

PAY FOR PERFORMANCE

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Preparing the Foundation for Effective Pay for Performance Technology Implementation

You've decided to implement a pay-for-performance technology solution, and you're sure that once you've done so, all your rewards problems will evaporate into the ether. Not so fast, cautions David Turetsky, director of Product Management, Talent Management Solutions for Workscape (www.workscape.com), a leading provider of outsourced benefits and talent management solutions. An expert in pay-for-performance process automation, Turetsky recently gave an educational session entitled "Pay-for-Performance Compensation Management" at The American Payroll Association's 26th Annual Congress in Austin, Texas.

"Don't fall into the trap of believing that technology is a panacea for solving all your pay-for-performance issues," Turetsky says. "It's true that automating an integrated compensation and employee performance management process will help managers grant merit increases and incentives which can yield a higher-performing workforce. However, there's much more to it than just installing software."

Here's what you need to do to lay the foundation for a successful technology implementation:

Get the right culture in place *before* you put the technology piece in place. "For pay for performance to work, you need to make sure your culture will support it. For example, if you don't have a corporate culture that facilitates manager empowerment and gives managers the tools to make their own decisions, it doesn't matter whether you do pay for performance on a piece of paper or with a computer. It's not going to work," Turetsky says. "Technology should enable managers to quickly make tough decisions through pay and performance in order to facilitate the culture and get the expected results that the culture enables."

"All this means that you need to have clear processes and communication to build a fundamental understanding within your company's culture about what pay for performance means and how it works as part of your organization's rewards strategy. Everything employees do—from picking up trash in a retail establishment to answering customers' questions—has consequences and must be supported by your pay-for-performance strategy. There should be open exchanges of performance information between employees and managers so there are no surprises when employees are evaluated."

Use a solid performance-management process. “Many organizations talk a good game about pay for performance. They have merit increases, long- and short-term incentives, they give their managers a budget for pay rewards, but they fall down in the most critical areas of pay for performance,” Turetsky says. “One of the ways they fall down is by not having a good performance-management process in place that clearly supports the strategic goals of the company.

“The performance-management process needs to help employees understand the specific objectives that they are expected to achieve,” he continues. “And the process should align others goals such that when employees interact with one another they do not inadvertently subvert their performance but instead support one another in meeting their performance objectives.”

Keep this in mind: Pay for performance often fails because managers and employees set performance goals at the beginning of the year and think those goals don't need to be fine-tuned until the end of year, Turetsky cautions. “Managers need to facilitate discussions about goals, examining them throughout the year to make sure they are still relevant and then helping employees maintain a clear line of sight between the company's strategic goals and their individual performance goals. They need to know what they should be doing at all times so they can fulfill their part of the bargain,” he says.

Understand who you are rewarding, why and how much. “Figure out which employees you need to target for pay for performance. These should include key

employees who are ‘flight risks’; those who are being paid under market, who have high potential or who are outstanding performers,” Turetsky suggests.

“These employees who are flight risks should get paid extra attention. Once you've gone through the process of identifying these talent pools, create rule sets for managers so they have the right guidance to make the decisions you expect them to make. Remember, they should be provided more rewards, not just through higher pay, but through more opportunities.”

Look at pay for performance on a global basis. “To make sure pay for performance is successful, look on a global basis at what will effectively support the overall messages,” Turetsky advises. “Be aware that some reward programs will work on a local basis but not on a global basis and should not be disturbed in the interest of trying to make everything uniform across your organization.

“Global practices should be facilitated if they support the organization's culture. For example, some cultures might give pay increases when employees reach employment anniversaries or attain higher bands within their positions. Trying to enforce one type of increase cycle or one pay period globally can create confusion unless it is communicated correctly. There's a fallacy that some companies buy into: ‘We will pay everyone on the same basis as we do in the United States, and everyone will be happy.’ But people will get annoyed. There will be turmoil and turnover. There may even be some legal reasons why it won't work. You need to find the right processes for pay for performance on a global basis.”

Train managers to recognize outstanding performers and communicate with employees about performance goals.

“Pay for performance works only when managers have the ability to identify and reward outstanding performers,” Turetsky notes. “It doesn’t work when managers think everyone is basically the same and they take a peanut-butter approach to rewards, spreading them evenly among their employees. So train managers, train them well and continuously train.”

“The people who are doing the best should get rewards that are multiple times the amount that the average performers get,” Turetsky stresses. “Also, give managers training so they know how to communicate with poor performers and especially how to relay hard messages about performance.”

Take a fresh look at short-term incentives. “Look at the way you currently handle short-term incentives [STIs],” Turetsky advises. “Make sure you are paying for actual performance, not for goals that have not yet been met. Bonuses that are paid out with respect to the performance-management period should be very focused and targeted on paying for performance that has occurred during that period of time.

“STIs should be based on an employee’s meeting the goals that were set—and met—for the year. Merit increases and STIs are always in tension: Merit increases are essentially for future performance whereas STIs are for last year’s performance. When you give a merit raise, you’re basically paying someone more for the things they will do *next* year; you’re paying for *potential*, not paying for performance because salaries compound over the year. But will

employees be on track? What if market conditions change? Make sure there is an appropriate balance between rewarding for achievements, and compensating for future potential performance,” Turetsky stresses.

Gauge your existing resources. “Make sure you have the right systems, IT support and the support infrastructure in place for new technology,” Turetsky advises. “Also look at your budgets, people and time resources. Do not put a new application in place unless you have the money, people and time to support it.”

Get your data in shape. Your new application will run on data. The quality of the data that goes of the system will determine the quality of data that comes out of it. “HR and IT needs to get together and look at the existing performance and compensation data you have. Is it in a usable format? How will the data be used? Will you get the right data back?” Turetsky asks.

“In many cases, HR data is not very ‘clean.’ The data is clean enough for payroll, benefits, and some reporting purposes but often it is in very bad shape in terms of consistency and completeness.”

Suggestion for success: Create a good “data dictionary” for your organization that will be used on a global basis. Make sure that everyone updates and stores employee data consistently. Have rules for the way data is expressed—for example, an employee’s date of hire should be universally expressed as “10/08/09” instead of “Oct. 8, 2009” in one file and “10-8-2009” in another document. “Have someone do data cleanup on a global basis. This is not easy to do, but necessary,” Turetsky acknowledges.

Identify the greatest pain points in the existing pay-for-performance process. “You need to ask, ‘Where is pay for performance causing managers and employees the most pain?’” Turetsky says. In other words, where is the process causing confusion, creating complaints about unfairness or negatively impacting morale?

“Once you’ve identified the pain points, you can determine where managers and employees need greater visibility into the decision making about their performance and compensation. It is very difficult to talk with employees about how poorly they’re doing unless you have really good evidence to show them,” Turetsky notes. “Employees can’t see what managers and HR can see—and when everyone isn’t on the same page, there can be litigation. Find the greatest areas of weakness and shore them up with better processes.

“Sometimes you need to stand back and look at how information about pay and performance are communicated to employees by managers, HR, or company leadership. Evaluate manager training and employee expectations. Do we need to improve training or change employee expectations and how can you best do that? Also look at the way management makes decisions—could decision-making be improved?

Keep this in mind: You can have the greatest technology solution in world but if you have the worst process, you will still have the same result. Process can be facilitated through technology but you can’t just hope things will work better at the end of the technology implementation—you have to fix the processes first,” Turetsky stresses.

Bring on the Tech

Once you’ve laid the foundation for your pay-for-performance technology, take this strategy to ensure the effectiveness of your solution:

Create a special-project planning team. Set up a cross-functional team to manage the technology project. “Make sure the team includes representatives from Human Resources, Compensation, the Organization Development group that supports the performance-management process and people that support IT and infrastructure,” Turetsky says. “Figure out which subject-matter experts you need to have in the room when you work with the prospective vendor’s representatives.

Establish metrics as part of your project plan. Know what you want to accomplish at each step of the planning and implementation processes. Set mini-goals and measures for tracking progress and measuring success.

“Project metrics and plans should go smoothly but there are always bumps in road,” Turetsky acknowledges. “For example, data may not be clean enough, you may not be able to get needed data at the right time or there may be uncertainty about requirements. Both parties—your company and the vendor—need to take that into consideration as you embark upon the project.

Ask the vendor to help gauge (and ensure) your preparedness. “‘Do you think we’re realistically ready to implement your product?’ should be the number-one question you ask a prospective vendor,” Turetsky stresses.

"If the answer is no, your next question should be, 'What do we need to do to get there? Look at our organization and tell us what we need to do to be able to use this solution effectively on an ongoing basis.' The tech organization should listen to your concerns and make all those things very apparent."

Request references. "Ask the vendor to show you examples of companies in your industry and size that have successfully implemented their solution. Ask for phone numbers so you can do some reference-checking. You want the vendor to prove to you that you won't be throwing you money out the window," Turetsky says. "Anyone worth their while should be able to provide that."

Spell out the responsibilities of everyone involved. Your company's team and the vendor also need to establish who the right point people are and who the prevailing authorities will be when decisions need to be made, Turetsky points out. "Ask the company what you will be held responsible for. Clearly define how everyone is going to work together. Once all the responsibilities are laid out, everyone will know from the get go whom to talk with when particular questions pop up."

Assess budget and people requirements. Go over in detail with the vendor whether your company's people will need training to use the system and whether the vendor will provide that training. Also determine your budgetary and personnel needs. "Ask whether you will need to budget anything to pay for change orders in the future, whether you need to hire anyone and whether you will create administrative overhead for your company in using their product," Turetsky advises.

Address governance and legal issues.

There are a lot of legal issues that can come up when implementing software related to employment, he warns. "You need to think about governance and safe-harbor rules. You need to find out clearly from your vendor whether you can legally use this piece of technology on behalf of your employees without asking every single employee whether they agree you can use it to manage their employment information."

"Cross-border data transfer has become a huge issue for multinational companies. Privacy rules in many jurisdictions prevent some employee data to be sent outside of the employee's home country. Many companies use a 'safe-harbor rule' which allows them to self-police their data usage as an extension of the HR management system. Consider rules in all states and countries which you operate."

"Other problems that can come up are EEO and discrimination issues," Turetsky continues. "You want to make sure you are not unfairly identifying or paying one group versus another. You have to design your pay programs and implement related technology with all relevant legislation in mind. Know what it is and how to deal with it."

Leave enough lead time for the procurement process.

"Getting through procurement—including the purchasing stage and getting all the contracts facilitated to ensure they comply with prevailing laws—normally takes months," Turetsky says.

"Companies need to leave enough lead time to ensure that they can implement the new process and product before they have to commence their performance-management

process. Otherwise, they'll have to figure out how to support the focal process at that one time during year when pay decisions are made. Bring your procurement people into the process very early on. Give them the information they need. They may have a return-on-investment analysis or set of processes that need to happen. The earlier you bring Procurement into process, the sooner they will know the context for your purchase. They won't have to re-ask questions and open up new issues when they talk with the vendor. This will save you a tremendous amount of time and heartache."

Focus your pilot program on one specific pay element. "Pilot programs that try to do too much always crash," Turetsky asserts. If you are going to do a pilot of this new technology, you'll have the best chance of success if you limit it to one particular pay element, like a merit-award process.

"Try the software for that pay element in all the parts of the organization you are targeting for the product. If you are planning to use the product globally, then test it globally. You won't get handle on your requirements in all cultures and areas if you're just doing it in one country. By piloting it around one pay element, you will learn what you need to know when you roll it out with your other pay elements."

Greater precision about pay decisions: Thanks to great advances in HR knowledge over the last decade, there are new performance management and compensation platforms—such as Workscape's—that provide one central view of the employee.

HR, managers, and employees themselves can easily look at the total picture of the employee's performance and compensation on one platform.

"Managers can go into the system and establish performance goals, give feedback throughout year, rate the employee on effectiveness toward meeting the goal and then determine whether to give an employee an outstanding achievement award on the basis of performance. The employee can log on and find out exactly what went into the decision to give the award or not," Turetsky explains. "This introduces a lot of precision into discussions between managers and employees about pay and performance."

The bottom line: "Technology will help you provide managers with a set of processes that speak to your corporate culture, define the parameters of the decisions they have to make and facilitate discussions with employees so that they are legal, fruitful and incentivizing," Turetsky says. "Managers will be better able to clearly establish the answers to the question: 'What do I expect from you and what do you expect in return?'"

Have a realistic view of what the technology can do, Turetsky advises, namely:

- Help managers see performance weaknesses in their staff.
- Facilitate performance discussions between managers and employees.
- Document problems and areas that need improvement so managers and employees will have complete understanding and clarity on what employees are expected to do, how

they are expected to do it and what their reward will be for attaining their goals.

- Help ensure that everyone is being paid fairly or on same playing field

“The technology is designed to help you create a shock-free environment,” Turetsky stresses. “As long as Managers are trained appropriately and the technology supports the pay-for-performance culture, employees won’t be shocked when managers talk with them about their

performance—they’ll understand what their managers are telling them and they’ll buy in to how their performance has translated to their rewards.”



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