10 Things to Look For in an Enterprise Compensation Tool

"We operate a little differently".

That's a common refrain often heard when talking with compensation managers, HR directors and analysts at companies of all sizes. It probably accounts for the reason that a large number (by most estimates, a majority) of companies still use spreadsheets, home-grown applications or make do with the limitations of their payroll systems to manage compensation. So year in and year out, the compensation teams, probably more than any other HR function, operate in a reactive mode. Comp, above all others, is driven by the needs of the business, not by HR. Efforts to support executive directives, the needs of managers for flexibility and simplicity, changing organizational structures and legal requirements often puts the Comp teams in the position of reacting instead of directing. The one-size-fits-all approach of the payroll systems seldom works, so they try to maintain their equilibrium by adding another spreadsheet, a new column to an old one or an annual development cycle to the tools already built to support next year's process.

The HR software industry has responded in a number of ways. There are modules within virtually all of the ERP solutions, but modifications can be very expensive and companies still seldom get exactly what they need. Thus the spreadsheet comes to the rescue. At some point, the pain of managing the one-offs becomes just unwieldy enough to generate an interest in software designed to consolidate and simplify the process. But that too can be fraught with sandtraps.

What's tougher than projects aimed at implementing new software? Adoption! Since HR software usually goes out to the world, or at least to the manager level, it's got to be not only intuitive, but familiar. The larger and more diverse the organization, the harder it is to manage adoption. Force feed it to busy managers and watch the complaints roll in! No wonder many organizations are stuck in 3rd gear when it comes to upgrading comp administration tools.

Here's a buzzword laden with all kinds of implications: Manager Self-Service. With the almost universal appeal of web tools delivered across the organization, HR was our front in driving the tedious tasks of employee management to the lowest possible level. But what manager doesn't dread the performance review/compensation cycle? Has it really gotten easier since the flurry of paper went online? Certainly in some ways, the answer is yes. But with new capabilities to hone in (like a laserbeam) on the correlations between pay, performance, market data, equitable distributions and the like comes another problem: complexity.

Complex calculations based on a host of factors, such as company, division or team performance; available budgets, market data, retention of top performers, stock and stock options, multiple currencies and the weather in Topeka all contribute to the "we operate a little differently here" pronouncement. It's almost a resignation. So while it's true that most companies may share certain traits in compensation management, most also still find that implementing their compensation cycles is filled with a mish-mash of solutions that just seem to keep things afloat. Many companies have adopted the position that managers

have to take on the burden – after all, it's the managers who benefit when their teams perform. Other companies have moved the burden into the back office and give very little discretion to the managers. Some companies have successfully threaded the needle to enable a combination of both. Unfortunately, that usually means that there's an out-sized HRIS team supporting Comp with made-to-order tools in an ever-changing environment. And inevitably, the Comp teams find themselves inexorably drawn into the technical arena to define, test and use the new tools that they themselves required. And so the cycle goes.

Does all this sound familiar? If you think you're alone in this, you're not. There's been a fair amount of movement within the HR software industry to deal with this. Almost any HR system provider promoting integrated HR solutions adds "Compensation Administration" to their competency list. All of the major ERPs do it too. And of course, there's a healthy crop of vendors (like us) who offer point solutions designed to integrate with the other systems. Any of these might be the right solution, but as with everything else, it depends….

So that's the problem statement. What about the solution? Glad you asked! Here's a completely biased, shamefully self-promoting list of 10 critical things to look for when considering a compensation administration tool:

1. $\mathcal{M}$ake sure you really need a tool. Might seem obvious, but you sometimes have to triangulate on the core issues to arrive at that conclusion. If your payroll or HRMS system provides all the planning, execution and reporting you need without a large IT support staff to manage it, you should probably sit tight. Same goes for the Comp or HR staff responsible for the cycles. If turnover is high because of the annual grind (often around the holidays), then that's a pretty good sign that you need to find a way to make it easier. If they're a pretty happy bunch with no dark circles under their eyes, don't break it.

2. $\mathcal{D}$id I mention adoption? Make sure the tool will support your process, especially at the manager level. Your line managers HATE the annual performance review/comp cycles. If they don't, then your company should be on the "Best Places to Work" list. Make it easy for them and everything else falls into place.

3. $\mathcal{R}$eporting! Lots and lots of reports and the capabilities to create new ones quickly. Comp tools often combine a great deal of information not centralized anywhere else, so the ability to mine it is critical. For all the brouhaha about simplified administration, at the end of the day, executives want accurate, incisive and informative reports to support strategic planning. That will drive a decision to upgrade more than any other.

4. $\mathcal{C}$onfigurability. The ability to configure the tool to support changing requirements from year to year. Maintaining the ability to react quickly to changes in the organization (mergers got you down?) or direction is critical to minimizing the fuss.

5. $\mathcal{C}$ustomizations. This is usually a dirty word, but within Comp especially, there is frequently the need to develop some kind of customization or other. Doing this with your payroll or HRMS system is almost always going to turn into a very big deal. Make sure you know what it would take (time, expense and general disruption) for a point solution vendor to support future customizations. This one is the snake under the table for most software vendors and can often turn into the single greatest expense from year to year.

6. *If* you do customize… Make sure that you don't end up with a truly customized tool that weakens the ability of the vendor to support it. If it's done right, the basic architecture of the tool should enable customizations that retain the same fundamental structure. If not, you risk finding yourselves in a situation where support teams tell you that your version is so different that resolving issues gets more and more difficult. Don't sign up for that. Work with the vendor to meet your requirements while maintaining the basic integrity of the tool.

7. *Scalability* and performance: Don't take the vendor's word for it. Make sure your IT folks are asking hard questions and getting the kind of evidence that proves that the system will perform well at every level. A long list of big customers isn't good enough. There are ways to irrefutably test this, but many vendors simply don't go through the trouble and expense to do it to find the upper limits of the application.

8. *Integration.* Make sure the tool integrates smoothly with your other systems. Compensation especially often needs data from more than one source. This is the one overriding advantage to using your payroll system if it supports your process – no integration required. Don't get caught having to build some kind of middleware to support it and your IT staff will thank you.

9. *Are* you looking for a suite of products or a point solution? Many vendors go for the suite, of which Comp and Performance Management are additional modules. Certainly, there's something to be said for this (integration), but find out where their core competencies lie. Is it Performance Management, Recruiting, Market Analysis with Comp as an add-on or vice versa? Did they build the suite or acquire other companies to flesh out there products? Early stage consolidations will look good on paper because the capabilities are there, but there may still be lots of issues with how well the applications play together.

10. *Room* for growth and massive change. Don't find yourselves in a situation where your company expands, merges with another company or undergoes a major reorganization and you have a major retooling of your Comp administration system. Your company is going to have your hands full with merging payroll and you may find that comp is not the highest priority. Special orders should not upset you!