PAVE

Competitive Compensation:

How to Build a Compensation Strategy That Attracts, Rewards & Retains Top Talent

Contents

These unprecedented times

You've heard about "The Great Resignation," or the wave of employees quitting their jobs since the onset of the COVID-19 pandemic.

But we'd like to think of it as The Great Transition; in 2021 alone, 38 million people in the U.S. left their jobs — whether to take up new ones, start their own businesses, or take time off.

Dozens of surveys have revealed that some of the top reasons why people are quitting their jobs is because they crave change and flexibility. For many, the pandemic put a lot into perspective; among them that our time is precious, and we want to spend more of it doing the things we enjoy with people whose company we enjoy.

Moreover, many realized they didn't have to be in the office to get our jobs done, so the thought of having to endure a long commute to the office just to be on a computer for most of the workday quickly became unappealing.

To make matters more interesting, people who are leaving their jobs in pursuit of new ones have plenty of options, as startups have experienced unprecedented growth in the last couple of years. Venture capital funding is at an all-time high, and hyper-growth companies are doing what they can, like establishing flexible work policies or expanding their benefits offerings, to attract and successfully close on top talent seeking a better work-life balance.

It's certainly an exciting time for jobseekers.

But it's also a rare opportunity for companies to audit and overhaul their philosophies and processes to reflect this new normal — especially around compensation, which jobseekers continue to rate as one of the most important considerations to make when contemplating a job change.

At Pave, we're on a mission to make compensation transparent, accurate and fair for all 3.5 billion people who are part of the global employment world. We've had the privilege of helping companies like Dropbox, Shopify, Discord, Reddit and AllBirds plan, communicate, and benchmark their compensation in real time, without spreadsheets.

At a time when compensation can be your competitive advantage, we wrote this book to show you how to best design and communicate a compensation strategy that is built on transparency, stands out, and helps you retain your best employees.

Whether you're a founder who's just starting to build out your team or an HR leader committed to creating a compensation strategy for your whole company, you'll come away from this guide with tips you can immediately put into practice, and make your culture and workforce stronger because of it.

Why compensation is your competitive advantage in today's job market

When someone joins your team, they're showing their commitment to your company's mission, vision, and values. The attitudes and behaviors your company adopts to fulfill its mission, vision, and values, also known as your company culture, determines how long your employees stay with you.

The interview process — including the timing, structure, and depth of conversation — is the first time an employee experiences your culture. But it isn't until they receive an offer when they can fully understand their place within your company. After all, compensation quite literally shows how much your employees are worth to your organization.

Unfortunately, compensation remains an elusive topic at even the most progressive companies. Chances are even you don't know how much your total compensation is. And when you don't have that information at your fingertips, you aren't able to provide candidates and employees the complete picture of what they're worth to you.

Being as transparent as you can, as early as you can, not only gives candidates a glimpse of a healthy company culture, but it also means you don't have to pull out all the stops just to keep up with a competitive job market.

Before you create your compensation strategy, it's first important to review what constitutes compensation: base salary, equity, and benefits.

Base salary

A base salary is the salary an employee makes without equity, benefits, raises, or bonuses. As the name implies, the base salary is the foundation of an employee's total compensation. Companies use base salary data to help benchmark how they pay their employees based on factors including level of experience and location.

Equity

Many companies, especially startups, offer equity, which is also commonly referred to as stock options. Equity gives employees ownership of their company's success by allowing them to buy a specific number of the company's shares at a set price. If the price of the stock goes up as the company grows and succeeds over time, employees can profit off of the difference.

Equity offers employees a stake in the business they're a part of, and the price of equity changes as the company trajectory does. An employee can stand to make a substantial amount of money through equity depending on how many shares they're entitled to buy, how long they stay at the company, and how the company performs.

Benefits

Many companies offer health benefits, paid time off, stipends, and other perks like free meals and flexible work schedules to help their employees stay healthy, happy, and productive at and outside of work. Because the company provides coverage for benefits, they're considered an important part of an employee's compensation package.

Having a competitive compensation strategy takes two steps: first, designing intentional compensation packages, and second, effectively communicating your compensation strategy with your employees. Creating a compensation philosophy is your foundation for a transparent compensation strategy. In the next chapter, we'll walk you through how to create your compensation philosophy so you can build a sound compensation framework for your entire organization.

Creating your compensation philosophy

Let's say you hired two engineers who have similar levels of experience. Engineer A asks for $30,000 less than Engineer B, even though they're both going for senior-level roles. You don't have any protocol when it comes to compensation, so you make them offers that fall in their respective salary ranges. They receive the same amount of equity and benefits.

A few months later, you're ready to hire another senior engineer.

The company has grown since you hired Engineer A and Engineer B, and you've decided you want to try a different approach to compensation. You extend an offer to Engineer C, and decide to give them even more than Engineer B to be competitive with other offers they had, even though their desired salary range was a little lower. They're getting slightly more equity than Engineers A and B, and also negotiated for more vacation time.

Three senior-level engineers. Three completely different compensation packages.

If you're making compensation decisions on a case-by-case basis, you're making way for inequity throughout your organization.

A compensation philosophy creates a clear, consistent framework for how you compensate your employees across the board, providing employees transparency and helping manage expectations. Having a compensation philosophy can help you avoid the above scenario and help you make fair compensation decisions that actually reflect the vision and values of your company.

Best of all, you can design your compensation philosophy to fit your organization's needs, allowing it to best reflect your unique values and operating style.

You don't have to wait until your company is a certain size to create one, either. Your approaches to compensation should evolve as you do, so you can establish a compensation philosophy early on and tweak it over time.

Creating a compensation philosophy isn't a one-size-fits-all effort, but below is a general step-by-step guide on how you can start to build your company's compensation philosophy.

(If you need more in-depth guidance, check out our eBook on creating your compensation strategy).

Step 1: Determine your guiding principles.

Your guiding principles shape your company's perspective on its approach to compensation to lay the foundation for your decision making.

Developing this critical asset helps your HR team, executives and managers clarify the "why" behind pay and creates a framework to assure consistency across the whole team.

This philosophy allows you to:

- **Be thoughtful about compensation decisions**
- **Be proactive instead of reactive**
- **Establish a single source of truth for compensation decisions**
- **Drive executive buy in**
- **Execute consistently against your framework**

For example, Buffer's compensation philosophy outlines these key principles:

Transparency: We openly share our approach and all salaries to create trust, hold ourselves accountable, and serve as a resource for the industry.

Simplicity: We aim to maintain an easy-to-under-stand formula that allows anyone to easily see how we arrive at any individual salary.

Fairness: We ensure that those with the same role and responsibilities who are at the same experience level are paid equitably.

Generosity: We pay above market to attract the team we need, thrive as individuals, and avoid exceptions and inequity resulting from negotiation.

If you need help getting started, turn to your company's own mission, vision, and values to inform your compensation philosophy's guiding principles. We've also shared a two-part series on compensation philosophies we love on our blog. (Check out part one and part two).

Step 2: Form your compensation committee.

Your compensation committee is the group of people responsible for developing, implementing, and upholding your compensation philosophy. It's usually composed of your CEO, Head of People, and Head of Finance, depending on which hires you have in place right now.

Each individual on the committee is responsible for identifying and upholding our guiding principles while designing a thoughtful and intentional compensation philosophy.

This doesn't need to be a big group of people (you know what they say about too many cooks), but enough to hold each other accountable and offer varied perspectives.

Step 3: Determine your levels.

Establishing your company's leveling system can help both current and new employees understand where they fit in the larger organization chart, understand how they can grow, and get a sense of their compensation trajectory as they progress. A leveling framework also makes it easier for managers to determine compensation changes for employees as they progress at your company.

Leveling looks different at every company, but a good rule of thumb early on is to work hand-in-hand with managers to help place their team into set levels, and let that inform your leveling framework.

Pave's leveling schema is designed for companies of all sizes and consists of 16 levels split across three Tracks. Tracks are the basic infrastructure of leveling; they define if the level is within Management, Professional, or a Support function.

Executive: Executive refers to levels that have purview over entire business units; they often manage managers

Management: Management refers to levels that manage other employees -- whether they be other managers or individual contributors

Professional: Professional refers to individual contributors who prioritize, plan and execute long term work. The Professional levels are almost always salaried (or have a salary plus a variable component)

Support: Support refers to individual contributors whose prioritization is done by a manager; it is associated with temporary/high attrition roles and hourly wages

In Job Levels, Tracks are denoted by "M" for Management, "E" for Executive", "P" for Professional and "S" for Support.

Select the level of the role based on scope, autonomy and (if applicable) management responsibilities.

		Scope	Autonomy	Management Responsabilities
Support	S1	Works within functional team.	Receives detailed direction on all tasks. Work is closely supervised.	-
	S2	Works within functional team.	Receives detailed direction on new tasks. Work is supervised.	-
	S3	Works within functional team.	Receives general direction on new assignments. Work is escalated occasionally.	-
Professional	P1	Works within their function.	Receives specific direction from manager or leads.	-
	P2	Works within their function (or program) and occasionally interface in cross-program relationships.	General direction required from manager or leads.	-
	P3	Partners with with peers (ie: similar level) in different functions within org. Contribute to cross-functional projects.	Input on general direction from manager or lead. Owns workstream.	-
	P4	Strategizes with leaders (level 4+) across multiple functions within the org to identify work streams for their team.	Strategic partnership required from peers, manager or lead. Owns workstream.	-
	P5	Strategizes with senior leaders across multiple functions within the org	Becomes strategic lead within team. Strategic partnership required from peers. Input from leadership team required.	-
	P6	Is a strategic lead and decision maker in company direction. Strategizes with senior leaders across multiple functions within the org.	Input from leadership team required. Strategic partnership required from peers. Sets strategy across functions.	-
Management	M6	Partners with with peers (ie: similar level) in different functions within org. Contribute to cross-functional projects.	Input on general direction from manager or lead. Owns workstream.	Responsible for the growth and development of their direct reports. Embodies management standards of the company.
	M5	Strategizes with leaders (level 4+) across multiple functions within the org to identify work streams for their team.	Strategic partnership required from peers, manager or lead. Owns workstream.	Responsible for results, budgets, strategies and hiring of your function or team. Exemplifies management standards of the company.
	M4	Strategizes with senior leaders across multiple functions within the org.	Becomes strategic lead within team. Strategic partnership required from peers. Input from leadership team required.	Sets direction, strategy and vision for 2 or more teams or subteams. Holds team members accountable. Proposes plans for budgeting, execution, and hiring. Owns decision making in partnership with functional leadership. Exemplifies and holds others accountable to the management standards of the company.
	M3	Is a strategic lead and decision maker in company direction. Strategizes with senior leaders across multiple functions within the org.	Input from leadership team required. Strategic partnership required from peers. Sets strategy across functions.	Sets direction, strategy and vision for an entire function. Holds team members accountable. A decision maker on planning, hiring, budget. Exmplifies and hold others accountable to the management standards of the company.
Executive	E7	Is a decision maker in a business unit's direction. Strategizes with senior leaders across a business unit as well as outside of the org (ie: board)	Sets strategy across a business unit.	Sets direction, strategy and vision for multiple functions. You hold managers accountable.Approves and sets direction for planning, hiring, budget. Exmplifies and hold managers accountable to the management standards of the company.
	E8	Is a decision maker in multiple business unit's direction. Strategizes with senior leaders across multiple business unit as well as outside of the org (ie: board).	Sets strategy across multiple business units.	Sets direction, strategy and vision for multiple business unit. Holds senior leaders accountable. Helps shape, exemplifies and holds senior leaders accountable to the management standards of the company.
	E9	Is the final decision maker in the company's direction. Strategizes with senior leaders across all business units in the org as well as outside of the org (ie: board).	Sets strategy across company.	Sets direction, strategy and vision for the company. Holds execuitives accountable. A final decision maker on planning, hiring, budget on a company scale. Defines, exmplifies, and holds executives accountable to the management standards of the company.

Your leveling framework can and should change as your company does, so you don't need to strive for perfection out the gate. But bringing some intentionality into how you're thinking about these concepts when it comes to hiring and retaining employees will help you build a culture of trust and transparency from the get-go.

Implementing levels should help you make equitable decisions and give your employees clarity on their growth at your company. If your existing leveling framework accomplishes both, then you know you're on the right track.

Case Study

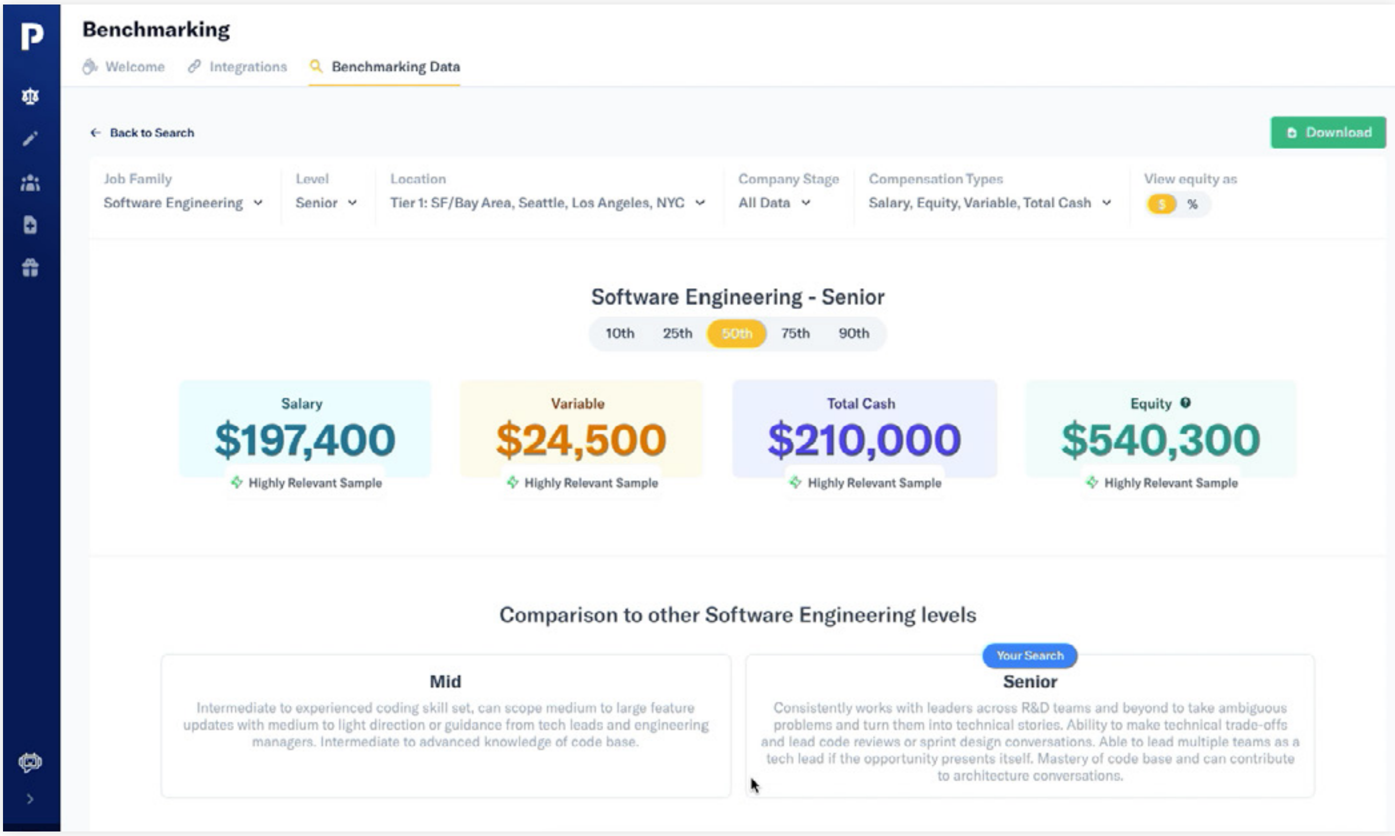
One of our clients, a Senior HR Manager at a 150 person software company, has employees spread across the globe. They needed a way to automate leveling, so we built a program to get employee salary, bonus, and equity information all in one system. This enables a data-driven approach to employee leveling and adjustments, and now their raise and promotion decisions are made following a consistent recommendation framework that considers key factors, and generates equitable results. Just think how much better your life would be if you didn't have to go back to a stack of buried spreadsheets every six months. You could automate leveling and get back to the important work of developing your team.

Step 4: Don't just rely on compensation surveys for data.

You can't make fair compensation decisions in a vacuum. Compensation surveys have been the standard way to benchmark salaries since they were invented over seventy years ago…but they haven't changed all that much since.

Typically, teams must pull data from disparate systems just to participate in compensation surveys, which are run a couple times a year. The problem is, that data doesn't stay relevant for very long, especially in today's ever-changing market. Using archaic — not to mention, time-consuming — methods to inform how you compensate your employees in a modern workforce is a surefire way to lose out on talent, which can damage your business in the long run.

Pave's benchmarking tool provides live data and market bands to help you triangulate compensation easily and in real time.



Imagine a head of human resources says he blended a bunch of disparate numbers to benchmark employee salary. Doesn't sound very trustworthy, right? That's why more and more companies are investing in real-time benchmarking tools to give them up-to-date compensation insights as they grow their teams to build trust, save time, eliminate guesswork, and attract and retain top talent.

Step 5: Develop a timeline for making and communication compensation changes.

As your company grows, you can expect your employees to grow with you. Managing expectations around promotions, raises, and other compensation changes early on can help you stay transparent whether you have 5 employees or 5,000 employees.

Merit cycles are a merit adjustment process. Many companies even separate performance and the merit cycle by multiple months in order to not conflate performance reviews, feedback and career development with compensation. Merit cycles can include compensation changes around the following:

- **Role changes**
- **Promotions**
- **Performance-based raises**
- **Market adjustment**
- **Cost of living adjustment (COLA)**

Most companies have some kind of annual merit cycle, sometimes based on the calendar year, or sometimes based on the company's fiscal year. The merit cycle usually starts with employee performance reviews that will ultimately inform a small compensation increase, and maybe even a bonus or an additional equity grant.

Most employees assume the best (or only) time to get a raise or promotion is during that short period at the end of the merit cycle. It's not uncommon for companies to run a mid-year (lighter) cycle to give employees a chance to be promoted more than once per year.

Merit cycles are one of the most important workflows to get right as a company, and we understand your team might be hesitant to ask questions about something as complicated, ambiguous and serious as how much they get paid. If you'd like to get more of you questions answered, read our post Everything You Want To Know About Merit Cycles (But Were Afraid to Ask).

Step 6: Create a benefits program that reflects your company.

Remember, compensation isn't just about base salaries — total compensation includes salary, equity, and benefits. You should design your benefits package that supports your employee's development and wellness at and outside of work.

Start by surveying your current employees. What do they like? What might they not care for?

Understanding the demographics of your employee base can also help you decide what's worth investing in — for example, if most of your employees are parents, you might consider a childcare benefit. Or if most of your employees work from home, you might entertain the possibility of reimbursing your employees for their internet costs, or offer a home office stipend.

You can also tie your benefits back to your values. One company, for example, offers employees a monthly house cleaning service to uphold its commitment to saving their time and striking a better work-life balance.

To stay competitive, you may also want to connect with HR leaders at other companies to understand what's working for them and lean on your benefits brokers for insight on market trends for other benefits offerings.

Case Study

One of Pave's customers, a tech startup with approximately four hundred employees, initially reached out to us to get aligned on their compensation philosophy. We worked with their comp committee through the above process so they could streamline and standardized employee communication of merit cycle outcomes. To our delight, our customer reported that they no longer had to retrain their team to talk about equity in a certain way. Pave's tool helped them reflect the dialogue they already wanted to have with candidates and employees. What would you do with all your time if you weren't spending it on merit cycles?

Now that you've designed your compensation philosophy, it's time to roll it out to your company to keep your employees on the same page.

Communicating your compensation strategy

Your employees won't know how great your compensation strategy is if you don't communicate it with them. Whether you're trying to land a top candidate or trying to retain your very best employees, helping them understand the value of their total compensation and the thought process behind it will keep you competitive.

Standard offer letters include information about base salary and high-level information about equity and benefits (e.g., free meals, wellness stipends). But there's more you can share to paint the complete picture of their overall compensation, especially if you're a fast-growing startup.

An employee's equity has the biggest potential to make a life-changing impact on their finances. While most companies let employees know how many shares an employee has, the exercise price for shares, and vesting schedule, you can also include:

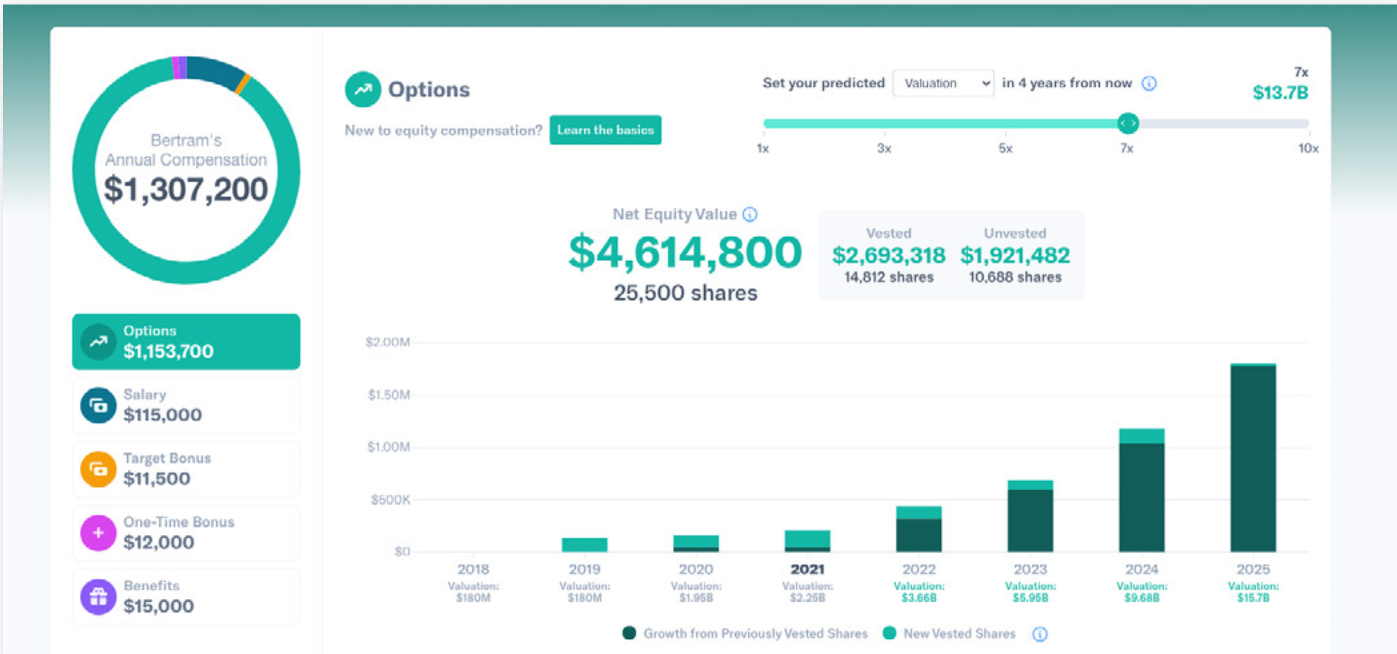
- **Latest preferred price**
- **Preferred price for every round**
- **Current post-money valuation**

Not only do these additional details help employees understand how the company is evolving over time, but also how much they stand to make by investing their time in your company. When employees better understand the potential growth of the company, they're less likely to leave.

Sadly, too many recruiters or hiring managers often lose out on talent to the competition because candidates don't understand the total value of the offer. Pave set out to solve this pervasive problem by building a Visual Offer Letter to enable companies to share what makes them unique in a visually stunning format.

Here's an example:

Visual offer letters make your positions more competitive, helps convey equity upside and provides a full picture of your compensation package to candidates.



The bigger picture here is sharing what makes your company unique. And delivering that value to your candidates so they can dream big about their equity and total compensation.

Case Study

One of our healthcare customers, with about a hundred employees, was hitting a wave of massive growth. Their headcount had tripled in six months, and they needed a scalable solution that best communicated their offers to top applicants. One that didn't involve too much back and forth with candidates and accommodating varying knowledge about equity. This company implemented a total rewards portal similar to the one above, and they saw a 100% close rate to date with candidates using the visual offer letter. How is your growing company scaling its ability to communicate equity offerings to top talent?

We understand that not every company is in a position to divulge that level of detail when it comes to equity. But even taking an extra step to quantify the cost of employees' existing benefits (e.g.,the cost of a wellness benefit or total cost of health insurance coverage) can help your employees to understand just how much you're willing to invest in their wellbeing at and outside of work (not to mention, remind them of the fantastic benefits they have at their disposal in the first place!).

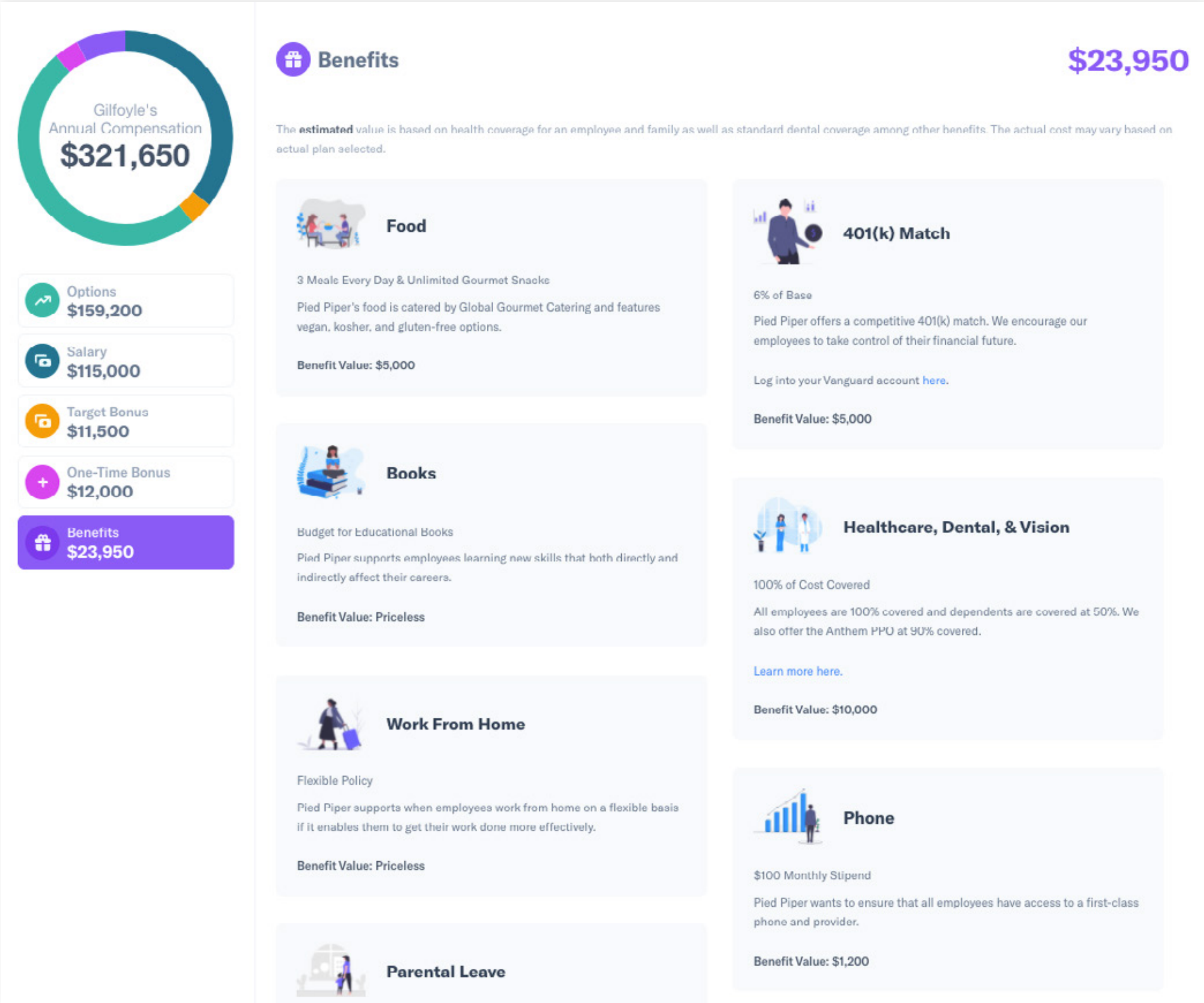
Some companies are willing to share even more detail to give their employees a complete picture of their compensation, including:

- **Fully diluted shares outstanding**
- **Historical bonus/variable attainment**
- **Capitalization details**
- **% ownership of the fully diluted cap table**
- **Average compa-ratio for role**
- **Full compensation framework, including levels and tracks**
- **Position in salary band**

Of course, the latter two points are contingent upon you having a compensation philosophy and leveling framework you're working off of in the first place.

Over time, you might roll out new benefits, switch benefits providers, raise funding rounds, and offer employees bonuses, which can alter their compensation packages. Providing your employees with an up-to-date snapshot of where their compensation currently stands, and even how it can grow over time, is one of the best ways you can retain them.

Most of the time, you think of benefits as medical or retirement benefits, but there are so many more that should be communicated to stand out. Even if the value is priceless.



Remember, even if a candidate is interviewing elsewhere and contemplating other offers, having accurate compensation information can help them make accurate decisions. And chances are, other companies won't be able to articulate the level of detail you can when it comes to your employees' total compensation.

Investing in a modern compensation platform to hire and retain your best talent

We may be experiencing an unprecedented talent market right now, but the truth is, you'll always need a competitive advantage to hire and retain top talent — and compensation is a great place to double down your efforts. Because while your company will certainly evolve over time, you'll always have to compensate your employees for their hard work.

But existing tools make it tough for teams to do so without having to toggle between endless spreadsheets and figure out band aid solutions between disparate systems.

A comptech platform can help you understand how your levels of transparency stack up against your peers — how that can affect everything from hiring to retention — without the unnecessary busywork.

Enter Pave. Our mission is to build the world's best compensation tools and easily accessible market data because we believe greater real-time transparency leads to improved outcomes and visibility for our customers.

Pave is a comptech (compensation technology) software that helps organizations plan, communicate, and benchmark their compensation in real time, without spreadsheets. Our platform offers benchmarking data of hundreds of thousands of data points from 1000s of seed to IPO companies across numerous industries, powered by direct integrations to your HRIS and Cap Table Systems.

For **planning** compensation, Pave helps you:

- **Pick your leveling framework, either blended (for early stage companies) or detailed (for later stage companies)**
- **Find the common job titles, along with descriptions of functional capacities required for the role.**
- **Make educated comp decisions for a new offer or a current employee.**

For **communicating** compensation, Pave helps you:

- **Equip recruiters and hiring managers with compelling visual offer/reward letters**
- **Give employees a framework to think about comp anytime they want**
- **Help employees understand how much their benefits are worth**
- **Deliver a centralized source where there is a common equity narrative across the entire organization**

With Pave at the center of your HR tech stack, you can stay ahead of the market, stop losing offers to companies paying more, keep attracting and retaining top talent, and unlock company growth through the power of compensation transparency.

Are you prepared for a new era of compensation rooted in real-time data, transparency, and fairness?

Schedule a demo or reach out to us today.

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