

Rewarding Your Best Players

10/17/05

How do I handle requests for annual raises? How am I going to reward my best players? What about rewarding people who have been loyal to me? What about salary creep?

It is that time of year again, and this question comes to us from the owner of a service company in Connecticut, who provides information and data to corporate clients. Our client is asking about the key points of a compensation arrangement.

Basic recommendations include: set up structure to handle several types of increases, recognize the difference between loyalty and contribution, and know that one of your jobs as owner is to manage the cost of payroll. In today's service economy, payroll is often the biggest single expense item, and it can get out of hand quickly. Across the board pay raises can increase your company's overall costs 2% - 3%, or more, for the upcoming year – which you will have to make up with reductions elsewhere, or increases in pricing, if you are to maintain profitability.

What kind of structure can you set up, to handle varying conditions? First, break compensation, for all jobs, into several items, including salary, bonus for high performance, and annual profit sharing distributions if the company overall does well. Salary can be increased annually, using a cost of living adjustment,

which you can get from your accountant. This helps to keep salaries on a par, taking into account increases in gas, groceries, housing, and other basic living expenses. Bonuses are based on each individual's ability to complete their work, at, above, or below standard. I recommend a small bonus for hitting the standard, a larger bonus, as much as 25% + of the total compensation, for exceeding standard, and no bonus for people who are below minimum. Of course, this requires you meet with employees and have an understanding as to how they are performing, to explain how their income is likely to be affected by their performance.

Loyalty is a big issue in some organizations, especially where knowledge transfer is not well documented, or where experience is a big driver for success. You can consider a variety of rewards for longevity, from increases in vacation time, to a bonus for years of service. You want to be careful, again, to reward the right things, such as longevity of the people you want to stay. Sometimes people do stay in jobs too long, because the rewards keep going up, regardless of performance, and this can be counterproductive to the well-being of the company. Sometimes the best thing you can do is help someone move on to another job, where their experience will be valued, beyond what you are willing to recognize

them for. Think long and hard about any precedents you might set, when building loyalty rewards, and talk with an expert in employment compensation, to be sure you are being fair.

Profit sharing distributions can be handed out monthly, quarterly, semi-annually, or annually. I recommend semi-annually. That allows you to distribute rewards, leveling out monthly ups and downs, and still keeping the carrot close to the performance cycle. You need to decide who will be eligible, or what will qualify someone to be eligible for profit sharing. Will it be length of service, stature within the organization, specific types of jobs, etc. There is no right answer, however you need to think through your plan, to be sure it rewards the behaviors you want to encourage.

Be sure that you can afford pay increases, bonuses and profit sharing distributions. Do not succumb to the employee who threatens to leave if they don't get a raise. If that threat causes you to cave in, and pay more than you should for a position, or jeopardize the company's overall profitability, it does you no good. Remember, any pay increases will be hard to unwind, once promised. Be sure to give yourself time to think things through, and know that no one is irreplaceable, no matter how much you may depend upon them at the present time.

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Lastly, think of your compensation programs as ways to drive the overall behaviors you want in your company. Find ways to reward excellence. Build confidence and loyalty with your top performers. Reward people who want to learn, and grow. Teach your employees that rewards are earned, not handed out, and that they can take pride in having gained a new level of compensation. Use promotions in grade level, and increases responsibility assignments as ways to justify increases in salary above cost of living. Fix inequities in compensation by grading jobs as similar, and then talking with employees about how their performance and contribution will equate to future income. Treat conversations with employees as one more form of negotiation – you're probably good at that, after all, you probably negotiate with customers and vendors regularly, to get the best price. This is simply more of the same, only with the people you see most regularly. Do it with respect, with an understanding that any negotiation must be a two way exchange, and with the goal of developing a scenario in which both the employee and the company come out as winners.

Looking for a good book? Try Hiring Great People, by Kevin Klinvex, Matthew O'Connell and Christopher Klinvex, part of the Briefcase Books series by McGraw Hill.

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