

[compensation & benefits] by David Turetsky

COMPENSATION TECHNOLOGY: DRIVE HIGHER PERFORMANCE, GAIN COMPETITIVE ADVANTAGE

What do compensation technologies and the telephone have in common? Both have evolved significantly over the last 20 years, granting freedom from previous constraints and contributing to clearer communication. The evolution of compensation technology has enabled organizations to use performance-based pay to effectively motivate employees, attract and retain qualified talent and drive higher workforce productivity.

Compensation technology has come a long way since its inception. A quarter century ago, organizations relied on manila envelopes to hide confidential listings of employee salaries. Manual pen-and-paper processes limited their ability to design compensation plans

with any depth or complexity, and documenting exceptions meant writing in the margins of the listings.

Thanks to advances in compensation management automation, those restrictions have been lifted.

Although a few still use the envelope approach, many organizations continue to rely on Microsoft program-enabled processes for compensation management. But as their businesses grow larger, they've discovered spreadsheets such as Excel aren't the right foundation on which to build.

Now, companies (even those that customize Oracle and SAP applications) are opting for best-of-breed applications from smaller vendors. The result is solutions that can help plan and budget salaries and salary increases, streamline compensation cycles, ensure consistency and fairness, and empower managers in the organization to pay for top performance — all while adhering to corporate guidelines and budgets.

PAYING FOR PERFORMANCE HELPS SPUR THE NEED FOR AUTOMATION

Yankee Group research analysts forecast a 19.6 percent growth in compensation management over the next several years as more organizations seek to develop a pay-for-performance culture and recognize compensation as the cornerstone of effective talent management.

Industry research also shows that enabling consistent and standardized compensation processes can drive better individual and organizational performance. Further, by creating a deeper understanding of the connection between pay and performance, organizations can foster shared accountability and ensure business objectives are aligned with organizational goals.

But they can't do any of this without the right tools and technologies.

More organizations also are starting to embrace compensation technology because of the strain on today's HR departments. Over the last 10 years, the role of the HR professional has changed dramatically, becoming more complex — there is more focus on creating and delivering HR strategies and services that drive desired business results. Today's HR and talent management professionals are required to provide systems to support the design of work positions, recruiting, rewards, recognition and strategic pay in addition to career and succession planning and employee performance and development systems.

Meanwhile, HR department head counts have been reduced, requiring HR organizations to manage more cost-effectively and provide purposeful guidance with fewer human resources than ever.

Additionally, organizations need to re-evaluate how they approach compensation management because of heightened global competition. Challenged by rapidly shifting environmental change, companies have begun to realize simple merit pay plans alone do not provide adequate rewards for highly sought-after top perform-

ers and are ineffective in proactively motivating desirable performance.

Before advances in compensation technology facilitated greater visibility and collaboration, organizations tended to rely on traditional salary-increase methodologies (such as cost-of-living salary increases or a standard progression of rate increases within a pay range for a particular job) to calculate basic rates of pay and salary ranges and determine how to move individuals from one pay grade to the next. This model ties salary to the length of service versus actual performance.

With compensation technology in place, organizations can accommodate variances in pay plans. As more organizations recognize the positive business effects of performance-based pay, the need for technology to manage and accommodate differences in pay plans and rewards across their organizations increases, whether those differences are local, regional, national or functionally derived.

To gain a competitive edge from compensation technology, organizations should:

- **Empower managers to make smart decisions.** Managers armed with the tools and data to make well-informed decisions regarding employee compensation can respond quickly and ensure top performers are motivated to perform to the best of their ability. Offer training on how to make decisions that are in line with corporate objectives and how to implement an intuitive, easy-to-use solution so managers and employees understand the fundamentals behind pay decisions.
- **Focus on top performers.** Compensation technology should be able to accommodate exceptions. Employees who make significant contributions to company success should be recognized for their efforts. In addition to variable pay components, think about alternative rewards such as "spot award programs" to motivate high performance when corporate guidelines do not allow for a merit increase.
- **Provide oversight.** Compensation technology enables HR managers to provide feedback and have visibility into pay decisions. If exceptions are going to be made, the right technology can accommodate comments to ensure the decisions that drove those exceptions can be reviewed and validated.
- **Identify future trends.** Compensation systems offer timely access to consolidated workforce data. Organizations can uncover trends and examine data for future implications at the employee and enterprise level. Trend data also can help companies paint a picture for employees to help them understand how their compensation relates to their career path. **TM**

THE BLINDING SPECTRUM OF TECHNOLOGY OPTIONS

Organizations today have a spectrum of technology options to manage their compensation plans. For many compensation professionals, Microsoft Excel is still the main technology for focal compensation-planning activities. Today's HR executive, however, has choices that range from the Excel standard to homegrown applications, best-of-breed applications and modules within an enterprise resource planning (ERP) system.

Each approach has pros and cons, and the organization's needs should dictate which option it pursues rather than the solution driving the organization's business processes.

Many organizations rely on Excel because the technology is pervasive, conveniently located on almost every desktop and fairly inexpensive. Employees don't have to learn a new process or programming language, and most important, Excel does not require any IT support.

The program is not without shortcomings, though. Users can store and analyze financial data, but Excel was not specifically designed for compensation management. Additionally, in Excel, mistakes in calculations or sorting easily can be made. This compromises data integrity, and by the time errors are uncovered, locating the source of the problem and fixing it can be painstaking.

In a large organization, spreadsheets often are sent back and forth via e-mail in an ineffective attempt to collaborate and share information. It also can expose the organization to data-privacy and security-compliance issues. Further, Excel does not provide visibility into the compensation-planning process, which can extend the planning cycle.

Microsoft Access is another tool organizations use to manage compensation, but like Excel, it wasn't designed for multiple users, and it offers similar risks in terms of data privacy and security. Although more robust than Excel, Access requires a great deal of manual manipulation and inhibits users from accessing the most current data.

Before other options were available, some organizations developed in-house applications to manage their unique compensation pay plans. These solutions often are expensive to build and maintain. Organizations can craft a solution tailored to their specialized plans and needs, but they must be prepared to dedicate valuable time and resources to get a solution up and running, which can take attention away from work that could affect business results.

Further, should system developers leave the organization, they take their knowledge with them, leaving the company in a quagmire as it scrambles to maintain and upgrade the organic system.

Best-of-breed applications, however, are designed to offer a truly comprehensive approach to compensation management. These systems are developed using intellectual property from multiple sources, best practices amassed from internal subject-matter experts and the latest technology advancements, resulting in lower cost of ownership.

Inherently more flexible, best-of-breed applications can be configured to meet business workflow requirements and ensure the HR department's technology needs are a priority. They also provide a streamlined approach and global visibility into compensation allocation.

But because a best-of-breed solution can require systems integration to tie together business processes, it is important that the solution being considered have a solid technology infrastructure. A

best-of-breed vendor should have a proven record and portfolio of clients to demonstrate the solution can scale to meet organizational requirements.

Organizations with traditional ERP systems can take advantage of suites of products integrated in a single solution such as talent management, benefits management, payroll and compensation-planning applications. A unified system with multiple components, ERPs include everything from supply chain management to customer relationship management applications and HR modules. But modules can be very expensive to implement and maintain, and they often need to be rolled out one at a time.

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ERP systems also can be cumbersome to use and customize, and they require re-engineering of business processes to fit the ERP system standard. Because ERP packages predetermine and dictate processes, they often differ from the HR department's current practices, requiring a compromise in functionality and a learning curve that might limit adaptation and overall effectiveness.

According to analysts at Forrester Research, many organizations looking to align individual performance with corporate performance opt to deploy best-of-breed solutions via software-as-a-service (SaaS), a software application delivery model in which a software vendor develops, hosts and operates the application for use over the Internet. The result creates a winning proposition for HR, as its reliance on IT is further diminished. Additionally, with the SaaS model, organizations can get regular product enhancements directly from the vendor.

WHAT TO EXPECT FROM COMPENSATION TECHNOLOGY

Because of the ever-changing competitive business climate, organizations are looking to automate and fully leverage compensation plans, and fluctuations in business regulations further drive the need for better pay decisions applied consistently and with more oversight.

Compensation technology provides organizations with a standardized vehicle to not only capture and document compensation decisions but also to document and communicate that they are made fairly, accurately and within corporate guidelines.

Technology also can improve process management as talent management professionals navigate different data-sharing and data-privacy regulations — U.S. businesses have myriad laws and industry-specific federal legislations with which they need to comply, and organizations that do business in Europe need to meet

requirements set forth by the European Union. Best-of-breed solutions enable companies to facilitate global compensation and more effectively comply with and adhere to various data-protection requirements.

Once the compensation process is automated, there is an epiphany moment: Managers can better understand how the company wants them to pay employees.

Guidelines exist within the system to lead the process, but managers still retain the flexibility to create exceptions to the rules and tailor reward programs to a particular individual or business unit's organizational contributions. Exceptions can be captured in the system, and managers can explain budget variances to help senior management understand how and why decisions are made.

Compensation technology also supports the identification of trends such as how people are paid in the current market. Using an automated compensation system, managers can better understand what components of pay resonate with the workforce, as well as the relative effect of pay elements such as stock plans, incentives, profit sharing and special recognition plans. Visibility into current pay trends enables managers to develop competitive variable pay plans that more effectively drive desired behaviors.

As technology becomes more embedded in all areas of our work lives, those companies that take advantage of the benefits from automation, consolidation, governance and flexibility will have a com-

petitive edge. Like the telephone, compensation solutions will continue to evolve and offer increased functionality. **TM**

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