totus consulting
building organisations around great ideas

under the bonnet

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Managing Pay: Are we looking beyond 2009?

Contents

Editor's Note

Dear Friends,

It gives me great pleasure to bring you this special issue of UTB!

"Managing Pay: are we looking beyond 2009" is the theme of this issue.

We are in the midst of an extremely serious economic crisis with far reaching implications. While leaders across the world are working overtime to fix the macro levers of the crisis, business leaders are working overtime to fix the micro levers of the crisis in their own Organisations.

As organisations look at every line item of cost for potential reduction opportunities, employee costs are standing out.

HR leaders are therefore being called upon to come up with solutions to contain or reduce employee costs through strong and decisive pay strategies. My discussion with various leaders and my research into emerging organisational responses tells me that there is a sense of desperation and even panic.

While acting swiftly and decisively is important, I am keen that we also act wisely. Let us remember this - it was the pay and reward policies of some of the global corporations that in many ways caused this entire turmoil in the first place. In remedying the situation, we should not merely do more of the same. We should do what it takes to fix the root causes.

In this article I appeal that we look beyond 2009 when we attempt to manage pay. I am suggesting that our energies are focussed not merely on action strategies but on the key governing variables.

I do hope you find this issue of UTB of some use even as you navigate the challenges of managing pay in 2009!

My sincere thanks to all the Business heads, HR leaders and Managers who shared with us their insights and opinions. This article would not be possible but for their support and contributions.

Warm Regards

Ganesh Chella

"Under the Bonnet" is a quarterly journal from totus consulting and is distributed to our clients and community of Business Leaders, CEOs and HR Professionals.

The Economic Context

India's GDP expanded by 5.3% in the October - December 2008 quarter, the lowest in the past 24 quarters. Compare this with the 8.9 % growth in the same quarter last year and it makes it look very bad. Exports are down by 16%, the rupee is at an all-time low and Standard & Poor has cut India's long-term sovereign rating from stable to negative. It is now abundantly clear that our GDP for the year will grow less than 7%. It is expected that we will end up losing over 1.5 million jobs by the end of this fiscal.

This has to be seen against the current indicators of the global economic situation which is worsening by the day. There are clear indications that the world economy in 2009 will fare worse than in 2008 and 2010 may not be dramatically different. Most importantly, the nature of the situation is so severe that no one is able to credibly state what the future will look like.

For instance, the US economy shrank by 6.2 % in the October – December 2008 quarter and indications are that it will shrink by about 1.9% in 2009 before registering some growth in 2010. (Blue Chip Economic Indicators)

The ILO has estimated that in the best case, the world will shed about 18 million jobs and in the worst case about 51 million jobs. To put this number in perspective, the population of Australia is about 20 million.

What makes India's situation somewhat complex is the fact that many parts of our economy continue to have a growth story even as some other parts are showing signs of contraction and slowdown. So, while the official estimate puts job losses in India at half a million and unofficial estimates put the number much higher, we are still hiring in many

What makes India's situation somewhat complex is the fact that many parts of our economy continue to have a growth story even as some other parts are showing signs of contraction and slowdown

businesses. This is sending a very mixed message in the labour market.

Given that many of our new businesses are still laying the foundations for future growth, the demand for good talent, especially at the leadership level, is very high. At the same time, the appetite to invest in vitality hiring seems very poor going by the placement situation across campuses.

All of these changes are causing significant structural changes in the internal and external labour markets.

For those in employment, new behaviours and performance benchmarks are being outlined.

It is against this unprecedented back drop that Organisations are having to take decisions about pay for 2009 and beyond.

The Employee Mind-set

For many years Indian Organisations have been battling with a peculiar situation. While they wanted to take decisions on pay based on economic considerations, their managers and employees were influenced by emotional considerations. This mismatch in decision making frameworks pervaded all levels from unionized workmen right up to the most senior executives, and made

Employees are not only well informed about the economic environment but also seem to take a fairly objective and well considered view of the emerging realities.

the execution of compensation programs a nightmarish experience.

What made this situation worse was the fact that the tight labour market in the past decade pushed pay into becoming the lead factor (or in many cases the only factor) in the employment contract.

Against this historical backdrop, Organisations are today witnessing a refreshing shift in employee attitudes towards pay. Employees are not only well informed about the economic environment but also seem to take a fairly objective and well considered view of the emerging realities. It must be conceded that progressive HR practices, higher levels of transparency and a much more communicative leadership style have facilitated this mindset shift. I would not be surprised if Organisations' engagement scores are extremely high this year, especially among those who manage to keep their jobs and retain their current pay!

Organisations have a huge lesson to learn from this. They must at least now begin to appreciate the true drivers of employee motivation and work hard to redraft their employee value proposition in line with this emerging reality. More of this later in the article.

The Organisational Responses:

some good, some predictable and some tactical

My colleagues and I have been talking to a wide cross-section of HR and Business leaders over the past few weeks to understand their plans and strategies to manage pay in 2009. Some of the leaders had fairly well thought through strategies that reflected a principle-based approach and a long term view of the situation. However, the views of many others seem to reflect a more tactical and short term approach. Given below are the range of current Action strategies that Organisations are contemplating:

Current Action strategies

- **Restructuring for greater Variable Pay**

Many Organisations are talking of restructuring the compensation program to provide for a larger Variable Pay percentage. In other words, Organisations are clearly asking employees to share the risk of the business uncertainty and want to de risk the pay increases by linking it to results. It is our belief that the focus will be a lot more on linking variable pay to company performance and not just to individual performance and to that extent operate it like a profit sharing scheme.

In some cases, this is being paid out monthly with linkages to monthly milestones and the right to revoke payment if needed. Even Support functions and frontline employees are being covered by such schemes.

- **Shifting to long-term rewards**

In addition to variable pay, Organisations are also exploring deferred pay options, especially for seniors. Such deferred pay is taking the shape of cash or stocks.

- **Deeper differentiation at all levels**

Organisations are clearly resorting to much deeper differentiation to ensure that the limited resources are deployed wisely.

While Organisations are intending to practice differentiation at all levels, the approach at the junior levels seems to be through very objective performance standards and measures. In other words, those with clear performance measurement systems seem to be quite comfortable with driving differentiation even at junior levels compared to those that do not have such measures.

- **Cleaning up non- cash benefits or other practices**

Employers seem to be using the current situation as an opportunity to review all their benefit programs to see if there are inefficiencies that they can remove and put all the money into direct cash. Leave encashment policies, perquisites, special facilities and so on are being trimmed to make pay delivery a lot more efficient.

- **Focus on removing bottom performers**

Given the focus on productivity and cost, Organisations seem to be taking drastic steps to weed out poor performers.

- **Deferment of salary increases**

Where necessary, some Organisations have just deferred salary increases as a preferred option to pay cuts or job losses. In some cases, employees are being promoted without any accompanying pay increases. This is a clear departure from past practice.

- **Exploring opportunities to increase productivity**

One IT major has announced a 54-hour work week to increase productivity and another has requested all employees to postpone their leave applications until after March 2009. For the first time, many of the knowledge businesses are paying serious attention to productivity and effective utilisation of resources.

Some interesting patterns

Looking at these action strategies as a whole, a few interesting patterns do emerge:

1. Indian Vs Multinational approach

Most multinational organisations (especially American) seem to have taken a cold yet decisive view about compensation in 2009. Given the global nature of their operations, most have gone ahead and announced a pay freeze and many have publicly announced job losses. In comparison, while most Indian Organisations have been communicating the business situation quite well, they have been somewhat tentative even guarded about their intentions. In my opinion, behind this tentativeness and guarded approach is a certain sense of hesitation about taking harsh measures and an even greater sense of awkwardness about being direct in communicating the same.

I see a certain sensitivity in this tentativeness, an inherent concern for people and an approach in viewing the Organisation and its employees as a part of the community that it belongs to.

2. Quality of communication

Indian or Multinational, the communication by Organisations about the business situation this time around has been far superior. Most employees we spoke to confirm that they have received several rounds of communication from their managers and had been kept fully informed about the developments. This is a welcome departure from their past and has certainly helped facilitate acceptance.

3. Tailgating

Even as Organisations genuinely affected by the downturn are undertaking a series of corrective measures, others that are not as badly affected seem to be tailgating. In other words, they are using the overall mood to just get more efficient by shedding jobs, cutting costs and pruning the flab.

- **Pay Cuts**

For the first time we are witnessing widespread pay cuts among Organisations. Most of these cuts are being effected in a manner that it does not affect base pay. Most Organisations are resorting to pay cuts at senior levels and many have thankfully spared front-line employees. Some technology companies have resorted to pay cuts for employees on the bench.

- **Lay Offs**

While some Organisations are calling it "weeding of poor performers", others in much more dire circumstances are vigorously shedding jobs as the only way to survive. Starting with contract employees and temporaries, many are going right up the hierarchy.

All of these and other action strategies reflect the urgency and seriousness of the situation. The widespread nature of these actions also reflects the extent of impact.

These are, however, only action strategies for immediate relief. None of these actions reflect Management's attention to the fundamental drivers or to the long term.

Should Organisations worry about the future and look beyond 2009 is the question we ask.

Managing Pay: Why should we look beyond 2009?

There are two reasons why Organisations need to look beyond 2009 as far as their pay strategies are concerned.

1. The recovery will be a long haul
2. The recovered situation will never resemble the past that we have known and become used to.

From all available estimates and predictions, 2009 will see the full impact of the crisis and will therefore be quite serious for most organisations. 2010 will mark the beginning of a slow recovery process. It is only in 2011 that we are likely to see the return to solid growth across the globe. Therefore, it is prudent to plan for a three year horizon rather than a one year horizon as far as pay is concerned.

The structural impact of the economic crisis will affect businesses in an irreversible way. Many businesses will have to redefine their business models, costs structures and make some very critical strategic trade offs to return to healthy profitability. Therefore, even if businesses do recover, and I think they will, they will behave in ways that will be quite different from what we have known. Let us not forget that the past decade was characterised by a dizzy rate of growth and an extremely vibrant labour market. In the

Many businesses will have to redefine their business models, costs structures and make some very critical strategic trade offs to return to healthy profitability.

urge to grow, many Organisations ended up competing for talent and in the bargain perpetuated practices that ultimately become unsustainable.

From an environment where growth was the sole criteria, Organisations are now awakening to a new reality of cash being most important. To change these unsustainable practices, Organisations will need to go back to the drawing board and thoroughly revisit their basic principles and philosophies. A few quick fixes will not help.

Most importantly, we must remember that the action strategies we are pursuing were not the sources of our problems. The root cause of our problems lie elsewhere and that is what we must pay attention to.

To change these unsustainable practices, Organisations will need to go back to the drawing board and thoroughly revisit their basic principles and philosophies.

Looking beyond 2009: the search for Double loop solutions

The term single loop and double loop was coined by Argyris & Schon in the context of Organisation learning.

Single-loop and Double-loop learning

For Argyris and Schön, learning involved the detection and correction of error.

They felt that when something went wrong, most people looked for another strategy that addressed the failure within the governing variables. In other words, people preferred to optimize existing goals, values, plans and rules rather than question them. They called this single-loop learning.

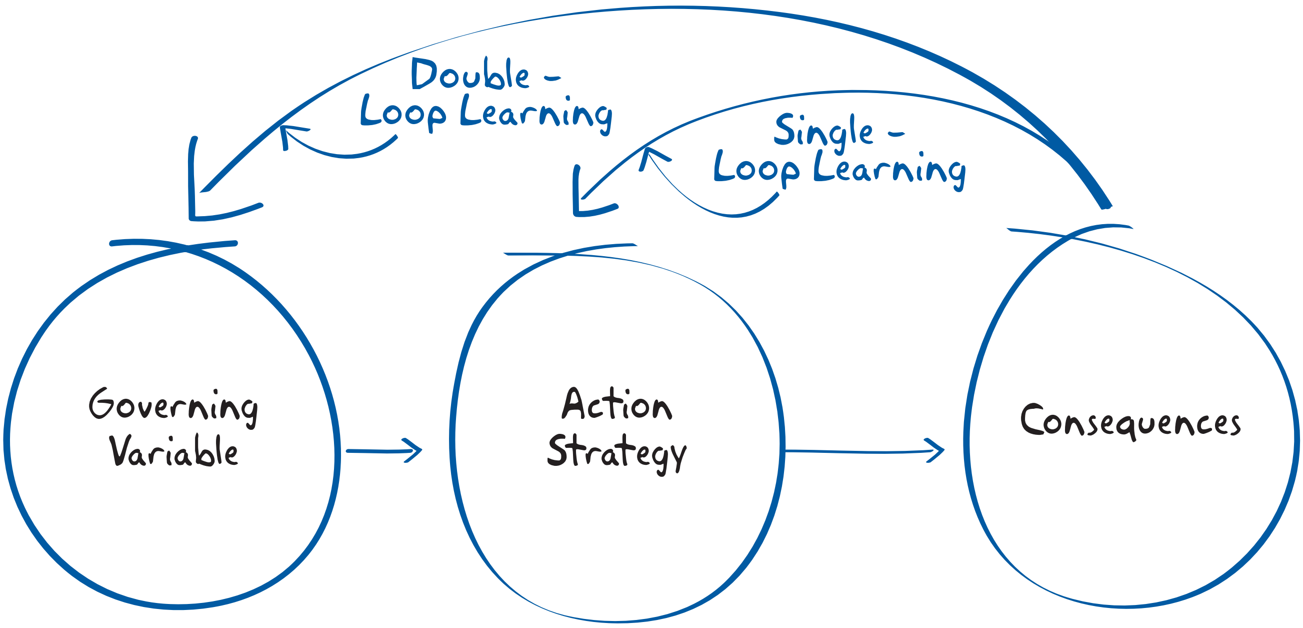
However, when the governing variables were questioned and subjected to critical scrutiny they called it double-loop learning. Such learning may lead to an alteration in the governing variables and thus a shift in the way in which strategies and consequences are framed, they felt.

In addressing pay under the current circumstances, we believe that most Organisations are looking at Action strategies within the existing governing variables. We urge that Organisations must go back and question some of the fundamental governing variables of pay and not merely optimize them through action strategies

In an Organisational context, when the organisation chooses to take for granted its goals, values, frameworks and, to a significant extent, strategies and the emphasis is on making techniques and strategies more effective, it is single loop.

On the other hand, when Organisations choose to modify their underlying norms, policies and objectives and strategies it is double loop learning.

This is explained in the following diagram:



In addressing pay under the current circumstances, we believe that most Organisations are looking at Action strategies within the existing governing variables. We urge that Organisations must go back and question some of the fundamental governing variables of pay and not merely optimize them through action strategies

The governing variables that we must pay attention to

In our opinion, there are five fundamental governing variables that Organisations must pay attention to even as they frame their pay policies and practices. These variables have a significant impact on how pay is administered. Any pay action in the coming years which does not address these governing variables may not be sustainable for the future.

The governing variables that we must pay attention to are:

1. The new business drivers.
2. Our approach to hiring.
3. The job itself
4. Our employee value proposition.
5. The performance culture.

In the rest of this article, we will explain why each of these variables needs attention and the manner in which we must change them in order to make future pay programs more sustainable.

Any pay action in the coming years which does not address these governing variables may not be sustainable for the future.

The five governing variables that we must pay attention to

1. The new business drivers (and therefore the new behaviours that pay must influence)

In the past few weeks I have personally seen and experienced a dramatic shift in the operating style of many of the CEOs I interact with. From growth and expansion, the discussions are shifting to costs and controls. The short-term is no longer a quarter. It is the day.

No one explains this phenomenon better than Ram Charan. In the first chapter of his book, "Leadership in the era of Economic Uncertainty", Ram Charan says that after spending their careers in a single minded pursuit of growth, business leaders have to now adjust their mentality.

He explains that before the crisis started for most companies, the indicators of success were increasing earnings per share and growing revenues by gaining market share. He however believes that from now on, CEOs can pursue growth only if it is profitable and cash-efficient and does not consume disproportionate amounts of cash in the form of more inventory, extended duration of accounts receivable, or increased complexity. Pursuit of revenue growth

> *barring acquisitions, many companies will be smaller two years from now than they are today.*

must give way to understanding the cash implications of everything that the company does, he argues.

In his opinion, barring acquisitions, many companies will be smaller two years from now than they are today. In an environment of falling demand and liquidity risk, most companies have no choice but to shrink, he says.

He sees the need to shift focus from the income statement to the balance sheet. He considers cash to be the most critical metric now and believes that achieving it might call for cutting costs and raising cash. It may call for a sharper focus and concentration on the core of the business: the invaluable assets you can't afford to lose. He believes that leaders will need to choose the market segments and even the particular customers they will continue to serve, the products they will continue to make, and the suppliers they will continue to buy from and eliminate the rest.

He predicts that in the end, companies will have fewer customers, fewer products, fewer facilities, fewer people, fewer suppliers - and a stronger company.

If this is the new language of business and what is described forms the new competencies for success, then it is important that our pay programs – fixed and variable are aligned to defining, clarifying, educating, measuring and rewarding these behaviours. More importantly they must stop rewarding the expansionist behaviour of the past.

Merely changing the percentage of variable pay is a single loop solution. Changing the behaviours that the variable pay program will reward is double loop.

Our View of the Future

Organisations will articulate new measures of performance and new competency expectations.

There will be a greater emphasis on Organisational performance, and Organisational performance will become a clear eligibility gate for rewards.

There will be far greater need for collaboration and cutting across silos, giving rise to exploration of team based rewards.

Business and HR leaders must help employees across levels understand these new drivers of business. They must train them to handle these levers and only then can we measure and reward them for these behaviours.

This may require that Organisations throw out of their windows the competency frameworks of the past and redraw a fresh set of competencies that will help them survive and succeed in the next few years.

If it is clear that we need new competencies to succeed, these must be translated into hiring requirements, training requirements, career progression requirements and performance management requirements.

2. Our approach to hiring

Every business leader in India will confess that his organisation had to severely compromise on hiring standards in their quest for growth. The hiring benchmarks that were set 15 years ago have been diluted by every single firm that pursued growth. Some called it de-skilling euphemistically. Others just under hired because that is all that they could access in the labour market.

It must be recognised that pay is where it is today largely because of the labour market we created and the hiring strategies we adopted. Any changes in pay will not be effective unless we revisit our primary hiring strategies.

Our View of the Future

Organisations will focus a lot more on "making" talent.

Headcount control will rest will the CEO.

As Organisations continued to do this, they realised that they were accumulating a sizable sediment in their so called internal talent pool. A sediment that was neither getting picked up for future positions nor leaving for greener pastures. My discussions with HR leaders reveals that this sediment is anywhere between 5% and 7% of their employee population.

In the good days of growth, organisations did not worry too much about carrying them along. Suddenly, they are the target for all. They are being searched out and separated, albeit in the name of performance. They had no business to be employed in the first place.

While many organisations have adopted a "weed the bottom" approach this year and that may be a good single loop solution, how many are going back to the drawing board to ensure that they will never ever have sedimentation again?

Organisations will need to revisit their hiring strategies and standards. They will need to ask themselves if the so called supply chain management approach to hiring made sense at all. They will also need to ask if their "Recruiters" need to be as detached to Organisational realities as they are today or must be aligned to business and job demands a lot better. In their efforts to ensure that the talent belongs to the Organisation, Organisations might have absolved managers of their accountability for quality of talent and they may need to revisit this approach.

In the past decade, Organisations in a hurry to grow preferred "buying" talent rather than "making" talent internally. This made the labour market overactive and impacted pay.

As Organisations revisit their growth agenda, should Organisations also revisit their "buy" strategy? Do they have the right bench strength to "make" one might ask. What is clear is the need to revisit this element of staffing.

Finally, opportunistic staffing strategies like temping and contracting thrived in the past decade. These are the ones to be removed first today. Is this a strategic shift or a mere action strategy, we wonder.

It must be recognised that pay is where it is today largely because of the labour market we created and the hiring strategies we adopted. Any changes in pay will not be effective unless we revisit our primary hiring strategies. This much is very clear.

3.The Job itself

For several decades, the world of business believed that pay had to be aligned to the size and complexity of the job. The focus was on paying for the position. Arising out of this belief, Organisations used a variety of methods to describe the jobs, evaluate them and then slot them into several grades and pay points.

This system was used for all people related decisions. In a world when most people grew from within and the external labour market quite weak, the system worked well.

Many others adopted a very open ended, person based system of pay and progression. Very few adopted competency based pay systems.

All of this changed in the world of the knowledge worker. It changed when organisations fuelled by their desire to grow overnight began to hire at all levels thereby necessitating external parity more than internal parity. In a vibrant labour market Organisations realised that they needed to pay the person as well as the position. Many also found the traditional Job Evaluation system too bureaucratic, rigid and time consuming. Organisations adopted a much more role based system of classification by adopting the broad Banding approach. While the Broad Banding approach gave organisations a lot of flexibility it also was effective only when its underlying philosophy and culture was accepted.

Many others adopted a very open ended, person based system of

Our View of the Future

Organisations will pay attention to evaluating jobs, especially at senior levels.

Incumbents in "overpriced" jobs will be under far higher pressure.

HR will be called upon to monitor and control the way jobs are defined and priced.

pay and progression. Very few adopted competency based pay systems.

Be it a Grade based system or a broad banding system, it was assumed that even while enjoying the flexibility of paying the person, organisations would recognise the real levels of impact of each job and implement policies of pay and progression bearing this discipline in mind.

However, in reality, organisations swung to the other extreme of paying the person with no concern for the job and job size. Many have moved to Broad Bands but have also created many mezzanine floors within each Band. As a result, Organisations today live with the same challenge that they lived with for years - employees over promoted or in levels much higher than what their roles warranted. The only difference is that this time around, they are at pay levels that are hurting immensely!

Describing, defining and sizing jobs is extremely critical. Also critical is the careful process of progressing from one level of impact to the other. Managing this is a very important control function of the Human Resources department.

The way each job is sized and the manner in which jobs are arranged has a huge impact on pay. This is not to take away the flexibility required to pay the person or the unique competencies that he or she might bring. But jobs must be defined and managed well because it has huge pay implications.

Adding more sub-layers or removing layers or slowing down promotion cycles without addressing the fundamental design dilemma would be yet another single loop solution.

Organisations must have a clear philosophical view and stand on how they will manage their jobs and its linkages with pay. The time for setting it right is now.

4. Our employee value proposition

The term Value Proposition is used primarily in the field of marketing to denote the distinctive value that an Organisation offers as perceived by its customers in comparison to competitive offerings. In other words, Value proposition is the Organisation's solution to the customer's problems. In the field of marketing it is believed that every Organisation must have a compelling value proposition that appeals to its relevant target segment when compared to competitive offerings. It is also understood that delivering the value proposition must be profitable for the firm.

- **Value proposition for employees**

The term employee value proposition (EVP) refers to a firm's distinctive value offered to its target segment of employees in comparison to competitive offerings. EVP recognizes the fact that like customers, *Organisations are forced to adopt policies and practices that will certainly impact one or other segments of their labour market positively or negatively. An employee value proposition approach helps Organisations to use their unique framework to guide and calibrate such actions.*

employees are making important choices and will stay committed as long as the value proposition is attractive. The term value proposition clearly denotes a strong market place orientation to employee practices.

The term value proposition pre-supposes that like customers, there are different employee segments and Organisations must have the ability to segment their labour market and position their value proposition appropriately to each labour market segment that they want to operate in.

- **Value proposition over satisfaction**

In a market oriented world, the concept of value proposition seems far more relevant compared to the concept of satisfaction. Satisfaction leads an Organisation to view all employees as one ubiquitous group and attempts to move the entire mass up on their aggregate satisfaction. The concept of satisfaction also leads an Organisation to try and do everything for everybody. This is further complicated by the fact that different consulting firms and external Organisations attempt to use their models to influence how a particular Organisation should define and measure satisfaction. As a result, the concept of satisfaction or engagement becomes inward focused, too general and therefore very difficult to implement in a market oriented world.

On the other hand, Organisations are constantly making choices, trade - offs and are responding to a rapidly changing market environment. Organisations are forced to adopt policies and practices that will certainly impact one or other segments of their labour market positively or negatively. An employee value proposition

Our View of the Future

The role of pay in an Organisation's EVP will quite significantly be down played.

Organisations are likely to become a lot more articulate about their EVPs going forward.

approach helps Organisations to use their unique framework to guide and calibrate such actions. Today, more than ever before, Organisations cannot afford to be confused and tentative and ubiquitous in their understanding and interpretation of engagement and satisfaction. They must take a stance in terms of what they will offer to each of their employee segments and then go out and communicate that clearly. Of course they should then live up to that promise.

Making changes in pay strategies but continuing to measure impact through a generic engagement or satisfaction model would indeed be single loop. Instead, Organisations must go back and clearly define what they would like to offer to each of their employee segments and ensure that their communication to these segments reflects this clarity.

For example, in technology companies, many of the value proposition elements of the past like an on-site posting, a job rotation in 18 months, a title change, managerial responsibilities and so on may need to be revisited urgently.

What then will be the value proposition for the young technology worker, for the young insurance agent, the factory worker, the temp, the call centre agent, the middle manager, the business leaders and so on?

In other words, it might be necessary for Organisations to go back and clarify and communicate the new employment deal all over again.

5. The performance culture

The Organisation's performance culture is perhaps the greatest governing variable of pay. All of our assumptions about linking pay to performance (a very critical requirement today) will depend on our ability to instil a high performance culture. Adding more money to variable pay or demanding greater differentiation from managers will not materialise if we do not ensure that the foundation of performance orientation is not in place.

Research and experience show that high performing organisation structures have the following common features:

- **Intense Customer and Market Focus** - systems, structures, processes, and innovations are all aimed at and flow from the voices of the market and customers. Field people and hands-on senior managers drive the organisation in daily contact with customers and partners.

- **Team-based-** operational and improvement teams are used up, down, and across the organization. A multitude of operational teams manage whole systems or self-contained subsystems such as regions, branches, processes, and complete business units.

- **Highly autonomous and decentralized** - dozens, hundreds, or thousands of mini-business units or businesses are created throughout a single company. Local teams adjust their company's product and service mix to suit their market and conditions. They also reconfigure the existing products and services or develop new experimental prototypes to meet customer/partner needs.

The coming years will require that Organisations imbibe this cultural dimension strongly. This is in fact one of the most important governing variables of pay. Without this, pay programs will become meaningless administrative exercises.

- **Servant-Leadership** - senior managers provide strong Context and Focus (vision, values, and purpose) and strategic direction to guide and shape the organization. Very lean and keen head office management and staff serve the needs of those people doing the work that the customers actually care about and are willing to pay for. Support systems are designed to serve the servers and producers, not management and the bureaucracy.

- **Networks, Partnerships, and Alliances** - organizational and departmental boundaries blur as teams reach out, in, or across to get

Our View of the Future

Managing performance will finally become the accountability of the Line Manager and HR's role will become what it was supposed to be - a facilitator.

The quality of performance review conversations will improve as Managers begin to feel a lot more in charge.

the expertise, materials, capital, or other support they need to meet customer needs and develop new markets. Learning how to partner with other teams or organizations is fast becoming a critical performance skill.

- **Fewer and More Focused Staff Professionals -** accountants, human resource professionals, improvement specialists, purchasing managers, engineers and designers, and the like are either in the midst of operational action as a member of an operational team, or they sell their services to a number of teams. Many teams are also purchasing some of this expertise from outside as needed.

- **Few Management Levels -** spans of control stretch into dozens and even hundreds of people (organized in self-managing teams) to one manager. Effective managers are highly skilled in leading (Context and Focus), directing (establishing goals and priorities), and developing (training and coaching).

- **One Customer Contact Point -** although teams and team members will come and go as needed, continuity with the customer is maintained by an unchanging small group or individual. Internal service and support systems serve the needs of the person or team coordinating and managing the customer relationship.

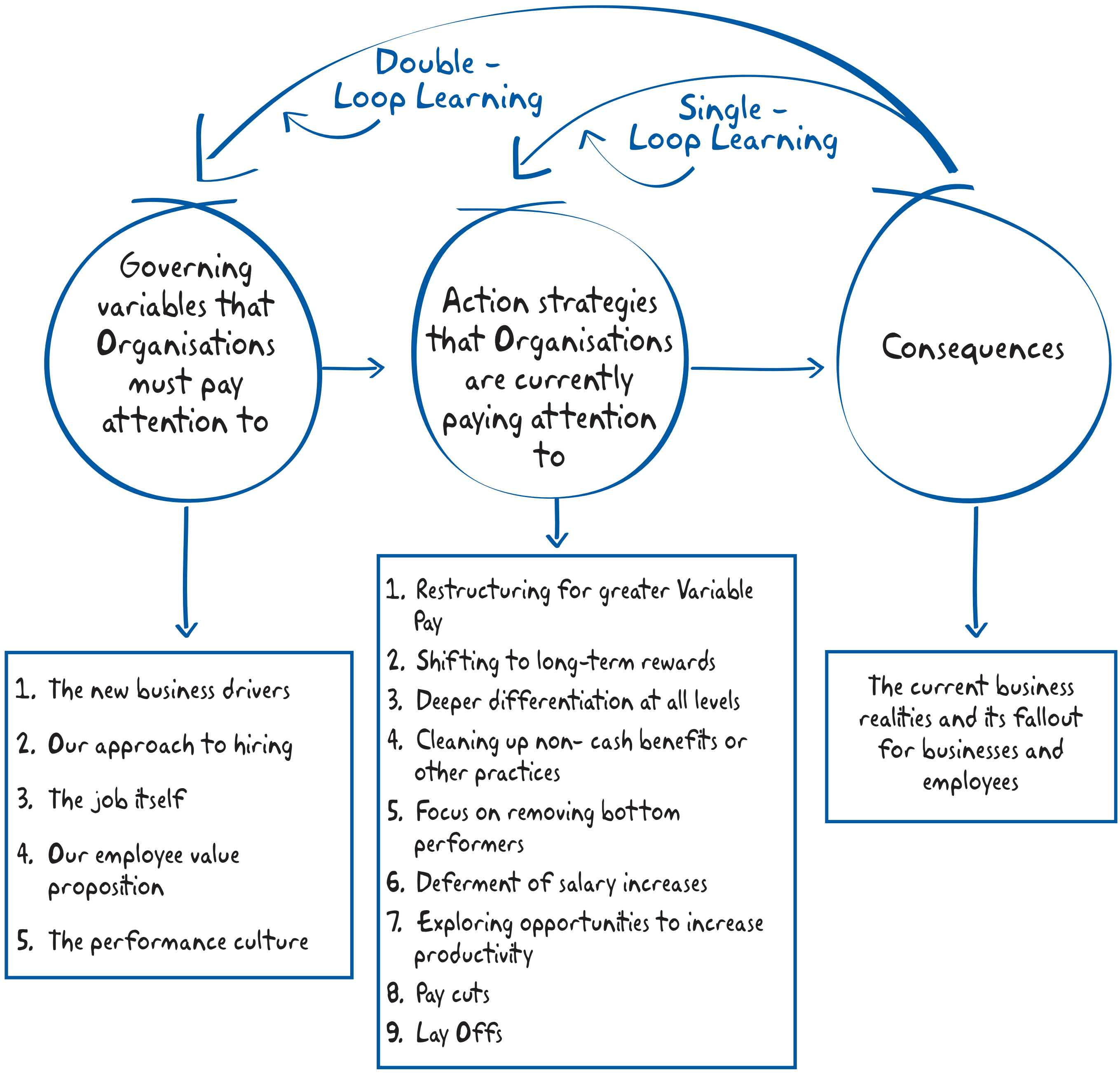
(Source: http://www.managerwise.com/article.phtml)

Above all, high performance organisations set ambitious goals, consistently and continuously achieve those goals and have the agility to adapt to changing circumstances quickly. In these Organisations, there is respect for commitments, rewards for success and serious consequences for failure.

The coming years will require that Organisations imbibe this cultural dimension strongly. This is in fact one of the most important governing variables of pay. Without this, pay programs will become meaningless administrative exercises.

I must admit that this will be the CEO's biggest job in the next few years.

In summary, there is a distinct difference between paying attention to action strategies and paying attention to governing variables, between single loop and double loop solutions. Now is the time to address the governing variables. Obviously, the ones mentioned are not exhaustive but are a good place to get started. The diagram below captures this central message.


Double - Loop Learning
Single - Loop Learning
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Action strategies that Organisations are currently paying attention to
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The current business realities and its fallout for businesses and employees

Why HR must pay attention to the Governing variables

In all the panic and mad rush to protect Organisations from value destruction we seem to have swung from "employees being our greatest assets" to "employees becoming our greatest costs". For the moment, HR has responded to the crisis but mostly to implement action strategies.

While employees seem to have accepted this reality because they have regressed to a lower ladder of needs in Maslow's hierarchy, it is only temporary. When the economy does return to a better state of health and Organisations begin to talk about some levels of managed growth, employees will once again become our greatest assets and at that time HR must be in a state of readiness to respond, but respond differently.

We must learn lessons from the present and ensure that our business leaders are helped to manage people differently in the coming years. While there is a lot to do and change in HR, pay can be a great place from which to start.

It is abundantly clear that the way pay and rewards were designed and implemented led to the culture of greed. Executives at all levels, CEO downwards manipulated numbers, records, regulators and investors to fulfill their personal agenda - wealth. This in many ways caused the global economic crisis.

I can see that in the current desire to save money, many Organisations seem to be inadvertently accentuating the problem. By increasing the amount of variable pay or by placing pay at risk without changing the underlying culture, Organisations may be encouraging and breeding the next generation of scams.

Given this background, this change cannot be managed by the compensation specialists alone. There is need for an Organisation Development approach to design and manage this change. The ER partners and the L&D specialists have as much of a role to play in this change as the compensation specialists. Most importantly, we must incorporate the voice of our employees in creating the new future.

As a team, and with the support of Business leaders and our employees, HR can remedy many of the ills of the past and recast the foundation on which Organisations can grow sustainably.

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