

## DETERMINING AND DEVELOPING A COMPENSATION STRATEGY

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### WHY HAVE A STRATEGY

- A compensation strategy will give you
  - the right rewards
  - to the right employees
  - for the right behavior
  - at the right time
- A compensation strategy will reinforce the organizational culture that you are shaping

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### WHAT IS STRATEGY?

- Strategic management involves
  - The formulation and implementation of the major goals and initiatives
  - Taken by a company's top management on behalf of owners
  - Based on consideration of resources
  - Based on an assessment of the internal and external environments in which the organization competes
- Strategic management provides
  - Overall direction to the enterprise
  - Involves specifying the organization's objectives
  - Developing policies and plans designed to achieve these objectives
  - Allocating resources to implement the plans
- Within business, it is typically 3-5 years in length
- Covers all areas of the business
- Strategic plan then drives unit strategic and tactical plans

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### STRATEGIC PLAN DEVELOPMENT

- Who determines long range strategy?
- Board of Directors
- Mission
  - Vision
  - Values
- Senior Leadership
  - Develop strategic plan
  - HR Must be a participant
    - Relate all areas of HR to the strategic plan as it is being developed

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### HR'S ROLE IN STRATEGIC DIRECTION

- Proactive to the strategic direction of every unit in the company
  - Business Leadership
  - Staffing
  - Legal Compliance
  - Employee Relations
  - Labor Relations
  - Ethics & Social Responsibility
  - Organizational and Employee Development
  - Safety and Security
- Recommends total compensation structure
  - Pay
  - Benefits
  - Working conditions

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### WHY DO PEOPLE WANT TO WORK?

- Maslow - Hierarchy of needs
  - Physiological
  - Safety
  - Love/Belonging
  - Esteem
  - Self Actualization
- Herzberg - Motivators Recognition
  - Responsibility
  - Advance
  - Achievement

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## HERZBERG'S HYGIENE FACTORS



- Company policies and administration
- Supervision
- Relationship with supervisor
- Work conditions
- Pay
- Relationship with peers

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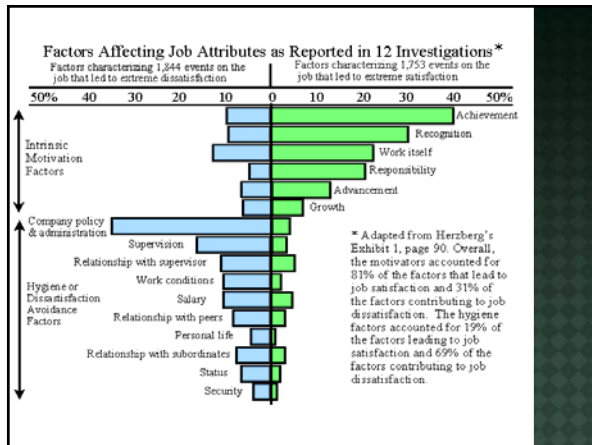
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## MOTIVATORS THAT BOOST EMPLOYEES ENGAGEMENT

- **Recognition**
  - Higher base pay
  - Incentive pay
  - Spot bonus
  - Stock Appreciation
- **Responsibility**
  - Giving employees the right tools for the right job
  - Promotions / Variety of assignments
- **Advancement**
  - Promotional opportunities
  - Lifelong learning to become top performer
- **Achievement**
  - Options for more flexible and collaborative work
    - Assist employees in improve work life balance
    - Flexible work schedule
    - Telecommuting
  - Achieve industry certifications

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## HR'S COMPENSATION INVENTORY

- **Base Pay**
  - Market based
  - Lead/Match/Lag
  - Merit adjustments
  - Cost of Living adjustments
- **Incentive Pay - team or individual**
  - Individual
  - Group
  - Small Group
  - Piece rate
  - Profit sharing
  - Gainsharing
  - Spot bonus
  - Retention bonus
  - Commissions
  - Skill based pay
  - Competency based pay
  - Stock
  - Phantom stock
- **Benefits**
  - Health care
  - Disability - LTD & STD
  - Leave programs
  - Holiday pay
  - Continuing education
  - Tuition incentives
  - Retirement
  - Sabbatical
- **Cultural issues**
  - Variable hours
  - Telecommuting from home
  - Pets in the workplace
  - Creativity at work
  - Onsite massage
  - Fitness clubs

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- A compensation strategy will give the right rewards to the right employees for the right behavior at the right time
- Try to make sure that you do not put something in place that you later have to remove
  - Allowing dogs in the workplace to none in the workplace
  - Changing it is acceptable if it can be explained
    - Going from 40% base with commission to 100% base

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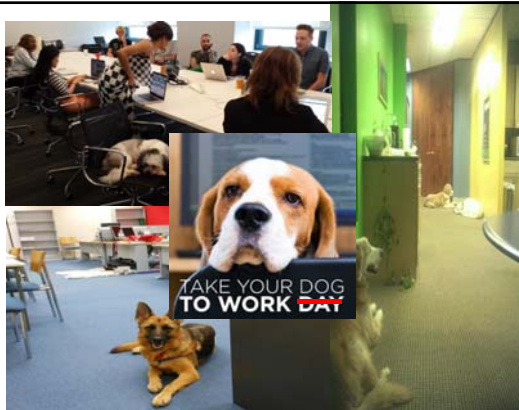
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### COMPANY LIFE CYCLE

- **Start-up**
  - Having to attract customers
  - Owner does almost everything
  - Sales paramount
  - Limited # of employees
  - Problem solvers
- **Growth**
  - Stable customers
  - Managers in place
  - Sales and quality equally important
- **Expansion**
  - Similar to start-up
  - Having to start a new product or service
- **Mature**
  - Stable and diminishing number of customers
  - Entrenched management
  - Reduction in costs important

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### EMPLOYEES AND COMPENSATION MIX

- **Start Up**
  - Entrepreneurial
  - Risk taker
  - Generalist
  - Problem solvers
  - Collaborative efforts
- **Compensation Structure**
  - Low base salary - 40-50%
  - High incentives which are at risk
  - Incentives reward group as well as individuals
- **Benefits**
  - Minimal health
  - Stock ownership
- **Cultural issues**
  - Very long hours
  - Telecommuting
  - Pets in workplace
  - Creativity at work
- **Growth**
  - Low acceptance of risk
  - Traditional roles
  - Professional specialists
- **Compensation Structure**
  - Market driven base
  - Base pay higher and predictable
  - Base pay cumulative with increases
  - Incentives for key positions
  - Competency based pay
  - Gainsharing
- **Benefits**
  - More traditional health and retirement
  - Tuition benefits
  - Stock ownership
- **Cultural issues**
  - Variable hours

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### YOUR TURN

- **Partner with the people at your table**
- **Expansion**
  - What employee characteristics would you look for?
  - What compensation and benefits structure would you recommend?
- **Mature**
  - What employee characteristics would you look for?
  - What compensation and benefits structure would you recommend?

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### MONITORING

- Metric driven business results
- Is performance increasing?
- Higher staff attraction?
  - Reduced time to hire
- Higher retention
  - Turnover lower
- Exit surveys
- Employee satisfaction
  - Annual employee surveys

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