

Incentive Plan Design and Employee Recognition Programs



PORT OF PORTLAND

Possibility. In every direction.

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

Qualitative Research

- Conducted Director and select senior manager interviews
 - Perceptions of business and people challenges
 - Perceptions of total rewards
- Conducted five (5) employee and manager focus groups
 - Perceptions of total rewards
- Developed guiding principles for total rewards strategy

Quantitative Research

- Benchmarked Port pay
 - Published survey market data
 - Sampled 34 benchmark jobs
- Benchmarked Port benefits
 - Selected peer organizations (public and private)
- Determined total value of Port offerings (pay + benefits)
 - Pre-tax value to employees

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.

Median Total Cash Market Ratio (base + variable)	
Weighted average	Range
91.8%	70.1% - 110.2%

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

Performance Rating	Grades 80-Directors	Grades 71-79		
	Results Share	Award For Excellence	Performance Share (Add'l Pay)	Total
Exceptional	9.91%	3.0%	2.0%	5.0%
Outstanding	9.91%	1.5%	2.0%	3.5%
Fully Successful	9.91%	0%	2.0%	2.0%
Mostly Successful	0%	0%	0%	0%
Needs Improvement	0%	0%	0%	0%

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

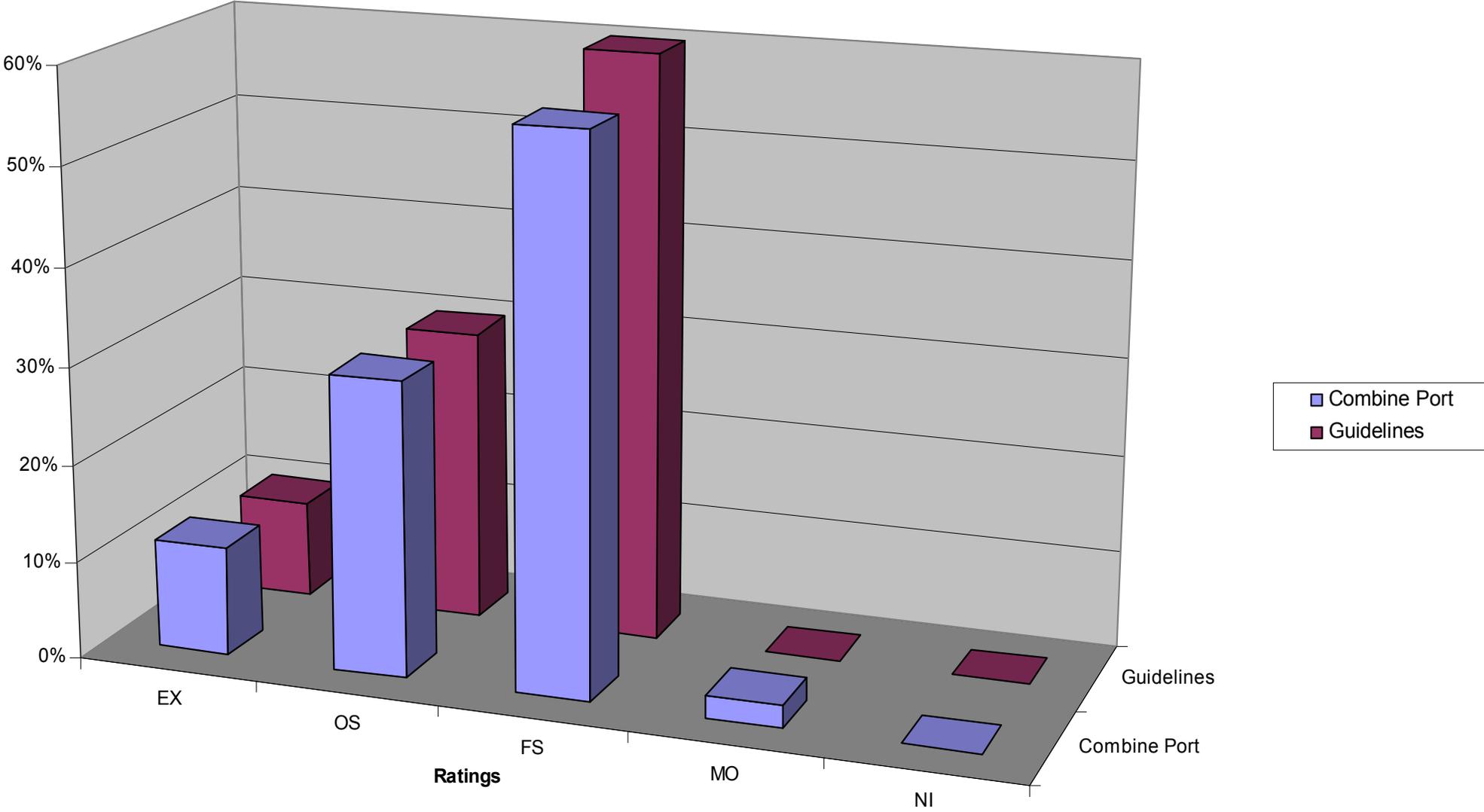
Differentiating Performance

- Differentiate performance through the rating distribution guidelines
- Measurements for differentiating performance:
 - Port of Portland distribution
 - Division level distribution
 - Grade distribution

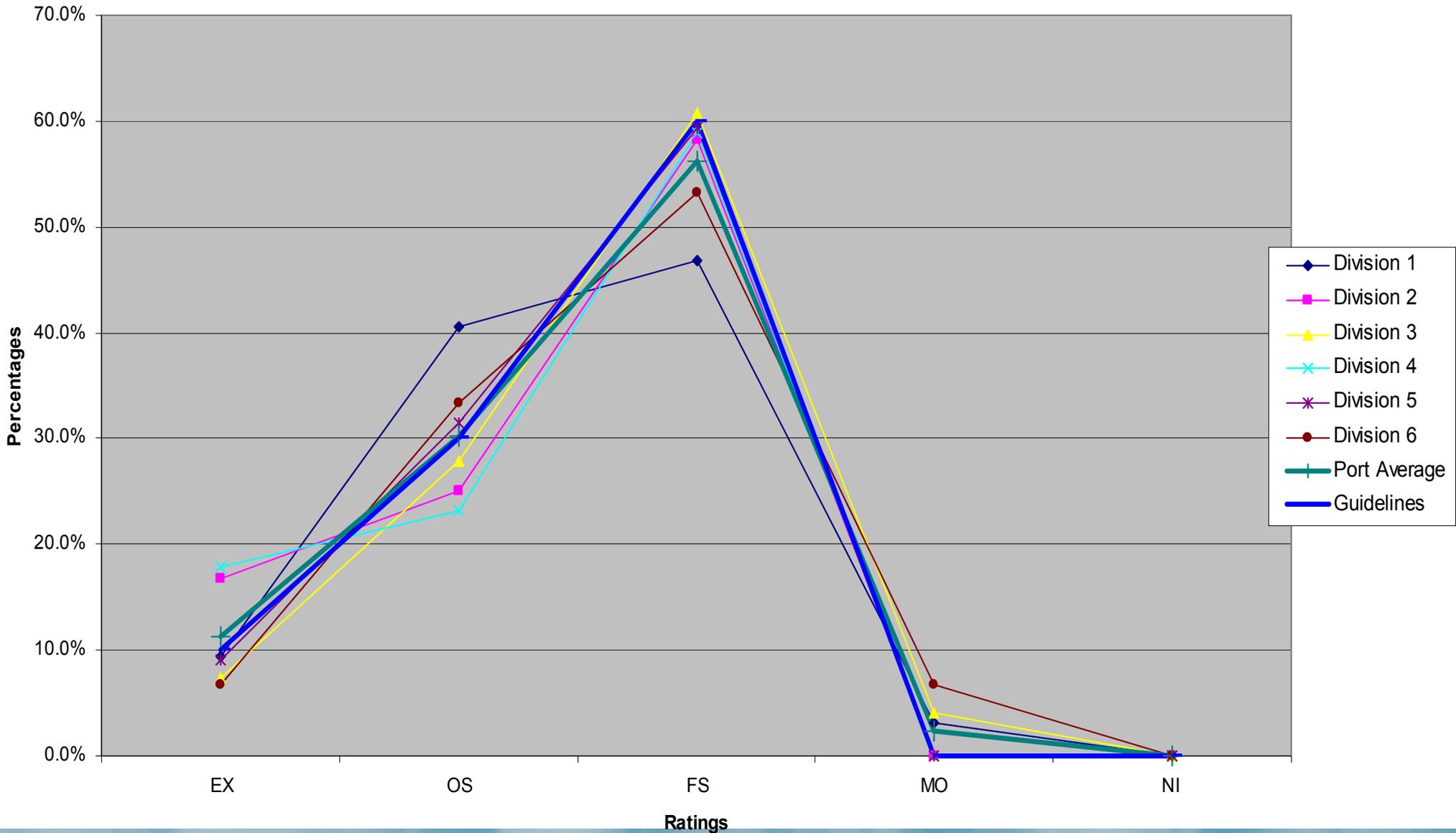
Distribution Guidelines

Performance Rating	Percentages
Exceptional	0-10%
Outstanding	20-30%
Fully Successful	60-70%
Mostly Successful	0-10%
Needs Improvement	No min/max

Port of Portland Rating Distribution



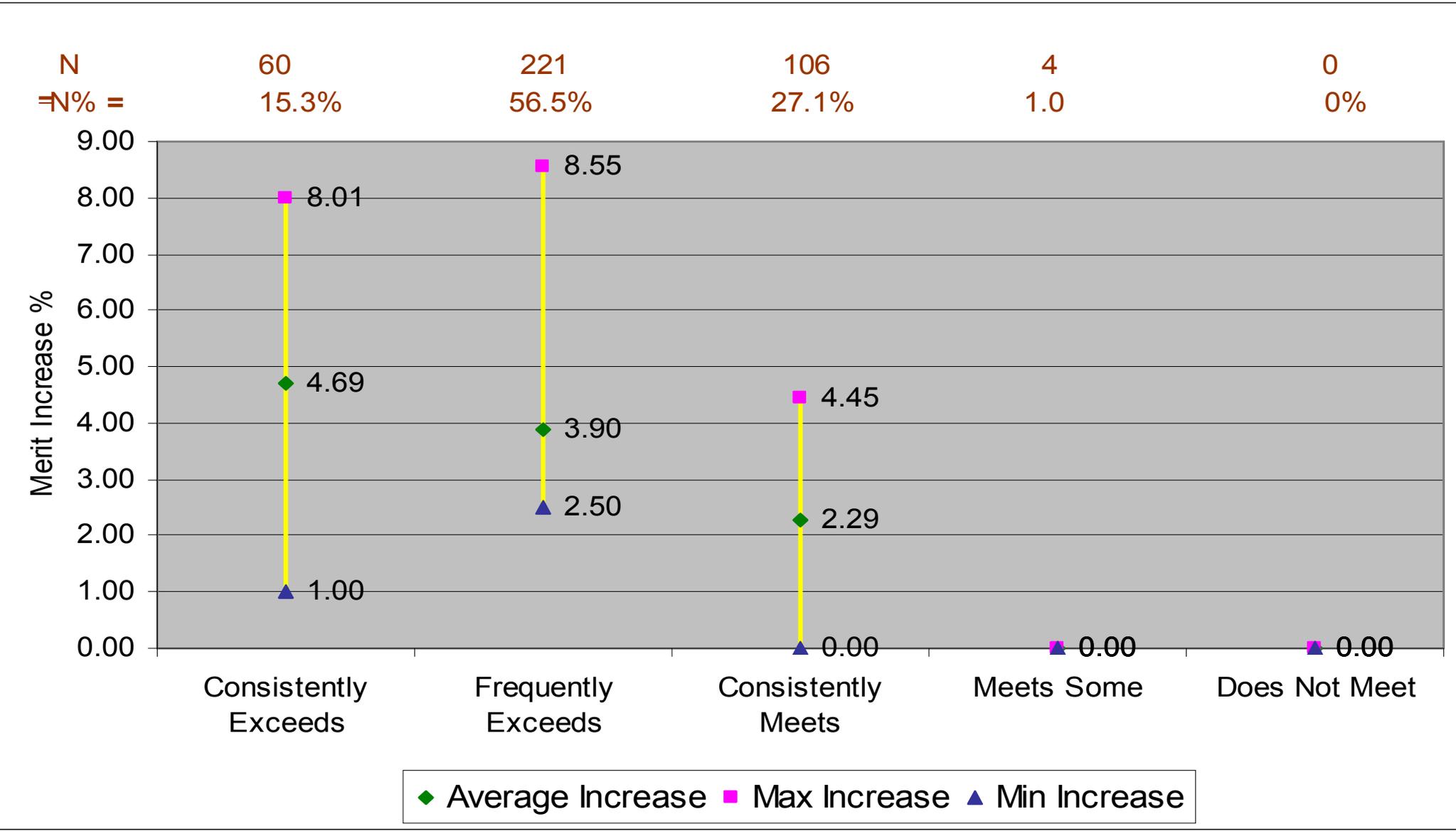
Division Rating Distributions



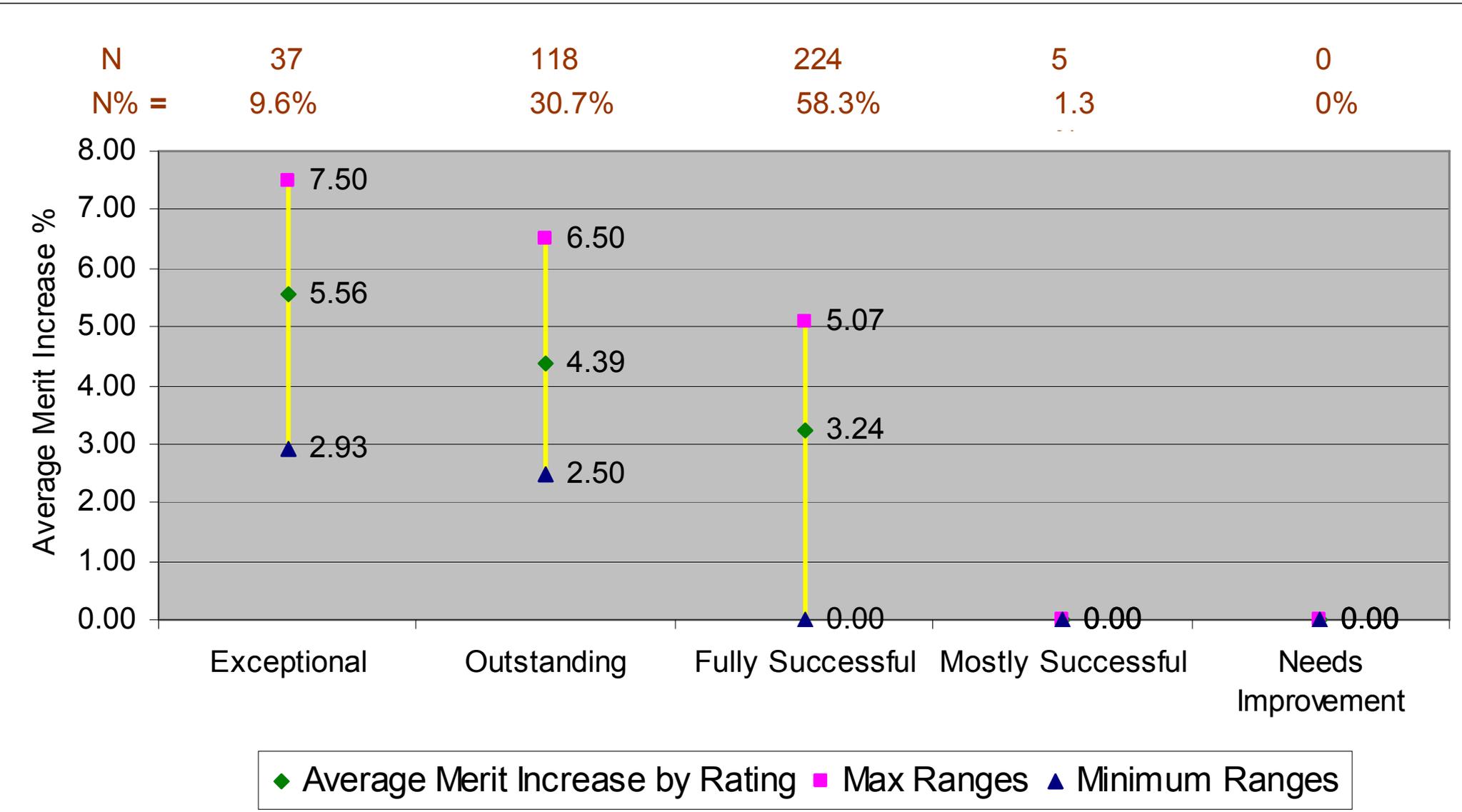
Rewarding High Performance

- 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



Merit Pay Ranges and Averages in 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

	Average % Paid (as a % of base pay)		
	All	Transportation	Public Administration
Non-Exempt Salaried Employees	6.1%	7.4%	5.8%
Exempt Salaried Employees	12.9%	12.1%	7.5%
*Management, Excluding Executives	17.3%	NA	NA
Officers and Executives	38.3%	26.5%	18.5%

Sources: World at Work 34th Annual Salary Budget Survey

*Watson Wyatt 2007/2008 Survey Report on Compensation Policies and Practices

Incentive Trends

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

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

Grade (Impact)	Performance Component Fully Successful = 3% Outstanding = 4% Exceptional = 5%	Financial Component Minimum = 4% Target = 5% Max = 10%
71-74	75%	25%
75-79	50%	50%
80-Dir	25%	75%

Sample Payout – Fully Successful At Target 5%

	71-74	75-79	80-Dir
Average Salary	\$40,000	\$70,000	\$110,000
Performance	3%	3%	3%
Weighting	75%	50%	25%
Performance Total	\$900	\$1,050	\$825

Average Salary	\$40,000	\$70,000	\$110,000
Financial Component	5%	5%	5%
Weighting	25%	50%	75%
Financial Total	\$500	\$1,750	\$4,125

TOTAL PAYOUT	\$1,400	\$2,800	\$4,950
---------------------	----------------	----------------	----------------

Sample Payout – Fully Successful At Maximum 10%

	71-74	75-79	80-Dir
Average Salary	\$40,000	\$70,000	\$110,000
Performance	3%	3%	3%
Weighting	75%	50%	25%
Performance Total	\$900	\$1,050	\$825
Average Salary	\$40,000	\$70,000	\$110,000
Financial Component	10%	10%	10%
Weighting	25%	50%	75%
Financial Total	\$1,000	\$3,500	\$8,250
TOTAL PAYOUT	\$1,900	\$4,550	\$9,075

Sample Payout Percentages

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

Grade	Fully Successful	Outstanding	Exceptional
71-74	3.25% - 3.50% - 4.75%	4.00% - 4.25% - 5.50%	4.75% - 5.00% - 6.25%
75-79	3.50% - 4.00% - 6.50%	4.00% - 4.50% - 7.00%	4.50% - 5.00% - 7.50%
80-DIR	3.75% - 4.50% - 8.25%	4.00% - 4.75% - 8.50%	4.25% - 5.00% - 8.75%

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

Tier 3
Award Value up to \$500

**Executive
Director
Recognition**

Tier 2
Award Value up to \$200

Spot Bonus

Tier 1
Award Value up to \$25

**Team Award
SMERF
passPORT**

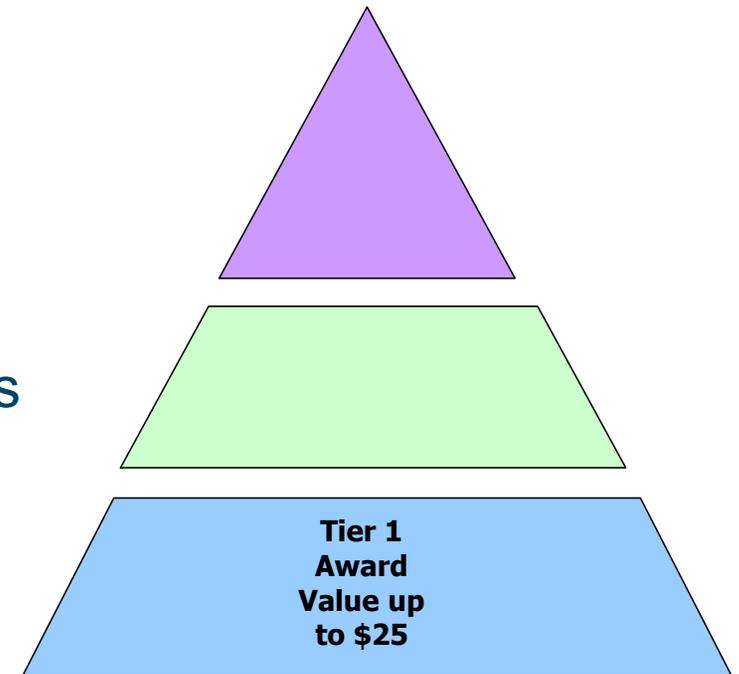
Employee Recognition Programs

passPORT

- NEW PROGRAM

- Based on survey feedback
- Employee to Employee
- Easy to use

- Administrative and Represented employees



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

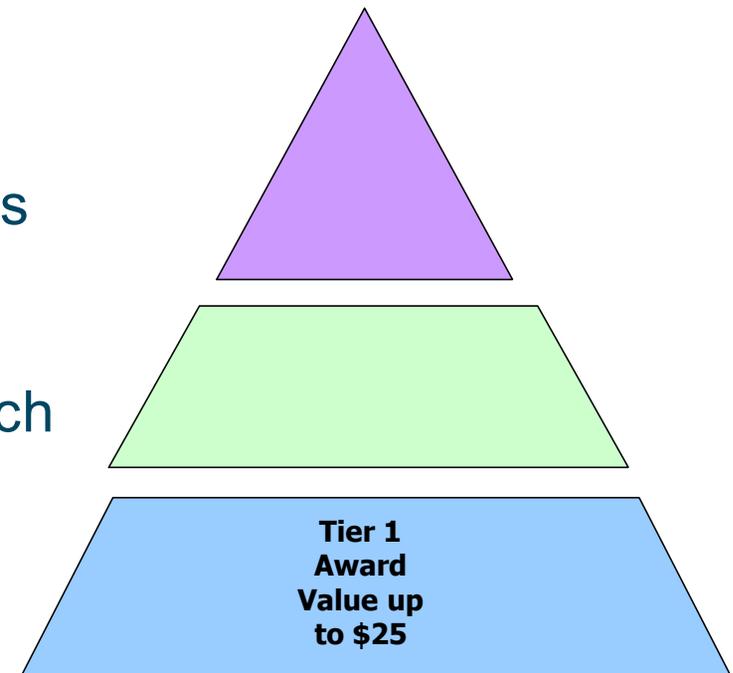
passPORT

- 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

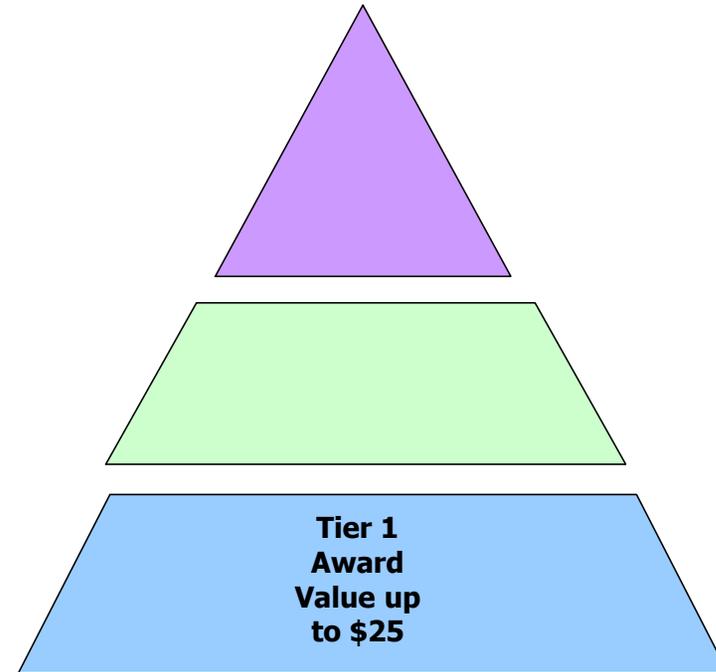
Supervisor and Manager Employee Recognition Fund

- 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



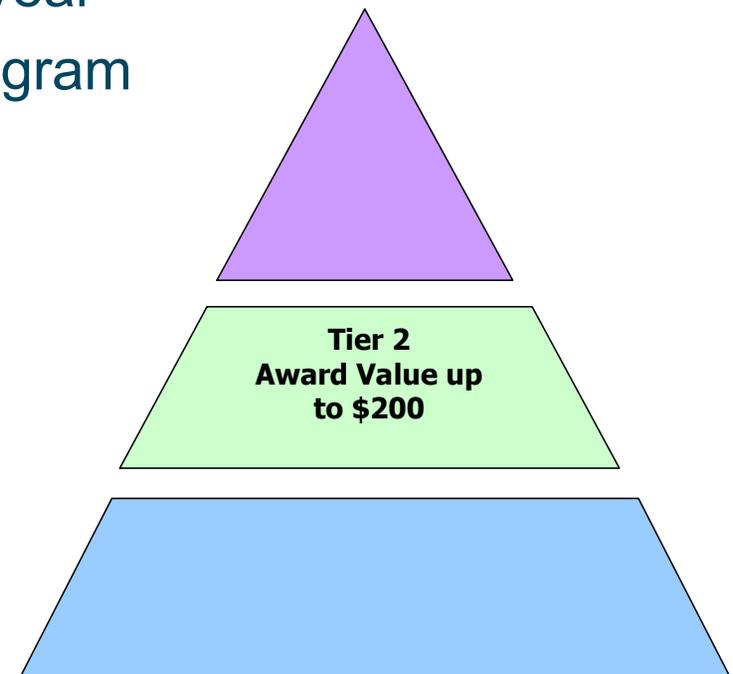
Team Recognition

- 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

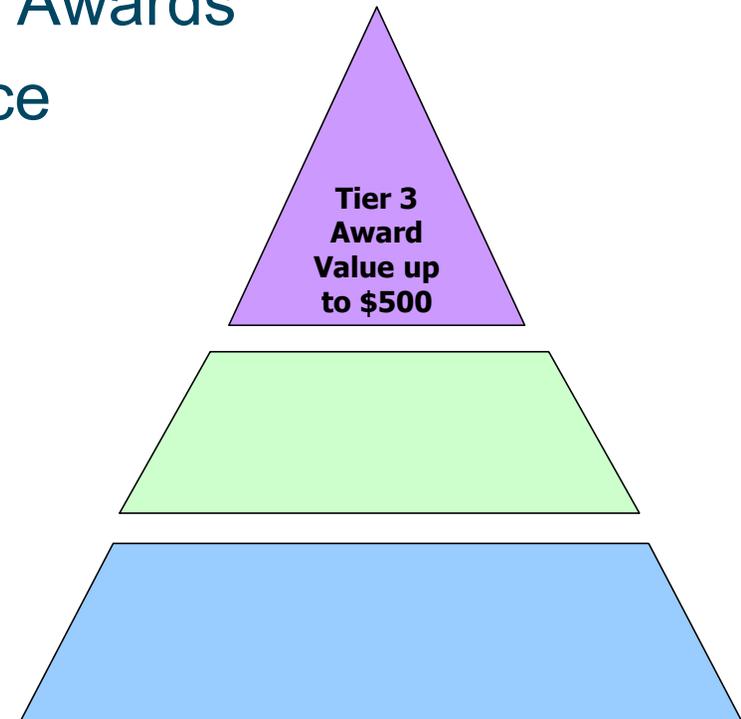


Spot Bonus

- 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



Executive Director Recognition Program

- Categories
 - Keeping the Doors Open
 - Corporate Citizenship
 - Leadership
 - Fiscal Responsibility
- Award
 - \$500 cash award ~ Net

Roles

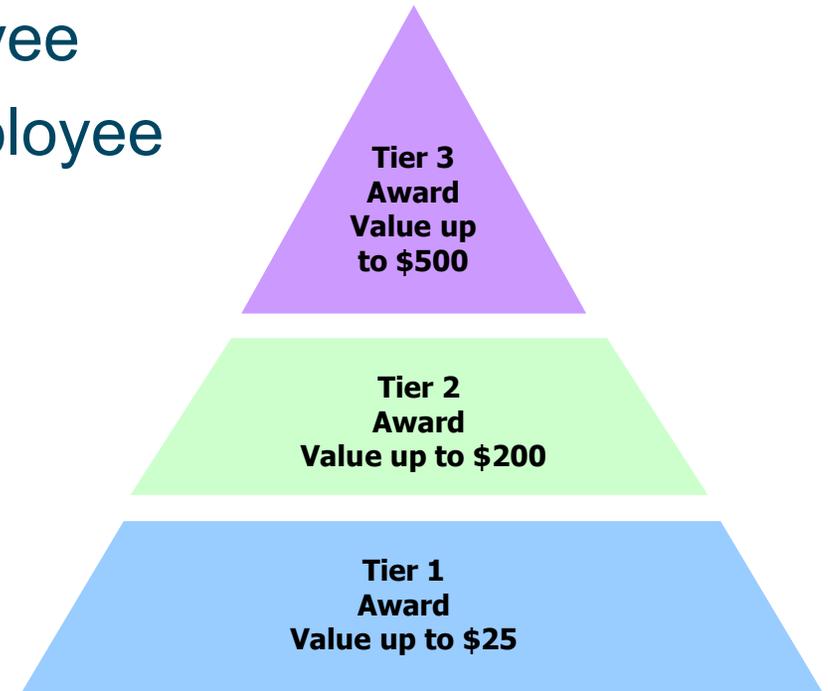
- Employee
 - Positively recognize fellow employees when you see it
- Manager / Supervisor
 - Use programs
 - Recognize employees with appropriate level of award
 - Acknowledge achievement of employees

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



Q & A