Payscale

Running a second comp cycle

The benefits of more frequent comp cycles and how to successfully execute them

Your primary comp cycle is more than six months away.

But Jennifer from Accounting wants to promote a team member. Meanwhile, an org restructuring means Revenue Ops now reports to Customer Success. And your pay equity analysis revealed several gaps.

The problem? You don't have a reserve budget to address these challenges. Off-cycle pay equity adjustments, delayed promotions, and unanticipated organizational changes make the case for a secondary cycle.

Before diving into the benefits of secondary cycles, let's acknowledge the pain of comp pros. You just went through the Super Bowl, and now we're telling you to do it again?

Maybe. Most likely, yes.

Running a secondary cycle can save you a lot of hassle. Withholding a portion of your comp budget equips you to tackle compensation challenges proactively. When managers knock on your door finally ready to promote a team member, you can reassure them — our secondary cycle is coming up in July, remember?

When done correctly, adding another cycle gives you greater flexibility, while enhancing your comp capabilities. Jennifer will be delighted to promote her team member. You get another glance at those adjustments you made after re-leveling Revenue Ops. And you can tackle risky pay disparities.

How common are secondary cycles?

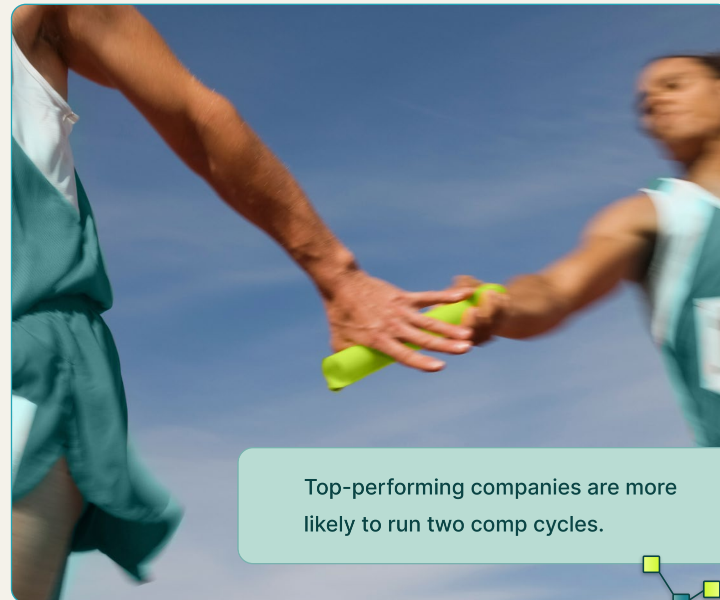
Running more frequent cycles reached its height during the Great Resignation. With employees switching jobs at a frenzied pace, organizations needed to make quick salary adjustments to retain top talent.

The labor market has calmed down considerably since, and many organizations have reverted to their old habit of running a single comp cycle.

Our Compensation Best Practices Report shows that 73 percent of organizations run one cycle. While frequent compensation cycles were more common four years ago, 11 percent of organizations still run two cycles, and 4 percent do them continuously.

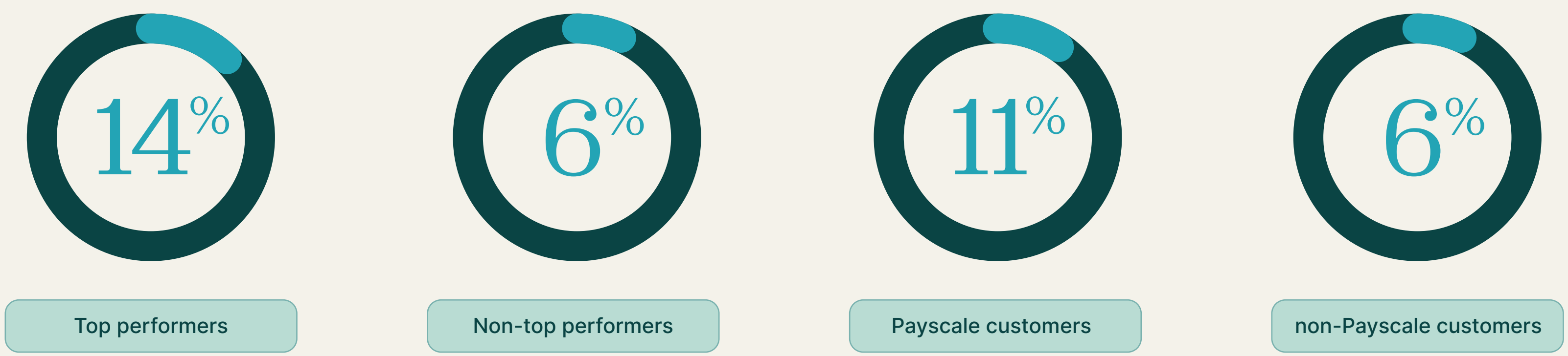
However, top-performing companies (those that meet or exceed revenue goals) are more likely to run a secondary cycle. Fourteen percent of top performers run two cycles.

Why?

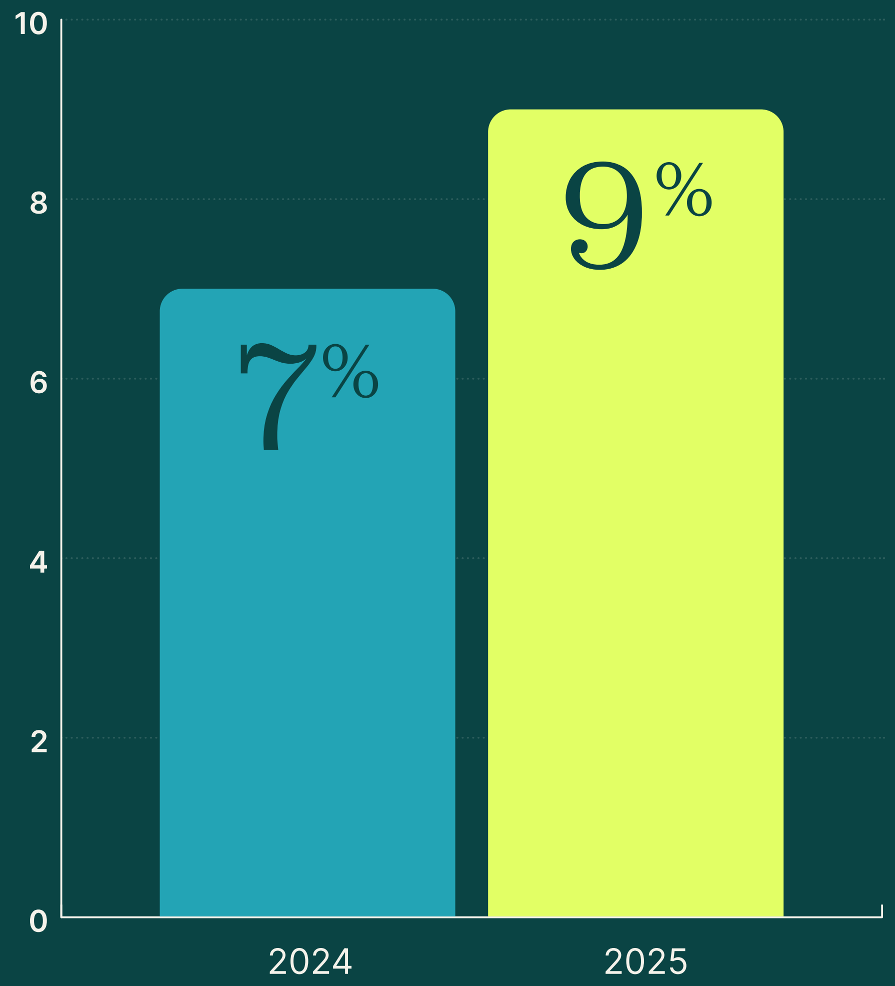


Top-performing companies are more likely to run two comp cycles.

Organizations running two comp cycles



More organizations are running two comp cycles compared to last year.



We mentioned that in fast-moving markets running two cycles makes sense, but there are other reasons as well:

- If your organization has a high rate of hiring and turnover, running a secondary cycle offers the opportunity to align pay and ensure internal equity
- Organizations with higher internal mobility will be better equipped to handle off-cycle promotions
- Secondary cycles allow you to adjust pay for new hires who were ineligible for review during your primary cycle

Taking a structured approach to adjustments and promotions gives you greater flexibility and control while avoiding the confusion and budgetary consequences of arbitrary adjustments. Formalizing a process makes everything less messy. With a secondary cycle, companies can respond faster to pay equity issues, adapt to organizational changes, and promote deserving talent.

Diving deeper into the benefits of secondary cycles

Let's more closely examine the benefits of running a secondary cycle.

Promotion for talent retention

Remember Jennifer in accounting? She decided to delay promoting her Accounting Manager during your primary cycle because she wanted more time to assess his performance. But he's consistently shown himself to be a top performer, and now she doesn't want to lose him.

Waiting months to give him a well-deserved promotion is too long — with CPAs in short supply, he could be gone in the next few months. Your organization would then shoulder the high costs of recruiting and training his replacement. A secondary cycle addresses this potential problem. Off-cycle promotions for top talent retention are one of its primary use cases.

Performance check-ins

Having a secondary cycle encourages more frequent performance check-ins. Let's say Tim in IT spotted a critical security vulnerability that saved the company millions in May. Will this be remembered in 10 months?

During formal evaluations, managers tend to focus on recent performance. We call this recency bias: the cognitive tendency to place greater importance on recent events than earlier ones.

Tim's efforts won't have the same impact during his annual performance evaluation. With managers often overlooking earlier accomplishments, adding another compensation cycle can reduce this bias, providing a more accurate assessment of employee performance throughout the year.

Tackling pay compression

Pay compression isn't just a problem for employees — it's a business-critical risk. While organizations should address pay compression at the time of hire, a secondary comp cycle gives you another opportunity to do so.

Harvard Business Review found that organizations paying higher salaries to new hires experienced an increase in the resignation of top talent within six months. Under normal circumstances, top performers attrit at a rate of roughly one to four. But when higher-paid new hires are onboarded, this accelerates to one in three.[1]

Pay adjustments, whether at time of hire or during a secondary cycle, help alleviate the tensions and resentment that arise when new hires earn close to (or even more than) employees with longer tenures. Remember, you only have six months or less before employees with deep institutional knowledge and experience head for the exits.

1. Derler, Andrea, Peter Bamberger, Manda Winlaw, and Cuthbert Show. "When New Hires Get Paid More, Top Performers Resign First." Harvard Business Review, March 5, 2024.)

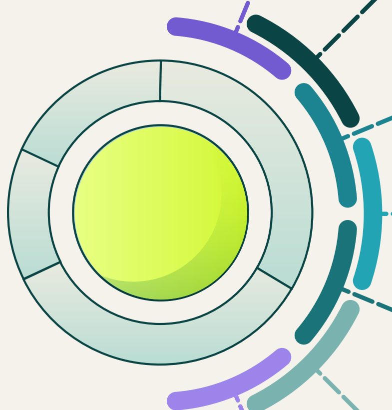
Pay equity checks

A secondary comp cycle gives organizations another shot at proactively addressing pay inequities. Remember that pay equity isn't just about fairly compensating employees — it's a significant legal risk. Government agencies and plaintiffs' counsel demand that employers take it seriously.

Many organizations will run a pay equity analysis ahead of their primary cycle. But pay equity checks should also be conducted after your cycle to ensure market adjustments don't produce additional disparities. Setting aside budget to address pay disparities is best practice for comp teams.

Tips for your secondary comp cycle

Here are some quick tips for your secondary cycle.



Focus on promotions

Secondary cycles present the perfect opportunity to offer promotions that weren't done during your primary cycle.

Address organizational changes

If your organization recently went through a restructuring, secondary cycles give you a second bite at the apple to make any adjustments.

Don't run two increase cycles

Your secondary cycle is not a merit cycle. One meaningful 3 percent annual raise will have a greater impact than two 1.5 percent increases.

Promptly address pay compression

Retaining top talent means acting quickly when new hires receive higher wages. While pay compression should be managed at time of hire, running a secondary cycle enables you to spot issues you may have missed.

Make pay equity a priority

Pay equity is essential because of its legal ramifications.

Encourage performance check-ins

If you aspire to be a pay-for-performance culture, you must acknowledge exceptional performance throughout the year, not just in the second half.

Know your numbers

Collaborate with Finance to decide how much you want to hold back from your primary cycle.

> Compensation isn't just an annual event.
>
> Secondary cycles equip you to address critical compensation concerns promptly: from pay equity checks to promoting top talent. When it comes to pay, timing can matter as much as the amount.

Running your secondary cycle with ease

Most HR practitioners would do anything to avoid another comp cycle. We absolutely understand. But there can be serious implications in relying too much on your yearly cycle. Many compensation issues require a more immediate remedy.

At the same time, one-off promotions and adjustments can create complications. Jennifer from Accounting likely isn't the only manager knocking at your door. Having a defined process for promotions and equity adjustments is a worthwhile endeavor. It can help you navigate the chaos of potentially hundreds of requests without the budget.

Having the right compensation planning software is key to managing comp cycles, whether primary or secondary.

Unlike Excel or HRIS comp planning modules, Paycycle eliminates the frustrating back-and-forth between managers and HR practitioners. After deciding on your secondary compensation pool, you can set up guardrails for managers to ensure they're sticking to the budget while easily handling approvals.

As experts in employee pay communications, HR folks can also send personalized compensation letters at the touch of a button. These letters go a long way in showing how much you care about your employees' well-being.

In conversations with clients, we discovered that many using HRIS comp planning modules ended up hiring pricey third-party consultants to implement pay increases. With Payscale, we're an extension of your team. When you're setting up your comp cycle, we're here for you every step of the way.

> "Paycycle was our saving grace because all our compensation statements used to be done manually for 800 employees. Payscale really captured everything we needed."
>
> **HR Program Manager**

Let's make your comp cycle rock-solid together

About Payscale

Payscale stands at the forefront of compensation data technology, pioneering an innovative approach that harnesses advanced AI and up-to-date and reliable market data to align employee and employer expectations. With its suite of solutions — Payfactors, Marketpay, and Paycycle — Payscale empowers 65% of Fortune 500 companies to make strategic compensation decisions. Organizations like Panasonic, ZoomInfo, Chipotle, AccentCare, University of Washington, American Airlines, and Rite Aid rely on its unique combination of actionable data and insights, experienced compensation services, and scalable software to drive business success. By partnering with Payscale, businesses can make confident compensation decisions that fuel growth for both their organization and their people.

Create confidence in your compensation. Payscale.

To learn more, visit **www.payscale.com**.

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