

WORKSPAN

CREATING A COMPENSATION PROGRAM FROM SCRATCH

5

INGREDIENTS

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It's the opportunity of a lifetime — well, at least in the career of a compensation professional. Your organization is transforming its mission, vision and strategy, and you are asked to create a compensation program that will support the enterprise's new direction. Rewards are where business performance and individual performance meet, and you have the chance to shape the future direction of both. It's a complex task in today's rapidly evolving and highly dynamic work environment. But fear not: To help you navigate this complexity, we've compiled five ingredients to help cook up a compensation program that supports your organization's unique purpose and workforce — for now and for years to come.

RECIPE FOR SUCCESS: THE FIVE INGREDIENTS

Tackling some fundamental questions before diving in to the typical data-driven or market-driven tasks you're accustomed to will help ensure a more sustainable program aligned to your organization's purpose and its employees.

- 1 Purpose: What's our Why?**
Business purpose should be at the heart of compensation program design, but corporate social responsibility is increasingly important. Are both reflected in your pay programs?
- 2 People: Who is the design for?**
Understand what the talent of the future will be asked to do, including how their work will be organized, the role of critical skills and the need for continuous change. Recognize that jobs in the traditional sense might not exist.
- 3 Value: How do you listen to design what is valued?**
Leverage design thinking, listening tools and strategies to optimize your spend and create the right programs that employees value.
- 4 Transparency: What will it take to be Glassdoor ready?**
Assume that employees will actually speak to each other about their pay and ensure all programs are transparency-ready.
- 5 Communication: Are the message and experience consistent?**
Link it all together and make it easy for employees to consume your programs. What's the employee compensation experience?

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PURPOSE

NO. 1 INGREDIENT: PURPOSE

Understanding and clarifying your organization's purpose has always been a fundamental step to pay program design. Purpose captures why the organization exists and how the strategy supports its mission. By grounding compensation program design in purpose, you can confidently address other important questions that pertain to pay: Aligned with what? Engaged toward what? Accountable for what?

Today, it must be more than that. Employees increasingly want to know and support what their organization stands for, and leading organizations embed the organization's corporate social responsibility objectives, including social and environmental purpose, into program design. Here's how you might pull the thread on that analysis for your organization: Imagine, for example, that striving to build a diverse workforce that reflects your customers and your communities is part of your organization's purpose. As a compensation practitioner, that means you need to scrutinize new-hire and promotional guideline policies. How will they deliver on the promise of equal-pay progression opportunity from day one?

IN-PRACTICE SNAPSHOT

Support a Living Wage Across Our Employment Communities

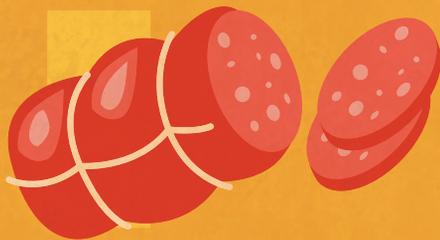
Design implication: This means that following the market, at least at the low end of your salary structure, might not work in all markets. How might we determine the "living wage" to support a family of four in each market and set our structures informed by those data points? How can we make it work balanced with the organization's financial objectives? What are the trade-offs?

Prove Environmental Sustainability

Design implication: Have we explored how our 401(k) investments and benefits can be aligned to this purpose?

Build a Diverse Workforce that Reflects Our Customers and Communities

Design implication: Consider designing promotional guidelines that provide increases in dollar amounts to raise salaries in line with the value of the new job versus a set percentage increase of 8%-12%. This policy supports fair treatment of all candidates – internal and external – by providing equal-pay progression opportunities regardless of previous work and pay history.



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PEOPLE

NO. 2 INGREDIENT: PEOPLE

Many of us are working with programs and infrastructure that were designed for operating models and jobs that no longer exist. Organizations are transforming, the way people work is changing, and pay programs need to keep up or risk becoming a competitive disadvantage.

Many of the fundamentals compensation professionals were taught, even just a few years ago, may not necessarily be right for your organization. Consider even the basics, such as your job-level framework, and ask yourself the following questions:

- In the age of outsourcing, partnerships and automation, what levels do I actually need?
- Do I need to better articulate knowledge-worker levels and focus less on “big” people management roles in my hierarchy?
- If the concept of a job itself is called into question, and if agile teams and work assignments are formulated and disbanded, how will I evaluate work?
- Given that skills are the new currency for both rewards and progression, are level and associated pay about the job, or are they about the person?

You may conclude that for some or all of your organization, you won't introduce levels or titles at all. What's the purpose of traditional job evaluations if static jobs won't exist, if a person is going to be deployed to one assignment after another as teams are brought together and disbanded, or if the next assignment is based on the combination of skills you accumulated from the previous ones? Maybe zero or a few levels are required. Base salary may be linked to the sum of the skills used. If skills are the new currency of market pay for some parts of your organization, the compensation practitioner may be better served by ensuring skills can be fairly assessed and benchmarked. In a way, it's a human-centric approach to pay design.

The same analysis of what work is going to be done will inform the performance you need. It starts where it always has: confirming what is most important to the company's overall success — operational, relational (e.g., service, leadership and teamwork), financial and social. But what performance will you reward? What's your time horizon? Are parts of the organization focused on long-term value creation or on shorter-term milestone achievement? It may be time to rethink whether all employee segments should be tied to an annual incentive plan. Does the pace of performance follow an annual cadence? Do our old assumptions that everyone must be differentiated based on individual results make sense if there is a focus on collaboration? You won't throw out all your pay-for-performance objectives, but it might be time to question if you have been measuring the right things, at the right pace and at the expense of collaboration. The way future work will be designed demands a change.

IN-PRACTICE SNAPSHOT

Imagine that work in part of your organization will be completely agile and project-based, where employees are assigned to new teams and projects as often as once a month, each requiring a slightly different focus. No more jobs, just work assignments and lots of collaboration.

Here are the questions organizations in this situation are asking: Will our old 15-level hierarchy with job-specific ranges still work? Will hierarchical job titles actually mean anything from one day to the next? Is hierarchy right for the new culture?

Some are considering scrapping titles and reducing to a handful of levels. Where will all this take us for base salary program design? It seems that we will pay for skills, not jobs. How will our talent colleagues inventory and assess skills in order to staff employees on project? How might we benchmark the key skills?

Now imagine that your salary design for an applications programmer who regularly also served as scrum master looked like this:

Base rate for a broad level that applies to everyone
+ Premium for cloud application expertise
+ Premium for agile project management requirements
and capabilities
TOTAL FIXED PAY

Radical? Maybe. But if you think of the workforce you need and think of how they will experience compensation in the external market, you might just be closer to a sustainable approach than you think.



NO. 3 INGREDIENT: VALUE

To create an effective compensation program, you need to understand what's valued. The best way to accomplish this? Listen to employees, leaders and executives. This isn't new. Now more than ever, listening is at a whole new level. Here's how: involve employees in design up front and provide them with the right choices when it comes to pay delivery.

First, there is how you design the program — involving employees and leaders from the beginning. Consider using a design thinking approach to craft your compensation portfolio, which puts the “users” (employees, managers and executives) at the center of the design process. Or, try running virtual focus groups leveraging technology that allows you to get quick, real-time feedback about a number of alternatives.

Next, there is the opportunity to move the needle on choice. Employees want both a choice and a voice when it comes to the way in which they receive pay. However, do you understand how much choice is really necessary? And does it align with what you can afford? Testing different alternatives and trade-offs with employees will help you target your spend on the programs and delivery mechanisms that will provide the highest value. Your new design might even provide for the kind of choice that today's consumer might expect.

While traditional compensation programs could absolutely be sufficient, employee input will allow you to explore whether unconventional ways of rewarding employees will be optimal for your evolving organization, its workforce and your commitment to transparency, choice and meeting diverse needs.

IN-PRACTICE SNAPSHOT

Using design thinking to develop rewards programs

Some organizations are taking HR out of the design process from the beginning in order to bring together teams of “users” (employees, managers and executives) to develop programs through a series of design thinking sessions. These start with both employees AND leaders imagining how they would best experience a program (within real constraints such as budgets and business requirements). They design from the perspective of how they would like to experience anything from their base salary increase to their bonus to their PTO. The key is not to get fully developed programs, but to get ideas for testing with more users before too much investment is made in fully fleshing out a design that will fall flat.

These groups might stay together to provide feedback on enhancements to the programs as they go. How many of us have asked for feedback only when an idea was so far developed that responding to the feedback set us back months and months? Listening takes time, but done right,

in a flexible, just-in-time way, it saves time and almost always delivers a better result. Imagine what the iPhone would be like without all that user feedback. Why would we design something as personal as rewards programs without the same approach?

Real trade-off decisions explored:

- *What if I could redirect some of the money my company spends on my benefits toward student loan repayment?*
- *What if I could invest part of my salary or bonus for a few years in a future paid sabbatical?*
- *What if I could choose what portion of my annual incentive rewards (or my new hire grants) I receive in cash and company shares?*
- *What if our benefits were designed in an inclusive way to allow all employees to experience in a similar way a host of programs, such as leaves and fertility benefits?*

NO. 4 INGREDIENT: TRANSPARENCY

Everyone is talking about pay transparency: employees, board members, stakeholders, consumers of social media and even government regulators. Your company's narrative is being written for all the world to see.

Macro forces aside, social norms have changed. When bonuses are paid and salary increases communicated, employees will compare notes at the water cooler and expect it to all make sense. This is your opportunity to make the design and delivery of your reward programs transparency-ready.

From a design perspective, this might mean challenging the status quo. Think about the concept of differentiation. Does differentiation apply to all jobs, across all compensation programs? For example, are we clear about what we gain by small levels of differentiation for successful performers? What messages do we want to send by differentiating our top performers? If we say that base salary is about keeping pace with the market, about your skills and contribution, why would we publish merit matrices that tie increases to last year's performance? Does having managers agonize over a 2.5% versus a 2.6% merit increase support transparency-ready design? If many compensation professionals had to do it all again, they would have managers choose from a more defined range of increase choices and not leave anyone justifying a 0.1% difference. If you couple this decision point with the previous two building blocks, you might find that you end up with universal pay by level and skill premiums added.

Don't be afraid to challenge the status quo. It is up to you to own the pay narrative and build a culture at your organization where people can make informed and accurate decisions. Making the assumption up front that employees are talking to each other about pay will help reinforce this culture and build a collective understanding internally rather than having them turn to external sources.

If compensation design is business-aligned and a key part of enabling the strategy and purpose of the organization, then leaders and managers should be able to explain it. They will play a key role in supporting your programs if you provide them the right tools, training and technology. If you can inspire confidence in leaders, they will be your advocates in ensuring an authentic employee experience aligned with your purpose, total rewards philosophy and talent strategy.

WHAT THE RESEARCH SAYS

According to the 2018 Willis Towers Watson "Getting Compensation Right Survey," 48% of employers globally already have taken action to increase the level of transparency in pay decisions or are planning to do so in the next three years. Yet, despite these efforts, only 53% of organizations globally — and only 45% of organizations in North America — say their employees understand how their base pay is determined.

IN-PRACTICE SNAPSHOT

A New, Old Approach to Merit Increases

Some organizations are simplifying merit increases by providing the portion of the annual increase that is attributable to market movement as an across-the-board increase. Manager discretion only applies to deciding who might receive an above- or below-standard increase from a set budget — reducing the number of iterations and focusing the conversation on "why different" in support of an organization's simple and transparent objectives.



INGREDIENTS

NO. 5 INGREDIENT: COMMUNICATE

Many perfectly designed programs fall flat through poor communication and delivery. This is your chance to decide how to modernize the communication vehicles that will bring the programs to life and determine how employees experience them. What if there were chat rooms where managers could give advice to each other on making decisions? What if messages about rewards were being communicated to an individual in a way that recognizes his or her personal situation? Today, that's all possible. Employees are using portals, mobile apps, social media and the internet to manage their lives and connect with one another. Compensation can and should be delivered and managed in the same way. Don't undermine great design — enhance it through providing a consumer-grade experience.

FUTURE COMPENSATION PLANS ARE IN YOUR HANDS

Even if you haven't been handed all the tools and gadgets, given today's pace of change and the realities surrounding the future of work, we need to think about all of the ingredients that support effective compensation program design.

At this point in history, you as a compensation professional have, to a certain extent, been handed a blank sheet of paper. What recipe will you write? What future will you shape? **ws**

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