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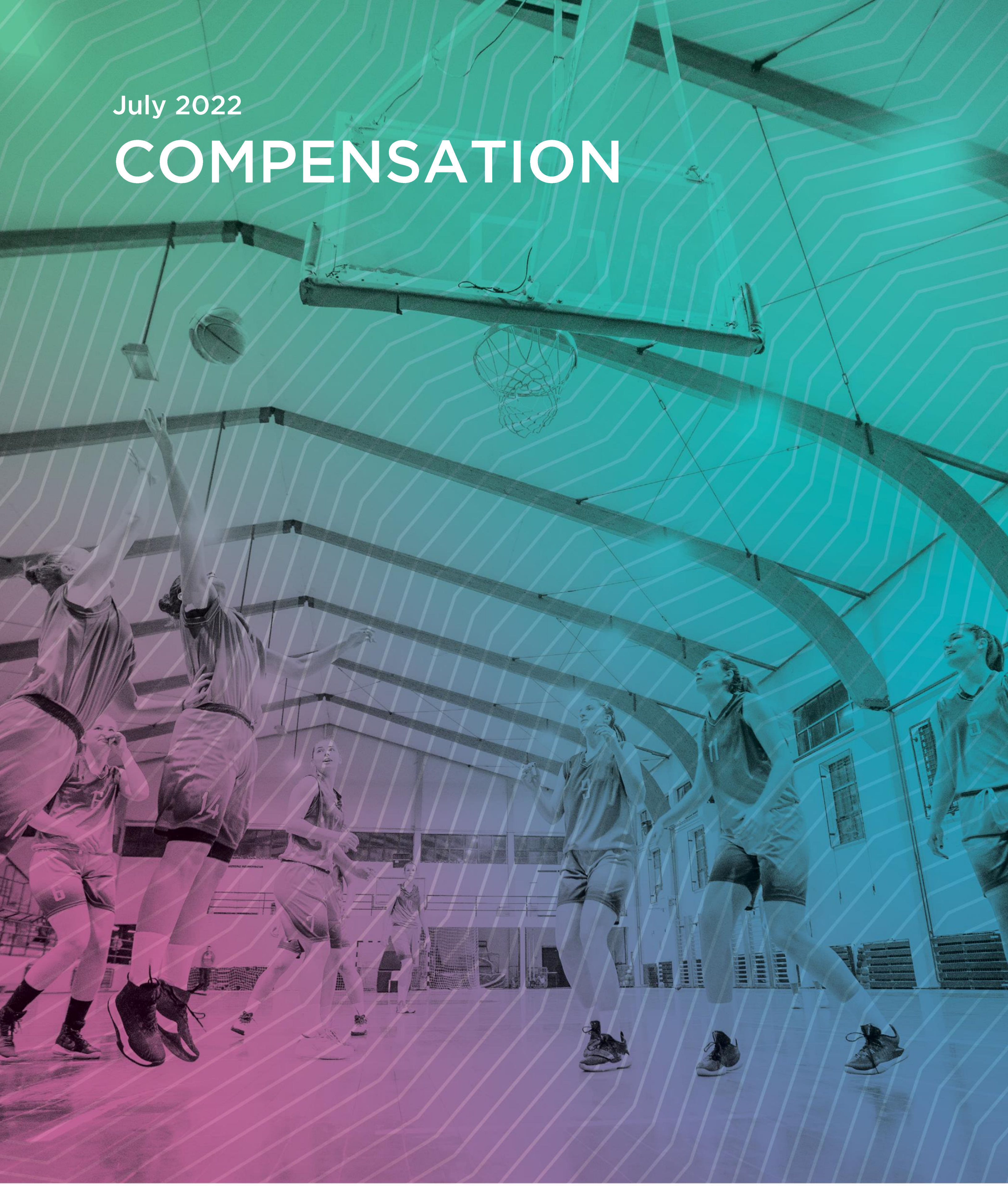
# COMPENSATION



HR PLAYBOOK

viaSPORT BRITISH COLUMBIA

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# INTRODUCTION

The purpose of this section is to help provide a strong, fundamental foundation to compensation, and its importance in your overall people (and organizational) strategy. Each element discussed in this document aims to offer a transparent, thoughtful framework that will allow you to make meaningful decisions around compensation, and ensure it aligns with your organization's core values and beliefs.

## Compensation Philosophy

A compensation philosophy is simply a formal statement documenting the organization's position about employee compensation. It explains the "why" behind employee pay and creates a framework for consistency. Employers use their compensation philosophy to attract, retain and motivate employees.

Compensation philosophies are typically developed by the human resources department in collaboration with the senior leadership team. The design of a compensation philosophy is based on many factors, including:

- the organization's financial position;
- the size of the organization;
- the industry;
- organizational objectives;
- market salary information;
- the level of difficulty in finding qualified talent; and
- the unique circumstances of the organization

Your compensation philosophy should be reviewed periodically and updated based on current factors affecting the organization. For example, market conditions may make it difficult to find qualified talent in a particular specialization, and an employer may need to pay a premium for these candidates. If the employer's current compensation philosophy does not support this value, then the organization may need to change its philosophy to meet its current needs.

Most compensation philosophies seek to:

- Identify the organization's pay programs and total reward strategies
- Identify how the pay programs and strategies support the organization's business strategy, competitive outlook, operating objectives and human capital needs
- Attract people to join the organization
- Motivate employees to perform at the best of their competencies, abilities and skill sets
- Retain key talent and reward high-performing employees
- Define the competitive market position of the organization in relation to base pay, variable compensation and benefits opportunities
- Define how the organization plans to pay and reward competitively, based on business conditions, competition and ability to pay
- Ensure equal pay for equal work, with allowable pay differences based on factors not prohibited by law

An effective compensation philosophy should pass the following quality test:

- Is the overall program equitable?
- Is the overall program defensible and perceived by employees as fair?
- Is the overall program fiscally sensitive?
- Are the programs included in the compensation philosophy and policy legally compliant?
- Can the organization effectively communicate the philosophy, policy and overall programs to employees?

- Are the programs the organization offers fair, competitive and in line with the compensation philosophy and policies?

While an HR department usually leads the development of an organization's compensation philosophy and policy, success lies in collaboration with the leadership team to obtain valuable input, direction, and buy-in.

### Compensation Overview

Compensation can be provided in a number of ways, but can be grouped into two categories:

- **Direct Compensation:** Monetary rewards directly paid to employees for time worked or results obtained.
- **Indirect Compensation:** Non-monetary rewards that provide some additional benefit or value to an employee

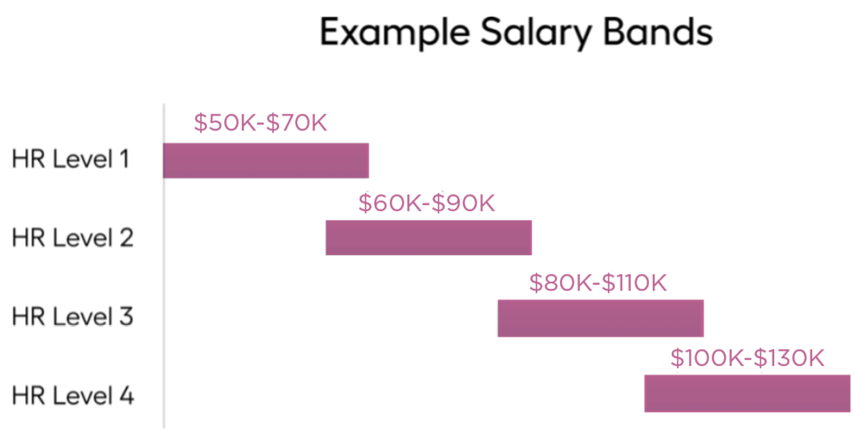
| **Direct Compensation** | |
|---|---|
| Hourly | Compensation paid to workers for every hour worked. Hourly pay is common for part-time employees, paid interns, temporary employees, and contractors. |
| Base Salary | Compensation paid to workers for time worked, generally represented as an annual amount, and used in other calculations. Most full-time, permanent employees will have a base salary. |

| Indirect Compensation | |
|---|---|
| Benefits | Benefits can include any employer-paid offerings that employees can access in exchange for services. This can include:<br>• Health & Dental services<br>• Professional Medical Services (e.g. Dieticians, Massage Therapists, etc.)<br>• Vision Care<br>• Employee Assistance Programs<br>• Health Spending Accounts<br>• RSP Matching Programs<br><br>Benefits are typically only made available to employees of organizations. For legal reasons, independent contractors should not receive benefits. |
| Allowances & Perks | Compensation offered to employees as a reflection of an organization's values and culture. These are rewards that are intended to improve an employee's quality of life at work (or at home), and serve as retention tools. These can include:<br>• Generous vacation entitlements<br>• Free lunches / snacks<br>• Travel / Office travel subsidies<br>• Professional Development allowances<br>• Paid Family Leave (including Maternity / Paternity Leaves)<br>• 4-day Work Weeks / Flexible work schedules<br><br>Once again, most allowances and perks are usually reserved for employees, and are not typically accessible to contractors. |

## Compensation Structures & Procedures

### SALARY BANDS

Salary bands refer to the minimum and maximum amount an organization is willing to pay someone within a particular job profile (or Job Level). For example, a level-one HR professional might be eligible to earn between $50,000 to $70,000. Meanwhile, a level-four employee — let's say a Director of HR — may have a salary band ranging from $100,000 to $130,000, as visualized below.




### EXTERNAL BENCHMARKING

An external benchmark is a compensation exercise that compares your organization's internal salary bands against those offered by competitors or other organizations of a similar profile. These can be done across a group of positions, or individual positions, based on the organization's needs.

The overall goal of an external benchmark is to assess your organization's competitiveness to the external market.

Here are the basic steps to complete an external benchmarking exercise:

1. Review salary bands for positions of interest
   - Salary bands should contain and minimum and maximum range
2. Target a market percentile for analysis
   - 50th percentile is a safe, reliable metric that captures a majority of the talent market
3. Provide comparisons against available benchmark data
   - Analyze the findings and make recommendations / conclusions
4. Results should be clearly be below, at, or above the target percentile
   - In an ideal comparison, your internal data should ideally mirror the market

External market data can vary extensively based on how it is aggregated. While there is a lot of free data available online that can provide general insight about how your organization's salaries compare to others, the most accurate data you can find comes from looking at organizations that are most similar to yours. This means reviewing salary data that come from organizations that are similar in:

- Industry/Sector
- Organization Size
- Organization Revenue/Funds
- Geographical Location

Triangulating this information is generally not possible on your own, but there are many organizations that are able to isolate salary data to this level of specificity for you at a cost. Requesting salary information from a third-party is as simple as providing some metrics around the bulleted list above, and paying the costs for that data, which is usually provided in a spreadsheet or PDF form.

Some of these organizations include:

- PayScale
- ERI (Economic Research Institute)
- Mercer
- Aon Hewitt

Specific to the non-profit sector, Charity Village is another option where companies can access compensation data.

**INTERNAL BENCHMARKING**

An internal benchmark is a compensation exercise that compares the individual salaries of your employees against the internal salary band established for their job position. An employee who is closely aligned to the salary you expect them to have for their level of experience, seniority, and skill level is considered to have “high internal equity”. That said, while internal benchmarks can be done on an individual level, they can also be used to assess internal equity across multiple dimensions such as gender, geographical location, race, and others – assuming you have the employee data available.

The overall goal of an internal benchmark is to assess your organization’s internal equity and ensure that employees are being properly compensated based on the criteria you’ve outlined in your compensation philosophy and strategy.

Here are the basic steps to complete an external benchmarking exercise:

1. Collect salary information on all employees of interest
    - Salaries provided should be broken down between base and variable (if applicable)

2. Conduct a *compensation ratio analysis* to determine salary spread
    - The compensation ratio will determine how far or how close the employee is from the competitive range
3. Analyze findings. Highlight major discrepancies
    - Flag any employees outside of the competitive range. Comparative ratios (compa-ratio) can provide a number of valuable insights.

**COMPENSATION RATIOS**

If you are not familiar with the term, a compensation ratio (also called compa-ratio) is found by dividing the actual salary paid to an employee by the midpoint of the salary range for that job. Here is the compensation ratio calculation:

$$\frac{\text{Actual Salary}}{\text{Midpoint of Salary Range}}\ x\ 100 = \text{Compensation Ratio (percentage)}$$

Compensation ratios are one of the most common metrics for looking at the placement of an individual's salary within a range. Compensation ratios allow organizations to compare an individual employee's salary to the midpoint of a given salary range. This easy-to-calculate statistic can be used in many ways to guide decisions about compensation in your organization. This is because they can help provide valuable context to evaluating not just a person's current compensation, but also their level of experience when compared to others in the same position.

Specifically, a compensation ratio of 1.0 means that the employee is paid at the exact midpoint of the range, which would suggest they are perfectly competent in their current role. Similarly, if the compensation ratio of an individual is higher or lower than 1.0, it indicates they are above or below the midpoint, which may suggest individuals who are less experienced, or more experienced in their role, respectively.

Please see the below diagram for a better visualization of how compensation ratios can help evaluate an individual's salary within a particular salary band:


## COMPENSATION DECISIONS

Compensation can be determined by a number of factors, including location, skill level, years of experience, and employment type (e.g. full time vs. contractor vs. part-time). For certain positions, certain relevant skills or certifications may also be factored in (e.g. professional designations, certifications). All compensation decisions are typically made by an organization's senior leadership team, or any individuals who may be responsible for departmental budgets.

Compensation changes can vary depending on the organization. This can happen annually, semi-annually, and also 'off-cycle' as needed. In general, however, planned compensation changes should follow the end of a performance review cycle.

### PROMOTIONS, PERFORMANCE, & MARKET ADJUSTMENTS

| | |
|---|---|
| Promotions | A promotion is a change from one position to another within the same ladder |
| Performance Adjustments | A performance adjustment is an increase in compensation within a salary band for the same position. |
| Market Adjustments | A market adjustment is an increase in compensation resulting from an update to our salary bands or new external market data. |

### LATERAL TRANSFERS

| | |
|---|---|
| Lateral Transfers | If a team member transfers to a different position within the organization that would otherwise not be considered a promotion, their compensation will be adjusted to reflect our rate for their new position in that location. |

### COST-OF-LIVING ADJUSTMENTS (COLA)

A cost-of-living pay adjustment refers to an increase in income based on an estimation of how much money is needed to maintain a standard of living. This pay adjustment can be applied to a variety of income that includes salaries, benefits and more. It is given in order to make up for inflation. Therefore, if the cost of living rises, you can award an employee with a cost-of-living pay adjustment. For example, if your employee lives in Toronto and the cost of living rose by 10%, you could increase your employee's base salary by 10%. There will be times when matching the COLA may not be feasible, in which cases offering a modest COLA increase is still recommended.

Here are some tips and best practices for awarding cost-of-living pay adjustments:

**Keep an employee's salary commensurate with their living expenses -** As an employer, it's important to offer reasonable salaries and wages to your employees. A reasonable yet competitive salary based on the cost of living in your organization's city is appealing to both applicants and current employees. It also promotes a healthy work-life balance when your employees are able to afford basic life necessities

**Give regular raises -** Raising your employee's salary on a regular basis is a good practice to keep. This can be given based on their added experience, to keep up with your competitors and more. Regular raises will not only help you retain employees, but will also help them keep up with their various living expenses. In regards to the former, if the cost of living gets too high for them, it's possible they might begin to search for new employment elsewhere. If you're offering a competitive salary or providing them with regular raises, you increase the likelihood of them staying at your organization.

**Research market rates -** Researching market rates can be helpful in determining what positions are making more money in a given area. For example, if the market rate rises for a given profession, you should offer a pay adjustment for those with that profession at your organization.

**Offer an increase when earned -** Rather than offer a pay increase for no reason, do it when an employee has earned it. This can include rewarding them for their increased experience, a certain performance level they achieved and more. If they're awarded an increase for no reason, they can come to expect unearned increases at any moment.