

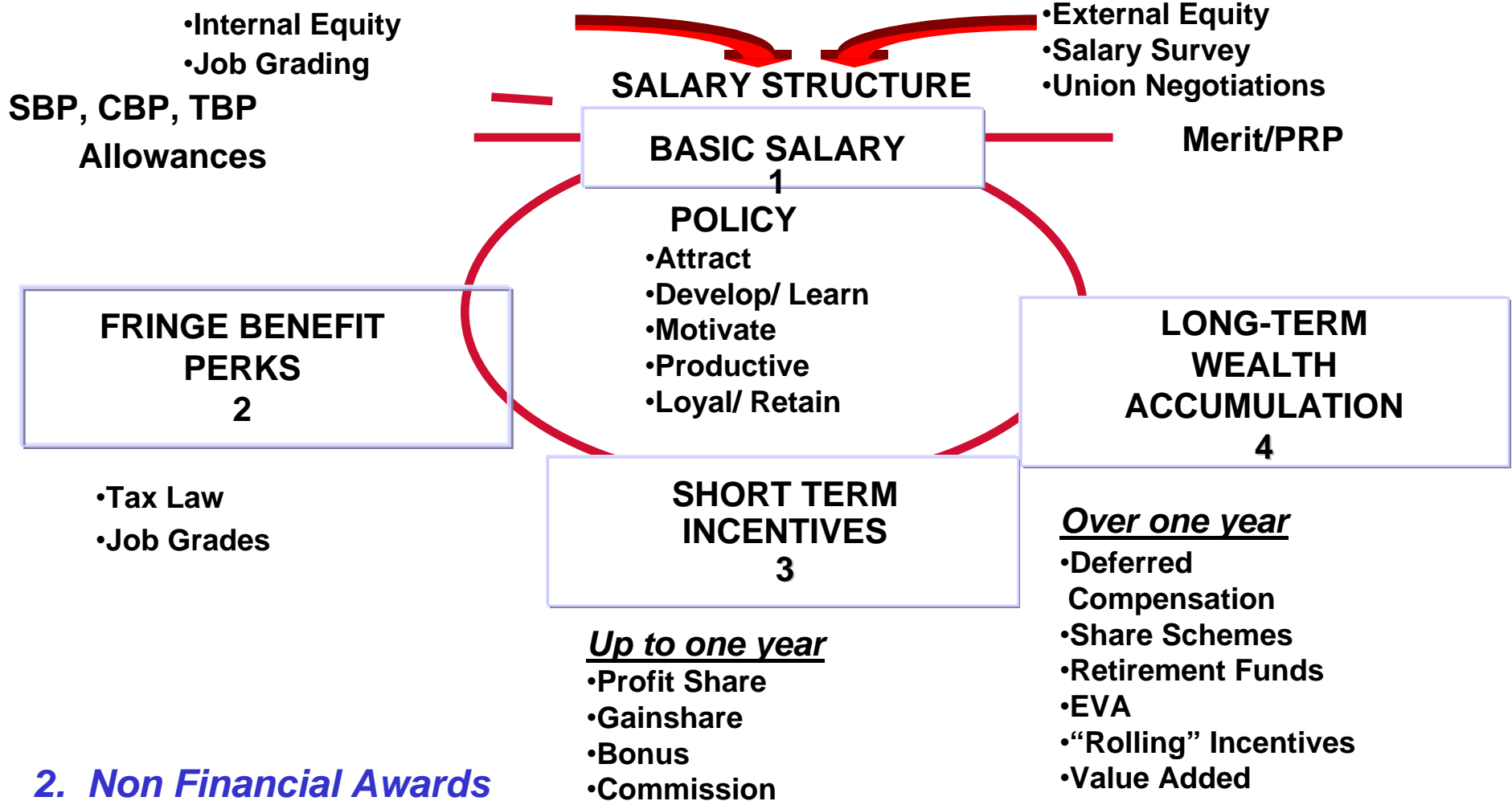
# *Remuneration Policy and Strategy*

*a Supplement for JE Workshop  
Semarang, April 2, 2005*



# Components of a Remuneration Structure

## 1. Financial Awards



## 2. Non Financial Awards

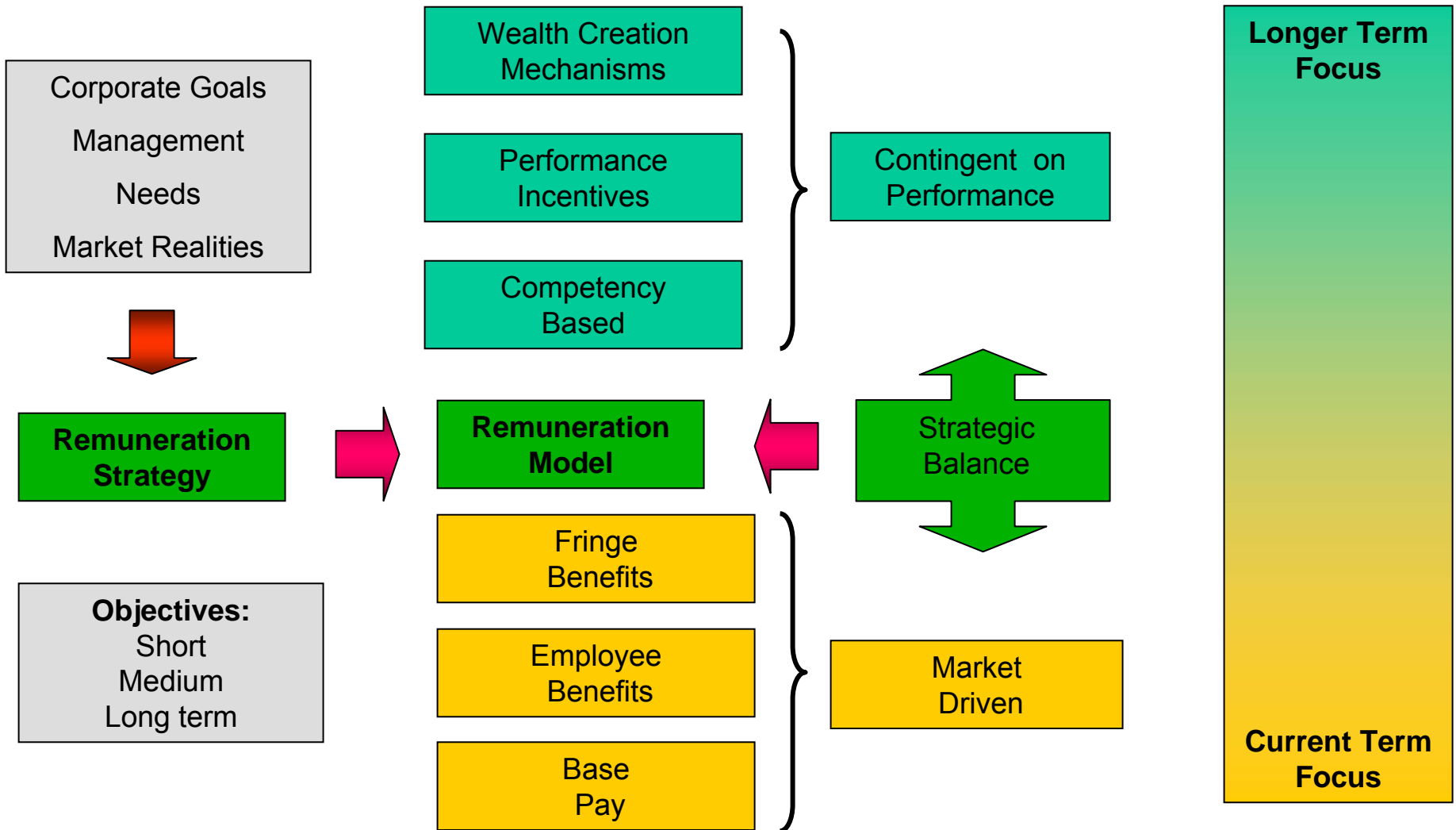
# Remuneration Definitions and Terminology

- **Basic Salary** - is the guaranteed monthly or annual cash payment made to an employee excluding any cash bonuses or allowances, and non-cash fringe benefits.
- **Cash Benefits** - include all cash payments such as: standard bonuses (e.g. “thirteenth cheque”)
- **Non-Cash Benefits** - represent the cost to the organisation of providing “non-cash” employee benefits such as company contribution to pension or provident funds, medical aid, etc., housing allowances, company car or car allowances, etc.
- **Total Package** - Basic Salary plus all guaranteed benefits.
- **Incentive Pay** - performance-related bonuses or incentives, entertainment allowances, etc.
- **Total Cost of Employment** - the basic salary plus all cash and non-cash benefits, plus incentive bonuses.
- **Shares**
- **Total Earnings**

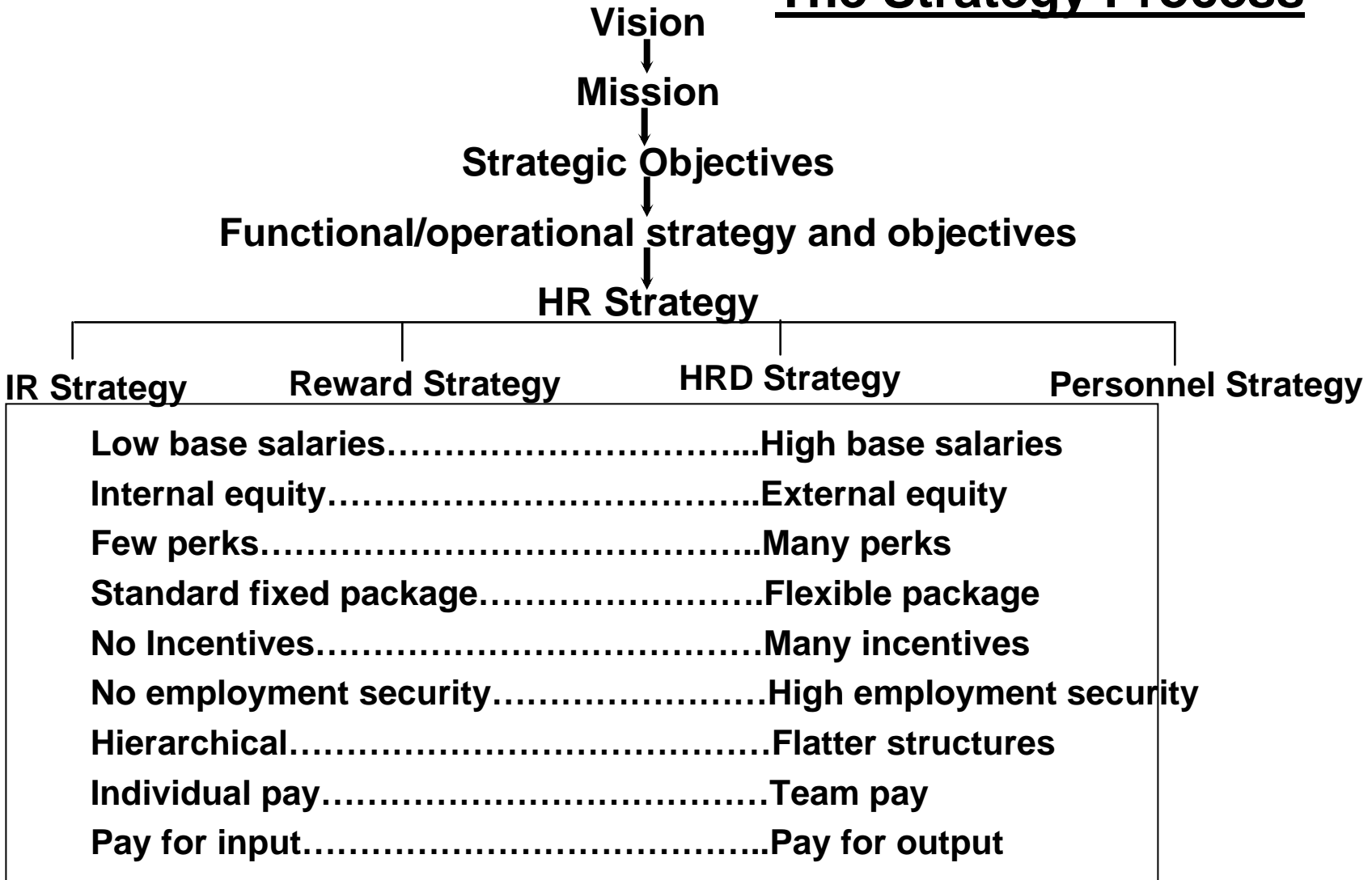
# Remuneration Definitions and Terminology - Graphic

<b>Variable Pay</b>	Shares	<b>Total Earnings</b>
	Incentives/ Bonuses	<b>Total Cost of Employment</b>
<b>Fixed Pay</b>	Non-Cash Benefits	<b>Total Package</b>
	Cash Benefits	
		<b>Basic Salary</b>

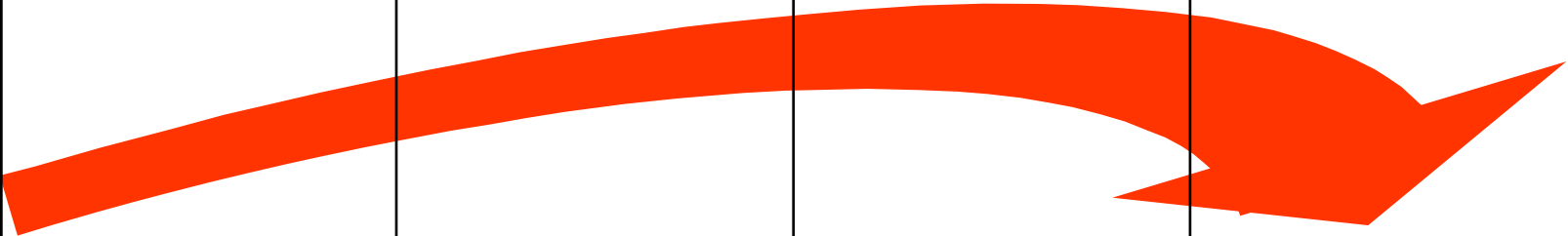
# The Remuneration Mix



# The Strategy Process



# Industry Maturity



EMBROYNIC	GROWTH	MATURE	AGEING
<b>Common Strategies</b>			
<ul style="list-style-type: none"><li>• Start up</li><li>• New product development</li></ul>	<ul style="list-style-type: none"><li>• Acquire market share</li><li>• Find new markets</li></ul>	<ul style="list-style-type: none"><li>• Consolidate position</li><li>• Find and protect market niches</li><li>• Become low cost producer</li></ul>	<ul style="list-style-type: none"><li>• Cost reduction</li><li>• Withdraw from unprofitable market segments</li></ul>

## Common Approaches to Compensation

<p>Less emphasis on salary, benefits and perks; Attention to share options &amp; long-term incentives; Stress on non-financial rewards (excitement of the new venture)</p>	<p>Continued emphasis on long-term incentives with increasing attention to ways to promote short-term results. Catch up with salary and benefits</p>	<p>Most attention focused on keeping salary and perks competitive; Reduced concern for long-term incentives; Bonuses oriented to productivity improvement</p>	<p>Benefits and salary are king; Very little attention given to long-term growth oriented incentives</p>
<b>EMBRYONIC</b>	<b>GROWTH</b>	<b>MATURE</b>	<b>AGEING</b>
<b>Common Strategies</b>			
<ul style="list-style-type: none"> <li>• Start up</li> <li>• New product development</li> </ul>	<ul style="list-style-type: none"> <li>• Acquire market share</li> <li>• Find new markets</li> </ul>	<ul style="list-style-type: none"> <li>• Consolidate position</li> <li>• Find and protect market niches</li> <li>• Become low cost producer</li> </ul>	<ul style="list-style-type: none"> <li>• Cost reduction</li> <li>• Withdraw from unprofitable market segments</li> </ul>



# Pay Continuum

## **Stage 1**

Pay is centrally managed, emphasis on internal equity. Salary increases may have moved from time-based increases to merit pay increases. Pay is fair, competitive and based on historical practice.

## **Stage 2**

Pay is decentralised, emphasis more on external market. Some variable pay for non-supervisory or non-sales employees with diminished role of merit pay. Benefits cost-contained.

## **Stage 3**

Pay system communicates importance of performance. Team business unit or company performance measures introduced. Variable pay present in form of gainsharing/ goal sharing. Skills based pay & choice in benefits introduced. Some involvement of people in pay design.

## **Pay Continuum - Cont**

### **Stage 4**

The pay system communicates business goals and requirements. Variable pay as a primary performance reward at all levels. Skills-based pay replaces job-based evaluation systems. Teams & individuals share importance in pay process. Choice in benefits is extended. People more deeply involved in pay design.

### **Stage 5**

Pay is customer-focused & the team is key organisational performance-based unit. Variable pay is main performance reward and peers evaluate individual contributions to cross-functional teams. Competency-based pay dominates individual pay process. Choice in benefits is rule. Employees deeply involved in pay design and day-to-day operation.

## Steps involved in formulating a remuneration plan



The steps involved are:

- Step 1:** Identify business objectives. Use the business plan as a reference
- Step 2:** Access the current compensation system. Evaluate how well it supports the objectives of the business. Identify any gaps, and any areas that are over-funded.
- Step 3:** Develop pay strategy. This closes the gaps identified in step 2, and forms the basis of the remuneration strategy. The remuneration philosophy is then updated accordingly and aligned with the business strategy.

# Remuneration Planning Chart


	Attract	Retain	Motivate (achievement of strategic goals)				Recognition	Projects
			Cost Leadership	Differentiation / Value Adding	Organisation Effectiveness	Role in SA society		
Base pay / Package	√√	√√						
PRP (Non-Union)	√	√				√		
EIS (Execs)	√	√	√√*	√√*	√*	√√*		
MD's share option scheme	√					√		
Car scheme	√	√				√		
Retirement	√	√						
Medical Aid	√	√						
Personal Accident	√							
GLA	√	√						
Entertainment	√							
O & G	√							
Depot of the year						√√		
Brewery of the year						√√		
John Seaton award						√√		
Uniform grades						√ P		
Disclosure policy						√ P		
3 yr EVA	P	P						

## Next Steps & Way Forward

✓ The following **check** list for the way forward is set out, but remember, not all steps may be applicable to you.

1. Obtain and understand the business strategy
2. Set up your strategy chart with your business strategy on the horizontal axis at the top of the page and your **current** remuneration practice on the vertical axis down the left hand side of the chart.
3. Get your directors to fill in the chart:
  - ✓ = partially underpins business strategy
  - ✓✓ = completely underpins business strategy
  - X = works against business strategy

## Next Steps & Way Forward - Cont

4. Where there is double spend (too many ✓✓ ) consider dropping the practice.
  5. Where you have no ✓✓ , identify a remuneration practice to underpin the business strategy.
  6. Write up the remuneration strategy.
  7. Write up the remuneration policy.
  8. Benchmark your policy and several key indicators, e.g. HCROI (Human Capital Return on Investment) and HEVA (Human Economic Value Add)
  9. Continually update the strategy ensuring that it contributes to:
    - > the business strategy
    - > the bottom line
    - > being the employer of choice
- 

## Policy Follows Strategy

A remuneration policy should cover at least the following headings:

1. Statement of intent
2. Purpose
3. Application and scope
4. **Document control** and versions
5. Links to performance management
6. Communication and the extent of transparency allowed
7. Remuneration mix
8. Philosophy of Guaranteed Pay (GP)
9. Philosophy of Variable Pay (VP)
10. Comparative benchmarking
11. Annual remuneration reviews
12. Minimum salary
13. Remuneration **committee**



## The Remuneration Committee

1. A remuneration **committee** is established with the powers and duties set out below.
2. This committee will report to and derive its powers from the board of directors and conduct all of its proceedings subject to the authority of the board of directors.





## Membership of the committee

1. The members of the committee, including the chairman, will be appointed by the board of directors, and will continue to act until they resign or are **removed** from office.

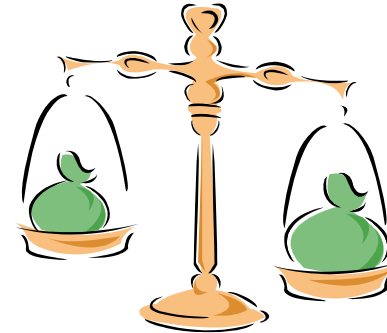


2. The committee will comprise of not less than three serving directors of the company of whom the majority, including the chairman, will be non-executive directors.

## Instructions of the committee

The committee will observe the following guidelines and procedures:

1. The company will use all components of the remuneration system to leverage performance.
2. To achieve an appropriate **balance** in the remuneration package, the committee will determine fixed pay.
3. The employee can then select benefits to suit his/her requirements. The value of these benefits will be included in the total package amount at no additional cost to the company.
4. A performance bonus/incentive will be awarded and paid annually in arrears for achievement of agreed performance levels.
5. The proportionality of the different elements of remuneration may be compared at annual intervals with the remuneration policies of selected peer companies or an approved salary survey.
6. The investigations and research to be conducted by the committee will allow sufficient time for final recommendations to be submitted to the board.



## Powers of the committee

1. The members of the committee will have full access to all financial information contained in the books and records of the company, including the personnel **records** of an employee for whom the committee will be making pay recommendations.
2. The committee may appoint external consultants for the purpose of obtaining salary survey information and for assisting in the conduct of the peer review. The committee may also consult with the company's attorneys and its auditors where necessary. In addition, the committee is empowered to obtain the assistance of the human resources executive/department in obtaining the relevant information.



# National and International Trends

**FROM**

**TO**

## **PAY**

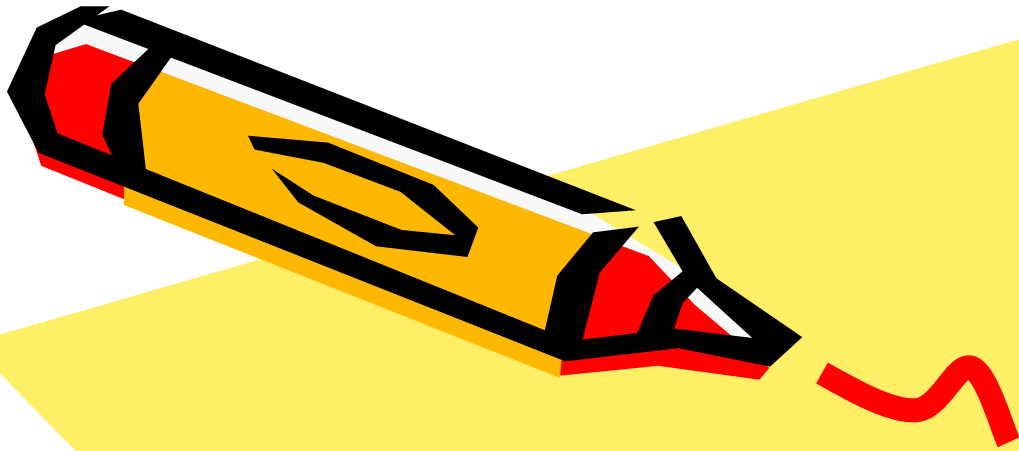
- |                           |   |                            |
|---------------------------|---|----------------------------|
| • Traditional add-on      | ➔ | Total package              |
| • Fixed pay               | ➔ | Variable pay               |
| • Little/ no shareholding | ➔ | Bigger stake in business   |
| • Board decides           | ➔ | Non-executive remuneration |
| • Board disclosure        | ➔ | committees                 |
|                           |   | More disclosure            |

## **PERFORMANCE MANAGEMENT**

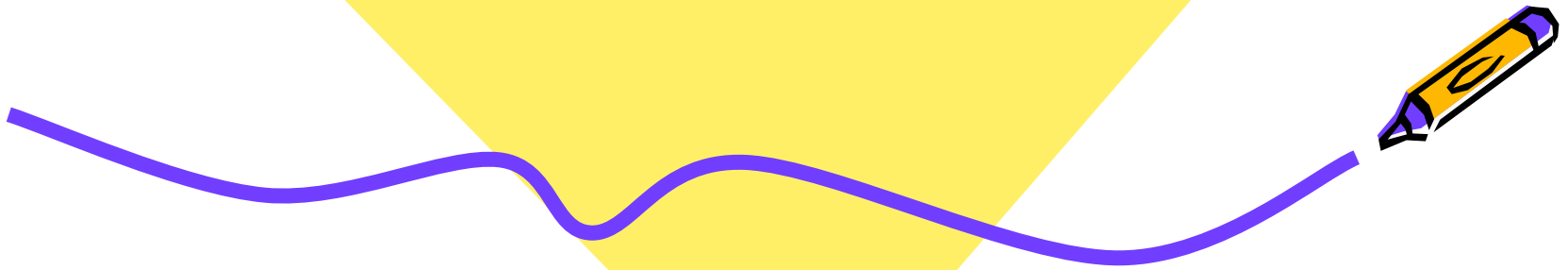
- |                   |   |                  |
|-------------------|---|------------------|
| • Activities      | ➔ | Outputs/ results |
| • Executive Bonus | ➔ | Workforce bonus  |

## **WORK**

- |                          |   |                                     |
|--------------------------|---|-------------------------------------|
| • Duty sheet, rigid work | ➔ | Flexible, adaptive                  |
| • Job descriptions       | ➔ | Competency standards/ skills matrix |
| • Guaranteed employment  | ➔ | Staying relevant, contract          |
| • Hierarchical           | ➔ | Broader bands                       |



# Remuneration Cornerstones



## **What is a Job Description**

- Is the accurate, realistic, current picture of what tasks go to make up a job.
- Outlines the job's location, purpose, responsibilities, authority levels, supervisory relationships as well as the interrelationships between the job and others in the same area.
- Is a dynamic document which takes account of organisational change.
- Is unambiguous and can be understood and interpreted similarly by both the incumbent and his or her supervisor.
- Does not include incidental or trivial tasks.

## What is a Role Description

A role description refers to broader aspects of behaviour, for example, working flexibility, working with others, inter-related tasks, and styles of management. It describes the part to be played by individuals in fulfilling their job requirements.

Often it incorporates the results of skills or competence analysis and sometimes performance standards.

### **Example**

**A job might be to water the garden. A role our output is maintaining a healthy garden. (The one is broader than the other).**

## Uses For Job Descriptions

Job descriptions are valuable sources of information for:

- Recruitment, performance appraisal, career pathing and development of training programmes
- The implementation and ongoing maintenance of a job evaluation system

They therefore provide a unique opportunity to study the organisation.

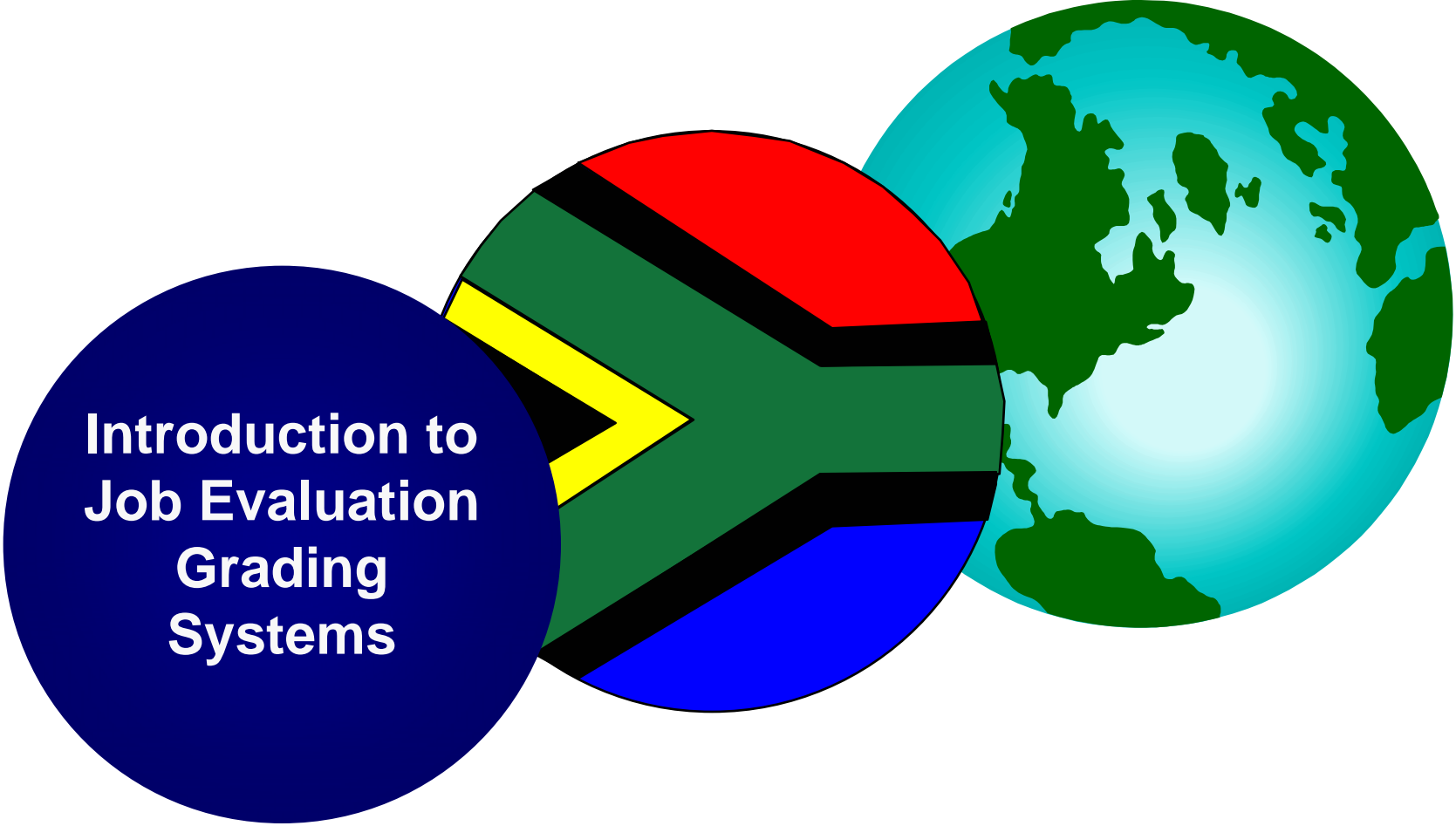

The writing of job descriptions provide the organisation with an opportunity to determine:

- Key areas of responsibility
- Levels of authority / accountability
- Reporting relationships
- Lines of communication
- Spans of control
- Job design
- Manning levels
- Anomalies




Written job descriptions provide detailed information for recruitment.





**Introduction to  
Job Evaluation  
Grading  
Systems**



# Remuneration Administration - The Link

## Internal Equity

“Comparison of pay levels within the organisation”

- job/role Grading

## External Equity

“Comparison of pay levels with the market”

- Salary Surveys

## Salary Structure

- Develop a salary structure
- Move up the salary structure based on
  - Performance
  - Skill Acquisition
  - Years

# Terminology

Term	Definition
Job analysis	The process of examining the content of a job, breaking it down into its tasks - functions, minor functions, processes, operations and elements.
Job description	The description of a job as a result of job analysis.
Job grading	The ranking of/ assigning-levels-to jobs as a result of job analysis.
Job specification	The qualifications, experience and personal qualities required by the jobholder (mainly used for recruitment).
Wage and salary structures	The assignment of a monetary value to each grade, based on: affordability; market norms and rates; employee representation negotiations; economic environment and indicators

# Job / role Evaluation

- The process of determining as systematically & objectively as possible the worth of one job/role relative to another without regard for personalities or existing structures.
- Purpose: To achieve & maintain an equitable distribution of basic wages and/or salaries according to level or position.
- Career development is facilitated and sound logic is provided for structuring organisations.

# Stages

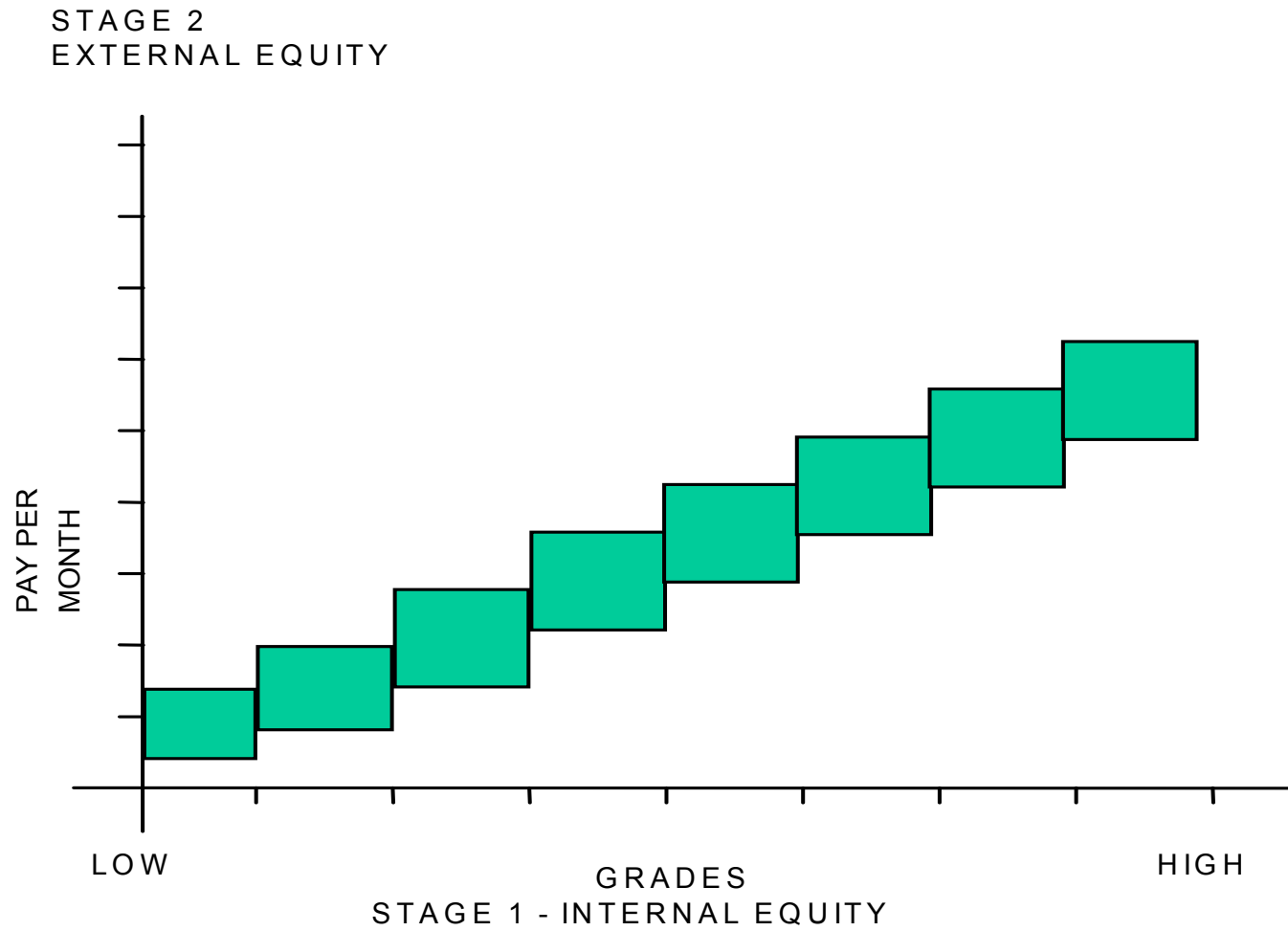
## Stage One

**“The job/role not the Individual”**

## Stage Two

**“The Individual in the job/role”**

# The Job Evaluation Diagram



# Factors leading to failure of job/role evaluation plans

- Weakness in initial implementation
- Lack of management support
- Lack of employee support
- Lack of communication
- Inadequate administrative support:
  - System is not managed
  - Job/role descriptions are not reviewed and regarded as job/role change
  - New employees and managers are not educated to the system
  - **Jobs/roles are up-graded without a corresponding change in job/role content**

# Process

## **Stage One:**

- Choose the system
- Sell the concept and the system
- Use qualified/ trained job/role writers
- Establish job/role categories
- Obtain a job/role description for each job/role category
- Train role grading/assessment committee/ or external consultant
- Grade jobs/roles



# Process

## Stage Two:

- Design pay structure
- Develop plan to implement
- Design maintenance system
- Explain
- Compile procedures manual

# Typical Grading Committee Function's

- Chairperson
- Co-ordinator/ Project Leader
- Heads of Department
- Worker Representatives (as per agreements)
- Consultant (If necessary)

# Choice of Job Evaluation System

The criteria for the choice of a system are that:

- the Chief Executive understands it and is committed to it;
- everyone, including the people at the lowest level in the organisation understand and accept it;
- implementation can be quick;
- updating and maintaining the system will be quick and easy
- It has a set of grading rules

# Choice of Job Evaluation System

- There is no such thing as a ***scientific*** method of job evaluation. In practice all are ***systematic*** approaches to the establishment of the hierarchy of jobs in an organisation.
- Virtually all job evaluation methods do the same thing - rank the relative worth of one job to another - and produce almost identical hierarchies.

# Choice of Job Evaluation System

- Each method has advantages and disadvantages.
- Organisations should select the best according to their requirements. But, remember that good implementation and ongoing management is more important than the system chosen.



**Common Job Evaluation  
Systems - described**



# Comparison of grading systems

COMPARISON OF GRADING SYSTEMS					
Feature	SST	Paterson	HAY	Peromnes	JE Manager
1 International system					
2 Ease of understanding					
3 Easy differentiation between bands or grades					
4 Access to training and professionals					
5 Supports broad banding, multi-skilling, multi-tasking					
6 Sound interface with legislature reporting criteria					
7 Ability to access market information					
8 Ease of correlation with other systems					
9 Integration with other technology					

# Trends in Grading roles internationally

- Strategically aligned organisation design
  - Process not function
  - Flatter structures
  - Multi-skilling
  - Broad banding
  - More flexible remuneration structures
- An organisation theory aligned grading system
- Fewer factors – significance of factors



# Points or Classification

- The first major decision
- Both have pro's and con's
- Examples:
  - Points = HAY, Peromnes, Profile, EQUATE
  - Classification = Paterson, SST, JE Manager, Task

# Points - Pros & Cons

<u>PROS</u>	<u>CONS</u>
<ul style="list-style-type: none"><li>• Can count and add numbers up (sense of comfort)</li><li>• High face validity</li></ul>	<ul style="list-style-type: none"><li>• Cut-off's don't necessarily conform to work design</li><li>• Difficult to distinguish between fine definitions</li><li>• Grade creep and manipulation</li></ul>

# Classification

<u>PROS</u>	<u>CONS</u>
<ul style="list-style-type: none"><li>• Based on SST / work levels and theory of work</li><li>• Supports new work design</li><li>• Supports competency and development drive</li><li>• Easy to understand and apply</li><li>• Facilitates consensus decisions</li><li>• Accommodates broadbanding easily</li><li>• Flexibility</li></ul>	<ul style="list-style-type: none"><li>• Can not count up points – shift in mindset required</li><li>• New system – training may be required</li><li>• Panel members need to clearly understand the system</li><li>• Can be prone to subjectivity if not properly managed</li></ul>

## Job Evaluation systems can be categorised according to:

1. The basis or method of comparison:

- Comparing job against job
- Comparing job against some scale

2. The means or method of analysis used:

- considering the entire job
- considering job elements or factors

# Summary of approaches

		Means or method of analysis	
		Consider job elements or factors	Consider entire job
Basis or method of comparison	Comparing job against job	Factor comparison, e.g. Peromnes, JE Manager, EQUATE	Ranking, Internal benchmarking, paired comparisons, market pricing
	Comparing job against the same scale	Point method, e.g. Hay	Classification methods, e.g. Stratified Systems Theory, Paterson, TASK

# Integration - WD, Grading & Pay Scales. Example...

			<u>Pay Scales</u>			
			Lower quartile Percentile (25%)	Median (50%)	Upper Quartile (75%)	90 <sup>th</sup> (90%)
Role	Broadband	Sub-level 1	R1000	R1200	R1400	R1600
		Sub-level	R1400	R1600	R1800	R2000
		Sub-level 3	R1800	R2000	R2200	R2400

Work  
Process

responsibly

Job Evaluation:

- Complexity of work
- Judgement
- Level of
- Work content

Move through pay scales based on:

- Performance
- Competency acquisition
- Market scarcity
- Attraction rate
- Precedent

21 <sup>st</sup> Century (7 level)	21 <sup>st</sup> Century (7 level with milestones)	SST	Paterson Broadbanded	Paterson
<u>P (Primary Skills)</u> <b>Unskilled</b> <b>Basic Skills</b> <b>Higher Skills</b>	P1 P2 P3	Low 1	A	A1 A2 A3
<u>O (Operational)</u> Basic Operational Skills Mid level Operational Skill High level Operational Skill	O1 O2 O3	High 1  High 2	B Lower B Middle B upper B upper	C1 C2 C3
<u>AO (Advanced Operational)</u> <b>Advanced Skills</b> <b>Advanced operational</b> <b>Advanced Ops Checking Entry</b>	AO1 AO2 AO3	 Hugh1 High 2	C Lower  C Upper	C1 C2 C3
<u>L (Leader)</u> Supervisor/Team Leader Single Team Practitioner Technician / Team Leader Multiple Teams	<u>AOS (Advanced Operational Specialist)</u> Qualified Artisan Level Specialist	SL1 SL2	Mid2 High2  C Upper	C4/C5 C5/D1
<u>M (Manager / Head of)</u> Middle Management Tactical Optimisation 3 <sup>rd</sup> level specialist Professional	<u>S (Specialist)</u> Certified Specialist High level technician	MP1 MP2 MP3	Low 3 Mid 3 High 3  D Lower D Middle D Upper	D1/D2 D3 D4
<u>SE (Strategy execution)</u> Senior Management Strategy Execution	<u>P (Professional / Consultant)</u> Entry level consultant/professional "Qualified" consultant Highest Level Consultant	SE1 SE2 SE3	Lo4 Mid 4 High 4  E Lower  E Middle	E1 E2 E3
<u>SI (Strategic Intent)</u> National Authority/Rare authority Sometimes international Top Management (usually Board level), strategic intent and policy making	SI1 SI2 SI3	Low 5 Mid 5 High 5	E Upper F Lower F Middle F Upper	E Upper F Lower F Middle F Upper

21 <sup>st</sup> Century (7 level)	Peromnes	Task	Hay (typical application)	JE Manager (typical application)
<u>P (Primary Skills)</u>				
<b>Unskilled</b>	19/18	1	54-62 (53)	0 – 7
<b>Basic Skills</b>	17	2	63 – 72 (66)	8 – 16
<b>Higher Skills</b>	16	3	74 – 84(75)	17-24
<u>O (Operational)</u>		4	85 – 97 (90)	25-34
Basic Operational Skills	15	5	98 – 113 (104)	35-44
Mid level Operational Skill	14	6	114 – 134 (125)	45-54
High level Operational Skill	13	7	135 – 160 (151)	55-64
	12	8	161 – 191 (173)	65-74
<u>AO (Advanced Operational)</u>				
<b>Advanced Skills</b>	11	9	192 – 227 (208)	75 – 84
<b>Advanced operational</b>	10	10	228 – 268 (252)	85 – 94
<b>Advanced Ops Checking Entry</b>	9/10	11	269 – 313 (291)	95 - 104
<u>L (Leader)</u>	<u><b>AOS (Advanced Operational Specialist)</b></u>			
Supervisor/Team Leader				
Single Team Practitioner	9	12/13	269 – 313 (291)	105 – 114
Technician / Team Leader Multiple Teams	8		314 – 370 (342)	115 - 129
<u>M (Manager / Head of)</u>	<u><b>S (Specialist)</b></u>			
Middle Management	8/7	14		130 – 135
Tactical Optimisation	7	15	371 – 438 (406)	136 – 144
3 <sup>rd</sup> level specialist Professional	6	16	439 – 518 (479)	145 – 159
	5	17/18	519 – 734 (571)	160 - 179
<u>SE (Strategy execution)</u>	<u><b>P (Professional / Consultant)</b></u>			
Senior Management	5/4	19		180 – 185
Strategy Execution	4	20	735 – 879 (805)	186 – 190
	3	21	880 – 1055 (954)	191 – 199
<u>SI (Strategic Intent)</u>				
National Authority/Rare authority	2	22	1056 – 1800	200 – 229
Sometimes international	1	23	1801 – 2140 (1960)	230 – 244
Top Management (usually Board level), strategic intent and policy making	1+	24	2141 – 3020(2812)	245 – 264
	1++	25/26	3021 - 3580	265 - 275



# Paterson Factors

Factor/Dimension			Used for
Factor	1	Decision making/ responsibility/ judgement	Banding
Factor	2	Supervision/ Co-ordination of people/ work or sapiential authority	Sub-banding
Factor	3	Complexity of tasks	Sub-grading
Factor	4	Variety of tasks	Sub-grading
Factor	5	Degree of precision required	Sub-grading
Factor	6	Work pressure/ physical effort	Sub-grading

# Paterson Factors

Band	Kind of Decision	Title / Level	Sub-band	Kind of Grade	Typical Titles
F	Policy-making	Top Management	FU	Coordinating or Supervisory (policy)	Managing Director
			FL	Policy	Executive Director
E	Programming / Long term strategy	Senior Management	EU	Coordinating or Supervisory (programmes)	General manager
			EL	Programming (Long Term)	Assistant General Manager, Business Area Manager
D	Interpretive / Probabilistic	Middle Management	DU	Supervisory (interpretive)	Department manager
			DL	Interpretive / Probabilistic	Section Manager
C	Process / System	Skilled	CU	Supervisory (skilled)	Supervisor, Foreman
			CL	Process / system	Artisan
B	Automatic / Operative / Sub-system	Semi-skilled / Operational	BU	Supervisory (Semi-skilled)	Charge hand, Bookkeeper
			BL	Operational / Sub-system	Operator, Driver, Clerical
A	Primary	Basic skills	A	Defined	Trainee, Basic Skills

# Peromnes Factors

**8 Factors are scored on a scale of 1 – 36**

1. Problem Solving
2. Consequence of judgements
3. Pressure of work
4. Knowledge
5. Job impact
6. Comprehension
7. Education
8. Training / Experience

# HAY

## **3 main factors**

- Problem solving
- Know-how
- Accountability

## **Sub Factors include:**

- Technical know-how
- Human Relations Skills
- Thinking environment
- Thinking challenge
- Freedom to act
- Impact of the decision

# JE Manager

## **The main factors are:**

1. Judgement
2. Planning and Management
3. Communication
4. Job Impact
5. Theoretical knowledge and Application
6. Skills acquisition and practice

# TASK

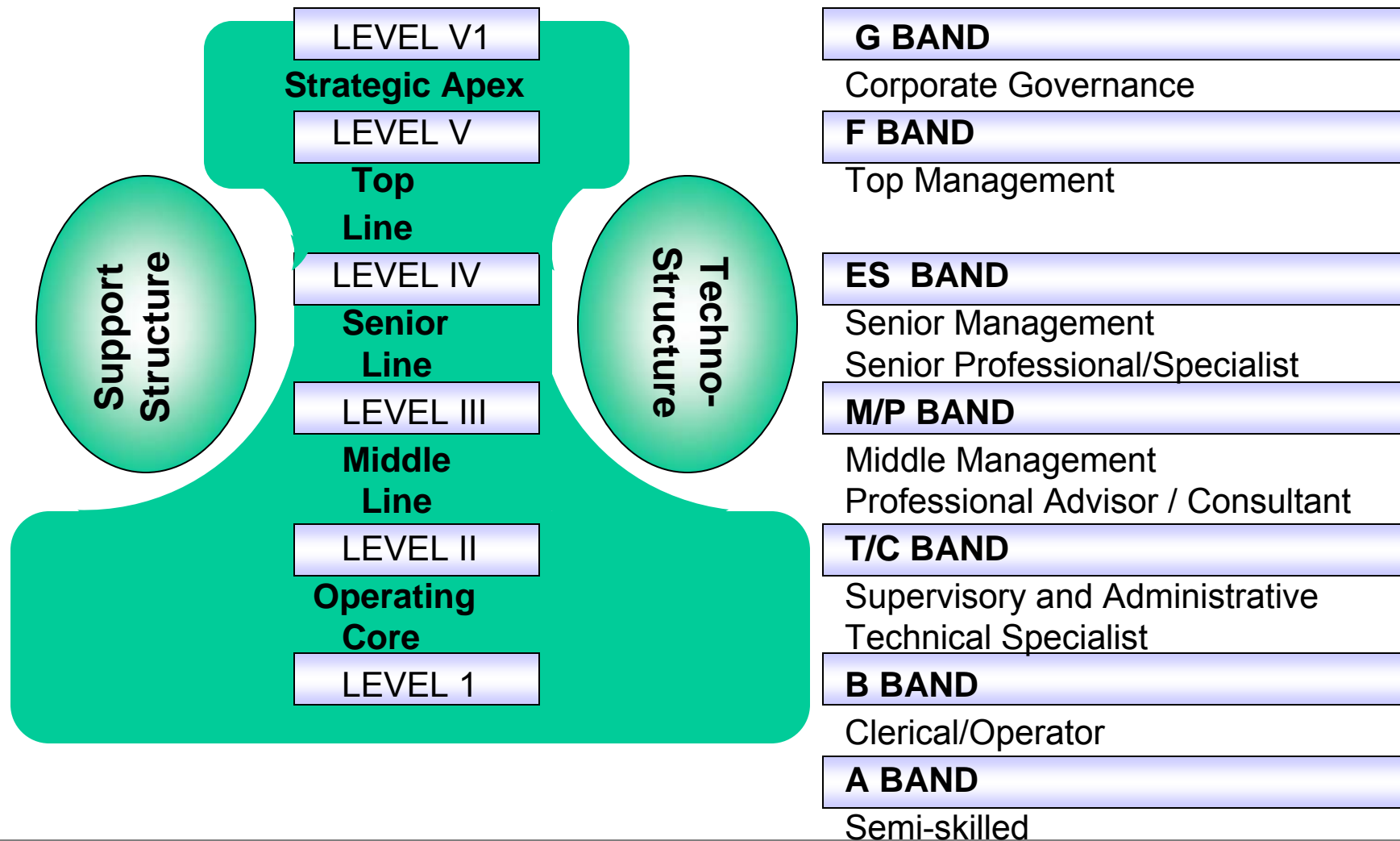
Task allows one to grade any job at any level in the organisation.

Task is a points based system that has evolved from Paterson

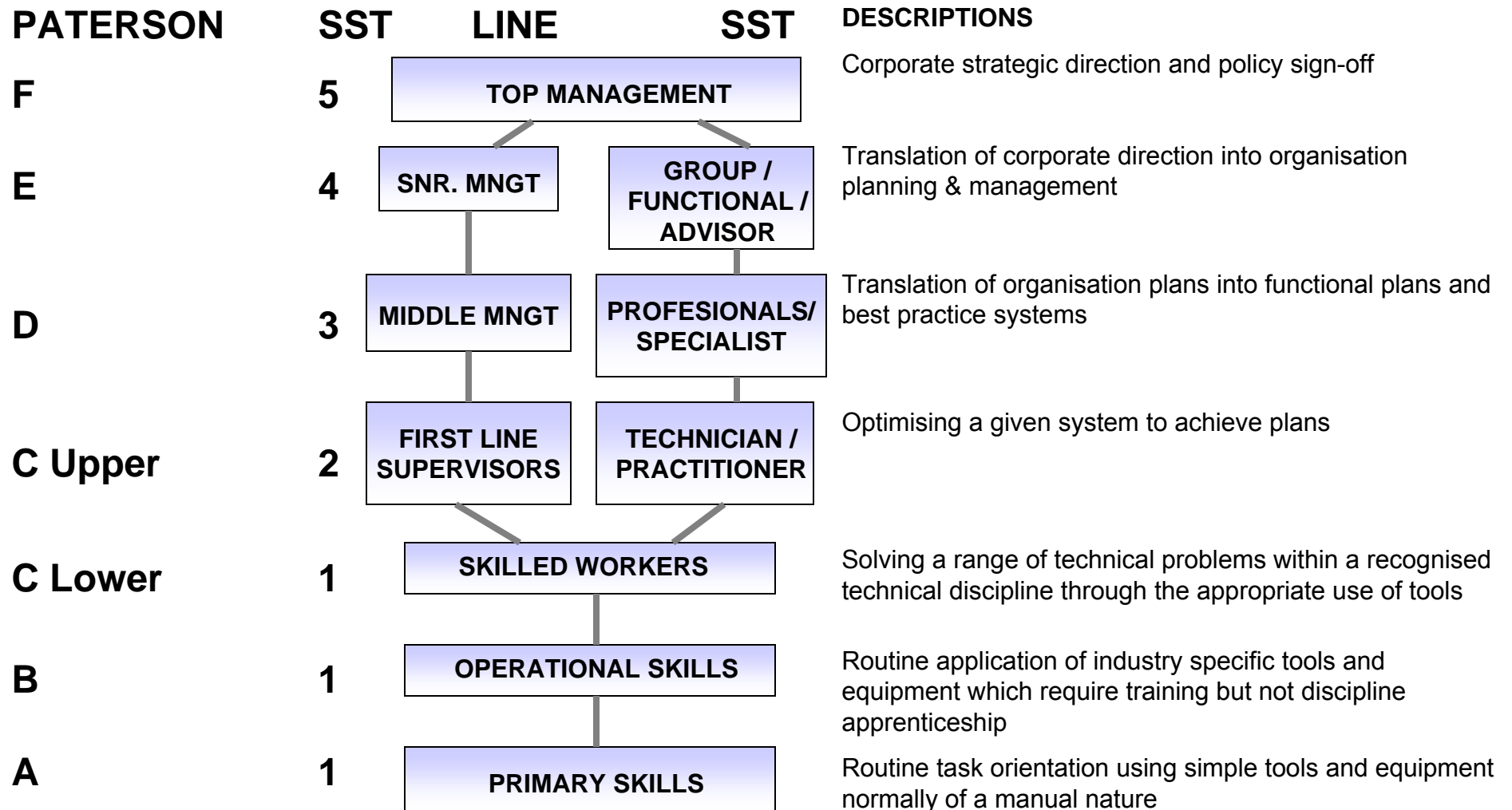
## **Procedure for grading in TASK:**

- Stage 1: Assessment of overall skill level of job
- Stage 2: Assessment of complexity of job content and relationships  
Assessment of requisite levels of knowledge and understanding
- Stage 3: Assessment of job influence  
Assessment of work pressure
- Stage 4: Establishment of job grade

# SST



# SST - Dual Career Path Approach





# Example of SST Implementation

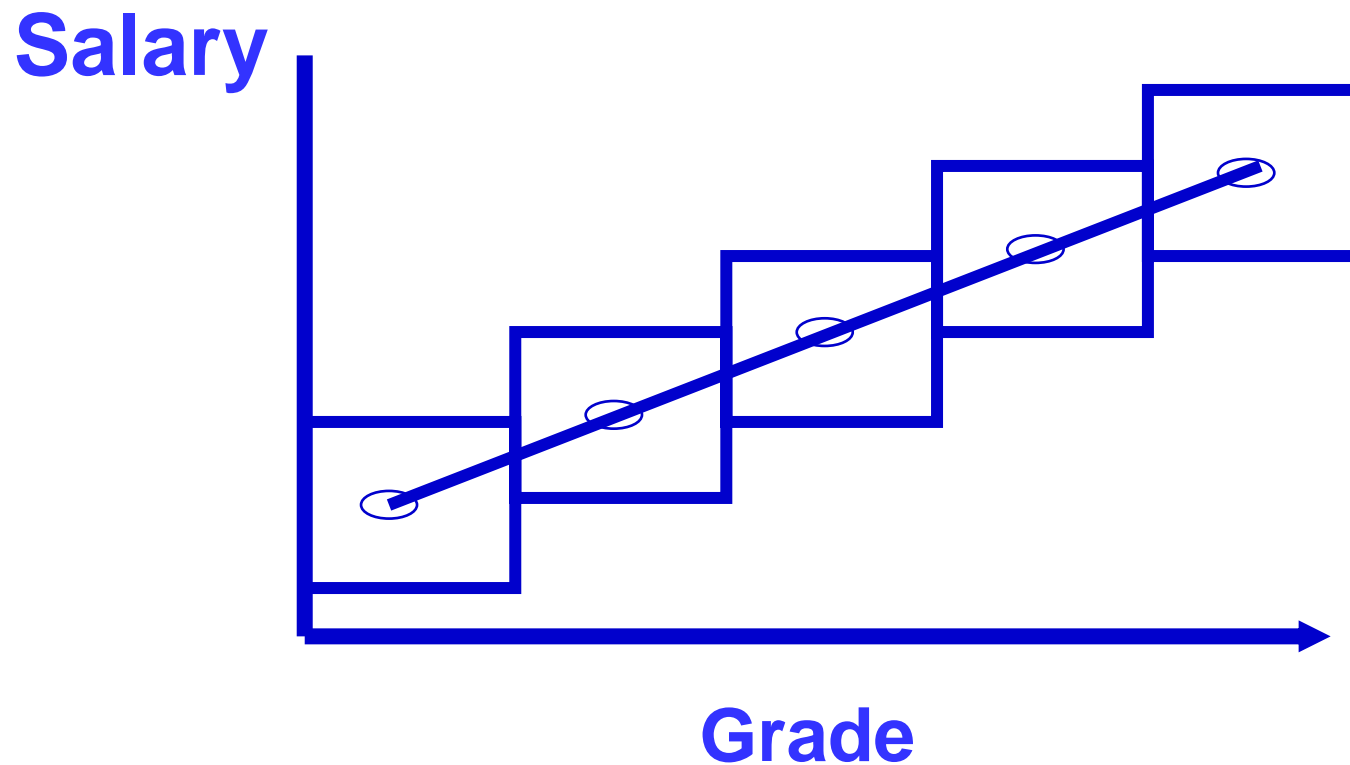
Broad Band	Sub-Grade	Typical Title
<b>P</b> Primary Skill	PI	Cleaner, Tea-maker, Labourer
	P2	Crew member, Messenger, Gardener
<b>O</b> Operational Skill	O1	Multi-skilled crew member, Typist, Admin Clerk, Simple operator
	O2	Operator, Secretary, Debtors Clerk
	O3	Process co-ordinator, Personal Assistant
<b>AO</b> Advanced Operational	SP1	Panel crew captain, Logistics crew captain, BA Human Resources Administrator
	SP2	Single trade artisan, Accountant
	SP3	Multiple trade artisan, Mechanic
<b>ST</b> Supervision / Practitioner / Technician	S/T	Supervisor, Foreman, Metallurgist, Junior Engineer, Analyst, HR Officer
<b>MP</b> Middle Management / Professional	MS1	Operations Superintendent, Technical Superintendent, BA Accountant
	MS2	Chemist, Operations Manager
	MS3	Business area HOD, Logistics Manager, BA Resource Manager
<b>SE</b> Strategy Execution	SM1	Business Area Manager, BU Resource Manager, BU Finance Manager
	SM2	Business Manager
<b>SI</b> Strategic Intent	TM1	Divisional Director, General Manager(Corporate Office)
	TM2	Executive Director
	TM3	Managing Director

# SST Factors (for electronic version)

Factor/ Dimension		
Factor	<b>1</b>	Decision Making (DM)
Factor	<b>2</b>	Knowledge (K) and Skills (S)
Factor	<b>3</b>	Complexity (C) and Problem Solving (CPS)
Factor	<b>4</b>	Accountability (A)
Factor	<b>5</b>	Judgment (J) and Impact (I)

# Salary Structuring

## Salary Structuring – A Step-by-Step Guide



# Salary Structuring Philosophy

**Rewards must be:**

- **Equitable within the company and**
- **Competitive within the industry**

# Pay Structure Definition

The pay structure refers to the pay scales attached to grades and the way in which these scales are structured; their range, their slope and market positioning

# Factors influencing pay structuring

Pay Structures are influenced by:

- Supply and demand - market rate for the job
- Cost of living
- External economic environment
- External socio-political environment

# Factors influencing pay structuring

Pay Structures are influenced by:

- The financial position of the firm or industry
- Management decisions - philosophy and policy
- Trade Unions
- The current salary/wage structure
- Corporate culture and values
- Centralised compensation policy
- Decentralised compensation policy
- Short-term vs. long-term orientation

## **Developing a Pay Structure: Results**

***The result of the procedure is a structure which shows how each evaluated position relates to each other job internally and how they relate to the market.***



# Presentation of Remuneration Data

## **Lower Quartile (25th Percentile)**

The salary above which 75% of salaries fall, when ranked in order of size.

## **Median (50th Percentile)**

The salary above and below which 50% of salaries fall when ranked in order of size.

## **Upper Quartile (75th Percentile)**

The salary above which 25% of salaries fall, when ranked in order of size.

## **90th Percentile**

The salary above which 10% of salaries fall, when ranked in order of size.

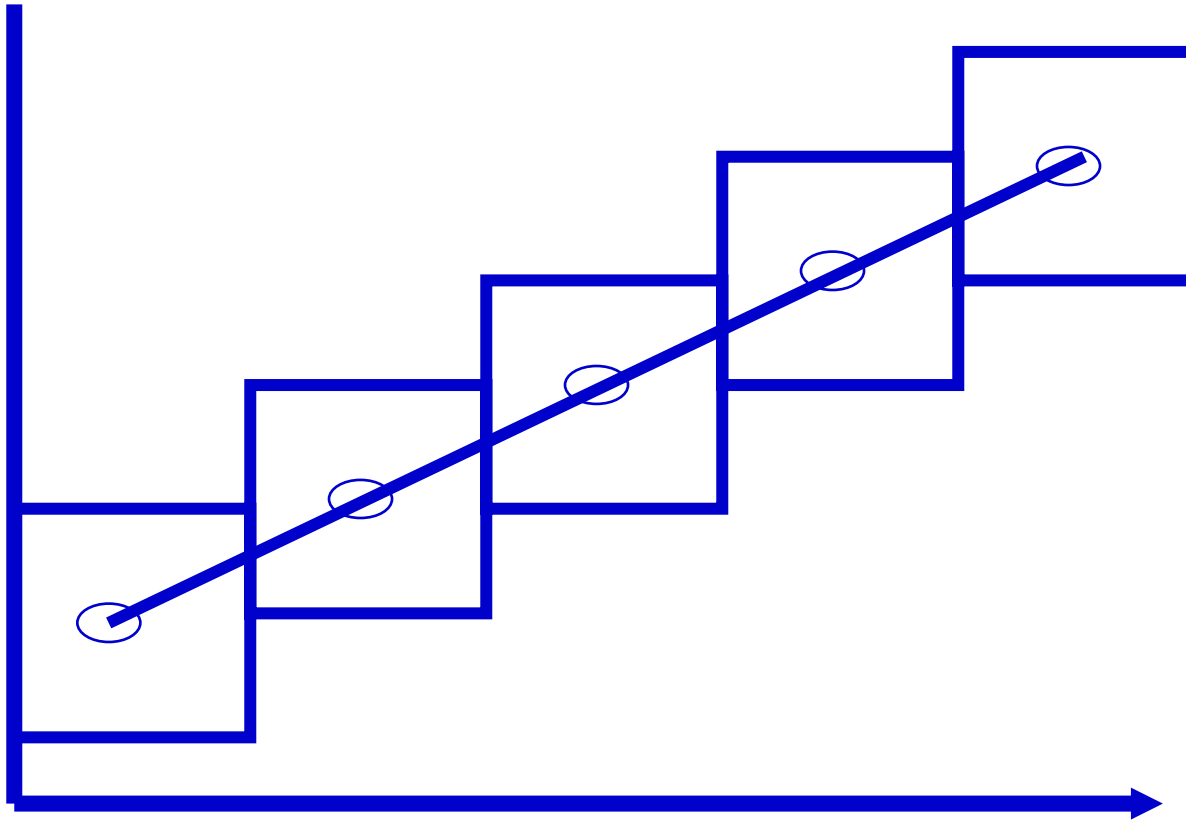
# Pay Slopes Definition

Pay slopes are defined *as the steepness or angle of the pay curve.*

- The percentage difference between the pay for one grade and another.
- Provides a useful tool for measuring and comparing pay slopes.
- An “ideal” pay curve with a constant percentage increase in pay between grades is represented by a straight line when plotted on a semi-log graph.

# Ideal Pay Curve

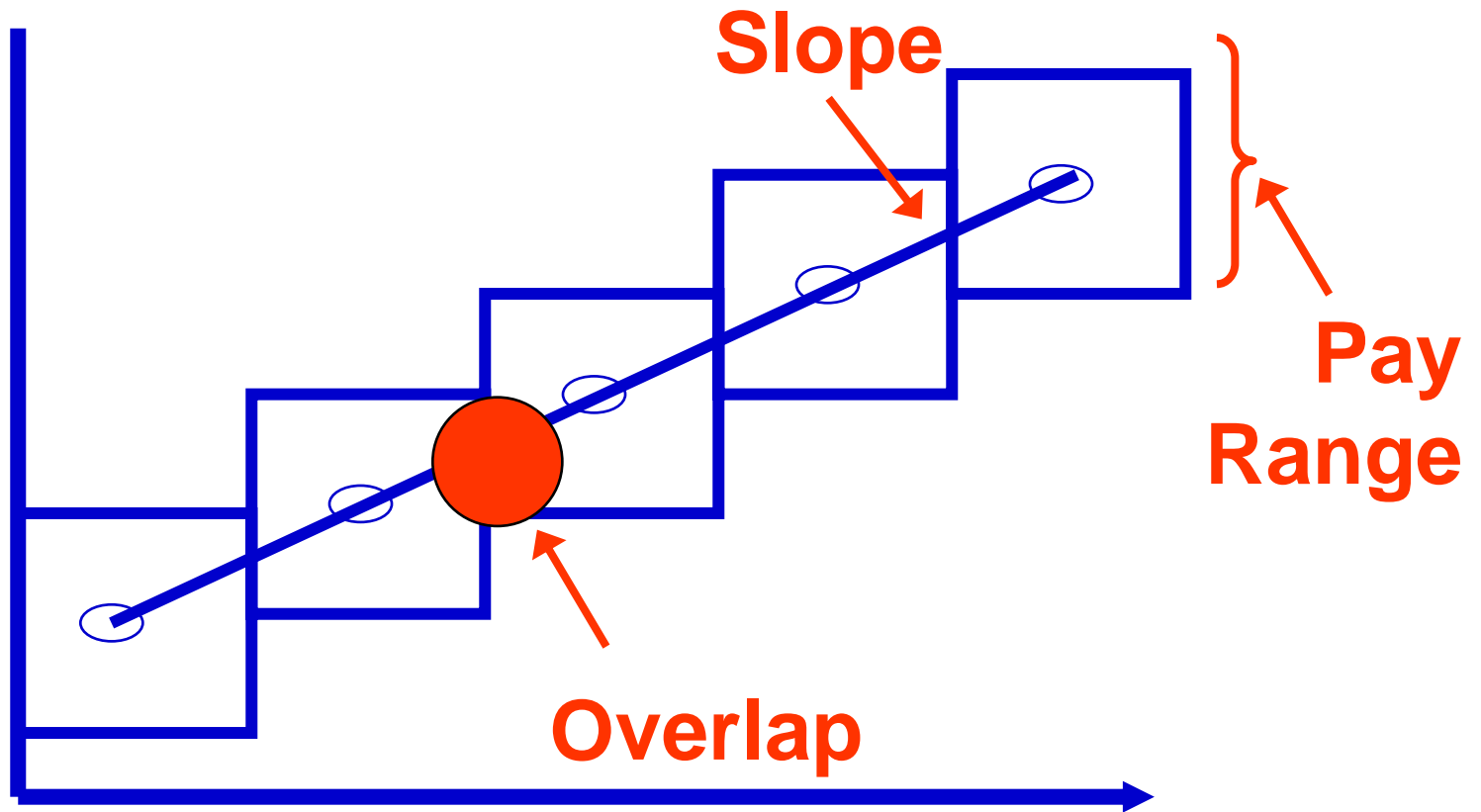
Salary



Grade

# Ideal Pay Curve

Salary



Grade

# The Ideal Pay Slope

**On the assumption that there is an equal increase in responsibility between each grade and the next one in a company, the “ideal” pay slope should have an equal percentage increase in salary between each grade and the next.**

This is referred to as a straight pay slope.

# Representation of the Ideal Pay Slope

**An “ideal” pay curve with a constant percentage increase in pay between grades is represented by a straight line on a semi-log graph.**

# Why is this Slope Ideal?

A straight pay slope is regarded as ideal because:

- It provides consistent motivation and reward for promotion to a higher grade
- The pay-slope percentage can be set as a company policy giving a foundation for remuneration proposals
- A straight pay slope is easier to administer and cost

# The Pragmatic Approach

It is often not pragmatic to implement a straight pay slope for a number of reasons:

- If current pay slope is not straight, it may result in exorbitant cost to straighten the slope
- There may not be an equal increase in responsibility between all grades
- Pressure on the minimum wage from unions
- Negotiated pay scales reflect a compromise between union & management, not a theoretical ideal
- A straight pay curve can conflict with market trends



# Calculating a Pay Slope across a few grades

## Calculating the pay slope across a few grades

Should you wish to know the average pay slope for a number of grades, this can be calculated using the following formula:

$$\left[ \frac{\text{(Pay rate for highest grade)}}{\text{(Pay rate for lowest grade)}} \frac{1}{(n - 1)} \right] - 1 \times 100 \text{ where } n = \text{no. of grades}$$

For example the average percentage slope between pay midpoints for Grades 1 to 5 would be:

$$\left[ \frac{(200,812)}{(30\,000)} \frac{1}{4} \right] - 1 \times 100 = 60.8\%$$

# Anatomy of a Pay Structure: Width of a Pay Range

When choosing a pay range width, the width of the range will determine the maximum and minimum salaries. As the range gets wider, maximums increase, minimums decrease and midpoints remain constant.

***Remember:*** Ranges should have midpoints that reflect the “going rate”. Minimums and maximums should as far as possible be market related.

# Calculating Pay Range

The difference between the maximum and the minimum value in the salary spread is the “range spread” or width of the range. This is normally expressed as a percentage of the difference between the minimum and the maximum divided by the minimum.

Maximum – Minimum

Minimum

= Total

# Anatomy of a Pay Structure: Ranges for Positions

**Typical Pay Ranges for jobs are:**

20-25%	Lower level service, production & maintenance
30-40%	Clerical, technical, paraprofessional
40-50%	Higher level professional, administrative, middle management
50% and over	Higher level managerial, executive and technical

# Overlap formula

- It is normal for the minimum and maximum value of a grade to also fall into the adjoining range. The width of the range and the midpoint differentials determines the amount of overlap between adjoining grades.
- *Note:* Grade overlap is significant when midpoint differentials are small and range spreads are large but, grade overlaps are small when range widths and midpoint differentials are large.
- The formula for calculating overlap is:

$$\frac{(\text{Maximum of lower grade} - \text{minimum of higher grade}) \times 100}{\text{Minimum of higher grade}}$$

# The Salary Range Compa-Ratio

Compa-ratio is a statistic that:

- is an important tool for managing compensation costs
- is related to the midpoint
- expresses the relationship between the base salary & midpoint or between the midpoint & market average
- can be calculated for individuals, groups or the company as a whole using the formula:

$$\frac{\text{Base Salary}}{\text{Midpoint}} \times 100$$

# Range Penetration: What is it?

- Range penetration is a method for tracking an organisation's compensation system
- Involves viewing an employee's pay in relation to the total pay range
- Calculated using the minimum and maximum values in the salary range

**Formula for calculating range penetration is as follows:**

$$\text{Range Penetration} = \frac{\text{Incumbent salary} - \text{Range minimum}}{\text{Range maximum} - \text{Range minimum}} \times 100$$

# Range Penetration: Example

Formula for calculating range penetration is as follows:

$$\text{Range Penetration} = \frac{\text{Incumbent salary} - \text{Range minimum}}{\text{Range maximum} - \text{Range minimum}} \times 100$$

**Example:**

$$\frac{10,000 - 8,000}{13,000 - 8,000} = \frac{2000}{5000} \times 100$$

$$= 40\%$$



# Deciding on the number of pay grades

Decide on the number of pay grades as follows:

**1. Assess skills / responsibility distinctions**

*Note:* Ask the question, how many skill and / or responsibility distinctions are manifest in the company (per job evaluation plan and internal value)

**2. Evaluate the supervisor / subordinate relationship to determine:**

- How many layers of supervision are present
- How many grades between supervisor and subordinate at each level

**3. Assess the career progression associated with the grades / bands**

# Broadbanding

Broadbanding is defined as the combining of existing salary ranges by expanding range width and reducing the number of grades. It provides scope:

- to pay for performance and allow managers greater flexibility in salary administration
- for ease in movement of people within the company
- for the reduction of the demands of job evaluation as well as the time and effort required to make organisational changes

# Pay Grades Overlaps

It is normal for the minimum and maximum value of a grade to also fall into the adjoining range. The width of the range and the midpoint differentials determines the amount of overlap between adjoining grades.

**Note:** Grade overlap is significant when midpoint differentials are small and range spreads are large but, grade overlaps are small when range widths are small and midpoint differentials are large.

# Recap

- Pay structures should be developed from the organisation's mission and business strategy
- Strategy should always precede the development of a structure
- Once strategy has focused the structure, it must be honed through the assessment of the factors related to internal & external equity.
- Structure needs constant fine-tuning.

# Practice! Practice! Practice!

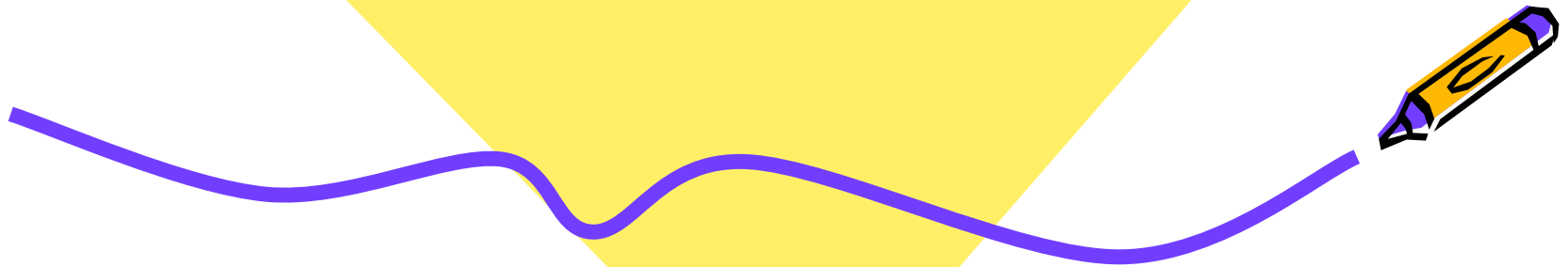
Grade	LQ	Median	UQ	Company actuals	Compa Ratio to mid	Range	Overlap	Slope of median
A	2000	3000	4000	2400				
B	3000	5000	7000	4500				
C	6000	9000	12000	8500				
D	10000	14000	18000	15000				
E	16000	20000	24000	22000				
F	22000	27000	32000	30000				

# Traditional vs Broadband

	Aspect	Traditional graded structure	Broadband structures
1.	Number of levels	15 – 26	8 – 14
2.	Pay scale width (min. to max. for a grade/band)	15% - 50%	50% - 300%
3.	Pay overlap between grades/bands	10% - 30%	20% - 40%
4.	Career development	Moving up grades	Typically horizontal (bigger projects, stores, lines, shafts, cases, etc.)
5.	Typical main focus	Job grading	Competence and performance
6.	Pay delivery	Job grade, competence and performance Focus on job	Mostly competence and performance or both Focus on person
7.	System mostly controlled by:	Human resources function	Line management
8.	Market data	By grade is adequate	By position or job family becomes necessary
9.	Band descriptions	By grade or specific job title	By roles or level of work (Stratified Systems Theory)
10.	Job evaluation	In forefront and important	In the background as an administrative tool
11.	Cost control	By policing	By empowerment



**Performance - related  
pay, skill based pay and  
competency based pay**



## The Definitions and Reasons for PRP

Performance-related pay is pay that varies depending on individual, team or company performance. This guide focuses on individual PRP and the following guide focuses on team rewards (variable pay and choosing the right incentive scheme).

**R  
e  
m  
e  
m  
b  
e  
r**

High performance is a standard we strive for in all of life's activities. It means doing a difficult thing well, whether in our personal or professional capacity, and it often commands admiration and reaps rewards



## **The Definitions and Reasons for PRP - cont**

PRP that applies to individuals is associated with salary structures,

grades and a performance and/or competence rating. This differs from incentive schemes which are team or company-based as these schemes are normally formula-driven and the payments are once-off. In individual PRP schemes, a managerial rating often translates into the size of a pay increase relative to the "purse" that is available.


## Individual vs team based PRP

<b>Individual PRP</b>	<b>Team PRP</b>
<ol style="list-style-type: none"><li data-bbox="432 639 1115 857">1. Usually associated with managerial assessment of performance and/or competence.</li><li data-bbox="432 867 1115 976">2. Based on quantitative and qualitative measures.</li><li data-bbox="432 985 1115 1094">3. Payment is often in the form of a pay increase.</li><li data-bbox="432 1104 1115 1213">4. Payments are mostly annual.</li></ol>	<ol style="list-style-type: none"><li data-bbox="1155 639 1816 691">1. Typically formula-driven.</li><li data-bbox="1155 867 1766 976">2. More often based on quantitative measures.</li><li data-bbox="1155 985 1724 1094">3. Payments are usually once-off.</li><li data-bbox="1155 1104 1797 1263">4. Payments can vary from monthly to every three years.</li></ol>

## **Reasons Why Companies Implement PRP**

- Strengthen the relationship between performance and **reward**.
- Drive company strategy implementation to individual level.
- Retain top performers by rewarding them for sustained superior performance.
- Send a clear message to non-performers (which is usually accompanied by counselling and/or training).
- Institutionalise a performance culture within the company.
- Facilitate and necessitate performance contracting resulting in performance reviews and assessments.
- Link the onerous salary and wage bill to the fortunes of the business.
- Differentiate reward in a **defensible** manner.

## One Dimensional Merit matrix

Scale point	Performance description 	Reward implication
5	Clearly outstanding. The employee's performance is visibly outstanding on a sustained basis and far exceeds the requirements set. Tangible evidence exists of the employee's ongoing achievements.	Deserving of a special merit or merit increase.
4	Exceeds job requirements. The employee's performance exceeds the requirements set. Tangible evidence exists of the employee's achievements.	Should receive an above-average increase.
3	Meets job requirements. The employee's performance meets the requirements set. Tangible evidence shows that job KPIs have been met.	Deserving the percentage increment top management sets for the company in general.
2	Requires further development. The employee's performance does not yet meet all the requirements set. Some evidence exists of the employee's competence.	Should receive a restricted increase, lower than the average increase.
1	Below job requirements. The employee's performance is below the standard requirements set. Little or no evidence exists of the employee's competence.	An increase should not be given or a very small one given.

## Performance Rating Distributions

Description		Desired distribution
Outstanding	(5)	Less than 10%
Very effective	(4)	Around 20%
Effective	(3)	Around 40%
Developing	(2)	Around 20%
Not yet competent	(1)	Less than 10%

It cannot be over-stressed that this is merely management information, and is to be used as a guideline to managing hard and soft raters. If one is using software, the **actual** distribution is calculated for the organisation and this can be compared to the desired distribution. It is then possible to identify hard and soft raters by specific departments. Software also allows flexibility in setting the scale score range.

## A More Sophisticated Matrix

Position \ Score	1	2	3	4	5
90 <sup>th</sup> Percentile	0%	0%	4%	8%	12%
Upper Quartile	0%	2%	6%	10%	14%
Median	0%	4%	8%	12%	16%
Lower Quartile	0%	6%	10%	14%	20%



A matrix like this **accelerates** pay increases for top performers who are being paid at the bottom of the pay scale (or compa-ratio of **under 100**). It **decelerates** poor performers' pay scale (or compa-ratio of **over 100**).

## Generic company wide competencies

<b>CUSTOMER SERVICE</b>		<b>BUSINESS &amp; INDIVIDUAL SKILLS</b>	
	Treats customers as business partners		Demonstrates broad business knowledge and skills
	Identifies, understands and responds appropriately to needs of customers		Acts to add value to the business
	Presents ideas simply and clearly		Recognises problems and identifies underlying causes
	Listens actively to internal and external customers		Makes timely decisions
	Solicits and provides constructive, honest feedback		Coaches and develops others
	Keeps others informed		Is trustworthy, open and honest
	Balances requests with business requirements		Visualises the present and future, and develops strategies to get there

## Typical Application

Not Applicable	Least skilled		Not a Strength		Appropriate Skills Level		A Strength		An exceptional Skill	
	N	1	2	3	4	5	6	7	8	9

- N      Not applicable or not observed.
- 1 - 2    **Least Skilled.** The individual consistently fails to reach behaviour and skill expectations in this area.
- 3 - 4    **Not a Strength.** The individual meets some behaviour and skill expectations in this area but sometimes falls short.
- 5 - 6    **Appropriate skills Level.** This individual meets a majority of the behaviour and skill expectations in this area for the job. There is generally a positive perspective towards responsibilities.
- 7 - 8    **A Strength.** This individual meets most and exceeds some of the behaviour and skill expectations in this area.
- 9 - 10   **An exceptional skill.** This individual exceeds behaviour and skill expectations in this area.



## Example

	Supports team goals		N	Not applicable or not observed
	Puts interest of team ahead of self		1 - 2	Least skilled. The individual consistently fails to reach behaviour and skill expectations in this area
	Builds consensus and shares relevant information		3 - 4	Not a strength. The individual meets some behaviour and skill expectations in this area but
	Recognises and respects the contributions and needs of each individual		5 - 6	sometimes falls short. Appropriate skill level. This individual meets a majority of the behaviour and skill
	Actively seeks involvement/uses input from people with different perspectives		7 - 8	expectations in this area for the job. There is generally a positive perspective toward
	Builds and maintains productive working relationships			responsibilities.
	Treats others, such as protected group members, fairly		9 - 10	A strength. This individual meets most and exceeds some of the behaviour and skill
				expectations in this area. An exceptional skill. This individual consistently exceeds
				behaviour and skill expectations in this area.

## Contribution Milestones in a Broadband

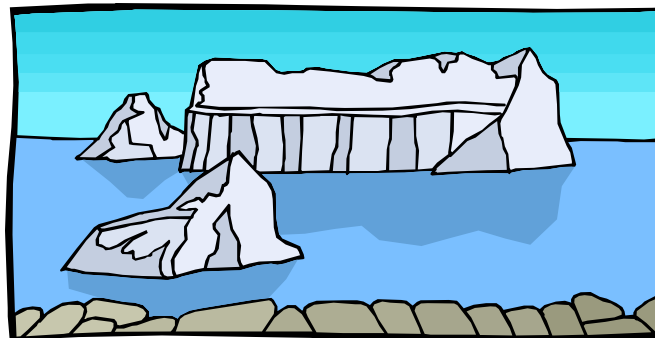
Milestone 4	Shapes	<ul style="list-style-type: none"> <li>• Provides strategic leadership</li> <li>• Promotes growth and development</li> <li>• Identifies and sponsors others</li> </ul>
Milestone 3	Guides	<ul style="list-style-type: none"> <li>• Shares own expertise</li> <li>• Develops, mentors and coaches</li> <li>• Deals with those outside the organisation</li> </ul>
Milestone 2	Applies	<ul style="list-style-type: none"> <li>• Demonstrates full competence/mastery in area of own work</li> <li>• Makes significant contribution to work team</li> <li>• Is independent, problem solver/decision maker, works without significant direction</li> </ul>
Milestone 1	Learns	<ul style="list-style-type: none"> <li>• Learns activities/tasks associated with own work/role</li> <li>• Learns to work/co-operate with colleagues</li> <li>• Depends on others for instructions, guidance and direction</li> </ul>

## Comparison – PRP and CBP

<b>Performance-related pay</b>	<b>Competency-based pay</b>
1. What work is done (results).	1. How work is done (behaviour)
2. Looks backwards (pays for results already achieved)	2. Looks forward (competency predicts success)
3. Pay decisions are usually made by comparing results against targets.	3. Pay decisions are based by assessing behaviour against competence profiles.
4. Targets may change from year to year.	4. Competence profiles often stay the same for many years.
5. Facilitates integration of individual, team and company objectives.	5. Facilitates integration of core, generic and individual competence.

## Skills Based Pay

Skill-based pay is often used interchangeably with competence-based pay, but there are some crucial differences. Skill is often described as the part of the iceberg you can see even though it forms part of competence. It is therefore easier to access and link to rewards as it is more tangible and often related to a demonstrable technical skill. More often than not, it is applied to manual workers, artisans and clerical workers.



## Points Model



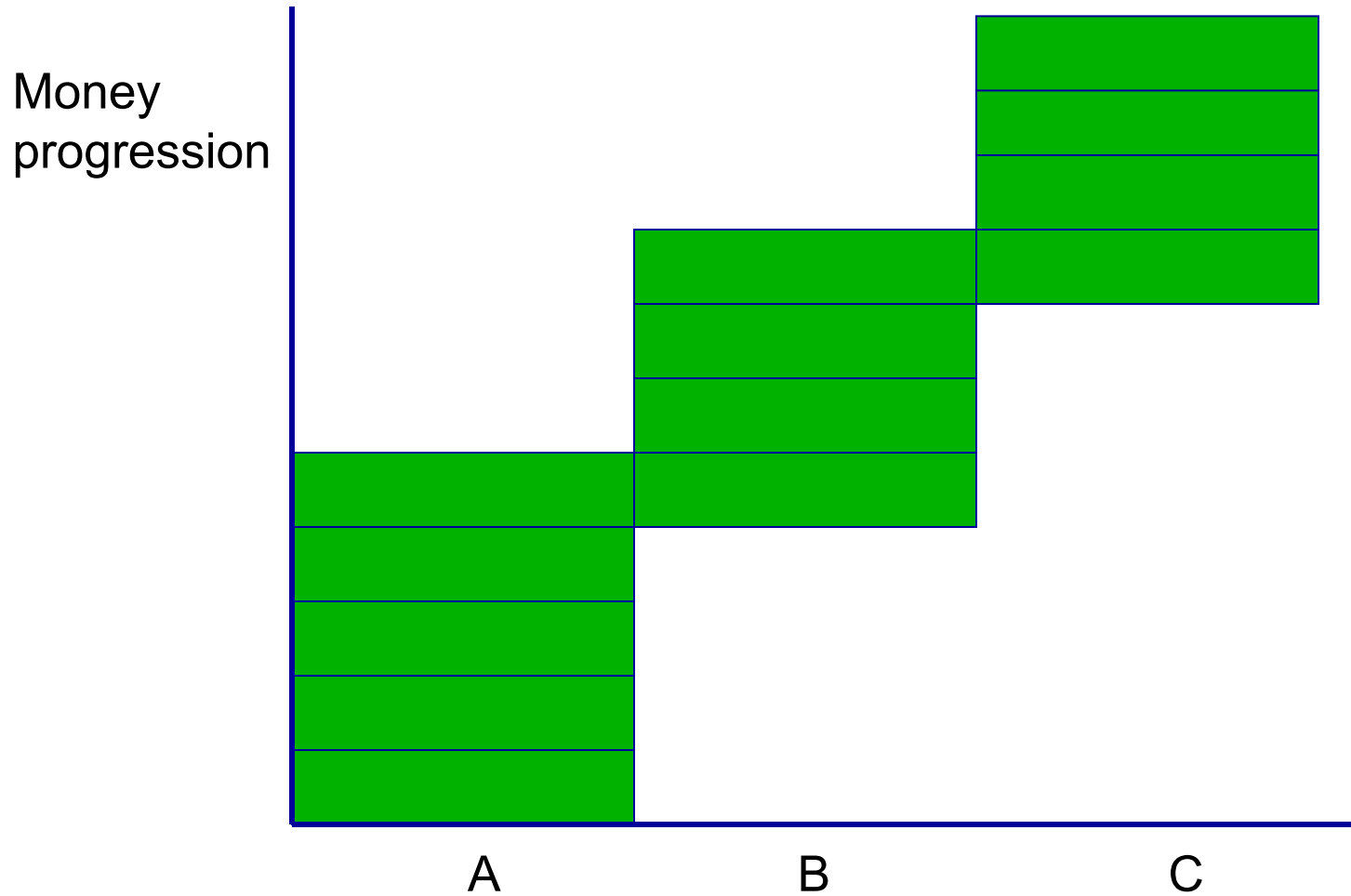
In this model, all the tasks or skills that need doing are assigned points. These points often differ depending on how easy or difficult the tasks are e.g. Easy = 1 point, Difficult = 5 points. As one acquires points, one earns more money, sometimes to a maximum of around 50 – 100% of starting salary.

### **Example**

Starting salary	=	R5000
1 – 10 points	=	plus 10%
11 – 20 points	=	plus 10%
21 – 30 points	=	plus 10%
31 – 40 points	=	plus 10%

## Skill Block Model

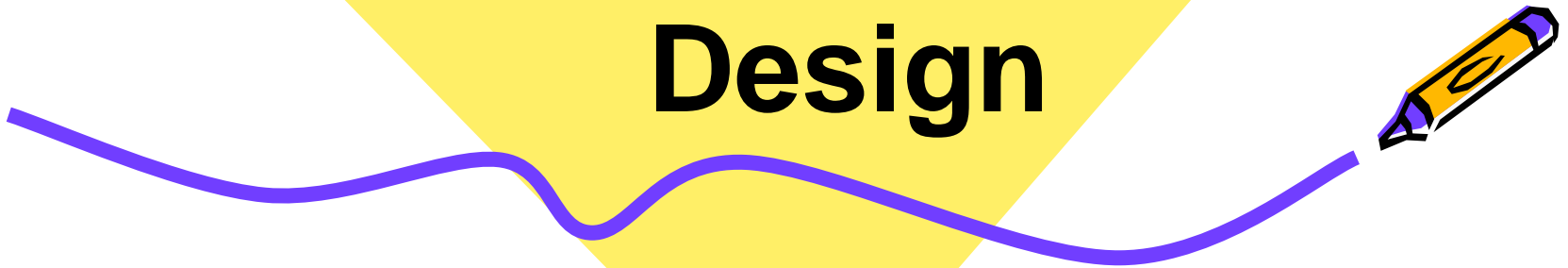
These models require one to move through skill blocks or clusters often associated with broadbanding, e.g.:





# **Variable Pay and Incentive Scheme**

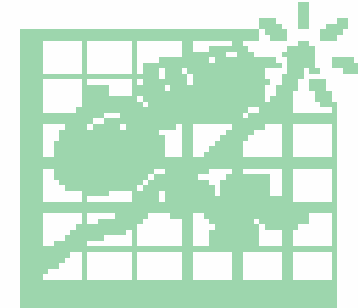
## **Design**



## STIs

These are incentive schemes that reward superior performance over a period of one year. Typically, they reward "what happened" last year. The main examples of STIs are:

- **Profit Sharing (PS)**
- Gain Sharing (GS)
- Bonus Schemes (BS)
- Commission Schemes (CS)



## LTIs

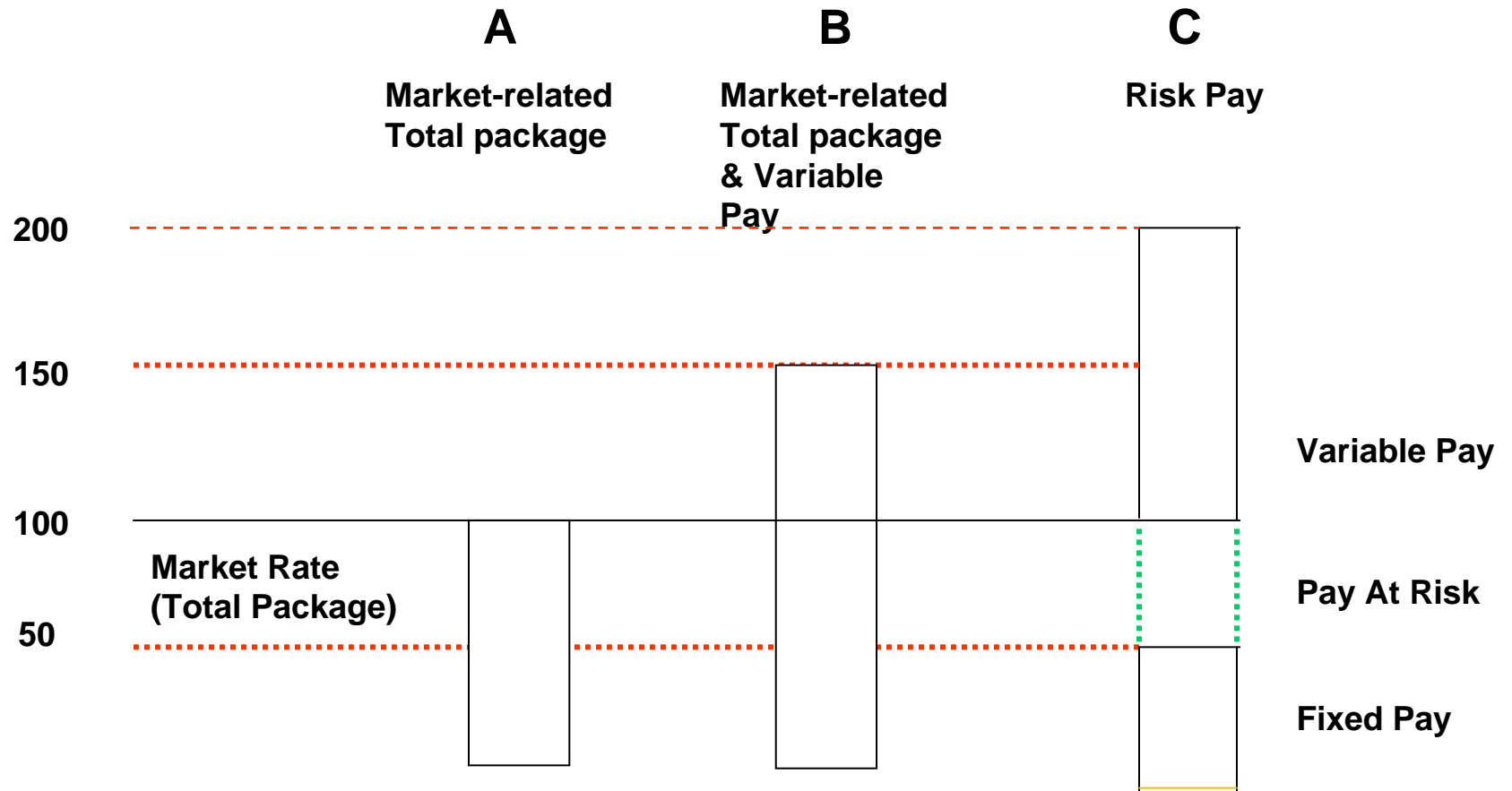
These are incentive schemes that "**look into the future**" and reward superior performance over more than one year. Typical examples are:

- Rolling Incentives (RI)
- Value Add Schemes (VAS)
- Share Schemes (SS)





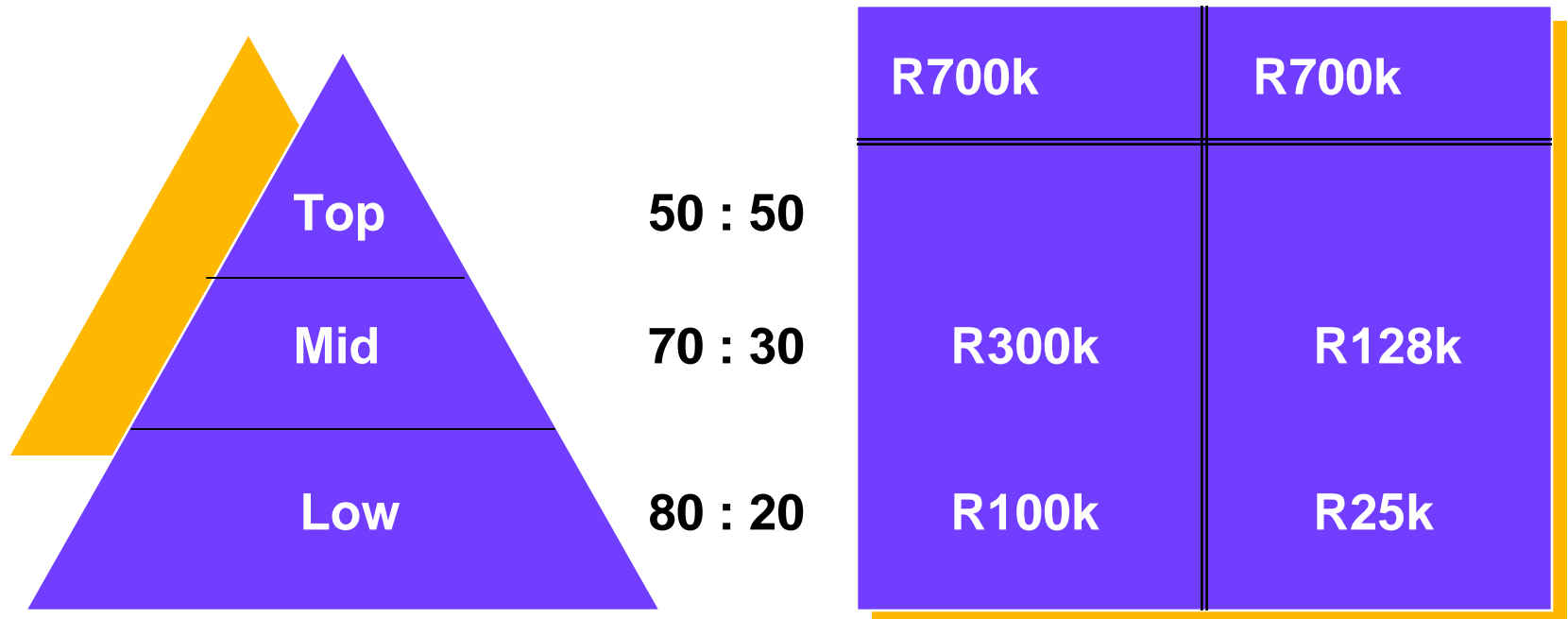
# Variable Pay, Fixed Pay, Risk Pay - The Link



# The 21 Most Profit-Driving Capabilities (\$m)

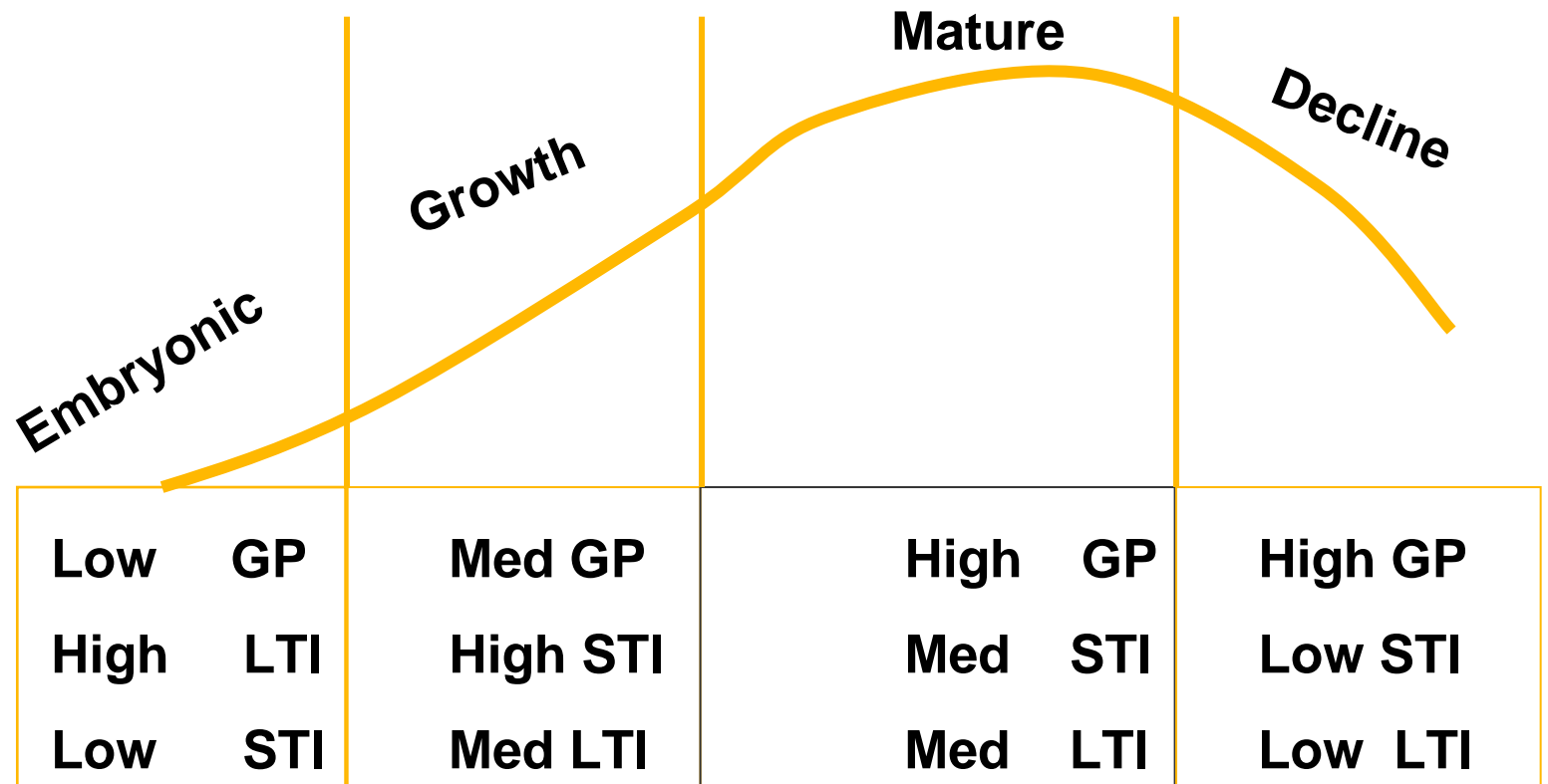
Incentivising/rewarding people	13
Customer services	13
Turning customer info into insight	12
Attracting / retaining people	10
Building selling / service skills	9.5
Strong value propositions	9
Partner / alliance investment	9
eCRM	8
Sales planning	7.5
Key account management	6
Advertising	5.5
Customer retention / acquisition	5.5
Managing product and service mix	5
Promotion	5
Ability to change the organisation	5
Measuring profitability	4.5
New products / service	3.5
channel mgt	3
Segmentation	2.5
Building service culture	2
Brand management	1.5

## GP : VP Differs By Level



(GP = Guaranteed Pay VP = Variable Pay)

## GP : VP DIFFERS By Life Cycle



(STI = Short-term-incentives LTI = Long-term-incentives)

## **GP : VP DIFFERS By Industry / Job**

**High GP : Low VP**

**85/90 : 15/10**

- E.g...:**
- Clerks**
  - Accountants**
  - Para-Statal**
  - Government**

**Low GP : High VP**

**50 : 50**

- E.g...:**
- Merchant Bankers**
  - Treasury**
  - Sales Clerks**
  - Dealers**
  - Stock Brokers**

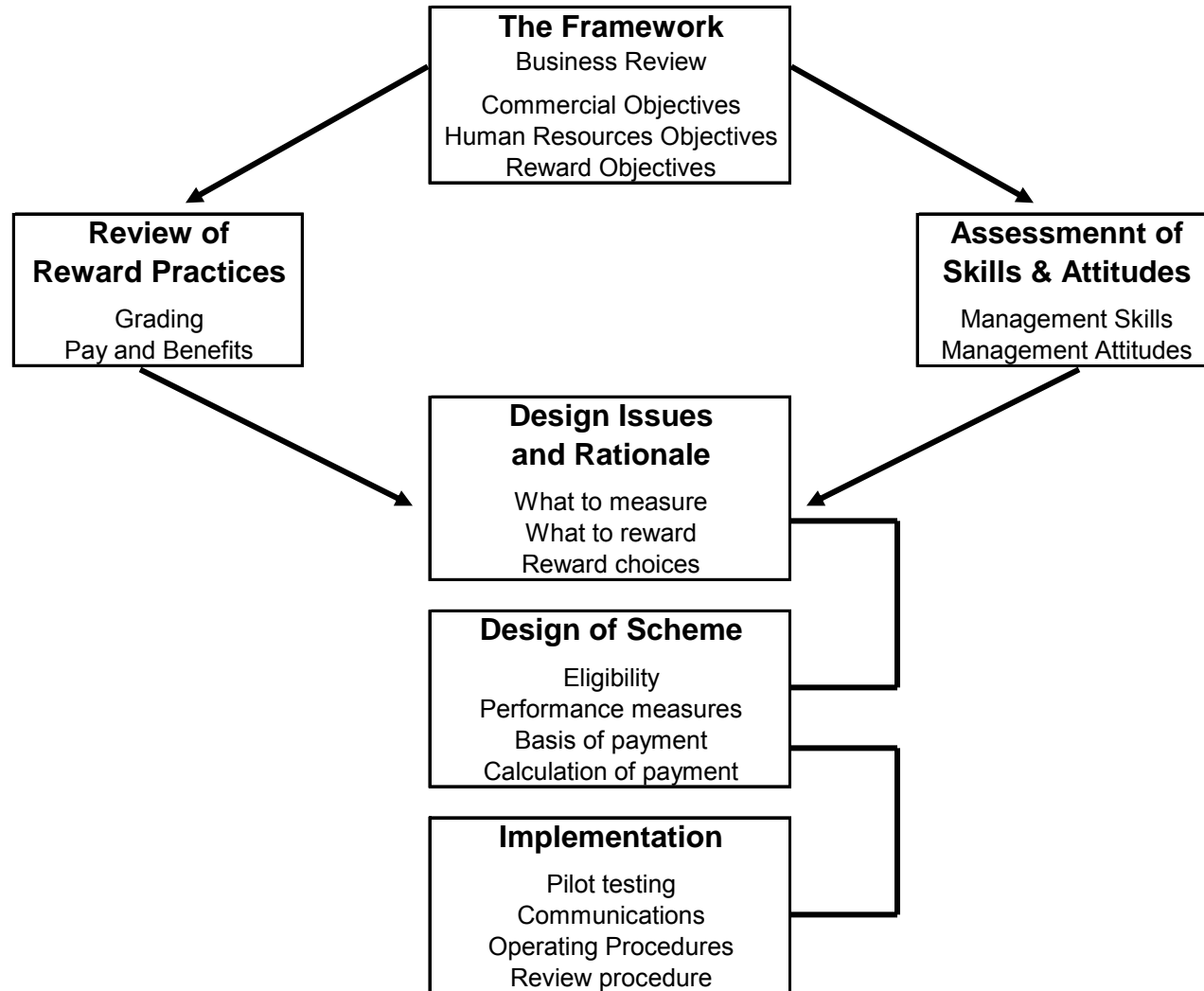
**GP : VP DIFFERS  
By Country (Top levels)**

**USA GP = 100      VP = 300**

**UK              GP = 100 VP = 60**

**SA              GP = 100 VP = 30**

# Incentive Design Framework



# Incentives Must

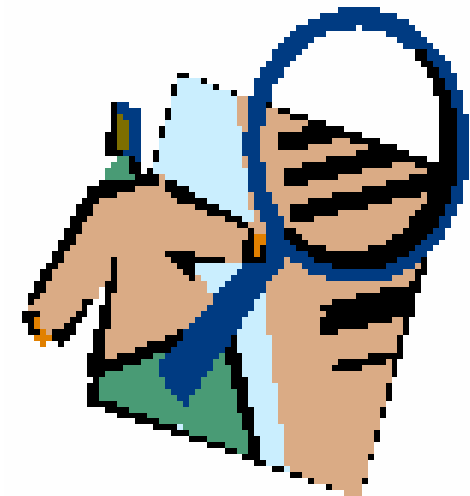
- Impact on bottom line
- Support organisational objectives
- Be objective
- Be measurable
- Goals/ objectives must be accepted/ agreed upon by participants
- Be communicated
- Be consistent - have rules
- Have payouts which are meaningful





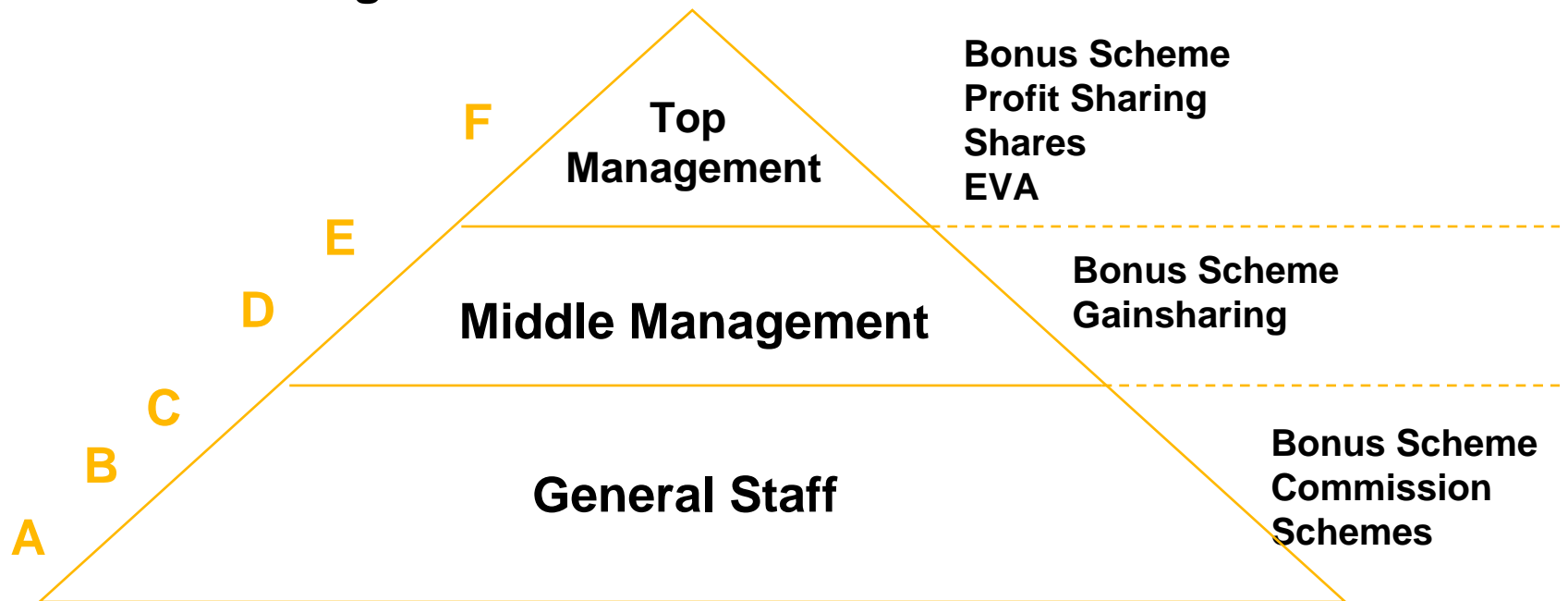
# Incentive Scheme Rules: Typical Headings

- Purpose
- Eligibility
- Measurement Criteria
- Determining the bonus pool
- Limits of payout (drawback clause)
- Timing of payout
- Scheme administration



# Good Incentive Scheme Practice

The type of scheme chosen must align with employee “line of sight” i.e.

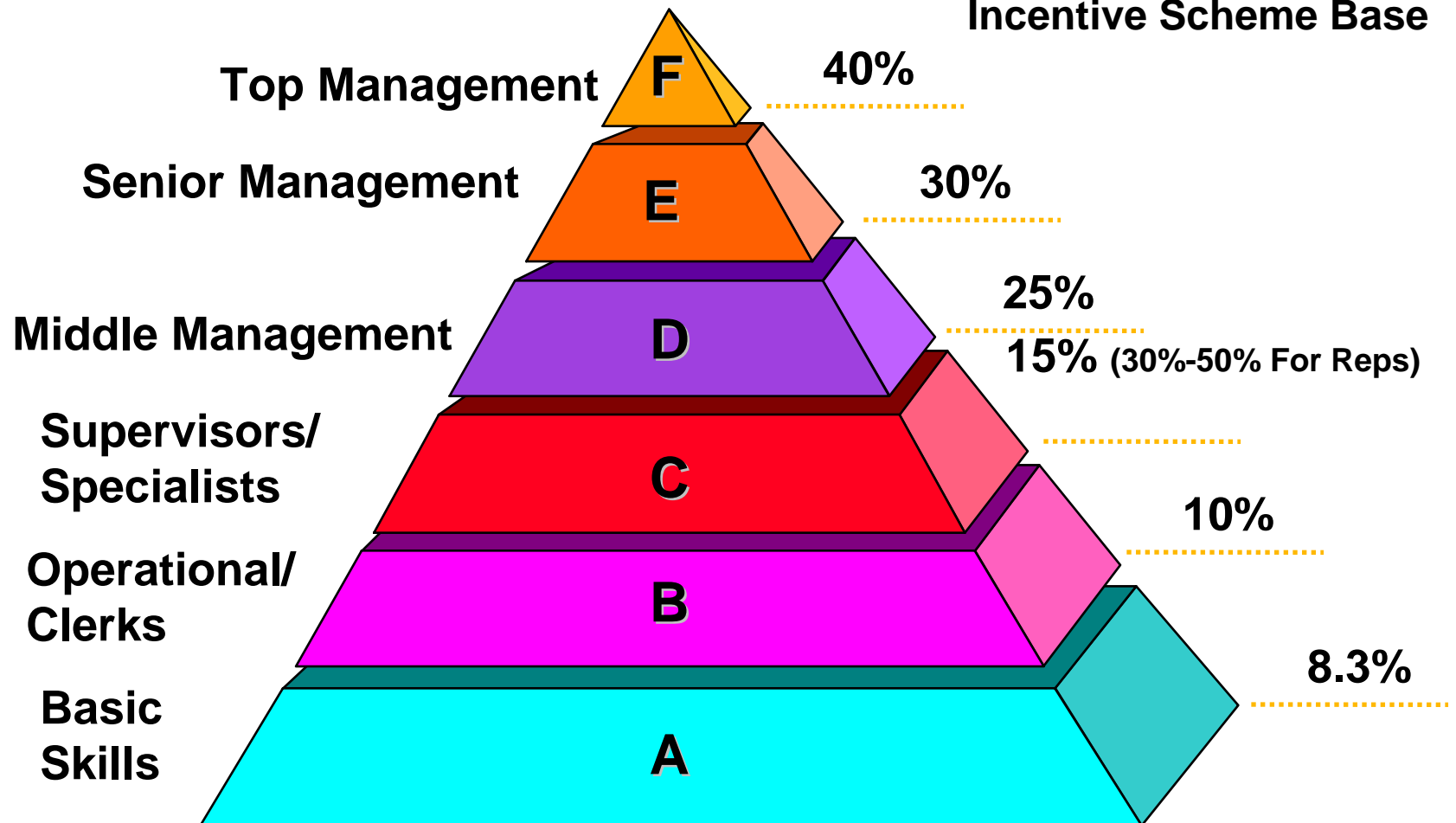


- Bonus scheme is common across all levels
- Bonus scheme can have any measures in it e.g. profit at the top end and specific controllable measures at the bottom end

# Eligibility and Participation Level

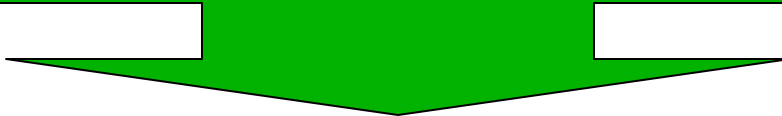
LEVEL

% of PACKAGE (Market Averages)  
Incentive Scheme Base



**Example of profit-related formula  
for an incentive fund**

**Formula = 10% of pre-tax profit that exceeds  
8 % of the company's capital employed**



Capital employed	R100 000 000
Pre-tax profit	R10 000 000
8% x capital employed	R8 000 000
Amount of profit exceeding 8%	R2 000 000
Amount of incentive fund (10% x R2 000 000)	R200 000

## 2. Gainsharing

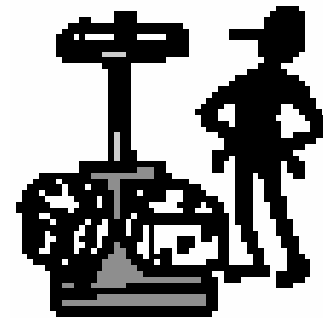
Gainsharing is typically a company-wide, formula-based scheme for lower-level staff aimed primarily at improving productivity. The most famous gainsharing plan is the Scanlon Plan, but there are many different variations to the theme. It differs from profit sharing in that it **has measures** and employees lower down can control and exclude items in the income statement like tax, depreciation, bad debt and other economic factors that might influence profit.

**A typical formula would be:**

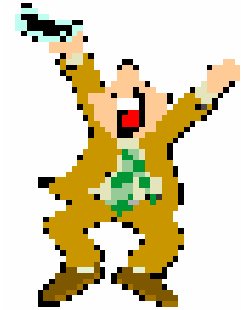
Share in the improvement on the formula

**Output / Input**

The sharing debate should start at 50:50 between employees and the company, but this can differ depending on whether the company is capital- intensive or labour-intensive.



### 3. Bonus schemes



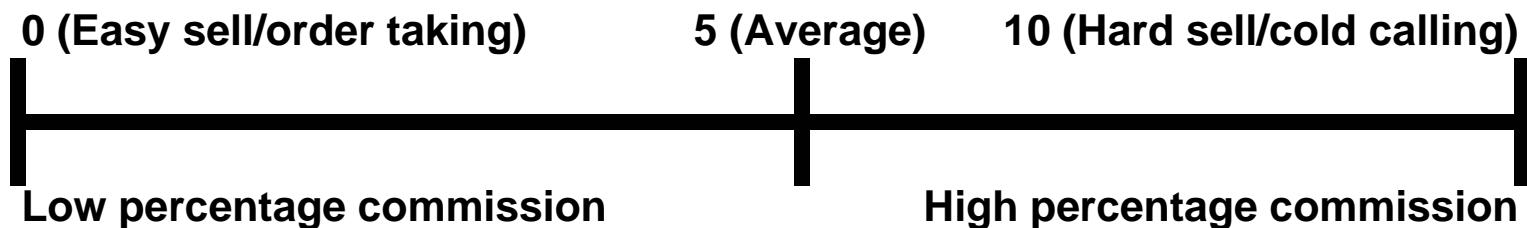
Unlike profit sharing and gainsharing, **bonus schemes** are often not formula driven, but targets are set. Targets are typically quantitative and qualitative in nature. Bonus schemes usually have between 4 and 7 measures which are carefully chosen to drive business strategy. Targets are usually expressed as threshold (budget), target and stretch target. Most organisations would choose a few targets related to the business as a whole (business targets) and then a few for each function or division.

### 3. Bonus schemes (continued)

Example Targets	Weighting	Threshold	Target	Stretch Target
Business targets (company-wide) <ol style="list-style-type: none"> <li>1. EVA</li> <li>2. Market share</li> </ol>	30% 20%	R5m 40%	R5m 42%	R7m 44%
Divisions' targets <ol style="list-style-type: none"> <li>1. Net profit</li> <li>2. Implement new line</li> <li>3. Reduce debtor days</li> <li>4. Achieve equity targets</li> </ol>	20% 10% 10% 10%	R1m On time, in cost 60 days 45%	R1.2m Better 50 days 50%	R1.4m Even better 30 days 55%

## 4. Commission schemes

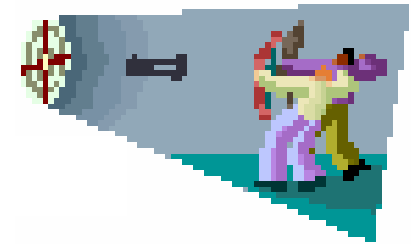
These are typically applied to **sales and business development staff**. They would earn a percentage of what they sold and the percentage is often set depending on the difficulty of selling and the average lead time for the sale to happen. The diagram below sets out the principle on a scale of 1 to 10.





## Commission schemes.....continue

Market practice is to provide a base salary to keep the "wolf from the door" and to ensure that one could earn another 30% to 200% in commission. The best commission schemes are:



- uncapped.
- linked to individual sales and have a team target where one can earn a bonus on top of commission if the team or region or product achieves budget.

### Example

1. Commission can be earned at a rate of 5% from R1 of sales.
2. Base salary is, say, R8 000 per month.
3. Sales achieved for the month (minus bad debt) is R170 000.
4. Commission is 5% of R170 000 = R8 500.
5. Earnings for the month is base salary (R8 000) plus commission (R8 500).

### Advantages and disadvantages of commission schemes

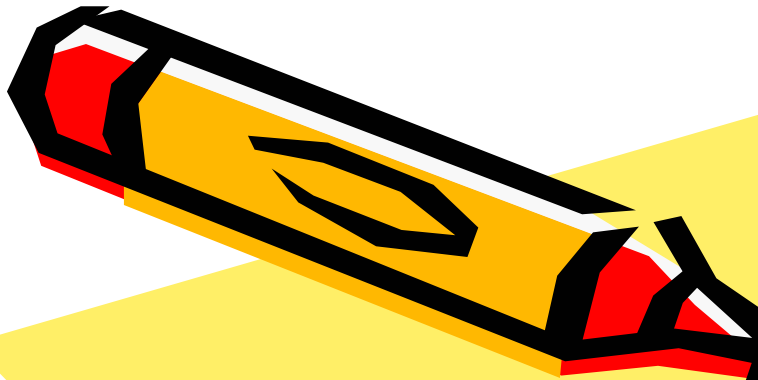
<b>Main Advantages</b>	<b>Main Disadvantages</b>
<ul style="list-style-type: none"><li>• Excellent line of sight</li><li>• Good control over earnings</li></ul>	<ul style="list-style-type: none"><li>• Territory arguments (size and case)</li><li>• If too aggressive, may impact on customer perception</li></ul>

## 5. Valued add schemes (VAS)

These schemes are a measure of the amount of economic profit made by the company in a year. The calculation is typically the profit (after a number of accounting adjustments) minus the cost of capital. The cost of capital **in a nutshell** is the weighted cost of debt plus equity.

The formula is: value add = profit minus the cost of capital.

<b>Main Advantages</b>	<b>Main Disadvantages</b>
<ul style="list-style-type: none"><li>• Focuses management on the cost of capital and return on assets</li><li>• A good correlation to increase in share price</li></ul>	<ul style="list-style-type: none"><li>• It can be complex to calculate</li><li>• The adjustments can be seen as arbitrary, especially where there is major long-term capital investment</li></ul>



*Building  
a  
Successful  
Retention  
Strategy*



## **Definition and Context**

“Retain” has two meanings: “to hold or keep in possession” and “to engage the services of”. The traditional focus in many HR practices has been to hold or keep rather than to engage a service. High-value employees and hot skills want to be “engaged” and not “kept”. Companies need to shift their thinking and focus what they need to do to help these employees become fully engaged in the organisation.

## Total Reward Mix

<p><b>Pay:</b></p> <ul style="list-style-type: none"><li>•Base salary</li><li>•Variable pay</li><li>•Recognition</li><li>•Shares</li></ul>	<p><b>Benefits:</b></p> <ul style="list-style-type: none"><li>•Health care</li><li>•Retirement</li><li>•Savings</li><li>•Time off</li><li>•Perks</li></ul>
<p><b>Learning &amp; Development</b></p> <ul style="list-style-type: none"><li>•Career development</li><li>•Performance Management</li><li>•Succession planning</li><li>•Training</li></ul>	<p><b>Work Environment:</b></p> <ul style="list-style-type: none"><li>•Organisation climate</li><li>•Leadership</li><li>•Performance support</li><li>•Work/life balance</li></ul>

## Reasons for Implementing a Retention Strategy : The Business Case

No. employees	500
Average individual salary	R60 000 p.a.
Average overall employee turnover rate	15%
Turnover cost (conservative estimate) 75% of salary	$500 \times 15\%$ $\times 0.75$ $\times R60\ 000 =$ R3 375 000 p.a.

## Different Categories

CATEGORY	BRIEF DESCRIPTION & INTENTION	QUATUMS
<b>CRITICAL SKILLS</b>	Highly market-competitive basic pay (guaranteed). Variable pay in line with normal company scheme, e.g. incentive scheme and group bonus.	BP: 50-75th percentile VP: 0-20% of annual pay
<b>SCARCE SKILLS</b>	Median-based pay (guaranteed) taking into account internal relativity. Highly aggressive variable pay based on different formats, needs and circumstances. Based on specific needs and ends at specific time.	BP: 50th percentile VP: 0-20% of annual pay or 0-50% of a year's annual pay over a periode of 2-3 years
<b>BUSINESS IMPERATIVE SKILLS</b>	Ideally market median based for basic pay. Employees with a combination of skills with highly market-competitive basic pay. Normal to aggressive variable pay based on circumstances.	BP: 50-60th percentile VP: 0-20% of annual pay Other incentives
<b>SUPERIOR PERFORMERS</b>	Basic pay is between 60th-90th percentiles of market. Discretionary bonuses by respective executive directors. Part of the incentive scheme and group bonus.	

BP = Base Pay

VP = Variable Pay



## Different types of performance management systems

P O T E N T I A L	HIGH	<p style="text-align: center;"><b>VEXATION</b></p> <ul style="list-style-type: none"> <li>• High Flyer/Major Leaguer</li> <li>• Under Achiever</li> </ul> <p>Individuals with high potential, but who are not meeting expected performance criteria. Look at (1) newness in job (2) person/job fit (3) management style of manager</p>	<p style="text-align: center;"><b>MAJOR LEAGUERS</b></p> <ul style="list-style-type: none"> <li>• High Flyer/Major Leaguer</li> <li>• Average Achiever</li> </ul> <p>Individuals with high potential who are performing to standard, or above. If they are already in the Executive ranks, they have scope to grow further. (The main difference between a major leaguer and high flyer is the time taken for career progression - major leaguers should take longer)</p>	<p style="text-align: center;"><b>HIGH FLYERS</b></p> <ul style="list-style-type: none"> <li>• High Flyer/Major Leaguer</li> <li>• Super Achiever</li> </ul> <p>Excellent potential and performance to match - walks on water</p>
	MID	<p style="text-align: center;"><b>PASSIVE</b></p> <ul style="list-style-type: none"> <li>• Solid Citizen</li> <li>• Under Achiever</li> </ul> <p>Individuals who have reached their ceiling in the organisation, but who are performing below potential.</p>	<p style="text-align: center;"><b>SOLID CITIZEN</b></p> <ul style="list-style-type: none"> <li>• Solid Citizen</li> <li>• Average Achiever</li> </ul> <p>Individuals who have reached their ceiling and are performing to standard. These are <u>value added and productive</u> individuals, who over time need to be regenerated through lateral movement and changes in job scope.</p>	<p style="text-align: center;"><b>MAJOR LEAGUERS</b></p> <ul style="list-style-type: none"> <li>• Solid Citizen</li> <li>• Super Achiever</li> </ul> <p>Individuals who may not have the innate potential, but who may progress in the organisation (laterally or vertically) through performance. Specialists and sapiential leaders tend to fall into this category</p>
	LOW	<p style="text-align: center;"><b>STALE</b></p> <ul style="list-style-type: none"> <li>• Stale/Plateaued</li> <li>• Under Achiever</li> </ul> <p>Individuals who have become stale in their job and are not performing to standard.</p>	<p style="text-align: center;"><b>PLATEAUED</b></p> <ul style="list-style-type: none"> <li>• Stale/Plateaued</li> <li>• Average Achiever</li> </ul> <p>Individuals who, although plateaued, are performing to standard. However, regeneration is needed, as they are at risk of becoming underachievers over time.</p>	<p style="text-align: center;"><b>SOLID CITIZEN</b></p> <ul style="list-style-type: none"> <li>• Stale/Plateaued</li> <li>• Super Achiever</li> </ul> <p>Valued and productive individuals, who are exceptional performers due mainly to experience. People who are in their niche jobs (and have been there for some time) tend to fall into this category</p>

UNDER

AVERAGE

SUPERIOR

Performance

# Ten most preferred retention strategies

Rank	Statement	Mean
1	<b>A competitive remuneration package</b>	3.58
2	Opportunities for development in your area of expertise	3.51
3		3.5
4	<b>Incentives linked to performance</b>	3.5
5	Challenging work assignments in your area of expertise	3.48
6		3.37
7	Freedom to plan and execute work independently	3.35
8	Colleagues that you feel you can learn from	3.34
9	Growth potential of the industry	3.34
	Access to "leading edge" technologies and products	
10	Progressive leadership which allows you to do things differently	3.33
	<b>Share in the profits of the business</b>	

# Ten least preferred retention strategies

Rank	Statement	Means
36	Health care benefit	2.75
37	Being able to apply your education directly to your job	2.74
38	Clearly structured promotional progress	2.63
39	Pension scheme	2.62
40	Well-defined job descriptions with clear responsibilities	2.54
41		2.43
42	Availability of jobs in the market	2.41
43	Time for socialising and relaxation at work	2.3
44	Need for a change	2.14
45	Encouragement to associate with institutionalised professional bodies	1.97
	Contractual obligation due to educational assistance received from the company	

# Short term incentives

<b>Short term incentive payment trends as a % of total guaranteed package</b>					
	<b>% who receive</b>	<b>Lower Quartile</b>	<b>Median</b>	<b>Upper Quartile</b>	<b>Maximum short term incentive achievable</b>
<b>CEO</b>	95%	30%	50%	70%	500%
<b>Top Executives (Reporting level 1)</b>	85%	20%	35%	60%	200%
<b>Senior Staff (Reporting level 2)</b>	80%	15%	25%	50%	100%
<b>Middle Management (Reporting level 3)</b>	65%	10%	17%	30%	50%
<b>Advanced Operational</b>	30%	5%	10%	15%	15%
<b>Operational &amp; Primary</b>	15%	5%	8.3%	10%	10%

## Long term incentive payments

LEVEL	Options as a multiple of package		
	Lower Quartile	Median	Upper Quartile
CEO	4x	6x	8x
Top Executives (Reporting level 1)	2x	4x	7x
Senior Staff (Reporting level 2)	1x	2x	3x
Middle Management (Reporting level 3)	0.5x	1x	2x

## Example of rolling bonus scheme

	Year						
	1	2	3	4	5	6	7
<b>Earnings</b>	50%	30%	20%				
		50%	30%	20%			
			50%	30%	20%		
				50%	30%	20%	
					50%	30%	20%
						50%	30%
<b>Total for year</b>	50%	80%	100%	100%	100%	Etc.	Etc.

# Short term incentive schemes - example questions

- Scheme type
- Eligibility
- Local/ International scheme
- Main financial measuring and weighting
- State whether portion of payout is possible if main threshold is not met and extent if possible (i.e. risk)
- State other measures
- State whether targets can be altered
- Summary of scoring (multiple or % of annual package)
- Payment frequency and roll-overs
- Summary of caps

## Long term incentive schemes - example questions

- Scheme type
- Local/ International scheme
- Eligibility
- Vesting
- Issue multiples of annual guaranteed package
- Issue price
- Caps
- Performance hurdles
- Re-pricing
- Favourable tax treatment



# Market practice - short and medium term incentives

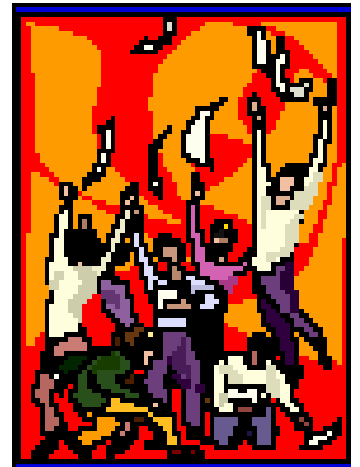
Our recent club survey of some of SA's top resources and financial institutions revealed the following highlights for executives:

	<b>Resources</b>	<b>Financial</b>
Range of payments at target level	20% - 200%	44% - 100%
Participants using efficient employment of capital as a primary measure	45%	67%
The majority do have financial performance hurdles	64%	67%
In the majority of cases, performance targets may be altered due to changes in external factors	64%	50%
Most use bonus schemes	67%	67%
Some use profit share schemes	33%	17%
Most have schemes which run throughout the organisation	64%	67%

## Remuneration-based Retention

Remuneration-based retention strategies include:

- market stance.
- sign-on bonus or shares.
- flexible remuneration packaging: my pay – my way.
- differentiation of pay and crafting a compelling offer.
- results-based incentive schemes.
- project milestone and completion bonuses.
- premiums for skills in demand.
- shares and share options.
- deferred or rolling bonus schemes.



## Remuneration-based Retention

Remuneration-based retention strategies include: (cont'd).

- “free” pension arrangements.
- post-retirement consulting projects.
- restraints of trade.
- lump sum payments.
- deferred compensation.



### **REMEMBER**

Obviously, paying competitive rates is critical, but simply throwing money at the problem will not make it go away in the long term.

- These strategies are fondly referred to as “gold handcuffs”, “golden parachutes” and, more recently, “golden walking sticks” and “golden rocking chairs”.

## The war for talent

### Ranking by age group

	18 – 29	30 – 44	45 – 54	55 or older
Base salary	1	2	1	2
Variable pay	2	4	4	6
Shares	3	5	6	5
Medical aid	5	1	5	3
Retirement funding	6	6	3	1
Deferred compensation	4	3	2	4

## What is total package

Total All-inclusive Packages are often confused with total cost of employment. The following build-up illustrates the concepts:

### **Basic Salary**

+ Allowances (travelling / entertainment / subsistence / PC / telephone)

+ Guaranteed annual bonuses (13<sup>th</sup> cheque)

+ Benefits (company car / housing)

### **= Basic Package**

+ Employer Contributions (medical aid / retirement / Group Life)

### **= All-inclusive Package**

+ Inconvenience Pay (overtime / standby / shift)

+ Variable Income (performance incentives)

+ Employer Contributions (statutory)

### **= Total Cost of Employment**

+ Shares

### **= Total Earnings or Total Remuneration**

## **How does the conversion work - equity issues**

- Guaranteed 13<sup>th</sup> cheque
- Housing benefits
- Car allowance
- Medical Aid membership
- Retirement Fund contributions
- Accumulated leave

## **Package structuring options**

- **Company Car / Travelling Allowance**
- **Subsistence**
- **Personal Computer**
- **Personal Telephone**
- **Home Office**
- **Medical Scheme Membership**
- **Retirement Fund Membership**
- **Cash Lump-sum**
- **Cash (balance)**
- **Entertainment**

# How Well Do We Know Our High Value Employees

	As rated by High Value Employees		As rated by HR Executives	
	Ranking	Mean	Ranking	Mean
Boss reputation	1	5.06	16	3.49
Base Salary	2	4.59	6	3.85
External Equity	3	4.21	3	3.95
Health Benefits	4	4.08	21	3.01
Travel	5	4.08	27	2.6
Retirement Contributions	6	3.85	23	2.92
Hours	7	3.82	24	2.91
Internal Equity	8	3.6	12	3.58
Location	9	3.6	28	2.54
Recognition	10	3.58	11	3.62
Company Reputation	11	3.52	2	4
Co-worker contribution	12	3.52	22	3
Participation / Decision Making	13	3.38	9	3.65
Stock Options	14	3.36	13	3.52
Senior Team Reputation	15	3.29	5	3.85

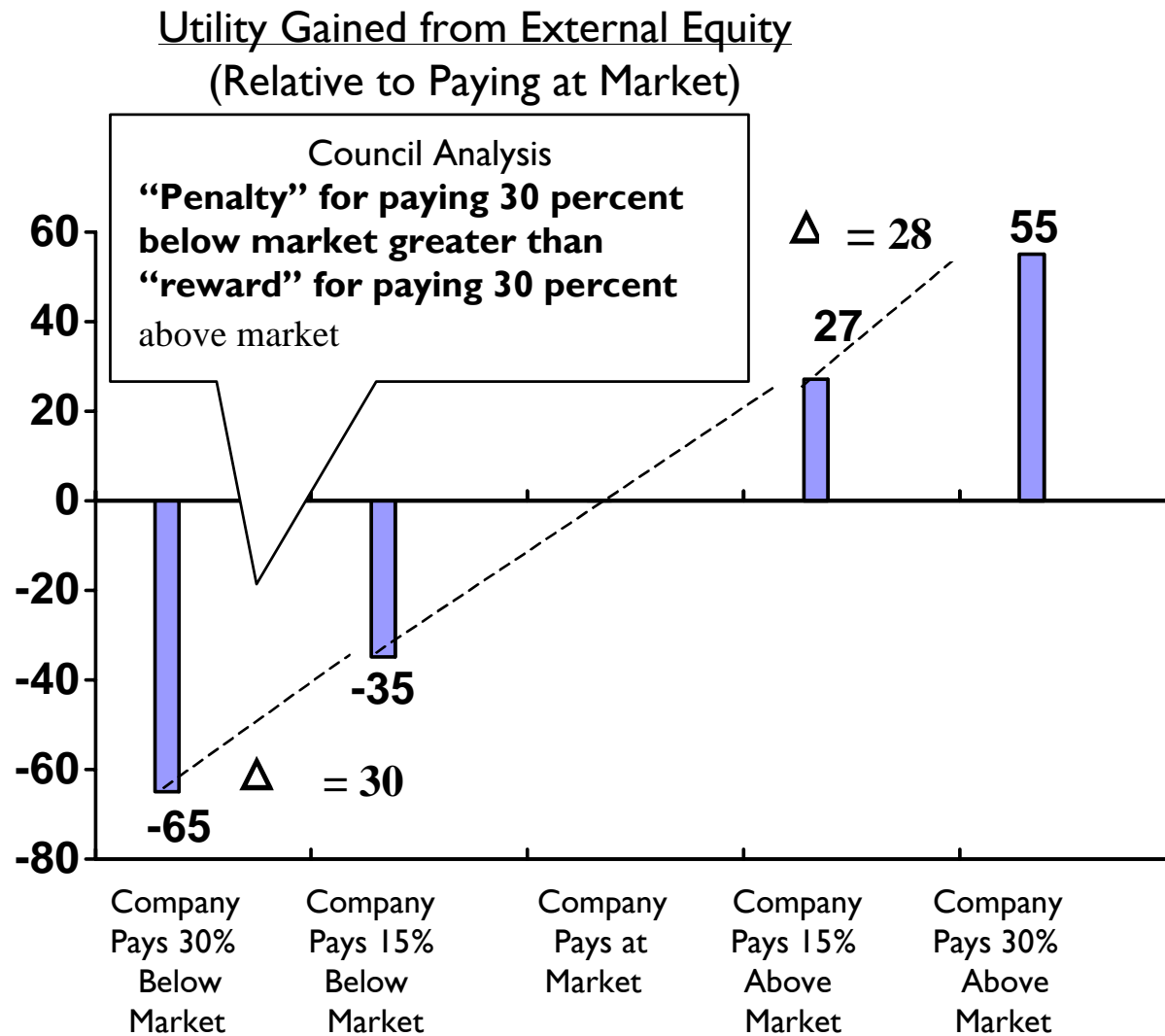


## How Well Do We Know Our High Value Employees (cont.)

	As rated by High Value Employees		As rated by HR Executives	
	Ranking	Mean	Ranking	Mean
Holiday	16	3.24	20	3.07
Bonus as a percentage of salary	17	3.33	4	3.91
Development reputation	18	3.21	1	4.04
Technology Level	19	3.2	14	3.51
Cutting edge work	20	3.18	10	3.62
Risk Taking	21	3.16	15	3.51
Work Challenge	22	3.15	8	3.69
Internal Mobility	23	2.9	17	3.46
Project responsibility	24	2.86	7	3.75
Role Clarity	25	2.84	19	3.25
Flexi time	26	2.68	25	2.87
Company / industry	27	2.51	18	3.39
Telecommuting	28	2.18	26	2.63
Company size	29	2.07	29	2.44
Child care	30	1.92	30	2.36

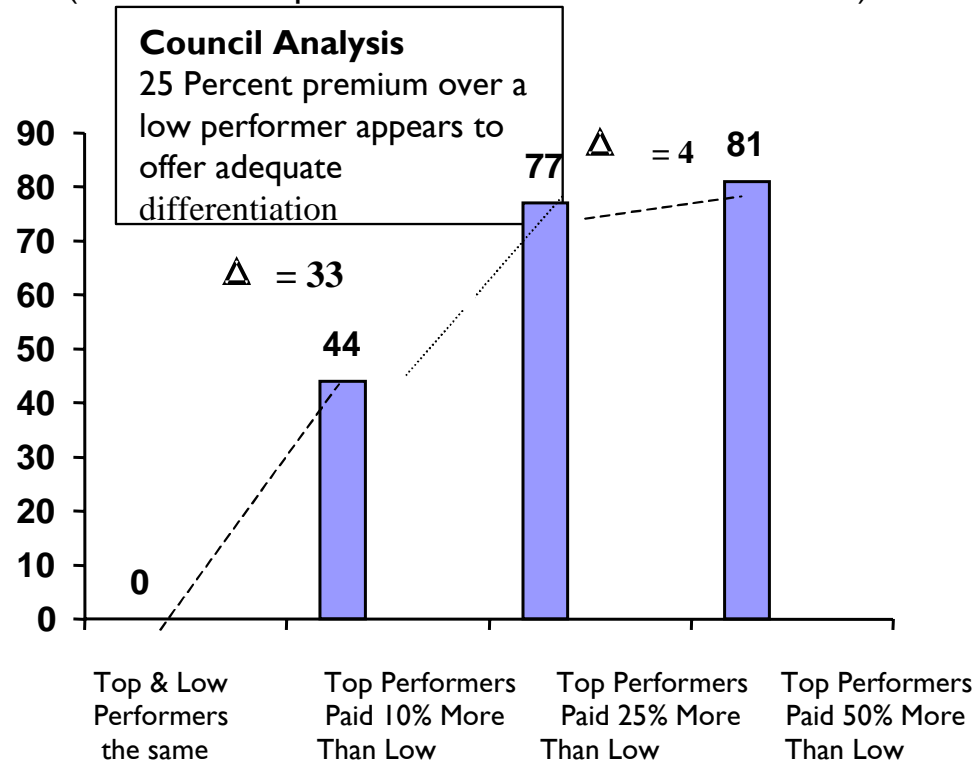
Source: Corporate Leadership Council Employee Preferences Database; Corporate Leadership Council research and analysis

# A Matter of Equity Much to Gain by "Marking to Market"...



# .... And differentiating pay for performance Equity

Utility Gained from Internal Equity  
 (Relative to Top and Low Performers Paid the Same)

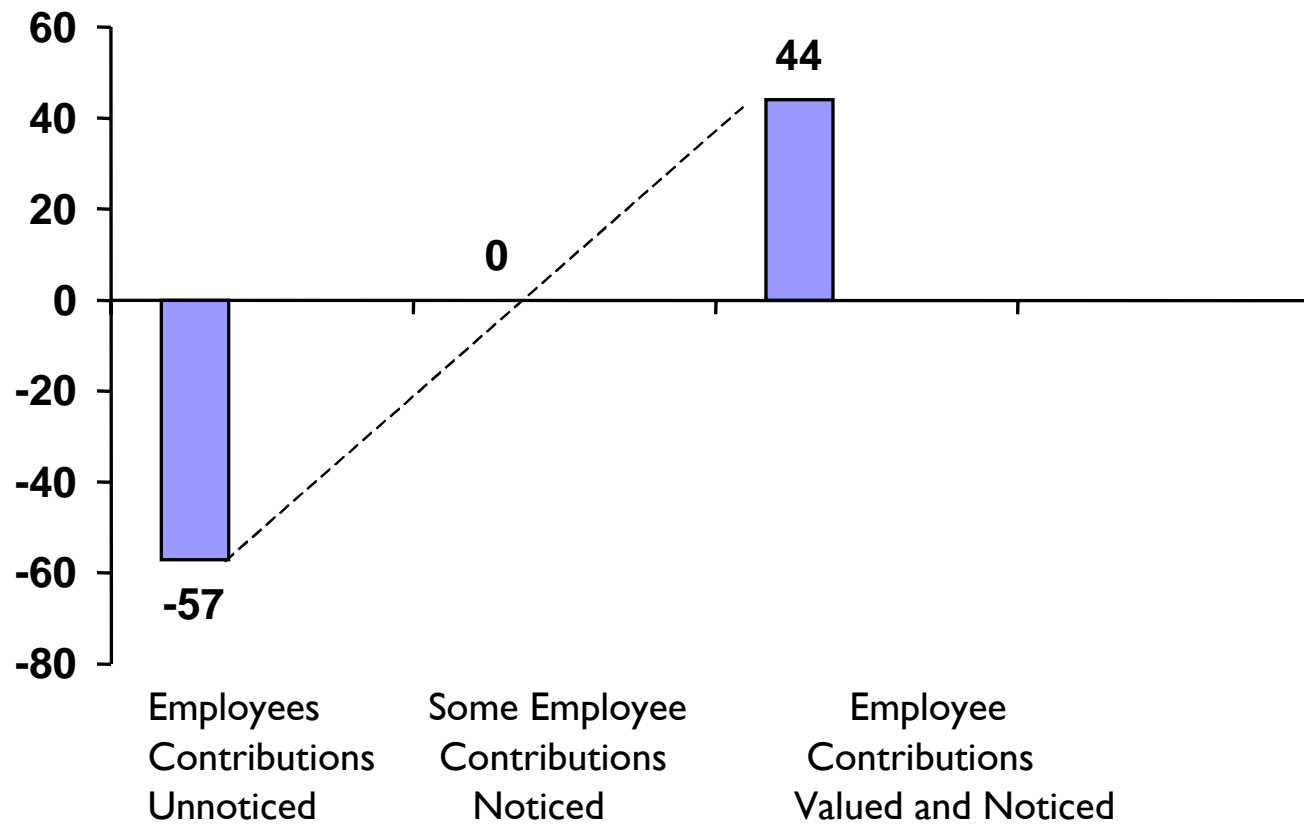


Source: Corporate Leadership Council Employee Preferences Database; Corporate Leadership Council research

# Keys to a Rewarding Work Environment

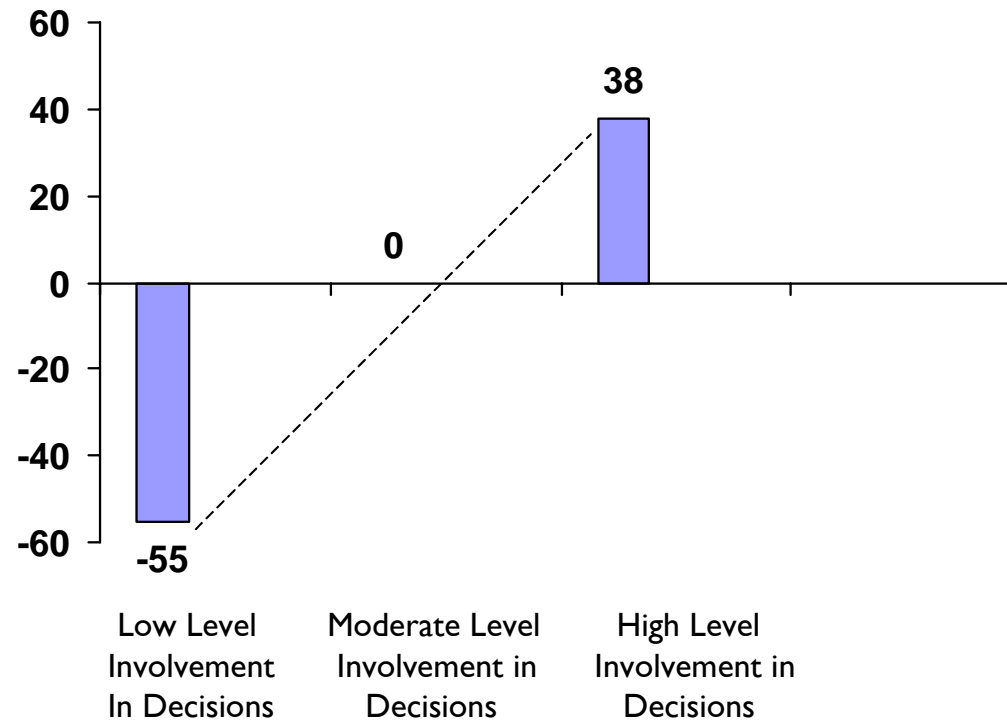
## Recognising on-the-job performance.....

Utility Gained from Recognition  
(Relative to Some Contributions Noticed)



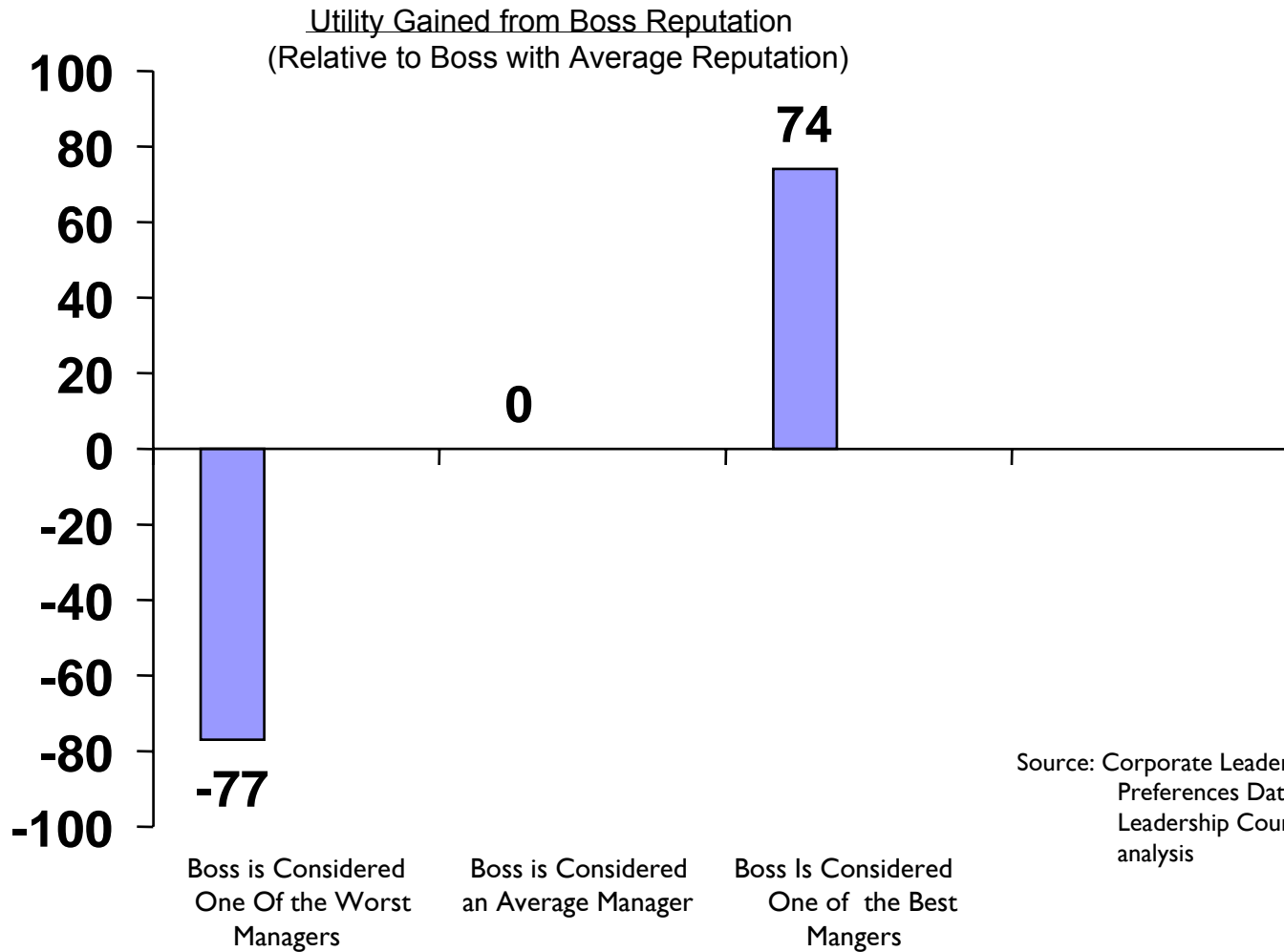
# And increasing participation pays dividends

Utility Gained from Empowerment  
(Relative to Moderate Level of Empowerment)



Source: Corporate Leadership Council Employee Preferences Database; Corporate Leadership Council research and analysis

# Trading for a Good Boss



Source: Corporate Leadership Council Employee Preferences Database; Corporate Leadership Council research and analysis

# The Challenge of Retaining Top Talent

1. The costs of attrition can be staggering, but are often unseen
2. The reasons employees stay are not the same as why they leave
3. The manager's role in attrition is paramount but underplayed
4. Prevention is the best medicine
5. Retention has an often unrecognised impact on the customer
6. Misguided thinking - "Attrition is inevitable"
7. World class retention reflects a multi-factored solution

## *Retention strategies - components*

1. Manager retention practices
2. Organisational retention systems
3. Measurement and accountability

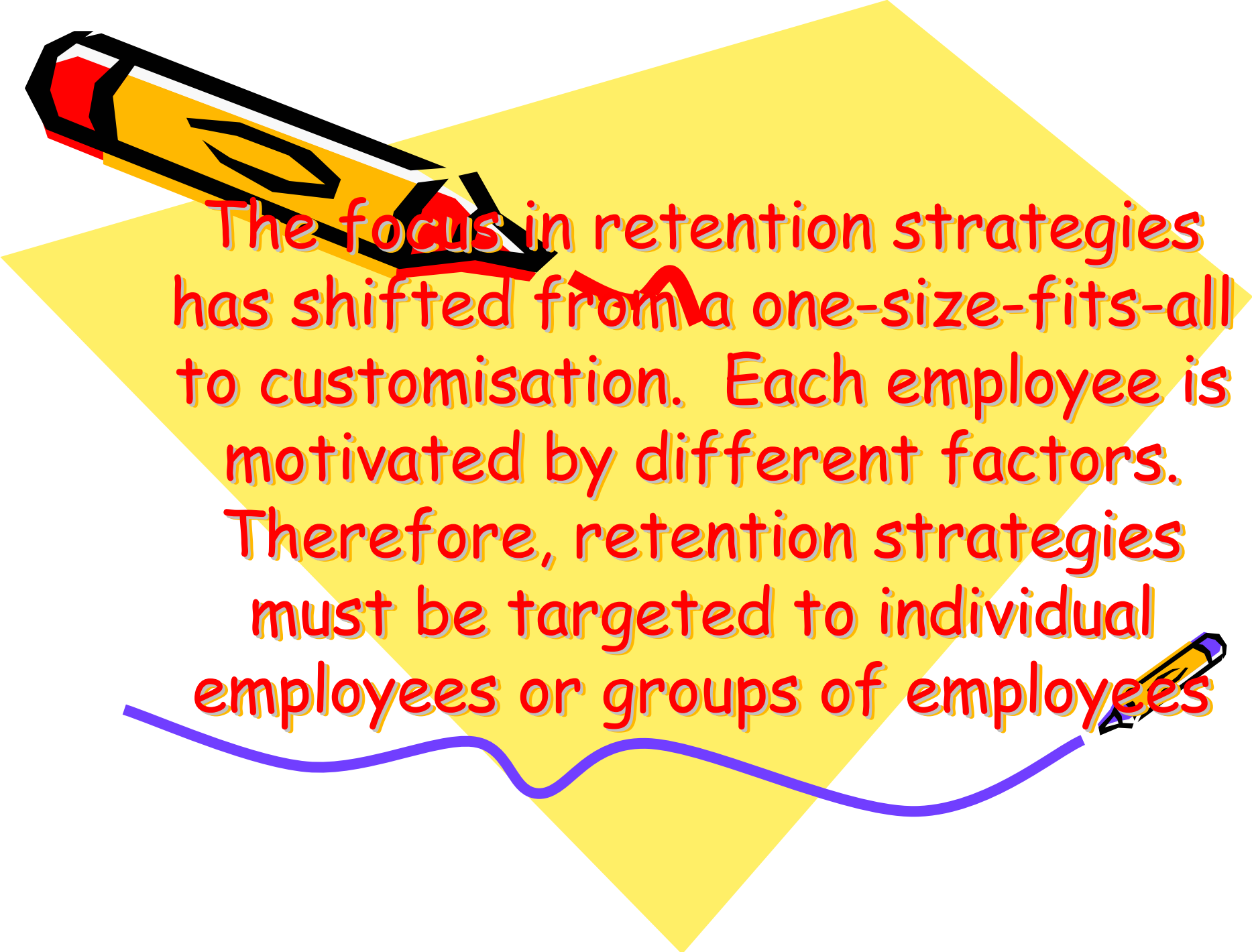
## The cost of getting it wrong

- High staff turnover
- Lost opportunity
- Low morale
- High training costs
- Reduced productivity
- High customer churn
- Reduced bottom line profit
- Loss of knowledge of business process



## The benefits of getting it right

- Highly motivated workforce
- Corporate culture aligns with mission statement
- Allows company to forward plan to meet customer expectations
- Reduce overall HR cost especially in recruitment
- Achieve high ROI on training
- Increased customer satisfaction
- Employer of choice profile increases effectiveness of recruitment
- Ability to offer real career challenges



The focus in retention strategies has shifted from a one-size-fits-all to customisation. Each employee is motivated by different factors. Therefore, retention strategies must be targeted to individual employees or groups of employees



Thank you  
and  
Good luck!

