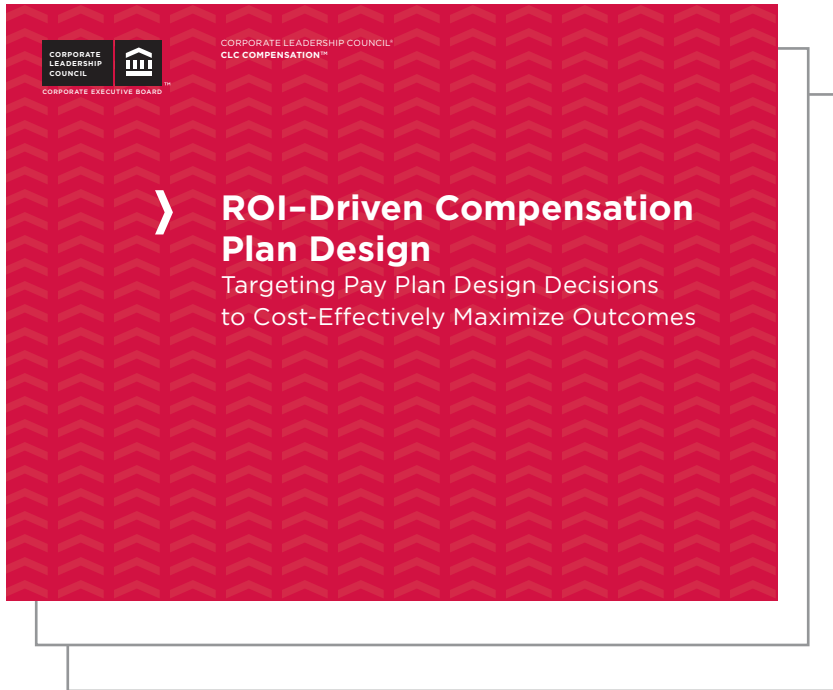




A Recent Example of CLC Compensation Insight on Pay Plan Design



The Question Our Members Were Asking

How do I balance competitiveness and impact in pay plan design?

Methodology

We leverage quantitative and qualitative analysis to determine what tactics are working at the best companies.

- Conducted a comprehensive survey of more than 12,000 employees globally to understand their pay perceptions and preferences for pay plan elements
- Combined employee data with organizational pay plan design data from more than 40 organizations to quantify the impact of pay plan design on attraction, intent to stay, and effort
- Determined the most effective strategies to maximize the impact of pay plan design and highlighted best practices from leading organizations

Selected Best Practices Uncovered



COACH





The Challenging Situation

CLC Compensation Insight

Compensation executives struggle to demonstrate how pay plans are driving desired employee outcomes, leaving them defenseless against criticism and prompting frequent reactive changes.

A Vicious Cycle

Blaming Compensation

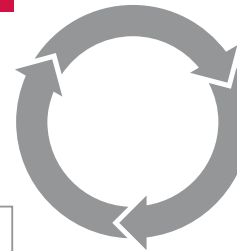
"The failure to tie executive incentive compensation to superior corporate performance has allowed executive compensation to skyrocket and detract corporate boards and executives from the goal of enhancing long-term corporate value."

*Major Shareholder at Yahoo! Inc.'s Shareholder Meeting
12 June 2007*

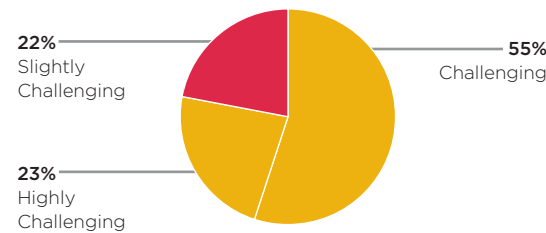
Making Frequent Requests

"I need Compensation to propose more money for Joe because he will leave otherwise."

Manager



Degree of Difficulty Cited by Compensation Executives in Measuring the Impact of Compensation on Retention¹



I was told to change our pay plans because some poor performance is being attributed to pay. I don't think pay is responsible, but I don't know how to show that.



¹ Retention was measured as the employee's desire to leave the organization within the following 12 months.

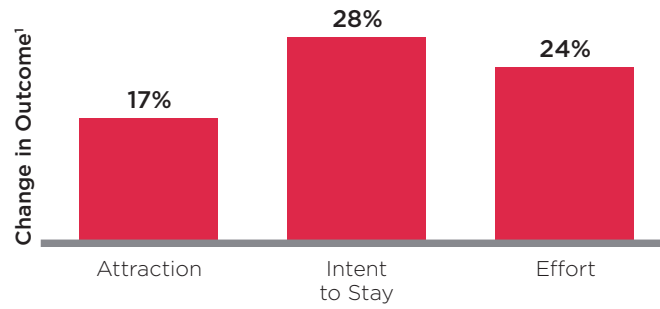


What the Best Companies Are Doing

CLC Compensation Insight

The best organizations apply an approach to pay plan design that allows them to increase the impact of pay on key employee outcomes without increasing cost, or cut compensation cost without decreasing the impact on employee outcomes.

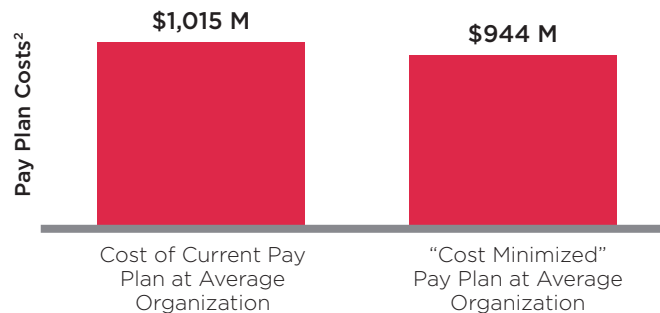
Maximum Change in Outcomes from Pay Plan Design Changes Without Increasing Compensation Costs at the Average Organization



Increase Outcomes by at Least 20%

By applying CLC Compensation’s pay plan design approach, the average organization can increase attraction, intent to stay, and effort by an average of more than 20% without increasing compensation costs.

Maximum Decrease in Cost from Pay Plan Design Changes Without Negatively Impacting Outcomes



Reduce Compensation Costs by 7%

By applying CLC Compensation’s pay plan design approach, the average organization can reduce compensation costs by an average of 7% without reducing the impact pay plan design has on attraction, intent to stay, and effort.

¹ A measure of the percent change in attraction, intent to stay, or effort caused by a change in a pay plan design element level over a 12-month period.

² The total compensation costs incurred by an organization to pay employees for work performed over a 12-month period; based on an average organization with 17,500 employees.



How the Best Companies Succeed

CLC Compensation Insight

The impact of pay plan changes on key employee outcomes divided by the cost to the organization of making those changes leads to the returns the organization can realize.

Implication:

- To determine where to invest from a compensation perspective and where not to, apply a returns-driven approach.



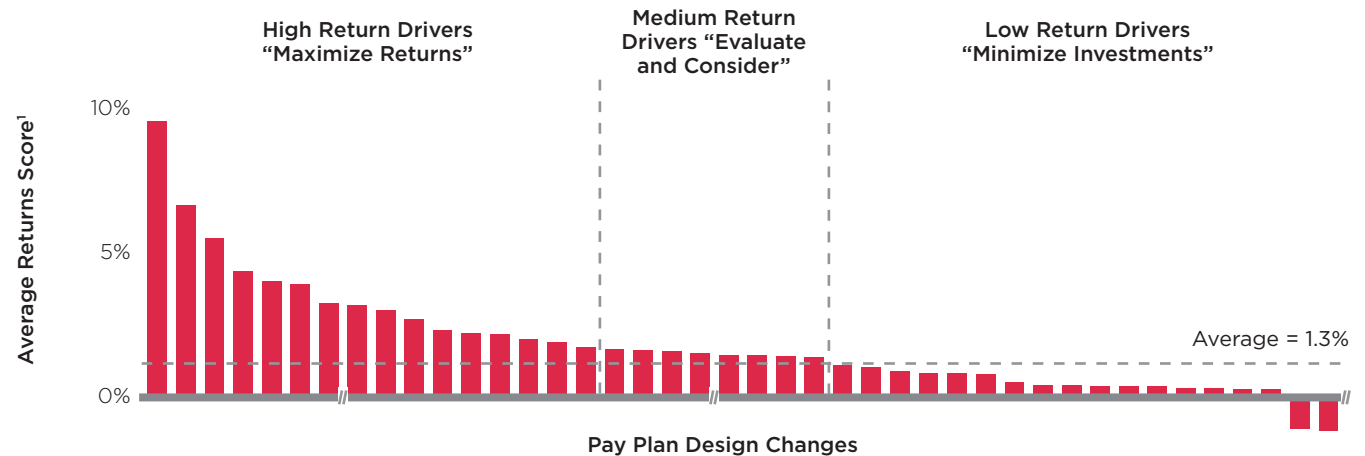
The change in attraction, intent to stay, or effort that results from a plan design change, or for a given pay package

The amount in dollars that an organization spends or saves to make a plan design change, or for a given pay package

The change in attraction, intent to stay, or effort (or the average of the three) per dollar spent on a plan design change, or for a given pay package

Average Returns Score for Attraction, Intent to Stay, and Effort¹

Subset of Pay Plan Design Changes



¹ The average returns score is an average of the percent change in attraction, intent to stay, and effort caused by a plan design element per \$1,000 spent on that design element.



Best Practice

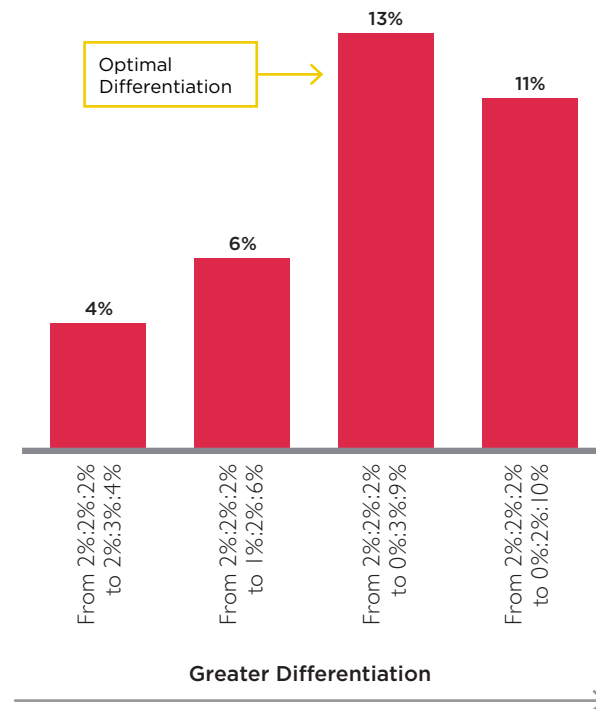
CLC Compensation Insight

As performance differentiation increases, the impact on outcomes increases up to a point and then decreases. Similarly there is a diminishing impact as merit differentiation increases.

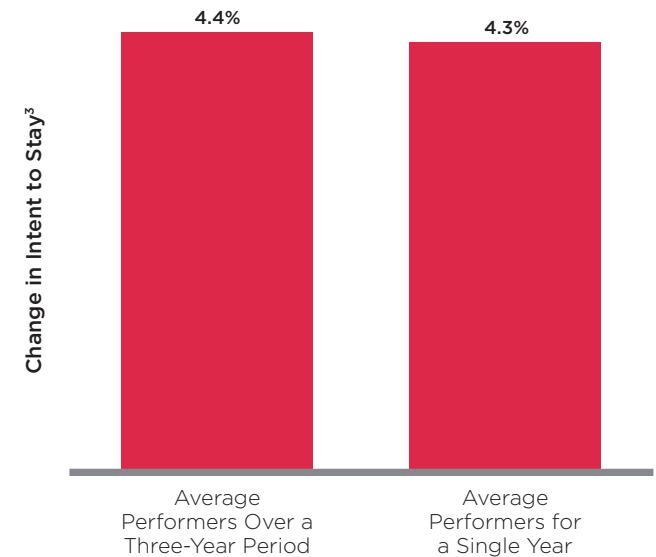
Implication:

- Differentiate more but up to a point.

Average Increase in Effort for Merit Differentiation



Maximum Impact of Average Differentiation¹ on Intent to Stay by Performance Rating History² Average Performers



¹ Average differentiation is an index of the level of differentiation in an organization. It is an indexed combination of performance differentiation and merit pay differentiation.

² Employees were asked for the performance ratings scores they received across the past three years. CLC Compensation analyzed two groups of individuals—employees reporting a “meets” performance rating in all three years and employees reporting a “meets” performance rating in 2006.

³ Change in intent to stay was calculated as the maximum change in intent to stay that can be achieved by moving from the lowest average differentiation level to the highest average differentiation level.

From Insight to Action

Design High-ROI Pay Plans

Step I: Identify Potential Design Changes

Determine potential pay plan design changes or approaches.

Products and Services



Benchmarking Long-Term Incentives



ROI-Driven Compensation Plan Design

Step II: Determine Design Changes

Determine the pay plan designs and changes that will have the most impact for the organization.

Products and Services



Pay Plan Design and Assessment Tool



Intel's Strategy Aligned Bonus Multiplier

Step III: Implement Design Changes

Roll out pay plan changes or new plans.

Products and Services



PayCoach: Line Manager e-Learning



Sample Peer Communications Library



Research and Insights



Advisory Support



Proven Best Practices



Peer Benchmarking



Live and Online Learning Events



Decision and Diagnostic Tools