



Reset Compensation: Making Compensation Work in the Reset Economy

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by
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Introductions

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Reset Economy

“I believe that we are going through more than a cycle. The global economy, and capitalism, will be ‘reset’ in several important ways. The interaction between business and the government will change forever. In a reset economy, the government will be a regulator, and also an industry policy champion, a financier, and a key partner [...] I think this environment presents an opportunity of a lifetime...”

- Jeff Immelt, CEO, General Electric

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Reset Economy - Implications

- *Immelt says:*

Businesses need to examine their fundamentals, overhaul priorities, and adjust expectations and behaviors

- *Our discussions with business leaders, human resource professionals, academicians and consultants suggest:*

Compensation professionals need to do the same

How has your organization responded to the Reset Economy?

The Impact of Unemployment

- Long-term unemployment can become self-perpetuating
- Recent Nobel Prize in Economics recognizes work that included the following conclusions:
 - “Generous unemployment benefits give rise to higher unemployment and longer search times”
 - “Unemployment compensation can lead to better job matches”
- Are there effective ways to reduce HR costs without reducing employment?

How is your organization managing HR costs and employment?

The Fairy Tale of Wide Salary Ranges

- Salary increase budgets will be lowest in years
- Employees have accepted this reality – for now
- Traditional 50% salary range should be questioned
- More thoughtful and proactive processes are needed

What do you think?

Use Variable Pay Better

- Increased emphasis on variable pay may be a way to deal with smaller salary budgets
- Increased variable pay:
 - Links employee and company interests,
 - Reduces fixed costs, and
 - Shares additional pay based on achieving performance targets

What are your organizations doing?

Job Structures Will Change

- Jobs likely won't come back in same numbers as pre-recession
 - How will work get done?
- One solution will be Combination jobs
 - Challenge: getting people with the breadth of skills and experiences to fill blended jobs
 - Challenge: roles and relationships change
 - Challenge: market pricing becomes more difficult

Are you seeing or creating more combination jobs?

Organization Structures Also Are Changing

- Traditional functional organizations work best in small organizations or those with a single business strategy
- Organization structures will change based on changes in business models and strategies.
- There will be more, and more varied, organization structures within a single company

Are you seeing increased interest from line managers in organization design?

Conflicting Pressures on Spans of Control

- There will be pressures to both increase and decrease spans of control
- Pressures to understand, track, plan, and manage spans

How does your organization manage spans of control?

Job Evaluation Will Be Needed – More Than Ever Before

- Prediction:
 - With more combined jobs and decreasingly reliable market surveys, job evaluation will return to prominence
- Challenges:
 - Job evaluation needs to be less bureaucratic and more transparent
 - Job evaluation needs to be relevant to new job designs
 - Better communications will be required to promote understanding
 - Keep in mind that combination jobs may become larger or smaller

Tell us what you think.

Restore Public Confidence in Executive Pay

- Provide full transparency for policies and actual practices
- Craft responsible policies that boost equity between executives and workers
- Create policies that reward long-term performance with long-term pay
- Reward executives for actual performance, not the company's stock price

How is your organization approaching executive pay?



There's A Lot We Need To Do

- First: the compensation profession is changing
- Second: companies are making fundamental changes in how they are doing business – compensation professionals need to become a lot more clued in
- Finally the most important: compensation professionals need to align their thinking with business people, not just other HR professionals

How are you becoming more oriented to your company's business?



Where Do We Go From Here?

- Recognize that new approaches need to fit together
- Seek approaches that fit your organization

What are you already doing to meet the challenge ahead?

Steps to Adjust to Reset Compensation

1. Examine how your company is adjusting.
2. How will business changes alter compensation programs.
3. Develop and articulate a compensation strategy.
4. Reassess the balance between job evaluation and external competitiveness.
5. Develop new communication strategies.
6. Prepare for more developmental jobs and employee development needs.
7. Examine the use of salary ranges, initial placement in the range, movement through the range and range width.
8. Consider expanded use of variable pay.
9. Get ready to design combination jobs.

Can you afford to not look at how the Reset Economy affects compensation programs in your organization?

Questions and Discussion

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