



Compensation Strategies in a Down Economy



Society for Human Resource Management
Dulles Chapter
November 18, 2009

Top Challenges Facing Companies


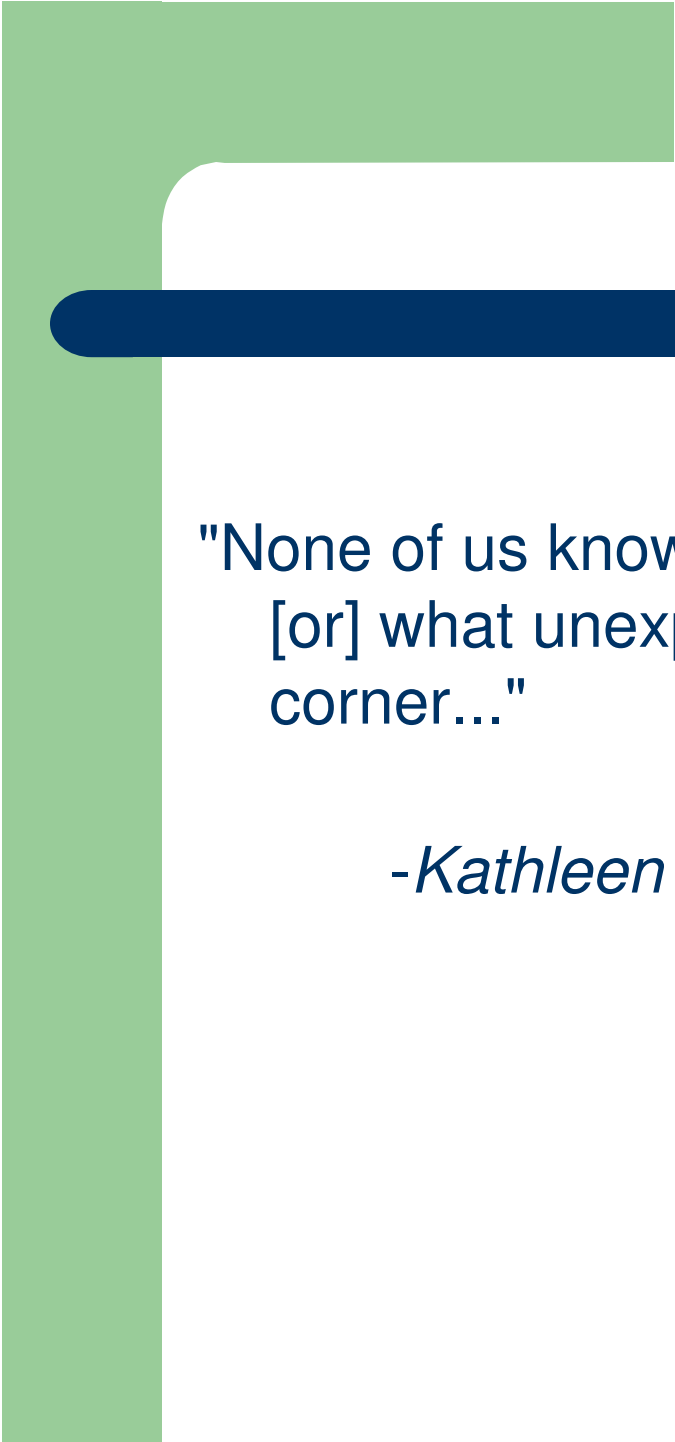
- Decline in corporate performance across the country
 - Average stock fund lost 38% in 2008 (US News)
 - 2009 shows some guarded recovery
- Broader economic downturn
 - Unemployment up in 98% of US cities (CNN) – now over 10%
- Attraction, retention and motivation of the right people; succession planning
 - Despite economy, key talent still willing to move
- Decisions regarding compensation package components even more critical in poor economy
- Recent SHRM poll (4/09) shows 71% of orgs cutting budgets across the board
- New MetLife survey focuses on current economic downturn
 - 74% of workers are fearful for long-term financial health; 45% report living paycheck to paycheck
 - Only 14-15% of employers planning on cutting benefits
 - 51% of workers feel they will retire later than they thought 12 months

Challenges and Needs

- Companies face:
 - Budget shortages
 - Evolving Demographics
 - Multiple generations in the workforce
 - Non-English speakers
 - Attraction and retention of the right people with the right skills
 - ~ Shortage of skilled workers in talent pool
 - Compliance, compliance, compliance!
- Employees want:
 - Flexibility
 - Financial security – Now and in retirement
 - Communication and information issues
 - Education and professional development channels and resources
 - Adequacy and accessibility of health care
 - Work/Life Balance

Temptation in “Quiet Times”





"None of us knows what the next change is going to be [or] what unexpected opportunity is just around the corner..."

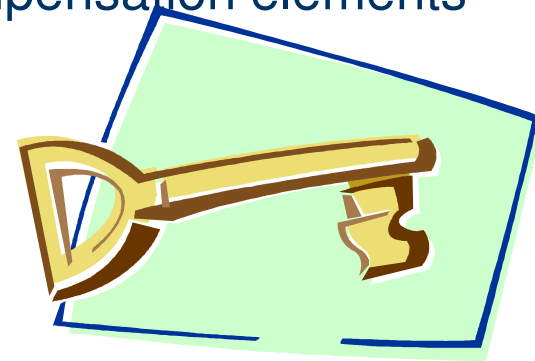
-Kathleen Norris Hands Full of Living

Now is Your Chance to:

- Develop or refine your organization's compensation philosophy
- Update or build your compensation structure
- Rethink incentivization
- Implement a Total Rewards program
- Shift your thinking on executive pay

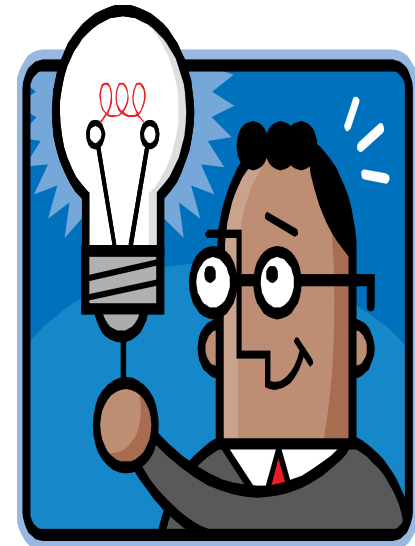
A Successful Comp Program is...

- The best compensation programs are:
 - Competitive
 - Internally and Externally
 - Culturally Compatible
 - Encompass and anchor an organization's values
 - Flexible
 - Allow the organization to make effective, proactive decisions on pay and other compensation elements



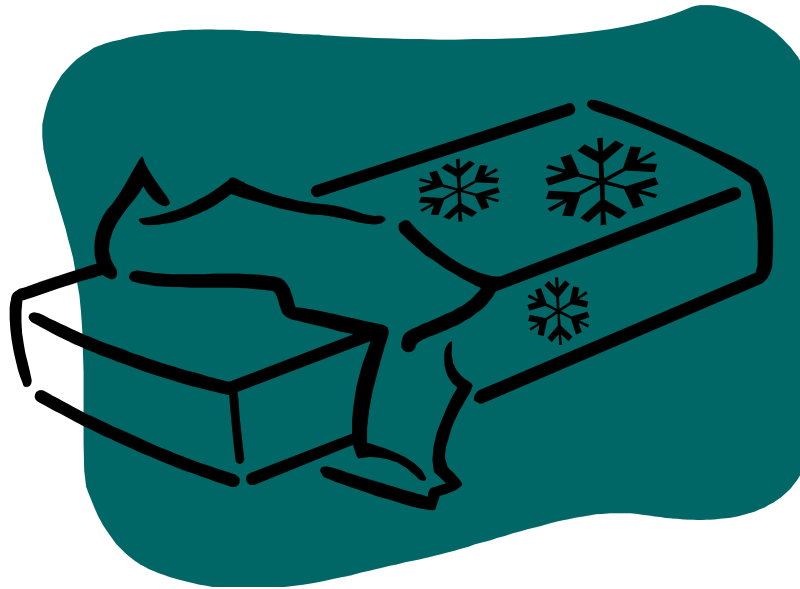
The Compensation Philosophy

- The “cornerstone” of your compensation program:
 - Summarizes the key components of the employment value proposition
 - Provides guidance and consistency
 - Defines goals within the context of a desired position in a competitive marketplace
- Your compensation philosophy should be:
 - Developed with the support of leadership and key stakeholders
 - Communicated effectively
 - Seen as a living, breathing document
- “Cultural Integrity” is critical!
 - Espouses important goals in a manner consistent with the organization’s values



The Compensation Plan

- Do you have a compensation “plan?”
- If so, when was the last time it was updated or revised?



The Compensation Program

- Structure is not a dirty word
- Why a salary structure or plan?
 - Enhances the ability to act quickly
 - Guards against compression
 - Easier to communicate and align with career progression
 - Compliance
- Stay close to your employees
 - Front-line managers
 - Surveys
 - Exit interviews
- Stay close to the market
 - Regular benchmarking using reliable data
 - Take into account “hot” jobs and premium skills or clearances
- Design a program that provides structure, but preserves flexibility

Managing Merit Budgets

- Key is a common understanding of goals and priorities
- Establish goals up-front
- Blend company-wide targets and targets that are under an employee's direct control
- Regularly update progress
- Provide manager training on performance management and delivery
- Tie increases back to goals initially set
- Keep things simple!



Smaller budgets might mean a temporary shift from performance-based pay to contribution-based pay.

Short-Term Incentives

- Continue to be a primary tool to drive targeted behaviors and align efforts
 - Used by 69% of companies with revenues under \$50m; 90+% for companies over \$50m
- Need to be clearly communicated
 - Formal plan document provides 409A benefits as well
 - Can't motivate behaviors in a vacuum
- Focus on performance
 - Metrics that the individual can influence
 - Consider multi-year measurements
- SMART goals are not outdated
 - Specific, measurable, achievable, realistic and time-based
 - Also include stretch goals

Short-Term Incentive Plan Design (cont'd)

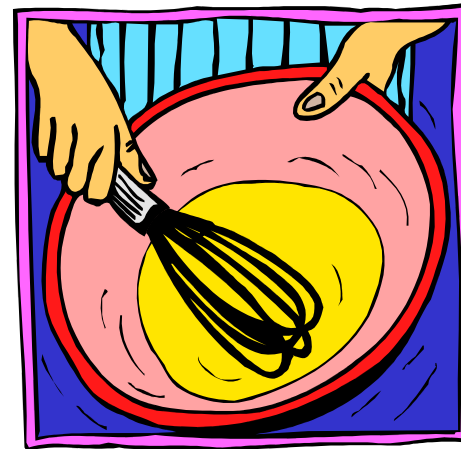
- **Highlight on corporate targets at C-level – move to group and individual performance as you move down in the organization**
 - Keep goals simple – no more than 3-4 per component
- **Communication is key**
 - Keep informed of milestones on at least a quarterly basis
- **Define floors and ceilings**
 - What minimum level of performance is necessary for a payout?
 - Is there an “up-side” for hitting the ball out of the park?
- **Keep terms clear**
 - Impact of termination or transfers
 - Timing and form of payment – within 2 ½ months of end of period
 - Administrative and decision-making authority
 - Mechanism for assessing results and communicating to executives involved

Options for Long-Term Incentives

- Effectively link interests of employees with those of the shareholders
- Equity programs
- Cash programs
- Synthetic equity programs
- Factors to consider:
 - Again, keep programs simple
 - Common understanding of payout terms
 - Joint goal-setting
 - Keep the end goal in mind – refocus when necessary
 - Documentation is key!
 - 409A must be at the forefront of the planning process

The Optimal Time for Total Rewards

- Refocus attention on the full value proposition
- The secret is in the mix:
 - Base Salary
 - Short-term Incentives
 - Long-term Incentives
 - Benefits
 - Work-Life Balance
 - Professional Development
 - Perquisites
- What kind of combination helps you attract, motivate and retain the right people?



The Total Rewards Shift

- **Keep benefit programs timely and competitive**
 - SHRM estimates that employers spend 39% of payroll on benefit programs (21% mandatory/18% voluntary)
 - Benchmark regularly against your competition and the geographic market
 - Understand the demands and needs of your employees
 - Be creative!
 - Keep in touch with the marketplace of products and services
- **Leverage non-cash programs, especially Work-Life Balance and Professional Development**
- **Consider recognition programs**
 - 76% of employees say feeling valued is most important factor in job satisfaction (World at Work 2008)
 - Use formal and informal recognition
 - Don't forget peer recognition programs
 - Stay up to date – 71% of organizations have used the same recognition program for over 10 years
- **Consider Total Compensation Statements**
- **COMMUNICATE**

Summary

- **Today's challenges present an opportunity!**
- **Compensation programs must be:**
 - Designed to attract, retain and motivate key talent
 - Culturally compatible
 - TIMELY
 - Effective communicators of a company's mission and values
 - Clear in order to motivate targeted behaviors
 - Compliant!
- **HR professionals must be flexible and creative**
- **The place and time for Total Rewards are here and now!**



Prepared By:

Aimee Lowry

(703)244-8256

Aimee.Lowry@fairfaxcounty.gov

alowry555@aol.com