



The New Horizon for Online Compensation Planning Tools

Just as it has over the past five years, technology, over the next five years, will give human resources professionals far greater power and ability to wield more influence over their organization's operations. From day-to-day functions like performance reviews, goal management and recruiting strategy, technological innovations are helping transform human resources from a sometimes burdensome afterthought into a valuable piece of a company's business plan.

Just as technology has changed the way HR people and management view their work force, it also is transforming the way they compensate their work force.

After years of largely ignoring the massive benefits that can come from a concise, focused compensation system, companies finally are looking at compensation

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as a key business driver—and using technology to leverage it. Over the past few years, compensation tools—especially those used as part of a larger human capital management software suite—have become a more widely adopted way to cure the corporate aches and pains associated with pay planning. The future only holds wider adoption of these technologies, as more companies look for lean, agile compensation systems that tie into their larger human capital management plans—more specifically their performance management system by implementing a pay-for-performance compensation system.

By linking performance management and compensation systems, a company can get a clear picture of its work force—who is employed, what workers want out of their jobs, who's contributing, who's not—then pay employees accordingly. In doing this, companies essentially take their payroll, which is often a company's largest and most complicated expenditure, and turn it into a motivation tool, built into the infrastructure and culture of a company. Likewise, linking pay to performance eliminates the need for managers to rely on intuition and memory to recall an employee's performance highlights, goals and targets. A cutting-edge compensation system automatically captures an employee's information so managers can make objective, fact-based decisions.

Compensation information also can be used to examine other matrixes, such as how a company's employees are being paid compared to the larger market, if employees' goals are aligned with those of the company, and if workers are properly accredited or certified, among other factors.

A compensation system that leverages technology to reward workers based on merit and allows employees to grow and advance based on their skills, aids in employee retention, and helps motivate underperforming workers is a key part of both a company's overall HR strategy and business plan and is a critical piece to a business' success. It's the best internal investment that a company can make.

WHAT DOES IT LOOK LIKE?

An effective compensation system should have three characteristics: It should be intuitive and informational for managers and employees in order to drive adoption; it needs to be powerful, yet simple enough to allow administrators to troubleshoot any problems; and it should be flexible to allow managers to change compensation processes as they evolve over time.

Compensation tools must be intuitive and easy to use. Most companies start with homegrown Microsoft Excel tools and get off

track trying to build more complex, multi-functional spreadsheets. A well-designed compensation system should focus users on making informed decisions by presenting key information in useful and actionable ways. Most compensation tools contain traditional information such as an employee's manager, current salary, bonus target, currency type, performance rating and other benchmark information.

There are, however, other pieces of information that are just as, if not more, important to a manager's ability to make informed compensation decisions: targets and achievements of employee; business unit and corporate goals; competency ratings, which reflect how the goals were achieved; past compensation history such as promotions, merits increases, bonus awards, stock grants; risk of loss; membership in the high potential pool; and other succession planning information. The tool should be intelligent—able to balance presenting the most relevant data directly within the planning worksheet versus providing managers easy access to other relevant pieces of data.

Management and analytics tools are also an important aspect of a compensation tool. Budget usage and adherence are critical components, but other analytical tools, such as reports that show distribution of budget, average merit increase or bonus percentage among different levels of performers, pay grades or locations, add significant value to managers during the compensation planning process. With a compensation system, the analytics tools that are normally hand-prepared by compensation administrators and used almost exclusively by senior management can be made easily available to line managers, allowing them to make better informed recommendations.

While a compensation tool needs to be easy and intuitive for managers, it needs to be powerful, yet simple enough to be self-serviced by administrators to accommodate changes during a planning process. Compensation administrators commonly are

tasked with updating employee information, such as incorrect base salary, job title and bonus target, during very tight compensation planning cycles.

Employee eligibility for compensation programs and incorrect managing relationships also require administrative intervention to ensure managers are planning for the appropriate set of employees. With an Excel-based program, it is virtually impossible to track down the managers using appropriate spreadsheets in order to make changes during the process. With a compensation tool, administrators can make changes conveniently, with the added flexibility to update budgets and send out appropriate notifications, as well as make workflow changes.

Finally, compensation tools need to be flexible and allow administrators to implement different compensation processes. Focal salary planning, variable pay planning that are driven by company and business unit goals, and long-term incentive planning are key components of a compensation planning tool, which should allow the deployment of any combination of those components. The planners, workflow, schedule, budget and guidelines for different departments or divisions within an organization may be different.

Similarly, business environments and compensation plan structures change over time, so a compensation tool should be flexible enough to accommodate different business groups, across different time periods. Compensation tools also should grow and evolve along with industry best practices in order to allow companies to implement and refine processes.

The proper compensation software system of the future is actually here—the technology's wider adoption is the key to moving the industry forward. When tied into a larger performance management solution, these new tools provide a model for companies to transform their compensation system from what it often times is now, an expensive, hassle-ridden, error-prone process, into a template for other HR business functions—an easy, simple, cost-efficient function of a larger performance management system that encourages a culture of performance and accountability within a company.

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Online Compensation and Planning Tools: Top Five Emerging Solutions for 2007

BY BARRY MACLEAN, PAYSCALE INC.

Corporate compensation is a rapidly shifting landscape. Designing and implementing online planning and management tools to keep up with its fluid developments is no easy task. Here are five emergent solutions that may help ease the burden of providing accurate, detailed and insightful compensation information and benchmarking.

Include compensation solutions as part of a suite of talent acquisition, management and retention solutions.

Not long ago there were many best-of-breed compensation solutions aligned with functional human resources silos, including applicant tracking, performance management, learning management, career and succession planning, and compensation management. Since then, merger-and-acquisition activity has been rampant.

Newly combined solutions, which have since been rebranded as “integrated talent management,” paralleled the emergence of talent retention as the single biggest human-resources issue keeping upper management awake at night. Compensation management was left on the sideline, while talent retention focused solely on the identification of high-potential employees, succession planning, and career growth and development.

Only lately has compensation been brought under the talent-management umbrella to ensure that the pay for these employees corresponds to their potential. Under newer totally integrated talent management models, pay can now be calibrated with succession planning as well as with performance, opening up entirely new avenues of opportunity such as using a traditional nine-box potential assessment grid to determine pay increases or, more successfully, to target the right pay for the employee.

Pay-for-performance solutions linking performance management solutions with salary planning solutions and incentive compensation management tools.

Pay-for-performance is a long-established concept dating back to the 1960s and 1970s. Also at that time, management-by-objective emerged as a management tool that shifted the concept of performance from behavioral traits to goal-based outcomes. At best, most pay-for-performance systems were only marginally successful because the ability to link pay to goals

was beyond the capabilities of paper processes and spreadsheet systems.

The Web-based solutions subsequently emerged in the late 1990s. On the one hand, they focused on personal growth and development, and, on the other, linked career and succession with learning management. Overall performance ratings are the only thing that was passed to the next generation of compensation systems.

As performance management systems adapted to cascading objectives and balance scorecards, the interface with compensation systems has become far more sophisticated than in the past. Complex incentive plans based on line-of-sight objectives can now be automated, and incentive awards calculated. No longer is it necessary for companies to rely on outdated merit systems to reward performance contributions below the executive level.

Valuation of employee know-how, skills, certifications, education and other unique qualifiers:

In the next 10 years, employee work force demographics will change more radically than at any time in the past 60 years. As baby boomers begin to walk out the door, a large segment of a corporation's knowledge-base exits with them. The shortage of replacement candidates and the price inflation associated with retaining the most talented top performers will undermine traditional compensation systems that focus on jobs, not incumbent employees. Thought leaders like Pat Zingheim, Jay Schuster and Ed Lawler have articulated the need to shift the focus to employees.

However, until recently, software solutions have not provided companies with the tools to track the value of an incumbent's know-how, skills, certifications, education and other pay influencers independent of the job. New companies grounded in current compensation trends and informed by contemporary business practices, such as PayScale Professional, offer solutions for HR and hiring managers seeking accurate, detailed and insightful salary information, enabling employers to define highly specific job and company criteria and then provide them with an accurate salary survey match and other unique data.

Collaboration emerges as a compensation planning process:


Compensation planning has long been a bottom-up, one-over-one approval process,

where each manager's decisions and budget usage have been rolled up within the organization for review by the next higher level management.

Only recently have companies begun to look at the pay of their most talented employees as being a companywide asset management responsibility, not just the narrow purview of the immediate manager. Collaborative roundtable-style review processes used for succession planning are now being employed to ensure not only that pay is administered fairly and equitably across the company, but also to focus acutely on the pay of the most talented employees. Some companies integrate the old and new processes by having managers do the initial compensation planning, and then submitting results to collaborative roundtables for additional review, including either all of the employees under consideration or just a select group of top performers or high-potential candidates.

Emergence of total rewards planning:

Rewarding employees once meant a higher-than-average merit increase, company-paid benefits, a profit-sharing bonus, a turkey at the holidays and a promotion every few years to propel a deserving career along. Today, total rewards goes far beyond basic compensation and benefits to link compensation, benefits, work-life, career growth and development, and career satisfaction. Managing total rewards is not just the sum total of all these aspects of work-life but also functions as a strategic tool for companies to differentiate themselves.

Total rewards has not reached the point in the product life cycle where industry-standard software can provide a solution. Most companies manage it on their own, whether by providing cafeteria-style benefits, job sharing or self-initiated career planning. Few companies have attempted to automate an integrated, employee-driven process. However, that will change dramatically with the impending upheaval of work force demographics and as talent-management software evolves to meet the growing demand. 

With 30-plus years of hands-on corporate and strategic human-resources consulting experience, PayScale Inc.'s Barry MacLean is a well-respected resource in the technology-based talent management and compensation field.