Addressing Talent & Rewards in “The New Normal”

Joanne Dahm
North American Practice Leader, Talent & Organization

Pete Sanborn
Global Leader, Talent & Organization
This report identifies two key themes companies need to consider as they *adapt* to “the new normal”, along with recommendations on how to address them.
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While the U.S. economy is showing signs of recovery, employers may believe that they will be able to revert back to tried-and-true practices to recruit, retain and reward talent in 2011. However, Aon Hewitt experts warn that aspects of the current economic cycle are fundamentally different than previous cycles and that most companies will never truly get back to “normal.”

This year, employers will be challenged to attract and retain critical talent to grow their businesses, while at the same time they will continue to face enormous pressure to hold down costs. Adding to the challenge, employee engagement is already at an all time low. According to Aon Hewitt’s 2010 Engagement 2.0 Survey, more than 50 percent of workers are either passively or actively disengaged with their work.

Companies need to be strategic and creative to recruit, retain and reward talent, while also holding the line on spending to progress as a business. Therefore, in 2011 “the new normal” will focus on creating a high performance culture that targets and rewards the most valued employees. In this scenario, companies will need to support growth in targeted areas of high opportunity, and they will need to be more effective at recognizing and rewarding high performing employees. Here, we focus on specific steps companies can take now to address these Targeted Growth and Differential Performance themes.

Targeted Growth

To meet the talent needs for targeted growth in areas of your business this year, it will be important to identify your most valuable employees and develop resilient leaders. Here’s additional detail on these important topics.

Identify Your Most Valued Employees

These key employees, who typically comprise no more than 15-20 percent of an organization’s workforce, disproportionately produce the high quality, innovative products and services that create market differentiation and most positively impact customer satisfaction, cost and revenue growth. In fact Aon Hewitt research shows that a 10 percent increase in attracting and retaining pivotal employees adds approximately $70 million to $160 million to an organization’s bottom line.

The most valued employees are not all in the C-suite, either. Critical roles exist throughout companies; the middle management level is an often-overlooked place where companies will find pivotal players hidden, as this segment is being pushed from above and below while carrying out strategy and change.

To identify the most valued employees, organizations should:

- Know who matters most to business performance.
- Identify and clearly communicate the specific behaviors and traits employees must have in order to drive the most value.
- Re-engage workers to get the lift the organization needs through:
  - Determining what drives engagement for high-value employees.
  - Focus senior management attention, career opportunities and development on the employees who provide the most value.
- Change how discussions around performance happen. Rather than annual evaluations, conversations should be frequent and involve a two-way dialogue.
Case Studies: Executing the Strategies

Company A recognizes that the necessary skills of its most valued employees change every 2 to 3 years, so the organization starts to communicate those future critical skills on an ongoing basis. They embed these messages in communication around development; enabling and facilitating business strategy; and identifying who are the high potential employees in the talent review process. This allows employees to be empowered by knowing more about the next generation skill set and the development resources to help attain these skills. This in turn helps build more high potential leaders with the needed critical skills.

Company B places great emphasis on learning from experience, so they bring together a group of 30 carefully chosen, high potential employees to solve real business problems that focus on emerging growth areas. Participants in the exercise are provided with learning objectives, an executive sponsor and a coach. The CEO is also deeply involved in the program and hosts a Q&A session at the end of the program, where he and members of his management team review the group’s results and recommendations and observe how they debate their solutions. This exercise helps CEOs become directly involved in talent and building the succession pipeline. It also helps the high potential employees accelerates their development by demonstrating their skills through tackling pressing business challenges, while at the same time, receiving exposure to executives.

Companies that are successful at targeted growth identify skills and roles that will be most critical to future success and then focus the resources and spend on developing this critical talent and future leaders.

Develop Resilient Leaders

According to Aon Hewitt’s 2010 Talent Survey, 61 percent of employers said they will increase their focus on leadership, talent development and succession planning in 2011. In light of the constant change and competing in a global economy that are part of the new normal, leaders will need to continue to improve resiliency. Without this, the ability to come through the recession and recovery in a healthy fashion will be diminished.

Leaders must learn to:

- Make sense of their own situation
- Maintain their psychological and physical endurance
- Navigate under stress and prolonged uncertainty
- Set direction
- Manage and motivate on a daily basis
- Recover quickly and efficiently from setbacks
- Nurture a sense of optimism

Leaders with these skills will increase resilience in themselves, their team and their organization. As a result, resilient organizations will be better prepared to:

- Diagnose the key issues
- Develop an integrated approach to crisis management
- Build capability to create innovative solutions
- Teach leaders to cultivate resilience in their teams
Case Studies: Executing the Strategies
Company C conducts personality testing to assess high potential leaders for characteristics such as a sense of optimism, which in the new normal is a must-have trait for a resilient leader. The firm also invites leaders to participate in simulations where they are assessed on their degree of resilience by various situations of failure and frustration. With this support and direction these individuals are able to maintain focus and maximize their leadership capabilities; it also helps them build resilient teams and form a resilient organization that will be able to better meet performance and financial targets. Whereas 10 years ago resilience wasn’t in Company C’s vocabulary, now it has become a must-have to survive as a business in the new environment.

Assessing critical talent and creating leadership development opportunities will help organizations differentiate not only in professional opportunities but also in compensation opportunities for leaders.

Differential Performance
According to Aon Hewitt’s 2010 Talent Survey, only 23 percent of organizations said competitive compensation is among their top three HR strengths. This year, employers will need to improve in this area, especially in a high performance culture, in order to keep critical talent and better manage their resources. One way to accomplish this is through pay differentiation.

Better pay differentiation helps to improve engagement and productivity levels in top performers by making sure that they are appropriately compensated. Key strategies include:

Shift to Performance-based Compensation Models
- Develop a true merit pay program for top performers where a higher percentage of the company’s merit increase budget is paid to its highest performers by carving out a portion of payroll for this group, while all others receive a smaller general pay increase.
- Instead of giving merit increases that are paid out as salary, give employees a larger, one time lump sum payout that sends a stronger performance message without increasing fixed costs. The long-term cash flow savings of lower fixed costs will easily pay for the larger lump sum awards.
- Reward employees based on a mix of company and personal performance through lower base salary increases, but the possibility for higher variable pay awards. However, companies should have more aggressive variable pay measures, by placing a stronger emphasis on individual performance.
- Differentiate development spend based on performance. For example, allocate top performers a development pool they can spend on external development and coaching.

Re-evaluate Variable Pay Programs
- Measure the effectiveness of your variable pay program by evaluating against competitors through tools such as the Variable Pay Index that rates the effectiveness of a variable pay plan using ten critical dimensions.
- Determine if the plan is rewarding and reinforcing the right behaviors. A majority of employers (60 percent allocate variable pay awards to workers at all performance levels. Effective programs allocate a substantially greater portion of rewards to those who contribute most to results.
- Develop more aggressive variable pay measures by placing a stronger emphasis on individual performance, while not completely abandoning the company’s overall performance. The weight of importance of individual performance should vary significantly by level—with little weight for top executives and considerable emphasis for lower level employees.
Case Studies: Executing the Strategies
Company D is determined to get a better ROI from its compensation spend by shifting part of its merit increase dollars to its variable pay plan. This allows it to increase its funding for bonuses from 6 percent of payroll to 11 percent in one year without incurring additional long-term expenses. Company D also believes it will be better positioned to send a differentiated performance message to its best performers through this increased funding.

Building for the Future
Catalytic mechanisms are a simple managerial tool, originally described by Jim Collins, that can help turn goals into To effectively adapt to today’s “talent recovery”, companies need to be able to effectively target and address key growth areas while at the same time promoting more effective differentiation in their rewards practices. By implementing some of the recommendations identified here, companies can begin to refine their talent and rewards strategies in a way that will allow them to continue to enhance their financial performance.
For More Information

For more information on how your organization can effectively leverage talent in today's “new normal”, please contact:

**Joanne Dahm**  
North American Practice Leader  
Talent & Organization  
t +1.847.442.3589  
e joanne.dahm@aonhewitt.com

**Pete Sanborn**  
Global Leader  
Talent & Organization  
t +1. 770.690.7281  
e pete.sanborn@aonhewitt.com
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