

Compensation Design Workbook

The following is a step-by-step guide to support you in designing or updating compensation at your organization.

This is broken into nine steps. Feel free to work through every step, or to move to the items that are most relevant to what you need.

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1. Defining Success

Before starting the process, it is important to define the motivation for reviewing your organization's compensation, and what will define success. Fill out the following questions and share them with the group that will be working on your compensation review.

1. What is prompting this compensation review? (Feel free to **bold** the specific issues)
 - ☐ External pressure (e.g., market shifts, retention/hiring issues, change in budget)
 - ☐ Internal concerns (e.g., equity, clarity, transparency, morale, sustainability, succession planning)
 - ☐ Part of regular review cycle
 - ☐ Other: _____
2. What are your main goals for this process?
 - ☐ Address staff or board concerns
 - ☐ Address financial concerns (budget deficit/surplus)
 - ☐ Build trust
 - ☐ Increase morale/retention
 - ☐ Increase transparency
 - ☐ Other: _____
3. Fill in the blank....

When we complete this process, signs that we were successful will be _____

2. Evaluating Readiness

Fair, intentional pay practices aren't just about numbers — they're about the culture, trust, and the health of the whole organization. Addressing this well can be a time-intensive process, so it's important to ensure you scale your project to your current capacity. Scale your project to fit your readiness in terms of time, capacity and budget. You don't need to do all steps listed in this workbook, but it's important to have the time and space to do this thoughtfully

1. How would you describe your current compensation approach?
 - ☐ Clear and consistent
 - ☐ Mostly consistent, but needs review
 - ☐ Unclear or outdated
2. Is this a major overhaul or a minor update? (*Minor updates can be done in 1-3 months, major overhauls typically take 4-9 months*)
3. How urgently do you need to create a new compensation structure:
 - ☐ Immediately
 - ☐ In the next 6 months
 - ☐ In the next 12 months

What is your realistic timeline for designing and implementing changes?

Kickoff date:

Ideal Completion Date:

4. Who will lead the process? _____
5. Who will consult and inform the full team (especially department/team leads) throughout the process? _____
6. **Does your organization have the internal bandwidth for this project right now?**
 - ☐ Yes
 - ☐ No (*If no, set a time that you will revisit if you have capacity for this project and share this with staff and board*)

7. What is your budget flexibility to make changes in compensation?

- ☐ Room for increases
- ☐ Flat budget
- ☐ Deficits/constraints

If you have an idea of the amount of flex in your budget, please list it here: _____

If you do not know the amount of flex in your budget, take some time to review your current budget and draft anticipated changes for the following two years.

8. Can you sustain the proposed compensation changes long term?

- ☐ Yes
- ☐ No (*If no, focus on changing non-fiscal elements of compensation, such as flexible schedules, PTO, working remotely etc. or consider a bonus for staff instead of increase in salary).*

If you answered no to any of the **bold** questions above in this section, consider postponing a compensation redesign, or doing a minimal revision.

Reflecting on your answer fill out the following:

- The core motivation for this project we want to address is _____
- The core people who will lead this will be _____
- The amount of time we will take for this process _____
- Kick-off date _____
- Ideal completion date _____
- The amount of money we have in our budget to make changes in compensation is: _____

3. Internal Communication; Roles & Implementation Timeline

Changes to compensation can be unnerving and scary. It's important to be clear with all staff (and Board) who is holding what aspects of your compensation review and to create regular times to communicate internally about the process. Building a communication plan will support clarity and trust and avoid misconceptions, rumors, and worry. This requires defining who you will engage, how often, and at what level. Within this, consulting directors and team leaders early and more deeply is recommended – they are key advocates and communicators – and their buy-in is critical. Fill out a DARCI chart and share it with staff to ensure it is clear who holds what role in the Compensation Review process and who will be consulted, informed etc. Remember to also include whoever will implement your updated compensation policy into payroll and your employee handbook once it is completed.

Below is an explanation of what each role in DARCI means, an example, and a sample chart to fill out for your organization.

D	DECISION MAKER: Gives final approval. May be an individual or group, (for example a management team or coalition lead team.)
A	ACCOUNTABLE: Manages the project. This individual may not do much of the actual work, but they ensure it gets done. A project can have only one 'A'. The 'A' can have other roles, such as being the Decision-maker and / or perhaps being Responsible.
R	RESPONSIBLE: Gets the work done. Sometimes different people are Responsible for different parts of a project.
C	CONSULTED: Who needs to be consulted – in a timely, meaningful way? At which points or for which specific elements?
I	INFORMED: Who needs to be informed about the project and when? Informed people do not weigh in or consult on the project.

Example of a DARCI

SAMPLE PROJECT	D	A	R	C	I
Compensation Update Project			HR/Culture Director	Leadership Team	All Staff
	Executive Director	HR/Culture Director	HR Team	Directors / Team Leads	Board
				Board	
	DECIDER	ACCOUNTABLE	RESPONSIBLE	CONSULTED	INFORMED

Every organization has different roles & areas of responsibility. Create your own DARCI based on your organization's structure.

Below is a template for you to fill out for your organization. Once you have filled out the above DARCI chart for your organization, share it with your full team so it is clear who is holding what role.

Compensation Review DARCI Template

	Decider	Accountable	Responsible	Consulted	Informed
Role	Final decider on compensation	Accountable for successful outcome	Executes the work/tasks	Asked for input throughout the process	Informed at key points throughout process
Who fills this role?					
When will this occur?					

1. What is your communication strategy for this process? When will you communicate to all staff: the plan for compensation review, key updates, and the final outcome of the process?

One of the best ways to manage morale is to ensure that salaries are not decreased, and to state this upfront to staff and board at the beginning of the process. In cases where salaries or benefits do need to be decreased, or positions need to be terminated (due to budget constraints) it is best to be explicit about this and the necessary rationale. Remember, clear is kind.

2. What forums will you use to communicate with staff and board, and to receive feedback (*e.g., staff/board meetings, email, slack/teams etc, 1:1s*)?
3. What concerns, resistance, or misperceptions could occur? How will you address these?
4. When will the change in salary be implemented? (*typically next fiscal year, or immediately*)
5. What important milestones will tell you you're on track? (*This can be linked to board or staff meetings, or other important time markers*).

Below are two sample implementation timelines:

Implementation Timeline Example 1

Month 1

- Launch compensation process-inform staff & board
- Form Compensation Committee
- Compensation Committee meets to discuss which aspects of compensation are up for modification and core values for Compensation Philosophy (if one does not already exist)

Month 2

- Share Compensation Philosophy with Board and Staff
- ED does review of roles within the organization to ensure clarity amongst titles
- Send Staff survey to seek input about which benefits are most valued
- Compensation committee meets to discuss survey and identify which benefits/compensation are most highly valued

Month 3

- ED drafts Compensation policy
- ED shares high-level themes from results of survey and Draft compensation policy with Staff and Board (at separate meetings)
- Integrate any final feedback
- Finalize compensation and benefits

Upon effective date

- Implement changes into payroll and employee handbook

Implementation Timeline Example 2

STEP	Who leads	Time required	Start/ End date	Notes
Assess Readiness	HR Dir. w/ leadership team	1-2 weeks		Review all relevant criteria and determine scope of project, start date and projected completion date. If some criteria is not met & your organization isn't ready to undertake the project, establish clear goals & timelines to achieve the missing readiness criteria.
Est. Team Engagement & Buy-in Plan. Determine transparency commitment	Leadership team	1-2 weeks		Get aligned on your shared commitment to team engagement, consultation, and buy-in. Who are you consulting - When, How deeply, How often? What parts of your final plan will you share with the internal team? Job categories, pay levels, salary bands?
Draft/update Compensation Philosophy	HR Dir. w/ leadership team	2-3 weeks		You may want additional input from the Board or from staff members. Consider input the would be meaningful and support "buy-in" from key team members.
Conduct Market Research	HR Dir. w/ support fr/ HR team	1-2 months		Reviewing, deciphering, and comparing data and determining how roles/job titles align & apply for your organization is time consuming and often requires consultation with the Leadership Team and/or Directors
Create or Update: Job categories Pay Levels Salary Bands Starting Salary ranges Benefit Offerings	HR Director	2-3 months		This will likely require significant consultation with the leadership team, executive director, department directors/leads, and potentially outside experts, as needed.
Undertake Pay Equity Analysis	HR Director	3-6 weeks		This analysis is detailed and can be time consuming. Make sure your criteria is free from bias and is applied equitably across the team. Review findings with the leadership team & seek feedback (and Board if appropriate).
Implementation	HR Director	2-3 weeks		Plan & create a presentation for the full staff (share talking points with the leadership team and directors if appropriate). Schedule one-on-one HR meetings with every staff member to take place ASAP after the staff presentation.

4. Creating a Compensation Philosophy

A compensation philosophy is a written statement about your organization's approach to compensation. Drafting a short compensation philosophy at the onset of this process can act as an important north star to guide you through this process. If you don't have a compensation philosophy, or if your current philosophy is not aligned, answer the following questions to begin drafting your organization's vision or philosophy around compensation

1. Which are the most important values in regard to compensation?
 - ☐ Equity
 - ☐ Transparency
 - ☐ Retention of current staff
 - ☐ Recruitment of new staff
 - ☐ Rewarding tenure
 - ☐ Rewarding seniority
 - ☐ Rewarding specialized skillsets
 - ☐ Other (feel free to be creative!):

2. Do you want to:
 - ☐ Match market
 - ☐ Lead market
 - ☐ Prioritize internal equity
 - ☐ Ensure specific roles or depts are adequately compensated (If so, which ones?)
 - ☐ Ensure fiscal longevity
 - ☐ Other: _____

3. How do/will you communicate your **compensation philosophy** to staff?

Below is a Compensation Philosophy worksheet to get you started. Fill in the blanks to create a simple compensation philosophy for your organization.

Nonprofit Compensation Philosophy

At [Organization Name], we believe that how we pay our employees should reflect our [core value or mission word], support our ability to [verb: recruit/retain/motivate] talented staff, and ensure that our practices are [adjective: fair/equitable/transparent]. Our goal is to build a compensation system that helps us [verb: attract/retain/grow] people who share our commitment to [cause or mission focus].

Fill in the blanks below:

Organization Name: _____

Core value or mission word: _____

Verb (recruit/retain/motivate): _____

Adjective (fair/equitable/transparent): _____

Cause or mission focus: _____

5. Understanding what Staff Value

Which of the following components are **up for review/discussion**?

Compensation Items	Currently Offered	Willing to review or consider
Salary Policy		
Cost of Living Increase		
Bonuses		
Health Insurance		
Dental Insurance		
Vision Insurance		
PTO -vacation/sick time		
PTO-sabbatical		
Retirement- 401k/403b		
Professional Development		
Wellness Funds (funds for staff to spend on wellness)		
Stipends (transportation, office etc.)		
Non-financial perks (remote work, flexible hours etc.)		
Others:		

Now that you have your list of items up for review, we recommend surveying staff on what benefits they value most and/or want more of? Here is a [sample survey](#) You can copy and modify to use with your staff.

6. Market Research & Benchmarking

Conducting market research provides important data to inform your organizations' decisions on compensation structure. In order to retain talented staff, it's important to pay on par or above the 50th percentile of the market. We recommend benchmarking every 2-3 years to ensure your compensation is up to date.

1. Do you want to do any market research to benchmark salaries this year? *(It is recommended to do benchmarking every 2-3 years)*
 - ☐ Yes
 - ☐ No (skip to the next section)
2. Which external compensation data will you use? *(This should be informed by the regions that your current staff and future hires may be considering. For instance, a remote organization should use national data. An organization that only hires locally may want to consider a more localized data set).*
 - ☐ [TREC Salary Survey](#)
 - ☐ National or regional nonprofit surveys (list here: _____)
 - ☐ Peer organizations (list 2-3):
 -
 -
 -
3. Who will conduct the research and analyze salary data?
4. Do you want to benchmark to the:
 - ☐ 50th Percentile (matching the market)
 - ☐ 75th Percentile (leading the market)
 - ☐ Other: _____

Here is a sample table, which can be used to fill out for market research:

<i>Job title at your organization</i>	<i>Benchmarking Job Title</i>	<i>Benchmark salary (can be 50th percentile, 75th percentile etc.)</i>
<i>Ex: Communications Specialist</i>	<i>Ex: Communications Manager</i>	<i>Ex: \$64,500</i>

7. Clarifying Job Titles

Having clear, consistent titles and job descriptions across your organization ensures that an employee's title accurately represents their work and level of responsibility, and that their current job duties are up to date. This is important to lay the foundation for assessing and updating compensation.

1. Are your current job titles and job descriptions up-to-date and aligned? For example, does someone's job description accurately describe what their work looks like now?
 - ☐ Yes
 - ☐ No *(if no, work with staff to identify any discrepancies or updates)*
2. Are job titles used uniformly across the organization?
 - ☐ Yes
 - ☐ No *(if not, address this or create a clear rubric of titles and their equivalencies within the organization.)*
3. Is it clear how someone moves to a more senior role? *(For example, from a Program Coordinator to a Program Manager)*
 - ☐ Yes *(great job! Ensure this information is clearly communicate to staff)*
 - ☐ No *(if no, clarify what distinguishes the qualifications or responsibilities of junior versus senior roles)*

If you answered 'no' to any of the above, create a plan with your team to address this.

8. Creating/Refining Salary Structures

Clear salary bands, ranges, and/or levels are an important element in defining your salary structure. These create paths and boundaries for setting salaries and determining pay increases. This is useful for employees to understand where their salary fits in with the overall organization's pay structure and what their earning potential is in the future. It also helps managers to set salaries fairly. This works in tandem with clear job descriptions, titles and department structures to create explicit, and easy to understand roles, including their salaries.

1. Do you have explicit salary bands within your organization (i.e. ranges that different roles are paid) that are currently satisfactory?
 - ☐ Yes
 - ☐ No *(if no, consider creating these)*

2. Is it explicitly defined what would place you in the lower, middle, or upper end of the salary band?
 - ☐ Yes
 - ☐ No *(if no, consider creating these)*

3. What elements are the most important to reward and retain in staff?
 - ☐ Prior relevant experience
 - ☐ Performance
 - ☐ Tenure at the organization
 - ☐ Ability to manage/supervise
 - ☐ Specialized knowledge or skillsets (such as biologists, lawyers etc.)
 - ☐ Other:

You can consider developing a **salary formula** for consistency in new hires. This looks like having clear increases in pay according to the elements you are trying to reward or retain. This is useful for keeping pay consistent between new hires and current staff; when a new employee is hired, this formula can be used to determine their starting pay.

For example, if an organization values tenure, specialized knowledge and prior relevant experience they could create a specific dollar amount for each of these categories that is added to the base pay of the role, such as:

- *each year of tenure at the organization = base pay + \$500 per year of prior experience*
- *specialized knowledge/degrees = base pay + \$1600*
- *each year of prior relevant experience = base pay + \$500 per year of prior experience*
- *A staff person with specialized knowledge, and two years of prior experience would be eligible for a base pay + \$1600 + \$1000 (for two years of experience, at \$500 per year)*

Another version of this is to create ranges within the salary band. For example, a salary band could be split into thirds according to years of experience:

- *the bottom third of the salary band is for 1-2 years of experience*
- *the middle salary band is for 4-6 years of experience and*
- *the highest end of the salary band is for 7+ years of experience*

9. Ensuring Compensation Equity

Compensation equity is important for both legal and HR reasons, as well as for staff retention and morale. It is important to ensure that staff are being paid fairly for their experience and contributions to the organizations, and that there are not pay inequities based on demographics (such as gender or race), tenure (such as new staff having higher salaries than existing staff who hold the same roles) or any other factors.

Will you be conducting a pay equity audit?

- ☐ Yes (*see example below*)
- ☐ Possibly (*see example below*)
- ☐ No (*move to next section*)

When conducting a Pay Equity Audit, examine the following:

1. Internal Alignment across titles & departments

- Analyze if staff who hold the **same titles** (i.e. three Program Coordinators) have similar pay, and that there are clear and consistent rationales for any difference in pay between those with similar titles.
 - Flag any disparities >5% within the same grade/role that cannot be explained by their experience/qualifications or responsibility/duties. These should be addressed.
- Analyze if staff with similar roles **across departments** have similar pay ranges (i.e. Program Manager vs. Development Manager). These should be in consistent grades/ranges with each other, unless there are explicit reasons otherwise.
- Document rationale for any outliers and flag any that may need to be addressed.
- Ensure supervisors consistently earn more than direct reports (unless there is a documented exception or reasoning for this).

2. Equity across Demographics

- Compare salaries by gender, race/ethnicity, or any other demographic that is relevant to your workforce. You can do this by looking at the average pay for different groups in similar jobs. For example, what is the average pay for all women versus men in a certain role? If your organization is small and does not have many people in similar jobs, skip the next bullet.
- Is leadership held predominantly by certain demographics within your organization? Are the lowest-paid or most junior roles all held by certain demographics within your organization?

- If so, assess how to address this and create paths to leadership and promotions

3. External Competitiveness

- When you hire a new position, do you typically have to increase the salary in order to recruit viable candidates? If so, this is a sign that you need to increase your existing salaries more regularly to keep up with the market
- Do you benchmark your salaries at least every 2–3 years against market surveys? If not, consider doing so to ensure you are paying your workforce fairly. TREC has a salary survey that is conducted every three years that has both national and state-by-state data that could be used for this purpose.
- Ensure all roles pay above 25th percentile of market, and/or a [living wage](#) for the regions you work in.

4. Salary Ratio

- Calculate the ratio of the lowest to highest paid employee? (Divide the salary of the highest paid worker by the salary of the lowest paid worker).
 - Consider setting a ceiling for this ratio? (i.e. 3:1 or 2:1 etc.) Larger organizations tend to have higher ratios as there are more employees and a larger spread of salaries.

5. Transparency & Communication

- Is your compensation philosophy documented and shared internally?
- Are ranges visible to staff (full or partial, depending on your policy)?
- Do you have a clear method that ensures consistent decisions to determine where staff fall within salary bands? (such as a salary formula, or clear instructions on how to determine this)
- Do managers have talking points/scripts for pay discussions to ensure consistency?
- For any of the above questions that you answered 'no' to, create a plan to address this.

6. Executive Compensation

- Is your Executive pay reviewed and approved by the board (and supported by market data + documentation)? If not, work with a board committee to address this.
- Ensure that Board minutes reflect the rationale for executive compensation decisions.