By Tom Kosnik

AVOIDING COMPENSATION PLAN DEVELOPMENT MISTAKES:

KNOWING THE MAJOR POTENTIAL PLAN ERRORS CAN MAKE ALL THE DIFFERENCE IN THE WORLD

Compensation plans are like race cars. A great plan will drive your organization toward over-the-top performance and record wins. A faulty plan breaks down on a regular basis and ends up costing the company tons of bottom-line dollars.

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Well-functioning compensation plans are fully aligned to the organization's goals and objective. They are smooth running because they are aligned with all the various aspects of what the company is attempting to achieve. Poor-functioning compensation plans are misaligned. The steering wheel is shimmying all over the place, and the company has to change out tires (employees) due to unsatisfactory performance.

All things set aside, compensation plans are critical to the success of a staffing firm. A well-thought-out plan really does drive success and top performance. A poorly developed plan increases turnover and goes around in circles. An annual hard look at the company's compensation plan is a best practice that would benefit every staffing company in the industry.

The most common compensation plan development mistake is thinking that developing the company's compensation plan is an easy, straightforward exercise. To the contrary, building a great compensation plan involves many intricate details. Let's look at some of the more common errors in developing a corporate compensation plan.

Too Many Performance Metrics

First, it is not uncommon for most staffing firms to either have too many performance metrics or no metrics at all. Second, it is not uncommon for most staffing firms to measure the wrong behavior. Very few staffing firms execute on performance metrics in a healthy manner. In fact, performance metrics is one of the Achilles heels of the staffing industry. What behavior or specific performance activity do we measure? How do we collect the data? How often do we share performance data with employees? The list of questions goes on and on.

For the compensation plan to succeed, a few key performance metrics have to be aligned with the compensation plan. For example, a face-to-face meeting with clients and/or prospects is a key sales performance metric. Candidates submitted into clients are often seen as a key recruiter performance metric. Every company has unique activity that increases business. This activity needs to be tied to the commission plan.

Choose performance metrics that "drive" results, and then tie these "drivers" into the compensation plan. Rewarding only on "gross margin" is somewhat of an industry standard. Gross margin simply measures the results of certain sales activity. Gross margin does not measure a performance driver.

Way too often staffing firms have too many performance metrics they are measuring. Measuring history or the results of

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the true performance drives completely misses the point. The key in succeeding with compensation plans is to choose just a few key performance drives and to make sure that these true performance drivers are aligned with the compensation plan and are rewarded.

Unattainable Goals

My sense is that most owners of staffing firms hate paying full commissions to sales reps and recruiters. My sense is also that most owners of staffing firms believe that if 80% of the staff is making their commissions, then something is wrong with the compensation plan. To insure that this does not happen, management often set unrealistic goals for their employees. This is a horrible mistake.

For the compensation plan to succeed the goals have to be realistic and attainable and aligned with the compensation plan. If goals are set too high, and are experienced by the staff as unreachable, two things happen. First, the compensation plan does exactly what you do not want it to do; it becomes a de-motivator. Second, the staff will put management's motives in question.

Attainable goals are critical to the success of a compensation plan. In general, for the compensation plan to become a true motivator more than 50% of the staff need to be hitting their goals or above their goals. Ten percent of the staff is knocking it out of the park, and not more than 10% of the staff (the newbies) are receiving zero to little commission. If half of the employees are not hitting their goals the compensation is guaranteed to be a de-motivator and will only encourage mediocre performance as well as a culture of mediocrity.

Unrealistic goals communicate to the staff that the management of the organization really does not know what they are doing. Employees are not stupid. Management is supposed to know what is attainable in the business; namely, how many contractors a sales rep can have on billing or how many "starts" a contract recruiter can have each month. When goals are unrealistic, employees believe that management is simply trying to squeeze out additional dollars from their performance. In the end, it kills any effectiveness of the company's compensation plan.

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Accelerating Rates

With most compensation plans in the staffing industry the sky is truly the limit. This is to say that most compensation plans in the staffing industry continue to pay out increasing levels of gross margin and never level off or back off. The common and erroneous thinking is that if a sales rep is making a half of a million dollars a year then the company is making a million dollars off that sales rep. What's wrong with that? Well, it's wrong thinking.

For the compensation plan to succeed it cannot over-reward top performers. The company does not exist to create a certain kind of life style for a few top performers. The company exists to create wealth for all members in the organization. Compensation plans that allow only a few persons in the organization to make substantial amounts of money fail in the long run.

Compensation plans that over-reward by paying out increasing levels of gross margin dollars on business booked create a situation where a single employee can hold an entire company hostage. This is not good for the employee or the company. It also can create an environment where a single employee or a small group of employees hold special informal status in the company. Rules for the rest of the employees do not apply to these top performers. Again, this is not good.

Well-thought-out compensation plans will generally allow for commission rates to accelerate to just over industry standard top performance and then will back off in the percentage of gross margin paid out. Such a plan encourages top performance but will not over-reward a top performer. It does not create a special status rank for top performers. It also inhibits any potential employee hostage situations.

Credit Wars

It is not uncommon for conflict to erupt in a staffing company regarding who gets paid for what when clients request just about all services from all employees. Anyone managing sales reps or recruiters has experienced this dynamic. A contract sales rep brings in a direct hire job order. How does one compensate in these situations? Does the commission to the sales rep come out of the commissions allocated to the direct hire recruiter that filled the order, or does the company pay the commission? Maybe the contract sales executive would not get rewarded on direct hire deals?

Credit conflicts need to be thought out ahead of time by determining exactly what the company wants sales executives and recruiters to do. This is truly a pain in the rear for most staffing firms. Reps will have deals close six ways to Sunday. Clients will request anything under the sun with contractors and candidates. Recruiters, hungry ones, will try to fill anything that comes their way. And everyone will want to get rewarded on their efforts.

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Eliminate such conflicts in the organization by thinking through exactly what the company wants sales reps and recruiters to do. Also, think through all the potential "out of the ordinary" scenarios. Once the company is committed to a job description and what they want sales reps and recruiters to do, then it is a task of determining the best way to reward these employees for these specific tasks. It is also a task of determining how to or how not to reward employees for successes that are out of their standard job description.

compensation from year to year in light of all the internal and external changes? It makes sense.

We briefly touched on aligning performance drivers and goals into the compensation plan. We also briefly touched on addressing the issues of accelerating rates and credit wars that can stifle a compensation plan. These issues are a mere few when developing a winner of a compensation plan.

Compensation plans have several "levers" that encourage certain kinds of behavior and success in the company. Is the

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One thing is for certain. If the company says they compensate one way but then does another thing, then they are sunk. When management makes such decisions, credit conflicts are sure to erupt. Once the company determines what it wants sales reps and recruiters to do, it has to remain committed to rewarding this behavior for success in the compensation plan to occur.

The Work Has Just Begun

An annual hard look at the company's compensation plan is a best practice that would benefit many staffing companies. Your company changes from year to year. The market changes from year to year. The competition changes from year to year. Why would one not adjust the

company's compensation plan achieving the results management desires? Is the plan within industry standards as a percentage of the total gross margin dollars being generated? Are more than 60% of the company's sales reps and recruiters at or above plan?

Building a great compensation plan for the company is like building a great race car. It takes a lot of thought and engineering. It takes several test runs around the track. It takes tweaking along the way. Most importantly, it takes an understanding and commitment from management that a great compensation plan for the company is critical for win after win after win. Is your plan there?

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