

The majority of companies, certainly in Europe, still rely on spreadsheets and bespoke software systems to administer commission and bonus payments. In principle, these tools are perfectly adequate and do a reasonable job. However, they lack the essential scalability and flexibility to support increasingly complex variable pay schemes. Bespoke systems are difficult to manage and are often prone to errors from either within the system or via the operator. Perhaps of greater significance are the intensive HR manual overheads associated with maintaining these systems, coupled with the persistent shadow accounting by employees – estimated by analysts to be in excess of one hour per person per month – which results in an administrative headache, unfocused staff, lost sales and, effectively, lost business.

Incentive compensation management (ICM) is a relatively new breed of software which automates the calculation of variable pay, commission and bonus. It feeds into payroll and is, in fact, the “glue” which brings essential business elements together. It delivers strategic benefits such as increased productivity and efficiency, enabling improved communication and information flow with more cohesive reporting, auditing and ultimately addressing fundamental issues around sales, control, measurement and visibility. It takes a pragmatic and scientific approach to how pay and reward can align individual goals with corporate business objectives.

#### Who owns ICM?

So with the quest for efficiency and profit in business being the common denominator that most companies aspire to, why then is ICM so overlooked? It has proven to bring a raft of benefits and it ticks the boxes when issues of corporate governance are raised. However, the question is, where in the organisation does ICM sit? Is it HR? Finance? Sales? Operations? IT? Or all of these? Traditionally there has been no clearly defined owner and this is because ICM touches across all these business disciplines. And herein lies the problem – a lack of ownership means it is difficult to drive change

# GOVERNING THE MONEY

**Corporate governance is a growing issue for many companies. Jo Walker explores how compensation management can provide much-needed transparency.**

when no one area of the business accepts responsibility, and therefore a shift in business attitudes is needed to see change through.

It is a common problem with which most organisations will empathise, but how do you get buy-in to embrace change from the board, stakeholders or shareholders? Forward-thinking companies are taking a more strategic approach to reward and today the compensation budget needs to cater for incentives that motivate virtually any member of the workforce, including indirect channel partners.

ICM presents a compelling argument to any company operating variable pay programmes. It reduces costs such as compensation overpayment and directly links performance measures to top-line company growth targets. It will significantly improve calculation accuracy and visibility of workforce performance against target and compensation spend. These tangible benefits and the rapid return on investment (ROI) which an ICM system can deliver may be enough in some instances to put forward the case for change; however the evaluation process is frequently not so straightforward.

#### A common experience

Experiences differ between companies; however a series of common threads based on the main benefits of ICM prevail. The key elements which have been an important factor in the decision-making process for many organisations involve speed of implementation, flexibility, resource savings and online statements.

To examine these in detail, we can call on experience from leading-edge companies which have already made the leap. BT Northern Ireland, for example, implemented its ICM system within six weeks. In an organisation where new systems can take up to 12 months to deploy, its INCA ICM system was hailed an “unparalleled, refreshing experience” – with the speed of implementation having an important bearing on gaining stakeholder buy-in.

In terms of flexibility, according to Cable & Wireless, an ICM system is “perfect for growing businesses”. This is because it can adapt to rapidly changing market conditions. The configurable nature of the software, the fact it is simple to use and can be tweaked to provide real information that the business needs, were all key elements in securing board approval.



Resource savings are a common by-product of an automated ICM system and this is a plus point when it comes to stakeholder approval. Due to the administration-intensive nature of spreadsheets, BT Northern Ireland was spending three weeks per month maintaining its commission data, and the final week calculating bonus and commission. ICM software freed up the three-week maintenance window, not only was this a huge reduction in administrative effort, it allowed time for essential data analysis, modelling and audit. The accuracy of data fed into the reporting suite has now become a valuable resource for decision-makers in developing company strategy. As a result management, empowered by quick access to data, can easily monitor results and trends in order to identify performance improvements. Previously data was found by collating various spreadsheets, which was time consuming and open to human error.

Bespoke systems generated numerous queries at both Cable & Wireless and BT Northern Ireland which resulted in an inherent distrust in the data and payments made. With web-based ICM,

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### **ICM offers a flexibility to ensure the reward plan remains on track**

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employees have 24/7 access to online statements, which detail all aspects of pay plus key indicators, such as performance vs target, at any given point in the month. This visibility has been a key factor in deployment as queries from staff about their status have been drastically reduced. Cable & Wireless identified common frequently asked questions and as a result it devised a document to answer these. The impact on staff and the reduction in administration costs have all been additional factors in securing stakeholder buy-in.

#### **ICM and corporate governance**

Corporate governance is a buzzword which is increasingly coming into play, and there is increasing interest in the practices of modern corporations since the high-profile collapse of large US firms

such as Enron and Worldcom. Although the focus is predominantly State-side, UK and European businesses are mindful of the set of processes and policies which are in place which affect the way an organisation is directed, administered or controlled as well as the company goals and those whom these goals affect, from the board of directors to employees and suppliers.

Many organisations do not have systems or processes in place, but with an ICM system, a robust infrastructure is provided on two levels – at an individual level there is transparency and granularity, ie an employee can ascertain their earnings and contribution. And on a corporate level, it provides security, visibility, audit, measurement and control.

Measurement and control are key points here, for HR in particular the focus is on demonstrating true accountability, measuring business performance and that the reward plan works. ICM offers a flexibility to ensure the reward plan remains on track, for example, new incentives can be modelled and implemented immediately to fit adjusted targets as a result of market changes, regulation or new product launches from the competition.

Controls are in place to restrict access to avoid false claims being made but more importantly to ensure changes made can be justified via a documented audit trail. Overall this improves management information as there is a greater analytical capacity on all touch points, improving communication top down, bottom up. This automated streamlined process has the added benefit for HR as being less administratively intensive.

Pay plan principles are difficult to support with spreadsheets and there is a serious risk of overpayment. With a fragmented bespoke commission and bonus system, a company can be haemorrhaging money because it does not have the tools in place to actually calculate how much this is. In the light of these deficiencies, the opportunity cost of not taking action is compelling. Estimates state organisations budget approximately 10 per cent of revenues for variable compensation, yet budget overspend can range from 1–10 per

cent; such mistakes could make a serious dent in the company profit line. Analysts Aberdeen and Gartner report an effective compensation strategy presents significant benefits, especially when it is established that up to 12 percent is overpaid on the annual compensation budget. In addition, tracking and reporting compensation for a single employee can cost as much as £1,000 annually.

It seems unlikely that auditors will be able to tolerate the current lack of control around large spend areas that are involved in compensation. Especially in the light of regulations laid down by Sarbanes Oxley (SOX) and stakeholders who are forcing companies to improve corporate social responsibility and have more accountability for their performance.

As a result, more attention is being placed on compensation paid out to employees as stakeholders wish to see more evidence that bonuses are paid fairly for performance, particularly to company directors. ICM has inherent capability to help companies, in particular in areas of HR, payroll and finance, comply because its design is based on the three core values of transparency, measurement and control and, as a result, it is already SOX compliant.

To conclude, it is no surprise that analysts Gartner predict, in the medium term, 75 per cent of organisations will significantly change compensation strategies to align behaviours and corporate objectives. Especially given the increasing emphasis placed upon accountability for overall company performance and delivering value inside (employees) and outside (shareholders, stakeholders, board members) the business. ICM software should be seen as a vital support mechanism, introducing control, accuracy and end-to-end visibility of employee performance and compensation cost. This, in turn, will integrate with HR and payroll, making the functions these departments perform, more automated, less admin intensive and more accurate, as well as meeting the SOX criteria.

*Jo Walker is Managing Director of Practique. For further information on ICM, visit [www.practique.co.uk](http://www.practique.co.uk)*