

Rewarding entrepreneurial performance

5/24/10

"When employees ask for raises, we have no idea if they are in line for them. Sales are turning up. People expect something. What should we do?"

As a result of the recession we have gone a long way toward linking up performance to pay. Reports indicate that employees are thinking a lot more entrepreneurially. That's what you want – employees thinking more entrepreneurially while you think more corporately. It's a shift in balance that can get everyone pulling to achieve common goals.

The Big Picture

Teaching employees to think more entrepreneurially is all about not taking a paycheck for granted. It means that employees set their sights on targets, check on their progress and accept responsibility for hitting individual goals. The best employees have always done this. Now it's everyone else's turn.

You, as owner, need to outline the big picture, help each person clarify his fit within that picture and then step back as workers practice hitting targets. Start by asking each employee what he's responsible for delivering. Be sure to check that what he comes up with fits within the big picture.

Here are some questions you can ask:

- How do you plan to measure your results in the coming year?
- When you think about results, what would cause you to say you're successful in the coming year?
- How would you know that happened?
- How does that contribute to corporate revenue? Profits?
- Is that enough?
- If it's not enough, how would you boost results to make it enough?

Goals and Compensation

Guide employees to set the right goals, rather than simply telling them what to do. Discuss what their goals should be and how they plan to hit them, boost performance and take corrective action. Make it clear that it's their responsibility to come up with a plan. Keep in mind that it's easier to tell them what to do rather than coaching them to come up with the same end point, but then it's your goal and they may not have bought in to it.

Once your employees have set their goals, ask them to put it in writing, sign it and give you a copy. Make sure that you file that copy in a safe place, perhaps their personnel folders. Ask them to keep the original in a place where they can regularly use the information to review progress.

At the same time that employees are working on their goals, you want to work on a compensation scheme. Start by figuring out how much money you plan to share with employees, if they hit their goals. This probably means understanding how much individual goals are likely to boost revenue and profits, and then deciding what portion of that increase goes to employees.

Here's an example to help you get started. Plans include growing net income, and you decide to split the net-income increase: 50 percent to employees, 50 percent to the company for reinvestment to get future growth. Then employees come back and say they think they can beat the target for net income. You decide to share 100 percent of net income over target, for this year only, since you want to give employees a strong incentive

to ensure they hit or exceed your net-income goal.

Building a team

Once you decide how much you plan to spend overall, then it's time to figure out a way to divvy up the bonus among individuals. You can base individual bonuses on portion of contribution to the total goal, current income, team participation or any mix that makes sense to you. Lay out the method for dividing up bonus money and translate that into actual dollars each employee makes if the goals are met. Check that the incentive is neither too large nor too small. and that you'd be comfortable handing over that amount of additional compensation.

Building a company for the long term means that you build a team of people who own and take responsibility for their individual activities. Treat employees as responsible, entrepreneurial team members. You, as owner, oversee the plan and reward entrepreneurial performance.

Looking for a good book? Try "17 Rules Successful Companies Use to Attract and Keep Top Talent," by David Russo.

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