Compensation is a top priority for many organizational leaders—it is a fundamental factor of an organization’s employment value proposition and the largest component of an organization's overall labor cost. However, constantly shifting labor market conditions, workforce composition, and worker preferences make compensation a fluid and sensitive topic. As such, many organizations are tooling their approach to compensation.

But even as compensation strategies iterate and evolve, many organizations continue to conduct their compensation management activities on spreadsheet software or homegrown systems. To better understand how compensation solutions can extend the functionality of legacy systems and approaches, organizations should take a closer look at the offerings available in the HR technology market today. This article explores how compensation management solutions can meet the demands of the new world of work by supporting a high-maturity approach to rewards.

In This Article

- The current state of the compensation management solutions market
- Solution capabilities that can help drive total rewards maturity and higher performance
- Categories of compensation management solutions
The State of the Compensation Management Solutions Market

We define “compensation” as the design, management, and communication of base pay, variable pay, and long-term performance or equity award plans. As organizations manage their compensation practices across base pay (e.g., salary and hourly wage allocation), variable pay (e.g., commissions and bonuses), and long-term performance or equity plans (e.g., performance units or stock options), they need a secure and efficient system for organizing and administering these programs.

According to Deloitte’s 2020 Global Human Capital Trends survey, many organizations are still trying to perfect their approach: 56 percent of surveyed organizations have redesigned their compensation strategy in the last three years, and another 64 percent are currently retooling their strategy or plan to do so in the next three years. Given the inherent complexity of compensating today’s workforce, with its frequently shifting preferences and composition, it is easy to understand why many organizations seem to continually revisit their approach to compensation.

In fact, 69 percent of organizations say the changing nature of compensation expectations and strategies is “important” or “very important” to their success over the next 12 to 18 months. However, only 9 percent report being “very ready” to address this trend. Compensation strategies are not standing the test of time, and redesign is becoming the norm—a situation we describe as the “compensation conundrum.” This problem is further exacerbated by a dizzying array of novel and high-stakes challenges for employers in a disruptive environment, creating pressure to quickly adapt compensation strategies to immediate human capital needs.

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Compensation in the New World of Work

As the world continues to experience disruption, organizations and individuals who have recently become more comfortable with remote work may seek to make these arrangements permanent. This could lead to an increased use of “geographic pay differentials”: differences in salary based on the cost of labor in various geographies that have traditionally been used to set pay rates by workplace location. If workers no longer need to live near a facility, organizations may start to think about setting salaries based on worker location instead of workplace location. Alternatively, they may be compelled to pay a salary premium to workers required to work onsite versus those who have the flexibility to choose where they work.

In addition to geographic considerations, many organizations are feeling increased pressure to deliver a compensation strategy that rewards the workforce in a fair, competitive, and equitable manner. Against a backdrop of social justice movements and worker empowerment, organizations are facing increasing scrutiny of their pay practices from interested parties both inside and outside the organization. Whether presented with challenges to the absolute and relative magnitude of executive pay, gender pay equity gaps, or pay variances across other worker demographics, organizations need accurate pay data and sound processes to face them.

Compensation Practices Largely In-House and within Spreadsheets

Our HR Technology Strategy research indicates HR functions at high-performing organizations focus more frequently and to a greater extent on anchoring technology strategy to vital talent and business outcomes. In a time of disruption when organizations face new considerations affecting their outcomes and an increased focus on compensation strategies, one might assume that matching technology capabilities to best support compensation would be top of mind. But our Global Human Capital Benchmarking data shows most organizations continue to plan their compensation strategies using spreadsheet software (see Figure 1).

Figure 1: Base Pay Compensation Planning and Program Tools Used (Percent of Companies)

Our conversations with total rewards professionals reveal the preference toward spreadsheet software is due partially to the complex needs of...
organizations managing a wide variety of compensation processes, calculations, and regulations. Additionally, many compensation teams and business managers are familiar with the software and feel confident using it to handle planning and allocation processes.

The next most commonly used compensation management solutions are traditional human resource information systems (HRIS) modules. Whether provided by large human capital management systems or talent management suites, these modules support data integration across multiple talent processes that can help enable pay-for-performance practices and improve data availability and process efficiency. However, the same preference for the flexibility and simplicity of spreadsheet software also seems to limit greater use of HRIS compensation modules.

A smaller subset of organizations believes aspects of their compensation processes and programs require more specialized support than spreadsheets or HRIS modules can offer. These organizations look to either develop custom systems internally or to engage pure-play compensation management solutions. Pure-play vendors currently support only 6 percent of organizations surveyed, leaving compensation solutions with room for growth and increased influence.7 A mature approach to total rewards, combined with the right solution, can help organizations create a robust compensation program that can thrive amid disruption in the new world of work.

Compensation Management Solutions and Factors of Rewards Maturity

Our High-Impact Total Rewards research identifies six factors that drive rewards maturity in high-performing organizations:8

- Aligned Strategy
- Holistic Philosophy
- Employee Focus
- Effective Communication
- Greater Frequency
- Team Rewards

Our Compensation Management Solutions Market research9 identifies HR technology capabilities that are available to support these factors (see Figure 2).
Compensation Management Solutions: Market Primer

**Figure 2: 6 Factors That Influence Total Rewards Maturity**

![Image](image-source)

**Aligned Strategy**

The Aligned Strategy factor describes the alignment of rewards strategy with business goals, alignment of employment brand with rewards strategy, and market competitiveness of the total rewards package.

A hallmark of most compensation management solutions is facilitating an organization's understanding of how workers are paid individually and in aggregate against selected market benchmarks. To do this, these solutions offer tools to access, curate, and apply various benchmark data sources instead of just internal incumbent data. This may be done through a number of demographic lenses, including individual, role, location, function or division, and many others.

The idea of aligning rewards strategy and employment brand may be slightly more amorphous than other aspects of Aligned Strategy. But depending on an organization's unique brand and strategy, certain compensation management solution capabilities can make an impact. For example, organizations that brand themselves as fair and inclusive employers and emphasize equity and transparency as part of their rewards strategy may leverage sophisticated solution capabilities around pay equity to ensure that strategy and actions match their brand.

**Holistic Philosophy**

In the new world of work, “rewards” means a lot more than just a paycheck for hours worked. The Holistic Philosophy factor describes the evolution of the definition of rewards through the adoption of a broader understanding of rewards, the development of a comprehensive rewards philosophy, and the implementation of a broad employee wellbeing strategy.

Compensation management solutions can support a holistic philosophy by facilitating allocation decisions for all forms of cash-based compensation as well as equity or long-term incentive programs. Further, solutions that offer the capability to generate individualized compensation statements or more comprehensive total rewards statements for workers can help underscore the breadth of an organization’s rewards philosophy and better represent the organization’s investments in workers.
Employee Focus
High-performing organizations break away from the perception that employers know what is best for their employees when it comes to rewards. Instead, they treat their employees as customers and do everything they can to understand these customers’ characteristics, needs, and preferences as well as support their “experience” with the organization. The Employee Focus factor includes seeking input from employees and other sources, collaborating with talent acquisition (TA), and prioritizing employee experience.

In the context of compensation management solutions, prioritizing experience may refer to individual employees who use the tool to access information about their own compensation and rewards or to planning managers who use the tool to both research and record rewards allocation decisions for employees. In either case, intuitive navigation, access to relevant and complete information, and overall ease of use all contribute to a positive user experience.

Effective Communication
Many workers have little to no understanding of their organization’s rewards offerings because the value and details of those offerings have not been articulated in a meaningful way. A poor rewards communication strategy may contribute to eroding worker engagement and retention and diminish the organization’s return on investment in rewards offerings. But high-performing organizations understand the magnitude of these investments and the importance of effective communication to protect and enhance them. Our research indicates the Effective Communication factor encompasses both the employment of a clearly defined communication strategy and the engagement of decision-makers to personally deliver rewards decisions.

With respect to engaging decision-makers to personally deliver rewards decisions, compensation management solutions can arm planning managers with the information necessary to have meaningful conversations with their employees, including a clear, auditable trail of how and by whom decisions were made. Solutions may also offer award letter capabilities so managers can generate personalized communications. Some solutions can even restrict employee self-service access until after a manager confirms that a compensation conversation has taken place.

Greater Frequency
The Greater Frequency factor describes how high-performing organizations are more likely to review and adjust base pay more frequently than annually as well as implement variable pay plans with shorter cycles.

Compensation management solutions are often critical to enabling these nimbler approaches, as many organizations find that manual activities using spreadsheet software are simply too time-consuming and labor-intensive to be performed more than once per year. More frequent planning cycles favor solutions that offer flexible planning periods, easily

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customizable budgeting functionality, and continually refreshed internal and external compensation data.

**Team Rewards**

High-performing organizations understand the importance of teams in the new world of work and are exponentially more likely to leverage team-based awards. Further, they most commonly distribute team rewards based on a combination of individual contributions to team performance and overall team performance.¹⁰

To support the delivery of team-based rewards, compensation management solutions should incorporate several capabilities that support the Team Rewards factor, including the ability to track and record which team or teams an employee was part of and when. With team membership established, the solutions then need to be able to apply both budgeting and allocations at the team level. Finally, to support rewards based on a combination of individual contributions to team performance and overall team performance, solutions must to be able to track both criteria concurrently.

**Categories of Compensation Management Solutions**

Leaders looking beyond their legacy systems for technology support need to know which capabilities are offered by the different types of solution providers. Our Compensation Management Solutions Market research explores four main categories of solutions that support the design, management, and communication of compensation programs (see Figure 3). There are other categories of solutions within this market segment that support niche compensation activities, such as equity and sales compensation management, but those highly specialized solutions were left out of scope for this particular study.

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**KEY POINT:** High-performing organizations understand the importance of teams in the new world of work and are exponentially more likely to leverage team-based awards.
Human Capital Management Systems

Our Global Human Capital Benchmarking research tells us that outside of spreadsheet software, traditional human capital management (HCM) system modules are the second most popular tool supporting compensation management processes. In an HCM system, workforce data is integrated and accessed across modules such as compensation, time and attendance, and payroll. Despite the integration of workforce information, prospective users are often confused or concerned by a perceived limitation of HCM systems to provide the customizable capabilities to support complex compensation strategies including variances in plans by role, level, department, or geographic location. While many HCM providers continue to make significant updates to increase the functionality of their compensation modules, there may still be situations in which additional specialized solution support is desired.

Talent Management Suites

In addition to the capabilities and support offered by integrated compensation modules of HCM systems, many talent management suite providers also offer compensation management modules as part of their offering portfolio. In some cases, these modules can be accessed and integrated as a stand-alone offering, but for the most part, they are designed for use with other relevant modules. For example, compensation management and performance management modules can be integrated to support a consolidated approach to pay for performance—which can positively impact outcomes of innovation, change management, appropriate risk-taking, and leadership development. To capitalize on potential capability and pricing efficiencies when comparing against pure-play solutions, organizations should evaluate talent management compensation modules relative to the use of other modules from the same provider and possible redundancy of functionality.
Pure-Play Compensation Solutions

Pure-play solutions are stand-alone offerings for compensation planning and/or management. They provide integration with a wide variety of established HCM suite and talent management suite providers. Building upon interfaces with those systems, pure-play solutions can offer additional analytical and reporting support to accompany their specialized compensation planning and calculation applications. Many pure-play compensation solutions were founded or developed by seasoned total rewards practitioners who design according to common needs and challenges of the profession. When evaluating pure-play compensation management solutions, companies should look to balance their specialized capabilities with ease of use and compatibility with existing technology systems.

Compensation Analytics Solutions

Compensation analytics solutions may provide proprietary access to data or analyses for benchmarking across a specific job, market, or industry. While all solution categories will provide some compensation analytics, specialized analytics solutions may help conduct automated calculations (e.g., pay equity analyses) that can surface and help mitigate potential biases in compensation practices or even propose refinements or parameters for compensation structures. Whether comparing compensation internally against individual roles or experiences or externally against industry or market comparisons, organizations may be well served to understand how a compensation analytics solution might support or replace existing technology. Specifically, they should look to contrast analytics solutions against the capabilities of the other categories of compensation solutions to evaluate the potential need for an ecosystem approach to address all the factors of rewards maturity.

Conclusion

Many organizations are caught in a cycle of retooling their compensation strategies without revisiting their use of compensation management technology. They may continue to conduct compensation activities on spreadsheet software or homegrown systems due to both misconceptions about the specificity of their needs and a lack of knowledge about new market offerings.

As shifting workforce preferences and market demands place increased pressure on both compensation strategies and the equity and transparency of compensation practices, organizations should seek to better understand how compensation management solutions can provide the functionality they need. With compensation as the largest portion of an organization’s labor cost and a foundational element of the employment value proposition, organizations may no longer wish to rely on legacy technology systems to manage it. It may be time to explore the capabilities of the compensation management solutions market to enable accurate, efficient, and equitable workforce compensation.
Key Takeaways

• Changing compensation strategies, market dynamics, and worker preferences present new challenges for compensation practitioners and technologies.
• Many compensation strategies are not standing the test of time, and redesign is becoming the norm—a situation we describe as the “compensation conundrum.”
• Various capabilities of compensation management solution providers can enable a high-maturity organizational approach to total rewards.
• Misconceptions about specificity of needs and sophistication of the compensation solutions market, coupled with a comfort level with spreadsheet software, may be constraining the uptake of pure-play solutions.
• It may be time for organizations to explore the capabilities of the compensation management solutions market to enable accurate, efficient, and equitable workforce compensation.
Endnotes
