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# Salary Plans

## What compensation plan is best for your business?

You want to employ the best and the brightest people. But to get them (and keep them) you have to offer the right compensation package. While the solution may be to pay more, often the real answer lies in *how* you pay.

The following outlines the pros and cons of three of the most popular rewards based compensation plans. These plans offer compensation that is based on the skills and performance of an individual employee—rather than creating a benchmark salary for certain positions within your organization.



### Skill-Based Pay

As implied by the name, skill-based pay rewards employees for improving their proficiency with essential job skills. Widely used in manufacturing, skill-based pay is now becoming increasingly popular in other work environments. The basis behind this pay structure is that employees are paid based on their skill level—not the position they hold.

Managers start by developing a list of skills needed to excel in a specific position. Each skill is then ranked by importance. As an employee gains mastery of these skills increases, their compensation is increased accordingly.

#### Pros:

- It creates a strong incentive for employees to improve their skills and master their job duties.
- It leads to higher productivity rates and improves quality.
- Companies usually find a higher commitment to organizational goals.
- Employees' self-management skills are improved.
- Employees adapt to changes in work environment and technology quicker.

#### Cons:

- After an employee reaches the top of the skills chart, their compensation reaches a plateau, which may result in morale issues.
- It can sometimes be difficult to develop skill charts in non-manufacturing work environments.
- If technology and skill sets change frequently, you will need to continually update your skills assessment.

- A large amount of time may be needed to accurately assess the skills of employees.
- Some skills are difficult to objectively measure.

### **Competency-Based Pay**

Competency-based pay is similar to skills-based in that it focuses on what the employee brings to the table. However, competency-based pay looks at general attributes of the employee as opposed to specific skills.

In this compensation plan, the employer develops a list of important characteristics (detail-oriented, strong leadership, ability to handle multiple tasks, etc.) and bases compensation on the extent to which the employee displays these skills in their daily job activities.

Pros:

- Gives employees a reason to show consistently high performance.
- Encourages employees that wish to be paid for their contributions, not simply based on the number of years with the company.

Cons:

- It can be very difficult to generalize what employee attributes actually result in increased productivity and job competency.
- Competency can be very difficult to measure and is often seen as subjective.
- Employees may see this form of compensation as favoritism, which may cause morale problems.

### **Variable Compensation**

In this model, employees are paid a below-average base salary and can earn additional bonuses by meeting or exceeding set goals.

In many companies, employees are given 75-90% of market compensation. They are then given individual, departmental and corporate goals. If these goals are met or

exceeded, the employees can earn above market compensation.

Pros:

- Employees see a direct correlation between their performance and pay.
- Employees generally work together more effectively in order to meet departmental goals.
- Provides a personal connection between the employee and the company's goals and success.
- Allows top performers to achieve above market compensation.

Cons:

- When the economy is down or the company is under performing, it may be impossible for employees to meet their goals, therefore compensation lags and morale can become a problem.
- A fairly complex system must be created and maintained in order to measure goals. In some instances complex computer tracking may be needed.
- May be difficult to separate team and individual performance and awards.

### **Which system is best for your company goals?**

Designing a compensation plan is not something that can be done by copying someone else. Every company has its own unique products, people, and processes. What works in one organization may not work in another. Much can be learned by studying what has succeeded or failed with other companies, but a sound understanding of the different variables involved is essential to designing a plan that benefits your company and your employees.