

Automated Compensation Planning

By Robert Mattson, Workscape

Isn't Just For the Big Fish

According to the most recent CEO challenge survey from research firm InfoEdge, where 658 CEOs and chairmen were asked to rank their business priorities, sustained and steady top-line growth and increased workforce productivity are among the top 10 areas of focus. To meet those challenges, the first step mid-sized organizations need to take is to rid themselves of outdated notions about compensation planning technology.

Many are still mired in manual spreadsheet-based processes that limit their visibility into the compensation planning process and hinder the ability for their managers to make smarter performance-driven compensation decisions.

But a dramatic shift is now occurring in the technology arena and in how software companies are delivering solutions. "Enterprise solutions," previously only accessible to large companies with big budgets, are being

tailored to smaller organizations with a more focused feature set and streamlined implementation processes. Industry analyst firm IDC is forecasting a more than \$11 billion market during the next three years for these solutions.

Most importantly, these solutions are based on best practices previously developed at large companies. This article examines and seeks to debunk the myths that surround compensation planning solutions and show how "smaller fish" can gain the efficiencies and benefits

that drive individual and organizational success similar to what's found at their large-enterprise counterparts.

Myth No. 1: Only Large Companies Really Need Compensation Planning Systems

More than ever before, midmarket organizations need compensation technology to effectively reward, manage and motivate their workforces. Regardless of size, every organization is dealing with the talent shortage.

According to the U.S. Social Security Administration, 77 million U.S. Baby Boomers will be leaving the workforce, and the generation that will replace them consists of only 46 million people. This translates into approximately 8,000 employees leaving the workforce daily. As a result, the shrinking U.S. workforce is spurring an increased competition for talent, requiring midmarket organizations to incorporate

QUICK LOOK

- ⇒ A dramatic shift is now occurring in the technology arena and in how software companies are delivering solutions.
- ⇒ New solutions are based on best practices previously developed at large companies.
- ⇒ Budget constraints used to force mid-market or smaller companies to purchase less robust systems.



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more proactive planning and better strategies for retention.

And, while older workers are exiting the workforce, employers also need to better manage and motivate younger workers who, by nature, are more transient in their careers. Unlike their Baby Boomer colleagues, the Millennials (those born between 1979 and 1998) don't expect a job for life. Thus, they need to be motivated with different incentives to ensure employee engagement, higher productivity and more longevity on the job. Having the right compensation planning technology at their fingertips enables managers and HR professionals in midmarket organizations to have the flexibility to apply various compensation plans that resonate with different employee demographics while still adhering to company policies and compliance requirements.

Paper-based or manual processes are error-prone, do not offer a consolidated and holistic view of compensation planning data and make accounting for internal equity difficult. They prohibit organizations from making strategic compensation decisions to meet the needs of their business. By automating the compensation process, managers receive the benefits of on-demand guidelines, have an interactive view of various budgets, and have access to tools that help them quickly explore options and variations to make better compensation decisions — all extremely important

to have in growing companies.

Modern compensation planning applications provide a multitude of features that lighten the load on HR staff, improve visibility for executives and provide line managers with the ability to self-sufficiently make more informed compensation decisions. Compensation planning solutions can integrate guideline information, employee data and market information into a single, holistic view of the merit, bonus or stock planning process to cut both time and confusion from the planning process. In addition, systems often include workflow capability to automatically route compensation recommendations through the appropriate hierarchy for approval. These features, along with integrated reporting, can reduce planning cycles, cut budget overruns and ensure that compensation is being leveraged to meet company requirements.

Merger and acquisition activity also drives the need for compensation technology. It is not uncommon for midmarket companies to grow through mergers and acquisitions. However, that growth creates additional challenges, especially in the HR department. As organizations grow through the blending of businesses, many find themselves faced with inconsistencies in processes, policies and salary levels, which can cause internal inequities.

Another scenario also begs examination. In a perfect world, employee compensation data is kept confidential, but in the real

world, employees often find out what their colleagues are earning. And, if they are not being compensated on an equal plane for the same job, this inequity can become a ticking time bomb and create defection risks. Without a system in place that provides both visibility into market and internal compensation averages, such inequities can persist and increase the chance that compensation differences become known to those affected.

Compensation planning solutions can help organizations avoid inequity. The technology assists by promoting consistency and fairness in compensation decisions while making sure managers adhere to corporate guidelines and budgets. Organizations with an automated approach to pay for performance can deliver consistency in process and reward employees for achievements aligned with corporate objectives. Working with human resources, management can accurately measure performance, in addition to results and payouts in order to ensure that top performers are being rewarded appropriately. Having everything in one software solution provides a complete view of the organization and corporate compensation programs.

Myth No. 2: Our Managers Have Everything They Need for Compensation Planning

While they are challenged by their spreadsheet-based processes, many midsize companies also are saddled

with the mentality that their teams are “doing the job well enough,” and don’t realize the benefits that could be achieved.

Growth requires continual change and process improvements. Expanding populations mean more data, more decisions and more work in order to effectively drive compensation planning and management. By believing that technology-based compensation planning solutions are not necessary, companies are shortchanging themselves on process and information visibility that can save costs and drive value in their organizations.

Sticking with manual processes, HR professionals are limiting their ability to make strategic contributions to their organization. Once compensation planning is automated, HR staff is freed from spending their time fielding questions about company policies regarding pay decisions. With most automated compensation planning systems, guidelines are built right into the system, giving line managers the information they need, such as compensation history, market data, internal pay ranges and recommendations, which facilitate better compensation decisions.

One of the notions feeding this resistance to change is the HR professional’s fear of lengthy implementation timetables and the hefty maintenance costs that have been associated with many past technology implementations.

Now, there are prepackaged solutions available that are based on best practices and are expressly designed with the midmarket in mind. These preconfigured solutions may offer different product “profiles” that enable companies to address their compensation management requirements from a selection of predefined profiles that have been based on best practices developed at larger organizations. For the midmarket, these predefined

solutions can significantly accelerate deployment and streamline mission-critical business processes.

Myth No. 3: There are No Compensation Planning Solutions That Will Meet our Needs and are Within our Budget


Hosted solutions remove the need for large up-front IT investments, including supporting hardware and staff resources. Through this business model, compensation technology solutions are now within reach to companies with lower IT budgets and smaller staffs, enabling them to gain similar depth of functionality previously only attainable by large enterprises.

Budget constraints used to force mid-market or smaller companies to purchase less robust systems that could lack the functionality or performance they required. Therefore, they were either required to pay for functionalities they would not use or need, or to invest time in defining process outside the system to provide the functionality they required.

These prepackaged solutions can offer different product “profiles” that enable companies to select a feature set that best matches their own compensation plan to jumpstart solution implementation. Now, even smaller organizations can reap the rewards of an automated compensation planning solution similar to what many Fortune 500 companies are currently using, with the added benefits of reduced implementation time and costs.

Conclusion

Best-of-breed prepackaged applications are now available with the midmarket in mind to deliver solutions that are more streamlined and easier to implement, making them more appropriate and affordable for smaller organizations. While these are offered at a lower cost than a custom enterprise

solution, businesses deploying them can expect to experience similar benefits from their compensation planning solution. By eliminating a manual process supported by cumbersome Excel spreadsheets, managers can reduce the time spent reviewing salary guidelines, researching compensation policies and history, and communicating with HR and upper-tier managers to gather input for decision support. Implementing a highly collaborative Web-based solution that includes guidelines, compensation history, online help, workflow and comments can dramatically slash the planning time, which results in a compressed compensation cycle. Increased visibility into the planning process also ensures that managers complete planning on time and adhere to budget guidelines to prevent over spending on their budgets. By increasing retention, organizations reduce the costs created by decreased productivity, either by a position going vacant or a new employee getting up to speed, as well as reduce recruiting and training expenses. 

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