SIMPLIFYING COMPLEX COMPENSATION

HOW LEADING COMPANIES ARE USING STRATEGIC COMPENSATION TECHNOLOGY TO DRIVE BETTER BUSINESS RESULTS
For many employers, compensation management is more administrative than strategic. It is more about getting through the paperwork of complex plans and staying within budget versus supporting a company's business objectives.

While HR and management leaders want compensation to help attract, retain and motivate employees, the reality is these strategic goals often take a back seat to numbers crunching on the part of compensation professionals to address a growing number of complex issues including:

- Increasing number of compensation plan structures
- More organizational budget guidelines to follow
- Increasing number of compliance & regulatory issues
- Planning for complex global pay requirements

While there is no denying the fast changing and ever-increasing complexity of the compensation planner role, there are two critical elements that help them execute their strategic vision more effectively and efficiently: Line Managers & Technology.

Compensation planning is best done with the direct involvement of Line Managers and Department Heads. These managers should have the power to make compensation decisions for associates on their teams. They know their employees best and should have a say in how much team members are paid. For a compensation planner, it not only delegates some of the tedious tasks but it helps ensure budgets are being allocated most effectively.

The way to enable this is through technology specifically designed for managers to review salaries and make merit and bonus pay decisions. Fortunately, that technology exists today: Strategic Compensation Technology (SCT). This new technology is playing a growing role in bringing the strategic aspect of compensation planning to the front burner where it belongs.

In this paper we will share details on how Strategic Compensation Technology (SCT) is helping global compensation leaders execute a more strategic planning method that saves time and helps make better use of available budgets.
Understanding the Challenges of Today's Compensation Planner

The constant change of compensation plan budgets, programs and guidelines make it more challenging than ever to engage in a proactive planning process. The complexities of the plans now require so much additional time and resources, that any opportunity for strategic planning is often trumped by the need to meet looming plan deadlines.

This change and complexity is creating a heavy burden that is being carried by HR, senior managers, and line managers throughout the organization resulting in a number of challenges:

- ✔ More time & resources needed to manage these complex plans
- ✔ Increased pressure to stay within budget & guidelines
- ✔ Increased volume and complexity of spreadsheets causing more data errors
- ✔ Less departmental budgets and resources to work with
- ✔ Dramatically increased data security risks
- ✔ Working with a variety of manual and automated systems
- ✔ Changing, updating & integrating technology

The result is that many planners have to revert to more of an administrative process, one in which the primary goal is to finish on time and on budget, without much (if any) attention to strategy that could help benefit overall business results.

The Shift from Stressful Planning to Strategic Planning

When asked, most compensation professionals prefer the strategic part of the job. It’s the part they enjoy and quite frankly are very good at. It’s also the part of the job that can make the most impact on how budget is used and potentially impact the organization.

Today’s compensation professionals focus on two key strategic goals:
1. Have compensation plans that address strategic organizational goals: recruiting, retention and engagement.
2. Give Line Managers power to play a part in compensation decisions for their team members.

It’s no longer enough to just finish planning on time and on budget, today’s comp planners are expected to find ways to stretch compensation dollars and allocate them in ways that support the direction of the company.
You might be thinking to yourself, “So not only do I have all these challenges, but now I have to figure out how to integrate our line managers and organizational goals into the process? How do I do all of that?”

In a word: technology. Now it is likely you are already using some sort of technology, or trying to. The difference is this new breed of compensation planning technology is built for this simplified, strategic approach. Now you can not only include managers in the planning process but align with organizational goals simultaneously without changing the way you work.

Now if you have been around comp planning for a while, chances are you have had a bad experience with technology. Ironically most of the first generation technology has become more complicated than the very processes it was designed to improve! Whether it is battling an out-of-the-box module from a big HRIS vendor that is too limited or unable to be configured for your needs, or you are still juggling dozens of spreadsheets, we all have our war stories. But that’s where things have changed with Strategic Compensation Technology (SCT).

Imagine a compensation planning tool that understands the way you work, has the flexibility to configure to your workflow, and the transparency to allow collaboration with HR, line managers, and c-suite executives. Here are some of the key benefits of SCT:

- ✔ Gives Compensation professionals data to design and define plans that will engage employees to meet company goals while staying within regulatory, company, union and other requirements
- ✔ Gives Line managers must have an effective way to attract and retain key employees – via pay for performance and other models, while staying within budget
- ✔ Reduces data errors resulting from an increased number and complexity of spreadsheets being circulated through an organization
- ✔ Cuts the time and resources needed to manage these complex plans with other responsibilities and priorities
- ✔ Allows Managers to have a consistent decision support process to ensure budget guidelines are adhered to
  - ✔ Agile Configurability – without customizing software code, the technology is configured quickly and easily to match the compensation plan requirements of an employer
- ✔ More Controls – provides comp managers control into an otherwise uncontrolled process providing valuable decision support for all line managers

The important distinction is that this new technology is not just made for HR, it is made for managers. SCT provides comp planning tools to make better decisions, technology to do it more efficiently, all while providing transparency into the entire process.

Now let’s take a look at how Strategic Compensation Technology works in the “real world”.
The Survey: Benefits of Strategic Compensation Technology

Building a business case for a technology investment is often difficult. Organizations must answer challenging questions about the value of purchasing and implementing Strategic Compensation Technology (SCT) that meets their particular business needs. HRsoft’s survey results demonstrate how companies view the implementation of this new technology, such as HRsoft’s compensation planning software - COMPview, to achieve improved business results.

HRsoft surveyed more than 70 U.S. organizations that have evaluated SCT solutions with this goal in mind, and five that implemented HRsoft Compensation Planning Software (COMPview). The participating companies were from a wide range of industries, and had employee populations ranging in size from 1,500 to more than 150,000. The average size of the companies surveyed was 18,000 employees.

Survey responses revealed that companies implementing a SCT solution experienced improvements across both the enterprise as well as key functional areas associated with compensation: human resources, operations and line management. By implementing HRsoft Compensation Planning Software, each of these functions achieved the following goals and workforce metric improvements:

- **Effectiveness** – The ability to implement pay-for-performance programs, make better compensation decisions, and reduce turnover of top performers.
- **Efficiency** – The reduction of the cycle time to execute the compensation process.
- **Risk mitigation and control** – Increase in business controls, line manager decision support and stronger budget compliance, spending the same as or less than the expected dollar amount.

Organizations in the survey quantified these benefits into three main categories, based on the company’s internal view of return on investment:

- **Measurable benefits** – Identified benefits that can be assigned clear cost savings. For example, an expense savings directly linked to the implementation of the solution.
- **Effectiveness benefits** – Benefits that are harder to measure, but can be estimated, such as an increase in productivity due to better decision-making.
- **Strategic benefits** – Benefits that are more challenging to quantify in dollar terms, yet can have far-reaching implications for an organization. For example, while the benefit of establishing a pay-for-performance culture is significant, quantifying that benefit is difficult.

While some companies were focused on measureable ROI, others were interested in what organizational results could be achieved with Strategic Compensation Technology. Survey results varied for each organization depending on its particular challenges. For the average size company surveyed, Figure 1 summarizes the savings realized by area impacted, ROI goal, workforce metric and quantified benefit.

In all cases, companies that had implemented a SCT solution, like HRsoft’s COMPview, reported immediate and long-term financial benefits with payback of their initial investment within one year.
## Figure 1

Measuring The Benefits & ROI for Strategic Compensation Technology

Benefits based on average company size of 18,000 employees

<table>
<thead>
<tr>
<th>Area</th>
<th>Goal</th>
<th>Workforce Metric</th>
<th>Quantified Benefit</th>
</tr>
</thead>
</table>
| **Organization**      | Effectiveness                             | • Creating a culture of pay-for-performance by aligning compensation model to of corporate goals.  
                          |                                           | • Turnover reduction and increased retention of high performers.  
                          |                                           | • Improved partnership between HR and Finance functions.  
                          |                                           |                                                                                   | 60% increase in differentiation between low and high performers.  
                          | Risk Mitigation and control              | Reduced over-spending due to increased budget control.  
                          |                                           |                                                                                   | 22% reduction in compensation related turnover.  
                          |                                           |                                                                                   | Measurable savings of $9M/Year.  
                          |                                           |                                                                                   | Measurable savings of $3.3M/Year.  
                          |                                           |                                                                                   | Estimated savings of $10.0M/Year.  
                          |                                           |                                                                                   | Avoiding 0.3% overage for a company with $1B in compensation.  
                          |                                           |                                                                                   | Measurable savings of $3.0M/Year.  
| **Line Management**   | Effectiveness                             | Improved quality of decisions due to knowledge management and analytics.  
                          | Efficiency                              | Decreased cycle time of for line managers to make compensation recommendations | 40% reduction in cycle time.  
                          |                                           |                                                                                   | Measurable savings of $589K/Year.  
| **Human Resources and HRIS** | Effectiveness                           | Increased ability of HR to focus on value-add activities.  
                          | Efficiency                              | Decreased cycle time for internal Compensation Team and HR Generalists to complete the total design, deployment, analysis and payout of the compensation plan.  
                          |                                           | Decreased cycle time for internal Compensation Team and HR Generalists to complete the total design, deployment, analysis and payout of the compensation plan.  
                          |                                           | Reduction in the effort of HRIS staff needed to maintain and operate application.  
                          |                                           |                                                                                   | 26% reduction in cycle time.  
                          |                                           |                                                                                   | Measurable savings of $756K/Year.  
                          |                                           |                                                                                   | 20% + headcount reduction (Based Saratoga Institute of HR Generalists needed studies that 1/5 of all time is spent helping with compensation issues)  

Summary of SCT Return on Investment (ROI) Results

Chart 1 aggregates the ROI benefits realized by the companies surveyed.

Chart 1
Summary of SCT Return on Investment Results

SCT Enables Strategic Pay-for-Performance

Improving Organizational Effectiveness by Optimizing Compensation Spending

One of the most far-reaching benefits to be gained from the deployment of an SCT solution is the optimization of compensation spending. By providing greater visibility into the overall compensation planning process, today’s new generation of compensation management technology guides managers toward greater differentiation in the allocation of total compensation funds, enabling the implementation of a pay-for-performance strategy.

The survey results showed that Strategic Compensation Technology supports compensation spending optimization in the following key areas:

- Allocation of merit increases based on performance
- Effective management of compensation range penetration
- Connecting variable pay and performance
Figure 2 illustrates for the average survey company, measurable savings of approximately $.9M annually that can be directly correlated to optimized compensation spending.

**Figure 2**
Making the ROI Case: Benefits from Optimization of Compensation Spending
Benefits based on company size of 5,500 employees.

<table>
<thead>
<tr>
<th>Optimization Goal</th>
<th>SCT Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Merit Allocation Based on Performance</td>
<td>Measurable savings of $375K reduction in annual merit budget.</td>
</tr>
<tr>
<td>Effective Management of Range Penetration</td>
<td>60% increase in Range Penetration associated with more effective workforce alignment.</td>
</tr>
<tr>
<td>Connecting Variable Pay to Performance</td>
<td>Measurable savings of $547K annually.</td>
</tr>
</tbody>
</table>

**Merit Allocation Based on Performance**

Corporations typically undergo an annual budget process in which Finance and HR collaborate to determine the average salary increase percentages to be allocated across the workforce. Compensation professionals analyze and aggregate the effects of marketplace changes on categories such as business unit, location, job code and salary grade, in turn developing guidelines that show managers how the overall percentage should ideally be allocated to individual employees. When incorporating employee performance into the equation, it is critical that the compensation department also provide guidance on how to allocate funds based on the employee's performance rating. By implementing a Strategic Compensation Technology solution like HRsoft’s COMPview, companies can provide guidance that will help ensure that merit allocations are awarded based on performance.

In addition to providing impact on engagement, retention and innovation, Figure 3 shows the measurable impact that managing merit payouts by performance rating can have on overall merit spending. In this example, a manufacturing organization with 5,500 employees and a total compensation spend of $375M had the opportunity to reduce this expenditure by 0.1% annually. By choosing to save this amount, as opposed to re-distributing it, the organization captured this $375K as, a quantifiable benefit.

Alternatively, instead of decreasing their merit increase budgets, some companies opt to re-distribute the entire merit reduction from low performers to high performers. This is based on the belief that the associated strategic benefit far outweighs the potential measurable savings. These strategic benefits include workforce alignment, retention of top performers (see below), better alignment with corporate goals and more motivated employees. Essentially, it allows the organization to get a much better return on the same amount of compensation dollars spent.
Figure 3
Making the ROI Case: Performance-Based Merit Allocation Budget Effect Benefits based on company size of 5,500 employees.

<table>
<thead>
<tr>
<th>Performance Rating</th>
<th>Old Population %</th>
<th>Old Increase</th>
<th>Old Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excellent (5)</td>
<td>5%</td>
<td>6.0%</td>
<td>$1,125,000</td>
</tr>
<tr>
<td>Above Average (4)</td>
<td>15%</td>
<td>4.0%</td>
<td>$2,250,000</td>
</tr>
<tr>
<td>Average (3)</td>
<td>60%</td>
<td>3.5%</td>
<td>$7,875,000</td>
</tr>
<tr>
<td>Below Average (2)</td>
<td>15%</td>
<td>2.0%</td>
<td>$1,125,000</td>
</tr>
<tr>
<td>Poor (1)</td>
<td>5%</td>
<td>0.0%</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Average</td>
<td>3.3%</td>
<td>$12,375,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Performance Rating</th>
<th>New Population %</th>
<th>New Increase</th>
<th>New Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excellent (5)</td>
<td>6%</td>
<td>8.0%</td>
<td>$1,800,000</td>
</tr>
<tr>
<td>Above Average (4)</td>
<td>15%</td>
<td>6.0%</td>
<td>$3,375,000</td>
</tr>
<tr>
<td>Average (3)</td>
<td>54%</td>
<td>3.0%</td>
<td>$6,075,800</td>
</tr>
<tr>
<td>Below Average (2)</td>
<td>20%</td>
<td>1.0%</td>
<td>$750,000</td>
</tr>
<tr>
<td>Poor (1)</td>
<td>5%</td>
<td>0.0%</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Average</td>
<td>3.2%</td>
<td>$12,000,000</td>
</tr>
</tbody>
</table>

Savings Annually $375,000

In all cases, survey companies were able to execute a pay-for-performance strategy by providing greater increase percentages to top performers and less to middle and low performers. Achieving these kinds of results proves that the compensation function is able to use SCT applications to work effectively within corporate guidelines and to manage the merit budget in a way that reinforces the desired alignment between corporate culture and budgetary goals.

Salary Range Penetration

While merit increases are intended to reward employees for solid or exceptional performance, many employees expect to receive an annual increase to balance the effect of inflation on their household income. Some managers also see merit increases as an entitlement and distribute the annual merit increase pool equally among the employees in their groups.

Using SCT, companies are now able to optimize their compensation spending and focus on rewarding top performers. By providing line managers the tools and strategic decision support they need, the organization is able to implement an effective comp plan based on performance to help achieve a greater range penetration between high and low performers.

In the following example, before implementing a SCT solution, low performers were paid on average at 40% of the range in their job category, while top performers were paid at 65% of the range. As such the differentiation between low performer and top performers was only 25%. Chart 2 represents actual results from surveyed organizations. After implementation of a SCT solution, the poor performers dropped to 35% of the range while top performers increased to 75%. The differentiation increased from 25% to 40%. This represents a 60% increase in the differentiation between poor and top performers.
Companies using strategic compensation systems were able to push the top performers higher in their ranges and to keep poor performers lower in their ranges, while simultaneously decreasing their overall merit budgets. Managers attained these results by utilizing range penetration information and guidance communicated to them within the application.

Connecting Variable Pay to Individual Performance

As with merit increases, companies can align corporate objectives with budgetary goals by using Strategic Compensation Technology to model variable pay budgets and pay guidelines, and to connect variable pay allocation to individual performance. Typically, companies provide few, if any, guidelines to line managers to complete the variable pay process, resulting in little differentiation in payouts to employees regardless of their performance. When this occurs, top performers are not appropriately rewarded for their contributions, while variable pay funds are unnecessarily paid to poor performers. Companies that want to effectively model, track and allocate variable pay funds can greatly benefit from a SCT solution.
To give an example of this problem, one of the companies surveyed wanted to have an average payout of 89% of the variable pay pool. However, due to the lack of guidelines, managers historically allocated an average payout of 92.5%. Using HRsoft’s COMPview, a SCT solution, companies can avoid this by effectively and consistently communicating this type of guideline to managers, and alerting managers who are not within guidelines during the allocation process. Since managers can clearly see the guideline in COMPview – and the compensation department and executives can proactively monitor their progress – the desired payout is achieved, top performers are rewarded appropriately improving retention and costly overruns are avoided.

Chart 3 graphically depicts the improvement in the variable pay allocation process that is achieved using a SCT solution. In addition to improved retention and budgetary controls, based on HRsoft’s survey results, the average company would receive a quantifiable benefit of over $547K annually, by optimizing variable pay.

**Chart 3**
Making the ROI Case: Effect on Variable Pay

**Benefit Calculations**

<table>
<thead>
<tr>
<th>Pre-implementation</th>
<th>Post-implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of poor performers receiving variable pay</td>
<td>% of poor performers receiving variable pay</td>
</tr>
<tr>
<td>Reduced Payout %</td>
<td>Annual Variable Pay Budget</td>
</tr>
</tbody>
</table>
SCT Reduces Employee Turnover

Greater Enterprise Effectiveness through Higher Employee Satisfaction

Another area of benefit from deploying a SCT solution that has organization-wide impact is increased employee engagement and satisfaction. HRsoft’s COMPview improves employee satisfaction among top performers because it clearly links superior performance with higher compensation. Companies also reported higher satisfaction among line managers, as they were able to make more effective compensation decisions in a shorter time using COMPview. The result – increased innovation and bottom line gains driven by reduced turnover.

Based on analysis by the Saratoga Institute of exit interviews across a variety of industries, one of the leading causes of turnover is compensation. Turnover within a company leads to large costs through organizational disruption, the diversion of time and effort by managers and co-workers and time spent by new employees’ becoming familiar with their jobs. This is especially true for situations in which the turnover involves the departure of top performers. Figure 4 highlights some common costs associated with turnover.

Figure 4
Saratoga Institute
Turnover Costs Checklist

- Exit Processing
- Exit Interview
- Applicant Processing
- Pre Interview Testing
- Interviewing
- Productivity Loss for New/Old Member(s)
- Vacancy Loss for New Employee
- Selection Meeting
- Recruitment Advertising
- Medical Examination
- Training / Familiarization
- Relocation
- Hiring Bonus

Analysis by the Saratoga Institute indicates that employee replacement costs a minimum of $9,500 per employee, before factoring in any productivity loss. Based on industry benchmarks provided by the Saratoga Institute, this results is an average of $1.463M, in savings for a company with 18,000 employees, summarized in Figure 5.
Figure 5
Making the ROI Case: Reduced Turnover Savings Associated with Implementation of COMPview Benefits based on average company size of 18,000 employees.

<table>
<thead>
<tr>
<th>Employee population</th>
<th>Total attrition</th>
<th>%</th>
<th># of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-Implementation</td>
<td>18,000</td>
<td>15.00%</td>
<td>702</td>
</tr>
<tr>
<td>Reduction attributed to SCT</td>
<td></td>
<td>22.00%</td>
<td></td>
</tr>
<tr>
<td>Post Implementation</td>
<td>18,000</td>
<td>14.14%</td>
<td>(548)</td>
</tr>
<tr>
<td>Retention</td>
<td></td>
<td></td>
<td>154</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Savings</th>
<th>Per employee</th>
<th>Employees</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Termination costs</td>
<td>$1500</td>
<td>x</td>
<td>154 = $231,000</td>
</tr>
<tr>
<td>Recruiting costs</td>
<td>$5000</td>
<td>x</td>
<td>154 = $770,000</td>
</tr>
<tr>
<td>Hiring costs</td>
<td>$1000</td>
<td>x</td>
<td>154 = $154,000</td>
</tr>
<tr>
<td>Training costs</td>
<td>$2000</td>
<td>x</td>
<td>154 = $308,000</td>
</tr>
<tr>
<td>Total measurable savings</td>
<td>$9,500</td>
<td></td>
<td>$1,463,000</td>
</tr>
</tbody>
</table>

In addition to the improved satisfaction and innovation, this level of savings benefit provides a strong argument for implementing a SCT application. When combined with the additional benefits of eliminating the ramp-up time for new employees, and the strategic effects of implementing a performance-based culture, this benefit is a key area of the ROI justification for a SCT solution.

Benefit Calculations

\[
\text{Pre-Implementation} - \text{Post-Implementation} = \frac{\text{Reduction in Turnover}}{\text{New \% Turnover}} - \frac{\text{New \% Turnover}}{\text{Reduction in Turnover}} = \text{Annual Cost Savings from Turnover}
\]
SCT Drives Budgetary Control

Mitigating Risk by Improving Control of Compensation Spending

One of the most visible savings resulting from implementing a SCT solution is in the area of enterprise budget control. These solutions drive companies to ensure they operate within pre-defined budgets, increasing control and mitigating the risk associated with unpredictable cost overruns.

Prior to having a SCT in place, many companies overspent on compensation due to inadequate processes and lack of automated financial controls. In those companies, the managers were not provided with the proper guidance or tools to make sound decisions and stay within budget guidelines.

A typical scenario is as follows: Human Resources and Finance agree to a 3% merit increase for the year. This is communicated to managers who then proceed with their planning. Several weeks later, HR/Finance rolls up the information and realizes that the sum of the recommended increases is 4%. Weeks of discussions and negotiations follow in which the VP of HR and the CFO or Controller work with the various heads of divisions to get them to revise their proposals. Eventually, after much frustration and time, the company settles on 3.3%, or 0.3% over the original budget. For an 18,000 employee company with $1B of compensation expenses, that’s equivalent to $3M per year.

It should be noted that the potential for such budget overruns is exacerbated when variable pay, base pay, stock awards, and other compensation pools such as adjustments and promotions are included. Further complications arise when these programs must be executed within a multi-division and/or global enterprise.

By providing an enterprise-wide SCT system to support the compensation process, it provides managers with the information and expert advice they need to make the proper trade-offs up front and see in the impact on their budget in real time. Besides enabling measurable savings, this ability to stay on budget removes a point of contention and serves to strengthen the important partnership between Human Resources, Finance and the business managers.

Another area of benefit in the category of process improvement is error reduction. Before implementing a SCT solution, most companies used a combination of spreadsheets, emails, paper forms, or other custom developed systems. Survey respondents reported average error rates in excess of 35%. By implementing a SCT, survey companies were able to eliminate those manual errors. The benefits to moving to a smooth, efficient and error-free compensation process, while difficult to quantify, can also make a substantial contribution to the cost justification.

Budgetary control and compliance in today’s market provides another strong argument for implementing a SCT application. Companies can now have significantly more control over one of the largest operational expense areas and mitigate the risk associated with an unpredictable budgetary process. The result is a clear - improved strategic impact and bottom-line justification for implementing a SCT solution.
**SCT Improves Line Manager Productivity and Decision Making**

**Increasing Line Manager Efficiency and Effectiveness with Information, Guidelines and Automated Workflow**

Strategic Compensation Technology systems significantly increase the overall effectiveness and efficiency of line managers. In the HRsoft survey, line managers reported a significant reduction in the time spent on compensation-related activities. Using HRsoft’s patented Knowledge Management function, they felt significantly better equipped to make more informed compensation decisions. This was true for first-level managers, who were able to easily access the information and guidelines they needed to make recommendations, as well as higher-level managers, who could proactively review the recommendations and budget impact, and then use the automated workflow to efficiently indicate their approval or address special circumstances. The improvement in productivity was 40% for the average survey company.

**Figure 6**

**Making the ROI Case: SCT Line Manager Efficiency Benefit Calculation Example**

Benefits based on average company size of 18,000 employees.

<table>
<thead>
<tr>
<th>Benefit Calculation</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of eligible employees</td>
<td>18,000</td>
</tr>
<tr>
<td>Total number of line managers</td>
<td>2,000</td>
</tr>
<tr>
<td>Average hourly rate for line managers</td>
<td>$46</td>
</tr>
<tr>
<td>Time spent prior implementation</td>
<td>16</td>
</tr>
<tr>
<td>Productivity improvement</td>
<td>40%</td>
</tr>
<tr>
<td>Number of hours saved</td>
<td>6.4</td>
</tr>
<tr>
<td>$ saving per managers</td>
<td>$294.4</td>
</tr>
<tr>
<td>Total annual productivity benefits</td>
<td>$588,800</td>
</tr>
</tbody>
</table>

Utilizing the workflow and decision support within a SCT solution, companies in the survey reported up to 50% improvement in compensation planning cycle time. These dramatic results, combined with the more intangible benefit of improved decision-making by line managers, creates another compelling result to include in the rationalization for implementing a SCT solution like HRsoft’s COMPview.

**Benefit Calculations**

<table>
<thead>
<tr>
<th></th>
<th>Pre-implementation</th>
<th>Post-implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td># of hours</td>
<td>Total # of hours</td>
<td># of hours</td>
</tr>
<tr>
<td>spent in focal</td>
<td>saved</td>
<td>spent in focal</td>
</tr>
<tr>
<td>review cycle</td>
<td></td>
<td>review cycle</td>
</tr>
<tr>
<td>Total # of hours saved</td>
<td>average hourly rate for managers</td>
<td>total # of managers</td>
</tr>
</tbody>
</table>
SCT Improves HR Productivity

Easing the Compensation Administration Burden for HR and HRIS

Companies typically have a small compensation staff supporting large numbers of employees. Companies in the survey using a SCT solution reported benefits in workload improvement, and reductions in average compensation cycle times of 26%. Through effective execution of this new breed of technology and the consolidation of base pay, variable pay and stock planning into one process, the total administrative burden is significantly reduced and associates are able to focus on more valuable, strategic activities.

Others respondents cited the compounding effect of mergers and acquisitions on compensation. For example, following a merger, one company was faced with the task of re-orienting the culture of the newly acquired company. Deploying a SCT solution allowed Compensation to play a strategic role in creating a cultural shift and beginning the process of integrating the new employees.

One survey respondent commented that she was able to consolidate not only the separate compensation components, but also the separate business unit systems, thus eliminating the overhead associated with the maintenance of the separate systems.

Making the ROI Case: Benefit Calculations

The HR/Compensation administration productivity benefit from HRsoft’s COMPview is calculated by comparing the cycle times, pre-and post-implementation, as follows:

<table>
<thead>
<tr>
<th>Pre-implementation</th>
<th>Post-implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td># of hours spent in focal review cycle</td>
<td>=</td>
</tr>
</tbody>
</table>

| Total # of hours saved | x | average hourly wage for HR Compensation employees | x | total # of HR/Compensation employees | = | Total value of productivity improvement |

The HR expense budgetary impact from HRsoft’s COMPview includes both a reduction in headcount and the utilization of resource time that is now available, as follows:

| Average annual salary | x | # of headcount reduced | = | Total value of headcount reduction |

| Total # of HR generalists released from comp process | x | 20% (time formerly spent on comp advising) | x | Average annual salary for HR generalist | = | Total value of resource re-allocation |
5 Keys To Building A Better Business Case For Strategic Compensation Technology

Understanding the value of this new breed of compensation management technology can often times be different from how you need to make the business case. While the benefits may be clear and easy to understand, getting buy-in to make your case requires measuring both the organizational impact and bottom line benefits:

1. **EFFICIENCY IMPROVEMENT**
   
   **Organizational Impact** – SCT helps organizations better allocate available resources to top performers resulting in improved engagement, retention and innovation. In addition, less burden upon Compensation allows more time and resources to be dedicated to proactive, strategic compensation planning.

   **Bottom Line Benefits** - Clearly illustrating how automating and/or streamlining your comp process with a SCT solution will significantly reduce the time and resources needed from your department and the line managers. This can be supported by showing examples of how your workflow process will be streamlined, and by sharing data from the survey cited in this paper showing that **workflow efficiency improved by 40% for line managers and by 26% for HR departments overall.**

2. **BUDGETARY CONTROL**
   
   **Organizational Impact** – Improved controls provide compensation managers the ability to provide effective and consistent decision support for all line managers resulting in better allocation of available budgets. These SCT controls also help streamline the process reducing the friction between HR and Finance.

   **Bottom Line Benefits** – Budget control provides an easy and direct correlation to the bottom line for supporting a SCT investment. Provide examples of how pre-defined budgets can be setup, controlled and monitored in real time to reduce unnecessary cost overruns. While results in this area can be easily measured, showing an example based upon past experiences can be a powerful influence.

3. **IMPROVED ACCURACY**
   
   **Organizational Impact** – SCT helps improve accuracy, creating confidence for HR and Finance to proactively project and plan budgets without worry of major error adjustments. This increases the speed of the process, allowing Compensation to take more time to focus on the strategic comp planning objectives.

   **Bottom Line Benefits** – depending on your current process, this can be an eye-opening example of how SCT technology can result in big cost savings. Using a nominal error margin based on your current comp budget can provide a great example. This can be supported by the findings in the study provided that showed an average error rate of 35% among respondents.
4. **INCREASED RETENTION**

**Organizational Impact** – Retaining top employees not only keeps your most talented contributors working for you, but helps improve morale and organizational culture. HICM solutions focus on retention, showing that the organization cares about its employees thereby fostering loyalty and innovation among its workforce.

**Bottom Line Benefits** – Employee turnover has a very real hard cost to an organization that can be calculated in a number of ways with a HICM solution. There is a direct correlation to improved satisfaction of line managers in addition to the ability to recognize, compensation and retain your top performers. The cost savings from reduced turnover can be calculated in a number of ways based on your business model, but ultimately supported by the findings of the Saratoga Institute that indicates the minimum cost of replacing an employee is $9,500 before factoring in lost productivity.

5. **BETTER DATA & DECISIONS**

**Organizational Impact** – SCT solutions provide HR, senior managers and line managers the data they need to more effectively identify, reward and retain top talent. Viewing this data in real time, helps organizations make better business decisions, faster. Ultimately the access to more data, leads to more strategic planning resulting in better business decisions.

**Bottom Line Benefits** – Ultimately, compensation is all about making wise decisions. Those decisions should attract, retain and motivate employees to achieve success.
Resources

COMPview | Compensation Planning Software

Automate, Align & Simplify Complex Compensation Planning

Not sure where to start? We would love to help. Contact us for a wide variety of additional resources and learn more about our best-of-breed compensation planning software, COMPview. Click here to learn more & watch a short demo.

About HRsoft

HRsoft is an award-winning talent management software company that specializes in cloud-based HR solutions built to improve manager effectiveness and business results. We offer a complete suite of configurable HR SaaS software that integrates with any HRIS. Learn more at https://hrsoft.com

About the Authors

Brian Sharp – Chief Marketing Officer, HRsoft
Brian is responsible for all product marketing at HRsoft, a leading talent management software company. Brian brings to HRsoft 20 years of entrepreneurial experience that includes helping companies in all stages of growth develop and execute successful go-to-market strategies.

He is an award-winning keynote speaker and frequent presenter on topics including HR SaaS technology, business strategy and marketing. Brian resides in Northern California with his wife and three children. Connect on LinkedIn

Ezra Schneier, Corporate Development Officer – HRsoft
Ezra is responsible for execution of the company’s channel partnership strategy and Account Management functions. Schneier is the former Vice President of Corporate Development for First Advantage Corporation where he successfully executed that company’s growth strategy.