

4 steps for implementing a variable pay program

Making variable pay work requires lots of interaction throughout the organization before, during and after implementation.

As the business unit most likely in charge of implementation, it's up to HR to make sure that happens.

Four steps point the way:

- 1. Understand your strategy.** What business goals will your bonus system help achieve? Here's where HR must team with top management at the very highest levels—CEO, senior executives and quite possibly board members.
- 2. Align metrics with your strategic goals.** Now you're getting down in the trenches, working with line managers and their bosses to figure out what to measure to determine how well individual effort or innovation supports the organization's business objectives.
- 3. Communicate clearly up and down the organization.** HR should be the most effective broker of information about how the variable pay plan works. But HR can't do it alone. Line managers have to reinforce it whenever they address employee performance. Mid-level managers must communicate progress up the organizational chart. And executives must assert support for the plan.
- 4. Monitor the program to ensure it's working.** This is an ongoing task. Every manager and executive is responsible for enforcing the match between metrics and strategy. In HR, it's your job to collate that information.

If necessary, be prepared to intervene (with backup from top management) to ensure that managers use your performance management system and variable pay metrics properly.