

HaRe Group newsletter: 14 July 2015

Subject: Cohesive vs "Why Bother?" incentive design

Too many incentive plans push against the tide. Some business leaders expect that financial incentives alone will drive business results, even when employees lack the resources to do their work properly. In many of these cases, remuneration costs increase for minimal gains in productivity.

While employers may hope for an easy solution, incentive design should not be impulsive, instinctive or unplanned. Also, many off-the-shelf incentive schemes are woefully ineffective; to copy a design that is successful in one organisation and plant it in another will rarely work – after all, how well would a copied business plan work?

Fundamentally, every employer should expect an incentive plan to **focus the efforts of employees on what's most important to business success**. Talented people don't usually need a financial reward to work harder or smarter, but their efforts and skills need direction and in this, a good incentive plan is often effective. However, this leads to a critical point: no incentive plan can be a silver bullet – especially when business conditions conspire against the purpose of the incentive plan.

The reality is that genuine success will only be achieved with a holistic and premeditated approach that involves:

- A clearly articulated business strategy and goals that underpin the objectives of the incentive plan;
- Unequivocal performance expectations that illuminate the competitive advantages of the business;
- Ongoing business commitment and tangible organisational resources;
- Active and open and continuous support from up-line management;
- Harmony with all performance management processes and related HR initiatives;
- Competitive remuneration practices based on market/ industry benchmarking;
- Employee control and minimal interference from external forces.

Under these conditions, successful incentive plans commonly share the following features:

- A tailored plan for each substantive employee group;
- Employee participation in design;
- Impartial measures – either absolute or relative – that are meaningful to employees;
- Strategic, zero-based performance benchmarking (not dominated by prior-year results);
- *Threshold* performance that deserves a minor yet meaningful incentive;
- *Stretch* performance that can only be achieved in the very best of all circumstances that are in the employees' control;
- For *Stretch* performance, fund an “industry best” incentive.

Of course, any new incentive plan will need road testing. With the very best of intentions and design discipline, there can still be some unexpected outcomes – eg. some employee behaviours may arise that impact poorly on the performance of others. In any event, it is important to monitor all aspects of a new incentive plan to ensure that all outcomes are desirable and in harmony with the employer's overall HR strategy.

Simon Hare

HaRe Group

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