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People Capability Maturity Model[®] (P-CMM[®])

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FOR THE COMMANDER

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Compensation

A process area at Maturity Level 2: Managed

| | |
|--------------------|---|
| Purpose | The purpose of Compensation is to provide all individuals with remuneration and benefits based on their contribution and value to the organization. |
| Description | <p>Compensation represents the only process area at the Managed Level whose execution is coordinated by actions at the organizational level. Compensation must be coordinated primarily through centralized activity in order to establish a sense of equity in the system. Once the workforce perceives the system to be equitable, it can be adjusted to motivate the development of needed skills and better alignment of individual performance with that of the workgroup, unit, or organization. The compensation system should be designed to motivate and reward the skills and behaviors the organization considers vital to its success.</p> <p>A compensation strategy is developed that states the organization's philosophy and methods for compensating individuals. This compensation strategy is periodically reviewed against business conditions and revised when necessary. The opinions and interests of the workforce are considered in shaping the compensation strategy. The strategy covers all forms of compensation to individuals, both fixed and variable, and the criteria by which compensation is determined. A compensation plan is prepared periodically to guide the administration of the compensation strategy.</p> <p>Those responsible for making compensation decisions are provided guidance in administering and discussing the compensation strategy and decisions. Compensation decisions are based on criteria stated in the strategy and elaborated in the plan. Adjustments are made to an individual's compensation based on performance and other documented criteria such as skill development or promotion. Adjustments to compensation are communicated to affected individuals along with information about the basis for the adjustment.</p> |

Compensation decisions are reviewed to ensure they are equitable. They are reviewed collectively against external benchmarks to evaluate the extent to which total compensation is equitable in relation to the market. Compensation decisions are reviewed individually relative to other internal compensation decisions to ensure that compensation is equitable across the staff in relation to skills, experience, performance, and other appropriate criteria. Corrections are made to adjust inequities.

Goals

- Goal 1** **Compensation strategies and activities are planned, executed, and communicated.**
- Goal 2** **Compensation is equitable relative to skill, qualifications, and performance.**
- Goal 3** **Adjustments in compensation are made based on defined criteria.**
- Goal 4** **Compensation practices are institutionalized to ensure they are performed as managed processes.**

Commitment to Perform

- Commitment 1** **The organization establishes and maintains a documented policy for conducting its Compensation activities.**

Compensation is used to represent the concept of pay and guaranteed benefits. Pay includes any guaranteed fixed rate of salary or hourly wages provided to individuals, plus any variable amounts that are provided based on an existing agreement between the organization and the individual on how it is administered.

Issues typically addressed in the policy include:

1. Compensation activities serve business objectives and stated values of the organization.
2. The compensation strategy, practices, and activities comply with relevant laws, regulations, and organizational policies.

Examples of laws and regulations with which compensation systems must comply include the following:

- Labor-related laws and regulations, such as the Fair Labor Standards Act
- Laws and regulations that govern equal access to the workplace, limit discrimination, and identify sexual harassment, including the Equal Employment Opportunity (EEO) laws and regulations, Older Workers Benefit and Protection Act, and Equal Pay Act
- Retirement- and pension-related laws and regulations, such as Social Security and Medicare, COBRA, and the Employee Retirement Security Act
- Consumer Credit Protection Act
- Other applicable provincial, state, and local laws and regulations

3. Responsibilities for the organization's compensation strategy and plan are defined and assigned.
4. A compensation strategy is developed and periodically reevaluated.
5. Equity is established and maintained in the compensation system.
6. A compensation plan is periodically developed for administering the compensation strategy.
7. The basis for determining and adjusting compensation includes skill qualifications and performance.
8. The frequency with which compensation activities are performed is defined.
9. Responsibilities are defined for:
 - those who develop and administer the compensation strategy and plan.
 - those who make compensation decisions using the compensation strategy and plan.

10. Compensation information is confidential to the individual concerned.
11. The forms in which compensation information may be communicated, when it may be communicated, who may communicate it, and to whom it may be communicated are defined.
12. Appropriate compensation procedures are defined, documented, and used.

The human resources function or other appropriate professionals should review all such procedures to ensure they

- Are consistent with relevant laws, regulations, and organizational policies
- Respect the rights and dignity of individuals and groups

Compensation procedures are established and maintained for:

- making adjustments to compensation, and
- ensuring appropriate distribution, use, and retention of compensation documentation, including granting access to, and ensuring confidentiality of, these compensation data.

Commitment 2

An organizational role(s) is assigned responsibility for performing or coordinating Compensation practices at the organizational level and for assisting and advising units on Compensation activities.

Ability to Perform

Ability 1

Within each unit, an individual(s) is assigned responsibility and authority for ensuring that Compensation activities are performed.

Examples of individuals who may be assigned responsibility for various Compensation activities include the following:

- The unit manager or other designated individual
- A compensation and reward committee
- A resource manager
- A project or workgroup leader
- An empowered workgroup
- A member of the human resources function or other appropriate professional

Ability 2

Adequate resources are provided for Compensation activities.

1. Experienced individuals, who have expertise in compensation methods and procedures, are made available for guiding compensation activities.

Examples of contributions that could be made by those with special skills include the following:

- Designing and revising the compensation system
- Determining criteria for adjustments to compensation
- Participating in compensation decisions

2. Resources for supporting Compensation activities are made available.

Examples of resources include the following:

- Spreadsheets and analysis tools
- Compensation surveys
- Compensation templates and guidelines

3. The available funding for the various components of compensation is determined.
4. Funding for Compensation activities is made available.

Ability 3**Individuals performing Compensation activities receive the preparation needed to perform their responsibilities.**

1. Individuals performing Compensation activities are made aware of those components of the organization's compensation strategy that they need to understand to fulfill their responsibilities.
2. Individuals performing Compensation activities receive preparation to perform the Compensation practices needed to perform their responsibilities.
3. Individuals communicating information regarding the compensation strategy or an individual's compensation package are prepared to communicate this information appropriately.

Practices Performed

Practice 1**An organizational compensation strategy is developed.**

The organization's compensation strategy typically includes:

1. The rationale behind the strategic decisions made in the compensation strategy.

2. The vehicles for providing compensation and how they are to be used.

Examples of vehicles for providing compensation include the following:

- Salary or hourly wages
- Piece rate pay or incentives
- Incentive pay (e.g., commissions or sales incentives)
- Periodic bonuses
- Profit-sharing
- Gain-sharing
- Health, life, or disability insurance
- Benefits such as holidays, leave, and educational assistance
- Daycare
- Retirement contributions
- Stock or stock options
- Professional society memberships
- Company furnished resources (e.g., cars, home computers)
- Special assignment pay

3. Definition of the recurring basis on which adjustments to compensation are made.

Examples of the recurring basis on which adjustments to compensation are made include the following:

- Periodic, such as annually or quarterly
- Event-driven, such as on the completion of a project, completion of a performance period, or anniversary date of the individual in the organization
- Other recurring bases, as defined by the organization

4. Criteria for determining and adjusting compensation.

Example criteria for determining and adjusting compensation include the following:

- Current competencies and skills
- Experience
- Education completed
- Availability of skills in the market
- Job evaluation
- Job or pay bands (broadbanding)
- Individual performance and similar merit-based factors
- Team or unit performance
- Rate of change in cost of living
- Promotion
- Increase in work responsibilities
- Behaviors or activities valued by the organization
- Contribution to improvement activities
- Personal improvement relative to prior performance
- Unit or organizational performance
- Continued benefit of past contributions or performance
- Functions performed beyond assigned responsibilities
- Additional skills developed
- Leadership exercised
- Willingness to take on difficult assignments
- Position responsibilities
- Impact of position on unit or organizational performance

5. Guidelines for using different compensation vehicles and criteria in determining compensation for different positions.
6. The method(s) by which compensation decisions are made for individuals (and positions, workgroups, or units, if appropriate).
7. Methods for establishing and maintaining equity in the compensation system.
8. The frequency with which the compensation strategy needs to be reviewed.

9. Criteria for evaluating the appropriateness of the compensation strategy.

Practice 2

The organization's compensation strategy is periodically reviewed to determine whether it needs to be revised.

1. The review is organized by the individual(s) assigned responsibility for coordinating Compensation activities across the organization.
2. The compensation strategy is reviewed against its objectives and effects.

Examples of data regarding compensation strategy effects against which the objectives of the compensation strategy should be reviewed include the following:

- Opinions and feedback of the workforce
- Recruiting and hiring
- Individual, workgroup, or unit performance
- Retention and voluntary turnover
- Competency development
- Career development
- Workforce planning

3. Revision of the compensation strategy is considered when:
 - it is not having the intended motivational effect,
 - it does not reflect current business or market conditions,
 - it creates inequities,
 - it is having unintended or harmful effects,
 - current practices are not competitive with benchmark data from similar organizations, or
 - better compensation concepts have been identified.
4. The decision to revise the compensation strategy is reviewed with executive management.

Practice 3**When appropriate, the workforce provides inputs for developing or revising components of the organization's compensation strategy.**

Gathering input from individuals for developing or revising the compensation strategy is beneficial in gaining insights into the most effective compensation strategies, determining perceived fairness of the strategy, and generating buy-in and support for the strategy. Input can be gathered from individuals or from a committee representing some or all of the workforce.

Refer to Practice 4 of the Communication and Coordination process area for information regarding seeking individuals' opinions on their working conditions.

1. The workforce can provide inputs to the compensation strategy regarding:
 - benefits and drawbacks of current compensation vehicles,
 - criteria for determining or adjusting compensation,
 - fairness of the compensation strategy, and
 - methods for administering compensation.
2. If appropriate, individuals or committees can review proposed revisions to the compensation strategy with regard to:
 - impact of proposed changes on motivation and performance,
 - fairness of proposed changes, and
 - most effective ways to initiate and administer the changes.

Practice 4

A documented compensation plan is prepared periodically for administering compensation activities needed to execute the compensation strategy.

The compensation plan typically includes:

1. The financial data needed for administering the compensation strategy and guiding compensation decisions.

Examples of financial data for making compensation decisions include the following:

- Entry level compensation for positions, grades, pay bands, or other graduated structures in the compensation system
- Changes in the average or total range of compensation for grades, pay bands, or other graduated structures in the compensation system
- Size of cost of living or other standard periodic adjustments
- Sizes of compensation increases and how they are to be determined from defined criteria
- Changes in benefits or their levels
- Size of bonus or incentive pool(s) and how its distribution is to be determined
- Pricing related to stock options

2. The schedule of events and responsibilities for those involved in administering the compensation strategy.
3. How the methods described in the compensation strategy are applied in making compensation decisions.
4. How and when the compensation decisions are reviewed.

Practice 5**The compensation plan is designed to maintain equity in administering the compensation strategy.**

1. The organization maintains an awareness of internal, market, and business conditions affecting compensation equity.

Examples of methods for maintaining awareness of internal, market, and business conditions relevant to compensation include the following:

- Market compensation surveys
- Compensation benchmarks with local companies or industry peers
- Information from exit interviews
- Opinions and feedback of the workforce
- Information from recruiting activities
- Information from selected candidates who declined employment offers

2. Based on market and business conditions, adjustments are made to appropriate components of compensation to ensure that these components support the level of market equity intended by the compensation strategy.

Restoring compensation equity compared to market levels may require actions that last several months to several years.

3. Adjustments are made to appropriate components of compensation to establish the levels of internal equity across individuals with similar position responsibilities, skills, or performance levels intended for these components by the compensation strategy.
4. Guidance is provided for making compensation decisions that maintain the equity intended in the compensation strategy.

Practice 6 The organization’s compensation strategy is communicated to the workforce.

1. Information typically communicated to the workforce includes:
 - strategic basis and structure of the compensation strategy, and
 - events that result in changes to compensation.
2. Whenever the compensation strategy is changed, the changes are communicated to the workforce.

Practice 7 Each individual’s compensation package is determined using a documented procedure that is consistent with the organization’s compensation policy, strategy, and plan.

The procedure typically specifies:

1. How financial resources are allocated to units for assignment to individual compensation packages.
2. Who makes decisions that allocate compensation resources to units and to the individual’s compensation packages.
3. How criteria are applied in making decisions for individual compensation packages.
4. How compensation decisions are reviewed and approved before being communicated to individuals.
5. How compensation decisions are communicated to individuals.
6. How individuals may address issues related to their compensation packages.

Practice 8 Compensation adjustments are made based, in part, on each individual’s documented accomplishments against their performance objectives.

1. Responsible individuals determine compensation adjustments based on criteria established in the compensation policy, strategy, and plan.

2. The documented accomplishments against performance objectives are used as part of the criteria for determining the size of the adjustment made to each individual's compensation package.
3. Responsible individuals perform adjustments to compensation in accordance with a documented procedure.

The procedure for making adjustments to compensation would typically include the following:

- How compensation is determined for new hires
- How compensation is to be handled for people changing locations within an organization
- Frequency with which scheduled adjustments to individual compensation should be considered
- How adjustments are to be triggered by events, such as special achievements or promotions
- How the level of adjustment is to be determined
- The process for initiating and approving adjustments
- How compensation decisions are to be communicated to affected individuals
- How and when compensation decisions are to be reviewed for equity

4. Adjustments to compensation can be made on an exception basis, when required by business needs, with appropriate approval.

Examples of exceptions for adjustments may include the following:

- Serious inequities
- Retention of undervalued skills

Practice 9**Decisions regarding an individual's compensation package are communicated to the individual.**

1. Adjustments to compensation are communicated to affected individuals prior to their effective date by an individual responsible for communicating compensation information to the individual(s) affected.

2. The basis for the size of the adjustment is explained along with appropriate information from the compensation plan that provides a better understanding of the basis for the adjustment.
3. Individuals are guided to where they can obtain more information on:
 - the compensation strategy or plan,
 - tax implications of compensation decisions,
 - laws and regulations governing compensation,
 - implications about choices they make among compensation alternatives, or
 - how to raise an issue about their compensation.

Practice 10

Responsible individuals periodically review compensation packages for those whose compensation they administer to ensure they are equitable and consistent with the organization’s compensation policy, strategy, and plan.

1. Results of compensation decisions are compared within a unit to determine if compensation is equitably related to position responsibilities, skills, and performance across the members of the unit.
2. Results of compensation decisions are compared across units to identify inequities in how compensation is being administered.
3. Results of compensation decisions are reviewed across units to identify inequities involving individuals with similar position responsibilities, skills, or performance.

Practice 11

Action is taken to correct inequities in compensation or other deviations from the organization’s policy, strategy, and plan.

1. When inequities are identified within or across units, they are communicated to both the appropriate unit managers and to individuals responsible for coordinating Compensation activities across the organization.
2. An approach for addressing the inequity is developed that accounts for:
 - fairness to the individuals involved,
 - compliance with laws and regulations,
 - consistency with the compensation strategy and plan,

- effect on morale and retention,
 - phasing of corrective actions,
 - immediate and long-term impact on the compensation strategy and procedures, and
 - precedence established for later compensation decisions or actions.
3. Corrective actions to improve equity are taken and communicated to affected individuals.

Measurement and Analysis

Measurement 1 **Measurements are made and used to determine the status and performance of Compensation activities.**

Examples of measurements include the following:

- Growth in compensation
- Effects of criteria on compensation
- Compensation by position type
- Compensation by vehicle type
- Extent of compensation inequities
- Timeliness and efficiency of compensation activities

Measurement 2 **Unit measures of Compensation activities are collected and maintained.**

1. Units collect data as Compensation activities occur.

2. Measurements made to determine the status and performance of Compensation activities are maintained.

Examples of reasons for maintaining measurements of Compensation activities include the following:

- Periodic analysis to determine unit-level trends
- Aggregating data at the organizational level to develop organizational measures
- Analysis to determine organizational trends
- Evaluation of organizational trends

Measurement 3

Aggregate trends in compensation activities and decisions are measured and reviewed on a recurring basis.

1. Unit measures of compensation activities and decisions are collected and aggregated at the organizational level.
2. A historical database of compensation data is maintained.
3. Compensation data are periodically analyzed to determine trends and evaluate effectiveness.

Examples of trends that can be reviewed include the following:

- Compensation versus market by position
- Workforce perceptions regarding compensation practices and equity
- Growth in compensation over time
- Compensation versus individual, unit, and/or organizational performance

Verifying Implementation

Verification 1

A responsible individual(s) verifies that Compensation activities are conducted according to the organization’s documented policies, practices, procedures, and, where appropriate, plans; and addresses noncompliance.

These reviews verify that:

1. Compensation activities comply with the organization’s policies and stated values.
2. Compensation activities comply with relevant laws and regulations.
3. Compensation activities are performed according to the organization’s documented practices and procedures.
4. Compensation activities are performed according to the organization’s plans and selected methods.
5. Noncompliance issues are handled appropriately.

Verification 2

Executive management periodically reviews the Compensation activities, status, and results; and resolves issues.

These reviews verify:

1. The structure and growth of compensation.
2. Progress in performing planned Compensation activities.
3. Results from reviews of Compensation practices and activities.

Refer to Verification 1 for information regarding reviews of Compensation activities to ensure adherence to the following:

- Relevant laws and regulations
- Organizational policies, practices, and procedures

4. Status of resolution of noncompliance issues.
5. Trends related to compensation, both internal and external to the organization.
6. Effectiveness of Compensation activities in achieving their intended results.