

Improving Compensation Management Through Technology

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For many compensation specialists, the compensation management technology used today is the same as that used 10 years ago. Analysts pour over compensation models that have been developed on spreadsheets, attempting to find the model that best meets the needs of parties with conflicting interests. Rarely does this process yield successful results.

One major concern is security. The transmission of spreadsheets via e-mail often puts confidential financial information at risk. And the more complicated—and useful—a spreadsheet is, the more likely it has technical holes that can lead to disaster.

For example, an employee at one financial services firm accidentally forwarded a spreadsheet with a “macro” that allowed users to see the compensation of the entire division. In another case, an HR professional at a technology firm sent a vice president her comp plan, along with that of several of her peers. After learning that one of her peers was making a significantly larger salary, the vice president filed a suit against the company. It’s not uncommon for companies to make these kinds of mistakes when you consider the hundreds of millions of dollars that are paid out through spreadsheet-based compensation systems.

On the other hand, well-developed compensation systems can make a significant contribution to a business’s bottom line. For instance, a company that implemented an integrated solution allowing the compensation team to find overpayments recently saved over \$3 million. This article explores two questions: What makes up a good compensation technology “solution”—compensation tracking and/or comparison software—and how does such a solution save an organization money?

Dealing With a New Reality

The prevailing trend, which has become evident over the past decade, is that companies will pay substantial amounts to apply the latest technological tools based on the premise that a return on investment is just around the corner.

Billions of dollars later, companies have become less speculative and more businesslike in their expectations. Technology vendors must deal with this new reality.

Former compensation-technology solutions include consulting agreements with months of “requirements gathering”—the stage of development of any software solution at which the developers and client sit down and discuss the system’s goals. The process also includes a development team. Such custom engagements often became mired in any number of difficulties leading to scope creep, cost overruns, and, ultimately, incomplete and failed implementations. The complexities in delivering these systems have led to many unhappy customers.

In response, many companies have decided to develop incremental solutions. By setting achievable goals, examining the “finished” product, seeing how people really use it, and continuously improving the software, companies are able to: (1) absorb the change that is inevitable with the application of a new system, and (2) gather the real feedback from the end user and incorporate it into the ongoing development effort.

These consequences are important with respect to compensation solutions since companies constantly revise their plans to meet their strategic needs. Variable compensation structures are increasingly used throughout organizations to track pay with respect to its relation to performance. As companies increase their use of variable compensation (e.g., skill-based bonuses, team-based merit pay, and stock options) to motivate their workforces, technology plays a critical role in evaluating the success of such strategies.

Meeting Needs Through Technology

Even in the largest companies today, compensation systems are often an unruly collection of payroll, access-type databases, Excel

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spreadsheets, and e-mail. Many companies that have large enterprise systems (e.g., SAP—the world’s largest inter-enterprise software company—Oracle, and Peoplesoft) have often postponed the implementation of complete compensation solutions. After all, with the goal moving so often, effort appears to be futile.

By implementing a technology solution that can, in most cases, be adapted by the compensation team, companies are better able to create systems that meet the needs of their specific marketplace.

And by working with a trusted vendor that is attuned to the unique needs of compensation technology, the HR organization can deliver high-quality solutions to their “customers.” These customers could be line managers in need of clear guidelines and historical data regarding their staff, or senior executives demanding accurate reports that clearly illustrate the costs and benefits of specific compensation plans.

The implementation process does require a clear understanding of goals and objectives, and there are a number of aspects that can be unique to a company. By applying clear milestones to well-defined deliverables, companies have a better chance of receiving measurably acceptable tools that are both timely and cost-effective. In this context, the term “deliverables” relates to the end products of a software

development effort and might include a pilot version of the software for a division within a company.

Saving Money and More

An event management tool that links the compensation team with managers can be a good beginning. By communicating specific corporate guidelines to line managers through the intranet/internet and requiring a simple action based on those guidelines, the HR compensation team can achieve a number of very important objectives:

1. Enhance information security by eliminating the e-mailing of spreadsheets.
2. Allow HR to manage the process with a single database, as every change is immediately posted for examination.
3. Provide line managers with access to data about their team that are in a clear format that is approved/controlled by HR.
4. Streamline the coordination cost of e-mail, fax, and phone calls, automating most of the administrative function.

Compensation technology can help a company save money in many ways:

1. The Automation of administra-

tive tasks offers constant, measurable time savings that will benefit the HR team on an ongoing basis. The economic effect, however, is often not large enough to justify a million-dollar solution.

2. The elimination of errors, from security snafus to overpayments, benefits the bottom line and corporate HR functions with respect to this issue.

3. Strategic alignment. Companies use compensation bonus plans to motivate key employees to achieve important corporate initiatives. Pay for performance, merit and skill-based pay, and team bonuses are increasingly used to inspire a workforce. To truly benefit from these tools, however, the compensation team must have some way to measure the results of their use. By continually evaluating and modifying its compensation plans, a company is more likely to succeed in a competitive environment.

Professional compensation management helps attract, motivate, and retain employees, as well as control costs. Compensation professionals are more likely to achieve all of these goals—and to measurably improve corporate operations, morale, and profitability—if they utilize the correct compensation management technology.