

# Work Measured Incentives

A discussion document produced by



## TABLE OF CONTENTS

<b>1.</b>	<b>INTRODUCTION .....</b>	<b>3</b>
<b>2.</b>	<b>BACKGROUND INFORMATION .....</b>	<b>4</b>
2.1	The Work Foundation Survey.....	4
2.2	Analysis .....	4
<b>3.</b>	<b>GOOD PRACTICE IN DESIGNING AN INCENTIVE SCHEME .....</b>	<b>5</b>
3.1	Why introduce a scheme? .....	5
3.2	Identifying objectives.....	6
3.3	Selecting participants .....	6
3.4	Choosing the performance measure.....	6
3.5	Scheme design .....	7
3.6	Administration .....	7
3.7	Installation strategies.....	7
<b>4.</b>	<b>WORK MEASURED INCENTIVE SCHEMES .....</b>	<b>8</b>
4.1	Definition and features of work measured schemes.....	8
4.1.1	Basis of work measured schemes.....	8
4.1.2	Pay/performance curves.....	8
4.1.3	Benefits of work measured schemes .....	11
4.1.4	Pitfalls .....	11
4.2	Alternative schemes.....	12
4.2.1	Measured daywork .....	12
4.2.2	Flexible hours schemes.....	13
<b>5.</b>	<b>CONCLUSION.....</b>	<b>14</b>

## 1. INTRODUCTION

In this paper, we have provided background information on incentive schemes generally and a good practice check list. We have gone on to discuss work measured schemes specifically and made some outline proposals for the type of work measured schemes that we consider to be most appropriate for direct operational work in warehouses.

Finally, we have considered how such a scheme should be installed.

## **2. BACKGROUND INFORMATION**

### **2.1 The Work Foundation Survey**

According to the best practice benchmark produced by The Work Foundation, 77% of organisations responding to their 2003 survey operate incentives schemes, with 38% of respondents reporting that their entire work force is covered.

Only 21% have no scheme at all.

The survey also shows that senior managers are the most likely group to be incentivised (36%) and manual employees are less likely at 21%.

Bonus plans can operate at individual, team, site or organisational levels. Bonus schemes have moved closer to the individual in recent years with a trend away from corporate and site schemes and towards team schemes. The arguments for this are that results achieved at team level are more tangible and visible than those achieved at corporate level.

The trends generally suggest a strong belief in the principal and effectiveness of financial incentives.

### **2.2 Analysis**

The growth of incentives is clear although only a minority of schemes are based on work measurement. The historical shift away from large scale manufacturing into service industries has reduced the opportunity for output focussed incentives. The nature of warehouse work however is that it has much more in common with manufacturing industry than with, say, call centres or retail shops. Productivity (output) is likely to be the most important measure of success and measuring warehouse work is relatively straight forward. It follows that there is an opportunity to successfully incentivise output for warehouse workers and that there should be great potential for improved productivity if incentives are installed properly.

The motivational power of financial incentives increases as the scheme moves closer to the individual. An individual incentive is many times more powerful a motivator than a team incentive and, provided the scheme meets the good practice guidance given in this document, it will be the most effective tool available for improving performance.

### 3. GOOD PRACTICE IN DESIGNING AN INCENTIVE SCHEME

The purpose of an incentive scheme is to encourage employees to improve their performance so that business goals and targets are met. The following good practice guidance in designing a scheme is applicable to all types of incentive scheme.

In designing an incentive scheme it is important to understand what will and will not work in a particular organisation. The following seven stages to designing a scheme should be considered in turn.

THE SEVEN STAGES	COMMENT
Why introduce a scheme?	There may be no need
↓	
Identify your objectives	What are you hoping to achieve?
↓	
Selecting the participants	Who do you need to incentivise?
↓	
Choosing the performance measure	Pick a measure that matches the scheme objectives
↓	
Scheme design	Consider the practical implications
↓	
Administration	Develop sound administration processes
↓	
Installation strategies	Develop negotiating and implementation strategies

#### 3.1 Why introduce a scheme?

The first question to consider is whether more pay will influence results. Performance is not simply a matter of motivation, it also depends on the ability of the employees concerned and their understanding of the tasks. Motivation, clarity and ability must all be in balance to maximise performance.

The impact of an incentive scheme on performance depends on both the scope within the business for improved performance (*headroom*) and the scope for employees to influence that performance (*leverage*).

Headroom and leverage put together will determine the potential and scale of improvement that can be achieved.

### **3.2 Identifying objectives**

A well designed scheme will be aligned with the primary corporate objectives. First of all these objectives must be clearly stated and agreed. But corporate goals are not always compatible, for example:-

1. Reduce unit costs
2. Improve customer service
3. Encourage team working
4. Improve individual performance

A scheme based on increased output might risk a reduction in accuracy. Changes in behaviour such as this must be anticipated and safeguards built in.

### **3.3 Selecting participants**

Ideally, only employees who can directly influence performance and whose influence can be measured and therefore recognised would be included. However this may result in key employees being excluded and therefore demotivated.

### **3.4 Choosing the performance measure**

Employees will only be motivated by a scheme if meeting the targets is within their control. For example, basing the bonus of one group of employees on the performance of another group can appear to be rational but may only result in bonus being paid with no appreciable result.

A scheme can have more than one factor and this can be a good device to reconcile conflicting goals or to discourage dysfunctional behaviour. However, more factors equal more complexity, which reduces clarity and therefore reduces the impact of the scheme.

### 3.5 Scheme design

The scheme will need a clear set of rules to operate by, covering as a minimum:-

- ❖ A definition of all terms used in the scheme
- ❖ A clear statement of how bonus will be calculated
- ❖ A clear statement of how bonus will be distributed
- ❖ The scheme will probably have both a floor and a ceiling which should be published in the rules
- ❖ The rules should clearly state when the bonus will be paid
- ❖ It should be clear what will be paid during holidays, absence and in periods without measured work
- ❖ It should be clear what will happen when employees are moved to unfamiliar jobs, how new starters will be paid and how bonus will be paid during training
- ❖ It should be clear in what circumstances the scheme can be varied or withdrawn
- ❖ It should be clear how any disputes will be settled

### 3.6 Administration

The scheme must be designed so that it is as straightforward as possible to administer. Processes should be designed and administration costs assessed and offset against the scheme benefits.

### 3.7 Installation strategies

An outline strategy for implementation should be drawn up at the design stage to test the feasibility of implementation and if necessary, to feed implementation problems back and potentially to adapt basic scheme design to make it easier to install. It may be prudent to plan to pilot a new scheme in one area before fully launching it.

## **4. WORK MEASURED INCENTIVE SCHEMES**

The good practice spelled out above is applicable to all schemes. This section deals with the specific features and impact of direct incentive schemes based on work measured standards.

### **4.1 Definition and features of work measured schemes**

#### **4.1.1 Basis of work measured schemes**

All the schemes described below have the following in common:-

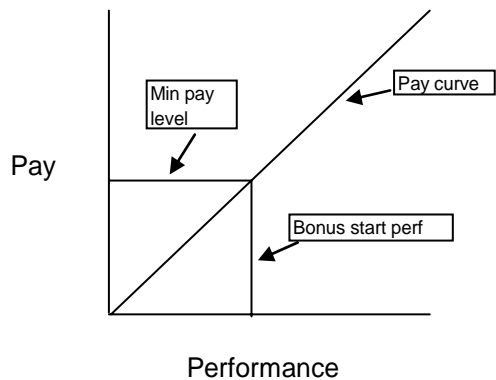
- ❖ They are based on measured performance where all jobs have been measured using recognised work measurement techniques to derive standard times for jobs
- ❖ Performance is calculated by dividing the total standard times for work done by the time taken to do the work. Typically standard times are loaded into the labour management system, which also records work done. Performance is calculated for each task by the labour management system and reported daily/weekly by individual and/or by group. Performance is expressed as a whole number, where standard performance equals 100.
- ❖ If standard times have been properly measured and maintained then a standard (100) performance represents the same effort regardless of which job it relates to or who performs it.
- ❖ A standard performance can be achieved by a skilled worker who is motivated to the task. It is recognisable as a brisk, businesslike performance.
- ❖ A work measured scheme pays a bonus which is directly related to the performance achieved.

#### **4.1.2 Pay/performance curves**

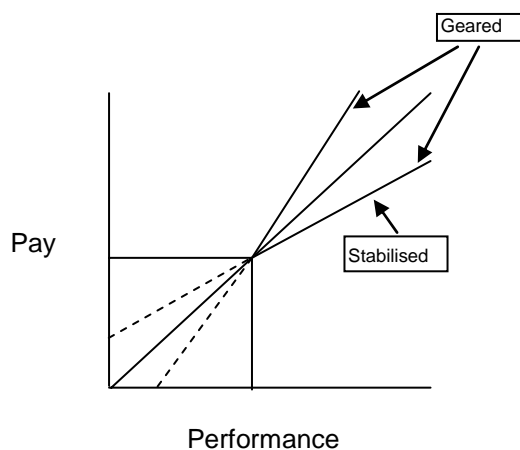
Once a performance has been calculated it is possible to apply a number of alternative pay/performance curves (calculations) to translate performance into bonus paid. At its simplest, a pay/performance curve would return no pay for no performance, would then increase pay in direct proportion to performance and would place no limit on earnings. In



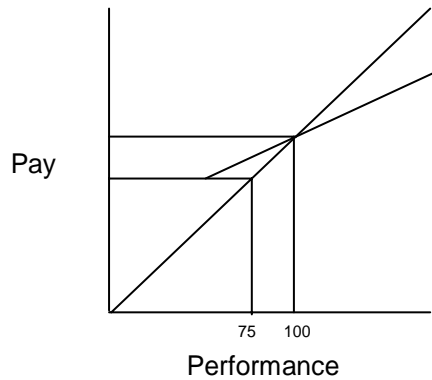
practice, all schemes will have a minimum level of pay, usually the established basic rate of pay for the job. The pay curve for this type of scheme is represented below.



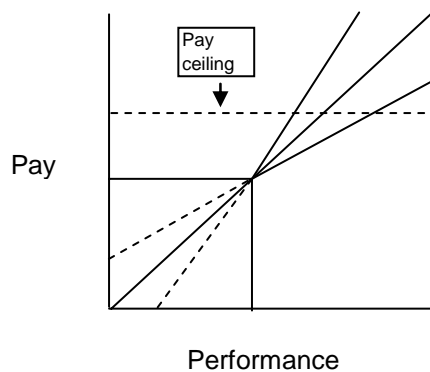
The pay curve can be modified by applying a gearing where the rate of change of pay is constant but no longer directly proportional to performance. These pay curves either accelerate the rate of bonus to increase motivation or decelerate it to protect from runaway earnings. Stabilised schemes are common where work measured values cannot be completely accurate and/or where the business wants to retain more of the benefit of increased performance.



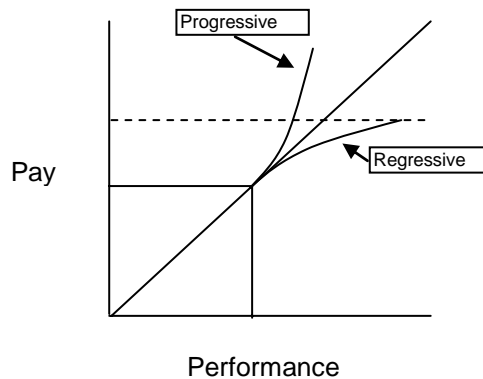
The point about which the pay curve pivots can be set above the minimum pay level which, for a stabilised scheme would elevate earnings below the pivot and suppress them above.



A pay ceiling can be added to further protect against runaway or windfall earnings. This will effectively cap performance but will insure against the damaging effect of employees, say, cutting corners to achieve high earnings.



The pay curve does not need to be a straight line. In a progressive scheme, the rate of change of earnings rises as performance increases, in a regressive scheme the rate of change falls. This has a similar effect to gearing the pay curve.



Applying the right pay curve is a matter of judgement and negotiation. It is important to conduct a risk analysis on the incentive scheme which may guide the business towards a prudent approach to the pay curve.

#### **4.1.3 Benefits of work measured schemes**

A properly constructed work measured scheme can transform performance. Average performance increases of 20% to 40% are routine where a scheme is applied for the first time. A scheme can also radically improve absence, as long as bonus is only paid for work done.

It can release supervisors from discipline and progress chasing duties to focus on managing the job. Highly motivated employees will manage their own work rate and will look to the supervisor to ensure a steady stream of work. Chasing staff out of the tea bar becomes a thing of the past.

#### **4.1.4 Pitfalls**

The principal area of risk lies in a failure to maintain the scheme with resultant loosening of targets and eroding of performance (but not pay). An incentive scheme will provide powerful motivation which, if the scheme is not designed and managed properly can lead to employees finding ways of cheating. Accuracy and quality can sometimes suffer. This is far from inevitable but it is prudent to allow for additional quality checking at least in the early days of a scheme.

A scheme will be most effective on jobs where employees work as individuals on repetitive tasks, like picking and truck driving. Team working is a much greater challenge in that

measurement and work recording can be less exact and motivation is reduced. Indirect areas such as stock keeping can be impossible to measure and therefore ideally will be excluded from the scheme. There is always pressure however, during negotiations to provide indirect staff with an opportunity to increase their earnings or simply to supplement their earnings for no increase in performance. If this is done it can undermine the entire scheme. The risk of excluding them is that they may be overtaken in their earnings with a resultant drop in morale.

It pays therefore to take a more complete view of the entire pay/terms and conditions deal and to restructure around the incentive scheme rather than seeing the scheme as an add on. In this way, changes can be designed in to overcome some of the pitfalls. The additional earnings possibility can also be used to ease in other changes not directly related to incentives.

## 4.2 Alternative schemes

There are alternative work measured schemes. All the alternatives move away from the directness of the basic scheme and therefore lose some of its power to motivate.

Schemes based on flexible working rather than additional pay can be both popular and effective but are unlikely to produce the significant impact on productivity that a work measured scheme can.

### 4.2.1 Measured daywork

This is a work measured scheme based on performance bands which typically could be structured as in this example:-

Band	Performance range
1	75 to 85
2	86 to 95
3	96 to 105
4	106 to 115

Employees elect to work within a band and are then guaranteed the appropriate pay provided they don't allow their performance to drop below the band minimum for more than, say two consecutive weeks.

In practice these schemes tend to very quickly get absorbed into basic pay and then lose their motivational effect.

#### **4.2.2 Flexible hours schemes**

There are a number of possible variations on flexible hours including job and finish and the more complex annualised hours.

It would be feasible to incorporate standard hours into a flexible hours scheme where standard hours accrued could be converted into time off or into extra pay at the employees choice. This would combine some of the features of flexible working with a financial incentive.

## 5. CONCLUSION

Incentive schemes offer a major opportunity to make a step change in the performance. Properly designed and sensitively installed, they can benefit employees and businesses alike.

Where a significant increase in productivity is the objective we would recommend that the first type of scheme to investigate should be an individual work measured incentive scheme.

In all cases we recommend very careful consideration of all the factors and an initial step of drawing up a six stage plan as follows:-

1. Meet with the management team to discuss incentives and agree on likely ways forward
2. Estimate costs and benefits of a scheme based on the alternatives agree at step one
3. Assess the risks involved and develop a risk management plan
4. Develop processes for administering the new scheme
5. Produce a complete proposal with costs, benefits and risks all addressed
6. Develop a timetable for negotiation and implementation of incentives and terms and conditions