



Creating a Profit-Focused Workplace: Affordable Payroll and a High Performing Organization

By Gail Snyder

ADI's performance measurement and incentive pay system gives organizations a more effective way to build in performance management systems that positively drive the behavior changes necessary for lasting business impact. This system helps clients meet long-term objectives by developing performance pay and appraisal systems that reward the best employees and motivate all performers to improve. The following article describes the system.

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– Gail Snyder

Dr. William B. Abernathy, performance improvement consultant and scholar, once arrived at a client's chain restaurant location only to find all of the employees on strike in front of the building. Sometimes management specialists have to do hours of research to get to the bottom of a client's problems, but this time the problem was written on a big yellow sign posted on the wall. The sign read, "Keep-Your-Job Contest!" This was the supervisor's way of incentivizing his employees, but instead he was incensing them. This situation and hundreds of others that Abernathy has encountered over the years inspired him to examine some of the ridiculous pay practices that American businesses doggedly adhere to—even recommend to others. His studies and experiences led him to the conclusion that many adversarial employee/management relationships are rooted in seriously flawed and antiquated wage and salary plans.

In his book, *The Sin of Wages*, Abernathy points out that society has become mired in an "entitlement culture" in which many individuals expect to be paid for simply showing up, regardless of their performance or that of the company. One might think his outlook is anti-employee, but just the opposite is the case. Abernathy knows that hard workers often pull the weight of slackers and are not usually justly rewarded for their extra efforts. As evidence, his Number One "Sin of Wages" is that "guaranteed wages and salaries artificially limit employee earnings and place jobs at risk during business downturns." He also empathizes with the political and personal battles that some employees just can't seem to win. Abernathy's concepts for pay-for-performance address the critical need for a profit-focused workplace and a pay structure that "quantifies and rewards employee results rather than management perceptions" of whom is doing what—perceptions that can be, and often are, skewed and unrealistic.



BUCKING THE SYSTEM

With more than three decades of experience designing performance measurement techniques with accompanying performance matrices for the entire organization, ADI's staff is expert in their approach. The measurement process includes all employees from senior managers to front-line workers. Once the senior team decides on the organizational results that bring profitability, every employee is measured on the results that they (or sometimes their teams) accomplish. "We attach an incentive plan to each matrix. Based on a person's score and the profit of the company, they receive a check each month," Abernathy explains. "There's a little skepticism from the workers in the beginning, but because this method pays—in fact, is often very lucrative—we've never had employees, even unionized employees, object." After the first incentive payout, the executive group, aided by the ADI team, reconvenes to analyze and, if necessary,

Offer someone the opportunity to rebuild a company or reinvent an industry as the primary incentive, and it will attract those drawn to the challenge first and the money second.

— Simon Sinek

adjust the measures and goals. At first glance, organizational leaders may view this as a lot of work. However, the ADI team works with each customer's IT and HR personnel to set up software for automatic data transmission,

and then, with the aid of a system administrator from the client organization, provides total system administration. "Once executives realize that they don't need a team of their people facilitating and managing this process they are convinced. They also very much like the third-party aspect of managing the pay-outs because it makes the data more credible to the workers," Abernathy explained. "We can help design a data interchange process that will

allow us to import most of the data from their own sources. Once in place it's not a huge effort on the part of the organization."

Based on positive behavioral strategies, the pay-for-performance method balances the components of performance measurement, performance incentive pay, Tactical Improvement Planning strategies, and performance feedback. Although some positions may lend themselves to piece-rate pay approaches, Abernathy points out that he hasn't utilized piece-rate pay in over a decade. Another plus, as Abernathy relates, is that because the system is based on company profit, it is self-correcting. "Let's say everybody persuaded their managers to measure easy results and goals and everyone reaches 100 percent each month. If the profit of the company doesn't increase, then they are getting 100 percent of nothing. In some pay strategies, one can

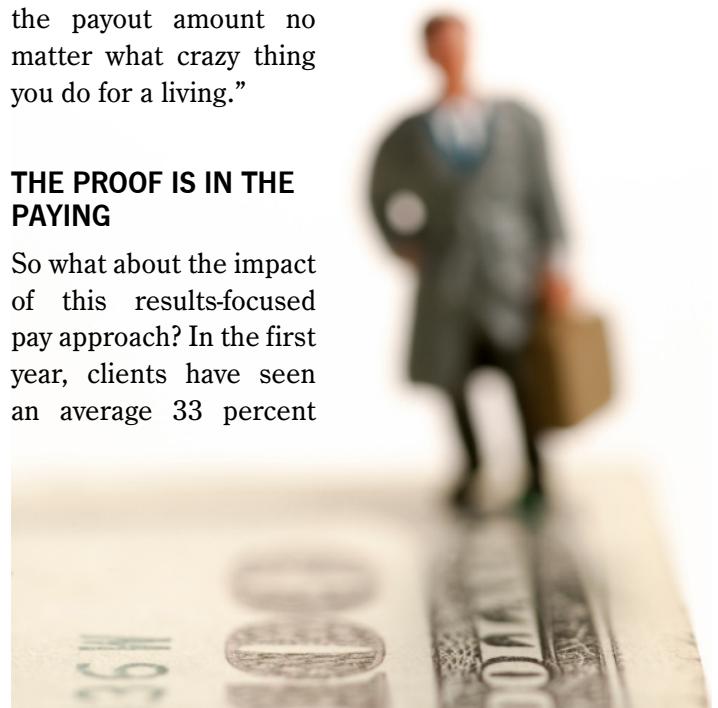
attain many performance improvements and receive checks, but those improvements aren't doing anything for the business," he said. "That can't happen with this approach because it's driven by the profit of the company and by doing the things that drive that profit."

This payment strategy has been successfully installed in financial, distribution, manufacturing, retail, healthcare, and not-for-profit facilities. Still, he often hears the argument that "We can't do that here because you don't know our industry." He counters that remark with a question of his own, "Do you have an accounting department?" When the prospective customer says yes,

Abernathy relates the following: "Every company has an accounting department, and you do not have to understand all of the nuts and bolts to set up an accounting system. In fact, general accounting systems by definition have to look the same everywhere. Plus, our matrix format is so flexible that we can calculate the payout amount no matter what crazy thing you do for a living."

THE PROOF IS IN THE PAYING

So what about the impact of this results-focused pay approach? In the first year, clients have seen an average 33 percent



performance improvement across seven performance categories including sales, expense control, productivity, cash flow, regulatory compliance, customer service, and developmental projects. At least half of the companies that use this pay-for-performance plan have eliminated annual performance reviews altogether. Abernathy is well aware of the restrictive pay scales that restrain managers from recognizing even their best employees with substantial pay increases. The annual review has thus become a nuisance, a demotivator, and the subject of scathing office jokes. In fact, the only way that employees can hope to make much more money at a typical company is through a promotion, possibly to a position that they neither want nor are particularly good at doing. “Companies need to stop the practice of taking their best workers and making them supervisors,” Abernathy contends. “That’s just a really stupid idea.”

Instead, he suggests the option of better pay for better work. It appears an excellent option for those who have taken the leap. Several companies have reduced base pay to zero. Some use results incentives as additions to a more traditional pay structure. Others raise the opportunities for incentive pay as opposed to doling out a predictably meager pay raise. For example, employees can either choose their \$500 base pay increase or take the option to earn up to \$1500 in incentive pay. This results in employees who are better paid than their peers in the market and executives and board members who don’t mind, because profits are rising. “In addition, turnover has gone down significantly in every case, so I think we’re onto something here,” Abernathy said. One might wonder why this something may be the best-kept secret around, despite its many documented successes. “Measuring people objectively and paying them for it

creates a rather significant culture change,” says Abernathy. Sadly enough, some executives and managers don’t want to give up the power that they possess via traditional pay structures and all of the politics that those structures imply.



“They may have to pay a bonus to someone they don’t like,” he said. Abernathy strongly believes, however, and evidence seems to prove, that people become bored and discontented when they can’t strive for higher levels of performance and/or when those efforts are rewarded at the same level despite the effort expended. Time and again, he has witnessed that people are willing to work harder and smarter and even put guaranteed pay at risk for the chance of being paid more for doing so. “It’s not that complicated to give somebody a check,” he states. “To give it to them for the right thing and in the right conditions, that’s difficult.”

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[About the Author]

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Gail Snyder is a staff writer for Aubrey Daniels International. For the past 27 years, she has worked with clients to share their stories of the impact the science of behavior has had on their people and their business. In addition, Gail was the editor of Performance Management Magazine from 1987 to 2004.

[About ADI]

Regardless of your industry or expertise, one thing remains constant: People power your business. Since 1978 Aubrey Daniels International (ADI) has been dedicated to accelerating the business and safety performance of companies worldwide by using positive, practical approaches grounded in the science of behavior and engineered to ensure long-term sustainability. ADI provides clients with the tools and methodologies to help move people toward positive, results-driven accomplishments. Our clients accelerate strategy execution while fostering employee engagement and positive accountability at all levels of their organization.

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