

# Incentive Programs That Work

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Presented by

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# INCENTIVE PLANS THAT WORK

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- Are tied to business strategy, objectives, and plans
- Balance owner and employee interests
- Focus on results more than process and behaviors
- Reflect target competitive position
- Provide challenging, but realistic performance objectives
- Create internal equity

# Interesting Statistics

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- 89% think companies would perform better if employees given meaningful incentives
- Only 13% believe they would benefit
- 33% of managers would rather work where they could receive better recognition
- 50% of employees would leave for a 20% pay increase, 25% would leave for 10% increase

# Why Discretionary Plans Don't Work

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- Employees not sure what they have to do to get bonus
- Bonuses become gifts
- Bonuses become entitlement
- Bonuses too small to be meaningful
- Bonuses too large for mediocre performance and too small for great performance

# Getting Greatest Impact

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- Tied to controllable factors
- Balance simplicity, control, comprehensiveness
- Clearly communicated
- Properly documented
- Pay for themselves
- Send a strong message

# Getting Greatest Impact

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- Salaries
- Goal setting
- Performance measurement
- Feedback
- Communication
- Nonfinancial rewards
- Celebrate small victories
- Payout frequency

# Management Incentives: Short Term v. Long Term

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- Management needs to balance ST and LT
- Growth often means ST sacrifice
- Dysfunctional behavior possible when 100% of focus is short term.

# Management Incentives: Short Term v. Long Term

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- LT incentives can be cash or stock
- LT incentives particularly useful where company sale or IPO anticipated.

# Case Study – Employee Incentive Plan

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- Business services organization. Owner wants to grow company for profitable sale.
- All employees eligible
- Funding based on 4%-10% of EBITDA above threshold
- Distribution based on EBITDA, Gross Margin %, Customer Satisfaction ratings, Project Effectiveness, Performance Appraisal

# Case Study – Employee Incentive Plan

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- Aggressive payouts linked to aggressive profit growth
- 67% growth in EBITDA tied to target bonuses from 7% to 45%
- ROI for bonus plan of about 600%
- Outcome – tremendous growth in sales and profits lead to sale of company

# Case study – Management Incentive Plan

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- Manufacturing & distribution company. Owner objective to aggressively grow profits 26%/year.
- Reward 3 key executives
- Funding based on 6.25% to 11 % of NIBT above threshold, adj. for owner comp.
- 26% growth in NIBT tied to target bonuses from 12% to 25% of salary

# Case study – Management Incentive Plan

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- Distribution based 50% on financial performance, 50% on individual performance against 4-6 objectives
- Achieved average compounded growth rate 29%/yr over 5 years

# Case Study – Sales Incentive Plan

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- National product rental and sales.  
Objective to aggressively grow sales at 15%/yr. and new customer growth at 45% of total sales
- Historical pay below market average
- Target total comp 5%-10% above market
- Target bonus at 40% of salary
- Bonus cost from 2% to 9% of Gross Profit above threshold

# Case Study – Sales Incentive Plan

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- Total comp limit from 7% to 32% of GP
- Bonus payout based 70% on total GP, 30% on New Customer GP, plus small bonus for other objectives
- Achieved 19% growth/yr compounded over 5 years