

# *What is an Incentive Program?*

Definitions and central elements of effective programs

*By Rodger Stotz, CPIM, Maritz Inc., and Bruce Bolger, CPIM, Selling Communications, Inc.*

## ***Definitions***

The serious lack of attention to motivation in the business world has allowed a fuzzy world of nomenclature related to the field to ingratiate itself. Depending on the industry or the audience, terms float about such as *sales contests, recognition, rewards, tangible rewards, premiums, dealer loaders*, etc. This paper provides definitions and distinctions.

## ***Incentive Programs Are Systematic, Marketing Oriented Interventions***

Incentive programs are about systematic internal or external marketing campaigns designed to promote specific actions on the part of a specific audience to produce measurable outcomes through integrated motivational strategies.

## ***Defined By Desired Actions***

Actions promoted by incentive programs might include: increasing sales calls, creating displays, buying more of a product, attending an event, sampling a product, etc. Outcomes optimally might include: increased sales, productivity or quality, and shorter cycle times (how long it takes to get something done). The strategies being integrated might include awards, communication, involvement, feedback, recognition, etc.

When referring to incentive programs, business people and media tend to emphasize the term *incentives*, as if the strategy is limited to giving something to someone for doing something.

Unfortunately, this is often the case, but unless the campaign addresses other issues related to increasing motivation, it will very likely fail over time. Business planners traditionally have overplayed incentives and underplayed related elements that can affect performance in the longer term.

### ***Research Proves Incentive Programs Provide Long-Term Benefits***

Surprisingly little research has been conducted on the relationship between motivation and business success. Much of the available documentation focuses more specifically on issues related to motivation, such as the merits of particular types of motivational efforts. However, a review of the best available research to date provides evidence supporting the link between motivation and measurable performance outcomes. Among the most valuable sources of academic research on motivation is the Forum for People Performance Management and Measurement at Northwestern University, whose studies can be accessed at [www.performanceforum.org](http://www.performanceforum.org). The following provides a summary of research relevant to the impact of incentive programs and motivation in business.

### ***Impact Of Incentive Programs And Motivation On Performance***

Perhaps the most rigorous survey ever of motivation research was conducted by the International Society of Performance Improvement, whose study is titled “*Incentives, Motivation, and Workplace Performance.*” It incorporates both a meta-analysis of dozens of academic research projects related to incentives in business, along with a detailed survey of business users in 2002-2003. The study found that properly constructed incentive programs can improve performance by as much as 44% in teams and 25% in individuals, as long as these programs obey certain principles outlined by the researchers.

### ***Non-Financial Measures Have Bottom Line Impact***

In “*An Empirical Investigation of an Incentive Plan that Includes Non-financial Performance Measures*” (*The Accounting Review*, Vol. 75, No. 1, January 2000), researchers Rajiv D. Banker, Gordon Potter and Dhinu Srinivasan evaluate marketing communications, promotions and incentive programs using both financial and non-financial measures.

The authors examine the operations of a hotel chain to determine how non-financial performance measures like customer satisfaction and repeat business affect financial performance measures, such as profit per room, revenue per room, average rate per room and occupancy rate. The researchers concluded that a well-designed incentive program can provide demonstrable financial and non-financial benefits.

***Improve Customer Service***

Many companies use pay-for-performance incentive plans for frontline sales employees. In “*A Field Study of the Impact of a Performance-based Incentive Plan*” (*Journal of Accounting and Economics*, Vol. 21, April 1996), Rajiv D. Banker, Seok-Young Lee and Gordon Potter evaluate how such incentive plans affected employee performance at several major department store locations. Overall, the study provides clear evidence that incentive plans motivate frontline sales personnel to provide better customer service.

***Enhance Future Performance***

Another finding of this study is that incentive programs enhance performance not only in the immediate time frame, but also in the future. Retail sales personnel in the study were found to generate sales increases on an ongoing basis, not just in the initial period. The authors suggest that incentive programs may play a role in motivating employees to establish personal relationships with customers, thus generating future sales. Similarly, the authors found that incentive programs have a stronger effect when retailers use fewer temporary employees.

***Have Value As A Retention Strategy***

Much effort has gone into employee satisfaction and retention, but little is known about how those factors affect an organization’s overall performance. In order to develop his paper entitled “*The Effects of Employee Satisfaction, Organizational Citizenship Behavior, and Turnover on Organizational Effectiveness: A Unit-Level, Longitudinal Study*” (*Personnel Psychology*), author Daniel J. Koys gathered data from a restaurant chain over a two-year period to look at how employee satisfaction issues relate to customer satisfaction and the company’s profitability.

Past studies have had trouble linking employee attitudes and behavior to performance, because researchers used measurements from the same time period. Here, the author infers *causal relationships* by looking at year-to-year effects.

This study explored not only how employee attitudes and behavior determine organizational performance, but also whether, conversely, organizational performance drives employee attitudes and behavior. The data, compiled from employee surveys, customer surveys and company records on profitability, showed that employee satisfaction, organizational citizenship and turnover are significant predictors of the following year's profitability. However, profitability in one year is not a significant determinant of employee attitudes in the next.

***Employee Attitudes Have Major Impact On Customer Retention***

In "*Employee Behavior, Feelings of Warmth and Customer Perception in Service Encounters*" (*International Journal of Retail & Distribution Management*, Vol. 30, No. 1, February 2002), authors Joseph Lemmink and Jan Mattsson show how customer perceptions are influenced by their emotional responses to encounters with employees.

The researchers measured customer reactions, both positive and negative, to simulated providers of a service. The results show that the level of employee warmth has a substantial impact on customers and the degree to which they enjoy a service experience. The researchers indicate that service warmth influences perceptions of likeability, quality and loyalty to the service for the customer. Their conclusion: Short-term emotional responses lead to the long-term effect of customer retention. Service firms should therefore train and motivate employees to exhibit high levels of warmth and friendly behaviors to achieve bottom-line profitability.

***Employee Satisfaction Levels Have Major Impact On Customer Trust***

Trust plays a major role in marketing environments where consumers and service personnel interact often, according to Deepak Sirdeshmukh, Jagdip Singh and Barry Sobol, in "*Consumer Trust, Value and Loyalty in Relational Exchanges*" (*Journal of Marketing*, Vol. 66, January 2002).

This study explores which employee behaviors create or destroy consumer trust. The authors developed a theory in which consumer loyalty is determined by two types of trust:

- The trust a consumer has in management policies and procedures
- The trust a consumer has in frontline service personnel

They also suggest that the degree to which a consumer has either kind of trust in an organization depends on three key elements:

- Operational competence of employees
- Their benevolence
- Employees' problem-solving orientation

***Key Need – Foster Trust Building Behaviors***

A critical finding of this study is that companies should realize the important affects that managerial policies and frontline service personnel have on consumer trust. The fact that trust is such a strong determinant of consumer loyalty justifies organizational efforts to foster trust in consumer relationships.

***Role Of Employees In Repurchase Loyalty Confirmed***

Repurchase loyalty is often a key factor in determining the financial contribution consumers make to a business. In “*Comparative Evaluation and the Relationship Between Quality, Satisfaction and Repurchase Loyalty*” (*Journal of the Academy of Marketing Science*, Vol. 30, No. 3, Summer 2002), author Svien Ottar Olsen found that consumers form overall impressions of quality by integrating various aspects of products and service performance.

The perceived quality of the products determines consumer satisfaction, and as expected, consumer satisfaction determines repurchase likelihood. While there were strong positive relationships between quality and satisfaction, and between satisfaction and loyalty, managers should not assume that “good enough” performance is sufficient to build the kind of consumer relationships most organizations seek, the author asserted.

Given the preponderance of product categories, businesses should focus on the different aspects of service and personal interaction that can generate differences across competitive offerings and engender consumer loyalty.

***Study Finds Link Between***

In “*Motivation in the Hospitality Industry*,” Stephen J. Condly, Ph.D.,

***Turnover And Motivation***

University of Central Florida, discusses the direct link between the motivation of employees and turnover in employees at a fast food chain in central Florida. The study also found that motivation had a direct impact on effort, persistence, task value and interest of employees.

***Turnover Has Impact On Sales And Profits***

Authors James Heskett, Thomas Loveman, Gary Sasser and Leonard Schlesinger found that 20% of the Taco Bell stores with the lowest turnover rate enjoyed double the sales and a 55% improvement of profit over those stores with the highest turnover rate. Their results were published in the March/April 1994 edition of the *Harvard Business Review* in an article titled “*Putting the Service-Profit Chain to Work.*”

***Employee Attitudes Affect Sales***

A five-year detailed analysis of 800 Sears stores by the same researchers published in the *Harvard Business Review* in January-February 1998 found a five-unit increase in employee attitude yielded a 1.2-unit increase in consumer impression and a 5% increase in revenue growth. The article was titled “*Putting the Employee-Customer Profit Chain at Sears.*”

***High-Performing Companies More Likely To Use Incentive Programs For Customer Contact Employees***

“*The Interaction Between Marketing and Human Resources and Employee Measurement and Incentives,*” a study conducted for the Forum for People Performance Management and Measurement at Northwestern University, found that high-performing organizations report a far higher level of motivating customer contact employees than do low-performing companies. Company performance was measured by rate of relative sales growth.

***ROI Of Sales Incentive Programs Confirmed***

In “*Measuring the ROI of Sales Incentive Programs,*” Srinath Gopalakrishna (University of Missouri-Columbia) demonstrated not only that return on investment for sales incentive programs can be measured through various means, but also that properly structured programs can have a direct impact on financial and non-financial outcomes.

