

WorldatWork  
2018 TOTAL  
REWARDS  
Conference & Exhibition



## Do Incentives Work? Busting Myths and Bringing Evidence to Pay for Performance

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WorldatWork.

### QUESTION

Which Pay for Performance Scheme Yields the Best Business Results for Your Company?

Answer 1: Annual Bonus

Answer 2: Long-Term Incentives

Answer 3: High Base Pay

Answer 4: Team Incentives

Answer 5: Our Pay Programs Don't Drive Performance Very Well...

[Click Here for Poll Results](#)

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**QUESTION**

What Is the Most Important Criteria You Use in Setting Pay for Performance Programs?

Answer 1: Market Competitiveness

Answer 2: Defensible to Shareholders and Other External Stakeholders

Answer 3: Retention of Key Staff

Answer 4: Alignment with Market/Industry Practice

Answer 5: Driving Business Results


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**CONTEXT**

LTI

Pay Mix



Pay Models

Individual Vs. Team

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**FINDINGS**

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# inconclusive

**RESEARCH** BASED VS. BEST PRACTICES

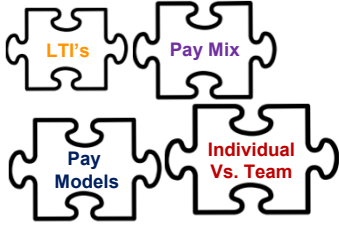
**THE EXPERIMENT**

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**THE HYPOTHESES**


**TINKERING**




**TEAM VS. INDIVIDUAL**




**RESULTS**



**PROSPECT THEORY**




**CULTURE**



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**PROSPECT THEORY**



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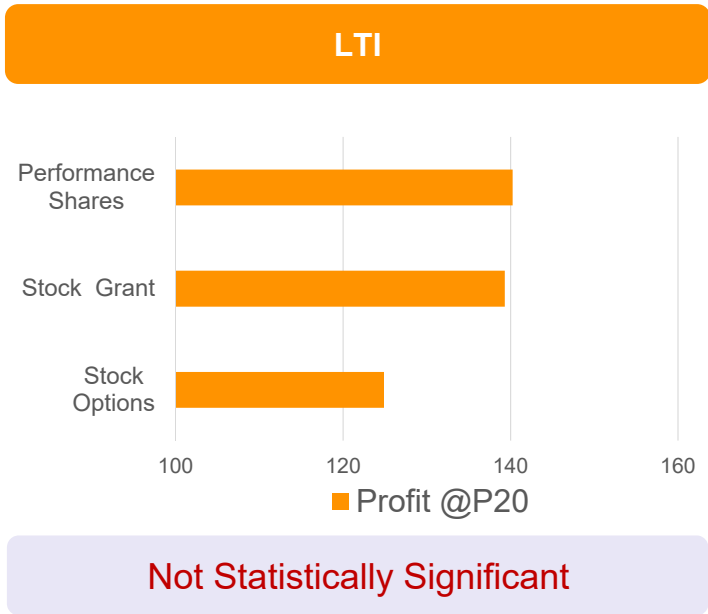
**PROSPECT THEORY**

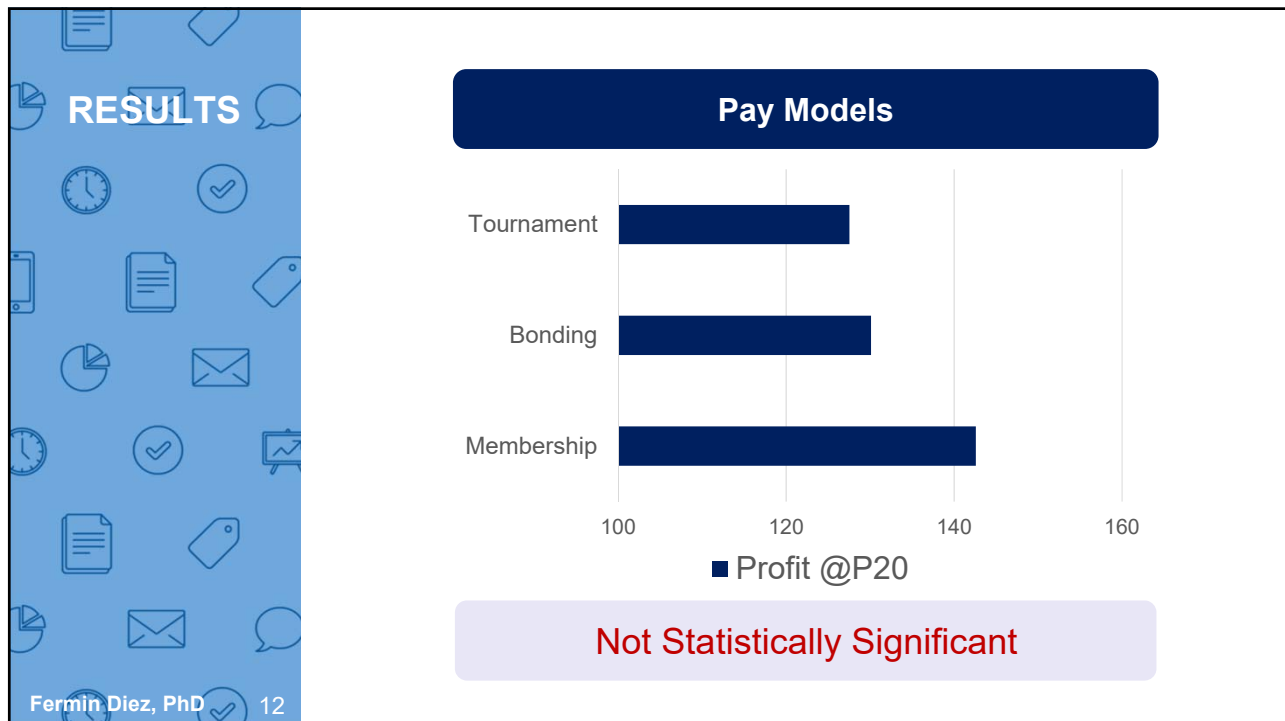
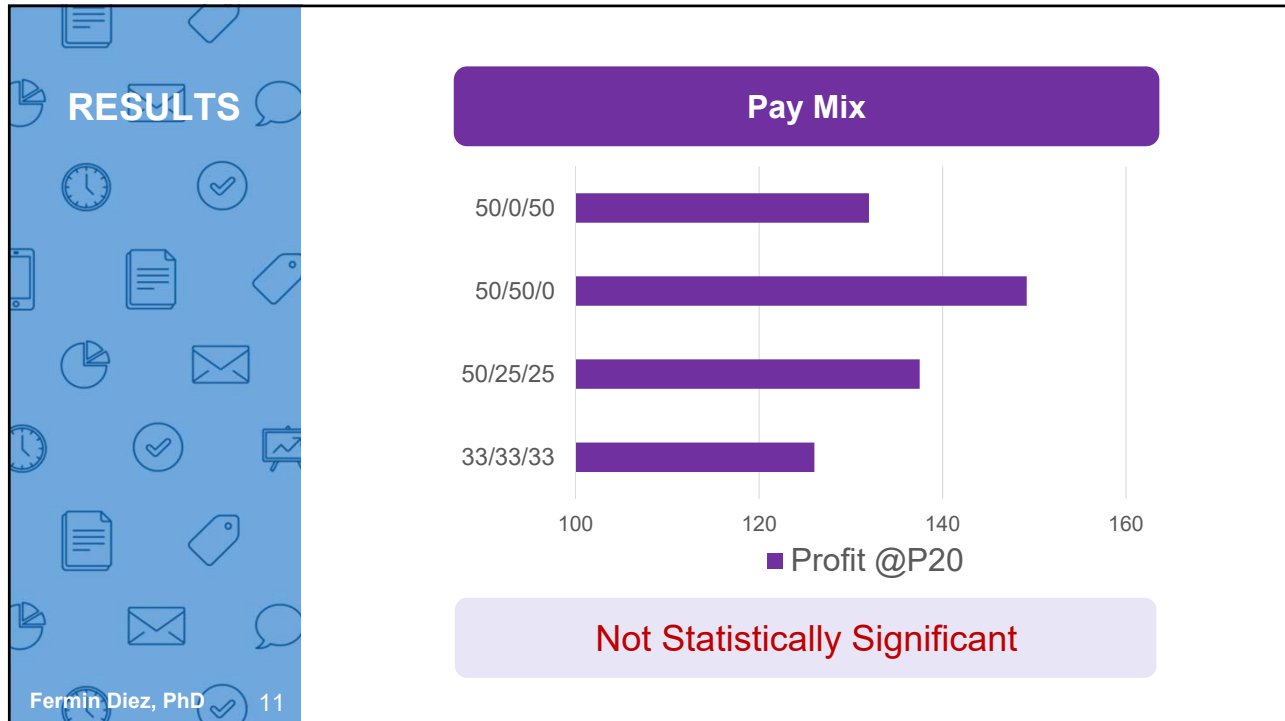
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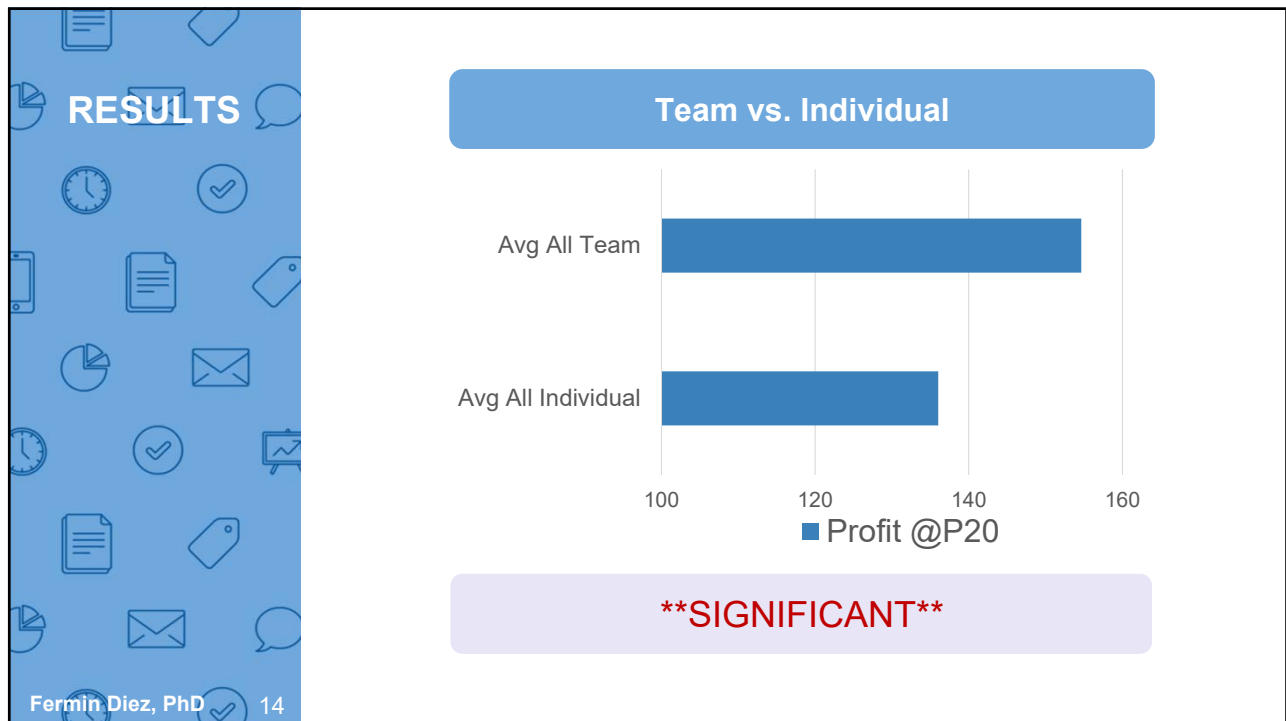
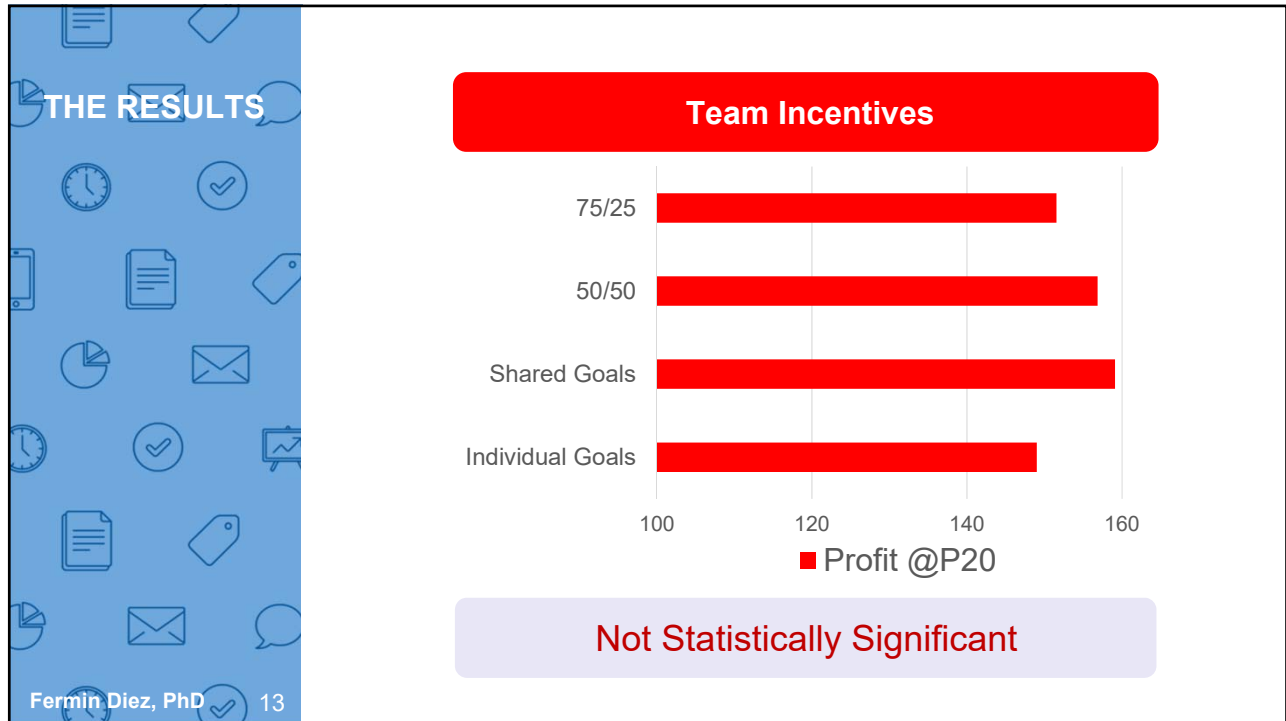


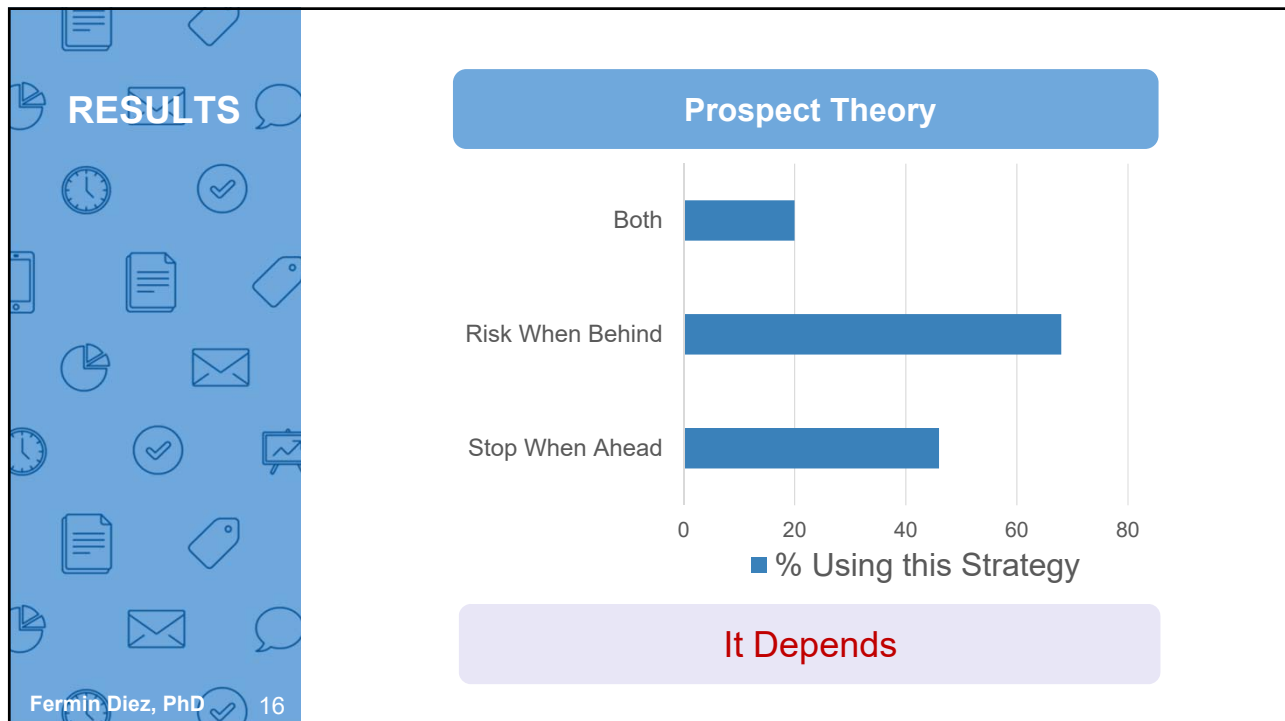
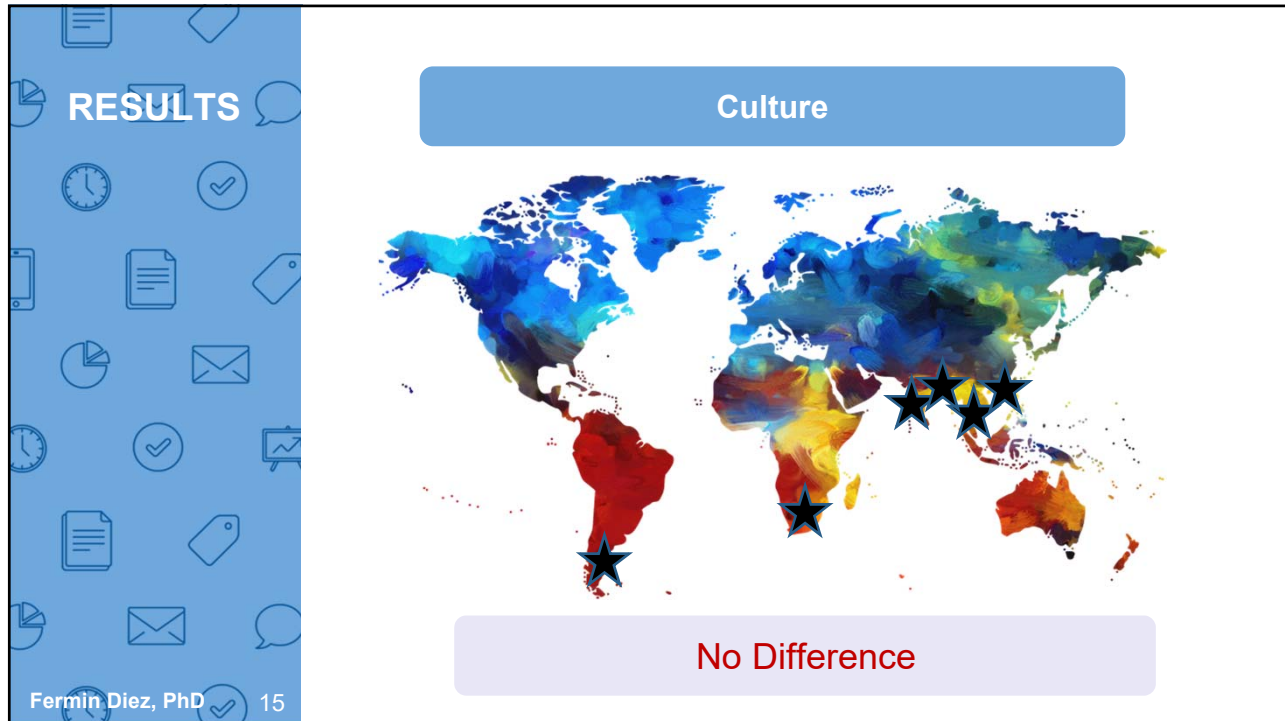
**RESULTS**

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## RESULTS

### RoR

Return on Rewards (RoR);  
Must choose approach  
carefully

LTI: better RoR at end;  
lowest RoR on average result

Individual Incentives higher RoR

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## ADDITIONAL RESEARCH

### Different Conditions

Condition	Profit @P20 (Approx.)	Significant
Cap (\$15)	150	Yes
Goal (200; No Pay)	158	Yes
Avg (136; No Pay)	138	No
Framing (>100)	150	Yes
Base Case (SO)	125	No

**\*\*SIGNIFICANT\*\***

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## ADDITIONAL RESEARCH

Scenario	Profit @P20	Significance
SO (Base Case)	124.88	---
>100 (Prospect Theory)	148.35	.096* (.957)
AVG (136 – No Pay)	138.77	.240 (1.000)
GOAL (200 – No Pay)	155.80	.011** (1.114)
CAP (\$15)	148.21	.033** (.330)

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## ADDITIONAL RESEARCH

Target setting has a greater impact on results than plan design

Stretch targets yield better results than average targets

Caps may be useful when forecasting or budgeting is suspect

Targets frame expected results

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## SUPPORTING EVIDENCE

Shaw & Gupta (2015): financial incentives work; we can move to questions such as the best combinations of intrinsic and extrinsic rewards

Cerasoli et al (2014): intrinsic motivation less important when incentives directly tied to performance and better predicted quality, whereas incentives better predicted quantity

Aaron et al. (2014): When an executive's total compensation package is based more on firm performance there is often a level of higher returns, but to a point of diminishing returns

Ederer (2013): performance is highest when subjects receive a mix of individual and group incentives that reward long-term joint success

Shaw & Mitra (2017): There is no extrinsic vs. intrinsic motivation tradeoff

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## TARGET SETTING



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## TARGET SETTING



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## QUESTION

What Will You Consider Doing Differently After This Presentation?

Answer 1: Emphasize Team Incentives

Answer 2: Stretch Targets

Answer 3: Change Pay Mix

Answer 4: Change to One of the Three Base Pay Models

Answer 5: No Change: My Plan Already Drives Business Results

[Click Here for Poll Results](#)

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**TAKEAWAYS**


Team Incentives Work

Targets Frame Expected Results

Worry Less About the Rest

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