



**Best Practice  
Tips for Talent  
Management:  
*Pay for Performance***

## Pay for Performance: *5 Hallmarks of Successful Compensation Planning*

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The spring season often signals for many HR organizations, the time to re-evaluate how they are approaching employee reviews, including aligning performance and compensation. And a strong compensation planning program can indeed make performance bloom. But how do you create the right pay for performance strategy?

**For starters, your program *must* be automated.** A manual system simply cannot give you the robust data, real-time budget control, and what-if modeling capabilities it takes to make pay for performance successful. **And beyond automation, what makes a great compensation planning program? Look for these five hallmarks:**

**#1. INTEGRATION.** Pay for performance is a powerful strategic asset because it motivates *individual* performance, while aligning *all employees'* performance with the *organization's* goals. In fact, according to a Watson Wyatt Human Capital Index, in organizations that make substantial pay distinctions based on performance, *the total return to shareholders is 49 points higher* than in organizations that don't. That's why it's **critical to integrate compensation into:** a total talent management strategy and, B) business processes and systems (like accounting).



**#2. INFORMATION.** A good compensation planning program and technology supports solid decision-making by providing a 360° view of every factor affecting pay and performance, including: Company information (e.g., approved budgets; individual, team, and organizational goals such as long-term (retention) and short-term (MBO) objectives), employee information (historical salary, performance rating, bonus/stock options, etc.), and job market information (e.g., current salary survey data).

**#3. CONSISTENCY.** In order for pay for performance to be perceived positively, employees must understand both the rules and rewards and perceive the system as fair. This is also the key to compliance with EEO (Equal Employment Opportunity) and pay equity requirements. Thus, look for a compensation program that replaces personal subjectivity and any “halo effect” decisions with: a clear rating scale, consistent standards for applying the scale, and a solid audit trail documenting how decisions were made. In this way performance standards will be applied consistently across your organizational talent.

**#4. EDUCATION.** Simply making the pay for performance process transparent isn't enough. Invest in educating employees about how merit decisions are determined and applied equitably

without bias; your organization's commitment to rewarding performance; how the program advances employees' immediate and long-term success by keeping their performance high and focused on goals that matter most to the organization. This will also enable you to retain your high performing employees in that they will see how their contributions and performance will be rewarded by your organization.

**#5. FLEXIBILITY.** Look for a program that gives you the agility not only to see real-time views of your budget, but to run what-if scenarios so you can see the impact of a certain bonus or salary adjustments *before* you're committed to them. Plus, you want the flexibility to handle both annual *and* non-annual incentives and to tie compensation not to just financial performance, but to team plans, geographic location, functional levels or other criteria that are important to your specific organization.

Developing a pay for performance strategy where company and employee goals are closely aligned can increase talent retention and competitive differentiation for organizations, especially where talent shifts can greatly influence a company's success. Organizations that are using technology define and distribute performance rewards and automate key performance and compensation decisions are reaping real, tangible business benefits - from higher employee retention rates to increased shareholder value.

PLATEAU™

4401 Wilson Blvd.  
Suite 400  
Arlington, Virginia 22203  
703-678-0000  
[www.plateau.com](http://www.plateau.com)

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