

Reward Strategies for difficult economic times

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Guiding Principle:

Do what fits **Your** context

Vision/Mission



Culture



External Realities



Strategy



Internal Realities



Structure



HR Strategy

- Staffing
- Development
- Performance Management
- Rewards Management

Our External Realities.....

(Fm – 14 August 2009)

- Population of SA : 49.32m – many socio economic/political challenges
- Increasing number of businesses filing for liquidation
- Jobs or higher pay – a dilemma facing business and unions
- Tax revenue problems
 - 7.2m entities registered as tax payers in SA, (5.2m are individuals, 1.6m Companies and 384 000 trusts)
 - R625,6 bn tax calculated for tax year ending March – 0,34% less than budgeted
 - R60 bn tax shortfall expected in 2009/2010
 - Personal income tax – R1,93 bn below estimate
 - 6% reduction in collections from Companies in Q2
- “The creation of decent work will be at the centre of our economic policies. Between now and December 2009, we plan to create about 500 000 jobs” – Jacob Zuma

Our External Realities.....

(Fm – 14 August 2009)

What the experts say

- 23.5% unemployment
- This year alone already more than 264 000 jobs lost
- Worst case scenario: 820 000 jobs losses by end 2012
- Best case scenario: 359 000 job losses
- Forecast: 455 000 job losses

Do the economic conditions warrant different Strategies?

- How does it affect your organisation?
 - Revenue
 - Cash flow
 - Employee moral

etc.
- It depends on what your competitors do!
- It depends on your capacity to respond and to implement change
- It depends on what is likely to happen in the future and when

Transporting Practices into your organisation

Benchmarking

Contextual Evaluation

Competitor organisations
(it works there?)

But will it work in
.....

Our organisation?

Conceptual Evaluation

- Modification required?
- Adjust for context
- Evaluate

You can Emulate or Invent

Emulation

Advantages

- Experience of others can help predict how something will work
- Helps ensure best practices are used internally
- Helps ensure you are in line with competition for people

Disadvantages

- Difficult to predict how practices will work in a different context
- Does not set you apart
- Lack of experience may present administrative challenges
- Less compelling for getting recognition for organisation

You can Emulate or Invent

Invention

Advantages

- Enables you to stand out when attracting and retaining talent
- Allows you to create something that fits your context
- Gives you something to write an article about (Competitive Edge)

Disadvantages

- No experiential evidence that innovation will work
- Leaves you standing out there alone
- Uncertainty may not appeal to employees

What are you capable of doing?

- Have your employees had quite enough change?

Receptive to move?

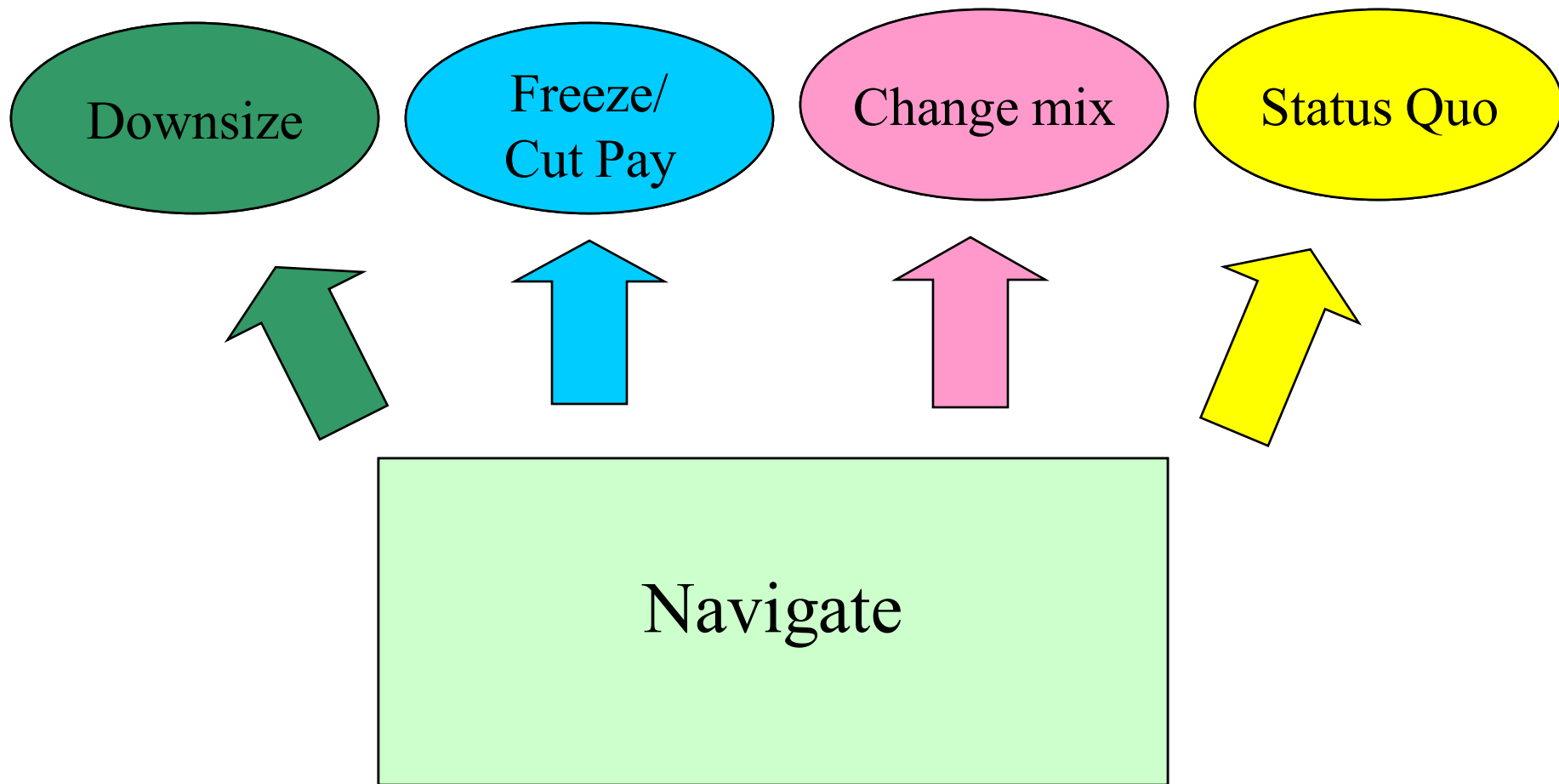
- Is management willing to take on major interventions?

Have a clue as to the direction to be taken?

- Do you have internal capacity/limitations of e.g. skills, union agreements, organisational culture, systems

- Responding to competitors?

What should you do?



Downsizing the right choice?

- What do you do when the economy recovers?
- How will downsizing benefit the organisation?
- In a study done: Downsizing organisations
 - Less profitable in that year
 - did not recover ROA until 2 years
 - Stock prices no better over 3 years

Direct Costs

Severance

Unemployment benefits

Accrued time off

Outplacement

Vested pension/benefits

Administrative costs

Costs of rehiring

Indirect Costs

Cost of new hires

Low morale/loss of trust

Risk adverse employees

Short staff during rebound

Loss of knowledge/memory

Heightened insecurity

Potential legal liability

Critical issue for organisations

Retaining Knowledge and corporate memory!

Study: Institute for Corporate Productivity

- Survey of over 400 organisations
 - 30%: we retain knowledge poorly/not at all
 - 49%: we retain knowledge “ok”
 - 20%: we are doing well/very well
- Who is responsible for retaining knowledge that is needed?
 - 78%: no one identified
- Lack of time most used excuse for not doing what should be done: can you afford that?

Alternative Reward Strategies:

Freeze/reduce pay/lower increases:

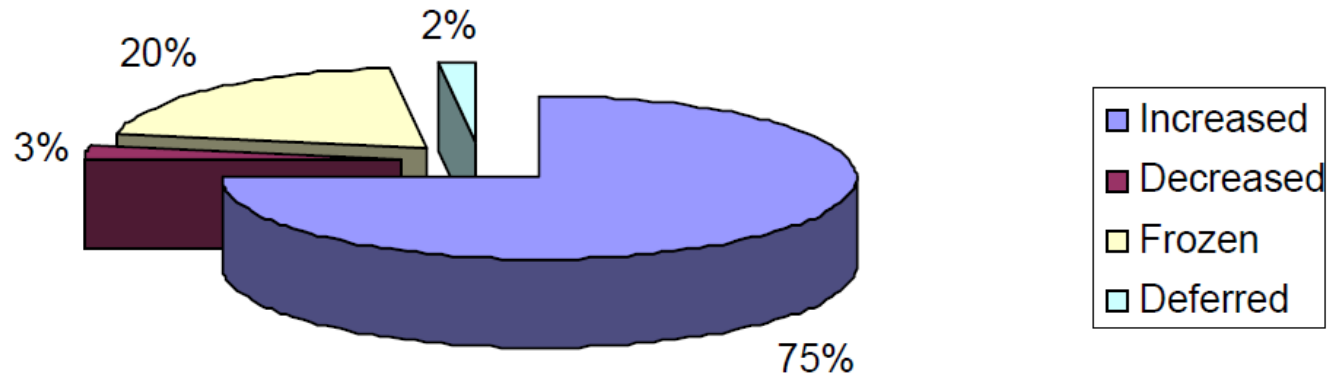
His “helpful advise” -

“If you find yourself in a hole, the first thing to do is to stop digging!”

Example: If you fixed payroll costs are already too high, don't increase them!

- Reduce Pay rates (not a likely scenario in our context)
- Freeze pay rates
 - stop the digging
 - impacts all! But what about critical talent! – other components of the EVP becomes critical
 - explainable (sound business case)

Overall Responses for 2009



Change your compensation mix:

- Replace fixed costs with variable pay
- Review use of LTT's (part of overall Reward Strategy)
- Restructure benefits: Cash vs ongoing liabilities e.g. Car schemes, medical aid, education support (TCoE approach)
- But keep an eye on whether still motivating/driving performance
- ❖ **TIP:** Keep a “side-fund” to reward outstanding performance/retain key talent

One Strategy or many?

- Likely to have more than one, e.g. Sales vs Executives
- What other categories of employees should be different? e.g. CSC, Manufacturing, Production
- Changing strategies:
 - Sustainability should be a major consideration
 - Yet continuous evaluation and refinement are necessary in turbulent times
 - what works is what fits – now!
- But continuous change is challenging:
 - Employees cool to frequent change
 - Administrative resources often limited

Status Quo

If you do what you have always done you will get what you always got

Insanity can be defined as.....

“repeating the same actions and expecting different results”

But change has its costs Can you afford them afford the status quo?

If you could do one thing

any thing

- What one thing do you believe would be the best action to take..... now?
- What stands in the way of doing it?
- Can you remove the obstacles?

THANK YOU