How to set up a customer satisfaction bonus

To develop an effective customer satisfaction-related pay scheme that will motivate employees to become more customer-oriented, four main factors need to be considered.

1) Company wide scheme

There are two commonly used methods for determining customer satisfaction-related pay. The first is a company-wide scheme that pays a bonus to all employees based on one measure. This would most reliably be the company's overall customer satisfaction index or, with less reliability, a one question measure such as NPS.

Companies with different business units normally implement this type of scheme at business unit level. The same can be done with brands but this only works if brands operate as stand-alone business units with no employee crossover.

The bonus could be a flat rate sum for all employees or a fixed percentage of salary. Either way, it is perceived as a simple and transparent system that is the same for everybody. Its disadvantage is that some employees may not perceive all colleagues as making an equal impact on the company's ability to achieve the customer satisfaction target.

2) Team-based schemes.

The alternative model would be based on team or departmental specific schemes. These can be infinitely flexible, but bonus targets would typically be based on customer satisfaction with requirements that can be affected by the department concerned. Departments with little or no customer contact can have a bonus based on the overall customer satisfaction index or, preferably, on their ability to satisfy their own internal customers.

The big advantage of this second model is that customer contact staff will see the bonus as much more closely linked to their day-to-day work. The disadvantage is that some employees who think other departments have more favourable schemes may see the system as unfair.

3) Targets

The targets are as important as the basis of the scheme itself. As well as being extremely visible, targets must be sufficiently ambitious to benefit the company whilst still being achievable. It will be very de-motivating if the first bonus is missed since employees may form the view that the bonus is unachievable, in which case it won't influence their future behaviour. Unfortunately, this often happens as senior management has a tendency to set unrealistically high targets for improving customer satisfaction. This risk is exacerbated with NPS since without very large samples the measure will be very volatile so even a relatively soft target could be missed by chance.

4) Frequency of measurement

The frequency of survey will be dictated by the desired frequency of customer satisfaction-related payments. The advantages of annual payments are that they can be linked in with employees' annual performance appraisals and with annual business planning cycles for developing, justifying and implementing customer satisfaction improvement plans. The disadvantage is that an annual bonus may not motivate employees on a daily basis. This can be partially addressed through a planned programme of communications to keep the spotlight on customer satisfaction.

For companies with monthly measures a more frequent bonus structure is preferable as it will motivate much more on a daily basis. This doesn't mean that the bonus has to be paid monthly. Receiving bonus in larger amounts for one off expenditure such as summer holiday or Christmas will motivate many employees more than frequent small payments. The day to day motivational impact can be maintained by strong internal communications showing the monthly results and the amount contributed to the bonus pot, plus cumulative total and likely payout if a great customer experience continues to be delivered.

5) Credibility

If customer satisfaction-related pay is to motivate, the measure on which the payment is based must be credible. Fundamentally this is down to its statistical reliability and volatility. If a measure is statistically reliable everyone trusts it and knows that it is a genuine reflection of how customers feel based on the customer experience delivered that month.

The problem with NPS is that much larger sample sizes are need for statistical reliability. This isn't just a pedantic, academic point. A measure that's not statistically reliable will be very volatile, making meaningful target setting impossible. With NPS, depending on sample size the margin of error can easily be +/- 5 or even +/-10. When employees miss their bonus they soon notice the volatility and the measure ceases to be credible in their eyes.