Strengthening the link between pay and performance

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Agenda

- What is Pay-for-Performance?
  Trends in the marketplace

- Why do Pay-for-Performance?
  Keys to Success

- Linking Pay to Performance
  Strategy, Base, and Variable Pay

- Immediate Action
  Next Steps
What is Pay-for-Performance?
Pay-for-Performance (P4P)

Links pay (base and/or variable), in whole or in part, to individual, group, and/or organizational performance.

The World at Work Handbook of Compensation, Benefits & Total Rewards
P4P practices

54% gave performance-based pay increases

Incentive-based bonuses were the most common type of bonus

Information, Media and Telecommunications were most likely to give incentive bonuses (71%)

93% conduct performance reviews

Plans for recruiting and maintaining high-performing employees for 2014

Why do Pay-for-Performance?
Why Bother with P4P?

- **Cost-Efficiency:**
  Allocate talent dollars in a fair, transparent, and strategic manner

- **Motivate Employees:**
  Employees work harder when incentivized properly

- **Drives Results:**
  Aligns employee performance to organizational goals

- **The Principle of it:**
  Employees who perform better should get paid better
Main Avenues to Success

- Gain **Executive buy-in**
- **Align** with organizational goals & culture
- Get **right systems** in place
- **Train** managers properly
- **Communicate** clearly across the organization
# Generations, Compensation, and Performance

<table>
<thead>
<tr>
<th>Generation</th>
<th>Communication about comp:</th>
<th>Average Tenure:</th>
<th>Career Mindset:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baby Boomers 1946-1964</td>
<td>Mostly Private</td>
<td>15+ years</td>
<td>Retirement Work/Life Balance</td>
</tr>
<tr>
<td>Gen X and Busters 1965-1983</td>
<td>Somewhat Private</td>
<td>5+ years</td>
<td>Management Work/Life Balance</td>
</tr>
<tr>
<td>Gen Y and Millenials 1984-2002</td>
<td>Public</td>
<td>15-2 years</td>
<td>Go-Getters Advancement Flexibility</td>
</tr>
</tbody>
</table>
Linking Performance to Pay
“Employees won’t believe there is a link between pay and performance unless they can see it.”

Margaret O’Hanlon
re: Think Consulting
The Compensation Mix

- Company culture, compensation philosophy, and compensation strategy
- Base pay plan
- Variable or incentive pay plan
- Individualized rewards & recognition
Strategy

- **Develop clear compensation strategy:**
  Define your market(s), determine your level of competitiveness, decide to reward performance in base and variable pay

- **Get reliable market data**

- **Develop clear and aligned goals:**
  Company or organizational level, department or team level, individual level
Variable Pay

Ensure sound plan design

• PRE-DESIGN
• DESIGN
  – Connection to performance and standing
  – Eligibility
  – Division of org to individual performance measures
  – Mix of base to variable
• IMPLEMENTATION
  – When and how is the incentive calculated / paid out
  – Responsibility and administration
Base pay increases determined by performance and position in market-based range

<table>
<thead>
<tr>
<th>(High Performance) Exceeds Expectations (71)</th>
<th>Below Min (6)</th>
<th>Bottom Third (12)</th>
<th>Middle Third (46)</th>
<th>Top Third (61)</th>
<th>Above Max (75)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>7% raise (1)</td>
<td>7% raise (4)</td>
<td>5.3% raise (9)</td>
<td>3.5% raise (20)</td>
<td>3.5% raise (37)</td>
</tr>
<tr>
<td>Meets Expectations (94)</td>
<td>4.8% raise (5)</td>
<td>4.8% raise (8)</td>
<td>3.6% raise (22)</td>
<td>2.4% raise (34)</td>
<td>2.4% raise (25)</td>
</tr>
<tr>
<td>(Low Performance) Does Not Meet (35)</td>
<td>2.6% raise (0)</td>
<td>2.6% raise (0)</td>
<td>2% raise (15)</td>
<td>1.3% raise (7)</td>
<td>1.3% raise (13)</td>
</tr>
</tbody>
</table>
## Typical Increase

<table>
<thead>
<tr>
<th></th>
<th>High performing employees</th>
<th>Average performing employees</th>
<th>Low performing employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>10% or more</td>
<td>12.7%</td>
<td>1.3%</td>
<td>0.3%</td>
</tr>
<tr>
<td>7-9.9%</td>
<td>14.0%</td>
<td>1.0%</td>
<td>0.3%</td>
</tr>
<tr>
<td>5-6.9%</td>
<td>19.8%</td>
<td>5.8%</td>
<td>0.3%</td>
</tr>
<tr>
<td>4-4.9%</td>
<td>23.1%</td>
<td>7.4%</td>
<td>1.0%</td>
</tr>
<tr>
<td>3-3.9%</td>
<td>17.9%</td>
<td>33.3%</td>
<td>2.9%</td>
</tr>
<tr>
<td>2-2.9%</td>
<td>5.2%</td>
<td>32.0%</td>
<td>11.3%</td>
</tr>
<tr>
<td>1-1.9%</td>
<td>1.3%</td>
<td>10.7%</td>
<td>29.8%</td>
</tr>
<tr>
<td>None</td>
<td>6.2%</td>
<td>8.4%</td>
<td>54.0%</td>
</tr>
</tbody>
</table>

Source: Institute for Corporate Productivity
Immediate Actions

**Elementary**
- Work with senior leaders to define compensation strategy
- Build a compensation plan with reliable data
- Define SMART goals for employees

**Intermediate**
- Build cascading goals linking employee goals to corporate strategy
- Invest in hiring and training good managers
- Re-visit your comp budgeting process – P4P vs COLA

**Advanced**
- Find new and creative ways to incorporate variable pay
- Develop strong performance management system
- Build great differentiation between low and high performers
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