The Essential Pay for Performance Checklist

A pay for performance incentive program can revolutionize your company. By motivating your employees with bonuses based on their increased productivity, you can lower operating costs and engage your workforce simultaneously.

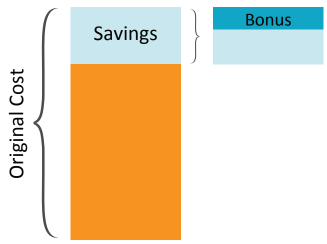
Not all pay for performance programs are created equal. If set up correctly, a PFP program can lead to substantial gains in productivity, employee morale, and the organization's bottom line. However, a poorly thought out PFP program can easily backfire and cause employee unrest, confusion, and distrust. To ensure that your program is successful, be sure to follow these guidelines.

ENGAGE EMPLOYEES BY INCENTIVIZING WHAT THEY CAN CONTROL.

It might be tempting to offer bonuses based on the organization's success as a whole; after all, in theory it seems best to reward employees when the organization profits. However, your profitability is influenced by many factors outside of your employees' control, making it is hard for an employee to be motivated by the company's bottom line. Instead, set incentivized goals based on the employee's actual work, such as their productivity. Improvements at this level will in turn improve the company's bottom line, and your employees will be engaged and motivated.

ENSURE THAT THE PROGRAM IS SELF-FUNDED.

One fundamental rule for a successful PFP program is that it should not cost the organization money. The bonuses that employees receive need to come out of the cost savings produced by the employees' own improved productivity.



☐ SET ACCURATE AND FAIR PERFORMANCE TARGETS.

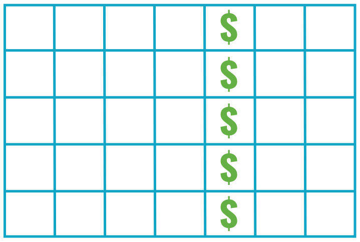
Fairness is hugely important in this process, and so every standard by which the worker is measured has to be objective. Employee buy-in to your pay for performance program relies on data that is clear, measurable, and consistent. Employees need to understand how they are being measured in order to embrace the program. If they don't understand it, it can lead to mistrust. Including employee leaders in the PFP development process can help bridge any gap in trust.

☐ REMEMBER TO CONSIDER QUALITY, INDIRECT TIME, AND SAFETY.

There are other factors to consider incentivizing besides baseline cost, and those include safety, indirect time, quality, and more. It is critical that you align the pay for performance program with the goals of the company. Whatever is important to you should be measured and worked into the pay for performance program. A holistic approach is important to ensure that some factors aren't neglected in favor of those factors that have bonuses attached to them.

☐ PAY BONUSES FREQUENTLY.

Lower wage employees are motivated by a quicker feedback on their performance. The frequency of the bonus should correlate to the position in the company. A production worker who has the opportunity to earn a bonus on every paycheck will be more motivated than a program where there is an annual payout.



☐ CONSIDER INDIVIDUAL VERSUS GROUP INCENTIVES.

Both individual and group incentives have their merits. A group incentive can create positive peer pressure to motivate less productive workers. However, that generally only works for small groups of under 10 employees. If you are group incentivizing 100 people, the top producers tend to hold back and the poor producers may hide within the group. We recommend incentives down to the smallest group feasible, ideally the individual, if feasible.

☐ KEEP IT SIMPLE.

We often see overly complex PFP programs that the employees just do not understand. If they do not understand it, then it is hard for them to know how their behavior directly impacts their bonus. A good pay for performance program should be clear and easily understood by all, and the employees should know exactly how it is calculated and how they can achieve a bonus through their efforts.