Sales Compensation Policies for Leaves of Absence

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Let's imagine you have a high-performing sales account executive who needs to take an approved leave of absence (LOA); what's the right approach for handling their sales quota and sales credits while they are away? Clearly, your company needs a solid policy for this type of situation that's both reasonable and legal. While this might sound like an easy task, there are a number of potential avenues to pursue, all of which exist within a somewhat ambiguous web of what's considered "reasonable" and with little statutory guidance on what's actually legal.

To be frank, no single policy can adequately cover the full range of sales roles and compensation arrangements. Companies need to take a custom approach based the facts at hand within their business, and as such, this article only seeks to address a handful of potential LOA scenarios.

Scenario #1

The first scenario applies to an inside sales-and-service role for a parts distributor. This job receives a commission based on sales volume, with different payout rates for different classes of product. There is no set quota and no target incentive pay. Sales people simply receive sales credit each time they book an order into the system, and product returns result in a reverse credit.

This scenario presents two disparate policy options. Option A follows the logic that if you can't book orders, you can't receive credit. Therefore, a sales person on LOA is essentially suspended from the sales plan while out of the office. Option B offers a more reasonable approach, paying the sales person on LOA all or a portion of their monthly incentive based on average historical performance. In this case, Option A presents potential legal concerns, so it is probably best to consider an approach similar to Option B. There are a number of ways to approach historical average performance under Option B, perhaps using a trailing 12-month measurement or a one-year look-back at the same period when the LOA is expected to occur.

Scenario #2

The second scenario we will consider covers a less transaction-based, more strategic role; that of a strategic account manager (SAM). SAMs typically earn sales credit for revenue booked into their assigned accounts, which may or may not tie back to a deal they personally initiated. SAMs carry an annual quota and often have an opportunity for quarterly incentive payouts.

In this scenario, one reasonable approach is to provide no sales credit during the LOA, adjusting the annual quota accordingly. SAMs can still receive credit for a sale meeting the "earned-credit" criteria prior to the start of their leave, but they will not see any new revenue booked under their name during leave.

While the aforementioned quota adjustment policy is common, it is not necessarily a clear market-approved best practice. Among 600 technology clients reporting data on this subject into Radford's Global Sales Survey, 57% adjust quotas for employees on an approved LOA, while, 43% of companies to do not make adjustments. Hence, we have a fairly open debate as to what is truly market practice.

Moving Forward

To help tackle some of the uncertainty in this area, we often counsel clients to consider making quota adjustments for an LOA, using the following guidelines as a starting point:

- Exclude LOAs under four weeks in length (within a given year) from the policy
- Prorate quotas (as applicable) for the period of leave; for example, if the employee entered the year with an annual quota of $1.2M, and starts an approved LOA in April for three months, a straight-line proration (with no seasonal adjustment) would reduce the quota by $300K down to $900K for the year
- Do not provide sales credit during the LOA, unless the employee completed all require pre-sales milestones needed for credit prior to the start of leave
- Negotiate any credit splits prior to the start or leave (e.g., management agrees to credit a sales person 50% on an active deal that gets booked during leave to reflect contributions made prior to the start of leave)

Lastly, it is important to align, at least in principle, your LOA policies for sales and non-sales employees, hopefully using similar approaches for prorating any elements of compensation impacted by an LOA. And of course, you'll want to run any proposed policy changes by your legal counsel to ensure compliance with local labor statutes.

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