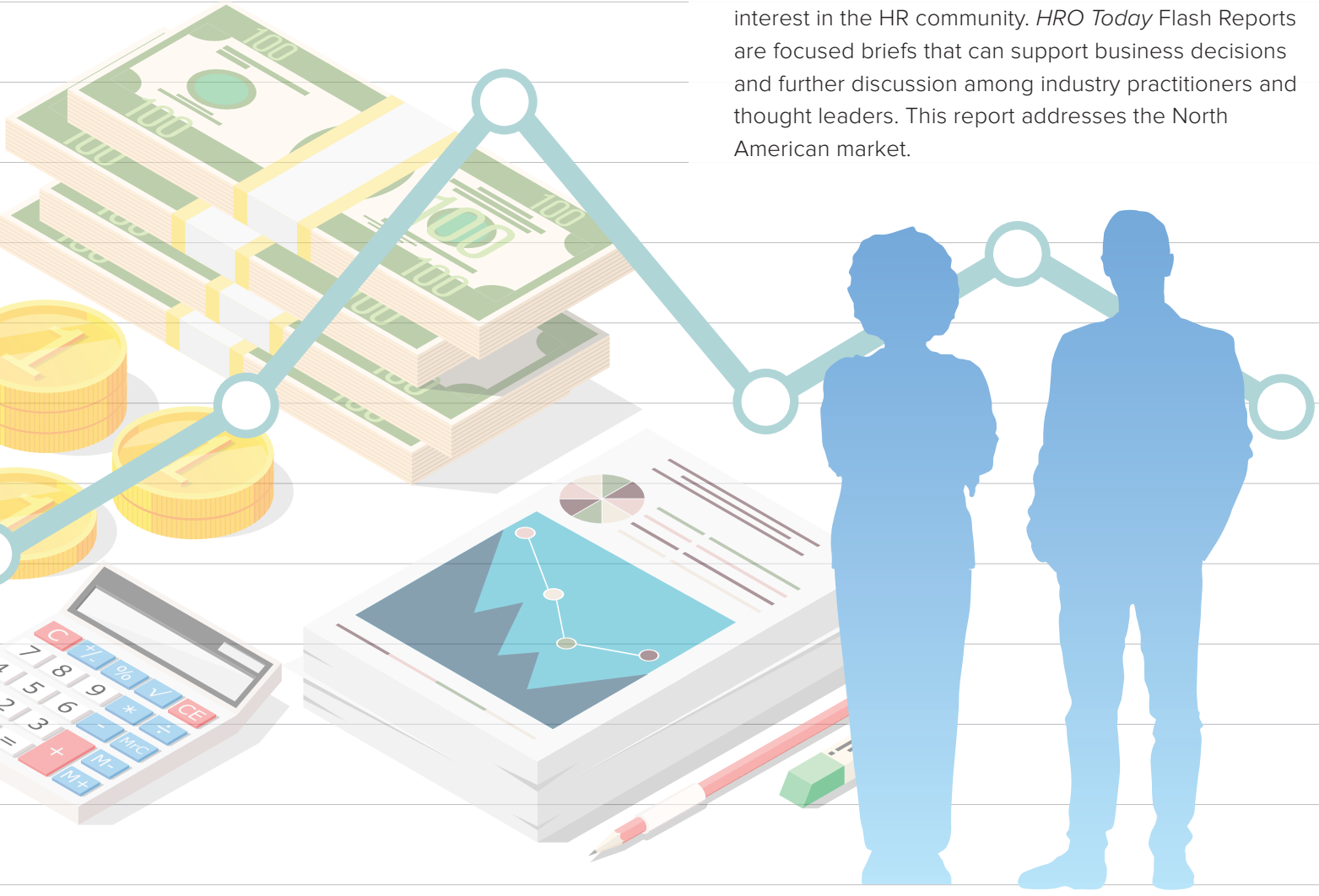
HRO TODAY RESEARCH FLASH REPORT
Volume 4, Issue 5

CHRO Compensation and Fairness:

What a Difference a Year Makes

HRO Today Flash Reports are a series of ongoing research initiatives that address today's topics of interest in the HR community. *HRO Today* Flash Reports are focused briefs that can support business decisions and further discussion among industry practitioners and thought leaders. This report addresses the North American market.



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Introduction

In recent years, Human Resources departments have evolved from tactical, administrative roles to become strategic players in an organization, an integral part in the long-term strategic planning process of the organizations they support. The role expansion is particularly true for larger companies. With the added influence, the top HR executive position is often now the Chief Human Resources Officer (CHRO), giving the CHRO a seat at the C-suite table. And given the year 2020 has been, we could add Crisis Managers to that list.

With this added exposure and responsibility, compensation paid to HR executives should ideally reflect the scope of responsibilities of these functions as well as company performance.

To garner insight into how CHROs are compensated, *HRO Today* has published its second annual CHRO Compensation Study. To complete this analysis, we pulled the publicly available data on the Fortune 500 and gathered CHRO compensation data on 113 senior HR executives from those companies, resulting in a valid sample of 23 percent. We segmented the data into the Fortune 50, the Fortune 100, Fortune 200, and Fortune 500 bands. Within each of these breaks, we looked at correlations to salary, total cash compensation and non-cash compensation (stock options and grants).

We took the data set and began to look for the correlations. The factors we sought to correlate were market capitalization, earnings per share (EPS), earnings before interest, taxes, depreciation and amortization (EBITDA) and, finally, total employee headcount.

Further, *HRO Today* explored how Human Resources practitioners feel about their industry's compensation. To accomplish this, during August and September 2020 we surveyed 50 senior HR executives from the *HRO Today* network and compared findings to the 2019 study where appropriate. Results of the study are also combined with the correlation analysis noted above to provide an overview of CHRO compensation structure and perceptions.

This year, we also examined issues related to diversity, such as compensation and workforce composition.

This report is sponsored by **WilsonHCG**, though study respondents were not made aware of the sponsorship.

Key Findings

Our findings show a broad spread of HR compensation packages. Among those companies smaller than the Fortune 50, there were no significant correlations between company performance or size with CHRO compensation. Compensation for the most senior of HR executives within this group was based upon factors outside the company performance, such as industry, location, or the ability to get the best package possible. However, among the largest organizations (those in the Fortune 50), we found statistically significant correlations between compensation and company performance. To explain further, it should be noted that a coefficient correlation of "1.0" is perfect, meaning the two factors being examined move completely in sync with each other. Anything over a 0.7 is considered highly correlated. Among the Fortune 50 group, there was a "coefficient of correlation" of about 0.8 to several factors that measure company performance.

In 2019, there were four company performance measures that closely correlated with compensation: total compensation vs. EBITDA; cash compensation vs. EPS; salary vs. EBITDA; and restricted stock vs. EPS. This year, only total compensation vs. EBITA was highly correlated (0.70).

The reasons for this change are very much related to the worldwide pandemic's impact on the stock market. At the time compensation information was published in the second quarter of 2020, EPS on the S&P 500 dropped by 66 percent from both the previous quarter and previous year.[1] Further, analysts estimate that profits at blue-chip American companies fell 44 percent in the second quarter.[2] And further complicating calculations were the huge volatility in the stock market. In the second quarter, the Dow Jumped 17.5 percent, while the S&P 500 increased 20 percent and the Nasdaq increased over 30 percent.[3]

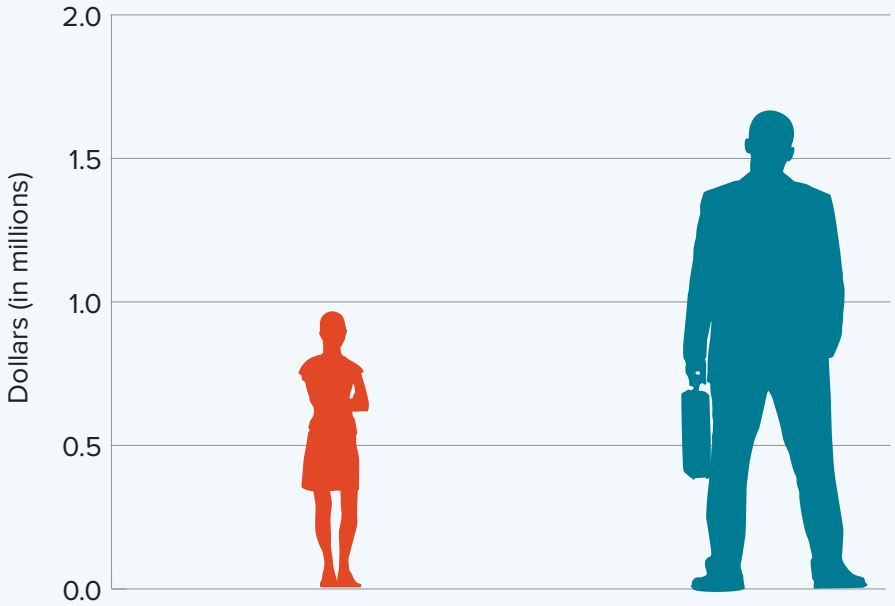
Correlation Between CHRO Compensation and Fortune 50 Company Performance Metrics	2020	2019
Total Compensation vs. EBITDA	0.70	0.79
Cash Compensation vs. EPS	-0.18	0.79
Salary vs. EBITDA	-0.11	0.81
Restricted Stock vs. EPS	0.33	0.82

Figure 1

Gender Differences in CHRO Compensation

Looking at differences in CHRO compensation by gender, we again see that males are compensated more than females, but with an important difference: In the Fortune 50, the base salary of males is $1,673,072 vs. $965,291 for females, a difference of 54 percent. However, the total average compensation pay gap is only 2.5 percent more for males than females. The pattern extends to the Fortune 500. Males' average base salary is $673,786 compared to females' $545,816, a difference of 21 percent. Total compensation is less than 1 percent different. Females' compensation is much more closely tied to variable income. Given recent market volatility, looking at this comparison next year will offer insight into whether this is a trend or simply a result of market fluctuations.

Fortune 50 Gender Income Gap Among CHROs



Female CHRO Average Base Salary Compensation: **$965,291**

Male CHRO Average Base Salary Compensation: **$1,673,072**

Percentage Difference: **54%**
Dollar Amount Difference: **$707,781**

Study Findings

To state the obvious, 2020 has been a trying year, and particularly those in Human Resources have had to deal with more workforce planning changes and contingency plans than at any other time in recent history. This has led to extraordinary levels of stress. An article from Harvard Business Review states that today, HR leaders are working around the clock, taking unprecedented measures to keep their employees safe and ensure that their organizations survive. They are navigating furloughs, layoffs, and reductions in force. They are adjusting to mass remote work. They are creating business continuity plans, drafting emergency communication procedures, and preventing the spread of germs in the office.[4]

There's empirical evidence that supports the contention that HR are some of the most stressed professionals in the workplace. In a new report conducted in the UK by Perkbox, 79 percent of HR professionals say they were negatively impacted by their job, ranking it as the most stressful position.[5]

This stress has no doubt had an impact on the views HR has on their profession. Our study findings show how some of those views have changed over the last 12 months, comparing findings with those from one year ago, where applicable.

HR Practitioners' Views on Industry Compensation

How do HR practitioners feel about compensation for their profession? In our 2020 study, we asked senior HR executives if they felt the CHRO in their organization is compensated on par with other C-level executives and compared it to responses from our 2019 study. It should be noted that in some cases, the CHRO was the person taking the survey. Less than one-half (49 percent) agreed, down significantly from 69 percent in 2019.

CHRO Compensation is Comparable with Rest of C-Suite — Extent of Agreement

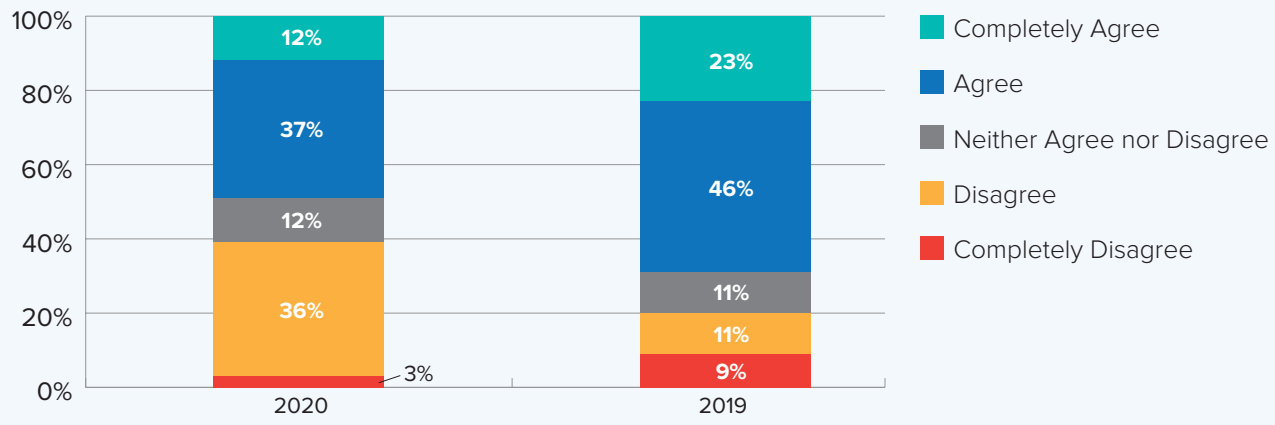


Figure 2

Ways to Determine CHRO Compensation

After establishing respondent views on CHRO compensation compared to the rest of the C-suite, we asked two more questions that addressed the ideal way to base CHRO compensation at their company. The extent of agreement about ways to determine CHRO compensation did not change much, but both ways examined had a slightly higher level of agreement than in 2019. Nearly two-thirds (64 percent) think compensation should reflect the size of the organization, up slightly from 2019 (60 percent). Human Resources practitioners do not necessarily think compensation for their senior most leader should be based on company profits either, as only 56 percent agreed they should be, about the same as in 2019 (55 percent).

Only in the Fortune 50 is there a connection to company performance, which is Total Compensation vs EBITDA. The reality then is that there remains little rhyme or reason to the structure of CHRO compensation.

Ways to Determine CHRO Compensation — Extent of Agreement	2020	2019
EMPLOYEE COUNT		
Agree (net)	64%	60%
Agree	48%	48%
Completely Agree	16%	12%
PROFITS		
Agree (net)	56%	55%
Agree	38%	43%
Completely Agree	18%	12%

Figure 3

CHRO Compensated Vs. Other C-Suite Executives

Having established opinions on if CHRO compensation was actually in line with other members of the C-suite, this time study respondents were asked if they felt their CHRO should be compensated on par with other C-level executives in their company. Support for this was highly universal, with 97 percent agreeing compensation should be comparable, up significantly from 2019's level of 83 percent.

Figure 2 showed that just less than one-half (49 percent) believed that CHROs at their organizations were compensated on par with other C-suite executives. There is a significant difference of nearly 50 percentage points between what respondents think should occur with CHRO compensation and what they believe is the reality.

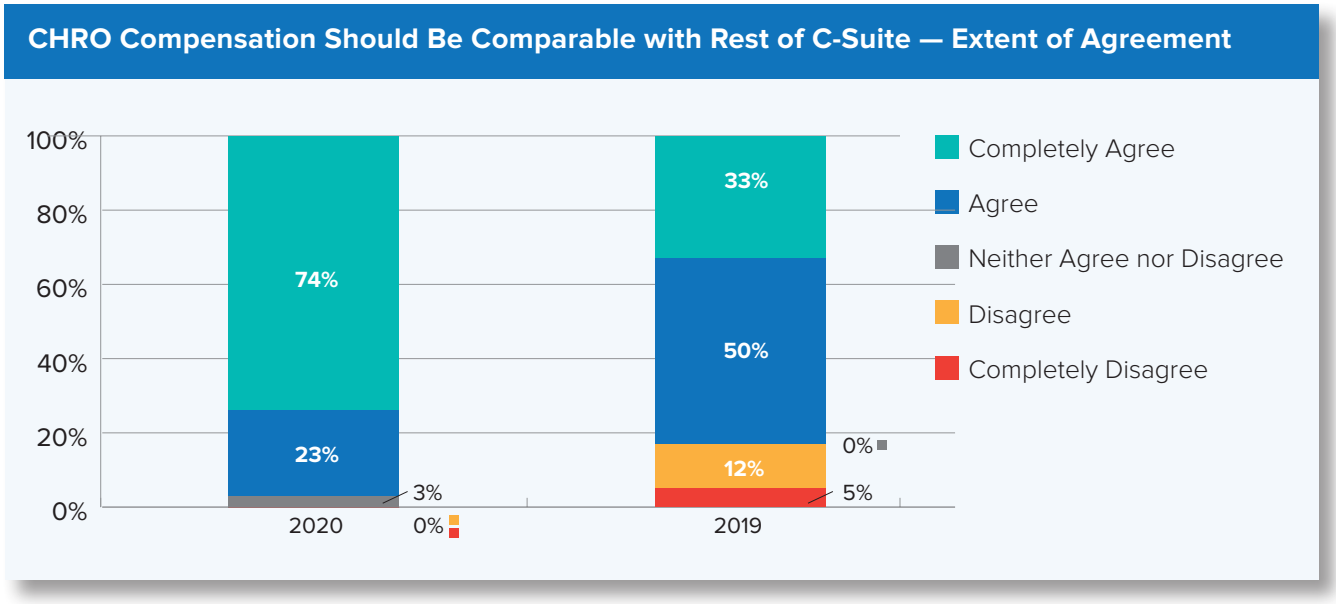


Figure 4

Most Senior HR Executive Fairly Compensated

HR practitioners were asked if they believed the most senior HR person in their organization was compensated fairly, regardless of how the compensation was structured. The answer was that only 61 percent felt they were, which is an average score of 3.5 on a 5.0 scale. That is down from one year ago when 71 percent agreed. HR practitioners are increasingly less likely to feel that the most senior HR person in their organization is compensated fairly. The concern is that incentive to perform and grow within the HR department is impaired by the belief that one will not be equitably compensated if they reach the most senior departmental level.

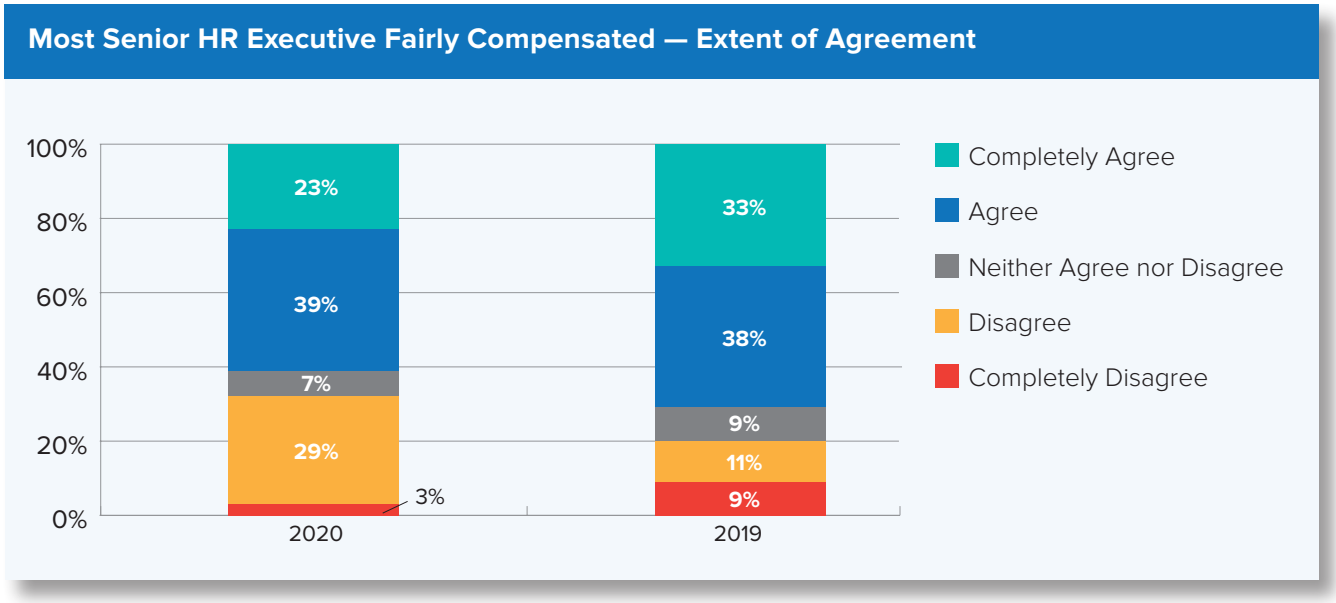


Figure 5

The next section of the study examined beliefs regarding the Human Resources practitioner's profession, broader than what applies to their own company.

Agreement That Senior HR Executives Are Compensated Equitably Across Organizations

Study participants were asked if they believed senior HR executives are compensated fairly across organizations. Their response was clear. Less than one-quarter (24 percent) agreed HR executives are equitably compensated, resulting in an average score of 2.3/5.0 scale. That is down dramatically since last year when 38 percent agreed, with an average score of 3.0/5.0.

How long can a vocation continue to attract the best possible talent when it is believed that they will not be fairly compensated upon reaching the highest level? The concern is not new. Only with better ways of measuring the impact of HR within organizations can this question be fully addressed.

Senior HR Executives are Compensated Equitably Across Organizations — Extent of Agreement

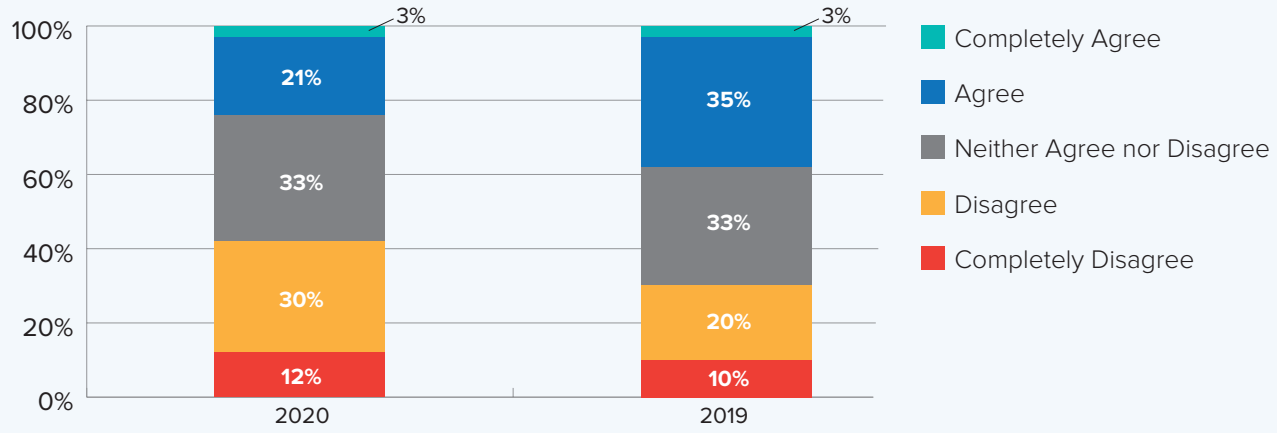


Figure 6

HR Departments are Compensated Equitably Compared to Other Departments

Study respondents were asked about the extent of their agreement with the statement "HR Departments are compensated fairly compared to other departments." The statement was made in general reference to all organizations, not just where the respondent was currently employed.

Not one respondent in 2019 or 2020 completely agreed with the statement, and only 31 percent agreed partially with the statement. Further, more than twice as many completely disagreed in 2020 than 2019 23 percent vs. 10 percent, respectively. Overall, HR practitioners are not inclined to believe their industry is not satisfactorily compensated.

Perhaps more concerning, in the Perkbox study previously cited, nearly eight-in-ten HR professionals in the UK felt negatively impacted by their job, ranking it as the most stressful position in the study.[6] HR practitioners are not only feeling undercompensated, but they are feeling more stressed than other occupations.

According to the Chartered Institute of Personnel and Development (CIPD), given that HR pros are constantly required to multi-task, frequently discussing negative issues with employees and dealing with the pressure of finding solutions to thorny problems under their remit, it's unsurprising that HR runs the risk of experiencing a high level of workplace stress.[7]

HR Practitioners are Compensated Equitably — Extent of Agreement

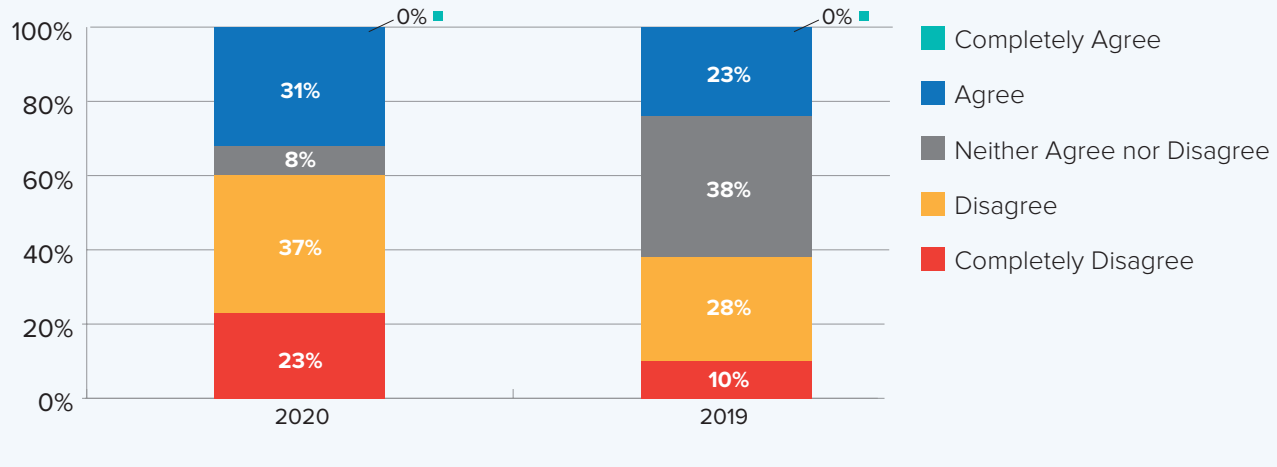


Figure 7

Agreement That Larger Organizations Compensate HR More Highly Than Other Smaller Organizations

Study respondents were asked if they agreed that larger organizations compensate HR more highly than smaller organizations.

The vast majority (83 percent) of study respondents agreed that larger organizations compensate HR more highly than smaller organizations, up from 64 percent in 2019. Within the ranks of HR, it may well be true that HR teams are compensated more by larger organizations. However, our analysis has shown that only the most senior HR executives' compensation from the largest organizations (Fortune 50) are compensated in any way that correlates to company size.

It is not an uncommon belief that larger organizations compensate workers more highly than smaller ones, with reasons that include the division of labor and employee characteristics.[8] But that belief may no longer be accurate, according to a recent study cited by CNN Business. Reasons include increased use of outsourcing, shareholder pressure on CEOs to reduce cost, and less employee leverage with firms that are too large.[9] Increasingly more HR practitioners believe that their roles continue to be compensated more by larger organizations.

Larger Organizations Compensate HR More Highly Than Other Smaller Organizations — Extent of Agreement

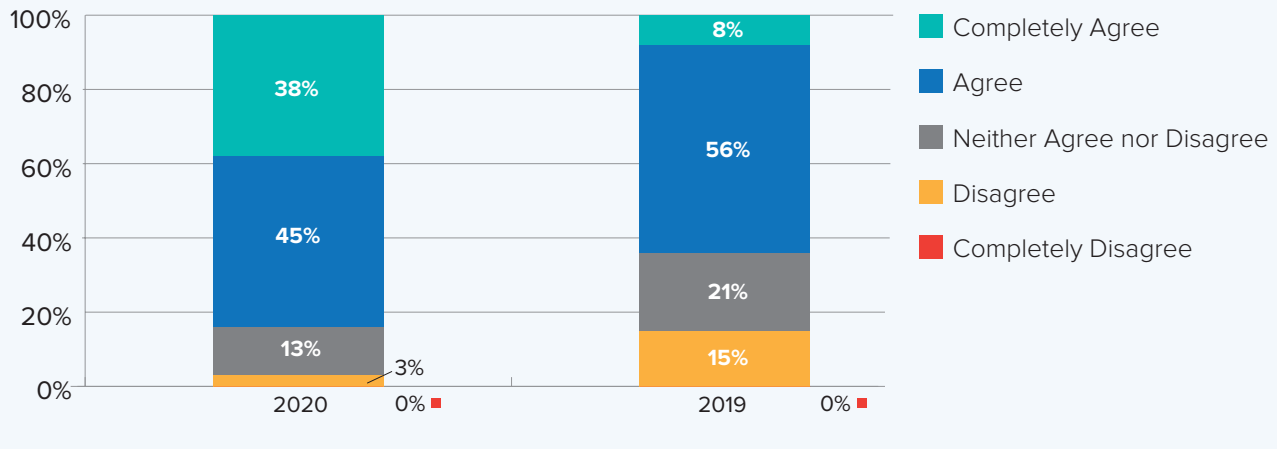


Figure 8

Minority Compensation

The May 25, 2020 murder of George Floyd at the hands of Minneapolis Police ignited the Black Lives Matter initiative across the US. The issue of systemic racism soon permeated the national discussion. Within Corporate America, matters related to diversity fall under the auspices of the Human Resources department. Therefore, we asked study respondents to indicate the extent of agreement with five statements about compensation and diversity in their company.

Three-quarters (77 percent) of respondents agreed that the level of compensation for minorities is comparable to non-minorities in their HR department. A similar percentage (76 percent) felt executive minorities are compensated on par with other executives in their companies. In our study sample, 55 percent of respondents are from organizations with at least 3,000 employees. Are larger organizations doing a more equitable job of managing compensation levels for minorities?

While three-quarters of respondents in our study felt compensation was equitable, the opinions of the remaining quarter could explain statistics around pay inequality. According to a paper published by the University of Cambridge, in the US, the total pay of African-American executives is 9 percent lower than that earned by Caucasians. This is due to lower base salary, lower bonus, and lower restricted stock grants.[10]

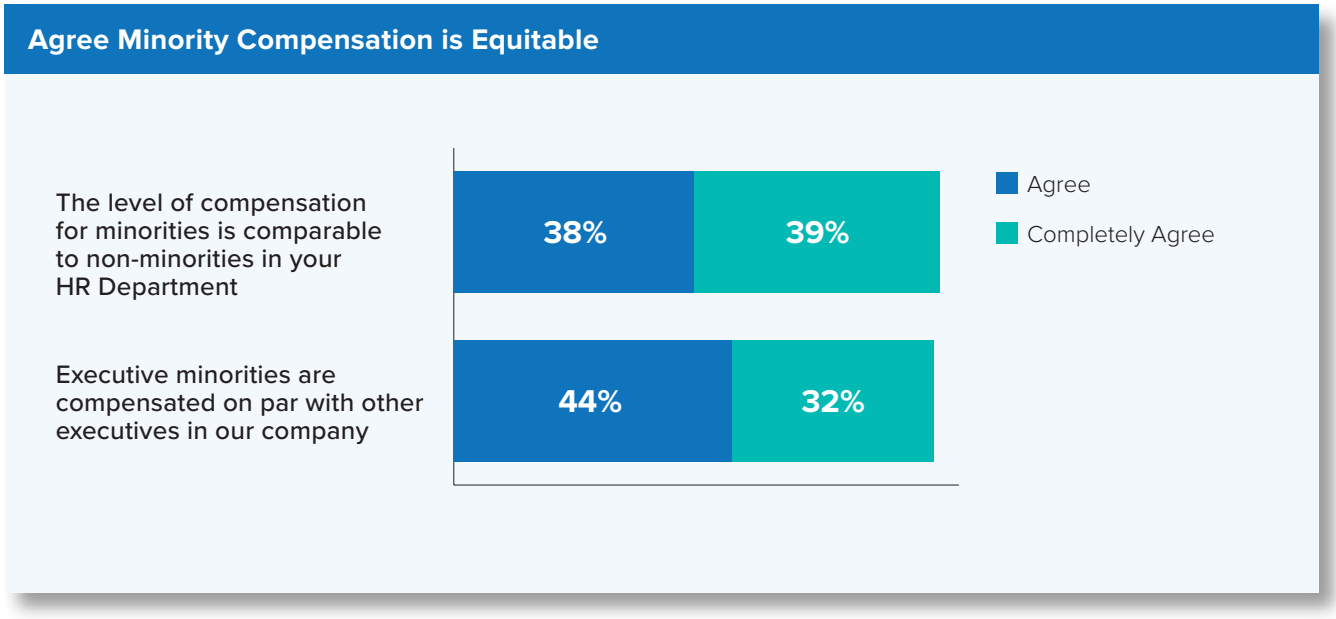


Figure 9

Representational Diversity

Does HR have a diversity problem? Three other statements that addressed representational diversity were presented. In the first, respondents were asked the extent of their agreement to the statement "We have representational diversity within our HR leadership team." Six-in-ten (60 percent) agreed with the statement. The next statement was "We have representational diversity within our HR department." Somewhat more (66 percent) agreed with the statement. Lastly, study participants were asked if they agreed with the statement "We have representational diversity in our workforce." Over three-quarters (78 percent) agreed with the statement, suggesting that HR is less diverse than the company as a whole and leadership within HR is even less diverse.

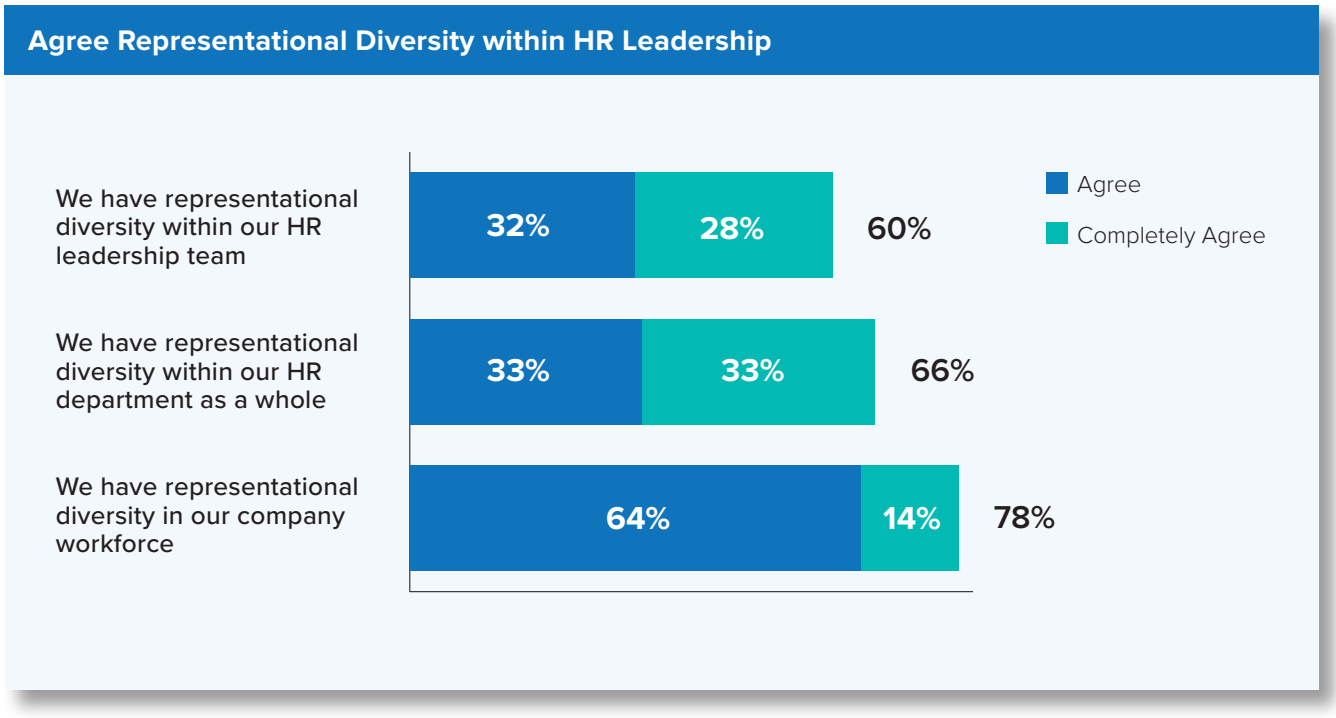


Figure 10

Conclusions

While there are recurring themes between this year and last year's CHRO Compensation Study findings, there are significant changes as well. Further, heightened awareness of systemic racism has increased focus on diversity.

Compensation Structure

- There remains a gender pay gap for the leaders of the company department most directly charged with eliminating gender pay gaps. Within the Fortune 50, males' base salary exceeds females' by a whopping 54 percent, or over $700,000, and within the Fortune 500 the difference is 21 percent higher for males.
- There's no evidence of statistical rational behind CHRO compensation. Only Total Compensation vs EBITDA has had a strong correlation the last two years, and that was only among the Fortune 50.
- HR leaders continue to believe that compensation of the highest-level representative they have in the company is not in line with the rest of the C-suite.
- HR really doesn't know how the structure of compensation should be derived to make compensation fairer, even though company performance and size are most often a key consideration for C-suite compensation packages.
- As a group, HR feels undercompensated compared to other areas of a company. And because of the particularly stressful year HR has had in 2020, this belief is more adamant than ever before.

Compensation and Diversification

- There are so few African-American CHROs that a comparison of compensation levels between them and Caucasian CHROs was not feasible. Of the 113 CHROs whose compensation was available, only two were African American.
- Despite the lack of diversification among the most senior HR representative in the company, 76 percent of respondents feel the level of compensation for minorities is comparable to non-minorities in their HR department.
- HR lags other departments in achieving diversification. While 66 percent agree they have representational diversity within their HR department, 78 percent feel they have it throughout their company.

Notes

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With a global presence spanning more than 65 countries and six continents, WilsonHCG provides a full suite of configurable talent services, including recruitment process outsourcing (RPO), executive search, contingent talent solutions and technology advisory.

WilsonHCG also offers a wide range of talent consulting services—from employment branding and workforce planning to market intelligence and diversity, equity, inclusion and belonging (DEIB). It delivers solutions that help CHROs transform their talent acquisition programs and elevate into strategic, business-impacting leaders.

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