

Guide to Retaining Your Top Talent: Linking Goals, Measurement, and Rewards to Drive Business Performance

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The Strategic Dilemma

For most organizations, annual employee reviews and compensation adjustments are processes that are time-consuming, burdensome, and riddled with complexity and inaccuracy. In many cases, merit increases, bonuses, stock options, or other rewards are distributed across an organization's employees based on overall organizational success, some part of an individual worker's performance rating, or criteria so vague as to not effectively motivate and reward employees.

The core issue is that top performers are often under rewarded in proportion to their contributions, while sub-par staffers continue to receive rewards despite their deficiencies. This places companies at financial risk from budget overages, workforce misalignment, reduced morale, productivity loss, and the potential of losing top performing employees.

Motivating, rewarding, and retaining top performers is a key business objective for any business that seeks to successfully maintain or exceed growth expectations. The challenge lies in effectively aligning employee goals with organizational objectives, automating performance appraisal processes, and linking them with complex compensation policies or time-based incentive plans at an enterprise level.

Best-in-class organizations focus on performance-driven rewards systems that compensate individual contributors directly proportionate to what they achieve and what they can contribute to the bottom-line.

79%

Have Deployed
or Are Planning
Performance-Based
Reward Systems

95%

Improving
Employee Performance a
Top Priority

Rewarding Performance

clearly define goals
link teams & divisions
measure & guide
assess performance
reward & retain

Enter the Pay-for-Performance Culture

The way people are rewarded in an organization directly affects the quality of their work, attitude, flexibility, and behavior towards learning new skills.

Pay-for-performance is about building a culture of top performers by aligning goals, performance, and rewards across an entire organization. It plays a critical role in achieving workforce alignment, optimizing productivity, retaining and motivating the best employees, and driving organizational growth. Creating a performance-oriented culture means ensuring that compensation and incentives support desired actions and behaviors.

More and more companies are turning to pay-for-performance systems to automate the process and drive organizational success because variable compensation focused on individual performance can be one of the best ways of making sure worker performance meets corporate goals.

Effectively communicating clear and concise milestones for employees leads to a higher achievement rate. Linking compensation and rewards to strategic organizational objectives motivates workers not only to improve their own individual performance, but also encourages them to achieve more and make an impact on the business as a whole. Tying compensation to performance gives meaning and consequence to employee performance.

The Building Blocks of Pay-for-Performance

Integrated web-based human capital management (HCM) provides the technology platform to directly link compensation with performance to help organizations budget, allocate, track, and automate the reward process. Automating the process with a centralized system also avoids errors that can result from paper-based compensation processes and puts the necessary tools in the hands of managers and employees to drive performance.

Although this concept is not new, the systems for automating pay-for-performance have evolved greatly. Today, there are two primary models for pay-for-performance:

- Automating the review process for annual bonuses and merit increases based on individual performance ratings
- Goal-driven incentive plans outside of annual reviews that are tied to achievement of specific time-based goals or stretch goals

The first is most common, although sometimes ineffectively implemented in a paper-based system. The second is about motivating and rewarding individuals or teams for overachievement.

Rewards can include either cash or non-cash incentives and apply to any role in a company. The bottom-line for a business is to ensure that every dollar is well spent to impact organizational performance and growth.

A best practice pay-for-performance strategy that effectively manages, motivates, and drives top performance combines both models in an integrated human capital management system that includes compensation, incentive, performance, and goal management.



Solution Framework

Supporting pay-for-performance with a technology infrastructure offers a central location for an organization to pool, allocate, and calculate budget needs. Unique compensation, such as stock options or other non-cash rewards, can be added to the pool. Because the process is tied to performance, a company has a valid baseline on which to determine accurate employee compensation.

An effective strategy considers:

- Developing a compensation plan for the whole organization
- Setting and communicating goals effectively
- Motivating people to meet goals
- Measuring performance against goals

Step 1: Compensation Planning

The first step to implementing a pay-for-performance system is defining the overall compensation plan for the organization. The necessity of managing numerous compensation policies with multiple variables is challenging, and before they are defined, a company must decide its approach to compensation.

There are many factors to balance in creating a compensation plan, and there can be many separate plans for different types of employees. An employee can be rewarded through salary, bonuses, stock options, 401K contributions, or non-financial rewards, such as luxury items or gifts. Organizations must decide where they would like to be in each area as compared to the current market for employees. Also, they must decide how increases will compare to the rest of the market when trying to better retain employees.

Managing and applying these policies in a controlled manner requires constant review and oversight. Organizations must enforce policies consistently throughout the enterprise and properly factor them into budgetary plans. A web-based HCM suite simplifies the process of defining and maintaining compensation plans across the organization and ensures accuracy.

Step 2: Goal Management

Goal management systems enable cascading and matrix goals to ensure that employee activities drive highlevel organizational initiatives. In many companies, there is no method of communicating goals set by executives and upper management to individual contributors in a way that enables employees to effectively contribute to the accomplishment of those corporate goals.

Typical bonus plans often include both organization and individual performance. An employee receives a five percent bonus if he meets all of his personal goals and another five percent if the company hits its revenue number. If the company only reaches 80 percent of its revenue goal, then the employee will only receive an additional four percent bonus.

The trouble with this traditional manner of splitting reward potential is that an individual employee has no way of affecting the organization's goals in a traceable manner. This leads to the employee being rewarded and penalized arbitrarily.

Goal management in a complete HCM pay-for-performance system eliminates inconsistencies and automates the process of workforce alignment.

Step 3: Incentive Management

Once objectives are properly assigned and published throughout the organization, additional incentives can encourage and further motivate each employee to reach his assigned goals. The incentives and rewards must be appropriate to the target audience and focused on its needs.

Incentive management streamlines incentive policy administration and provides long-term planning for both market- and performance-based plans, as well as variable pay flexibility for individuals, teams, sales, or executives. Proposed actions are compared with policy rules to determine whether they fall within guidelines and budgets.

Incentive management must offer managers an easy-to-use system that enables modeling and budgeting at the enterprise level or any level of the organization. It provides companies with a mechanism for systematically planning and managing incentives while adhering to budget and equity issues and rewarding performance. An HCM system automatically routes proposed incentives to the appropriate resource for review and approval.

Step 4: Performance Management

The final aspect of a pay-for-performance model is to be able to properly measure the performance of the employees within an organization. Many companies fail to integrate their goal and incentive programs with their performance measures. Without these connections and the connection to budgetary constraints, changes in compensation become too arbitrary and subjective.

In an integrated environment, the organization defines the high level goals that cascade down to departments and individual employees. A set of compensation policies and programs are tied to those goals to give workers incentives for completing their goals. The final step is to integrate a performance review process that accurately gauges the success of an individual employee and creates a standard for comparison between workers, even if they work in different departments, divisions, or countries.

Step 1

Plan
Compensation

Step 2

Align
Goals

Step 3

Define
Incentives

Step 4

Measure
Performance

The key to successfully managing the performance review process is to change the paradigm from a yearly event to a more continuous method of tracking activities and engendering a dialog between employee and manager. Too often performance reviews are viewed as a tedious activity that must be completed at the end of each year. By integrating individual goals that derive from higher level organizational goals, the process becomes more regular and can be used to guide the activities of an employee. The HCM suite provides the platform to automate these processes and offers ongoing coaching and guidance toward achieving goals.

Keys to Success

Reducing complexity is essential to achieving an effective pay-for-performance system. With an easy-to-use system, managers will strongly believe in the philosophy and take ownership of it.

Equally important is providing a system for employees to drive their own performance and motivation throughout the year. With a pay-for-performance system, employees more clearly understand what they need to do as they are more accountable and can see the impact of their contributions. Most importantly, employees gain a personal sense of worth, and their rewards become that much more meaningful.

An effective pay-for-performance system should meet the following criteria:

System Requirements

- *Easy to use for both managers and employees*
- *Configurable with the flexibility to meet organization's specific requirements*
- *Integrates with all HR management functions*
- *Provides budget capabilities for administrators, managers, and second-level managers*
- *Allows creation of unique plans for different areas of the organization*
- *Provides quarterly, bi-annual, or annual review cycles in addition to ad hoc or off-cycle events*
- *Clear organizational guidelines cascaded to managers and employees*
- *Easy identification of top performers*
- *Comprehensive reporting and analysis tools*

Act Now or Pay Later

Forward-thinking companies are taking a proactive stance to how they reward their employees. They are strategically integrating compensation, goals, incentives, and performance management to clearly articulate and align organizational and individual goals.

These areas together are inherently the functions of pay-for-performance. Unfortunately, many organizations haven't integrated the processes that drive these areas and are faced with a number of strategic dilemmas – workforce misalignment, unmotivated employees, and under-rewarded top performers. Not addressing these crucial problems could lead companies losing more than just time and money – they could lose knowledge, top employees, and ultimately, their competitive edge.

Best-in-class organizations focus not only on individual performance and rewards, but also on developing talent and nurturing career planning, coaching, and mentoring to help promote results-driven behaviors and competencies. In a high performing organization, how employees are aligned to the organization's primary objectives is closely linked to the end results.

Defining a pay-for-performance system builds a culture of top performers to drive an organization's bottom-line and provides the foundation for future growth.

Retaining Your Top Talent

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About Softscape

Softscape is the global leader in integrated people management software that enables organizations to more effectively drive their business performance.

Recognized by industry analysts as the most comprehensive strategic human capital management solution, Softscape provides complete employee lifecycle management, including a core system of record, in a single, integrated platform for improved business intelligence. The company's award-winning web-based software enables customers to enhance productivity, improve employee effectiveness, facilitate long-term planning, reduce operational costs, and drive organizational performance. Technology suites and services include:

- Workforce Performance
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- Succession Planning
- Enterprise Compensation Management
- Workforce Planning
- Talent Acquisition
- Workforce Collaboration
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- Workforce Analysis

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