# Designing a Compensation Program That Motivates and Produces a Profit-Driven Workplace

By Dr. Aubrey C. Daniels

A compensation program that will actually improve and sustain key employee performances must conform to behavioral principles. Wages and salaries generally operate as negative reinforcers rather than positive. You receive your paycheck each pay period until you fail to perform. To determine whether your compensation program operates as negative or positive reinforcement you can apply the 'dead man' rule. If one of your employees dropped dead, but no one informed the payroll department, would they continue to pay them?

The “Dead Man” Rule: If one of your employees dropped dead, but no one informed the payroll department, would they continue to pay them?

If the answer is yes, then your compensation system could not be based on actual performance or positive reinforcement. To convert your compensation system from negative reinforcement to positive reinforcement you must pay for performance. A common remark made by managers when the subject of pay for performance is brought up is, "They are already paid for performance—they get a salary!" The response should be "Yes they do, and that is the problem!" Wages and salaries pay for time—not results. When you pay for time, you get time. When you pay for results, you get results. You get what you pay for. Unfortunately, the term 'pay for performance' is often applied to programs that do not conform to critical behavioral principles. As a result, they fail to either improve or sustain employee behaviors and results. The following are recommendations for designing or improving pay for performance programs through the application of behavioral principles.

Wages and salaries pay for time - not results. When you pay for time, you get time. When you pay for results, you get results. **You get what you pay for.**

1. **Replace subjective performance measures with objective performance measures.** The traditional performance review or appraisal is based upon supervisor perceptions of an employee's performance rather than objective results. These perceptions are influenced by many non-performance factors including employee 'likeability', employee 'busyness', personal prejudices, ease of management, conformance, previous mistakes or successes, and so on. Paying someone for 'being cooperative' fails to specify or direct the employee to produce true business results.
2. **Replace bonuses with pay for performance.** Bonuses are 'after-the-fact' discretionary payments to employees for a job well done. Though there is nothing wrong with this practice, it cannot improve or sustain employee performance since the employee is not told in advance what must be done to receive the payment. For bonuses to motivate employee performance the employee would have to be 'clairvoyant'.
3. **Replace annual performance measurement with more frequent measurement.** Requiring supervisors to rate an employee's past year's performance is asking them to judge performance in the absence of any real data and then to somehow average employee performance over two hundred and fifty workdays. Performance measurement should be based on objective data and feedback should be provided to employees at least monthly.
4. **Replace large group measures with small team and personal performance measures.** Profit sharing and gain sharing plans are based on large group results. Paying employees on large group

results is behaviorally unsound for two reasons. First, the employee typically has little or no control over the outcome. Large group results fail to specify what the individual employee should do. Second, the payment is based on the performances of hundreds or thousands of employees. This makes the payment uncertain and unrelated to the individual's personal effort.

5. **Replace broad financial measures with actionable measures.** No employee should be evaluated or paid for results he or she has little or no impact upon. Pay for performance plans that award payments to employees based upon broad financial results such as return on equity, return on assets, return to stockholders and the like are paying for organizational performance not employee performance. When designing a pay for performance plan always ask, “How can the employee directly improve this measure’s results through a change in personal behavior?”
6. **Replace unbalanced performance measurement plans with balanced plans.** One dimensional performance pay plans often yield unintended results. For example, sales commissions based on revenue generation may cause salespeople to sell things to people that can't pay, make promises that production can't keep, and discount prices producing minimal margins. Once a performance measure is defined, the next question should be what adverse impact could a total employee focus on this result produce? If such an impact is possible, this outcome must also be measured and included in the measurement plan.
7. **Replace discretionary pay for performance plans with rule driven plans.** A successful pay for performance program must be as reliable and predictable as the traditional wage and salary program. A common mistake is to constantly change the program parameters and requirements. Employees will not invest time and effort in a program in which the measures, criteria, and pay potential change frequently and unpredictably.

In recent years, several articles have appeared that argue that pay for performance is ineffective. The more likely case is that pay for performance programs are often designed, implemented or administered ineffectively. A car may have design flaws, the owner may drive it poorly, or the required maintenance may not be performed. As a result the car will perform poorly. This does not mean, however, that we should therefore return to the horse and buggy. Understanding and applying behavioral principles in the design, implementation, and administration of pay for performance programs will do much to ensure the programs’ success.

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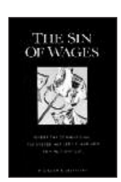


**The Sin of Wages**

William B. Abernathy

http://aubreydaniels.com/sin-wages

# [About the Author]

**AUBREY DANIELS, PH.D.**

Aubrey is a thought leader and expert on management, leadership, safety and workplace issues. For the past 40 years, he has been dedicated to helping people and organizations apply the laws of human behavior to optimize performance. Aubrey is the author of Bringing Out the Best in People, Oops! 13 Management Practices That Waste Time and Money (and what to do instead), Safe by Accident? Leadership Practices that Build a Sustainable Safety Culture and three other business books. When Aubrey is not working on changing the way the world works, he enjoys golf and spending time with his family.

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