October 2018

When Your Sales Mobility Program Is Stuck in a Compensation Rut

Originally published in WorldatWork's Workspan Daily newsletter, our authors discuss why internal sales mobility moves are on the rise and what to think about when enabling these moves.

Imagine a scenario in which you have two strategic initiatives: The first is to expand the company's rotational program to enable high-potential employees to expand their careers in areas outside of their current function. The second initiative is to better enable your company's marketing function by leveraging salespeople to recognize customer use patterns and evolve the market segmentation approach accordingly.

Career lattices (the multi-dimensional variant of a career ladder) offer talent in targeted functions expanded career opportunities while also addressing the talent needs of specific functions and departments — particularly when those needs are specialized, transitional or temporary, and pertain to a very tight labor market. At Radford, we have seen a rise in the number of situations pertaining to sales professionals in which the company needs to offer high-performing, high-potential salespeople opportunities that best leverage the employee's strengths and longer-term career interests.

Remember the Peter Principle? The idea that an employee will keep getting promoted until his or her skills fall short and they remain stuck? This speaks to the shortcomings of traditional promotion policies. Specific to the sales function, this highlights the potential for catastrophe when a talented salesperson becomes a bad sales manager. If another function needs the skill, drive and grit of a talented salesperson, the situation could be a win-win.

However, compensation presents a potential roadblock to the enlightened notion of a career-lattice program. High-performing, high-potential sales professionals can reasonably expect a level of cash earnings well above the target pay for a similarly-leveled job in another function, such as marketing.

Let's say a career-level sales professional targeted for a move to marketing has a current-year opportunity in sales for $350,000 in total cash on a $200,000 target cash plan. The marketing position planned for this person, assuming a promotion one grade level up, has a total cash potential of $230,000 on a $180,000 base salary and $20,000 target bonus.

How will your targeted candidate respond? Will she put aside the opportunity to earn more than $100,000 more in the short term in favor of long-term career growth? If so, will the vice president of marketing agree to the promotion and pay level, even though the candidate has sales-heavy (and marketing-light) experience?

Empower Results®

Given the variables in this simplified example, you can appreciate how pay decisions for cross-functional mobility situations become highly situational. In fact, Radford conducted a poll in fall 2016 of more than 30 of our largest, U.S.-based technology clients around cross-functional, domestic mobility situations. Nearly 50% of respondents said, in these situations, they evaluate changes to compensation on an individual basis.

Making one-off decisions might be fine in a small enterprise where one or two such situations may arise per year. One-offs are not scalable though, as these situations can easily consume a lot of time and lead to pay inequities in a large organization. Given the shortage of talented salespeople in most markets as well as a heightened attention to pay equity, it's no surprise we're getting more requests for solutions in this area.

Principles for Cross-Functional Moves

Like many decisions involving compensation, we recommend management start with a principled approach. Principles serve as guidelines for specific decisions and can include fundamentals such as:

- Pay within the target range as provided for the transfer-in job role
- Maintain (or increase) target total cash (TTC); do not reduce incumbent's base salary
- Provide a one-time transition bonus to address any short-term decrease in base salary

Let's test each principle against our scenario. The first principle limits management's ability to adjust the employee's compensation or offset a short-term disruption from the move. The upshot is, it reduces perceptions of pay inequity and avoids exceptional pay decisions that become difficult to manage as the organization scales. To be effective, however, the employee must believe the longer-term benefits outweigh the short-term income disruption.

The second principle of TTC neutrality might work here, and the incumbent could receive a considerable increase to base salary if this is a move up the career ladder, and if the head of marketing agrees to the proposed target. More controversial are moves into sales from a noncommissioned role due to a significant base salary decrease. That isn't the issue here, but it could be down the road of this employee decides to move back into sales. Either way, we may have an issue if the candidate has built a lifestyle around an earnings level that far exceeds her current TTC because the marketing job has relatively little total cash upside.

The one-time transition bonus is an approach used by some of our clients. It softens or eliminates any income reduction in Year 1 and demonstrates to the employee that management is willing to invest into what could be a risky bet. One-time bonuses don't corrupt the existing target pay structure. The short-term cost might be negligible in a large organization, especially if the bonus is on par with the amount paid to a newly-hired employee lured from a competitor. Longer-term costs are, of course, unknown. The employee could conclude after Year 1 that she needs to be back in sales, and not necessarily with your company. In that case, did the investment pay off?

It's difficult to say that one or multiple principles will work for each situation. As with any principle, we intend these to be guidelines. While imperfect, the principled approach beats an unprincipled one.

The Bottom Line

Making cross-functional mobility successful requires the compensation manager to carefully monitor each situation and its corresponding costs. Leadership needs to clarify the strategy and intent so that each proposed move makes sense and aligns with the strategy.

We hear of many situations in which the move doesn't seem sensible from a career standpoint, because it's unlikely that the person's success in one function can transfer to the other. Other situations clearly support a broader talent strategy, but management isn't prepared to assess the return on investment because they don't track the specific instances and any corresponding direct cost.

That said, the extremely tight labor market requires creative solutions, like career lattices and mobility programs, designed to motivate talent and boost productivity in unconventional ways. This solution might be right for your company — just make sure you've locked down your compensation principles in support of the strategy.

If you have any questions about your sales force effectiveness and want to speak with one of our consultants, please write to consulting@radford.com.

Author Contact Information

Scott Barton
Associate Partner, Rewards
Aon
+1.415.279.6494
scott.barton@radford.com

Rachel Bedford
Senior Associate, Rewards
Aon
+1.760.518.5786
rachel.bedford@radford.com

About Radford

Radford partners with technology and life sciences companies to reimagine their approach to rewards, empowering them to achieve superior levels of people and business performance. Radford is part of Aon plc (NYSE: AON). For more information, please visit radford.aon.com.

About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance. For further information, please visit aon.com.