THE **9 COMPONENTS**
TO DESIGNING
SUCCESFUL INCENTIVE
COMPENSATION PLANS

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01 Introduction

As business models, employee motivations and demographics evolve, incentive compensation programs move from simplistic commission-based structures to intricate frameworks that accommodate the aspirations of a new generation and the experience of the seasoned veterans.

From applying behavioral economics to creating innovative rewards programs, hr organizations are constantly evolving their compensation strategies to match the agile business models and the highly diverse workforce in today's company.

However, creating and implementing an effective compensation plan is difficult as it needs to adhere to all of the following three factors:.

⬤ **Attract and empower top talent**

⬤ **Motivate the team to achieve targets aligned with strategic objectives**

⬤ **Stay within the assigned budget**

Managing to achieve all of the above-listed criteria and appropriately handling the ongoing tension between them is a demanding task.

Compensation teams need to fulfill the tall order of developing incentive programs that are highly competitive, creative, agile and sustainable. However, there are a few guidelines that have helped companies design and execute compensation programs successfully.

02 Develop
A Compensation Philosophy

The first step to any compensation program design activity is to ask a fundamental question: do we have a compensation philosophy?

The compensation philosophy outlines the company's thoughts on incentives and allows the design team to be clear in their expectations and limitations when going through the exercise of developing incentive programs. Questions to be addressed include:

- Do we know for what we are willing to pay and how much?

- Where do we expect to stand in relation to market pay standards?

- what type of compensation structures would best suit our company in light of the current market demands and how willing are we to entertain innovative incentive policies and models?

A significant question to ask while mulling over the philosophy is the type of culture the team would like to foster within the organization through compensation practices.

03 Conduct
An Internal Assessment

Once the foundation has been established, a primary assessment helps the compensation team develop a clear understanding of the priorities of each key stakeholder.

This is critical in ensuring that all relevant parties are aware of and understand how compensation decisions are made. The assessment would include some of the following steps to gain insight into current state of affairs as they relate to compensation:

- Survey management regarding compensation practices
- Review roles & responsibilities
- Review existing compensation and performance management practices & programs
- Develop a communications strategy
- Document feedback to serve as point of reference for compensation decisions

04 Run
A Competitive Analysis

The main purpose of a competitive analysis is to understand how you compare to competition as it relates to compensation.

An external assessment serves as a benchmark and is critical in determining the right compensation structure and identifying any discrepancies in employee compensation levels against other industry players.
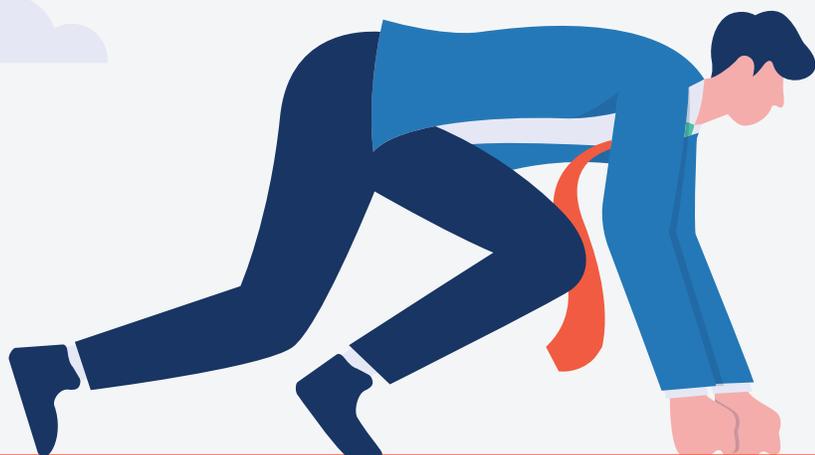
05 Align Strategic
Goals To Business Priorities

At this point, it is important to dig into questions such as how should the business priorities be represented in the compensation plan?

Regardless of top-down or bottom-up planning, each organization ideally has a sense of their forecasted goals for the upcoming year. These goals and priorities are the foundation of a well thought-out compensation program - a structure that is focused on inspiring and enabling the desired behaviors to achieve preset objectives.

The second pre-requisite is to clearly define the correct roles required to accomplish outlined business goals. This will allow the team to map out the territory and set the right quotas.

06 Accurately Determine
The Target Pay For Each Role

Consider the industry competitors to be a good benchmark strategy. Assess the target pay and pay mix for similar roles in competitive organizations.

This analysis should give the team a fair head-start into understanding the target total compensation for each role. Two critical factors that determine the target pay are industry benchmarks and the company budget. Align your budget with the expected performance of each role.

The expected production by each role should account for performance thresholds and upside potential. This provides the definition of high performance for the organization and enables the company to attract and empower the best talent possible in its industry.

07 Define Correct
Measures And Timing

Performance measures should represent the most significant areas for each role.

A challenge for many organizations is honing in on the few measures that form the core of the plan. For example, too many measures introduce unnecessary complexity in the plan and can interfere with the employee's ability to properly achieve crucial targets.

Moreover, the organization should clearly determine at what intervals each measure will be tracked and paid. The measurement cycles should be in sync with the sales process and allow for the sales rep to be consistently motivated to perform. For example, having predominantly long-term measures in a business model with short-term sales cycles can cause the employee to lose interest and leave the company.

Ensure that the mechanics that ultimately connect performance with pay - rates, accelerators, gates, etc. - are aimed at maintaining simplicity without compromising on the effectiveness of the plan. Complex incentives that are difficult to understand kill employee morale and result in low target achievement..

08 Data Gathering

Carefully think through current and future data requirements. For example, in addition to pulling data from internal systems such as crm, erp, hris, etc., you may also need to consider what external data will or may be required in the future to create a comprehensive analysis and reporting framework.

Will you require industry benchmark data? Is there an external data source that informs you of industry and market trends that need to be included in your analytics?

Considering these questions form the foundation of a thorough information flow structure that is critical when inquiries arise or new scenarios need to be modeled based on revised or additional information.
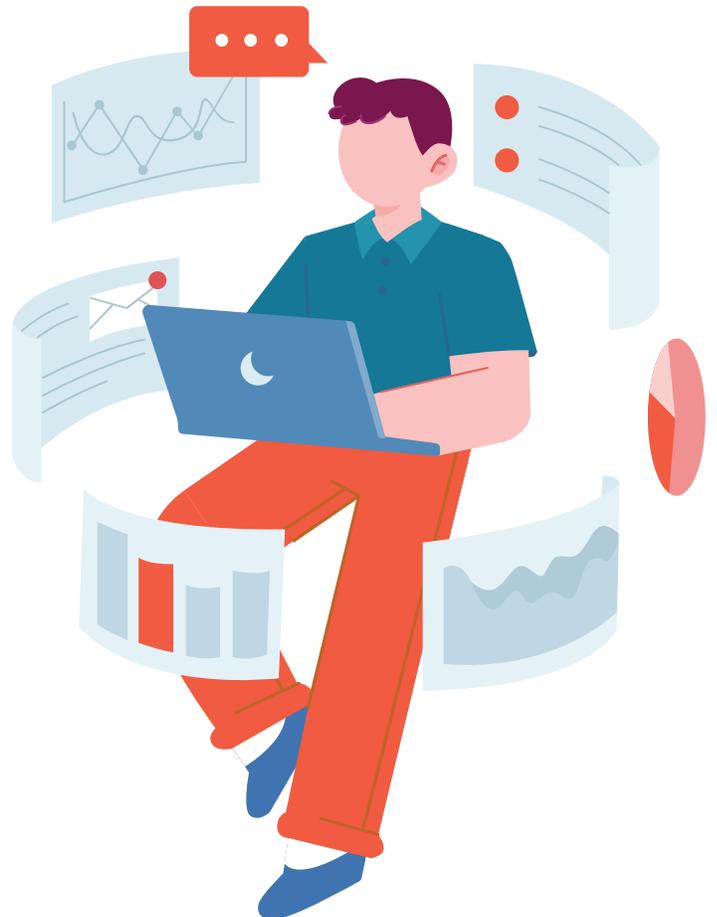
09 Communicate plan details
Clearly to each stakeholder

Arguably, the most important element in the compensation planning and design process is communication and roll-out.

A surefire way to ensure the right start is to transparently share each detail of the plan with every stakeholder and have an efficient system of communication between employees and the compensation team in case of questions. The clearer the plan is to the reps, the higher the likelihood of goal accomplishment by reps.

10 Measure the effectiveness
Of The Compensation Plans

Organizations fall into the trap of annual reviews cycles. This causes a heavily skewed analysis and mitigates any ability to correctly pinpoint areas of improvement in existing programs.

Program evaluation should be an ongoing and regular process throughout the year. Analyze the building blocks of the success of the program by assessing its relationships between pay and performance, goal attainment and the difference between top and bottom performers.

Above all, compensation programs today are the core building blocks of the HR department's efforts to foster the desired organizational culture. Carefully designed incentives go a long way in nurturing healthy competition among employees without affecting the team unity required to retain top talent and sustain business growth. But by following the guidelines listed here, you have a proven template to design relevant, effective compensation plans - for the first time and every time.

11 Conclusion

Innovyne technologies is a software consultancy that specializes in sales performance management (spm) solutions. We partner with sales organizations to address automation, efficiency and transparency challenges in their sales operations and incentive compensation processes about innovyne technologies.

Our veteran team has been delivering strategic solutions and professional services to North American clientele since 2008. Our certified experts deeply understand their industry and technology, how to provide the most value, how to successfully deploy solutions, and all the logic that makes their solutions drive results..