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Sales Compensation

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5 Sales Comp Governance Obstacles and How to Navigate Around Them

By Josh Miller, OnTarget Incentives | September 2016

As anybody in this field will tell you, sales compensation is often an ocean of choppy waters and raging waves. Storms come through frequently and can be difficult to navigate. This is especially true in the area of plan governance, where the sheer number of stakeholders to please is a major challenge. The nature of sales compensation leads to frequent conflict; those in sales compensation leadership positions need a navigational plan to steer through these storms. Following are five obstacles to prepare for and principles to use to help you navigate around them.

1. Exception requests
2. Employee transfers
3. Deal crediting
4. Decision-making authority
5. Plan design showdowns.

Exception Requests

Exception requests happen almost daily in some organizations. The greater the amount of complexity in your sales organization, including the variety of products sold, the more likely it is that you'll receive frequent exception requests. When receiving this request, the following steps should be taken:

1. Review the request to determine if this scenario is premeditated, or is an unintentional oversight in the rules of the current compensation plans.
 1. If the scenario is premeditated, and the rule that applies was intentional for any reason, work with the requestor's sales leadership to communicate the reason to the requestor.
 2. If the scenario truly is something that was not thought through, now is the time to think it through. Work with others to determine a wise ongoing policy to handle that scenario.
2. Determine if the employee is owed anything. Whether through manager miscommunication or in compensation plan rollout, sometimes an employee acts in the way he/she thought was instructed, expecting payout.
 1. If leadership miscommunication is determined to be the case, work with sales leadership to determine the appropriate amount of payout. But ensure it is handled as a SPIFF (sales promotion incentive fund) or one-time bonus *separate from the compensation plan*. It's important that no payout is made through the plan in order to keep the integrity of the plan intact for legal and audit purposes.

Employee Transfers

Employee transfers are another common scenario, which may come up as a more specific type of exception request. Transfers can come in two different flavors:

1. **Territory/region change.** This is where an employee's role isn't fundamentally different, but there may be overlap in the transition to another employee in his/her old territory and a new employee in his/her new territory. To be ready for these types of transfers, every organization should have documented "split" rules that specify no more than 100% credit will be given to individuals acting in the same role on the same sale. For some industries pre-determined split rules can be set, but for most it will depend on the sales cycle and timing of the transition for employees involved. Either way, early in the sales cycle, a split should be determined that does not exceed 100% credit.
2. **Role change.** This is the more complex type of employee transfer because the nature of an employee's role is changing. Pre-determining rules for every type of role change is impossible because of the number of potential types of role changes. The primary guiding principle should be that a specific date should be decided in order to make the transfer effective, even if this date is decided retroactively. Sometimes this can be determined up front, but other times flexibility is needed to allow this to be chosen retroactively. It is reasonable to allow for this type of retroactive decision because typically role changes like this are initiated by the organization. Care should be taken to avoid adversely affecting the employee during the transition. If an employee truly does go above and beyond by performing in both roles for a period, it is best to stick to a single effective date for the transfer, while working with leadership to determine if a spiff or one-time bonus should be paid to reflect the extra work. If a transfer effective date of March 1 was chosen, for example, yet for another two-to-three weeks the employee was still assisting in the old role, then leaders in the old role should be included in deciding on the bonus amount. That bonus should also be expensed to the "old" role in this example.

Deal Crediting

One of the trickiest issues of all that commonly comes up in sales compensation is the determination of who should be credited. In general, the role of sales compensation leadership should entail providing policy and guiding principles, but not making final decisions of who should be credited with what amount. For instance, as mentioned earlier in this article, one guiding principal should be that within the same role (or a set of roles), credit as a percentage should not exceed 100%. Sales leadership, not sales *compensation* leadership, should be determining what those split percentages should be. Sales compensation would not have enough visibility into the sales process to determine that Person A should receive 70% and Person B should receive 30%. In the majority of cases, as soon as it's determined multiple people within the same role (or set of roles) need to be involved in a sale, it should also be determined how the split should take place. Leaving that decision until later is a mistake.

Decision-Making Authority

Depending on the size of your organization, a sales compensation governance board may be a good idea. A governance board meets periodically to review exception requests and policy decisions that have come up since the last meeting. The governance board should include the leader of the sales compensation function, as well as representation from sales and HR leadership. For smaller organizations, the head of sales compensation can act as a one-person board. Either way, the decision-making authority should be documented in plan documents, along with the process employees should follow to request any exception or review.

Plan Design Showdowns

While not specifically part of the governance of existing compensation plans, another type of sales compensation conflict that commonly occurs is a strong difference of opinion on a plan design decision. On a recent client engagement, a sales leader for a particular group felt strongly that a certain component should remain in place when others on the design committee felt differently. In such cases, it is important to spend time getting to the root cause of the disagreement. In this recent engagement, a component existed that paid an employee for taking on a new client, before they actually made a new sale or renewal. After looking into the matter more closely, it became apparent that the reason for wanting to pay

for this wasn't to pre-pay, but rather it was a proxy to reward employees for carrying larger books of business than their counterparts. Once this was better understood, the design committee was able to discuss whether the plans should be built to have different compensation target amounts for different size ranges of the books of business that the employees carried. From this, we can learn not to rush to vote or decide such conflicts, which inevitably leaves one side feeling like it lost in the decision. Instead, take the time to discuss the underlying reasons for the disagreement since frequently the conflict is not as much of a conflict as it first appears.

Learn How to Navigate the Obstacles

It's not possible to control the weather, nor is it possible to prevent conflicts in sales compensation. Learning how to sail a ship across the ocean means learning how to navigate the weather and obstacles as you travel. The same is true in sales compensation governance. Consistent application of principles such as these can ensure a ship stays afloat. Prepare for the storms of conflict in sales compensation governance, and you'll stay afloat too.

About the Author

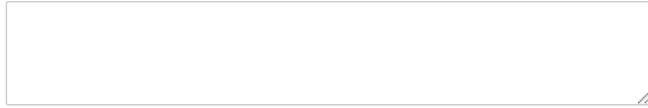
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