

Setting a Process for General Manager Compensation

BY MARK GOEHRING AND CAROLEE COLTER

What are some words that come to mind when you think of general manager compensation? Uncomfortable. Problematic. Crazy. Or: Exciting. Challenging. Strategic.

Even though everyone might say that general manager (GM) compensation is important, it doesn't always get handled that way. In order to help your board and GM approach this topic in a way more like the latter three words than the first three, we have designed a process for you to consider implementing at your co-op.

Here are the outcomes we can expect from such a process:

- GM compensation decisions become strategic and not emotional or contentious.
- GMs are fairly compensated for their work and feel satisfied with their compensation.
- Directors understand the consequences of GM compensation decisions.
- Boards understand the components of compensation and their relative uses.
- GM compensation plan is planned with reference to the market so that it is attractive to qualified candidates when a board needs to hire a new GM.
- Directors can articulate the board's values related to GM compensation.

The first time with this process may take longer than the one you're currently using. If your board is on a cycle of reviewing or setting GM compensation annually, we suggest you bring this to the board soon after compensation has been set for the coming year. See the flow chart at right which illustrates the process.

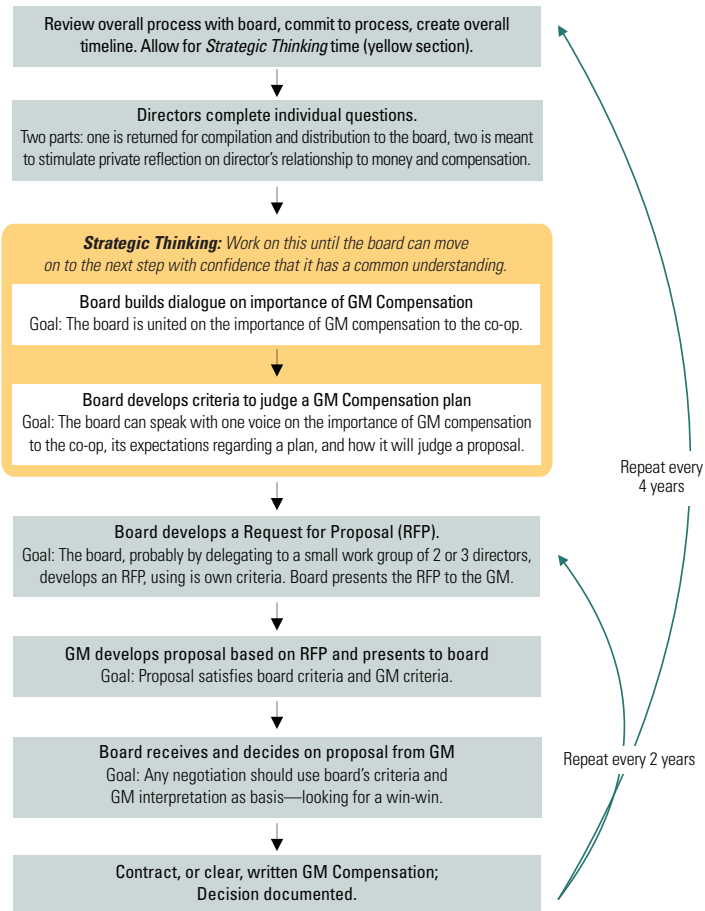
Steps to a compensation plan

1. Board reviews and commits to overall process, creates time in a series of meetings.
2. Directors complete individual questions.
3. Board builds dialogue on importance of GM compensation to the co-op.
4. Board develops criteria to judge a GM compensation plan.
Goal: The board can speak with one voice on the importance of GM compensations to the co-op, its expectations regarding a plan, and how it will judge a compensation proposal. Allow adequate time for steps 3 and 4, and do not proceed until you have arrived at a common understanding.
5. Board develops a Request for Proposal (RFP).
6. GM develops proposal based on RFP and presents to the board.
7. Board receives and decides on proposal from GM.
8. Process concludes with contract, or clearly documented decision on GM compensation.

Step 1. Review and commit to the process.

The process organizes roles in a way that might be somewhat different from what you are doing now, and therefore warrants group discussion and commitment before you get started. We suggest that the board engage in strategic thinking and setting of criteria by which a plan will be judged, and then delegate the development of the plan to the GM. The board retains the controlling position, but we have introduced the GM's voice in the process in a manner that is clearly responding to board-stated criteria.

GM Compensation: Thinking Strategically



Prepared by Mark Goehring, Carolee Colter and Marilyn Scholl 2007.

Step 2. Directors complete individual questions.

There are two parts to questions for directors: One part is returned for compilation and distribution to the whole board, and the other part is meant to stimulate private reflection on a director's relationship to money and compensation.

Questions for private reflection: We don't expect directors to share these answers, but it is important to realize that our own experiences can have an impact on how we consider new topics. Directors should reflect on these questions in advance of board discussions on GM compensation so that they are able to "check your issues" at the door and help build a dialogue based on the issues brought to the table.

1. What is your own attitude regarding asking for money?
2. What experiences have you had regarding asking for fair compensation, or not being able to ask?
3. What experiences have you had that may influence how you consider GM compensation?

4. Do you feel you are able to contribute to the GM compensation process without your own issues about compensation or money getting in the way?

Acknowledging that personal association with money could interfere with a director's acting on behalf of the member/owners could help the whole board deal with this later if it becomes an issue.

Strategic questions for directors and boards: Distribute this survey in advance of the first board discussion on GM compensation. Ask for written responses, then compile and distribute the responses with the meeting packet along with the whole group questions.

1. Your name
2. Number of years on the board
3. Looking ahead to the future of the organization, do you see the organization growing and changing or staying the same? How important is the role of GM in this future? Why?
4. What worries or concerns do you have about the process we will use?
5. What worries or concerns do you have about the resulting compensation plan?
6. Within the context of your work as a director, how important is the GM compensation plan?

Step 3. Boards build a dialogue on the importance of GM compensation to the co-op.

This may take one meeting or several. The goal is to reach one voice on the importance of GM compensation to the co-op. The group will be informed of individual perspectives via the compilation of each director's written answers to the questions above, and now the board must think strategically together about the future of the co-op, its aspirations, and the importance of GM leadership in achieving those aspirations.

Following are questions for the use at the board meeting for building dialogue:

- Looking ahead to the future of the organization, do you see the organization growing and changing or staying the same? How important is the role of GM in this future? Why?
- Describe the importance of GM compensation from the point of view of the GM: the board of directors: the member/owners.
- Goal as a result of board dialogue: the board can speak with one voice on the importance of GM compensation to the co-op.

A side question worth considering: How does the board make decisions? It can be helpful to the group's process if the board is clear about how it makes decisions before it makes one.

Step 4. Board develops criteria to judge a GM compensation plan.

Using the previous board dialogue as a foundation, the board now develops criteria for how it will judge a proposal. Here is a sample:

A note on time cycles of Steps 1 through 4: We suggest that the board request a compensation plan that would last for two years, and

that the board consider using this entire process on a four-year cycle. After the first two-year period, the board could review its RFP criteria and possibly be in a position to re-issue the RFP without extensive board dialogue. After four years, however, enough board turnover may have taken place to begin again with Step 1.

Step 5. Board develops a Request for Proposal (RFP).

Once the board has approved the criteria, we suggest that one or two directors be empowered to draft an RFP for board review. When the board has agreed to the RFP, it can pass it along to the GM.

SAMPLE REQUEST FOR PROPOSAL (RFP)

GOAL: To inspire and motivate the GM to do what is best for the co-op; to achieve new goals.

EXPECTATIONS AND LIMITATIONS:

1. The plan should run from __/__/08 to __/__/10.
2. The plan should comply with a reasonable interpretation of all relevant policies.
3. The plan should be affordable for the co-op.
4. The plan should be in scale to the compensation plans of the other managers employed by the co-op.
5. The plan should be easily and objectively measurable/calculable.
6. The plan should consider the complete compensation package: base, contingent, benefits, deferred compensation, etc.
7. The plan should be in line with industry and local standards.

Questions to consider along with the creation of the RFP:

- How will the board negotiate, if necessary?
We suggest the board delegate to two or three directors the authority to act (see Step 7).
- What should be the desired outcome of any negotiation?

Step 6. GM develops a proposal based on the RFP and presents it to the board.

For an example, see "Sample Response to Board RFP" on page 30.

Step 7. Board receives and decides on proposal from GM.

If the board is not ready to accept the GM's proposal as is, we suggest that it delegate two or at most three directors to negotiate with the GM in person. The negotiators can bring the agreed-upon compensation package back to the full board for final approval.

Step 8. Process concludes with contract, or clearly documented decision on GM compensation.

Place the final version of the GM's proposal, with any negotiated revisions, in the GM's personnel file. If you use a contract with your GM, be sure to have it reviewed by an attorney.

The board now has an excellent paper trail of its process, beginning with the compilation of directors' perspectives, to notes about strategic thinking, to the RFP itself, to the proposal and final agreement. Two years later the RFP can be reviewed to see if it is adequate to pass along as

is, or if it needs further work. Four years later the board can engage again in the complete process to reinvigorate its strategic thinking on this important topic.

The board also has some good material for communicating with members about its process. The results of its strategic thinking, as well as some of the criteria from the RFP, may be very appropriate to share with member/owners. The content of this strategic thinking may illustrate how the board values leadership of the co-op.

This process was developed as part of the Cooperative Board Leadership Development program for one of its distance learning workshops. (See www.cdsfood.coop/cbld for more information.) Your feedback and comments about the process are welcome. Send them to Mark-Goehring@cdsfood.coop. ■

Sample Response to Board RFP on General Manager Compensation

Note: This example is for a co-op with gross annual sales of \$12 to \$18 million.

I am proposing a compensation package to run for two fiscal years, from October 1, 2008 to September 30, 2010. This package consists of:

- Base salary of \$83,200 per year, with an increase in the second year for inflation, based on the Consumer Price Index as of 10/1/09.
- Bonus of up to \$10,000 for achieving the goals in the table below:

Criterion	Total Available Bonus	Gradations	Pay-out
Sales Growth	\$3,000	Sales growth over 10%	\$3,000
		Sales growth 8–10%	\$2,250
Net income	\$3,000	Net income over 3.5%	\$3,000
		Net income 2.42–3.49%	\$2,250
Planned Achievement of Ends Policy E1.	\$4,000	Board acceptance of interpretation of achievement in monitoring reports	\$4,000

- Four weeks of paid vacation (one week more than the vacation available to staff with under 5 years of employment at the co-op).
- Deferred compensation of \$5,000 a year that funds
 - a retirement account in which I will be fully vested in 7 years and
 - a life insurance policy for \$1 million. In the event of my death, my heirs will receive \$.5 million and the co-op will receive \$.5 million to pay for consulting help, interim management and a GM search as needed.

How this compensation package meets the board's expectations and limitations in the Request for Proposal:

- The plan should run from 10/01/08 to 9/30/10**
The proposed plan covers those dates.
- The plan should comply with a reasonable interpretation of all relevant policies.**
All policies were reviewed for possible relevance, identifying the following:
Under L4, Compensation & Benefits, this proposal is in compliance with the global policy "not to cause or allow jeopardy to financial integrity," as described below.
Under L8, Emergency Management Succession, the life insurance policy in my proposed deferred compensation would help to protect the co-op from a sudden loss of GM services.
- The plan should be affordable to the co-op.**
My compensation as proposed, when added into all the other labor costs (payroll, payroll taxes, benefits) would still allow the co-op to meet the net profit target of 2.42 percent as identified in the long range strategic plan presented to the board in August.
- The plan should be in scale to the compensation plans of the other managers employed by the co-op.**

The co-op pay scale has six levels according to responsibility, with the top of each level 50 percent above the base. The pay scale covers all positions at the co-op except the general manager. The difference between levels ranges from about 15 percent to 25 percent. The top of Level VI is only \$6000 (8 percent) below my current salary.

Pay Levels	Annualized for full-time positions
Level I \$8.00 to 12.00	\$16,640 to 24,960
Level II \$10.00 to 15.00	\$20,800 to 31,200
Level III \$12.00 to 18.00	\$24,960 to 37,440
Level IV \$15.00 to 22.50	\$31,200 to 46,800
Level V \$18.00 to 27.00	\$37,440 to 56,160
Level VI \$22.00 to 33.00	\$45,760 to 68,640
General Manager current	\$74,880
General Manager proposed	\$83,200

The financial manager, who has worked at the co-op for 15 years, has been at the top of Level VI for the past two years. I can't give her a raise without lifting the top of her pay level, but to do so would shrink the difference between her salary and mine even more.

The next highest paid manager is the store manager, who has recently expressed concern about his ability to make more over time. He understands that the top of the range for his job has to be lower than my pay. At the moment he is satisfied with his pay, but if he has no prospect of being able to earn over \$70,000, he may leave the co-op in a few years when his oldest child starts college.

By increasing my base salary, I could raise the base and tops for Levels V and VI, where I have lost staff to Whole Foods, which pays more for positions with these levels of responsibility.

5. The plan should be easily and objectively measurable/calculable.

The proposed bonus is based on sales growth and net income which are easily measurable, and on acceptance by the board of monitoring reports demonstrating planned achievement of Ends Policy E1.

The payout for the retirement funds in the deferred compensation plan is determined by a vesting schedule of seven years (see detailed description of the plan in a separate document).

6. The plan should consider the complete compensation package (base, contingent, benefits, deferred compensation).

My proposal contains all four elements.

7. The plan should be in line with industry and local standards.

The Occupational Employment Statistics program of the Bureau of Labor Statistics provides a description for Chief Executive which most closely fits my job:

"Determine and formulate policies and provide the overall direction of companies or private and public sector organizations within the guidelines set up by a board of directors or similar governing body. Plan, direct, or coordinate operational activities at the highest level of management with the help of subordinate executives and staff managers."

Using CareerJournal.com, I found the following data for a Chief Executive of a specialty retail establishment here in our state:

State Specialty Retail Chief Executives	
Low, 17th percentile	\$61,581
Average	\$91,666
High, 67th percentile	\$122,218
Bonus	16.7% of base salary
Benefits	11.9% of base salary

The general manager compensation survey in 2006 in *Cooperative Grocer* did not contain enough specific information for co-ops in our size range, except to show that over 60% of managers of co-ops with sales of over \$10 million were making \$70,000 or more. Therefore, I conducted a phone survey of the 12 managers of co-ops with gross sales of \$12 to \$18 million.

Co-op GM's \$12 to \$18 million gross sales	
Low	\$63,300
Average	\$84,000
High	\$112,500
Bonus where applicable	5% to 20% of base salary
Benefits	Average 18% of base salary

Base salaries showed no clear correlation between size of salary and size of co-op. This is a very small sample, but it does fall within the range for salary and bonus for Chief Executives of specialty retails in our state.

My proposed salary is below average but within the range of the comparable positions in our local area. The proposed salary and total compensation is within the range of other co-ops our size.