

Total Compensation Management

Market Insights from Benchmark Research



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REPORT



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April 2022

Ventana Research performed this research to determine attitudes toward, and utilization of, Total Compensation Management (TCM). This document is based on our research and analysis of information provided by participants at organizations that we deemed qualified to take part in this Benchmark Research.

Today's workforce is compensated to meet organizational and worker expectations. So, to succeed, organizations must be comprehensive in their compensation and be fair and equitable to ensure the value is achieved in the investment. Ventana Research conducted this Benchmark Research to understand how organizations are managing compensation across the workforce and the processes utilized by management, managers, employees, analysts and administration in HR and finance. Compensation is managed in a myriad of ways that can either be efficient or an impediment to the organization and those who manage and communicate it across the enterprise to managers and workers. Total compensation management therefore examines the management of any type of it that is used in conjunction with the individual employed, job position filled or hired to achieve.

This research examines approaches currently in use as well as opportunities for, and barriers to, further adoption of TCM software. In addition, it explores the evolution of software and purchasing criteria that are required to manage and operate compensation processes.

We provide in-depth insights on this Benchmark Research and advice on its relevance through the Ventana On-Demand research and advisory service. Assessment and Workshop Services based on this Benchmark Research also are available.

We certify that Ventana Research wrote and edited this report independently, that the analysis contained herein is a faithful representation of our evaluation based on our experience with, and knowledge of, analytics and data, and that the analysis and conclusions are entirely our own.



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Executive Summary

Total Compensation Management is a holistic approach to planning, administering and communicating across specific processes, using information and analytics with technologies in an integrated approach to the pay including the benefits, incentives, rewards that the workforce receives. Determining and providing the appropriate compensation for each person — whether it involves base pay, merit pay or variable pay, and incentives such as bonuses — is critical to attracting and retaining productive members of the workforce, whether full- or part-time employees, contingent workers or contractors. The complexities of compensation often prove to be a core challenge for HR departments as they strive to keep employees productive, satisfied and motivated while ensuring equitable and defensible pay practices across the workforce.

The processes and systems that support the crafting, management and administration of compensation plans typically take into account both external market factors and internal

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Many HR departments are not equipped to manage sophisticated programs that extend beyond annual review process.

considerations. Some of these are broadly applicable while others are specific to level, role, job family, business area and geography. As organizations consider advanced practices, such as pay-for-performance, equity-based compensation and even non-financial rewards, many are finding they need a comprehensive and more strategic approach to compensation. As a result, what we call Total Compensation Management (TCM) is a priority for all organizations that seek to optimize their compensation processes and use all relevant information to maximize the value of, and return on, their budget allocated and paid.

Many HR departments are not equipped to manage sophisticated compensation requirements that extend beyond the annual review process for establishing and communicating the components of base and variable pay. Progressive HR departments acknowledge the importance of having an end-to-end, year-round compensation management approach, and many of them have reviewed or are currently reassessing their established processes and underlying systems. But this important step is merely the first in building mature enterprise compensation management processes. In

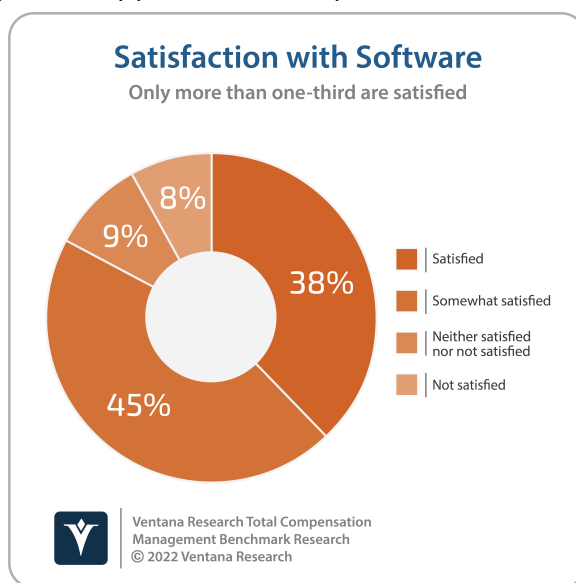


addition, organizations frequently tie short- and long-term incentive compensation to objectives only available to professional, technical and managerial staff, but this approach can also be effective for non-exempt employees eligible for overtime, as are annual cash bonuses.

Ventana Research undertook this Benchmark Research to determine the attitudes, requirements and future plans of those organizations that use TCM systems and to identify the best practices of those exhibiting the most competencies and performance related to it. We set out to examine both the commonalities and the qualities specific to major industry sectors and across organization size. We considered how organizations perform TCM, issues they encounter in the process and how their use of TCM and related technology is evolving.

An investment in compensation management systems is a strategic step forward in human capital management (HCM) and our benchmark research finds that modernizing processes must be a priority. More than four-fifths of organizations (81%) said that it is important or very important to have a system to automate TCM rather than employ a piecemeal approach. A significant number of participants (87%) told us they are confident or very confident that their organization currently manages compensation processes effectively. However, the research reveals that only a little more than one-third of participants (38%) are satisfied their compensation software meets their needs.

Automating compensation processes and improving efficiency and decision-making will help create a higher standard. But the real value of an updated approach to compensation for HR, line and senior management lies in tying compensation more closely to performance by evolving into a pay-for-performance approach that provides incentives for over-performing. In addition, a range of compensation types should be available for senior-level employees where interactions and incentives are critical for attracting and retaining talent. Another current trend is making it easy for an employee to retrieve all of his or her compensation-related information using self-service applications. Only recently have tools that provide this access become readily available, including through mobile devices such as smartphones and tablets. These capabilities are not always included in a conventional human resources management system (HRMS) or in many HCM application

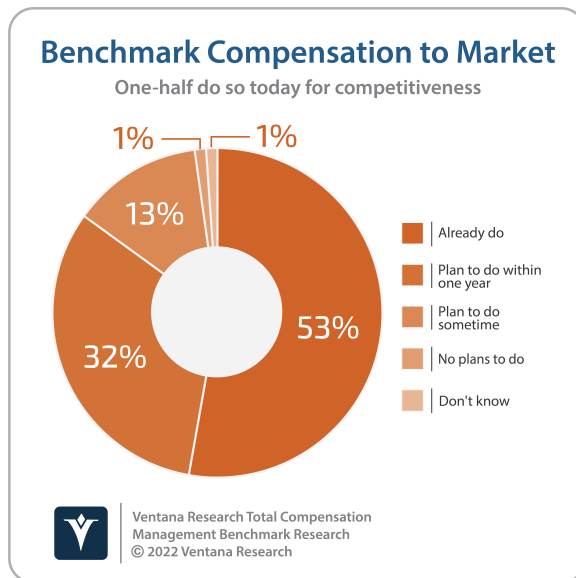




suites, which have not fully evolved beyond salary and bonus administration. Those outdated systems cannot meaningfully help an organization motivate and manage its workforce.

Our research finds that less than one-half of organizations (43%) have a system to ensure that compensation levels are applied equally across demographics. To support such an endeavor requires the ability to benchmark compensation across the organization, first internally and then externally to compare to market rates. However, the research finds that only one-half (53%) do so today. This need for fair pay and benchmarking is becoming increasingly important as most organizations also periodically review and audit their compensation practices to ensure fairness across key demographics, often comparing policies to those of other organizations.

Some software vendors are moving to provide a new generation of TCM systems that integrate with talent management, workforce management, HR management and even financial and budgeting systems. Equipped with these advanced systems, organizations will benefit from more robust compensation processes. Further, it enables the use of planning and management tools to drive productivity, collaborative interactions and satisfaction among managers and workers alike.



The Comprehensive Aspects of Total Compensation

Most organizations are unaware of how to update and change their existing processes and systems to make their compensation practices more strategic and effective. Executives and managers need help to determine which capabilities could play a key role in reengineering the organization's approach to compensation management. Understanding what the next generation of compensation systems can do is critical to advancing the sophistication of both purchasers and the marketplace. Enabling a comprehensive approach requires organizations to manage the essential components of total compensation management, and these were found to have a specific level of very important to organizations, as indicated:

- Base Pay: basic components and the compensation rankings of members of the workforce (45%).



- Benchmarking: the ability to compare the organization's workforce compensation levels to related industry and internally across any demographic (45%).
- Benefits: the value of benefits including healthcare, sick leave, vacation pay, tuition reimbursement, 401k match, pension contributions, club memberships or other perks (36%).
- Department-Specific Compensation: idiosyncratic methods for applying variable pay-dependent components associated with teams and departments (30%).
- Enterprise Incentives: cash or other incentives used to improve performance toward targets and business outcomes (30%).
- Executive Compensation: often long-term, equity-based incentives including specific reports needed by the compensation committee and the SEC (31%).
- Merit Pay and Bonuses: annual reviews and associated increases to base pay as well as allocations of bonuses to individuals based on organizational targets and market forces (50%).
- Rewards: the variety of cash and non-cash incentives for performance (30%).
- Stock and Incentive Stock Option (ISO): various types of equity-based awards including proper control and auditing mechanisms (30%).
- Variable Incentives: the variety of variable pay components utilized within an organization's business units and geographies, which particularly includes professional and technical workers, sales organizations and other areas where variable compensation is based on defined revenue or other performance targets. (32%).

Compensation Software is Easily Accessible and Digitally Ready

The most efficient way for organizations to rapidly adopt and utilize compensation is through using cloud computing and software-as-a-service (SaaS) and is the standard platform for business applications and enterprise software. The research reflects this, as most organizations (52%) reported that they prefer to access compensation management on-demand as SaaS. Still, a good number of organizations preferred the historical approach of installing software on premises (28%), followed by hosted-by-supplier (11%), while the remainder had no preference (10%). Using cloud computing for compensation software is an obvious choice for most organizations that have their HCM, talent management and connected finance and payroll systems.

As organizations look to adopt compensation management solutions, the digital technologies that were most important in over one-third of organizations were analytics and data in over half of organizations (60%), with AI and machine learning (43%) and collaborative computing (37%) next, followed closely by mobile computing (30%). To advance the potential of



compensation management requires a portfolio of digital technologies that increase the sophistication of the applications and their use across the organization.

Key Insights

This Benchmark Research yielded the following important general findings and key insights regarding the state of TCM. The actual questions asked in our survey are in an appendix of the research report. Demographics, including organization size, can be found in the appendix “About This Benchmark Research.”

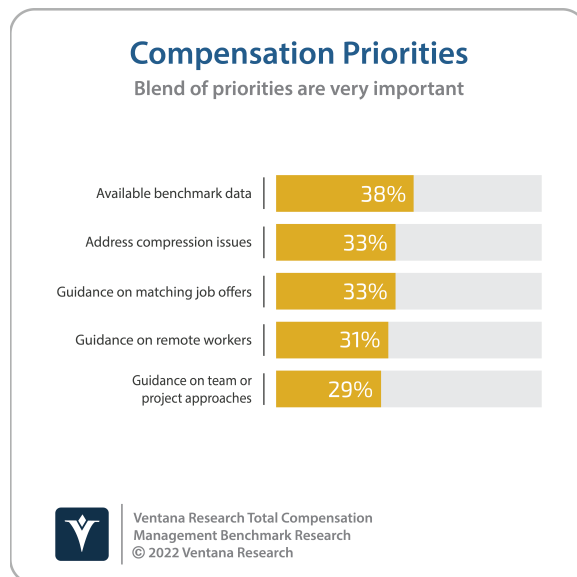
The Journey to Compensation Effectiveness and Equity Continues

Organizations are improving their performance in the practice of TCM. Our research finds that 74% of organizations have reached the two highest levels of performance in our Ventana Research Performance Index. Among the four dimensions (Innovative, Strategic, Advanced and Tactical) in which we measure performance organizations are most mature in the Process (34%) aspect of their compensation practices. The journey to reach best in class and excellence is yet to be achieved by the majority of organizations.

To steadily improve, compensation management and the components of it should support the roles of management to managers, from analysts and compensation professionals to employees and workers. The research demonstrates that the top five compensation components to improve upon with highest level importance are: provide readily available compensation benchmark data (38%), address salary compression issues (33%), provide guidance on matching outside job offers (33%), offer guidance on compensation strategies for remote workers (31%) and provide guidance on team or project approaches (29%). All of these components are what organizations should look for and expect in a dedicated TCM application.



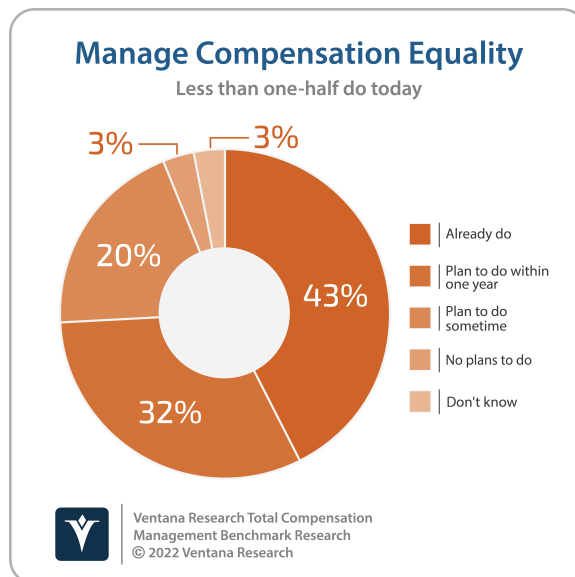
To effectively manage compensation requires the ability to unify distinct activities across business processes and the workforce using systems designed for integrating planning and deployment of initial or changes to pay provided. But total compensation does not come without challenges to implementation. The top three most impactful barriers to compensation planning are: lack of integration to talent management (82%), inadequate support of compensation planning and modeling (78%), and a time-consuming planning process that requires many cycles (72%). To overcome barriers to adoption, organizations can achieve significant value to ensure that improvements are aligned to desired outcomes. The top five benefits of total compensation with the highest level of overall importance are: linking compensation with performance (94%), improving ability to attract talent (87%), reducing costs and overpayments (84%), fairly compensating all individuals (84%), and improving workforce engagement (83%).



The need to ensure fairness in compensation is essential to the principles of total compensation. This should be a priority for every organization in the modeling and execution for every employee no matter their gender or ethnic background. As well, diversity, equity and inclusion are key components of total compensation processes and systems. Less than one-half of organizations (43%) currently have a system to ensure that compensation is applied equally across diversity, equity and inclusion, with only one-third (32%) reporting they plan to address it over the next year. And for most organizations, supporting pay equity is a critical priority and necessity in their approach to TCM.



The desire to become more sophisticated in compensation should allow for the ability to compare compensation across similar roles in the workforce. The top three components of overall importance in determining total compensation are: ability to benchmark against other companies (87%), ability to perform job matching (83%), and ability to benchmark organizational data against survey data (82%). To properly compare compensation across a workforce both internally and externally requires benchmarking, which organizations should support continuously. Little more than one-half of organizations (53%) benchmark themselves to ensure compensation levels are competitive, but almost one-half (46%) are planning to do so in the next year. To support benchmarking requires conducting surveys to determine compensation levels by role, title and responsibility. The majority of organizations (82%) are doing more than two compensation surveys to assess its workforce with one-fifth of organizations (22%) doing five or more surveys. The advancement of employees' ability to benchmark themselves easily on the internet also emphasizes the need for organizations to continuously benchmark themselves at every level and role.



Confidence in Compensation Processes Lack Evidence in Sophistication

To manage compensation processes to their ultimate outcome and meet the priority to retain the workforce in a satisfactory manner that can provide the best possible employee experience while successfully attracting new talent to an organization. Total compensation is comprised of multiple components that need to be managed as part of HCM related processes that are orchestrated by HR and compensation leaders. Our research finds the overall importance (very important and important) was found in these top five compensation components: base pay (87%), merit and bonus (85%), benchmarking (84%), awarding and tracking pay equity (81%) and benefits and perks (78%).

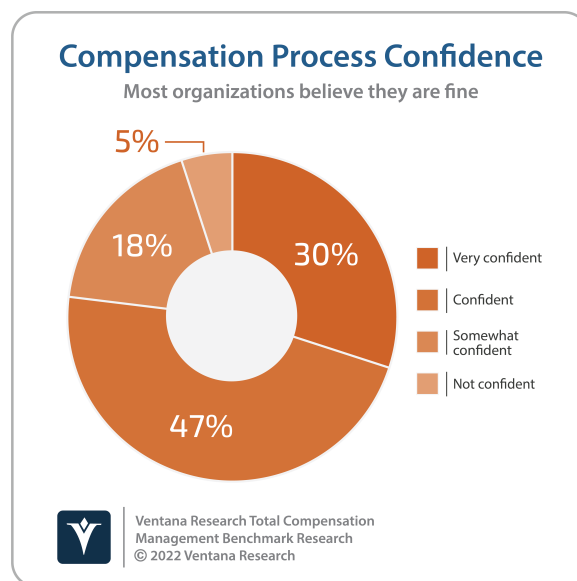
And how often an organization performs compensation assessments with performance reviews can determine effectiveness; in some cases, organizations are not able to perform them more routinely due to the processes and applications supporting it. The research finds that organizations are assessing compensation as part of reviews that are conducted annually



(45%) and at hire-date anniversary (5%), with semiannually and quarterly performed in less than one-fifth of organizations (17%), respectively.

The approach that an organization manages its compensation processes is based on the confidence in its efforts and the research finds more than three-quarters of organizations (77%) are overall confident. To achieve excellence in compensation requires continuous investment to gain the efficiency and the automation required, and the research found to be overall important in automation of compensation activities was found in 81% of organizations and (41%) of those organization indicate it is as very important.

To achieve desired efficiency requires processes without impediments and many organizations have identified those that require investment in resources and systems to gain the benefits possible in TCM. Our research finds that the top five impediments to compensation processes in one-third of organizations or more are: limited alignment between pay and performance; inconsistent compensation practices across business; challenges in compensation communications; lack of effectiveness ensuring pay equity and fairness; and information scattered across silos of files and systems. These impediments prevent unified processes and to provide accurate and timely information which impacts not only compensation management but also the workforce that depends on the information to support its efforts.



Insights from Total Compensation Require Business Commitment

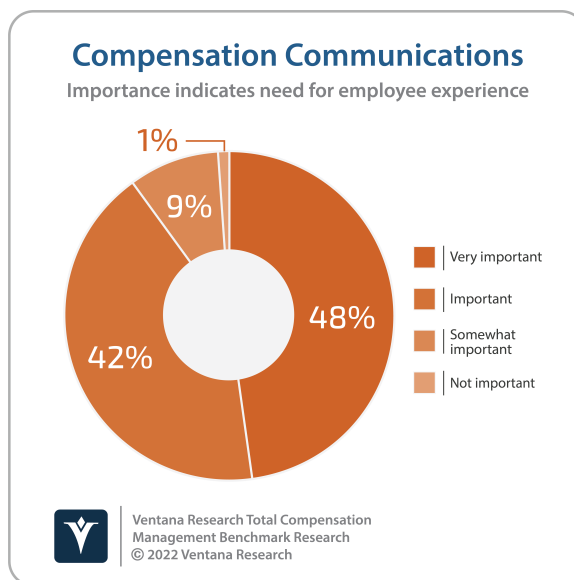
Utilizing compensation information at all levels of the organization facilitates better decision-making and improved engagement with candidates during the hiring process and employees during performance reviews. The research finds the overall importance in being very important and important for providing compensation information was in 85% of organizations, compared to prior research (80%). The information can be used to generate insights to the direction for which compensation is provided and managed.

Ensuring the effectiveness of compensation-related communications requires accurate information that is readily available to those that need it but less than one-half of



organizations (48%) indicate improving their compensation communications ranks at the highest level or is very important. Communication of compensation is not possible unless all information is made available but is challenged with a wide range of sources of information that needs to be assembled together.

Our research finds that over one-third of organizations (34%) consult more than six information systems or files to gain a complete view of compensation and less than one-third (30%) consult one to three sources. This underscores the importance of integration to gain a comprehensive view of total compensation but the research finds that organizations' priorities can vary. In order to achieve a thorough understanding of total compensation, our research identifies the top five existing systems needed to integrate with compensation systems are: Payroll (50%), HRMS (47%), Accounting (40%), Financial Planning (33%) and Sales Compensation Management (32%). The variety of systems indicates the involvement of multiple job roles and related systems across the organization.



Compensation information is a critical part of talent management processes and systems and the overall importance for a comprehensive view of compensation with talent management was found in over three-quarters (77%) of organizations. Unfortunately, only a little more than one-third of organizations (38%) currently integrate compensation with talent management, with one-third (34%) planning to do so over the next year. The priority for integration with talent management is important, with over one-half of organizations (53%) identifying it as the highest level of importance and more than one-third (37%) identifying it as important. The establishment of a comprehensive view of compensation information is essential to communications and should be a priority in order to achieve the necessary flexibility and effectiveness for talent management.

Dedicated Software is Essential to Compensation Success

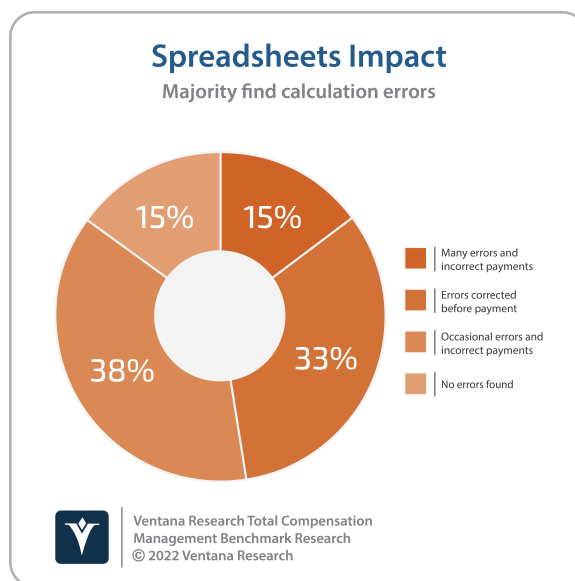
Achieving a high level of satisfaction with compensation management software is critical for organizations to ensure they can support the necessary processes and reach outcomes. Many organizations rely upon their existing HCM and HR systems to support their specific compensation needs, but, unfortunately, less than one-third of organizations (29%) were



satisfied with those systems, with many (43%) reporting they were only somewhat satisfied. However, for those organizations that use compensation management software, over one-third (38%) reported satisfaction with their systems and even more (45%) said they were somewhat satisfied. Low levels of satisfaction in compensation management software requires action and improvement in order to successfully employ or improve total compensation software being used.

The avoidance of using software designed for compensation like spreadsheets is a challenge as they are not designed for the continuous compensation processes and the dedicated requirement for planning and analytics to reporting and notification. Spreadsheets are most often used for compensation management like Microsoft Excel (36%) and spreadsheets are used in one way or another in almost three-quarters of organizations (72%), with one-quarter (26%) using them more exclusively, virtually the same as the 25% reported in our earlier research. Less than one-fifth of organizations (15%) that use spreadsheets have not found errors, but the rest had some type of error with over one-half (53%) identifying incorrect payments. Over one-third of organizations are using spreadsheets with variable pay, incentive plans, base pay and most (58%) with merit and bonus. Over two-thirds (67%) perform audits in compensation processes to identify errors. Our research clearly demonstrates that spreadsheets pose challenges to the accuracy and continuity of an organization's compensation management.

No matter what approach an organization is using for compensation management, there exists a demand to evaluate new software for this essential process. Over one-half of organizations (59%) are planning to evaluate and select a new software provider for compensation management. For some organizations, the need for a dedicated approach is critical to ensuring effective support of the process. Almost two-thirds of organizations (60%) plan to purchase a compensation system that operates independently from the compensation planning and process cycle, with more than (52%) of the largest organizations (over 10,000 employees), and more than four-fifths of both small (86%) and medium (83%) sized organizations planning to do so.

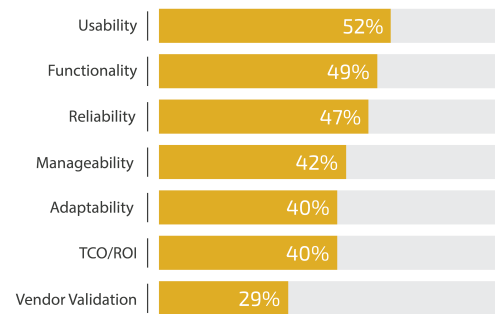




Evaluating software requires a balanced evaluation criteria that should be considered in the RFI / RFP process. Of the seven Ventana Research Value Index product and vendor evaluation categories, organizations identified usability as their top priority (52%), followed by functionality (49%), reliability (47%), manageability (42%) and adaptability (40%). The lowest rated evaluation category was TCO / ROI (40%) and validation of the vendor (29%). To evaluate software that will meet the requirements of total compensation will need to ensure a comprehensive approach.

Evaluation Criteria for Software

Usability and functionality most important



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Five Best Practice Recommendations

This Benchmark Research offers a timely assessment of TCM processes and systems that provide information to be used across the organization for all roles and requirements. It reveals significant new insights into the connection between processes and technology to improve the readiness in utilizing compensation. Based on these findings, we offer the following recommendations:

1. Prioritize Comprehensive Approach to Total Compensation Management

Investing in total compensation processes in a precise and unified manner should be a top priority. Our research finds that organizations have clarity with regard to impediments such as limited alignment between pay and performance, inconsistent compensation practices, challenges in compensation communications, lack of effectiveness in ensuring pay equity and fairness, and siloed information across files and systems. All of these can be overcome within a comprehensive solution for total compensation management. Only one-third of organizations have reached the highest level of performance, which we recognize as Innovative, indicating best in class practices in compensation management across people, process, information and technology. The top three components that the research found with overall importance are: to determine total compensation is benchmark against other companies (87%), ability to do job matching (83%), and benchmark your data against survey data (82%) within a dedicated approach. Additionally, organizations should ensure their approach assesses and applies compensation equally across diversity, equity and inclusion as less than one-half of organizations (43%) are able to demonstrate today. To ensure compensation is effective and aligned to market rates, benchmarking is essential despite the fact that only one-half of organizations (53%) do so today. If an enterprise-wide approach is taken, critical benefits can be achieved, as the vast majority of organizations have found; by linking compensation with performance, they improve the ability to attract talent while reducing costs and overpayments. Organizations that want to advance compensation should invest in compensation processes and systems with, or independent from, their human capital management (HCM) and talent management systems.



2. Provide Compensation Management for Everyone to Manage and Engage Workforce

Compensation management is a collective set of processes managed and utilized by people across the workforce with varied responsibilities and different requirements for the applications and information provided. Establishing organizational readiness though requires the ability to properly enable all levels of the organization to synchronize their compensation efforts in a more timely and concerted manner. The requirements for a TCM solution vary based on the organization and the roles of management, managers, employees, analysts and administrators across HR, compensation and finance professionals. Compensation management is more than just a set of computations and the use of spreadsheets is not sufficient to properly support the compensation activities to outcomes of such an important investment. For example, the market research finds that 80% of organizations had the requirement to have management ensure internal equity and fairness of compensation, and for employees, 81% of organizations indicated provided a breakdown of benefits that are part of compensation, and for compensation administrators and 88% of organizations indicated the need for design of plans. And even for finance departments that indicated their high priority to have access to compensation information and their intent to support and sponsor improvement to the processes. Organizations must ensure managers are equipped with the necessary compensation information to support the need for readiness and responsiveness during employee performance reviews as well as recruiting and hiring processes. This is especially important for organizational leaders and the operational and analyst teams that support variable compensation, especially in sales and revenue teams, who must support the specific requirements of assigned quotas and targets. The merits of HCM and talent management cannot be fulfilled without engaging the wide range of the workforce and workers to support total compensation management.



3. Compensation Processes Require Investment and Resources to Be Effective

Compensation management is a collection of processes for your workforce to ensure that the use of and deployment of it is done in an efficient and equitable manner. Business leaders across HR and finance need to ensure they invest into effective processes to those in the organization, including themselves, to engage and retain their workers to ensure that the total compensation provided is well understood by workers. Organizations should manage compensation components by taking a unified approach to what more than three-quarters indicate are the most important elements: merit and bonus, benchmarking, awarding and tracking pay equity, and the benefits and perks of the organization. The needs to have compensation processes ready to engage with workers at the pace desired is critical and should be a priority, though the research finds that one-half of organizations are performing compensation reviews annually or on hire-date anniversary, with only 5% able to do as needed and one-third able to do semiannually or quarterly to meet a new generation of expectations in the workforce. Despite the significant level of overall confidence in existing compensation processes (77%), the overall importance to automate activities was even higher (81%), but significant impediments are still frequently found in the organization including: inconsistent compensation practices, the need to improve compensation communications, and lack of effectiveness in pay equity, all of which underscore the importance of more effective compensation processes. Organizations should not have false confidence in their compensation processes but rather learn what is possible and can be accomplished with a concerted focus on, and investment in, resources to support TCM.

4. Embrace Compensation Communication to Enable Managers and Workers

It is critical for organizations to prioritize effective communication about compensation across the workforce, either through formal or informal channels/interactions. When employees better understand their total compensation in relation to work output, it ensures a high level of satisfaction toward the organization and job performance in their role. It is essential for organizations to facilitate the integration of all compensation-related information into a unified view not only to better assess but also improve communication. The market research confirms this as over four-fifths of organizations (85%) indicated the overall importance for



communications while less than one-third of organizations (30%) indicated they have less than three sources for total compensation. Compensation information also needs to be readily available to talent management systems where the recruit-to-hire and review-to-raise processes depend on it in order to be effective in attracting and retaining the workforce. But this assumes an effective compensation system is in place, one that has the analytics and capabilities to support a comprehensive approach to ensure a complete view and that can be used to communicate effectively to managers and employees. It should be no surprise that compensation communication is identified as one of the top five capabilities for managers and employees to improve upon. Without an effort to continuously improve employee compensation communications, it is not possible to improve the value of TCM.

5. Use Dedicated Software for Excellence in Total Compensation Management

Total compensation management requires software that is designed to enable the portfolio of processes that support specific requirements for managing, operating, assessing and deploying compensation. It might be assumed that organizations use dedicated software for such an important investment but our research finds the opposite. The majority of organizations (72%) are still using spreadsheets, exclusively or partially, that are not designed for effective analytics and planning in a collaborative manner. Organizations should be focused on accuracy and effectiveness of compensation, nonetheless our research finds that only a small percent (15%) have successfully used spreadsheets with error-free results, compared to the significant number that have experienced accuracy issues that, in some cases, have led to incorrect payments. This is why less than one-third (29%) are satisfied with their current approach compared to those that have dedicated approaches. Organizations must assess whether they are making the necessary, dedicated investments to TCM that enable effective use of HCM and talent management investments. For most organizations, simply ensuring salaries and merit increases are adequately managed is insufficient to meet the requirements to attract and retain talent and support the needs of HR, finance, and business managers and management to effectively manage compensation. The research finds that over one-half of organizations (59%) are evaluating new software for TCM as their current solutions do not meet their needs. Organizations must establish a comprehensive RFI for assessing existing and new approaches to compensation management that should be evaluated through an RFP process. Minimally evaluating software on its capability is insufficient;



organizations should examine the usability, manageability, reliability and adaptability of the system as well as evaluate the potential TCO/ROI and seek validation that the vendor will provide a satisfying customer experience in return for the investment.



Performance Index

In a competitive market environment, the organization that carries out its business operations most efficiently and accomplishes its business goals most effectively is likely to have a significant competitive advantage. Over time, it will consistently be more profitable and more agile in responding to market shifts. It will attract the most talented people, and, with all of these advantages, it will have the edge in gaining market share. These organizations — ones whose people, processes, stores of information and technology assets are deployed and used to maximum benefit — are the best performers in their market or industry. How they address their business challenges offers models for other organizations to learn from and emulate.

But sufficient information about those models typically is not readily available. Businesses are not in the habit of sharing their differentiators with competitors. Often, reports of best practices passed along by technology vendors or IT analyst firms reflect the biases of those channels. What is needed is a trusted source of rigorous, unbiased and statistically reliable information about trends and best practices supplied by those who actually know whereof they speak.

The Ventana Research Performance Index

To satisfy this need, Ventana Research has developed the Ventana Research Performance Index™, a research-based evaluation of organizational performance in a given expertise of focus. Once Ventana Research has conducted Benchmark Research in an area, we apply a set of analytics to a model that enables evaluation of the performance of a particular organization in comparison to other similar organizations.

The Performance Index for a given business area is developed as part of the Benchmark Research methodology. It identifies elements in each of the four component dimensions of any business or IT operation — the people, process, information and technology — that are required to successfully accomplish relevant business goals, then establishes for each the range of real-world approaches being used to do so. The analyst then builds into the research survey a series of questions that will ascertain where an organization stands on a performance hierarchy that spans from inefficient to efficient, ineffectual to effective, ad-hoc to automated, stand-alone to integrated — in short, how well the organization performs in that area.

The statistical performance analysis of a research dataset begins by applying the performance model to establish the characteristics of each of the model's four hierarchical levels of



performance effectiveness — Tactical, Advanced, Strategic and Innovative — in each of the four component areas. When these individual analyses are complete, they are aggregated to yield an analysis of the distribution of overall performance by organizations in that area. We also analyze performance across organizations by key demographic criteria: size by number of employees and annual revenue, geographic location and industry.

Since the analysis is based on answers to dozens of questions addressing the four component dimensions and uses correlations and crosstab analysis to elicit subtle but important patterns, the resulting analysis can be exceedingly detailed and insightful, yielding powerful guidance on initiatives that can advance performance in lagging areas. It also provides a yardstick against which we can measure the relative performance of any organization's management and business processes.

In brief, the four levels of increasingly effective performance are:

Tactical: Organizations that are either unaware that they are lagging the norm or are complacent about their capabilities. These organizations embrace and often defend the status quo and do not encourage thinking about innovation. To the extent that they perceive there to be a problem, they see it as isolated.

Advanced: Organizations that are somewhat dissatisfied with the status quo and somewhat open to the possibility of change. However, their employees are uncertain about how to proceed. Some explore new processes or the acquisition of new technology but typically lack budget resources or executive support. They may suspect their individual problem has larger systemic implications, but they do not know how to pursue that suspicion.

Strategic: Organizations that are dissatisfied with the status quo. They have taken steps to strengthen employee efficiency and performance. They consider process innovations and new technology that can help improve their decision-making and operational processes but a lack of key skills, organizational inertia or budget limitations may constrain the extent of their ability to change. They are open to examining larger systemic concerns.

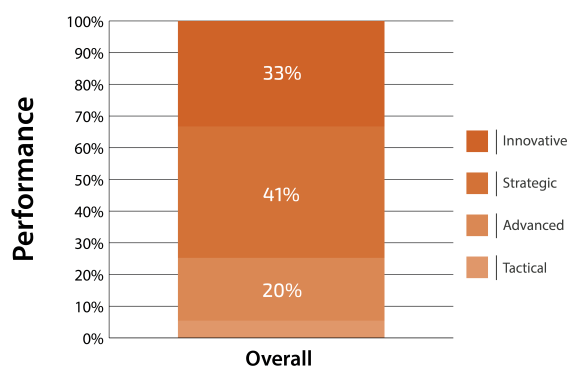
Innovative: Organizations that understand fully the value of performance improvement. They regularly measure the performance of their people and processes, streamline processes and collect and make accessible all information that people need to do their jobs and make decisions. They understand that all systems are interrelated and so optimization must be managed across the enterprise.



Performance Index: Overall

Our overall analysis of TCM practices places less than one-half of organizations participating in this research at the top two of the four levels of our Performance Index and the majority of organizations at the lowest two levels. The analysis shows that organizations vary in their maturity in managing compensation but that less than one in five identify as innovative. Those that do are likely to have more success in managing total compensation across the workforce, achieving effective management, examining the unique aspects of it by way of benchmarking, and addressing pay equity challenges. Organizations at the other three performance levels should take steps to assess the path and make efforts to become Innovative.

Total Compensation Management Performance Index

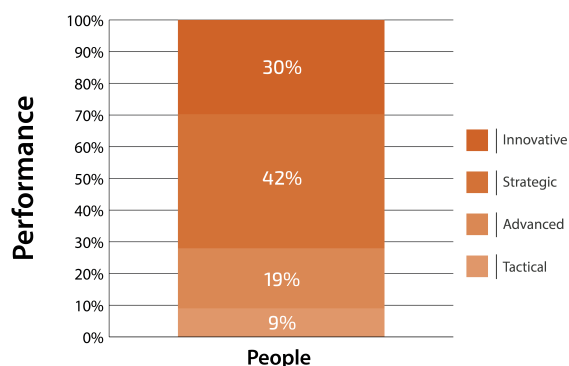


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Performance Index: People

Our analysis of organizations' performance in the People dimension found one out of four (26%) were at the two lowest levels, with the majority at highest levels (72%). However, drilling down into the results, we find various levels of performance in this dimension where many organizations are still not effectively adapting TCM to the unique line-of-business needs in sales, field service and contact centers to the aspects of executive compensation. Only one-half (53%) benchmark itself to ensure that compensation levels are competitive in the market. Unfortunately only one-third (34%) indicate the benefit to fairly compensate all individuals with equal pay for equal work is very important as other basics of total compensation management are not full addressed.

Total Compensation Management Performance Index



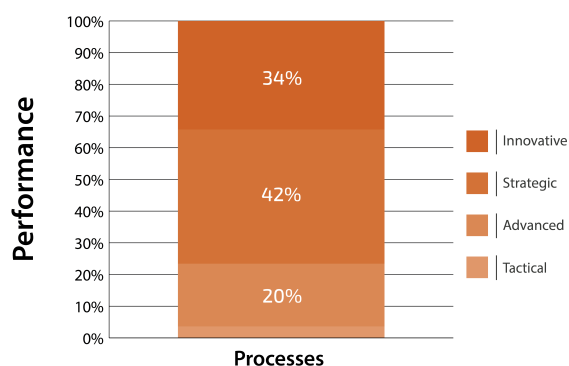
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Performance Index: Process

Our analysis finds some improvement in how organizations perform in the Process dimension as compared to others. Nearly three-quarters of organizations (76%) rank at the top two levels in the Performance Index. We find a gap between confidence and reality as most organizations (81%) said automating compensation processes has highest level of importance, and more than three-quarters (77%) reported they are overall confident in managing processes. However, many organizations are still struggling with significant impediments: At the Tactical level, information is scattered across systems (31%) and at the Advanced level exists the inability to review pay practices relative to the market (24%).

Total Compensation Management Performance Index

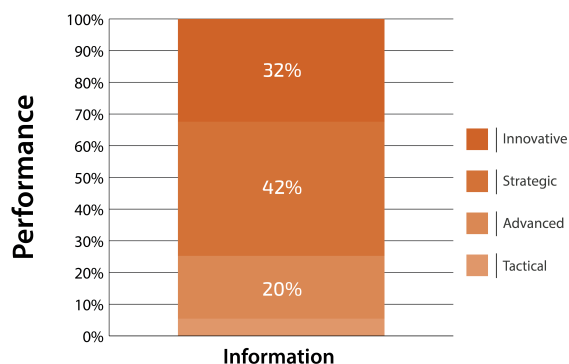


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Performance Index: Information

Our analysis finds that organizations perform best in the Information dimension. The greatest percent (76%) of any dimension rank at the top two levels, and only 5% place in the lowest Tactical level. More than four out of five (85%) said it is highest level of importance to provide specific compensation information but most lack a centralized information repository. With more than 72% of organizations using spreadsheets, most struggle with calculation and payment errors. Additionally, less than one-half (43%) have a system to ensure compensation levels are applied equally across demographics. The priority to benchmark organizations externally and internally and to conduct surveys are found to be important in determining total compensation.

Total Compensation Management Performance Index



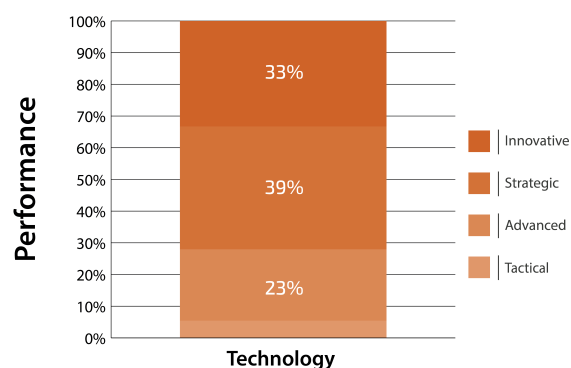
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Performance Index: Technology

Organizations perform reasonably well in the Technology dimension, with almost three-quarters (72%) at the two highest levels. However, only 38% stated they are satisfied with their current system and the use of spreadsheets remains widespread; only 8% reported rarely or never using them, with the rest reporting that they use them in some form. Only a little more than one-quarter (29%) are satisfied with their HCM software support of compensation management. And over one-half (53%) would like to integrate compensation management with the talent management systems used to recruit, engage and retain their workforce. It should be no surprise that two-thirds of organizations (67%) are planning to evaluate and select new software.

Total Compensation Management Performance Index

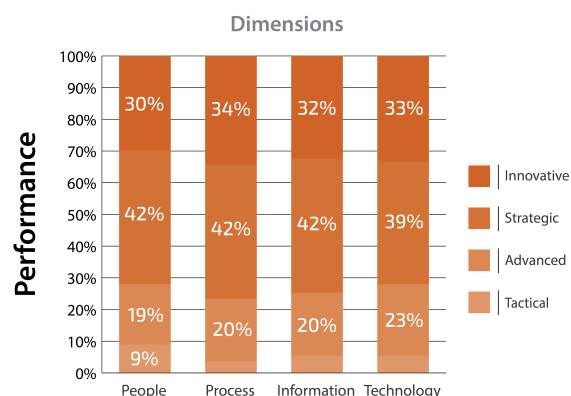


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Performance Index: Key Dimensions

Our analysis shows that organizations participating in this research perform best (by a small margin) in the Process dimension and weakest in People and Technology. Only about one-third rank at the highest level of Innovative in all four dimensions. We see ample room for growth, as organizations at the second-highest level are the highest percentage but with one-quarter are at the bottom two levels. Total compensation management is a comprehensive approach to address organization-wide needs to manage, optimize and deploy compensation reliably. Organizations should overcome barriers that prevent achieving full potential and need to examine methods and approaches that will ensure fair and equitable pay.

Total Compensation Management Performance Index



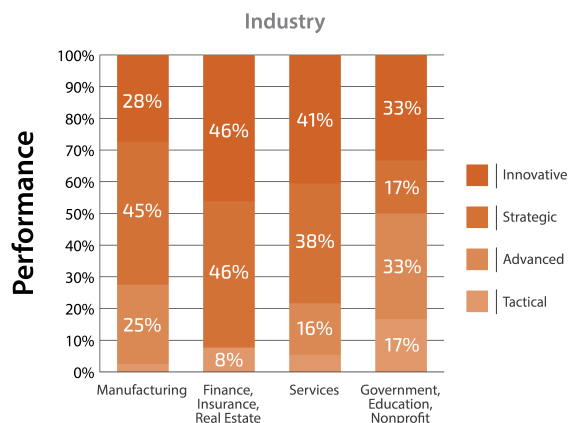
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Performance Index: Industry Sector

Upon analyzing the research findings by industry sector, we find that organizations in Finance, Insurance and Real Estate perform best in compensation management, with almost one-half reaching the highest Innovative level. There are many organizations across all industries that have room for improvement in the Performance Index. The lowest performing at the Innovative level is Manufacturing (28%) industry while Government, Education, and Non-profit organizations (33%) rank at the highest Innovative level. The Services industry is performing well, with more than three-quarters (79%) at the top two levels.

Total Compensation Management Performance Index

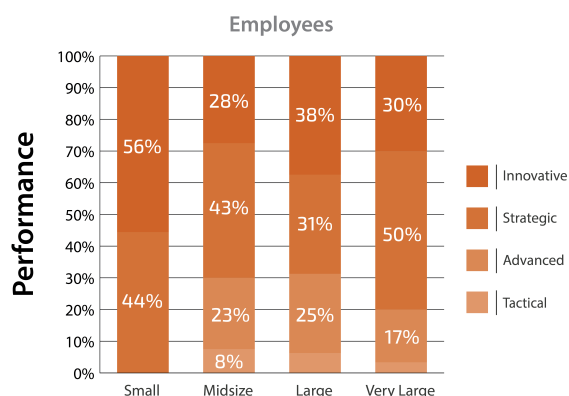


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Performance Index by Size: Number of Employees

We assessed the performance of organizations in relation to their size, as determined by how many employees, and divided into four groups. (In our definition, small organizations have fewer than 100 employees; midsize organizations have 100 to 999 employees; large organizations have 1,000 to 9,999 employees; and very large organizations have 10,000 or more.) We find that small organizations are Innovative, performing best overall in compensation management (56%), even with a small sample, followed by large organizations (38%). The very large organizations demonstrate the highest performance (50%) at the Strategic level of performance, indicating a growing level of improvement to their overall compensation management efforts.

Total Compensation Management Performance Index

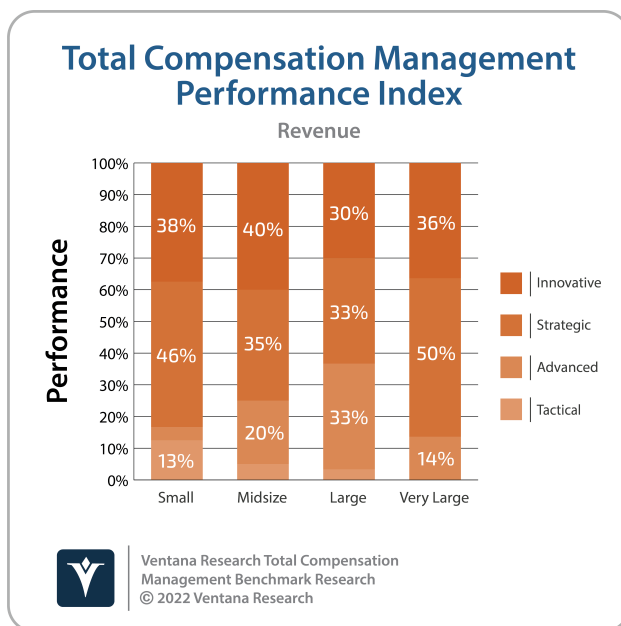


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Performance Index by Size: Revenue

We also assess the performance of organizations in relation to their size as determined by their annual revenue. (In our definition, small organizations have revenue of up to \$100 million; midsize organizations have revenue between US\$100 million and US\$500 million; large organizations have revenue between US\$500 million and US\$10 billion; and very large organizations have revenue of more than US\$10 billion.) Midsize organizations perform better at the Innovative level when measured by revenue versus number of employees. Very large organizations perform better at the top two levels of performance (86%) compared to smaller organizations. Overall, midsize organizations perform best at the Innovative level (40%). Smaller organizations performed well, they also have the ability to be more agile and access to more sophisticated total compensation management methods.





Appendix: About This Benchmark Research

Methodology

Ventana Research conducted this Benchmark Research in 2021. We solicited survey participation via email, our website and social media invitations. Email invitations were also sent by our media partners and by vendor sponsors.

We presented this explanation of the topic to participants prior to their entry into the survey:

Ventana Research defines total compensation management as the practice of managing the processes, data and systems that address all aspects of rewarding and compensating an organization's workforce. Human Resources organizations that integrate their people and processes tightly with information and technology are best able to maximize workforce effectiveness. Compensation management is a key activity for promoting such effectiveness. We'd like to know about the business drivers, technical requirements and barriers to effective compensation management, and your plans to support it in the future. Your participation will provide valuable information about how organizations use compensation to recruit, engage, motivate and retain talent and produce the best possible outcomes by managing compensation optimally.

The following promotion incented participants to complete the survey:

All survey participants will receive immediate access to related research to support their organization's efforts. In addition, all qualified participants will receive a \$50 gift card. Thank you for your participation!

Qualification

We designed the research to identify, explore, assess and quantify key aspects of the future of compensation management. Qualification to participate was presented to participants as follows:

The survey for this benchmark research is designed for HR, compensation, finance, business and IT professionals. Solution providers, software vendors, consultants, media and systems integrators may participate in the survey, but they are not eligible for incentives and their input will be used only if they meet the qualifications. Incentives are provided to qualified participants in the research and are conditional on providing accurate contact information including company name and company email address that can be used for fulfillment of incentives.



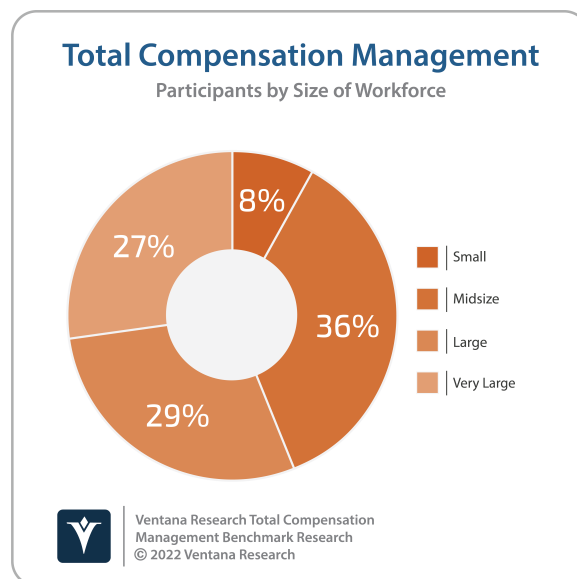
Further evaluation of respondents was conducted as part of the research methodology and quality assurance processes. It entailed screening out responses from companies that were too small, questionnaires that were not materially complete, or those where the submission was from an inappropriate submitter or appeared to be spurious.

Demographics

We designed the research survey to be answered by executives and managers across a broad range of roles and titles who currently work at qualified organizations. We deemed 111 of those who took the survey qualified to have their answers analyzed in this research. In this report, the term “participants” refers to that group, and the charts in this section characterize various aspects of their demographics and qualifications.

Company Size by Workforce

We required participants to indicate the size of their entire company. Our research repeatedly shows that the size of an organization, measured in this instance by number of employees, is a useful means of segmenting companies because it correlates with the complexity of processes, communications and organizational structure as well as the complexity of the IT infrastructure. In this research, participants represented a broad range of organization sizes, with more participants at the larger end of the spectrum: 27% work in very large companies (having 10,000 or more employees); 29% work in large companies (with 1,000 to 9,999 employees); 36% work in midsize companies (with 100 to 999 employees); and 8% work in small companies (with fewer than 100 employees). This distribution is mostly consistent with prior Benchmark Research and our research objectives and provides a suitably large sample from each category.



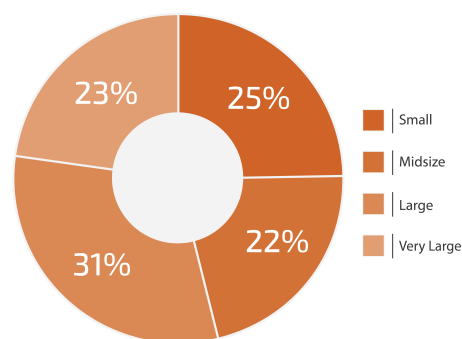


Company Size by Annual Revenue

When we measured company size by annual revenue, the distribution of categories shifted downward between the two largest and two smallest divisions; in particular, many more are small. By this measure, 23% are very large companies (having revenue of more than \$10 billion) and 31% are large companies (having revenue between US\$500 million and US\$10 billion). Similarly, 22% are midsize companies (having revenue between US\$100 million and US\$500 million), and 25% are small companies (with revenue of less than US\$100 million). This sort of redistribution is typical in our research when we measure by revenue instead of head count.

Total Compensation Management

Participants by Company Revenue



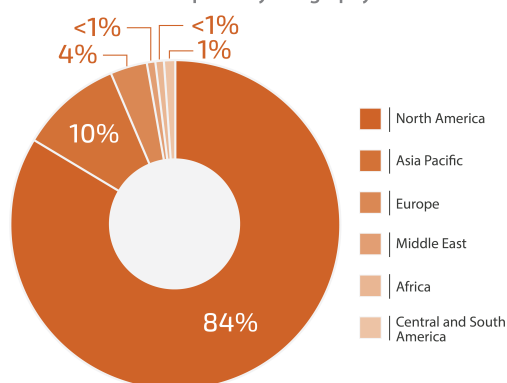
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Geographic Distribution

A very large majority (84%) of the participants are from companies located or headquartered in North America. Those based in Asia Pacific account for 10%, those in Europe account for 4%, less than 1% are based in the Middle East, and, collectively, Africa, Central and South America account for less than 1%. This result was in keeping with our expectations at the start of this research since organizations participating in our research most often are headquartered in North America. However, many of these are global organizations operating worldwide.

Total Compensation Management

Participants by Geography

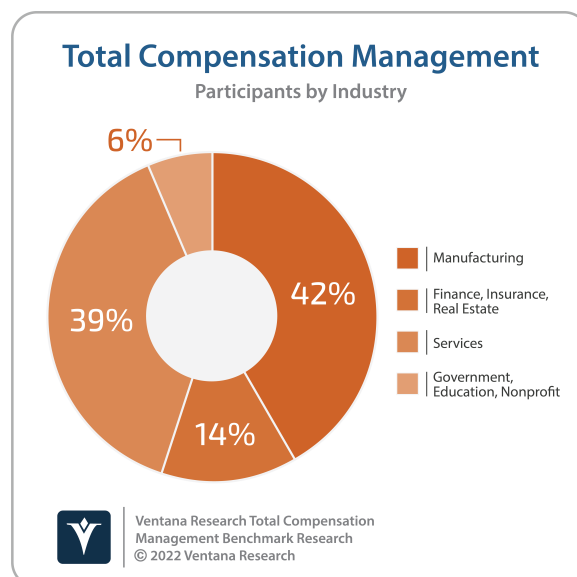


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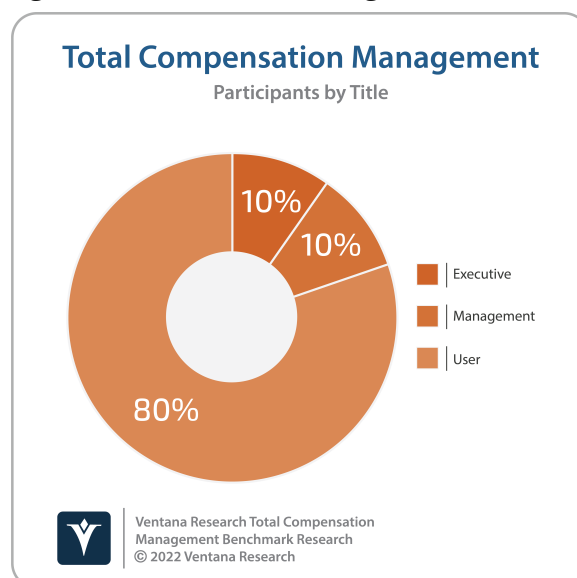
Industry

The participants in this Benchmark Research hail from companies that represent a broad range of industries which we have grouped into four general categories. Companies in Manufacturing account for 42%, and those in Finance, Insurance and Real Estate account for 14%. Those that provide Services account for 39%. Government, Education and Nonprofits account for 6%.



Job Title

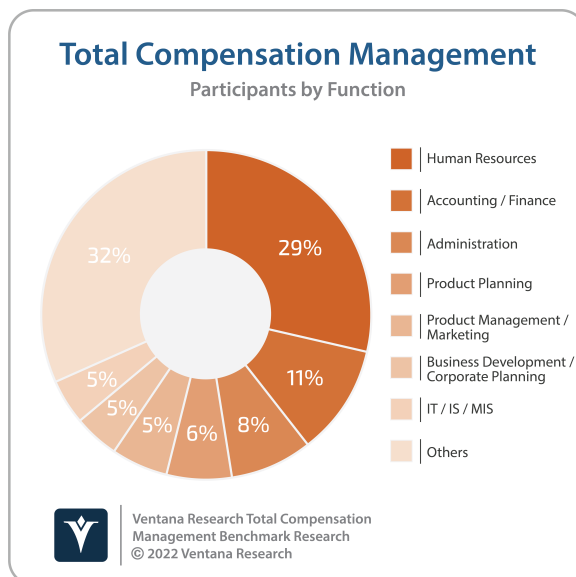
We asked participants to choose from among collection of titles the one that best describes their own. We sorted these responses into three categories: executives, management and users. Eighty percent identify themselves as having titles that we categorize as users, a grouping that includes analysts (business, financial or other). Beyond users, 10% are management and 10% are executives, by which we mean CxO, executive vice presidents and senior vice presidents. We concluded after analysis that this response set provided a meaningfully broad distribution of job titles.





Role by Functional Area

We asked participants to identify their functional area of responsibility as well. This enabled us to examine differences between participants who have differing roles in the organization. Predictably, a large portion (29%) of the participants identify themselves as being in HR; 11% are in the accounting/finance function; 8% are in administration; 6% are in product planning; and 5% are in product management, 5% are in business development and 5% in IT/IS/MIS. The remaining, who identify as other, are 32% of the total.





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Ventana Research is the most authoritative and respected business technology research and advisory services firm. We provide insights and expert guidance on mainstream and disruptive technologies through a unique set of research-based offerings including Benchmark Research and technology evaluation assessments, education workshops and our research and advisory service, Ventana On-Demand. Our unparalleled understanding of the role of technology in optimizing business processes and performance and our best practices guidance are rooted in our rigorous research-based benchmarking of people, processes, information and technology across business and IT functions in every industry. This Benchmark Research, along with our market coverage and in-depth knowledge of hundreds of technology providers, supports our mission to deliver education and expertise to our clients to increase the value they derive from technology investments while reducing time, cost and risk.

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