

Build for growth: Master the ICM advantage

How Incentive Compensation
Management fuels dynamic,
high performance enterprises

**Watson
Financial
Services**



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Highlights

- Achieve growth with increased workplace productivity
- Use ICM to promote compensation programs
- Centralize and streamline the administration of plans
- Transform business to meet the demands of rapidly evolving enterprises
- Reward contributions that advance growth initiatives

Enterprises are confronting numerous challenges as they strive to grow and thrive in today's global economy. Difficult market conditions are forcing management teams to reevaluate longstanding practices and explore new ways to optimize productivity and performance. A fundamental fact increasingly stands out when such initiatives are pursued:

A business organization is only as good as the people within it – in innovating products, generating sales and delivering services.

Decision makers are rediscovering the importance of the human element in successfully building and sustaining a world-class organization. More importantly, the vital role of compensation in focusing and motivating staff to achieve corporate objectives is rapidly gaining recognition.

Critical to such efforts are technologies designed to automate the management of compensation as well as to rationalize and administer the funding that essentially supports the livelihoods of employees. Greater rigor in handling labor costs is then possible, and the ability to drive greater initiative and performance from employees is improved.

Enterprises need to be able to evolve and expand intelligently. Compensation is an invaluable tool for effecting change in the workforce and will prove instrumental in establishing high performance organizations that are built for growth.

It is important to understand key trends and developments that are making compensation an issue of concern to decision makers. By mastering compensation yields, decisive advantages when growing and transforming a business can be gained. In sum, incentive compensation management (ICM) technologies can simplify and improve efforts to organize and incent workforces to strive to succeed.

Major challenges driving change

There is little room for complacency in today's business world. Markets are more open, competitive, fast moving and volatile than ever before. Even the most successful companies must constantly consider new ways to increase productivity, acquire and sustain competitive advantages, and drive growth.

Five major trends stir companies from complacent business attitudes to pursue change as a matter of self-interest, if not survival:

- **Globalization:** Economies are increasingly intertwined as barriers to trade and investment decline while developments in one region can exert a material impact on another (generating both opportunities and threats)
- **Competition:** New entrants often rapidly appear from abroad as barriers to market entry decline while innovation can bring unrelated or adjacent sectors into competition (for example, smartphones seizing market share in cameras)

- **Market Volatility:** The pace of change is picked up markedly in many industries, with rapid fluctuations in supply, demand and prices becoming the new normal (as well as collapsing product lifecycles)
- **Shareholders' Expectations:** Demands for greater performance are unrelenting as shareholders reward success with higher expectations on returns on investments
- **Talent Shortages:** Skills are critical to market differentiation, but employment of the right people — whether in design, engineering, management, sales or marketing — is often impeded by a scarcity of qualified candidates

The question then is, how best to respond to these trends, and best position the enterprise for growth and success? A major area to focus on is the workforce: how it is compensated, inspired to perform, take initiative and overachieve.

The vital role of incentive compensation

Fundamentally a company is only as good as the people in it, carrying out all the functions necessary for a thriving business. Any major advantage in achieving profitable growth will stem from how people are directed and motivated to succeed. Incentive compensation management plays a central role in systematically defining and rewarding contributions that advance corporate growth strategies.

When considering compensation, keep in mind the urban legend of a bank robber explaining, “I rob banks because that’s where the money is.” Similarly, labor costs represent one of the largest outlays for many firms, presenting huge opportunities for realizing meaningful improvements.

Depending on the industry, compensation expenses can exceed the equivalent of 30 percent of revenues. Moreover, enterprises “generally spend between 3 percent and 10 percent of revenues on incentive compensation”¹ (such as commissions, bonuses and rewards). Compensation is the lifeblood of a company, but entails very sizable outlays.

Compensation	Over 30% of revenues
Incentive Compensation	3 to 10% of revenues

Only so much headcount can be reduced before companies are cutting into their core capacity. Only so many roles can be shifted to lower cost labor markets before diminishing returns are encountered.

To prosper in increasingly adverse markets, enterprises need to devise better ways to acquire more productivity from each dollar spent on compensation. Incentive compensation is a vital tool in cultivating a corporate culture of performance and in sharpening the focus of organizations on growth, initiative and innovation.

Superior methods to guiding and incenting a workforce towards higher performance are essential. Key behaviors and achievements with critical milestones need to be systematically encouraged, reinforced and rewarded accordingly.

Incentive compensation management can underpin numerous strategies for accelerating growth and in driving greater efficiencies and differentiation. For instance, variable compensation can raise the bar for corporate responsiveness and agility, customer-centric practices and intellectual property creation.

Initiatives are applicable across the enterprise that can drive productive behaviors with various roles and responsibilities:

- **Management:** Along with the alignment of executives’ shareholder expectations, line management should invest time in mentoring and maximal team performance
- **Professionals:** Expensive credentialed experts (like in legal, tax and financial advisory services) need to be utilized wisely, with a focus on activities that maximize differentiation, profits and recurring revenues
- **Creative:** Design and marketing contribute enormously to the success of many firms; rewarding both outstanding innovation and fulfillment of milestones in product lifecycles and marketing calendars is invaluable
- **Customer-facing Staff:** Promote high levels of customer service as well as innovation in customer relationship management in call centers, field service operations, branches and store outlets
- **Sales:** Ensure that internal and partner sales channels go after and win better quality business with increasing frequency (larger deals with higher margins, aligned with what management wants sold) in order to drive long-term, profitable growth

What must get done

Enterprises must become more adept at managing human capital overall, and in deploying effective incentive compensation programs for suitable roles. Higher productivity needs to be coaxed from the workforce. With greater labor productivity, the ability of an enterprise to achieve higher rates of growth increases accordingly.

Implementing and expanding a corporate performance culture requires substantial improvements in organizational capabilities around transparency, insight and agility. Roles unaccustomed to receiving much variable compensation need to be carefully handled. Even with performance-based roles like sales, basic practices on awarding compensation will often require significant revamping.

A five-point approach should be adopted when looking to modernize and expand incentive compensation management processes across an enterprise:

- **Planning:** Gain a baseline understanding of the opportunities and challenges with employing variable compensation, benchmark projected productivity improvements, and define and prioritize programs that will exert the greatest impact
- **Implementation:** Launch compensation programs that draft plans, educate staff on new compensation methods, deploy necessary tools, execute change management and institute approaches
- **Processing:** Deploy systems and applications to accurately compile information (notably transactional and activity data), manage compensation rules and automate payment processes
- **Monitoring:** Regularly assess the validity of assumptions through review processes, track performance levels against plans, audit expenses for variances and gain early warning on favorable and adverse trends
- **Updates:** Hone decision making on pursuing interim revisions to plans, improve responses to performance trends and entrench mentoring competencies in line management

Incentive compensation management (ICM) solutions

Fact-based strategies and tactics are at the core of effective incentive compensation management. A strong technical foundation ensures decision makers are working with the right facts. Along with rigorous data management, software tools help business users take advantage of sophisticated analytics and remove inefficient manual steps from processes through automation (payouts, for example).

A complete ICM solution will offer components for planning, analysis, execution and administration, including:

- **Modeling:** Define and explore all significant factors relevant to proposed variable compensation programs; simulate alternate scenarios with different plan components and perform what-if analyses; and identify optimal formulas, rates and sets of incentives
- **Calculations Engines and Payment Processing:** Automate crediting procedures with calculations engines, collapse processing cycles in running data and transactions against prescribed rules and formulas, and forward details on disbursements to systems like payroll
- **Analytics and Forecasting:** Conduct historical, trend and multidimensional analyses; support ad hoc reports and dashboards tracking payouts and key performance indicators (KPIs); utilize predictive analytics; and project future compensation expenses
- **Workflow and Process Automation:** Guide and automate key steps in processes in order to eliminate manual work and increase the speed and rigor of recurring tasks such as constructing and updating plans, sharing documents (sign-up letters) handling disputes
- **Administration:** Ensure data is correctly consolidated and cleansed; facilitate oversight of plans and payee details (internal staff and partners); and expedite revisions and mass updates to rules, formulas and plan components

ICM systems yield substantial improvements in process integrity, process efficiencies, transparency and agility. On an enterprise wide basis, users benefit from systems being:

- **Integrated:** Data, rules, tools and reports are all centralized in one logical place that can be easily accessed and utilized by different roles and departments (such as business analysts, compensation specialists, human resources, finance and sales). Data can be automatically moved between systems.
- **Inviolable:** Users acquire an environment focused on eliminating errors by making it easy to efficiently audit and fix potential errors with data and calculations. Moreover, automated integrations with external systems like payroll eliminate points of failure.
- **Secure:** Compensation involves sensitive information on labor costs. Solid security is achieved with encryption, monitoring tools (track “who changed what, when”) and standards like SSAE 16 and the ISO 27000 series.
- **A Vehicle for Change:** Clarity on what works and what does not is now possible, while any necessary adjustments can be easily made to incentives, plan components, KPIs and similar instruments. Plan components can also be reused and libraries of best practices on successful methods can be developed.
- **Scalable:** Installations can take on ever increasing demands without allowing performance to degrade. Companies can add staff, partners, business units, processes, new methodologies and tactics — while still enjoying the same level of performance or better.

Key takeaways going forward

Sustaining business growth is a primary concern with companies. However, current business climates are compelling companies to look far and wide for new solutions. Of increasing interest is the concept of incenting the workforce with outcome-based, variable compensation to drive higher productivity in achieving objectives.

Business can build for growth by entrenching cultures of performance and employing incentive compensation management skillfully and consistently.

ICM systems are invaluable in dramatically improving how the necessary analysis, data management and process automation is executed. With ICM tools, successful practices can be replicated, scaled up and revised as businesses change.

In summary:

- Enterprises must master the human element in order to achieve sustained levels of business excellence
- People underpin business expansion and transformation (like reinventions, reorganizations and acquisitions), and greater labor productivity directly translates into an increase in an enterprise's capacity to grow
- ICM systems delivers essential capabilities for rationalizing and automating practices, improving oversight and systematically driving higher performance in workforces
- ICM initiatives should focus on improving process integrity, process efficiency, business agility and intelligence with variable compensation programs

For more information

To learn more about IBM Sales Performance Management solutions, [contact your IBM sales representative](#) or visit: ibm.com/industries/sales-performance-management.

Footnotes

1. "Boosting the Effectiveness of Sales Compensation" by Accenture, page 3.

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