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incentive design for tough times

After salaries, bonus payments are usually the next biggest people-related cost. Therefore getting an effective return on investment from these schemes is a top priority in the current climate.

With the pressure on business at this time, the immediate response may be to either ditch current schemes or to cut payment levels to safe-guard the bottom line. Knee-jerk reactions to current conditions may fix a short-term problem but will significantly impact employees' longer-term engagement levels and potentially bottom line results. It's therefore advisable to examine the less visible effects of tinkering with incentives schemes such as the dilution of the performance message, distraction from the focus on key result areas and the impact on employee motivation. Breaking the psychological contract with employees, particularly key talent can have far reaching consequences.

Incentive schemes perform two key functions: they drive results by focusing employee attention on key performance targets and they recognise and reward key value creators for achieving those goals. When an incentive scheme works well there is a 'win-win' scenario for both employees and the organisation. Similarly when the organisation does not perform well, bonus payments should reflect this. If this balance is put in jeopardy due to unforeseen circumstances, organisations may need to respond accordingly by realigning their schemes to market conditions and ensuring employees remain motivated by the scheme. In this way an incentive scheme can continue to focus on 'what is important' to the organisation and provide the employee with the opportunity to earn variable rewards, particularly when fixed salary increases may be on-hold. Maintaining a focus on performance in uncertain times is more important than ever so that the organisation is well positioned to spring-board ahead when market conditions improve. In addition key talent will continue to be engaged.

If your incentive scheme is displaying any of the following 'symptoms', take the time to review its effectiveness and re-align it to market conditions, rather than closing it altogether.

Symptoms of failing schemes include:

- The scheme has become unaffordable
- Stretch targets and goals are now unrealistic and unachievable
- The performance measures are out of alignment with the new business focus or market conditions
- The scheme is acting as a disincentive in the workplace
- The scheme isn't engaging and motivating employees
- Employees have adopted poor behaviours, e.g. heavy discounting at the expense of profit to 'make the numbers'.



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Recent research undertaken by dsd Consulting of 92 top New Zealand organisations suggests that over half are experiencing similar problems and considering remodelling current schemes to realign them to market conditions in 2009.

The key to realigning your incentive scheme effectively is to go back to basics. Start from scratch and review your foundations as if you are designing a new scheme. When entering the design phase, key questions that need to be asked are:

- Who should be eligible to participate in the scheme?
- Are we using the right performance measures in the current climate?
- How reasonable are the targets considering the market issues?
- Can we afford the payment levels under the current scheme?
- Are key value creators being recognised and rewarded appropriately?
- What role does the incentive scheme play in the overall reward and recognition strategy?
- Does the scheme reinforce the right behaviours and send the right messages?
- What is the 'trickle-down' affect of changing the scheme?

Communication is the key

To avoid the 'negative' publicity associated with re-aligning an incentive scheme half way through its performance period, give

careful consideration to your communication strategy.

With the faltering economy many employees are nervous about job security and highly sensitive to rumour and speculation within the workplace. Although there may be a tendency to keep everything under wraps to avoid unnerving employees – the best policy is to talk straight and provide the facts. Your employees are more likely to 'buy-in' to genuine efforts to focus on achieving sustainable business results. It's vital that it is not seen as an opportunity to save money at their expense.

Take some time to also consider the impact of changes to your incentives schemes within the organisation's overall recognition and reward mix. Be aware that if you realign general staff incentive schemes to market conditions other reward mechanisms may need to be tweaked to ensure consistent and fair practices across the business. Consider the impact of continuing to pay large bonuses to some roles, such as executives, if other employees' incentives are diminishing. This undermines any good intentions and will be the catalyst for resentment to set in.

Finally, remember there are other tools in the tool-kit. If you are limiting incentive schemes and salary increases, consider other softer recognition rewards other than cash; including work/life balance, career development and learning opportunities. Smart, sustainable organisations will seek to use a variety of techniques to keep employees engaged while safe guarding the bottom line. ■