

# Raising the Bar Beyond Base Line Rewards

## *Getting Compensation Right*

Prepared for the 2019 AACA Annual Forum



## Employers are confronting new challenges...

- **Changing employee expectations** for work experience, work environment and transparency of total rewards
- **Increased focus on Inclusion and Diversity** stemming from legislation, talent expectations and shareholder interest and a recognition that it makes good business sense
- **Advancements in technology** driving a need for new skills, an increasingly diverse talent mix with fewer full-time employees and more non-permanent workers and new conversations around tasks, rather than jobs
- **Never ending focus on cost** and optimization of spend

...leading to the need to reevaluate how to attract, engage and retain talent in this complex, evolving environment.

## Compensation programs must keep pace to stay relevant

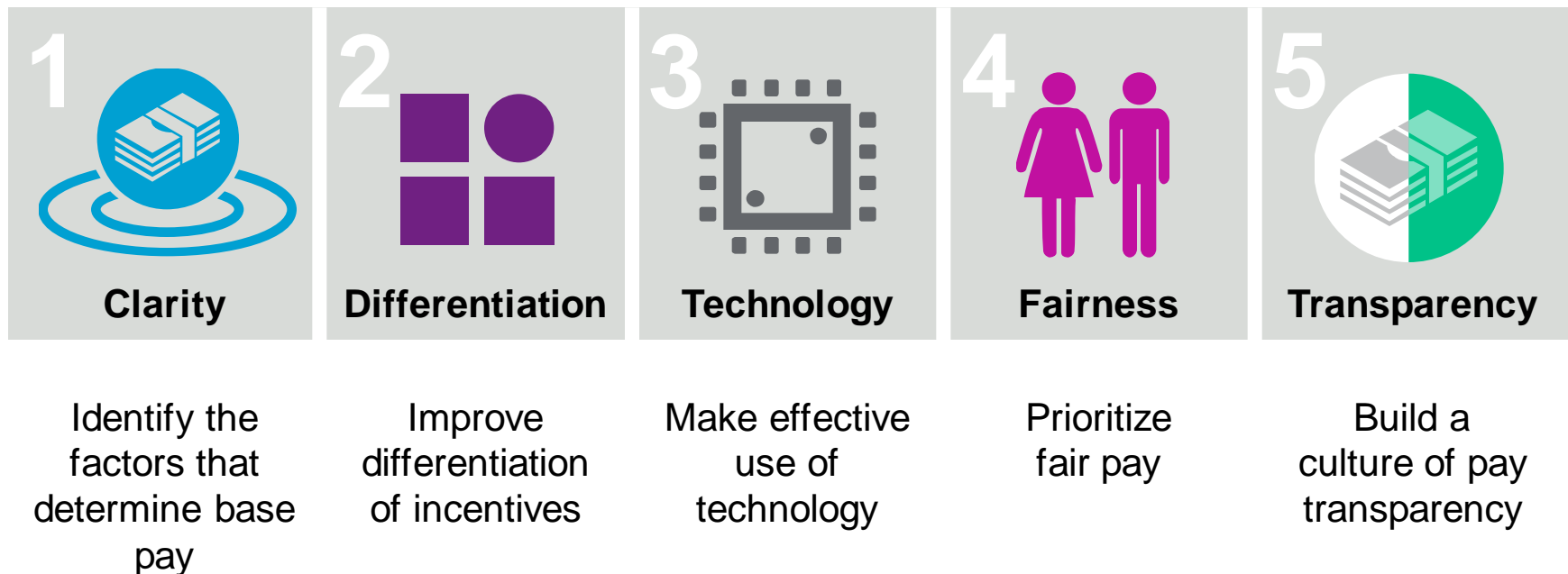
### Employers must consider...

- What is the purpose of base pay?
- Do our programs encourage excellence?
- Do we have the technology to administer modern pay programs?
- Are we paying fairly?
- Do employees understand our pay programs or are they a “black box”?



**Getting compensation right will require breakthroughs for each of these questions.**

# Our findings identify five keys critical to developing relevant, high-impact compensation programs



# 1. Clarify the role of base pay



**Clarity**

2

**Differentiation**

Improve differentiation of incentives

3

**Technology**

Make effective use of technology

4

**Fairness**

Prioritize fair pay

5

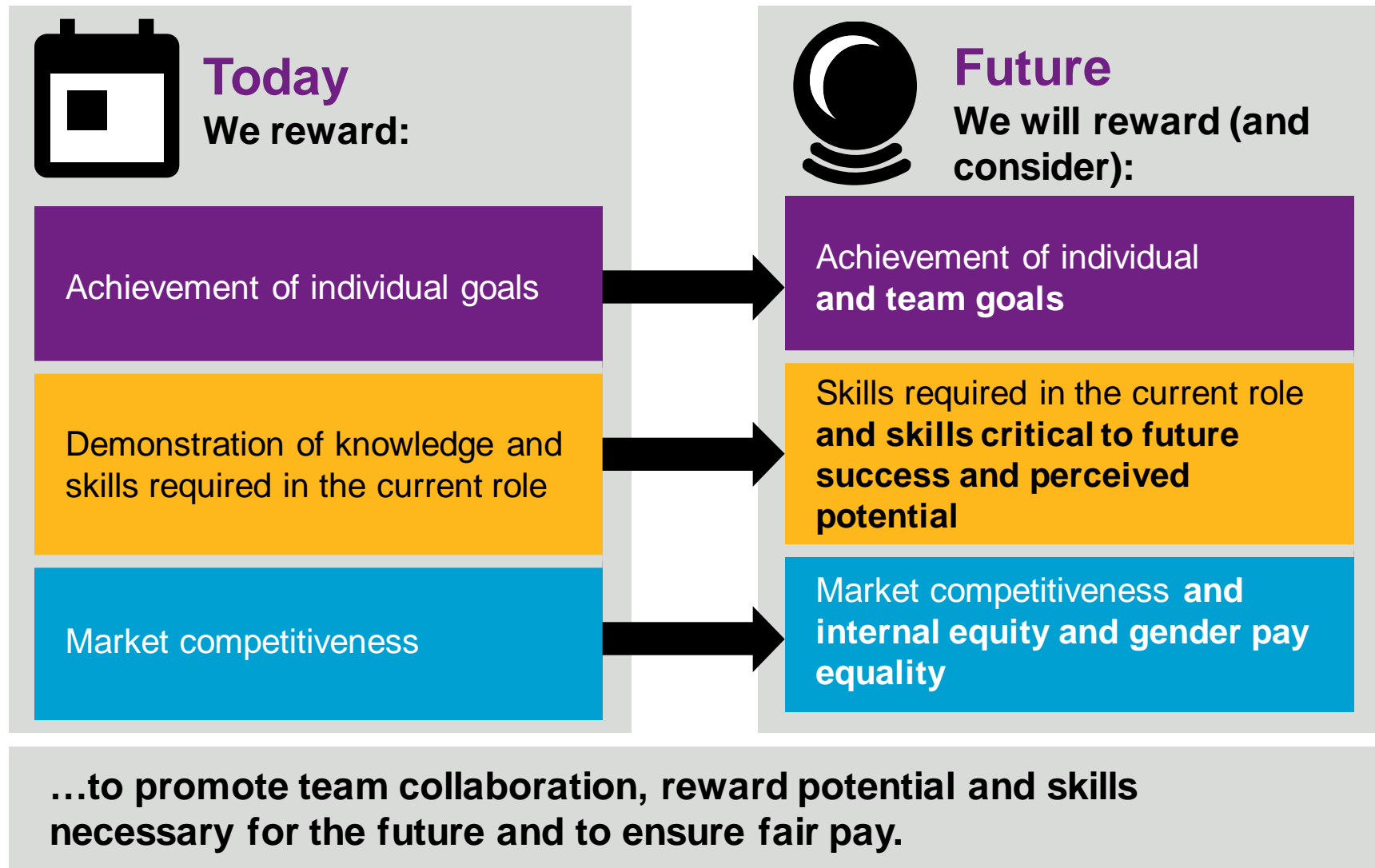
**Transparency**

Build a culture of pay transparency

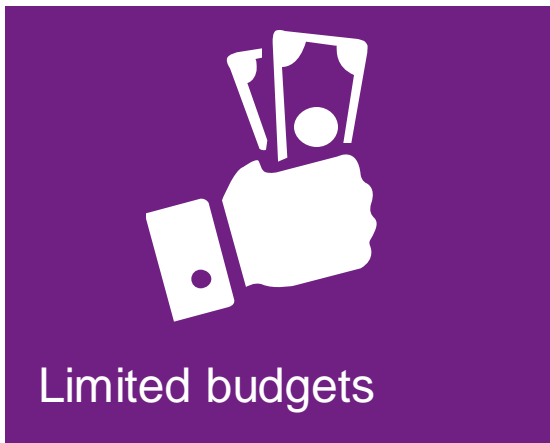
## Base pay programs today – the big picture

- **Base pay programs are changing**, driven by factors that indicate organizations are trying to keep up with today's transforming workforce and economy
- With these changes has come **additional sophistication in how pay decisions are made** – and this sophistication is expected to increase in the future
- Organizations continue to **struggle** to deliver base pay programs that **effectively reflect and drive performance**

# New factors indicate base pay programs are evolving...



# Organizations' ability to transform pay to effectively drive performance is challenged by several key factors



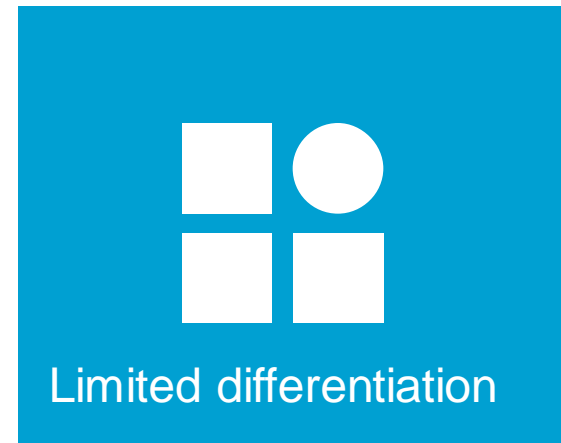
North America:

71%



North America:

42%



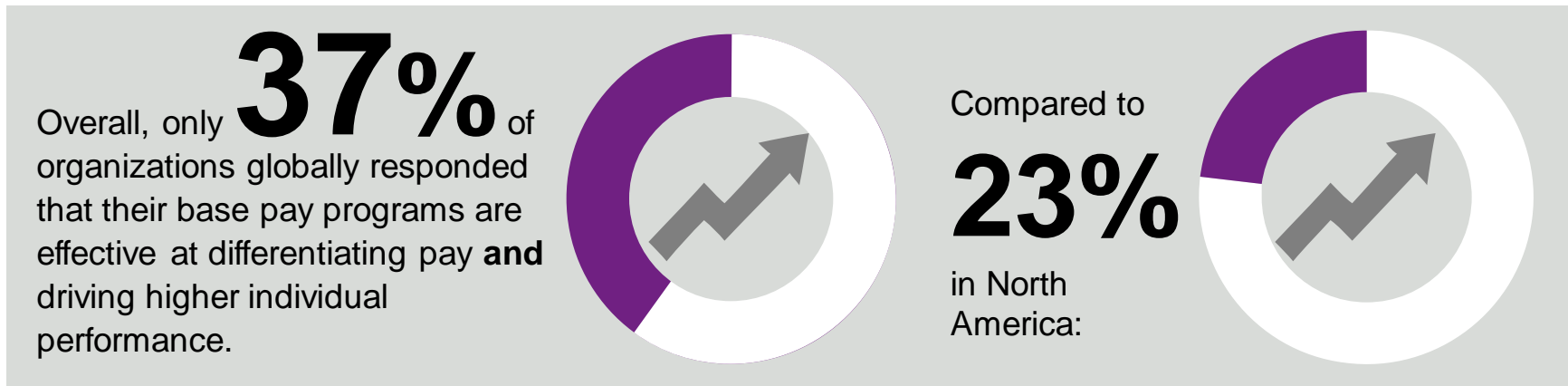
North America:

52%

Many organizations do not have the budget, capabilities or willingness to differentiate to support these objectives.



# Only about one third of organizations report getting this right

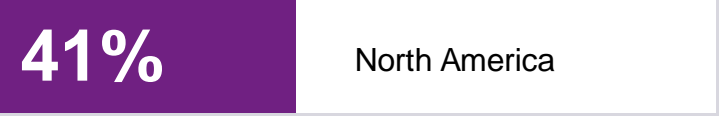


## When it comes to individual performance...



say that base salary increases are effective at driving higher individual performance

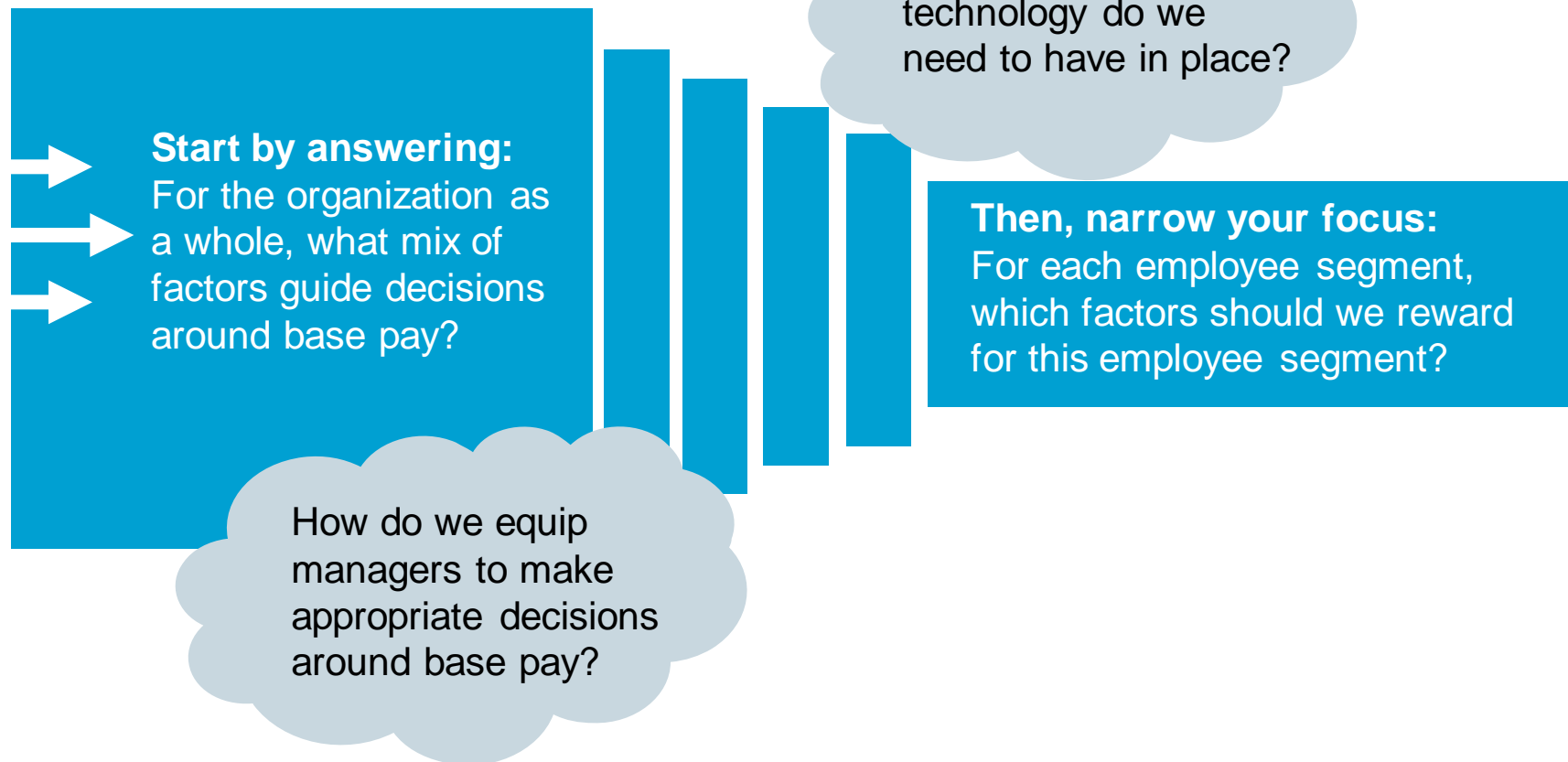
## When it comes to differentiation...



say that they can effectively differentiate pay to reflect individual performance using base pay increases



## How to get it right: Clearly define the role of base pay



## 2. Improve differentiation of incentives

1




Clarity

Identify the factors that determine base pay



**Differentiation**

3



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## Despite good intentions, employers are missing opportunities to differentiate incentive payouts to top performers

When it comes to design, target payouts are not sufficiently tied to performance:

Organizations intend to pay top performers about **20%** **above target** when funding levels are normal/on target.



**33%** of companies **pay incentives** to employees who do not meet expectations

When it comes to actual payouts:


When funding is **below** target:

**5 out of 6** organizations cut payouts to top performers by **as much or more** than they do for other employees



When funding is **above** target:

**45%** of organizations increase payouts for other employees **as much or more** as they do for top performers



## The good news? Organizations are eyeing changes

### Organizations planning or considering changes to the design of their annual incentive plans:

**Global:**

**48%**

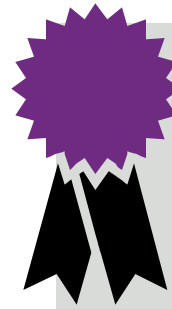
**North America:**

**44%**



These programs are:

- Intended to align with the company's performance definitions
- Providing link between pay and performance



Many employers are planning on or considering developing new types of recognition programs:

**Global:**

**54%**

**North America:**

**52%**

These programs are:

- low cost
- offer a quick way to support emerging skills and changing workplace practices
- provide immediate, personalized rewards



## How to get it right: Define what are you paying for





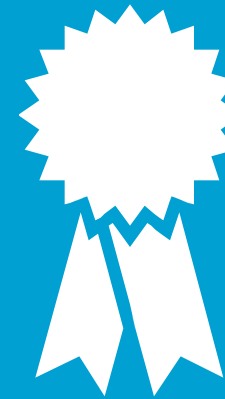
## How to get it right: Differentiate enough to make it meaningful



Ensure your incentive payouts deliver appropriate upside to the right employee groups



Review your funding targets at all performance levels to ensure you are optimizing opportunities to reward top talent



Consider adding new programs such as recognition programs that reward employees without increasing fixed costs, like base pay

### 3. Make effective use of technology


1



Clarity

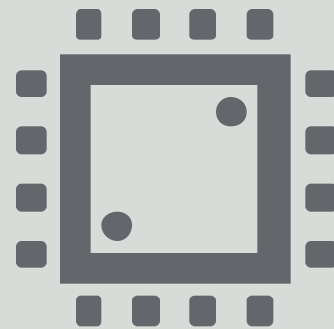
Identify the factors that determine base pay

2



Differentiation

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# Organizations are administering 21<sup>st</sup> century compensation programs with 1990's technology

**Fewer than half** of organizations **use software** to support implementation of **Base Pay (50%)** and **STI (43%)**



Those still relying on **spreadsheets** are **more than twice as likely** to say that not having the right technology is a **challenge to effective pay-for-performance**

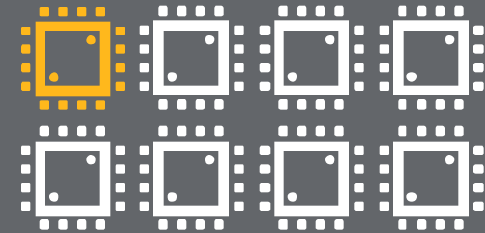


**But changes are on the horizon...**



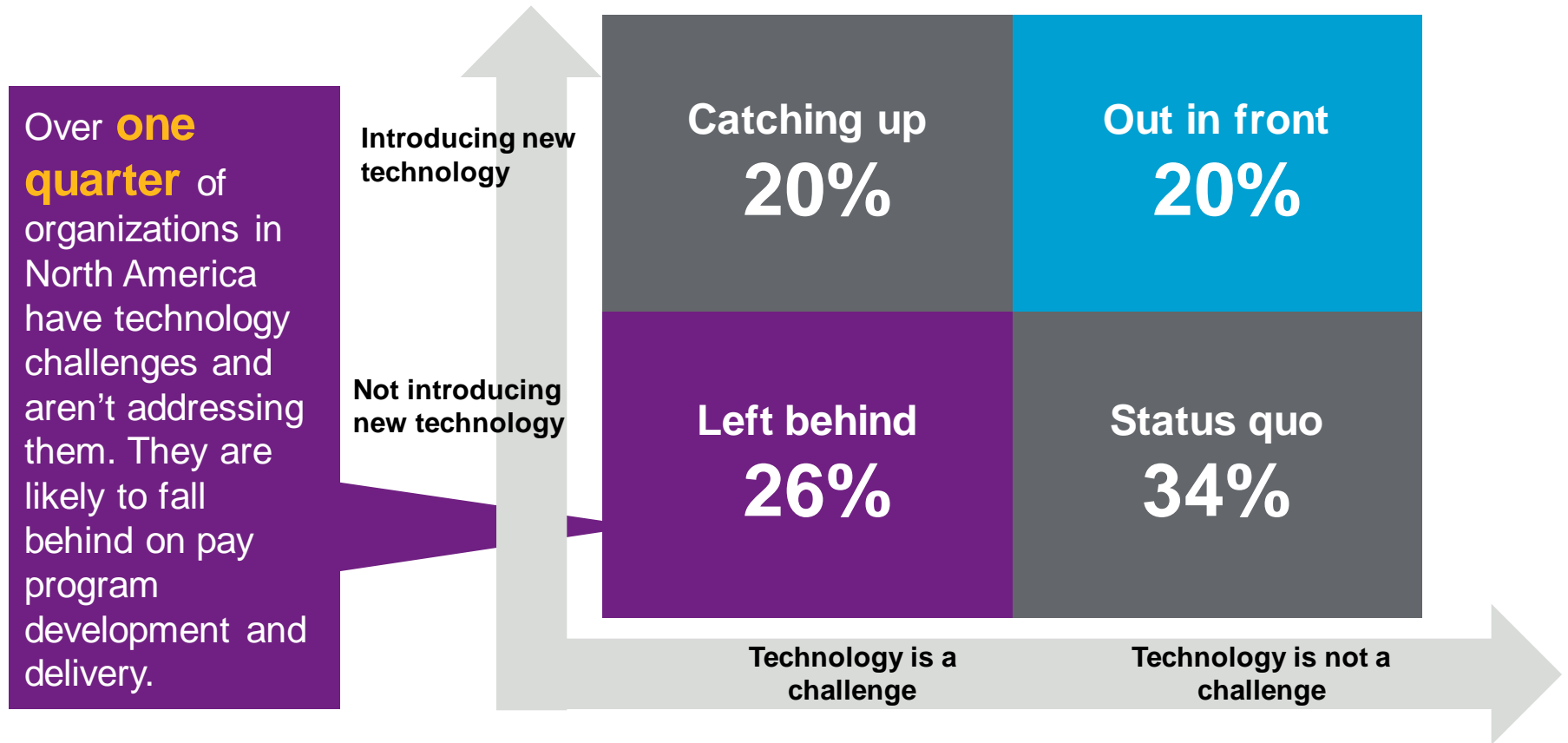
**One in eight (13%)** have recently added new technology

**Another 22%** are planning to add new technology this year



Source: 2018 Willis Towers Watson Getting Compensation Right Survey

# New technology could make the difference between staying competitive or falling behind on pay program development and delivery



Source: 2018 Willis Towers Watson Getting Compensation Right Survey



## How to get it right: Prioritize the use of decision support tools

**WHAT:** To make the right compensation decisions, you need software with integrated functionality that will support:

Job leveling



Benchmarking



Robust reporting and analytics capabilities



**HOW:** Start by assessing compensation software vendors that provide:

Consumer grade experience



Configurability



Integrated solutions



Reporting, analytics, decision support



**AND...** Improve the employee experience by delivering compensation information to employees via a total rewards portal.

## 4. Prioritize fair pay

1



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**Transparency**

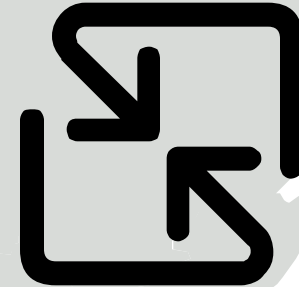
Build a culture of pay transparency

## Why fairness has to be considered

**Regulation  
and investors**



**Talent needs  
and  
expectations**



**Brand  
impact**

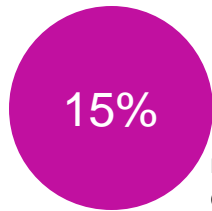


# Fairness is an important part of good business

## Diversity improves business performance

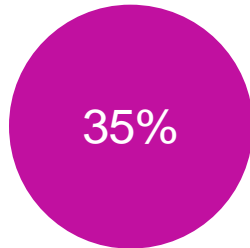
McKinsey study: Why diversity matters?

**Gender-diverse companies**



more likely to outperform

**Ethnically diverse companies**



more likely to outperform

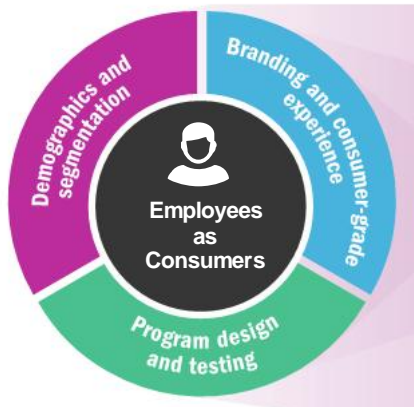
## Perceived inequality leads to reputational risk

Google sued by women for pay discrimination in potential class action suit

BBC China editor Carrie Gracie stands down in gender pay row

German employers forced to reveal gender pay gap

## Paying fairly improves the employee experience

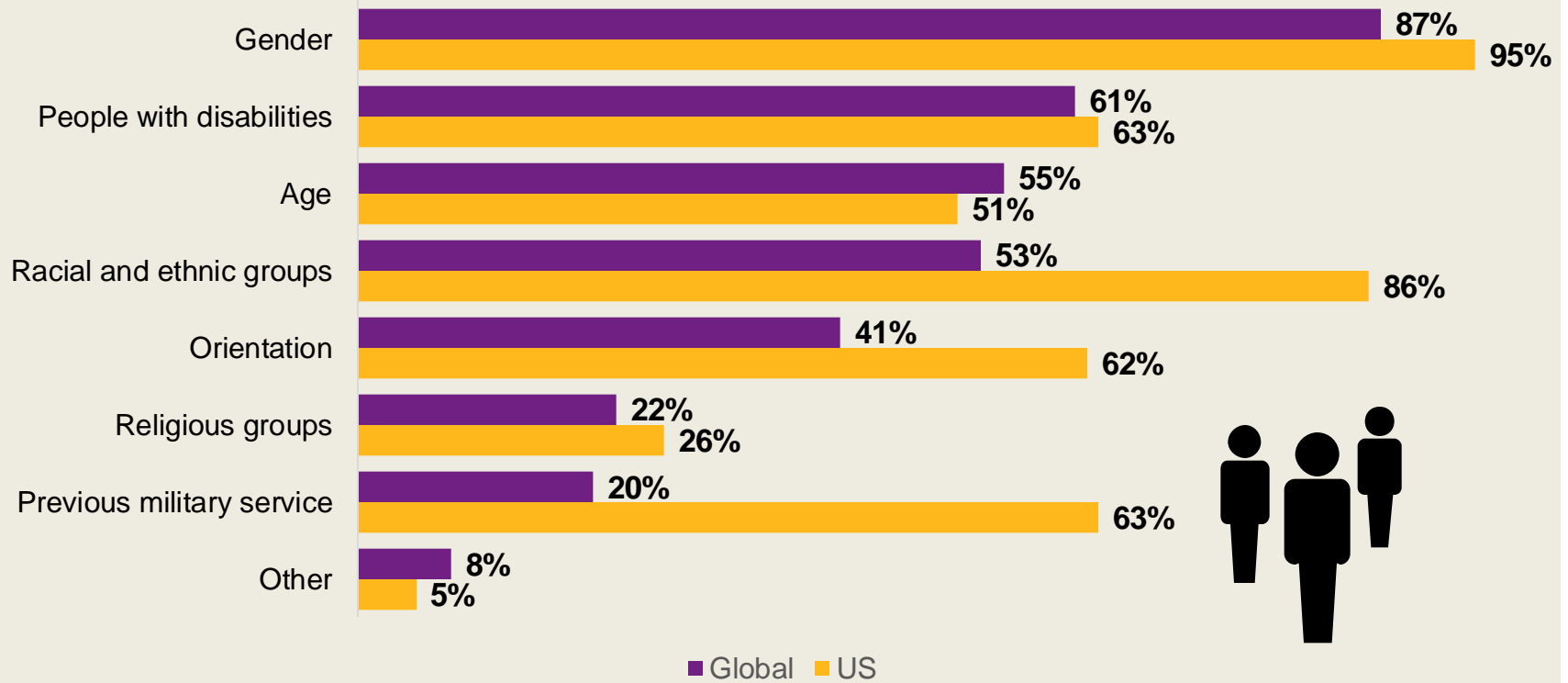


## Paying fairly can form part of your external brand



# Where diversity and inclusion programs exist, gender is a top focus

What employee groups do you target for your diversity and inclusion programs?

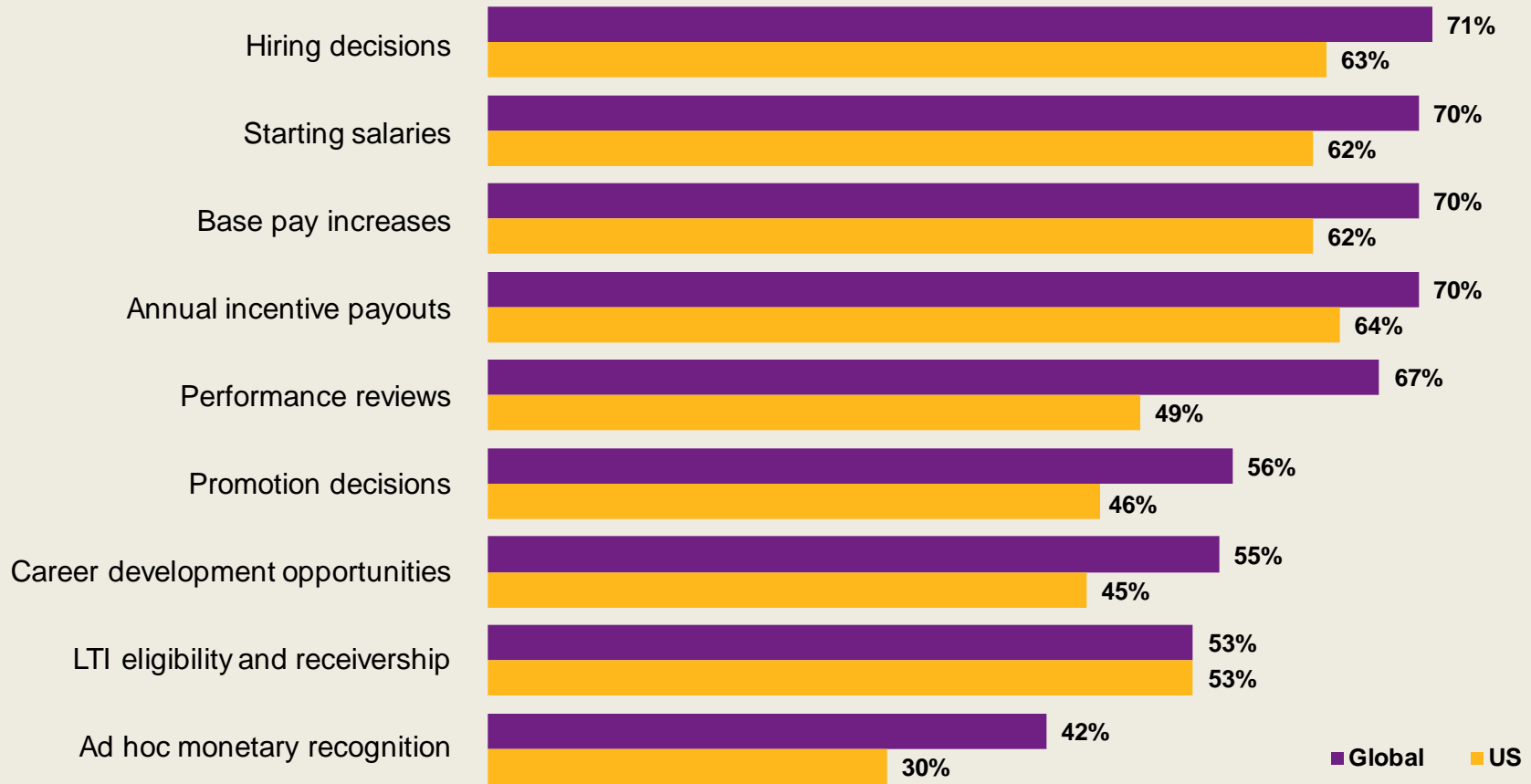


Note: Based on respondents that have formal programs targeted at diverse employee populations

Source: 2018 Willis Towers Watson Getting Compensation Right Survey

## Most organizations do report having formal processes to prevent bias or inconsistency across *hiring and pay decisions*

My organization has a formal process in place to ensure there is no bias or inconsistency in:



Source: 2018 Willis Towers Watson Getting Compensation Right Survey



## Globally, what companies are doing to promote fairness



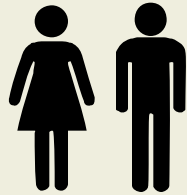
Recruitment and promotion processes

Half



Half of respondents **globally** (47%) have or are planning to review their recruitment and promotion processes to reduce any conscious and unconscious bias.

North America:



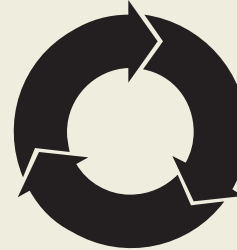
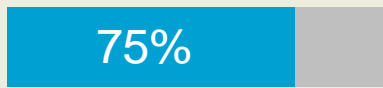
Fair Pay Diagnostic

56%



Over half (56%) **globally** responded that they have or are intending to conduct a gender pay or pay equity diagnostic

North America:



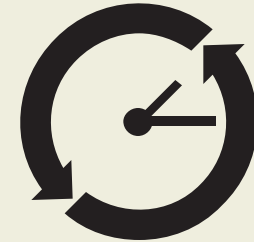
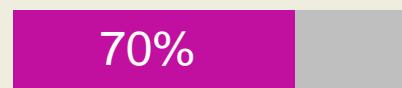
Inclusive culture

66%



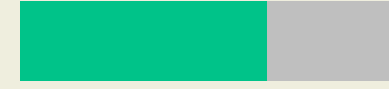
Two-thirds of employers **globally** (66%) responded that they have or are planning/considering increasing their communications of activities to promote an inclusive culture.

North America:



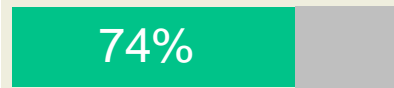
Flexible work arrangements

73%



Nearly three quarters (73%) **globally** responded that they have or are intending to promote flexible working arrangements.

North America:





## How to get it right: Make fair pay integral in your compensation programs

### Effective compensation programs include fair pay:

- **Fair pay** enables organizations to ensure their programs are accomplishing their total rewards goals and optimizing employee engagement
- It also helps to **uncover risks** in reward and talent frameworks and administration, where plans might be creating unintended consequences
- Pay fairness analysis is part of a **broader inclusion and diversity agenda**



**We see fairness as an integral part of the overall employee proposition and experience.** Moving from local market compliance activities to a clearer group-wide position enhances the impact of rewards programs.

## 5. Build a culture of pay transparency

1



**Clarity**

Identify the factors that determine base pay


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**Fairness**

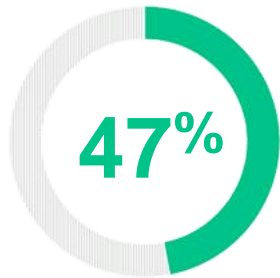
Prioritize fair pay



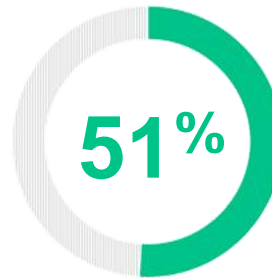
**Transparency**

## The case for transparency

### What we know from our research...



Percentage of employees who claim they **know how their total compensation** compares to the typical employee at their organization\*



Percentage of employees who **think they are paid fairly** in comparison to other employees at their organization\*



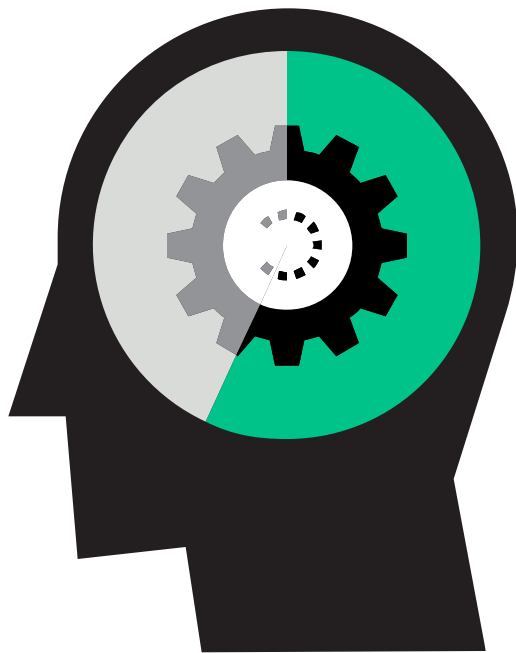
The new reality: Transparency is a core principle of Total Rewards

\* Willis Towers Watson 2016 Global Workforce Study

## Expectations of pay transparency are growing

But organizations are struggling to move the needle

A combination of generational preferences, legislation and publicly available comparative data are contributing to today's heightened expectations with regard to pay transparency.



**57%** of organizations globally say their **employees understand** how their **base pay** is determined

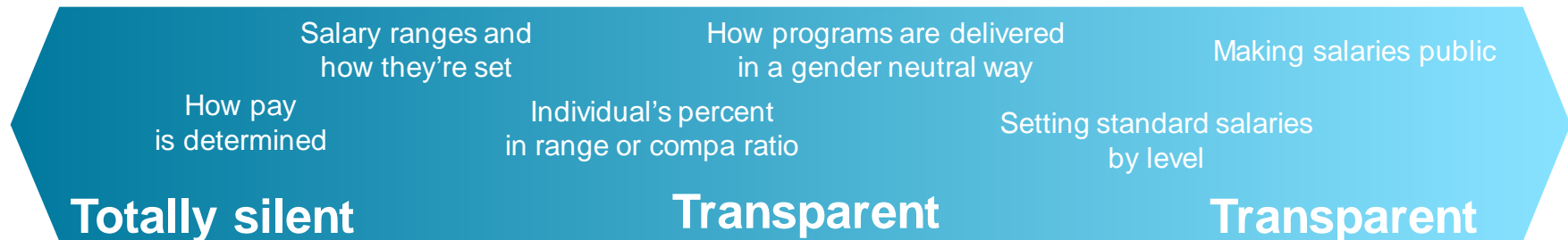
This has increased only 4 – 5% over the last 4 years.

Compared to  
**45%**  
in North  
America

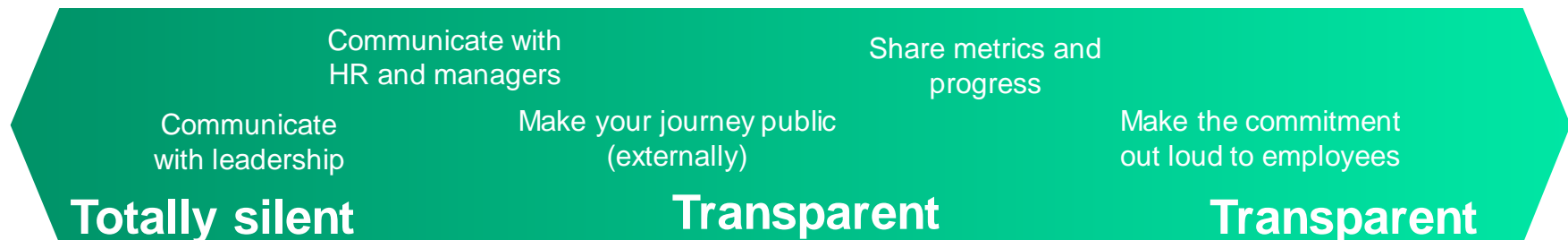
Source: 2018 Willis Towers Watson Getting Compensation Right Survey

## Transparency is at the core of the narrative

How transparent is your organization with your **pay programs**?



How transparent is your organization with your **diversity and fair pay objectives**?



## But change is on the horizon

Is your organization planning to increase the level of transparency around pay decisions?

Already taken action:



Planning to take action this year:



Considering taking action over next 3 years:



■ Global ■ North America

**48%** of employers globally are planning to take action this year or within the next three years to increase the level of transparency in pay decisions

Source: 2018 Willis Towers Watson Getting Compensation Right Survey



## How to get it right: Establish a clear reward strategy and education/marketing plan to help explain compensation decisions

- **Communicate your reward strategy** and accompanying pay philosophy.
- **Clearly explain the mix of factors influencing pay decisions** as well as the reasoning behind the results — especially in countries where organizations must meet pay disclosure regulations.
- **Provide a reward and career framework** that serves as the foundation for open conversations about pay decisions and facilitate communications about the skills, career opportunities and other factors required to be successful.
- **Equip managers** with the necessary training and tools to explain the basis for pay decisions in the context of the broader reward mix.
- **Provide employees with personalized information** and education to better understand their pay





## Putting it all together – the five keys to getting compensation right



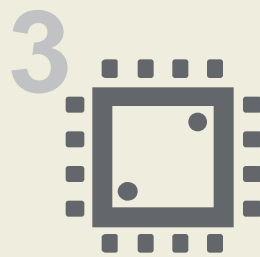
### Clarity

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### Differentiation

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### Technology

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### Fairness

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### Transparency

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