

An executive white paper based on the study authored by Harold D. Stolovitch, Richard E. Clark, and Steven J. Condly.

INCENTIVES, MOTIVATION & WORKPLACE PERFORMANCE

RESEARCH & BEST PRACTICES



New study proves that properly constructed incentive programs can increase performance by as much as 44 percent.

Despite the fact that U.S. organizations spend over \$100 billion annually on incentive programs, many business people question their effectiveness. Now, a ground-breaking study proves that incentive programs can boost performance by anywhere from 25 to 44 percent, but only if conducted in ways that address all issues related to performance and human motivation. The study found that most organizations lack the knowledge or will to create properly constructed programs that yield desired results.

The Incentive Foundation determined in 2000 that North American organizations

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spend approximately \$27 billion a year on merchandise and travel incentives. Cash incentives included, the total exceeds \$115 billion. But surprisingly, few organizations apply formal return on investment processes or measures to their incentive program design.

Numerous researchers have studied the impact of incentives and related programs for at least 100 years without establishing a clear consensus among business circles as to whether or not incentive programs deliver measurable and meaningful performance results. "Incentives, Motivation and Workplace Performance: Research & Best Practices," conducted by researchers for the International Society of Performance Improvement, and funded with a grant by the SITE Foundation, was designed to analyze the complete body of scientific research on incentive programs, determine what if any consensus existed as to their effectiveness and the circumstances under which they can succeed, and to benchmark these findings with actual business conditions through surveys and interviews with business execu-

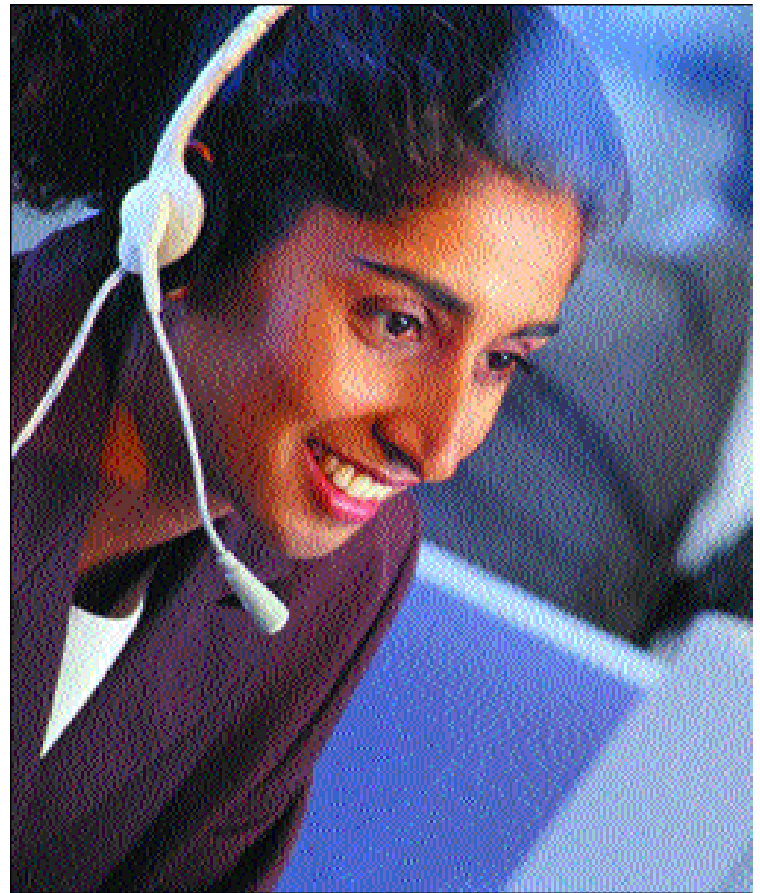
tives whose organizations use incentives.

The study was designed to help answer questions about whether incentives increase work performance and under what circumstances, which incentive programs are most effective, what types of organizations need incentives, and what model best expresses how to select and implement successful programs.

The report yielded an eight-step model describing the process by which incentive programs can best be designed to influence performance.

META-ANALYSIS REVEALS POSITIVE IMPACT

The researchers began by conducting a thorough "meta-analysis" of existing, scientific research on incentive programs to identify any trends or consensus regarding their effectiveness, and the elements that lead to success or failure. The search process included every known source of research on the topic, excluding those studies that failed to live up to or disclose verifiable research practices, or those con-



ducted by commercial organizations with some potential axe to grind. The final meta-analysis was based on more than 45 existing studies that met the researchers' exacting standards.

To compare research results with current practices, researchers conducted surveys via the Internet and telephone of 145 U.S. organizations that use incentive systems.

KEY FINDINGS

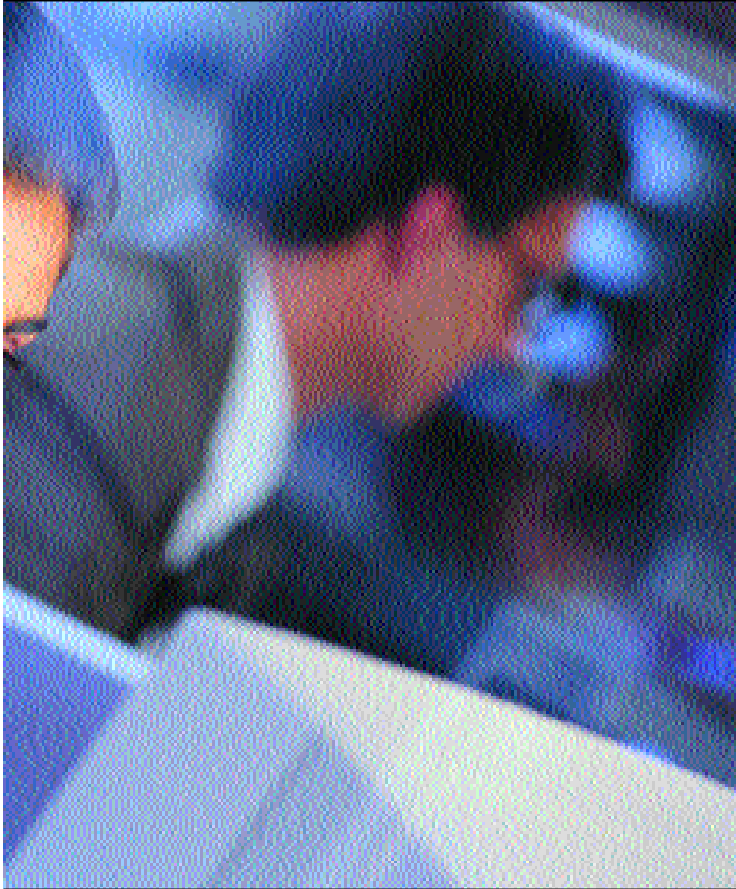
The meta-analysis of research and subsequent surveys yielded a surprising consensus about the effectiveness of incentive programs and the elements behind success. Here are some of the key findings:

- **Incentive programs improve performance.** If selected, implemented, and monitored correctly, incentive programs—with awards in the form of money or gifts—increase performance by an average of 22 percent. Team incentives can increase performance by as much as 44 percent.

- **Incentive programs engage participants.** The research found that incentive



"Seeing the pool build was particularly exciting for myself and for the team. It encouraged people to put forth more effort." — *study respondent*



programs can increase interest in work. When programs are first offered for completing a task, a 15 percent increase in performance occurs. Asked to persist toward a goal, people increase their performance by 27 percent when motivated by incentive programs. When incentive programs are used to encourage “smarter thinking smarter,” performance increases by 26 percent.

- **Incentive programs attract quality employees.** Organizations that offer properly structured incentive programs can attract and retain higher quality workers than other organizations.

- **Longer-term programs outperform short-term programs.** The study found that incentive programs that run for a year or more produced an average 44 percent performance increase, while programs running six months or less showed a 30 percent increase. Programs of a week or less yielded a 20 percent boost.

- **Executives and employees value incentive programs.** All things considered, both employees and managers say they highly value incentive programs. Nonetheless, 98 percent of survey participants complained about their implementa-

tion. A program’s success and return on investment, obviously, depends on how well it’s operated.

- **Quota-based incentive measures work best.** Programs that reward performance based on meeting or exceeding goals generate the most positive results. Piece-rate programs, for doing more of something, also provide positive results, according to the research. Least effective (yet commonly used) are tournament-based programs; i.e., closed-ended programs that reward a pre-selected number of winners, as opposed to open-ended, quota-based, or piece-rate programs that give everybody a chance at success.

More research is needed on the use of non-cash tangible rewards, as opposed to cash. While incentive programs using cash incentives yielded a 27 percent increase in performance versus a 13 percent boost from programs using non-cash awards, the researchers cited a lack of sufficient research to isolate the relative motivational value of cash versus non-cash awards, or to determine whether or not companies can get the same or more motivation for less money by using non-cash awards. Nor does sufficient research exist to measure the impact of cash incentive awards on compensation or pricing strategies. Companies may actually be able to get more motivational impact for less money if employees can choose their own rewards. Finally, the researchers suggested that many programs using non-cash awards do not follow the guidelines for successful program implementation, outlined on page four.

THE CONDITIONS FOR SUCCESS

The study isolated five conditions under which incentive programs work best:

1. Current performance is inadequate.

2. The cause of the inadequate performance is related to deficiencies in motivation.

3. The desired performance type and level can be quantified.

4. The goal is challenging but achievable.

5. The focus on promoting a particular behavior does not conflict with or override everyday organizational goals.



“In 92 percent of cases, objectives were surpassed, met, or partially met.”



IMPLEMENTATION STEPS

The study included a model for developing effective incentive programs and diagnosing existing ones, known as the Performance Improvement By Incentives (PIBI) model. The model is based on a complete review of research and survey findings.

ABOUT THE AUTHORS

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WHERE TO GET THE STUDY

A complete copy of the study is available for \$50 from the SITE Foundation, Frank J. Katusak, Executive Director, 304 Park Avenue South, 11th Floor, New York, NY 10010, 212-590-2518, f.katusak@sitefoundation.org; www.site-intl.org.



THE STRATEGIES FOR SUCCESS

To help companies develop effective incentive programs, the researchers identified an eight-event PIBI (Performance Improvement By Incentives) Model. It specifies the human issues relevant to performance, provides guidance on the step-by-step procedures of implementation, and allows decision-makers to troubleshoot and correct the system if it fails to yield desired results.

EVENT 1) ASSESSMENT.

Management determines that performance levels are inadequate because of a shortfall in motivation. Part of this assessment process is a “gap analysis,” to find out the space between a company’s goals and current employee performance. If the gap analysis shows that employees are avoiding ways they know will improve performance, then an incentive program can be a useful way to change that behavior.

EVENT 2) PROGRAM SELECTION.

In considering the alternatives, it is best to adopt a quota-based incentive program, or at least a piece-rate (or reward for performance) model that gives each person a chance for recognition by surpassing attainable performance benchmarks.



EVENT 3) WORK UTILITY.

Incentives increase performance by boosting the value people assign to work goals, causing them to make stronger commitments to those goals and achieve them. The program has to provide the meaning, rewards, communication, and support that foster a sense of utility.

EVENT 4) ESTABLISH TRAINING AND COMMUNICATION.

Once an incentive is perceived as having adequate utility value, people should focus on their abilities to perform the relevant tasks. This process includes training support and regular communication to make sure people do the right things that contribute to success.

EVENT 5) SUPPORT.

People have to believe that the organization will support their performance goal and provide incentive rewards fairly. This requires careful attention to the ways rewards are given, how the rewards are distinguished from compensation or (for resellers) pricing issues, and the fairness with which awards get disbursed.

EVENT 6) EMOTIONAL APPEAL.

The biggest performance gains come when people become emotionally engaged. With careful consideration, incentive awards should have a positive impact on emotion and organizational spirit.

EVENT 7) MEASUREMENT.

Three motivational outcomes should be measured: active choice—choosing to do the targeted work in the intended manner, commitment—persisting over time, and mental effort—thinking clearly.

EVENT 8) ANALYSIS AND FEEDBACK.

The incentive program must be analyzed against the performance objectives and costs, with information recycled in order to adjust future programs.