

1

module

Total Rewards and Variable Pay



Stockbyte

The Total Rewards Model



Two Primary Elements of Compensation



Two Primary Elements of Compensation

- Fixed pay rewards for individual's ongoing value
 - ◆ Skills and competencies
 - ◆ Consistent job performance
 - ◆ Value relative to labor market
- Variable pay rewards for results
 - ◆ Organizational, group or individual results
 - ◆ Performance-based compensation
 - ◆ Flexible and adaptable

Three Categories of Variable Pay

Incentives	Bonuses	Recognition
<ul style="list-style-type: none">■ Criteria determined in advance■ Amount of payment can vary■ Monetary or nonmonetary■ Self-funded or budgeted■ Nondiscretionary	<ul style="list-style-type: none">■ Completion of specific task■ Amount determined in advance■ Monetary■ Budgeted■ Nondiscretionary	<ul style="list-style-type: none">■ Criteria broadly defined and subjective■ Awarded spontaneously■ Decision made after the fact■ Focused on behaviors■ Monetary or nonmonetary■ Budgeted■ Discretionary

Supporting Business Objectives Through Variable Pay

2 module

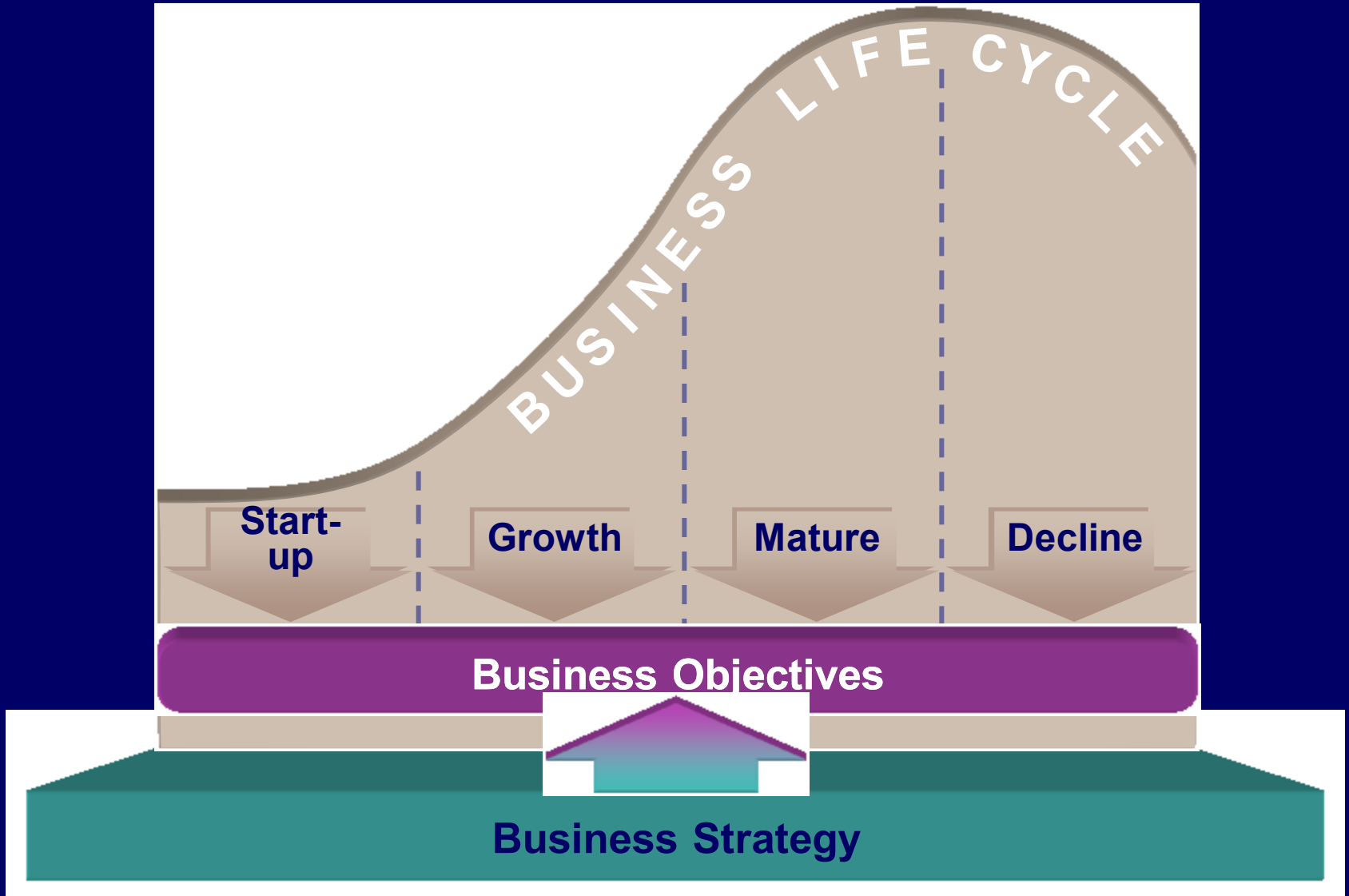


Stockbyte

Business Objectives

- Financial
- Customer satisfaction
- Process improvement
- Workforce development

Bringing It All Together



3 module

Types of Variable Pay



Stockbyte

Incentive Plans

Category		Type
Incentives	Short-term	Profit-sharing Performance-sharing Individual performance-based
	Long-term	Equity-based Nonequity-based
Bonuses		Referral bonus Hiring (sign-on) bonus Retention (stay) bonus Project completion bonus
Recognition		Spot awards Managerial recognition Nominations Organizationwide recognition

Considerations for Individual Performance-Based Plans

- Reinforcement of performance culture
- Narrow vision
- Wide variations in pay
- High levels of administration

Considerations for Nonequity-Based Plans ...cont'd

- Link to equity plans
- Participant perceptions
- Limited to senior management

Considerations for Bonus Plans

- Must be significant yet affordable
- Appropriate use
- Eligibility
- One-time

Summary – Bonus Plans

Plan Type	Objectives
Referral bonus	■ Motivates employee to refer qualified people
Hiring bonus	■ Motivates prospective employee to accept employment offer
Retention bonus	■ Motivates critical employees to continue employment
Project completion bonus	■ Encourages employees to meet aggressive deadlines

Forms of Recognition

- Cash
- Tangible award
- Symbolic award
- Verbal recognition

4 module

Developing a Variable Pay Plan Phases 1 and 2: Pre-Design and Design



Stockbyte

Phase

1 PRE-DESIGN

- Considering internal and external factors
- Obtaining management support
- Identifying the design team

Phase

2 DESIGN

- Determining plan objectives and plan type
- Defining eligibility
- Selecting performance measures

Phase

3 FUNDING & DISTRIBUTION

- Determining performance targets and payouts
- Funding the plan
- Distributing plan earnings

Phase

1 PRE-DESIGN

- Considering internal and external factors
- Obtaining management support
- Identifying the design team

Phase

2 DESIGN

- Determining plan objectives and plan type
- Defining eligibility
- Selecting performance measures

Phase

3 FUNDING & DISTRIBUTION

- Determining performance targets and payouts
- Funding the plan
- Distributing plan earnings

5 module

Developing a Variable Pay Plan Phase 3: Funding & Distribution



Stockbyte

Phase

1 PRE-DESIGN

- Considering internal and external factors
- Obtaining management support
- Identifying the design team

Phase

2 DESIGN

- Determining plan objectives and plan type
- Defining eligibility
- Selecting performance measures

Phase

3 FUNDING & DISTRIBUTION

- Determining performance targets and payouts
- Funding the plan
- Distributing plan earnings