

# Pay-for-Performance without Learning Misses the Goal

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In challenging economic times with ever-tightening competition for skilled labor, keeping employees happy has never been more important. Pay-for-performance (often called total compensation management) is a tool HR and talent professionals can wield in an effort to retain their best and brightest. When thoughtfully applied, pay-for-performance systems can systematically link compensation with employee goal achievement, providing very specific and clearly communicated incentives for employee behavior that are in line with broader organizational objectives. However, for organizations taking a one-track approach to pay-for-performance, there are pitfalls to rewarding immediate goal achievement (the carrot-and-stick approach), because it often comes at the expense of long-term employee development. The question then becomes, does pay-for-performance without learning miss the goal?

## Total Compensation Management Arrives

Incentive-based compensation has long been used to motivate sales professionals. With the arrival of a new generation of technologies, the idea of a pay-for-performance model for an entire company seems like a plausible, concrete way to meet challenges around employee performance, retention and engagement—while also boosting business results across the board. In fact, by 2005, 75 percent of all U.S. companies had connected at least part of an employee's pay directly to performance measures.<sup>1</sup>

A pay-for-performance strategy is most successful within the context of an integrated learning and talent management solution, which, until recently, was not entirely possible. With linkages to performance data—including competency assessments, goal achievements, key performance indicators (KPIs) and succession plans—organizations can now realize the full promise of pay-for-performance and create a culture of meritocracy. The benefits of such an approach include:

- Shorter compensation cycles
- Simplified processes and reduced paperwork
- Increased visibility into rewards
- Enhanced employee performance
- Higher employee retention

## Rewarding Only Certain Types of Behavior?

In theory, a total compensation management system will improve staff performance, job satisfaction and employee retention. The challenge with that common argument is that it fails to account for unforeseen behaviors that arise in a workforce that takes too many of its behavioral cues from compensation. For example, employees driven strictly by compensation-linked goal achievement often fail to see the “bigger picture” and often work only toward narrow goals. It cannot be expected of HR practitioners, business line leaders and compensation specialists to account for every possible activity—tangible or otherwise—that might be rewarded with pay.

Further, in a pure total compensation management environment, the non-high performers only get the so-called “stick” of low rewards—a punishment of sorts for their failure to meet their goals. In other words, no “carrot.” This approach does little to encourage long-term employee development and goal achievement and provides a mixed blessing in terms of long-range organizational readiness.

## Balancing the Scales with Integrated Training and Development

To ensure support of broader business goals and long-term workforce viability, organizations must balance the pay-for-performance scales with an integrated approach that incorporates learning. Training and development are capable of fostering long- and medium-term employee productivity and organizational readiness that cannot be trumped by annual or quarterly incentives. A successful approach should also support important short-range goals, but not at the expense of real organizational health that comes with employee development (which can also be aligned to the objectives of the business). But most important, this approach to pay-for-performance should not be siloed. Line managers can use both compensation and development as tools for driving employee productivity and engagement.

Breaking down the silos means leveraging integrated learning and talent management software that has a backbone in employee development and the capability of housing all the data and workflows needed to develop a real pay-for-performance culture. As a line manager (or an HR practitioner), I want fingertip access to my direct reports' performance data to enable better decision-making about (1) compensation and (2) development. In this way, the organization can optimize its mix of compensation and employee development when budgets are shrinking and every payroll and training dollar counts. This is not possible if the technology can only support performance management or only support learning management. *Integration matters and cannot be faked.*

The outcomes are tangible and measurable. Higher employee retention and engagement flow from an organization that systematically rewards immediate-term goal achievement and fosters longer-term career and skills development. The pay-for-performance concept, in this light, can either be used in a limited fashion as pure “carrot-and-stick,” or it can be deployed in the context of organizational readiness to meet the challenges posed by the immediate recessionary environment and those that will follow down the road of recovery.

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*For more information about how to link performance, compensation and learning to balance short- and long-term organizational health, contact Cornerstone OnDemand at +1 888 260 3955 or at [www.cornerstoneondemand.com](http://www.cornerstoneondemand.com)*

<sup>1</sup> John D. Donahue and Joseph S. Nye, *For the People* (Brookings Institution Press, 2003), 239.