Designing Variable Pay Plans to Produce Bottom-Line Results

An effective compensation system is comprised of diverse elements, distinct from each other, yet operating in balance and complement of each other. The base compensation system should be established first with clear key result areas, required physical and cognitive skills and other hiring criteria. It should include basic salary ranges or rates and send clear messages about the threshold performance outcomes and behaviors expected in exchange for the base pay.

Variable compensation is an *optional add-on* and must be **funded** by the **financial value of additional and distinct outputs, results and/or behavior different from those expected in exchange for base pay.** Some organizations develop an add-on bonus or commission system while their base compensation system is defective or broken. These actions lead to the misappropriation of precious payroll dollars, gaps and/or overlaps in overall compensation strategy and performance results with pay disparities that create considerable risk for the organization. The result is a **lost opportunity** to align compensation with strategic goals and to drive optimum people performance.

PORTICO can help you:

- Discover whether you need a variable compensation system or whether your base compensation program simply needs a tune up.

- Identify a variable compensation strategy and model that will support your business objectives and overall total compensation strategy.

- Design a variable compensation plan including key features such as participation eligibility, competitive bonus opportunities for job levels, funding methods, performance criteria, bonus threshold, target and maximum, bonus pool distribution, and bonus payout timing.

- Create and calibrate measures and metrics to result in consistency across your organization.

- Create a complete balanced scorecard system with corporate metrics that are cascaded out to SBUs, divisions, departments and work units to create organizational-wide line of sight.

- Develop implementation and employee communication plans that support your variable compensation program.

Implementing a variable compensation program can damage an already broken pay program and cost more money and ill-will than you can imagine—or it can be just the right ticket to driving performance outcomes that will help you build a high performing organization.

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