In February 2011, Aon Hewitt surveyed employers to gain a better understanding of current trends in the field of compensation. The survey was designed to understand the current use of compensation technologies and processes in 2011 and particularly focused on how employers manage their annual compensation cycle. There were 221 employers representing 3.7 million employees that participated in the survey. Employers can use these results to see how their top compensation priorities in 2011 compare to others. The survey also highlights the future role of technology in achieving those priorities.

The total sample of survey respondents represents a diverse selection of industries, sizes and geographies. While the vast majority of companies are headquartered in North America (96%), approximately 75% report having locations outside of North America as well.

Survey Highlights

- The top compensation priority for 2011 is differentiating compensation based on performance
- 74% of respondents have a centralized approach to the annual compensation cycle
- 78% of respondents currently use an HRMS for employee information
- 57% of respondents use an online self-service tool to collect compensation cycle recommendations

Technology

The survey found that one-half of employers (50%) currently handle compensation administration on a custom built, in-house system. From the comments provided, these in-house systems are typically created in Microsoft Excel, Access or some other database application. One-third of respondents are using manual or electronic forms to collect compensation recommendations, while two-thirds enable some kind of online access. Several respondents (41%) indicate they utilize an “Internal and Vendor Model” where the technology platform is provided by a third party, and the company is responsible for all compensation administration. Fewer than 10% of respondents say they utilize a vendor to cosource or fully outsource their compensation administration. Nearly three-quarters of respondents describe their annual compensation cycle as centralized, meaning they have one consistent approach throughout the organization, and over 90% describe their compensation cycle activity as happening annually.
The survey focused on a select few areas of functionality that tend to be advantages of having an automated compensation management solution versus custom-built applications. One of these is whether companies “freeze” their employee information during the compensation cycle or whether they can remove terminated employees from the view of managers who are making compensation recommendations. Seventy-one percent of respondents said they can remove terminated employees. Surprisingly, those who utilize the “Internal and Vendor Model” are nearly 24% less likely to indicate they have this functionality compared to those who have an in-house, custom-built tool.

Another area of functionality surveyed was the ability to delegate proxy access during the compensation cycle. Two-thirds of the full number of respondents said they cannot establish proxy access (50%) or can only establish it at the beginning of the compensation cycle (16%). Of those who utilize the “Internal and Vendor Model,” only 34% indicate they could change proxy access during the compensation cycle, compared to 28% of those who have an in-house, custom-built tool.
Satisfaction

Satisfaction trends tend to be positive with only 15% of employers saying they are somewhat or very unsatisfied with their current compensation administration solution. Although those satisfaction rates tend to be consistent between those companies using vendor-provided versus in-house technology, respondents with a vendor-provided solution are twice as likely to indicate they are “Very Likely” to change their current compensation administration solution in 2011. Overall, one-third of companies said they were at least somewhat likely to change their compensation administration solution, indicating a continuing trend of employers on the lookout for new, superior solutions.

Fewer than one-half of the companies reporting that their annual cycle recommendations are collected via manual or electronic forms are looking to automate these processes. This finding may lend itself to the budget pressures that organizations are under in these tough economic times.

Priorities

The top three compensation priorities for 2011 include: differentiating compensation based on performance (39%), creating more centralized and consistent compensation practices (20%) tied with controlling compensation costs compared to budget (20%) and complying with new regulations (12%).

- **Differentiating Pay for Performance:** Over 70% of the organizations that mark this as their number one or number two priority had fewer than 10,000 employees. Differentiating pay is no longer a topic that only applies to large organizations. Each company is working towards greater success at linking pay to performance.

- **Creating More Centralized and Consistent Compensation Practices:** Since so many employers rated their annual compensation cycle as centralized with one consistent compensation approach, it was surprising to find two-thirds of this same group indicating they heavily prioritized additional centralization in 2011. This seems to indicate some missing layers of consistency, perhaps expanding the current administration tool to additional population of employees around the world.

- **Controlling Compensation Costs:** Of the respondents who indicate this is one of their top three priorities in 2011, 95% also indicate they currently use budget guidelines for their managers (either pools of dollars or percentage of pay). This indicates some room for additional controls (increased approvals, error/warning messages, etc.).

- **Complying With New Regulations:** There is no clear correlation between those companies that mark this as their number one priority and their industry affiliation. All industries have regulations that weigh heavily on compensation practices.
Differentiating Pay for Performance: 39% (Number 1 Priority), 32% (Number 2 Priority), 15% (Number 3 Priority)

Creating More Centralized and Consistent Compensation Practices: 20% (Number 1 Priority), 21% (Number 2 Priority), 30% (Number 3 Priority)

Controlling Compensation Costs: 20% (Number 1 Priority), 29% (Number 2 Priority), 23% (Number 3 Priority)

Complying With New Regulations: 12% (Number 1 Priority), 13% (Number 2 Priority), 20% (Number 3 Priority)

Others: 10% (Number 1 Priority), 4% (Number 2 Priority), 7% (Number 3 Priority)

Over 40 respondents included additional comments on their priorities in 2011. The majority of these can be described as enhancing or replacing current systems for compensation administration, focusing on increased communication and training and emphasis on structure/strategy (i.e., pay philosophy, market competitiveness and structure redesign.)
Conclusion

This was the first survey pertaining to compensation technology for Aon Hewitt, so there are no historical comparisons that can be made at this stage. When compared to our interactions among compensation clients across the U.S. and Canada, however, these survey findings appear consistent.

Compensation teams have commonly been early adopters of automated solutions (both in-house and vendor-provided) to help manage annual reward cycle activity. Those early experiences laid the foundation for today’s increasingly mature requirements for the next generation of automated compensation and talent management solutions. Increased scrutiny and economic pressures on modern compensation plans have also created additional demands for new features and functionality. What is most striking is that many pressures seem to be universal, independent of size or industry.

Those companies that have enlisted the use of a vendor-provided solution have no doubt seen some areas for improvement, and they are eager to evaluate other solutions. The lack of respondents who utilize cosourcing or outsourcing relationships indicates a continued commitment to manage the annual compensation cycle internally. While various HR domains have made great strides in the area of outsourcing, compensation remains hesitant to open up even more burdensome administrative practices.

Business imperatives to demonstrate success as a true pay-for-performance strategy is the most important priority among those surveyed. Previous Aon Hewitt surveys have shown a noticeable increase in the global use of variable pay plans. In the future, automated compensation solutions will, no doubt, move beyond integrating compensation with just performance ratings but also with company, team and individual goal achievement.
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