

Pay for Performance Programs

A Manager's Viewpoint



Subject: Pay for Performance, Management, Incentive Programs, Sales Quotas, Fair Market Value



As a manager in a large Fortune 500 company I was asked to participate in a team building session with other managers that centered on the topic of increasing productivity. Many ideas were thrown out, but the one that kept coming up from a few of the other managers was an incentive plan for people who worked on the factory floor and administrative types (i.e., the hourly people).

As the ideas for compensations were being thrown around, the more my head went into a spin about we were approaching the subject. The vice-president of the company noticed my look of ambivalence as the meeting progressed. When he found a break in the conversation, he asked me, "Victor, what do you think of giving our hourly people an incentive."

I could tell by the tone of his question that I was in trouble. This vice-president already knew I wasn't keen on the idea of incentives. He waited patiently, as so did the other managers at the table, for my response.

I responded by saying, "I think this is the wrong approach. I don't think it's a good idea."

Silence fell in that room that you could hear a pin drop. Then one of the hourly managers asked, "Why not?"

By the tone of his voice I could tell that no matter what my reasoning was, he was ready to pounce on it and reject it. But before I go any further, let me first explain a little bit about my belief system when it comes to a pay-for-performance program. Let me start out by using a salesperson as a archetype.

A salesperson, a true one, carries what is called a quota. A quota is the amount of sales he has been requested to generate for the company by his superiors. Let's say for instance the salesperson has to generate twelve million in sales this year. The salesman's superior expects him to make that number in order to help fulfill a greater objective, the overall company revenue. All sales add up to one overall number (e.g., a company could have 5 salespeople, each having to generate the same amount. Therefore the overall number for the company is sixty million). A company's worth and stability is dependent on great sales numbers.

Every month the salesperson is measure against their quota. He is expected to generate one million dollars in sales every month. What happens when he doesn't? Well, his superior will first become concerned. Second, the superior will inquire what he expects to do to make up for the shortfall. If the answer is reasonable, the superior will cut him some slack. If, as the year goes on, the sales' numbers continue to fall short of one million a month, the superior will eventually have to make a decision on whether to keep the salesperson on or find a replacement. For a

salesperson, there is no way of obfuscating the facts; you either make your quota or you don't. You're either selling a million a month or you're not.

Not let's take as another example an hourly wage person who works on the factory floor on a production assembly line. Let's further say there are five people on this one production line each with a role to play in assembling a widget. A piece-part quota (i.e., how many widgets they have to assemble as a team) of 1,000 widgets has been set by their manager. As the team works to accomplish this goal, some of the team members give 110% while others may see no need to over exert themselves since the job is getting done. At the end of the month the quota is made and ALL five individuals get the same compensation.

In the salesperson example, the responsibility of performance falls squarely on the salesperson. There's no wiggle room for blaming anyone else if he fails to achieve quota. On the other hand, if he succeeds in attaining his quota, he gets all the kudos to himself. His metric for performance is very objective, a quota. Pass-Fail.

In the example of the production workers on the assembly line, where does the responsibility of success lie? With the manager? Or, with the assembly line team? Or with the individual members?

a) If it falls on the manager, shouldn't the manager then be the only one given an incentive?

b) If it falls on the team, is it fair that they all get compensated equally even if their contributions were less than equal?

c) If it falls to the individual members, how will you measure and track each person's performance?

* Note: I didn't address the other 3 possible outcomes if the team DOESN'T meet their quota. That's a whole other set of issues.

These three key points were behind why I wasn't keen on the idea of additional compensation. Of all three, the last one c) was the most worrisome. Why? In order to put an incentive program in place of this nature, you will need to create an infrastructure of people and tools to support it. This may not seem like a big deal when we are talking about five people. But take note, this was an organization of over 10,000 hourly employees spread geographically over 10 states. Logistical questions had to be considered:

a) Who would manage it?

b) Who would monitor the performances?

c) How would they be monitored?

d) How much would it cost to support it?

e) What system would be used to manage it?

I could go on, but you get the idea. It's all well and good to come up with new ways to compensate employees. New ideas are always great. But the devil, as the saying goes, is in the detail.

Nonetheless, the center of my contention was a simpler question on compensation, "Why do we have to create an additional compensation program for people to do a

job they were hired to do in the first place?" We were already paying people "fair market value" to perform.

When you get into group compensation, you enter a whole new world of human dynamics that has the potential of creating more problems than it solves. Studies have show that money isn't the prime motivator, but that a cohesive, pleasant and fair working environment is preferred. The focus should be more on the quality of the work experience, rather than the pay.

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