Agile Compensation for Agile Companies

HRSoft | HR DIVE

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Many companies set their business goals at the start of the year and review their results at the end. These organizations also tend to follow the same cadence with employee goals. Compensation decisions are also made annually, since they're often based on that year-end review of goal achievement.

The problem is that companies can no longer set business and employee goals in January and expect them to be relevant even six months later. The speed and volatility of business have escalated. As a result, today's organizations must be agile enough to anticipate and respond to market conditions, technologies, processes, and customer and employee expectations as they change.

Just as business goals must be fluid and responsive throughout the year, employee goals must be fluid and responsive too. Instead of annual goal setting, companies must revisit employee goals throughout the year to address new demands and opportunities.

That means compensation must also be agile—no longer tied to a one-time annual increase or bonus. Instead, the compensation process should be continuous—frequently assessed along with performance and goals throughout the year, and incorporate meaningful and timely incentives.

Continuous compensation isn't a new idea—or even a controversial one. While most companies understand that continuous compensation helps engage, retain, and motivate employees, they're still slow to integrate this process.

In this playbook, experts take a deep dive into continuous compensation, exploring how it helps increase business agility, highlighting why companies increasingly recognize it as a business necessity, and providing practical steps to start and progress.

> "Continuous compensation: a system where employees can be compensated for achieving performance goals throughout the year, not just during annual reviews. Compensation may be tied to short- or long-term goals."
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> **Glizcel Ditto**
> Executive Director of Client Solutions, HRSoft

Continuous Compensation: Good Idea, with Execution Challenges

In 2000, the big theme for compensation in the 21st century was agility. David Cheatham, Compensation Consultant for Empsight, a human resources consulting firm, remembers it well. "Compensation was going to be flexible, focused, forward-looking, with flexible base-pay and everything would be tailored to the individual and delivered continuously."

That imperative is easy to understand: through the years, continuous compensation, along with frequent recognition and feedback, have long shown to improve employee and business performance.[1]

Cheatham said that despite the imperative, twenty-five years later, most organizations are still waiting for this change in compensation to occur. People believe in the concept, he said, but the execution is challenging.

A 2024 Deloitte report reinforced Cheatham's point. It found that although more companies are working to create high-impact total rewards than were in 2018, in 2024, **60% of companies still lacked the comprehensive, integrated, nimble, and intentional features of a mature rewards function.**[2]

[1] *The importance (and outcomes) of Flexible, Agile Rewards Strategies | WorldAtWork.* (n.d.). WorldatWork. https://worldatwork.org/publications/workspan-daily/the-importance-and-outcomes-of-flexible-agile-rewards-strategies?utm_source=chatgpt.com

[2] *2024 High-Impact Total Rewards research.* (2023). https://www.deloitte.com/content/dam/assets-zone3/us/en/docs/services/consulting/2025/us-2024-high-impact-total-rewards-report.pdf

The core challenge companies have in creating the agility needed for a high-level rewards program is that the annual business and compensation cycles offer limited flexibility for changes, Cheatham said. Consider the major areas of compensation:

1. Wage or annual salary is the least flexible. It's a fixed cost, is budgeted annually, and only moves in one direction—up. Organizations are hesitant to increase base salaries more than once a year—and lowering base salaries is detrimental to employee motivation, he added.

2. Long-term incentives also have limited flexibility: they're usually tied to multi-year goals, equity, and stock options.

3. Short-term incentives can offer a bit more flexibility. They are usually tied to a one-year performance period, but can be divided at various points throughout the year.

4. Spot equity awards allow companies to compensate employees at the end of a project. While this allows more flexibility, however, once a spot equity award is granted, it can have a multi-year vesting period. Spot bonuses are also an option, but because they may occur ad hoc, managing spend around such programs can be challenging.

5. Recognition, whether financial or nonfinancial, is agile because the criteria and timing of awarding it can be flexible.

Pivoting Now: The Imperative for Speed and Agility

While the challenges of implementing continuous compensation may have been sufficient deterrents in the past, that approach no longer works. “Companies can no longer afford to have a rigid, once-a-year compensation or performance process. They must evolve around the business priorities and goals,” explained Corina Soriano, Director of Total Rewards, Percepta, a customer experience provider for the automotive industry.

The increase in the speed of business, coupled with economic volatility, means businesses need to pivot quickly and often. The factors can vary, including economic volatility driven by inflation, companies needing to change budgets or shift their awards to retain talent, or business model changes. Soriano said other triggers could include a retailer needing to expand to e-commerce. “Employees must be skilled differently, so they need to adapt and the compensation needs to reflect those new skills.” Another factor is any technological disruption, such as AI. “When there are scarce talents or skills, that's more valuable and needs to be rewarded more dynamically.”

Soriano said these situations require quicker compensation changes than once a year, such as spot bonuses or other forms of faster recognition that reinforce their development in the organization.

Continuous compensation can also be beneficial for a company financially, added Glizcel Ditto, Executive Director of Client Solutions, HRSoft. “Looking at it from a budgetary perspective, as long as you've got the tools in place that help you to do this, you can spread your compensation cost throughout the year.”

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Moving to Continuous Compensation

The Deloitte research highlighted that companies are moving—albeit slowly—toward continuous compensation. But some companies, or at least departments, have implemented aspects of it for years. "It's expected with large sales organizations that have sales incentives that are awarded throughout the year," said Ditto. "But now you're starting to see other non-sales organizations with more frequent goal setting and touch points. Frequent incentives can then go hand-in-hand with this year-round performance cadence."

Ditto added that professional services and research and development teams, like at HRSoft, are looking for ways to keep employees engaged with quarterly goals and quarterly incentive payouts. "It also lends itself to any industry that's thinking of a more agile approach." While technology fields are a natural fit, Ditto said that any place with a large hourly workforce, such as a call center, can also benefit from aspects of continuous compensation, including monthly or weekly recognition awards and incentives.

High level maturity rewards organizations are...

3x more likely to review and adjust base pay more than once a year

8x more likely to pay out broad-based short-term bonuses/variable pay plans more than once a year[3]

[3] *2024 High-Impact Total Rewards research.* (2023). https://www.deloitte.com/content/dam/assets-zone3/us/en/docs/services/consulting/2025/us-2024-high-impact-total-rewards-report.pdf

Cheatham shared an example of a manufacturing facility that offered monthly incentive awards based on productivity, quality, and customer service. Everyone in the plant received a monthly incentive award based on the facility's performance. Cheatham cautioned that although the program was successful, it required more than just putting a new process in place.

"They had to have a lot of systems in place and clarity of what the goals were," he said. "Then they paired that with communication and social recognition." At the end of the month, they held a team meeting to review the goal achievement, hand out the payout, and celebrate. "That's a big commitment," Cheatham said. "Most organizations are not willing to do that."

While that commitment may seem overwhelming, it may be simpler than leaders imagine, Soriano added. "If they see it as very easy and practical, they will apply it more and more frequently. So it can't be something overcomplicated or overengineered."

In addition, Soriano said, companies committed to high performance give more frequent employee feedback and performance reviews —both formal and informal. Providing more frequent compensation that aligns with that feedback is a natural step.

Where to Start Continuous Compensation

Not all organizations are prepared to implement a company-wide continuous compensation program. But they can start with small, impactful steps, such as:

- Conduct a mid-year mini-review for any promotions or market adjustments that need to be made, allowing the merit pay cycle to remain annual. Consider a few touchpoints to reward, with a crawl, walk, run approach.
- Offer a spot bonus. It's quick and simple, but acknowledges the difference an individual made in the organization or on a project.
- Create a short-term incentive program that begins as an annual plan, incorporating variability and agility to reward the high performers and top contributors. Over time, transition part or all of the program to a quarterly payout structure for greater agility and responsiveness.

For businesses that want the full picture, it is vital to start by aligning the compensation system—total rewards, compensation, philosophy, and strategy—with the business goals, Soriano said.

Surprisingly, this step is often overlooked, even by HR leaders, she said. “At times, even the HR community is unaware of this because they’re thinking about the business’ day-to-day operations rather than the longer strategy.” But it is critical to create a framework and philosophy. “Where do you want to position yourself in the market? Do you want to be the leader? You want to lag? You want to be at market?”

The next step is putting together a small committee, perhaps HR and a business leader, to go through the process and ensure that program rollouts are equitable throughout the company.

Designate a budget and determine how it fits with what you want to accomplish.

Look for platforms and systems that help expedite the process and that suit your organization.

Consider a pilot program as a start. Soriano suggested ways to determine if the program is successful, including setting a budget and not exceeding it, assessing the managerial awareness and use of the program, and judging the quality of spot bonuses (if they are really used to reward exemplary contributions).

Beyond the Process—Other Considerations for Success

As Cheatham described in the example of the manufacturing facility that successfully implemented an incentive plan, communication of the plan is a vital part. Soriano refers to it as “continuous communication,” saying, “When you keep employees informed, it reduces the frustration that they're waiting for months for recognition and adjustments and nothing is told to them.”

That increase in communication helps establish trust, Cheatham added. “Employees have to believe they’re treated fairly. You either have to do it consistently or you have to have criteria explaining why you're not eligible for that. Otherwise, people will view that action as inequitable.” With more emphasis on pay equity and transparency, communication isn’t just recommended, it’s essential.

No doubt, implementing continuous compensation also means some change of culture. It relies on more frequent performance and compensation discussions and decisions. It requires managers to develop more leadership skills. Using the right technology can simplify and speed the process.

With continuous compensation practices, small or large, companies can be more creative and impactful in how they pay employees, resulting in greater business flexibility.

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