Tying Rewards to Outcomes

Motivating your employees

By Drs. John Foltz & Joan Fulton

Working with people can provide you as a manager with some of the most satisfying and some of the most frustrating experiences at the same time. However, a well-thought out reward system can make your job much easier. In fact it can complement all of your managerial efforts by backing up what you instruct your people to do, and serve as a "silent watchman," to guide them when you are not there to observe their actions. In this month's column, we will discuss the reasons behind good incentive programs, why they are a good practice, and some of the things to consider when instituting a reward system.

Incentives work

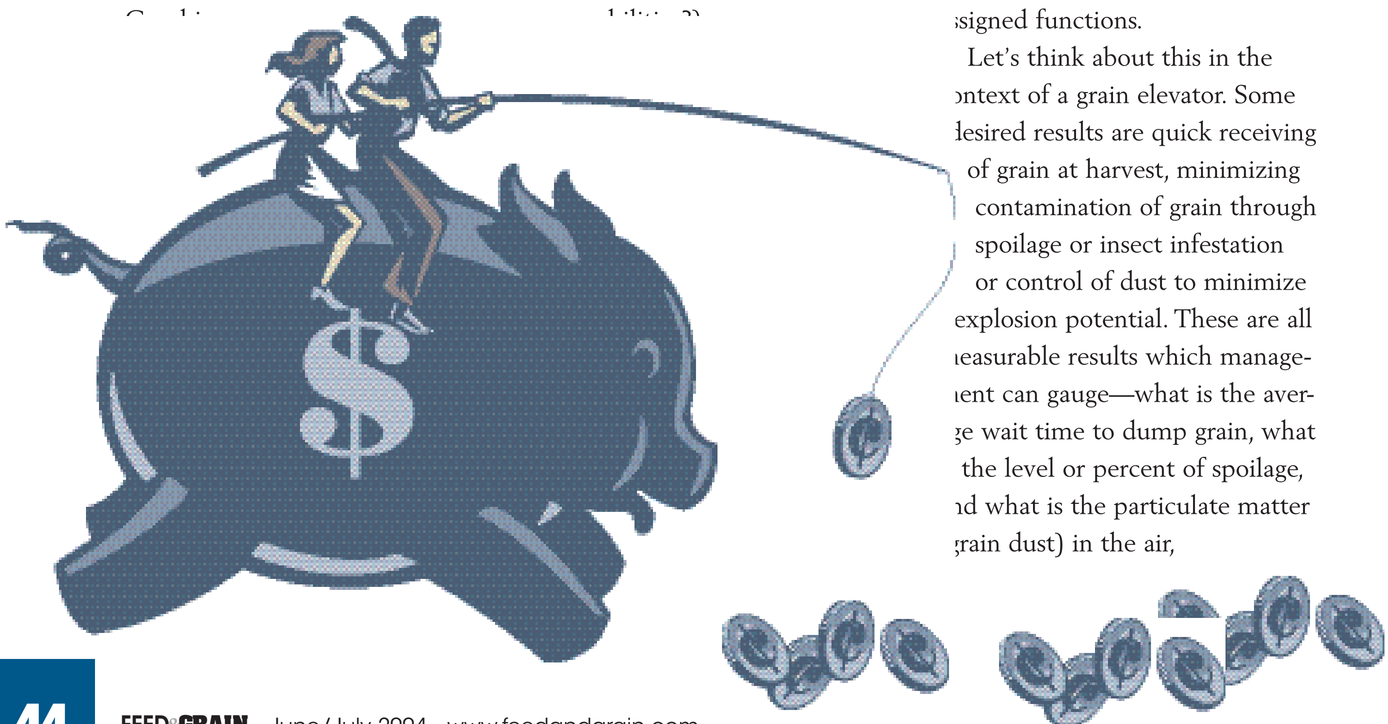
work in large part to satisfy their self-interest, and people are motivated by money, praise from the boss, prizes, time off, promotions, larger offices, recognition in front of their peers and other things—limited only by your imagination as a manager.

Psychologically speaking, Victor Vroom called this concept Expectancy Theory. He stated that motivation is a combination of:

Valence: The value of the perceived outcome (What's in it for me?)

Instrumentality: The belief that if I complete certain actions then I will achieve the outcome. (Is there a clear path?)

Expectancy: The belief that I am able to make the effort to complete the actions. (What are



of motivation you will have an effective incentive program. So how can you as a manager use this approach? You motivate people to do the preferred things by showing them something desirable, indicating how straightforward it is to get it, and then supporting their self-belief that they can get there.

All of this bodes well for the manager who figures out a good system to motivate their employees. The key is to decide what efforts and activities to reward and how to measure them. Typically, these objectives come from your strategic or annual plan, and include goals that can be measured.

Base incentives on achieving results, not on performing ssigned functions.

Let's think about this in the ontext of a grain elevator. Some lesired results are quick receiving of grain at harvest, minimizing contamination of grain through spoilage or insect infestation or control of dust to minimize explosion potential. These are all easurable results which manageent can gauge—what is the averge wait time to dump grain, what the level or percent of spoilage, d what is the particulate matter rain dust) in the air, or how thickly does it collect on equipment?

In a feed mill, with its manufacturing orientation, incentive compensation may be tied to cost per ton of feed produced, on-time production and shipping, rejection rate (how many tons of feed must be remixed or repelleted due to errors), or the number of work stoppages due to labor disagreements or equipment breakdowns.

In both grain or feed operations, these are measurable items, and rewards can be tied to their achievement.

The key is to make sure employees are results, not job, oriented, and that they understand the difference (i.e., what and how you do it is important, but the results of what you do matter most).

Designing incentive compensation systems

In their strategic management text, Arthur Thompson and A.J. Strickland of the University of Alabama describe how the concepts discussed above can be operationalized using some of the following guidelines:

1. The performance payoff must be a major, not minor piece of the total compensation package. Payoffs should be in the neighborhood of at least 10% to 12% of base salary to have much impact. Incentives that are in the 20% or more range are big attention-getters, and are likely to really focus individual or team effort; incentives that are less than 5% of total compensation have relatively small motivational impact. In addition, there should be substantial difference between high-performing individuals and average performers, and between average performers and below-average employees.

2. Your incentive plan should extend to all managers and workers, not just top management. Lower level managers and other employees will not work their hardest to hit performance targets just so that senior management can get lucrative rewards.

3. Your reward system must be administered carefully and with fairness. If performance standards are set unrealistically high, or if individual or group performance evaluations are not accurate or well documented, dissatisfaction with the system will overcome any positive benefits.

4. Your incentives must be well linked to achieving only those performance targets spelled out in your strategic or annual plan. Incentives should not be based on factors that get thrown in because they are thought to be nice occurrences. Performance evaluation based on factors not closely related to your plan signal that either the strategic plan is incomplete or management's real agenda is something other than what was stated in the strategic plan.

5. The performance targets each individual is expected to achieve should be things they can control. Incentives should enhance individual commitment and channel behavior in beneficial directions. This tactic is not well served when the measures an individual is judged by are outside of their area of influence.

6. Keep the time between performance review and reward payment short. A long interval between review and reward causes discontent and/or indifference and works against reinforcing cause and effect.

7. Make liberal use of nonmonetary rewards; don't rely solely on monetary rewards. There is no question that when used properly, money is a good motivator. However, it is not the only motivator. Praise, special recognition, handing out good assignments and recognition in front of peers are all good motivators—not to mention that they are less costly than paid rewards.

8. Do not skirt the system to find ways to reward nonperformers. This tactic will trump your entire strategy. Arguments can be made either way for making exceptions for people who have tried hard yet still come up short because of circumstances beyond their control—and you may decide to reward these folks. Just be aware that the problem with making exceptions is that once good excuses are used to justify rewards for nonperformers, it opens the door wide for all kinds of reasons why actual performance failed to match the target.

Some specific examples

The reward system for your business need not be elaborate. However, rewards should be tied to things of strategic importance for your company.

Incentives need be monetary; in fact many firms make effective use of an employee of the month program with public recognition of that person. Or, rewards could benefit the group as a whole, such as a thank you employee dinner, a special social outing or renovating office space so everyone has a nicer environment to work in. These rewards can be very effectively used after your business has had a particularly good year and you can tangibly show your employees that they were an integral part of that success. ■

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