

## Employee Incentive Compensation Plans Mistakes to Avoid

Almost every insurance company has at least two Incentive compensation plans; one for its sales force and another for its executives. These plans have been so effective that it is hard to imagine how we would get the results we need without them.

But what about the rest of the insurance company? What about the employees who support the sales force and executives? What about the employees who either deal directly with our customers every day or support the people who do? In the last survey I saw, slightly less than half of the insurance companies in the US have an incentive plan for their employees. The good news is that the number of these plans is growing every year. The bad news is that most of these plans are poorly designed and do little to improve their company's business results. Let's look at these plans. They seem to fall into two general categories, depending on the fundamental reason why they were created.

One type of plan, the most frequently seen, seems to be designed with the main goal of paying employees money when the company is successful. This supports the idea that a company's success depends on everyone doing his or her job and thereby contributing to this success. No one would argue with this. It is true. The main problem with these plans is that there is no direct connection between what these employees do and the reward they get. Instead of paying for the results employees create, these plans pay bonuses when the total company is successful, regardless of whether you or your team contributed to this success or not. These plans pay employees for involvement, not commitment and results.

The designers of these plans seem to recognize this flaw because these plans usually pay small incentives (less than 2% or 3%) and they pay them annually (after year-end). Employees see these incentive payments as gifts because they see no concrete way to influence their payment. They like the idea of getting the money and would not want it taken away, but most would also like their plan to reflect their own personal and team successes and what they influence and control.

Companies like these plans because they are simple to understand and easy to design and manage. Most of them look a lot like the executive plans they emulate, so executives are familiar with the way they work. Employees like the idea of getting money (who doesn't) so they are popular. Their flaw is that they make no business sense and cannot be cost justified. Why pay this money when you are not really getting anything back in better business results?

The second type of incentive plan fixes these flaws. These plans also pay money when the company is successful but they do a lot more. They reward departments, units and teams of employees who have attained or surpassed specific, concrete goals they control. They ensure that everyone in the company is doing everything possible to make the company successful.

Even though these plan designs are clearly better, it is easy to understand why fewer companies have them. They are more difficult to design and implement. This is probably no surprise. The easy way is always more crowded -- the better way is usually more difficult and therefore usually has fewer proponents.

Here are some of the things you need to do to make sure your incentive plan will create the solid business results you need:

1. Make sure employees have a clear “line of sight” between what they do, the result they create and the reward they receive. Excellent plans focus on control and accountability. Your plan must be “up close and personal” if it is to create the behaviors you need.

Company goals are important but they are too distant and disconnected from what regular employees do every day and what they need to accomplish. Instead, you need to identify the concrete goals and results they need to accomplish that will result in the company being successful. These core success measures will then become the basis for their incentive program.

2. Pay bonuses quarterly. Monthly is even better. Annual payments are a waste of money. You need to keep everyone constantly focused on attaining and surpassing their incentive goals. Annual payments are too infrequent to maintain this focus. Designing an incentive plan that is financially sound and still pays quarterly is difficult but we can show you how to do it.
3. Base your individual incentive payments on team rather than individual results. This creates the teamwork and cooperation you need, makes administration easy and avoids potential problems with individual discrimination.

This team emphasis is usually reflected in the way payments are calculated. The total amount to be paid to a team is usually translated into a percentage of total compensation for the team. Each person then receives the same percentage. This reinforces the team attitude.

4. Do not budget for incentive payments. Pay them from additional profits earned by your employees.

This ensures that everyone understands and supports the value of attaining financial goals while also ensuring the financial stability of the plan. Money paid to employees in bonuses should only be a portion of new money earned. This ensures the plan will continue because it makes good business sense for the company.

5. Quantify and formularize everything. Subjective evaluations of teams and individuals are never effective, especially as your results become better and better. Make payments based on quantifiable results that everyone agrees are valuable to the company. Avoid individual and subjective opinions.

Following is a general plan on how to create an excellent incentive plan. 1) Create core success measures for the company. 2) Create core success measures for each department, unit and team. 3) Link these measures so they support each other and work well together. 4) Carve out the financial measures that will create the bonus money and determine how much will be used to fund the incentive payments. 5) Determine bonus payment levels for all of the core success measures. 6) Design weekly, monthly and quarterly reports for each area. 7) Develop and start the process of continuous improvement so bonuses will be earned.

The seven steps outlined above usually require a professional guide to obtain the best results.

Creating this type of plan can be very beneficial. If you want energetic, creative employees who focus on creating meaningful business results, you must provide them with clear expectations that they can control and attain. If you do this well, they will try to surpass them.

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