

How Does the Implementation of Different Project Incentive Plans Succeed?

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Abstract

This paper describes briefly different approaches to rewarding New Product Development (NPD) projects in three communication technology organizations. The goal is to find out what is the impact of different incentive models and their implementation compared to the desired outcomes. The results will provide R&D management with understanding how to successfully design and implement project incentive plans. Rewarding professionals is one of the key issues in many NPD organizations when entering the new millennium. The multi-project NPD environment offers a challenge for finding the right combination of appropriate measures and a logical link to the possible bonus. How much from the potential can be gained is up to the implementation of the incentive models. The methodological approach of this study is based on constructive action research. The researchers worked in organizations and helped in the change process. To enable the definition of a common project incentive plan needed in collaborative projects, the organizations analyzed their varying types of project incentive plans with different implementations. The data consists of interviews (n=88), questionnaire (n=342) and company documents. Altogether 20 human resources and line managers, 68 project managers and project personnel were interviewed. The results show that managers assess the incentive plans to be working well whereas middle management and designers are dissatisfied with the plans. Middle management finds the plans too laborious compared to the benefits gained. The designers rate the plans to be like a lottery. All desired outcomes of the incentive plans are not reached. The paper will explain the crucial implementation characteristics.

Keywords : incentive plans, new product development, project work

Introduction

The co-operation of three organizations had suffered because of different Project Incentive Plans (PIP). The different PIPs had caused problems when the project personnel compared their possibilities to get bonuses with those coming from another organization. This study aims at understanding how different features of project incentive plans work and how PIP's should be implemented. This helps in finding a basis for a common PIP in those organizations.

The methodological approach of this study is based on constructive action research. To enable the definition of a common project incentive model needed in collaborative projects, the

organizations needed their varying types of project incentive models with different implementations to be analyzed. This is where the researchers came in. The role of the researchers was to collect and analyze data to build a basis for common understanding and thus support and direct the development process

Methods

The data consists of interviews (n=88), questionnaire (n=342) and company documents. Altogether 20 human resources and line managers, 68 project managers and project personnel were interviewed. This study covers 14 NPD projects in three organizations. In total, 20 HR and NPD line managers were interviewed to define the purpose and managerial needs for the PIP. A handful (n=68) of the management and personnel of 11 projects were interviewed to find out how the PIPs work on site, and to what extent their function meets the management needs. A questionnaire (n=342) covering nine of the projects and earlier research documents were used to support the data. The questionnaire covered areas like PIP implementation, PIP evaluation and PIP effects on daily work. Three projects had been studied and documented earlier by a researcher.

Research Process

First, the intended purpose of the PIP was defined by interviewing management. Then the project personnel were interviewed and asked whether they think the PIP works as intended by the management. The personnel were also asked to explain why the PIP doesn't work as intended. In this study we represent the findings concerning different characteristics of PIPs. Some effects are also discussed.

In this study, a project is an entity that produces a product for the customer. The process is defined with Milestones. Project Incentive Plan (PIP) is an entity that describes rewards and rules how the rewards are distributed in respect of the achievement of project targets.

Evaluation of the Project Incentive Plans and their Implementation

1.1 Management view - Intended Purpose of the Project Incentive Plan

Management interviews defined the initial purpose of the PIP. Achieving business targets through successful project execution is what the PIP works towards. The PIP is intended to support project execution in many areas. Four examples of them are presented below:

1) Clarifying the goals

The goals are best clarified when discussed and set in co-operation with Project management and personnel. Through the PIP it is possible to identify what is important and prioritize different targets.

2) Strengthening the follow-up and feedback of the achievement of goals

The PIP provides project management with a framework that offers possibilities to give feedback and evaluate project success.

3) Cross-functional co-operation

Co-operation is needed within a project, between organization levels and between line and project organization.

4) Customer oriented motivation and commitment

Business goals should be brought close to the individual understandably. Projects are important for the business, and the effort of personnel is crucial in achieving the targets.

1.2 Project Personnel View - Some Phenomena Analyzed

Overall, the results show that managers assess the incentive models to be working well whereas middle management and designers are dissatisfied to the models. Middle management finds the models too laborious compared to the benefits and the designers rate the models to be like a lottery.

When The Existing PIP Is Good Enough?

The personnel feeling that the existing PIP is good enough is associated with (in order of significance, n=342)

1. Good implementation of the PIP
2. The PIP helps the project to achieve its goals
3. Goals determining the bonus are reachable
4. The project bonus plan fits my work well
5. Good management procedures when setting goals
6. Satisfaction with the bonuses received

If the personnel feel the current PIP is not good enough, there are always some individuals who would like to participate in improving it. Thus personnel dissatisfaction is a force that helps in improving the PIP.

All the PIPs aim at supporting the achievement of project goals. Projects and leadership styles are different, thus giving the reason for different approaches in PIPs. In general, PIPs improve commitment to project goals, and help in clarifying the goals. However, some characteristics seem to cause trouble. Measures up beyond the project level are easy and harmless, but on the other hand, individuals do not care much about them because they are felt to be beyond their possibilities to influence. Group or individual level measures are difficult to set, wearisome to update, and they may lessen co-operation between teams, and lead to things that are not in line with project goals. The lack of quality measures at the end of a project may emphasize the timetable too much, thus giving the feeling that quality is not that important.

The PIP Increases the Clarity of Goal Setting, Commitment To The Goals

These are the most evident results of PIPs in general. The clarity of goal setting increases the more the goals are discussed. In projects where the goal setting process was familiar to all employees and the goals were felt somewhat realistic, the impact was greater. Failure in the goal setting process, or setting obviously unrealistic targets, creates frustration and a feeling of unfairness. Project personnel say that the bonus works like thanks.

Does the PIP Motivate?

The PIP as a motivator does not work carrot-wise. According to the interviewees, motivation comes from new challenges, learning new things, developing new technology, the feeling of getting something ready, and variation in tasks. Sometimes the PIP motivates personnel to do tasks that are boring. All this means that internal motivation is strong, therefore external motivation does not add so much. The PIP must have a role other than personnel motivation. However, the PIP improves the impression of the organization as an employer.

The PIP could motivate superiors to set realistic goals and discuss these with employees. At the moment forecasting something just for the PIP feels frustrating. The personnel need to see that reasonable things are done.

Incentives are Felt Earned for the Future

Some interviewees say that an incentive coming too frequently and the same size, regardless of effort, becomes a part of the salary. In some cases the changed targets are assessed for the benefit of employees without giving good reasons. Then personnel might feel that the purpose is to pay the personnel in any way. On the other hand, in cases where the process is mature, a certain level is achieved all the time, thus giving about the same sum of money frequently.

In at least one case, the PIP was marketed as supplementary compensation when recruiting new people. In some units, people are used to incentives that come quite easily by group measures. They might think that their supervisors are compensating for unrealistic project targets. These people are very unwilling to have project level measures.

PIP Worsened the Quality Of Work?

According to the questionnaire, some people (23%, n =342, highest project 36%, lowest project 6%) felt that the quality of work had worsened due to the PIP. The interviews gave following explanations:

- The absence of quality measures emphasizes timetable.
- Management has approved milestones even when not all criteria have been fulfilled. If no proper reasons are given to the personnel, some confusion about the quality policy may exist.
- NPD personnel would anyway like to do better than the short time allows, and it is unclear what the necessary quality level is.

- The feeling that the PIP improved the quality of work correlates with the feeling that the goals that determine the bonus were achievable.
- If an early Milestone is accepted too eagerly, it might be reflected in product quality.

In business decision making it might be more profitable to make the reference deal before making the product ready first. Management decisions may be misunderstood so that personnel think the quality doesn't matter anymore. Reference deals must be won, even though they can be unprofitable. Misunderstandings concerning the quality requirements can be avoided by communicating the decision better to the personnel.

Cannot Influence the Size of The Bonus With One's Input

Interviewees felt that individual and group measures usually can be influenced. Project level measures can be influenced at least a little if the role of an individual can be understood. The goals were found reachable in projects where the process is mature, or where there are group and individual components in the personal performance matrix.

Setting goals is hard for new superiors, as they lack experience and vision. Also, data to estimate work needed may be too optimistic if the filed personal work hours do not represent the reality.

1.3 Some PIP Features Analyzed

Target Setting Procedure

A two way V-model is used, where step by step, every project organization level evaluates the feasibility of the project. The project personnel level is rarely achieved, because the discussion stops quite often at group manager level – if not earlier. If the targets are set so high that the personnel know they are impossible to achieve, the personnel lose the interest towards the PIP. The more the targets are discussed at the beginning of the project, the more the personnel commits to them. Fair management procedures at target setting seem to support the realization of PIP benefits.

The Sum of Project Milestones in A Product Line As Bonus Criteria

A performance matrix combines product line quality measures and milestone measures from all projects running in one product line. The personnel do not see the connection to their work; the PIP works more in the background and the bonus size feels beyond influence. This is felt safe but not specifically supporting the project work. The common PIP rewards also groups and persons that are not directly involved in a project but their work supports the execution of the projects.

Project Milestones as Bonus Criteria

Milestones are easy to align with business targets. In large projects, personnel feel they can hardly have an effect on achieving the targets. In small projects, the Milestone targets are

nearer the project personnel. In some projects, subprojects were measured at the beginning and Milestones at a later stage. One positive thing is that Milestone targets give no need or possibilities to sub-optimization. Individuals may feel it impossible to influence goal achievement, except through superiors' input.

Group or Sub-Project Targets as Bonus Criteria

From the employee point of view, the possibility to influence the bonus size feels bigger, thus satisfying more as project level measures. However, group level measures cause the following problems:

- 1) If the project plan must be changed, all performance matrices with group measures have to be changed too. This would cause extra work for the management so the matrices are not always updated. This in turn comes up when it is time to see what size bonus is going to be paid. The superior either leaves the employee unpaid or evaluates some bonus.
- 2) The group level targets must be in line with project targets. This may work at the beginning. Not all changes are updated, thus separating the goals from each other.
- 3) Group level measures are difficult to set. Instead of choosing a difficult measure that supports the project goals, an easier one is chosen even if that possibly does not support the project goals.
- 4) The group emphasizes the group target, thus neglecting some other tasks that might help other groups in their work.
- 5) Even when weighted lower than project level measures, group level measures may get all the attention.
- 6) In some cases group level measures may have been used to compensate for unachievable project level measures.

Individual Pre-Set Targets As Bonus Criteria

These work the same way as group targets, see above. Furthermore, individual targets are prone to changes. If the targets have changed but the incentive criteria are not updated, the incentive is assessed by the superior or left unpaid. This means that face value becomes one criterion.

Pot Bonus after The Project

In cases where persons receive incentives for the period they work for, group boundaries may deepen. Also, the quality of the end result may not get enough attention if people are paid for their work at the beginning. In cases where one gets incentives also from those stages of the project that one doesn't work for, interest in other groups' work increases. On the other hand, people do not necessarily like the fact that they simply cannot affect some of the bonus. If a large part of the incentive is paid to all project personnel according to the quality of the end result, the work of the personnel is more project oriented instead of phase oriented.

1.4 The Implementation Analyzed

Management acting fairly, and fair procedures in target setting, produce employee satisfaction with the PIP. Fair procedures are very important in creating commitment to project goals. Top-down target setting does not support the realization of the PIP benefits. Theoretically, targets are set in discussion with the project personnel. Practically, not all group leaders discuss these with their groups, or management forces the project manager to accept unrealistic goals.

The purpose of the PIP is not communicated properly. Some superiors have never heard or thought that the PIP could be a tool for them. One interviewee said that his superior explained that filling in the performance matrix is just one of those obligations without any benefit - it just must be done. Superiors may be asked to perform without support or training. Two examples out of superior interviews:

- 1) *One day I received a mail with a PIP excel-sheet as an attachment. Start to use this! There were no other instructions*
- 2) *We do not have any written guideline for the PIP. The knowledge is inherited and all situations are solved by talking it out.*

Sometimes the performance criteria are set, but then there may be no discussion about the results. The money just goes into the account. Good superiors discuss the results with their group members – the majority does not. The larger the project, the weaker the feedback and discussion. The best feedback and discussion is carried out in projects that are small.

Examples of Good Implementation

- In one case, the project manager and project personnel managed to convince the management to change original targets to more realistic ones. This can be seen in overall satisfaction with the PIP and commitment to the project goals.
- When a bonus is paid, every employee gets a letter from the project manager stating what was achieved and what that means for the company.
- Human Resources organizes Pay & Benefits training for all superiors.
- The project manager presents the PIP at the beginning of the project.
- A development group consisting of project personnel helps project managers to implement the PIP, and discusses feedback given by the employees.

Conclusion

Suggested Features of the Project Incentive Plan

Our study raises some features that support the execution of a project better than others. In table 1, the evaluated effects (+ for positive, - for negative) of some features are shown.

Table 1 Evaluated effects of some features

PURPOSE FEATURE	Clarifying the goals	Strengthening the follow-up and feedback of the achievement of goals	Cross-functional co-operation	Customer oriented motivation and commitment
Target setting procedure	+ if people are involved - if set unrealistically and top-down	+ if the targets are discussed during and after the project	+ if targets are discussed together	+ if targets include customer view
Product line measures	+increased awareness	No effect	No effect	No effect
Project measures	+ if individuals understand their role in the project	+ if the targets are felt realistic and if discussed	+	+ if customer quality is measured
Group measures	+ group goals - project goals	+ group goals - project goals	-	-
Individual measures	+ individual goals - project goals	+ individual goals - project goals	-	-
Pot bonus	+ project goals	+ at project level	+	+

Derived from the comparison, following basic structure can be suggested. The Project Incentive Plan should include a bonus that is paid some time after the last Milestone according to the realized quality of the end result. Quality measures in post-project measurement apply to every employee. Measures should emphasize the execution of the project as a whole; group and individual performance can be compensated in other ways. Group level measures should be used only if it is absolutely sure to support the project goals and do not hinder co-operation between teams. All interdependencies must be identified.

The product line Incentive can be used in situations where, it is difficult to set PIP to projects. It is also a handy way to pay incentives to support functions. Specialists can be paid individual incentives. The level of the product line incentives might be lower than project incentives.

Suggested Implementation of the Plan

A good structure only makes good implementation possible. In order to get a well functioning PIP; support for the implementation is also needed. Superiors are often asked for many new skills without giving them reasonable support to execute their tasks. It must be kept in mind that the purpose of the PIP is not to deal money, the purpose is to support successful project execution. The PIP also forces the superiors to communicate the goals and it must be tied to the project planning process.

It must be made sure that every person is involved and understands the mechanism of target setting. During the goal setting process, superiors should discuss with each individual and group about their role and importance for the project. Discussion generates valuable feedback for the project management, thus helping to set more realistic targets. If the goals are realistic, more

emphasis can be put on targets that are linked to the project timetable. Clarify the criteria for the pot bonus and make sure every individual understands his/her role in achieving the goals of the project.

The PIP is not a substitute for leadership; rather it drives superiors to improve their leadership skills. Too often, superiors let an incentive plan give feedback to the personnel. When implementing a PIP, all superiors must be trained so that they understand the role of the PIP and how they can utilize it in their daily work. The superiors need to know when and how to link project success and incentive information to the daily situations where live feedback can be given and results discussed.

Any management decisions concerning project and incentive targets must be communicated thoroughly. Without the right information the personnel creates their own interpretation thus leading to misdirected behavior and loosening the management touch of the project reality. Informing the personnel how the project is proceeding is important at all stages. Communication will be even more important if the project doesn't achieve its goals at some point.

The administration of the Project Incentive Plan should not demand too much attention from superiors. Therefore an appropriate management application should be developed to combine available resources, resource allocation, work time reporting and Project Incentive Plan participation and payment into one single tool.

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