The Psychology of Incentives with Richelle Taylor

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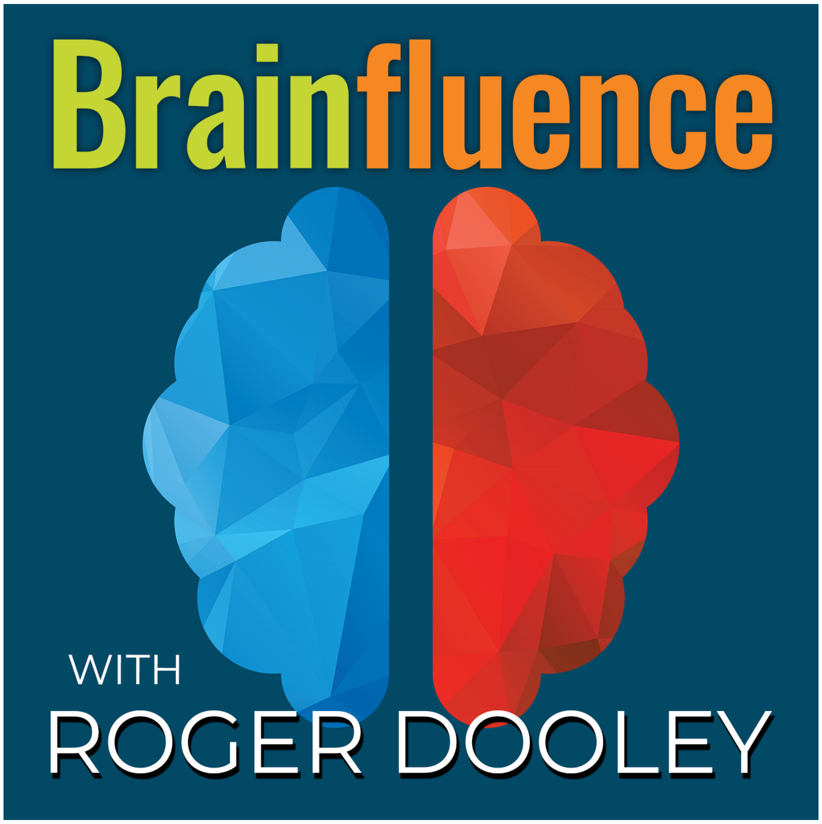

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Roger Dooley

The Brainfluence Podcast with Roger Dooley

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Welcome to Brainfluence, where author and international keynote speaker Roger Dooley has weekly conversations with thought leaders and world class experts. Every episode shows you how to improve your business with advice based on science or data.

Roger's new book, *Friction,* is published by McGraw Hill and is now available at Amazon, Barnes & Noble, and bookstores everywhere. Dr Robert Cialdini described the book as, "Blinding insight," and Nobel winner Dr. Richard Claimer said, "Reading Friction will arm any manager with a mental can of WD40."

To learn more, go to RogerDooley.com/Friction, or just visit the book seller of your choice.

Now, here's Roger.

Roger Dooley: Welcome to Brainfluence, I'm Roger Dooley. I met this week's guest when we were co-panelists at a virtual event focused on the psychology of incentives. As we spoke, I realized that she could bring a lot of value to this often misunderstood topic. Richelle Taylor is an expert in performance improvement and marketing services. Richelle currently wears multiple hats at One10 Marketing, where she leads its incentives and recognition business segment, that includes both global rewards as well as technology development for the company's performance improvement platform. Welcome to the show, Richelle.

Richelle Taylor: Thank you so much, Roger. It's nice to be back.

Roger Dooley: Richelle, I'm going to start by embarrassing myself with a little story from my own ancient history. Years ago, I was involved in direct marketing business and this was just as e-commerce was coming into play, and so most of our order taking was via telephone. We had an inside sales group, but it was actually sort of a customer service group because they were multi-function. They had to say, answer customer questions, whether they were technical or about their order, they had to take orders, help sometimes the customer select a product, and so on. Small group, but maybe a dozen people at most. And we could definitely see that some people were more successful at selling stuff than others. When we total up their sales at the end of the week, there were usually some that had substantially more. And so we said, "Okay. Well, we will try an incentive plan every now and then. We would have say a sales contest that would last a period of days or a week or something, and then reward the top performer who do something on that order."

And we had one person that always won and we were really impressed by this, because even when there was no incentive, she was always the top order taker, and nobody was ever able to dethrone her. And we really considered her our best salesperson. In fact, we talked about, "Gee, if only we could clone..." We call her Sally. "If only we could clone Sally, well, we could sell more stuff." And then we implemented a new phone and computer system that both provided a wealth of new data for us. And what we found there when we started crunching a bunch of other numbers... I'm kind of a numbers guy, quantitative guy. So, I started looking at other metrics. I looked at things like revenue per minute and orders per minute, and how much revenue was gained from each phone call, and so on.

And this was an inbound group, I'd say they were not doing any outbound calling at all. And what I found was really shocking to me. Yes, this one person, Sally did have the best numbers in the group by far, but the way she achieved that was by taking way more phone calls than anybody else. She was very good at getting customers off the line. If they were asking questions, she would answer them very curtly or try and transfer them to tech support, or maybe even another rep who might have a better answer. If they were placing a small order, she would tend to get them off the line as quickly as possible. And when we saw this, as we start looking at the additional numbers and discovered that if an average rep from the other group and not Sally had taken her calls, we would have achieved $10,000 or $20,000 more in sales per month from just that change.

So, she was actually costing us a massive amount of money, even though she appeared to be an order-getting machine. And this had really opened our eyes. We tried to get her to change her behavior, spend more time with the customers, answer those questions. I helped her make the selection so that she could get a number somewhat in line with the other folks, and didn't really work. We ended up having to terminate her, which was very strange for us because six months earlier, she was our best person, suddenly realized that this best person was costing us money.

And so, I think we made a few mistakes in our very limited attempted incentive program. First of all, we established totally the wrong metric, which was sales in a given time period. And secondly, we used it in a way that only one person was going to win because it was almost a foregone conclusion. We always hope that somebody would rise to the challenge, but it never happened. So, do you see any other problems with that incentive plan?

Richelle Taylor: Yeah, that's a really common scenario and a pretty interesting story actually. So, I like to put this under the category of unintended consequences, when you will find that many companies truly believe they're doing the right thing. They believe they're establishing the metrics that they want, but sometimes they don't think through all of the unintended consequences. So, I have also a similar experience where a company was very interested in trying to push out a new product and they felt it was so important. They sold through a channel distribution model, and they felt it was so important to ensure the training and the understanding of this new product that they put lots of money in marketing into this effort. And what ultimately resulted was they did get the new product sales to the level that they had hoped to achieve, but in doing that, they lost their bread and butter products, which were really the mainstay of their portfolio.

And that was just something that had never occurred to them. So, it sounds like in your example, and perhaps in my example, the common theme there is that you really need to be mindful when you set forth to roll out an incentive. What are the behaviors that you hope to achieve? And think about what are some possible unintended consequences? Because a lot of times, we do see either incenting the wrong behavior or if you're incenting the right behavior, but perhaps making the rules so complicated that it really just disengages people mentally, either, I see things with minimum thresholds is very common and that's not necessarily bad motivational theory. What I dislike more is maximum caps because you're really telling a salesperson that, "There's a ceiling by which we're not going to pay you anymore." And for a really A-type personality, that's very demotivating.

Roger Dooley: Yeah. I want to get back to complexity in a little bit, Richelle, but I think that you give a good example of where you incent a certain product and say, "Okay. We're selling all we want of A and B. We're doing fine those areas, but product C just isn't doing what we expected for it. And so we will give our salespeople an incentive to sell product C," without really thinking through that. First of all, it may cannibalize sales from A and B. It may cannibalize their efforts from doing other things that would be more profitable for the company, and it may actually not be recognizing what the real problem is. Maybe the customers don't want product C and that's why it's not selling well, not because the salespeople simply aren't giving enough attention.

So, yeah. But again, you focused on behaviors, contrast ways of incentivizing behaviors versus outcomes, because in my initial example, we incentivize an outcome sales, and obviously, what a business is interested in is outcome. We don't necessarily want people to spend more time in activity X. We want better results from that activity, but it seems like there's sort of a trade-off there. Isn't there?

Richelle Taylor: There is a trade-off. And I think the programs that really work well are the ones that have multiple aspects to their incentive. And what I mean by that is they're acknowledging or rewarding for various touchpoints along the sales cycle. So, instead of just solely thinking about the sales lift and the incremental volume, which is very important, you also might need to think about the precursor steps. So, for instance, I see a lot of companies that reward based on new appointments that are set, and then secondly, maybe it is how many live demos you do, or getting in front of the customer that might be steps on the way to an ultimate goal seem to make a lot of good sense because you're continuing to keep the engagement levels high of the participants, and you're giving them quick real-time attainable metrics. If you have to wait six months or 12 months sometimes for learning whether or not you're a winner of an incentive, that might drag out a little bit longer. So, we always like to see programs that layer, maybe that longer-term component with some short just-in-time sorts of activities as well.

Roger Dooley: It makes a lot of sense. I recall an ex-business partner of mine who had been a sales manager in a previous life. And one of his favorite lines was if you have salespeople that aren't selling enough, what you need to do is get them to engage in sales-related activity that often, they were going down various rabbit holes of researching potential customers and other things. And by simply directing them, as you said, towards some very specific activities, how many calls did you make this morning? How many outbound calls? How many presentations did you make and so on? By measuring those things. Now clearly, those don't guarantee that the outcomes you want will happen, but chances are, if those activities aren't happening, you still aren't going to get the outcomes. And that additional focus really worked for him in almost every case he's had.

Richelle Taylor: Mm-hmm (affirmative). That makes sense. The behaviors are the ones that ultimately lead to the end goal. And whether it is a sales sort of incentive, or even if we're just talking about more of a engagement type program that perhaps is coming from an HR type of stakeholder, they're very interested in keeping their communication strong with their stakeholders. They want to make sure that everybody feels a part of the program.

And what we've talked a lot about, especially the last year during 2020 is don't just focus on the top performers, but also look at how do you move the middle because there's always a bell curve in life, whether you're an Olympic athlete or whether you're a student in school. And typically, the top 10% is where you see the strong performers, the top talent, but you've got all these other folks within your workforce that are capable of helping you attain your goal. And so, we always try to say the more that you can engage and include others within your organization, that 70% right there in the middle, how do you get them from good to great should be part of your goals as well.

Roger Dooley: Yeah, I totally agree with that because I have seen and been part of programs. For years, I was in a reselling-type business, so we would have incentives for manufacturers that were based on sales or unit sales or product line sales or other things. And in some cases, we basically did nothing with them because we looked at it and said, "Okay, we are not one of the top tier vendors in this space where we're going to be able to move what it's going to take to win one of those key prize."

And there might've been some great prizes, trips to Hawaii or something, but right out of the gate, we knew that who was going to win those, or at least either which company or which small group of companies were really in the running for it. And it wasn't us, so we just completely ignored the program, when in fact, as you point out, Richelle, had these been a little bit more democratic in nature, they still could have given those top performers a nice award, but done something to us moving along, even though we knew we weren't going to win the top prize.

Richelle Taylor: Yeah. The concept that we talk about a lot in our organization is that it just takes one engaged stakeholder or one salesperson, or one company partner to help you move or row in the right direction. And the power when you have everybody moving in the same direction is really exponential. And so, we like to talk about that with clients, because oftentimes they're focused on a very small fraction of people that can help them achieve those goals. And we know statistics show... I think inside of Research Federation was the study I saw recently where 80-some percent of companies are using some form of incentive reward or recognition tactics in order to achieve their business goals.

But we did a study as a company. This was 2019, and we found that only 40% of our respondents said that they felt their company was doing a good job of aligning the overall company vision and mission with the goals or the behaviors that were being reinforced. So, if there's a disconnect, oftentimes people don't get the vision from the top-down. So, it's always good as well if these programs are implemented and supported from the C-level all the way down to incorporate what your overall company mission is, and then break that out by level. How does that apply to a middle manager? How does that apply to a frontline worker? And help them understand how their day-to-day job helps contribute to the overall good of the company.

Roger Dooley: We've been focusing a lot on sales incentives of various kinds. What other kinds are there for people, employees, partners outside of the sort of sales and marketing channel, where you can say, "Okay, we're selling more stuff, so we've got winners?"

Richelle Taylor: Sure. Really, we at the heart as human beings just want to be recognized and recognition programs are very popular as well. So, what does that mean? They take on many different shapes and sizes, but think about just a program where, in a discretionary way, your manager can thank you. It could be monetary or non-monetary, lots of people use gift cards or some other medium. But just a way to recognize a job well done, that at the end of the day is what keeps employees loyal. It keeps them engaged. It lets them feel that their work is appreciated. And I think that that even more so than the money aspect is what keeps people interested in their culture, in their corporate culture.

And so, we have found that our clients have come to us and said, "Listen, we don't have a program in place that is just an engagement program. We need to find a way because we have multiple regions, multiple divisions that we can communicate in a consistent manner, make sure that the managers of these different regions or departments or divisions are all doing the same thing in alignment." Because when you have one group that's really great at communication and training and recognition, and you have another group that maybe is a little weak in that area, that's not good for the people working in the other area. So, from an HR perspective, we have a lot of people coming to us asking about total rewards programs. That's the concept that you get your salary, you get your variable comp, you get your bonus, and then there's all the in-kind benefits, and part of that could be just soft recognition.

Roger Dooley: What does a good recognition program look like? I'm thinking like, employee of the month is usually kind of a joke as it sort of rotates between people, and other recognition programs just recognize length of service. I've got a couple of those things, engraved mug someplace. I think we've got wine corks in it. And these to me, really don't add much motivation or anything else. Okay, it's nice. But what kind of recognition program really seems to work at increasing engagement? Because we know we've got an employee engagement crisis in the US and presumably, in other countries as well today where people just don't feel like they are committed to the company and its mission, and particularly, coming out of the pandemic, we are hearing about a resignation boom that may have already begun that people are saying, "Okay, well now, things are opening up, now is the time to make a move." So, talk about what kind of programs seem to be effective at increasing engagement?

Richelle Taylor: Yeah, that's a great question. I agree with you. The days of the crystal bowls and the lapel pins aren't necessarily making folks stay at a company for 20 years. So, while service anniversaries and acknowledging a milestone are still very important, I think that the shift over the last 10 years has been to allow people the power of choice. And so, we often see clients moving towards a model where they recognize folks by points, a point system, which is maybe non-monetary, but within that, what they can do is they can award them for discretionary behavior. Maybe you stayed late working on a proposal one evening and your manager sent you a note and said, "Hey, thanks for that. We really appreciate you. And here's 500 points." We also say that in the service anniversary example, you can give points as well for milestones and tenure, but allow people to aggregate those with all the other programs that may be a part of your total rewards philosophy.

And then peer-to-peer, there's really... One of the most popular requests that we get is just for an acknowledgment or a capability where we have a platform that we offer our clients, but the ability for two peers to thank one another. We believe in drinking our own Kool-Aid, and so we have on our company intranet site. It's the homepage, everybody logs into in the morning where you can see a live feed of everyone who has either had an anniversary, had a birthday, people are thanking each other. It has a very social aspect to it which replicates maybe Facebook or something like that. So, people are familiar with that in their personal lives, and we're finding that the B2B sector is moving more in that direction.

You'll see companies, including ours that have components of their technology which replicate game mechanics or gamification. And that's because the lines are becoming so blurred now in between our personal lives and our business lives, that people know how to use those technologies. They feel excited when they receive a gameplay or a spin to win something. And so, those are the programs that we're seeing kind of take over, if you will, and replace maybe the old traditional programs where you would get an ornament during the holidays or a fancy pen or something like that. We're turning the power of choice over to the people receiving the award because what motivates me might not be the same as what motivates you.

Roger Dooley: Yeah. I agree with that, Richelle, of the awards that I've gotten, and I've been an entrepreneur for decades, but for a period of time after one of my companies was acquired by a big company, I was an employee and I had grandfathered in the years that I'd spent between that time that company was founded when it was acquired. So, I ended up getting a few service awards there, even though I wasn't there for quite as long, but the one that I actually still use happens to be a watch that I was able to select because it met my particular criteria for something that I would use, as opposed to the crystal bowls or goblets or whatever. So, I agree that that makes a lot of sense.

You mentioned spin to win, and I think that's kind of an interesting concept in incentives. We're seeing that now with incentives to get vaccinated, where instead of saying, "Okay, we are going to give each person some kind of incentive to get vaccinated." We're saying, "We will give five people a million dollars," or things like that, or "A chance to win that million dollars." How do you see that playing out at the more practical business level, giving people a sure thing versus a chance, random chance and a much bigger thing?

Richelle Taylor: Yeah. It does really do a great job in increasing participation. We see it used in that a lot. So, the concept of, "Do this behavior or come to this website and register, and receive a chance to win." That is very good value relative to the effort, and that's an important factor in incentive design, as you want to make sure that you're not giving too small of a reward if the effort is high, but in this case, to go on and register for a website is relatively easy. So, the chance to win something is well worth it. And we see it used in that application as well as just ongoing communication.

So, if you've launched your program or maybe you've launched a product, and you did a really strong job in the beginning of informing everyone about the importance, time passes and we have so much information overload that it's a good way or technique to six months later, nine months later, remind people about something that they might have learned months ago and forgot about. So, behavior reinforcement using gamification is very effective, and we still have that dopamine receptor in our brain where we like the positive feeling and the excitement that goes along with, "Ooh, is that going to be me? Am I going to be the winner?" So, that's still kind of a compelling value proposition.

Roger Dooley: I suppose too, you can make it variable based on some kind of performance outcome behaviors where those people who do the behavior more or have the better outcome get more chances to win. So, it can really work both ways and keep everybody in the game, but maybe disproportionately reward those who are doing more or doing better.

Richelle Taylor: Absolutely. There's lots of ways that you can use those sorts of techniques.

Roger Dooley: Are there downsides to incentive programs? I'm thinking for one, could they become addictive where you simply, once you start, you can't stop where as soon as you stop them, people become demotivated. Now, we've talked about that with car buying incentives, which for a while, offering rebates was a big thing. It definitely increased showroom traffic, it increased sales, but boy, as soon as you withdrew those rebates, sales died. How does that play out at the human level?

Richelle Taylor: Yes, it definitely is a risk. And I would say a little bit more so when your reward is cash-like or cash in nature, because what tends to happen in business is that employers typically will either hand somebody a prepaid visa card, or perhaps it just gets lumped into their overall payroll. And they forget what did I do to begin with in order to earn that? So, it's really important for companies and our clients to continue to make that connection psychologically with the reason the person was rewarded along with receiving the actual reward, because to your watch example, every time you down at that watch, you remember the company that gave it to you. I guarantee that would not be the case if that was in your paycheck 10 years ago. You wouldn't remember what you got or why, which anniversary was it?

So, keeping the psychological connection instills the loyalty in the individual. And then there's the bragging rights. Because it's kind of cool to say, "I work for a company that allowed me to get a big-screen TV or my kid a bicycle," or whatever those things are. And when we tend to use word of mouth to believe one another, to trust one another, for employee references, and so when you are an advocate for your organization, that's very powerful for the sponsor company. So, I would say keeping the connection is important, and there certainly is a place for cash rewards and variable compensation. I'm not suggesting that, but you want to use it in the right situations.

Roger Dooley: Right. I think you described probably the worst way in some ways to give people a reward. And that is simply lump it in with the rest of their compensation, whereas check is bit bigger this month, or maybe it's even a lot bigger, but that goes into the account, pretty soon, it's gone one way or the other, and they lose that tie. I think it also brings up the point of intrinsic versus extrinsic rewards. There's a ton of research showing that if people get paid for doing something that they enjoy doing, that they were doing anyway, then they are less motivated to do that afterwards. It seems like it's more of a job than something that they enjoyed.

And I think that obviously, we all work at jobs because we're getting paid and a few of us would keep a job if weren't also getting compensated for doing that job. But in many cases, we also enjoy the work that we're doing. We put forth extra effort without being compensated for that extra effort. We go the extra mile and suddenly if it seems like we're getting paid for going that extra mile in cash terms, we start saying, "Well, okay, I earned this amount of money for that extra effort. It doesn't seem like it's that good of a value, maybe next month, I won't put out that extra effort." So, that to me is a danger.

Richelle Taylor: It is a danger. It reminds me of my kids with their chores. So, nobody wants to take out the trash now that I've paid them to do that. But the recognition component is important here because some of those activities, maybe you're not worthy tangible reward or cash, but a simple recognition, because to your point, we do like to do well many aspects of our work, and sometimes just simply want to be thanked for it or noticed for it. And so, a lot of us, especially the type-A personalities are intrinsically motivated, we would do that whether you asked us to or not, but it certainly goes a long way to have that attaboy part on the back. So, I think it's important to distinguish which behaviors are worth recognizing non-monetarily versus which are reward-worthy, if you will.

Roger Dooley: Yeah, I think from a recognition standpoint, one thing that that company did pretty well in my opinion was they had an awards program modeled someone after the Oscars where people get nominated in a whole variety of categories, and these could be customer service people, they could be developers and coders, they could be managers, salespeople. It really permeated every part of the organization. And there were also team awards, and then at some point during the year, there would be a huge blowout event, usually in a different city than the company was headquartered in. So, basically, everybody had to travel to get there. They brought people in from around the country who might've been in remote offices, sometimes even from around the world and from some of the global locations. And this was really a very costly thing to do. You can imagine putting on a giant party that lasted a couple of days in a remote city, and it incorporated some training, some communication stuff, but the key point of the event was the awards ceremony where the winners were announced.

And at the time, I had mixed feelings about this because this clearly costs hundreds of thousands of dollars to put on. And at times, I could not get say a $10,000 project approved because it wasn't in the budget, and this really drove me up the wall saying that, "What I'm doing is... This is going to impact the business and it's going to cost nothing." And instead, we're having this giant party. But what I can say is in defense of that, putting on my other hat in defense of that, this was really appreciated by the people who were involved, particularly the lower-level employees, not necessarily the top salesperson who's always already getting recognition, not the executives who were at the top of the food chain already, but that person who was toiling away at a desk next to a bunch of other desks all year, suddenly, they were up there on the stage, generally dressed in some kind of fancy attire and getting recognized by the entire company.

Their picture was on the big screen and there was music playing. So to me, this was... And you could see the emotional impact it had on people, not necessarily in everybody, but on some people in particular. This was like a highlight of the year, maybe even of the decade for them, because it was the first time they had been recognized. And so, I think that this really can have a deep emotional impact on people and keep them engaged and moving along. And also, as you pointed out earlier, when you recognize people, when you acknowledge their effort, that is a big step toward making them feel engaged with the company and increasing their loyalty to the company.

Richelle Taylor: And I do agree with you, those in-person experiences just really are memorable for people. And that is something our company does as well, whether it's a sales meeting or whether it's a group travel incentive, there is no doubt about it. The memories you create, just the unscripted nature of it... For somebody who may not get to interact with their senior vice president, or even the CEO, to be in this remote location and just rubbing elbows with the senior management or having dinner is very, very special and very memorable.

And while 2020 really, kind of put a pause on that, unfortunately, we are seeing a pent-up demand for companies that really want to get their people together again. They kind of crave it. And so, it's an important element as well, I would say of any reward and recognition strategy, whether you choose to do that in a sales meeting format, a product launch format, or as a group travel reward, just think of a president's club to Hawaii with your spouse. Those are all very memorable moments and someone couldn't replicate that on their own, and that's kind of the point. Your company is doing this for you, creating this once-in-a-lifetime experience.

Roger Dooley: I'll mention one other misfire and I want to get your final comments, any surprises you've had, or any disaster stories or success stories from incentives. But one weird misfire was years ago, my company won a trip to the Super Bowl for one person. It was part of a big effort by a large distributor, and they brought in, I don't know, a couple of dozen people from all over the country, their top customers. This was theoretically a contest, which we have been randomly chosen, but I suspect there wasn't a whole lot of randomness in it. Those are the bigger customers, but regardless it was really a great experience, a lot of fun, got to meet peers, got to meet executives from the company, even executives from senior management in Japan where one manufacturer was located and so on. All great stuff.

Two years later, I got called into the IRS because for unreported income, apparently, they had issued a 1099 for the value of that award, and had failed to tell me about that. So, it get reported. It was still great experience, but getting flagged by the IRS was kind of spoiled it a little bit. So, any surprises or final stories that you have, Richelle?

Richelle Taylor: Well, that's a very real situation, and we would always recommend to our clients that they talk to a tax advisor. Some of these programs have different laws to be honest, and they're ever-evolving. So, a service anniversary award, for example, is not subject to tax, but an incentive award such as you're describing is. So, that was just obviously a mistake on the part of whoever was doing the rewarding, but those are things not to forget. And that's why I would say if you're embarking on either for the first time beginning to think about a reward and recognition program or an incentive program, certainly do your homework. And I would always say contact a third party who can help guide you through that process because I never want someone to feel that it was a failed experiment. But also, I don't want people to be put off by some of these things we're describing, because we're laying out all of the pitfalls or all of the possible considerations that one might need to think about, but it's also very easy to get started.

You don't have to boil the ocean. You don't have to think about every single contingent within your organization. Sometimes it's just putting one foot in front of the other and getting started. And I would say that once you do from there, your strategy can grow, kind of two sides of the coin there. Certainly, there's many considerations, but also don't let that be so overwhelming that you have analysis paralysis.

Roger Dooley: Right. I think that is good advice for just about every part of life and business. Don't get paralyzed, just begin acting even in a small way and see where it takes you and improve as you go. So, Richelle, how can people connect with you?

Richelle Taylor: Our website has a contact-us form, and we are one10marketing.com, www.one10marketing.com. We are also on LinkedIn, Instagram, and Facebook, but happy to always chat with people that are interested in learning more, how their company can get started, and we work with all industries and all company sizes.

Roger Dooley: Right. Well, we will link to all of those places in the show notes page at rogerdooley.com/podcast, where we'll have audio, text, and video versions of this conversation. Richelle, thanks so much for being on the show.

Richelle Taylor: Thank you for having me. Nice chatting.

Thank you for tuning into this episode of Brainfluence. To find more episodes like this one, and to access all of Roger's online writing and resources, the best starting point is RogerDooley.com.

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And remember, Roger's new book, *Friction*, is now available at Amazon, Barnes and Noble, and book sellers everywhere. Bestselling author Dan Pink calls it, "An important read," and Wharton Professor Dr. Joana Berger said, "You'll understand Friction's power and how to harness it."

For more information or for links to Amazon and other sellers, go to RogerDooley.com/Friction.