



# Best Practices in HCM

A Guide to Total Rewards

Today's market leaders are developing performance-driven rewards programs to recruit and retain top-notch employees. They use variable pay mechanisms to match business performance with employee performance as part of a "total rewards" program. Stock options, advanced degree programs, vacation time, and periodic bonuses all play a role in these variable or "differentiated" compensation plans.

Variable compensation programs blend monetary and non-monetary rewards based on the needs of each segment of the workforce. Employees participate in corporate success. When a company has lower than expected profits, variable compensation budgets are reduced. When the company's profits exceed targets, the bonus pool grows and employees reap the benefits.

The best rewards programs rely on Human Capital Management (HCM) technology to automate a variety of technical, administrative, and analytic tasks, empowering HR professionals to create flexible compensation plans that augment traditional merit increases and bonuses. This paper offers guidance for creating a total rewards program and describes the essential attributes of a robust HCM platform.

## SEGMENTING THE WORKFORCE

HCM technology can help you segment your employee base and allocate dollars where they will have the best return. For example, you might pull various analytics from staffing and learning applications to identify jobs and skill sets that are most crucial and in shortest supply, then adjust the compensation for those roles to pay market-based premiums. Within those job families and skill sets, identify additional variation based on performance.

When designing performance measures within a workforce segment, consider non-financial metrics for gauging employee performance such as customer satisfaction scores and customer retention statistics. For example, one large hospitality company segments its customer-facing employees and rewards them for displaying an upbeat, positive attitude. This firm, which is known for its popular casino brand, increased customer satisfaction through rigorous data analytics and a careful segmentation, with rewards designed for its workforce. There are many reasons to segment employee populations—not just for monetary rewards. For example, one large medical center in the Midwestern United States successfully increased participation in its retirement program after research revealed that African Americans were under-enrolled relative to other segments. This organization rectified the situation by creating targeted financial seminars for African American employees, increasing signup in the retirement program. Companies that utilize consistent, integrated talent management platforms are best able to support these segmentation efforts.

## CREATING A FLEXIBLE COMPENSATION PLAN WITH DIFFERENTIATED BENEFITS

Merit planning and base-salary planning tend to follow an annual cycle. Pay raises for U.S. employees are expected to hold steady at 3% in 2017 according to a survey by Willis Towers Watson. This does not leave a lot of room for segmentation and differentiation. It's not very meaningful to give a 3.2 percent increase to high performers and a 2.8 percent increase to average performers. That's why so many companies have added variable compensation to their total rewards packages. For example, you might take a portion of your budget, which normally would have been spread thinly throughout salary increases for many employees, and redirect that money to provide bonuses to employees who possess critical skill sets. This enables you to reward people based on how they help your company or division fulfill its goals and objectives.

Survey your employees to determine what they want and prioritize the rewards accordingly. For example, you might let employees choose among various equity selections, such as stock options and a cash-based bonus plan, for up to \$10,000 of their total compensation package. A flexible compensation plan might also feature a cafeteria plan that includes vacation time, medical plans, retirement programs, or stock option plans. One large retailer improved cash flow opportunities for store associates by replacing stock options with a profit sharing plan after segmented research showed that this population preferred immediate cash to potential equity growth.

It's important to comply with industry standards, customs, and regulations as well. In highly regulated industries such as banking, there are increasing strict rules about the type and sizes of bonuses that can be offered, as well as a "claw-back" option to recollect awards for long-term performance.

## SIZING UP THE PROBLEM: GROWING COMPLEXITY

Variable compensation plans and total rewards programs hold tremendous promise for engaging, motivating, and retaining the workforce. However, as organizations adopt a culture of performance aligned with corporate goals, the compensation scenarios invariably become more complex. Compensation professionals must look at multiple types of measures for various roles in the company, factoring in commensurate incentives across geographic and regulatory boundaries. In large organizations, the process is so complex it is common to find "leakage" in compensation. For example, by the time some businesses get their compensation budgets approved, the compensation pools do not reflect the reality of the staff currently in place. This can result in:

- Allocating limited compensation budgets to employees who leave shortly after the compensation cycle is complete
- Managers "gaming" the system to keep their compensation budgets the same even after they have lost staff
- Human error in data entry and calculations in spreadsheets
- Unnecessary waste of HR and administrative resources
- It's not easy to keep up with the incentive parameters and regulatory requirements using manual processes and spreadsheets. That's why astute organizations acquire a technology platform that helps them design, administer, and update their variable compensation programs.

## USING HCM TECHNOLOGY TO AUTOMATE COMPENSATION TASKS

Given the extraordinary complexity of global compensation plans, having a flexible technology platform is essential. Your HCM platform should help automate compensation analysis, design, and administration. For example, it should make it easy for HR to review how compensation rules are created, edited, and implemented. It should also allow HR pros to create highly differentiated pay



### Designing Variable Incentive Plans

- Establish clear links between individual incentives and corporate goals
- Demonstrate how individual achievements influence results
- Survey employees to discover what they want
- Comply with industry standards, local customs, and regulations
- Create three-year compensation plans tied to performance goals

programs consisting of pay components and flexible benefits to convey a consistent message to the workforce.

An effective compensation management platform should be able to handle the increasing level of complexity of existing and emerging compensation plans (including variable pay and pay-for-performance) and components (such as options, restricted stock units, phantom stock, and short- and long-term incentive plans). Without a strong technology platform, companies end up with static goals and performance documents that don't reflect changing business conditions—and that may not be reviewed until the next performance cycle.

Your compensation platform should be tightly integrated with your performance management applications so that managers can easily connect pay with performance. That way, the compensation planning process will be informed by goals and performance information. Once finalized, the distribution of the budgets will be automatically integrated with core HR and Payroll systems. A unified HCM solution should also facilitate the inclusion of payroll data, enabling payroll processes to be tightly connected to compensation and benefits processes for both cash and noncash rewards.

### **SIMPLIFYING PLANNING, MODELING, AND BUDGETING**

The goal for many HR departments is to be able to conduct salary planning based on pre-defined models. Most HCM tools can make across-the-board adjustments to compensation plans based on monthly, quarterly, or annual reviews and budgets, as well as assist with organizational modeling. These same HCM tools can give employees a 360-degree view of benefits, with online statements and a self-service website.

Authorized users can allocate compensation across a group of employees, regardless of different geographies, brands, divisions, currencies, or programs. Multiple components of pay including merit and promotion increases, company car or other perks, lump sum adjustments, incentives and equity awards can be viewed and adjusted in one comprehensive view. Embedded analytics provide immediate comparisons to budget, pay history, and other markers such as compa-ratio and position-in-range.

While the gold standard is to be able to create customized, individualized compensation plans, it's important to establish some parameters. Consider a forward-looking example. The base-cash salary for a certain position might range between \$75,000 and \$90,000, with a designated portion that can be taken in non-cash benefits. To keep the base salary competitive in the marketplace, it is not advisable to allow an employee within this position to take a base salary of, say, \$40,000, with all of the remainder in non-cash benefits such as vacation time and a company car. Once these business rules have been established, the HCM platform can enforce them through a series of alerts and error warnings that help managers stay on track.

Incorporate employee performance measures to drive the planning, budgeting and approval of compensation allocations. Build allocation models that are driven by performance ratings, and generate recommendations to managers as they make budget and compensation decisions. Finally, enforce accountability for payroll management by enabling procedures and controls to ensure the entire workforce is paid on time and according to compensation/benefits rules.

### **INFUSE SOCIAL AND MOBILE TECHNOLOGY INTO TOTAL REWARDS PROGRAMS**

Today's new trends quickly become tomorrow's "must haves." Mobile computing is a good example. A couple years ago, being able to use your phone to access enterprise applications was a novel experience. Now such access is expected; it's simply the way we do business. Having a diverse workforce that takes advantage of telecommuting and flex time means that managers don't always work in the same building as the people they manage. They need to be able to view HR data and

#### **Key Features of Compensation Planning Systems**

- Global compensation rules library
- Configurable total compensation platform
- Global total compensation budget dashboard
- Integration with performance, goals, benefits, payroll
- Base salary and merit planning
- Incentives and bonus planning  
Equity, stock, and long-term incentive (LTI) planning
- Total rewards statements

#### **Benefits of An Integrated Compensation System**

- Achieve a 360-degree view of compensation benefits across any group of employees
- Deliver online benefit statements to a diverse population
- Enable employees to choose what constitutes their reward packages
- Tightly integrate compensation / benefits with payroll



trigger HCM functions from their mobile phones and tablets, a feature that has become progressively more important to today's highly mobile workforce. As such, mobile access to HCM applications should be natural, secure, nonintrusive, and overarching.

Meanwhile, social media enhances collaboration and provides continual feedback on performance. Social networking tools are especially popular with younger managers who are accustomed to sharing information online. Instead of having performance meetings once or twice a year, these technologies permit real-time interaction and immediate feedback, all tied into rewards and incentives. This empowers managers to monitor performance by offering ongoing feedback with staff members.

## GENERATE WORKFORCE ANALYTICS TO MONITOR RESULTS

Analytics help managers with segmentation and differentiation exercises by comparing individual performance with departmental and corporate performance, relative to compensation, movements in external markets, activities of competitive firms, and other variables. This not only enhances periodic performance reviews but also contributes insight into budgets, promotions, performance metrics, and other common HR activities. The best analytic tools can manage transactions down to minute levels of detail, all year long. These tools provide HR teams with insight into trends in benefits and compensation, both inside and outside the organization. Embedded dashboards let managers access market data, review information from recruiters, gather feedback from employees, and obtain referrals to adjust compensation scales. Analytic tools also deliver fundamental insights about how a company's pay scale compares to other companies in its industry, region, and markets. While many companies see payroll information as a compilation of basic facts about employees, payroll data can be used at a high level to create a more complete view of a company's human capital. Every data point, from salary ranges within each department to average retirement contributions, can contribute to a strategic view of the workforce. Integration between payroll and compensation systems enriches the data set. For example, payroll managers can create strategic reports that focus on departmental or company-wide factors and answer key questions for maximizing efficiency and growth:

- Spot fluctuations in the number of tax penalties or payroll changes after processing
- Verify that salary projections are within budget
- View year-over-year trends in overtime pay
- Compare salary ranges among teams

Some HCM solutions can even cross-reference these trends with relevant HR data to predict employee churn. Predictive analytics can reveal what portion of your population is likely to leave the company based on dozens of factors. Based on these inferences managers can intervene to try to prevent employees from leaving.

## CONCLUSION: TOTAL REWARDS AS A VEHICLE FOR GETTING RESULTS

How do you reward people even as you motivate them to move the company forward? Look beyond the paycheck—see total rewards as a vehicle for getting results. HCM technology enables HR pros to create customized, highly differentiated pay programs that simplify administrative activities for both line of business managers and HR staff. Here are some key takeaways to remember:

- Talent issues are critically important to your business
- Motivate diverse groups with a flexible “total rewards” program
- Enhance productivity through segmentation and differentiation



### The Power of Analytics

- Fine-tune segmentation, differentiation, and assessments of performance
- Provide visibility into overall compensation trends, inside and outside the company
- Integrate payroll data to maximize efficiency and growth
- Deliver predictive insight to prevent employee churn



- Leverage technology to foster expertise, collaboration, and flexibility in decision making
- Focus on the connection between business and HR strategy first, then get the tools to enable that strategy in a systematic way

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