Principles In Effective Incentive Design

Executive, broad-based, and sales force employees

September 2015
Part of The Segal Group

One of the 10 largest benefits consulting firms in the US

Five practices dedicated to improving human capital effectiveness:
- Sales Effectiveness
- Performance and Rewards
- Organization and Talent
- Retirement
- Health
Incentive Design Principles

Special Considerations for Sales Compensation

Administration & Communication
Why are incentive measures so important?

- Communicate key priorities and provide focus
  - By highlighting the most critical measures relative to:
    - Mission, vision
    - Strategy
    - Key initiatives

- Encourage collaboration, where appropriate
  - By articulating shared goals

- Mobilize individuals and functions
  - By clarifying key accountabilities
## Incentive Design Framework
### Design Elements

<table>
<thead>
<tr>
<th>1</th>
<th>Purpose and Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>• What is the <strong>purpose</strong> of the plan (i.e., How should the plan support business performance)?</td>
<td></td>
</tr>
<tr>
<td>• What is the <strong>focus</strong> of the plan—individual, team?</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2</th>
<th>Participation and Eligibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>• What criteria must be met to participate in the plan?</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Business Impact</strong>: Which positions and workforce segments have an impact on company performance?</td>
</tr>
<tr>
<td></td>
<td><strong>Internal Equity</strong>: Which position should be included from an internal equity perspective?</td>
</tr>
<tr>
<td></td>
<td><strong>Market Practice</strong>: Which positions are typically incentive eligible among peer companies?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>3</th>
<th>Measures and Performance Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>• What is the <strong>process</strong> for selecting measures?</td>
<td></td>
</tr>
<tr>
<td>• What <strong>criteria</strong> are used to measure performance? What is the <strong>goal setting</strong> process?</td>
<td></td>
</tr>
</tbody>
</table>
Incentive Design Framework

**Design Elements continued**

<table>
<thead>
<tr>
<th>4</th>
<th>Funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>• What is the best <strong>funding approach</strong>—budgeted, self-funded, discretionary, blended?</td>
<td></td>
</tr>
<tr>
<td>• Are funding guidelines aligned with the <strong>economics of the business</strong>?</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>5</th>
<th>Payout Mechanics</th>
</tr>
</thead>
<tbody>
<tr>
<td>• What is the target <strong>award opportunity</strong>? <strong>Leverage</strong>? How is the award calculated?</td>
<td></td>
</tr>
<tr>
<td>• What should be the <strong>frequency</strong> of awards?</td>
<td></td>
</tr>
<tr>
<td>• How should payments be made—cash, deferred cash, stock?</td>
<td></td>
</tr>
<tr>
<td>• What testing / cost <strong>modeling</strong> will be done before implementation</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>6</th>
<th>Communication</th>
</tr>
</thead>
<tbody>
<tr>
<td>• How will potential participants learn about and buy in to the program?</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>7</th>
<th>Governance and Administration</th>
</tr>
</thead>
<tbody>
<tr>
<td>• What is the <strong>form of review</strong>? How is the performance evaluated (managerial, HR, forced, etc.)?</td>
<td></td>
</tr>
<tr>
<td>• How are award decisions <strong>reviewed and calibrated</strong> across the division/organization?</td>
<td></td>
</tr>
<tr>
<td>• Who will <strong>monitor</strong> the compensation / risk profile of the plan?</td>
<td></td>
</tr>
<tr>
<td>• Who will <strong>manage</strong> the day-to-day aspects of the plan?</td>
<td></td>
</tr>
<tr>
<td>• What happens if an employee is <strong>terminated, transferred or goes on disability</strong>?</td>
<td></td>
</tr>
</tbody>
</table>
Key Inputs to Incentive Plan Design

KEY INPUTS TO INCENTIVE DESIGN

- Business Strategy and Annual Goals
- Employment Value Exchange
- Market Trends and Best Practices

Sustainable Incentive Design Solutions
## Remember the Context: A Distinct EVP May Emphasize Areas Other Than Compensation

<table>
<thead>
<tr>
<th>EVP Example</th>
<th>Company 1</th>
<th>Company 2</th>
<th>Company 3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Affiliation</strong></td>
<td>Wealth Creation</td>
<td>Make a Difference in the World</td>
<td>Great Lifestyle</td>
</tr>
<tr>
<td>• Big name: great resume value</td>
<td>• Save the world mission</td>
<td>• Family-like work environment</td>
<td></td>
</tr>
<tr>
<td>• High growth</td>
<td>• Good citizen</td>
<td>• Big company</td>
<td></td>
</tr>
<tr>
<td><strong>Compensation</strong></td>
<td>Wealth through stock options</td>
<td>Slightly below competitive base pay</td>
<td>50th percentile on all compensation</td>
</tr>
<tr>
<td>• Competitive base pay</td>
<td>• Little differentiation</td>
<td>• Little differentiation</td>
<td></td>
</tr>
<tr>
<td>• Large differentiation for performance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Benefits</strong></td>
<td>Competitive benefits</td>
<td>Competitive benefits</td>
<td>Incredible benefits: daycare, lunch subsidy, time off</td>
</tr>
<tr>
<td><strong>Work Content</strong></td>
<td>Long hours; high energy</td>
<td>Work/life balance</td>
<td>Work/life balance</td>
</tr>
<tr>
<td>• Technical skills revered</td>
<td>• Be on the team</td>
<td>• Flexibility to do job</td>
<td></td>
</tr>
<tr>
<td><strong>Career</strong></td>
<td>Company growth provides career options</td>
<td>You can work here a long time</td>
<td>Slow steady career</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Promote from within</td>
</tr>
</tbody>
</table>

### Emphasis of EVP
- Company 1: **Wealth Creation**
- Company 2: **Make a Difference in the World**
- Company 3: **Great Lifestyle**
### The Prominence of Incentives Vary By Level and Industry

#### Relative Prominence of Incentives by Role and Industry

<table>
<thead>
<tr>
<th>Role</th>
<th>Industry</th>
<th>Banking</th>
<th>Professional Services</th>
<th>Manufacturing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executives</td>
<td></td>
<td><img src="image" alt="Dominant" /></td>
<td><img src="image" alt="Partial" /></td>
<td><img src="image" alt="Dominant" /></td>
</tr>
<tr>
<td>Upper Middle Management</td>
<td></td>
<td><img src="image" alt="Dominant" /></td>
<td><img src="image" alt="Partial" /></td>
<td><img src="image" alt="Partial" /></td>
</tr>
<tr>
<td>Supervisory</td>
<td></td>
<td><img src="image" alt="Dominant" /></td>
<td><img src="image" alt="Partial" /></td>
<td><img src="image" alt="Low" /></td>
</tr>
<tr>
<td>Professional</td>
<td></td>
<td><img src="image" alt="Partial" /></td>
<td><img src="image" alt="Low" /></td>
<td></td>
</tr>
</tbody>
</table>

- **Dominant**
- **Partial**
- **Low**
Establish Target Pay Levels and Ranges Using Internal and External Job Values

Employee Tier

- **Limited Impact Jobs**
  - +25% Incentive
  - Base Pay

- **Moderate Impact Jobs**
  - +30% Incentive
  - Base Pay

- **High Impact Jobs**
  - +40% Incentive
  - Base Pay

This approach is market-sensitive, but business-focused.
Incentive Measure Selection Involves a Number of Considerations

1. Nature
   - What specific results should be measured?

2. Hardness
   - Will these results be assessed on a quantitative or qualitative basis?

3. Level
   - At what organization level should results be measured?

4. Timing
   - Over what timeframe should results be measured?

5. Standard
   - How should performance targets be established?
1. Nature of Measure

Plan measures should reflect organization and division/department needs

Open and clear communication of organization's strategic plan and its impact on division/department and employee

Organization
Mission, strategy, and objectives

Division/Department
Division/department plans and objectives in support of organization objectives

Employee
Annual objectives linked to division/department objectives:
- Clearly articulate “what” to achieve (job responsibilities and objectives)
- Clearly articulate how success will be measured

For the most part, organization measures fund the plan and employee measures determine individual award allocation.

Employee, division/department and organization-wide plans designed to support organization mission and strategy
1. Nature of Measure continued

Depending on the level of the employee, you can use different measures to provide line-of-sight and accountability to different employee populations.

ILLUSTRATIVE VALUE TREE

- **Key Financial Measures**
- **Non-Financial Success Driver**

Value creation can be linked to financial and non-financial measures.

**Value Creation**
- **Net Profit Margin**
  - **Gross Profit Margin**
  - **SG&A**
- **Asset Turnover**
  - **Inventory Turnover**
  - **Receivables Turnover**
  - **Payable Turnover**
- **Revenue**
  - **Cost of Goods Sold**
  - **Revenue from new customers/existing products (expansion)**
  - **Revenue from existing customers/existing products (retention)**
  - **Revenue from existing customers/new products (penetration)**
  - **Revenue from new customers/new products (development)**

**Customer Satisfaction**

**Efficient Work Processes**

**Executive**

**Line-of-Sight**

**Operational/Individual**
2. Hardness
Quantitative vs. Qualitative Measurement

Influenced by:

- Nature of the measure
- History of tracking performance on the measure
- Degree of uncertainty in the business environment

Most incentive plans use a quantitative approach to reduce ambiguity. Below is a template outlining rules of engagement whereby goals may be changed.

<table>
<thead>
<tr>
<th>Event</th>
<th>Will Adjust</th>
<th>Consider Adjustment</th>
<th>Will Not Adjust</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting rule change (e.g., FASB 106)</td>
<td>✔️</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Natural disasters/significant acts of terror</td>
<td>✔️</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital or business restructuring</td>
<td></td>
<td>✔️</td>
<td></td>
</tr>
<tr>
<td>Strategic decision to increase marketing, etc., beyond planned levels</td>
<td></td>
<td>✔️</td>
<td></td>
</tr>
<tr>
<td>Legal action against the company affecting operating income by &gt; 5%</td>
<td></td>
<td>✔️</td>
<td></td>
</tr>
<tr>
<td>Recession</td>
<td></td>
<td></td>
<td>✔️</td>
</tr>
<tr>
<td>Interest rate shifts</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Planning errors</td>
<td></td>
<td></td>
<td>✔️</td>
</tr>
<tr>
<td>Competitor actions</td>
<td></td>
<td></td>
<td>✔️</td>
</tr>
<tr>
<td>Poor publicity</td>
<td></td>
<td></td>
<td>✔️</td>
</tr>
<tr>
<td>Strikes</td>
<td></td>
<td></td>
<td>✔️</td>
</tr>
<tr>
<td>Legal action against the company affecting operating income by &lt; 5%</td>
<td></td>
<td></td>
<td>✔️</td>
</tr>
</tbody>
</table>
### 3. Level of Measurement

Measurement can take place at three levels and typically includes a mix of the following:

- Organizational
- Division/business unit
- Individual

<table>
<thead>
<tr>
<th>Size of Company</th>
<th>Small</th>
<th>Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose of Incentive Plan</td>
<td>Corporate affiliation</td>
<td>Unit/team/individual affiliation/differentiation</td>
</tr>
<tr>
<td>Number of Incentive Plans</td>
<td>One or few</td>
<td>Many</td>
</tr>
<tr>
<td>Decision Autonomy</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Shared Resources</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Coordination Across Units</td>
<td>High</td>
<td>Low</td>
</tr>
</tbody>
</table>

**MEASUREMENT/POOL FUNDING WEIGHTING**

- Measure at Higher Organizational Level
- Measure at Lower Organizational Level
What is the performance cycle of the proposed measure?

**Influenced by:**

- Time span for actions/results/consequences
- Business cycles

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**Lead Time**

How long after knowing the measure and goal, can plan participants be expected to take actions to affect the measure?

**Lag Time**

How long after actions are taken are they likely to show up in measurable results?

**Residual Impact**

How long after results are known might the actions have significant consequences?
5. Standard

Influenced by:

- Explicitly stated business standards
- Cyclicality of the business
- Market expectations

<table>
<thead>
<tr>
<th>Approach</th>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>vs. Plan</td>
<td>• Consistent with agreed upon objectives</td>
<td>• Goals can be sandbagged</td>
</tr>
<tr>
<td>vs. Historical Performance</td>
<td>• Requires improvement over prior performance</td>
<td>• Sometimes improvement over prior performance is not worth the investment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• May be difficult to achieve after exceptional year/not represent a high enough target after bad year</td>
</tr>
<tr>
<td>Relative to Peer Performance</td>
<td>• Consistent with how analysts assess company performance</td>
<td>• Participants do not have control over competitor results</td>
</tr>
<tr>
<td></td>
<td>• Calibrates relative difficulty of result</td>
<td>• Results in a given year may be good for company even though relative results are poor</td>
</tr>
<tr>
<td></td>
<td>• Particularly useful in cyclical industries</td>
<td></td>
</tr>
</tbody>
</table>

These approaches can be used in combination (e.g., with one as a gate or modifier, different approaches for different measures).
Overview of Funding Schedule/Curve

➤ A funding curve/schedule is a mathematical formula that specifies the performance goal(s) and corresponding amount of funding in an incentive plan.

➤ There are three main types of schedules:
  • Leverage curve
  • Stair step
  • Matrix

➤ There are also design elements within a plan that can turn payouts on or off or adjust funded amounts:
  • Trigger (on/off)
  • Modifier (adjust)

➤ Other considerations:
  • Threshold
  • Maximum (cap)

An incentive plan typically consists of multiple measures at different weights.
### Funding Mechanics

**What Levers Can You Pull to Improve The Funding Relationship?**

<table>
<thead>
<tr>
<th>CONSIDERATION</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Threshold Performance Level</strong></td>
<td>The minimal level of performance required to begin pool funding</td>
</tr>
<tr>
<td><strong>Funding Level at Threshold Performance</strong></td>
<td>The amount of funding at the threshold performance level</td>
</tr>
<tr>
<td><strong>Curve Shape/Slope</strong></td>
<td>Relationship between company performance and funding</td>
</tr>
<tr>
<td><strong>High Performance Scenario</strong></td>
<td>The maximum level of funding</td>
</tr>
</tbody>
</table>
Illustrative Funding Curve

ILLUSTRATIVE CORPORATE FUNDING CURVE

Standard Plan:
Corporate EBIT meets or exceeds Threshold (75% of Target)
- Threshold Performance: 50% funding
- Maximum Performance: 150% funding
## Risk versus Reward Relationship

### AMOUNT OF LEVERAGE

<table>
<thead>
<tr>
<th>Predictability of Results</th>
<th>Predictable</th>
<th>Highly Unpredictable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Availability of Talent</td>
<td>Abundant</td>
<td>Scarce</td>
</tr>
<tr>
<td>Company Position</td>
<td>Lead the market</td>
<td>Lag the market</td>
</tr>
<tr>
<td>Prominence of Incentives in Total Pay Package</td>
<td>Not prominent</td>
<td>Highly prominent</td>
</tr>
<tr>
<td>Pay Positioning vs. Peers</td>
<td>Above</td>
<td>Below</td>
</tr>
<tr>
<td>Degree of Stretch in Performance Targets</td>
<td>Conservative</td>
<td>Aggressive</td>
</tr>
</tbody>
</table>
An incentive award matrix determines individual incentive awards, expressed as a multiple of individual incentive opportunity (x).

Actual award determination will be based on:
- Company performance to budget
- Performance distribution
- Individual performance ratings

**ILLUSTRATIVE INCENTIVE PAYMENT MATRIX**
(Expressed as multiple of individual opportunity)

<table>
<thead>
<tr>
<th>Performance to Budget</th>
<th>4 Partially Meets Expectations</th>
<th>3 Fully Meets Expectations</th>
<th>2 Exceeds Expectations</th>
<th>1 Far Exceeds Expectations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Threshold (&lt;80%)</td>
<td>0x</td>
<td>0x</td>
<td>0x</td>
<td>0x</td>
</tr>
<tr>
<td>Below (90%)</td>
<td>0x</td>
<td>.25x</td>
<td>.5x</td>
<td>.75x</td>
</tr>
<tr>
<td>Budget (100%)</td>
<td>.25x</td>
<td>.5x</td>
<td>.75x</td>
<td>1x</td>
</tr>
<tr>
<td>Above (105%)</td>
<td>.25x</td>
<td>.75x</td>
<td>1x</td>
<td>1.5x</td>
</tr>
<tr>
<td>Far Above (110%)</td>
<td>.5x</td>
<td>1x</td>
<td>1.5x</td>
<td>2x</td>
</tr>
</tbody>
</table>
Incentive Design Principles

**Special Considerations for Sales Compensation**

Administration & Communication
Pay Mix & Upside

Pay mix matches the desired job behaviors as well as characteristics of the buying and sales processes.

### MIX AND UPSIDE POTENTIAL

<table>
<thead>
<tr>
<th>Influence</th>
<th>Sales Process</th>
<th>Buying Process</th>
<th>Low</th>
<th>Long</th>
<th>Complex</th>
<th>High</th>
<th>Short</th>
<th>Simple</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>10</td>
<td>10</td>
<td>90</td>
<td>80</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td></td>
</tr>
<tr>
<td>High</td>
<td>20</td>
<td>20</td>
<td>80</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1:1 Upside Potential</td>
<td>50</td>
<td>50</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2:1 Upside Potential</td>
<td>50</td>
<td>50</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>100% TTC</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Pay Mix & Upside continued

<table>
<thead>
<tr>
<th>More weight on BASE when:</th>
<th>More weight on INCENTIVES when:</th>
</tr>
</thead>
<tbody>
<tr>
<td>➤ Selling is more of a team effort</td>
<td>• Job requires high level of skill and drive</td>
</tr>
<tr>
<td>➤ Heavy use of advertising and promotion</td>
<td>• Company is not well-known</td>
</tr>
<tr>
<td>➤ Product requires little sales effort</td>
<td>• Product price is high versus competition</td>
</tr>
<tr>
<td>➤ Job includes many non-sales duties</td>
<td>• Competition is strong</td>
</tr>
<tr>
<td>➤ Longer sales cycle</td>
<td>• Low advancement opportunities with company</td>
</tr>
<tr>
<td>➤ Emphasis on relationship management</td>
<td>• Market opportunity is significant</td>
</tr>
</tbody>
</table>
Upside—1:1 Example (100K TTC, 70/30 Mix)

**Base Comp**
- TTC $100K
- $70K

**Target Variable Comp**
- $30K

**1:1 Upside**
- + $30K

Top 10% of Performers

Actual compensation of $130K ($70K in base, $60K in variable) at the excellence point.
Pay Mix & Upside continued

Upside—2:1 Example (100K TTC, 70/30 Mix)

Actual compensation of $160K ($70K in base, $90K in variable) at the excellence point.
# Incentive Measures & Weights

## TYPICAL SALES INCENTIVE MEASURES

<table>
<thead>
<tr>
<th>Sales Volume</th>
<th>Profitability</th>
<th>Productivity / Effectiveness</th>
<th>Non-Sales Event</th>
<th>Customer Based</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Sales Revenue</td>
<td>• Gross Profit Dollars</td>
<td>• Accounts</td>
<td>• Sales Referrals</td>
<td>• Sales Satisfaction</td>
</tr>
<tr>
<td>• Billed Revenue</td>
<td>• Gross Profit %</td>
<td>⇒ # New Accounts</td>
<td>• Matriculation</td>
<td>– Customer Survey Ratings</td>
</tr>
<tr>
<td>• Recognized Revenue</td>
<td>• Gross Profit Dollar Growth</td>
<td>⇒ Close Rate</td>
<td>• RFP Qualification</td>
<td>– # Order Changes</td>
</tr>
<tr>
<td>• Items</td>
<td>• % of Gross Profit Rate</td>
<td>⇒ Receivables</td>
<td>• CRM Activities</td>
<td>– Customer Loyalty</td>
</tr>
<tr>
<td>– Units</td>
<td></td>
<td>• Product and Service Mix</td>
<td>• Customer Commitment</td>
<td>– Churn Rate</td>
</tr>
<tr>
<td>– Contracts</td>
<td></td>
<td>• New Product Launch</td>
<td>• Subordinates</td>
<td>– Customer Satisfaction</td>
</tr>
<tr>
<td>– Specifications</td>
<td></td>
<td>• Price Management</td>
<td>⇒ Participation (# Achieving Sales Targets)</td>
<td>• Share of Wallet</td>
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<tr>
<td></td>
<td></td>
<td>⇒ Discounts</td>
<td>⇒ New Hire Ramp-Up Time</td>
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<td>⇒ Realization</td>
<td>⇒ Turnover</td>
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<td></td>
<td>• Average Revenue per Product or Service</td>
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<td>• Sales Expense</td>
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<td></td>
<td></td>
<td>• Cost Per Order</td>
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<td></td>
<td></td>
<td>• Pipeline Management</td>
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</tr>
</tbody>
</table>

- [Sibson Consulting](#)
Incentive Design Principles
Special Considerations for Sales Compensation
Administration & Communication
### Administrative Provisions/Terms and Conditions/Policies

Summary of design and used to capture legal terms for administration

<table>
<thead>
<tr>
<th>1. Purpose</th>
<th>Defines the purpose of the plan. Similar to a defined compensation strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Effective Date</td>
<td>Defines the effective start and end dates of the plan</td>
</tr>
<tr>
<td>3. Code of Conduct</td>
<td>Outlines the code of conduct and consequences associated with not following the code</td>
</tr>
<tr>
<td>4. Eligibility</td>
<td>Defines who is eligible under the sales incentive plan as well as for which sub-plan (e.g., measures, upside) each participant is eligible</td>
</tr>
<tr>
<td>5. Compensation Elements</td>
<td>Defines compensation elements</td>
</tr>
<tr>
<td>6. Plan Administration</td>
<td>Establishes clarity of plan administration. Included are rules of engagement, the process for goal-setting and adjustments, etc.</td>
</tr>
<tr>
<td>7. Governance</td>
<td>Provides clarity for what governance exists, how the plan can be modified, who can modify it, and arbitration rules</td>
</tr>
<tr>
<td>8. Country Addendums</td>
<td>Country specific addendums that supersede the applicable section of the plan</td>
</tr>
<tr>
<td>9. Definitions</td>
<td>Definitions of language used in plan documents: compensation elements, measures and mechanic language, etc.</td>
</tr>
<tr>
<td>10. Errata</td>
<td>Includes all additional legal clauses required to ensure legal binding of contract</td>
</tr>
</tbody>
</table>
Building Leadership Support

Since leadership support is the key to effective performance management and compensation, HR leaders need to spend a significant portion of their effort building this support.

Things you can do:

1. Help leaders send the right communication messages at the right time especially the expectation to do performance management and differentiate rewards
2. Help leaders get it right for their own groups
3. Help leaders lead the calibration process
4. Help leaders with how to handle poor performers and stars
5. Train in how to hold effective performance conversations
6. Measure and report what happens: Make the process and outcomes visible
Effective Practices for Communicating Change

Consider incorporating the following effective practices into the communication plan:

Speak the “Unspeakables”
- Surface and manage resistance—publicly raise the “water cooler” issues
- Get brutally honest with your employees—and yourself
- Question everything

Make loud statements of change
- Kick-off the change with undeniable statements (actions speak louder than words)
- Respect the past, but slaughter the “sacred cows”
- Model and encourage the new behaviors consistently in all communications

Fill all knowledge gaps
- Provide information that is relevant and personal to each employee group
- Be preemptive about the concerns of each employee group
Effective Practices for Communicating Change continued

Create “smart audiences” by providing context
- Build a compelling business case by linking the change to the business strategy
- Help employees understand what is expected of them

Educate managers first
- Provide managers with the information and tools necessary to reinforce the change and respond to employee questions and concerns

Know your audience
- The “20/60/20” Rule
- Employees typically fall into one of three categories:
  - Top 20%: High performers; inner-directed; self-motivated
  - Middle 60%: Outer-directed; look for examples to follow
  - Bottom 20%: Stuck in their ways; little motivation or willingness to change
- The most effective change communication efforts target the “movable middle”
Measure the Program’s Success

➢ It is expected that some elements of a new program will need to be adjusted during or at the end of the first year.

➢ An effective evaluation program will determine:
  • Plan rollout effectiveness
  • Employee understanding
  • Employee satisfaction
  • Alignment with business strategy
  • Plan’s impact on actual sales performance (organization and individual)

➢ In addition, an effective evaluation may provide:
  • An assessment of plan payouts versus performance to determine whether there is an appropriate correlation
  • An examination of turnover rates, including a review of exit interview data to determine whether the pay process is a factor in turnover
  • Insight on pay process errors and disparities in pay practices
Thank you!

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