compose™

How to Best Manage a Complex Variable Compensation Program in the Financial Services Industry

Accelerate employee-focused outcomes and improve operations without falling victim to Excel pitfalls

decusoft™

Bob Laurenzo
CEO

A letter from the CEO

Modern human resources teams, especially those in thriving industries such as financial services, are tasked with moving their firms and their people forward in every way. The tight labor market has put increased pressure on organizations to accommodate worker preferences and ensure competitive compensation. Especially in the wake of COVID-19's disruptions to the modern workplace, HR teams have joined forces with IT and finance departments to ensure that employees across the organization have access to the information and tools they need to be successful. It is our belief, however, that these professionals have been under-served by technology.

That's why our business has seen such an incredible rise in the past five years. Whether our end users are tasked with executive compensation, equity, short/long-term incentive plan design, component based bonus, deferred compensation, carried interest, or broad-based compensation program management and custodianship, we have the software needed to manage and automate those variable compensation programs. For years, we've been squarely focused on building next-generation, cloud-based software to make the day-to-day lives of professionals in these roles easier, more streamlined, and more directly tied to the organization's goals.

As demand for better solutions grows louder and louder, we continue to innovate our product and enhance our long-term relationships with our clients. The result? A deep and nuanced understanding of what variable compensation management program success looks like for financial services firms, and the roadmap for how to get organizations small and large to their desired outcomes. As your HR, IT, and finance teams look inward and react to the factors at play today, it is our hope that this piece of thought leadership enables you to finally rationalize an investment in technology that supports your department's operational efficiency. After all, the betterment of an automated compensation management program will ultimately trickle down through the rest of the organization in helping to attract and retain top talent.

Bob Laurenzo

CEO, Decusoft

Introduction

The increasingly competitive and ever-changing financial services industry has reached an inflection point; no longer is it enough to simply have a robust rolodex or long list of closed deals. These days, investment management firms, banks, private equity fund managers, hedge funds, credit firms, and every organization in between are being tasked with operationalizing their internal systems and processes. While these improvements can have extremely positive impacts on the broad employee base, each requires careful consideration and planning.

Variable Compensation Management Success
Decusoft

HR   IT

Compensation Automation

Finance
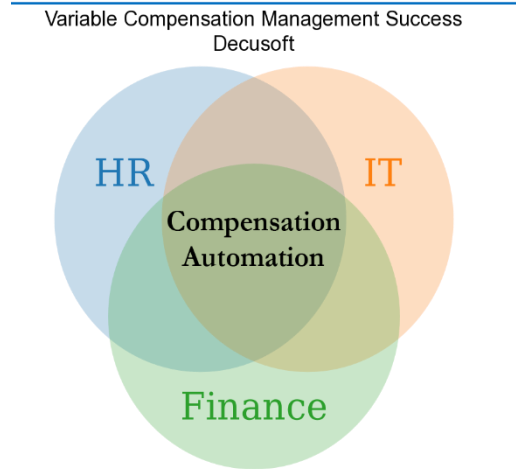
As these organizations put together the pieces of the digital transformation puzzle, some areas are bound to get overlooked. That's because information technology (IT) teams have been primarily focused on business continuity, information security, migrating to cloud-based systems, single-sign on (SSO) and other information accessibility matters. While those areas are key to running a successful and sophisticated financial services business, they do not complete the firm's picture of success.

Now, especially as harsh market trends and an uncertain economic future continue to ravage the industry, the spotlight has been placed squarely on any area of the business that affects performance. Because the performance of any financial services firm depends on the human capital embedded in the employee base, IT, finance and business managers alike have shifted their gaze to compensation management. That shift is happening with good reason as compensation accounts for 70% of an organization's total labor cost, the largest cost to the average firm.

In this piece, we will shed light on how leaders across the industry are viewing compensation management as a part of the broader digital transformation process, and why. More specifically, we will analyze the current state of compensation management across organizations of all sizes and analyze the ways in which Microsoft Excel has left firms seeking a best-of-breed point solution as an alternative.

"If my only tool is a hammer, then every problem is a nail."

Sholem Asch

Find the right tool for the job

For decades, the Microsoft Suite of solutions has propelled the financial services and countless other industries forward, but as individual organizations grow, these tools are no longer the best tool for the job. Large, global powerhouses in the private equity, investment banking, alternative asset management, etc. have out-grown Microsoft Excel, even in situations where spreadsheets are "live," auto-updated, or browser-based. Put simply, Excel just leaves too much room for error - not to mention security risks.

While there may be certain activities within the firm where Excel is useful, the complex, detail-oriented and sensitive nature of calculating and reporting on employee compensation is definitively an exception to that rule. Below, we've outlined the key pain points that firms experience when their compensation activities are managed in Excel, and the unique effects each has on human resources (HR), administrative, IT, and finance personnel and teams.

Version control and adaptability

Ask any HR, compensation, or benefits manager, and they'll tell you the work they do is highly dynamic. Compensation information in the financial services industry is rarely (if ever) stagnant. That's because in this industry, financial incentives are spaced out strategically and placed in front of teams of investors, bankers, and other dealmakers as carrots that fuel each firm's long-term success.

83% of users leveraging Excel for variable compensation found errors in the calculations.

-Ventana Research Total Compensation Management Benchmark Research, 2020

Compensation managers are constantly changing data from within the master data repository and publishing those changes back to the master document. Additionally, these users leverage data from multiple spreadsheets that are cross-referenced, which results in a network of interdependent spreadsheets that only a small group of people understand. A break in the chain can be difficult to diagnose and fix. On top of that, the process of manually generating the reports for each employee, then distributing them to each manager, then manually reviewing them has become too burdensome for organizations to manage. Worst yet, getting to the final version typically takes weeks and leaves administrative assistants and compensation managers alike dreading the whole process each and every compensation cycle.

When a singular actor (typically a Chief Human Resource Officer [CHRO], Head of Compensation & Benefits, or other compensation manager) attempts to manage these changes in a static platform like Excel, capturing various edits and changes or calculating time-based scenarios becomes nearly impossible. When there's more than one person managing these matters, these challenges become even more ever-present.

Most often, what occurs as a result is errors in the form of over-paying or under-paying employees, mis-allocating funds to the wrong people, or a whole plethora of other unintended consequences. In fact, according to a recent Ventana Research Total Compensation Management Benchmark report, 83% of users leveraging Excel for variable compensation calculations found errors that needed fixing. These inefficiencies cause slowdowns and frustrations among variable compensation managers.

Security

"Financial services is the number one industry that receives most attacks. While the overall phishing attack volume grew 41% between the first and second quarters of this year, the financial industry was the largest target, making up 33% of all phishing threats between April and June of 2017."

-"How Financial Services Can Fight Phishing Attacks," Global Banking and Finance Review

If your firm's compensation data is housed in a locally-hosted Excel file (i.e., on Karen from HR's desktop) and transferred primarily through email, your firm's entire compensation management program is insecure and being actively exposed to risk. While that truth may be painful, it's important to accept those realities as you build a technology infrastructure for the long-term viability of the firm. In fact, according to Verizon's 2020 Data Breach Investigations Report, 30 percent of all security incidents are caused by people inside an organization, while 8 percent of breaches were caused by misuse from authorized users.

Excel was not built with the sensitive and private data of every employee at your firm in mind - it was built to serve another purpose entirely. When compensation information is stored and reported on in Excel documents, and especially when spreadsheets are hosted locally and shared via email, the firm can become the target of malicious actors who seek to gain access to key information such as social security numbers, bank accounts and routing numbers, among other data. These attacks typically come in the form of phishing attempts or ransomware.

When the firm's "standard process" is to share HR spreadsheets via email to employees or lists of employees, the process is potentially exposing this sensitive data to various users that should not have access to it. This data can be overwritten or even stolen. Because Excel was not built with the explicit purpose to keep this information secure, it is not the best tool for the task at hand.

Compliance

Nobody likes to undergo audits, but very few organizations actively safeguard themselves from issues that will potentially come up during the audit process. As mentioned earlier, any solution your organization uses for managing the compensation program and processes should have built-in version control with the ability to restore old versions, which helps you avoid the potential loss of data. Not having access to accurate data, or not having data logs is a sure-fire way to have your organization come under scrutiny.

Using Excel for such sensitive, important matters within a firm is perplexing to auditors. Leaving your firm open to providing unauthorized access to this data will result in the modification of formulas and data which degrades the model's integrity, making the overall process even more difficult to manage and de-risk.

Best-of-breed point solutions that help employees and firms stay compliant do exist. They are controlled environments that are also centrally managed by key stakeholders who have access to audit trails. Excel does not come with these capabilities, and therefore cannot be configured to meet the firm's compliance standards. By selecting and implementing a best-of-breed point solution, it's much easier for your corporation to review and certify that data is accurate and in-line with the firm's stated employee satisfaction and compensation objectives.

The majority of firms who implement a cloud-based compensation management solution report a marked improvement in data integrity.

Ease of use

From major data errors, to complex formulas and calculations, to data duplication and redundancies, Excel is a tricky product to use, even for the savviest and best-trained teams. We all know the feeling: all the data is loaded, the file is saved, and just one change is needed, but once it's implemented the entire spreadsheet breaks.

Best-of-breed point solutions, on the other hand, are configured for the complex compensation scenarios that your employees experience. Unfortunately, those scenarios are nearly impossible to program into Excel, and even if they are configured properly, spreadsheets easily break or return frustrating and time-intensive errors. Calculating and reporting on compensation should be made easy so that HR teams and compensation managers have confidence (not anxiety) in performing their key job responsibilities and be able to work with finance productively.

Key man risk

As mentioned in the "version control" section of this white paper above, most firms have a central person or team of people who are tasked with managing compensation calculation, communication, and reporting. But what happens when that person or persons leaves the organization? To be clear: your firm has no assurances that any updates to the structures, formulas, validations, etc. can be implemented effectively once a key employee has left the firm.

What's worse is that it's not enough to have IT access the compensation manager's computer and files - the organization needs to have intimate knowledge of what that data means, how it has been presented to employees in the past, how it has changed, and much more. Compensation data is a critical part of the firm's institutional knowledge and should be treated as such. When it's simply housed in Excel, the firm's unique definitions, policies, and protocols are not easily understood, and as a result the firm experiences key man risk.

Scalability and growth

> "Compensation management is a critical part of human capital and talent management processes. However, the complexities of compensation can make it difficult for human resources departments to keep employees productive, satisfied, and motivated."
>
> -Ventana Research Total Compensation Management Benchmark Research, 2020

Another trend affecting the financial services industry is both fragmentation (top performers peeling off and starting their own firm) and roll-ups (two firms merging to combine forces). Whether these events occur, or if your firm simply wants to experience corporate growth, it's important that IT and business managers alike predict and plan for how technology will either support or prohibit that growth and change. According to Ventana Research, "total compensation and total rewards are a key piece of any serious effort to elevate the employee experience and maintain high levels of engagement and an attractive employer brand in a sustainable way."

While Excel may be a viable tool to get your firm through the first few months of transformation and/or integration, is it really the best tool for a firm at scale? And perhaps more importantly, how will making the wrong decision impact the firm's ability to be successful in the long-term? While best-of-breed point solutions for compensation management exist, Excel should be seen as a "bare minimum" solution for firms in hyper-growth and/or as a tool used to augment a centralized and secure compensation management platform.

"A good tool improves the way you work. A great tool improves the way you think."

<div align="right">Jeff Duntemann</div>

Establishing consensus around the concept that Excel - despite its utility in other areas of the business - is not the right tool for the compensation management tasks at hand will not always be easy depending on the size, scope, and culture at your financial services firm. We recommend aligning yourself with your colleagues in IT first to ensure that they're aware of the risks at play as well as the inefficiencies that exist in the current process.

It is also recommended that you identify a high-ranking champion willing to advocate for change at a senior level. Approach that person early in the process and be sure to communicate budget implications early and often. Remember to provide context for feature gaps that have contributed or could potentially contribute to specific and real-life negative business outcomes.

When helping your organization to discover and implement a best-of-breed point solution that provides a meaningful alternative to Excel, it's important to communicate other key benefits that were not otherwise described in this thought leadership piece, including:

- **Streamlined processes**: Skip the increasingly manual and labor-intensive parts of the process such as countless back-and-forth communications with managers. These processes can be streamlined and automated when the right tools are installed at the firm.
- **Increased accuracy:** Everyone knows that once an error in the compensation chain has been made, it's likely that the entire process will need to be started over. By arming yourself and your organization with a best-of-breed point solution, you enable greater data accuracy to occur because it's generated by a centralized system instead of being subject to user error.
- **Time savings:** The majority of financial services firms are focused on worker productivity. With point solutions for compensation management, most firms go from spending 2-3 months on the entire process to just 2-3 weeks. This time savings can be meaningful to a firm and can make way for other value-add initiatives.
- **Greater Agility:** We all know that even with the best solutions, new issues and problems are always bound to pop up. That's why having compensation managed in one centralized repository is so important - unexpected issues can be dealt with quickly and accurately.

DID YOU KNOW?

The majority of firms who implement a best-of-breed point solution report a decrease in the amount of time and resources required to manage, implement, and/or plan compensation processes.

Help your team see that the "right" tools exist

Get started

Looking for a better way to manage and execute on your firm's compensation management program? Don't go it alone. The team at Decusoft looks forward to hearing more about your current pain points and seeing where the process is breaking down. Based on that knowledge, we provide a custom demonstration of our product that is tailored to the unique areas of concern that your firm has.

If you're fed up with Excel, you're in especially good hands. Many of our customers come to Decusoft after growing increasingly frustrated with the inefficiencies with Excel, home-grown systems or to augment their HCM solution. Time and time again, we hear that these solutions do not adequately meet their firm's compensation needs. By making a change, your firm will see a marked improvement in data integrity, and a significant decrease in the time and resources required to manage, implement, and plan compensation processes. Firms can expect increased transparency, speed, and reliability from managing compensation in a centralized repository.

To learn more, please contact Sales@Decusoft.com.

About COMPOSE by Decusoft

COMPOSE by Decusoft is a specialized compensation management software solution that simplifies the administration of complex variable pay programs including Merit, Bonus, Short-term and Long-term incentives. COMPOSE is not a modular software suite like other traditional human capital management solutions. However, COMPOSE easily integrates with existing ERP, HRIS, financial and human capital management solutions allowing you to leverage your investment in existing processes and systems. COMPOSE includes modeling capabilities, a workflow approval process, full audit capability, proxy functionality, flexible user preferences, enhanced filtering and sorting, real-time summaries, the ability to manage multiple metrics, and comprehensive total compensation reports.