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Feature: Gifts That Gall

## Gifts That Gall

The reward program that your company thought was so fabulous could instead turn out to be a swamp of ill will, malice, sabotage, fraud and even litigation. Here's why reward programs fall flat on their faces, and what companies can do to ensure that their efforts will reap better performance, not productivity-killing backlash.

By Eve Tahmincioglu

**S**cott Testa, chief operating officer of Mindbridge Software, was proud of the employee incentive program he put together 18 months ago to light a fire under his sales force and inspire them to reach new sales heights. The prize: a long weekend at any destination the high-yielding salespeople wanted, with a cap of \$3,000 for airfare and lodging.

"How could this go wrong?" Testa recalls thinking to himself when he announced the reward program to the 15-member sales staff at the Norristown, Pennsylvania, software firm. "We're a fast-growing company, and we're always looking for good incentives to keep our people motivated."



Scott Testa learned that prizes don't always produce intended results.

Unfortunately, the reward plan that couldn't lose did just the opposite of motivating his employees. It actually ended up demoralizing them. Testa realized he had set the bar for winning the trip too high. Even though the average salesperson brought in \$200,000 a month, Testa formulated a reward criterion that was more than double the average take. Salespeople would have to bring in more than \$500,000 a month for a whole year to qualify

for the lavish trip.

Testa admits that he came up with the sales figure "by the seat of my pants," without any input from staff or his managers. "It just became obvious that the goal was not going to be met. I'd hear snide comments under people's breath in the halls and in meetings, and finally a sales manager confided in me that the sales numbers were way too high," he says. The program was dismantled within the first quarter of its introduction and eventually became an ongoing joke among the sales staff.

Employee reward programs have long been touted as a great way to motivate staff, but companies are increasingly finding that they walk a tightrope in creating the right incentive plan. And given a still sluggish economy, it's more critical than ever that the billions doled out each year for such programs be spent wisely as companies escalate their efforts to reward performance while keeping a lid on salary increases, says Ravin Jesuthasan, co-leader of the rewards and performance-management practice for Towers Perrin.

"So many reward systems are ill thought out" says Hellen Davis, president and CEO of

Indaba Inc., a management consulting and training firm in Malvern, Pennsylvania. Such failures are not just a nuisance but also could make workers angry and lead to a loss in productivity and sales. She offers the example of a Fortune 500 insurance firm in California that rewarded some of its top salespeople with tickets to a Christmas pageant at a local cathedral. The only problem was that about a third of the firm's sales force was Jewish.

"The employees were upset and couldn't believe they would give them a gift like that," Davis says. "What was supposed to be a reward became a disaster for the company." The workers ended up boycotting the firm for six months by bringing in only the minimum amount of sales on the insurance and investment products they sold. They wanted a formal apology from the CEO, but the executive was hoping the matter would just blow over." Although the CEO finally relented, she says, it cost the firm nearly \$750,000 in sales over that period and ultimately reached a loss of \$1.5 million because many of the top producers left the firm as a result.

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For a smaller company with under 100 employees, Davis estimates that the cost of a reward program gone bad could be as much as \$200,000, including the cost of retraining workers and a loss in productivity, not to mention the intangible impact on employee morale. (And that's above and beyond the cost of a typical recognition program, about 2 percent of total payroll for most companies, according to World At Work, a nonprofit human resources and benefits association in Scottsdale, Arizona.)

Jesuthasan has seen a move away from lavish rewards in recent years. More firms, he says, are eliminating programs such as car giveaways and \$1,000 bonuses for the employee of the month, and offering lunch with the CEO instead. Mindbridge Software's Testa says one of the firm's most successful motivators is the company-wide half-day outings that occur whenever a milestone revenue target is achieved. "Morale is really good after those events," he says. "It allows people that wouldn't associate in the office to talk and get to know each other."

There are several factors that pose problems for companies trying to craft award programs. The tight labor market has many workers just biding their time for better economic days and the chance at a new job. Also, a more diverse U.S. workforce presents challenges for company leaders who have to focus on revamping long-standing reward traditions and non-monetary prizes to accommodate different ethnicities and religions. Christmas hams, for example, might not go over well with Muslim and Jewish workers, says Bob Nelson, president of Nelson Motivation Inc., in San Diego.

And in a time of layoffs and outsourcing, recognition and reward programs in general might not be the best remedies for motivating the rank and file. Management experts say that such programs could look like empty attempts to appease workers and end up backfiring. "We know that people have become disengaged," says Curt Coffman, global practice leader at the Gallup Organization. "They are psychologically resigning but still staying on the job. I call them road warriors. They're retired but still on active duty." A poll he conducted in the fourth quarter of last year found that 55 percent of workers were "not engaged," basically not committed to their jobs and doing the minimum amount of work. Another 17 percent were "actively disengaged." Not only were they unhappy with their jobs, but they also were acting out that unhappiness every day. Only 28 percent were deemed "engaged," and much of the innovation and drive for efficiency was coming from this group, he says.

How do you get the disengaged to join the ranks of the engaged? Not outsourcing everyone's job seems to be helping Milliken & Co., a textile firm with 13,000 employees headquartered in Spartanburg, South Carolina. While the economy and outsourcing abroad have hurt the textile industry in recent years, Craig Long, vice president of quality for the firm, says his company is committed to producing domestically sold goods in the United States.

Management experts often point to Milliken as a prime example of employee motivation even though the company doesn't focus on monetary rewards.

In 2003, the firm received an average of 115 ideas per employee, and of those 90 percent were implemented. The workers were not given mugs or trips as an incentive to come up with ways to increase productivity or sales. The reward was that their ideas would be implemented. And one of the keys, Long adds, is that managers promise to let workers know within 72 hours whether their ideas will be used.

Dean Schroeder, the Herbert and Agnes Scholes Schultz professor at the College of Business Administration at Valparaiso University, has researched Milliken's idea system. Though Milliken officials don't disclose company ideas that it has implemented, Schroeder, who is also co-author of *Ideas Are Free*, says that one example is an idea that came from a dock worker. The employee, who was almost run down by a truck driver backing up a ramp to unload materials, suggested escape ladders be put in loading areas.

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But even the best employee motivators make mistakes. Milliken offers employees at its 57 plants, mainly in the Southeast, the chance to win a parking space every month if they meet certain productivity or sales goals. On one occasion a lab technician at the company's headquarters refused to park in the space right outside the main entrance. "We went and talked to the lady," Long recalls, "and she said, 'You picked the space where you wanted to park. I work on the other side of the complex and would have to walk a quarter mile to get to my office.' "

"It was one of those lessons learned," Long adds.

And forget about reward mainstays, Coffman advises. "We find that the recognition rewards like salesperson of the year, manager of the year, while they feel good at the time, are not effective. They become a whose-turn-is-it-next program with little clarity. What goes into this award? What is excellence?" Most incentive plans today, he says, do not clearly answer these questions. Another big problem, Coffman says, is that awards tend to be impersonal and happen far from the actual employee action, sometimes a year after the fact. Basically, he says, the recognition should come about every seven days, whether it's an "attaboy" or "I noticed how you handled that customer."

The best reward occurs in real time between two people, Coffman says. That means companies have to take a hands-on approach when crafting reward plans. It's not necessary to pay out upwards of half a million dollars a year to an outside employee-recognition firm to figure out what works best internally, he says. It might be easier and less expensive than you think. Coffman admits he's even learned from his own mistakes. One of his top performers at Gallup

was very focused and was often on the phone with his office door closed. Coffman would write notes of appreciation and slide them under his door. But on one occasion, the employee came flying out of his office saying, "Don't you have the courage to open the door and do it to my face?"

### **Don't underestimate the personal touch**

A top producer at an insurance company who was repeatedly named salesperson of the year and received an endless array of trophies and plaques finally stopped coming to the reward ceremony. One wise manager took note of his absence, Coffman says, and asked, "What's important to this individual?" The manager realized that the man's wife and three daughters were the focus of his life and the next year gave the salesman a portrait of his family. The worker was overjoyed at the gesture.

But even the best-thought-out reward plans can fail, for no apparent reason. In 2002, Cheryl Creuzot, managing partner of a Nationwide/Provident agency in Houston, found her branch in the midst of a "horrible" economic downturn. She decided to offer a one-year lease on a BMW to encourage her employees to increase production. "Houston was hit hard, and it was like a virus sort of spread through our office. There was nothing you could do to get our people out of it," she says. She spent about \$1,500 promoting the reward program, giving every worker a metal model of a BMW to display on his or her desk. And she got feedback from her employees on how high to set the annual sales targets, which varied according to experience.

"Nobody won," says Creuzot, still surprised at how things transpired. "I don't know what happened. It could have been that the contest dragged on too long and people lost momentum. Maybe it was because we didn't have a bell cow that year, a leader in production to pull the rest of them ahead."

One big motivator for her staff has been a corporation-wide recognition program that Nationwide/Provident has conducted for many years that combines rewards with education and career development. Every year, the insurer's staff is eligible for a chance to attend a leadership conference, which is held at a resort, if they hit certain annual sales levels. The prize is tiered, offering higher performers more days and more amenities at the resort. But employees are expected to attend motivational, technical and developmental meetings each day starting at 8 a.m. and socials in the evening where they can network with other Nationwide/Provident sales staff. This past February the event took place at a resort in Cancún.

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"I think the conference drives my employees," Creuzot says.

There might be something to rewarding workers with career-enhancing opportunities, beyond the sun and fun. In a recent Towers Perrin survey called "Rewards & Performance Management Challenges: Linking People and Results," 60 percent of the highest-performing companies reported that they reward their best workers with training and development opportunities. There's nothing wrong with rewarding individuals for performance, but beware of creating "stars," cautions Wendy Greenfield, president and founder of WM Greenfield Associates, a consulting and training firm with a focus on workplace ethics. This works directly against a company's effort to foster a team mentality, she notes.

"It's not going to be the superstar that gets you through the tough times," says Leslie Fishbein,

president of Kacey Fine Furniture, a six-store furniture chain in Denver. Her company focuses on rewarding not just an individual but a group and doesn't engage in handing out lavish trips or cars. This past February, the company implemented a program in which every department and every category of the company is supposed to come up with ideas to generate sales. The winning team gets a chance to execute the idea within a 90-day period and increase the value of the company. Since the company offers profit sharing, Fishbein says, there is a potential for a monetary reward down the line.

There are still those firms that find success in more traditional, seemingly outdated reward systems. Mark Metz, chief executive officer of Atlanta-based Optimus Solutions, is more than happy with his Porsche Incentive Program, which gives any salesperson with over \$1.1 million in profit margins annually a one-year lease on a Porsche 911. On average, 10 to 15 percent of his 70-member sales team win a lease each year. He estimates that the program costs him about \$100,000 each year for a return on investment of \$400,000 to \$500,000. "It's been excellent from a sales perspective," he says, and has helped with retention and recruiting.

However, he admits that there has been some dissension among other workers at Optimus, a technology solutions provider, which employs 300 workers. The program is open only to sales staff. "We have had some people say that they wanted the opportunity to drive a Porsche," he says. "But we explained to them that if the salespeople are real successful, the rising tide lifts all boats."

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