

# 1

module

## Total Rewards and Variable Pay



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

# Supporting Business Objectives Through Variable Pay

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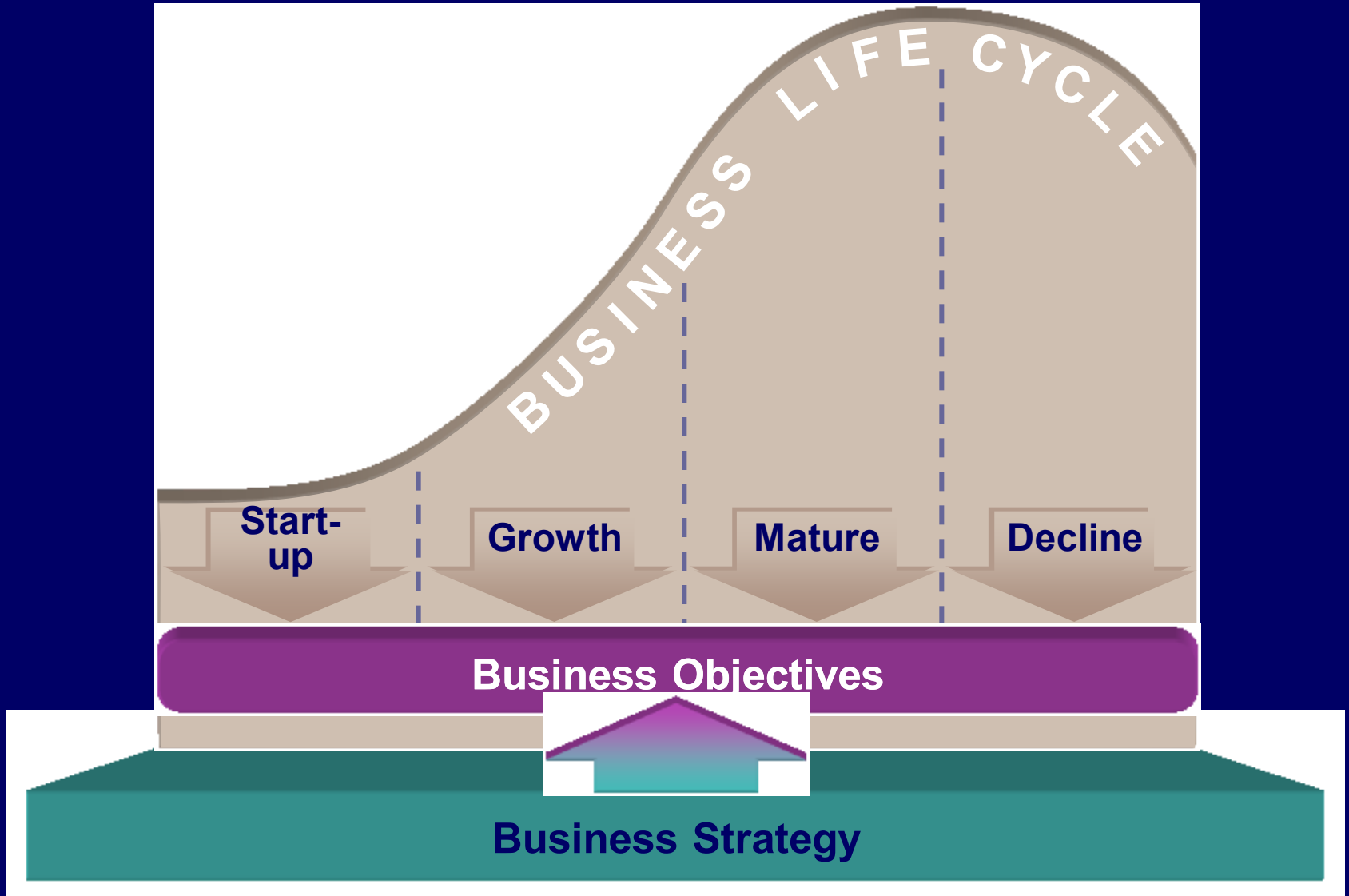


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# Business Objectives

- Financial
- Customer satisfaction
- Process improvement
- Workforce development

# Bringing It All Together





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## Types of Variable Pay



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# Incentive Plans

Category		Type
<b>Incentives</b>	<b>Short-term</b>	<b>Profit-sharing</b> <b>Performance-sharing</b> <b>Individual performance-based</b>
	<b>Long-term</b>	<b>Equity-based</b> <b>Nonequity-based</b>
<b>Bonuses</b>		Referral bonus Hiring (sign-on) bonus Retention (stay) bonus Project completion bonus
<b>Recognition</b>		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

<b>Plan Type</b>	<b>Objectives</b>
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

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



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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

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## Developing a Variable Pay Plan Phase 3: Funding & Distribution



Phase

# 1 PRE-DESIGN

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Phase

# 2 DESIGN

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Phase

# 3 FUNDING & DISTRIBUTION

- Determining performance targets and payouts
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