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Developing Employee Incentives that Work

John F. Dini, CMBA, BCB, CBI

All for one...

Most small business owners approach employee incentives with mixed emotions. They want to provide some system that creates a sense of urgency and responsibility in their employees, but they don't want to give up too much of an already thin bottom line.

This isn't caused by greed as much as the constant awareness of the early days, when the entrepreneur worked endless hours for a pittance. Now that some of that is finally bearing fruit, she is being asked to share a chunk of it to get her workers to do what they should be doing anyway. The most common protest that I hear is "But I am *paying* them to do the job. Why should I have to pay them more if they actually do it *right*?"

Of course, if you could be sure that incentives were guaranteed to dramatically increase performance in a way that vastly grew your bottom line, you'd have no problem putting them in place for every person in the company. Why then is there such resistance to creating motivational rewards?

The answer is clear. Many, and perhaps most small business employee incentives fail to motivate enough of the desired behavior, and too frequently wind up becoming a permanent expense with a temporary impact.

There are methods of creating and maintaining incentives that avoid becoming an entitlement, and are dynamic enough to change and adapt with current conditions. We'll talk about the approaches for the next several posts. Today we'll start with an overview of types of incentives.

People are motivated by different things. As a behavioral analyst, I know that careful observation of the people I am dealing with will determine the types of incentive that will work best. For some, money is a motivator. For others, recognition or helping the rest of the team (which is a kind of recognition) is far

more powerful.

In reality, all the forms of motivation work to some degree, but different types are more or less effective depending on the time and circumstances. Begin any discussion of incentives with a few preparatory steps.

Draw a two-by-two matrix. Label the left/right sides of the vertical divide "monetary" and "non-monetary." Label the top/bottom halves above and below the horizontal line "individual" and "team." Now you have a tool to track which incentives you've used, and which ones work in a given situation.

	Monetary	Non-Monetary
Individual	Commissions Bonuses Contests Richer opportunities (territory, product lines) Overtime	Trophies and Awards Trips and Tickets Clothing Publication 1 st , 2 nd , 3 rd prizes
Team	Team commission Team bonuses	Social Gatherings Team clothing Team trophies Publication Team outings

Next, make a list of all the employees whose performance can affect your bottom line. (Hint: that should be *all* of them.) Make two columns next to the names, one for individual/team and one for monetary, non-monetary. In the columns, write in the 2 factors for the type of incentive that you feel will work best with each type of employee. Don't worry if you have people with the same job description or in the same department whom you think will respond to different types of incentives, we will get through all types before we are done.

Name	Dept		Type 1	Type 2
Jack Armstrong	Outside sales		monetary	individual
Brenda Starr	Public Relations		non-monetary	individual
Rex Morgan	Med tech		monetary	team
Dagwood Bumstead	Sales support		non-monetary	team
Charlie Brown	Kite assembly		non-monetary	team
Reed Richards	R & D		non-monetary	individual

We have four possible combinations for incentives, monetary/group, monetary/individual, non-monetary/group and non-monetary/individual. How can we determine which incentives will work best?

Sometimes the answer is trial and error. There are many good reasons to change incentive programs regularly, not the least of which is the "[Hawthorne Effect](#)." That is the seminal behavioral study on office lighting and productivity that showed lighting levels were not as important as having the employees know someone was paying attention to their productivity.

To start with, however, you can make a pretty good guess at the type of incentive that might work by the personalities attracted to the position.

All for one...me!

Salespeople, for example, are not usually team players. If my territory is New England, I'm not likely to get excited about a bonus that requires the salesman in Chicago to make his goal in order for me to collect. (If you work with salespeople, you're probably smiling right now at how silly such a program would be.)

So salespeople, for the most part, are incented by individual rewards. But that doesn't automatically mean monetary rewards. Money is the way of keeping score, but many (if not most) salespeople are motivated by the win, and the recognition that comes from winning. Millions are spent every year on recognition for salespeople. Contests, trophies, trips to sales conferences. Some sales incentives come in the form of more work! How many salespeople have busted their hump for a bigger territory, or to be given a more lucrative line?

There is a behavioral study (it might be [Russell Ackoff's](#) but I'm not sure) that tracks a salesman's "non-compliance" factor. It goes like this:

You have a set of standards for your sales employees. They re to dress a certain way, submit call reports, get expenses in within 2 weeks or forfeit their reimbursement, be at the sales meeting every Monday at 9:00, etc. All your salespeople follow the rules, more or less.

One sales person starts to see exceptional results. He is hot, and his sales are not

only number one in the system, but he's an order of magnitude better. His call reports start to go missing. (Hey, they're buying, aren't they?") His expense reports are late ("Do you want me doing paperwork, or selling product?") He shows up in loud plaid sport jackets ("My customers like to be able to pick me out in a crowded trade show.") He is late for the Monday morning sales meeting...making an entrance while talking to a big prospect on his cell phone.

Do you slap him down? Of course not, and he knows that you won't. That's why he's doing it. He may like the money, but his drive is for recognition, and if it isn't built into the system to his satisfaction, he'll find other ways to get it.

As I recall the study, the behavior is self-correcting on results. If the salesman cools off, the closer he falls back into the rest of the pack the more compliant he becomes. No coercion is necessary, especially if another alpha dog is rising in his place.

Remember that all individual incentives are a form of recognition. That's why you are supposed to publicize them. Don't make the mistake of telling someone "Don't tell anyone else how large your bonus is." That's precisely the point. Incentives are an updated version of the eons-old custom of preening and strutting in front of the crowd. Removing that component just wastes your money, and no increase in the cash amount will make up for it.

All for one...one for all

The individual incentive, whether monetary or non-monetary, seems logical. It fits best with sales people, who are the most familiar examples when we think of employee incentives. What kind of people would work harder for a group incentive?

Actually, there are a number of positions in a company that attract folks who might prefer group incentives. Customer Service representatives, technical support, back-room analysts, production teams, pick-pack teams. In fact, the terms "support" or "team" in any job description should give you a hint. People who work in groups, or whose jobs revolve around helping others to be successful.

Group incentives can be monetary, like \$100 for each member of the team. More frequently, however, the non-monetary rewards work better. You particularly want to consider non-monetary incentives that let the team celebrate together. A pizza party or company jackets are great for recognizing the whole team.

Finally, there is one critical point to emphasize in any incentive program. *Nothing motivates forever.* Every bonus scheme has a lifetime. Any plan should be introduced with the caveat "This incentive is intended to motivate specific

behavior and results. Management reserves the right to modify or cancel it at any time."

Change incentive plans regularly. Swap a long-term individual monetary plan for a short-term non-monetary team goal just to loosen things up. Give team members the ability to excel individually from time to time. One incentive can be a contest, with only a single winner, or first, second and third place but no rewards for fourth on down. Top three performers, top two performers, qualify to be in the group with a drawing for the best prize, or multiple entries in a drawing scaled to your performance. Spend some time thinking of how many ways you can vary rewards, and save them for future use.

All incentive plans go stale. Employees learn to game them. Worst of all, too many managers allow an incentive to remain in place long after the goals are being exceeded with ease, and the bonus has slipped into an entitlement.

When you finally come up with a program that works, avoid the temptation to dust off your hands and walk away. It merely means you've bought some time until the next incentive plan is due.

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John F. Dini is a consultant and coach to business owners, and since 1998 has operated the most successful franchise of The Alternative Board® in the world. His business tips and thoughts can be found at www.awakeat2oclock.com. He can be reached at jdini@mpninc.com