

To prepare for the upturn in the economy, this newsletter is continuing to focus on tips for employee retention. Overlooking employee retention initiatives can be costly and enormously disruptive to your organization if your key talent takes off for greener pastures.

September's newsletter outlined the five key elements of the **Employee WIIFM (What's in it for me?)** or value proposition offered to employees. These elements are the primary reasons employees choose to join and remain employed with your firm. The five elements include: clear goals, opportunity to influence, learning & development, recognition & rewards and culture & environment. Inadequate value, from the employee's perspective, may prompt unwanted turnover. The purpose of this month's newsletter is to expand on practical tips to develop the fourth element: **recognition and rewards**. Our emphasis is placed on **compensation**, often the most visible of a wide range of tangible and intangible rewards.

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CLOSE THE GAP BETWEEN COMPENSATION PHILOSOPHY AND PRACTICE

By Carol Bergeron



This is the time of year when many of you are nearing the final stages of planning for 2004. Planning typically includes compensation since payroll is often a significant investment for any organization. Included in your preparation may be a salary plan, merit/promotional budget, incentive plans and your benefits portfolio. If you are involved with these items I encourage you to use the following questions to assist you and your leadership team in your planning discussions.

By the completion of your planning process your leadership team should be able to comfortably answer these questions and share the information with employees. Employees with different managers should be provided with consistent answers. To avoid unpleasant surprises your approach to compensation should consider employees' compensation expectations too. An elementary rule in compensation is that employees compare and discuss their compensation packages. There is no guarantee compensation will be kept confidential so manage your compensation strategy accordingly.

Compensation Strategy Questions

What is your organization's philosophy on compensation?

- Do you choose to target *below*, *at* or *above* market rates for each component of total compensation which may include: base pay, incentive pay, paid time off and your benefits package?
- Do you choose to target *below*, *at* or *above* market rates for total compensation?
- What purpose does base salary serve?
- What role does incentive or variable compensation play, if any?

Do employee reward opportunities support individual and organizational goal achievement?

- Are you consistently rewarding results and behavior that are aligned with the values and needs of the organization?
- Are there certain people, jobs, expertise or business results that are highly desirable, scarce or key to delivering value to your customers?
- Do you choose to deliberately pay a premium for them?
- Do your reward pay outs reflect the range of contributions produced by A, B and C players?

In practice, does your compensation philosophy drive the design of compensation packages?

- a. For instance, when hiring a new employee whose compensation is out of whack with current employees, what do you do?
- b. Are you compelled to maintain internal equity and if so, how do you creatively achieve it?
- c. How flexible do you choose to be when your goal is to successfully sign-on that new employee?

How do you choose to communicate your compensation strategy?

- a. How and with what frequency do you communicate progress made toward meeting goals?
- b. Beyond paychecks and year end W-4; have you considered issuing annual compensation statements as another way to remind employees of the total value of their compensation package?

A note of caution; it will take some time for any leadership team to come to agreement on the answers to these questions when discussed for the first time. Be patient and persistent because a fully established common vision on compensation philosophy will reduce the frequency of anomalies and make them easier to work with when they do occur.

Compensation practices are as individual as business strategies. Beyond ensuring that your pay practices comply with applicable employment law and are competitive in the marketplace, there are no right answers. Compensation practices are most effective when they support achievement of organizational goals, reflect the desired risk/reward orientation and are shared in both principle and practice by the team at the top. Marie Vitale, our associate with twenty years experience in domestic and international compensation and benefit plan design, provides some terrific tips on employee incentive plans.

ASSOCIATE SPOTLIGHT

EMPLOYEE INCENTIVE PLANS

Be careful what you wish for...

By Marie Vitale

As Americans, we always want the latest and greatest. It is the American way to want to be first; it is important to be first, isn't it? So, it is no surprise that I am often asked, "What are the latest trends in incentive compensation? Will you help us implement them as soon as possible?" My usual answer is "Wait, not so fast!"

Compensation is an area where the latest and greatest approach is not always the best. The fact is - there is no silver bullet. **Compensation is part art.** Your incentive plan should motivate employees to accomplish things that make your company better, larger, or stronger in its marketplace or meet other desired organizational goals. However, **it is also part science.** There are strategies and formulas you can use so that accomplishment of the planned goals provides for an increased pool of cash or equity that funds the incentive plan payouts. **In short, YOUR plan needs to suit YOUR organization.**

The best incentive plans, those that actually motivate employees, are those that are **measurable**, **understandable** and most of all **achievable**. If employees can not understand how payments are calculated or feel there is too much subjectivity involved, they will not be motivated. Organizations, especially those that are privately owned, are sometimes reluctant to divulge financial information or management strategies. However, it is important to understand that an employee's natural suspicion can be tempered by providing information. Share enough information for employees to understand what they need to do and why it is important to the organization.

Private organizations can tie goals to finances without providing financial data. Metrics can be set to measure increases over previous year results (e.g., sales equal to 1.25 times last year's sales) and confirmed in a statement by your auditor.

The most ineffective incentive plans are those that do not pay anything out. It is better not to have a plan in place than to have one that does not pay out. Whether the lack of pay out is due to insufficient build up of the cash or equity pool expected to fund the pay outs or unrealistic objectives, the consequences to leadership and the organization's credibility are significant. Typically in a no-pay out situation, especially one that goes on for more than one year, employees lose confidence in its leaders and earned trust is diminished.

Some Practical Tips

- 1. Know what you can afford in advance - don't guess.**
When setting up a new plan, work with Human Resources and Finance and run a number of scenarios to ensure that, if the goals are met, there will be sufficient funds to meet the promised pay outs.
- 2. Pay generously for the achievement of difficult goals.**
When designing the incentive plan, set goals such that small pay outs begin when a relatively easy goal is met. Then, develop a pay out schedule that increases as goals become more difficult. Build in accelerators so that the rate of pay out for goal achievement, and for results that exceed planned goals, curves upward. A curved pay out plan provides much more incentive than a straight line pay out plan.
- 3. Educate managers first.**
If the plan is too difficult for managers to discuss with employees then it is probably too difficult for most employees to understand. Through discussion, you may discover that managers need help in setting non-financial goals that are measurable, understandable and achievable. Plus they will appreciate being kept informed before the incentive plan is announced to employees.
- 4. Communicate with employees throughout the year.**
Initial announcements may create employee excitement about the plan. Share monthly or quarterly results explaining progress made toward meeting the financial or strategic goals. Have managers provide feedback to their direct reports on personal goal progress throughout the year too. Listen for employee insight on impediments to meeting goals since you will want to remove those obstacles quickly.
- 5. Align individual goals with those of the organization.**
There must be a sensible relationship between individual goals set forth in both the performance appraisal and incentive plan and goals of the organization. Be careful of contradictions. If a manager is encouraging someone to invest in lots of new technology for their department but a corporate goal is to drastically cut costs for the year, that person is in a no-win situation – not much of a motivator...
- 6. Celebrate success.**
Incentive plans can be a powerful tool in getting employees focused on important organizational goals. If designed and communicated properly, you have created a win-win opportunity for employees and the organization. First, take pleasure in making incentive plan pay outs when goals are accomplished because employees earned them. Second, by making the promised pay outs you continue to instill confidence and trust with employees. Finally, reach out to thank and recognize people for their success and link their contributions to organizational goal achievement.



RESOURCES

The Best of Variable Pay – Incentives, Recognition and Rewards. Scottsdale, AZ. WorldatWork, 2001. – a series of articles relating to variable pay.

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INVITATION FOR FEEDBACK

I invite you to share your ideas on how you effectively close the gap between compensation philosophy and practice. With your permission I will include your ideas in our next newsletter so all readers can benefit. Be sure to let me know what I may disclose such as your name, your company name or industry. Phone me at 781-376-4071 or send email to: carol@bergeronassociates.com

ABOUT BERGERON ASSOCIATES

Bergeron Associates provides talent strategies and solutions to prepare your workforce to effectively execute business strategy. We develop and implement talent solutions designed to attract, develop, reward and retain the talent you need.

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