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compensation playbook

what's inside?

a blueprint for building a competitive, scalable, and equitable compensation program

powered by the paidwell team of compensation experts

solve talent problems with a focus on:

attraction

motivation

retention

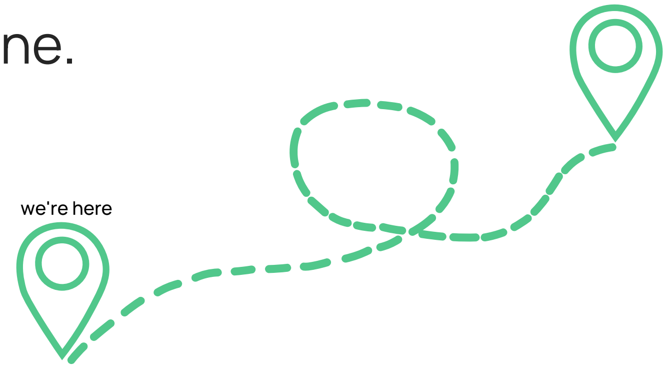
equity

a thorough compensation program is essential for driving attraction, retention, motivation, fairness, equity, & transparency in the workplace. this playbook will outline the key components and guide you to jump-starting your program!

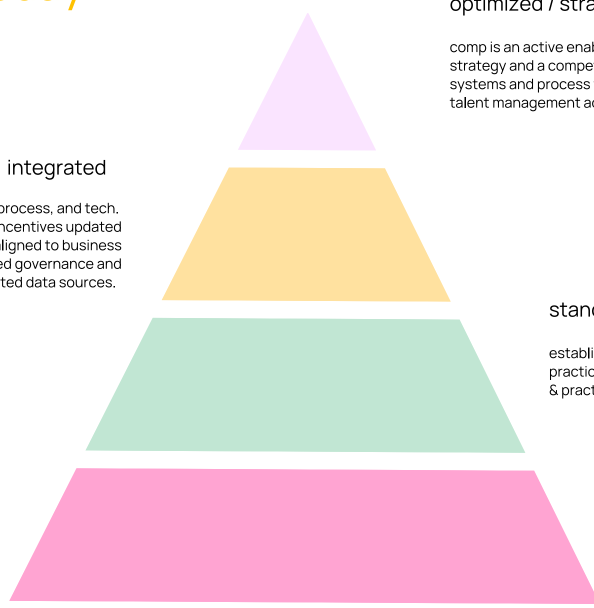
evaluate where you're at, and work to level up.

assess where you are. be realistic, but know that every team has work to be done.

either way, don't push to change everything immediately. focus on the high-impact foundation and then build up from there. compensation programs vary in complexity based on maturity, resources, and intended outcomes.



take a moment to assess where your organization is today.



optimized / strategic

comp is an active enabler in overall company strategy and a competitive advantage. systems and process fully integrated with all talent management activities.

integrated

mapped to people, process, and tech. short-term & long-term incentives updated and offered, practices aligned to business needs, with centralized governance and integrated data sources.

standardized / operational

established data sources, philosophy and practices, general leadership awareness, process & practice in place to support structure

reactive / inconsistent

minimal consistency in practice, decisions based on opinion or requests, little to no transparency or compliance

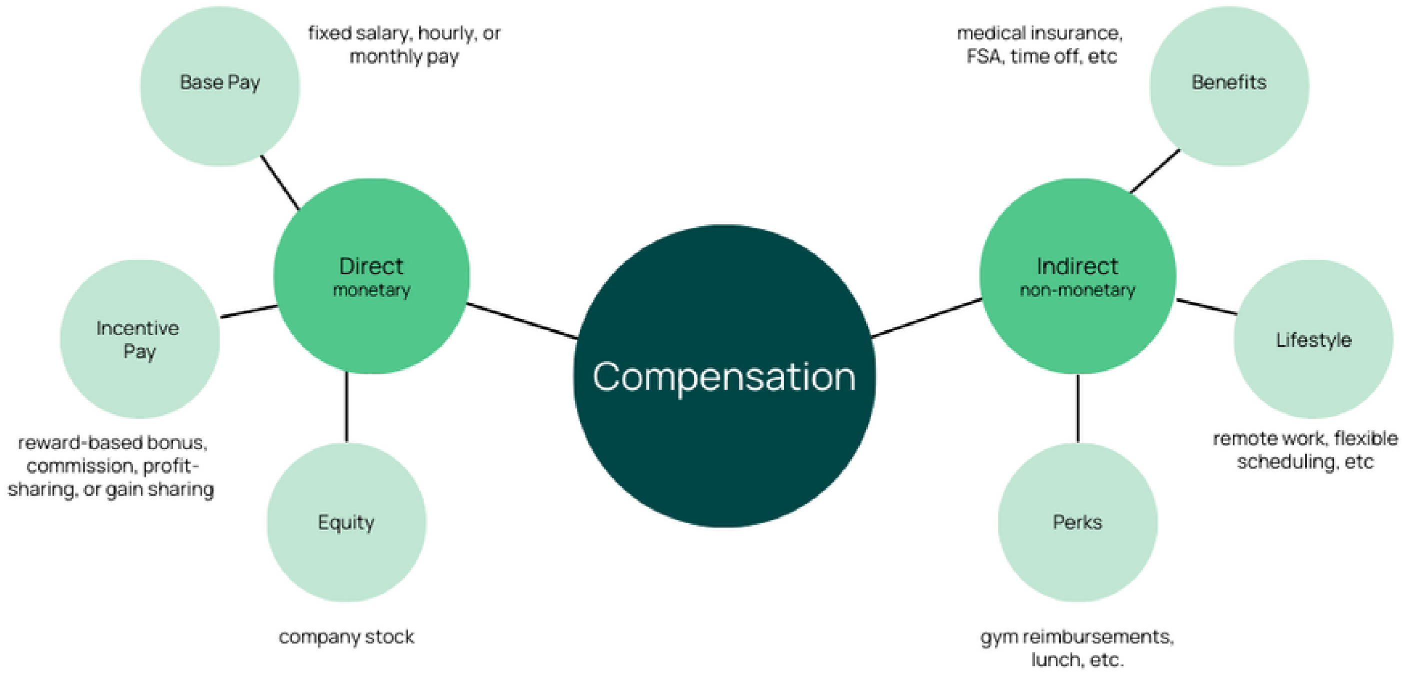
what this journey looks like:

reactive / inconsistent	standardized / operational	integrated with people, process, tech	optimized / strategic
decisions made in isolation or often as a 'case-by-case'	defined policies and guidelines aligned to principles	focused on optimizing practices for better alignment to attraction, retention, and performance management	comp practices are continuously reviewed and improved to drive organizational performance
minimal to no use of technology	basic job evaluation and market benchmarking	well-defined framework, structures, ranges, and performance-based incentives	dynamic models, allowing for real-time adaptability
minimal integration of comp to performance or talent development	formalized review process, including salary surveys	enhanced data, and data management including reporting to track effectiveness.	advanced analytics & modeling
limited insights, reporting and analysis capabilities	consolidated data management (spreadsheets or HRIS)		agile governance to enable quick decision making and responsiveness to changing needs

this is comp.

let's start with the basics

what is compensation? anything received from an employer in exchange for services.



want all the details at your fingertips? with the right philosophy, framework, and data, you'll feel empowered to make smart decisions aligned to your goals and solve tangible people-problems.

imagine a world where you can confidently:

- determine an appropriate merit increase based on performance and role for each team member
- make fair and enticing market-competitive offers to a new hire
- engage your teams and build momentum and trust behind your value proposition

need support from an experienced consultant, coach, and/or systems to support your compensation? click here to find out paidwell can help!

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what's a compensation philosophy? it's not as fancy as it seems. simply put, it's the guiding principles on which all other decisions are based.

think of a philosophy as a blueprint for a home. we decide what the foundation is built on, where the walls go, and how many cars fit in the garage. then we determine which car fits our family's needs, what kind of couch to buy, and what color to paint the walls.

a well-formed compensation philosophy sets the position and creates consistency and equity. it defines how you want to be perceived internally and how you compete externally.

Components of a Compensation Philosophy

CORE VALUES → BUDGET / MARKET POSITION → PERFORMANCE → BENEFITS & PERKS → EMPLOYEE SATISFACTION

VALUES

- What's important to your organization?
- What behaviors drive your decisions and results?

BUDGET

- What level of competitiveness in the market are you looking to achieve?
- What can you afford to do?

PERFORMANCE

- How are you tying performance to compensation?
- What incentive does someone have to over-perform?

BENEFITS

- What benefits and perks do you offer?
- How is your overall employee value proposition?

SATISFACTION

- How will this be perceived by your teams?
- What pieces do they value more?

looking for inspiration? check out the paidwell philosophy

At paidwell, we are a pay-for-performance organization. We value the work and contributions of our team and reward them as such.

- We evaluate our compensation for companies a step ahead of our own in our market. We benchmark salaries between the 50th and 75th percentile of our target market.
- Our individual work is aligned with the company's overall success, with our individual goals connected to our overall business goals.
- To be fair, equitable, and consistent -- we are transparent about our approach to compensation and performance.
- We evaluate our compensation packages at least annually, including base salaries, benefits, and incentives.

anchor statement

market reference

performance connection

review frequency

anchor statement

living with crooked career pathing? a career framework is a map that sets careers on the right track

they may have been well-intentioned, but 'shortcut decisions' can have meaningful -- yet disruptive -- impacts over time. think about that time someone got a VP title for a role with no direct reports. or the brand new hire with a salary 15% more than their peers with more experience, simply because they negotiated more and we wanted to make the hire.

having a solid framework takes the guesswork out of decisions. it empowers your teams to make decisions that don't create imbalance or disparity or require unnecessary levels of approval.

what is a career framework? scalable organization for all roles in every team.

a career framework is the foundation for assembling all jobs within the organization. it provides clarity and consistency, a scalable and easy-to-manage structure that is the right size, no matter how big or complex your organization becomes. you can feel confident leveling and scoping roles, ensuring you're not over or underpaying and calibrating across all teams.

Level	Associate	Professional	Management	Bonus*	Equity*
11			Vice President+	30%+	200x
10		Sr. Principal	Sr. Director	20%	50x
9		Principal	Director	15%	20x
8		Sr. Staff	Sr. Manager	12%	10x
7		Staff	Manager	10%	5x
6		Specialist / Analyst	Associate Manager	7%	2x
5	Lead: Player/Coach	Associate	Team Lead	5%	1.5x
4	Specialist	Coordinator		5%	1x
3	Sr. Coordinator			5%	1x
2	Coordinator			5%	1x
1	Coordinator			5%	1x

*while incentives are not part of a career framework, they can easily be connected by level and applied consistently. these are intended to be illustrative only and show how you may consider awarding.

additional benefits of a career framework include:

- career management
- workforce planning
- performance management
- total rewards* alignment

there are endless possibilities of related initiatives that spring from the foundational work of a framework. consider it the launching point for the rest of the HR team; learning & development, people operations, talent management, and comp & bens teams. each team will find this practical and useful organization as the basis for their work, which they can guarantee is aligned to the full organization.

*total rewards alignment refers to the entire package of benefits and incentives. in this example, a company may decide to offer certain benefits to those at a specific level, such as cell phone reimbursement, or a car stipend.

role leveling -- not people leveling. level the role independent of the person. identify the purpose of the role in the organization, not the person in the role.

scope, complexity, supervision, and autonomy are a few categories. defining these allows for a consistent application and approach to all functions. to level a role, start by thinking about the primary responsibilities. if a job description does not yet exist, compare the definitions, review and identify where it best fits.

some questions to help identify the right level –

tip:
when leveling, think about the ROLE, not the person

ask:
"if I were to backfill this role, what level would I need?"

- is this role primarily responsible for managing others? or is it an individual contributor level?
- does this position require applied knowledge such as a degree, or can the role be learned on the job?
- will this role need someone with deep industry experience or is this a position that can develop someone over time?
- how autonomous do you intend for this person to be? will they be interacting with like-peers or influencing others?

job descriptions. why they're good for everyone.

good job descriptions set expectations for folks doing the job, help set the correct benchmarking and compensation for the role.

good data in

=

good data out

what to include in a job description:
position information: the basic position descriptors, title, department, if this position is a people manager or individual contributor, and why this position exists (backfill or new role). some of this information remains internal-facing only and assists with position approval and mapping.
duties and KSAs: what responsibilities are essential to this role to ensure successful achievement of departmental goals and organizational objectives. what knowledge, skills, and abilities (KSAs) should this person possess to be able to successfully complete the duties of the job?
working environment & travel requirements: what type of environment will the job work in? what physical demands will the employee be subjected to? how much travel will the employee be expected to complete?
additional internal information: what salary band does this role coordinate to, is it an exempt or non-exempt position, is there a related grade to reference?

we know a full job description isn't always available. in the absence of that, it's essential -- at a minimum -- to understand the basics.

- what are the core responsibilities and requirements
- how will this person interact with others
- will they be managing people?

challenge your hiring managers and leaders to ask these questions and more.

benchmarking. the process of comparing a role to similar jobs at the same level, using relevant market data.

when you benchmark a role, you take a position inside of your organization and compare it to the external market.

how to level:

by asking a series of questions, you'll evaluate and find exactly where this role should go.

perform an intake to understand the person's scope and the role's requirements.

this person is a first-time manager of a small team, responsible for a subset of programs, and lives in Seattle, WA.

identify the role, level, and job family of the job.

this role is responsible for managing a team of software engineers, so it's a manager. we can place this role as a grade 7 in the engineering job family.

reviewing our data source, find the most appropriate match.

we found two potential matches but chose option A because more than 70% of the responsibilities aligned.

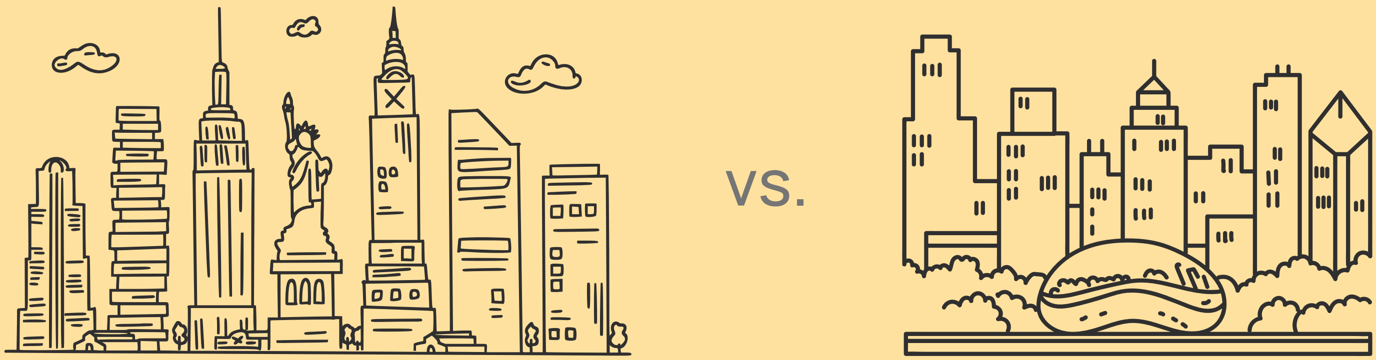
finally, compare the salary range to that of the current employee.

the salary range for the role at that level is 88k - 132k, with a midpoint of 110k. the employee is at 115k and was promoted into the role 6 months ago. their compa ratio is 104%, meaning they are well placed for their level.

salary bands & geographical differences. tailored ranges by location and role.

each market will pay differently based on local factors such as cost of wages, cost of living, government regulations/policies, industry disparities, and overall economic factors. this applies to different countries and even regions within the same country, which is why a role in New York may differ from that in Chicago.

because of this, we recommend pricing roles based on the markets you'll be hiring in, and applying a differential. each role has a salary range that is +/- 15 to 20% from the midpoint. the range allows you to account for the difference in proficiency, giving ample opportunity for increases over time, and continues to reward top performers.



we'll talk more about position-in-range in the next section. for now, let's focus on how geographical differences look for a single role. in this example, we'll compare a salary band using min, mid, & max for a software engineer in the US.

the mid (or midpoint) is the percentile chosen for this specific role. in some companies, all roles may be priced off the same percentile, such as the 50th or 65th percentile. in others, they may choose to benchmark higher for specific in-demand roles or roles which require a higher degree of skillset vs. the remaining positions. in this case, you may see engineering/technology roles benchmarked against the 75th percentile and all others using the 50th.

here, we're using the 50th percentile for the mid. the min and max are +/- 20% to provide a range and show 3 different US markets. the spread can be adjusted to a higher range over time as you make gradual adjustments in line with budget.

position	market	low	mid	high
software engineer	market	$111,000	$139,000	$166,000
software engineer	market+	$116,000	$145,000	$174,000
software engineer	market premium	$128,000	$160,000	$192,000

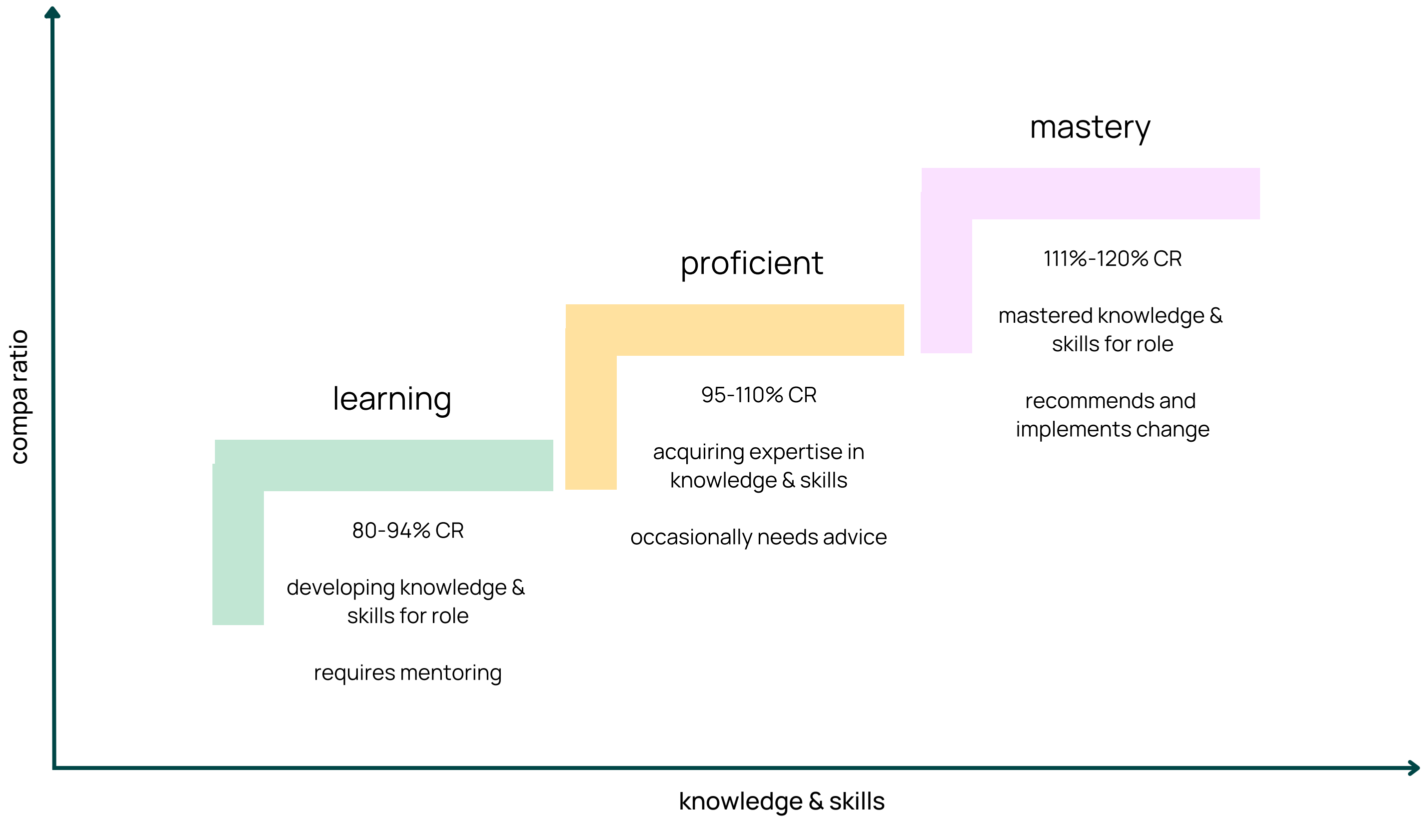
positioning. where in range an individual is placed, this should vary by individual.

how do you know If someone is placed appropriately, and why does it matter?

there are a few scenarios where you may stop to consider an individual's position in range -- during a review cycle when deciding on a promotion-based increase into a new band and when bringing in someone new to a role. for all of these, you'll want to evaluate their proficiency against the role they're in/moving into.

you should expect someone new in a role or level to be closer to the lower end of the salary band. as skills and knowledge are acquired, and their proficiency improves, expect the positioning to increase for that band.

most salary bands will overlap, so the top of one band is generally higher than the bottom of the next level. this intentionally creates the opportunity for gradual increases over time vs. clunky, significant increases that may create budget challenges.



paidwell tip:

- resist the temptation to advance new hires too far into the curve too soon.
- someone meeting expectations should be at the midpoint for their role and level.
- remember to map to an individual's own level. they can be an expert, but they're learning how to be an expert at this new level, or in this new company.

types of incentives. what are short-term and long-term incentives, and how to effectively utilize them.

short-term incentives (STIs)

rewards based on individual or company performance. STIs are often called annual incentives and are intended to compensate employees for achieving the company's short-term business strategy. bonuses and commissions are two common types.

examples:

bonuses	commissions
• annual bonus paid based on company and personal performance at the end of every year as a percentage of annual salary. • quarterly bonuses paid to all Directors based on company performance.	• monthly commission amounts in exchange for closing new deals, upselling, or cross-selling. • annual payment at year-end for 5% of all sales closed in the year.

long-term incentives (LTIs)

a form of deferred compensation (indirect compensation) that provides income in the form of a bonus/stock at a later date, typically after more than one year of employment. how this is delivered generally depends on the stage of an organization.

early / growth

public / mature

early stage companies that are unsure of their terminal equity value should consider basis points of equity benchmarked to similar size and industry companies to understand how much equity to give out to their employees.

equity usually given as a total percent of diluted cap .

more mature private companies who are getting a better idea of their equity value should consider a similar technique as early stage companies, but also confirm these figures with calculating Total Direct Comp less Total Cash Comp in benchmarks to get more perspective on how much a role earns in equity value.

as you move in this direction, equity given as a total percent of cap table, represented in a dollar amount.

as companies mature, they typically gain more certainty with regards to the actual value of their equity programs. late stage private companies and public companies think about their equity in terms of real currency, not just in units and/or basis points percentages.

At this stage, you may determine equity as a % of base salary, a target cash value of equity, and/or as a function of the value to hit 'target total direct compensation' targets on top of annual cash amounts.

picking the right salary source(s). one that is robust, credible, and matches the roles of the organization.

things to consider when sourcing:
- what industries the resource includes, and if it covers your need.
- of the respondents, what stage are the majority, and does that match where your organization is AND where it'll be in the next 2+ years?

once you've selected a salary tool or set of tools, you can further segment the data set by industry, revenue, and number of employees.

paidwell tip: narrow this focus on where you want your talent to come from, not where you are currently.

a couple of the most commonly used salary sources and what they're known for -

Radford technology, tech-enabled, life sciences	McLagan/AON financial services and fintech
Willis Towers Watson finacial services, healthcare, energy, & manufacturing	Culpepper technology, health-care, retail, finance & manufacturing

connecting pay to performance. the single most impactful decision you can make is determining how to recognize performance.

drive wanted behaviors and incentivize great work by paying more for better performance. here's an example:

- if two people are in the same role, with similar compa ratios (CR), and have varying performance levels, recognize that effort differently.
- if they have the same performance, but different compa ratios, reward them differently.

in general, linking performance to pay is considered best practice. here is an example of how both performance and positioning can be considered during a review cycle. your high-performers would receive a larger increase than your lower performers, and those lower in range would receive a larger increase than those higher in range with the goal of normalizing and rewarding.

	< 80% CR	80% to 100% CR	100% to 120% CR	> 120% CR
Exceeding Expectations	14%	12%	10%	8%
Meets Expectations	10%	6%	4%	4%
Not Meeting Expectations	0%	0%	0%	0%

CR = comp ratio. it's how a role compares to the midpoint for this level. a healthy compa ratio should be within the range of your salary band. i.e. a range of +/- 20% should have a compa ratio between 80 to 100%.

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running a smooth merit cycle. a proven process for reviewing and adjusting compensation.

most companies have an annual or bi-annual merit cycle where all eligible employees are reviewed and adjusted as appropriate. here are some best-practice tips.

planning

before the cycle, agree on:

- effective dates
- budget
- frequency of increase
- eligibility
- promotion criteria
- timing
- approvals

prep

prepare your data. include market data, compa ratios, level, job match, last increase date, equity held and vested.

set expectations, timelines, basic education on compensation philosophy, guidelines, etc. for managers.

manager review

managers should nominate promotions, review levels and job matches, offer initial recommendations while taking into account performance ratings.

this is the first line of review.

comp team

comp team reviews for pay equity, promotion criteria, budget, review changes by function, department, level, location, age, race, job, gender, etc.

work with the HRBP team to flag items to be discussed with leadership.

exec review

execs review their department for pay equity, budget, promotion criteria, etc.

this is the third set of eyes on the recommended changes and another opportunity to review and amend.

final approval

CEO, Finance, HR, etc. review changes for pay equity, budget, etc.

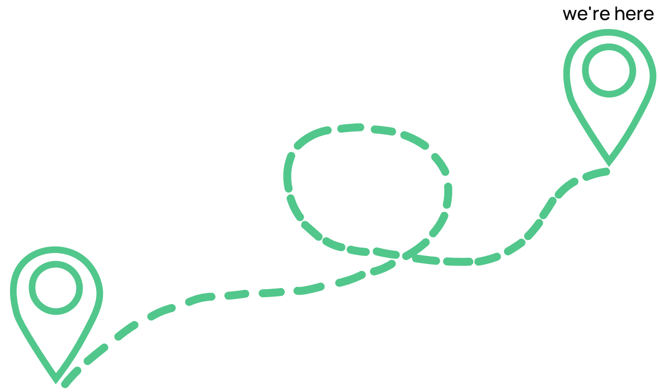
the functional leadership team can review collectively before final decisions are solidified.

end

final info is sent to payroll, systems updated for changes, and changes are communicated to employees, documentation of changes, etc.

the goal of any good merit cycle is to reward & retain high performers, make fair & equitable decisions, and drive performance & engagement that is aligned with the organization's goals and strategies.

where does all of this land us? with a compensation program that stands out.



using the information inside of this guide, you can position yourself and your team to make well-informed, data-driven decisions quickly and easily that are aligned to the broader strategies.

move faster in hiring by having defined roles, levels, ranges, and incentives. here's an example of how this looks when it's all pulled together in practical application.

Role	Level	Market	Salary Range	Bonus Plan	Equity Award
software engineer	7: staff	US-Major Market	116k - 145k - 174k	10%	500

need support? reach out to our team of experts to begin your journey to become paidwell!

attraction | motivation | retention | equity