

Step 4: Program Structure

Defining the rules of your incentive program.

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Program Duration

Research consistently suggests that programs too short in duration often fail to achieve buy-in because it takes people too long to learn about them before they are expected to act. Longer-term programs can suffer from ‘program burnout’ because employees simply lose interest. It often makes sense to overlap the program with a buying cycle or a business need. If this dictates a very short program of less than three months, make sure there is a means to get the word out fast and in a compelling manner. If this dictates a longer program, consider short-term programs within the longer program to keep people engaged.

Program Qualification

The best available research suggests that people prefer qualifications based on measures of results and not process measures such as those that track specific actions (“*Sales Contest Effectiveness*,” William H. Murphy and Neil M. Ford of the University of Wisconsin-Madison; and Peter Davin of Queen’s University, Canada.) However, what people prefer is not always what is best for the organization: the addition of process measures helps focus people on doing the right thing.

Tracking

Precisely how will people be tracked to determine their performance? Do you have already-available data, or do you have to get new data. Is the data source both reliable and free from creating strains within the organization? Do you have some other use for the data?

Rewards & Recognition Levels

How will people qualify for recognition, and in what terms will that performance be tracked: units, dollars, points?

Program Types

Types of incentive programs generally fall into three basic types. These include:

Open-Ended Programs. These programs enable all people who achieve program goals to earn awards.

Closed-Ended Programs. These programs have a pre-determined number of award earners.

Plateau Programs. These programs provide awards at different levels of program achievement.

Open-Ended Programs

Open-ended programs enable participants to win based on their own actions and therefore give participants the greatest potential control over their success. Research confirms that these programs generally have greater motivational value, because they offer accessibility to the broadest possible audience.

These programs have the most impact on middle-level performers, who have room to grow. While an open-ended program will have costs no matter what the outcome, a properly structured program will cost much less if it fails to reach a goal, as opposed to other marketing or management strategies with fixed costs.

Example -- Increase sales by 5% to get 1,000 points; increase sales by 7% and get 2,000 points; increase sales by 9% and get 3,000 points.

Closed-Ended Programs

Closed-ended or “tournament programs” have a predetermined number of winners. Although they have the benefit of letting you offer a larger, more impressive award with a fixed, predictable budget, research clearly shows that they often discourage the bulk of participants, who quickly opt out of the running.

These programs often have less impact on performance because many top performers would have excelled anyway; however, they also make sure that top performers don’t feel penalized for already giving their all. Many companies use closed-ended programs in conjunction with open-ended programs as a means of fostering loyalty among top performers by instilling a sense that they are valued and appreciated.

Example -- The 10 people with the biggest sales increase qualify; the 20 teams with the best safety record earn awards.

Plateau Programs

By awarding participants points at specific intervals of performance improvement, you not only reduce the impact of budget uncertainties associated with open-ended programs, but give people an extra reason to work a little smarter to reach the next level of performance. With the plateau approach, you award points at “plateaus” of performance improvement.

Example -- 10,000 points for a 5% increase in performance; 20,000 points for a 7.5% increase; 35,000 for a 10% increase.

Planning For Participation

Generally, a program should be structured to enable from 25% to 50% of people to participate, according to W.H. Murphy’s “*Sales Contest Effectiveness: An Examination of Sales Contest Design Preferences of Field Sales Forces*” (*Journal of the Academy of Marketing Science*, Vol. 32, No. 2, April 2004). The book found making participation too general or restrictive reduced motivation.

Rules

Any program offering any type of reward, tangible or intangible, needs rules to make sure people believe in the feasibility of the program and that they have a chance for success. Rules go beyond program qualifications by specifying precisely:

- Who participates (enrollment)
- The time period
- The specific qualification levels
- The restrictions, if any
- The rewards and recognition provided and tax implications, if any
- How communications will occur

Points

To clearly distinguish rewards from cash compensation, many organizations convert qualification units from dollars into points. Points are based on an arbitrary unit conversion, say 100 points for every dollar of incremental sales. The program structure specifies the use and value of points.

Team Vs. Individual

The study “*Incentives, Motivation, and Workplace Performance*” (an International Society of Performance Improvement study by Harold D. Stolovitch, Richard E. Clark and Steven J. Condly) found that team incentive programs can achieve performance gains of as much as 44%, versus 25% in individuals. You can determine whether or not you need a team approach by analyzing your objectives and the people best able to achieve them. If teamwork is a primary goal, of course a team approach applies; however, team-based programs can discourage top performers who feel handicapped by weaker teammates. For this reason, some companies use both approaches.

Fairness

Almost every piece of research touching on incentive programs finds that the target audience is highly attuned to a sense of fairness and can quickly turn negative if unfairness is detected. So, you should make every attempt to make sure your program meets the fairness test.

A common solution involves breaking individuals or teams into groups or regions so that participants in groups already at the top of the performance scale don't feel more pressure to increase performance by, say, 10%, than a low-performing group with low-hanging fruit. Under this approach, goals can be adjusted appropriately for higher-performing individuals or groups in more economically robust regions or with other inherent advantages, versus those with economic, marketplace or other disadvantages.