I say “do it,” and they do. I pay them – isn’t that “incentive” enough?

In a word, no. Incentive compensation always looks easy at the end. I speak for many when I say that the “devil is in the details,” and making a plan work – effectively – on all fronts takes effort.

Much of my practice today involves creating performance incentive plans for executives, individual contributors, and sales. It’s never as easy as “I want more revenue – just give ‘em a bonus if they sell more.”

If only it were that simple...

Just as supporting material, I wrote a related blog entry in December of last year:

http://www.triangleperformance.com/hr/index.php?entry=entry061204-102640

The elements of a successful incentive plan, whether for a manufacturer, a credit union, a general contractor, or a McDonald’s franchise are all the same:
1. **Determine what the plan intends to accomplish.** Identify, in detail, the improvable conditions desired, and the likely, attainable behaviors necessary to achieve them. Analyze for appropriateness in your environment.

And **really** determine what you want. Be specific, because in compensation, it’s not what you wish for, hope for, or even plan for... it’s what you **pay** for that you get. An example: A client wanted to reduce worker’s compensation claims and their subsequent costs in two of their facilities. They simply created a “safety bonus” of 10% of the manager’s pay, reduced by 3% for the first accident, and 7% for the second.

So what happened? You guessed it: fewer reported accidents, though they put no other safe-work or prevention efforts in place. Needless to say, this one got ugly before better, to be sure.

2. **Determine participants.** Realize that missing a key employee or position can put a wrench in the viability and success of the entire plan. Consider more inclusion than exclusion.

The key to success in incentives – the basis of which behavior is changed – is that the right people must be motivated to do the right things.

If you exclude a group of people, specifically, from an applicable incentive, don’t be shocked when they don’t put that particular goal achievement at the very top of their daily “must-do” list. Human nature kicks in here, and employees will, first and foremost, do the things that most benefit their self-interest. This doesn’t mean they’re mercenaries, it simply means they’re **human**.

3. **Develop clear performance goals.** These should be simple, supported by historic, valid information, and clearly quantifiable. Think 2-3 total goals – the fewer the better. If you exceed 4 or 5, you’ve gone too far, and are trying to do too much with the plan. Model the potential payouts to ensure affordability.

Be realistic. Be prepared to pay for incremental improvement, not just home runs. I was working with a metal smelter once; we were implementing a gainsharing plan whereby line employees would share in all financial improvements from a predetermined threshold. Where we argued, of course, was where to initially put that threshold. I wanted it at or near the three-year historical performance levels; the client wanted it several percentage points **below** that. Bad juju. Employees can sniff out one-sided deals.
4. **Determine logistics.** This includes dates of incentive consideration, payout dates, what is and isn’t considered, plan revision procedures, termination payouts, and effective dates of the plan.

**ALL PLANS SHOULD HAVE A STARTING DATE AND ENDING DATE.** Two reasons: you’re giving yourself an automatic review cycle, and it lessens the likelihood that the incentive plan will morph into an entitlement with participants. We want incentives to always remain *something extra*, don’t we? Don’t even get me started on how many incentive plans I’ve encountered that evolved into a bonafide employee entitlement.

5. **COMMUNICATE.** Effective and thorough communications cannot be over-emphasized. Participants must realize the attention given to the incentive plan, clearly understand its parameters and intent, and have ample knowledge to successfully achieve those behaviors necessary to reach various incentive levels.

Tell participants, in plain, easy-to-understand English, what the plan is designed to do, and what your expectations are for their performance within the plan. Sort of like the “whereas” parts of the recitals at the beginning of a contract.

Further, the communication should be brief, and again, *easy to understand*. If you need four pages for an incentive plan, I’ll tell you what you have: One page, maybe a page and a half, for the actual “who does what, and who gets paid” part; the rest to tell participants how they can lose out under myriad conditions.

Don’t do it. Be direct, and realize there will be judgment calls along the way.

6. **Rinse and Repeat.** Evaluate the success and/or failures of the plan. Determine what worked, what didn’t, and what can easily be modified or improved for better results. Check payouts against modeling done earlier for accuracy and variations.

Don’t rely solely on a consultant’s expertise (even mine, it kills me to say). Make sure it passes your own sniff test, and that *real* dollars are appropriately in play, on both the incentive target side, and the payout side.

Reward levels are determined by the triangulation of desired results, employee efforts, and financial impact (savings versus costs).
Dig deeper than most, and look to share something closer to 30-40% of savings/additional revenue; if employees believe you are simply enjoying a windfall for their efforts, while providing them just a few extra peanuts in their box, they’ll eventually rebel, and performance will reverse.

After all, if incentives are accurately implemented, you’re paying them from money you wouldn’t have had anyway…

Think about that.