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INCENTIVE SCHEMES THAT DRIVE EMPLOYEE COMMITMENT & CORPROATE PERFORMANCE

One organisation decides to implement an incentive scheme. The scheme seizes the imagination of all employees: They quickly find out about the organisation's business, it's priorities and how they personally can make a difference – and then they do! Teams experiment with new work methods; production costs per unit plummet; quality shoots up; on-line delivery goals are met consistently; and stock levels fall.

At the end of the first year it is clear that the scheme has triggered a revolution. It has yielded a pay-out per participant in excess of 30% of their annual packages and an operating profit increase for the organisation of 25%. It looks as though this trend will continue, with further performance records being smashed in the future.

Another organisation decides to implement an incentive scheme. There is a surge of interest from participants, and then it all comes unstuck; staffing levels and head-count increase, quality falls and stock levels increase significantly.

At the end of the first year, the scheme is adjudged a dismal failure and it is consequently shelved.

What fascinates us, is what causes such enormous differences in the outcomes experienced by organisations implementing incentive schemes.

This article, based on many years of practical experience, identifies and explains the key elements –

- for the successful *initial implementation* of incentive schemes.
- for the sustained, *ongoing success* of incentive schemes.

In doing so, it also provides a framework for organisations to evaluate the effectiveness and sustainability of their own incentive schemes.

KEY ELEMENTS FOR SUCCESSFUL INTITIAL IMPLEMENTATION

The most important key elements for successful implementation of incentive schemes are the following:

Vision

You can increase the probability of success by taking the time to *plan and prepare* properly for the implementation of the incentive scheme.

You must ensure that the scheme is designed to fit the strategy and culture of the organisation; involve your people in the design process; and, in doing so, secure "buy in" among the opinion leaders on your staff.

In addition, you must chose measures that are – or are closely related to – business metrics; and include baselines for each measure in your vision. This will put you in a

position to define the intended outcome of the incentive scheme and to track its performance. That is, it gives you a way of holding your HR people accountable for business results.

Innovation and Risk Taking

You must be *daring* for your incentive scheme to succeed. If you treat reward as a cost centre, like water or electricity – something to be used, but sparingly and not wasted – it is doomed before you start. You must be prepared to pay significantly over the odds for peak performance. Your risk-taking in this respect encourages others to take the risk of innovating – and standing a chance of achieving unbeatable results in the process.

Fixed Duration

The most successful schemes are those that have a fixed (and short) duration. Peak performance demands peak effort and this requires the kind of intense focus that is often not able to be sustained in the long term, year in and year out. If your scheme does not have a fixed duration (or a fixed date for review) which is known in advance and not more than a year or two away, it will gradually lose impetus; people will take it for granted; and it will eventually have lost its impact on business results.

Decentralised Design

Traditionally, organisations centralise reward system design, for reasons of parity, perceived fairness and control. Unfortunately however "one size doesn't fit all" in incentive design: Different business units have to be allowed to design their own incentive schemes and, if necessary, to implement designs that are different from each other.

Allowing decentralisation in this way does not equate to losing control and accountability: You should still require the business units to use the same design principles and protocols. They should still be expected to monitor and evaluate their schemes against outcomes and objectives agreed in advance; and they should still report on the bottom line impact of implementation of the scheme.

Separation from Base Pay

Incentive pay should always be separated from base pay. Because incentive pay is not part of base pay, it must be re-earned every year (or other accounting period). This achieves two ends, namely:

- It enhances the motivational value of incentive pay by underlining its connection to performance.
- It prevents base pay from becoming an impossibly high fixed cost. Rolling incentive pay into base pay (eg by granting "merit increases") has a compounding effect over time and you will find you simply have too much expense in your fixed pay costs. It also causes "pay compression", which prevents you from differentiating adequately, in their pay, between outstanding and merely average performers.

KEY ELEMENTS FOR SUSTAINED SUCCES

The most important key elements for the sustained success of incentives schemes are the following: -

Flexibility

Your incentive scheme must be able to adapt and change as the business grows and changes.

Almost invariably schemes that fail are those that are not sufficiently adaptive. They tend to "lock in" measures and standards; and participants develop the expectation of payment, simply because performance standards are met.

The most successful schemes are those managed by people who understand that the *primary aim* of the scheme is not to deliver extra pay to participants; but *to contribute to business success.*

It goes without saying that you will have to persuade your people that sustainable business success is a worthier long-term cause, from their point of view, than increased pay. They will also have to be convinced that changing performance expectations and/or measures from time to time is legitimate, *because* the primary aim is to sustain business success.

Multiple Measures

This is a very accurate predictor of success. Not only should the scheme have multiple measures of performance, but these should also be competing measures. That is, they should be chosen in such a way that success on one measure does not also predict success on the other measures.

The effect of having multiple (and preferably competing) measures is to encourage participants in the scheme to think in terms of optimisation: Their focus is immediately taken in the direction of improving business performance, rather than the quickest and easiest way of increasing the incentive pay-out.

Monitoring and Evaluation

Schemes that are not monitored and evaluated formally and systematically against the intended business outcomes are invariably those that have little or no business impact. Not that pay-outs cease; just that ongoing, accumulative performance improvement is not being achieved.

"If you don't measure it you can't manage it". Incentive schemes should be treated as ongoing management initiatives, requiring continual review and redirection. It is however pointless monitoring and evaluating unless this is done against intended outcomes and goals defined at the outset as reasons for implementing the scheme.

Using modern state of the art evaluation techniques, one can go further than just assessing the impact on business measures, to assessing the ROI of the incentive scheme.

Simplification

Newcomers to incentive design often start with complex scheme designs: They often include formulae for adjustments for the effects of factors beyond the control of participants; calculations to offset the impact of indirect labour on production processes;

and productivity baselines for each and every little process. These schemes are too complex to be practical because the designers have tried to make them too perfect – to account for every possible eventuality.

Experience shows that it pays dividends in terms of impact on "bottom-line", to keep incentive schemes simple. The performance : reward relationship is easier to discern when the scheme itself is simple.

Celebration of Success

Rewarding people for achievement is an act of celebration. It underscores business necessity, but it also allows people to savour their successes.

Failure to celebrate success and recognise the importance of enjoying work and achievement can result in unhealthy levels of stress being experienced by scheme participants.

Celebration requires communication; and there is enormous symbolic value to be gained from getting very senior people to do the communicating: "If its important to the 'bosses'; it had better be important to us!"

If you adhere to these guidelines; your incentive scheme will have a significantly improved probability of triggering a real and sustainable improvement in the performance of your business.

In conclusion, remember: -

- You will never fully optimize your organisation's performance without an incentive scheme – but just having one does not, in itself, guarantee improved performance.
- The design of a really successful incentive scheme is an ongoing process; not an event.
- The success of an incentive design in another organisation is not a predictor of its success in your organisation. Don't try to "transplant" other peoples' scheme designs.
- Nothing fails like success! Hanging on to design features or performance measures just because they brought success in the past, does not increase your chances of success now. On the contrary, it could kill your scheme.

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