



# 9 Elements of Compensation Management You Shouldn't Overlook



While making sure your employees get paid may seem like the most straightforward and simplistic part of business, an organization's compensation management strategy can have a massive impact on its success and competitive edge. A strong strategy keeps your focus on your people and benefits your entire workforce:

- **Employees:** gain a clear understanding of their total compensation
- **Managers:** are enabled to make informed compensation decisions
- **Executives:** can align employee compensation with corporate objectives, while adhering to budgets and guidelines
- **Administrators:** are empowered to easily and efficiently conduct compensation management processes

An effective compensation strategy helps organizations make informed, meaningful compensation decisions to incent and reward the right people at the right time. It also ensures employees are engaged and motivated to perform at their very best, helping to drive your organization's strategic goals. Yet many leaders miss key elements that could save money, improve employee retention, and attract better hires. Let's take a look at nine of these topics and how to tackle them effectively.

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## 1. There's more to compensation than wages

Your organization's compensation management strategy shouldn't only focus on wage management, budgeting or salary planning. While these facets are obviously important, compensation involves your entire strategic approach to incent and reward your employees, while focusing on your budgetary guidelines. In today's competitive economic climate, bonuses, stock plans, benefits, and other incentive options are becoming more important than ever to your employees, with millennials in particular de-emphasizing salary as the be-all-end-all motivator it was once considered.<sup>1</sup> Train managers to emphasize aspects of compensation beyond salary when negotiating with potential hires; your total package could be a game-changer for incoming talent who could be weighing their options.

Don't fall into the trap of focusing solely on wages and salary when developing a strategic plan or communicating with your workforce. Compensation elements other than wages play an important role in employee engagement and retention. Factor in every aspect of your total financial compensation package when creating new plans, running reports, explaining your reward philosophy to employees, and envisioning the long term for your organization.



## 2. Compensation tied to business outcomes

Employers understand the need to incentivize employees for their work. However, the ultimate role that compensation practices play in driving desired business results is commonly misunderstood. Truly motivated employees, with a personal investment in their tasks, create more financially successful organizations. Your compensation philosophy is inexorably tied to this level of engagement. This could explain why over 90% of organizations tie pay to performance.<sup>2</sup>

Seek out a solution that helps you leverage compensation as part of a holistic engagement strategy. Your goal is to strengthen the link between the efforts of a single employee and the performance of your business as a whole. Rather than a one-size-fits-all approach, individual team member contributions should be rewarded in a way that makes sense based on your organization's corporate culture and reward philosophy. What's more, the goals of individual contributors should be tied to your overall strategic business goals. Encourage your people to take a personal stake in your business outcomes from day one rather than leveraging compensation to merely encourage employees to complete projects.



### 3. Communication

Perhaps the most commonly overlooked aspect of compensation management is clearly communicating your compensation philosophy and strategy to your workforce. Research indicates that employee motivation can suffer from confusion about compensation. More than half of employees may significantly undervalue their total compensation, while at the same time, employers feel unprepared to communicate effectively on the topic. In fact, fewer than one in three employers would say that most or all of their employees understand their company's compensation philosophy.<sup>3</sup>

This is a widespread problem, and its impact cannot be understated. If an employee undervalues or misunderstands their compensation, they may be less inclined to contribute to furthering the organization's business goals. This may be especially apparent during uncertain times when employees may be worried about your organization's financial standing. You can boost employee engagement and morale by simply communicating more openly and completely about all aspects of compensation at your organization, in good *and* difficult times.

Ensure employees have visibility into their total compensation without having to jump through hoops. Make it simple for employees to access timely, accurate data they need to be informed. You may also consider publishing a written statement or conducting webinars to educate new and existing employees on your compensation philosophy.



### 4. Role-based access

The pay information and salary plans maintained by your payroll team count among some of the most important data at your organization. It's also some of the most sensitive. If this data is scattered across multiple systems, or not stored in a secure system of record at all, you're opening yourself up to countless headaches as a result of errors, potential security risks, and compliance violations.

An ideal solution for compensation management will offer role-based access, which helps to protect your data integrity and security. Role-based access allows your organization to selectively administer access rights to specific groups, managers, and employees. This ensures that access is based solely on designated role, rather than location or type of device being used. You may wish for your payroll managers to have access to compensation data for the full workforce, your managers to have full access for their team members only, and individual employees to only see their own current and historical information. Make sure that your compensation management solution enables you to fully configure this access from the top-down to maintain control of your data and avoid risks.



## 5. Proration

Proration due to a salary change, bonus or other factor can bring your payroll to a halt if manual intervention is needed. Your compensation management solution can help you handle any and all proration schemes without hesitating and without constant configuration.

Ideally, proration should be rule-based — it should apply automatically, every time (even after a salary change or one-time payout), to only those employees you've selected. Any changes to proration rules should automatically reapply to the correct group of employees, every time, without the need for intervention.



## 6. Salary planning

Salary planning is one of the most important aspects of compensation management. Such plans make your business more adaptable and less susceptible to unexpected market forces. This is more important than ever as employers compete to retain top talent and engage employees in new ways.<sup>4</sup> If you can create actionable plans for employee salaries extending years into the future, your payroll team will be more agile when it comes to adjusting to budgetary needs, assessing bonuses and merit guidelines, and giving executives the actionable data they need to make informed compensation decisions.

Many organizations avoid or fail to give salary planning proper attention due to the foresight and consideration required, and because their results are not always felt in the short term. Worse, businesses that do develop salary plans are often doing so in a wholly separate system from their basic human capital management functions. This is dangerous, because managers need to take advantage of the full picture of your compensation strategy when developing plans. Even a single small error in a salary plan today can be catastrophic years down the line. Embrace a solution that integrates salary planning seamlessly into your overall compensation strategy and helps you get it right, every time.



## 7. Different plans for different pools

Establishing salary plans is a worthwhile step toward maximizing your reward and incentive strategy. However, there are dangers in allocating too many or too few resources to this aspect of compensation management. While a blanket salary plan for every tier of employee at your organization will never be realistic, it may also be inefficient for your managers to create a unique salary plan for every employee. Requiring too much customization per plan can tie up your critical compensation resources, keeping them from strategically contributing to your business goals.

A comprehensive compensation management solution solves this problem by enabling your decision-makers to create pools of employees based on location, job description, tenure or any other number of criteria in order to create salary plans, merit guidelines, and/or bonus possibilities that apply to the entire pool rather than to each employee. These plans can then be further modified over time for the pool as a whole or copied with customization to address a new group of employees rather than starting from scratch. Because rules can be applied to the whole pool, new employees added to a pool automatically have the correct salary plan applied to them. By the same token, employees who change position at your organization will automatically experience the appropriate change in salary plan to match. This automation frees up your administrators to focus on other aspects of compensation.



## 8. Real-time analytics

Proper salary planning involves a lot of foresight and preparation for the future. Your organization needs the right tools at its disposal when making decisions about compensation today and tomorrow, and one of the most potent weapons in your arsenal is robust business intelligence. Real-time workforce analytics can track an astounding number of relevant data points for your entire employee base, helping you monitor trends, recognize performance or sales patterns for salary management, and giving you visibility into potential problems in your compensation strategy before they occur.

Dramatic strides in the growing field of predictive analytics can clue your managers in to current and potential top performers in the workforce, so that they can consider merit-based compensation as soon as the opportunity exists. Powerful real-time analytics can work in concert with your overall compensation philosophy to elevate it from a necessary, tactical function to an inexhaustible source of strategic value.



## 9. Total compensation statements

Base salaries don't reflect the entire compensation picture and your employees need more than just salary figures to help them plan and manage their own finances. With total compensation statements, employees get full visibility into their entire pay packages on an annual basis and in one convenient place, enabling them to easily make year-on-year comparisons. This level of transparency makes your people aware of the variety of ways you invest in and support them, which can lead to greater loyalty for and trust in your company.

A comprehensive compensation management solution provides employees, managers, and administrators with the ability to easily view an employee's entire compensation amount, including earnings, employer-paid deductions, and employer-paid taxes for a given year. Administrators can leverage helpful tools to configure the contents of the total compensation statement in a way that best suits their needs.

## Conclusion

As the workforce continues to evolve, HR leaders must be flexible in their approach to compensation. A first-class compensation management solution can help your competitiveness in the job market. It's your one-stop-shop for managing salaries, raises, bonuses, commission, and benefits, and can help your HR professionals develop strategies to attract and retain talent. And with the growing popularity of non-traditional benefits like fertility treatment, adoption reimbursements, and gender affirmation coverage (support for transgender procedures), there's a lot to consider when it comes to incentives in your compensation package. Take advantage of the simplification and efficiency that compensation management software offers your employees, managers, and HR professionals.

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