

## Creating “Win-Win” Incentive Plans

by Larry Comp and Terry Lauter

A few years ago, Bain Consulting surveyed CEOs across the country to discover which of the initiatives they had been focusing on; e.g. Total Quality Management, had delivered the best financial results. Of the 25 initiatives reported, “Pay for Performance” came out #1. PFP is even more important to today’s leaders. And, among the various pay components at their disposal, incentive pay ranks as the most potent vehicle for linking pay to performance. It has also proven to be an extremely effective motivational and employee retention tool.

So with all the focus on incentive pay, how effective have these programs been? The answer: from extremely poor to truly exceptional. Like so many other management ideas and programs, the devil is in the details. In other words, how you do it is almost as important as what you do!. Time spent on the front end of plan design will pay big dividends down the road.

### **Important Guidelines for Getting the Biggest Bang on your Short-Term Incentive Plans**

#### **1. Decide what you want to achieve from your plan(s)**

What are your 5-7 most important financial and non-financial objectives for the Plan Year? Have these been communicated in a way that your employees will understand? Is it clear what type of subordinate goals are needed to drive the accomplishment of these “big picture” goals?

#### **2. Determine the appropriate relationship between bonus payouts and organizational, unit and individual performance.**

#### **3.**

If rewards are based solely on organizational performance, you have a profit-sharing plan that may do little to incent your strongest performers. On the other hand, if most of the Plan’s focus is on individual or unit performance, you may

fall short of achieving the desired cultural and organizational performance goals. Achieve the right balance here.

**4. Determine eligibility requirements and organizational readiness**

Determine who is eligible for participation in the Plan and all related provisions. Ensure participants understand the goals of the Plan and how they can best contribute to and personally benefit from the Plan.

**5. Determine how pay-outs will be determined and when these will be paid**

How should incentive pay be positioned as part of your total compensation strategy? What are your competitors offering? Are measurements clearly linked to varying levels of organizational, unit and individual performance. What level of performance must be achieved to “fund” the program.

**6. Decide what type of training and communications will be needed to to implement the program effectively**

A good plan implemented well is better than an excellent plan poorly implemented!

**Benefits**

Unless you already have an extremely healthy, high performing culture, you will meet some resistance in “rolling out” your Plan- it’s natural. Be patient and stay the course! Our experience continues to tell us that if you plan and execute well, you should attain good results the 1st year, better results the 2<sup>nd</sup> year and even better results the 3<sup>rd</sup> year. However, it is not uncommon, to experience exceptional results, even in year 1.

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