

The Sirius Test – Is your Incentive Scheme a *Dog* or a *Star*?

Key Feature	Dog	Aspiring Star	Star
Existence of Objectives	There are no specific objectives for the scheme	The scheme has objectives (specify): But these cannot be directly linked to company results	Scheme objectives are clearly linked to company results and address specific business needs
Achievement of Objectives	Specified objectives were not met at all (or there were none)	There was some measurable progress towards achieving objectives	Scheme objectives were fully achieved last year, with a clear effect on results
Employee Engagement	Employees have not bought into the scheme	Some employees have achieved better results because the scheme has provided a clear focus for their efforts	Employees are enthusiastic about the scheme and there have been improvements in almost everyone's results
Reward for Performance	The scheme does not reward the right employees	The scheme rewards some good employees, but some miss out and some poor employees receive a windfall	Good employees have benefited and the company has also benefited as the result of the scheme
Costs and Funding	The scheme added costs to the business without any additional value	The scheme added some costs, but has provided some benefits, so has roughly broken even	The benefits reaped as the result of the scheme outweigh the costs
Transparency	Our employees say they do not understand the scheme	Employees understand some of the scheme's expectations, but are confused about some aspect	Employees understand the scheme and the links with their performance and reward
Number of Measures/Targets	The scheme has 6 or more performance measures	The scheme has 4 or 5 performance measures	The scheme has 1 to 3 performance measures
Where your scheme scores most commonly?	Pack of Dogs – get rid of it	Halfway there – review it, using our checklist below	Constellation – perfect scheme for now. Keep tabs on it

If your scheme does not meet our suggested success criteria, we suggest you get together a design team and review its effectiveness.

INCENTIVE SCHEME EFFECTIVENESS CHECKLIST

This checklist may help you develop a much more effective scheme:

- **HOW - Employee buy-in** – involve employees in the scheme design and you will probably get a better scheme design, and definitely get better buy-in
- **WHY - Objectives** – why are you introducing this scheme? What business objective are you trying to achieve? How are you going to **assess the scheme's effectiveness**? If you don't know this, why are you doing it? A key pitfall is to introduce a scheme just to keep up with the market on variable pay, or to improve employee retention.
 - On the whole, incentive schemes work well when there are one or two simple objectives, e.g. increase volume, increase revenue, reduce costs, or increase percentage of high margin products sold
- **WHAT – Your scheme design will be much more straightforward if the HOW and WHY have been managed well:**
 - **How complex is the scheme?** Some employees can cope with e.g. a complex commission scheme, but if your employees can't understand what they are meant to achieve, they will probably not focus their efforts in the way you want
 - **Will the scheme motivate employees?** If employees are happy with the remuneration they receive and already working to their full potential to do what you want, the introduction of an incentive may not be effective. Similarly, if employees enjoy working as a team, an incentive that rewards individual results may be viewed as divisive and unhelpful.
 - **Are the targets achievable?** Targets should not be impossible to achieve. Review historical or benchmark data so that realistic goals can be set
 - **Is the incentive part of a wider, multi-faceted approach** to the issue? For example, if you want to increase sales volume, but your competitor's product is cheaper, more reliable and supported by a large promotional budget, an incentive alone is unlikely to change your results
 - **How targeted is the scheme?** It's unlikely that a "one size fits all" scheme is really going to have any impact. Employees who feel they have no line of sight to the incentive's targets, or ability to influence them, are not going to be motivated to work harder to achieve better or different results because of the scheme
- **HOW – Are you going to pay for the incentive** if the objectives are achieved? You are adding on a potentially large cost – the ideal scheme is self-funding, e.g. funded through the increased profits generated. Model it carefully to ensure you can pay for the agreed outcomes
- § **WHEN – Have you created the expectation that the scheme will be reviewed, based on business need?** A formal review after 1 year will ensure your scheme improves over time and remains relevant to the company. In most cases, schemes have a set lifetime, reflecting changes in company priorities from year to year.