SHRM 2014 Tri-State Conference

and Pre-Conference Diversity and Inclusion Summit

AFFILIATE OF SHRM®
SOCIETY FOR HUMAN RESOURCE MANAGEMENT

“Playing to Win: HR’s Hand in the New Business Game”

Foxwoods Resort & Casino, April 30 - May 2, 2014

Hosted by the Connecticut, Massachusetts and Rhode Island SHRM State Councils

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Key Trends in Compensation

- Leading companies pursue a labor force Segmentation strategy
- High performing companies Differentiating compensation
- Compensation resources moving from fixed to performance oriented
- At the same time LTI is evolving from stock options to more strategic PSU instruments

Governance practices will continue to evolve –

Six Topic Areas

- Objectives and Philosophy
- Reference Group and benchmarking
- Performance-based pay
  - Mix, measures and funding
  - Targets, ranges and discretion
- Governance
- Other terms and conditions
- Special circumstances

Towers Watson's

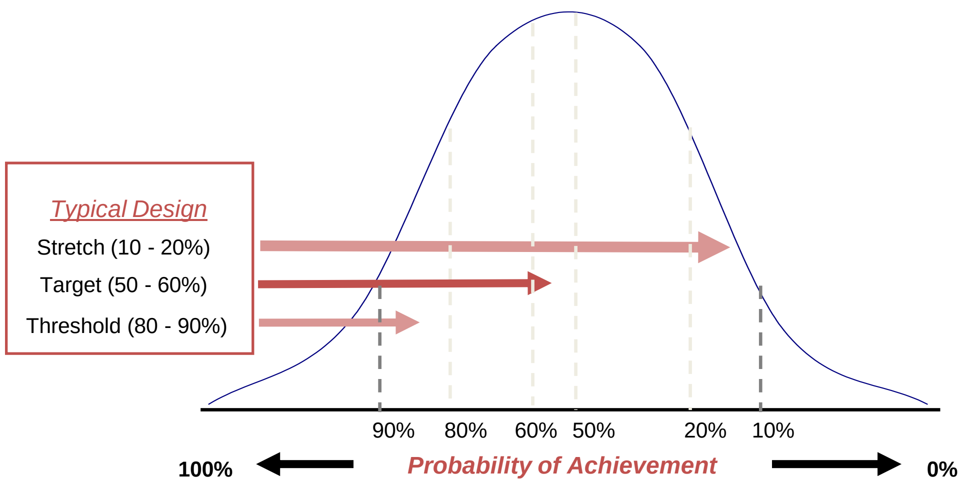
Elements of Effective Compensation Design

Four Overarching Principles

- *Purpose*: Support mission, vision and values
- *Alignment*: to shareholder value creation
- *Accountability*: Links pay to key areas of director, management and individual responsibility
- *Engagement*: Represents the motivational /behavioral aspects of rewards

Key Trends in Compensation

Increasingly companies are setting more challenging objectives – to drive performance enhancement – with more rigor to setting performance hurdles…



Towers Watson Performance Difficulty Scorecard	
Probability of Achievement	**Performance Difficulty**
<20%	Extremely Challenging
20% - 40%	Very Challenging
40% - 60%	Challenging
60% - 80%	Moderately Challenging
>80%	Not Challenging

Presented by:
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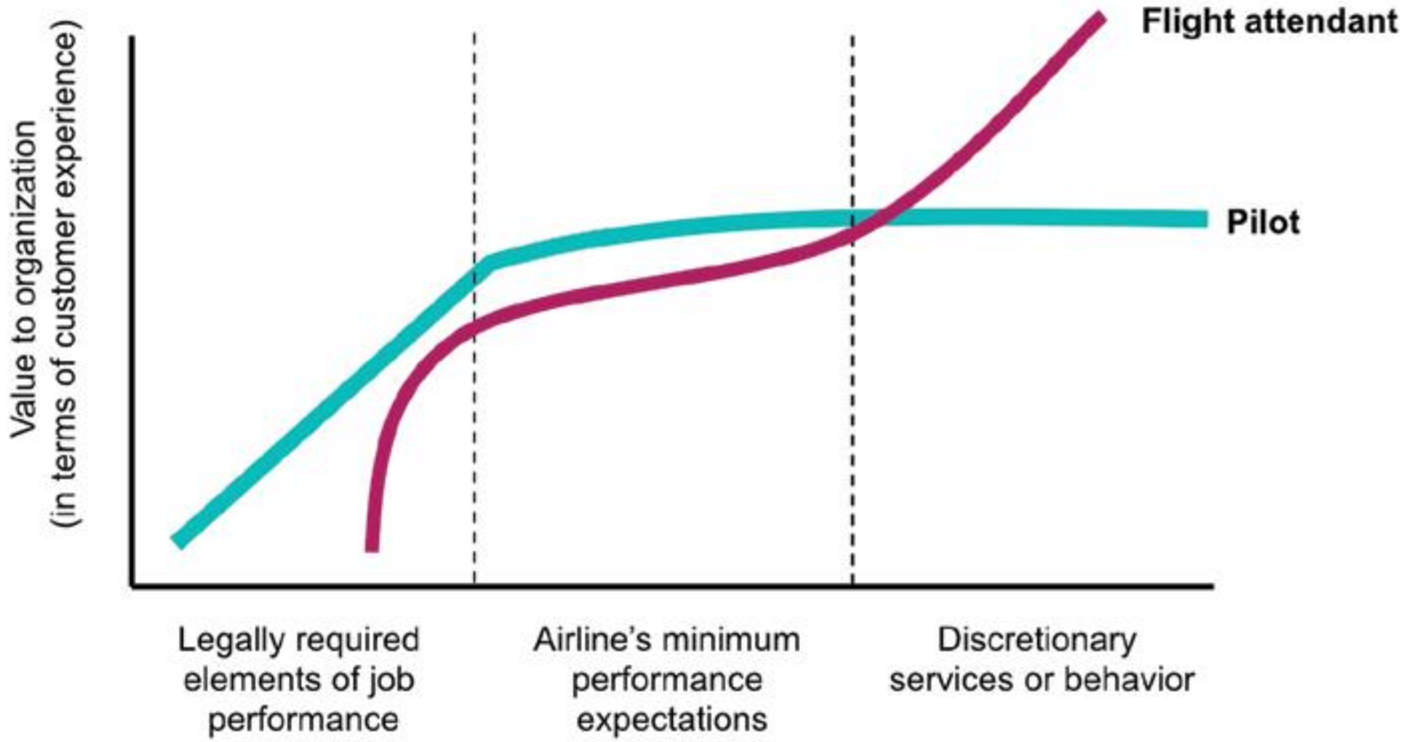
Key Trends in Compensation

…focusing resources where there is incremental return on improved performance



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Key Trends in Compensation

- Workforce pressures – healthcare reform, benefits redesigns, wage pressures, part timers, alternative work arrangements – will dramatically impact traditional pay programs

Key Trends in Compensation

- Moving from a world of cost-cutting and fear to growth, investment and optimism
- Upgrading plans to reflect a strong, professionally managed process
- Increases in base salaries are the same as always – 3.0% (up from 2.8% in 2013) But, the number of people NOT receiving increases is growing

Key Trends in Compensation

- Incentive plan targets continue to increase at the top of the organization
  – 75% to 100% of salary is not usual for the CEO and top executives
  – Companies that eliminated them for non-exempt/exempt employees during the "Great Recession" are NOT re-instituting them
  – More emphasis on business unit performance, and reduction in corporate as primary measure

Key Trends in Compensation

- Sales Incentive Plans are getting A LOT of attention
  - More emphasis on NEW ROLES in sales that are aligned with the sales strategy
  - Increasing emphasis on individual results
  - Revenue growth focused
  - "Lean In" strategies with marketing
  - Selling services, long-term relationships, and solutions are critical to effective sales process

Key Trends in Compensation

- **Long-term incentives for private companies that mirror equity plans of public companies**
  - Get the Executive Compensation "House in order"
  - Linking people to the future value of the firm
  - Impacting those that make a real different to the future of the firm, not top performers
  - Serves to retain, but more importantly balance the total compensation plans

Case Study #1 – Background Context

- Global multi-line retailer
- Varied business lines seeking different workforce demographics
- Like all retailers, chasing profitable growth through new sales channels, e.g., online
- Different business lines in different stages of growth and maturity
- Company has a common compensation and benefits structure across all companies

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Case Study #1 – Background Context

- Common approach to remuneration marginalize the attraction and retention outcomes across all business
- Total remuneration is competitive but the mix of elements is dissimilar to industry norms
- Performance management lacked teeth

Case Study #1 – Background Context

- Example of the disconnect between employer cost and employee perception
  - Top quartile benefits provider, e.g., maintains a defined benefit pension
  - Median payer
  - Lack consensus among the leadership team
  - Conjoint revealed no correlation between program cost and employee appreciation
  - As with much of retail – leadership scored poorly on the principle elements of employee retention
- At the same time, employee dissatisfaction with compensation and benefits was legendary (permeated the fabric of their programs)

Case Study #1 – Key Questions

1. What would be your first focus of change? How would you frame and define program and/or change objectives?

2. How (process) would you design new programs to affect the desired changes? Who would you involve in the process?

3. What rewards (programmatically) would you use to drive the desired outcomes?

Case Study #1 – What we did

Background	Issues	TW Solutions	Results
Global multi-line retailer with large presence in North America undertaking a holistic review of current reward programs to ensure that the overall investment in total rewards is driving the maximum value for the organization. North American employee conjoint survey suggests costlier benefits are not as highly valued by employees as other, less costly benefits. Client attempting to balance preferences in total rewards between a broad demographic of employee.	**The organization needed to:** Develop and define a total rewards philosophy, guiding principles, and three-year roadmap for implementation Gather leadership and employee perspectives on current state of total rewards and desire for future state Determine competitive positioning on total rewards elements, including total direct compensation and benefits using BENVAL analysis; Identify areas where a "re-mix" of current reward spend will increase employee engagement/retention	Conducted interviews with leadership and multiple focus groups; summarized findings and outlined implications for total rewards philosophy Articulated total rewards strategy in partnership with client; determined gaps and requirements for change Tested with employee groups Forced management consensus Assess total rewards positioning; compared market and internal organization compensation and benefits levels	Analysis allowed client to make informed decisions on pay levels and total remuneration mix for employees; brought to light the differences in employee preferences, demographics, and culture across their multiple brands.

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Case Study #1 – What we did

Companies that have adopted an increasingly integrated approach to Total Rewards strategy, design and delivery decisions — supported by an overarching Employee Value Proposition — are:

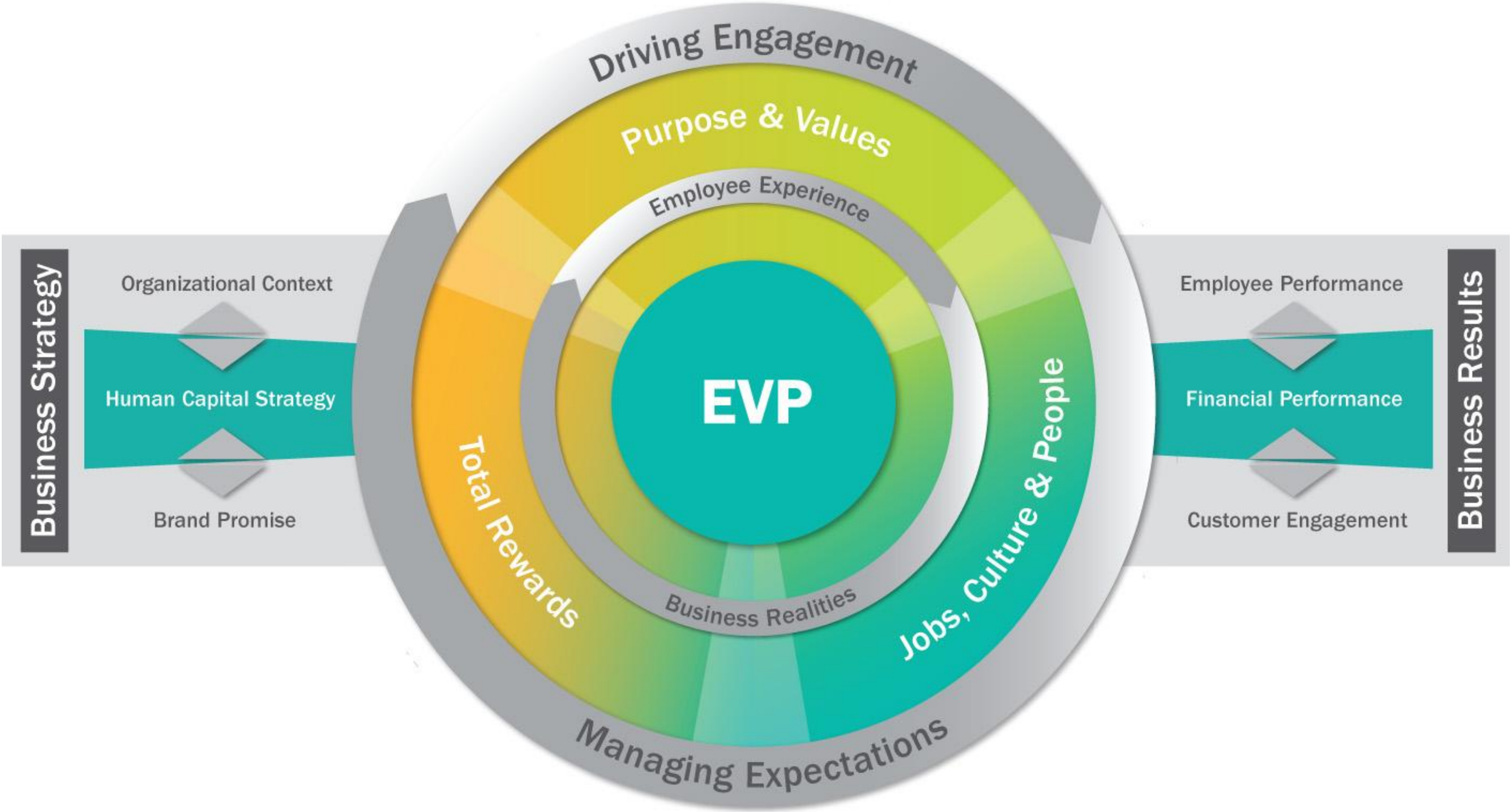
5X

more likely to report their employees are highly engaged

2X

more likely to report achieving financial performance significantly above their peers

Case Study #1 – What we did



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Case Study #2 – Background Context

- Major Architectural Firm – long history
- Home office in Boston – New offices in:
  - Phoenix
  - San Francisco
  - Washington
- Growing industry practices:
  - Healthcare
  - Academic
  - Retail

Case Study #2 – Background Context

- Principals are technical leaders, project managers, and business developers
- Principals market, sell, and manage client engagements, + develop staff, govern the firm.
- Principals become owners over time through participation in equity of the partnership
- Base salary is competitive, but everyone has close to the same amount – little differentiation except for seniority and critical investment hires.

Case Study #2 – Background Context

- **Incentive compensation is based on:**
  - Corporate revenues and profitability: 10%
  - Practice group revenues: 5%
  - Individual sales of new projects: 30%
  - Revenues from projects managed: 25%
  - Profitability of own projects: 25%
  - Personal goals: 5%

Uses a **Performance Scorecard** to manage this.

Incentive plan targets **20% to 40% of salary** depending on the firm's performance (profits).

Case Study #2: Performance Scorecard

Performance Scorecard

Principal's Name: Sample

Target Payout: $ 30,000

Performance Measures		Threshold		Target		Exceptional	Actual Performance		
Payout percent	*Weight*	*50%*	*75%*	*100%*	*125%*	*200%*	*Actual*	*Score*	*Payout*
Total Company Revenues	5%	$ 7,500,000	$ 15,000,000	$ 30,000,000	$ 34,500,000	$ 45,000,000	$ 32,000,000	5.6%	$ 1,667
Total Company Profit Margin	5%	7.5%	8.5%	10.0%	12.0%	15.0%	9.0%	4.2%	$ 1,250
Practice Revenues	5%	$ 2,500,000	$ 5,000,000	$ 10,000,000	$ 11,500,000	$ 15,000,000	$ 6,000,000	4.0%	$ 1,200
Personal New Work Won	30%	$ 500,000	$ 1,000,000	$ 2,000,000	$ 2,300,000	$ 3,000,000	$ 2,500,000	33.8%	$ 10,125
Personal Revenue Managed	25%	$ 375,000	$ 750,000	$ 1,500,000	$ 1,725,000	$ 2,250,000	$ 1,400,000	29.6%	$ 8,875
Personal Project Profit Contributions	25%	$ 62,500	$ 125,000	$ 250,000	$ 287,500	$ 375,000	$ 175,000	23.8%	$ 7,125
Personal Goals	5%	1.0	2.0	3.0	4.0	5.0	3.0	5.0%	$ 1,500
TOTAL PAYOUTS	100%							106%	$ 31,742

Case Study #2 – Current Issues

- **Little rewards for corporate priorities:**
  - Developing the industry practices
  - Supporting new offices with geographic focus

- **Unclear criteria for managing base salaries.**

- **Internal equity is conflicting with external competitiveness.**
  - Certain fields are more valuable than others
  - Have lost a few people to highly specialized firms
  - Corporate roles are valued less because of the profession – Finance, HR, Staff Development, Marketing, the CEO

Case Study #2: Key Questions

1. How would you change the incentive plan to put more emphasis on building practices and/or offices while not losing the focus on personal performance?

2. How would you design the base pay plan to reflect differences in roles and markets? How would you get the roles recognized and valued?

3. What other rewards would you use to drive the desired behaviors of collaboration, contributions and accountability?

Case Study #2: So What Is Happening?

1. **Changed the Scorecard to:**
   - Consolidate corporate measures to one based on revenues.
   - Increase weight on practices for those in practices to 40%
   - Consolidate Work Won and Managed to one measure
   - For those engaged in collaborative sales with other offices (only), double counted sales credits for work won.
2. **Increased base salaries for those that took on additional responsibilities; no change for others.**
   - Develop new offices
   - Lead a practice area
   - Responsible for staff recruitment and development

Case Study #2: So What Is Happening?

Principal's Name: Sample

Target Payout: $ 30,000

Performance Measures		Threshold		Target		Exceptional	Actual Performance		
Payout percent	*Weight*	*50%*	*75%*	*100%*	*125%*	*200%*	*Actual*	*Score*	*Payout*
Total Company Revenues	10%	$ 7,500,000	$ 15,000,000	$ 30,000,000	$ 34,500,000	$ 45,000,000	$ 30,000,000	10.0%	$ 3,000
Practice Revenues	40%	$ 2,500,000	$ 5,000,000	$ 10,000,000	$ 11,500,000	$ 15,000,000	$ 10,000,000	40.0%	$ 12,000
Personal New Work Won or Managed	20%	$ 500,000	$ 1,000,000	$ 2,000,000	$ 2,300,000	$ 3,000,000	$ 2,000,000	20.0%	$ 6,000
Personal Project Profit Contributions	20%	$ 62,500	$ 125,000	$ 250,000	$ 287,500	$ 375,000	$ 250,000	20.0%	$ 6,000
Personal Goals	10%	1.0	2.0	3.0	4.0	5.0	3.0	10.0%	$ 3,000
TOTAL PAYOUTS	100%							100%	$ 30,000