

## Incentivisation - Building a Business Case

### Introduction

Organisations large and small have realised that incentivisation is a primary tool in the management of workforces; particularly where there is a need to increase the performance of individuals and teams. Incentivisation works well anywhere there is a group of people carrying out process-based activities - in a call-centre, manufacturing, retailing or out on the road servicing equipment. It can be used to address specific operational targets or imperatives and also to increase performance against more general organisational key performance indicators (KPI's).



The challenge for operational management wanting to introduce incentivisation into an organisation, or to extend the coverage of an existing scheme, is to justify the benefits of incentivisation in hard commercial terms that can be compared against those of other improvement initiatives that will undoubtedly be competing for a share of the same finite financial and organisational resources.

One way to do this is to build a business case for incentivisation - a useful tool in illustrating the value of an incentivisation scheme and in selling the idea of incentivisation to internal budget-holders.

### Construction of the Business Case

The business case needs to demonstrate the return on investment for the organisation and this requires the determination of the benefits and costs attributable to incentivisation

Most organisations will have a template for a business case but, conceptually, the business case should outline:

- Drivers for the introduction of incentivisation
- Business-units effected
- Benefits - immediate and over the first year of operation
- Costs - initial and recurring and over the first year
- Impact on the organisation and on individual stakeholder-areas
- Risks and issues that are pertinent
- Outline timescales for the project
- Criteria for success

### Tangible Benefits

Incentive schemes can deliver a number of tangible and intangible benefits and these will vary

depending on the type of organisation and the particular 'pains' that are to be targeted through incentivisation.

Tangible benefits include improved performance and reduced cost and these can normally be derived from both individual and team based incentivisation. There are almost always Individual and Team aspects to incentivisation - so remember to factor in benefits from both.

Tangible benefits include:

### **Improved Performance**

Perhaps the most important benefit will be from improved performance. The metrics that you use will be specific to your organisation and the processes that you are targeting. These will also vary by role and team and a useful approach is to create a spreadsheet of all teams and the processes that they carry out. You can then apply individual estimated improvement values to each element. Each element will require the improvement to be turned into a cash value and this can then summed to provide an overall figure. When calculating improvement it is often necessary to make an assumption of the improvement that will be realised. For an organisation or team, where there has been little previous incentivisation, a conservative figure for improvement can be taken to be 5%.

### **Reduced Absenteeism**

Incentivisation is a good way to target absenteeism and ad-hoc sick-leave and it can deliver significant capacity improvement and reduced costs. With 100 staff, two less unscheduled duvet-days per person per year is the equivalent of having an extra 1 member of staff for free - and this doesn't include the hidden management cost of having to react to no-shows, reduced team morale, disruption to process etc.

You will be able to determine a rough cost for the additional management time necessary to re-plan resources and shifts.

### **Improved Time-keeping and Efficiency**

Using incentivisation to improve timekeeping can bring significant benefits in improved capacity. Based on 100 staff each saving 15 minutes per day in wasted time it is possible to realise an annual capacity improvement benefit equivalent to having an additional 2 staff. So, if appropriate, include improved time-keeping in your business case.

### **Staff Attrition**

Incentivisation can improve staff retention and make considerable savings each year through only a small improvement in staff retention. This saving doesn't include the hidden costs incurred through disruption to normal operations, the negative impact on team morale and the additional management effort necessary for resource management, recruitment and training management. There are a number of factors that need to be considered when determining the cost of staff attrition - from internal and external recruitment-costs to the cost of lost productivity during training. A staff attrition calculator that considers all of these factors can be found at: <http://www.incentivise.com/attrition>

## Intangible Benefits

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An incentive scheme will normally deliver additional intangible benefits and while it is difficult to put a cost on these, they can generate significant operational and organisational improvements and should be included in any business case. Intangible benefits will include:

- Improvement in individual and team morale
- Improved individual and team effectiveness
- Greater awareness of organisational goals
- A willingness to embrace change
- Greater sensitivity to organisational effectiveness
- Appreciation and support of corporate values
- Greater awareness of organisational activities

## Costs

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The cost of incentivisation normally falls into the four categories identified in the following list. Costs will vary from organisation to organisation depending on how much reliance you place on external suppliers to manage campaigns and to supply rewards. We encourage organisations to manage their own campaigns as this is the highest quality/lowest cost solution and our own Incentivise system has the facilities to allow this. However, you may wish to outsource some or all of this activity - and this will incur greater cost.

Taxation is another cost element as most organisations will meet any increased tax liability that is incurred by staff through receiving rewards that are a taxable benefit.

Costs will typically include:

- Effort required to manage the incentive scheme
- Effort to develop incentive campaigns and campaign materials
- Cost of providing and fulfilling internal and external rewards
- Taxation that is due on any rewards that are a taxable benefit

## Criteria For Success

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When introducing an incentive scheme it is important to determine and set criteria against which the success of the scheme may be judged.

The business case will identify the benefits that will be delivered through improved performance and it is good practice to ensure that the improvement is evaluated through the change in performance indicators over a suitable period of time. This requires that the organisation is gathering and monitoring the appropriate metrics or KPI's before the introduction of the incentive scheme so that any changes can be highlighted.

Performance evaluation can be conducted against the incentive scheme, overall, or against the individual incentive campaigns of which it is comprised. Normally, when developing metrics for monitoring the success of an incentive scheme, the metrics will be integrated into the organisations performance management framework.

## Conclusions

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Building a business case for incentivisation is a useful tool in evaluating the value of an incentivisation scheme and of the securing the necessary resources and management backing.