TOTAL REWARDS STRATEGY AND DESIGN IN A CHANGING WORLD

10 steps to optimization.
INTRODUCTION

The COVID-19 pandemic and related economic fallout have impacted lives and businesses like no other event for a generation.

With the world changing almost overnight, organizations suddenly have more license for collective reflection—and an opportunity to develop reward strategies, programs and practices that are aligned to their evolving business needs. This includes developing a fit-for-purpose total reward strategy, identified as the highest-rated area for change over the next two years, in our recent global research and consulting work with clients.

Key objectives for many of those reshaping their total rewards strategy during this economic cycle are to create a new “psychological contract” between the organization and its employees, to develop differentiated reward offerings that engage employees with authenticity, empathy, and collective purpose, and to do it all at optimized investment levels.

Throughout this paper we look at some of the key themes currently impacting total rewards, and how organizations are planning to respond.

MAPPING THE CHANGING WORLD OF REWARDS

Between March and May 2020, Korn Ferry conducted pulse surveys with 7,660 respondents from 99 countries to gauge the impact of COVID-19 on rewards and benefits. Our research identified five key areas, including total rewards strategy, in which organizations plan to implement significant changes over the next six months to two years.

Key focus areas:

1. Fit-for-purpose total rewards strategy.
2. Performance management programs.
4. Job architecture, job evaluation and career development frameworks.
5. External pay benchmarking processes.
We have identified four macro-level themes that will impact total rewards strategy and design in most organizations, now and in the near future.

**INCREASED URGENCY**

Despite having fewer resources, organizations must adapt rapidly to current economic realities, with initiatives that may have previously taken four to six months, now being given four to six weeks. This is being achieved, in part, by organizations being emboldened, having seen change implemented at lightening pace during the pandemic. To achieve alignment and consensus in such a short space of time, organizations will have to lean more heavily on agile work processes. They will also need to think carefully about the composition of the change team and the level of autonomy it should be afforded.

**INTERNAL FOCUS**

Internal considerations for total rewards strategy and design become most relevant during challenging economic times. A well architected total rewards strategy that aligns with your business strategy, economic reality and culture provides a more differentiated value proposition than a “me-too” set of rewards programs that are based primarily on what others are doing. External benchmarking, while still important, becomes more of an input than a driver.

**STRATEGY AND EXECUTION ALIGNMENT**

Reward strategy and execution are fully interconnected. While both remain critically important in the current climate, most organizations are experiencing their greatest challenges on the execution front, particularly within change management.

**ENHANCED CONTROL**

Loose management processes are likely to tighten, with more structure and framework around spending and allocation decisions, and lower levels of management discretion. We also expect principles and processes to be driven more from the corporate center.
Here are the ten changes that business and HR leaders have told us they will be prioritizing, as they look to respond to the macro-level challenges outlined above:

1. **Dismantling Pay Entitlement Culture**

For years, CEOs have bemoaned a pay entitlement mindset in their organizations, especially as it relates to base pay increases. Now might be the time for action. Expect to see more variation in the level and distribution of salary increase budgets, both within organization employee groups and across industry sectors (the repeat of 3% salary increase budgets in the US is probably at an end). Salary increases for senior executives in many organizations could be frozen for years. The focus instead will be on differentiation for strong individual contribution, on critical or hot-skill roles, and lower paid employees (relative to market and internal comparisons).

2. **Differentiating Market Positioning**

Organizations are reconsidering their competitive market position, particularly for job groups and functions that provide differentiated value-add to the organization. A better-than-median market positioning strategy may not be relevant across all jobs, especially for those in enabling and support functions. Other areas where organizational strategy and marketplace practices may need to be assessed include pay mix, amount of pay at risk, and amount invested in benefits programs.

3. **Optimizing Organization and Employee Needs**

For the last fifteen years, organizations have been working towards a deeper understanding of the preference profiles of employee groups. The aim? To deliver needs-based benefits and non-financial rewards while optimizing program costs that reflect culture. Amid current cost constraints, we see this trend rapidly accelerating. By identifying the rewards that employees value most, forward-thinking organizations will be able to sustain levels of engagement while limiting if not reducing overall labor costs.
Performance management can take center-stage as a primary catalyst for refocusing leaders and employees on the things that matter most. Current business conditions, along with increased tolerance of disruption, make this an ideal time to enact long-needed changes to performance management programs focused on the key principles and behaviors needed to drive the simplification of systems, administrative processes, and implementing technologies that enable more “in the moment” performance feedback.

4. Prioritizing Internal Pay Equity

Expect a more intense focus on internal pay equity and sustainable pay equity processes, as pay equity legislation continues to evolve around the world and current events in the US spur organizations everywhere to address issues of systemic racism. Fairness and (behavioral and structural) inclusion will become higher priority focus areas for Boards and C-suite executives, both in talent management in general and in reward management specifically. It is also likely that demonstrating procedural fairness in how rewards are determined, communicated and allocated will become as important as the amounts provided—as increasingly, during challenging times, employees do indeed realize that “we’re all in this together.”

5. Rethinking Performance Management Processes

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6. Redesigning Incentive and Bonus Programs

Changes in performance metrics, goal-setting, and pay mix will obviously impact incentive/bonus pay design. Many organizations have reported altering key performance metrics, often switching from growth to profitability and operational efficiency with a broader balance in metric types. Leaders will need to step up to clarify, unpack and transparently communicate revised priorities and designs while ensuring everyone is equipped and enabled to contribute. Expect a greater use of individual employee performance modifiers and management discretion (within a framework) in determining variable pay for more enterprise-focused programs. Given the challenging business environment, we are also likely to see many organizations lowering performance thresholds and the associated payout relationships—particularly for sales forces.

7. Redefining Job Architecture and Career Development Frameworks

The combination of rapid business transformation and digital technology is changing the way organizations approach job architecture and career development. New HRIS implementations are also accelerating the need for organizations to clean up their existing job catalogs or scrap them and start afresh. The aim is to optimize labor costs and ensure jobs truly reflect the value of work within the organization and in the marketplace. Many organizations are now taking action on title inflation, personal grades, exceptions and resulting pay premiums that are difficult to sustain in an environment of layoffs, furloughs and pay cuts. While this often happens during a financial crisis, the difference this time is how quickly traditional jobs are breaking down—the work that needs doing and how it gets done are both changing fast. Organizations are seeking flexible and efficient tools to support job design, analysis, documentation, and evaluation. They also want a ‘single source of truth’ about work and roles rather than having the information in varied formats spread across different sources, platforms, and timeframes.

Total rewards strategy and design in a changing world: 10 steps to optimization.
While many employees do not feel adequately valued during periods of constrained financial rewards, it is top talent, and those with in-demand skills, who are the ones most likely to leave. Top talent, in particular, need to see value manifested in multiple ways, whether it’s through small adjustments to base pay, guarantees, reductions in variable pay thresholds, or simply by being listened to and involved.

Our research has shown that more frequent, direct and transparent reward communications are a primary differentiator in the effectiveness of reward delivery, and correlate with leadership credibility and trust. This is especially important in times of significant change and uncertainty when anxiety levels are elevated. Lockdown has taught us how total rewards communications can become more “two-way”. Many organizations will need to take that learning forward, cultivating effective feedback loops and improving the quality, clarity and transparency of communications to broad groups and to individual employees. This isn’t just about explaining the “what” and “how” of specific programs. It’s also about conveying the purpose, principles and value of these programs, and engaging employees with more resources rather than simply requiring them to self-serve.
EFFECTIVE CHANGE MANAGEMENT IS THE KEY

At times of great uncertainty and anxiety, when organizations are prioritizing the physical, emotional and financial wellbeing of employees, it becomes more important than ever to get change management right. Here are four principles to keep top of mind when planning and enacting changes to your reward programs:

UNDERSTANDING

Customize your change strategy and craft your journey through this change to ensure optimal impact and adoption.

ACCOUNTABILITY

Engage line managers more directly in the reward communications process.

ALIGNMENT

Ensure reward changes are communicated in a strong narrative that is understood by employees.

MOTIVATION

Ensure employee perspective is taken into account to enable an effective transition.
SUMMARY

To successfully optimize reward programs in today’s dynamic environment, organizations will be challenged to clarify, role model and communicate new expectations of managers and employees. While none of this is particularly easy, the investment of focus and energy in the ten priority areas outlined above should provide a strong return on investment in the organization’s human capital in a cost constrained environment. Both employers and employees will benefit from enhanced and more fit-for-purpose total rewards strategies that are designed to drive performance across the workforce, and to deliver competitive, needs-based rewards in a fairer, more differentiated way.

FIND OUT MORE

Korn Ferry is a leader in developing and optimizing rewards frameworks and benefits packages. Designed around the opportunities and challenges your organization may face over such unprecedented times, our total rewards solutions can help you engage and incentivize your workforce, eliminate overspend, and attract, retain and power up world-class talent.

Contact us to find out more about developing a fit-for-purpose total rewards strategy.
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About Korn Ferry
Korn Ferry is a global organizational consulting firm. We work with organizations to design their organizational structures, roles, and responsibilities. We help them hire the right people and advise them on how to reward, develop, and motivate their workforce. And, we help professionals navigate and advance their careers.