Great Incentive Design?
First, Break These 12 Rules

Brad Hill

Hay Group

12. Pay out only if the organization is profitable.

- If employees generate improvements in the areas that they control, doesn't that make the organization more profitable?

- Do you really want to make employees accountable for interest expense, taxes and long-term leases?

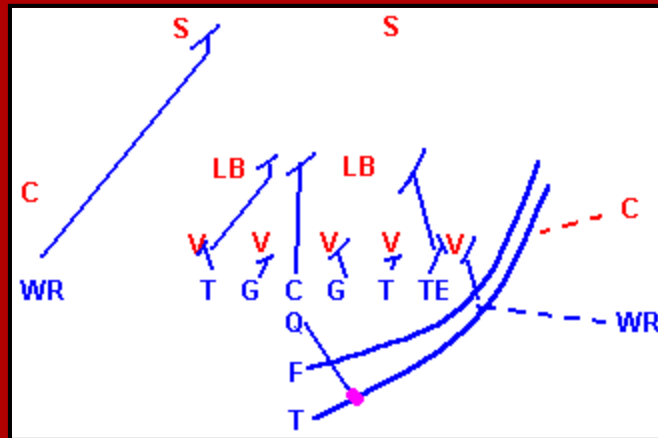# 11. Hire an expert to design the plan.

"PLUMBER, PLUMBING CONSULTANT ... I THOUGHT IT WAS ALL THE SAME THING."
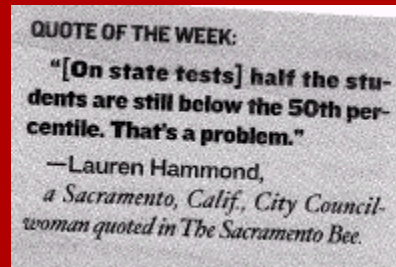

The real experts.

10. Research incentive plan "best practices."

Will the Chicago Bears win the Super Bowl if they are given the Tampa Bay Bucaneer's Playbook?

9. Collect quality, comprehensive market data.

- **What was the average pay in 1999 for University of North Carolina Cultural Geography majors, who were in the Class of 1985?**

QUOTE OF THE WEEK:

"[On state tests] half the students are still below the 50th percentile. That's a problem."

—Lauren Hammond, a Sacramento, Calif., City Councilwoman quoted in The Sacramento Bee.

- **If you're generating unbudgeted gains because of your employees efforts and ideas, does it matter what the market is doing?**

RETURN ON INVESTMENT
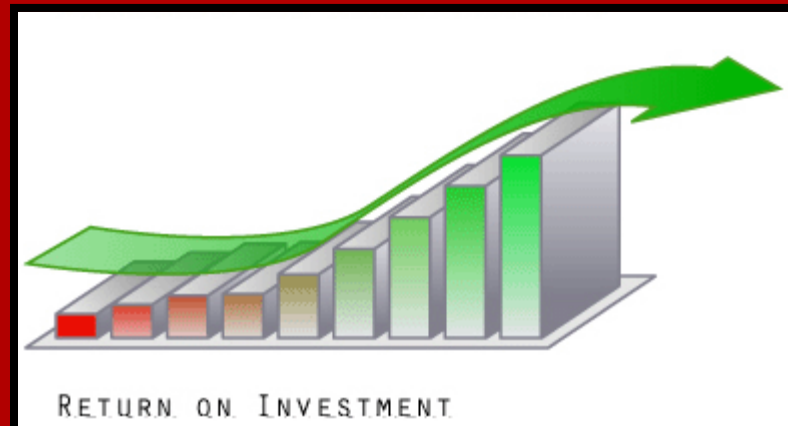
8. Make sure the payout amount is motivational.

- True or false: To be motivational, an incentive plan should target a payout of about 8%, or one month's pay.

- True or false: If a plan generated a payout of i.e., $11 for a quarter, you would be better off paying out $0.

- True or false: The amount of the payout should be reflective of the amount of employee-generated gain.

Coach Vince Lombardi

- True or false: To be motivational, an incentive plan should tie the payout level to the performance level.

7. Focus on getting the right metrics.

- **Improvement in which of the following areas will make you more successful?**
    - **Attendance**
    - **Turnover**
    - **Unit Cost**
    - **Scrap**
    - **Lost time accidents**
    - **Margin**
    - **Units per hour**
    - **Customer satisfaction**

6. Focus on a family of financial and nonfinancial measures.

- Better make it a nuclear family.
- For every measure you add to an incentive plan you make it 10 times more difficult to understand.

5. Create line of sight with department/unit/line incentives.

- **Stretch yourself.. Create line of sight with organization-wide goals.**

- **Linking to unit goals will suboptimize overall performance.**

- **Administering fair and equitable goals (and payouts) across units cannot be done.**

4. Make sure to model the plan under many different performance scenarios.

- A self-funding plan will have a target payout of $0.

- If you exceed budget it pays out, if you fall short, it doesn't.

- How much more do you need to know?
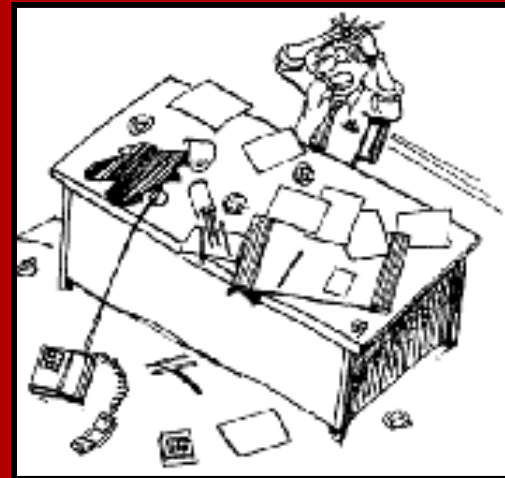
3. Develop a professional final presentation.

- The final presentation should be by employees... for employees.

- Keep consultants, leadership and HR from stealing the show.

- The objective is to connect with employees, not to impress them.

2. Create a monthly newsletter for performance updates.

- **Monthly communications are essential, but....**

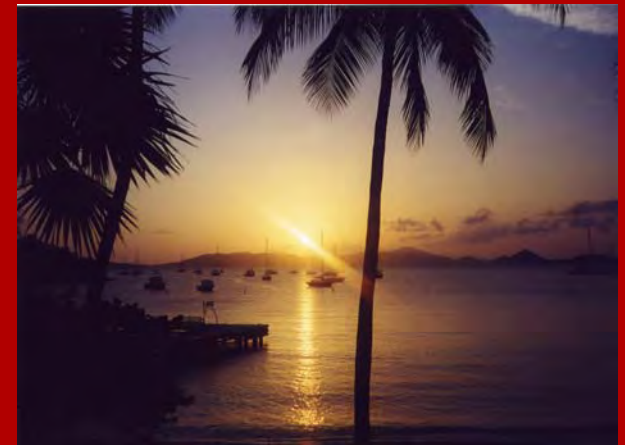- **Do you really want to create a new communications tool?**

- **Are you absolutely committed to delivering on time, every month.**

ACE Hardware Gainsharing News

Gainsharing
Adding new efficiencies, positive results and bottom line enhancements to Ace Hardware Corporation through increased employee involvement.

Oak Brook, IL — January 1998

Happy New Year! As we kick off 1998, it is a time-honored tradition to make resolutions for the year ahead. One resolution that can benefit all of us at Ace is to make the new Gainsharing Plan a success.

Through process i...

how they may be improved to create efficiencies and generate cost savings. No idea is too big or small. Everyone can make a difference.

Don't wait for your neighbor to generate the ...

ACE Hardware Gainsharing News

Gainsharing
Adding new efficiencies, positive results and bottom line enhancements to Ace Hardware Corporation through increased employee involvement.

Oak Brook, IL — May 1998

First Quarter Results Show Gainsharing Process is Working!

At the beginning of 1998, Ace Hardware rolled out the Gainsharing Program to all Oak Brook and Reprographics employees. The program was designed in response to your desire to be heard and make a difference. You told us in a survey that you had ideas on how to make each of your jobs more efficient and create cost savings. So, we issued a challenge to each of you to evaluate your day-to-day work processes and look for ways to identify process improvements and expense reductions.

Collectively, we've done a great job at meeting that challenge. Congratulations! We beat the first quarter targets! Our first quarter actual expense-to-sales ratio was 2.85% versus our first quarter target of 2.86%.

Total Quarterly Savings Split
$43,375.00

1. Be sure to have a "sunset" provision.

- … if you're not very confident that you did a good job developing the program.

- Commit to a program that will always reward employees when they perform above expectations.

- Tie your program to your process improvements.

- The sun goes down when you can no longer generate significant improvements .

Questions

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