COMPENSATION THE RIGHT WAY: WITHOUT OKRS

By Ryan Panchadsaram

Learn more about goal setting and OKRs at WhatMatters.com

INTRODUCTION

Compensation the right way

How you compensate as an organization reflects how you value your most important asset: your people. So how do you do it the right way? How do you create a compensation plan that attracts the best, retains your brightest, and motivates your workforce?

— Do your research and start with a fair salary

— Make sure your salary decisions are consistent

— Craft benefits that will attract a diverse group of employees

— Tread carefully with bonuses

— Bonuses need to inspire the collective and motivate the individual

— Divorce OKRs from the individual performance review

— Shift to a quarterly cadence for individual performance reviews

— Hiring and promotions should be done by committee

1. **Do your research and start with a fair salary**

   Understand the market that you operate in. Find out what your direct competitors are paying in salary and equity. Compare that with averages throughout the industry. Get a sense of the difference between fair, competitive, and aggressive salaries. Consider the value of specific years of experience, skills, and education. And don't forget the cost of living in your area.

2. **Make sure your salary decisions are consistent**

   Employees should feel valued for the work they do and know what factors contributed to determining their salary. When hiring and promoting, be consistent. Over time, you may find salary discrepancies based on race or gender. Take the appropriate measures to correct that.

3. **Craft benefits that will attract a diverse group of employees**

   Compensation is not always the top priority. You can offer benefits that attract a wide range of talented people at different stages in their life. Students and recent graduates value opportunities that prioritize career development. New parents value maternity, paternity, and childcare benefits. Caregivers value flexible work arrangements. The way you treat your employees will shape your culture.

4. **Tread carefully with bonuses**

   The moment you introduce bonuses to your workforce, it is near impossible to remove them. In Work Rules!, Laszlo Bock summarizes research from Edward Deci and Richard Ryan of the University of Rochester where they found that introducing an incentive does increase productivity, but if the incentive is removed it can lower productivity below where it was before the incentive was introduced. Bock wrote, “Deci and Ryan concluded that the introduction of an extrinsic reward caused people to think of their work differently from that point on by reducing intrinsic motivation.”

5. **Bonuses need to inspire the collective and motivate the individual**

   According to researchers from the University of East Anglia and the University of Sheffield, performance-based incentives have a positive relationship with job satisfaction and trust in management but lead to an increase in work pressure. On the other hand, profit-related incentives were found to have negative effects on job commitment and trust in management, except in situations where profit-related pay was accessible to a large portion of the workforce. Overall, research suggests that individual incentives can contribute to a culture of competition while team-based incentives can result in a culture of cooperation and increased team performance. However, the latter can lower individual motivation due to perceptions of inequity.

   With all that considered, we recommend bonuses be structured by three multipliers: overall or company performance, team performance, and individual performance. This strategy aims to strike a balance of creating a collaborative work culture while still encouraging individual motivation.

6. **Divorce OKRs from the individual performance review**

   OKRs should be used for collective commitment. Some organizations abuse OKRs and use them as a “carrot” or “stick” in performance evaluations. It is toxic to tie OKRs directly to bonuses → “if you achieve your OKRs, you get your bonus”. It is even more toxic to blindly tie OKRs to an individual’s performance → “by failing to meet your OKRs, you are failing as an employee”. Both of these behaviors will encourage sandbagging and will cause employees to see OKRs as an administrative tool.

   OKRs should be an input into the performance conversation. According to Laszlo Bock in Measure What Matters, OKRs amount to a third or less of performance ratings. They take a backseat to feedback from cross-functional teams, and most of all to context.

7. **Shift to a quarterly cadence for individual performance reviews**

   The yearly cycle is broken. The anticipation. The anxiety. The recency bias. It is healthier for managers to continually give feedback to employees throughout the year. By scheduling quarterly performance conversations you have more opportunities to coach, guide, and ensure the success of each employee. We recommend OKRs be complemented with CFRs (Conversations, Feedback, and Recognition) as a form of continuous performance management. CFRs equip OKRs with fuller context and prioritize personal development and growth.

8. **Hiring and promotions should be done by committee**

   Adopt a practice from the Google re:Work handbook and make hiring and promotion decisions by committee. It may feel like committees make decision making harder and more bureaucratic, but their research shows that it helps make better and less-biased hiring and promotion decisions.

If you have more questions, send them to: hello@whatmatters.com

Learn more about goal setting and OKRs
at WhatMatters.com