



THE SOFT COSTS OF MANAGING COMPENSATION ON SPREADSHEETS

These Might Be Worse than the Hard Costs.

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In this paper, the second in our series on the ROI of managing compensation in a compensation management solution, we'll review some of the soft costs. Combined with the hard costs identified in our first paper, the case for a software solution for managing merit, bonus, and equity cycles becomes even clearer.

Our previous paper estimated the hard costs of using spreadsheets in a 5,500 person company at approximately \$1.2M. It is easy to see, from a purely financial standpoint, why nearly a third of large organizations using Excel to manage compensation cycles plan to move to software within the next twelve months.ⁱ

In this paper, we will demonstrate that the soft costs, although less easy to quantify, are probably even greater than this. We will also review some of the organizational reasons so many companies are moving from spreadsheets to SaaS software to manage their merit, short-term incentive, and long-term incentive plans.



Spreadsheets Make It Difficult to Tie Awards to Performance

Aligning awards with performance generally requires that at least three conditions be met:

1. The plan needs to clearly delineate and weigh the pay variables that might include everything from personal and team contributions to divisional/company performance, achievement of personal goals, etc.
2. The compensation award guidelines must be clear so that line managers can adhere to plan goals.
3. There must be visibility to the Compensation Director or Senior HR Management as decisions are being made for each employee.

Regarding clear delineation and weighting, compensation plans are designed to incentivize particular behaviors and outcomes. Awards need to reflect the achievement of those elements. Without a formulaic and consistent guide, an employee who achieved less than another might actually receive a higher merit raise based on nothing more than the generosity of the manager assigning the increase. Rewarding the wrong employees de-motivates other high achievers. Employees who believe they are paid fairly are nearly twice as engaged as those who do not.ⁱⁱ Clearly, there is a “soft” cost to the organization for overcompensating the wrong individuals.

The above results from the lack of adherence to plan goals on the part of managers. For many managers, all of their people are above average and all of their employees are entitled to the maximum merit increase available. These managers need tools to help guide their decisions. Since Excel is a spreadsheet, it is not a decision support tool, managers make awards to employees based on likeability, desire to avoid conflict, and other reasons unrelated to the compensation plan design. As a result, they may be overpaying certain employees.

Finally, you need senior-level visibility. With a cloud-based solution, senior leadership can monitor both the progress and allocations of awards in real-time, from any location. They can have visibility into the rationale for the decisions and the way in which those decisions are communicated to employees. The result is a practice that is less expensive and more efficient, while correctly compensating top performers in the company.

Spreadsheets Lengthen the Comp Cycle

Recent studies have shown that moving to a compensation management software solution can reduce the time it takes to plan, manage, and complete a compensation cycle by upwards of **40%**.



It's no secret that compensation cycles can be complex to administer – and the larger the organization the greater the complexity. That's why the compensation planning and implementation process in some organizations can run as long as six months from the time the process starts to the time the final awards are paid out.

That translates to more time for the HR team; more hours expended by managers in allocating, revising, and reallocating dollars; and more process time for approvals throughout the organization.

It also means more time for the underlying salary and demographic data to change – which it does each time a person joins or leaves, is promoted, moves departments, or receives an off-cycle increase or bonus.

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When an organization is using Excel to manage the process:

- ✓ They are making the cycle longer and less reliable.
- ✓ Version control can be difficult or impossible.
- ✓ The line manager review process is unwieldy (Excel has no workflow engine).
- ✓ There is often no simple way to keep the employee demographic data current.
- ✓ They are increasing the opportunities for errors (which we will discuss next).

According to the Saratoga Institute, HR generalists typically spend 20% of their time supporting compensation issues, primarily in the line manager review process. Reducing this portion of their workload allows other tasks to be completed, and the total number of employees needed to accomplish department goals can be reduced. So, if it takes ten generalists in your organization to administer the existing compensation process, you could reduce that to eight or fewer with a compensation management software solution. That's real money – and an improvement in real productivity.

Spreadsheets Are Prone to Error and the Data is not Secure

Studies by Dartmouth University and Ventana Research have highlighted the degree of errors in spreadsheets. In fact, as we shared in our first white paper on this topic, in their 2017 Total Compensation Management study, Ventana Research found that 83% of the participants experienced some degree of paycheck errors after their compensation spreadsheets were passed on to Payroll.

And, according to Intuit, the cost of using similar spreadsheet-based processes in payroll has been found to equal 1.2% of total spend.

Using that statistic, a 5,500-person company with an average salary of \$68,000 would incur undetected errors of \$508,000 per merit and bonus cycle. In addition to these hard costs, spreadsheets are not secure. A wrong keystroke in an email address could expose sensitive employee information.

Spreadsheets Lack Documentation and Audit Trails

Spreadsheets are fine for compiling, reviewing, and manipulating data – but they are not good at providing the documentation for decisions. It is this documentation and rationale for decisions regarding employee salary, merit increases, bonuses, and more that is critical for any organization to maintain. And, it is this lack of documentation that opens an organization up to several issues:

1. If there is a grievance filed or legal challenge, it is difficult to be able to defend or explain compensation decisions made about a particular employee based on spreadsheet data, and even greater difficulty in defending decisions on a relative basis versus other employees.
2. This lack of documentation creates an unnecessary ‘key man’ risk. That is to say that the person or few people who built the spreadsheet become critical employees to the organization because nobody else would know how to reconstruct the data or be able to explain how or why a particular award was or was not made.
3. And, third, historical views become incredibly difficult. It might be easy to reconstruct the thinking that went into the last merit award, but reconstructing beyond that can be challenging.

Spreadsheets Make Global Compensation Management and Compliance Very Difficult

Companies that operate in multiple locations and countries often find it difficult to manage regional pay variations, local and international compliance obligations, and more.

The number of variables outpaces the capability of spreadsheets, and the ability to maintain historical salary data across locations, geographies, business units, and more is almost impossible. And senior management lacks visibility into the compensation decisions being made at the local level.

Compensation management software, however, provides workflows that can be optimized for global organizations. It accommodates for currency fluctuations. And most important, it provides controls and transparency.

Conclusions

The soft costs of using spreadsheets for compensation management that are reflected here are just the most visible problems. A sub-optimal comp planning solution has an impact on organizations that goes far beyond what we have covered here.

When you weigh the hard costs, and the soft costs, it's pretty easy to see that an investment in a compensation solution is one that will pay out in a matter of months...not years, and that you will gain all sorts of protections in the process.

1. For more information about automating your compensation processes, or to explore what a software solution might look like for your company, please contact HRSoft, the Leader in Compensation Management Software, at 866.953.8800 or visit us at www.hrsoft.com.

Endnotes

- i Sierra-Cedar 2018-2019 HR Systems Survey 21st Edition
- ii Kenexa Worktrends Survey 2012