Incentive pay plans gain in popularity with LCOs

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As the labor market continues to tighten, many LCOs are turning to incentive pay programs. Instead of relying on straight hourly pay, overtime, and discretionary bonuses these operators are linking pay to objective measures of individual and group performance.

Of course, the employer's goal is to retain and reward his or her staff while also tieing employees' compensation more directly to performance.

There are generally six different ways that LCOs pay employees:

Production bonus. These firms recognize, first and foremost, that the work must get done. Therefore, those with production responsibility are rewarded for it. Production standards are set and usually a percentage of individual billing is paid. Some firms pay the percentage weekly, some pay it monthly so that this portion of the incentive program is done shortly after the work it rewards. Some firms limit the amount of personal production to better control service quality.

Individual sales. Whether it is done during the course of production or as an off-season activity, separate incentives are paid for individual sales. This allows as many people as possible to be engaged in marketing. Front-line employees are closest to the customer, so why not pay them for expanding the customer base? Usually this is done by paying the employee a flat fee for a new customer, or a percentage of first-season sales.

Referral bonus. The best source of new business is an existing customer, most LCOs feel. A customer's satisfaction with your service and their confidence in your company often leads that customer to refer new customers to you.

It follows that the service provider that generates new customers this way must be providing a high quality of service. This is great for customer retention, so rewarding the employee responsible for a referral is actually rewarding the employee for retention too.

Responsibility. People with supervisory responsibility should be rewarded for it. In some cases, the level of reward is a reflection of the performance of the employees they supervise.

In this scenario, the supervisor isn't simply being paid a high salary for "being responsible." Indeed, the supervisor's compensation can rise and fall, to some extent, depending on his or her group's productivity. While such an incentive program may not have a major effect on the manager's overall pay, it does get his or her attention.

Length of service. Many firms build in some extra compensation based on length of continuous service. This recognizes the value of a long-term employee, and the employer's desire to keep turnover at a minimum. Usually, businesses offering a length-of-term incentive do so in the form of a flat increase in base pay on the anniversary date of the employee's hire.

Cost of living. Some operators include an annual cost of living increase in their compensation program, particularly for salaried employees. Usually this is based on the average increase in the Consumer Price Index. In recent years this has averaged about 2 percent annually. These companies find a cost-of-living adjustment to be a fair way to increase the pay of employees that aren't eligible for incentive programs.

What is interesting about these options is that four of the six are related to the employee performance, and its impact on the business. □