



DEPARTMENT OF MANAGEMENT  
**SERVICES**

# Variable Compensation Team Charter

Statewide Enterprise Efficiency Initiatives  
January 2013

# 1. INTRODUCTION

## 1.1. Executive Summary

Employee incentive plans and non-monetary awards offer mechanisms to effectively motivate and retain valued employees who provide exemplary performance and/or meet specified objectives. These programs are intended to reward employees and managers whose achievements contributed to the attainment of agency goals. Rewarding achievement is a foundational component of an overall talent management strategy.

Current performance-based compensation components are based upon availability of salary rate and current budget dollars. High performers in budgets without salary rate and/or dollars do not receive increases. No budget currently exists for variable compensation incentive pay. More importantly, when employees receive pay increases apart from performance, the incentive to produce may be suppressed. As a result, high performing employees may become discouraged and choose to leave state government employment.

Under the current compensation model performance measurements and justifications for performance based salary increases vary widely across agencies. We work in a pay system that is irregularly augmented with optional legislatively directed, across the board pay increases. Any performance based increases are primarily funded through dollars generated by position turnover and vacancies.

To provide for consistency within and between state agencies, and to promote the best practices in performance management the State Personnel System (SPS) needs to implement the following concepts and methods:

- Develop a compensation philosophy focused on performance-based pay.
- Realign the total compensation package (salary, insurance, retirement, leave, etc.) to enhance fiscal sustainability and competitiveness.
- Obtain funding from the legislature to implement variable compensation incentives.
- Implement a performance-based incentive program.
- Drive overall talent uplift by attracting and retaining high quality professionals using competitive salary and performance incentives throughout the employee's career.

## 1.2. Project Description

This team's role is a part of a larger enterprise initiative to improve state agency performance and efficiency by improving several elements of employee management and leadership. These elements include employee development, compensation, succession planning, and others. Employee compensation is a key element that drives attainment of individual objectives and agency goals.

Our primary objective is to develop an effective variable compensation system that utilizes incentive pay (variable compensation) to reward top performing employees. This objective requires that we:

- Develop a meaningful variable compensation plan.
- Monitor and communicate plan successes.
- Accurately link employees' performance with financial incentives.
- Reward competencies and performance that further agency goals.
- Develop and communicate a transparent compensation plan that is understood by and incentivizes employees.

Other objectives include:

- Coordinate with other project teams to develop training for individual employees and managers in support of the variable compensation plan.
- Coordinate with other project teams to develop curriculum to prepare human resource professionals to support variable compensations concepts within their respective agencies.

## 1.3. Assumptions

1. State employees are our most valuable asset.
2. Employees want a compensation system that rewards employee contributions.
3. When employees feel they are valued and that the work they do has meaning, they become passionate and engaged.
4. Variable compensation is based upon individual performance measures that directly support agency goals.
5. State agencies should be consistent in how they rate employees and award variable compensation.
6. Turnover costs the state money and diminishes our ability to deliver services that meet our constituents' expectations.

7. Employees can play a significant role in determining their variable compensation based upon meeting and exceeding clear performance expectations linked to agency/department goals.
8. Managers should be trained and utilize the available incentive tools to reward their subordinate's performance contributions.
9. Coordination with the curriculum development team to develop training related to variable compensation.

#### **1.4. Constraints**

1. Short time-frame allowance.
2. Multiple agency cultures.
3. Variety of well-established agency developed processes for performance management.
4. Communication.
5. Legislative budget support.
6. Collective bargaining.
7. Statutory language.

## **2. PROJECT SCOPE**

This project will develop a variable compensation plan for employees within the State Personnel System (SPS). There will be some role specific plan criteria for managers, supervisors and employees at all levels.

Create and fund an incentive payment plan that motivates employees to contribute to achievement of agency goals and rewards high performance.

Provide models for other non-monetary performance incentives.

#### **2.1. Risks**

1. Employees' perception of variable compensation is negative without proper messaging of intent and purpose.
2. Rater reliability issues skew employee ratings.

3. Resistance to organizational change may minimize positive impacts.
4. Collective bargaining units fail to view positive impact of variable compensation.
5. Variable compensation plan is not funded by the legislature.

## **2.2. Project Deliverables**

1. Create draft proviso language for Interim Variable Compensation (IVC) for fiscal year 2013-14.
2. Create education and marketing messaging content regarding the value of variable compensation performance incentives for discussions with employees, managers, agency heads, unions and the legislature.
3. Provide educational messaging content to the curriculum development team.
4. Provide models for effective management of performance incentive pay.
5. Provide models for other non-monetary performance incentives.
6. Provide cost/benefit analysis of implementing the compensation component of the performance and talent management improvement project.
7. Provide valid measurements and criteria that will provide the basis for the state to evaluate the effectiveness of the implemented performance incentives.
8. Create draft proviso language for Variable Compensation (VC) for fiscal year 2014-15 based upon agency utilization of SMART type goals/performance expectations methodology.
9. Identify critical change management issues and communicate to the appropriate teams as needed.

### 3. PROJECT ORGANIZATION

#### 3.1. Project Team Organization Plans

##### 3.1.1. Core Team

Core Team Resources			
Resource Title	Resource Name (optional)	Responsibility	Qty
Project Sponsor	Darren Brooks (DMS)	Authorize funding and resources	1
Project Manager	Bob Wilson (DEP)	Lead project resources, monitor and adjust progress	1
	Phil Spooner (DMS)		
	Dennise Parker (DCF)		
	Debra Johnson (DCF)		
	Cathy Tarleton (DACS)		
	Zachary Scott (DEP)		
	Penny Dyer (DOH)		

### 4. SCHEDULE

#### 4.1. Project Timeline

Phase	Start Date	Completion Date	Milestones
I	December 14, 2012	January 15, 2013	Proviso language finalized for Interim Variable Compensation for FY 2013-14
	December 14, 2012	January 15, 2013	Education and marketing message content
II	January 2, 2013	June 30, 2013	Provide models for effective management of performance incentives
	January 2, 2013	June 30, 2013	Provide models of non-monetary performance incentives
	January 2, 2013	June 30, 2013	Provide Cost/Benefit Analysis
	January 2, 2013	June 30, 2013	Provide valid measures and criteria to evaluate effectiveness of implemented performance incentives
III	September 1, 2013	January 15, 2014	Proviso language finalized for FY 2014-15 Variable Compensation based on SMART-type goals and performance expectations

## 5. APPROVALS

**Prepared by:** Bob Wilson  
Chief of Personnel Services, Department of Environmental Protection  
***Variable Compensation Team Lead***

**Approved by:**  \_\_\_\_\_ 1-3-13  
C. Darren Brooks, Ph.D. Date  
Deputy Secretary, Department of Management Services  
***Project Sponsor***