



Compensation Planning: Looking Beyond Money

Our grandparents – and many of our parents as well – went to work every day expecting to be paid for the time they spent on the job. In the “olden” days, compensation planning focused on paying employees for their work and service to the company. If you were a dedicated employee, you may have stayed long enough to get the gold watch at retirement.

Today, our employment landscape is much different – for many reasons. New generations of workers don't stay as long as their parents or grandparents, and constantly seek greener pastures. Literally, to keep anyone under the age of 40 interested in staying, companies must offer more than just pay. Sure, a wage is a necessity, but there is much more to compensation than just the money.

Unfortunately, many companies and organizations sour on new compensation plans when they don't obtain the results they were expecting after implementing a “best-practices” plan, one which takes benchmarks and uses those as best practices. Instead of achieving desired results, their “best practice” ends up as just another ineffective human resources program.

In one ongoing study of best practices, the Saratoga Institute found that best practices more typically occur when a specific design approach is followed, regardless of the plan type or the specific elements of the plan. A plan is likely to become a best practice when it:

- meets the original objective for which it was designed;
- drives desired, positive results relative to company culture and strategic business objectives; and
- addresses the specific needs, business philosophies and operating environment of the implementing organization.

How do you design a plan that talks to more than compensation? Here are ten clear-cut methods to consider:

1. Rewards must be linked to business strategy – why do you come to work? As explained above, employees come for much more than pay. They come to support the company's strategy. Linking rewards to the conjoined strategy emphasize the short- and long-term mission.
2. Explain your plan's objectives – participants must know what is being rewarded and why. When was the last time you met with employees to tell them what their compensation plan was all about?
3. Behaviors motivated by the plan must support the company culture – anyone will tell you that a business' mission and vision are the backbone of any successful venture. Your compensation plan is directly tied into company culture.
4. Relate payouts to business performance and results – gone are the days of across-the-board raises; pay for performance is the norm in today's business cycle.
5. Plan design must adapt to changing business conditions – change is inevitable, and your compensation plan must adapt to its environment – good and bad.
6. All elements of the plan, including expected performance and results, must be clearly communicated and fully understood by participating employees – you're not going to test employees to see how much they know, but you can hold a periodic meetings to discuss plans, even if they haven't changed since the last time you met.
7. Participating employees must be involved in the design process – you wouldn't create a new consulting division without asking employees to be a part of the process, so why should the design of a compensation plan be any different? Solicit feedback; people want to feel as if they are part of the process, and ensuring they understand the plan goes a long way to instill confidence.

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8. Participants must believe the plan has value – while you don't want the plan to become a mantra, you do want your employees to honestly say their compensation plan is something of value – more than words on paper.
9. All elements of the plan must be regularly reviewed for effectiveness in meeting stated objectives and achieving desired results – like any marketing or sales plan, your compensation plan also must be reviewed on a regular basis to ensure it meets your employees' needs.
10. Consider using annual benefit statements to show employees just how much their total compensation package is worth. Itemize employer health, disability, continuing education, and other contributions. Add these to the employee's total salary to show a total compensation package. This technique may be used as a recruiting tool as well. Top candidates will always be in demand – tip the scale in your favor by showing just how much your company is contributing to their bottom lines.

The overall theme is communications – and companies who regularly communicate the value of their compensation plans will be the ones who successfully keep employees interested for the long haul. Ensure your plan has value by meeting with your performance measurement consultant and discussing these steps.