WorldatWork Sales Compensation FOCUS

TAMING THE WILD WEST WITH AN EFFECTIVE SALES COMPENSATION GOVERNANCE PROGRAM

By Joseph DiMisa, Sibson Consulting | May 2015

In many organizations, the sales compensation program resembles the Wild West with management shooting from the hip in setting the year's incentives, measures and quotas. Moreover, the cowboys are apt to change horses in midstream if the plan fails to work, installing new measures and goals that might not reflect the organization's fundamental beliefs about pay or its administrative guidelines for budgeting, setting goals and determining awards.

Compensation governance — long associated with executive compensation — can impose law and order on an unruly sales compensation program. It can provide a solid foundation of guidelines, programs and tools to drive performance to company objectives. And it can help management maintain the integrity of plan operations and avoid using guesswork or unwittingly altering company values.

Rather than acting like the new sheriff in town — who singlehandedly makes and enforces the laws — compensation governance can help sales organizations manage the pace of change. Governance outlines common rules, practices, levels and communication requirements, which sales and business managers and human resources can use to customize plans for individual business units.

This article outlines how organizations can build support for, design and implement an effective sales compensation governance program.

Ready: Outline the Organizational Benefits of Governance

If an organization has been letting sales management run wild on compensation, the first challenge might be to get all parties to agree that governance is a means to codify "what is important" rather than an attempt to control or limit sales management authority. Therefore, it is critical to establish common aspirations about the purpose and advantages of governance that all parties can accept. For example, a major telecom company identified the following as its raisons d'être for sales compensation governance:

- Develop, design, monitor and enforce the most effective and consistent sales compensation plans that meet corporate objectives
- Provide a uniform approach for the key design steps — assessing, developing and implementing plans
- Ensure that corporate cost parameters; target levels; and legal, regulatory and compliance risks are mitigated or controlled
- Provide basic logistical support, rules, timing and accountabilities for the assessment, design and implementation of best-practice compensation plans.

Aim: Identify the Components

Because sales compensation governance supports the organization's decisions on strategy, market coverage and job roles, it is important to outline key policies and practices that will ensure consistency and continuity in addressing the eight components of sales compensation design. The table on the next page outlines these components.

Fire: Evaluate Current Guidelines and Create New Governance Standards

Establishing sales compensation governance needs to be an all-inclusive undertaking. Casting a wide net will ensure that the strategic priorities and challenges facing the corporation, the business units and the compensation program are taken into account. Key steps in establishing sales compensation governance should include:

- Seeking Input. Reach out to executives, sales management and other key stakeholders to identify current issues and understand their perspectives on business objectives, sales strategies, legal risks, compliance risks, costing

Component	Key Policies and Practices
Job Roles	Define the types of jobs that the governance guidelines cover and match specific types of jobs with specific governance policies and standards.
Target Pay Levels	Outline the parameters for benchmarking and define corporate policies for target levels. Include market pay levels, pay strategy and target compensation levels for each type of job. Identify the types of data to use.
Mix and Upside	Detail parameters for establishing salary and incentive mix based on job roles, sales cycle and sales process factors. Set upside potential rules for top performers.
Measures and Weights	Define the key performance measures and relative weights that business units must use to link compensation strategies to objectives.
Mechanics and Links	Define the types of payout formulas and mechanics that the organization should use to ensure the company is clearly communicating objectives and providing proper line-of-sight.
Quota Setting and Allocation	Define the process to set quotas for each performance measure and outline how the organization should allocate quotas to job roles, considering market-potential and performance-based factors.
Implementation and Administration	Establish guidelines for standard communications material templates, plan documents and plan policies. Outline how business units should introduce these materials to the organization, including suggested timelines and checklists to follow.
Evaluation and Planning for the Next Cycle	Define the process to conduct 30-, 60- and 90-day audits. Detail the types of metric dashboards to use to ensure the plan is meeting corporate standards and business-unit objectives.

Source: Sibson Consulting

guidelines, management supervision, business-unit roles and HR and compensation plan strategy.

- Analyzing Current Costs. Look at pay components such as pay vs. performance relationships, distribution of performance and high-performer rewards across the organization. Evaluate the current salary/incentive mix/bonus, upside potential, performance measures, weights, links, threshold and excellence levels, and mechanics used to ensure the new guidelines take current practices into consideration.
- Defining the Governance Design Principles. Define the eight design components to be included in the governance tool. Clarify issues such as business-unit flexibility and alternatives. Identify key decision makers and clarify role alignment between corporate HR and business units and how each influences the governance guidelines and design process.

Reap the Benefits

Companies that invest the time and effort in sales compensation governance realize a near-term payback in the first year and ongoing returns in subsequent years. Typically, the greatest returns from a governance investment come in these areas:

- Better expense control, resulting in more predictable and lower compensation costs and compensation cost of sales
- Improved alignment of jobs and their compensation with company growth objectives to eliminate “directional drag” from opposing company objectives
- Increased performance and cost predictability for business planning
- Better performance tracking and metrics that can help monitor business-unit pay vs. performance
- Improved ability to attract and retain the right talent — and stem turnover — through a properly positioned pay program that includes appropriate pay levels and upside earning opportunities
- Reduction of legal and regulatory risk from plan non-compliance or unethical behaviors by plan incumbents.

In contrast, simply adjusting payouts or replicating plans used in the industry rarely produces a positive result. That approach can damage the organization’s performance by creating misalignments between strategy, job roles and compensation.

Conclusion

When it comes to taming the Wild West of sales compensation, a well-designed sales compensation governance program can direct and motivate the entire organization to work together and outperform the competition.

About the Author

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