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INCENTIVE PROGRAM DESIGN: EIGHT PROVEN PRACTICES



# Eight Proven Practices in Employee Incentive Program Design

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# Eight Proven Practices in Employee Incentive Program Design

Across most industries, firms have had to take dramatic cost-cutting measures, including laying off or furloughing employees, cutting back hours and requiring employees to work remotely. In essential services and even in industries that have thrived during the pandemic, employees faced new challenges, such as working under difficult, sometimes dangerous conditions, being asked to work faster and accepting longer hours. The result has often been damaged trust in the firm.

“Employees who have been fortunate enough to retain their positions are working harder than ever for the same, or even less pay. A company that does not recognize and show that they value their employees right now faces the consequences when the economy swings back to some sort of normal growth.”



**Sandi Daniel**, *FIRE Light Group*

For affected employees, the changes wrought by COVID-19 have likely eroded relationships with the organization, team members and customers. Some have experienced psychological damage through social isolation. Many experienced or stress and burnout due to adverse work conditions or by having to manage family demands while working from home. For employees returning to offices, social distancing, masks and fear of contracting the virus will only add to the stresses of work. These weakened relationships can reduce the meaningfulness of work and erode feelings of job security.<sup>1</sup> Stressed, isolated and scared workers rarely perform at their best, even when they want to.<sup>2</sup>

“The most effective programs I have seen in the last 30 years have three things in common: clear and compelling goals, a detailed implementation plan to show people how to succeed and an inspiring rewards selection designed to engage participants.”



**Mike Donnelly**, *Hinda Incentives*

This current threat of employee disengagement makes the role of incentives more vital than ever.<sup>3</sup> By following the practices described below, organizations can design or revise incentive programs to drive the behaviors and actions needed to cope with and recover from the crisis – programs that more than pay for themselves. Successful incentive programs include attention to numerous details, each of which affects the others, requiring balance between them. These practices, with minor modification, apply during times of crisis and otherwise.

### **1. Develop Measurable and Realistic Program Objectives**

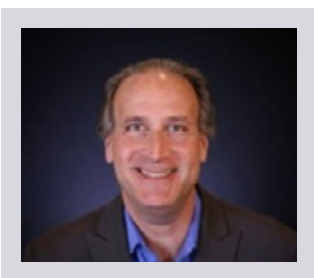
Participants must easily grasp and understand how your program works, what it offers, what is in it for them and precisely what they have to achieve or do to earn a reward. If anything, amplify this message during pandemic recovery because employees face even more uncertainty than normal, and stability in their reward program will prove a welcome relief. In the same vein, avoid vague goals. For example, do not ask employees to “improve customer satisfaction” or “improve customer retention rate.” Instead, provide achievable and measurable goals, such as “improve customer retention rate from 76% to 84% within twelve months.”

Also establish and communicate clear reward eligibility criteria and rules. Use stretch goals, but don’t make them overly aggressive. Make sure that your goals are within participants’ control. Would-be participants will immediately assess their chances of earning a reward. If they deem the goals unachievable or outside their control, they’ll disengage. Limit your objectives so that your programs remain simple and easily understood.

### **2. Specify the Program Period**

Determine specific start and end dates for your incentive programs. In sales, for example, decide whether a short-term contest fits your objectives versus a longer-term campaign (i.e., an ongoing incentive program). If you need to hit a revenue target in a specific quarter, a short-duration contest is more appropriate than a lengthy campaign. However, if you aim to change a range of salesperson behaviors, choose a longer-term campaign because behavior change normally requires more time and reinforcement.

The pandemic has disrupted business for many months so you may need to shorten performance periods and adjust longer-term programs. By specifying the duration of a program, you remove ambiguity around what counts toward earning a reward and what does not. Finite periods also avoid boredom and complacency with programs. They give you a chance to make changes and improvements, then promote a renewed and revitalized program.



“More than ever, revenue targets and other business objectives are achieved through teamwork, not just the extra work of salespeople in ‘hunter’ roles.”

**Ira Ozer, Engagement partners**

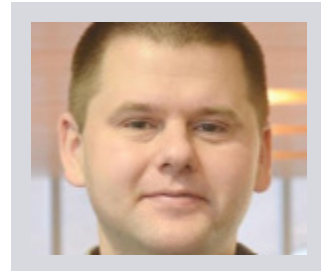
### **3. Carefully Select Participants and Aim High**

Know who your program must target to achieve the outcomes you desire. In some cases, precise objectives might be achievable by only a small part of your workforce. You might encourage recruiters, for example, to increase the number and range of diverse candidates, but even in this case, you may need to reward those who advertise the firm's positions, applicant screeners and others in the talent supply chain.

If you seek the broadest and greatest performance gains, target the bulk of your employees who reside in your middle performance categories. Do not design a program that is achievable only by top performers as you will see greater progress with everyone putting in extra effort. In general – and especially in coping with the crisis – err on the side of inclusivity where possible. Especially now, utilize a combination of performance-based or milestone rewards for growth or behavior change.

Consider status-based or social rewards that do not cost a lot, but let managers recognize people frequently for doing the right thing. Reward people for meeting their goals as well as exceeding them. Offer tiers of reward depending on level of achievement in order to engage the most participants possible. In normal circumstances, link reward budgets to increased revenues or profits so that you do not have to place artificial caps on participants and reward earners. In today's environment, relax these practices slightly, if possible.

“The standard used to define good performance should not be too easy such that rewards do not motivate or too difficult such that few get rewarded and recognized.”



**Adam Presslee**, *University of Waterloo*

### **4. Approach Your Participants With Empathy**

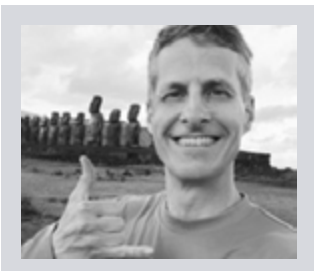
As strategists and designers, we must deeply understand the people targeted by our programs – their values, expectations, attitudes, and unique drivers of motivation. Company KPI typically require incremental effort from an audience in order to achieve a financial return, so ask yourself, “what would it take for me to want to put forth that extra effort?” Surveys, focus groups, and interviews are just a few tools companies can use to supplement their existing data (HRIS, Performance Reviews, Sales, LMS, etc.) with empathetic findings (understanding a person's feelings and priorities unique to their situation) to create high-fidelity segmentation models. These segments, often summarized as personas, should be used to inform aspects of program design including rules structures, communications/ personalization, reward selections, and reporting.

### 5. Consider Whether and How Sales Incentive Programs Should Be Treated Separately

Are outside and inside sales different enough in your organization to merit separate reward programs? Should you separate your sales incentive programs from those designed for the organization's employees in general? This may depend on how your salespeople are compensated. Where sales compensation is highly variable based on performance, you may require separate sales incentives programs, even where non-cash rewards are offered. Consider too whether a sales incentive program should include the people who directly support the sales effort – normally, it should.

### 6. Leverage Technology

The range of current incentive and reward program technology is far too extensive to describe in full. From incentive program and engagement platforms to peer recognition systems, and from events technology to artificial intelligence and data analytics tools, IT use is exploding in the incentives field just as it is in nearly every other industry. As more employees work remotely in response to the pandemic, engagement and recognition platforms and technologies that automate the selection and delivery of rewards are even more important. While technology may not replace face-to-face interaction, firms whose employees can recognize and even reward each other remotely, via a peer recognition platform, for example, enjoy a distinct advantage now in keeping employees connected and engaged. Whatever the environment, most organizations require strategic use of the latest technologies to operate efficient and effective incentive programs.



“Technology is our friend in developing the correct, best rules structure, analyzing past history, and trends, developing models, and understanding your audience's preferences. It does wonders for an incentive program.”

Scott Siewert, *Fab at Incentives*

### 7. Now, Determine Your Budget

In the current crisis, you may be forced to work within whatever budget your firm can allocate. Under normal circumstances, make the case for your budget only after you have carefully considered the design of the incentive program against the objectives you hope it will achieve. This allows you to advocate for what you need to be successful rather than do your best with what you are given.

Remember, even intangible recognition programs may incur costs if events and/or certificates are planned. For programs that include tangible rewards, build leadership support by forecasting your expected return on investment or return on value and by including those forecasts in a concise business case. Reward programs are often funded, in effect, through the greater revenues and profits that come with improved performance. In these cases – where an open-ended budget is used – there may be no limit on how many people can qualify for rewards (a very good thing) but you must still forecast in order to plan ahead.

### **8. Measure Performance and Report Results**

Determine clear benchmarks for program success that are consistent with the goals and objectives set out for your program. Choose three to five meaningful metrics that accurately reflect progress against the most important aspects of your incentive programs. These might include participation rates and engagement in the program as well as metrics that track toward numeric goals such as sales, revenues, new customers, customer retention or otherwise.

If your program is aimed at behavior change, devise, track and report on metrics that gauge progress in those areas. For example, if you aim to encourage more cross-divisional collaboration and knowledge-sharing, consider using organizational network analysis to track the quantity and strength of connections between your divisions as the program progresses. Use tools such as the Master Measurement Model<sup>4</sup> and the ROI Methodology<sup>5</sup> to assess the impact of your program during and at its conclusion.

“Measuring not just outcomes, but also behaviors, is the key to building programs that aren’t ‘one size fits all,’ that reward more than just top performers for appropriate achievements and behaviors.”



**Jerry Klein, Animate Growth Partners**

## References

<sup>1</sup>Presslee, A., & Berger, L. (2020). *Engaging Your Newly Remote Workforce*. Waterloo: University of Waterloo

<sup>2</sup>Gold, J. (2020, April 3). *The Covid-19 crisis too few are talking about: health care workers' mental health*. Retrieved from Statnews: <https://www.statnews.com/2020/04/03/the-covid-19-crisis-too-few-are-talking-about-health-care-workers-mental-health/>

<sup>3</sup>Ibid

<sup>4</sup>Gopalakrishna, S. (2004) Measuring the ROI of Sales Incentive Programs. Incentive Research Foundation. See: <https://theirf.org/am-site/media/measuring-the-roi-of-sales-incentive-programs.pdf> and <https://roiinstitute.net/roi-methodology/>

<sup>5</sup>Incentive Research Foundation (2004 and 2018) The Master Measurement Model of Employee Performance See: <https://theirf.org/am-site/media/the-master-measurement-model-of-employee-performance.pdf> and Award Program and Evidence White Paper. See <https://theirf.org/research/award-program-value-evidence-white-paper/2455/>