

2017 Compensation Management Trends, Tools and Techniques

May 9, 2017

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Wilson
GroupTM
Concord, MA

- I. Forces that are Reshaping the Landscape**
- II. Implications on People Management Practices**
- III. Trends in Total Compensation and Rewards**

I. Forces that are reshaping the landscape

Mega-Trends

1. **People are living longer, and Millennials are becoming a larger share of the work force.**
2. **Technology is transforming everything – Disruption!**
3. **The economy is “uncertain.”**
4. **Transparency is creating accountability.**
5. **Competitive advantage is being defined by both speed and customer experience.**

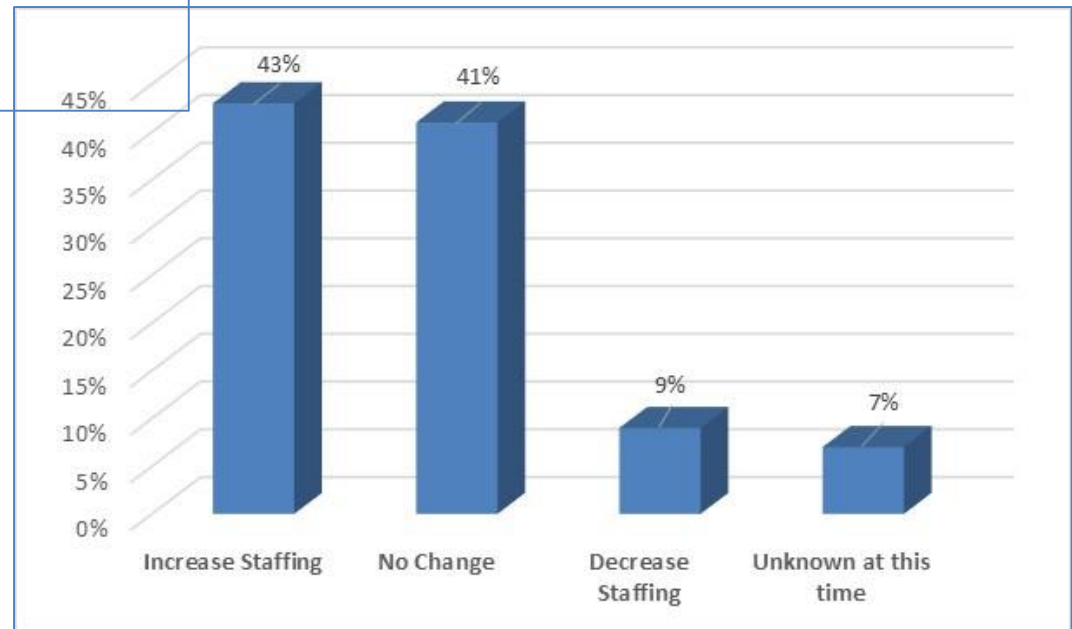
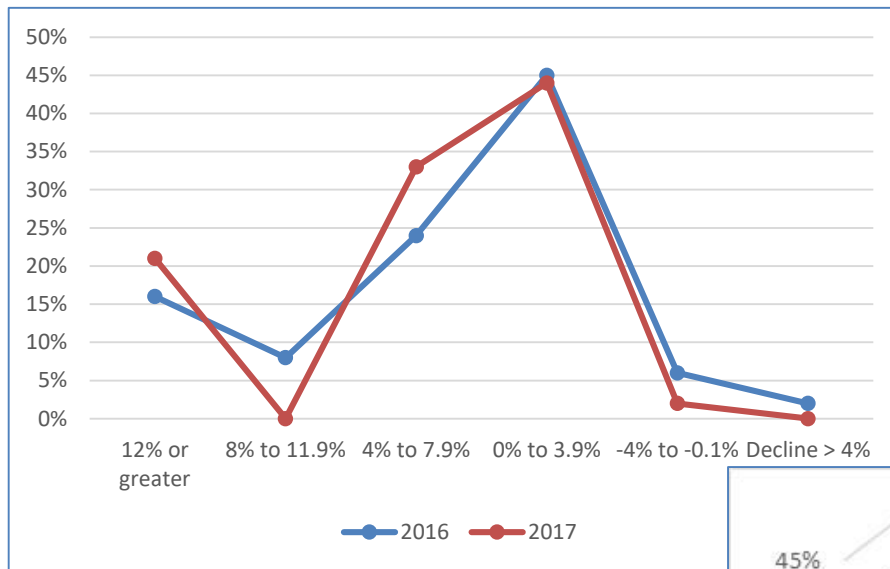
I. Forces that are reshaping the landscape

Economic Growth Projections

THE CONFERENCE BOARD ECONOMIC OUTLOOK, 2017-2018											
Percentage Change, Seasonally Adjusted Annual Rates											
	2016	2017		2017		2018			2016	2017	2018
	IV Q*	I Q	II Q	1sthalf	2ndhalf	1sthalf	2ndhalf		annual	annual	annual
Real GDP	2.1	0.9	2.9	1.9	2.3	2.4	2		1.6	2.1	2.3
Real Consumer Spending	3.5	0.7	2.8	1.7	2.6	2.5	2.3		2.7	2.5	2.5
Residential Investment	9.6	10.5	5.4	7.9	5	4	3.5		4.9	5.2	4.3
Real Capital Spending	0.9	6.8	3.8	5.3	3.4	4.1	2.6		-0.5	3	3.6
Exports	-4.5	7.9	2	5	1.8	1.6	1.5		0.4	3.1	1.7

I. Forces that are reshaping the landscape

Revenue Growth Projections and Hiring Plans for 2017

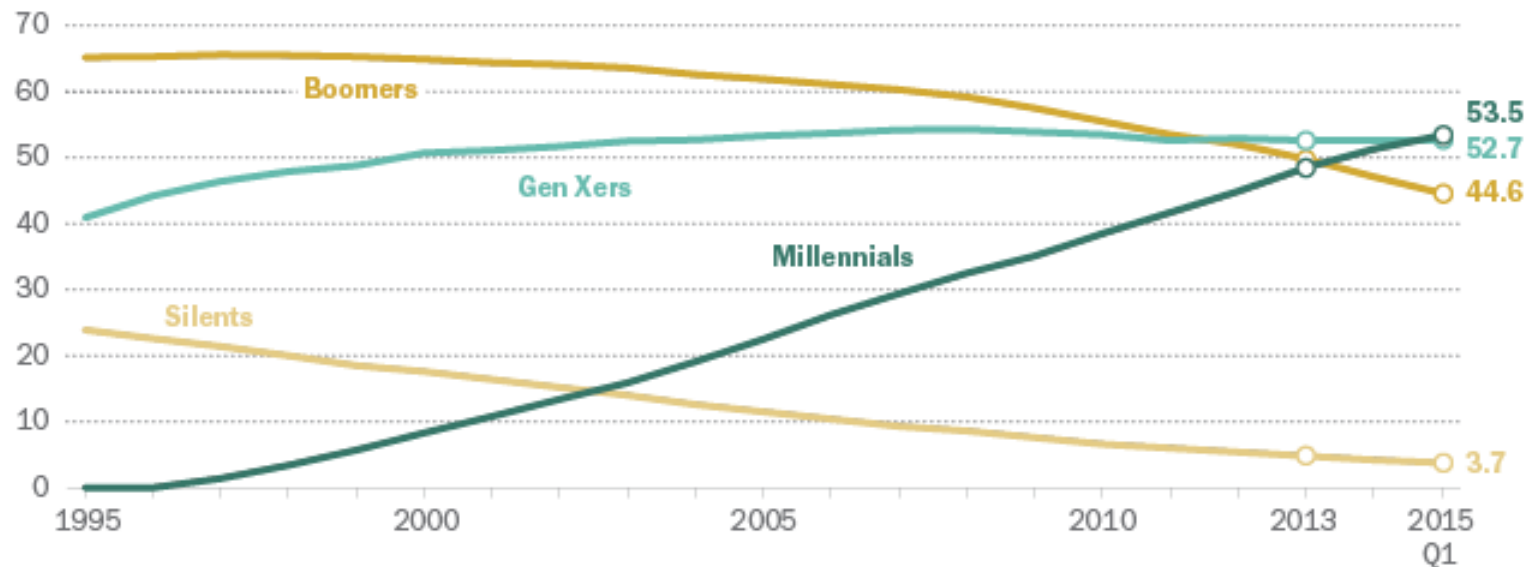


I. Forces that are reshaping the landscape

Changing Nature of the Workforce

U.S. Labor Force by Generation, 1995-2015

In millions



Note: Annual averages plotted 1995-2014. For 2015 the first quarter average of 2015 is shown. Due to data limitations, Silent generation is overestimated from 2008-2015.

Source: Pew Research Center tabulations of monthly 1995-2015 Current Population Surveys, Integrated Public Use Microdata Series (IPUMS)

PEW RESEARCH CENTER

I. Forces that are reshaping the landscape

Results of 2017 HR Leadership Survey*

1. Top priorities for HR for 2017 are focused on the workplace capabilities:

- Workforce health and wellness
- Employee engagement
- Recruiting top talent
- Retaining top talent
- HR strategic alignment with the business

2. Top challenges were more related to managing talent than to costs.

- Cross-generational issues (Millennials vs X-ers vs Boomers)
- Turnover and the cost/impact on the business – it is more expensive than you realize
- Employer Brand – being the “Best Place to Work”
- Compensation – how to make this meaningful to people
- Greater workforce flexibility and transparency

3. Technology/Social media are critical to improving the talent advantage.

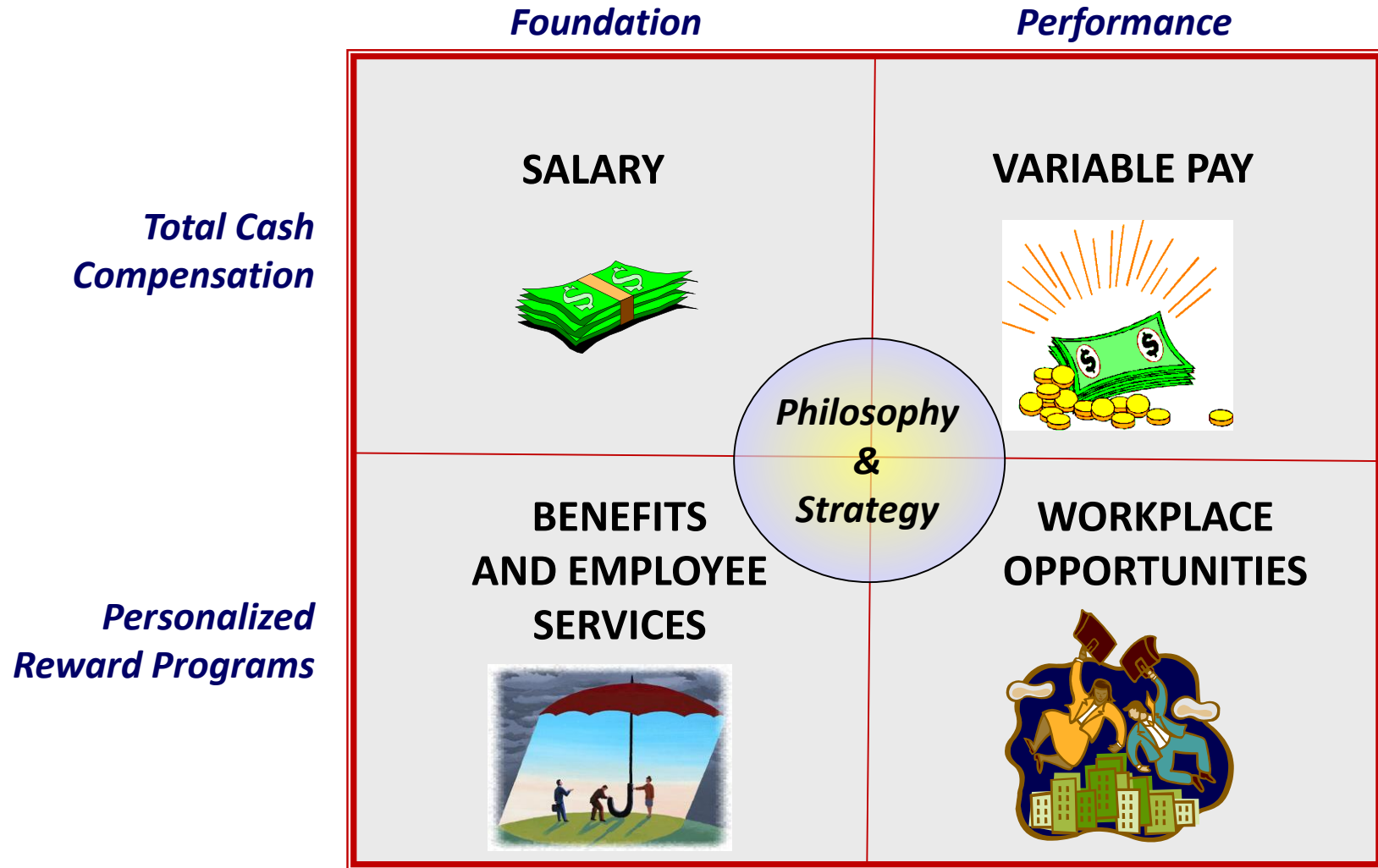
- Technology generates data on which to base decisions
- Technology enables more effective employee engagement and reward/recognition
- HRIS/HCM improves productivity of managers and HR process
- Technology expands recruiting capabilities
- Technology enables us to create career development programs and communicate values

II. Implications on People Management Practices

1. **People want to stay in the workforce longer and organizations need to deal with age diversity as well.** Keeping people healthy proves to be a key to increasing productivity and retention.
2. **Big Data and HR Analytics** are creating better information on the impact of people practices on the organization's profitability and who is doing what.
3. **Technology is enabling people** to become more connected, have more information, improve interactions and create a sense of community.
4. **Pay won't be a secret any more.** As pay becomes more transparent, internal equity and external competitiveness will become more prominent.
5. **Companies realize** that "HOW" people are paid is more important than "HOW MUCH" they are paid.

II. Implications on People Management Practices

A Strategic View: Corporate Philosophy and Strategy for Total Rewards



III. Trends in Total Compensation and Rewards

Merit Pay Increases – 2016 and Plans for 2017

- Merit pay budget increases are the same as they have been for years.
- The number of people NOT receiving pay increases is declining.
- The struggle for how to reward high performers continues.

	2016 Merit Pay Increases	% NOT Receiving Pay Increase		2017 Planned Merit Pay Increases	% NOT Receiving Pay Increase
25 th Percentile	2.5%	1.0%		2.9%	0.0%
50 th Percentile	3.0%	3.0%		3.0%	2.5%
75 th Percentile	3.0%	10.5%		3.0%	5.8%
Average	2.9%	11.4%		3.0%	6.4%

HINT: Some innovative companies are setting aside ½% - 1% of merit budget to award top performers, through “topping off” the merit pay or giving special “market adjustments.”

III. Trends in Total Compensation and Rewards

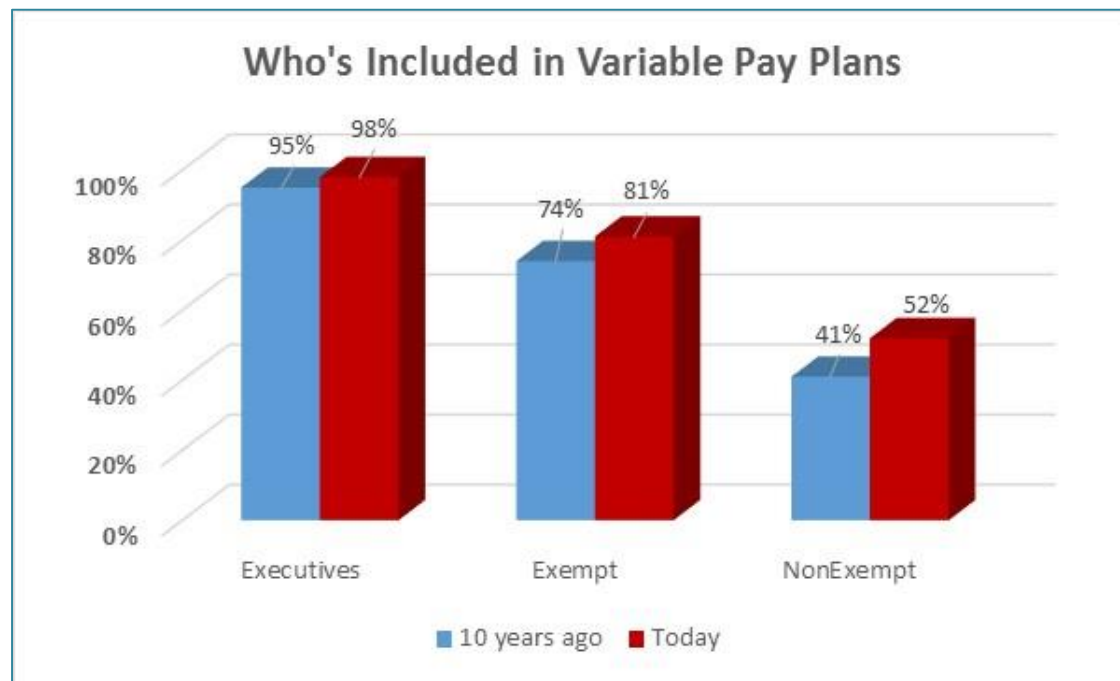
Merit Pay Increases – Policies and practices for how increases are made

1. Companies are eliminating “ratings” and building in more conversation.
2. Feedback is frequent and specific, as opposed to general and historical.
3. Actions to improve performance are expected NOW - not over time.
4. Performance reviews are focused on career aspiration, opportunities and development. Higher pay is achieved more through promotions than merit pay increases.
5. Managers treat pay decisions as “business” decisions.
 - External competitiveness (or where in the salary range) and risk for retention
 - Internal equity (where in relation to others, especially gender based)
 - Level performance based on “HOW” the work was done (the bonus is for “WHAT”)

III. Trends in Total Compensation and Rewards

Variable Pay Programs

- Most people are now on some form of variable pay program.
- Most programs reflect a “portfolio” of performance – corporate profitability, growth, business unit and individual performance.
- Having a plan does not give you a competitive advantage. How it is structured and its history of performance and payouts do!



Source: Hewitt Salary Increase Survey

III. Trends in Total Compensation and Rewards

Variable Pay Programs – Weighting by Types of Performance Measures

	Corporate	Business Unit Plans	Individual	Sales	Discretionary
Top Executives	96%	21%	42%	0%	8%
Directors/Managers	68%	32%	40%	4%	24%
Supervisors	55%	9%	32%	5%	32%
Professionals	57%	9%	35%	0%	30%
Sales Professionals	14%	0%	9%	91%	14%
Admin & Operational	35%	8%	23%	0%	31%

Source: Wilson Group Survey Report: "Changes in Variable Pay Plans "

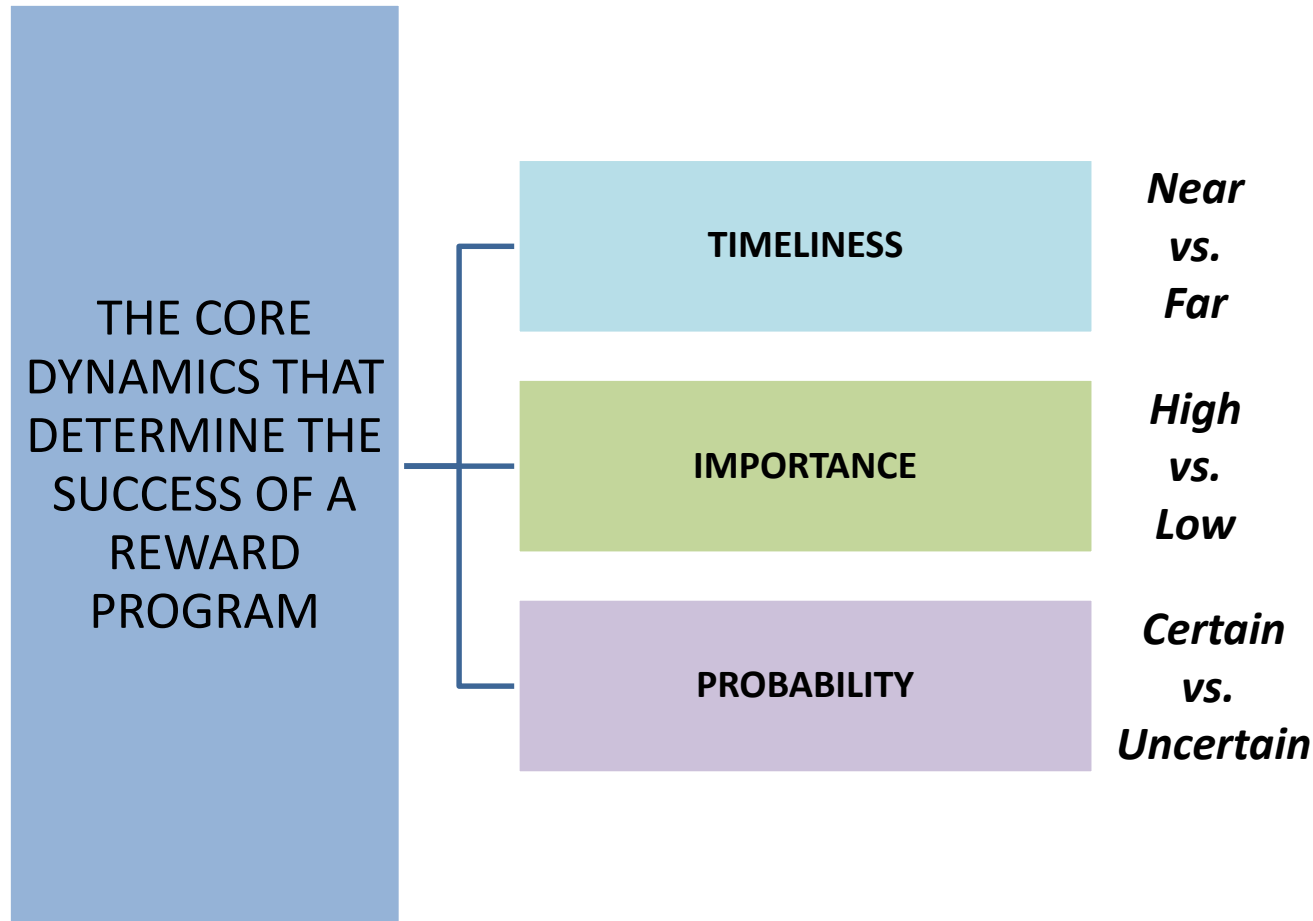
III. Trends in Total Compensation and Rewards

Variable Pay Programs – Behavioral Economics that Impact their Effectiveness

1. **People often undervalue** the meaning of small awards that have high certainty of receipt and **overvalue** awards that are large but have a low probability of receipt.
2. **Risk or loss aversion** is encouraged when people believe the chance of NOT receiving something wanted is more important than the amount they would have realized.
3. **When you integrate variable cash plans with recognition programs** – pay for the results AND reinforce “how” you get there – you create the most powerful program for influencing desired behaviors.
4. **Culture is increasingly being understood** as the result of what and how people are rewarded and punished.
5. **The individual** determines the “true value” of compensation or a reward. They measure this based on their “Return on Effort.”

III. Trends in Total Compensation and Rewards

What really makes a reward program work:



***“Measures give rewards purpose,
and Rewards give measures meaning.”***

-- Thomas B. Wilson

Rewards that Drive High Performance (AMACOM)

Overview of Wilson Group

Our Mission: *“To help our clients assess, develop and implement performance systems and total compensation plans that translate strategy and values into action.”*

Our Primary Services:

- Sales effectiveness and total rewards
- Executive total compensation
- Board of directors governance structure and compensation
- Employee total compensation and rewards
- Special studies in market trends and practices

Key Differentiators:

- **Our expertise --** Work with highly seasoned, experienced professionals
- **Our approach --** We engage our clients in a collaborative, open communication fashion
- **More cost effective --** Highly customized, value added to address just what the client needs
- **Innovative insights --** Simplify complex data into easy to understand information and action plans

Founded: 1994, Concord, MA

Clients and Markets:

We have worked with over 150 clients. They include:

- Technology – iRobot, IANS, Constant Contact, Visual IQ
- Manufacturing – MorphoTrust, Coopers-Atkins, IMTRA, HTP
- Professional services – Copyright Clearance Center, Care.com, Shepley Bulfinch, ZGF Architects
- Healthcare – Dana Farber Cancer Institute, Franciscan Children’s, DentaQuest
- Financial services – Quincy Mutual, Boston Mutual, Commonwealth Financial
- Consumer products/Retail – Randolph Eyewear, Aubuchon, ECCO, Gemline, Stavis Seafood, Roche Brothers

Overview of Wilson Group

Wilson Group Leadership Team:

- Thomas B. Wilson, President
- Susan Malanowski, Principal
- Rhonda Farrington, Principal
- Plus a team of 5 other experienced professionals
- Our Network of additional specialized resources:
 - Marsh & McLennan Agency - New England** (known locally as Bostonian Group) – Executive and Employee Benefits
 - Compensation Insights** (a national network of boutique peer compensation consulting firms)
 - Thomas E. Shea & Associates** – Executive and Board Compensation
 - Independent Stock Plan Advisors** – Global Equity Compensation

Thought Leadership:

- Survey of Trends in Compensation – 2012, 2013, 2014, 2015, 2016
- Survey of Sales Compensation Practices – 2011, 2012, 2013, 2014
- “Goal Setting: What Has Gone Wrong and What Can Be Done” – published WorldatWork Journal, Fall, 2011
- “Changes for Challenging Times – Survey Report on Economic Challenges and Company Responses”, 2009
- Innovative Reward Systems for the Changing Workplace (McGraw-Hill)
- Rewards that Drive High Performance (AMACOM)
- Published over 30 articles and book chapters
- Presented at over 100 leading regional and national conferences

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