

# INCENTIVE DESIGN

The battle to control costs while ensuring your incentive schemes are geared to attract and retain the best talent is not easy, says Susan Doughty. Here are her responses to your questions on the issue.



**Our company's annual incentive scheme has become increasingly unaffordable in the current climate. What can we do to protect the company from paying out when money is tight?**

There are two key design features that safeguard the affordability of company incentive schemes. The first is to incorporate a company profitability 'hurdle'. Many organisations use measures like NPAT or EBIT. If the company does not reach the stated target, the scheme remains closed to all employees and no payments are made.

The second alternative is to apply realistic thresholds against financial targets, and do not pay for any performance below these targets.

Either of these design features ensure the scheme remains self-funding and affordable and we recommend that all company-wide short-term incentives feature at least one of them.

**We have multiple commission and incentive schemes across the business. How do we achieve consistency and ensure the right**

**rewards are being paid to the right people?**

In these situations it is important to have a single consistent overarching framework across all commission and incentive schemes. In this way you link incentive/commission rewards to the business strategy and operate a common methodology across the organisation, while providing enough flexibility to alter commission rates, weightings or measures as needed. This makes it easier to ensure that your variable pay plans are rewarding crucial results and providing differentiated payouts for your top performers.

**We are currently debating whether sales support and administration staff should be part of the sales incentive scheme. What is best practice in this regard?**

The first step is to consider the objectives of your sales incentive scheme. If it is all about driving profitable sales, then you should question why sales administration staff would be eligible for incentive payments.

If, by contrast, you are wanting to generate collaborative effort and/or encourage 'team' behaviours, there may an argument for including sales support in part of the scheme.

As a general rule, sales incentive schemes should be reserved for staff who directly affect sales results. Remember that there are many ways to reward employees, and incentives may not be the best vehicle for all staff.

**We need to limit the number of staff eligible to participate in our company incentive scheme. Do we have to compensate them if they don't get an incentive any more?**

This will depend on your employment contracts, the rules governing the operation of your scheme and your company's culture and values.

If the rules and conditions of your scheme stipulate that the scheme is discretionary and/or by invitation only, and you have included mention that the company reserves the right to terminate the scheme, then no compensation may be necessary.

Ultimately, the decision to limit eligibility and whether to provide compensation will need to be balanced against the impact on employee engagement levels and your company values and culture.

**Our sales incentive scheme is not working in the current market. Can we make changes to the scheme halfway through the performance period or should**

**we wait until the next year?**

In normal market conditions, making changes to a scheme mid-cycle is generally not recommended. Incentive schemes are future focused, so employees need to be clear about the goals they need to achieve. However, the current economic landscape means that many schemes just aren't effective any more.

If your scheme is severely affected by economic conditions and is having an impact on both engagement and affordability, it is advisable to engage with your employees and undertake a full review of the scheme, rather than tinkering around the edges. This ensures that new variable pay structures are 'fit for the future' and arbitrary changes or short-term fixes are not seen as an opportunity to save money at employees' expense.

**How do we determine what is the right level of incentive rewards to pay to employees in different bands for our company incentive scheme?**

Best practice incentive schemes provide larger incentive rewards to employees who have a strong line of sight between their actions and the desired results.

The table (left) offers a general guideline for the typical on-target earnings at different career levels. **et**

*Susan Doughty is a director of dsd Consulting Ltd, specialists in remuneration and rewards management. If you have a question for Susan, contact info@dsd.co.nz.*

Guideline for typical on-target earnings at different career levels	
Career level	Average target earnings as a % base salary*
Senior management	30% — 40%
Middle management/Specialist	20% — 25%
Team leader/Specialist	10% — 15%
Team member/Administration	5% — 10%

\* dsd Consulting Ltd: REMonTAP Remuneration Survey©