

The New Age of Comp:

WHAT A REVOLUTION MEANS FOR THE INDUSTRY

There's no doubt about it: Technology has revolutionized nearly every industry. From travel and transportation, to retail, manufacturing, and more — you name it, tech has transformed it.

Except for compensation, that is.

Don't believe it? Just take a look back at the comp industry over the last few decades. Sure, we've seen new software and tech solutions introduced here and there. But, by and large, they've just automated the processes we've always followed and the ways we've always approached our jobs. What we do today is exactly the same as what we did 20, 30, and even 50 years ago!

We're stuck in the stone age. Our approaches are outdated. They're flawed. They're failing on their promises to make us more efficient, give us better data, and advance our industry — and they're holding us back.

To see how this lack of progress is affecting comp, Payfactors partnered with Human Capital Media to survey more than 1,000 North American compensation professionals.

Read on to learn:



The big gap between how comp professionals perceive themselves and how others (the C-suite, managers, and employees alike) perceive them



How and why this disconnect is holding comp pros (and the industry) back



What comp really needs to have an impact on their organization and the industry



THE DISCONNECT RUNS DEEP

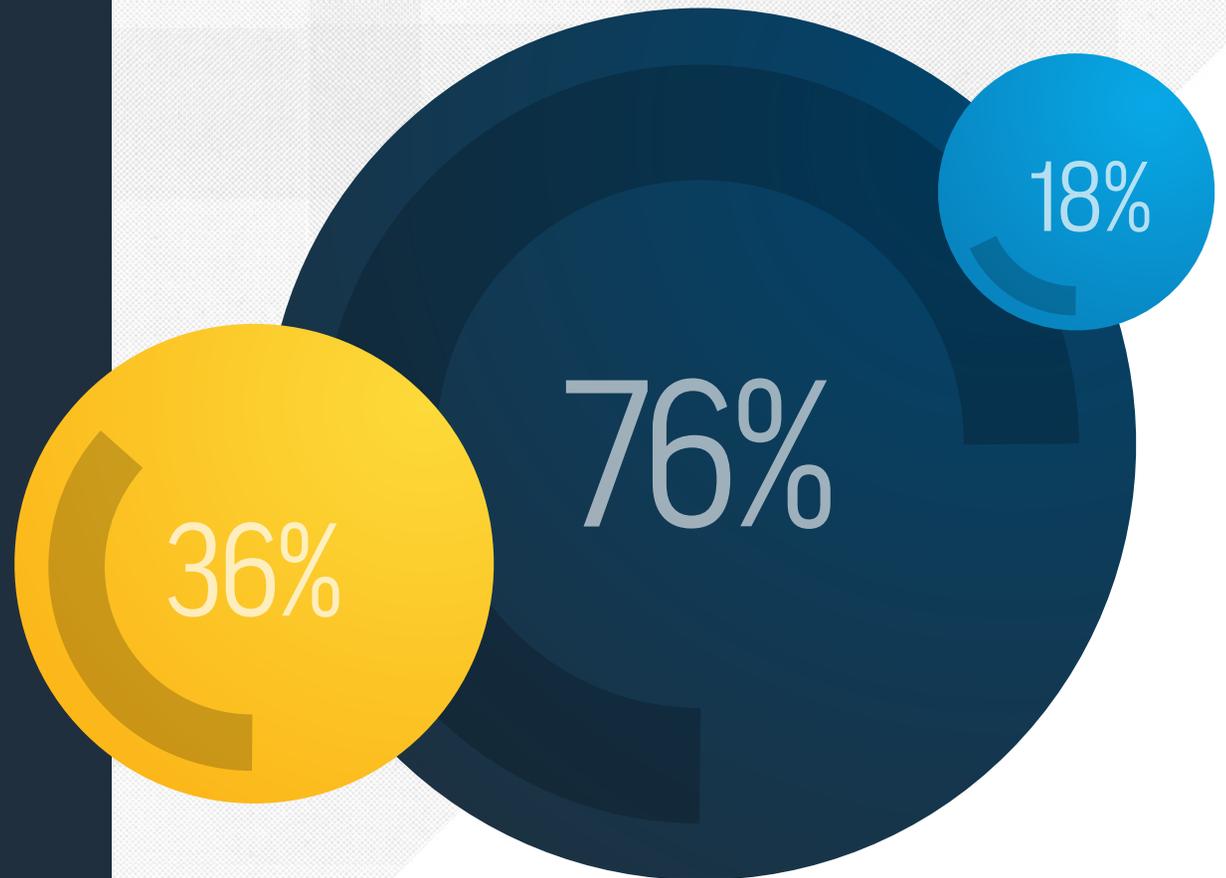
Compensation is viewed as a cost center. It's something we hear time and again. And although labor expenses may be one of the biggest expenses hitting a business's bottom line, it's widely recognized that employees are what drives an organization's success.

So what's the disconnect?

Look no further than strategy. A whopping **76 percent of the comp professionals we surveyed indicate there's no link between their organization's compensation strategy and their business strategy.**

For those still using manual processes for compensation management, this disconnect runs even deeper. Just **18 percent of respondents using manual processes for compensation management say there's a clear link between their organization's comp strategy and business strategy.**

The outlook is brighter when it comes to those using more modern technology: **36 percent of respondents using more modern technology for compensation management say there's a clear link between the two strategies.** This may indicate that, thanks to the efficiencies and more relevant data that often comes with more modern tech, comp pros are better able to articulate their strategic value.



- *76% say there's no link, or there's a limited link, between their organization's compensation strategy and its business strategy*
- *36% use cloud or on-premise software and say there's a clear link between comp and business strategy*
- *18% use manual processes for compensation management and say there's a clear link between comp and business strategy*

Regardless, this disconnect is nothing short of startling, especially when 60 percent of employees report that comp is the top factor for choosing or continuing to work for a company. And while perks, wellness, and recognition programs are all known drivers of employee engagement, your people aren't volunteering.

It's compensation that gets and keeps them at your organizations – and we need to get it right.



TALENT: COMP'S TOP DRIVER

To get compensation right, you need to first take a close look at your organizational priorities. What goals or objectives does comp strategically map to?

By and large, talent is the most important driver of organizations' compensation strategies. **Seventy-three respondents report retaining talent as the No. 1 driver of their organization's compensation practices, and 65 percent report recruiting talent is another top driver.** No other drivers came close.

It's no secret that we're in an absolute war for talent. The labor market is hotter than it's been in years, and unemployment has dropped by nearly 60 percent in the last decade. As expected in a market like this, it's becoming harder and taking longer to fill open positions: the average time to fill a role is up 46 percent.

But here's the thing: compensation strategies, philosophies, and approaches haven't changed, despite the fact that talent acquisition and retention are the top areas impacted by compensation departments.





WHAT THE C-SUITE DOESN'T SEE

There's no doubt that the C-suite cares deeply about talent acquisition and retention. Top business leaders and our survey respondents alike have made that clear.

Even so, **only 31 percent of comp pros say the C-suite sees them as highly strategic and critical to the organization.** This figure improves slightly among individuals using more modern technologies: **41 percent of respondents using more modern technologies for compensation management say that comp is viewed as strategic and critical to the organization by the C-suite.** This could be because these kinds of solutions let comp pros more accurately analyze and report large amounts of data.

“Talent is the No. 1 priority for a CEO. You think it’s about vision and strategy, but you have to get the right people first.”

- **Andrea Jung**, former CEO, Avon

41%

31%

31% say their C-level executives see compensation as strategic and critical to the organization

41% use cloud or on-premise software for compensation management say the C-suite sees comp as strategic and critical to the organization



AIMING FOR AVERAGE

Between our perceived disconnect with strategy and the way we believe the C-suite views us, we're in a tight spot.

Over **a third of compensation professionals (34 percent)** indicate **an inability to reward high performers as a challenge** when it comes to compensation, and **31 percent say budget is a challenge**.

What's really happening here? We're not communicating just how strategic our function is, so we're not getting the budget and resources we need to support our goals and objectives. Without a competitive budget, we can't truly show comp's impact on employee attraction and retention – and so the issue becomes a cyclical one.

Eighty-one percent of comp pros have a market-based pay philosophy, but the majority of respondents told us they're **targeting the 50th percentile**. These survey results are backed by additional industry analysis by Payfactors, which found that only 10 percent of companies target something other than the 50th percentile.

We're all targeting the middle. And we're doing that because it's how comp has been approached forever. But, given we're in a war for talent, shouldn't we be vying for above-average approaches? If everyone has a cookie cutter approach to comp – by targeting the middle – how could anyone conclude that what we're doing is strategic?

31% *say their budget is a top compensation challenge*

34% *say their inability to reward high performers is a top compensation challenge*

81% *organizations have a market-based pay philosophy*



Nearly all respondents target the 50th percentile



SECRET PAY PHILOSOPHIES

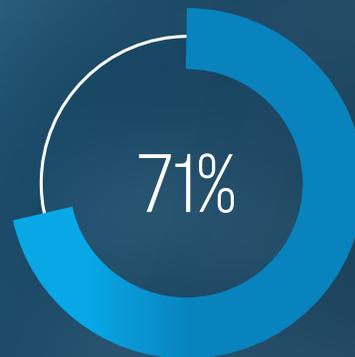
Another challenge? While the majority of companies have market-based pay philosophies, no one's communicating those philosophies to managers or employees. In fact, 90 percent of managers are ill-equipped to have meaningful conversations with employees about the value and mechanics of how they're paid. Ironically, an overwhelming number of respondents indicated this as the one change that would make it easier to create and execute their comp strategies.

Just because you're not communicating your compensation philosophy doesn't mean employees won't go out and find the information. They will and they do, because the void of openness and transparency forces employees to scour the internet and talk to one another about what they make. What's concerning about this is that **89 percent of comp pros find crowdsourced data untrustworthy** – yet that's exactly what many of their employees are using to understand comp.

If we don't give employees the tools, data, and information they need to fully understand their compensation, crowdsourced data is exactly where we're pushing our people.



managers say they are ill-equipped to have meaningful conversations with employees about pay



using more modern tech for comp management say managers are very well or somewhat equipped



of comp pros don't find crowdsourced data trustworthy

What is the **one change that would make** it easier to create and execute your organization's compensation strategy?

“Having HR colleagues and managers informed and aligned on the compensation strategy.”

- anonymous survey respondent

“Provide training to managers and employees.”

- anonymous survey respondent

“Our company needs to better articulate its pay philosophy.”

- anonymous survey respondent

“Better education tools for managers and employees.”

- anonymous survey respondent



MANUAL PROCESSES ARE (STILL) KING

Times have changed. The labor market and economy have changed. The ability to access information has changed.

One thing that hasn't? The way we're approaching compensation. Just ask the **one-third of compensation pros still using manual processes only for compensation** – or the **50 percent using manual processes and some software**. Even with the technology boom, we're still approaching our craft like it's the 1980s.

If we want to show the real impact that compensation has on business strategy, we must be more thoughtful about our underlying processes for market pricing, for communication, for education, and beyond.

It's time to face the music. If we don't find a way to leverage technology and revolutionize our industry, then becoming more strategic is impossible.

30% use manual processes only for compensation

50% use manual processes and some software



- *44% organizations with 500 employees use software and manual processes*
- *42% use manual processes*
- *8% use on-premise or cloud software*



- *56% organizations with 1K+ employees use software and manual processes*
- *20% use cloud-based or on-premise software*
- *19% use only manual processes*



SUMMARY

As compensation professionals, we're heavily focused on attracting and retaining top talent to our organizations. But even as our key objectives revolve around these essential areas, we're not seen as a strategic function. We're not getting the budgets we need to be effective, despite the reality of today's competitive labor market.

The more we can think through our comp strategies and the better we connect them to the overall business drivers, the better off we will be to showcase comp as a strategic driver of our organizations' outcomes.

Once we define our compensation strategy, we need to communicate it. At most organizations, managers aren't equipped to handle conversations about the value and mechanics of compensation, leaving employees in the dark. It's imperative that we become more transparent with employees on the rigor and sophistication that goes into their compensation. To do this, you must help managers understand your pay philosophy and equip them to talk about it.

The vast majority of compensation professionals are still using manual processes or are stuck using outdated, stale technology. As an industry, we need to make use of new technology so that we can spend less time poring through data manually, and more time looking at trends and personalizing our data.

It's time to re-think the entire way we approach compensation. It's time to revolutionize compensation.



payfactors

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Payfactors was founded with one goal: to revolutionize compensation.

We've dedicated our entire careers to this industry. But in 2013, we were fed up with the traditional way of doing things. With the outdated processes for market pricing and benchmarking jobs, and the so-called "state-of-the-art" solutions that claimed to improve compensation practices – but really just made a frustrating process slightly less frustrating.

Despite some changes, the underlying approaches to comp are still broken. The industry is still relying on inflexible systems that haven't changed in decades. So we've decided to fix it. All of it.

Payfactors is a full suite of cloud-based compensation data management tools, built using revolutionary technology. Our collaborative solution puts you and your team at the center of it all. We get rid of the manual processes that eat up all your time, and integrate all your data and survey sources into one simple, seamless spot.

Payfactors puts you back in control with a compensation system that works for you, not against you.

*We help you be more strategic, so you can spend your time on what really matters: **Getting pay right.***