The Total Compensation Solution

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Based On Work By

- Professor John Tropman, University of Michigan Business School
- The Total Compensation Solution
WHY IS PAY BECOMING AN ISSUE?

- Organizations are changing.
- There are lots of problems with pay.
Based on an Old Contract

- **Old Contract**
  - Work hard - we will take care of you
    - Based on seniority
    - Christmas “gift” / bonus
    - Market increase / COLA

- **New Contract**
  - Outperform market, share benefits
  - Earn your right to competitive pay

Base

Base
Misaligned (or Unaligned) With Fundamental Business Strategies

- **Strategic Goal** - Achieve competitive advantage through people

- **Need a change:**
  - **From** manage pay program to minimize cost
  - **To** manage pay program to maximize results
BASIC CONSIDERATIONS

• Compensation Policy
  • What are the goals?
  • Why are we paying people?
    • To show up?
    • To learn skills?
EMPLOYEE CONTRIBUTIONS

- Is money important... Yes, ..... but
- One study ranked it 9th out of 18 factors
- One study developed Index of Job Desirability
- Earnings = most important element
- 13 Nonmonetary characteristics taken together were 2x as important as money
"CC" means allowing employees to design, within limits, their compensation package.
THE USUAL APPROACH TO COMPENSATION

- Base pay
- Benefits
- A few perks
- Annual “merit raise”
WHAT ARE THE ELEMENTS IN “REMUNERATION”

One element is setting pay levels:

- Point/factor system = [Pay the job]
- Pay for knowledge = [Pay the person]
- Pay for results = [Pay the output]
- Pay competitively = [Pay the market]
- Pay the cost = [Cost plus]
SO WHAT ARE THE PROBLEMS?

- Base pay keeps going up
  - “annuitization”
- Entitlement - expectations keep rising
- Pay fails to motivate
- Increases cap out
- Benefits costs rising
- Firms get little benefit from “benefits”
- Fails top performers
- Protects underperformers
The Total Compensation Solution

TC = [BP+AP+IP+WP+PP] + [OG+OA] + [PI+QL] + [X]
A NEW 9 PART MODEL
PARTS 1-5

- Base pay
- Augmented pay
- Indirect pay
- Perks pay
- Works pay
• Your “salary”
• Variable pay customization
  • You might not get all of it
  • New plans “guarantee”, say, 80%
  • But... you can “earn” up to 125%
AUGMENTED PAY

• Anything on a “one time” basis
  • Overtime
  • Bonuses
  • Strategic pay
  • Incentive pay
  • “Accomplishment based”
“Benefits”
- About 30+% of total compensation
- Moving to cafeteria package
- Most folks do not know what they are
- Medical and retirement important
THE “EMPLOYEES WANT THEM” PHILOSOPHY

• Employee satisfaction
  • Employees rank them 4th
    • OA, salary, geographic location ranked higher
    • But…. only 1 in 10 had accurate picture of benefits
    • Typical employee could remember only 15%
  • Only 2 – (medical and pension) are important
  • Not much evidence that employees see benefits as rewards
HOW SHOULD BENEFITS BE FINANCED?

- Three models
  - Employer pay all
  - Employee pay all
  - Employer/employee share
- What fraction(s)?
WORKS PAY AND PERKS PAY

• Works pay
  • “Whatever the employer spends to help you with your job that you would otherwise have to spend, or might spend.”

• Perks pay
  • Internal and external perks which emphasize status differences.
Presence may not help but absence can add cost

- You have to pay people more to come/stay
- Enhances:
  - Psychological well being
  - Coworker relationships
  - Physical and mental health
“Compensation components that contribute to the employee by filling some demand... enable the employee to enjoy a better lifestyle or meet social or personal obligations while minimizing employment related costs”
Type of Perk

- Chauffeur/bodyguard
- Kidnap/ransom protection
- Counseling services
- Attending special meetings
- Use of company plane or boat (mixed use)
- Home entertainment allowance
- Special living accommodations
- Club memberships
- Special dining rooms, restrooms
- Season tickets
- Special relocation allowance and home repurchase
- Use of company credit card
- College tuition reimbursement for children
- Professional journals, mags, books
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TC = [BP+AP+IP+WP+PP] + [OG+OA] + [PI+QL] + [X]
Opportunity for Growth, Opportunity for Advancement, Psychic Income & Quality of Life, The X Factor
OPPORTUNITIES FOR GROWTH

- Training / Education
  - Interpersonal / Maturational
    - Self awareness
    - Stress reduction
    - Emotional intelligence
    - Supportive communication
    - Effective group decision making
  - Technical
    - This job
    - The next job
• Preparation for advancement
  • Career pathing
  • HIPOT programs
• Opportunities for advancement
  • The Peter principle
• The # of opportunities
What makes the workplace emotionally satisfying?
- Sense of satisfaction and personal pleasure
- Shared values in the workplace
- A socially meaningful task
- A sense of
  - Personal accomplishment
  - Acceptance
  - Importance (self and task)
• Having a good boss!!!!!!!!!!!!!!!
• Having a job designed by you - control
• Choice
• Emotionally rewarding work
  • Spiritual values
  • “Going well while doing good”
• Having a positive work community
  • A “jerk free workplace”
The Boss That Drives Me Crazy

- Gives meaningless raises
- Gives gratuitous thank you’s
- Throw people into jobs who are untrained or unqualified
- Allow the workplace to become disorganized and dirty
- Overlooking unacceptable behavior from staff
- Micromanage
- Fail to give regular feedback and performance reviews
  - C. Rains Beyond Generation X
QUALITY OF LIFE

- Your Eco-Place (Seaside, Mountains, Forest)
- Your Social Place (Rural, Urban, Ethnic)
- Your Resources Place (Schools, Culture, 2-Job Option, Health Care, Recreation)
- Your Logistics Place (Airport, Commute)
- Your $ Place (Cost of Living)
The X factor

- Dogs at work
- Gym
- Massage Therapy
- Flowers on desk
PUTTING IT ALL TOGETHER

- BP + AP + IP + PP + WP + OA + OG + PI + QI + X

- IF TC = 100%
  - What % would you assign to each?
## A PERSONAL ASSESSMENT

### Total Compensation

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<thead>
<tr>
<th>TOTAL COMPENSATION</th>
<th>IDEAL</th>
<th>REAL</th>
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<tbody>
<tr>
<td>Base Pay</td>
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<td>Quality of Life</td>
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<td>X Factor</td>
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<td><strong>Sum</strong></td>
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The One Minute Manager
Gets Fit

(\textit{N}0=0; \textit{AGREE /YES} = 1)

- 1] I love my job (most of the time) \\
- 2] I use safety precautions (e.g. Seat belts) \\
- 3] I am within 5 lb. of my ideal weight. \\
- 4] I know 3 methods to reduce stress that do not involve drugs or alcohol. \\
- 5] I do not smoke. \\
- 6] I sleep 6-8 hr. each night and wake up refreshed \\
- 7] I engage in physical exertion at least 3 times a week - (sustained physical exertion of 20-30 minutes).

________________
8] I have 7 or fewer alcoholic drinks per week.

9] I know my blood pressure

10] I follow sensible eating habits - e.g. eat breakfast each day; limit salt, sugar fats; eat enough fiber, few snacks.

11] I have a good social support system.

12] I maintain a positive mental attitude

Total

Style ... 11-12 -- an excellent healthstyle
9-10 -- a good healthstyle ... 8 &< -- consider revisiting your healthstyle
Good Luck!!!!

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