

# The Future of Compensation and Total Rewards 2022-23

A deep dive into HR's biggest investment



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## About the Survey

The Future of Compensation and Total Rewards survey ran in the third quarter of 2022. We gathered 217 complete and partial responses from HR professionals in virtually every industry vertical. Respondents are located all over the world, but most of them reside in North America, especially the United States.

The participants represent a broad cross section of employers by number of employees, ranging from small businesses with fewer than 100 employees to enterprises with 20,000+ employees. Nearly 60% of responses were from organizations with over 500 employees.

# Executive Summary

Compensation and total rewards play an essential role in attracting, retaining and motivating staff. However, they are also difficult to manage because they involve significant challenges in terms of administration, compliance, equity, and managing labor expenses.

One cliché that bears repeating is that total rewards is usually among the top two expenses for organizations—often the top one.<sup>1</sup> Considering how important the function is, it does not always get the attention and support it deserves from leadership.

Compensation is a mature function, and it typically runs pretty well, so leaders can end up taking the function for granted. However, long-standing practices such as basing pay rates on salary history are now viewed as outdated by some experts. Further, fueled in part by high inflation, many employees are reporting financial stress, resulting in higher turnover.<sup>2</sup> Considering these issues in the context of growing concerns regarding pay equity, transparency and its role in DEI, the compensation and total rewards strategy arguably needs radical restructuring.

This survey provides HR professionals with insights into the current and future state of the discipline. HR leaders can compare their own organization to the results in this survey and assess where there are opportunities for improvement. For example, HR should know where it stands in terms of compensation analytics, perceptions of fairness and agility.

We believe that in communicating with leaders, HR should not just share insights on the current compensation and total rewards program but also outline what investments are needed to keep the compensation function up to date so that it can deliver all that is demanded of it.

<sup>1</sup> U.S. Bureau of Labor Statistics. (2022, September 20). *Employer costs for employee compensation summary - 2022 Q02 results*. U.S. Bureau of Labor Statistics. Retrieved from <https://www.bls.gov/news.release/ecec.nro.htm>

<sup>2</sup> Mirchandani, N. (2022, January 5). *Council post: The great reckoning is the wake-up call employers need*. Forbes. Retrieved from <https://www.forbes.com/sites/forbeshumanresourcescouncil/2022/01/04/the-great-reckoning-is-the-wake-up-call-employers-need/?sh=51485309797d>

## Key Findings

### Major Finding 1

**Stakeholders agree that keeping compensation and total rewards strategy up-to-date is important, and many are acting on that belief by redesigning their programs**

- Over three-quarters of all respondents report that all their key stakeholder groups agree that modifying total rewards to address today's changing times is important or very important
- Nearly two-thirds of organizations redesigned their total rewards strategy last year, are doing so now, or plan to do so next year
- Four out of five respondents believe total rewards will become more important over the next two years

### Major Finding 2

**Despite the widely held belief in the importance of compensation and total rewards, many systems remain under-developed**

- Many organizations (42%) describe their approach to total rewards as "undeveloped" or "beginning"
- Only 7% of organizations describe their approach as "advanced"
- Many organization lack accurate ways of tracking total rewards; for example, only half track the total cost of the workforce

### Major Finding 3

**Compensation and total rewards are focused on the core objectives of attracting and retaining talent**

- Retaining key talent is the most common objective of the total rewards design, cited by 75%
- Attracting key talent is the second most common objective, cited by 66%

### Major Finding 4

**The top five major challenges facing compensation and total rewards systems are that they are not:**

- well understood by employees (62%)
- seen as differentiating relative to competitors (42%)
- agile and flexible to changing business circumstances (41%)
- personalized to individual employee needs (40%)
- transparent enough (40%)

Major  
Finding

# 5

**Over the next two years, the top four most important features of compensation and total rewards will be:**

- their ability to stay competitive in the industry (74%)
- equitability and fairness (49%)
- agility and flexibility (46%)
- focus on career development (41%)

Major  
Finding

# 6

**Merit pay based on performance is the norm, but other types of incentives are less frequently used**

- Sixty-nine percent of organizations give merit pay incentives based on performance
- However, only:
  - ▶ 46% engage in short-term incentive payouts
  - ▶ 36% use sales commissions/piece-rated pay
  - ▶ 26% have profit sharing

Major  
Finding

# 7

**The four most widely used total rewards metrics are:**

- Pay ranges (upper/lower limits of compensation)
- Total cost of the workforce
- Compa-ratio (compare individual salary to mid-point of a salary range)
- Range midpoint

Major  
Finding

# 8

**Some organizations are deploying an interesting range of benefits relevant to health and wellness, with the five most widely cited being:**

- Generous short-term and long-term medical leave policies with clearly stipulated durations and possibilities for extension
- Cover for a wide range of physical and mental health services and medications
- On-call therapy assistance (available inside and outside of work)
- Mental health apps
- Subsidized or free gym memberships, yoga classes, etc.

Major  
Finding

**9**

The five most common work-life benefits are:

- Flexible work arrangements
- Paid time off
- Family or personal counseling service
- Assistance in interacting with insurance and benefits providers
- Parental and caretaker leave

Major  
Finding

**10**

Compensation and total rewards communications have various shortcomings with just:

- Sixty-three percent saying they educate employees about benefits and total rewards
- Thirty-five percent saying there is upward communication of feedback and reward program effectiveness
- Twenty-six percent saying they evaluate the effectiveness of reward programs
- Twenty percent saying they provide transparency about wage and benefit calculations



Major Finding **11**

**Compared to less mature TR organizations, more mature TR organizations are:**

- 10 times more likely to use statistical analysis to evaluate equal pay for equal work
- 5 times more likely to say there is pay transparency
- 3 times more likely to say they evaluate the effectiveness of reward programs
- 3 times more likely to say there are frequent career development and assignment planning discussions
- 2 times more likely to conduct periodic reviews of compensation packages for employees
- 2 times more likely to analyze pay equity perception
- 2 times more likely to say they have crisis intervention services
- 2 times more likely to use compa-ratio and range midpoint as total rewards metrics
- nearly 2 times more likely to say they have enhanced learning and development opportunities
- considerably more likely to say they have fair and equitable pay
- considerably more likely to say they offer mental health apps
- considerably more likely to offer flexible work arrangements
- less likely to say that their total rewards are not competitive in the market place
- considerably less likely to say total rewards are not linked to company's strategic goals
- 2 times less likely to say total rewards are not well linked to employee performance

## About More and Less Mature Total Rewards (TR) Organizations

To better understand what makes a difference in compensation and total rewards, we divided respondents into two cohorts:

- **More mature TR organizations.** These are the organizations that give relatively high ratings to their approach to compensation and rewards.
- **Less mature TR organizations.** These are the organizations that give relatively low ratings to their approach to compensation and total rewards.

Later in this report, we provide more details about how we identified these two cohorts.

Please note that the findings and recommendations contained in this report are informational only. Nothing in this report should be construed as constituting legal opinions or advice. Please consult an attorney if you have questions about the legal requirements, rules or regulations associated with any content discussed in this report.

# Defining Compensation and Total Rewards

For the purpose of this study and the survey on which it is based, we defined compensation and total rewards as follows:

- *Compensation* is the combination of salaries, wages, bonuses and monetary incentives that employees receive.
- *Total rewards* is the combination of compensation and benefits (such as health insurance, etc.) that employees receive.

In this study, we typically emphasize the tangible (e.g., pay and benefits) more than the intangible (e.g., recognition and flexibility) aspects of total rewards, though we do touch on the latter at times.

Because compensation is typically viewed as a component of total rewards, we sometimes just refer solely to total rewards in this report. When we do, we intend to incorporate compensation into that framework.



# The Importance of Total Rewards



**Finding: In most organizations, key stakeholder groups agree that it is important or very important to modify their total rewards approach to today's fast-changing times**

It's always striking when you see strong agreement across a wide range of stakeholder groups. Over three-quarters of respondents report that all key stakeholder groups in their organization consider it important or very important to modify their total rewards strategy "to fit today's changing times."

Specifically we ask about four key stakeholder groups:

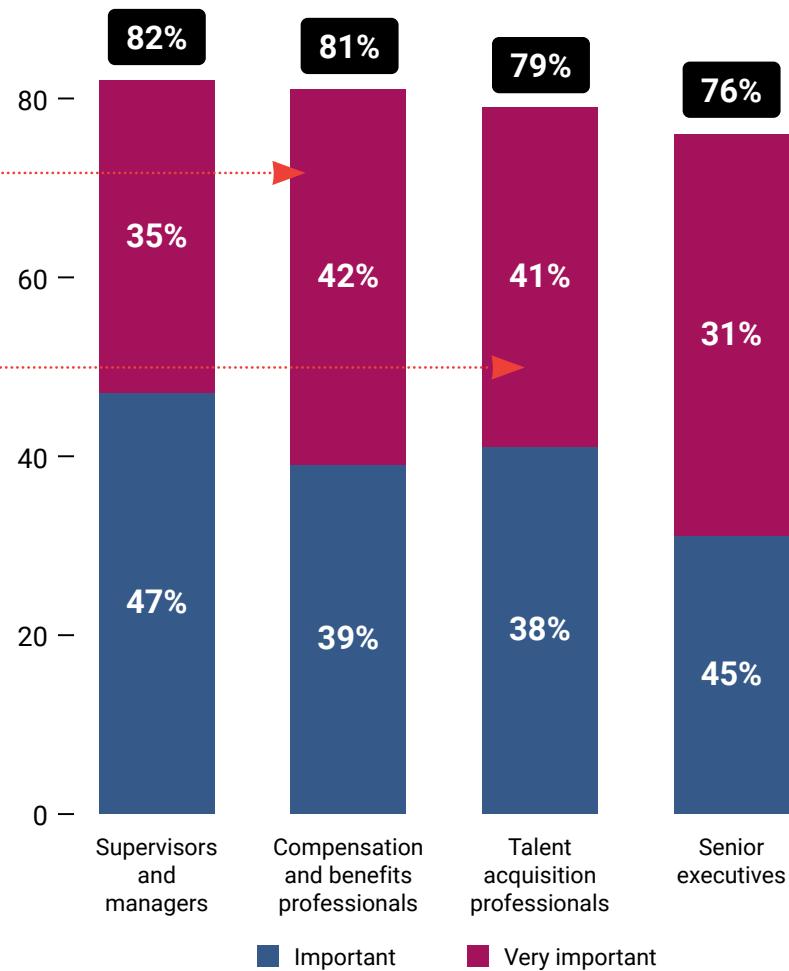
- talent acquisition professionals
- compensation and benefits professionals
- supervisors and managers
- senior executives

Of the four groups, compensation and benefits professionals are most likely to view the modification of total rewards strategies as very important, though respondents believe that talent acquisition professionals are nearly as likely to view it as very important. It's likely that talent acquisition professionals view total rewards as critical to their success in acquiring top talent.



**Survey Question:** For the following groups of stakeholders, how important is modifying your organization's compensation and total rewards strategy to fit today's changing times?  
(please provide your best estimate)

Over 40% of both talent acquisition professionals as well as compensation and benefits professionals say modifying their total rewards strategy is very important



# The Redesign of Total Rewards Strategies



**Finding: Nearly two-thirds of organizations redesigned their total rewards strategy last year, are doing so now, or plan to do so next year**

The perceived urgency that stakeholders feel about total rewards has been matched—though to a lesser degree—with action. Nearly two-thirds of organizations redesigned their total rewards strategy last year, are doing so now, or plan to do so next year.

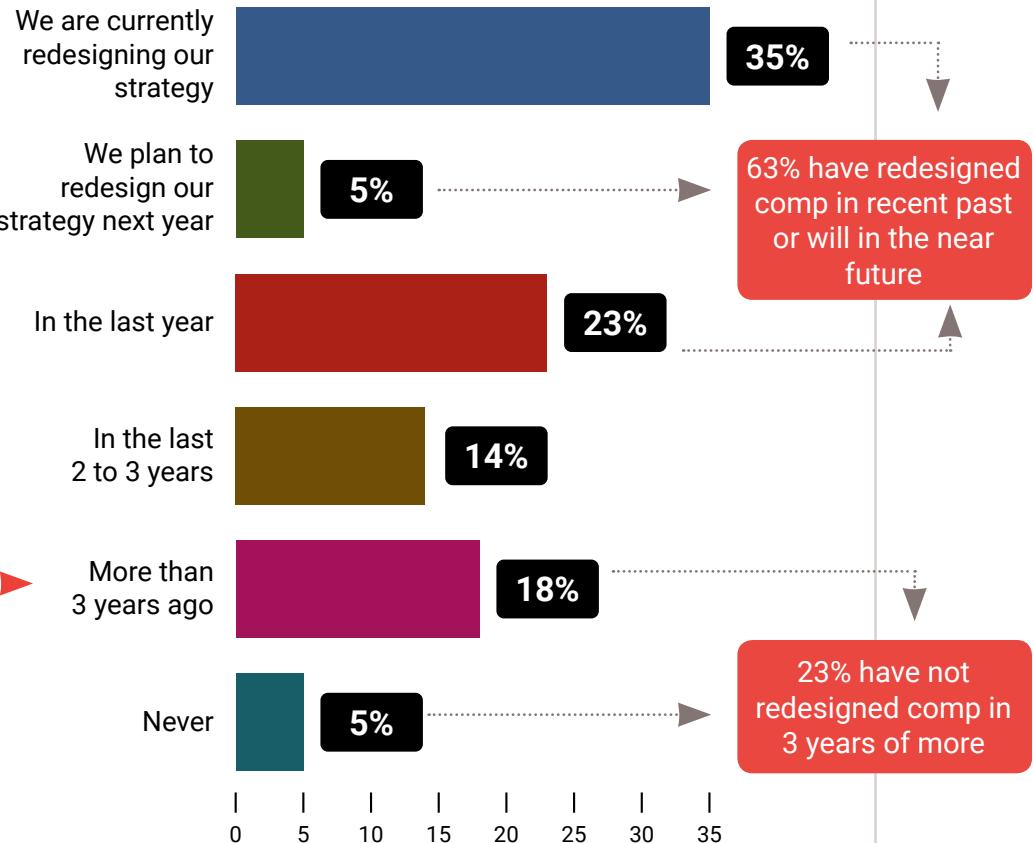
This has likely been spurred by the so-called “great resignation,” the increased demand for talent, the low unemployment rates and the rise in inflation. Some have argued that these trends represent a fundamental shift in the employer-employee relationship. Regardless of whether this assessment is correct or not, however, organizations have been forced to rethink how they compensate and reward their employees.<sup>3</sup>

The question for organizations will be how often they need to revisit the reward strategy to keep up with today’s shifting circumstances. It is possible that many organizations will find it necessary to redesign their reward strategy every few years, depending on how much change they face.

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<sup>3</sup> George, K. (2022, October 3). *Competing in the New Talent Market*. Harvard Business Review. Retrieved from <https://hbr.org/2022/10/competing-in-the-new-talent-market>

**Survey Question:** When did you last redesign your organization's compensation and total rewards strategy?  
(select the one that best applies)



# The Challenges Faced by Total Rewards



## Finding: Few organizations describe their total rewards approach as “advanced”

Despite all the changes in strategies and the fact that so many stakeholders attach high importance to total rewards, only a few (7%) respondents describe their total rewards approach as “advanced.” They are much more likely to view their approach as “intermediate,” as defined in the graph below.

Moreover, 42% view their organizations as only “beginning” or “undeveloped” in terms of their total rewards approach. This means these organizations lack any initiatives focused on equity or performance. These organizations may be at a distinct disadvantage in terms of attracting and retaining the best candidates.<sup>4,5</sup> It may be time to have a talk with leadership about the importance of total rewards. If leadership agrees it is important, then compensation professionals can present a plan for ramping up the sophistication of their total rewards approach.

We anticipate that when most leaders reflect on the cost of total rewards, they will not be satisfied with a beginning or undeveloped level. It is an important enough issue that HR leaders need to at least bring it to leadership’s attention so that they can decide how this relates to other priorities.

### By Organizational Size

Large organizations are far less likely than small or mid-sized ones to have an “undeveloped” or “beginning” approach to compensation rewards. Only 25% of large organizations give themselves these low ratings compared to 51% of mid-sized organizations and 74% of small organizations.

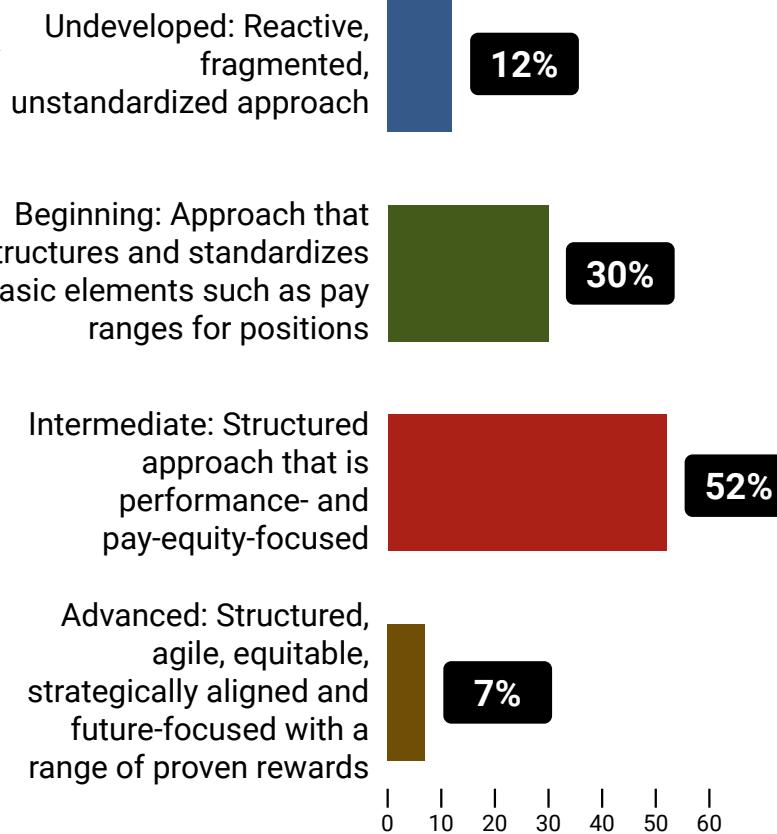
<sup>4</sup> U.S. Bureau of Labor Statistics. (2022, October 7). *Employment situation news release - 2022 Qo3 results*. U.S. Bureau of Labor Statistics. Retrieved from [https://www.bls.gov/news.release/archives/empsit\\_10072022.htm](https://www.bls.gov/news.release/archives/empsit_10072022.htm)

<sup>5</sup> Rugaber, C. (2022, June 1). *U.S. job openings remain high, with nearly twice as many openings as unemployed people*. PBS. Retrieved from <https://www.pbs.org/newshour/economy/u-s-job-openings-remain-high-with-nearly-twice-as-many-openings-as-unemployed-people>



**Many organizations (42%) describe the sophistication of their total rewards as “beginning” or “undeveloped”**

**Survey Question: How would you describe your organization's compensation and total rewards approach? (select the one that best applies)**





## Finding: Nearly two-thirds of respondents say their total rewards system is not well understood by employees

Running a total rewards system has many challenges, the most common of which is that their total rewards system is not well understood by employees (cited by 62% of respondents). Other common problems cited by more than 40% of respondents are “not seen as differentiating relative to competitors,” “not agile and flexible to changing business circumstances,” and “not personalized to individual employee needs.”

### A Lack of Understanding

Each of the common challenges requires a different response. With respect to employees lacking understanding, the problem is that employees are often not interested in the system, just their own paycheck. The key is to have communication about total rewards prepared by a team of communications and compensation specialists. Total rewards communication should be seen as a kind of internal marketing message where you are selling the employment brand to employees. It is not just a dry report of facts.

When it comes to differentiating a reward strategy, organizations ought to consider both what is possible and what is desirable. Often it is enough to have a competitive but non-differentiated pay strategy as long as there are other features of the employment value proposition that are differentiating.

### A Lack of Agility and Personalization

Lacking agility in the reward system could be a serious business problem if it affects attracting and keeping key talent. This lack of agility is an issue that requires attention from top management since it could result in loss of key talent and affect competitiveness of the business as a whole.

Finally, lack of personalization may be a missed opportunity to get more bang for the buck out of the investment in compensation. Compensation professionals should work up a proposal for what kind of personalization they think would pay off and what benefits they feel it would bring.

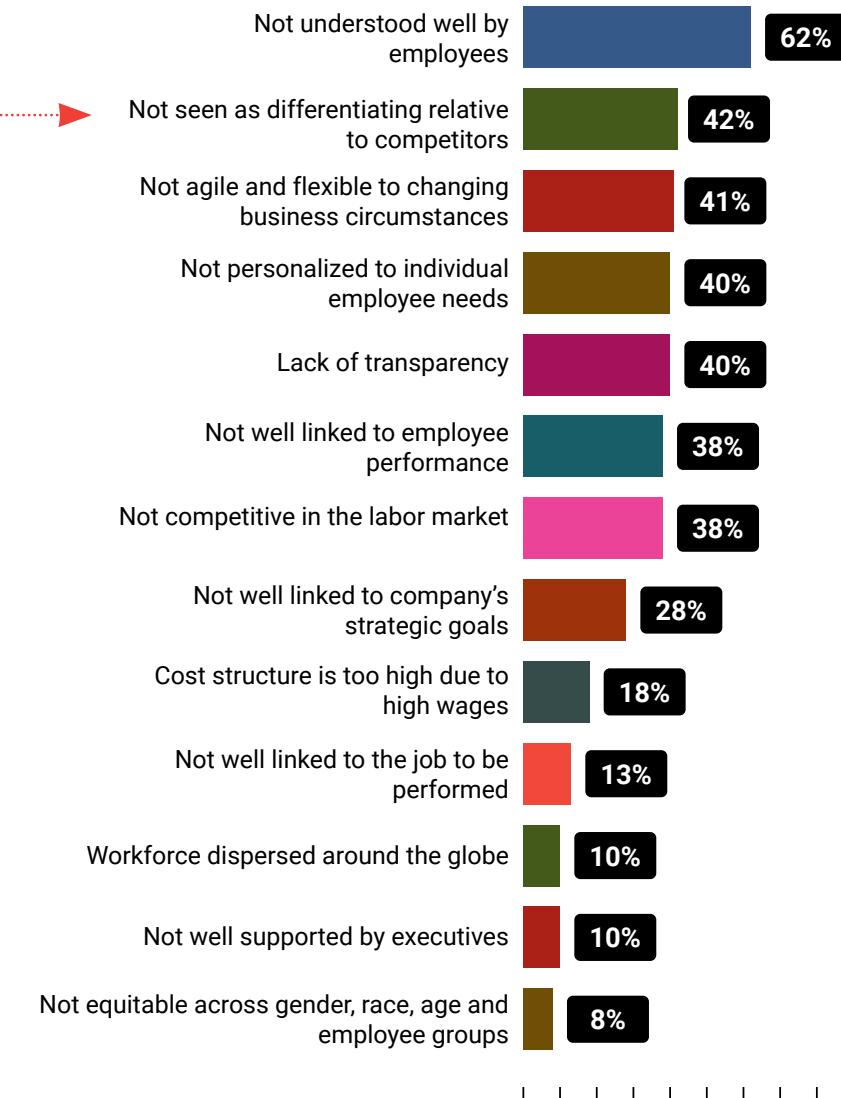
## By Organizational Size

Large and mid-sized organizations are far more likely than small ones to worry about personalizing total rewards; 37% of large and 51% of mid-sized organizations rate personalization as a challenge compared to 17% of small ones. Similarly, large and mid-sized organizations are more likely to worry about differentiating relative to competitors; 52% of large and 41% of mid-sized ones rate differentiating as a challenge compared to 22% of small ones.



**Over 40% of respondents say their total rewards system is not seen as differentiating relative to competitors**

**Survey Question: What are the top five major challenges faced by the compensation and total rewards system in your organization? (select up to five)**



# Total Rewards Objectives



## Finding: Retaining key talent is the most commonly cited objective of total rewards design

We asked participants about the five most important objectives driving compensation and total rewards design in their organizations.

The top two most widely cited objectives are, respectively, retaining and attracting key talent. In fact, a recent HR.com research report on employee retention found compensation-and-benefits-related issues to be the most influential driver of employee retention in their organization.<sup>6</sup>

The third most cited issue is motivating/incentivizing performance. This is one of the trickiest areas of total rewards, and it requires a good deal of experience to design incentive plans that achieve the objectives without unwanted side effects. We believe that HR professionals should ensure that their organizations expend enough time, attention and expertise to get incentive plans right.

While most rewards professionals will have a good sense of the multitude of issues around rewards, other leaders may only have fuzzy notions of all the different goals. It is useful for total rewards pros to occasionally remind leaders of the complexity of what needs to be done so that leaders don't push for simplistic solutions that overemphasize just one issue. While a well-designed compensation and rewards system can improve employee engagement, satisfaction and productivity; poorly designed systems can result in dissatisfaction and complaints of unfairness and loss of morale.<sup>7</sup>

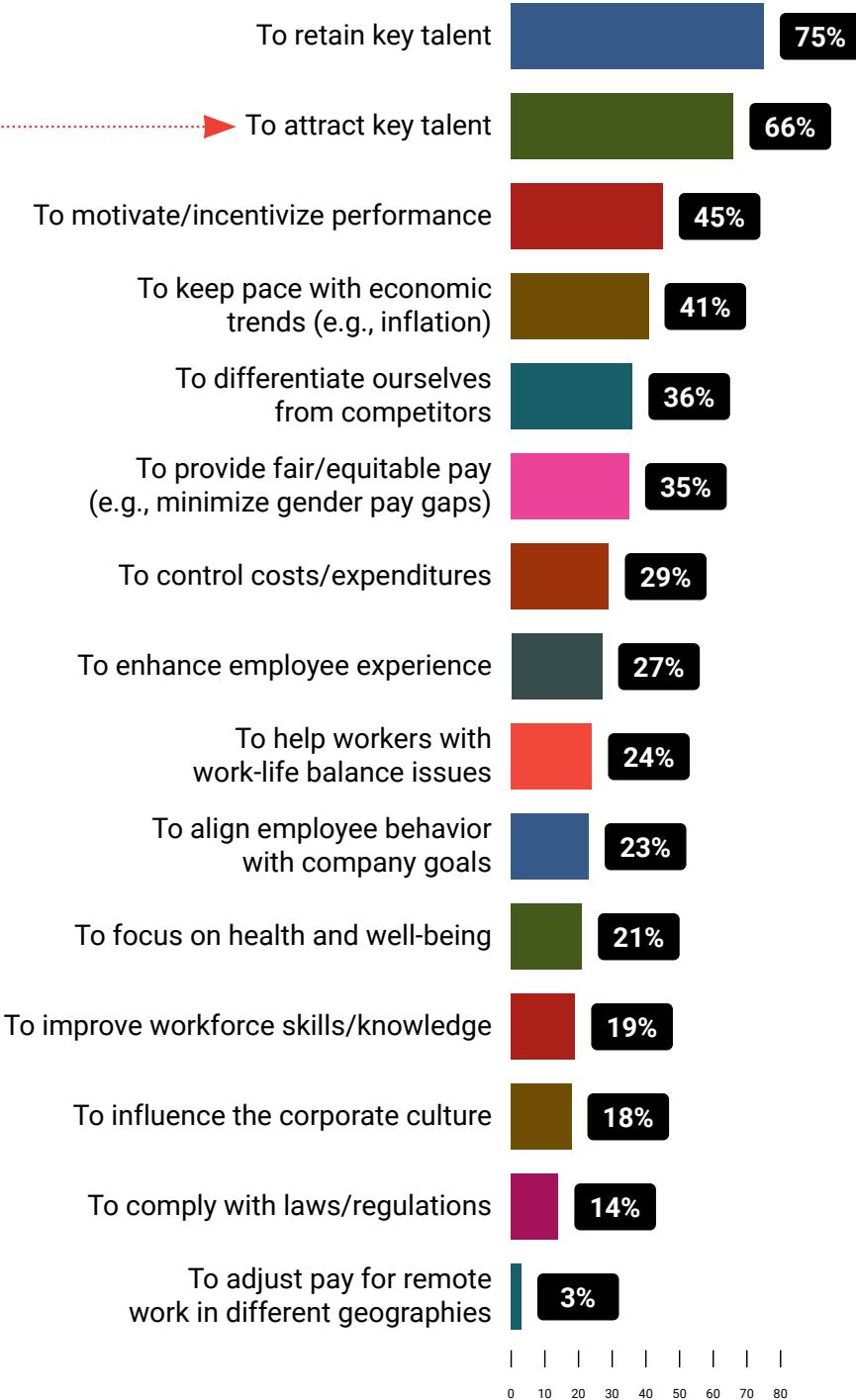
<sup>6</sup> HR.com (2022, September). *The State of Employee Retention 2022-23 - HR.com*. Retrieved from [https://www.hr.com/en/resources/free\\_research\\_white\\_papers/the-state-of-employee-retention-2022-23\\_l8nbyr62.html?s=NEaOpBGLMR2SbnWVFqN](https://www.hr.com/en/resources/free_research_white_papers/the-state-of-employee-retention-2022-23_l8nbyr62.html?s=NEaOpBGLMR2SbnWVFqN)

<sup>7</sup> Ogbonnaya, C., Daniels, K., & Nielsen, K. (2017, March 31). *Research: How incentive pay affects employee engagement, satisfaction, and Trust*. Harvard Business Review. Retrieved from <https://hbr.org/2017/03/research-how-incentive-pay-affects-employee-engagement-satisfaction-and-trust>



**Two-thirds of respondents say attracting key talent is one of the most important issues in total rewards design**

**Survey Question:** Of the following objectives driving compensation and total rewards design, which five do you believe are most important for your organization today?  
(select up to five)



# The Employee Benefits Component



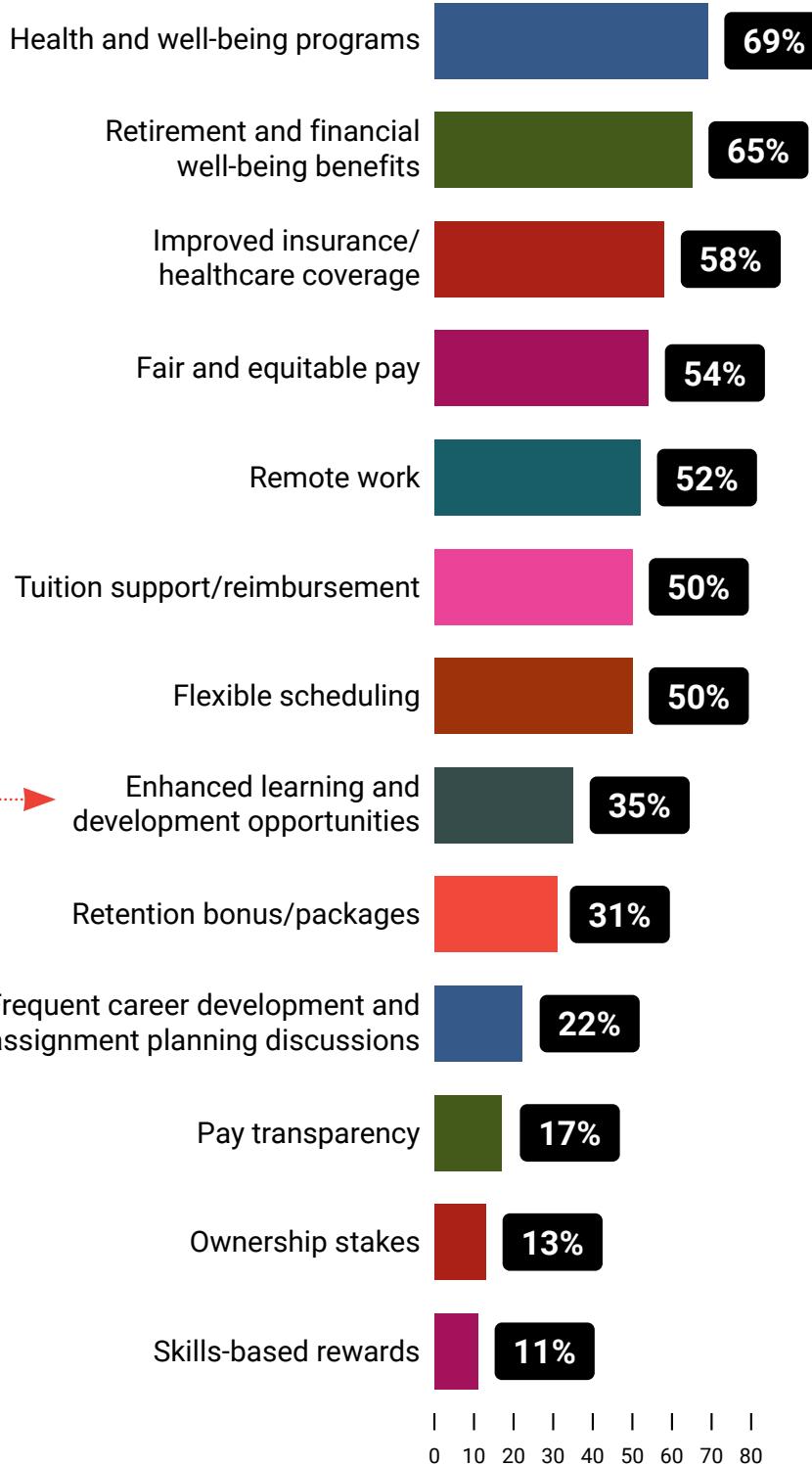
**Finding: Health and well-being benefits are most widely cited as a way to attract and/or retaining key talent**

Organizations have the opportunity to offer key talent a wide range of benefits. Seven different types of benefits are offered by more than half of respondents:

1. Health and well-being programs
2. Retirement and financial well-being benefits
3. Improved insurance/healthcare coverage
4. Fair and equitable pay
5. Remote work
6. Tuition support/reimbursement
7. Flexible scheduling

Given the range of options and the potential expense of each option, HR should take an evidence-based approach to selecting the right mix for the organization rather than just following what other organizations are doing. Being evidence-based means gathering data from employees on their preferences and what trade-offs they would like to make.

**Survey Question: Which of the following benefits does your organization offer to attract and/or retain key talent?  
(select all that apply)**



Over a third offer enhanced learning and development opportunities



## Finding: Nearly three-quarters of organizations offer flexible work arrangements

Most organizations (73%) offer flexible work arrangements, and it seems likely that they are here to stay. The pandemic proved many people could successfully work remotely, and flexible work options are now the norm in many organizations.

What also appears decided is that organizations are not going to provide an increase in allowances and subsidies just because an employee is working at home. Some employees feel that since the employer is saving some office-related costs, and the employee is incurring some office-related costs, that the employer should provide some allowances. Relatively few employers agree, with only 14% of respondents saying they offer this sort of benefit.

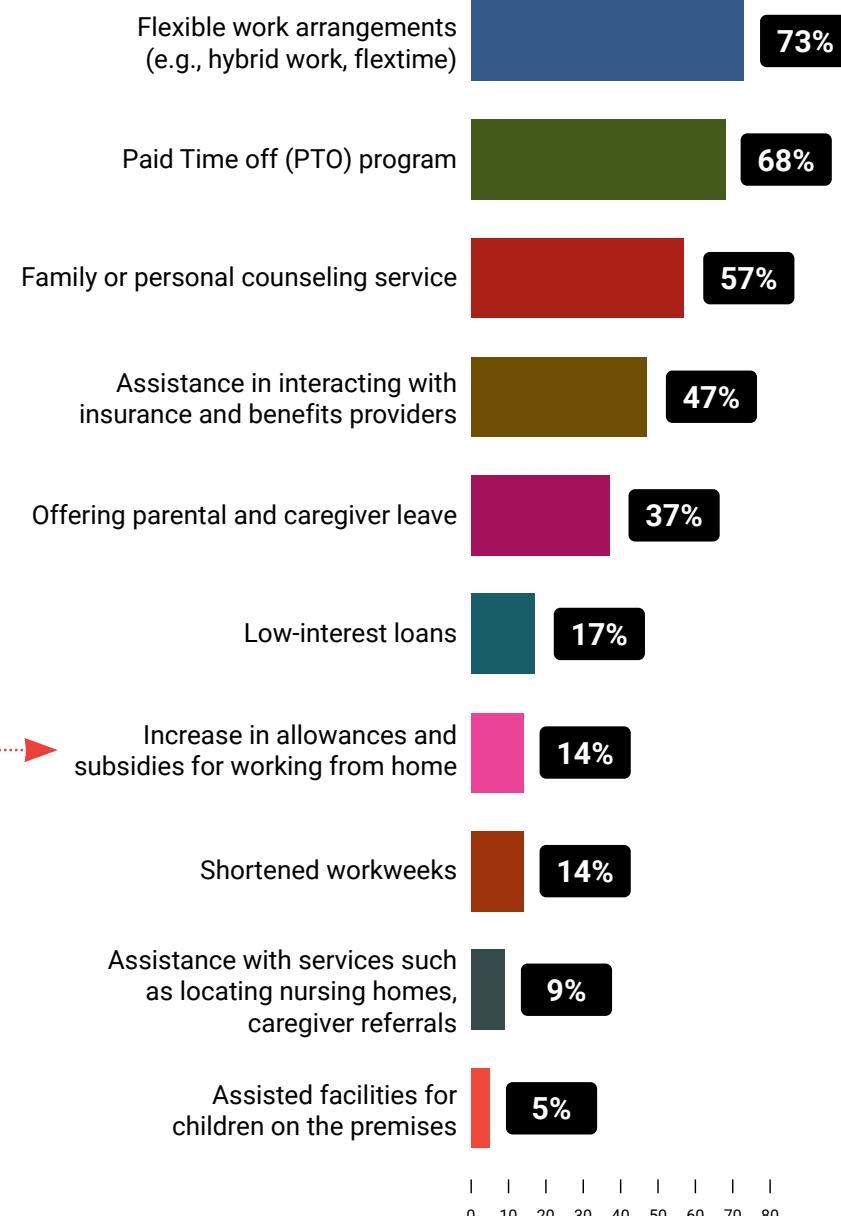
Another potentially pandemic-related benefit is family or personal counseling which is now offered by nearly 60% of respondents. The pandemic put a spotlight on mental health, and if organizations have not looked at offering counseling services, then perhaps it is time to reconsider the need for and value of such a program. A recent HR.com report shows that a vast majority of employees are reconsidering the role of work in their lives to improve mental health. Now that so many organizations have this benefit, it will be easier to find benefits professionals in other organizations who have experience with such services and can share their insights on their value.

### By Organizational Size

Large and mid-sized organizations are far more likely than small ones to provide family or personal counseling: 81% of large and 54% of mid-sized ones offer counseling services compared to 25% of small ones. However, large and mid-sized organizations are less likely to offer any increase in allowances or subsidies for working from home; only 8% of large and 11% of mid-sized ones give these allowances compared to 19% of small ones.

<sup>8</sup> HR.com (2022, September). *The State of Employee Retention 2022-23 - HR.com*. Retrieved from [https://www.hr.com/en/resources/free\\_research\\_white\\_papers/the-state-of-employee-retention-2022-23\\_l8nbyr62.html?s=NEaOpBGLMR2SbnWVFqN](https://www.hr.com/en/resources/free_research_white_papers/the-state-of-employee-retention-2022-23_l8nbyr62.html?s=NEaOpBGLMR2SbnWVFqN)

**Survey Question: Which of the following work-life benefits does your organization offer? (select all that apply)**



**Relatively few organizations (14%) provide an increase in allowances and subsidies for working at home**

Editor's note: This question was only answered by those who stated that at least one of the top five factors driving total rewards design was helping workers with work-life balance or enhancing the employee experience.



## Finding: Nearly half of the organizations (46%) offer on-call therapy assistance available inside or outside of work

About two-thirds of organizations (65%) provide generous short-term and long-term medical leave policies with clearly stipulated durations and possibilities for extensions and coverage for a wide range of physical and mental health services and medications.

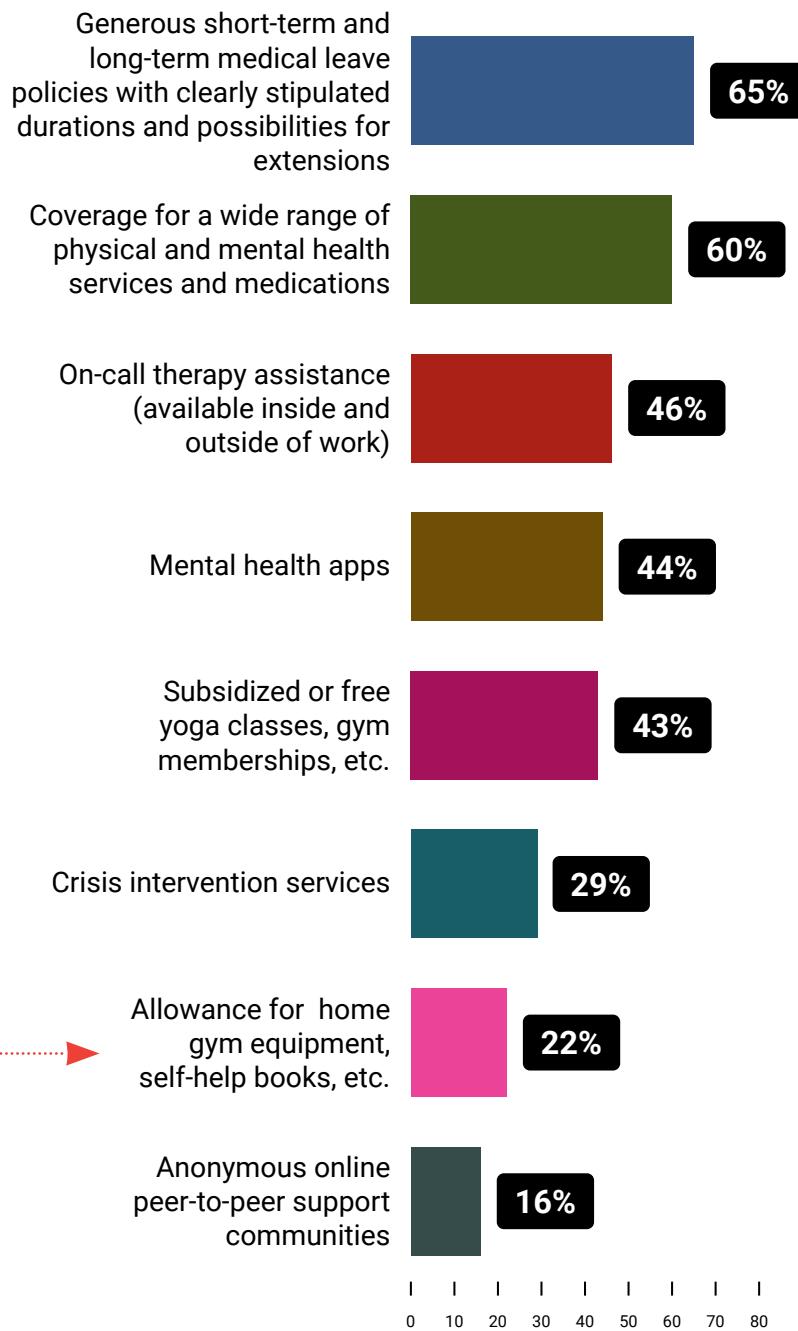
What is perhaps more interesting is the wide variety of other health and wellness benefits some organizations are offering. For example, while only 16% of organizations offer it, anonymous peer-to-peer support communities are an interesting health and wellness option for large organizations. Also interesting is that 22% offer an allowance for home gym equipment, self-help books, and so on; this benefit encourages people to take an active role in their own health and wellness.

Mental health apps are a new kind of benefit that is easily deployed and is now offered by 44% of organizations. For serious personal issues, 29% offer crisis intervention services.

### By Organizational Size

Large organizations typically offer better mental health benefits. Large organizations are far more likely than small or mid-sized ones to offer crisis intervention services than small ones; 46% of large compared to 18% of mid-sized ones and no small ones. Similarly, large organizations are more likely to offer on-call therapy assistance than small or mid-sized ones; 63% of large organizations compared to 32% of mid-sized and 22% of small ones.

**Survey Question: Which of the following health and wellness benefits does your organization provide? (select all that apply)**



**Just over 1 in 5 organizations provide an allowance for home gym equipment, self-help books, etc.**

Editor's note: This question was only answered by those who stated that at least one of the top five factors driving total rewards design was focusing on health and well-being or enhancing employee experience.

# Total Rewards and Corporate Culture

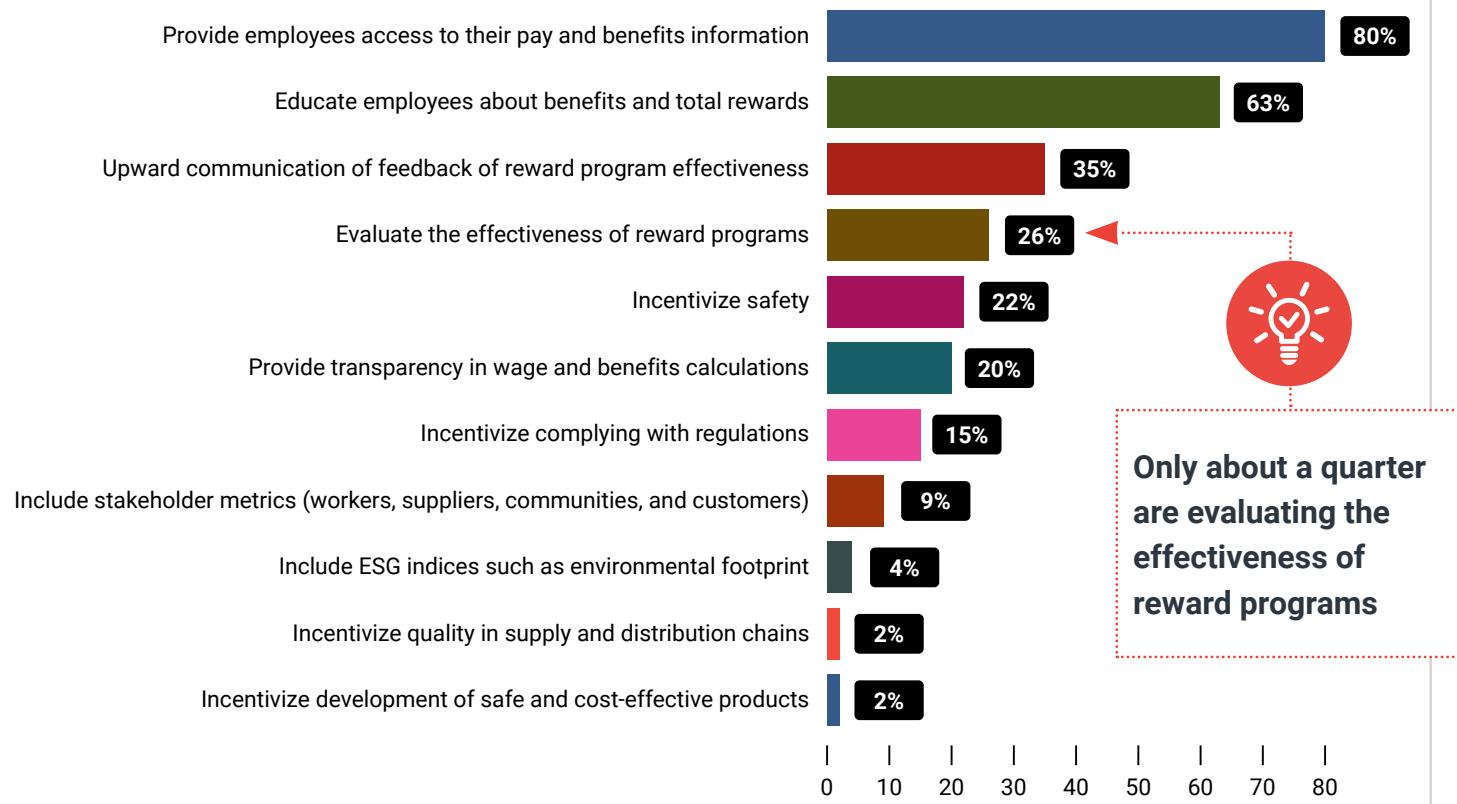


**Finding:** Fewer than two-thirds of respondents educate employees about total rewards

A good total rewards package is only effective if employees perceive it as a good package. That's why we were disappointed to see that only 63% of respondents say they educate employees about total rewards. Nearly 80% do provide employees access to their pay and benefits information, but that is only a bare minimum.

Most organizations are failing to engage in other culture-shaping practices such as getting feedback on reward program effectiveness (35%), evaluating the effectiveness of reward programs (26%) and incentivizing safety (22%).

**Survey Question:** Which of the following compensation and total rewards initiatives does your organization offer to create a positive organizational culture? (select all that apply)



Editor's note: This question was only answered by those who stated that at least one of the top five factors driving total rewards design was influencing the corporate culture or enhancing employee experience.



## Finding: Over three-fifths (62%) conduct periodic reviews of their employee compensation packages, but we believe the proportion should be even higher

Traditionally HR departments would get salary surveys once a year and adjust pay policy based on that data. However, thanks to online data sources it is now possible to get real-time pay data, and many organizations (54%) are taking advantage of that. While organizations should not be constantly changing their pay ranges, getting real-time data ensures that when a change does need to be made, the organization can react quickly rather than waiting months until the next annual cycle.

The truth is, however, that too many companies fail to do even the basics, such as conducting periodic reviews of employee compensation packages: only 62% do.

Only about two fifths (39%) evaluate the specific responsibilities and qualifications of each employees and make adjustments in salary. Even fewer (31%) audit to improve procedural fairness of reward administration.

HR leaders should consider the data below as a window into missed opportunities to improve pay fairness and the perception of pay fairness. Many of the initiatives investigated in this question are not particularly difficult to implement and though they need not be done every year, we think they should be done on some regular cadence.

### By Organizational Size

The larger the organization, the more work it is likely to do on pay equity. For example, in this study no small organizations say they analyze pay equity perception, compared to 11% of mid-sized organizations and 16% of large ones. Similarly, no small organizations say they do statistical analysis to evaluate equal pay for equal work, compared to 11% of mid-sized organizations and 44% of large ones.

**Survey Question: Which of the following initiatives does your organization offer to provide fair/equitable pay?**  
**(select all that apply)**



**Relatively few respondents (15%) analyze the perception of pay equity in their organization**

Editor's note: This question was only answered by those who stated that at least one of the top five factors driving total rewards design was providing fair/equitable pay.

# Total Reward Metrics



**Finding: Although most organizations track total reward metrics to some extent, the variety of metrics tends to be worryingly low**

We find the data on compensation and total rewards metrics to be disturbing. It's true that 85% say they use some kind of metric, the only metric captured by more than half of the respondents (in this case, 69%) is the pay range (upper/lower limits of compensation).

Half at least look at the total cost of the workforce, but other basic metrics such as comp-ratio, range midpoints and internal equity metrics are used by fewer than half of respondent organizations.

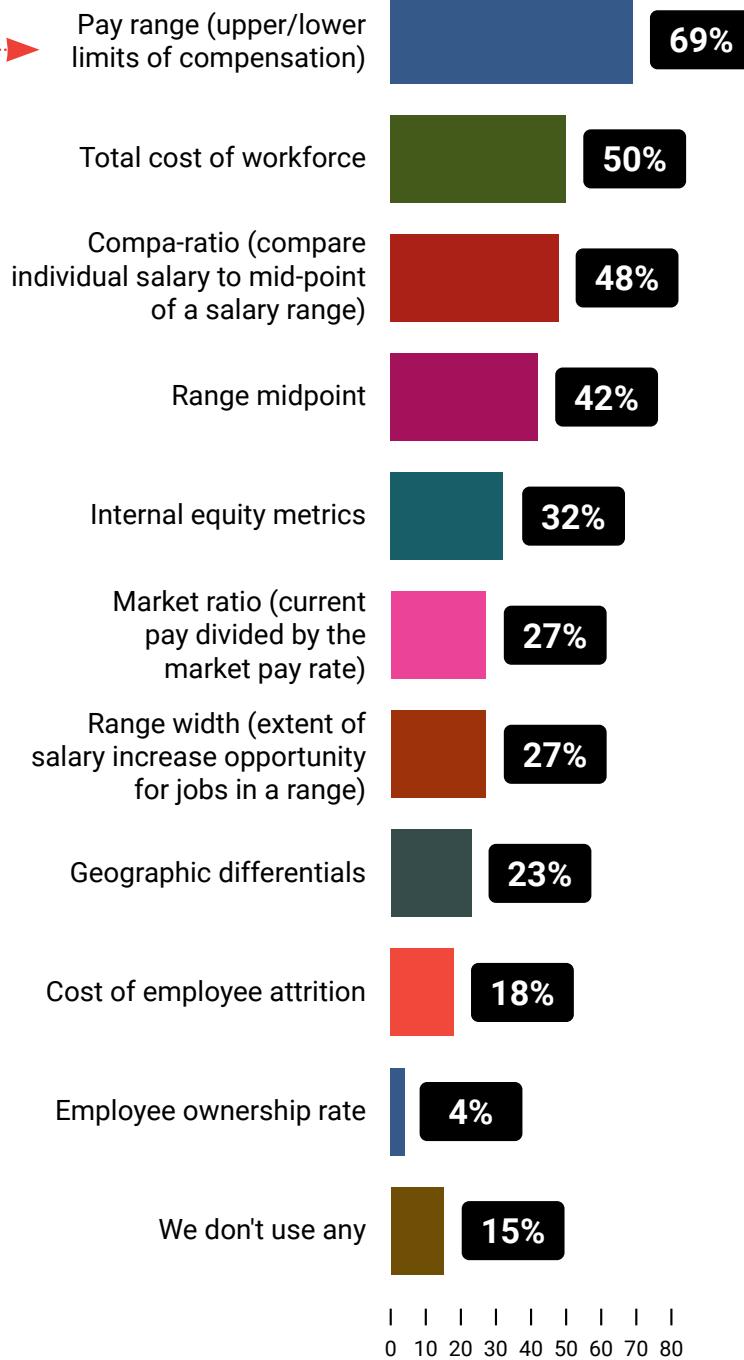
HR leaders who do not have good compensation metrics should consider what they ought to have at their fingertips to build the credibility of the department. Leaders need HR to have a good handle on compensation, and one way to demonstrate that is to have a strong set of metrics.





**Pay ranges are the only widely used metric**

**Survey Question: Which of the following compensation and total rewards metrics does your organization measure and track? (select all that apply)**



# Incentives

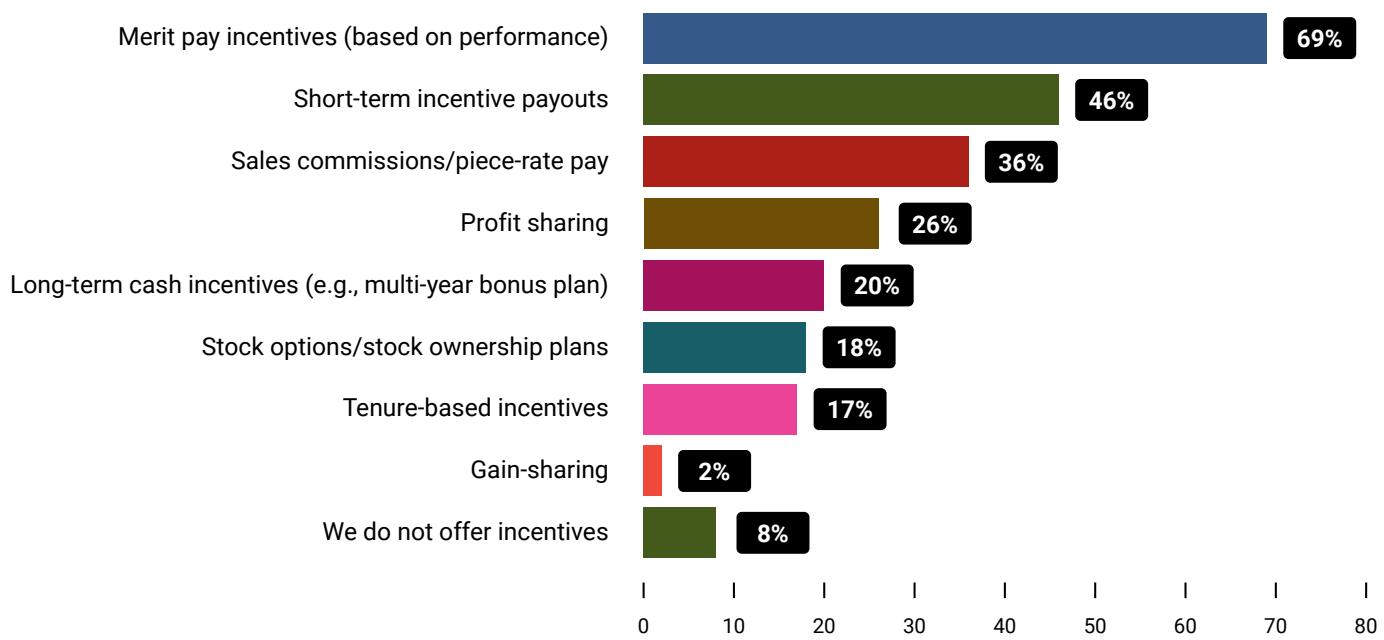


**Finding: Over two-thirds of organizations give merit pay incentives based on performance**

Merit pay increases based on performance are very common; 69% of respondents say they offer them. No other type of pay incentive is offered by more than half of the organizations. The second and third most common types of incentive are short-term incentive payout and sales commissions.

The lesser focus on incentives reflects the fact that organizations are willing to pay more to recruit new hires than retain existing employees. This results in higher turnover since employees feel they can gain more meaningful increase in pay through job-switching.<sup>9</sup> Organizations must realize that losing productive employees is expensive and investing in incentive programs may make them feel valued and boost retention.

**Survey Question: Which of the following incentives does your organization provide?  
(select all that apply)**



<sup>9</sup> Perna, M. C. (2022, June 9). You need more than just pay raises to win the war for talent. Forbes. Retrieved from <https://www.forbes.com/sites/markperna/2022/06/08/you-need-more-than-just-pay-raises-to-win-the-war-for-talent/?sh=do4a4aa49614>

# The Future of Total Rewards

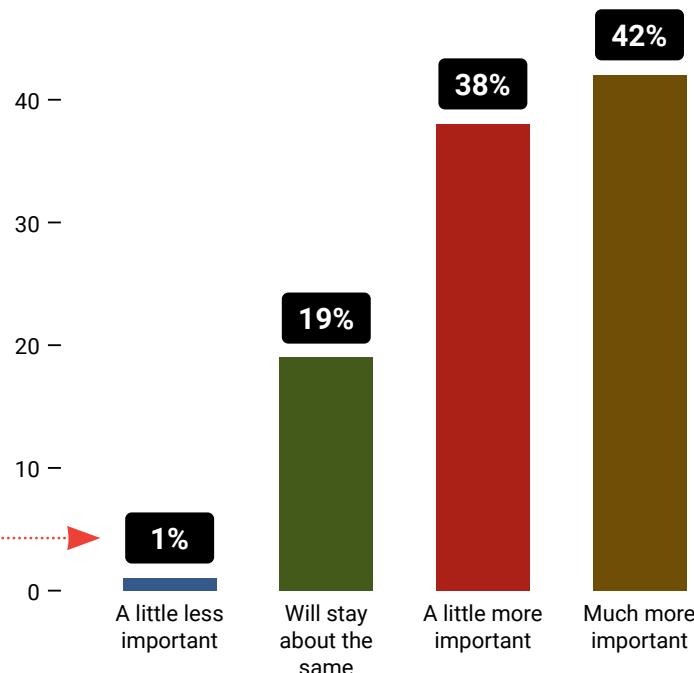


**Finding:** Four out of five respondents believe compensation and total rewards will become more important over the next two years

There is widespread agreement that compensation and total rewards are becoming more important. Many respondents (42%) feel it would become much more important and a further 38% feel it would become a little more important over the next two years.

Total rewards is one of the areas that leadership expects HR to get right both in terms of the overall strategy and the specific operational details. HR professionals who operate in total rewards need to be of high caliber. If the area becomes even more important, then the pressure to get it right will only increase.

**Survey Question:** Over the next two years, will compensation and total rewards become more or less important in your organization? (please select your best guess)



Only 1% of respondents believe compensation and total rewards will become less important over the next two years



## Finding: Looking ahead two years, the most important feature of total rewards will be that it is competitive in the industry

Compensation and total rewards are meant to achieve many different things, and it is useful for HR leaders to be clear about where priorities lie. Nearly three-quarters of respondents say that in the next two years the most important feature will be staying competitive in the industry. This is followed by the need to be equitable and fair which was cited by nearly half of respondents. These initiatives are geared towards attracting and hiring key talent.

We think it's worth paying attention to the third most commonly cited feature: being agile and flexible. Being agile will require new policies and decision processes. It may also require a new mindset in the compensation department, which is used to working on a steady annual cycle.

About quarter of respondents (24%) say being transparent about pay (sharing who is paid what) will be an important feature of compensation and total rewards. This is interesting given how organizations typically prefer to keep this information confidential, sometimes going so far as to have policies requiring employees to keep their salaries secret.

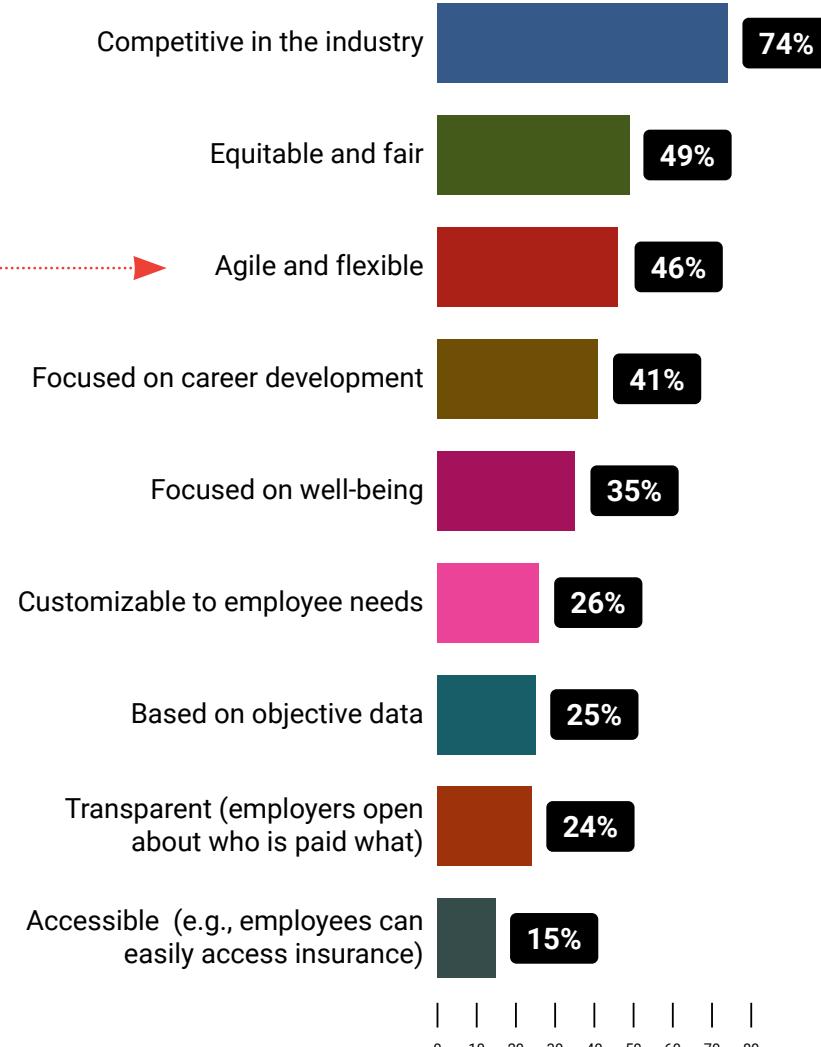
### By Organizational Size

Small organizations are more likely than mid-sized or large ones to be concerned about improving their use of objective data in compensation and total rewards. Over a third of small organizations (35%) feel basing compensation and total rewards on objective data will be important in the next two years, compared to 22% of mid-sized and large ones. This may be because mid-sized and large ones are already more likely to collect sufficient data.

**Survey Question: Of the following features, which will be most important for compensation and total rewards in the next two years? (select up to four)**



Nearly half of respondents (46%) say the most important feature will be that it is agile and flexible



# What More and Less Mature TR Organizations Do Differently

As discussed in greater detail earlier in the report, we divided respondents into two cohorts that we deemed as follows:

- **More mature total rewards (TR) organizations:** These organizations represent respondents who answered “intermediate” or “advanced” to the survey question, “How would you describe your organization’s compensation and total rewards approach?”
- **Less mature total rewards (TR) organizations:** These organization represent respondents who answered “undeveloped” or “beginning” to that same question.

It is worth noting that there is a strong correlation between organizational size and the self-report maturity of TR approaches. That is, larger organizations are much more likely to have more mature TR approaches. This aligns with other research showing that the largest S&P 500 firms use sophisticated compensation strategies based on multiple metrics—both financial and non-financial.<sup>10</sup> That said, smaller organizations should not let themselves off the hook. They should understand what more mature TR organizations do and emulate them as much as is reasonable for their operations.

## Results of Chi-squared Test

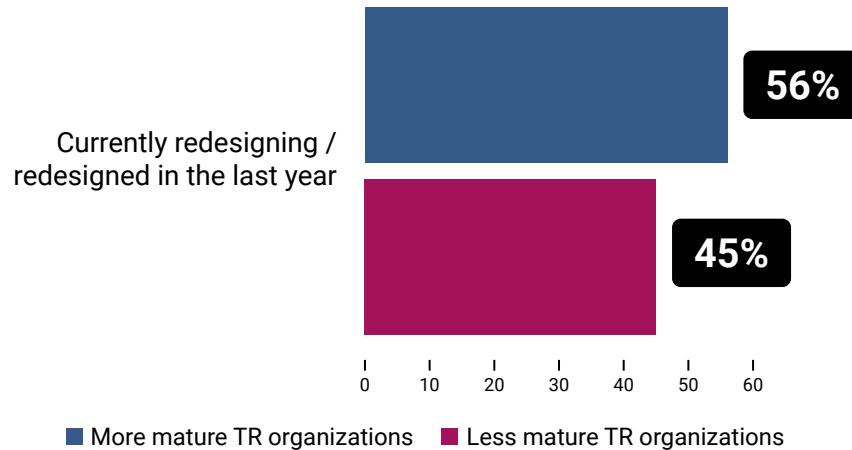
A chi-squared test of independence shows that more mature TR organizations are significantly more likely than less mature TR organizations to say that they are currently redesigning their compensation and total rewards system or have done so in the past year.

## Finding: Over half of more mature TR organizations are currently redesigning their compensation and total rewards strategy or have done so in the last year

Compared to less mature TR organizations, more mature TR organizations are significant more likely to keep up with changing times and continuously evolve their compensation and total rewards strategies.

<sup>10</sup> Groysberg, B., Abbott, S., Marino, M. R., & Aksoy, M. (2021, March 23). Compensation packages that actually drive performance. Harvard Business Review. Retrieved from <https://hbr.org/2021/01/compensation-packages-that-actually-drive-performance>

**Survey Question: When did you last redesign your organization's compensation and total rewards strategy?**



## Results of Chi-squared Test

A chi-squared test of independence shows that less mature TR organizations are significantly more likely than more mature TR organizations to say that they face challenges in regard to a lack of transparency and a lack of labor market competitiveness. They are also significantly less likely to effectively link total rewards to either employee performance or their organization's strategic goals.

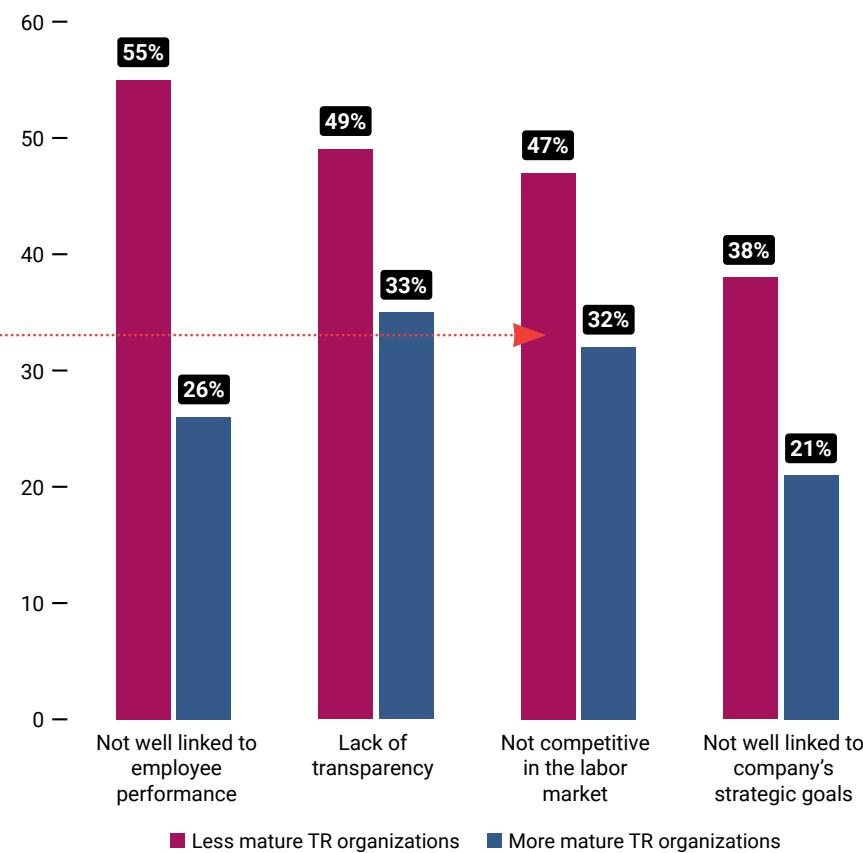


**Less mature TR organizations are more likely to worry that their compensation is not competitive in the labor market**

## Finding: Less mature TR organizations are twice as likely to say linking compensation to performance is a challenge

Linking pay and performance can be hard, and 55% of less mature TR organizations cite it as a challenge. More mature TR organizations are far more likely to create a clear link between pay and performance; only 26% cite it as a challenge. Generally speaking, less mature TR organizations are more likely to have challenges in compensation and total rewards than more mature ones.

**Survey Question: What are the top five major challenges faced by the compensation and total rewards system in your organization? (select up to five)**



## Results of Chi-squared Test

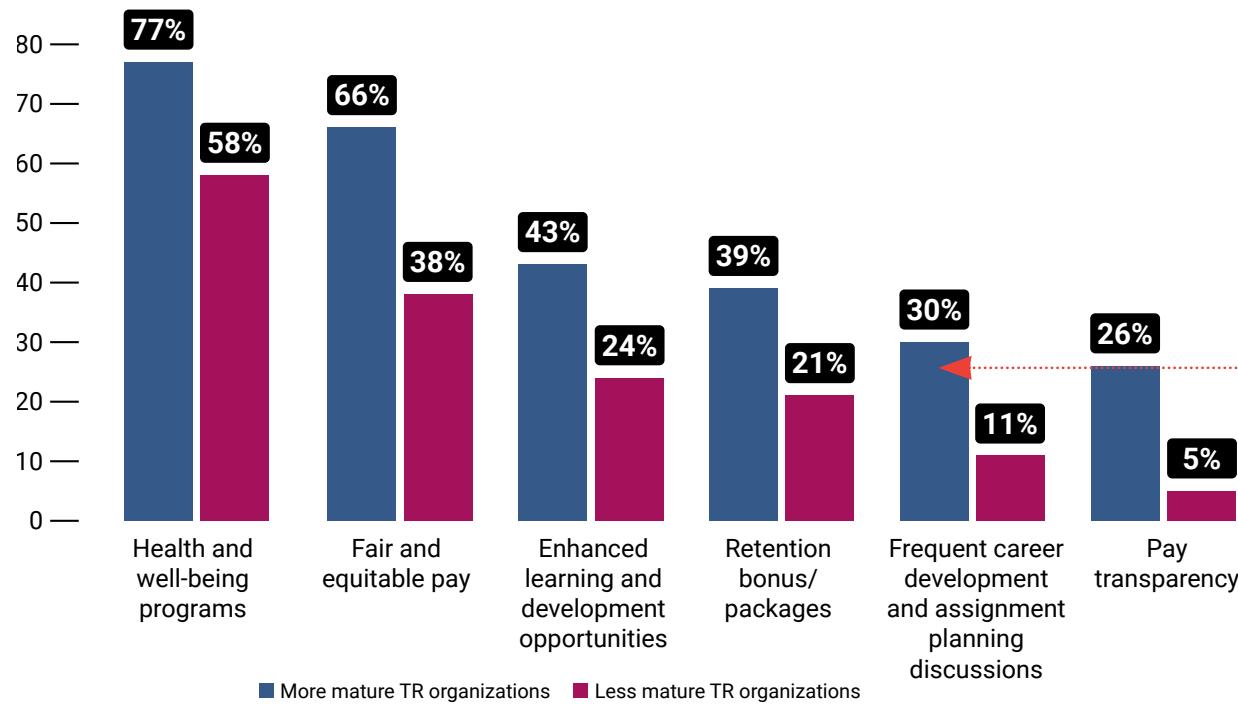
A chi-squared test of independence shows that more mature TR organizations are significantly more likely than less mature TR organizations to offer health and well-being programs, fair and equitable pay, frequent career development and assignment planning discussions, L&D development opportunities, retention bonus packages and pay transparency.

## Finding: More mature TR organizations are more than five times as likely as less mature ones to offer pay transparency

Pay transparency remains a controversial topic in many organizations. That said, more mature TR organizations are considerably more likely than other organizations to say they provide pay transparency.

Another interesting difference between more and less mature TR organizations is their willingness to offer frequent career development and assignment planning discussions.

### **Survey Question:** Which of the following benefits does your organization offer to attract and/or retain key talent? (select all that apply)



Editor's note: This question was only answered by those who stated that at least one of the top five factors driving total rewards design was attracting talent, enhancing employee experience or retain talent.



**More mature TR organizations are almost three times as likely as less mature ones to have frequent career development and assignment planning discussions**

## Results of Chi-squared Test

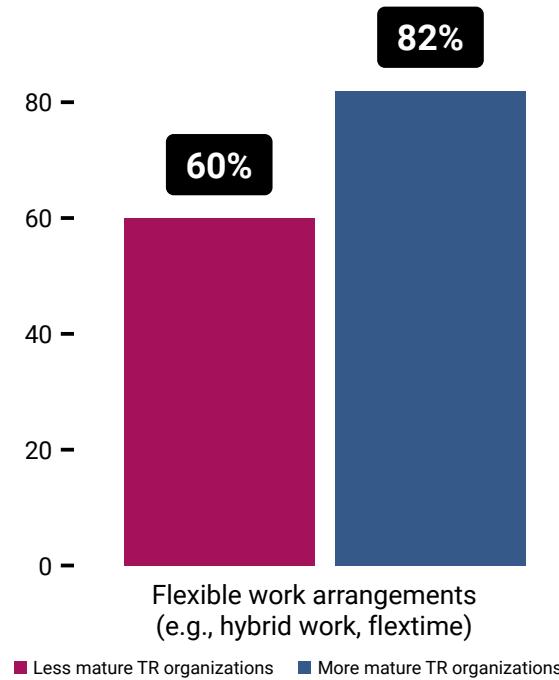
A chi-squared test of independence shows that more mature TR organizations are significantly more likely than less mature TR organizations to offer flexible work arrangements.

## Finding: Over 80% of more mature TR organizations offer flexible work arrangements, compared to only 60% of less mature ones

More mature TR organizations are noticeably more likely than less mature ones to offer flexible work arrangements (82% vs 60%). While flex arrangements can get complicated, they do not need to be. This suggests that it is not the technical difficulty that is preventing less mature TR organizations from offering flex arrangements but rather that many are not convinced they need it to attract and retain talent.

McKinsey reports that "when people have the chance to work flexibly, 87% of them take it."<sup>11</sup> Organizations that offer no flexibility may want to revisit their policies to find arrangements that will be attractive to both the business and employees.

**Survey Question: Which of the following work-life benefits does your organization offer? (select all that apply)**



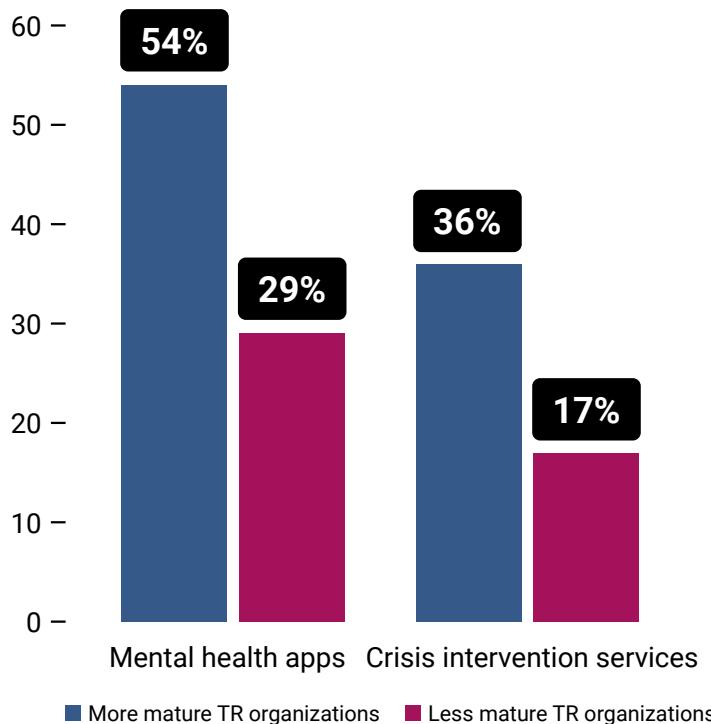
<sup>10</sup> McKinsey & Company. (2022, June 27). Americans are embracing flexible work--and they want more of it. McKinsey & Company. Retrieved from <https://www.mckinsey.com/industries/real-estate/our-insights/americans-are-embracing-flexible-work-and-they-want-more-of-it>



## Finding: More mature TR organizations are almost twice as likely as less mature ones to provide mental health apps

Mental health is currently a major concern in organizations and that leads to the question of what the compensation and benefits team can do to help. More than half of the respondents in more mature TR organizations say they offer mental health apps, and over a third offer crisis intervention services. In each case that is about twice as common as in less mature TR organizations.

**Survey Question: Which of the following health and wellness benefits does your organization provide? (select all that apply)**

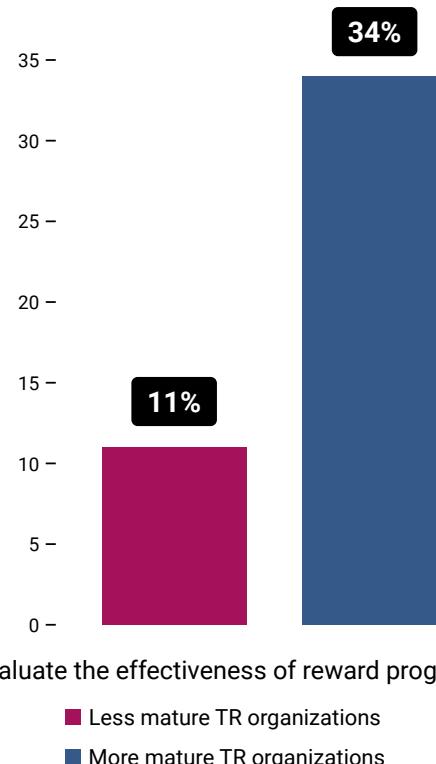




## Finding: More mature TR organizations are also more likely to evaluate effectiveness

More mature TR organizations are over three times more likely than less mature ones to evaluate the effectiveness of their rewards programs.

**Percentage of organizations that evaluate the effectiveness of rewards programs, by total rewards maturity**



## Results of Chi-squared Test

A chi-squared test of independence shows that more mature TR organizations are significantly more likely than less mature TR organizations to conduct periodic review of compensation packages for employees and perform statistical analysis to evaluate equal pay for equal work.

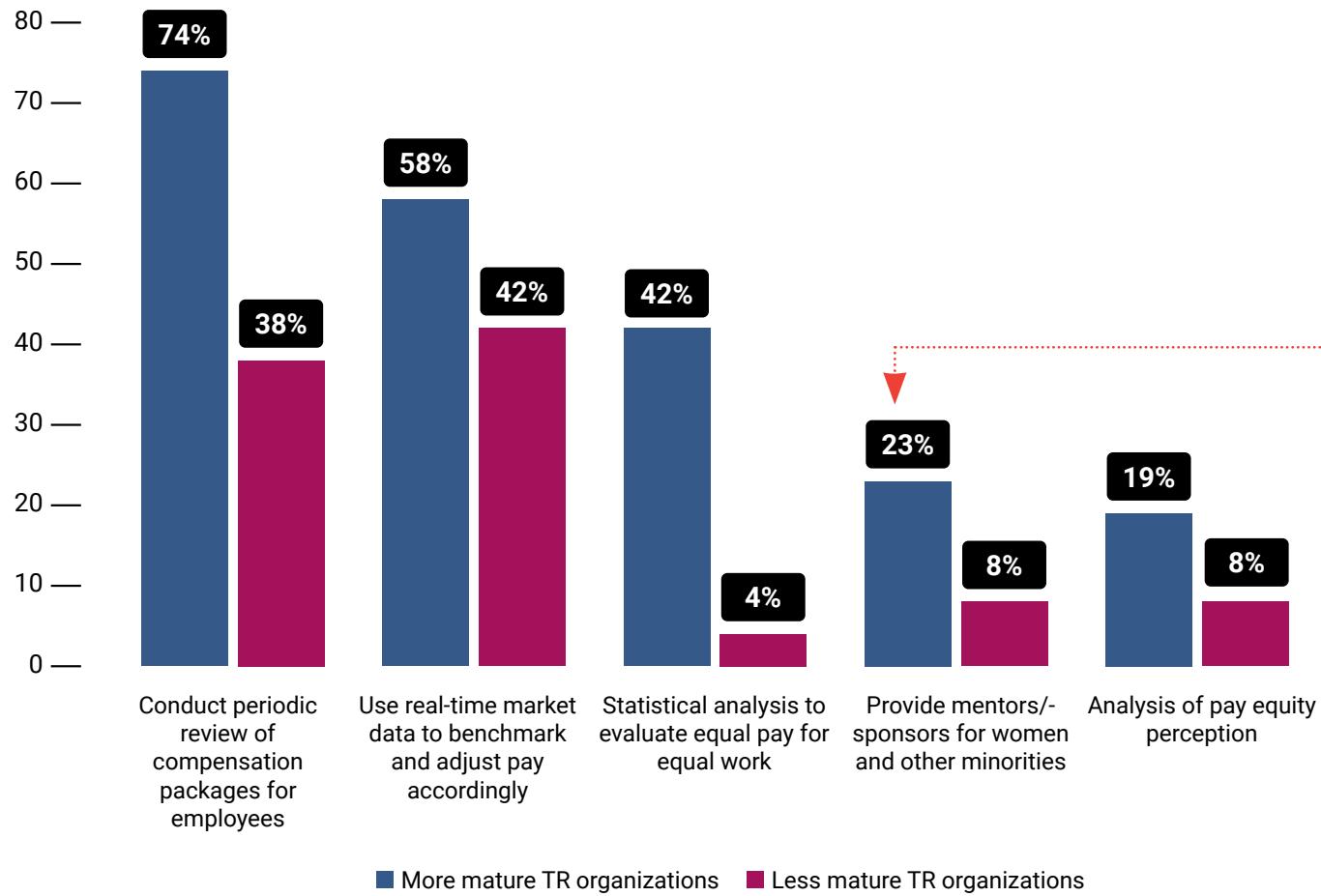
## Finding: More mature TR organizations are ten times as likely as less mature ones to do statistical analysis to evaluate equal pay for equal work

Organizations typically want to pay fairly, but doing so can be more complicated than it looks. Issues like tenure, performance, unique know-how, and market conditions can all lead to people in roughly similar jobs to be paid differently. A good way to ensure fairness is to do a careful statistical analysis of pay that looks at multiple factors. This kind of analysis seems beyond the capability of less mature TR organizations; only 4% do so whereas 42% of more mature TR organizations do a statistical analysis.

More mature TR organizations are also more likely to conduct periodic reviews of the compensation packages (74% vs. 38%) and use real-time market data to adjust pay (58% vs. 42%).

One practice that less mature TR organizations should note is the use of mentors/sponsors for women and minorities. Only 8% of less mature TR organizations use mentors/sponsors compared to 23% of mature ones. Unlike statistical analysis of pay, which does require a great deal of expertise, any organization can help pair up junior employees with mentors/sponsors. It can be an effective way to give those in need a helping hand.

**Survey Question: Which of the following initiatives does your organization offer to provide fair/equitable pay? (select all that apply)**



**More mature TR organizations are three times as likely as less mature ones to provide mentors/sponsors for women and minorities**

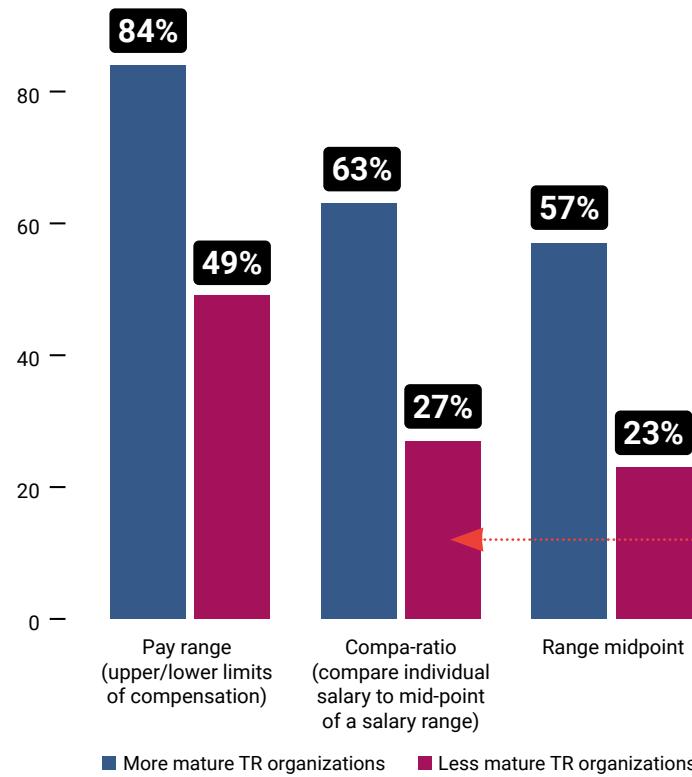
## Results of Chi-squared Test

A chi-squared test of independence shows that more mature TR organizations are more likely than less mature TR organizations to measure and track pay range, compa-ratio, range midpoint and less mature TR organizations are significantly more likely than more mature TR organizations to say they do not use any compensation and total rewards metrics.

## Finding: More mature TR organizations are far more likely to track compensation and total reward metrics

One important step from a less mature TR organization to a more mature one is to make greater use of metrics. Quite a few (29%) of the less mature TR organizations do not use any compensation metrics at all.

**Survey Question: Which of the following compensation and total rewards metrics does your organization measure and track? (select all that apply)**



Only a quarter of less mature TR organizations measure and track compa-ratio

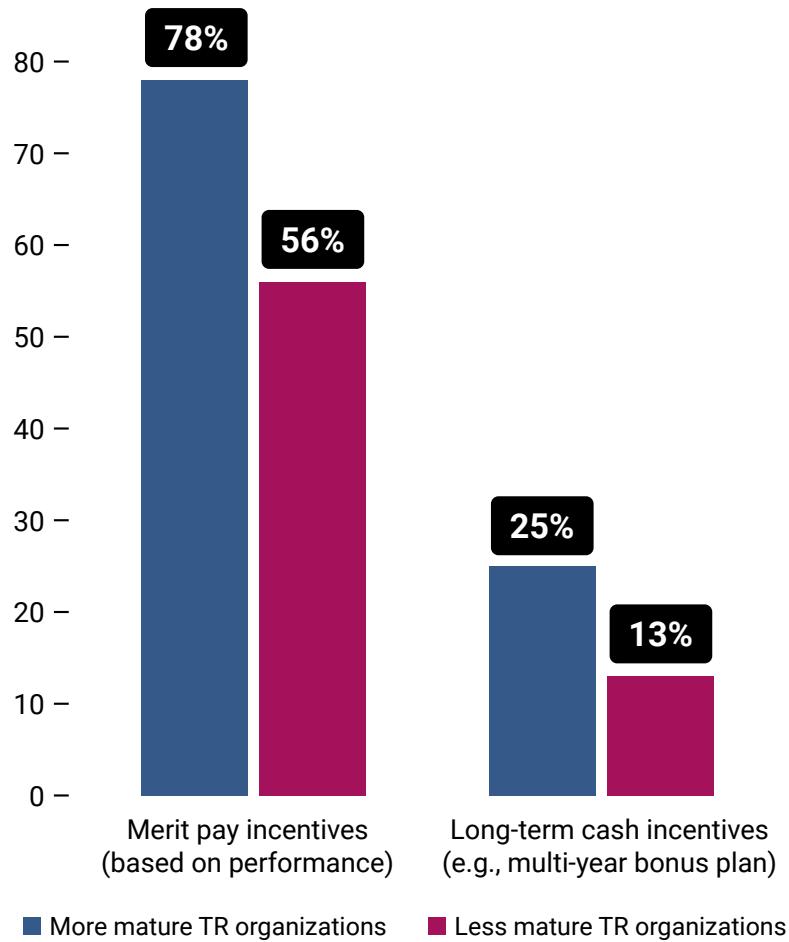
## Results of Chi-squared Test

A chi-squared test of independence shows that more mature TR organizations are significantly more likely than less mature TR organizations to offer merit pay incentives (based on performance).

## Finding: More mature TR organizations are more likely to offer merit pay incentives based on performance

Compared to their less mature counterparts, more mature TR organizations are more likely to offer merit incentives and long-term cash incentives.

**Survey Question:** Which of the following incentives does your organization provide? (select all that apply)



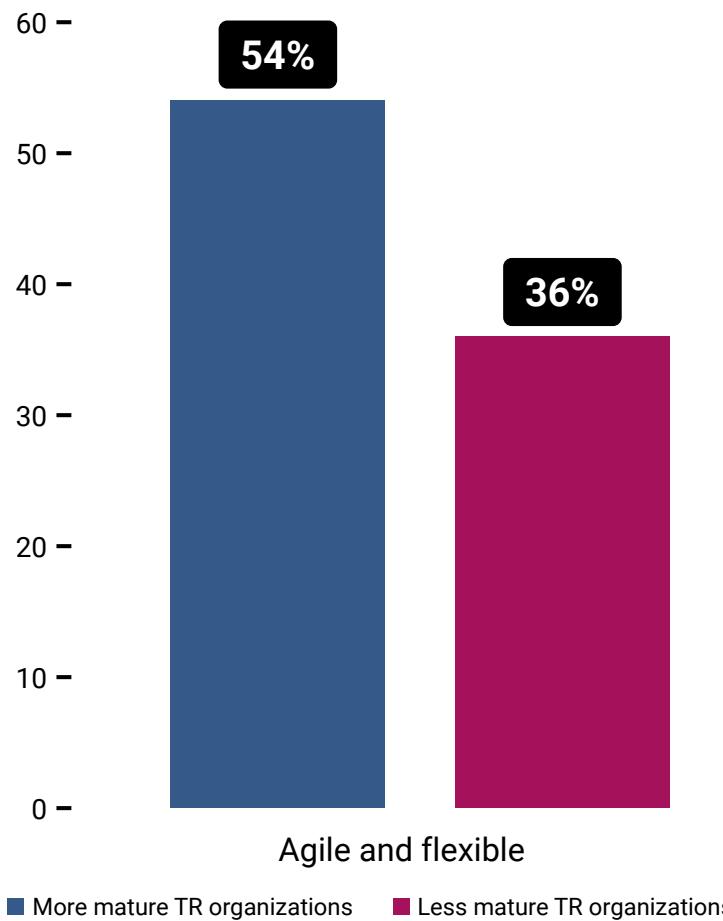
## Results of Chi-squared Test

A chi-squared test of independence shows that more mature TR organizations are significantly more likely than less mature TR organizations to say that the most important feature for compensation and total rewards in the next two years will be to be agile and flexible.

## Finding: More mature TR organizations significantly more likely to see agility as important for the future

Looking ahead toward the next two years, more mature TR organizations are more likely to emphasize agility and competitiveness.

**Survey Question:** Of the following features, which will be most important for compensation and total rewards in the next two years? (select up to four)





## Key Takeaway 1

# Key Takeaways

## Key Takeaway 2

## Key Takeaway 3

## Key Takeaway 4

## Key Takeaway 5

### **Make sure compensation and total rewards get the attention they deserve.**

It is easy for leaders to overlook the importance of the compensation function and all that is involved in doing that job well. HR leaders need to gently remind leaders that total rewards is one of their top expense items (perhaps *the* top item) and that handling it properly requires a sophisticated and well-resourced compensation department.

**Power up on technology.** Compensation is one of the areas in HR that benefits the most from technology. Be sure to visit HR technology events, get vendor demos, and talk to peers in other organizations so that you are apprised of what HR technology can do.

**Pay attention to agility.** HR professionals should note that more mature TR organizations say that pay agility is growing in importance. The traditional once-a-year approach may put your organization at a competitive disadvantage relative to those who can react quickly to changes in the market.

**Consider personalization.** Just as with agility, more mature TR organizations see the personalization of compensation as an important trend. Personalization can be complicated, and it needs to be done in a way that doesn't undermine fairness, however, it offers the opportunity of getting more bang for the total reward buck by aligning rewards to employees' preferences.

**Be competitive in mental health benefits.** Due to the pandemic, mental health has become an incredibly high-profile topic and it is likely to remain so. Organizations should review their mental health benefits—and how they are communicated—to be sure their employee value proposition is seen as competitive.

## Key Takeaway 6

**Find ways to make flex work, work.** Employees want flex work and may go elsewhere if it is not offered. Some strong candidates may not even apply for your jobs if flex work is not an option. If there are organizational barriers to flex work find ways around them so that you can offer as much flexibility to employees as possible.

## Key Takeaway 7

**If your metrics are weak, build them up.** Compensation is an area that is particularly well-served by metrics since it is so number-centric. If you have a people analytics professional, then work with them to develop compensation metrics. Your compensation technology vendor may also be able to help.

## Key Takeaway 8

**Don't lose focus on the key objectives of attracting and retaining talent.** Compensation and total rewards work under such a large administrative and compliance burden that it's easy to lose track of the primary objectives: attracting and retaining talent. Be sure to step back and take a breath from time to time to consider if you are still focused on these objectives.

## Key Takeaway 9

**Improve communication even if it's not your thing.** A lot of the time compensation involves hard heads-down work on a spreadsheet—and many compensation professionals like it that way. Communication is quite a different kind of work, it is "soft" and human-focused; something, not all compensation professionals excel at. Yet if compensation and total reward are not communicated well, then they lose some of their effectiveness. HR needs to check that communication is not being given short shrift.

## Key Takeaway 10

**Be able to demonstrate fairness.** HR works very hard to make sure compensation is fair, however, that is not enough. It's important to be able to demonstrate to the management team that it is fair by running audits and gathering data.



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