

New Technology

to Support Incentive Compensation Management

More companies are taking the pain out of managing variable pay by implementing software packages for rapid, accurate data delivery.



By Gopi Mattel, Again Technologies Inc.

Most companies change compensation plans annually, or even more frequently. If a system takes more than a few months to install, it is out of date. Most companies have come to accept this problem, believing there is no solution, other than spreadsheets, to support this rapid change. However, when things change (a person leaves or a new plan is launched), new metrics need to be created for incentives, making the spreadsheet brittle. This often causes errors in the numbers used to determine a person's pay.

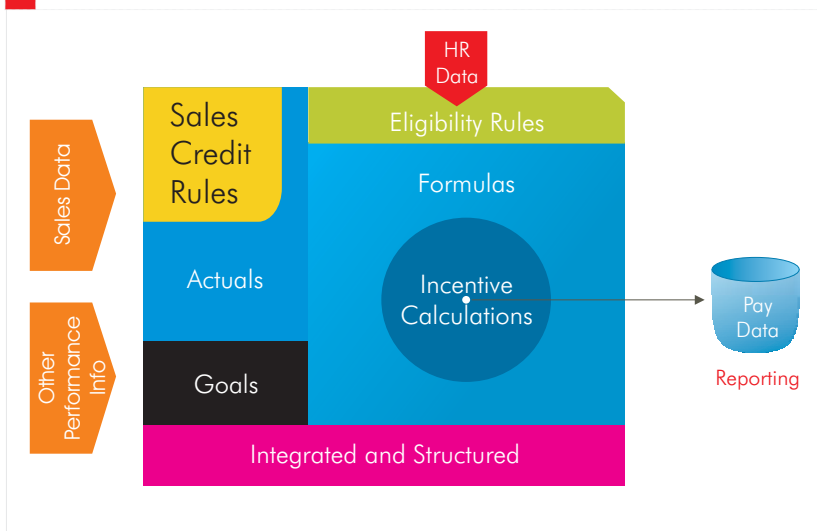
When an error occurs, the system may pay people too much (they never call), or it may pay too little (they do not need a phone to be heard). Either situation will cause a distrust of the system. When this starts, many people start to do shadow accounting. They keep a system of their own and spend time on accounting instead of the job.

With variable pay on the rise, effective communication is the key to success for any pay-for-performance plan. If an employee does not know how he or she impacts a plan's success, the plan cannot be considered effective, no matter what the results. Incentive compensation management is a large issue that cannot easily be solved with spreadsheets or custom programming. More and more companies are using some form of variable pay to reward their employees. The huge upswing in the stock market and the numbers of companies going public has brought much attention to stock as one reward. The question of calculating the plan after design is a huge issue.

QUICKLOOK

- Software programs are replacing error-wrought spreadsheets for calculating compensation.
- Flexibility and support of new software packages are key issues in a company's selection process.
- Successful software implementation can administer very complex multi-sales force, multi-level compensation plans.

Software Integration



A Solution

A legacy software product is one solution in production. The key to such a system lies in its ability to integrate with other corporate systems (see Figure 1). The second challenge for systems like this is to allow the user to change program rules and organizational roles without having to obtain assistance from the IT group or the vendor. The software should be flexible as well as easy to use. Companies also should be able to smooth the transition between the system people are used to and the new system. Using a spreadsheet, formula-based approach helps.

A Case in Point

ALARIS Medical Systems Inc. is a provider of intravenous medical supplies, intravenous infusion pumps, patient monitoring devices and cardiac disease diagnosis and monitoring devices, with revenues of more than \$380 million in 1998. ALARIS has a direct sales force of more than 200 people and more than 150 distributors, selling to more than 5,000 hospital health care providers in more than 120 countries worldwide. The company had a diagnosis of its own to make in its corporate information technology systems. In 1997, ALARIS selected SAP's R/3 software as its enterprise resource planning platform. The company had been using an in-house software package to manage the tracking and payout of sales commissions. In part because of Year 2000 compliance issues, and in part because of integration issues with SAP, the corporate IT staff of ALARIS elected to purchase a commissions and variable pay management software package.

Mark Schumacher, Senior Systems Analyst, ALARIS Medical Systems, headed the effort to select the software. Schumacher explained that flexibility of the software and support were key issues in the company's selection process.

"The software is Microsoft Windows based, so almost any computer could run it," Schumacher said. "Flexibility was extremely important, too – we do an awful lot of adjustments."

"Now, we can administer very complex multi-sales force, multi-level comp plans," said Cathy Dooley, contract administration manager for ALARIS Medical Systems. "We have more than one sales force and various levels within them that are compensated differently from each other. And, we change comp plans every year."

"The software is extremely flexible," she added, noting that a real test came when ALARIS integrated a separate sales force after ALARIS had purchased another company. "Their sales force has remained independent, but we needed them to be in our systems."

ALARIS moved the new sales force's comp plan under the new software package. "Now our entire sales compensation – millions of dollars last year – is paid by one person," Dooley said. "That's across 12 different sales compensation plans, with different types of sales reps, all paid differently. Adding the last company's sales force proved we were able to do this without adding headcount."

"The software package had all the basic functionality we were looking for to support different sales plans and different levels of sales compensation. And, it was customize for bonuses and sales reporting," Dooley said. Companies can now trust their data, and can quickly communicate accurate information to the employees. It can be distributed via statements, Intranet/Extranet, e-mail or any other method imaginable. Compensation professionals can go from gathering data to analyzing information. They can now spend time creating knowledge from that information to better work with management to make incentive plans more effective.

About The Author

Gopi Mattel is Chief Technology Officer for Again Technologies Inc.

FOOT NOTES

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Questions to Ask Before Implementing a New Software Program

- Do employees understand how they are being paid?
- Do employees trust the information used to calculate their variable pay is accurate?
- Is more time spent gathering data for credits, or more time analyzing the results?
- Can compensation plans change easily with the current computing infrastructure?