HR Field Guide:

5 Tips To Effective Compensation Management

Compensation management systems automate and manage the planning, modeling, budgeting, analysis, and execution of enterprise-wide compensation plans. Organizations that have invested in these systems cite a number of significant benefits. This field guide will explore five critical steps to ensure that you get the most out of your compensation planning investments.

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Introduction

Compensation management systems simplify and standardize the planning, modeling, budgeting, analysis, and execution of global compensation and reward policies. Organizations that have invested in these systems cite a number of significant benefits, including:

- Simplify compensation policy planning and administration and effectively communicate policies across the organization
- Manage all forms of employee compensation, including salaries, bonuses, and long-term incentives (LTI) such as stock options
- Flexibly define a single company plan or multiple plans across individuals, groups, divisions, and geographies
- Enable pay-for-performance to retain key employees by rewarding them commensurate with their efforts
- Model and simulate the budget impact of salary and compensation actions
- Leverage flexible and configurable workflows to define and execute plan reviews and approvals
- Quickly and easily access detailed job and compensation data, including third-party salary survey data
- Seamlessly import/export compensation worksheets from/to Microsoft Excel
- Analyze all aspects of compensation with detailed reports, analytics, and interactive dashboards to make more informed business decisions

This field guide will explore five critical steps to ensure that you get the most out of your compensation management investments.

TIP #1: SIMPLIFY GLOBAL COMPENSATION PRACTICES AND PROCESSES

Reducing the complexity of global compensation management should be the number one priority for all organizations. As any company that has managed dozens or more compensation plans using spreadsheets or legacy systems can attest, the complexity can be staggering. Modern compensation management solutions reduce complexity and improve visibility by centralizing compensation processes and data and facilitating some of the more arduous tasks such as rollups, exception handling, and approvals.

A fundamental change in mindset is also required to simplify compensation practices and processes. For instance, it is not unreasonable to ask the question: Can we reduce the total number of plans we currently administer? With a truly flexible and configurable compensation management system, the answer is yes. Rather than administer fifty unique plans for a global workforce, does the system enable organizations to define a base number of plans (e.g., one plan for each division or geography) and then easily define unique policies (business rules) and variables (payout components) for specific groups, business units, or even individuals? By reducing the total number of plans, and by leveraging a compensation management system that enables flexible definition/change of plan elements as well as eligibility, the amount of resources and time spent on compensation administration can be significantly reduced.

A few key questions to consider when simplifying compensation management practices and processes are:

1. How easy is it to define and change compensation policies and variables?
2. Can companies define a single company plan or multiple plans across both individuals and groups?
3. Does the system support multiple currencies with automatic conversion to simplify global compensation management?
4. From an ease-of-use perspective, do HR and business managers have the ability to easily and securely view, sort, and filter records?

TIP #2: GAIN FRESH INSIGHT BY IMPROVING DECISION SUPPORT

Expenses relating to people are most organizations' highest cost. It is therefore astounding that only 60% of organizations with more than 5,000 employees have made significant technology investments to automate and improve compensation management, according to a global survey of HR leaders conducted by SumTotal. Even within global companies that have made significant technology investments, use of spreadsheets is still prevalent in certain divisions and geographies.

With siloed and often inaccurate data, the ability for HR and business leaders to make good compensation decisions is severely limited. According to a Ventana Research report published in 2007, "Confusion over guidelines, the inability to get timely data for decision support, and uncertainty about the relation between compensation management and personal managerial priorities leaves many managers wanting only to 'get it over with.' The predominantly homegrown solutions that all too many business units rely on for compensation management typically do not provide managers with reliable tools to make accurate, repeatable decisions concerning base and variable pay. The inefficiency ripples upward as well, since lack of a clear view into compensation processes ties the hands of management and leaves executives exposed to making subjective, misinformed and often rushed decisions based on outdated or incomplete information."

Organizations can improve compensation decision support by leveraging the tools (both transactional and analytical) embedded within their centralized compensation management system. Numerous standard out-of-box reports should be readily available, and the tools should provide the ability to easily create new reports, dashboards, and metrics. Report navigation should be streamlined to promote ease-of-use by non-technical users, and familiar tools such as Microsoft Excel should be available for ad-hoc analysis to enable managers to create graphs, comparisons, and pivot tables. Finally, detailed compensation statements should be easy to produce.

Fundamentally, a robust compensation system needs to answer these important questions:

1. How much can I pay?
2. What are my guidelines?
3. Who are the exceptions?
4. What has an individual contributed to the organization?

5. Based on insight provided by market salary survey data, are my top performers being paid competitively?
6. What has someone been paid historically?
7. What is my spend vs. allocation?

TIP #3: LINK COMPENSATION TO WORKFORCE PERFORMANCE & GOALS

Programs that align employees' compensation – merit increases, bonuses, long-term incentives – to their performance and goals have proven to be very effective in driving actual performance. Often called pay-for-performance (P4P), the concept is to build a culture of top performers by aligning goals, performance, and rewards across an entire organization. Motivating, rewarding, and retaining top performers is a key business objective for any company that seeks to successfully maintain or exceed growth expectations.

Best-in-class organizations focus on a performance-driven rewards system that compensates individual contributors directly proportionate to what they achieve and what they contribute to the bottom-line. The challenge lies in effectively aligning employee goals with organizational objectives, automating performance management processes, and linking them with complex compensation policies or time-based incentive plans at an enterprise level.

P4P and merit-based pay programs – especially those that relate to executives – have received renewed interest lately due to emerging legislative and regulatory compliance pressures stemming from the global financial system crisis. In the aforementioned global survey conducted by SumTotal, only 36% of organizations have made significant technology investments to automate and improve P4P processes. Clearly, there is an opportunity to both espouse the virtues of a merit-based culture while at the same time working toward becoming compliant as new regulations are put into effect. The latter issue will be particularly important for publically-traded companies.

Ideally, a single, centralized HR platform that natively connects all of the required components for P4P is required because it facilitates cross-functional reporting and eliminates the technical challenge and cost of integrating and managing disparate systems.

A few key questions to consider when linking compensation to performance and goals are:

1. Can compensation plans be modeled to provide tiered payouts based on goal attainment and/or performance ratings?
2. Can formulas be built into goals that calculate payouts and automatically time execution of the payouts for processing by the payroll system?
3. Can coaching and guidance, tied to performance ratings, be displayed directly from the compensation process to provide managers with improved decision support?

TIP #4: ACHIEVE GLOBAL VISIBILITY WHILE PRESERVING LOCAL AUTONOMY

Most multinational companies lack a global view of their compensation practices because their current systems are inadequate and data is siloed. Widespread use of spreadsheets, homegrown systems, and legacy systems to manage compensation management efforts prohibit achieving a truly global view. As a result, HR and business leaders alike tend to make decisions based on incomplete data, or worse, inaccurate data, thereby creating systematic risk. And in the world of spreadsheet-based compensation management, rollups, exceptions, and reconciliations are manual, time-consuming, and expensive processes.

The use of a central, global compensation management system in lieu of disparate spreadsheets and systems is a viable path for companies seeking a global view of compensation, but the fact remains that different groups, divisions, regions, and geographies may have unique localized requirements. Preserving local action is therefore contingent upon the flexibility of the central compensation management system to support unique workflows (e.g., for approvals) and compensation cycles (e.g., focal/common, anniversary) by division or geography, while easily fitting into existing organizational hierarchies. Multi-currency support with automatic conversion is also essential for localized support.

A few key questions to consider in order to achieve global visibility while preserving local action are:

1. Is a company's existing organizational hierarchy supported?
2. Does the system natively link to a human resource management system (HRMS) for understanding historical payouts?
3. Does the system support "what-if" scenario planning for forecasting purposes?
4. Can monetary values be displayed in both the employee's local currency and the manager's local currency for easy comparison, with the values converted automatically?

TIP #5: OPTIMIZE THE APPROVALS PROCESS

Once compensation plans have been configured for a workforce, the policies (business rules) are applied to employees. Managers review proposed salary adjustments, compare them to standard guidelines or market salary survey data, adjust as necessary, and approve the compensation plans for their direct reports. A manager's submitted recommendations are available for review by the next level in the organization's hierarchy, and higher levels of management can reject a plan, sending it back for additional changes. A compensation plan can be defined for individual or team approval, and the compensation system should automatically alert a manager that new compensation information is awaiting approval. After final approval, the updated salary records are pushed to payroll.

The process outlined above is relatively straightforward, but in reality can be quite involved for organizations with complex reporting structures and hierarchies. Ultimately, the compensation management system should contain a model of the organization's existing hierarchy and be flexible enough to support complex organizational structures.

A few key questions to consider in order to optimize the approvals process are:

1. Does the system easily integrate external market salary survey data (e.g., Payscale) to help managers make more informed compensation decisions?

2. Does the system provide a flexible workflow-based approval hierarchy that enables an employee to participate in many plans with different approval workflows for each plan?

3. Can a compensation plan include a management hierarchy that differs from a direct reporting chain?

4. Can senior management control how they view their hierarchy, from individuals, to teams, to summaries? Can they easily drill down into the organization to examine additional detail as needed?

Conclusion

According to AMR Research, companies can expect to save approximately 57% per transaction to process a salary change (a common affair) by moving from a manual process to a technology-enabled one. There are clearly more complex aspects to compensation management, and costs savings can be realized across the entire value chain, from plan definition, to decision support, integration, localization, and approvals. By focusing on a handful of key best practices, HR organizations better position themselves to optimize planning, modeling, budgeting, analysis, and execution of their enterprise-wide compensation plans.

To summarize the top five tips for getting the most out of your compensation management investments:

1. Simplify Global Compensation Practices and Processes
2. Gain Fresh Insight by Improving Decision Support
3. Link Compensation to Workforce Performance & Goals
4. Achieve Global Visibility While Preserving Local Autonomy
5. Optimize The Approvals Process

MORE INFORMATION

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ABOUT SUMTOTAL

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