**ABC Company Compensation Philosophy**

**Effective Date:** April 1, 2024

**Our Commitment:**

At ABC Company, our employees are our most valuable asset. We believe that attracting, retaining, motivating, and developing talented individuals is critical to our collective success. Our Compensation Philosophy outlines the principles that guide how we make decisions about pay, ensuring fairness, competitiveness, and alignment with our company values and business objectives.

This document provides transparency into how compensation programs are designed and administered at ABC Company.

**1. Our Compensation Philosophy Statement:**

ABC Company strives to provide **competitive and equitable total compensation programs** that are:

* **Market-Driven:** We benchmark our compensation practices against relevant external markets, focusing on the **Technology industry**, to ensure our pay opportunities are competitive for the talent we need.
* **Performance-Oriented:** We recognize and reward employees based on their contributions, impact, and performance against goals.
* **Internally Equitable:** We aim for fairness in pay decisions, considering factors like role responsibilities, skill requirements, experience, and performance, relative to peers within the company.
* **Transparent & Understandable:** We are committed to providing clarity on how our compensation programs work, how pay decisions are made, and how employees can influence their compensation growth.
* **Aligned with Total Rewards:** We view compensation as one part of a broader Total Rewards package, which includes comprehensive benefits, wellness programs, retirement savings, career development opportunities, and a positive work environment.

**2. Total Rewards Approach:**

While base salary is a key component, we encourage employees to consider the full value proposition of working at ABC Company. Our Total Rewards package includes:

* **Base Salary:** Fixed pay for performing job duties.
* **Variable Pay / Incentives:** Potential annual cash bonuses based on company, team, and individual performance (eligibility varies by role and level, typically Manager level and above, and Sales roles).
* **Equity Awards:** Potential Restricted Stock Unit (RSU) grants for eligible roles (typically Senior professional levels and above), designed to align employee interests with long-term company success.
* **Comprehensive Benefits:** Health (Medical, Dental, Vision), Income Protection (Life, AD&D, Disability), Retirement Savings (401(k) with company match), Health Savings Accounts (HSA with company contribution), Flexible Spending Accounts (FSA), Employee Assistance Program (EAP), and more.
* **Paid Time Off:** Generous PTO, 11 paid holidays annually, paid parental leave, and other leave policies.
* **Wellness Programs:** Resources and initiatives supporting physical, mental, and financial well-being, including gym discounts and EAP services.
* **Career Development:** Opportunities for learning through internal training, potential tuition reimbursement, skill development workshops, and internal mobility pathways.
* **Recognition Programs:** Formal programs like our "Applause Awards" and informal team-based recognition acknowledge employee contributions and milestones.

**3. Pay Positioning & Market Strategy:**

* **Market Definition:** We define our competitive market based on the **Technology industry**, focusing primarily on companies of similar size and scope within the geographic regions where we have significant employee populations (e.g., major tech hubs in the US). We utilize reputable third-party compensation surveys (such as Radford or Mercer SIRS) and publicly available data sources.
* **Target Positioning:** ABC Company generally aims to position **target total cash compensation** (base salary + target bonus, where applicable) around the **50th percentile (median)** of our defined competitive market. For critical or hard-to-fill roles, we may target a higher market position (e.g., 60th-75th percentile).
* **Flexibility:** While the median is our general target, actual pay positioning for specific roles or individuals may vary based on factors such as job criticality, skill scarcity, individual performance, experience level, and internal equity.

**4. Job Architecture & Leveling:**

* **Job Architecture:** ABC Company utilizes a formal job architecture structure. Jobs are grouped into **Job Families** (e.g., Software Engineering, Product Management, Sales, Marketing, Finance, HR, Operations) based on the nature of the work. Within each family, roles are assigned specific **Levels** (e.g., L1 Associate, L2 Intermediate, L3 Senior, L4 Principal/Lead, M1 Manager, M2 Senior Manager, D1 Director) based on standardized global leveling criteria.
* **Leveling Process:** Job leveling is the process of determining the appropriate level for each role within the architecture. This is based on an objective evaluation of the role's:
	+ **Scope & Impact:** Breadth of responsibility, influence on business results, geographic scope.
	+ **Complexity & Problem Solving:** Difficulty of challenges, innovation required, level of judgment.
	+ **Knowledge & Experience:** Required technical/domain expertise, years of relevant experience.
	+ **Leadership & Autonomy:** Degree of supervision, team leadership, project management, strategic input.
* **Focus on the Role:** It's important to understand that we level the *role* itself, not the individual *employee* in the role. Leveling defines the expectations and relative value of the position within the company structure and against the external market.
* **Pay Ranges:** Each job level corresponds to a **pay range**, which reflects the market value for that level of work. Pay ranges typically have a minimum, midpoint, and maximum. The **midpoint** generally aligns with our market target (50th percentile). Ranges provide flexibility to pay individuals based on factors outlined in Section 8 (Pay Decisions). Pay ranges are reviewed annually and updated based on market trends.

**5. Pay Transparency:**

ABC Company is committed to responsible pay transparency. This means we will:

* **Share this Compensation Philosophy:** Make this document readily accessible to all employees via the company intranet.
* **Provide Pay Ranges:** Communicate the established pay range for an employee’s specific job level upon hire, upon promotion, or upon request to their manager or HR Business Partner. Pay ranges will also be included in job postings where required by law. Managers are equipped to discuss an employee's position within their pay range ("range penetration").
* **Explain the Process:** Clearly communicate how compensation decisions (e.g., merit increases, promotions, bonus payouts) are made through manager communications and resources on the HR portal.
* **Maintain Confidentiality:** While promoting transparency about our *process* and *structure*, individual employee pay information remains confidential. We encourage employees to focus discussions with their managers on their *own* compensation relative to their role, performance, and range, rather than comparing specific salaries with colleagues, which can often lack full context.

**6. Compensation Components:**

* **Base Salary:** Determined based on the job level's pay range and considers factors like experience, skills, performance, and internal equity. It is reviewed periodically (see Section 7).
* **Variable Pay (Annual Incentive Plan - AIP):** Eligible employees (typically Manager level and above, and Sales roles with specific commission plans) participate in the AIP. Payouts are based on achieving pre-defined goals (mix of company financial performance, business unit objectives, and individual performance ratings). Target bonus percentages vary by job level. Plan details are communicated annually.
* **Equity Compensation (RSUs):** For eligible roles (typically L3/Senior professional levels and above), Restricted Stock Units (RSUs) may be granted as part of the initial offer or ongoing rewards. RSUs typically vest over a multi-year period (e.g., 4 years with a 1-year cliff), providing a long-term stake in ABC Company's success. Details are governed by specific grant agreements available via our equity portal (e.g., Computershare or Fidelity).

**7. Compensation Review Cycle (Merit Planning):**

* **Timing:** ABC Company typically conducts its primary compensation review process, including merit increases and bonus determinations for eligible employees, **annually**. Performance reviews (year-end assessments) usually occur in **Q1 (January-March)**, with compensation adjustments (base salary increases, prior year bonus payouts) typically effective/paid on **April 1st**.
* **Merit Increases:** Merit increases are adjustments to base salary based primarily on individual performance rating for the prior year and the employee's position within their pay range. They are not guaranteed and depend on both individual performance achievement and the overall company merit budget approved annually based on financial performance and market conditions.
* **Other Adjustments:** Pay adjustments may also occur at other times throughout the year due to promotions, significant changes in job responsibilities ("re-leveling"), market adjustments identified for specific roles or locations, or internal equity reviews.

**8. Pay Decisions:**

An employee's specific pay rate within their assigned pay range is determined by considering several factors, including:

* **Performance:** Consistent achievement of goals and demonstration of required competencies, as reflected in performance reviews. Higher performers may progress faster or further within their range.
* **Experience:** Relevant skills and experience brought to the role and demonstrated proficiency developed over time at ABC Company or in prior roles.
* **Skills & Competencies:** Mastery of skills critical to the role, particularly those that are in high demand in the market.
* **Market Position:** How the individual's pay compares to the external market data for similar roles at their level.
* **Internal Equity:** How the individual's pay compares to peers in similar roles within ABC Company, considering valid differences in experience, skills, and sustained performance contributions.

Managers make pay recommendations in partnership with their HR Business Partner and the Compensation team, considering these factors within the context of guidelines and approved budgets. Final compensation decisions require management approval.

**9. Our Ongoing Commitment:**

ABC Company is committed to regularly reviewing and adapting our compensation programs (at least annually) to remain competitive, equitable, and supportive of our business strategy and talent needs. We utilize external consultants periodically to validate our market positioning and program effectiveness. We strive to administer all compensation programs fairly and consistently.

**Questions?**

We encourage you to discuss any questions about your compensation with your direct manager first – they have the most context about your role and performance. You can also reach out to your assigned HR Business Partner or the Compensation team for clarification on our philosophy and programs at CompTeam@abccompany.com. General HR inquiries can be directed to HRHelp@abccompany.com or (555) 123-4567.

**Disclaimer:** This Compensation Philosophy document provides a summary of ABC Company's approach to compensation. It is not a contract of employment and does not guarantee any specific pay adjustment, bonus payout, or benefit. Compensation programs, policies, and pay ranges are subject to change at the company's discretion based on business needs, market conditions, and in accordance with applicable laws and regulations. Official plan documents govern specific benefit and incentive plan details.