

# IS IT TIME FOR MULTIPLE MERIT CYCLES EACH YEAR?





## Compensation planning is crucial for employee retention, and addressing pay issues promptly can have a significant impact. So, why are compensation planning and merit processes typically handled once a year?

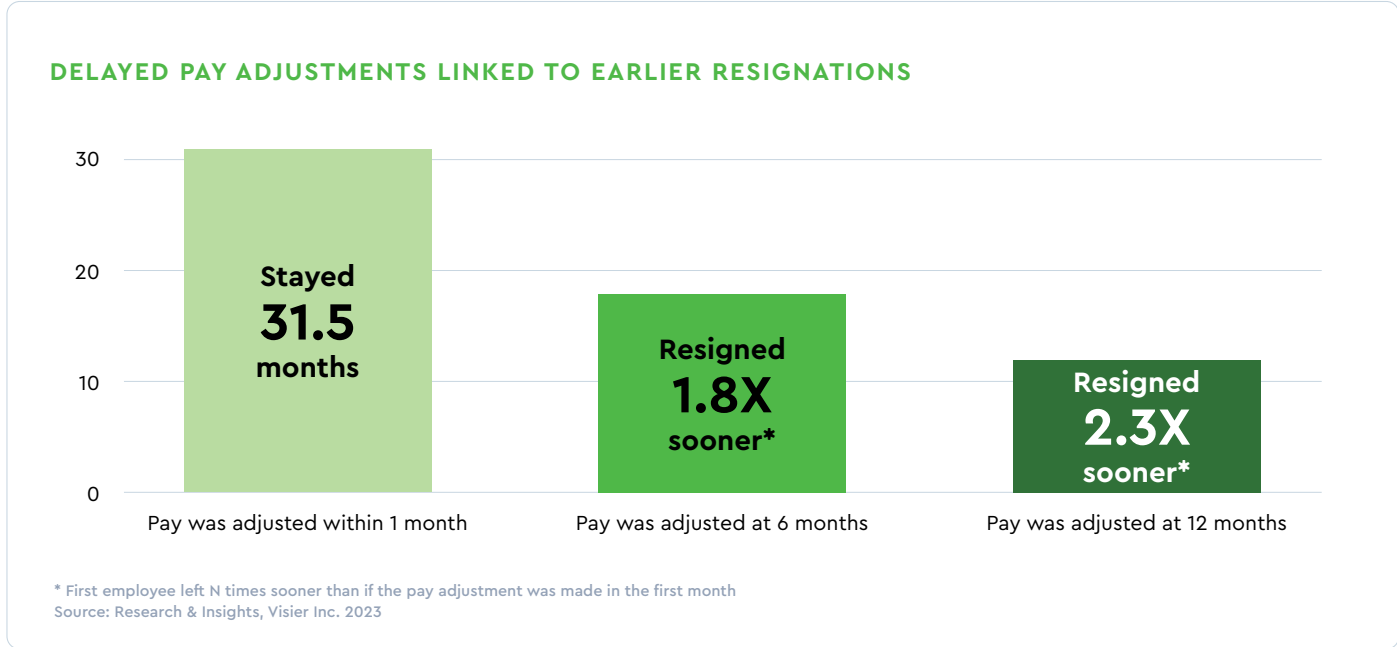
The simple answer is that it used to be incredibly difficult. Without systems in place, getting individual line managers' feedback involved manual processes, many emails, and compiling numerous spreadsheets. This entire process had to be completed before starting the actual compensation and management review—while somehow seamlessly integrating the changes into the payroll systems correctly and on time.

There are many potential issues with this process, including errors, omissions, and security concerns, and several stakeholders agree that it's a time-consuming and stressful process for everyone involved. While some organizations are starting to conduct these reviews multiple times a year, most aren't eager to handle this process more than once a year. Recent Deloitte research<sup>1</sup> indicates that 56% of organizations have redesigned their compensation strategy in the last three years, yet 57% of firms still manage this complex process in error-prone spreadsheets.

In today's dynamic job market, where employees change roles more frequently, letting pay issues accumulate over time can be detrimental. Additionally, as more organizations align bonus structures with both employee and company performance, addressing pay issues more frequently aligns compensation with current business results. It also eliminates the "recency effect" that can occur with a more annualized process.

Promptly addressing issues like pay compression, inequity in salary ranges, and overall pay equity ensures they're managed effectively and fairly, preventing them from worsening over time. Tackling these issues as they arise is also important for employee retention. Visier research<sup>2</sup> found a link between delayed pay adjustments and earlier resignations. For instance, in situations where new hires received higher salaries, existing employees whose salaries weren't adjusted within six months resigned 1.8 times sooner compared to those whose pay was adjusted within the first month of the new hire's entry, and employees who didn't receive a pay adjustment within 12 months resigned 2.3 times sooner.

**56% of organizations have redesigned their compensation strategy in the last three years, but 57% still rely on error-prone spreadsheets.**



Months until first resignation after highest paid new team member joins



# Why traditional compensation planning occurs once a year

Compensation planning and merit processes have previously been conducted once a year due to the complexity, extensive manual effort required, and time-consuming nature of the process.

- 1. Complexity:** Compensation planning involves evaluating multiple factors such as market rates, employee performance, budget constraints, and organizational goals. Without advanced systems in place, gathering feedback from individual line managers is a logistical nightmare. This process often involves extensive paperwork, countless communications, or the merging of numerous spreadsheets.
- 2. Extensive manual effort:** After collecting feedback from all stakeholders, a thorough compensation and management review is required, followed by ensuring seamless integration with payroll systems.
- 3. Time-consuming and stressful:** The entire process is prone to errors, omissions, and security concerns, making it a daunting process for all involved.

According to Novo Insights<sup>3</sup>, this annual process represents the single largest investment and the single largest usage of manager capacity at the same time. They explain, “The annual cycle is a huge investment, both of compensation dollars and organizational focus.” Given these challenges, it’s understandable why organizations have traditionally limited this process to once a year, despite the increasing frequency of such activities in some organizations.

# The case for multiple merit cycles

Employee tenure is shorter than it used to be and the ease of movement in the marketplace has increased. Allowing pay issues to accumulate over time is not a viable strategy. By tackling pay compression and equity issues quickly and often, companies can maintain employee satisfaction and retention, ultimately fostering a more stable and motivated workforce.

## Benefits of multiple merit cycles

- **Align compensation with performance.** More frequent cycles can align bonuses and merit increases<sup>4</sup> with employee and company performance, reducing the impact of the “recency effect” seen in annual reviews.
- **Tackle pay compression and equity issues.** Addressing these issues quickly and closer to when they occur prevents them from festering into a larger problem that negatively impacts employee morale.
- **Improve retention.** Proactively managing compensation can help retain top talent by promptly addressing their pay concerns.
- **Mitigate risk.** Failure to address issues like pay compression, equity, and performance-based raises increases the risk of employee attrition. Multiple cycles throughout the year can mitigate these risks by ensuring timely and fair compensation adjustments.



# Take an analytics-driven approach

The notion that managing multiple merit cycles is too difficult is quickly becoming outdated. Modern technology allows for sophisticated and flexible compensation planning and optimal distribution of pay dollars.

## Customize pay philosophies

Organizations can encode and deliver various pay philosophies tailored to their unique department needs and balance the available budget against objectives before managers begin the allocation process.

### Create your company's pay philosophy

A pay philosophy documents the company's position on employee compensation and reflects your company's culture, values, and goals. It is designed to attract, retain, and motivate employees by addressing key topics such as pay for performance, market-based compensation, and a balance between short-term and long-term compensation elements.

Get a head start by using our ready-made presets and customize them to bring your own unique and thoughtful philosophy to life.

Compare all presets

 <b>Balanced</b> Follows a pay for performance based pay philosophy. <span>In use</span>	 <b>Market Adjustment</b> Rebalance after a change in pay band due to market changes. <span>Use preset</span>	 <b>Proficiency based pay</b> Rewards employees on their expertise, not just performance. <span>Use preset</span>
 <b>High performance culture</b> Rewards employees for their performance. <span>Use preset</span>	 <b>Public Sector</b> A focus on keeping within pay bands. <span>Use preset</span>	 <b>Start from scratch</b> A completely blank slate, just waiting to be built up with your specifics. <span>Start from scratch</span>

## Customize your merit matrix

Adjust the preset merit matrix to meet your needs for recommended employee increases and ensure you are within budget. This helps you better understand how your budget will be allocated across the team based on actuals.

### ← Merit matrix

Performance 4pt

Level 1	Level 2	Level 3	Level 4
<b>4 %</b> Employees: 25 (25%) Total: \$100,000	<b>4 %</b> Employees: 25 (25%) Total: \$100,000	<b>8 %</b> Employees: 25 (25%) Total: \$200,000	<b>16 %</b> Employees: 25 (25%) Total: \$400,000



### Optimize budget utilization

Effective compensation strategies can be implemented to maximize the impact of your total compensation budget.

### Complex pay segmentation

Pay increases can be segmented by divisions, functions, locations, or other criteria to align with business goals.

“ The reason why I love Visier Smart Compensation so much is, number one, I think it takes our comp practices out of the 90’s. And number two, it really adds a layer of intelligence to how we do total rewards. If we think about total rewards as a function, it’s the most data rich area of HR outside of the core demographic data. It is the area where we can collect the most amount of insight in terms of behavior patterns for employees, how they interact with the work, and how financials, which is a huge component, play into all of this conversation. And Smart Compensation really brings all of that to light for us as an internal function.



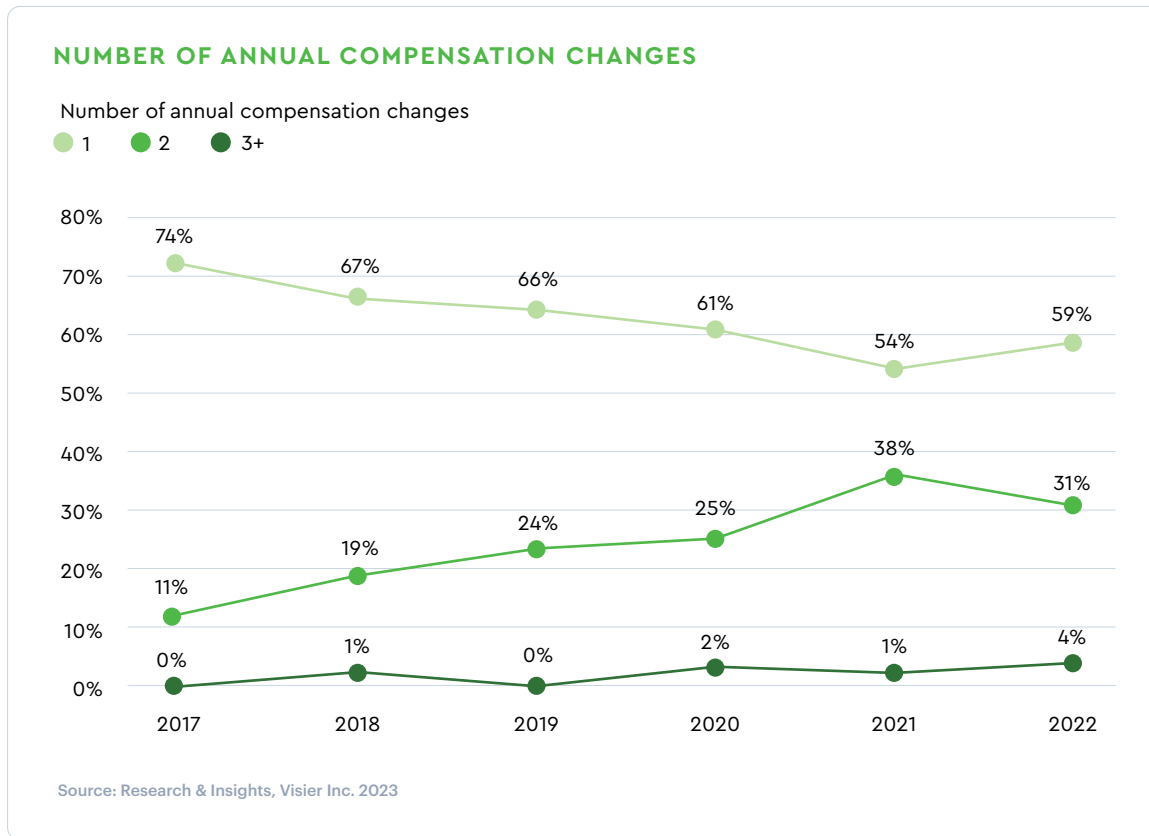
Lydia Wu,  
HR Technology Leader



# Flexible timing and frequency

With the right compensation platform, organizations can choose the timing and frequency of their merit cycles. Visier research<sup>5</sup> found the proportion of companies moving from one to two—or more—annual compensation changes has increased.

- **Monthly cycles:** Ideal for field bonuses, anniversary increases, and other regular adjustments.
- **Most popular Quarterly or biannual cycles:** Suitable for addressing pay equity and compression issues throughout the year.
- **Annual cycles with supplements:** A core annual cycle can be supplemented with additional cycles for bonuses and pay adjustments.



Percentage of companies that have a number of annual compensation changes



# Embracing merit cycle changes

Organizations need to move past the prejudices and habits of the traditional annual process. Embracing multiple merit cycles requires:

- **Strategic thinking**

Compensation planning should focus on what best drives business goals. To improve your overall compensation strategy, **Visier People**® provides extensive compensation analytics such as who is leaving, the level your top performers are rewarded, the distribution of compensation dollars, resignation rates by compa ratio, retention rates by pay levels, and more.

Visier's **Smart Compensation** enables your HR rewards and benefits team to take these essential learnings and apply leading best practices to drive a consistent and effective pay philosophy across your organization.

- **Adaptability**

Systems and processes should be flexible enough to handle increased complexity. For example, with **Smart Compensation** you can quickly pinpoint key talent you're at risk of losing with the AI predictor. This allows you to calculate the total cost of replacing employees and adjust for the risk of attrition, helping you decide whether to increase pay for key talent.

- **Data portability**

Data portability is beneficial for managing compensation cycles as it ensures seamless integration, accuracy, and efficiency of data across systems, enabling better decision-making and compliance.

It's critical that data can be easily moved and managed across different cycles. Visier's **Smart Compensation** enables you to export base pay, promotions, and bonus data into your HRIS or HCM application from a mass upload template.



**Now managers have access to meaningful information, including the employee's prior year's ratings, rewards given, contextual comparisons in groups, which are all exposed with Smart Compensation.**



**Mark Berry**  
Chief People Officer  
Inari

## Conclusion

It's time to rethink the traditional annual compensation planning process. By adopting multiple merit cycles, organizations can better align compensation with performance, address pay issues promptly, and ultimately curb employee churn. Consider creative approaches to total rewards that prioritize and support best for your organization, hiring managers, and employees regarding compensation planning!



## Endnotes

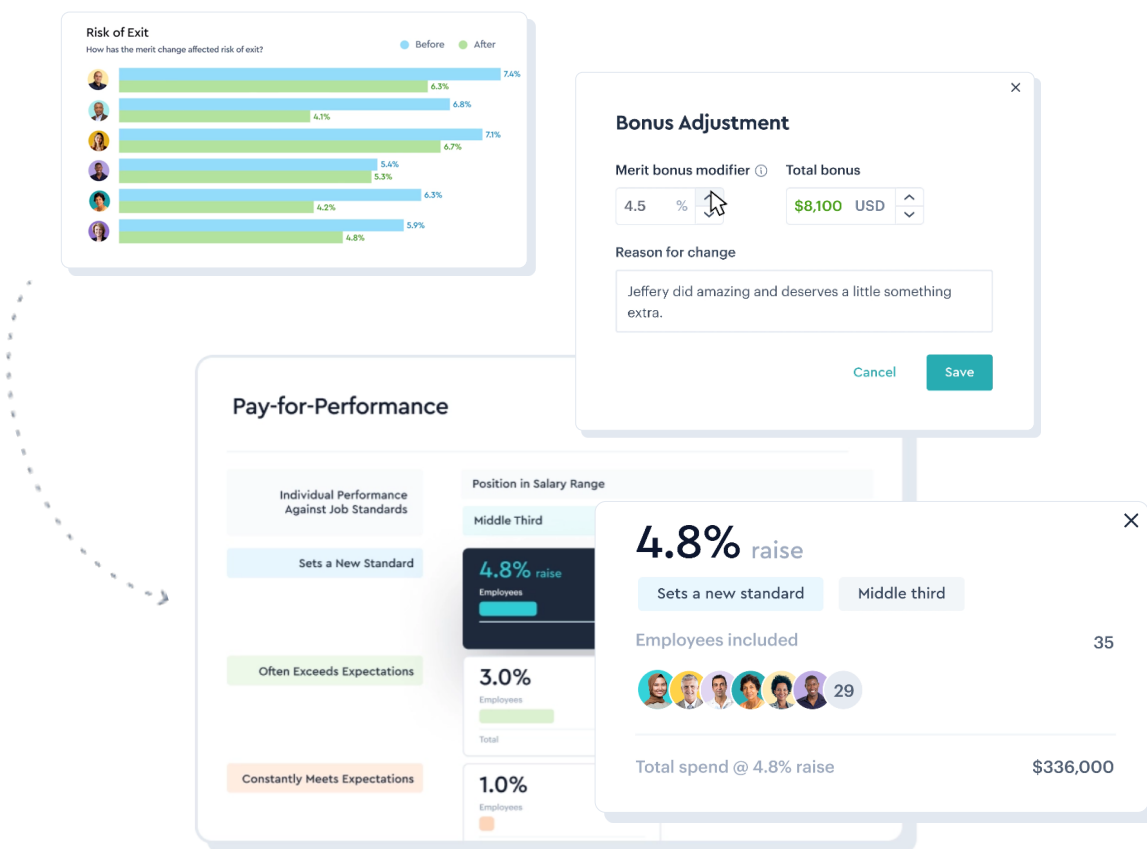
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# About Smart Compensation by Visier

Visier's Smart Compensation solution empowers organizations to optimize their compensation strategies through data-driven insights. It facilitates equitable, competitive salary allocations by leveraging analytics to understand market trends, performance metrics, and compensation fairness. This innovative tool aids in enhancing talent retention and recruitment by ensuring pay practices are aligned with industry standards and organizational goals, thereby promoting transparency and fairness in compensation management.

For more details, visit [visier.com/products/smart-compensation](https://visier.com/products/smart-compensation).





# About Visier

Visier is the recognized global leader in people analytics, workforce and compensation planning, embedded solutions, and GenAI for people answers.

At the core of Visier’s innovations is a simple premise: People impact is business impact, and you can’t manage what you don’t measure. Visier gives people-powered organizations the tools and insights to drive productivity, performance, and business outcomes through people impact.

Founded in 2010 by the pioneers of business intelligence, Visier has over 50,000 customers in 75 countries, including enterprises like BASF, Panasonic, Experian, Amgen, eBay, Ford Motor Company, and more. Visier is headquartered in Vancouver, BC with offices and team members worldwide.

For more information, visit [visier.com](https://visier.com).





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