
Rewards for Speed, Productivity, and Agility

Gerry Ledford, Ph.D.

Affiliated Research Scientist

Center for Effective Organizations

University of Southern California

Gerry@LedfordConsultingNetwork.com

310-318-6405

**CRF Conference - Barcelona
October 2019**

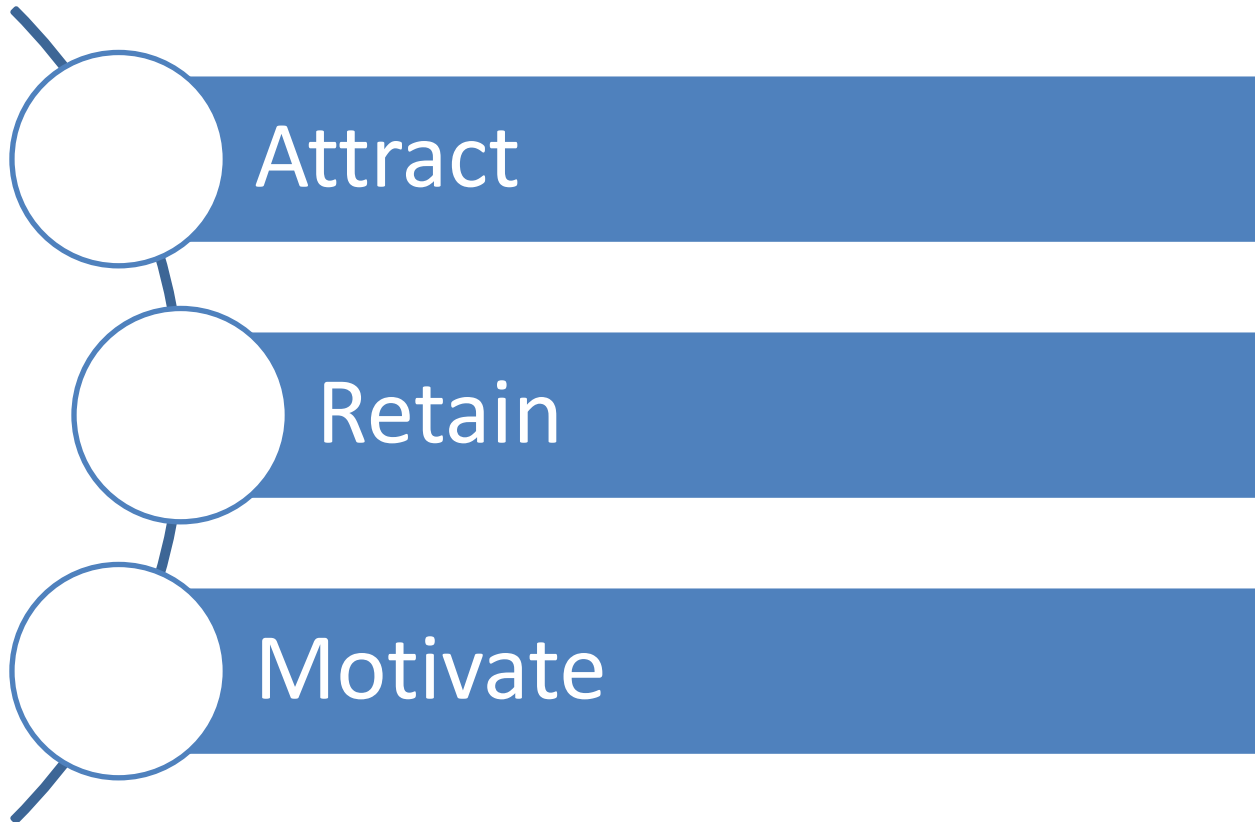
Agenda

- 1. Rewards: An impediment to adapting to disruption**
- 2. Why do reward systems so often prevent us from adjusting to disruption?**
- 3. How can reward systems address disruption?**

A Conundrum

- Rewards *potentially* are a powerful lever for change
- *In practice*, rewards are a force for the status quo
 - Everything else has changed in the last 20 years
 - There has been little new in rewards since the 1990s
- Why is there so little focus on rewards as a means of dealing with disruption?

Basic Goals of Reward Systems



Types of Extrinsic Rewards

Base pay

- Wage / salary
- Overtime
- Special pay (e.g. shift pay)

Benefits

- Vacation / holiday
- Retirement
- Health care
- Work/life benefits

Incentives of all kinds

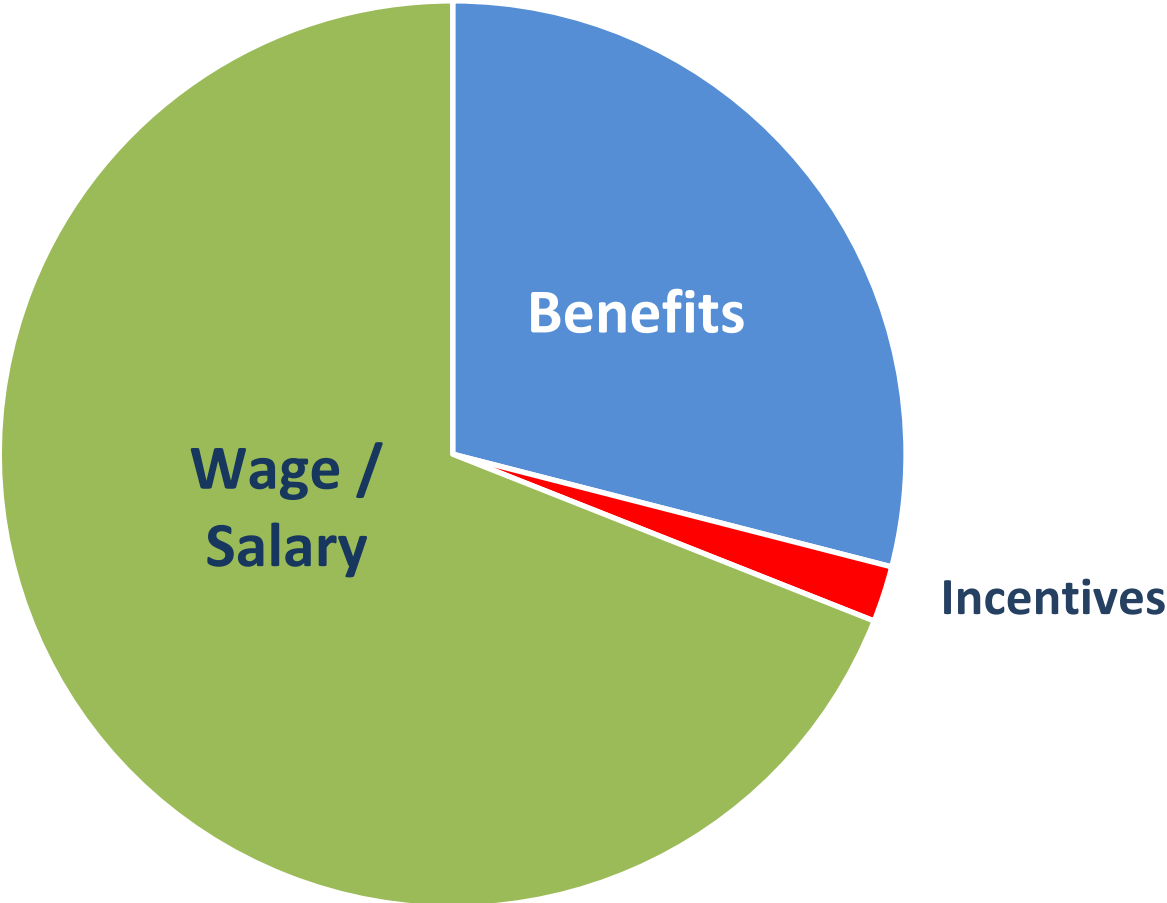
- Merit pay
- Individual / team performance bonuses
- Individual skill bonuses
- Unit performance bonuses
- Unit or corporate profit sharing
- Equity or quasi-equity incentives

Which type is most likely to change behavior in response to disruption?

Reward Types Versus Goals

	Attract	Retain	Motivate
Base pay	✓✓	✓✓	
Benefits	✓	✓	
Incentives	✓	✓	✓✓

Rewards Mix – Front-Line Workers



There Is Some Variation

- **Much more incentive in the mix at higher levels**
- **There are some differences across countries, industries, and companies**
- **However: In general, pay for performance is “all talk” for most employees in most companies**

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A Prescription for Action Should Follow Diagnosis of the Problem

- So before we get into prescriptions, what's the real problem?
- **A bold assertion: The rewards profession itself is a critical problem**
 - Wrong methodology
 - Wrong people with the wrong training
 - Wrong mission



Most Rewards Innovation Has Come From Business Managers, Not Staff

- For over 100 years, the rewards innovator typically has been a business manager trying to solve a business problem
- **Examples:**
 - Corporate incentives such as profit sharing and equity
 - Unit incentives such as gainsharing
 - Stock options and grants for executive pay
 - Salary incentives such as broad banding
 - Pay for skills, knowledge, and competencies
 - Silicon Valley rewards model

If you are a rewards professional . . .

- Remember, I don't mean you
- I mean that guy sitting next to you
- You, of course, are a far-sighted strategic thinker who your CEO constantly seeks out for help on disruption



Please Keep In Mind . . .

- **The following messages are from a sympathetic observer**
 - I have been a rewards consultant, designer, and researcher for over 35 years
 - I'm on the inside looking out

So, how is the profession getting in the way of change?

1. The Core Methodology Gets in the Way of Addressing Disruption



- **The core methodology is photocopying**
 - Market pricing / salary surveys
 - Benchmarking of practices
 - Result: rewards look very much alike across firms and industries
- **Copying is the antithesis of strategic thinking**
- **You gain competitive advantage from doing important things differently from competitors**
- **Copying the practices of others who deal with disruption may be copying failure – so stop copying**

2. Wrong People, Wrong Training

- **Rewards attracts quantitative introverts who are more like academics than even other HR people**
- **The modern organization design of the HR function makes the Rewards COE a specialized silo**
 - Emphasis on narrow technical expertise
 - Less exposure than in the past to other HR disciplines and business issues (now the province of Business Partners)
- **None of this encourages strategic thinking about and engaging with ambiguous business problems**

3. Wrong Mission

- **Maybe rewards people aren't innovators themselves – but they still may foster innovation**
- **Business leaders should take responsibility for design, rewards leaders should support them**
 - Puts responsibility where it should be to address business problems
 - Better uses the technical knowledge of rewards experts

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1. Different Goal of Rewards Design

- **For 20 years, the primary goal has been cost control**
 - Small annual increases in rewards in U.S. and Europe (below inflation in the UK last year)
 - Executives have focused on keeping wages low due to competitive pressures, global competition, and other factors
- **We need an investment mindset: Focus on returns**
 - Rewards should be a more important investment than capital in most organizations
 - We don't gain competitive advantage from cost control
 - We lose the opportunity for competitive advantage by a myopic focus on costs

2. Much More Incentive In the Rewards Mix

- **Why do we want to increase the use of incentives?**
 - Rewards work – the research evidence is clear
 - They attract the right kind of people
 - They encourage employees to figure it out – the opposite of command and control – needed in an agile company
 - Flex rewards with the ability to pay (depending on design)



3. Much Greater Use of Pay for Skills/ Knowledge/Competencies

- **Linkage to new, constantly shifting skills is obvious**
 - City & Guilds Group 2019: 46% of GB workers say they are getting enough help in developing skills for the future
- **Most such plans are are base pay oriented**
 - That makes them static
 - Failures in the tech sector show the problem
- **Bonus-oriented plans are much more nimble**
 - Retention-oriented: Military personnel
 - Skill evolution oriented: U.S. defense contractors



4. Reverse the Benefits Revolution

- **Benefits are a big, growing slice of the rewards pie**
 - What is the cost as a % of salary in your organization?
 - 20-30x the size of incentives (for most employees)
- **Benefits are a dead weight of cost and complexity**
 - They are tied to nothing but employment
 - They don't bring competitive advantage: too easy to copy
 - They attract the wrong kinds of people (most popular include paid family leave, sabbaticals, gym memberships, snacks, financial planning, pet insurance)
- **Bloated, entitlement-oriented rewards packages are the antithesis of agile**



5. Redesign Performance Management

- **Most PM techniques don't matter**
- **Therefore, go with the most nimble, cost effective approaches that get the job done**
 - Simplified ratings
 - Use technology for peer ratings: Crowd-sourced feedback
 - Frequent check-ins
- **Focus on performance feedback culture more than techniques – managers will figure it out**
 - Real business impact from that approach

A Thought Experiment: Consider Two Similar Companies

	Company A	Company Z
Rewards design leaders	Rewards experts	Business Leaders
Perspective on rewards	Cost to minimize	Investment
Role of benefits in mix	Big, like the market	Minimal, emphasize cash
Investments in new skills	Prefer to <i>buy</i> talent	Prefer to <i>build</i> talent
Pay for performance	Small, like everyone else's	Large – at least 10% of base pay for all

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Which company will be better able to attract and retain employees in the future?

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Which company will have better employee engagement and better rewards satisfaction?

A Thought Experiment: Consider Two Similar Companies

	Company A	Company B
Rewards design leaders	Rewards experts	Business Leaders
Perspective on rewards	Cost to minimize	Investment
Role of benefits in mix	Big, like the market	Minimal, emphasize cash
Investments in new skills	Prefer to <i>buy</i> talent	Prefer to <i>build</i> talent
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Which company would make a better equity investment?

Questions or Comments?

