HOW TO IMPLEMENT YOUR

FIRST COMPENSATION PLAN

Introduction

Does your compensation planning process sound something like this:
"What did we pay the person who quit? Let's pay the new employee what that person was making."

"That sounds good...I guess?"

If that rings true to your compensation planning experience, you're not alone. The Wall Street Journal reports that in a sampling of 7,600 companies in the U.S., Canada, and the United Kingdom, "only 38% of employers have a formal compensation structure or philosophy guiding their pay decisions."

In terms of staffing strategies and budgets, this haphazard approach is not wise. Due to widespread concerns and legal action regarding equitable pay, it's riskier than ever for employers to abstain from putting formal pay practices in place.

"The key is to have well-documented and less ad-hoc pay decisions to ensure consistency while still being responsive to the market," Tom McMullen, senior client partner with pay consultancy Korn Ferry, told the Society for Human Resource Management (SHRM).

When pay decisions rely on gut instincts, gender bias, and unreliable data, compensation decisions can create complications and setbacks. To replace your ad-hoc compensation plans with a solid strategy, you must consider what's included in the program, how compensation impacts the employee life cycle, as well as when—and how—you should launch your strategy.

What's involved in a compensation plan?

An employee's salary or pay rate is the foundation of compensation, but much more is included in the total pay package. Your compensation plan addresses every benefit that employees receive from a company. In addition to salaries, compensation can also include: bonuses, commissions, health insurance, retirement investments, and other perks.

A compensation plan includes the methods, practices, and intentional approach for how your organization maintains a balance between financial interests and attracting, developing, retaining, and rewarding employees with competitive pay packages within a given industry and market.

"If your goal is to double your revenue over the next five years, then you are, say, going to have to develop one or two new products annually. To do that, you're going to have to attract, retain, and develop top-notch talent," Diane Schuman Schuman told CIO. "A compensation strategy is going to help you do that."

A structured compensation plan helps align compensation with business goals and helps create transparency. It is a defined strategy that can build trust with employees—which, in return, boosts engagement and retention. It's a powerful way to demonstrate that employees are your most valuable asset, and as such, your goal is to pay them consistently and equitably.

How compensation impacts the employee lifecycle

The employee lifecycle is a useful method to visualize and plan for how compensation relates to each step of an employee's engagement with your company. By focussing on how benefits and pay impact each stage, it's possible to understand more about what your plans should address at each point.

The employee lifecycle typically includes the following stages:

Attract: Compel active and passive candidates to join your organization through recruiting efforts and a positive employer brand. Your overall pay package must be competitive to successfully recruit and attract the talent you need.

Hire: Employ people who have the skills you need to move forward and who share your company values. You'll save time and money in not having to replace them later. If you have clear compensation programs, it paves the way for a smooth hiring process. Recruiters know what they can discuss with candidates, hiring managers are clear on their budget, and candidates understand their options.

Onboard: Provide the training, mentoring, and company culture experiences to help someone get started in the organization. During onboarding, you want to reconfirm for new employees that they've made the right choice in joining your organization. An organized and intentional total pay package demonstrates from the very first days of employment that you care about your employees and have taken steps to ensure they get the benefits and pay that meets their needs.

Develop: Offer opportunities for coaching, performance management, and professional growth. As part of compensation, include planning for promotions and the necessary pay increases associated with changes in job levels and roles. When employees understand pay grades, it can motivate their productivity and inspire them to reach for their next professional goal.

Retain: Build trust and establish great relationships with your top talent to ensure they stay with your organization as long as possible. A compensation plan needs to remain current and complete—it's challenging to retain your employees if competitors make them a better offer.

Separate: Understand and examine the reasons why employees leave to identify and address potential issues. As part of exit interviews, make sure you cover compensation. If the trends show employees don't feel they receive adequate pay and benefits for their job, you'll need to make adjustments.

"It is important that employers recognize the critical talent they have by getting pay and promotions right—or they risk losing employees to competitors that may offer better salaries and the opportunity for more career growth," Mary Ann Sardone, Mercer's North America rewards practice leader, told SHRM.

From attraction to separation, using the employee lifecycle as a guideline for your compensation process and planning will ensure that you're keeping employees at the center of your program design.

Pablo Rogelio
SDR

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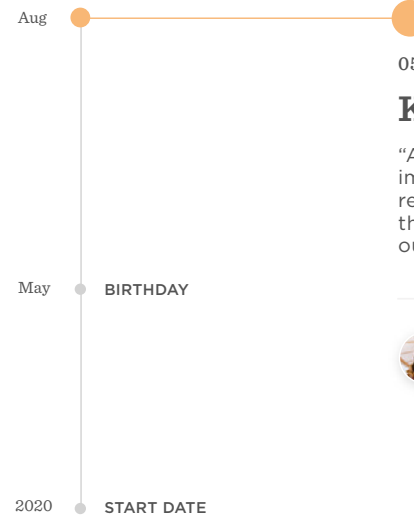
Kudos

"Another successful implementation to close out a record-breaking month! Many thanks to Pablo Rogelio who led our team to a big win."

Erica Hill
Sales Team Lead

May BIRTHDAY

2020 START DATE

How should you go about creating a compensation strategy?

A complete compensation strategy includes several key elements. From an overall philosophy to a plan for regular evaluation of the plan, you can avoid issues by ensuring your approach addresses each vital component. Your company will be better off for it.

"Every compensation decision must add to the strength of the company; from rewarding those who boost the bottom line, to red-circling those whose pay is above market. You must be a warrior for company success, on all levels. And, encourage managers to be the same. Lead by example," said Stacey Carroll, President of HR Experts On-call.
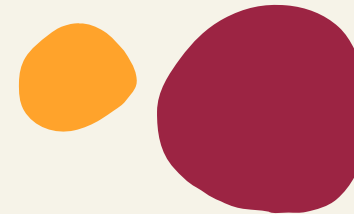
Develop a compensation philosophy

All leaders at your organization need to understand—and agree upon—the company's strategy around compensation. Are you aligning pay to performance? Is it tenure-based? Are you offering incentives? Be sure to clearly define your company's goals and how the pay structure supports short and long-term goals. (Check out Hibob's Performance and Compensation Guide for more information about overall strategy.)

Conduct a job analysis of all positions

Study each job in your organization to evaluate which activities and responsibilities each job includes. Assess relative importance to other jobs, and identify the skills necessary to perform the job. If there are educational requirements, make a note of them, and capture the conditions under which employees complete their work.

Create pay grades, assign salary ranges, and place jobs in pay grades

Pay grades allow you to categorize different types of jobs into groups with the same general pay rate based on the level of expertise required. They help establish a standard framework of compensation for an organization. SHRM offers helpful tips about how various methods (i.e., points or rank) you can use to calculate pay grades.
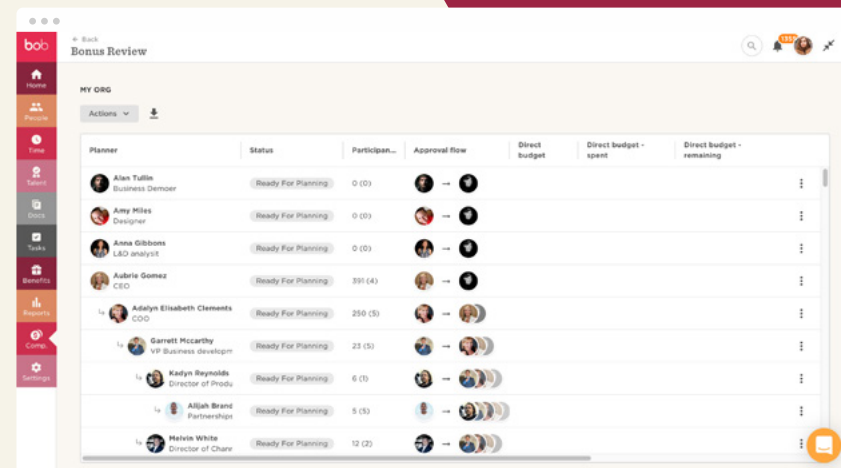
Communicate about the compensation program

Once you have a program and approach, it's imperative to communicate it to all employees. This is key for building trust and engaging employees through transparency about pay. Not only do employees want to know that their current rate of pay is competitive, but they also want to plan for any professional development, they might need to achieve a pay increase or promotion.

Assess and update the program on a regular schedule

Just as you have performance reviews on a consistent schedule, so your compensation plan needs to be regularly evaluated. On at least an annual basis, review the plan against comparable plans in your market to determine if there are instances of overpaying or underpaying any roles. Also, evaluate your payroll spend against your overall budget to assess any issues. The more data and information you have, the better you'll keep your plan current and relevant for your business.

Each of these elements in your compensation strategy helps you address and meet legal requirements. Not only do you want your compensation plan to fit your budget and meet employee needs, but it also helps ensure your organization complies with all federal and state regulations.

In what stage of your business should launch your plan?

Although a compensation plan can relieve many headaches and stress, according to Payscale only 31% of organizations have a compensation strategy and philosophy that they share with employees, while 39% are working on a plan.

"Founders don't want to draw hard lines because they feel this need to do anything to get talented people in the door, but they'll end up paying for that decision later," according to Molly Graham. She played a key role in clarifying the compensation plan at Facebook during its early days.

Regardless of size, the earlier an organization puts a plan in place to manage compensation conversations and questions, the more successful they'll be. The plan can—and should—be modified, as needs change. But even the most basic compensation plan will help answer questions, make decisions, and recruit new employees.

In addition to adding clarity for current employees, competitive compensation is a critical part of talent acquisition. When you have a plan comparable to market rates, employee and candidate perceptions will be more favorable, leading to better hires—and improved retention.

5 tips for laying the foundation for your compensation plan

1

Clarify your buissness goals

2

Get market data

3

Build sample pay grades

4

Review past compensation issues

5

Use HR tech

As you begin to lay the foundation for your compensation plan, start with these five tips.

1. Clarify your business goals and align them with your compensation priorities.

Ask all leaders to agree on a compensation philosophy that meets organizational values, budgetary needs, and provides room for growth. For compensation plans to achieve results, the leadership team must support it and agree to adhere to the strategy for consistency and legal protection.

2. Familiarize yourself with market data sources.

Look for data on what the current pay rates are in the markets where you're conducting business. You can choose to do so with a vendor's help, or conduct research from sites such as Glassdoor, Salary Expert, and the Bureaus of Labor Statistics.

3. Build sample pay grades for your top 10 mission-critical jobs.

Determine your top 10 jobs, decide if you want to establish grades based on points or rank, then work through the steps to build out pay grades for each job. Use this as the basis for a framework that you can use and apply to existing jobs or those you add as the organization grows.

4. Track if you lose candidates or current employees due to compensation issues.

Make sure you have a method to capture data about why candidates turn down your employment offers. The same goes for current employees who leave for another job. If people complain about low pay or lacking benefits, that information can inform changes in your overall approach. If you're losing significant talent to your competitors, it may be time to improve your compensation plan and offerings.

5. Use HR tech to streamline to process from start to finish.

Compensation plans have many moving parts, and it can quickly become overwhelming to manage and share the necessary data for compensation decisions. HR technology allows HR teams and leaders to contribute to and approve compensation decisions. A system approach can also empower managers with benchmark data and, with a cloud-based HCM, you have the performance data you need at your fingertips to make the right compensation decisions.

If you're reading this, it probably means you're ready to leap from just paying someone the same rate as the last person who held the same job. That's exciting. But, it's also overwhelming. Compensation is an integral part of how a business succeeds. Not only does it impact your balance sheet, but it's an essential driver in how you engage your employees.
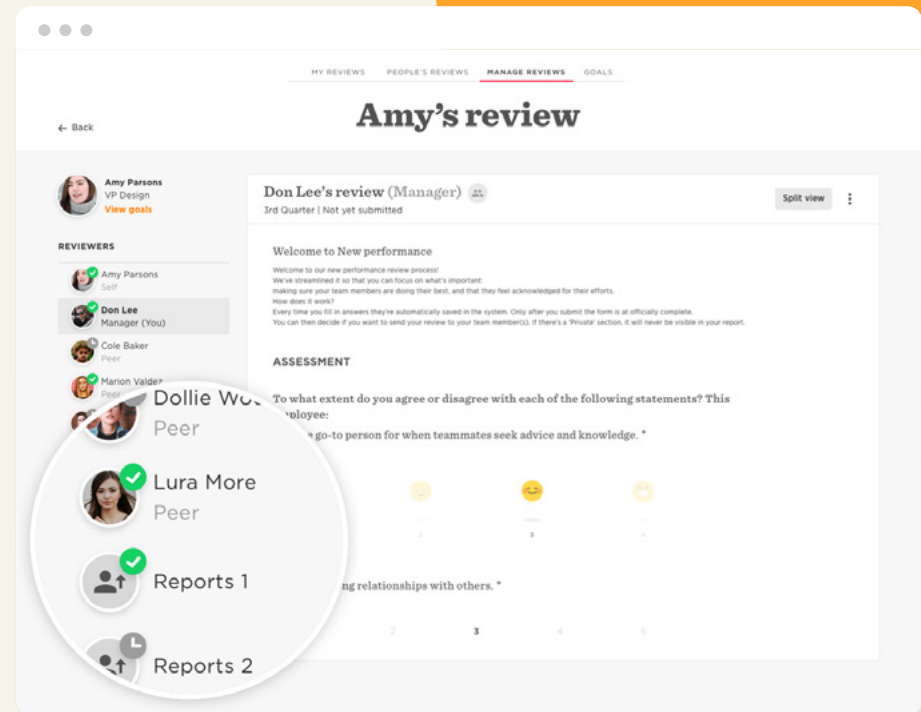
Conclusion

Compensation does not mean paying someone the lowest possible rate or giving the best bonus possible, even when you can't afford it. Your compensation plan will not mirror other companies in your industry, but it must be competitive enough to entice top talent to join your organization.

The right workplace tech stack can take the overwhelm out of compensation by helping HR leaders configure the process so that it's easy to evaluate, assess, and adapt based on input from the larger organization, from employees, and the market.

Creating a compensation strategy should be a process that starts with gaining buy-in on a philosophy, uses data and analytics to establish pay parameters, and continues to build trust and transparency with your workforce. As your business grows and evolves, so should your approach.

Meet bob

We know how important it is to make holistic, data-driven decisions about your people strategy, especially when it comes to compensation. That's why we built bob, an employee experience platform that helps HR leaders deliver on a plan that retains employees and creates opportunities for communication and collaboration. Find the main tools that bob uses to handle compensation in our advanced Goal- Setting, Performance Management, and Compensation Management modules.
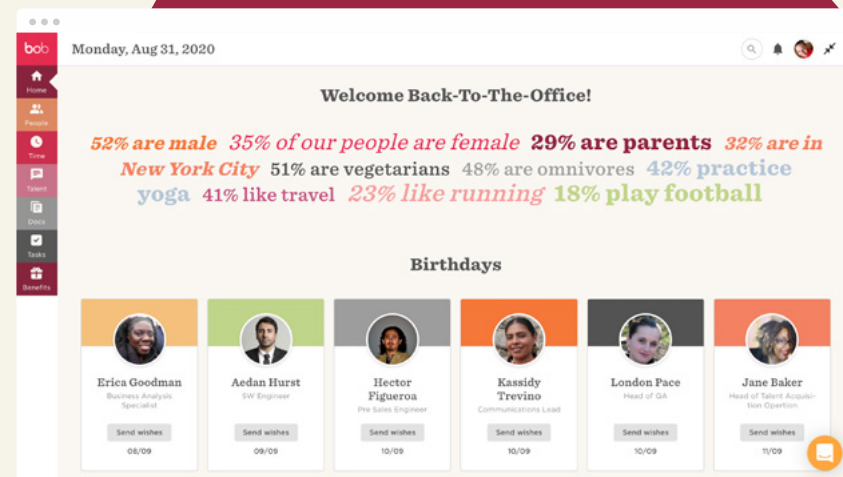
In 2020, it's time to make smarter decisions when it comes to your people and organization.

To learn more about hibob and our data-driven tools, get in touch with us at

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