EMPLOYEE REWARDS: IS YOUR INCENTIVE PLAN EFFECTIVE?

6 WARNING SIGNS THAT YOUR PLAN IS NOT HAVING THE DESIRED IMPACT TO RETAIN YOUR WORKFORCE FOR THE FUTURE.

The goal of employee incentive plans is to drive increased attraction, retention and motivation, and reinforce desired behaviours in the workplace.

These plans can be complex to grasp, administer, and assess for effectiveness. Many organizations know that something isn't quite right with their employee rewards, but are not sure how to effectively analyze and improve their incentive plan.

In our discussions with senior management across Canadian organizations to help design effective incentive plans, we've encountered and recorded the following recurring warning signs.

WARNING SIGNS OF AN INEFFECTIVE INCENTIVE PLAN

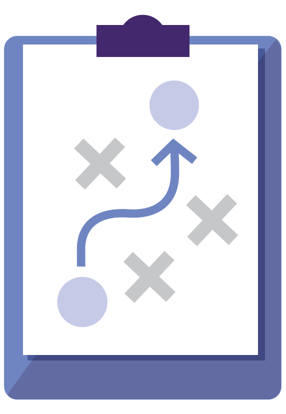
1 CONFUSION

The performance measures that contribute to employee rewards can be complex. If employees lack a basic **understanding of how their efforts drive higher payouts and greater company success**, your incentive plan will fail to motivate.

2 LACK OF CORRELATION

When **incentive plan payouts are divorced from company performance**, employees develop misaligned expectations around rewards. If rewards are consistently high no matter how the company performs, employees might come to expect bonuses as if they were a part of salary. If rewards vary wildly based on factors employees can't be expected to control, they won't feel they need to excel to earn it.

3 DISCONNECT FROM BUSINESS STRATEGY

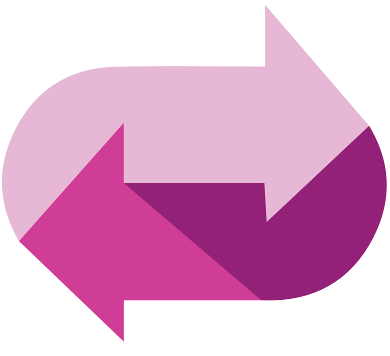


Senior leaders generally have the greatest insight into strategy. Giving employees the same **clear line of sight from strategy to incentive outcomes** is a great way to get everyone pulling in the right direction and (especially if you grant equity) managing the business as if they owned them.

4 FAILURE TO MOTIVATE KPI TRACKING

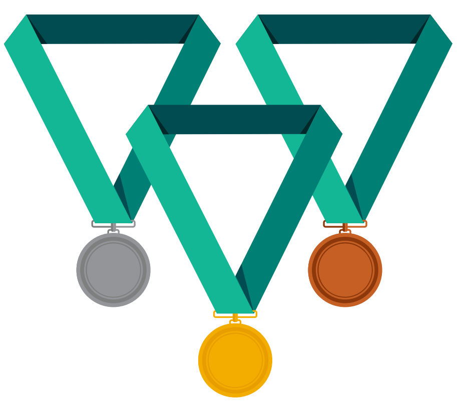
Incentive plans are meant to give leadership finer **control over what the team is working on and encourage accountability from individuals.** KPIs should be communicated regularly (items such as cost per unit produced, days since last accident, and revenues). Keep in mind, incentive plans are not just about paying more money for better results, they also can encourage managers to make the right choices that support the overall mission and strategy.

5 STRATEGIC CHANGES AREN'T REFLECTED



Your business strategy can be transformed by mergers, new product lines, or changes to the regulatory or competitive environment. If the business you are now running is materially different from the way it was the last time you **updated your incentive plan metrics** (including threshold, target and max levels), employees may be pursuing the wrong goals.

6 NO DISTINCTION FOR STRONG PERFORMANCE



Incentive plans are designed to **differentiate outcomes by levels of performance** – they are meant to reward and recognize those who contribute to success. If both average and strong performers generally receive the same payouts, you may be doing more harm to motivation than good.

RECOGNIZE ANY OF THESE SIGNS?

As a good starting point to address these issues, we recommend conducting a thorough, data-driven review of your incentive plan.

More recommendations:

- Review plan designs in your industry
- Conduct key stakeholder interviews
- Conduct pay-for-performance analysis or value driver analysis

Mercer can work with you to design a successful incentive plan. **Contact us today** for a discussion about your concerns, current trends, and for an overview of our proven solutions.