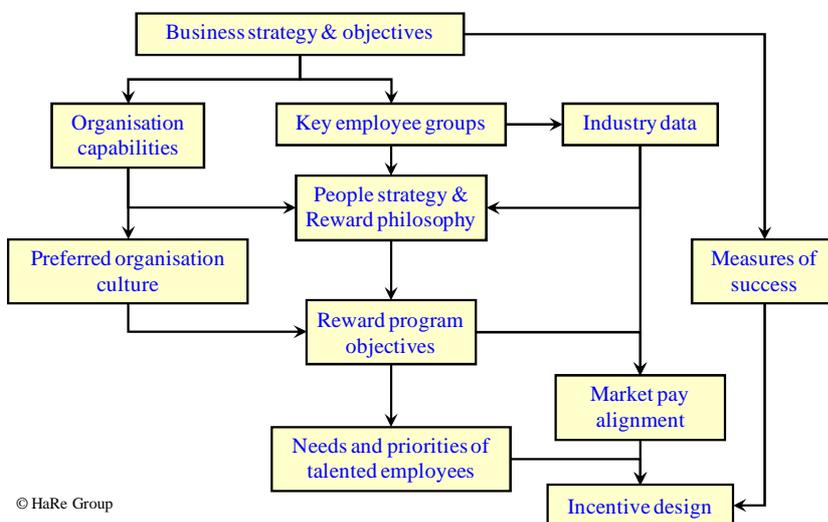


Subject: Greed is NOT good – instead, boost enduring business value

Do you expect performance-based incentives to improve business results? Instead, are your employees given bonuses just because of an industry norm?

In most organisations, the reality a mix of both, but many incentive plans are poorly designed, or poorly understood, or poorly administered. They are often so inefficient or so ineffective that the business return on investment is negligible or negative. In some cases, an incentive scheme can lose sight of the organization’s customer value proposition and do serious damage to the reputation of the business (eg. [CBA’s financial planners’ incentive scheme](#)).

To have any prospect of improving business results, incentive plan design must be thorough and relevant to agreed business objectives and desired behaviour. Incentive design should be anchored to the realities of the business and the industry in which the organisation operates. The design process should also engage the participants as well as senior management. The following chart highlights the main prerequisites for a successful incentive plan design.



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It’s surprising how often these prerequisites are neglected by an incentive plan designer. Too often, the designer alone interprets business conditions with reference to redundant data – then the final design is too quickly signed off by management who have no desire for “unnecessary distractions.” Participants are often unpleasantly surprised by such a plan, which typically leads to an early failure.

In my experience, the most successful and long lasting incentive plans require:

- Anchoring to desired behaviour, current business strategy and measures of success
- Focus on core business segments and substantive work teams
- Diligent data gathering and analysis (both quantitative and qualitative factors)
- Clear measures of return on investment (ie. plan self-funding)
- Approval of an incentive plan concept by senior management
- Engagement of the eventual participants in the plan, including their input on how their performance should be assessed
- A successful pilot that shows performance improvement that exceeds the additional remuneration cost
- Broad-based employee education and executive endorsements on the benefits of the plan
- Thorough monitoring of plan outcomes, employee feedback, fine tuning and continuous communication

Gordon Gekko would disagree, but the KPIs for a business incentive plan should be sustainable increases in profitability and an improved corporate reputation, not personal wealth creation.

Simon Hare

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