



TenStep Supplemental Paper

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The Right Compensation

The threat of losing star performers in a tight job market has forced companies to be creative and innovative in designing the right pay package. Satisfactory compensation is the key to employee retention.

Some of the compensation strategies used by organizations to improve the retention rate are:

- **Formal and informal reward programs.** Such programs reward employee contributions and reinforce recognition of efforts.
- **Programs for “foodies.”** Companies indulge employees’ love for food as well as nurture healthy eating habits. Companies are investing in foodservice operations to improve the taste of food and the ambience of cafeterias and to enhance convenience to employees. Corporate restaurants, an emerging trend in the corporate world, are a direct reflection of the battle to recruit and retain top-quality employees.
- **Stock option programs.** The amount of stock options allocated often depends on seniority, making it worth an employee’s while to stick around.

Key Project Steps in the Design of Comprehensive Compensation Plans

The following steps are to be followed to design a comprehensive compensation plan:

1. Conduct a comprehensive audit of existing compensation plans and practices. This should include compensation administration policies and practices, current methods and timing of compensation adjustments, and current compensation levels compared to market. The compensation audit needs to include face-to-face or focus group meetings that aim to understand how current compensation practices are perceived.
2. Develop a feedback report based on the result of the compensation audit. This report usually includes (at a conceptual level) issues that were identified, prevailing attitudes toward current compensation practices, and preliminary recommendations for modifying existing compensation plans and practices.
3. Work with top management and the board of directors to define the company's compensation philosophy, which defines how and with whom the company intends to compete for its human resources and how and under what terms its employees will be rewarded.
4. Conduct a comprehensive job analysis to determine the primary functions, duties and responsibilities of all or a sample of positions. This analysis serves as the basis for market pricing most of the company's positions. If valid market compensation data is not available or inapplicable, a job ranking system appropriate to the client's organization and management style is developed.



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5. Develop a market-based salary structure and compensation administration guidelines for setting pay and adjusting compensation based upon performance, promotions, changes in job content and changes in market rates of pay.
6. Develop an incentive plan based upon industry "best practices" that rewards participants for the achievement of specific, defined measures of performance and outcomes and that includes guidelines for administering the incentive plan. Typically, they are worked out along with management to develop individual and company-wide performance measures upon which incentive awards are based. Also, develop a financial model of the incentive plan costs over a wide range of potential outcomes.
7. Develop a long-term reward plan (or plans) that reflects and rewards the creation of shareholder or long-term value. Such plans typically include stock option granting guidelines, or equity (like "phantom") plans, as appropriate. If long-term plans entail cash awards, the cost of such awards over a wide range of outcomes should be assessed.
8. For a highly interactive approach to consulting, communicate regularly with the client throughout the project and assist him or her in developing the communication plans and training programs that will introduce the modified comprehensive compensation plan to employees. Conduct an annual update of the compensation plan, modifying wherever necessary.

Summary

If companies use a well-planned compensation plan, the workplace will be a much better place for employees. The HR department must ensure that the employees' skills and expertise are adequately compensated to increase the retention rate. Terminating a poor performer is not a way to increase productivity. Increasing the employee's compensation and motivating him/her towards higher efficiency would be a better bet.