Guest,

Welcome to:

Using Performance Incentives In An Era of Uncertainty

Presented by
Lighthouse Consulting Services, LLC

To print program slides, click here:

Featured Guest:
Marc Emmer
President, Optimize Inc.
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Host:
Dana Borowka, MA
CEO, Lighthouse Consulting Services, LLC
Author of Cracking The Personality Code
Phone: (310) 453-6556, ext. 403
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Book: www.crackingthepersonalitycode.com

In-depth Workstyle & Personality Assessments
Interpersonal Coaching
Workshops - Cracking The Personality Code
Career Guidance
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
- Does not reinforce accountability
Initiatives that Deliver Greatest Financial Returns

Survey of twelve executives by Bata & Co.

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# Top Financial Performers - Best Practices

<table>
<thead>
<tr>
<th></th>
<th>Bottom 10%</th>
<th>Top 10%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales per employee</td>
<td>158,101</td>
<td>617,576</td>
</tr>
<tr>
<td>Market value to book</td>
<td>3.6</td>
<td>11.1</td>
</tr>
<tr>
<td>% whose merit increase or incentives tied to performance</td>
<td>2%</td>
<td>11.1</td>
</tr>
<tr>
<td># of hours training - new employees</td>
<td>35</td>
<td>87%</td>
</tr>
<tr>
<td># of hours training - experienced employees</td>
<td>13</td>
<td>72</td>
</tr>
<tr>
<td>% of employees - regular performance appraisal</td>
<td>4%</td>
<td>95%</td>
</tr>
</tbody>
</table>

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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.

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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

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Weighting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>40%</td>
</tr>
<tr>
<td>Receivables +60 Days</td>
<td>10%</td>
</tr>
<tr>
<td>Aging Inventory</td>
<td>13%</td>
</tr>
<tr>
<td>Overtime Hours</td>
<td>13%</td>
</tr>
<tr>
<td>Customer</td>
<td>20%</td>
</tr>
<tr>
<td>Customer Satisfaction</td>
<td>10%</td>
</tr>
<tr>
<td>New Customer Growth</td>
<td>5%</td>
</tr>
<tr>
<td>RFQ's Submitted</td>
<td>5%</td>
</tr>
<tr>
<td>Process</td>
<td>20%</td>
</tr>
<tr>
<td>Cycle Time</td>
<td>5%</td>
</tr>
<tr>
<td>Defects</td>
<td>13%</td>
</tr>
<tr>
<td>Machine Uptime</td>
<td>5%</td>
</tr>
<tr>
<td>Learning and Growth</td>
<td>20%</td>
</tr>
<tr>
<td>Employee Retention</td>
<td>5%</td>
</tr>
<tr>
<td>Employee Satisfaction</td>
<td>10%</td>
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</tbody>
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Note the use of predicative indicators

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Example Pay for Performance Calculation

**Financial Indicators (Actual Bonus Calculation)**

<table>
<thead>
<tr>
<th>Weight of this Section</th>
<th>Bonus Potential: $10,000</th>
<th>Must Equal 75 – 125</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBIT/TA % Increase</td>
<td>Weight</td>
<td>Goal</td>
</tr>
<tr>
<td>Department Profit</td>
<td>40%</td>
<td>15%</td>
</tr>
</tbody>
</table>

**Scorecard Indicators (Actual Bonus Calculation)**

<table>
<thead>
<tr>
<th>Weight of this Section</th>
<th>Bonus Potential: $5,000</th>
<th>Must Equal 75 – 123</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate Spillage</td>
<td>Weight</td>
<td>Goal</td>
</tr>
<tr>
<td>On time delivery – percentage points over 95%</td>
<td>50%</td>
<td>3%</td>
</tr>
</tbody>
</table>

**Job Performance Indicators (Actual Bonus Calculation)**

<table>
<thead>
<tr>
<th>Weight of this Section</th>
<th>Bonus Potential: $5,000</th>
<th>Must Equal 75 – 125</th>
</tr>
</thead>
<tbody>
<tr>
<td>Integrate cost system by 09/01/10</td>
<td>50%</td>
<td>Yes/No</td>
</tr>
<tr>
<td>Technology training all staff by 12/01/10</td>
<td>50%</td>
<td>Yes/No</td>
</tr>
</tbody>
</table>

**Total Bonus Achieved:** $42,500

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Assumptions

- Salaries are within the industry norm
- Performance reviews are performed consistently
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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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.

5. Gain buy-in.

Thank you for attending
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Click Here to contact our Featured Guest directly.

Click on this link to sign up for our upcoming Open Line: 'Running Lean with your “A” players?'.

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