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Drew Robb

Automation Gives Variable Compensation a Boost

Enterprise incentive management's timely feedback can help modify employee performance.

Enterprise incentive management (EIM) technology, an emerging category of software and services for automating variable-pay processes, can be a powerful behavior modification tool as well as a means of furthering HR's role as a critical business partner.

EIM analyzes, tracks and pays bonuses, commissions and other types of variable compensation. It collates data from various systems to provide management with a comprehensive picture of payout versus performance, and it does it more efficiently than unwieldy manual entry systems. ➡

By Drew Robb

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EIM's early roots began in sales compensation management, where it has long been harnessed to automate calculations, taking into account commissions, accelerators, quotas and special promotions. Such calculations can be cumbersome and can result in high spreadsheet error rates, once a sales force expands beyond a handful of individuals, or commission system variables multiply.

Trimble Navigation Ltd., a Sunnyvale, Calif., maker of global positioning systems, has discovered the need for EIM in complex record-keeping and report generation. Trimble two years ago implemented an EIM system from Motiva of Pleasanton, Calif., for its sales force, replacing a system that lacked flexibility, could not handle special credit rules and did not provide formal reports, says financial analyst Nam Trinh. The new system calculates commissions for agents and wholesalers, and it creates commission reports, says Trinh. "At month end, the system e-mails clear, accurate performance reports to salespeople and managers."

While Trimble implemented an in-house EIM system, other companies prefer to outsource EIM func-

tions. Instead of purchasing software, they make their compensation data available to an external EIM systems provider for processing and analysis.

For example, Rockwell Automation of Milwaukee added Synygy Inc. of Philadelphia to its team effort involving HR, finance and operations to create a new sales force.

"Synygy is implementing the program's variable compensation plan," explains Ralph Lalone, Rockwell Automation's HR manager. "Management benefits from across-the-board detailed data on performance so it can provide direction, training and resources to foster organizational growth and development on a global basis."

Beyond Sales

Trimble and Rockwell have discovered EIM's usefulness in managing a sales force, but sales is not the only department that can benefit from EIM. More companies, in fact, are rewarding performance with variable compensation plans for executives, partners, customers, suppliers and staff in general.

"On the sales and partner selling side, EIM blends compensation

plans, quotas, transaction and crediting schemes," says Joe Galvin, an analyst with Gartner Inc., a technology research and consulting company based in Stamford, Conn. "On the enterprise side, it analyzes, tracks, pays and brings together the various components of staff compensation. It derives data from a multitude of disparate systems and bundles it against an individual's record."

EIM automation makes it possible to rapidly generate and analyze compensation reports more efficiently than manually digging through numerous files to find and compile figures.

Kinko's Inc., headquartered in Dallas, is implementing EIM technology from Incentive Systems Inc., based in Bedford, Mass., to manage incentive plans in both sales and operations at three levels—store, district and market. Each Kinko's store employee participates in a bonus or variable pay plan; branch managers have a separate incentive system based on sales and profits. Some payments are issued monthly, others quarterly. The new system administers payments, tracks performance and analyzes payout vs. performance.

"Until now, such metrics and analysis have been cumbersome," reports Wesley Wada, vice president of compensation, benefits and HR management systems (HRMS) at Kinko's. "We had to go to multiple sources to collect information and pull it together."

Kinko's officials wanted an incentive management system that balances business process with enabling technologies. As well as motivating people, any automated compensation

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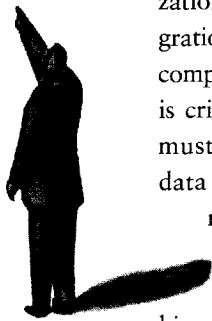
plan must align behavior with business objectives. EIM technology speeds up the process of analyzing employee performance and providing feedback. That can result in a more motivated workforce, which can boost business success.

"Research shows that timely performance feedback is astounding in its ability to modify behavior," says Thomas McCoy, managing member of T.J. McCoy & Associates LLC, a Kansas City, Mo.-based consulting firm, and author of *Compensation and Motivation* and *Creating an Open-Book Organization.* "It is equal to or more important than reward. Employees who don't know what is going on can't make a difference. A system that links timely performance feedback to variable reward based on performance is the foundation for meaningful work. It creates a culture of partnership that attracts and retains top employees who are business partners rather than hired hands."

At Rockwell Automation, for example, Lalone noticed greater job satisfaction among the sales force after the EIM implementation. "They

responded positively to the breadth of information we provide on performance and compensation," he says.

Dallas-based 7-Eleven Inc. expects a double bonus—both workforce satisfaction and customer satisfaction—from its implementation of EIM software from Callidus Software Inc. of San Jose, Calif. With the system, the convenience store chain can reward performance that provides customers with a positive shopping experience centered on five fundamentals: quality, value, fast and friendly service, cleanliness, and assortment.

"We reward managers based on financial performance and these fundamentals," says Terry Guth, director of organizational effectiveness at 7-Eleven. "If we had to do it by hand, it would be overwhelming."

Previously, 7-Eleven managed variable compensation with a spreadsheet, which couldn't handle complex data. Further, the chain lacked the ability to enter data for all 2,500 stores. As a result, the compensation system failed to extend to store level, let alone to the individual.

"The feedback on our incentive program has been very positive,"

says Guth. "We anticipate a beneficial impact on morale and retention."

Implementation Pitfalls

If EIM technology is to fulfill organizational expectations, however, integration with other systems, as well as compatibility with business processes, is critical. Any compensation system must be able to pull transactional data from enterprise resource planning or order management systems, salary-based bonus tallies from HR systems, and hierarchical information from a customer relationship management system.

Also, a requirement for successful implementation is a thorough understanding of organizational requirements, as well as a clearly defined compensation plan. Rockwell Automation, for instance, found that geographically separate business units and systems posed a challenge to EIM implementation. In addition to separate networks, each business unit had its own processes and compensation plans that were not compatible with the other units' procedures. So one system didn't fit all. To resolve these issues, the company had to define its organizational structure properly, streamline compensation plans and provide data in a format that could be processed across the organization.

Implementation of an EIM system can take three months to a year. "Time spent in up-front planning saves time and money during the implementation phase," Guth says.

Another important consideration is breadth of implementation. Rather than rolling out the entire enterprise at once, it might be wise to begin in

sales, because that's where results will be immediately obvious, suggests Monica Barron, senior analyst with Boston-based AMR Research Inc.

A Winning Strategy

EIM can also boost HR's importance to top management. While CFOs have always been able to access company performance and financial data to assert the value of their initiatives, HR has often struggled to back up its claims of business impact due to a lack of comprehensive information. (See the article "Count on Business Value," page 64.)

"With EIM technology, HR executives can finally become equals among peers, provided they develop their analytical and business finance skills," says McCoy.

It may be some time, though, before that vision materializes. EIM application outside of sales is still low. But Galvin believes that incentive compensation management systems will soon be in much wider use. When the business climate turns around, organizations will invest in technology that solves specific business needs, has a reasonable deployment schedule and provides tangible return on investment, he says.

"EIM and incentive compensation management systems meet all three of those requirements," Galvin says. "Now is the time to prioritize where to invest and what to look for in terms of impact and value. EIM technology should be at the top of many lists." HR

Drew Robb is a California-based freelance writer who specializes in technology, engineering and business.

Is an Internal System or Outsourcing Best for You?