

## How to Develop an Objective Incentive Scheme

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A well-designed staff incentive scheme could have positive and powerful effects on the productivity, efficiency and effective operation of any organisation. On the contrary, poorly developed schemes can have negative effects. By all means, necessary an incentive scheme should be designed in such a way that it is transparent and the staff members affected should be able to easily understand the mechanics of the calculation

### Objectives of an Incentive Scheme

1. To motivate staff to achieve desirable performance levels and drive desirable employee behaviour
2. To make clear the rules governing the incentive scheme
3. To create value for shareholders and employees sustainably.
4. To develop an incentive scheme that is easy to understand and implement.
5. To develop a scheme that is in-line with best practice and documented.
6. To develop an incentive scheme that is aligned to your organisation's strategic objectives

### Measures of Success of the Incentive Scheme

1. Improved performance of the company.
2. Increase in labour productivity.
3. Retention of competent staff.
4. Reduced grievances from staff members.
5. Increase in employee engagement.
6. Increased teamwork and a sense of ownership amongst employees.
7. Reinforced cultural change.
8. Suppressed entitlement mentality.
9. Clear communication of company values as espoused in the scheme.

### The principles that should guide an incentive scheme are:

#### 1. **Fairness**

The goals or reference standards set out for employees must be attainable because if not instead of motivating the employees, the incentive scheme will hurt their motivation. The incentive scheme should differentiate between star performers and average performers.

#### 1. **Transparency**

It is imperative that the “rules of the game” be known to everyone affected by the scheme. The rules of the game are constituted by such things as performance measurements, minimum requirements and any formulae used for calculating individual payouts.

## **Step by Step Approach to Developing an Incentive Scheme**

### **Phase 1. Define the Objectives of the Incentive Scheme**

The definition of the incentive scheme’s objectives is a critical step in the incentive scheme’s design and key stakeholders need to be involved as well and their input should be incorporated. The objectives of the incentive scheme must be in tandem with the strategic goals and culture of your organisation. On top of that your incentive scheme should be crystal clear about what it intends to achieve.

The definition of the incentive scheme’s objectives is a critical step in the incentive scheme’s design.

### **Phase 2. Defining your Organisation’s Strategic Goals**

The definition and clarification of your organisation’s strategic goals are very crucial when designing an incentive scheme. You need to align your strategic goals with your incentive scheme’s objectives.

The definition and clarification of the institution’s strategic goals is such a fundamental and important process that it requires the participation of management (and often even the board of directors). Of course, clarity and agreement about the major goals of the organisation are important requirements not only for the design of appropriate incentive schemes. They form the basis for strategy formulation in all business areas.

The more we know about such strategic directives, the better we can adjust our incentive scheme.

In any case, it helps those designing staff incentive schemes if there is agreement on what the organisation wants to achieve.

### **Phase 3. Determine the employees to be targeted**

There is a need to identify the employees who contribute most to the achievement of the incentive scheme’s objectives. The introduction of a scheme at one organisational level may trigger the need to implement the scheme at other levels as well.

### **Phase 4. Determine the Incentive Mechanisms**

The incentive schemes include among other things:

- Merit pay
- Incentive pay
- Perquisites
- Benefits
- Profit-sharing
- Gainsharing

The incentive scheme can also be classified into short-term and long-term as well as between individual and group incentives.

#### **Phase 4. Conduct the Technical Design Work**

This entails formula development, calibration and spread-sheet testing. It is essential to carry out sensitivity and scenario analysis.

#### **Phase 5. Analysis of the Costs and Benefits**

This stage involves proper cost-benefit analysis and an estimation of the impact that the planned scheme will have on operational costs and the organisation's financial performance.

#### **Phase 6. Pilot Testing of the Scheme**

With all the financial models, scenarios and estimates, the real test for the scheme is how it will be received in your organisation.

#### **Phase 7. Sensitization of Staff about the Scheme**

At this stage, the objectives of the scheme, mechanics of the scheme and the reasons for the scheme and what it entails is communicated to the staff. It is important to note that if not properly communicated it will face stiff resistance from the targeted employees and have counterproductive effects on their motivation.

#### **Phase 8. Monitoring and Evaluation of the Scheme**

It is the responsibility of the management and other key stakeholders to check among other things:

1. Are the objectives of the organisation still the same?
2. Does the scheme in place still achieve the intended purposes?

So depending on the answers to such questions, you can make necessary changes where there are warranted.

Given this background, it is important to note that an incentive scheme that is designed without the involvement of key stakeholders and not informed by the steps alluded to above creates a recipe for conflict.

## **References**

Holtmann, Martin / Grammling, Mattias (August 2005): Designing and Implementing Staff Incentive Schemes:

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