

Bridging the Technology Divide: A New Approach to Global Compensation

Implementing technology for human capital management is paramount among those operations that companies must streamline to ensure global competitiveness. However, this new global landscape requires looking beyond “out-of-the-box” software and toward flexible solutions with customisation capabilities that will not only improve operational efficiencies, but also contribute to the bottom line.

The human resource (HR) function around the world continues to change as it shifts its focus from enhancing internal operations to maximising contribution to the corporation’s business performance. According to the 2006 *Global HR Transformation Study* by Mercer Human Resource Consulting, half (50 percent) of organisations are in the midst of transforming their HR functions, while 30 percent have already done so or plan to. However, in terms of global compensation, HR is uniquely positioned to maximise its contribution to the company’s bottom line by enhancing its internal operations.

Indeed, implementing technology for human capital management (HCM) is paramount among those internal operations that companies must streamline to ensure their global competitiveness.

However, managing a global workforce is complicated by a range of factors that are often unique to each organisation. Every related function – from maintaining an HR database to determining compensation – becomes more complex when each one must be managed and administered on a global scale. HR must administer complex plans for expatriates who are operating under different policies and arrangements, in multiple currencies, and under different employment laws and taxation structures.

Of course, technology has aided HR in meeting many of these challenges. In fact, HR software is now the fastest-growing area of business software. The market for HCM applications (including compensation and benefits) is projected to expand

11 percent annually between 2006 and 2011, to \$10.6 billion, according to AMR Research. However, this new global landscape requires that HR look beyond “out-of-the-box” software and toward vendors who offer flexible solutions with customisation capabilities.

While global companies may share some common ground, no two have identical needs when it comes to global compensation. From formatting compensation templates to generating management reports, HR must be able to extract data in a format to provide critical business intelligence that will direct organisational objectives. For example, data on employee demographics, payroll and compensation costs, relocation expenses, and benefits impact the overall bottom line and are vital in calculating human capital ROI.

Resistance to Change

However, HR has been hesitant – even reluctant – to adopt new technology or tailor the functionality of existing technology. A key issue is that, in many organisations, there is a communication disconnect between HR and IT. This communication divide often impacts the implementation and ongoing administration of technology. The seemingly different goals and responsibilities of HR and IT seem to lie at the heart of this disconnect. HR is typically tasked with implementing solutions that will streamline processes and improve operational efficiencies. Moreover, in the case of global compensation, HR may only be administering a solution for a few hundred expatriate employees of a larger employee population. IT, on the other hand, is often focused on keeping applications running and platforms functioning for an organisation’s entire employee population – which can number in the thousands.

As a result, HR’s requests are not always at the top of IT’s list. In turn, HR has transferred this experience to the purchase of new technology and has come to accept “out-of-the-box” applications and adapt the company’s changing business prac-

esses to fit within its limitations.

However, HR should view its solutions provider as a technology partner that understands individual needs and can customise applications accordingly. Such a partnership is backed by a focus on responsive service and proactive support. In addition, a technology partner can provide assistance for a much broader range of issues – oftentimes outside of the scope of their solution – than a typical vendor. For example, this might include addressing client-specific network and performance-related issues associated with accessing the technology partner’s solution – even though other clients may not be experiencing the problem. The support can also be associated with general functions – from demonstrating how to utilise Excel to produce more meaningful reports to assisting clients to configure their Internet browser settings.

On another front, HR is often hesitant to adopt or adapt technology based on previous experiences with IT implementations – overly complex solutions that take months to install and disrupt routine operations. Admittedly, depending on the scale of the request, compensation and payroll changes can be complex. Previous implementation experiences can set a precedent and create anxiety regarding what will be entailed – i.e. implementation, testing, etc. Other departments that are impacted by new technology are also likely to have an aversion to system changes and the perceived disruption. In reality, however, technology partners shoulder the responsibility for implementation and testing, shielding the end-user (HR and associated functional areas) from significant disruption and operational hiccups.

Finally, HR is under the misconception that customising applications, especially in the area of compensation, benefits, and payroll, is costly. The expectation is that technology vendors will charge high fees to customise applications that enable endusers to produce reports or modify data entry fields. In some cases, after a

significant application purchase, management may indicate that no other changes (customisations) can be requested for a set period because of cost concerns, integration issues, etc. Undoubtedly, extra costs can be difficult to justify after management has green-lighted an initial, often substantial, investment.

However, many modifications can be made easily and cost-effectively during the implementation process and throughout the client/vendor relationship – as long as your solutions provider is truly a technology partner. HR can work effectively with a technology partner to discuss and request modifications up front.

Proactive Support and Service

Proactive support and service is another critical component when selecting a technology partner. A report issued in December 2007 by Gartner (*How to Improve the Customer Experience*), indicates that... “Efforts to improve the customer experience do little to boost customer satisfaction and loyalty because they fail to connect with customers and anticipate their needs.”

At its core, a best-of-breed technology partner is synonymous with being a proactive service and support provider. HR should expect flexibility as a built-in value proposition, as opposed to being an add-on. Flexibility can be found on a global scale – for example, by determining whether the vendor looks to the installed base in terms of R&D for improving its application.

Case in Point: According to ORC Worldwide’s recent *Survey of International Assignment Policies and Practices*, an overwhelming majority (48 percent) of companies split expatriate remuneration between home and host-country currencies. When determining split-pay, 38 percent base it on the expatriate’s wishes followed by 29 percent who use company policy. The result is that companies often need to construct a variety of compensation and benefits packages that not only reflect the choices of each expat, but are also subject to change as circumstances and exchange rates fluctuate. Split-pay is commonly provided in home and host currency. While the need for a third currency typically applies to companies with large and diverse expat populations, it has become increasingly popular – indeed a necessity – as a result of political and economic instability around the world. As a result, expats have begun to request that

their payroll and compensation be provided in a third currency because conditions in both the host and home country are not secure. Such a change requires customisation of the host application as well as coordination with the payroll provider. The new option is then integrated into the application and offered to all clients.

Keep in mind that while a technology partner can proactively offer and fulfill requests for customisation, internal IT plays a critical role in related functions – such as exchanging data and interfacing the compensation solution with other platforms, systems, and solutions. In this new paradigm, however, HR need only involve internal IT as necessary. Doing so can repair the historic disconnect in the internal IT/HR relationship.

Case Study: Textron

In terms of a best-of-breed solution, web-based applications offer a tremendous advantage: the ability to make changes in real-time as the following illustrates.

Founded in 1923, Textron is an \$11 billion global multi-industry company with market-leading brands and businesses serving the general aviation, aerospace and defence, industrial, and commercial finance markets. The company, headquartered in Providence, employs a workforce of 40,000 in 32 countries.

Limited resources and time-consuming legacy processes led Textron to implement a global workforce management solution that would more effectively and efficiently administer HR and related functions for its international assignees. In considering a new solution, Textron looked for functionality that would include web-based access that would not require the system to be tied directly to its local network. The need was based on having HR administrators who often worked remotely and needed quick and convenient access.

Another determining factor was the ability to have custom updates made by request rather than waiting for scheduled product upgrades or new version releases. A web-based programme would allow Textron to request changes directly from the vendor and have them implemented in real-time.

Prior to implementing a global workforce management solution, Textron’s demographic, accounting, tax equalisation, and compensation information were housed in separate databases. Having all these elements in one database has also provided HR with an efficient means to

produce more accurate reports for management. Most important, having a web-based programme provided Textron with the ability to affect changes in real-time – a key to staying ahead of the fast-changing nature of the global landscape.

The Best of All Worlds

Globalisation is both a business imperative and a major challenge. Indeed, the evolution of technology – from collaboration tools to HR management suites – has considerably eased the pain of globalisation. Still, challenges persist, particularly from the perspective of HR’s ability to centrally manage an increasingly diffuse and diverse global workforce. Cookie-cutter approaches are no longer up-to-the task, as no two organisations have the same internal policies, infrastructures, or protocols. Flexible, customisable software – or web-based solutions – are not new to the market. However, bad experiences with overly complex installations coupled with the high costs associated with add-on services has made most HR professionals reluctant, even averse, to the idea of tailored software or hosted applications.

Past experience and prevailing misconceptions have been outstripped by today’s reality: customised solutions are not only the way to go, they are more easily implemented and maintained, not to mention far less costly than they have been in previous years. Finally, this is particularly the case in global compensation solutions, an area that all but demands company-specific customisation and flexibility.

Clearly, HR can benefit – and convey those benefits to organisational performance – by embracing a new paradigm where flexibility and customisation are the hallmarks of a best-of-breed solution from a best-in-class technology partner.



Thomas Shelton is Founder and Chief Executive Officer of HRToolbox, Inc. (Atlanta), which provides HR professionals with a

complete and efficient solution to address the challenges of managing and administering payroll, benefits, and compensation for a global workforce. For more information, e-mail twshelton@hrtoolbox.com, call 877-HRTOOLBOX, or visit www.hrtoolbox.com