

Evaluating Current Variable Pay Plans



In today's volatile marketplace, variable compensation remains a fundamental component of aligning employee and team performance to support strategic business objectives. Today, many organizations are living with variable pay plans that **work counter-productive to supporting business strategy and fueling growth**. Instead of incenting and rewarding **above and beyond results**, the characteristics of many variable pay plans promote and pay for outcomes that should be **just part of the basic job**. From weak eligibility criteria, foggy funding measures and thresholds, to uncompetitive or outlandish bonus opportunities and messy MBOs, America's incentive systems need an overhaul!

PORTICO can help you:

- Review and evaluate the degree to which your current variable pay plans support your strategic business objectives.
- Review best practice relative to variable compensation in your defined market and deliver summary characteristics
- Evaluate the primary components of your variable pay plans against PORTICO's Ten Point Variable Pay Criteria, including, but not limited to:

PORTICO's Ten Point Variable Pay Criteria

- Participation criteria
- Incentive funding measures
- Incentive award opportunity
- Incentive plan performance measures
- Weighting of incentive funding measures
- Weighting of incentive plan performance measures
- Performance evaluation criteria
- Translation of performance to incentive payout
- Calibration of objectives
- Communication quotient

- Develop and deliver specific recommendations for change that focus on creating line of sight and supporting business objectives
- Develop Balanced Scorecard models that encompass and link individual performance measures and results, to team/unit measures and results, to company measures and results.

Creating or strengthening the strategic alignment of your variable pay plans with your business strategy should be a number one priority. One thing is for sure; going to the bank to borrow money to pay bonuses will never be a good idea. Variable pay must be funded with NEW sales and profit dollars generated by performance outcomes that are distinct from those associated with base pay and that drive the accomplishment of strategic business objectives. The first step is evaluating the current state of your variable pay plans.