



The people management people

How to create a Great Incentive Scheme

Incentive design is not ‘rocket science’ – it is a combination of being clear about the aims of the incentive, keeping the design simple and focusing on effective implementation.

Design success factors

Although none of the factors outlined below will surprise you, and any reward specialist will offer a very similar set of design criteria, they are crucial to the success of the plan you intend to design and implement. As you embark upon designing a new scheme in broad terms the sorts of questions you should be asking to determine the *design principles* are:

Why does the Company need to reward performance through an incentive?

- What specific business performance are you looking to drive?
- Is there a set of common design principles that can be applied?
- Which employees will participate?

What specifically does the Company want to reward?

- Improved financial performance
- Specific behaviours
- Improved competence
- Adherence to Company values

Once you have the answers to these questions you will have a pretty good set of design principles, which you can then use to create a detailed design framework. The design framework provides the basic skeleton upon which you will base the scheme and its operation.

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Design framework

At the next level of design you should concentrate on how the scheme will operate, who will participate, the targets & measures and of course the communication and payment details. In essence you need to establish:

What is the basic type of plan proposed?

Commission, annual bonus or a variation of these?

Who participates?

Which employees will participate in this plan & what governs participation? Is it determined by the role undertaken, the grade / level within the organisation or is it at the discretion of the company?

How will the plan be funded?

Have you engaged the finance function to determine where the money will come from, to make payments to successful participants?

What will the plan pay?

Do you have a 'target' incentive payment? Is this a percentage of salary, or a fixed sum of money? How do the proposed payments compare to other companies who compete for your talent, and how do they compare with other incentive plans inside your organisation?

Measures & targets

What measures and targets will be used? In our experience poor measurement criteria and unrealistic targets are the most common reason for incentive plans to fail. If you are attempting to reward a specific aspect of performance it must be measurable, and if it is measurable then can you place a target upon it! Even if you want to reward more subjective aspects of performance, it is important to establish a 'level playing field' for managers and participants in the plan. If an incentive plan is perceived as being unfair or unrealistic, it defeats the purpose for which it was designed.

Assessment & calculation

Will the measurement of success be comparative against peer participants or absolute against agreed targets? Once you have agreed the basis of measurement, how will the results translate into payments? How transparent will the calculation be, so that participants can clearly see a link between results and payment: i.e. if they achieve outcome 'a' they will receive a payment of 'x', and if they achieve outcome 'b' they will receive a payment of 'y'.

Communication

How will you communicate the link between the incentive scheme and the overall business strategy and goals? Create a communication plan, outlining what you will tell participants, and when. This is a critical aspect of effective implementation.

Rules & regulations

What are the broad rules? Be clear from the beginning about the general principles. You will need to strike a balance between clarity and complexity. Someone, sometime, will find a scenario that is not easily covered by

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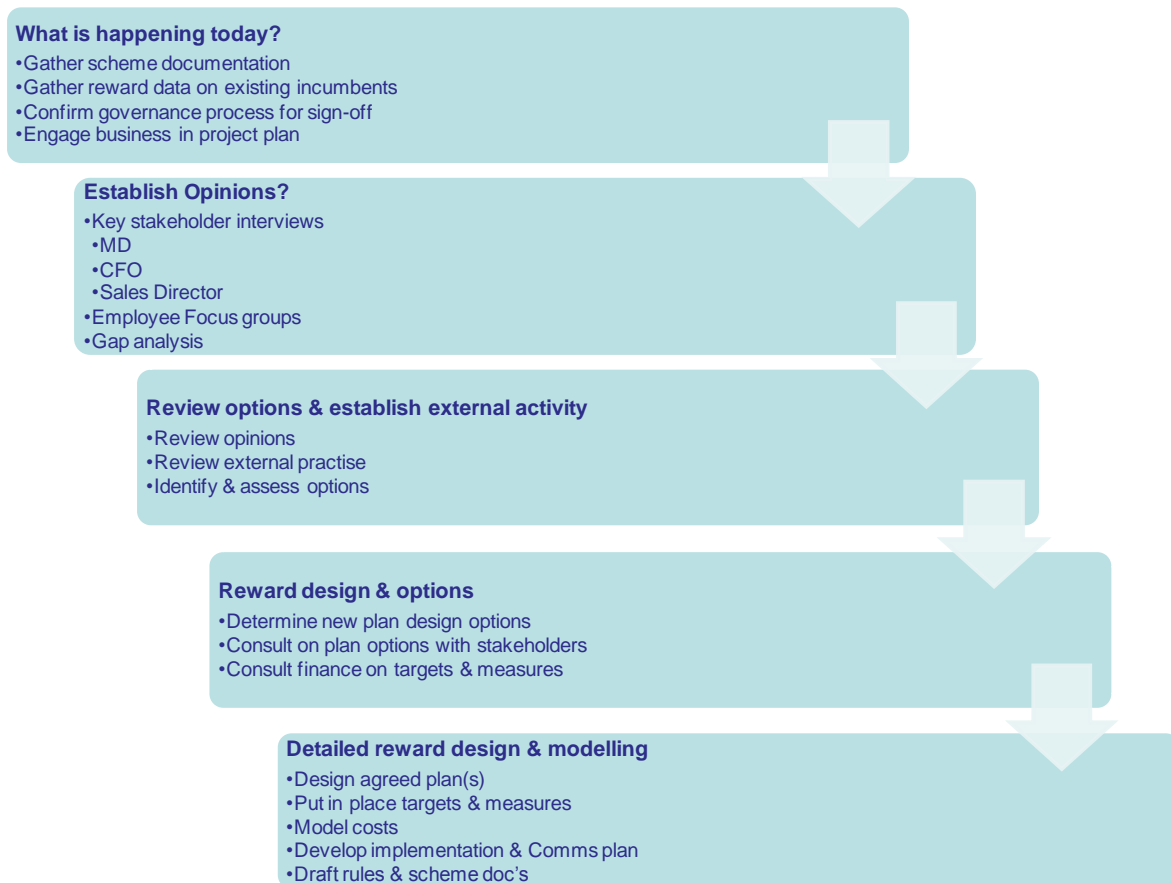


the rules, for example the part-time employee who only works 'term time' or the employee who has been on sick leave. Most importantly, make sure that participation in the scheme is not a contractual right, and that all payments & continued participation is at the discretion of the Company.

Implementation

The last and in many ways the most important aspect of the delivery of a great incentive plan is the implementation. So far you have a very general overview of the design aspects to be considered when creating a scheme.

The diagram below provides a very general view of the implementation steps to follow to ensure flawless implementation:



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The benefits of getting it right

- The process steps described within the diagram provide an idea of typical tasks and the order in which they are usually undertaken.
- Stakeholder engagement and the involvement of the finance function throughout the process are critical.
- While the timing and order of the steps may vary between organisations, if you follow this process, you will significantly improve your chances of designing and implementing an effective incentive scheme.

About this guide

This guide is part of plusHR's 'how to' series and was prepared by Marc Bishop, Director of Reward Consulting. Marc has a wealth of experience in reward having managed projects for organisations including Barclays Bank, Nationwide, Kimberly Clarke and Virgin Media.

plusHR works with organisations of all sizes and sectors to design and implement effective people management processes. Our Reward Division provides bespoke reward management solutions across the following areas:

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