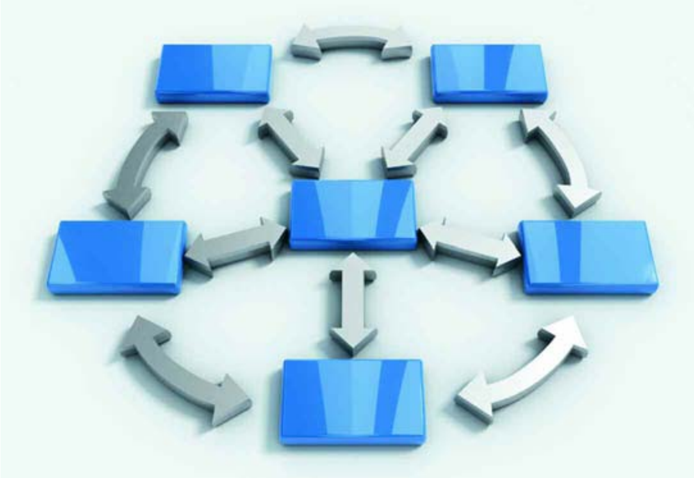

Best Practices in Compensation Planning for Global Decentralized Organizations

By Rick Laurenzo, Decusoft

Organizations that are "global" or about to become "global" run into various challenges managing their talent that domestic organizations usually do not face. Additionally, many of these companies have decided, either with intent or by simple necessity, to deploy what can best be called a "decentralized" approach to managing their global talent. As we shall see, this offers advantages but places additional challenges on supporting processes and systems. Out of all talent management processes most impacted by globalization and decentralization, compensation planning rises to the top. Compensation planning demands absolute information and processing accuracy, distributed security and functionality down to the recommending manager, and the application of business, regional and country rules to highly segmented employee groups. This article will cover some of the compensation planning process and systems best practices that we have uncovered in partnering with global and decentralized companies.

What does it mean to be Global and Decentralized?

For the sake of this article, a "global" organization is defined as a company with operations in more than one country. A "decentralized" global organization is one where the definition and administration of policies, processes and supporting systems occur, to some degree, at the functional, regional, local level. In most cases, however, there will be some central organization at headquarters (also sometimes known referred to as "the mother ship" or "corporate") that will set general guidelines, sponsor a specific compensation plan (such as long-term incentives), and request some information from each region or country (usually compensation recommendations and budget usage).

One of the strong advantages of a decentralized organization is its relative self-sufficiency and agility in responding to changes in local regulations or business needs. We also see this decentralized approach exist as a "remnant" organizational model in companies that are experiencing hyper growth and simply have not had the time to assimilate and deploy a more centralized model.

On the other hand, decentralized organizations do not respond efficiently when having to administer centrally sponsored compensation plans (usually long-term incentives or variable pay plans) or other related requests for information by headquarters. Related changes to processes and systems also tend to be costly. Because of the inherent variability in processes, supporting systems, lines of communication to the "mother ship" and even in political strength ("I don't care what HQ says, we will do it our way."), the corresponding cost per transaction tends to be relatively high. Capital and resource requirements needed to maintain multiple systems (also prevalent in decentralized organizations) contribute to the relatively high cost per transaction.

When one thinks of a global and decentralized organization, large multinationals may come to mind, however, countless mid-size organizations also experience the challenges surrounding this operational model, where capital investments are closely watched and where the cost of making a mistake is much higher. So, is it possible to leverage the benefits of a global/decentralized model while also leveraging the benefits of standardization and single-systems usually seen in centralized service functions? The answer is yes.

Strategic Drivers for Best Practices

Before discussing how organizations successfully achieve this balance, it is important to introduce some key strategic business and process drivers that form the foundation for these best practices. These are key drivers that should drive the staffing, processes and technology surrounding all compensation planning processes. As you read them, it will be clear that they complement and are related to each other.

- *Respond faster to business, local or organizational changes.* As all compensation managers and compensation administrators have experienced, compensation plans rarely remain static. This is especially true as companies are constantly driven to reduce compensation costs, retain top performers and increase the line of sight. Therefore, the faster and more efficiently an organization can alter its processes and update its systems to incorporate these changes, the better poised it is to maintaining close alignment between compensation and business drivers.

- *Increase alignment between performance and pay*. This is one of the key drivers we currently see triggering changes in processes, systems, as well as new presentation methods to show employees the relationship between their activities, their compensation and business results. The better the employee and management see the relationship between activities and incentives; the easier it will be for an organization to align employee behaviors to business objectives.
- *Manage shorter compensation planning cycles*. Much of the effort (and, therefore, time) required in the compensation planning cycle has been around segmenting and distributing information, allowing for management to enter and approve recommendations, sending information back and finally aggregating information. By continuously finding ways of eliminating non-value-added tasks such as cut and paste e-mailing of information and by improving user interfaces for data entry and decision analysis, organizations can shorten their planning cycles (and subsequently reduce the cost of transaction).
- *Centralize data, metrics and reporting*. Unless an organization has a centralized data repository of information and provides standardized ways of analyzing information, it should expect a price to be paid in time and effort to aggregate and translate information into common metrics.

Successful Compensation Planning Practices at Global, Decentralized Organizations

Having partnered with various large, mid-sized and small global, decentralized organizations in deploying our technology solution, we have seen the following four best practices in organizations that successfully manage their compensation planning. These practices are fully grounded in the strategic drivers mentioned above.

1. Let those who know the information best own it. This best practice takes advantage of one of the benefits in a decentralized organization – intimate knowledge of its employee base, local management, regional pay practices, as well as of local business rules. When information quality control and business rule ownership move "upstream," i.e., outside of the local administrators, costs per transaction increase and agility to respond to changes decreases. The reason for this is that "upstream" administrators will eventually need to validate with "downstream" administrators any changes – this needlessly increases staff requirements and adds processing time. There is also an increased risk of suffering bottlenecks during critical periods when the volume of requests usually go up (think of the last-day recommendations that are due to corporate); there are the usual last-minute changes to information that impact compensation recommendations.

This best practice should also be reflected in business rule management. There is usually a subset of business rules that can (and should) be defined and administered at the local level. This enables local administrators through well-designed processes and configurable systems to efficiently administer compensation planning for their "universe." Decentralizing business rule administration also eliminates process bottlenecks. A positive side-effect of implementing this best practice is that it demonstrates to the regional administrators that corporate trusts them to manage their groups, promoting open communication between the local group and the "mother ship."

2. Enable rule compliance management at the local level, but enable "observability" at all levels. Somewhat of a corollary to the above best practice, this one could also be expressed as follows: make each decentralized administration group accountable for rules application and compliance for its employee group, but implement processes and systems that enable "upstream" organizations to audit compliance without bothering local administrators. Let's look at some of the inefficiencies and costs that are introduced when this best practice is *not* implemented. Let's say that a decentralized organization is using Excel workbooks. Corporate creates these workbooks with budgets, eligibility rules, etc. built into the formulas – formulas are locked. It cuts, pastes and e-mails planning sheets for each country. A "rogue" country decides not to abide by certain budgets. What happens? Corporate will roll up all its information back, analyze it, groan, make a nasty call to the country administrator lead to ask what happened and why, wait for the next round of country sheets, and hope (because there is only one day left until the cycle close) that it is within budget. This flies right in the face of attempting to reduce the compensation planning cycle and attempting not to shorten the lifespan of all those involved. Corporate needs to wait (*time*) and has to request the involvement of the country administrators to roll up and send this information (*resources, money*), thus participating in an inefficient and relatively costly process. Compare this to a scenario where the country is fully accountable for rule compliance (which also engenders trust), and country and corporate are given access to the same on-demand, real-time audit reports and tools.

3. Standardize, standardize, standardize. Letting local administration groups own their data and be accountable for business rule administration and compliance does not imply that they should be given free rein on how to perform these activities. The *how* should be tightly controlled, well-designed and made as efficient as possible through good process design and by selecting systems that will enhance process efficiencies. Variability is your enemy – processes that are variable, i.e., same activity or set of activities with same outcome is performed in different ways, increase the cost of implementation and maintenance of any supporting system and make it very difficult to introduce process changes due to external drivers (compensation plans, for example) or to identify process improvements. On the other hand, minor improvements to standard processes will have a greater return on investment and higher impact to the company. The same applies to the cost of implementing or maintaining a compensation planning system. Here is a story from one of our process design consulting partners: its client was a highly global, decentralized company with approximately 40,000 employees. Long-term incentive planning was sponsored by corporate, and it dictated a single process and system to manage it – this worked pretty efficiently. However, merit planning was managed by each country in its own way. Corporate pretty much told them "we don't care how you administer merit planning, just make sure you come in within eligibility and budget guidelines." Needless to say, this resulted in a highly variable merit planning process. This consultant firm, as part of its process redesign analysis, uncovered *nine* parallel processes supported by *nine* separate systems that resulted in *one* identical outcome – yet its cost to manage merit planning was *in the millions*. This is not to say that standardizing processes is an easy undertaking, especially in highly political organizations; however, as the previous story shows, the returns on standardization can be significant (and variability can be very expensive!).

4. Leverage compensation planning systems and benchmarking data across the organization. A big portion of the cost in the story previously told originated from licensing and maintenance of multiple compensation planning systems. This is an unnecessary cost. A global, decentralized organization should only have to implement one system that enables the distributed control, security and audit features necessary to implement the best practices mentioned above. In addition, corporate should enable and facilitate discussions and sharing of ideas across local compensation administration groups. This usually results in the sharing of internal best practices, and also helps uncover cases where the same information, tools, etc. are being used by different organizations. This results in paying an unnecessary premium for information and tools, when corporate would probably be able to leverage its size and clout to get a much better deal. We see this frequently occur with market survey information.

Compensation Planning System Features that Enable these Best Practices

There are a number of key features that your compensation planning system should have to deliver and even enhance the benefits of the best practices described above. Here are the three that we see as delivering significant impact.

- ***Ability to define functionality and security at a highly granular level.*** The ability to easily define "who you can see" and "what you can do" down to the employee, field or function level enables you to delegate ownership and compliance to the levels required by global, decentralized organizations. As important is the ability to easily change security and functionality rights. This enables your system to efficiently support changes in compensation plans or local/regional/corporate business rules.
- ***Ability to configure and delegate budget pool allocation.*** The ability to have some compensation plans budgeted based on the percentage of a value or as a flat amount in any currency is critical. In addition, the ability for managers to allocate as needed (within specified constraints, of course) gives them true ownership and control, without having to rely on a local, or, heaven forbid, a corporate compensation administration group to reallocate budget pools. This ability can have a significant impact in reducing the length of your compensation planning cycle.
- ***Ability to configure user interfaces.*** Our experience has been that giving the ability for countries, groups, and even managers to configure (again, within specified constraints) the way they look at their data enables more efficient decision-making. This applies specifically to the recommendation grids and summary views.

As we have shown, global, decentralized organizations present a number of challenges in compensation planning that, when not addressed, can have a costly impact on your company. However, global, decentralized organizations also offer opportunities to leverage inherent benefits that can allow your company to quickly respond to local or regional pay practices, business rule changes, or the implementation of new compensation plans. By implementing the best practices discussed, as well as a compensation system that enables them, your company can transform what may at first seem as a hindrance for growth into a true competitive advantage.

About the Author

Rick Laurenzo is the founder and president of Decusoft LLC, a premier developer of configurable, Web-based software solutions. The company's signature compensation solution, COMPOSE by Decusoft™, automates and streamlines complex merit, bonus, and long-term incentive compensation planning and administration processes allowing users to strategically use compensation to recruit, retain, and incent employees while meeting corporate goals and objectives (***www.decusoft.com***). Laurenzo has launched, grown and managed technology companies focused on developing and deploying best-of-breed software solutions for more than 25 years. Prior to his career in technology, he spent eight years in public school higher education as a guidance counselor, teacher and coach. Throughout his career, he has adhered to a straight-forward formula for success – "develop premier solutions, surround yourself with exceptional people, and provide superior support." He can be reached at ***Rick.Laurenzo@Decusoft.com***.