Strengthening the Link Between Pay & Performance

Wednesday, October 30, 2013
2:00 p.m. to 3:00 p.m. Eastern
1:00 p.m. to 2:00 p.m. Central
12:00 p.m. to 1:00 p.m. Mountain
11:00 a.m. to 12:00 p.m. Pacific

Presented by:

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14,000 Positions
2500 Customers
40 Million Salary Profiles
250 Compensable Factors
11 Countries

Hi! We’re PayScale.

What am I worth?

GET A FREE REPORT

What should I pay?

PAY THE RIGHT WAY

The confidence to say, ‘this is what the market is paying for this job’ is really powerful.”

- Michele Bonukoski, BuzzFee CEO and Founder

www.payscale.com
Agenda

- What is Pay-for-Performance?
  - Trends
- Why do Pay-for-Performance?
  - Barriers to Success
  - Keys to Success
- Linking Pay to Performance
  - Strategy
  - Base Pay
  - Variable Pay
- Immediate Action

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*

by WorldatWork

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Market Trend:
Ongoing Shift Toward P4P

When crafting next year’s budget vs. this year the use of Across the board increases down by 50% Use of Variable Pay has increased 300%

• Performance based pay increases are the #1 driver for pay raises in 2013

• 56% of companies say Performance is the main reason for pay raises

• 71% give variable pay incentives

Source: 2013 PayScale Compensation Best Practices Report

Why do Pay-for-Performance?
Why Pay-for-Performance?

The principle of it:
- Employees who perform better should get paid better

Drives results:
- Aligns employee performance to organizational goals

Motivates:
- Employees work harder towards a common goal

Cost-effective:
- P4P allocates labor dollars well, when company performance is good

Barriers to Success

Three main impediments to success
- Lack of executive support
- Lack of manager training
- Perceived budget restrictions

Performance management doesn’t ensure Pay-for-Performance
Main Avenues to Success

- Executive buy-in
- Good P4P program design; fit with organizational goals & culture
- Right systems in place
- Manager training
- Clear communication across the organization

Linking Pay to Performance
“Employees won’t believe there is a link between pay and performance unless they can see it.”

Margaret O’Hanlon
re:Think Consulting

Linking Pay to Performance: Getting the right mix

Complexity of the mix...

- Individualized Rewards & Recognition
- Variable or Incentive Pay Structure
- Base Pay Structure
- Company Culture, Compensation Philosophy, & Compensation Strategy

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Linking Pay to Performance: 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

Linking Pay to Performance: Base Pay Structure

<table>
<thead>
<tr>
<th>Merit Matrix</th>
<th>Below Min (1%)</th>
<th>Bottom Third (12%)</th>
<th>Middle Third (46%)</th>
<th>Top Third (25%)</th>
<th>Above Max (75%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Performance: Exceeds Expectations (71)</td>
<td>7% raise (1)</td>
<td>7% raise (1)</td>
<td>5.3% raise (6)</td>
<td>3.5% raise (22)</td>
<td>3.5% raise (37)</td>
</tr>
<tr>
<td>Meets Expectations (44)</td>
<td>4.8% raise (5)</td>
<td>4.8% raise (5)</td>
<td>3.6% raise (22)</td>
<td>2.4% raise (34)</td>
<td>2.4% raise (75)</td>
</tr>
<tr>
<td>Low Performance: Does Not Meet (30)</td>
<td>2.6% raise (15)</td>
<td>2.6% raise (15)</td>
<td>2% raise (15)</td>
<td>1.3% raise (72)</td>
<td>1.3% raise (72)</td>
</tr>
</tbody>
</table>

Manager Training
- Performance Management
- Communication
- Forced ranking?
## % pay increase based on Performance Metric

<table>
<thead>
<tr>
<th>Metric</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

## Linking Pay to Performance: Variable Pay Plan

### Keep it Simple
- Be able to explain your variable pay plan in a short paragraph

### Ensure sound plan design
- Make sure what you’re rewarding ultimate moves the business forward
- Clarify who is eligible for the plan
- Identify performance measurements
- Determine threshold of organizational and/or individual success
- Establish your pay-out strategy
Put it into Action

Immediate Action

**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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Mykkah Hemer

Mykkah Hemer, M.A., CCP, is a Human Resources Professional with over 5 years of HR experience, including Compensation & Management. Mykkah is a trusted Compensation Consultant at PayScale and has helped numerous organizations across a variety of industries including non-profit, retail & higher education. In his role as consultant, Mykkah helps develop customers’ compensation philosophies and implement strategies that align with business goals. Mykkah specializes in linking performance with compensation, change management, process improvement, and developing HR policies and procedures.

Karaka Leslie

Karaka Leslie, PayScale Partnership Manager, has spent the last 5 years working with PayScale customers and partners. In her time at PayScale, Karaka has worked with numerous clients to help them understand the value of the PayScale solution and assist them with building a solid case for why having a compensation plan is so important. She has a passion for helping customers realize that any good talent management program must also include a great compensation program as a foundation.