Retaining Talent with Compensation Management

Trends in Employee Compensation

Following the harsh years of pay cuts and employee downsizing in the last decade, companies’ chief compensation objectives for this year are retaining and attracting good talent, according to PayScale Inc.’s Compensation Practices Survey. Knowing the importance of having a talented team, no matter the size of the company, organizations want to make strategic decisions to promote a high caliber of work, even if they are unable to substantially increase the base salary. This same research shows the top reason for leaving a large organization is currently “Seeking Advancement Opportunities Elsewhere.” While this could mean a variety of things, in the context of 75 percent of respondents to the compensation survey not adjusting their employee’s pay ranges in 2010, this statement is likely a reflection on employees seeking a higher salary.

So this year, the majority of companies plan to reward and retain high-performing employees through a merit-based pay plan. While offering learning and developmental opportunities is also a popular route to take in providing job satisfaction for employees, pay-for-performance plans are often the most appropriate incentives to increase the business productivity for even the highest performers in a company.

Of the 25 percent of companies that responded to the Compensation Practices Survey that said they had adjusted their pay ranges in 2010, the average adjustment was only 4 percent, not necessarily meaningful enough to make a difference to key talent. Further, the least common reason considered for evaluating and adjust internal pay equity is employee potential. So it is easy to see that without a true understanding of the expectations you have for an employee and the time it takes to achieve certain goals, you might be undercompensating soon-to-be superstars and losing talent before you can even foster its growth.

Supplying the right salary from the beginning of an employee’s career will go a long way toward maintaining loyalty and drive during his or her time at a company.

With these reasons just being the most visible tip of the iceberg that affect compensation, it is not surprising that many companies turn to formalized compensation plans to dictate the rules of adjustments, bonuses and incentivized pay. We have seen the importance of correct compensation, but plans are even more vital to businesses when you consider that salaries can cost a company up to 70 percent of its annual operating costs, according to Bersin & Associates research on “Getting Compensation Right: The Value of Compensation Analysis and Planning Tools.”
Expectations from Incentivized Pay

1. *Keep high performing workers motivated*
   If pay is inadequate or appears unfair, employees will be demotivated to work. So, if top performers can execute 40 to 70 percent more effectively than their peers, according to Bersin & Associates, “The Assessing Performance Management Series: Pay for Performance,” then they may not feel it is fair to be compensated at an equal level as a lower performing peer.

2. *Drive business results*
   While research cannot definitely correlate incentivized pay and performance, Bersin does state that companies with higher standard deviations in compensation have 15 to 20 percent greater performance when measuring by revenue and profit growth.

3. *Control compensation costs*
   By allocating more money to fewer employees, an almost certain result with pay for performance plans, your company may be able to reduce its overall costs. By keeping these incentives outside of the base salary, the company will easily be able to adjust the amount of incentive or the targets that trigger them to cope with changes in overall company vision and financial situation.

Pay for Performance Planning

A well-defined compensation planning process should include:

- Company strategy and business goals
- Performance rating information
- Internal job descriptions and roles
- Comparative market data
- Internal salary and range targets

Beyond the standard compensation planning process, pay-for-performance requires companies to determine the answers to and set rules based upon the following:

- What factors will pay for performance be based upon?
  - Goal Achievement?
  - Target Achievement?
  - Non-quantitative measures?
  - Employee ratings?
Implementing systems like this manually would be too complex and time consuming to be effective. And while a compensation management system can be set to account for any of the above factors, a solution that is siloed is not necessarily as effective for companies looking to use incentivized pay as a solution that is integrated with talent and performance data. An integrated compensation management system can pull goal, productivity and rating data about employees right into the system and eliminate the need to input this information. Further, integrating compensation management with a learning management system would allow companies to create rewards around closing competency gaps and completing certification courses on time.

A system that accounts for all of these factors when delivering performance-based pay is one that is flexible and powerful enough to enact plans for all position levels within a company. It is often the senior managers and executives that have the most power to make increases to productivity. However, recent events that have shed light on the ballooning compensation executives in some failing companies received in the last few years have put employees and onlookers in shock. Using a compensation management system to pay these individuals based on performance and at a level that would not go beyond the scope of their duties and industry standards would eliminate potential for both public guffaws and poor internal moral.

Positioning Companies for Long-Term Compensation Management Success

The benefits of incentivized pay make it an alluring option for companies using a compensation management system sophisticated enough to organize the information. However, even if the program you set works well one year, it does not mean that the same metrics and targets will be as effective next year in retaining employees and driving business.

So, when determining if a current or future compensation management system is sufficient to support your business practices and control your costs, consider the following:

- Can the system simplify compensation policy planning and administration and effectively communicate changes in policies across the organization?
Can the system manage all forms of employee compensation or incentives, including salaries, bonuses, variable pay and stock options?

Is it flexible enough to define a single company plan or multiple plans across individuals groups, divisions and geographies?

Can it model and simulate the budget impact of salary and compensation actions so you can see potential costs before you enact a plan?

Can the system leverage flexible and configurable workflows to define and execute plan reviews and approvals at regular intervals?

Can it quickly and easily access detailed job and compensation data, including third-party salary survey data so you can begin your ranges at a competitive level?

Can the system analyze all aspects of compensation with detailed reports, analytics and interactive dashboards to make more informed business decisions or justifications for incentivized pay initiatives?

Retaining Talent with Compensation Planning: Today and Tomorrow...

With trends in compensation planning changing as an organization changes its goals and priorities, organizations with staying power require a flexible, scalable, automated solution in order to retain top talent and reward top performers. When an organization can do this effectively and efficiently, top employees win and so does the organization.
Retaining Talent with Compensation:
Trends in Employee Compensation

More Information
For additional information, send an email to connect@sumtotalsystems.com

About SumTotal
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