

Bob Legge™

Helping organizations achieve great results by
improving performance and return on people

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Forbes to Quote Legge This Week

We will be quoted in a Forbes.com article this week on how to manage during the recession.

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Pay strategies to control costs in a slow economy

This month I discuss four strategies that have proven successful, especially for small and medium size businesses, to stimulate profit growth while controlling costs. They are:

1. A leveraged profit sharing or incentive plan that drives profit growth without increasing costs.
2. An effective performance management system that improves results, aligns employees with business goals, and distributes pay based on performance.
3. An approach to give high performers more money while limiting ongoing costs.
4. A sales incentive plan, which emphasizes higher profit sales and increases overall margins.

Strategy #1: Profit Sharing and Incentives that Drive Profit Growth

Problem: Most profit sharing plans spread rewards equally across the organization so that high performers get the same percentage payout as mediocre or poor performers.

Solution: Change the plan to reflect a mix of company and smaller group performance. This enables you to give better rewards to high performers, without increasing the overall cost of the plan.

Problem: Motivation and performance slip in a slowdown because people know profit sharing will decrease. This happens when payouts have a straight-line relationship to profits.

Solution: Pay a higher percentage for incremental profits. This keeps people more motivated and focused. In subsequent years, raise the payout threshold to prevent the increased compensation opportunity from becoming an annuity. There are many suitable variations for determining the profit pool. For example, you could replace a 10% pool with a 7% pool plus a 15% bonus on all profits in excess of plan. Be creative.

Strategy #2: Effective Performance Management to Drive Results

Problem: Performance appraisals don't improve performance. Most job descriptions are lists of activities or tasks, not results. Most performance appraisals measure effort, are highly subjective, and employees are measured in very different ways with no comparability across the

company. The result is a performance management process that does little, if anything, to improve performance.

Solution: Identify the **results** each job is expected to accomplish during the year - both ongoing accountabilities, as well as specific performance objectives. One way to do this is to use the same 4-6 success factors that will drive the business going forward, and write results expected for each position. Another way is to establish factors for a common balanced scorecard and determine how each position contributes to achieving those results. Then create a simple pay grade structure that gives people the opportunity to make more money by increasing their performance to higher levels. There are many other variations.

Strategy #3: Pay for Performance While Limiting Costs

Problem: Companies try to pay for performance using base pay programs, but it doesn't work because high performers don't realize substantially more than mediocre performers.

Problem: Large increases to salary are costly annuities. Companies that provide high pay increases to top performers end up paying that increased amount forever, increasing the burden with a higher cost base.

Solution: Use a combination of base pay and short-term incentives to deliver pay for performance. Base pay should reflect performing the job accountabilities, and be pegged to market. Short-term incentives enable you to provide more money to high performers without it becoming an annuity. It delivers more competitive pay without increasing the compensation cost base - very attractive during a slow economy.

Strategy #4: Sales Incentives that Drive Profits

Problem: Most sales incentive plans focus on driving revenues, not profits, and they overpay mediocre performers.

Solution: Transition to a sales incentive plan that incents profit growth rather than revenue growth. Make it attractive and meaningful to the top half of your sales force. Fund the plan from incremental profits. At the same time create downside risk so weak performers improve or leave. Channel most of the profit improvement to the company's bottom line. There are two key challenges to this approach: balancing the change in focus while not overly disrupting incomes, and ensuring the ability to measure profit based on orders and customers.

To get immediate benefit from any of these strategies, or for more information, call Bob at (585) 305-7853.

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Case Study: Improved strategy execution

Client Situation: A medium size manufacturing company was losing key customers to lower-price off-shore competition. Management's concerns were many: Poor communication across functions, pay for showing-up, weak performance management, the top group wasn't working well together, and there were rumblings about a union.

Solution: Legge worked with them to clarify what they needed to do extremely well to compete. Then we worked together to develop a program to successfully implement that strategy by transforming their business and their organization. The work included identifying objectives and operating measures, implementing a stronger performance management and rewards system, and a process to strengthen accountability on the results that mattered most.

Results:

- 9% increase in plant productivity
- 20% improvement in on-time shipments
- 92% increase in mission-critical projects completed on time
- Won back a major customer within six months
- Voluntary loss of weak performers

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"Return on People" means getting the most out of your people and yourself. Most companies are missing out when it comes to realizing a high return on people -- they tap only a fraction of their performance potential. The opportunity is for greater profit per employee and significantly better business outcomes.

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