Tis the Season for Compensation

Five Rules

Two identical payrolls. One company has half the people paid twice as much. Its competitor has twice the people paid half as much. Who's going to win the war for talent? Just theory? Stay tuned.

"Would we rather have a bunch of low paid dumb people or a lot less better paid smart people?" This was the question Kip Tindell and Garrett Boone asked themselves 28 years ago. Today, their privately held retail store chain, The Container Store, has been consistently named one of the best places to work in the U.S. while maintaining dominance of their niche.

The single largest expense of most companies is payroll. How you spend it relative to your competition is one of the most important decisions you'll make in the coming decade, especially now that the war for talent is becoming fiercer. And the latest studies say 65% of employees are looking for new jobs!   Compensation isn't everything, but it's a key component. Here are my five rules for getting it right:

1. Less People, Paid More

This is the most fundamental shift. In essence, you need to rabidly focus on doubling revenue per employee over the next five to ten years so you can boost real wages by 50%. Goldman Sachs is showing us all the way. With literally half the number of employees vs. Merrill Lynch and Morgan Stanley, Goldman is paying their people on average twice as much, setting a record as the first company in history to average over $500,000 per employee in compensation. And what did Goldman get in return? Almost three times the profit/employee than their nearest rivals.

Tindell and Boone, on the other end of the food chain, have preached this same mantra that one great employee can replace three good ones. In turn, they pay their people almost twice the average retail wages in the U.S. and provide 241 hours of training to a first year sales associate vs. an industry average seven hours. Less people, paid more, and then drive productivity through training and development.

And when these firms need to attract talent, The Container Store had 4000 people apply for their 40 jobs in NYC. Goldman needed 2200 more employees in 2006 and is getting some of the best while Morgan Stanley announced, in a panic move October 2, a scheme to stem defections.

Simon Lim, who runs a janitorial service in Kuala Lumpur, took this advice to heart and boosted wages for his janitors 30% above local averages, then focused hard on driving productivity to where he has the lowest cost per square meter. And he's winning business and having no problem getting and keeping janitors. Big, small, retail, finance – higher pay, even higher productivity, so you have a lower labor cost, is the way to go.

2. Structure to Fit Culture

Though the trend in compensation is clear, one size doesn't fit all in terms of HOW you structure the payout. The key is to match the structure of your compensation plan with your culture. If your culture emphasizes rugged individualism, you might want to have a high commission/bonus based comp plan driven by internal competition among employees. Given the culture of team work at The Container Store and their emphasize on customer service, they pay their store employees a straight hourly wage so there's no fighting over customer commissions. Look to your core values and make the overall design aspects of your compensation plan match.

3. Don't Adjust Too Much

A side outcome of Jim Collins research supporting his book *Good to Great* was that good companies tended to change their compensation systems frequently, hoping that this would propel their business. Great companies tended to leave their compensation systems alone, recognizing that there are much more important factors that drive performance.

How does this jive with the first two rules? Again, The Container Store shows us the way. The structure of their compensation fits their culture and has remained relatively unchanged for 28 years. However, like Simon Lim, the direction has been to find ways to continuously improve productivity so the overall compensation can exceed competitors.

4. Do Whatever it Takes

However, when it came to the key people "on the bus" that absolutely drove the economic engine of the business, great companies simply do whatever it takes to keep these people, including customizing their compensation packages. If one person wanted less base and more incentive-based pay, so be it. If another wanted more time off, so be it. Forget any idea of "fairness" and "sameness" and make sure you keep your top talent happy from a compensation package perspective.

5. Mini-Games Drive Short Term

Most bonus plans fail to drive performance – they simply become entitlement programs. Instead, make a trek to Springfield, MO (Harley Davidson, Southwest Airlines, and other respected firms have made the trek!) and attend one of Jack Stacks' Great Game of

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Business programs. Learn how to structure bonuses and mini-games (short-term incentives) to drive performance – they get it!

Honeymoon is Over

As the economy heats back up, it's going to be harder to retain people once again – the honeymoon is over. Many businesses are finding it much easier to restructure their economic models, processes, and hiring practices so they can have considerably less people producing the same revenue so they can pay them above industry average wages while having a lower total payroll. And less people drives down costs while the higher wages takes the compensation issue off the table.

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