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The Compensation Conundrum

Pay is pivotal in attracting and keeping good employees but being overly generous can be as big a mistake as being too stingy

by Bruce Rabik

If last year was anything to go by, employee compensation will be one of the most challenging issues of 2002, second only to the demands of the hard market.

In 2001, brokers requested Cookson Walker's assistance on the remuneration question more than any other topic. And, as it's becoming even more difficult to attract and retain qualified staff, policy in this area will no doubt turn into an increasingly critical concern. Given that total compensation represents about 70% of a brokerage's expenses, getting the formula right is crucial to success.

Compensation is important on so many different levels. Staff interpret remuneration as a sign of management's fairness; between partners it can be a major cause of friction, and in family-owned firms, inappropriate compensation policies are often a lightning rod for discontent among non-family members. Pay is a large part of how we motivate sales people to sell and it's fundamental to how we judge our importance in organizations and how we are allotted a spot in the workplace pecking order. Get compensation wrong and the best recruiting techniques, performance appraisals, organizational structure and training won't make up for what will be lost in employee morale and dedication.

How are brokers doing? In 2001, Cookson Walker conducted a compensation survey covering more than 750 insurance brokerage employees in Alberta and Ontario, as well as another survey of some 500 brokerage staff in the lower mainland of British Columbia. On top of that, in-depth interviews were carried out with more than 400 customer service representatives, producers and brokerage principals throughout the year. What emerged were seven common mistakes.

Inequality

The research shows that if employees don't know what their colleagues are being paid they will assume the worst - that is, that they're underpaid compared to the person working at the next desk. Since most broker managers ask that pay be kept confidential, it follows then that most brokerage staff are indeed assuming the worst.

Why do brokers set themselves up that way? The common answer is that employees don't know all the reasons behind compensation decisions, so trouble would be stirred up if salaries weren't kept private. That answer is correct - but not for the reasons one might think. Few brokerages have any kind of remuneration policy and what we find is that many pay more because particular employees complain more or because they're favoured by the brokerage owner. But the fact is, brokerage staff members do talk and

they are aware of what others are paid. So get compensation policy out in the open, make it transparent and make it fair.

Paying producers too much

This is a huge issue that brokerages of all sizes have struggled with over the past couple of years. The trend is for larger brokerages is to pay producers 40% to 50% commission on new business and 30% to 35% commission on renewals with full CSR support. As well, personal lines and small business below a certain threshold may be dispensed with, allowing them to focus on larger, more profitable accounts. But then some brokerages still pay their producers more than these benchmarks while expecting the producer to do the work of the CSR as well. Personal lines producers are typically paid a combination of base salary and commissions.

Sexism

In an industry where the majority of employees are female but the majority of brokerage owners are male some inequity in how women are paid is probably predictable. However, it's a bad business practice. Many women working in brokerages are discouraged about the industry. A common situation is that of the senior CSR and the producer who really isn't a producer: The CSR (typically female) is paid a lot less than the producer (typically male) but serves as the main contact with the client and generates referrals due to the quality of her work. Eventually, frustration sets in. What really rankles CSRs is the producer who was "gifted" the business, leaves early most days and indulges in long lunches, not to mention the ubiquitous golf games. Few begrudge the true producer, who often works eccentric hours but consistently posts big new business numbers and keeps in constant contact with his clients.

Limited perspective

Compensation is not just about money. One client brokerage did not pay particularly well but when asked why no one ever quit the firm, most staff members gave the same answer : There was great flexibility in getting time off to care for sick children or attend to other family needs. For many employees, there are other considerations besides the next raise. Those brokerages that show compassion and flexibility earn a degree of loyalty that other brokerages can only envy.

Not tying pay to performance

In the lower mainland of B.C., half of the brokerages surveyed give all staff similar raises each year. That would be fine if everybody performed equally but, since that's highly unlikely, what signals is management sending? To staff, the message is probably that there is no need to work harder because one and all gets the same raise regardless of effort and raises, in any event, will be determined by how well the company did this year and not based on individual performance. Based on more than 100 interviews with CSRs in 2001, their most common complaint is that they get no feedback from management and that management isn't clued into what's happening on the frontlines.

Inane bonus plans

The bonus plans we see are often too complicated, not tied to measurable performance or are just plain dumb. One staff member of a large national brokerage showed us a multi-page description of the bonus plan that she was eligible for. There were detailed descriptions and examples and then a statement that the maximum bonus this employee could receive that year was \$230! That's for an employee who received a "very good" performance appraisal.

Bonus plans should be in line with corporate objectives. They should be transparent and easily understood and tied to either individual or team performance or a combination of both. An individual must also have the opportunity to earn at least 5% of their base salary or the bonus plan will have no impact.

Overpaid offspring

It's only human nature to wish the best for your children but many brokerage owners are hurting the careers of their sons by not demanding the same performance as expected of other employees for the same compensation. Different treatment often breeds inflated expectations and poor business skills. This is a major reason why the probability of a successful transition of a business from the hands of a father to a son is only about 30%. While we don't suppose that daughters are immune to this affliction, there are still too few of them in the business to make such generalizations.

Because of these various mistakes, many brokers are missing wonderful opportunities to improve performance and send the right messages to their staff through thoughtful compensation policy. Other brokerages have tied compensation to performance and ended the yearly ritual of raises.

As Jack Welch, former President of General Electric and generally regarded as one of the great CEO's of the past century said: "Rewarding your employee – that's what it's all about. The most important thing I do as a leader is align the kind of rewards I give out with the kind of behaviour I want."

So, exactly how do you design a proper compensation policy for brokerages? Cookson Walker recommends four steps.

First, consider the context. Compensation must be consistent with the culture of a firm and what it's trying to accomplish. It must also take into consideration regional differences. Brokers in Calgary pay differently than in Marystown, Nfld.

Next, begin the design of the compensation policy by considering that income from shareholdings (i.e. profit-taking as an owner) is different from income from employment (i.e. pay for work performed). Failure to heed the difference means that many brokerage owners are compensated inappropriately when compared with their partners. Then look at the specifics of the job in question and what kind of behaviour is to be encouraged in that position.

Third, assess the value that the job has to the firm and what merit good performance brings to the firm versus merely adequate performance.

Finally, weigh whether your employees enjoy equity not only with each other but with competitors. Make sure that compensation has been evaluated in its totality and that you've considered other benefits that employees might value, such as time off to deal with family matters.

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