Cognitive Compensation: Driving smarter decisions with transformative technology

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Contents

Cognitive. It's a term we frequently hear today, but what does it mean? For some, this term means artificial intelligence (AI), machine learning, or advanced analytics. Although cognitive applies to all three of these areas, by its very definition, it is a conscious intellectual activity. But what does cognitive mean when it's applied to compensation?

Traditionally, compensation has been focused on paying people accurately, paying them on time, and encouraging "good behavior." As business needs become more complex, as the burden of capacity grows, and as the rate of performance heightens, this classic form of incentive compensation is not able to keep pace.

Sales leadership is looking for an advantage to help their business stand out from the competition. To use a sports analogy, they are looking for the "sweet spot." Our goal is to help them find that sales sweet spot and a competitive advantage for the organization with Cognitive Compensation.

The term Cognitive Compensation describes a thoughtful process for compensating those who exhibit certain behaviors. This compelling process helps articulate to producers and account managers specific objectives that produce the right results. It is a way to promote your unique proposition. Cognitive Compensation consists of three main pillars: speed to insight, conduct risk, and prescriptive sales performance management. They are the blueprints many organizations follow today for successful competitive advantage.

Technology Advancement and Consumption over time: Telephone, Electricity and Internet
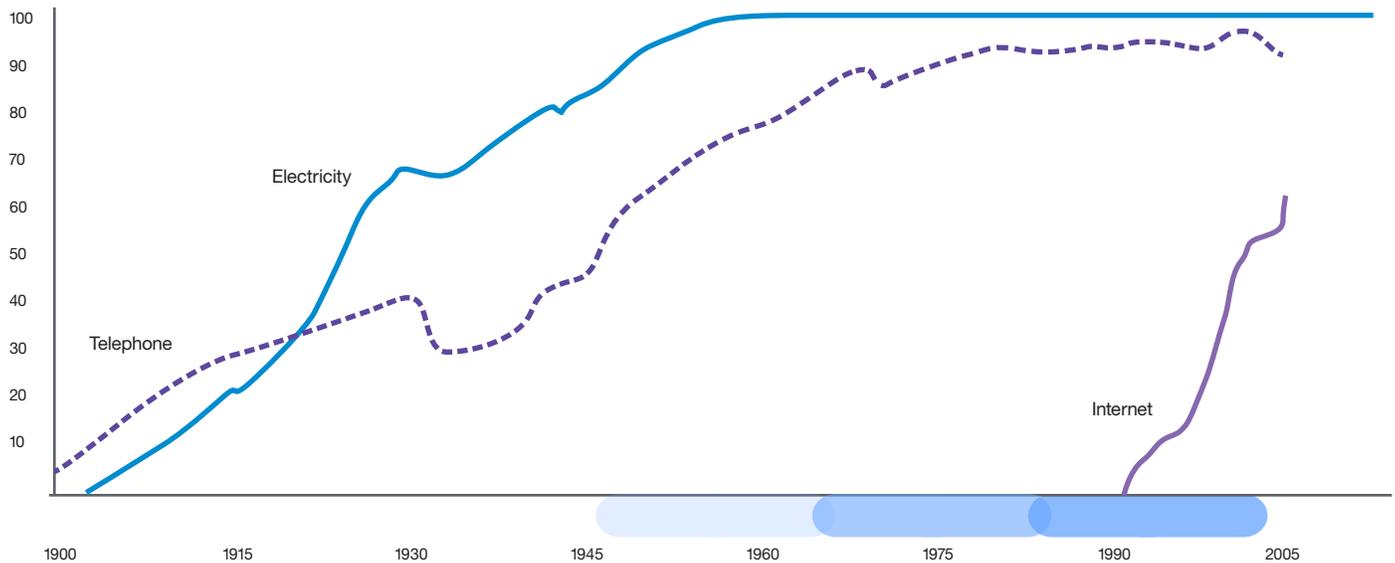

Figure 1: Beginning with the telephone, the consumption of three major technologies has increased more rapidly over time, with Internet seeing the sharpest increase.

Speed to insight

A fit-for-purpose infrastructure and architecture provide the business the scale and flexibility to operate intelligently in the delivery of the right actionable information at the right time.

Spreadsheets were once the best technology available. For many, they are still the fallback position when understanding data. They replaced previous advancements such as calculators, green bar charts, green screens from main frames, industrial size Univac computers fed by punch cards, tape, pencil and paper, and all the way back to the abacus.

With the advent of the telephone, organizations had a century to adopt and adapt to this new technology in place of the telegraph. Adoption of computers took less than half that time. The internet and mobile devices blew those times to adoption away (Fig. 1).

Now, spreadsheets are the technology holding us back; interpreting them hampers our ability to keep pace with business.

A strategy for scale, adaptability, and performance

Organizations that can adapt to challenges at scale and speed will always lead the pack. Therefore, a strategy for scale, adaptability, and performance needs to be part of every organization. Your IT department may just be one person who knows how to set the router or it may be a team of thousands of the most talented professionals with cutting edge tools. However, it all needs to be able to work at the speed of today's business.

Wherever you are on that spectrum, you need a strategy. If you are not yet tracking to the larger end, software companies can provide the architecture and infrastructure to meet the needs of teams with 50 account managers to those with 50,000, all through the cloud.

Scale, adaptability, and performance are especially critical for compensation. Incentive compensation management requires razor-sharp accuracy, smart business decisions, and improved outcomes at the speed of business. Cognitive Compensation delivers on these requirements, underpinned by a fit-for-purpose infrastructure and architecture at scale that keeps up with the speed of business—efficiently and cost-effectively. What makes cognitive compensation unique, however, is that the technology is evolving in design to support the sales organization specifically for variable compensation and total reward programs.

Successful architecture is the result of thinking through the support systems of integration between critical upstream forms of technology such as customer relationship management (CRM), ERP, data warehouses, and other payment-critical systems. Award-winning technology architects seek out new and faster capabilities that can support infrastructure-as-a-service, allowing business to focus on business-critical needs and design systems with the future in mind. These are open to the new technology for integration based on client needs.

Advancements in AI, machine learning, open-source, security, resiliency and theoretically infinite and affordable storage space all push the boundaries of speed. They give companies a competitive edge and enable them to outperform in the marketplace.

What this all means is that your software provider needs to be your technology partner. True business partners are not only planning for your short-term satisfaction, but they are also committed to a roadmap of performance and innovation into the next decade as you grow. Make certain they provide a clear value for speed to insight that will maximize your investment to grow with you and scale to the needs of your business.

The cognitive compensation sweet spot for speed to insight

Cognitive compensation delivers insights fast, from a purpose-driven, unique, rearchitected premium performance solution developed to allow organizations to scale their incentive compensation management to meet today's demand. It is designed to handle any data type and any level of complexity around your calculations.

Advanced analytics techniques offer rapid insights from diverse data sets that include structured, semi-structured, and unstructured data from different sources and in different sizes from megabytes to zettabytes. Technology partners provide innovation and community best practices that maintain a higher value to business at lower long-term cost of ownership. Responsive business partners take the investments of high-cost operations and apply those across the community along with the shared functional improvements.

Conduct risk

Sales performance management technology provides a framework for encouraging good behaviors, identifying risky actions, and replicating positive results.

Conduct risk is the amount of risk that a company carries when employees, third parties, and channels act on behalf of the company. The risk is that they could behave in a way that may harm clients or the brand. Headlines focus on the aftermath of organizations that fail compliance, fail investors, or face substantial litigation when conduct risk is not monitored properly.

What causes conduct risk and how can it be identified?

Senior leadership designs a strategy to produce results for increased revenue, decreased costs, and improved client and employee satisfaction. However, the increased results at any cost are not the real objective. It is the "right revenue." If organizations cut corners, malicious behaviors occur, and the individuals responsible are paid, we are validating those actions. We ultimately are allowing those bad behaviors to take place. It is our duty as a responsible organization to make the best efforts to monitor, track, and record the outcomes of our teams to make sure to mitigate risks.

Of the many vital indicators that flag poor conduct risk, there are three that can be considered "low-hanging fruit" for sales operations and finance groups:

- Track employee behavior patterns during account opening and transactions initiated by clients. View account behaviors outside standard deviations.
- Monitor variable and incentive compensation results over time. When individuals do amazing things in the organization, it is important to review them to see if they can be repeated by others for improvement or if there are mischievous behavior patterns that need rectifying.
- Check customer account behavior patterns related to opening, closing, funding, and usage.

You may already be able to address these three areas. But how efficient are these processes and are they integrated into daily routines?

Cognitive compensation uses the best of artificial intelligence, machine learning, and advanced analytics to help companies catch problems early, fix flawed schemes, and promote individual accountability. Advanced technology monitors employee-related activities and examines structured and unstructured data for potential trouble spots, making it easier to detect and react to risky behavior.

By tracking performance and incentive results at different levels of the sales organization, it is easy to identify risk hot spots quickly. Comprehensive analytics can be adapted to the requirements of different teams and users, including compliance and risk management. It is then possible to look across entire rosters for outliers or overall patterns that may be associated with risky behavior.

The Cognitive Compensation sweet spot for conduct risk

Conduct risk can be a challenge as sales races to reach the goals of meeting timely targets at the end of periods, quarters, or the year. While the team advances to those goals and approaches the thresholds in place for the compensation accelerators, the highest temptation and opportunities for poor conduct appear. The 97–99 percent area of target attainment is when systems can be the focus of manipulation. As you can see in Figure 2, above the target threshold are the enticing rewards that look just within reach.
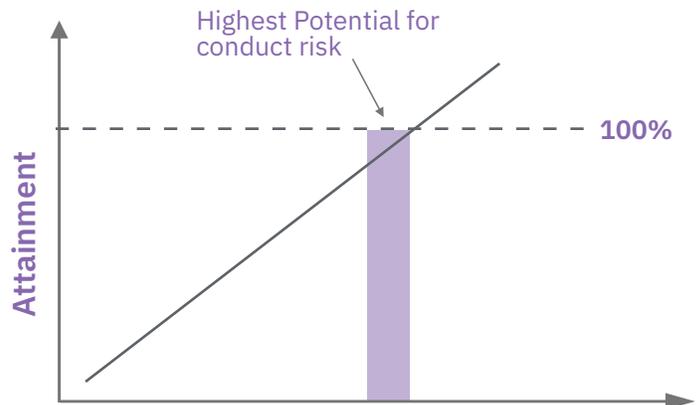

Figure 2: Pinpointing the potential for conduct risk

By being a voice for your compliance organization, you can help that organization take advantage of the preexisting framework of compensation systems to monitor, track, and prevent malicious activities while enabling sales operations and finance to be better internal partners to the business. Efficiency gains and accuracy improvements from compensation systems now become cognitive compensation best practices, offering ways to use these tools and platforms beyond their traditional capabilities to drive new value across the organization. Table 1 provides some examples.

Mitigate Conduct Risk with Sales Performance Management

Align Targets	Utilize SPM Data	Improve Training
Evaluate and align sales targets with sound risk management practices and customer satisfaction indicators.	Through the use of existing technology, link incentives to product and customer-specific information to identify suspicious behavior and misconduct.	Improve sales training to ensure customer satisfaction and sound risk management practices.
Revise Strategy	**Enable Oversight**	**Enhance Evaluations**
Develop goal-setting processes to ensure sales goals are attainable and aligned to customer needs.	Empower risk and audit oversight programs for sales behaviors and incentives.	Broaden employee evaluation programs to include risk management and customer impact considerations.

Table 1: Sales Performance Management and Conduct Risk

Prescriptive SPM

Prescriptive SPM takes the lessons of the past, applies them to internal processes and procedures, and prescribes the next best action. Administrators of compensation systems can focus on strategy rather than answering questions about what should happen next.

The success and failures of our past teach us lessons that we don't have to duplicate. Applying these lessons to our internal processes and procedures enables us to be faster and succeed more.

Organizations do not lack data; they are overwhelmed with it. What they require is an ability to understand the right data at the right time. The organization of data helps us create new information. When this raw data is converted into useful insights, businesses realize dramatic results. The ability to process data into understandable information at a high speed provides the ability to outmaneuver the competition and recognize more opportunities.

Companies need the ability to drive above-market growth. This capability is dependent on client insights. How well it translates to actionable steps depends on the sales team. This gap between data capture and human analysis is aided by high-speed tools that can shape client insights into understandable concepts for exploration.

Advancements in capturing consumer information have transformed CRM. Leveraging different information from the alphabet of data sources, such as CRM, ERP, CPM, FIN, and the data warehouse, is critical to the successful advancement of cognitive compensation.

In a 2010 research report, "Analytics: The new path to Value" by MIT Sloan Management Review, which was based on a survey of nearly 3,000 executive managers and analysts, they stated:

Senior executives now want businesses to run on data-driven decisions. They want scenarios and simulations that provide immediate guidance on the best actions to take when disruptions occur... Executives want to understand optimal solutions based on complex business parameters or new information, and they want to take action quickly. These expectations can be met—but with a caveat. For analytics-driven insights to be consumed—that is, to trigger new actions across the organization—they must be closely linked to business strategy, easy for end users to understand, and embedded into organizational processes to take action at the right time.

Almost a decade later, these tools, which were once limited to senior executives, can now be placed in the hands of every account executive and top producer to improve their ability to follow strategic directions and take the next best actions. Data discovery analytics tools provide fast alignment of opportunities from a combination of client insights, policies, product intelligence, and pricing.

The same study by *MIT Sloan Management Review* shows that "top-performing organizations use analytics five times more than lower performers," and the most significant performance inhibitor is the adoption of analytics technology. Leadership and front-line sales alike need insights to exploit their growing data and computational power to get smart and get ahead in ways they never could previously.

The power of prescriptive

Analytics capabilities accelerate the potential for discovering the right data to drive good relationships and improve customer engagement opportunities. The ability to leverage multiple data sources and discover maximum analytical achievements has often been historically left to services organizations with high billable rates and lengthy model manipulation. Making this innovative technology available to sales enables them to follow more straightforward steps to actionable information.

Capabilities for planning and acting smarter are used by businesses that emphasize agility in their culture and are receptive to change, particularly when decision-making processes are driven by data. Every department across the organization in these corporate cultures is asked to consider this type of methodology. Human resources, for example, are asked: "Can you improve onboarding sales teams appropriately aligned with the needs of product, geography, territory, and expertise?" Finance departments implemented similar systems over the last decade as they sought greater accuracy and efficiency by using collaborative processes in budgets, plans, forecasts, and reporting.

This sounds too good to be true. There is a need for balance. Providing new tools without a prescriptive approach and without a clear use case can become a new distraction. Sales already spends a great deal of time not selling while recording travel and expenses, processing contracts, researching the answers to questions, or shadow accounting their compensation.

Prescriptive SPM is designed by seasoned professionals and is built on top of the thousands of lessons learned from hundreds of successful implementations, resulting in a collection of best practices. Unique and non-obvious insights drive the right goals, activities, and actions that will maximize value in the marketplace. The functional touchpoints are financial management, operations, sales and marketing, and client engagement planning.

Table 2 provides a quick overview of the technology, goal, proficiencies, challenges and obstacles, and data management techniques associated with prescriptive SPM.

Prescriptive SPM	
Methodology and technology	Data discovery analytics
	High-performance cloud platform
Goal	Provide unique or non-obvious insights that maximize our value in the marketplace by driving the right goals, activities, and actions
Functional proficiency	Financial management
	Operations and production
	Sales and marketing
	Client engagement planning
Business challenges	Competitive differentiation through innovation
	Inform critical business decisions
	Cost efficiency
	Revenue growth
Key obstacles	Lack of capability to use sophisticated analytics to realize business value
	Lack of understanding of how to apply analytics to improve business practices
	Lack of timely data, data alignment
	Culture does not encourage the sharing of information
	Lack of evolving processes to transform the organization
Methodology and technology	Ability to capture, aggregate, analyze or share information and insights
Methodology and technology	Insights to guide actions that align to strategies
	An iterative process of discovering patterns and outliers
	Day-to-day operations

Table 2: Prescriptive SPM Overview: Arriving at the next best action.

Intelligence alone is an insufficient guard against poor judgment. Factors like stress, fatigue, illness, and daily life can make intelligent people do unthinkable things. Technology can help us build processes and procedures that safeguard, secure, and provide continuity, accuracy, audibility, and precision. In today's business, we need to take the lessons we've learned in the past and apply them to preserve against poor judgment and dangerous behavior.

Organizations no longer have the same availability for retrospective analysis they had in the past to find improvements on a path forward. We need to prescribe the best actions. It is now possible to leverage advanced analytics that apply mathematical and computation sciences data to recommend beneficial actions to drive desired results. Like medical doctor who can make a diagnosis and prescribe a remedy, technology is quickly approaching the point where sales operations will be able to engage in similar dialogues.

The cognitive compensation sweet spot for prescriptive SPM

Already today, we see that intelligent, prescriptive guidance can be given to answer sophisticated inquiries. This reduces the burden on the administrators of compensation systems from answering questions so that more strategic operations can take place. This also allows for the satisfaction of account managers by providing guidance and answers immediately. It prescribes behavior for the end user—the next best action—from transactional and customer insights. These recommendations are based not only on obvious but also non-obvious behavior.

The next logical step is to unify speed to insights and the capabilities of prescriptive SPM to provide immediate guidance on the next best actions based on the knowledge, the expertise, and the experience of key individuals to pursue the correct accounts. This maximum use of technology allows fast direction to sales on how to solve problems, improve the propensity to acquire, and the tendency of churn with the organization.

Summary

Cognitive Compensation delivers scalability, personalized advice and recommendations, and targeted accuracy. When companies use the full scope of cognitive compensation to leverage data and goals to gain non-obvious insights, they can design and evaluate compensation to drive the right behavior through speed to insights, conduct risk, and prescriptive SPM.

With a toolset that enables understanding without having to do complex statistical analysis, data modeling, or other time-consuming advanced analytics exercises, it is possible for system operators to align strategic direction with data-informed decisions. Backed by a technology platform that can scale to the size of any organization, cognitive compensation can put you on a prosperous and stable path to the future.

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

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