

“Don’t Incentivise me, just pay me!”

Untangling reward and behaviour to deliver powerful customer experiences.

By Doug Shaw



Background

In December 2008, we ran an event for BT called "Stop Doing Dumb Things to Customers". Our guests were invited to do two things.

"First, please turn on your Customer Experience radar. Right now. Tune into, and remember the very best customer experience that happens to you between now and when you arrive at the event.

Second, please consider the single best thing you think BT could do to improve the customer experience."

People came along from all parts of BT. With a little help from our customer experience experts at Budd, we joined the debate, heard new ideas, provoked and challenged ourselves to think creatively and differently about Customer Service. We had a lot of fun, and came up with some great ideas.

"Congratulations and many thanks for organising the Customer Experience event last night. I really enjoyed it and hope that I can be involved in more of the same going forward!"

"Budd were great! A real wealth of knowledge"

One idea in particular stood out as being particularly radical, particularly unconventional, and at first glance, particularly unachievable.

Ban financial incentives. Just pay people the money. And give them clarity, responsibility, authority and accountability.

Are we actually paying people to do dumb things? Everyone comes to work wanting to do a good job and intrinsically they know what's right. Then we go and spoil it all by offering financial incentives which

drive the wrong behaviour and action.

And then we wonder why, having paid people for achieving, we fail to improve the customer experience? Sometimes we even make things worse.

That can't be good for our customers, or for us, can it?

We quickly agreed that this idea needed developing.

We felt that BT should not be eliminating incentives in order to save wages, but to increase engagement and motivation.

We will save the money that people spend, devising and negotiating incentives and then devising ways round them. That saving will be significant, but we should not try to cheapskate it. Spread the incentive money fairly across the pay package that rewards people for coming to work to do a good job. Don't pay them to turn up and then try to bribe them to perform.

It feels so right and yet, we know that we need more than a feeling to get something that feels so right and simultaneously controversial off the ground. We need some evidence, and a clear definition of customer wouldn't go amiss either.



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Definition of a Customer

We searched the dictionaries for a definition and found this, courtesy of The Compact Oxford English Dictionary.

Customer. Noun

1 a person who buys goods or services from a shop or business. 2 a person or thing of a specified kind that one has to deal with: he's a tough customer.

Oh dear, I don't know about you but I'm not feeling the love I expect from a great customer experience. Do you have to actually *buy* something to be a customer? Once more from The Compact Oxford, this time with a twist:

relationship. noun

1 the way in which two or more people or things are connected, or the state of being connected.

2 the way in which two or more people or groups regard and behave towards each other.

That's better, kind of.

Then we were contacted by a good friend Ursula Butler, at the time Ursula was the Head of Marketing for BT Tradespace. She came up trumps with this definition:

"The dictionary definition is really boring, you're right! So I looked up the etymology for you and here it is...

The word derives from "custom," meaning "habit"; a customer was someone who frequented a particular shop, who made it a habit to purchase goods of the sort the shop sold there rather than elsewhere, and with whom the shopkeeper had to maintain a relationship to keep his or her "custom," meaning expected purchases in the future. The word did not refer to those who purchased things at a fair or bazaar, or from a

street vendor. So it's all about maintaining a relationship rather than just selling something and disappearing off!"

Searching for Evidence

We began to conduct some research, looking for examples that could prove what we felt was right. We searched through renowned business texts and publications, and we asked people in BT what they thought.

As we began to gather evidence, thoughts and opinions, it became clear that there is much more to this opportunity than just money. There's recognition, in its simplest form. A thank you for a job well done. There's the right behaviour, doing what we say we will. There's trust. There's authentic, or service leadership.



All these things directly connected to, and helped make the case for banning financial incentives.

Let's start at the top. Daniel Goleman and Richard Boyatzis writing for The Harvard Business Review say, "Leading effectively is less about mastering situations – or even mastering social skill sets – than about developing a positive interest in and talent for fostering positive feelings in the people whose cooperation and support you need".

So how might our leaders go about this task? Mirror neurons are a vital part of the process so let's take a moment to understand how part of the human brain works. Mirror neurons reproduce other people's emotions when we detect them through their actions. Collectively, these neurons create an instant sense of shared experience.



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Marie Dasborough's extensive research on emotional intelligence in organisations concluded that people who received positive feedback accompanied by negative emotional signals reported feeling worse about their performance than did the participants who received good-natured negative feedback. When people feel better, they perform better. So if leaders hope to get the best out of their teams, they should continue to be demanding, but in ways that foster a positive mood in their teams. Vitally, Dasborough states, **"The old carrot and stick approach alone does not make neural sense; traditional incentive systems are simply not enough to get the best performance from followers."**

She goes on to say, "There is a subset of mirror neurons, whose only job is to detect other people's smiles and laughter, prompting smiles and laughter in return. A boss who laughs and sets an easygoing tone puts those neurons to work, triggering spontaneous laughter and knitting his team together in the process... other research finds that being in a good mood helps people to take in information effectively respond nimbly and creatively."



This new thinking is, reassuringly, not a million miles away from some excellent old thinking. In 1936, Dale Carnegie's "How to win friends and influence people" was published. The essence of his writing can be distilled into four simple points:

1. **Be positive and friendly.**
Smile. Never criticise or complain. Avoid arguments, show respect, and never tell a Customer they are wrong.

2. **Be appreciative.** It may sound like old news, but expressing sincere appreciation strengthens relations and taps into the human need to feel wanted and important. Carnegie describes this as the secret to success.
3. **Be Customer centred.** Show a genuine interest in the Customer and talk in terms of their interests. Try to understand their point of view and sympathise with their challenges.
4. **Be transparent.** If you're wrong, admit it quickly and emphatically. People want to feel important, so are more likely to take a magnanimous view of your mistakes if you are open and contrite.

So far we've found nothing linking financial incentives (above and beyond pay) to a positive outcome. In fact, we pinched this from The Independent newspaper in the throes of the financial meltdown early in 2009:

"The bonus system has proved to be wrong. Substantial cash bonuses do not reward the right kind of behaviour."

Andy Hornby, former CEO, HBOS.

We found a great example of financial incentives driving the wrong behaviour in one of BT's contact centres. Stephen Holden told us;

"I have been dealing with disputed charges and taking ownership of issues. Then one weekend someone decided to set up an incentive where people had to close as many disputed charge issues as possible, but the advisors closed issues without speaking to customers then sent customer letters out. The customers who then called back, more angry than the first contact and we were advised we could not reopen the issues but to escalate to



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managers. This simply resulted in more calls in to the centre from very dissatisfied customers. So that incentive was a bad decision."

And of course, there are the old chestnuts of bonussing sales people against revenue targets (what no profit?) and customer satisfaction numbers. In a way I find the latter the more unusual. Surely we want to know what our customers really think about us so that we can in turn, take action to improve things? So, why would we make someone's pay dependant on that feedback? If it were me who depended on that measure being hit I would take all the action I reasonably could to ensure the score was sufficient. Even if that meant targeting the "right" people (know what I mean?).



The past reward practices of a group health claims division of a large US insurance company provides another powerful illustration.

Attempting to measure and reward accuracy in paying surgical claims, the firm systematically kept track of the number of returned cheques and letters of complaint received from policyholders. However, underpayments were likely to provoke cries of outrage from the insured, while overpayments often were accepted in courteous silence. Since it was often impossible to tell from the physician's statement which of two surgical procedures, with different allowable benefits, was performed, and since writing for clarifications would have interfered with other standards used by the firm concerning percentage of claims paid within two days of receipt, the

new hire in more than one claims section was soon acquainted with the informal norm: "When in doubt, pay it out!"

This situation was made even worse by the firm's reward system. The reward system called for annual merit increases to be given to all employees, in one of the following three amounts:

1. If the worker was "outstanding" (a select category, into which no more than two employees per section could be placed): 5 percent
2. If the worker was "above average" (normally all workers not "outstanding" were so rated): 4 percent
3. If the worker committed gross acts of negligence and irresponsibility for which he or she might be discharged in many other companies: 3 percent.

Now, since there was only a small difference between the five percent theoretically attainable through hard work and the four percent attainable by merely living until the review date, many employees were rather indifferent to the possibility of obtaining the extra one percent of reward. In addition, since the penalty for error was a loss of only one percent, employees tended to ignore the norm concerning indiscriminate payments.

This point is powerfully backed up by Stephen Bevan, Associate Director, Institute for Employment Studies, in his paper entitled **"Effective employee performance management and performance related pay"**

"There is a very persistent and touching loyalty to PRP (Performance Related Pay) in the UK despite loads



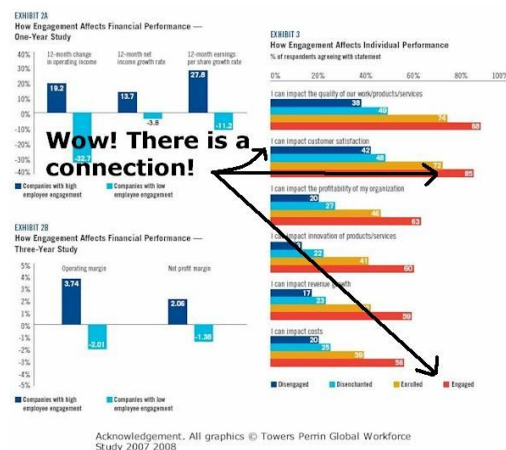
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of research evidence that suggests that it demotivates people and so on. **If you talk to individual employees they will say that individual PRP erodes and works against collaborative teamwork. That makes people compete with each other.**

- They can crowd out good behaviour
- They can encourage cheating, shortcuts and unethical behaviour
- They can become addictive
- They can foster short-term thinking

If you are using appraisal as a mechanism for driving individual pay awards you might compromise your ability to use training and development as a way of enhancing skill profile in organisations as a route to improve performance. I think that could be a problem. It does rely a lot on a bond of trust with line managers and subordinates. In fact most individuals that were surveyed on this argued that they had quite a good relationship with their boss and they were quite happy that they and their boss came up with a clear view about what their objectives are. So it has been quite interesting, the paradoxical findings on PRP. It's quite a high acceptance of that process but **it's the pay bit that winds people up. What they want is greater clarity, they want joint target setting, and they want to know how well that they are doing. But they don't necessarily want to jump through all sorts of hoops to get another £200 at the end of the year.**"

It's interesting to note that in the January 2010 UK Customer Service Institute figures, there are a number of local service providers who score very highly indeed, four in the overall top ten. We think this is because local businesses worry less about things like vague customer satisfaction figures, and bonuses, and more about personal, community connected service. Too often big brands risk losing that sense of connected service as they strive to hit a spurious measure, and then reward people against it.



Dan Pink's talk at TED, filmed in July 2009 on the Science of Motivation, (click the link to watch the excellent 18 minute video) <http://bit.ly/c4ytqK> as well as being an enjoyable watch, contains references to lots of scientific proof to back up his findings on why financial incentives fail. In his subsequent book, Drive, Pink cites Seven Deadly Flaws: Why Carrots and Sticks (Often) don't work.

Conclusion

None of the research we found is particularly new. Sure, there are lots of recent examples of bonuses failing to deliver, and of financial incentives driving value destroying behaviour, but the heart of the matter has been around for years. It is seductively simple to set up a bonus scheme. And it is probably little more than this seductive simplicity we seek through measures, which means they persist to this day.

- They can extinguish intrinsic motivation
- They can diminish performance
- They can crush creativity

All is not lost however and through the dialogue we have with customers, we are seeing a change.

Slowly, more companies are realising that less measurement leads to better results, and less control leads to more influence. From that influence comes a greater level of trust which manifests itself in great service. To learn how we can help you do this click here:
<http://bit.ly/aEexSu>

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