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WHITE PAPER

Compensation Management During the Economic Crunch:

Five Tips to Make Your Processes More Efficient and Effective

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The current economic climate can tempt HR professionals to curtail some standard compensation management processes in search of a silver lining. For example, many may opt not to expend the energy involved in making compensation adjustments. What's the point, they reason, when they have no budget for raises or bonuses?

The reality, however, is that lean periods like this cry out for optimized efficiency. For businesses to get the most from the budget they do have, they must focus on those areas that directly influence the company's bottom line—and compensation has one of the most profound impacts of them all. So as you work to improve on your employee compensation practices, here are five critical steps that will maximize your efforts.

1. First and foremost: Be sure you align compensation with performance!

Your organization can have the most in-depth compensation management model, equipped with fancy processes and up-to-the-second salary market data, but it all means nothing if it does not tie your merit adjustments to your performance metrics. A true pay-for-performance culture requires you to thoroughly assess the organization's performance, calibrate your results to eliminate any managerial bias, and ultimately compensate individuals for accomplishing their goal targets. Be absolutely certain that your compensation processes are configured along these lines, or you will be wasting valuable budget.

2. Eliminate any opportunities for error.

Human capital is your organization's greatest cost—yet far too many of us continue to manage employee data and calculate salary adjustments using basic spreadsheets. Over a decade of research has consistently proven that spreadsheets are notoriously full of errors. Why? Because people make mistakes. In fact, people are typically only 95% to 98% accurate when they create formulas in spreadsheets¹. Imagine the number of formulas in any given spreadsheet your department produces—and then weigh that against the results of one study in particular that found over 90% of spreadsheets contained errors².

Can you afford that level of inaccuracy? Compensation structures are becoming more complex due to regional allocations (e.g., New York salaries vs. Oklahoma City salaries), different pay-bands among departments, and even global issues (e.g., multiple currencies). If you are still relying on spreadsheets, your organization should strongly consider implementing a compensation management system that uses automation to mitigate the risk for manipulation and errors.

¹ Thinking is Bad: Implications of Human Error Research for Spreadsheet Research and Practice
Raymond R. Panko, College of Business Administration University of Hawai'i, 2008

² Managing Spreadsheets, Philip Howard, Bloor Research, 2006

3. Hung up on dollars? Consider mixing in alternative incentives.

Merit allocations can involve more than raises—particularly when budgets are tight. When rewarding your employees for their hard work, consider offering stock options or one-time financial bonuses instead of simply increasing base salaries. And remember: money is not the only motivator for engaging and retaining your workforce. Look for other development opportunities, such as training or an increase in responsibilities. These alternatives reflect your faith in key employees while defining clear conduits for career growth.

4. Stay in touch with the market.

Market wages can fluctuate widely depending on your industry. In addition to assessing merit increases and bonuses, take the time to see where your organization's salaries line up with market standards. Depending on your corporate salary strategy, you may need to make some adjustments that help ensure fair and equitable compensation, especially for those roles facing high turnover risk.

5. Involve your managers.

HR should not be conducting compensation budget allocations alone and behind closed doors at headquarters. You'll still oversee the process to ensure consistency and control costs—but if your organization hopes to improve the ongoing cycle of talent development, you must be certain that managers participate in this critical process. Give them all the tools they will need to easily make smart, effective decisions, including performance and goal data, salary bands, previously allocated budget information, increase guidelines, and so on. You'll also find that managers and employees alike are more responsive during compensation processes. Take advantage of this opportunity and have them complete other necessary performance management tasks, such as talent assessments for succession planning activities.

While we might be tempted to cut back on some HR efforts, we should remember that our current economic crisis is actually a call for greater diligence—particularly with regard to large budget items like compensation. Now is the time to optimize your processes to ensure the most efficient use of corporate resources, and to help engage, retain, and develop your company's most valuable asset—its workforce.

About the Author:

Richard Oyen directs SumTotal's Customer Value Program, giving customers the practical advice they need to get the most from their talent development initiatives. Richard has over 20 years of experience in HR and Performance Management with renowned companies such as Oracle, Walgreens and Keynote Systems. Richard has also worked as an Adjunct Professor of Human Resources Management at the University of San Francisco. He is SPHR certified and has both a BS from the University of Minnesota and an MBA from the University of San Francisco.

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