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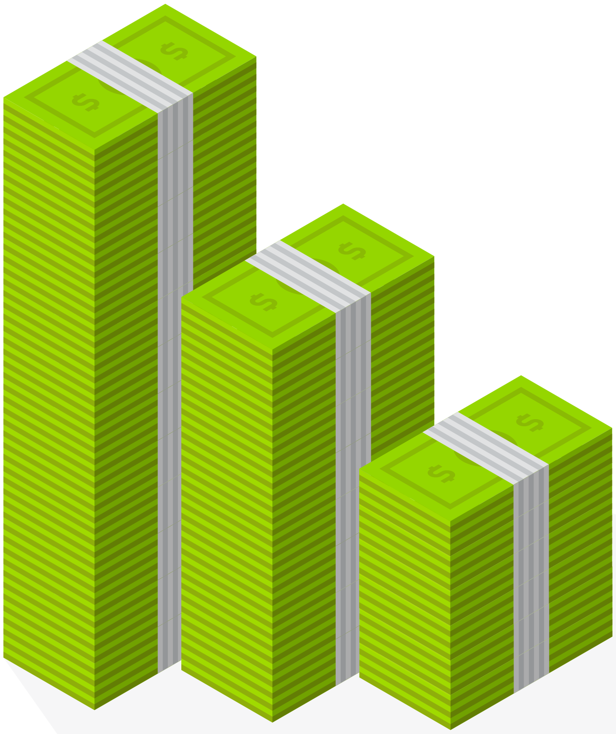
# TOP 5 TRENDS IN COMPENSATION MANAGEMENT

Compensation is seen as the third rail of talent management. Nobody wants to talk about pay — employees and companies alike. But even if we don't talk about it, its influence is very real on:

- RECRUITING
- RETENTION
- PERFORMANCE
- ENGAGEMENT
- AND MORE



The right compensation strategy complements your overarching talent management approach. The wrong one can be an albatross, slowing down your ability to compete for the best talent.

Although compensation is often a forgotten part of talent management, it's critically important to your success. In this e-book, we cover five trends you need to know about this topic.

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# TREND NO. 1: COMPENSATION AS A STRATEGY

Compensation is one of the most important variables in recruiting top talent. In fact, it's consistently rated as one of the most important considerations for changing or accepting a new position.

> **COMPENSATION ISN'T JUST A BUDGET CONSIDERATION, THOUGH. IT'S ALSO A STRATEGY.**

**EXAMPLE:** Netflix figured this out early. It created a well-known compensation strategy that got an employee's salary to a level where they would almost always be forced to take a pay cut for another similar position. This not only helped retention, since people rarely made lateral moves, but also recruiting.

Other companies may follow Netflix's strategy or choose to be more competitive with some employees and be at or below median compensation for others.

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TREND NO. 2:

# COMPLIANCE AND IMPACT ON COMPENSATION

The most important part is to be intentional about your compensation strategy. Be honest with yourself and where you fit in the market. Having a strong compensation structure also ensures that you aren't letting past pay of employees dictate compensation when hiring or promoting employees.

If you don't know where to start, there are a number of online tools to give you a rough idea. For more granular numbers, especially in local markets, a compensation consultant can get you started.

**NOTE:**

One important change that's taken place in the last few years is that some states and municipalities have banned asking for salary history.[1] Though some employers have used this as a shortcut to figure out market rates for talent, it's not always reliable or savvy to rely on it.

[1] https://www.shrm.org/resourcesandtools/hr-topics/talent-acquisition/pages/how-to-comply-with-bans-on-queries-about-candidate-salary-history-.aspx

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## TREND NO. 3:
# THE ELIMINATION OF THE PERFORMANCE REVIEW

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### Many organizations are rethinking the annual performance review, and for good reason.

- It's an ongoing burden on managers and employees in particular, as well as the organization as a whole.
- Experts continue to doubt the efficiency and effectiveness of having a once-a-year process for determining employee performance.

**WHAT DOES THIS HAVE TO DO WITH COMPENSATION? MERIT-BASED COMPENSATION INCREASES HAVE BEEN HISTORICALLY TIED TO ANNUAL PERFORMANCE REVIEWS.**

There are a few ways organization have coped with this change:

- Organizations that have abandoned annual reviews have tried using the typical performance review time to look at accomplishments and discuss merit-based compensation.
- Other organizations have taken a more ad hoc approach with considering anything other than cost-of-living increases.
- Corrective actions or coaching conversations happen in the moment rather than waiting for a formal review time.

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## TREND NO. 4:
# INCREASING EMPHASIS ON VARIABLE PAY

### Organizations have also used the shift from annual performance reviews to focus more on variable pay.

For example, while some organizations have given out bonuses due to tax law changes, they've been less willing to increase base wages and salaries. This follows a trend that existed before the tax law change of moving more employees to variable and performance-driven pay schemes.[2]

As increases in minimum wages in some states drive up fixed labor costs, especially in hourly wage-heavy industries, companies have used variable pay to give them flexibility.

**NOTE:**
The impact of policies like increasing variable pay isn't usually felt immediately, but the long-term effect on engagement and retention should be an important consideration for every organization.

[2] https://www.worldatwork.org/docs/worldatworkpressreleases/2017/01-aug/us-salary-budget-increases-come-in-at-3-percent.html

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## TREND NO. 5:
# EXECUTIVE PAY CHANGES

While not every HR leader deals with executive compensation issues, there are a number of important changes coming regarding paying top company leaders. Executives continue to have approximately a third of their pay determined by variable or performance-based measures, which has been increasing for at least a decade.

In 2017, the tax law changed how organizations could manage performance-based pay for executives. Previously, executives could be paid an unlimited amount of incentive or performance-based pay that the organization could deduct. Naturally, this led to the leaders of large multinationals getting base pay of less than one million dollars, but getting tens of millions in performance pay.

With the new tax law in place, organizations have less financial incentive to build in heavy performance-based pay. That said, many boards will still want to have some of that accountability in place.

**NOTE:**

**One other change is that public companies will start disclosing the ratio of CEO pay to median employee pay within proxy statements. While CEO pay for public companies has been fairly well understood, it will be interesting to see how the ratio affects executive and broader compensation trends.**

**Compensation continues to be a multifaceted challenge for many organizations — with it affecting everyone in the organization, from the CEO down. We see the outcome of that challenge when relocating employees, too.**

## For example:

- Compensation often directly affects relocation outcomes.
- The right pay structure can ensure that the person gets to the right place at the right time with minimal distraction.
- Aspects of a new position, like variable pay potential, often play a critical role in making relocation decisions.

NuCompass encourages companies to use tools and services at their disposal to understand compensation as a strategic part of their talent management strategy.

Our CoPilot™ technology platform helps you make sound compensation decisions when relocating employees — from cost projections, cost-of-living comparisons, and budgeting to other factors, such as tax compliance and payroll reporting.

With most relocation costs now being taxed as part of compensation, it's more important to have a granular understanding of the impact of pay and benefits on relocating employees.

Resources, such as the CoPilot Relocation Planning Tool, engage all stakeholders in the relocation process and communicate how the company is investing in employee relocation as part of the overall compensation package.

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