Taking individualization to the next level.

Linking rewards strategies with talent assessments.

You've designed a cutting edge pay-for-performance program and offer exciting perks for your top talent. And, of course, you know better than to ignore the millennials; you have a flexible salary structure, complete with gym memberships and pet insurance. All you need to do now is wait for your employees to respond with increased motivation and productivity. But do the group benefits you offer translate for an increasingly flexible workforce, or are they only benefits for those who work onsite? Are your strongest performers turning over at higher rates than others? Does it feel like rewards investments are not paying off in increased—or even maintained—employee engagement?

"One size" rewards don't quite fit anyone.

In 2015, 15 million people, or roughly 10% of the total US employment, were self-employed (US Bureau of Labor Statistics, 2016). By 2020, approximately 40% of the American workforce will be flexible (Intuit, 2010). A number of new challenges arise for organizations that move toward flexible workforces, and key among those is ensuring and maintaining employee engagement.

Importance of transparency and equity.

In a global survey of more than 1,100 working individuals, two key themes stood out:
- Valuing transparency in rewards.
- Tying rewards to the individual's contribution to the company.

Approximately 60% of respondents had no qualms disclosing their salary information, and 40% reportedly were interested in their colleagues' salary information. Transparency in rewards is about an organizational culture that exudes fairness and equity and one that is value-, skills-, and performance-based.

Total rewards reinforce employee motivation, if rewards are strongly linked to business objectives and employees know what is expected of them in their jobs. Compensation, for example, plays an important role in retaining and motivating high performers and high potentials (Bryant & Allen, 2013; Martin & Schmidt, 2010). Higher variable-pay components, like bonuses, motivate the best performers (Gerhart, Rynes, & Fulmer, 2009; Lazear & Rosen, 1981). But total rewards plans of the past were too broad, fitting no one perfectly.

One critical aspect that companies tend to overlook when considering engagement strategies is alignment of rewards with talent strategy. Talent management practices aim to successfully identify, develop, and leverage talent in the organization, and could inform total rewards to better motivate employees in individualized ways. Among those frequently used is the 9-Box talent review tool.

Use a structured talent framework to individualize rewards.

The 9-Box framework provides a guideline to measure all employees against the same standard. Using the 9-Box can help organizations identify and reward strong current and future leaders, so their engagement with the organization remains high.

The 9-Box can allow organizations to better understand their Consistent Stars' profiles and to identify critical competency, trait, and experience gaps that exist between these employees and their peers. The 9-Box can also help to identify talent placed in the wrong role and can potentially indicate a bad hire.

When organizations have identified their types of talent, they can undertake proactive actions to reward and retain the pipeline of High Professionals, Key Performers, Future Stars, and Diamonds in the Rough, and mature them toward the Strategic Few (Figure 1).

Figure 1
**9-Box framework of performance and potential.**

Individualizing rewards using talent assessment insights

The Korn Ferry Institute analyzed 10,475 leaders' performance and potential ratings to explore compensation differences across the 9-Box. Across all management levels, Consistent Stars were compensated more in terms of total pay and bonuses (Figure 2). These leaders were compensated approximately 25% more in base pay and almost 50% more in bonuses than all other employees. Compared to average performers, Consistent Stars were compensated approximately 18% more in base pay and bonus.

While these data show that talent-assessment results can inform compensation, most organizations do not directly link the two elements. Most organizations are reluctant to do so because of the potential for decisions around compensation to distort assessments about performance and potential.

Some organizations use the 9-Box and other criteria in key-talent retention programs. These retention programs may include compensation elements such as off-cycle base salary increases and restricted stock grants. They also typically include a higher touch process in employee-development and career-planning discussions. If including an indirect compensation linkage, many organizations ensure that this is done via a separate process and cycle than by using the 9-Box.

Figure 2
Compensation of Consistent Stars compared to average and low performers.
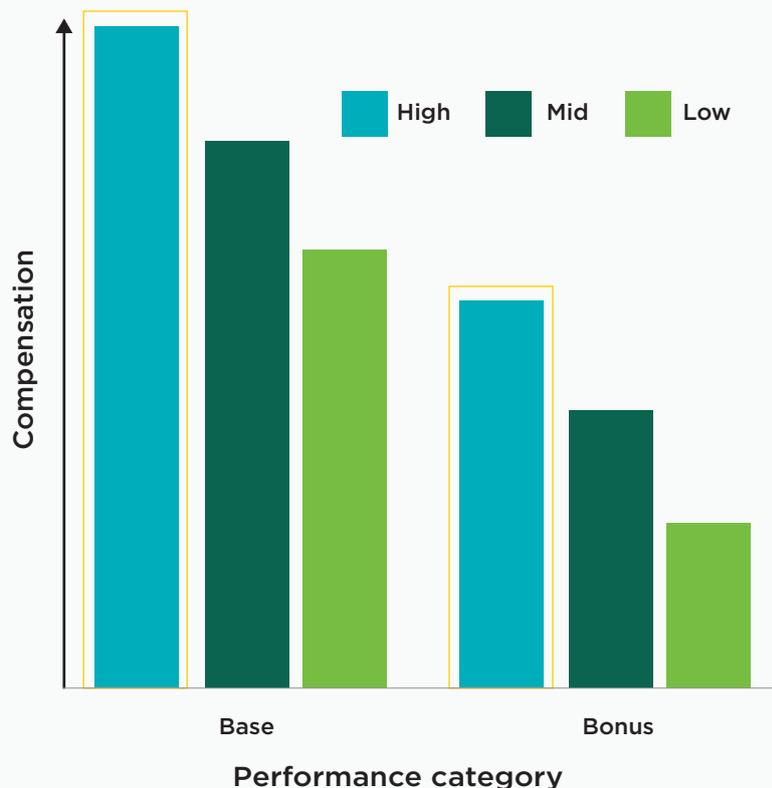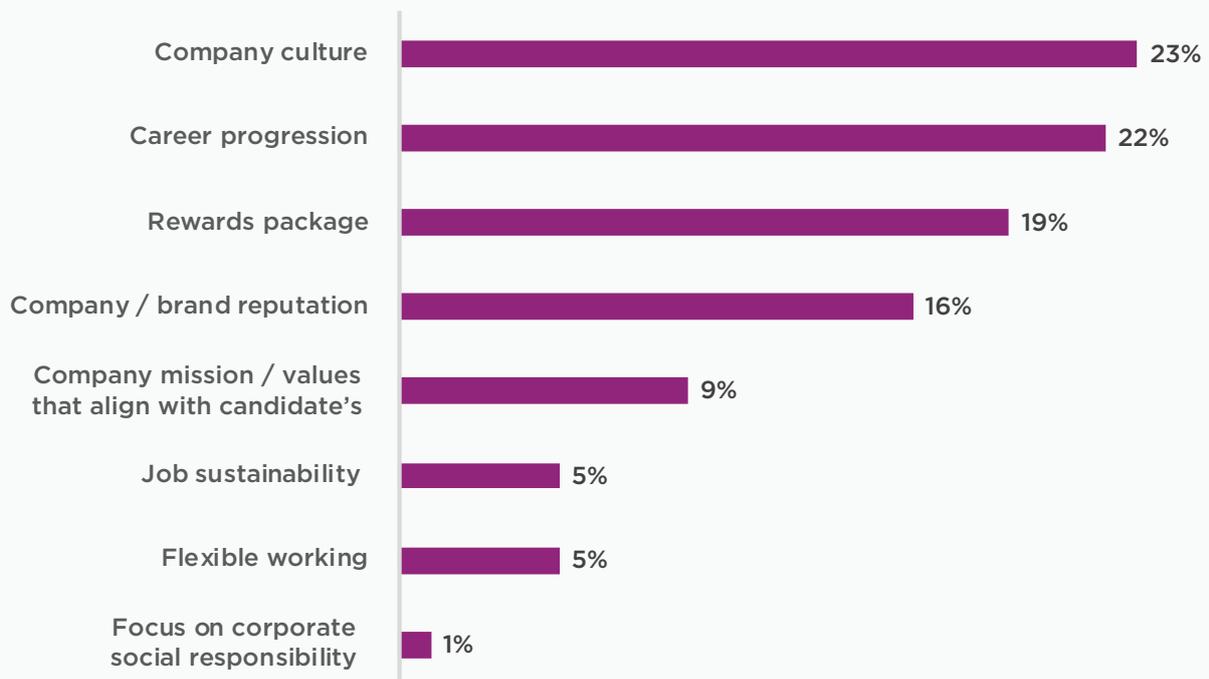

This research leveraged data from the Korn Ferry Leadership Architect (KFLA). Two performance rating items completed by individuals' managers were included: "overall individual performance" and "ready for promotion." The former was used as a proxy for performance while the latter was used as a proxy for potential. Scores on the two items were divided into tertiles and each individual was assigned to one of the nine boxes in the three-by-three 9-Box matrix based on his or her performance tertile and potential tertile.

Although rewards are simply a catalyst for performance, they do provide a critical link to talent assessments. Top talent typically leaves an organization due to an attractive opportunity to earn more elsewhere (McMullen & Stark, 2012; Figure 3).

Figure 3
Key reasons why top talent leaves an organization.

Company culture	23%
Career progression	22%
Rewards package	19%
Company / brand reputation	16%
Company mission / values that align with candidate's	9%
Job sustainability	5%
Flexible working	5%
Focus on corporate social responsibility	1%

Organizations looking to differentiate rewards that recognize top talent would benefit from the following considerations:

1. **Reaching a total-rewards mindset.**

    – Educate managers and employees about the total value proposition.

    – Develop tools for managers to target additional rewards for deserving employees.

    – Continually communicate the company's non-financial benefits.

2. **Clarifying key-talent management program.**

    – Define key talent with respect to "high potential" and "potential for what?"

    – Specify a governance structure and roles of corporate, business unit, and functional leadership in key-talent management process.

    – Ensure transparency in talent reviews and a process that minimizes ownership by business, and promotes collaboration and systematic calibration.

    – Articulate a top-talent communications strategy that includes clear key rewards messages and benefits and risks of communication, and that identifies messages, messengers, and mediums of communication.

3. **Differentiating the reward strategy for key talent.**

    – Clarify reward strategy and degree of variation/individualization for key talent, including principles, design, and communication.

    – Monitor program and rewards for top talent to ensure appropriate differentiation. This includes all cash reward elements and non-financial reward programs, on a current year and multi-year basis.

Sometimes the factors that get in the way of alignment are the very processes that support and help deliver the reward strategy. There are also factors to consider regarding the robustness of the supporting environment and processes.

Finally, creating alignment is hard work and demands a lot of time and attention from the top management. Top management can support the process in several ways by providing:

KEY QUESTIONS FOR A PERFORMANCE MANAGEMENT SYSTEM

Structure	Role definitions	Behaviors
Does it deliver business strategy and performance? Is it fair, transparent, and objective?	Do people know what is expected of them?	Does the organization encourage the right actions to achieve its goals?

1. **Open and consistent communication.**

    – Reinforce the organization's goals through ongoing, public communication. This ensures that all employees are aware of the future direction of the short-, medium-, and long-term direction of the company.

    – Be vocal about the reward strategy and how it links with broader goals.

    – Emphasize the organization's commitment to high performance.

2. **Role modelling.**

    – Every leader in the organization must be a role model of the desired behaviors for company success. Leaders should demonstrate company values through their speech, actions, and interactions on a day-to-day basis.

3. **Drive for the process.**

    – Aligning reward strategy with talent should not be seen as a purely human-resources activity. It is critical for the organization as a whole and should be positioned that way.

    – Top management should drive the process with support from human resources.

4. **Gatekeeping the process.**

    – Top management must ensure that the process s followed as intended.

    – Top management must appropriately and visibly address any deviations or exceptions to the process.

Conclusion

Successful total-rewards frameworks ensure employees' intrinsic drives are satisfied by way of a compelling and meaningful vision; a healthy and engaging work environment that allows for professional and personal development; and value-sharing in the form of financial rewards. Marrying rewards strategies with talent assessments can provide individualized options that improve employee engagement.

But don't try to address everything at once. Study the data, implement the 9-Box, listen to your employees, prioritize, then address the aspects that matter the most. Know where to start to get maximum impact.

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