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Workday Advanced Compensation

Perspectives from a future-minded partner



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The Paradigm Shift

In the past, trends in human resource (HR) system solutions adopted a “best-of-breed” approach. On top of (or in addition to) a core HR system (often an on-premise ERP) organizations would purchase and manage separate systems for recruiting, talent management, compensation, self-service and sometimes even payroll. This approach provided very robust functionality at the domain level but became difficult to maintain and expensive to sustain. A bifurcated user experience and potential conflicts with upgrade schedules and data routines triggered the need for data warehouse solutions and sophisticated integration portals.

In the past, trends in human resource (HR) system solutions adopted a “best-of-breed” approach. Two major events triggered a change in approach:

- The Cloud was born.
- Data analytics became a powerful, top-of-mind strategic business tool.

More recently, two major events triggered a change in approach: the Cloud was born and the power of data analytics became a powerful, top-of-mind strategic business tool. These events caused the pendulum to swing and the new focus became...unified data. Core human capital management (HCM) and payroll systems established in the Cloud began to resolve the problems of the past and organizations started realizing the benefits gained by moving from a customization mindset to an efficient configuration paradigm. The Cloud brought forward improvements in self-service, user experience and built-in innovation with scheduled, subscription-based updates. Major cloud HCM players like Workday built preferred partner ecosystems to fill domain needs that their core systems didn't account for. These partners agreed to keep pre-built integrations up to date with each software update, providing efficiency and sustainability. The future is built in the Cloud and the future is now! What more could companies ask for?

But what does this mean for critical, high-touch HR processes like advanced compensation? Will companies have to sacrifice robust functionality or visibility into their processes and data for unified systems and increased efficiency? From our perspective, the Cloud has evolved to a place where the answer is an emphatic “no”.

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

Advanced compensation or compensation cycle

- Review event in Workday, launched for a specific length of time for the purpose of recommending, reviewing and awarding compensation changes, bonus payments and stock grants.

What is advanced compensation?

First, let's take a look at how we define advanced compensation. **Advanced compensation or compensation cycle** is the review event in Workday, launched for a specific length of time for the purpose of recommending, reviewing and awarding compensation changes, bonus payments and stock grants. Most organizations refer to those activities as their compensation cycle.

Advanced compensation is not necessarily annual. Many companies execute compensation review cycles quarterly or monthly for recurring processes like bonus

and stock. However, some functionality and common business practices within Workday are geared toward an annual compensation process.

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.

Several different elements are considered to 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 sums	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.
Bonuses	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	<p>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, so companies typically use a third-party stock administrator to finalize the stock process.</p> <p>Within most organizations, the population participating in a stock process is smaller.</p>
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.

Workday Point of View (PoV)

- Developed by bringing together our HR domain experts and our Workday deployment experts.

PoV Tenant

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

Annual cycles versus separate processes

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 experts, who have experience operating HR for over 35 large-scale clients, and our Workday deployment experts, with experience on Workday configuration and integrations since Workday update 2. We invested in our own Workday tenant and “deployed” our PoV as a best practice model, now referred to as our **“PoV tenant.”**

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

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 stock around the same time in March but waits until June to process bonuses, we recommend including only merit and stock 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.

Coordination of Events (CoE) framework

- Allows companies to execute operational changes during an open compensation cycle.

Configurable Grid

- Companies are now able to define the fields displayed in the grid as well as the indicative data displayed about the employees.

Shared Participation Compensation Review (SPCR) framework

- New compensation framework that is intuitive and collaborative.
- Allows managers at multiple levels of the organization and support personnel to work together more efficiently and effectively throughout the compensation cycle.
- Additional enhancements include custom validation messages, selecting organization type, deferred bonus processing and LOA proration grace periods.

Recent enhancements

Workday has focused on bringing more enhancements to this area of the tool since Workday 24, including the **Coordination of Events (CoE) framework**, stock participation rules, the ability to update eligible earnings overrides for bonus and including employees terminated during the process period.

A **configurable grid** was the next game-changer released by Workday which allows for defining the fields displayed in the grid as well as the indicative data displayed about the employees.

A revolutionary enhancement delivered in Workday 26 was the **Shared Participation Compensation Review (SPCR) framework**. SPCR is much more intuitive and collaborative and allows managers at multiple levels of the organization and support personnel to work together more efficiently and effectively throughout the compensation cycle. SPCR now also includes the ability to add custom validations.

Additional enhancements in recent Workday releases (only available with SPCR) include the ability to add custom validation messages, allowing customers to select which organization type to use for their compensation review cycle, deferred bonus processing and the ability to define and implement a proration grace period for employees on leaves of absence.

Due to these exciting enhancements, many customers have already implemented the SPCR framework, even though they currently have the option to choose between the prior Advanced Compensation Event (ACE) framework and SPCR. Workday will, however, be depreciating the ACE framework with the Workday 32 release in March 2019, requiring all customers to use SPCR.

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.
- **Eight week cycle.** We recommend limiting the cycle duration when coordination of events is involved so the system can process those transactions without much administrative oversight.
- **Bottom-up budget calculation.** Utilize Workday to automatically calculate the pool amount and estimate costs based on the employees assigned to the plans. Budget allocations are then 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 year two, year 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.** In the past, there were functionality gaps in Workday's promotion functionality. When entering a promotion during the cycle, in some cases follow-up transactions were required to complete the information that was not included in the cycle. Workday has closed a number of the promotion-related gaps; however, these can still be confusing to customers. Therefore, we encourage first-time Workday Compensation users to consider handling promotions outside of the compensation cycle.

Begin with the end in mind

- Determine 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 process.

Dates

- There are several critical dates defined during launch.

Pay for performance

- There are configuration options in Workday Performance Management that directly impact the advanced compensation process.

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 process. Customers cannot choose employees to include or exclude in the process using eligibility rules as they do with other processes in Workday. For example, in Workday Performance Management eligibility rules are defined in templates and control who receives each template (different from the compensation process). In Workday 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 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 that are defined during launch:

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. 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.

Common challenges

Some of the most common advanced compensation challenges include:

Budgets	Most of current Workday functionality rolls up budgeting by organization but not by plan. Some can struggle with this because they want to view and use budgets by plan. Since Workday 29, budgets are now stored at the employee level which is a foundation for future enhancements (safe harbor) to make budgets more flexible.
Coordination of events	Customers must have clear rules for the coordination of events features because these are handled within the system automatically based on configuration.
Eligibility	Clear eligibility rules are required to ensure the correct employees are assigned to proper compensation plans.
Leaves of absence	Merit increases for employees on leave are processed with the same effective date as for active employees. As a result, some intervention may be required to ensure increases associated with an employee on leave are handled according to policy.
Approval workflow	The workflow in the SPCR framework does not allow upper level managers to submit or approve recommendations until all of their subordinates have submitted. Many may prefer to customize the process flow and approvals and Workday has plans to address these in upcoming releases (safe harbor).

Take time to reflect on what went well in the cycle and evaluate what should be handled differently in the next cycle.

Preparing for the compensation process

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. For example, for January cycle launches, cycle preparation can begin as early as September 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 and modifying the configurable grid to add or remove columns or change the employee information display. It is also critical that time is allocated to assess and test any new features Workday has released and determine if the new features should be implemented.

“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 is engaged and decision makers who can agree to or authorize process and requirement changes have been identified.
- SMEs from each group should participate in testing.

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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 re-work 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 subject matter experts (SMEs) from each group should participate in testing to ensure all requirements have been met.

What’s coming soon

In Workday 31 and beyond, we can look forward to Workday releasing additional enhancements to the advanced compensation functionality. For example (safe harbor), features like the ability to assign recommendation approvals outside of the hierarchy, more flexible budgeting options, completing reorganizations while a cycle is in progress and pay for individual employee performance based on goal achievement, are just a few of the items Workday is planning.

Advanced compensation is not always viewed as the most cutting-edge topic, but 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.