

Building Your Company's Performance Culture

A Guide to Turning Compensation Management into a Sustainable Competitive Advantage

SAP SuccessFactors 



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Today's marketplace is competitive. What ultimately counts is the bottom line and companies are constantly seeking ways to maintain a competitive edge. In doing so, a huge challenge they face is the ability to attract and retain high-performing employees.

But building a strong employee base is not just about finances and salaries. In order to create a vibrant and sustainable company culture, service clients, and create products that meet the needs of consumers in an ever-changing marketplace, companies are tapping into both a global and diverse workforce to find the right employees. As such, more and more companies are recognizing the need to focus on diversity and inclusion as an integral part of talent management best practices, and as a key HR and organizational goal.

Today's Workforce: The Status Quo

In today's market, attracting and retaining excellent talent can be a challenge. Yet, a company's inability to attract and keep good employees can directly affect its bottom line.

According to the Society for Human Resource Management (SHRM), 73% of HR professionals believe that a shortage of skilled workers will have a major impact on the U.S. workplace over the next five years. But, by no means is this a U.S. phenomenon alone. Growing global competition to hire skilled workers is increasing as demand for skilled labor is beginning to outpace the supply of skilled labor in some parts of the world. The Smart Cube reports that a shortage of skilled workers is on the rise in most countries globally.

Even though a low rate of job growth combined with rising unemployment rates has made it relatively easy for companies to attract and

maintain employees in general, companies continue to report difficulty when it comes to attracting employees with critical skills and top talent. Retaining and rewarding the best employees and developing the next generation of corporate leaders is expected to be one of the greatest challenges facing employers on a global scale in the decades ahead.

This concern over a lack of skilled workers is paired with an aging global population and the fact that large numbers of baby boomers are now exiting the workplace. The UN reports that by 2050, the population aged 60 and above, approximately 2 billion people, will outnumber the population aged 15 and below.

The stakes for attracting and engaging top talent are high. So how then does a company stand out from the competition?

In today's market, attracting and retaining excellent talent can be a challenge.



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A Competitive Edge: Compensation Management

Generally speaking, a lack of transparency and clarity around pay raises, career path and promotional opportunities are common reasons why employees leave a job. This is why compensation management aligned with a performance culture is critical to recruiting and retaining top talent. High-performing employees are attracted to companies that recognize the skills they bring to the table, offer a clear career path and succession planning, while also providing a benefits package that meets and satisfies their personal and financial needs. As a matter of fact, companies that have adopted an integrated approach to reward strategy, report higher employee engagement and have fewer problems in attracting and retaining these key employees, according to a study by Towers Watson.

When compensation management is executed with transparency and clear goals and objectives, a pay-for-performance culture gives top-performing employees a well-defined understanding of their role in the company, as well as a clear picture of the potential opportunities that lie ahead. Further, the right compensation management system allows management to analyze more than just an employee's salary. Effective compensation management allows companies to differentiate employee incentives, such as merit increases and variable performance-based compensation, which can be tied to individual and organizational goals and bonuses.

KEY BENEFITS OF PAY-FOR-PERFORMANCE

- Attracts and retains top performers
- Improves employee motivation and engagement
- Provides employees with a transparent career path
- Helps HR and company executives to see and create efficiencies
- Fosters a sustainable culture by providing transparency and encourages best practices
- Enables companies to control ROI by controlling the overall budget and avoiding overpaying people for average performance



Diversity and Inclusion: Becoming an Employer of Choice

In order to gain and maintain a competitive edge in today's economy, businesses must adopt a "diversity and inclusion" policy that proactively addresses hiring and maintaining a diverse population of employees. For true success, this diversity and inclusion policy needs to be aligned with a company's compensation management solution.

Diversity in the workplace was first addressed as a compliance issue. It began primarily as race and gender issues were pushed into play by civil rights legislation. Over time, its scope broadened to include other categories, such as age, ethnicity, religion, sexuality, as well as people with

physical disabilities. As the workplace increasingly becomes an international melting pot, diversity and inclusion is no longer a matter of obligatory compliance; it is mandatory to be a leader in the marketplace.

While a recent SHRM.org study illustrates that diversity and inclusion rank low compared to other categories relating to job satisfaction, the study's authors insist that this is not a category to be ignored by HR professionals and their organizations. To be an employer of choice, companies need to keep an eye on diversity and inclusion. Better yet, they need to proactively integrate it into the organization goals and company culture.

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The Benefits of Diversity and Inclusion

The U.S. Department of Commerce estimates that 85% of U.S. population growth between 2011 and 2050 will come from non-white ethnic groups, with one half of the population expected to be people of color by 2050. Globally, by 2050, the population that is age 60 and over will outnumber the population that is age 15 and below.

Additionally, the disabled community is considered the largest and fastest growing minority globally, according to SHRM. In order to meet customer needs and have an employee base that reflects the population overall, companies must be cognizant of these emerging market shifts.

What's more, being an employer of choice and supporting a diverse and inclusive workforce has a myriad of benefits that give a company a competitive edge, including:

- Firsthand access to consumer insights and cultural nuances through employees
- A closer relationship and understanding of a broader customer base
- Brand engagement, highlighting the fact that the company understands its customers and their needs
- Relevance and sustainability through authenticity
- Providing better service to customers, which can lead to stronger financial results
- Thought innovation more likely to meet the needs of a diverse population
- A more engaged, satisfied and loyal employee base
- Greater recruitment with access to a broader pool of talent
- A competitive edge and financial gains as a result of having engaged employees and satisfied customers
- Potential for strong, sustainable future growth because the company is better positioned to understand and meet the needs of a growing diverse population and consumer base
- Reduced legal compliance issues and HR hours spent on addressing diversity-based claims from employees against the workplace



Linking a Performance-Based Culture with Diversity and Inclusion: Key Considerations

Too often, companies focus on hiring a diverse employee base without having a well-defined "inclusion" policy in place. Just as in any performance-based compensation management system, transparency and providing a clearly outlined career path and thoughtful succession planning remain critical to inclusion. The lack of a set career path and succession planning for diversity and inclusion professionals tends to undermine the importance of diversity and inclusion within a company, according to SHRM.

In hiring and retaining a diverse population, the following considerations should be made:

- HR professionals and supervisors need to be trained to recruit for diversity.
- Measurable goals need to be set around recruiting, retaining, and advancing diverse employees within the organization.
- Metrics that are in sync with the mission and goals of the organization need to be developed to measure the bottom-line impact of diversity and employee engagement.
- Diversity and inclusion must be a company-wide initiative supported by the CEO and management. Everyone in the company must be accountable and buy-in to the concept of an inclusive workplace.
- Diversity and inclusion needs to be integrated into goals set at all levels of the company from the executive level, to middle management to the individual level. The benefits of a diverse workplace will not be reaped if it is just lip service.
- Diversity and inclusion initiatives must support the corporate mission and be woven into the fabric of the company culture. A diversity and inclusion policy cannot be made in isolation of company goals.
- Be careful not to isolate diverse employees. As individual needs are taken into consideration for employees who fall under the "diversity" umbrella, a company and its HR team must be careful not to isolate diverse employees.
- All of the best practices of pay-for-performance need to be in place, including transparency, a clear promotion/career path and succession planning, mentoring, and personal development opportunities.
- Pay-for-performance goals must take the unique needs of this employee group into consideration. Retention policies, benefits, and employee satisfaction must be made relevant to diverse employees.
- Diversity councils can foster innovation and inclusion, and help tap the true potential of diversity in the workplace.
- Mentoring programs, professional development opportunities, and support networks or access to employee resource groups are all important to engaging a diverse workforce.



All Systems Go: Sustaining a Competitive Edge in Today's Workforce

Diversity and inclusion is a game changer for pay-for-performance as a new global workforce brings new rules with it. Transparency and access to different types of compensation models are more important than ever before and will continue to be so. Critical to the integration of pay-for-performance with diversity and inclusion is the fact that the goals of both the HR department and the corporate culture be in sync and understood across the organization. Most importantly, metrics need to be in place in order to breed accountability and measure the

effectiveness of recruiting, retention, employee engagement, and the economic impact of diversity and inclusion. In order for diversity and inclusion to succeed, it must be backed by measurable metrics.

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The Right Tools: SAP SuccessFactors Compensation

SAP SuccessFactors Compensation, part of the SAP SuccessFactors HCM Suite, is the leading compensation management provider, according to Ventana Research Value Index. An out-of-the-box, turnkey solution, SAP SuccessFactors Compensation helps business leaders, compensation managers, and HR professionals allocate funds effectively to retain top performers and avoid paying underachievers, while also helping to optimize budgets, improve compliance, and reduce manual errors. Basically, it ties employee pay (the greatest business expense) to actual business results. In doing so, it streamlines and simplifies compensation planning, provides visibility and insight for total compensation management, and uniquely enables a pay-for-performance culture. With it, companies can:

- **Manage compensation easily:** Intuitive configurable processes for base and variable pay have simple, accurate, streamlined workflows.
- **Eliminate manager bias:** Performance-based calibration across the company improves fairness and retention.

- **Increase insight with metrics:** Dashboards and reports can be combined with other business data for total employee compensation analysis.
- **Improve budget and regulatory compliance:** Automated monitoring and built-in reports keep payouts in line with budgets and regulations.
- **Assure data integrity:** Automatically stored data saves time, reduces risk, and improves audit compliance.

The visibility and insight afforded by SAP SuccessFactors Compensation for total compensation analysis means that dashboards and reports can be combined with other business data for a total employee compensation analysis from the CEO to hourly employees. Managers can then forecast business and fiscal results and model different bonus payouts, assess and validate the compensation process with live metrics, track financial and business goals, and compare target metrics to actual results to determine payouts. This information goes well beyond a typical pay vs. merit matrix.

Compensation

Forms Compensation Review Budget Assignments Planning Permissions Approval

Annual Salary, Equity and Incentive Plan Carla Grant (cgrant)

Salary Equity Variable Pay

Budgets Metrics Route Map Instructions Hide

Employee Information		Merit	Adjustment	Promotion	Lump Sum	Final Salary			
Employee	Merit Guidelines	Merit	Adjustment	Promotion	Lump Sum	Total Increase	Final Pay Rate	Final Salary	Final Compa-ratio
Brenda Davis	3.00%-5.00%	\$ 0.39	3.00 %	\$ 0.00	0.00 %	\$ 0.00	0.00 %	\$ 0.39	3.00%
Marcus Hoff	4.00%-6.00%	\$ 6,499.99	4.00 %	\$ 0.00	0.00 %	\$ 1,199.61	0.74 %	\$ 6,499.99	4.00%
Richard Maxx	3.00%-5.00%	\$ 2,790.00	3.00 %	\$ 0.00	0.00 %	\$ 0.00	0.00 %	\$ 2,790.00	3.00%
Sid Morton	0.00%-0.00%	\$ 0.00	0.00 %	\$ 0.00	0.00 %	\$ 0.00	0.00 %	\$ 0.00	0.00%
Vic Stokes									
Group Total		\$10,101.19	2.51%	\$0.00	0.00%	\$1,199.61	0.30%	\$10,101.19	1.98%

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The Benefits of Software Integration: Merit vs. Pay Matrix

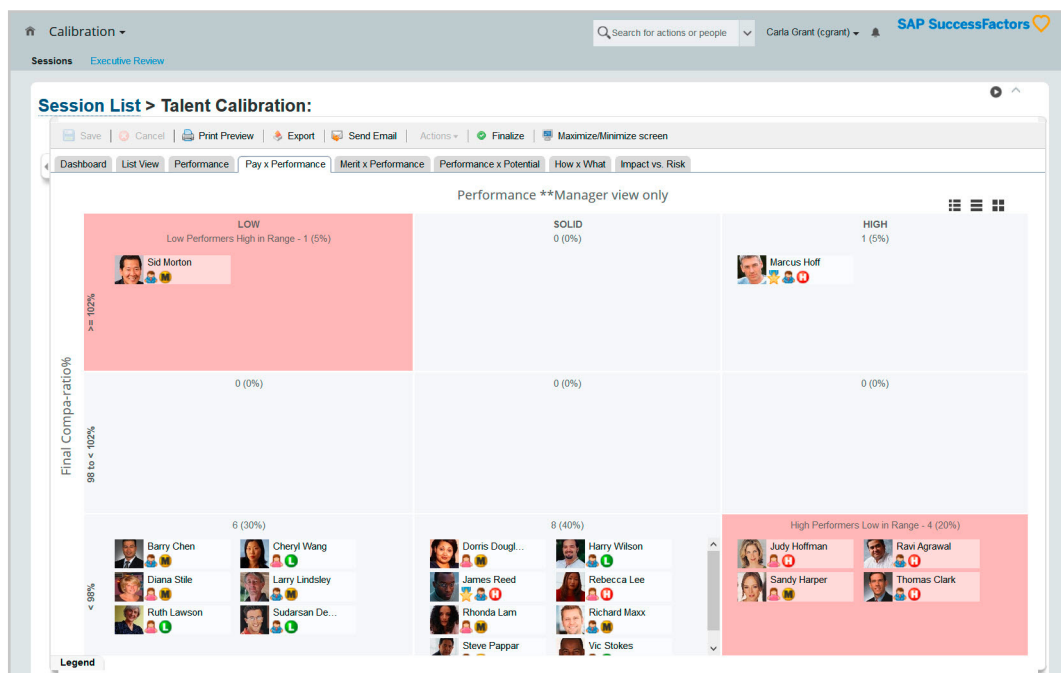
Metrics can be established in terms of performance and pay for individual employees. When outlined in a matrix, metrics delineate where employees fall in terms of performance and potential salary increases.

But with diversity and inclusion, metrics go beyond salaries. Overall metrics are necessary to determine the opportunity lost or unrealized ROI opportunities that may result from a lack of diversity and inclusion in the organization. By placing a dollar amount on the percentage of individual time lost in a day or week to perceived barriers in the workplace, companies can quickly paint a picture of the financial benefits of a solid diversity and inclusion policy. When the proper metrics are in place, companies are better able to understand the long-term ROI of diversity and

inclusion integrated with compensation management, and are therefore able to better position the organization in the marketplace to garner a competitive edge.

Talking about integrating diversity and inclusion into a pay-for-performance culture is one thing — being able to maintain a compensation management system that tracks and maintains employee goals and financial data together is another. A simple Excel spreadsheet won't cut it.

Without the right tools, the process of implementing a diversity and inclusion policy into an organization is almost impossible because metrics cannot be properly tracked. In order to be the company that attracts and maintains talent, the right systems need to be in place.



Tying It All Together: The SAP SuccessFactors Difference

SAP SuccessFactors is the leading global provider of cloud-based human capital management software. SAP SuccessFactors Compensation software can be used on its own, but is extremely powerful when integrated with SAP SuccessFactors HCM Suite, which provides one set of solutions to meet the needs of the entire employee lifecycle.

As the workforce becomes more diverse, compensation management becomes more complex. Yet, with SAP SuccessFactors HCM Suite, this process is easy to maintain, administer, deploy, and use. Compensation reporting and analytics, including base salary, variable pay, and compensation calibration is easy to track, while third-party data can be easily integrated for more complete compensation insight. Integrating this data with detailed performance information provides even better decision-making.

Both enterprise-class and small- to mid-size businesses can benefit from the SAP SuccessFactors full suite of talent solutions, while implementing global workforce guidelines

to increase productivity and engage and retain key employees. Integrating the intricate details and metrics of diversity and inclusion within a transparent, performance-based compensation management solution will become a seamless and manageable affair.

Having the proper software to monitor the inner workings of a company from both a financial and people perspective, as well as from a resource and performance perspective, sets an organization up for success to react to an ever-changing and diverse marketplace while maintaining efficiencies across all levels of the organization.

Today, companies need to be able to find efficiencies and systems that allow them to recruit and retain diverse talent and reward these employees with a pay-for-performance structure. Building a team that values diversity and inclusion is imperative for companies to maintain a competitive edge in the years to come. SAP software solutions seamlessly support the complexity of HR issues so that companies can focus on building an organization with a competitive edge.



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