

Performance-Based Pay for Recruiting and Retaining

By Kevin Wheeler

In the pursuit of "fairness," many organizations have somehow lost the ability to measure performance or to be willing to let people know how they are performing. Rather, they chose to give everyone a similar pay raise — perhaps only a 1 to 3 percent difference between a top performer and a real laggard — not much to inspire the best and not much to motivate the worst.

This practice is common in small and large businesses and extends all the way to the top. Many compensation schemes give executives large bonuses when the company performs well — but not when they themselves do.

All this is finally becoming an issue. CEOs, whose average annual compensation in 2004 was around \$9.8 million, are being challenged to justify that compensation to shareholders at annual meetings. Regular employees, who lack the status and clout of executives, are choosing to move on.

I agree that salary is not the main determinant of turnover. Throwing money at people to keep them never works for long. And I'm not talking about how much money, per se. What I am talking about is creating an atmosphere where performance is respected and where excellence is not just a buzzword.

I would find a system that gave everyone huge raises as bad as one that gave them all small ones. It is not the amount of raise; it is the *differential* that a firm places on performance. By making pay ranges small, organizations create an atmosphere of disrespect and perpetuate a culture of mediocrity. When there are no clear benefits of performing exceptionally well, many people find they are less motivated, less challenged, and much more likely to leave for some other opportunity.

Take the case of a person I know who was working for a large, national organization with offices and physical locations in most North American cities. This person started at the firm with a charter to develop a world-class recruiting function. He had top-level support and had been sought after because of his previous accomplishments. He was challenged to bring disparate parts of the organization together, create common goals, improve candidate awareness of the organization, raise candidate quality, and lower costs.

Over a three-year period, he and his team met all of these goals. They received recognition both internally and externally. But each year, he received only a small raise, a few shares of stock, and a pat on the back. He soon learned that almost all his peers had received similar raises — even peers who had not met their goals or who were openly acknowledged as not performing at a high level. Stock was given by title and seniority, not performance. Salary raises were more or less determined by length of service, as well, with only a tiny percentage allotted for performance.

At the end of the third year, after many conversations with his boss and even higher-up bosses about this situation, he opted to leave for a smaller organization where pay was based on achieving goals.

Organizations need to understand that how potential employees perceive the reward system has an impact on their ability to recruit and keep good people. Here are a few specific things to lobby for internally and use as a yardstick of corporate integrity.

Every organization should have:

1. A clear statement of how employee performance is measured. Does your organization provide guidelines to employees about how they will be assessed? Does your organization have a goal-based compensation scheme? Who decides how an employee performed? These need to be spelled out early in the hiring process. The best measures of performance are quantitative and reflect the work of the employee (or the employee's entire project team) rather than the collective effort of a department.
2. A consequence to differentiate excellent, average, and poor performance. What happens to excellent performers? What happens to poor ones? Does your organization use a performance curve such as the one used at General Electric? Why should an employee work hard? Do poor performers end up getting removed or just shifted to spots where they can hibernate? Again, when there are no perceived consequences of exceptional, good, or poor behavior, organizations tend to get mediocre behavior, as everyone reverts to some minimum level.
3. A significant difference between the pay of excellent performers and that of poor performers. No one likes to see poor work or lazy employees rewarded at a level similar to that of the excellent workers. It is disrespectful and sad to see mediocrity rewarded. We often delude ourselves into thinking that no one knows or realizes (or cares) that someone is not doing their job. The reality is that those people cause the good performers to start thinking about other options.

We all struggle to find good people. We use every trick we know — screening tools, tests, tough interviews, and reference checks. Still, many poor performers slip through. We need to know who the poor performers were so we can recalibrate our selection tools to get better at finding them. We also need to tune our marketing messages and websites to attract those who are good performers and are willing to meet the needs of our organization. Most of our websites, job descriptions, and selection tools are too generic to really discriminate on past performance.

Only by constantly working internally to influence such things as compensation systems, performance systems, and communication — and externally to tune and refine our selection tools — can we attract and hire great people.

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