

DISCOVER A WHOLE NEW WORLD WHERE
PERFORMANCE
DRIVES PROFITS

It's How Employees Perceive they are Rewarded that Counts

Building Clarity and Support for Variable Pay

Marc Wallace

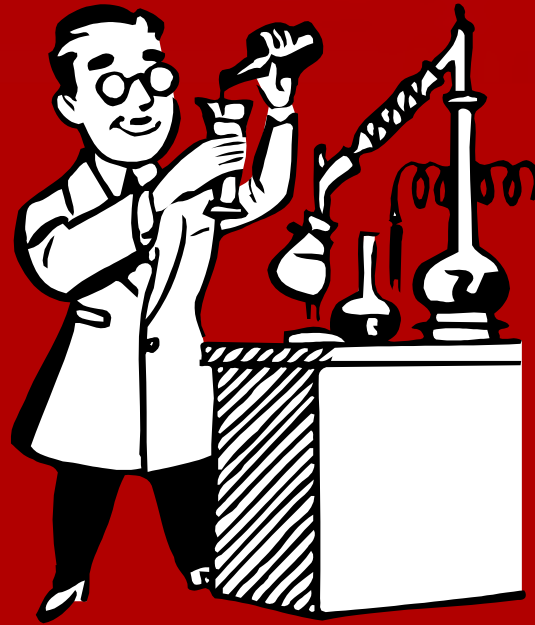
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Agenda

- Recent research
- Key Issues and Cases
- Closing Thoughts

Recent Research



Communication Quiz

- How effective is your communication about pay?

Very Effective?

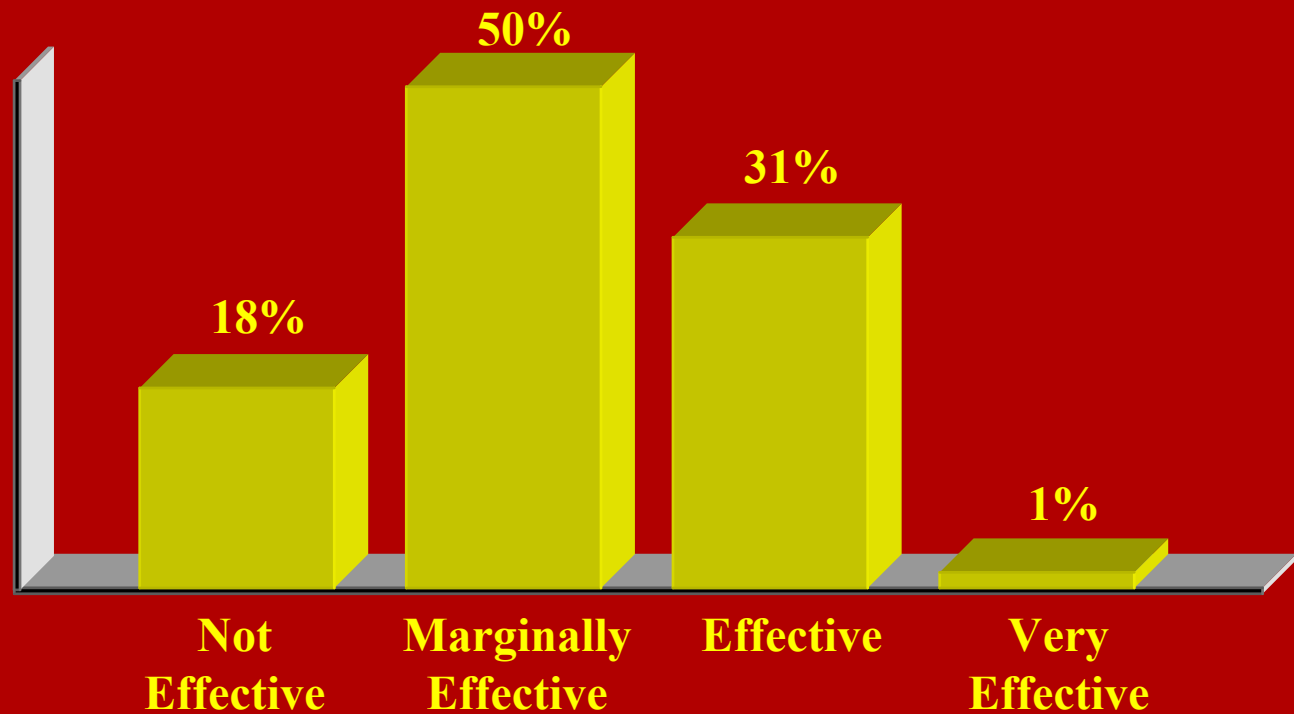
Effective?

Marginally Effective?

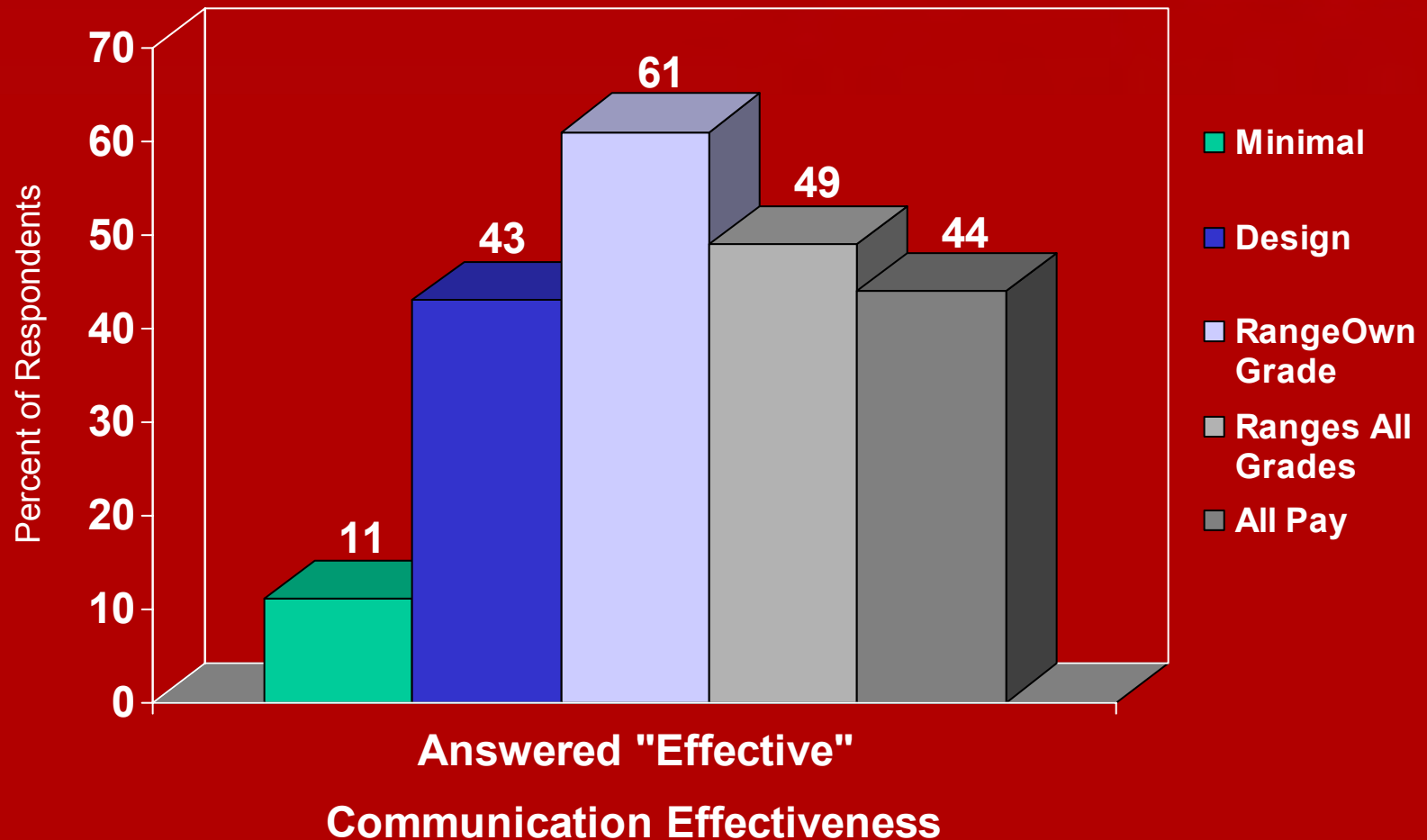
Not Effective?



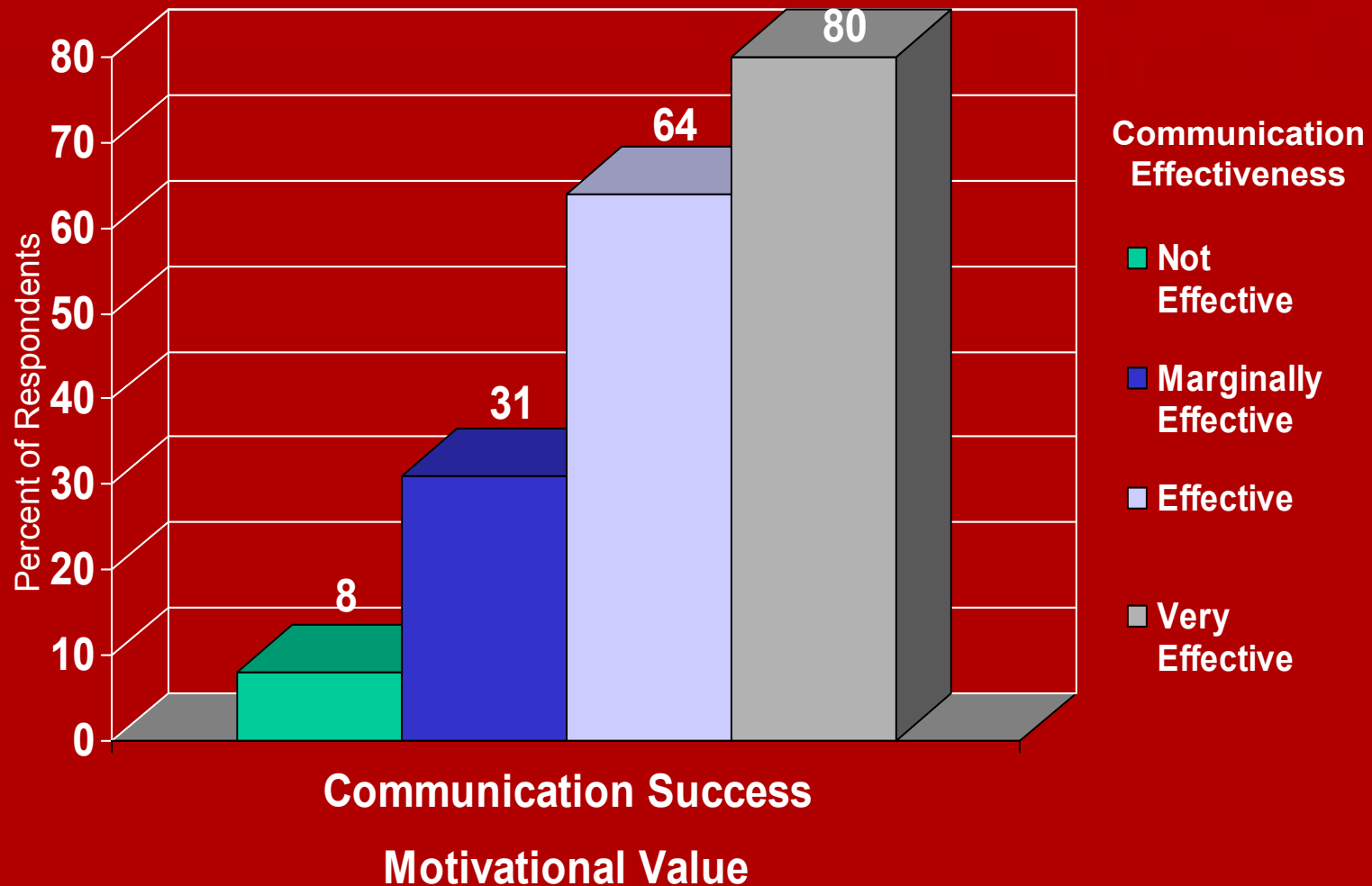
Information Shared about Pay*



Information Communicated Is Linked To Communication Effectiveness*



Communication Effectiveness Is Linked To Motivational Value*



Communication is the Key...

- Reasons why management believe plans need improvement* (Top three):
 - Inadequate line of sight to individual effort.
 - Payout/pay insufficient.
 - Insufficient tie-in to individual performance.

Communication is the Key...

- Reasons why employees believe plans need improvement* (Top three):
 - Inadequate line of sight to individual effort.
 - Poor payout history.
 - Plan design complicated or inadequately communicated.

Conclusion: Communication And Employee Understanding

- Communication is a challenge for everyone.
- Written communication has more impact.
- Communication is linked to motivation.
- Communicating the right information about pay is critical.



Key Issues and Cases

- Simplicity
- Line of Sight



Issue 1: Simplicity



Typical Problem: Does this Make Sense?

“The maximum potential bonus amounts for each participant... is calculated based on their target bonus amount multiplied by profitability of that participant’s company or division, then the actual bonus amount for that individual is calculated by taking the weight factor of that participant’s maximum potential bonus relative to the total maximum potential bonus amount of all participants in the group multiplied by the total actual bonus pool apportioned to the group.”

Food Processor's Plan

- One simple scorecard...

| Measure | Definition | Weight | Threshold | Target | Stretch |
|------------------|------------------------------|--------|-----------|--------|---------|
| Return to Cooler | lbs returned/ lbs shipped | 40% | 5% | 4% | 3% |
| Lbs / Hour | lbs packed/ hours worked | 30% | 250 | 300 | 350 |
| Mfg. Yield | lbs stuffed/ standard | 30% | 97% | 98% | 98.5% |
| Payout | | | 3% | 5% | 8% |

Printer's Plan

- One page brochure.

Objectives of this Incentive Plan

- Create a culture of measurement and accountability.
- Establish a plan that rewards employees for achieving key objectives.
- Link each employee's effort to the company's performance.
- Be dynamic and flexible enough to meet future market and industry conditions.

1. Plan Eligibility

- All full time regular hourly production employees in Preparation, Press, Bindery, Material Handling and Maintenance.
- Not on Performance/Attendance Probation at any time during the quarter.

Frequency

The plan will pay out on a *quarterly* basis. Each quarter is independent from other quarters. *It's a "clean slate" every quarter.*

Performance Levels

There are three levels of performance in the plan: **Threshold.** Payout begins. **Target.** Full payout achieved. **Maximum.** Highest payout achieved. Payouts are on a continuous scale. (If you achieve halfway between Target and Maximum, you are paid halfway between the Target and Maximum Payout.)

| Payout Levels - Floor | Performance | Payout |
|--|-------------|--------|
| Threshold(75%) | 3% | |
| Target(100%) | 4% | |
| Maximum(125%) | 5% | |
| Percent of your base and overtime for the quarter. | | |

Positions in the Floor Team

The eligible positions are divided into four teams. Positions in the Floor Team are:

- ☐ Packers
- ☐ Utilities
- ☐ Helpers
- ☐ Operators

Performance Factors

Payouts are based on achievement in three key Performance Factors: Productivity, Waste Efficiency and Spoilage Reduction. These factors are weighted.

Each Performance Factor is measured by **team**. These measures are independent of the others. In other words, if your

team does not meet Threshold for Productivity and Waste Efficiency, but meets Target for Spoilage Reduction, you will receive a bonus of 34% of the 4% Target (or 1.4%). *Even if your team does not meet Threshold in one area, you may still be able to earn a payout.*

Monitoring your Incentive Achievement
During the quarter, performance achievement will be posted weekly or monthly, depending on the measure. Also, regular updates will be provided during shift meetings.

You will also receive *Line of Sight* charts to show you how to impact the measure - and - earn the payout.

Performance Factor Weighting

| | |
|---|-----|
| Productivity | 33% |
| Waste Efficiency | 33% |
| Spoilage Reduction | 34% |
| Overall achievement is the weighted average of achievement for each Performance Factor. | |

3. Plan Measures

Each Performance tangible measure, differ depending on working in.

Productivity - 33%
Productivity is measured as follows:

| Area | Measure |
|-------------|---|
| Preparation | Total prep made per crewed hour including ready, run and delay. |
| Press | Total net good impressions produced per crewed press hour including ready, run and delay. |
| Finish | Total net good produced per crewed machine hour to include ready, run and delay. |
| Maintenance | Average of Press and Finish achievement. |

Waste Efficiency - 33% of the Plan

Waste Efficiency is based on the following:

- ☐ Ready Waste: All waste impressions run after inspection.
- ☐ Run Waste: All waste impressions occurring while on run.
- ☐ Net Material Yield: Signatures sold divided by net signatures produced.

Spoilage Reduction - 34% of the Plan

Spoilage Reduction is the quarterly reduction in spoilage cost.

See your *Line of Sight* chart for complete details!

4. Example Calculation

Here are a couple of examples to show you how this plan works.

Example 1: Achieve Target

| | | | | |
|---|---|-------------------|---|-----------|
| Productivity Achieved: 100% of Target | X | Weight: 33% | = | 33% |
| Waste Efficiency Achieved: 100% of Target | X | Weight: 33% | = | 33% |
| Spoilage Reduction Achieved: 100% of Target | X | Weight: 34% | = | 34% |
| Percent of Overall Target Achieved: | | | | 100% |
| Percent of Target Achieved: 100% | X | Target Payout: 4% | = | 4% Payout |

Example 2: Ace Two Measures, Lose One

| | | | | |
|---|---|-------------------|---|----------------------|
| Productivity Achieved: 74% of Target | X | Weight: 33% | = | 0% (Below Threshold) |
| Waste Efficiency Achieved: 125% of Target | X | Weight: 33% | = | 41.3% |
| Spoilage Reduction Achieved: 125% of Target | X | Weight: 34% | = | 42.5% |
| Percent of Overall Target Achieved: | | | | 83.8% |
| Percent of Target Achieved: 83.8% | X | Target Payout: 4% | = | 3.3% Payout |

5. Timing of Payouts

If a payout is earned in a quarter, you will be paid the bonus in the 2nd pay period in the month following the close of the quarter.

6. Administrative Guidelines

Other factors may affect your bonus:

Overtime

Earned bonus payments will be applied to overtime pay as well as straight time pay.

Leave of Absence

Earned bonus will be prorated based on time worked in the quarter.

Promotions

Earned bonus will be prorated between the old job and the new job.

Shift Changes

If the company requests you to change shift, then you will receive whichever payout is higher for the quarter during which you switched.

Retirement

Earned bonus will be prorated based on time worked in the quarter.

Termination

Termination will result in forfeiture of all earned bonus for the quarter.

7. Plan Duration

Just like all variable pay plans at the company, this plan will be revisited every year. Performance levels, measures and even plan mechanics may vary according to the needs of the business.



Printing Company

2003 Plant Incentive Plan

Floor Team Program Overview

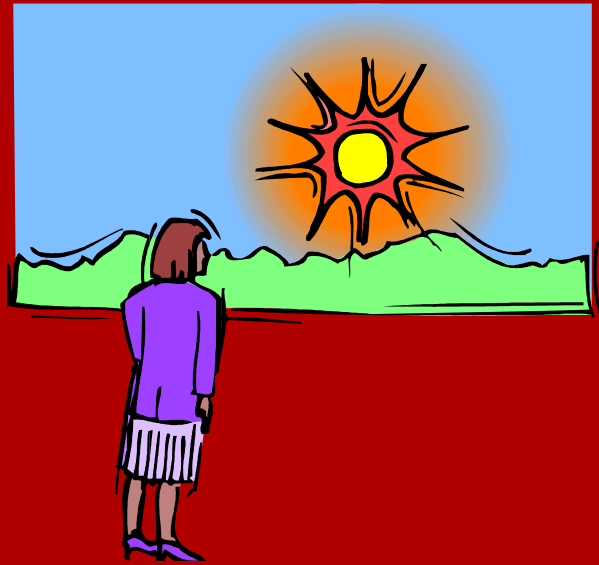
March 2003

- Tailored to participants' needs.

Barriers to Simplicity

- “We need to make sure everyone can have an impact.” *The design of the plan is the method used to impact the business.*
- “We have to make sure that we incorporate what the market is doing.” *Build the plan first to meet your specific need.*
- “But what if [fill in the blank] happens?” *All plans should have a sunset.*

Issue 2: Line of Sight



Typical Problem

What can I do?

- Dealership Chain - “Everybody is solely focused on their department within their store. There is no focus on corporate success.”



Food Processor's Plan

- Fishbone diagrams were used to link employees to the measures.



Printer's Plan

Tools for Success

Use these tools to help you focus on the key performance measures of the plant... and help you earn a bonus!



Speedometer
Tells you how you are doing.



Scorecard
Tells you what performance is needed.



Line of Sight
Tells you what you can do to improve performance.

If you have any questions, call xxxxx

Company Strategy

Our Purpose

To build a profitable company that will prosper into the future for the benefit of our employees, our shareholders, and our customers.

Our Business

Provide a full range of services that enable our customers to transform their ideas and information into dynamic content for targeted delivery. To do so, we use the most economical and effective technologies available.

We will accomplish by building our core abilities and rewarding for achievement. The company's employees are all partners in the business.

Honesty, focus and efficiency are our values. Working together, we will build a successful organization.

"THE ROAD TO SUCCESS"

Printing Company

2003 Plant Incentive Plan

Maintenance Mechanic

Personal Impact Map

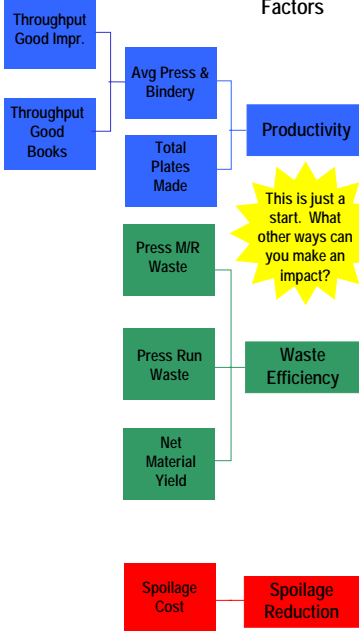
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Line of Sight – Maintenance Mechanic

What You Can Do

Plan Measures

Performance Factors



This is your Line of Sight. Shows what you can do to performance, and in doing earn a payout.

This is just a start. What other ways can you make an impact?

By having an impact on your area, you impact the business, and we all achieve our strategy!

Barriers to Line of Sight

- “I really don’t have a direct impact on the work.” *A key component of variable pay is learning how all positions affect organizational performance - which is a communication issue.*
- “We have to have multiple sets of measures - different parts of the organization do different things.” *Multiple sets of measures do not steer a common vision.*

Closing Thoughts



Link the Plan to People

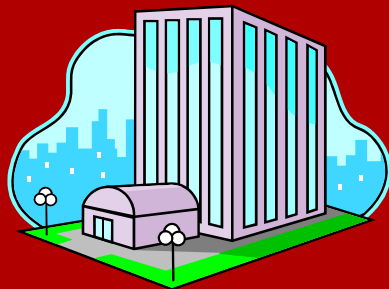
- All variable pay plans should link company performance to people. There are generally two ways to do this:

Emphasis on Financial Analysis

Design at
Micro Level

Design at
Macro Level

Emphasis on Communication



Which is More Work?

Emphasis on Financial Analysis

- Very tangible in terms of impact.
- Does not automatically result in the best measures for the business.
- Can be based on assumptions.

Emphasis on Communication

- Covers communication and education needs.
- Takes pressure off of the plan design.
- Less tangible in terms of impact.

Typical Mistakes

- No follow up.
- No employee involvement.
- 99.9% focus on plan design.
- Defensive versus offensive approach to communication.
- No clear message for variable pay.
- Built to last.

Steps to Good Communication

- Keep it simple.
- Use existing tools where possible.
- Involve supervisors, then employees.
- Deliver information on a regular, predictable basis.
- Address YOUR needs as an organization.
- Built to fit.

At the End of the Day...

- A good incentive design that employees believe in... is a high five in the workplace.
- A great incentive design that doesn't have employee buy-in... is a high five in the compensation department.

- Brad Hill, Hay Group

Questions?



"Let me through! I'm a businessperson!"