COVER STORY

# Manager Compensation

## Both satisfaction and inconsistency are evident in the 2006 study of co-op

BY CAROLEE COLTER AND PEG NOLAN

It has been five years since the last *Cooperative Grocer* survey on compensation practices. Despite challenges inherent in comparing operations that vary in size, organizational structure, and job definition, in this two-part report we summarize current practices among retail food co-ops on:

1. compensation packages for general managers—base salary, bonus or other contingent pay, and benefits;
2. compensation packages for department managers; and
3. wages for entry-level employees.

This article, Part 1 of our report, will focus on general manager compensation. In Part 2, to be published in the September-October edition of *Cooperative Grocer*, we'll share the other results.

Survey results reflect current practices among participating co-ops. Some of the results surprised us, and in a few places we have included comments on suggested best practices. But we have not attempted to offer comparisons with retail grocery industry managers of natural or conventional chain food stores.

### Participants and data

Our survey report is based on responses from 96 co-ops in 36 states, a participation rate of 50% overall. Among National Cooperative Grocers Association member co-ops, 75 (71%) responded.

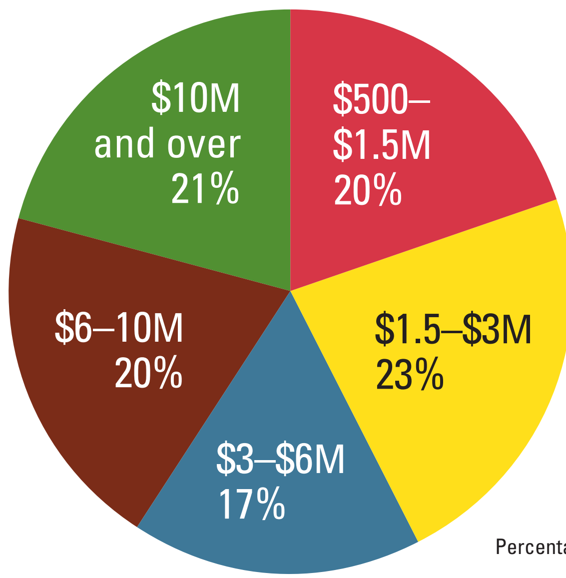
Of the participating managers:

- 52% are women and 48% are men.
- 44% are in their 50s, 34% in their 40s, 16% in their 30s.
- 60% have held their positions for five years or more, 25% for 10 years or more.
- 72% supervise between five and 10 employees (direct reports).
- 92% are the single general managers of their co-op. (However, references to "managers" throughout this article include all participant co-ops, whether they have general managers or co-managers or collective structures.)

In order to preserve participant anonymity, data about co-ops or managers is grouped in categories of at least 10 members, and base salaries are presented in pay ranges with increments of $10,000 or more. *(See Charts 1 and 2.)*

In the survey we also asked managers to express their satisfaction with their co-op's compensation practices by choosing a response indicating their level of agreement with a series of statements *(see Chart 4)*. Responses of "partly agree/partly disagree" suggest to us that there are situations where a manager feels satisfaction on the whole with an area of compensation but is dissatisfied with some particular aspect(s). Having given respondents the choices of "partly agree/partly disagree," and "neutral," we feel that a response of "disagree" or "strongly disagree" is a stronger statement.

**Chart 1:**
**Survey Participants by Co-op Sales Volume**




## COMPENSATION PRACTICES

### Base salaries

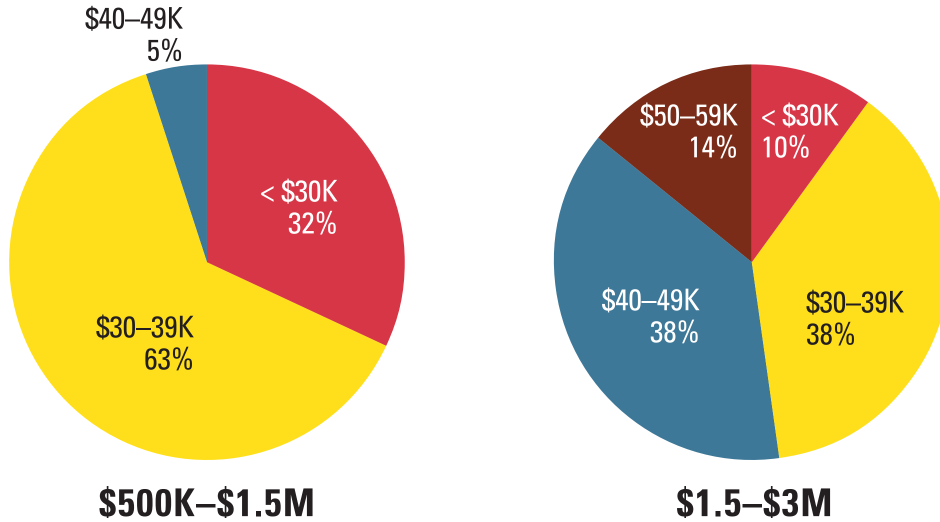
In general, the greater the annual sales volume of a co-op, the greater the base salary of its manager. *(See Chart 2.)* But there is a broad range of pay within each category of sales volume. For instance, among co-ops of $1.5 and $2 million in sales, there are managers earning a base salary from the $20,000s to over $60,000. And managers who are paid base a salary between $60,000 and $70,000 work in co-ops ranging from $4 million in sales to over $14 million.

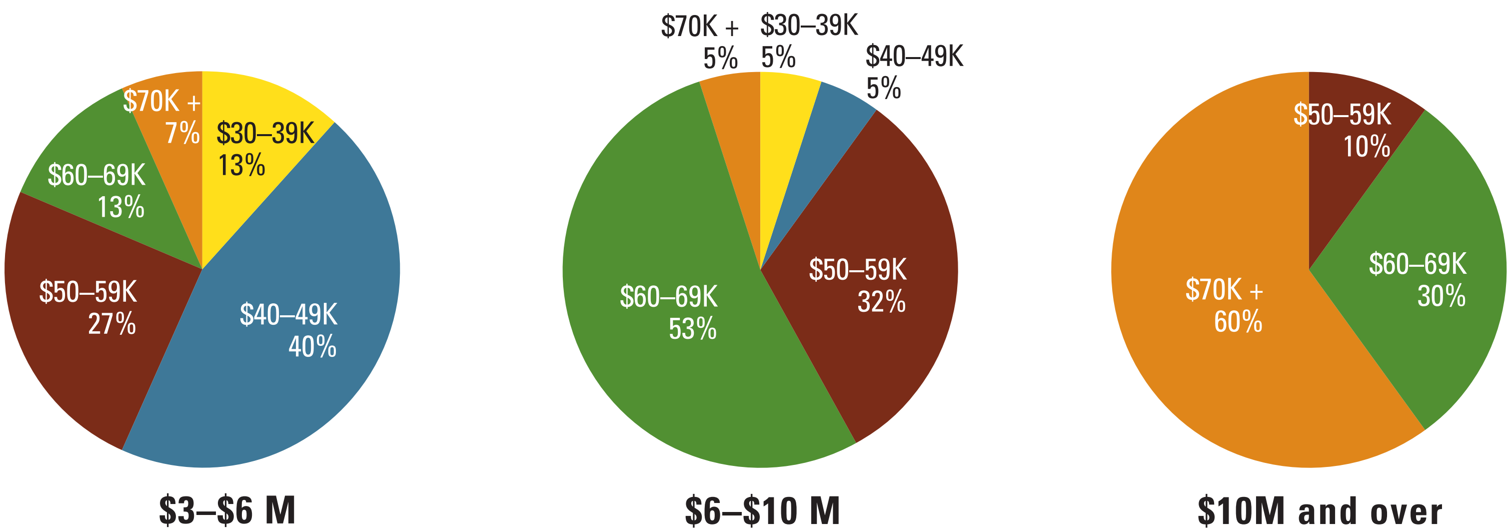
It would be fair to say that most co-op managers are satisfied with their base salary, since 61% agree or strongly agree with the first statement in Chart 4, "I am satisfied with my base salary," while only 9% disagree or strongly disagree.

### Contingent pay

In addition to a base salary, 41% of participating managers receive a cash bonus or other form of pay that is contingent upon realizing specified results. For 44% of that group, the bonus available is less than 10% of

## Chart 2: General Manager Base Salary by Co-op Sales Volume




the base salary. For 29%, the bonus available is 10–20%. Only 8% have the potential to earn a bonus of 20% or more. The remaining managers have no set amount for their bonus. 8% of participating managers are uncertain whether they have a contingent pay plan or not. *(See Chart 3.)*

At every level of sales volume, there are co-ops that offer contingent pay, but more than half the co-ops that answer "No" to the contingent pay question are clustered at the lower sales volumes. Nevertheless, some of the larger co-ops do not offer contingent pay either.

Generally speaking, the more a manager receives in base salary, the more likely s/he is to receive a bonus on top of that salary. But there are anomalies. Two-thirds of those managers with a base salary in the $50,000s, and almost two-thirds of the managers with a salary of $70,000 or more, earn contingent pay in addition to their salary. However, less than half of those with a salary in the $60,000s have any sort of contingent pay arrangement.

Note also that managers who have served in their position for 10 years or more are much less likely to have a bonus system than newer ones. ■>

### A Note About Cost of Living

Since we present aggregate data from across the country, these base salaries do not reflect differences in cost of living. ACCRA (American Chamber of Commerce Researchers Association) maintains a cost-of-living index comparing cities to a national average of 100 (e.g., Austin is at 97, San Diego is at 141.) ACCRA data is not available free, but online research may lead you to figures for your own area. Given the wide range in co-op manager salaries, the cost-of-living differential is probably only meaningful if your city scores 130 or more on the index. And for co-ops hiring a new general manager from out of town, there are numerous free online tools such as Salary Wizard to calculate the salary differential needed to cover costs of living in your city compared to where your manager is relocating from.

◄■ Regarding satisfaction with their board's process for determining contingent pay, only 34% express satisfaction, while 37% register dissatisfaction. We see a similar pattern in the response to the statement, "My board rewards me when my work produces good results according to board specifications," with 32% agreeing and 36% disagreeing.

**Authors' comments:** *Contingent pay is less prevalent than we expected, especially in larger co-ops. In the private sector, cash bonuses and other incentives are far more common, becoming a progressively larger part of management gross pay as a business increases in size. Moreover, among those co-ops that do offer contingent pay, the size of bonus as a percentage of base salary seems on the low side, given that compensation experts recommend 15% or more. See July-August 2005* Cooperative Grocer, *"Improving General Manager Compensation Packages."*

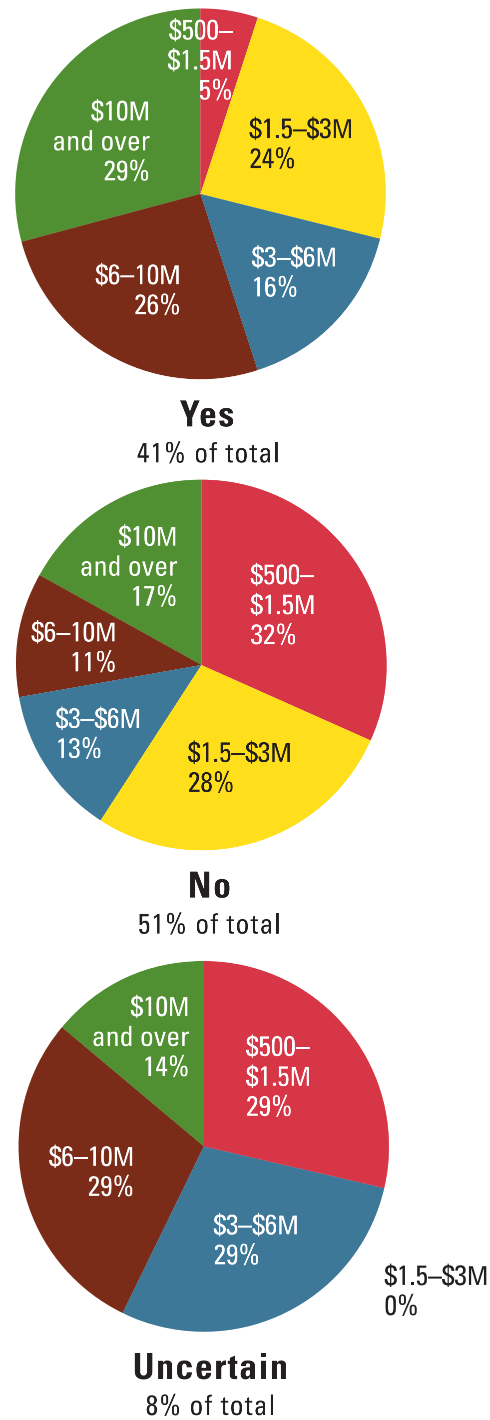
## Benefits

56% of responding managers say they are satisfied with their benefits package, and only 17% state that they are dissatisfied.

43% of managers get benefits not available to other staff: 17% of all managers receive some form of extra paid time off, 16% receive some form of extra health and/or life insurance, and 5% receive retirement funds or other form of deferred compensation. As with bonus systems, managers who have been in their position for 10 years or more are less likely to receive additional benefits than those with less seniority.

**Authors' comment:** *The ability to negotiate for extra benefits is a tool that managers and boards can use in arriving at a satisfactory compensation package. It is important that the board not make unverified assumptions about what the manager wants.*

## Chart 3: Does Your Compensation Package Include Contingent Pay?



### Regular compensation review

For 70% of participating co-ops, there is a system in place for reviewing management compensation on a regular basis. The percentage is even greater for co-ops with managers who have been in their jobs for 10 years or more. Larger co-ops are more likely to provide such a compensation review process than smaller ones.

Manager satisfaction with compensation review, however, is not universal—38% of respondents disagree with the statement, "I am satisfied with the board process for determining my compensation and benefits package," while 36% agree.

**Authors' comment:** *It's understandable if in our culture, where money issues are so loaded, managers and boards feel discomfort when discussing pay. Nevertheless, this is a key responsibility of the board in supervising its one and only employee. Boards need a documented system that ensures regular compensation package reviews that will not fall by the wayside with board or manager turnover. And boards and managers need to talk honestly and openly about what makes for a satisfactory process.*

### Employment contracts

47% of participating co-ops have written employment contracts with their managers. Contracts are in use at every level of co-op size, though they are less likely at co-ops under $1 million and over $14 million in sales. Managers with 10 years or more of service are less likely to have contracts than those who have been in their positions for a shorter time.

**Authors' comment:** *Contracts help to ensure a regular review of management compensation. Keep in mind that a contract is a legally binding document that supersedes all board policies and personnel policies. Consult with an attorney before adopting a contract—even if it's another co-op's contract.*

### Cost of living raises

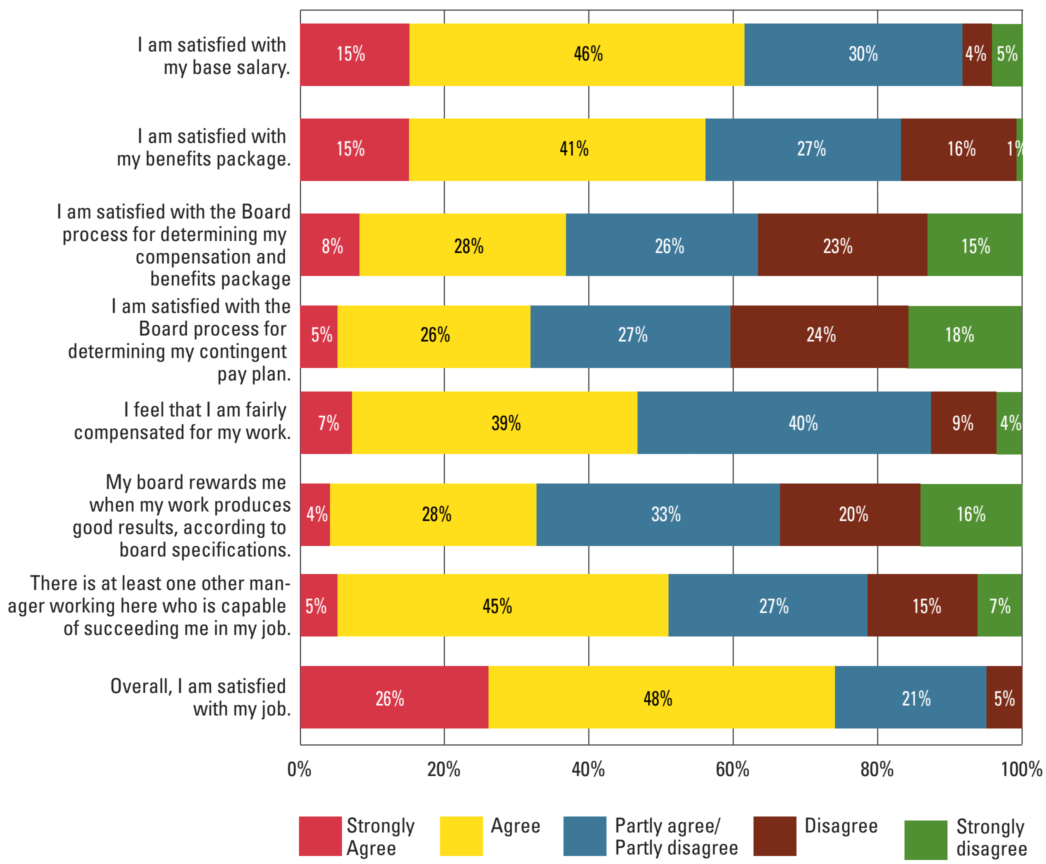
29% of managers receive a cost-of-living raise, and 13% of those reporting are uncertain—perhaps they aren't clear about the basis for the raises they do receive. There is no correlation between the use of cost-of-living raises and sales volume.

**Authors' comment:** *If cost-of-living raises are applied to base salary in conjunction with a contingent pay program, we support them. But if there is no contingent pay available, and the only basis for a raise is an increase in the cost of living, we think this indicates that a co-op needs to review the rationale behind its management compensation.*

### Manager satisfaction

Responding to the statement, "I feel that I am fairly compensated," 46% agree and only 13% disagree. When the statement expresses overall job satisfaction, nearly three-quarters of co-op managers agree and only 5% disagree. For both statements, the agreement level is higher still for managers who have held their jobs for 10 years or more. *(See Chart 4.)* ■>

## Chart 4: Agree/Disagree Statements




■> At each salary level, about the same proportion feels fairly compensated for their work. Also at each salary level, the same proportion expresses overall satisfaction. In other words, satisfaction does not appear to increase with level of base salary.

## DEMOGRAPHIC VARIABLES

### Number of direct reports

While there is a considerable spread in the number of direct reports (employees directly supervised by the manager) throughout all volume sizes of co-ops, 80% of participants have ten direct reports or less. It is in the co-ops with sales of more than $14 million a year where we find some of the lowest numbers of direct reports. This makes sense, considering that some of those co-ops have more than one store, with store managers who supervise department managers.

**Authors' comment:** *The number of direct reports is a variable over which managers have control. Therefore we would not expect manager compensation to vary with the number of direct reports.*

### Management structure

Of 96 participating co-ops, 92% have general managers, and 8% have either two co-managers or a team or collective of managers. Among those in the 8% group, nearly two-thirds are at less than $2 million in annual sales, and none is over $8 million in annual sales.

### Longevity and age

60% of the managers in this survey have served in their management position for at least five years, and 25% for at least 10 years. 73% have at least five years of total employment at their co-op and 42% at least 10 years. 18% have been working at their co-op for 20 years or more, and within that group over 40% also have been general manager for more than 20 years.

Of the managers under 40 years old, more than half have been working at their co-op for at least 5 years. 73% of managers in their 40s and 79% of managers in their 50s have been working at their co-op for over five years, too.

The average female manager has been in her position longer than her male counterpart. Newer managers with less than three years in their positions are, more often than not, male. While equal numbers of male and female managers have served their co-op for 5 to 10 years, once the term of service is above 10 years, women outnumber men two to one.

At each level of base salary above $30,000, there are more managers with over 5 years' seniority than managers with less than 5 years, with the exception of managers in the $70,000 to $80,000 salary level.

**Authors' comment:** *We have previously speculated that co-op managers hired more recently from the conventional grocery industry might earn higher base salaries than their counterparts who have been serving their co-ops for a long time. The data from this survey does not bear out that supposition. However, as noted above, long-term managers are less likely to receive a bonus or additional benefits.*

### Gender

Larger co-ops are more likely to be managed by men. Of the participating co-ops, three times as many men as women head co-ops with sales of $10 million or more. The same ratio showed up when comparing the number of men to women making a base salary of $70,000 or more.

At the other end of the size spectrum, there are twice as many women as men managing co-ops with sales of under $2 million and nearly that same proportion of women to men earning salaries of less than $40,000. For the co-ops between $2 and $8 million, the numbers of male and female managers do not show any obvious correlation to size.

Overall, male and female managers' pay appears to be roughly equal in relation to the size of their co-ops. But since more men manage the larger co-ops and more women manage the smaller ones, male managers overall are likely to be paid more in base salary than female managers.

In response to the statement about feeling fairly compensated for their work, men are much more likely to agree and women are much more likely to "partly agree/disagree." As for the board process for setting compensation, a higher percentage of women than men express dissatisfaction. For the board process on setting a con- ■>

tingent pay plan, male and female managers respond in approximately the same ways.

**Authors' comment:** *We expected to find women managers earning lower salaries than men managing the same sized co-ops, but this survey does not support that conclusion.*

### Expansions

For two-thirds of respondents, their last business expansion was completed more than three years ago. But 45% of these co-ops are currently working on a new project.

**Authors' note:** *Although we sliced and diced the data many different ways, we could not find a correlation between manager compensation and expansion/relocation. Yet this factor does have a bearing on the manager's job and would be reason enough for another look at the manager's compensation. When a general manager is going through a business expansion for the first time, perhaps doubling its sales and square footage, s/he may lack experience in managing an organization as large as the co-op will become. On the other hand, the general manager's workload and the complexity of the job increase dramatically. In the expansion process the gain in skill and experience will make this manager more valuable on the labor market.*

*If a board feels uncomfortable raising the general manager's base salary to a range typical for a larger co-op, it might prefer to use some form of contingent pay, based on how well the expansion pans out financially.*

### Management succession

Half of the managers agree with the statement, "There is at least one other manager working here that is capable of succeeding me in my job," with another 27% partly agreeing/partly disagreeing.

**Authors' comment:** *This is good news.*

## CONCLUSION

## Challenges Remain

The extreme diversity of manager compensation practices among survey respondents indicates that there is widespread inconsistency among our cooperatives. There are many possible causes for this. We fear that one reason may simply be avoidance of something difficult or unfamiliar.

The challenge of establishing mutually satisfactory compensation agreements will not go away. Overall, responding managers report satisfaction with their jobs, but they appear to want clearer systems and communication regarding their compensation package. Greater awareness of existing and potential compensation practices is a first step in developing better ones. ■

*Many thanks to all participating co-ops! If your co-op participated in the survey and you would like information that you don't see here, please email us at caroleecolter@hotmail.com or pegnolan@cdsfood.coop. We may be able to provide charts or graphs that slice the information into smaller units.*