare benefit**
- **Accept that retirement is a double-edged sword**
 - **Valuable benefit if full productive career**
 - **Less valuable to younger scarce talent who don't expect entire career with one employer**
 - **Lose valuable skilled employees who retire early and have second career in private sector**
 - **Lump-sum payment each year scarce retirement-eligible employee keeps working (nonretirement-eligible award)**

...Eventually public sector will need to address retirement cost



SOLUTION #5: ENHANCE COMMUNICATIONS

- **Why organization must make timely changes**
 - **Old way was good but not now**
 - **Change to new culture**
 - **Values customers, high performance, and solid and top performers**
 - **Customer culture and community service**
 - **Enabling culture**
 - **Address traditional job security and entitlement culture vs. growth-oriented, agile culture for scarce talent**
- **Scarce talent and top performers are important and valuable—“You matter”**



SOLUTION #5: ENHANCE COMMUNICATIONS (CONT.)

- **Refreshed employment brand**
 - **What's attractive about working for organization**
 - **Pride in working for organization that serves community**
- **Balanced, integrated total rewards program**
- **Engaging people in how they can add value**

*...Face-to-face, personal communications—
constant, honest, consistent, clear,
accurate*



SURVEYED CITIES REPORTED IMPROVED RESULTS

- **Examples of reported successes using some/all of 5 Solutions**
 - **Turned the tide on competing with private sector for retaining top-performing 20% in scarce-talent categories**
 - **Changed turnover statistics to improve retention of critical skills and best performers**
 - **Enabled a cultural change from entitlement toward “high performance”**
 - **Improved extending careers beyond early retirement for essential talent**

*...Breaking the public sector practice
gridlock added value*



CITIES' ADVICE TO PUBLIC SECTOR ORGANIZATIONS

- **Customize total rewards model unique to organization and “what it is like to work here”**
 - **Pay competitively based on labor market**
 - **Pay based on skills / performance**
 - **Address employee training / development and career opportunities**
- **Critically evaluate programs based only on length of service**
- **Focus on scarce talent**
- **Communicate case for change**

CITIES' ADVICE TO PUBLIC SECTOR ORGANIZATIONS (CONT.)

- **Benchmark and adopt successful private sector practices**
- **Experiment—don't study to death (especially surveying other public sector organizations)**
- **Pilot**
- **“One size does not fit all”**
- **Adapt and innovate**
- **Don't give up—keep trying**
- **Communicate**

*...Design programs to retain essential talent
in high-performance culture*



DEFINING HIGH-PERFORMANCE ORGANIZATION

- **Meeting preset goals influences pay and rewards**
- **More pay and other rewards go to scarce, most skilled and high performers**
- **Differences in rewards match performance differences and value added**
- **Managers are willing and able to evaluate, give feedback, coach and help people understand how to improve**
- **Managers communicate and people understand why they receive the rewards earned**



TALENT RETENTION IS ESSENTIAL

- **Top-performing, top-skilled 10% - 20% of workforce**
- **Closest to core competency of what makes organization successful**
- **Potential to meet future challenges and opportunities**
- **Demonstrated intangibles that make it all work**
- **Scarce skills critical to organization**

...Retention requires rewarding critical talent for their contributions



5 ACTION STEPS TO IMPROVE PERFORMANCE MANAGEMENT

- 1. Make performance management and improvement part of organizational goal**
- 2. Focus on cascading goals and results aligned with operating/strategic plans**
- 3. Involve people in the performance process**
- 4. Emphasize ongoing feedback and coaching**
- 5. Communicate and train—do more than just design a form**



THINK TOTAL CASH COMPEN- SATION (AND TOTAL COMP)

**Total Cash
Compensation
(TCC)**

=

Base Pay

**Variable Pay
or
Lump-Sum
Award**

- **Combined solution, not just base pay**
- **Focus of communications**
- **Research shows**
 - **Organizations that reward performance retain best talent and achieve goals**
 - **Shortage for best talent will always be challenging**



AFFORDABILITY OF TOTAL CASH

- **Address core organizational issue**
 - **Right types and number of jobs**
 - **People with right skills performing in these jobs**
 - **Organizational realignment may involve skills training, attrition, outsourcing**
 - **People in unnecessary jobs or not adding enough value in necessary jobs (skill or performance issue) means fewer total pay dollars available**
- **Determine total-compensation budget allocation at budgeting/operations planning time**
 - **Reallocate some dollars from one area to another— e.g., portion of base pay increase budget to scarce talent or lump-sum awards**

7 ACTION STEPS TO REWARD PERFORMANCE WITH BASE PAY

- 1. Allocate base increase budget based on**
 - Labor market movement based on job function**
 - Where critical or core skills and competencies are**
 - Where the best results and outcomes are**

... Not equal to all areas but specific to the situation

7 ACTION STEPS TO REWARD PERFORMANCE WITH BASE PAY (CONT.)

- 2. Involve more than immediate manager in determining pay adjustment—collaborative process**
- 3. Think in terms of resulting base pay value**
- 4. Focus most on results and less on behaviors**
- 5. Focus on differentiating pay of top skills and performers by lump-sum payments or additional base pay budget for top performers**
- 6. Consider the specific labor market for skills**
- 7. Make performance a management accountability**



RESEARCH ON VARIABLE PAY

- **80% of U.S. organizations, including non-profit, have some form of variable pay (excluding management and sales)**
- **Variable pay is expanding**
 - **More organizations use**
 - **Percent of employees eligible is increasing**
 - **Variable pay opportunities are increasing**
 - **Usage of individual performance in determining awards is increasing**
- **Variable pay delivers at least 1.2 to 4 times the return on investment in employee payments—no other HR program does this**



TYPES OF VARIABLE PAY/INCENTIVES

- **Individual incentives or lump-sum awards**
- **Project incentives**
- **Team incentives**
- **Organization-wide incentives**
- **Recognition awards**
- **Combination**

*...Key is experimenting, not huge studies
that are glacial in nature—
stay agile and adaptable*



6 ACTION STEPS FOR VARIABLE PAY

- 1. Do a pilot—cash or noncash**
- 2. Base pay increase plus lump-sum award for stronger skill and performance emphasis**
- 3. Pilot on high-impact workforces**
 - Scarce skills**
 - Well-defined goals**
- 4. Start small and experiment**
- 5. Emphasize a win-win for all stakeholders**
- 6. Evolve program based on results and learnings**



MOVING FORWARD

- **Develop with leaders a business case for changing retention, pay and rewards**
- **Engage management and workforce in the change process—involvement is important**
- **Train and select managers based on willingness and ability to create high performance**
- **Strong communications**
- **Evaluation and continuous improvement**



CONCLUSIONS

- **People, especially scarce talent, generally want**
 - **Meaningful, rewarding career opportunities**
 - **Pay and rewards consistent with value-added**
 - **Not service and entitlement**
- **Public sector can no longer compete for skilled scarce talent with traditional approach**
- **Change is not easy**
- **Time now to start changing**

*...Are you and your organization
ready to start this year?*

THANKS!

ANY QUESTIONS?

