

Implementing an Automated Incentive Plan

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Each year compensation programs become more complex as companies look to align individual and company goals with compensation formulas to drive business success. Forward-thinking companies are using market data, and compensation and incentive programs, to hold onto top performers, as well as to evaluate pay-for-performance strategies. Many of these businesses start out with plans to implement these new programs with their standard technology in place. These efforts are often bogged down when the technology, such as a previously effective spreadsheet-driven system, can't keep up with the new goals. It is then that compensation departments start to consider technologies for automating these new programs.

Without automation, manual compensation programs and the time to administer them expand as the company grows or adds complex incentive programs. For most organizations, compensation planning is a multistep process that includes the approval of budget and guidelines; the assignment of departmental budgets; recovery and reconciliation of manager recommendations; executive approvals; uploading of recommendations to a

human resources information system (HRIS); and finally, the distribution of personalized letters to employees. In some cases this process, using spreadsheets and e-mail, is executed three times a year. In one mid-sized organization of 3,000 employees, one step in this process — the opening and closing of the spreadsheets by the managers — takes approximately 3,000 e-mails (400 work hours).

Automated compensation planning saves time and money, and allows HR and compensation executives to offer strategic counsel and implement programs that pay for performance. Automation also makes it easier to model and forecast, and it supports a greater number of compensation plans. This ease of use, coupled with greater flexibility and control, ensures that compensation is motivating, rewarding and is in line with profits when results are greatly below or above targeted financial performance. This is automation's impact on an organization — compensation plans that can help keep high performers on board that strategically align with a company's goals.

Consider that a complex plan often requires a spreadsheet for each employee.

These spreadsheets contain the target values from the finance department and goal-setting data from business leaders and managers. Often, compensation departments start with one spreadsheet and, from this template, modify and save a spreadsheet for each of the employees to capture the numerous factors affecting each employee's compensation. While this works, it is time-consuming and doesn't offer the compensation department the ability to make global changes or integrate the data into one system for easy collaboration with finance. It also limits forecasting and the ability to model complex plans. In addition, these systems do not scale well and tend to become more error-prone as additional

QUICK LOOK

- ➔ Without automation, manual compensation programs and the time to administer them expand as the company grows or adds complex incentive programs.
- ➔ Manual approaches limit forecasting and the ability to model complex plans.
- ➔ An automated system allows a company to harness data in real-time in order to use compensation as a business driver.

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Reed Business Information (RBI) has a complex management incentive program that was administered through spreadsheets. In its organization, it was dealing with approximately 450 separate spreadsheets for 450 different executives and managers. The process was time-consuming, paper-intensive and provided little access to accurate, real-time consolidated information needed for strategic planning. RBI was looking for a system that allowed it to do the following:

- Drive different incentive programs for each division and view the information rolled up from group, division and corporate.
- Support managers changing plans during the incentive period.
- Implement an incentive program to reward and retain top talent.
- Improve the efficiency of human resources and division managers during the compensation planning process.
- Address the needs of finance to ensure the plans were within budget.

The Solution: A Combination of Business Practices and Technical Ability

Moving RBI to an online system took functional, financial and technical planning, which offered the opportunity to review and optimize the entire process.

The plan RBI had in place was very sophisticated and was easily described on paper, thus making the transition to an online process a smooth one. The first step entailed engaging other internal partners, namely finance and human resources, to ensure that the system would encompass their needs as well as the compensation department's needs. Critical to the system's development was the selection of a technical partner early on to ensure that nothing was left out of the design and that the solution was flexible enough to meet the organization's future requirements. Nuvosoft Inc. was chosen as the technical design partner.


In many organizations, in addition to the compensation department, the finance department is a key beneficiary of an online system. Once an organization moves from a spreadsheet-driven system with several points of data entry to a system with built-in checks and balances, finance has better data to integrate into its system. This alone increases the accuracy and speed of analysis, and improves the reporting of incentives.

Prior to moving online, RBI was manually processing incentives that had compensation and finance reviewing two lines of sight per manager based on financial results and performance objectives. The achievement was quantifiable against financial and performance targets, and all of this information was recorded in a single spreadsheet. This spreadsheet was viewed and modified by the manager's supervisor, then by the compensation and finance departments. Now all of this information is contained in a central place, viewable by all in a secure, online system.

The new system supports RBI's specific compensation rules and provides the following:

- The ability to define financial measure points
- The ability to build incentive plan templates and status reports
- Set periodic payments (quarterly or otherwise)
- Accurate payment of managers participating in more than one plan during the incentive period.

Selling the Solution to Management

When a business uses a system that works (paper-based spreadsheets), it is often difficult to convince management to spend money for a new system. There are the usual justifications — the system will make the compensation department more efficient and more strategic, and improve return on investment. In addition, an automated system allows a company to harness data in real time in order to use compensation as a business driver. The ability to compare what a company is paying top performers to profits can deliver important business information in terms of keeping costs in line with business performance. 

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