

Executive Annual Re-earnable Performance-based Incentive Compensation Plan Framework

As communicated to districts in *Exempt Staff Issues* bulletin No. 2007-01 dated September 6, 2007, the revised salary ranges for the positions of Superintendent and Secretary Treasurer contained in the BCPSEA sectoral exempt compensation management plan (BCPSEA Policy 95-06, *Compensation and Employment Standards for School District Employees Not Subject to a Collective Agreement*), as approved by the Ministry of Finance, include provision for an executive annual re-earnable performance-based incentive compensation plan (Incentive Plan).

Attached is the Executive Annual Re-earnable Performance-based Incentive Compensation Plan Framework. This appendix to Policy 95-06 describes guidelines for development and administration of Incentive Plans that are consistent with industry best practice and the guidelines established for such plans by the Public Sector Employers' Council.

The Incentive Plan concept fits within the BCPSEA Sustainable Workforce Initiative and attempts to address the following realities as they relate to exempt staff.

- The demographic and economic changes BC and Canada will experience in the coming decades:
 - Demographics (students and the workforce)
 - Technological, societal, and exponential changes
 - The nature and needs of students
 - Public expectations of public education.

These challenges will not be simple extensions of past trends and no single approach will be enough to resolve the diversity of challenges that will arise, hence the need for a multi-pronged approach:

- The salary ranges (the approach to the executive salary range structure is under review)
 - Development of an incentive plan model.
- From an employer's perspective in dealing with senior leadership, being a leading employer is about creating an environment which enables everyone to reach their maximum potential. Part of this process includes:
 - Identifying key performance measures
 - Identifying key value drivers
 - Providing the Board of Education with the context for aligning compensation and incentives with the district's specific goals.

Related to this is the exploration of other compensation strategies, such as an incentive plan.

The Incentive Plan approach is fairly widespread for executives in the private sector and is also a feature of executive compensation in the crown corporations sector as well as universities and some colleges. It is, however, new territory for school boards. In relation to other such plans, the Incentive Plan framework for the K-12 public education sector is a modest first step. As with all new ideas, the Incentive Plan will evolve — the intent is to introduce the concept and guidelines, develop a working model, implement it, and learn from our experience with respect to the amount of the incentive, the criteria to access the incentive, and whether the incentive achieves the purpose for which it was created.

Ideally, the Incentive Plan will also create an additional forum for Boards and executive staff to talk about goals, plans, innovation, and achievement.

Does the concept of an executive Incentive Plan really apply in public education?

- Yes — we plan, set goals, and set performance measures
- There are results — this concept integrates the goals, plans, measures, and results to focus on continuous dialogue and improvement
- It is a test for us — we'll see how it works based on our experience.

Questions

Upon review of this framework document, Boards and their executive staff interested in pursuing development of an Incentive Plan may wish to contact Deborah Stewart, Senior Human Resources Consultant (604.730.4506, deborahs@bcpsea.bc.ca), for discussion and assistance in developing and implementing an Incentive Plan for use in the district.

Excerpt from Policy 95-06, *Compensation and Employment Standards for School District Employees Not Subject to a Collective Agreement*

Appendix 2

Executive Annual Re-earnable Performance-based Incentive Compensation Plan Framework

Background

This appendix to Policy 95-06, *Compensation and Employment Standards for School District Employees Not Subject to a Collective Agreement*, describes guidelines for development and administration of Executive Annual Re-earnable Performance-based Incentive Compensation Plans (“Incentive Plan”) that are consistent with industry best practice and the guidelines established for such plans by the Public Sector Employers’ Council.

The Incentive Plan is a new feature in conjunction with the revised salary ranges for the Superintendent and Secretary Treasurer. This approach is fairly widespread for executives in the private sector and is also a feature of executive compensation in the crown corporations sector as well as universities and some colleges. It is, however, new territory for school boards.

In relation to other such plans, the Incentive Plan framework for the K-12 public education sector is a modest first step. The intent is to introduce the concept and guidelines, develop a working model, implement it, and learn from experience.

The objectives of incentive plans¹ generally are to:

- effectively communicate organizational goals and objectives
- align individual and organizational goals and objectives
- reward effort and results
- provide competitive compensation
- provide a clear, consistent basis for determining compensation.

The Incentive Plan clarifies what the individual needs to do in order to influence the amount of their annual re-earnable incentive payment. It allows individuals to set objectives aligned with overall organizational targets and measure success based on achievement. It will evolve in future years as executives and Boards become more familiar with the identification of objectives and the development of key performance indicators.

Ideally, the Incentive Plan will also create an additional forum for Boards and executive staff to talk about goals, plans, innovation, and achievement. It is critical that the executive participate in the design of the process to ensure that s/he finds it fair and valuable.

¹ Executive Pay for Performance, Hay Group, 2007.

Recommended Components of Incentive Plans

While performance-based incentive plans can play an important role in an employer's total rewards approach, the plan should reward appropriate levels of effort. Following are the recommended components of an annual re-earnable performance-based incentive compensation plan.

➤ **Plan Governance and Administration**

- The Board of Education should be directly accountable for development and oversight of the executive Incentive Plan. The Board should establish a human resource/compensation committee of the Board to oversee implementation and administration of the plans.
- The BC Public School Employers' Association (BCPSEA) must review and approve any Incentive Plan prior to adoption by the Board. Further, upon approval and adoption of the Incentive Plan, the district must make submission to BCPSEA for approval of any re-earnable payment under the Incentive Plan prior to implementation by the Board.

➤ **Overall Incentive Plan Principles**

- The award made under the Incentive Plan must be re-earnable on an annual basis and not guaranteed from year to year.
- The award should be designed to reward superior overall achievement.
- The award, where approved, must be delivered in a lump sum cash payment and is not pensionable.
- The award must be reported as part of total compensation in the year in which it is earned and must be reported as a separate component of the total compensation package (i.e., it cannot be "rolled into" annual base salary for reporting purposes).

➤ **Defining Objectives and Performance Measures**

- All objectives must align with the organization's strategic plan and consider:
 - Finances — Measures contribution toward achieving defined financial management goals.
 - Processes — Measures contribution toward increased efficiency and effectiveness.
 - People — Measures initiatives which have the potential to improve performance levels for both employees and students.
 - Clients — Measures contribution towards public satisfaction with the delivery of public education in the school district.
- The number of objectives defined should be manageable.

- Performance measures must demonstrate the delivery of clear benefits to the organization. Measurement of objectives should be based upon consideration of the following performance categories:
 - Organization performance
 - Group performance (if applicable)
 - Individual performance.
- Performance in each category is measured in accordance with achievement of the specified objectives. The degree to which the objectives are achieved sets the basis for target performance.
- Target performance must be based on the following principles:
 - Targets must link directly to the Board business plan(s).
 - Targets, particularly for the position of Secretary Treasurer, must include a significant weighting (e.g. 30% to 50%) for financial performance.
 - Targets must be controllable by the employer.
 - Targets must be based on simplicity and transparency (e.g., not too many targets).
 - Targets must include a mix of short-term and longer-term objectives.
- Ensure that the measures used are appropriate for key performance indicators. Where possible, performance measurement should be quantifiable. In many cases, however, performance measurement will be qualitative and, therefore, a subjective determination will have to be made.
- The weightings for each of the performance categories will vary for each executive depending on individual roles and responsibilities. The relative weightings assigned to the performance measures should reflect the individual's ability to impact results; i.e., for executive employees, the emphasis placed on organizational performance should be no less than 70%.

Following is a sample "scorecard":

Issue	Goal/Objective	Measure	Weighting
Issue	Goal/Objective	Measure	Weighting
Issue	Goal/Objective	Measure	Weighting
Issue	Goal/Objective	Measure	Weighting

Note: When evaluating goal achievement, consideration should be given to the following:

The public education sector is subject to external factors that may not be known at the time of development of the goal. Therefore, progress and adaptation of business plan elements are subject to unanticipated changes in the operating environment and emergent issues not anticipated at the time of development. While plans by their nature must be dynamic, consideration will be given to the nature and effect of the external factors on the process.

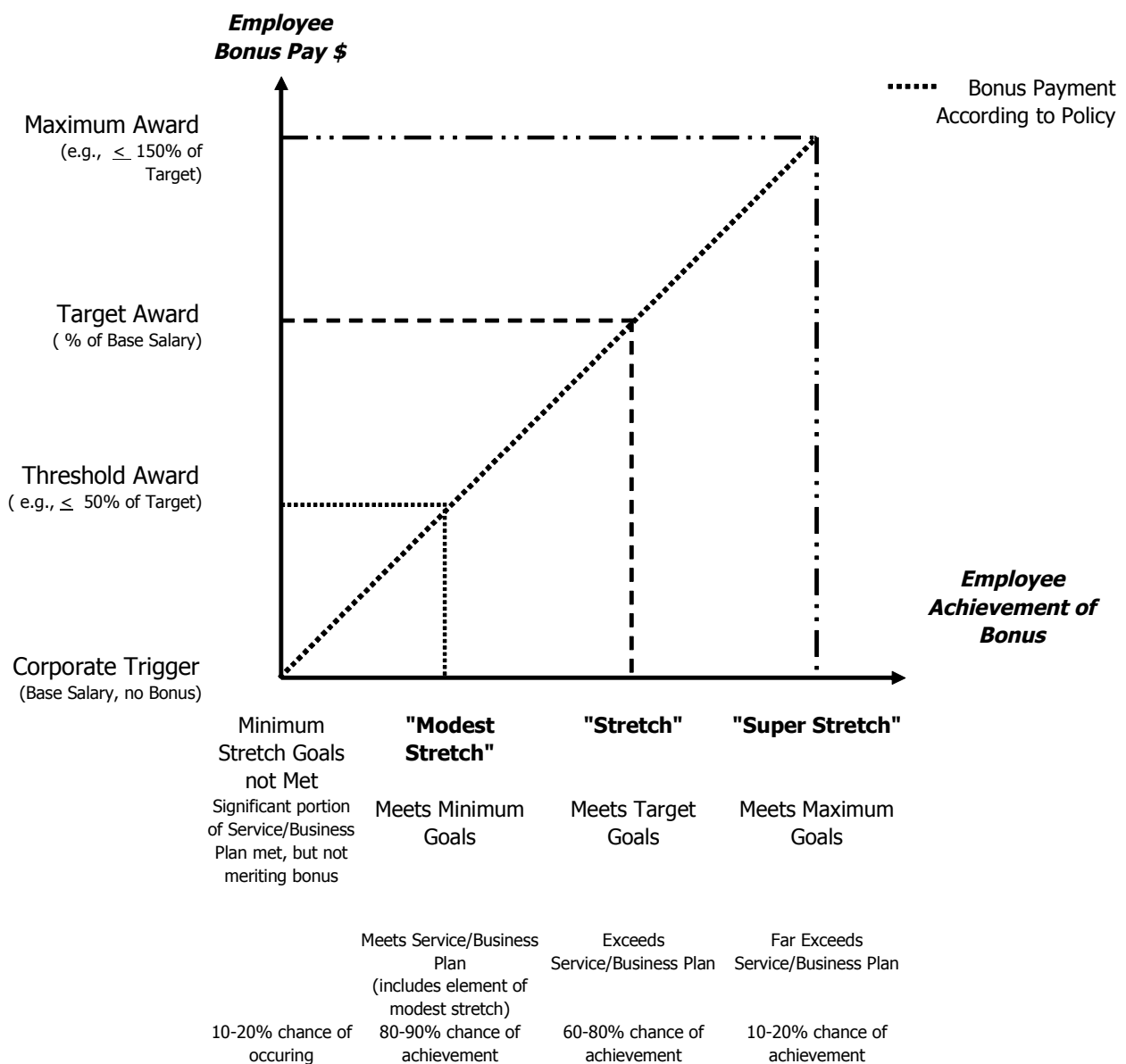
➤ Award Levels

- The Incentive Plan should define three levels of award:
 1. A minimum level of achievement known as a "threshold" level. To merit this award, pre-established objective performance targets (which should incorporate a modest element of "stretch") must be achieved. There should be an 80% - 90% chance of this level being achieved.
 2. A superior or "stretch" level of achievement known as a "target" level. To merit this award, business plan targets must be exceeded. There should be a 60% - 80% chance of this level being achieved.
 3. A vastly superior or "super stretch" level of achievement known as a "maximum" award. To merit this award, business plan targets must be far exceeded. There should be a 10% - 20% chance of this level being achieved.

- The target award is defined as a percentage of base salary, and the threshold and maximum awards defined as a percentage of the target (e.g., threshold of 50% of target, maximum of 150% of target).
- No award should be payable where overall corporate performance does not meet the pre-determined threshold level (i.e., business plan targets are not met).

The following schematic demonstrates the award levels and their relationship to performance.

Award and Performance Matrix²



² Variable Incentive Pay Compensation Plans Policy Guidelines & Principles, Public Sector Employers' Council, 2005.

➤ **Process**

Step 1	Determine Organizational, Group (if applicable) and Individual Objectives
	As determined by business plan(s) and budget.
Step 2	Develop Scorecard
	Determine weighting allocated to each performance category
	Include organizational, group, and individual objectives and key performance indicators
	Establish individual performance measures
	If the performance category has more than one objective, establish the weighting allocated to each objective
Step 3	Informal Progress Updates
Step 4	Complete and Implement Assessment
	At the end of the fiscal year, assess the performance for each objective on the scorecard
	Determine the award level and pay out the annual incentive earned

➤ **Documentation and Disclosure**

As part of good organizational practice, employers should retain documents describing and justifying payments under the Incentive Plan. Boards of Education have the added obligation under the *Public Sector Employers Act* of obtaining the approval of BCPSEA prior to providing an Incentive Plan award, and of making the Plan documents and other supporting documents available to the public for viewing.

Getting Started

Upon review of this framework document, Boards and their executive staff interested in pursuing development of an Incentive Plan may wish to contact Deborah Stewart, Senior Human Resources Consultant (604.730.4506, deborahs@bcpsea.bc.ca), for discussion and assistance in developing and implementing an Incentive Plan for use in the district.