Compensation & Benefits Review
2014, Vol. 46(2) 66–73

DOI: 10.1177/0886368714546809
cbr.sagepub.com

Expert Views on the Future of Salary Management

Howard Risher, Editor, *Compensation & Benefits Review*

Over the past decade or more, technology has had a dramatic impact on the way work is organized and managed and in the way the HR function is managed. The single HR activity that has not undergone any significant change is salary management. Computers to be sure play a major role in salary administration, but the structure of the typical program has not changed in years.

There was a time in the 1980s when computer-based job evaluation systems were introduced as an answer to the demands for pay equity. But the reality was that few in HR were comfortable with the multivariate statistical methods used to develop the systems. Many compensation managers had trouble explaining the new approaches. But job evaluation is an administrative practice; the structure—overlapping grades and ranges—and management principles remained unchanged.

Then the 1990/1991 recession triggered a strong push to eliminate bureaucratic practices and reduce costs. The focus of salary management shifted from internal job comparisons to market pay levels. Over the next decade, large numbers of employers eliminated formal job evaluation practices.

A related development was the introduction of broad banding, which dramatically simplified program management. GE is often credited with the idea, but years earlier a federal research lab introduced a new salary system that resembled the framework for managing faculty salaries (e.g., professor, assistant professor, etc.). In hindsight, the early banded systems effectively eliminated much of the control over salary costs. The bands were often 100% or more from bottom to the top, and without the controls salaries floated over time to the top. Many employers have since reverted to the traditional grade and range program model.

Of course, the more recent development that has affected salary systems is the recession that began in December 2007 and officially ended in June 2009. At the start, unemployment in the United States was 5.0%, but it climbed rapidly and peaked in October 2009 when the rate reached 10%. Many economic indicators have still not returned to prerecession levels.

One of those measures is the growth of wages and salaries. Prior to the recession, budgets were in the 3.5%-plus range but today annual increase budgets are running at or below 3%. In the heart of the recession, the average increase in the wages and salaries of private industry employees fell to the lowest level—1.3%—in December 2009. Large numbers of government salaries were frozen for several years.

During this period, HR staffs were also reduced. The U.S. Bureau of Labor Statistics (BLS) reports that from May 2007 to May 2013 (the 2014 data are not available as this is written), the number of compensation and benefits "managers" fell from 41,780 to 17,570—a 58% decline—and the number of analysts fell from 109,870 to 81, 520: a 26% reduction. The staff reductions have obvious implications for the management of pay and benefit programs.

All of that makes this a good time to consider the future of salary management. The demographics of workforces around the world are changing. Labor shortages are beginning to appear and that increases the pressure to increase salary levels. For most employers payroll is the largest single budget item so managing salaries is always important. At some point in the next several years, employers will be forced to refocus on how salaries are managed.

Toward that end, the members of this journal's Advisory Board were invited to draft statements on what they anticipate will unfold over the next 3 to 5 years. The statements submitted follow in alpha order.

Raising the Bar on Compensation Management

Ann Bares, *Compensation Blogger and Managing Director, Altura Consulting Group*

Success in the field of employee compensation over the coming years will require a change in mind-set for us as practitioners. Many of our tools and approaches came of age in a different era with different circumstances and demands. Our job cannot be to simply tweak and redeploy the methods of the past.

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We are not hired to design and manage compensation plans. We are hired to influence our organizations' talent base—its constitution, its choices and behaviors, its alignment with business conditions and priorities—in a manner that drives the organization's success. However, that success is measured. Increasingly, that will demand going back to the very fundamentals and rethinking our whole approach to how we pay people.

Let's take base pay, for example. The employment relationship, at its core, is essentially an economic exchange—and base pay is the foundation of that exchange. (Please put aside the confusing sidebar conversation that's been going on in recent years, suggesting that health benefits are the foundation of that exchange, and give me the benefit of the doubt here.) Base pay is the price of purchasing the talent you need, typically paid out in 2-week installments. It is, practically speaking, a fixed investment for as long as you "own" the talent. It is not agile. It cannot pivot in response to changes in business strategy or competitive conditions. And the recent and historically low levels of salary growth leave us little wiggle room to use base pay to drive efforts and results.

But base pay must reflect the market price of the skills and capabilities you need. For this reason, base salary management in the coming years must be about creating structures and practices that ensure we are making the investments necessary to "purchase" what we need today, while minimizing the legacy costs for tomorrow. No more one-size-fits all benchmarking and salary management practices.

Doing this well will require understanding and keeping our fingers on the pulse of our organizations ever-changing talent needs, and then crafting the combination of base pay practices that will maximize our talent purchase investment. Perhaps this will involve moving to a platform where similarly situated employees are paid the same market-based salary. Perhaps it will involve embracing some type of hot-skill premium pay approach. Whatever it is, the approach will need to reflect each organization's particular current and anticipated talent demands—as deeply as we can possibly understand them.

Base pay may not have the sex appeal of variable pay design, but managing this investment well will continue to be one of the most important ways we contribute to our organizations' success.

And then there's variable pay—incentives. In this age of speed and disruption, having an element of employee compensation that is not fixed, that is flexible and can respond to changes in business strategy and competitive conditions, is critical. We know this. With over 80% of employers using variable pay outside salesforce incentives, the construct of using short-term, lump sum cash awards for different purposes appears to be widely accepted.

Unfortunately, evidence abounds that many of us stink at doing variable pay. We create plans carelessly and thoughtlessly. We design them under pressure and without considering the context and root causes of performance challenges we are trying to address. Then we feign surprise when they backfire and produce unintended consequences.

Variable pay is too important and plays too important a role in the employee compensation package going forward for us to continue failing in this manner. Doing incentive compensation well requires more than being familiar with incentive plan design. It demands that we become experts on our businesses, students of human behavior in complex organizational systems and—finally—scientists who embrace experimentation and data gathering in an effort to glean lessons and put them back to work in the next design round.

Success in the field of employee compensation over the coming years will require us to become problem solvers and business solution designers.

The Future of Reward Management: From Total Reward Strategies to Smart Rewards

Duncan Brown, *Principal, Aon Hewitt (London Based)*

Dah . . . dah . . . DAAAH (bing bong bing bong bing bong). Who can forget that awe-inspiring theme tune for Kubrik's classic film of the future 2001: *A Space Odyssey*. Great music, great movie, lousy predictions. The dawn of the glorious era of widespread space exploration he previews ended soon afterward, and major trends shaping our world ever since such as miniaturization and genetics he missed completely.

Thirty years working in the rewards field makes me very wary of predicting future events and fully cognizant of how bad we are at learning from history. Twenty years ago we were all writing the obituaries of centralized, control-oriented job evaluation systems and pay structures and expensive benefits, with the future in "clean cash" and full rewards flexibility. Yet all of these features of the rewards landscape are alive and thrive across most of Europe today.

And in mid-2008 we are all writing about total rewards packages and Best Places to Work, and none of us foresaw the 5 years of real pay cuts that the majority of employees in the United Kingdom and much of Europe have suffered from, and the major growth to over 5 million employees in the United Kingdom who don't earn a Living Wage.

Perhaps most paradoxically of all, while my teaching has ever since Ed Lawler's Strategic Pay become increasingly focused on the concept of total reward strategy, and mixing it in the boardroom, integrating all aspects of rewards in alignment with business goals and reinforcing their delivery, reward professionals in practice appear to have been becoming increasingly isolated and divorced in their organizations. They are referred to in a recent Institute for Employment Studies study of the HR function as “bogged down HR” “stuck in administrative and cost reduction–focused, routine processes, seen as inefficient and powerless,” out of touch with employees and ignored by managers.

And this “rhetoric/reality” gap according to Professor Steven Bevan is widest in the rewards field. Fewer than half of U.K. employers actually have a defined total rewards strategy, policies are often based on copying rather than differentiating yourself from competitors and 9 out of 10 firms feel their rewards are not well implemented and operated in practice. Only one third operate a flexible benefits plan, and even the majority of these feel that the different aspects of rewards are not well implemented and communicated, with only 15% using total rewards statements, for example.

Employee engagement levels have plunged since 2008; mention “total rewards” in any employee focus group and the response is, “What: rewards?!” Ask about performance management and the response is “I can’t work any harder!” Indeed organizations such as Microsoft and Flickr are abandoning that cornerstone of HR best practice, the all-singing, all-dancing performance management process.

Although President Obama and the politicians are more vocal than ever on the issues of low pay, executive compensation and poor public sector reward management, their audiences are dominated by economists and policy and think tank wonks, with few if any HR and reward professionals present.

From Total Rewards to Smart Rewards

So what does the future hold for rewards, or perhaps more accurately, what would I like to see happen? We seem to have reached a critical “fork in the road,”, with continuing retreat into a modern version of our historic pay administration backwater quite possible—but in our now heavily knowledge and service, human capital–driven economies, still the potential for major strategic impact. Which way will it turn out?

In her new autobiography *Hard Choices*, Hilary Clinton talks about the need in our increasingly complex, fast-changing and unpredictable world to abandon the Manichean, inflexible and ideology-driven policies of her predecessors. We need to adopt what she calls “smart power”: an approach rooted in clear and concise core values, and strong personal relationships, but multifaceted, data rich and evidence based, combining skills, knowledge and information from “economic, military, political, legal and cultural” spheres to craft flexible and adaptable, realistic and effective foreign policy.

And so in rewards management, we need to move from this generic, long-winded and inflexible total rewards strategic rhetoric, with plain vanilla, “chocolate box” flexible benefits plans, to smart rewards, an approach I would characterize as follows.

1. A simpler, clearer, more flexible focus on a few core values and reward principles, with a “pathway” evident from business goals, through people needs and strategy to reward policies and practices
   - Alessandro di Fiore’s claim that “all great strategies can be summarized in a 15 word headline” may be an extreme one. But Jeff Bezos’s famous employment strategy at Amazon that people were there to “have fun, work hard and make history” is surely the aspirational benchmark in terms of brevity, clarity and employee engagement that we should all be aiming for with our rewards. And rooting the approach in values is critical, to put both corporate values and reward management strategies into practice. One employer I have been working with has done a great job in integrating their employee recognition programs and focus them on their five core values, so that outstanding customer service for example really is recognized and rewarded.
   - With a clear foundation in values and principles, employers can be more flexible and responsive in how they deliver those principles into practice. An educational institution I worked with adopted a principle of rewarding contribution but found that many staff distrusted their underdeveloped performance management process. Rather than push on regardless with a merit pay proposal, they therefore focused instead on improving the quality of the performance dialogue and designed an all-staff bonus to reinforce the delivery of the institution’s key strategic goals.
2. Less leap of faith and more evidence-based with clear measures of success and effectiveness
   - A company I was working with had a reward principle of pay for performance. Yet fewer than half of their employees had any

opportunity to increase their pay based on their personal or collective performance. A leading U.K. bank on the other hand has specified the measures of delivering on that principle, which their board regularly is updated on: the level of differentiation in rewards for top, effective and below-par employees; the proportion of pay linked to customer service ratings and employee perceptions of these linkages. We also need to be much effective using financial data, showing the costs and benefits of reward changes, the major risks and how they are being managed.

3. A stronger emphasis on engaging employees and meeting their needs with rewards, not just being "top-down" business and costs driven
   - While engagement data and what employees think of their rewards should be a key performance metric for any employer, we also need to be working harder to invest so as to improve those perceptions and thereby corporate performance. The research record on skills and competency-based pay progression is a good one, for example, with the business returns exceeding the progression costs. However, for many reward professionals, pay freezes or minimal increases is seen to be their career-enhancing strategy, despite the often catastrophic effects on employee engagement. The best employers are also mining their engagement data to identify the various generational and motivational groupings in their workforce. This is helping ensure that employees can easily select a package from the wide choice available which best meets their personal needs and stage in their lives, ensuring maximum take-up combined with efficient flex plan operation and running costs.
4. Less focus on desire and design with more emphasis on communications and delivery
   - Our pay and rewards methods have been getting more and more complex over the past two decades, yet there are fewer HR and middle managers in our leaner organizations to ensure they are implemented and operated effectively. And despite the explosion in cheaper and more effective communications technology, in many organizations pay has become more opaque and pay processes less well understood and trusted, with more consulting with external advisers in developing reward changes than actually speaking to their employees. The smart organizations are fully engaging their line managers with their rewards and any changes to them.
   - In one drinks company, for example, any revisions to pay and benefits practices are presented to a representative management panel before they even get off the drawing board, to ensure the proposed benefits will exceed the costs and to receive advice on the best means of implementation.
   - The smart reward functions recognize transparency is inescapable in our modern society. They map out their reward plans as a change management exercise and have detailed communications strategies, defining the media and core messages for each stakeholder audience and phasing implementation appropriately. They are even embracing the HR-feared social media to get their message across.

The HR director of a pharmaceutical company told me that "the reward strategies I like are the ones that work." Adopting a smart rewards approach is more likely to differentiate your organization and enable you to put into practice your policy objectives of genuinely business-enhancing and employee-engaging rewards, and is the real route to influence and effectiveness for reward professionals.

The Future of Rewards Management

Robert J. Greene, *PhD, CCP, CBP, CEO, Reward Systems, Inc.*

Predicting what the future of rewards management will be is difficult. Futurists may have the confidence to take a stab, but I prefer to offer an opinion about what the future should hold.

The history of rewards management includes a very long list of short-lived fads. The literature contains a blizzard of articles heralding success by organizations using a "new" approach. Hundred percent of the results are positive, thereby leading practitioners to quickly adopt this panacea. But there are two underlying flaws in doing this:

1. The literature is biased. No one rushes to document failures and broadcast them to the world. And academic journal editors have no interest in publishing accounts of research studies that did not produce the expected result.
2. People do not study history. Most of the "new" approaches are retreaded approaches of strategies and methods that were used in the past.

The problems created by the rush to emulate could have been avoided by basing decisions on evidence that is relevant and valid, not just easily accessible in pop literature. If practitioners understood scientific principles underlying the validity of evidence they would improve their batting averages. There are two types of validity: (a) internal validity (the research is well designed) and (b) external validity (the results are generalizable across contexts). Recent claims that external rewards reduce intrinsic satisfaction are an example. The evidence for this is based on lab results (i.e., people will throw tennis balls at targets longer if you don't pay them) that are internally valid but that do not transfer well into the field. Organizations often pay people to do things they would not do for recreation, which means the field context bears little resemblance to the lab context. In fact, further examination of the body of field research shows that in fact external rewards, if fair and tied to performance, increase intrinsic satisfaction. The lesson in this is not only that practitioners need to base their decisions and recommendations on evidence but also that they use evidence that is valid in the context within which rewards are administered.

The second change in future rewards management should be the avoidance of assuming the cause of undesirable results is related to rewards. Employee attitudes surveys generally tell organizations that their employees are somewhat dissatisfied with their pay. But what is critical is to determine why. Few organizations follow up on surveys showing pay dissatisfaction by asking, "Are you paid too little for what you are doing or too little for what you can do?" If it is the latter the problem is an underutilization/career management problem, not a pay problem. Throwing more money at employees will not fix the problem . . . it will just raise costs.

How effectively and appropriately an organization defines, measures and rewards performance is one of the most critical determinants of workforce effectiveness. Rewards strategists can have a major impact on organizational effectiveness—if they do their job well.

A Radical Remix of Employee Rewards

Gerald E. Ledford Jr., *Center for Effective Organizations*

Here, I will take license with Howard Risher's phrase, "the future of salary management," and focus not on salary management per se but on what I think is the most important issue in employee rewards today. That is the need for a radical remix of base pay, incentives and benefits for the vast majority of employees in contemporary corporations.

A few statistics tell the story and suggest why change is needed. First, benefits made up 30% of total rewards for employees in 2013, according to the BLS. Said another way, the value of benefits is 43% of the value of salaries. On the other hand, incentives for performance make up about 1% of total rewards for employees, according to my best estimate. That means that we are spending 30 times as much on employee benefits as on rewards for employee performance. This makes a mockery of the common statement that companies pay for employee performance.

My estimate of the percentage of rewards that take the form of employee incentives involves some guesswork. The BLS data, which are extremely valuable for many purposes, do not break out employee incentives separately. It is difficult to obtain good data about company practices from compensation surveys. In part this is because incentive pay can take a very wide range of forms and employees eligible for one type may be eligible for multiple incentives. For example, companies can reward individual performance (individual bonuses, spot awards), group or unit performance (gainsharing, project group or work team incentives) or corporate performance (profit sharing, stock options or grants). My estimate pieces together all the survey data I have seen about percentage of companies using different practices, the percentage using any practice, the percentage of nonexempt employees covered by those incentives in companies that use them at all and the percentage of incentive opportunity when there is any opportunity. Let us suppose that I am wrong by a factor of 100% and that 2% of employee pay takes the form of incentives rather than 1%. With benefits at 30% of the total, that difference does not matter for the conclusions here.

Clearly, corporate executives believe in pay for performance for themselves. Incentives are the largest portion of executive pay. However, the percentage dwindles at each step in the hierarchy. Obviously, some companies are heavy users of incentives. They are more common in the manufacturing sector and in certain industries than others (e.g., high technology, autos, paper, steel). Despite the variation, the picture on average is stark.

How did we get to this point? Perhaps performance incentives just don't work. Isn't that what the two best-selling authors ever in the compensation field, Alfie Kohn and Dan Pink, told us? In fact, both authors presented an utterly one-sided view of the literature that takes the opposite view of every major review of the hundreds of research studies of incentives that has been done in the past 40 years. It is an embarrassment to our field that so many rewards professionals continue to quote a high school teacher and Al Gore's speechwriter as though they are were summarizing what the research has shown.

Is it a matter of employee preference, and that employers are doing what they need to do to attract and retain talent that is in short supply? That is hardly the case. The evidence suggests that employees want pay for performance and, in contrast, do not value benefits at anywhere near their cost. If the unemployment rate ever drops to the point where the war for talent really does return as a conflict, the battleground will be over younger workers. Yet young employees in particular place little value on the two most expensive benefits, health care and retirement. Yet employers keep throwing more logs on the benefits bonfire, racing to offer the best pet insurance and chair massages, while failing to offer a form of compensation that actually leads to attraction, retention and higher performance. Why fight employee preference for incentives over benefits—especially the preference of high-performing employees?

Perhaps the problem is that incentives are too hard to design and implement well. Clearly, this is an issue. Incentive design and implementation issues are very complex, and it is easy to make serious mistakes. Yet that is exactly why companies should be using incentives more. There is no competitive advantage in doing the easy stuff. Any company can copy any new hot benefit program almost immediately. Incentives, however, take time and effort to design and implement well—by their nature, they must be highly tailored to the specific business needs of the company. That is exactly the secret to why they offer competitive advantage. The companies that fail at incentives are the ones that mindlessly copy "best practices." Doing hard things well is what brings competitive advantage.

Here is my modest proposal. I suggest that companies take a meat-axe to their benefit programs and use the funds to increase the amount going to performance incentives throughout the organization. I argue that every employee in the company should have the opportunity to earn at least 10% of base pay in the form of incentives, and that benefits should be reduced to pay for that. (I would actually go further and cut benefits more in order to pay for employee skills and knowledge, but that is for another article.)

Imagine two companies, one with a conventional pay mix and one with 20% of rewards going to benefits and at least 10% to employees throughout the organization. Which would perform better? Which would have higher employee engagement, and would attract and retain employees more successfully? Which would offer shareholders a better long-term return? There is little doubt in my mind that the company with rich incentives would be the winner on all counts.

The Role of Line Managers in the Future of Reward Programs

Tom McMullen, *Hay Group*

It is line managers who translate strategic decisions made at the top of the organization into processes that guide employees at every level toward strategy-aligned actions. Human capital and reward programs are key components of that. But managers in many organizations are poorly equipped to succeed in reward program implementation, and there is evidence that many HR functions are providing inadequate support. The evidence also suggests that if managers had the skills to manage rewards effectively, it would contribute to improved performance. Clearly, HR must develop better ways to enhance managers' effectiveness in reward execution in the future—and to define their own role in helping make rewards programs more successful.

Over a number of years in the past, many HR and reward departments have lost headcount and/or budget, with the ratio of their people to total employees steadily decreasing. At the same time, HR's work is not decreasing. In most organizations, there is a need for HR to be a stronger strategic business partner than ever before. The everyday work requests are also not decreasing. HR is often slowed down by the important everyday requests and queries for information and decision making from line managers. From a recent Hay Group study, two thirds of HR directors estimate that their team spends 21% to 50% of its time dealing with such matters. Nearly half of organizations (43%) agree or strongly agree that this is too long and is preventing them from taking on more strategically important initiatives.

Although involving line managers in communicating reward programs has long been a priority of reward professionals, Hay Group research indicates that these efforts have been relatively unsuccessful. Only 11% of respondents agree that managers effectively implement and communicate total rewards to employees, and only 15% agree that managers effectively manage the overall pay-for-performance relationship with employees. Reward leaders acknowledge this is a significant outage in their organizations, and well over half the respondents (61% and 57%) intend to give this much more focus in the next 2 to 3 years.

Involvement of Line Managers in Reward Programs

Our research found that line managers take a somewhat different view. Almost half of them (United Kingdom 48%, United States 41% and China 39%) feel that their internal HR teams are slow to respond, and 39% (United Kingdom 41%, United States 29% and China 47%) believe that Google is a better source of information than HR. Many line managers (United Kingdom 58%, United States 42% and China 45%) think that the procedures for hiring, promoting and resource planning are convoluted and inefficient. A healthy minority of organizations (United Kingdom 40%, United States 23% and China 26%) feel that HR actively obstructs them from making these decisions themselves.

The way forward is "activating the line," by which we mean strengthening relations between HR and managers so that the managers have more freedom to act within the framework of company HR policy. There is a need for a new approach to HR line manager relationship as it relates to reward program management and this goes beyond compensation to total rewards management. Given the means and the active support of HR, properly empowered line managers can indeed breathe new life into reward strategy and implementation.

HR and line managers agree: The power to act decisively on people management issues must be extended from the central HR function down the line to managers. However, for it to work effectively, HR needs to relinquish a degree of control and entrust line managers with tools, information and governance processes to manage their people better, while retaining its role as the steward over the organization's human capital asset.

HR leaders have an opportunity to engage in more active partnerships with their line managers. They can help them become more successful by supporting their individual development, ensuring they fully understand the strategic intent of HR programs and not just the technical details. They can ensure managers' involvement in the design and refinement of rewards programs and in sharing best practice in reward program implementation across the organization. Managers, for their part, must accept a new level of accountability for everyday staff operations, within a policy framework defined by HR and, ultimately, corporate strategy as a whole.

Closer relations with HR will give line managers the power to act more autonomously and help them perform better. When managers perform better, so do their teams. And when that happens, both HR and the organization will benefit. This is the essence of "activating the line," and it applies with equal force to the implementation and effectiveness of reward programs.

Organizations attempt this with varying degrees of success. While all organizations have a rewards program, lack of understanding, lack of clarity in roles and lack of reinforcement mean that only a minority of employees actually understand how the rewards programs work. And a reward program can of course serve as a motivator only if it is understood and accepted—when employees know what is expected of them and how they will be rewarded.

Resolving this problem begins with HR identifying and segmenting the communication message for different employee groups. Managers must receive intelligence about rewards before their employees, and they need to have ready access to the right information and the right tools to answer the inevitably tough questions. This is a particular challenge. As Hay Group research shows, line managers find HR slow in responding to requests for information. HR managers need to find a new way to communicate that reflects the way that line mangers already consume information. Development in technology—and specifically in mobile technology—means that there is an opportunity like never before to put in the hands of line managers what they need, when they need it to "activate" themselves and their employees. If HR—as the "owner" of the policies—are willing to facilitate this process, it will not only free them up for more strategic activities but also enable the line to do what it is willing, and indeed wants, to do.

Future Compensation: Principle-Based Analytics and Perceived Value

James Sillery, *Principal, Buck Consultants*

To understand the future of salary management, we have to understand the global context in which businesses operate. Today's global knowledge-based economy is dependent on people and their knowledge, skills and commitment. We have identified two primary factors that are driving change:

- The postrecession economy is redefining how work is done. Globalization is redefining where work is done. Demographics suggest talent shortages exist across industries and regions of the world, redefining who will be doing the work.
- After a long delayed exit of baby boomers, we are seeing a changing of the guard as Millennials start their careers make their impact felt.

There is a clear shift in the way companies develop their business strategies. For decades, companies have used an approach of looking backward to plan forward. Today, organizations are finding that the past is not always a good predictor of what will be needed in the future. In the future, companies will use tools similar to Monte Carlo simulations. This will involve playing out multiple scenarios to identify a path to the desired state, and then modeling that state back to the present to identify the resources needed along the way.

This has significant implications for compensation professionals going forward. In compensation planning to date, historical data have been collected from third-party sources—compensation surveys, best practices reports and financial statements. These data are studied and analyzed to create a baseline for moving forward.

Many companies now find that data that were collected as recently as 1 year ago can be disconnected from the present. Aging data do not increase their relevance. To respond to this, data warehouses will replace conventional salary surveys, refreshing data in real time. To apply the data, users will need an understanding of economics, currency exchange, predictive analytics and market supply and demand.

To develop compensation strategies, companies will need to use a forward-looking approach. Our current tools will not serve this purpose well; there is a lack of forecasting tools needed to fill this gap.

A good example is determining and managing job worth. Today, most pay systems assume that a "job is a job" across the global workforce and so can be managed in a global grade structure. This approach is tied to static job definitions and hierarchies that will no longer fit the dynamics of future global markets. In the future, the role and impact of a job will be fluid, differing based on local market conditions employee skills, competencies and career objectives. Roles will also depend on the purpose of a given job in the business portfolio. The needs for critical skills and differentiating competencies can change from year to year, creating a more fluid situation, resulting in premiums that must be reflected at the right time in that system.

Future structures will need to be based on how a company answers the following questions:

- Does our "line of best fit" really fit our market situations? In the dynamic markets of the future, midpoints will become irrelevant. Competitive pay will be defined by a box that defines market parameters, not a point.
- Do grades and ranges really contribute to good salary management? The static structures used today will be replaced by more dynamic salary management tools (see Discussion below).
- Can job evaluation accurately reflect our dynamic global values? Compensable factors will need to be both local and fluid but still based on clearly defined principles aligned with values and culture. Future models will need to incorporate elements of Artificial Intelligence that can anticipate and respond to changes in compensable factors.

To be successful in global markets, companies will need to fully engage their workforce. Research shows that large numbers of employees, battered by the recession, are either "not engaged" or "disengaged." Retention is jeopardized by "latent turnover." At the same time, the drivers of workforce engagement and their role in pay strategies have been affected by the values of Millennials, taking their place in the workforce. This is occurring not just in the United States but also globally.

In the future, companies will find that pay is not enough. Best practices show that top drivers of an employee's commitment are related to perceptions of their careers, which Millennials define as their current and future opportunity for pay, growth and job enrichment. Employees continuously make trade-offs between these factors. This colors their perceptions of current situations. The value of pay will be based less on its dollar value and more on how it fits the employee's perception of his/her "career." Capturing and translating how employees define "careers" into an integrated set of rewards will be critical to engagement and ongoing commitment.

To be relevant in the future, therefore, companies will need to change their definition of pay from absolute value to perceived value. The value of pay systems will be defined at the intersection of individual, organizational and global economic needs. Companies must manage and deliver value as experienced by the employee through a combination of pay, feedback and career opportunity. In response, employees will reciprocate by providing value to the company through desired behaviors and results.

In the future, the tools used by compensation professionals to manage pay will shift from the static models used today (ranges, job descriptions, job families) to fluid, predictive models based on market dynamics and career decisions. In many ways, the rudimentary tools used by compensation professionals today will be replaced by ones that bear a greater resemblance to those used by financial and economic analysts.

In summary, the world is changing, but our tools for compensation planning are not keeping pace. In the future, compensation professionals must trade in their "conventional wisdom" for new ways of thinking and analyzing. The new world will be more fluid, yet principle based, and less reliant on rules. As data become a commodity, insight will become critical.

Declaration of Conflicting Interests

The author declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

Funding

The author received no financial support for the research, authorship, and/or publication of this article.