

New England Compensation Consortium

What To Do Now!

Developing Your Total Compensation Strategy in Today's Reality.

Presented by

Tom Wilson



May 4, 2010

Session Agenda

- I. Overview of the Economic Conditions**
- II. Trends with the Tools We Have Been Working With**
- III. Some “New” Thinking Is Emerging**
- IV. Group Discussions**
- V. Wrap Up and Summary**

A DESCRIPTION OF TODAY'S REALITY

- 1. The economy is improving and our business prospects are looking better.**
- 2. We plan on doing selective hiring – where we need to upgrade or strengthen our capabilities.**
- 3. We've asked more from our people and will ask for even more. We need to offer them something more than just job security.**
- 4. We're becoming increasingly worried about retaining critical talent, especially in light of what we had to do to survive in 2009 and have been asking of them recently.**
- 5. We need some fresh, innovative approaches to how we manage and reward our people. We can't just go back to the way things were.**

The Economy – What's happening now?

<i>Economic Forecasts:¹</i>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Global GDP	4.0%	3.2%	-0.8%	3.8%	4.0%
US GDP	2.1%	0.4%	-2.4%	3.0%	2.5%
Inflation (CPI)	2.9%	3.8%	-0.4%	1.4%	2.0%
<hr/>					
Consumer Spending	2.6%	-0.2%	-0.6%	1.9%	2.0%
Business Investments	6.2%	1.6%	-17.8%	1.1%	6.8%
<hr/>					
Unemployment (US)	4.6%	5.8%	9.3%	Current² 9.7%	8.2%
Unemployment (MA)	4.4%	6.7%	9.3%	9.3%	8.0%

Source: (1) Wells Fargo Economics Group – Monthly Outlook (April, 2010)
 (2) US Bureau of Labor and Statistics, February 2010 Seasonally adjusted.

The Economy – What's happening now?

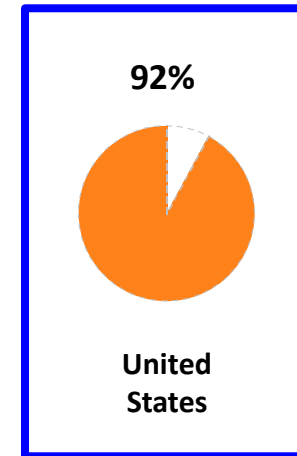
Most companies plan to hire in 2010

Company's hiring plans this year compared to past years are:

Significantly increased/ accelerated	1%
Increased/ accelerated	16%
Typical, on par with past years	33%
Reduced/slowed	42%
Significantly reduced/slowed	8%

2009/2010 Towers Watson U.S. Strategic Rewards Survey (Oct. 2009) updated in January 2010 with Flash Survey

Percentage planning to hire for new positions:



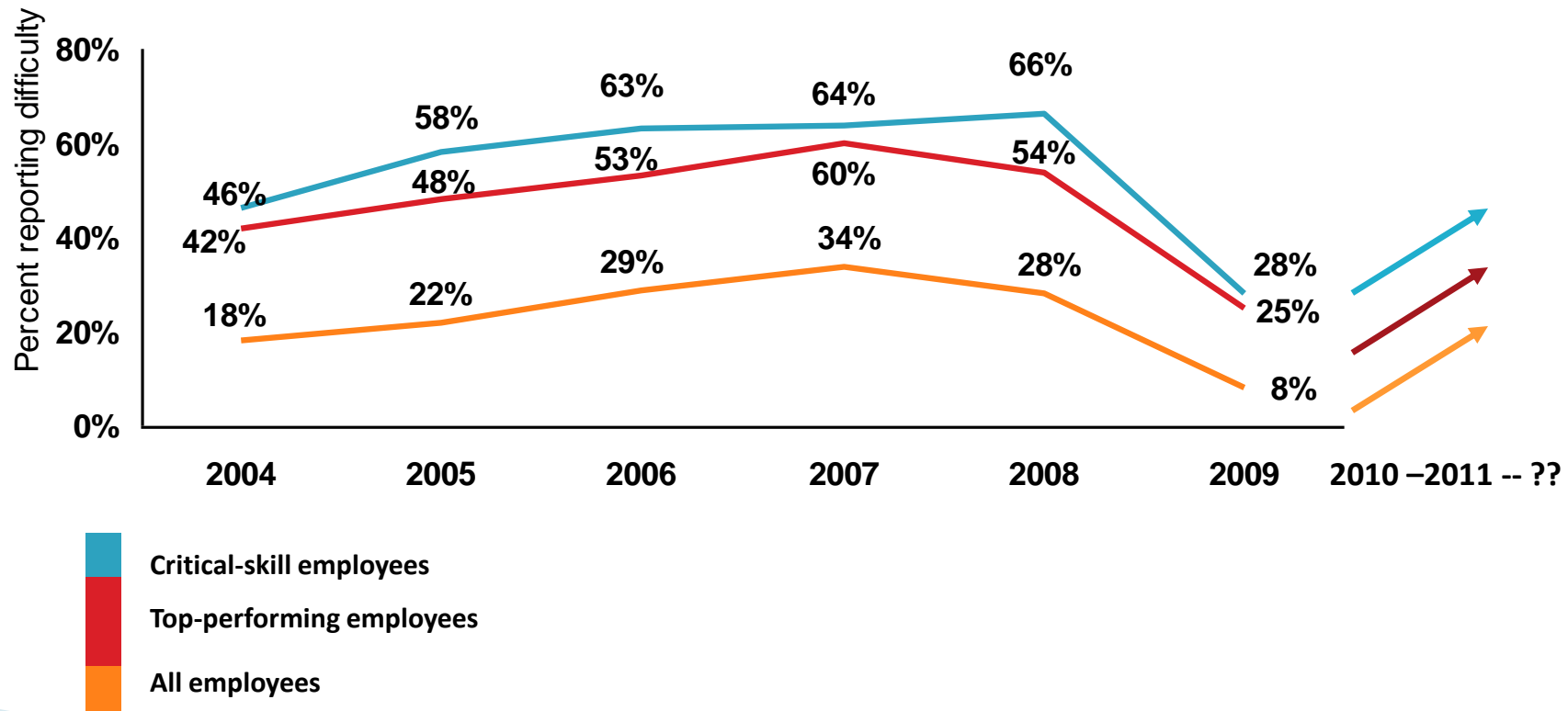
Ready to hire now	37%
Will begin hiring in Q2	13%
Will begin hiring in Q3	12%
Will begin hiring in Q4	7%
Will begin hiring in 2011	31%

The New Reality Update: Refocusing Your Talent Strategy in 2010 – Stanton Chase International and Birkman Co.

The Economy – What's happening now?

Attraction pressures are at historic lows, but for how long?

Trend in difficulty attracting employees

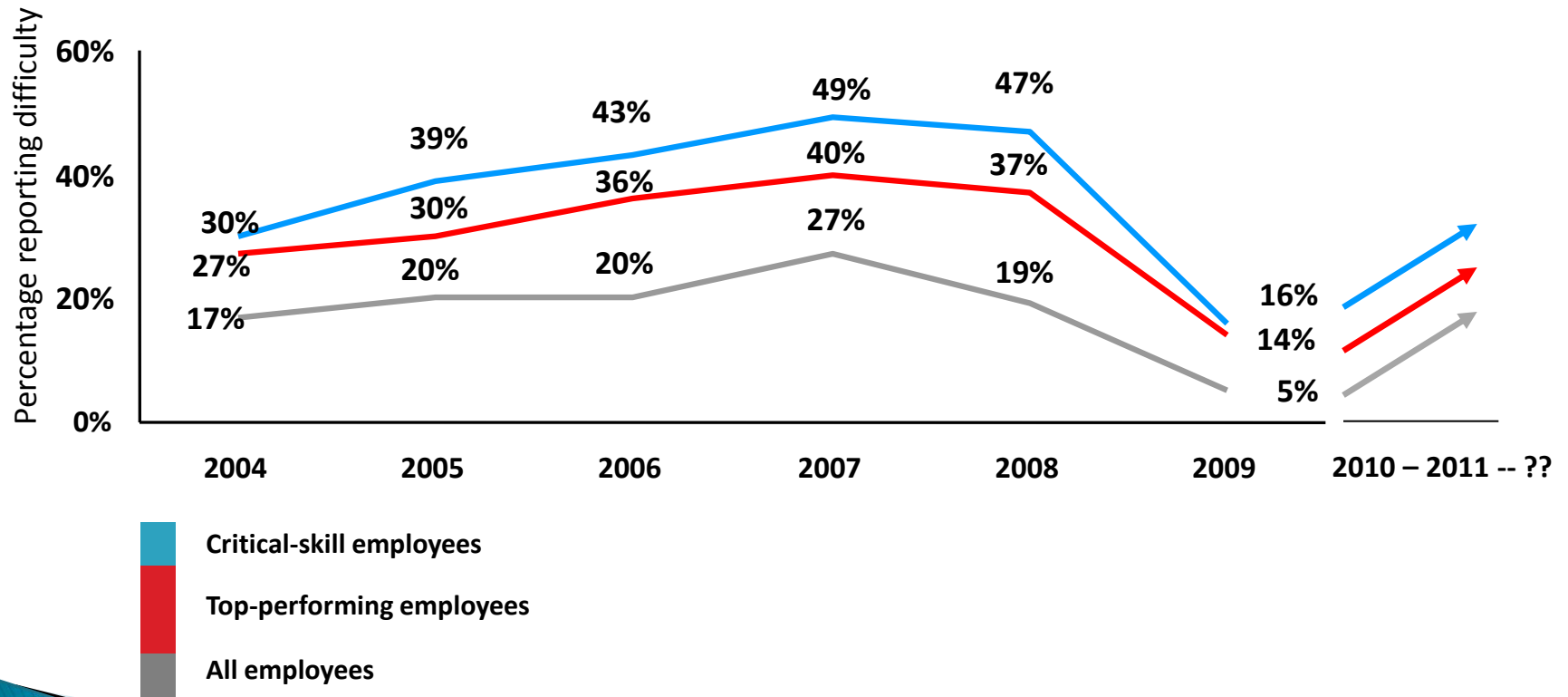


2009/2010 Towers Watson U.S. Strategic Rewards Survey (Oct. 2009) updated in January 2010 with Flash Survey

The Economy – What's happening now?

Retention pressures are also at historic lows, but for how long?

Trend in difficulty retaining employees



The Economy – What's happening now?

Actions New England Companies Took in 2009

State of Business Challenges

<u><i>Staffing cost reduction actions:</i></u>	Growth	Minimal	Decline
<i>Increasing staff</i>	51%	4%	0%
<i>Delay/reduce hiring</i>	38%	67%	69%
<i>Freeze hiring</i>	22%	35%	44%
<i>Reduce hours worked</i>	4%	9%	50%
<i>Layoff managerial/professionals</i>	16%	26%	69%
<i>Layoff administrative/hourly</i>	11%	26%	75%

Source: Wilson Group and Bostonian Group Survey 2008-2009: *Changes for Challenging Times*

The Economy – What's happening now?

Actions New England Companies Took in 2009

State of Business Challenges

Compensation cost reduction actions:

Growth

Minimal

Decline

Employee Benefits:

Reduce level of benefits

7%

20%

19%

Transfer costs to employees

24%

29%

13%

Cash Compensation:

Delay or decrease pay increases

16%

9%

50%

Freeze pay

22%

26%

69%

Reduce pay for managers/professionals

4%

26%

75%

Reduce pay administrative/operational

0%

9%

13%

Source: Wilson Group and Bostonian Group Survey 2008-2009: *Changes for Challenging Times*

The Economy – What's happening now?

Restructuring and cost-cutting actions have had an adverse impact on business and employees

Changes have had an adverse impact on:

BUSINESS IMPACT	Employer	Employees in organizations who took less than 3 actions	Employees in organizations who took 4 or more actions	All employees
Quality/customer service	17%	34%	47%	41%
Productivity	36%	36%	56%	44%

2009/2010 Towers Watson U.S. Strategic Rewards Survey (Oct. 2009) updated in January 2010 with Flash Survey

Because of the actions taken in 2009, we

Believe retention will be a major challenge in 2010 and 2011: 58%

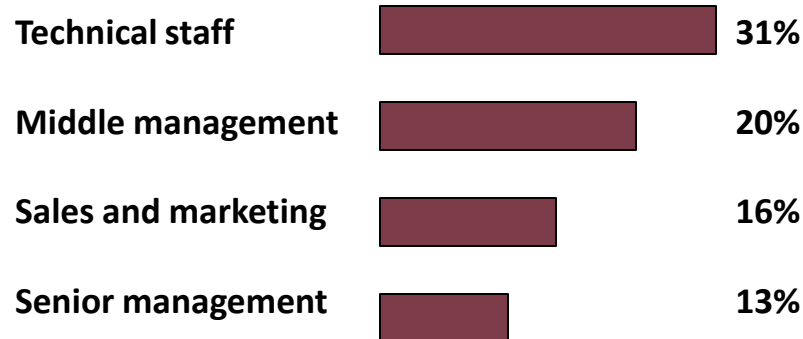
Are concerned about the “layoff survivor guilt” in employees: 65%

The New Reality Update: Refocusing Your Talent Strategy in 2010 – Stanton Chase International and Birkman Co.

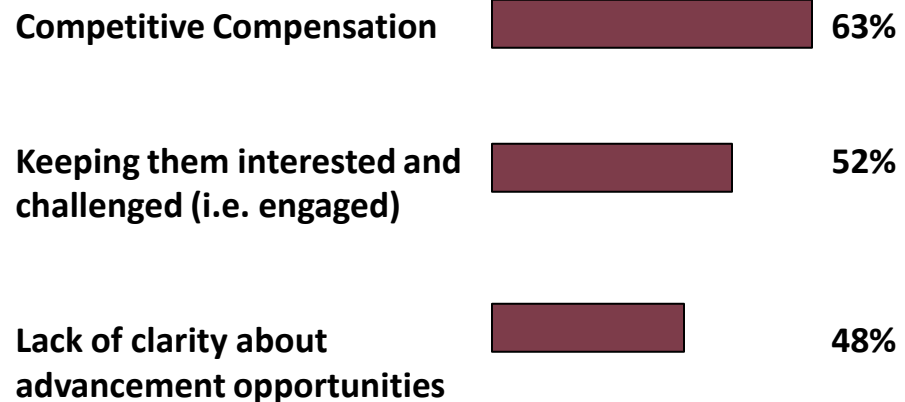
The Economy – What's happening now?

Retention will likely become the next “big issue”

Where the greatest challenges will be for retention:

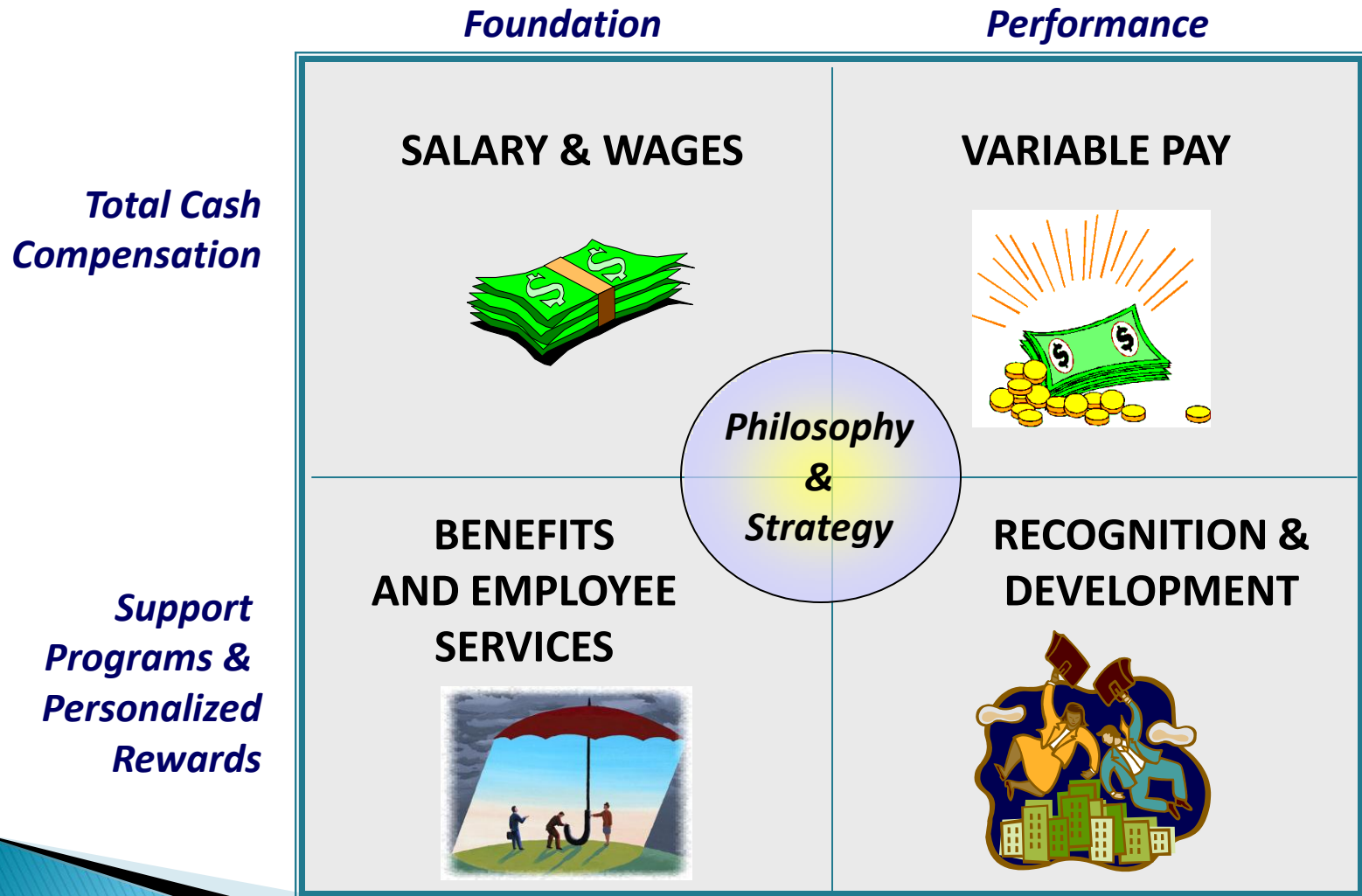


Challenges that prevent retaining talent:



Trends With the Tools We Have Been Working With

A Framework for Strategic Reward Systems



Trends With the Tools We Have Been Working With

Merit increase budgets show a small uptick for 2010

	2008			2009			2010 (forecast)		
	Including 0% increases	Excluding 0% increases	% giving 0% increase	Including 0% increases	Excluding 0% increases	% giving 0% increase	Including 0% increases	Excluding 0% increases	% giving 0% increase
United States	3.4%	3.5%	6%	1.7%	2.5%	42%	2.8%	3.0%	11%

Bonus plan funding levels as a percentage of target are expected to rebound

	2008	2009	2010 (forecast)
United States	80%	60%	100%

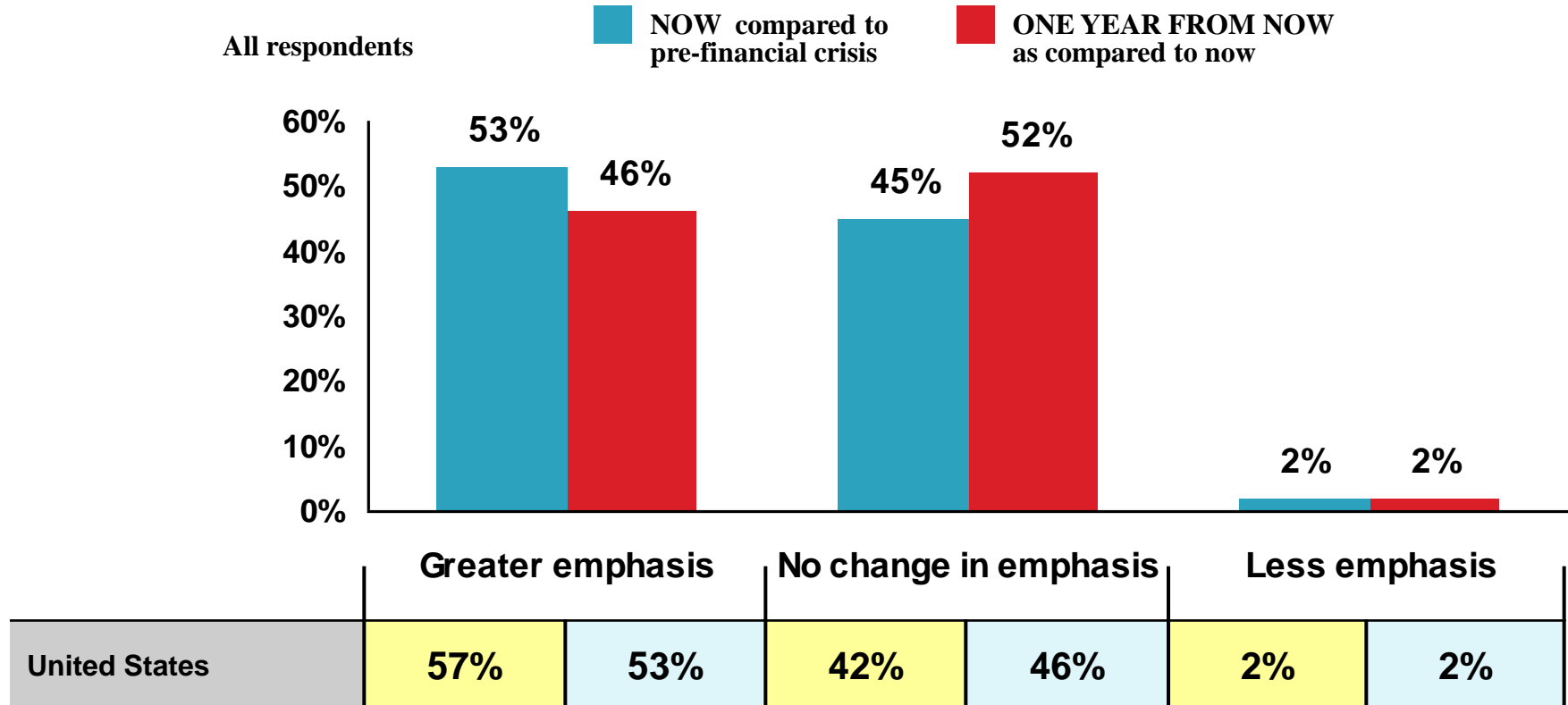
Equity Awards are likely remain unchanged or increase slightly

	Increase	Decrease	No Change	Don't Know
2010 Grant \$ Values of Equity Awards:	16%	12%	45%	27%

2009/2010 Towers Watson U.S. Strategic Rewards Survey (Oct. 2009) updated in January 2010 with Flash Survey; only medians reported above

Trends With the Tools We Have Been Working With

Controlling/reducing employee benefit costs will continue

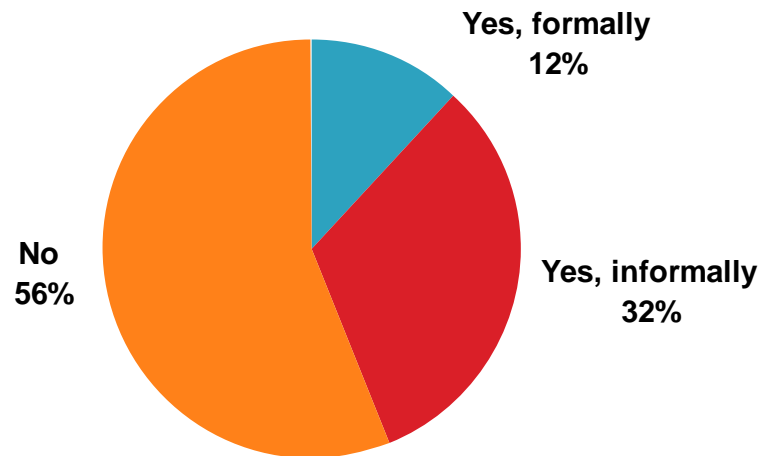


2009/2010 Towers Watson U.S. Strategic Rewards Survey (Oct. 2009) updated in January 2010 with Flash Survey

Trends With the Tools We Have Been Working With

Companies are increasing the use of recognition plans

Companies that have encouraged managers to make increased use of recognition plans.



Do you expect managers to continue the increased use of recognition after other reward programs have been restored?

Yes	64%
No	1%
Don't know	35%

To what extent have managers increased the use of recognition plans compared to before program cuts began?

Not at all	3%
To a small extent	43%
To a moderate extent	45%
To a significant extent	7%
To a great extent	1%

** As reported in the Effect of the Economic Crisis on HR Programs – Update: August 2009*

Some “New” Thinking Is Emerging

Current Tools:

Salary programs –

- Merit pay increases
- Market adjustments
- Competitive positioning

Employee Benefits and Services –

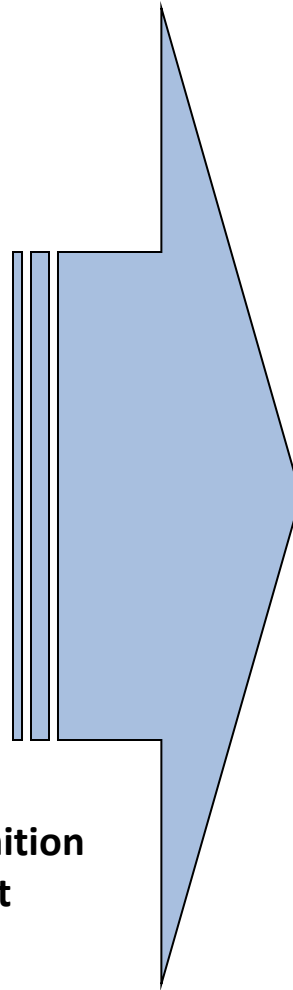
- Health and income security
- Retirement income
- Wellness and other services
- Culture building “events”

Variable Pay Plans –

- Variable pay plans
- Equity awards

Recognition and Development –

- Performance and Service Recognition
- Promotions, career advancement
- Career development, training



New Thinking is Emerging About:

Employee Engagement

Acquisition Strategies

Retention Initiatives

Performance based Rewards

Some “New” Thinking Is Emerging

Employee Engagement

Employee engagement is those conditions within the workplace where:

The employee is highly involved in, committed to and satisfied with the work one performs for the organization.

There are primarily two types of factors that reflect how engaged employees are in the workplace:

Performance (or Discretionary Effort) factors:

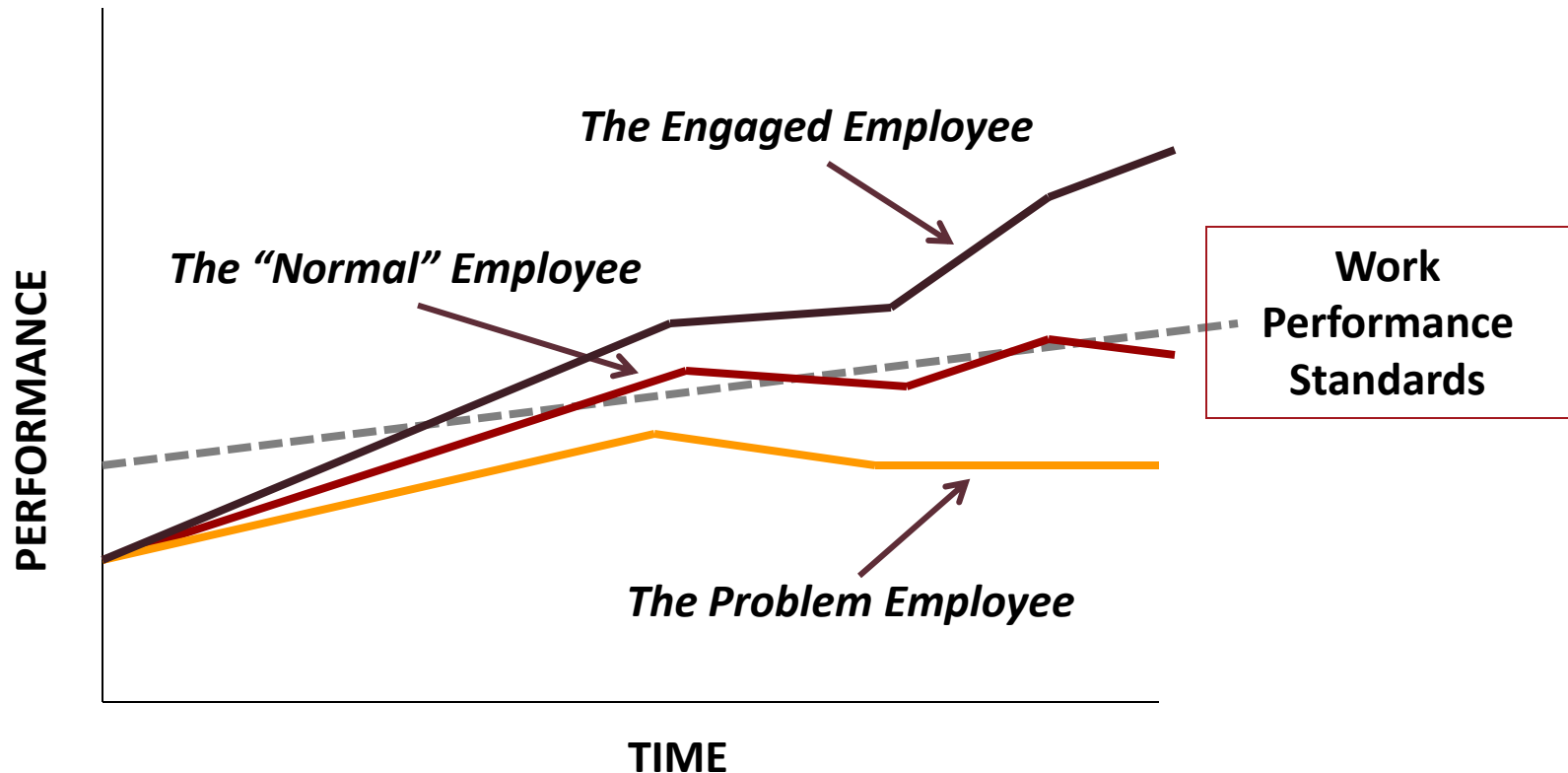
1. High levels of commitment to achieve the company's standards and/or goals.
2. They tend to go beyond what is normally expected in their job assignments (i.e., “Discretionary Effort”)
3. Employees continually examine ways to improve productivity and quality by making suggestions for improvements and adopting reasonable changes provided by others.
4. They appear to be self-motivated and require little disciplinary or supervisory effort.

Retention (or Commitment) factors:

1. Employees remain with the company.
2. There is very little absenteeism or lateness to work.
3. They recommend the company to others (friends and family members).
4. They tend to have friends and strong social connections to others at work.
5. There is a strong commitment to the work itself, the team, one's manager, and the organization itself.

What is Some New Thinking on the Scene?

Defining Employee Engagement



What is Some New Thinking on the Scene?

The Impact of Employee Engagement

The Gallup organization conducted a mega-research comparing the performance of companies with different levels of employee engagement from 2001 - 2005. Those with high levels of employee engagement (4:1 ratio of employees engaged versus not) showed the following results:

1. **Growth in earnings per share was 2.6 times greater** for organizations with high levels of employee engagement versus those with limited employee engagement.
2. **Earnings per share for top quartile organizations** outpaced competitors by 18% during the study period.
3. **Differences in performance at the operating unit level:**
 - ✓ 18% higher productivity
 - ✓ 12% higher business unit profitability
 - ✓ 12% higher customer advocacy
 - ✓ 50% - 70% lower employee turnover
 - ✓ 50% + lower inventory shrinkage
 - ✓ 38% fewer employee accidents

The Corporate Leadership Council research (2004) demonstrated that highly engaged employees:

- ✓ Work 59% harder,
- ✓ Perform 18% better,
- ✓ Are 23% more likely to remain with the company.

What is Some New Thinking on the Scene?

Characteristics of a Highly Engaged Workforce:

1. I know what is expected of me at work.
2. I have the materials and equipment I need to do my work right.
3. At work, I have the opportunity to do what I do best every day.
4. In the last seven days, I have received recognition or praise for doing good work.
5. My supervisor seems to care about me as a person.
6. There is someone at work who encourages my development.
7. At work, my opinions seem to count.
8. The mission or purpose of my company makes me feel my job is important.
9. My associates or fellow employees are committed to doing quality work.
10. I have a best friend at work.
11. In the last six months, someone at work has talked to me about my progress.
12. This last year, I have had opportunities to learn and grow.

What is Some New Thinking on the Scene?

Five Strategies Companies Use to Strengthen Employee Engagement

1. **Select the right people that fit the job.**
2. **Improve the quality of managerial practices.**
3. **Support career development and training of employees.**
4. **Involve and empower employees to achieve business goals.**
5. **Provide more effective rewards and recognition.**

Source: Corporate Leadership Council

What is Some New Thinking on the Scene?

Drivers of attraction have shifted in light of the recession

Top reasons employees join an organization (U.S.)

<i>Employers</i>		<i>Employees</i>
Employer reputation 40%		Nature of work 37%
Company culture 30%		Job security 33%
Base pay 29%		Base pay 33%
Career development opportunities 26%		Health care benefits 27%
Health care benefits 22%		Career development opportunities 21%
		Employer reputation 21%

The diagram illustrates shifts in attraction drivers between employers and employees. Red arrows indicate the following shifts:

- From Employer reputation (40%) to Nature of work (37%)
- From Company culture (30%) to Job security (33%)
- From Base pay (29%) to Base pay (33%)
- From Career development opportunities (26%) to Health care benefits (27%)
- From Health care benefits (22%) to Career development opportunities (21%)
- From Employer reputation (21%) to Employer reputation (21%)

2009/2010 Towers Watson U.S. Strategic Rewards Survey (Oct. 2009) updated in January 2010 with Flash Survey

What is Some New Thinking on the Scene?

Drivers of retention have become focused on “personal” factors

Top reasons employees leave an organization (U.S.)

<i>Employers</i>		<i>Employees</i>
Relationship with supervisor/manager 43%		Stress levels 38%
Base pay 39%	←→	Base pay 32%
Career development opportunities 39%		Promotion opportunity 23%
Promotion opportunity 35%	↗↘	Work/life balance 23%
Work/life balance 24%	↗↘	Trust/Confidence in management 23%
		Job security 23%

2009/2010 Towers Watson U.S. Strategic Rewards Survey (Oct. 2009) updated in January 2010 with Flash Survey

What is Some New Thinking on the Scene?

Research Studies Show Characteristics of Highly Effective Reward Programs

1. Does incentive pay impact performance? *Yes, under certain circumstances*
2. Does the amount of money impact performance? *No, it just needs to be meaningful to the individual.*
3. Which type of pay system works better – individual or group?
 - *High performers prefer and respond better to individually focused variable pay plans.*
 - *Organizations realize higher performance from group versus individual based variable pay plans.*
4. Does feedback impact performance more than money? *Money is more effective, both is the most effective*
5. Which has a higher impact on performance: money or social consequences? *Both in tandem work best*

Type of reward:	Improved Performance
Fixed, standard pay	11%
Performance feedback	20%
Social recognition	24%
Monetary incentives	32%

Time for Our Working Session

**1. Slow and Steady Growth
(better than last year!)**

**3. Declining Revenues
or Facing Many
Critical Challenges**

2. Strong, Significant Growth (organic or by acquisition)

**4. Uncertain
(too early to tell what
we will be facing)**

Your Assignment:

1. Introduce yourselves to each other (name, role, company)
2. Identify a “scribe” for the group – who will summarize and report out.
3. Identify what **CHANGES** your organization is implementing in 2010 regarding:
 - a. *Salary programs*
 - b. *Formal short-term, annual bonus plans*
 - c. *Equity or LTI awards*
 - d. *Employee benefits and services*
 - e. *Perf. recognition programs*
 - f. *Other actions*
4. Select the most successful initiatives, programs and tell why they are successful.
5. Summarize the trends reflected in your group – what and why?

And Now Time for More Questions



A Thought to Remember:

***“When you do common things
in uncommon ways,
you command the attention of the world.”***

-- George Washington Carver



Our mission:

“We develop with our clients customized solutions that increase the retention and motivation of people, so that the organization becomes more competitive and successful.”

What we offer:

- Total Rewards Strategies
- Executives Compensation
- Performance/Competency Pay Programs
- Team Incentives/GoalSharing
- Sales Incentives
- Retention Strategies and Programs
- Performance Recognition
- Performance Management Process



to focus time and resources
to drive strategy implementation
to be competitive and distinctive
to drive key success factors
to strengthen market leadership
to retain the best and develop the rest
to make special recognition special
to link people with measures and priorities

What makes us unique:

- We listen and understand strategies and priorities
- Our expertise, creativity and resourcefulness
- We collaborate with our clients and each other
- We are highly responsive to changes
- Our commitment to client satisfaction
- We are flexible with high integrity

Visit our Home Page at:

<http://www.wilsongroup.com>

Contact us at:

978-371-0476
30 Monument Square – Suite 214
Concord, MA 01742
twilson@wilsongroup.com