

The Linkage of Incentive Programs to Performance

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

Strategic Business Initiatives

Incentive programs are among the few business strategies where costs have a direct relation to the outcome. Whether an organization uses benefits, meetings, newsletters, advertising, promotions, recognition, training or many other related motivation strategies, costs will likely be the same no matter what the outcome. Properly designed incentive programs will result in costs having a direct correlation to results. In other words, under ideal circumstances, you pay more if your program succeeds, and less if it doesn't.

Incentive Vs. Recognition Programs

What distinguishes an incentive program from a recognition program? Both reward behavior. An incentive program addresses shorter-term, specific objectives with a measurable outcome. Recognition programs reward desired behaviors, but not specifically related to short-term measurable actions or outcomes. Incentive program objectives include: increasing sales, lowering defect rates, improving cycle time, etc.

Recognition program objectives include promoting desired behaviors such as length of service, attendance, exceptional customer service, useful suggestions, leadership, etc., often without a formal rules structure or business strategy.

Incentive program objectives specifically seek to drive performance through formal, goal-directed, internal or external marketing programs.

Recognition programs drive desired behaviors more indirectly, either because they take place over a longer period of time, or because they have a spontaneous component more designed to draw attention to desirable behaviors than to foster short-term accomplishment. Some companies contend that they use recognition programs in lieu of incentive programs because they prefer to work off of intrinsic, or internally generated, motivation rather than extrinsic, or externally ignited, motivation. Proponents of this point of view consider that incentive programs represent an extrinsic form of motivation, since the participants presumably strive for the externally applied incentive. They would argue that recognition promotes a more enduring form of intrinsic, or internally driven motivation, since people presumably work for the sense of accomplishment, with the reward in this case being mere icing on the cake.

***Properly Designed
Incentive Programs
Consider All The
Bases***

Associating incentive programs only with extrinsic motivation is based on the old-fashioned “do this and get that” type of incentive program structure. Properly designed incentive programs address all of the issues related to motivation, including emotional state, feelings of organizational support, buy-in, capability, etc., so that there’s no reason ever to run an incentive program that relies purely on extrinsic motivation. On the other hand, many small business owners, or heads of small departments at major corporations, often find that a formal incentive program for a small audience is similar to running an advertising campaign to reach 100 people.

In the case of smaller groups, management often relies on compensation, pay for performance, benefits, recognition and work life issues to foster motivation, rather than a formal, organization-wide incentive program. Small groups often have less data at their disposal necessary to conduct formal incentive programs, or find that the process of getting that data outweighs the benefits. They may also find that public recognition can foster jealousy and resentment in very small groups where everyone feels equally important.

Whether your motivation effort contains a formal incentive program or informal recognition, research suggests it should always address the multiple aspects of motivation addressed in the CANE model: buy-in, capability, sense of support and fairness, work utility, management support, clear and feasible objectives, etc., and avoid the traditional carrot approach that focuses solely on the award.

