



Introduction

To improve their compensation system, organizations must first take an in-depth look at their existing processes. By assessing existing compensation systems and processes, you can then clearly determine what's working, as well as potential areas from improvement. With this knowledge, it becomes possible to create a targeted strategy, from which you can build a roadmap to lead you towards a more robust, effective compensation program.

Yet, while the assessing, strategizing, and mapping compensation systems sound simple enough, each of these steps can become overcomplicated if you don't have a precise action plan to follow. Here, we'll break down each process into simple steps you can follow to stay on track.

Throughout the coming pages, we'll cover:

- ✓ The difference between total compensation and total rewards
- ✓ How to effectively assess your existing business processes
- ✓ Ways to develop a compensation strategy that supports your company goals
- ✓ How to develop an agile compensation systems roadmap

We'll start first with a brief look at total compensation and total rewards, as well as the relationship between these two concepts.



UNCOVER THE BENEFITS

Defining Total Compensation & Total Rewards

Total compensation is one component of a broader concept: total rewards. While your total rewards program encompasses total compensation, it may also include elements like medical, dental, and vision benefits. Other factors could include (but are not limited to) retirement plans, sick and leave policies, vacation time, travel and expense policies, and café or meal discounts.

On the other hand, total compensation refers exclusively to pay-related items. It could include base pay, bonuses, and equity-type programs.

While a total rewards program is indeed broader than total compensation, your total rewards program is directly linked to pay-related items. The variety of elements encompassed by total rewards can be used to illustrate the value of employment offered by your organization. This knowledge can be helpful in structuring a total rewards philosophy, which we'll get to shortly.

For now, let's move forward by learning how to assess current compensation business processes.

Assessing Compensation Business Processes

Before you can determine how to improve compensation, you must first take a close look at your existing processes. By identifying where processes stand, you can then make informed decisions for developing a roadmap. There's a simple three-step process you can use to perform a thorough assessment.



Step 1: Perform a Compensation Process Inventory

Begin by listing out all of the different business processes you use in compensation planning. These factors could include market survey, base pay, bonus, equity, commission, allowances, merit, and promotions. You might also include additional elements, such as the job description process, or employee stock purchase plans.

Step 2: Process Maturity Evaluation

Next, evaluate the maturity of your processes, using a rating system to evaluate whether or not they're working. Identify three separate categories: working well with strong automation (fully mature); needing improvement and experiencing some challenges because efficiency could improve; and, not working, or failing beyond the level of tolerance. Go through each process and rate it. You can also use a color-coded system (green, yellow, and red) or numbers to further simplify this step.

Step 3: Compensation Systems Review

Finally, determine your compensation systems, identifying which are supporting the business processes you inventoried and evaluated in steps one and two. For instance, base pay, bonus, and equity could fall under your core HRMS, while commissions, merit, and promotions might be supported by your compensation system.

Then, evaluate how these different systems interact with each other. For instance, information might be passed from your compensation system into your core HR system, but perhaps it's not a fully mature interface because it's not fully automated.

This three-step evaluation should yield some helpful insights for areas of potential improvement, which brings us to our next point. However, before moving on, take a moment to note that this same process can be used to evaluate any HR function, and is not limited to compensation processes alone.

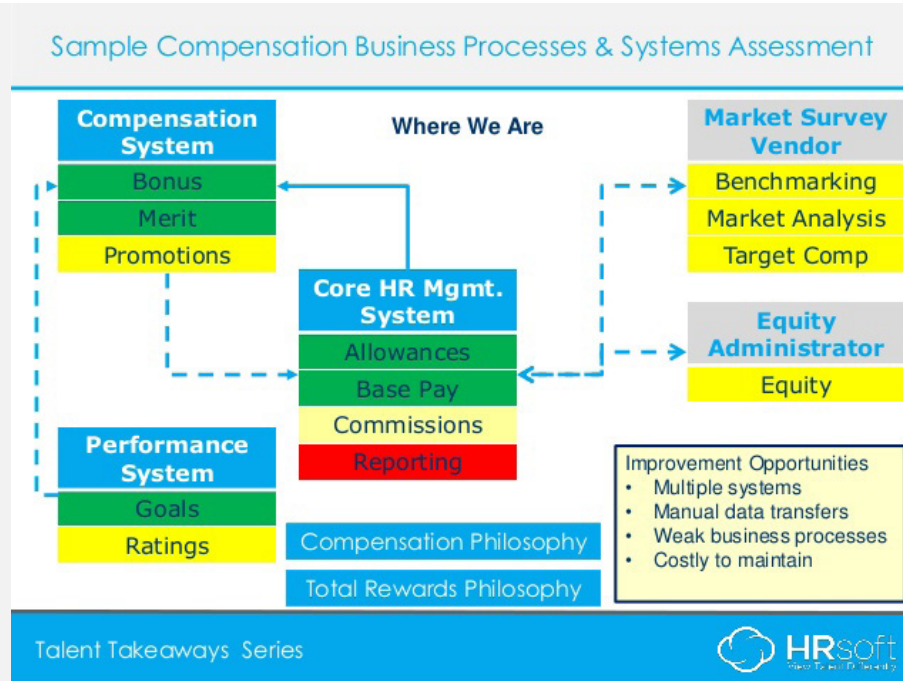
Identifying Improvement Opportunities

Based on the findings gathered from your three-step assessment, you can create a one-page document or graph identifying the current status of your business processes. For instance, you might discover that you have three different systems: one for performance, one for compensation, and one for core HR management. You can also include any vendors you're working with, such as market survey vendors or equity administrators.

Go through and rate each aspect of the various components using the same system described in Step 2 on the previous page. For instance, if your market survey vendor is responsible for benchmarking and market analysis, rate each of these factors as working well, needing improvement, or not working. You can also illustrate the ways in which these systems interact, using dotted lines to identify manual information transfer, and solid lines to indicate automation.

Here's an example of what the summary might wind up looking like:

As you can see, there are multiple improvement opportunities identified. In addition to having manual data transfers, there are multiple systems in use, along with some weak business processes. You can further expose improvement areas by listing the costs for each process. In the case of this example, it was discovered that the overall compensation business processes are costly to maintain.



While this type of assessment is helpful for HR, it can also come in use when you're communicating externally. If any key stakeholders are interested in knowing where your organization lies in terms of compensation processes, you can share this comprehensive overview with them.

Next, we'll focus on building a compensation and total rewards philosophy, which is an important precursor to establishing an effective roadmap.



Crafting a Total Rewards and Compensation Philosophy

According to an HRsoft poll, only 49% of employers surveyed have an existing total rewards philosophy. Yet, having a total rewards philosophy is important for ensuring you're rewarding employees in a way that supports overall business goals. A total rewards philosophy should also encompass a compensation philosophy, and it can also include a separate benefits philosophy.

Let's say your company goal is to attract and retain the industry's top talent to become the driving force behind innovation, leading to increased market share and profitability.

How could HR build a total rewards philosophy to support that goal?

Here's an example:

The combination of our pay, benefits, culture, and perks will differentiate our company as an employer of choice amongst the companies we compete against for talent.

The benefits philosophy might then state: *We offer a wide variety of targeted programs that maximize employee engagement and productivity.*

From there, you could establish a total compensation philosophy to support the company goal as well.

For instance, you might target your total cash at the 75th percentile, offer equity and bonus programs for all employees, and link goals and performance to compensation to differentiate top pay for high performers.

In order to accurately develop your compensation philosophy, make sure you have all of the right key stakeholders involved. For instance, in addition to involving the benefits team, staffing team, and HR business partners, you might also need to have the executive staff on board to ensure a collaborative, inclusive process to drive clarity and consensus on the end result you're trying to achieve.

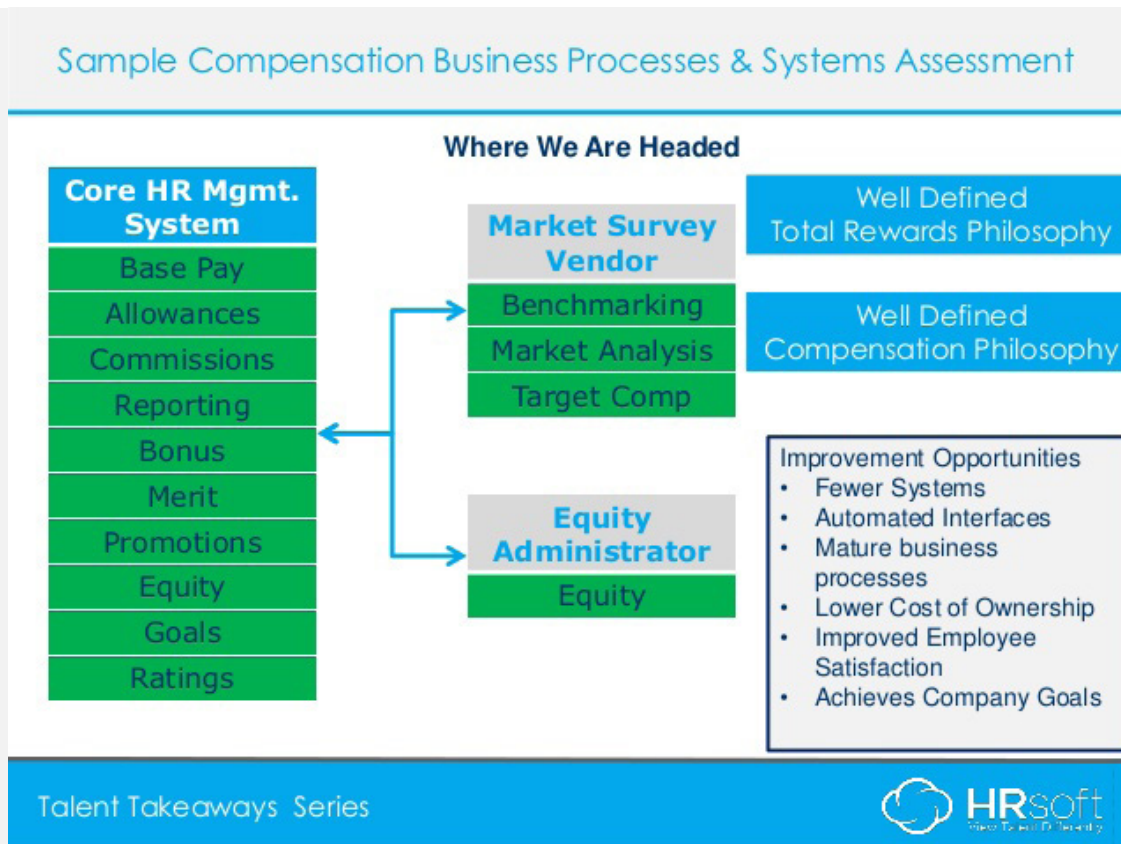
Compensation Strategy

Once you've crafted a compensation philosophy, it's time to build a compensation process and systems strategy summary. Aim for concise, actionable statements you can use to describe where you're headed.

For instance, your compensation strategy might be summed up into three statements, such as:

- ✓ Implement a new cloud-based core HR system
- ✓ Build interfaces between the new system and vendors
- ✓ Migrate and automate compensation business processes into the new system

Based on the strategy, you can also create a comparison assessment between where you are now and where you're headed. The assessment of where you're headed might look like the illustration below:



As you can see, the objectives are to have fewer systems (just one), all automated interfaces, more mature business processes, and lower cost of ownership. In this example, the employer is also aiming for a compensation system that achieves company goals and improves employee satisfaction levels.

Using this information, you can finally develop your compensation roadmap.

Developing the Roadmap

An HRsoft poll indicates only 27% of organizations have an existing compensation strategy and roadmap itemizing which changes they plan to make and when. Yet, 38% are planning to make changes to the systems that support compensation within the next year.

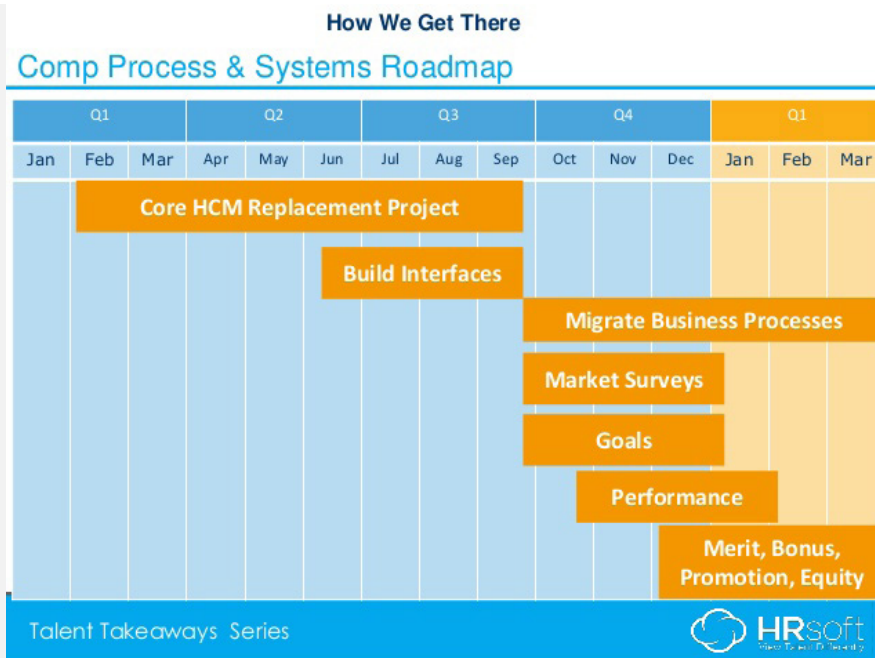
A compensation roadmap is an essential tool for helping your organization improve compensation, and on a larger scale, it can even support the achievement of overarching company goals.

At the simplest level, the roadmap is a set of milestones required to achieve the strategy. It should be used to answer the question, "How do we get there?"

While it should identify the specific sequencing, duration, and order for different milestones, it's important to note that the roadmap is not set in stone. In fact, it can – and should – be agile enough to change with your evolving business needs and priorities. While it may incorporate a general timeframe from beginning to end, it's likely you'll need to make some adjustments along the way.

Developing a roadmap is another collaborative process, so be sure to include all of the key stakeholders you consulted with when identifying your total rewards philosophy.

Additionally, it's important to bear in mind that some processes must be completed before others can take shape. For instance, the core HCM replacement project and building of new interfaces would need to be completed before you could migrate your business processes. Here's an illustration of a sample roadmap you can use as guidance:



You may find your roadmap evolving and changing over time. While the assessment is static and your strategy can be adjusted, the roadmap explaining how you'll get to where you're headed is always flexible.

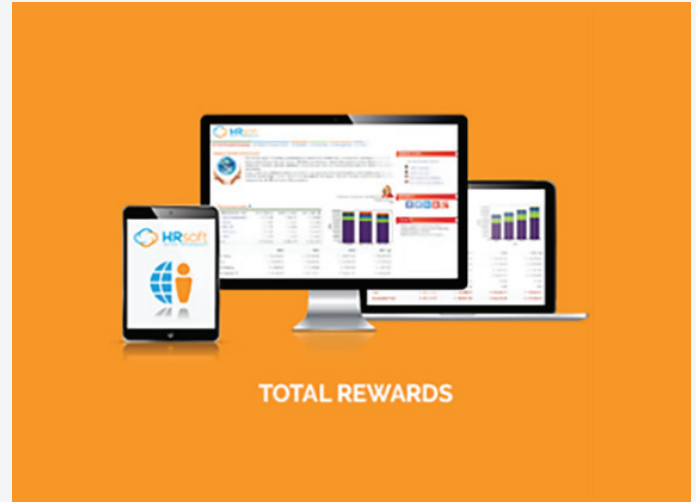
Summary

With the steps outlined in this guide, you now have a plan to follow for assessing, strategizing, and creating a roadmap that will lead you towards a more mature, simplified compensation system. While you may need to make minor adjustments to this step-by-step process to suit your organizational needs, keeping in mind the following key takeaways will help you achieve the best possible outcomes:



- ✓ Start with a comprehensive process and systems assessment
 - ▶ Begin with an inventory of your compensation business processes
 - ▶ Then, evaluate their success/maturity using a system like a 1-3 scale or color-coded ratings
 - ▶ Identify the systems that support the processes and how the systems are connected
 - ▶ Create a summary of your findings; ideally, use a one-page infographic which you can reference when communicating with key stakeholders
- ✓ Develop a total rewards and compensation philosophy
 - ▶ Start with the company goals and objectives
 - ▶ Ensure the philosophies you develop support company goals
 - ▶ Make it a collaborative process by involving all necessary parties, including executives
- ✓ Create the strategy, or the “Where You Want to Be” assessment
 - ▶ Use the information you’ve gathered in the previous steps to create your strategy
 - ▶ Get buy-in from all stakeholders, including IT
 - ▶ Define how it maps to the overall HR systems and process roadmap
- ✓ Build the compensation process and systems roadmap, defining “How You’ll Get There”
 - ▶ Use effective change management as you put your plan in action

Most importantly, remember that while your roadmap will be your most useful tool to guide your organization towards improved compensation processes, you’re still behind the wheel. Feel free to make any adjustments as needed along the way, and should you encounter any detours, you can always revisit your philosophy and strategy summary to stay focused on where you’re going.



Resources

HRsoft is the industry leader for compensation planning and total rewards software. Our cloud based SaaS solutions combine best of breed features with an intuitive, easy-to-use interface that simplifies and automates the entire compensation process helping companies save time and their best employees.



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