

# Why HR Should Get – and Keep – a Seat at the Sales Compensation Table

**M**ost companies engage a broad array of functions when designing and governing their sales compensation plans. Finance, sales and sales operations are the usual suspects when designing plans, and IT is usually appraised of new plan designs to ensure they can be implemented. The role of human resources, however, varies dramatically by company.

At some businesses, HR leads the process and adds significant value. But at others, it is not even invited to the table. Why is there such a discrepancy, and what are the key criteria that differentiate HR as a value-added partner rather than an ignored third party? After interviewing several HR leaders involved in their companies' sales incentive design processes, the authors integrated that information with their own experience with hundreds of companies and came up with the answer. That answer can be boiled down to six criteria: two to earn HR a seat at the table, and four that highlight its value-added capabilities.

## Roles

Before discussing specific criteria, let's consider the three broad roles HR plays in incentive compensation design and governance. Those roles are listed here in descending order, from adding the most value to the least:

- **Value-added partner:** In this situation, HR clearly adds value in one or more of the four areas described later: sales compensation expertise, advanced benchmarking, compliance or having a problem-solver mentality. HR may or may not be leading the process, but is a valuable participant.
- **Participant:** When HR is a participant only, it supplies basic pay-level benchmarking and input, such as exit interviews and anecdotal feedback. This role is not significantly involved in making final decisions but does add value to the process.
- **Outsider:** In the most extreme scenario, HR is not involved at all. It is not invited to the table because the sales compensation design team

## QUICK LOOK

- ➔ HR must know the company's products and customers, its different salesforce roles, the sales process, how each role fits into that process and the handoffs between roles.
- ➔ Four criteria truly differentiate HR as a value-added sales compensation partner: HR's sales compensation expertise, its ability to perform advanced benchmarking, its ability to help fulfill compliance obligations and its problem-solving mentality.
- ➔ A final way to add value and earn a seat at the table is by taking a difficult business problem off of a senior executive's plate and solving it.

By Chad Albrecht, ZS Associates



# HR's first opportunity to establish itself as a value-added partner is to acknowledge that **sales compensation is very different than broad-based compensation** and should be treated as such.

leader (or perhaps the entire team) believes HR will not add value.

So what, precisely, separates highly effective HR groups from those that are all but invisible? Let's start with the two basic (or "table stake") requirements that earn HR a seat at the table.

## Table Stakes

The first table stake that HR must have is pay-level benchmarking from at least two reputable data sources. HR's unique benchmarking skills mean that it usually has access to benchmarking surveys, and HR professionals know how to determine a good benchmark number when exact job role matches don't exist. They know the company philosophy on benchmarking pay levels (usually the 50<sup>th</sup> percentile) and also know when the sales group has a separate philosophy. If a company traditionally has benchmarked only base salary for nonsales roles, remember that given the importance of variable pay for salespeople, it is important to benchmark both base salary and target total compensation (TTC).

The second table stake is knowing the business and selling process. HR must know the company's products and customers, its different salesforce roles, the sales process, how each role fits into that process and the handoffs between roles. HR also needs to understand the key metrics for each sales position. If HR lacks this knowledge, data can usually be collected via organizational charts, job descriptions, incentive

compensation plan documents and sales training materials. The HR business partner who is the liaison with the field (if different than the HR participant at the sales compensation table) can usually assist with gathering information and can fill holes in the data based on direct experience with the field.

## Differentiators

After accounting for these two basic table stakes, there are four areas, or criteria, that truly differentiate HR as a value-added sales compensation partner: HR's sales compensation expertise, its ability to perform advanced benchmarking, its ability to help fulfill compliance obligations and its problem-solving mentality.

*Sales compensation expertise:* HR's first opportunity to establish itself as a value-added partner is to acknowledge that sales compensation is very different than broad-based compensation and should be treated as such. This is important because it is a fair bet that nobody outside of HR is familiar with sales compensation theory and frameworks — others at the table usually bring only their personal experiences, which are valuable, but not the same as understanding theory.

There are frameworks and theory for the many decisions that go into sales incentive design. While a full discussion of frameworks and theory is beyond the scope of this article, the decisions are worth summarizing. Those decisions include the following:

- Pay level and the mix of salary and incentives
  - Defining the metric(s) for which the salespeople are measured and paid, such as revenue versus profit and individual versus team
  - Method by which incentives are paid out — via a commission plan, quota bonus, management by objectives (MBOs) or another plan — along with the associated payout at every level of performance
  - Administrative details of the plan, such as plan period, payout frequency, quota setting and regular progress reporting.
- For HR professionals who want to become incentive compensation partners, there is a lot of material on sales compensation design available, including multiple articles on the WorldatWork Web site ([www.worldatwork.org](http://www.worldatwork.org)). In addition, *Compensating the Sales Force* by Dave Cichelli provides a great introduction to the field, while *The Complete Guide to Sales Force Incentive Compensation* by Andy Zoltners and Prabha Sinha provides a comprehensive reference source. Studying and applying these key sales compensation concepts to your specific business situation and strategic goals creates tremendous value and enhances an individual's credibility within the team.
- Advanced benchmarking:* The second key difference between an effective HR partner and one that is along for the ride is that the former has far more expertise than simply knowing the median base salary and TTC. Some ideas on expanding the knowledge base include:
- Show actual incentive pay compared to target incentive, which can provide insights on how well the industry as a whole was paid relative to its target incentive.
  - Show the 90<sup>th</sup> and 10<sup>th</sup> percentiles of the market and how they compare to the company's 90<sup>th</sup>- and

10<sup>th</sup>-percentile payouts — it will show whether a company’s top/bottom performers are treated better than or worse than the market’s top/bottom performers.

- Instead of generic industry data, show data that reflect the pay level of companies from which salespeople are hired and to which they are lost. A custom version of such data can improve the accuracy and credibility of comparisons.
- Obtain a pay practices survey, not just a pay levels survey. This means benchmarking not just *how much* people are paid, but *how* they are paid (commission/bonus plans, threshold levels, upside opportunity, etc.).
- Review trends in pay levels over time using your benchmark sources to predict what might happen next year, rather than just assume the standard annual increase.

HR can also help the design team set internal goals for where it wants to be positioned against external benchmarks. For example, many companies want their top 10 percent of performers to earn at or above the 90<sup>th</sup> percentile of the market. Other companies target their top 10 percent of performers to earn at twice the target incentive, regardless of where they stand against the market.

In addition, it pays to anticipate the design team’s benchmarking questions. For example, during the economic downturn the authors have heard many questions concerning recognition program expenses, such as “Should we cut expenses by going to less glamorous destinations or reducing the number of eligible attendees?”

The authors have also had questions about how companies’ voluntary and involuntary turnover rates are changing. Knowing the answers to such questions requires conversations with industry peers about changes with

regard to incentive pay levels and practices (and, if available, benchmarking information on the topic); the effort will make HR that much more valuable to the team.

*Compliance:* Another way HR can add value can be tricky — if HR is seen solely as a “compliance auditor” that says “no” to everything sales wants to do, it is unlikely to be invited to the table at all. But if HR is viewed as an expert on the Fair Labor Standards Act of 1938 or on works councils in Europe, it will be a “must have” member of the design team who can help guide the company away from potentially sticky situations.

In many organizations, HR is responsible for ensuring that the final plan and provisions pass the “red-face test,” meaning when the plan is rolled out, the sales managers can do it without embarrassment and with the belief they are delivering a plan that is fair to salespeople. HR is also often responsible for ensuring the plan is in compliance with all applicable regulations. For example, while typical leaves of absence are simple to handle for most positions, they become more complex when determining eligibility for sales incentive payouts.

*Problem-solver mentality:* A final way to add value and earn a seat at the table is by taking a difficult business problem off of a senior executive’s plate and solving it. Interacting with senior managers can help discover what is keeping them up at night. That problem might be a spike in turnover, and HR could offer to dig into exit interview data or analyze those leaving and how they differ from the rest of the workforce.

Or perhaps the company is having difficulty finding resources to coordinate and run the annual sales incentive design process or the ongoing governance process. Volunteering to lead the process, ongoing plan assessment or both can add significant value to

the company and sales compensation design team.

## Conclusion

HR is a critical voice at the sales compensation table for several reasons. It has a unique perspective on compensation and motivation; has a finger on the pulse of the salesforce through feedback and exit interviews; provides perspective on concerns about internal equity between salespeople and other employees, not to mention between salespeople in different divisions; and often has significant change management expertise that other organizational functions lack. Such information and experience not only merits a seat at the table, but also highlights HR’s ability to add significant value once there. 

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