Defining Best Practice Incentive and Reward Strategies

By Jean-Claude Latter, CPT, MBA, Sales Director, Achievement Awards Group

What is the formula for achieving and sustaining peak performance in organisations? The question has been baffling behavioural scientists, leaders and corporate managers for decades and has become something of a search for the Holy Grail.

What has hindered the drive to achieve and sustain peak performance in organisations is their inability to effectively implement and manage plans, communicate objectives and results to individuals and ensure that there is ‘line of sight’ between effort and reward. Plus, they have no mechanism to analyse the effectiveness of these plans across the entire enterprise.

Organisations are typically on a continuous drive to achieve the following goals:

- Increase revenue
- Reduce costs
- Improve workforce performance

Building a competitive advantage, improving profitability and increasing shareholder value can be achieved through incentive strategies which align communication, learning, measurement and feedback, and rewards, to organisational strategy and goals.

The next question to ask, is what defines best practice? How do we go about designing sustainable best practice strategies, and in particular incentive and reward strategies that have a meaningful impact on organisational goals?

Back to performance management basics
Best practice strategies begin with the basic principles of performance management. Consider the four building blocks of a well-structured performance improvement strategy:

- Communications
- Learning
- Measurement and feedback
- Rewards and recognition

Best practice strategies spring from a return to the basic principles of a well-designed performance
management system; one that includes an organisation’s workforce as well as every individual in the distribution channel.

**Rewards inspire performance, traditional compensation doesn’t**

How many times have I heard managers say, “We pay them a wage to perform? I don’t need any additional incentive or reward strategies for my employees. They either perform or they’re out”. This attitude does little to inspire performance. According to John Belcher, international expert on alternative compensation strategies and author of the book, *How to Design & Implement a Results Orientated Variable Pay System*, traditional pay systems fail to support today’s business strategies for several reasons:

- **Traditional reward systems compensate but don’t reward**

  Merit increases for salaried employees have, in reality, very little to do with merit. In most instances, these amount to across the board salary adjustments for inflation or shifts in the labour market.

  The failings of merit pay are due partly to the inherent difficulties in objectively measuring performance and the reticence of many managers to honestly differentiate among the individuals who report to them.

  Hourly paid workers tend to be paid at the same rate regardless of their contribution to the success of the business. Where is the motivation for employees to take the initiative to improve work performance?

  Traditional pay, although professing to reward performance, is actually based on tenure, entitlement and internal equity.

- **Traditional reward systems do not communicate or support strategic business priorities**

  A well-structured reward system is a powerful force that motivates performance excellence and sends out a strong message about what is important to the business. Yet, traditional reward systems fail to harness this power. They do not communicate business priorities, nor do they reinforce the behaviours that are important to business success.

- **Traditional reward systems are inflexible and are not reflective of business results**

  Under traditional reward systems, employees are paid a consistent salary irrespective of personal performance or business profitability. Compensation, therefore, becomes a fixed cost. In some cases this fixed cost is set at a very high level, relative to competition or years of service and does not take into account the organisation’s good and bad times.

  Fortunately, change has become an imperative, and progressive managers challenge entrenched business systems and practices.

  - Managers think in terms of processes rather than functions.

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- Organisational structures have been flattened and employees have been empowered to make more decisions.
- Compensation strategies are being revisited to ensure that they support today’s business culture.

As part of this shift in business systems and practices, ‘pay for performance’ programs have been embraced by many organisations. Unfortunately, unless these are properly designed and implemented, they are no more effective than traditional reward systems.

**Pay for performance systems also fail**

In a recent article in the International Society for Performance Improvement’s publication *Performance Improvement* (Vol. 45, January 2006), Mark A. Stiffler, CEO of the US-based performance management company Synygy, cites a few key reasons why some well-intentioned, but ill-managed pay for performance programs produce no better results than traditional reward systems.

- The Wall Street Journal reports that 83% of companies with some form of ‘pay for performance’ programs hold the opinion that poor communication of corporate goals and failure to engage management in the performance management process are the prime reasons these types of programs fail.
- Only 31% of companies engaged in the same survey felt that individual goals were aligned with those of the organisation.
- Administrative constraints associated with the implementation of complex programs limits the extent to which management can react quickly to changes in the market. It is for this reason that outsourcing the design and implementation of incentive strategies is now becoming commonplace.

**Defining best practice**

The primary role of a best practice incentive strategy is to engage, motivate, recognise and reward individuals and teams to achieve organisational goals and objectives, which, as we have seen, is a shortcoming of traditional pay systems.

If we recognise that incentive strategies are a part of the total performance management system, we must be careful that we do not narrow our thinking to that of improving the performance of our own workforces only, but include the workforce within our channels of distribution.

The question now remains as to how we get individuals and teams within our own organisation, and individuals and teams within our external channel of distribution, engaged in focusing on organisational priorities and motivated to achieve and / or exceed organisational goals.

**Participant-centricity**

So what is best practice for engaging and motivating desired behaviour? I define it as ‘participant-centricity’. In the same way that customer-centricity is an attempt to listen to the voice of the customer and understand the customer experience, participant-centricity attempts to understand the psychological processes that engage and motivate incentive program participants.

**Six basic questions**

In juggling the myriad priorities of the average workday, we may not even be aware that we have a running question and answer dialogue going on in our heads. But we do. And so do our staff:

(continued overleaf)
What do you expect of me?
Why is it important that I do this?
Will you give me the opportunity to perform?
Do I have the required knowledge and skills to perform as you expect?
How will I know if I am performing to your expectations?

What’s in it for me?

There is no rocket science here - a best practice incentive strategy provides clear answers to these very basic questions. In fact, these questions cut straight to the fundamental framework of a total performance management system.

Where Incentive and Reward Strategies fit in the Total Performance System

Business Objectives & Desired Culture
Total Performance Management Strategy

Basic Compensation
Attract, Retain, Develop
Base Pay, Merit Increases, Skill-Based Competency
Benefits

Performance Improvement
Engage, Motivate, Recognise, Reward

Individual Recognition
- Reinforces desired behaviours
- Management
- Peer-to-peer

Group Recognition
- Measures and rewards incremental performance of individual and work units
- Sales
- Attendance
- Lead-generation
- Quality

Project Team Recognition
- Measures and rewards project results
- Suggestion system
- Quality teams
- Best practices

Basic compensation is in place to attract, retain and develop employees. Incentive strategies, on the other hand, focus employees on organisational/divisional objectives and reward them for achieving or exceeding those objectives. In this case, there is a direct link between effort and reward that is lacking in basic compensation schemes.

A best practice model

If we apply the ‘participant psychology’ concept to systems theory and link it to Skinner’s model of operant conditioning (ABC model), we arrive at a model that provides us with a framework for either designing new interventions or troubleshooting an individual performance system.
**Skinner’s ABC Analysis of Performance**
Created by behavioural psychologist B F Skinner, the ABC Model explains the three principal factors that influence positive performance.

- **Antecedents** equip people with the resources needed to reach their performance goals. Communications, learning and experience all help them see what they need to do, and how they need to do it.
- **Behaviours** are the actions people perform to meet their goals, as well as the results generated by those actions.
- **Consequences** should always be positive, immediate, and certain, supporting effective behaviours, and discouraging those that aren’t.

Positive reinforcement then ensures that people maintain their high performance levels: a continuous cycle of improvement.

### Skinner’s ABC Behaviour Model

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<thead>
<tr>
<th>Antecedents:</th>
<th>Behaviours:</th>
<th>Consequences:</th>
</tr>
</thead>
<tbody>
<tr>
<td>What is the objective?</td>
<td>Tell me what I must do; give me the tools to do it.</td>
<td>How do you want me to do it?</td>
</tr>
<tr>
<td>Communicated Strategy</td>
<td>Individual/Teams - Tools Learning Experience</td>
<td>Desired Behaviour</td>
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Feedback

Tell me how I’m doing.

*Acknowledgement: B.F. Skinner - Operant Conditioning Model, 1957*
Skinner’s Model of Operant Conditioning
Applied to Systems Theory

(Adapted from ‘The Evolution of the Performance Systems Model’ - Donald Tosti Volume 44 ISPI Performance Improvement Journal)

The ‘participant psychology’ concept applied to Systems Theory and linked to Skinner’s model of operant conditioning (ABC model).

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Best practice connects the people to the plan

A best practice incentive strategy incorporates all aspects of an organisation’s broader performance management system. The corporate vision, mission and values must be aligned to strategic goals and objectives, which must in turn cascade down to practices, behaviours and tasks within each area of the business.

In essence, the design and implementation of the strategy must have the primary goal of connecting the people to the plan.

In order to connect the people to the plan, we must be conscious and sensitive to the fact that we must address those factors which are top of mind in terms of participant psychology.
SMART ALEC - a best practice incentive strategy

The key success factors of a best practice incentive strategy can be summarised under the acronym SMART ALEC. These factors provide answers to the key questions that participants ask.

S - Specific objectives
Specify clearly what you want to achieve and what the priorities are. Create clarity around goals.

Participants ask:
- What do you expect of me?
- What do you want me to do?
- Why do you want me to do it?

M - Meaningful, measurable
Set objectives that are meaningful in terms of achieving the desired state. Design accurate measures for success. Measures should always be described incorporating the elements of:
- Quantity
- Quality
- Time
- Reliability

Participants ask:
- Why it is important?
- How will I know if I am performing to your expectations?

A - Achievable
Set reasonable and achievable goals. Analyse past trends to determine your benchmark for success. Also consider external and/or internal factors that could be obstacles to success.

Participants ask:
- Will you give the team and me the opportunity to perform?

R - Rewards
Design a reward strategy that “moves the middle” whilst taking into account below and above average performers. Consider:
- Is the reward equitable from both the company’s and participants’ perspectives?
- Does the strategy allow the organisation to create its ‘own supply’ of rewards as opposed to cash?
- Does the reward strategy engage and drive individuals and teams to perform at a higher level, focusing them on the priorities?
- Does the strategy allow for truly differentiated rewards?

Participants ask:
- What’s in it for me?

T - Timely
Be aware of seasonal influences that may impact your results and set a clear timeframe for achieving your goals.

Participants ask:
- What do you want me to do?
- By when do you want me to do it?
- Will you give me the opportunity to perform?

A - Alignment
Goals, objectives, tasks and behaviours should be clearly aligned to corporate direction. Connect the people to the plan.

(continued overleaf)
Participants ask:
- What do you expect of me?
- Why is it important that I do this?

L - Learning
Create and become a learning organisation, which shares best practices, thereby improving the performance of the masses within the organisation. Ensure that individuals have the knowledge and skills to perform as desired.

Participants ask:
- Will you give me the opportunity to perform?
- Do I have the skills and knowledge to perform as you expect?

E - Evaluate
Build in evaluation criteria to determine ROI and ensure that objectives are being met. Conduct gap analyses and re-strategise if necessary.

Participants ask:
- How will I and/or the team know if we are performing to your expectations?

C - Communication
Keep the incentive strategy alive - communicate, communicate, communicate! Constantly reinforce participant psychology into your communication strategy.

Participants ask:
- What you expect of me? What do you want me to do?
- Why is it important that I do this?
- Do I have the knowledge and skill to perform as you expect?
- How will I know if I am performing to your expectations?
- What’s in it for me?

The formula for achieving and sustaining peak organisational performance is no Holy Grail. A best practice incentive and reward strategy applies participant psychology to connect the people to the plan and engages, motivates, recognises and rewards performance. More than a silver bullet or a quick fix, it’s a critical component of a total performance management system.