

SAP Compensation Management: Pay it Forward



A common – and smart – business strategy proposes that you should reward the behavior you want, and discourage the behavior you don't. As smart organizations use more complex incentive strategies to effectively attract and retain the best talent, these organizations have seen their reward and compensation structures multiply and grow in complexity. Managing these evolving compensation practices is almost impossible, especially for mid to large sized companies. Therefore, compensation management tools, like SAP HR Enterprise Compensation Management, are growing in popularity due to their ability to support a wide range of compensation processes.

There is fierce competition to attract and retain talent, and companies are desperate to implement a solution that will solve their compensation challenges. Before jumping into implementing a compensation management technology, a number of strategic and tactical questions must be properly addressed. We sat down with Clarkston's HCM expert, Guru Sundaresan, to learn about his experiences implementing SAP Compensation Management.

If you could challenge organizations to think about only one thing before embarking on their SAP Compensation Management journey, what would it be?

Before starting a compensation management implementation, an organization should have a clearly defined compensation management strategy. Although that sounds incredibly obvious, I have worked with many organizations that have lost sight of their core strategy due to the growing complexities of their business and reward structures. And many times, it is the implementation of a system that uncovers this.

Without a clear strategy prior to initiating a compensation management project, strategic decisions are made within the confines of the tactical project. Project teams are often forced to press company

leadership for strategy decisions and/or strategy changes to simply move the project forward. Consequently, the project teams and technology drive the strategy, rather than the strategy driving the processes and system design.

Is there a hot trend in compensation management strategy that organizations should consider?

Where I'm seeing the most debate and excitement is around pay for performance, where employees' compensation is based on performance against defined goals. Many organizations I work with either partially employ a pay for performance strategy or would like to move to one, but they haven't yet defined the details of the structure (e.g. timing, metrics, merit increases).

Embracing pay for performance can cause some pain, if not given the proper respect and planning. Project teams often start designing with SAP's pay for performance functionality as a baseline. But when the organization realizes that many metrics are required for calculating and executing pay for performance compensation, and they don't have these metrics, the design often ends up being either "forced" or abandoned altogether. I can't stress enough that organizations need to carefully assess their compensation strategy before an implementation. This will ultimately save time and ensure better outcomes post go-live.

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When thinking about pay for performance and the complexity of compensation plans, one typically thinks of sales force incentives. Are organizations tackling sales force incentives as part of these compensation implementations?

Sales incentive plans are typically an organization's truest form of pay for performance in the sense that raw financial metrics calculate and ultimately determine an employee's pay. This often triggers much discussion, as many organizations want other non-numeric factors to be considered as part of the compensation decision. Because of this complexity, I have seen a number of organizations exclude sales plans from their project scope, or at least exclude them from the first rollout.

Beyond just the sales force, organizations need to account for the number of compensation plans and their complexity when scoping an implementation. Obviously, the more compensation plans in place and the higher their complexity, the more challenging the implementation. At the beginning of the project, organizations need to clearly define which plans will be handled by the system so that the blueprint is focused on the right processes and system needs. I encourage organizations to consider a phased approach when the number or complexity of plans creates considerable risk to success.

Are there any processes an organization can start to redesign to get a jump start on the project blueprint?

Definitely. Organizational transfers and promotions are often a bit tricky as these changes require reallocation of budgets. There is typically confusion as to how and where these budgets should be allocated,

and tracking these in large organizations is really challenging. SAP can support many of these areas, but process changes outside the system are actually most helpful. For example, organizations can adjust their current processes by limiting transfers and promotions during the review period. Also, if organizations are not already creating budgets at the employee level (which would ease transition difficulties), this change can also be made in advance.

If organizations want to move to a pay for performance operation, I recommend creating performance rating scales and the associated payout guidelines based on each rating. Defining these criteria prior to the start of the implementation can help avoid many challenges during blueprinting.

Are there other topics that should be considered in advance?

The compensation planning process is critical for most organizations; effectively accounting for each individual who is

eligible and will become eligible during the planning process is mandatory. SAP will help alleviate much of the bottleneck that many organizations face in this area, including providing reports by employee plan and department prior to the planning process.

However, what typically happens is we spend more time during the blueprint phase of the project defining criteria for employee eligibility than on the planning process itself. For example, in highly unionized environments, non-exempt employees may not be eligible for certain compensation plans (e.g. merit-based). The design process requires eligibility definition to this level of detail since it drives system configuration. Hence, organizations that already have this very well defined will be one step ahead of the game.

Another consideration for pay for performance organizations is how the compensation management system will receive performance metrics. For organizations



that currently have a compensation management system outside of SAP, an interface to SAP can be built to import the necessary performance metrics. If an organization is currently managing employee performance in a less than optimal system or manually in spreadsheets, I encourage organizations to look at SAP's performance management functionality. This functionality provides a single platform with no duplication of effort, no data redundancy, and seamless integration. Determining this approach before the start of the project will help with scoping and design.

What process or processes are typically the hardest to get stakeholders to agree to?

Compensation planning is always the most challenging for building consensus. I recommend that compensation planning should occur at the lowest level of the organizational unit or department. By encouraging organizations to push compensation planning down to the lowest level of the organization, we're involving all managers with direct reports in the process. But some organizations are uncomfortable with this level of transparency in compensation policies. For example, there might be certain compensation plans that are sensitive in nature and are applicable to only certain employee populations. We typically work through this by using employee eligibility and security to make organizations feel comfortable.

Another area of sensitivity is the compensation approvals process. For most organizations, compensation changes are cumbersome and require multiple levels of approval. Although the system can certainly help facilitate these approvals, it is our experience that

building more than two levels of approval slows down the process considerably. Additionally, it builds in extra layers of complexity, forcing organizations to determine how to handle exceptions like vacant positions and rejections.

Some organizations get uncomfortable with the suggestion to reduce approvals to a single level, since some individuals may be removed from the approval process. We recognize this discomfort and work with organizations to develop a solution that makes the most sense for their business. This is just one more reason to ensure your project has a stellar change management team and a well-defined and well-aligned strategy.

What process controls must organizations deploy during or prior to an implementation?

Organizational structures are typically very fluid, and personnel changes are often times made with no communication with HR – the most common case is probably a change in supervisor. Compensation management implementations bring these communications and reporting challenges to light in the form of incorrect organizational data, which must be cleansed before converting to a new system. To keep this data clean and HR informed, we often deploy a personnel action form to track changes and update the organizational structure.

Another control that should accompany a compensation management implementation is the budget reconciliation process. Most organizations find it time consuming to determine variances in budget versus actual, mostly because they don't have the right reporting tools. Explaining these variances requires an additional time commitment. Typically, when we define the reports that help identify those budget variances, budget owners are pleased to see the amount of time they can save on this activity.

It appears that a compensation management project can inflict a considerable amount of change on an organization. What should organizations expect?

In general, no project should ever be initiated without a training and change management team dedicated to supporting the organization throughout the project. The success of the new processes and technology can only be as successful as the people who are managing them.

That being said, the change an organization will face is contingent upon their proposed strategy and process changes, as well as current technology. In my experience, organizations that try to change their current strategy concurrently with a system deployment experience the highest level of change and need a great deal of change management.

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For example, organizations adopting pay for performance will require managers to enter performance metrics accurately and punctually for their employees. The consequences are significant, as this will impact employee compensation. Inaccuracies or failures with compensation are the worst-case outcomes for a compensation management implementation. Thus, ensuring that everyone is on board and understands the new strategic compensation direction is more than important, it's critical.

What is your most memorable compensation management implementation?

It was for a life sciences client that was adopting a pay for performance system. This client did a great job preparing the organization for this level of change, starting with securing senior management's commitment for the project. They did all the strategy groundwork

prior to the start of the implementation and addressed many of the issues that would have really slowed design/blueprint. As discussed earlier, changing strategies and going live with a new system introduces a great deal of change for the entire organization. This company took change management seriously, and it showed in every part of the project from start to finish.

Any final recommendations?

Enterprise Compensation Management projects provide organizations the opportunity to affirm or reset strategy, align compensation processes, and leverage best-in-class technology like SAP. To get ahead of the game, organizations can "pay it forward" by assessing their talent management program, defining their compensation strategy, and designing or redesigning processes. Often forgotten, organizations should

carefully consider their change management approach, as the ultimate success of the project will be contingent upon company stewards supporting and delivering the change.



About the Author

Mr. Guru Sundaresan is a Director with Clarkston Consulting. With over 15 years of consulting experience, Guru has led, managed and completed 12 full cycle SAP HR implementations. His areas of expertise include Learning Solutions, Personnel Administration, Organizational Management, E-Recruitment, Personnel Development & Appraisals, ESS/MSS Enterprise Compensation Management, Benefits Administration and Cross Application Timesheet.



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