The Importance of Governance in Your Incentive Compensation Program

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Introduction

Incentive Compensation (IC) is one the key drivers of sales force effectiveness. To properly administer a sales incentive program it is important to recognize that Incentive Compensation is a dynamic process that must regularly flex and adjust to marketplace and corporate challenges. As commercial operations teams adjust their plans to account for these conditions, they must also strike a balance to ensure their incentive plans remain relatively consistent. Ultimately minimizing field disruption that would negatively impact field motivation.

A sample of internal and external IC challenges companies must account for include:

External Pressures

- The rapid evolution of a changing selling model that incorporates the emergence of specialty pharmacies, growth of integrated delivery networks (IDN), decrease in physician-rep interactions, and the need for local intelligence.

- The emergence of specialty niche products that involve complex sales crediting, and account level goals.

Internal Pressures

- Sales leadership requests for plan design changes to account for perceived geographic biases that often complicate the IC plan for the entire nation.

- Sales and Marketing requests for brand specific contests or SPIFFS that often dilute and distract field personnel from IC plan objectives.

- Excessive internal stakeholder review and approval requirements that often delay IC plan communication and geographic goals.

- Sales crediting / quota challenges from field based personnel.

Addressing these pressures is not an easy task and requires strong IC governance to determine which pressures should be attended to immediately and which can wait to the following cycle, or not addressed at all.

In this white paper, we address the importance of IC Governance, its team make up, roles and responsibilities. We also go into the details of governing best practices towards plan administration along with the IC design process and key governance touch points.

Answers to these important questions will not only help companies manage their incentives in a consistent and predictable way, but will also provide a road map to build a more collaborative, agile and sales-driven organization.

Why is IC Governance Required?

In addition to addressing the internal and external pressures faced by IC teams, effective IC programs require alignment across many stakeholders in Commercial, HR, Legal,

Compliance and Finance organization. It takes strong IC governance to ensure alignment with these stakeholders so that the IC administration process remains on track. At its core, governance includes established procedures and business rules, followed by the Incentive Compensation team to ensure the plan administration process remains on track. Supporting the procedures and business rules is the role of the IC Governance Council which serves as the governing body that addresses internal and external pressures. Further, given the legal and compliance considerations facing an organization, transparency into the business rules that govern IC programs is always required. A strong governance structure ensure that these considerations are adequately met.

The key objectives of IC governance should:

- Ensure IC designs are aligned to corporate and brand strategy.

- Facilitate auditing through effective documentation.

- Establish business rules surrounding all aspects of IC administration. Including, but not limited to, crediting, adjustments, goal setting, reporting, timelines, etc.

- Establish a RACI for all IC functions from design to administration.

- Facilitate the approval processes and a forum to address IC plan changes in response to events.

- Drive alignment across stakeholders.

- Establish and communicate effective and detailed IC documentation to reduce field inquiries and subsequent IC team investigations.

- Address changing market conditions and their impact to IC effectiveness. For example, the emerging landscape with the rising influence of accounts, IDN's; Multi-channel marketing to inaccessible targets and accounts.

Who Should Be Included in The IC Governance Council?

The Governance Council is a leadership team empowered with controlling plan changes and approvals. As seen in the table below, the Council involves members from five key areas and include stakeholders whose approval is required in the design of the incentive plan.

Table 1: Governance Council Members and Responsibilities

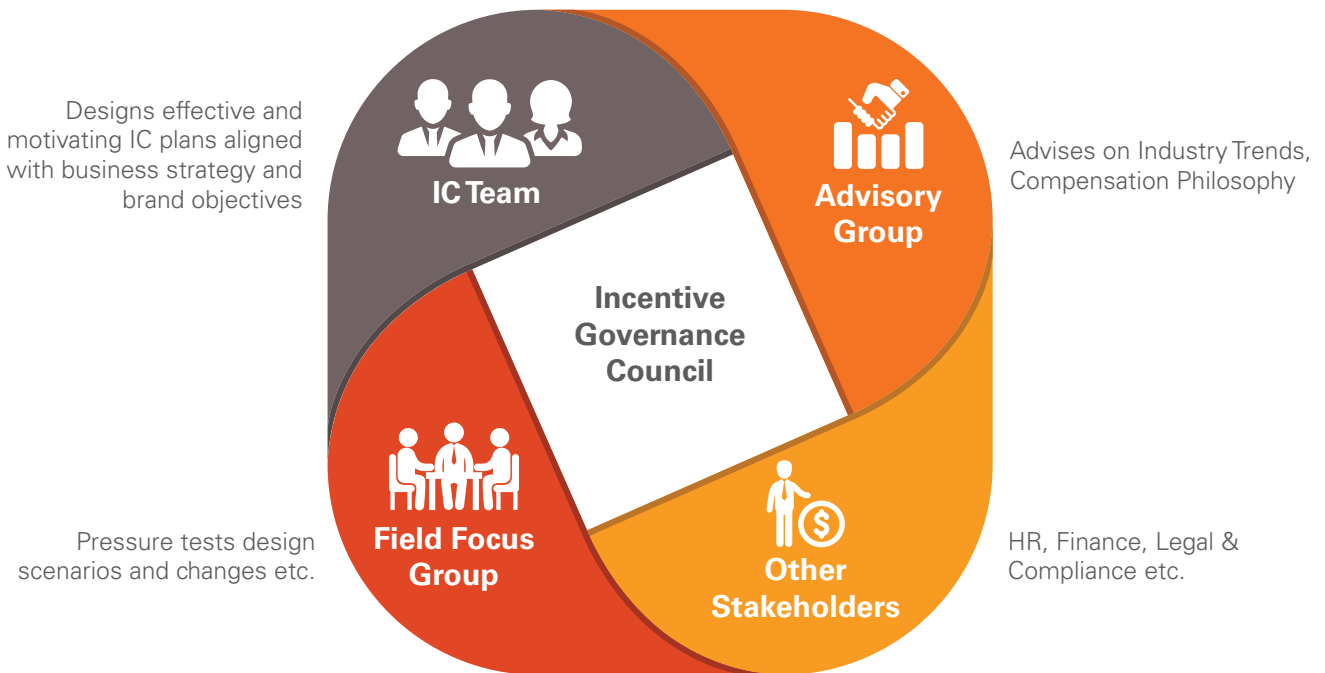|	Commercial Operations	Sales and Marketing	Finance	Human Resources	Legal
Role	Director	VP of Sales / Marketing	Director	Director	Director
	Sr. Manager	Region Director		Sr. Manager	
	Plan Design	**Review / Approve plan**			
Responsibilities	Modeling / Analytics	Update Sales / Brand Strategy	National Performance updates	Plan Eligibility	Ensures Corporate Integrity
	Plan Implementation	Voice of Field	Plan to Budget approval	Reviews for plan bias	Corporate Compliance
	Plan Communication	Ensure Field Accountability	Forecast Guidance		
	Calendar / Timelines				

This council can also have subject matter experts in an advisory role from outside organizations.

To drive peak effectiveness, a quarterly cadence should be established for the council members to discuss pressing issues impacting the Incentive Compensation Plan. Decisions and outcomes are then the responsibility of the Commercial Operations (Incentive Compensation) group to execute and communicate accordingly.

An effective IC Governance Council model should have the following elements as shown below:

Figure 1: Effective IC Governance Council Model

Designs effective and motivating IC plans aligned with business strategy and brand objectives

Advises on Industry Trends, Compensation Philosophy

Pressure tests design scenarios and changes etc.

HR, Finance, Legal & Compliance etc.

IC Team

Advisory Group

Incentive Governance Council

Field Focus Group

Other Stakeholders

Governance Council is the leadership team empowered for governance on changes and approvals (mostly cross functional in composition)

Best Practices IC Governance Framework

An IC Governance Framework includes five key steps that must be adhered to while administering any successful IC governance program:

- **IC Plan Design:** The plan is designed by the Incentive Compensation team and approved by key stakeholders.

- **Implementation:** The approved IC plan is implemented within a dedicated system by the IC team. Test cases and quality checks are also put in place to ensure error-free deliverables.

- **Administration:** The IC team uses the system to generate monthly/quarterly reports. Validations are performed before sending it to stakeholders for payouts approval.

- **Approval Process & Payout Disbursement:** IC Payouts are approved by key stakeholders, and sent to the payroll processing team for payout disbursements.

- **IC Plan Evaluation:** All the issues and inquiries documented during the plan period are evaluated at the end. Both good and bad observations are documented as best practices and learnings respectively.

IC Governance puts rules and regulations in place for each step. These rules are re-evaluated at the end of each period and learnings from this exercise are incorporated to ensure a smooth payout cycle in the future.

The most important purpose of governance is to bring objectivity and transparency to the system. Objectivity comes when all the historical cases and potential future issues have been thought through and accounted for during the evaluation phase of the cycle. This will enable the council to formulate an exhaustive governance framework.

All processes within each step should be documented along with the corresponding roles and responsibilities. This five-step IC Governance Framework is detailed in the following diagram.
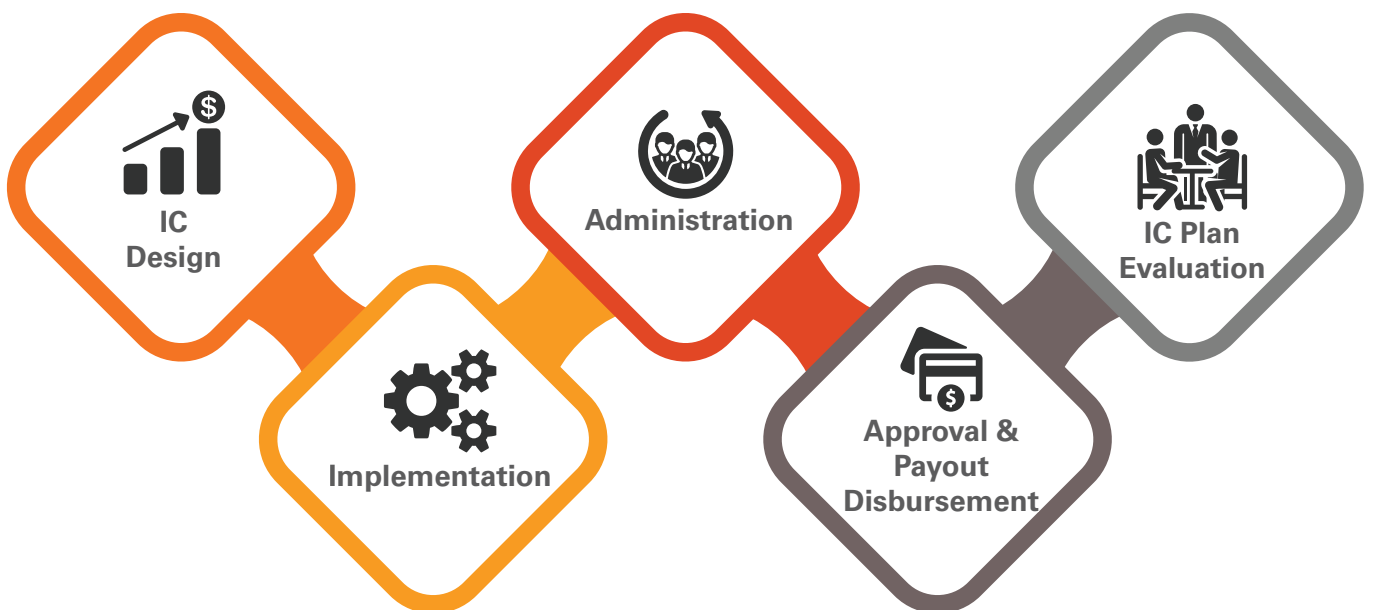
Figure 2: Five Steps in IC Governance Framework

Table 2: Detailing IC Governance Framework

IC Design	Implementation	Administration	Approvals and Payout Disbursement	Plan Evaluation
• Approval process –Who approves the plan? How much time does each approver has to approve? • Deadline for the design process • What is the latest date IC will be released to the field? • What should be covered in the IC Plan document? • Any best practices/ learnings from prior experience	• Various checks and test cases for the implementation team • Detailed project plan with roles and responsibilities from implementation team • Deadline by which the implementation has to complete • Sample payout computation for various roles and expected outlier cases • Any best practices/ learnings from prior experience	• Validations and checks by operations team • Detailed project plan with roles and responsibilities from IC admin team for each payout cycle • Deadline of sending payout report for approval • Deadline for submitting data inquiries for current quarter processing • Identification of all outliers cases to be highlighted in the approval meeting • Best practices from prior experience	• Approval process – Who approves the payouts? How much time does each approver has to approve? • Deadline for sending approved payouts to the payroll processing team • Any best practices/ learnings from prior experience	• All inquiries and issues occurred during the plan period are critically evaluated and learnings are from this are used in the next cycle • Documentation of important learnings from each phase • Any best practices/ learnings from prior experience

Alongside these typical processes documented in each step, it is recommended to have the following points clearly documented in the administration section:

• Multiple issues can potentially affect the bonus of a sales representative. Some issues will have greater impact on pay in comparison to others. In this case, any standard governance framework should clearly indicate:

   o What warrants a re-run for IC?

   o Should a re-run happen for the entire team or just the affected sales representatives?

   o How should revised payouts be communicated and determine if the field should return the funds (claw backs) given to them erroneously?

   o What is the impact towards annual awards contests?

   o What circumstances must occur to warrant contest results to be re-calculated?

• The IC Governance Framework should have payout, President Club and contest eligibility clarifications in special cases like promotion, transfers from one team to another during the year, payouts of the field representatives enrolled in performance improvement programs, etc.

• A policy regarding over-payments.

• Any SLAs (Service Level Agreements) on dispute resolution.

Conclusion

Governance should play a significant role in a company's Incentive Compensation program. It provides the mechanism for leadership to incorporate industry best practices, learn from historical issues and design a process that best fits the overall company strategy.

Creating Incentive Compensation governance for the first time requires dedicated input and effort from each stakeholder involved in the process. Once created, new learnings are incorporated into the existing model. One simple way to assess the health of an existing governance model is to check the number of inquiries from the field. It will be obvious from this if the governance in place is working.

The IC Governance Framework shared in this whitepaper will help establish clear and concise communications across the organization. Without it, field representatives face an increased risk to be distracted with unnecessary issues which impact motivation and thereby the product sales.

An established IC Governance Framework will not only deliver better effectiveness to the overall administration process but will also ensure that over-engineered and complex IC plans do not lead to low engagement and misalignment with business strategies.

If any of the challenges discussed in this white paper resonate with you, Axtria can help. We can start by assessing the health of your current IC processes and demonstrating the value of an industry leading governance framework.

Sources

1. Axtria: http://insights.axtria.com/blog/best-practices-in-incentive-compensation-governance-analytics-and-process

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