Sharp Capital Consulting, LLC
Human and Financial Capital Consulting Services

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What Are Your Compensation Strategies?

One of my favorite comments is that every dollar of compensation paid to your employees should have a strategy behind it. What does that mean? Basically that means that your compensation programs should be designed to support and reinforce the strategic business goals and objectives. They should also be set up to help accomplish one or more of the three main goals of any compensation program, that being to attract high quality people into your organization, to retain the employees that you want to retain, and to motivate the employees so that they can be successful and to help the company be successful. One of these goals may be a priority due to the situation at your company. Let me give some examples:

Strategy Example One—The Growing Company

Growing companies need to recruit high quality employees to handle the increasing revenues. Salaries are the compensation component that candidates look at the most during recruiting. Since they have not experienced a bonus cycle, they do not know how reliable bonus payments are or how realistic it is to accomplish the necessary key performance indicators to which bonus payments are tied. Payment of long-term compensation may be too far in the future to have a significant impact on some candidates. Thus, to attract high quality employees, the salary system may need to offer higher salaries than comparable companies, for example salaries close to the 75th percentile of industry comparable salaries. These higher salaries affect the other compensation plans at the company.

Strategy Example Two—The Mature and Stable Company

Mature and stable companies have a steady workforce and established markets and customers. The key desire for these companies is to drive financial performance rather than to grow revenues. Bonuses are the compensation component most effective at driving superior employee performance. A solid bonus plan tied to company and/or business unit financial performance and key individual performance indicators for the participating employees is the best way to drive employee behaviors that result in strong company and individual performance.

Strategy Example Three—The Company That is Concerned About Turnover

There are many reasons why a company has a turnover problem. The company may be located in a highly competitive market where competitors are desperate to hire key employees. Turnover may be occurring even though salaries, bonuses, benefits, and perks are competitive with those at other companies. An employee retention plan, such as a nonqualified deferred compensation plan, is the most effective type of compensation program used to hold onto key employees. Nonqualified, deferred compensation plans grant compensation amounts that will be paid in the future after the participating employees satisfy a vesting schedule. The vesting schedule (and possibility of forfeiting granted future compensation if the vesting is not satisfied) create strong retention incentives for key employees. A side benefit of these plans is that they help key employees build additional wealth for later in their careers or for retirement.

These three examples show how compensation programs can be directly tied to one or more high priority company goals or may be used to help solve a problem.

Article Spotlight

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A Word from Rick Sharpnack

The 2015 CFMA conference was a big success. The conference attracted more that 800 attendees. I co-presented a breakout session dealing with retaining employees. I presented the case that the most effective employee retention programs use a combination of nonmonetary and monetary retention techniques. Nonmonetary techniques often have more impact for younger employees (Generation X & Y) and are the techniques used for field craft employees. Monetary retention techniques often have more impact for older and key employees. Contact me if you are considering implementing an employee retention program. I would enjoy the opportunity to discuss it with you.

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