

Repositioning Your Pay Programs for Recovery

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Today's Session

Who We Are



What We Will Cover

- Current Environment
- Six Steps
- Your Input
- Your Questions

■ About Pearl Meyer & Partners

- Pearl Meyer & Partners (PM&P) is a leading compensation consulting firm serving as trusted advisor to Directors, senior management and Human Resources in the areas of compensation governance, strategy development and program design.
- Founded in 1989, PM&P works with a wide range of clients - from start up to *Fortune 500* firms.
- The firm maintains offices in New York, Atlanta, Boston, Charlotte, Chicago, Houston, Los Angeles and San Jose.

▪ The Current Economic Environment

Are things looking up?...



**Employers Optimistic
About Hiring** 1/9/11

The Boston Globe

**Fed Survey Signals Steady
Recovery in 2011** 1/12/11

**THE JOURNAL
OF COMMERCE**

**Bernanke: Recovery
finally taking hold**
1/7/11

CNN Money.com

Or more challenging times ahead?



**Stocks slide after disappointing
jobless claims** 1/13/11

MSNBC

**Bernanke Warns Jobs
Recovery Could Take
Years...**

1/7/11

abc NEWS

**Unemployment claims jump
35,000: Highest in over 2 months**
1/13/11

THE WALL STREET JOURNAL

■ Impact on Employment and Pay

■ Employment Outlook

- Slight increases in hiring activity and reduced use of freezes.

■ Salary Increase Budgets

- According to World@Work employers originally planned on 2.8% for 2010; but actual increase budgets averaged 2.5%.
- World@Work's 2011 forecast is 2.9%.

■ Incentives *

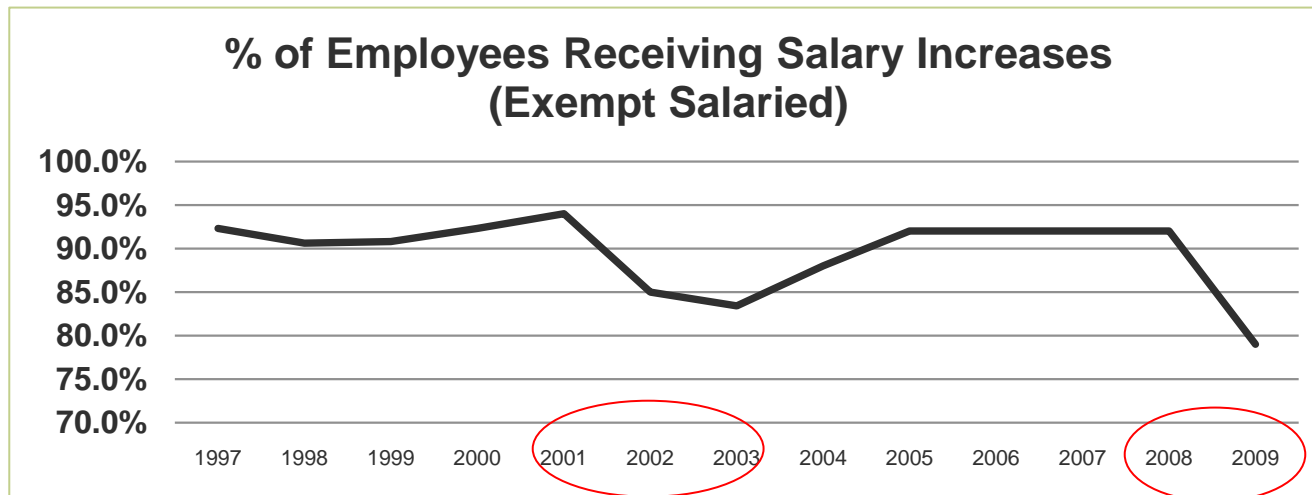
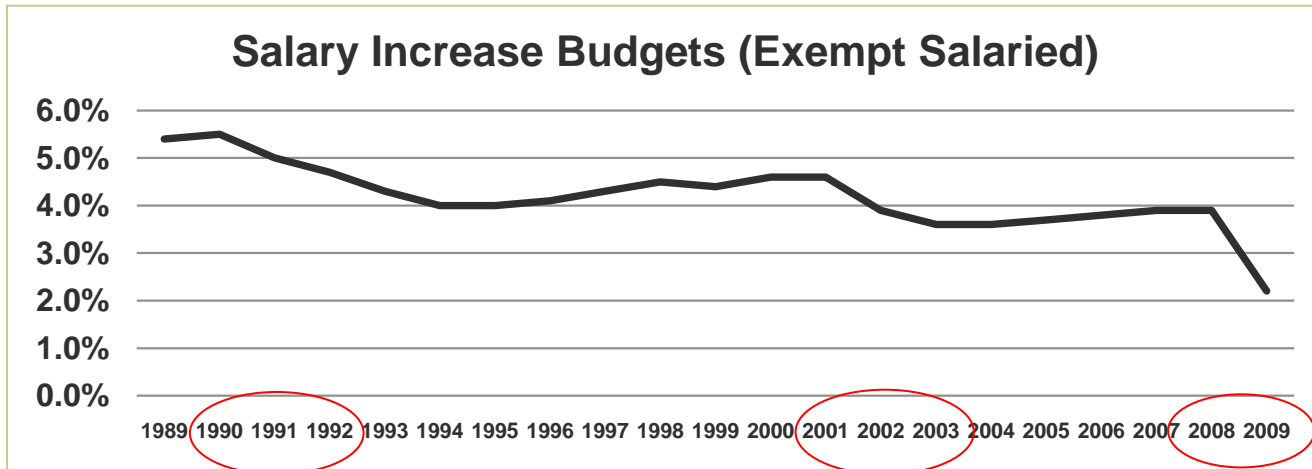
- 1/3rd of companies reporting changes to metrics in 2010.
- Only 5% reported **no** incentive award payouts – as compared to 18% last year.

■ Competitive posture *

- 75% of employers are budgeting *higher* salary increases for R&D jobs. Sales positions also targeted for above average increases.

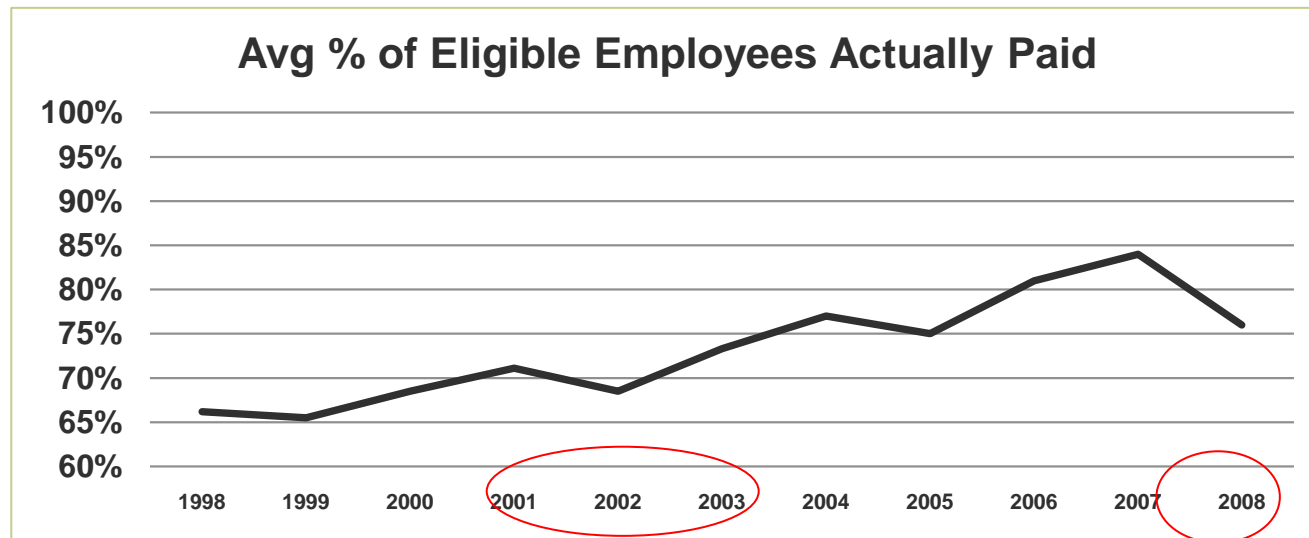
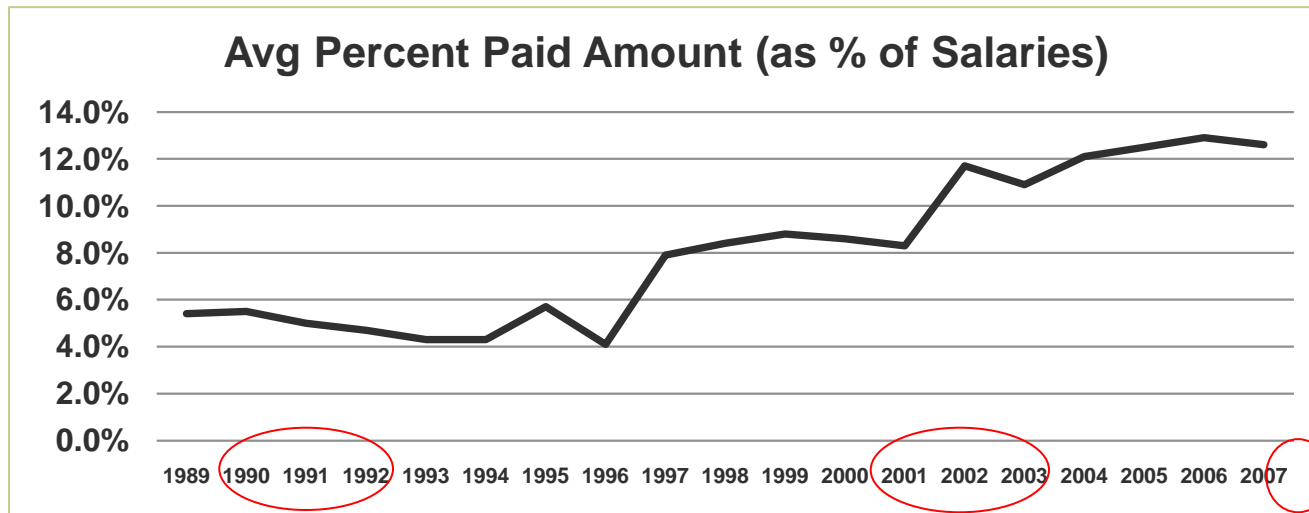
* Source: Pearl Meyer & Partners' 2010-2011 Compensation Planning Surveys

The Continued Pressure on Salaries



* Source: World@Work (ACA) Salary Budget Surveys

The Increasing Role of Variable Pay



* Source: World@Work (ACA) Salary Budget Surveys

■ The Near-Term Future

- **“Managed” growth in salary levels**
- **Increased eligibility and emphasis on variable pay**
- **More targeted use of equity**
- **More refined competitive pay strategies**

Top Human Resources Priorities

1 • Retaining High Performers

2 • Attracting Desired Talent

3 • Managing Salary Costs

4 • Ensuring Legislative and Regulatory Compliance

5 • Ensuring Market Competitiveness

▪ Poll Question 1

Please indicate what you expect your organization's *salary increase budget* will be for 2011?

1. No salary increases are planned for 2011.
2. We will delay salary increases for several months.
3. Our increase budget will be less than 2%.
4. Our increase budget will be between 2% and 2.5%.
5. Our increase budget will be between 2.6% and 3.0%.
6. Our increase budget will be between 3.0% and 3.5%.
7. Our increase budget will be over 3.5%.

▪ Poll Question 2

Please indicate what level of incentive awards will be (or has been) paid for 2010 performance?

1. There will be no incentives paid out for 2010.
2. Incentive awards will be about 50% or less of target.
3. Incentive awards will be between 51% and 75% of target.
4. Incentive awards will be between 76% and 99% of target.
5. Incentive awards will be about 100% of target.
6. Incentive awards will be between 101% and 125% of target.
7. Incentive awards will be over 125% of target.

What You Can Do to Prepare



▪ Step 1 – Compensation Strategy

Does Your Compensation Program Support Your Organization's Current Business Strategy?

- **Significant Strategic / Operational Changes**
- **Linkage to Short-Term Goals**
- **Reinforcement of Key Messages**
- **Alignment with Competitive Advantage**

Step 1 – Compensation Strategy

Alignment with Competitive Advantage

Level	Competitive Advantage Groups		“Regular Groups”		
	Sales & Marketing	Product Development	HR	Finance	IT
Entry/Int Level IC	Pay at 60 th Percentile		Pay at 50 th Percentile		
Senior Level IC	Pay at 75 th Percentile				
Manager					
Director			Pay at 60 th Percentile		
Executive					

▪ Step 1 – Compensation Strategy

Preparing for Recovery – 3 Things To Do Now



Ensure Business Alignment



Evaluate Pay Mix



Assess Segmentation of
Workforce

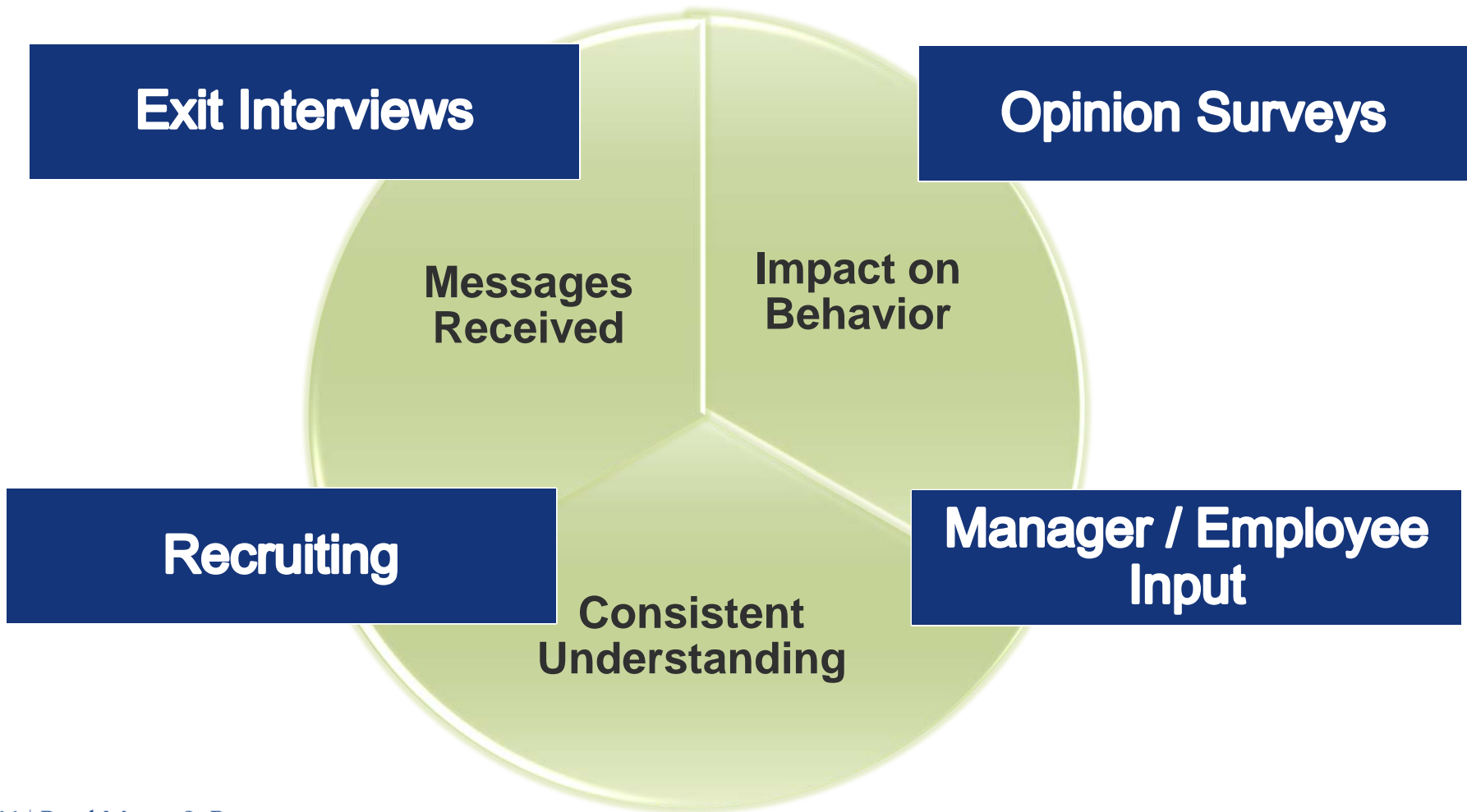
▪ Poll Question 3

To what extent do you differentiate your competitive pay position by segment of your employee (non-executive) population?

1. **Very significantly** : There are **many positions** that are targeted towards a different competitive position.
2. **A good deal**: There are **a range of select positions** that are targeted towards a different competitive position.
3. **Somewhat**. There are **a handful of select positions** that are targeted towards a different competitive position.
4. **Not at all**: All positions are targeted towards the **same competitive position**.
5. **No idea: Not sure** how this is handled.

Step 2 – Perceptions of Compensation

How is Your Compensation Plan Perceived?



▪ Step 2 – Perceptions of Compensation

Preparing for Recovery – 3 Things To Do Now



Speak to Plan Users



Reach out to HR Staff




Develop Program for
Understanding Perceptions

▪ Step 3 – Link to Market

How Does Your Compensation Program Link to the Market Place?

Surveys

- Relevance to Labor Markets
- Cross Survey Consistency
- Sample Size and Stability
- More Surveys  Better Results

▪ Step 3 – Link to Market

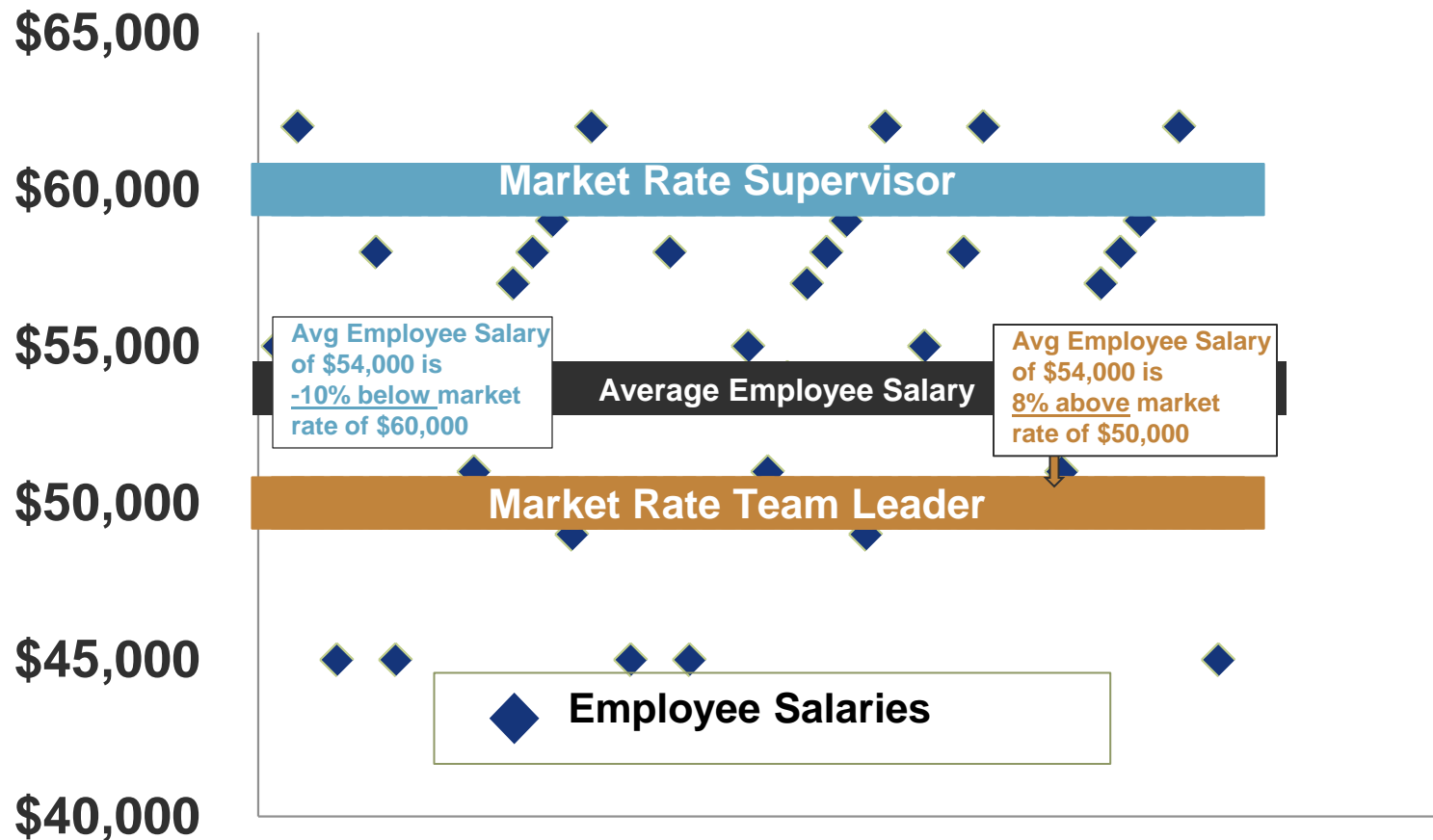
Surveys

Job Leveling

- **Closest Fit**
- **Blending Levels**
- **Insights on Staffing Model**
- **Impact is Significant**

Step 3 – Link to Market

Job Leveling Example - Working Supervisor



▪ Step 3 – Link to Market

**Bring to Market Cost for 50 ees
= \$270,000**

**Employee Salaries
-10% behind market**

+ Compounding of all Levels

+ Other Areas within Org

+ Turnover Costs

= \$\$\$\$\$

**Employee Salaries
8% above market**

**Over Market Spend for 50 ees
= \$216,000**

▪ Step 3 – Link to Market

Surveys

Job Leveling

**Data
Application**

- **Data Cuts**
- **Survey Weighting / Blending**
- **Discounts / Premiums**

*Balance between
precision and
consistency*

▪ Step 3 – Link to Market

■ *Preparing for Recovery – 3 Things To Do Now*

- ✓ Assess Competitive Position
- ✓ Validate Survey Coverage
- ✓ Validate Leveling

▪ Poll Question 4

Within the Finance Job Family, how many career levels are used for your exempt, individual contributor staff?

1. No idea
2. 2 levels
3. 3 levels
4. 4 levels
5. 5 levels
6. 6 levels
7. 7 or more levels

▪ Step 4 – Compensation Infrastructure

Is Your Compensation Infrastructure Effective?

Job Structure

- **Job Titles / Descriptions**
 - Inconsistent titles can lead to undesired turnover
- **Career / Job Levels**
 - Today's generation values advancement
- **Job Evaluation**
 - The rebirth of point factor is not upon us, but...

■ Step 4 – Compensation Infrastructure

Job Structure

Pay Ranges

- **Alignment to Market Pay**
- **Role of Internal Equity / Relationships**
- **Degree of “Precision”**
- **Geographic Variations**

Step 4 – Compensation Infrastructure

Job Structure

Pay Ranges

Incentives

- **Eligibility Trends**

- **STI** ↑

- **LTI** ↓

- **Perceived = Actual Value?**


- **Appropriate Metrics**

- **Leverage / Differentiation**

▪ Step 4 – Compensation Infrastructure

Preparing for Recovery – 3 Things To Do Now

 Clarify Career Progressions

 Clean up Job Titles

 Validate Incentive Eligibility

▪ Poll Question 5

To what extent is your organization planning to expand variable pay eligibility or increase award opportunities?

1. Expect to expand eligibility and increase award opportunities
2. Expect to expand eligibility
3. Expect to increase award opportunities
4. Expect no changes to eligibility or award opportunities
5. Do not use variable pay

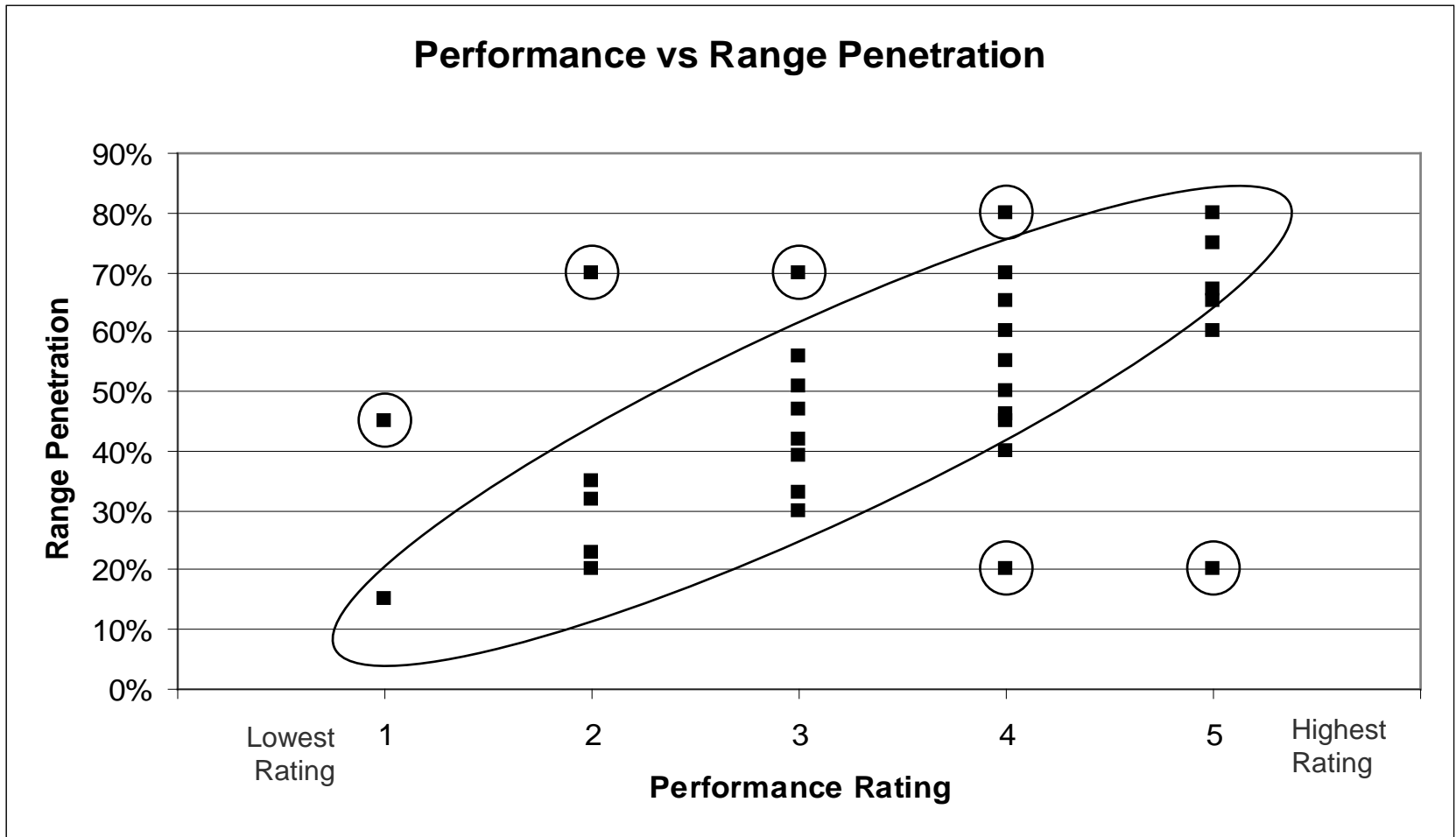
▪ Step 5 – Pay Delivery

Is there an alignment between pay delivery vehicles and their objectives?



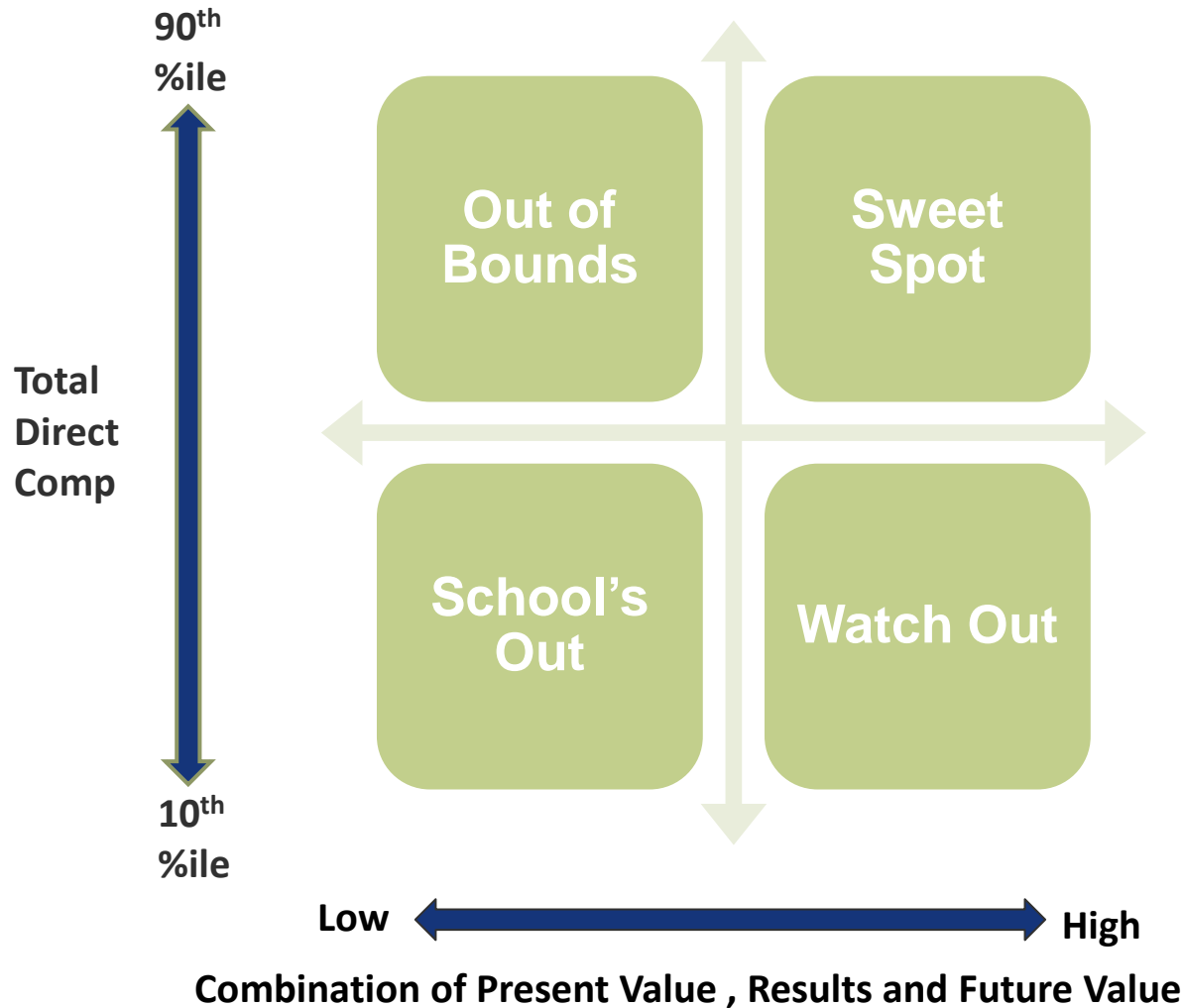
Step 5 – Pay Delivery

Assessing Pay and Performance Correlation



Step 5 – Pay Delivery

Aligning Value and Compensation



▪ Step 5 – Pay Delivery

Preparing for Recovery – 3 Things To Do Now



Ensure Right Measures
and Process



Validate Alignment Between
Vehicles and Objectives



Assess Level of Pay
Differentiation

▪ Poll Question 6

Indicate the variation provided in merit increases – between your high performers as compared to average performers?
For example, if an average performer received a merit increase equal to 3%, would a high performer receive a 6% (or 2 times the average merit increase)?

1. No salary increases provided
2. Little to no differentiation in salary increases
3. About 1.25 times average increase
4. About 1.5 times average increase
5. About 2.0 times average increase
6. About 2.5 times or higher than average increase

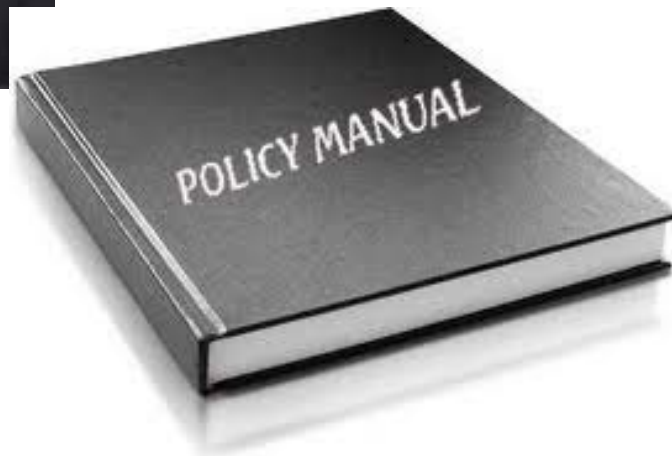
Step 6 – Compensation Plan Communication

How is Your Plan Communicated?

Methods




Audience

Frequency

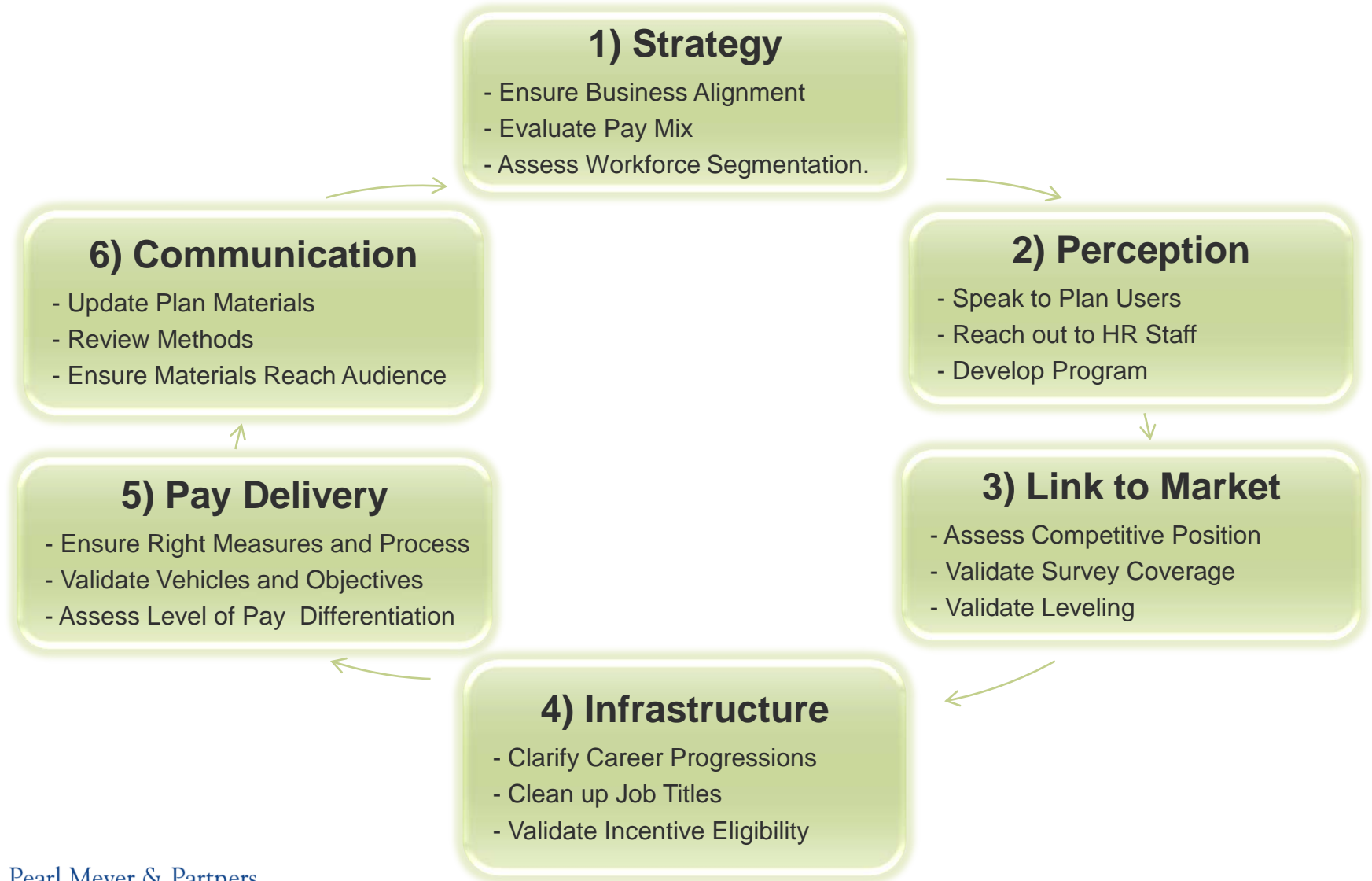


■ Step 6 – Compensation Plan Communication

■ *Preparing for Recovery – 3 Things To Do Now*

-  Update / Enhance Plan Materials
-  Review Methods of Communication
-  Ensure Your Communication Materials Reach Your Targeted Audience

Putting it All Together



Action Plan Example

	Priority	Time Horizon	Impact	Cost	Involvement
Specific Action Items	↑ Low ↓ Medium ↑ High	↑ Short Term ↓ Medium ↑ Long Term	↑ Minor ↓ Medium ↑ Major	\$ \$\$ \$\$\$	Comp Team HR Executives Senior Mgmt Employees
<u>Strategy</u> Ensure Business Alignment Assess Compensation Philosophy in context with new business plan	High Priority	Long Term	Major	\$	Comp Team / HR / Executives / Others
<u>Link to Market</u> Validate Job Leveling Methods	---	---	---	---	---
<u>Compensation Infrastructure</u> Ensure Incentive Plan has Appropriate Eligibility	---	---	---	---	---
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Please visit
www.pearlmeyer.com/recovery

Reference Materials:

- 2011 Compensation Planning Survey
- PM&P on Compensation Planning:
Looking Ahead to Executive Pay Practices in 2011
- Report on Job Titling Practices

Our Employee Compensation Service Offerings Include

- Definition of Compensation Philosophies and Strategies
- Competitive Analyses and Assessment of Employee Pay Programs
- Designing, Creating, and Implementing Salary Structures and Rewards Systems
- Costing Analyses of Current and Prospective Pay Programs
- Compensation Plan Audits
- Variable Pay Programs
- Implementation and Communication Tools

Questions

