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A Well-Oiled Machine: What High-Performing Companies Are Doing That You're Not

This article, on common talent and rewards practices at high-performing US-based technology companies, was originally published in the November 2017 issue of Workspan magazine.

We know that talent and rewards practices have a direct effect on the financial performance of a company. But current research takes things a step further by measuring the differences between practices of the highest-performing companies and the average technology company. And guess what? These companies really do deliver net-income growth. Take a look at the evidence and decide for yourself whether your company should have similar rewards programs.

For our analysis, we looked at the workforce and compensation practices of more than 1,300 global technology companies across the Radford "Global Technology Survey." those, we selected 36 that are mostly U.S.-based with global operations, as high-performance companies. We refer to these companies as "turbocharged" because they excel in three key measurements of success:

- They are high growth.
- They generate exceptional returns for their shareholders.
- They are known as innovators in their industry (not just growth through acquisition).

Before we began the research, we expected many of the turbocharged companies would share the same workforce and pay practices that contributed to their success. What we found is that not only did these turbocharged companies have many commonalities in their programs, they were often in stark contrast to the broader market.

Characteristics of a Turbocharged Company

As Figures 1 and 2 show, turbocharged companies are more likely than other companies to use a variety of tools within their HR programs.

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Figure 1
Prevalence of Rewards Practices

	Percent of All Companies	Percent of Turbocharged Companies
Retention bonuses offered to employees in specific positions or hard-to-fill jobs	78.8%	100%
Provide a promotion grant at or soon after the time of promotion	26.5%	57.1%
Benchmark equity guidelines against a set of peer companies	52.8%	86.7%
Differentiate equity guidelines and/or practices by US geography	30.1%	66.7%
Participation for ongoing equity grant for engineers	32%	82%
Provide unlimited paid time off	24%	43%
Salary is determined on a case-by-case basis within a broadband system	5.2%	25%
A lateral job change can result in a salary increase of a similar size to a promotional increase	11%	24%

Source: Radford Global Technology Survey; Radford 2016 Perquisites Practices Survey; Radford 2016 Talent Pulse Survey

Figure 2
Prevalence of Talent Practices

	Percent of All Companies	Percent of Turbocharged Companies
Publish values statement to drive culture	76.9%	81.3%
Make diversity and inclusion a formal part of talent strategy	46.3%	75%
Use cash for employee recognition program (can be in addition to other award types)	46.3%	75%
Formally measure employee engagement	53.7%	68.8%
List general workforce as most important driver of culture	39%	56.3%
Have executive-level council to focus on diversity and inclusion	17.1%	43.8%

Source: Radford Global Technology Survey; Radford 2016 Perquisites Practices Survey; Radford 2016 Talent Pulse Survey

We can characterize the motivation behind these tools into three broad categories:

- **They are obsessive about culture.** These companies have Obsessive Culture Disorder (OCD). They worry about preserving their strong and unique culture as their organization grows, hire based on cultural fit as much as skills-based qualifications, and are more likely to think of their employees as drivers of culture. They provide perks that make a difference and are highly valued, such as company- provided work shuttles that increase worker productivity and job satisfaction. They also create a culture of ownership by offering broad equity participation as well as rich employee stock purchase plan discounts that result in high participation.

- **They focus on high-impact talent (and they aren't afraid to pay for it).** Turbocharged companies are willing to pay a premium for high-performing and high-potential employees as well as in-demand jobs. For example, turbocharged companies are reporting an overall salary budget of 4.6% and a merit budget of 3.5% for 2017, which are 31% and 13% higher, respectively, than the broader universe of technology companies. In order to put this additional budget to work in the most effective way, they limit the number of employees who actually get an annual increase — 72% vs. 85% to 90% in the market overall. By limiting participation, they are able to ensure out-sized merit or promotional increases to the highest impact performers and denounce the peanut-butter approach to spreading out rewards. They make big bets on the right people by offering larger sign-on bonuses and create "walking away" grants to remove obstacles to entice amazing talent. They also make better hiring choices and hold on to their top talent as evidenced by a 17% reduction in overall turnover compared to the broad market. They are able to do this in part by differentiating pay levels and practices among their workforce. Of course, many of these companies are highly profitable as well, making it much easier to pay above the market.

- **They attract the best talent through a magnetic employee value proposition.** Turbocharged organizations bring talent and rewards programs under one umbrella to offer a truly amazing work environment. They look at their value proposition to employees from a holistic viewpoint and integrate their HR programs to deliver a compelling package overall. Rewards remain a crucial piece of the employee value proposition, but the workplace is changing in profound ways. Compensation and benefits packages may attract new talent, but employees stay at a company for high-impact work, great managers, a strong culture with values people buy into, recognition from respected colleagues and a broader mission-based purpose that gets them out of bed in the morning. Companies that effectively create this type of atmosphere typically integrate their talent and rewards programs in a way that creates a much stronger employee value proposition than their competition.

What HR Leaders Can Do Differently

Many of the practices turbocharged companies employ are not prescriptive and can be adapted to meet each company's unique circumstances. Here are ways HR leaders can think about getting the most out of their HR programs:

- **Don't throw your money around.** Be targeted with your compensation budget. You will get more leverage out of lowering equity participation among employees and raising grant levels for your high-impact employees. If you have to cut back the number of people who get a merit increase to ensure that increases for high-impact talent pack a punch, do it. Turbocharged companies actually give fewer employees an annual salary raise than the broad market.

- **Not all companies can afford to pay above the market, but there are other ways to keep employees energized.** Culture is a powerful driver of employee engagement, and when we talk about culture, we don't just mean trendy perks that technology companies are known for (i.e., climbing walls, foosball tables, pets at work and three free meals a day). Healthy culture includes transparency at all levels of the organization (particularly from top leaders), a commitment to continuous listening from managers, peer-to-peer recognition programs, and widespread company ownership among employees.

- **Performance management is so much more than ratings.** Whether or not you have performance ratings isn't the debate anymore. Think about how effective your process is for identifying high-potential employees — those that will be the future of the company. These individuals should be aware of their value to the organization. They should receive differentiated pay and have curated career development experiences, along with frequent conversations about their growth. If employees know someone is looking out for their careers, they are more likely to stick around and put in more effort.

On average, our turbocharged companies delivered an 86% increase in net-income growth on a 12-month trailing basis and one-year total shareholder returns of 36%. We strongly believe there is a connection between the talent and rewards programs they utilize and the performance of their organizations. So, go ahead and borrow a page (or two) from their playbook. While not every company can, or should, adopt all of these practices, they do provide important insights into what drives employee behavior and where leaders might want to allocate their resources in order to maximize their investment.

You can read our analysis of common rewards practices at European turbocharged technology companies in our article ***Learning From Rewards Practices at High-Performing European Technology Companies***.

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