

# PAY FOR PERFORMANCE: A CLEAR SIGNAL FOR RETENTION AND ENGAGEMENT

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**Kenexa®**

*To us, business is personal*

**LHRMA**

Lincoln Human Resource Management Association



## Mark A. Szytko, CCP, GRP Managing Director, Compensation

Mark has over 30 years experience as a compensation practitioner, and has held compensation, benefits and HR systems leadership roles for a number of organizations including Honeywell, Digital Equipment Corporation, Wang Laboratories, Kronos, Comcast, Progress Software and Lightbridge.

Mark has extensive experience in all aspects of compensation, including the design, development, implementation and ongoing administration of compensation systems and programs including base pay, variable compensation, sales and executive compensation. Additionally, he has experience in international benefits, mergers and acquisitions and HR systems selection and implementation.

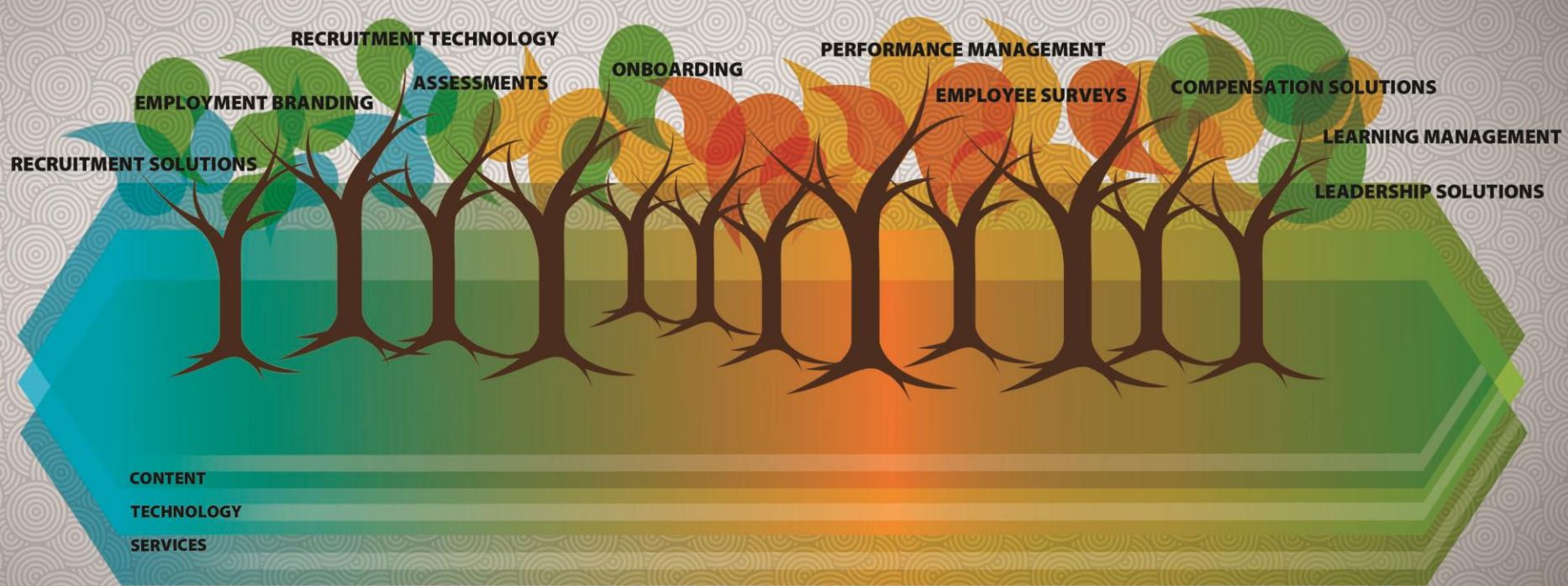
In his role here at Kenexa Mark drives research on trends in compensation practice and spends most of his time meeting with our customers and other compensation professionals to understand the challenges that HR professionals face in today's market. He tours the country speaking on compensation and HR-related topics, and in addition to his role at Kenexa he is a member of the WorldatWork faculty.

Mark holds a Bachelor of Science in Business Administration from Suffolk University and a Master of Business Administration from Western New England College with a concentration in Management Information Systems. He is also a Certified Compensation Professional (CCP), a Global Remuneration Professional (GRP), a WorldatWork Editorial Review Board member, and a recipient of WorldatWork's Lifetime Achievement Award.





# THE ROOTS OF OUR SOLUTIONS RUN DEEP THROUGH CONTENT, TECHNOLOGY AND SERVICES



Our combination of content, technology and services is the soil from which our products and services grow. These three things give us the strength to offer insight and expertise across the employee lifecycle—no matter which solution you need.



# Content and Technology by Compensation Professionals

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## CONTENT

### MARKET DATA

US, UK, Canada, and China database for more than 4,000 jobs

### EXECUTIVE PROXY DATA

Executive and board of directors proxy data for 10,000+ public companies

### GLOBAL SURVEYS

International data covering more than 90 countries; consumer retail and luxury goods surveys

### COMPETENCIES

1,700 job models; leadership and executive competency data; functional and technical competency data

## TECHNOLOGY

### SURVEY MANAGEMENT

Single, centralized tool for survey storage, benchmarking and survey participation

### PAY ANALYTICS

Analyze internal pay practices against market rates, ensure internal equity and pay program competitiveness

### SALARY STRUCTURES

Model cost scenarios and analyze impact of changes in salary ranges, compare internal structures using regression analysis

### MERIT MODELING

Evaluation and comparison of multiple merit scenarios, compare and adjust to internal budget

### JOB DESCRIPTION BUILDING

Centralized job description tool with access to proprietary library of 4,000+ job descriptions and competencies

# AGENDA

- What is “Pay for Performance”?
- What happened to the link?
- Why do we care?
- How do we repair?
- Questions



# **WHAT IS PAY FOR PERFORMANCE?**



# PAY FOR PERFORMANCE

- 3.0% increase budget
- 2 employees each “doing their job”
- They each get a 3.0% increase

**Increase for performance !**

# PAY FOR PERFORMANCE



## Impact on Pay Increases

- Similar pay increases for all performance levels
- Leading top performers to ask

*“Was all that extra work worth it?”*



# WHAT IS PAY FOR PERFORMANCE?

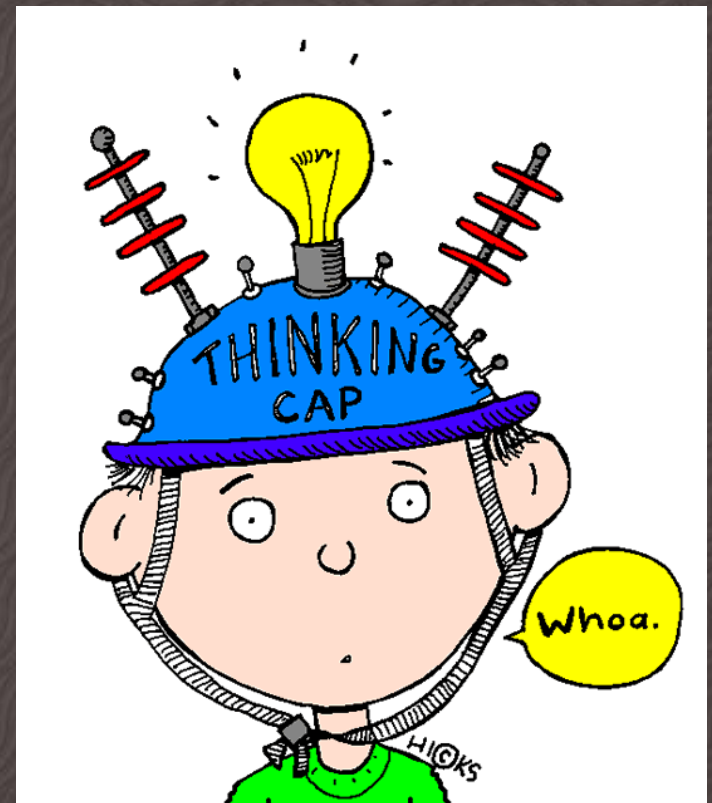
With your 3.0% increase budget ... a couple of questions

1

What does your average performing employee expect to get as an increase?

2

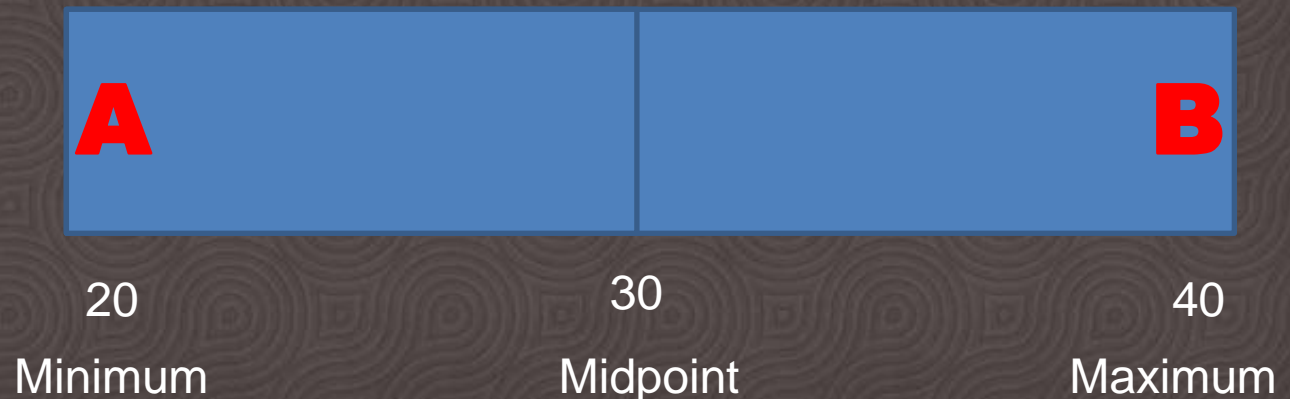
How can you give your average performers a 3.0% increase while at the same time differentially rewarding your top performers AND still only spend 3.0%?



# PAY FOR PERFORMANCE

- Employee A paid \$20.00 per hour
- Employee B paid \$40.00 per hour
- Both “Doing their Job”
- Midpoint = Market Reference Point
- Now what do we do?

## Salary Range



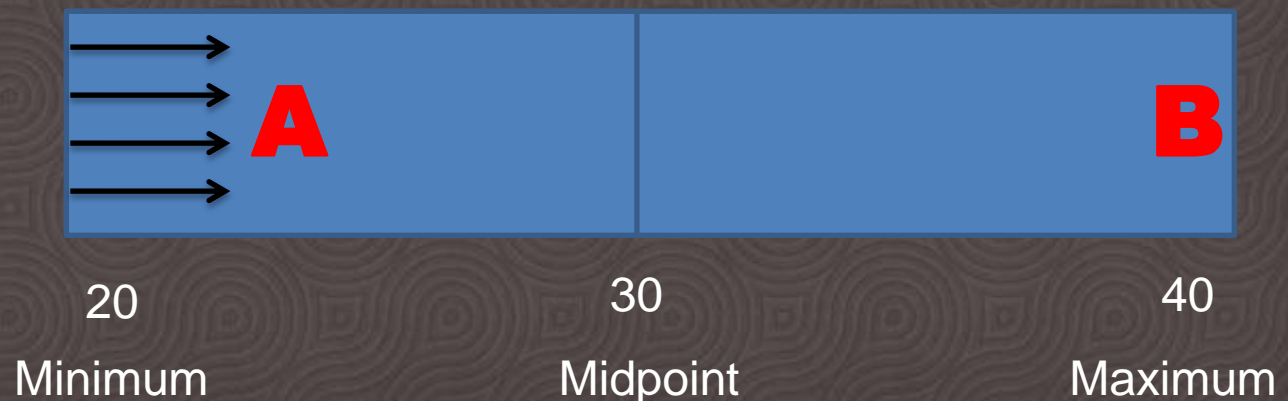


# PAY FOR PERFORMANCE

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Salary Range



# PAY FOR PERFORMANCE

- A compensation philosophy that asserts that an individual's pay is a function of their performance
- Performance demonstrated consistently over an extended period of time
- Target pay is achieved over time, not overnight
- As opposed to *increase* for performance



Minimum

Midpoint

Maximum



# PAY FOR PERFORMANCE

If pay increases are made contingent upon performance:

- Employee motivation to become a high achiever is increased
- The organization has a better chance of retaining top performers
- Lesser performers are motivated to increase performance level or look elsewhere



# PAY FOR PERFORMANCE

- Increase budgets in the U.S. have bottomed out in 2009 though the rebound is yielding increase budgets still below the pre-recession levels

	2008	2009	2010	2011	2012
Aon/Hewitt	3.7%	1.8%	2.4%	2.7%	2.9%
Conference Board	-	-	2.5%	2.5%	3.0%
WorldatWork	3.8%	1.9%	2.8%	2.9%	3.0%
Towers Watson	3.4%	1.7%	2.8%	2.7%	2.8%
Kenexa Compensation				3.0%	3.0%
Buck		2.9	2.9%	2.7%	2.8%
IPAS	3.9%	1.1%	2.5%	3.2%	3.2%

**“For the first time since 1980, the U.S. rate of inflation is higher than the average total salary budget increase”**



# PAY FOR PERFORMANCE

- Certain HOT Jobs continue to outpace the market exceeding the overall market average of 9% in the 5 years between 2007 and 2012

Job Title	Change
Long Term Care Executive	27.1%
Certified Occupational Therapist Asst	25.7%
Hardware Engineer III	20.3%
Chemical Engineer III	19.4%
Staff Nurse - Surgical First Assistant	17.4%
Nurse Practitioner	17.2%
Certified Nursing Assistant	16.4%
Network Administrator	15.1%
Software Engineer III	14.7%



# PAY FOR PERFORMANCE

- Others jobs aren't so lucky significantly lagging the 9% average over the last 5 years
- Differences between HOT jobs NOT so HOT jobs underscores all the more the need for good market data



Job Title	Change
Accounts Receivable Manager	2.9%
Administrative Services Supervisor	1.5%
Communications Representative III	2.1%
Facilities Manager	2.3%
Financial Analyst II	4.7%
Mainframe Programmer II	2.9%
PC Maintenance Technician II	-6.5%

# PAY FOR PERFORMANCE



Need to make sure your  
base, incentive and TCC  
is in alignment with  
the market



**WHAT HAPPENED  
TO THE LINK?**

# WHAT HAPPENED TO THE LINK?

- Cultural Changes
  - Everyone can exceed, if just given the opportunity
    - Educational system
    - Athletics
    - Workplace
  - The entitlement mentality
  - Unwillingness to give 0% increases
    - Keeping up with inflation





# WHAT HAPPENED TO THE LINK?



## Reliance on “The Event”:

- Once-a-year
- Minimal communication
- Reliance on manager’s memory
- Little training

## Assessment Forms Became:

- Too long
- Too complex
- Often designed to measure the wrong things



# WHAT HAPPENED TO THE LINK?

## Use/Misuse of Merit Matrices

- A well-known former CEO has suggested that the bottom 10% of performers need to be culled each year.
  - Rating creep
  - Invalidating rating systems



# WHAT HAPPENED TO THE LINK?

- HR began focusing on those needing help to succeed
  - More focus on the “Needs Improvement” employees
  - Less focus on “Outstanding” and “Good” performers



**WHY DO WE CARE  
ABOUT PAY FOR  
PERFORMANCE?**



# “THE RECESSION IS DECISIVELY OVER”

## THE WALL STREET JOURNAL.

U.S. EDITION

Home World U.S. New York Business Tech Markets Market Data Opinion

WORLD NEWS | Updated October 9, 2012, 3:58 a.m. ET

### Global Recession Risk Rises

IMF Lowers Growth Forecasts, Warns New Downturn Would Be Tougher to Tame

Article

Video

Comments (65)

BY SUDEEP REDDY AND BOB DAVIS

TOKYO—The global economy risks skidding toward recession just three years after pulling out of the previous one, the International Monetary Fund warned, adding that fighting a renewed world-wide downturn will be much more complex than it was in 2009.

"Risks for a serious global slowdown are alarmingly high," said the IMF's World Economic Outlook report, which was released here Tuesday ahead of the fund's annual

# AS WE EMERGE .....

- Your most valuable asset walks out the door every evening....

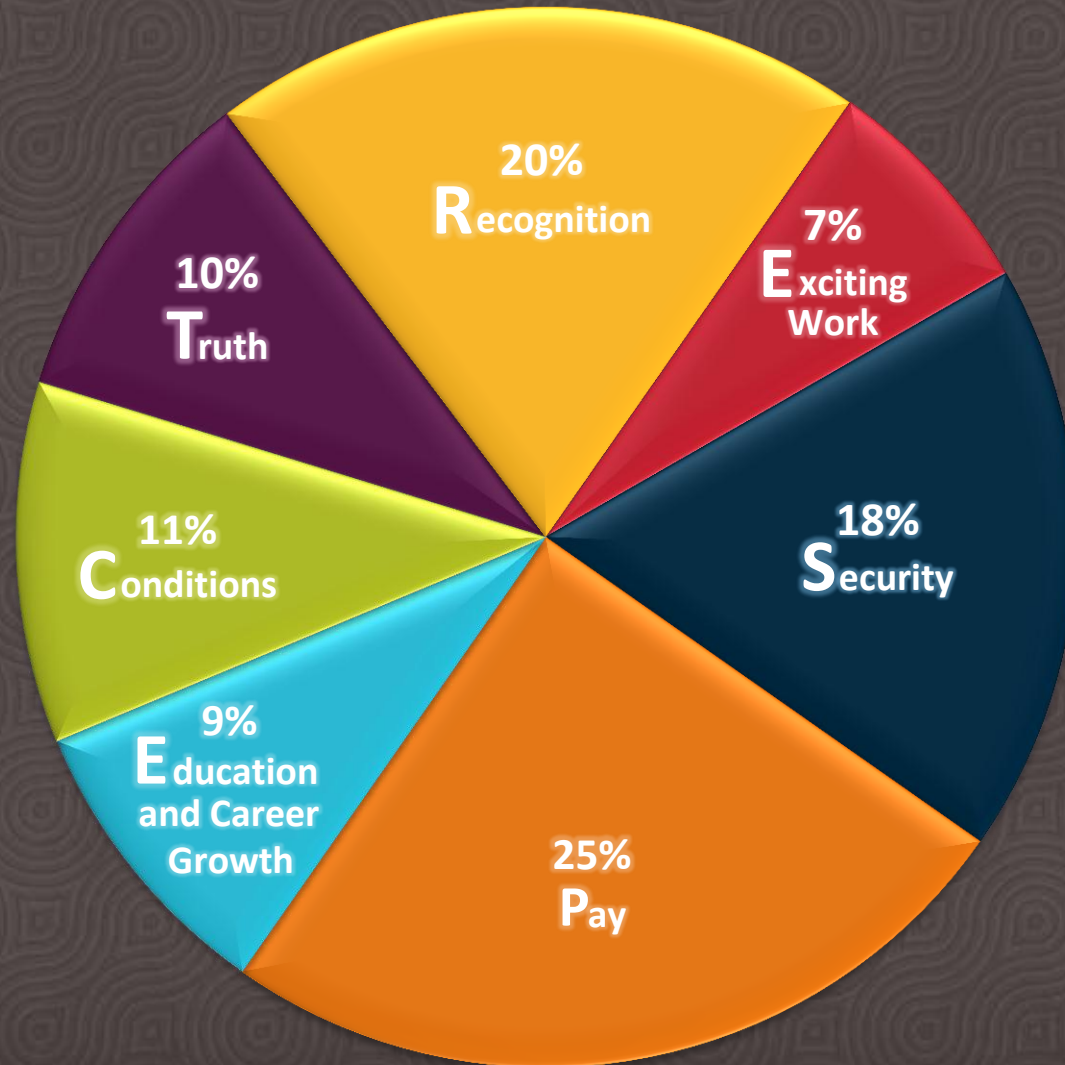
**What are they  
thinking?**



# GLOBAL RESULTS: WHAT EMPLOYEES REALLY WANT

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# RECOGNITION

*A pat on the back from managers and the organization at-large*

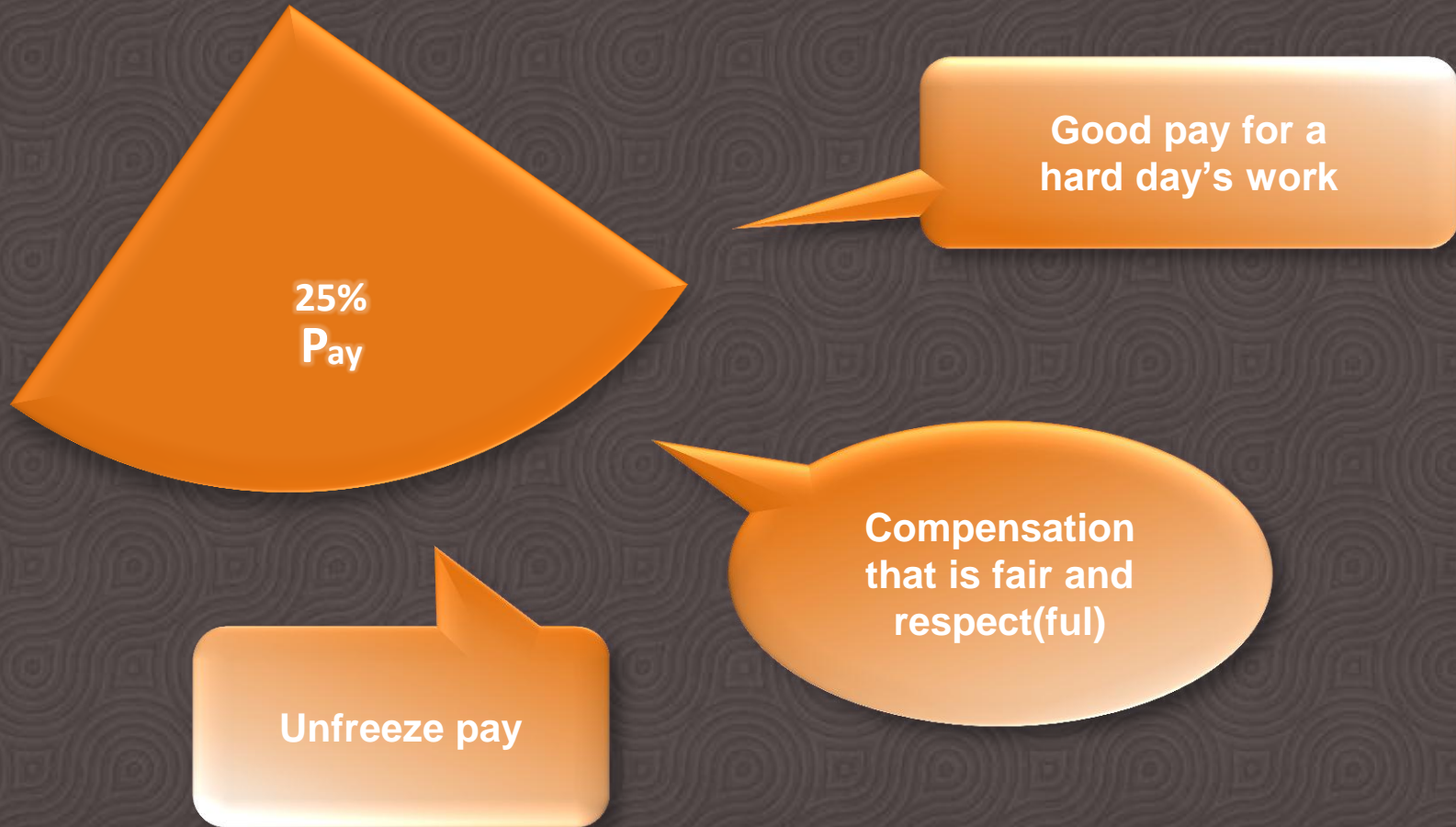
20%  
Recognition

Recognition when we do a good job - right now it is all about getting chewed out when we mess up

More respect from senior management

I want to be respected and recognized as a valuable team member

## *Fair compensation for a day's work*



# A COUPLE OF QUESTIONS



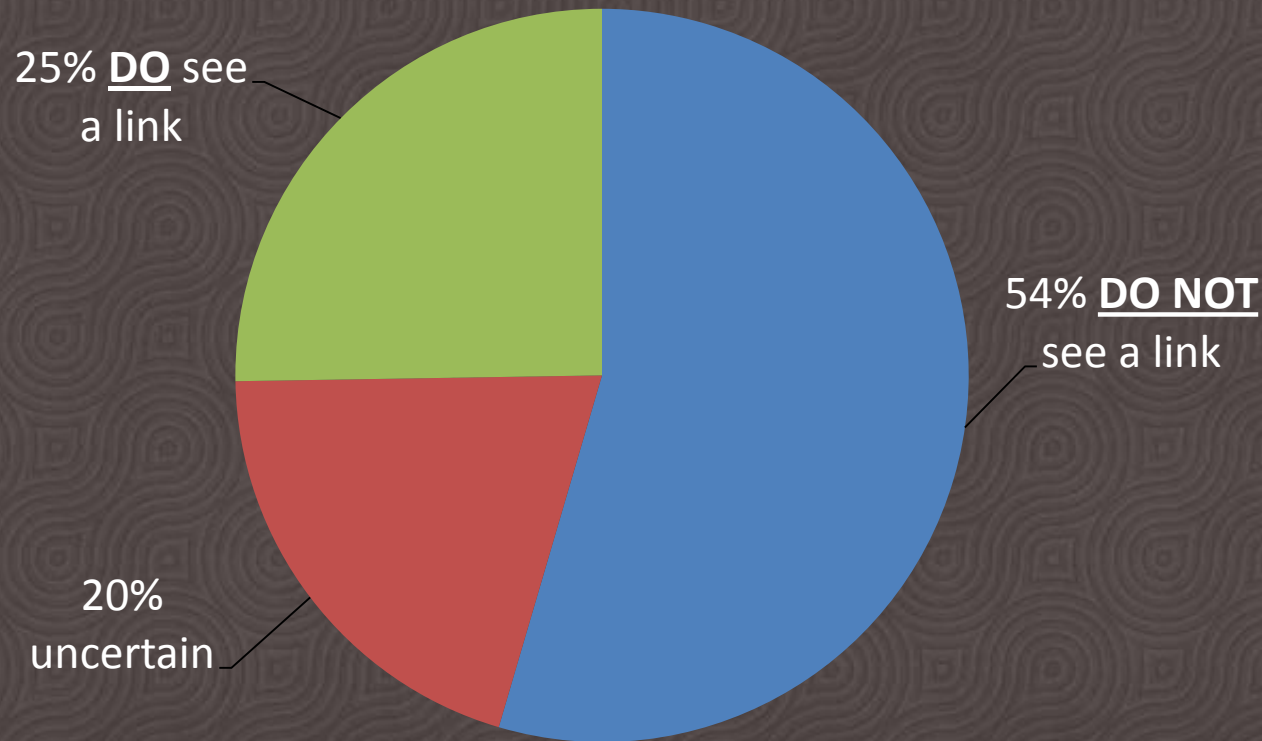
Does your organization have a “Pay for Performance” philosophy?

Are you paid for your performance?



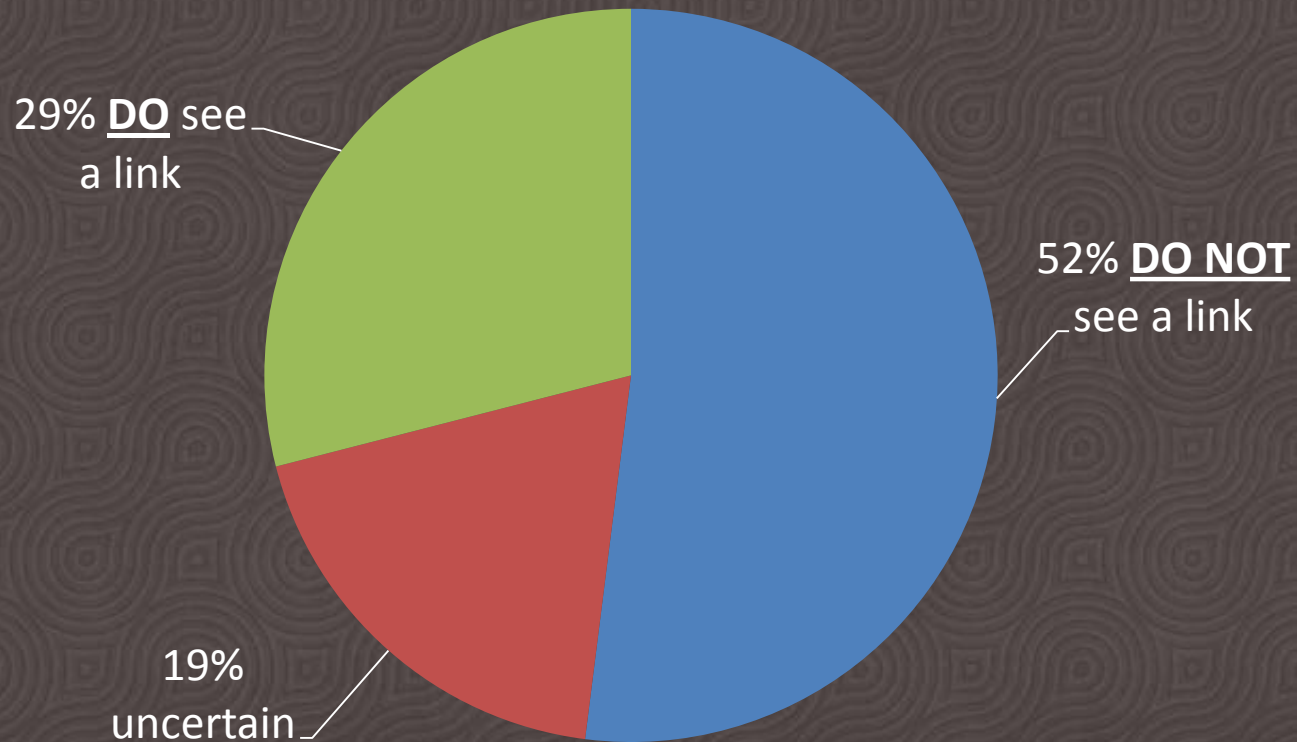
# THE LINK

Worldwide, My pay is directly related to how well I perform.



# THE LINK

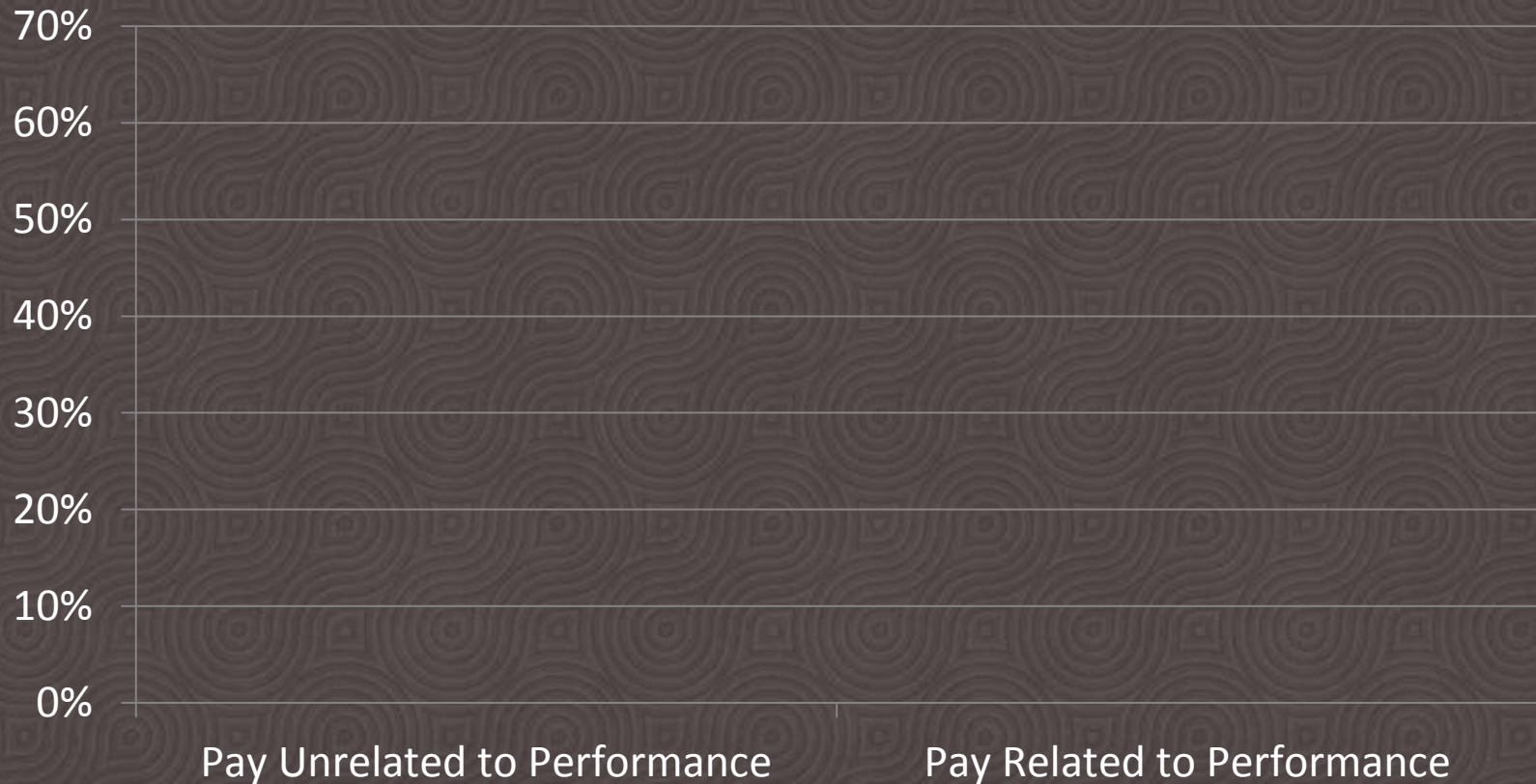
In the US, my pay is directly related to how well I perform.



# THE LINK WHY WE SHOULD CARE

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*Worldwide the percent of employees who are seriously considering leaving their organization*

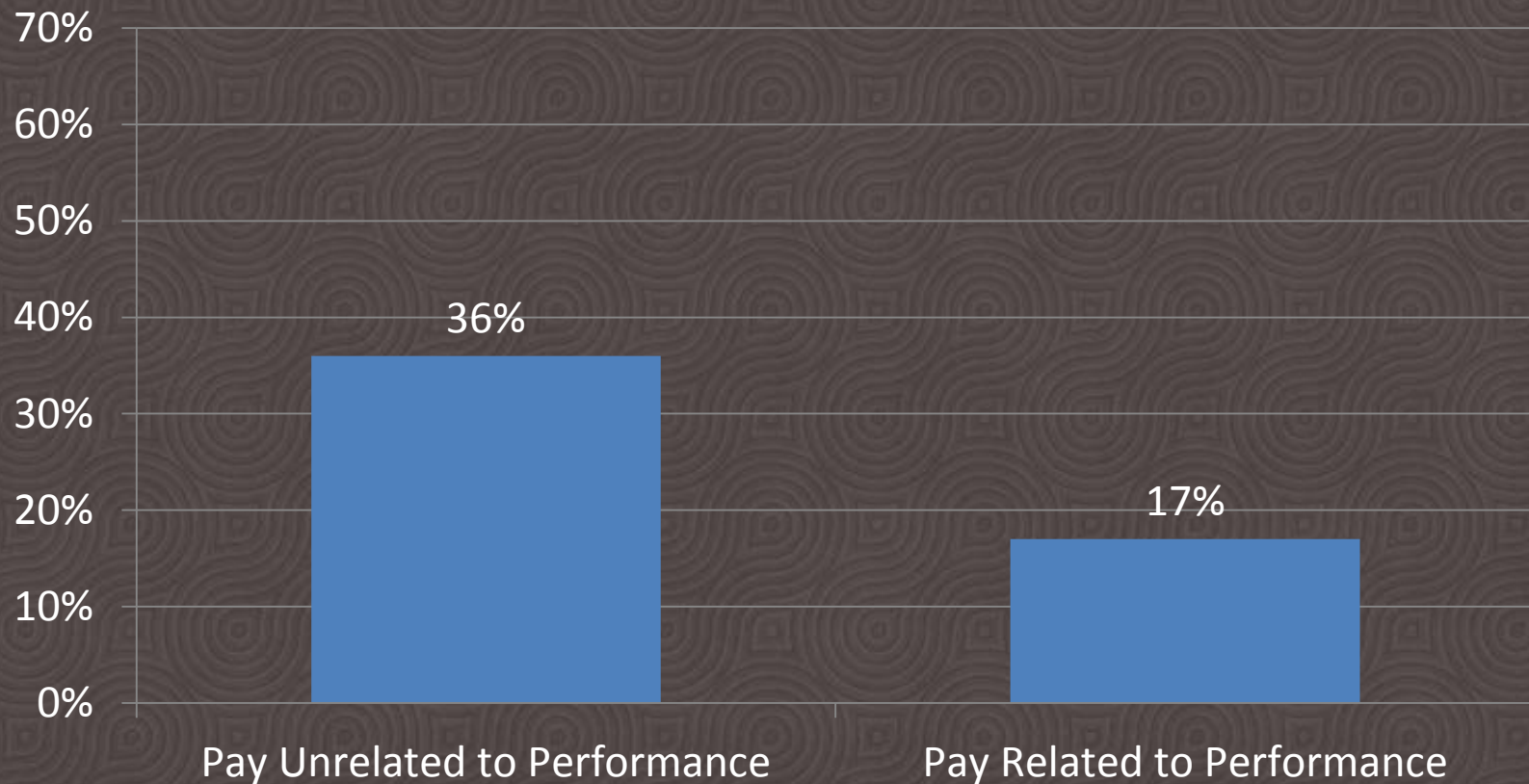




# THE LINK WHY WE SHOULD CARE

KeneXa®

*Worldwide the percent of employees who are seriously considering leaving their organization*



**HOW DO WE REPAIR  
THE LINK BETWEEN  
PAY AND  
PERFORMANCE?**

# REPAIRING THE LINK

- **Merit Pools:**
  - We suggest that there be two basic pools of money for merit increases:
    - Management pool
    - Employee pool





# REPAIRING THE LINK

- **Merit Pools:**
  - Each of these pools should have two subsidiary pools:
    - One for those in the highest performance category (e.g., “Outstanding”)
    - One for the balance of the organization’s employees.



# REPAIRING THE LINK

- Seize the moment
  - 0% merit
  - Differentially reward top performers





# REPAIRING THE LINK

- Re-recruit top performers



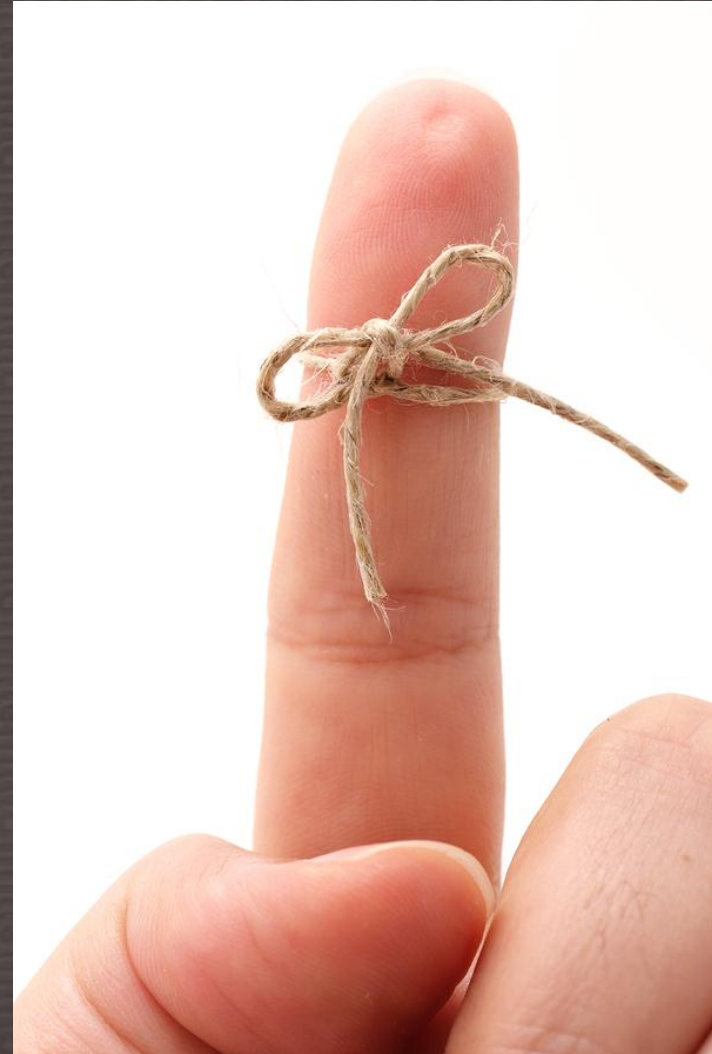


# REPAIRING THE LINK

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## DON'T FORGET!!

*Pay for Performance,  
NOT  
Increase for  
Performance!*





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