

Convincing Reasons

Why Include Goal-Based Incentives in Pay for Sales-Related Positions?

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You've heard it before: Goals are the stuff that dreams are made of; they're the building blocks of our future!

Financial services companies make prominent use of goals. They build their brands through messages about goals — urging the public to save, to plan for the future, and to help our descendants realize their dreams. They use common goals to exhort their sales force to reach new heights and they agonize every year through planning and budgeting processes tied to meeting sales and profitability goals.

And yet, despite that focus on goals, we seldom integrate them into how we pay our sales and sales management teams. Yes, we may give producers higher payouts for making “Leaders” or “President’s Club” or even external benchmarks (e.g., MDRT), but we seldom link pay to personalized goals. For managers, we may increase discretionary incentives if production goals are met, but we seldom create a direct link between what someone achieves and what he or she gets paid. Does it matter? Are we missing something?

Leslie Wilk Braksick in *Unlock Behavior, Unleash Profits* writes that “consequences (such as recognition and pay) are four times as effective in motivating behavior as antecedents (goals, past behavior, pep talks, etc.)” She further explains that the most effective consequences are positive, immediate, and certain. Suppose you are a sales executive — compare the motivation of *perhaps* receiving a bit more discretionary incentive at the end of the year if you hit your goal (budget and the mood of your boss permitting) with having an incentive plan (in writing) that pays you x more dollars each quarter if you achieve y percent of your sales goals. The first situation is positive, deferred, and *very uncertain*, while the second is positive, quite immediate, and *very certain*.

Suppose that we add to that latter approach a clear “line of sight.” *Line of sight* is human resources jargon for an obvious connection between what you do and the results you are held accountable for. For instance, there is a poor line of sight between your job and expense results if you can't veto

expenditures. Still not convinced that including goal-based incentives is an idea whose time has come? Here are my top 10 reasons why pay plans should include goal-based incentives:

1. *Same page* They put the company and the sales force on the same page. Both parties share some of the same risks and rewards. When the company meets its goals, its sale force profits, and when it doesn't, it gets less income. Without that link, producers or managers may be perfectly satisfied with whatever income they take home, and they typically get little if any reinforcement (pro or con) from management about their performance.

2. *Record keeping and accountability* Linking results to goals and pay allows the company to measure responsiveness and loyalty *and* to hold people accountable. This is particularly important in today's litigious society. Companies seldom start documenting performance problems until they

become serious. With goal-based compensation, not only are people notified early when performance is an issue, but their performance history is readily available, and any disciplinary action should not come as a surprise.

3. *Meaningful interaction* Including goals in a compensation plan forces the parties involved to discuss — meaningfully — what the goals should be. Only the most reluctant managers or intimidated employees are likely to shy away from it. It helps enrich the company's planning process, as all parties come to better understand the costs, risks, and rewards of maintaining or increasing sales and profits. Early on, there may be some distance between what executives are striving for and what the sales force thinks is realistic. But over time, it will force some discipline or at least realism about what is achievable and what is not. When unrealistic goals are used, those paid on those goals will soon be underpaid, and retention will soon suffer.

4. *Individualized plans* This is one place where we can help ourselves by emulating other industries. While variable compensation plans are commonplace, virtually no other



industry has sales plans as complex as those in financial services. Using goal elements enables other industries to individualize their compensation plans in line with the *current* job of a manager without adding other plan elements. This can help simplify our plans and our administration *and* add individualized attention. It is noteworthy that other industries do not share our industry's poor (producer) retention rates — perhaps there's a connection?

5. *Stretching* As an industry, we are very good at setting benchmarks to exceed. Most companies have at least one if not several levels of recognition for producers as well as sales management positions. Yet, those benchmarks are a lot like par on a golf course. If your average score differs widely from par, it is just a way of keeping score, but your assessment of your performance relates more to your typical performance level than it does to par itself. Goal elements operate more like golf's handicapping system. If you can play better than your handicap level, you've accomplished something. If you routinely do it, your handicap is lowered, and you must shoot a lower score to excel against *your personal* standard of performance.

This approach recognizes that success is defined differently for each person. Paying based on his or her success in reaching goals specifically set for *his or her position* is a powerful tool for changing behavior. Goal elements allow you to encourage people to stretch on a basis that is appropriate and realistic for each person's position and experience, in contrast to a benchmark that may have little or no relevance. Broader recognition plans based on common benchmarks still have their place, however, as they provide wider perspective, and add more recognition, which is always valued.

6. *Longer term focus* The positive and frequent reinforcement that comes from weekly or monthly commissions or overrides is a tremendous motivator for encouraging day-to-day effort. However, the payments can often be too small to impact behavior or they can be overwhelmed with expense charges (and monthly mortgage payments). Quarterly or annual goal-based compensation elements (that are significant enough to get attention) provide a benchmark for success and help maintain a focus on improving performance over time.

7. *Quality and quantity* Goal elements are ideally suited to addressing the quality as well as the quantity of sales made. Most of our sales and sales management compensation plans emphasize new sales and new relationships, with little emphasis on the profitability of those sales. As our customer data becomes more robust, profitability will be easier to define and measure and we'll be able to tie rewards to those characteristics.

While traditional sales and sales management compensation elements can address quality elements, they often seriously complicate the plan design and reduce its ability to motivate behavior changes. In contrast, goal elements can be tied to

performance areas needing specific attention at an individual level in order to focus limited resources where they can be the most effective. Their format avoids paying one performer more money for something he or she is already doing well, (a common problem with traditional plan designs).

8. *Tie to the company* For a variety of reasons, producers are often better connected to their own managers than they are to their company. Compensation plans (for managers and producers) that are based primarily on the volume of sales compete with similar plans at other companies selling similar products. Given this similarity, when managers leave to join another company, producers find it all too easy to move with them. In that environment, whichever company is willing to pay the highest rates wins.

Goal-based elements determined jointly with executives help to tie managers to their company. Rather than competing on rates, companies then begin to compete on the quality of management. This begins to turn your sales force from being independent to being integrated. With careful tending, that will eventually pay dividends in improving retention, dedication, and loyalty.

9. *Incorporates discretion* In "The Missing Ingredient in Your Sales Plan" (*LIMRA's Marketfacts*, Fall 2002) I suggested that sales support and sales management positions need to add sales-based compensation elements while retaining some discretionary incentives. (Many incumbents in those groups receive only discretionary incentives.) For those in sales and sales management currently on override or commission plans, the same format is a good fit. While they may retain an override or commission element, they too should have a discretionary element in their plans, as well as goal-based elements.

Discretionary elements help force discussion over expectations and results, they leave room to recognize unusual situations, and they allow recognition of responsibilities that are not easily reduced to numbers. This can be accomplished by having a separate discretionary element, or by allowing management to adjust pay amounts within some range of the goal-related results.

10. *Team-based pay* is a powerful but underutilized management tool. Profit-sharing, gain-sharing, or stock incentive plans often have a much greater impact than their cost relative to other pay elements. This relates to the impact of paying all the members of a group to reach the same goal, much like professional sports teams. Even though the potential pay amounts may be a lot different, there are a lot fewer distractions when you are all aiming for the same finish line. In contrast to traditional sales-related incentives, goal-based incentives can be easily structured to create that synergy.

In future editions of this publication, I'll address several related topics, including the use of seasonalized goals, how to transition from existing plans to goal-based plans, and how to integrate them across a business unit. 🌐