



HELPING YOU TAKE YOUR BUSINESS TO THE NEXT LEVEL



DISCUSSION PAPER #10

**EMPLOYEE INCENTIVE PLANS**

**DEDICATED TO EXCELLENCE. COMMITTED TO YOUR SUCCESS.**

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### **The Basics**

There are a number of very good ways to provide incentives to employees. The most critical question to be answered, however, is “What objectives are the Owners/Managers of the Company attempting to meet by instituting an incentive program.”

The answers to this question may be varied, depending on the perspective of those being asked. Typical answers include:

- improved productivity
- greater commitment to corporate goals
- fostering employee loyalty and retention
- rewarding employees for exemplary performance
- sharing corporate profits
- greater accountability by supervisors and managers
- developing a sense of “ownership” by the employees

These are all important goals and many Companies contemplating an incentive plan can identify more than one as a key objective.

There are a wide variety of plans that come under the general heading of Employee Incentive Plans. The plans range from the most simplistic Annual Bonus Plans to the very complicated Employee Share Ownership Plans. Along that broad spectrum we find the following:

- Individual Target Performance Bonus Plans
- Team, Group or Department Bonus Plans
- Private Health Savings Plans
- Revenue-based Bonus Plans
- Profit-based Bonus Plans
- Profit sharing Plans
- RRSP matching contribution Plans
- Deferred Profit Sharing Plans
- Phantom Share Appreciation Plans

The Challenge for business Owners and Managers is to find the Plan that best fits their objectives and corporate culture. We hope to help you in that quest...

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### **Background**

Fifty years ago, incentive may have been defined by working hard enough not to get fired. Your employees were expected to give you average performance and the ones that gave you more than that were rewarded with greater responsibility and salary levels. Motivation was less important and mobility/turnover issues were not considered important factors in corporate success. That was then – this is now.....

### **Now**

Now we are in the 21<sup>st</sup> Century. We are witnessing the greatest changes in technology that have ever been seen. The only constant is change and change is occurring at an exponential rate. We are also in an age of “Personal Fulfillment”. People want to feel that they “matter”; that the work they do is “important”; that they are “contributing” and that they are being recognized and rewarded accordingly. Motivation and incentives are needed to inspire performance and ensure loyalty. It is a kind of “instant gratification” that our work force has grown up with. No one working for you today will wait for the kind of recognition that the “gold watch” was a (seemingly) ancient symbol of.

But, why do we say that “motivation and incentives are needed”. One reason is that, as humans, we react well to external recognition. A second reason, perhaps not as fluffy, but more pragmatic is that YOUR COMPETITORS probably already have an incentive plan. All of us are competing for the best and brightest to ensure our Companies grow and prosper.

### **What makes a Plan “Good”?**

Many Companies adopt a “cookie cutter” plan that is very broad and not targeted to individuals or groups of individuals. The “everyone gets something” type of plan does not provide the motivation management desires and may actually demotivate top performers who come to resent those they feel are under-performing and still benefitting from the plan. A “good” plan clearly defines the link between effort/performance and compensation. A “good” plan helps employees focus on elements within their control. A “*great*” plan encourages changes in behaviours that contribute to Corporate Success.

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## The Steps

- Step 1. Define the objectives Management is attempting to achieve. These objectives need to be quantifiable and measurable. You can not monitor that which you can not measure. You can not reward that which you can not quantify.
- Step 2. Communicate the objectives and the targets to employees who will be participating in the plan. The goals need to be clearly mapped out and the targets clearly delineated.
- Step 3. Assess the areas that participating employees can control. Consider the behaviours, responsibilities and decision-making activities that are controllable. Define the actions that management wants to either encourage or discourage, then COMMUNICATE these.
- Step 4. Design the Plan. This part sounds easy but it is actually the most difficult. A workable and successful plan will have provisions for immediate recognition, short-term rewards (i.e. quarterly) and long-term incentives for loyalty and commitment over a period of years. This approach is the best way to appeal to employees who have different perspectives. It appeals to those with a need for immediate satisfaction as well as those with long-term career goals.

Actually designing the Plan usually requires the assistance of Professionals who have experience in this area. Typically those who practice in the areas of Human Resources, Compensation Arrangements and Management Advisory Services have the experience and background to ensure that your plan accomplishes your goals.

These are some key elements of a successful plan:

- ✓ simple to understand, implement and follow
- ✓ rewards only for surpassing “average” performance
- ✓ rewards for exemplary individual performance
- ✓ encourage team building and team results
- ✓ rewards should be “noticeable” – general rule is 8% to 12% of annual compensation
- ✓ creative and flexible as circumstances change
- ✓ long-term benefits

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### **Some Parting Words.....**

A well – designed Plan can be a very powerful addition to your Company's benefits program. When employees understand how their work improves the Company, everyone wins. A great plan can help turn a lack-lustre performer into an excellent contributor.

### **We can help**

This brief overview has purposely not dealt with the financial and income tax implications of some of the plans mentioned. These matters are outside the scope of this "Discussion Paper". We would be pleased to meet with you to review the issues and help develop a custom-tailored plan for your Company.

Please contact us at [info@sloangroup.ca](mailto:info@sloangroup.ca)

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