DEVELOPING AN EFFECTIVE SALES COMPENSATION PLAN IS ONLY HALF THE BATTLE. **EFFECTIVE CONTROLS ARE NEEDED TO ENSURE A PLAN WORKS PROPERLY.**

BY MARK W. ANDERSON

TAKE CHARGE

Sales and finance executives do not need to look far to find examples of sales compensation governance efforts that didn't work.

In 2004, the CEO and head of sales of a large software company plead guilty to federal securities fraud in a case stemming from efforts to extend the last month of fiscal quarters to allow additional sales to be booked. In April 2008, a *Fortune* 500 business machine maker paid millions of dollars to settle a lawsuit brought by sales employees who charged discrimination with respect to sales territory assignments, quotas, and compensation. And in late 2008, a global telecommunications firm was charged with withholding or delaying commissions due thousands of retail employees as the result of a computer glitch.

What each of these cases has in common is that better governance—including sound compensation administration, detailed reporting, and effective oversight—might have helped avoid the damage. In recent years, companies of all sizes have moved toward increasing their control and governance over sales operations and compensation to meet the needs of more rigorous compliance environments, such as those mandated by Sarbanes-Oxley. But even as companies develop these controls to build on the fundamental elements of a well-designed sales compensation plan, they often end up focusing more on automating (bad) administrative processes rather than redesigning and improving processes with governance in mind.

Instead, what's needed is an effective approach to sales compensation governance that ensures processes are consistently managed, able to handle exceptions and conflicts, and embody controls that are not often envisioned or documented in the sales compensation plan. In developing such a model, companies and responsible executives can help steer and monitor their sales organizations by emphasizing accountability, strategic alignment, and process consistency.

CATCHING THE OUTLIERS

It's no secret why many organizations fail to effectively focus on true sales compensation governance: sales operations and compensation policies are often complex and fast-moving, particularly as companies become increasingly global. Making matters worse, the ranks of middle-level managers—those often charged with ensuring compliance—are thinned as organizations seek to minimize costs, opening up the potential for a vacuum in the corporate culture around compliance. Perhaps most vexing of all is the belief in some organizations that once a sales compensation plan has been created to the satisfaction of management and employees alike, a company's work is done. Each of these factors can make it difficult for an organization to get a handle on effective governance.

Despite these challenges, however, a wealth of benefits can accrue for sales organizations that develop and employ an effective governance model. For example, Scott Sands, principal and sales force effectiveness practice leader with Hewitt Associates in Atlanta, Georgia, points out that even with the most well-designed sales compensation plan, exceptional and unusual situations can drain an inordinate amount of sales management's time—opening up the potential for gaming, inconsistent interpretations, and other problems. Effective governance resolves these problems and reduces the negative impact on profitability that these situations present.

"Even if you've tried to design your compensation plan to fit every situation, what inevitably happens is certain people or situations become outliers that aren't representative of the larger population," Sands says. "Often, those items that were not anticipated in the plan don't have guidelines for how to handle them in the policies, terms, or conditions. An effective sales governance model can help address these issues and, if implemented correctly, can help balance and align the plan with the company strategy."

Effective sales governance also can help manage complex problems, such as standardizing policies and procedures across a diversified global sales force or unifying a sales organization after a merger or acquisition. Companies experiencing rapid growth also can benefit from consistent sales governance, especially as they struggle to maintain the flexibility to respond to labor markets and customer needs.

Of course, having an effective governance model that can be applied across the organization can be tricky, Sands says. "Some business units may be growing quickly and need more flexibility to make certain changes and exceptions; other business units may be mature and have more established norms," he said. "But having a governance model that can work for all those different entities is important."

FINDING THE RIGHT PROCESS

So what, exactly, does an effective sales governance model look like? Although different outcomes vary from organization to organization, a number of key components lie at the heart of effective governance. For example, the model needs to include proper reporting tools, solid processes, and active oversight.

To start, the right stakeholders must be identified to help design the model. Although it might be easy to find folks who want to be part of designing the sales compensation plan—where the results are going to drive the sales force, along with profitability and individual compensation—efforts to develop a governance model can be seen as unnecessary or unappreciated work.

Nevertheless, the same process used to gather stakeholders for the compensation plan development—whether they are from finance, human resources, sales operations, or IT—can be applied to creating governance models. Another question

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altogether is where to place primary responsibility for implementing the model once it's designed. "Because the responsibility for executing and running the calculations for compensation often falls within sales operations, governance needs to start there as well," says Jeff Evernham, regional vice president of Synygy. "But even though you're placing responsibility with those people closest to ground—and who know how the compensation plan works—you need separate oversight to make sure the governance is truly effective."

A TRIO OF NEEDS

To ensure both viability and validity, Evernham suggests that good governance should incorporate software, structured yet flexible processes, and human oversight.

The software tools used, for example, need to be able to track who authorized specific exceptions to the plan and who is responsible for reviewing and tracking sales operations behavior. The software should also be able to generate an audit trail throughout the entire sales compensation management process.

The process component needs to consistently accommodate a clear roadmap for dealing with unexpected or unusual situations in a structured manner, including a workflow component that routes various issues to the right decision makers for action. The human oversight piece needs to be removed from the day-to-day operations of the team. This ensures independence but still close proximity to be able to understand the intricacies and quirks of the compensation plan and the sales team.

"To have the necessary governance, you have to have all three pieces," Evernham says. "First, you enforce proper processes through software and automation. Next, you ensure all human processes are fully documented. Then, you have to provide oversight to both of these items, but primarily to the documented processes where you are relying on humans to execute according to the process. You've got to have those three elements to make it work."

A PATH TO FOLLOW

The concept of oversight fits well within the realities of an enhanced compliance environment, particularly in the realm of Sarbanes-Oxley. Although the kinds of dollars appropriated in a sales compensation plan may not rival those of other material expenditures a firm must control, variations in a sales compensation plan can present an opportunity for mistakes or manipulation.

"Sales compensation plans usually don't make it up to the board [of directors] for approval," Sands says. "You're not going to ask the CEO to go on sales calls or sign off on individual deals. But if you can monitor the plan results, and put the responsibility on lower-level employees to stick to the plan, then you can reasonably say that you are exercising adequate controls over an organization."

In the end, true governance means that a system exists and is adhered to in order for authoritative control over the program to take place. And although some sales executives may balk at the idea of governance, an effective governance model can benefit sales employees directly, as processes and practices are enhanced to include formally documented dispute and exception processes. In addition, developing and implementing an effective sales governance plan can create another tool to align the sales compensation plan with a company's culture, philosophy, and corporate strategy, beyond simply improving internal management processes and reporting practices.

"From a very high level, you need to establish alignment, accountability, and accuracy," Sands says. "If people think that governance of sales compensation ends when the plan is designed and approved, then they're missing half of it." ■