Five Experts Respond to Five Questions about Five Trends in Compensation and Benefits over the Next 5 Years

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Abstract
In January of 2020, five compensation and benefits experts were asked to weigh in on five questions. The questions were intended to unveil trends in the field of compensation and benefits management over the next 5 years. The expert responses are provided in the article. Additionally, the experts were each given an opportunity to address a topic not covered in the five questions that they believed will grow in importance to compensation and benefits management over the next 5 years. These responses are also provided in the article. The article ends with a brief summary of expected trends in compensation and benefits management over the next 5 years.

Keywords
compensation management, benefits management, employee performance, wage, wealth gap pay transparency

Early this year, I reached out to five compensation experts and asked them to comment on the trends and changes they see coming over the next 5 years regarding five important compensation and benefits questions. The process I used for doing so is as follows. First, I tapped into the Compensation & Benefits Review (CBR) editorial and advisory boards. From this group emerged Duncan Brown, Michael Gibbs, and Michael Sturman. As I wanted to get thoughts from outside the CBR team as well, I asked my editorial and advisory boards for names of possible outside contributors. From here, Charles Cotton and Brad Hill emerged to round out the five experts.

Our five respondents represent an impressive cross section of compensation and benefits professionals. In alphabetical order by last name, our five experts are as follows:

1. Duncan Brown, Independent Advisor and Visiting Professor at the University of Greenwich in London, England
2. Charles Cotton, Senior Performance and Reward Advisor for the Chartered Institute of Personnel and Development
To determine the five questions, I worked with Frank Giancola (retired Ford Motor Company executive and author of multiple CBR articles) to develop six questions. The five experts rank ordered the six questions from most to least important. A number from one to six was assigned to each ranking, six being the highest, and the rankings from each expert were added together to rank each question. The question receiving the lowest combined ranking was discarded, leaving the following five questions:

1. How will methods for evaluating and rewarding employee performance change over the next 5 years?
2. How will/should compensation experts address the wage and wealth gap across gender, race, etc.?
3. Will the trend in using more contingent workers (e.g., temps, contractors, and consultants) continue to expand? What obstacles or longer term consequences should be considered in the use of contingent workers?
4. How will technological advancements, such as artificial intelligence, virtual reality, augmented reality, big data, and predictive behavior modeling, affect compensation and benefits practices, and how should compensation professionals prepare for it?
5. With salary and pay information so readily available on the internet, what changes will we be seeing in pay secrecy/transparency?

In addition, I asked each expert to add one more topic that they think is important but was missed by the previous five questions and to provide their thoughts on where they think it is trending over the next 5 years.

The remainder of the article consists of the five questions and the experts’ input. The questions are in no particular order; the authors’ input is ordered alphabetically by last name. Following the five questions will be each author’s take on their added topic organized by author last name. The article will end with my own brief comments on common themes.

**Question 1:** How will methods for evaluating and rewarding employee performance change over the next 5 years?

**Duncan Brown.** The most common change underway in UK performance management (PM) systems at the moment is simplification. And my god, it needs it! Our Institute for Employment Studies (IES) research on PM brought to mind most the image of an overfull suitcase, at severe risk of bursting and emptying all the contents out onto the baggage hall conveyor belt.

We document how as the concept has shifted from traditional one-on-one “appraisal” to the much more comprehensive “PM” process, more and more ambitions, components, and expectations were loaded onto it. So it became part business planning and objective setting, part coaching, part career and competency development, part training, part pay, part communications and 360°, part everything process.

Underpinned by its incorporation into often inflexible and most user-unfriendly human resources (HR) information systems, it is perhaps no wonder that PM has been assessed as generally failing. “Rarely in the history of management can a system have promised so much and delivered so little” was the withering assessment of one UK academic we cite.

Thus, many UK employers are currently following Deloitte’s example, with the now common removal of performance ratings and general electric’s former “rank and yank” approach and moving to “two blank sheets” as one HR director explained their ambition to me.
But the trouble is, in radical simplification, we appear to risk going from one undesirable extreme to the other. There is evidence emerging now of: unclear purpose and common complaints by both managers and staff of a “pointless exercise,” the “annual ritual” being replaced by an equally worthless and more time-consuming process of monthly “check-ins,” a reemergence of pretty awful or at best inconsistent line management practice, and the scope for at least unconscious discrimination and bias significantly increased.

So we can hope, if not expect, that over the next 5 years, we will see a better balance emerging, in a streamlined but powerful, contribution-focused process which hopefully becomes both “top–down” planned and “bottom-up” emergent, equally employee and employer driven, both personal development and performance improvement focused, with the emphasis rightly on “the conversation,” but with practical and relevant associated “inputs” and “outputs,” and HR and technology supported and speeded, rather than dictated and depersonalized.

And perhaps with a new identity and name: performance discussion anybody?

Charles Cotton. PM (including performance development and reward) in many workplaces has been upended by the impact of coronavirus, especially those based on annual reviews. Because of this, I expect more employers will move to a situation to where employees and their line managers have more frequent catch ups throughout the year (as opposed to once or twice) to discuss successes, achievements, and opportunities for improvement.

To be able to assess, develop, and reward employee contribution, more employers will invest in HR systems that allow them to capture and analyze faster the people information required. We will also see an increase in an investment in the skills of line managers so that they can coach and mentor performance and encourage their people to be open about all aspects of performance.

I expect that the use of employee behaviors in evaluating performance will become more widespread, that line managers will use a greater variety of feedback (such as 360° appraisal), and that there is a greater focus on collective performance. Employers will also look to reward and recognize achievement in a variety of complimentary ways, rather than just through a cash payment.

When defining, measuring, communicating, developing, assessing, and ascribing performance, I predict more organizations will consult with their stakeholders, such as their employees, investors, regulators, etc., to ensure that the right things are being rewarded in the right way and at the right time. For instance, we could ask colleagues how they wished to be rewarded, people would be offered a number of options (such as a pay raise, a cash bonus, or an equity grant), with each of these options having a different weighting, such as a 2% pay rise or a 4% cash bonus, etc. Again, our ability to do this will depend on the flexibility of the reward technology.

Michael Gibbs. I will focus my answer on one issue: evaluation of employees who work off-site or from home.

As I write this, much of the world is engaged in social isolation to slow the spread of the COVID-19 virus. Where possible, people are working from home and mastering teleconferencing. This accelerates the trend towards remote work that was already occurring because of advances in IT/telecom, globalization, and greater emphasis on work–life balance. Evaluation methods need to evolve for employees whom managers see less and less, if at all.

For evaluation of remote workers, it is tempting to argue that managers should emphasize results more than methods. The employee is not down the hall, so it is hard to observe mode of work, allocation of time, client engagement, etc. Moreover, remote work tends to drive greater decentralization because of independence and flexibility for the employee, which usually suggests evaluation on results.

I have several concerns with that argument. First, evaluation on results may bias even more than usual towards focusing on what is most easily measured. This classic evaluation problem is usually mitigated by at least
informal subjective evaluation, but that requires ongoing interaction and monitoring. Second, the most important purpose of evaluation is arguably coaching and development. It is even more important when the employee has less contact with colleagues, thereby having weaker contact with role models and cultural norms. That requires frequent communication and thoughtful feedback. Third, a significant risk is that remote employees lose engagement with their manager, colleagues, and organization.

All three of these—subjective evaluation, coaching, and keeping the employee engaged with the organization—are harder when the person works remotely. In fact, it is easy to slip away from these important supervisory duties: out of sight, out of mind.

For these reasons, I suggest that managers consider giving more, not less, emphasis to evaluation on methods for remote employees. Set up regular times to meet via teleconference. Use those sessions to talk about results the employee generates but also how they are produced. Give feedback and coaching to improve those methods. Fold these conversations into semiannual performance reviews. These are good general practices, but managers should become even more proactive about them with remote workers. Out of sight, top of mind.

Brad Hill. Performance reviews will focus more on fostering employee development and less on rating the employee. Organizations will take greater care in developing competencies/behaviors that predict success within their unique work environment. The 360° performance review will become more widespread. The trend toward not having performance reviews will evaporate.

As more organizations adopt incentive/variable pay plans, there will be a move to formally distinguish the performance that leads to an incentive payout versus the performance that is rewarded with a base pay increase. Incentive pay will be used to reward the employee’s contributions over the past 365 days. Base pay increases will be used to reward the employee’s growth in skills, knowledge, competencies, and responsibilities over the past 365 days. Incentive pay will be viewed as a “look back” award for past performance. Base pay increases will be viewed as a “look ahead” reward for expected growth in future contributions as a result of the learning and development that took place over the year.

Michael Sturman. Over the next 5 years, I expect that we are going to see an increased use of diverse methods and means of compensating employees. In terms of evaluation, I think we are going to see employees rewarded by more complex and multilevel performance evaluation systems. Employees will still be rewarded based on supervisor evaluations, but pay systems will also be increasingly based on team, unit, and organizational performance metrics. Evaluations will also include both short-term and longer term perspectives. Performance measures will be both operational and market based, and even market-based rewards will include a combination of stock grants, options, and restricted stock grants. I think you are going to see employees experience both more risk sharing and reward sharing because of the implementation of compensation systems that tie into the myriad of efforts and outcomes associated, both directly and indirectly, with employee performance.

I think you are also going to see these complex reward systems permeate through many levels of organizations. Not only are the systems for high-level employees going to change but you are going to see even entry-level and customer-service employees covered by these complex systems. High-tech and high-skilled employees will also get increasingly complex pay packages, with a particular emphasis on the long-term components designed to facilitate greater retention.

While I expect to see companies’ pay systems getting more complex and covering more types and layers of employees, at the same time, I believe we will see that these pay systems are going to focus on core employees: full-time workers who are directly employed by the organization and employed in positions that focus on the company’s strategic mission. Temporary workers, contract workers, and contingent workers won’t benefit from these
new complex systems. So, while complex compensation systems become pervasive across more companies, they will also further differentiate between types of employees within companies.

**Question 2:** How will/should compensation experts address the wage and wealth gap across gender, race, etc.?

**Duncan Brown.** There are two main strategies we are seeing employers adopting in response to the growing evidence for, and social and political criticisms of, pay and wealth gaps. I characterize these as the reactive, short-term, and narrow approach, acting only in response to legislative requirements to publish information and provide minimum labor standards versus the more proactive and broader, longer term perspective, which seems ultimately to be the only sustainable approach that is likely to succeed.

Somewhat ironically, some academics argue that the predominance of the strongly asserted need for “vertical” business strategy and shareholder alignment has encouraged a narrow-minded and short-sighted even amoral approach to HR and reward strategies, ignoring these wider social issues. Professor Tony Dundon, the editor of *HRM Journal,* argues that “reward strategies in many organizations legitimize the size of gaps in pay across the corporate ladder and reinforce a ‘winners versus losers’ mentality,” creating “a crisis of legitimacy for the profession.” Executive long-term incentives (LTIs) have been one of the key drivers of the extraordinary and socially unacceptable growth in pay differentials in the UK and US.

But the tide is turning. Breaking with decades of corporate orthodoxy, nearly 200 CEOs, including the leaders of Apple, Pepsi, and Walmart, on the Business Roundtable issued a statement on “the purpose of a corporation” in the middle of last year, arguing that companies should no longer advance only the interests of shareholders. Instead, the group said they must also invest in their employees, protect the environment, and deal fairly and ethically with their suppliers.

Compensation and benefits professionals therefore need to respond similarly by:

1. Measuring, monitoring, and reporting on their pay gaps internally and externally;
2. Researching and developing an understanding of how they compare with their sector peers and what the key drivers of their gaps are;
3. Developing comprehensive action plans to remove their diversity pay gaps and reduce their top-to-bottom ratios to acceptable levels, by such measures as increasing their minimum wage rates and enfranchising all employees not just executives in plans which share out the gains from profit and performance improvements (see Q6 below).

My research on “what works?” in closing unjustified gender, ethnicity, and disability pay gaps highlights the need for this broad strategic and sustained approach, utilizing designs and processes right across the HR and reward armory—from blind recruitment and representative selection processes through to internal talent management and with open communications and employee involvement.

**Charles Cotton.** The fairness of reward processes and outcomes are going to be a key issue for corporate stakeholders. Because of this, I would expect that we will see a growth in the number of employers that have a written definition of fairness to help guide and explain their corporate decisions and actions. Reward professionals will have a key role in helping to craft this statement. The creation of this will involve reward professionals consulting with such stakeholders, such as shop floor workers, investors, and board members, as all these parties have their own perspectives of fairness.

Concerns about the size of pay gaps will result in more employers publishing remuneration data, a narrative explaining why the figures are what they are and an action plan of what they are doing to help low paid employees, such as by moving towards a liveable wage, extending bonus and equity opportunities, or introducing benefits that help provide
a safety net, such as paid sick leave, and better share the risk between the employer and employee, such as hybrid pension plans.

Because of the increase in pay disclosure, I expect more of us will review the processes used to value jobs, determine salary levels, create wage structures, progress pay, set bonus awards, and decide benefit provision to demonstrate not only that the money being spent is delivering value for the organization but the processes and outcomes for employees are fair.

I forecast more of us becoming more involved in searching for productivity improvements to help our employers afford to improve their reward offering to low-waged employees, such as through work, job, and organizational redesign. Not only will this result in more meaningful pay but more meaningful jobs and positive outcomes for employee financial well-being. At the other end of the pay spectrum, I would expect employers and remuneration committees to make more evidence-based decisions about CEO pay, such as using insights from behavioral science in incentive design, as well as adopting a broader definition of performance, to include such nonfinancial measures as employee and customer experience.

Michael Gibbs. Compensation experts have a responsibility to help their employer or client comply with applicable labor market regulations and avoid litigation risk. Pay gaps across personal characteristics, such as race or gender, are thus important to understand.

One should first acquire reasonable familiarity with what scholars have learned about the determinants of pay. A large literature in labor economics analyzes these gaps and their evolution. Not all differences in pay are due to discrimination. Pay varies with the employee’s education, skills, experience, occupation, social networks, and much more.

In addition, a rapidly growing literature studies the effects of technological change on compensation of workers with different types of skills, in various occupations and industries. Automation is causing a “hollowing out” of the labor market; demand has been shrinking for workers with skill levels in the middle of the range. This development may dramatically change compensation patterns within an organization. It is also likely to be correlated with employee characteristics, such as age or gender. (Also see my remarks in question #5 below.)

Armed with an understanding of labor market forces, compensation experts will be better able to interpret pay patterns within their firms. They should analyze data on pay and employee characteristics and compare those patterns with the labor market. This will reveal significant gaps for more careful review and possible changes. Moreover, the compensation advisor will be in a better position to guide the organization as pay systems evolve with technological change.

Subtle forces may be at work at generating or widening wage gaps within your firm. For example, research suggests that men and women tend to take different approaches to bargaining, including over wages. Men and women may behave differently with respect to collaboration, speaking in meetings, and so forth. Mentoring and performance evaluation might function differently depending on the gender, race, or age pairing of the supervisor and subordinate. Such dynamics may lead to different outcomes depending on which demographic group is in the majority. Those differences may cause inefficient talent management and increased liability. While it is beyond the scope of compensation systems, HR experts might explore ways to mitigate such dynamics. If successful, that would reduce wage gaps.

Brad Hill. The first step in closing the wage gap is to stop negotiating starting salaries. Inequities in starting pay set the foundation for all future pay inequities. Establish starting pay based upon the expected contribution of the job and the skills and experience the candidates bring to the job, without consideration of their pay history.

Next, organizations should allocate a portion of their annual pay increase budget to address any existing “wealth gap.” For example, if an organization approves a 3% annual pay increase budget, .5% could be reserved exclusively for those performers who have faced historic pay biases in their starting rate,
their promotional increase, or their ongoing merit increases. This exercise should be repeated every year until the gap has been completely closed.

**Michael Sturman.** At more sophisticated organizations, I believe you are going to see aggressive efforts to eliminate wage gaps among their employees based on race, gender, and other protected classes. Driven by clear policy, sophisticated HR departments, and advanced HR analytics, I believe you are going to see, within organizations, nearly the elimination of wage gaps.

Across organizations and jobs, however, I am much less optimistic. I believe there are going to be substantial differences in pay between core and contingent employees. Given that contingent employees, gig workers, and consultants will compete largely based on cost, workers in those jobs will likely have below market wages. Unfortunately, I both fear and expect that there will be substantial differences in the characteristics of those workers who have the “good” jobs and those that do not. Although I do think there will be substantial diversity within organizations, and there will indeed be many examples of members of various groups being paid equally and well, I think that contingent work will be disproportionately women and minorities. The result will be that, across society, wage gaps by gender and race will stay the same or even get worse.

**Question 3:** Will the trend in using more contingent workers (e.g., temps, contractors, and consultants) continue to expand? What obstacles or longer term consequences should be considered in the use of contingent workers?

**Duncan Brown.** In the UK at least, the current evidence is that all forms of flexible and contingent working, including the often controversial zero-hours contract (ZHC) arrangements, appear to have peaked after a decade of rapid growth and in some cases are now on the decline.7

Again, the drivers appear to be heavily externally based, with the UK government increasingly concerned about the social impact of the growth in the UK’s low skill and insecure jobs economy. There have been the associated costs of in-work benefits’ payments, which have mushroomed in recent years, and the lack of any pension provision for the majority of these workers is becoming an increasing concern with an aging population. Rebecca Long-Bailey, the opposition business minister, said recently that it was a “national scandal that there are 1.4 million contracts that don’t guarantee minimum hours, with people stuck in limbo in insecure work, not knowing how much they’ll earn from week to week, unable to budget for basic necessities, and unsure if they can even pay the rent.”

In response, the government commissioned a major employment review led by Mathew Taylor8. It reported in 2017 on the need to “balance flexibility and fairness” in the UK labor market, a good motto for the reward strategies required in many organizations over the next 5 years. The government has accepted almost all of its 53 recommendations in its “Good Work Plan.”9 These include proposals currently being finalized to better protect contingent workers and strengthen labor market enforcement, increase the minimum wage rate for those on ZHCs, and make employee-requested flexible working the default norm in all workplaces.

The imminent extension of its IR35 regulations to the private sector, designed to prevent unscrupulous employers from avoiding social security contributions by disguising employees as independent contractors, is also driving reinsourcing of many outsourced services, for example, in IT and payroll.10 Jaguar Land Rover has reportedly moved all of the thousands of off-payroll workers and contractors it uses to employed status in anticipation of the implementation of the changes.11

Employers generally appear to have woken up to the potential inconsistency between demanding high employee engagement and performance from an insecure, low-paid workforce and are similarly moving to a more fairly balanced employment relationship.
The current coronavirus outbreak highlights meanwhile that employee-driven flexible working, in terms of working hours and location, can reap huge benefits in people’s work contribution and ability to balance that with their home lives. CIPD research found that workers voluntarily working on part time and flexible contracts are more diverse and have higher engagement levels than the average full-time worker. Yet, a recent Timewise report coined the phrase “inflexible flexible working” for many current HR policies, designed at the behest of suspicious managers largely to control employees and try to keep them working when they are out of sight.

HR and reward professionals need to invest in staff and produce genuinely employee-driven and enabling policies including genuine flexible working, rather than pursuing a low-cost, low-skills reward strategy which only end up costing them and society in the medium to long term.

Charles Cotton. There are various reasons for the growth in the use of contingent workers. Some are negative, such as the employer wanting to shift part of the risk and cost of the employment relationship to the individual, while others are positive, namely, people choosing to be contingent because it suits their lifestyle.

I suspect the state will be willing to allow employers to use contingent employment relationships where people want it. Where organizations see their people as just a cost to be minimized, then I would expect more state intervention around reward, such as minimum levels of pay, pension, risk benefits, physical, and mental well-being, irrespective of whether the worker is contingent or noncontingent.

I expect those employers that have outsourced the challenges associated with employing low-waged workers, either to other organizations or to the individuals themselves, will come under pressure to review the rewards on offer to people in their supply chains and in their contingent workforce. Some companies will address these concerns proactively because of the potential damage that such labor practices have on their customer and investor brands.

Where individuals value being contingent, more of us will have to review how we use our total reward offering to reward, recognize, and motivate people who don’t want to be our employees. It might be that it is the non-financial aspect of the value proposition, such as how interesting the work is, its impact on society, the appeal of the working companions, the opportunity to learn from the experience, etc., is used to attract this talent.

Michael Gibbs. It is very likely that use of contingent workers will continue to expand. As labor markets become more regulated, firms expand use of these employment arrangements to gain more flexibility in hiring. By reducing termination costs and creating different models of employment make firms more willing to hire people in the first place. Quasi-probationary methods allow evaluation of more candidates, tested more meaningfully on the job, improving the ability to source talent. These employment modes also provide more flexibility over business cycles.

Such benefits should create more jobs. That helps those who do not want, or find it difficult to obtain, traditional jobs. As an example, the use of temps has grown dramatically in Spain’s highly regulated labor market. That has benefited younger workers who often cannot secure regular jobs.

Moreover, this different mode of work is beneficial to many. Consider the emergence of gig jobs. Such jobs create new and more flexible opportunities for people to participate in the labor market. Gig work is ideal for college students, retirees, those who need to balance work with child care or elder care, and those with medical conditions that impose limits on the ability to work. One study found that Uber drivers enjoy large benefits from the flexibility offered in these jobs and estimated that these drivers would reduce working hours by more than two-thirds if they did not have this option.

The biggest obstacles to this trend are pushback from labor unions (which see these types of workers as competition), well-meaning activists (who may not realize the unintended side effects of regulations against these types of work arrangements), and politicians. For example, California’s state government has
imposed greater regulation of these work arrangements. That has led to decline in their use and caused some firms to shut down or leave the state.

What is really needed is for modern labor market regulations which recognize and embrace these new modes of work. Regulations should be revised to empower people and employers to devise flexible, mutually beneficial modes of work, rather than restricting them to ones that are based on outmoded notions of what a job, or an “employee,” should be.

**Brad Hill.** Yes. The use of contingent workers will continue to grow as they offer many advantages to both the organizations and the workers.

The positive impact of this trend is that it brings into the workforce talented people who have not been able to work 9–5 jobs. It also allows workers to scale their workweek in accordance with the personal demands that they are facing. For employers, contingent workers allow them to deal with business cyclicality or seasonality in a cost-effective manner. For business start-ups, it allows them to build-out without committing to longer term fixed costs, such as payroll and benefits.

The negative impact of this trend is that it can lead to a breakdown of the organization’s work culture, teamwork, and communications, and turnover of contingent workers will likely be higher. Also, workers will be less focused on the long term. Likewise, the organization is less likely to invest in costly training and development and less likely to provide contingent workers with competitive benefits.

**Michael Sturman.** I think we are going to see companies increasingly use contingent workers, as well as the greater use of outsourcing for noncore tasks. I believe we will especially see substantial increases in the hiring of independent contractors and short-term gig workers to handle all sorts of organizational tasks, especially those deemed as noncentral to the companies’ strategic missions.

The implications of this for compensation are significant. For these noncore tasks, companies will continue to look for ways to control costs. While compensation systems for core employees will be complex and multifaceted, cost control is going to drive the payment of these noncore employees. I expect we are going to see pay systems end up being a major differentiator between types of employees.

I have some real concerns about the longer term consequences of this increased use of contingent workers. I think core, permanent employees will do very well in future pay systems. I believe these workers will see potentially great benefits from their diverse reward systems. At the same time, however, I think contingent workers will not benefit in the same way. Because of the focus on cost control, these contingent workers will be employed under pay systems with few or no benefits. I also expect these systems will lag the market in terms of cash compensation, and the workers themselves will have limited job security. I fear we will see pay systems lead to an even more bifurcated system, leading to greater societal inequalities between those who have good jobs as core employees and those who do not.

**Question 4:** How will technological advancements, such as artificial intelligence, virtual reality, augmented reality, big data, and predictive behavior modeling, affect compensation and benefits practices, and how should compensation professionals prepare for it?

**Duncan Brown.** In an excellent paper summarizing our recent IES research on HR and artificial intelligence (AI), my colleague Peter Reilly argues that HR and reward functions must undergo a mindset shift in order to reap the benefits from AI and related technologies. Peter highlights how HR teams have historically been slow to take full advantage of technological change. HR we argue must now embrace both the further automation of administrative tasks and adapt to the “service now” climate which is already developing amongst managers and employees. In preparing their organizations for the potential gains from AI whilst minimizing its risks, HR and reward professionals need to become more
proactive in engaging with change to secure and enhance their strategic role.

The paper details the undoubted risks involved in the use of AI, such as the perpetuation of unconscious bias in recruitment and selection decisions, as shown, for example, in recent issues reportedly faced by Amazon. Beyond recruitment processes, AI may further dehumanize processes involving employee contact (look for example, at the awful user experience of many annual flexible benefits choice processes) and fail to protect confidentiality in data manipulation.

A successful tech-savvy HR and reward function will identify these risks and take steps to mitigate them. Operational HR decisions and processes (recruitment, remuneration, training, PM, etc.) should become more efficient and effective with the prudent use of AI. AI is and will, however, provide us with access to richer data and the means to analyze it better. This should inform better internal policymaking, moving away from decisions based on “manager gut feeling,” toward evidence-based management.

Our IES research specifically on evidence-based reward management highlights the progress and potential from demonstrating say, the returns on a new gainsharing plan. But it also shows the long journey that many HR functions still have to travel on this, even say, just to have some basic reward metrics in place which leaders can use to review and judge progress with the reward strategy and its delivery. We chart how the typical problems have evolved, from being a common lack of information and data on many aspects of the effectiveness of our rewards, to one of now “big data” and an inability to analyze and draw implications and determine actions from it. A lot of benchmarked information we gather falls into the categories of “nice to have” and “easy to gather,” rather than providing genuine strategic insight.

To date, HR and reward professionals have often struggled to go beyond their technical and administrative roles and take up the baton of leading people-related change supported by reward. With the AI revolution, HR can play a critical role in areas such as the reskilling of their organizations, developing learning cultures, encouraging and rewarding teamwork and knowledge exchange rather than hoarding, and rebuilding pay structures to support flatter hierarchies without silos and restrictions, to reward innovative thinking and personal contribution across a wide range of areas, rather than just the job and its status and financial performance in it.

Peter concludes that:

“AI offers HR and reward professionals a great opportunity to become more efficient in discharging our basic functions but also offers the chance to shape the organisation of the future. HR might miss the bus unless it identifies the organisational destination and the best means to get there.”

Charles Cotton. At one level, progress in technology will drive an employer’s demand for labor in terms of who it wants to do what, when, how, and why, with consequences for the jobs people do and how these jobs and people are then valued, rewarded, and recognized. Therefore, reward professionals must ensure that their reward management processes can adapt at speed to technological-driven change.

At another level, technological advances will have an impact on what reward professionals do and how. If an employer wants to leverage the value of its people, then it must invest in the analytic capabilities of the HR function, from the infrastructure that captures and analyzes the people data to the individuals that interpret and act on this data.

I expect more reward professionals will create business cases for investment in this area. With the right equipment and training, they will develop the insight that ensures the reward spend is focused on those practices that create value for the organization. They will be able to use this and other information to develop foresight about how rewards must adapt to meet changing employee and business needs.

Such technology will help us better flex benefits to suit employee needs, adapt performance-related pay targets and measures quicker to meet changing business contexts, make market-based pay adjustments faster if
the situation requires, forecast how rewards might need to alter to meet changing environments, evaluate jobs more easily, and provide more relevant and timely data to managers, employees, and external stakeholders. One potential impact of this new capability is giving employees the data they need to set their own pay, but there is the issue around protecting these increasingly sophisticated people information systems from cyberattack.

**Michael Gibbs.** Academic researchers have been doing “workforce analytics” for more than 20 years, so this is an exciting development. These tools have great potential to improve the design of HR policies and management of the workforce. Moreover, compensation professionals may enhance their value and credibility with the rest of the organization by using these methods, since data-driven decision-making has become ubiquitous in other areas of business.

More data, careful analytics, and experimentation can improve measurement of outcomes, including intangibles, from organizational policies. For example, my co-authors and I made inferences about creativity and intrinsic motivation using data from a firm’s employee suggestion system. We also analyzed an experiment the firm conducted to test a complementary reward program. The findings helped the firm improve these policies significantly. Most HR policies could be tested, analyzed, and refined with such methods.

These tools allow firms to make better, richer predictions about employee behavior and performance. That will improve personnel decisions and make talent management more efficient. An interesting example is Google’s “Project Oxygen,” which used qualitative and quantitative data to develop a model of supervisor characteristics associated with better or worse leadership. That model was used to identify gaps for specific managers and provide targeted training. Similar methods could potentially improve recruiting, promotion decisions, training, job assignments, and team composition.

These methods could easily be used to estimate turnover risk as a function of employee characteristics. The firm could then target specific employees for more attention (or less, in some cases). Compensation systems might then be fine-tuned, with higher pay for high-producing employees with high turnover risk and vice versa. Not only would such an approach reduce turnover, but it might also reduce compensation costs.

In order to use these new tools, compensation experts need to invest in relevant skills, including data visualization, statistical inference, and experimental design. However, analytics should be framed thoughtfully in order to focus on the right questions, measure appropriate variables, and interpret evidence appropriately. For this reason, practitioners should study academic frameworks from personnel economics, psychology, and sociology to put structure and rigor on their efforts.

**Brad Hill.** Technological advances won’t impact how we pay as much as what we pay for. Companies will likely have fewer, more highly skilled, more highly paid employees. Science, technology, engineering, and mathematics skills will become more essential. There is no end in sight to the spike in demand for these jobs that started 30 years ago. The increasingly competitive market for these jobs will force companies to develop more creative approaches to attracting prospects to their organizations. Pay will be part of this equation, but more important will be differentiating the work experience and ensuring opportunities for continuous growth and advancement.

**Michael Sturman.** The increased use of HR analytics, big HR data, and artificial intelligence is going to lead to better data-driven decision-making with respect to human resource problems. And by better, I expect that will mean greater profit maximization for companies. I believe this trend is already here to some extent, but we are going to see such practices become widespread in the future.

Because of these technological advances, compensation decisions will be driven by sophisticated modeling of its implications for performance, cost, employee development, and turnover. Companies will use advanced human resource information systems to make these forecasts, contrasting different complex
policy combinations, projecting their implications, and making decisions based both on the expected returns from such policies as well as modeling of the risks and variances associated with the projected outcomes. In many instances, I do think this will lead to win–win scenarios, where both the organization and the employee become better off because of the resultant decisions. Again, I think the majority of these benefits will accrue to the organizations that implement decision-making this way and the core employees who remain employed in key strategic roles within these organizations.

To prepare for this future, compensation professionals are going to need to be experts in both compensation and HR analytics. Compensation teams are going to need to possess diverse areas of expertise, including competencies in general HR issues, pay system elements, legal issues, data management, and statistics. It’s going to be nearly impossible for anyone to be fully versed in all of these areas, so I think you are going to see new areas of specialty emerge within the compensation field. University programs are going to offer more specialty courses, like high-level compensation courses and sequences in HR analytics; at the same time, there will be diverse opportunities for continuing education and training in all of these areas. For compensation professionals, this means both enhancing their own skills and preparing to put together the sorts of teams with the requisite skills.

Question 5: With salary and pay information so readily available on the internet, what changes will we be seen in pay secrecy/transparency?

Duncan Brown. “Fair pay, or hell to pay?!” was the provocative title of a recent UK Institute of Company Secretaries’ article on the new UK pay ratio reporting requirement. Introduced this financial year, all companies with 250 or more employees need to include their top-to-median pay ratio in their annual report and accounts, very much following what has happened in the United States.

The article notes that “Both the US and the UK have experienced an increasing trend towards pay transparency, and with it a need to prepare for compliance with regulatory or shareholder demands and defense in the court of public opinion.”

What it fails to note, however, is that this growth in enforced external public transparency, with UK companies now in their third year of gender pay gap reporting by way of further illustration, has partly been driven by the trend in the opposite direction over recent decades in internal pay transparency.

When I started out in HR 30 years ago, grades and pay ranges, often negotiated with trade unions, were easily visible on notice boards and in pay manuals. That is still the case to a degree in the still highly unionized UK public sector. But in the private sector, individualized contractual arrangements and often performance-related pay variations predominate, with companies discouraging any collective discussion (in fact, this was often forbidden in personal contracts until the UK government outlawed that practice).

The often unintended consequence has been that employee understanding of their pay and rewards, and therefore their trust in them has plummeted, despite the fact that the price of good quality pay and reward communications has fallen dramatically with technological advances.

IES found for example, in one recent survey of reward managers that although 80% felt their intranet/online reward information was good, 70% agreed that few employees understand their reward policies and 56% feel that their reward communications are not effective. Their biggest challenges were highlighted as communicating the total value of the reward package and enabling line managers to communicate rewards to their staff effectively.

The results were very similar to those evident in North America in a WorldatWork member survey which found that 56% felt their base pay communications are ineffective and 45% reported that few employees
understand how their rewards link to performance, with very similar barriers identified.

Research highlights that transparency has many benefits—improved understanding, better perceptions of fairness and trust, higher employee engagement, narrower pay gaps. HR has to break the legal risk mindset still prevailing in too many employers and “open up” on pay internally, as well as report beyond the legal minimum externally.

**Charles Cotton.** With so much pay data now in the public domain, over the next 5 years, more employers will see transparency as an opportunity to demonstrate that they reward employees fairly, rather than as a threat to be mitigated.

Increasingly, reward professionals will be busy creating narratives explaining the figures, as well as supplementing and correcting the data as required. However, there are several practical concerns that we need to overcome before our organizations can become more open, such as getting senior management buy-in, dealing with reward legacy issues, or ensuring that data are both accurate and secure.

We will see an increase in the time spent by reward professionals on such subjects as how best to define “pay” and “transparency,” decide who tells what to whom, why, when, and how, and work out the level of support they must provide, such as developing line managers to be more open about pay.

Reward professionals will increasingly be focused on creating a pay narrative for their employers about what employee behaviors they want to reward, why, and how, evaluating how this narrative compares to the reality and making appropriate adjustments, and putting measures in place to assess the effectiveness of its delivery of pay transparency and the impact that it is having on people and the business.

**Michael Gibbs.** I am skeptical that there will be much change. The data on these sites are unreliable, incomplete, and suffer from significant selection biases. It will be difficult to solve such problems unless they can convince firms to provide compensation data. For this reason, I do not expect their importance to grow much, unless these platforms pivot into other types of data and services.

In principle, these sites might provide useful information on employee morale and perceptions of the firm. Along similar lines, they might provide useful suggestions about competitors that a firm might poach for talent. Such benefits depend on the quality of the data on such platforms, however.

These sites may change the pay negotiation process. Employees and new hires may be better informed about the pay that they might reasonably expect, as well as their other employment options. These sites may thus drive greater consistency in compensation (for similar employees in similar jobs) across companies.

Firms have experimented with “open salary systems” for a long time. It is difficult to find examples in which these systems worked well for an extended period. Those that have tend to be quite unusual (e.g., very small, with unusual culture and leadership). Most eventually eliminate such policies and discourage employees from discussing pay with colleagues.

**Brad Hill.** Pay transparency will become more important than ever, accompanied by a more thorough explanation of the value a job is expected to contribute to the organization. Organizations will need to educate employees on how misleading the online pay data presented for generic job titles and thumbnail job descriptions can be. The thumbnail job descriptions which inform internet pay data are deliberately vague, so that more people/organizations can identify a “match” and report data for the job, and rarely represents the work being performed in your organization.

Organizations will increase the role of job evaluation and internal job value in determining proper pay levels. [Job evaluation is the process of systematically valuing the work performed in the organization by examining, that is, the problem-solving, accountability, and know-how required of each job.] Market data will remain important, but will take a back seat to internal job value.

**Michael Sturman.** I think the future of pay transparency is going to become quite complex. On one hand, with the internet and dedicated efforts to provide sources to share
this information, I do think you are going to see a lot of transparency with respect to base pay. It will be fairly easy to find out what starting base pay level people get, how much base pay increases over time, and general information about how much people like or dislike working at their companies. In this way, I do expect that there will be significantly more pay transparency in the future. I actually don’t think, though, that this greater transparency will necessarily be helpful to employees.

For continent workers (of various sorts), greater pay transparency will likely be a two-edged sword. There will be more information available, making it easier to contrast pay levels across potential opportunities. For the many people looking at options between contingent work, temporary agencies, outsourcing firms, and gig work, it will be fairly easy to compare the potential pay levels of available options. At the same time, however, companies will see this information as well, and I believe this will actually serve to help companies keep wages down. Pay systems will still be based on market comparisons, especially for contingent and noncore work. Because of this, companies will not look to deviate significantly from the market, if not explicitly choosing to lag the market in pay. This will, in the long run, reduce wage growth and actually decrease labor market competition for a very large segment of the workforce.

I also do not think that this pay transparency will provide substantial information to core employees covered by more complex future pay systems. Because of the complex way in which future pay systems will employ various metrics—and be based on individual, team, unit, organizational, market, and economic factors—I don’t think that there will be very useful pay transparency for these sorts of positions.

I do think that a lot of data is going to be available in the future, and in that respect, one could call that more pay transparency. I do think salary and base pay information will be widely available. I’m skeptical, though, about whether this will translate into better or even useful information for most individuals.

Additional Topics of Import over the Next 5 Years

Duncan Brown. Shareholder-driven reward models focusing on individual and financial performance are at the heart of criticisms of the irrelevance and ineffectiveness of the HR profession. Dundon and Rafferty summarized the arguments well that HR and compensation professionals have been “too busy looking up to the boardroom by focusing on short-term financial performance metrics to the neglect of long-standing values and concerns of other stakeholders.” They argue in favor of “a focus on longer term sustainability of both organizations and their people, rather than just immediate shareholder interests … embracing a fuller recognition of the interests of wider stakeholders including employees and community groups.”

Key to this shift are changes to executive and wider remuneration models, and already we can see two trends, which I would hope would have become standard market practice in five to ten years’ time.

First, the removal of complex and upside-only, differential-driving, share price, and value-driven executive LTIs. These need to be replaced by a reasonable base pay linked to job size and market rates, annual bonus linked to a range of stakeholder measures, including customer service and employee engagement, and a straightforward award of restricted shares with a stockholding requirement. We can already see the trend underway in leading UK companies. Ex HR director of the National Health Service and chair of a recent review on the issue, Clare Chapman said “There is a clear call from institutional investors for boards to be bold… companies could and should shift their executive remuneration policies away from long-term incentive plans and toward simpler plans like restricted shares.” The US Council of Institutional Investors has made similar recommendations.

Second, we are at last starting to see the wider enfranchisement of employees as a whole, with a growing incidence of gain- and profit sharing, all-employee share plans and employee ownership models evident in the
UK and Europe. These ensure that all staff, not just already well-paid executives, get the opportunity to share in the success of their employer.

Unlike the often controversial and generally negative findings from research studies on the impact of individual performance–related pay schemes, the research record on collective pay plans and employee ownership is highly positive: people feel more engaged and involved and so are more likely to deliver the higher performance and productivity their leaders are seeking. For example, Benson and Sajjadiani (2018) reported that the use of gainsharing plans was associated with greater productivity, higher quality, and lower attrition rates. Another study published in this journal by Nichols found companies reported an average 17.3% productivity gain after implementing gainsharing. One reason for these performance improvements is because “the incentive system is a shared experience of a group of employees, and its impact is likely reflected through shared behaviors and resulting outcomes produced by those group members” (Peterson and Luthens).

Employee ownership, research indicates, can give staff an even stronger financial stake in their employer and how it performs. The UK’s Employee Ownership Association in 2018 published “The Ownership Dividend: The case for Employee Ownership” after a year-long review. The report found that employee-owned firms are more productive than their publicly quoted peers through their “more inclusive, transparent, and effective models of corporate governance and employee engagement which better involve, motivate, and financially reward individuals through their ownership stake.”

Michael Gibbs. Automation continues at a rapid pace, and its nature changes gradually over time. Artificial intelligence methods are causing automation of some tasks that involve forms of crude thinking, for example, analyzing a radiological scan to identify anomalies. Compensation experts should be paying attention to these trends because they change the structure of pay across labor markets.

A firm’s pay structure evolves over time based on labor market changes. Those changes are more complex, and more rapid, as a result of automation. Thus, compensation systems should be updated more frequently, with greater weight on more recent pay data from more representative occupations.

Compensation practitioners should try to understand types of tasks that are easier or more difficult to automate, so that they can forecast how jobs will change in their own organizations. They should also pay attention to how the labor market may change the value of different skills. For example, tasks involving social interaction have been difficult to automate, so the market value of “social skills” has been rising. By contrast, truck driving skills may have much lower value soon, if autonomous trucks become common.

Automation creates new opportunities. Jobs might be redesigned so that incumbent employees can be supported by technology and focus on more advanced tasks. Consider radiology again; various types of scans are now cheap, so doctors can gather more data on a patient. AI can be deployed to conduct initial reviews of the large quantity of scans quickly and with high accuracy. The doctor can then focus on cases flagged by the algorithm, using his or her experience, knowledge from related fields, and input from colleagues. This may also lead to new types of radiological products and services, growing demand for that occupation.

There may be an opportunity to source talent at good cost. Many people with medium levels of skills have recently lost jobs because of automation. Some areas (e.g., Rust Belt cities) have been hit particularly hard and have a large under-employed skilled labor force. Firms should explore ways to tap this relatively inexpensive talent.

Brad Hill. An Employer’s Employment Value Proposition (EVP) is of great importance. I believe that compensation will no longer be viewed as the primary vehicle to attract and retain employees (for everyone earning over $60,000/year). I say this at great peril, as I earn my livelihood developing pay programs.

What organizations need most to attract and retain employees is an EVP that identifies the four or five work culture attributes that differentiate the organization from its geographic
and industry competitors. It is only within the context and strength of this EVP that the organization should then figure out how to pay people. If the organization has a strong EVP, pay and pay policies become less important. If the EVP is weak, pay and pay policies are much more important. Also, demonstrating that the organization will forever invest in the growth and development of employees, and demonstrating that the organization respects every employee and values the contribution they make, will be more important factors than pay. It is important that organizations pay employees a fair wage relative to the value that they contribute to the business, but don’t overlook the value of providing a meaningful work experience, dignity, and a sense of purpose at work.

Conclusion

Our panel of experts provide a vast array of future trends in compensation and benefits management. Some common themes I see across our experts are the expanded use of contingent workers, especially in non-strategic roles. This trend will tend to bifurcate the workforce into the traditionally employed and the gig worker. This bifurcation can be expected to mitigate some of the advancements made in closing the wage and pay gap among the traditionally employed. In other words, while the expectation seems to be improvements in narrowing the wage and pay gap for employees within organizations and across organizations, gig workers can be expected to experience wages less than the traditionally employed workforce. Add to this, the expectation that traditional employees are expected to participate more in profit sharing, gainsharing, and stock ownership opportunities, this gap could be even greater than it currently stands.

Our experts also agree that the traditional annual performance evaluation process will continue to fade. However, there seems to be no consensus on what the future replacements will look like. Finally, our experts seem to agree on the importance of job evaluation over market-based pay and individually negotiated pay.

Declaration of Conflicting Interests

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

Funding

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

Notes

3. See for example Professor Paul Sparrow quoted in ‘Ditch the glitz in reward management strategies’. Available to download at: https://www.hr magazine.co.uk/hr-knowledge-bank/editorial/ditch-the-glitz-in-reward-management-strategies.
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10. See for example ‘Is IR35 the end for contracting?’ Available to download at: https://www.onrec.com/news/statistics/ir35-is-not-the-end-for-contracting-%E2%80%93-avoidance-is-out.

11. See ‘JLR rejects concerns over handling of IR35 tax law’. Available to download at: https://www.ft.com/content/db103f42-57ea-11ea-abe5-8e03987b7b20?segmentId=b0d7e653-3467-12ab-c0f0-77e44242cd4c.


15. See ‘The impact of AI on the HR function’. Available to download at: https://www.employment-studies.co.uk/resource/impact-artificial-intelligence-hr-function.


20. WorldatWork, ‘Reward Communications and Pay Secrecy’.


22. See: https://www.ft.com/content/8a80daa2-f1b8-11e9-ad1e-4367d8281195.


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