

Work Incentive Programs May Hurt Productivity

04/04/05

Development of incentive programs is the theme of this week's compelling question. It's asked by a water-treatment specialist, providers of quality products and services to Fairfield County Connecticut and Westchester County New York for 25 years. The family owned and operated business classifies itself as a big/small company capable of doing residential and commercial work with a personalized touch.

This owner asks, "How do I create an incentive program for my employees when each one has vastly different job qualifications?"

Incentive programs, when done correctly, can boost morale, motivate higher performance, and improve retention of top-quality players. This owner is smart to ask for advice. Evidence shows that a lot of incentive programs fail to meet stated objectives. Some programs do the opposite of what's planned, including drive performance in the wrong direction and motivate key players to leave the company. If you're going to consider an incentive program, take the time to do it right. Let's start with, why to consider an incentive program, followed by some do's and don'ts associated with building incentive programs. We'll also look at some practical advice on how to put specific incentives in place.

The satisfaction of employees in companies with incentive programs tends to be 4 times higher, as compared to companies without programs. Employees tend to strive harder to achieve goals, when recognition and incentives are offered appropriately. When employees are focused on achieving higher results, and motivated to produce more on their own, the load carried by the owner gets lighter.

There is no such thing as one size fits all. Different people respond to different incentives. Develop lots of small incentives, rather than one program. Create variety; Disney World for example, has over 240 reward and incentive programs, to show appreciation, improve performance, and shape behavior.

Employee involvement in design, set up and operation of incentive programs tends to improve buy-in and outcomes. Ask employees to tell you what they think you could be doing to recognize and reward performance. Communication is crucial, and should be continuous. Make any effort broad-based, rather than focusing on a few star performers. Don't over or under-reward. If you make things too easy, the top performers lose interest. Make things too hard and the middle of the pack gives up and delivers less than they could.

Think through how to inform employees about the program, in ways that are clear, consistent, easily recognized and understood. Be clear about goals and rewards. Keep the rules clear cut. Set up simple ways to track performance, and distribute tracking information frequently. Talk about results, progress and problems openly and consistently encourage employees to participate.

Make sure to drive the behaviors and outcomes you want. One year, a major corporation put an incentive program in place, with high payouts and a top-stop. A couple big performers figured out how to max the program rewards by February, and having done so, spent March - December coasting, behaving as if they were on vacation; not exactly what the company had intended. Play out your plan on paper, before you introduce it. Think as if you were a program participant, and try to figure out how to "break the bank," then fix the holes in the plan before you introduce the incentives.

There are lots of drivers to consider. Research shows that you can motivate employees with money, enriched jobs, growth opportunities, and improved relationships, among other things. The central theme is possibility. We as human beings are generally wired to seek the potential for things to get better. We also need tangible evidence

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that things can and do get better, that the promise can be realized.

Employees must believe incentives are achievable. That doesn't mean the goals have to be easy. In fact, great achievements sometimes come when facing individuals or teams with seemingly impossible challenges, then removing roadblocks and providing encouragement, recognition of effort, and milestones to measure progress. In other words, dangle the carrot, but not too far out, and insure that people recognize progress is being made.

Knowing what motivates each employee is key. Observe your employees as individuals, to figure out how best to motivate each one.

- Attention seekers and employees tuned in to what others think of them, are likely to be driven by recognition and reputation enhancing opportunities
- Employees who compare themselves to their peers are likely to value personal rewards such as incentives and bonuses
- Some employees look beyond self-interest, are cause driven, or frequently volunteer for charities. Offer them a sense of purpose; help them see that what the company is trying to achieve will make things better

- Self motivated, internally-focused individuals seek challenges and respond well to opportunities to learn and improve
- Employees who want to enjoy what they do will respond to fun opportunities for laughter, from a social event, to a company-sponsored outing

It is possible to drive higher output by simply focusing on what drives each individual in the company, and appealing to that motivating influence. The advantage of owning a small business is that you don't have hundreds of employees to get to know. You can get to know something about each individual. Following through to appeal to each individual's motivating factors can turn around performance, and get people involved with your company.

Now that you know what to do to recognize and reward different people, think about specifics. Recognition comes in the form of promotions, visibility, and openly providing praise. Incentives and bonuses can take all forms from cash to gifts, to trips, and catalogs with point systems. Personally, I can remember being in sales and jumping through hoops to win trips, because I liked to travel, I valued the recognition that went with winning, and I wanted the comradeship of being in the winning peer group.

You can hire a company to put together a program, or design one on your own. One client of ours in the retail business wanted to get their employees out to see other stores. They designed a program to reward employees with "shopping dollars" in the form of gift checks, redeemable at the targeted stores. Another company gave employees points to redeem in a catalog. In the real estate industry it is typical to put the pictures of top performers in the paper, and pay for an agent's direct mailings once they hit a certain level. Some companies have co-op dollars, or authorize days off, to support the volunteer efforts of employees who are performing above and beyond. Of course, the most basic of all, is simply to sit down regularly with employees, review their efforts, and saying "thank you."

Looking for a good book? DUH! Lessons in Employee Motivation that Every Business Should Learn: from the Worlds Best (and Worst) Airlines provides lessons that apply to any business, with examples to which we can all relate.

For a technical, but understandable lesson in game theory and other factors in motivation, try The Theory of Incentives by Jean-Jacques Laffont.



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