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# Implementing Incentive Pay

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## Getting What You Pay For

Dennis Ackley

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### My question to you...

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Why isn't all pay considered  
incentive pay?

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## What is pay?

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Much more has been written about  
pay and incentives  
than is actually known.

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## What is Pay?

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Maybe pay is...

- a motivator...but why don't all organizations publicize the salary ranges for all jobs?
- a measure of "job gravity"...the amount it takes to attract and retain employees
- a measure of the company's commitment and loyalty to employees

4

## What is Pay?

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- one of Herzberg's "hygiene factors"...it doesn't make people happy, only helps prevent unhappiness
- a reward for performance...but why don't all organizations communicate pay changes and performance appraisal results at the same time?

5

## What is Pay?

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- a measure of the supervisors appreciation
- a way to "keep score" with people doing the same job at other organizations
- a form of recognition...but less important than the "chairman's award," a special parking space, a holiday turkey, or a "nice work" compliment from the boss

6

## What is an incentive?

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“It’s impossible to create a process- and customer-centered organization if people are measured and rewarded in traditional ways. They must be paid for results. And not principally individual performance.”

Michael Hammer  
author, *“Beyond Reengineering”*

7

## What is an incentive?

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“Reward systems fail to take into account important factors like the drive for self-control.”

Martin Ford  
Stanford psychologist and  
author, *“Motivating Humans”*

8

## What is an incentive?

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“Getting people to chase money produces nothing except people chasing money.”

Phillip Slater

author, *“Wealth Addiction”*

9

## What is an incentive?

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“When rewards focus on a task —people do what’s necessary to get the reward. You’re better off providing unexpected recognition for accomplishments.”

Dr. Tom McDonald

Consultant

10

## What is an incentive?

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“Do this and you’ll get that — it is not much different than ‘Do this or here’s what you’ll get.’ Rewards, like punishment, are extremely effective at providing temporary compliance. They are strikingly ineffective at providing lasting change in attitudes or behaviors. The key is to get people to like their jobs.”

Alfie Kohn

author, *“The Trouble with Gold Stars, Incentive Plans, A’s, Praise, and Other Bribes”*

11

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## What is incentive pay?

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or

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**What makes certain kinds  
of pay an incentive?**

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## Essential Elements of Incentive Pay

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The five C's

### 1. Commitment

- from senior management
- from team leaders

...not the next “program of the moment”

13

## Essential Elements of Incentive Pay

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### 2. Clarity

- clear understanding — if employees cannot describe how it works, it isn't a real incentive
- clear alignment with what company says it must do to succeed (business plan)...not another “say one thing — do another” program
  - ◆ “customer satisfaction is our most important goal” — but pay is based on productivity
  - ◆ “team work is our future” — but incentives are based on individual performance

14

## Essential Elements of Incentive Pay

### 3. **Confidence** — among employees

- belief they can hit the target
- trust in management
- intellectual respect (is management clueless?)
  - ◆ incentives for only one aspect of multifaceted work process
  - ◆ incentives used to lead rather than leadership

15

## Essential Elements of Incentive Pay

### 4. **Control** — among employees

- belief that what they can do will make a difference
- the actions required are in their “line of sight”

16

## Essential Elements of Incentive Pay

### 5. Change

- understanding that “re-aimable targets” are essential — because of changing customers’ expectations and competitors’ activities
- belief that success comes to companies quickest to react — or anticipate — how to effectively deliver valued services and products
- awareness that payouts must be re-earned — not added to future base pay

17

## Incentive Pay: Is it really?

- Management-directed — true incentives?
  - ◆ profit sharing
  - ◆ stock options
  - ◆ annual merit pay
- Employee-influenced
  - ◆ results sharing
  - ◆ small group incentives
  - ◆ spot bonus for teams demonstrating company values
  - ◆ TQM rewards

18

## New Pay has many elements of incentive pay

- The shift is on...
  - ◆ from **JOB-BASED-PAY**...pay based on the value of the job
  - ◆ to **PEOPLE PAY**...pay based on the value you — or your team — provide customers and the organization

19

## The incentives in PEOPLE PAY

The highly defined duties and restrictions found in job descriptions are going away — so are many “jobs”

Today’s focus is on:

- flexibility
- speed
- teams
- empowerment
- quality
- cross-training
- re-engineering
- cost-cutting
- customer satisfaction
- adding value

...these don’t support “just doing my job.”

20

### **The PEOPLE PAY approaches**

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- team awards — for a group attaining its goals
- skill-based — for specific skills you possess
- job-based — for tasks you can perform
- knowledge-based — for what you know
- competency-based — for applying knowledge
- broad-banding — shift from internal (jobs, titles, and ranges) to external (customers, value, and quality)

21

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### **How to implement a successful broad-based Incentive Pay program**

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## **How to implement Incentive Pay**

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- Develop a clear statement of your overall pay approach
  - ◆ how it supports organization's mission
  - ◆ get top management's support (or don't implement it)
- Involve employees in implementing, operating, communicating, and improving the approach (how else can it have employee commitment?)

23

## **How to implement Incentive Pay**

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- Develop realistic expectations and objectives
  - ◆ start simple — add sophistication later
  - ◆ find out what employees believe are valuable awards
  - ◆ teach employees that perceptions are valuable measures — customer satisfaction and stock market performance are largely perception-based

24

## **How to implement Incentive Pay**

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- Convince supervisors that incentive pay communication is a key part of their job
  - ◆ provide communication tools (handouts, desktop flipcharts, individual printouts, etc.)
  - ◆ train them to explain the new incentive plan
    - and base salary
  - ◆ measure supervisors' communication effectiveness

25

## **How to implement Incentive Pay**

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- Conduct announcement meetings led by senior executive (in person or on tape)
  - ◆ explain “big picture”
  - ◆ what's the challenge/problem
  - ◆ how new incentive addresses the challenge and supports organization's mission
  - ◆ how new incentive will benefit customers, employees, and the organization
  - ◆ what role employees will play
  - ◆ how incentive will be implemented, results measured, and awards made

26

## How to implement Incentive Pay

- Tell employees the company understands how important pay is — put in print:  
“It is a mistake to pay too little — good people leave, morale goes down.”

27

## How to implement Incentive Pay

- Provide training in how to meet targets
  - ◆ field test with limited group (TQM step)
  - ◆ implement revised approach

Often overlooked message:

“We want you to earn rewards!”

“We’ll help you...we’ll teach you...we’ll keep you informed...when you win, so does the Company.”

28

## **How to implement Incentive Pay**

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- Issue frequent reports
- Meet frequently to discuss successes and obstacles
- Celebrate accomplishments — team leaders describe results and awards
- Monitor the plan to
  - ◆ redefine success based on changing customer and business needs
  - ◆ encourage team problem-solving activities

29

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**The introduction of  
Incentive Pay  
needs a “spark!”**

30

## What's the "spark"

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- Leadership  
(human desire to be on a successful team)
  - ◆ the "*foreseer*" ... "Follow me, I know how we can be more successful"
  - ◆ the "*lookout*" ... "There's a disaster coming our way — we must alter our course"

31

## What's the "spark"

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- The correct degree of embarrassment  
(human desire to avoid negative situations)
  - ◆ publish the customer satisfaction reports
  - ◆ hand out the quality results
  - ◆ post the customer complaint letters
  - ◆ distribute a report on a customer who fires the company
  - ◆ build team environment — help each other win together

32

## What's the "spark"

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- The need for self-esteem (human desire better known as "ego")
  - ◆ send a clear, personalized explanation of "what's in it for me?"
  - ◆ provide a forum for acknowledging accomplishments and publicizing rewards
  - ◆ grant visible and appreciated rewards

33

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## Incentive Pay Implementation Checklist

34

## Implementation checklist

- Lead with leadership — not communication — keep leaders highly visible
- Keep communicating why the company is introducing the new approach

### The Background/Business Case Dilemma

Some employees will label it as “B.S.” But without the “why”, they say, “You never tell us the reasons — don’t you think we care, or are smart enough to understand?”

35

## Implementation checklist

- Get personal — answer “what’s in it for me?”
- Avoid using slogans, buttons, T-shirts or free caps as part of the introduction
  - pay is too important for silly stuff
  - wait to celebrate success
- Don’t overlook the power of employee recognition — often as important as cash

36

## Implementation checklist

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- Don't set arbitrary limits on communication — “They won't read more than one page.”
  - ◆ limit complexity of plan
  - ◆ increase motivation — essential to learning
  - ◆ provide all the education it takes to understand the plan
- Summarize on one page:
  - ◆ key messages
  - ◆ plan's design
  - ◆ benefit to employees, customers, company

37

## Implementation checklist

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- Keep jargon out — call things what they are
  - ◆ not “gainsharing” if it's “risk-sharing”
  - ◆ not “mid-point” if it's market value or full job value (mid-point — “you're only halfway”)
  - ◆ not “broadbanding” if it's job expansion or title reduction — call it “customer-focused pay” or “people-focused ranges”
- Don't GIVE employee awards — they EARN them

38

## Implementation checklist

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- 📄 Avoid the word “change” — talk about growth, progress, refocused objectives, pursuit of customer satisfaction
- 📄 Use line managers and others who are viewed as credible to help communicate
- 📄 Don't call the new approach a “program” — fuels “program of the moment” cynicism

39

## Implementation checklist

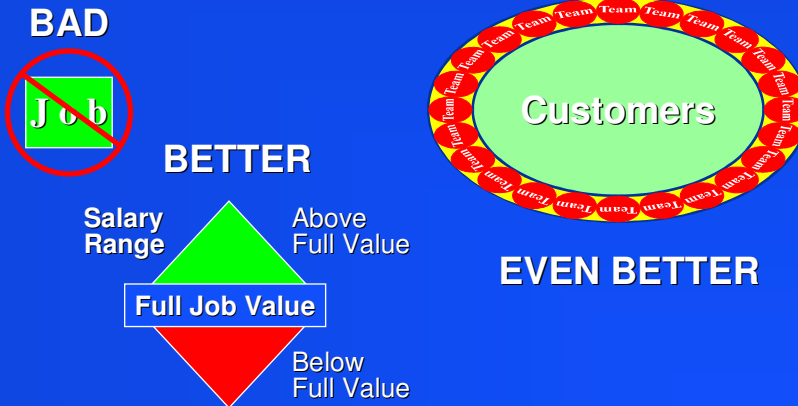
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- 📄 Don't communicate too much detail too soon — highlight
  - ◆ development effort
  - ◆ background
  - ◆ process for getting information to employees (what will happen when)
  - ◆ assurance no related question will go unanswered
- 📄 Explain — do not sell

40

## Implementation checklist

☞ Don't use a box as a graphic for a job



41

## Implementation checklist

☞ Don't flunk the employees' perception test

- ◆ how can a major initiative be designed and ready to go a few days after first mentioned?
- ◆ how can two focus groups or a small sample of employees for a survey give reliable input?
- ◆ if it's important, meetings would be conducted — big boss would be there

42

## Implementation checklist

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- Work with a communication pro who asks:  
“What do we want employees to know and be able to do...What are the obstacles...How will we know when the messages got through?”
- Treat employees with dignity — as team members or adult family members — not as “customers”

43

## Implementation checklist

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- Don't leave the impression that different groups get different messages — use the same slides and handouts — put key messages in writing
- Don't imply that employees must ask to get answers — no Q&A flyers, no “800” numbers, no one-on-one E-mails
- Don't conduct mass meetings for sensitive issues — like pay

44

## **Implementation checklist — employee involvement —**

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- ❏ Don't hide what employees say — if you involve employees in design teams, surveys, focus groups, be sure to report back what they say (or don't involve them)
- ❏ Don't ask about "satisfaction" — are you "satisfied with your pay?" Implies you intend to satisfy employees — cannot be done even with professional athletes

45

## **Implementation checklist — follow-up and reinforcement —**

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- ❏ Don't assume employees received messages you sent — ask them what you said (don't ask "do you know" questions — ask, "how does the new pay approach work?")

46

## Implementation checklist — follow-up and reinforcement —

- Keep communicating after the introduction
  - ◆ reinforce messages — what’s in it for you, the company, and customers
  - ◆ celebrate victories
  - ◆ publicize people “doing it right”
  - ◆ provide feedback — soon and simple
    - message boards showing production facts
    - kiosks providing statistical info
    - interactive telephone offering info
    - intranet “success page”

47

## Summary

- 5 Cs of incentive pay — commitment, clarity, confidence, control, change
- Simplify plan design — don’t short-cut communication
- Do more “do” — less “say”
- Link philosophy and business objectives
- Avoid jargon
- Emphasize face-to-face communication — especially through supervisors
- Answer “what is in it for me — or my team?”
- Celebrate victories — share lessons of defeat as progress toward another victory

48