

Session Presenter



Karen DiGioia

Senior Associate,
Mosteller &
Associates

Pay for Performance:

—
Show You the Money?
First Show Us Results





Agenda

Pay for Performance

- What is it?
- Why does it matter?
- How is it usually implemented?
- Why is it so challenging?
- What you need to be successful?



Do you have a pay
for performance
philosophy?



How is it being
implemented and
is it working?



Pay for Performance – What is it?

*Differentiation
of Pay Based
Upon
Performance*

- *Productivity*
- *Results*



Pay for Performance

You pay for what you get...
(and you get what you pay for)



Pay for Performance – Why Does it Matter?



Impact of Pay for Performance



Increased engagement



Improved retention of highest performers



Increased motivation



Improved management skills



Better communication

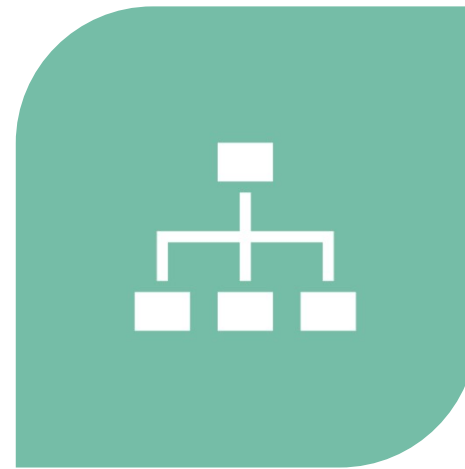


Low performers either step it up or leave

Impact of Pay for Performance



MAKES BEST USE OF
FINANCIAL RESOURCES



IMPROVES PERFORMANCE OF
THE ORGANIZATION

Implementing Pay for Performance

Merit Pay Increase

Variable Pay Programs

- Discretionary bonuses
 - Spot bonuses
 - Retention bonuses
- Nondiscretionary bonuses
 - Company-wide bonuses
 - Team bonuses
 - Individual bonuses



Merit Pay Increases – “Merit Matrix”

Relatively common vehicle for
implementing PFP

Frequently “watered down” in
actual application



Merit Pay Matrix – Moderate Approach

Performance Rating	Bottom of Salary Range	Middle of Salary Range	Top of Salary Range
Consistently Exceeds Expectations	6.0%	5.0%	4.0%
Exceeds Expectations	5.0%	4.0%	3.0%
Meets Expectations	3.0%	2.0%	1.5%
Does Not Meet Expectations	0%	0%	0%



Merit Pay Matrix – More Aggressive Approach

Performance Rating	Bottom of Salary Range	Middle of Salary Range	Top of Salary Range
Consistently Exceeds Expectations	10.0%	9.0%	8.0%
Exceeds Expectations	6.0%	5.0%	4.0%
Meets Expectations	1.0%	1.0%	0%
Does Not Meet Expectations	0%	0%	0%



Merit Pay Matrix – What is Often Looks Like

Performance Rating	Bottom of Salary Range	Middle of Salary Range	Top of Salary Range
Consistently Exceeds Expectations	3.0%	3.0%	3.0%
Exceeds Expectations	3.0%	3.0%	3.0%
Meets Expectations	3.0%	3.0%	3.0%
Does Not Meet Expectations	3.0%	3.0%	3.0%



Typical Variable Pay Programs



Discretionary bonuses

- Spot bonuses
- Retention bonuses



Nondiscretionary bonuses

- Company-wide bonuses
- Team bonuses
- Individual bonuses



More “radical” approaches

Eliminate merit

- Pay market-competitive base
- Adjust base when market-appropriate
- Reward through variable pay

“Shake up” the merit pay cycle

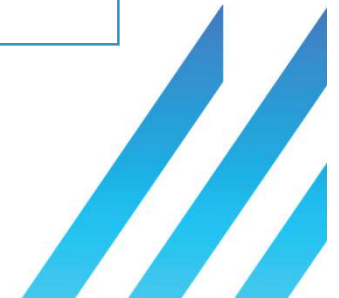
- Early career and high performers
 - Multiple base adjustments each year
- Established career
 - Market adjustments when appropriate
 - Lean heavily on variable pay to reward performance



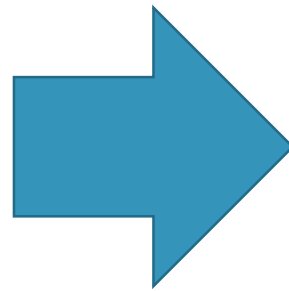
Pay Differentiation and Pay Equity

Valid reasons for differences in the amount you pay employees in the same or highly similar roles:

- Differences in performance
- Different levels of relevant experience in the role (in combination with performance)
- Specialized relevant skills
- Different levels of relevant education
- *Reasons that are NOT OK for differentiation:*
 - Any protected class including gender, race, age, religion, national origin



The Other Side of the Equation



PAY

PERFORMANCE

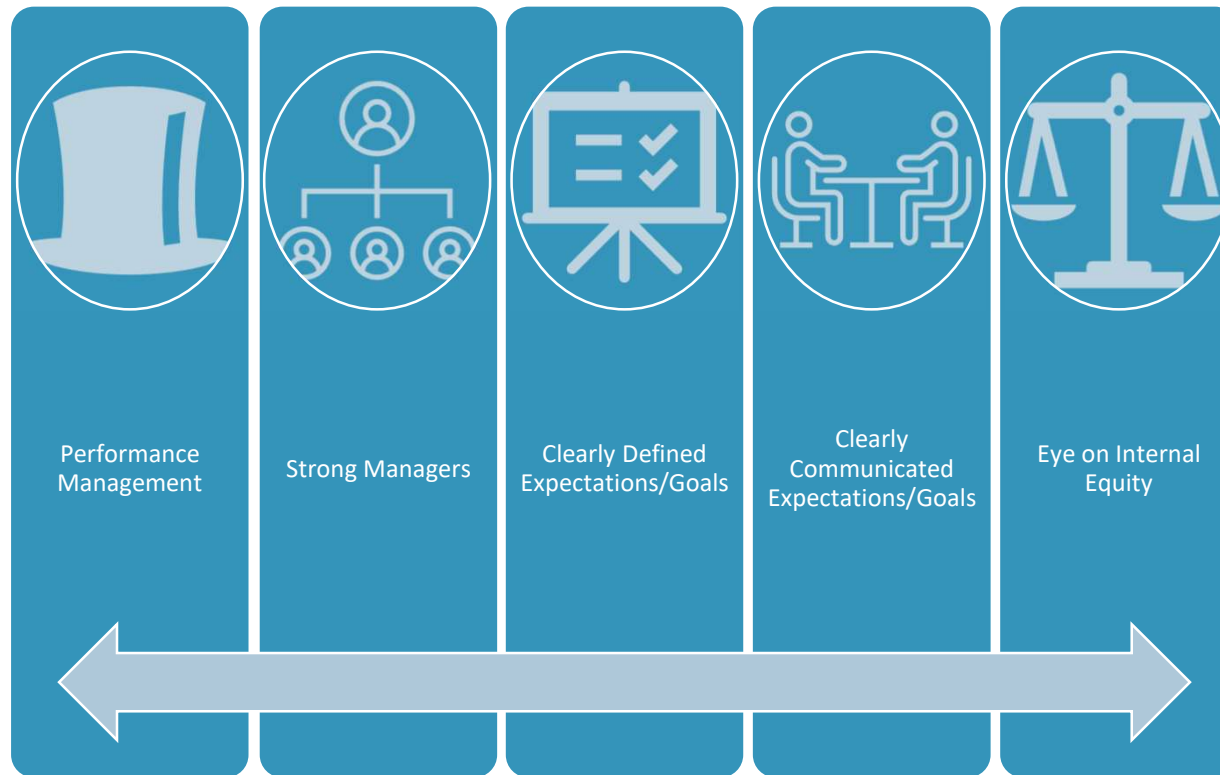




A pay for performance compensation program requires, at its base, a strong performance management program

- Manage employee performance to:
 - Recognize strengths and accomplishments
 - Address opportunities for improvement
- Basis upon which to make (and if ever necessary, defend) salary differences between employees
- Ensure an equitable and appropriate treatment of employees



What Do You Need to Make Pay for Performance Work?



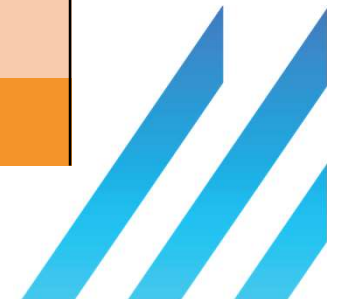


Salary increase process

- Allocate dollars to employees in a manner that recognizes different levels of performances
- Reward performance
 - Not:
 - Tenure alone
 - The most vocal
 - Presence/hours without results
- Informal ranking of employees



	<i>The Creature from the Black Lagoon</i>				
	<i>Frankenstein</i>	<i>Morticia Addams</i>	<i>The Creature from the Black Lagoon</i>	<i>Dracula</i>	<i>Elvira, Mistress of the Dark</i>
	Branch Manager	Branch Manager	Branch Manager	Branch Manager	Branch Manager
Midpoint	\$75,000				
Salary	\$85,000	\$60,000	\$80,000	\$90,000	\$65,000
Comparatio	113.3%	80.0%	106.7%	120.0%	86.7%
Education	Bachelors	Bachelors	Masters	Bachelors	Masters
Experience with current org	5 yrs	2 yrs	10 yrs	5 yrs	2 yrs
Other relevant experience	3 yrs	none	none	1 yr	2 yrs
Special skills	Up-to-date on newer technology	Up-to-date on newer technology	Technical knowledge is a bit dated	Up-to-date on newer technology	No interest in updating knowledge
Other skills		Strong leadership potential	Significant company knowledge	Excellent at sales	
Performance rating	Exceeds Expectations	Consistently exceeds	Meets expectations	Exceeds Expectations	Does not meet
Other	Just bought a new house.	Accomplishes in 8 hours what others do in 10	Used to be a "exceeds expectations"	Tends to complain - compensation, career opportunity, etc...	Works long hours
How Many Candies do you invest?					
Additional action, if any					





Managers need to deliver meaningful messages about performance and compensation



Performance Management is an ongoing conversation, *not* a once and done:

Reinforce positive behaviors:

- Positive feedback
- Celebrating successes
- Use of spot bonuses

Provide constructive feedback on behaviors that should be improved through:

- Private 1:1 conversation

Performance Management

- Improves the organization's ability to attract and retain
- Creates larger pool of promotable employees
- Increases the effectiveness and flexibility of employees
- Improves employee engagement
- Saves money and improves performance
- Holding honest conversations builds trust
 - Communication should be a "two-way" street"

Difficult Conversations Role Play - #1

- Employee: Jamie (Manager of Operations)
 - Performance Rating: Meets Expectations
 - Compa-ratio: 115% (15% above midpoint/market)
-
- Jamie has been employed with Vandalay Industries for more than 20 years. Jamie loves the company, the job, coworkers, and the flexibility the company provides.
-
- Jamie meets the required skills, knowledge and experience for the role and was rated a “meets expectations.” Jamie has been in the current role for 10 years.
-
- During a meeting with the manager (you), Jamie asked for a 15% base pay increase in recognition of 20 years of service. Jamie asserted that service, contributions and loyalty to the company should be taken into consideration when reviewing Jamie’s salary increase.
-
- As Jamie’s manager, how would you handle the situation? What are the areas you would focus on when speaking with Jamie?

Difficult Conversations Role Play - #2

- Employee 1: Jordan (Marketing Specialist)
- Years of Service: 5 years
- Performance Rating: Usually Meets Expectations
- Compa-ratio: 90% (10% below midpoint/market)
- Education/Other skills: MBA

- Employee 2: Alex (Marketing Specialist)
- Year of Service: 1 year (with 5 years relevant experience elsewhere)
- Performance Rating: Consistently Exceeds Expectations
- Compa-ratio: 105% (5% above midpoint/market)
- Education/Other skills: Google analytics, marketing data analysis (hot skills)

- You manage a team of Marketing Specialists that include Jordan and Alex. Jordan has been with the organization for 5 years while Alex has been there for 1 year. Both are in the same role.

- While Jordan and Alex were having lunch, their conversation turned toward compensation and Alex openly shared salary information.

- Jordan was upset to find out that Alex is paid significantly more and wants to talk with you to demand a salary increase. How would you handle the situation? What are the areas that you would focus on when speaking with Jordan?

Difficult Conversations Role Play - #3

- Employee 1: Chris
 - Year of Service: 3 years
 - Performance Rating: Does Not Meets (does good work when there but excessive absences)
 - Compensation: 90% compa-ratio (10% below midpoint/market)
-
- You are Chris's manager. Chris has been with Dunder Mifflin for 3 years. During the first two years, Chris was an "Exceeds Standards" employee. Since that time, Chris has had significant issues with attendance. Chris is a good worker when present but is often late or absent from work. This puts significant pressure on coworkers who must pick up the slack and fill in.
 - As Chris's manager, you must have a conversation with Chris regarding attendance and to deliver the message that this year's performance rating is "Does Not Meet Standards." You must also let Chris know that, with this rating, no annual salary increase will be awarded.
 - How do you handle this conversation? What areas would you focus on when speaking with Chris?

Thank You!

Karen DiGioia
(610) 779-3870
Karen@mostellerhr.com
www.mostellerhr.com

