

Strategic Improvements Needed in the Compensation Process

Enabling Compensation to be a Strategic versus Administrative Function

Josh Bersin, in his recent Forbes article “The HR Software Market Reinvents Itself,” recalls the early 2000s when new vendors disrupted the incumbents and brought useful tools, which have driven HR software to become a \$14 billion market.

As part of this HR software boom, many firms have added compensation software, either purchased separately or provided as part of an ERP or HRIS suite. As a result, they have seen a reduction in errors, an improvement in reporting times, and a decrease in “late nights” for the compensation professionals. **However, these changes have not provided strategic improvements in the compensation process.**

This white paper reviews the findings of a July 2016 survey **How Does Your Compensation Process Measure Up?** conducted by *Practice in Human Resources Newsletter*. The survey reflects the responses from 287 compensation and HR professionals and highlights the gaps in most firm’s compensation processes.

The research found that only 51% of the survey respondents reported that their companies see compensation planning as a strategic initiative, yet most of the respondents agreed or strongly agreed on the strategic importance of compensation:

- 96% agreed or strongly agreed that compensation impacted retention
- 88% agreed or strongly agreed that compensation is a factor in rewarding high potentials
- 83% agreed or strongly agreed that compensation impacts employee engagement

The Lack of an effective compensation process led respondents to question their ability to impact business results:

- 67% said they feel limitations in their current compensation process
- 51% said they feel inadequacy in achieving their desired results with their current compensation process
- 43% said their current compensation processes don’t easily meet their intended goals or values

Despite the importance of compensation decisions and the risk of incorrect compensation having a significant negative impact on business results, **only 11% of the firms said their compensation process provide all 4 Ps (Policy, Position, Potential, and Performance) as inputs into individual employee compensation decisions.**

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This research substantiates the link between compensating employees based on the multiple dimensions that impact talent, engagement and business strategy (the 4Ps of Policy, Position, Potential, and Performance) and an Effective and Strategic Compensation Process.

Respondents who incorporate all 4P's in their compensation decision process, versus respondents who use 3 or less of these criteria, were significantly more positive and confident in their compensation process and outcomes.

The Percentage of Respondents:

- Who agree or strongly agree “compensation planning is seen as a strategic initiative within their organization” increased by 36% *
- Who “do not feel any part of their compensation process could have a potential negative impact in achieving their talent or business goals” increased by 28% *
- Who “do not feel limitations in their current compensation process” increased by 68% *
- Who “do not feel inadequacy in achieving their desired results with their current compensation process” increased by 20% *
- Who answered that “their present compensation solution supports all cash and non-cash compensation, fixed and variable compensation, deferred compensation, etc.” increased by 23% *
- Who answered that “the information provided to their managers contains the details of each factor considered in an employee's compensation adjustment decision” increased by 43% *
- Who reported that “their present compensation solution includes managers in the planning process and aligns compensation with business values, goals, budgets and results” increased by 25% *
- Who reported “their compensation process has the flexibility to account for mergers/downsizing/growth etc.” increased by 21% *
- Who feel confident in presenting their current data to C-level executives on demand increased by 23% *

** Although the number of respondents who use all four P's is small, 18 respondents, their score differences are statistically significant for these questions at the 80% confidence level (61 % used 1 of the P's, 16% used 2, 12% used 3 and 11% used all 4 P's).*

In his recent article, Bersin goes on to describe the next round of reinvention with mobile apps, analytics, video, and team-centric management. As you (your firm) evaluate what Bersin calls the “New World of HR Apps”, you should use the opportunity to address the strategic gaps in your compensation process brought about by the problems, limitations and risks of spreadsheet based manual compensation processes or the inadequacies in your current compensation software.

Based on the research, strategic compensation processes incorporate:

- **Individual employee compensation decisions using the 4 P's** (Policy, Position, Potential, and Performance) as input, as well as any factor important unique to the organization
- Execution tools that include managers in the process and align compensation with business values, goals, budgets and results
- **Support for all of the organization's values and talent and business goals**
- **Planning and reporting tools that support on-demand presentations to C-level executives and the board**
- All cash and non-cash compensation, fixed and variable compensation, and deferred compensation

As you invest in the next wave of HR software, make sure your compensation software incorporates the requirements that enable it to function as the strategic corporate tool your organization needs in today's workplace environment. If you are one of the 51% of HR professionals that say compensation planning is seen as a strategic initiative in your organization, make sure you have the software solution that can deliver that capability. And if you are not, use these findings with your management team to educate them on the strategic impact of compensation. The entire survey results follows below.

Learn why the 4 P's and three other areas of compensation are critical and must be incorporated in **Enabling an Effective and Strategic Compensation Process**, [by clicking here.](#)

How Does Your Compensation Process Measure Up? Survey Questionnaire / Results

The following data is from a survey of 287 compensation and HR professionals who subscribe to the *Best Practice in Human Resources* Newsletter. Depending on the question, using a 95% confidence level the responses have a margin of error of 5% to 8%.

1. Do you believe compensation is a factor in retaining your top talent?

Response	Count	Percentage
Strongly Disagree	6	2%
Disagree	2	1%
Neutral	4	1%
Agree	137	48%
Strongly Agree	138	48%
Total	287	100%

2. Do you believe compensation is a factor in rewarding your high potentials compared to other employees within similar roles?

Response	Count	Percentage
Strongly Disagree	5	2%
Disagree	7	2%
Neutral	23	8%
Agree	144	50%
Strongly Agree	108	38%
Total	287	100%

3. Do you believe compensation is a factor in your overall employee engagement?

Response	Count	Percentage
Strongly Disagree	5	2%
Disagree	15	5%
Neutral	30	10%
Agree	165	58%
Strongly Agree	72	25%
Total	287	100%

4. Is your compensation planning seen as a strategic initiative within your organization?

Response	Count	Percentage
Strongly Disagree	17	6%
Disagree	38	13%
Neutral	87	30%
Agree	109	38%
Strongly Agree	36	13%
Total	287	100%

5. Have you invested in compensation software?

Response	Count	Percentage
Yes	40	18%
No	181	82%
Total	221	100%

6. If so, which software do you use?

Compensation Software	Number of Responses
ABRA Infinity HR	1
ADP	2
ADP TotalSource	1
AdvancedHR	1
Comp connect	1
CompAnalyst	3
DayForce	1
Don't know name	2
eeCompensation	1
Hay	1
HCM	1
In House Design	1
Kennexa	1
Oracle	2
Oracle Fusion	2
SAP	1
Towers	1
Towers Watson Reward	1
UltiPro	2
Workday	1
Xceed	1

7. How much of your compensation planning and execution process involve spreadsheets?

Response	Count	Percentage
0%	17	8%
25%	39	18%
50%	38	17%
75%	60	28%
100%	64	29%
Total	218	100%

8. Do you feel any part of your compensation process could have a potential negative impact achieving your talent or business goals?

Response	Count	Percentage
Yes	132	59%
No	92	41%
Total	224	100%

9. Do you feel your compensation planning could be at risk because of turnover, knowledge sharing, the data may not be centrally located, etc.?

Response	Count	Percentage
Yes	84	38%
No	140	62%
Total	224	100%

10. Do you feel limitations in your current compensation process?

Response	Count	Percentage
Yes	129	67%
No	64	33%
Total	193	100%

11. Do you feel inadequacy in achieving your desired results with your current compensation process?

Response	Count	Percentage
Yes	98	51%
No	95	49%
Total	193	100%

12. Are you using spreadsheets in compensation execution, passing them across the organization to get manager input?

Response	Count	Percentage
Yes	102	53%
No	90	47%
Total	192	100%

13. Does your present compensation solution support all cash and non-cash compensation, fixed and variable compensation, deferred compensation, etc.?

Response	Count	Percentage
Yes	100	52%
No	92	48%
Total	192	100%

14. If yes, does this cause delay or inaccuracy in modelling/planning?

Response	Count	Percentage
Yes	38	20%
No	154	80%
Total	192	100%

Comments
Incentive options are not included in planning.
Data is not centralized, so it takes time to gather and compile before processing.
Our process is at the mercy of managers to complete their part of the spreadsheet and return to HR on schedule.
Delay.
Sometimes slows things down but usually get ahead of it so delays don't occur.
We use CompAnalyst to do salary structure modeling and market pricing. We don't use the merit modeling tool as it doesn't provide the type of merit matrix we use. Our modeling/planning for all comp programs are done in excel.
We are non-profit and do not have any bonus, incentive, or deferred compensation.
Sometimes.
Too much to track in one place and it's not done consistently.
We don't have variable or deferred compensation and benefits options are controlled by the Board of Directors. We use total compensation statements to keep employees informed.

15. Are the intended goals or values of your compensation strategy easily met by your existing compensation solution?

Response	Count	Percentage
Yes	95	57%
No	73	43%
Total	168	100%

16. Do managers contribute to the compensation planning and review process?

Response	Count	Percentage
0%	27	16%
25%	41	24%
50%	49	28%
75%	27	16%
100%	28	16%
Total	172	100%

17. Does the information provided to your managers contain the details of each factor considered in an employee's compensation adjustment decision?

Response	Count	Percentage
Yes	88	52%
No	80	48%
Total	168	100%

Comments
Only based on their annual performance review.
Our managers are very open about performance of their staff.
Managers have a larger role to play in what their direct report receive for compensation, i.e. salary and variable pay.
Not sure.
Not sure what is meant by "each factor".
Core values are considered on each employee individually.
We price the job first and then place the person in market range based on relevant experience, credentials and internal equity.
Managers recommend compensation increases; HR reviews the recommendations, may suggest adjustments based on market position, internal equity, etc. The final decision is in the hands of the managers.
A unilateral decision by the owner.
Managers and employees are heavily involved in the review process. HR works with the managers on compensation planning.

18. Does your present compensation solution include managers in the planning process and align compensation with business values, goals, budgets and results?

Response	Count	Percentage
Yes	107	64%
No	61	36%
Total	168	100%

Comments
We use a country budget number which in many countries is quite small so there isn't a lot of flexibility. We may do off-cycle increases when necessary.
A unilateral decision by the owner.
Through our performance management system.
This is a huge gap for us.
Use a compensation committee.

19. How would you describe the variety of dimensions / inputs that factor into your individual employee compensation decisions? Would you say?

(Multiple Responses per Respondent)		
Response	Count	Percent of Respondents
Policy Based	63	38%
Position Based	89	53%
Potential Based	32	19%
Performance Based	106	63%
Total		

(Multiple Responses per Respondent)		
Number of Responses per Respondent	Count	Percentage
1	102	61%
2	28	17%
3	20	12%
4	18	11%
Total Respondents		168

20. Does your compensation process have the flexibility to account for mergers/downsizing/growth etc.?

Response	Count	Percentage
Yes	94	56%
No	74	44%
Total	168	100%

21. Do you feel confident in presenting your current data to your C-Level executives on demand?

Response	Count	Percentage
Yes	104	68%
No	48	32%
Total	152	100%