Incentive Plan Design and Employee Recognition Programs

June 11, 2008
Agenda

Incentive Plan Design
- Background – Port of Portland’s Dive into Incentive Comp
  - Total Rewards Study
  - Outcomes of Study
- Original Incentive Plans Overview
  - Analysis of First Year Payout
- New Plan Developed – PORTshare

Employee Recognition Programs
- Background
- Programs Overview
- Results

Q&A
Key Outcomes of the Study

Key Questions

- What are we spending and what is it buying us (cost vs. value)?
- Are our programs aligned with the business and with our reward strategy?
- What can we change to improve alignment with our reward strategy?

Key Deliverables

- An analysis of the current state of rewards (pay, benefits and careers)
- A total remuneration analysis – to articulate the Port’s competitive position compared to the pay and benefit plans offered by the peer organizations
- Total Rewards philosophy
- A gap analysis with phased implementation plan
# The Project Process

## Methodology

<table>
<thead>
<tr>
<th>Qualitative Research</th>
<th>Quantitative Research</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Conducted Director and select senior manager interviews</strong></td>
<td><strong>Benchmarked Port pay</strong></td>
</tr>
<tr>
<td>- Perceptions of business and people challenges</td>
<td>- Published survey market data</td>
</tr>
<tr>
<td>- Perceptions of total rewards</td>
<td>- Sampled 34 benchmark jobs</td>
</tr>
<tr>
<td><strong>Conducted five (5) employee and manager focus groups</strong></td>
<td><strong>Benchmarked Port benefits</strong></td>
</tr>
<tr>
<td>- Perceptions of total rewards</td>
<td>- Selected peer organizations (public and private)</td>
</tr>
<tr>
<td><strong>Developed guiding principles for total rewards strategy</strong></td>
<td><strong>Determined total value of Port offerings (pay + benefits)</strong></td>
</tr>
<tr>
<td></td>
<td>- Pre-tax value to employees</td>
</tr>
</tbody>
</table>
Perceptions About Pay

**Director Perceptions**
- Higher than public sector and less than private sector
  - Private sector transfers aware of financial versus non-financial rewards
- Limited relationship between pay and performance
- Need to continue to reward and retain solid performers but need more differentiation for top performers
  - Need confidence in the measurement process
- Need incentive program

**Employee / Manager Perceptions**
- Higher than public sector and less than private sector
  - Port offers strong non-financial rewards
- Current practices don’t reward performance and limit salaries to the lower end
- Current reward programs are nominal and not timely
- Managers want more flexibility in allocating annual merit increases and awards for high performers
Key Findings – Pay

- Base pay is in-line with the market
- Pay shows limited relationship with performance
- Anecdotal evidence further suggests:
  - Managers request re-grading as a work-around to increase pay rates
Pay Rates – Total Cash lags market

Observations:

- Overall, base pay at market.
- Total cash positioning lags market noticeably.
  - Total cash discrepancy is greater at the senior levels.

<table>
<thead>
<tr>
<th>Median Total Cash Market Ratio (base + variable)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weighted average</td>
</tr>
<tr>
<td>91.8%</td>
</tr>
</tbody>
</table>
Project Results

Summary Observations:

- Overall, the Total Rewards program was competitive, but allocation of program components were inconsistent with market practices.
- Significant changes were needed in overall pay and performance management programs to create a true pay-for-performance system.
- Rebalancing benefit dollars within the benefit programs will help bring the index values more in line across all programs.
- Reduction of benefit costs could be used to fund changes in pay program.
Guiding Principals: Driving to Balance

• **Support business outcomes**
  – Enable the Port to attract, retain, motivate, and develop the talent it needs to execute on its business strategy

• **Reward performance**
  – Allow for differentiation of exceptional performers while balancing concerns for solid employees

• **Deliver sustainable cost**
  – Design program at a cost that is sustainable to the organization

• **Demonstrate fiscal responsibility**
  – Demonstrate fiscal responsibility to all stakeholders including customers and the public
Incentive Compensation Plan

• 2006
  – Inclusion of Incentive Pay
  – Re-aligned benefit programs
    • To market practices
    • To Port business strategy

• FY 2006-2007
  – Port administrative employees eligible to participate in one of two incentive programs
Original Incentive Plans

- The Port implemented two incentive plans, in addition to the base/merit pay plan

  - **Results Share** *(Grades 80-82 and directors)*
    - Based on organization-wide financial metrics
    - Up to 100% may receive 5% target bonus, max 10%
    - Minimum performance rating needed
    - Payout not guaranteed, at risk

  - **Award for Excellence** *(Grades 71-79)*
    - Based on individual performance
    - Up to 10% may receive 3% bonus; up to 30% may receive 1.5% bonus
    - Guaranteed payout
Original Incentive Plans

Why different programs for different grades?

• Jobs are different

• Salary grades correspond to varying levels of influence on Port business metrics
  – Positions in grades 71-79 generally responsible for own performance only (i.e., individual contributors)
  – Positions in grades 80-82 generally responsible for managing people, program areas, and/or significant capital projects
  – Position at the Director level manage divisions
Recap of Original Plan Payouts

- Two separate plans
- Payouts were made at two different times
- Payouts were drastically different

<table>
<thead>
<tr>
<th>Performance Rating</th>
<th>Grades 80-Directors</th>
<th>Grades 71-79</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Results Share</td>
<td>Award For Excellence</td>
</tr>
<tr>
<td>Exceptional</td>
<td>9.91%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Outstanding</td>
<td>9.91%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Fully Successful</td>
<td>9.91%</td>
<td>0%</td>
</tr>
<tr>
<td>Mostly Successful</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Needs Improvement</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>
Performance Management Evaluation

• Conducted Analysis-
  – Ratings
  – Merit pay
  – Procedures
  – Performance Management Survey

• Goal of Performance Management-
  – Differentiate Performance
  – Reward High Performance
  – Improve management performance
Evaluation Results

• Management differentiated performance levels through the rating guidelines

• Merit increases and incentives were linked to performance (higher performance = higher pay)

• Grades 80-82 valued the Results Share incentive plan and saw it as financially significant

• Grades 71-79 valued the Award for Excellence incentive plan less and did not see it as financially significant

• Separation of employees into two plans not well received

• Failed to be a significant motivator for grades 71-79
Performance Management Goals

• What were we trying to achieve?
  – Differentiate performance
  – Reward high performance
  – Improve management performance
Differentiating Performance

• Differentiate performance through the rating distribution guidelines

• Measurements for differentiating performance:
  – Port of Portland distribution
  – Division level distribution
  – Grade distribution
# Distribution Guidelines

<table>
<thead>
<tr>
<th>Performance Rating</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exceptional</td>
<td>0-10%</td>
</tr>
<tr>
<td>Outstanding</td>
<td>20-30%</td>
</tr>
<tr>
<td>Fully Successful</td>
<td>60-70%</td>
</tr>
<tr>
<td>Mostly Successful</td>
<td>0-10%</td>
</tr>
<tr>
<td>Needs Improvement</td>
<td>No min/max</td>
</tr>
</tbody>
</table>
Port of Portland Rating Distribution

Graph showing the distribution of ratings for different categories:
- EX
- OS
- FS
- MO
- NI

The graph compares the Combine Port and Guidelines ratings, with bars indicating the percentage distribution for each rating category.
Rewarding High Performance

• Strengthen pay-for-performance philosophy with incentive and reward/recognition programs

• Measurements for rewarding high performance:
  – Merit pay analysis
  – Performance management survey
Merit Pay Ranges and Averages in 2004/2005

<table>
<thead>
<tr>
<th>Consistently Exceeds</th>
<th>Frequently Exceeds</th>
<th>Consistently Meets</th>
<th>Meets Some</th>
<th>Does Not Meet</th>
</tr>
</thead>
<tbody>
<tr>
<td>N=60</td>
<td>N=221</td>
<td>N=106</td>
<td>N=4</td>
<td>N=0</td>
</tr>
<tr>
<td>N% = 15.3%</td>
<td>N% = 56.5%</td>
<td>N% = 27.1%</td>
<td>N% = 1.0%</td>
<td>N% = 0%</td>
</tr>
</tbody>
</table>

Merit Increase %

- Average Increase
- Max Increase
- Min Increase
Merit Pay Ranges and Averages in 2006/2007

- Exceptional: N = 37, N% = 9.6%, Average Merit Increase = 7.50%
- Outstanding: N = 118, N% = 30.7%, Average Merit Increase = 6.50%
- Fully Successful: N = 224, N% = 58.3%, Average Merit Increase = 5.07%
- Mostly Successful: N = 5, N% = 1.3%, Average Merit Increase = 0.00%
- Needs Improvement: N = 0, N% = 0%, Average Merit Increase = 0.00%

Legend:
- Green diamond: Average Merit Increase by Rating
- Red triangle: Maximum Ranges
- Blue triangle: Minimum Ranges

Note: The chart shows the distribution of merit pay increases by rating category for 2006/2007.
Base Pay and Incentive Trends

• Base salary increase budgets increasing at slow rate

• Variable pay programs becoming more significant in rewarding employees for performance

• Actual company spending on variable pay as a percentage of payroll is 11.8%, the highest level on record

• By contrast, Port’s actual spend on variable pay FY 06-07 was approximately 5.0% as a percentage eligible payroll

• Number of organizations using variable pay increased to 80%

Source - Hewitt and Associates 2007-08 US Salary Increase Survey
# Incentive Trends

- Variable Pay by Employee Group

<table>
<thead>
<tr>
<th></th>
<th>All</th>
<th>Transportation</th>
<th>Public Administration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Exempt Salaried Employees</td>
<td>6.1%</td>
<td>7.4%</td>
<td>5.8%</td>
</tr>
<tr>
<td>Exempt Salaried Employees</td>
<td>12.9%</td>
<td>12.1%</td>
<td>7.5%</td>
</tr>
<tr>
<td>*Management, Excluding Executives</td>
<td>17.3%</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Officers and Executives</td>
<td>38.3%</td>
<td>26.5%</td>
<td>18.5%</td>
</tr>
</tbody>
</table>

Sources: World at Work 34th Annual Salary Budget Survey  
Incentive Trends

- Individual Performance is a “key” factor in determining award payouts

<table>
<thead>
<tr>
<th>Individual Performance as a Factor in determining Variable Pay Plan Payout</th>
<th>Percentage of Organizations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>78%</td>
</tr>
<tr>
<td>No, not a factor</td>
<td>18%</td>
</tr>
<tr>
<td>No, but would like to use it as a factor</td>
<td>4%</td>
</tr>
</tbody>
</table>

(n=795)
Objectives of Variable Pay

- Link rewards to business plan and company culture
- Focus employee’s attention on results
- Increase productivity
- Recruit key employees
- Retain key employees
Possible Metrics for New Incentive Plan

- Performance Rating
- Financial Metrics
- Grade
- Job
- Management Responsibility
Further Considerations

• At Risk vs. Guaranteed

• Line of Sight
  – Employee’s perception of their influence
## PORTshare Plan

<table>
<thead>
<tr>
<th>Grade (Impact)</th>
<th>Performance Component</th>
<th>Financial Component</th>
</tr>
</thead>
<tbody>
<tr>
<td>71-74</td>
<td>Fully Successful = 3%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Outstanding = 4%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Exceptional = 5%</td>
<td>Minimum = 4%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Target = 5%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Max = 10%</td>
</tr>
<tr>
<td>75-79</td>
<td>75%</td>
<td>25%</td>
</tr>
<tr>
<td>80-Dir</td>
<td>25%</td>
<td>75%</td>
</tr>
</tbody>
</table>
Sample Payout – Fully Successful At Target 5%

<table>
<thead>
<tr>
<th></th>
<th>71-74</th>
<th>75-79</th>
<th>80-Dir</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Salary</td>
<td>$40,000</td>
<td>$70,000</td>
<td>$110,000</td>
</tr>
<tr>
<td>Performance</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Weighting</td>
<td>75%</td>
<td>50%</td>
<td>25%</td>
</tr>
<tr>
<td>Performance Total</td>
<td>$900</td>
<td>$1,050</td>
<td>$825</td>
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<td>Financial Component</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Weighting</td>
<td>25%</td>
<td>50%</td>
<td>75%</td>
</tr>
<tr>
<td>Financial Total</td>
<td>$500</td>
<td>$1,750</td>
<td>$4,125</td>
</tr>
</tbody>
</table>

**TOTAL PAYOUT**  $1,400  $2,800  $4,950
Sample Payout –
Fully Successful At Maximum 10%

<table>
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<td>Financial Component</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Weighting</td>
<td>25%</td>
<td>50%</td>
<td>75%</td>
</tr>
<tr>
<td>Financial Total</td>
<td>$1,000</td>
<td>$3,500</td>
<td>$8,250</td>
</tr>
</tbody>
</table>

**TOTAL PAYOUT**

<table>
<thead>
<tr>
<th></th>
<th>71-74</th>
<th>75-79</th>
<th>80-Dir</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,900</td>
<td>$4,550</td>
<td>$9,075</td>
<td></td>
</tr>
</tbody>
</table>
## Sample Payout Percentages

Min (4%) - Target (5%) - Max (10%)

<table>
<thead>
<tr>
<th>Grade</th>
<th>Fully Successful</th>
<th>Outstanding</th>
<th>Exceptional</th>
</tr>
</thead>
<tbody>
<tr>
<td>71-74</td>
<td>3.25% - 3.50% - 4.75%</td>
<td>4.00% - 4.25% - 5.50%</td>
<td>4.75% - 5.00% - 6.25%</td>
</tr>
<tr>
<td>75-79</td>
<td>3.50% - 4.00% - 6.50%</td>
<td>4.00% - 4.50% - 7.00%</td>
<td>4.50% - 5.00% - 7.50%</td>
</tr>
<tr>
<td>80-DIR</td>
<td>3.75% - 4.50% - 8.25%</td>
<td>4.00% - 4.75% - 8.50%</td>
<td>4.25% - 5.00% - 8.75%</td>
</tr>
</tbody>
</table>
Employee Recognition Programs

Recognition. From Every Direction.
Agenda

• Background
• Programs Overview
• Roles
• Q&A
Background

• Employee Opinion Survey
• Employee Recognition Action Team
  – 10 employees from differing levels across the Port
• Guiding Principles
  – Studied survey data and made conclusions on major opportunities
    • All Employees Participate
    • Varying Levels of Recognition
Award Tiers

Executive Director Recognition

Tier 3
Award Value up to $500

Tier 2
Award Value up to $200

Team Award
SMERF
passPORT

Tier 1
Award Value up to $25

Spot Bonus

Employee Recognition Programs
passPORT

• NEW PROGRAM
  – Based on survey feedback
  – Employee to Employee
  – Easy to use

• Administrative and Represented employees

Tier 1
Award
Value up to $25
passPORT

• Give for a variety of flexible job-related reasons
  – Job well done
  – Initiative and innovation
  – Memorable customer service experience
  – Going the extra mile
  – Proactively seeks to provide extra assistance
passPORT

• 2 Part Process
  – Awarder
    • Every employee gets a passPORT and stamps
    • See it - Reward it
  – Recipient
    • Collect stamps for awards
    • Share successes with manager
    • Redeem page(s) for awards
    • $5 value/page
SMERF
Supervisor and Manager Employee Recognition Fund

• NEW PROGRAM
  – Based on survey feedback
  – Informal
  – Easy to use
• Administrative and Represented Employees
• Annual Fund ~ $20 per direct report
• Immediate non-cash recognition
  – Non-negotiable item; coffee, snack, lunch
Team Recognition

• Net Changes
  – Core Team
  – Clear Criteria

• Award
  – $25 value ~ Net
  – Gift Card or Port Logo merchandise
  – Letter of Congrats from Executive Director
Spot Bonus

• NEW PROGRAM
  – Based on Total Rewards program design
  – Any manager may award, including cross-division lines
  – Flexible, discretionary cash bonus that allows for timely recognition & reward throughout the year

• Part of Administrative Compensation Program
  – For Administrative Employees

Tier 2
Award Value up to $200
Spot Bonus

• Awards
  – Levels: $50, $100, $200 cash bonus ~ Net
  – Award Certificate (optional)
Executive Director Recognition Program

• Net Changes
  – Addition of Represented Employees
  – Present at Commission meeting or similar public venue
  – Increase in Number of Potential Awards
  – Multiple Categories of Excellence
• Include Front-Line Staff to Project Managers

Tier 3 Award Value up to $500
Executive Director Recognition Program

- Categories
  - Keeping the Doors Open
  - Corporate Citizenship
  - Leadership
  - Fiscal Responsibility

- Award
  - $500 cash award ~ Net
Roles

• Employee
  – Positively recognize fellow employees when you see it

• Manager / Supervisor
  – Use programs
  – Recognize employees with appropriate level of award
  – Acknowledge achievement of employees
Results FY 2006-2007

• $155,000 Annual Budget for Rewards

• Track SPOT, Team, and passPORT only

• SPOT
  – Usage varies by division
  – Divisions spent 100% of $50k SPOT budget
  – 15% initiated outside division

• Team
  – 298 recipients
  – $7450 spent

• passPORT
  – Steady increase in utilization
  – 272 pages redeemed
  – 54 EE redeemed whole book
  – Positive employee feedback
Summary

- Five Award Offerings
  - Executive Director – Reach all levels of Employees
  - Team – Core members of Project Teams
  - Spot – On the Spot Supv./Mgr to Admin. Employee
  - SMERF – Supv./Mgr to Employee
  - passPORT – Employee to Employee