

# Compensation without Compromise

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## Executive Summary

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Employee compensation is a powerful presence within the organization, impacting the costs, operations and strategic outcomes of the institution. Employee costs frequently make up the single biggest expense for most employers, and ensuring the greatest returns for the direct monies paid out to employees occupies significant attention, time and fiscal consideration of the company. Compensation is critically important to employees and plays a major role in their decision on which organization they join, the effort they put towards their work, where that effort is directed and their decision to stay or leave the institution. These behaviors in turn profoundly affect the degree to which the organization achieves its strategic objectives.

Managing the compensation function well is a critical factor to all organizations, impacting all levels within the institution and touching in a profound manner all stakeholders who possess an interest in the current and future strength of the establishment. Managing this function well can be an overwhelming and extraordinarily difficult task, exponentially increasing in complexity with the addition of new pay programs and pay program types, new offices, added regulations and financial constraints.

To date, many compensation departments rely on spreadsheets as their primary technology to manage the function and are, unfortunately, beginning to find that spreadsheets are insufficient and not up to the task of designing and administering today’s complex and sophisticated programs. Few aspects of compensation design and administration remain unaffected by today’s information technology systems and the efficiency, credibility and performance of the function is largely dependent upon the strength and usefulness of the technology system(s) used to manage the vast amount of information on which the function relies.

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The evidence is overwhelming that spreadsheets struggle in designing and managing compensation programs in several important ways<sup>1</sup>. They lack advanced decision-making capabilities and, while they're engineered for computational strength, they fail in their ability to assist key decision makers in ensuring that pay is distributed optimally within the organization. They also stumble in frustrating fashion from a workflow capabilities perspective and are error-prone, unstable and inefficient application for such a strategically important function.

Superior technology systems exist, however, which dramatically overcome the deficiencies of spreadsheet applications. The evidence is mounting that these applications are vastly superior in assisting the compensation professional in virtually every aspect of the function as they've been engineered to support the profession with exceptional efficiency and precision. These "next generation" compensation management systems are superior in every respect to traditional spreadsheets – their level of sophistication allows them to be able to support the distribution of pay in a manner aligned with the strategic priorities of the organization; they're designed to enhance the workflow nature of compensation administration within the institution; research indicates that they allow for greater accuracy and create far fewer errors; and their streamlined capabilities promote efficiencies throughout the spectrum of the compensation function, saving the organization both time and money in the administration of compensation<sup>2</sup>.

Given the vastly superior capabilities of these next-generation compensation management applications against the background of the direct and indirect costs plus payoff potential of compensation dollars, a strong positive return is quickly seen when investments are made in these technologies<sup>2</sup>. New hire offers are generated in an efficient, targeted fashion; employee pay levels are managed in a strategic manner within the organization's pay structure(s); merit dollars are distributed with much greater precision; budgets are adhered to; errors cease to be a significant event; and stakeholders in the compensation administration process are utilized in a time-efficient fashion. Employees see a clearer connection between their performance levels and their pay, the organization gains a significantly tighter relationship between its strategic priorities and where its compensation dollars are distributed, and fewer high performers leave for reasons related to pay<sup>2</sup>.

Advances in compensation management applications make this an exciting time to be in the compensation profession. Given the rapid payback these investments produce and the significant increase in pay management efficiency and administrative elegance, this is the time for organizations to give serious consideration to reducing the stronghold that spreadsheets have within the function and replacing them with next-generation systems.

## Compensation Matters

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Employee compensation is one of the few areas within the organization that has a dramatic and profound effect on the costs, the operations and the strategic outcomes of the institution. Salary and wage expenses, plus associated merit, bonus and equity budgets occupy a significant place in the organizations financial health and must be

thoughtfully planned for and budgets adhered to in order to ensure the well-being and future success of the organization. Managers often spend a significant amount of time ensuring that their employees are appropriately compensated for their contribution to their department and the organization, and it's not unusual for managers to work with many key contributors throughout the organization (e.g., compensation, finance, senior management, talent acquisition) during critical payout periods to ensure their employees earn and continue to receive appropriate reward levels. In addition, the management and staff of the compensation department are tasked with efficiently administering complex compensation programs throughout the organization, ensuring that all employees receive an optimal level of compensation to safeguard a drop in future performance levels or a premature departure from the organization. Finally, compensation has a significant effect on a wide variety of employee behaviors and subsequent performance levels. Numerous studies and a plethora of anecdotal evidence strongly supports the role that a well-managed compensation program plays in bringing superior talent into the organization, motivating that talent to perform at exceptional levels in areas of strategic value to the institution and keeping the critical talent required to take the organization strongly forward.

In short, it's important to recognize and not underestimate the role that superior compensation program design and management plays within the organization. Its impact is felt throughout the institution and is shared by each and every stakeholder. Managing the function well is a direct and substantive way for the organization to gain a competitive advantage over the competition and ensure its continued success.

Managing the administration of compensation within today's complex organizations is an enormous, challenging job. Job

architecture systems must be established and maintained; pay structures developed, managed and kept current; market data reviewed, analyzed and incorporated into a wide variety of business decisions; salary and

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salary increase budgets established; competitive, internally equitable new-hire offers written; annual salary increase processes managed; bonus and incentive payments administered; and competitive pay rates for new office locations established. The list is endless and often overwhelming, and the data management involved in handling this workload – the recording, tracking, updating, comparing and calculating, by individual, department, division and location – can sometimes be crushing. Throw in the need to plan compensation for a growing number of states and countries, an ever-increasing number of compensation plan structures, a growing number of organizational budget guidelines to follow and a plethora of compliance and regulatory issues, and the job of the compensation professional quickly becomes overwhelming.

**Information technology systems are well positioned to substantially enhance the accuracy, efficiency reliability and precision of compensation administration.**

Technology should provide a solution for many of the challenges facing the compensation function. The promise of efficiencies stemming from the use of technological systems extends to virtually every aspect of compensation program design and management – job databases that can be quickly designed and easily maintained, salary structures that can be developed and updated with the press of a button, market data that can be imported and analyzed with ease, salary budgets that can be created in real-time as the business evolves and changes, focal review processes that run flawlessly, incentive payments paid out correctly and on time, and new-hire offers that are produced with the necessary sense of urgency and balance. Given the information-intensive nature of the compensation function, information technology systems are well positioned to substantially enhance the accuracy, efficiency and reliability of the function and its processes.

Unfortunately, these promised efficiencies are rarely realized. In practice, databases are inconsistent and quickly become corrupted, the most commonly used applications possess neither the rigor nor the capability to deliver, and the controls required to ensure error-free and flawless functionality are never maintained. Compensation professionals, senior managers and line managers have found that, far from improving compensation management processes, today's technology has actually increased data security risks, forced parties to work with a variety of manual and automated systems and turned compensation management from a strategic engagement to a series of tactical exercises. Much of the failure of technology to deliver on its promise to the compensation function stems from the function's over-reliance on its application of choice – the spreadsheet.

### **Compensation and Spreadsheets – The Odd Couple**

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Given their calculative credentials, it's no surprise to learn that spreadsheets are used extensively in compensation program design, administration and management. For example, James Rowe, Director of Human Resources for Boston-based Cabot Corporation's, recently estimated that their HR department was at one point handling over 600 spreadsheets to manage base, equity and incentive compensation – and they're far from unique<sup>1</sup>.

The reason spreadsheets are used to such an extent is easy to understand. The database qualities of most spreadsheet applications are advertised as robust, data is hyped to be easily imported and exported, and informative and compelling charts and graphs are promoted as being only a "single click" away. Indeed, according to a recent Deloitte report, 72% of compensation departments use spreadsheets to administer their salary programs<sup>3</sup>. Look across the workflow of any compensation department and one sees spreadsheets being used in virtually every aspect of the compensation function. And this is a very real problem.

## Trouble in Paradise

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What we've learned about spreadsheets since VisiCalc was first introduced in 1978 is that the application of spreadsheet technology in the real-time, real-world environment in which compensation exists highlights many of its practical shortcomings. Specifically:

### **Lack of Advanced Decision Making Capabilities:**

Spreadsheets don't possess the capabilities to provide the user with advanced decision making guidance or advice. Their powerful calculative applications were never engineered to guide the compensation professional through the myriad of choices required to ensure that the right money ends up in the right employee hands for the right reasons. They're brutally powerful from a calculative sense, but their functionality doesn't extend beyond that dimension – thus severely limiting their usefulness in an age when more is required of technology than advanced number-crunching.

Spreadsheets are straightforward, equation-driven tools – put in a formula and the results are produced in a consistent and straightforward fashion. And to be fair, spreadsheets are quite capable where one-off, ad-hoc analyses and data exploration are required or prototyping and modeling are necessary. However, their sophisticated applications are generally lacking, and while advanced spreadsheet applications allow for programming, incorporating sophisticated guidance into a spreadsheet that is capable of providing decision-making direction to managers within a typical merit or focal review period setting is well beyond the capabilities of the typical spreadsheet application.

**Spreadsheets... powerful calculative applications were never engineered to guide the compensation professional through the myriad of choices required to ensure that the right money ends up in the right employee hands for the right reasons.**

As a general rule, traditional spreadsheet applications are poorly positioned to help managers administer pay based upon the strategic priorities of the organization. Given their limitations, spreadsheets encourage pay delivery across the organization in a highly subjective fashion, ad-hoc corrective payouts necessitating the maintenance of slush fund budgets become the norm and the total rewards due each employee are, at best, raw estimations.

### **Substandard Workflow Abilities:**

Given the importance of pay-related decisions one typically doesn't see pay decisions made by any one individual but rather several people within a collaborative environment supported by workflow. For example, the typical merit pay process employed across an organization usually involves multiple departments (talent management, compensation, training and development, communications, finance, senior management, line management, etc.) working together over many months to ensure employees receive correct merit pay increases. This process involves vast amounts of data being moved across the organization; parceled out by business unit, department, geographic region and organizational level; distributed up and down (often multiple times) within the

organization while payout decisions are made, changed and changed again; and sent onward for review and approval. This often haphazard approach occurs due to the complex nature of the decisions being made, the magnitude of the operations and the importance of the dollars being spent.

Many compensation departments progress spreadsheets throughout the organization not just during the merit review process but also when evaluating new-hire offers, administering bonuses, distributing corporate equity or providing off-cycle pay increases. The opportunity for input error during these processes is exponentially increased with each hand that touches it; the process is extraordinarily awkward to coordinate and control, and the limitations of spreadsheets are brought fully to the forefront in each of these exercises.

The distribution of spreadsheets, as a part of these compensation actions, can be horrific. As James Rowe explains, “Invariably compensation analysts would make some mistakes such as sending data about an employee to a manager who no longer works there or just picking up the wrong row. That leads to communication gaps and breaches of confidentiality. Confidentiality is always a big issue in HR, especially in Europe where the Data Protection Act requires you to not send personal information to someone who is not in the need-to-know category.”<sup>1</sup>

Spreadsheets are awkward tools to use across different business groups using different but connected data; they are a spectacularly inefficient tool in such a setting because they were engineered to be stand-alone, single-user applications, not multi-user workflow instruments.

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As a general rule, spreadsheets are incapable of managing the complexity and variety of compensation plans in use. They possess only the most basic of workflow capabilities and version control is almost impossible to maintain, effectively making it impossible to track who has or has had access to the spreadsheet and its data. This lack of integration – whereby spreadsheets weren’t designed to communicate with each other – was the most significant barrier to effective compensation found in a recent study by Ventana Research, where they found that fifty-one percent of participants in their benchmark research report that they lack full confidence in their organization’s ability to manage compensation processes effectively<sup>4</sup>.

#### **Error Prone Applications:**

Spreadsheet programs are installed on most workplace computers, making them accessible and easy to use. But their ease of use is a double-edged sword, as errors are also incredibly easy to make and equally difficult to detect. As Judi Otton, CEO and co-founder of [GrowthCast](#), stated: “It’s really easy to make an error in Excel. I know, I’ve done it. Even if we don’t make errors big enough to get our names in the papers, we still

**71% of organizations have found errors in such spreadsheets**

harm our businesses by operating on invalid data. The trickiest thing about Excel errors is that you may not ever realize they are there.”<sup>5</sup>

Ventana’s recent research into compensation found that almost three in four (71%) organizations have found errors in such spreadsheets and that 38 percent of the errors led to incorrect payments to employees. Given that payroll costs are often the single largest operating expense for most organizations, these findings are particularly troubling<sup>4</sup>.

Other studies support Ventana’s findings. Consider the following:

- Researchers at The University of Hawaii found that 88% of spreadsheets contained errors<sup>6</sup>
- KPMG found 91% of spreadsheets taken from an industry sample contained errors<sup>7</sup>

Spreadsheet applications consistently fall short as the software of choice for large, complex processes shared across the organization – a typical use by compensation departments, particularly to administer their merit review programs. The single biggest area in which spreadsheets fail is ironically one of their most significant strengths, namely their ease of use. Generally speaking, almost anyone can create spreadsheets, even those with little or no experience, and many do so innocently with disastrous results. The vast majority of spreadsheets are created in a haphazard manner by those with no understanding of programming methodology or protocol. As one author succinctly put it, “There’s no debug, no audit trail, and no way to test why a spreadsheet returns the value it does. Similarly, training for spreadsheets, where it exists, tends to ignore the importance of elegant and well-designed code, leading to legacy spreadsheets being used with internal workings which are opaque to all but their original creator, who may have left the company 20 years earlier.”<sup>8</sup>

Admittedly, all software has its shortcomings and will on occasion stumble; the problem is that spreadsheet applications have a legacy of failing on a consistent basis. And when they do fail, when errors occur, there are no backup systems in place to notify the user. Unfortunately, given the enormous size and complexity of the system-wide files used in most compensation functions, the fragile nature of the application is brought to the forefront, highlighting the extreme difficulty in maintaining the system and keeping it free of bugs.

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Simply put, spreadsheets lack transparency, introduce an unreasonable degree of risk to the organization and waste staff time and money to find and fix errors. This is clearly an unacceptable position; while spreadsheets might be used in most organizations, they’re not working at all well, and compensation analysts are forced to make do through a combination of heavy manual checking and re-checking of data, long nights and enormous effort. Even with these efforts, the results are the same – highly visible errors that are picked up by end-users.

### **Instability Issues:**

As spreadsheets grow in size and complexity, they become slow and unstable. While spreadsheet applications are powerful, in practical use their performance suffers on larger, complex spreadsheets, particularly those with a large number of formulas.

Spreadsheets were never meant to serve as databases, yet they remain the tool of choice by most compensation departments to maintain their compensation data. For most organizations, this is a disaster waiting to happen.

When a spreadsheet becomes popular and is shared within a company, separate and multiple improvements are made, additions to the spreadsheet are created, style changes are incorporated and new data is input. The result is that, very quickly, the spreadsheet begins to load very slowly due to its large file size; results from different versions of the same spreadsheet don't sync; and credibility is quickly lost.

Encountering multiple versions of a spreadsheet with inconsistent data is so common that it has given rise to its own term: dueling spreadsheets.<sup>9</sup> When the producers of spreadsheets don't adhere to common sources of information or utilize standardized methodologies in analyzing data, the result is mismatched spreadsheets. Additions or deletions made to some versions but not others can also create variances.

**44% of enterprise-sized companies have experienced the problem of multiple, inconsistent spreadsheets.**

This is not an insignificant occurrence. Research surveys indicate that nearly half (44%) of enterprise-sized companies have experienced the problem of multiple, inconsistent spreadsheets.<sup>12</sup>

For many reasons, spreadsheet applications have a reputation as fragile systems, the type that easily corrupt especially as the size of the spreadsheet grows. With the bloat that accompanies oversized and over-engineered spreadsheets comes an exponential increase in the probability of data loss, representing another example of spreadsheets being used outside of their design zone. Spreadsheet applications weren't designed with enterprise usage in mind, and they shouldn't be used as such.

### **An Inefficient Application:**

Spreadsheets are a spectacularly inefficient tool for large, complex, enterprise-wide applications. For example, Finance departments are major power users of spreadsheet applications, and closing the financial books at the end of the month quickly and efficiently is a goal for all financial leaders. One would think that spreadsheet applications would contribute to the efficient closing of the books, yet the reality is that spreadsheets can be fast and easy to set up but, when used in enterprise-wide processes characterized by their collaborative and repetitive nature, their efficiency is severely compromised and they actually become exceptionally inefficient. Research surveys bear this out; in a recent survey, 54% of respondents identifying themselves as strong spreadsheet users took seven or more days to perform the monthly close of financial books.<sup>9</sup> In contrast, companies with technology-based systems were able to close their books on an overnight basis through full automation.



Such is the case for the compensation function as well; in fact, the time-consuming nature of the compensation planning processes, held hostage by spreadsheets, leaves most managers stunned. As Kathy Meseck, Project Manager of Human Capital Management Systems at Woodward in Fort Collins, CO put it, “If I added up all the time I took on our management incentive plan: breaking up the big spreadsheet, emailing it out to each manager, getting them back, and putting the changes in the system, it probably took me a month.<sup>1</sup>” At the end of the day, most managers are so worn down with the inefficient processes that they simply want to get it over with – a far cry from the desired position of moving towards an optimal decision.

## The Verdict

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Given the long history of spreadsheet usage within the compensation function and the evidence supporting its dysfunctional application across the entire spectrum of compensation program design and management, there is little reason to support its continued use as the tool of choice for compensation analysis and administration. As Ventana Research so strikingly put it, “from a systems perspective, there is no worse option for managing compensation processes than the stand-alone spreadsheet. In fact, spreadsheets epitomize the haphazard approach to compensation.<sup>4</sup>”

## Next-Generation Compensation Management Solutions: Vastly Superior

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The future is not entirely bleak within the world of compensation management, as technologies have evolved significantly to a point where advanced and sophisticated systems specifically designed around the needs of contemporary compensation management are available. These robust systems, elegant in design with a flexible architecture allowing for nearly unlimited customization, were built from their inception with the strategic and practical needs of the compensation function in mind. The technology they employ is in a completely different league from that of spreadsheets and share none of the shortcomings described earlier. This is an entirely new generation of technology that makes compensation design and administration easier, quicker and more streamlined.

A deep look at this next generation of technology shows that it differs from spreadsheets in many significant ways. Specifically, this new breed of technology is:

### Significantly More Strategic:

One of the most significant developments in next-generation compensation management technologies is the shift from purely administrative functionality to that of strategic application. This is probably the most dramatic advance in this class of technology, and the importance of this improvement cannot be understated. For the first time, all parties involved in the compensation

**For the first time, all parties involved in the compensation function are able to truly administer pay based upon the strategic priorities of the organization with a precision never before available.**

function are able to truly administer pay based upon the strategic priorities of the organization and individual requirements of the employee with a precision never before available. Gone are the days of inconsistent pay delivery, unidimensional pay strategies, ad-hoc payouts and raw estimations of the total rewards due each employee. Today's next-generation compensation management technology helps clarify the organization's strategies, translates these strategies into meaningful compensation strategies and then, using sophisticated modeling and analytics engines, produces exceedingly precise guidance for paying individual employees in a manner fully consistent with the organization's business and pay strategies.

The benefits to the organization are significant. By finally ensuring that the right money gets into the right hands, organizations now stand to benefit from the advantages of paying its employees correctly – better hires, reduced turnover and higher levels of engagement and motivation among its workforce. In short, the effectiveness of a strategically-anchored pay program is far greater than one that isn't, and the payoff to the organization is substantial.

The evidence supports the payoffs. Recent survey findings of organizations using next-generation compensation management technology find:

- A measurable increase in annual pay increases being paid on the basis of desired (strategic) criteria
- Significantly more effective management of range penetration
- Much stronger connections of variable pay to performance<sup>2</sup>

The financial payoffs are significant for companies that move to next-generation compensation management technology. Research indicates, for example, that for an organization with an average company size of 18,000 employees, compensation-related turnover is reduced by 22%, saving the company \$1.5 million each year<sup>2</sup>.

Next-generation compensation management systems provide everyone associated with the compensation management and delivery process the information they need to more successfully recognize, reward and keep their critical players. The functionality underlying next-generation compensation management applications provides everyone involved with these critical decisions open access to the data needed to make quicker and better decisions, leading to improved strategic plans and enhanced results.

#### **Enhanced Workflow Capabilities:**

Gone are the days of emailing spreadsheets, version control problems and workflow bottlenecks. Today's next-generation compensation management technologies are built with workflow efficiencies as a central tenet to their functionality so that the right information is viewed by the right people at the right time. Not only are workflow errors significantly reduced, but team-based solutions on compensation issues are agreed upon quickly and efficiently as the management team is able to collaborate, review and analyze information in a more streamlined manner. Workflow is controlled much better and cycle time is reduced; in fact, research shows that companies utilizing next-generation compensation management technologies see a 26% reduction in cycle time<sup>2</sup>).

### Greater Accuracy and Fewer Errors:

Today's next-generation compensation management applications bypass all of the awkward, cumbersome and error-prone shortcomings of spreadsheets. With no more cutting and pasting, partial sorts, vlookup or pivot table errors, formula miscalculations, data input or database mistakes to worry about, the compensation function can move forward with confidence that their data is error-free and decisions are being made on the basis of information that's free of system-related inaccuracies.

First-generation applications employ a combination of spreadsheets, emails, paper forms, or other custom developed systems. In a recent survey, respondents using such systems reported average error rates in excess of 35%<sup>2</sup>. By implementing a next-generation compensation management system, surveyed companies were able to substantially minimize errors, making for a substantially more streamlined and mistake-free process.

Again, the benefits to the organization cannot be overstated. Given the size of most payrolls, reducing the size of payroll-related mistakes stemming from error-prone spreadsheet use dramatically reduces corporate risk levels. In addition, compensation staff time is freed up from searching out errors, correcting mistakes and re-running analyses resulting from an over-reliance on spreadsheets.

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The bottom line is that all parties associated with the compensation process will see an increase in the speed and accuracy in which they complete salary actions, dramatically enhancing the performance of the entire function.

### Enhanced Efficiency:

One of the most dramatic enhancements next-generation compensation management technology brings over spreadsheet-based applications is seen in the extent to which cycle times for compensation actions are reduced. Case studies and organizational surveys both confirm that significant efficiencies are seen when organizations move away from spreadsheets to manage their compensation programs. Consider the following from Marc Mullis, Director of Global Compensation at EnPro: "By migrating off of spreadsheets...we were able to reduce the divisional HR manpower workload by 75% while reducing the cycle lag time by 20%<sup>11</sup>."

Recent surveys show that organizations utilizing next-generation compensation management technologies significantly increase the overall productivity of their managers in making compensation-related decisions, particularly a sizeable decrease in the unproductive time spent on compensation-related activities. On average, compensation planning cycle times have decreased by 26%, with some companies seeing reductions of as much as 50%<sup>2</sup>.

**Next-generation compensation management applications bring much greater control, transparency, and understanding to the focal review process.**

### **Superior Control:**

The tension that exists between the compensation function, line managers and Finance over salary budgets is almost constant. At no other time is this tension felt more than during the focal review period, when budgets are set and management is tasked with allocating scarce merit dollars to their staff. Often, budgets are exceeded and all parties involved – line managers, senior management, compensation and Finance – are brought in to reconcile the differences. Often, at the end of the day, no one is particularly satisfied; managers don't feel that they've been able to adequately reward their employees, Finance is experiencing budget overruns and compensation is charged with mismanaging its function.

Next-generation compensation management applications bring much greater control, transparency, and understanding to the focal review process. Managers better understand the criteria upon which scarce merit dollars are to be allocated, and the precise guidance provided by these advanced systems help ensure that monies are provided to the right employees in the right amounts. Furthermore, application controls prevent the manager from exceeding budgets, so that countless hours of wrangling are avoided, substantially mitigating the risk associated with unpredictable cost overruns.

When next-generation compensation management technology systems underlie the compensation process, everyone is provided with not only the information but the strategic advice needed to look at trade-offs and budget impacts. Besides serving as an important budgetary control, this ability reinforces and strengthens the relationship between everyone involved in the pay allocation process and the communication of those decisions to employees.

### **Greater Stability:**

Next-generation compensation management technologies are much more stable than traditional spreadsheet applications. Slow loads and reduced performance are not problems, and the systems have been engineered to handle the huge data requirements of even the largest organization.

With one system in use, pulling data from the same sources in the same manner, consistently using the same algorithms and formulas with no opportunity from the users end to alter the underlying framework of the technology, the problem of "dueling spreadsheets" ceases to be a problem.

Greater reliability leads to greater confidence in the choices being made. Greater transparency leads to greater ownership of the decisions being made. Compensation decisions can be made with confidence and authority, knowing that they're built on a foundation of sound data and solid information.

## **It Matters!**

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Compensation is important within an organization. More often than not it occupies the position of being the single biggest expense within the institution; it plays an important role in bringing in critical talent; serves as one of the most noticeable metrics employees

monitor when evaluating how fairly they're being treated within the company; is closely associated with the performance of the organization and, in most companies, influences where an employee directs his or her efforts; plays a critical role in maintaining turnover at appropriate levels; and its administration occupies the thoughts, time and behaviors of many throughout the institution. Given the breadth and importance of the compensation function within the organization, any actions that can be taken that significantly improve the efficiency of this critical function should be given careful and adequate consideration.

## Advance Forward, or Atrophy and Perish

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There truly is no longer any justifiable reason for the continued widespread use of spreadsheets within the compensation function. Certainly, the central role they've played in the compensation planning, daily administration and annual review processes should be abolished, given their abysmal track record in virtually every aspect of the function. Their overall inefficiency, instability, inability to provide adequate decision support, propensity to create errors, and awkwardness within a workflow setting suggests that it's time to consider replacing spreadsheets with different technologies.

Given the significant strengths of next-generation compensation management applications, there is substantial cause for optimism. As is the case in many other information-intensive functions, compensation now has access to robust, intelligent applications designed specifically to address the challenges and complexities of designing and administering compensation in today's global environments. They overcome the weaknesses of traditional spreadsheet applications and replace them with elegant, smart systems that truly deliver on the promise of the compensation function to provide the right pay in the right form to the right employees for the right reasons.

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Dr. Sterling is internationally recognized for his research on compensation and pay satisfaction. He formerly headed the compensation function at The Federal Reserve Bank in San Francisco, held the position of Vice President - Corporate Compensation at Union Bank and was a Principal within the Human Capital Consulting Group at Mercer Human Resource Consulting for almost ten years. In addition, Dr. Sterling held internal compensation consulting positions at both Wells Fargo and Visa International. He is a former Professor of Management and Human Resources at Chapman University where he was a recipient of the distinguished Valerie Scudder Award for outstanding research, teaching and service. He is a member emeritus of the WorldatWork Advisory Board and has been an active Steering Committee Member for over 15 years in the Bay Area Compensation Association.

Dr. Sterling received his Doctorate in Business Administration at The Ohio State University and has an MBA and BA in Business Administration from Michigan State University.