



RECOGNIZE EMPLOYEE'S WORK AND RECHARGE THEIR DESIRE TO SUCCEED

Whitepaper written by:

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A LOOK AT BONUS REWARDS IN THE DISTRIBUTION CENTER

WHY REWARD\$?

Rewards programs are not just for frequent flyers and good little boys and girls anymore. Today's workforce demands recognition and added rewards for performance above minimum expectations. Our society and the workplace are now part of the culture of immediate gratification and material rewards.

Mildred Ramsey has conducted workshops and spoken to many professional managers in the United States during the last thirty years about fundamental motivation and leadership in the workplace. Ms. Ramsey's expertise was developed as an hourly textile mill worker for over 40 years. She is quick to point out that the expectations of the workforce have changed in the decades since her career began. The era of the career employee and the life-long employer ended many years ago. According to Ms. Ramsey, "what people want most is what they didn't have when they were 10." The basic necessities of life have never been a concern for most of today's American workforce, beginning with the well documented Baby-Boomer generation. What most of us craved in our childhood was acceptance and recognition or as Ms. Ramsey says "to be appreciated". Many of us worked diligently to achieve that recognition and the praise that come with it.

A generation fostered and reared by those of us who fit the Boomer mold now dominates the workforce. This generation - "X", "Y", "Z", or whatever - has taken the concept of recognition, and many other things, to a different level. Boomers have rewarded everything from good report cards to soccer goals to gymnastics stunts with significant, tangible rewards. One of the most asked questions during

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the childhood of today's workers was, "What are you gonna give me if I do?" Boomers have responded in great ways with great giveaways and financial rewards. My children are paid to mow the lawn, wash the car, clean the bathroom, bathe the dog, etc. The same children have received bicycles, phones, and electronics at the conclusion of a successful school year. The reasons for this approach to parenting are best left for other reports from those with knowledge of sociology, psychiatry, and psychology. For our purposes the important point is that we recognize that for most of their lifetime today's workforce has received something extra every time they performed above the accepted minimum. So, as young adults, they continue to ask, "What are you gonna give me if I do?"

Some of your workers are not American and did not come of age with the comparably plush standard of living enjoyed in the United States. The power of rewards, particularly financial rewards, may however be even greater with these workers. The reasons for the motivation and the expected timing of the rewards may differ, but, those who are striving to improve their standard of living will respond to increased earnings potential with great fervor. The love of family and the desire to provide for loved ones who may be thousands of miles away are often very visible and evident among workers from other countries. That motivation, when respected and understood, may be the deepest form of inspiration found in the civilized world. The rewards for these individuals were meaningful enough for them to leave their home country and many of their family and friends to search for a more rewarding life and provide a more meaningful life for others. These workers may not ask, "What are you gonna give me if I do?", but if you give them an opportunity to be rewarded, they will reward you with extra effort.

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WHICH REWARDS?

Rewards and recognition come in many different types, sizes, shapes, and packages. Ken Blanchard and Sheldon Bowles, in their book *Gung Ho!*, remind us that any form of recognition or reward must be TRUE – that is Timely, Responsive, Unconditional, and Enthusiastic. Johnson Stephens Consulting strongly encourages anyone in a leadership role and management position to read *Gung Ho!*. This principle must be applied to all rewards and all rewards programs. Rewards of monetary value require the exact application of the TRUE principle. Financial compensation as a bonus reward heightens the need to be most accurate in measures and evaluation, most timely in feedback and payout, and certainly significant in value if the rewards are to succeed in motivating the workforce. Legal issues can arise from inaccuracies or inequitable measures. Effectiveness is quickly diminished if the feedback or the reward is not timely. Certainly, a positive opportunity can become a negative impression if the reward is insignificant compared to the effort. Rewards are meant to be mutually beneficial for the worker and the distribution center operator. A “cheap” approach to rewards will be perceived as a slight of hand by distribution center workers. Let’s look at some types of rewards.

The easiest form of reward to offer is simple **praise or verbal recognition**. The beauty of praise is the cost is zero dollars. The limit of praise is often determined by the effectiveness of the manager sharing the praise. Praise will influence improvements in work ethic and performance. Most managers have used praise to influence the workforce to reach normal or accepted levels of performance. Praise will not achieve optimum levels of performance due to the lack of real value as a reward.

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Other **visual recognition** can add substance to the reward and provide added motivation for worker's with a craving for recognition. These rewards can include:

- Honor Board / Wall of Fame
- Plaque
- Hats or Shirts
- Meals
- Parking spaces

These rewards are desirable for the "achievers" in the workforce – those who want to be recognized for doing more than others. The motivation provided by these rewards evolves from friendly competition among peers. Beyond the "achievers" these rewards can be easily written off as insignificant and meaningless.

Barter rewards can be used to involve those who do not respond to visual recognition. These rewards are offered when policies, procedures, or management decisions prohibit the payment of cash based bonus rewards. The cash value basis of these rewards can be easily determined by the worker, however, these rewards are not transferable or tradable as cash based rewards would be. Reward possibilities in this category include:

- Additional paid vacation
- Early dismissal with full pay
- Merchandise reward program
- Travel reward program

The most powerful bonus reward is **cash compensation**. Periodic payment of cash (paycheck) bonus based on fair, equitable, and accurate measures provides the most possible motivation for the workforce. "What are you gonna give me?" effectively works in both interests with this type of bonus reward. Workers are able to increase their earnings based on performance over and above the expectation of the employer. The employer pays additional wages in exchange for exceptional

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performance. Employers are saying, "Give me productivity above expectations and you will receive wages above expectations." The present workforce expects to gain from extra effort – as they have been conditioned to expect since early childhood.

HOW TO IMPLEMENT CASH BONUS REWARDS?

MEASURES

Fair and accurate measures must be established prior to the execution of cash bonus rewards. Those measures should be established through an Industrial Engineering process resulting in **engineered productivity standards**. Engineered standards provide equitable measures for all direct labor type jobs in the distribution center. Workers then have the same opportunity to perform and achieve at reward level in every job. Engineered standards also account for the ease or difficulty of certain shipments, orders, or batches of work by incorporating multiple volume indicators into each measure of performance. For example, instead of units and units per hour, engineered standards incorporate units, cartons, orders, and other volume indicators to account for variances in complexity. While engineered standards are also recommended for non-cash financial rewards, non-cash compensation does not typically involve the legal issues of payroll taxes, labor contracts, and employment law associated with cash bonus compensation.

STRUCTURE

Once the measures have been developed, the **structure of the bonus rewards** must be established. Structure is the method by which the bonus is calculated. Bonus reward, or incentive compensation, plans can be structured to fit the needs, goals, and environment of the employer. **Goals** may include:

- Improve productivity

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- Compete in labor market
- Enhance morale
- Increase throughput
- Retain workforce

The primary goal of the employer will influence the structure or basis of the bonus reward calculation.

The environment influences the goals of the employer and the decisions regarding structure of the bonus reward. Environment considerations include local unemployment rates, training costs, turnover rate, and the position of the employer in the local labor market. Each of the environment considerations directly affects the profitability of the employer. Therefore, the impact of the structure on the employment environment must be evaluated.

THE TEAM

Easily recognized in this discussion is the importance of different functional areas of management in the bonus reward structure development. On this page we have mentioned the need to involve Industrial Engineering, Human Resources, Payroll, and Operations Management. Added to the team could be Finance, Tax, Legal, and Corporate. The development time for the structure must allow time for a group meeting, individual research, another group meeting, additional follow up, and a final structure design meeting. Members of the team should be decided in advance of the beginning of the process and roles should be clearly defined at the first meeting.

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PROCEDURES

Following design of the bonus reward structure, the procedures for calculating, communicating, and paying the bonus reward can be defined. The team will determine:

- Frequency of reward (weekly is best)
- Method of payment (separate check?)
- Frequency of notification
- Medium of notification
- Impact of training / learning curve
- Inter-department communications
- Additional measures (attendance, quality, etc.) or disqualifiers
- Disciplinary policy

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CASH BONUS REWARD\$ STRUCTURES

STRUCTURE	ADVANTAGES	DISADVANTAGES
<p>ONE TO ONE BONUS Earned Performance % is rewarded for all productivity above 100% (i.e. a worker with 110% productivity is paid a bonus of 10% of weekly earnings while performing measured work).</p>	<ul style="list-style-type: none"> • Easy to understand • Simple calculation • 30% to 50% payroll expense savings • No ceiling on bonus earnings • Largest individual bonus reward payments 	<ul style="list-style-type: none"> • Lowest number of bonus reward earners • Lower rate performers can view bonus reward level as not achievable
<p>INCREMENTAL WAGE BONUS Earned Performance % is rewarded for all productivity above minimum expectation. The bonus reward is a cents per hour value which increases at prescribed productivity thresholds (i.e. an 85% producer may receive \$.10 / hour while a 90% producer receives \$.15 / hour).</p>	<ul style="list-style-type: none"> • Highest number of bonus reward earners • 20% to 30% payroll expense savings • Enhances employer's position in labor market 	<ul style="list-style-type: none"> • Increases average wage for moderate level (85% to 100% of expectation) performers • Arbitrary bonus calculation • Least reward for highest level performers • Bonus begins at minimum performance expectation • Includes ceiling for bonus rewards
<p>GAINSHARE BONUS Calculated as a One to One Bonus, the worker receives 1/2 of the % above 100%. Normally the measure of productivity is also established at a gainshare level – that is the 100% level is adjusted to be halfway (@90%) between the minimum (@80%) and the engineered 100% expectation.</p>	<ul style="list-style-type: none"> • Can be best designed to increase wages and improve employer's position in labor market • Best compromise for an inclusive yet meaningful plan • Moderates bonus paid and productivity improvement required to achieve bonus reward level 	<ul style="list-style-type: none"> • Lowest productivity improvement (15% to 25%) • Minimum expectation is normally lower • Expectation for 100% is set at lower rate (@90%) • Can be perceived as "cheap" – employer keeps part of the bonus

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PROMOTION

Disregarding which type and structure of bonus rewards you choose, the impact of promotion upon the success of your Bonus Rewards plan should not be overlooked. Make time to advertise the upcoming opportunity and have a party to celebrate the potential. Generate a positive message and people will respond with performance.

Contact us at info@hy-tek.com or call us at 678.842.9114, if you want to learn more about bonus REWARD\$.