

Navigating Compensation Budgeting Season

Thursday, August 18th

Today's Presenters



Lexi Clarke
Head of People



Minde Stone
Director, Total Rewards

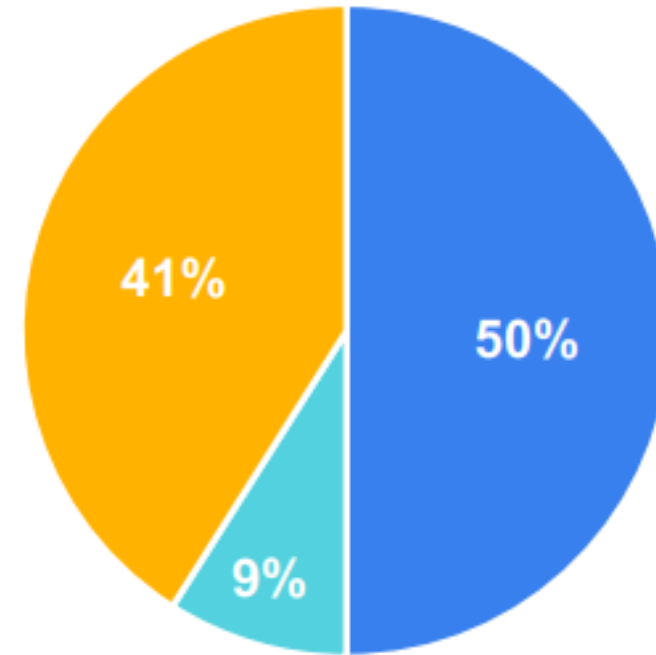
Today's Agenda

- Building your best compensation budget
- Payscale's internal budgeting approach
- Considerations based on your role or organization
- Budgeting for different scenarios



How does your expected 2023 increase budget compare to your 2022 increase budget?

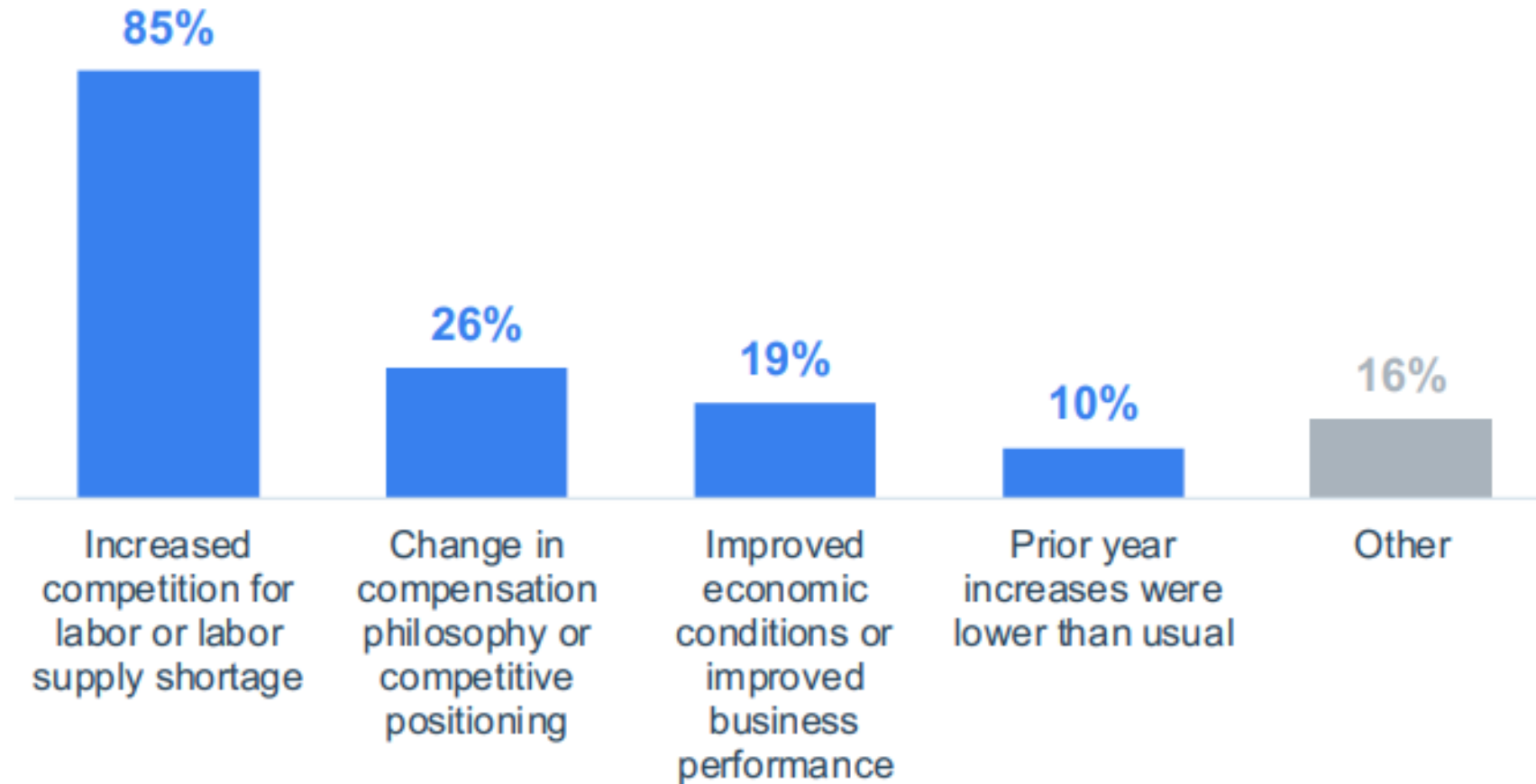
Base n= 1660



- Our 2023 salary increase budget is expected to be higher than our 2022 salary increase budget
- Our 2023 salary increase budget is expected to be lower than our 2022 salary increase budget
- Our 2023 salary increase budget is expected to be the same as our 2022 salary increase budget

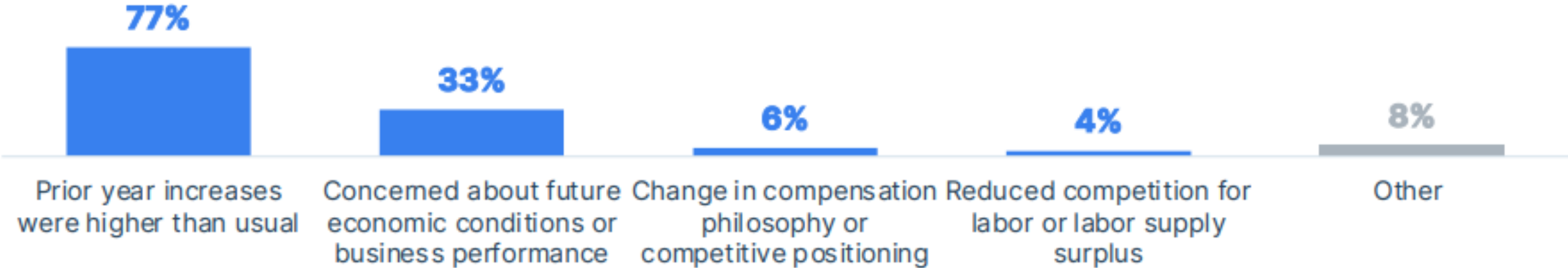
Why is your 2023 salary increase budget expected to be higher than your 2022 increase budget?

Base n= 750



Why is your 2023 salary increase budget expected to be lower than your 2022 increase budget?

Base n= 135



Building your best compensation budget

What to consider when building your budget

- **Business Impact:**

- What is the best budget to support organizational goals and have business impact?
- What outcomes does the company need?
- What is my current comp strategy/philosophy and how does this budget support our goals/needs?

- **Who:**

- Which stakeholders need to be involved?
- When and where do you bring managers into the process?
- What do our employees value?

- **Scope:**

- Which areas of your budget do you want/need to focus on first?

- **When:**

- When is the best time to review/build your merit increase budget? How early do I need to build my budget?
- How often do you want to revisit your budget?

- **External:**

- What are our competitors doing?
- What other things have changed in the external market or internally that I need to keep in mind?

July and August:

Develop your budget proposal

October:

Start mapping projected increases

End of November:

Make final edits with managers and HR

End of December:

Communicate increases and make payroll adjustments



September:

Complete a market study, gain full picture of employees

Beginning of November:

Train managers on the comp process and their role

Beginning of December:

Finalize increases and obtain final approvals

January:

Adjusted increases go live

Where does budgeting fit in your comp timeline?

**Assumes a Jan-Dec fiscal year

How to get started...

1. Understand the budget approval process & any historical considerations

2. Develop a budget proposal

3. Validate proposed increases against your talent strategy

4. Identify the boundaries for the budget & kick-off process

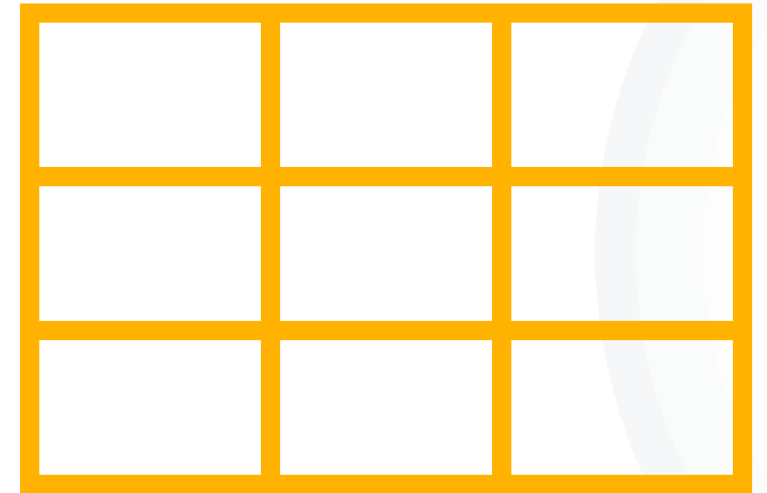
Understanding your budget approval process

- Where does budget approval fall as a part of your annual compensation calendar?
- Who are your key stakeholders?
- What is the role you will play?
- How does this fit into your comp plan for the year?
- How often can revisions be made?
- When do you normally run market pricing? Do you need to make any changes based on market? Proactive market pricing done in advance (pre-determined by priority or timing of last market evaluation)



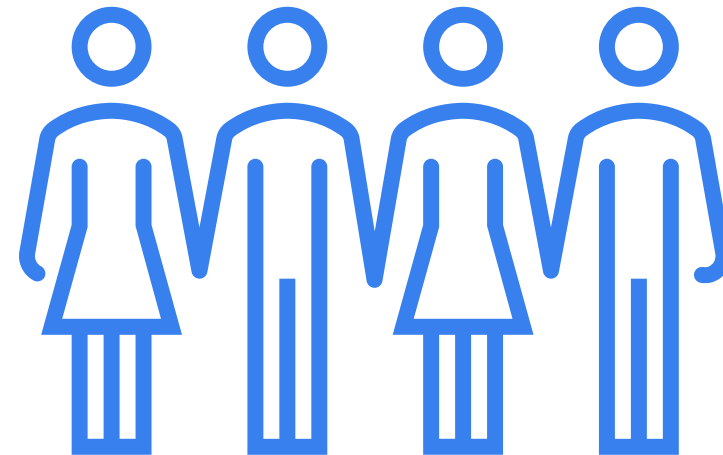
Developing a Budget

- What's processes are included?
 - Annual increases – Both performance and non-performance related
 - Market & Pay Equity adjustments
 - Promos – Does your organization establish a dedicated budget for promos?
- How are you maintaining alignment and input with your key stakeholders?
- What are the timeline considerations? When do we run the process, what are the key pay dates, etc?
- Which jobs need pay structure adjustments?
- How do you plan to position the organization with certain jobs? For example: Executives, your non-exempt workforce, your commission-based roles, etc.
- What could impact the budget throughout the year (internal and external factors)?



Validate proposed increases against your talent strategy

- What is your talent strategy vs. your comp strategy and how do those overlap? Or do they?
- What are your decision criteria? When do you stick to your plan vs. deviate?
- Do you make exceptions during your processes and if so, when?
- What is your methodology? Why did you make certain decisions?
- What data was used?
 - How many sources?
 - Aging data?
 - Updating benchmarks
 - Turnover and retention rates
 - Competition, recruitment challenges



Identify the boundaries for the budget & kick off process

- Work through real life scenarios and test before full scale implementation
 - Go into your comp systems, evaluate, and make recommendations based on market data
 - Send your proposal to leaders
 - Balance it out and make sure everything aligns with your proposal
- Consistently manage and check in with the budget



**How does Payscale
approach comp budgeting?**

How is Payscale planning for 2023 vs. 2022?

For 2022 planning:


- In 2021 – We brought three organizations together into one unified company
- Each organization brought unique compensation processes, stances on transparency, and philosophical approaches.
 - **Leveling:** Each organization had its own informal career pathing
 - **Data:** The three companies utilized different data sets
 - **Tools:** The three companies utilized different tools
 - **Transparency:** The three companies had different stances on transparency
- We needed to prioritize compensation harmonization across the company while balancing other challenges:
 - External market challenges (candidate's market, great resignation, etc.)
 - Sustainable compensation practices (budget parameters, scalability, etc.)

Heading into 2023 planning:


- We did a massive effort in 2022 to **review the market and adjust our population** for internal equity/combining 3 organizations
- In 2023, we'll focus more toward **continued fair and sustainable compensation practices**, creating our updated philosophy, etc.

Payscale's high level 2023 plan


 Finance shares their strategic planning calendar (~early Q3)


 The People team aligns on timing and initial assumption with the Finance team, based on a few factors:

- 1) Historical methodology
- 2) Any intentional strategy or plan changes (ex. structural changes)
- 3) Any external market factors or internal factors we may need to consider (ex: 2022 was a unique year for planning internally)

 Review the current market for any potential future market adjustments

- The intention of this step is to review 'is my normal budget enough or do we need to make a larger ask'

 Review the initial budget against our normal performance & talent process (we use a 9-box based on 'the what' and 'the how')

 Factor in any assumed promotion % (we assume the company will promote between 17-20% of our population annually).

- Confirm our promotion methodology (we assume promotions will generally have a total cash increase of between 10-20%)

**Considerations based on
your role or organization**

Considerations for different organizations

- **Industry:** What's typical in your industry?
- **Company Size/Stage:** Sometimes different company sizes or stages changes the way you view total compensation
- **Remote Strategy:** Are you fully remote, hybrid or in person?
- **Historical context:** Is this a new process for the organization or old process? Is there a standard approach already?
- **Merit eligibility:** Are all of your current roles merit eligible? Which parts of your program are eligible- merit and market? How often? How do you allocate? Ex: 1/3 vs half at beginning of the year, etc.
 - For roles not merit eligible, do you have a lever for rewarding additional compensation if needed?
- **External Market Conditions:** The market is in flux – this is an especially critical factor right now. What does this mean for your specific company or what could it mean?

Considerations for different roles

- **Compensation/Rewards:** Assuming a compensation team and/or resource, in general we expect this role to be a highly active partner with the Finance team to align on a methodology and approach within the guidelines of the current compensation strategy or philosophy.
- **HR:** If your organization lacks a dedicated compensation partner, you may need to step in and help to guide part of this process to ensure alignment between HR and Finance.
- **Finance:** Provides budgetary guidelines/boundaries of 'don't exceed X' and/or key partner in determining a sustainable and within budget approach year to year.
- **Managers:** Input or feedback into overall comp structure or approach that may have budget impacts
- **Leadership:** Ultimately your budget has a key role to play in meeting your organizational goals and therefore you will need to ensure leadership has involvement in developing a final budget view

Budgeting for different scenarios

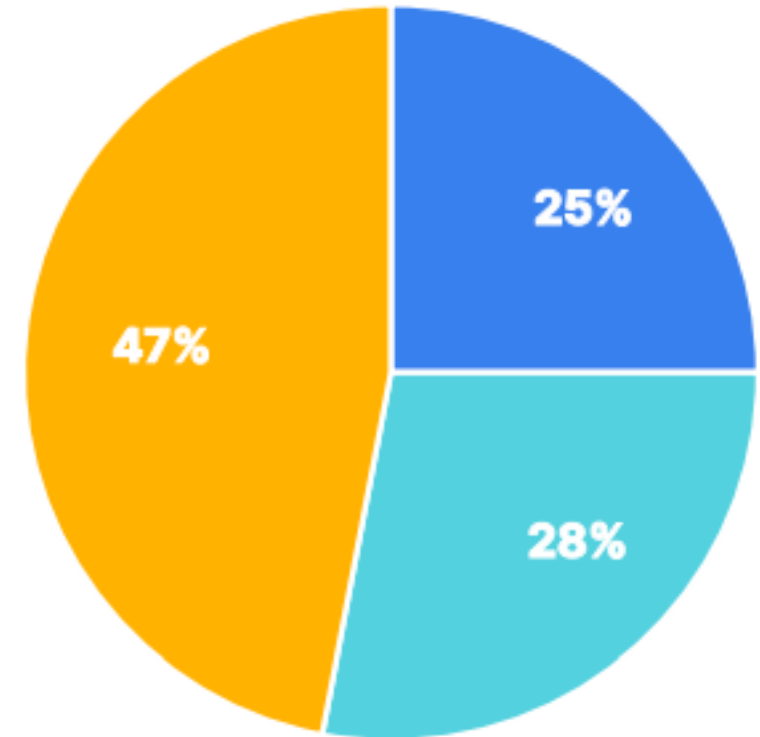
Promotional Increases by the numbers

7-12%

The typical range for a one grade level promotional increase

How does your organization budget for promotional increases?

Base n= 1101



- Promotional increases are budgeted separately from other salary increases
- Promotional increases are included in our annual salary increase budget
- We do not budget for promotional increases

The pros and cons of promo budgeting

Pros

- ✓ Anticipating a certain number of promotions or spend allows you to proactively plan/stay ahead of the curve in determining budget
- ✓ If you budget for promotions in addition to other comp changes (merit, market, etc), you can have a full view of your future spend
- ✓ Proactive budgeting can be helpful to set expectations with your leaders or employees

Cons

- ✓ When you limit promotions based solely on budget, you could be limiting your talent strategy (promoting those who may be ready and/or there is an organizational need)
- ✓ You could be hurting your future self/the organization by not carving out specified budget to reward employees who are ready to move to the next level

***While there are certainly pros and cons to promo budgeting, don't be afraid to mix methodologies!**

How do you account for pay equity and budget for remediation?

1. Before making any market or merit related changes, **consider potential pay equity adjustments** that need to be made on the group or individual level.
2. If you are able, **do a pay equity analysis** to determine whether anyone is paid differently to others in their group that cannot be explained by compensable factors – if there are those people, consider whether their pay should be increased **before** any merit/cost of living increases are made.
3. **Review and align your budget decisions** with any previous pay equity and fair pay work done in the organization.

What to consider before starting your comp review

- 1 Monitor areas in the organization with **bigger pay gaps** than the rest – it is a good idea to at least keep an eye on employees in these groups, if not make plans for **remediation**
- 2 Determine if certain factors is **favoring pay for one group** of employees over another (for example, number of hours on calls favoring those who can do overtime)
- 3 If you are using performance to determine pay, **look at results through a protected category lens** to ensure that there isn't any bias – across the organization and by group)
- 4 **Review the factors you are using to determine pay** that might be challenged (for example requiring a certain is education level being used in roles where certain certifications are not necessary)
- 5 Figure out if you have any rules that could be **perpetuating pay gaps** (for example maximum percentage increases for promotions)
- 6 Look at **how comp plays out across the organization**, via metrics like CEO pay ratios and percentage of employees at or near the minimum wage (Should the budget be targeted at specific groups such as the lower paid?)

*Once you have done your comp review it is best to do a pay equity check at that point and **make sure you have budget for anything that comes up.**

There is a reality that even if you have a large budget for your size of organization it will never feel like enough...



Start with identified critical and high performing talent



Think about where you have other people related issues (recruiting, attrition, etc.)



Set expectations early with managers and leaders about their role in budgeting



Start conversations early and often around comp related concerns



Be realistic about what you can accomplish



Communicate, communicate, communicate

Once you've done the budgeting work, what are your next steps?

- ➔ Think about how you can level set expectations- especially when larger increases were given in previous years
- ➔ Start planning how you will communicate out your decisions – communicate early and often around the process, timeline and what to expect
- ➔ Create a plan to ensure you are adhering to your budget guidelines
- ➔ Ensure that at all stages during and after the budgeting process, you are aligned to your overall compensation strategy
- ➔ Take note of changes to the process that need to be reflected the next time around

Q&A

Feel free to ask any questions in the chat!

