

COMP 101



A BEGINNER'S GUIDE TO COMPENSATION MANAGEMENT



By now, it's well-accepted that a comprehensive, up-to-date compensation plan is a must for successful business. A tight talent market means organizations are focusing more than ever on strategies to retain and hire top employees, compensation being a big one. Unfortunately, putting together a strong compensation plan is no easy task. It requires in-depth thought, cross-team collaboration and real effort.

Not to worry; this ebook is here to help. In the following pages, you'll find all the info you need — including both the fundamentals as well as a step-by-step action plan — to build a solid compensation plan, and manage compensation successfully.

LET'S GET STARTED!





SET YOUR COMPENSATION PHILOSOPHY

First, some basics:

The 5 Elements of a Comp Plan

Top-performing companies have up-to-date compensation plans that support their business objectives and ensure their long-term success. As an HR leader at your organization, you'll want to efficiently lead your company through developing your compensation plan.

A strong comp plan consists of 5 elements:

Develop Your Pay Philosophy	High-level view on the goals of the organization with regard to compensation
Define Your Strategy	Define your talent market(s) Determine level of competitiveness What do you want to reward?
Create Pay Ranges	Provide guidelines for paying people based on the market value for the job
Update Policies	Ensure that the comp plan is carried out as intended
Clarify Processes	Provide tactical steps for the organization to follow

We'll work through all of these as we move through this ebook.



DECIDE ON YOUR COMPENSATION STRATEGY

Your compensation strategy should answer these three key questions:

- What talent market(s) do you intend to use for comparison for your organization?
- How competitive do you plan to be relative to your talent market(s)?
- What do you want to reward with your compensation dollars?

Identify Talent Markets

A talent market is defined as the combination of industry, size, location and organization type. The markets you select should reflect where you compete for talent (not business).

You may find that you need to use more than one market to cover all your jobs. For example, healthcare organizations might use different talent markets for their office and medical staff. They may also compete in another market altogether for their physicians.

A common misstep with market data is to think of it as only right or wrong. Market data should be interpreted in the context of what you're trying to accomplish — your overall market strategy. Take the opportunity to examine market data and consider how it is applicable to your organization, and when you may consider deviating from market to prioritize or de-emphasize pay for some jobs.

Decide How Competitive You Want to Be

You may, again, have different targets depending on how competitive you need to be to get the best people for your jobs. Some jobs are hotter than others, so decide on the percentile you're willing to pay for certain positions to help you keep and attract talent. Review your strategy regularly to ensure you are staying current with your goals and market trends.



NORTH RIVER

Get Buy-in from Company Leadership

Help your executives understand the value of having a current compensation plan. Include input from key players at your company — a sure-fire way to get them invested in the success of the plan. You can send out a questionnaire or hold meetings with certain groups or individual decision makers.

Follow these steps to gain your executives' support:

- **Identify pain points.** Understand the major business priorities and how your comp plan ties closely to those priorities.
- **Understand the ROI.** Be prepared to explain how an increase (or decrease) to payroll will impact the bottom line.
- **Calculate the cost of getting comp wrong.** Show the impact of under/over paying using language that all execs know fluently: money.

Complete Your Job Descriptions

Make sure you have job descriptions for every position in your organization. Your descriptions should cover the high-level basics of each job. They don't need to be 100 percent complete, but they will be essential for matching skills, responsibilities and experience to each job position.

Develop Your Compensation Philosophy

A compensation philosophy answers the question, "What are we hoping to accomplish with our compensation dollars?" Decide how competitive your organization wants to be (e.g. exceed the market, meet the market, or maybe even fall shy of the market). Consider your organizational profile — are you a small start-up; a medium-sized, growing company or a large, more established entity? Engaging your leadership in defining your philosophy will help to align the group around your overall compensation intentions.



Before You Move to the Next Step ...

Take some time to consider how to plan ahead in your organization. Planning ahead will help you with the remainder of the steps in building out your plan.

Target Percentile	Implications
40th	Competitive market: This will likely attract only candidate with low experience Non-competitive market: This may attract good talent for some jobs; communicate other things your organization has to offer
50th	Pay meets market Competitive market: This strategy may work for core jobs Non-competitive market: Communicate that you pay at market
60th-65th	Pay slightly exceeds market Competitive market: This strategy may work for core jobs Non-competitive market: You may be overpaying for core jobs
75th	Pay slightly exceeds market Competitive market: You may have some key roles targeted here or even higher, depending how competitive your market is Non-competitive market: you may be overpaying
90th	Pay is aggressive to market Competitive market: Typically only critical roles are targeted aggressively to market

Reward Your Talent

What are the goals of your compensation program? Some organizations reward performance and results. Others aim to reward experience, hot skills or tenure. What you choose to reward should reflect the goals of your organization. For example, if you want to grow your organization by adding state of the art products, you'll want to reward skills and performance that will help you accomplish that goal. Check that your compensation strategy aligns well with the culture of your organization.

Before You Move to the Next Step ...

Think about the various functions and levels within your workforce. Where do you compete for talent for each segment you've identified? Answer these three main questions below for each segment:

- What market do we compete in for this segment?
- How competitive do we need to be to get the best talent for this segment?
- How can we best reward talent for this segment?



SELECT COMPENSATION MARKET DATA SOURCES

Since there are a variety of compensation data sources available to you, it's crucial that you choose wisely. The two key things to consider when selecting your market data sources are:

- Are they current, accurate and validated?
- Do they cover the data needs of your jobs and organization, such as the breadth of your jobs, geographies and industries?

Types of Data Sources

The types of sources are varied and vast. Keep the above questions in mind as you explore:

Traditional (Standard) Surveys and Industry Surveys

This category includes some names you're probably already familiar with: Mercer, Radford, Aon-Hewitt and Willis Towers Watson. Organizations participate in these surveys by matching their employees to survey job titles and descriptions, then submitting the data to the consulting firm. The firm then verifies and crunches the data to provide distributions back to the participants, and sometimes nonparticipants, typically for a fee.

Many industries offer industry-specific surveys that service only a given vertical. Trade associations will often make data available to their member bases as well.

Benefits: The methodology of this data source is well-understood. They typically provide a participant list, giving visibility into which businesses (and competitors) are also participating in the survey. Usually this list contains mostly larger companies.

Disadvantages: Sometimes the data are broad or perhaps don't provide info for more rural areas. And, because the data often lack freshness, they may have gaps for new and hot jobs.

Freshness: These sources are usually published annually based on data that are up to nine months old. As a result, they often come with "aging coefficients" to apply to the data.

Pre-Mixed Data

This category involves the most black-box methodology of all the data sources. It's clear that the data are market data, but you can't always be sure what the set consists of. The data provided by pre-mixed data providers are often a curated mix of traditional and industry surveys with some data modeling to fill in the gaps. An example of a pre-mixed data provider is Salary.com.

Benefits: Because of the mix of data sources and methodologies, pre-mixed data sets can often be one-stop-shops for compensation data. They can cover many of the gaps that show up in traditional data.

Disadvantages: There is low transparency in terms of data source with pre-mixed data. As a result, explaining either methodology or data to anxious managers may be a challenge.

Freshness: Because of the black-box nature of these sources, it's unknown how often the sources are refreshed and updated versus aged or otherwise manipulated.

HRIS or Internal Data

One source of salary information is your own HRIS or other internal data. These data can be used to ensure internal equity. Extracting information from your own workforce has meaning.

Benefits: Internal data are great for looking at pay fairness. You can analyze them for compression, below-range pay and compliance concerns like gender pay equity and pay for other protected classes. This data set is an easy resource for running reports to compare departments or people within the same title.

Disadvantages: Gathering, sorting and structuring data can be a more manual process. Often analytics are difficult or have to be developed internally. And obviously, internal data do not give you visibility into the external market.

Freshness: The freshness will depend on how updated you keep your internal systems.

Crowdsourced Data

Crowdsourced data sets are what they sound like: data sourced from a crowd. In this case, the "crowd" is employees. Crowdsourced data providers, like PayScale, use a real-time survey as the data collection mechanism. When using crowdsourced data, it's important to know the validation process for the data.

Benefits: Because employees know the most about their own jobs, crowdsourced data allow for much more specific and granular data. They typically cover more jobs and locations, as well as fast-moving and newly emerged jobs.

Disadvantages: Some groups are underrepresented with crowdsourced data. Often there is no motivation for executives to fill out online surveys; they know what they're worth. Similarly, people in minimum wage jobs are less likely to fill out online surveys. Finally, online surveys tend to skew white collar, since they require easy access to a computer or smartphone.

Freshness: Crowdsourced data are updated on a daily basis. Things change in real time.

“Scraped” Data

These data are gathered from job listings. The practice of posting compensation data in job listings is much less common in the U.S. (about 25 percent of listings include salary) than in other parts of the world (greater than 80 percent include salary). Data can be extracted from listings using technology or browsing what’s available online.

Benefits: This is the only data source that provides direct insight into the demand for labor, since postings are created when a position is open.

Disadvantages: Scraped data can be messy, requiring a lot of moving pieces to gather the data. They also don’t reflect actual pay, since it’s not possible to infer from a posting what the incumbents actually received when they accepted the job.

Freshness: The freshness of scraped data is variable, since it requires the listings to be available with compensation data associated. Keep your internal systems.

Government Data

The U.S. government provides some very broad compensation data trends. They’re available for some locations and some industries. They’re often fairly dated to the point that they’re no longer relevant or remotely competitive, but they’re free.

Match to Find Your Job in Your Data Source

The definition of a benchmark job is that it is a job that regularly exists in the market. (To compare your jobs with the market, those jobs need to exist in the market.) Here’s a helpful checklist of things that matter when comparing your job to the data source:

- What is the essence of the job (not just the title)?
- What level is the job (entry, professional, manager, director ...)?
- What are the top three job responsibilities?
- What top three special skills are needed for the job?
- Does this job have supervisory responsibilities?
- What experience is necessary to do this role?

You may have some positions that you can’t find in your data source. Don’t force matches where they don’t exist; having no data is better than using bad data. You can decide how to pay the job by aligning the pay to a similar job inside your organization.

Before You Move on to the Next Step ...

Lock down your compensation data sources. Talk with data providers to get quotes. Ask them about their validation process and the depth and breadth of their data coverage. If you have critical roles to fill, talk with a data provider that has data that move more quickly.



SET GUIDELINES OR RANGES

Pay ranges provide guidelines for how to apply market data to pay your employees. They also help smooth out daily or monthly market fluctuations and set upper and lower bounds of possible pay.

Establish Your Pay Ranges

The market value approximates the midpoint of the range. Typically, you'd bring people into a job at or near the minimum of the range. As they gain in skills and experience, and begin to demonstrate high performance and deliver results, they'd move through the midpoint of the range towards the max. Essentially, you pay people at market once they've demonstrated their value.



Decide to Use Job-Based or Grade-Based Ranges

Job-based ranges provide a min, mid and max for each job in each geographic location. They are built around the market value for the job. They focus solely on external equity, and could potentially go down from year to year depending on the market value.

Grade-based ranges group jobs with a similar market price, level of responsibility and value to the organization together within a "grade." In grade structures, jobs are slotted based first on the market value, then adjusted to account for internal alignment. Organizations with a lot of leveled roles would do better with a grade structure. For more information on how to build a grade structure, check out this [webinar](#).

Determine Range Widths

Like many things in compensation, there is no hard and fast rule here. You'll want to do what makes sense based on the size and shape of your organization. As a general rule, your range widths should get wider as you go up levels in the organization, starting around 30 percent and expanding to about 60 percent. Typically, your ranges would be narrower at the base of the structure to allow for movement between jobs. Ranges are wider at the top to allow for more differentiation of skill set, experience and performance, as well as to allow for more longevity in the role.

Calculate the Minimum and Maximum of Ranges

The final step to creating a salary range is determining the minimum and maximum for the range. After you identify the midpoint for the salary range, you'll be able to complete this final step. In the example below, the market value is \$69,885 and the range width is 50%.

Min	Mid	Max
Midpoint		
$1 + (\text{Range Width}/2)$ $\$70k / (1 + (.50/2)) = \$56k$	Rounded Market Value $\$70k$	Minimum x (1+Range Width) $\$56k \times (1 + .50) = \$84k$

Your final salary range in this example will look like this:



You can set ranges both on a salary and hourly basis using the same principles.

Before You Move on to the Next Step ...

Try building out some ranges for your jobs.

Pro tip: Line up the market values so you can see your jobs of similar value near each other. This is one way to make sure your market points make sense for your internal organization. It will also help you set range widths consistently for the various levels and functions.



CREATE POLICIES AND PROCESSES

Now that you've planned ahead, identified your talent markets and data sources, completed benchmarking and established pay ranges, it's time to create the policies and processes that help ensure that your plan gets carried out as you've intended.

Decide on the Right Level of Transparency

Before you go too much further, decide how much information about pay and pay decisions you intend to share with your organization. Once you decide to start sharing information, it's not an all-or-nothing deal. There's a whole spectrum of information you may consider sharing, from just an employee's own pay to the results of the market study to publishing your pay ranges.



Make clear choices about what you plan to share about each aspect of your compensation plan, including your philosophy, strategy, market data, pay ranges, policies and processes.

After you determine the right amount and type of information to share, be consistent. Sometimes information shared inconsistently with and by managers can disrupt the sense of fairness that your employees feel about their compensation.

Complete Your Policy Checklist

You should have some high-level policies in place to help get everyone on the same page and following the same rules. Your employment lawyer should review them for compliance and to make sure they appropriately protect the organization. Aim to build policies that align with and reinforce the culture of your organization.

- Here are some questions that your policies should answer:
- How and when are merit and/or market increases allocated?
- How will we handle green-circled and red-circled outliers?
- What will happen to pay in the case of promotion, demotion or transfer?
- How is the hiring range determined for a position?
- What are the different types of compensation and which employees are eligible for which types?

Consider Processes to Improve Efficiencies Around Compensation and Compensation Planning

Whether you have formally written processes or informal guidelines, there are typical compensation tasks that tend to be repeated. To ease your comp woes, make sure you document the steps for the following processes:

Make a new hire offer

- Who can make offers?
- Who creates the hiring range?
- Are there approvals needed for going outside the hiring range?

Add a new job

- Who suggests the new job?
- How is the business case for the new job created and who does it?
- Who drafts and approves the job description for the new job?

Promote people

- How and when do promotions happen?
- Who approves?
- What happens to pay in the case of promotion? Is there a minimum percent increase? Do all who are promoted get at least to within range of the new job?
- How and when are promotions communicated to payroll? To the employee? To other team members?

Determine pay increases

- What are increases based on? Market? Merit? Experience? Skills? Results? Some combination?
- When are increases calculated? And what is the timeline for the full increase process?
- What is the manager's role in setting or recommending increases? Who approves?
- When and how are increases communicated? By whom? Does HR draft talking points?
- Are out-of-cycle increases done, and if so, under what circumstances?

Calculate incentive payouts

- When are goals or other measures created and finalized?
- How often are they measured and evaluated?
- What is the frequency of payout?
- Who approves?
- Who communicates, when and how? Does HR draft talking points?

Complete the market study

- When and how often do you complete a full market study? (hint: before budgeting season)
- Are there some jobs or functions that require more frequent market review, and if so, what is the process for that?
- How, will and when do you communicate the results of the market study and to whom? With how much detail?

Again, you may decide not to fully document all of these processes, but it's a good idea to consider what you will do in each situation so you can be consistent in your application of your policies as much as possible. Consistency and compliance go hand-in-hand.

Before You Move on to the Next Step ...

Review your work thus far and make sure your plan is fully fleshed out — because we're about to put it into practice!



IMPLEMENT YOUR PLAN

With your compensation plan in hand, it's now time to take all your preparations and begin to utilize your comp plan.

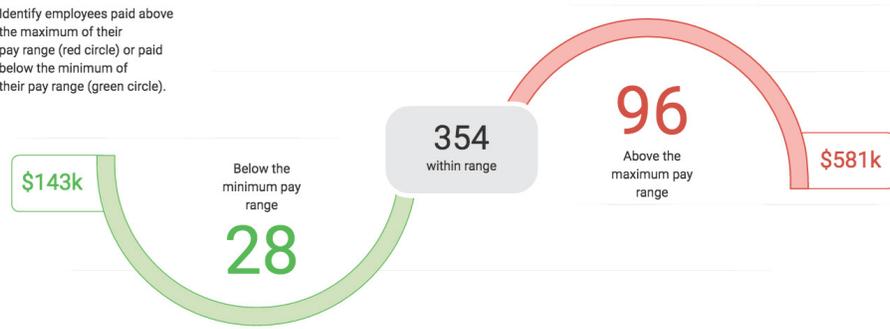
Analyze Employee Pay

Start by comparing your employees' pay against their salary ranges. Most importantly, you will want to determine if you have any employees who fall below the minimum of the salary range (green-circled) or over the maximum of the salary range (red-circled). If you do have this situation, it's time to apply your policy for handling outliers. You may find that the amount it will take to resolve the outliers is more than you can do at one time. In this case, consider a multi-year plan to resolve the pay issues.

(Tip: Check out these great blogs on what to do if you're [overpaying](#) or [underpaying](#).)

Range Outliers

Identify employees paid above the maximum of their pay range (red circle) or paid below the minimum of their pay range (green circle).



Communicate, Communicate, Communicate!

Ultimately, you'll want a clear communication plan for each level of your organization:

- Update your executives with the status of pay at your organization.
- Bring your managers into the know so they can help share compensation information with the employees they supervise.
- Give your employees high-level information about your compensation and talent goals.

Here are a few interesting facts that, when combined, tell a pretty good story about the importance of [communicating well about compensation](#):

From a [2015 PayScale study](#):

- Perception of pay impacts employee satisfaction and intent to leave
- Most employees don't know if they're paid fairly
- 82% of employees are okay with low pay as long as the rationale is explained, highlighting the importance of explaining the WHY of pay

When it comes to communication

- 75% of conversations about pay happen between managers and employees ([CEB](#))
- Only 19% of companies say they are "very confident" in their managers' abilities to have tough conversations about compensation with employees ([PayScale's 2017 CBPR](#))

You may have to [train managers](#) and provide them with some context and information about your compensation plan. Draft some talking points for your executives and managers to ensure consistency of message as you roll out your plan changes, in line with your transparency level.

Before You Move on to the Next Step ...

Analyze your workforce. How many outliers are you finding? Create a plan for bringing pay current to market and/or resolving any inequities you may find. Also, draft your communication plan. Who needs to know what, when?



KEEP YOUR PLAN UPDATED

Now that you've built and implemented your plan, think about how you can keep it current both from year to year and between cycles.

One of the tricks of compensation planning is that it's never truly done. As soon as you think you've crossed all your Ts and dotted all your Is, a well-meaning employee or manager will point out some skill or certification or priority that hasn't been accounted for yet.

That doesn't mean you have to go back to the drawing board; sometimes it's helpful to draw a dotted line in the sand. Here are some suggestions to help you do just that:



Build an evaluation process into your rollout that makes adjustments to the plan after a month, a quarter or maybe six months.



Develop a short list of "hot jobs" that you plan to review for market movement on a monthly basis. Consider involving your managers or leaders in generating the short list.



If you have an organization that involves managers, train them in what matters in defining jobs for compensation purposes, and have them review their job descriptions for accuracy.

Consistent application of your documented pay practices is one of your best defenses against charges of pay inequity from employees and outside agencies. If you need to deviate in any way from your company's compensation policy, which happens at times to compensate truly exceptional performers, document the justifications for the decision with relevant information. Continue to communicate with employees about your company's intentions with regard to compensation.

Also, be sure you keep your plan current to the market with a regular review cycle. It's during these larger plan reviews that you should recommit to your compensation philosophy, update your compensation strategy to the new business priorities, refresh your market data, revise and update pay ranges and fix any outdated policies and processes. Think of these major reviews as the higher level strategic reviews that help ensure that your plan is still aligned with your business goals.

Final Thoughts

Depending on the complexity of your plan, it may take anywhere from a few days to several weeks to develop. Do take the time to flesh out your compensation plan, and involve necessary parties as you go. Your compensation plan can guide your organization in its talent strategies, both for retaining and hiring the best talent. And remember, it doesn't need to be perfect the first time around! The important thing is to put some thought into it, make sound data-driven decisions and be intentional about how you communicate it.



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