

## ***The Big Secret: Top Performers Are a Bargain!***

Are top performers expensive? If you ask any expert in compensation to tell you what the typical pay differential (i.e., salary and bonus) is between an average performer and a top performer in the same job, you might be surprised to find out that the differential isn't much.

The analysis goes something like this:

### **Top Performers Can Be Paid Slightly More**

- Top performers generally do get paid more than average performers. But the extra compensation for top performers rarely exceeds 40% over what average workers get in the same job.

### **Top Performers May Cost No More Than Average Performers**

- In some situations, the pay differential between a top and average performer may actually be a negative number. In other words, top performers may get paid less than average performers. For example, universities, government agencies, and other unionized organizations may actually compensate an individual that outperforms other workers less because of their lack of seniority or because they have been out of school for a shorter period of time than their "seasoned" counterparts. They also may get paid exactly the same because there is no performance bonus program.
- Since benefits are not based on performance, there is no additional benefit costs when hiring a top performer.
- Top performers require no more management time, training (they may actually require less), or travel expenses than average performers.
- Top performers require no unique or additional equipment.
- The cost of recruiting a top performer is, in most cases, no higher than hiring an average performer.

### **So What Does This All Mean?**

What it means is that when you calculate the difference in total costs (including all of the above listed factors) of managing the employee from hire to termination, the actual net cost of hiring a top performer is generally no more than 25% higher than the cost of hiring an average performer.

### **Asking The Important Question: If I Spend More, Do I Get More?**

Given this scenario, any reasonable CFO would ask the following question: "If top performers cost only 25% more, do they produce at least 25% more?" In other words, what is the performance differential between top performers and average performers, and does that performance differential warrant spending 25% more to hire and retain a top performer versus an average performer.

### **And Now the Revelation...**

Top performers, by definition, do perform at a higher level than average performers. The revelation here is that top performers almost always exceed the performance of average workers by well over their added 25% cost. In fact, organizations that have estimated the performance differential between average and top performing employees have found that it is often 300% higher. In actuality, it is not unusual in some industries to find that the performance differential between average and top performers is 10 times (that's 1000%) higher! Now it doesn't take a rocket scientist to realize that if you invest in an asset (whether that asset is an employee or any other financial investment) that costs 25% more but produces 1000% more in output or revenue, you have a net gain — and an outstanding one at that.

### **The Business World Is Unique**

The performance differential versus pay differential is extremely high in most business positions. But the same high performance-to-pay differential does not occur in all economic endeavors. In sports, for example, top performers (in the same position) are quite often paid not 25% more but as much as 10 times more than average performers. For example, Michael Jordan, in his heyday with the Bulls, was reported to be paid \$35 million per season. That amount of pay was well in excess of 10 times more than the average player in his position received. Other "narrow" pay-increase-to-performance-increase ratios can be found in entertainment in the payment of movie stars.

### **The Big Secret**

So why is the preceding sports example relevant? Because if top performing employees ever found out that they were dramatically "underpaid" (relative to their output) they would begin to think and act more like sports and entertainment stars. And should this "secret" get out, I am sure that top performers would rapidly get over their initial outrage and begin to demand higher pay differentials. But until they do...the lesson to be learned is that top performers are a bargain! Hire them by the dozen like a "blue light special."

### **What Should Managers Do?**

Lots of managers would love to hire the next Michael Jordan or Kobe Bryant of their industry, but they often shy away from even trying because they don't think they can afford them. But the evidence shows the exact opposite is true. Once managers realize that top performers are a bargain they should demand that their recruiters and HR professionals begin to focus exclusively on hiring and retaining top performers. For CFOs, the lesson to be learned is that hiring and retaining top performers has an ROI as high as anything you can do (legally) in business...bar none. Top performers are cheap!

Note: Almost all business positions have an extremely high pay-to-performance ratio. But there is one major exception: that of the CEO. At the CEO level, we are all well aware of the many publicized cases where CEOs were still very highly paid (relative to other CEOs) even though they produced below average results.

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