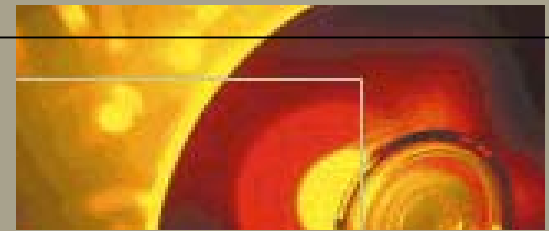


Emerging Compensation Trends – Strategies for Rewarding Generation Y



On the Cutting Edge
April 14, 2004

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Who is GenY?



- ◆ Born between the years 1977 – 1995 (some ranges differ by a few years)
- ◆ Are aged 8 to 27 in 2004
- ◆ Number ~80 million and make up 21% of the US population
- ◆ Ethnically diverse – minorities make up 34% of the of the group while minorities make up 24% of Baby Boomers



Test Your Generation Knowledge



Which generation is the largest?

Baby Boomers

Generation X

Generation Y

Test Your Generation Knowledge



Which generation is the largest?

Baby Boomers – 78 million

Generation X – 48 million

Generation Y – 80 million

Test Your Generation Knowledge



25% of Generation Y are from
single parent homes?

True

False

Test Your Generation Knowledge



25% of Generation Y are from
single parent homes?

True

Test Your Generation Knowledge



75% of Generation Y have working mothers?

True

False

Test Your Generation Knowledge



75% of Generation Y have working mothers?

True

Test Your Generation Knowledge



GenY rejects brands and hype like their GenX older siblings?

True

False

Test Your Generation Knowledge



GenY rejects brands and hype like
their GenX older siblings?

False

Test Your Generation Knowledge



GenY (and X) see Baby Boomers as competitors in the workplace?

True

False

Test Your Generation Knowledge



GenY (and X) see Baby Boomers as competitors in the workplace?

False

The Shaping of GenY



- ◆ Technology is an integral part of their world from the beginning
- ◆ Communication is constant and multi-channeled
- ◆ Often grew up in non-traditional families
- ◆ Parents played an active role in their upbringing
- ◆ AIDS, terrorist attacks and kids killing kids are known realities
- ◆ Generally have only known good economic times with low unemployment

So How Have They Turned Out?



- ✓ Violent crime by 12 to 17-year-olds is down by over 50 percent from its 1992-1993 peak (US Bureau of Justice Statistics).
- ✓ School shootings were down by more than half in the late 1990s (less than 15 per year) compared to the early 1990s (over 40 per year).
- ✓ Smoking, drinking and drug use among 8th, 10th and 12th graders fell simultaneously in 2002 for the first time (University of Michigan's Institute for Social Research).
- ✓ According to Gallup more than 90 percent of teens report being very close to their parents; in 1974, more than 40 percent of baby boomers said they'd be better off without their parents.
- ✓ Suicide rates for teens have fallen significantly since their 1988 to 1994 peak (National Center for Health Statistics, US).

The Data Indicates Quite Well!



- ✓ Today's kids are more apt to trust parents (86 percent), teachers (86 percent) and the police (83 percent) than music celebrities (35 percent) and athletes (30 percent) (Applied Research & Consulting LLC).
- ✓ Volunteerism is up. A University of California (UCLA) survey of college freshmen from fall 2001 showed an all-time high of 86.2 percent of students who reportedly engaged in volunteer work, compared to 66 percent in 1989.
- ✓ Teens now form the most religious age bracket in the US. Participation in church groups among teens rose from 17 percent to 28 percent between 1995 and 2001 (Roper). In 2002, the UC Berkeley Survey Research Center PACES project reported that 67 percent of teens supported federal aid to religious organizations -- versus 40 percent of adults ages 27 to 59.

Characteristics of Y



- ◆ Short attention span – easily bored
- ◆ Want it all now – not willing to pay their dues
- ◆ Want respect and to be heard
- ◆ Believe in themselves – self reliant and confident
- ◆ Skeptical of the establishment
- ◆ Technology masters
- ◆ Education minded and believe in life long learning
- ◆ Tolerant of differences in others
- ◆ Embrace volunteerism

Workplace Expectations



- ◆ Challenging assignments and responsibilities
- ◆ Increased responsibility (and pay increases) quickly
- ◆ Ability to find the path themselves
- ◆ Feedback on success and areas to improve
- ◆ Honesty in all communications
- ◆ Ongoing training and learning opportunities
- ◆ Companies that are aligned with their values
- ◆ Flexibility in scheduling
- ◆ A work environment that is fun

Fortune's Report on Best Companies to Work For



- ◆ Perks continue to be noteworthy for the 100 named companies
 - Work and family benefits
 - Liberal use of recognition and reward programs
 - Ownership through stock options mentioned
- ◆ The study also mentioned that employees today are looking for something more basic
 - To be told the truth – especially if the news is bad
 - They want to feel they can make a difference
 - They want to be given a chance to grow

My Definition of Rewards



- ◆ Any tangible or non-tangible company asset that is valued by employees
- ◆ Directly influences your ability to attract new employees
- ◆ Directly influences your ability to retain new employees
- ◆ Rewards include pay and benefits, but go well beyond this traditional definition

Two Types of Rewards



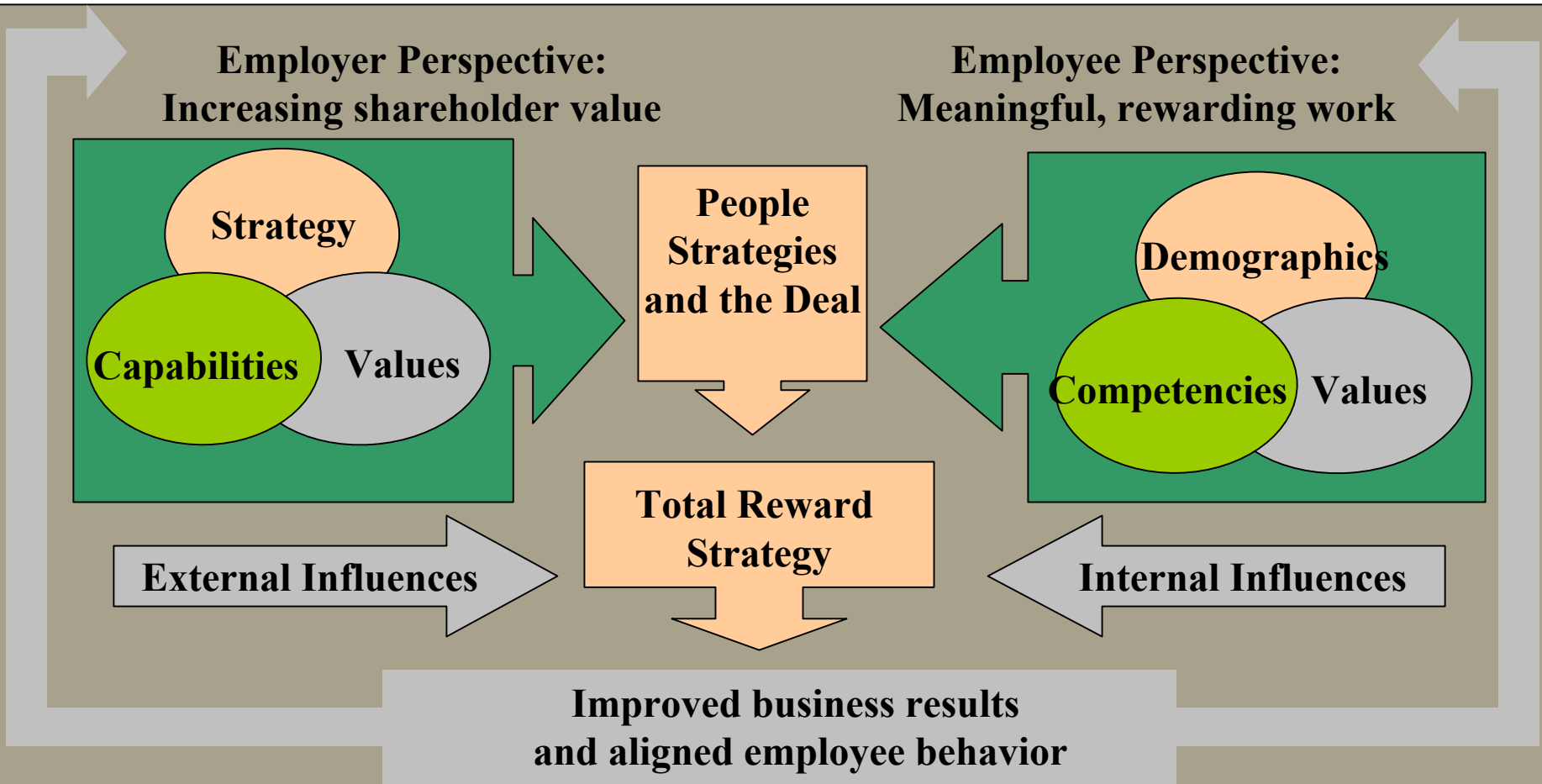
◆ Transactional rewards

- Financial in nature
- Easily copied by competitors
- Price of admission in recruiting and retaining employees
- Do not bind employees long term to the organization
- All Benefit and Pay reward components

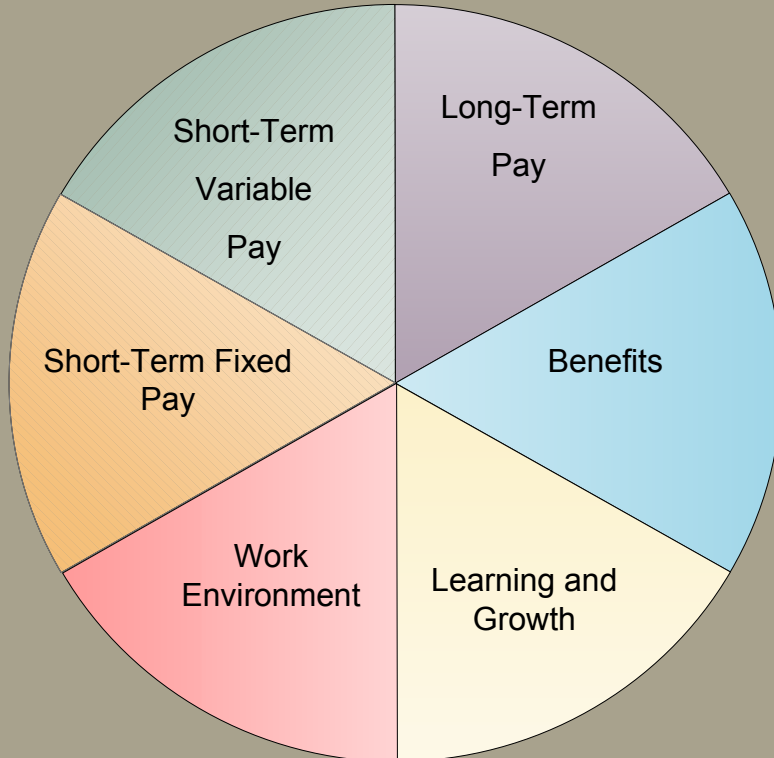
◆ Relational rewards

- Address the special needs of individual employees
- Cannot be copied or purchased by competitors
- Creates loyalty and ownership behaviors
- Learning and Growth along with Work Environment reward components

Factors Influencing Your Reward Strategy



Strategic Reward Components



Short-Term Fixed Pay – The foundation of most all reward systems.

Short-Term Variable Pay – Encourages pay for performance differences by providing the opportunity for a piece of the action.

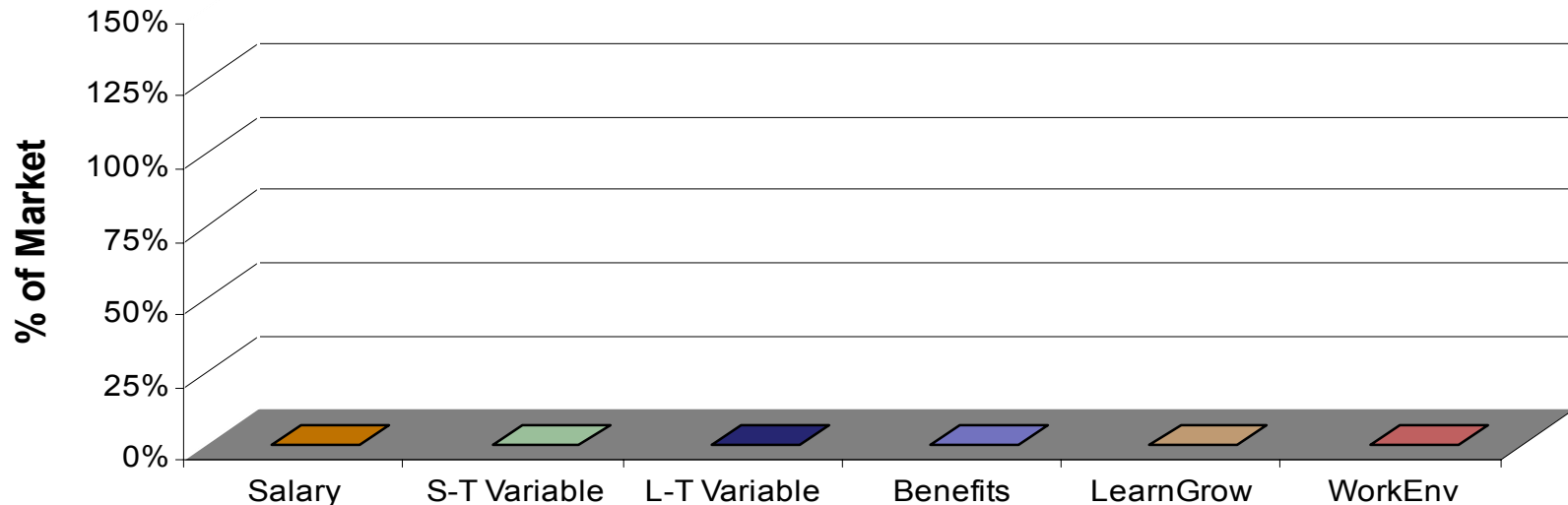
Long-Term Pay – True ownership motivation and behavior. The American dream realized.

Benefits – Many variables with limited options. Differing needs for different population segments. Health and welfare, retirement, and work/family benefits should be considered separately for each segment.

Learning and Growth – Feedback systems – performance management, coaching and mentoring. Also development systems of skills and competency training, career development and succession planning.

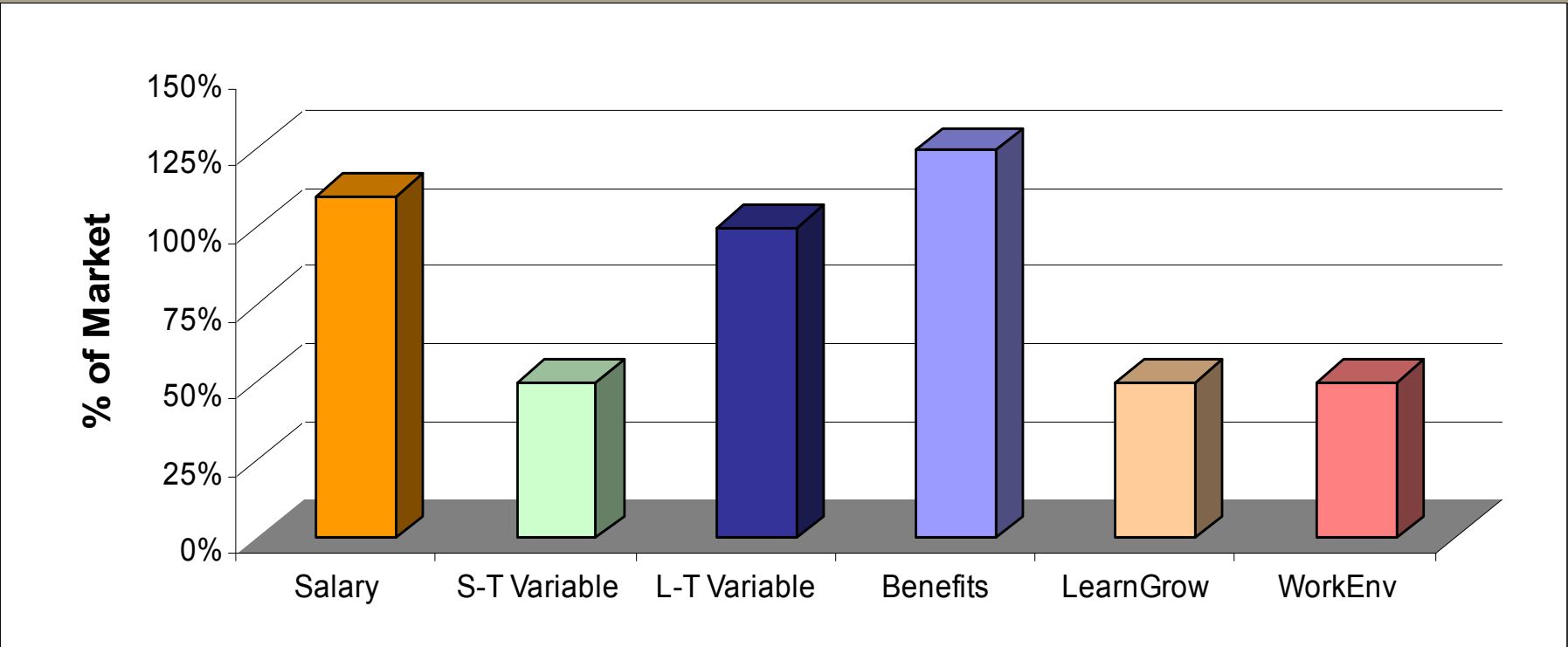
Work Environment – Organizational factors such as climate, leadership style, and work / life balance. Also the specific work itself – challenge, variety, autonomy, etc.

Strategic Reward-O-Meter



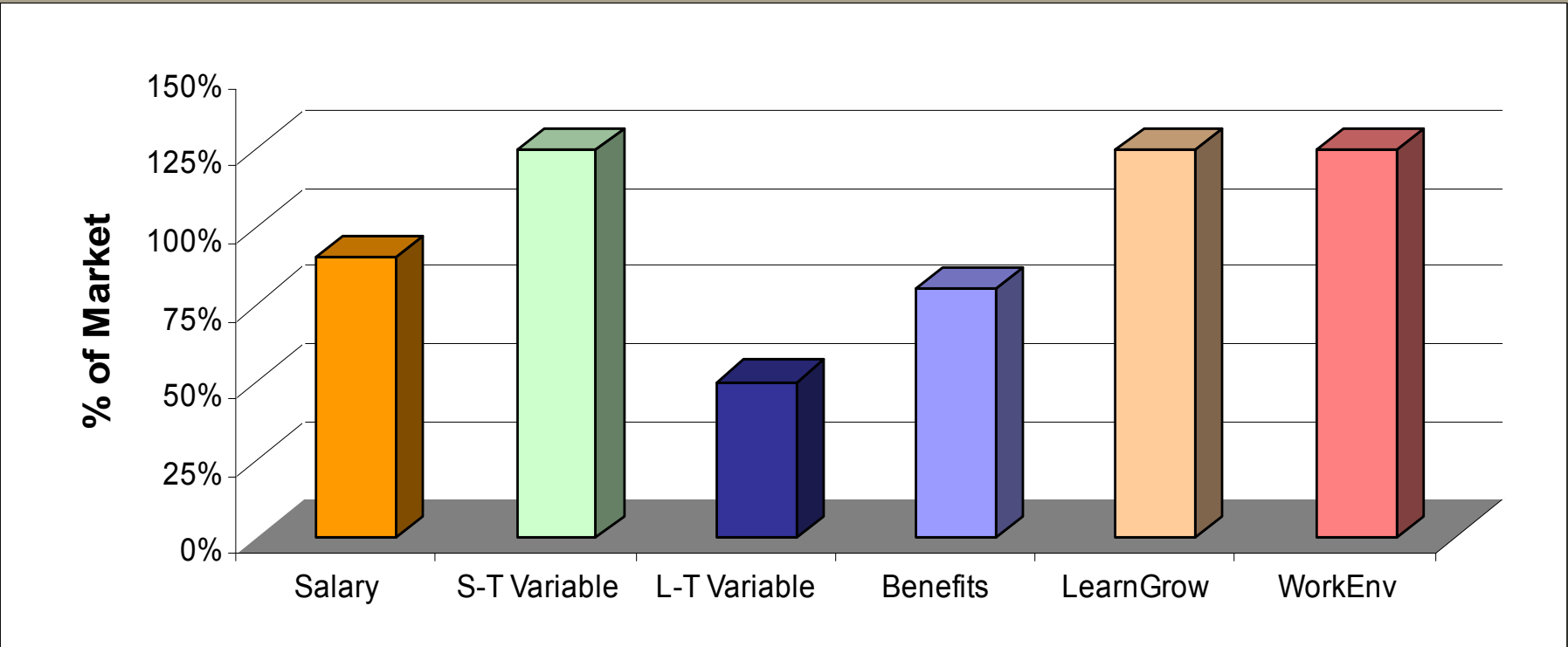
- ◆ Used to illustrate the different “controls” at your disposal
- ◆ Most all of the reward components cost money or time
- ◆ Your mission is to balance the components without exceeding budget
- ◆ There is no right answer – depends on your company
- ◆ There certainly are wrong answers!

Strategic Reward-O-Meter



How would you describe this company?

Strategic Reward-O-Meter



How would you describe this company?

Strategic Reward Component Analysis



Short-Term Fixed Pay – The foundation of most all reward systems.

- ◆ Cannot pay significantly under market and risk losing competitiveness
- ◆ May be able to trade short-term incentive for salary if appropriately leveraged for risk
- ◆ Strong potential application of pay for skill, knowledge, and competency plans
- ◆ Salary change based on individual measurable results
- ◆ Valid approach to differentiate salary increases

Strategic Reward Component Analysis



Short-Term Variable Pay – Encourages pay for performance differences by providing the opportunity for a piece of the action.

- ◆ Best tool to pay for performance and link to business results
- ◆ Helps communicate and teach about the important drivers in the business
- ◆ Can be based on individual or group outcomes
- ◆ Helps address the question of “Why can’t I have more money?”

Strategic Reward Component Analysis



Long-Term Pay – True ownership motivation and behavior. The American dream realized.

- ◆ In traditional form (options) won't likely be valued since delayed payback for results
- ◆ Pessimism of "the vagaries of the market" which partially drive pure stock compensation vehicles
- ◆ For higher level GYers, still can provide retention and ownership
- ◆ Cash based plans preferred over equity plans
- ◆ Long-term pay with short vesting and based on business results will have greater appeal

Strategic Reward Component Analysis



Benefits – Many variables with limited options. Differing needs for different population segments. Health and welfare, retirement, and work/family benefits should be considered separately for each segment.

- ◆ Work/life benefits have higher profile and are valued more than welfare and retirement benefits
- ◆ Base welfare benefits (health, disability, life) valued at a base level
- ◆ Retirement through contribution plans with graduated or short vesting schedules will be well received
- ◆ Choice and portability are important attributes
- ◆ Time off is the Holy Grail to GYers

Strategic Reward Component Analysis



Learning and Growth – Feedback systems – performance management, coaching and mentoring. Also development systems of skills and competency training, career development and succession planning.

- ◆ Area of significant opportunity to allow companies to differentiate from competitors
- ◆ Mentoring programs useful to harness the energy
- ◆ Training systems that offer instruction through a variety of different mediums
- ◆ Career development characterized as matrix vs. ladders
- ◆ More frequent steps in job progressions leading to less desire to broad band

Strategic Reward Component Analysis



Work Environment – Organizational factors such as climate, leadership style, and work / life balance. Also the specific work itself – challenge, variety, autonomy, etc.

- ◆ Leadership perceived as honest and approachable
- ◆ Work/life balance recognized and addressed through benefits and other systems
- ◆ Jobs structured to provide variety and challenge – cross training and performing a whole task
- ◆ Special project work to provide opportunities to work outside normal role
- ◆ Opportunity to work for a company with a similar set of values
- ◆ Managing by results not process and procedures

Summary Observations



- ◆ GenY is out in the workforce and will be increasing their influence
- ◆ Combined with GenX, GenY presents a new set of challenges and expectations for companies
- ◆ Companies that tailor their reward systems to recognize the values of the emerging generations will receive significant payback
- ◆ GenYers are self-confident, independent, goal-oriented, education minded, masters of technology
- ◆ They are also blunt, cynical, impatient, not willing to pay their dues, and bored easily

In Closing...



Good Luck!

Rewarding Generation Y



Questions?
Observations?
Comments?

