

Ernst Enterprises Newsletter



INCENTIVE PAY PLANS WILL DRIVE PRODUCTIVITY ONLY IF THEY ARE PROPERLY ALIGNED

Incentive pay, i.e., bonuses, commission plans, do have the power to drive productivity to higher levels provided they 1.) are aligned and 2.) success in one department or group doesn't cause another group to fail to achieve their goals.

Consider The Following Example:

- The sales manager earns commission on gross sales, but the commission does not differentiate between products sold, raw material cost, manufacturing lead-time, or retained margin;
- The production manager earns his/her bonus for achieving the production schedule and keeping production costs as low as possible;
- The materials manager earns his/her bonus for keeping inventory levels as low as possible, reducing inventory write-offs for missing and obsolete materials, and minimizing production delays.

Unintended Consequences

Individually these goals are quite appropriate, but consider the unintended consequences. The sales manager can sell one of several products. However, the one that would have the **highest margin or reduce excess inventory** is often hardest to sell, so he/she sells what is easier. The production manager tends to overlook employees hoarding of hard-to-find parts so production schedules can be met, resulting in excessive inventory. The materials manager wants to keep

inventory as low as possible, but continues to order expensive parts and grows the inventory to meet production's demands. Later, write-offs are taken when the need for the final product is gone and many of the hoarded parts are returned to inventory.

While an incentive plan will drive behavior, it is important to know all the behaviors it will drive and if success in one department will cause failure in another.

Telltale signs of misaligned incentive plans:

- One department makes its incentive and the department that supplies or receives goods or services from the other is not making its incentive;
- There are complaints from employees that the bonus/incentive plan isn't fair;
- There are arguments that one department is preventing another from making its bonus;
- It seems all the parts of your business are not working together and only some departments appear to be succeeding and making their bonus.

No Guesswork

We have the experience and know-how to assess your incentive plans and help you align them to ensure the work being incented is the work you want done. We have the expertise to help you test your plans to reduce the risk of unintended consequences.

Call Dawn Bremer today at 847/456-6334 to schedule your appointment---the first step in assessing your Incentive Pay Plan.

To read more about this and other valuable topics, see some of our earlier [Newsletters](#). We invite you to follow us on our new blog, [Be a Better Manager](#).

What keeps entrepreneurs up at night? Take our newest [SURVEY](#) and see how you compare on our new graphical display.

How secure are your IT systems? Take our [systems security quiz](#) to learn more.

Sincerely,



Mark Ernst
Ernst Enterprises, LLC

 **Ernst Enterprises, LLC**