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INCENTIVE PROGRAM DESIGN: TIMELESS PRINCIPLES



The Timeless Principles of Effective Employee Incentive, Reward and Recognition Programs

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Introduction

In the 1800s, officers of the British East India Company grew alarmed at the number of cobra bites its employees were suffering in and around New Delhi, so they decided to offer a bounty on cobras delivered to their barracks. At first, the incentives worked – snake bites decreased. But not for long. Even though more and more dead snakes were being exchanged for reward, snake bites remained a problem. Wise Indians had discovered that raising cobras then exchanging them for the bounty was easier, safer and more profitable than hunting them in the streets of Delhi. When the officers realized this, they angrily cancelled the program. Having no reason to farm snakes any longer, the Indians released them making the problem worse than before the incentive program began.

Though most likely fictional, this cautionary tale illustrates the difficulties in designing effective incentive programs. Incentive program design requires much thought and planning, since incentives target the most complex systems known – human psychology and motivation. Moreover, as the story illustrates, and the axiom goes: “you get what you incentivize.”

Countless organizations before and since the British East India Company have learned this lesson the hard way. Most recently, Marsh Insurance and Wells Fargo, for example, paid more than a billion dollars in fines and reparations for the damages caused by their ill-conceived employee incentive programs, each of which led to harmful unintended consequences.¹

The incentive program designer must think systematically – like a policy or law maker – considering at once what is most likely to inspire and motivate employees and partners, while also imagining and addressing the myriad ways a program might go wrong and even generate unintended consequences. When designed properly, incentive programs engage the workforce to higher performance and outcomes. They deliver impressive returns on investment and can even transform organizations. No wonder then that about 84% of US firms use non-cash incentives to motivate employees², and at least 90 percent use some form of bonus on top of regular compensation.³ Some, however, do so more effectively than others.

The incentive program design elements and principles below offer a high-level description of what every program designer and owner should consider in developing, delivering, measuring and improving their programs. Where relevant, these principles are described in the context of the COVID-19 crisis. In sum, the use of incentives and rewards can contribute significantly to organization’s recovery from the impact of the pandemic.

The Principles of Effective Employee Incentive Programs

Effective incentive program design and delivery varies depending on goals, participants and circumstance → vital principles do not vary, even in the midst of a crisis.

Think Strategically

Employee incentives and rewards have enormous power beyond the extra effort they inspire. By aligning incentive program objectives to corporate strategy and priorities, programs can contribute to the achievement of the firm’s most important strategic goals by focusing employees on what is most important. Near-term strategic goals determined before the pandemic probably need adjustment in most firms as will the individual and team incentives linked to them. Incentives and rewards should be used to accelerate change directed at new priorities and to signal to employees what’s vital in the “new normal.”

Organizations should take the time to step back and assess the situation they face owing to the pandemic. Leaders should determine and communicate new strategy, goals and directions. Incentive program designers and owners should then adjust existing incentive programs or design new ones accordingly so that they remain realistic. Given the general volatility and uncertainty of business today – crisis or not – designers should develop incentive and reward programs that are as agile and adaptable as any other critical corporate program.



“Considering the economic impact of COVID-19 on their balance sheets, organizations should take another look at their goals and targets and re-calibrate them.”

Stephen Cook, Lorandus

When designers develop incentive programs strategically, they should also take into consideration longer-term corporate objectives, including culture change. Incentives signal to employees not only key outcomes such as revenue targets, but the behaviors that are most important to senior leaders. In the current environment, employers might aim to promote safety and wellness programs, for example. They might relax any revenue and profit goals that have become unrealistic and emphasize behaviors that will reestablish trust, such as collaboration and inclusion. New incentives around education might be important, such as salespeople learning how to operate in a remote sales environment. Employees might be recognized for identifying ways to cut costs, retain clients or find new customers.

For most firms, these times require creativity, innovation, continuous learning and experimentation. Strategic use of incentives can accelerate such behaviors and actions across the entire workforce. Reward programs must also avoid creating a transactional mindset, where employees come expect that every effort must result in extra reward. To do this, designers emphasize the emotion and feelings that accompany rewards. Here, well-selected and presented non-cash rewards generate loyalty by strengthening relationships between employees and the firm, between each other, and with customers and other stakeholders. Preserving and restoring these relationships will be a key component of many firms' pandemic recovery plans.

Communicate

Logically, no incentive program can succeed unless the intended audience knows about it. Good incentive program design requires a communications plan, yet firms too often underfund communications. In addressing COVID-19, communications grow even more vital as a means of signaling revised corporate goals and priorities, and in preparing employees for the possibility that incentive programs may have to change again depending on the duration and depth of the crisis.

Start by announcing the new or revised incentive program and its overall objective(s), including, if applicable, the overarching goal of recovering from the pandemic crisis. No matter the circumstances, a common goal gives all participants something to rally around. Initial communications should aim both to inform and promote. Design simple messages that generate "buzz" for the program; include graphical emails, videos and print. Provide a clear and concise description of the rules, the rewards available and exactly what participants need to do to earn them. Throughout the program share collective progress toward the overarching goal and regularly communicate participant progress (individual and team) toward specific goals – publicly if it is a contest, privately otherwise.

“The importance of simplicity emerged from IRF’s Top Performer Studies. Attention spans have continued to shrink, so simplifying incentive rules and incentive communications are more important than ever.”

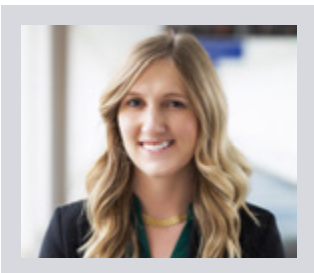


Mike May, *Brightspot Incentives & Events*

Use these communications to offer ideas and insights that help participants boost their performance, move closer to their goals and rally the workforce around the shared corporate mission. When the program ends, conduct a reward and recognition ceremony (virtual or otherwise) where participants receive their rewards in front of the team or firm. As the crisis subsides, change, adapt and communicate your programs again.

Measure for ROI and Continuous Improvement

The most effective incentive programs are informed by data and advanced analytics. Experienced program designers should leverage their knowledge and instincts but must also consult hard evidence. Data analytics can identify gaps in organizational performance that incentives might address. It can reveal what outcomes and behaviors programs should target and what motivates participants at an individual level.

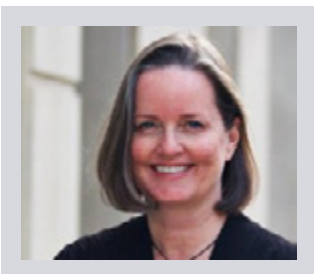


“Data uncovers what behavior is most important, who acts on that behavior and what the opportunity is to grow. But more than just data analysis, now effective program design requires predictive analytics – using all the information to know what likely will happen after deploying a program and what and how to adjust to optimize the investment.”

Dawn Schillinger, *Maritz Motivation*

Making sense of Big Data requires the use of analytical tools. Data can reveal patterns and opportunities in real time, and it can predict the elements of program design that will generate the best results. Designers should work with analysts to identify data that might yield valuable insights into future program improvements or inform initiatives in other parts of the firm.

Designers should also use data and devise metrics that gauge the value of their programs. Incentive programs – particularly those using non-cash rewards – can deliver tremendous return-on-investment.⁴ As leaders demand more evidence of returns to support budget requests, designers who have mastered tools such as the ROI Methodology⁵ and the Master Measurement Model⁶ to evaluate their programs will be well-positioned.



“Businesses are constantly faced with new obstacles and must adapt. It is essential to be ready to adapt incentive programs and their goals, as well.”

Susan Adams, *Next Level Performance*

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