

Subject: What Reward Strategy?

In some recent newsletters, I have promoted the need for an effective reward strategy.

- Why?
- What defines a reward strategy?
- How should a reward strategy be designed?

In my experience, a properly executed, well communicated reward strategy will make a significant contribution to attracting, motivating and retaining talented employees – *the people who can create and sustain the competitive advantage of your organisation*. A surprising number of companies don't establish a reward strategy until the loss of valuable people forces the issue.

The most effective reward strategies define the long-term direction for performance-based remuneration management. The main areas of the strategy usually address market pay alignment, position classification & banding, base pay structures, performance planning & reviews, incentives, benefits flexibility, and (not least) recognition. The strategic options include:

Base pay	Hierarchical and administered through a multiple grade system	or	Administered through a few broad grades	or	Administered through career bands – no pay barriers
Alignment	Emphasis on internal relativities	or	Emphasis on competencies and the external market	or	Emphasis on job families within the market sector
Measures	Financial with a short term focus	or	Include skills & competencies, with a medium term focus	or	Quantitative with a longer-term focus
Performance assessment	Centres on each individual's contribution	or	Covers a range of team and individual aspects	or	Centres on division, group, or organisation-wide outcomes
Incentives	Emphasis on opportunity for high individual performance-based pay	or	Balance between fixed base and variable performance pay	or	Emphasis on higher base pay and longer term profit/ equity sharing

An organisation's Dominant Business Style will inform which of these options (or variations) are more appropriate. Choices relating to employee recognition, total remuneration management, periodic reviews, decision making protocols, flexibility of benefits, entitlements, etc., will be enabled by understanding your Preferred Organisation Culture.

Effective reward strategy design will usually require:

- An assessment of the dominant business capabilities that will drive success;
- An evaluation of the most desirable organisation culture;
- An understanding of market sector practices and job family trends;
- Knowing the needs & priorities of key employees.

Too often, employers make the mistake of copying the remuneration practices of "successful" organisations, or using proprietary systems designed in the 1970's (or earlier). Talent management in this century demands a reward strategy that reflects your unique business advantages and employee priorities. In particular, your performance & reward practices need to be compatible with your talent management objectives – viz. attracting, motivating and retaining the people *your* business needs.