

## HaRe Group newsletter: 21 August 2003

**Subject: Not rocket science, just good business sense**

On Tuesday, 19 August, I had the pleasure of addressing more than 60 HR professionals during HR Week, an event run by AHRI. My subject, "**Aligning reward with business needs - a holistic view**", covered many issues, all directed to focussing HR & reward strategies on organisational success.

Designing and executing reward strategies is not rocket science - however, there are many threads that need to be woven together to create an effective remuneration framework. In these notes, I have picked out a few of the more significant aspects of my presentation, including some issues raised during and after the session.

### *Why take a holistic approach? Very simply, because market leaders do*

There is strong evidence from many sources that supports a holistic & strategic approach to managing people. To help drive longer term business success, market leaders have their HR functions working in concert. These high performance organisations understand the importance of harmonising all HR strategies to ensure that there is an employment environment that will encourage talented people to thrive and do their very best.

### *The importance of organisation culture*

Defining organisation culture gives business leaders an essential tool for tuning their employment environment. HR & reward strategies should promote a constructive culture that helps in motivating & retaining talented employees. However, most Australian companies don't have high performance cultures - senior managers tend to encourage behaviours that stifle success. Many companies are lacking effective reward strategies because managers don't have a holistic view of HR management, or they simply fail to recognise good performance.

### *Harmonising reward and other key HR strategies*

For greatest success, all HR strategies need well defined links to the organisation's vision, values & business strategy. Business objectives and the business drivers (ie. the capabilities required to achieve these objectives) should be the platform on which all HR strategies are built. The nature of the primary business drivers should determine the general thrust of the HR & reward strategies.

### *Case study*

In a case study, "market penetration" was found to be the primary business driver. This type of driver promotes the importance of staffing (eg. talent selection) and particular reward programs, rather than other HR programs. Given this direction, preferred organisation culture and market pay alignment were both defined so the most effective reward objectives could be established. A final critical step in formulating the reward strategy was reviewing the stated needs & priorities of managers & staff.

The main elements of the reward strategy include: competency-based position bands, rather than job evaluation-based levels; market sector pricing, rather than internal pay relativities; total employment cost, rather than salary plus benefits; low base pay/ high incentive ratio, rather than a limited corporate bonus; value-based measures, rather than accounting measures.

The importance of effective performance measurement cannot be over-emphasised. Individual objective setting, regular feedback and a sound performance appraisal process should be closely linked to all remuneration reviews. A balanced scorecard will provide employees with a broad appreciation of business strategy and how they can help drive future success.

Organisational values will also be expressed in competencies, which form a key part of the performance appraisal process. Base pay will be reviewed in equal consideration of performance objectives and behavioural expectations.

Short-term incentives will be tightly linked to business outcomes. Measures will be fair & objective, meaningful to the employee and transparently influenced by the employee's efforts.

Long-term incentives for the executive team will be equity-based and will have performance hurdles using relative TSR performance of a company peer group.

***In conclusion...***

It's not rocket science, but "effective" reward strategies & programs can only be developed in consideration of all the issues outlined above.....and more. Of course, the particular business driver in the case study has promoted one type of HR strategy - your organisation probably has another primary business driver that would promote another type of HR & reward strategy.

There is no doubt that all HR & reward strategies should work in concert for an organisation to engage the best people and to become a market leader - a high performance organisation.

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