



TALENT CURRICULUM

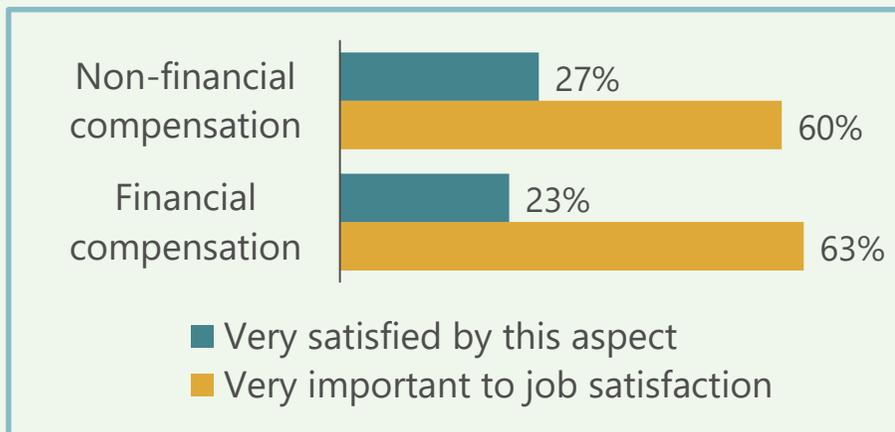


This material was prepared by Open Capital Advisors, is confidential, and may contain proprietary information. It is intended only for the use of the intended recipient and cannot be relied on by any third party. Any unauthorized use, copying, alteration, or dissemination of this material, or any portion thereof, is strictly prohibited.

Each module in the series contains an explanation of the topic, case studies, considerations and activities to reflect on for your organization

Effective compensation structures use a clearly communicated, transparent philosophy to determine employee remuneration

- Compensation includes both financial and non-financial elements, including:
 - Base salary
 - Performance-based salary (e.g., bonus)
 - Benefits (healthcare, paid vacation days, education benefits, meals at work, etc.)
- Compensation structure (e.g., % of pay that is performance-based) and levels impact an organization's ability to attract and retain talent
- In some cases, staff compensation is an organization's largest cost driver



This stems from misconception

- A common belief held by management is that higher total compensation drives employee satisfaction
- This is actually not true as transparency and a clear philosophy are key to effective compensation

“The more information employees have about why they earn for what they do, especially in relation to their peers, the less likely they are to quit.”²

Source: 1) Bain & Company, *Building a winning culture*; Forbes.com, “How To Define Your Organization’s Values” (Nov 27, 2015); HBR, “Make Your Values Mean Something” (July 2002); Doshi, Neel and McGregor, Lindsay, *Primed to Perform* (2015)

2) <https://www.shrm.org/resourcesandtools/tools-and-samples/hr-qa/pages/compensationphilosophy.aspx>

Transparency & clear communication of your compensation philosophy and structures are critical for at least two reasons



Retention

- Research suggests that the main predictor of “satisfaction” or “intent to leave” is if employees feel they are paid fairly. Unfortunately, even when paid competitively:
 - 67% believe they are underpaid, and
 - 60% plan to look for a new job in the next 6 months.¹
- The same research found that companies who pay uncompetitive salaries but explain why (e.g., start-ups) have happy staff:
 - 82% were “satisfied” and were not planning to leave¹



Secrecy isn't an option

- Historically, companies have relied on secrecy to prevent employees from feeling undervalued but this isn't the case anymore
- Websites such as Glassdoor have made salary data widely available
- Millennials are now ~2x more willing to discuss salaries than their predecessors:
 - 71% talk to parents about compensation,
 - 47% talk to friends, and
 - 38% discuss compensation with coworkers²

Transparency also helps narrow gender or other pay gaps, making it an attractive tool for demonstrating commitment to equality

A compensation strategy should have clearly set out considerations and define key functions and implications to inform philosophy

Considerations for compensation philosophy

Start with your strategy

- Begin by understanding what drives your organization's performance (e.g., contribution of a few key staff? High level of collaboration?), and what kind of culture you want to build

Develop a compensation philosophy

- Based on the above, lay out compensation goal(s), knowing there will be trade-offs (e.g., reward high performers disproportionately vs encourage teamwork?)

Ensure your system meets your goals

- Base salary: how is it determined, and how does it change over time?
- Performance-based pay: what is it based on (e.g., individual vs organizational performance), and how large is it compared to base salary?
- Benefits: what benefits are most important to a high-performing team (e.g., vacation days to recharge? Health benefits for family?)

Definition of key aspects of compensation

To be the basis for a well-structured, defensible comp. system, your compensation strategy should define two things:

- The relative importance of different functions / positions (regardless of who holds them) and how competitive the organization intends to be with respect to compensation for each
- The extent to which the performance should affect pay; this should cover both individual performance in a given role as well as company performance

These definitions should be based on:

- **What is the goal of your comp. strategy?**
 - To reward individual performance?
 - To drive collaboration?
- **How can you link compensation to this goal?**
 - What drives company performance? Is productivity/ utilization key?
 - Are specific functions (e.g. sales or R&D) critical to maintaining competitive positioning?

Your compensation philosophy can then be used to guide decision making across all elements of your compensation strategy

Decisions to be made

1

Base pay

- **Determinant:** What is base pay linked to – role title? Grade? Function?
- **Initial level:** What will impact be on recruiting best talent? Room for growth?
- **Trajectory:** Does employee value change over time? Retention considerations?
- **Differentiation:** Do you see significant differentiation in value creation?

2

Variable pay

- **Determinant:** Which aspects of performance will be rewarded? Can you measure them easily?
- **Portion of pay:** What % is variable? Impact on culture and collaboration?
- **Timing:** How frequently should performance be measured and rewarded?

3

Benefits (financial and non-financial)

- **Investment benefits:** What level of investment in employees is desired?
- **Flexibility:** Can flexibility on work location or time improve accountability?
- **Recognition:** How frequently and how are you recognizing performance?
- **Perks:** Can you use incentives to create culture that drives performance?

Studies show that non-monetary incentives are more effective at motivating staff than financial incentives

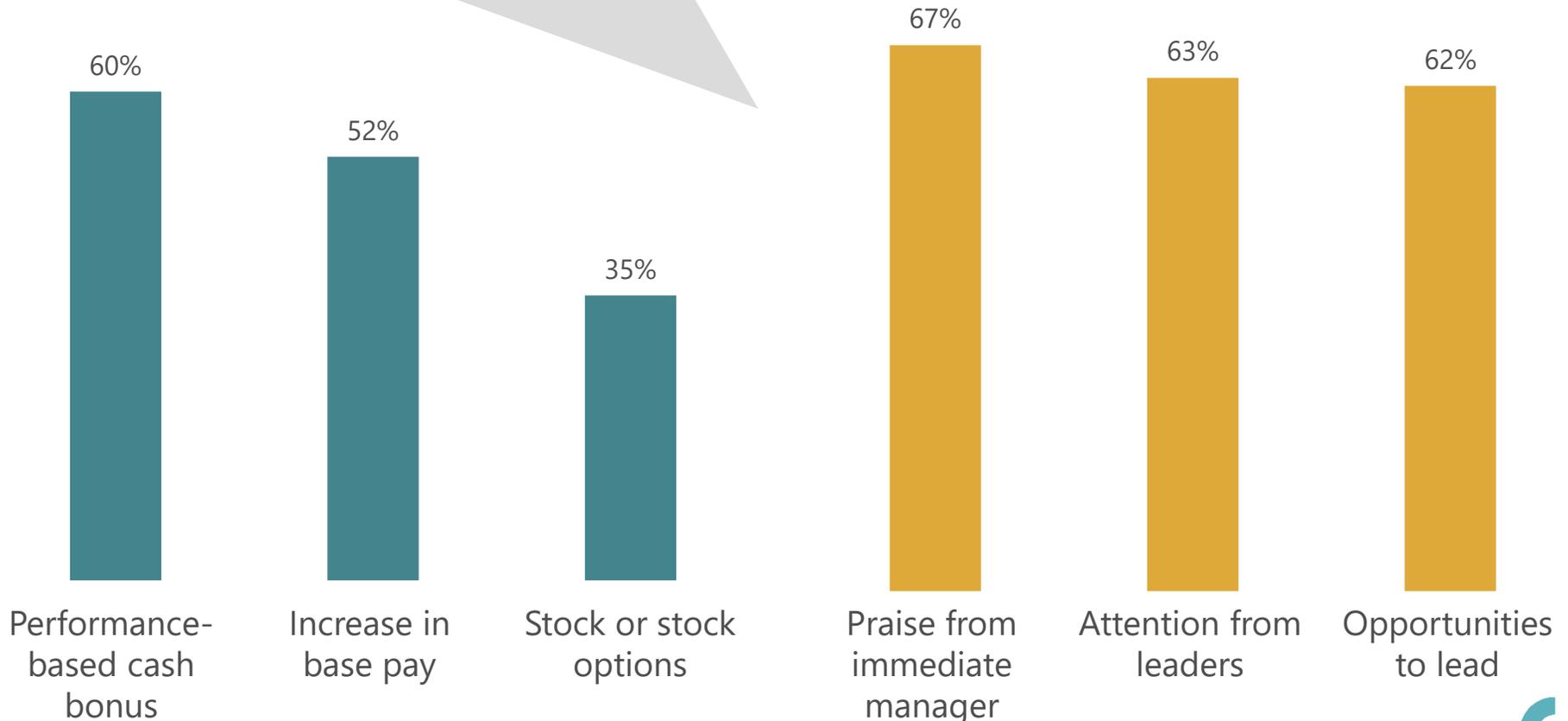
Financial incentives

% of respondents answering 'extremely' or 'very' effective

Non-financial incentives

% of respondents answering 'extremely' or 'very' effective

"For people with satisfactory salaries, some non-financial motivators are more effective than extra cash in building long-term employee engagement"



Source: <http://www.mckinsey.com/business-functions/organization/our-insights/motivating-people-getting-beyond-money>, June 2009 survey of 1,047 executives, managers and employees across sectors

There are several non-monetary incentives that even small / early-stage companies can use to motivate and retain staff

Flexible location / time: Allow staff to work remotely periodically (e.g., once day a week or month) or allow staff to adjust working hours (e.g., 10am to 6pm instead of 8am to 4pm)

Training support:

Support staff development by providing funding or study time (additional vacation days) to staff completing relevant continuing education programs

Special projects: Allow staff time to use office time to work on projects which they have identified and feel passionate about, even if they are not priorities for your core business

Public praise: Recognize staff who excel through email (cc'ing management or leadership), handwritten notes, awards or during team meetings – This can include peer or upward praise

Change of scenery: If you have multiple offices, offer high performers the chance to change roles or offices for short periods – This can be framed as a chance for them to mentor or develop new skills

Volunteer time: Allow staff to engage in volunteer work periodically (e.g., 1 day per year) to provide a short break from the office along with the increased morale and engagement that comes with altruistic behavior

Extra time off: Provide an additional day off to staff in recognition of large accomplishments (e.g., completion of successful projects or events)

Decisions about compensation should be guided by these four principles

1

Alignment to org.'s goals

What does your company value/what is your organizational goal?

- Compensation should be linked to the organizational goals in that it should reward employees who further the organization's values

2

Flexibility of structure

Is your comp. philosophy as dynamic as your team?

- Compensation philosophy needs to have employee buy-in to ensure that they will be receptive and it will elicit high performance
- Organizations should include employee input but also think about the overall desired impact on the business

3

Balance between financial & non-financial

Does your organization effectively balance between financial & non-financial compensation?

- The balance between financial & non-financial compensation needs to be aligned with team needs as different staff value them differently– Non-financial incentives might be more attractive to junior members of staff that can't afford them compared to senior members who can

4

Transparency

Do your employees understand your compensation philosophy?

- Leadership must ensure that they effectively communicate their compensation philosophy to employees so that they understand what drives. Transparency decisions cover areas such as pay grades, incentives etc.

Tunapanda illustrates how getting employee buy-in and having a flexible compensation plan improves performance



Tunapanda

Company overview

A Kenyan ICT firm

- **Industry:** Information Communication Technology
- Company focused on providing employees and apprentices with both soft and technical skills to develop tech solutions for wide range of clients
- **Revenue:** ~ \$445K (2016)
- **Employees:** 5 (2016)

The challenge

- Employees were unhappy with tenure-based comp. strategy that did not incentivize high performers

Intervention

Developed transparent comp. philosophy aligned to org's culture of supporting top performers by:

- **Collecting feedback on the existing compensation philosophy**-conducted through team meetings and by administering surveys to staff on their views on the current system
- Switching from tenure-based compensation to having a small base salary which was tenure-based but **adding a variable-pay component that is performance-based**
- **Reviewing system** a few months after implementation to ensure **employee buy-in**

Outcomes

- Better performance from all employees
- Improved employee morale among top performers
- Increased efforts by low performers

BCG shows that it is necessary to evaluate existing culture and allow for flexibility



Company overview

A global consulting firm based in Boston, USA

- **Industry:** Management consulting
- Provides management advisory services to clients from private, public and not-for-profit organizations
- **Revenue:** ~ \$5.6B (2016)
- **Employees:** 6,200 (2016)

The challenge

- Culture was for staff to be “always on,” but there was no effort to explore efficiency; people worked harder and longer, without considering how to work better

Intervention

- Two separate experiments aimed at forcing people to have ‘down’ time were conducted:
- Mandatory weekday off each week, with one consultant added to team
 - Mandatory week night off, no additional staff added to team

Outcomes

- Changing mindsets from working all the time to getting work done built trust to have real conversations about work life balance and working together to achieve it:
- Team overcame perception that they had to be on call 24/7
 - Staff learnt to use their time more efficiently to get work done
 - Due to increased efficiency, consultants had more free time thus were able to help others out on tasks

What specific changes could be made to improve your compensation structure?

1

**Alignment to
org.'s goals**

2

**Flexibility of
structure**

3

**Balance between
financial & non-
financial**

4

Transparency

Recall the 4 key principles we highlighted earlier and ask yourself:

- What efforts are you currently making that support these principles and in turn, an effective compensation strategy?
 - What challenges are you facing?
 - What is going well?
- What other improvements can you make to your compensation structure?



Compensation

responsibility bonus incentives
goals insurance performance outcome
base pay philosophy assessment
flexible **transparency** remuneration
recognition competitive benefits feedback
opportunities timing skill salary
strategy accountability stock formal
balance non-financial structure

Are you interested in:

- ✓ *Evaluating your organization's compensation philosophy?*
- ✓ *Understanding your strengths & weaknesses?*
- ✓ *Comparing your organization's performance against peers?*

Reach out to:

talentdiagnostic@opencapitaladvisors.com

or

take our survey directly here:

<http://survey.opencapitaladvisors.com>