

What Is Employee Compensation Strategy?

Worksheet

Compensation strategy combines base salary, variable pay, benefits, and recognition to reward performance, align with market rates, and motivate employees-balancing attraction, retention, and business sustainability.

Questions

1. What is the primary goal of compensation strategy?

- A) Pay employees as little as possible
- B) Attract, motivate, and retain talent while controlling costs and aligning with performance
- C) Match competitor pay exactly
- D) Eliminate all benefits to save money

2. Why is market benchmarking important?

- A) To underpay relative to competition
- B) To ensure your pay is competitive, attract top talent, and minimize turnover
- C) It's not important; pay what you want
- D) Only large companies need benchmarking

3. What's the advantage of variable pay (bonuses) over flat salary?

- A) It's cheaper for the company
- B) Aligns effort with outcomes, motivates performance, shares risk/reward
- C) Employees prefer unpredictability
- D) Reduces HR costs

4. How should equity compensation be structured?

- A) All shares vested immediately
- B) Multiple-year vest (e.g., 4 years) with a cliff (e.g., 1 year before any vesting)
- C) No vesting; equity is meaningless
- D) Only executives get equity

5. A tech company wants to attract top engineers. What compensation strategy?

6. A manufacturing plant has high turnover among factory workers. How to address via compensation?

7. A startup has limited cash but wants to retain key early employees. Compensation strategy?

8. Define: What is compensation strategy?

9. Define: What are the components of total compensation?

10. Define: What is market benchmarking in compensation?

Answer Key

1. B) Attract, motivate, and retain talent while controlling costs and aligning with performance - Compensation strategy balances multiple goals: competitiveness, performance alignment, sustainability, and retention-not minimization alone.
2. B) To ensure your pay is competitive, attract top talent, and minimize turnover - Benchmarking ensures your compensation is competitive. Too low = lose talent; too high = waste; benchmarked = efficient and fair.
3. B) Aligns effort with outcomes, motivates performance, shares risk/reward - Variable pay ties rewards to performance or business results-motivating desired behaviour and sharing upside with employees.
4. B) Multiple-year vest (e.g., 4 years) with a cliff (e.g., 1 year before any vesting) - Vesting schedules (cliff + graded) retain talent by making equity valuable only if they stay-aligning long-term interests.
5. 1. Market Research: Benchmark engineers' salaries in the tech hub-\$150k-\$200k base. 2. Competitive Base: Offer \$180k (mid-market, signals confidence). 3. Variable: Add 15-20% annual bonus (tied to performance/revenue). Stock options (3-year vest) for long-term stake. 4. Benefits: 401(k) match, health, unlimited PTO, learning budget. 5. Total Offer: \$180k + \$27k bonus + \$30k stock/year + benefits = ~\$240k+ total value package. Promotes retention.
6. 1. Diagnose: Exit interviews show pay is below local competitors + unsafe bonus structure. 2. Raise Base: Increase hourly wage 10-15% (e.g., \$18/hr to \$20.50/hr) to market rate. 3. Performance Bonus: Introduce monthly safety/productivity bonus (\$100-300) to incentivize, not punish. 4. Benefits: Improve healthcare, add retirement plan (even modest 3% match makes difference). 5. Communication: Transparently share why pay changed; build trust. Monitor turnover over 6 months.
7. 1. Honest Conversation: Can't match big-company salaries; offer equity + growth story. 2. Below-Market Base + Equity: \$120k salary + 1% stock options (4-year vest, 1-year cliff). Upside if IPO/acquisition. 3. Other Benefits: Flexible hours, growth opportunities, learning budget-valued by early-stage talent. 4. Milestone Reviews: Commit to salary bumps at funding rounds (Series A, B) to catch up to market. 5. Transparency: Show equity calculations and exit scenarios; align interests. Retention via upside, not just base pay.
8. The systematic design of base pay, variable pay, benefits, and recognition to attract, motivate, and retain talent aligned with business goals.
9. Base salary, variable pay (bonus/commission), benefits (health/retirement/leave), and non-monetary rewards (recognition/development).
10. Comparing your pay rates against industry peers and geographic markets-ensuring you're competitive to attract and retain talent.

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