

The Road to Total Compensation Management

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As competition for the most skilled professionals gets tighter, keeping employees happy has never been more important. Employers make it a priority for their HR departments to continue seeking tangible and measureable methods for retaining their best and brightest. At one point, the idea of a Pay-for-Performance (P4P) model for an entire company, similar to that used in sales organisations for management of commission-based pay, seemed like a plausible, concrete way to meet this challenge. Incentive compensation has been used for years to motivate sales professionals. Yet, initial solutions, like those implemented in the early 1990s¹, fell short of desired results. In the last decade, talent management solutions have come a long way toward filling those initial gaps. The road has now been opened, clearing the path for P4P and making it a reality.

P4P: A Bumpy Start

The idea of a company-wide compensation program is a road that many organisations have already been on for a while. By 2005, 75 percent of all U.S. companies had connected at least part of an employee's pay directly to performance measures.² When it comes to compensation programs, most people think of traditional sales incentive models, where rewards are linked directly to sales performance in the form of bonuses or commission. Total compensation management takes the concept of the sales incentive program and expands it to the entire organisation. Aberdeen Group defines it as "much broader [than a sales incentive program] and involves entire staff, awards, rewards—including merit raises, bonuses, on-the-spot rewards, tuition reimbursement, and stock programs—that each employee receives."³ The goal of total compensation management is to directly align employee performance to business objectives, demon-

strating real value to both the business and to each employee.

To accomplish this, in the early 1990s organisations began using Pay-for-Performance as an incentive strategy for motivating employees to reach certain business targets. It became apparent, however, that something was missing. Inaccurate data and unlinked systems stifled total compensation management with high costs. And the bumps encountered in early P4P implementations were due to disparate information and activities—similar to starting a road trip without a map.

On the Road Again in 2008

A Pay-for-Performance strategy is most successful within the context of an integrated talent management solution, which was not entirely possible until recently. Today, organisations are getting back on the road due to advances in talent management technology. With linkages to development and performance data, including competency assessments, goal achievements, key performance indicators (KPIs) and succession plans, organisations can now realize the full promise of P4P and create a culture of meritocracy based on performance.

Pay-for-Performance only works when accurate performance data is readily available at the moment key compensation decisions are made. Couple accurate data with automated processes, and now managers have the ability to access up-to-date performance appraisals and goal management data within the context of compensation planning. The ability to immediately produce embedded, inline reports to model compensation allocations makes decision-making easy and precise.

While an integrated total compensation management system will improve staff performance, job satisfaction and employee retention, results are dependent on how the program is structured

within the organisation's culture. Bersin & Associates recommends that organisations first consider their process when looking at a talent management solution. If organisations focus on clearly defining processes, then it will be clear which solutions are right for them.⁴ Employee input also is necessary, as well as visibility into the organisation's total compensation management program.

Destination: Creating a P4P Culture

The road to real Pay-for-Performance is smoother today, thanks to integrated talent management platforms that can bring vital processes and data together in one place. The key behind effective P4P is enabling compensation decision-making that is informed by accurate and timely performance data. Your compensation program needs to include open communication with employees, so they clearly understand the program elements and how to achieve performance goals. Rewards also must be determined objectively to ensure compensation remains fair. Once you have these components in place, your organisation is well on the road to creating a Pay-for-Performance culture where employees are satisfied—and satisfied employees lead to satisfied customers.

For more information about how to link performance management and compensation planning for a real Pay-for-Performance culture, contact Cornerstone OnDemand at +1 888 365 CSOD or at www.cornerstoneondemand.com. ■

¹ Martha Lagace, "Pay-for-Performance Doesn't Always Pay Off," Harvard Business School, Working Knowledge, <http://hbswk.hbs.edu/item/3424.html>, 14 April 2003.

² John D. Donahue and Joseph S. Nye, *For the People* (Brookings Institution Press, 2003), 239.

³ David Weldon, "Total Compensation Management: Taming Costs and Rewarding Employees," Aberdeen Group Report, April 2008.

⁴ Josh Bersin, "The Business Case for Performance Management Systems", Bersin & Associates Research Report, January 2008.