PUBLIC

SAP SuccessFactors Compensation: Design And Integration Of Different Salary Structures In One Global Compensation Template
Implementation Design Principle

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<td>TalentChamp – part of All4One Group</td>
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This Document is co-authored by SAP SE and Promerit AG (Lisa Möller)

The recommendations in this document are based on the functionality available up to SuccessFactors release mentioned above. Future functionality can impact recommendations provided by this document. We strive to keep these recommendations up-to-date, however, in case you find that recent new functionality have not yet been considered in the latest version of this document, please reach out to your Customer Success Manager / Partner Delivery Manager or send an email to: SAPSuccessFactorsIDPDoc@sap.com.

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1 TERMINOLOGY

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>EC</td>
<td>Employee Central</td>
</tr>
<tr>
<td>ERP</td>
<td>SAP Enterprise Resource Planning often referred in the document pertains to SAP HCM on premise system</td>
</tr>
<tr>
<td>MDF</td>
<td>Meta Data Framework</td>
</tr>
<tr>
<td>RBP</td>
<td>Role Based Permissions</td>
</tr>
<tr>
<td>UI</td>
<td>User Interface</td>
</tr>
<tr>
<td>PCG</td>
<td>Pay Component Group</td>
</tr>
<tr>
<td>IDP</td>
<td>Implementation Design Principle</td>
</tr>
<tr>
<td>TTC</td>
<td>Total Target Cash</td>
</tr>
<tr>
<td>CLA</td>
<td>collective labour agreement</td>
</tr>
<tr>
<td>CBA</td>
<td>collective bargaining agreement</td>
</tr>
</tbody>
</table>

2 ABSTRACT

Some countries and industries impose strict regulations around employee compensation. These regulations are often based on aspects such as profession, qualification degree or experience and region of employment. This IDP explains how different country or industry-specific requirements can be managed within a single Employee Central-integrated global compensation worksheet.

3 INTRODUCTION AND PROBLEM STATEMENT

SuccessFactors Compensation is mostly implemented targeting salaried employees and employees in management or executive layers, since these employees are usually exempt from collective agreements and compensation regulations. The absence of compensation regulations allows for an individual employee salary agreement and merit-based salary review, which translates into a straightforward compensation planning process for the employer.

However, when collective agreements or compensation regulations are in place, the compensation planning process must respect certain rules, which will vary depending on country and industry. Therefore, companies which operate across countries and even across industries may have to respect multiple types of regulations for their compensation processes. This becomes a challenge when companies want to implement a global, harmonized compensation planning process.

Speaking in terms of “SuccessFactors Compensation”, a global solution which is able to consider employee groups subject to (and exempt from) regulations across countries and industries will frequently face the following challenges:

- Determining which portions of the salary are influenceable by the employer and which portions are fixed by regulations — depending on the country, industry and type of employee.
- Offering a unified user experience for the compensation managers distribute budget to team members present across countries, having different regulations.
- Having the result of the compensation planning be reflected back into the employee masterdata (Employee Central Compensation information) by updating the correct salary pay components, based on the salary structure for that regulation.
A common way to avoid the above-mentioned challenges is to create multiple compensation plans, which will take care of the different regulations and salary structures separately.

For offering a better solution from a compensation process and system operation perspective, this document will explain how we can consider different regulations within a single compensation plan integrated with Employee Central.

4 FUNCTIONAL REQUIREMENTS

The functional requirements covered in this document revolve around allowing multiple salary structures within a single Compensation Plan (Worksheet). The following subchapters will explain basics of various salary structures and the common compensation planning requirements around them.

4.1 Compensation planning variants

There are mainly two ways – or variants – how companies are used to plan the compensation review: either considering the total (yearly) target or considering simply the recurring base salary. We will examine these two variants to understand which salary structures are covered in this document.

Let’s start by looking into a typical salary structure for a salaried employee. In the following examples in this chapter we will be using a monthly pay frequency; however, the same considerations apply for other pay frequencies as well:

- Total target cash (TTC yearly) = base salary (recurring monthly) + allowances (recurring monthly, semi-yearly, yearly, etc) + bonuses (one-time payment(s), variable amount)

And the two main variants for performing the compensation planning on the above-mentioned structure:

- Variant 1: planning on the base salary
  Plan the salary increase or adjustment on the recurring portion (base salary and dependent allowances) and let, when applicable (in case of percentage-based bonuses), the one-time variable payments and total target cash follow the increase based on the recurring portion (base salary).

- Variant 2: planning on the total target cash
  Plan the salary increase on the total target cash and let all other sub-components be derived by this change. This variant can be further divided into two sub-variants:
    a. “Fixed pay-mix”: the rate between all percentage-based sub-components remain the same
    b. “Variable pay-mix”: The rate between certain percentage-based sub-components change
4.1.1 Example use cases for variant 1, planning on the base salary

Here are some examples to better understand the variants described above and how the salary structure is influenced by the variants:

<table>
<thead>
<tr>
<th>Employee</th>
<th>Total target cash before compensation review cycle</th>
<th>Total target cash after compensation review cycle (&quot;salary increase&quot; of 5%)</th>
<th>Remarks</th>
</tr>
</thead>
</table>
| Employee 1 | • Recurring base: 1000,00 per month  
• Yearly bonus: 10% of total recurring (if all goals are met)  
• Total target cash: 12000,00 + 1200,00 = 13200,00 | • Recurring base: 1050,00 per month  
• Yearly Bonus: 10% of total recurring (if all goals are met)  
• Total target cash: 12600,00 + 1260,00 = 13860,00 | • For employee 1, the variable part changed based on the change in the recurring part.  
• The total target cash increased by 5%.  
• The ratio variable/recurring remained constant. |

| Employee 2 | • Recurring base: 1000,00 per month  
• Yearly bonus: 5000,00 (if all goals are met)  
• Total target cash: 12000,00 + 5000,00 = 17000,00 | • Recurring base: 1050,00 per month  
• Yearly bonus: 5000,00 (if all goals are met)  
• Total target cash = 12600,00 + 5000,00 = 17600,00 | • For employee 2, the variable part didn’t change, although there was a change in the recurring part.  
• The total target cash increased by 3.5%.  
• The ratio variable/recurring decreased. |

Table 1 - Example use cases for variant 1, planning on the base salary

The examples above show that for both employees 1 and 2, the salary increase is applied only on the recurring portion. The variable part (bonus) may or may not change based on the increase on the recurring part (see “remarks” column).

4.1.2 Example use cases for variant 2.a, planning on the total target cash

Variant 2.a: fixed pay-mix, planning on the total target cash with a total increase of 1000,00 per year:

<table>
<thead>
<tr>
<th>Employee</th>
<th>Total target cash before compensation review cycle</th>
<th>Total target cash after compensation review cycle (total target cash increase of 1000 per year)</th>
<th>Remarks</th>
</tr>
</thead>
</table>
| Employee 3 | • Recurring base: 1000,00 per month  
• Target Bonus: 10% on recurring base, yearly: 1200,00  
• Allowance (fixed amount, monthly): 75,76  
• 10% additional on allowance, monthly: 7,57  
• Total target cash (yearly): 14200,00 | • Recurring base: 1075,75, per month  
• Target Bonus: 10% on recurring base, yearly: 1291,00  
• Allowance (fixed amount, monthly): 75,76  
• 10% additional on allowance, monthly: 7,57  
• Total target cash (yearly): 15200,00 | • The total target cash increased by 1000,00  
• Pay components “recurring base” and “allowance 10%” were increased, however the ratio between them remained 10%.  
• The other two allowances didn’t change, since they are fixed amounts by definition. |

Table 2 - Example use case for variant 2.a

4.1.3 Example use cases for variant 2.b, planning on the total target cash

Variant 2.b: variable pay-mix, planning on the total target cash with a total increase of 1000,00 per year, with a “variable pay-mix concept”.

Consider the following use case:

1. An employee’s job profile expects a yearly target bonus of up to 20% of the total target cash.

2. The employee earns monthly 1000,00 EUR (12000,00 EUR yearly). Ideally (according to the job profile) this amount should represent 80% of the total target cash (TTC). Therefore, the ideal total target cash would be 15000,00. This is calculated in the following way: “ideal total target cash X 80% = total recurring” → TTC = 12000/0,8

3. The ideal target bonus for this job profile is 3000,00 (20% of total target cash, or 15000,00 minus 12000,00).
4. The employee’s current target bonus is, before the salary review, 2000.00. Therefore, the employee’s actual pay-mix is 2000/14000 = 14.28% (but ideally, it should be 20% due to the job profile specification).

5. In the salary review, the manager will work with 14000.00 EUR. The manager then applies a salary increase of 1000.00 EUR. That results in a new total target cash of 15000.00.

6. The question is then how to distribute the 1000.00 among base salary and target bonus in such a way that the pay-mix reaches 80/20 as expected by the job profile. In this case, 100% of the salary increase will flow into the target bonus and it will increase from 2000.00 to 3000.00.

Now consider the following similar use case, for another employee:

1. An employee’s job profile expects a yearly target bonus of up to 20% of the total target cash.
2. The employee earns monthly 1000.00 EUR.
3. The ideal target bonus for this job profile is 3000.00.
4. The employee’s current target bonus is, before the salary review, 2900.00. Therefore, the employee’s actual pay-mix is 2900/14900 = 19.46% (but ideally, it should be 20% due to the job profile specification).
5. In the salary review, the manager will work with 14900.00 EUR. The manager then applies a salary increase of 1000.00 EUR. That results in a new total target cash of 15900.00.
6. The question is then how to distribute the 1000.00 among base salary and target bonus in such a way that the pay-mix reaches 80/20 as expected by the job profile. In this case, 280.00 EUR will be applied to the target bonus, the rest will be applied to the recurring salary.

4.1.4 Solution scope for planning variants

The above shown variants represent the different ways how the planning (salary review) aspect can be performed with regards to the totality of the salary (either based on the total target, or not based on the total target). Each variant may consist of various salary structures. In this document we will explore solutions for different salary structures focusing on the planning variant 2.a – which is the variant rather common in Europe.

Variant 1 – which is the common variant in North America – is a simple, straight forward one and the principles presented in this solution can then be applied to achieve the same.

Variant 2.b is rather less common and very specific and cannot be easily integrated within the same compensation plan with variants 1 and 2.a. We plan to cover variant 2.b in a separate document.

4.2 Salary structures

4.2.1 Base salary and allowances

It is important to differentiate between the terms “base salary” and “allowances”. In fact, it is possible to describe almost any regular salary structure as a combination of base salary and allowance components. A regular salary structure follows a fixed recurring pattern or a combination of recurring patterns.

- Base salary: Mostly a single pay component that composes the major and constant part of the recurring income of the employee. As it will be explained later, in collective agreements these components are determined by the tariff table (aka pay scale). For other salary structures (no collective agreements) this component is usually a merit-based amount (manager’s decision).

- Allowances: One or more pay components that complement the base salary. They can be regulated by collective agreements, by a company policy or benefit, or be simply merit-based (manager’s decision within a given limit). Technically, allowances can be a fixed-percentage of the base salary, a fixed amount (which will usually not change during a compensation cycle) or be a specific merit-based amount (may change during a compensation cycle and is not a percentage of the base salary). Allowances are also very common in non-collective agreement structures.
Especially in certain regions as Eastern Europe, Latin America or Asia, the concept of allowances is very common. These allowances may be a percentage of the base salary or also a fixed amount and they are applicable depending on different factors, such as location of work, tasks, education, seniority, and sometimes they are part of optional benefits packages. It is also possible that allowances are added to a tariff-based salary structure.

4.2.1.1 The “independent” amount: the pay component relevant for compensation planning

From a salary review perspective, it is ideally the case that a single pay component serves as an “independent amount” (variable). This amount will actually be directly adjusted by the compensation review process. All other pay components of the recurring salary structure will either remain unchanged (static) or will follow the increase of the independent amount by a given percentage.

From the “base salary and allowances” perspective, either the salary structure is such that the “base salary” will be the “independent” amount (will be a pay component relevant to compensation planning) or an allowance will be the independent amount. The following figure shows these two variants:

Figure 1 – salary structure variants from the perspective of the “independent” (merit-based) amount

In figure 1, for employee A, the base salary pay component is the independent and merit-based amount. For employee B, the base salary pay component is determined by a tariff table and only a performance supplement allowance is the independent and merit-based amount. Therefore, for employee B, the base salary will not change in a merit compensation review cycle, unless the job / function level is changed.

4.2.1.2 Multiple pay frequencies composing total target annual salary

It is common that in certain salary structures the allowances have a different frequency assigned than the base salary pay component (e.g. the allowance is paid twice a year, whereas the base salary is paid...
However, if these are still regularly repeating within the “compensation year (cycle)” they will not require a specific separate solution and will still fit in the same structures presented above.

Some examples of salary structures with deviating-frequency allowances are depicted on table 3:

<table>
<thead>
<tr>
<th>Country</th>
<th>Netherlands</th>
<th>Brazil</th>
<th>Another example country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use case</td>
<td>Salaried employee</td>
<td>Salaried employee</td>
<td>Salaried employee (exempt or non-exempt) with yearly target bonus % based on “base salary”</td>
</tr>
<tr>
<td>Use case details</td>
<td>Employees are entitled a vacation allowance of 8% of the yearly salary, paid once or twice a year</td>
<td>Employees receive a 13th salary (usually half of it in November and the other one in December) plus and additional of 1/3 of a monthly salary as vacation allowance</td>
<td>Employee is entitled a target bonus to be paid on Q1 of the following year, based on the performance / results of the previous year. The total target salary is for example composed of 12 monthly base salaries plus the yearly (target) percentage-bonus based on the sum of monthly installments.</td>
</tr>
<tr>
<td>Example (pay components structure)</td>
<td>Monthly salary: 1000,00 EUR Yearly vacation allowance: 960,00 EUR</td>
<td>Monthly salary: 1000,00 BRL 13th salary (1x yearly): 1000,00 BRL Vacation allowance (1/3 of a monthly salary) (1x yearly): 333,33 BRL</td>
<td>Monthly salary: 1000,00 EUR Target bonus yearly (20%): 2400,00 EUR (12X1000,00 X 20%)</td>
</tr>
<tr>
<td>“current salary yearly” considered for compensation planning for managers decision / budget distribution</td>
<td>12960,00 EUR</td>
<td>13333,33 BRL</td>
<td>14400,00 EUR</td>
</tr>
</tbody>
</table>

Table 3 – examples of multiple pay frequencies involved in a total target annual salary

4.2.2 Collective-agreement salary structures

A collective agreement, collective labour agreement (CLA) or collective bargaining agreement (CBA) is a written contract negotiated through collective bargaining for employees by one or more trade unions with the management of a company (or with an employers’ association) that regulates the terms and conditions of employees at work. (source: Wikipedia).

Collective agreements can determine how the salary structure and values will be composed for a particular industry, region, job function and level. This is especially the case in European countries, such as Germany, France, Austria, Italy, Spain, etc. It's also practiced in North America, even if not so widespread as in Europe. The compensation table provided by the collective agreement is often called “tariff” or tariff table (in SAP landscape this is often called pay scale structures).

Especially in Europe, the salary structures can fall into three main categories:
1. non-exempt employees,
2. non-exempt employees earning over the tariff,
3. non-exempt employees earning over the tariff’s threshold (or exempt employees).

The figure below recaps the three structures, including the usual German terms for better understanding:
The two first salary structures (left-hand side, figure 2) are the most common scenarios for the majority of the employees in various industries (Metal, Chemical, Textile, Banking, Insurance, etc.) The following statements can be made about these two first salary structures:

1. They are applicable to the largest portion of the employee population.
2. The so called “tariff base salary” will compose most of the total salary of the employees that occupy functions which do not require higher specialization.
3. The “tariff base salary” is an amount that is specified on a so called “collective agreement contract” and negotiated by the employee union and employers (Tarifvertrag). This amount usually differs according to region, function, job group and level of a given industry. It must be explicitly detailed out in the employee's payslip and employers have no possibility to override or change this amount.
4. The “tariff base salary” can be composed of multiple pay components, this depends on the industry and additional tasks that the employee performs in his or her function. However, all these pay components are regulated. Collective agreements may determine pay increases for these pay components. This occurs usually every one or two years depending on the collective agreement. Such pay increases, which are regulatory, are handled separately and before the compensation planning cycle.
5. The merit supplement is a voluntary amount that the employer may give on an individual basis to employees and this can be used for the “pay per performance” process. In some cases, part of this supplement is fixed for all employees and serves as a company differentiator in the market. For example, a monthly supplement of 200,00 euros may be composed of 100,00 company-supplement pay component, plus 100,00 euros of performance-specific supplement pay component.
6. Employees or employee groups who earn the merit supplement are commonly denominated in Germany as “ÜT – Übertariflicher Mitarbeiter”.
7. There is an upper limit to the amount of the Merit supplement (ÜT Zulage) for which the employee is still considered under the Tarif working conditions. If the total salary (base plus supplements) exceeds this upper limit, the employee may not be subject to tariff working conditions anymore. This limit depends on each specific tariff contract, but in general lays around 25% over of the highest tariff.
group and level (indicated by the “tariff threshold line on figure 2). Once the employee is out of the tariff conditions (Außertariflicher Mitarbeiter), certain employment changes will take place such as longer weekly working hours and flexible time (no-overtime-pay) and the employee may be required to sign a new or amended employment contract due to changes in the employment conditions. This process is hard to be automated in a usual compensation review cycle, and employees willing to take this step must be handled in a separate HR process.

The right-most salary structure (on figure 2 and mentioned in point 7 above) is usually only applicable for managers and executives or for salaried employees of industries that are not regulated by tariffs. It is usually composed of a single monthly (at least in Europe) pay component and the employer is free to decide on an individual basis on the specific amount (as long as no tariff agreements are in place or the amount is not lower than threshold discussed in point 7 above, which would make the employee become a “ÜT” instead of “AT” in German terms).

The following table shows example values for the different salary structures of figure 2:

<table>
<thead>
<tr>
<th>Employee type / salary structure</th>
<th>Non-exempt employee / Tariflicher Mitarbeiter</th>
<th>Non-exempt employee earning over the tariff / ÜT Mitarbeiter</th>
<th>Non-exempt employee earning over the tariff's threshold or exempt employee / industry / AT-Mitarbeiter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly salary (all pay components listed have a monthly frequency) (Basisbezüge)</td>
<td>• Base salary / Grundgehalt: 1000,00</td>
<td>• Base salary / Grundgehalt: 1000,00</td>
<td>• Base salary / Grundgehalt: 7000,00</td>
</tr>
</tbody>
</table>

Table 4: Tariff salary structures with examples

From an HR process point of view, a salary review process can be applied to employees with the two right-most salary structures (of figure 2). It is also possible to increase the salary of an employee having the left-most structure, but since such employees have a single base salary component (which composes their regular payroll income) and this component is regulated by a collective agreement table, any increase will have to be added to a separate (supplement) pay component. As soon as this new pay component is added to the employee the employee switches to the salary structure “Non-exempt employee earning over the tariff”.

In chapter 4.2.1 we discussed the concepts of base salary and allowances, and in chapter 4.2.1.1 we discussed the concept of the pay component(s) relevant for compensation planning. By categorizing the collective agreement salary structures discussed above (figure 2) into the variants discussed in chapter 4.2.1.1 we will arrive to the following table:

<table>
<thead>
<tr>
<th>Collective agreement salary structure</th>
<th>Pay component relevant for compensation planning (&quot;Independent amount&quot;) variant</th>
</tr>
</thead>
<tbody>
<tr>
<td>non-exempt employees</td>
<td>Variant B (with performance supplement always zero)</td>
</tr>
<tr>
<td>non-exempt employees earning over the tariff</td>
<td>Variant B (with performance supplement different than zero)</td>
</tr>
<tr>
<td>non-exempt employees earning over the tariff's threshold (or exempt employees)</td>
<td>Variant A</td>
</tr>
</tbody>
</table>

Table 5: Tariff salary structures with regards to the independent amount relevant for compensation planning

4.2.2.1 Collective agreement (tariff and pay scale) pay increase vs compensation planning

The compensation review for employees with collective agreement usually involves two steps: First the employer adjusts within the agreed deadline the base salary components and allowances as stated by the new version of the collective agreement. In a subsequent step, which can occur months after the first (statutory) step, the employer once again adjusts the salary (only this time from a merit-based perspective) of the collective agreement employees together with the regular merit-based compensation cycle for exempt employees. This second step is optional for the employer, as it is not required for employees in collective agreements.
From a solution perspective, the first step must be performed in Employee Central, while the second step is performed in Compensation Module based on the updated EC data of step 1. The result of step 2 is then published back to Employee Central. The detailed solution on how to cover step 1 in Employee Central has been described in the IDP document: “Employee Central - Managing Pay Scale Based Salary Increase”.

The following figure exemplifies the merit-based compensation review process for collective agreement employees, showing how the pay components and salary budget changes from the initial situation, thru step 1 and 2.

**Figure 3 – payscale salary increase followed by a merit-based compensation review**

In this example, which is common for Germany, notice that in step 1 (“after collective agreement pay increase”) the merit supplement decreased, and the base salary increased. In step 2, the remaining salary increase budget is applied only on the merit supplement. The total change in budget is equal to the total change in the total target.

**5 SOLUTION DESIGN – HIGH LEVEL DESIGN**

The solution presented in this chapter will start from the concept of base salary and allowances presented in chapter 4.2.1 and will explore how the two variants A & B (chapter 4.2.1.1 pay component relevant for compensation planning) can be used to design an integrated solution — based on Employee Central and Compensation Planning — which supports planning on total target cash for multiple salary structures on a single worksheet.

Let’s examine the high-level solution presented on the diagram below:
Figure 4 – high level solution diagram

The table in the upper part of the diagram (with rows labeled “Variant A” and “Variant B”) represents a Compensation Worksheet which is accommodating data for two different employees (employees A and B). Each employee requires a different “solution variant” (variants A and B, depending on the salary structure from the point of view of the pay components relevant for compensation). The bottom part of the diagram represents the Employee Central compensation information portlet including the pay components and pay component groups for these two employees.

The salary structures in variants A and B represent generic examples which can be used to derive further sub-variations of salary structures. The following table shows how different salary structures fit into the frame of variant A or B:

<table>
<thead>
<tr>
<th>Salary structure example</th>
<th>Solution Variant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary structure with a single monthly pay component “base salary”. This pay component is used for compensation planning.</td>
<td>Variant A</td>
</tr>
<tr>
<td>Salary structure with fixed allowances (allowances that are not adjusted during a compensation cycle and remain fixed)</td>
<td>Variant A</td>
</tr>
<tr>
<td>“Non-exempt employee earning over the tariff’s threshold or exempt employee / industry / AT-Mitarbeiter”</td>
<td>Variant A</td>
</tr>
<tr>
<td>Tariff/pay scale salary structure with non-percentage-based supplement; (ex.: “non-exempt employee earning over the tariff”)</td>
<td>Variant B</td>
</tr>
<tr>
<td>Salary structure with percentage-based allowances</td>
<td>Variant A</td>
</tr>
<tr>
<td>Tariff salary structure with fixed allowances (as performance supplement) and percentage-based component on the allowances</td>
<td>Variant B</td>
</tr>
</tbody>
</table>

Table 6 – salary structure examples mapping to variants A & B

Note: to better understand how the further presented solution may apply to your concrete use cases, start by matching the salary structures you have in your implementation project to the solution variants A or B.
In further subchapters we will have a look in detail at the different worksheet columns, how the pay components are organized in Employee Central and how the data flows from and to Employee Central from a logical (functional) perspective. We will map the explanation of the different concepts to the example diagram in figure 4.

5.1 Pay components and pay component groups in Employee Central

In this solution in Employee Central each salary structure is composed of a different set of pay components, and these pay components are linked to different “pay component groups” (PCGs) according to their purpose for the compensation review process. PCGs are configuration objects that will be defined during the solution design time as foundation objects. They are not master data and they cannot be assigned to employees.

In this solution we are using four different PCGs in order to interact with the Compensation Planning solution:

1. **Total target cash**: this group is used to represent the recurring portions of the salary (base salary plus allowances) plus eventual target bonuses (as fixed or percentage-based allowances). In this group all pay components which are further represented within below pay component groups 2 to 4 must be included. This PCG will be mapped to the field “current salary” and therefore, the amount stored in this pay component group is the basis for the percentage increase and the budget required for the increase.

2. **Used-for-comp**: this group is used to represent the sum of all pay components that are subject to change during a compensation review cycle. All pay components in this group have the setting “Used for Comp Planning” > “Comp”. Only one pay component of this type can be assigned to an employee. Examples are:
   a. For tariff employees: the performance supplement (ÜT Zulage)
   b. For exempt employees: the monthly gross salary based on the contract

3. **Non-comp**: this group is used to represent the sum of all pay components that cannot be subject to change during the compensation review cycle – either because it is legally forbidden to increase the component or because it is a fixed amount. The classic example for this is the tariff base salary pay component (see variant B). All pay component in this group have the settings “Used for Comp Planning” > “None”.

4. **Allowances**: this group is used to represent the sum of all pay components which cannot be directly adjusted, but only indirectly, as they represent a percentage of another pay component (which is then subject to adjustment during compensation, such as base salary). All pay component in this group have the settings “Used for Comp Planning” > “None”.

These pay component groups will facilitate the publishing of the employee compensation data from EC into the Compensation module. Of course, it is possible to reflect further pay component groups like total direct cash on the worksheet but those are not required for the solution to work.

5.2 High level logic of the Compensation Worksheet

The worksheet logic on the diagram (Figure 4) can be understood by focusing on two columns: A and F. The column A represents the total target cash per year after the salary increase budget has been applied by the manager. It is basically the current employee TTC plus the salary increase on a yearly basis. The column F, which is rather a technical column and may even not be made visible for compensation managers, represents the rate of the pay component to be adjusted in Employee Central (already converted to the pay frequency of that specific employee). The different pay component groups from EC will map to different columns (between columns C and E; refer to the arrows in the diagram). And finally, the value in column F will be published (transported) back to Employee Central to the correct single pay component (depending on the salary structure, but always to the “independent amount pay component”. See chapter 4.2.1.1). Column F is simply a calculated column based on the formula: \[ F = \frac{A - C}{B + \frac{E}{D}} \].

5.2.1 Data flow considerations between Employee Central and Compensation Worksheet

The publishing of pay-related employee data from Employee Central into the compensation module will occur solely via “pay component group” integration. Each pay component group will feed data into a separate specific column of the Compensation Worksheet. To publish back from Compensation Planning into Compensation Information portlet of Employee Central this solution requires that a maximum of one
recurring pay component per employee is updated in the compensation. This is the case for all salary structures covered in this document, meaning there is never the need to update more than one pay component for a single employee (in case you want to verify this from a business perspective, refer to the requirements section in chapter 4 for the different salary structures).

In case of lump sums (which are not regular, but one-time payments, and are not targets, but actual payments) being handled in the same compensation plan as the regular salary, then exceptions apply, however this is out of scope of this document.

6 DETAILED SOLUTION – CONFIGURATION OF COMPENSATION PLANNING AND INTEGRATION WITH EMPLOYEE CENTRAL

6.1 Considerations on the integration between compensation planning and Employee Central

6.1.1 Publishing data from Employee Central into Compensation

In general, if the Employee Central integration is enabled all fields on the worksheet can be mapped to sections from the people profile. Data can be consumed from the following sections: Biographical Information, Compensation, Compensation Information, EC Promotion, Employment Details, Job Information, Job Relationships, One-Time Payments, Pay Component Group and Personal Information. All of these data are effective dated based on the data that is specified in Compensation Home – Settings – Employee Central Settings – Worksheet Settings: Effective Date.

To map data from pay components we have three different possibilities:

- Mapping of a single pay component: In this scenario a single pay component is mapped to the Compensation Worksheet. The employee data is shown as assigned to the employee considering the frequency. The mapping in Compensation Home is defined in the following way:

```
EC Category: Compensation
EC Component Name: Base Pay Germany(104)
EC Field: Amount
```

Figure 5 - Mapping of a single specific pay component

- Mapping of “Compensation”: In this scenario, the data of the pay component with the settings “Used for Comp Planning” > “Comp” which is assigned to the employee is used as input. The data is shown as assigned to the employee considering the frequency. The mapping in Compensation Home is defined in the following way:

```
EC Category: Compensation
EC Component Name: No Selection
EC Field: No Selection
```

Figure 6 – Mapping of pay component based on “Used for Comp Planning” > “Comp” setting

Please note that although no EC field is defined, the system will automatically determine the correct EC field depending on which standard field is used.

- Mapping of Pay Component Groups: In this scenario, more than one pay component is required as an input. Therefore, a pay component group is used. The data is annualized. The mapping in Compensation Home is defined in the following way:
As mentioned, in the high-level overview, some preliminary considerations on how to set up the pay components, pay component group and compensation data on the people profile must be taken. As all cases described in the functional requirements include more than one pay component as an input for the compensation planning sheet, there is a need to map pay component groups to the Compensation Worksheet instead of a single pay component (e.g. in Variant A, there is a need to map the base pay component and the allowances as an input).

For the integration of pay component groups a few limitations have to be considered carefully as described in the Implementation Guide: “Employee Central - Compensation Integration”. If any of the four standard fields – salary type, units per year, local currency code or current salary – are mapped to a pay component group all four must have the same mapping. It is important to note that the current salary field, which is the standard field for the calculation of the increase, will be the sum of all recurring pay components associated with that pay component group. In addition, the fields “salary type” and “units per year” will always show the value “ANNUAL” and “1” respectively. That means that planning in such a set up will always be on the annual salary and not based on the frequency defined on the pay component on employee level like monthly or bi-weekly. Depending on the set up of the pay components in Employee Central (e.g. whether the annual amounts are stored in the recurring compensation section with the frequency “annual” or the amounts based on the frequency like monthly), the correct amount needs to be calculated to publish the data back to Employee Central. This will be explained in section 6.2. Furthermore, the field “local currency code” will always show the currency defined in the pay component group FO. In order to reflect the currency defined on employee level, there should never be a currency defined on the pay component group level. If there is no currency code defined, the system will use the currency that is assigned to the employee and the currency conversion will work correctly on the worksheet.

If hourly paid employees are considered in the compensation planning the annual amount is calculated based on the standard weekly working hours field (annual base salary = amount * standard weekly working hours * 52 weeks). It is crucial that the standard field for the weekly working hours is enabled in the instance. Otherwise, the calculation for the annual salary on the Compensation Worksheet will not work as it is hardcoded and the salary will show 0 for these employees.

6.1.2 Publishing data from Compensation into Employee Central

In general, the information that can be published back to Employee Central are information stored in the recurring pay component portlet or in the non-recurring pay component portlet, respectively. By default, the Employee Central field “pay component amount” is mapped in the Compensation Template XML with the field “Final Pay Rate” of the Compensation Worksheet meaning that the resulting amount in field “Final Pay Rate” will be transferred to the amount field of the pay component which is set as “Used for Comp Planning” > “Comp” for each specific employee.
In the “Employee-Central – Compensation Integration” guide are some examples explained on how to configure this integration for different amounts of pay components.

6.2 Worksheet setup and integration including formulas and examples

6.2.1 Example data and configuration

To show the setup exemplarily, we will use the following pay components and pay component groups.

All pay components are recurring pay components.

<table>
<thead>
<tr>
<th>Pay Component Name</th>
<th>“Used for Comp Planning” Setting</th>
<th>Type</th>
<th>Base Pay Component</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tariff Base Pay (100)</td>
<td>None</td>
<td>Amount</td>
<td>N/A</td>
</tr>
<tr>
<td>Vacation (101)</td>
<td>None</td>
<td>Percentage</td>
<td>Tariff Base Pay (100)</td>
</tr>
<tr>
<td>DE UT (102)</td>
<td>Comp</td>
<td>Amount</td>
<td>N/A</td>
</tr>
<tr>
<td>Vacation DE UT (103)</td>
<td>None</td>
<td>Percentage</td>
<td>DE UT (102)</td>
</tr>
<tr>
<td>Base Pay Germany (104)</td>
<td>Comp</td>
<td>Amount</td>
<td>N/A</td>
</tr>
<tr>
<td>Base Pay Sweden (105)</td>
<td>Comp</td>
<td>Amount</td>
<td>N/A</td>
</tr>
<tr>
<td>Base Pay USA (106)</td>
<td>Comp</td>
<td>Amount</td>
<td>N/A</td>
</tr>
<tr>
<td>Health Allowance (107)</td>
<td>None</td>
<td>Percentage</td>
<td>Base Pay Germany (105)</td>
</tr>
<tr>
<td>Additional Allowance (108)</td>
<td>None</td>
<td>Percentage</td>
<td>Other Allowance (109)</td>
</tr>
<tr>
<td>Other Allowance (109)</td>
<td>None</td>
<td>Amount</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Table 7 – Pay components used in example configuration

All of those pay components are assigned to the below mentioned pay component groups according to their configuration.

Pay Component Group: Total Target Cash (2)

This screenshot shows how the pay component group for total target cash is defined. To simplify the overview, only recurring pay components are included. It would be also possible to include target components or one-time payments.
This screenshot shows the pay component groups with all components with the setting “Used for Comp” > “Comp”. For this, either the base pay components are included (variant A) or respective allowances (variant B). As explained, an employee can only have one of those pay components assigned. From a functional perspective, this group reflects all pay components which are directly increased during the compensation cycle.

This screenshot shows how the pay component groups are set up for all pay components which are defined as type “amount” and are not used for comp planning. Furthermore, pay components which are defined as type “percentage” but are not assigned to “Used for Comp” > “Comp” components should be included in these group (e.g. Other Allowances). From a functional perspective, this group reflects all pay components which are non-increased during the compensation cycle.
Figure 12 – Example pay component group “Allowances”

This screenshot shows how the pay component groups are set up for all pay components which are defined as type “percentage” and are assigned to the pay components which have the setting “Used for comp” > “Comp”. From a functional perspective, this group reflects all pay components which are indirectly increased during the compensation cycle.

The table below shows the configuration of the pay components. The following color-coding is used to exemplify the mapping between PC and PCG:
- Pay Component Group: Used for Comp
- Pay Component Group: Non-Comp
- Pay Component Group: Allowances

<table>
<thead>
<tr>
<th>Pay Component Name</th>
<th>“Used for Comp Planning” Setting</th>
<th>Type</th>
<th>Base Pay Component</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tariff Base Pay (100)</td>
<td>None</td>
<td>Amount</td>
<td>N/A</td>
</tr>
<tr>
<td>Vacation (101)</td>
<td>None</td>
<td>Percentage</td>
<td>Tariff Base Pay (100)</td>
</tr>
<tr>
<td>DE UT (102)</td>
<td>Comp</td>
<td>Amount</td>
<td>N/A</td>
</tr>
<tr>
<td>Vacation DE UT (103)</td>
<td>None</td>
<td>Percentage</td>
<td>DE UT (102)</td>
</tr>
<tr>
<td>Base Pay Germany (104)</td>
<td>Comp</td>
<td>Amount</td>
<td>N/A</td>
</tr>
<tr>
<td>Base Pay Sweden (105)</td>
<td>Comp</td>
<td>Amount</td>
<td>N/A</td>
</tr>
<tr>
<td>Base Pay USA (106)</td>
<td>Comp</td>
<td>Amount</td>
<td>N/A</td>
</tr>
<tr>
<td>Health Allowance (107)</td>
<td>None</td>
<td>Percentage</td>
<td>Base Pay Germany (105)</td>
</tr>
<tr>
<td>Additional Allowance (108)</td>
<td>None</td>
<td>Percentage</td>
<td>Other Allowance (109)</td>
</tr>
<tr>
<td>Other Allowance (109)</td>
<td>None</td>
<td>Amount</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Table 7a – Pay components used in example configuration including color-coding

All pay components are in the pay component group “Total Target Cash”.

To show the set up exemplarily, we will use the following two employees who reflect the presented Variant A and B:
Max Frisch represents Variant A. This means he has the following four pay components assigned and the “Base Pay Germany” Component is the one which is used for Comp Planning:

<table>
<thead>
<tr>
<th>Pay Component</th>
<th>Amount</th>
<th>Remark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Pay Germany</td>
<td>1000</td>
<td></td>
</tr>
<tr>
<td>Health Allowance</td>
<td>10%</td>
<td>Based on Base Pay Germany</td>
</tr>
<tr>
<td>Other Allowance</td>
<td>75.76</td>
<td></td>
</tr>
<tr>
<td>Additional Allowance</td>
<td>10%</td>
<td>Based on Other Allowance</td>
</tr>
</tbody>
</table>

Table 8 – Example pay components for employee Max Frisch

This is a screenshot from the compensation information on the people profile:

![Compensation Information](image)

Clara Schumann represents Variant B. This means she has four pay components assigned and the “DE ÚT” Component is the one which is used for Comp Planning:

<table>
<thead>
<tr>
<th>Pay Component</th>
<th>Amount</th>
<th>Remark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tariff Base Pay</td>
<td>1000</td>
<td></td>
</tr>
<tr>
<td>DE ÚT</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Vacation</td>
<td>10%</td>
<td>Based on Tariff Base Pay</td>
</tr>
<tr>
<td>Vacation DE ÚT</td>
<td>10%</td>
<td>Based on DE ÚT</td>
</tr>
</tbody>
</table>

Table 9 – Example pay components for employee Clara Schumann
Furthermore, one special case will be represented on the worksheet which is an employee who is hourly paid. This case is represented by Bertolt Brecht. He has only one base pay component assigned and is paid hourly.

### 6.2.2 Standard Input fields

The four standard fields – current salary, local currency code, units per year and salary type – need to be mapped to the Pay Component group “Total Target Cash”.

### 6.2.3 Annualization Factor (column id: cust_AnnualizationFactor)

As explained, with having pay component groups as input all values are annualized. This field is required in order to calculate the annual amount back to the frequency-based amount that is stored on the employee level (E.g. monthly or bi-weekly). Otherwise, an annual amount would be published back in the amount field in Employee Central. The amount field would then be calculated with the frequency and the value would be wrong. As we can have different frequencies on employee level, we need to define the correct amount (annualization factor) for each employee.

To achieve this, the fields needs to be mapped to the component on the people profile with the setting “Used for Comp Planning” > “Comp”. This can be achieved with the following mapping:
6.2.4 Weekly Working Hours (column id: cust_WeeklyWorkingHours)

This field is required if hourly paid employees are on the worksheet. The reason to include the field is similar to the reasoning behind the annualization factor. The annualization factor for the frequency “Hourly” is defined with 0 in the system. So, for hourly paid employees we cannot use this factor to determine the correct amount based on the hourly basis and we need to include the information about the weekly working hours.

6.2.5 Used for Comp Planning Components (column id: cust_usedComp)

This field is required for calculating the correct amount and is mapped to the pay component group “Used for Comp”:

6.2.6 Not Used for Comp Planning (Amount) (column id: cust_notusedamount)

This field is required for the calculation as well and is mapped to the pay component group “Non-Comp”:

6.2.7 Allowances (column id: cust_notusedallowances)

This field is required for the calculation and is mapped to the pay component group “Allowances”:

The fields “Used for Comp”, “Non-Comp” and “Allowances” should be set up with column type “Money”.

---

The fields “Used for Comp”, “Non-Comp” and “Allowances” should be set up with column type “Money”.
In order to simplify the explanation, we will explain the calculation in a two-step approach:

1) Calculation of the correct base annual amount – excluding percentages-allowances and fixed allowances (formula in field “Publishing Rate”)
2) Calculation of the correct base amount considering the frequency and – if required – the weekly working hours

6.2.8 Publishing Rate Annual (column id: cust_publishingrate)

This field is used to calculate the correct annual amount for the pay component which is marked with “Used for Comp Planning” > “Comp”.

To achieve this, the amount of any amount-based pay component which is not used for marked with “Used for Comp Planning” > “Comp” and the percentage-based pay component which are not assigned to pay components with the setting “Used for Comp” > “Comp” needs to be subtracted from the new base salary in a first step. So basically, all pay components groups which are in the group “Non-Comp”:

1) Final Salary – Non-Comp

Second, the ratio between the component which will be increased, and the percentage-allowances must be calculated:

2) \[ 1 + \frac{\text{Allowances Used for Comp}}{\text{Used for Comp}} \]

Finally, the ratio between the two values needs to be determined:

3) \[ \text{Publishing Rate Annual} = \frac{(\text{Final Salary} – \text{Non-Comp})}{1 + \frac{\text{Allowances Used for Comp}}{\text{Used for Comp}}} \]

The following screenshots show how this can be set up in the system using the presented columns and pay component groups:

Configure the selected column

- Column Name: Publishing Rate Annual
- Read-only: Yes
- Column Type: Money
- Column Alignment: Default
- Money Format: Default Money Format
- Formula: \( (\text{finSalary-cust_notusedamount})/(1+(\text{cust_notusedallowances/cust_usedComp})) \)

Figure 19 – Publishing column configuration
If for any reasons the pay components in EC are stored with annual values this step is sufficient to calculate the correct amount for publishing the data back. If the amounts stored in Employee Central are based on the frequency, the following calculation is also required (Adjusted Publishing Rate).

6.2.9 Adjusted Publishing Rate (column: cust_adjustedpublishingrate)
To prevent that an annual amount is published back into the amount field, another calculation step is required.

If the employee is not paid hourly, the publishing rate annual needs to be divided by the annualization factor:

1) Publishing Rate Annual / Annualization Factor

If the employee is paid hourly, the publishing rate annual needs to be divided by the standard weekly working hours and 52 weeks:

2) Publishing Rate Annual / Standard Weekly Working Hours / 52

In the case that we have both types of employees on the worksheet an identifier needs to be used in order to determine which of the above-mentioned formulas will be applied. In our example, we use the annualization factor as a criterion.

The following screenshots shows how this can be set up in the system using the presented columns and considering the column “Publishing Rate Annual”:

![Figure 20 – Publishing column configuration](image)

As described, the formula in the column “publishing rate annual” is also included in this calculation and was only included to explain the logic better on the worksheets.

As soon as this is set up, the worksheet for our exemplary employees will show the correct values for the three employees described:
6.2.10 Mapping in the compensation template XML file

In a last step, the field mapping to publish the data back to Employee Central needs to be adjusted accordingly. The field “Adjusted Publishing Rate” has to be mapped with the Pay Component Amount field in Employee Central. Therefore, the column ID has to be added to the XML template in Provisioning. Please find attached an exemplary code:

```xml
<comp-ect-output-component componentType="payComponentRecurring" eventReason="ANSALREV" effectiveDate="2020-04-01">
  <comp-hris-field-map>
    <comp-field-id><![CDATA[localCurrencyCode]]></comp-field-id>
    <hris-field-id><![CDATA[currency-code]]></hris-field-id>
  </comp-hris-field-map>
  <comp-field-id><![CDATA[cust_adjustedpublishingrate]]></comp-field-id>
  <hris-field-id><![CDATA[paycompvalue]]></hris-field-id>
</comp-ect-output-component>

Afterwards, it can be reviewed in compensation that the field mapping is updated successfully:

It is important to note that no component code is added to the mapping in the XML file as the system will publish the data back to Employee Central based on the setting “Used for Comp” > “Comp” and only this component will be updated with the new amount.

Percentage-based allowances will automatically be updated based on the new amount that is published to the employee profile so that the increase reflects the amount on the Compensation Worksheet.