



Four Steps to Differentiated Compensation

DRIVE VALUE THROUGH SEGMENTATION

- Identify high performers and critical skill sets
- Develop differentiated compensation plans
- Keep employees engaged with opportunities to provide feedback

CONSIDER DIFFERENTIATED BENEFITS

- Allot a portion of the budget to critical skill sets
- Allocate dollars where they will have the best return
- Offer a mix of cash and benefits, such as more time off in exchange for a lower salary
- Reward people as they make valuable contributions

More than 80 percent of today's companies offer variable compensation programs, and 32 percent of them plan to increase the emphasis on performance-based pay. A recent study released by WorldatWork, Deloitte and Vivient Consulting demonstrates the continued, nearly universal popularity of short- and long-term incentives in public companies as a means of motivating and rewarding results and behaviors while effectively managing organizational compensation costs.

While there is a global need for differentiated compensation plans, the requirements vary from country to country, company to company, and among segments within companies. A differentiated compensation program should be specific to your organization and the unique subgroups, or *segments*, within the workforce.

For example, a compensation program for the IT organization might look very different from a compensation program for the manufacturing group or the sales team, with varying incentives based on cash compensation and non-cash compensation options. The goal is to attract, develop, and retain a high-performing staff, as well as to differentiate the highest performers so you can properly reward them.

To achieve this type of compensation structure, follow these four basic steps.

Step 1: Segment the Workforce

Every organization has critical skill sets. To find the value of various employees and roles, first determine how people contribute to the well being of the organization, then tie their value to a meaningful compensation plan. Identify critical roles within your organization and critical skills that impact its success. Based on this understanding you can segment your rewards programs to properly compensate those roles and skill sets that are most important to the company.

Once compensation has been awarded, survey employees to learn about what they like and dislike, and whether there are other types of compensation they would value more. This information provides valuable insights for setting compensation budgets in the future, and provides employees an opportunity to have their preferences heard.

Step 2: Create Flexible Compensation and Incentive Plans

As you design your incentive plan, establish clear links between incentives and corporate goals, divisional goals, departmental goals, and individual goals. Each employee should know how their actions impact the company. Executives and senior directors should be incented based on their impact on their respective regions and divisions. Line-of-business professionals often share team-based goals. They should be incented based on how they support critical objectives and by how their individual achievements influence results.



PLAY FAIR

- Empower people with choices – in compensation, work modes, and projects
- Instill effective communication and transparency in managers
- Tie individual rewards to individual, departmental, and corporate goals

GET RESULTS WITH TECHNOLOGY

- Monitor and manage global total rewards
- Enforce compensation business rules
- Analyze, model, budget, and allocate compensation pools
- Increase retention by providing a complete compensation picture to workers

That's where HCM technology comes in by making it easier to quickly create, model and roll out compensation plans to meet changing business needs. Eligibility for rewards can be based on any number of criteria including performance, completed training, rating, job, location, or length of service.

Variable compensation plans are most effective if they are structured to pay out over time, based on performance. Don't give away all the money up front. Spend wisely and reward people as they make valuable contributions. As the labor market improves many companies will see increased turnover among their staffs. To retain top employees, consider offering them three-year compensation plans tied to agreed-upon performance metrics.

Step 3: Enforce Equitable Policies with Complete Transparency

Compensation policies must be fair and equitable to everyone, not just to the high-performing segment of the workforce. There can't be any perception of favoritism—not just in the cash compensation plans, but also in non-cash based rewards such as the projects to which they are assigned, opportunities for training, etc.

Even the best planned compensation strategies will fail if employees think they are being treated unfairly. Fostering an environment of fairness requires transparency: you must be able to convey the total rewards philosophy to each employee. HCM systems include employee portals and online compensation statements that paint a complete picture of each employee's pay, benefits, and incentives.

It's also important to facilitate extensive communication between management and staff as well as total transparency into performance and goals. It helps to have good development plans and performance plans and highly engaged managers who can facilitate goal setting and career planning. HR can support these efforts: first by acquiring the right HCM tools to summarize and communicate total compensation plans, second by instituting top-down policies governing effective communication with employees. Consider incorporating messaging about total rewards into your "About Us" page on the company website. Accentuating the balance between people's personal and professional lives can be a strong attractor to job candidates.

Step 4: Use Technology to Simplify Administration

Modern HCM applications enable managers to allocate budgets for incentives, manage the salary review process, and generate compensation statements. They typically incorporate business intelligence tools that let authorized users examine salary trends, market developments, salary structures, and distribution scenarios.

Utilizing these platforms can streamline market analysis, program design, and administration of total rewards programs. These platforms also simplify key activities for the compensation team such as defining and editing business rules, verifying employee eligibility, and creating a performance-driven culture with transparency into compensation policies and practices. Additionally, total rewards professionals will be freed up and empowered to add strategic value to the business by consulting with managers, rather than being mired in the tactics of the process.

HCM technology enables HR to more effectively attract, motivate and retain talent through strategically planning, allocating and communicating compensation policies. It also automates the process of allocating compensation across the workforce.

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For more information on HCM Technology, visit oracle.com/hcm.

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