

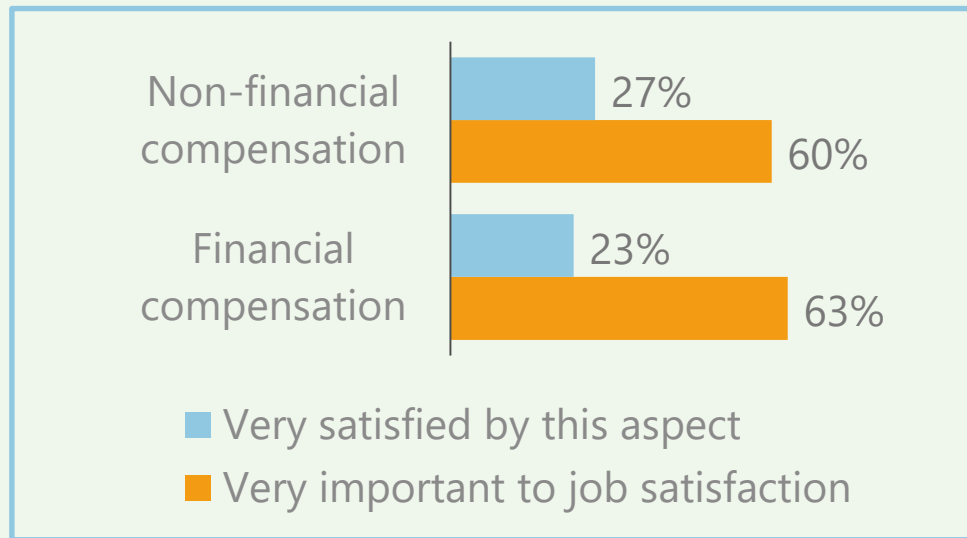
Talent Curriculum: Compensation

Each module in the series contains an explanation of the topic, case studies, considerations and activities to reflect on for your organization



Effective compensation structures use a clearly communicated, transparent philosophy to determine employee remuneration

- Compensation includes both financial and non-financial elements, including:
 - Base salary
 - Performance-based salary (e.g., bonus)
 - Benefits (healthcare, paid vacation days, education benefits, meals at work, etc.)
- Compensation structure (e.g., % of pay that is performance-based) and levels impact an org.'s ability to attract and retain talent

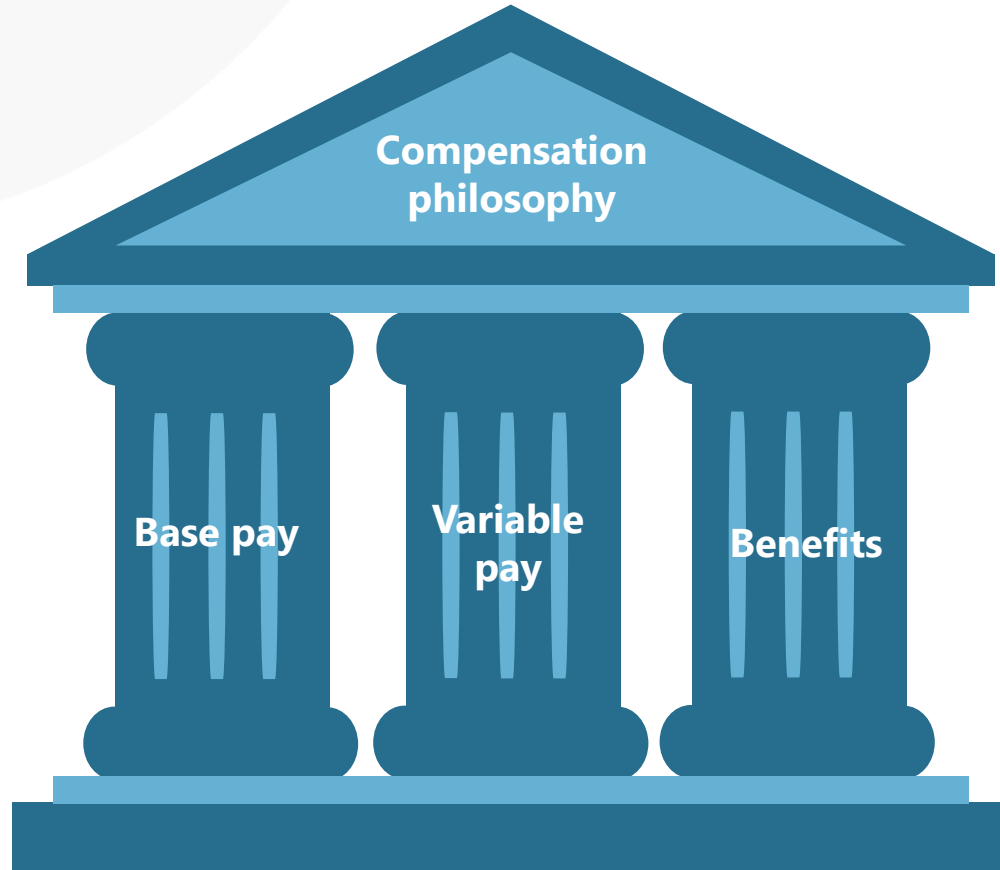


Management misconceptions

- A common belief held by management is that higher total compensation drives employee satisfaction
- This is rarely true as a clear philosophy and transparency play critical roles in satisfaction
- Employees' perception of the 'fairness' of compensation is often their biggest concern

Research suggests that “the more information employees have about why they earn what they do, especially in relation to their peers, the less likely they are to quit.”²

An effective compensation strategy needs to start with a clear compensation philosophy



Start with your company strategy

- Begin by understanding what drives your organization's performance (e.g., contribution of a few key staff? High level of collaboration?), and what kind of culture you want to build

Develop a compensation philosophy

- Based on the above, lay out compensation goal(s), knowing there will be trade-offs (e.g., reward high performers disproportionately vs encourage teamwork?)

Intentionally communicate your philosophy

- Should communication be verbal? Written?
- What level of detail is provided?

Transparency & clear communication of your compensation philosophy and structures are critical for at least two reasons



Retention

- Research suggests that the main predictor of “satisfaction” or “intent to leave” is if employees feel they are paid fairly. Unfortunately, even when paid competitively:
 - **67% believe they are underpaid, and**
 - **60% plan to look for a new job in the next 6 months.**¹
- The same research found that companies who pay uncompetitive salaries but explain why (e.g., start-ups) have happy staff:
 - **82% were “satisfied”** and were not planning to leave¹



Secrecy is not an option

- Historically, companies have relied on secrecy to prevent employees from feeling undervalued, but this isn’t the case anymore
- Websites such as Glassdoor have made salary data widely available
- Millennials are now ~2x more willing to discuss salaries than their predecessors:
 - **71% talk to parents about compensation,**
 - **47% talk to friends, and**
 - **38% discuss compensation with coworkers**²

Your philosophy can then be used to guide decision making across all elements of your compensation strategy

Decisions to be made

1

Base Pay

- **Determinant:** What is base pay linked to – role title? Grade? Function?
- **Initial level:** What will impact be on recruiting best talent? Room for growth?
- **Trajectory:** Does employee value change over time? Retention considerations?
- **Differentiation:** Do you see significant differentiation in value creation?

2

Levels

- **Determinant:** Which aspects of performance will be rewarded? Can you measure them easily?
- **Portion of pay:** What % is variable? Impact on culture and collaboration?
- **Timing:** How frequently should performance be measured and rewarded?

3

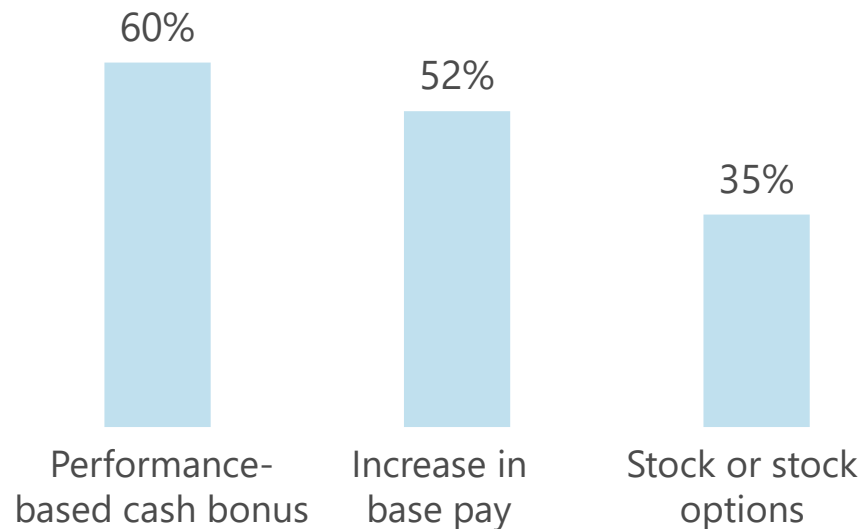
Career path types

- **Investment benefits:** What level of investment in employees is desired?
- **Flexibility:** Can flexibility on work location or time improve accountability?
- **Recognition:** How frequently and how are you recognizing performance?
- **Perks:** Can you use incentives to create culture that drives performance?

Studies show that non-monetary incentives are more effective at motivating staff than financial incentives

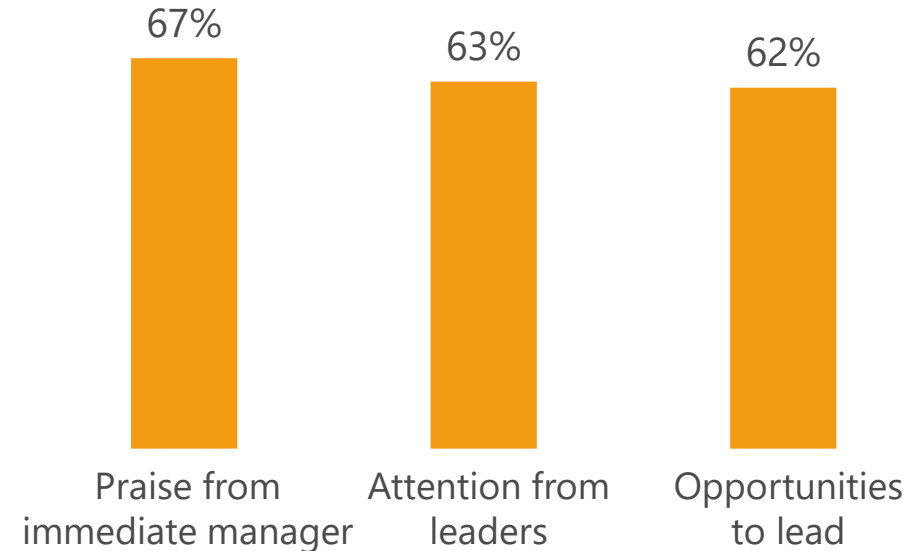
Financial incentives

% answering 'extremely' or 'very' effective



Non-financial incentives

% answering 'extremely' or 'very' effective



"For people with satisfactory salaries, some non-financial motivators are more effective than extra cash in building long-term employee engagement"

There are several non-monetary incentives that even small / early-stage companies can use to motivate and retain staff

Flexible location / time: Allow staff to work remotely periodically (e.g., once day a week or month) or allow staff to adjust working hours (e.g., 10am to 6pm instead of 8am to 4pm)

Training support:

Support staff development by providing funding or study time (additional vacation days) to staff completing relevant continuing education programs

Special projects: Allow staff time to use office time to work on projects which they have identified and feel passionate about, even if they are not priorities for your core business

Public praise: Recognize staff who excel through email (cc'ing management or leadership), handwritten notes, awards or during team meetings – This can include peer or upward praise

Change of scenery: If you have multiple offices, offer high performers the chance to change roles or offices for short periods – This can be framed as a chance for them to mentor or develop new skills

Volunteer time: Allow staff to engage in volunteer work periodically (e.g., 1 day per year) to provide a short break from the office along with the increased morale and engagement that comes with altruistic behavior

Extra time off: Provide an additional day off to staff in recognition of large accomplishments (e.g., completion of successful projects or events)

Case: Hubspot demonstrates the value of linking employee compensation to the organization's overall goals



Company overview

- **Hubspot is a digital company** founded in 2006 with the aim of creating an all-in-one marketing solution for businesses.
- It includes a variety of tools for social media marketing, content management, web analytics and search engine optimization

Challenge

- A digital marketing start-up looking to define a sales compensation strategy without breaking the bank.

Intervention

- In their initial years, they had two key compensation plans, each made for a different phase of expansion:
Customer acquisition:
 - Paid salespeople a base salary and \$2 up front for every \$1 of monthly recurring revenue they brought in.
 - To protect the company if customers defected, there was a four-month clawback on commissions.
- **Customer success and retention:**
 - Segmented sales team by the retention of their customers and paid differentiated commission by quartile performance

Outcomes

- Within seven years, HubSpot reached \$100 million in revenue and had a 10,000 customers in over 60 countries. They then IPO'd for \$125 million.

Case: Tribune Publishing proves that communication & preparation are critical for successful policy implementation



Company overview

- **Tribune Publishing (Tronc. Inc) is the third largest media publishing company in America.**
- Publishes a variety of local newspapers across several metropolitan regions of the United States

Challenge

- Tribune Publishing was looking to increase leave allowance and decrease liability

Intervention

- Tribune Publishing unveiled a **“discretionary time off” policy** for salaried, nonunion employees.
- The company proposed to **replace a fixed paid time off** allotment with a new policy that “gives employees, subject to the professional judgment and approval of their supervisor, the freedom to decide when and for how long to take time off,” according to a company memo.

Outcomes

- Employees were not receptive as the policy **“removed the monetary value of the vacation days that long-term staffers had accrued.”**
- Tribune Publishing ended up withdrawing the plan due to employee backlash.
- The New York Times noted: “That policy, which drew so much anger among employees, is the very one that Netflix, Virgin and other companies promote with pride. Only they don’t call it discretionary time off. They call it unlimited vacation time.”

Decisions about compensation should be guided by these four principles

1 Alignment to org.'s goals

What does your company value/what is your organizational goal?

- Compensation should be linked to the organizational goals / value proposition / competitive advantage and should reward employees based on their contribution to these aspects of performance

2 Flexibility of structure

Is your comp. structure as dynamic as your team?

- Compensation philosophy needs to have employee buy-in to ensure that they will be receptive and it will elicit high performance
- Staff priorities vary greatly - think critically about where you are willing to be flexible about how you reward employees as this can drive retention

3 Balance financial & non-financial

Does your organization effectively leverage non-financial compensation?

- The balance between financial & non-financial compensation should reflect employee preferences which are likely to vary by level (e.g., meals / vouchers may appeal more to staff at lower pay grades while more senior staff may prefer flexibility in work location)

4 Transparency

Do staff understand your compensation philosophy and structure?

- Leadership must ensure that they effectively communicate their compensation philosophy to employees so that they understand what drives. Transparency decisions cover areas such as pay grades, incentives etc.

Activity: What specific changes could be made to improve your compensation structure?

1

**Alignment to
org.'s goals**

2

**Flexibility of
structure**

3

**Balance between
financial & non-
financial**

4

Transparency

- Recall the 4 key principles we highlighted earlier and ask yourself:
 - What efforts are you currently making that support these principles and in turn, an effective compensation strategy?
 - What challenges are you facing?
 - What is going well?
 - What other improvements can you make to your compensation structure?

Compensation

responsibility bonus incentives
goals insurance performance outcome
base pay philosophy assessment
flexible transparency
recognition competitive benefits feedback
opportunities timing skill salary
strategy accountability stock formal
balance non-financial remuneration

Are you interested in:

- ✓ *Evaluating your organization's compensation philosophy?*
- ✓ *Understanding your strengths & weaknesses?*
- ✓ *Comparing your organization's performance against peers?*

Reach out to:

talentdiagnostic@opencapital.com

OR

take our survey directly here:

www.opencapital.com/innovations/talent-diagnostic/