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Compensation, Reward and Retention Practices in Fast-Growth Companies

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How do executives reengineer HR practices to adapt to changes in company goals and needs? The study featured in this article is based on interviews with CEOs and other leaders of fast-growth companies about the "how and why" of talent management during challenging times. Most companies have a strategy to grow their business. But companies that are evolving from startup to solid full-fledged growth companies, like those in this study, often face challenges. This paper shows how a group of companies in the United States evolved their compensation, reward and retention practices while they successfully made this transition. Practices and lessons learned from executive interviews have applicability not only to companies that are attempting such a fast-growth curve but also to midsized companies similar in size to the survey participants.

Results from this study show that during rapid growth, executive leaders are willing and able to make changes to adapt to different challenges and opportunities as they move from startup to sustained growth. The results of this study describe these changes and provide testimony to leaders diagnosing and responding to the need to be agile in managing and treating essential talent as they move to sustain their business success.

In fact, executive leaders in the surveyed companies have dramatically adapted compensation, reward and retention practices to match changing talent-management needs. They abandoned practices that provided value during the startup phase but were no longer providing value and shifted to solutions that deliver a workforce with the capability to add value and that can grow to meet the company's evolving needs as a full-fledged, solid fast-growth company.

Schuster-Zingheim and Associates Inc. studied a convenience sample of 20 fast-growth West Coast U.S. companies selected from ERI Economic Research Institute's database of 4,628 companies based on fast growth in revenue. These 20 companies had HR and line executives who were willing to be telephonically interviewed in depth for an extended period, answer the authors' questions based on a patterned interview, and provide the detailed information needed for a thorough understanding of the changes they made to compensation, reward and retention practices as they journeyed from a startup to a solid, full-fledged growth company. Criteria for inclusion were a history of fast growth as well as the willingness to have their CEOs, CFOs, chief operations executives and HR leaders participate in extensive structured interviews using the survey instrument in the Appendix on page 38.

In the authors' experience, direct interviews with senior members of the executive team provide the best opportunity to learn the "what, why and how" of fashioning a successful workforce model through strategies, practices and leadership actions that work. While this type of study does not provide the large samples that Internet or mailed questionnaires can generate, this methodology does ensure that the input provided is from the people who actually lead the companies, formulate the strategies and champion, implement and evaluate those strategies to ensure they are working as expected.

The 20 companies studied are fast-growth West Coast companies compared to other U.S. companies. Median revenue for the surveyed companies was $467 million in the last year of the three-year growth period. Figure 1 on page 24 shows a comparison of the percent increase in revenue growth during the same three-year period between the studied companies and other companies with the Standard Industrial Classification (SIC) codes of survey participants and all U.S. companies with all SIC codes, using ERI Economic Research Institute's database. The median revenue growth of the 20 surveyed companies was 141 during the three-year growth period compared to 47 percent for 470 companies with the same SIC codes as the survey participants and 37 percent for the 4,608 U.S. companies (publicly traded companies that had revenues of at least $10 million at the start of the three-year growth period and had revenues throughout that period). This means that the survey participants were fast-growth compared to not only all other companies but also to other companies most similar to them.

FIGURE 1 Revenue Growth of Surveyed Fast-Growth West Coast Companies Compared to U.S. Companies

Statistic	Three-Year Growth in Revenues			Revenues of Surveyed Fast-Growth West Coast Companies in the Last Year of the Three-Year Growth Period
	Surveyed Fast-Growth West Coast Companies	Other Companies with Same SIC Codes of Survey Participants*	All U.S. Companies (All SIC Codes)*	
10th percentile	69%	-11%	-8%	$369 million
25th percentile	94%	15%	12%	$413 million
Median	141%	47%	37%	$467 million
Mean	196%	81%	69%	$453 million
75th percentile	227%	99%	79%	$519 million
90th percentile	490%	187%	151%	$535 million
Number of Companies	20	470	4,608	

*Other companies with SIC codes of survey participants and all U.S. companies represent publicly traded companies that had revenues of at least $10 million at the start of the three-year growth period and had revenues throughout that period. Information provided from ERI Economic Research Institute's database.

Concurrent with revenue growth, the workforce also grew in size for the studied companies. During that same three-year period, their workforces had a median growth of 109 percent while the other companies with the same SIC codes had a median growth in their workforces of 20 percent, as Figure 2 shows. For each statistic that had positive revenue growth, the corresponding statistic for employee growth shows that both the survey participants and the other companies grew revenues faster than number of employees.

Five of the 20 companies studied are semiconductor manufacturers or suppliers of semiconductor components, systems or solutions; five represent a variety of electronics, computer hardware, digital and telecommunications product providers; three provide business-software solutions; two are biopharmaceutical companies; two provide bioanalytical or specialty medical products; two provide consumer products/services or business services via the Internet; and one is a business equipment manufacturer.

Interviews with members of executive teams indicated the surveyed companies moved quickly from the startup phase to being a solid, full-fledged growth company. They have experienced growing pains as their human-capital practices and processes catch up with their fast growth. Leaders said they found their startup workforce that included career gamblers, transients and free agents was no longer as effective as it had been as they continued to grow into a larger company. Instead they needed to upgrade and stabilize the workforce as business needs changed. Interview results suggest that a strong startup hiring strategy of stock options and signing bonuses did not have retention value,

FIGURE 2 Workforce Growth in Number of Employees of Fast-Growth West Coast Companies Compared to Other Companies with Same SIC Codes

Statistic	Three-Year Growth in Number of Employees		Number of Employees of Surveyed Fast-Growth West Coast Companies in the Last Year of the Three-Year Growth Period
	Surveyed Fast-Growth West Coast Companies	Other Companies with Same SIC Codes of Survey Participants*	
10th percentile	25%	-25%	946
25th percentile	47%	-4%	1,056
Median	109%	20%	1,240
Mean	160%	41%	1,550
75th percentile	150%	63%	1,708
90th percentile	381%	118%	2,592
Number of Companies	20	465	

*Other companies with SIC codes of survey participants represent publicly traded companies that had revenues of at least $10 million at the start of the three-year growth period and had revenues throughout that period. Information provided from ERI Economic Research Institute's database. Five of the other companies were missing employee data for the first year of the three-year growth period

did not necessarily relate to an individual's value and did not reward or retain high-performing key talent who possess the company's core competencies for the sustainable longer term. As these companies became full-fledged growth companies, leaders indicated they needed to shift to a growth culture — not just the company's growth but also the individual's development and career growth. Figure 3 on page 26 summarizes the transition that these companies faced as they grew from startups to solid, full-fledged growth companies.

RETENTION

Talent retention is of critical importance for companies shifting from startup to fast growth. Keeping the best people closest to the organization's core competencies, leaders said, is important as they must selectively identify and retain the people who are essential to their "going forward" business model. The retention focus for these surveyed companies is on people who possess the company's core technology competencies (engineers, scientists and other technical talent) and people who are close to the product development and marketing process. After the company's core technologies, leaders most frequently mentioned marketing jobs and other technology-based jobs (e.g., manufacturing engineers, software specialists). One objective mentioned by several respondents is "to keep the best talent from going to a larger company."

The leaders interviewed believe that in good economic times and bad they must retain the people who perform and have competencies and skills that match the business' core talent needs. They accept that key talent will go for

FIGURE 3 From Startup to Solid, Full-Fledged Growth Company

Element	Startup	Solid, Full-Fledged Growth Company: Beyond Startup
Business objective	▮ Start company quickly.	▮ Sustain growth and success for long term.
Workforce strategy	▮ Recruit workforce rapidly.	▮ Stabilize workforce of high performers. ▮ Upgrade workforce.
Hiring strategy	▮ Be less selective. ▮ Fill chairs. ▮ Welcome entrepreneurs.	▮ Be more selective. ▮ Secure core technologies/ competencies. ▮ Do not secure everyone to be an entrepreneur; need people who create worth by being creative and dedicated.
Pay strategy	▮ Pay to hire: stock-option grant and signing bonuses at hire. ▮ Informal pay: "let's make a deal"; free agent.	▮ Pay for performance: results, skills, value added, contributions. ▮ Flexible, not rigid. ▮ Stepping up/refining performance management, metrics and skill definitions.
Retention strategy	▮ Retain everyone. ▮ Provide retention bonuses.	▮ Retain high performers. ▮ Use new retention strategy that combines and integrates pay and total rewards and reflects the company's uniqueness and culture.
Career growth	▮ Hit or miss; not an established framework. ▮ Difficulty competing with larger companies' established programs.	▮ Strong focus on employee development and career growth. ▮ Accelerated career growth as individual adds value.

the "best deal." They believe retention of key talent requires two fundamental leadership actions:

- Understand and address the fragile balance of people staying or leaving based on the "deal" offered compared to the deals offered by other companies in terms of pay, career growth and development, leadership, people, the company itself and interesting, creative work — that is, total rewards.
- Appreciate key talent by making them feel important, that they count and that they are adding value, and include them in the company's future.

Figure 4 shows the retention strategy that leaders interviewed said has worked best, the most common retention strategy or program that did not work and the most common next steps for retention.

TOTAL REWARDS

Leaders in the surveyed companies provided their approaches to the elements of an integrated total rewards strategy.

Type of Strategy	Percent of Companies (N = 20)	Retention Strategy
Retention strategy integrated program	35%	Combine pay and development/career growth into one program that works best.
	15%	Focus on development/career growth program.
	10%	Provide rapid promotion.
	10%	Focus on the key and core talent who are currently needed to grow business.
	10%	Provide exciting work.
	10%	Focus on the company itself (e.g., fast-growth or strong technology).
	5%	Maintain a family atmosphere.
	5%	Provide "fair and equal treatment" to all people.
Most common retention strategy or program that did not work	30%	Stock options and hiring bonuses
	15%	Bureaucratic, rigid or slow programs
	15%	Copying the practices of other companies such as larger companies
	10%	No retention strategy or program did not work
Most common next step for retention	25%	Stay the course.
	20%	Increase communications.
	15%	Improve the career track/skill-pay program or expand it to include additional roles.

Engagement

Leaders in surveyed companies view employee engagement as essential, core or important and work to enhance employee engagement. In contrast, companies are split on the importance of employee satisfaction. Seven of the 20 companies reported employee satisfaction is not important or is minimally important for professional workers, while six companies said employee satisfaction is important or very important.

Culture

The survey participants had no common ground on their definition of culture. Cultures mentioned by more than one participant were a success-oriented culture (having a successful business to attract and reward key or top-performing talent), a performance culture (valuing high performers), a fun culture, an enabling culture, a growth culture and a culture focused on the company's science/engineering.

Managers' Role

Executives interviewed view the supervisor/manager role, in order of mention, as involving training, leadership, coaching, setting an example as a role model, setting business direction and engaging people in it, and facilitating workforce performance. For one company, strongly holding the CEO, executive vice presidents and heads of functions accountable for retention and recruitment of key talent has created one of the most successful talent-management programs in the industry. Another company requires its managers to be available to their people all the time, but not oppressively so. One leader interviewed for this study said, "I'm accountable for talent retention, motivation and development and willing to play this role to the hilt."

Training and Development

Leaders in the study companies said training and development are important, particularly for professionals or people in technology jobs. Objectives are to keep the company's core competencies or technologies current and fresh and to retain key talent. Surveyed companies either provide training and development opportunities and let the individual take the initiative or provide as much training and development as the individual wants. In addition to more work-related skills such as new products, customer service or selling principles, training may involve paying for advanced degrees (master's degrees and Ph.D.s), and classes in fields important to the company may be held on company premises. Only two survey participants mentioned that they review training results, (e.g., results of the growth of talent compared to the expenditures on individual and companywide bases). Several companies mentioned integrating training, development, goals and pay.

Career Opportunities

These companies are not only fast-growth in company revenues but also fast growth in providing career opportunities, as several believe this is why the best people come and why the best leave. Several provide an accelerated and concentrated career path for the technology and marketing professions. Most of these companies accelerate careers as people add value and take on new accountabilities and responsibilities. One company has a strategy to keep one career step ahead of its competitors and shows job candidates a detailed comparison of its career-growth opportunities compared to that of its two largest competitors and demonstrates specifically how career growth at any level is several times faster than that at the large competitors.

The surveyed companies provide parallel career paths to the manager role, particularly in core technologies or competencies. Job rotation is important for six surveyed companies as a part of career development or to periodically provide fresh opportunities.

Communications

Some key communications messages senior leaders use include: "Reinvent yourself every year" (in terms of growth), "Change is a way of life" and "Make innovation a way of life." Communication is constant, open, clear, complete and welcoming. These companies are linking messages — communication involves not only updates on the company's performance but also how people can influence it and gain from it as well as how an individual is doing. The most common medium for communication is the intranet, followed by manager-employee face-to-face communication.

TOTAL COMPENSATION PRACTICES

One CEO said, "If we don't pay for performance to grow our business, what do you suggest we pay for?" Nineteen of the 20 surveyed companies reported they pay for performance or results — one described it as paying for creativity and innovation that generate business results. Three reported paying strongly for performance/results, with three encouraging poor performers to leave. Figure 5 summarizes the surveyed companies' compensation and benefits practices.

Survey participants typically said they have an integrated view of their pay and rewards programs. The majority described their most successful program as an integrated program — either total compensation or total cash compensation. One-fourth of the companies said none of their pay and rewards programs did not work, likely because these companies view individual compensation programs as contributing to an integrated rewards and retention program.

Pay Competitiveness

Competitive base pay is seen as a core element but not the whole picture. It is important, along with career opportunities, to recruit key talent. Adjectives surveyed companies added in front of competitive base pay include "reasonable," "fair," "fully" and "remaining." Fourteen of the 20 companies pay above market for their key talent.

Variable Pay

All but one of the surveyed companies have some form of short-term and/or long-term variable pay (excluding recognition programs). Eighteen of the 20 companies have variable pay of some form for the professional workforce.

Cash incentives are the most frequent form; two companies plan to add a cash incentive in the future — one because stock options have run their course and the other to supplement the performance share plan. Eight mentioned having all employees incentive-eligible as it is essential to bond people to the company and to link people to performance results.

Cash incentives are tied to performance metrics — some combination of companywide, individual, functional or team-performance metrics. Depending on the company, incentive opportunity may have significant upside to reward the high-performing key talent.

Of the 14 companies providing some form of stock below managers, most use these programs to reward high-performing key talent strongly and vary award size based on individual performance and organizational level. Companies typically provide direct stock grants or stock options annually or regularly, although one provides stock options for retention and another at promotion.

FIGURE 5 Total Compensation Practices of Surveyed Fast-Growth Companies

Element	Percent of Companies (N = 20)	Compensation and Benefits Practice
Overall objectives	95%	Pay for performance or results.
	85%	Pay for competencies and skills, particularly for key talent.
Competitiveness	100%	Pay at least at market.
	70%	Pay above market for key talent.
Most successful program	40%	Combined total compensation program
	30%	Incentive/variable pay program
	25%	Combined total cash compensation program
	15%	Skill or career-track program for technical people
Failures	45%	Stock options
	25%	None of their pay and rewards programs
Base-pay increases	40%	Tie base pay to the individual's growth as well as skill growth, contributions to the company, performance and improvement.
	40%	Link base pay only or primarily to performance.
	20%	Provide formal skill or career-track/levels program for base pay and development for at least professionals with key technologies or core competencies.
Variable pay/incentives (excluding recognition)	95%	Short-term and/or long-term variable pay of some form (cash or stock)
	80%	Cash incentive with or without stock or stock options
	10%	Only stock options
	5%	Only performance share plan, with shares earned based on profit and revenue growth
	70%	Cash incentive for key nonmanagement talent
	10%	Adding key nonmanagement talent to the cash incentive next year
	10%	Adding a cash incentive plan in the next year or two
	40%	Cash incentives for all employees
	40%	Stock options below managers
	30%	No direct stock grants/awards or stock options below managers
	20%	Direct stock grants/awards below managers
	5%	Performance share plan below managers
	5%	Either direct stock grants or stock options below managers
Recognition	95%	Have a recognition program.
	5%	Do not have a recognition program.
	50%	Provide significant stock or cash awards for significant contributions.
	35%	Report their recognition programs are not important now.
Employee benefits	90%	Pay competitive or near-competitive benefits.
	10%	Pay more than competitive benefits.
Most common future plans	25%	Improve performance measurement, metrics or scorecard.
	20%	Add or expand eligibility in a cash incentive plan.
	15%	Refine or expand the skill-pay/career-track program.
	15%	Increase communications.
	15%	Stay the course.

Stock Options

Nine of the surveyed companies reported that their stock option program did not effectively work. Three companies mentioned that their hiring bonuses did not work. A key human-capital issue during the transition from startup to full-fledged growth company was the impact of stock options and signing bonuses for the following reasons:

- Often the best people would leave the company to reload or get new stock options and a new signing bonus at another company.
- The value of the hiring package depends on when the individual was hired (especially if the stock was volatile) and not on the individual's value to the business.
- Some employees who had valuable stock options became entitled.
- Stock options at startup create a gambling mentality, which does not match a full-fledged growth company's mentality.
- The value of stock options is unpredictable, as their value is based on not only company performance but also the performance of the company's industry and the general economic climate.
- Company growth may not continue at its startup or current pace, and setbacks may occur.
- As the company continues to grow, fewer stock options per person are available.

The companies that moved from stock options have shifted to an integrated compensation and rewards program, including individual growth and development as well as direct stock awards, a stronger emphasis on cash incentives or, in one company, a performance share plan.

Recognition

Of the 19 companies with a recognition program, seven reported that their recognition program is not important now as either recognition does not fit the culture or the company has moved away from earlier recognition programs. Nine companies with recognition programs, however, provided significant stock or cash awards for significant contributions. These recognition programs reward, for example, breakthroughs, unexpected contributions to income growth, inventions, significant contributions, new clients and new projects. For one company, the award for an invention that adds business value or for unexpected contributions to income growth is $100,000 at a minimum and has been $300,000 in stock and cash.

Benefits

Employee benefits, especially health care, are considered a basic and important foundational element but are not a defining or determining factor in attracting or retaining talent as competitors for talent also offer employee benefits.

Challenges

Executives in the surveyed companies report their biggest challenges in pay and rewards are defining the metrics and skills for technology jobs because of evolving technologies, measuring creativity that adds to business growth or profitability and performance management. They are planning for the future — one-fourth of the companies plan to improve performance measurement, metrics or their scorecard.

Figure 6 summarizes the predominant strategies for career and total compensation of the surveyed companies.

Program Evaluation

"Keeping our best people correlates with our business success. That provides us with proof positive that we are on the right course," said one leader. In evaluating the success of their pay and total rewards programs, leaders most commonly look to correlate measures of company performance. Secondarily, they want to lower turnover of key talent. They do not use employee attitude or engagement survey results to determine program success but rather use outcome-oriented, objective metrics. Figure 7 summarizes the metrics that surveyed companies use to evaluate pay and reward programs.

EXAMPLES OF SUCCESSFUL, INTEGRATED PROGRAMS

Four examples typify the study results. All found that the programs that worked for a startup could not sustain the company to match its growth and evolving talent needs.

FIGURE 6 **Summary of Predominant Career and Total Compensation Strategies of Surveyed Fast-Growth Companies**

Element	Predom inant Strategy
Career	▮ Strong focus on key competencies and skills ▮ Career acceleration for key talent
Base pay	▮ At least fully competitive for key talent ▮ Performance- or skill-based
Variable pay	▮ Extensive cash incentives, with agile metrics that change as business directions and plans change ▮ Less stock option usage, as it creates workforce instability ▮ Some direct stock grants
Recognition	▮ Mixed usage ▮ Significant cash or direct stock awards for breakthroughs or significant contributions
Competitiveness	▮ Strongly or aggressively competitive for high-performing key talent
Benefits	▮ Cost of entry

FIGURE 7 Metrics Used to Evaluate Pay and Reward Program Success

Type	Percent	Program Evaluation Metric
Company performance	40%	▮ High company performance, results, profit
	20%	▮ Growth of company
	10%	▮ Growth of quality talent
Talent retention	40%	▮ Low turnover of key talent (best people, people with key technologies and leading-edge technology)
	20%	▮ General employee retention
	10%	▮ Length of service (top 50% of people, technology people)
Competitive level	5%	▮ Company is competitive for talent
	5%	▮ Rewards are commensurate with company's perception of what people are worth

Example 1: "Grow Your Career for a Lifetime"

One company providing integrated hardware and software automation systems for the semiconductor industry has moved from a culture of "getting rich on options" to the longer-term development and investment in talent. The objective is to upgrade and stabilize a high-performing professional workforce and to keep pay up to the individual's value. Its "Skill Plus Plan" pays at the 75th percentile for the top 25 percent of each job family in the technology and marketing areas. A "skills panel" evaluates each technology, engineering and marketing employee on performance and skills against a scorecard every six months; the company manages out people who are not growing and have obsolete skills by slowing their base pay so they are attracted away. The 50 percent top performers in a band on the scorecard earn a lump-sum award that increases as a percent of base pay for each year that the individual is in the "top half." Along with the lump-sum awards that the individual can choose to have paid in cash or stock, other incentives such as project incentives provide significant upside award opportunity.

This company has moved away from stock options, hiring bonuses and stay bonuses that did not work (and the company has run out of options) to sustain a stable workforce and now focuses on an integrated program of performance-based total cash compensation, development and career growth. It accelerates careers for technology talent with a good track record of contribution and has a coaching system and buddy system to help manage careers. The communications message is "Join us, and we will help you grow your career for a lifetime," not "We will take care of you."

Example 2: "Encourage the Best to Remain and Others to Improve or Leave"

This specialty medical products company has a total rewards approach with accelerated careers, strong coaching, exciting work, open and welcoming communications, and a pay, incentive and stock-ownership program encouraging the best to stay and others to leave or improve. It believes that pay must be reasonable but aggressive and employee engagement is critical and uses its exciting science and reputation to attract talent. The top 25 percent of key talent earn large salary increases, cash and stock awards and promotion to higher-impact roles (not necessarily management roles).

About 20 percent of the workforce work in the long-term nature of product research and development, so performance may not be realized for several years, and the company is betting on their contributions. For these people, the company provides progressing" base-pay adjustments, progressing incentive awards and progressing direct stock grants based on the individual's contribution to date and in expectation of project success. All employees are eligible for an annual incentive based one-third on company income, one-third on division profit contribution and one-third on individual goals set by the manager. Recognition is limited to a cash or direct stock award, with a ceremony for "making a difference."

Example 3: "People Are 50 Percent of Our Cost and 100 Percent of Our Success"

This semiconductor manufacturer's compensation program is called "Great Products for Great Customers." The objective is to pay the senior technology people well and develop everyone in the company. Everyone has the opportunity to grow, and rapid promotions occur at an accelerated rate by keeping one step ahead of the competition and looking for opportunities to move individuals into more responsible and developmental roles. This company has career tracks for its broadbanded jobs based on the labor market; a scorecard is used to review salaries, with increases that occur as often as a manager suggests and are significant for exceptional results. An annual incentive bases incentive opportunity on the potential to influence the company's performance and is based one-third on company, one-third on organizational unit and one-third on individual results.

In addition to hiring stock options, this third company annually provides a direct stock award (based on a combination of the individual's role and performance) to all employees except the top executives, as the direct stock award grant has more predictable value than a stock-option grant. This company views the core of paying people as significant direct stock grants for significant contributions and also has what it terms a "Super Contribution Award" that is paid in direct stock for significant business contributions on projects, new products, new customers, etc., typically to sales, marketing and engineering individuals. The CEO and an executive panel recommend this important annual award and the awards are subject to board approval. The CEO's view is that it is essential to get great people and keep them regardless of the cost.

Example 4: "Fast Growth Means Great People Paid in a Combination of Development and Job Performance"

This specialized electronic systems and components company's objective is to have a stable professional workforce and a longer-term perspective on talent management not only by communicating that the company wants people for the longer term and wants to develop them but also by trying to lock them into the company. Its "People First Program" combines development, career growth, performance management and pay and replaces stock options and signing bonuses that created workforce instability. This company provides technical, marketing and sales employees with individualized, written "employment agreements" that provide benefits and features for one year and are renegotiated the next year.

These agreements delineate the obligations of the company and the individual in terms of goals, skills and rewards; commit a manager to an individual for one year for training, developing and coaching each month with write-ups; provide contingent base-pay adjustments based on goal, project and other performance metrics; have an "out" for the company if business performance or economics substantially change, so it is not a contract; and define incentive eligibility and metrics for the year. The individual chooses whether the incentive award is to be paid in cash or stock. Most often key talent receives two salary increases per year; if not, the message is to look for another job, as the company is trying to manage out the poor performers to the marginally average performers by managing base pay relative to the competition. With the cash incentive, the top 75 percent of the workforce is paid at the 75th percentile of the labor market, with the rest paid considerably lower.

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SUCCESSFUL PRACTICES

Leaders from the study companies described a variety of pay and total rewards practices that have been successful in retaining key talent, with the following being typical:

- A focus on career growth, including career opportunities for all employees, career acceleration for key talent, and technical career-tracks and skill-pay programs that communicate development and pay in one package. When people become a number and the company does not focus on their development and career growth, they leave.

- Sharing the company's success with people to make them feel part of the organization and its momentum.
- Moving off stock options and retention bonuses that destabilize the workforce and do not sustain the organization for the long term although they put out the initial startup fire.
- Providing integrated pay and total rewards programs customized to the workforce segment (core technology talent, sales/marketing talent, other talent).
- Ensuring compensation keeps pace with career growth. Pay key talent well; pay the most for the best talent — they are worth the investment.
- Hiring for creativity, the potential for creativity and "idea people," and rewarding those people well.
- Focusing on the company's core technologies — for example, the company is run by technology people, not finance or lawyers; the company values science and does its own research and development, manufacturing and quality control.
- Business success and hiring great people serving as a magnet for attracting other key talent.

LESSONS LEARNED

Executives interviewed gave advice about program design, including:

- Identify and focus principally on high performers and key talent who have essential competencies and skills and who make a measurable difference to the business. Develop a pay and rewards program that retains them longer.
- Plan for the stabilization of the workforce for the long term as the company grows or if the company has a temporary downturn.
- Implement an understandable, not complex, integrated retention, pay and rewards program, as the company's fast growth can create confusion. Evolve and refine the program as needs change. Remain agile as it relates to human-capital practices.
- Capitalize on company growth by taking advantage of the company's image as a new player in the marketplace and by going where other companies (likely larger and/or slower-growth companies) are not.
- Do not make commitments to "early people," as a fast-growth company most likely will outgrow them and hope they move on. Actively manage the poor performers to improve or leave, using compensation to facilitate the individual's decision.
- Accept that people go for a better deal, so make the deal most effective for both the company and the talent who the company most wants to retain. The company must also gain something in the deal — people must continue to develop skills and increase their value added to the business if the company pays a premium.

CONCLUSIONS

This study provides insight into how the top executives of fast-growth companies on the West Coast of the United States have managed the transition from startup to sustained fast growth from the standpoint of talent-management strategies, practices and programs. Candid interviews with members of senior-leadership team, not questionnaires, were used to learn how these successful companies have moved beyond startup.

The leadership challenge is to sustain business growth and success while stabilizing a workforce of high-performing key talent who possess the company's core competencies. To do this, these fast-growth companies have chosen an integrated view of total compensation and total rewards, including training, development and career opportunities. They have customized their performance-based compensation approaches. But their objective is the same — to retain high-performing key talent by providing significant pay and rewards, making certain that pay and rewards keep up with an individual's value and accelerating career growth based on an individual's development and track record of solid contributions.

AUTHORS

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APPENDIX

Focused Interview Guide for Study of Workforce Retention, Pay and Rewards in a Sample of Fast-Growth West Coast U.S. Companies

Schuster-Zingheim and Associates Inc. is exploring strategies, practice and evaluative experiences and comments regarding workforce retention, pay and other rewards for employees, particularly hard-to-retain employees. We have selected a sample of fast growth, West Coast companies for this study to gauge the impact talent-management strategies and practices related to retention, pay and rewards have on business-growth performance. We are studying how the West Coast's fastest-growth companies address critical HR management issues, including the workforce retention challenges and solutions, and pay and rewards (which includes paying for performance).

Our objective, if you are willing, is to gain insight into your practices, why you follow them, what the results are, and what you have learned about these workforce issues as a result of using these workforce practices. The companies studied will not be listed, and individual input will not be attributed to you in any way.

Schuster-Zingheim and Associates Inc. would like to understand how your company does the following:

1 | What are your current challenges and strategies related to retention and also pay and rewards for employees?

2 | What practices have been successful, and what have been less successful in helping accelerate or maintain business growth?

3 | To what extent does your company pay for performance? How does it work? What have been the results?

4 | What next steps or actions do you plan to take?

5 | What suggestions and recommendations do you have for other companies seeking fast growth?

6 | What has been especially successful relative to communications and gaining workforce understanding, acceptance and engagement?

RETENTION

7 | What workforce-retention strategies and practices have proven most valuable to your business growth? Please describe your company's most pressing talent-retention challenges.

8 | What has been your experience relative to why employees leave or stay with the company?

9 | Please describe your company's strategy related to talent retention.

10 | What skills and competencies are critical to your company to retain and why?

11 | What role do you believe the following play in workforce retention?

- Overall employee satisfaction
- Employee engagement
- Organizational culture
- Supervisor/manager/leadership relations
- Work environment
- Communications
- Training and development
- Career opportunity
- Base pay
- Incentives/bonuses
- Recognition and recognition awards (cash or noncash)
- Employee benefits (e.g., health insurance, retirement, PTO)
- Work-life benefits (e.g., flexible hours, job sharing, job rotation)
- Other (explain).

12 | What practices have worked best for retention? Why?

13 | What practices have not worked well for retention? Why?

14 | What is the next action you plan to improve retention? Why?

15 | What is the role of the executive team and managers in talent retention?

16 | How do you evaluate the effectiveness of your company's retention strategy and practices?

PAY AND REWARDS

17 | What pay and reward strategies and practices have proven most valuable to your business growth? Please describe your company's most pressing pay and reward challenges.

18 | Please describe your company's strategy related pay and rewards for the workforce. For hard-to-retain employees?

19 | To what extent does your company pay for performance for the workforce? Why has your company adopted this strategy?

- Not a strategy
- Not truly pay for performance — although say we pay for performance
- Pay market
- Pay for competencies and skills
- Pay for performance and results
- Pay very strongly for performance and results — with strong pay differentiation based on performance
- Some combination (what combination?).

20 | What has been challenging and what has been successful in measuring employee performance? Competencies and skills?

21 | If your company pays for performance for the workforce, please describe how pay for performance works in your company. What is the program? How would you evaluate the program's success?

22 | What pay and reward practices and programs have worked most successfully? Why?

23 | What pay and reward practices and programs have not worked well? Why?

24 | What is the next action you plan for pay and rewards? Why?

25 | How do you evaluate the effectiveness of your company's pay and rewards strategy and practices?

26 | What has been particularly effective in communicating pay and rewards for employee understanding, acceptance and engagement?

SUMMARY

27 | What are your company's lessons learned about:

- The role of workforce retention, pay and rewards in your accelerated business growth
- Retaining employees
- Pay and rewards, including paying for performance if your company pays employees for performance.

Thank you very much for your participation.