

Total Rewards: Compensation Strategy and Design

Who gets what – and why?

In the throes of the economic crisis, compensation discussions generally focused on cutting costs. But as the market bounces back, it's important to take a fresh look at who's getting compensated for what – and why. A clean-slate review of your compensation strategies and programs is critical to help ensure they remain aligned with your current business objectives – and help position your business for renewed growth.

Under the microscope

Companies today face a dizzying array of compensation challenges. Rebuilding a workforce ravaged by the recession. Positioning for renewed growth. Dealing with new regulations on incentive pay and executive compensation. Paying for performance. And more. Some of the challenges are new; others have simply come to the forefront during the economic crisis. For example, executive compensation has always been important, but has been put under the microscope by public outrage over bonuses at companies receiving taxpayer bailouts.

Some compensation programs spread incentives like a thin layer of peanut butter and don't effectively motivate individual performance. Others place too much emphasis on individuals, prompting people to act in their own self-interest and exposing the business to unacceptable risk. And all too often, a company's compensation strategies and programs are not well aligned with its overall business strategy, or only focus on one small part.

Whether the catalyst for compensation redesign is a change in the business environment, a shift in strategy, a merger, or a new CEO, a smart approach is to start with a comprehensive assessment of current strategies and programs. Begin by validating that your business strategy and objectives still make sense. Decide on an overall strategy and philosophy. Then adjust or redesign programs and job roles to fit. The most effective compensation programs are transparent and well understood by participants. They also provide meaningful differentiation between top and bottom performers,

with extra emphasis on critical workforce segments that have a disproportionate impact on a company's overall performance.

How we can help

Effective compensation strategy and design requires a balance of skills. Deloitte is the only consulting firm with a global reach and access to deep experience in HR Consulting, Technology Integration, Finance, and Tax. This unmatched combination allows our teams to provide services designed to help organizations in their efforts to develop and implement innovative compensation programs that are fact-based and comprehensive. We offer:

- A collaborative approach tailored to an organization's unique needs
- Access to trend analysis and thought leadership
- Experience with regulators and standards-setting bodies
- Databases and data mining tools that enable fact-based competitive analysis and decision-making
- Access to extensive knowledge in tax, accounting, and corporate governance
- Objectivity and independence



Bottom-line benefits

Effective compensation strategy and design can help organizations in their efforts to develop compensation programs that:

- Help to attract, retain and motivate critical workforce segments
- Engage the workforce and drive the right behaviors
- Are aligned with the overall business strategy

Five ways to get more value now

Take stock. Examine your compensation programs, policies, and practices. Focus on areas that have the most room for improvement. Are your pay programs rewarding performance or encouraging mediocrity? Which workforce segments are most critical to your short- and long-term success? What do payout schedules in incentive plans reveal about the relationship between pay and performance? Do existing incentive programs create proper and optimal alignment between executives and shareholders?

See how you stack up. Conduct a competitive assessment of total compensation – including base salary, annual bonus, and long-term incentives – to see whether your current pay mix is appropriate and competitive. What are the incentive trends for your industry and peer group? What percentile are competitors targeting for base salary and total compensation?

Look at your job structure. Analyze the current job structure – including career paths and the number of levels within each job family. Does it support your business strategy? Do job descriptions accurately reflect the work being performed? Are there clear distinctions between levels? Are critical performance measures captured and linked to pay-for-performance programs? Are promotional paths clearly articulated?

Get the compensation committee up to speed. Make sure committee members understand emerging trends in executive compensation, corporate governance standards, and how institutional investors view compensation.

Communicate early and often. Many well designed compensation programs fail due to lack of communication and training. Be completely transparent when discussing compensation programs with employees and managers. Err on the side of over-communicating.

Compensation strategy and design in action

- Organizations design competitive, performance driven compensation structures to help them attract, retain, and motivate their workforce
- Compensation Committees seek advice on executive compensation matters so they can make more informed decisions and adopt responsible compensation programs that are consistent with effective practices and support the Company's key short-term and long-term objectives.
- Organizations streamline their compensation delivery through process and program optimization. Examples include organizational structure and activity rationalization, and job architecture and compensation program redesign.
- Organizations capture M&A synergies through issue free Day 1 implementations that were supported by improved job structure and compensation program integration.

Related insights

- [Compensation and Retention in a Turbulent Economy: Under pressure](#)
- [The New Executive Compensation Guidelines: Treasury's TARP guidelines and guidance for regulatory reform](#)

Related market offerings

- Integrated Talent Strategies
- Organization Strategies
- Rewards Provider Services
- Sales Force Effectiveness

Contacts

Michael Kesner

Principal

Deloitte Consulting LLP

mkesner@deloitte.com

Greg Stoskopf

Director

Deloitte Consulting LLP

gstoskopf@deloitte.com

Randy Harrison

Director

Deloitte Consulting LLP

ranharrison@deloitte.com

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