



CLC COMPENSATION™

# › Implementing Pay for Performance

Ten Insights on Driving Employee  
Performance Through Better Linkage  
with Pay

SARA Conference Presentation  
29 October 2010

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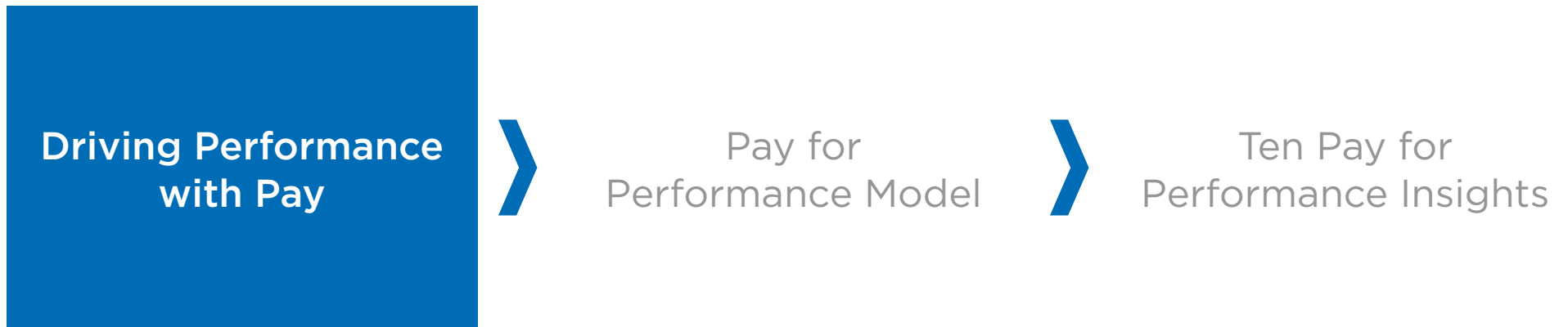
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# TODAY'S DISCUSSION



# PAY FOR PERFORMANCE PART OF THE SOLUTION

## Challenges for the Head of Compensation

How can I get the greatest returns from the limited compensation budget available?



**Budget  
Allocation**

How can I drive performance and most effectively reward high performers?



**HIPER  
Rewards?**



**HIPO  
Rewards?**

How can I retain critical talent as the talent market tightens?

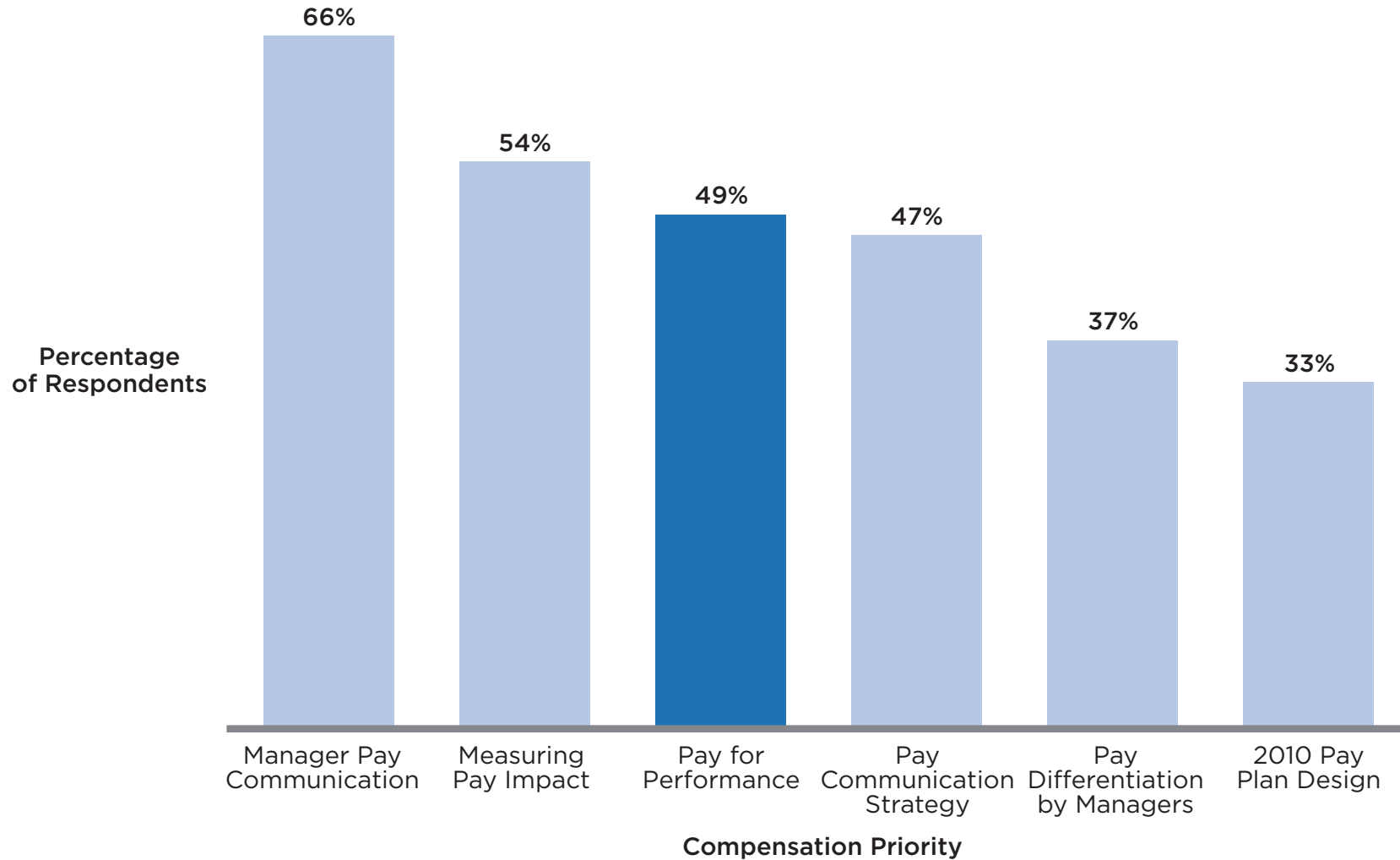


## Pay for Performance Related Questions (Examples)

- What investments in pay for performance matter most for driving talent outcomes?
- Where should compensation function time and resources be prioritized on pay for performance?
- Which features of the employee evaluation process matter most for driving performance?
- How should performance be linked to annual salary increases and bonus payments?
- How does performance evaluation and its link with pay impact retention?
- How can pay for performance most effectively be reinforced in the workplace to drive retention?

# A KEY CHALLENGE FOR COMPENSATION EXECUTIVES

Percentage of Heads of Compensation Rating Priority As Difficult or Very Difficult to Execute  
*2010 Challenges for Heads of Compensation*

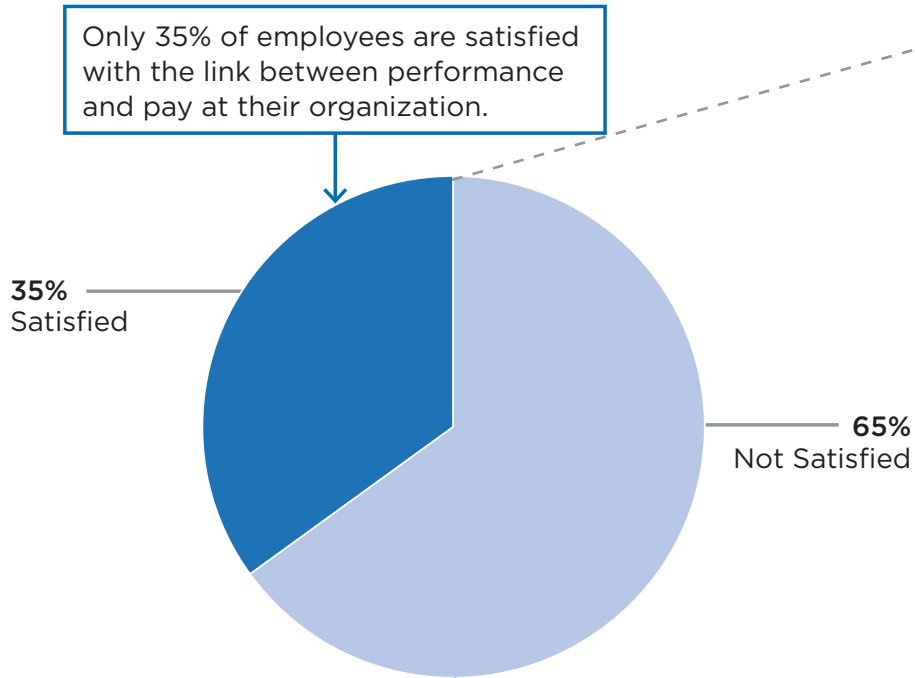


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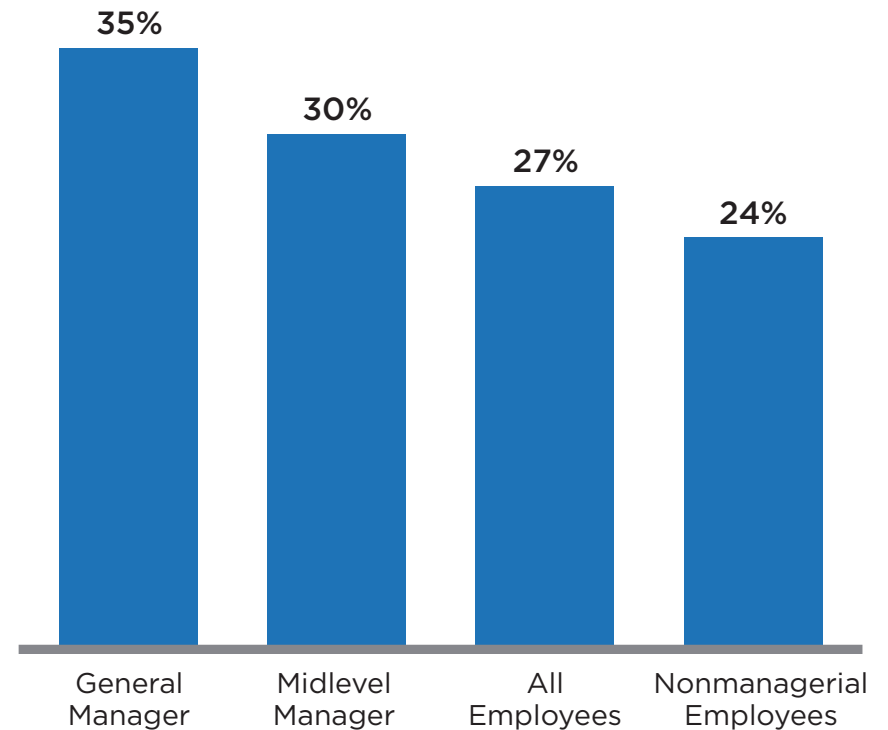
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# EMPLOYEES NOT HAPPY EITHER

Percentage of Employees Satisfied with the Link Between Performance and Pay at Their Organization

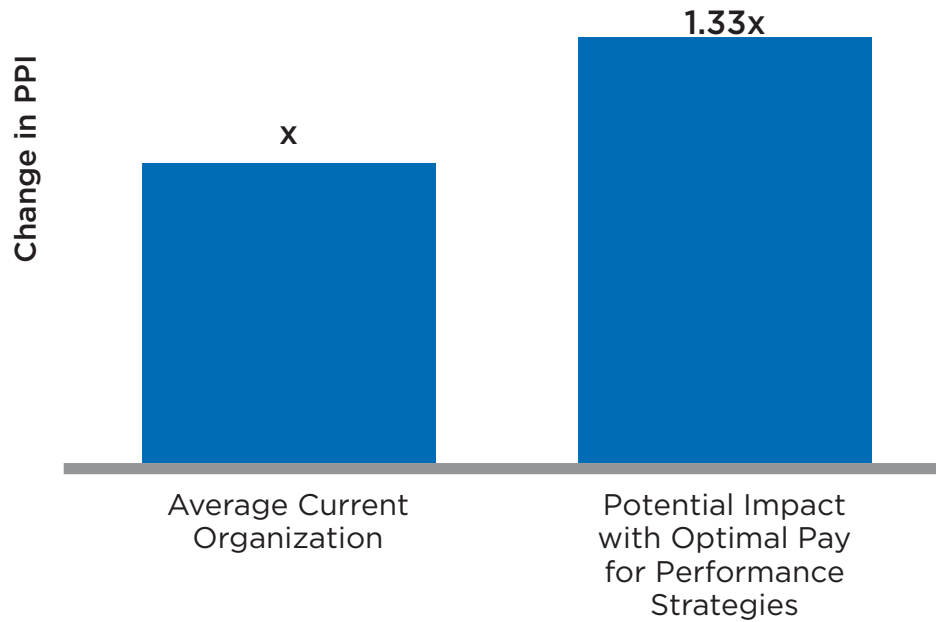


Percentage of Dissatisfied Employees Reducing Effort Levels Due to a Bonus That Did Not Reflect Their Performance

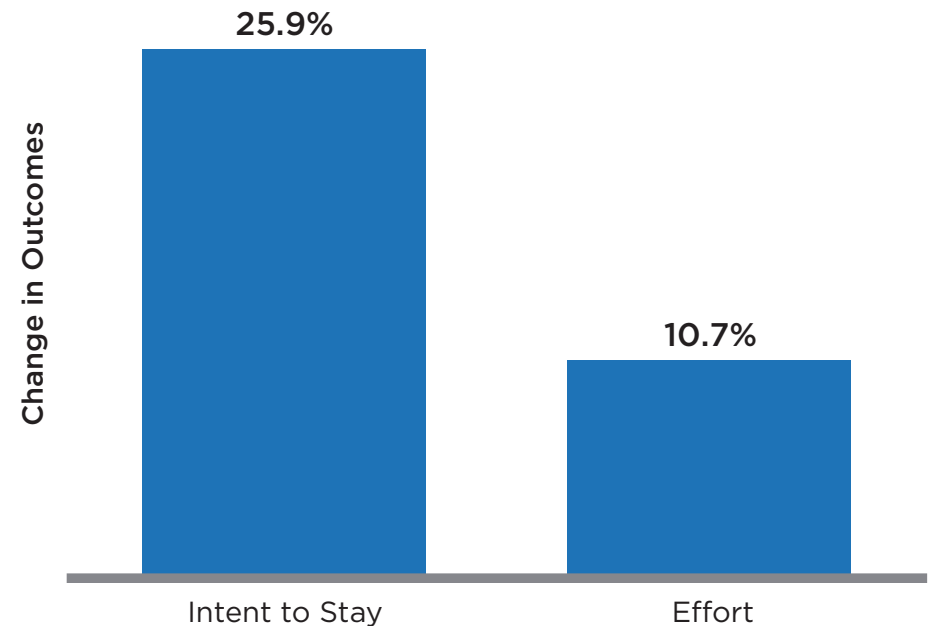


# A BIG PAY FOR PERFORMANCE OPPORTUNITY

Potential Impact of Optimal Pay for Performance Strategies on Pay Perceptions



Impact of Pay Perceptions on Intent to Stay and Effort



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# THREE CHALLENGES TO LINKING PAY WITH PERFORMANCE

## Challenge #1

Pay for performance investments not prioritized to high-impact drivers.

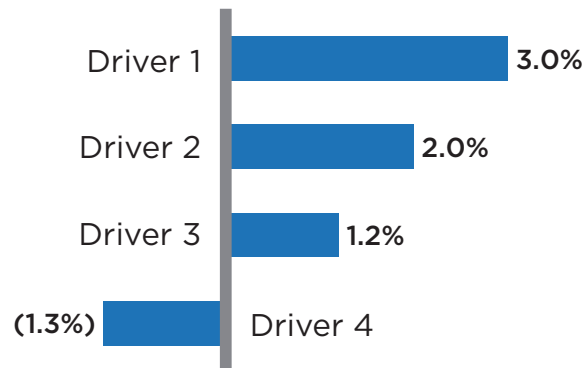
## Challenge #2

Key stakeholders not involved in pay for performance at the right time.

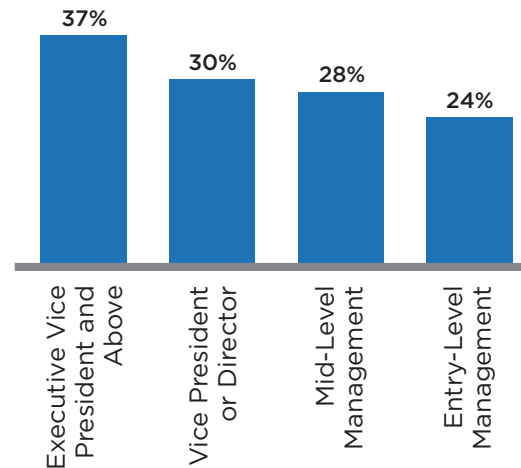
## Challenge #3

Pay for performance information not effectively communicated to employees.

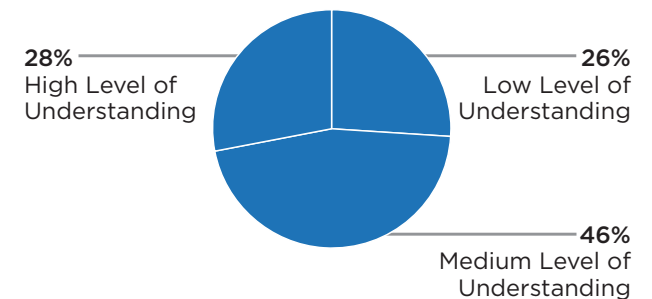
Different Impacts of Pay for Performance Drivers on the PPI



Percentage of Managers Satisfied with the Level of Input They Have into How Pay and Short-Term Incentives Are Allocated



Percentage of Employees with a High, Medium, or Low Level of Understanding of How Base and Bonus Are Determined





# THREE IMPERATIVES FOR LINKING PERFORMANCE WITH PAY

## **Imperative 1**

**Right-Size Pay for  
Performance Design**

## **Imperative 2**

**Involve the  
Right Stakeholders  
at the Right Time**

## **Imperative 3**

**Continuously  
Reinforce Pay  
for Performance**

# TEN INSIGHTS FOR LINKING PERFORMANCE WITH PAY

<b>Imperative 1</b> <b>Right-Size Pay</b> <b>for Performance Design</b>	<b>Imperative 2</b> <b>Involve the Right</b> <b>Stakeholders at the Right Time</b>	<b>Imperative 3</b> <b>Continuously Reinforce</b> <b>Pay for Performance</b>
<ol style="list-style-type: none"> <li>1. Two formal performance reviews better than one</li> <li>2. Positive impact from 360-degree reviews</li> <li>3. Performance rating scales without a mid-point have greater impact</li> <li>4. Behaviors almost as important as results in determining STI payout</li> <li>5. Timing matters in performance-related payments</li> </ol>	<ol style="list-style-type: none"> <li>6. Employee input into criteria most valuable</li> <li>7. Business integration more important than ownership</li> </ol>	<ol style="list-style-type: none"> <li>8. Manager advocacy most important</li> <li>9. All manager pay for performance communications important</li> <li>10. Only high levels of employee activities awareness drive impact</li> </ol>

# TODAY'S DISCUSSION

Driving Performance  
with Pay



**Pay for  
Performance Model**

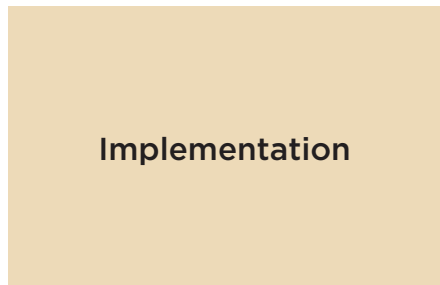
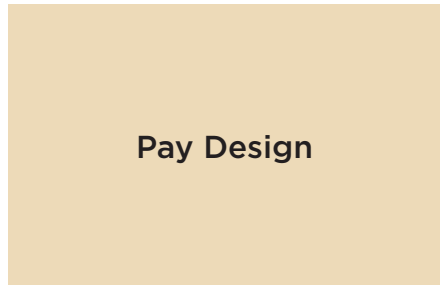


Ten Pay for  
Performance Insights

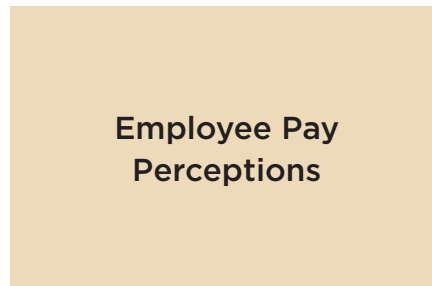
# A MODEL FOR MEASURING PAY FOR PERFORMANCE

Relationship Between Pay Policies and Strategies, Pay Perceptions, and Employee Outcomes

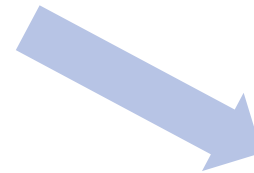
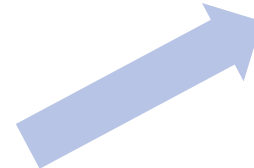
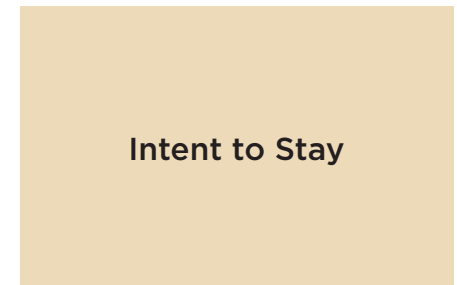
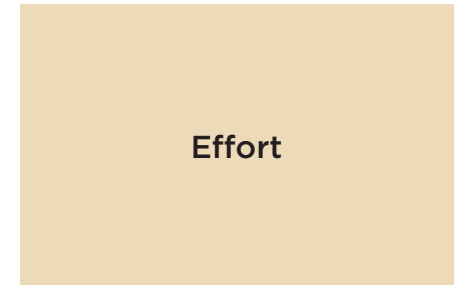
## Pay Policies and Strategies



## Pay Perceptions



## Talent Outcomes



# EMPLOYEE PAY PERCEPTIONS DRIVE TALENT OUTCOMES

Roundtable Measurement of Six Aspects of Pay Perceptions

Impact of Pay Perceptions on Intent to Stay and Discretionary Effort

## Pay Value

Financial Value

Nonfinancial Value

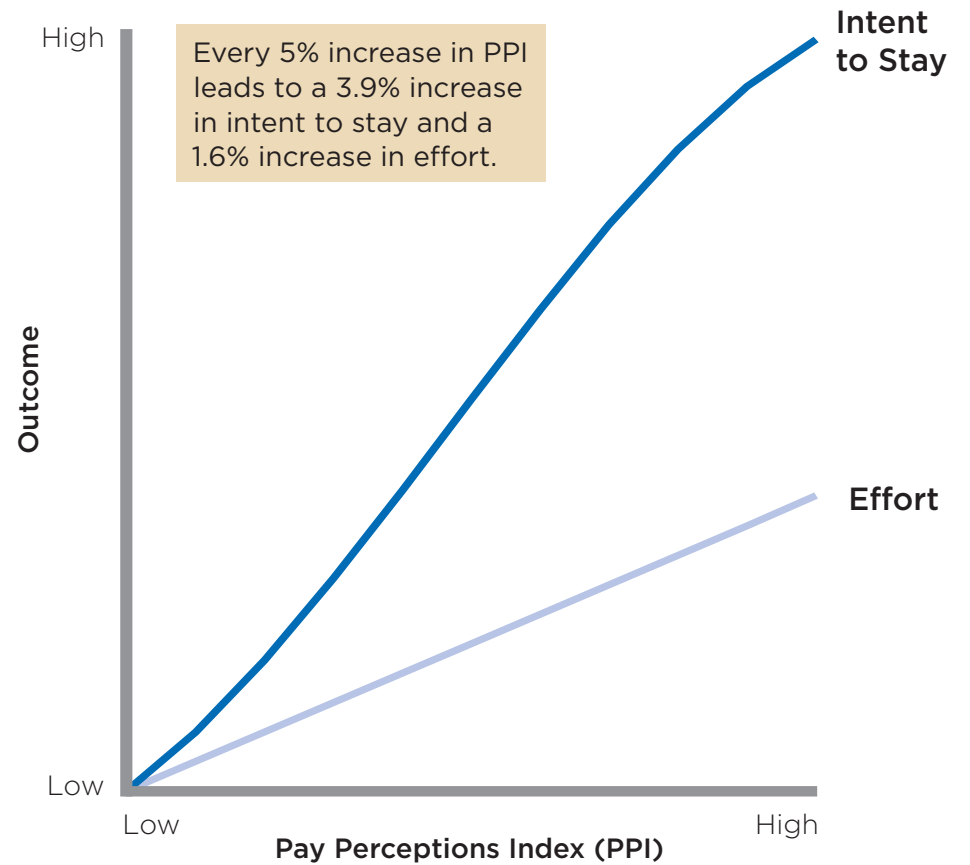
## Pay Fairness

Organizational Fairness

Manager Fairness

External Equity

Internal Equity



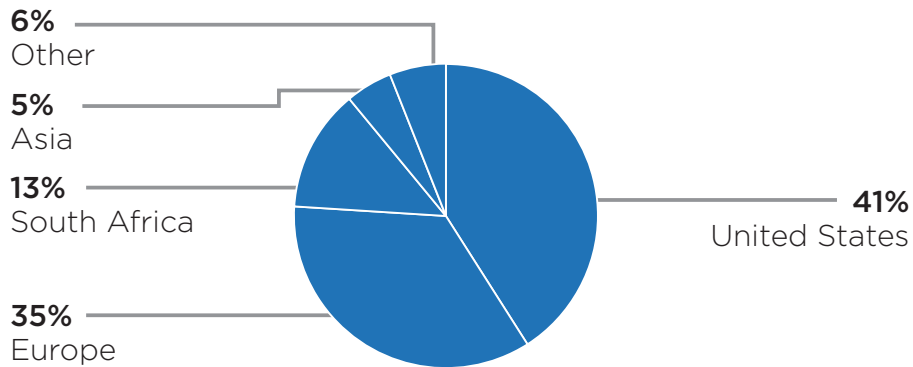
Source: 2008 Transparency in Pay Communication Survey.

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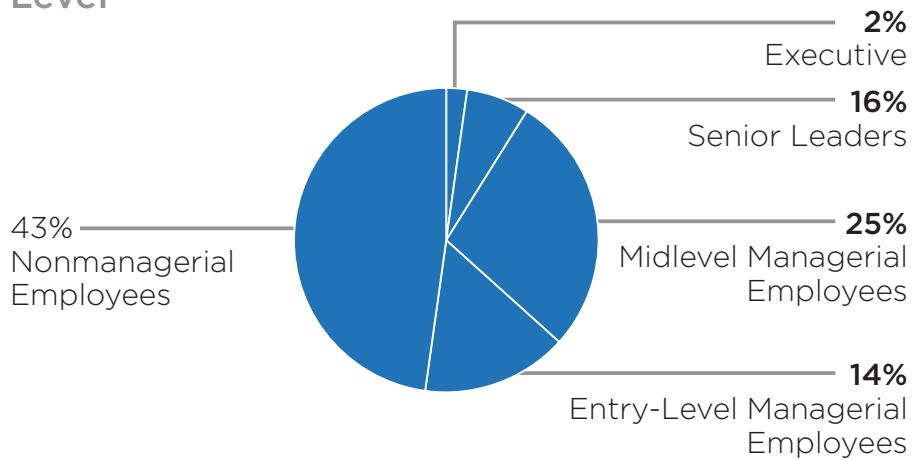
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# A GLOBAL DATASET

## Geography

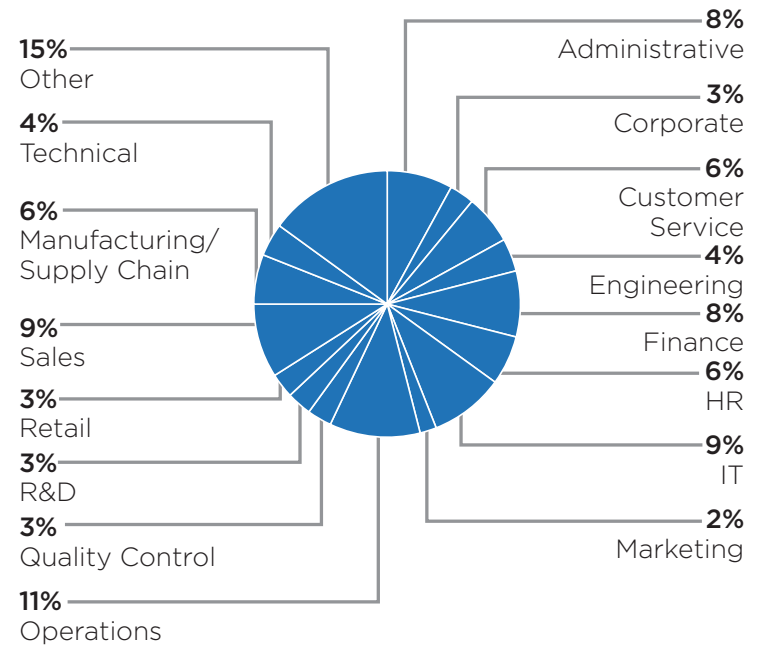


## Level

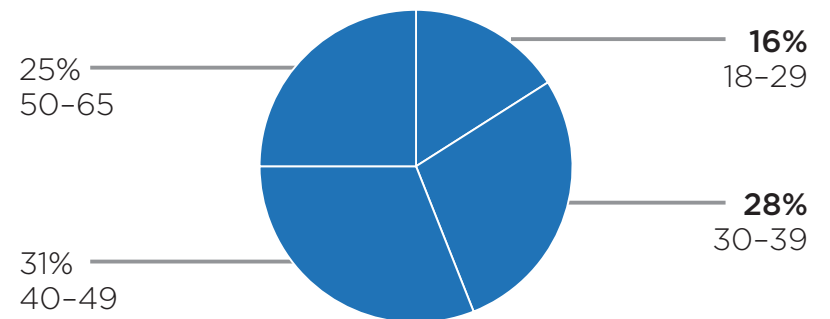


n = 8,539.

## Function



## Age



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# TODAY'S DISCUSSION

Driving Performance  
with Pay



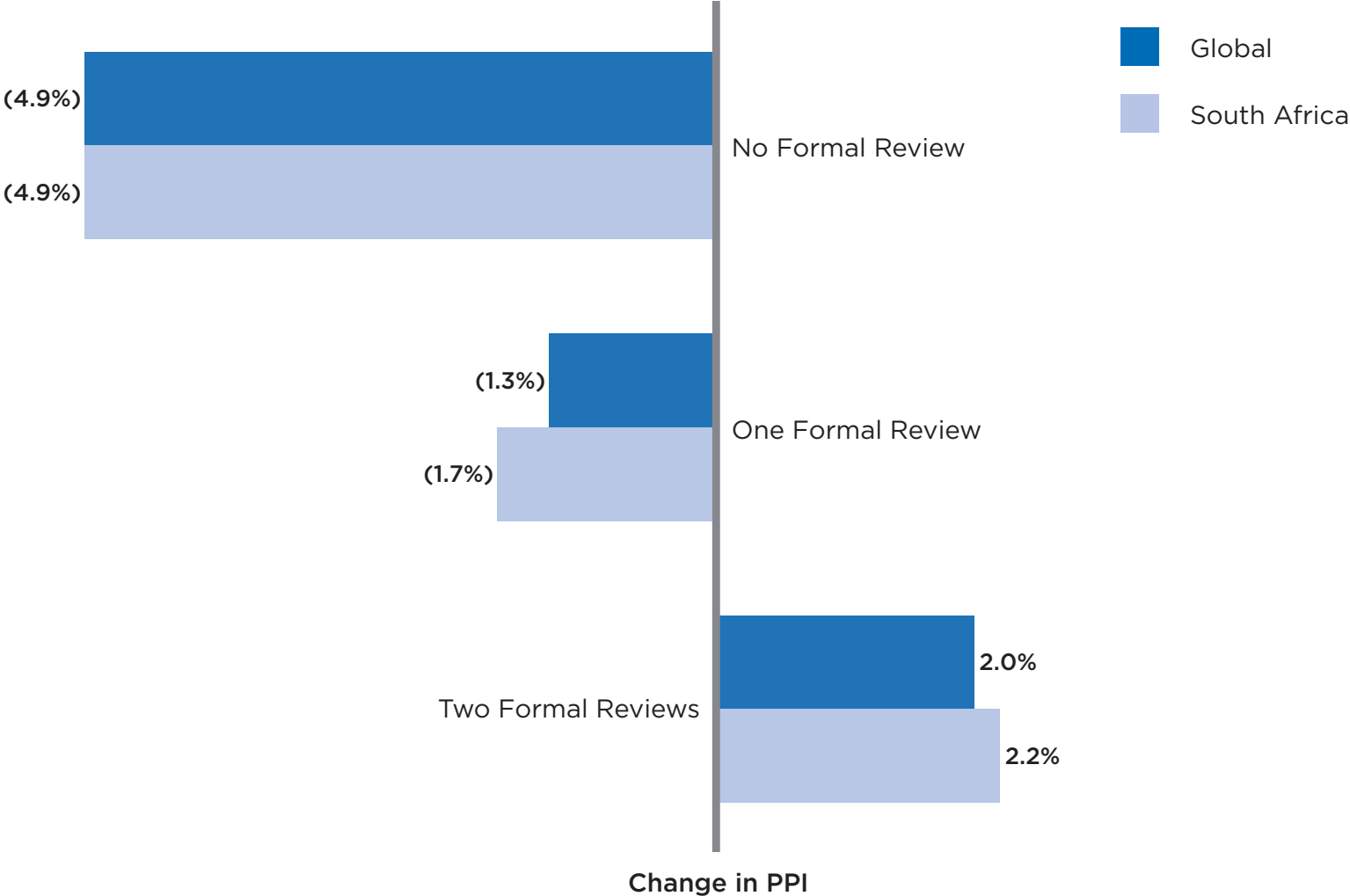
Pay for  
Performance Model



**Ten Pay for  
Performance Insights**

# 1. TWO FORMAL PERFORMANCE REVIEWS BETTER THAN ONE

Impact of Number of Formal Performance Reviews on the PPI



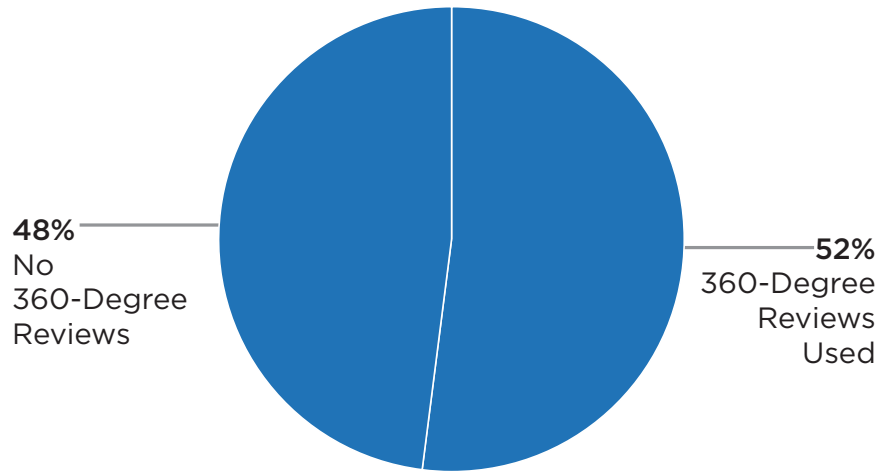
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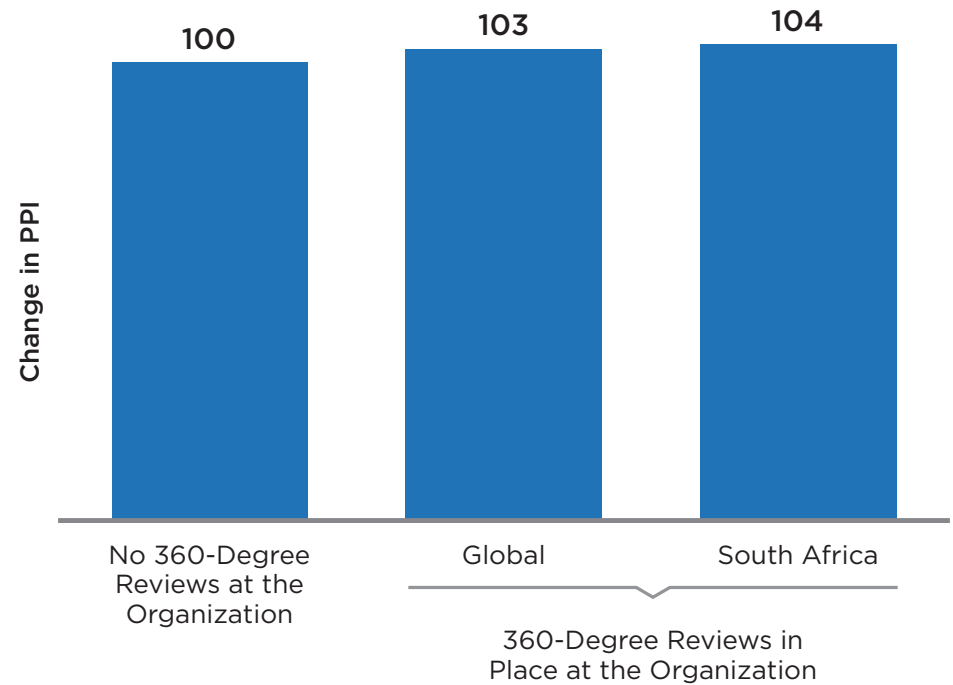


## 2. POSITIVE IMPACT FROM 360-DEGREE REVIEWS

Percentage of Organizations Using 360-Degree Reviews  
*Heads of Compensation*



Impact of 360-Degree Reviews on the PPI  
*Indexed*



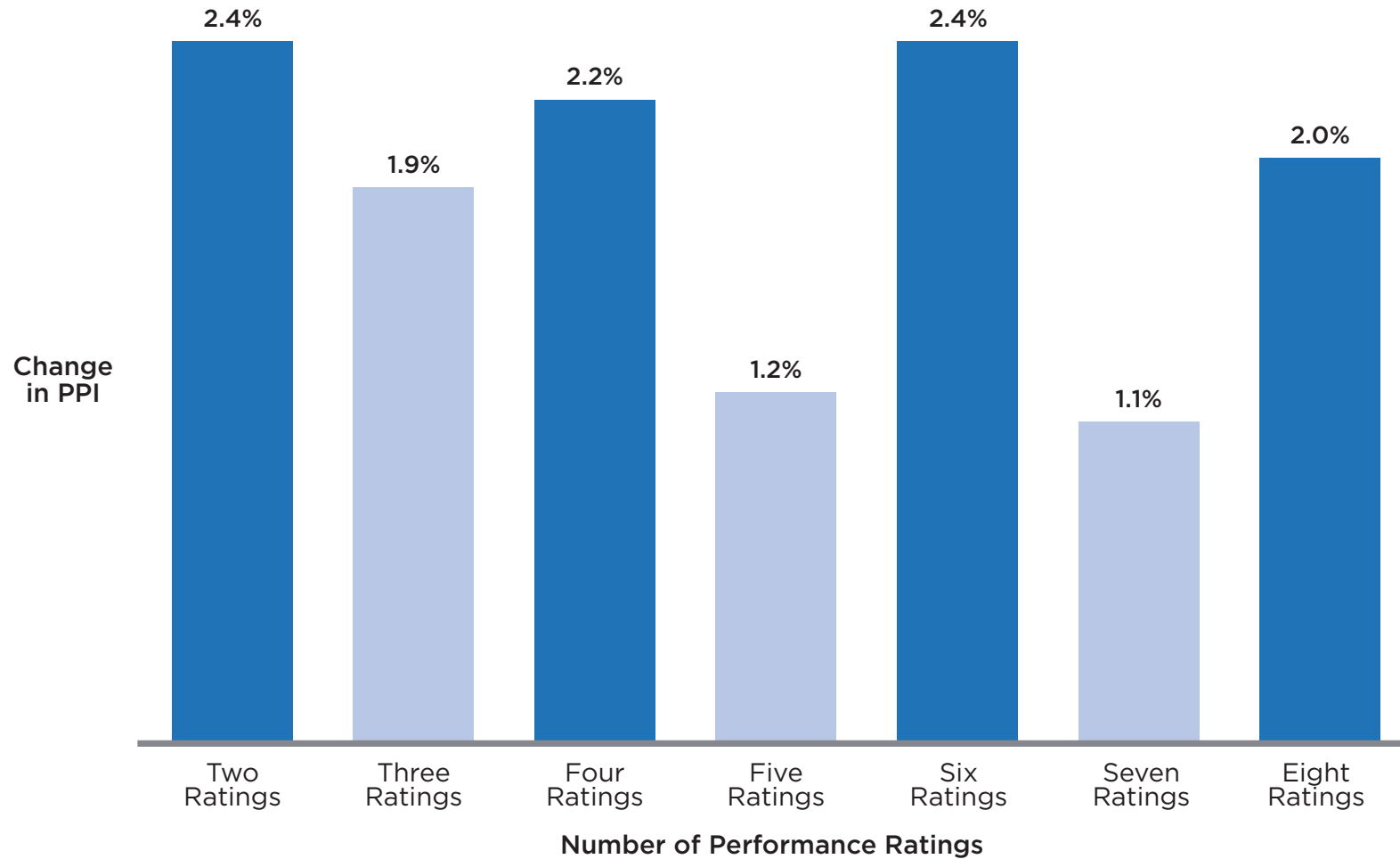
Note: Change in the PPI is the percentage increase or decrease of the average PPI score for an employee.

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### 3. PERFORMANCE RATING SCALES WITHOUT A MIDPOINT HAVE GREATER IMPACT

Impact of Number of Performance Ratings in a Ratings Scale on the PPI

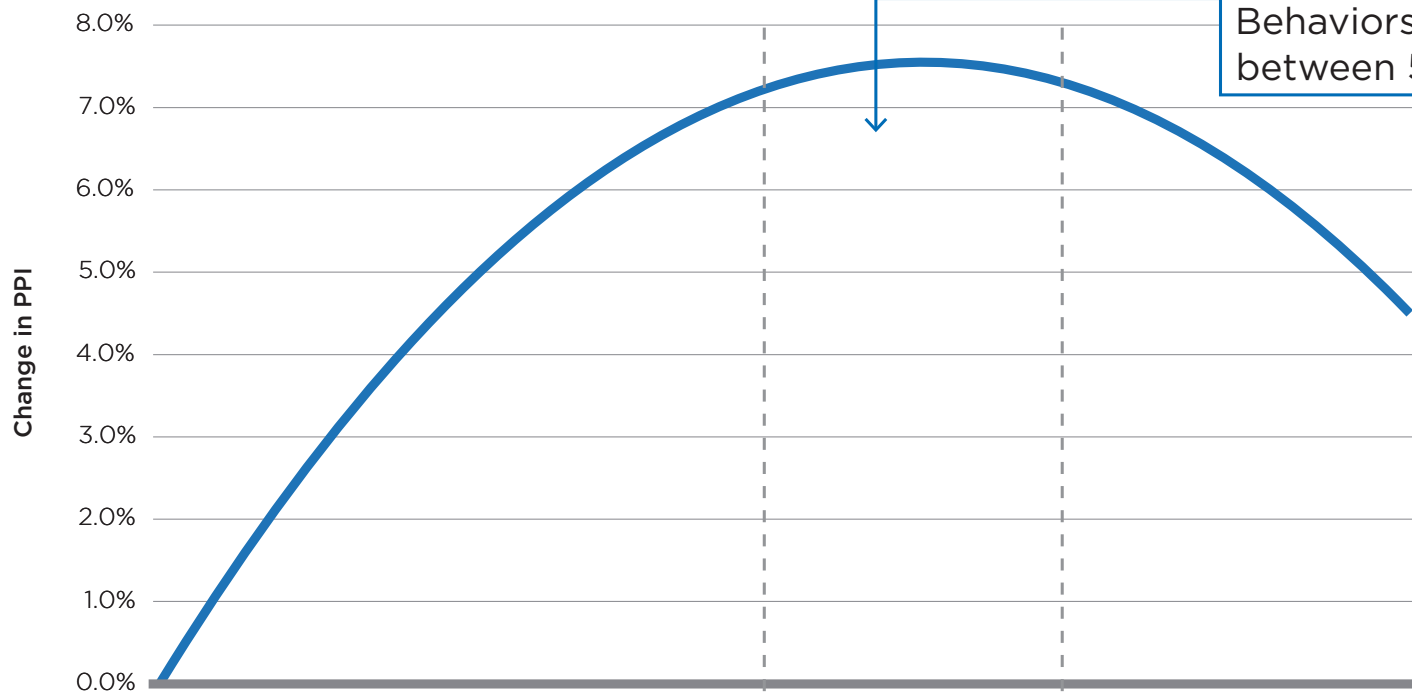


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# 4. BEHAVIORS ALMOST AS IMPORTANT AS RESULTS FOR DETERMINING STI PAYOUT

Impact of Results and Behaviors Weighting in Determining STI Payout on the PPI



<b>Results Based Evaluation</b>	0%	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%
<b>Behaviors Based Evaluation</b>	100%	90%	80%	70%	60%	50%	40%	30%	20%	10%	0%

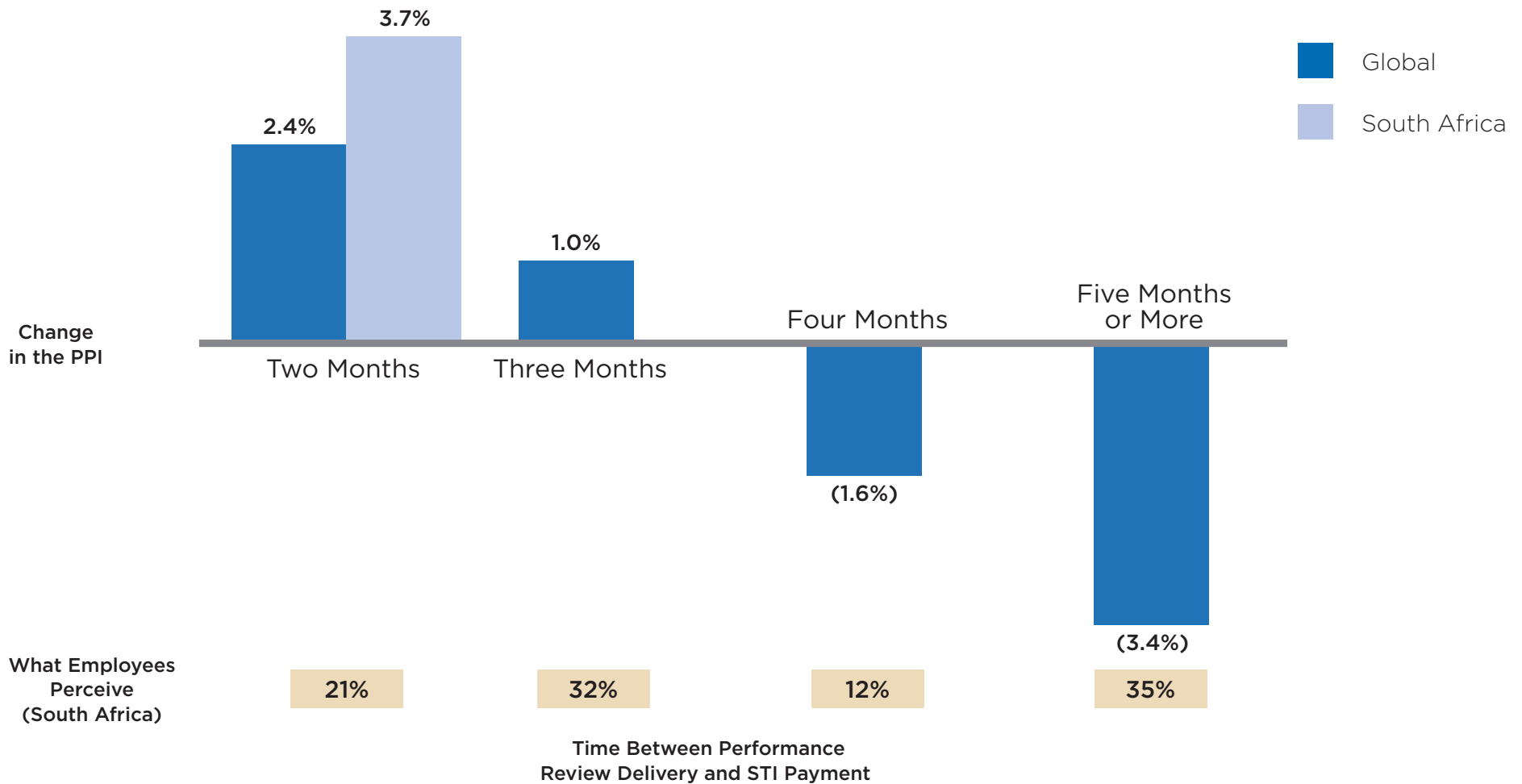
Weighting of Results and Behaviors in Determining STI Payout

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# 5. MAKE PERFORMANCE-RELATED PAYMENTS CLOSE TO THE PERFORMANCE PERIOD

Impact of Time Period Between Performance Review Delivery and STI Payment on the on the PPI

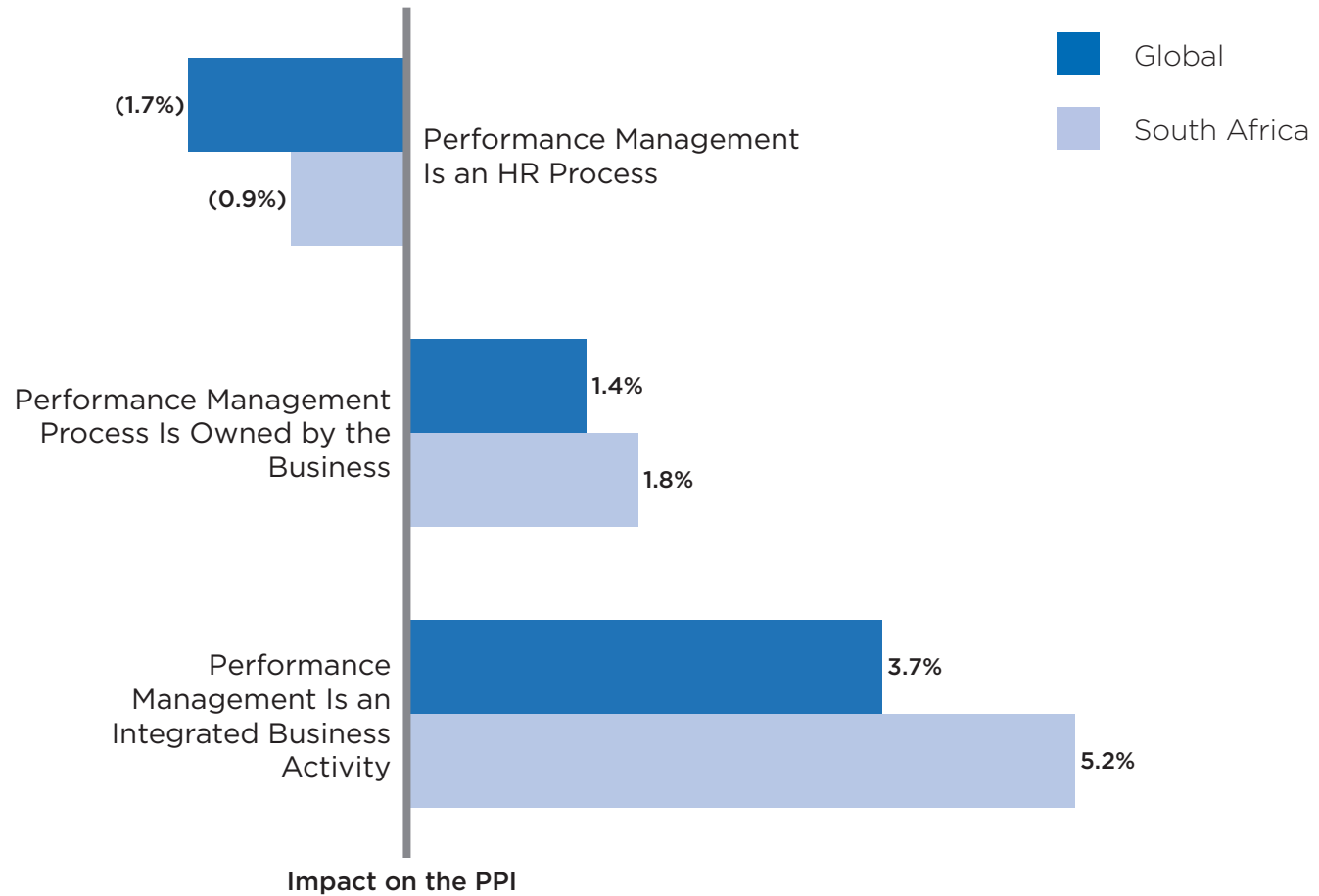


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# 6. BUSINESS INTEGRATION MORE IMPORTANT THAN OWNERSHIP

Impact of Roles in Performance Management on the PPI



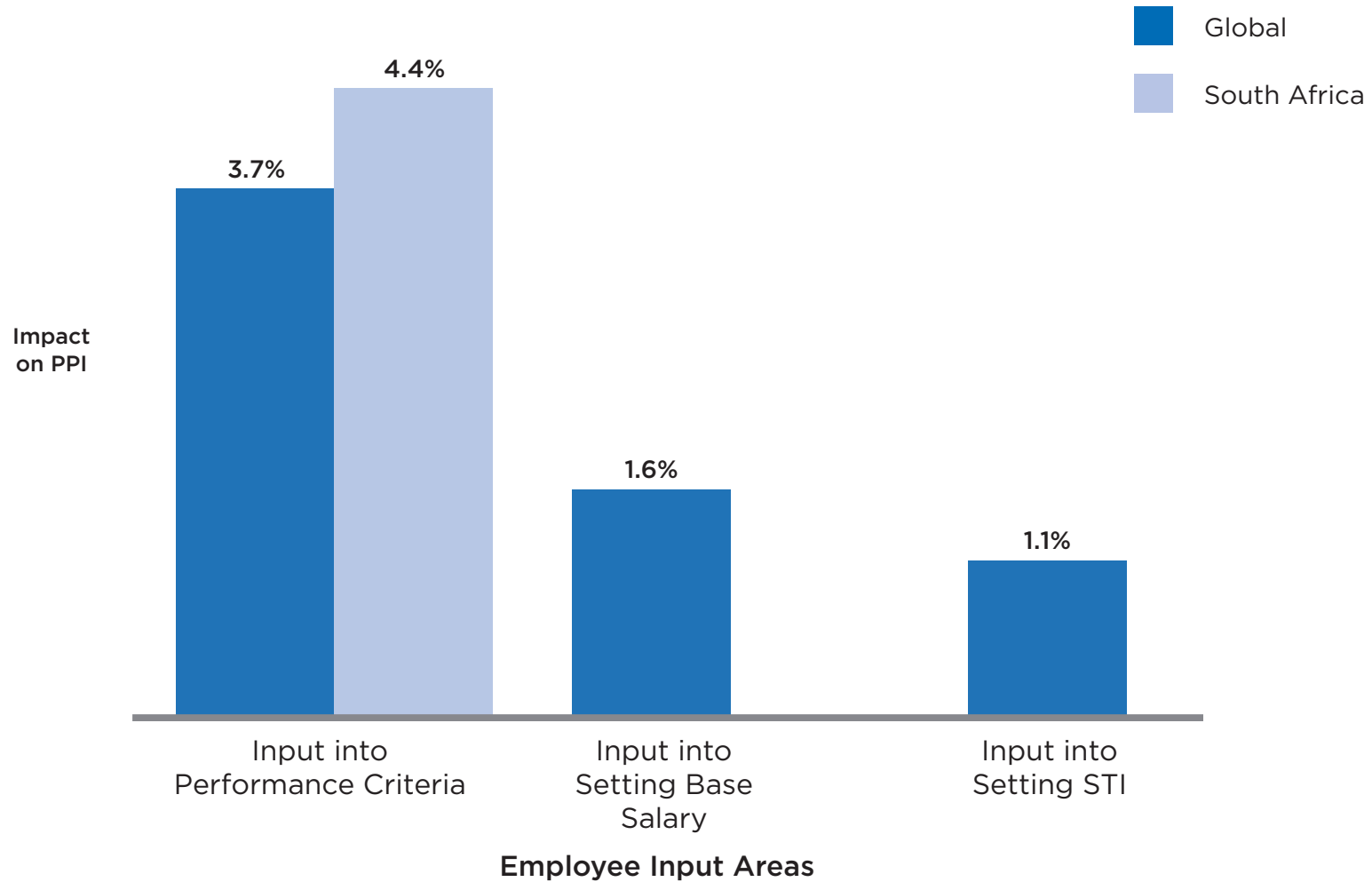
Note: Each bar represents the impact on employee pay perceptions of moving from "Neither Agree nor Disagree" to "Strongly Agree."

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# 7. EMPLOYEE INPUT INTO CRITERIA IS MOST VALUABLE

Impact of Employee Input by Topic on the PPI

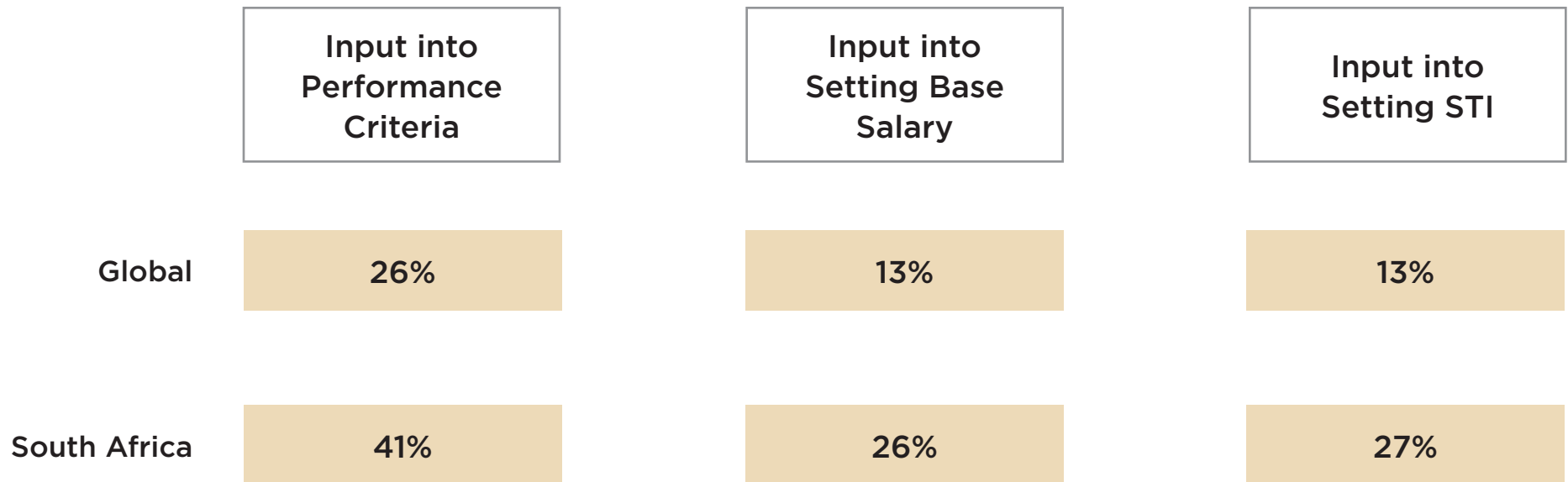


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# EMPLOYEE INPUT INTO CRITERIA—HOW ARE WE DOING?

Percentage of Employees Agreeing It Is High or Very High



# GOALSHARING HAS TWO KEY FEATURES

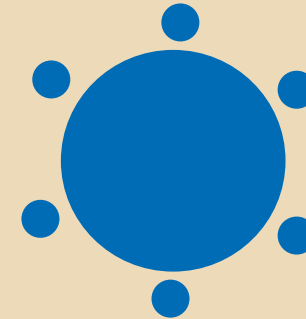
## 1. Strategic Alignment

- GoalSharing performance plans reside at the business unit level (not the corporate level), and 75% of the total bonus payout is based on business unit goal achievement.
- In contrast to profit sharing, individuals are rewarded for success at meeting business unit goals even when the company as a whole is losing money.

Corning Profit	Business Unit Goal Achievement	Individual Bonus
-	+	+

## 2. Employee Participation

- Business unit goals are developed by local employee GoalSharing committees and approved by executive review committees.



- Employee GoalSharing committees are responsible for routinely communicating details of the plan and progress against targets to coworkers.

Source: Corning, Incorporated.



# EMPLOYEES ARE ACTIVELY INVOLVED

## GoalSharing Committee Description



- Five to eight people are on each business unit's committee; participation is voluntary.
- Diverse membership allows for a variety of perspectives to ensure fairness.
  - Cross-functional
  - Various job levels
- Being chosen to participate is a reward for high performance.
- Approximately one-third of the committee members are rotated annually, allowing new members to learn from the experience of their seasoned colleagues.

## Goal Development and Approval Process



Source: Corning, Incorporated.

# PROGRESS COMMUNICATED THROUGH SCORECARDS

## Business Unit Annual Digital Scorecard

1. Each goal in the plan is displayed here with its key metric.

2. This column indicates the weight or impact of each goal on the payout.

3. Real time bonus tracking shows what the payout would be based on current performance at this moment in time.

Goal	Wt.	PYA	0%	20%	40%	60%	80%	100%	120%	140%	160%	180%	200%	Bonus
<b>COM</b> Percent of budget YTD	30%	77	0	0.3	0.6	0.9	1.2	1.5	1.8	2.1	2.4	2.7	3.0	1.5
<b>Customer Delivery</b> % of on-time deliveries	15%	80	0	.15	.30	.45	.60	.75	.90	1.05	1.2	1.35	1.5	.45
<b>Sales</b> Percent of budget YTD	20%	71	0	0.2	0.4	0.6	.80	1.0	1.2	1.4	1.6	1.8	2.0	.80
<b>Quality</b> Defects (K) per 1M product starts	10%	10	0	0.1	0.2	0.3	0.4	0.5	0.6	0.7	0.8	0.9	1.0	0.6
<b>Earnings per Share</b> Earnings per share	25%	.34	0	0.25	0.5	0.75	1.0	1.25	1.5	1.75	2.0	2.25	2.5	1.0
<b>Total Payout</b>	100%		0%	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	<b>4.35</b>

4. Previous year's actual performance—target goals are determined based upon the previous year's performance (where data is available) to ensure continuous improvement.

6. For each goal, this row shows the target performance levels.

5. For each goal, this row shows the payout amount at each level of performance (20%, 40%, etc.).

7. This row indicates the overall payout for each level of performance (20%, 40%, etc.). Once the payouts for the target goals at 100% and 200% are determined, the numbers in between are calculated.

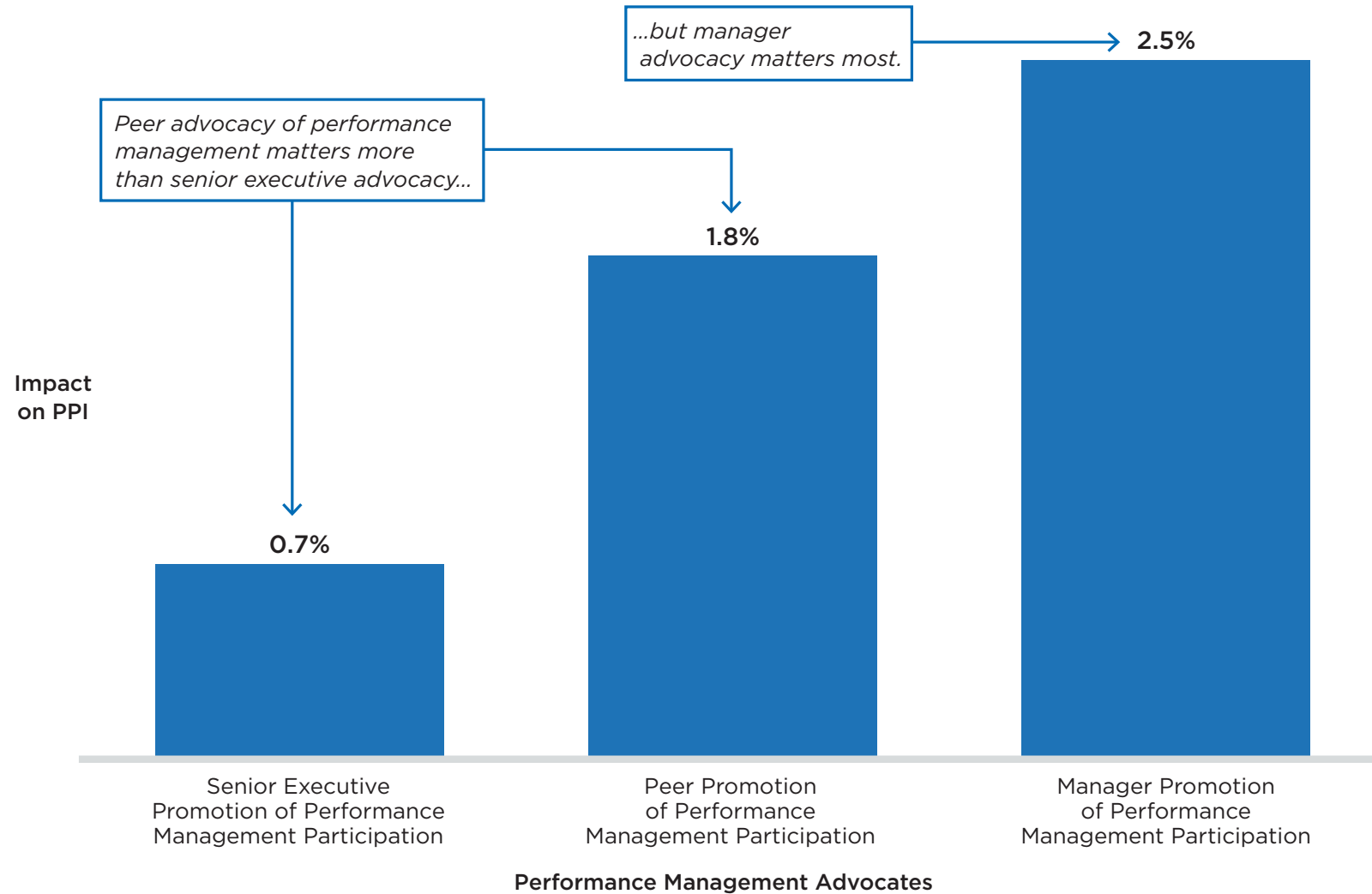
Source: Corning, Incorporated.

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# 8. MANAGER ADVOCACY MOST IMPORTANT

Impact of Performance Management Advocacy on the PPI

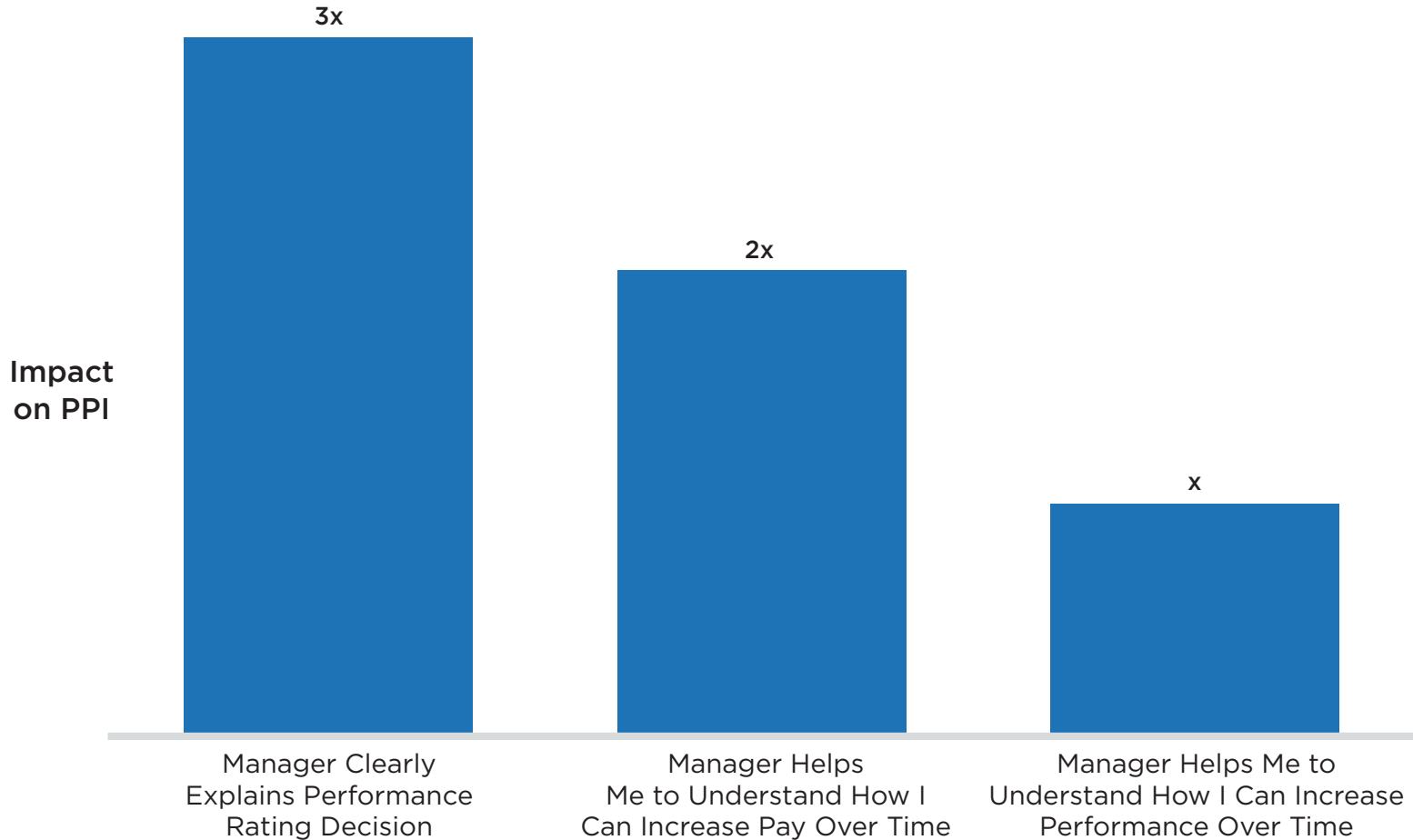


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# 9. ALL MANAGER PAY FOR PERFORMANCE COMMUNICATIONS ARE IMPORTANT

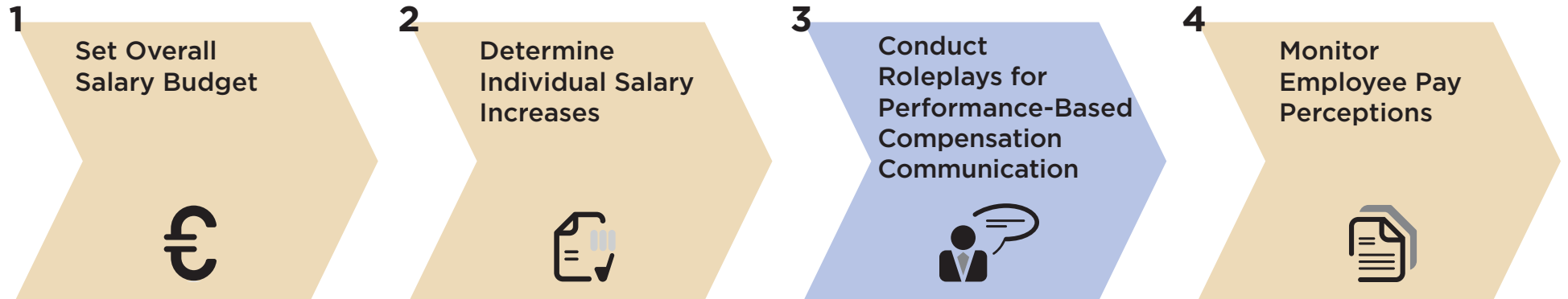
Impact of Manager Pay for Performance Communications on the PPI  
*Indexed*



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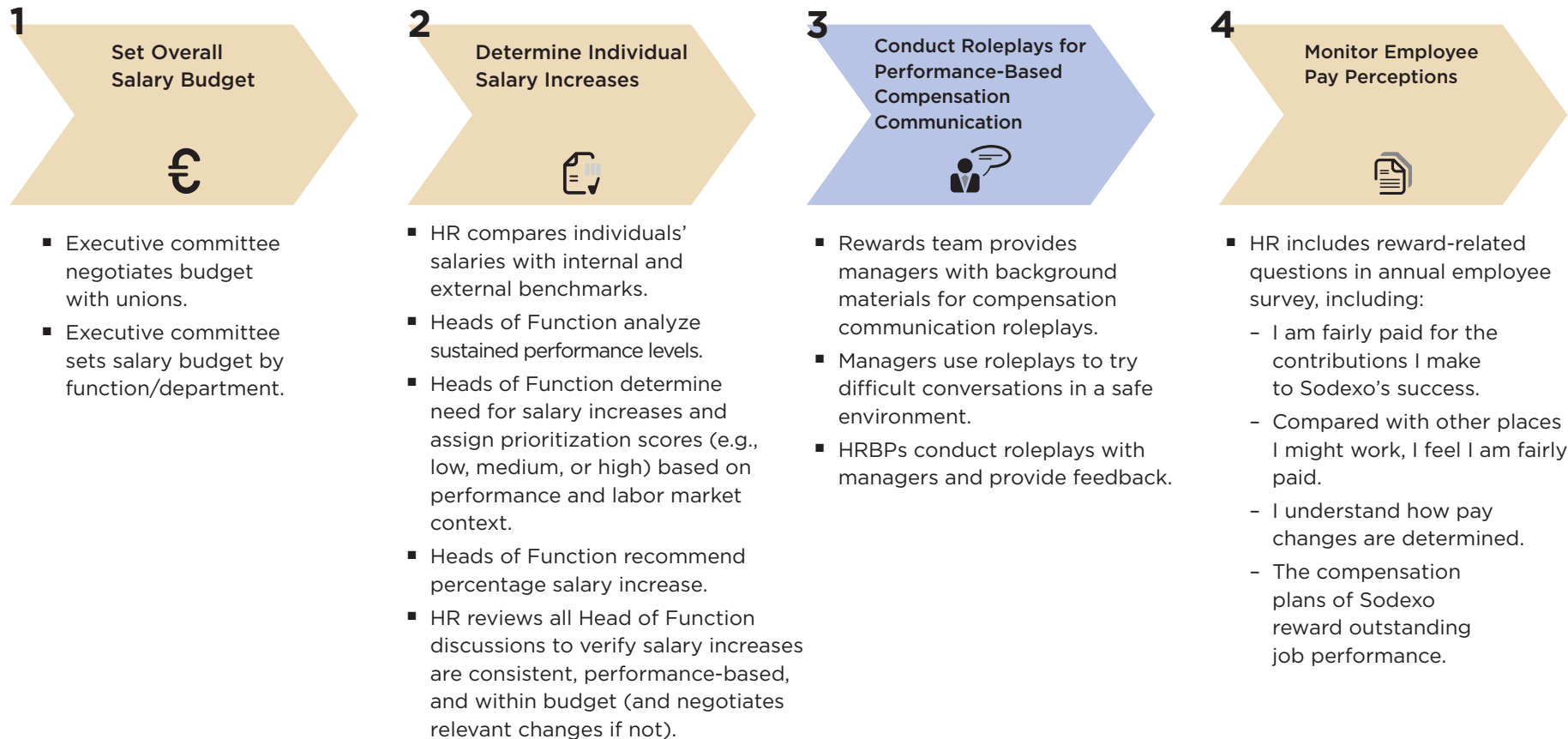
# EMBED PERFORMANCE-BASED COMPENSATION COMMUNICATION INTO REWARDS CYCLE



## Key Principles of Reward Philosophy

- **Equity:** Employees remunerated in a consistent and fair fashion that reflects their contribution to the business
- **Competitiveness:** Remuneration is sufficiently competitive to attract and retain necessary talent
- **Flexibility:** Remuneration processes allow performance and potential of each individual to be taken into account

# EMBED PERFORMANCE-BASED COMPENSATION COMMUNICATION INTO REWARDS CYCLE



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Source: Sodexo.

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# COACH MANAGERS FOR CONVERSATIONS THAT COUNT



## 1 Rewards Team Prepares Managers for Performance-Based Compensation Communication Roleplay

Managers receive the following information:

- Business case for manager roleplay scenarios
- Background details on four fictitious employees (performance history, skills, etc.)
- Background details on salary budget, conversations with unions, etc.

### Fiona

She is highly committed and the most stable member of the team. However, you know that her upward career prospects are limited. She has received several salary increases over the last few years, which means she is highly-paid in relation to her peers.

**Arthur**  
Arthur j  
extreme

Name	Grade	Salary	Competitive Position	Your Recommendation
Fiona	8	57,000	106%	
Arthur	4	46,000	102%	
Régis	3	55,000	88%	

## 2 Roleplays Push Managers to Try Difficult Conversations in a Safe Environment

Roleplays encourage managers to consider how to answer the following types of questions:

- Which employees' pay increases will you prioritize?
- What percentage pay increase will you recommend for each employee?
- How will you justify your decisions?
- What difficulties do you anticipate in your conversations (e.g., for those with only a small increase)?
- What other precautions/actions will you recommend?

Source: Sodexo.

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# COACH MANAGERS FOR CONVERSATIONS THAT COUNT (CONTINUED)

## 3 HRBPs Conduct Roleplays with Managers

- Managers have opportunity to make compensation decisions and roleplay compensation communication with HRBP
- Roleplay sessions typically last approximately 30-60 minutes in total
- HRBPs play different employee positions to provide managers with a wide range of experiences
- HRBPs provide feedback and support during and after the roleplay session



Source: Sodexo.

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## 4 Rewards Monitors Impact of Pay Conversations

Rewards team uses the following channels to monitor the impact of pay conversations and identify whether roleplays are enabling managers to conduct more effective conversations:

- Employee surveys to test pay perceptions
- Manager feedback on self-perceptions of communication effectiveness
- HRBP feedback on manager capabilities during roleplays

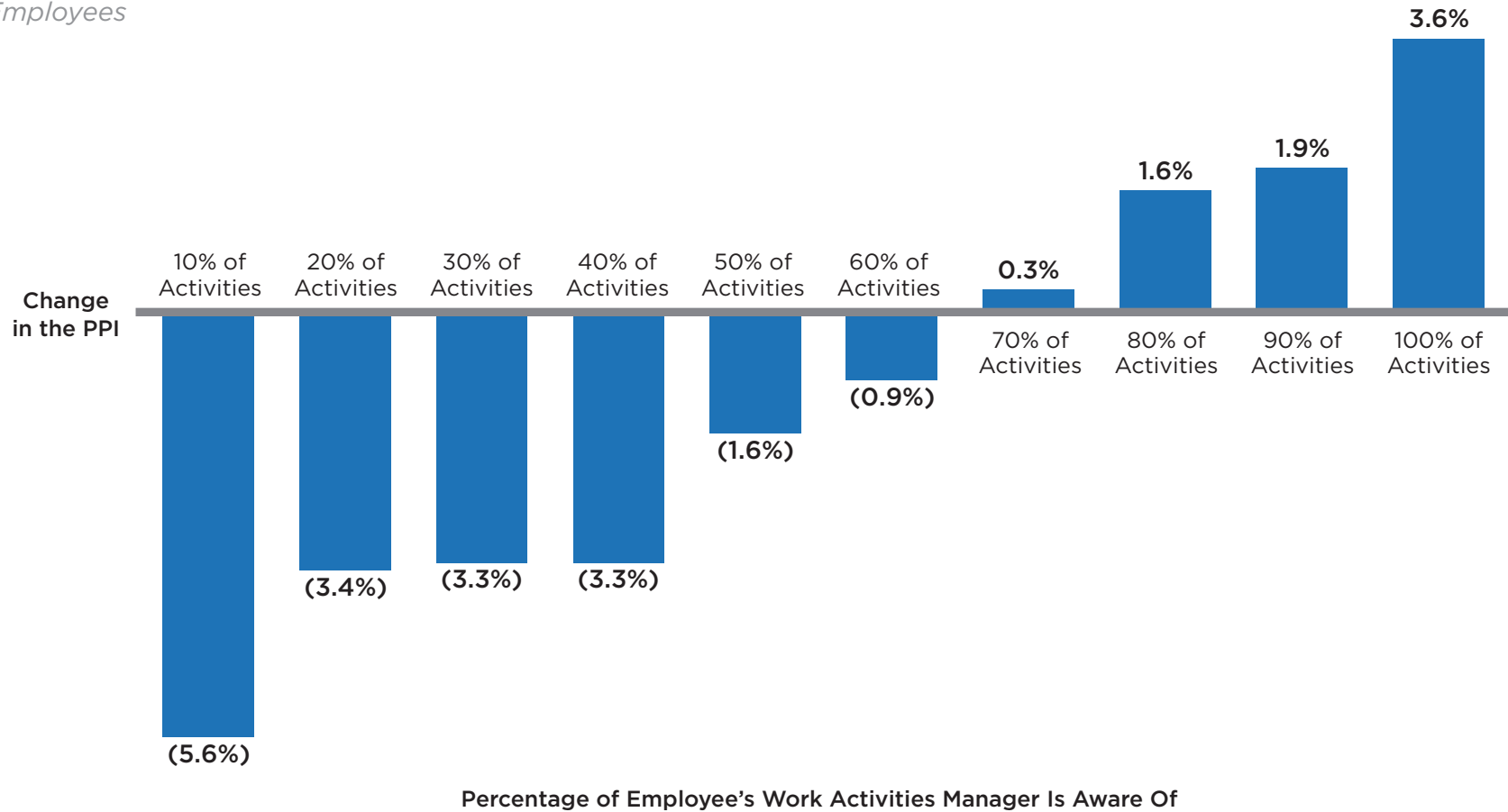




# 10. ONLY HIGH LEVELS OF EMPLOYEE ACTIVITIES AWARENESS DRIVE THE PPI

## Impact of Manager Awareness of Employee Work Activities on the PPI

Global Employees

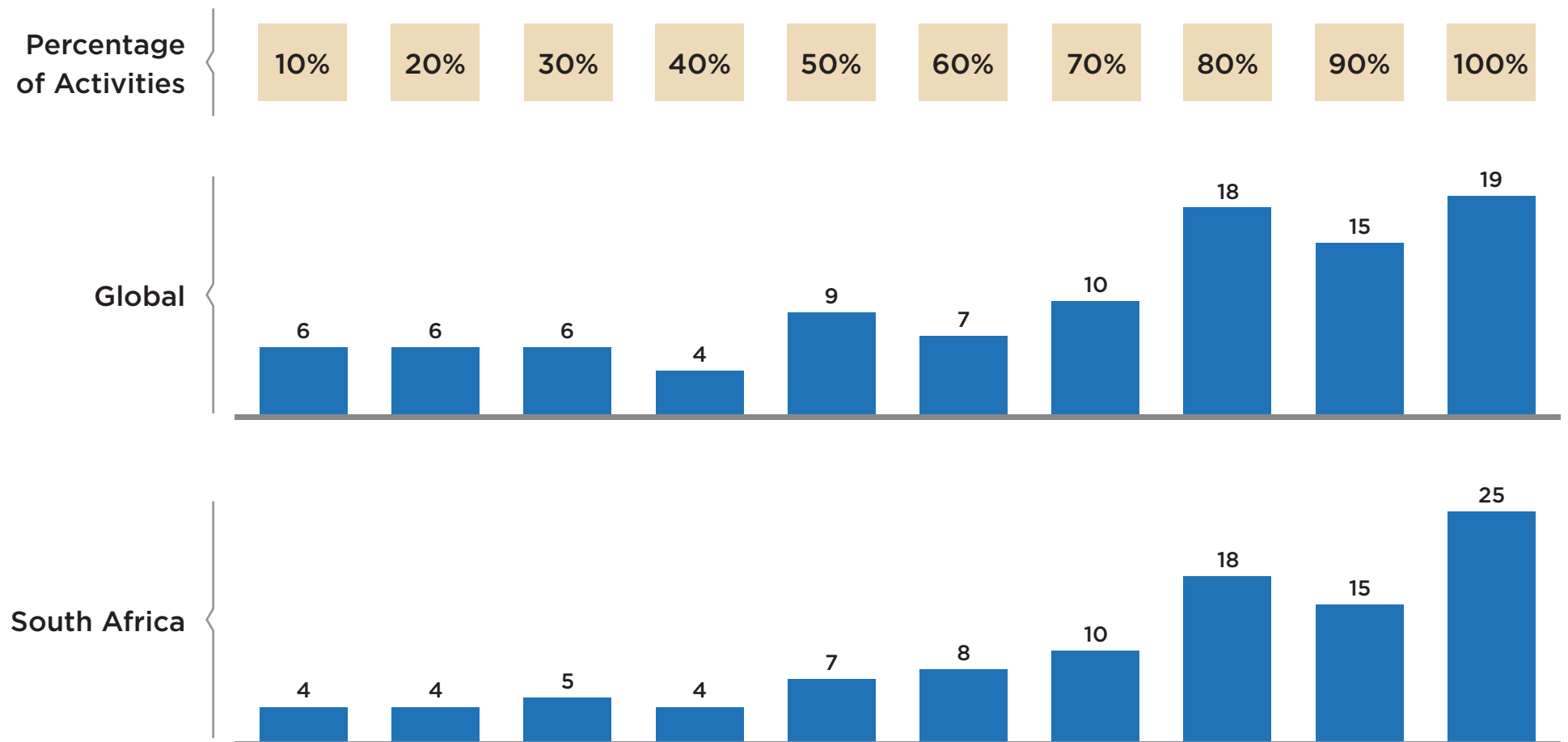


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# EMPLOYEE ACTIVITIES AWARENESS—HOW ARE WE DOING?

## Employee Perceptions of What Their Manager Knows



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# TEN INSIGHTS FOR LINKING PERFORMANCE WITH PAY

<b>Imperative 1</b> <b>Right-Size Pay</b> <b>for Performance Design</b>	<b>Imperative 2</b> <b>Involve the Right</b> <b>Stakeholders at the Right Time</b>	<b>Imperative 3</b> <b>Continuously Reinforce</b> <b>Pay for Performance</b>
<ol style="list-style-type: none"> <li>1. Two formal performance reviews better than one</li> <li>2. Positive impact from 360-degree reviews</li> <li>3. Performance rating scales without a mid-point have greater impact</li> <li>4. Behaviors almost as important as results in determining STI payout</li> <li>5. Timing matters in performance-related payments</li> </ol>	<ol style="list-style-type: none"> <li>6. Employee input into criteria most valuable</li> <li>7. Business integration more important than ownership</li> </ol>	<ol style="list-style-type: none"> <li>8. Manager advocacy most important</li> <li>9. All manager pay for performance communications important</li> <li>10. Only high levels of employee activities awareness drive impact</li> </ol>



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