Effective Compensation & Benefits Strategy to Retain High Performers

Contents:
• Clarifying C&B Strategy : Diverging Views, Challenges & Drivers
• Principles & Process of C&B Strategy Design
• Implementing & Evaluating the Value of the C&B Strategy
• Retaining Talent : C&B part of the Equation
• Conclusion

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Introduction

What is Strategy?

It is “What you need to do in your Chosen Market/(s) to Win!”

C&B Strategy is there to FACILITATE!
Diverging Views on C & B Strategy

**Negative**
- Achieve temporary compliance vs. real change in attitudes & behaviour
- Manipulative & Relationships suffer (Win-lose system)
- Used as a “Panacea” to solve poor performance issues
- Discourage risk taking and innovation
- Lower objectives are set in order to secure rewards

**Positive**
- Rewards have a positive effect on performance
- The organization is able to link rewards to performance
- Essential to motivate
- Key tool to attract, recognize & retain talent
- Drive focus & effort to exceed performance objectives

C&B Strategy needs to Strike a Balance
C&B Strategy: Challenges & Complexities

• Limited Talent, especially in emerging economies or for “Hot Skills”
• Managing workforce diversity
  • Aligning C&B to employee needs
  • Increased flexibility in C&B programs e.g. Expatriates with “Split pay requirements, flexible benefits programs, etc.
• Ever present threat of downsizing
• How to distribute scarce compensation & benefits $
• Having a “Credible” performance management system that support “Performance Based Pay” concepts
• Balancing the issue of:
  • Linking Rewards to Performance vs. Building a Team Culture
• Not getting on the bandwagon of what is the latest C&B scheme / idea / strategy / tool….
  • But about identifying what is right for the organization, its strategy, competitive position & the contribution required from the workforce.
Compensation & Benefits Strategy Design

Drivers

• Compliance Related (Legal)
• Strategy & Market Drivers
  • e.g. Target markets, General strategy, Competitive Positioning, Business model & complexity, M&A.
• Operations Drivers
  • e.g. Performance benchmarking, Operations Excellence Programs, Process Innovation projects.
• Technology Drivers
  • e.g. New product/ service offerings, Integrating technologies Technology alliances
• Structure & Processes Drivers
  • e.g. Organization & Cost structure, Process re-design, Creation of new divisions, departments, functions
• Workforce Drivers
  • e.g. Demographics & Diversity, Talent attraction, motivation, retention & engagement, Culture.
Principles behind C&B Strategy

• Always link back to strategy & business objectives
• Able to drive & align performance
• Establish a philosophy, policy guidelines & target objectives

• Evaluate costs in relation to value / impact expected, NOT to “What others do or generic benchmark numbers”
• Manage “PIE” - Perceptions, Implementation & Expectations
• Evaluate effectiveness against expected outcomes
• Keep it simple & flexible (Control fixed costs; consider adaptability across countries & time periods)

• Effectively align & integrate with other strategic workforce management initiatives (e.g. Performance Management, Leadership Development, Employee Training, Values & Core competencies, etc.)
• Decide on level of consistency required especially if you have “Hot Skills”.
• Base it on “Relevant Data” = Market Data + Business Value Data
Compensation & Benefits Strategy Design Process

Business Strategy
- Strategic Direction & Initiatives
- Company Values
- Strategic Objectives
  - S/T & M/T

Expectations from Employee Groups

Example of Groups:
Leaders, Sales, Operations, Technology & Support

C&B Role / Contribution

Total Rewards Philosophy & Policy

Program Structure & Components
- Single
- Multiple

Evaluation

Current System

Evaluate Alignment

Implementation

Change Management

Improvement Action Plan
Example: Philosophy, Policy, Program Structure & Components

**Philosophy & Policy**

**Philosophy:**
Company value & beliefs in relation to C&B decision making. Role it will play & objectives to achieve.

**Policy:**
Guidelines covering issues such as process, pay policy line, positioning & system admin.

**Structure & Components**

- What the program should look like e.g. Mix of fixed & variable; Number of frameworks, etc.
- Number of scales, characteristics, how they relate to each other & link to other HR systems e.g. PMP, Career Ladders, etc.
- Range of incentives: Annual, Projects, L/T, Sales Commission, etc.
- Benefits: Core, Additional benefits based on role, Position, etc.
Case Example of a Businesses Total Compensation Approach

**Philosophy & Policy**

**Focal Points**: Attract, Retain & Motivate, Reward Performance, Equity linked to Contribution & Criticality to Growth & Business Success

**Structure & Components**

**General**: TC Benchmark between 50th to 75th Percentile for “Key Talent”

*Role + Performance + Potential*

### Sales Compensation
- Base 75% / 80%
- Commission 25% / 20%
- Accelerated Multiplier for exceeding targets
- Strategic project incentives
- Achievement Incentives

### Direct Labour
- Skill Based compensation
  - 4 Levels
  - Assessment - Entry Base + Skill Test + Qualitative Assessment
  - Bonus 35% to 40% of TC

### Leaders
- Market Competitive (Staff with PMP grade of 3 & above)
- Annual Incentive 25% >70%
- BU & Company Level
- Strategic Project Incentives
- Participation Plan

### Sales Compensation Components
- Base 75% / 80%
- Commission 25% / 20%
- Accelerated Multiplier for exceeding targets
- Strategic project incentives
- Achievement Incentives

### Sales Compensation Incentives
- Commission 25% / 20%
- Accelerated Multiplier for exceeding targets
- Strategic project incentives
- Achievement Incentives

### Sales Compensation Structure
- Base 75% / 80%
- Commission 25% / 20%
- Accelerated Multiplier for exceeding targets
- Strategic project incentives
- Achievement Incentives

### Sales Compensation Benefits
- Commission 25% / 20%
- Accelerated Multiplier for exceeding targets
- Strategic project incentives
- Achievement Incentives

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**Sales Compensation**

**Focal Points**

- Attract, Retain & Motivate
- Reward Performance
- Equity linked to Contribution & Criticality to Growth & Business Success

**Structure & Components**

**General**: TC Benchmark between 50th to 75th Percentile for “Key Talent”

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Benefits & Incentives Structure

**Attract**
- Loss-Incentive Compensation
- Selective Benefits covering family members e.g., Insurance, Medical coverage, etc.
- High upside performance related incentives
- Strategic Role Premiums 8%-15%

**Develop**
- Structured training & development
  - In-house MBA
  - External Certification through earned in-house training credit points
- Overseas attachments
- International Development & Networking Boot Camps

**Locally Competitive Benefits**

**Engage, Motivate & Retain**

- **Sustained Performance Loyalty Bonus**
- Clear career development plans for key personnel
- Split level events for senior management to interact with next level
- Workplace improvements → linked to engagement surveys feedback
- Strong Performance Management system
- Strong relationship management at the Country & BU level
- Employee Wellness Programs & Flexible work arrangements

**Locally Benchmarked**:
Effective Implementation pointers:

Checklist:
- Understand the cost / value equation of C&B changes
  - How it works?
  - How to influence it?
- Stakeholder mapping
- Identify potential risk and concerns
- Address linkages to other HRM systems
- Owned by Senior Leadership
- Clear guiding policies & principles
- Address & resource for effective C&B system administration
- Define Performance measures
- Monitoring program & built in reviews
- Assess need for expertise (Internal &/or External)
Evaluating the Value of C&B Strategy

- Combine Quantitative & Qualitative Measures
- Degree of Link & Value contribution level evaluation will depend on leadership preference; capability & resources

C&B Strategy

- Culture
- Performance
- Talent Attraction
- Talent Retention
- Engagement

Level of Complexity
Example of Performance Metrics

<table>
<thead>
<tr>
<th>Performance Metric</th>
<th>2004 to Fcst 2008</th>
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<tbody>
<tr>
<td>EBITDAR (CAGR)</td>
<td>13.5%</td>
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<td>Average ROIC</td>
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<td>Ave. Productivity Improvement</td>
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<td>Sales Growth (CAGR)</td>
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<tr>
<td>Human Capital Readiness %</td>
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<tr>
<td>Job Offer Rejection %*</td>
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<tr>
<td>Talent Pipeline YOY Improvement %</td>
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<tr>
<td>Talent Turnover</td>
<td>11.7%</td>
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<tr>
<td>Engagement Score</td>
<td>NA</td>
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<tr>
<td>Performance Alignment &amp; Strategic Clarity</td>
<td>84%</td>
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</table>
Compensating Individuals in a Dynamic, Competitive & Complex Business Environment

The “Right” Total Reward = CMV + CTV + I & B + Intrinsic Rewards

Package

Normal Job
(Job Description)

Value Add Contribution

Example:
- Collaboration capability on projects
- Innovations/ Improvements
- Developing others
- Vision advocacy
- Influence & ripple effects
- Additional roles performed

Future Potential

Legend
CMV = Compensation Market Value
CTV = Compensation Talent Value
I&B = Incentives & Benefits
Components of the Retention Pie

Retention

- Right C&B Package
- Leadership & Recognition
- Nature of Work
- Personal Issues
- Values Alignment
- Development Opportunities
- Organization Growth Prospects
- Quality of Relationships
Conclusion – Links & Ultimate Outcomes

- Business Strategy
- HRM & Workforce Strategy
- Compensation & Benefits Strategy

Driving / Influencing

Commitment, Employee & /or Team Performance, Collaboration

Choices