

# Total Compensation Management

Deriving Full Value from Compensating the Entire Workforce

Benchmark Research Program



PROSPECTUS

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## Research Overview

Compensation management is a key talent management process involving all workers and managers. 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 being able to attract and retain 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 human resources departments as they strive to keep the organization productive, satisfied and motivated while ensuring equitable and defensible pay practices across the entire workforce.

The activities and systems that support the crafting, management and administration of compensation plans typically take into account both external market and internal factors and 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 is on the radar of all organizations that seek to optimize their compensation processes and use all relevant information to maximize the value of and return on their total compensation spend.

Many HR departments aren't equipped to manage sophisticated programs 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 for professional, technical and managerial staff, but this approach or even annual cash bonuses can also be effective for non-exempt employees eligible for overtime.

In our view, an investment in elevating total compensation management is a strategic step forward in human capital management and our previous benchmark research on this topic found some progress in modernizing compensation practices. Almost three-fourths (72%) of organizations said that it is important or very important to have a total compensation management model rather than a piecemeal approach. Moreover, nearly half (49%) told us they are confident or very confident that their organization currently manages its compensation processes effectively. This is becoming ever more important as most organizations also periodically review and audit their compensation practices to



ensure that fairness across key demographics, often comparing its policies to those of other organizations.

Automating compensation processes and improving efficiency and decision-making will help standardize them. But the real value of a new approach to compensation for HR, line and senior management lies in tying compensation more closely to performance by evolving it into a pay-for-performance system. In addition, a range of compensation types should be available for senior employee levels 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 to 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 human capital management 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.

Some software vendors are moving to provide a new generation of total compensation management systems that integrate with talent management, workforce management, HR management and even financial and budgeting systems. Equipped with these advanced systems, organizations can make compensation processes and systems more robust. They can use planning and management tools to drive productivity, collaborative interactions and satisfaction among managers and workers alike.

## Research Background

Improvement of compensation processes has become a part of business strategy and planning conversations in executive-level management meetings. However, this does not mean that many organizations have succeeded in doing it. In our previous research the largest percentage of participants (47%) cited inconsistent execution across divisions and departments as an impediment motivating investments in compensation management. Most organizations need to know which process and systems changes will make their compensation practices more strategic and effective. Executives and managers need help to determine the set of capabilities that 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. Our new benchmark research gathers that knowledge by examining how organizations are managing these essential components of total compensation management:



- Base Pay: basic components and the compensation rankings of members of the workforce
- 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
- Market adjustments: typically an off-cycle salary adjustment to bring employees up to a more competitive compensation relative to the market and their role
- Variable Pay: the variety of variable pay components utilized within an organization's business units and geographies (This particularly includes professional and technical workers, sales organizations and other areas where variable compensation is based on defined revenue or other performance targets.)
- Rewards: the variety of cash and noncash incentives for performance
- Department-Specific Compensation: idiosyncratic methods for applying variable pay-dependent components associated with teams and departments
- Stock and Incentive Stock Option (ISO): various types of equity-based awards including proper control and auditing mechanisms
- Executive Compensation: often long-term equity-based incentives including specific reports needed by the compensation committee and the SEC
- Benchmarking: the ability to compare the organization's workforce compensation levels to those of its industry and internally across any demographic
- Pay for Performance: linkage between compensation and performance targets to improve business outcomes
- Planning: use of budgeting and forward-looking workforce planning to inform both strategic and operational decisions
- Benefits: the value of benefits including healthcare, sick leave, vacation pay, tuition reimbursement, 401k match, pension contributions, club memberships or other perks
- Paid Time Off or Leave: the value of vacation and leave of absence including compliance with the Family Leave Act and state and local regulations
- Analytics and Reporting: creation of useful reports and analysis to management, managers and employees as part of the total compensation review.

## Research Focus

For more than a decade Ventana Research has been the only analyst and market research firm assessing the business needs of buyers and users along with vendors and their products. Our examination incorporates the people, process, information and technology factors that underlie the effective use of software and impact purchase decisions. The



research investigates the need for process and management changes in compensation programs. We also examine what the finance and operations functions need to be able to support total compensation management. Our previous research found that in one-quarter to one-third of organizations, Finance plays a critical role in influencing compensation processes or has to use information from them.

The purpose of this research is to determine the awareness of organizations, their willingness to adopt modern total compensation management systems and their intentions to do so over the next 24 months. It will provide value insights by identifying market opportunities to accelerate organizations' adoption of total compensation management systems while also identifying the impediments to doing so as well as benefits and best practices developed by those that have advanced their processes and systems since our previous research.

## Research Objectives

Ventana Research's Total Compensation Management research program determines market opportunities, approaches and organizational requirements, trends and opportunities to manage compensation processes through systems that automate and improve performance. Understanding how to communicate and work with management in HR is essential for success. This requires insight into attitudes toward and trends in total compensation management. This study will illuminate the current situation and future requirements for organizations that need to further address this critical business imperative. Specifically, it will:

- investigate demand for total compensation management
- determine the type and level of challenges that drive adopting new solutions
- investigate relative prioritizations of the components of total compensation management
- identify existing or planned approaches
- develop a prioritized list of user and application requirements
- establish what capabilities are critical for organizations
- determine how companies currently and in the future plan to integrate compensation systems across the organization
- explore attitudes toward the use of cloud computing or hosted application services compared to previous methods of deploying enterprise software such as on-premise installs.



## Scope and Methodology

This primary benchmark research will be led by Steve Goldberg, VP and Director of Human Capital Management Research for Ventana Research. Our objective is to have qualified research input from at least 200 companies with more than 100 employees or annual revenues of more than US\$100 million at the levels of responsibility that are pertinent to this topic across IT and related business domains. The survey will be conducted in English. The sample will be qualified through the reach of our media and association partnerships, the Ventana Research research panel and specific groups that best represent the focus on compensation management and in the enterprise across management and operations organizations. All survey participants will receive immediate access to related research to support their organization's efforts. In addition, all qualified participants will receive a \$25 gift card. Thank you for your participation!

We anticipate presentation of results will occur within six to nine months after the polling process begins and annually thereafter. Research data collection will begin in the fourth quarter of 2020.



## About Ventana Research

Ventana Research is the most authoritative and respected benchmark business technology research and advisory services firm. We provide insight 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 services, 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 plus our market coverage and in-depth knowledge of hundreds of technology providers means we can deliver education and expertise to our clients to increase the value they derive from technology investments while reducing time, cost and risk.

Ventana Research provides the most comprehensive analyst and research coverage in the industry; business and IT professionals worldwide are members of our community and benefit from Ventana Research's insights, as do highly regarded media and association partners around the globe. Our views and analyses are distributed daily through blogs and social media channels including [Twitter](#), [Facebook](#), and [LinkedIn](#).

To learn how Ventana Research advances the maturity of organizations' use of information and technology through benchmark research, education and advisory services, visit [www.ventanaresearch.com](http://www.ventanaresearch.com).

The leadership team behind this benchmark research includes:

### **Steve Goldberg, VP & Director of Human Capital Management Research**

Steve is responsible for the Human Capital Management (HCM) research and advisory services practice. He guides HR and business leaders in leveraging their workforce for competitive advantage. He guides HCM technology vendors on the market of buyers and where their applications and technology can have maximum impact. Steve's uniquely diverse HCM experience spans over 30 years, including HR process and HCM systems practitioner leadership roles, heading up product strategy for one of the most respected HCM application vendors, and operating his own global advisory practice. His expertise areas of coverage include HRMS, Talent Management and Workforce Management, with specialized focus on recruiting, learning, performance, compensation and payroll. Prior to joining Ventana Research, Steve worked as a corporate VP in HR at UBS/Swiss Bank Corporation and Huizenga Holdings, product strategy leader at PeopleSoft and Unicru, and was also VP and Research Director at Bersin & Associates. Over 35,000 HR professionals and business executives have been informed by one of Steve's



presentations on HCM or have read his published work. Steve holds an MBA in Human Resource Management from University of Buffalo School of Management and a BBA in Industrial Psychology from The City University of New York.

### **Mark Smith, CEO & Chief Research Officer**

Mark is responsible for the overall business and research direction of Ventana Research and drives the global research agenda covering both business and technology areas. He defined the blueprint and methodology for improving business by using benchmark research to provide guidance across people, processes, information and technology. Mark is an expert in enterprise software and business technology innovations including: business analytics, big data, cloud computing, business collaboration, mobile technology and social media. Mark has held CMO, research and product development roles at research and software companies. Mark started Ventana Research more than a decade ago; he has worked in the software industry for 25 years leading innovations in research and technology. Mark was rated the 2011 software industry analyst of the year by The Institute of Industry Analyst Relations (IIAR). Mark is also ranked as one of the top ten technology influencers in 2012 by Human Resources Executive magazine. Mark can be found on [Twitter](#) at @marksmithvr, on [LinkedIn](#) and can be reached via email at [mark.smith@ventanaresearch.com](mailto:mark.smith@ventanaresearch.com). Read his blog at <http://marksmith.ventanaresearch.com>.

### **Jeff Orr, SVP of Products**

Jeff manages the firm's overall products including the advisory, digital and research services. Jeff is an experienced strategic leader, product developer, editor and industry analyst who has accelerated both organizational and industry growth initiatives. He is passionate about the confluence of human and machine interaction and the new, resulting experiences. Jeff's analysis and insight have been widely published in influential publications including The Wall Street Journal, The NY Times, Financial Times, Forbes, Cyber Security Hub and TheStreet. In addition, Jeff has been a judge for industry award programs, keynote speaker or chair for multiple conferences, and architect of the 4G World and AI World conference programs. Jeff attended Embry-Riddle Aeronautical University in addition to completing business and marketing courses at the University of California at Berkeley and University of California at Santa Cruz. He is also an Oregon State University Certified Master Gardener.