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Global Incentive Compensation: The Ten Criteria For Success!

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Using Compensation Programs To Successfully Attract And Retain The Best And The Brightest...

Can this be accomplished by using a Base Salary “Merit” Increase Program as the primary reward vehicle?

Where's The 'Merit'?

- 'It's a zero-sum game --- and it's not enough!'
- 'It's all relative'
- 'They all exceeded their performance objectives --- now what?'
- 'Base salary increases are forever!'
- 'Is Old Joe motivated?'



So What Are The Alternatives?
**Comprehensive Incentive
Compensation Programs**

But Are You Ready?

“The Ten Criteria For Success”



To All Employees:

**NEW
INCENTIVE PLAN-
WORK-OR GET FIRED**

1. A Successful Plan Is Aligned With Organizational Culture/Values

Culture and values must support a variable/incentive framework: instilling a “Sales Mentality”

Senior management must allow the variable program to work

Should have “Pay By Example” at the top of the organization



2. A Successful Plan Is Fair to Employees

Must be internally equitable and externally competitive

Performance criteria must be discernible, valid and understandable

Program must deliver what is promised on time and fairly

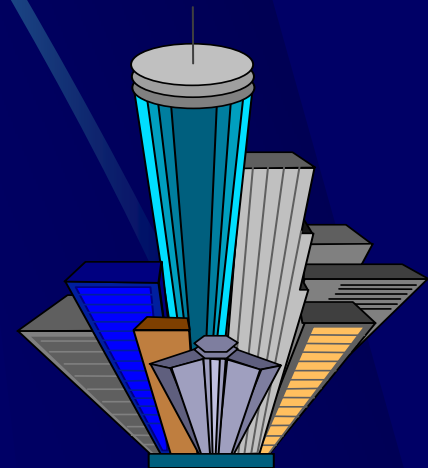


3. A Successful Plan Is Fair to the Organization

Should work towards self-funding

Organization should be relatively profitable when the program is initiated

Plan design should guard against “windfall” payments



4. A Successful Plan Sets Total Compensation Integrated With Total Rewards

Compensation policy must be aligned with **total rewards** and strategic objectives

Incentive pay should be *directly* tied to performance criteria achievement: direct line-of-sight

Consider re-defining what is meant by a base salary increase



5. A Successful Plan Yields Financial Returns to Employees

Incentive opportunities must be perceived as “substantial” enough to motivate performance



Timing of incentive payments should be as close as possible to the qualifying event

If designed properly, payouts to employees will yield “slices from an expanding financial pie”

6. A Successful Plan Yields Financial Returns to the Company

A well-designed and executed incentive compensation program can improve the organization's bottom line

Measurable benefits can include improved:

- Morale
- Productivity
- Quality
- Customer Service
- On-time Performance
- Work Methods
- Etc., Etc., Etc.

7. A Successful Plan Involves Employees And Managers

Middle managers will make or break the incentive compensation program

Must get buy-in from employees

Should involve employees and managers in the plan design, including identification of performance criteria

Build trust!



8. A Successful Plan Uses Internal And External Data

Collect and analyze accurate and valid competitive data

Build the incentive program from a “rational” base pay foundation

Base salary serves as the *anchor* in total compensation/rewards planning



9 (a). A Successful Plan Sets Forth Clear Performance Goals

Performance criteria in successful programs are:

- “cascading”
- a combination of quantitative and qualitative measures
- simple to understand
- supported by valid data
- monitored through strong controls



9 (b). A Successful Plan Sets Forth Clear Performance Goals

Aligning rewards to performance requires the following:

- a clear (and clearly-perceived) relationship between pay and performance
- predictable measures of performance
- visible benefits to the employees and the organization
- regular formal and informal performance feedback

10. A Successful Plan Achieves Clarity Through Communication

Communication mega-objectives:

- to ensure understanding
- to change perceptions
(get buy-in)
- to motivate behavior



Even the most elegantly-designed variable program will not achieve the desired results unless employees and managers understand and, ultimately, buy into the program

INCENTIVE PLAN 'FRAMEWORK'

(Can Be Tailored To Your Organization)

TIER	TARGET OPPORT.	RANGE: 0 – 150% OF TARGET	PERFORMANCE WEIGHTINGS		
			CORP.	DEPT.	INDIV.
1 – Officers	35.0%	0 – 52.5%	70%	20%	10%
2 – Directors	25.0%	0 – 37.5%	40%	50%	10%
3 – Managers	15.0%	0 – 22.5%	30%	50%	20%
4 – Profess.	10.0%	0 – 15.0%	20%	20%	60%
5 – Support	8.0%	0 – 12.0%	10%	20%	70%

“Cascading” Performance Management

- Corporate criteria are always **quantitative**: measures how the organization defines financial/operational success (2 or 3 criteria).



- Also, develop “**Qualitative**” **Corporate Goals (QCG’s)**: organizational-wide business & operational objectives for the upcoming performance period.

- QCG’s are used to “cascade” Departmental and Individual/Team Goals.

Departmental and Individual/Team Goals should be both **quantitative and qualitative**:

- Criteria must be valid, discernible and measurable and, if applicable, with milestone dates.

- No more than four to six criteria per category.

- Narrative rating scale can be used to assess qualitative criteria.

INCENTIVE PLAN Performance Criteria (example)

Corporate criteria (Quantitative):

NET INCOME

(% growth over previous year)



	Criteria	Payout
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MAXIMUM	$\geq 17\%$	150%
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TARGET	12%	100%
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THRESHOLD	9%	50%
	$< 9\%$	0

(Interpolate for points in-between)

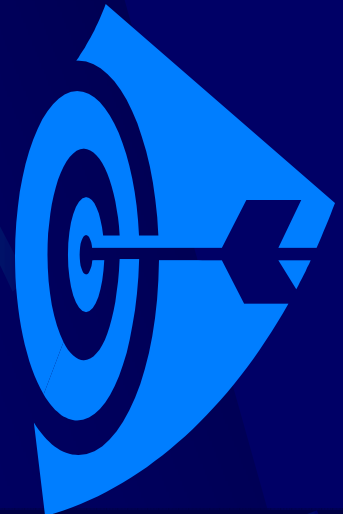
Consider Adding More “Pay at Risk”

- Remove performance considerations from base salary increase decisions – pay for performance within the incentive pay framework.
- Re-define base salary increases as across-the-board market adjustments only, determined by competitive position analyses.
- The difference between the base salary “merit” budget and the market adjustment factor can be used to *partially* fund the incentive program. (Will not be fully-funded the first year; requires an “investment” on the part of the organization)
- On-going “fixed” expenses can be considerably reduced due to the compounding effect of base salary increases.
- Incentive compensation is paid in lump sum only when performance warrants: “pay at risk”.

The Ten Criteria For Success!

A SUCCESSFUL INCENTIVE COMPENSATION PLAN...

- 1. Is Aligned With Organizational Culture/Values**
- 2. Is Fair To Employees**
- 3. Is Fair To The Organization**
- 4. Sets Total Compensation Integrated With Total Rewards**
- 5. Yields Financial Returns To Employees**
- 6. Yields Financial Returns To The Company**
- 7. Involves Employees And Managers**
- 8. Uses Internal And External Data**
- 9. Sets Forth Clear Performance Goals**
- 10. Achieves Clarity Through Communication**



Let's Travel Around The World: The Global Cultural Orientation...

- North America
- Central/South America
- European Union
- Middle East
- Asian Market
- Africa



The Global Cultural Orientation...

● *North America*

- minimal government workplace intervention
however, currently 'evolving' in the U.S.
- incentive compensation, primarily individual
- emphasis on work/life programs: 'Live to Work'

● *Central/South America*

- paternalistic orientation
- base pay concentration, some variability
- time off highly valued: 'Work to Live'

The Global Cultural Orientation...

● *European Union*

- high government workplace intervention (work councils, unions, government mandates)
- base pay concentration (some variable)
- strong work rules and organized labor

● *Middle East*

- traditional/hierarchical
- base pay, minimal variability
- job-based orientation

The Global Cultural Orientation...

● *Asian Market*

- generally entrepreneurial (notable exceptions)
- incentive compensation, must be team-based
- strong work ethic, minimal work/life programs

● *Africa (primarily South Africa)*

- total reward orientation
- incentive compensation prevalent
- recognition programs very important

Seven Steps Guaranteed To DIS-ENGAGE Your Talent And Send Them Fleeing From Your Organization

1. Be sure no one quite knows what his/her job is
2. Keep selection criteria and career paths vague
3. Insist on a one-size-fits-all total reward strategy
4. Be vague about how successful performance is defined and measured
5. Keep salary ranges, increase percentages, incentive compensation guidelines, and most components of total rewards secret
6. Surprise employees with a bigger paycheck or lump-sum award
7. Be defensive when asked to explain and defend human resources and total rewards actions

Path of Bliss

- *“If you follow your bliss, you put yourself on a kind of track that has been there all the while, waiting for you, and the life that you ought to be living is the one you are living. Wherever you are --- if you are following your bliss, you are enjoying that refreshment, that life within you, all the time”.*

--- Joseph Campbell, philosopher
and author of *The Power of Myth*