ATTRACTING AND RETAINING CRITICAL TALENT THROUGH REWARDS SEGMENTATION AT MICROSOFT

The technology industry has recognised the necessity of strategic investment in order to attract and retain top talent. At the 2013 EMEA Compensation and Benefits conference in Lisbon, Nick Rettenmyer, director of Global Compensation Programs at Microsoft, provided valuable insights on how Microsoft has addressed the shortage of talent in its industry and the processes it has implemented to attract, engage, and retain critical talent.

Microsoft, with more than $70 billion in global sales and net income in excess of $22 billion annually, is one of the world's leading technology companies and has maintained its position as a pioneer and industry leader. Microsoft occupies a unique space within the technology sphere, competing for talent against other global technology leaders with significant talent acquisition resources, as well as against smaller tech startups that promise employees the freedom to innovate and the possibility of a lucrative payoff should the startup succeed.

The intense competition for talent in the technology sector led Microsoft to revise its employee benefits and compensation schemes to better facilitate the acquisition and retention of critical talent, and to strengthen key segments that the business will depend on moving forward.

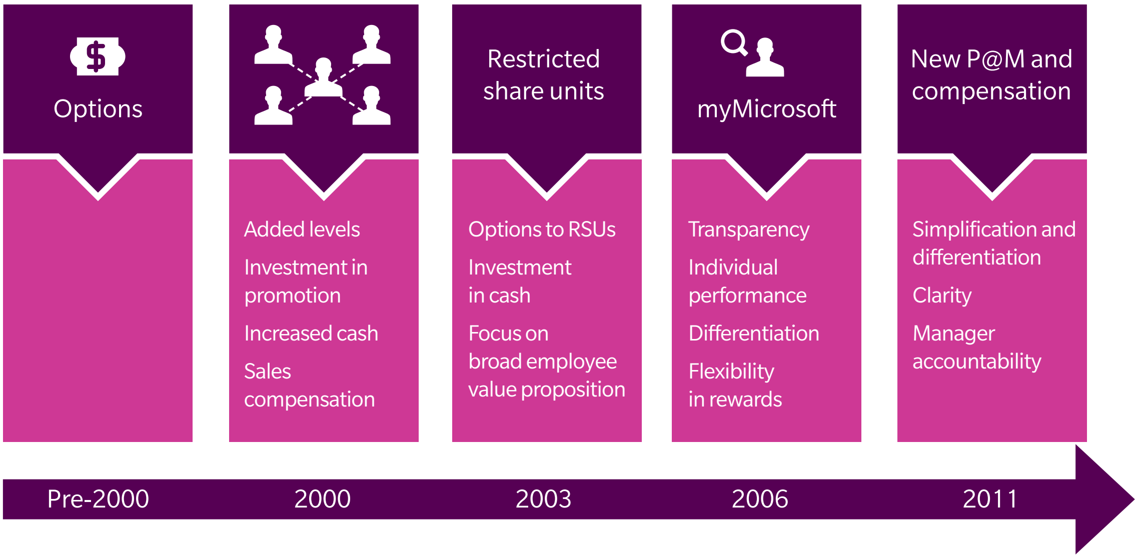
PERFORMANCE AND REWARD

Microsoft employs approximately 100,000 people across 191 locations worldwide and manages an incredibly diverse portfolio of products. Historically, many of these products functioned almost entirely as separate businesses. This situation created a complex environment in which the company needed to attract, retain, reward, and motivate a specific group while maintaining compensation equity across divisions. With the company's new "One Microsoft" strategy, some of this complexity is being addressed, recognising that any organisation as globally diverse as Microsoft will still face challenges when applying performance and reward solutions. This complexity has led the Microsoft team to define four key principles to simplify and guide its reward programmes: distinctiveness, differentiation, market competitiveness, and accountability for results.

Accountability for results is an extension of Microsoft's strong pay-for-performance culture (which seeks to acknowledge and reward employees for doing their best work and driving business results) while also attracting and retaining key talent by delivering the highest compensation to the highest-performing employees. To ensure that this compensation promotes market competitiveness, Microsoft relies heavily on market data to benchmark its rewards and understand how these compare to those of key competitors.

Although the pay-for-performance ethos is long-standing at Microsoft, the way the company has tackled this challenge has evolved significantly over the years.

Figure 1
Performance Management and Rewards History



During the tech boom of the late 1990s, the number one compensation strategy was deploying stock options, which had the potential to make individual employees huge sums of money and was a well-received programme at Microsoft. However, after the technology crash of the early 2000s and the subsequent loss in value of many tech stocks including Microsoft's, this strategy had to be re-evaluated. In 2006, the company implemented the myMicrosoft system, shifting the focus from stock options to stock awards, thereby maintaining stock as just one component of Microsoft's compensation schemes, and shifted the approach of these schemes to optimise performance reviews to drive rewards. The company also increased transparency in the allocation of these rewards.

In 2011, Microsoft implemented a new model that aimed to further simplify its rewards system and differentiate the firm in the market. Its "one rating, one reward" principle introduced a clear link between an employee's performance rating and his or her rewards, helping make this relationship clear to employees. Manager accountability was the crux of the system. All of these changes were made with the intent of increasing attraction and retention of critical talent, and recognising and rewarding exceptional performance across the business.

Most recently, in November 2013, Microsoft announced dramatic changes to its performance approach to better align with the goals of its One Microsoft strategy. This fundamentally new approach to performance and development eliminates ratings — and therefore the clear connection to rewards — and provides managers and leaders with flexibility to allocate rewards in the manner that best reflects the performance of their teams and individuals.

TALENT SEGMENTATION

Technology is a hugely competitive industry when it comes to talent, and it is also a very wealthy industry. Many companies have enormous resources at their disposal to lure top talent and invest heavily in their development. Although the large sums paid to secure talent may seem exorbitant, the impact that top talent has on an organisation can justify this investment. A top software engineer can have 10 times the impact of a midlevel developer. Companies must be willing and able to pay a premium salary for attracting and retaining this talent, or risk losing them to a competitor. But although organisations may be able to justify high-level investment in critical talent, they first need to define what critical talent is, and what it means to them specifically.

Critical talent refers to the "high performers" in an organisation who consistently outperform expectations and whose skills are integral to the company's strategic direction and future projects. Microsoft sought to implement a compensation scheme that allowed the company to maximise its rewards spend by targeting individuals in the organisation who have maximum impact on the business. To achieve this, Microsoft needed to identify its critical talent, understanding where they are located in the business and how their work aligns with overall strategy.

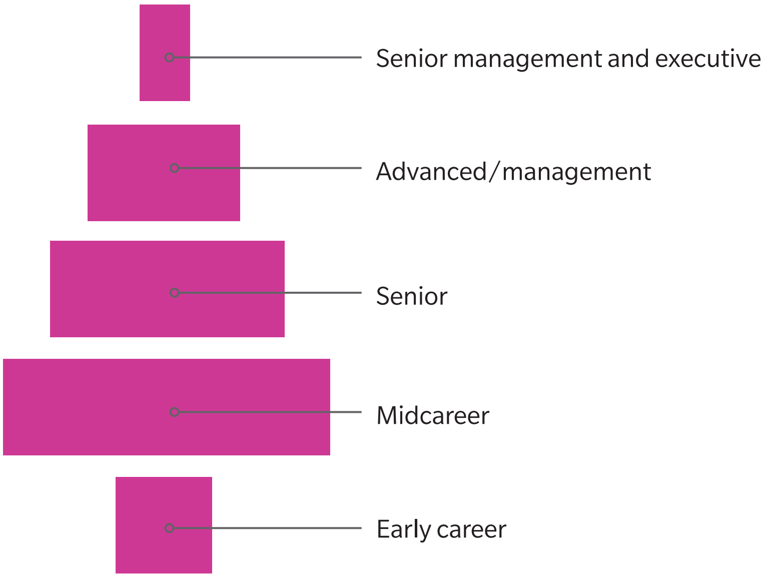
Microsoft uses a sophisticated approach to collect and assess relevant market data for its roles in most of the countries in which it operates. The company examined market data trends over time to identify roles and areas where the market price is increasing at a faster rate than in the rest of the market, providing visibility on where pressure exists in the market and in certain countries. For example, salaries for software engineers are increasing significantly faster than in the market in general — and even just within IT — indicating that there is a market demand for software engineers and companies will likely pay a premium to acquire this talent.

Microsoft organised these data into pyramids, which allowed them to view the structure of each group and the composition of workers and then compare this to its competitors via aggregated research. This provided a clear view of where Microsoft's most vulnerable employees were (those attractive to competitors) and where the company needed to invest in order to attract, motivate, engage, and retain talent.

KEY REWARD INVESTMENTS

The segmentation and market analysis also revealed a need to focus reward investment on one group in particular: engineering and research (E&R). E&R employees represent roughly one-third of the company's workforce. Microsoft evaluated the concentration of critical talent at all career levels in this group, but realised the distribution of employees at each level was not optimal considering the structure and composition of its key competitors' workforces and Microsoft's strategic objectives. This resulted in the identification of particular groups of employees that needed focused career development and compensation investment to further business impact and negate any potential attrition risk.

Figure 2
The Engineering and Research Pyramid



Microsoft made the decision to overhaul talent management of the E&R group, beginning with its college hire programme. Graduate hires have now been centralised in a single graduate-hire stream, ensuring that they are entering the company in the division to which they are best suited and where they are expected to be the most successful. Microsoft also removed some of the obstacles preventing the company from finding quality talent beyond a select pool of candidates, giving greater latitude to the hiring manager to make decisions outside set hiring guidelines to secure the right candidates. The company recognised that a new college graduate who has been developing and coding in his or her own time for 10 years may not have the on-paper experience that Microsoft generally looks for, but that he or she has the personal experience and know-how to be a great strategic hire.

Microsoft also sought to improve its appeal to new college graduates and promote itself as an ideal place to start a career. It put in place a process through which it could deliver a monetary check to a candidate upon acceptance of a job offer, creating excitement and enhancing its reputation and appeal via word of mouth. As a result of these and other measures, acceptance rates for graduate positions have never been higher, declines are much lower, and Microsoft has access to candidates who were previously unavailable.

Turning its attention to existing E&R employees, Microsoft sought to recognise the unique and critical contribution this group makes to the business by compensating them accordingly. The company introduced an E&R-specific salary structure that is higher than for other groups. This rate is driven by market data and, where roles are identified as overpaid compared to market, the salary structure is revised to ensure it is competitive without going overboard. Microsoft also doubled the E&R promotion budget to better focus on early-career workers and provide additional promotional opportunities for all of the E&R employees. It also differentially invested in merit for this group, moving them closer to the top of the market for merit increases. This is different from what is done in the other groups, which can cause challenges, but it was communicated companywide that this was a priority for the organisation, and this transparency helped avoid any lasting malcontent.

KEY TALENT AWARDS

Microsoft sought to reward employees across the board in a way that motivated them to deliver their best results and outcomes, and to promote retention in critical talent areas and better drive successful outcomes.

PRACTICAL IMPLICATIONS AND OUTCOMES

Figure 3
Practical Implications

Microsoft recognised four practical implications that can be leveraged by other organisations across a range of industries that are looking to optimise their rewards spend. First, a company must identify its critical talent and ensure that this identification aligns with strategic goals. This helps identify where investment needs to be made so budgets can be allocated accordingly. Regular evaluation of reward options and investments is crucial to ensure that compensation is having the desired effect.

Companies must also track employee demographics to identify where employees are in their career and note any potential attrition issues or concerns. Finally, it is important to measure actual outcomes against initial insights. Measurement showed that Microsoft's three-year attrition rate had dropped significantly for targeted employees, compared to the industry norms. This emphasises the need for companies to continually evaluate their reward options and investments, and reinforces the importance of tracking data and employee demographics to ensure investments are serving their purpose and providing adequate returns.

Adhering to these principles facilitates growth and development, as you are likely to have the right staff on hand when you need them most, and the required skills and motivation in-house to adapt to emerging market trends and opportunities.

ABOUT THE AUTHOR

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