

**Management Consultants to the Precast Industry**

## RESULTS IMPROVEMENT BULLETIN

*PRECAST BUSINESS RESULTS IMPROVEMENT BULLETIN*

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### **BONUS AND COMPENSATION SYSTEMS FOR PRECASTERS**

Many precasters are on track to produce strong financial results this year so executives will be turning attention to salary increases and bonuses. Additionally, a tight job market is putting upward pressure on salaries and hourly wages in many markets. Bonus and compensation systems can be a potential minefield involving complex factors such as reward, retention, market rates, fairness and “business philosophy”. If you plan to review or update your compensation/bonus processes, we’ve summarized current best practices to consider.

#### **Compensation Practices at High Performance Organizations**

A recent survey of 147 organizations representing all major industry sectors found that the best organizations make substantial distinctions in their compensation practices to reward top performing employees.

Key compensation (total reward) practices include:

- Stringent differentiation between high and low performers, e.g. bonuses for top performers 4.5 times those of lower performers;
- Salary increases for merit and promotion rather than for market adjustments;
- Benefit levels above the market; and

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- Bonuses linked to customer satisfaction when possible.

### **Base Salary Increases – Reward the “Stars”**

A recent survey of 422 organizations reported a 3.3% average increase in base salaries over 2004 (*these national average increases need to be adjusted to local market conditions*). However, base salary increases varied considerably according to the employee’s performance as illustrated:

Met Expectations	3%
Partially Met Expectations or learning their job	1.5%
Top Stars	5.5%

### **Salary and Wage Increase Pressure**

A tight employment market and shortage of hourly and salaried employees is putting upward pressure on wage and salary scales. Precasters often find that the compensation level required to attract top-flight new employees is higher than current employees in the same positions with more experience. In certain cases, this means that new salary scales need to be put in place.

Hourly wages are also rising in order to attract and retain plant workers.

Precasters are seeking flexible compensation mechanisms so wage pressures during peak years do not create permanent cost structure changes that will impair business profitability during down cycles.

### **Remain True To Your Strategic Plan**

To keep your strategic plan meaningful, reward the management team according to both their collective and individual efforts in achieving the plan. Bonuses based on performance “close the loop” and send a strong message that success in meeting objectives leads to appropriate rewards. This means that performance measures **must** be set for each manager. These expectations should relate to

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both functional responsibilities **and** achievements established annually in support of the strategic plan.

#### **Profits Dictate the Total Bonus Pool**

Your profits should establish the total bonus payout pool. Because of the cyclical nature of the precast industry, the “**affordability and variability**” of total bonus payouts should reflect the following principles:

- A threshold level of profitability should be established below which no bonuses are paid. This threshold should reflect an appropriate return on equity or other meaningful measure. **Pay your company first.**
- Set and communicate a target level of profitability at which you pay your managers a target bonus (usually expressed as a percentage of base salary). Measures like profit as % of revenue, return on assets or budgeted profit can be used. If budgeted profit is the measure, ensure the budget process is intellectually honest and your budget achievement is not a “slam dunk.”
- A level of profitability should be set where very high performers can earn up to double their target bonus. This level of profitability should represent a year when you catch “all the wind in your sails”.

#### **Target Ranges for Bonus Payments**

Target bonus levels vary according to the level of responsibility and authority with a design target bonus levels range from 50% or more of base salary for the CEO to 10% for a junior manager. Actual bonuses can range from zero to twice the design target based on the combination of profitability and individual performance.

Front line staff and hourly associates will have target levels in a lower range. These bonuses can have many purposes - reward individual performance, motivate staff and for some organizations to share profits.

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#### **Keep the Bonus Plan Simple**

Having extolled the virtues of basing bonuses on measurable objectives derived directly from your strategic plan, we also recommend that you keep your bonus calculations as simple as possible. Undue complexity takes the focus off the message of “reward for results”. A bonus formula that requires hours of calculations doesn’t work.

Limit measures to a few key objectives (try not to exceed four). We also recommend combining objective measurement with at least an equal dose of discretionary or subjective evaluation. The President and/or senior management team should be aware of the high achievers and exceptional contributors. A bonus system that provides substantial rewards to high performers strongly reinforces a “results-oriented” culture.

#### **Conclusion**

Bonus and compensation programs are important and many factors need to be considered. Feel free to contact us for assistance with: simple to administer but effective bonus processes; salary level determination and salary surveys for key positions; flexible compensation programs and other compensation matters.

*This Results Improvement Bulletin is provided in conjunction with R. Turner Management Consultants, Inc. They consult on effective compensation and bonus plans in support of strategic objectives. Their consultants are certified compensation professionals by World at Work (formerly the American Compensation Association).*

*MJS Management Services collaborates with specialists such as Turner Management Consultants to provide high quality and innovative solutions specifically tailored to the needs of our precast clients.*