



TenStep Supplemental Paper

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Variable Pay Program

The Variable Pay Program (VPP) is based on the expectancy theory of motivation. Employees who perceive a strong relationship between performance and rewards are further motivated to excel. Also, it builds team ethics. By linking rewards to team performance, employees are encouraged to make an extra effort to help their team succeed.

Unlike conventional compensation programs, in a VPP, a pay hike is not based on position or seniority, but on performance. This difference in pay among employees makes VPP a strong motivating force. Top performers gain a pay increase commensurate to their performance. It not only motivates high performers but also pushes low performers to either perform or quit. Piece-rate plans, wage incentives, profit sharing, and bonus and gain sharing are different types of VPPs.

Piece-rate wages

Usually compensation packages are used in a typical production set-up, where the basic pay scheme depends on productivity. Today, organizations have evolved a new scheme where employees earn an hourly base pay, plus a piece-rate differential. It is thus a productivity incentive.

Bonus

The traditional bonus system has given way to a new one based on performance. It blankets all employees, regardless of their rank.

Profit-sharing plans

Here, compensation is based on a formula that is company-specific and designed around profitability.

Gain-sharing

In a group incentive plan, incentives are based on improvements in group-productivity. Gain-sharing rewards specific behaviors and is less influenced by external forces. Here, an employee is eligible to gain incentives even if the company is not making a profit.

Summary

VPP is one of the most effective employee involvement programs. The underlying logic of these programs is to increase the commitment of the employee towards the success of the organization by increasing employees' control over their pay packages. Employees are motivated to fulfill the unsatisfied needs with a variable pay program.