15Five's Compensation Playbook

The Complete Guide to Developing a Compensation Strategy That Attracts and Retains Top Talent

15five

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Compensation is complicated.

With social factors such as elevated interest in diversity, equity, inclusion, and belonging, and economic factors such as uncertainty around inflation and labor leverage, HR and People leaders are facing tremendous pressure to create competitive compensation strategies and programs that retain and attract the people they need.

Plus, money still matters in the age of meaning. People want more than ever from work: community, purpose, growth opportunities, well-being, equity, fairness, career paths, a sense of identity, and compensation. Organizations need technology, processes, and programs supporting each of these human needs.

In this eBook, we'll explore how HR and People leaders can leverage technology, processes, and programs to create comprehensive compensation strategies that meet the diverse needs of their workforce. From understanding the importance of pay equity to implementing transparent compensation practices, we'll delve into key considerations and best practices for designing and implementing effective compensation programs that attract — and retain — top talent.

But first...what is compensation?

Many think that compensation is the amount of money that an employee receives in their paycheck, but in reality, there are many factors that make up employee compensation, including:

01. Base Pay

- Salary
- Hourly rates for contractors

02. Short-term Incentives

- Commission
- Individual Bonuses
- Team-level Bonuses
- Organization-level Bonuses
- Spiffs
- Spot Bonuses

03. Long-term Incentives

- Equity
- Restricted Stock Units
- Employee Stock Plans

04. Benefits

- Insurance
- Mental Health Programs
- Wellbeing Programs
- Paid Time Off
- Paid Leave
- Retirement Benefits
- Perks such as Employee Discounts

Understanding that compensation encompasses far more than just the amount of money reflected in an employee's paycheck is key for HR leaders as they design and implement compensation strategies.

Why is compensation so challenging?

Before we get into what can make a compensation program *great*, let's unpack why building an efficient and effective compensation strategy is so challenging in the first place:

- **Time-intensive:** It takes an extensive amount of time to develop a master spreadsheet, create mini-spreadsheets for each people manager, copy and paste values, share them one by one, keep track of each spreadsheet to ensure adherence to policies and check for completion, consolidate spreadsheets back into a master spreadsheet, and manually send award letters.

- **Error-prone:** There is a great risk of formula mistakes, typos, and sharing sensitive comp data with the wrong people.

- **Lack of visibility for people leaders:** Managers aren't involved or don't have visibility into compensation decisions for their team, making them ill-equipped to have compensation conversations with their direct reports.

- **Hard to uncover pay gaps:** With compensation data spread out across disparate places, it's impossible to identify or address pay equity issues.

- **No buy-in:** It's a constant challenge to convince finance that valuable compensation dollars are being used to reward and retain the right people.

Understanding what makes compensation so difficult is the first step to getting it right. And there's one big disconnect that's driving a lot of these challenges: **the disconnect between performance management and compensation.**

> **Put simply, performance management and compensation work better together.**

Performance should be deeply connected to compensation decisions — yet, many organizations are struggling to make this a reality.

Failing to connect performance management to compensation undermines employee motivation, engagement, and ultimately, retention. It also hinders the organization's ability to recognize top performers and effectively allocate resources. And it creates a sense of inequity and unfairness and employees may feel that compensation decisions are arbitrary, rather than based in performance.

That's where 15Five Compensation comes in.

[15Five Compensation powered by Comprehensive](#) bridges the gap between performance and compensation management. It empowers HR leaders to automate manual spreadsheets and reward top talent by unifying your performance and compensation reviews and data under one centralized platform.

Key features include:

1. **Unified performance and compensation reviews:** Run compensation review cycles leveraging 15Five performance data to make informed compensation decisions that reward strong performance and retain top talent.

2. **Automated compensation management:** Say goodbye to spreadsheets and mail merges. Save time and eliminate errors in your compensation reviews and award letters with our streamlined process, powered by integrations with your HRIS.

3. **Real-time benchmarking:** Gain a competitive edge by accessing real-time compensation data from over 5,000 companies. Stay ahead of industry trends and ensure your compensation strategy remains competitive.

4. **Employee total rewards dashboard:** Educate employees about the full value of their compensation package, including equity and benefits. Foster trust and engagement by providing a transparent, holistic picture of their overall rewards.

5. **Pay ranges management:** Simplify the storage, editing, and sharing of pay bands from a single, reliable source-of-truth. See how employees compare against your pay bands to ensure consistency and fairness in compensation across your organization.

As we move through the key principles of an effective compensation strategy, we'll share more about how 15Five Compensation makes it a breeze for HR leaders to put those principles into action.

Design Principles for your Compensation Strategy and Processes

While your compensation strategy needs to incorporate your organization's goals, strategy, market conditions, and more, there are a few design principles that apply across all organizations.

Conveniently, these are the same design principles that can inform your performance management strategy and processes as well, as discussed in 15Five's Performance Review Playbook.

PUT FAIRNESS FIRST.

For so many reasons, including legal and ethical ones, fairness needs to be the foundation of your compensation policy. There's never been more focus on fair decision-making about compensation (finally!). Your organization will be privately and publicly called out for decisions that seem unfair.

Look for discrepancies in your previous compensation decisions related to intersectionality, protected classes, and other factors, then correct them immediately. Looking forward, ensure that you are involving your legal team, your CEO, and your board to ensure fairness is paramount and built into the technology you choose, the partners you engage with, and the strategy and programs you create.

HONOR ORGANIZATIONAL AND EMPLOYEE NEEDS.

Create your compensation policy with the right balance - or better, harmony - between individual and organizational needs. Your individuals want to be compensated fairly including total rewards and benefits that are relevant to them. Your organization needs to accomplish your financial goals, realize your vision, and achieve your mission. For financial performance, find ways to involve your CFO early to represent organizational needs and key cultural stakeholders (even some individual contributors) so you understand individual needs within the specific context of your organization.

DESIGN WITH DECISIONS AND ACTIONS IN MIND.

Map out the decisions you make related to compensation throughout the year. Select your technology and build your processes so they support those decisions. Design your tech and processes such that downstream decisions are supported by previous decisions. For example, your performance management processes and technology should create and supply data that supports compensation decisions if there's a connection between performance and compensation in your organization.

EMPOWER YOUR PEOPLE MANAGERS AND HOLD THEM ACCOUNTABLE.

Your people managers are essential to the success of your compensation strategy. When you start making compensation decisions, don't force them to answer, "I don't know" about basic compensation questions. Ensure that you have an up-to-date policy and FAQ for them to refer to, as well as a clear HR / People team point of contact for them when they have questions. For a new compensation program especially, meet with managers together and offer one-on-one sessions with HR / People team members to answer any questions. Hold "office hours" where any manager can join and ask questions. Provide a step-by-step playbook to

enable your managers to have open, consistent conversations throughout your organization. These conversations are too valuable to leave to chance.

SIMPLIFY - LESS IS MORE.

There's a natural human tendency to think that adding things is the best way to improve something, but oftentimes subtraction and simplification can be more effective. Many organizations have overly complicated compensation strategies with tiers of role-specific comp, spiffs, and bonuses all over the place, and end-of-year processes that stitch together data from a dozen sources over months of time. Look for opportunities to simplify.

Now that we've got the basic design principles covered, let's get more specific. ✔

Align your compensation strategy with your organization's overarching goals and strategy.

At 15Five, we talk a lot about how HR strategy must be aligned to the organization's overall goals and strategy in order to be effective long-term. Compensation is no exception.

Thus, as you consider compensation, you and your leadership team must consider the critical relationships between the following:

- **Organizational Goals:** What your organization wants to accomplish

- **Organizational Strategy:** How you will achieve your desired outcomes

- **Talent Strategy:** How you will create the capabilities you need to achieve your organizational goals

- **Compensation Strategy:** Salary, Variable Compensation, Bonuses, etc.

- **Total Rewards Strategy:** Compensation, Benefits, Equity, Stock, etc.

- **Performance Management Strategy:** Reviews, feedback, promotions, etc.

These relationships need to be emphasized because oftentimes you hear statements that are conflicting, such as "We want to have top-of-industry performance and growth" and "We can't afford to compensate people at the same level as our industry". It's important to check up and down this list to ensure that your goals and various strategies are coherent and supportive of each other. Make sure that you are aiming to incentivize the behaviors and results that you need to achieve your organization's goals in a way that aligns with your vision, mission, and values.

Get other stakeholders involved – and invested.

Compensation isn't something that even an experienced HR team should take on alone. Involving others in your compensation strategy has a number of benefits for HR and People teams. Involving others:

- **Increases buy-in for your approach to compensation:** It's harder to critique something you helped create. Inviting your board, CEO, legal team, leadership team, and other key stakeholders into the conversation will increase buy in and help you launch your compensation strategy effectively.

- **Ensures that your compensation strategy aligns with your organization's goals, strategy, and values:** HR and People strategies and programs shouldn't exist separately from what your organization wants to accomplish and how you want to accomplish it.

- **Reduces risk:** Your legal team, board, and CEO can help ensure that you are making decisions that are equitable, fair, ethical, and legal. Involve your legal team early in your process to reduce risk.

> **Who are the key players and stakeholders in your compensation strategy and decision-making processes, and what are they responsible for?**

Establishing roles and responsibilities and who needs to be involved at the *beginning* of developing a compensation strategy is a surefire way to make its impact go a lot farther. Here are some of the key people that should be involved, and what they should be responsible for:

PEOPLE / HR

- Creating and owning the compensation program
- Involving other key stakeholders appropriately to create alignment and buy-in
- Ensuring alignment with other People and HR strategies, technology, and programs
- Providing compensation expertise
- Advocating for equity and fairness
- Orchestrating feedback from other team members
- Documenting your compensation policy
- Creating and maintaining a living compensation FAQ
- Escalation point for employee questions about compensation

LEGAL

- Ensuring your compensation program is aligned with relevant laws, rules, and regulations

- Mitigating risk

YOUR BOARD AND COMPENSATION COMMITTEE

- Providing expertise and feedback based on their experiences

- Providing guidance, making decisions, and approving policies related to CEO and executive compensation

- Approving programs such as Equity and Employee Stock Plans

CEO

- Ensuring alignment with your organization's mission, vision, and values

- Ensuring alignment with organizational goals, strategy, and financial plan

- Communicating the why behind your compensation strategy to your people

CFO

- Ensuring alignment with organizational goals, strategy, and financial plan

- Mitigating risk

LEADERSHIP

- Providing feedback and asking clarifying questions before launch

- Communicating the why behind your compensation strategy to their people

- Sharing feedback to the People and Culture team

PEOPLE MANAGERS

- Communicating the why behind your compensation strategy to their people

- Answering questions from their people about compensation

INDIVIDUAL CONTRIBUTORS

- Using the technology and resources you provide to understand your compensation strategy and their total rewards

- Advocating for their own needs

YOUR COMPENSATION PARTNER

- Communicating 3rd party benchmarks

YOUR TECHNOLOGY PARTNERS

- Ensuring that you have the data you need to make the right decisions including someone's initial comp and ongoing decisions such as bonus allocation and promotions

- Providing perspectives and insights based on other customers that they serve

While that sounds like quite a team, successful compensation and total rewards programs require significant effort. Plus, when you launch your plan, you can communicate the steps you've taken to ensure that it's fair and represents the right balance between organizational needs and individual needs.

Importantly, ensure that people's roles are clear. For example, who is the final decision maker for different facets of your strategy? Clear roles can help you invite feedback effectively, maximize constructive conflict, and minimize unproductive conflicts with quick resolutions.

Factors To Consider As You Design and Update Your Compensation Strategy

Compensation is complex, but documenting the different inputs you consider as you create a strategy can help you ensure a holistic, systematic approach.

HERE ARE SOME INPUTS TO CONSIDER:

- The state of your current compensation (e.g., is it fair and equitable for everyone?)
- Legal and ethical considerations with input from your Legal team
- The context of your organization's goals, strategy, and value with input from your CEO
- Economic factors such as inflation
- Third-party benchmarks and market data
- The behaviors you want to incentivize
- Organizational performance and budgets with input from your CFO
- Employee marketplace conditions
- Performance review processes
- Individual contributions and performance
- Compensation in the context of total rewards

That's a lot right? Start by creating a list of factors that inform your current compensation strategy and decision-making.

Then, check your list against the list above to ensure that you are using a holistic approach that aligns with individual needs and your organizational needs. What's missing? What do you need to add?

Remember that your compensation strategy needs to evolve over time as your organization and the context around it change.

Frequently Asked Questions About Compensation Strategies and Decisions

There are a number of critical decisions to make and questions to answer, including…
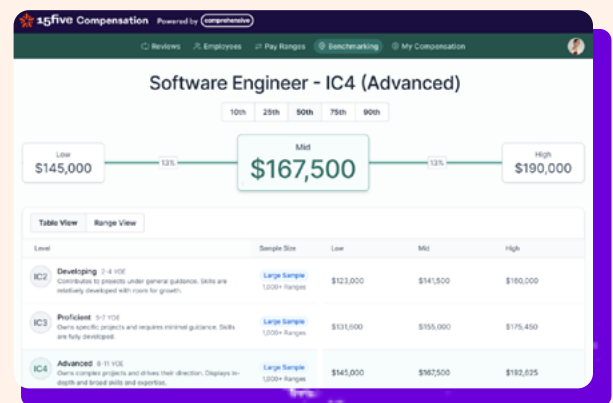
HOW WILL YOU COMPENSATE YOUR PEOPLE AGAINST MARKET BENCHMARKS?

- Align your compensation strategy against what's needed to accomplish your organization's goals. For example, which of the following allows your organization to succeed?

    - Leading the market - paying higher than market benchmarks

    - At the market - paying equal to market benchmarks

    - Lagging the market - paying lower than market benchmarks

- Ensure that your organizational ambitions and compensation are aligned.

15Five Compensation includes real-time benchmarking with compensation data from over 5,000 companies that helps you stay ahead of industry trends and ensure your compensation strategy remains competitive.

The benchmarking feature allows you to filter by location, tenure, title, and more. In addition, you can set your benchmark range to fit your compensation philosophy.

HOW SHOULD OUR LEGAL TEAM BE INVOLVED?

- Reach out to your Legal team early as you design your compensation strategy.

- Involve your Legal team throughout the design process.

- Create a clear escalation process for how your Legal team should be involved as questions about your compensation policies arise.

- Incorporate other advice from your Legal team on how they should be involved.

WHAT CONTRIBUTES TO COMPENSATION DECISIONS ABOUT INDIVIDUALS?

Individual performance?

- If you include individual performance, ensure that performance data is as objective as possible.

OKR and goal completion?

- If so, ensure that OKRs and goals represent objective performance data and someone's actual contributions as much as possible.

- Objectives, key results, and goals often vary in quality, which compromises their accuracy when assessing individual performance. Ensure your individual contributors and people managers know how to set clear, objective goals at the right level of ambition.

- Oftentimes, people make significant contributions to your organization's success that are not captured in objectives and goals.

A FEW NOTES ABOUT GOAL SETTING: ON COMBINING COMMITTED GOALS AND ASPIRATIONAL GOALS...

It can be valuable to have organizations, departments, teams, and people set committed goals that must be hit and aspirational goals that represent more aggressive ambition. Guidelines for this practice include...

- Ensuring that people know what kind of goals they are setting with clear definitions, FAQs, and enablement

- Explaining the purpose of committed and aspirational goals in your organization, including what's in it for them

- Ensuring that people know how their compensation and incentives align to each goal type

- Holding managers accountable for the goal-setting process

- Avoiding sandbagging

On sandbagging (setting goals that are easy to achieve to increase the likelihood of a bonus, high rating, etc.)

- Hold your CEO accountable for ambitious goals that appropriately stretch your organization, including significant input from your CFO for financial goals.

- Hold leaders accountable for ambitious goals that appropriately stretch their departments in support of organizational goals.

- Hold managers accountable for ambitious goals that appropriately stretch their teams in support of departmental and organizational goals.

- Hold individual contributors accountable for ambitious goals that appropriately stretch themselves in support of team, departmental, and organizational goals.

- "Hold accountable" means that people are equipped for goal setting success as well as giving and receiving feedback about goals and progress against goals. Then, people - especially leaders and managers - are rewarded, promoted, disciplined, and even fired when the right standards for performance, achievement, and growth are not created and upheld.

- Talk about goal ambition during checks-and-balances processes such as calibrations and conversations with peers at other organizations (e.g., your CTO should talk to other CTOs).

- Support all of the above with clear role and performance agreements for each role.

Competencies?

- Incentivizing the demonstration of certain competencies such as critical skills you need people to develop in support of your strategy and behaviors that represent your values can be an important part of your compensation and talent strategy.

- Ensure that competencies are relevant and kept up-to-date.

- Ensure that competencies are weighted appropriately compared to the objective quality, quantity, complexity, and impact of someone's contributions.

Ratings?

- Ratings can be effective for categorizing people based on their performance for bonuses, promotions, etc.

- Ensure that your ratings are clearly defined and described.

- Consider an imbalanced scale to avoid the "everyone got a 4 again" issue. For example…

  - 1 - Below Role Expectations

  - 2 - At Role Expectations

  - 3 - Above Role Expectations

  - 4 - Outstanding

  - 5 - Exceptional

- Create checks-and-balances policies including calibrations involving managers, leaders, and HR, as well as looking at performance through an equity lens, including intersectionality considerations.

- Be as transparent as possible so people receive the feedback they need to support the achievement of your organization's goals.

Core values?

- Hiring, firing, and rewarding people based on your core values helps people understand that they are actually values and not just something on a poster somewhere.

- Consider the right balance of what someone accomplishes and how they accomplish it (values) within the context of your organization. For example, if your organization is not demonstrating your values, you might incentivize values more to encourage different behaviors.
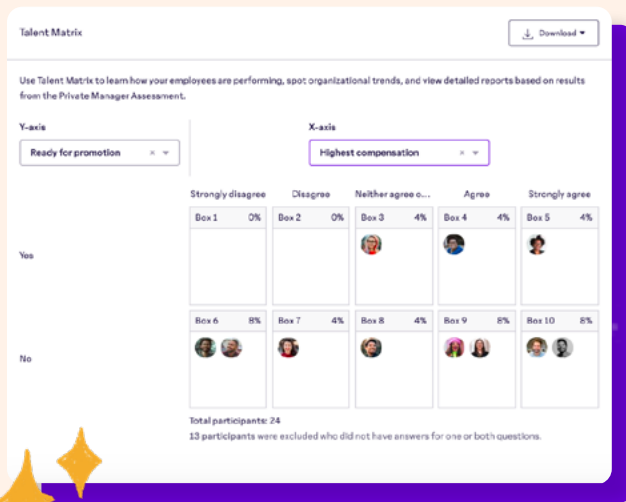
TALENT MATRIX

15Five's Talent Matrix is an example of a technology you can use to ensure that your compensation processes and decisions are supported with the right data.

Used alongside the Private Manager Assessment, this feature helps HR teams easily identify high and low performers at scale without relying on unfair or biased ratings. HR leaders can view the distribution of performances across the company, department, or group and easily display and report the results to C-level members.

Having this information readily available will make compensation decisions a lot easier for 15Five users.

Weighting?

- If you use weights to create ratings, ensure that you are appropriately weighting different factors such as objective performance and manager opinion.

- Performance ratings should heavily weight (50% or more) objective performance that reflects the quality, quantity, complexity, and impact of their work to ensure fairness.

- Ensure that manager opinion is based on clear agreements and expectations related to each role and that your process includes training to reduce bias, and ceremonies such as calibrations, to provide detached perspectives into performance ratings.

Talent Matrix

Use Talent Matrix to learn how your employees are performing, spot organizational trends, and view detailed reports based on results from the Private Manager Assessment.

	Strongly disagree	Disagree	Neither agree o...	Agree	Strongly agree
Yes	Box 1 0%	Box 2 0%	Box 3 4%	Box 4 4%	Box 5 4%
No	Box 6 8%	Box 7 4%	Box 8 4%	Box 9 8%	Box 10 8%

Y-axis: Ready for promotion
X-axis: Highest compensation

Total participants: 24
13 participants were excluded who did not have answers for one or both questions.

RUN COMPENSATION REVIEWS WITHOUT A SINGLE SPREADSHEET.

15Five Compensation powered by Comprehensive integrates with your HRIS - helping you make efficient, transparent, and equitable compensation decisions from one centralized place.

How does it work?

Once a performance review cycle is complete, 15Five performance data automatically flows in. Leaders can then review the employees on their team, and propose a raise for specified employees. You can customize exactly what employee fields get shown, specify a budget to give to each leader, and provide a suggested raise for each employee - which can be calculated using whatever fields or logic is specified. For example, you can have a different raise percentage that depends on the employee's performance rating.

In addition to base salary, 15Five Compensation can also be used to make decisions on variable pay, bonus awards, and even equity.

Once a leader has submitted their review, it goes through an approval hierarchy that you specify. Approvers can track the status of each submission and budget usage, and approve or edit submissions as they roll in.

WHEN SHOULD COMPENSATION DECISIONS BE MADE?

- We strongly recommend aligning your compensation decisions with your financial budgeting processes as well as your performance review cycle.

- Once performance reviews are completed, HR and management can use performance ratings to make decisions about compensation. Typically, higher performance ratings may lead to higher salary increases, bonuses, or other forms of compensation. This linkage should be defined in the company's compensation policy.

- By tying compensation reviews to performance reviews, companies aim to reward high-performing employees and incentivize others to improve. This differentiation in pay based on performance can help retain top talent and motivate employees.

- Given today's employment market, reviewing compensation at least twice per year is a must, as is having a documented, step-by-step process for handling compensation situations that arise throughout the year. For example, when someone receives an unsolicited or solicited offer that includes a 40% increase, who is involved in the decision to counter? How do you keep things fair and equitable in that situation?
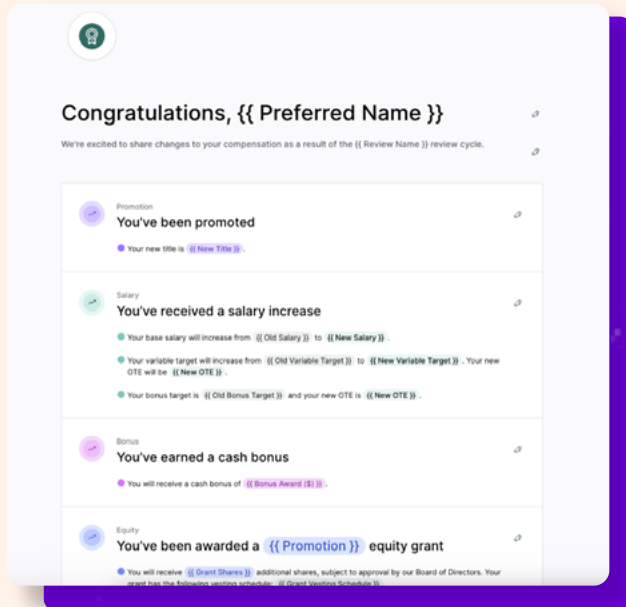
HOW SHOULD WE COMMUNICATE OUR COMPENSATION POLICY?

In advance of communicating your policy, share that you will be announcing a new compensation policy including how you will ensure that it's equitable and fair, plus how you will incorporate compensation expertise and stakeholder feedback.

- Communicate your compensation policy in a variety of ways:
  - In a mandatory leader and manager meeting
  - In a mandatory company meeting
  - Via email
  - Via other communication means such as instant messaging
  - As part of your company onboarding
  - Where you store and share other important HR-related documentation

- Make sure you have a living FAQ that is updated on a daily basis during the first few weeks after you launch the policy, as people will have questions.

- Ensure that you include a "Who do I ask if I have a question not on the FAQ?" question and answer on your FAQ.

15Five Compensation makes it a breeze to communicate compensation decisions with employees. Once a review cycle is complete, 15Five Compensation can generate award letters for your employees showing what changed. You can also give your employees access to a Total Rewards Dashboard that highlights the total value of their compensation across salary, variable pay, benefits, and equity.
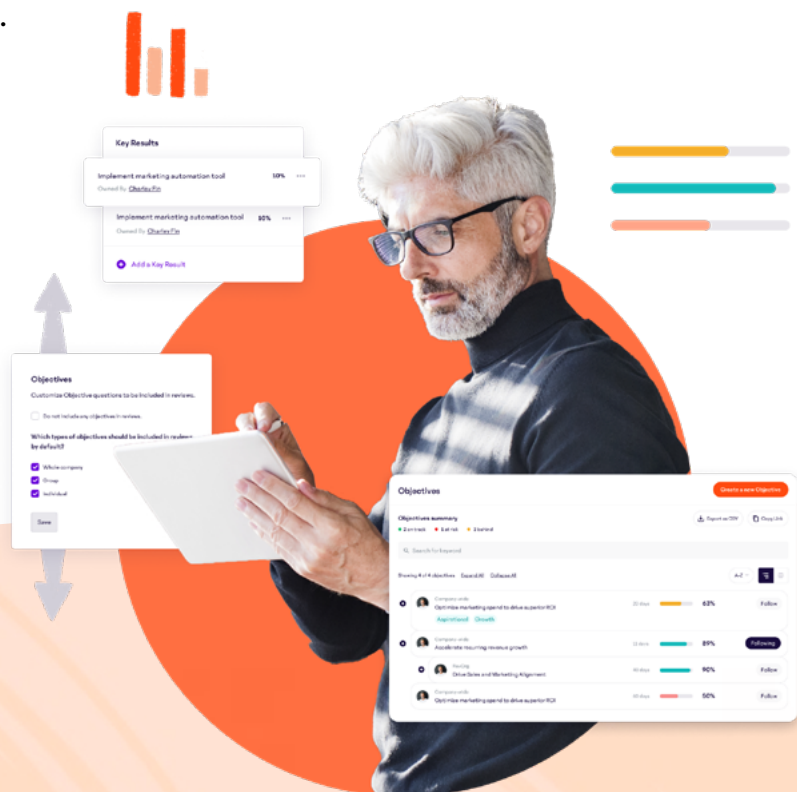

HOW SHOULD WE COMMUNICATE ABOUT THE REALITIES OF OUR ORGANIZATION'S PERFORMANCE AND ECONOMIC FACTORS SUCH AS INFLATION?

- Again, err on transparency within the boundaries of legal considerations such as rules, regulations, securities law, etc. Involve your Legal team in your communications.

- Your documented compensation strategy should include the list of factors that influence your compensation strategy, including organizational performance and economic factors.

- Try not to use generic factors such as inflation to justify compensation decisions without giving any further explanation. If inflation has influenced your ability to compensate as generously as you would like to, be more specific about why and how.

- Navigate the reality of a situation like inflation outpacing employee raises both at scale through executive communication and more personally through manager enablement materials.

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HOW MIGHT I RECEIVE BIAS IN OUR COMPENSATION DECISIONS AND CALIBRATIONS?

- 3rd party benchmarks that are updated every 90 days with actual company data help you understand how you are compensating your people compared to your industry, market, similar organizations, etc.

- Base your decisions on objective performance data as much as possible.

- Review your existing compensation through an intersectionality lens that honors not only differences such as gender, race, ethnicity, age, and different abilities, but also the combination of those differences (e.g, a combination of race, gender, and age).

- Ensure that role and performance agreements, job descriptions, etc., are documented, up-to-date, and consistent across your organization in terms of expectations and compensation.

- Choose technologies that enable you to collect the objective data you need and quickly compare compensation decisions made across your organization.

Getting Started: 15Five's Compensation Strategy Checklist

Ready to dive in to building out a compensation strategy that attracts and retains top talent?
Here's a tactical step-by-step checklist to guide you in designing a compensation strategy that is informed by the principles and best practices discussed in this playbook.

This checklist is designed to be helpful to you regardless of what's in your HR tech stack — but the entire process can be supported and streamlined with 15Five.

Compensation Strategy Planning

STEP 1: ASSESS CURRENT STATE OF COMPENSATION

- Review any documentation of current compensation philosophy and program

  - If you don't have documentation, write down how you are making compensation decisions today

- Review documentation of any existing career frameworks and potential internal growth opportunities

- Assess market, industry, and hiring landscape using 3rd-party, employer-provided, updated every 90-days benchmarks whenever possible

- Consult your Legal team about how to best involve them throughout your process

STEP 2: GATHER INPUT AND FEEDBACK FROM KEY STAKEHOLDERS (E.G. EXECUTIVE TEAM) TO INFORM FUTURE COMPENSATION PHILOSOPHY AND PROGRAM DESIGN

- Gather documentation related to your organization's goals, strategy, vision, mission, and values

- Send a simple survey to leaders and people managers

  - What's going well with compensation?

  - What can be improved about compensation?

- Review the survey findings

STEP 3: DRAFT UPDATED COMPENSATION STRATEGY AND PROGRAM DESIGN, BASED ON SURVEY FINDINGS

Components of your compensation program design include:

- Approach, clarity and transparency

- Leader role

- Correlation between pay and performance

- Merit cycle structure and scope (e.g. primary cycle with mid-year off cycle)

- Raise pool structure (e.g. centrally administered vs. decentralized)

- Base salary (e.g. reference point, range)

- Short-term incentives (e.g. bonus, commission)

- Long-term incentives (e.g. equity)

- Benefits

- Total Rewards

- Geographic approach (e.g. multi-market approach)

- Cost of living approach

- Career framework

Determine if you need to update your career framework to align with your updated compensation

- If yes, draft the updated career framework (e.g. incorporating paths and levels)

Define the inputs into compensation planning; for example, a simple program may include…

- Financial Resources: Budget

- Market Data: Benchmarks from salary surveys

- Total Rewards: Compensation, Benefits, Culture, etc.

- Talent Outlook: Hiring, Individual Performance

STEP 4: SHARE THE UPDATED DRAFT COMPENSATION PHILOSOPHY AND PROGRAM DESIGN WITH KEY STAKEHOLDERS INCLUDING YOUR CEO, BOARD, CFO, AND LEGAL TEAM TO GATHER ADDITIONAL FEEDBACK

Identify any decisions that need to be made, who owns each decision, and when the decision needs to be made by

Triple-check that your compensation strategy aligns with your organization's goals, strategy, mission, vision, and values

STEP 5: FINALIZE UPDATED COMPENSATION PHILOSOPHY AND PROGRAM DESIGN

Reshare the final compensation philosophy and program design with key stakeholders, address any questions

Gather any final approvals needed from your Board, CEO, CFO, Legal team, etc

STEP 6: IF RELATING PAY WITH PERFORMANCE, DEFINE THE PERFORMANCE MANAGEMENT PROCESS AND HOW PERFORMANCE WILL BE MEASURED

Ensure that your performance measurement is based on as much objective data as possible

Gather and analyze performance data for compensation decisions

Ensure that your performance management process includes checks-and-balances such as calibrations to ensure fairness, perceived fairness, and equity

STEP 7: EVALUATE WHAT TOOLS YOU NEED TO EFFECTIVELY EXECUTE THE COMPENSATION / MERIT CYCLE, SUCH AS...

Salary surveys and/or benchmarking tool

Compensation planning tool

HRIS / payroll system

Cap table software

Total rewards platform

Performance management platform

STEP 8: DEFINE OWNERS FOR DECISION MAKING AND DELIVERY OF SAID DECISIONS

Clarify decision-making ownership and delivery processes for compensation decisions

> Will executive/functional leadership make the final decision on individuals' compensation, or will managers?

> Will managers have the compensation conversation with individuals?

Define the approval hierarchy for reviewing and approving proposed raises and other compensation adjustments

Internal Change Management

STEP 1: CREATE A COMMUNICATIONS PLAN, TRAINING SCHEDULE, AND COMPENSATION/ MERIT CYCLE TIMELINE

Consider sequenced comms at all levels of the organization (e.g. first leadership, then managers, then company wide)

Determine the scope of training at each level, based on your approach to clarity and transparency

Define a clear timeline for activities related to the compensation/merit cycle

Confirm calendar invites for each training, including the appropriate attendees

STEP 2: CREATE SUPPORTING DOCUMENTATION AND DELIVERABLES

Compensation Philosophy and Program Design Overview catered to the following audiences, with clear timelines on what to expect:

- Board

- Leadership Team

- Managers

- Company-wide

Consider creating one-pagers and FAQ documents such as:

- Compensation program description with living FAQ

- Short-term and long-term incentive program overview with living FAQ

  Note: You will need to update your FAQs on a daily basis for the first few weeks after launching new compensation program. Plan for this.

- Script/talking points for managers as they hold compensation conversations

- A document identifying the People / HR point of contact for each person in your organization

Compensation / Merit Cycle Execution

STEP 1: **SET A CLEAR GOAL FOR THE COMPENSATION / MERIT CYCLE**

Determine what the intent is for the compensation / merit cycle

- Reward high performance
- Getting individuals closer to the benchmark of their role
- Pay equity across roles, levels, and/or demographic attributes
- Cost of living increases

Set clear objectives and a method of tracking progress throughout the cycle

STEP 2: **DETERMINE THE APPROPRIATE BUDGET IN PARTNERSHIP WITH FINANCE, BASED ON THE INTENT OF THE COMPENSATION / MERIT CYCLE AND FINANCIAL RESOURCES OF YOUR ORGANIZATION**

Partner with Finance to understand the financial plan

Determine if the budget will be centrally managed or decentralized across functional leaders

Allocate a budget for raises to each team leader, and consider providing a suggested raise for each employee that can be calculated using specified logic/fields

STEP 3: **BENCHMARK EACH ROLE, THEN EACH INDIVIDUAL**

Meet with each individual functional leader to identify and align on the levels and appropriate job codes to use for each of the roles that report into them

Assign each role a level and job code

Use benchmarking data to compare roles and individuals against market standards

Build out salary pay bands for each role to understand where individuals fall within the salary range of their role

If applicable, incorporate short-term incentive (e.g. bonus or commission) and long-term incentive (e.g. equity) benchmarks

STEP 4: CONDUCT BASE SALARY ANALYSES TO CREATE THE FOUNDATION OF THE COMPENSATION PLANNING TOOL

Calculate current compa ratio (comparative ratios that compare someone's compensation to the benchmarked midpoint for their role) for base salary

Determine target compa ratio, based on budget

Incorporate performance ratings

Create a HR/People recommendation for each individual based budget, performance, and the intent of the compensation / merit cycle

STEP 5: IF APPLICABLE, ADD IN SHORTTERM INCENTIVES AND LONG-TERM INCENTIVES FOR EACH INDIVIDUAL INTO THE COMPENSATION PLANNING TOOL

STEP 6: REVIEW THE ORGANIZATIONAL DATA WITHIN THE COMPENSATION PLANNING TOOL WITH FINANCE TO FINALIZE AND CONFIRM BUDGET

STEP 7: START FROM A FAIR, EQUITABLE STARTING POINT

Look at everyone's compensation through an equity lens, including intersectionality. For example, are people compensated fairly based on race, ethnicity, age, gender, abilities, etc.?

Make necessary adjustments when bias and inequity is identified

STEP 8: ROLL-OUT THE COMPENSATION PLANNING TOOL TO THE RELEVANT STAKEHOLDERS WHO ARE MAKING THE DECISION ON INDIVIDUALS' COMPENSATION

Provide instructions on what is needed from them

Provide as many resources to minimize bias and ensure fair, equitable decisions

Host office hours for any questions or concerns

Be clear on the timeline of when you need their final decisions by

Remind, remind, remind

Collect final decisions

STEP 9: ANALYZE THE FINAL DECISIONS

Review through a fairness and equity lens again

STEP 10: REVIEW THE ANALYSIS AND FINAL DECISIONS WITH THE CEO, CFO, CHRO/CPO, AND LEGAL TEAM

Get final approval

STEP 11: CREATE CHANGE LETTERS OUTLINING THE CHANGES IN INDIVIDUALS' COMPENSATION

Have a process for double-checking compensation information in the change letters is accurate (e.g., for example, have a second People / HR team member review another People / HR team member's letters)

Spot check to ensure the systems that are providing information about equity, RSUs, incentives, promotions, etc., are providing the right data

STEP 12: RELEVANT STAKEHOLDERS TO DELIVER THE COMPENSATION CONVERSATION WITH INDIVIDUALS

Provide a script of talking points to help guide the conversation

☐ Share FAQs

Host office hours for any questions or concerns

Be on standby for consultations around challenging conversations

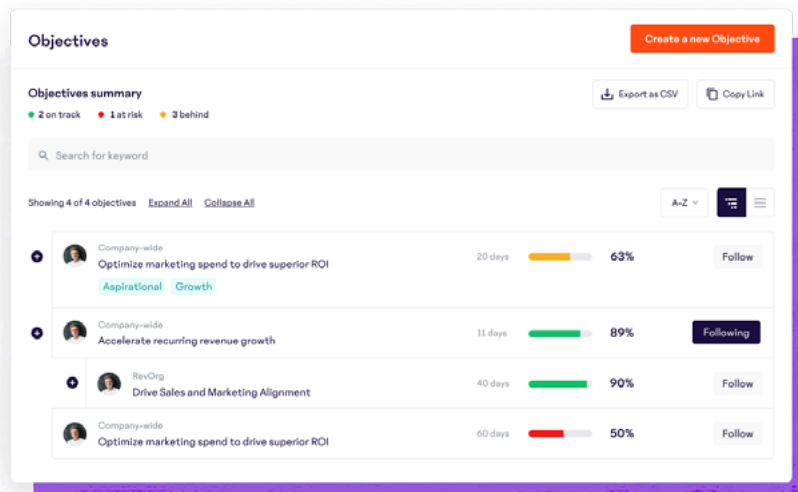**STEP 13: SEND OUT CHANGE LETTERS TO INDIVIDUALS FOR SIGNATURES**

How 15Five Can Help

Fair, valuable, and effective performance management is absolutely essential to compensation decisions. You can attempt to fairly and efficiently accomplish all the items in the checklist above on your own, in scattered spreadsheets — **or you can use a platform like 15Five.**

15Five's easy-to-use platform was created to help HR leaders design a performance program from the ground up and take action. By managing performance on 15Five, HR leaders can create a holistic measure of performance and receive helpful insights to inform compensation decisions.

15Five Compensation removes the need for outdated, error-prone, manual processes and provides HR leaders with robust reporting that can inform executive-level decisions. It makes it easier to handle merit increases and other complex reward structures with compensation systems that are simple to configure and easy for employees and managers to understand.

That's right, when using 15Five, you can accomplish the following and more:

- Set and track objectives at the company, team, and individual level

- Run performance review cycles with 15Five's research-backed algorithms that standardize performance criteria to produce actionable ratings

- Track progress and learn from insights throughout the performance cycle by easily accessing the information you need to quickly and confidently act on factors influencing engagement, performance, and retention

- Run compensation review cycles leveraging 15Five performance data to make informed compensation decisions that reward strong performance and retain top talent

- Access real-time compensation data from over 5,000 companies to stay ahead of industry trends and ensure your compensation strategy remains competitive

- Educate employees about the full value of their compensation package, including equity and benefits, with the Employee Total Rewards Dashboard

- Make it easy for HR and Finance to enforce budget, and provide centralized recommendations

- Foster trust and alignment in compensation decisions by giving visibility to managers and employees

15five

About 15Five

15Five is the strategic performance management platform that drives action and impact, helping businesses and their people thrive. HR leaders are empowered with data-driven insights and guided recommendations, while people managers are transformed into changemakers, all within the flow of work, accelerating employee engagement, performance, and retention. 15Five combines the power of generative AI, custom analytics and human-centered principles in a complete platform including 360° performance reviews, actionable engagement surveys, robust goal & OKR tracking, customizable manager coaching and training, and ongoing manager-employee feedback tools like guided 1-on-1s and check-ins.

HR leaders, managers, and employees at over 3,500 companies rely on 15Five daily, including Credit Karma, HubSpot and Pendo. Learn more at www.15Five.com.