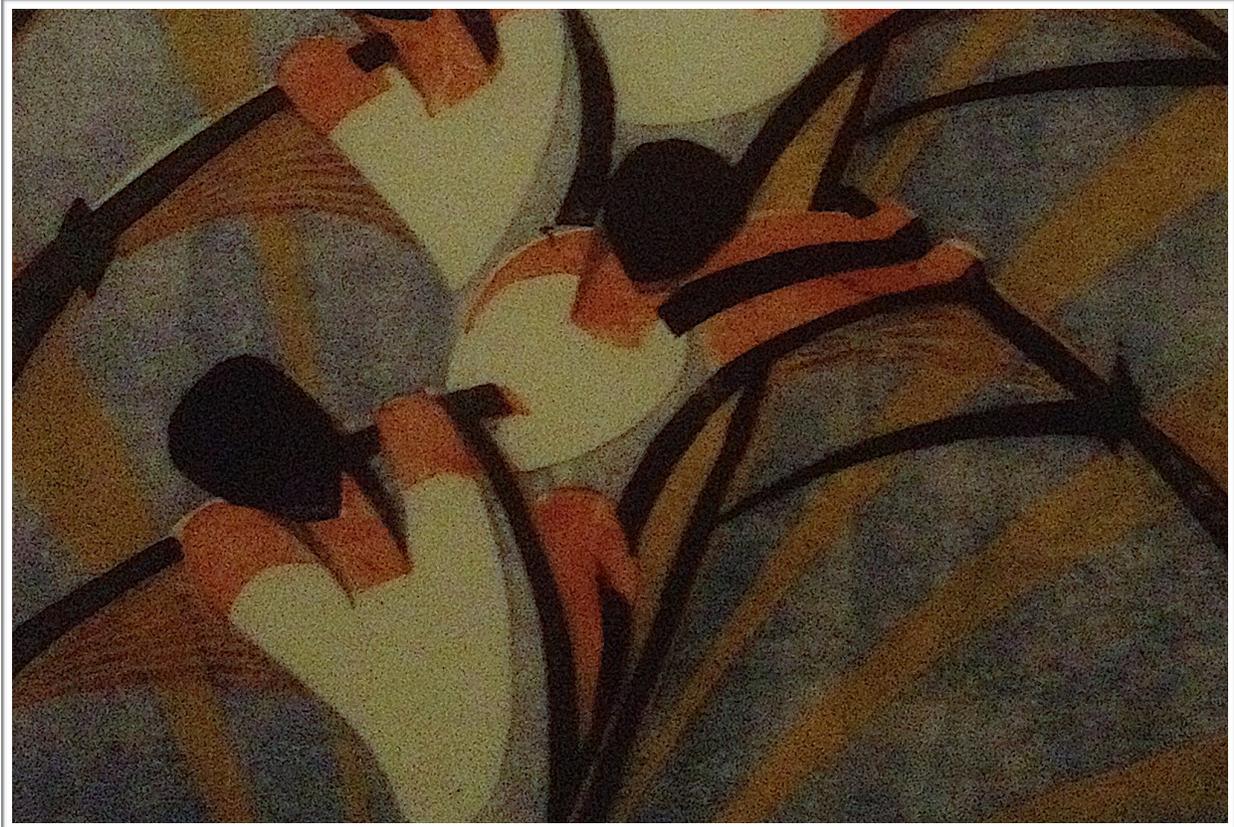


Incentive Pay Lessons from Companies in the New Economy



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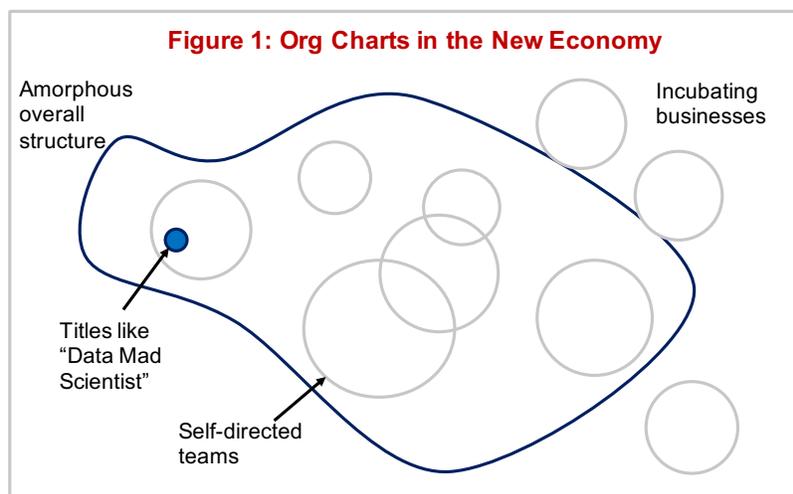
The New Economy -- Blockchains and “Theory Y” ...

The rise of the new economy has brought new ways to run a business -- including new incentive pay approaches. Twists on traditional pay designs are needed to align with what these new economy businesses want to do.

You might remember the old management concept of a “Theory X” and “Theory Y” manager. “Theory X” managers tended to be more top-down and controlling, subscribing to the belief that staff needed to be coerced into doing their work. In contrast, “Theory Y” managers believed their teams were internally motivated to do their jobs well – and so could be more delegative, mentoring, and consensus-oriented.

Well, we have found that there are successful “New Economy” businesses that have chosen to run their ENTIRE ORGANIZATIONS according to “Theory Y”.

This was the case in a (fairly large) blockchain company we served. For starters, they had replaced the “sticks and boxes” organizational chart with something like Figure 1, with no obvious lines of authority or responsibility. Instead, the company relied on self-directed teams and agile management principles to propel the business forward. They were almost entirely virtual, operating in more than 20 countries. And their culture almost reflexively rejected any form of structure or directiveness.



...New Incentive Compensation Challenges...

This raised three sorts of incentive challenges:

- Incentive **objectives** that took on a different look;
- **Roles** that received incentives (even in Sales) that often looked different than traditional roles; and
- **Getting buy-in** to roll out new incentives had to be done differently.

See Figure 2 for the company's incentive objectives. There are some familiar statements, but rarely are they all pursued simultaneously in an "old economy" company. These principles lead to incentive designs that rely not just on cash, but on equity/equity-like vehicles and interesting non-cash recognition programs.

Figure 2: Illustrative Guiding Principles for Incentives in the New Economy

- ✓ Be simple, fair, equitable, and transparent
- ✓ Recognize actions that demonstrate cultural values
- ✓ Respect an employee's work / life stage
- ✓ Differentiate vs. the marketplace
- ✓ Don't be "winner take all"
- ✓ Be scalable

Applying incentive designs to roles appropriately means thinking through how each role tangibly contributes to the success of the company. In this Sales department, there were many roles that didn't always "sell" – perhaps they "influenced", or sometimes they "consulted". By tying rewards to the achievement of additional stages of business progress, and leveraging some more traditional IT-industry incentive designs, we met the need for motivating the right performance.

Getting buy-in couldn't just rely on senior management saying it will be so. Instead, we helped the team arrive at the answer themselves -- by keeping our own process structured BUT invisible; asking planned questions in sequence; incorporating feedback to build personal ownership; and alternating periods of patience with well-timed interventions. The time required to complete buy-in wasn't much different than usual -- but it did have to be thought through beforehand.

...But Lessons for All of Us

There may be some useful lessons for the “old economy” from these new pay designs, too, even if your company isn’t quite so “Theory Y”. Perhaps there’s a new emphasis on work/life balance, or on attracting Millennials, or you have a sales model that seems to be evolving in new ways.

To successfully meet these challenges:

- Consider using **all pieces of total rewards**, cash and non-cash;
- Don’t be afraid of applying a little **creativity**; and
- Craft **how you deliver messages** as much as what the messages are.



This article is adapted from Mr. Vaccaro’s presentation to the World@Work Spotlight on Sales Compensation 2019 conference.