Pay for Performance: Can Incentives Work?

Bob Lemke
Principal – HR & Compensation Consulting Practice

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Housekeeping Items

- Please engage! Use your mobile phone during the session
- Phones on mute
- We will ask you a question – please engage in this workshop session!
- Unfinished business? We can speak with you after the session ends
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Learn From Each Other

<table>
<thead>
<tr>
<th>STOP</th>
<th>START</th>
<th>CONTINUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>What’s not working?</td>
<td>What might give us better results?</td>
<td>What is working well now, that we should keep on doing?</td>
</tr>
<tr>
<td>Practices or services that we should discontinue, or at least consider retiring over time.</td>
<td>Investments, practices or services that we should begin to build or start doing right away.</td>
<td>Investments, activities or services that are highly valued by your workforce and should continue.</td>
</tr>
<tr>
<td>Hard</td>
<td>Moderate-Easy</td>
<td>Easy</td>
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</table>
Every organization faces unique challenges and opportunities when it comes to making the workplace work better.

- Competitive Job Market
- Disruptive Technology
- Increased Healthcare Costs
Tools You Have to Differentiate

- Benefits
- Compensation
- Retirement
- Employee Communications
- Workplace Culture
Q1: What one or two words best describes your outlook for 2019 and your ability to make your workplace better?
Today’s Topics

- Tight Labor Markets
- Cost-of-Labor
- Productivity and Engagement
Balancing Resources

- Spend too much on benefits and not enough on wages and bonuses
  - 30%
- Have the balance about right
  - 65%
- Spend too much on wages and bonuses and not enough on benefits
  - 4%
  - 5%

Source: Gallagher’s 2018 National Benchmarking Survey
Balancing Resources, Cont.

- Spend too much on training and development
- Spend about the right amount on training and development
- Don’t spend enough on training and development

Source: Gallagher’s 2018 National Benchmarking Survey
Balancing Resources, Cont.

Cost of Labor Component
- Salaries and Wages
- Overtime
- Incentives and Bonuses
- Vacation
- Vacation - Special WE&RF
- Paid Holidays
- Sick Time
- Paid Personal Time Off
- Paid Leaves (other)
- Retirement - Matching
- Retirement - NonMatching Fixed
- Retirement - Discretionary Match
- Medical
- Dental
- Vision
- Admin Fee - manage FSA, HRA, COBRA
- Short Term Disability
- Long Term Disability
- Basic Life Insurance
- Basic AD&D Insurance
- Basic LTC Insurance
- EAP
- Employee Service Awards
- Tuition Reimbursement
- Training and Development
- Payroll and Employment Taxes
- Other Employment Insurance - WC
- Other Employment Insurance - E&O
- Contingent Labor
Poll Question:

Q2: What is your organization’s current use of performance based pay?

A. **None**: Across the board annual increases, no bonuses
B. **Standard**: Base adjustments linked to performance, no bonus
C. **Incremental**: Exploring ways to use more variable pay
D. **All In**: Use to differentiate rewards for performers and potential
Performance Based Pay

For

• Correlates to better organizational performance.
• Links compensation expenses to financial results.
• Enhances the competitiveness of our comp program without increasing fixed costs.
• Enables us to drive behavior and performance towards our goals.
• Strengthens our ability to attract top talent.

Against

• Don’t want to compromise the “mission”
• Others don’t use this
• We didn’t start the NFP with this compensation culture
• Requires additional resources to manage the plan
Discretionary Bonus vs Incentive

- Bonus compensation is a systematic approach to providing rewards in exchange for value delivered.

**Discretionary Bonus:**
Form of variable pay where requirements, and timing are not typically disclosed in advance and usually based on general **overall job performance**. This is determined by Leadership if they believe there is a reason to award a bonus.

**Incentive:**
Intended to provide payment based on achievement of short-term performance goals established.
Bonus Compensation and Tax Exempts

IRS’ Rebuttable Presumption and 501(c)(3) status

Key to Easy Intermediate Sanctions Compliance

1. The compensation arrangement must be **approved in advance** by an authorized body of the applicable tax-exempt organization,
   - Composed of individuals who do not have a conflict of interest concerning the transaction

2. Prior to making its determination, the authorized body obtained and relied upon **appropriate data as to comparability**, and

3. The authorized body **adequately and timely documented the basis for its determination** concurrently with making that determination.
Q3: What is your organization’s current performance management practice?

A. **Traditional**: Immediate supervisor evaluates on standard form.
B. **Emerging**: Use open ended format, enables customization.
C. **Non-Traditional**: Incorporate feedback from peers and others using crowd-sourcing techniques.
D. **21st Century**: Frequent check ins, no ratings, retention needs.
Performance Management

**Improving Return on Investment**

- How do we get the best value out of the time and money we are spending?

<table>
<thead>
<tr>
<th>From:</th>
<th>To:</th>
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<tbody>
<tr>
<td>Annual, systems and record</td>
<td>Frequent check-ins, yes/no</td>
</tr>
<tr>
<td>Inappropriate written comments</td>
<td>Respectful</td>
</tr>
<tr>
<td>Solution in search of a problem</td>
<td>Simple - Affirm retention</td>
</tr>
<tr>
<td>Ratings calibration to correct harsh and easy graders</td>
<td>Fair</td>
</tr>
<tr>
<td>Too many tasks on one process</td>
<td>Timely</td>
</tr>
<tr>
<td>Pit employees against one another</td>
<td>Team and overall results</td>
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What’s the force behind these trends?

How can we create our organization of the future while facing a shifting context for the workforce, the workplace, and the world of work?

Move from a rules- and planning-based approach toward a simpler and faster model driven by feedback from participants.

The way we work has changed – work on shorter-term projects of various lengths, often run by different leaders and organized around teams.

Innovation has become a strategic imperative for most companies.
### Talent Management

**Focus on the future**

- Align internal resources – right role, right rewards, good fit?

#### Talent Management Framework

<table>
<thead>
<tr>
<th>Potential</th>
<th>Performance</th>
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<tbody>
<tr>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Inconsistent Player</td>
<td>Average Performer</td>
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<tr>
<td>High Potential</td>
<td>Core Player</td>
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<tr>
<td>Potential Gem</td>
<td>High Performer</td>
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<tr>
<td>Star</td>
<td>Solid Performer</td>
</tr>
<tr>
<td>High</td>
<td>High</td>
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What are we looking for?

Leadership Capacity

• Can we inspire people and our organizations to develop the capacity to create the futures they desire?
What are we looking for?

Organizational Effectiveness

- Agile - less is more
- Focus and commit to priorities
- Align and connect for teamwork
- Data
- Stretch
What are we looking for?

Lean & Continuous Improvement

• Remove waste
• Coaching, not directing
• Process focus, not outcome focused
• Strength based, not weakness
• Fact driven, not prone to bias
Poll Question:

Q4: What is your current practice re: communicating pay?

A. We share info about how pay is determined
B. Internally we post salary grades/ranges for open positions
C. We host sessions to explain our program
D. We train managers on communication practices
E. We provide tools for managers
Poll Question:

Q5: What is your organization’s current level of pay transparency?

A. **What**: Tell employees what and when they get paid
B. **How**: Describe factors used in setting pay
C. **Where**: Describe where individual falls and what’s next
D. **Why**: Describe why we pay the way we do
E. **Full Transparency**: Here’s the pay for all of our staff
Pay Transparency

Nearly half of US workers reported they were either "contractually forbidden or strongly discouraged" from discussing pay with coworkers.

Source: Institute for Women’s Policy Research

Today

59% of workers check salaries online
(Source: Robert Half International)

Are you paid fairly?
Get a free, personalized salary estimate based on today’s market

HR Manager Salaries in Des Moines, IA Area
40 Salaries  Updated Apr 28, 2019

<table>
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<th>Average Base Pay</th>
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<td>$70,970 /yr</td>
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7% below national average

Additional Cash Compensation
Average $8,025
Range $2,035 - $22,072

2017 - Fulton County, GA: Policy that allows county employees to ask for a personal pay study and receive a pay adjustment if it shows any kind of inequity.
Is there a gender “pay gap”?

- **Black Women**: 35%
- **Hispanic Women**: 42%
- **White Women**: 19%
- **Asian Women**: 10%

**Overall gap**: 17.6%

**State**
- **New York**: 11%
- **Louisiana**: 30%
Call to Action

• **Workforce Investment Management**
  – Become an active manager of a portfolio of different assets
  – Identify trade-offs to generate better results

• **Enhance competitive position**
  – Refresh conventional practices as prioritized investment opportunity
  – Strengthen transparency and communications efforts

• **Invest in pay equity to reduce long term cost**
  – What is the current cost to reduce pay gap?
  – What is the future cost?
Poll Question:

Q6: What one word describes your outlook for performance based pay at your organization?
Thank you!

Bob Lemke
Principal – HR & Compensation Consulting
Bob_Lemke@ajg.com
224-399-4565