The new era of incentive compensation management: simplicity, productivity and profitability

How Software as a Service is revolutionizing incentive compensation management

IBM

Contents

Introduction

Accurately planning, executing and administering incentive compensation programs is critical to an organization's performance, strategies and success. Rapid technological change, constrained budgets and intensifying demands driven by globalization and rising competition are forcing businesses of all sizes to change the way they use of software to manage incentive compensation programs.

Incentive compensation, vital to business growth, has become increasingly complex due to additional regulations, changing market dynamics and opportunities, and more sophisticated strategies to incent higher workforce performance. Meanwhile, technology budgets are shifting away from IT-centric operations to the line-of-business (LOB) stakeholders that demand more influence over compensation systems and processes.

To gain a competitive advantage, increase productivity and drive growth and profitability, best-in-class enterprises are turning to Software as a Service (SaaS) delivery models for supporting their incentive compensation management technology needs. Flexibility, agility, accuracy and scalability have become the hallmarks of a successful incentive compensation program. Cloud-based incentive compensation management (ICM) solutions help enterprises access the necessary technologies and realize business benefits more rapidly, with less friction, enabling decisive improvements to sales performance and compensation plans.

This paper examines the trend towards cloud computing in the incentive compensation management arena, and how it is improving planning, management, oversight and execution of key compensation and performance management processes. With the age of cloud computing, ICM software has evolved into flexible, powerful sets of capabilities that impact bottom lines and drive business growth.

Key challenges

A number of challenges are compelling firms to reconsider how variable compensation is used to incent higher performance and more productive behaviors within organizations. Incentive compensation programs are growing more complex, and the technologies used to support those programs lag as demand rises. Enterprises find themselves at a crossroads in the institution of successful compensation programs, typically confronting a combination of the following issues that lead them to reengineer compensation processes and tools:

- *Managing costs*
  In an era of tightening budgets, enterprises often find it very difficult to stay on top of all labor costs, including variable compensation, bonuses, options, incentives and non-cash rewards. Such accounting becomes more difficult when a company grows, divisions are spun off or new businesses acquired. More importantly, projecting future compensation costs and aligning corporate strategies becomes extremely difficult. All the while, many firms rely on expensive, obsolete technology and manual administration of incentive compensation programs, leading to overstaffing and inefficiencies in areas like handling adjustments, disputes and compliance. The deployment of IT and administrative staff to build, manage and maintain legacy systems can increase costs and perpetuate an administrative-heavy operational model.

- *Globalization*
  Globalization has confronted firms with a more complex global business environment that gives greater focus to local market conditions. A one-size-fits-all approach to ICM simply doesn't work when accounting for different preferences, product mixes, labor standards, competitors, regulations and tax regimes.

- *Stakeholder expectations*
  During either good or bad times, stakeholders expect objectives to be met by their investments or partnerships with organizations. As growth is driven through an organization, particularly sales, the bar often rises, forcing management to search more frantically for tools to drive higher workforce performance. The growth drivers then get put under increased scrutiny as they're commoditized by investors in publicly traded companies as well as those seeking or receiving funding from private investors such as venture capitalists and private equity firms.

- *Sales productivity*
  Sales productivity is driven not just by the institution of bonuses or other compensation, but by the alignment and constant re-alignment of compensation programs to goals and corporate strategies. Firms though often find they have poor visibility into what works with incentive compensation plans and what doesn't in raising the performance of staff. This is especially the case with sales and partner channels, which may dispute feedback on performance or credit for transactions. The lack of transparency and visibility undermines sales professionals, who don't know where they stand relative to goals. Organizations also suffer from a reduced ability to drive best practices and get buy-in, which comes with increased visibility into individual and corporate performance and compensation plans.

- *Complexity*
  Some organizations that abandoned manual systems to manage ICM programs became early adopters of complex, patchwork-driven technologies, which became a key barrier to orchestrating a successful incentive compensation program. In fact, one of the reasons for the proliferation of manual systems or the reliance on email in the past was due to the complexity of the initial calculation engines, over-reliance on IT staff for execution, and difficulties with effectively rendering compensation rules and plan components. The compensation programs became increasingly complex due to more ambitious strategies to raise performance, more frequent changes to plans, the proliferation of regulations, and greater focus on operating worldwide, but the technology was not able to keep pace. Interestingly, companies often reverted to spreadsheets as stopgap measures, which then became permanent, severely undermining the potential of their incentive compensation program.

- *Compliance*
  What were once simple awards now require audit trails, and complicated accounting calculations. Any incentive compensation program must have the flexibility to keep pace with growing audit and reporting requirements. This is especially the case for executive compensation, but also for compensation offering a mix of options, stocks and commissions, and for programs for partners.

Rise of cloud computing

According to Gartner, Inc., the use of cloud computing is growing, and by 2016 it will become the bulk of new IT spend.[1] The United Nations' Information Economy Report stated that generated revenues from Infrastructure as a Service (IaaS), Platform as a Service (PaaS) and SaaS have been forecast to reach somewhere between $43 billion and $94 billion by 2015[2] out of a market Forrester estimates is $2.06 billion.[3] SaaS spending is growing six times that of the spend on all software,[4] and Forrester's 2014 Cloud Computing Predictions states that SaaS has now become the norm for buying new applications.[5]

So what is "cloud computing" and SaaS? According to the International Telecommunication Union (ITU) and the International Organization for Standardization (ISO), cloud computing is, "a paradigm for enabling network access to a scalable and elastic pool of shareable physical or virtual resources with on-demand self-service provisioning and administration."[6] With Software as a Service (SaaS), the cloud customer takes advantage of software running on the cloud provider's infrastructure rather than on the customer's own hardware. The applications required are accessible from various client devices through either a thin client interface, such as a web browser or a program interface.

Over the last ten years, cloud computing has undergone rapid growth, that is expected to continue into the foreseeable future. Technology drivers for continuing market growth include: maturing technologies providing for greater agility, speed-to-value and ease-of-use, widespread availability of high-speed bandwidth and the rise of "mega" data center networks.

Eight reasons to adapt Software as a Service for ICM

Incentive compensation management systematically defines and rewards contributions that advance corporate growth strategies. With incentive compensation programs driving significant revenue in an era of budget restraint, SaaS delivery models are poised to unleash the potential of ICM software in helping firms derive more productivity from each dollar spent on human capital.

1. *Productivity and profitability*
   SaaS ICM systems enable visibility in real time to accurate information on individual and team performance. Moreover, such systems present dramatically greater flexibility and rigor in developing and deploying plans and automating processes like inquiries, disputes, adjustments, splits, scheduling and task management. Greater productivity in your ICM program directly translates into an increase in an enterprise's capacity to grow. In addition, with the introduction of SaaS computing and the evolution of internet/web architectures, the need to deploy extensive internal IT resources to automate business processes diminishes substantially.

2. *Optimizes the IT spend*
   In an era of tightening budgets, SaaS presents a cost-effective, cloud-based alternative. A recent analysis by Booz, Allen, Hamilton shows that, over a 13-year life cycle, the total cost of implementing and sustaining a cloud environment could be as much as two-thirds lower than maintaining a traditional IT data center.[7] Upfront, companies don't have to struggle with assembling the technical infrastructure themselves, while development fees can be minimized by using highly configurable ICM software, to address requirements around rules, calculations and workflows. Also, the investments can be accounted in operational budgets, as opposed to falling under capital expenses, while ongoing maintenance, upgrades and patch fixes are performed by the outside vendor, allowing your IT force to focus on higher value activities.

3. *Realigns human resources towards higher value work*
   The paradigm shift from an IT-centric system to one driven by LOB managers and ICM specialists enables the creation of a system that optimizes the performance of expensive human capital. This frees the sales operations teams and partner channel managers from time-consuming, manual program management, research and dispute handling. With less time focused on managing a process through IT, more time can be spent analyzing results and driving sales. Additionally, sales teams can gain visibility into current sales incentive programs, while getting a clear view into where they stand for actual and projected commissions. Accurate sales compensation calculation ensures that the sales team spends more time selling and less time double-checking their commissions.

4. *Creates a platform for business innovation*
   A strong technical foundation ensures decision makers are working with the right facts and that subsequent strategies and plans are swiftly and effectively executed. ICM tools help business users take advantage of sophisticated analytics and data management capabilities, while inefficient manual steps can be automated out of processes, reducing errors and cycle times. Clarity on what works and what doesn't is now possible, while any necessary adjustments can be easily made to incentives, calculations and formulas, plan components, and goals. Plan components can also be reused and libraries of best practices on successful ICM methods can be developed.

5. *Consolidates and rationalizes ICM processes*
   The data, rules, workflows, 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, sales operations, human resources, finance and sales. Data can be automatically moved between systems, like payroll, dashboards and quota management applications. Centralization under SaaS tools facilitates easy revision of compensation programs through familiar web browsers and interfaces, for large target populations. They also help monitor the validity of assumptions, audit variances, gain early warning on favorable and adverse trends and revise projections on future compensation costs.

6. *Organizational flexibility*
   Business moves at the speed of light. Companies must be able to handle complex data sets and compensation methods that are dynamic and subject to change, for potentially large and varied populations. Gone are the days when plans were adjusted solely on an annual basis. Increasingly, ongoing analysis and interim adjustments are made to incentives, especially when tied to quotas or MBOs, or volume agreements when working with partners. Never mind changes in corporate structures, with mergers and acquisitions, and divestitures. Compensation systems need to be both accessible and flexible as a result, otherwise they risk becoming an obstruction to efforts at raising workforce performance.

7. *Global support models*
   ICM systems housed on SaaS platforms can take on ever increasing demands without allowing performance to degrade. They provide multiple departments, divisions and partner channels the resources they need to manage incentive compensation programs that require local knowledge and support for unique market conditions, such as different labor rates, and different cultural attitudes towards commissions and incentives. Companies can add staff, partners, business units, processes, new methodologies and tactics, and still enjoy the same high level of performance.

8. *Compliance and Security*
   SaaS ICM systems can stay current on compliance, security and audit requirements, made more complex by increasing regulations, globalization and data privacy concerns. Users acquire an environment specializing in refining security standards, increasing visibility for audits and helping organizations correct potential mistakes with data and calculations. Moreover, automated integrations with external systems like payroll eliminate points of failure. Compensation involves sensitive information on labor costs, sales data and even margins. Solid security is essential, and achieved with encryption, monitoring tools that track "who changed what, when," and standards.

What to look for in ICM software

Recognizing the importance of a compliant, effective, efficient and secure ICM system that drives growth and increases productivity, the next step is to review the options for a SaaS ICM partner. The following criteria should be considered:

- *Infrastructure*
    - Rapid implementations, on a proven technical stack (hardware, database, operating systems)
    - Maintenance/upgrades, which are critical to meeting performance standards as technology evolves
    - Scalability across multiple stakeholders (partners, sales, internal staff), divisions, geographies and transactions (from hundreds to billions)

- *Functionality: Simplicity and control*
    - An intuitive, easy-to-use interface that enables the right people to drive the system, rather than being overly-reliant on IT
    - Latest innovations on the market: Focus on differentiating capabilities like modeling, and predictive analytics on compensation expenses

    - Usability: For end users and administration of compensation plans/components
    - Flexibility: Rules, workflows and user interfaces remain unique to your business
    - Proven: A brand you can trust, with solutions tested by peers in the industries
    - Integration: to adjacent applications like sales force automation, Partner Relationship Management, payroll

- *Security*
    - Latest security standards (ISO 27000 series, SSAE 16)
    - Latest encryption methods/intrusion detection tools
    - Data privacy standards

- *Global Support*
    - Multiple languages
    - Multiple currencies
    - Support for data residency and privacy standards

What to look for in a SaaS partner

Flexibility, agility, accuracy, productivity and scalability have become the hallmarks of a successful incentive compensation program. To gain a competitive advantage, increase productivity and drive growth and profitability, best-in-class enterprises are turning to Software as a Service (SaaS) delivery models for supporting their ICM technology needs. Cloud-based ICM solutions help enterprises access the necessary technologies and realize business benefits more rapidly, with less friction, enabling decisive improvements to sales performance and compensation plans. But with the cloud exploding as a driver of SaaS ICM Systems, an increasing number of solutions are entering the market. How do you weed out the good from the bad? Five key criteria can be used to help in your selection of a vendor:

1. *Experience and reliability*
   Are you working with a trusted brand? Are they dedicated to your success? Are there credible reviews and clients that can validate the selection and the reliability of the product? What kind of results are generated for existing clients? Do they have a track record that you can examine?

2. *Best practices/IP*
   Has the development of the IP been rooted in a process that builds on the best practices of the vendor and its clients? Are you working with a company that values innovation? Do they learn from their success and their setbacks?

3. *Scale*
   Whether you have 10 employees or 10,000, can the solution scale to meet your needs and future growth? Will you be making an investment that can grow with your business, and support the growth of your current business?

4. *Services*
   Will you be handed software and shown the door? What kind of service is provided and how will that service integrate with your existing team? Are you getting a vendor, or a partner interested in helping you grow your business?

5. *Vision*
   Is there a vision for the future growth of the service? Is it one that can accommodate your needs as you grow?

Key takeaways

Cloud computing is exploding, materially impacting the direction of ICM technologies in the foreseeable future. SaaS ICM will be a key driver for a company's growth and productivity; those on the sidelines risk being left behind.

A paradigm shift is well-underway in the deployment of technology, leading to an era of rapid adoption of ICM innovation that can be quickly applied to different businesses. Now scalable solutions are available that can conform to the needs of enterprises and operations of varying size and complexity.

Business processes enabled by SaaS ICM will lead to a substantial streamlining of IT resources, and more control for business stakeholders. Finance, sales operations, human resources and sales and channel management can move more rapidly and decisively in employing variable compensation to further business objectives.

SaaS ICM empowers enterprises to more effectively rationalize and automate compensation practices, as well as to improve ICM process oversight. Key outcomes include more effective compensation plans and incentives, higher performance in workforces and ultimately more profitable business operations.

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1 Garnter, Inc., "Gartner Says Cloud Computing Will Become the Bulk of New IT Spend by 2016," Gartner Symposium Press Release, October 24, 2013.

2 "Information Economy Report 2013: The Cloud and Developing Countries." United Nations Conference on Trade and Development, 2013.

3 "Cloud Computing, Big Data and Smart Mobile Apps will Drive IT Spending in 2014," Forrester Research Annual Report, July 2013.

4 "Future of Cloud Computing," Goldman Sachs Cloud CIO Research Survey, 2011.

5 "Forrester's 2014 Cloud Predictions," Forrester Press Release, December 9, 2013.

6 "Information Economy Report 2013: The Cloud and Developing Countries." United Nations Conference on Trade and Development, 2013.

7 "The Economics of Cloud Computing: Addressing the Benefits of Infrastructure in the Cloud, "Booz, Allen Hamilton, 2013.

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