Innovating Reward as a Strategic Contributor to Talent Management

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Transformation or Timid Tinkering?

The emergence of talent development as a new, more evolved form of training and development reinforces the scale of transformation that has been underway within this area of talent management. New insights from neuroscience and behavioural economics and new technologies including social, mobile and cloud are just some of the drivers leading to a new focus on creating an environment in which talent can develop. Looking back at the focus on delivering training ten or even five years ago and comparing this to the type of activities talent developers will be undertaking in another ten years time (learning app designer, content curator, community manager etc) it is clear this has been a revolution, not just an iterative improvement.

Other areas of talent management reviewed within this book have been through similar levels of change. Recruitment / talent acquisition is probably the most obvious example and the shift in focus from recruitment advertizing to sourcing, employer branding and external talent communities has been just as radical as the change in the talent development space. But most other areas have or are now seeing a similarly transformational scale of change. But what about reward (meaning the topic and activity relating to compensating and engaging people through monetary and other exchanges)?

Well, although there is a lot of talk about the new pay, as yet, there is not that much difference between the new and the old!

The Past and Present of Pay and Psychological Contracting

The best way to understand the opportunities for improvement in reward is to look at how reward has developed and how it works now, in terms of the objectives that it is intended to support.

The first objective is to attract potential candidates into some form of relationship with, and potentially an application to join, an organization. This objective has traditionally been met fairly simply by providing employees with a competitive fixed base pay.

Secondly an employer needs to retain the employees is has recruited. The traditional response here, at least for executives working in the US and UK, has been to offer long-term incentive plans (LTIPs) or other share schemes where leaving the company will result in a loss of unvested investments.

It is also important to maintain appropriate external relativities to other employers operating in the relevant job market and to ensure internal relativities and perceived as fair as well. This is often achieved though the use of job evaluation, although this is now used less than in the past, with employers focusing instead on progressing employees within broad bands defined for different job families.

Rewarding tenure can also still be important in some jobs and sectors but is generally seen as a lot less important than it once was. Instead of this, the third objective for most employers will be to motivate employees to perform. The typical means of meeting this objective is a variable incentive through some sort of bonus programme in which payment depends on achieving a type and level of performance, or broader contribution, that the organization requires. This contribution is likely to be defined based upon multiple factors, some focusing on outputs, usually measured through achievement of objectives, and some inputs, usually measured by the demonstration of certain behaviours or competencies. For a while there did seem to be a trend towards focusing reward on the achievement of new or improved skills as a means of encouraging flexibility and investment in talent development but this trend has largely been reversed because of course improvements in capability cannot guarantee improvements in performance.

The use of variable pay has been reinforced through a fourth objective which is to support business flexibility and risk management by ensuring that reward can increase or decrease in line with an organization's ability to pay.

Organizations therefore often focus part of variable pay on organizational performance though a gain sharing or profit sharing arrangement, particularly at senior management levels. Some bonuses also focus on shareholder returns although since these are not under executive control this is not usually viewed as an effective measure of performance.

These days the relationships between these objectives and the types of reward which are offered are much more complex. For example a performance bonus is just as likely to be as seen as important for recruitment and retention as it is for motivating improvements in performance.

Attempting to navigate through this complexity, many employers have extended the range of their rewards to include additional benefits, often provided through a menu of flexible benefits.

Organizations are also paying more attention to the psychological contract between employer and employee. This articulates the intangible factors seen as important by the employer and employee and which complement the more tangible and especially financial factors which Reward tends to focus on. Combined together, the tangible and intangible factors offered to the employee make up the employee value proposition and a high level, general summary of these provide the employer brand. The more tangible as well as some of intangible part of this offer to an employee, such as learning and development support, the work environment and work-life balance, are the organization's total rewards.

The common theme about all these concepts is that it is the employee who judges the value of the tangible and intangible rewards they are offered. Responding to this, employers have also been putting more focus into reward communications for example by producing total reward statements to help employees understand the value of the offer.

Issues with Performance Based Pay

Despite the general shift from fixed to variable reward, there is little evidence that offering enhanced pay for higher performance has led to increased motivation or real gains in performance. This should not have been a surprise to us. After all, our understanding about the limited impact of reward dates back to the 1940s and 50s with research by Abraham Maslow and Frederick Herzberg but has also been reinforced and extended by more recent insights emerging from behavioural science, neuroscience and behavioural economics. These insights increasingly suggest that there are major difficulties involved in attempting to link pay to performance.

Firstly, we know that reward is a hygiene factor rather than being a true motivator, i.e. it has little ability to motivate but if it is inappropriate or even just perceived as inappropriate it can be a powerful demotivator. People may also end up feeling punished if they do not receive the full potential or expected payout.

In addition, although performance based pay may work for employees working on a production line it has a particularly low impact on Peter Drucker's knowledge workers. The over justification effect, identified by Edward Deci, suggests that the only thing extrinsic reward does do for these people is to reduce the intrinsic motivation that they started out with. For example many investment bankers are less interested in high pay than the symbolic value of this payment and the way pay helps them compare their performance to their colleagues. (You can see this very clearly if you happen to be in an investment bank when the annual bonuses are announced.) By encouraging bankers to see reward as a proxy for their value we have encouraged them to become extrinsically motivated and have also got locked into a very expensive system for communicating their comparative worth.

Incentives will also not work, even for production line workers, if they are seen as too small and unimportant. They will also have limited impact on those who are not materialistic and have their own value system or are just more focused on fairness and equity than they are on maximizing their own wealth.

Any impact of variable reward is also likely to be short-term so an organization may find someone will be more engaged for a short period after receiving a reward but they will very quickly return to the former level of rather lower engagement. And the reward the person has received very quickly becomes an entitlement and therefore an even higher reward is required next time to produce the same increase in engagement.

Rewards can also encourage short-termism and reduce risk taking which can lead to a culture of compliance rather than improvement. I have even heard it suggested that it is because reward practitioners tend to get better paid than their other talent management colleagues that we see less innovation within the reward space!

But inappropriate reward can also encourage excessive risk taking as we saw with the activities of investment bankers which triggered the recent global recession.

I also had an interesting experience working with one of the big global banks shortly after 2008 financial crash. This firm's CHRO put the world's troubles down in no small part to the HR Business Partners who supported the firm's investment bank. She explained that when it came to the annual salary review she got no trouble at all from most HR practitioners but the HRBPs in the investment banking group would be up in arms. Basically they had gone native and taken on the characteristics and behaviours of their client group. This, together with their own comparatively high rewards within the HR function and profession, had stopped them seeing the dangerous consequences of the ways that the investment bankers were being paid.

Various studies have also shown that high pay, or the potential for high pay, reduces productivity and performance and that at a certain level of reward organizations no longer have to pay more to get higher performance.

Individually focused reward can also sabotage work relationships, hindering team working and collaboration. This is important as a high proportion of work undertaken by knowledge workers (generally over half), as well as other employees, tends to be collaborative rather than individual in nature, that is performance results from the collective action of teams, networks and communities not just of the individual employees themselves.

A final issue is that trust in organizational management is declining. For example, one of the leading global surveys on trust, the Edelman Trust Barometer, has found significant falls in trust in the last decade or so, and notes some of the greatest falls are for hierarchically based relationships and with positions of authority such as a CEO.

Linked to this, there are also concerns about the way reward programmes are implemented and whether they are applied fairly. For example, equal pay audits have often highlighted unintended but unequal pay practices that lie behind ongoing gender pay gaps.

Lack of trust in management, and in the reward programmes executed by this management, also reduce the positive impact these sorts of schemes will have as employees apply a psychological discount in the way that they value them, focusing on what they believe they are likely to realize, rather than the full realisable pay.

Given all of this, how much value do we really derive from our performance based pay schemes?

Focusing on the Future

It is important to recognize that although there may be good reasons for believing that reward still needs to be transformed there are also highly valid reasons for why we have not seen this happening.

Part of this is down to the increasing complexity you have already read about. Talent development is a complex area too but it is still easier to understand how people learn than it is to develop a full appreciation of how people's motivation might be influenced and it is even more difficult to do this effectively in practice.

The main issue is that for any area of talent management to be effective, we need to ensure an alignment between business and talent management strategy; the talent management processes which are used and the broader organizational environment; but also the people working in the organization. It is relatively straight forward to change reward or other talent processes in line with strategy but a new approach is not going to be effective unless the new processes fit the expectations of the existing workforce. Since employees will be used to a certain approach to reward it will be difficult to change to or experiment with something else. Also, since reward is so central to an employment contract, it is much harder to change approaches in this area than in talent development where processes impact employees is less substantial ways. This is one reason why more transformational approaches to reward tend to be found in technology start-ups and other businesses which have been been formed in the last decade. These businesses have been able to offer a different approach to reward and recruit people who find this approach compelling, helping to deliver an alignment between strategy, the reward architecture and the workforce.

Even in these businesses, there is still a general expectation in the broader population and job market which is based upon existing experience of rewards. In addition, lack of trust in business and organizational management also means that employees and candidates are more likely to focus on the tangibility of traditional reward than things they may value more highly but which are less tangible. Most research on employee or job hunter perspectives about different types of reward therefore find that most people just want a high base pay, or a variable bonus which will be within their relatively easy control. This pressure is often reinforced through employee representative groups and legal constraints as well.

Finally, the consequences of poor pay decisions can be much more significant than in talent development. A poorly designed development intervention may waste time and cost and reduce the credibility of the HR / Talent Management function, but is unlikely to have a more significant impact. A poorly designed reward programme can put a business out of business – not so much by the wasted cost, though this could be substantial, but particularly through the impact of disengagement, employee turnover and reduced inability to recruit.

This all means that the risks involved in transforming reward are much more substantial than is the case in talent development. This all makes doing something innovative in reward quite difficult.

Therefore although there are small number of maverick organizations which have done very innovative things in reward these changes are generally limited to these few organizations. However, to help show that different approaches are at least possible, it is useful to quickly review some of these case examples.

The most commonly quoted maverick, described in a book with that title, written by CEO Richard Semler is Semco. Their programme of Up ‘n’ Down Pay allows employees to manage their own pay based on benchmarks provided by the company. Semco has found that employees almost always make fair proposals when suggesting increases in their pay. It is important to note however, that this innovation has been part of a much broader change in the nature of talent and business management, replacing bureaucracy with self-organisation.

Netflix has also received a lot of interest in its individualized, market based pay approach described in a Slideshare presentation ‘Netflix Culture: Freedom and Responsibility (Hastings 2009). The main purpose of this approach has been to avoid complexity as the business grows by avoiding rules and processes and paying well to attract high value people. Netflix meets the needs for simplicity and to pay well by ignoring internal relativities and simply paying the top of what a high value person could get elsewhere, what the company would need to pay to keep the person or what they would need to pay for a replacement person.

Most of these reward innovations concern new approaches for meeting the objectives which were described earlier on however Zappos and more recently its parent, Amazon, have innovated the objectives of reward to include helping people who do not fit in the company culture to leave. Zappos meets this objective by offering a $2000 USD bounty to leave the firm at the end of the onboarding process.

You have probably already heard about the above case studies and maybe a few of the other examples of radically different reward practice, but there are not many of these cases, and most other organizations tend to do pretty much the same thing as each other. This also reinforces the difficulty of making big changes in rewards.

But even if there are understandable reasons why we have not seen a transformation in this area, in my view at least, there is little excuse for the scale of timid tinkering. For one thing, the budgets for compensation and benefits will always be a lot higher than for training and development and so it is even more important to ensure an organization is getting an appropriate return.

In addition, even if the risk of getting it wrong is higher than for talent development, the opportunity of getting it right is greater too.

Finally, reward is impacted by all the same factors which have influenced talent development and there needs to be just as fundamental a response.

Options for Further Transformation

There are no simple best practices which will easily deal with all the difficulties describe above. However there are a few approaches which may usefully play a part in transforming reward to become more of an equal to talent development in underpinning the strategic success of an organisation. This section outlines these approaches.

1   Financial to Non-Financial Reward

We know that financial reward tends not to have as much impact as people often suggest so it often make sense to refocus on intrinsic reward by building a compelling environment in which people can become intrinsically motivated. Edward Deci and Richard Ryan's self determination theory suggests that this requires an emphasis on autonomy, competence and relatedness. Dan Pink develops these ideas in his popular book, Drive, to suggest a focus on autonomy, mastery and purpose. Creating an environment which encourages these things is still not going to be easy but it may well be more productive to put time and effort into this than putting more and more money into financial incentives.

To the extent that this is possible, the shift should also emphasize a move away from complexity and towards simplicity by aiming to pay people enough to get reward off the agenda (paying them what they are worth and ideally what is possible rather than just what you can be got away with) and then focusing on other things.

One particular approach which is worth reviewing is gamification which is one of the newest trends in business and HR as this can have high relevance for reward as it can for talent development.

People engage in lots of other activities, including games but also other voluntary activities, for lots of reasons that have nothing to do with reward. In fact, they are often much more engaged when they are undertaking these activities than when they are at work, even though they are not being paid to undertake them.

Gamification uses the mechanics and components of games which make these activities fun and applies them to aspects of work to make these work activities more compelling too. The three main three mechanics are points, badges and leaderboards, also called PBL. Used inappropriately, these game elements can lead to unhealthy competition and dysfunctional behaviours however there are a broad range of game components which can be used. One of these which is highly relevant to the reward agenda is virtual currencies which can be used to help people measure their progress and achievement against their colleagues, and can be converted into something valuable for them at a later point, providing potentially greater motivation but without the same cost to the employer. Innovation systems are often based upon this mechanic.

However gamification can also be about meaning, collaboration and many other mechanics which drive intrinsic reward for example allowing people who are successful in an activity to do more of this activity.

One good example of a gamified approach is IGN which uses what it calls viral pay in which a proportion of profit is shared with employees through $1 tokens which can then be distributed throughout the workforce according to the wishes of each employee. Although distributions are kept secret the company does publish the amount received by the most successful employees, as a way of inspiring other employees.

2 Personalized Reward

Whatever the approach to reward an organization wants to use, this will need to be tailored according to different groups within the workforce. One of the key needs in companies operating across geographies will be to tailor rewards based upon national cultures as well as different legislation (and managing global reward can therefore be just as or even more complex than managing global talent development.)

Organizations may also need to respond to sector based differences. This applies in particular to differences between the private and public sectors and between sales and everything else - sales performance management and incentivization will always be a special case requiring specific types of reward.

There may also be a need to take account of generational differences. There is considerable debate about the extent to which employees from generations Y and Z are less materialist ie less interested in pay and more interested in having a job which provides them with meaning and development opportunities. In my view the greatest shift that any differences have produced is to make employees from all generations feel able to ask for work which is meaningful for them.

In any case, age differences are likely to be more significant than generational ones as pay, as opposed other elements of total reward, is likely to more important to people early on in their careers. This is likely to counterbalance any increased desire for self actualization within newer generation employees, at least in the short-term.

People working in different roles and employment relationships, for example part-timers and homeworkers, will also have different needs.

In fact, at some point, organizations face so many different factors to take account of that the only way to respond to them effectively is to personalize every person's reward - at the very least ensuring that this is based upon them as a person rather than just the job they are holding, but ideally by trying to take account of their individual engagement needs as well. One example of this is Deloitte's approach to career customization which allows people to dial up or down the demands of their jobs along with their career expectations but also their rewards, depending upon their personal needs and the way these factors change during their careers.

3   Social Recognition

One of the main opportunities for transforming reward in many organizations is likely to be to introduce or reinforce the use of recognition using new social and gamified technologies which help organizations focus recognition upon their strategy or organizational values and help draw all employees into giving recognition.

Social recognition supports the need to move towards non-financial and personalized reward and is the nearest reward oriented equivalent to the shift towards informal and social learning within the talent development space.

Of course people and companies do not need these systems to express appreciation for each other. For example, Doug Conant sent 30,000 personalised thank you cards to his employees during 10 years as CEO of Campbell Soup Company. But technology makes it easy for everyone, not just the most dedicated people, to do this and can build a culture where a large proportion of the workforce participate in giving and receiving recognition to each other.

4   Increased Pay Transparency

Most organizations encourage people to keep their reward secret as people tend to judge the worth of other people by focusing on what they can see people doing rather than the real challenges in a job which tend to be more intangible, meaning that pay levels can be hard to justify. However we are living and working in an world where people are easily able to share information with each other and more importantly, there is a greater expectation that things will be shared. Given this increasing level of transparency, trying to maintain secrecy around reward or anything else is increasingly unsustainable.

Transparency is also increasing externally as well as internally, particularly with the growing popularity of sites like Glassdoor and increasing amounts of legislation around external pay reporting.

However the main reason that pay transparency may be needed is that it is difficult to ask people to trust pay systems when they are opaque, particularly when trust is already low, and also when pay is going to be increasingly person rather than job based in future.

In any case, pay transparency tends not to be a major issue in countries where all or some of the salaries are made public. Also we in the HR / Talent Management function already know and accept people's salaries and there is no good reason to think we can handle this information but that other people cannot.

One of the businesses promoting pay transparency is Buffer which emphasizes how transparency breeds trust and leads to better teamwork. Supporting its 'open salaries' approach the company has published how it calculates salaries, bonuses and equity payments and also provides the amounts all its staff receive.

5 Reduced Pay Differentials

Organizations have increasingly recognized the differentiated performance of their employees over the last few decades. Some organisations suggest that their high performers are worth several tens or even several hundreds of times their low performers. The result of this is that pay differentials, in Anglo-Saxon cultures at least, have increased substantially. For example FTSE 100 CEOs are now paid around 180 times as much as their average employees. However, and perhaps because of this, there is also a growing belief, supported by the points raised earlier, that we have gone too far in incentivizing and rewarding talent and high performance and in increasing executive compensation disproportionally compared to other employees. There are also rising society demands for increased equality and these are likely to grow stronger if we see more pay transparency.

However the most important reason to reduce differentials is that this can improve overall business performance.

High pay differentials make perfect sense from a perspective which emphasizes the contribution of individual employees, which is the case with most talent management practices, particularly those that might be described as being focused on human capital management (HCM) ie which are concerned with creating and accumulating human capital as an outcome of talent management practices.

However these activities can also destroy the social fabric of our organizations. This can be shown by reviewing one of the other findings of the Edelman Trust Barometer which suggests that one of the few relationships which has seen an upswing in trust over the last decade is what Edelman call a Person Like Yourself, or PLY. This is somebody you have a personal connection to that brings you together as humans, for example you come from the same home town, you have a similar taste in music, or you support the same football team. The concern about high differentials is that if your CEO is paid 180 times as much as you are then you are very unlikely to see them as a PLY and you are less likely to trust them as a result.

Organizations might therefore be much better off with a less well paid CEO even if this person creates less dazzling business strategies since at least people will be more committed to support the strategies they do come up with and a well implemented average strategy is much better than an amazing one which is left on the shelf!

This is the reason that Whole Food Stores limits the reward of its highest paid executive to just 14 times that of its average employee.

It is also why increasingly organizations need to take not just a human capital based perspective to talent management but a social capital based on as well. In this perspective there is no point undertaking reward or any other talent management process which increases human capital if it destroys social capital in the process. This does not negate our increasing understanding of a growing gap between the contribution of high and low performers but recognizes that this difference is often the result of relationships with and the support of other people.

As well as reducing pay differentials I would expect to see the coverage of benefits and share schemes being extended so that all staff including executives are rewarded in the same sorts of ways, even if the proportion of these, compared to other total rewards, varies according to position.

6 Team Based Reward

One of the biggest changes underway in many organizations is a move away from hierarchies towards teams, supporting increasing needs for collaboration. Making this shift work requires team based pay.

This is a difficult shift to make work and involves high risks for example it can increase competition between teams just as it reduces this within teams. Supporting this, research on cases where team based reward has been used, particularly where this has involved knowledge workers, tends not to be that favourable. However the results of team based reward will obviously depend upon how it is used and in many of the cases which have been reviewed team rewards had not been designed that smartly. The main problem seems to be that communication has been left too late. Garbers and Konradt's recent meta analysis of 30 different studies of team rewards also suggests that team rewards work best for smaller teams and mixed gender teams. It also notes the importance of distributing rewards equitably rather than just equally between team members.

The best suggestion I have heard to make team based reward work is to reward a team for the performance of the individuals and divide this reward between the individuals according to their contributions to the team. This ensures individuals focus on collaboration not competition within the team but also that they and the whole team are focused on helping increase the individual performance of each person, avoiding any tendency towards social loafing.

An alternative is to combine team and individually based reward. For example Whole Foods Market provides an individual base pay but further rewards are linked to team performance. To help make this work, employees have some say about the people working in their team.

Anyway just because it is difficult should not be enough of an argument to mean that we should not try to do it. Also the major challenges probably lie out of the reward area itself, for example in developing effective team based performance management which will be a requirement for team based pay to work, and also effective team building - so Talent Development professionals also need to be involved in building a team based reward approach.

Requirements for Transformation

1 Best Fit Reward

Increasingly the real need is not just about innovating best practices as described above but developing tailored or best fit practices around an individual organization's business strategy and broader context, just as it is with talent development too.

In addition, it is important that talent management fits the values and style of a particular organization. For example a company which focuses heavily on agile approaches within its business areas will benefit from talent processes which emphasize agile management too. In talent development this might mean the use of bite sized training. In reward an organization might want to implement a larger number of smaller, non consolidated bonuses based on shorter time periods.

Best fit also means that whilst benchmarking reward approaches and individual pay points will still always have some value, organizations should see this activity as a way to inform, to to dictate, what their rewards should be.

2 Integrated Talent Management

A further requirement of best fit is to bundle talent management processes together around the best fit position. Therefore as well as just focusing on introducing new and best fit reward approaches it is important that this is done in conjunction with implementing other new talent management processes too.

A good example is pay in the investment banks. From the banks perspective pay has already been transformed with bonuses now being more limited (for example in the EU they are capped at 100% of base pay) and paid in equity rather than just in cash. However from the public's perspective things have hardly changed at all and even attempts to change bonus payments have been subverted by the introduction of additional allowances. In my view, trust in banks is unlikely to return until these firms take a more integrated response, not just changing reward but also recruiting staff who are more intrinsically motivated and whom are not so fixated on the sector's massive rewards.

A good way to check for best fit and integration is to consider individual issues, such as the ageing workforce, and consider how each different talent management process deals with this issue, and how these processes support each other. For example in the tuition reimbursement area there are increasing calls for employees to pay towards their qualifications because otherwise the employer has to pay twice – firstly for the qualification and secondly for increased reward the person will expect afterwards. However this might have a negative impact on the organization's employer brand, reducing the ability to recruit and retain employees and an organization therefore needs to think through its response very carefully.

Also one of the main trends in performance management at the moment is to focus this on one but not both of development and reward, and in the majority of cases on development. If this is going to be the case, an organization needs to have a good alternative basis to inform decisions about reward.

- How Talent Development can Support Reward Practitioners

Another important aspect of integrated talent management is that practitioners in different process areas work together and help each other out. Talent Development practitioners can help their colleagues in Reward by ensuring that learning provides an appropriate part of a total reward offer and is promoted during recruitment and then regularly during employment, for example by inclusion within total reward statements.

One of the main opportunities within total rewards is to ensure that the organization has a culture where people will be developed and progressed internally and that the company does not assume that the best talent will always be found outside. (Incidentally all the research I have seen suggests internal progression does provide the most effective strategy.)

Talent Development may also be able to help their Reward colleagues ensure that employees understand the value of their reward especially the more complex elements like pensions and other benefits, and also to develop better financial savvy so that employees maximize the value and benefit of the rewards that they receive.

Talent Development may also be able to help Reward learn from any experiments they are able to undertake, for example through the use of facilitated action learning sets.

- Support Talent Development Practitioners may be able to gain from Reward

One of the biggest opportunities to integrate Talent Development and Reward is to provide employees with reward for the development of competencies, if Talent Development professionals can make a sufficiently strong case for this.

Reward may also be able to input into development programmes. For example I participated in one consultancy project alongside practitioners from Recruitment, Reward and other areas. The project involved development centres aimed to help employees recommit to an organization after substantial business changes. Our recruitment consultants helped client employees understand that they might not be able to achieve increases in reward from looking outside the organization and the client's reward staff helped explain how employees could expect their rewards to grow if they stayed at the same firm.

3 Evaluation and Analysis

One way to help increase the transformation of Reward would be to put more focus into evaluation, as little tends to be conducted currently.

Talent Development obviously struggles with evaluation as well, but as described earlier, the sums and impacts involved in the reward area are that much larger meaning that evaluation is much more important too.

One tool Reward practitioners could use is an equivalent to Talent Development's Kirkpatrick model proposed by Scott, McMullen and Sperling which also focuses on four levels, these being reaction; understanding of the reward system; behavior; and end results.

Advances in analytics is also making evaluation much easer to do. Reward professionals should certainly have read or seen and considered the Moneyball book and film since although this has relevance across the full spectrum of talent management it has particular resonance when considering reward. (In brief, if the Oakland A baseball team could target great talent at lower levels of reward by defining talent in a different way, based upon an improved understanding of performance generated by analytics, then other organizations may be able to do something similar as well.)

More broadly, the need is to move towards evidence based management where reward decisions are based upon the best insights available, which should include knowledge from academic research; the organization's own engagement surveys and / or other research; and inputs from external sites including Linkedin and Glassdoor for insight on the company's employer brand and total reward competitiveness.

4 Better Reward Technologies

The transformation of training and development into talent development has depended heavily on technology and the transformation of reward will require advanced technology too.

Examples of new technologies which may be relevant include crowdsourcing systems which enable employees to recommend or decide where budgets will best be spent and can reward individuals or teams with extra resources to support new innovations.

The reward functionality of existing talent management systems is getting better too and the integration of reward and other processes is making it easier to manage people and conduct analytics to improve the way people are managed too. One particular opportunity which I believe will be very helpful is to move paper based total reward statements into a total reward knowledge bank which is updated automatically and can be queried at any time.

However the introduction of any new technology always depends heavily on having the right capabilities and organizational culture. Many HR technologies already provide functionality which is ahead of the culture of many businesses - for example enabling line managers to give spot bonuses which many HR teams do not trust their managers to do. Optimizing these technologies and the whole reward agenda therefore requires new behaviours and new capabilities too.

5 Increased Reward Capability

Reward practitioners need to understand the latest knowledge and thinking in the reward area, but like other Talent Management practitioners also need to be business focused and comfortable with analytics etc. However the even greater development needs across the whole spectrum of Talent Management tend to be in increasing ambition, bravery and creativity (which I refer to as HR's new A, B, C). This absolutely applies to practitioners working in the Reward area too.

Better technical reward skills may also be needed by line managers and business leaders so that they can make better judgements on performance. It also helps develop trust and maximize the value of all rewards if they can be open, participative and able to engage in authentic conversations with employees.

This need applies particularly strongly to Directors participating on a Remuneration Committee, which is sometimes seen as a bit of an easy option whereas it should really be one of the most important and taxing of Board committees.

6 A Sound Process for Transformation

A sound process for transforming reward needs to involve clear objectives and outcomes, a diagnosis against these objectives and the use of measures and evidence to inform new reward approaches which involve better and potentially cheaper ways to motivate people.

The following steps will be useful:

- Reviewing Business Needs

One of the success criteria in making reward more effective is aligning it more clearly with the context and needs of a particular organisation, developing an approach which is best fit instead of just best practice.

- Reviewing Employee Needs

Reward professionals should also understand the nature and motivations of their employees. This is actually quite difficult to do as surveys tend not to shed that much light into what type of rewards might work. Instead of this reward professionals should try to observe what different people do and the way they react, and will also gain benefit from talking to people quite generally about their needs, wants and lifestyles to try to identify what would make a difference to how they think and behave.

- **Reviewing Other Inputs**

As well as looking within the organisation there is a broader need to move towards evidence based management where reward decisions are based upon all the best insights available. This should include benchmarking with other organisations; knowledge from academic research; and insights from external sites including Linkedin and Glassdoor.

The transformation of training and development into talent development has depended heavily on technology and the transformation of reward will often require advanced technology too. Reward practitioner should therefore ensure they are aware of the latest developments in technology which may impact reward.

- **Developing New Reward Objectives**

Based upon these new insights the next step is to review the organisation's beliefs about and its objectives for reward. The clearer reward professionals can be about what rewards they believe will impact the organisation more positively, and how they think these will do this, the more impactful their new approaches are likely to be.

The new objectives which are set should also include clear measures which can be used to monitor the new approaches and will help ongoing improvements to be made.

- **Diagnosing Current Reward**

Organisations also need to be clear which parts of their current rewwards fit the new objectives and which do not and will need, either in the short-term or longer-term, to be updated or replaced.

- **Change Planning**

The next step is to plan how and when these changes can be made.

Sometimes change planning also needs to focus on piloting or experimentation, trying out different approaches in different parts of a business to get more clarity in what an organisation wants to do and how new approaches can best be introduced.

Often planning will also need to focus on developing better technical reward skills, perhaps within the Reward function, but more commonly within the line managers and business leader populations so that they can make better judgements on performance and personalised rewards.

The most important aspect of change planning is to involve employees in developing the plans. More important even than the need for distributive justice, which relates to the way that reward is allocated across the workforce, is procedural justice. Employees need to feel that the way reward approaches have been developed has been fair. The more they are involved in developing these approaches, the more they are likely to trust the outcomes too.

- **Making the Change**

After having carefully reviewed and planned the changes which are needed, organizations need implement these new approaches. As noted earlier, doing this will entail a level of risk. However, as long as the above process has been followed carefully, the risk involved in making a change should still be less than the risk involved in keeping things as they are.

In addition, reward transformation should be seen as an ongoing process. Rewards work for as long as they are novel and then soon become an expectation, losing much of their ability to motivate. This means that we need to keep on innovating reward to help keep people focused and engaged on what we want them to do.

The Time is Right!

A final point on reward transformation is to note that this would seem to be a good time to do it. Reward is always easier to change in a healthy economy as there is the possibility of adding new reward mechanisms rather than just having to replace some of the ways that people are already paid. Certainly one of the reasons that many attempts at changing reward have not worked well in the past is that they have been too associated with cost cutting and this needs to be avoided in introducing further innovation from now on.

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