Reward and Motivation

- enabling effective and efficient professionals
disposition/contents

1. Background Goals
2. Types of reward/compensations (examples)
   - financial
   - non financial
3. Basis for pay (examples)
4. Financial vs. non financial and motivation
   - motivational factors/types
   - overview motivation vs. drivers
5. Summary/points for discussion

… on a side note

6. Star Search (example of a innovation and process improvement program developed and used at ABB/DHR)
GOALS (?!)

→ Enable recruitment of professionals
→ Enable retention of current professionals

→ Effectiveness (e.g. customer satisfaction - quality)
→ Efficiency (e.g. quantity or speed)

→ Any program needs to have the characteristics of:
  - Sustainability
  - Drive/Innovation
  - Scalability of “solutions”
  - Communicability of solutions (understand and trust)
reward and recognition systems - variants

→ **Variable Pay**
  - Pay-for-performance = "at risk"
  - Variable pay - performance of the company, the results of a business unit, an individual's accomplishments, or any combination of these
  - Balance (not to hard, not too easy)...
  - Bonus programs, stock options, and one-time awards for significant accomplishments etc

→ **Bonuses**
  - Usually reward individual accomplishment (e.g. tied to revenues, sales, profit)
  - But also group reward: reward contributions to corporate performance at group, departmental, or company-wide levels
  - no risk (as you get normal pay) but excellence is rewarded
  - Short-term vs. Long-term (central for small businesses!)
reward and recognition systems - variants

→ **Stock Options**
  - Like profit sharing plans, stock options usually reward employees for sticking around, serving as a long-term motivator
  - Progressive, simple, escalating etc…
    + long-term incentive builder
  - potential risk for both company and employee…
  - is sticking around enough to get it

→ **Bonuses**
  - Usually reward individual accomplishment (e.g. tied to revenues, sales, profit)
  - But also group reward: reward contributions to corporate performance at group, departmental, or company-wide levels
    - no risk (as you get normal pay) but excellence is rewarded
  - Short-term vs. Long-term (central for small businesses!)
    + directly show what is important for the company, motivator for achieving objectives
    - hard calculate if objectives are not quantitative and exact
reward and recognition systems - variants

→ Combination plans
  • Combine any or all (e.g. group reward with variable pay for individuals)
    + flexible
    + gives employees choice
    - hard explain/choose

→ (non financial) Opportunity for promotion
  • The ability to move up in an organization along one or more career paths
    + can attach collection of rewards to a promotion
    - promote to level of incompetence
    - small companies can't have a long (or wide ladder)

→ (non financial) Sense of Accomplishment
  • internal sense of satisfaction from successful performance
    + low cost
    - hard to achieve (combination of interesting tasks, peer-recognition, leadership)
reward and recognition systems - variants

→ (non financial) Opportunity for personal growth
  • Access to programs that allow for personal development (e.g., tuition reimbursement, leadership development seminars)
    + relatively low cost, flexible costs
    + competence increase good for the company
    - train people that leave

→ (non financial) Recognition
  • From peers, management/leaders
    + low cost
    - balance to avoid inflation

→ (non financial) Possibility to influence the job
  • (examples): define (parts) of your job, contribute with innovation (which you can drive), improvements/problems can be identified by the employee and solved by employees
basis for pay - variants

1. **Job-based pay**: assumes jobs can be standardized according to duties/responsibilities
   - The job is priced in the open market as a commodity
   - Performance differences between competent employees are assumed to be small
   - A “star” would reflect value inherent in the job role

2. **Skill or Competence-based Pay**
   - Assumes the individual is the source of value, rather than the job
   - Specific skill blocks and competences that an employee brings or develops is recognized with higher pay
   - A “star” would reflect a highly competent individual such as a top engineer or computer programmer
3. Seniority
   - Basis of pay is employee’s experience on the job or firm
   - Assumes more experienced employees are more competent
   - Seniority is valued in certain societies (Asian), occupational groups (unionized trades), and corporate cultures
   - Seniority is easier to measure (objectivity) and administer fairly, than most alternatives as a rule for pay allocation
   - Seniority influences many benefits: retirement plan vesting, allocations for vacation, sick leave, offices, parking spaces, and other privileges

4. Time or Output as a basis for pay
   - **Time based pay**: wage or salary
     - Time treats pay as a fixed cost
   - **Output/Performance based pay**: commission, piece rate, bonus, stock options, stock ownership, profit sharing
     - Output/performance treats pay as a variable cost.
     - Often a mix of time and output based pay. The key is to manage this pay mix so that it contributes to firm performance.
central issues

1. Employees must believe effective performance (or certain specified behavior) will lead to certain rewards. For example, attaining certain results will lead to a bonus or approval from others.

2. Employees must feel that the rewards offered are attractive. Some employees may desire promotions because they seek power, but others may want a fringe benefit, such as a pension, because they are older and want retirement security.

3. Employees must believe a certain level of individual effort will lead to achieving the corporation’s standards of performance.
how create a reward program

1. Identification of company or group goals that the reward program will support
2. Identification of the desired employee performance or behaviors that will reinforce the company's goals
3. Determination of key measurements of the performance or behavior, based on the individual or group's previous achievements
4. Determination of appropriate rewards (INVOLVE employees in this!)
5. Communication of program to employees

→ Use e.g. Goal Question Metric (GQM) for goals and measurement
Balance Intrinsic and Extrinsic

<table>
<thead>
<tr>
<th>Intrinsic</th>
<th>Motivation</th>
<th>Extrinsic</th>
</tr>
</thead>
<tbody>
<tr>
<td>When doing the job is inherently motivating</td>
<td></td>
<td>When rewards such as pay and formal recognition act as motivators</td>
</tr>
</tbody>
</table>
### Financial vs. Non-Financial Incentives

<table>
<thead>
<tr>
<th>Financial Incentives</th>
<th>Effectiveness, % of respondents answering ‘extremely’ or ‘very effective’</th>
<th>Frequent use, % of respondents answering ‘always’ or ‘most of the time’</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance-based cash bonuses</td>
<td>60</td>
<td>68</td>
</tr>
<tr>
<td>Increase in base pay</td>
<td>52</td>
<td>61</td>
</tr>
<tr>
<td>Stock or stock options</td>
<td>35</td>
<td>24</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Nonfinancial Incentives</th>
<th>Effectiveness, % of respondents answering ‘extremely’ or ‘very effective’</th>
<th>Frequent use, % of respondents answering ‘always’ or ‘most of the time’</th>
</tr>
</thead>
<tbody>
<tr>
<td>Praise and commendation from immediate manager</td>
<td>67</td>
<td>63</td>
</tr>
<tr>
<td>Attention from leaders</td>
<td>63</td>
<td>41</td>
</tr>
<tr>
<td>Opportunities to lead projects or task forces</td>
<td>62</td>
<td>54</td>
</tr>
</tbody>
</table>

Source: June 2009 McKinsey global survey of 1,047 executives, managers, and employees from a range of sectors
<table>
<thead>
<tr>
<th>Sources of Motivation</th>
<th>Motivational Driver</th>
<th>Reward System</th>
<th>Managerial System</th>
<th>Task System</th>
<th>Social System</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intrinsic Process</td>
<td>Enjoyment</td>
<td>Increases in pay and promotion</td>
<td>Merit Pay Commissions Incentive Pay Gainsharing Profit Sharing Bonuses Promotion</td>
<td></td>
<td>Laissez-faire leadership Job Rotation Social Activities Quality of Work Life Programs</td>
</tr>
<tr>
<td>Instrumental</td>
<td>Increase Pay and/or promotion is linked to high performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Self Concept: External</td>
<td>Increased status, recognition and external validation are associated with high performance (ERB)</td>
<td>Group acceptance Individual worth Group Status Group Influence</td>
<td>Promotion</td>
<td>Recognition Empowerment Positive Reinforcement</td>
<td>Job Enlargement</td>
</tr>
<tr>
<td>Self Concept: Internal</td>
<td>Skills, abilities and values are validated through high performance (ERB)</td>
<td>Achievement Validation of competencies</td>
<td>Empowerment Participation in problem solving Linking skills to mission</td>
<td></td>
<td>Peer Recognition Customer Recognition Team Building</td>
</tr>
<tr>
<td>Goal Identification</td>
<td>High performance (ERB) is essential in the accomplishment of important goals or benefits to others</td>
<td>Accomplishment</td>
<td></td>
<td></td>
<td>Vision creation Goal Setting Empowerment in mission development</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Alignment Activities Knowledge of Results</td>
</tr>
</tbody>
</table>
summary – thoughts (points for discussion)

→ Let the employee choose type of reward program (type of pay AND/OR type of reward program)
  - offers the value of choice and the possibility for employees to influence their lives without changing jobs

→ Combine group and individual programs

→ There is huge potential in shared responsibility and ownership of success

→ Non financial reward systems should not be underestimated

→ Combine long-term (larger) with short-term (smaller) motivational tools

→ Not a quick fix. A reward program needs to be well designed and executed!
  - start with goals of the organization (strategies to tactics) and how these should be measured, then
  - design a candidate reward/motivational strategy, then
  - pitch it to the employees and let them get a say in it, then
  - realize it step-wise, and
  - measure if reward/motivational strategy helps fulfill the goals (if not change)
Case example:

1. Low risk alternative
   - Fixed pay + smaller group based bonus (based on 3y revenues, paid after the fact)

2. Medium risk alt.
   - Variable pay (60-40)/personal commission + Options program (4y)

3. High risk alt.
   - Variable pay (50-50)/personal bonus + Options program (4y)

Point: design a number of standard “reward variants” which you then offer as alternatives to each employee (observe, e.g. alt 1 above runs for minimum 3y)
- this gives employees the possibility to change type of reward system they want + flexibility (e.g. young and single Adam takes alt 1, then gets kids 5y later and opts for alt. 1)...
...next… STAR SEARCH (bonus slides)

... examples of an employee innovation candidate program
  - elicit good ideas from employees
  - employees can influence things (as the program covers both products and processes)

  - developed and realized at ABB and DanaherMotion
background – product management

... new challenges

→ Clear majority of what is developed is reactive... (>97% was of product development was “what is needed now”)
→ Short-term vs. Long-term
→ Good ideas for new products or innovative features were often shelved due to lack of resources... (choosing paying customers over “maybe get paid”?)
→ Customer requirements have champions (and often business case)... while new ideas from internal sources...

→ ... so we started to investigate why this was.... and also how “innovation” was accomplished at present...

(Innovation = is a new way of doing something. It may refer to incremental and emergent, or radical and revolutionary, changes in thinking, products, processes, or organizations)
background – innovation

- Dedicated Research Department: cost, predicated on size, distance to market, only few people
- The Idea Database: “submit and never hear of it again”, “the black hole”
- Events for Idea Generation and Planning: on-demand innovation?, few representatives summarize all ideas?, once a year, twice?
- Under the Radar: politics, do the best ideas come from those who know how to work the system?

- good-ideas not always new technology
- new competitors starting where est. companies are today…
- huge resources demands
background – innovation

... so whatever we come up with...

→ Increase rate and quality of “innovation candidates”/ideas
→ Regular and large scale idea (innovation candidate) elicitation
→ Utilize ALL resources in a company… (who says that a support technician does not have a better idea than a R&D ace?)
→ Motivate people to contribute
→ Not a black hole that you dump ideas into and never get feedback
→ “Scream the loudest” to “Best idea wins”
→ Increase LONG-TERM innovative development over SHORT-TERM reactive development

→ Scalable, repeatable, and light-weight
background – innovation

... and our inspiration...

Elicit (catch) ideas
Screen ideas
Refine ideas
Develop ideas
Star Search

Step 1: Call for Innovation
Step 2: Audition (Audition Group: e.g. PM, Sales, Senior Architect)
Step 3: Preparation (Refinement and 2\textsuperscript{nd} screening) (e.g. PM, Sales, Senior Architect + Expert if needed)
Step 4: Decision (Comparison, packaging, planning) (PMs and others who decide what goes into the products)
Star Search

**Step 1: Call for Innovation**

**Step 2: Audition**
(Audition Group: e.g. PM, Sales, Senior Architect)

**Step 3: Preparation**
(Refinement and 2nd screening)
(e.g. PM, Sales, Senior Architect + Expert if needed)

**Step 4: Decision**
(Comparison, packaging, planning)
(PMs and others who decide what goes in)

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**Case Decision Group**

| Product Management | PPG |

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**Group (CPG)**

**Preparation 3**

**Audition Group (AG)**

**Call for Innovation 1**

**Audition 2**

**Value Case**

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**FUNNEL POINT**

Developers, Sales, Marketing, Manager, Support etc… CANDIDATES

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**Step 1: Call for Innovation (Completed)**

**Step 2: Audition (PMs)**

**Step 3: Preparation (Refined)**
(e.g. PM, Sales, Senior Architect + Expert if needed)

**Step 4: Decision (Packaged)**
(Comparison, packaging, planning)
(PMs and others who decide what goes in)

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**Item id 1544** Date 2007-08-01 Specifier Jan Ohlsson

Source | Status
---|---

Type | Products affected
---|---

Title

Description

**Why (benefit)**

Potential customer or market

How can this be sold

Estimated cost

Risk

Technical

Risk sales and infrastr.

---

PO/AG Notes

**CPG Notes**

**Link to BC**
Star Search

**Case Decision Group**

| Product Management | PPG |

**Decision**

**Group (CPG)**

**Preparation**

**Business Case (individual case)**

**Audition Group (AG)**

**Audition**

**Value Case**

- Developers, Sales, Marketing, Manager, Support etc… CANDIDATES

---

**Voice Command Steering**

This feature enables the warehouse worker to command the AGV using voice commands while picking items.

- Complements regular steering and guidance
- Make adjustments as you go
- Safety, stop the AGV by voice command

| Item id 1544 | Date 2007-08-01 | Specifier Jan Ohlsson |

**Voice Command Steering Table**

| IRRI (Internal Rate of Return) | 171% |
| Net Present Value (7% Discount Rate) | $2.63 million |
| Payback Period | 9 months |

<table>
<thead>
<tr>
<th>Startup</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>$300</td>
<td>$322</td>
<td>$335</td>
<td>$352</td>
</tr>
<tr>
<td>$45</td>
<td>$35</td>
<td>$35</td>
<td>$35</td>
</tr>
<tr>
<td>$495</td>
<td>$62</td>
<td>$62</td>
<td>$62</td>
</tr>
</tbody>
</table>

**TCO Benefits**

| Reduced Cost of Storage | $400 | $567 | $567 |
| Reduced Cost of Storage Administration | $100 | $167 | $167 |
| Reduced Cost of Storage Administration | $150 | $200 | $250 |
| Reduced Cost of Storage Transmission | $60 | $63 | $83 |
| Total TCO Benefits | $700 | $1,167 | $1,167 |

| Business Value of Availability | $60 | $63 | $63 |
| Business Value of Performance | $(30) | $(30) | $(30) |
| Business Value of Flexibility | $(300) | $(333) | $(333) |
| Business Value of Security | $(500) | $(50) | $(50) |
| Business Impact of Delay on Projects | $(200) | $(307) | $(307) |

**CPG Notes**

**Link to BC**
Star Search

**Case Decision Group**

- Product Management
- PPG

**Business Case (packages)**

**Group (CPG)**

- Decision
  - Preparation
    - Audition Group (AG)
      - Audition
        - Call for Innovation
          - Funnel Point
            - Developers, Sales, Marketing, Manager Support etc… CANDIDATES

**Voice Command Steering**

This feature enables the warehouse worker to command the AGV using voice commands while picking items.

- Complements regular steering and guidance
- Make adjustments as you go
- Safety, stop the AGV by voice command

**Value Case**

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feedback to candidate</td>
<td>Decision</td>
<td>Preparation</td>
<td>Business Case (individual case)</td>
</tr>
<tr>
<td>Call for Innovation</td>
<td>Audition</td>
<td>Audition Group (AG)</td>
<td>Value Case</td>
</tr>
</tbody>
</table>

**Business Case (individual case)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Startup</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Net Present Value (7% Discount Rate) Payback Period</td>
<td>$2,631 million</td>
<td>9 months</td>
<td>171%</td>
</tr>
<tr>
<td>1 of Hardware &amp; Software Maintenance</td>
<td></td>
<td>$160</td>
<td>$160</td>
<td>$160</td>
</tr>
<tr>
<td>Reduction in Operating Costs</td>
<td>$455</td>
<td>$455</td>
<td>$455</td>
<td>$455</td>
</tr>
<tr>
<td>Implementation Services</td>
<td>$95</td>
<td>$95</td>
<td>$95</td>
<td>$95</td>
</tr>
<tr>
<td>Net Project Cost</td>
<td>$620</td>
<td>$620</td>
<td>$620</td>
<td>$620</td>
</tr>
<tr>
<td>2</td>
<td>Reduced Cost of Storage</td>
<td>$400</td>
<td>$400</td>
<td>$400</td>
</tr>
<tr>
<td>Reduced Cost of Storage Transmission</td>
<td></td>
<td>$150</td>
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<td>$150</td>
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<tr>
<td>Total TCO Benefits</td>
<td></td>
<td>$650</td>
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<tr>
<td>3</td>
<td>Business Value of Availability</td>
<td>$50</td>
<td>$50</td>
<td>$50</td>
</tr>
<tr>
<td>Business Value of Performance</td>
<td>($30)</td>
<td>($30)</td>
<td>($30)</td>
<td>($30)</td>
</tr>
<tr>
<td>Business Value of Flexibility</td>
<td>$200</td>
<td>$200</td>
<td>$200</td>
<td>$200</td>
</tr>
<tr>
<td>Business Value of Security</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Business Impact of Delay on Projects</td>
<td>($200)</td>
<td>($200)</td>
<td>($200)</td>
<td>($200)</td>
</tr>
<tr>
<td>Total Business Benefits</td>
<td>$220</td>
<td>$220</td>
<td>$220</td>
<td>$220</td>
</tr>
</tbody>
</table>
Star Search – innovation value analysis

- **value of tech**
  - **inntrinsic value**
    - Proprietary position (degree of protection)
    - Level of Tech (comp to existing)
    - Life of Tech (income gen. duration)
    - Degree of standardization (interoperability)

- **application value**
  - **inntrinsic value**
    - Type of Tech (prod, process, comp)
    - Contribution Ratio (wrt total income flow)
    - Scope of application (how many potential market seg.)
    - Degree of completeness (readiness for commercialization)

- innovation
Star Search – innovation value analysis
Star Search

Key points

1. Call for Innovation
   - angle calls, regular calls, support matr.

2. Audition
   - help not critique (how can we sell this?)
   - balanced group with executive power

3. Preparation
   - same people as audition group (sold on idea)
   - create a as compelling BC as possible

4. Decision
   - champion ideas
   - package and compare to “normal” requirements
Decision (Step 4)
Plan for new product line GREEN LINE AGVs

Ask AG to create new call C

B
Look up relevant features already planned that are in line with GREEN LINE AGVs

Preparation (Step 3)
BUSINESS CASE + HOW TO SELL (environmentally friendly while lowering costs)

creation of detailed business case
refinement of the idea "how to sell it"

Battery Loading Optimization Software (longer battery life) (less power consumption)

Audition (Step 2)
refinement of value case during audition

Battery Loading Optimization Software (longer battery life) (less power consumption)

original
Battery Loading Optimization Software (less power stop)
Star Search – key lessons learnt

→ The mix of the AG and CPG enables refinement if ideas…
→ However, be careful as attack is the initial mode…

→ Champions
→ Screening and developing the idea creates champions that push the idea through

→ It is OK to say “sorry but…”
→ Experience show that rejection does not discourage [if constructive feedback is given as a rule!]

→ All (unlikely) candidates take a step forward
→ The best ideas come from unlikely sources that many times do not have a voice

→ Allocate resources
→ Success in an audition should not imply extra workload

→ Reward system
→ There has to be some soft of reward system (however… peer-recognition should not be underestimated)
Star Search – key lessons learnt

RESULTS

(Based on data from 2 companies)

- One company ended up with about 25% of the “in-the-pipe” planned development originating from Star Search.

- One company reports that about on average 1 submitted idea per 10 employees per year → out of these 25% underwent pre-study → out of these 20% ultimately made it to market after development (i.e. 5% made it to market) in full competition with customer/market requirements.

- A theme (angled call) in line with the company’s product strategy significantly increased the success rate.

- One company reports 30 to 60 minutes of audition time (initial screening and refinement, step 2).

- It takes about 100 person hours to create set-up Star Search in an organization.
Star Search – future work / challenges

→ …well what’s the problem…
  - Improve hit rate of triage/screening
  - Robust techniques/models for:
    - Estimation
    - Value/ROI
    - Legacy impact Analysis (technical, business, market, architectural)
Star Search


(download from) www.gorschek.com