

Cox Communications tackles central vs local compensation design

QUICK LOOK

- ➔ The balance between central versus local control fluctuates, depending on corporate vision, business cycle and players involved.
- ➔ Some national organizations are divided into local operating units, with autonomy for each geographic area or type of customer.
- ➔ The Variable Pay Framework provides the tools needed to create world-class incentive plans consistent with corporate policies, yet tailored to local markets.

By David J. Cichelli, The Alexander Group Inc., and Angie Keller, Cox Communications Inc.

One of the more sensitive issues facing compensation professionals is the design and application of incentive plans for customer-contact personnel such as sales, field service and telephone-contact personnel. Who “owns” the design of the incentive plans: corporate compensation or local management?

Compensation professionals seek to provide effective incentive compensation solutions that are consistent with company objectives, well designed, easily administered and legally compliant.

Local management—often operating with significant autonomy—wants to configure incentive programs to address unique situations to drive performance.

Both parties want to realize the full benefit of incentive compensation outcomes. And both parties want to use effective incentive designs. However, in some cases, the interpretation of the best solution can be at odds between these two parties. What is the best way to close this gap?



The incentive programs most often caught between central versus local design autonomy issues involve customer-contact personnel.

The experience at Cox Communications provides one approach to address this issue.

A Different Perspective

Depending on the company, the balance between central versus local control can vary. In some companies, central resources make all the decisions about customer contact incentive plans, while other companies allow local management full autonomy to design incentive plans. The upside to these two extremes is clarity of authority; the downside often is poorly designed compensation programs. Most companies exist within a gray area between these two extremes. Central compensation and local management contribute to the preferred design solution. Unfortunately, these responsibilities are often ill-defined, and the balance between central versus local control fluctuates, depending on corporate vision, business cycle and players involved.

Local management professionals are passionate about driving performance. They want unfettered access to all management tools to help reach their objectives. They are driven. Their customer-contact employees—sales, service and telephone resources—are a cornerstone to local management

professionals' success. Managing, directing and motivating these resources are some of the highest priorities for local management professionals. They see markets, people and competitive challenges as unique. Incentive plans need to be flexible and locally designed to meet these challenges. They are action-oriented and expedient and hold an unspoken view that asks: "How can a central resource be of any help to me?"

Meanwhile, compensation professionals are passionate about the success of the company, too. Helping line managers design incentive plans to achieve performance and productivity alignment is their objective. Compensation professionals bring exceptional experience to this effort. They can help identify the right solution for a specific situation. Additionally, compensation professionals can avoid the downside of poorly designed programs. Most obvious are the incentive programs that produce undesirable results, whether performance, morale, cost or legal in nature. And, they help avoid excessive use of incentives and unneeded design variations. Like local management, compensation professionals also hold an unspoken view: "Local management desperately needs experienced help when designing local incentive plans."

Central vs. Local

The challenge of central versus local occurs at numerous intersections.

Following are three prominent examples:

- **Corporate vs. Divisions:** Most large companies are divided into multiple divisions. Each division has its own profit/loss responsibilities, with attendant resources for research, production and sales. These divisional units may have their own corporate HR resources and will design their own (local) division-based incentive plans for customer-contact personnel. Corporate compensation may (or may not) work with these divisions on the design of divisions' customer-contact incentive plans.
- **Global vs. World Region:** Within global divisions, customer-contact personnel are often organized by world regions such as North America, South/Latin America, Europe, the Middle East and Africa (EMEA), and Asia and Pacific (APAC). And, for some companies, these world regions are becoming so economically robust and diverse, even further delineation of these major regions is occurring. Each world-region manager is responsible for local customer-contact personnel. Of course, they advocate that locally designed incentive plans are best.
- **National vs. Local Units:** Within some national organizations, management will divide functions into local operating units, with autonomy for a geographic area or type of customer. General managers are responsible for optimizing these local markets. Like all other local managers, they too want full access to the design of incentive compensation programs for their customer-contact personnel. As described below, this is the current management model for Cox Communications.

Customer-Contact Jobs

The incentive programs most often caught between central versus local

The redesign process outlines roles, accountabilities and timelines and provides a road map for the annual design process.

design autonomy issues involve customer-contact personnel such as:

- **Sales Personnel.** Direct and indirect sales personnel, including presales support resources, often participate in sales compensation programs, as well as contests and special performance-incentive funds.
- **Field-Service Technicians.** Mobile field forces work with customers on site. They install and service company solutions. They are measured and rewarded for productivity and customer-service impact. Some receive additional incentives for add-on selling.
- **Telephone-Contact Personnel.** Telephone-based workers can be service-only, sales-only or a hybrid. Again, depending on the configuration of the job, incentives can help improve productivity, service and sales.

The Challenge at Cox Communications

Cox Communications, a Fortune 500 company with headquarters in Atlanta, is a leading provider of residential and commercial video, data and voiceable services. The company is divided into 20 local markets, each with a general manager. Each local market unit has autonomy for sales and service solutions in its markets.

Senior management continues to support a decentralized approach to market management, but is seeking opportunities where common systems and shared services can help serve economies of scale.

Because each market has unique characteristics such as growth, market share and technology, the autonomy given to local management ensures incentive plans serve management's unique jobs and market conditions.

While locally designed incentive compensation plans provide focused solutions, they also expose the company to excessive design and administration costs, suboptimized solutions and legal challenges.

Prior to engagement with local management, corporate compensation identified more than 400 incentive plans covering 10 very similar "foundation" job groups.

Once the extent of these variations was shared with senior management, a challenge was issued: Can corporate compensation develop best-in-class incentive compensation solutions that are corporatwide, yet still allow local autonomy and flexibility?

The Solution: A Variable Pay Framework

Corporate compensation convened a Variable Pay Council comprised of

Variable Pay Playbook Table of Contents

1. Introduction
2. Fundamentals of the Framework
3. Transition Process and Budget Planning
4. Plan Design Details by Job
5. Gainsharing Plans
6. Governance and Compliance
7. Communication
8. Frequently Asked Questions
9. Glossary of Terms

corporate, sales, marketing, customer care and field services leaders to identify companywide incentive compensation design principles and specify a common, but local, annual design process. This team created a comprehensive Variable Pay Framework.

The Variable Pay Framework—placed into the hands of local management—provides the tools needed to create world-class incentive plans consistent with corporate policies, yet tailored to local markets.

The Variable Pay Council established the following corporate principles now found in the Variable Pay Framework:

- **Eligibility** specifies which types of jobs are eligible for which types of incentive designs (i.e., add-on plans, at-risk designs, team incentives and gainsharing plans).
- **Performance measures** provide suggested performance measures by job task. Local management will continue to configure job tasks into unique jobs to meet local needs.
- **Payout mechanics** suggest, depending on the configuration of the job and the selected performance measures, best-in-class formula payout mechanics.

- **Measurement and payout periods** identify the preferred measurement and payout periods depending on the types of plans chosen.

In addition, corporate-defined sales-crediting rules are delineated in the Variable Pay Framework to ensure common treatment among the local units. Finally, the Variable Pay Framework provides advice on how to audit, administer and evaluate locally designed incentive plans.

As suggested, the redesign process outlines roles, accountabilities and timelines and provides a road map for the annual design process.

Creating a Shared Variable Pay Framework

Following are lessons that Cox stakeholders learned as they created the “Variable Pay Framework.”

- **A Compelling Need.** Creating a Variable Pay Framework is a significant undertaking. Before embarking on such an effort, ensure a compelling reason to do so. Consider the following reasons: corporatewide plans that don’t fit local markets or excessive variation in local designs, even though the job functions are similar across units.
- **Senior Management Concurrence.** As with other companywide initiatives, senior management support is essential. This includes all members of the executive leadership team.
- **Field Involvement.** Building a Variable Pay Framework is best achieved through consensus of field management. Use a Variable Pay Council to engage these local managers.
- **Tailored to the Company.** The Variable Pay Framework is unique to Cox Communications and would not work for other companies. Build a solution that is consistent with the company’s needs.
- **Rollout Effort.** Engaged communication with the local management team

The Cox Communications Inc. Divide Between Central vs. Local Design

Central Solutions

- Preferred performance measures for each job
- Total target cash-compensation levels by job, by local unit
- Targeted pay mix by job
- Gainsharing plan requirements
- Salary management requirements
- Governance model
- Plan policy and legal language
- Common administrative payment coding for payroll.

Local Responsibilities


- Performance-measure weightings
- Formula mechanics
- Performance periods
- Payout frequency
- Goals/targets/quotas
- Plan costing and modeling
- Plan documents (using guidance from playbook)
- Employee communication approach
- Accuracy of final payout calculations
- Processing of payments.

provides the platform for acceptance. Educate local management. Provide framework solutions and “sell” the value of using the new Variable Pay Framework.

- **Ongoing Support.** Conduct quarterly meetings with local stakeholders to answer questions and encourage application of the principles. Help kick off the next fiscal year design process with a locally presented “kickoff” refresher of how to evaluate and develop next year’s plans.

Central vs. Local Control Solved?

In looking at the challenge of central versus local control, one finds that clearly neither path alone was effective. Using a Variable Pay Framework contributes to adopting best practices among local units while still giving local flexibility. However, each company’s situation is unique. The gap between central versus local solutions is wide at Cox, and implementation of the Variable Pay Framework continues. However, the situation (the need to reduce 400 plans), the solution (Variable Pay Framework)

and the education process are helping close the gap—between central control and local autonomy—in a positive fashion. 

ABOUT THE AUTHORS

David J. Cichelli is senior vice president of The Alexander Group Inc. and a WorldatWork faculty member. He can be reached at dcichelli@alexandergroupinc.com.

Angie Keller is director of compensation for Cox Communications Inc. She can be reached at angie.keller@cox.com

RESOURCES PLUS

For more information related to this article:

www.worldatwork.org

- Type in this key word string on the search line: **Sales compensation or sales incentive plans.**

www.worldatwork.org/bookstore

- *The Best of Sales Compensation*
- *Sales Compensation Essentials*
- *Designing Sales Compensation Plans*
- *Compensating New Sales Roles.*

www.worldatwork.org/education

- C5: Elements of Sales Compensation
- Sales Compensation for Complex Selling Models
- Sales Compensation Design—Developing Next Year’s Plans.