

Rolling with the Punches in Today's Comp World

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As Mike Tyson famously said, "Everyone's got a plan until they get punched in the mouth." In today's hyper-competitive environment, successful companies need to continually adapt and refine their approach to the market to remain competitive, to win today's round and tomorrow's fight. We are not suggesting that you incent your sales force to bite the competition's ear like Mike Tyson did, but you do want to incent them to win the final round. On a month-by-month, even week-by-week basis, successful companies need to ensure that their incentive compensation plans are actually incenting the behavior they want to promote. To be effective, employees need to understand, embrace and trust their incentive plans and process, within the context of their total compensation. At the same time many industries, particularly financial services, are facing new regulatory and compliance requirements, many of which vary according to market or country.

The old model of incentive compensation required hard-coded transaction systems which essentially served as calculators. Their focus was on automating routine tasks in a centralized way and, as such, these systems were a great step forward. The underlying assumption was that plans would be uniform across the company and would remain static during the plan year. As a result, these systems were not designed to provide much flexibility and generally required IT involvement to code plan changes, often requiring weeks or months to implement. The goal was to save time and reduce errors. The focus was on transactions and not analytics.

Helping employees understand and embrace their compensation plans and



empowering management to simulate and predict possible compensation outcomes was never part of the equation. The old compensation model is preventing many companies from realizing the true promise of their incentive compensation; the ability to motivate the right behavior at the right time and in the optimal way.



Large companies today, especially global ones, need to handle many types of complexity innate to their incentive compensation. The new priorities are simulations, sales hierarchy management, adaptability, fast and more frequent changes to plans and managing mobility (people changing jobs, territories or plans).

Allowing companies to quickly and easily make adjustments within their defined framework is critical, as incentive plans often need to align the behavior of the individual performer with the business strategies while respecting the nuances at the division, region and country level.

Companies using systems that were not designed to manage these dynamic, business-driven processes risk missing the opportunity to drive behavior in the most effective way. Complexities include factors like: many different plans that are tailored to provide metrics and incentives appropriate to individual lines of business, markets, and roles; team composition and sales channels that are evolving constantly; local rules and regulations, as well as multiple currencies and languages; advanced or deferred payments. Plans may have many different drivers or key performance indicators (KPIs), requiring metrics from a variety of data sources, but do not have a data mart containing all the data needed for compensation calculation. Companies may also wish to access market data to provide benchmark comparisons.



Today's ideal compensation systems have certain characteristics: a compensation data mart which presents the single view of the truth for incentive simulation, calculation, and reporting. This makes it straightforward to extend your models by adding a new KPI or providing a mechanism to collect the necessary data for new data points that do not reside in an existing source. Furthermore, forward-thinking compensation system vendors like beqom® are leading into the future where today's ideal compensation systems will no longer be sufficient. Distributed, cloud-based systems which orchestrate disparate systems in order to obtain information in real-time from data services to manage the sales performance of the future are on the horizon. beqom® is investing now in those compensation technologies of the future.

There also may be complex, matrixed organization structures, or the need for multiple hierarchies to roll up the data in different ways: for financial reporting, management reporting, legal/compliance reporting, or analysis by product family or line of business.



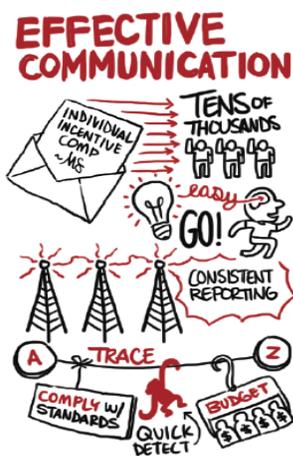
As mentioned above, a requirement for compensation systems today is that they be easy and fast to change, meaning that business users (sales operations or HR compensation administrators) should be able to maintain the system, without requiring an IT coding project for every change. This is necessary if the organization wants to be competitive not only in meeting performance objectives, but also in attracting and retaining top talent in each market. The adage "time is money"

applies here. If you don't adapt quickly, you hamper your recruiting and retention, and may fail to seize opportunities for market share or increased sales and earnings. So, the business owners of the compensation processes should have the ability to make frequent changes or implement spot incentives globally or locally, such as special



contests to address competitive pressures or take advantage of windows of opportunity. They need to spot local market trends to ensure their compensation is competitive, while being able to compare compensation across the enterprise to ensure fairness and adherence to a corporate framework.

This means that business users need to be able to make changes to a plan on the fly, create and implement new plans or contests, manage an evolving organization structure, and produce reports needed to satisfy the ever-changing needs of the board, executives, operational management, finance, regulators and auditors. In functional terms that means an easy-to-use interface for defining business rules (without needing programming skills), running what-if scenarios on model plans to evaluate ROI, defining the appropriate workflow/approval process, and producing the reports that are needed by the various stakeholders. One of our large healthcare customers every quarter redefines the indicators they use to measure performance and calculate incentives for all their sales reps. This enables them to be nimble and competitive in a dynamic industry.



Any incentive management system will produce commission statements or other variable compensation reports. However, this is only a small piece of the process of communicating effectively with employees and partners. Communication should be timely and automated.

Your compensation system should be able to generate reports that are accessible via the web or mobile devices, and should provide the capability to automate the process of sending email notifications or distributing reports or statements via email. Reports should show not only the earned and paid amounts, but the individual's performance

results and how the compensation was calculated, including accounting for accruals, draws, deferred compensation (which can be quite complex because of its multi-year nature), and so on. And, the overall compensation communication process entails not only payment information, but also managing workflow processes like approval of budgets and new compensation plans, plan acceptance, and payment approvals. The status of these processes should be visible to compensation administrators, and all should be able to be tracked via an audit trail that shows who, when, and why approvals were granted or denied, and when/why adjustments were made, and by whom.

Finally, it's worth considering whether incentive compensation should be part of a total compensation solution, rather than existing in its own silo. Industry analysts such as Mark Smith of Ventana Research have identified total compensation management as the next logical step for companies who want to drive performance. Historically the market has been segregated into Sales Performance (commissions, incentives) and Employee Performance (merit increases, bonus plans, equity-based plans). This artificial division may serve the marketing needs of the vendors by addressing a targeted audience, but fails to give companies a unified platform that allows them to manage and analyze total compensation in a holistic way, and fully automate the process of generating total compensation statements.

Unifying these processes is logical and seen by industry analysts such as Gartner and Ventana as the future of compensation – and, this unification will help HR to be a business partner and change agent that provides added value and direction to the business. Gartner included sales commissions in their "Hype Cycle" review for human capital management, with the recommendation that companies should look for the opportunity to link compensation and rewards to performance, by integrating them with performance appraisal/assessment solutions, and the prediction that compensation



vendors will begin to provide this type of integration.

With the right incentive compensation system in place, even a company with complex compensation needs can improve top and bottom line performance, effectively manage its human capital, and free up compensation administrators to provide the kind of value-added analysis that makes them key business partners in the organization. But staying competitive requires investing in change. As another boxer, Joe Louis, once said, "Everybody wants to go to heaven but nobody wants to die." Sometimes the old ways need to die, in order to reach sales effectiveness heaven.

