Compensation Management White Papers

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Compensation and employee retention: Much more than paying people

Experts may debate about categories, classification, amounts and methods, but one thing is irrefutable about compensation: it's much more than paying people. The reason, of course, is that six-letter word you just skimmed over. *People*, with their emotion and dreams and talents and tendencies, require more than a simple one-to-one exchange of services for cash. Learning more about this delicate balance may, in fact, be why you're reading this.

Thomas B. Wilson, President of compensation consulting firm The Wilson Group (www.wilsongroup.com), has harbored interest in the complexities of paying people for many years, and has learned a few things he's willing to share. We spoke recently about one twist of a thawing economy. "As we emerge from the Great Recession — more so in some places than in others, of course — people are tending to be more hopeful about the future. But they are also cautious: about hiring, and also about retention."

"The people who leave a company tend to be the pick of the litter, so to speak," Wilson expounds. "They are people who are more talented, more diverse in their skills, whatever the case may be. If they are frustrated, and feel for whatever reason that they don't have enough opportunity at their workplace, they'll go someplace else."

In short, it may take more than showing them the money to get them to stay with you. As you look around your workplace, ask yourself these questions: Who is likely to leave? How much will their leaving hurt the business? And, most importantly: What can I do to stop it?

First: Identify the employees it would hurt most to lose

"It's true that, with the current economy, people aren't jumping ship unless they're sure about the move," says Wilson. "But the ones who go are the ones who make a difference in your business. It hurts to lose them." So before you do anything else, Wilson suggests that you figure out who those high-value employees really are.

"When executives look around their organizations, they can identify the top talent they need in order for their business to survive and to move to the next level. They need to know who are the people critical to the business, and realize that they are also the most susceptible to being lured away. There are all kinds of ways for people to become known these days, with social networking, and if they get to be known they are vulnerable."

So identify the people who are the most valuable to your ongoing and future business, and those who, if they left, would hurt the business most. "Consultants are famous for matrices," Wilson laughs as he explains one. "This would be a risk/talent matrix. You want to know, not just top performers, but also those with high potential. Some people are top performers and low potential; others are high potential and moderate performers; etc.

"You need to use unbiased criteria to identify these folks; it needs to be based on some level of objectivity. You're not trying to pit people against one another. The way we like to couch it is that HR is trying to figure out where the business is most at risk. If the conversation becomes either a witch hunt or a prince/princess hunt, it becomes very political and not very productive."

When you've completed the matrix, you should be able to point to a number of employees who are performing at a level that they would be hard to replace and people who are up-and-comers for your business. "There is no magic number for how many people you should identify this way," Wilson says. "It probably ought to be somewhat less than 20% of your workforce, maybe 10%-15%."

Second: Of those, identify which are most at-risk

Of those employees, who is most at risk of leaving? Wilson likes to borrow from the enormous bank of research already done with consumer product marketing. "Repeat buyers are frequently a function of how many different products they buy from you," he says.

"When you open a checking account at a new bank, for instance, the probability of you leaving the bank within a year is about 90%. Somebody else may offer you a toaster or something, and you're not really embedded yet, so you move on. But, if you have a checking account, and a savings account, a credit card, a safe deposit box, a home equity line of credit, and a bunch of other products at the bank, they would really have to screw you up royally in order for you to leave; you have become embedded.

"Think about that from an employee point of view," he continues. "If an employee has the opportunity to buy additional life insurance, to get in on a wellness program, an opportunity to invest in a 401(k) plan, if he is eligible for a bonus, is in the stock option plan – if you think about it, there are probably about 20 different ways in which people either make a choice or have been awarded something that defines their relationship with their employer.

“So in thinking about the people you identified, you’ll find there are some people who are more at risk of leaving, because they aren’t embedded, and some who are less at risk. I would look at things like, what was the last promotion the person received? Did they get a salary increase then? Did you pay them a premium cost-of-living adjustment because they moved from Dallas to Boston?

“Have they purchased the additional life insurance? Do they cover their family on the health care? Go back to the people who are most important to you and look at them through the lens of how much skin they have in the game. Then you can say who is most likely to leave if they have the opportunity.”

Third: Less about money, more about personalized rewards

Wilson says that encouraging top performers to stay is often less about money and more about opportunity to learn and grow. “Think about the last time each of these at-risk employees received professional training and development. That’s one of the many factors they’ll think about when someone approaches them and offers a job.

“You want them to feel that you appreciate them, you invest in them, that they have special deals and get to participate on committees. If they can say, ‘I’ve met the CEO a bunch of times, I’ve got a bonus, all my connections are tied in to this company, and I have all this other discretionary stuff — I’m not interested.’”

When you look at how embedded the people on your list are, you need to address the question about keeping them with you. When employees feel the company — and especially a high-level employee of the company – cares about them and their career, they become more strongly tied to the company. A mentoring program is a great way to accomplish this, Wilson says.

“Make sure the at-risk employees understand that they are important to the company. Sometimes it’s as simple as a C-level person saying, ‘I want to mentor you. I want to demonstrate how valuable you are to us.’ So go back to those 10 or 12 people you identified and figure out a strategy that tells them they are really important to you. Make them aware of programs they may like but are not tied into. Send them to a workshop or conference. Let them work from home a few days a week.”

Money is great, says Wilson, but personalizing the overall compensation is the real secret when you’re trying to address the defection of someone you really need to keep. “It’s about personalizing a rewards system in order to encourage someone to stay with you,” he says. “Executives think about business risk all the time. This is a human capital risk situation.”