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# The 8 Fatal Compensation Mistakes



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Today's Presenter:

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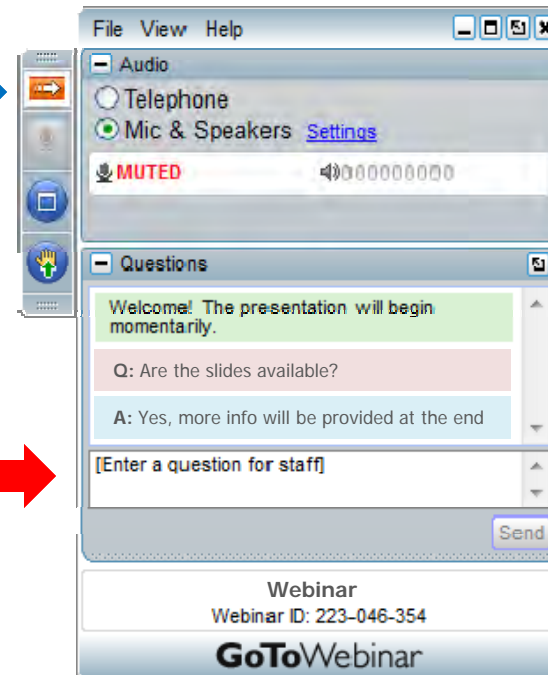
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# What returns are we looking for from our compensation investment?

- Premier talent magnet
- Quality retention
- High productivity



# Isn't this about:

- Saying something that's powerfully different...
- That presents a valuable financial proposition...
- And then saying it again, and again, and again?





# Fatal Mistakes

*Avoid these mistakes and watch your productivity rise!*

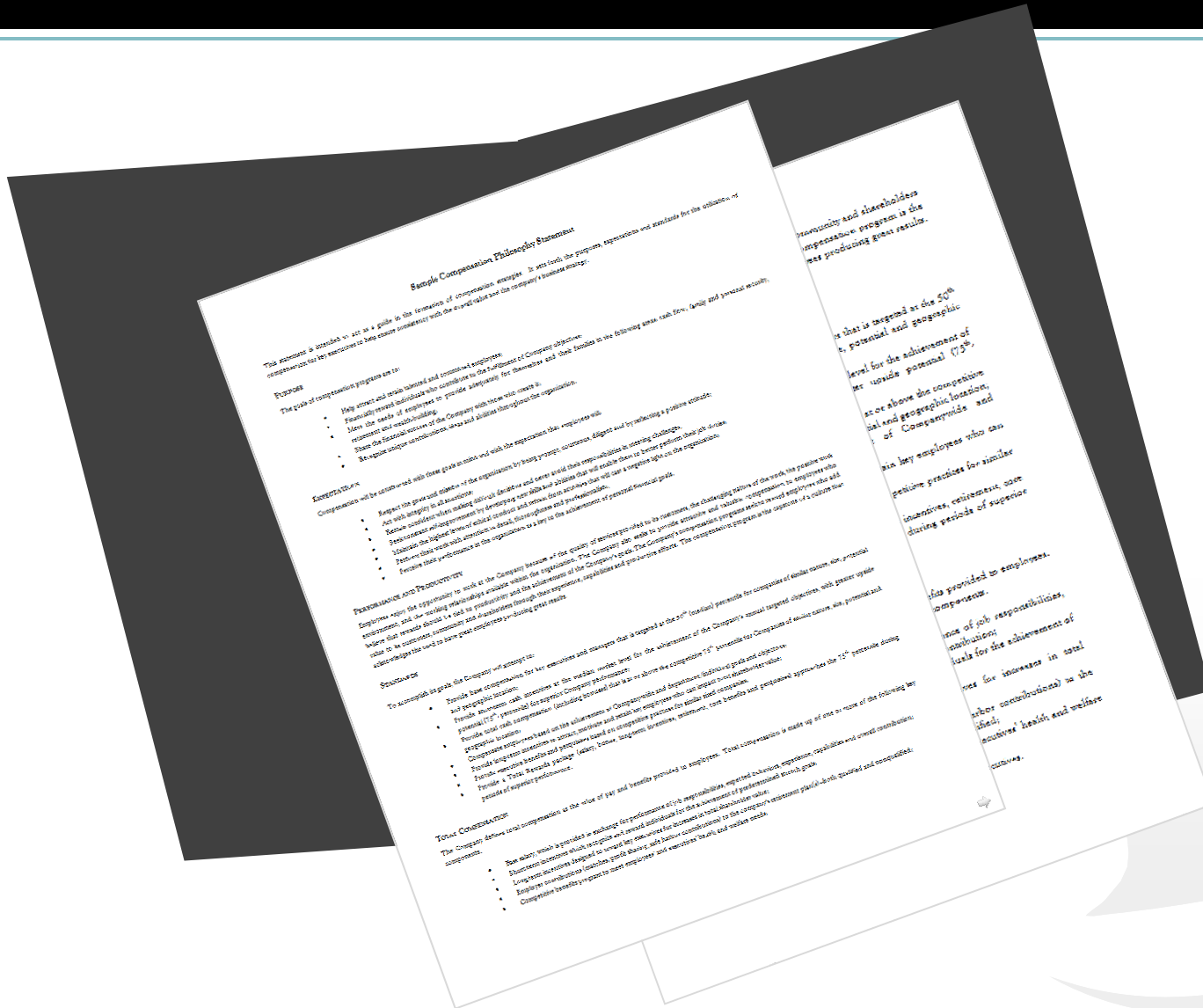
#1

## Failure to establish a compensation philosophy that supports your business model and plan

- *What is your business model?*
- *What caliber of employees should you recruit and retain to execute your plan?*
- *What are the goals of the plan?*
- *What types of compensation programs should be used to support that model?*
- *What levels of pay should you target?*
- *Who should participate in incentive plans?*



# Compensation Philosophy Statement



#2

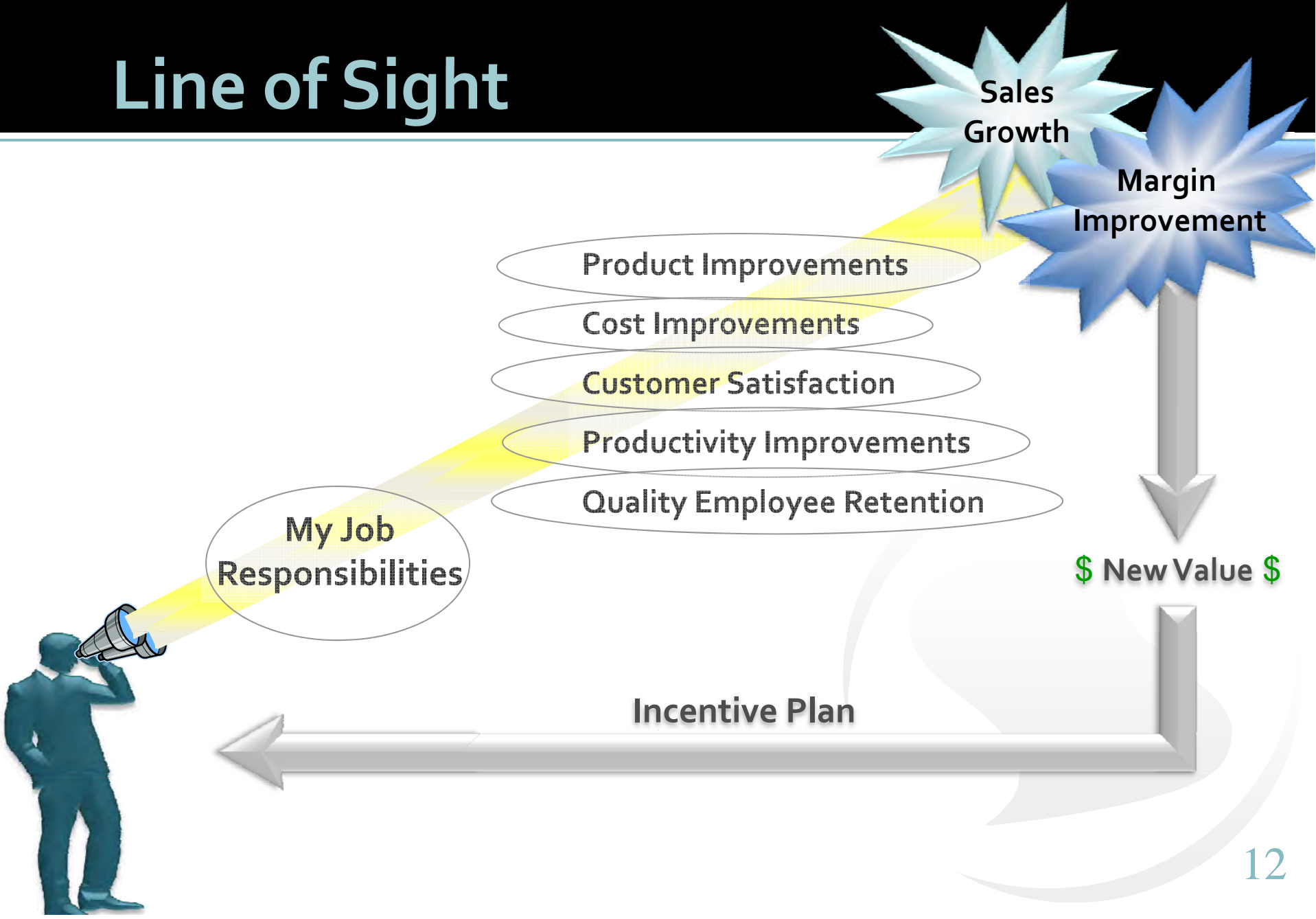
## Use of *ad hoc* bonuses

- *Ad hoc—for this time only*
- *Aka—end of year “subjective” bonus*
- *Why is this a mistake?*
  - *Employees have limited idea what results you expect*
  - *You are setting yourself up for the accusation of “unfairness”*
  - *You’re also setting up an “entitlement mentality”*

# An effective bonus plan...

- Is tied to specific performance criteria
  - That are as close to each employee's duties as possible
- Is announced as early in the year as possible
- Allows for some degree (15-25%) of subjectivity

# Line of Sight



#3

## Trying to change behavior via incentives

- *Rewards can distract from results by focusing people on “how to get the bonus”*
- *Rewards can buy temporary compliance but do not change intrinsic motivation*
- *Rewards can discourage innovation*

# Widget Production Supervisor



# Purposes of the incentive plan

- Carrot and stick
- Change behavior
- Get people to do things they don't want to do
- Motivate people to "do the right thing"

WRONG!

# Purposes of a good incentive plan

- Demonstrate a financial partnership with employees
- Communicate the outcomes and results most valued by the organization
- Create flexible means of rewarding high performers and recognizing special circumstances and achievements



# Force

# Reinforce

This is the behavior that's expected and rewarded.

These are the results that are valued and rewarded.

Do these things whether you like them or not (they're a necessary part of the job).

As you can see the outcomes we're striving for, determine the best ways to get them done. Here are our standards, patterns, expectations.

Our bonuses are reflective of our "market pay" analysis for your job classification

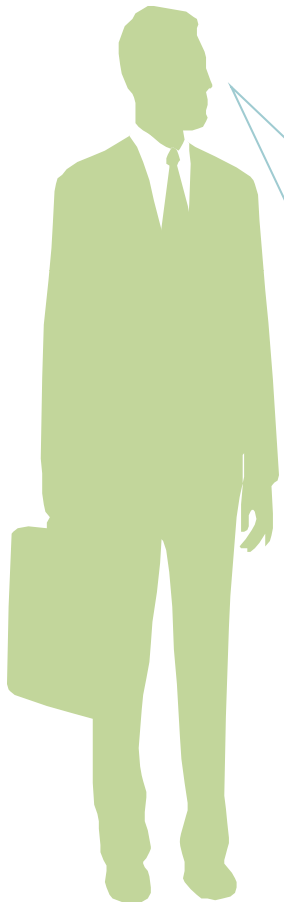
Our bonuses reflect the way we share value that you help create.

**Bad profits**

**Good profits**

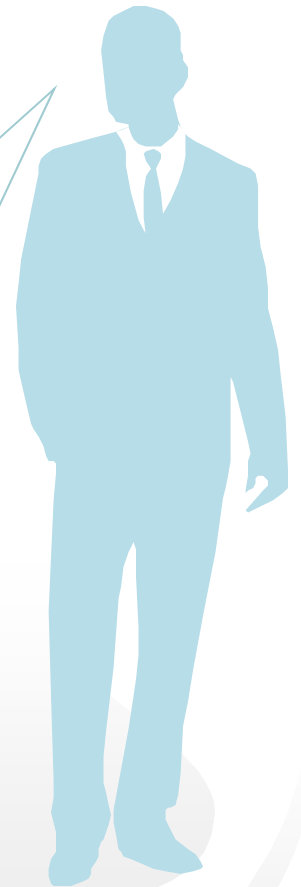
# Owner

# Employee



Help us create financial value (good profits). We have a specific, proven and valuable way to share it with you.

I see what business results create value. I understand how you share that value. It's meaningful to me. I see ways I can contribute.



Consider...

**Bonus?**



**Incentive?**

Consider...



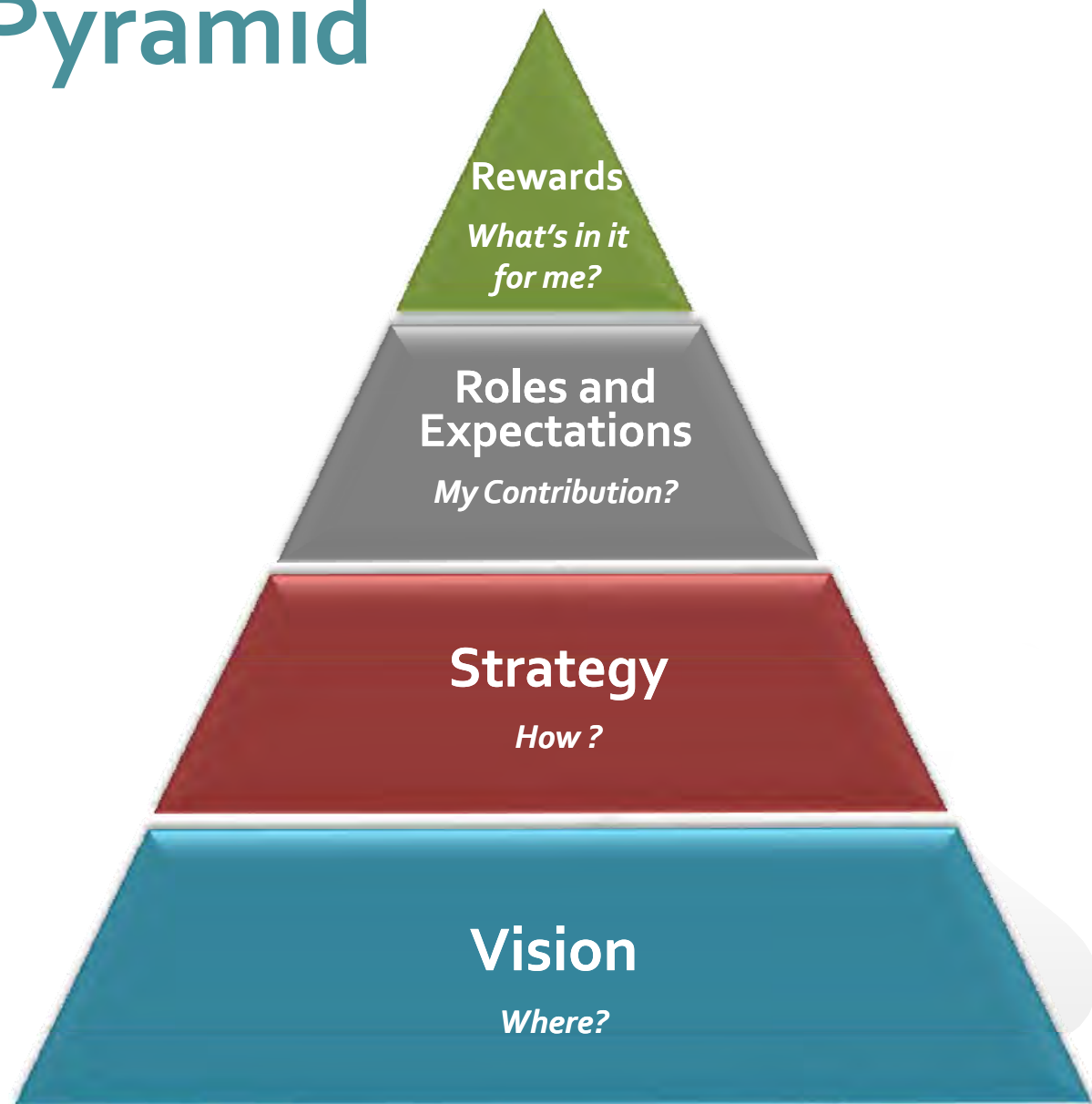
Value Sharing

#4

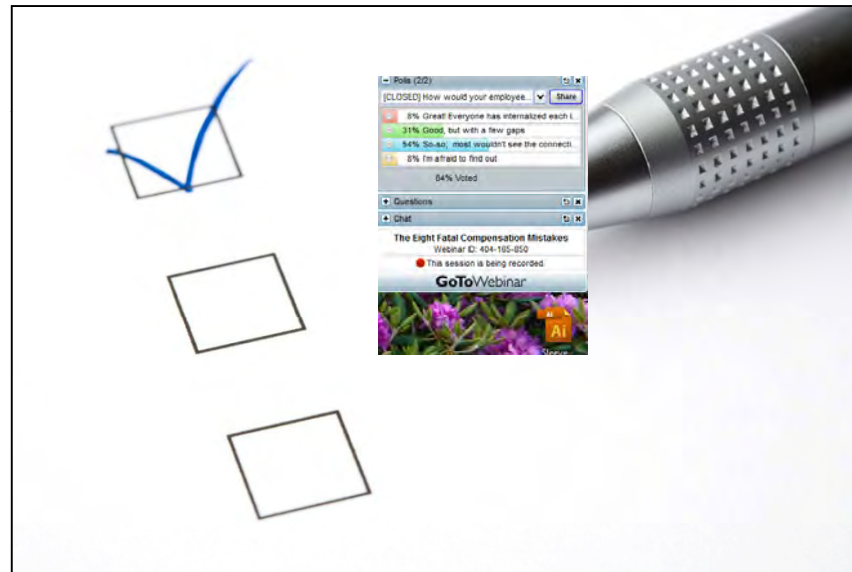
## Failure to balance short- and long-term value sharing programs

- *Owners think about both short-term and long-term goals*
- *Why would you want your employees to only think about short-term goals?*
- *Aren't value-sharing programs supposed to reward for the achievement of both?*

# Rewards Pyramid



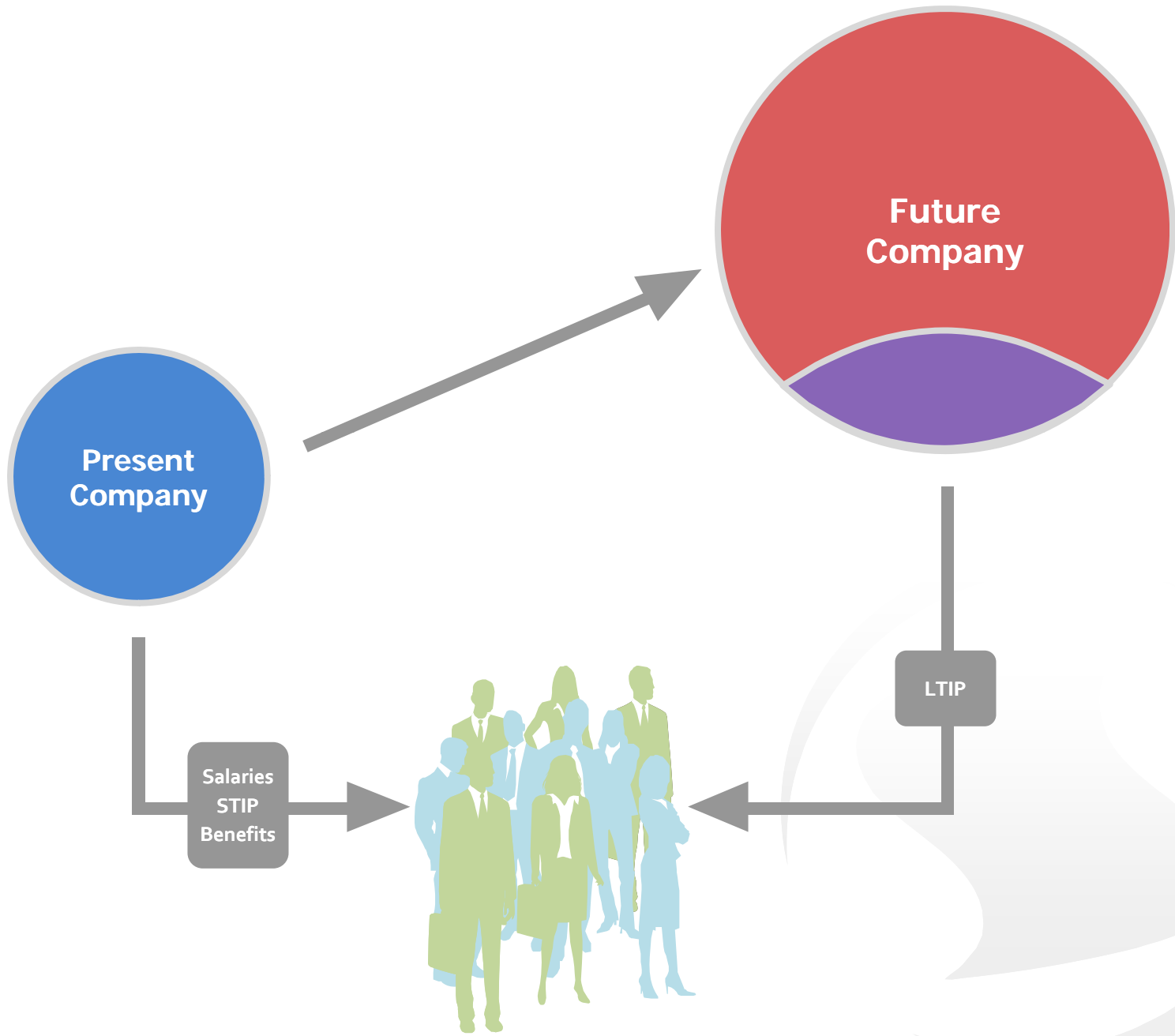
# Poll

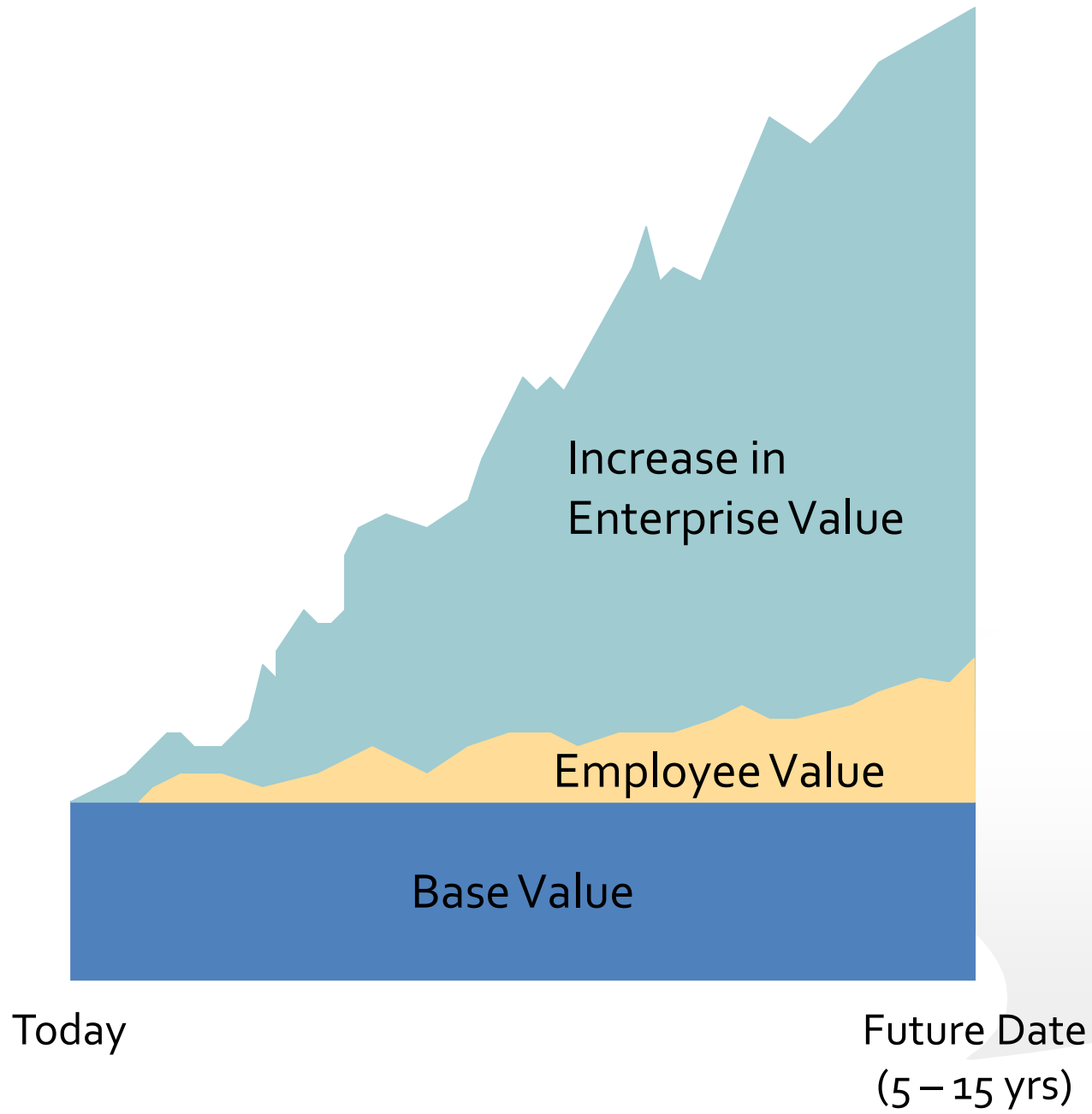


# Rewards to Results



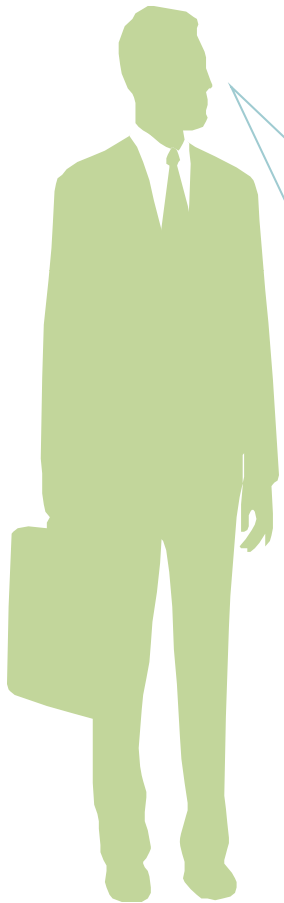






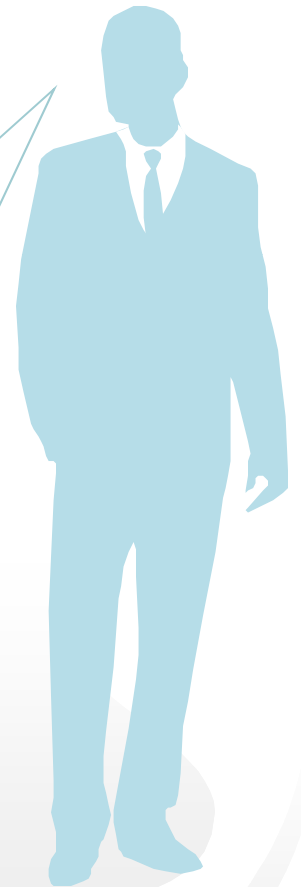
# Owner

# Employee



Our short-term plan focuses on our annual budget achievement. Our long-term plan focuses on equity improvement. Here's how you participate

I see how I can impact both goals. And I like the fact that I share in the value each one creates.

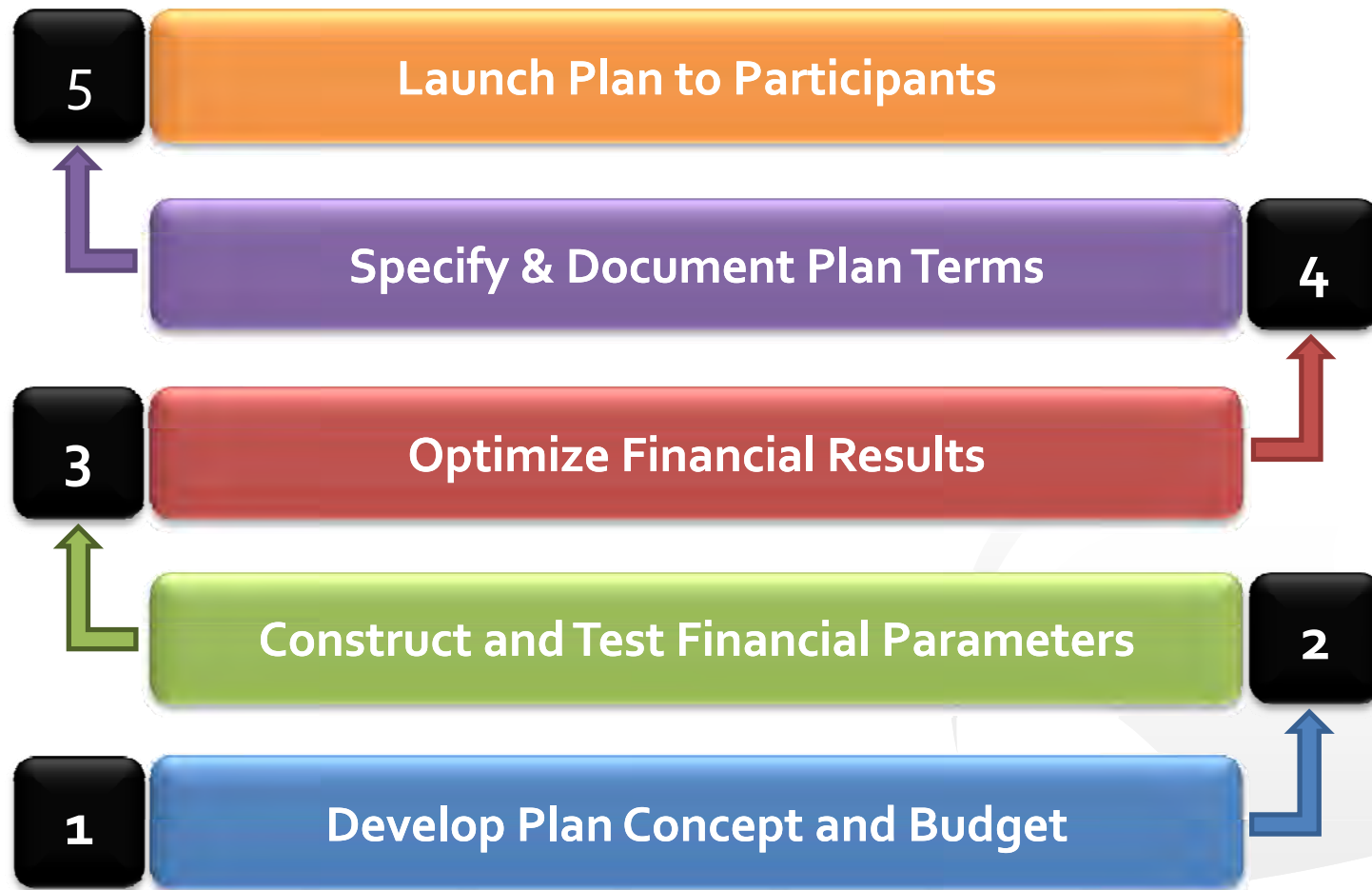


#5

## Critical design errors in your long-term plan

- *Design by document*
- *Design by worst case scenario (under-shoot)*
- *Design by what your brother-in-law did*
- *One-time awards*
- *Technical decisions*

# Developing and Implementing a Long-Term Value-Sharing Plan



# Best Outcomes from an LTIP



Attraction



Retention



Focus



Alignment



Ownership Mentality



Value Sharing



Motivation



 **Unified Vision for Growing the Business**

# How this happens

1. Paint a picture of the future
2. Monetize it
3. Commit to sharing a portion of it
4. Present it to your key employees
5. Manage it right
6. Consistently reinforce it



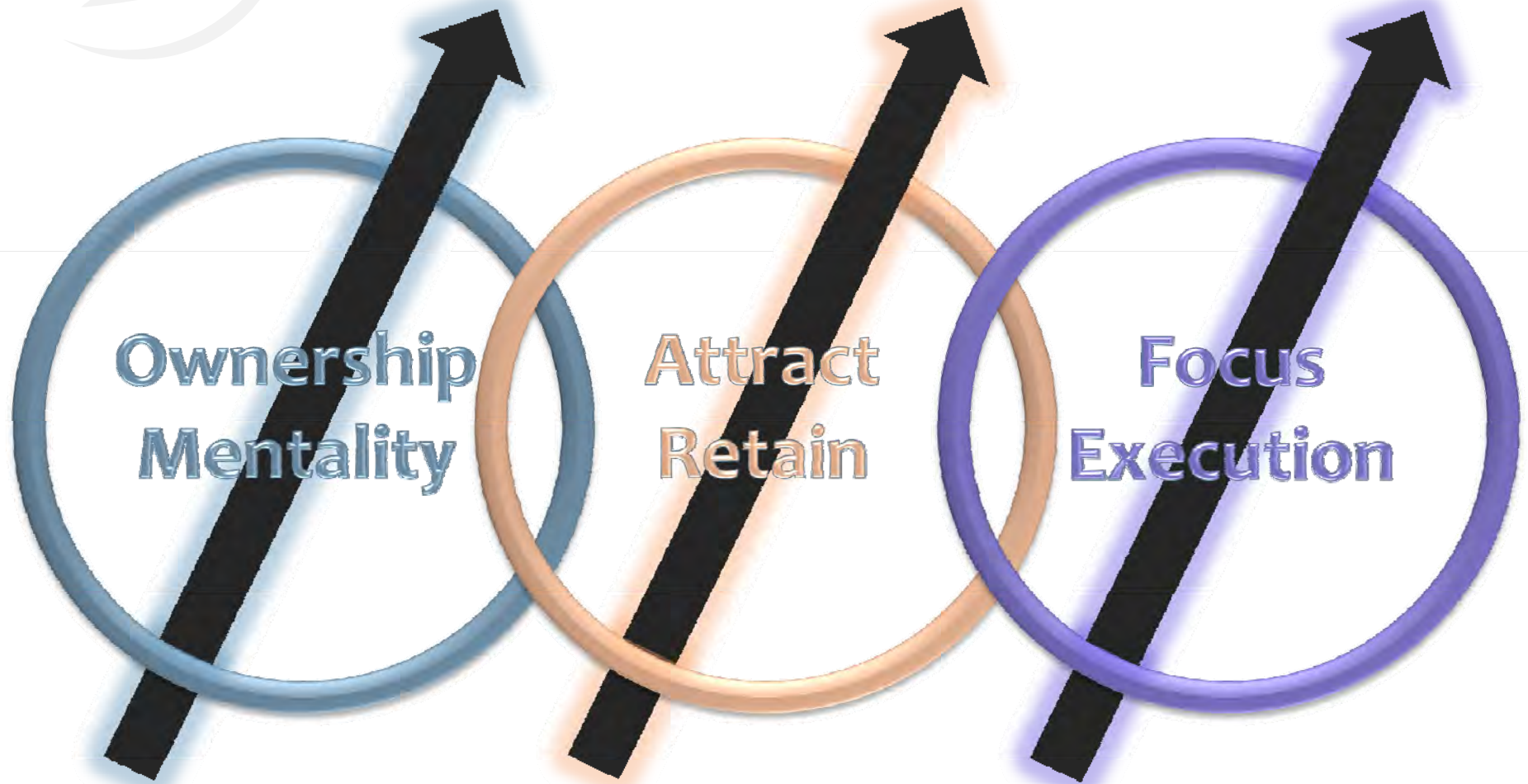


# Plan Launch: Our Mission Objective



- Here's how your plan works
- Here's how your performance will affect your plan value
- Here's how the plan will be operated, funded, maintained
- See how you're now partners in the business' success

Here's what to start watching for



#6

## Falling short of the 3 essentials of plan communication

- *Clarity*
- *Believability*
- *Meaning*

#7

## Failure to communicate the full value of your rewards proposition

- *“Thanks for the plan; What does it mean to me?”*
- *Explain the plan...fail to explain the long-term value that can be generated*

# Key Producer Employee Value Statement

Year	1	2	3	4	5
5-Year Plan Achievement Level	100%	100%	100%	100%	100%
Current and Inflated Salary	\$ 160,000	\$ 166,400	\$ 173,056	\$ 179,978	\$ 187,177
Cash Incentives Paid at Target	\$ 64,000	\$ 66,560	\$ 69,222	\$ 71,991	\$ 74,871
LTIP Vested Value at Year End	\$ -	\$ 74,000	\$ 186,000	\$ 311,000	\$ 448,000
Retirement Plan Value (at 7%)	\$ 17,120	\$ 36,123	\$ 57,169	\$ 80,428	\$ 106,086
Total Cash Received	\$ 224,000	\$ 232,960	\$ 242,278	\$ 251,970	\$ 262,048
Total Wealth Accumulation	\$ 17,120	\$ 110,123	\$ 243,169	\$ 391,428	\$ 554,086
Total Paid or Accumulated	\$ 241,120	\$ 567,083	\$ 942,407	\$ 1,342,636	\$ 1,767,343

#8

## Assuming pay is the reason people leave

- *What are the four things people crave in a job?*
- *What does it mean if pay is the most important?*
- *How can you know how your employees think about this?*

Compelling Future

Positive Work Environment

Opportunities for Personal  
and Professional Growth

Meaningful Financial  
Rewards



Compelling Future  
Purpose

Positive Work Environment  
Respect

Opportunities  
Autonomy

Financial Rewards  
Value-based Partnership



# Consider this simple assessment

- Ask a group of employees to anonymously rate their satisfaction level
- Have them allocate 100 points to the four squares



# Poll



# Fatal Mistakes

#1

Failure to establish a compensation philosophy that supports your business model or and plan

#2

Use of *ad hoc* bonuses

#3

Trying to change behavior via incentives

#4

Failure to balance short- and long-term value sharing programs

#5

Critical design errors in your long-term plan

#6

Falling short of the 3 essentials of plan communication

#7

Failure to communicate the full value of your rewards proposition

#8

Assuming pay is the reason people leave

## Company Business Model

*Our plan for generating revenue and profits*

- How does the company make money?
- How do we create and maintain our competitive advantage?

## Compensation Philosophy

*Our values and beliefs about pay (that will help us fulfill our business model)*

- *Why* do we pay our employees?
- What do we *pay for* (desired outcomes)?
- *How much* do we pay (relative to peers)?
- *How* do we pay (to spur productivity)?
- *How* do our pay programs differentiate us from our competitors?

## Total Compensation Structure

*Our system for operating pay programs (per our comp philosophy)*

- How do I benchmark my positions ?
- How do we treat positions for which there is no market data?
- How do we value rewards programs for which there is no benchmark data?
- How do we organize our positions within grades to simplify pay management?
- How do we assign relative values for each rewards program by grade?

**Company Business Model**

**Compensation Philosophy**

**Total Compensation Structure**



**Rewards Plan Operation**

***Salaries***

- How do we manage merit and/or cost of living adjustments?
- How do we adjust for promotions or grade advancements?
- How do I set an appropriate salary budget?
- How should salary adjustments reflect our pay philosophy?

***Bonuses***

- What elements are included?
- What metrics do we use?
- How frequently do we pay?
- How do we adjust for not-targeted performance?
- How do we account for individual performance?
- How do we set minimum performance thresholds?

***Long-term Incentives***

- How are awards determined?
- How frequently are they granted?
- What vesting schedule will we use?
- What events will trigger payments?
- How will awards be valued?

***Executive Benefits***

- What supplemental life, disability and health plans?
- What performance or years of service criteria should be used?
- What additional benefits (car allowance, cell phone, etc.) should be adopted?

***General Benefits***

- How do we make decision about altering or adding benefits?
- How do we control escalating insurance costs?
- When should employees become eligible for benefit program enrollment?

**Company Business Model**

**Compensation Philosophy**

**Total Compensation Structure**



**Rewards Plan Operation**



**Operational Integrity**

*Our plan for assuring consistent, fair and wise decision making*

- How do we validate the effectiveness of our pay programs?
- How do we ensure we are paying consistent with our compensation philosophy?
- What programs should we consider expanding or eliminating

**Financial Stewardship**

*Our plan for maximizing the return on our compensation investment*

- What is my total compensation investment?
- How are our plans forecasting against budget?
- What are the right metrics for measuring my compensation ROI?

**Partnership Reinforcement**

*Our plan for insuring our employees understand and value our rewards proposition*

- How do we communicate the true value of our rewards proposition?
- How do we assess employee understanding and appreciation?
- What is the right way to communicate significant compensation events to our employees?



## The VisionLink Solution™

*A comprehensive system for envisioning, creating, and sustaining world class compensation programs.*





**Type Your Questions**



# Special Offer

One hour consulting call with a VisionLink principal at no charge

Indicate interest on final survey

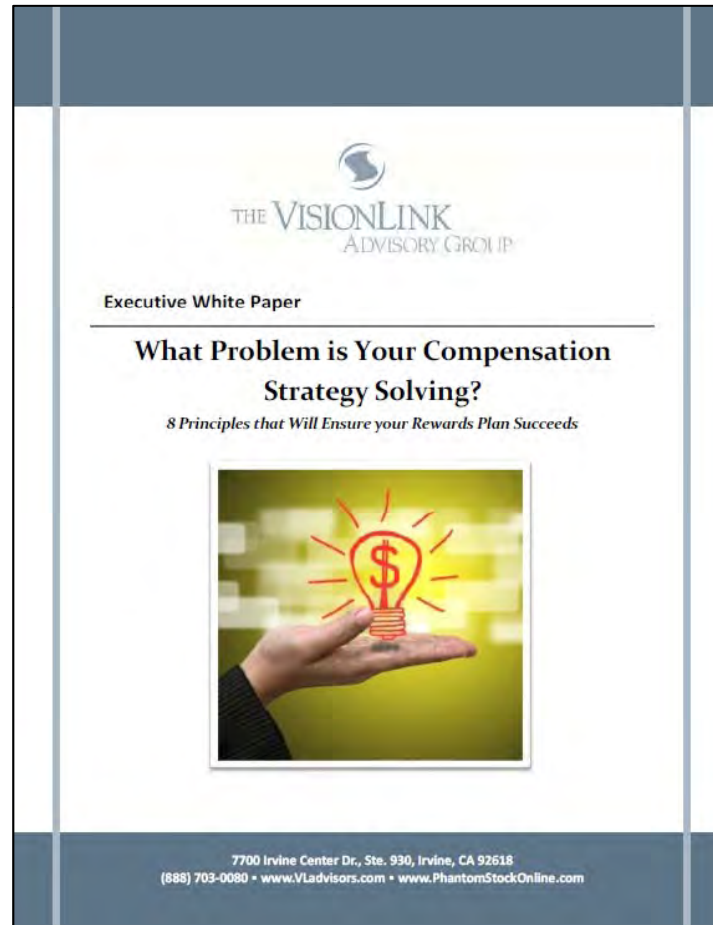
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## “The Most Important Compensation Program a Company Can Have”

To be held on:  
Tuesday, June 24<sup>th</sup>, 2014

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**Questions**

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*We value your input.*

*You may request a copy of our slides, white paper and more information about the complimentary consultation.*

# Thank you!

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