LaborIQ®

Preparing for your Next Compensation Cycle

Using LaborIQ's Pre-Cycle Comp Assessment Tool

Table of Contents

Preparing for your Next Compensation Cycle

›› Pre-Cycle Planning

Aligning your compensation strategy with the organization's goals and objectives is essential for maximizing the impact of compensation on employee performance, engagement, and overall business success. This ensures your company can attract, retain, motivate, and incentivize employees in a way that supports the strategic priorities of the organization.

Compensation cycles are an integral part of maintaining a motivated, engaged, and productive workforce. They translate the company's compensation strategy into concrete actions, linking individual employee compensation decisions to the broader goals of the organization, performance management, and market competitiveness. The synergy between compensation cycles and strategies helps companies maintain consistent, fair, and equitable compensation practices.

Compensation cycles are notorious for being complicated, time-consuming, and emotionally draining for everyone involved. By investing time in *pre-cycle planning*, HR can run a more organized and successful compensation cycle. Understanding how existing processes and strategies are perceived helps HR plan for and address issues, collaborate more effectively with leadership and hiring managers, and generate enthusiasm and support for the process.

Before planning your upcoming comp cycle, use LaborIQ's Pre-Cycle Comp Assessment to identify areas of strength and opportunities for improvement.

> LaborIQ's **Pre-Cycle Comp Assessment Tool** can help you gain valuable insights for improving processes, aligning goals, streamlining communication and strengthening buy-in. This tool can help your team adequately prepare for and position to run an efficient, effective comp cycle.

How to use this tool:

- Identify compensation decision-makers who should participate in the assessment, such as leadership team members, department heads, hiring managers, and other HR or finance personnel.
- Provide a blank copy of the Pre-Cycle Comp Assessment tool and instruct participants to answer questions honestly based on their experiences and observations. Set a timeline for completing the assessment.
- Collect responses, compile data, and review results with the team. Discuss strengths, weaknesses, and areas for improvement.
- Determine the most critical priorities to address for the upcoming compensation cycle and incorporate timelines into the compensation cycle plan.
- Share the findings and improvement plans with stakeholders, keeping the lines of communication open and encouraging feedback throughout the compensation cycle process.

LaborIQ

Pre-Cycle Comp Assessment

Score each statement below, using the ranking scale, based on your experiences and observations of company compensation practices. Your honest responses are crucial to identifying improvement areas for compensation cycles.

Add your score for each question, and then calculate the sum in the "Total" box.

Strategy	Score (1-5)
1. We have a clearly written compensation philosophy that has been properly communicated and understood across all levels of the organization.	
2. Our compensation strategy is clearly aligned with the overall strategic goals and objectives of the organization and considers financial constraints appropriately.	
3. Our compensation strategy promotes a positive organizational culture and encourages employees to take on additional responsibilities and challenges.	
4. We are well-prepared for anticipated changes or updates to our compensation philosophy or strategy for the upcoming compensation cycle.	
Total	

Process	Score (1-5)
5. Headcount budgets and forecasts are integrated into the company's financial model and reviewed by HR and Finance on a regular basis.	
6. Our compensation process ensures that pay decisions are made objectively and without favoritism, and that guidelines for handling compensation adjustments are clearly documented.	
7. Our compensation process considers internal and external pay benchmarks, ensuring unbiased and fair pay practices with regular assessments and adjustments.	
8. We have a well-defined and effective process for setting performance goals and aligning them with compensation outcomes, which is effective at retaining top-performers.	
Total	

Benchmarks	Score (1-5)
9. Our compensation strategy and/or salary ranges are regularly reviewed and updated in accordance with business objectives and market benchmarks.	
10. We use metrics and external data to evaluate the effectiveness of our compensation strategy. These metrics are consistently tracked and shared regularly (e.g., monthly or quarterly).	
11. Our compensation is well benchmarked, and the leadership team is aligned on the prioritization of compensation investments across different employee segments.	
12. We use one or more reliable compensation benchmarking data sources that covers all the jobs in our industry, geography, or other criteria.	
Total	

LaborIQ®

Communication	Score (1-5)
13. The results of compensation benchmarking are communicated in writing and understood across all teams.	
14. Managers know how each of their direct reports are paid, compared to one another and external market benchmarks.	
15. Managers understand and have access to resources, data, and metrics that allow them to have effective compensation conversations with employees.	
16. Employees understand how their salaries are determined and believe the organization follows transparent pay practices.	
Total	

| Equity	Score (1-5)
17. Our compensation strategy effectively supports employee retention, reduces turnover, and promotes fair and equitable pay for both new hires and tenured employees.	
18. Pay equity is a priority for us, and we take appropriate action and allocate budget to close wage gaps.	
19. Our approach to compensating employees who are promoted or take on additional responsibilities is both effective and consistent.	
20. Our compensation practices ensure fair and equal pay for employees with similar qualifications and responsibilities. We base compensation decisions on objective and measurable criteria for all job roles and employees.	
Total	

» Calculate your Results

1. Write down the total from each category.
2. Divide the total for each category by 20 and then enter the category percentage in the light blue boxes.
3. Plot each category percentage on the chart, then connect the data points to visualize strengths and weaknesses across categories.

Category	Total	Category %
Strategy		
Process		
Benchmarks		
Communication		
Equity		

Divide each total by 20
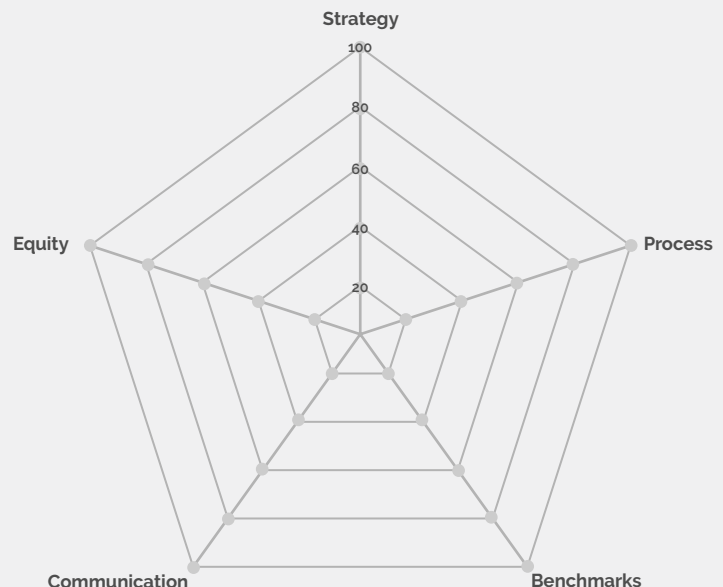
Interpreting the Results of your Pre-Cycle Comp Assessment

By identifying areas for growth and improvement through the Pre-Cycle Comp Assessment Tool, HR can thoughtfully craft timelines, align compensation strategies with organizational objectives, and engage in more productive discussions and decision-making with stakeholders.

Whether you're just starting your compensation journey or are a seasoned pro, we'll help you make sense of your pre-cycle comp assessment results and provide actionable steps to help you improve your next comp-cycle.

The results are grouped into three buckets: strong, moderate, and weak, based on each category's percentage.

The suggestions provided should consider the roles and departments of the participants and aim to better educate, build trust, and ensure alignment across teams and departments before, during, and after the compensation cycle.

STRONG

80%
or higher

Categories with 80% or higher are considered *strong*, indicating exceptional performance and alignment.

MODERATE

80 - 40%

Categories with scores between 80% and 40% are considered *moderate*, representing areas with room for growth.

WEAK

40%
or below

Categories with scores below 40% fall into the *weak* category, signaling the need for structure and development.

Category 1:

Strategy

A *compensation strategy* is a plan that outlines how a company will pay its employees. It aims to attract and retain talent, motivate performance, ensure fairness, and align with business goals. The strategy considers factors like market conditions, job roles, and budget constraints to strike a balance between competitive pay and cost control.

Strong

80% or higher

To remain competitive and responsive to changing market dynamics, continuously evaluate your compensation strategy.

Craft compensation packages and programs that attract, retain, and motivate talent by monitoring internal KPIs and staying up-to-date on external market trends. Utilize performance-based pay strategies and non-financial rewards, such as career development, and ensure transparent communication to create a positive work environment and build employee trust.

Prepare for your next cycle by discussing the company's burn rate and budget requirements to properly allocate compensation adjustments.

Before your next comp cycle

- Collaborate with finance to establish a realistic budget that takes into account factors like company performance, external benchmarks, and economic conditions.

- Analyze internal data to identify areas where current compensation strategies are not achieving company goals and need to be adjusted, especially for top performers.

- Train managers on the process, and their role in making fair and objective recommendations.

Moderate

80-40%

Benchmarking against industry standards helps HR teams identify areas for improvement, leading to a more competitive compensation offering that attracts and retains talent.

Adjust your pay strategy based on internal data analysis to better support retention and recruiting goals. Implement KPIs to monitor the success of these adjustments.

Motivate and retain top performers by expanding performance-based pay programs. Proactively communicate any changes to your pay philosophy to ensure managers understand the process and the factors influencing compensation decisions.

Before your next comp cycle

- Review and confirm leadership alignment with compensation philosophy.

- Determine for which roles you will meet, lead, or lag the market and/or make adjustments.

- Develop a plan for reviewing market data and conduct analysis based on meet, lead, lag strategies.

- Identify and execute market adjustments prior to merit reviews

Weak

40% or below

Building a compensation strategy ensures that compensation decisions support the organization's growth and success.

Start by defining your compensation philosophy and the methods used to determine and benchmark employee pay. Analyze internal compensation data against external benchmarks to understand market positioning and guide decision-making and priorities for the upcoming cycle.

Implement your plan in phases with clear communication to keep everyone informed and facilitate a smooth adoption, laying the foundation for a more effective compensation cycle.

Before your next comp cycle

- Develop a simple compensation philosophy, put it in writing, and share it with leadership.

- Conduct external benchmarking to understand how your organization compares to the market and identify improvement opportunities.

- Discuss the company's goals and develop an actionable compensation strategy that supports these goals.

- Prioritize and share recommendations with leadership; communicate areas you'll need their input and support.

LaborIQ

Category 2:

Process

Organizations have multiple *compensation processes*, each contributing to determining and managing employee pay, and ensuring fair pay practices to achieve organizational success. By executing these processes effectively, businesses can stay competitive, promote growth, and create a positive work environment that attracts and retains top talent.

Strong
80%
or higher

Compensation processes must be flexible and adaptive, accommodating changes in the organization's needs, industry trends, and economic conditions.

Analyze data to identify improvement opportunities in the compensation processes. Evaluate the impact of previous cycles on performance metrics, market trends, hiring, and retention goals. Prioritize adjustments to be made before the next cycle. Enhance transparency and communication with employees, explaining the compensation process and the factors considered in decision-making.

Monitor and track metrics to measure the impact of compensation processes on company goals and share the results to keep all stakeholders informed.

Before your next comp cycle

- Analyze internal recruiting and retention data to identify areas where current compensation strategies may need to be adjusted,
- Regularly meet with finance to share pay equity and benchmarking results to align on budget for market adjustments, merit increases, and promotions.
- Ensure leadership is aligned with the strategy, changes from previous cycles, and budget.
- Train managers to confidently communicate compensation decisions and answer employee questions.

Moderate
80-40%

Improving compensation processes is a critical aspect of enhancing the HR function over time. Doing so fosters better collaboration between departments, particularly finance. Enhancing pay communication between managers and employees creates transparency and strengthens the connection between compensation and performance.

Implement policies that prioritize fair and equitable pay practices. Establish approver chains for off-cycle compensation adjustments and set clear eligibility guidelines for promotions and pay increases. Proactively communicate and support changes across teams.

Before your next comp cycle

- Conduct pay equity analysis to identify, pay disparities, allocate budget, and prioritize timeline for corrections.
- Link compensation to individual and team performance with clear performance evaluation metrics.
- Establish a governance structure to ensure final compensation decisions are aligned with comp philosophy and business goals.
- Implement policies for off-cycle compensation changes and eligibility guidelines for promotion and pay increases.

Weak
40%
or below

Focus on a few key processes to drive significant improvements. Identify areas of weakness, such as insufficient market research, unclear salary structures, or inconsistent performance evaluation criteria. Prioritize process enhancements to improve efficiency, minimize mistakes, and enable objective decision-making.

Start by identifying a reliable benchmarking data source, criteria, and schedule for pricing jobs. This will reduce bias risks, build trust, and gain support from others. With this foundation, set budgets, establish pay structures, and align compensation with performance more effectively.

Ensure that everyone involved in the process understands their role and has access to the necessary tools and data for successful execution.

Before your next comp cycle

- Create a compensation committee to oversee compensation strategy, communications, and sign-off on final decisions.
- Identify a benchmarking data source, criteria, and cadence for reviewing and pricing jobs.
- Set clear expectations for decision-making and time commitments to ensure smooth collaboration throughout the compensation cycle.
- Train managers on the process, and their role in making fair and objective decisions.

LaborIQ®

Category 3:

Benchmarks

Compensation *benchmarks* are data points that organizations use to compare their pay and against industry or market standards for similar roles. Benchmarks are an essential tool for compensation planning and enable companies to develop fair and competitive pay practices, inform decision-making, attract and retain talent, plan budgets, and facilitate continuous improvement in compensation practices.

Strong
80% or higher

Regularly monitor and update external benchmarks to reflect current market demands. This ensures that employees are fairly and competitively compensated, and opportunities to improve compensation are not overlooked.

Prioritize strategic market adjustments for specific jobs, departments, or employees before the next compensation cycle. Share the results of compensation benchmarking, including any adjustments made, with hiring managers.

Adapt the compensation strategy to align with the organization's recruitment and retention goals. Update the pay philosophy and communications as necessary to support these objectives.

Before your next comp cycle

- ✔ Identify areas you're no longer aligned with the market and determine how to adjust bands, up or down.

- ✔ Utilize compensation metrics, such as compa ratio and range penetration, to understand where employees fall in bands and adjust pay strategies as needed.

- ✔ Proactively communicate changes to pay strategies to leadership and hiring managers and provide access to data as needed.

Moderate
80-40%

Evaluate internal recruiting and retention metrics to identify areas where pay may not align with the current market. Ensure access to reputable and up-to-date compensation data from relevant sources and adjust benchmarking parameters to match competitor companies for talent acquisition.

Update compensation bands to account for any new job roles or levels added since the last cycle. Use metrics such as compa ratio to assess the competitiveness of mid-points and employee salaries.

Identify and prioritize necessary adjustments to maintain competitiveness and ensure fair pay practices for both new and tenured employees.

Before your next comp cycle

- ✔ Review recent hires and adjust external benchmarking criteria to ensure data best represents who you're competing against for talent.

- ✔ Update compensation bands to include new jobs or levels in your organization and collect benchmarks.

- ✔ Share updated bands and structures with hiring managers and recruiters to streamline internal processes and enable transparent pay communications.

Weak
40% or below

Begin by defining clear benchmarking goals, including the specific data points to benchmark and the structures to create. Choose a reliable external data source that provides relevant compensation data for your organization's roles and locations.

Start the benchmarking process with a focus on a few key job roles or departments to keep it manageable and focused. Utilize internal job description data to ensure like for like comparisons between similar roles. Inform hiring managers about the upcoming benchmarking efforts and request their support in the process.

Compare the benchmarks with internal data and inform relevant stakeholders about how the organization compares to the market. Based on your pay philosophy and organizational objectives, prioritize roles and/or locations to address in the upcoming compensation cycle.

Before your next comp cycle

- ✔ Define your pay philosophy and benchmarking goals.

- ✔ Select a reliable data source with relevant, validated data for your roles, locations, and industry.

- ✔ Collect benchmarks and compare results against internal data. Compare benchmark roles against internal job description to ensure you're comparing apples to apples.

- ✔ Present results and prioritize recommended actions for the upcoming compensation cycle.

LaborIQ®

Category 4:

Communication

Pay *Communication* is essential for building trust, engagement, and satisfaction among employees. It aligns compensation with performance, reinforces company values, and contributes to a positive work culture. Within an organization's overall compensation strategy, effective communication stands as a critical component, leading to improved talent retention, attraction, and overall business success.

Strong
80% or higher

Building trust, engagement, and satisfaction among employees requires essential pay communication. Transparently communicating the strategy, its rationale, and its link to individual performance and rewards fosters open dialogue, leading to higher employee morale and productivity.

Collaborate with leadership to determine the appropriate level of information the company is comfortable sharing, ensuring that managers have the necessary details to comply with applicable pay transparency laws.

To promote pay transparency, consider granting each employee visibility into their current pay band. This will enable hiring managers to have meaningful conversations about career growth and development opportunities with emoployees.

Before your next comp cycle

- Discuss pay communications with your leadership team and determine how much information they're comfortable sharing.

- Provide managers access information that helps them understand and communicate where employees are in their current band and what actions they can take to move up.

- Ensure hiring managers have all information needed to comply with local pay transparency laws and disclosure requirements.

Moderate
80-40%

As you build your plan, carve out time to effectively communicate the key findings, benchmarking results, and any changes to current compensation strategies or processes.

Provide training for managers on the compensation philosophy, process, and their role in making fair and objective recommendations. Ensure they have access to resources that allow them to confidently explain the company's compensation philosophy to employees and address any questions that arise. Take adequate measures to support first-time managers in this process.

Coordinate and share timelines for employee communications so that teams are aware of ongoing conversations and when to expect updates.

Before your next comp cycle

- Incorporate timelines for creating assets and communicating results to leadership and managers.

- Proactively schedule manager trainings to ensure all managers, especially first-time managers, are prepared for compensation conversations and employee questions.

- Coordinate and share timelines for when compensation conversations will take place so that manager and employees know what to expect.

Weak
40% or below

Concentrate your efforts on establishing a strong foundation for pay communications to help employees understand and build trust in the organization's compensation practices.

Managers play a critical role in relaying compensation information to employees. Ensure that pay communications remain consistent across the organization and that managers are well-informed about the compensation structure and how to effectively communicate it to their teams.

Choose the appropriate timing for pay communications to manage employee expectations effectively. Provide resources and training to help employees understand their pay statements, benefit packages, and any incentives they may receive.

Before your next comp cycle

- Ensure managers are well-informed and know how to effectively communicate compensation decisions to their team.

- Determine timelines for employee pay communications and prepare training materials to help them understand pay statements and incentives. .

- Provide visibility to the company's pay philosophy and help employees understand how their pay aligns with market standards, performance, and the company's financial position.

LaborIQ®

Category 5:

Equity

Equity ensures that employees are compensated fairly and without bias, boosting employee morale, satisfaction, and retention while enhancing the organization's reputation and performance. Prioritizing pay equity creates a positive culture and a more inclusive workplace.

Strong

80%
or higher

Maintain an inclusive and equitable workplace by actively committing to fairness and transparency. Regularly analyze compensation data to identify any potential disparities based on gender, race, or ethnicity and ensure that employees in similar roles are paid equally based on their performance.

Incorporate pay equity as a core value of the company and recognize and appreciate employees and managers who exemplify these values.

Conduct audits of compensation processes to ensure adherence to pay equity principles and to provide unbiased and accessible career advancement opportunities for all employees.

Before your next comp cycle

- ✔ Validate employees in the same roles are paid equally based on performance.

- ✔ Show appreciation for employees and managers who demonstrate pay equity.

- ✔ Audit compensation processes to ensure they remain objective and unbiased.

- ✔ Share pay equity success stories and best practices with peers at other organizations.

Moderate

80-40%

Take responsibility for monitoring pay equity, addressing disparities, and closing pay gaps within your organization. Analyze internal data and past recommendations to identify areas that may not have been adequately addressed in previous compensation cycles. Set specific and measurable goals for achieving pay equity and establish a timeline for addressing disparities.

Train managers and decision-makers to recognize and mitigate unconscious biases that could influence compensation decisions.

Establish metrics for monitoring equity in pay practices and communicate them regularly to ensure accountability.

Before your next comp cycle

- ✔ Make a strong commitment to addressing pay equity.

- ✔ Analyze data to confirm previous pay disparities have been addressed.

- ✔ Train managers and other decision makers to recognize unconscious bias

- ✔ Establish metrics to monitor equity in pay practices and provide regular updates.

Weak

40%
or below

Efforts to achieve pay equity should be ongoing and committed.

Begin by conducting a comprehensive pay equity analysis to identify potential disparities based on gender, race, ethnicity, or other protected classes. Use a standardized approach to maintain reliability and ensure consistency across all job roles while analyzing the data. Take prompt action to address any identified pay inequities.

Consider implementing pay bands to promote fair and equitable pay practices and review existing compensation processes to ensure they are based on objective criteria such as skills, experience, and performance.

Before your next comp cycle

- ✔ Work with leadership to gain commitment and support for ongoing pay equity initiatives.

- ✔ Conduct a pay equity analysis to identify pay disparities based on gender, race, ethnicity, or other protected classes.

- ✔ Look for opportunities to implement additional pay bands to promote fair and equal pay practices.

- ✔ Determine appropriate measures to communicate pay equity efforts to hiring managers and employees.

Why it Matters

Compensation cycles play a pivotal role in translating the company's compensation strategy into actionable decisions and linking individual employee compensation to broader organizational objectives. When compensation cycles are well-aligned with strategic priorities, they facilitate consistency, fairness and **equitable pay** practices, reinforcing the organization's commitment to its employees.

While compensation cycles can be complex and demanding, pre-cycle planning empowers HR to run a more organized and efficient process. By understanding existing processes, addressing potential challenges, and collaborating effectively with leadership and hiring managers, HR can generate interest and support for the compensation cycle.

Get your Team Involved

Utilize the *Pre-Cycle Comp Assessment* to collect feedback from cross-functional departments and leadership. Next, share the results with stakeholders and engage in open discussions, actively listening to their viewpoints.

By incorporating feedback from various stakeholders, you can plan and execute a more effective compensation cycle that aligns with the organization's goals.

The purpose of this exercise is to identify areas of improvement to focus on during your next compensation cycle, and not everything can be improved at the same time. Focus on progress, not perfection.

Labor**IQ**

Facilitator Guide Reviewing Results with Your Team

As a facilitator, your role is crucial in ensuring effective communication and collaboration between HR and organizational leaders. This guide provides step-by-step instructions on how to collect feedback from leaders and conduct productive discussions around your Pre-Cycle Comp Assessment results.

Prepare for the Meeting

- Schedule a meeting with key leaders, providing them with the purpose and agenda of the session.
- Send the Pre-Cycle Comp Assessment to complete before the session.
- Prepare relevant documentation, such as compensation data, performance metrics, and market benchmarking reports.
- Familiarize yourself with the organization's strategic goals, objectives, and budget constraints to ensure alignment during discussions.

Create an Open Atmosphere

- Begin the session by reiterating the importance of leaders' input and perspectives in shaping the compensation planning process. The goal is to hear a well-rounded view.
- Encourage open dialogue and assure leaders that their feedback will remain confidential.
- Actively listen to leaders' comments, questions, and concerns, and address them with empathy and professionalism.

Collect Feedback and Discuss Challenges

- Initiate discussions by reviewing the outcomes of the Pre-Cycle Comp Assessment, highlighting both successes and areas for improvement. Focus on areas where improvement efforts will have the biggest impact.
- Encourage leaders to share their observations and experiences regarding the effectiveness of past compensation cycles and decisions.
- Discuss the organization's strategic goals and objectives and how they connect with the compensation strategy and how compensation plans can be tailored to incentivize performance that supports the

Seek Agreement and Consensus

- Engage leaders in constructive discussions to reach consensus on the proposed compensation strategies.
- Address any differing viewpoints by encouraging dialogue and seeking common ground.
- Acknowledge leaders' input and demonstrate flexibility where appropriate, while keeping the organization's overall goals in mind.

Follow-Up and Action Items

- Summarize key takeaways and decisions made during the session. Identify and share the top 3 - 5 opportunities for improvement.
- Create an action plan, assign owners, and communicate timelines of next steps for items to address before your next compensation cycle.
- Express gratitude to stakeholders for their participation and valuable contributions to the compensation planning process.
- After your next compensation cycle, use this assessment to collect feedback and measure progress.

Analyzing the Results of your Pre-Cycle Comp Assessment

Analyze assessment results to identify areas for growth and improvement based on the scores in each category. The higher the percentage, the stronger the performance and alignment in that particular category.
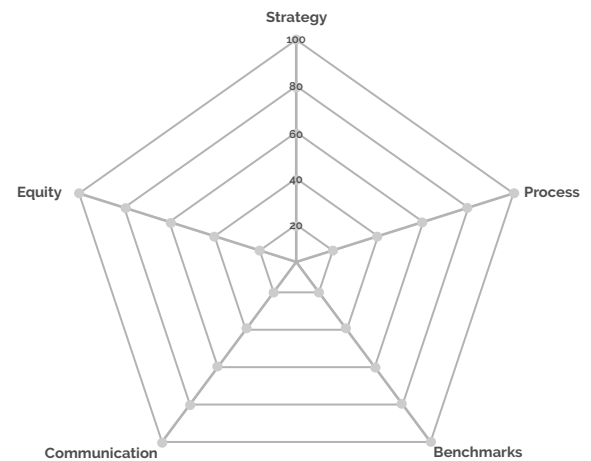
If multiple departments, like Finance, Leadership, or HR, provided feedback, compare results across departments. To do this:

- Group responses by department and calculate the average for each category total
- Enter scores for each department in the "Total" column below
- Calculate the category percentage by dividing each category total by 20
- Using the category percentages, plot the results for each department to visualize strengths and weaknesses across categories and cross-functional teams

Use this information as a starting point to identify and discuss areas of improvement with cross-functional teams and stakeholders.
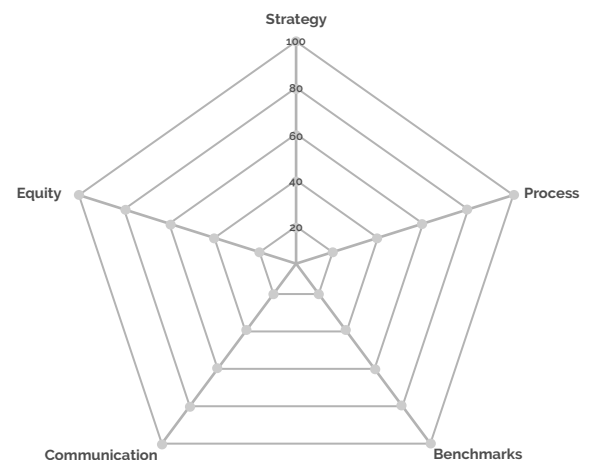
Results for: _____

Category	Total	Category %
Strategy		
Process		
Benchmarks		
Communication		
Equity		

Results for: _____

Category	Total	Category %
Strategy		
Process		
Benchmarks		
Communication		
Equity		

Results for: _____

Category	Total
Strategy	
Process	
Benchmarks	
Communication	
Equity	

Category %

Results for: _____

Category	Total
Strategy	
Process	
Benchmarks	
Communication	
Equity	

Category %

Results for: _____

Category	Total
Strategy	
Process	
Benchmarks	
Communication	
Equity	

Category %

About LaborIQ

LaborIQ's compensation benchmarking software enables HR teams to benchmark salaries for over 20,000 jobs nationwide. Salary recommendations are backed by economists, forecasting and analyzing the labor market. Our easy-to-use interface and accurate data shave weeks off compensation planning timelines.

With access to an extensive database of more than 16 trillion data points, businesses use LaborIQ data to make strategic compensation decisions that align with organizational goals, and attract and retain top talent.

Join thousands of users who streamline their compensation cycles and ensure market competitiveness.

Visit **LaborIQ.co** to learn more.

LaborIQ®

Compensation Benchmarking Software

Real-time, validated data, adjusted for *today's* rates.

LaborIQ.co | **Info@LaborIQ.co** | **Schedule a Demo**