

How to Craft a Winning Compensation Strategy

Today's Presenters



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Today's Agenda

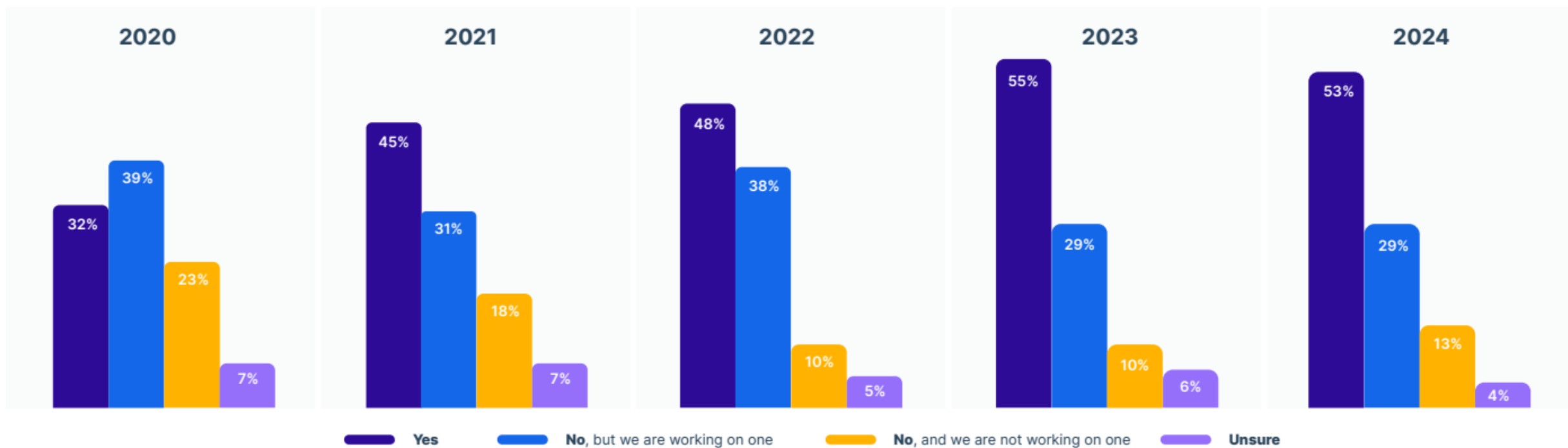
- Why create or rethink a compensation strategy?
- The compensation strategy journey
- What to do once you have your strategy



Why Create or Rethink a Compensation Strategy?

An effective comp strategy remains to be critical...

Does your company have a formal compensation strategy/philosophy?



Compensation philosophy vs strategy?

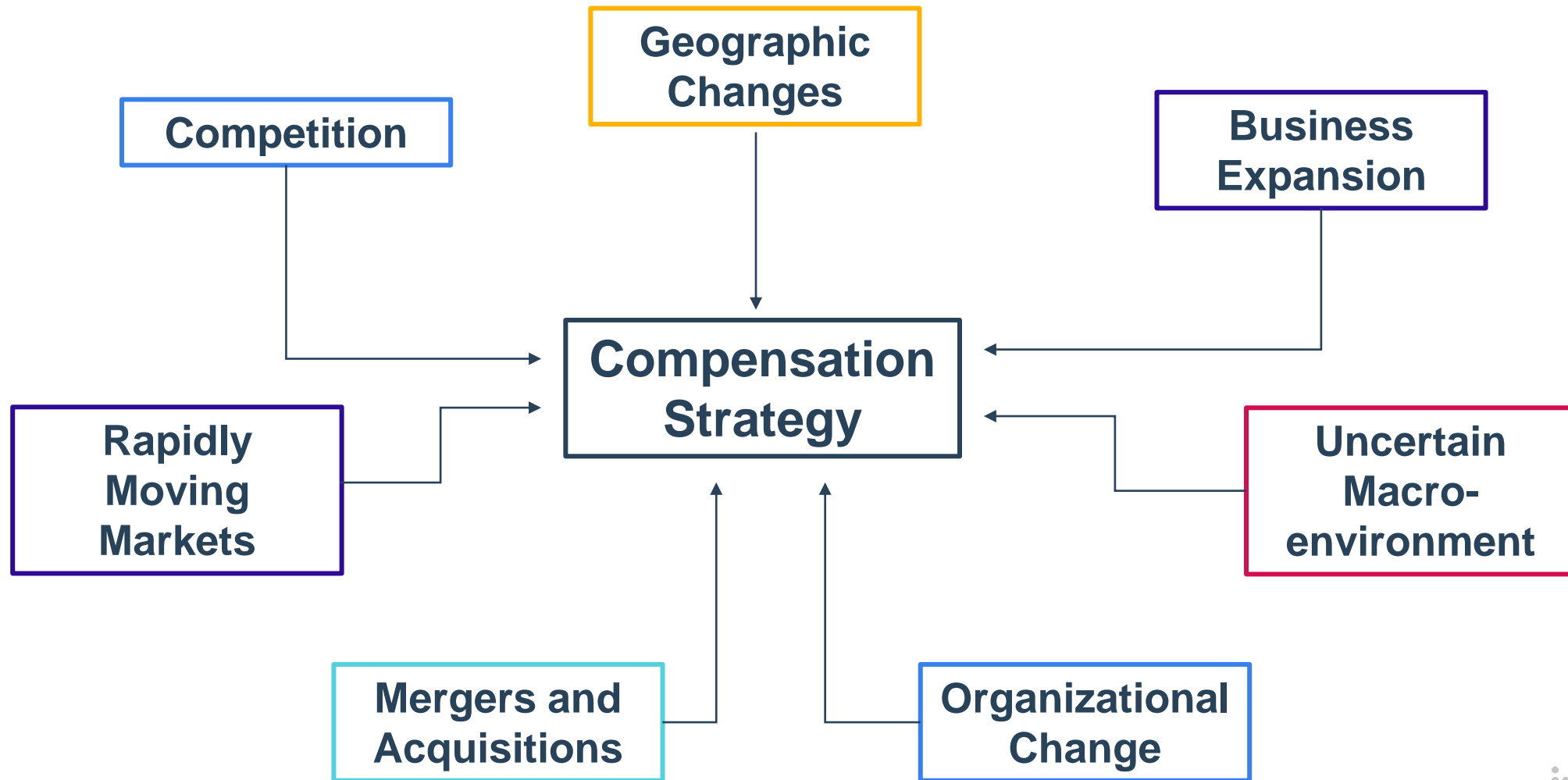
Compensation philosophy:

A compensation philosophy is simply **a company's position about employee compensation**. It explains the "why" behind employee pay and **creates a framework for consistency**. It outlines and supports the organization's strategic plan and initiatives, business goals, competitive outlook, operating objectives, and compensation and total reward strategies.

Compensation strategy:

A compensation strategy is **your company's approach to compensating employees** in terms of pay and benefits. It communicates to employees the definition of the organization's position regarding pay, and typically includes a definition of external competitive market and internal equity objectives, definition of pay programs that will be utilized and why, and information about how plans will be administered. It should support the organization's mission, goals and objectives and align with its culture.

A comp strategy will be your navigating guide in the face of...



Where do you start....

Questions to help determine where you are on your journey

- Do you have a **leveling** structure? Are your employees in the right level?
- What **data sources** are you currently using?
- Are you currently using **pay ranges**?
- What **locations** are you currently operating in and what's your **remote pay strategy**?
- What level of **transparency** are you currently at and where do you want to be?
- When are you thinking about **pay equity** or **fair pay**?

Comp strategy journey



Poll: Which stage of the comp strategy journey is the most challenging for you (or do you think will be)?

- A. Commit to Fair Pay
- B. Philosophy and Goals
- C. Job Management
- D. Benchmark Data
- E. Pay Ranges
- F. Assess Pay Equity
- G. Budget
- H. Communicate

Comp strategy journey



Shift the mindset around fair pay

Challenge

- Identifying risk & exposure
- Is the data too sensitive to collect?
- How will I find budget?
- How do we protect what we find?
- Fear on how to disclose outcomes

Opportunity

- Positive brand and reputation
- Improved trust & transparency
- Increased diversity in workforce
- Increased employee engagement
- Improved company performance

Where does Fair Pay fit in?



Improves employer brand and reputation



Reduces employee attrition rates



Reduces time and costs related to recruitment



Aligns business practices with legislation

Define Your Philosophy and Goals

- Align to your company's mission and values
- Assess internal and external landscape including talent market and any pressures
- Organize goals around key business objectives
 - Company priorities
 - Talent goals (hiring and retention)
 - Staying competitive
 - Sustainable comp approach
 - Business impact/financial impact

Comp strategy journey



Why is managing your jobs important?

Business Alignment

Business **goals guide compensation** strategy decisions

Internal/External Equity

- Clarifies **market and internal value** for each job
- Provides a way to manage employee pay **effectively**
- Ensures **pay equity**

Budget

- Quantifies compensation costs and enables budget decisions

Communication

- Creates a **tool for managers** to talk with employees about development
- Provides room to **reward employees** based on performance, experience, etc.

Job Management



Comp strategy journey



Thinking about data sources

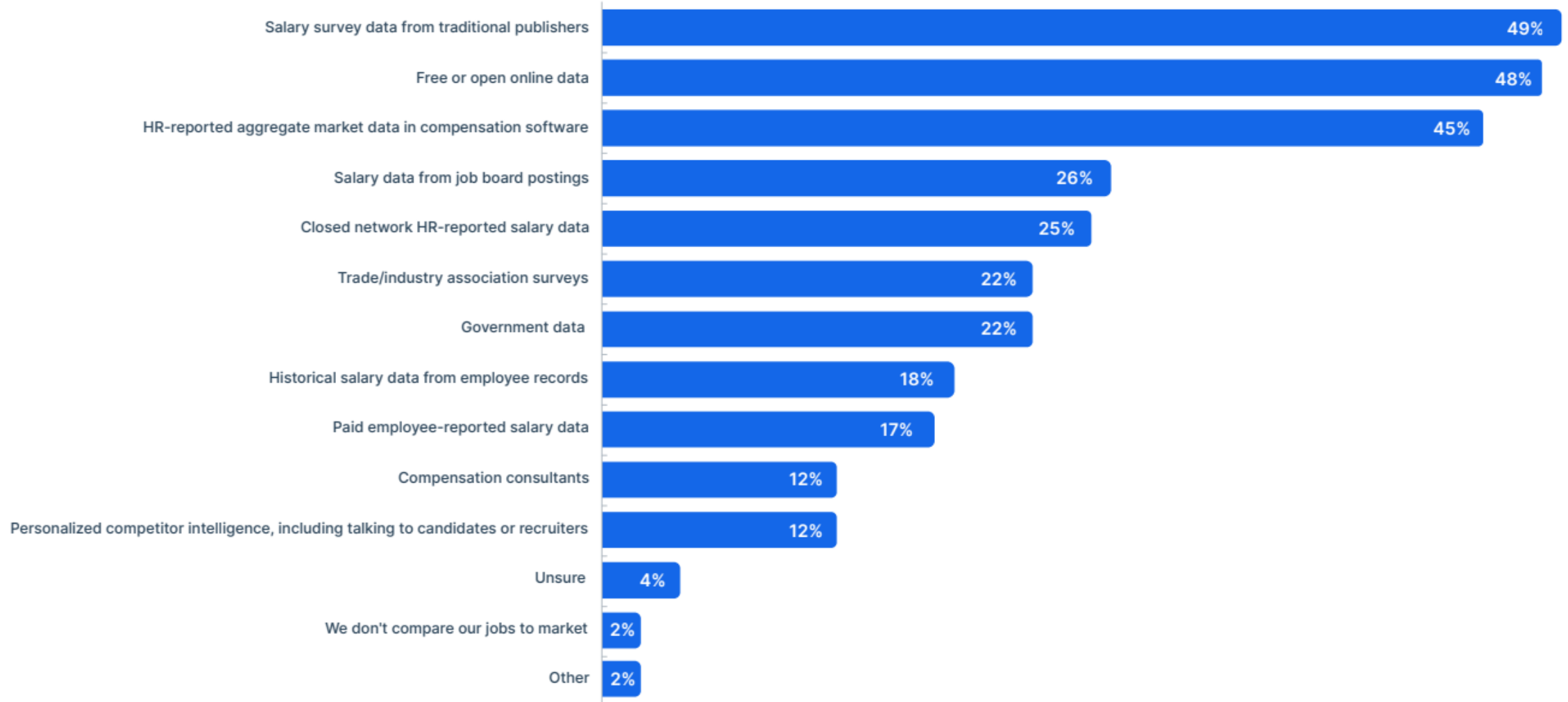
How will this data support your strategy

- How do we define our **competitive set**?
- **Where do we want to be** relative to the competition, namely lead, meet or lag?
- How does this data support our **compensation program goals**, such as drive performance or reward longevity?

Tips for data selection for your organization

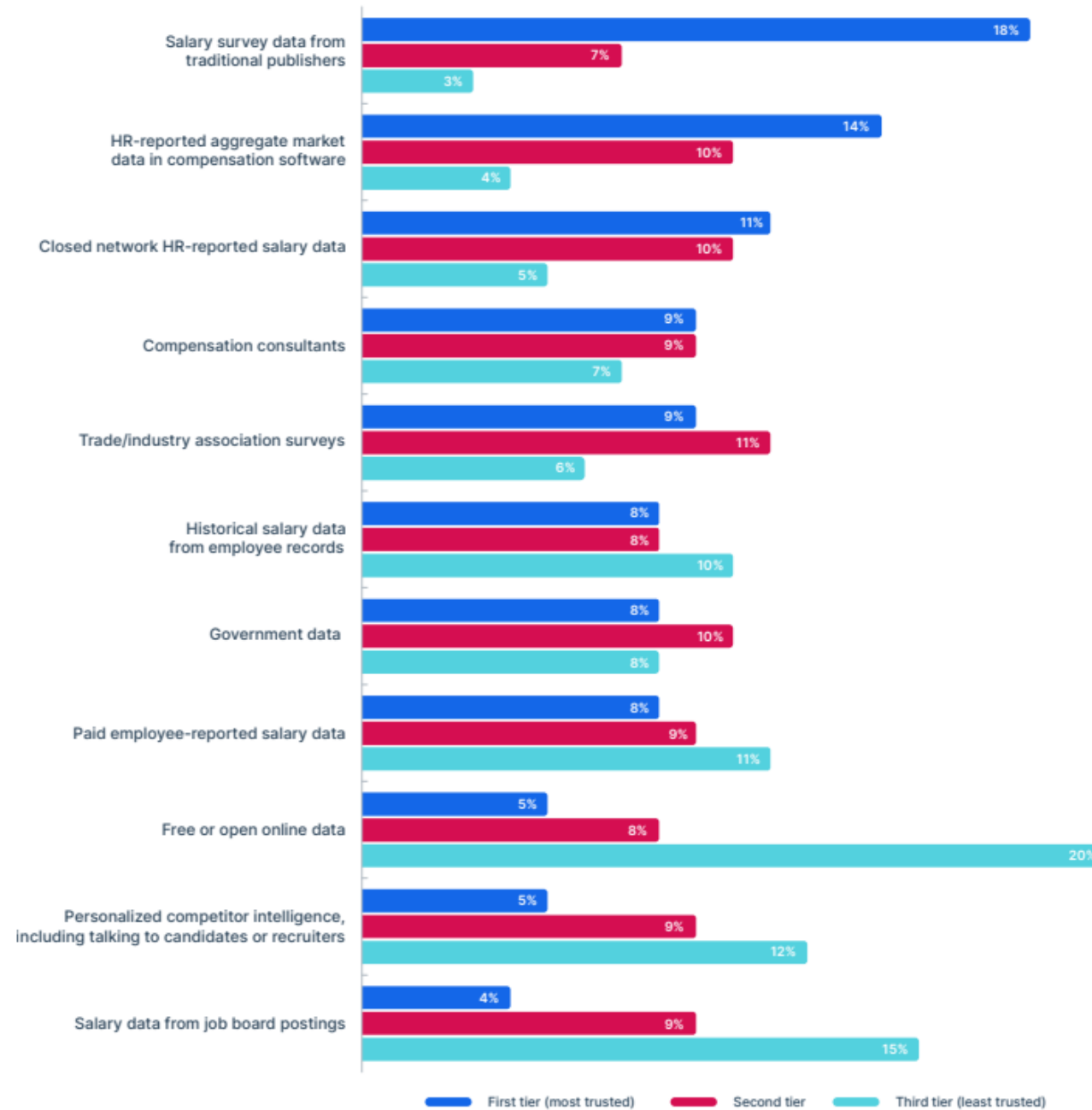
- Select **data specific** to your geography, industry, size of org, and type of org
- Choose data that covers a variety of **compensable factors** (skills, experience, education, etc.)

Which sources do you use to obtain market data?



Rank sources by how much you trust and rely on them for accuracy in market pricing.

(Multiple answer choices allowed)



Comp strategy journey



Pay Structures: **Determining Range Guidelines**

Minimum

Midpoint

Maximum



\$50,000

\$65,000

\$73,000

Range Minimum

Employees new to the role

Employees with lower performance
or proficiency

Range Midpoint

Employees proficient in their role

Employees with good performance

Aligns with the market

Range Maximum

Employees with high performance

Employees with demonstrated high
proficiency and experience

Create pay ranges

Job Based Ranges

- Ranges built around market value for a job at the target percentile
- Individual pay range for every benchmarked job
- Simple to set up and update
- Good for “hot jobs” and smaller orgs
- Can be difficult to administer for orgs with many jobs
- Range value may change year to year depending on the market

Grade Based Ranges

- Jobs grouped by market, organizational value and responsibility level
- Each grade has a base pay range
- Can easily level positions
- Can “slot” non-benchmark jobs
- Ability to keep current to market year-to-year
- Simpler to maintain and administer for many jobs
- Often a good fit for larger organizations

Poll: Does your organization have a formal pay structure?

- A. Yes
- B. No, but we are working on one
- C. No, and we are not working on one
- D. Unsure

Does your organization have a formal pay structure?



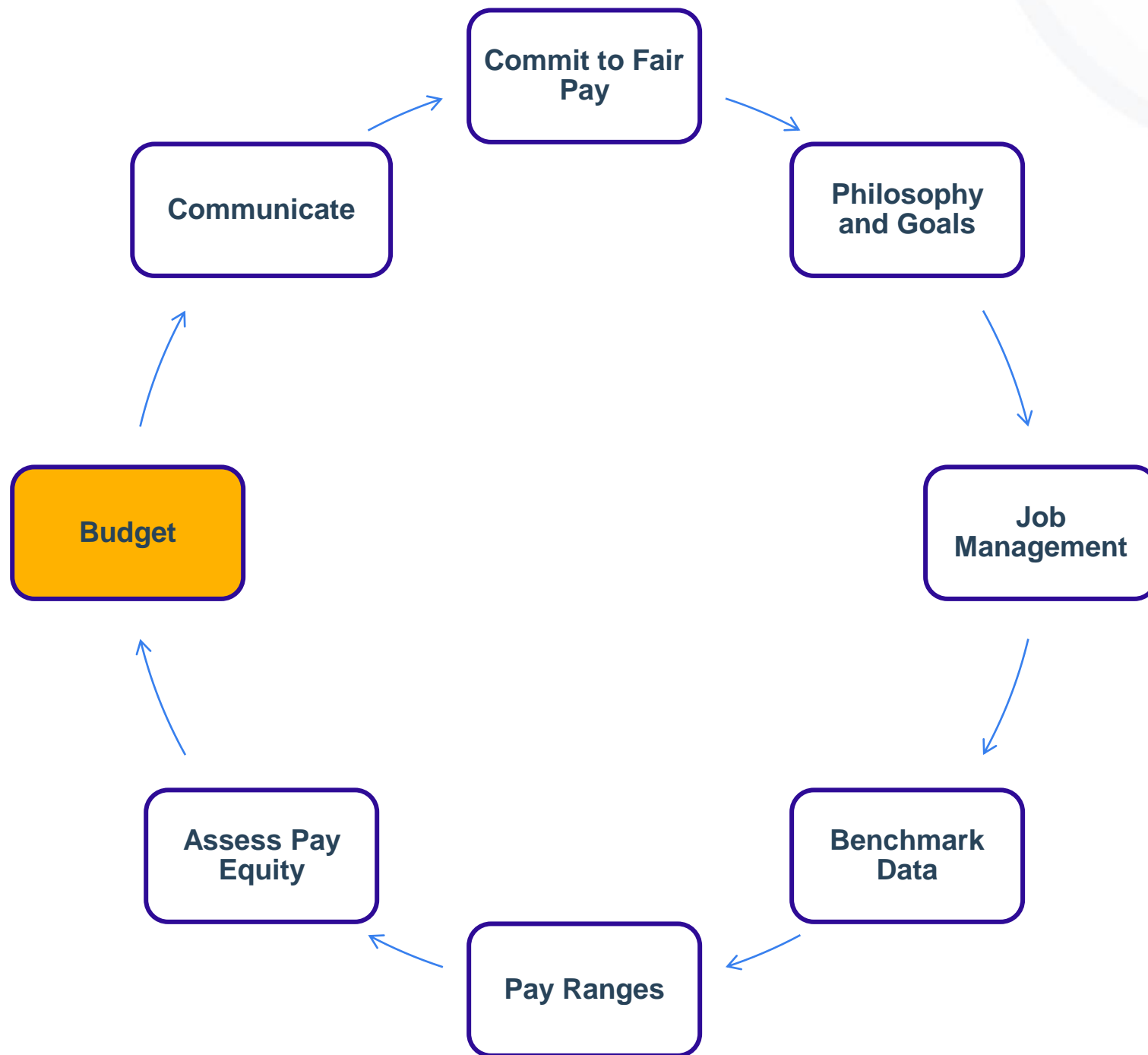
Comp strategy journey



Questions to consider before tackling pay equity?

- What is your company's **current position**? Have you done any analysis before?
- What are your **goals**? Is it purely **legislative compliance** or is it because you believe this is the **right thing** to do? Have you been compelled to do this by the **employee voice** or is it to improve your **employer brand** and drive talent acquisition?
- Who are your **stakeholders**? They need to be considered (typically employees, executive team, shareholders, and customers) as you position on pay equity, as it can influence your brand reputation. You need to **engage relevant stakeholders** throughout the process. What do you want them to know about the process?
- What will **pay parity** mean for you? Many companies have publicly declared pay parity, yet few have closed the average pay gap to zero. So, when they have declared pay parity it usually means from an **equal pay perspective**.
- What **protected category groups** do you plan to use?
- Which **types of analysis** do you plan to conduct?
- Do you wish to load the salary range mid-point or a market data benchmark to enhance your analysis? Do you generally calculate pay on a mean or median basis? Do you plan to affect **individual pay remediation** as a result of this analysis?
- When do you plan to **affect pay remediation** - as part of your next compensation review - if so, when is this?
- **How often** do you plan to conduct pay equity analysis going forward?

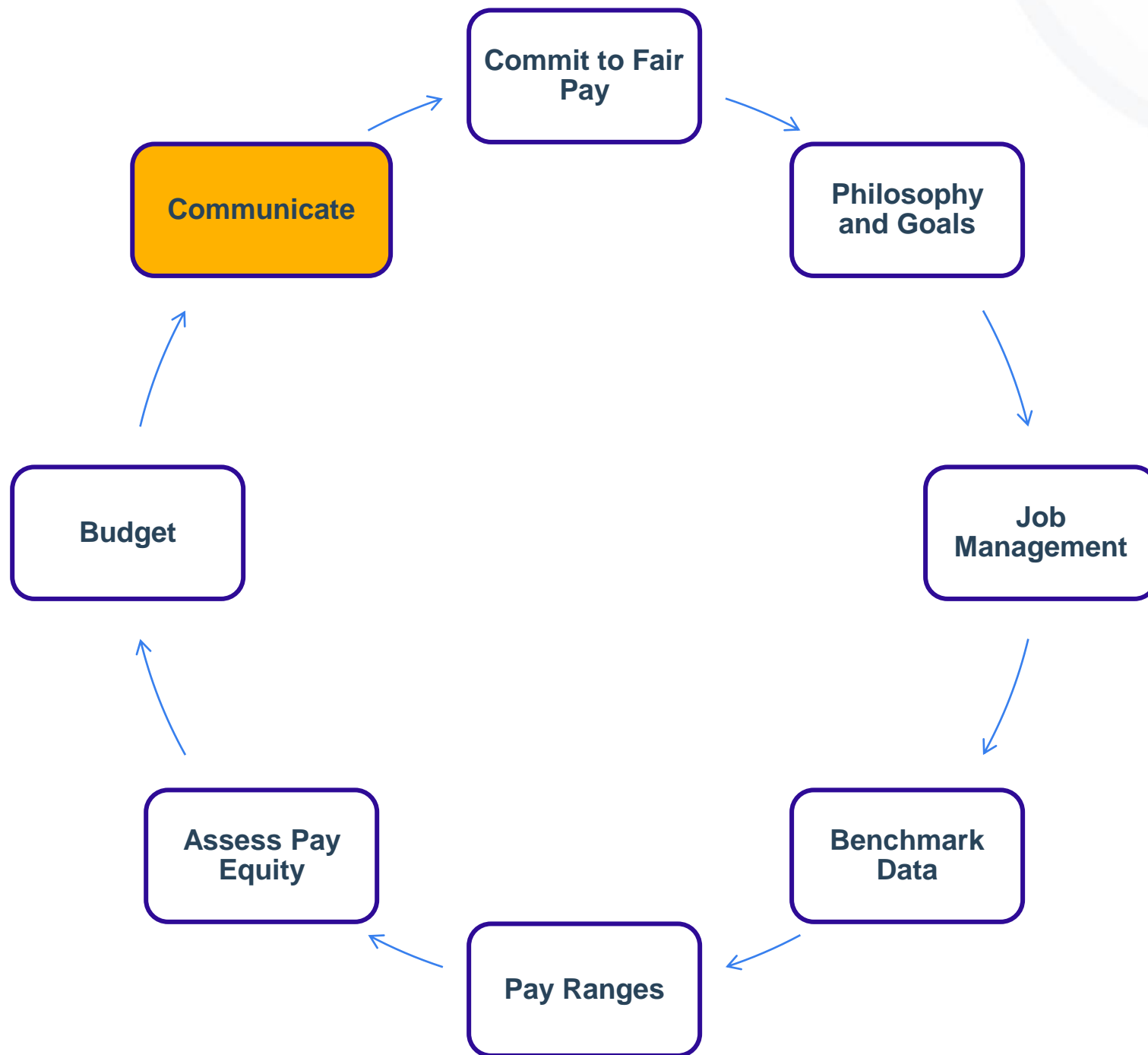
Comp strategy journey



Budgeting

- 1 Understand your budget approval process
- 2 Desired outcome from the company and employee perspective
- 3 Competitors and how competitive you want to be

Comp strategy journey



Pay communications best practices

Ensure you have a pay philosophy in place

Determine the level of transparency

Give employees what they need up front

Create total rewards communications

Train managers how to communicate about pay

Communicate about pay all year long

The pay transparency continuum



On average, an increase of one transparency level rating is associated with a decrease of **30 percent** in the odds of seeking a new job.

Comp strategy journey



What's Next?

What are the next steps?



Adjust
alongside your
business



Decide when to
revisit



Figure out how
to loop this into
your talent
strategy



How are you
communicating
the work and
impact



Lay out
methodology
and gather
feedback

Final Tips



Be fluid, everything is subject to change



It is a continuous process, doesn't have to be 100%



Work closely with leadership



Take your time and sit with it, not an easy task



Celebrate wins (especially right now)

Interested in how PayScale can help you at each stage of your compensation journey?

Request a demo of PayScale's compensation management software in the poll tab!

Q&A

Feel free to ask any questions in the chat!

