Workday Advanced Compensation

Perspectives from a future-minded partner

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Shifting global market conditions are exerting a profound influence on business, propelling companies to adapt and reevaluate their priorities at an unprecedented rate. With the ever-evolving landscape, compensation strategies must react swiftly to these changing dynamics and align their priorities rapidly to keep up with the demands of the market. Simultaneously, employees are becoming more discerning, seeking greater flexibility, simplicity, and transparency from their employer to feel valued. This shift underscores the importance of fostering an agile compensation program that caters to the diverse needs of their workforce. To succeed in this quickly transforming environment, businesses must balance market-driven strategies with the growing expectations of their employees.

In this rapidly changing era, it has become imperative for organizations to simplify their compensation programs and maximize the power of their Workday investment. Making this strategic shift offers businesses the opportunity to enhance program administration, employee satisfaction, and achieve critical organizational goals.

By eliminating unnecessary complexities within their compensation programs, organizations can enhance transparency and clarity, empowering employees to better understand and appreciate the value of their rewards. This simplification not only improves employee engagement but also facilitates easier program administration for HR professionals. With fewer intricacies to navigate, HR teams can devote their time and resources to more strategic initiatives.

Workday provides an unparalleled opportunity for organizations to revolutionize their compensation programs. Leveraging the power of Workday empowers compensation professionals with streamlined processes to free up valuable time and resources that can be reinvested. Furthermore, Workday's robust delivered functionality enhances transparency and accessibility, allowing employees to make informed decisions while fostering a culture of trust and fairness within the organization.

Workday has paid attention to the needs of this domain and continues to invest in its functionality. Below we will discuss Advanced Compensation best practices in Workday and highlight some of our learnings as a future-minded Workday deployment, operations, and application management services (AMS) partner.

By strategically simplifying compensation programs and harnessing the potential power of Workday, organizations can:
— Enhance organizational effectiveness and efficiency.
— Strengthen employee engagement and satisfaction.
— Position their business for long-term success in a rapidly changing world.

What is Advanced Compensation?

Advanced Compensation is an event in Workday launched for a specific length of time for the purpose of recommending, reviewing, and awarding compensation changes, bonus payments and/or stock grants. Most organizations refer to these activities as their compensation cycle.

Some functionality and common business practices within Workday are geared toward an annual compensation process; however, many companies execute compensation review cycles quarterly or monthly for recurring processes like bonus and stock.

A compensation administrator typically kicks off this process, during which managers and HR Partners enter and approve compensation recommendations for eligible employees. Upon completion, the award recommendations are associated with the employee records automatically and are subsequently picked up by payroll for processing.

> **Advanced Compensation or Compensation Review cycle**
> Workday event to provide a consistent Compensation Planning experience for managers, compensation and HR partners, and to strengthen employee engagement.

Several different elements can be part of Advanced Compensation, including:

Merit	A performance-related process that allows for a base pay increase. Most companies evaluate merit on an annual basis.
Lump sum	A single payment, typically given in lieu of merit or base pay increases. Lump sums are awarded most commonly by managers who want to give monetary rewards to employees beyond the maximum pay for their range.
Bonus	Cash payments, also referred to as "short-term incentives" by some companies, which are distributed during a predetermined payout period. These are one-time incentives and are not part of either the employee's base pay or the future base pay increase.
Stock	There are different types of stock awards, including restricted stock and incentive stock options. Stock recommendations and approvals are captured in Workday but cannot be granted to employees. Companies typically use a third-party stock administrator to manage their stock grants.
Allowances	Allowances are monies paid regularly to an employee to meet a specific need. For example, car allowances, housing allowances, or uniform allowances.
Additional adjustments	These are additional pay adjustments to the employee's base pay for future equity-type items.
Promotions	These allow for an increase in the employee's pay grade and/or level within the cycle.

Maximize Workday investment

Our recommendation leverages a consolidated annual compensation process to include merit, lump sum, bonus, and stock. This recommendation stems from what we call our Workday "Point of View" (POV). We developed our POV by bringing together our HR domain and deployment experts, with experience on Workday since Release 2. We invested in our own POV tenant to deploy our best practice model.

We like to use this POV as a starting place for conversations with Workday customers and adjust configurations and ongoing operations depending on their needs. For example, organizations may consider using allowances, additional adjustments, and promotions, which offers flexibility in how compensation plans can be configured. Our design team then digs into the details of their current pay process to determine what, if anything, should be adjusted to make the process effective and efficient in Workday.

From our perspective, cycle timing is the biggest consideration when determining whether or not to include a plan in a consolidated cycle. The process must be closed prior to running a payroll that includes any of the award recommendations. For example, if an organization awards merit and bonus around the same time in March but waits until June to process stock, we recommend including only merit and bonus in the consolidated annual cycle.

Manager input on the compensation award amount provided to the employee is another big consideration that affects inclusion in the annual cycle. If a manager has discretion to recommend the amount of one-time payments or bonuses but does not have discretion for equity or stock, then equity and stock should not launch in the annual compensation cycle.

Workday point of view (POV)
Developed by bringing together our HR domain and Workday deployment experts. Drawing from our various client experiences, a close Workday partnership, and industry best practices, our POV allows us to offer an efficient and practical approach to compensation reviews.

POV tenant
Built for sustainable and efficient ongoing operations with our future-minded perspective built into every security role, process step, and report.

Workday's Advanced Compensation recent enhancements

Workday remains dedicated to improving Advanced Compensation. This dedication is driven by the core objectives of elevating the experience for administrators and planners, instilling greater agility into the system, and delivering better insights.

Experience

In the pursuit of improving user experience, Workday has introduced many improvements in the 2023 releases. Notably, the Compensation Review Configurable Grid Export has been revamped to provide a more user-friendly report. Furthermore, Workday provides additional flexibility in configuring visibility dates on compensation review statements and transformed the Initiate Compensation Review Business Process with the implementation of a more structured layout of the steps.

Agility

Workday's strategic focus on agility is demonstrated through key updates in 2023R2. Building upon the foundation laid in 2022, Workday broadens the use of custom calculation lists to include merit, promotion, and stock. Workday also improves bonus calculations by adopting a unified formula for rounding both non-discretionary and discretionary bonus amounts. Lastly, the introduction of the Recalculate Bonus Targets task simplifies the calculation of bonus awards, allowing for seamless adjustments. This enhancement allows administrators to update bonus targets during an in-progress compensation review, regardless of whether you use scorecards.

Insights

In its pursuit of providing deeper insights, Workday introduces an expansion of the View Bonus Calculation task so it is now accessible to managers and other relevant roles, empowering decision-makers with comprehensive information. Workday also continues to incorporate additional skills data to enrich award decisioning in the compensation review processes. Additionally, Workday 2023R2 makes it easier for managers to access compensation review data for the workers they have access to. Managers can now view all of their workers in custom compensation review reports, including in-progress or completed events, corrections, and proposed data.

Through these concerted efforts, Workday is poised to continue empowering organizations with a more intuitive, adaptable, and insightful Advanced Compensation solution.

Advanced Compensation POV

As previously stated, within our Workday practice we maintain a very detailed list of configuration options that are in line with our point of view based on standard business practices, experience with other customers, and our testing of the Workday functionality.

When partnering with organizations, some of our top recommendations related to Advanced Compensation include:

— **One consolidated cycle.**
  A single planning cycle for merit, bonus, and stock allows administrators to focus on the total employee compensation. It also provides a consistent Compensation Planning experience for managers, compensation and HR partners, and strengthens employee engagement.

— **Eight week cycle.**
  We recommend limiting the cycle duration to a maximum of 8 weeks (cycle initiation through compensation statement release). Limiting the duration of the cycle allows better control of events occurring outside of the cycle and will minimize the need to add or remove employees manually.

— **Bottom-up budget calculation.**
  Utilize Workday to automatically calculate the pool amount and estimated costs based on the employees assigned to the plans. Budget allocations are made at the employee level by plan and are rolled up to each organization within the hierarchy.

— **Ensure the data is clean before using proration.**
  In Workday, proration is calculated based on employee data. If the data is not clean, proration calculations will not be correct. This is especially critical in year one after deployment. If clean data was not loaded during the cutover, prorating in the compensation cycle could lead to incorrect compensation values. In years two, three, and beyond, most organizations are in a much better position to use proration if the system has been maintained with clean business processes and rules.

— **No in-cycle promotions.**
  Promotions processed within the cycle do not go through the full promotion Business Process and may require manual updates once the cycle is complete. We encourage Workday compensation clients to consider handling promotions outside of the compensation cycle.

POV benefits
Following our POV recommendations empowers organizations with a well-rounded, efficient, and effective approach to compensation reviews.

Key configuration considerations

When determining configuration options for compensation plans, there are a few key considerations to keep in mind:

— **Begin with the end in mind.** Many configuration decisions are designed to arrive at one answer — what comprises the target percentage or the amount of the various pay components included in the process?

— **Plan assignment.** Eligible employees must be assigned to a compensation plan prior to cycle initiation in order to be picked up by the compensation review process. In Workday Advanced Compensation, employees who are in the plan and qualify based on the waiting period are automatically included in the cycle. There are options for maintaining employee participation in the compensation process, but these are generally manual, one-off tasks. Manually including employees in the process increases the compensation team's administrative workload.

— **Dates.** For each compensation process, there are several critical dates defined during cycle initiation:

Process period end date	Defines the period of time the cycle considers for the purpose of eligibility.
Organization snapshot date	Tells Workday what date to use for the hierarchy.
Compensation snapshot date	Determines the compensation data that will be used as part of budget and cycle calculations.
Effective dates	When new base salary amounts and bonus payments take effect.

— **Pay for performance.** If the client uses a pay-for-performance structure, there are configuration options in Workday Performance Management that directly impact the Advanced Compensation process. These configuration connection points must be taken into consideration and discussed with the talent management team.

  • One critical connection point is the rating scale. The compensation matrix can use a rating scale to determine merit and bonus guidelines, funding and amounts. Only one rating scale can be used per compensation review cycle.

  • Another critical connection is the timing of the performance cycle. If ratings are a factor in calculating budgets or in compensation matrices, there must be coordination between the timing of the performance cycle and the compensation cycle.

  • Our point of view is that the performance cycle should be closed with finalized performance ratings before the compensation cycle begins. If employees' performance ratings are missing, the guideline ranges will be blank or incorrect and if ratings are included in budget calculations, the budgets will be impacted.

> **Configuration guidance**
> These recommendations help organizations streamline processes and improve accuracy, ultimately leading to more effective and efficient compensation planning and administration.

Year-end, year-round

Advanced Compensation, especially when considering its interaction with performance management, is essentially a year-round process. As previously stated, we recommend limiting the actual cycle to a maximum of eight weeks, but pre-cycle and post-cycle activities should be conducted to ensure the process is successful. Cycle launches in January, for example, preparation can begin as early as mid-summer and payment activities, including adjustments, not wrapping up until April.

Shortly after the cycle, organizations should take time to reflect on what went well in the cycle and evaluate what should be handled differently in the next cycle. We recommend using the time from May to September to make configuration updates incorporating the improvement opportunities identified. Some common configuration changes include creating additional custom reports, modifying the configurable grid to add or remove columns, or change the employee information display. It is critical that time is allocated to test any new configuration and features released by Workday.

After finalization
Organizations should conduct lessons learned to identify configuration updates, allocate ample time for testing, and ensure comprehensive testing of new Workday features.

Approach for implementing Advanced Compensation

If a customer is considering implementing Advanced Compensation in Workday, we suggest taking a "big bang" approach, meaning all populations go live at the same time. One of the benefits to a big bang approach is that it ensures you consider and implement a global design for your compensation plans and processes.

All too often, we see organizations implement with a pilot or a wave approach and when they subsequently bring on the rest of the company, a large amount of rework is often required to meet all the needs that were not previously considered.

An additional benefit of leveraging a big bang rollout is the ability to have a unified change management and training approach. In addition, companies gain economies of scale from one larger implementation versus several smaller implementations. If following a big bang approach, we recommend ensuring that clear requirements are defined for all compensation plans and all matrices, as well as setting expectations within the organization that all groups must fit into the overall compensation cycle process. Flow and timeline are also important for overall success. For those in decentralized organizations, ensure that at least one subject matter expert (SME) from each group is engaged in the implementation and the decision-makers who can agree to or authorize process and requirement changes are present. Finally, one or more SMEs from each group should participate in testing to ensure all requirements have been met.

"Big bang" approach
All populations go-live at the same time.

Benefits
— Ensures you consider and implement a global design.
— Unified change management and training approach.
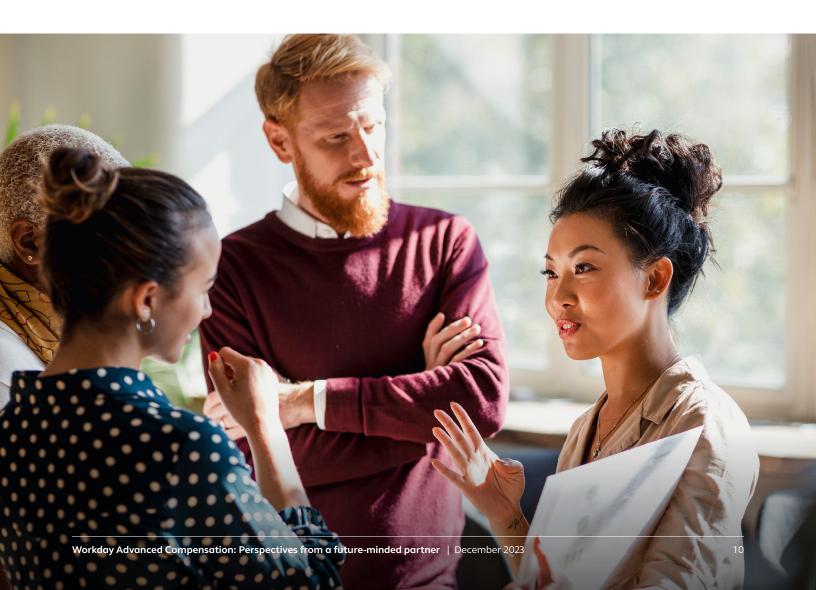— You gain economies of scale.

Our recommendations
— Ensure clear requirements are defined for all compensation plans and all matrices.
— Set expectations that all groups must fit into the overall compensation cycle process.
— Ensure at least one SME from each group participates in requirements gathering and testing phases.

What's coming soon

In future releases, we can look forward to Workday introducing additional enhancements to the Advanced Compensation functionality. For example (safe harbor), features like the ability to assign recommendation approvals outside of the hierarchy, completing reorganizations while a cycle is in progress, pay for individual employee performance based on goal achievement, enhanced help text options for managers, and dimensional budget pool reporting. These are just a few of the items Workday has in its purview.

While Advanced Compensation is not always viewed as the most cutting-edge topic, it's a critical process for HR and can be quite complex. Given the direction Workday is heading with Advanced Compensation and a distinct, experienced point of view to pull from, this shift to the cloud can be a true benefit to companies, compensation professionals, and managers.

To learn more about Advanced Compensation or speak to one of our Workday experts, contact us at **workday.solutions@alight.com**.

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About Alight

Alight is a leading cloud-based human capital technology and services provider that powers confident health, wealth and wellbeing decisions for 36 million people and dependents. Our Alight Worklife® platform combines data and analytics with a simple, seamless user experience. Supported by our global delivery capabilities, Alight Worklife is transforming the employee experience for people around the world. With personalized, data-driven health, wealth, pay and wellbeing insights, Alight brings people the security of better outcomes and peace of mind throughout life's big moments and most important decisions. Learn how Alight unlocks growth for organizations of all sizes at **alight.com**.

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