

the future of compensation professionals

according to your colleagues

By Barbara Manny, Benefits & Compensation Resources; Thomas McMullen and Richard S. Sperling, CCP, Hay Group; and Dow Scott, Ph.D., Loyola University Chicago

as Bob Dylan sang, “The times they are a changing.” With opportunities to be more involved in major business decisions, compensation professionals have been asked to solve more difficult problems and face more difficult challenges. In turn, the profession needs to be able to step out of the comfort zone and be ready to seize these opportunities. From a survey of compensation professionals, it has become clear they feel their roles in the organization’s strategic business plans are growing. Only time will tell if compensation professionals’ perceptions will become reality.

In May 2005, the authors conducted a survey to find out what compensation professionals think about the future of the profession. From two groups of compensation and HR professionals who had compensation responsibility — Chicago Compensation Association (CCA) members and a sample of WorldatWork members — there were 200 survey respondents.

Looking Ahead

Surprisingly, 75 percent of survey respondents believe that their companies are going to add more resources in the compensation function. However, past experience has shown compensation professionals need to prove their value to the organization through increased efficiencies and use of technology. Even more, they need to be valued business partners to organizations’ line executives.

In general, the survey indicated that compensation professionals feel they will have greater involvement *across the board* in terms of providing design, administration and control support to their organizations. They also predict they will be substantially more involved in the design and administration of *incentive programs* over the next three to five years (See Figure 1 on page 30.) Given the shift away from stock option grants to other types of incentive vehicles, this comes as no surprise.

Survey respondents also report they will be more involved in salary budget planning in the future. Given the global competitive pressures most businesses are experiencing in today’s economic environment, focusing on the size and allocation of the organization’s compensation budget has become a priority. Compensation is one of the largest expenditures for most organizations, and it often is the largest controllable expenditure. Compensation professionals are primary stewards in one of the key financial areas of the business, and they should embrace their role in order to add value to the bottom line.

Global and executive compensation also were high on the lists of predicted responsibilities that would require greater involvement of compensation professionals, along with the responsibility for the development of the organization’s compensation strategy.

From the Boardroom

The highly publicized mishandling of executive pay has moved compensation philosophy and strategy into the spotlight and the boardroom. Compensation professionals have had to transition from being viewed as the “compensation cops,” i.e., monitoring and controlling costs, to being seen as a major business partner and contributor to the organization’s success (or failure.)

Effective compensation professionals today must play multiple roles: financial analyst, psychologist, coach, trusted adviser and problem solver. To accomplish this, they must immerse themselves in the organization’s business; understanding its strategy, products and services, markets, revenue streams, critical success factors and, of course, employees’ impacts on the business, as well as their needs and wants.

The survey results support the perception that compensation professionals must take on more responsibility for many areas impacting organization effectiveness, including performance

QUICK LOOK

- ➔ Seventy-five percent of survey respondents believe that their companies are going to add more resources in the compensation function.
- ➔ Compensation professionals need to be valued business partners to organizations’ line executives.
- ➔ They predict the compensation function will be substantially more involved in the design and administration of incentive programs over the next three to five years.

FIGURE 1: COMPENSATION PROFESSIONALS FIVE YEAR PREDICTIONS

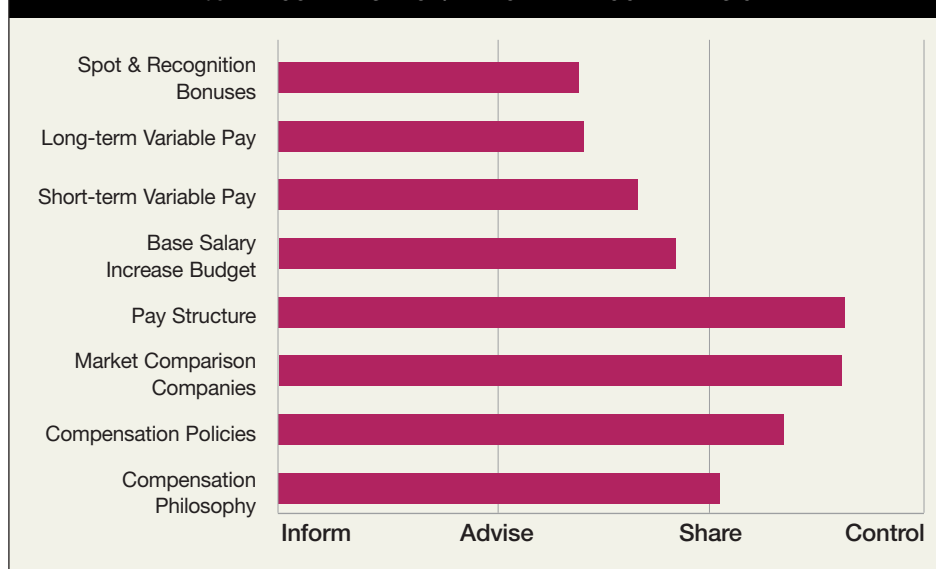
Predictions	Mean	Much Less (1)	Less (2)	No Change (3)	More (4)	Much More (5)
Responsible for designing incentive pay programs	3.98	1%	2%	19%	55%	23%
Involved in designing executive pay programs	3.94	0%	3%	25%	54%	18%
Responsible for developing the organization's compensation strategy	3.93	0%	2%	24%	55%	19%
Involved in designing international or global compensation	3.92	1%	3%	24%	47%	25%
Involved in managing international or global compensation	3.87	1%	5%	24%	48%	22%
Involved in legal issues	3.78	0%	4%	34%	46%	16%
Involved in developing compensation budgets	3.70	0%	2%	37%	51%	10%
Responsible for recognition plans	3.66	0%	5%	35%	51%	9%
Involved in market pricing or pay surveys	3.63	1%	4%	42%	39%	14%
Responsible for performance management	3.62	2%	9%	35%	43%	11%
Responsible for career pathing or leveling	3.54	0%	6%	34%	52%	8%
Responsible for administering incentive pay programs	3.47	2%	12%	29%	48%	9%
Involved in work valuing or job evaluation	3.45	1%	10%	41%	41%	7%
Involved in establishing pay ranges	3.40	1%	4%	59%	29%	7%
Involved in using pay for skills or knowledge programs	3.37	1%	15%	37%	40%	7%
Involved in establishing pay grades	3.36	1%	6%	57%	30%	6%
Involved in job analysis	3.35	1%	12%	47%	32%	8%
Outsourced by companies (excluding employee benefits)	3.22	5%	17%	37%	37%	4%
Responsible for individual employees' pay decisions	2.94	7%	25%	36%	28%	4%

management, career pathing and leveling, recognition plans and legal issues. The context in which the compensation professional operates also is becoming more challenging. The survey signals substantial perceived changes occurring in the following areas: employment law, global pay practices, performance management, executive pay and short-term variable pay.

In addition, recent research conducted by Hay Group, Loyola University of Chicago and WorldatWork shows that compensation professionals typically think more time and emphasis will be spent on most compensation programs and processes, from design to communication. But how can this be true if the staffing levels within the compensation function are expected to hold constant or increase only slightly? Some plausible explanations are the following:

- The continued trend toward outsourcing
- More leveraging of technology to support the administrative side of compensation
- Sharing the accountability for the design, administration and control

FIGURE 2: COMPENSATION/HR ROLE IN PROGRAM DESIGN



of the compensation program with line management and/or the financial function.

There is a tendency for compensation to partner with line management and finance in managing compensation programs. As shown in Figure 2, the compensation function tends to be more directly accountable for the design aspects of the compensation program,

especially in the areas of compensation philosophy, policy development, market comparisons and development of pay structures. Line management and/or senior management tends to take a more active role in the design of spot and recognition programs and in the design of variable pay programs.

However, compensation professionals tend to have more of an impact on

compensation program *design* than on the *administration and control* of the compensation program. (See Figures 3 and 4.) In addition, management and finance tend to take either shared or direct accountability for these dimensions of compensation program management. The administration or determination of base salary, variable pay or special compensation expenditures is typically an advisory-to-shared role of the compensation professional. And line managers have significant decision-making ability. Monitoring compensation expenditures, whether it's base salary, variable pay or recognition pay, is *not* predominately controlled by compensation, although the compensation professional typically would have an advisory role to management in the control of these expenditures.

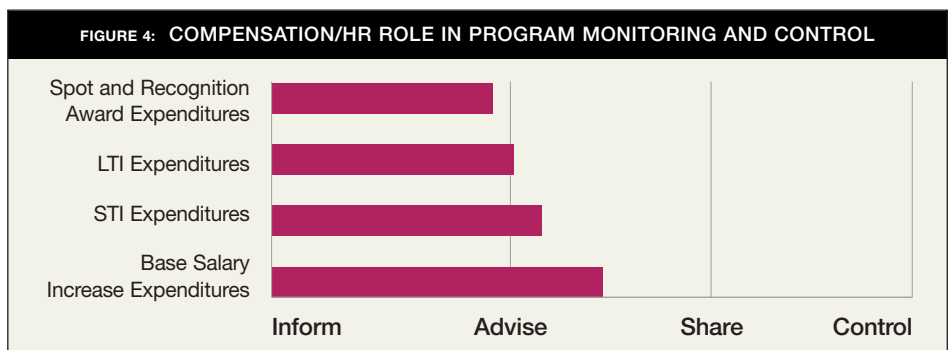
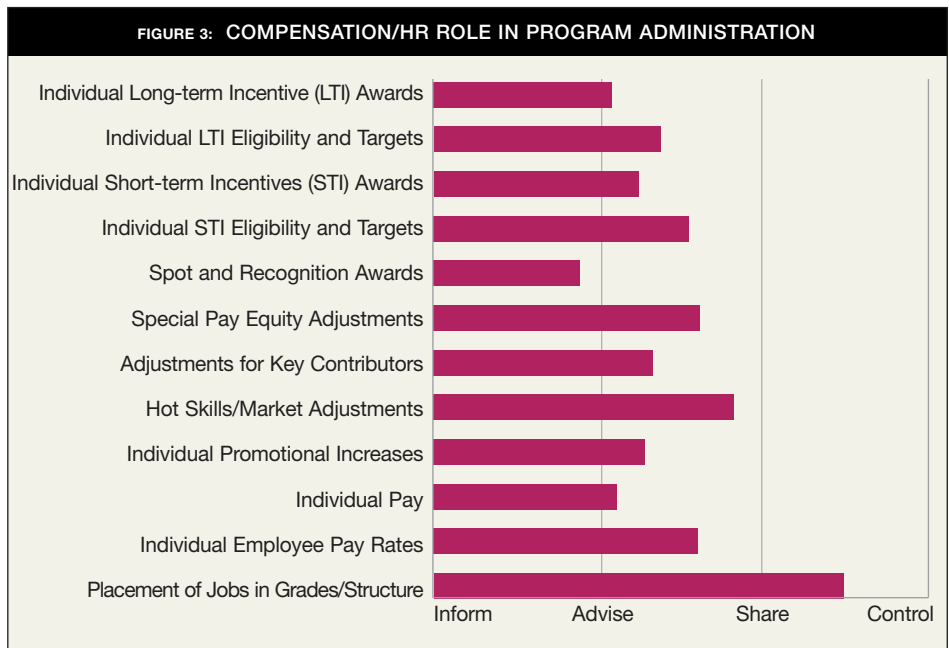
It seems that the role of compensation professionals will continue to trend toward strategic organization counselors as opposed to administration and compliance officers, since the time just will not be available. While the fiscal control of compensation programs still remains a key strategic objective for compensation professionals, the real key will be the methods used to effectively leverage technology and outsourcing to make this viable.

The top five competencies identified by the 2005 WorldatWork survey for compensation professionals were as follows:

- Strategic thinking
- Understanding company operations
- Project management
- Developing the business case for change
- Executive-level presentation skills.

What Will the Future Hold?

Survey respondents believe that the role of the compensation professional will be more challenging and demanding, and indeed, much more interesting. As such, compensation professionals must maintain and enhance the body of knowledge



and find new ways to add value. With this more strategic role professionals should be prepared to take responsibility for business success. Survey respondents are positive about the opportunities for compensation. Only time will tell if they have accurately predicted the future.

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