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Sharpening Compensation Management's Dull Edge

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Abstract: Compensation is a difficult process for companies to manage well. The challenge of making the management decisions regarding pay levels, incentive structures, and reviews is made even more difficult if managers don't take advantage of the appropriate technology. Information technology has become an important part of compensation management not only because using software makes the process faster, more flexible, and more accurate, but also because it can enable corporations to do a better job of aligning compensation with strategy. Ventana Research benchmark research showed that virtually all executives and managers - 97%, to be precise - consider aligning their workforce to business strategy and goals to be either important or very important. Increasingly, forward-thinking companies are making performance reviews a continuous process rather than an annual event. A specific area where software tools are extremely useful in aligning pay to strategy is in incentive compensation and merit-based bonuses, especially in sales departments, and there are two important incentive compensation issues that the right software can address.

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Full text: Compensation is a difficult process for companies to manage well. The challenge of making the management decisions regarding pay levels, incentive structures, and reviews is made even more difficult if managers don't take advantage of the appropriate technology.

Information technology has become an important part of compensation management not only because using software makes the process faster, more flexible, and more accurate, but also because it can enable corporations to do a better job of aligning compensation with strategy. Ventana Research benchmark research showed that virtually all executives and managers - 97 percent, to be precise - consider aligning their workforce to business strategy and goals to be either important or very important.

Software for managing talent must make it possible for managers and the recipient to understand his or her total compensation, including pay and benefits, and must make explicit the connections between the compensation elements and his or her performance evaluations. Compensation management applications or modules should be able not only to standardize but also to simplify the process of setting and reviewing job descriptions, goals, and objectives. A compensation software tool also should foster dialogue between managers and employees on progress toward these goals. And it should enable organizations to establish assessment processes even where multiple individuals are involved in achieving objectives.

Increasingly, forward-thinking companies are making performance reviews a continuous process rather than an annual event. Doing so means automating assessment collection and analysis and broadening participation in the process. Almost all (94 percent) of the executives and managers participating in our recent research think that improving the efficiency of their performance review processes is important or very important. Some companies want 360-degree evaluations so that employees assess their managers' performance as well.

A specific area where software tools are extremely useful in aligning pay to strategy is in incentive compensation and merit-based bonuses, especially in sales departments, and there are two important incentive compensation issues that the right software can address.

One is purely mechanical; these plans often are complex, with different achievement levels driving percentages and accelerators, any or all of which can change over the course of a quarter or year. Making changes on the fly in spreadsheet-managed incentives in response to short-term sales department or specific territory needs can

easily produce unintended negative consequences because spreadsheet errors are common, and often it's too time-consuming to run through a full set of scenarios. Nearly all (96 percent) of those participating in our recent benchmark research rated providing visibility into overall performance as important or very important. Incentive compensation software addresses these issues, and the best products enable employees to track their progress and themselves determine how best to achieve their objectives.

The second issue that software can address is ensuring that incentives are aligned with corporate profitability objectives. Although in theory incentive compensation plans are designed to achieve this alignment, the reality often is different. Sales plans and quotas tend to be structured so that revenue targets are met, with the implicit assumption that these are aligned with profitability and other company-wide goals. Unfortunately, incentive programs all too often are used to deal reactively with plan shortfalls: Product X sales are falling short of plan, so we need to pump up sales efforts.

This is where the finance organization can play an important role by supplying the profitability analyses to ensure that profits are not sacrificed to achieve quotas. In today's volatile business climate, costs change more frequently and across a wider range than in more stable times. Whatever analysis is done at the start of the year to establish quotas and plans based on some understanding of profitability will probably be out-of-date 3 months later. A dedicated compensation management application driven by finance will make dynamic profitability monitoring far easier, more accurate, and more transparent to everyone in the process.

Unless the structure of an organization's compensation plans is simple, its human resources software likely falls short in meeting all of its needs. For years, most companies had no choice but to use desktop spreadsheets to fill this void. Today, dedicated software may be the right choice. There are many options listed in the accompanying table, including software-as-a-service (SaaS) choices that are within reach of relatively small organizations.

The first step in considering your requirements for compensation management software is, as always, to understand what your company wants and needs; without this information, you cannot determine the type of application to use and the sources of data upon which to draw. Each of today's compensation management software systems has strengths and weaknesses: Some are better at managing variable pay components, while others have better capabilities for making critical decisions about workforce planning and strategy.

By clearly defining your business, user, information, and technology requirements, you will be better equipped to evaluate how well providers of total compensation management applications will satisfy your particular needs. Bear in mind, though, that it's possible that no single dedicated application will meet all of your needs; enter into the process understanding that you may have to bring together specific capabilities from several systems.

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Lawson*	Performance Management, Compensation Management	www.lawson.com	Provides compensation and performance management as part of Lawson's talent management suite, available as SaaS.
Oracle	Oracle HRMS, PeopleSoft HCM	www.oracle.com	Utilizing HRMS from Oracle and PeopleSoft, provides HR applications with on-premises support for compensation and performance management.
PeopleClick Authoria	Authoria Compensation, Authoria Performance	www.peopleclickauthoria.com	Suite of products for talent management and specific compensation and performance products in an on-demand SaaS offering.

Plateau	Plateau Performance, Plateau Compensation	www.plateau.com	Integrating learning with performance and compensation management, Plateau delivers talent management on-demand.
Saba	Saba Performance, Saba Compensation Suite	www.saba.com	New compensation application to link to Saba Performance brings Saba into the list of SaaS providers.
SAP	SAP ERP Human Capital Management	www.sap.com	ERP vendor that provides HRMS with basic on-premises compensation and performance appraisal capabilities.
SumTotal Systems (Acquired Softscape)	Softscape Workforce Performance, Softscape Compensation, Softscape Incentive Compensation, Softscape Workforce Analytics	www.softscape.com	Full suite of HRMS and talent management products that bring compensation and incentives together with performance management; available on-demand.
SuccessFactors	Goal Management, Performance Management, 360 Degree Reviews, Compensation Management, Analytics & Reporting	www.successfactors.com	New SaaS-based compensation management application with performance management goals.
Taleo	Taleo Compensation	www.taleo.com	Recently acquired applications are now part of Taleo talent management suite.
Workstream**	Workstream Compensation, Workstream Performance	www.workstream.com	Long history of providing compensation and performance management capabilities in a SaaS environment.
		*Dropped or not covered by Ventana Research due to lack of validation	**Under assessment for research coverage by Ventana Research

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