



3rd Quarter 2016 Newsletter

[Making Sure Your Compensation Plans are Based on Sound Strategies](#)

How many millions of dollars does your company spend on employee compensation? Employee compensation is one of the largest costs for your company, and you are probably paying 15% to 25% of your profits as bonuses/incentives. Doesn't it make sense that dollars as large as these are paid using sound strategies? The following points (in chronological order) summarize the process for your company to develop sound compensation strategies:

- If your company doesn't have a long-term, overall strategic plan with well established business goals, objectives, and action plans, this is the place to start.
- Review your salary and total compensation levels in relation to industry compensation data. At what percentiles do you pay or should you pay salaries and bonuses?
- Review your existing compensation plans. How old are the plans? How has the company, people, markets, and types of work performed changed since they were developed?
- Where is your company on the life-cycle curve? Is your revenue growing, stable, or declining? What are your staffing plans over the next few years?
- Review each element of compensation to ensure each supports and reinforces the strategic business goals, growth plans, staffing plans, and retention goals for the company.

The three overall goals of every compensation program is to attract high quality employees, to retain the best performers, and to motivate employees for superior performance. The different elements of compensation accomplish these overall goals to varying degrees as shown in the compensation matrix below:

Element of Compensation	Compensation Goal		
	1—Attract	2—Retain	3—Motivate
Salary/Wage	High	Low to Medium	Low
S-T Incentives	Low	Low to Medium	High
Retirement Plan	Low to Medium	Medium	Low
L-T Nonqualified Deferred Compensation Plan	Low to Medium	High	Medium to High
Perquisites	Medium	Low to Medium	Low
Benefits	Medium	Low to Medium	Low

Your company's strategic compensation plan should identify the best mix of compensation elements and the proper emphasis to place on each element to maximize the effectiveness of your overall compensation program.

Article Spotlight



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[A Word from Rick Sharpnack](#)



Whether you are spending \$1 M, \$5 M, \$10 M, or more on payroll, I highly recommend performing strategic compensation planning. As part of that strategic compensation planning, your plans and practices will be reviewed and compared to industry compensation practices. This is essential to ensure that you are getting the most bang for your payroll bucks. Think about how your business has changed over the last few years—new markets, new customers, new types of work being performed, and different demographics for your new employees. All of these changes have a profound affect on your compensation program's effectiveness.