

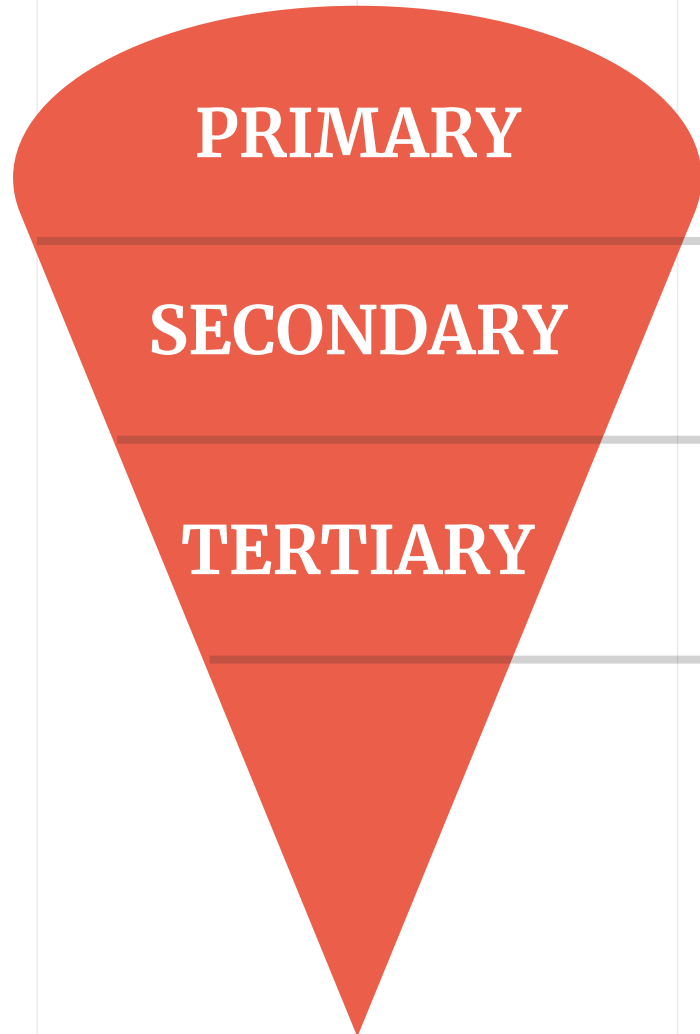


Developing a Compensation Strategy

david c. baker
march 24, 2021



Drivers



PRIMARY

Organization's long-term viability

SECONDARY

Balancing the tradeoffs to get it as right as possible for the individual team members

TERTIARY

Best decisions are made within a judgment system that fosters good decision outcomes

Forces

Incentives are
powerfully
misaligned:
individuals vs.
leaders

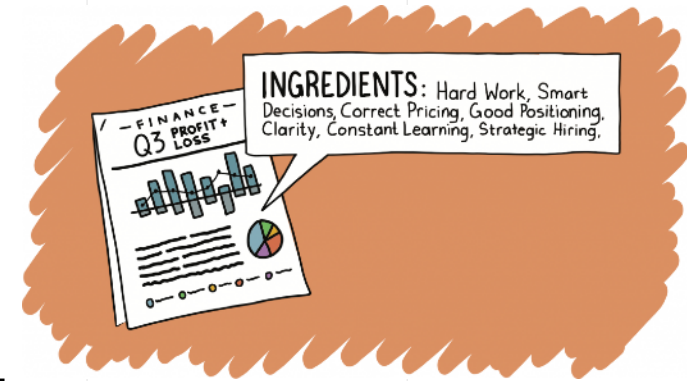
**MISALIGNED
INCENTIVES**

Entropy can
destroy the
craft in a few
seconds:
helicopter vs.
fixed wing

ENTROPY

Accepted Truisms

- ▶ you need a system to guide your decisions
- ▶ frequent adjustment is better than major corrections
- ▶ your monetary decisions send confirming signals
- ▶ those signals are constant value judgments
- ▶ a lot of important things cannot be measured
- ▶ your inevitable mistakes should be corrected quickly
- ▶ good leadership is hard; equity is easy



It's human to be unduly influenced by people who...

- ▶ sell themselves well
- ▶ know what other people make
- ▶ have been there a long time
- ▶ have freed you up from things you hated



...so recognize in yourself

- ▶ where you are on the freedom::equity spectrum
- ▶ how you react to feeling manipulated vs. generous
- ▶ where you are conflict averse



Characteristics of a well-formed compensation system

- ▶ sees compensation as one of many important elements (career path, culture, etc.)
- ▶ employee turnover is painful but healthy
- ▶ no single person should hold the team hostage
- ▶ constant learning creates a dynamic team
- ▶ perfect decisions are out of reach
- ▶ higher compensation isn't function of time but of additional added value

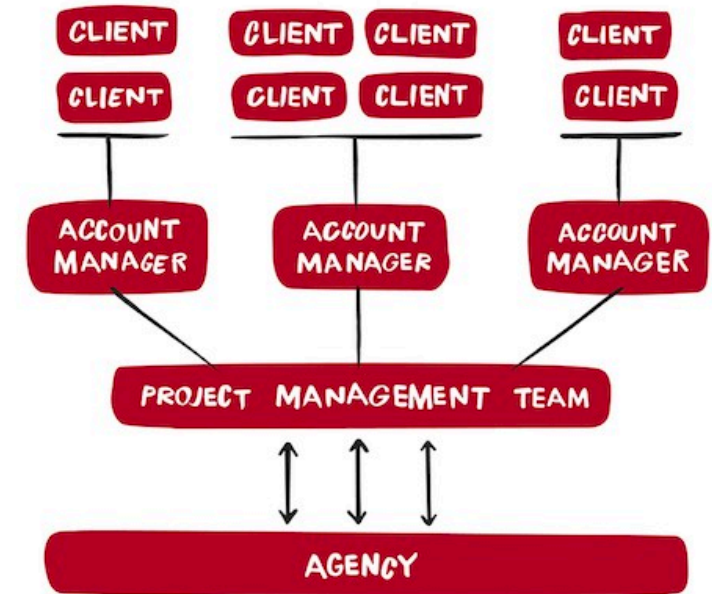
What this looks like in real life

- ▶ anniversaries should be staggered
- ▶ your team deserves explicit judgments
- ▶ decisions are controlled at the top by overall budget, but
- ▶ individual decisions are pushed downward
- ▶ geographic locale vs. remote
- ▶ personal decisions (family) vs. value to the org
- ▶ positioning, biz dev, and pricing all supply the money pool



You'll make better decisions if...

- ▶ you pretend everyone knows what everyone makes
- ▶ you have a trusted advisor (partner, peer)
- ▶ your ecosystem welcomes turnover: it's how a person makes more
- ▶ supply of great people is bigger than demand
- ▶ you accept healthy tension
- ▶ you increase prices before adding capacity



Q&A



How much should I make?

- ▶ enough to keep you (and a future principal) interested

How much can I spend?

- ▶ includes yourself, normalized
- ▶ whole pool is 45%, unburdened
- ▶ any extra comes from facility, profit, your comp

When should I add a team member?

- ▶ when growth is the better option



How can I incentivize the team?

- ▶ You can't. Only the individual.



Should partners make the same amount?

- ▶ yes, unless it's a token partnership



Are commission structures good?

- ▶ only if the individual wants it

What are the best sources for localized compensation data?

- ▶ Look for distribution percentages and not individual benchmarks

Why do AMs make more than PMs?

- ▶ It's wrong about career path
- ▶ It's wrong about contribution

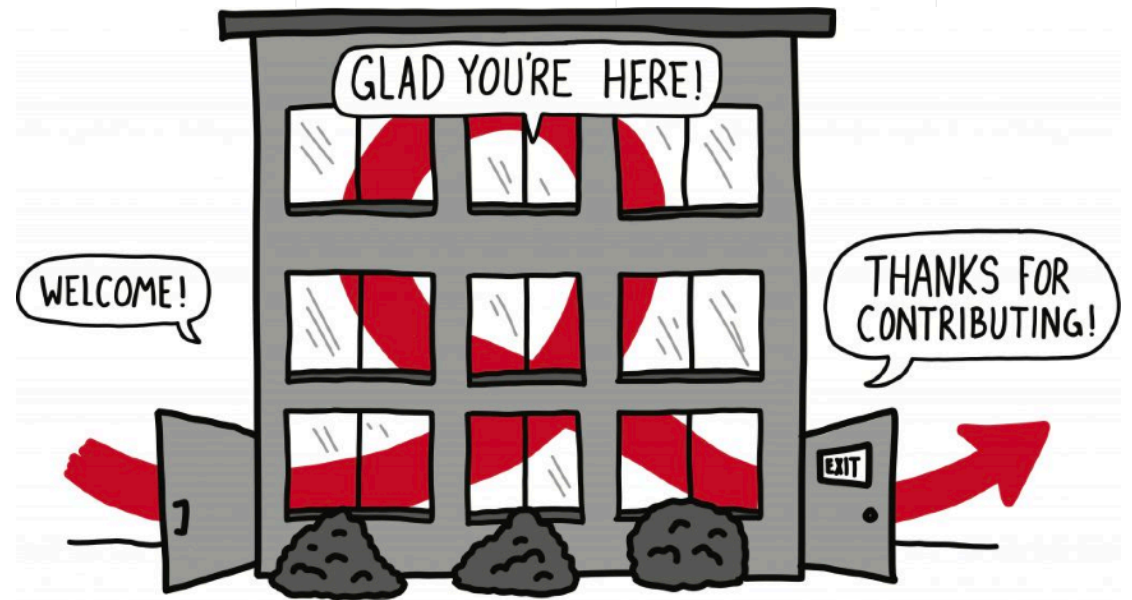


Examples of aligning value and money

- ▶ loyalty to the group
- ▶ personal risk taking
- ▶ embracing the corporate ethos
- ▶ speaking truthfully and kindly

When you overpay someone, you are...

- ▶ reallocating money that could go somewhere else
- ▶ building unrealistic expectations
- ▶ thus accelerating their eventual departure



Should you match an outside offer an employee gets?

- ▶ Only if it corrects a wrong you should have seen earlier

Should we have public compensation bands (ranged)?

- ▶ yes
- ▶ tied to contribution and not time served
- ▶ invites healthy scrutiny

Spot bonuses are better than pay increases

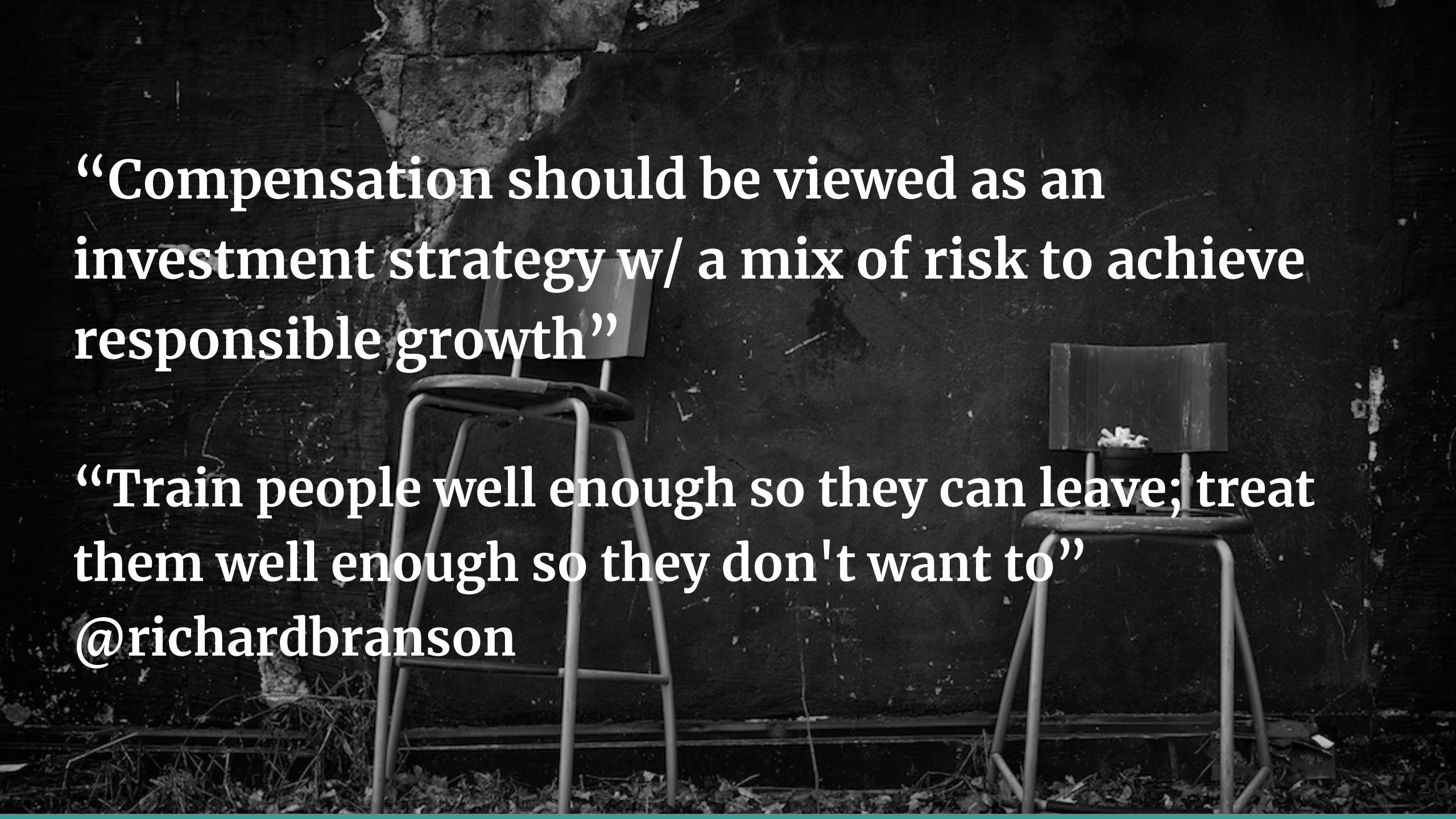
- ▶ former is tied to power you must be comfortable with
- ▶ former provides more flexibility for you but less predictability for them

Your best employees...

- ▶ are undiscovered until you unearth them
- ▶ understand the tensions
- ▶ used to run a firm
- ▶ are boomerang hires
- ▶ remember your influence their entire lives

Examples of how my comp decisions reflect my values

- ▶ squeaky wheel
- ▶ reduced tension
- ▶ quiet cultural contribution



“Compensation should be viewed as an investment strategy w/ a mix of risk to achieve responsible growth”

“Train people well enough so they can leave; treat them well enough so they don't want to”

@richardbranson



Your questions



Positioning, Reinventing, and Selling Firms in the Creative and Digital Space

davidcbaker.com
 expertise.is
 creativevalue.co

© copyright 2021. all rights reserved.

