White Paper

Conversations on incentive compensation

The changing role of finance in pay for performance

Watson Financial Services

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The changing role of finance in "pay for performance" functions

As companies reevaluate their compensation strategies in order to adapt to changes in the economy and business landscape, a broader view of "pay for performance" is being considered across business units. No longer just a function of sales, optimizing performance is becoming a priority consideration of finance. With a keen eye on margins, finance requires close collaboration among business units to keep costs and sales at a steady pace and "pay for performance" modeling provides a ripe opportunity to address the Chief Financial Officer's (CFO's) growing need for strategic planning.

Finance executives are taking keen interest in how their companies can motivate sophisticated sales behaviors. They are exploring things like team selling, cross-selling, as well as tying incentive compensation to more complicated metrics like profitability, customer satisfaction and repeat business. CFOs are no longer focused on the top line results of their sales team; instead, they are developing sophisticated incentive plans that can motivate behaviors in a complex, competitive business environment.

Conflicts between finance and sales

Complicated sales compensation plans can lead to unexpected outcomes. Unexpected sales outcomes can disrupt those delicate balances that finance works so hard to strike between the cost of sales, revenue, and ultimately, profitability.

The current economic climate is also exacerbating the tensions between sales and finance relative to compensation plans and payouts. With mergers and acquisitions activity increasing, new product innovations hitting the street, new regulatory requirements and more complex distribution arrangements, the world is becoming more complex. Add to that an accelerating pace of business and an increased "need for speed," as well as an environment where revenues are flat to slightly declining; the challenges can seem insurmountable.

Finance wants to change sales plans to pay on margin, while traditionally this has been done based on revenue or orders. Furthermore, finance favors "self-service" reporting and analytics that keep costs low and empowers end users. However, this is in conflict with sales's desire to increase customer face time and reduce administrative responsibilities.

Bridging the gaps

To bridge the gap and resolve the conflicts between finance and sales, leaders in business units must sit down and talk to each other about their challenges, needs and environments. After a path is chosen, it will be some sort of compromise that communicates goals, expectations, resources and timeframes for change. Finance should have a seat at the table with sales when addressing compensation plans. They have a great reputation and experience base to help in analytics, reporting and compliance. It is also high on the list of requirements for improving incentive compensation processes. This is a great way for finance to "be part of the solution."

Effective technology solutions can enhance transparency, speed and visibility while managing and modeling sophisticated plans and payouts. This is a win-win for finance and sales as the needs of both business units are integrated in a seamless manner.

Building for the future

The future will likely witness plans that align "pay for performance" strategies with desired sales behaviors, and these incentive compensation management processes may very well be the shared responsibility of finance, human resources and sales. Sales compensation as a business process has expanded in perception from being a simple system through which sales people are paid accurately and on time to a set of processes that:

- Align sales behavior to corporate goals and strategies.
- Mid-course, correct and help ensure swift redeployment.
- Enable sales management to have the information they need to analyze their business and make "fact-based decisions" versus "gut-feel" decisions.
- Give sales people "trust" in their commissions process so they spend more time selling and less time "shadow accounting."
- Still accurately pay sales people on-time.

The prospects for the future can be brighter with the introduction of new, cutting edge technology solutions that allow for the sophisticated management of complex sales compensation plans while maintaining visibility, transparency and speed.

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