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The future of compensation: Our top 3 predictions and how to prepare



The future of compensation: Our top 3 predictions and how to prepare

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It is no secret that times have changed. Work is skill-based, not position driven. Workforces are hybrid and remote, not collocated. Workplaces are shaped by inclusion, not tokenism. Everything about working is about a personalised employee experience. Compensation strategies are ripe for human-centric focus, too. Skill-building, career goals, and a culture of connectedness remain top drivers of the employee experience, but according to a recent [Mercer](#) study, employees rank pay as the number one factor in satisfaction at work.

Organisations that fail to step up to employees' new reward and recognition expectations will find talent turnover to be an ongoing challenge. Let's look at underlying data.

The facts

The two plus years following the pandemic have been dubbed the Great Resignation. An unprecedented number of employees have left their jobs in the last 12-24 months. The [latest data](#) from XpertHR shows that 14.2% of individuals voluntarily left their organisations over the past year, while total labour turnover stands at 19.9%. In May 2022, [Bloomberg](#) advised that nearly 20 percent of UK workers said they plan to seek work outside of their current employer.

When asked what would keep employees in their jobs, employees pointed to an overall better employee experience. Specifically, they cited new expectations regarding leadership acting more human-centric and organisations nurturing cultures that saw workers as people first, and employees second. Employees said they want manageable workloads, flexible working arrangements, development opportunities, purposeful work, and fair pay for their contributions.

In today's "Era of the Employee," workers are testing all areas of the employee experience and that includes the compensation market. Look at the trends:

- Increasingly, employees would consider changing jobs for increased pay transparency;
- Employees want to know the average compensation for every position at their company;
- Many employees do not believe their pay is fair;
- Too few employees believe their company has a fair compensation strategy; and
- "The pay was less than I wanted" is a key reason employees cite for leaving their job.

The trends are clear and compelling. Traditional compensation strategies are out of sync with employees' new needs and demands. So, where does that leave employers who wish to compete for and retain top talent in today's jobseeker's market and employee's world?

Three predictions for the future of compensation

Leaders need to embrace the new employer-employee relationship. Here are three predictions they should take seriously when making choices about how to reshape their compensation to support a delightful employee experience and reverse today's alarming turnover data.

Predictions		
1. Compensation starts with pay but will be so much more than a salary.	2. Technology, data, and analytics will become must-haves to inform a total rewards strategy.	3. Customised reward packages will replace a one-size-fits-all approach.

Getting started

Building and sustaining [compensation practices](#) that improve retention and boost the employee experience start with leadership. Let's explore the short-list of critical calls to action.

1. Create a modern total rewards strategy

- Action items:**
- Gather cross-functional stakeholder input to ensure your strategy represents the employees' voice.
 - Train managers on compensation principles and how to have effective compensation discussions.
 - Create transparency so employees have insight into pay grades, opportunities for growth, and organisational investment in skill-building.

Employees are no longer satisfied with impersonal, stereotypically "corporate" conversations about their yearly pay rise. They want to be heard, and employers should listen. To do this, take steps to modernise your total [rewards strategy](#).

Start by gathering cross-functional stakeholder input to ensure that your strategy represents your employees' voice. You might be surprised by what you learn. Employees may have needs or goals that can be supported without traditional pay increases, or they may find certain types of pay more desirable than others.

Also, remember who is having one-on-one conversations with employees about their compensation: managers. Managers should understand the basic principles of compensation so that they can communicate with each employee about their compensation package. This is particularly important when employees are considering making a career move or promotion. Managers should also be prepared to communicate with empathy and understanding, as these conversations are not just about money. A raise, a bonus, or help with student loans may determine whether an employee can afford household expenses or to save for a home.

Beyond personalised one-on-one conversations, employees today expect increased transparency from their employers. A modern strategy will align with this need and give employees insight into pay grades, opportunities for growth, and skill-building.

2. Invest in "pay equity" technology

- Action items:**
- Conduct a pay equity analysis and resolve pay gaps among marginalised employee groups.
 - Use what-if data models to predict future compensation budget requirements.
 - Collect and share salary benchmarks so employees have visibility into pay ranges for similar positions and local job market pay rates.

For every pound men earned in 2022, women earned 94 pence, although this gap has been closing since 2019. Similar inequities likely exist across other identities, including race, ethnicity, sexual orientation, and gender identity. Employees and employers agree that pay inequity is bad for employees and bad for business. In 2023, more employers will take action for ethical, competitive, and legal reasons.

To make real strides in pay equity, invest in [pay equity technology](#). Pay equity software will enable you to analyse your current pay data and conduct initial (and continuing) equity analyses. After you have your initial data sets and company baseline, you'll be able to create what-if data models to predict future compensation budget requirements, and most importantly, resolve pay gaps among marginalised employee groups.

Though initial adjustments are great, pay equity is a long-term commitment. Be prepared to conduct regular equity audits and monitor systematic changes, such as pay range standardisation and transparency and career development programmes.

3. Customise reward offerings

- Action items:**
- Invest in talent development programmes to advance employee growth opportunities.
 - Prioritise holistic financial wellbeing for all employees including providing living wages, offering financial education, and assisting with retirement readiness.
 - Offer a variety of benefits and rewards that reflect diverse employee needs.
 - Adopt work architecture to align employee skills with meaningful work and boost their engagement and motivation.

One of the key compensation lessons from the Great Resignation is that one size certainly does not fit all. Support each individual employee by customising reward offerings that fit specific career and personal needs.

To address career needs, understand how employees want to develop in their career. While some employees have ambitions to move up, others may want to move "sideways" to new teams or into a new role. This type of growth can be supported by investing in talent development programmes and by adopting a work architecture that aligns employee skills with work that is meaningful to them. Ensuring that employees are doing the work they want will boost their engagement and motivation.

To address personal needs, prioritise holistic financial wellbeing for all employees by providing living wages, financial education, and assisting with retirement readiness. Employers can do this best by first reviewing workforce demographics and using employee surveys wisely to understand which rewards should be offered. Once employee needs are known, invest in a variety of benefit and reward offerings that reflect diverse employee needs.

4. Communicate the value to employees

- Action items:**
- Describe the value of reward beyond the basic salary.
 - Help employees select and curate reward offerings that align with personal needs.
 - Be available as needed to answer questions.

In this new era of work, successful communication strategies are customised, personal, and two-way. This means going beyond benefits and rewards emails and banners.

Instead of talking at employees, consider scheduled one-on-one conversations with managers throughout the year, small-group rewards education sessions, and yearly rewards consults near open enrollment. These conversations should help employees select and curate their own reward offerings that align with their personal needs.

To communicate value to the talent market, coach recruiters and other hiring stakeholders to promote the organisation's rewards strategy and offer transparency up front instead of waiting for employee questions. Through these communications, stakeholders should highlight valuable rewards other than the salary early in the recruitment process.

Final thoughts

Everything an organisation does today should be focused on driving a better experience for the employee. Regarding compensation strategies, it pays to remember that modern workforces are looking for a fair salary as well as non-financial perks and personalised benefits. Knowing the preferred mix can be challenging in the absence of insights derived from employees themselves and competitive analytics. Regarding the former, managers should be comfortable in asking employees outright, and regarding the latter, compensation and benefits (C&B) professionals should use technology to gather baseline pay data and comparative salary information.

In the end, 2023+ will be the "Time of Total Rewards." As inflation remains high and salary raises may not keep pace, it is a ripe time for managers, leaders, and C&B to come together and think about the total rewards package that will make a real impact for employees – those combined offerings that enable them to make a living wage, improve health, and grow professionally all while creating a fairer organisation overall.

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