



Improving Governance in Sales Incentive Processes

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Compliance with the Sarbanes-Oxley Act (SOX) is a major part of today's corporate culture. The threat of non-compliance, its financial headaches, and worse yet, the specter of legal penalties to the highest levels of a corporation, appear to have achieved one of the Act's goals. Organizations take compliance very seriously.

One of the most important elements of SOX compliance is providing evidence that the financial applications and supporting systems and services provide the controls and audit trails that ensure financial reports can be trusted. Concerns with improving governance of outlays for leveraged resources, especially when commission costs typically exceed the equivalent of 5% - 10% of revenue, are driving companies to take a closer look at sales incentive compensation processes that are often manually administered through spreadsheets, email chains, and Post-it notes. In greater numbers, and with more frequency, those departments responsible for administering sales incentive compensation are undergoing formal audits by internal or external auditors. In turn, these auditors are identifying a lack of financial controls and audit trails within sales incentive compensation processes that expose the organization to the risks associated with non-compliance and inaccurate financial reporting.

One of the key areas often cited during these formal audits is the practice of using off-cycle, manual payments to sales professionals as a means of making an adjustment to their sales incentive earnings. These manual adjustments are often made in response to the high degree of flexibility demanded by sales leadership whose focus is on maintaining a motivated sales force and retaining their top producers. These manual adjustments are typically initiated through phone calls or emails and ultimately result in an off-cycle payment being made without a formal audit trail of the request or a means by which the payment can be associated with the original sales transaction. Consider one Fortune 500 company that was hit with a lawsuit from a disgruntled former sales professional who claimed the company owed outstanding commissions on sales transactions where he should have received credit. The companies' position was that the outstanding commissions on these sales transactions had been paid to the sales executive through off-cycle manual adjustments. With no audit trail of these manual adjustments, association of the off-cycle payment with the original sales transaction, or documentation of the payment on the sales professionals incentive compensation statement, the company was ultimately forced to settle the lawsuit out of court and make full payment to the sales professional.

Sales Performance Management (SPM) solutions address the lack of controls and audit trails associated with off-cycle, manual payments by integrating workflow engines that capture each request, track their progress, and provide a full audit trail of all actions. Financial officers looking to implement repeatable processes and financial controls to improve governance within their sales incentive processes are among the first to embrace these next-generation solutions.

Consider the value of integrated, workflow-enabled business processes in the following real life scenario.

Step 1: Define and Configure Workflow Event

An integrated workflow engine enables a business analyst to define a repeatable business process within the context of a workflow event. The workflow event is configured with information specific to that business process including items such as event initiation, approval hierarchies, and event resolution. For instance, a sales dispute request submitted by a sales professional may require that certain information be captured when the request is initiated, that the request is routed to the appropriate person for investigation, that certain individuals or job roles within a hierarchy must approve an action associated with the request, and that any potential payment adjustment must be associated with the original sales transaction. The workflow engine manages the workflow event and a full audit trail of all actions performed is captured.

Step 2: Initiate Workflow Request

The sales professional initiates the commission dispute request through a rich, web-based user interface that validates all required information has been captured, enables the sales professional to attach supporting documentation such as a copy of the sales order, and routes the request to the appropriate person identified by the approval hierarchy.

Step 3: Investigate and Approve

The workflow engine passes the commission dispute request to the first line of research defined within the business process – likely a compensation analyst. The compensation analyst reviews all of the information contained in the request and performs any required research to determine the appropriate action. At this point, the compensation analyst may approve or deny the request, ask the sales professional for additional information, or escalate the request through an approval hierarchy that may contain roles such as the Sales Manager and the VP of Sales. Whatever the action, the request is being managed through a repeatable business process and a complete audit trail is being captured.

Step 4: Resolution

The final step in the process is to ensure the manual adjustment is associated with the original sales transaction or pre-defined reason code, and appears on the next sales incentive compensation statement delivered to the sales professional. This ensures clear communication to the sales professional, completes the full audit trail of the manual adjustment and ensures compliance and financial controls within a business process that previously exposed the company to the risk of inaccurate financial reporting.

One of the major features of SOX is that it penalizes individuals, not just companies, for non-compliance. CFO's are under immense pressure, both professionally and personally, to ensure financial applications and supporting systems and services provide the controls and audit trails that ensure financial reports can be trusted. Automating these manual business processes using workflow engines integrated within the Sales Performance Management solution provides the financial controls and audit trails that CFO's can rely upon.

To learn more about Varicent, visit www.varicent.com

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