

# Deploying a Global Compensation Planning Solution

BY AL WRIGHT

Six years ago I automated my first focal compensation planning cycle with a Web-based solution. In three months, our team had configured a robust manager self-service application with an elegantly simple user interface for planning merit, adjustment and promotional increases. By some quirk of fate, I've been automating compensation planning programs ever since. So, some 30 projects later with companies like General Motors and SBC Communications, I thought it was about time to write down what makes a successful implementation — before I forget!

Automating compensation planning is a timely topic. Many organizations have reached the point where they can no longer tolerate the inaccuracies and inefficiencies of manually distributing spreadsheets to collect employee salary increase data and to reconcile merit budgets. Companies can save millions of dollars in budget overruns, avoid correcting erroneous payroll checks and streamline administrative operations. I guess that's why I'm so busy these days.

The beginning of this article is a series of mini case studies to highlight implementation issues for automating global compensation. I've chosen companies with international compensation programs because they offer the most challenge in supporting all variations of wage types, compensation elements, business rules and legislative requirements. Following the case studies is a "cheat-sheet" which lists 20 guidelines, hints, and general tips that can keep you out of trouble. (If you're in a hurry — go straight to the list.)

## **AUTOMATING COMPENSATION PLANNING IN THE UNITED STATES, EUROPE AND ASIA**

In one instance, a semi-conductor company headquartered in Silicon Valley with global operations in Europe

and Asia. As with many U.S.-based companies, compensation programs were consistently administered throughout the U.S., but the rest of the world had a fair amount of leeway to administer merit salary increases. Bonus administration was consistent throughout the world, as were stock option nominations.

This Web-based automation project had both a functional project lead from the Compensation department and a technical lead from the IT department. Having project leaders from both disciplines enabled the creation of a very strong team. These experienced project leaders also engaged their counterparts throughout the world. During the requirements gathering process, we conducted early morning briefings with the extended team members in Europe, design meetings throughout the day with core team members, and then held more briefings for the extended team members in Asia in the evenings. This process made for some long days. But at the end of the process, we efficiently incorporated input from all the geographies. In addition, corporate compensation gained agreement on standardizing certain business rules and practices.

It became clear in our evening briefings that managers in Asia would need to see budget information in their local currency. The managers not only needed to plan salary increases in the employee's local currency, but the merit budget analysis also needed to be in the manager's local currency. The exchange rate between the U.S. dollar and the Japanese Yen, for example, is large enough to make planning in Yen and budgeting in U.S. dollars quite awkward. So we added the conversion of budget data from a corporate "benchmark" currency (in this case U.S. dollars) to the managers' local currency.

## **COMPENSATION PLANNING FROM A EUROPEAN PERSPECTIVE**

Our next example takes place in Europe. A communications company also needed to automate their compensation planning process for base salary and stock. A smaller core team was formed to define system requirements. Since my team was U.S.-based, we used a combination of in-person meetings and remote meetings to define functional and technical needs. For the remote meetings, we held sessions over the Internet to review documents so we could gain agreement on specifications. The client team also held an internal meeting with a very large extended team to review the screen designs, identify country-specific issues and communicate any changes in compensation practices.

We already offered converting budget information to the managers' local currency, so the benchmark currency in this case was the Euro. However, most of the managers outside the U.S. planned employee salary increases in monthly terms rather than annual amounts. We would need to support planning in monthly amounts in addition to annual amounts. To make matters worse, each country potentially used a different number of months in their annual salary calculation. In many countries, employees receive seasonal bonuses that are paid in "additional months" salary. So in Japan, for example, an employee may receive 16 months salary — with the additional month payments in June and December. However, in Hong Kong, they receive 13 months of salary. So the cross calculation between monthly and annual salary was country specific. We gave the manager the option to plan in either monthly or annual amounts, and then we reconciled the monthly amounts with the annual amounts for budget analysis.

We also had to be careful with number and date formatting. For this client, we supported the European number formatting, which uses decimal points where the U.S. convention uses commas, and uses commas where the U.S. convention uses decimals. For example, 100,000.00 in U.S. format would look like 100.000,00 in European formatting. In addition, we chose 12-DEC-2002 for the date format so the countries wouldn't mistake months for days.

### **A RECENT GLOBAL COMPENSATION PLANNING REQUIREMENT**

One of my more recent projects has identified an additional international requirement to consider when automating worldwide compensation planning. In many countries, income is sheltered from taxes with additional allowances in lieu of salary. Housing and car allowances are the most common. In addition, countries have statutory increases required by the government or national collective agreements. In order for managers to consider an employee's total compensation when allocating salary increases, bonuses or stock, the user needs visibility into the employees' additional wage types. As you can guess, each country has a different set of allowances and additional compensation elements. So you'll want to display the employees' additional compensation elements so the user can plan total compensation.

### **TOP 20 THINGS TO KEEP IN MIND WHEN DEPLOYING A GLOBAL COMPENSATION PLANNING SOLUTION.**

After years of automating compensation planning in over 50 countries, here are the issues I've run into and tips on how to handle them.

#### **1. Plan in local currency.**

Managers think in terms of local currency as they plan employee salary increases. You want to support this behavior so that managers consider appropriate increases relative to employee local wages. Enter all salary increase data in the employee's local currency.

#### **2. Be aware — local currencies take up screen space.**

Be prepared to support currencies that require extra space on computer screens. The Turkish Lira is the largest I've run into — with over 1.5 million Turkish Lira to a U.S. dollar. Other currencies that require more screen space include the Korean Won and the Japanese Yen. Italy uses the Euro now so you may not need to support displaying the Italian Lira. Save plenty of room on the screen designs for individual salaries and budget totals to be displayed in your largest currency.

#### **3. Convert currencies to help managers with the budget analysis process.**

Your managers will want to view budget totals in their local currency. They may be used to working in Euros, Yen or another currency. You'll also want to give them the ability to see budget roll-ups in your corporate "benchmark" currency. (For example, the benchmark currency for U.S.-based companies is U.S. dollars.) Give your managers an easy way to convert their budgets from local currency into the corporate benchmark currency.

#### **4. Support local grade structures, guidelines and budgets.**

While working with local currencies, managers will need to use local grade structures, guidelines and budgets if you have them. Varying economic conditions will most likely warrant different merit budget values for your different countries. A three percent merit budget, while sufficient in one economy may not be competitive in another economy with a high inflation rate. Your compensation planning system will need to store and display grades and guidelines as well as calculate local merit budgets.

#### **5. Determine if you're planning in terms of annual and/or monthly salaries.**

Outside the U.S., many countries traditionally plan in monthly rather than annual amounts. For managers used to planning in monthly amounts, planning in annual amounts is quite awkward. To make things more complicated, some countries include seasonal bonuses as "additional" months salary. For example, you may include 16-months salary in the Japanese annual

salary calculation. You need to examine how the annual salary is calculated for each country. Your system will need to support those various annual salary calculations if managers plan in monthly amounts.

#### **6. Determine what country-specific compensation data to display.**

You'll need to determine what compensation data is appropriate to display in the various countries for different user types. In some countries, managers will want to see housing allowances, car allowances, etc. to get a better idea of the employee's total compensation. If you don't give the managers all the relevant compensation information they need to make smart salary planning decisions, they might not find much value in your automated compensation solution.

#### **7. Consider country-specific data privacy issues.**

Many countries limit the type of data managers can view. Here in the U.S. for example, managers should not take age into account as a factor in salary increases. However, in some Asian countries, age may be an important consideration. Some European countries have very strict laws regarding what employee data is legally accessible by managers. You'll need to review all the data elements on all the screens in ensure compliance with U.S. Equal Employment Opportunity and European data privacy laws.

#### **8. Standardize on global compensation practices.**

Implementing a new automated compensation planning system is an excellent time to rein-in local compensation practices that conflict with your corporate programs. The new system will offer a way to introduce new global compensation practices. Minimize country-specific calculations and business rules when appropriate.

#### **9. Give managers flexibility when possible.**

Providing flexibility sounds like it conflicts with the previous suggestion to standardize on global practices. Not necessarily! Your system can provide a standard calculation, as an example,

and still let the user override the standard if necessary. Providing flexibility in the system will give your international users the ability to accommodate local business conditions when needed.

#### 10. Carefully plan communication for change management.

Don't underestimate social resistance to self-service applications. In some cultures, managers are not used to administering HR transactions. Also, make time to gather input from all major stakeholders in all regions. In your review meetings, ask each person for their input individually. In some more reserved cultures, offering suggestions is not considered polite.

#### 11. Validate that you can get all the data you need from each country.

Is the data you need for each country available in your core HRMS? Design your application around readily available data elements. Don't use data created and stored locally outside your HRMS.

#### 12. Never skimp on your testing.

Give plenty of time for creating test plans that include all local calculations, business rules and software edits. Test plans must include all country-specific business rules and calculations. Test each scenario carefully.

#### 13. Examine rounding calculations for all currencies.

Here's one that can trip you up. If you don't size your database fields properly, then you can end up without enough precision to round large currencies accurately. Also test currency conversions as they affect all rounding calculations.

#### 14. Test your technical infrastructure.

Make certain all your users have access to your application, whether it's through your corporate network or from the public Internet. Evaluate the network bandwidth available to your remote locations to ensure acceptable application performance. Size your servers to support your remote loca-

tions. Identify and test each PC operating system and Web browser combination used by your managers.

#### 15. Implement in phases.

Resist the temptation to roll out all of your compensation programs to all geographies at once. My most successful projects have all phased-in functionality. Determine if you should phase-in your system in geographical regions or implement a single compensation component in all geographies.

#### 16. Simple is beautiful.

Simplify your screen designs to include only data elements required to make appropriate compensation decisions. The simpler the screen layout, the easier the application will be to use. The easier the application is to use, the more scalable it is to larger populations and the stronger the ROI.

#### 17. Encourage best practices.

When debating whether to include a feature or incorporate a specific business rule, consider what is the best practice in the industry, and then encourage that behavior in your software. For example, best practice may be to alert a manager that the increase was over a guideline, but to give the manager the ability to go outside the guideline if local business conditions warrant the action.

#### 18. Frequency of Occurrence

Check the frequency of occurrence for exceptions to corporate practices in order to validate whether they warrant addressing in the software application. You can never cover all exceptions in your software so don't even try. If some functionality is needed for a very small population of users, investigate a work-around.

#### 19. Automate off-cycle compensation transactions.

If you're automating your annual focal compensation program this year,

you'll probably want to automate your off-cycle compensation transactions soon afterwards.

#### 20. Deliver within budget, scope and schedule.

Here's a trick to help keep your project in scope, budget and schedule. In your initial kick-off meeting, have the client prioritize the flexibility for three criteria — budget, scope and schedule. With compensation planning solutions, schedule is most often the least flexible. Remind the client that a change in one of the criteria always affects the other two. When everyone agrees on the priorities, avoiding scope creep becomes easier.

#### About the Author

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#### COMMENTS?

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