



BUILDING BETTER INCENTIVES

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REMUNERATION INCENTIVES

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Building better incentives

Incentive schemes are widely used to align employee efforts with organisational goals by rewarding the achievement of desired results – but are leaders using them as effectively as possible? *HRD* talks to Strategic Pay to find out more

WHAT INCENTIVISES you to do your best work? It's a question that's on the minds of many CEOs and HR professionals throughout New Zealand – sometimes just as an afterthought. But for Michelle Read, Manager – Southern Consulting at Strategic Pay, it's a critical question. With decades of experience in HR and remuneration consulting, she's keenly aware that remuneration isn't just about numbers; it can be

a make-or-break proposition for current or future employees.

"One of the things we believe at Strategic Pay is that dollars in and of themselves don't necessarily create effective motivation that translates into real-world results," says Read. "It's a common misconception that this is how things work, but there are more factors at play."

Read explains that motivation which

In fact, intrinsic motivation and extrinsic rewards are both important to on-the-job performance, having positive effects on quality and quantity respectively.

Types of variable pay

Base pay is important, there's no doubt about that, but it's increasingly evident that businesses are going above and beyond this in order to get the best out of their

ABOUT STRATEGIC PAY

Strategic Pay is New Zealand's largest source of remuneration knowledge. Businesses rely on us to provide unmatched advice, innovation and information on strategic reward and performance development. With the broadest, most comprehensive remuneration data services available, and an approachable, responsive team of experts across the country, no other specialist is as well resourced or ready to help clients achieve their business goals. We work alongside you to provide a compelling proposition that attracts, retains and motivates the best people.



"A reward program is a vehicle for communicating to your staff what the organisation as a whole values"

Michelle Read, Manager – Southern Consulting, Strategic Pay

yields positive workplace results tends to be driven by a variety of intrinsic factors, such as the desire for autonomy, mastery and alignment with the organisation's purpose, as well as other individual factors.

Further, money, by comparison, is an extrinsic factor. Certainly some people will work harder if there is a perceived reward for doing so, but Read points out that harder is not necessarily smarter or better.

employees. According to Strategic Pay's *New Zealand Employment Policies and Practices Report 2019*, 56% of participating organisations currently offer some sort of variable pay scheme.

"There are standard offerings that you'd expect, like commissions for sales staff," says Read. "We are also seeing organisations offering different plans or combinations of plans in this area."

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Of those participating organisations that offer some form of variable scheme:

- 11% offer a profit-share scheme
- 18% offer a commission scheme
- 21% offer long-term incentives
- 55% offer short-term incentives
- 71% offer a bonus scheme

Read also notes that when it comes to variable pay, there are two main categories – discretionary bonuses and incentive pay.

Discretionary bonuses are typically delivered after a specific event has taken place; they're not established upfront and are frequently treated as something of a 'thank you' from the organisation to the employee. Incentive pay, by contrast, is used to create a focus on specific goals. The scope can vary based on individual, team and/or organisation-wide targets.

Read points to Toyota New Zealand as a recent successful example of where customer-centric metrics were used to facilitate cultural change within a business. In 2018 Toyota reported on the Drive Happy Project designed to encourage dealers to focus on customer needs rather than the selling price.

"It's an effective demonstration of how incentive schemes can be more than just staff drivers," says Read. "They can also help change public perceptions in the industry."

At the most senior level, CEOs are typically given targets around total shareholder return for their long-term incentive plans.

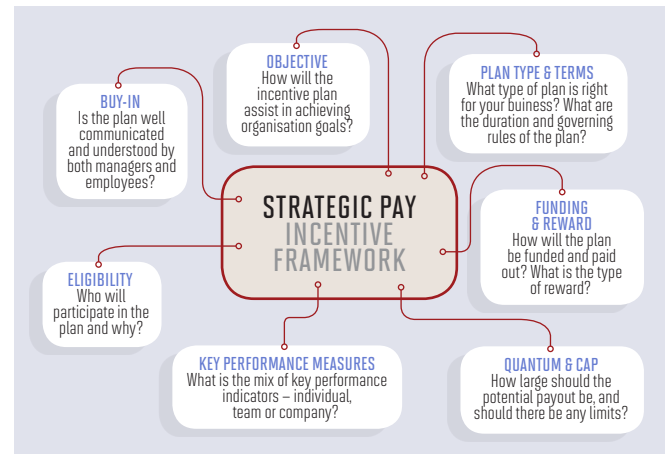
"We know that 87% of NZX CEOs are eligible for this due to the greater transparency of reporting created by the NZX Corporate Governance Code," says Read.

There are a variety of reasons why incentive schemes have grown in popularity; in some cases, it's simply a result of low salary movement. Due to other economic pressures, offering additional cash may not be possible, but benefits like flexible working



INCENTIVES FRAMEWORK

An incentive plan must fit with your organisation's strategy, philosophy on pay and internal systems, as well as its culture and values. For the best results the incentive plan should be unique to your organisation, and the following components should be incorporated when structuring the Incentive Framework:



arrangements or additional leave may be available instead, Read says.

"More companies are also beginning to think about the employee experience holistically," she says. "Within that, they're not just thinking about pure rewards; they're also thinking about how they cultivate relationships with employees, along with development, wellbeing and recognition initiatives."

To incentivise or not to incentivise?

At surface level, incentive schemes seem like an obvious way to boost employees' performance. But Read is quick to caution that there's no holy grail, and businesses need to tailor a scheme to fit their own specific working cultures.

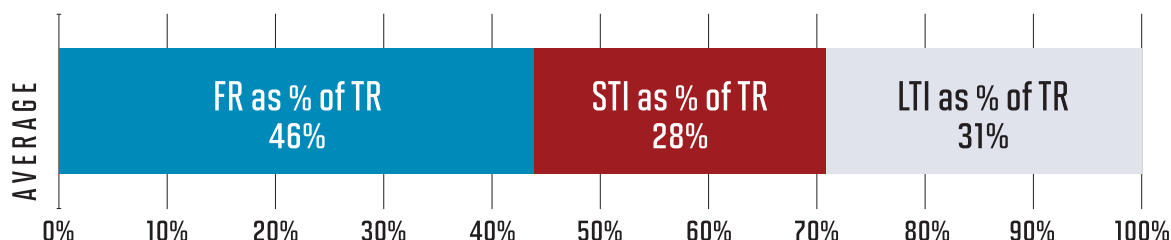
"A reward program is a vehicle for communicating to your staff what the organisation as a whole values," says Read.

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NZX CEO TOTAL REMUNERATION PACKAGE

Strategic Pay's data clearly indicates the importance of incentive plans as a component of listed organisations' CEO packages – both short- and long-term.



Total Remuneration (TR) package structure consists of Fixed Remuneration (FR), target short-term incentive (STI) and the granted long-term incentive (LTI)

“To give an example, you might look to the not-for-profit sector – they can’t necessarily afford to pay cash bonuses or reward staff at the same level as the private sector. Accordingly, salary and rewards packages need to be thought about differently and as part of providing a better employee value proposition.”

Naturally, it follows that an incentive scheme’s design is crucial. The end goals must be considered carefully, for example by asking the questions: What are you trying to achieve? Are you looking for results at an individual, group or company level? What sort of measurements are going to be put in place?

This becomes particularly important when a company is looking at ways to improve measures that are more qualitative than quantitative, Read says. She points to employee engagement as one example.

“Health and safety, sales or customer retention goals tend to be pretty clear-cut,” says Read. “You achieved a number or you didn’t. But you need to be very clear when you’re discussing something like employee engagement – what metrics do you have in place to measure that?”

Indeed, Read notes that lack of planning and modelling on this front is often a major cause for incentive schemes failing.

“We see a lot of businesses who don’t really assess all the possible outcomes and scenarios that could arise,” says Read. “These schemes are an investment, and they need to be treated as such. If you have unclear or conflicting scheme objectives, you may get unintended outcomes.”

Read also points to incentive schemes that try to do too much under one banner.

“Unfortunately, we regularly see incentive schemes being used in place of real perfor-

for your organisation, says Read.

“We have New Zealand’s largest remuneration database, so we can model the impact of the incentive scheme against a number of industries and show how competitive the organisation’s rewards are,” she says.

“We’ve also got a great understanding of diverse business models and can work with companies to design an incentive framework customised to their strategic goals.”

Ultimately, Read notes that businesses

“Spot bonuses are used by agile organisations for real-time rewards”

Michelle Read, Manager – Southern Consulting, Strategic Pay

mance management,” Read says. “But they’re actually very distinct functions – you can’t just delegate a manager’s role to a set of KPIs.”

Working with a specialist remuneration consultancy can help avoid a number of these pitfalls. A well-designed and executed incentive scheme can also help differentiate your organisation from your competitors, and achieve the best return on investment. Strategic Pay is able to assist in reviewing a current incentive plan, or can help to design and implement an incentive plan that’s right

need to very clearly define the incentive plan’s purpose upfront. Is it to share the organisation’s wealth, retain staff, or reward high performance, for instance?

“What organisational goals do you aim to achieve?” says Read. “A good rule of thumb is that, if you can’t easily explain the scheme to someone who’s not part of it, then it probably needs simplification. Keep in mind that employees must have ‘line of sight’ to the goals and understand their role in executing them.” **HRD**