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Guest,

Welcome to:

The Keys To Using Performance Incentives

Presented by
Lighthouse Consulting Services, LLC

To print program slides, click here: 

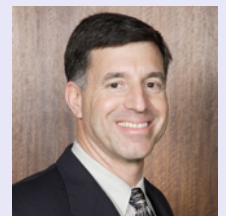


Featured Guest:
Marc Emmer
President, Optimize Inc.
Author of [Intended Consequences](#)

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Host:
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The Business Problem

- Preceding the recession, the average merit increase was 4%*. With a flat economy, employment costs escalating faster than profits is a zero sum game
- Employers with inflexible compensation systems were forced to lay off workers during the downturn



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Limitations of Traditional Compensation Models

- Do not allow for modifications during economic fluctuations (such as 2008-2009 downturn)
- Places all the burden of such fluctuations solely on the employer
- Subjective evaluation puts the employer at risk
- Does not reinforce accountability

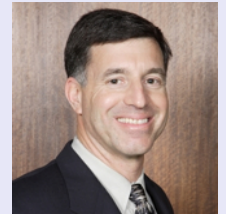


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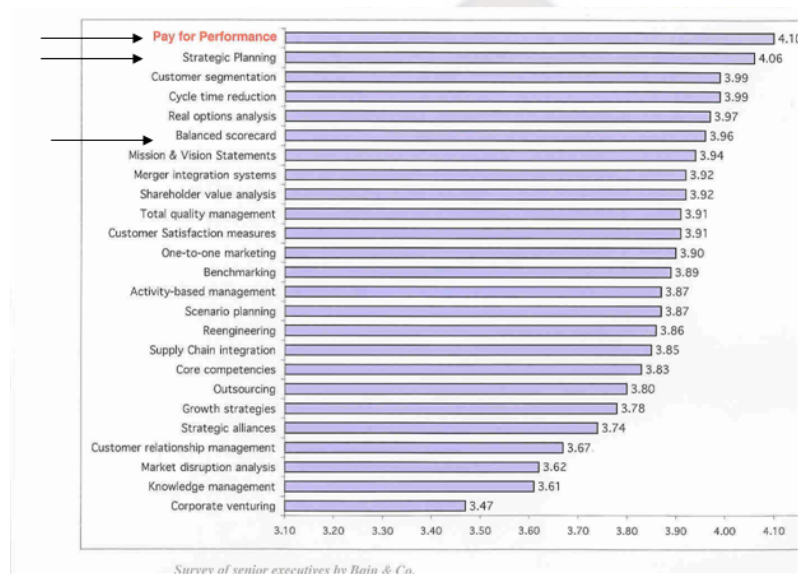
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Initiatives that Deliver Greatest Financial Returns



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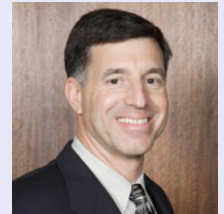


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Top Financial Performers-Best Practices

	Bottom 10%	Top 10%
Sales per employee	\$ 158,101	\$ 617,576
Market value to book	3.6	11.1
% whose merit increase or incentives tied to performance	2%	87%
# of hours training-new employees	35	117
# of hours training-experienced employees	13	72
% of employees-regular performance appraisal	4%	95%

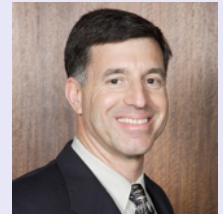


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Challenges in Implementing Performance Based Pay

- The proportion of incentive must be sizable enough to motivate staff. Once base pay is established it is hard to unwind
- Must be supported by a credible system of measurement
- Requires management to be thoughtful in the creation of a bonus pool
- Financial incentives alone are ineffective-must be coupled with other PM tools

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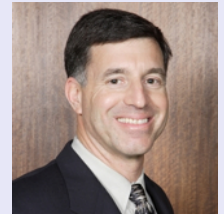


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A Powerful Combination Scorecard-Performance Based Pay

- Scorecard provides a framework for universal measurement and teamwork.
- Creates organizational alignment. Rewards and reinforces desired behaviors.
- Promotes clear goal setting and removes subjectivity.

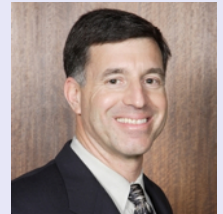


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Scorecard Example

Dimension	Weighting
Financial	40%
Receivables +60 Days	10%
Aging Inventory	10%
Overtime Hours	20%
Customer	20%
Customer Satisfaction	10%
New Customer Growth	5%
RFQ's Submitted	5%
Process	20%
Cycle Time	5%
Defects	10%
Machine Uptime	5%
Learning and Growth	20%
Employee Retention	5%
Employee Satisfaction	10%

Note the use of
predicative
indicators

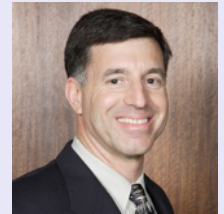


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Example Pay for Performance Calculation

Beginning : 04/01/2010
Ending : 03/31/2010
Base Salary : \$100,000
Allowable Bonus % : 20%

Financial Indicators (Actual Bonus Calculation)						
Weight of this Section : 50%		Bonus Potential : \$10,000			Must Equal .75 – 1.25	
	Weight	Goal	Actual	Min	% Realized	Bonus Achieved
EBITDA % Increase	60%	10%	6%	8%	60%	\$ 0 -
Department Profit	40%	\$500,000	\$400,000	\$350,000	80%	\$3,200
Bonus Achieved Financial						\$3,200
Scorecard Indicators (Actual Bonus Calculation)						
Weight of this Section : 25%		Bonus Potential : \$5,000			Must Equal .75 – 1.33	
	Weight	Goal	Actual	Min	% Realized	Bonus Achieved
Plate Spoilage	50%	3%	3%	4%	100%	\$2,500
On time delivery – percentage points over 95%	50%	3%	4%	98%	133%	\$3,333
Bonus Achieved Scorecard						\$5,833
Job Performance Indicators (Actual Bonus Calculation)						
Weight of this Section : 25%		Bonus Potential : \$5,000			Must Equal .75 – 1.25	
	Weight	Goal	Actual	Min	% Realized	Bonus Achieved
Integrate cost system by 06/01/10	50%	Yes/No	Yes		100%	\$2,500
Technology training all staff by 12/01/10	50%	Yes/No	No		0%	\$ -
Bonus Achieved Job Performance						\$2,500
Total Bonus Achieved						\$11,533

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Assumptions

- The following steps assume:
 - Salaries are within the industry norm
 - Performance reviews are performed consistently



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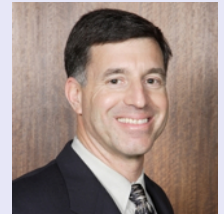


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Steps to Creating a Performance Based Pay system

1. Gain agreement on strategic direction.
2. Create a scorecard that measures strategy. Institute a scorecard culture first.
3. Analyze the costs and benefits of an incentive plan.

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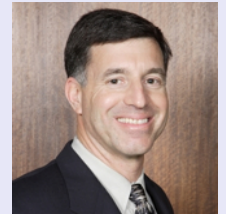


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Steps to Creating a Performance Based Pay system (cont.)

4. Freeze current salaries.
5. Budget for a bonus pool favorable to the bottom line and a **win for employees.**
6. Gain buy-in.
7. Implement a performance review cycle. In the distribution of bonuses, a fixed performance cycle works best.

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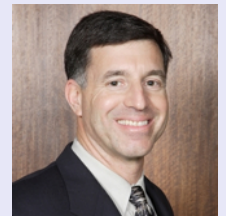


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