**Compensating Media Managers**

By

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This article on compensating media managers repeats several points that I made in the compensating media salespeople article, but I believe these points are worth repeating and reviewing.

 A well-designed and effective management compensation system should accomplish the following objectives:

1. To help an organization communicate corporate goals, performance standards, and expectations
2. To encourage formulation of long-term strategies
3. To focus on improving stockholder equity in the long run
4. To aid in the management-by-objectives (MBO) process
5. To make executive compensation flexible to reward good performance, not necessarily seniority or other non-performance criteria
6. To attract and hold good people
7. To keep motivation high from year to year.
8. To be fair to both the manager and the organization
9. To provide stability
10. To provide top management control

Some of the guidelines for designing a sound management compensation plan are:

1. The variable portion (bonus or incentive) must be large enough to justify a manager's extra effort. An incentive that is given over and above a salary should be between 25 percent and 65 percent of the total compensation to be effective. Research has shown that any incentive under 15 percent of total compensation is not effective. Forty to 50 percent is what seems to be average.
2. There should be a good balance between security and incentive.
3. Rewards should be based primarily on the manager's unit’s performance.
4. The plan should be competitive in the industry and in the area.
5. The plan should reflect the strategy and objectives of the organization.
6. The difference between the compensation of high and low performers must be significant.
7. There are rewards for both hard (quantitative) and soft (qualitative) performance criteria.

**Major Problems With Compensation Systems**

The biggest single problem with most executive compensation systems is that they violate objective number one, "Help an organization communicate corporate goals, performance standards, and expectations." This mistake happens for two reasons: Many media organizations have no clear idea of what their long-term goals, standards, and expectations are, and they haven't thought of linking managerial compensation to whatever goals, standards, and expectations they do have, no matter how fuzzy or unrealistic they are.

 In his 1954 management classic, *The Practice of Management*, Peter Drucker wrote "There is only one valid definition of business purpose: to create a customer." Drucker understood that it is the customer who determines what a business is: "The customer is the foundation of a business and keeps it in existence. He alone gives employment. And is to supply the consumer that society entrusts wealth-producing resources to the business enterprise."[[1]](#endnote-1)[xxx]

 Drucker goes on to define the two entrepreneurial functions: "Because its purpose is to create a customer, any business enterprise has two—and only these two—basic functions: marketing and

innovation."[[2]](#endnote-2)[xxxi]

 One of the best-selling management books of all time, Peters and Waterman's *In Search of Excellence*, actually defines corporate excellence in terms of innovation. The authors said that excellence to them meant "continuously innovative big companies." Furthermore, "We asserted that innovative companies not only are unusually good at producing commercially viable new widgets; innovative companies are especially adroit at continually responding to change of any sort in the environment."[[3]](#endnote-3)[xxxii]

 You probably nodded your head in agreement when you read the above quotes—most business executives do. However, if I were to ask you what you are in business for or what the purpose of your business is, you would probably give me the standard answer, "to make money." Why is it managers can understand and embrace somewhat soft concepts in the abstract one moment and the next moment deny these ideas with hard, bottom-line answers? It is because most managers have failed to give much thought to what the overall purpose, objectives, and strategies of their companies are?

 This failure is odd, because often the same top executives who have not thought out their company's purpose, strategies, and objectives usually require the managers who report to them to submit, at least yearly, a detailed list of objectives for that manager's operating unit.

 Managers, in the absence of clear statements of business purpose, strategies, and objectives from above, typically assume that the overall objective is to make money (and make money in the short-term), and set their own goals accordingly. This objective of making money (narrowly defined as profit) in the short term is often reinforced by management compensation packages, which are typically based on either a bonus based on making a yearly profit budget or an override or commission on net revenue.

 Business magazines are full of articles on the danger to companies and to our economy of having short-term, profit-only goals. The primary focus on quarterly earnings of publicly held companies by large institutional investors and money managers has been said to be responsible for many poor management decisions. If they are being judged and compensated for short-term results, that is what managers will focus on.

 But what about long-term goals and softer, qualitative goals? What about increasing stockholder equity? What about increasing productivity, or increasing market share, or hiring promotable people, or being a good community citizen, or being close to the customer, or hiring and promoting minorities and having a diverse workforce? Don't these things count?

 In the media business do you want managers to make a profit regardless of government rules and regulations? Of course not. Then it is obvious that most companies have a purpose, strategies, and objectives that are more complex and varied than merely to make money. However, these elements are too often implicit and not stated clearly in writing for managers to follow when setting their own units’ goals and objectives.

**Designing a Management Compensation System**

In designing a management compensation system, start with a clear, concise written definition of your organization's guiding principles—write a mission statement. It is important to begin with principles in order to set your cultural values, to remind top management, and to communicate to employees what your organization stands for and what's important to you.

 Think how your principles (or mission) will look to prospective employees. For example, if you owned a small business, how do you think a prospective employee would view the following principles: To maximize my own personal gain, to control expenses regardless of the human consequences, to get sales and other revenue by any means possible, regardless of the consequences, and to promote and maximize my own personal power, influence, and reputation? How many managers do you know who set objectives and take actions that seem to reflect similar principles?

 Here are some guiding principles of successful companies:

Hewlett-Packard

* Belief in people; freedom.
* Respect and dignity; individual self-esteem.
* Recognition; sense of achievement; participation.
* Security; permanence; development of people.
* Insurance; personal worry protection.
* Share benefits and responsibility; help each other. Management by objectives (rather than by directive); decentralization.
* Informality; first names; open communication.
* Training and education.
* Performance and enthusiasm.

General Electric (1994)

* Lean: Reduce tasks and the people required to do them.
* Agile: Delayering.
* Creative: Development of new ideas - innovation.
* Ownership: Self-confidence to trust others. Self-confidence to delegate to others the freedom to act while, at the same time, self-confidence to involve higher levels in issues critical to the business and the corporation.
* Reward: Recognition and compensation commensurate with risk and performance—highly differentiated by individual, with recognition to total team achievement.
* Reality: Describe the environment as it is—not as we hope it to be.
* Leadership: Sustained passion for and commitment to a proactive, shared vision and to its implementations.
* Candor/Openness: Complete and frequent sharing of information with individuals (appraisals, etc.) and organization (everything).
* Simplicity: Strive for brevity, clarity, the "elegant, simple solution"—less is better.
* Integrity: Never bend or wink at the truth, and live within both the spirit and letter of the laws of every global business arena.
* Individual Dignity: Respect and leverage the talent and contribution of every individual in both good and bad times.

Other "100 Best Companies"[[4]](#endnote-4)[xxxiii]

1. Make people feel that they are part of a team or, in some cases, a family.
2. Encourage open communication, informing people of new developments and encouraging them to offer suggestions and complaints. Have bitch sessions.
3. Promote from within; let its own people bid for jobs before hiring outsiders.
4. Stress quality, enabling people to feel pride in the products or services they are providing.
5. Allow employees to share in the profits, through profit-sharing or stock ownership or both—gainsharing.
6. Reduce the distinctions of rank between the top management and those in entry-level jobs; put everyone on a first-name basis; bar executive dining rooms and exclusive perks for high-level people.
7. Devote attention and resources to creating as pleasant a workplace environment as possible; hire good architects.
8. Encourage its employees to be active in community service by giving money to organizations in which employees participate.
9. Help employees save by matching the funds they save.
10. Try not to lay off people without making an effort to place them in other jobs either within the company or elsewhere.
11. Care enough about health to provide physical fitness centers and regular exercise and medical programs.
12. Expand the skills of its people through training programs and reimbursement of tuition for outside courses.

 The management team of KNSD-TV in San Diego developed an excellent mission statement when it began revitalizing the station in 1988. How would you like to work for a station that had a mission statement like the one following?

KNSD-TV MISSION STATEMENT

 Our purpose is to provide San Diego with an unequaled source of news, quality television entertainment, and information about the place in which we live. We'll accomplish this through open communication in an environment where personal achievement, initiative and innovation are recognized and rewarded.

 Our efforts will be focused on understanding and serving our community, benefiting the people of San Diego, attracting the largest possible audience, fulfilling the needs of our advertisers and increasing the profitability of our station.

 The outgrowth of our work together will result in a sense of pride, a spirit of involvement, personal accomplishment and partnership. KNSD-TV will be a vital part of the community and reflect the excellence and unique character of San Diego.

 After you have defined what you stand for, define your company's strategy. Strategy always has a long-term focus—one to five years in the future (tactics have a short-term focus). For example, "to attain the number-one rank position in the adult 18-49 demographic by offering an Adult Contemporary music format and clearly differentiating it from other 18-49-oriented formats," is an appropriate radio programming strategy statement. "To be top ranked in customer satisfaction," is an appropriate sales strategy statement. Strategy statements should focus on external and internal conditions, opportunities, and threats, as identified by research.

 Finally, state the broad objectives that your organization will use to carry out your strategy.

**Designing a Plan**

Now you are ready to design a compensation plan that will carry out objectives 1-10 given at the beginning of this paper.

 Begin by writing down a target figure that represents the total remuneration (salary plus bonuses, overrides, value of stock options, and other perks) of a manager who is an average performer. For example, you might determine that $100,000 is a fair, competitive remuneration level that will allow you to attract and keep an acceptable manager.

 Next, multiply this target figure by 60 percent to arrive at a salary; in this case $60,000. The sixty percent figure is a guideline, but since the salary should be between 75 percent and 45 percent of the total remuneration figure, according to most experts, 60 percent is a good starting place.

 Next, develop a list of performance standards on which you will judge the manager. These standards should include both hard (quantitative) and soft (qualitative) dimensions, as seen in Example 1 below for a radio station manager. Once you have developed a list of standards, put a weight on them in order of their priority to a company. It is imperative that performance on these standards be under the control of the manager.

**Example 1**

Quantitative Standards (60%)

1. Achievement of targeted market share(s) of audience. (25% of 60%)
2. Achievement of targeted market share(s) of revenues. (25% of 60%)
3. Containment of expenses to budgeted levels. (15% of 60%)
4. Achievement of profit budget. (15% of 60%)
5. Achievement of targeted diversity guidelines. (10% of 60%)
6. Improvement of productivity levels. (10% of 60%)

Qualitative Standards (40%)

1. Development of strategies for marketing and innovation. (20% of 40%)
2. Development and communication of clear objectives to carry out strategies. (15% of 40%)
3. Maintenance of station's current positive organizational climate, morale, and atmosphere of cooperation and teamwork. (10% of 40%).
4. Maintenance of station's positive image and reputation in the community. (10% of 40%).
5. Improvement of station's image and reputation in the advertising community. (10% of 40%)
6. Involvement of station in the community. (10% of 40%)
7. Development of promotable people at all levels. (10% of 40%)
8. Maintenance of job-related education and training programs. (5% of 40%)
9. Maintenance of continuous, clear communications upward to management, across to other managers in the company, and down to all employees. (5% of 40%)
10. Seeking appropriate help when needed. (5% of 40%)

 Now you have a basis on which to award the non-salary portion of a total remuneration package.

**Non-Salary Remuneration Vehicles**

There a number of different ways to structure payments. In this paper, I will not discuss stock options, non-financial perks, loans, insurance, and so forth, but will confine my discussion primarily to yearly cash payments that are in addition to salary.

 The first, and least effective, type of payment is a fixed bonus amount based on achieving either a revenue or a profit budget. There are a number of problems with this type of reward.

 First, by not having a variable amount for the bonus, there is no way to distinguish between or either reward or punish for relatively good or relatively bad performance. In baseball terminology, there is either a home run or an out.

 Because they either hit a bonus home run or are out, there is great pressure put on top management by lower managers to keep budgets low. There is a tendency to spend an unproductively large amount of time arguing and negotiating over revenue budgets rather than spending the time more productively discussing strategy and action-oriented objectives. Furthermore, this type of payment usually creates a situation where managers who are going to miss their bonus goes to top management at the end of the year and tries to negotiate a bonus regardless of the rules. Managers are convinced that they did a good job in spite of unrealistic budgets and terrible business conditions, and more often than not persuade top management of this. Top management usually breaks the rules, gives the bonus anyway so as not to lose or demotivate managers, and the system goes out the window. Now managers know they only have to come close or to have reasonably good excuses every year.

 Because of the in-or-out, no-gradation nature of fixed-amount bonuses, there is no way to reward extraordinary performance. Even worse, there is no incentive, once budget has been achieved, to continue at the current performance level—there is a tendency for some managers to glide home once they see they are going to make a budget (certainly no managers in your company).

 Bonuses based on budget achievement usually go to the best negotiators, to the most upwardly persuasive (politically inclined) managers, and to the luckiest managers, not necessarily to the best managers. Therefore, bonuses based on budget achievement are simply not fair.

 The next type of payment is an override. An override normally is paid in the form of a percentage of local, national, or total revenue. Sometimes overrides are paid on profits. An override as the only incentive is a relatively poor, unrealistically simplistic way to give managers additional compensation.

First, it focuses on only one aspect of a manager's job (even a sales manager's job)—generating revenue—and does not give any weight to the many other important performance dimensions. Revenue often is not under the manager's control. It is not sales managers’ fault or something they can control if, for example, a station's ratings or a newspaper’s circulation drops dramatically during the course of a year, which of course affects revenue, or if economic conditions in a market are substantially depressed.

 Furthermore, there is no reward or punishment in an override system attached to an organization's goals or budgets. A sales manager could be significantly under or over budget and still receive the same override. On the other hand, unlike the fixed bonus amount, in an override system there is at least a relative link between performance and reward—the larger the revenue, the larger the reward. A billing override system is especially bad for general managers of divisions or units, who have expense as well as revenue responsibilities.

 Finally, the same problem exists with an override system that exists with a straight commission system for salespeople: it is based on an assumption that people are primarily or solely motivated by money, an assumption that is especially dangerous to make about managers who might well be motivated by challenge, autonomy, power, achievement, career opportunity, learning, or belonging to a well-knit team.

**Recommended System**

I recommend that media companies use a variable bonus system designed to reward managers based on their performance on weighted qualitative and quantitative standards established by the organization, as shown in Example 1.

 A company should establish a system of determining a bonus pool for managers. This bonus pool should be based on four elements:

1. Performance on the listed standards of an individual unit
2. Profit performance of the corporation
3. Increases over unit budgeted profit level
4. Contribution to a five-year award based on achievement of a targeted increase in a unit’s market value

 The most important element is #1 above, the performance of the individual unit, regardless of its or the parent company's profitability. Managers must have the security of knowing that their relative performance will be rewarded in some way.

 For example, a bonus pool as a percent of unit revenue would be established. In #1 above, if a radio station has gross billing of $5,000,000, a company might put aside 1.25% ($62,500) in a bonus pool for the general manager.

 In addition, for #2 above, up to another $10,000 could be added to the bonus pool if the corporation goes five percent (or some other reasonable and appropriate figure) over its profit budget. The purpose of this element is to give general managers a stake in the success of the entire corporation, not just their unit. These awards can be in cash or stock (I prefer stock because it gives them a stake in the future of the company).

 Next, for #3 above several smaller fixed-sum bonus amounts could be set aside for achievement over budgeted unit profit levels: $7,500 for a 105 percent increase, $15,000 for a 110 increase, for instance. These amounts should not be too large compared to the other potential bonus awards so there is no major motivation to lowball on yearly profit budgets.

 Finally, for #4 above another $10,000 might be contributed to a five-year account based on being on track toward a targeted $50,000 total contribution based on a 50 percent increase in the station's market value over five years (10 percent increase each year for five years). A manager does not get this money until the five years are up (the company can use the money in the meantime), but the total amount will be paid as long as the targeted value increase occurs. This value can be established by an independent assessment made by a reputable station broker or company that specializes in evaluating stations. Contribution to a long-term fund can be relatively more or less important than other bonuses depending on the objectives of the corporation, and can be in the form of cash or stock, preferably stock.

 At the end of the year top management now has a bonus pool from which it can reward general managers based on their performance. Of course, the general manager had a list of the performance standards in advance and actively participated in and agreed to all of the quantitative ones: audience share, revenue share, expense and profit budgets, diversity targets, and productivity levels. The general manager also agreed to all of the qualitative performance standards and accepted them as fair and reasonable.

The general manager knew what was expected.

 Let's look at several scenarios for awarding a bonus on top of a general manager's $60,000 salary (remember, I wrote that I felt the median remuneration for an adequate or average manager in the market was $100,000).

Scenario #1 (Best Case: Excellent Manager, Excellent Conditions)

|  |  |  |  |
| --- | --- | --- | --- |
| Standard  | Weight | Achievement | Score |
| Quantitative (60%) |  |  |  |
| 1. Audience share |  25% | 100%  | 25 |
| 2. Revenue share |  25% |  90%  | 22.5 |
| 3. Expenses |  15% | 100%  | 15 |
| 4. Profit |  15% | 100%  | 15 |
| 5. Diversity |  10% | 100%  | 10 |
| 6. Productivity |  10% | 100%  | 10 |
| Total | 100% |  | 92.5 x 60% = 55.5 |
|  |  |  |  |
| Qualitative (40%) |  |  |  |
| 1. Strategy |  20% | 100% | 20 |
| 2. Objectives |  15% | 100% | 15 |
| 3. Climate |  10% | 100% | 10 |
| 4. Community image |  10% | 100% | 10 |
| 5. Advertiser image |  10% | 100% | 10 |
| 6. Community involvement |  10% | 100% | 10 |
| 7. People development |  10% |  0 |  0 |
| 8. Training |  5% |  50% |  2.5 |
| 9. Communication |  5% |  50% |  2.5 |
| 10. Seeking help |  5% |  0 |  0 |
| Total | 100% |  | 80 x 40% = 32.0 |
| Total score |  |  |  87.5  |
|  |  |  |  |
| Total Bonus Pool  | CorporateProfit Bonus(Achieving 105%) | Unit Profit Bonus(Achieving 105%) | Total Bonus |
| $62,500 (1.25% of $5 million) | $10,000 |  $7,500 | $80,000 x 87.5 = $70,000 |
| Salary | Total Bonus | Contribution toFive-year Pool | Total Remuneration:Best Case |
| $60,000 | $70,000 | $10,000 | $140,000 |

Scenario #2 (Average Case: Good Manager, Fair Conditions)

|  |  |  |  |
| --- | --- | --- | --- |
| Standard  | Weight | Achievement | Score |
| Quantitative (60%) |  |  |  |
| 1. Audience share |  25% |  0  |  0 |
| 2. Revenue share |  25% |  90%  | 22.5 |
| 3. Expenses |  15% | 100%  | 15 |
| 4. Profit |  15% | 100%  |  7.5 |
| 5. Diversity |  10% | 100%  | 10 |
| 6. Productivity |  10% | 100%  | 10 |
| Total | 100% |  | 65 x 60% = 39 |
|  |  |  |  |
| Qualitative (40%) |  |  |  |
| 1. Strategy |  20% | 100% | 20 |
| 2. Objectives |  15% |  50% |  7.5 |
| 3. Climate |  10% | 100% | 10 |
| 4. Community image |  10% | 100% | 10 |
| 5. Advertiser image |  10% |  50% |  5 |
| 6. Community involvement |  10% | 100% | 10 |
| 7. People development |  10% |  50% |  5 |
| 8. Training |  5% |  100% |  5 |
| 9. Communication |  5% |  50% |  2.5 |
| 10. Seeking help |  5% |  50% |  5 |
| Total | 100% |  | 77.5 x 40% = 31 |
| Total score |  |  |  70  |
|  |  |  |  |
| Total Bonus Pool  | CorporateProfit Bonus(Achieving 105%) | Unit Profit Bonus(Achieving 105%) | Total Bonus |
| $62,500 (1.25% of $5 million) | 0 | 0 | $62,500 x 70 = $43,750 |
| Salary | Total Bonus | Contribution toFive-year pool | Total Remuneration:Average Case |
| $60,000 | $43,750 | $10,000 | $113,750 |

Scenario #3 (Worst Case: Average Manager, Poor Conditions)

|  |  |  |  |
| --- | --- | --- | --- |
| Standard  | Weight | Achievement | Score |
| Quantitative (60%) |  |  |  |
| 1. Audience share |  25% |  0  |  0 |
| 2. Revenue share |  25% |  0 |  0 |
| 3. Expenses |  15% | 100%  | 15 |
| 4. Profit |  15% |  0  |  0 |
| 5. Diversity |  10% | 100%  | 10 |
| 6. Productivity |  10% | 100%  | 10 |
| Total | 100% |  | 35 x 60% = 21 |
|  |  |  |  |
| Qualitative (40%) |  |  |  |
| 1. Strategy |  20% |  50% | 10 |
| 2. Objectives |  15% |  50% |  7.5 |
| 3. Climate |  10% |  50% |  5 |
| 4. Community image |  10% | 100% | 10 |
| 5. Advertiser image |  10% |  50% |  5 |
| 6. Community involvement |  10% | 100% | 10 |
| 7. People development |  10% |  50% |  5 |
| 8. Training |  5% |  50% |  2.5 |
| 9. Communication |  5% |  50% |  2.5 |
| 10. Seeking help |  5% |  0 |  0 |
| Total | 100% |  | 57.5 x 40% = 23 |
| Total score |  |  |  44  |
|  |  |  |  |
| Total Bonus Pool  | CorporateProfit Bonus(Achieving 105%) | Unit Profit Bonus(Achieving 105%) | Total Bonus |
| $62,500 (1.25% of $5 million) | 0 | 0 | $62,500 x 40 = $27,500 |
| Salary | Total Bonus | Contribution toFive-year pool | Total Remuneration:Worst Case |
| $60,000 | $27,500 | 0 | $87,500 |

**Administering Systems**

In administering a variable bonus compensation system, make sure a manager understands all the details of the system and knows in advance the potential size of the bonus pool. Go over the system with managers so they know exactly what type of performance is expected. What better way to tell managers what is expected of them than to tell them what they will be paid for?

 Next, ask yourself if the system rewards the performance your company wants. Bonuses must be rewards for managing according to a company's values and principles, and there must be an obvious and significant difference between the payments for excellent and adequate performance.

 Notice in the three scenarios above that there are various methods of applying weights to the standards. For example, the qualitative ones all have a three-level weight system which allows for some subjectivity in these areas on behalf of top management (subjectivity is desirable for these softer qualitative standards). For the quantitative standards, different type weights are used: 100 percent or no award, or either a 100 percent or a 90 percent award. The point is, make sure that the weights are logical, reasonable, and fair to both the company and the manager. Remember, pay for the performance you want. You do not want to pay 50 percent of a weight for reaching 50 percent of a profit budget—that’s too lenient—so come up with a reasonable gradation system such as: Within 90 percent of budget, 70 percent weight, within 80 percent of budget, 50 percent weight.

 Some readers might complain that the proposed variable bonus system is too complicated to understand, communicate, and administer. It is complex, but so is defining performance in a modern media company and so is a manager’s job—enormously complex.

 The most important time a manager spends is in hiring people; the second most important time a manager spends is in empowering the people that have been hired. People are empowered and motivated when they have a clear idea of what is expected of them and when they perceive there is a direct link between their performance level and their reward level.

 The time spent in developing, communicating, and administering a multi-standard variable compensation system is worth the investment, as it will help attract and keep the most highly motivated people—the ones who want to be paid fairly on the basis of their job performance, a job that has a wide variety of elements and dimensions.

1. [xxx] Peter F. Drucker. 1954. *The Practice of Management*. New York: Harper & Row. p. 37 [↑](#endnote-ref-1)
2. [xxxi] Ibid. [↑](#endnote-ref-2)
3. [xxxii] Thomas J. Peters and Robert H. Waterman, Jr. 18981. *In Search of Excellence.* New York: Harper & Row. p. 13. [↑](#endnote-ref-3)
4. [xxxiii] Robert Levering, Milton Moskowitz, and Michael Katz. 1985. *The 100 Best Companies to Work For in America*. New York: American Library. [↑](#endnote-ref-4)