Frank Thoughts on Driving Performance

Improving business processes will yield better performance results from your employees.

BY JESSICA ROYER OCKEN

Rather than just throwing money at your employees, you want your compensation strategies to work *for* you as part of a management plan that encourages best effort, collaboration, and heightened productivity. *Synygy Magazine* sat down with compensation experts Brad Hill and Ardyce G. Plosser at The Performance Conference, recently held in Los Angeles, to have a frank and wide-ranging discussion on the role of compensation and its ability to drive performance and motivate employees.

Hill is a principal with Chicago-based Tandehill Human Capital, a human resources and pay-for-performance consulting firm. Plosser is director of compensation and performance management for Nashville's King Pharmaceuticals, a company that began about a decade ago with less than 150 employees and today has grown to nearly 2,800 employees at five manufacturing facilities, with a national sales force of approximately 900. Both Hill and Plosser command a wealth of knowledge in the field of compensation: Hill helps develop incentive compensation strategies for a variety of companies and is involved in a number of writing and speaking projects, and Plosser keeps her company's approach to compensation in step with a growing and changing workforce.

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As our conversation began, both Hill and Plosser acknowledged that one key to an effective compensation strategy is to understand the different uses of salary increases and incentive payouts.

"Base pay is forever," explains Hill. "Therefore, it is far more expensive than incentive pay, which is generally paid out monthly, quarterly, or annually. There's no compounding [with incentives]." If the things worthy of this year's merit increase become the base for next year's merit increase, salary increases can quickly snowball. A five-percent increase given every year for 10 years translates into an effective 6.3-percent increase, which is 25 percent more money than giving an employee an annual five percent incentive bonus that doesn't increase base pay. The greater investment of a merit increase should "show lasting contribution to the organization—taking on new duties or growing skills and competencies," he adds.

Hill explains that a lawyer who bills at a rapid rate performing a task already within his skill set "probably made a fabulous contribution to the organization and should get a large incentive payout." But this person hasn't done anything to grow his expertise, so a base-pay increase may not be warranted. A lawyer who spent the year shadowing an expert to expand her skills may not have brought in a pile of money and may, therefore, receive no bonus. But she has "made the practice stronger, so her personal value is worth the investment" of a salary increase.

At King Pharmaceuticals, merit increases in salary are based on employees' daily achievement of the duties outlined in their job descriptions, but these are couched in dynamic, developmental terms. The company's performance management tool—the Employee Performance and Development Plan (EPDP)—involves employees and managers working together to select the goals to attain and growth to achieve. Through trimesterly evaluations, "employees and managers can talk about progress made to date, and it's also a fluid document," says Plosser. The EPDP can be adjusted as needs and objectives change, which means the results strengthen the company and make the employee worthy of salary increases.

Bonuses, on the other hand, are just that. "Incentive pay comes from our Management Incentive Award (MIA) program," Plosser says. "It's at least partially based on the well-being of our company." Hill suggests that an incentive payout should result from an evaluation of an employee's results the previous year—specifically in terms of the revenue the employee brought to the company.

The conversation turned to target incentives. Can they be effective motivational tools, or do employees come to expect them, rendering them no more valuable than part of base pay? In Plosser's opinion, "because lots of companies offer incentives, there is an entitlement mentality in the industry as a whole." Plosser says when a previously bonus-exempt employee is promoted to manager, "one of the first things out of their mouth is 'What's my bonus?'"

There are some ways around this, Hill assures. Rather than including a specific bonus percentage in the offer letter to new employees, you should explain that their position will be eligible to

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participate in an incentive plan, he suggests. You could then say that others in the plan have earned between $2,000 and $25,000 in bonus payout, based on their performance, “and tell the story of the guy who earned $25,000,” Hill says. That should provide some inspiration right off the bat. “Paint a picture of variability,” even if you have a target in mind, he says. Just be sure the range you provide is accurate.

Despite obstacles like an entitlement mentality, these compensation pros agree that incentives do motivate workers to behave differently. “Especially among salespeople, you can change their behavior tomorrow by changing the performance metrics,” Hill says. And Plosser agrees, citing a previous work situation: “When employees knew the goals and the objectives, they worked harder to achieve them because they knew the reward would be there for them if they did.”

But the more important question becomes what kind of changes your incentives are creating. “The incentive plan itself is just a mechanism used to keep score,” Hill notes. “Identify the behaviors and the performance you’re looking for and be smart in designing your plan, so performance in one area doesn’t hurt another.” You have to be the one to develop a game plan, and that is where a consultant or compensation management system may come in handy. Hill cites the classic assembly line example: A piece-rate incentive for one portion of the team leads the group to produce twice as many parts. But the rest of the line is not equipped to handle the abundance, so there’s no net gain for the company. Or, even worse, rewarding staff for the number of new accounts opened or the number of repairs performed may backfire, leading to cheated or poorly serviced customers who pay for repairs they didn’t need or find their money placed in multiple meaningless accounts.

Finally, both these experts like bonuses that reward both teamwork and individual performance. “You want a high-performance culture; you don’t want them retired on the job,” Plosser says. When only individual efforts are rewarded, employees rarely look past their own duties. “This takes attention away from bigger changes and improving the process as a whole,” Hill says. Improvements in employee performance yield 5- to 10-percent gains, Hill estimates. “But if you improve business processes, you can make 20- to 50-percent gains.

According to Plosser, “team incentives create an atmosphere that if you don’t work in a team, nobody wins. This drives everyone to do the best they can for the good of the team. Then, everyone benefits in the end.”

But don’t overdo the team incentives, either. Depending on the role, the team incentive should be maybe 25 to 50 percent of the total target incentive. Anything more is counter-productive, because individual activities may have no significant impact on the results. Anything less is bad, because it can promote individual behaviors that work against the team. ■

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