FutureSense®

COMPENSATION 2020

MUSINGS ON PAY, INCENTIVES, EQUITY, SUCCESS, AND CULTURE DURING A YEAR OF A PANDEMIC AND REMOTE WORK

DAN WALTER, CECP, CEP, FGE
MANAGING CONSULTANT
FUTURESENSE, LLC

Inside cover

COMPENSATION 2020

WINNING THE COMPENSATION TRIATHLON

Being locked up at home for the past nine months has given me the time to watch some videos that wouldn't have made the list in a normal year. The rabbit hole of streaming information recently brought me to a series of videos on triathlons. Watching a few of these events (appropriately sped up) reminded me of the power of a compensation philosophy.

Three key disciplines must be navigated, swim, cycle, run. There is also fourth, stealth discipline that can be found in transitions. Think of the main disciplines like Base Pay, Short-term Incentives, and Long-Term Incentives. Our fourth discipline that is often the difference in winning or losing is Communications.

You need to be good in every discipline, but the winner is usually truly great in a single discipline.

It often feels like most companies have simply given up on base pay. Most simply run with the pack and hope that their short-term and long-term incentives will make the difference. This may be a potential lost opportunity. Triathletes view every discipline as a potential strength. You will never see a pack of winning competitors swimming, or running, at the 50^{th} percentile. Every discipline is viewed as a way to win.

In fact, the swim event is the first in every triathlon because it allows the elite to separate from the pack. This, in turn, ensures weaker cyclists cannot draft behind stronger athletes. A leading base pay program makes it more likely your other programs will be more effective.

Short-term incentive programs are kind of like the cycling event. The speeds are fast, and the results are generally clear. And, like a short-term incentive plan, the biggest risk is the exhausting sprint to the finish. Tired riders can crash while taking big risks to make up lost time close to the finish. Building in a softer-landing can improve results.

Finally, they run. While the bike ride may be longer in actual miles, the run is longer in perception. You are tired when you begin. The finish line cannot be clearly seen. You must commit to keeping running even when you cannot see your competitors. You must run fast, but not so fast that you run out of energy before the final finish line. There are tons of videos showing runners on wobbly legs being passed while the finish line is in view.

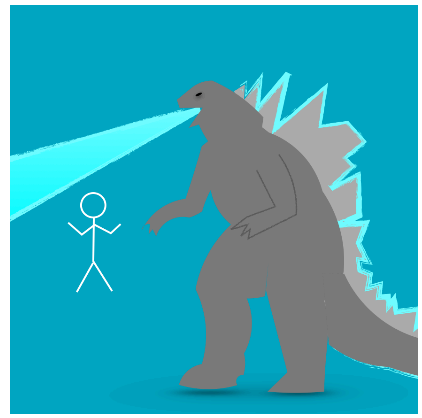
The most important lesson I learned was about the fourth discipline, the transitions. These periods between each section are where the best are the best. It takes time to change out of a wetsuit, or put on a pair of padded shorts, or running shoes. The best strategize as much on what's in between as they do on the actual disciplines.

There is an important lesson to be learned here. The best compensation philosophy, supported by the best designed and executed programs, will often lose to stronger messaging and understanding. Great communication isn't a "nice to have", it is an essential discipline that needs the same effort and commitment as three main components of total rewards.

One last thought. There is no way I will ever compete in a triathlon. I am confident in my lack of ability in those disciplines. It is also fine that many people choose to participate with no intention of winning. Just competing and finishing is far more than I would ever attempt.

Participating with no chance of winning is also fine in the world of compensation. If you only have the budget, or executive support, to be in the pack it's OK. If this is the case be honest with your executives and employees and set expectations accordingly. Even when you cannot win, your communication transitions can set you apart from the others in your class. Spend more effort there and you can still win your battles for talent and success.

Godzillas Require a Different Tact than Unicorns



The term "unicorn" refers to a pre-IPO company valued at more than $1B. When the term was coined in 2013 there were only 39 such companies. As of October 2020, there was a herd of at least 450 of them! Terms like "decacorn" and "hectacorn" have been used to define $10B and $100B companies, but I prefer Godzillas. Godzillas are truly unexpected. They cause you to change your approach. And, if you don't handle them well, they may destroy things that everyone finds valuable.

The guidelines for granting pre-IPO equity compensation have not changed that much over the past 35 years. Basically, investors approve a pool of equity that represents about 20% dilution, or overhang. This pool is refilled as new investors buy more stock, but the first pool is the lion's shares of everything a company can prior to IPO.

When this model was first conceived, a billion-dollar IPO was practically unheard of. In 1995 Netscape was the largest IPO at $900M (for reference, Apple was only worth $3.5B). With valuations being pure guesses, it became common for companies to grant about half of their pool to the first 20-50 employees. Non-founding C-level officers often received grants of .5% to 1%. Then as prices and staff grew, reward sizes shrunk. In 1995, a good grant for an engineer may have been worth 1 or 2 times their salary…at the time of IPO.

This model meant that people who joined early had a chance to become millionaires and people who joined later still received material benefits. But that was before unicorns and Godzillas.

Recent IPOs have seen companies valued at north of $20B. Most of them have thousands of employees. Oddly, the equity guidelines that were written on a napkin, decades ago, still apply.

The expected pool for most companies is still around 20%. The first 20-50 employees still get about half of that. The remaining 10% is spread among the later hires, with occasional partial refills as new investors come in.

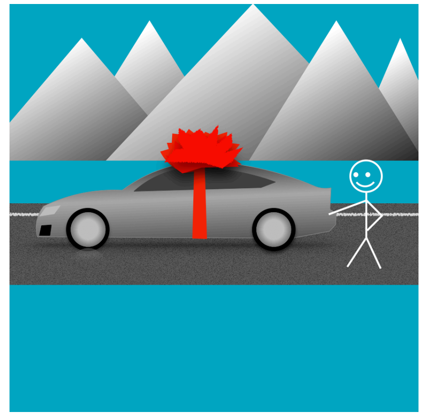
Where early-stage employees one became millionaires, they are now may be worth hundreds of millions, or more, at IPO. That first 10% is a gold mine. But that means that later employees are getting increasingly less of the spoils of success. Often their IPO values are quite similar multiples to those seen 30-years ago, even while the underlying value of their companies can be 50-100 times those in the past.

Either investors need to start sharing a larger portion of the company (highly advised), or companies need to rescale their guidelines to better reflect the true potential of their companies (also highly advisable).

This will not be easy, but it is time. Using risk and reward models from three decades ago is like examining seatbelts on stagecoaches. The models of tomorrow must be more flexible, more scalable, and far more equitable. Leaning on the self-fulfilling prophecy of "market" data that simply reflect common practices, instead of best practices, will be a hard addiction to cure.

Over the next few months, I will write some posts about how this may be accomplished. Hopefully, these will resonate and provide some direction for correction. What do you think?

Honey I Bought You a Car!



I recently saw a stock option agreement that allowed the company to repurchase vested and exercised shares whenever they wished. The is counter to the basic premise of stock options. Options are based on the idea that if someone works for your company long enough, and are willing to take the risk of purchasing the stock underlying their option, they get to keep the stock. So, I wrote a little story to provide some color to the problems with this idea.

The couple had been married for several years. They had created a gifting game and every few years one or the other of them would buy an extravagant gift that truly meant something to the other. The gift was always something the other truly wanted and would value for years. The cost was always enough that both of them knew it took sacrifices. The gift was always focused only on the desires of the recipient.

This year she walked out the front door to see a beautiful new car sat in the driveway. Even for their gift game, this was over the top. He just stood there smiling.

Laughing she said, "This is amazing! I can't believe you did this without me finding out. Can we take it out for a quick spin?"

She took them for a quick trip around the nearby backroads. The music was loud, the car was quiet, and she drove like a Formula 1 driver. After 45 minutes they pulled back into the driveway, still grinning like kids.

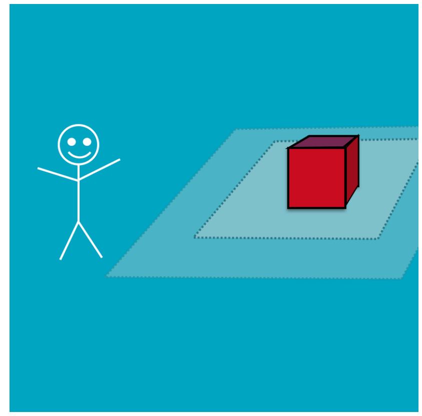
They sat down over a cup of coffee and he finally started to talk. "I had to trade in the other car to get this one." She immediately realized that meant he would be driving the car to work every weekday. This meant the car was now less than 30% hers and more than 70% his.

She quietly sipped her coffee and adjusted her excitement. Then she heard him say that he couldn't believe how low the payments were on the 36-month lease. She choked on her coffee. Did he just say that he was going to use the car most of the time and then they would give "her gift" back in three years?

The morning quickly became less enjoyable. She asked, "How does this gift fit their long-time model? Why did he decide to change the rules of their game when it had worked so well, for so long?" The intent of the gift was clearly no longer selfless or focused on the desires of the recipient. Their relationship survived, but the magic of the game was broken and was never played again.

Intentionally building stock options to take back what someone has earned through effort, time and investment is just a bad faith deal, in my humble opinion. Don't use stock options if you are unwilling to commit to their commonly understood intent, and don't buy your partner a gift because you really want to use it.

BEYOND OUTSIDE THE BOX



We tend to do things the way we have seen them done. Our ice cream is sweet. Our pizza is savory. Our soups are hot. And our pay tends to stay very close to the 50th percentile. While these are all norms, there are alternatives to each. Just because you have tried them, or perhaps even heard of them, doesn't mean the other choices can't also be amazing.

In Japan, you can find wasabi, squid ink, and garlic ice cream. I have actually eaten garlic ice cream at the Gilroy (CA) Garlic Festival. And while for me it doesn't beat chocolate, is pretty darned good. In Iceland, you can eat pizza with pineapple AND bananas. It doesn't sound great, but it can't be that bad if they continue to make it. I honestly had never eaten gazpacho until I was almost 30 years old. On a hot August day in New York City, I was amazed to learn that what was essentially a spicy tomato smoothie could beat a milkshake as a cool-down treat. And don't even get me started on the transcendent watermelon gazpacho I had at a place in San Francisco.

None of the above foods had even crossed my mind as possibilities until I saw them. Some worked for me, some I will never try. A couple completely changed the way I looked at food. My challenge to you is to imagine what your total rewards program would look like if you didn't have a box from which to base your decisions.

If you may around the 50th percentile, don't dream of paying at the 65th. What would pay people if you were remunerating equitably them for the work they are doing and the value they are delivering. Would pay ranges be far wider? Would midpoints be 20% higher (or lower?).

How much would executives get paid? Would the "market" drive their pay, or would the company's performance be the only driver of success?

Could you get more done with a few higher-paid execs that were supported by a larger and better compensated third tier of Directors, instead of the traditional second tier of VPs?

How would you define the “long-term” nature of your LTI? Is a period of three or four years truly reflective of the long-term goals of your company? Would six or eight years align better? If so, which pay element and associated features would you use to deliver this new approach? How would be counterbalanced by the other elements of total rewards?

Once you have done this exercise you will have a better idea of how to evolve your pay. You cannot make the entire thing happen at once, but you can adjust multiple programs at the same time, just a little bit, toward your new ideal. Change is the only true measurement of progress. Changing each program by as little as 5% each year will get you to something completely outside the current box in a matter of several years.

Many of the companies you most admire have been working at this process for a decade or more. It can be accomplished. It can open new opportunities to attract, motivate, retain, and engage your staff. The first step is imagining your ideal program without the restrictions of your current box.

CHANGE IS POWER

ERI recently published the results from a survey on the impact of COVID-19 on compensation. It was the first report I have seen that showed some actual pay movement as a result of the ongoing pandemic. More telling were the more than 65% of companies who were either progressing with the plans they made at the beginning of 2020 or had not yet made any decision on what to do.

We have entered the second week of November 2020. If you throw out the two-weeks of holidays for Thanksgiving and Christmas/New Year, we have about 5 weeks to prepare for 2021. Not having a plan, is a great way to lose in the battle for talent and success. You seldom watch movies or read stories about the times people did absolutely nothing and somehow met their goals. This is because it almost never happens.

Change is your competitive advantage when others are paralyzed by indecision. Action is your secret sauce for success when those around you are simply too lazy to do something different. Whether we like it or not, the world is a much different place than it was just a year ago. We will full return to those heady, coronavirus-free, yesterdays.

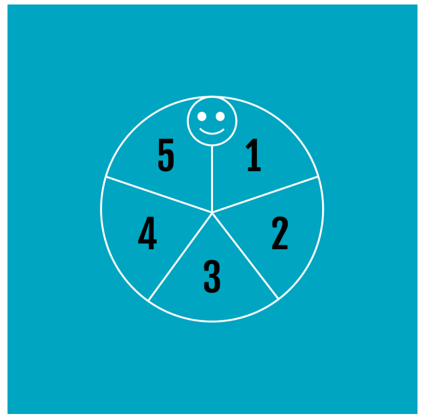
Remote work is here to stay. What that means for your company is probably unique, but change is a must. Pay will change. Work-life balance will adjust. Ignoring this will not make it go away.

Unemployment will remain higher than it has been for several years. This tends to put downward pressure on pay. It may also mean a greater talent pool for some industries. Staying ahead of the market may be easier and allow you to hire materially better talent without spending a fortune.

Now is the time to fix your worst incentive plans, or adjust pay structures that have crumbled under the weight of furloughs, lay-offs, remote work, shrinkage, growth, or any other of the myriad of issues that are being faced in business. Yes, you are tired. But so are your competitors. The best time to win is when they can't respond. In a world where increases have been in low single digits for a decade, it doesn't take too much to set your company above the crowd.

Change will happen. The question is whether it will happen TO you, or BECAUSE of you. The former isn't much fun and the latter puts you in control. As you move into finalizing things for 2021, consider one or two big things that will allow you and your company to set yourselves apart. When everyone else is paralyzed, it won't take much to do something that makes a difference.

5 Urgent Considerations about Equity Compensation



The last quarter of every year is when people start paying closer attention to equity compensation. Budgets for annual planning are in play. Stock price projections (or guesses) from the prior year are proving to be far too conservative or lofty (they are seldom on the nose.) Burn rates are being discussed. For many companies, ESPP purchases may be on the horizon. And all of this happening while merit cycles and initial annual bonus calculations are being addressed. Given this tumultuous landscape, what can you do to make things better next year?

Is your equity still aligned with its intent (or vice versa)?

I have written about the criticality of "intent" in the past. Your equity plans should exist to do a few specific things. This first step is reevaluating that list of intentions and making sure there is still agreement from key stakeholders. The next step is reviewing whether your plan, given changes in the market, your company, etc. is still designed to properly deliver on those intentions. If your plan is meant to make your total reward value ultra-competitive, is that proving to be true? If your plan is meant to be a sweetener on top of very competitive cash compensation, are the values higher than need be? Can you use fewer shares to accomplish your goals? Is it time to move from sizing grants based on numbers of shares to an approach that converts the current or potential future value into grant sizes? If you do only one thing for equity plans before year-end, this analysis is it.

Is your equity is helping to attract the right people?

How often do you need to adjust your equity offering to "get" the talent you want? This should be a rare event, not a common practice. When your equity is properly designed and scoped, it should help close the right candidates without modification. Misses in this area may be due to design or grant sizing, but often are a result of subpar communications or a lack of understanding by your talent acquisition professionals.

Is your equity is retaining the right people?

Replacing valued people is far too expensive. Keeping bad people can be even more expensive. Turn-over must be evaluated in light of equity holdings. Are there patterns that indicate your program is weak? Equity is a long-term device that should align closely with your retention strategy. If your good people are leaving valuable equity on the table, or if your worst performers won't leave voluntarily even after a couple of years of not receiving raises or bonuses, you may have an issue to address.

Is your equity motivating and engaging the right people?

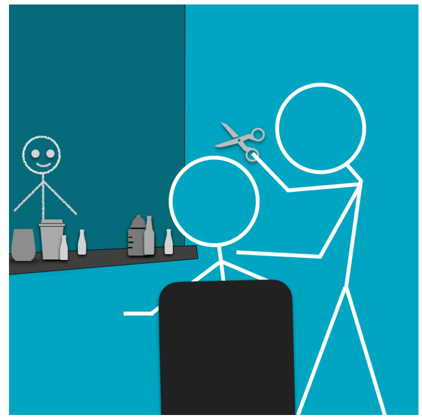
This will be tough in 2020. In fact, it may be a good year to shelve this topic. A bifurcated market recovery that has driven the values of a smaller percentage of companies while decimating so many others, may not be the best indicator of plan success (positive or negative.)

Do your employees properly value their equity?

Whether your stock price soared or crashed this year, much of your equity still has value. Recent studies have shown that more than 85% of individuals do not understand their equity. It's pretty easy to infer that if someone does not understand their equity, they cannot properly perceive its current or future value. This is low-hanging fruit. Communication programs do not require shareholder approval or huge budget requests. They mostly require time and effort. The value of better communications cannot be overestimated.

Addressing these five topics over the next 12 weeks will provide a foundation for the new year. They will also provide the foundation for information to include in communications to shareholders as your company discusses successes and needs in the future. Most importantly, you will be ensuring your very limited equity compensation budget is being used as efficiently as possible.

Transformation is More than a Haircut



Not that long ago, I got my haircut for the first time in more than six months. The result was eye-opening (literally, because my hair was always in my eyes.) I went with something that looked much like what "normal" was before March 2020. Around the same time, a friend had her hair cut as well. She had one side of her head shaved and went bleach blond for the rest. The difference was amazing. Some would say transformational. But then I realized a had a third friend who had spent the past couple of years working out and eating right. After having two kids, was in better shape than she had been when she was in great shape in her twenties.

While the changes for each person were immediately noticeable, only one result was a true transformation. Transformations require time, commitment, and tenacity. This past year has proven to be transformational for many people and many businesses, but I have yet to hear much about transformations in total rewards. If there was ever a time to transform, this is it.

Base pay has proven to be a challenge in many ways. Remote work has given rise to questions about Geographic

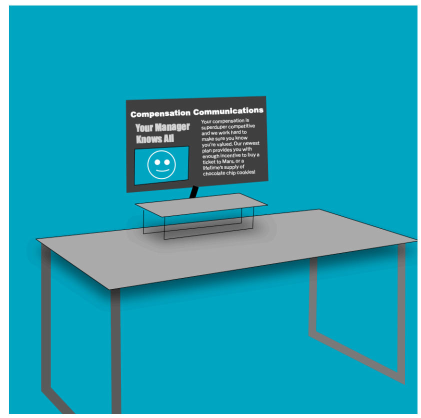
Differentials. Pay levels have been stressed by furloughs, layoffs, essential worker status, and volatility in staff availability. Bonus programs have proven to be fragile. In some cases, companies are concerned about meeting cash obligations or expectations when cash is at a premium. Traditional equity compensation program designs have been shown, for the third or fourth time in the past twenty years, to have critical flaws that can wipe out value with no-fault, or magnify value with little effort.

If all of this was happening in some other aspect of your life, you would be compelled to make some big changes. In the world of compensation, most companies seem content to wait things out and hope everything "returns to normal." This is the real opportunity. It is far easier to win when your competition is complacent.

As in every extreme situation, a few will seize the chance to exploits their competitors' weaknesses. In 2022 and 2023, we will all read about the companies that rolled out expansive changes to their total rewards while the pandemic raged. We will attend presentations and webinars with case studies about companies who corrected their diversity equity and inclusion issues or how base pay increases became drivers of success instead of a baseline marker. We will envy those companies who made changes, and we will try and create programs "just like theirs" (but two years too late.)

Perhaps you will call me or some other consultant and ask how so-and-so built the award system that has proven to be the trend-setter for the next decade. Even better, perhaps you will be the person presenting the case study because you decided that this year was motivating enough to inspire more than a haircut. You will be at the front of the pack, healthy, strong, and leading the way, while others wonder how you did it. Haircuts are easy. Transformation is not. But transformation is achievable, and there is no better time than the present to get started.

Managers are the Home Page of Your Pay Programs



Our approach to communicating pay needs an update. Luckily, we can emulate a model that has evolved and proven effective over the past 25 years. Websites have tried to be many things over the past couple of decades. Some of those attempts have been difficult but effective. Others were very cool but abject failures. During all of the innovation, the venerable home page has proven to have efficacy and staying power within its purpose and limitations. Your managers are essentially your compensation home page, and we need to respect their power and limits.

First, I recognize that we can and must communicate pay often and through a wide variety of mediums. Compensation departments create the equivalents of research papers, opinion pieces, dramatic productions, mini-series, high-school presentations, and virtually any other method of communication available. Despite all of these amazing tools, the source most likely accessed by an individual is the person directly above them, their manager.

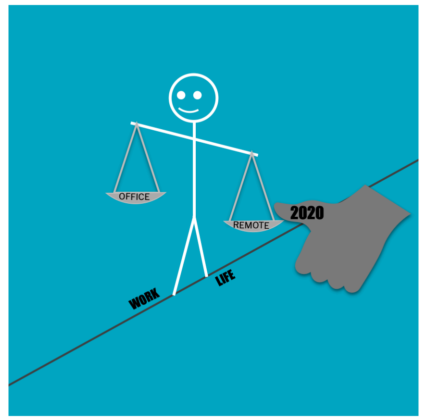
In a healthy company, people regularly talk to their managers (unhealthy companies are a topic for a different post.) This is similar to people wanting to know more about your company. The first step is heading to your website. The place they land has headlines that your company thinks are important for people to know. Connected to that page are links to tons of other information, some very specific, some arcane, and some that need to be updated. Your home page is not only your first impression, but it is the starting point for nearly every other impression. Your managers serve the same purpose.

Website interfaces and functionality have continued to advance. Despite this, the home page remains the most important resource on your site, despite its obvious limitations. Home pages have limited space. Only the most important information can be included. This information should spark curiosity and easily lead people to more specific information that can satisfy most of their questions or needs. This is true when you click on the Facebook icon or when you go to my company's home page. They look very different, but each is easy to navigate and provides an important snapshot. Each provides curious minds with access to more information.

We tend to spend most of our time educating individuals about their programs. This is important, but it may be even more important to make sure our managers are populated with the information they need to serve as our compensation home pages. As a home page, managers should be able to answer questions almost instantaneously. Their answers should satisfy immediate needs without getting bogged down in minutiae. They should need to dig into a bunch of documents and presentations to answer common questions. They should be confident, able to communicate both main themes and important points while knowing exactly where to direct people to get additional information.

Your marketing and communication department can adeptly help you in changing the face of your pay communications. If you explain your desire to make your managers your home page, they will quickly and expertly guide you to a new way to communicate pay that has proven to be effective over the years.

A Finger on the Scales of Remote Work and Work-Life Balance



We all knew it was bound to happen. Science fiction movies have been showing scenes of people working from anywhere for years. At the same time, futurists have been predicting that increased technological productivity will reduce the need for humans to work as many hours. Well, we are finally working remotely, and work-life balance is 100% fixed, (right?). **2020 has been a big, fat finger on the scales of remote work and a bit of a heel grinding down on the scale of work-life balance.**

So, what does this have to do with compensation? As we have already discussed here in the recent past, paying remote workers in our new environment will require some new thought. A bigger issue may be figuring out to properly pay and reward the most highly productive when you no longer have the ease of patting them on the back or giving them public recognition. There is no doubt that the biggest issue is work-life balance. Solutions to that issue will require new thoughts on compensation succession planning and workforce tools.

Paying remote workers, when remote isn't a "privilege," but instead is a rule, requires some soul-searching by HR and Compensation professionals. Do our traditional job descriptions accurately portray a job being performed from someone's sofa or basement? Are Geo Differentials a reasonable (and competitive) method for determining pay levels for our newly mobile workforce? In this case, we probably have 90% of the information we need, but we have not yet reorganized that information into something truly useful.

Paying our most productive workers has always been a challenge. It is likely that the remote world will expose the laggards and stars in ways that were harder to see when people worked in a group. I predict that pay ranges will widen as we tamp down on the pay of the slowpokes and ramp up pay for the fastest. The most productive workers are often those we ask the most from. This means that without coaching on how to manage virtual workforces, we will likely overwork our productive people in our efforts to keep things stable and moving forward.

Work-life balance will be a doozy. Some companies will bring everyone back into the office before the end of 2021. Some companies will keep people working remotely perhaps, forever. If you have been working from home, you know it isn't always wine and roses. Your computer is too close to your living room or backyard. Your days can stretch from long before you are ready to be awake too long after your kids have gone to sleep. Your life and work have merged into a blob of working, cooking, Zooming, cleaning, teaching, rinsing, and repeating. None of this is healthy or sustainable, and money can only fix some of it.

As we engage in our annual compensation planning exercises, it is a good time to start discussing some of these issues with the stakeholders on your team. Our final approaches will probably take a few years to work out fully. Broadly enacted remote work will change the competitive talent landscape forever. Those who fall behind may never get an opportunity to catch-up. Let's change compensation and make it better. We can either take advantage of the thumb on the scales of remote work or be ground under the heel of work-life balance. Either we fix this, or no one will.

THE SQUEAK OF THE HAMSTER WHEEL

Round and round it goes, where it stops, everyone knows. Lately, I have been wondering what it will take to change things in the world of compensation. It would seem that we have more than enough motivation to result in real changes to compensation practices that have been ineffective, or worse, seemingly forever. There seem to be enough incentives to create more successful companies and pay people in a way that allows them to have better lives. A large number of Human Resources and Compensation professionals seem engaged enough to give them the push to make materials improvements. But the hamster wheel keeps squeaking.

Recently released data and articles imply that 2021 compensation budgets will look much like 2020 budgets (and those from 2019 and 2018). Those same sources indicate the mix of pay elements at most companies is not expected to change. This is true even though there is plenty of evidence that most of what we have been doing with the basics of base pay, short-term incentives, and equity compensation have had a limited impact on employee attraction, motivation, retention, and engagement.

Topics like Diversity, Equity, and Inclusion have been concerns for at least a couple of decades. We still regularly see unintentional bias in both base pay and incentives. Pay data may be generic, but its application continues to be unequal. And yet, the majority of companies have either no plans or no funding to make the often easy changes that would truly improve these problems.

Our new focus on remote-work has given rise to questions about long-held practices regarding productivity of employees when working away from the office. Evolving remote-work practices have also directly impacted the breadth and depth of talent markets and legacy assumptions about the cost of labor. We continue to apply old school recruiting tactics to an already-changed modern workforce. Companies also apply oddly local geographic differentials to employees hired by companies anywhere while delivering their effort and expertise from anyplace.

The use of equity compensation plans at most companies remains much the same as it was decades ago. Despite the fact that companies are far larger than ever, and retention has fallen in industries that use equity heavily as a “retention” tool. Most plans have the same vesting, termination, and expiration periods that have existed forever. Nearly all pre-IPO companies still grant early equity as if they plan on going public with 250 employees in five or six years, despite many IPOs having a thousand or more employees. Most investors control pre-IPO dilution like they aim to get 20% of a $250-

$500 Million company, even though the average tech IPO is north of $1 billion dollars.

Of course, I can go on, but I will stop and offer a few potential solutions.

What if we started our decision making process by determining what we wanted to accomplish, rather than what the "market data" says?

What if we acknowledged our past limitations and created approaches to pay that took a path less-traveled and perhaps more likely to provide better results?

What if we stopped applying "what we already know" and started figuring out what we should know?

Correcting things will not be easy, but it's got to be easier than looking back in a few years and realizing we are squeaking along on the same old hamster wheel. What do you feel compensation does so well that there is no room for real improvement? What do you passionately believe we can, or must, address in the upcoming year?

It's Been a Bad Hair Year

It's been a hairy year, and it's time to get out the combs and brushes. Break out your good scissors and clippers. I hate to be the one to tell you, but your compensation plans have "COVID-hair." We get it. It's been six months since the last time you sat in the chair of a professional and had your 'do done. It may have been that long since the last time you covered your roots with someone other than an off the shelf solution. It's time to get prettied up for the holidays!

It's time to beautify your plans. They deserve it. They have sat quietly for months while you focused on higher priority projects. You had to put some executive pay on hold for a while. There was the whole layoff thing. Figuring out the furlough fiasco turned out to take more time and effort than you imagined. Heck, even dealing with your 401K or PTO turned out to be challenging in these odd times. But it's now September, and compensation planning season is upon us.

Let's take care of the basics first. That annual incentive or bonus plan probably won't work the way they were designed. You have about 60 days to figure out what you're going to do. Then it'll be time to baste a turkey and wrap some presents. Will you have any money to share with your best performers? If not, can you quickly design something else of value, get it approved and roll it out while people are still paying attention? Getting the tangles out of your short-term incentives will make everything else just a bit easier.

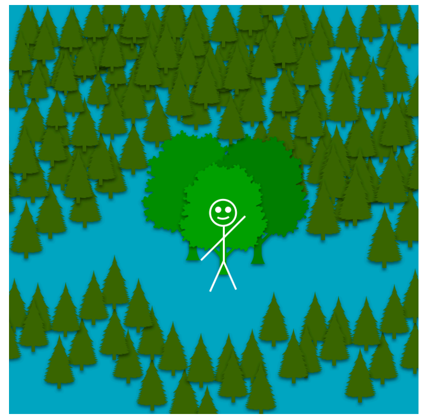
When your hair is clear of knots, it’s time to get restyled. Your long-term incentives and equity compensation may have weathered the storm just fine, but it’s more likely they need some help. Are your options still in the money? If not, what are you going to do about it? Underwater options aren’t simply seen as having no value. They are active demotivators. You seldom hear stories about the options that turned into value, but you always hear about the options that stayed underwater!

And what if you have RSUs? Sure, the strike price isn’t going to be an issue, but what if you communicated RSUs as having a dollar value at the time of award? If your stock price has dropped, have you thought about how you will communicate the loss in value? If you have arranged for participants to sell-to-cover to mee their tax obligation, is your stock volume performing well enough to cover all the shares they may need to be sold? And, what will these awards look like next year? Are you prepared to grant wildly larger numbers of units because of a stock price collapse?

We know that it’s kind of cool or amusing to rock a vintage hairstyle from past decades, but it doesn’t work well with compensation programs. Now is the time to schedule your appointment with a professional and get things cleaned up for the new year. On the downside, it’s hard to know exactly what the cool kids are doing because you have seen them all summer, and their data may not even be reflected in the market data.

A good start is something familiar with a nod toward an unpredictable future. Perhaps programs without too many bells and whistles incorporate a better out-performance component that you may be used to. The most important thing is to get started before you are stuck in year-end processes and unable to act at all.

YOU CAN'T SEE THE FOREST FOR THE TREES



As we move into the compensation planning season, I thought it was time for a quick reminder to focus on keeping things simple. Over-complicating the basics of pay can make it impossible to accomplish the most complex things. Many small and mid-sized companies work so hard to make base pay "perfect" that they have no time or energy to build effective short-term incentive plans or rational equity compensation plans. A slavish adherence may drive this complexity to a flawed compensation philosophy. It may be driven by a desire to parse and define roles until nearly everyone in the company has a unique job title. Simplifying the basics of your pay programs is often the first step to a more robust approach to total rewards.

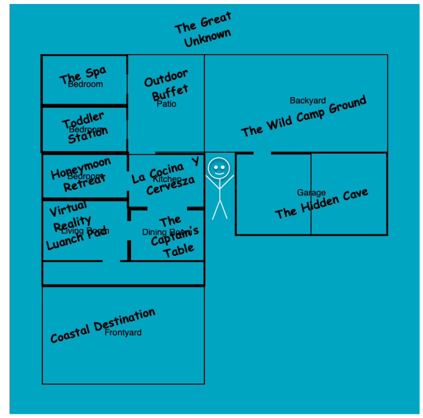
Let's start with an important set of facts. It is essential to get base pay right. It isn't possible to get base pay perfect. Some companies are on the hunt for the perfect compensation data set. Others are focused on targeted some unachievable perfectly equal targeted pay level. Pay data is not exact. It is averages and ranges driven by a stew of data submitted by survey participants and aggregated by survey firms. The 50th percentile is a rough guess that depends on how you pulled the data. A good motto may be "close enough."

A good compensation philosophy should drive decisions, not dictate pay amounts. Your pay levels should reflect your needs. Of course, it is important to have a goal for consistent pay, but straying from the norm to get the talent you need is a perfectly acceptable approach. Every decision must be made with both the current candidate or employee and the view of the entire company in mind. When you "go outside the lines", make sure you take a step back to understand the impact on the picture as a whole.

Market pricing does not mean that every person is a unique snowflake who should have a special title and unique pay amount. I like market pricing, especially for smaller companies. But it seems like many people start with a pay amount in mind and cherry-pick data until it shows the desired outcome. This is crazy. If you think someone should be paid $84,500 and the data says they should be paid $81,000, adjust your opinion, not the data.

Simplifying pay does not mean creating broad pay bands, nor does it mean creating traditional pay structures that may not reflect the nimbleness your company needs to compete for talent. Perhaps it's better to look at it like impressionist art. The goal is to communicate the total picture, not the specificity of each brushstroke. With a less didactic approach, you will spend less time on the basics, giving you more time to build and communicate other elements of total rewards.

PTO IN A STAYCATION WORLD



2020 the year of the forced staycation. While some people have been able to take real vacations this year, those of us with multi-generational families, immunocompromised, or other concerns about our health and welfare have had very limited options. In the world of Total Rewards, this creates some real concerns.

There is the basic issue of ensuring people have the time and privacy to recharge (I discussed "performance fatigue" in a recent article. There is also the issue of "use it or lose-it" programs that may result in people working more days than usual and losing their PTO at the same time. For those companies who pay out unused PTO, there is also the possibility of a PTO payoff cliff. Add in the loss of cachet of the "unlimited PTO" policy. Finally, thin staffing is the very real issue resulting in working via email, phone, or zoom calls, even when someone is "on vacation. These issues must be addressed, but there is no one-size-fits-all solution. *(and does one size ever fit all?)*

We pay people to take personal time because it is good for them and businesses. Happy, relaxed, refreshed humans are better employees and coworkers. Take a look at faces on your next zoom call or slack. Or do people look excited and raring to go? Do they look a bit like they could use a day or two off? I am betting the latter.

The use it or lose it crowd has it especially challenging. More than half the year has passed us by, and it seems like it has taken only 39 months. Robert Half did a survey in May 2020 showed that fewer people were expecting to take summer vacations. They intended to push their vacation into later in the year when things were more settled. But things are not more settled. Many vacation destinations are actually among the worst hit over the past two months. Those delayed vacations are very quickly going to become no vacations. How will your hardworking, lean staff respond when you announce that they are losing both their time away AND their associated pay? I am betting that "use it or lose it" will become "pay them or lose them."

For companies who are already running on empty, paying out unused vacation in early 2021 may be the final nail in the coffin. These expenses are real and must be accounted for when determining other components of pay in the next few months. Read on to learn some possible ideas.

Companies with unlimited time-off already know that their staff members tend to take less vacation. This is an easier problem to address, but no time off means a strain on productivity and mental health. Even these companies may need to build something new to weather the storm.

The last issue is becoming one of the most common problems. Even when people are on "vacation", we expect them to be available. This has never been truer than now. Teams are running lean. All hands have been called to be on deck. But the storm has not calmed, and we need to let people get some rest before big mistakes, or permanent leaves start becoming commonplace.

So, I have set a dark background. What can we do about all of it?

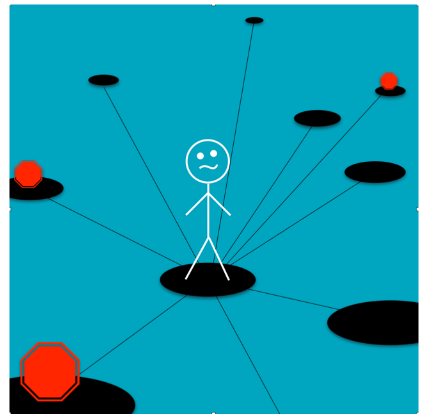
The easiest change for many companies is to change the rollover rules. Allow this year to carry forward rather than killing that PTO. Allow this year to add to next year, even when the standard policy is to pay them out. Provide an additional week or two or PTO even for companies with "unlimited" time-off. But what if the box were bigger…much, much different?

Many companies **will hard-pressed to meet** their annual incentive plan goals this year. You may save money by paying these bonuses, but companies with some cash may choose to fold in unused PTO as an additional incentive payment at the time of bonus.

Could we allow employees to exchange their unused time-off for some other element of total rewards? Has your stock performed well, and would employees like some extra stock options or PSUs? Can your ESPP be amended to allow for unused PTO to qualify as compensation for the next purchase date? Is there a particularly useful benefit that people generally forego, but may be a useful trade-in for vacation bucks? Can you cover the cost of travel arrangement services to help employees take advantage of their vacation time? Can you offer a four day work week in exchange for the paid time that will otherwise be lost to employees? The possibilities are out there.

WOW! This is getting long. The editor is going to be annoyed, so let's wrap it up! PTO is a valuable component of your Total Reward offering. We are experiencing something that has never happened before. It may be time to do something with PTO you have never tried before. I'd love to hear some of the things your company is doing or discussing.

Remote Compensation – What About Equity?



So far, we have just scratched the surface of compensating people in the new "remote" world. We have had some discussions about pay adjustments, geographic differentials, adjusting goals, and communicating changes. Each of these requires more work and bigger changes than most people want to believe. In this post, we open up our Remote Compensation Master Class (it sounds more important that way.) In this first advanced session, we will delve into the always opaque world of equity compensation (Hooray, my favorite!)

Equity compensation is an area where many compensation professionals lack confidence in even the most standard of programs. ISOs, Non-Quals, PSUs, RSUs, ESPPs are pretty much the extent of most programs in the U.S. From a management perspective, these programs are a bit like computer worms or viruses. They have tentacles that stretch in securities law, employment law, corporate governance, valuation, accounting issues, monetary rules, and tax concerns. A simple change of employee venue can change any, and sometimes all, of these.

Some companies, like Twitter, have announced that their employees will be able to work “remotely forever.” Two months into the COVID-19 pandemic, most people interpreted “remote” to mean home. For most, “home” meant where you lived when the pandemic started. Then people started pointing out that they could move back to where they grew up around the country. This has led to people discussing moving to different countries. Now things are starting to get fun!

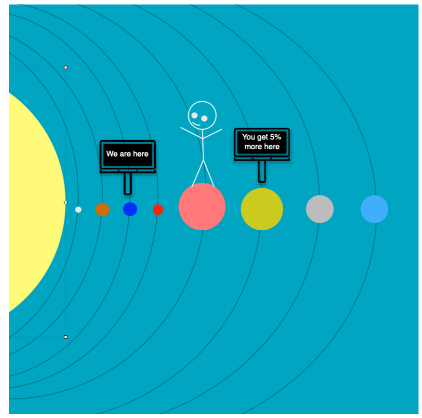
An employee moving to a new state usually means new taxation. But most compensation professionals don’t realize that if your company is not publicly-traded, a move to a new state likely means new securities laws. Public companies are covered by our nationwide SEC rules. Private companies have to follow unique “Blue Sky Laws’ that exist in the majority of states. These rules dictate disclosure information, shareholder rights, and much more. If your employees move home, you may find that the cost is more than it’s worth for their happiness.

Everything is magnified when someone moves to a new country. As it turns out, pretty much, every country has its laws and regulations! Who knew? Beyond immigration issues are monetary transfer issues, tax rules, works councils, and so much more. While your employee CAN work from anywhere, you may not want them to work from anywhere. The international component extends to a wide array of other elements of total rewards. Hopefully, we will get to those in later posts.

Now consider the time your employees spend working while they are in. multiple states. Many states require that time worked in the state is allocated to a portion of the employee income. For many, this rule extends to compensation from equity plans. Big consulting firms built system years ago to track the movement of their employees and determine the pay and tax consequences. The cost of creating and managing these typ0es of systems is not inconsequential. The average small or mid-sized firm will be hard-pressed to justify this cost. The process is also arcane and requires oversight and discipline.

And once again, I am running out of space so, I will pause here and look forward to my next post. The world outside the traditional office is a wonderful, productive, frustrating, and sometimes infuriating place. I'd love to hear your thoughts, questions, and concerns on the move to remote work.

The New Remote GEO Differential



It is time for a real change in pay. Like most real changes, this is not a change driven by desire. it is a change driven by necessity. Less than ten years ago, headlines crowed that working from home had failed at Yahoo and that everyone was being called back into traditional offices. A few months ago, working remotely was usually viewed as a privilege of the few who had proven themselves worthy. Today we have entire companies working from their living rooms and in-laws' places in the country. Things have changed and will never go back to the "old ways." Our practices must adapt quickly.

As soon as you have employees in disparate locations, you have issues with pay. Geographic differential (GEO Diff) rates are the "go-to" solution to solve this problem. These rates show the differences in pay between two or many locations. They allow us to confidently pay an engineer in Nashville, the home office location, less than an engineer in the new San Francisco office. Lower cost marketplaces result in lower base pay. It just makes sense to pay what the market requires. We apply the GEO Diff and move on.

We have moved to a world where individuals, instead of employers, can choose their location. This is no longer a privilege for the unique few but a reality for many successful businesses. If your employee chooses to move from Nashville to San Francisco, should they get the same increase as when the company dictated that location? It would seem that the correct answer is…no. But that breaks the base pay paradigm that we used for decades. How do we adapt?

Most companies will operate with a blend of “in-office” and remote employees. For this purpose, “in-office” is any location dictated by the company (even if it is an office at home). Remote is any location self-selected location (even if it is in a company location.) I am suggesting the creation of an entirely new GEO Diff. The “Remote GEO Diff.”

The remote GEO Diff is a manufactured differential from your home office pay. It is designed to reflect your pay philosophy and the value (or discount) you place on a job performed by employees at the location of their choice.

Example: Assume your home office location is exactly aligned with the national average for base pay. Your market data indicates that an Accountant 3 should be paid $100,000 at the 50th percentile, your targeted level.

1) Let’s say your company wants more people to work remotely. You may set your Remote GEO Diff to 5% above the home-office location. You would pay people this amount even if they worked in the home office city, but NOT in the

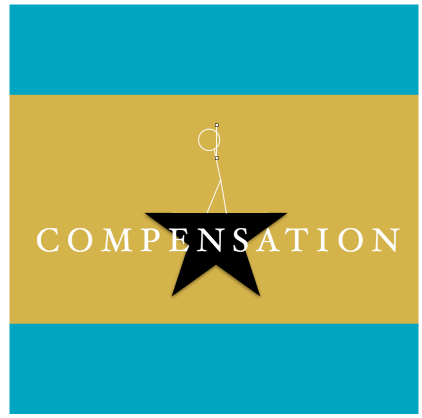
home office itself. If the person moved to San Francisco, you would also pay them based on the remote GEO Diff.

2) Your company offers amazing benefits and prefers people to work from the home office to reduce the complexity and costs of delivering these benefits. You may set your Remote GEO Diff to 10% below the home office rate (yes, even if the person works from home in the same city).

3) If you open a new office in San Francisco, you will still apply a traditional GEO Diff to ensure your mandated location pays competitively. The same would be true if you opened an office in a less expensive location.

The New Remote GEO Diff is a way for you to have remote employees, pay people consistently, and reflect your companies approach for total rewards and compensation philosophy. It is already happening at some companies, so your time to prepare is not before the 2020 compensation planning surge this coming Fall.

Performance Fatigue and Work Life Balance



On July 7, 2020, fellow Comp Café writer Margaret O'Hanlon wrote an article titled "What Does Burnout Have to Do with Compensation?." The article discussed the classic idea of workplace stressors and how compensation professionals can contribute to a better approach. It's a quick read. You should check it out. This article views the current workplace that of a performer. It is less about compensation, but just as critical for compensation professionals working remotely.

Try to remember the ancient history of two or three years ago when video calls, not viruses, were novel. Many of us chose to not have our webcams on. Lots of people disabled their cameras entirely. The majority of humans do not enjoy being in the spotlight. Most people don't even want to be on the stage. For them, the new world of constant video calls is simply exhausting.

Jobs that are truly about "high performance" are everywhere. Surgeons, professional athletes, teachers, and Broadway performers are just a few of the jobs that require being "on" when they do the bulk of their work. Ask any of these professionals, and they will tell you that they are exhausted after a few hours. It takes about twice the time of a performance to both prepare and recover. A two or three-hour performance eats up the full workday.

Performing is intense work, even for those born to do it. For the average introvert, wallflower, or heads down excel jockey; performing can be caustic. The average compensation professional did not sign up to be "watched" or have to "smile for the camera." It feels like the past 120 days have taken a year or two.

One "tentpoles" of the total rewards profession is retention. Very few performers can continue performing into their later years. Physical, mental, and emotional fatigue quickly wear down all but a few. When people feel used-up, they have no desire to be retained. As Margaret mentioned in her article, classic burnout is real, and we can help contribute to fixing it. Performance fatigue is also real, and if we are going to retain our teams, fixing it requires adjusting our recently adjusted version of work.

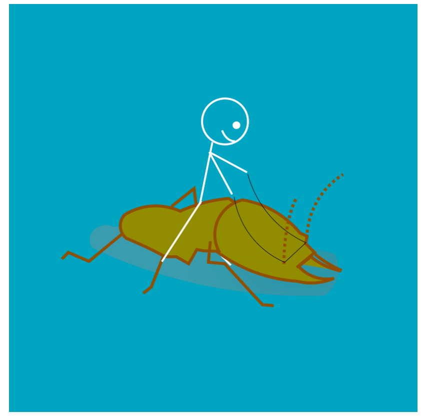
5 Steps to getting started

1. Do not require people to have their camera's on. I know you like seeing people. I know it can be weird having a meeting when it feels like you are speaking to an empty computer screen. But you can and must adapt.
2. There is no need for every meeting to be a video call. Many of us saw each other in person only occasionally before we began working remotely. We communicated via phones quite well.

3. Let people "hide in the back of the room." Even when video is needed, let people be there but do not require everyone to chime in. Many people strategically chose the chair the farthest from the action in conference rooms. Let them do the same on video calls.
4. Stop assuming everyone is working the same hours as you. For now, and maybe forever, the workday is no longer a group of 8-10 consecutive hours. You need to figure out what time of day is "performance time" and what time of day is "I will leave people alone" time.
5. Suggest that they get an external webcam and set it up several feet away from their desk. Not having their face fill the entire screen can reduce performance stress. The distant camera also allows them to move in and out of frame on longer calls. (someone may actually want to blow their nose in peace.)

Performance fatigue is real. The fatigue you are feeling is real. Give yourself a break. Give others a literal break and rebalance the work-life balance now that they seem to be increasingly merging into the same combined work-live-school-eat environment.

TIME FOR A TERMITE INSPECTION!



I live in a house that is more than 100 years old. It was maintained well over the years, but like all old homes, it needs regular maintenance. My neighborhood is filled with many homes built around the same time, and a few homes built very recently. A few months ago, a house a few blocks away just disappeared. One day I walked by, and it was sitting there, looking resplendent in its new coat of paint, with a "for sale" sign out front. The next week I walked by, and there was only an empty lot. It was jarring.

If you have ever bought a home, you have probably experienced the anxiety of a termite inspection. Oddly, this is something that we seldom do when we have been living in a home for several years. It's as if we believe that termites will respect our ownership and focus only on neighboring houses. This attitude usually prevails right up to the point where something crumbles, or the insects start crawling out of the woodwork. In the case of my neighborhood's missing house, the inspection showed that the house was mainly made of paint. The termites had eaten everything important, and there was no way to save the structure.

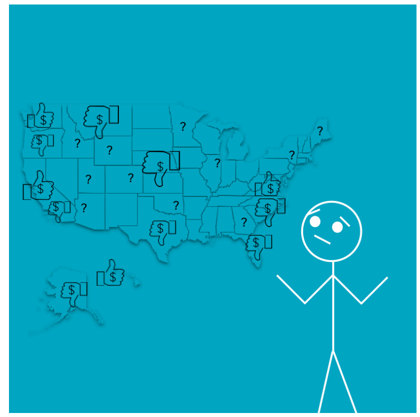
Every compensation professional who has started a position at a new company has experienced their version of a termite inspection. You get your bearings and immediately dig into everything the prior person did or did not do. You make a list of trouble spots and determine if you can solve the issues with a little bit of targeted work or a bigger process. Sometimes all you find is a nice paint job. Maybe it's a well-written compensation philosophy or handbook, but no real foundation or structure to support the pretty documents.

There is never a great time to do a termite inspection. But it is far better to do one before the issue becomes unfixable. Like a long-time homeowner, we seem to think that our presence alone is enough to ward off the destructive pests. In reality, the pests do not care if you or I exist. They are only focused on what they need. Our objectives do not factor into their lives. Without regular inspections, we may find we live in a house made of paint.

Luckily, we can build these inspections into our regular compensation calendar. We can even do partial inspections on different elements of pay at other times of the year. The reason for this post now, while you are swamped in COVID-19 response and recovery, is simple. If you look closely, right now, you may see the early signs of an infestation. Maybe your pay programs are not flexing well to remote work. Perhaps your legacy equity grants are no longer useful, or your grant leveling methodology has been exposed as inefficient or ineffective. And, of course, there are the more obvious issues like short-term and sales incentive plans.

Now is the time to evaluate your programs like a new homeowner. The "new normal" is likely to be newer than planned and far less normal than desired. Getting ahead of things now may prevent having the house disappear unexpectedly in the future.

Mark Zuckerberg is Wrong About Remote Pay



It has always been inevitable. Remote work was going to become a major piece of work at many companies. The current situation has just pushed many into the future sooner than they had planned. There is a lot to unpack with a remote workforce (perhaps something for a future series of posts). For right now, let's talk about compensation. A couple of weeks ago, Mark Zuckerberg not only announced that many employees would be able to work remotely, but they should also expect their pay to be adjusted according to their remote location. GitLab uses a formula to adjust the pay of their workers according to their remote location. A recent article says Canadian employees should expect the same. My question is: Why should this be the case?

The prevailing thought seems to be that we pay people not based on what they do or how they do it. Instead, we pay people based on how much it costs them to live. This is the only conclusion one can reach from pay adjustments because a remote worker moves from somewhere pricey to somewhere inexpensive. Based on this stream of thought, someone might think you should pay those who save and scrimp less than those who spend and waste.

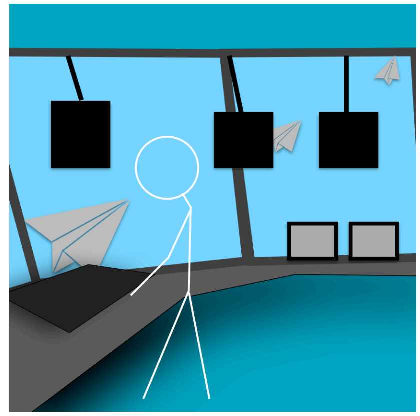
Do you currently pay people who live farther away from headquarters less, simply because they wanted to save a little money on housing? Companies believe that people will only move to cheaper locales, allowing the company to save some money on pay. If they work remotely, would you also adjust their pay upward if they move from Queens to Manhattan or Gilroy to Palo Alto (please take a moment to imagine your own proximate locations with lower and higher costs)?

Let's imagine a different world. This is a world where three individuals deliver the same quality and work productivity. Let's call them Avery, Blair, and Cameron. They all live on the same block, just a mile from the home office, but they work remotely. Each year they receive the highest performance rating offered by the company. Every year they hit all of their goals. In year three, Blair moves 60 miles away to a rural town where the cost of living is lower, and schools are better. How would you adjust their pay?

Does Blair get a pay cut? Do they stop getting raises at the same rate as the other two? What is Avery then moves to the most expensive nearby suburb. Their partner is the CEO of a publicly-traded company and covers all the bills. Should Avery be paid more? Less??? No Change? Do you need to learn first if Avery is a male or female? Do you need to know if they really “need” a raise? Is there any rational way we can support this type of system? No. No, there is not.

It isn’t often that compensation professionals get to truly change the way businesses do business. This is one of those times. Some or all of your business will be challenged by this issue soon, perhaps immediately. It would be best if you got to work documenting the pros and cons and your recommended approach to addressing all of them. We all need to define the best path(s) forward on this issue. If we wait for some non-compensation person to “lead” and create the best practice for us, we will surely regret it in the future.

Compensation Air Traffic Control



It has been three months, so most of our business has experienced an upheaval of historic proportions. During that period, you may have been challenged with an array of uncomfortable tasks. You may have been involved in laying friends off, furloughing colleagues, cutting pay for executives, putting holds on merit increases, temporarily modifying incentive plans, marketing pricing for newly remote positions, all while working from a dining room table. Also, you may be teaching math and cooking more food than an average holiday season. And now, just as summer approaches, many of us are planning to return our staff to some version of the past. The swirl of tasks and requests can make a compensation professional feel more like they work in air traffic control.

Each action taken in the past three months is like an airplane that was sent into the sky. Fuel is now running low and the planes need to land. You are probably sitting at your desk (or sofa) trying to determine which things need to be brought home first. You only have a few runways, and each task requires new processes, rules, and ongoing communications. You may need to choose between finding the best solution to fix executive pay and finding a smooth transition to paying people returning to work. There is no rule book.

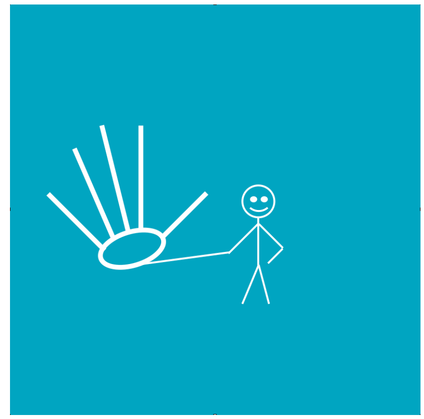
Every task may not be able to get the same attention and careful corrections. Some may need to be allowed to land independently, while others may require you to put foam on the runway to soften their landing. At the other end of these transitions, every person is likely to feel that their situation is a priority. They aren't wrong. Some may feel like they are the most important. And in today's world, several of them may also be correct. Similar to when we sat down a few months ago and figured out a new definition for "essential employee," we must now determine who to handle first when there are several equally important tasks.

The key to success is to schedule things to come in for a landing in a sequence. No matter how much someone insists, two planes cannot land on the same runway simultaneously. Hold your ground if you see this happening. The things that run out of fuel must land first. This may be adjusting pay for a job family that has become more critical during this period. It may mean waiting to communicate an important executive plan until your broad-based program has been brought back to speed. The critical thing to remember is that you may be the only person at your company who has the expertise to make these decisions.

Air traffic control is not for the faint of heart. People's lives are literally in your hands. Compensation can often seem pedestrian, but in times like this, your job may be similar. You may be the difference between your company or your staff successfully navigating this transition. It's time to bring them in for a landing. Who else knows how to do that but you?

I have been collecting information on and working with many companies who are making this transition. The issues are similar, but below the surface, the solutions are often unique. Use the comment section to share your thoughts or questions. I am sure other professionals are willing to provide helpful advice.

5 Pay Predictions Post-COVID



Like many people, I have not been impressed by the old normal, and therefore I am not looking forward to the new normal. If normal worked so well, pay would not be a constant thorn in the side of companies and their employees. If normal was so great, wouldn't compensation philosophies state that they were designed to support hiring average talent to deliver average results? Normal is not a company leaders' objective. However, I am confident that most companies will return to a slightly modified version of normal, and I am excited by the ambitious minority who will find that it is time to break the mold.

Here are 5 predictions for pay in a post-COVID world.

1. **The continuation of remote work will lead to new ways to determine compensation for a position.**

Remote work isn't going away. The best companies will not only adapt to this reality; they will embrace and capitalize on it. The best companies will plan for a new world where mid-level managers are better (and paid accordingly). They will plan for a world where highly talented professionals can choose where they are most productive, whether in a social office environment or a remote office location. Training will change, and performance management will adjust with it. Within a few years, having 25-75% of your staff in the office only occasionally will become commonplace.

2. **Equity will return to its roots as a unifier and broad-based leveling agent.**

Equity compensation began its popularity as a tool designed to get as many people as possible aligned with the company's long-term mission. It was supposed to work as a unifying force to bring people together to fight the common challenge, enemy, or soulless giant company. I believe this ethos will return to plans at the most effective companies.

3. **There will be a rethinking of the concept of "long-term" incentive plans.**

Long-term once meant "career." Later it meant ten years. Over the 15 years, it has crystallized to mean anything that is more than a year. Great companies are going to rediscover the value of truly long-term, committed employees. Incentive plans will respect this value in both design and potential value.

4. There will be a rethinking of the gig economy.

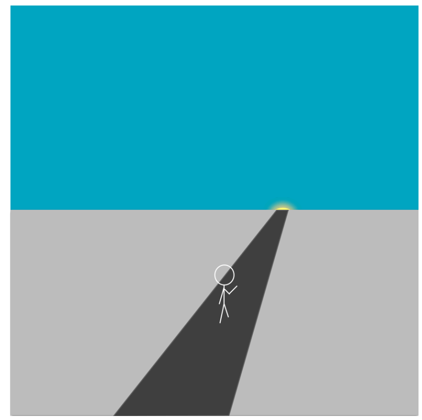
The gig economy has become a bit of a murky mess. For some, it means a full-time job with none of the security. For some, it means sporadic work that barely pays the bills. For others, it kind of works. I can see workplaces paying and treating gig workers more like highly valued consultants. Engagements may be limited but pay will better reflect the gig-based individual or team's talent and deliverables. This type of work will augment "normal" staff instead of replacing it.

5. One-size-fits-all will be replaced by a range of sizes that correctly fit more people.

Many compensation programs have been designed around the difficulty of managing complex programs using antiquated tools. Better tools already exist. The best companies will expand their use of these tools to build better "menus" of pay programs. Similar people with different motivations may not be required to have the same incentive plan structure (even if they have the same metrics and goals.) Employee choice will become increasingly popular as staff locations become more flexible, and compensation professionals better understand things like behavioral economics, temporal aspects of pay, and the psychology of motivation. I don't expect the wild west, but the "you get what we serve" mentality will become less acceptable.

I can go on, but I hope you will add your wherever you read this. Now is the time for big ideas. Very soon will be the time for executing on those ideas. The old normal wasn't that impressive. A new version of it won't inspire many. Taking advantage of the chance for real change will separate the companies who become the aspirations of others for the next decade, from those who become examples of missed opportunities.

The Time is Now. Compensation Pros Must Rise to the Challenge.



Change is hard. While it is inevitable, we prefer if it happens while we aren't paying attention. It's kind of like your hair during a more than 2-month lockdown. On day 5, your hair looks like your hair. On day 30, your hair looks like a long version of your hair. On day 70, your hair looks like someone dropped a prop wig on your head and ran away. The change happened, but gradually. For at least a few decades, this has been the way of things in the world of compensation. But now is the time for something new.

Our biggest changes are often those that are forced on us. Few of us thought that our coworkers would see the inside of each other's houses every day, but here we are, living the video-conference dream. Most of us thought summer vacation would be a long three-months, but here we are experiencing some weird version of a six-month vacation, and we're mostly surviving it pretty well. When change is thrust upon us, we can accomplish amazing things, things that seemed impossible only moments before. Now is just such a time for compensation professionals.

The current crisis has exposed the dusty corners of compensation practices.

When professionals cannot survive for even a few weeks without a paycheck, we have created a system that is hard to defend when things return to whatever we will call normal in the future.

When the vast majority of companies have incentive programs that look very similar but prospects that look far different, we must consider whether "market data" truly reflects our markets.

Our pay practices have leaned heavily on history, and next year's account will be now. Will we truly want to base our pay decisions on what we had to do to navigate this period? What will we say when challenged by those making the decisions and those whose lives are inextricably tied to those decisions?

We seldom see the impact of change as quickly as we see the motivation for it. We must start figuring out what that change will look like, even before we have a clear picture of the road ahead. Take a good hard look at your pay programs. (Go ahead, I'll wait. I'm just sitting in my home office.) Did your approach to compensation properly differentiate those essential to either your day-to-day existence or your long-term future? Do your incentive plans promote the decisions, behaviors, and actions that truly define your success? Have you noticed if your recognition program was well suited for recognizing people?

While we may not know what the world beyond the horizon holds, we can be certain it will not be exactly like the past. Our compensation planning must start today if we are going to be ready for whatever is ahead. Now is the time to ask yourself what you will do if your budget is 20% less. Now is the time to make your argument for where it should be 20% more. Now is the time to determine where your adherence to market practices has made your company better and where it may have hobbled your ability to move forward.

We are not presented with many truly transformative opportunities moments in our careers. I can think of only two or three in my career. But proactivity is the key to success. Those who leaped ahead of the pack were always those who saw the opportunity and drove the change. Your time is now if you are motivated to make it happen.

THE INTENT TO INCENT IS OUR SUN

Today's post is one of the simplest and most important reminders I can share. Incentive plans are one of the most complex aspects of pay and rewards. We can get caught up in trends, technical details, behavioral economics, psychology, and communications. All of these orbits around the most important element of any effective incentive plan. Our sun, if you will, is the overarching power of WHY.

If you know exactly why you have a specific incentive plan, then you can actually design, communicate, manage, and administrate that program correctly. The plan's intent must be strong enough to have enough gravitational pull to keep every other component in its place. Defining this intent requires regular questions and very thoughtful listening.

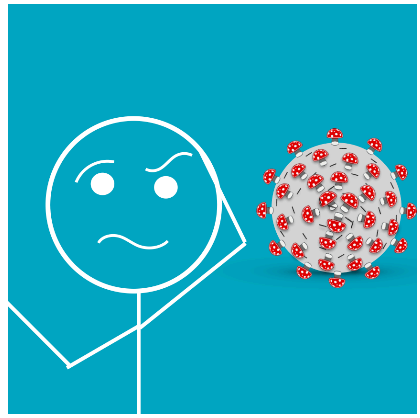
The intent of the plan must also shine bright enough to light up everything else no matter the location or time of year. A well-defined intent serves as the theme of every communication. It drives every modification and provides a defense for any flaw. The purpose of an incentive plan can only be absolutely clear if we avoid assumptions.

Focusing on a plan's intent makes it easy to ask questions about things that may even be complicated or unfamiliar to you. Certain KPI, metrics, and goals may be well outside your scope of expertise. That doesn't mean you can accept or ignore their inclusion in a plan. Ask for clarity about the why and how each detail, or requested feature, supports the plan's agreed-upon intention.

If the answers to your questions seem dubious or lack confidence or explanation, push back. In the end, you are the compensation professional, and it is your expertise that is required to build and deliver the solution. When a software engineer asks for details on a key feature, they will often push back if the benefit does not seem to warrant the effort. They will push back if building the feature will cause them to delay other features. Mostly, they will push back if the feature does not seem to support the software's primary goal.

This type of questioning and editing is not always expected from a compensation professional, but it as much our job as it is the software engineers. When each of us builds a solution founded on a specific intention, the result is clearer to the user, easier to maintain, and more efficient to design and maintain. When you design your next incentive plan, spend as much time as needed to get everyone to agree on the intent. With this simple and critical component, you can deliver an incentive plan that lights the way and serves to spur your future growth.

6 Ways Incentive Plans are Like COVID-19 Planning



Comparing incentive plans to a pandemic response seems like a stretch, but great incentive plans are all about stretching people's expectations, stretching company performance, and stretching your compensation budget. The list is long.

We have spent a couple of months cooped up in our home offices/home schools/home restaurants/home newsrooms, and home-homes. The weeks inside have given me the time to realize the lessons a pandemic team can learn from the perspective of incentive plan design and execution.

If you don't plan early, great results will depend on hope and luck.

If we only knew then what we know now. It is the lament of the late riser, the poor planner, and the grasshopper of Aesop's Fables. Every good incentive compensation professional knows that the best time to prepare for next year is while you are working on this year. Why would anyone be the person who waits until the last moment to begin designing their solution for the future?

Understand your intent before you create your solution.
Every good incentive plan project starts with a simple question, "what are we trying to accomplish?" The best incentive plans have a cascade of prioritized goals. Some are critical, others nice to have. The goal is to make sure the highest priorities are met, and the biggest risks are minimized. When intentions conflict without clear direction, the result can be a total failure of the plan.

It's a bad idea to start acting without testing.
This is where many incentive compensation people fall short of their goals. Testing can be challenging and time-consuming. It is never perfect. A lack of testing is a sign that you aren't worried about the plan working. Your best and brightest will see through this almost instantly because they will run their own tests. When we take the time to build dynamic models and involve everyone with a stake, our solutions are more likely to work and far more likely to be supported.

People will want to get out if the plan bad or they feel stuck.
The goal of any incentive plan is to provide motivation and support retention through a specific time horizon. Plans that cannot adjust to changing conditions or incorrectly calibrated will neither motivate nor retain. In many cases, they will do the opposite. When individuals feel like a plan was never meant to succeed, they will run to someplace with a better solution. The only people you will keep are those who

are unwilling to make changes of any kind (and they don't need an incentive plan at all.)

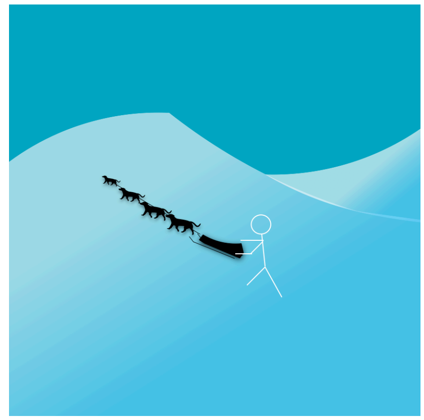
A little miscommunication goes a long way.
In a lack of information, people will use their imagination. If you don't proactively over-communicate, your message will be easily overrun by rumors and innuendo that fit people's preconceived narrative. Is there a feeling that the company has set prior goals to be unreachable? Well, these goals are also unattainable unless you explain how they aren't.

Transparency works. In the end, people will figure what happened.

In the end, nearly all people will figure when they have been tricked. If your end game is to take off before this happens, then any solution will do. If your goal is to be involved for the long haul, anything you do to hide real projections, cover-up the intent of the plan, or set unrealistic goals will be discovered. Your best plan of attack is to provide enough transparency for people to make informed decisions.

Getting in front of incentive plan solutions requires doing a bit of work when you may otherwise wish you were recovering from first quarter compensation tsunamis. This year may give you a unique opportunity to plan for your next incentive plans proactively. Or, you may barely have the time to teach some multiplication, act as your own IT person, perform as a personal chef, and become your own advice nurse. It is odd times, indeed. Stay well and reach out if you need help.

Equity Compensation is Like The Iditarod



I hope everyone reading this is well. These have been odd times, but hopefully, you have found new ways to use those frozen foods than you bought but never expected to eat. Speaking of frozen things, let's talk about equity compensation and The Iditarod Trail Sled Dog Race. Believe it or not, there is more here than just another metaphor.

Like a well-designed equity compensation plan, The Iditarod is long and not for the faint of heart. It requires planning, training, commitment, and more than a little bit of luck. It also requires a team that trusts each other and works together. All of these things can also be said of a successful equity compensation program.

Competitors train year-round for the event. Many teams scout the trail in advance. The mushers and their canine teammates learn to communicate by shorthand. Every member of the team depends on every other. They each have a role and respect the roles played by others. Just planning to compete is a commitment, and only those in top condition start the race at all. Once the race has begun is where most of us start paying attention.

Equity compensation is also a long-term commitment. The companies and professionals who make the most of that long-term commitment are at the top of their game. People often ask how to split up Founders Stock. My general advice is to start with an even split whenever possible. Founders tend to trade back and forth regarding who is the most important during any month or year. Without a clear and absolute "lead" founder, anything other than an equal split becomes messy…fast. But most of this is done before most people start paying attention.

Granting equity can confound many founders and investors. It can often seem like they give far more than the food required to feed the dogs and keep them happy and motivated to pull the sled. Many are surprised to learn that they, and not their employees, are the dogs. They lead the sled. The sled goes nowhere unless they pull. The lead dog must be strong and smart. They were bred for this.

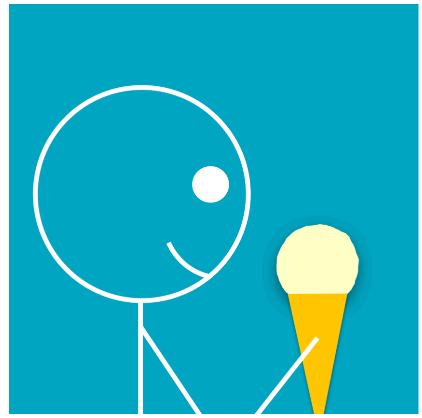
Employees are oddly more like the person on the sled. This is where equity compensation is critically important. You see, a dog sled is not like Santa's sled. The musher doesn't just sit and go for a ride. They must be an active participant for the entire race.

Like the musher, they must provide food and feed the dogs. This may in the form of innovative products, incredible execution of plans, or staying hyper-aware of what is going on from their unique perspective. But, most importantly, equity is there for the times there are the hills. And there are always hills.

When a sled team climbs a hill, the musher is often off the sled running or even pushing the sled to the top. The teams that do this well have a lower chance of injuring or exhausting their dogs. When the path is flat or on a downslope, the musher can ride and catch their breath.

Equity will always seem like it's too much when the path is easy. The key is whether it can get your staff off the sled to help push during the challenging climbs. If it does this, you have a chance, with a little luck, of accomplishing your goals. Without equity, you are likely to have a group of people sitting on the sled, asking why it's going so slow.

It Was Never Like Vanilla Ice Cream



When I tell someone that I am a compensation consultant, it is inevitably followed by, "You need to talk to my boss." This is true when people are hourly or salaried. It is true whether they barely make a living wage or are part of the "1%". People don't love their compensation. It isn't like vanilla ice cream.

Vanilla ice cream is yummy (yes, that is the scientific term). It is nearly universally loved. It may not be everyone's favorite flavor, but pretty much anyone is happier when they are eating it. This is true when the ice cream is that weird unmeltable stuff inside a cheap ice cream sandwich, handmade gelato at a Michelin starred restaurant, or a soft-serve cone served out of a truck parked on the side of the road. It is hard to find someone that is genuinely dissatisfied with vanilla ice cream.

Compensation? Not so much. Compensation professionals tend to write this off as a product of "people are never satisfied." But vanilla ice cream would seem to crush this argument. Someone is always complaining, never satisfied, compensation ingrates are happier when they eat vanilla ice cream. It’s not that they are “never satisfied.” It’s that they are ***never satisfied with their pay.***

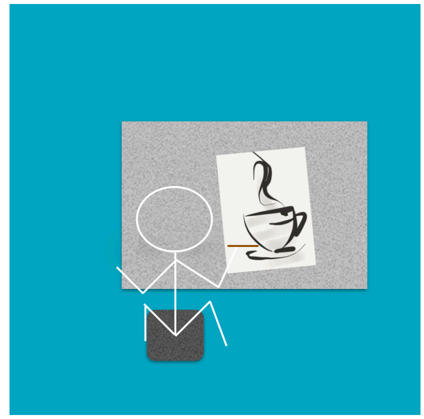
I often wonder if some company has figured out the secret of making their pay as pleasant as even the lamest vanilla ice cream. Is it possible? If so, what would it take? Would 15% more base pay make the difference? 50% more? We know that tons of money in incentive value doesn’t work. Tons of people have amazing incentive pay packages, but dissatisfaction remains an issue.

You have to assume that the first attempts at vanilla ice cream were failures. If you have ever tried to make it yourself, you know that it requires just the right mix of dairy, sweetness, vanilla, cold, and churning to make a good batch. There is no way this happens without a ton of trial and error.

Although people have been paid for a very long time, our current methods of paying people are not all that old. Some companies continue to work at creating the perfect recipe, but a far greater number seems to assume that satisfaction is unachievable. What other excuses can there be for doing something again and again in a way that does not make people happier? If better is possible, then it should be our primary goal. If not, then why are any of us doing this?

I’d love to hear about your successful and not so successful attempts to do something truly better with your pay programs. I am sure other readers would also be fascinated to learn about approaches that have accomplished what so many believe to be impossible.

EQUITY COMPENSATION AND THE JAPANESE ART OF SUMI-E



The Japanese term “sumi” means black ink. The “e” refers to painting. This is one of the most icon\ic forms of art in Japan. Simple ink on handmade paper. The goal is to communicate as much as possible with as few strokes as possible. Each stroke is critical. Each is also final. You must fully envision your finished piece before you begin to paint. Then you must trust each action and paint with confidence. It is not easy to master. The masters are few and far between. Equity compensation requires much of the same preparation, confidence, and custom made tools.

In perfect circumstances, Sumi-e is incredibly difficult. There is no second-guessing. Even the slightest timidity reflects in the final product. This may be one reason we have never heard of one of these paintings being made in the open bed of a pickup truck bouncing along an unpaved country road. Unfortunately, unlike the Sumi-e master, compensation professionals do not get to wait for the perfect conditions.

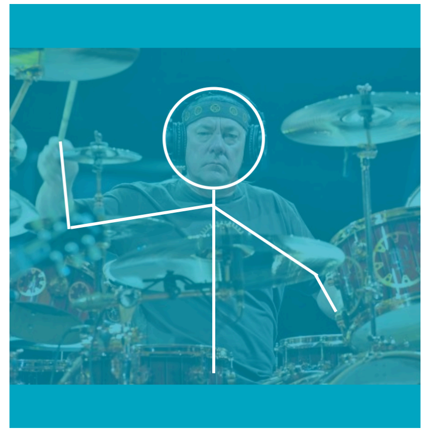
The Dow Jones Industrial Average is currently down more than 30% from its all-time high. And its all-time high was barely more than a month ago. On several days in the past few weeks, we have seen drops that are more dramatic than virtually any day in the last 100 years. Obviously, this is not the ideal time to make equity compensation decisions. And yet, we must make decisions and take action if we are going to keep moving forward.

Luckily although our final product must be as simple and final as black-ink art, we are not bound to the same Zen-like approach to the rules of our art. This moment calls for the same confidence and bold decisions, but perhaps on a smaller scale. Instead of trying to get a perfect masterpiece completed, it may be good to practice painting basic lines. Instead of a huge painting, it may be time for a few smaller pieces.

Instead of trying to create a program that will work for the next several years, you may want to consider a few tweaks that will get you through the next few months. Instead of using all of the equity you have budgeted in Spring-time grants, consider granting equity on a quarterly basis for the rest of the year. Instead of using that cool new plan, you paid some consultant tons of time and money to create, perhaps keep things simple for a while, at least until the dust settles.

The decisions you make now may still have an impact ten years from now. It is now obvious that we could not have accurately predicted things ten months in advance last year. Give yourself a break, and don't hold yourself to accurately guessing the next ten years. Over the next several weeks, many companies will need to make uncomfortable decisions regarding their equity compensation programs and the staff, which benefits from them. Keeping those decisions smaller and simpler is the right way to look like a master in the future.

Let Them Hear It Again



This is just a short reminder of the power of praise.

In January 2020, Neil Peart passed away. If you know who he is, you KNOW who he is. If you don't know who he is, his legend may be hard to explain (but I will try.) Mr. Peart was an artist. He was also a beast. He was their drummer and lyricist for the band Rush. He is an icon to drummers because his skill and talent combined to make him one of the best drummers of all time. We knew this. He knew this. And that is the origin of this post during troubled times.

After his passing, people shared his music and old interviews. There were also a couple of pieces written by Neil himself (and author of six non-fiction books). One, in particular, caught my eye. "Marching to The Beat of a Different Drum." In this self-written piece, Neil discussed a single drum solo that took him a career to create. The following quote resonated with me.

"Yet as I developed that solo through months of rehearsals and even into the tour, I was a little perplexed that I never received any feedback from band-mates or crew members. Sometimes people seem to take the attitude, "Aw, he already knows he's good. He doesn't need to hear it again."

But we do, don't we?

Especially when we're pushing ourselves way out on a limb like that."

This is just a simple reminder of the power of praise and the need to communicate, recommunicate, and overcommunicate.

Everywhere out there, people are working in ways they have never done before. They should all be congratulated. People are navigating challenges that they have never seen before. They should all be congratulated. There are also people out there who have always been doing outstanding work. Often these individuals know they are among the top of their peers. Right now, is an important time to recognize their efforts and abilities.

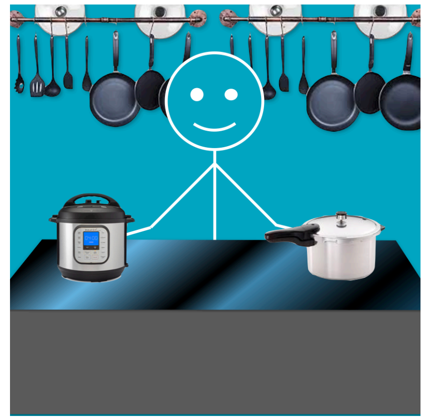
Start with words and support them with compensation. Many companies are faced with austerity measures right now. Do not let those measures stop you from doing something special for the most special at your company. If an individual has been amazing in the past and currently continues to be amazing, you can probably assume they will be amazing for the foreseeable future.

We have someone where we may be thinking, "Aw, he already knows he's good. He doesn't need to hear it again." But they do. They really do.

Link to Neil Peart's article

http://www.2112.net/powerwindows/transcripts/20150910louder.htm

Equity Instant Pot or Pressure Cooker?



Equity compensation can be trickier than many in our "set it and forget it" society look for in an incentive tool. Executed well, the results are sublime. But use too much or too little of something, and the result may be far worse than you can imagine. Old school equity plans can be viewed as a pressure cooker. More modern designs are more like an Instant Pot. The differences are critical when markets are willy-nilly, and compensation plans are under extreme pressure to perform.

Pressure cookers usually work well in your kitchen or even camping. They are fairly inexpensive and can be easily stored with your other cooking tools, but the risk of failure is high. The stories about pressure cookers coating kitchens in exploding stew are legendary. Even small miscalculations can result in your pot becoming a sprinkler head of hot Chicken Chili Verde. (Yes, a specific example because it happened to me.) If you have never had beef short-ribs or pulled chicken prepared in a pressure cooker, you have never really eaten well.

Instant Pots require a more refined environment. You need space on the counter that is near to an electric outlet. You need a place to store the machine when it's not in use (and it usually isn't in use). The resulting product is great, and the risk of failure is relatively low. While the wrong mix of ingredients may still deliver a poor meal, it is unlikely you will find soup on the ceiling in a house with an Instant Pot.

Like pressure cookers, basic equity compensation plans have been around longer than you. They have generally worked well, and most people have not experienced any troubles. When used with care in controlled environments, they have a high probability of providing predictable results. In some instances, they can even deliver the sublime. If you have never chatted with a mid-level professional who became a millionaire from startup Incentive Stock Options, you should give it a try!

But we know so much more today than we did 30+ years when stock options started joining the ranks of commonly used compensation elements. In that period, we have realized that a pressure release valve is important when the market goes crazy. We have learned that an auto-shutoff function can save the day when things move in ex-expected directions. We have learned that a bit of better engineering and space on our counter can worth the cost and occasional inconvenience. If you have never spoken to CEO or compensation professional, who has had to explain plan failure to their Board, give it a try!

Over the next several weeks, I will address more issues related to equity in volatile markets. I will cover it when it's a good time to consider an option or RSU exchange. How to value and level grants sizes when your stock price has moved more than your models predicted. As I write this, they are announcing the end to the 11-year bull market that began in 2009. You and I will have a TON to talk about over the next few months…

Planning for an Equity Compensation Pandemic

I hope this post finds you well and with three gallons of hand sanitizer stocked up in your pantry. Each time a potential pandemic raises its head, we work to ensure that those we care about will be well in every possible scenario. At first, the unknowns throw us off-kilter. Then we put together plans for the worst and the best with the ability to execute on short notice.

This process creates some order, reduces some of the anxiety and prepares us to be among those who tend to weather any challenge. You may have noticed that as the news about the novel coronavirus, COVID-19, has made it to the headlines, stock prices have also made some news. While most of the recent volatility is due to the uncertainty of how the virus will impact the world, at least a little of it is due to years of a bull market that has given investors the ability to cash out with impressive gains.

Your employees may not have the luxury of cashing out their equity compensation. If awards and grants are unvested, your employees have no flexibility. Even if stock options are vested, many employees may not have the money to exercise them. Even if you are a public company, your stock price may have been battered enough that exercising options is not a great option. It's time to prepare for the next equity Compensation Pandemic.

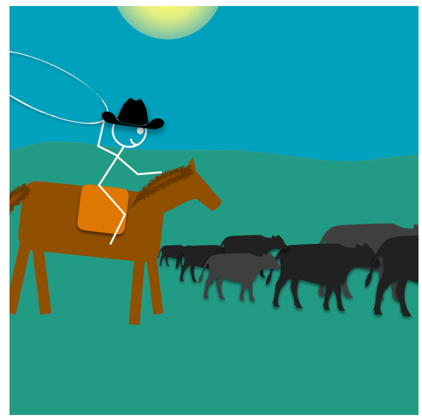
Over my more than 25 years doing this stuff, I have seen many waves of these pandemics. The easy repricings of the mid-1990s, the vaporization of equity value at the end of the dot-com era, the stock option exchanges triggered by wars, financial collapses, and industry upheaval. The one commonality among the companies that navigated these the best was that they were all able to make their decisions to act early and decisively.

Four years ago, I wrote about my Equity Compensation Triage Assessment process. The rumor was that stock options were on their death bed. This tool is a starting point for determining your potential paths to success. In the years since that article, we haven't had a wave of equity compensation correction programs. The market has been strong. Equity has been relatively stable. The most significant issues have been with pre-IPO companies challenged with long waits for a transaction and volatile stock prices. The time to get your ducks in a row is upon us.

Is an Option for RSU exchange a possible path for your future? How much would it cost to cash out equity for lower-level employees? Do your employees know the potential impact of a down-market on their ESPP shares? How about those RSUs that you so communicated as a "dollar value?" What will happen if that value is half or even less? Where are your biggest risks? Who has the most concentrated positions of outstanding equity, and should they be speaking to a financial advisor? What is the potential impact on your burn rate if your price drops?

So many questions. For many in the compensation world, this will be an entirely new experience. I hope to hear from some of you, and perhaps I can follow this post with some specifically requested information. Let me know how you are preparing for the pandemic and what supplies may be useful.

If You Want Employees to Bet the Ranch, Hire Ranchers



I work with an amazing array of companies. They run from tiny to huge, from established to start-up, and from conservative to wild and innovative. As you may have guessed, each of them has some unique roles that must be populated with insane talent if the company is going to succeed. This post is not about those people.

This post is about the level 3 accountant, the entry-level engineer, the customer service representative, and every other position that is basically seen as ubiquitous across most companies. While the job descriptions and market matches for these people are very similar regardless of the employer, the people themselves very widely.

I am not talking about diversity or individuality. I am referring to that internal element that makes someone a good match for one company and a poor match for the company across the street. Each company has a culture or personality that must resonate with its employees. This is more than a compensation or communication challenge. It is the fundamental challenge of attracting, engaging, retaining, and motivating people who will buy into your path.

I was recently explaining a new incentive plan to an executive. The plan is designed to reflect the company's aggressive growth goals and the real, and specific challenges it faces in its quest for success. After being walked through the details and being shown a couple of examples, the executive said "How will I explain this? We are asking people to bet the ranch on the company."

My response? "Hire more ranchers."

The company hired some amazingly talented people who were used to getting "safe money" for "safe results." These are people who have all of the right skills and talents to match the job described on paper. But they weren't people who were accustomed to "betting the ranch."

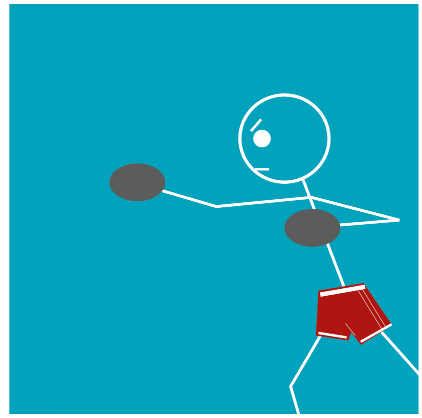
I have a unique perspective on this topic. My wife's family are multi-generational cattle ranchers. They bet the ranch every single day. They bet on themselves, on their land, on their herd, crop, the weather, the market and so much more. They start work before sunrise and work even when it is freezing cold, or summer hot. They work when they are sick. They put their livestock's well-being above their own. In short, they are the kind of people this company needed, but they have far different skills and talents.

People like these exist in every profession. Their pay should reflect their willingness to bet. Their companies should match their ethos. Understanding this when you are creating your company's compensation programs is essential. Communicating the purpose of the program design to your hiring managers and talent acquisition teams is just as critical.

If your company takes fewer risks and provides a more stable outlook, the ranchers of their profession are not the right people for you. Pay is never enough to change someone's fundamental profile. As compensation experts, we must recognize that more or different is not always the right answer. Sometimes we must sit down as a team and evaluate whether our company, our plans, and our targeted prospective employees are a good fit.

Ranchers have no problem better the ranch. It's just how they are built. In the same respect asking a rancher to stay safely indoors and watch the world through a window is a sure path to failure. What kind of company do you work for, and is that reflected in your pay programs and hiring?

If Data Says Punch Your Mom in the Face



Most of us have a relatively decent sense of right from wrong and good from bad. Imagine your pay data is like a self-improvement book. You have been reading the book for a bit, and it is starting to ring true. You turn to page 37 to see The Chapter 3 title that says: "Step 3, Punch Your Mom in the Face." You'd probably put the book down for good.

In cases where there is a bright line between good and evil, we hope that everyone will choose the right path. When it comes to pay trends and market data, the line is not as bright, nor the negative consequences as personal. Perhaps that is why I have seen so many cases of "we just did what the data said." Sometimes data is bad. Sometimes it is wrong. Often, we can just feel how wrong it is. Other times it only becomes noticeable when someone else points it out.

Most compensation professionals are pretty good at navigating the obvious problems. We quickly find better data, or use our experience to fill the gap in a more useful way. But, when the issue is less obvious, or when we have missed the problem altogether, making a correction can prove to be very challenging.

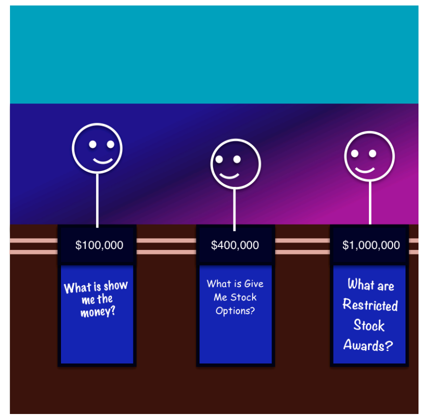
Sometimes this happens when an employee or manager says that your recommended pay rate or equity amount is too low. Our first defense is to hold up our market data and strong processes. We point out that this is "right" and that they are wrong. While confidence in your position is admirable, take time to make sure that things haven't changed since the last analysis, and take the time to see if there is something unique about the position or the person.

Often companies bring in outside help to review pay that isn't working. When consultants point out flaws in past data or bring in a more representative data set, the pushback can be substantial. There is ownership in the prior processes and data that can be hard to abandon. This is understandable but not useful. When someone points out that you have essentially been punching your employees in the face, it's time to take a step back and make corrections.

Those of you have read my posts for years know that I have no true love for market data. I think companies should use it as a reference point, rather than a bible. Regardless of your compensation philosophy or approach to data, you must be willing and able to make adjustments when does not align to your goals.

Most of us adjust instinctively when the data is obviously "punch in the face" incorrect. Sometimes the challenge to your internal compass is not as apparent as this. We need to keep an open mind when presented with a new perspective that may challenge "known facts." In these more subtle instances being willing to change is just as important. Own what's right until the moment it isn't, then change swiftly and decisively.

This isn't Jeopardy. Using Loss Aversion to Your Benefit



A recent Inc.com article analyzed when makes the three grand champions of the game show Jeopardy so unique. The article boils down to the things that make these champions the best. The quick list includes: Physical Skills (you've got to push that button fast.) Strategy. Mental Approach. Success. These are hallmarks of great executives and leaders, but the details on the mental approach caught my eye.

The author suggests that the top players have figured out how to avoid or ignore the effects of loss aversion. Loss aversion is the human tendency to apply higher value to things they have than something they might have. Basically, it is the reason a bird in the hand is better than two in the bush. It's also why many people will give up a chance for equity upside for immediate cash payment. That's great if your company has a pile of cash lying around, but what if you don't?

Restricted Stock is the OG* of equity compensation. It is a fairly simple tool, with incredible power to deliver results when other forms of equity may fail you. It is fundamentally different than its full-value cousin RSUs. It is nearly the opposite of a stock option. With restricted stock you become an owner on day one. The company keeps the right to force the return of your shares until some type of time or performance-based vesting.

The key is real and immediate ownership.

For many people, real ownership that must vest has the same value as units that must vest. Economically the tools are very similar at a base level. They both have a big role in total rewards strategy, and one should not be completely shunned in lieu of the other.

Restricted stock is a great tool when you are looking for people to make smart, compliant decisions. They own real shares, and those shares have a real value. If the company pays a dividend, the holder will almost always get paid a dividend. If the company's stock is bought by an acquiring company, they almost always get to participate. Most importantly is it can lead to loss aversion.

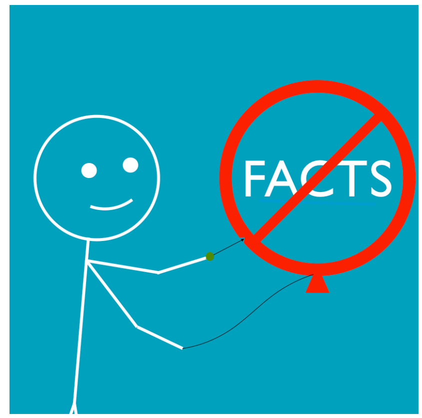
Loss aversion is something you probably want to be careful about when you are an early-stage company looking for extreme growth. Alternately, it can be a safe haven for companies with a more conservative outlook or those going through troubled times. The palpable feeling of having something you "own" taken away by the company you are leaving can be far different than the annoying "forfeiture" of a virtual unit or an underwater stock option.

Restricted also has other unique benefits. It is exempt from 409A. It allows for tax planning via an 83(B) election. It is something that you can sell, at full value or a discount. It generally has less esoteric features than other kinds of equity compensation. It may be time to refamiliarize yourself with this old school tool.

If you are looking for something to get executives focused on the bottom line (rather than always focusing on the top line), throwing a bit of restricted stock into your pay mix may be just the loss aversion strategy you need.

*OG – Original Gangster for those of you not as cool as me.

6 Things You Think Are True, But Aren't (Compensation Edition)



Some of you may have seen this recent **viral video** discussing things that we believe to be true but are actually made up. The video got me thinking about things compensation professionals believe have little, or no, foundation in reality. Here we go…

Incentive Pay motivates people to perform.

It has been sold to businesses that a great incentive program can motivate a person. Sorry, but that's just hope talking. People motivate people to perform. Incentive plans remind everyone of what is important and to reward them if they stay focused and achieve their objectives. By itself, an incentive plan is useless for most people. Communication and leadership are the keys to success.

Equity compensation is a great retention tool.

Equity compensation has been sold as the holy grail of retention for more than 20 years, but data shows this is not true. The tech industry is the heaviest user of equity programs and has one of the highest turnover rates. While these programs can support retention (mostly mid-term), the evidence shows that they do not work as advertised. It should be noted that tons of data also shows people do not understand their equity. Maybe better communication is the key to retention.

The 50th percentile represents a real number.

People target the 50th percentile like it is a real number representing the middle of the market. If this were true the 50th would be the same for every data set that targets the same type, size, and company location. While this may be true for a few jobs, it is a ridiculous idea for most jobs.

Having a great total rewards program attracts great talent.

Much like people motivate people, people attract people. The best compensation program in the world is useless without the right people to "sell" it to potential customers. Attracting good employees is more of a marketing effort than a product development effort. Just like many people happily use inferior products with great6 marketing, companies with great talent acquisition strategy and execution will crush companies with great pay and mediocre talent staff.

It's possible to design a program that will work despite leadership.

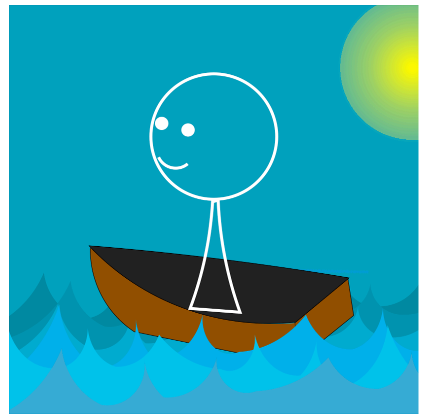
We sure try hard at this one, but it is just isn't possible. An average program with amazing executive champions will beat a great program that the CEO doesn't support. Every. Single. Time.

Survey data reflects what is happening in the market.

Most survey data is incredibly thin. First, it only represents companies who take the time to submit their data (often a single-digit percentage of your peers.) Second, it is only as good as the person(s) submitting the data. Most survey submissions are done by an early-career professional, or experienced pros with more critical things on their plate. Third, the data collection, analysis, and reporting need to be great. Most smaller surveys reflect biases of the survey provider or skew toward the clients of the firm sponsoring the survey. It is also important to note that many companies do not include their "secret sauce" in the survey submission.

So, let's hear some of your "facts that aren't" stories! I am betting we can get this list to at least the 13 things in the viral video!

The Boat and the Sail, a Story of Equality and Equity



Pay equality and pay equity have frequently been in the news. This is a little story I like to share to explain the difference.

Many years ago, in a world very similar to our own, trees could speak and move. One group of trees lives very near the shoreline of a seemingly vast ocean. Occasionally a brave young tree would bravely dive into the sea with the goal to learn what was on the other side. They never returned.

Some believed that these swimmers so loved what they found on the other side of the ocean that they had no desire to return. Other's believed these trees to be fools who were lost in an endless sea forever. Still, every year a few adventurous individuals jumped into the water to explore.

After one unusually harsh winter, a charismatic tree announced a new plan. Rather than travel alone, he recruited other interested trees to travel the ocean as a group. On a warm spring morning, they gathered at the shore, joined limbs, and clambered into the water.

The tide was high, and as it receded; they were pulled away by the currents. They clung together tightly and decided to make up a name for their merry band. After some serious and not so serious discussions, they decided to call themselves "The Boat." (there is no record of why they chose this term.)

The Boat floated farther and farther away from shore over many weeks. They passed the occasional small island with a lonely tree or two. They said hello but did not stop for fear of losing their grip on each other.

Then they stopped. The currents stop pulling and pushing them, and they just sat there in the water, getting increasingly wetter. The tree who convinced them to join together in the first place asked for ideas on how to start moving again. The trees were equally quiet for many days, then two younger trees at the very edge spoke up.

"Do you remember how the wind used to make us sway when we were on land? The breezes would push their way through our branches, making us whisper to each other. What if a couple of us climb on top of you and stood up tall enough to catch the wind?"

The leader thought they were crazy and told them they might get blown into the ocean. But he also agreed it might be their only chance to get moving again. The young trees slowly climbed to the middle of the boat and stood tall. The boat was not as stable as the land used to be, and standing was scary. But then the wind came by to say hello.

Rather than letting the wind pass through their leaves and branches, the tall young trees grabbed hold of it. They creaked and bent with the effort, but before long, The Boat was moving. It was moving faster than ever before! The two trees decided to call themselves The Sail (again, there is no explanation.)

In just a few days, The Boat made it to new land on the other side of the great ocean. Everyone hailed The Sail as heroes and let them have the prime spot on the shoreline to dig their roots back into the soil.

The moral of the story. Everyone gets an equal chance to be part of The Boat. (Anything less is inequality.) This lets everyone have a better chance of reaching their goal. Equity is The Sail. Anyone can choose to be the sail but only some will and can do this. The Boat and The Sail get to the same goal equally. Those who are The Sail equitably receive a bit more.

Equality is easily definable and easy to see. Equity requires a more nuanced perception. A basic rule of thumb is that if your pay programs don't feel equitable, they aren't.

About the Author

Dan joined FutureSense in 2018 as a Managing Consultant specializing in the areas of executive pay, equity compensation, incentive compensation, and pay for performance.

With more than two decades of industry experience, Dan is an internationally recognized expert on all forms of start-up pay and equity compensation for all sizes and stages of companies. Dan excels at building innovative total reward solutions that align with strategy and culture while driving company success. Dan has a unique ability to help anyone understand even the most complex and technical details in ways that are approachable and memorable.

Dan believes that compensation is a critical component of everything a company does and that well-designed pay solutions can be the difference between survival, success, and domination of an industry. He has performed work for companies in a broad range of industries and for companies of all types, stages, and sizes. Colleagues know Dan as a resource for needs beyond the scope of imagination, of most other consultants.

Dan has built his reputation on providing "usual compensation for unusual companies and unusual compensation for usual companies". Dan likes to say that "vanilla solutions are for vanilla companies, but most companies I work with are special."

Dan is the author and co-author of several books, including Everything You Do in Compensation is Communication, The Decision-Makers Guide to Equity Compensation, and the ground-breaking Performance-Based Equity Issue Brief. He is a prolific writer and has written more than 200 blog articles covering all aspects of compensation. Dan values the importance of sharing information as often as possible and is a recognized expert at Quora.com on topics including employee stock options, start-up compensation, equity compensation, and restricted stock units.

Dan has served on the board of directors for the National Center for Employee Ownership and the advisory board for HR.com. He is an active member of World at Work, SHRM, The Society for Certified Equity Professionals. He is the founder of Equity Compensation Experts, which is the largest independent networking group for equity compensation professionals. He has earned the designations of Certified Executive Compensation Professional (CECP) through World at Work and a Certified Equity Professional (CEP) through Santa Clara University's Leavey School of Business.

Dan lives in Portland, Oregon, with his wife and son. He passionately supports childhood adoption and education causes. Dan's hobbies include photography, and he makes pretty darned good guacamole.

CONTACT DAN
email: dan@futuresense.com
phone: 917-734-4649
web: www.futuresense.com/dan-walter

