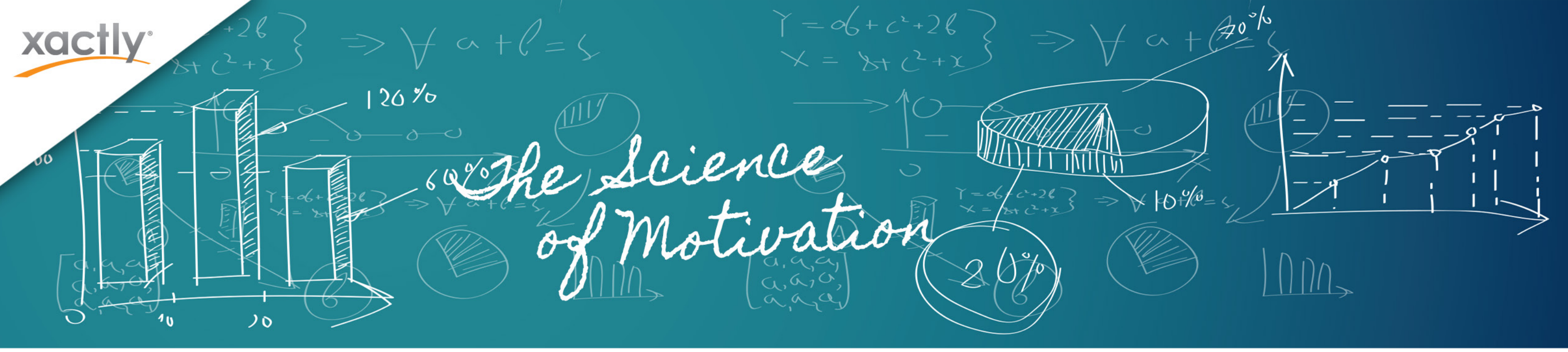

What matters to business? Success, growth and the bottom line.

Employee benefit trends come and go – flexible hours, time for individual projects, foosball, free haircuts – all of this to improve what? The bottom line.

Management thinks …

If employees are happy, customers will be happy. If we provide everything workers need in one gigantic campus, they'll be more productive. If we let team members focus on their families, they'll be more loyal.

Many of these benefits are important to creating a strong team or ensuring a good quality of life for workers (except for maybe those foosball tables). Many of the results – productive and loyal employees, and happy customers – help build successful companies.

But each one of these benefits misses something very important, something foundational to the employee-employer relationship.

These perks don't layout goals and reward those who meet them.

We all do best when we have goals, a clear path to achieve them and rewards for reaching them.

Companies with happy employees and foosball tables sometimes fail. But good, old-fashioned sales compensation – hit your numbers, get commission – sticks around.

Why? Because it works.

The programs commission or bonus plans put into place include:
- explaining company goals,
- laying out a path for employees to achieve them
- and rewarding those who succeed.

Sounds pretty simple, right?

You can get the employee behavior your company needs. You can do it with the right incentives.

Turns out people do really like rewards

We all know this intrinsically. We've saved the trophies from little league or cherish the attaboy from a colleague.

Financial rewards can be even more motivating. Rewards are different than pay. Pay is your salary. A reward or incentive is something you get for meeting a goal.

Take, for example, the case of 900 smokers at General Electric. Presumably, all of them had same base motivations to quit lighting up.

If you need a reminder, the benefits of quitting include reducing the length and severity of colds, reducing the risk of cancer and emphysema, whiter teeth and, oh, so much more.

But those **expected** benefits weren't as strong of an incentive to quit on their own as a cash reward, the director of Pennsylvania School of Medicine's Center for Health Incentives Kevin Volpp discovered in a 2009 study.

He took those 900 smokers and split them into two groups.

Researchers gave one group information about quitting and support groups. The other group received the same information. And then they were promised $100 if they finished a quit smoking program. Then researchers told them they'd get $250 more if they quit for 6 months. Want $400 on top of that? It would be theirs, researchers said, if they stayed tobacco free for an additional 6 months.

The total financial reward for the second group hit $750. That's on top of better breath and less stinky coats.

Keep in mind, quitting smoking is hard. If it wasn't, given what we know about the health risks today, there would be no smokers left in the world. Volpp's group wondered if the cash incentive would help fight the smokers' addiction.

After about 15 months, researchers found that incentives did indeed make a difference.
Nearly 10 percent of GE workers who were offered the cash to quit stayed smoke free compared to 3.6 percent of those offered no (additional) incentive.

Unfortunately, not all companies can use the science of rewards to ensure great performance today.

Why doesn't it happen more?

Why? Some lack the understanding of how goals and rewards can be linked. Others don't have the benchmarking information needed to set employee goals. Most commonly, businesses don't have a way to effectively set such a reward system in place.

Errors happen more than you know – or if you are in sales or in finance you may know exactly how too often these errors occur.

And consistent errors can be costly. Take the case of ADT Security.

In 2010, disgruntled – and probably demotivated – sales people filled a costly class action lawsuit again the well-known security company.

In it, the sales reps charged that ADT wasn't recognizing the lifetime value of new contracts when calculating commissions. ADT used a graduated commission system, paying more as a deal's lifetime value increased. But rather than basing commission on a contract's full value, the suit charges that ADT paid out only based on first year of the deal. That would mean a rep that closed a $1,000 two-year contract would only get paid at the rate of a $500 deal.

If the allegations are true, this kind of mistake is costly. It discourages sales people from landing high-value multiyear deals. And, it is ending with expensive lawyers fees, a settlement that may be higher than the cost of the initial commission and a black mark on the company name for potential employees.

The Aberdeen Group conducted surveys that found companies that use error-prone incentive systems even have higher turnover.

Employees just won't stay where the goals can't be met and rewards aren't correct.

For many, it is simply too time consuming and burdensome to expand potentially valuable incentive programs.

It can be better

Incentives in the modern era should be on modern systems.

In many cases, they are not. Tech companies selling things that didn't exist in our dreams 30 years ago – tablet computers, Wi-Fi routers –still use technology from 1982 to calculate their commissions.

That's the year that a little company called Microsoft introduced a product called Multiplan. It is better known today as Excel.

Spreadsheets aren't made to do the complicated task of incenting employees.

The math is too big, the equations too complicated. The system is too opaque to truly motivate and too slow to truly reward.

Excel can't set your company's goals, show employees the path to get there and reward them when they do.

Researchers have found in surveys that companies with automated incentive compensation save time, have fewer errors and increase efficiencies through better motivation.

The tools to make incentives easier are out there.

And, the return for getting incentives right is clear.

Incenting right really gets you more

When the right systems are in place, any role can earn incentives for helping the company. Every job becomes an important player to your business success.

Incenting right drives the best results.

At least that is what the research as shown time and time again.

Take for example the work of Gary Brase, out of Kansas State University's Psychology Department.

He wondered if using incentives to lure students to participate in research changed their participation and thus potentially the outcome.

To test the effect of incentives, Brase recruited students and asked them to do a word problem similar to the type you did in high school math class. Some were given harder problems than others.

He split the students into three groups – those offered class credit, those offered $5, and those told they'd be paid $3 for attempting the problem and given $6 if they got the problem right.

For the very easy and very hard problems, performance was about the same regardless of the incentives. But for the problems in the middle, the ones that most students could figure out if they worked hard enough, the students with the incentive got it right twice as often.

Rewards made people work to the best of their abilities. If they could do it, they did when correctly incentivized.

Incenting right does increase efficiencies and results in better quality work. It turns more people on to the company's goals and rewards those who help get you there.

And with modern tools to create incentives, it is even easier to apply the science of motivation to business.