

CHRO Compensation and Company Performance Still Not Aligned



HRO Today Flash Reports are ongoing research initiatives addressing topics of interest in the HR community. *HRO Today* Flash Reports are focused briefs that help support business decisions encourage discussion among industry practitioners and thought leaders.

Introduction

Human Resources departments continue to evolve from tactical, administrative roles to strategic players in an organization, an integral part in the long-term strategic planning process of the organizations they support. The changing scope of this was highlighted as organizations scrambled to reorganize and coordinate their workforce because of the worldwide pandemic. 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 these additional responsibilities and often their own initiatives, HR executive compensation should accurately reflect this work and its impact on company performance and metrics.



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To further explore how HR practitioners feel about compensation, *HRO Today* surveyed fifty-one executives from the *HRO Today* network and compared the result of the survey to our 2020 study findings. Results of the 2022 study are combined with the Fortune 500 correlation analysis described above to provide an overarching view of the CHRO compensation structure, practices, and perceptions. As in the 2020 survey, we also examined diversity within compensation and workforce composition.

To garner insight into how CHROs are compensated, *HRO Today* has published its third CHRO Compensation Study. To complete this analysis, we pulled the publicly available data on the Fortune 500 and gathered CHRO compensation data on 175 senior HR executives from those companies, resulting in a valid sample of 35 percent. The data was segmented into Fortune 50, Fortune 100, Fortune 200, and Fortune 500 subcategories prior to analysis. Within each, we studied correlations to salary, total cash compensation, and non-cash compensation like stock options and grants.

Then, we looked for correlations between the senior HR executive

Key Findings

Our findings show a wide variety of HR compensation packages. Once again, companies smaller than the Fortune 50 showed no significant consistent correlations between company performance or size within CHRO compensation. For senior HR executives in this group, compensation was based on factors outside of company performance, such as industry or location. Among organizations within the Fortune 50, which are fewer and larger, we found statistically significant correlations between compensation levels and company performance. A coefficient correlation of “1.0” is perfect, meaning the two examined factors move with each other. Anything over a 0.70 is highly correlated.

Figure 1 shows that in 2022, there were three company performance measures among the Fortune 50 that closely correlated with compensation. Two of them, Total Compensation vs. either EBITDA or Market Capitalization, are almost perfectly correlated (0.98); while Restricted Stock vs. Market Capitalization is nearly as high (0.91). But all other measures that would tie compensation with company performance or company size were not correlated, supporting the premise that CHRO compensation is driven primarily by factors unrelated to company performance. Interestingly, in 2020, only Total Compensation vs. EBITDA was highly correlated (0.70).

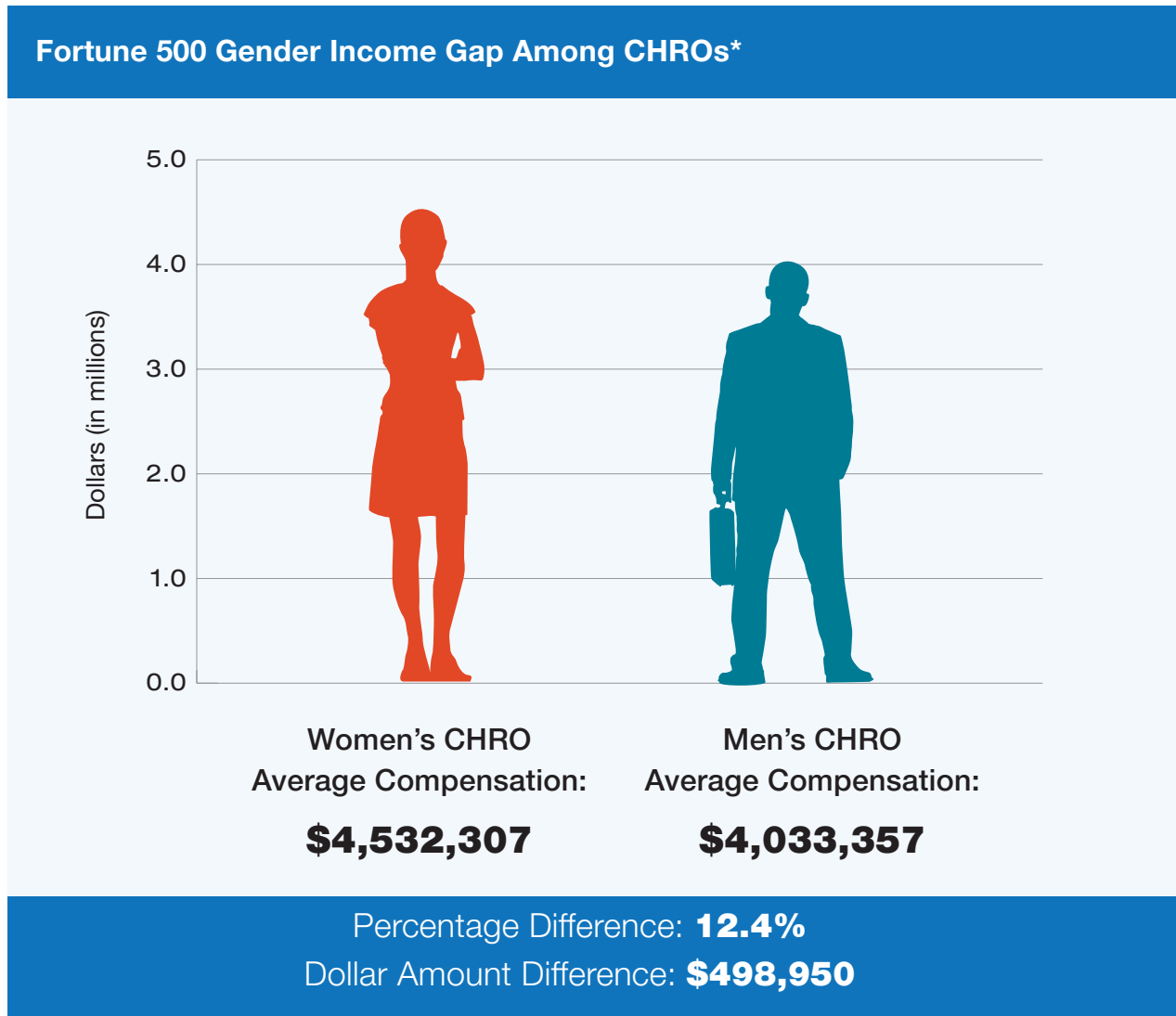
In 2022, tying compensation to company operating results is problematic. The stock market has been tumultuous, fueled by the ongoing COVID-19 pandemic and rising inflation. During the first quarter of 2022, EPS were down 14.74% from the prior quarter.¹ Additionally, US corporate profits fell sharply in the first quarter of 2022, down 2.3 percent.² Further, the Dow Jones dropped by 10.8 points, the S&P 500 dropped by 16.1 points, and the Nasdaq dropped by 22.3 points.³

Correlation Between CHRO Compensation and Fortune 50 Company Performance Metrics	2022	2021
Total Compensation vs EBITDA	0.98	0.85
Total Compensation vs. Market Capitalization	0.98	0.88
Restricted Stock v. Market Capitalization	0.91	0.98

Figure 1

Gender Differences in CHRO Compensation

Looking at differences in CHRO Compensation by gender, we see a change in patterns from previous years: Women earn on average nearly \$500,000 more than men. An interesting sign is that the pay gap decreased by almost 10.0 percent, still favoring women in HR leadership as compensation among men increases. In 2021, women had lower salaries but a higher total compensation. Interestingly, from 2020, CHRO salaries almost doubled.



*Outliers removed

Figure 2

Study Findings

Those in Human Resources have not had a “normal” year in far too long. Instead, HR leaders have faced several once-in-a-lifetime challenges since 2020. HR leaders have navigated employee safety, furloughs and layoffs, rehiring, shifts to remote work, retention in an ever-changing landscape, a potentially imminent recession, and the “Great Resignation.” Top HR management challenges include change management, leadership development, learning and development, and the multitude of challenges that come with staffing throughout a pandemic. A study done in April 2022 found that 98.0 percent of HR professionals felt burned out in the last 6 months, while 79.0 percent are open to leaving their positions.⁴

This ever-changing landscape has impacted views HR practitioners have on their profession. Our study findings show the change over two years, when the pandemic first hit, and comparing findings where applicable.

HR Practitioners’ Views on Industry Compensation

Senior HR executives surveyed, were asked if they felt the CHRO compensation in their organization is comparable with other C-Suite executives. Note: in some cases, the CHRO was the person taking the survey. Less than half (41.0 percent) agreed that compensation was aligned with other C-Suite functions. Since this study was introduced in 2019, proportionately fewer respondents feel the CHRO is compensated, dropping 28 percentage points over three waves of the study.

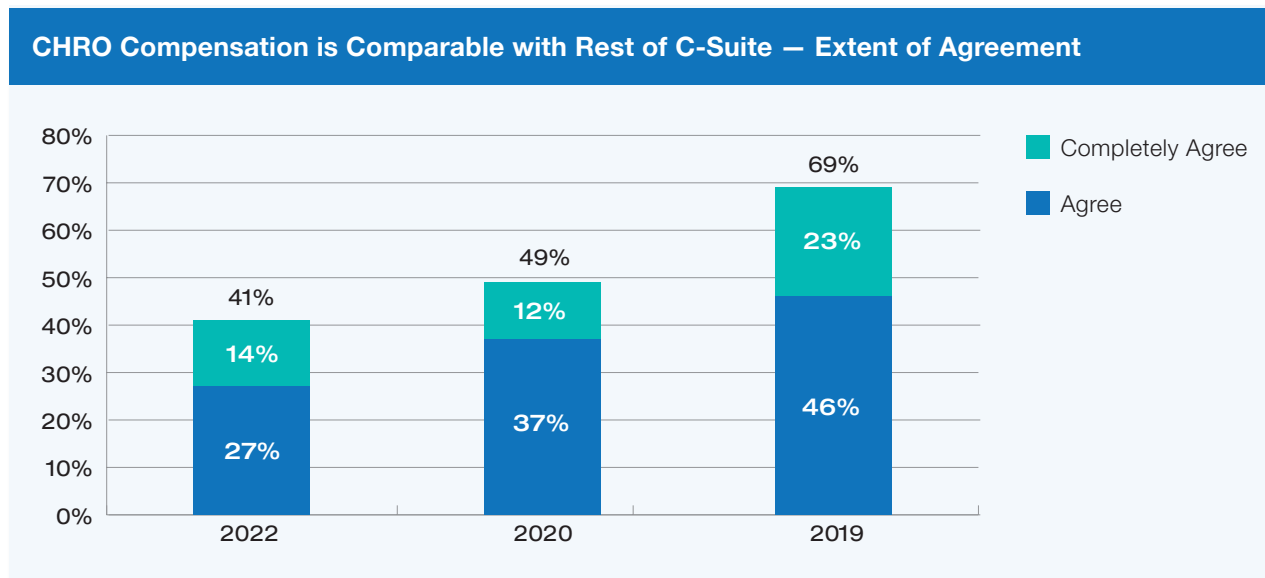


Figure 3

Ways to Determine CHRO Compensation

After analyzing respondent views on CHRO compensation against the rest of the C-Suite, we asked two questions that address what respondents feel would be the ideal way to base CHRO compensation at their company. CHRO/Senior HR compensation should correlate with company size as defined by the number of employees.

CHRO/Senior HR compensation should correlate closely with company profits.

Only tying compensation to employee count had a higher level of agreement than in 2020. More than four of five respondents (82.0 percent) think compensation should directly reflect an organization’s employee count. That result is up from 64.0 percent in 2020. The percentage has risen with each wave of the study. Despite the view of tying compensation to employee count, there is only a weak positive correlation of 0.32 between compensation and company size in the Fortune 500, and no correlation at all in the Fortune 50.

Just over one-half (52.0 percent) of HR practitioners think company profits should decide compensation, down from 56.0 percent in 2020 but a still consistent belief wave-over-wave.

The Fortune 50 has the strongest connection between CHRO compensation and company performance, defined as Total Compensation vs EBITDA. Otherwise, there is no universal deciding factor or methodology to the structure of CHRO compensation.

How to Determine CHRO Compensation – Extent of Agreement	2022	2020	2019
EMPLOYEE COUNT			
Agree (net)	82%	64%	60%
Agree	68%	48%	48%
Completely Agree	14%	16%	12%
PROFITS			
Agree (net)	52%	56%	55%
Agree	40%	38%	43%
Completely Agree	12%	18%	12%

Figure 4

CHRO Compensated Vs. Other C-Suite Executives

Respondents were asked if they felt their CHRO should be compensated on par with other C-level executives within their company. The response was almost unanimous, with 96.0 percent agreeing that compensation among C-level executives should be comparable. Respondents clearly felt the effects on HR from the COVID-19 pandemic, as only 83.0 percent agreed with this sentiment in 2019 versus 97.0 percent in 2020.

Figure 3 showed that just over two out of five (41.0 percent) believed that CHROs at their organizations are compensated comparably with other C-suite executives. In 2022, there is a substantial difference of 55.0 percentage points between what respondents think should occur with CHRO compensation and what they believe is true, compared to 48.0 percentage points in 2020 and 14.0 percentage points in 2019.

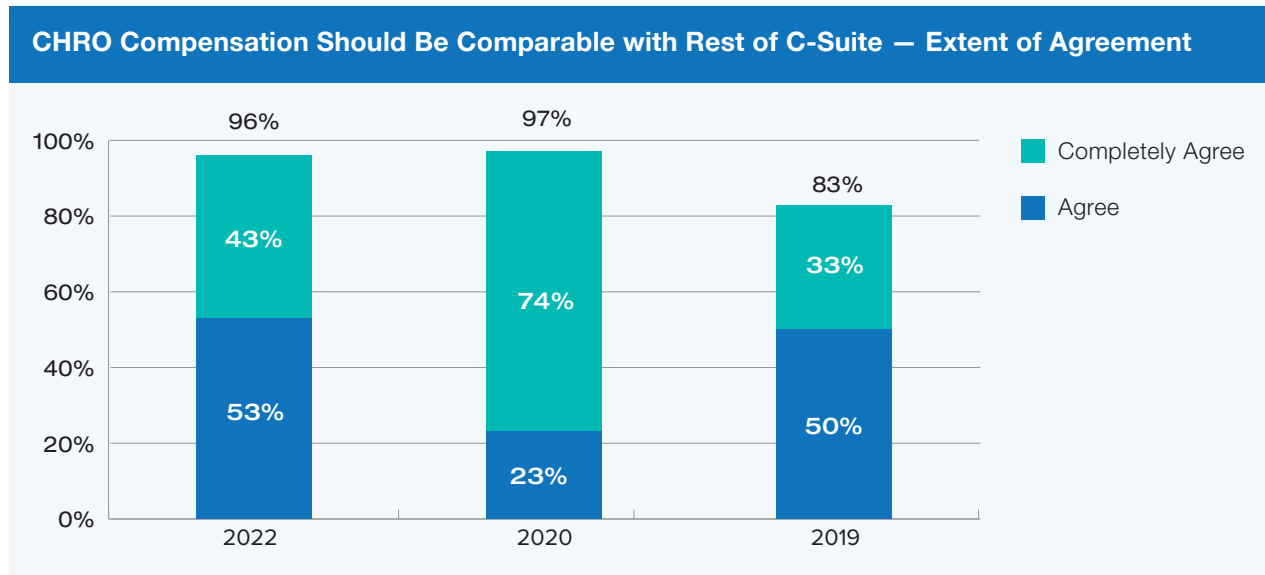


Figure 5A

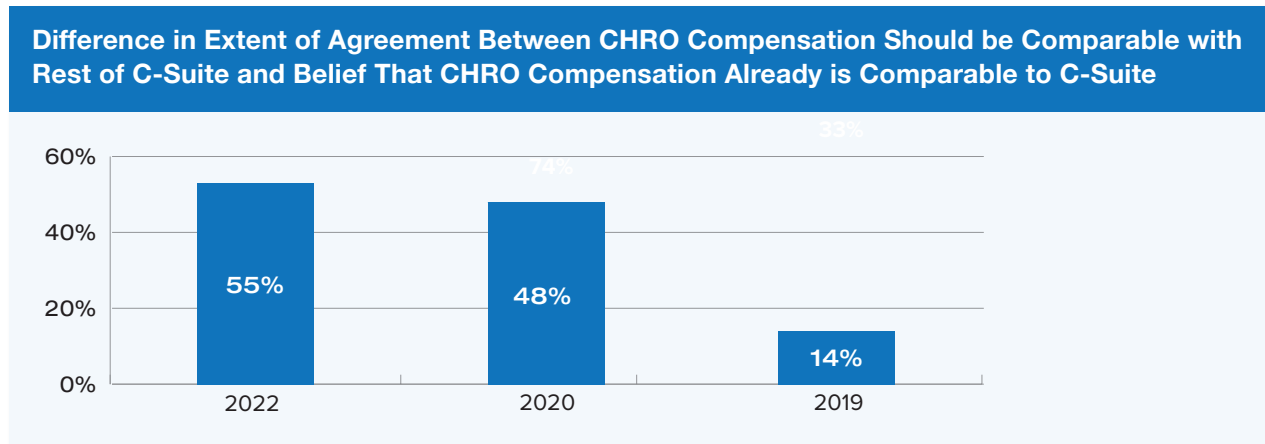


Figure 5B

Most Senior HR Executive Fairly Compensated

Next, we asked HR practitioners if they believed the most senior HR person in their organization was compensated fairly, regardless of compensation structure. Only 53.0 percent felt they were, an average of 3.5 on a 5.0 scale. This is a decrease from 2020 and 2019, when 62.0 and 71.0 percent agreed, respectively. Based on the study, HR practitioners are less and less to agree that the most senior HR person in their organization is compensated fairly. Going forward, this can be detrimental to the evolution and growth of HR departments as a whole, as practitioners may lose incentive to grow and perform.

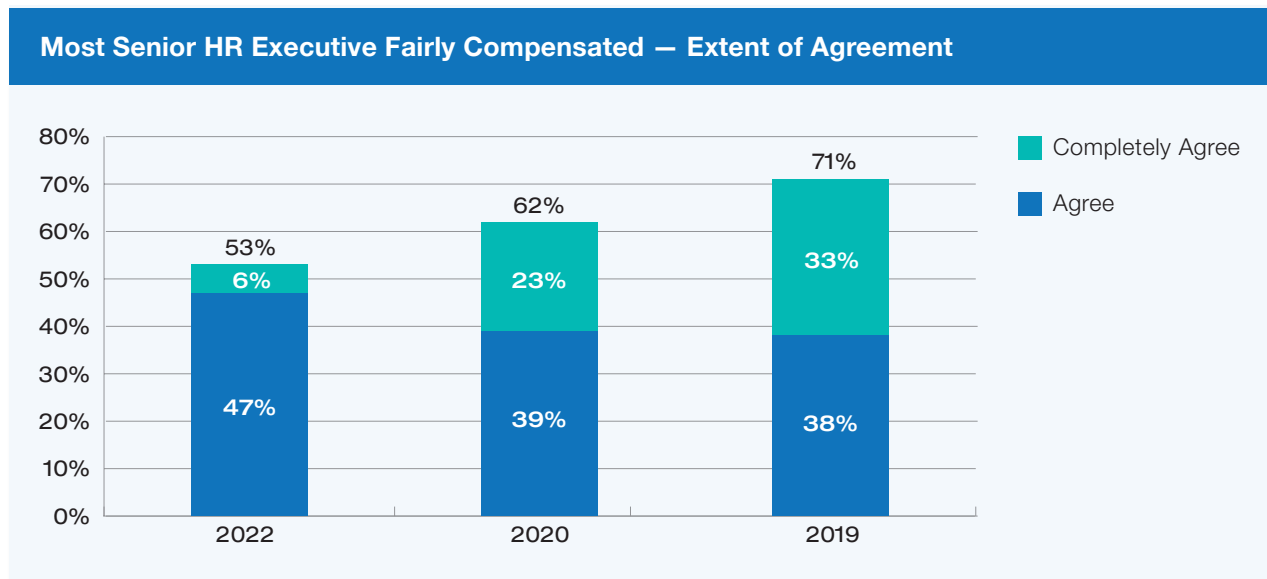


Figure 6

Agreement That Senior HR Executives Are Compensated Equitably Across Organizations

Respondents were asked if they believed senior HR executives are compensated fairly across organizations. Only 23.0 percent of respondents believe that HR executives are compensated equitably, or 2.0 on a 5.0 scale. This is comparable to 2020, when 24.0 percent agreed, but a sharp decrease from 2019, when 38.0 percent agreed.

This finding raises concerns: how can HR attract top talent for senior executives if practitioners do not believe they would be fairly paid? This is not a new sentiment, perhaps exacerbated and prolonged by the reeling effects of social uncertainty in the workforce. However, this must be addressed going forward.

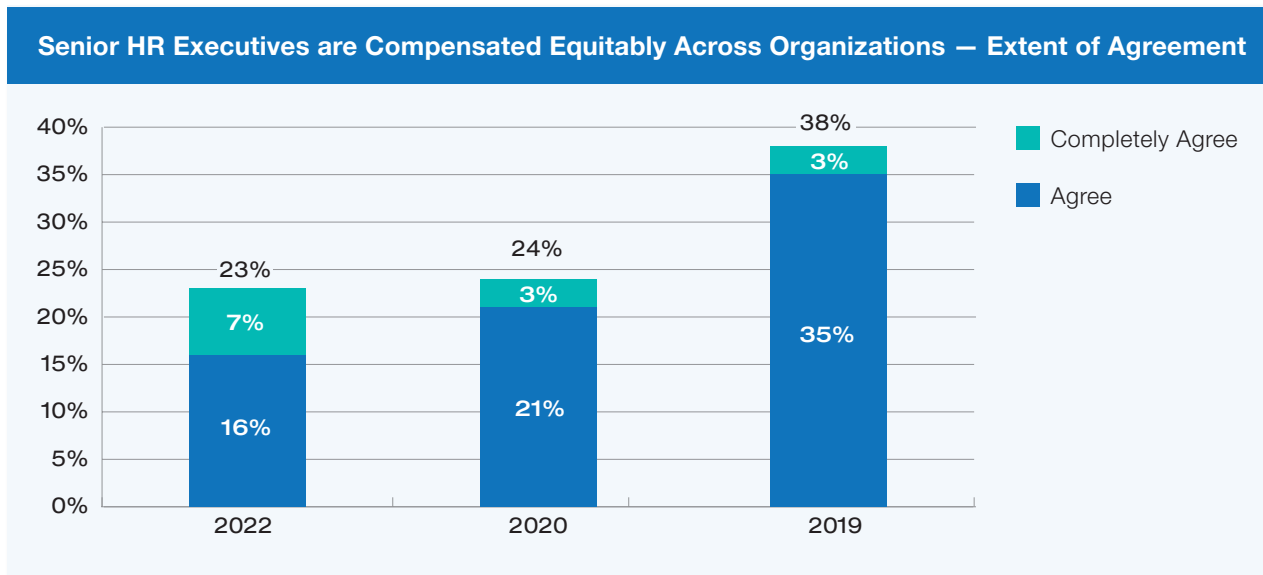


Figure 7

HR Departments are Compensated Equitably Compared to Other Departments

Study respondents were asked to give the extent of their agreement with the statement “HR Departments as a whole are compensated fairly compared to other departments in organizations.” Generally, this applies to all organizations instead of where the respondent is, or has been, employed.

In 2022, less than one-quarter (22 percent) agreed that HR is compensated fairly, down from 31 percent in 2020 but comparable to 2019 (23 percent). HR practitioners do not believe their departments are compensated fairly compared to other departments.

In a recent study Workvivo reports that, approximately 50 percent of HR professionals feel as though their organization does not directly support their department.⁵ This sentiment, coupled with almost all (97.0 percent) of HR practitioners feeling emotionally fatigued from effects of the events of the last year on their profession, is cause for concern. Practitioners are feeling burnt out as their departments face a multitude of challenges, perhaps more than other departments, but compensation has not been adjusted to allow for the additional demands of their roles.

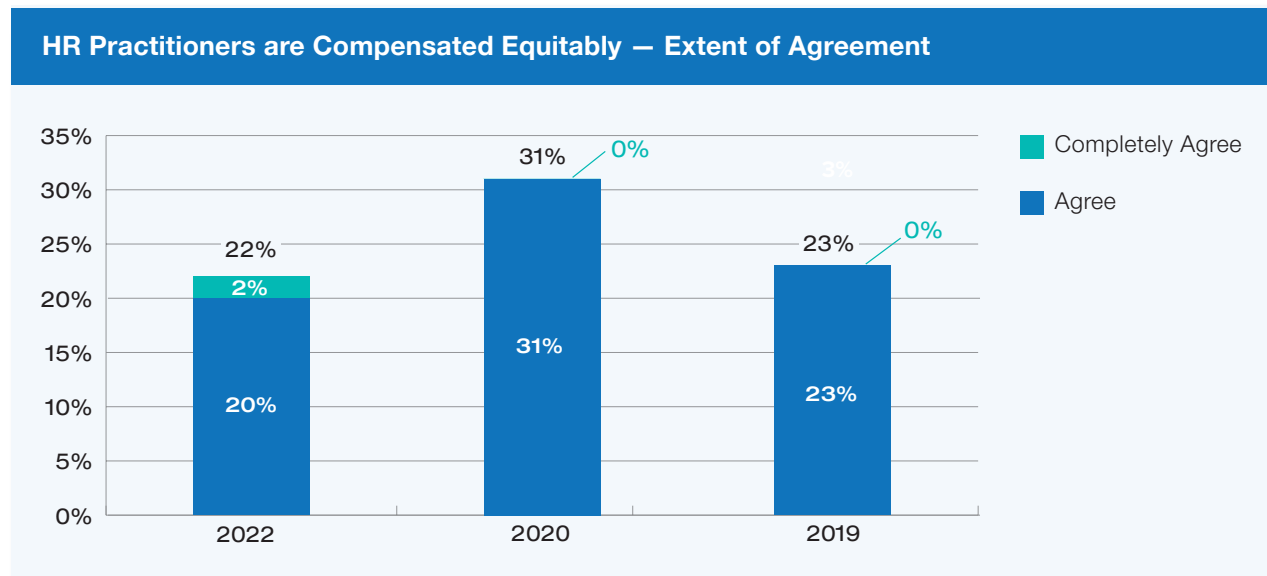


Figure 8

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

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

Just over two-thirds (68 percent) of study respondents agreed that larger organizations compensate HR more highly than smaller organizations, down from 83.0 percent in 2020 but on par with the 64 percent that agreed in 2019. Belief in larger organizations compensating more highly than smaller organizations is not uncommon. Due to a myriad of reasons, such as the perception of additional responsibilities or additional workload due to size, HR practitioners clearly believe this to be true, though the belief is less common than in previous years. However, as retention, recruitment, and organization structure become vital to an organization’s success, this may no longer be accurate.

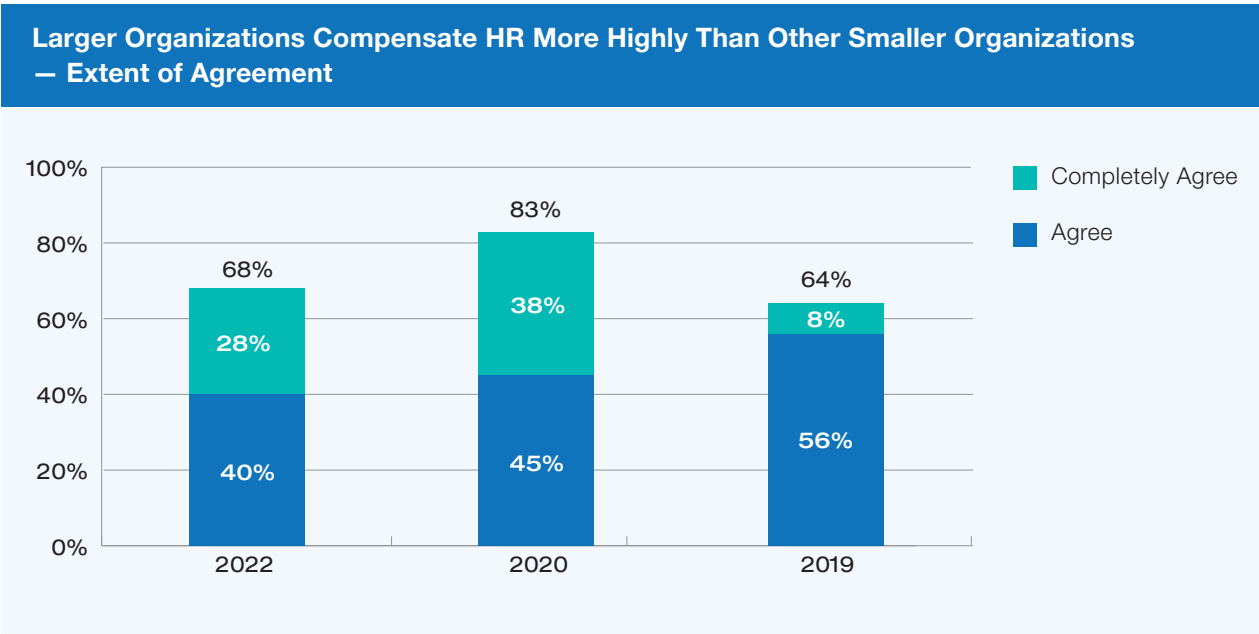


Figure 9

Minority Compensation

In recent years, attention to DEI has become a core component of the works of Human Resources departments. Systematic racism, pay inequality, and unconscious bias, have gained attention. That, coupled with other social issues falling under HR’s umbrella, make it difficult for them to measure and navigate diversity without the resources and time necessary. To garner an understanding of HR practitioner’s sentiments, we asked respondents about their extent of agreement with five statements regarding compensation and diversity in their company. These questions originated in the 2020 wave of the study.

In 2022, just under three-quarters (71 percent) of respondents agreed that the level of compensation for minorities is comparable to non-minorities in their HR department, down from 77 percent in 2020. Given a small sample size of the segmentation the decline is not significant, but bears watching in subsequent study waves.

There were similar findings for agreement with the statement “Minorities in executive roles are compensated on par with other executives in our company.” In total, 70 percent agreed with the statement in 2022, down from 76 percent in 2020. But segmenting responses by company size in terms of employee count reveals that among smaller organizations with less than 500 people, 80 percent agreed that Minorities in executive roles are compensated on par with other executives in their company. But among those from organizations with more than 500 employees, that percentage drops to 65 percent. In 2021, large corporations began tying executive compensation, especially stock grants, to the achievement of diversity goals.⁶ Although this initiative’s effect on minority compensation is not yet determined, hopefully it will increase minority presence.

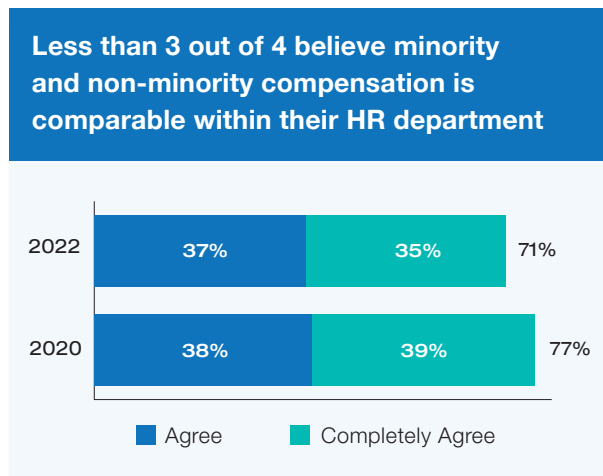


Figure 10A

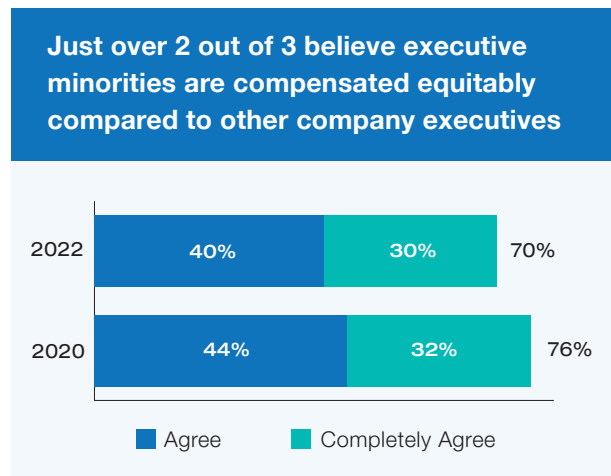


Figure 10B

Representational Diversity

Could HR face diversity issues within its own departments? We asked three statements addressing representational diversity. In the first question, respondents were asked about the extent of their agreement to “We have representational diversity within our HR leadership team.” Just over one-half (58 percent) agreed with the statement, comparable to findings from 2020, with 60 percent in agreement.

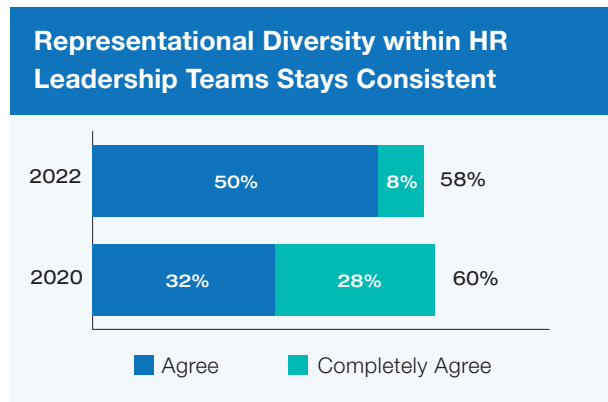


Figure 11A

Slightly more respondents, 62 percent, agreed with the statement, “We have representational diversity within our HR department,” again a small decline from the 66 percent that agreed in 2020.

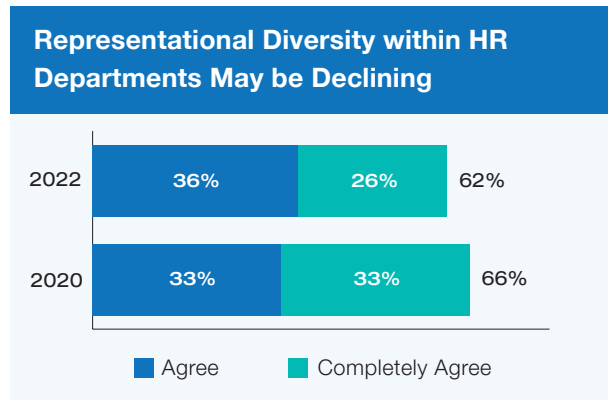


Figure 11B

Finally, respondents were asked if they agreed with the statement “We have representational diversity in our workforce.” Almost three-quarters (73 percent) agreed with the statement. This suggests that HR departments are less representationally diversified than companies as a whole.

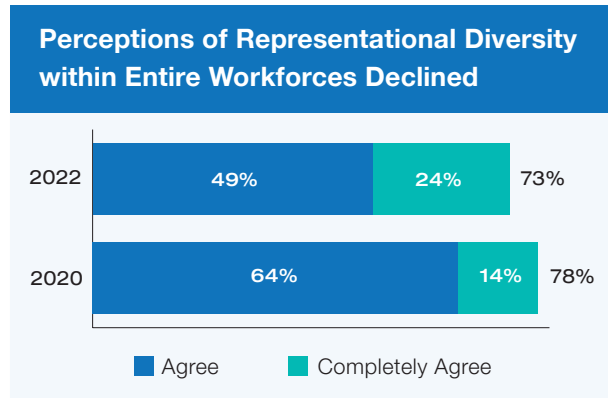


Figure 11C

Conclusions

While there are recurring themes and beliefs across each wave of the CHRO Compensation Study findings, there are significant changes as well, including initiatives addressing diversity and compensation gaps.

Compensation Structure

- There are three statistical correlations among CHRO compensation and company performance among the Fortune 500 in 2022 and 2021: Total Compensation vs. EBITDA, Total Compensation vs. Market Capitalization, and Restricted Stock vs. Market Capitalization.
- With each successive wave of this study, HR leaders believe compensation of the highest-level executive in their department is not in line with the rest of the C-suite.
- Overall, HR feels undercompensated compared to other organizational departments, as less than one-quarter agree that they are equitably compensated, a decline since 2020.
- The gender pay gap has reversed since 2020 as women in HR, especially CHROs in the Fortune 500, are more highly compensated than their male counterparts. In 2021, women had lower salaries than men but higher total compensation; but in 2022, women have both higher salaries and variable compensation.

Compensation and Diversification

- Among the Fortune 500, there were not enough African American CHROs to compare compensation levels between ethnicities. Out of the 175 CHROs with publicly available compensation data, only eight were African American. However, it should be noted that there was an increase in African American CHROs from 2020, but not all compensation data was available.
- Although there may be a lack of diversity among senior HR practitioners, 71 percent of respondents feel the level of compensation for minorities is comparable to that of non-minorities in their HR department.
- Respondents were asked if they agreed with statements about representation diversity among their HR leadership, HR department and the company. Just over one-half (58 percent) felt HR leadership was representationally diversified while 62 percent their HR team was and 73 percent felt the company as a whole had representational.



Notes

1. "Y Charts," *S&P 500 Earnings Per Share*, accessed July 7, 2022. https://ycharts.com/indicators/sp_500_eps
2. Boesler, Matthew and Pickert, Reade. "US Corporate Profits Fall While Consumer Spending Revised Up," *Bloomberg*, May 26, 2022, <https://www.bloomberg.com/news/articles/2022-05-26/us-corporate-profits-fall-while-consumer-spending-revised-up>.
3. The Market Intelligence Desk Team. "June, Second Quarter 2022 Review and Outlook," *Nasdaq*, July 1, 2022, <https://www.nasdaq.com/articles/june-second-quarter-2022-review-and-outlook>.
4. "It's official: HR professionals are finally burnt out," *Workvivo*, accessed June 30, 2022, <https://info.workvivo.com/hubfs/Workvivo%20-%20Infographics/HR%20Burnout.pdf>.
5. "It's official: HR professionals are finally burnt out," *Workvivo*, accessed June 30, 2022, <https://info.workvivo.com/hubfs/Workvivo%20-%20Infographics/HR%20Burnout.pdf>.
6. Francis, Theo and Glazer, Emily. "CEO Pay Increasingly Tied to Diversity Goals," *Wall Street Journal*, June 2, 2021, <https://www.wsj.com/articles/ceos-pledged-to-increase-diversity-now-boards-are-holding-them-to-it-11622626380>.

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