SHRM Compensation and Benefits

Module 10: Person/Performance-Based Pay Plans



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Time:  2 minutes

Running time: 2 minutes

**Objective**: Introduce the topic Person/Performance-Based Pay Plans

**Description**:  Introduction to the topic and why it is important to compensation and benefits

**Instructional Method**: Lecture/ice breaker

**Script:**

Person-based pay plans reward employees for gaining new job-related skills, for successful job performance, for acquiring further education, or developing a new competency. Recall from our discussion in Module Four that employees are motivated by a variety of factors. Person/performance-based pay plans allow employees to directly influence their rate of pay based on their ability to perform well.

Table

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Time:  2 minutes

Running time: 4 minutes

**Objective**: Introduce the learning objectives.

**Description**: Show the objectives.  Answer any questions.

**Instructional Method**: Lecture

**Script**:

Here are the objectives for this module:

* Define terms related to Person/Performance-based pay plans
* Identify various types of performance-based pay plans.
* Evaluate how employee behaviors impact performance-based pay plans.
* Discuss how performance-based pay plans are covered by compensation laws.
* Interpret the difference between how sales professionals are compensated and how other performance-based pay plans work.

**Facilitator Notes:**

Use the objectives topics to create evaluation for the review.

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Time:  12 minutes

Running time: 16 minutes

**Objective**: Define key terms related to Person/Performance-Based Pay Plans.

**Description**: Match Key terms to the correct definition.

**Instructional Method**: Game

**Script**:

Let’s play a game to define some key terms used in the compensation and benefits profession.

**Exercise**:  Key terms

1. The instructor will state the definition of each term.
2. Have students choose which term fits the definition.
3. Click to “light up” the correct answer.

*Virtual*

1. Use chat or annotate/stamp.
2. Read the definition and have students choose the term.

**Define Terms:**

**1. Piecework**- A method of person-based compensation that pays employees based

on the number of pieces produced during a shift.

**2. Employee Recognition-** A financial or nonfinancial form of compensation that

       rewards employees for a variety of motivational purposes.

**3. Bonuses-** Additional compensation offered to employees based on performance.

**4. Stock Options-** A form of compensation that awards employees with the right to

       buy a certain number of company stock shares at a special rate. These are often

       used in executive compensation packages.

**5. Merit pay**- Additional compensation provided to employees based achievement

       that increases the base compensation rate.

**6. Straight salary**- Employees are paid a salary with no opportunity for earning

       additional compensation through an established bonus or commission plan.

**7. Commission-** Compensation provided to employees based on a percentage of

     individual sales performance.

**8. Competency**- “Basic knowledge and abilities employees must acquire or

     demonstrate in a competency-based plan in order to successfully perform the

     work, satisfy customers, and achieve business objectives” (Milkovich, 2019, p.

     709).

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Time:  10 minutes

Running time: 26 minutes

**Objective**: Identify various types of performance-based pay plans.

**Description**: Describe each type of performance plan and have students identify why each is used.

**Instructional Method**: Lecture - Discussion (optional videos)

**Script**:   There are essentially 4 types of person-based pay plans:

* Pay-for-knowledge
* Pay-for-performance
* Skill-based pay
* Competency-based pay

These types of plans can be very lucrative for employees, particularly when they have the ability to directly influence their income.

**Note**: Describe each plan.

**Ask**: Which type of plan would you wish to have at your organization and why?

**Facilitator Notes:**

* Video 2:31 Minutes [**Pay-for-Knowledge Plans**](https://www.youtube.com/watch?v=OIBzb3xpY1w&t=3s)
* Video 1:44 Minutes [**Pay-for-Performance Plans**](https://www.youtube.com/watch?v=FjRfhZvWV5E&t=29s)
* Video 2:12 Minutes  [**Skill-Based Pay**](https://www.youtube.com/watch?v=QvaJ3afgd-k)
* Video 2:35 Minutes  [**Competency-Based Pay**](https://www.youtube.com/watch?v=1i0ByTi0nRE)

1. [**Pay-for-Knowledge Plans**](https://www.youtube.com/watch?v=OIBzb3xpY1w&t=3s)**-** typically used for professional and/or managerial employees. Typically, these programs reward employees for gaining new knowledge such as obtaining a new license or completing a college degree. This type of plan is looking for depth and breadth of knowledge in a particular job. An example would be going back to school to get an MBA which would allow you to apply for upper management jobs.
2. [**Pay-for-Performance Plans**](https://www.youtube.com/watch?v=FjRfhZvWV5E&t=29s)**-** Some organizations prefer to motivate employees through use of financial incentives tied to performance outcomes. These include any number of piece-rate plans that reward employees for the number of products they produce daily, bonuses for meeting deadlines, gaining new customers, referring new employees, meeting sales goals, and so forth.

While money isn’t the only motivator, it’s certainly an important one. Organizations can choose to add additional compensation opportunities through the use of pay for performance plans. These plans typically still have a normal structure in terms of pay grades and ranges, but certain positions may also have an additional pay scale used to incentivize the successful completion of a task.

For example, a car salesperson might make minimum wage for every hour he or she works in the dealership. Some auto dealers have salespersons who work full-time, and others part-time. As such, they have different benefit options. Additionally, all salespersons receive a commission on the sale of each vehicle deal they close. It’s not uncommon to see a new salesperson at a lower commission rate than a more seasoned professional. Some dealerships may raise the commission rate in line with an established seniority program, or by number of vehicles sold, etc.

Whatever method you choose, be certain that it is well-publicized and pay close attention to the perceived fairness of the plan. Employees who understand the system are less likely to feel they are being discriminated against.

1. [**Skill-Based Pay-**](https://www.youtube.com/watch?v=QvaJ3afgd-k)usuallyseen in jobs where the addition of a new skill provides an employee access to a higher compensation level. These new skills must be job-related and there should be a limit to how many new skills they can obtain within a particular pay range and position. An example of this would be completing your SPHR-SCP or SPHR certification as an HR professional.
2. [**Competency-Based Pay**](https://www.youtube.com/watch?v=1i0ByTi0nRE)**-**Is based on an employee’s ability to use his or her collective knowledge, skills, abilities, talents, training, etc. to effectively perform the duties required of the position. When an employer is basing compensation on an employee’s competence to perform a specific job task it is important to first develop a standard that indicates success.



Time:  15 minutes

Running time: 41 minutes

**Objective**: Explore competencies for different positions using HR resources.

**Description**: Use resources to find competencies for different positions.

**Instructional Method**: Lecture - - Discussion -- Exercise

**Script**:   Let’s talk a bit more about competency models. How will you know if an employee has a certain competency or not?

As an example, let’s look at some common competencies for HR Managers.

**Ask**: What competencies do you think an HR manager needs to do their job?

Answer: Have students answer then **Click** to show 9 competencies identified by SHRM.

**Exercise**:

1. Put students into small groups 2 – 4.
2. Click to show professions on next slide.  
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3. Have each group choose 2 professions and make a list of at least 5 competencies or KSAO’s using the resources listed below.
4. Have students share their lists. If some groups chose the same profession, compare their answers.

**Facilitator Notes:**   
**a.** [**SHRM HR Competency Model**](https://www.shrm.org/learningandcareer/career/pages/shrm-competency-model.aspx)- Competencies are those things you do well that

     help you do your job successfully. As an HR professional, SHRM has identified 9

    competencies that you should be working toward developing. They are:

·  Relationship Management

·  Ethical Practice

·  HR Expertise

·  Business Acumen

·  Critical Evaluation

·  Global & Cultural Effectiveness

·  Leadership & Navigation

·  Consultation

·  Communication

**b**.  **When you look at** [**O\*Net**](https://www.onetonline.org/) under the HR Manager job description, it doesn’t

     obviously list competencies. It lists KSAO’s, work activities, technology, etc. But

     the competencies are listed if you look closely. What are the things you need to

     know, be able to do, understand, and perform? These are competencies.

**c**.  **Another great place to look for desired competencies are professional organizations** (like [SHRM](https://www.shrm.org/)) who publish the same kind of information. These are some of the best resources you can find as they frequently offer a wide variety of information. Even better, your employees may already have access to all kind of salary survey data, competency information, etc., as part of their membership benefits. Ask employees to provide this type of information if it is available to them! Most employees are more than happy to provide information to help you build a larger database of information upon which to base your compensation decisions!

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Time:  4 minutes

Running time: 45 minutes

**Objective**: Discuss how performance-based pay plans are covered by compensation laws.

**Description**: Describe how performance-based pay plans are covered by compensation laws.

**Instructional Method**: Lecture - Discussion

**Script**:

[**Fair Labor Standards Act**](https://www.dol.gov/agencies/whd/fact-sheets/17f-overtime-outside-sales)- The FLSA has specific rules concerning Outside Sales Exemptions from overtime pay. The reason for this exemption is that the nature of the job of outside sales professionals dictates that they work away from an office and that the hours they put in may or may not exceed 40 in a given workweek and may not occur during regular business hours. Therefore, those employees identified under the law as Outside Sales professionals are exempt from overtime.

[**Equal Pay Act**](https://www.dol.gov/agencies/oasam/centers-offices/civil-rights-center/internal/policies/equal-pay-for-equal-work)- The Equal Pay Act applies to all person-based performance plans, just as with any other compensation policy. Employers may not base anything relating to compensation on factors protected by the law.

**Ask**: How can these laws effect performance on the job?

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Time:  15 minutes

Running time: 60 minutes

**Objective**: Interpret the difference between how sales professionals are compensated and how other performance-based pay plans work.

**Description**: Describe 3 types of plan and ask students to interpret how sales professionals are compensated differently.

**Instructional Method**: Lecture - Discussion

**Script**:

Not all performance-based jobs are compensated exactly the same. There are some differences between those available to individuals, groups, and outside salespersons ([as defined by the FLSA](https://www.dol.gov/agencies/whd/fact-sheets/17f-overtime-outside-sales)).

1. Individual employee pay plans
2. Sales Compensation pay
3. Team/group based variable

**ASK**: Has anyone been in sales and which type of plan did you have?

**Facilitator Notes:**

1. **Individual employee pay plans**

**a. Piecework**- Piecework pay plans allow employees to have some control over their earnings in that they are paid by the number of completed items in a given work week. Employees are rewarded for working quickly and with low error ratings.

**b. Recognition**- Employees like to be recognized for exceeding the expected standards. This can be a financial incentive, but can also be in the form of an award or a public pat on the back. This type of reward can become highly competitive, such as awarding a “Salesperson of the Year” award that comes with a trip to Mexico and is awarded at the annual holiday gathering.

**c.** [**Bonuses**](https://www.dol.gov/agencies/whd/overtime/whdfs17u)- Bonuses are rewarded to employees individually or as a part of a team and are typically rewarded for work that is above and beyond the normal duties or because the individual/team/department/or organization as a whole has performed well on a specific task. This is a broad definition, and more information is provided about bonuses in Module Six.

**d. Stock Options**- Stock options are also frequently used to award individual job performance, most typically for upper-level executives. They are tied to longer-term strategic plans that the employee can directly influence but are usually based on overall performance.

**e. Merit pay**- Merit pay is typically awarded to employees based on achieving some level of accomplishment, such as an exceptional performance evaluation. Merit pay increases the base compensation level, whereas a bonus is a one-time event.

**2.**  **Sales Compensation pay plan-** Sales professionals are often compensated with both a flat rate salary as well as the option to earn more based on sales performance. However, they can also be paid on a straight commission basis, where 100% of their salary is earned based on sales.

**a.  Straight Salary**- The straight salary is a typically low salary based on an hourly rate. This ensures that the sales employee earns at least the minimum wage if their sales are low during a particular time period.

**b.** [**Commission**](https://www.dol.gov/agencies/whd/overtime/whdfs17u)- Commission is a percentage of sales that is returned to the employee as a form of compensation.

**c. Overtime-** Remember, under the FLSA, outside sales employees are not eligible for overtime compensation.

**3.**  **Team/group based variable plans-** Many organizations offer various groups and team the option to earn additional compensation based on the team performance. This compensation typically comes in the form of a bonus or merit increase.

Graphical user interface, text, application, email

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Time:  20 minutes

Running time: 80 minutes

**Objective**: Evaluate how employee behaviors impact performance-based pay plans.

**Description**: Have students pair up and answer the questions. Discuss as a large group.

**Instructional Method**: Pair and share discussions, exercises, homework

**Script: In the Spotlight:** Read and analyze the article [Performance-Based Pay Won’t Motivate Employees as Much as You Think](https://www.businessnewsdaily.com/9712-performance-based-pay.html) by Sean Peek. Do you think employees should be offered performance-based pay, or are the risks too great for employers?

**Discussion Prompts:**

1. What are the benefits to employers for offering a person/performance-based compensation plan, and what are the risks? Do you believe the risks are worth the reward to the organization?
2. Which type of person/performance-based compensation appeals to you and why?  
   Do you think it would motivate you to perform at a higher level?

**HR Skills Exercises:**  The CEO has been getting some pressure from the BOD to implement an across-the-board competency-based pay plan. This means that every position will be compensated entirely based on what they can do. Provide the CEO with information explaining why this type of pay plan might not be effective for every position within an organization and make a recommendation about which types of positions could be compensated effectively this way. Assume you are a small manufacturer of scented candles with less than 500 employees and $20 million in annual revenue.

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Time:  10 minutes

Running time: 90 minutes

**Objective**: Review main points in this module.

**Description**:  Be sure that students have a fun way to remember the material.

**Instructional Method**: Game – Review

**Script**:

Let’s see how much we remember about this module.

**Facilitator Notes:**

Review Exercise:  Create a fun game to review the material.

Remember to use the objectives to measure learning:

* Define terms related to the module content.
* Identify various types of performance-based pay plans.
* Evaluate how employee behaviors impact performance-based pay plans.
* Discuss how performance-based pay plans are covered by compensation laws.
* Interpret the difference between how sales professionals are compensated and how other performance-based pay plans work.

Ideas:

Have each student submit a question on a piece of paper, crumple it up and toss it in a bucket (clean wastebasket), Instructor will then read them and give points to each team with the correct answer.

* Any game show – Family Feud, Jeopardy, $10,000 pyramid, Password, Tic Tac Toe
* Extra credit quizzes

*Virtual*

There are many ways to review material virtually or in person.  Students can use their phones or computers to navigate to various online review websites.

A few are:

* Kahoot
* Quizlet