

# **IOMA's Complete Guide to Best Practices in Pay-for-Performance**

**Boosting Value for the Top Brass and the Bottom Gold**

## Boosting Value for the Top Brass and the Bottom Gold

If employees don't perceive that the sky-high-salary executives at the top of the corporate food chain are providing genuine value, they're going to resent those hefty paychecks. The results may be reduced productivity, low morale and an unwillingness to share their suggestions for improvement; the company misses out on a goldmine of good ideas.

By taking a few strategic steps, you can turn this scenario around so both the brass at the top and the talented gold at the bottom of the organization are content, suggests David J. Cocks, Managing Partner and cofounder of CompensationMaster LLC ([www.compensationmaster.com](http://www.compensationmaster.com)). Cocks is the co-author of *Compensation Planning: The Key to Profitability* and has written articles for a number of publications, including *Compensation & Benefits Review*, *Real Estate Business*, *Recruiting Pipeline* and *SalesLobby.com*.

"A lot of executive pay is based on seniority and politics rather than true value the person is bringing to the organization," says Cocks. "This is when resentment can really set in on the part of employees. They see what's happening and think, 'Why should I care about my job when the powers that be are bleeding the company dry?'" Here are the steps Cocks recommends:

**Redesign executive pay so more comp is awarded for performance.** "A lot of executives are happy to accept lower annual salaries and have a larger percentage of their compensation be based on performance," Cocks says. "They know it's not about them, it's about the com-

pany. They realize that accepting a lower salary gives them the opportunity to enhance value for employees and shareholders.

*Strategy for success:* "Tell executives, 'Here's what you're getting paid today. We're going to give you three options. You can keep your salary where it is and we will reduce your bonus (less pay for performance); we can reduce your salary by, say, 10 percent and increase the amount of your bonus slightly or we can reduce your salary by 30 percent and put even more potential bonus in the pool for you. Then if you reach your performance goals, you will get this great bonus or you will be able to purchase stock at this rate,'" Cocks suggests.

"When we tried this approach at one company, 75 percent of the executives and top-level managers voluntarily took option three—the option with the highest risk and highest reward. They believed in the company and in themselves and their ability to bring real positive change to the company. One fifth—20 percent—took the second option, and only 5 percent took the highest-salary, smallest-bonus option. This tells us that if you give top people the opportunity to have a choice, most will step up to the plate and choose more pay for performance."

**Tie executive bonuses to positive movement and change within the company.** "When you tie executive bonuses to positive change—not just to the bottom line but to the culture of the company—everyone wins," Cocks observes. "When you're tying bonuses to the bottom line, tell executives, 'If you can take the company or business unit from a negative to a positive—or

a lesser negative—every percentage point in the right direction will equate to a percentage of your bonus. Plot it out to show them exactly how much they will get paid if they create specific increments of positive bottom-line change. The company could have losses but the executives could still receive a bonus, as long as the numbers are going in the right direction.”

But don't stop there. Also encourage executive management to create more value for employees. How can they do this? First, they can conduct a needs analysis to find out what employees' points of pain are and target areas for improving employees' work lives. You can do this in the form of a written employee survey (best developed with the help of a qualified psychologist or consultant, advises Cocks) and then simply talking with employees one on one and in small groups.

“Executives can have lunch meetings with employees and explain how they are paid for their performance. They can say, ‘The way I get remunerated is on the performance of the company. I can't do it without you. If you work with me, I'll work with you and we'll all win. Please tell me what I can do to take away your pain and help makes things better for you here,’” Cocks suggests. Some examples of pain points are not being listened to by their bosses, struggling with unbalanced workloads, and having problem em-

ployees who are allowed to stay at the company because of political reasons.

“Sometimes it's the little things that stop people from performing at their best. Pain keeps employees from achieving their performance goals,” Cocks points out. Once the top brass has assessed the needs of the bottom gold, they can create a scorecard of employee pain-causers that they need to fix or eliminate. “When you can remove the pain, things will move forward. If top management really listens to them and eliminates that pain, employees will really go to bat for them and the company. Employees will feel that the executives are part of the team and they'll start bringing their ideas to the business,” he explains.

*Best of all:* Employees will feel that the powers that be are truly *earning* those big bonuses. “This approach is like a breath of fresh air to employees. It's a holistic approach, not a top-down approach,” Cocks stresses.

“At one company that took this approach they went from a \$1.2 million loss to a \$3 million profit in the first year. The efficiency improvements were great—people kept coming with ideas for improving processes. They created a value proposition by holding executives accountable for meeting strategic business goals, paying for performance, and increasing the value of the executives not only to shareholders but to employees.”

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