



Incentives That Motivate

The right mix of financial and non-financial incentives can not only unleash the productivity of your workers and motivate them to excel at their jobs; but also help attract and retain key employees in today's tight labor markets.

Although most small business owners understand the importance of special incentive programs, and use a combination of bonuses, stock options or other equity participation programs to supplement salary packages, many remain unaware of the creative new approaches being taken today to build loyalty and raise productivity. Yet these new approaches are proving their value in both smaller companies as well as large corporations. Some are not really all that new, but have been given a fresh spin--in keeping with changes in workforce culture and employee expectations.

Money Isn't Everything

Owners often overlook one of the most powerful incentives--a motivator that requires no Human Resource staff to administer and that costs nothing to the firm. Most workers are looking for more than just money in a job. They want the satisfaction of knowing that they have value to the organization--that they are making a difference. Research suggests that praise for a job well done is more effective than a raise in pay as a workforce motivator.

- Be liberal in giving out praise to top performers, and take the time to do this over lunch or during an informal office meeting. You want to do this in a way that does not create jealousy and resentment among co-workers, or suggests to other workers that they do not measure up. Further, it is best to convey the praise in person, not by memo or e-mail.
- Consider using tangible prizes such as VCRs, computers, or TVs as rewards rather than cash. Research by workplace incentive consultants suggests that tangible gifts have more motivational impact than monetary prizes.

- If you do decide to try an awards program, make sure it is adequately publicized and that the ground rules for selecting the winners are fair, and will be perceived as equitable.
- An innovative approach being taken by some companies is to invite customers and sometimes vendors to nominate top performing employees. One clear advantage of going outside the company for evaluators is that workers develop a stronger interest in customer and vendor satisfaction--an obvious benefit for a company that wants to make workers more alert to customer satisfaction.
- You can link awards to specific, targeted goals that can be easily measured and that are important to the company. For example, innovative suggestions that reduce defect rates by a certain amount, increase sales conversion rates by a certain percentage, improve customer response time or reduce order fulfillment cycle time by a certain percentage are good ways to create a strong tie between rewards and measurable goals. Distant goals that can not be closely tied to an individual or work team's actual performance are much less apt to be effective motivators.

Variable Pay Programs

While many firms especially the large publicly held companies, have begun to explore "pay for performance" programs, they can be cumbersome and costly to administer--requiring human resource people and other managers to monitor and carry out measures of performance that are fair to all employees. Also, devising variable pay formulas, which try to distinguish individual, team, departmental and company-wide performance metrics, involve considerable complexity.

- Before calling in consultants to advise, try checking with other companies comparable to your own to see what their experience has been, and especially whether their programs have lived up to expectations.
- Variable pay programs are not without risks. If you have unionized workers and need the union's buy-in, the chances are good you will end up with a compromise variable pay program that may not be worth the trouble. The incentive differentials could be weakened because of the union's interest in defending traditional equity and seniority prerogatives.
- If your program relies too heavily on subjective evaluations of performance, rather than reliable, quantitative metrics, that can cause problems too. Workers are more apt to view

results as the product of knowing how to work the system by actions that make one "look good" without necessarily leading to true improvements in quality or productivity.

- If you do decide to go with variable pay, then link it up with a continuous improvement or quality management program, and make sure it is available to all departments in the company.

Big Rewards for Breakthrough, Mission Critical Performance

Variable pay programs usually involve modest increases over base salary levels. For that reason you should consider big ticket bonuses for rewarding workers who come up with ideas that could dramatically improve the company's revenue growth or profitability. Examples include ideas for new products or service lines, eliminating an R&D bottleneck that has delayed a new product launch, suggesting and implementing a customer service program that dramatically improves satisfaction levels or response times.

- If you institute a big ticket reward for big ticket breakthrough results, you might consider awarding these top performers stock rather than cash, as a way of strengthening their interest in helping the company grow--since they gain not just as employees but also as stockholders.

- Although Employee Stock Ownership Plans (ESOPs) have become widely popular over the past 25 years by allowing employees to share in the firm's appreciated equity as a reward for their efforts to improve profitability and revenues. ESOPs are difficult to apply when the goal is to raise individual, team or departmental performance in specific ways or as encouragement for breakthrough performance.