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How to Make
'Pay-for-Performance' Work for Your Employees

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We all want to be recognized for our work. And while we appreciate perks like flexibility, wellness programs, and paid time off, Compensation is the primary driver for employee satisfaction and performance. Cash is still king.

But for decades, HR teams and management experts have debated whether performance and pay should be linked. There's ample evidence that pay-for- performance does have a positive impact on retention, productivity, and morale – but concerns about bias during reviews have turned teams away from unanimously embracing the model.
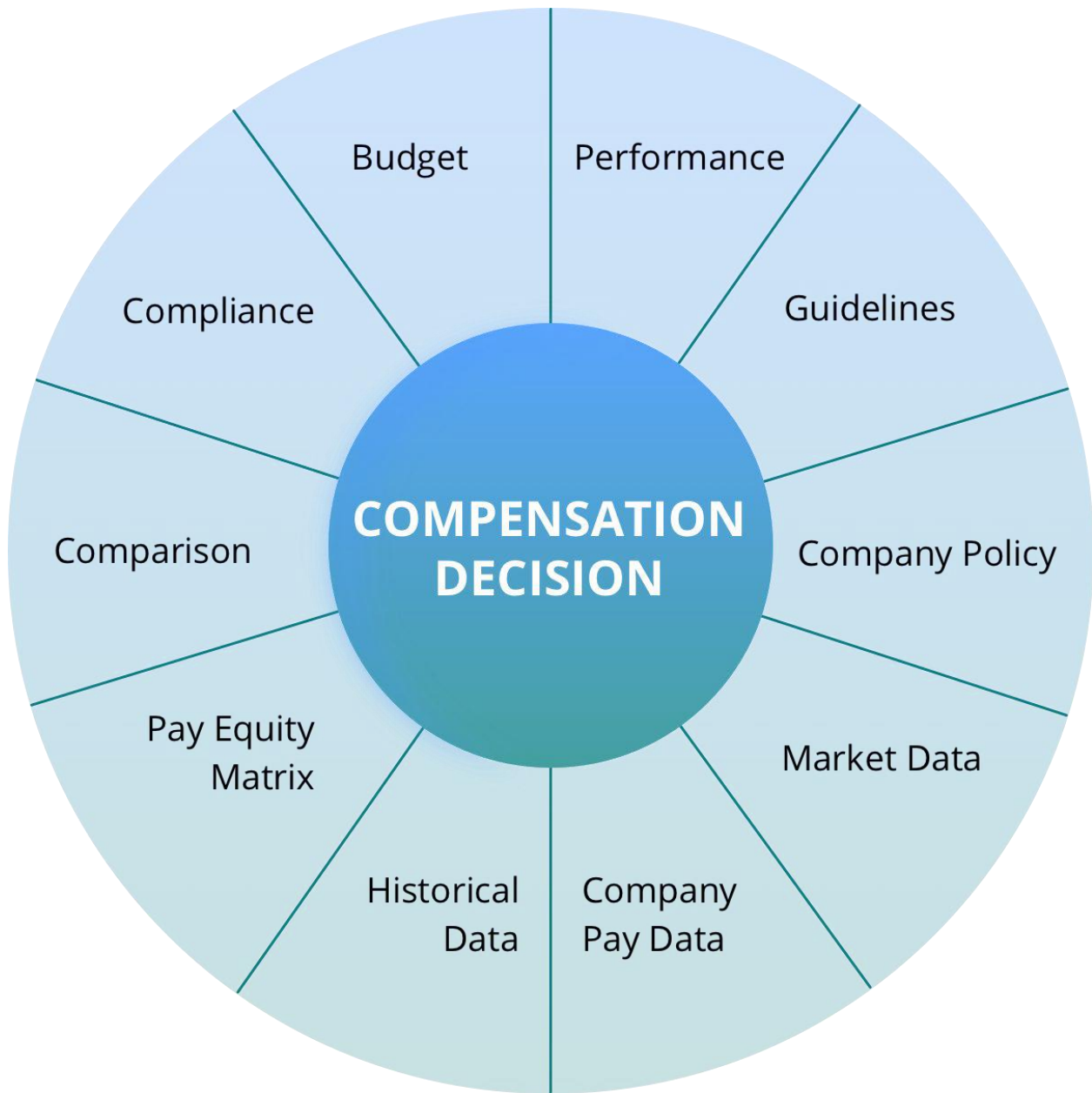
Compright believes that budget, market rate, compliance, and yes, performance, are just some of the 10 factors that should be weighed when considering pay. Here's how to make pay-for-performance work for everyone.

1 | Be clear about your compensation philosophy.

You can't reap the benefits of pay-for-performance if employees don't understand your compensation strategy. From the onset, be clear about how and when your company makes its compensation decisions.

Are merit increases issued once a year or on a rolling basis? What kinds of bonuses are employees eligible for, and how are they earned? What measures are you taking to ensure pay decisions are fair, equitable, and competitive with the market? Be clear about how employee pay is decided, and to what extent you consider each of the below factors:

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COMPENSATION DECISION

- Budget
- Performance
- Guidelines
- Company Policy
- Market Data
- Company Pay Data
- Historical Data
- Pay Equity Matrix
- Comparison
- Compliance

While HR teams and managers should remind employees about their compensation philosophy year-round, these conversations tend to come up most during review season. When employees expect to learn about their future pay during a review, everything else is just noise – meaning they miss out on their manager's valuable feedback, defeating the purpose of the meeting. Before rolling out a review cycle, managers should be clear that though ratings may impact pay, compensation decisions will be shared at another time.

2 Offer bonuses, equity, and other rewards.

While raises can be used to recognize employees' hard work, they're often set with the future in mind. As part of the arrangement, a promoted employee might also be taking on additional responsibilities or transitioning into management.

The problem with only tying base compensation to performance is that it requires employees to follow a textbook career track. Outstanding individual contributors don't always make great managers – and vice versa. In time, your top performers will hit a pay ceiling where neither job level, market rate, nor performance can justify a substantial enough pay raise to retain them. That's where bonuses and other rewards come in.

Organizations have used bonuses to reward executives or sales teams for decades. But there's compelling evidence that they're a powerful motivator for more mid-level and junior employees as well. One study found that performance-based bonuses have been linked to greater job satisfaction, trust in leadership, and motivation. Employers can make bonuses less subjective by linking them to objectives and key results (OKRs) or goals – making them feel more meaningful and consequential for employees.

3 Run performance calibration meetings.

The more performance reviews factor into compensation, the more diligent HR teams need to be about their accuracy. Unconscious bias, favoritism, or just manager inexperience can all skew your ratings – which in turn can lead to inequities or legal red flags. That's where calibration comes into play.

Performance calibration meetings bring managers together to discuss their reports' scores and smooth out discrepancies between "easy graders" and "tough graders." In many cases, managers from other teams might offer their input about an employee's performance, potentially influencing their final score.

Naturally, these meetings are sensitive affairs and should always be facilitated by an HR team member.

Though important, performance calibration can be a messy, time-consuming process. But once these meetings take place, managers tend to be much more thoughtful about employee feedback moving forward. Holding these sessions also help shield your organization from compliance risk, should an employee contest their rating or compensation adjustment. As a best practice, HR teams should document these meetings to corroborate that ratings were handled in a thoughtful, bias-free manner.

4 Leverage compensation planning software.

Even if you subscribe to the belief that performance should correlate with pay, bringing the two together is often easier said than done.

Why? Employee compensation and performance management tend to be handled in separate systems, or worse — in spreadsheets. That can make processing a raise or spot bonus a slow, manual, and error-prone process. Weighing additional factors like pay equity or budget introduces even more complexity, as that data tends to reside in your HR information system, payroll software, or enterprise resource planning (ERP) tools.

Bottom line: When it comes to managing HR data, manual entry invites mistakes. And if there's one area where you want to avoid those, it's employee compensation.

When your compensation planning software integrates with the other tools you love to use, bringing these datasets together is easy. Compright's open API empowers you to consider performance ratings, market data, and other factors in a 360-degree compensation model. Our platform can also correlate pay to individual, company, and team-level performance data. That makes for happier employees who feel recognized for their hard work — and easier compensation cycles for your HR team and managers.
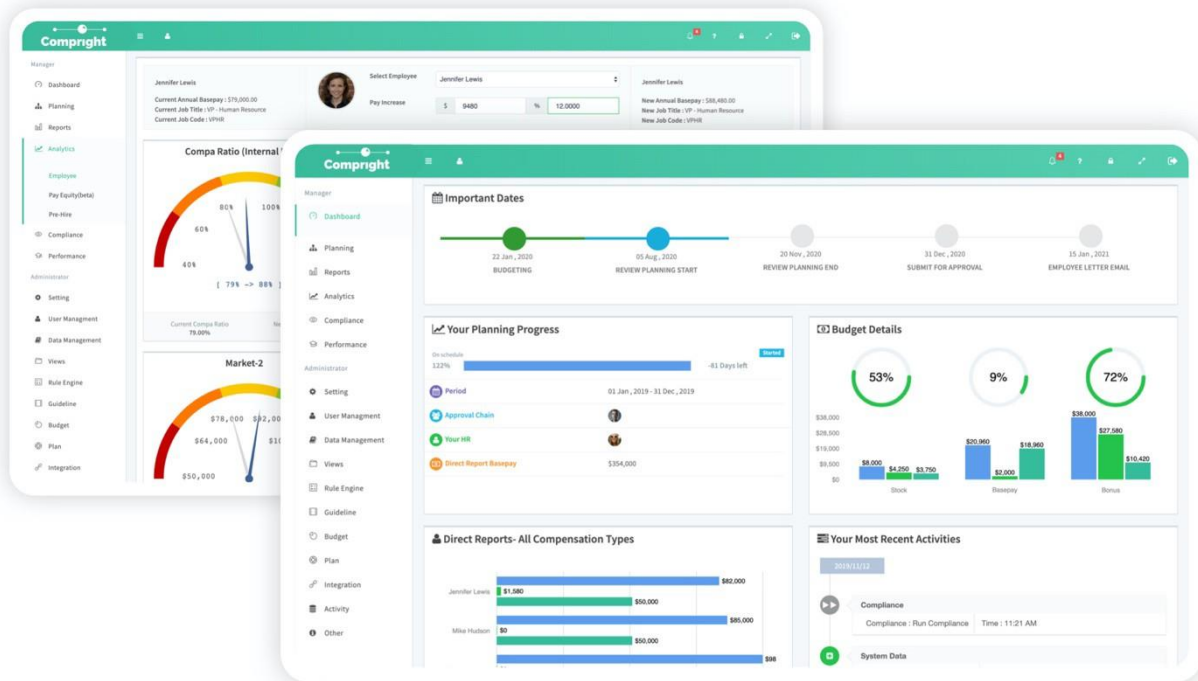
Compensation serves as both a reward and an incentive for performance. But without the right safeguards, pay decisions can be subject to bias and leave high performers underwhelmed or worse — looking for opportunities elsewhere.

Compright believes there's a way to make fair, accurate, and efficient decisions about employee pay. Our intuitive technology makes it possible to weigh all the important criteria, from performance to market rates, in one easy-to-use dashboard. The benefits aren't just limited to your HR and finance teams — when employees understand that their pay is backed by data, they'll feel empowered to do great work.

Schedule a tour of Compright and learn how our cloud-based compensation software empowers you to make pay decisions with confidence and take care of your people.