

# Show Me the Money

## Why Incentives Drive Performance

by Roxanne Krasno, SPHR, CCP

“Why use incentives? It’s simple: To accelerate the performance of your organization and its people. When people can influence meeting goals and incentives are used as a part of employee pay, the organization’s goals are much more likely to be achieved than when incentives aren’t used.”<sup>1</sup>

The world seems to be shrinking. Countries that were once days away are now as close as the nearest cell phone. E-mail, fax and teleconference can transform any organization from local to global.

With global competition, organizations must strive to maintain employee productivity while keeping costs to a minimum. As they searched for solutions, many employers re-learned a simple truth—pay can drive company performance. Not just for salespeople and executives (as was once the case), but for *all* employees. As a result, companies are beginning to broaden their use of incentive pay as a means to foster increased worker productivity across all employee classifications (i.e., merit pay, gain sharing, profit sharing or other motivational programs to engage employees).

### Reward, not Entitlement

Incentive pay is not a new concept to the workforce. But this generation has an even greater interest in employer-managed incentive programs. It has become quite common for potential employees to ask about incentive programs during an initial job interview. Unfortunately, however, employees often see incentive pay plans as a *promise* made by the employer instead of a *reward* for exceptional performance.

Incentive plans were never designed to promote a mentality of entitlement. To prevent potential problems, it is critical that incentive pay programs be implemented with great thought, planning and care. When an incentive plan is successful, the rewards for both employees and employers can be great. Increased job satisfaction, productivity and earnings benefit everyone. On the other hand, if the incentive plan is implemented haphazardly, the results can be disastrous. Failure to meet goals can result in plummeting employee morale—which can have an adverse effect on productivity and job satisfaction. As a result, the employer may end

up spending an increased amount of time and money to re-motivate employees. There is also the potential for lost revenue due to lower productivity.

### Communication is Critical

Management and supervisors must clearly communicate the specifics of the incentive plan to employees throughout the course of the plan year. There should be no question about what is expected and how those expectations relate to potential payouts. Using the SMART approach can help clarify and drive the communication process:

**S**pecific  
**M**easurable  
**A**chievable  
**R**elevant  
**T**ime bound

A successful incentive plan focuses on eligibility and includes a method to gauge performance in relation to an employee’s defined goals within the plan. The type of incentive offered and frequency to employees are important factors; however, one could argue that the true test of the plan’s effectiveness is how it performs once it is rolled out. The implementation and success of each employer’s incentive plan can only be improved by constant monitoring and through the use of an ongoing dual-perspective evaluation process (employer and employee).

### Laying a Good Foundation

Incentive plan design is a lot like the old carpenter’s adage: “Measure twice and cut once.” Organizations need to focus on the fundamentals so the plan is implemented correctly the first time. The foundation of any good incentive plan uses many building blocks, which may include the following:

- A clear statement of the program’s goals
- Methodology to ensure that the right people in the organization are eligible
- Performance measurements to determine that goal actualization is valid and reliable
- Challenging but reachable goals
- Appropriate type, amount and frequency of plan rewards

## Key Ingredients to a Successful Incentive Plan<sup>2</sup>



Compensation is a significant reinforcement and change tool that must support desired behaviors and actions. Properly designed incentive plans can help make a real difference in an organization's performance and productivity.

### Line of Sight

Organizations that utilize formal performance measurement strategies—including the use of incentives—are more likely to experience positive results than those who do not have such

protocols in place. High-performing companies recognize that to have a successful incentive program, employees need to be engaged, and must clearly understand the "line of sight," which is the employee's perception of the degree to which his or her contributions influence improvement. Employees appreciate having the ability to track progress toward goals. "I accomplished 'X' and my reward was 'Y'" is a powerful motivator. Understanding an incentive's cause and effect is a true measurement of the effectiveness of incentives.

<sup>1</sup> Zingheim, Patricia K., Ph.D. and Schuster, Jay R, Ph.D., "Revisiting Effective Incentive Design: Still *The Major ROI Reward Opportunity*," *WorldatWork Journal*, First Quarter 2005, Volume 14, Number 1, C12-RES 4.6, used with the permission of WorldatWork.

<sup>2</sup> Sung, Amy and Todd, Emory, "Line of Sight: Moving Beyond the Catchphrase," *Workspan*, October 2004, Vol. 47, No. 10, (*WorldatWork*), C12-RES 4.1.

Additional material for this article was inspired by Scott, Dow, Ph.D., "Incentive Pay: Q&A with Dow Scott, Ph.D.," from *Incentive Pay: Creating a Competitive Advantage*, WorldatWork Press (2007), pp. 62 ff.