

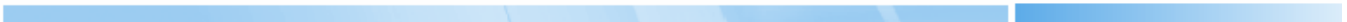


Executive Discussions: The Pay-for-Performance Challenge— Why Do So Many Initiatives Fail?

*Helping Companies Realize the Business Value of
Their Strategic HCM Initiatives*

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Executive Summary

Why do most pay-for-performance initiatives fail to motivate managers and employees while a few galvanize entire organizations and generate real bottom-line growth?

Our experience strongly suggests that pay-for-performance initiatives most often break down because companies fail to effectively manage change, articulate goals, and measure results. Many organizations turn to technology as a solution, but seldom take time to understand how it fits into the pay-for-performance puzzle. This paper, written in response to numerous inquiries from executives, is intended as a guide to using technology effectively in the strategic management of human capital and the implementation of pay-for-performance systems that really work.

“About 83 percent of companies with some type of pay-for-performance program say the approach is only somewhat successful, or not working at all,” according to *The Wall Street Journal* (“Firms Report Lackluster Results from Pay-for-Performance Plans,” June 15, 2004). The article adds that, as companies move toward pay-for-performance as a way to increase productivity and control compensation expense, they find themselves struggling with how to successfully communicate performance goals and measure performance results.

“About 83 percent of companies with some type of pay-for-performance program say the approach is only somewhat successful, or not working at all,” *The Wall Street Journal*

Meanwhile, impending changes in workplace demographics compel organizations to adopt more strategic approaches to managing their human capital. The U.S. Bureau of Labor Statistics forecasts a shortfall of 10 million workers by 2010, with the greatest deficit to occur in the 25 to 44 age group—prime working years. The ability to attract and retain a high-performance workforce in an environment of scarcity therefore needs to be a key component of long-term competitive strategy. Organizations able to overcome the challenges of successfully implementing pay-for-performance and other strategic human capital management tools will clearly have a competitive advantage.

Before a company can manage and motivate its managers and employees in ways that are consistent with its long-term strategic goals, senior management must be able to answer several fundamental questions. Among them are these:

- Does the organization have the right people in the right roles doing the right things?
- Which managers and employees are the most critical to the organization’s long-term success?
- Is the organization taking meaningful steps to develop and guide their careers?
- Does the company have an adequate, up-to-date succession plan that addresses all of its key positions?
- What strategies is the firm using to retain its best performers, and will those strategies work in a scarce labor market?

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- Do the firm's culture and systems adequately support strategic human capital management and pay-for-performance? Further, do the firm's systems adequately support current Sarbanes-Oxley requirements?

For companies that rely on a combination of discrete applications, spreadsheet programs, and paper-based systems to communicate goals, track employee performance, manage compensation, and other critical HR processes, questions like these are difficult to answer. Management executives and consultants agree that technology must be a core component of human resource management; yet alone, it cannot ensure success—as the *Wall Street Journal* article confirms.

Fortunately, HR software providers such as Authoria have responded to the challenges confronting today's corporate leaders by creating sophisticated, highly-integrated applications that enable companies to manage and motivate people in ways that are highly consistent with their competitive strategy and long-term goals. Based on our years of combined experience, we've built this guide to help executives more clearly understand the growing importance of strategic human capital management and pay-for-performance. It will cast light on the crucial link between management, employees, and technology—and how the choice of technology and the way it is implemented determine failure or success.

We've supplemented the paper's core content with a high-level executive discussion and case study that offers a window on how one leading company approached the technology decision-making process. You'll also find a decision-maker's checklist of topics important to consider in evaluating existing and new systems and capabilities. We urge you to carefully consider the issues and insight presented here, and to contact us regarding any issues that remain unresolved.



I. Strategically Managing Human Capital

In today's global marketplace, such traditional business weapons as technology, financial capital, and physical resources are within reach of most competing organizations. *Human capital*, therefore, is one of the few remaining differentiators companies have to distinguish themselves and build real competitive advantage. In fact, organizational survival will increasingly depend on optimizing workforce performance and adopting true performance-based compensation. Accomplishing this, however, will require significantly transforming the role of HR—traditionally one with a high administrative burden—by decreasing administrative tasks and increasingly establishing HR professionals as core players in the development and execution of organizational strategy.

Human capital, therefore, is one of the few remaining differentiators companies have to distinguish themselves and build real competitive advantage.

Several market forces are rapidly converging to drive such change. Viewed from the perspective of major organization stakeholders who are among its prime movers, these include:

- **EXECUTIVES:** Due to changing demographics, the U.S. Bureau of Labor Statistics forecasts a shortfall of 10 million workers nationwide by 2010. The most severe impact will be on those in their prime working year, ages 25 to 44. Given the impending talent shortage, protecting existing human capital and attracting additional high performing employees requires quick action if organizations are to remain competitive. To maximize competitive advantage, firms must also continually strive to assure their goals and those of their executives are closely aligned.
- **MANAGERS:** As the organization's team leaders, managers have a vital part in developing and retaining the skilled workforce that drives organizational performance and consistency. By definition, most of a manager's time is devoted to people-related issues—motivating and developing workers, measuring performance, assuring fairness and respect, creating opportunities for advancement, and much more. Managerial effectiveness, however, depends significantly on the systems and tools their organizations provide.
- **EMPLOYEES:** Workers are becoming increasingly dissatisfied with their jobs. A recent *career.com* study shows the number of workers who are *satisfied* with their jobs declined from 57 percent in December 2003 to 52 percent only five months later. In our experience, organizations' failure to adequately explain their employees' roles in the success of their organizations is a major cause of worker dissatisfaction.

Companies cannot afford to ignore these and other macroeconomic factors that are dramatically reshaping the environment in which they will soon be forced to compete.

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The Transformation Imperative

If people truly are an organization's "most valuable asset"—an asset soon to be at serious risk, then the role of HR must be transformed to reflect these critical realities. Responsibility for protecting and developing the organization's vital human assets can no longer be left entirely to divisions, departments, and managers motivated by their own unique objectives. Senior management must not only protect and build a talented and highly competent workforce, but must also carefully align its objectives and compensation plan with changing corporate goals. Clearly, the current circumstances dictate change.

The idea of transforming HR is not new. It has been discussed at length for some years, and, in certain respects, the transformation is already under way. Traditional HR administrative tasks increasingly are being performed more rapidly and cost effectively with technology and outsourcing, thereby enabling organizations to reduce HR overhead. However, for a variety of reasons, companies have been slow to transition HR to a prominent role when it comes to strategic human capital management. While human factors, real or perceived, may sometimes be obstacles, organizations' abilities to measure and monitor performance against objectives and communicate institutional goals and direction at every level of the enterprise have also proved challenging. Fortunately, recent technological advances have demonstrated a powerful ability to facilitate the transformation process.

Companies that have advanced their HR function to that of a true strategic player have realized substantial benefits, both tangible and intangible—costs decline, productivity grows, customer and employee satisfaction increase, and they enjoy stronger competitive advantage.

The Value of Strategic HCM

Much has been said and written about the concept and benefits of HCM. While viewing and managing a workforce and its leaders as a single entity and major resource is an important step in transforming HR, managing that resource strategically must be the ultimate goal. Managing human capital consistent with corporate strategy enables companies to significantly strengthen their competitive stance through:

- **TALENT ATTRACTION:** Talented individuals gravitate to organizations where they perceive they can make a difference.
- **HEIGHTENED PRODUCTIVITY:** Employees are optimally positioned to facilitate the achievement of corporate goals.
- **INCREASED PROFITABILITY:** Optimal use of talent, skills, and abilities minimizes waste and maximizes ROI of the organization's most vital—and often most costly—resource.
- **IMPROVED SATISFACTION:** Greater employee satisfaction translates to higher customer satisfaction.
- **EMPLOYEE RETENTION:** Employees at every level understand the value and importance of their contributions in achieving corporate as well as career goals.



- **REDUCED VULNERABILITY:** Organizations able to develop, retain, and grow a highly productive and satisfied workforce are more formidable competitors.

Indeed, closely linking human capital management (HCM) to competitive strategy is not only an inherently logical idea, but one that limited capabilities have, until now, made extraordinarily difficult to implement.

Strategic HCM and the Technology Hurdle

Managing human capital in any organization involves a maze of policies, systems, and processes that assume diverse shapes and forms as companies evolve and grow. In established companies, the result is typically a combination of diverse elements that seldom work in tandem. More importantly, they rarely lead to optimal workforce performance, that is performance consistent with the organization’s strategic goals. A compensation plan, for example, might reward the acquisition of new customers when increasing sales to certain existing customers would be easier and more profitable. Similarly, performance objectives that preclude entrepreneurial thinking and risk-taking can hinder a company’s ability to create the new products and services that help sustain competitive advantage.

Strategic management of human capital requires that performance goals, compensation, processes and policies at every level be closely aligned with an organization’s overarching mission and objectives. Anything less translates to suboptimal performance. But achieving this advanced level of congruence and implementing truly effective pay-for-performance systems have generally been hindered by the extraordinary difficulty of communicating performance goals, implementing change, and monitoring performance on a comprehensive basis at every level of the enterprise. To help cope, companies inevitably look to technology.

In our experience, the most successful companies have recognized that a single technology solution that integrates the key elements of pay-for-performance is critical to success.



In recent years, technology developers have engineered an array of increasingly sophisticated HR solutions designed to help organizations better manage key HR areas. Many employers have adopted advanced solutions to manage more effectively such critical areas as employee compensation, benefits administration, performance management, recruiting, and employee communications. However, while these technological tools provide significant advantages, each typically functions in isolation. We’ve seen this lead to confusion within organizations as different parts of the organization use different tools.

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II. The Pay-for-Performance Challenge: Why Do So Many Initiatives Fail?

The notion of paying workers based on their own individual performance seems intuitive. In essence, it means paying individuals for what they actually do and not paying them for what they don't do, relative to organizational needs.

Theoretically, this leads to the optimal use of resources, both human and financial. Consequently, most organizations and HR professionals see pay-for-performance as the cornerstone of strategic human capital management. For instance, in its 2004-2005 Workplace Forecast, the Society for Human Resource Management (SHRM) lists “linking pay and performance” as one of its key employment trends.

However, attempts at using technology to link compensation to performance have thus far seldom generated the anticipated improvement in worker behavior. In fact, *The Wall Street Journal* recently reported that 83 percent of companies with pay-for-performance plans describe them as “only somewhat successful or not working at all.”

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Poor Communication and Failure to Address Change Management

The Wall Street Journal article cites poor communication of corporate goals and failure to engage managers and employees in the performance management process as prime reasons for pay-for-performance failure. Consistent with this, our experience reveals that companies frequently fail to address change management when implementing new technology, overlooking the impact that such fundamental changes have on their organizations. They therefore neglect to engage, educate, and communicate effectively with each of the parties involved. This leads to unintentional misuse of new management tools and systems, and occasionally to full-fledged resistance by the intended users.

By neglecting to effectively address critical change management issues, companies fail to reap the full benefit of their often-substantial investments in new technology. Conversely, those attentive to such issues enjoy much higher rates of success.

Use of Non-Integrated Technology Solutions

The HR technology marketplace has provided a broad spectrum of solutions that address such narrowly defined areas as compensation, performance management, and employee communications. However, the inability of these programs to interface effectively with one another and with other enterprise solutions has limited their usefulness in building and implementing cohesive human capital strategies.

If savvy developers can design sophisticated solutions to efficiently manage and administer various individual HR functions, why have users been left to struggle with a mix of disparate technology solutions? The answer is that, until recently, niche

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developers concentrated on advancing their products within their respective technology niches. Few took on the challenge of building comprehensive, integrated, HR solutions.

Further, the larger ERP developers have been primarily focused on designing systems that automate non-strategic processes such as payroll, manufacturing, and supply chain management. Their more strategic solutions are often not robust and, beyond the backend database, fail to adequately integrate with one another. What companies need, therefore, is a suite of HR solutions that integrate fully with one another, as well as with the organization's other core systems.



III. Technology-Enhanced Pay-for-Performance

The inherent problems of using disparate HR technology are finally being recognized and addressed by developers. Some, such as Authoria, now offer solutions that provide seamless integration and data sharing across multiple, feature-packed applications. This is a major step forward that promises to significantly improve the ability of HR professionals and organizations to strategically manage human capital for maximum performance and competitive advantage.

With this in mind, companies contemplating the acquisition of pay-for-performance technology need to have a reasonable awareness of today's market offerings and be aware of the advantages and drawbacks that each provides.

Today's Marketplace Options

Solutions marketed as pay-for-performance management tools can generally be classified as follows:

- **ENTERPRISE RESOURCE PLANNING (ERP):** Options in this category are typically add-on modules that address compensation and performance management and are designed to enhance the basic functionality of the core ERP. Care must be taken to ensure the base system and add-on module are compatible versions—if not, the systems will not work together. In fact, we have witnessed a hesitation among customers to proceed with upgrade cycles as many have found them too expensive, disruptive, and challenging to manage.
- **INTEGRATED SUITES:** Comprehensive, fully integrated solutions that manage data directly within the HRMS environment, can effectively link performance and compensation management, and can react swiftly to changes in legislative requirements and industry trends.
- **NICHE SOLUTIONS:** Applications designed to address specific aspects of performance and compensation management. These vary significantly in terms of functionality and generally do not offer integration capability.
- **CUSTOM APPLICATIONS:** These applications are typically created in-house and are now widely considered to have the highest risk and cost of ownership.

Delivering Software on Demand

Companies today require flexible methods for consuming software. In response, many companies are offering customers the option to buy a software subscription, where customers can rent the software for a set period, rather than buying a perpetual license. This "software on demand" model allows customers to take advantage of a per employee/per month pricing structure that delivers a lower entry cost as an operational expense. Customers can access and use software via encrypted, highly secure, Internet technologies and pay periodic service fees. The software-on-demand model offers several distinct advantages over the traditional purchase and install approach.

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Most importantly, it reduces customers' infrastructure requirements and the concerns associated with periodic software maintenance and upgrading. Instead, software experts—the software firms themselves—handle maintenance and upgrading. The second major advantage of software-on-demand is that it disperses software costs over time on an as-used basis, rather than requiring a capital outlay that must be amortized.

Some software providers are going a step further to give their customers complete flexibility by offering a variety of application management services, including:

- Application configuration, testing and staging
- Content authoring, plan implementation and updates
- Implementation of upgrades and application of patches
- Complete hardware production support
- Presentation changes
- Integration of customer employee data
- Security authentication for single sign-on access

Vendors like Authoria allow customers to manage plan and system changes, view reports, and access project management data through a dedicated customer portal. Customers reap the benefits of a fully managed application deployment environment, while being able to manage customizations required by their organizations.

Additional advantages include removing the challenges of program management, including upgrades and application maintenance, while having minimal impact on an organization's HR and IT resources. And, these application management services often deliver the management and maintenance of the applications at a lower total cost of ownership than if the applications were managed by the customer. Authoria and other firms have in-house professionals who are highly experienced and adept at helping companies manage HR processes through their technology.

These new options in the HR technology marketplace can provide increased organizational flexibility, giving organizations complete control of their business applications and therefore deserve careful consideration in any decision process concerning the acquisition of HR technology.



What Effective Pay-for-Performance Requires

If pay-for-performance is to be truly effective and ultimately drive strategic human capital management, several organizational capabilities must be addressed simultaneously in a way that is seamlessly integrated and therefore able to function smoothly. Core capabilities the technology must address include:

- Base and incentive compensation planning and management
- Succession planning
- Organizational goal setting and performance monitoring
- Employee goal setting and performance monitoring
- Organizational and employee alignment
- Organizational and employee competency tracking
- Career development planning and monitoring
- Analysis and reporting
- Change management
- Just-in-time knowledge and coaching for managers and employees

As discussed previously, the market offers numerous solutions that help companies address any, or several, of these areas. However, one of the critical keys to success is technology integration. We often ask the question: How can you have an effective pay-for-performance program if performance is not linked to pay? We strongly believe that, for optimal results, the performance management system must be closely integrated with the compensation management system.

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The Importance of Integration

Unlinked or semi-linked systems—for example, one to address compensation and another for performance management—is a common obstacle to success. Some currently available solutions are, or can be, integrated with various degrees of success.

Others that claim to be integrated really don't provide seamless information access and flow among individual components. Systems like these often offer a common portal as a starting place, but beyond that provide varying user experiences that make the overall process much more challenging, increase the need for training, and reduce the overall effectiveness of the system.

In addition, non-integrated or poorly linked applications give rise to problems that prevent organizations from deriving maximum value and hinder effective implementation of pay-for-performance. Among common problems are:

- Inconsistency of employee and group objectives with corporate strategic goals
- Development of human capital inconsistent with organizational strategy and needs
- Employee dissatisfaction and disenfranchisement
- Migration of human capital to competitors
- Reluctance by managers to learn and use the technology as intended
- Reduced return on technology investment
- Suboptimal corporate performance

These and other difficulties are often overlooked because they generally are invisible and difficult to quantify. Their impact, nonetheless, can be substantial.

The Importance of Change Management

Regardless, of the technology solution, for any pay-for-performance program to be effective, organizations need to address change management. Without change management in place, it won't matter how sophisticated the underlying technology is. To achieve satisfactory adoption, managers must be able to understand not only how the technology works, but also how it will make their work lives better. Failure to adequately comprehend both will lead them to use the application sparingly, if at all.

A critical component of program success is managerial acceptance. Managers must be engaged and understand the role they play in the process. This means that, in addition to be relatively easy to learn and use, the technology must include educational support for managers. In our experience, solutions that offer support in the form of just-in-time knowledge and coaching are the most successful because they provide information when managers need it most—when they are in the middle of a process, or when they need to answer employee questions.



The Critical Role of Communications

Pay-for-performance involves a complex array of data and processes that affect each employee differently, both in direct and indirect ways. The success of pay-for-performance, therefore, depends heavily on the degree to which employees understand their unique performance objectives, how their own contributions relate to group goals, and ultimately, to the organization's mission, strategy, and marketplace success. If pay-for-performance is to be a genuinely motivating force, communications about performance and objectives need to flow unhindered between employees, managers, and executives. And importantly, these communications channels must flow freely in both directions. Clear communication has always been crucial to good leadership: the complexity of pay-for-performance only heightens its importance.

If pay-for-performance is to be a genuinely motivating force, communications about performance and objectives need to flow unhindered between employees, managers, and executives.

There is a serious misconception among many employers that introducing technology to their pay-for-performance plans will lead to manager and employee confusion. Our experience nearly always has found this untrue. Instead, investigation shows the root cause is typically weak communications that fail to adequately inform, engage, educate and coach managers and employees. To be effective, pay-for-performance requires communications that fulfill four primary functions:

1. **INFORM:** Managers and workers must understand what is occurring, what is expected of them, the end goal of their efforts, and what successful execution will mean for them—all on a current basis.
2. **ENGAGE:** Pay-for-performance success directly correlates the degree of engagement by employees and managers, a fact confirmed by the experience of early adopters.
3. **EDUCATE:** Managing change successfully, especially change that involves introducing a complex process, requires carefully teaching everyone involved everything they need to know about the process.
4. **COACH:** In pay-for-performance systems, coaching is vital and the dialogs between managers and subordinates can be an important part of legal compliance.

Implementing pay-for-performance raises the significance of effective communications to an even higher level. And introducing technology to support the process raises it even further. As with all major HR initiatives, change management and the communications its success depends on must be a prime management consideration.



V. Applying Technology Successfully

Defining Needs and Criteria

Our experience working with early adopters of pay-for-performance solutions points to success in three distinct areas:

TECHNOLOGY INTEGRATION: Successful technology implementation calls for seamless integration: (a) across all HRMS applications; (b) with the organization's performance and compensation processes; and ideally, (c), with the organization's enterprise portal solution. Importantly, integration of pay-for-performance with the enterprise portal solution increases portal use and ROI. Isolated, narrowly-focused solutions that do not mesh well with core enterprise systems or each other burden managers and employees while creating frustration and resistance.

FUNCTIONALITY: Pay-for-performance success demands sophisticated solutions able to deliver strong management support in several critical areas.

- **Process Flow:** Out-of-the-box capability should support current best-practice process flow and enable tailoring to organizational needs.
- **Usability:** A recent study by the Pew Internet & American Life Project reveals that 75 percent of U.S. households access the Internet at least monthly. Consequently, employees increasingly expect similar ease of use from workplace technology.
- **System Maintenance & Management:** The option to employ software-on-demand rather than purchasing, installing, upgrading, and maintaining it offers numerous advantages, as discussed earlier. The further option of having the software vendor manage your firm's use of the application can add even greater value.
- **Compliance:** With regulatory requirements and scrutiny by governments and investors on the rise, sophisticated audit and notification capabilities become increasingly important.
- **Security:** Protecting privacy and data integrity is always a paramount concern, one that must exist in concert with easy user access. Single password access, often including an enterprise portal, is gaining popularity.

The High Cost of Overlooking the Role of the Manager

When organizations deploy new technology without a concerted effort to bring their managers aboard, those managers often resist adopting the new system. Already overburdened with daily tasks, they fail to see the system's real value and, instead, see it as one more task HR is requiring of them.

Some managers may attempt to use the new technology, but without proper coaching and guidance, they use it sporadically and inconsistently. Others use it incorrectly. For example, they may homogenize raises across an entire department or give identical salary increases to both high and low performers. Without tools to track compliance, HR cannot identify which managers are using a system incorrectly—or worse, not at all—and therefore provide them with appropriate training.

When one or more of these scenarios occurs, real added value cannot be achieved. Not only does pay-for-performance generate lackluster results, but the organization fails to learn anything meaningful about its people. Ultimately, all it has done is deploy new technology that automates a manual process.



COMMUNICATION: The extent to which technology actually facilitates performance-related communications between management and employees at multiple levels will be a key determinant of its success. It is essential, therefore, that communications capabilities address the critical functions of informing, engaging, educating, and coaching. Our experience repeatedly finds that inadequate communications is the primary reason pay-for-performance systems fail to generate positive results. Strong communications lie at the core of effective change management, yet are all too often perceived as insignificant and therefore overlooked.

Comparing Available Solutions: A Strategic HCM Solutions Checklist

At any given time, the market offers a diverse set of solutions to address specific, or even multiple, aspects of human capital management. And, as with all technology, some deliver on their promise better than others. The challenge for companies, then, is to carefully evaluate options using a set of criteria that will help them make the best decisions possible.

Technology decision makers will find this checklist helpful for guiding the review, evaluation, and decision-making processes concerned with the acquisition of strategic Human Capital Management solutions. We provide it to remind organizations of the critical issues they must address in when considering any HR technology change, whether it pertains to pay-for-performance or other aspects of strategic HCM.

For each solution being evaluated, the following criteria should be thoroughly addressed:

HR TRANSFORMATION:

- What is the product's ability to provide personalized information to selected user groups and subgroups, e.g. directors, managers, and employees, to facilitate change management? *[Personalized communications increase user comfort and hence increase overall adoption.]*
- Does the solution provide a quality user experience consistent with the expectations of a diverse and evolving workforce, and what features does it offer that accelerate user acceptance? *[A contemporary, intuitive interface increases acceptance and ROI, while a substandard one impedes both.]*
- What are the product's capabilities for tracking, measuring, and analyzing worker performance, and what other business intelligence capabilities are included that facilitate strategic HCM? *[Dynamic performance tracking, analysis, and other functions are essential components of strategic HCM.]*
- How does the tool measure user adoption, adherence, and compliance? *[Measurement provides tangible evidence of project adoption rates and success. The lack of these measurements can result in uncertain outcomes.]*

TECHNOLOGY INTEGRATION:

- To what extent can the product be integrated with the organization's core HRMS system, and what is required to integrate, maintain, and adapt the product to changing needs? *[Integration with the market's leading HRMS solutions should be tightly managed, flexible, easily achieved.]*

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- To what extent are the performance and compensation management components integrated? *[Integration is critical to success.]* To what extent are the other product components integrated? *[Ensure that your solution is integrated well beyond a single entry point, or common portal.]*
- Can the product be effectively integrated with mainstream enterprise applications, i.e. a corporate portal, business intelligence tools, and training systems? *[Strong integration capability reflects sound technical architecture and adherence to industry standards.]*
- Can the product be effectively integrated with competency libraries, either home-grown or from third-party competency vendors? Regardless of which one? *[Products that adhere to standard competency models do not force you to adopt the vendor's.]*

TECHNOLOGY DESIGN:

- How difficult is the product to learn and use? *[Intuitive products help you easily gather data related to your people and use it effectively to help you make a meaningful impact on business performance.]*
- What is the product's ability to manage process workflows, especially concerning performance reviews, authorizations, routing, and related tasks? *[Facilitating these fundamental tasks will improve user acceptance.]*
- To what extent can users format reports? *[The value of reports relate directly to the ability of users to organize and format information consistent with corporate standards and user preferences.]*
- Does the product have an integrated succession planning and career development capabilities? *[The integration of succession planning and career development capabilities helps you identify, develop, and retain top performers.]*

DEPLOYMENT OPTIONS:

- Does the vendor offer flexible deployment options? Can its products be offered on-premise, as software-on-demand, or both? *[Having both options gives organizations more flexibility.]*
- Does the vendor provide the option of managing and maintaining its solutions for you? *[Managed, on-demand deployments reduce implementation time and dramatically lower the internal resources required for ongoing management of your applications.]*

COMMUNICATIONS CAPABILITIES:

- To what extent does the solution help the organization address change management? *[Communications capabilities should exist that address the critical functions of informing, engaging, educating, and coaching both managers and employees.]*
- To what extent does the product contain communications components that address manager usage and adoption? *[Without a concerted effort to educate and coach managers, managers often resist adopting new systems.]*

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Conclusion

Growing ease of access to financial and other resources, coupled with an impending scarcity of talented prime-age workers are galvanizing many corporate leaders to launch new HR initiatives in an effort to sustain long-term competitive advantage. High on a list of such initiatives are HR transformation and pay-for-performance. Most organizations undertaking such initiatives support their efforts with substantial investments in new technology—often assuming little more was needed. While a few have achieved success, most find themselves in an ongoing struggle to generate meaningful change and wondering where things could have gone wrong.

Sophisticated new HR solutions can dramatically improve a company's ability to successfully implement pay-for-performance and other initiatives that enable it to strategically manage its human capital. Indeed, the information management and communications capabilities today's solutions offer are all but a prerequisite for success. But, success will only be achieved when the technology is chosen to closely fit the organization's unique structure, systems, and goals; when it integrates well with other solutions and enterprise applications; and when its implementation commands the full attention of management such fundamental changes demand.



VI. PepsiAmericas—An Executive Discussion

Anne Sample is senior vice president of human resources at PepsiAmericas, PepsiCo's second largest bottler. The company has operations in 18 U.S. states as well as in Central Europe and the Caribbean. It serves a combined population of more than 118 million people. It manufactures, sells, and distributes a broad portfolio of Pepsi-Cola and other Pepsi-owned brands.

After a merger in 2000, PepsiAmericas recognized the need to bring together its three separate companies each with its own distinct culture. This prompted the development of a strategic business plan that would result in melding the strengths of each company into a single, unified entity. The PepsiAmericas HR team played a prominent role in leading the transformation, focusing attention on how PepsiAmericas managed its human capital.

A critical component of the plan was the creation of a human capital planning initiative centered on a comprehensive performance management process. The process was designed to support the strategic business plan while simultaneously building a unified culture.

In the following interview, Anne Sample discusses the PepsiAmericas performance management initiative and how it was developed, and also provides insight on the technology selection process.

■ *What are the key challenges in making performance management initiatives successful?*

I believe the main one is change management. You have to make it clear to managers what your organization's goals are and what they, as managers, need to do to support them. Then, the challenge is for HR to help managers understand that a performance management program is the most important and powerful business tool they can have; it's not an isolated HR program.

■ *What are the most common obstacles?*

One of the most common is when different parts of an organization want to offer a variety of niche solutions. For example, the compensation expert wants to offer a solution that provides perfect linkage between merit and performance. The organizational development (OD) person wants to offer something fully developmental. The field HR person wants a solution that is clear and understandable.

You have to keep in mind that you can't offer these solutions in silos; it automatically results in competing systems that are neither integrated nor linked. To avoid this, you have to go back to listening to the voice of the manager and the employee. What does the manager need to eliminate any doubt about what their team is accountable for and why it's important? And, from the employee perspective, what are their needs so we can help them accomplish what the organization needs done?

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■ ***Speaking of integrated systems, how important is integrating performance and compensation management?***

Performance management doesn't become reality until it's linked to pay. If you don't link it, it's all talk. You can purchase niche solutions to help do this, but unless they're integrated and linked, they don't really work. The information doesn't flow through. You don't gain any advantage unless they are well linked and integrated.

■ ***Why is it important for employees' and managers' goals to be aligned with those of PepsiAmericas?***

At PepsiAmericas, our business mission is very focused: *To make, sell and deliver beverages*. Therefore, our HR initiatives are geared toward helping our 13,000 employees fulfill this mission.

Ours is a very low margin business that is highly transactional, so service is a key differentiator. It's an enormous challenge because we sell our products one case at a time. So, it's critical that every member of the organization is clear about what we're trying to do as an organization and how he or she contributes to achieving those goals.

■ ***Tell us about your vendor selection process.***

We had several groups in the organization searching for the optimal solutions for automating some of the more critical steps in the human capital management cycle. So, one team worked on succession planning, another on performance management and goal setting, and yet another exploring managerial tools that span the human capital management cycle. Meanwhile, another group worked on automating our bonus system.

Ultimately, it was the integrated nature of the Authoria Advisor Series that carried the day.

■ ***How did you arrive at your decision and what expectations did you have?***

We focused on what was most important for our organization. PepsiAmericas had processes in place that we needed to simplify and make work in tandem. We also wanted to help managers understand how everything worked together so that, as a manager, they derive the maximum value for the time they commit to using the technology.

We'd been trying to simplify and streamline many of our performance management processes. Originally, we expected we'd need to do the heavy lifting and only acquire the best-in-class solution for each segment of the human capital management cycle.

Our managers told us, however, that having the solutions integrated would enable them to be far more effective. Consequently, being able to provide a highly integrated product suite where managers can enter data once and



have it flow through all areas of the human capital management process is what led us to choosing Authoria. The integrated functionality of the Authoria product suite was unique and a key decision factor.

■ ***How does a solution like Authoria help in aligning employee and organizational goals?***

It's critical that managers and employees to see corporate goals at the uppermost levels. It helps them see how their own business unit's goals relate to those high-level objectives, as well as how their group and division goals link to their personal ones. We're excited about being able to visualize that goal alignment using Authoria Performance Advisor.

■ ***How do you engage and assist managers in the process?***

We've created methods and tools that clearly communicate to managers the role they're being asked play. Previously, we had a variety of processes, but they weren't integrated. Nothing frustrates managers more than having to duplicate effort, whether it's repeatedly entering the same information into the system or filling out cumbersome forms.

Today, we make it easy for them to guide employees through the human capital management cycle, from hiring to performance reviews.

■ ***What aspect of technology really facilitates managerial communication?***

Undoubtedly, the most powerful and important component is the manager portal that spans and links the technology that supports each distinct area of the process.

For instance, managers often evaluate subordinates without thinking about how to explain why a particular aspect of performance is important. The integrated systems capability Authoria Manager Advisor provides helps us do that much more effectively.

■ ***What are your next steps?***

Our senior management team is focused on clarifying our overall company vision and the goals we want to pursue over the next three-to-five years. It's an excellent opportunity to take full advantage of the Authoria product suite. And, the suite provides an excellent platform from which PepsiAmericas can build comprehensive campaigns that are truly consistent with the company's vision and goals.

■ ***Thank you for this informative discussion.***

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VII. About the Authors

David A. Link

**Vice President, HR Transformation Practice
The Cedar Group**

David Link is a recognized leader in transforming the human resource function via self-service, service center, and portal solutions. With 20 years of business, technology, and HR strategy consulting experience, he has worked with diverse clients to pioneer new methods for enhancing workplace productivity via automated HR service delivery. Since 1988, his industry-leading work has involved many industry firsts and best practices, in the U.S. and internationally. Currently, he is vice president of The Cedar Group's HR Transformation Practice where he leads initiatives to help organizations develop and execute strategies that transform HR service delivery through technology. As an industry visionary, Mr. Link is a frequent speaker and author on issues concerning technology-enabled HR service delivery. He earned an Executive M.S. in Information Systems, with honors, from George Washington University and a B.S. in Computer Science from the University of Wisconsin.

James Bowley

**Director, Sales Development and Consulting
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James Bowley joined Authoria in 1998 and manages the firm's functional and technical sales-support operations. In collaboration with Authoria's product and marketing teams, he identifies and helps develop highly effective sales support systems, methods, and collateral. Previously, he was a product manager for the company, and earlier served in its professional services organization. Before joining Authoria, Bowley performed a variety of organizational and communications consulting capacities at Towers Perrin and Mercer HR Consulting, and held a teaching position at Boston College. He earned both his B.A. and M.A. from Boston College.

About The Cedar Group

With headquarters in Baltimore, Maryland, The Cedar Group is an international consulting firm that advises companies, organizations, and academic institutions in the areas of human capital management, financial management systems, student administration, and customer relationship management. For more information, visit www.thecedargroup.com.

About Authoria

Authoria is the leading provider of integrated strategic human capital management (HCM) solutions helping employers increase the business value of their workforce. The Authoria Advisor Series includes performance and compensation management, succession planning, and benefit and policy communication while providing just-in-time knowledge and coaching for managers and employees. Through Authoria Choice, applications are delivered as a fully managed on-demand service, or as an on-premise deployment. Authoria's award-winning solutions have proven successful for more than 200 large employers, including Boeing, Pfizer, and Unocal. For more information, visit www.authoria.com.



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