THE BUSINESS CASE FOR COMPENSATION TECHNOLOGY

Compensation accounts for nearly 70 percent of operating expenses for most organizations,\(^1\) and is one of the main reasons employees join and leave organizations. Yet despite the foundational role compensation plays in any talent strategy, most organizations continue to manage compensation market analysis, strategy development and program administration using spreadsheets.

The perils and pitfalls of handling complex compensation tasks in spreadsheets are well known:\(^2\) spreadsheets are prone to human error, require a high-level of skill and expertise to move beyond simple analysis, and are not a scalable solution across decentralized groups. For this reason, most discussions on the use of spreadsheets in compensation and HR focus on productivity loss and risk of error. However, beyond these important but tactical gains, the compensation function and the organization at large have far more to gain by reducing reliance on spreadsheets than reduced risk and greater efficiency. This paper will explore the five areas in which organizations can improve via the adoption of compensation technology solutions: efficiency, consistency, visibility, transparency and trust.

END GOALS OF COMPENSATION
In the end, the work of the compensation function enables the organization to accomplish five key goals:

**Make the Right Offers**
Compensation is one of the top reasons employees join organizations,\(^3\) and a rewards package that isn’t market competitive can impede a company’s ability to bring in the talent and skills needed to execute on business goals. Paying competitively does not necessarily mean offering the highest salaries in the market, but it does require a deep understanding of the pay landscape in which the company operates, so organizations that choose to place a lower emphasis on base salary understand the need to balance this approach with non-salary rewards.

**Keep People Engaged and Motivated**
While we know that compensation alone does not drive engagement scores up, we do know that it is an important part of maintaining an engaged workforce. Employees who believe they are paid fairly are nearly twice as engaged as those who don’t.\(^4\) And how employees perceive the fairness of their pay is even more important than their actual pay level.\(^5\)

**Drive the Behaviors that Drive Value**
Rewards drive employee behaviors, and the organization’s compensation philosophy must align with the end goals of the business. For example, short- and long-term incentives will drive short- and long-term behavior.

**Retain**
Compensation is among the top reasons people leave organizations. Understanding the external market is just as important in the context of existing employees it is in the context of new hires.

**Invest Wisely**
Compensation is an investment, not merely a spend, and the balance is not as simple as “overpaying” versus “underpaying.” The term “overpaying” itself assumes that there is no legitimate case for generous compensation, which there certainly is. The key is to ensure every investment in every pay component, whether it is above or below market, aligns with the company’s business strategy.

---

**COMPENSATION TECHNOLOGY DEFINED**

Compensation technology solutions can generally be broken into two segments: compensation analysis and design tools, and compensation administration tools.

Compensation administration tools, which are often referred to as “compensation planning,” are focused on the execution and communication of compensation programs to employees. Included in this group are tools that enable managers to allocate merit budgets and incentives, generate employee compensation statements, and enable HR to administer and manage the annual salary review process. Adoption of manager self-service tools for administering compensation programs has increased in the past several years as organizations seek to empower managers and streamline cumbersome processes that “touch” large employee and manager populations.

Before HR and managers can administer compensation, however, the organization must have a plan on which to execute. Compensation analysis and design tools facilitate compensation survey management, market pricing, salary structure development and merit distribution scenarios, all of which are key components of building the organization’s overall approach to compensation. While many organizations leverage technology for compensation administration, adoption of technology to manage the up-front process of analyzing the external market and designing compensation programs is far from the norm. As these processes are more tightly contained within the compensation and HR function, they are often overlooked as an area that could be positively impacted by a technology investment.

While the details may vary, the tasks in Figure 1 and 2 are fairly common across compensation teams and are largely spreadsheet-driven in most organizations.

A recent poll suggests that nearly 50 percent of organizations do not use a technology solution for any part of the compensation process (payroll excluded).²

<table>
<thead>
<tr>
<th>FIGURE 1: COMPENSATION TECHNOLOGY DEFINED</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FIGURE 2: COMPENSATION LIFECYCLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Analysis</td>
</tr>
<tr>
<td>• Manage compensation surveys</td>
</tr>
<tr>
<td>• Set pay philosophy</td>
</tr>
<tr>
<td>• Build/update market rates</td>
</tr>
<tr>
<td>• Analyze market position</td>
</tr>
</tbody>
</table>

If the adoption of technology in HR is on the rise, why is the compensation function so often overlooked?

**COMMON OBJECTIONS TO THE ADOPTION OF COMPENSATION TECHNOLOGY**

In a recent poll of compensation and HR practitioners over half of respondents indicated that their primary reason for continued use of spreadsheets was failure to convince senior leaders to support the investment (see Figure 3). And while only 6 percent of respondents indicated that spreadsheets truly are a good solution, one of the most common leadership-level objections to investment in technology solutions for the compensation function is that spreadsheets are adequate, or “good enough.” There is generally an admission that using spreadsheets isn’t the best possible solution, but also an assertion that it might not be worth it to explore or invest in the “best” solution.

Spreadsheets are powerful, convenient and fast for single power users with clean data. But they are cumbersome, error-prone and not scalable for most compensation processes. This is not to say that compensation teams can’t be successful with a spreadsheet-

<table>
<thead>
<tr>
<th>FIGURE 3: POLL RESULTS FOR REASONS WHY RESPONDENT HANDLES COMPENSATION IN SPREADSHEETS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Can’t get budget/buy-in from management</td>
</tr>
<tr>
<td>No to time consider or implement technology</td>
</tr>
<tr>
<td>Can’t find a solution that fits our needs</td>
</tr>
<tr>
<td>Didn’t know other solutions were available</td>
</tr>
<tr>
<td>Really, spreadsheets are just fine</td>
</tr>
</tbody>
</table>

²Attendees at a March 2013 webcast were asked “Where does your organization currently use a technology solution?” and responses were as follows: Comp strategy/design: 12 percent; Compensation Administration: 26 percent; Both: 15 percent; Nether: 48 percent.
based process. They certainly can, but chances are those who work primarily in spreadsheets have less bandwidth for strategic activities and more single points of failure than those who manage at least part of the process in a technology solution designed specifically for compensation.

Another common objection is the lack of time to evaluate alternatives. This is the self-fulfilling prophecy of manual processes: they leave little time for meaningful investigation of other options.

Finally, there are some cases in which an organization’s methodologies are so unique and custom that no packaged technology solution will suffice. In many cases, however, these organizations ultimately conclude that sacrificing some level of customization in exchange for the efficiency gains delivered by technology is a worthwhile trade-off.

FIVE REASONS TO INVEST IN COMPENSATION TECHNOLOGY
A recent WorldatWork survey7 of compensation practitioners indicates that by and large, compensation teams are increasingly focusing on outcomes and things that move the business, with specific emphasis on:

• Controlling costs and increasing productivity
• Improving service/response to managers and employees
• Educating and enabling managers
• Delivering more value to the organization

Leveraging technology solutions across the compensation process can provide practitioners not only with more time to focus on these objectives, but also with better tools to execute on them.

Often the compensation technology conversation is focused on saving time and resources and managing risk. In most cases, time savings and efficiency gains for the compensation team are the most obvious and immediate results of technology adoption. While these gains cannot be discounted, they create the false impression that the benefit of a technology investment for compensation is limited to the compensation function. This is where senior management typically uses the “spreadsheets are good enough” objection. Yet that objection fails to consider the downstream benefits of a better equipped compensation team, or an organization with better overall visibility into compensation.

There are five major outcomes an organization may see via adoption of a technology solution to manage compensation:

• Efficiency
• Consistency
• Visibility
• Transparency
• Trust

The first three items, efficiency, consistency and visibility, are immediate gains that a technology solution will deliver. These tactical pillars support the broader, organization-wide outcomes that technology enables: transparency and trust. These last two are about what HR and compensation teams choose to do with the time and resources freed up by automation, and how it can drive value within the organization.

Efficiency
Efficiency is clearly a huge driver of technology adoption. When we look at the two places where technology can help compensation teams, efficiency gains, particularly for processes like manager salary planning, are very clear. It is easy to identify the number of managers, employees and spreadsheets that must be sent via email and manually managed, from which time savings can be quantified.

In the case of compensation analysis and program design, however, stakeholders often fail to grasp the magnitude of efficiencies that can be gained. As discussed earlier, the assertion that most of the tasks in question can be done in spreadsheets is one of the most common objections to the adoption of technology solutions, particularly for things like market pricing and salary structures, which don’t directly touch managers and employees as directly as salary planning. But whether the work can be done in spreadsheets is less important than whether it is best done in spreadsheets. Sticking with a spreadsheet-based approach is often considered a “no-cost” option, but this view fails to consider the opportunity cost of bogging down the compensation team in data management tasks.

For example, a recent Compensation Outlook survey from Kenexa, an IBM Company, shows that only 25 percent of organizations feel managers are capable of having difficult conversations about compensation (see Figure 4). Sixty-five percent of WorldatWork’s8 respondents said “educating and enabling managers regarding compensation programs” was an area of current focus, and 50 percent said this would get even greater focus in the future.

FIGURE 4: WHERE SHOULD YOU SPEND YOUR TIME?

“Are managers capable of having tough conversations about compensation?”

- Yes 25%
- Neutral 41%
- No 34%
is a compensation practitioner’s time best spent during the salary increase cycle: trying to reconcile spreadsheets sent back by 10 different managers, or helping to coach the eight of them who don’t know how to talk about compensation?

**Consistency**

Enabling—even enforcing—consistency is a major benefit of a technology solution. Consistency is critical in many areas: in how managers reward performance, how different locations align to the market and approach market pricing, and how we assess and evaluate programs globally.

Our research shows that employees who believe their pay is related to performance are more engaged than those who don’t. But while many organizations say they pay for performance, nearly half don’t provide any guidance to managers on how to actually distribute limited pay budgets. At best there is inconsistency in the way managers are rewarding high and low performers. At worst, they are taking the path of least resistance and spreading the dollars evenly (the “peanut butter” approach). Does a technology solution fix problems with managers’ inability to discuss compensation? No, but it can provide them with guidelines to rely on when conversations become difficult. The ability to effectively use tools like merit matrices, however, requires compensation teams to have the bandwidth to create and deploy them. Technology solutions free up compensation professionals to prepare managers to help employees see the connections between pay and performance.

**Visibility**

An organization’s HR team plays a critical role in partnering with finance to manage compensation spend, and to do this they need visibility into how compensation is allocated across the organization. Department, business unit and organization-wide views are key to connecting the work of the compensation team to business metrics such as profitability.

Compensation technology solutions can provide top-level visibility into how compensation dollars are being spent, and with that view in mind, the compensation function can start to add value as an investment advisor. Are we overspending in places we don’t need to? Are we under spending on jobs that are mission critical, creating turnover risk? How are we paying low versus high performers? A global view is only one example of the power of technology to drive insight; the flip side is the micro, or employee-level, view and the power to move with ease between the two.

**Transparency**

Beyond the tactical gains—efficiency, consistency and visibility—there are further dividends that well-managed compensation processes pay to the organization. The first of these is transparency.

Recent research from the High Performance Institute by Kenexa indicates that people who believe they are paid fairly are substantially more engaged than those who don’t (see Figure 5). Three factors drive an employee’s belief in the fairness of his or her pay:

- Understanding how pay is determined
- Knowing how to maximize pay
- Believing pay is tied to performance

In fact, these three drivers impact an employee’s perception of pay fairness far more than the actual pay level.

Regardless of how much time and money are invested in building compensation programs, if employees don’t fundamentally believe they are being treated fairly, engagement suffers.

Technology enables transparency in a few ways. The most concrete is that it makes it much easier to communicate the full rewards picture to every employee, via a total compensation statement that lays out the full investment the organization makes in an employee’s pay, benefits and incentives.

Transparency, however, must go beyond one-way communication in order to be effective—it must also be understood. This is where the additional bandwidth created by reduced reliance on spreadsheets can truly be leveraged to protect engagement and value. Compensation professionals have the time to ensure that data is not only available but also understood, so that employees have faith that they are being treated fairly.

**Trust**

All of this boils down, in many ways, to trust. The connections between compensation and trust may be somewhat aspirational, but manifest in very real ways for the compensation team. When requests for market data take days to fulfill, or when errors in

---

manual processes are discovered, the organization’s trust in the compensation team erodes. When managers have small merit budgets and no context for how to distribute them, their trust in the merit process diminishes. When managers can’t explain to employees how their pay is determined, employee trust in pay fairness fades. When a senior leader can’t easily answer questions about the cost of compensation in a particular region or business unit, management’s trust in HR is decreases.

CONCLUSIONS
Managing compensation processes in spreadsheets can be done, and can even be done well in some cases. But it will always require a significant investment of time in lower-value data management activities and bear the risks typically associated with spreadsheet-driven processes. Leveraging technology for compensation market analysis, program design and administration provides tactical gains such as time-savings, risk reduction and increased productivity, but may also impact larger organizational outcomes like profitability and employee engagement. ■

ABOUT KENEXA, AN IBM COMPANY
To us, business has always been personal—and it’s always been about making the workforce smarter, which is why we’re proud to be the platform for a Smarter Workforce. We look at it from two angles—empowering people and transforming business. Our tools enable businesses to attract and keep the best people, develop their skills, cultivate new leaders and capitalize on their collective intelligence by applying human insights, social tools and workforce analytics to transform the way they work. We provide deep insight and experience in employee engagement, talent management and leadership development mixed with the world’s best technology and social platforms, giving us the unique ability to build a Smarter Workforce.