

2016 Compensation Impact Report

Why Compensation Software Matters to Small, Mid-Tier, and Enterprise Organizations

Sponsored by



2016 Compensation Impact Report

Three findings not to be missed

1. Most companies with 1000 or more employees find that they need compensation software (53%).
2. Most companies are happy with their compensation software (63%) but almost all companies are happy if it's cloud-based software (80%).
3. What matters most to companies that are experienced with compensation software is ease of use, ease of learning, and ease of implementation. (But it still must be flexible and configurable).

compACT

compACT guides managers through salary, bonus and incentive decisions with built-in controls that assure they stay aligned with company policies and business rules.

compensation management software by



2016 Compensation Impact Report

Introduction

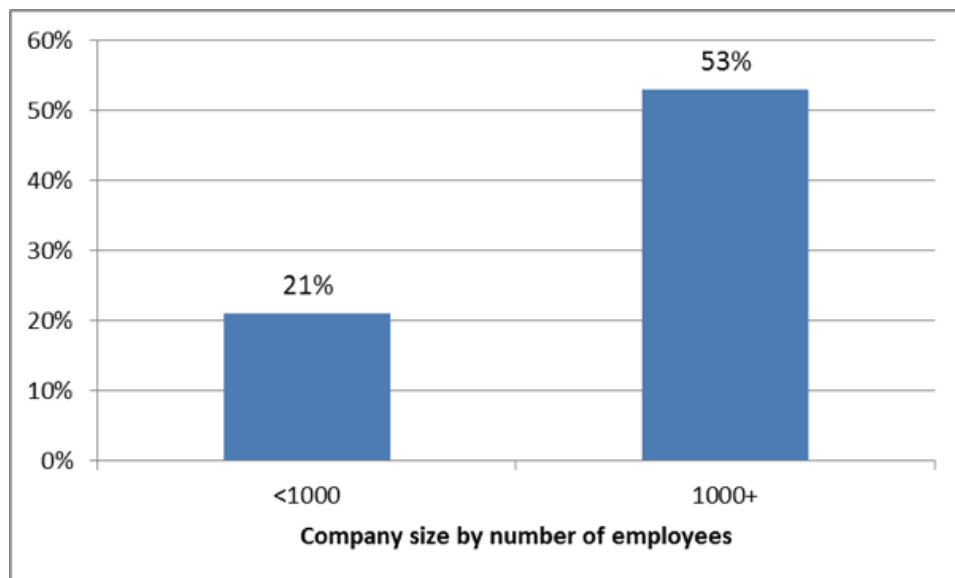
Since compensation is the #1 reason that most people work for a company, HR leaders invest a lot of effort to ensure that compensation is done right. For small companies, the problem with doing it right comes at crunch time: four to eight weeks when compensation numbers are crunched for final reporting.

Is compensation software helping them to achieve that goal? We ran a survey of 204 HR professionals about how they were using compensation software. This report reveals what we've learned from the experiences and insights shared by HR professionals, from entry level to executive in small, mid-tier, and enterprise businesses.

When do you need compensation software?

Does your company need compensation software? It depends on the size of the organization. Most smaller organizations (less than 1000 employees) get by without it. However, once you cross the 1000 employee threshold, most companies have compensation software (see Figure 1).

Figure 1: Threshold for widespread adoption of compensation software



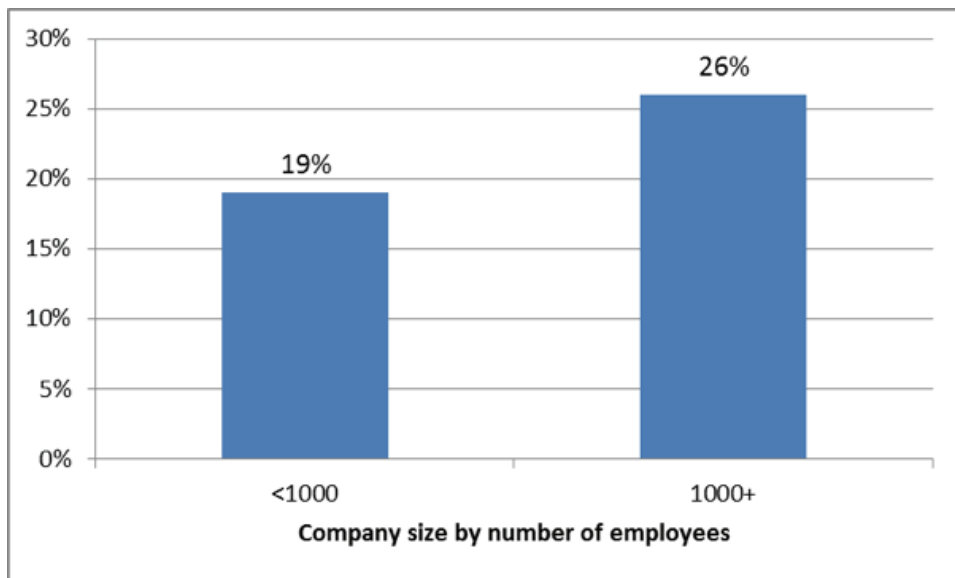
2016 Compensation Impact Report

Takeaways for small organizations	Takeaways for mid-tier & enterprise organizations
<ol style="list-style-type: none"> 1. Most small organizations think that they don't need compensation software. 2. Many who use Excel dislike it; now over a decade old, compensation software may become more relevant in the near term. 3. However, if your compensation plans are complex, or revenue is over \$10 million, then even a small company will benefit from specialized software. 	<ol style="list-style-type: none"> 1. Most mid-tier/enterprise organizations need compensation software, yet some still cling to Excel or custom versions despite inaccuracies and lack of security. 2. If you don't have software yet, but are feeling the pressure to do better, create a roadmap for HR technology investments and ensure that compensation software is included on that roadmap. 3. Tying compensation to performance is a key trend going forward.

When do you need to upgrade to better compensation software?

One of the myths of compensation management is that you just have to live with inadequate tools. Fortunately, good, affordable tools now exist and a significant number of companies are now on the lookout for better tools (see Figure 2).

Figure 2: How many organizations are looking for better tools?



2016 Compensation Impact Report

Takeaways for small organizations	Takeaways for mid-tier & enterprise organizations
<ol style="list-style-type: none"> 19% of small companies are looking to upgrade their solutions. Ask for demos of compensation software so that you get a sense for the capabilities of these tools. Factor in training to convert your company from Excel or in-house platform to one compensation software in one place that everyone sees and works on. 	<ol style="list-style-type: none"> 26% of mid-tier/enterprise companies are looking to upgrade their solutions. If you find that your existing compensation software is cumbersome, then you have probably outgrown it. Many larger companies buy compensation software as part of a suite. Yet complex compensation plans can stretch the limits of suite compensation software, and changes/adaptations are not likely to happen.

What do companies like (or dislike) about compensation software?

If you are considering getting new compensation software, then it's helpful to learn from the experiences of your peers. Our survey asked a variety of open-ended questions about what companies liked or didn't like about their compensation software. The two main issues for small companies were ease of use and flexibility; for mid-tier and enterprise companies, integration was also an issue (see Figure 3).

Figure 3: Features of compensation software most frequently cited

Important features	Small organizations	Mid-tier & enterprise organizations
Easy to use, learn, and implement	66%	50%
Flexible, configurable, and comprehensive	26%	21%
Integration with other systems	5%	25%
Cost	3%	4%

While no one mentioned global capability unprompted, **when asked if global capability mattered, 41% of companies with over 1000 people listed it as one of the deciding factors.**

2016 Compensation Impact Report

Takeaways for small organizations	Takeaways for mid-tier & enterprise organizations
<ol style="list-style-type: none"> 1. When buying compensation software, pay attention to ease of use, ease of training, and ease of implementation. 2. Be sure that you get the flexibility needed for your business needs now, and likely needs in the near future. 	<ol style="list-style-type: none"> 1. In addition to ease of use and flexibility, look closely at integration issues. 2. If you are a global firm, then the capability to handle global currencies will be a deciding factor in your choice.

When do you need an integrated suite?

One perennial concern of HR leaders is whether the need to integrate different software packages will create problems. Overlooking integration issues can create headaches. On the other hand, overemphasis on buying pre-integrated modules can lead to headaches as well.

Pre-integrated but underpowered or inflexible modules often lead HR managers to leave the module unused and instead go back to doing the work in Excel.

Each situation is different; for your specific situation, ask:

- How much better is the standalone tool?
- How difficult is integration in this case?

Takeaways for small organizations	Takeaways for mid-tier & enterprise organizations
<ol style="list-style-type: none"> 1. Integration is usually not a top concern for small firms. 2. Compensation software is usually Excel or an in-house solution; people in the company may be reluctant to switch. 3. Track the hours spent on compensation to determine the cost benefits for your organization. 	<ol style="list-style-type: none"> 1. Find another company that has done the same integration you are considering to learn exactly how easy or difficult it is. 2. Run a range of test scenarios on any software you intend to buy so that you don't get stuck with a solution that is integrated, but can't do the job. 3. Even though your company is big, getting a suite to change compensation software requires numerous requests and is not likely.

2016 Compensation Impact Report

Hope is in the cloud

If you are considering compensation software, then an important question is, “Do people find these systems effective and good enough to meet their needs?” Most do (see Figures 4 and 5). In particular, organizations are likely to be happy with cloud-based systems.

Figure 4: Small organization satisfaction with compensation software (% that agree or strongly agree)

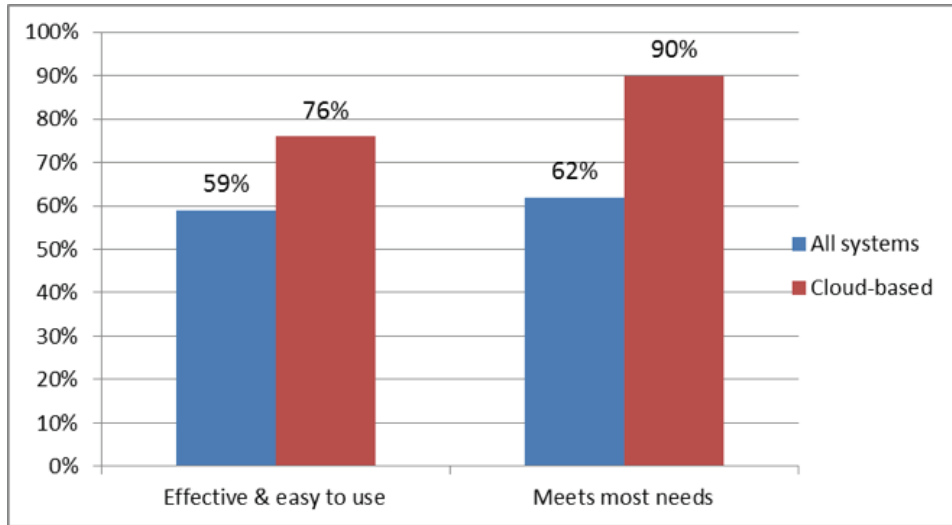
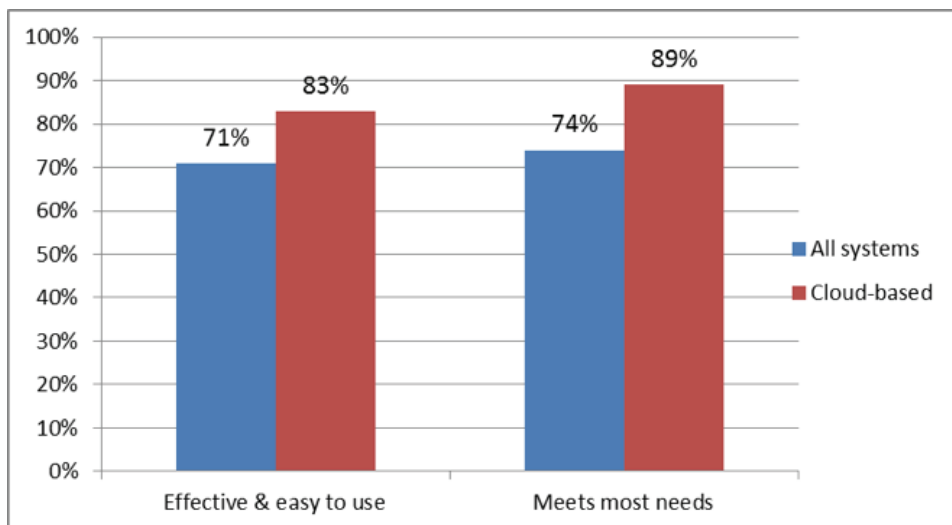


Figure 5: Mid-tier and enterprise organization satisfaction with compensation software



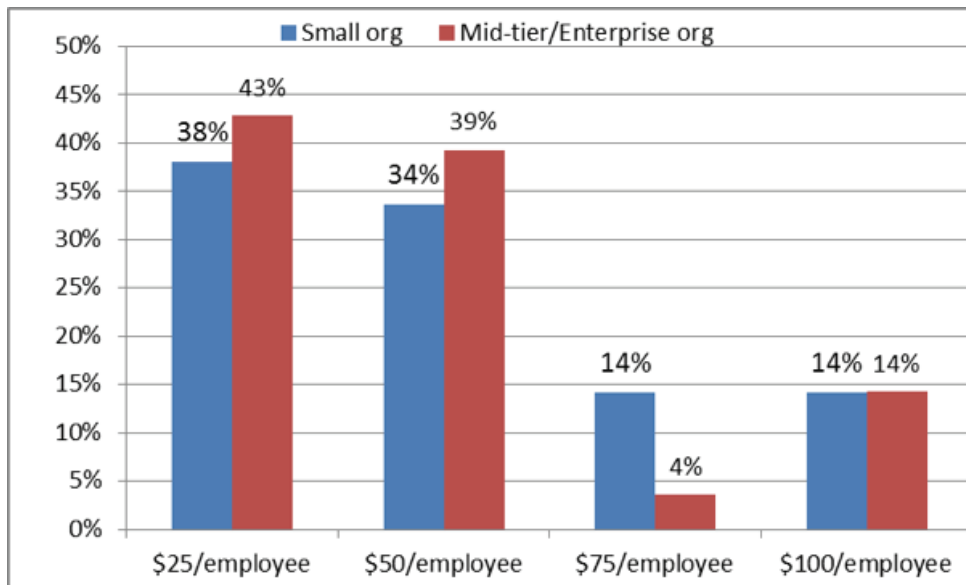
2016 Compensation Impact Report

Takeaways for small organizations	Takeaways for mid-tier & enterprise organizations
<ol style="list-style-type: none"> 1. Most users are satisfied that compensation software is effective/easy to use and meets most needs (59% and 62%, respectively). 2. However, users are even more likely to be satisfied if it is a cloud-based system (76% and 90%, respectively). 	<ol style="list-style-type: none"> 1. Mid-tier and enterprise organizations are more likely than small organizations to be satisfied that their compensation software is effective/easy to use (71% and 74%, respectively). 2. However, users are even more likely to be satisfied if it is a cloud-based system (83% and 89%, respectively).

How much should companies pay?

We asked companies how much they were willing to pay for a compensation planning system. Answers ranged from organizations that couldn't afford \$25 per employee to those that would pay \$75 to \$100 per employee. This distribution puts the average upper limit at around \$50 per employee (see Figure 6).

Figure 6: What amount would be too much to pay for a compensation planning system?



* Graph excludes participants who had "No opinion."

2016 Compensation Impact Report

Takeaways for all organizations

1. Most organizations won't pay more than \$50/employee for compensation software.
2. 14% of organizations, presumably those with complex compensation needs, find that \$75-\$100/employee is justified.
3. The price will depend on the complexity and requirements of your compensation plan; many suites offer compensation software as a cheap module addition to a suite.
4. Be sure that the solution offered will be able to execute your compensation plan because every business has a unique compensation plan.

Where should you look for the payoff?

The survey showed that HR managers are focusing on whether compensation software can do what they need and do it easily. This isn't wrong, but to justify an investment in software, don't just emphasize how it is good for the HR department; instead, emphasize how new software is good for the organization because it improves the firm's ability to manage compensation.

Takeaways for all organizations

1. The big value of compensation software comes from helping the organization to better manage its investment in compensation.
2. An important secondary payoff from compensation software is that it improves efficiency within HR.
3. Good compensation management helps to recruit and retain employees.

The link to performance management

This survey focused on compensation software; however, it's important to see compensation software through the lens of performance management.

Often the biggest issues in performance management arise from the compensation element, and if you don't get this right it can be hard to get people to focus on goal setting or individual development.

Takeaways for all organizations

1. One of the most important features of compensation software is that it should support making the right compensation decisions as part of the performance management process.
2. Get the compensation side of performance management sorted out first, and then managers can concentrate on goal setting and development.

2016 Compensation Impact Report

Conclusions

When a company reaches 1000 employees (and sometimes sooner than that), it usually needs specialized compensation software. At that point, using Excel or Access is not effective and in fact ends up costing the company money.

The two most important criteria for choosing compensation software are that it should be:

- Easy (i.e., easy to use, easy to learn, easy to implement)
- Functional (easy to manipulate data, flexible, and configurable)

The evidence from this survey suggests that companies that bought a cloud-based solution are very likely to be happy with that choice.

Our experience with companies leads us to conclude with these four additional lessons:

Lesson 1: Execution is where problems usually arise.

Excellent compensation plans often get lost in translation due to inefficient tools like Excel. Compensation management systems give your team the control to consistently apply the plan across the board.

Lesson 2: HR needs real-time insight to manage compensation decisions.

HR must be able to see where each and every manager is in relation to his or her allocated budget at any given time. This insight allows you to react in a timely fashion. HR can't wait until all the paperwork rolls up at the end of the process.

Lesson 3: Use built-in audit reports to stay compliant.

Use the built-in audits and audit reports of your compensation solution to trace data throughout the process. Avoid a lengthy after-the-fact reconciliation process to prepare for audits.

Lesson 4: Use your compensation system to save money.

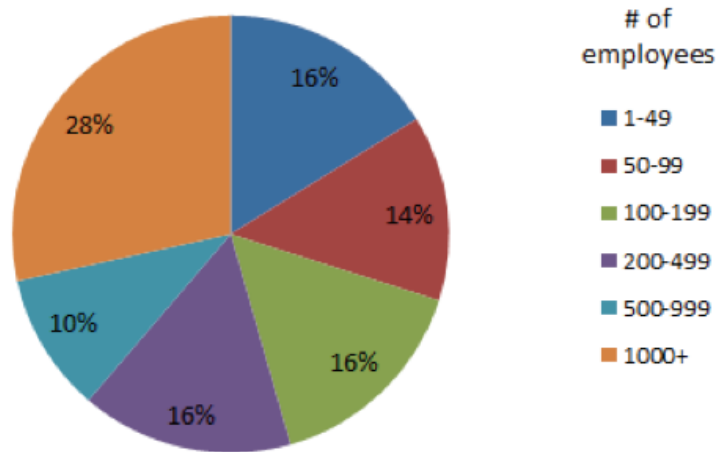
Be sure that the system has controls that ensure managers stay within budget and save the organization from overspending. Track examples of how the system has helped to prevent overspending so that management appreciates the value that appropriate HR technology can bring to the organization.

2016 Compensation Impact Report

APPENDIX: About the survey

The survey was completed by 204 HR professionals from a wide range of organizations. The distribution of company size is shown in Figure 4.

Figure 4: How large is your organization in terms of employees?



compACT

compACT manages a company's Salary Review, Incentives, and Bonus Planning Process, automating compensation plans. compACT executes your plan the right way, delivering the right compensation. Learn more with a free demo, please visit:

<http://compact.kinixsys.com>
and call 877-477-8233

