

Steps to Create a Compensation Plan

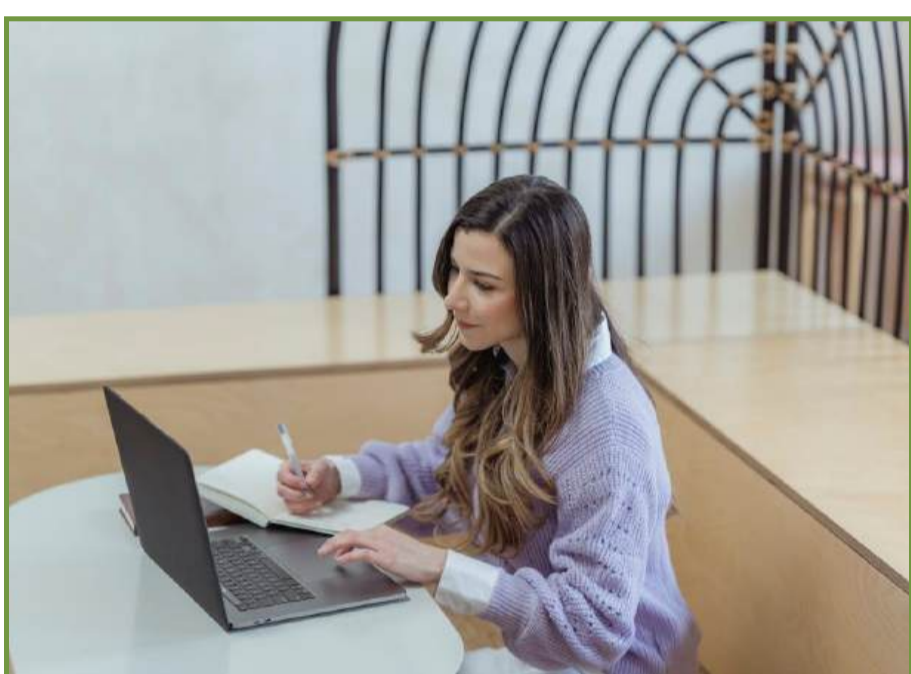
1. Form a Compensation Committee

If you want your compensation strategy to have depth and perspective, don't go it alone. Form a small, diverse compensation committee made up of people who understand operations and finances, and who can help ensure the plan is fair and aligned with your business goals. Input from multiple angles helps you create policies that are easier to support and sustain.



2. Update and Clarify Job Descriptions

You can't pay people fairly if you don't know what their jobs entail. Clear, accurate job descriptions provide the foundation for fair and competitive compensation because they define expectations and the skills required for each role. By developing well-defined job descriptions, you can reduce role ambiguity and foster employee trust in your compensation plan.



3. Analyze Internal Equity

Analyzing internal equity means evaluating whether employees with similar roles receive fair pay. This step often surfaces difficult truths. If you don't address internal equity, it becomes harder to set competitive salaries fairly. Worse, you risk losing a valuable employee.



4. Investigate the External Market

Understanding what similar roles command in your industry and region is key to staying competitive. Use credible salary benchmarks and industry data to see how your pay compares. By balancing internal fairness with external competitiveness, you're positioned to reward employees appropriately and prevent losing talent to better offers.



5. Establish Clear Administration Policies

Once your structure is in place, define how you'll manage it. Strong administration policies reduce confusion and retain role and responsibility consistency. Set clear documentation protocols as well. From market pressure to merit to role changes, every adjustment should have a rationale. That level of transparency creates a more resilient compensation system.

