

DISCOVER A WHOLE NEW WORLD WHERE  
**PERFORMANCE**  
**DRIVES PROFITS**

# Why Good Incentive Plans Fail

And, How to Keep your “Great” IC Plans out  
of the LOSER Category



# Presented by

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# Agenda

- Myth of a Well-Designed Plan
- Research Findings
- What's Gone Wrong?
- How to ACT

# The Myth of a Well Designed Plan

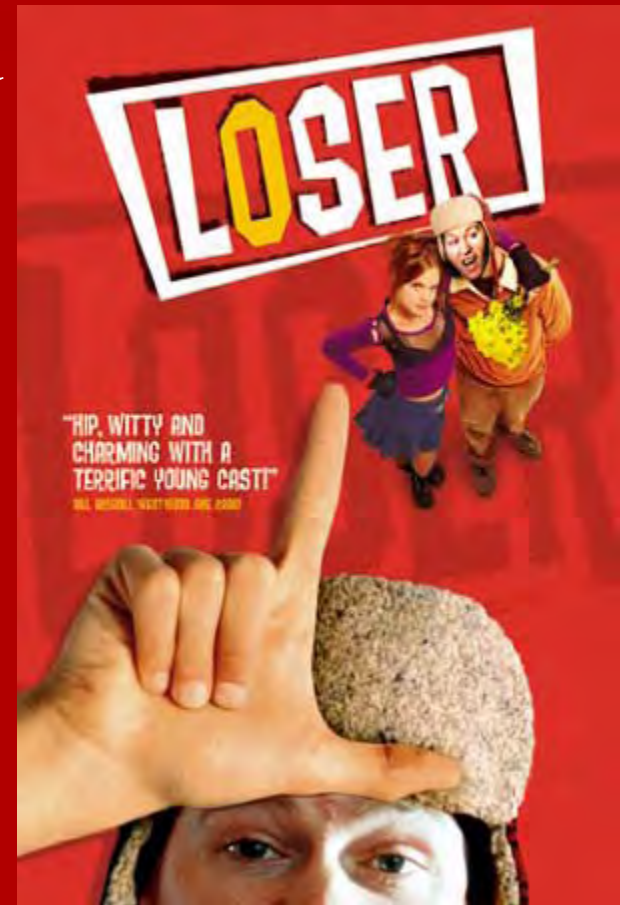
- Good IC design thinking says....
  - IC Design Team
  - Benchmark Competitors
  - S.M.A.R.T. Goals
  - Timely
  - Documented

# The Myth of a Well Designed Plan

- So...what's wrong with that?
- Could be plenty!

# Good Design is Often not Enough

- Lots of people follow “good design practice” -- but end up with “loser” plans



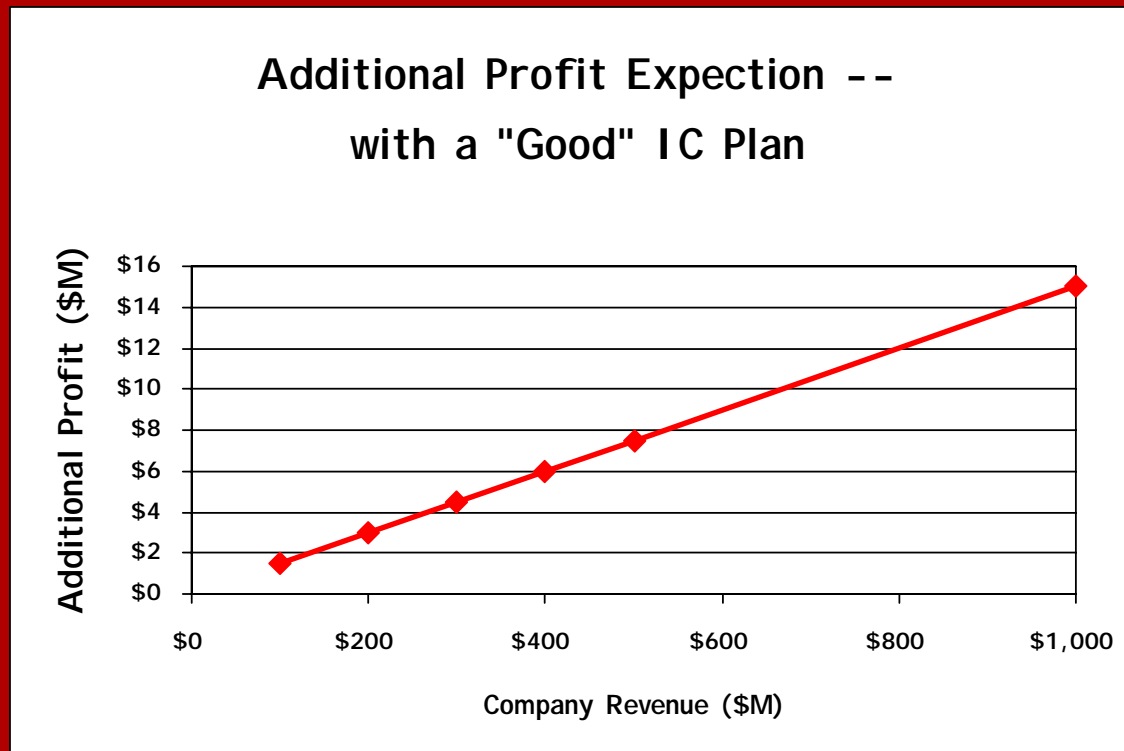
# Let's look at some research

- Good news
- Bad news



# The Good News...

- IC plans *can* have an excellent ROI

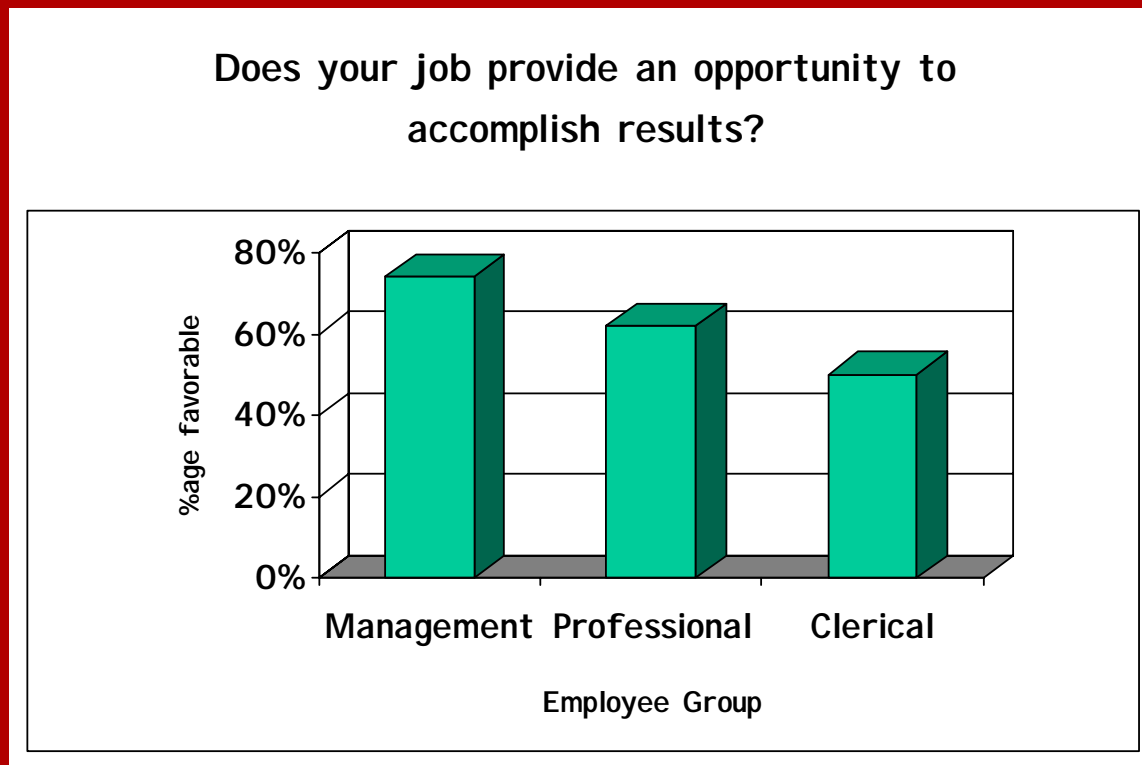


\* Source: Accenture Study, 2001



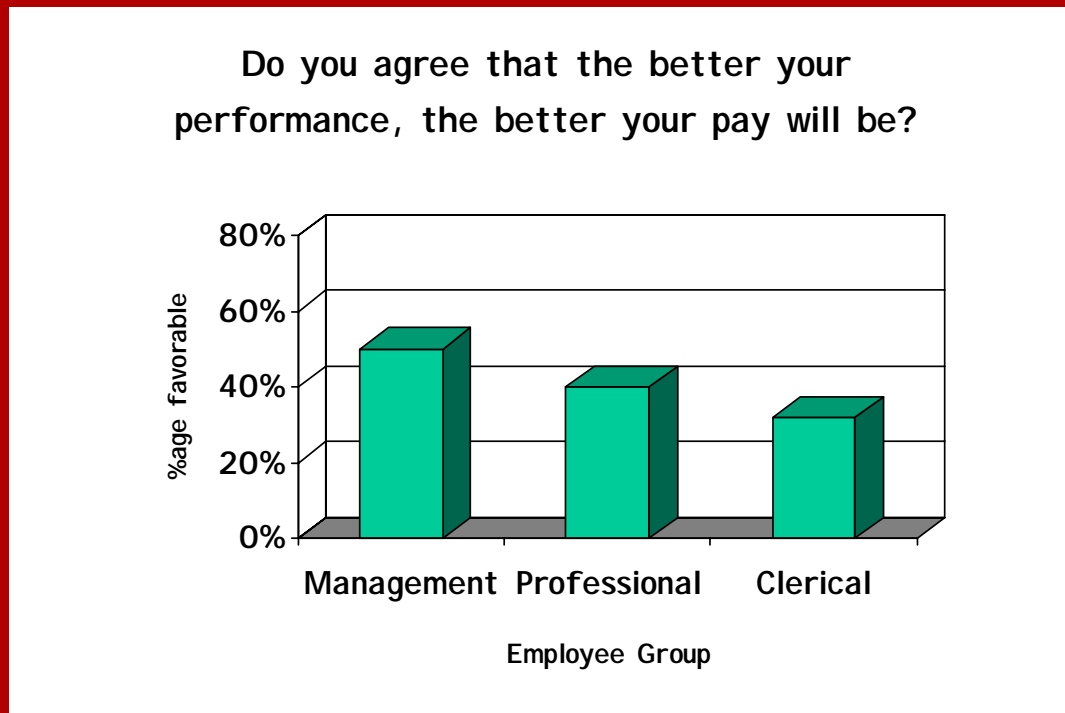
# The Good News...

- Most people believe that they can have an impact



# The Bad News...

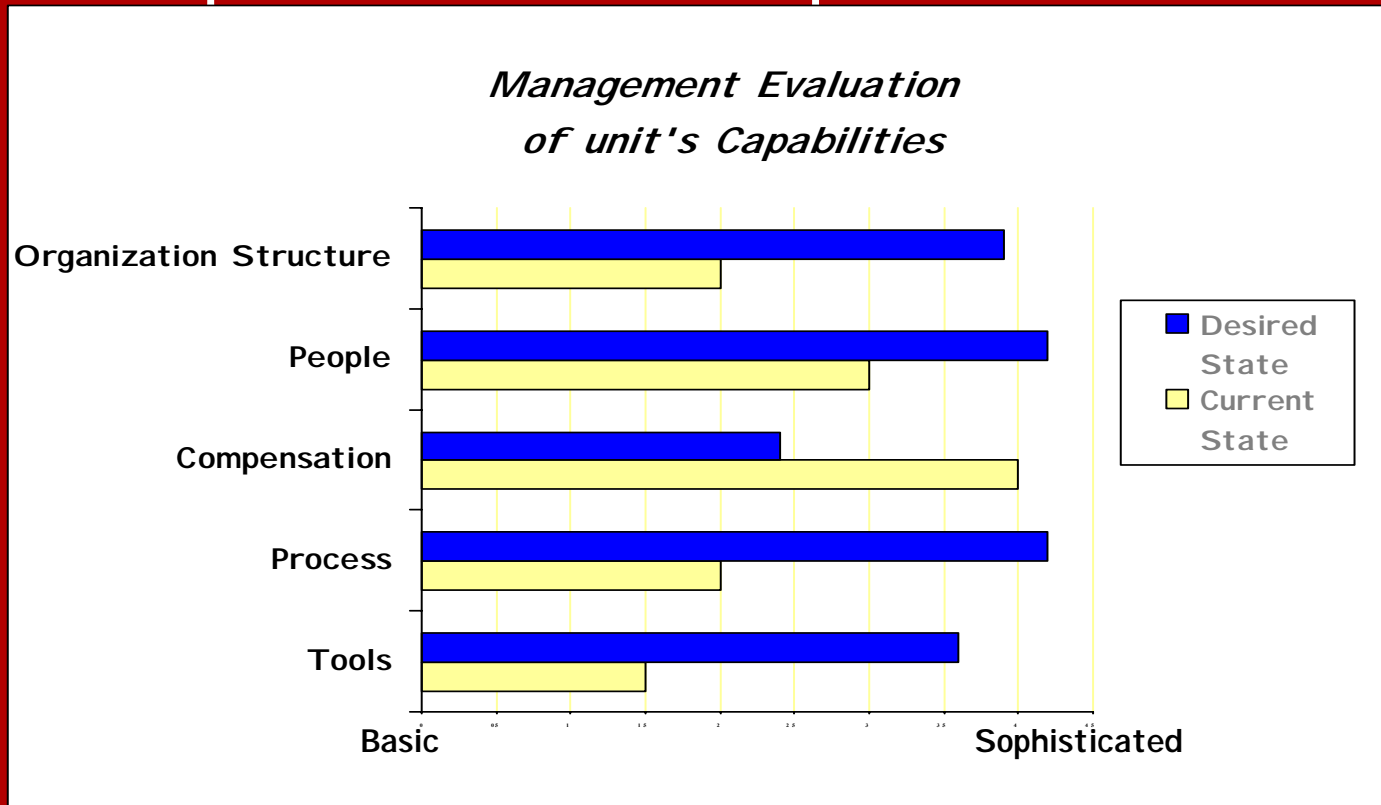
- Employees do not see the linkage between pay & performance



\* Source: Hay Insight Surveys, 2003

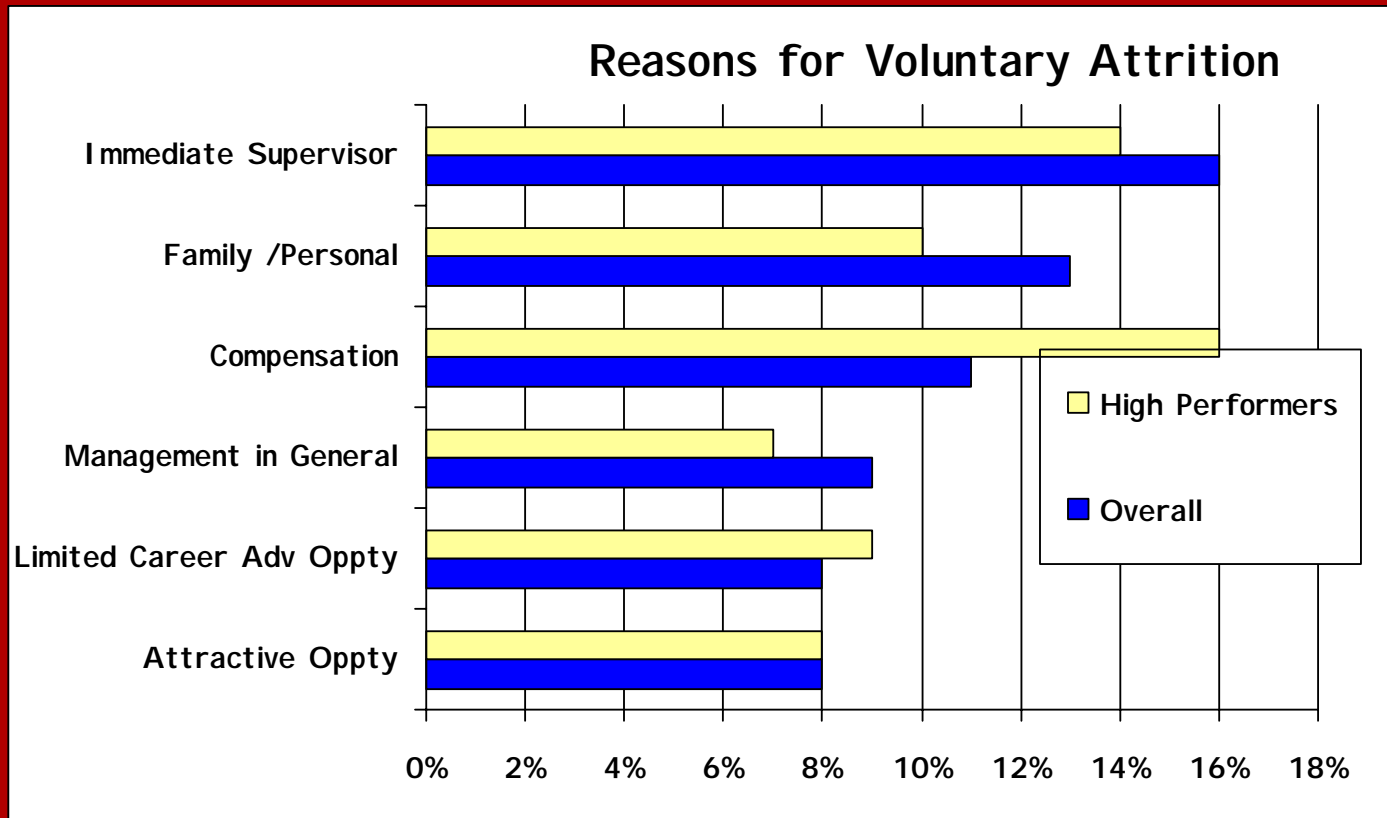
# The Bad News...

- Most IC plans are too complex to be effective



# The Bad News...

- *Stars* leave for comp reasons!



\* Source: Hay Insight Surveys, 2003

# So, what goes wrong?



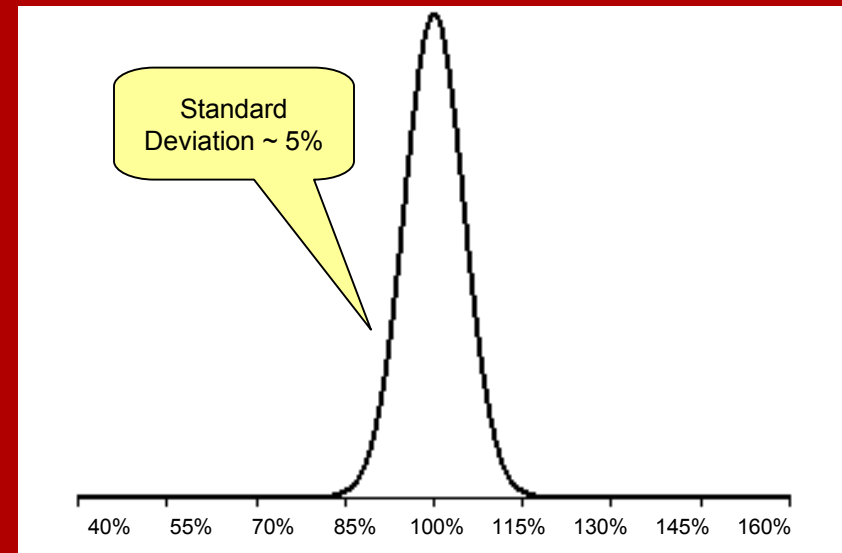
# Deviants

- We often do not get close enough to Deviants



# Deviants

- We often do not get close enough to Standard Deviations
- They are your IC design friends
- More, later...



# Fashion Models

- What's in “fashion” may not be what is best for your plan
  - “Leisure suit designs”
    - This is what everyone is “wearing” today





# Fashion Models

*“Foolish consistency is the  
hobgoblin of little minds.”*

Ralph Waldo Emerson

# Conspirators

- Those trying to manipulate the plan for their own good
  - The Plant Manager tying the plan to “shipped” goods
  - The sales manager manipulating the crediting database
  - The warehouse with inventory goals
  - The unit head with “low ball” goals
  - The manager with the competitive survey (done by recruiters)...or worse, the anecdotal story



# Torpedoes

- Subverting the plan
- Examples:
  - Changing rules mid-stream
  - Changing eligibility
  - “Triggers”



# Good Intentions

- The “Highway to Hell”
- Some examples:
  - We treat everyone equally
  - We don’t want to hurt anyone’s feelings
  - We can’t let them earn too much
  - We can’t pay them too little



# The 3 Strategies -- ACT

- Ask
- Chant
- Test

# Ask

- Feedback is essential
  - Must occur before, during, and after plan implementation
- All stakeholders must be considered
  - The “eligibles”
  - The plan “owners”
  - The metric “police”

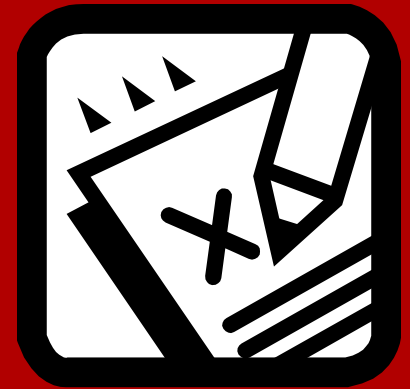


# Best ways to Ask

- Some “Best Practices”
  - **Surveys** (well designed ones)
  - **“Town Hall”** meetings
  - **Focus Group** meetings
  - **1 on 1’s** (key stakeholders)

# Ask

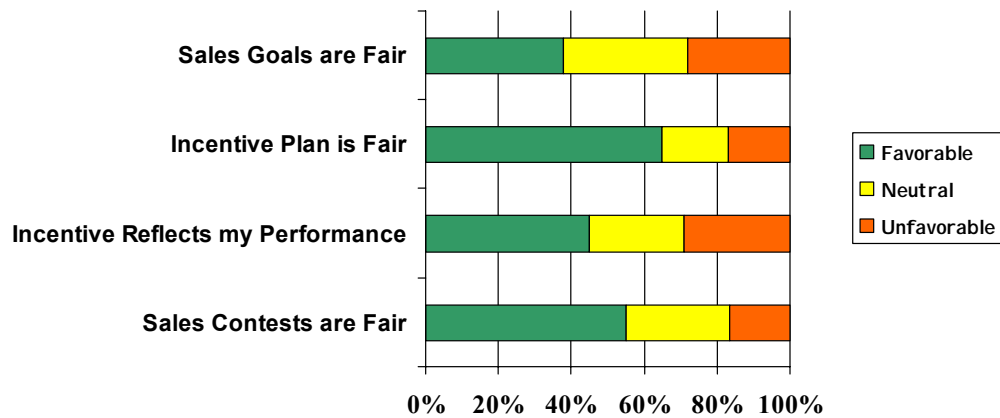
- Surveys that work...
  - Don't ask questions you do not plan to address
  - Are not too long, or vague
  - Examine all the responses
    - Means are nice, but
    - the extremes show where the passion is
  - Benchmark internally -- and externally



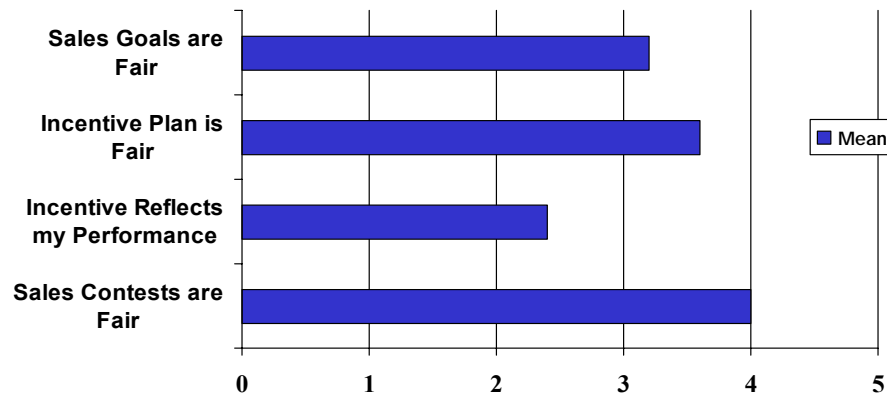


# Ask

## Good Survey Reporting



## Poor Survey Reporting



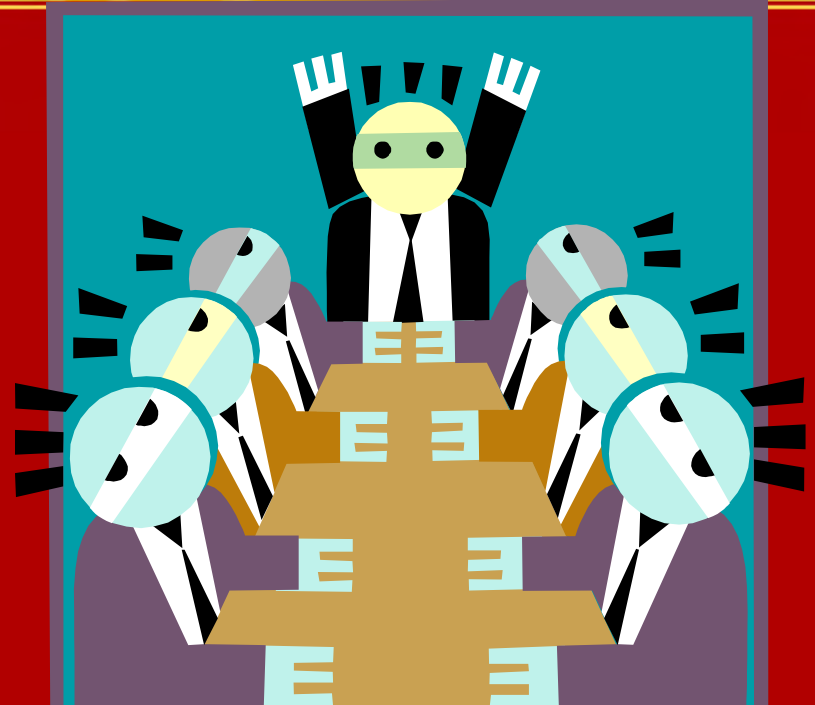
# Ask

- “Town Hall” meetings
  - Are best chaired by someone in authority
  - Are a “managed” dialogue
  - Well prepared, or get back -- to everyone -- with the answers to questions you could not answer directly



# Ask

- Focus group meetings
  - Allow you to go in-depth
  - Should be comprised of “peers”
  - Need meaningful sample of demographics



# Ask

- Key Stakeholders
  - the usual suspects +
  - the one's with “special powers”



# Chant

- Buy-in and understanding are critical



# Best ways to Chant

- Some “Best Practices”
  - A **Communications Plan**
  - **FAQ’s** on your intranet
  - **Personalized scorecards**

# Chant

- Communications plans that work
  - Use multiple:
    - Communicators
    - Venues
    - Vehicles/Methodologies
  - Make it personal



# Chant

- FAQ's -- Anticipate the questions
  - Must have easily accessible answers
  - Best: “live FAQ's”
    - opportunity to post clarification questions





# Chant

- Personalized Scorecards
  - “What’s in it for me?”
  - Pictures worth 1,000 words (dashboards)



# Test

- Modeling and Testing have largest payback

**Bank One Corp. slashed bonuses promised to employees as an incentive to make more loans and gather deposits because it overestimated profit from the drive...head of retail banking, told employees they would get "significantly less" than originally calculated. ..**

**"The payments are 'way out of whack' and do not correspond to the actual revenues and profits which will result from the campaign," ..... "The mistake in proper modeling and incentive design is entirely the fault of me and my senior team," he wrote.**

# Best ways to Test

- Some “Best Practices”
  - Understand and apply concept of Standard Deviation
  - Learn from previous plan
  - Thoroughly model new plan

# Test

- Standard Deviation
  - Knowing who is  $<$  and  $>$  1 Standard Deviation
  - Ensure that “stars” are taken care of
    - and the “poor performers” are not!

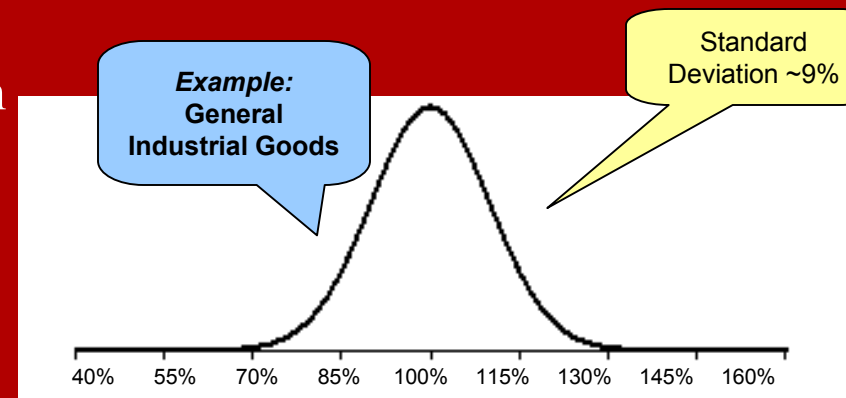
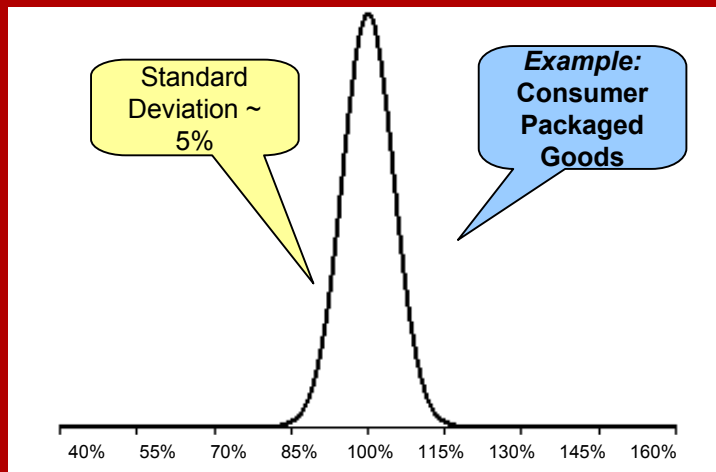
# Test

- Standard Deviation -- Example

- Rule of “One Standard Deviation:

- 70-75% of sales force should be paid within 1 standard deviation of performance

- reflect goal-setting precision



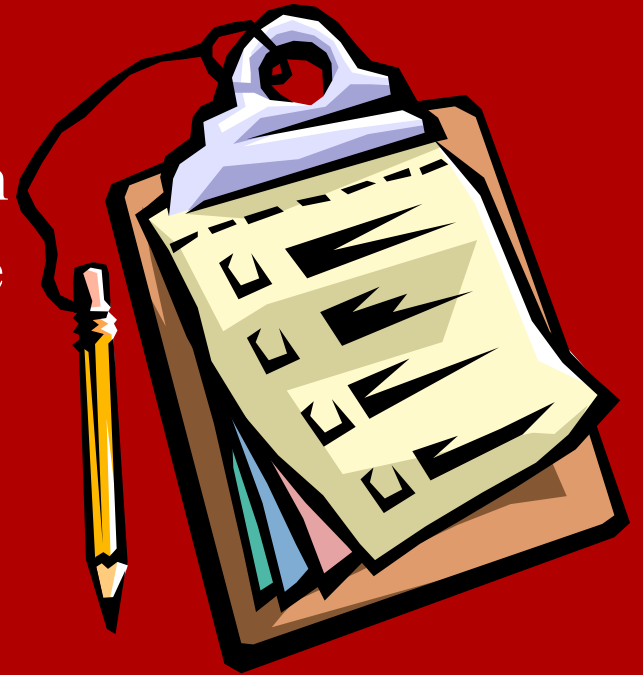
# Test

- Previous plan
  - Step #1 is to dissect the old plan
    - Are winners the real winners?
    - ROI analysis
      - At **all** levels of performance -- individual and collective
    - “Star/dog” analysis



# Test

- New plan
  - 3 key tests
    - 1) Past performance vs. new IC plan
    - 2) 3 levels of projected performance
      - Conservative
      - Target
      - “Wow”
    - 3) Standard Deviation
      - Good distribution



# In Conclusion

- IC plan success is as much about execution as it is about strategy
- You will win if you A.C.T. correctly





# Questions

