If They Won't Eat What You Are Feeding Them…

By Bruce Brownell | bruce.brownell@fulcrumpartnersllc.com | Fulcrum Partners, LLC

There is an old adage you've probably heard before: if they won't eat what you are feeding them, feed them what they will eat. When it comes to emerging Executive Benefit Strategy and today's complex economy, this maxim has never been truer than it is right now.

To understand this dilemma, let's pretend I am your boss, and I am charging you with allocating our total compensation budget for our company's key executives. Your assignment is to align compensation with our key corporate priorities.

But first, you have to factor in the realities of our company's personnel situation. We're having trouble finding talent at the VP level, and that issue is preventing us from growing fast enough to meet our plan. Second, we're losing some key talent to our competition. We have to stop this negative trend. Third, we need to light a fire under our talent; productivity goals are slipping, and we risk missing the performance metrics set by our Compensation Committee.

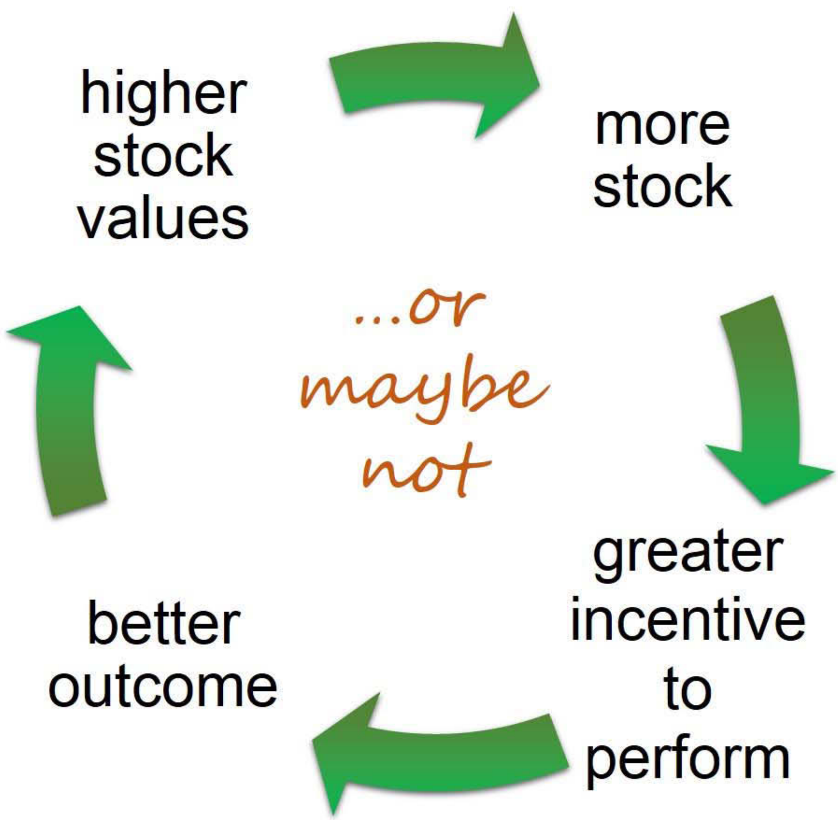
What to do, what to do…?

Your first instinct probably is to haul out the playbook and do what you have always done. In fact, your instinct very likely is to do what everyone has always done.

You seek the latest benchmarking data because you want to be certain that salary, annual incentive and equity grants are competitive with your corporate comparator group. You can't after all, invite people to leave your company by paying below median, can you? You are making the often-made assumption that as long as you pay what everyone else pays then the playing field is level. If only you could get the annual incentive targets right, you would solve the problem!

So you move ahead to the next assumption. Perhaps less salary and more stock really are the answers. Everyone knows that company stock is the best way to align the interests of our key executives with those of our stockholders. *Right?*

The more stock, the more the incentive to perform. The more the incentive to perform, the better the outcome, the higher the stock price. Pretty simple or so it may seem.



But wait, what happens when the market cycle responds to other macroeconomic externalities? Our business can suffer negative impact caused by outside factors driving the market down and such decline does not reflect any lack of performance incentive by our executives. Some of the most heroic performances and whole-hearted dedications to a company's wellbeing actually occur during the most challenging economic times.

What about the volatility of our stock in general? Many of our executives have been compensated for years in stock. You might start to wonder if they really want more or if the associated risks have become too great. Has our company's stock performance been so wonderful that it really attracts our prospective hires?

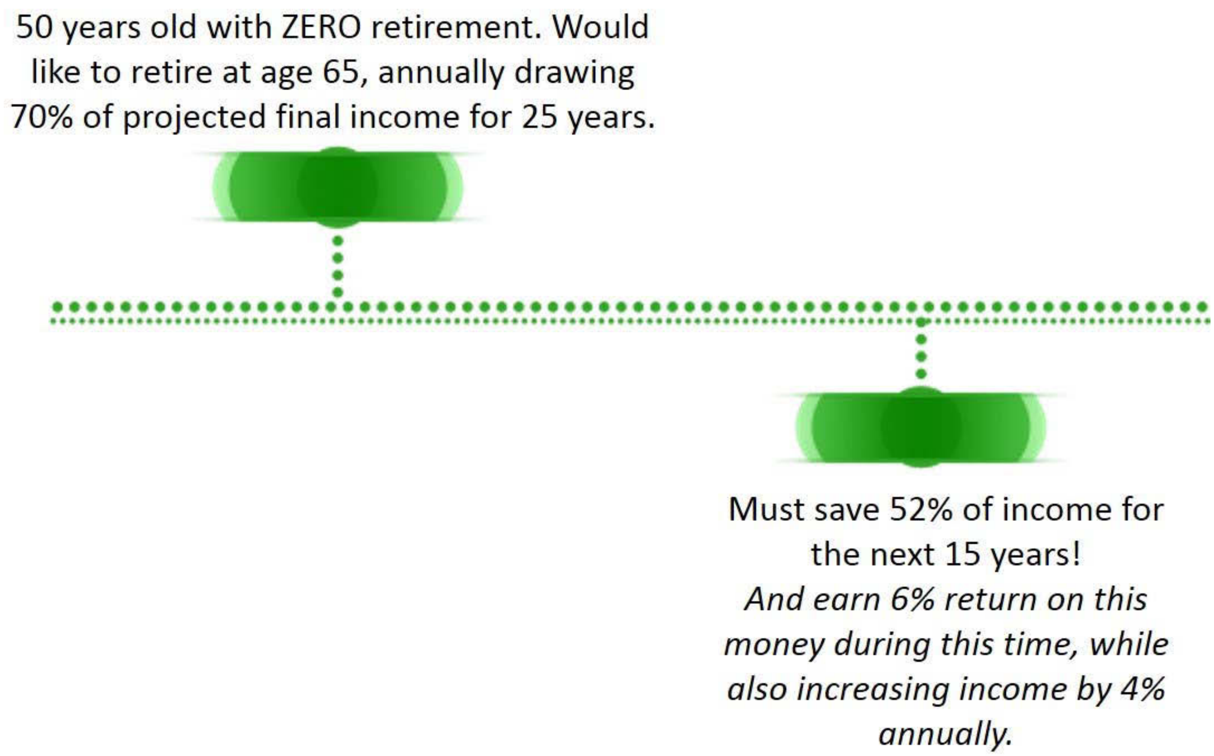
When the salary, annual incentive (both at median levels within the comparator group), and our stock incentive plan aren't giving us the differentiator we need to achieve our corporate objectives, our company has to start looking for other strategies.

We have to ask the real question: *what do our people want?*

Okay, stop pretending I am your boss and just consider these facts. Your company and your HR executives do not have to rely on guesswork; the numbers tell the story. According to a Gallup poll conducted as recently as April 2014, the NUMBER ONE FINANCIAL CONCERN among Americans as they mature in their careers is retirement security. Anxiety over having enough money to retire trumps concerns over money to cover medical costs in the event of a serious illness or accident, money to pay for rent or a mortgage, and even anxieties about having enough income to cover existing and ongoing debt.

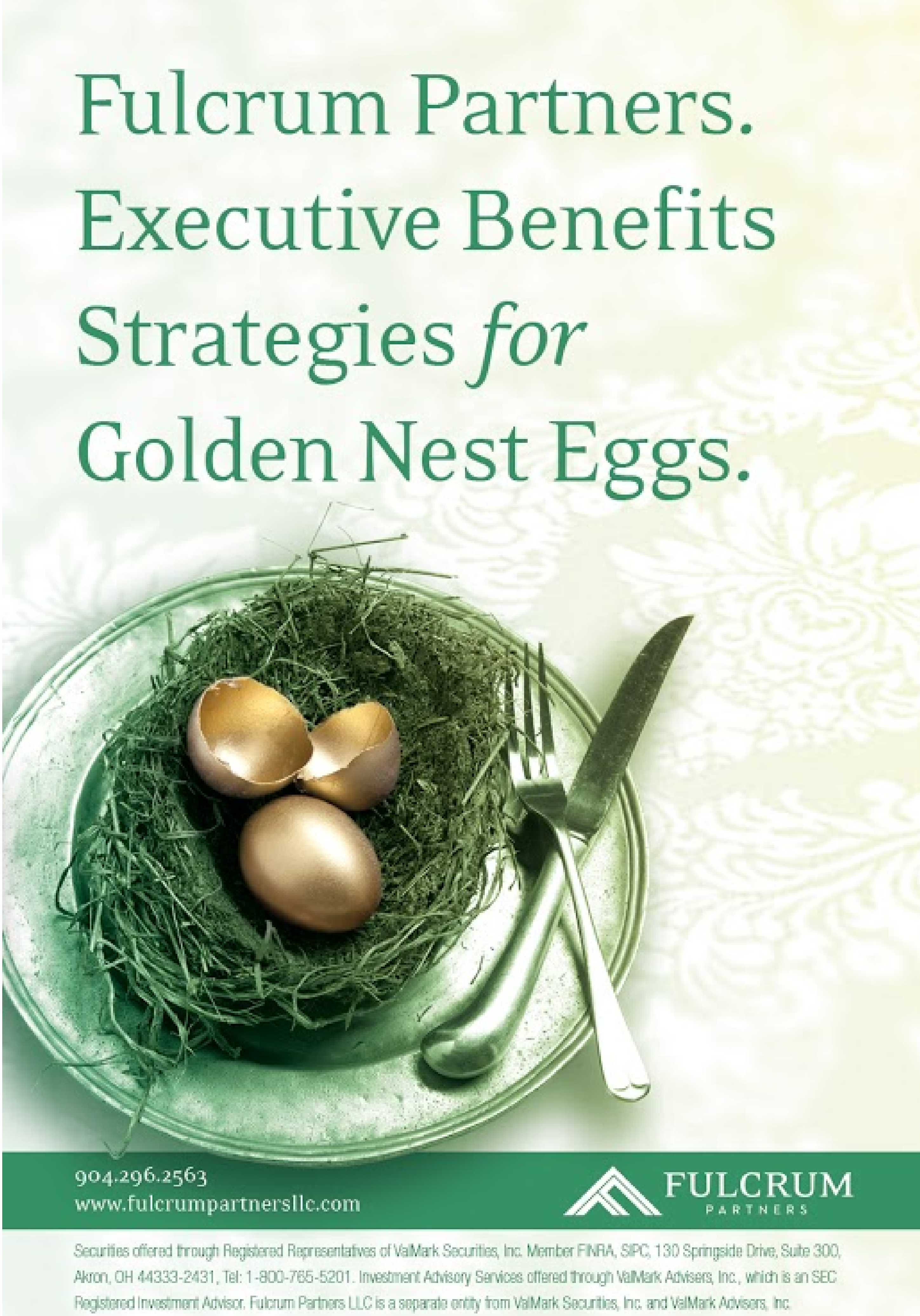
Financial analysts, advisors, consultants, media, bloggers and actuaries all seem to agree that income replacement ratio targets ought to begin at 70% and move up from there. Some even say 100%, but in any case, it's probably helpful to address this objective within the realm of the possible. Executives can see for themselves that this task is daunting. Most have not saved enough. Many are looking for answers.

... And for help.



Armed with the insight that retirement security is the number one concern of their executives, creative compensation managers are leveraging that concern by including retirement contributions as a pay element within Total Rewards. Partnering with key executives and providing them the answers they seek and the solutions they are looking for makes sense.

How do you do that?



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First, you need data and hard numbers:

- Are your retirement plans competitive within your peer group? Or is that why you are losing talent?
- How significantly are we partnering with our key executives now?
- What is in the retirement bucket at the other end of their career rainbows at our company?
- Out of 100% of our Compensation Pie, how large does the Retirement slice need to be in order make an impact on the lives and outcomes of our key talent?
- How can we modify our People Strategy in a way that drives performance, enhances retention and attracts new talent ***without increasing the compensation budget***?
- What is the best way to manage other pay elements in order to accomplish our objectives?

These are the questions we help our clients answer. As with every other innovation and positive disruption in your business, extraordinary results begin with new thinking.

To be more competitive with your corporate peers, think outside the typical Total Rewards box of salary, annual incentive and company stock. Be creative, partner with your talent, and by all means, if you want to use all of your compensation tools for the greatest impact,

Feed Them What They'll Eat! ▫▫▫

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