

Synchronous Solutions

The continuous pursuit of excellence

Performance Incentives

Motivating your people to excellence

Bonus payments and incentive compensation are not the same thing.

Discretionary bonus payments have been a common practice at many companies for years. Typically, around the end of the year and during the holiday season, a company might reward its key people with a bonus. The amount is usually a subjective judgement at the discretion of the owner and is based on how well the company performed financially during the year. Managers often agonize for weeks over how to fairly distribute the bonuses among the key staff. Since the bonus is purely discretionary, it is sometimes the source of disagreement among those receiving it. Moreover, a holiday bonus in a good year can be taken as an expected payment even in not so good years. The intended effort toward a motivating factor can sometimes result in just the opposite.

A bonus system is traditionally reactive in nature and, therefore, establishes little motivation toward excellent performance. As noted, it often evolves into an expected payment irrespective of the company's performance.

An incentive pay system is proactive and is earned only when the defined performance is achieved. Since it is clear that the payout only comes when the established goals are met, the motivation to perform is clear.



An Incentive Compensation program is **pay for performance**. A proper incentive compensation program should establish clear, unambiguous goals and specified rewards before the period begins over which performance will be measured. The objectively stated plan should be fully communicated to staff members in advance, thereby creating the incentive. In this way the individual knows exactly what he or she must achieve in order to obtain a specific reward and patterns his or her behavior appropriately. As well, when those goals are met, the employee rightly expects the reward will have been earned.

It is important to note that the purpose of an incentive compensation system is to encourage overall performance beyond the minimum expected. It should never be used as a substitute for holding your people accountable for their individual responsibilities. Using an incentives program as a non-confrontational way to get people to “do their jobs” will never work. A lack of fundamental accountability within a company is a serious managerial weakness that must be corrected before considering the introduction of incentive program. Incentives can make a well-managed company better, but they will never make a poorly managed company good.



Individual vs. group incentives.

Individual incentives, often called piecework, is not what is being recommended here. Piecework sets up each employee as an individual performer, sometimes even creating competition for the “good work” between employees. Moreover, piecework can be a detriment to producing good quality. A common statement is

“show me how you will pay me and I will show you how I will behave.” If you pay me just to produce more units I may do so at the cost of quality.

A group incentive, based on global goals, is a much better approach. These plans should be based on the overall company goals, which would include established quality standards.

The very nature of your business system must rely on your people to cooperatively work together in order for the company to be successful. If too much emphasis is placed on individual or isolated job goals, you may diminish the importance of reaching company goals. Some firms have inadvertently created destructive levels of internal competition by placing too much emphasis on individual performance at the expense of overall company achievement.

It should also be noted that an incentive pay system should increase company profits. It should not be a cost of business, but rather a profit generator. In other words, a well-designed company incentive plan should result in productivity levels that exceed your minimum goals. The payout should occur only when your company goals have been exceeded. As such, a good incentive plan is a win-win program for everyone.

As you can see, the design of the plan is extremely important. The goals should reflect increased overall performance, but must be perceived as reasonable and attainable or they will not inspire people to invest the needed effort and could even become a negative in the minds of your people. Your people should see the incentive plan as a way for you to share the increased company profits with the good people who have worked to achieve them.

Finally, progress on the company performance goals should be monitored and communicated frequently. The performance period on which the incentive payout is based should be short, i.e. at about one or two pay periods or monthly at the longest. This is necessary to provide the maximum “incentive pull” which will create the highest motivation. An incentive pay system that is based on annual or even semiannual (six months) performance is too long. In any case you should provide frequent updates so that people “know the score” throughout the period.



Important points in an Incentive Compensation System:

1. Never substitute incentives for basic accountability

2. The plan should be clearly communicated and thoroughly understood in advance of implementation.
3. A good plan design can create a powerful recruiting and retention advantage
4. A poor plan design can lead to serious internal conflicts.
5. All goals should be objective, measurable and attainable.
6. Design the goals around the behaviors you seek to encourage.
7. Properly designed, the funds to pay incentives will come from increased profits with at least half of the increased profits remaining with the company.
8. Provide frequent updates comparing actual performance to goals. The "Score" should be posted around the company for all to see.

A good resource for more information on incentive plans is [The Great Game of Business](#), by Jack Stack.

Synchronous Solutions, LLC has developed incentive plans specifically for the stone processing industry.

If you want more information on how to do all this, please contact me directly.

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