



ANALYST PERSPECTIVE

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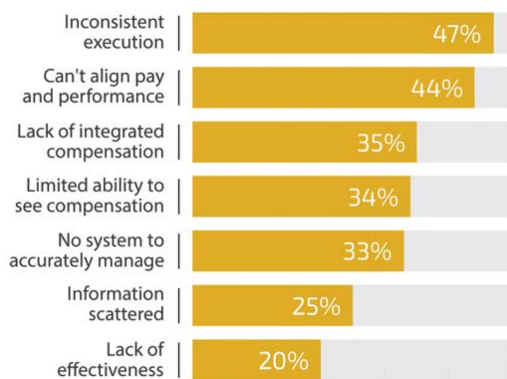
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Effective Compensation Systems Transforms Human Capital Management

Compensation management is essential for any organization that values engaging and retaining its employees. It is a fundamental component of a range of personnel-related activities – recruiting and hiring, assessing performance, and career and succession planning. Determining and providing appropriate compensation, which may involve base pay, merit pay, variable pay and incentives or bonuses, is equally important for all members of the workforce – full- or part-time employees, contingent or on-demand workers and contractors. Incentives are an important part of compensation. Business areas such as call centers, sales forces and field service frequently tie incentive compensation to performance objectives. Whatever the particulars, the effectiveness of compensation directly relates to the core challenge faced by human resources departments: keeping employees productive, satisfied and motivated.

What Impedes Compensation Processes?

A variety of issues motivate investment



Source: Ventana Research Total Compensation Management Benchmark Research
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An array of activities and systems supports compensation plans for executives and variable pay and rewards for those in sales, field service and contact centers, and may include stock grants and other incentive programs. As business leaders consider advanced practices such as pay for performance and talent management, they often discover that they need a more comprehensive and strategic approach to compensation. As a result, total compensation management is getting attention from organizations that seek not only to streamline their compensation processes but also to

fully use the information they have to derive optimal performance from their workforce investments. But this not easy; in our most recent compensation management benchmark research, close to half (47%) of participants cited

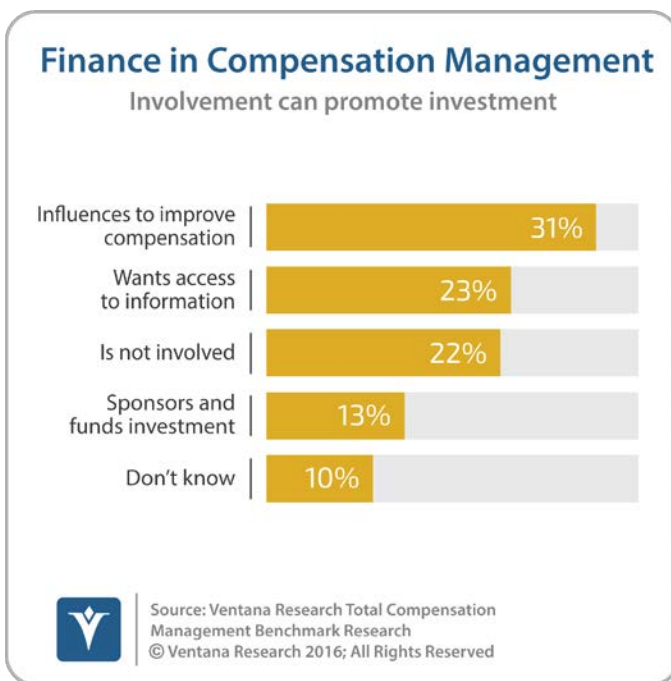
inconsistent execution across divisions and departments as an impediment motivating investments in compensation management. This inconsistency results in a disparity in starting salaries and incentives for performance appraisals that then creates broader pay disparities across the organization, contributing to attrition and diminishing the ability to close new hires.

Our experience and research in this field indicate that HR and corporate management obtain the greatest value from an approach that ties compensation to performance. A range of types of compensation should be available for use where those incentives and rewards can have the most substantial impact, at the managerial levels. In addition, it is increasingly clear that involving employees in the processes associated with their own compensation improves worker satisfaction and retention. To gain these benefits, organizations should make employee information accessible through self-service applications, including on mobile devices such as smartphones and tablets. However, these capabilities typically are not found in the conventional human resources management system (HRMS) or in many human capital management (HCM) application suites, most of which have not evolved beyond salary budgeting.

HR departments typically aren't equipped to manage compensation programs that extend beyond the annual review process for establishing and communicating the components of base and merit pay. However, progressive HR departments acknowledge the value of having an end-to-end approach to what we call total compensation management, which encompasses the various aspects of compensation and engages all the relevant roles and responsibilities as well as the full set of HR processes. Many progressive organizations have reviewed or are reassessing their established processes and underlying systems. They involve finance departments and CFOs in compensation processes, which our research finds is beginning to happen.

Almost one-third of organizations reported that their finance departments are influencing compensation processes, and in others finance departments want access to information or are assisting in sponsoring and funding investment in compensation management.

An emerging key driver of effectiveness in compensation is pressure on industries, executives and compensation committees to assess fairness of compensation in job levels and positions, particularly regarding diversity and



demographic information such as age, gender and ethnicity. For most HR organizations, their HRMS lacks sufficient detail in compensation and related employee data to enable them to perform these analyses. To match market pay rates, companies need guidance from data, using internal and external benchmarking to examine their existing pay structures. To gain such data they should work with third-party providers of compensation data and analytics who can share data to include in their processes and applications.

Any willing organization can increase its compensation effectiveness. Currently, however, we see that many organizations are constrained by traditional HCM and financial expectations and are not positioned to understand the types and levels of compensation that motivate and engage people. These challenges require not only more complete data but also analytics and benchmarking to guide their compensation management efforts.

Regards,

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