

Pay for Performance

A strategic approach to design



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Overview



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Strategic Context

Strategic Context



- Business Success Depends On Effective Human Capital



Business Context

- Importance of Compensation Management



- 2 Key HR Drivers of Business Success
 - Differentiated Rewards; and
 - Effective Performance Management
 - Evidence is Clear
 - People Performance = Business Results
 - Top performing companies
 - Provide superior rewards for performance
 - Manage performance well
 - Invest in development
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Managing Compensation Investment is Critical !



Example : XYZ Company

– Revenues:	£100m
– Total operating expenses:	£90m
– Compensation expense:	£45m
– Profit Before Tax (PBT):	£10m
– Employees :	1,500
– Average comp/employee:	£30,000
– +/-10% numbers/costs:	+/-45% PBT



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Design Considerations

What is “Pay for Performance”?



“An approach to linking elements of the total remuneration package to the achievement of specified performance outcomes”

What should We Pay For? #1



- Job Size & Responsibilities
 - Salary - linked to external market rates
 - Spot Rates – e.g. €20k for bank tellers
 - Salary Ranges – e.g. €16k - €24k
 - Age/Service
 - Salary increases over time
 - Incremental scales – e.g. 12 points on scale
 - Plus 1 point for every year of service
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What should We Pay For? #2



- Skills and Competencies
 - Salary increases with growth in capability
 - Performance
 - Company
 - Division
 - Business Unit
 - Team/Function
 - Individual
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Pay for Performance

- Which elements? #1



- Salary
 - Progression up a salary range
 - Stronger performers get bigger increases
 - Speed of progression
 - Ultimate position in salary range
 - Bonus Awards
 - Size of “pot” linked to Co. performance
 - Individual award based on personal rating
 - Incentive Awards
 - Usually linked to predetermined targets
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Pay for Performance

- Which elements? #2



- Stock Programmes
 - Profit Sharing Schemes
 - Portion of profit allocated to fund profit shares
 - Usually applies to all eligible staff
 - Same basis for all – e.g. 5% of base salary
 - Stock Options
 - Option to acquire stock in the future at today's market price
 - Generally reserved for senior management
 - Long Term Incentive Plans
 - Typically deferred stock grants
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Design Objectives

- How much to pay?



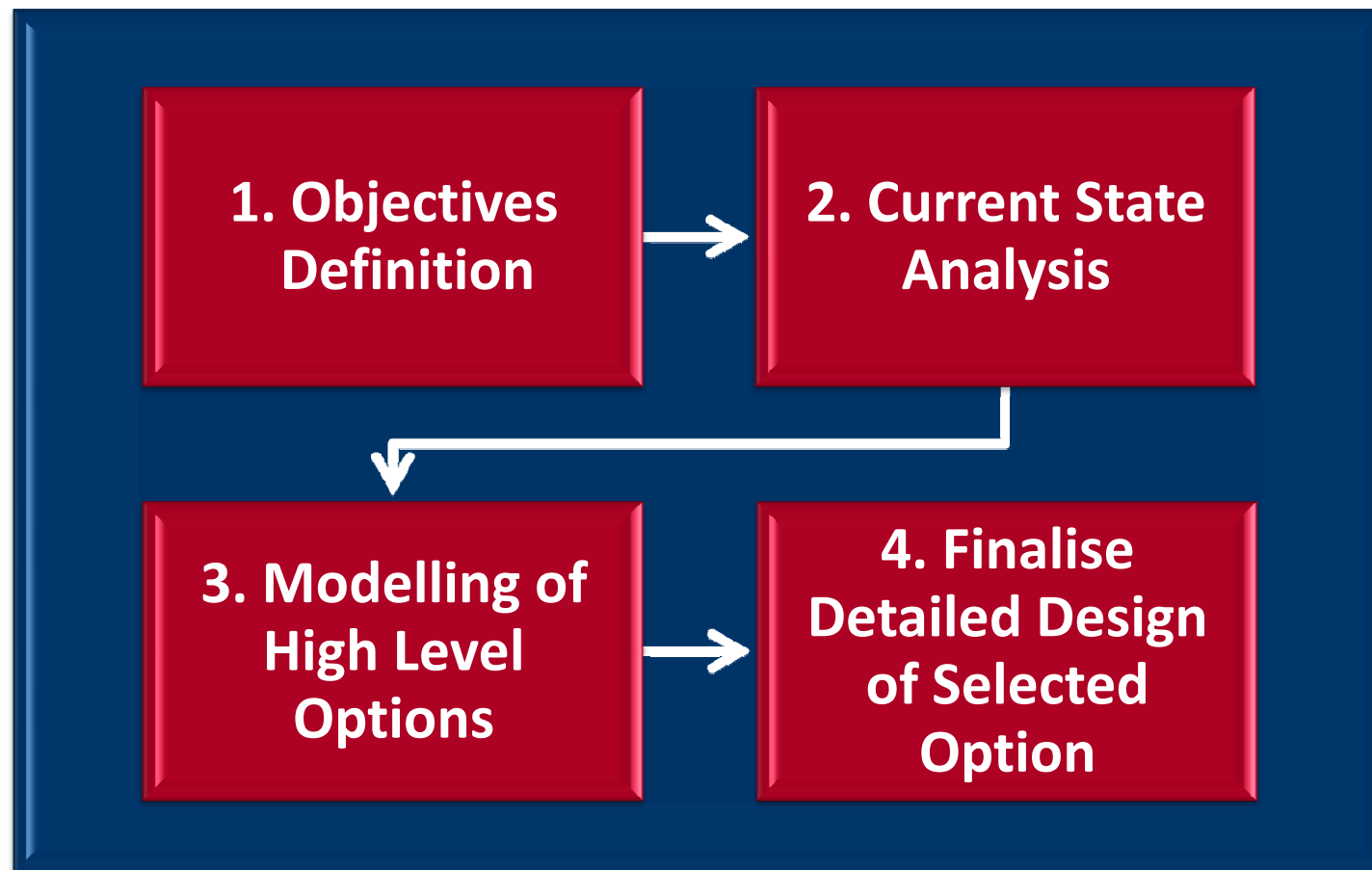
- Policy on Target Market Position
 - How do we want to compare to the external market in which we compete for talent?
 - Salary ranges at Market Median (M)?
 - Total cash at Upper Quartile (Q3)?
 - Overall Cost Parameters
 - How will we ensure that any additional costs of PRP are self-funding?
 - How will our design help to maximise our return on payroll investment?
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Our Approach

Effective Design

- Our Approach



Assessing your Design



The “ABCP” System

- **Adequacy**
 - Is it enough?
 - **Budget**
 - What can the business afford?
 - **Competition**
 - How do we want to compare?
 - **Perception**
 - Will this motivate staff to deliver results?
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Benefits for Company and Individual

Benefits for Company



A well designed PRP structure will deliver:

- Sensible grading and salary structures
 - Market based, competitive salary ranges
 - Stronger support for business objectives
 - Direct links to achievement of key business and financial objectives
 - Performance culture
 - Strong performers get higher salaries and incentive awards
 - Increased ROI on payroll investment
 - Greater control over payroll expense
 - Additional costs are self-funding
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Benefits for the Individual

- What's in it for me?



A well designed PRP structure will deliver:

- Win, Win
 - Higher earnings opportunity for all
 - Higher salaries
 - Larger increases & quicker range progression for consistently strong performers
 - Increased variable earnings opportunity
 - For achievement of balanced scorecard targets
 - Greater control and transparency
 - Opportunity to influence my salary & bonus awards
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Lessons Learnt

Lessons Learnt



- Document desired performance outcomes
 - Company; Team; Individual
 - Ensure optimal balance of reward components
 - Salary; bonus/incentive; stock; benefits
 - Avoid “paying on the double”
 - Deliver significant differentiation in awards
 - Maximise “line of sight” for participants
 - Careful modelling to maximise ROI
 - Rigorously test options and outcomes!!
 - Robust performance management is critical
 - PRP demands ability to measure performance in a clear, objective and defensible way
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Summary

Summary



- Everything starts with objectives!!
 - Clearly define desired performance outcomes
 - Strategic implies continuing approach
 - Review and modify components in context of business and compensation objectives
 - Piecemeal design implies waste
 - Examine impact of changes to individual components on total reward architecture
 - Comms & change management are critical
 - Engage stakeholders throughout the design effort
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