

COMPENSATION OVERVIEW

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Our discussion

- Compensation Matters
- Key Concepts to Remember
- Compensation Systems
- Different Approaches

Compensation matters

- Compensation practices impact:
 - *Individuals*: how we define ourselves, how satisfied we are, how motivated we are
 - *Groups*: how fair and equitable the practices are considered, how well we function as a team
 - *Organization*: how productive our organization is, how well we recruit, attract, and maximize our investment

Can Not Afford to Get It Wrong



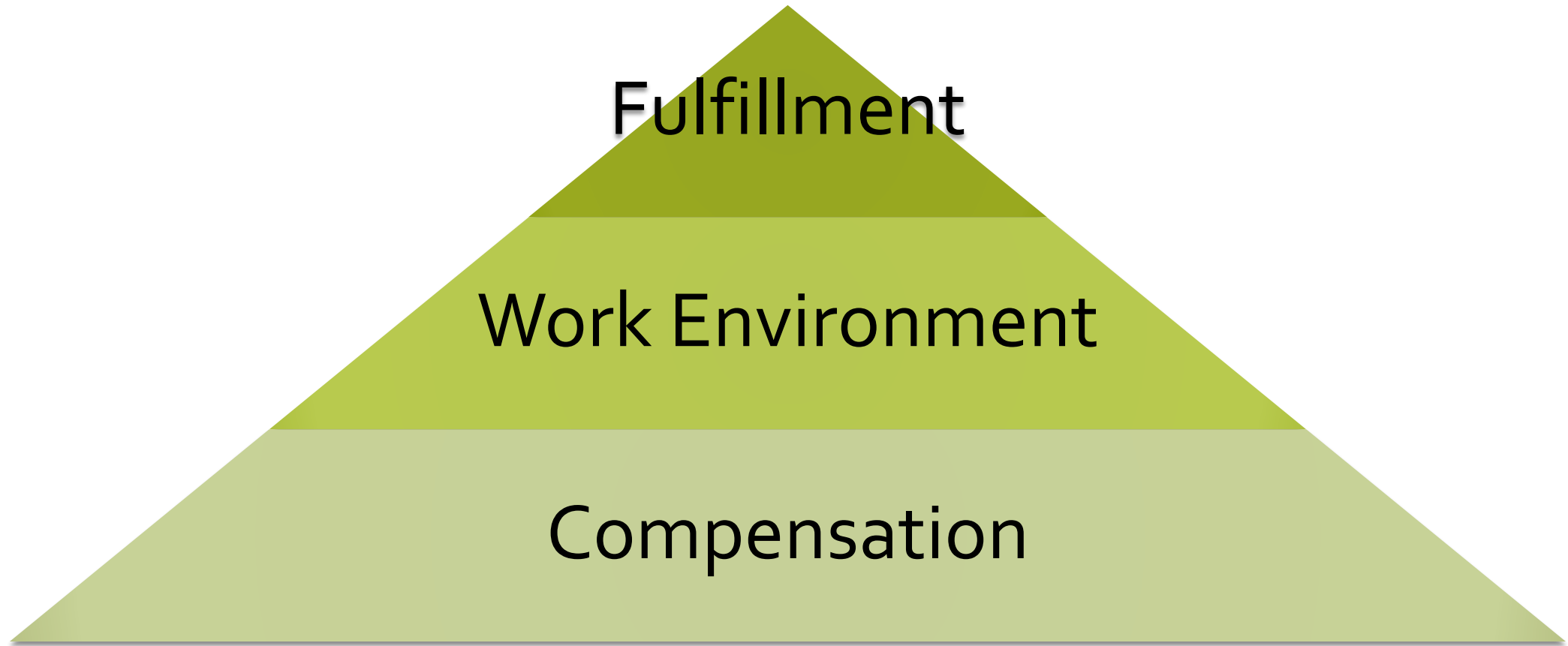
Alignment instead of conflict



Organizational Need



Individual Needs



What Does a System Give Us?

- A successful compensation system that allows us to *define the value* of work.
 - Ensures internal equity
 - Ensures external equity
- Goals:
 - Equity/Fairness
 - Competitiveness
 - Motivation/Reward

Valuing

- Compensation is about “valuing” characteristics, behaviors, or outcomes
- Compensation is messaging for what is acceptable and what is desired
- Compensation is one of the most tangible rewards
- Compensation should align with business objectives since it is cumulative

Six Approaches



Valuing Market

- Value = based on desired market position (position to peers)
 - Aligns position with a certain percentile or placement
 - Communicates positioning as recruitment and retention tool
 - Must account for change over career in value
- Result: open range plans, fixed market-based plans

Valuing Time

- Value = Time in job (Experience)
 - Specific tradeoff: fix the value of rewards
 - Range movement critical to ensure high value
 - Each year of experience has a specific value
- Result: step plans, open ranges with fixed COLAs

Valuing Skill

- Value = Full Competence (Skill and Ability)
 - Gain skills until reaching point of performing at an average level (know, can, and will)
 - Some might be purely skill based
 - Competency implies the ability to teach others
 - Market value equals full competence
- Result: midpoint indexed plans, market control point plans

Valuing Results

- Value = Performance (Production/Resources)
 - Move away from specific formula to outcome
 - More concern with technology, analytical ability, and adaptability
 - Attempts to assess outcomes as well as motivation
- Result: broad market plans, performance-based plans

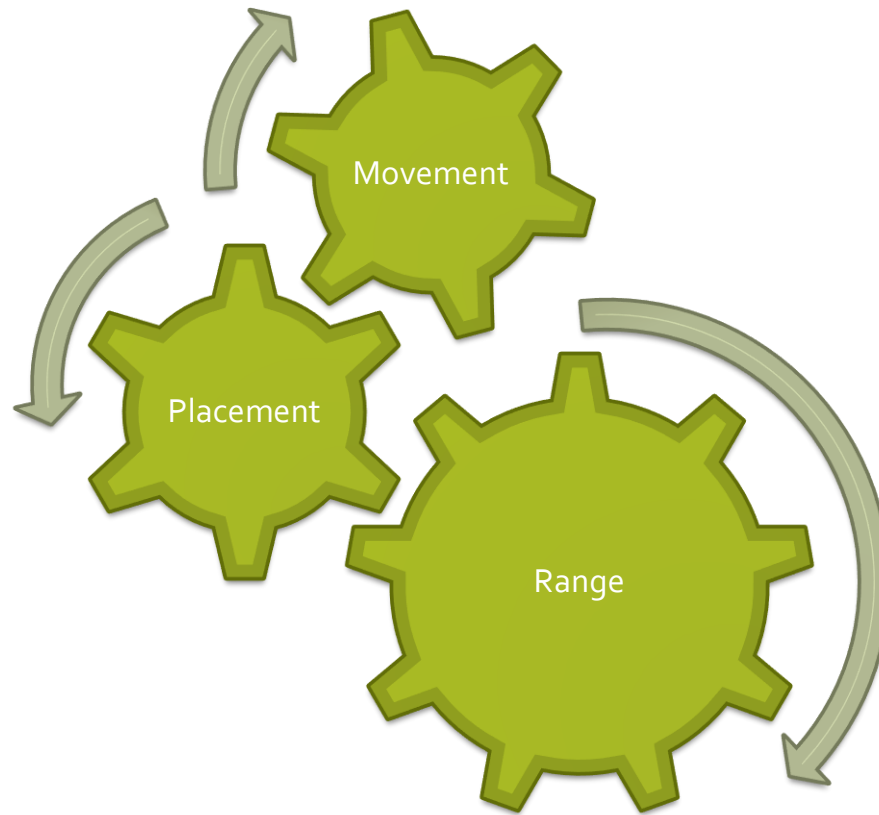
Valuing Hybrid

- Value = Multiple factors
 - Combine factors most important to the organization
 - Adds flexibility since emphasis can be changed
 - Allows for difference emphasis at different career points
- Result: zone plans, hybrid plans (steps and open range)

Valuing Flexibility

- Value = Management Flexibility
 - Lacks a real “method to the madness”
 - Maximizes flexibility with hiring and advancement
 - Creates issues with internal equity
- Result: non-formal plans, practice diverging from the plan

Elements of all systems



Conclusion

- What does your organization really want?
- What is your business strategy?
- What is your human capital strategy?
- How do you position yourself vs the market?
- How do you want to organize work?