

## Making Variable Pay Work For You

With the very lively debates of the merits and demerits of the latest proposals for a more flexible wage structure, HR managers worldwide are facing a new challenge - how to design and implement pay structures, which motivate employees and at the same time allow the organization flexibility in their wage cost. Whilst many organizations are in the process of reviewing and implementing the strongly recommended MVC, we will explore some other ways to maintain a flexible and effective pay structure.

Linking pay to performance, variable pay is often used to show appreciation of work well done and to motivate employees. Such Variable pay programs may include:

- Profit Sharing
- Gain Sharing
- Individual / Group Incentive
- Recognition / Appreciation Award
- Equity / Stock Award
- Lump Sum Bonus
- Key Contributor Award

And, of course, there are numerous types of recognition plans such as paid sabbatical, travel awards, vouchers, etc.

How does HR make a variable pay program effective and exciting? Briefly, here are some factors to consider:

- Integrated with the organization's business strategy - It is crucial to have the acceptance and support by the top management.
- Design a program to focus employee efforts on areas critical to organization survival and success by rewarding results employees can influence.
- Plan and process to reflect the organization's culture and values - For example, don't use a gain-sharing plan if you're not willing to share information with employee or if trust is low.
- Cost-effective program - If your organization is squeezing out profit margins to survive, participate in that effort by maintaining or reducing fixed compensation costs. Consider paying salaries only to the range midpoint or market rate and provide bonuses to reward outstanding performance.
- Don't expect perceptions to change overnight. Traditional system has been around for a long time, allow employees time to accept and adapt to the changes.
- Be prepared to spend time and effort to train and educate managers and employees - There is a need to alleviate their fears, and gain understanding, acceptance, an credibility for any new approaches.
- Clear and Ongoing Communication - It's important to reinforce the link between the organization's ability to achieve business goals and its ability to support an effective compensation plan.
- Pay out awards as frequently as you can administratively - The closer the reward is to the performance event, the better it will reinforce performance.
- Make the program important - Publicize, promote and market the program to make sure everyone in the organization knows and understands the importance of the program to them and to the organization
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- **Build reasonable expectations - Be realistic and follow through with promises. For example, don't tell employees you'll pay for results and then give discretionary awards to selected people who don't meet their objectives.**
- **Above all, INSPIRE! Do whatever you can do to get people excited and focused on improving individual and organization performance.**