

Variable Pay: Your Advantage in a Competitive Labor Market

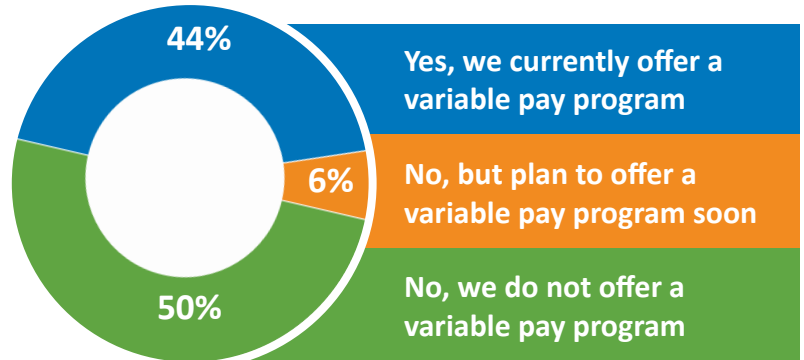


As the tight talent market continues and competition for outstanding performers becomes stronger, a best practice is to review, revise or refine your total rewards strategy. To attract future employees and motivate and retain your current employees, employers must move to a more competitive compensation plan, beyond the standard base pay. Adding variable pay to the total rewards mix may be just the differentiator employees are looking for!

MRA – The Management Association conducted this brief survey to better understand variable pay practices, usage and advantages to help organizations gain or maintain advantage over the competition.

Variable Pay - Yes or No?

50% of participating employers currently offer or plan to offer a variable pay program, while 50% do not. Why the 50/50 split? The nature, implementation, and execution of variable pay program(s) may be somewhat cumbersome. However once in place, it can be a powerful tool to increase productivity, total rewards focus and employee engagement.



Eligibility

Variable pay is widely used. Beyond the leadership or management staff, more than half of participants (55%) are extending incentive pay to all levels of the organization.



78%

Executives



75%

Directors



83%

**Managers/
Supervisors/
Professional Staff**



62%

**Office/Clerical/
Technical/
Service Staff**



47%

**Production/
Manufacturing Staff**

Target Award

Target awards, expressed as a percent of base salary, vary by employee group and reveal extremes in percentages of awards as seen below.

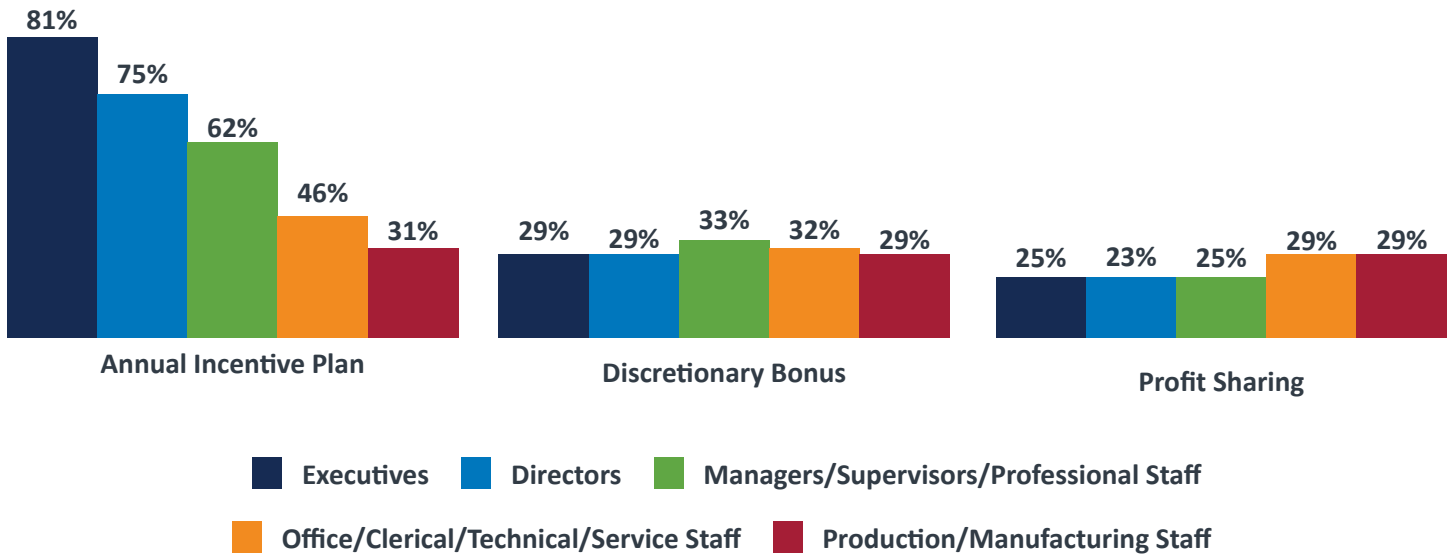
Target Award Percent	Executives	Directors	Managers/ Supervisors/ Professional Staff	Office/Clerical/ Technical/ Service Staff	Production/ Manufacturing Staff
1% - 10%	20%	28%	66%	88%	91%
11% - 25%	29%	57%	31%	12%	9%
26% - 50%	44%	14%	3%	0%	0%
51% - 75%	5%	1%	0%	0%	0%
76% - 100%	2%	0%	0%	0%	0%
Averages Across Employee Groups	28%	18%	11%	7%	6%

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Award Offerings

The top three award offerings by participating organizations include: annual incentive plans, discretionary bonus, and profit sharing. Spot bonuses and group/team bonuses round out the top five. Most organizations use more than one award type; 61% utilize two or more forms of variable pay awards.



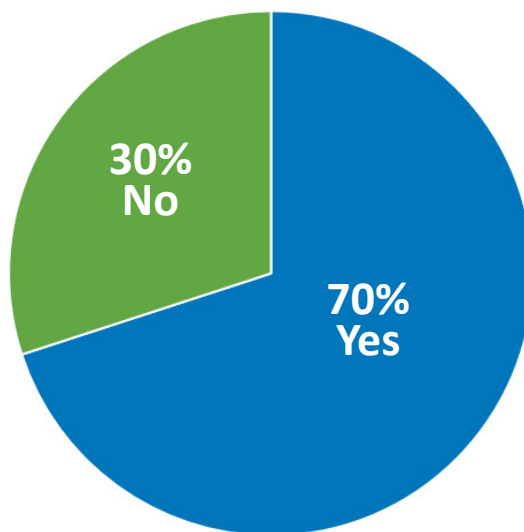
Measuring Up – Profitability is Key!

Of the top five metrics tied to variable pay, over three-quarters of participants use profitability as their key metric for awarding variable pay. Seventy percent of organizations indicate they set a minimum company profit threshold that must be met before variable pay is awarded.

Incentive Metrics



Minimum Company Profit Goal

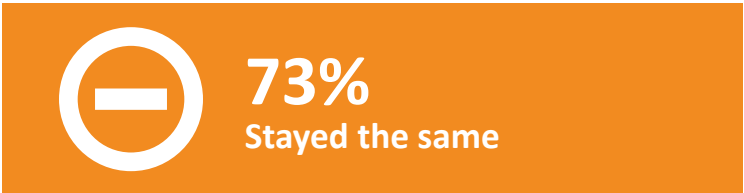


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Impact on Recruitment & Retention Efforts

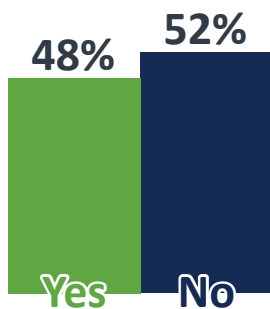
While many participating employers (73%) report their variable pay programs have not had much impact on recruitment and retention efforts, just over a quarter (26%) affirm positive improvement as a result of variable pay programs.



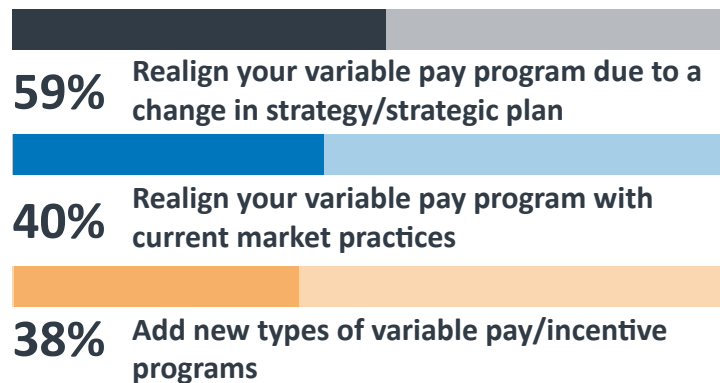
Changes/Enhancements

Almost 60% of participants plan to realign their variable pay program due to a change in strategy and 40% plan to realign with current market practices.

Plan to Change/Enhance in Next 1-2 years



Top 3 Changes/Enhancements



Characteristics of a Variable Pay Program

In order of importance, a variable pay program should:

- 1 Reward employees (93%)
- 2 Assist in attracting and retaining high potential and/or key employees (86%)
- 3 Engage workforce (68%)
- 4 Keep us competitive (66%)
- 5 Reward high performers (65%)

- 6 Empower employees (60%)
- 7 Improve corporate culture (42%)
- 8 Inspire average performers (34%)
- 9 Showcase organizational strength (30%)
- 10 Control costs (21%)

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Strategies for Success

Variable pay programs that truly reward individual performance and drive the value of the company are more likely to be successful based on the following tactics suggested by this research:

- **Meaningful difference** – Differences in performance ratings are **meaningful**, employees have **control** over their performance.
- **Defined business goals** – goals are clearly defined and arrived at with help from the employees.
- **Beneficial to business** – employees are rewarded for actions or skills that further the goals of the organization.
- **Regular performance checks** – a clear system of appraisal/feedback is in place and discussed on a regular basis.

“We provide many opportunities to promote and educate on our variable pay plan. Personal ‘Coaches and Trainers’ assist with individual development.”

– MRA Survey Participant

Other next step considerations in addition to education:

- Do your variable pay programs generate positive increases in productivity and sales, and reward behaviors that drive those results?
- Do they enhance employee satisfaction and engagement?
- Do your variable pay programs create a sense of entitlement, tension among co-workers, or a workforce not focused on quality?

This survey shows all the realities needing ongoing review. As the third quarter approaches, now may be a good time to consider a change to your total rewards strategy. Adding a variable pay program or fine-tuning your existing one may be your advantage in a competitive labor market!

Methodology



Brief
11 Question Survey



330
MRA Participating Organizations



May - June 2019
Data Collected

Questions?



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