

Jim's Profit Accelerator 96: Don't Cut Off Their Hands—Incentive Systems That Work

Heart of Darkness, Joseph Conrad's nineteenth-century masterpiece about evil in the Belgian Congo of Africa, includes the story of rubber incentives. Rubber was so valuable that Belgian King Leopold instituted a reverse incentive system: meet your quota or lose a hand. The enforcers, his soldiers, found it was easier to cut off hands than to get the people to produce more rubber, so there was a flood of cut-off hands that actually became currency!

Test your incentive system. Are these true or false?

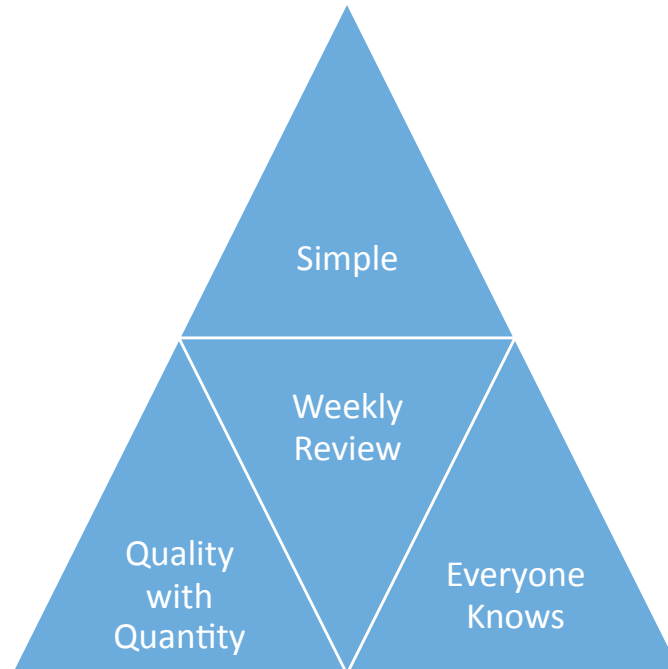
1. *I can ask any employee how their incentive pay is calculated, and they'll explain it right.*
2. *I have checked this assumption by asking some of my people about their incentive pay.*
3. *We measure quantity and quality with two separate measures; both figure in incentive pay.*
4. *Every week all employees see the numbers that drive their incentive pay.*
5. *Incentive payments are made at least quarterly.*
6. *There are no "give-backs" for incentive pay, except for cause.*
7. *We have identified groups whose collective work is rewarded by collective incentives.*
8. *Vital results track incentive payments: they rise or fall together.*

Your score: If you mark two or more false, your incentives are likely misdirected.

SPEED BUMP: Aim your incentives more carefully than you think necessary.

Incentive program basics (which few companies observe):

- **Simple:** Measure one or two drivers whose numbers are clear and available daily. Make the pay calculation so simple that everyone can figure their own results at any time if they want. Make the measures so fundamental that most folks will understand and support them.
- **Everyone knows theirs:** Individualize the performance numbers so that anyone can see how she's doing toward their incentive pay. Report results to everyone monthly.
- **Balance quantity and quality:** Measure quality alongside quantity targets. Make the quality measures simple and public, just like the quantity measures.
- **Review results weekly:** Team review of results is the lever of improvement.



SPEED BUMP: Design your incentive plan for your workers, not your accountant.

In one of the companies where I worked, we paid every employee incentive pay monthly, if we shipped all product due that month. The bonus amount was fixed, based on the estimated profit value of that month's orders, and every employee knew his potential bonus at the start of the month. This enabled us to harvest a staggering profit increase quickly. Quality problems or excessive overtime reduced potential incentive pay. Daily progress toward the monthly goal was posted throughout the company.

Part of the genius was that everyone got to "play." This system didn't exclude additional profit sharing for executives, but it focused the business in the moment instead of the future.

SPEED BUMP: Demand a powerful reason to build separate incentive pay for some groups (sales, executives); that's what profit sharing is for.

ACCELERANT: What is the biggest driver of successful results in your company?

For more information, visit www.grewco.com.

Jim Grew is an expert in CEO-level strategy and executive leadership whose clients refer to him as the Business Defogger and Accelerator. Jim helps leaders swiftly discover the hidden opportunities within their businesses and exploit them for dramatic results. Nearly three decades of success as a COO and CEO coupled with his experience running nine thriving businesses provide the foundation for his consulting work as president of the Grew Company. He presents regularly to industry groups, mentors business leaders, and shares insights on his blog, BizBursts.com: <http://bizbursts.com/>. He holds BA and MBA degrees from Stanford University.

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