

The Ultimate Buyers' Guide for Compensation Management: How Your Strategy Should Drive Your Technology

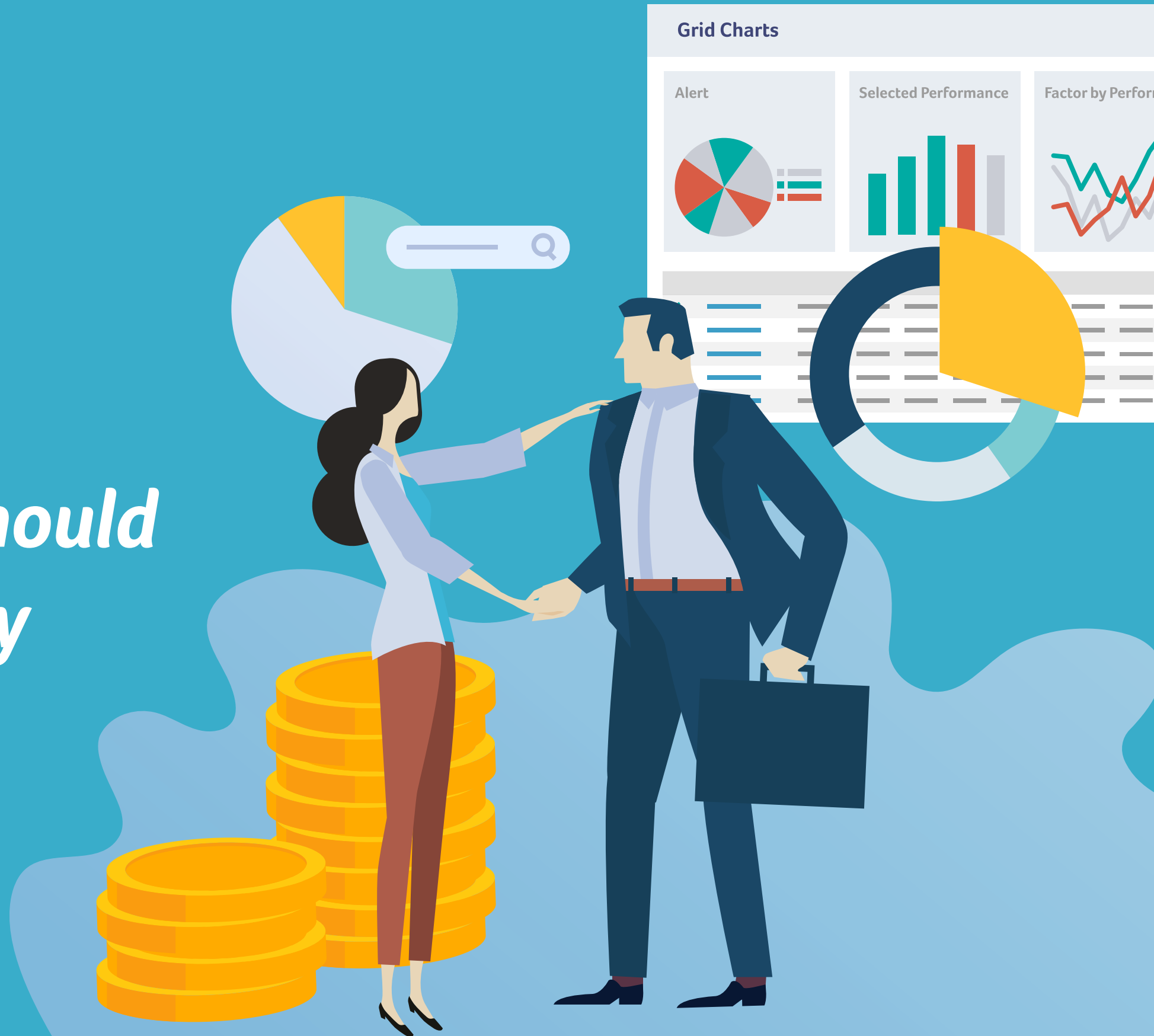


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How Compensation Strategy Drives Business Results

Would you agree that compensation management may be the most critical HR function? After all, it affects operating budgets, employee engagement, recruiting, retention, performance, and productivity.

Compensation can account for 20-50% of your total operating cost. From an employee engagement perspective, compensation touches every aspect of the employee life cycle. This means there are many benefits of defining a compensation strategy:

- **Attracting high-quality candidates**

Everyone wants to attract and hire candidates who will be productive contributors to the organization. Do your research to make sure you're offering compensation and rewards that appeal to the top talent you want.

- **Improved retention rates**

Attracting and hiring talent is expensive. That's why taking steps to retain them is so important. Poor pay is a common reason top talent leaves an organization¹. The perception—or reality—of unequal pay (or of a pay process that lacks transparency) means lower retention rates. An established strategy that provides fair and equitable compensation, along with technology to support the execution of that strategy, will help retain your top performers.

- **Positive impact on business results**

Strategic compensation programs help improve employee performance and business results. By investing in the best technology to support your strategy, your organization can squeeze more ROI from your compensation spend. However, companies that are new to performance management—or those making meaningful changes to their programs—often don't know where to start or recalibrate. So how do HR teams know that they're rolling out the right programs? How can they ensure that their selected programs will make a difference?

¹ Indeed Editorial Team. (Feb 2021). '16 Reasons Employees Leave Their Jobs'. [Available online](#).

5 Must-Have Benefits and Features of a Compensation Solution

You may be questioning if you really need a compensation management solution or if you can just use spreadsheets. Here are five benefits of a compensation solution that you can't get with a spreadsheet.

1. Simplifying Complex Processes and Calculations

Without the right tools, managing processes and calculations can be challenging. From a legal and ethical standpoint, organizations need to ensure they are paying fairly—regardless of ethnicity, gender, or position. Linking salary to objective factors (e.g. employee skills, job duties, geography, and market conditions) can be a tough task. Your compensation solution should perform these calculations across all your unique rewards programs.

2. Change Management and Decision Support

Manager decisions are needed when trying to create a more efficient compensation strategy. A strong compensation solution will reinforce your strategy by reducing subjective decisions with embedded business intelligence, video coaching, and detailed analytics. It will also educate managers with just-in-time learning content—making sure they have the skills, data, and analytics to make informed decisions.

3. Fast and Efficient Planning

One of the most common complaints from HR leaders is that they have to rely on spreadsheets for some or all of their compensation planning. This happens when an organization lacks integrated systems to manage compensation and HR data. An enterprise compensation system removes the need for spreadsheets, provides accurate data, and lets HR leaders plan and collaborate efficiently.

4. Flexible Data Import and Export

Even if your compensation management system supports comprehensive planning within the application, organizational leaders may still want data exported into spreadsheets. The ideal compensation solution will allow this, letting you easily export and re-import data for aggregation into the system.

5. Fully Integrated Data

With a robust compensation solution, all the data points that relate to an employee's compensation live in one place. Not only does this improve accuracy and consistency across the pay process, it also helps leaders improve communication and transparency.

Preparing to Select a Compensation Solution

In light of the benefits above—and the dramatic business impacts of a well-executed compensation strategy—now is the time to differentiate your organization by adopting compensation management technology.

Let's explore the first phase of preparing for new, or upgraded, technology.

Getting the Right Team Together

Because compensation affects every department in an organization, it's important to establish cross-functional participation and support before making any changes. This allows decision makers to share vital information and help to select a vendor from the beginning. The team should start by organizing critical information around compensation:

- Identifying key stakeholders, including executives, managers, IT, finance, and compensation staff
- Defining systems with which the compensation system has to play nicely
- Describing current processes and gathering relevant documentation, including plan definitions, planning spreadsheets, as well as statements and communications.

Choose a point person to coordinate the committee's activity and keep an eye on all aspects of the selection process. Seek out participants keen to provide thoughtful and thorough input and participate fully in the process.

An executive-level sponsor should be identified (if the project was not initiated by someone in this position). Without someone in a senior role to spearhead and champion the process, the selection committee may find it tough to juggle conflicting inputs from stakeholders.

As early as possible, your selection team should conduct a kick-off meeting and agree on a project plan. The written plan should include due dates and clear definitions of individual responsibilities.

6 Elements to Align Compensation With Organizational Goals

Your team should begin by reviewing and documenting your organization's current pay strategy and practices. You may find that both areas are quite complicated, with no shortage of factors influencing the budget, employee eligibility, impact of performance on rewards, and the administration and timing of pay decisions.

As you review your current compensation strategy, consider whether or not it aligns with your organization's business strategy and goals—and, for global organizations, whether plans differ by country.

To work this out, start with a thorough review of these six elements of your compensation plans:

1. Pay-for-Performance/Merit Increases

How do you currently identify top performers? What factors influence your organization's merit increases? For example, under a pay-for-performance structure, an employer may compensate employees based on factors such as:

- Goal setting and achievement
- Overall performance assessment
- Contribution relative to peers
- Skills development or competency growth

A clear view of goals, accomplishments, outcomes, and performance appraisals or feedback is critical in any successful pay-for-performance strategy.

2. Incentive Pay/Rewards

If you offer incentive payments, are they part of a contractual obligation, or can they be discretionary? What are the time frames, guidelines, approvals, and requirements for processing and managing incentives?

3. Off-Cycle Rewards

Awards are given for a variety of reasons, most typically in response to outstanding performance. Does your organization offer any type of spot bonus for employees?

How are they budgeted? Who can offer them (managers, co-workers, etc.)? What is the review and approval process?



4. Stock Awards

Do you offer stock awards? If so, to what groups? What are the time frames, guidelines, approvals, and requirements for processing and managing stock grants?

5. Compensation Communication

Many organizations provide total compensation statements to increase transparency and better inform employees of their benefits. How do you currently communicate compensation decisions to your employees? Does your organization use compensation statements? Do you customize statements based on compensation programs, geographic locations, or other factors?

6. Manager Engagement and Education

For most organizations, managers make compensation decisions for their employees. How do you engage and educate managers on your compensation strategy? What data and analytics do you give them to inform those decisions? How do you track manager decisions to ensure they work within your strategy?

Answers to all these questions will help you identify and assess areas that need improvement. As you proceed through selection to implementation, these answers will also help you and your technology provider determine whether process changes are required.

Key Questions to Define Your Current State

Ask yourself these questions to assess your process, challenges, and opportunities for time and cost savings.

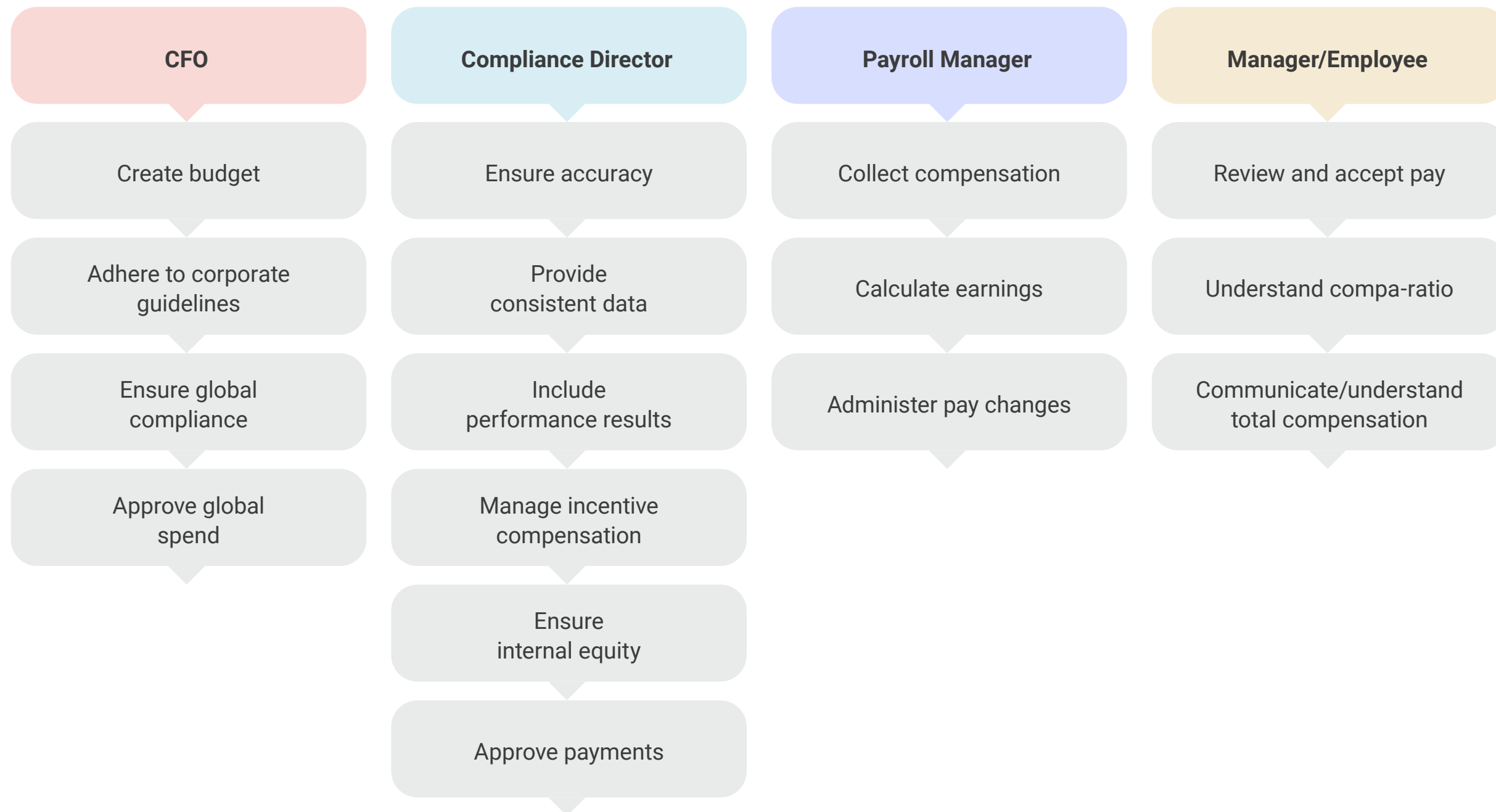
- Do we have a compensation management solution?
 - If yes, how does the solution fall short in supporting our current needs?
 - Does it fit within our overall HR and talent management strategy?
 - Does it impact hiring, performance management, and retention?
 - If no, how are we managing the compensation process—spreadsheets, home-grown system, etc?
- Who manages the compensation process and who else is involved?
- Is the process centralized or do different locations use different tools/systems?
- Do we have employees in multiple countries? If so, is compensation planned and budgeted globally?
- What is the cost associated with the compensation planning process?
- What other systems does compensation interface with?
- What reports do we have? What reports do we need?
- How are reports generated, how often, and who receives them?



Assessing Your User Needs

Once you've evaluated your current state, you can create a needs assessment for a new system. The best way to approach a needs assessment is to think of compensation stakeholders as users of your solution. Each user has different needs. To be successful, your solution will need to address them all!

Common Users of a Compensation Solution and Their Needs



Consider the following questions as you assess your needs today and in the future:

- What is the company's compensation strategy for the next year? What about the next two to three years? Describe in detail.
- Why is a new solution needed? What issues are we trying to solve and how are they aligned with business goals?
- How will we measure our success? What will a successful selection and implementation look like?
- How will we track the total ROI of a solution—for example, reduced administrative burden, decreased errors and inaccuracies, increased retention, and/or improved business results?
- What is our expected total ROI for a solution?
- Have new budgeting, pay goals, and metrics been established? Do they align with the technology's expected ROI?
- Who is ultimately accountable for ensuring key metrics are met?
- Who are the main stakeholders/users and what do they need from a compensation solution?
- What happens if we wait or do nothing? What are the challenges, benefits, and barriers?
- With a new compensation management technology, could process changes drive greater effectiveness, agility, or efficiency? Define those processes.

Ease Risks With Data: Why Reporting and Analytics Matter

As you assess current and future needs and define the ideal technology, be sure to factor in legal and regulatory compliance. Without adequate reporting and analytics, your new system may not support the constantly evolving requirements of the [Fair Labor Standards Act \(FLSA\)](#), [Equal Employment Opportunity Commission \(EEOC\)](#) and other agencies that regulate pay equity. Your solution provider should keep you—and your system—updated on changes to make sure your organization remains compliant.

There are other reasons why in-depth data from your compensation tool are necessary, such as ensuring gender pay equity by identifying any signs of biases (e.g. pay increases distributed unequally between female and male employees). While this can be done by your HR team, automating the process saves time and removes the human error element.

Shifting gears a bit, it's important to note the difference between reporting versus analysis capabilities. A common report business leaders want to see is how high performers are being compensated compared to average and low-performing employees. This helps to identify whether or not high performers are compensated equal to the value they provide the organization. This is an important factor for retention and employee happiness.

However, the data needed to create such a report exists on separate platforms (e.g. performance management and compensation management tools), meaning multiple tables are necessary. Unfortunately, it's difficult to marry the two data sets as there's no overlap. Instead, it requires deeper analysis than a simple list of data rows can provide. It requires analytics technology that is embedded in the compensation platform itself.

Driving DEI Action With Compensation

Diversity, equity, and inclusion (DEI) have become an important focal point, with long-overdue change now occurring at a rapid pace. Yet a recent report from Mercer shows there's still work to be done: only 15-20% of S&P 500 companies include DEI metrics in their executive incentive plans².

The report notes that effective programs, plans, and policies can help drive greater diversity in your workforce. They also ensure each aspect of an employee's work is treated equitably. This includes compensation and can be easily accounted for using a compensation planning tool that offers enhanced transparency.

Budgeting for Success and Sustainability

With a clear definition of your current state and needs, you can build a rigorous requirements list and identify appropriate solution providers. The next step is determining your budget. When investing in new technology, it's important to calculate the initial costs, ongoing subscription costs, and additional funds for consultation and optimization beyond year one.

Identify the department or individual with budget oversight and build some cushion into the budget to cover issues that may arise during implementation. This should be between 5-10% of the expected cost.

PRO TIP

Budget Beyond Year One

Factor in ongoing subscription costs and consultation services.

²Passin, H. (2020) 'Using compensation to drive action on diversity, equity and inclusion'. [Available online](#).

How to Conduct Vendor Research

As you get ready to tackle your vendor research, there are several effective ways to identify providers. A lot of people will start with the tried and true phone-a-friend, and consult with other colleagues. This is a great place to start but, remember, their needs and culture may be totally different from your organization. You will also want to spend some time searching online. This is an easy way to anonymously see what vendors and technologies are available. You can also use analyst reports to help narrow down

the number of solution providers to assess. If you have a smaller team, or a short timeline, some companies may turn to consultants to help with the vetting process.

Whatever method you choose, research will have to be done to make sure a solution's capabilities align with your requirements and goals. Once you have watched the demos, discussed as a team, and created your shortlist of providers (we suggest no more than two to three), the next step is to create an RFP (Request for Proposal) for the providers to complete.

Places to Identify Compensation Solution Providers

Source	Time Required	Comprehensiveness	Bias	Cost
Web Search	High	High	Medium	Low
Colleague Recommendation	Low	Medium	High	Low
Consultants	Medium	High	Medium	Medium
Analyst Reports	Low	High	Low	High

Best Practices for Creating an RFP to Meet Your Organization's Needs

Creating a comprehensive RFP is a critical step in narrowing down compensation solution providers. The questions asked in your RFP will help your organization understand how each provider's offering meets your requirements, and give you greater insight into that provider's experience and expertise.

Most companies list their detailed requirements as a series of capability questions and then ask vendors to indicate if each feature:

- Is included in the standard product
- Will be available by a specified date
- Is otherwise available on a custom basis for an additional cost

Commonly required product features and functions include:

- Architecture and technical requirements, including security, accessibility, compatibility with specific databases, web technology, reporting and analytics, record management, etc.
- Integration with payroll, employee master files, HRIS, ERP, and other systems (and additional costs)
- Services expectations, including implementation, training, staffing, support, consulting, and maintenance

Specific compensation requirements may include:

- Ability to handle merit increases, off-cycle rewards, incentive pay, bonuses, and stock awards
- Capabilities that will allow for the integration with performance management
- Ability to support agile decision-making, employee communications, and advanced analytics

Some additional items you should consider asking for are:

- Company financial viability, market share, strategic partnership, industry leadership, number of employees, years in the business, and support model
- Solution costs (ask the provider to include all fees associated with SaaS or on-premise software, any support fees, training, customer support, and implementation services fees)
- Information on the number of customers the provider serves and whether they support other organizations in your industry
- Customer references

Notable Action Step—Sample RFP Questions

Below is a list of sample RFP questions that your organization should consider asking.

- Describe your delivery services and how you will minimize risk and reduce time to value for the implementation.
- Describe how your product could assist us with communications, education, and information sharing to support the compensation process.
- Describe how your solution can tailor communications to managers and employees. Is there embedded learning functionality within the solution? If so, please describe.
- What happens if we need to make changes during a compensation cycle?
- How does your solution handle partial-year eligibility, new hires, and transfers as it relates to things like compounding, proration, and budget distribution?
- Describe how your solution can manage differences in plan rules, timing, and planning and approval hierarchies for different populations within an organization.
- How does your solution enable compensation administrators to monitor the planning process and highlight and mitigate potential areas of risk?

- Describe the process for enabling HR (or others) to act on behalf of another in the approval process when needed, i.e. proxy capabilities.
- Describe how your solution can integrate data from multiple sources as well as the process for updating this data throughout the process.
- Describe how your solution can enable line managers to interact with their compensation planning results and highlight potential areas of risk in their plan. Are budgeted dollars going to the right people? What analytics are available to support them when making decisions?
- Does your solution promote collaboration between HR, leadership, and line managers? If so, how do you envision this benefitting our process?
- Is there anything that we haven't considered in our request for proposal that you believe would have a positive impact on our process or ability to deliver on our rewards strategy?

Give vendors several weeks to respond to your request. Take time to thoroughly review all the responses, then meet with your internal planning team to determine which providers will be on your shortlist for the next step: the product demonstration.

Product Demonstration

Set up a demo with only those providers that are able to meet your primary needs. As you prepare for the demos, there are some critical functions you'll want to ask about. On the right is a round-up of some of these.

The demo is your first chance to have an in-depth look at the system, its user interface, and ease of use. You'll also have an opportunity to ask questions that help you see how the solution will fit into your current workflow. The best providers will partner with organizations and offer their expertise. They'll focus on how their solution can adapt to your process, rather than saying how you'll need to adapt your process to fit their solution.

PRO TIP

Develop a ranking chart to identify must-have, need-to-have, and nice-to-have capabilities to fine-tune the results of your research and product demo.

Notable Action Step

Below are sample questions to consider asking as you participate in the demo:

- Does the solution meet the base system requirements we need?
- How will this solution integrate with our current systems?
- Will this solution accept historical data (employee profiles, performance ratings, and other data, succession management data, reporting records, etc.) from our current system? If so, how many year's worth of data can be included?
- How often are software updates released?
- How long does implementation typically take for an organization of our size with similar requirements?
- What type of support team will we be working with daily? Who is included on that team?
- What type of training will be provided to the HR team, our assigned system administrator, and end-users of the system?
- What's included in a standard scope of work, and what is the pricing for enhancements or add-ons?
- If we have trouble with the solution, what is the process to resolve the issue and how quickly does that typically happen?
- How configurable is your system without incurring additional costs? Are there customizations available with this solution? If so, what is the pricing associated with these?
- Can we add more features or modules later? Are features and modules upgraded automatically, or do we have to turn them on with each new release?
- What type of reporting and analytics are part of this solution?
- What can you tell me about the data security of your solution?

Determining Your Costs

As part of your selection process, ask vendors for estimated license and implementation costs. A vendor will need to conduct a thorough discovery process to understand the specific needs of your organization and create an accurate quote.

For example, if you're a global organization, your vendor might recommend you partner with a global payroll provider or use an ERP system that provides some global functionality. Both of these options would likely increase your spend. Custom work, such as specialized interfaces or report formats, can also increase your costs.

Evaluate the Return on Investment

Let's talk about getting the project approved and funded. You want to ensure the project cost is justified and that you can provide measurable savings and ROI.

While we suggest that each vendor provide their own ROI, there are significant benefits your project team can define and measure as well.



Benefit	Measure	Savings Potential
Differentiate between top performers and poor performers	<ul style="list-style-type: none"> • Reduce over-allocation to poor performers and increasingly invest in top performers. • Retention of top performers and identification of poor performers for performance plan actions. 	<ul style="list-style-type: none"> • Reduction in over-budgeted allocation. • Redistribution of rewards to top performers. • % increase of retention.
Improve quality of manager discretionary decisions	<ul style="list-style-type: none"> • Increase consistency and fairness of results. • Decrease time needed to collect decisions. • Place additional accountability on managers who are closest to employee performance. 	<ul style="list-style-type: none"> • Reduction in time needed for managers to make discretionary decisions. • Reallocate compensation and performance teams for workflow actions (including compiling results) to roles involving analysis of information. • Reduce/eliminate calls to HR by managers who don't understand the process.
Reduce turnover, particularly of top performers	<ul style="list-style-type: none"> • Lower training costs of new hires. • Ensure business continuity of existing operations and projects. • Preserve the value of the employee's potential long-term contribution. 	<ul style="list-style-type: none"> • % decrease in employee turnover.
Institute rollups that enforce budget adherence by planning managers	<ul style="list-style-type: none"> • Help drive an accurate data collection process by putting guidance in place and by standardizing methods of data collection. • Immediately identify areas where budget is exceeded. • When budget is exceeded, provide ability for compensation managers to re-send the worksheet to the manager for revision. 	<ul style="list-style-type: none"> • Enforce budget guidelines. • Eliminate need to identify discrepancies in budget based on availability of data. <p>(Note: For an organization with a \$10 million budget, the difference between on-budget allocation of 2% to employees and an overage of 2.2% is £200k.)</p>

Build Your Business Case

To develop a compelling business case, think beyond budget and consider value. Your leadership team will need to understand the value and return on investment a solution offers.

For example, if managers currently spend an average of six hours making salary recommendations—and a solution would make it easier to access critical data and analytics to significantly reduce that time—what would the overall cost and time savings be for the organization?

On average, PeopleFluent customers reduce the total planning time for managers by 50%.

For an organization with 2,000 managers, that equals a cost-saving of \$200,000+ annually*.

*Assuming an average manager salary of \$80,000 and the number of planning hours is reduced from six hours to three hours.



Below are sample questions to consider asking as you participate in the demo:

- If a solution can help you retain more talented people, how would retaining them impact your organization's performance and bottom line?
- How much would you save by reducing a manager's time to make compensation decisions and reducing rogue discretionary spending?
- If a solution can reduce your turnover rate by even a modest amount, how much could your organization save in annual recruitment costs?
- If a solution can prevent budget overspending during rewards allocation, how much money could be saved by reducing over-spend?
- If a solution can provide a dynamic and transparent view into talent management data through comprehensive reports and analytics, will that reduce the time it takes to compile compliance-related HR data to identify non-compliance risks?
- If a solution can reduce the time teams spend on tactical and administrative tasks (including answering manager questions and fixing errors), how could those teams impact the organization by focusing on strategic business initiatives?

Take a Look at PeopleFluent Compensation

PeopleFluent's software gives you the ability to reward your staff and remain competitive by giving you the tools necessary to design, model, and manage pay and reward programs.

The automation that powers our compensation management tool allows busy comp professionals to quickly manage the following—all without leaving the tool:

- currency conversions and normalizations
- centralize comp data to eliminate risk for errors and delays
- organize and track pay and rewards without messy spreadsheets

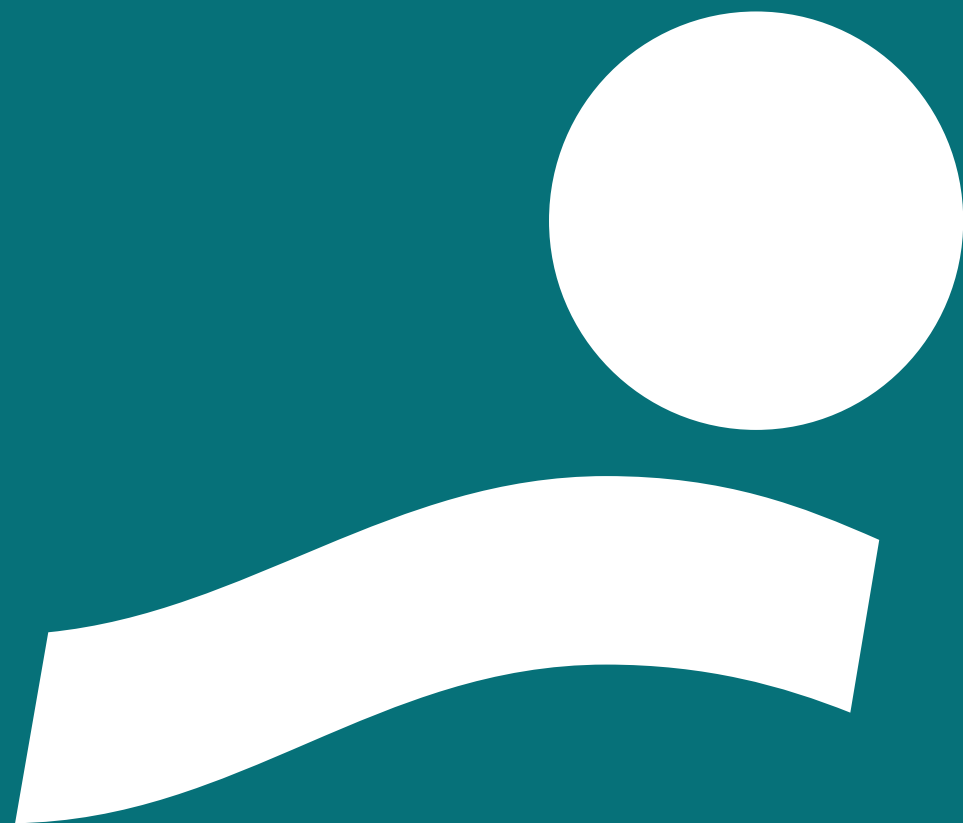
We would like to help you take your strategy beyond numbers and budgets, attract and keep your top performers, and sharpen your competitive edge. Find out how to get started today!

Compensation in Action!

Schwan Foods has boosted productivity across 12 sites with 30% faster compensation cycle times.

[Find out how!](#)

For more insights on compensation strategy and planning, as well as compensation management technology, visit [PeopleFluent](#) and read about how your peers are using [PeopleFluent Compensation](#).



About PeopleFluent

As a market leader in integrated talent management and learning solutions, PeopleFluent helps companies hire, develop, reward, and advance a skilled and motivated workforce. Deployed separately or as a suite, our software spans recruitment, talent mobility, performance, compensation, succession, org charting, and learning—tailored for either large or mid-enterprise organizations. We deliver unmatched functionality and flexibility, recognized by leading analysts, to develop people, drive performance and deliver results.

Our talent solutions unify talent processes within a collaborative experience that enables HR and L&D teams to guide managers and employees with contextual learning—right in the flow of work.

A part of Learning Technologies Group plc (LTG), PeopleFluent provides world-class service and an unparalleled ecosystem of partners to optimize employee experience, employer brand, and business results.

For more, visit peoplefluent.com.

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