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Short Term Incentives, Production Bonuses and Sales Schemes

Key aspects of current practice in South Africa
Best practice and design trends

Do's and Don'ts: lessons learnt from South African case studies

Laurence Grubb

Gallagher Estate
29 October 2010

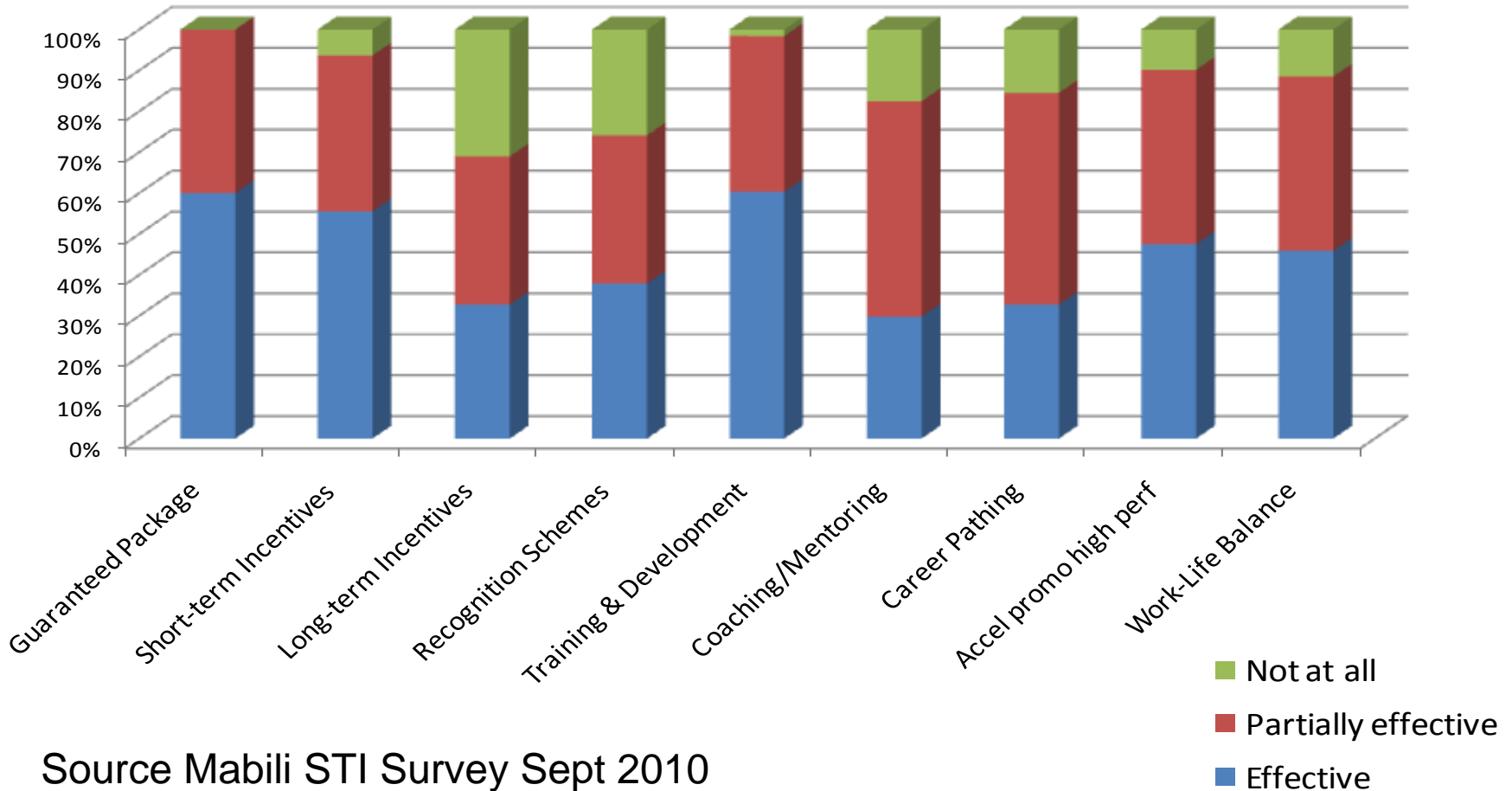


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In your organisation, how effective are the following in motivating staff?



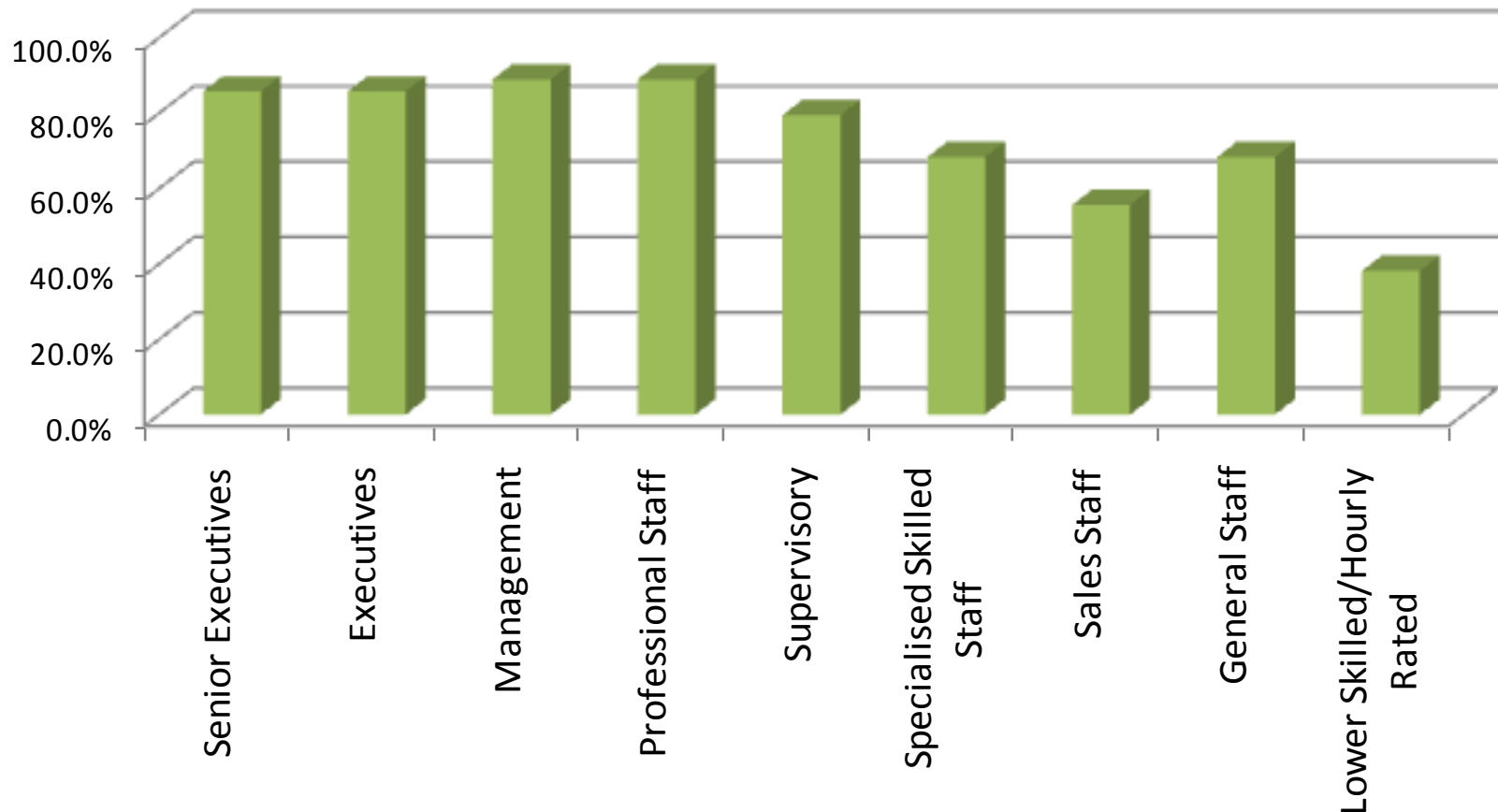


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Please indicate which levels of staff are eligible for participation in your organisation's STI scheme?



Source Mabili STI Survey Sept 2010

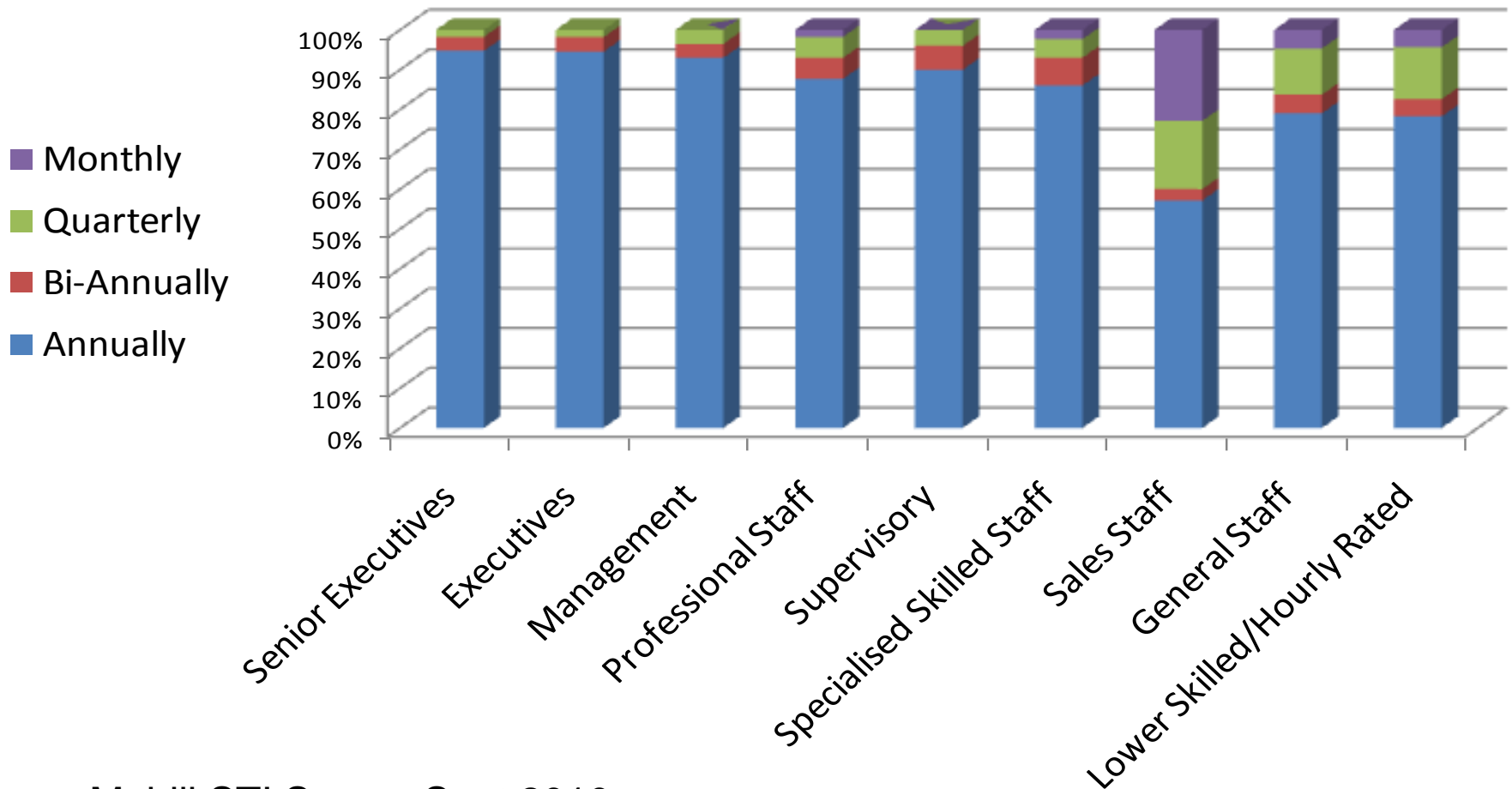


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Please indicate the frequency of payment for the STI's



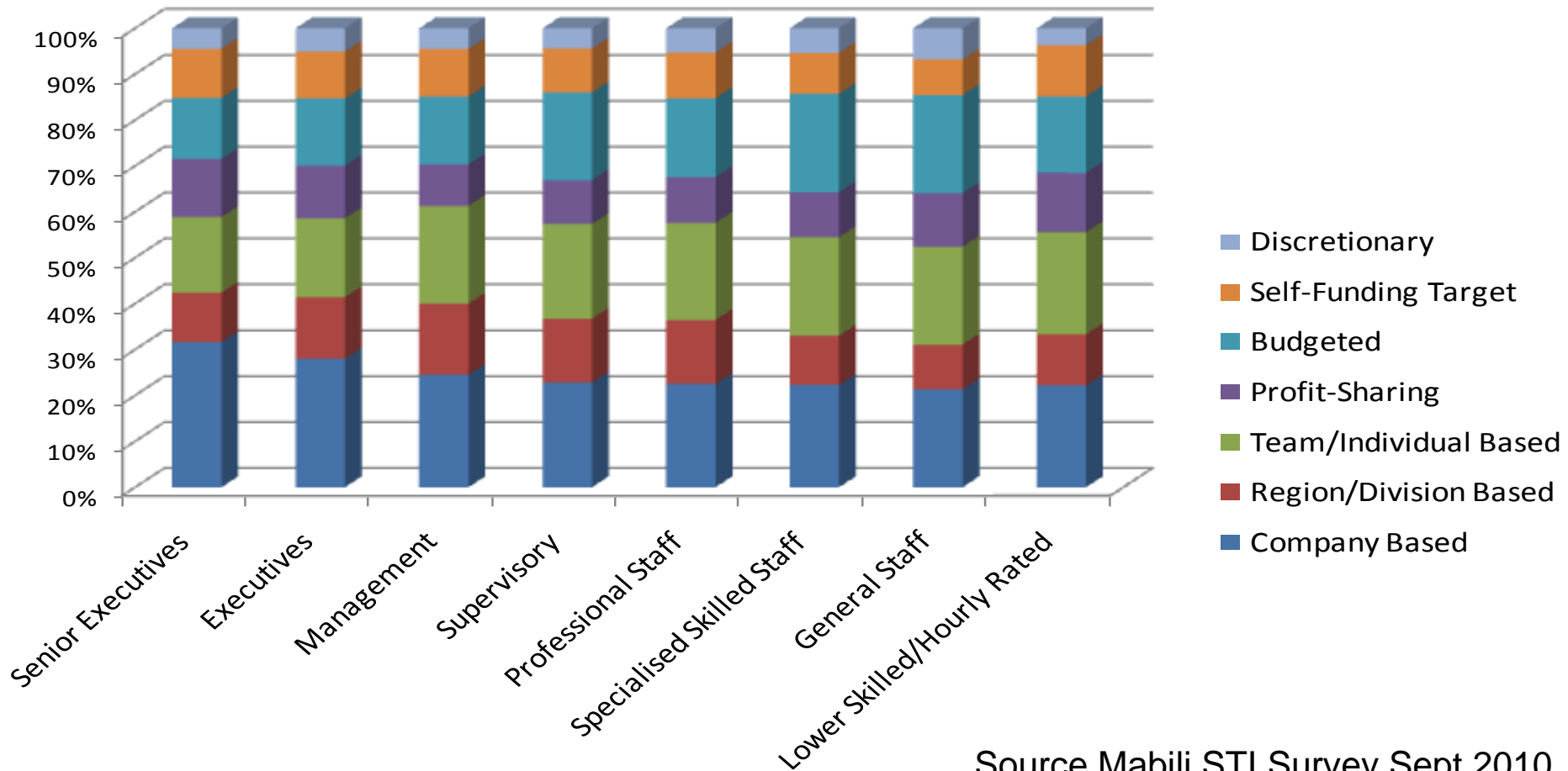


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Please indicate what type or characteristics your organisation's STI's have for the various levels or categories of staff. You may select more than one type of characteristic per category of Staff.



Source Mabili STI Survey Sept 2010

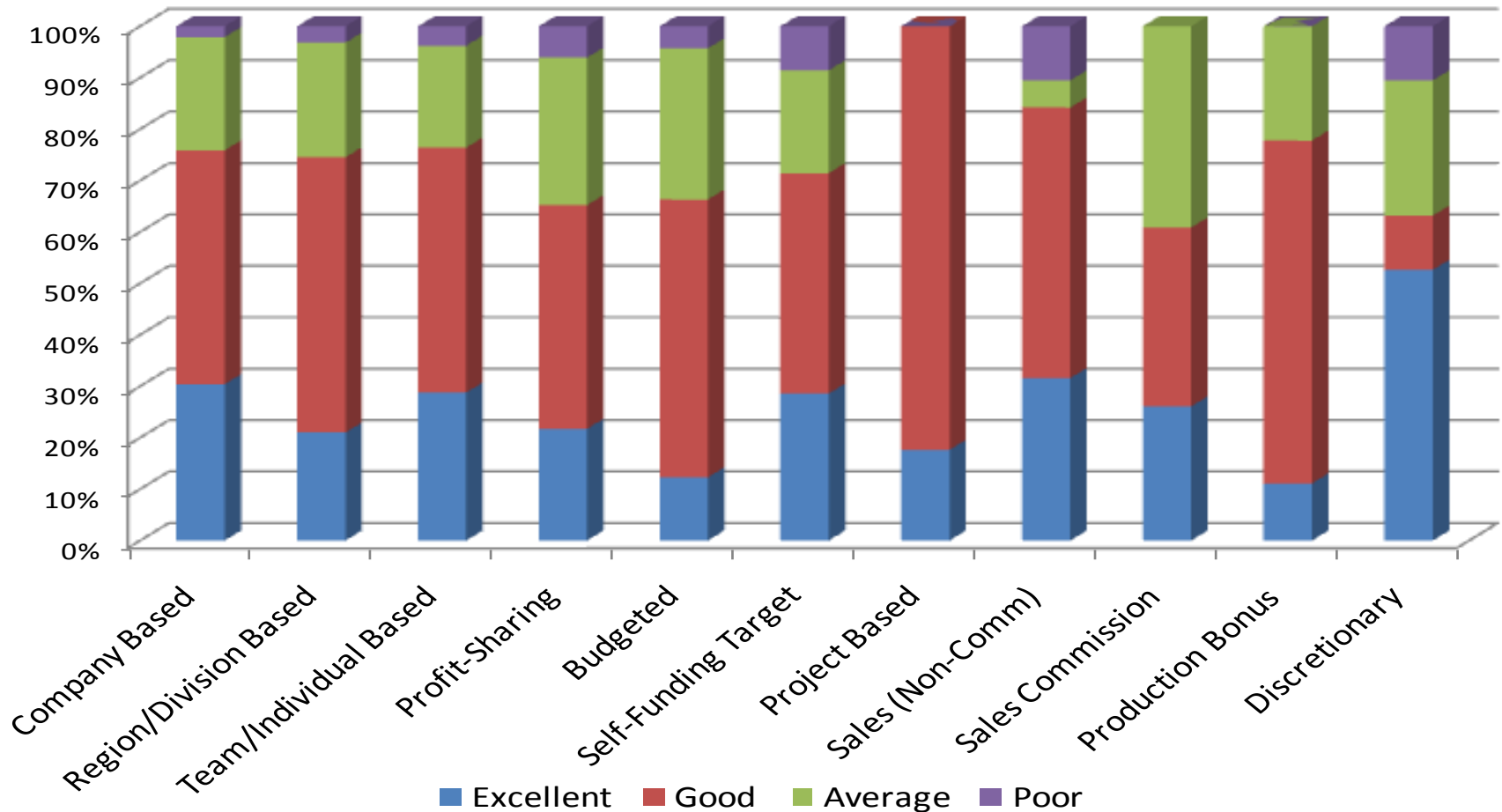


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For each STI you have in your organisation, please rate the effectiveness in achieving the objectives of the STI.



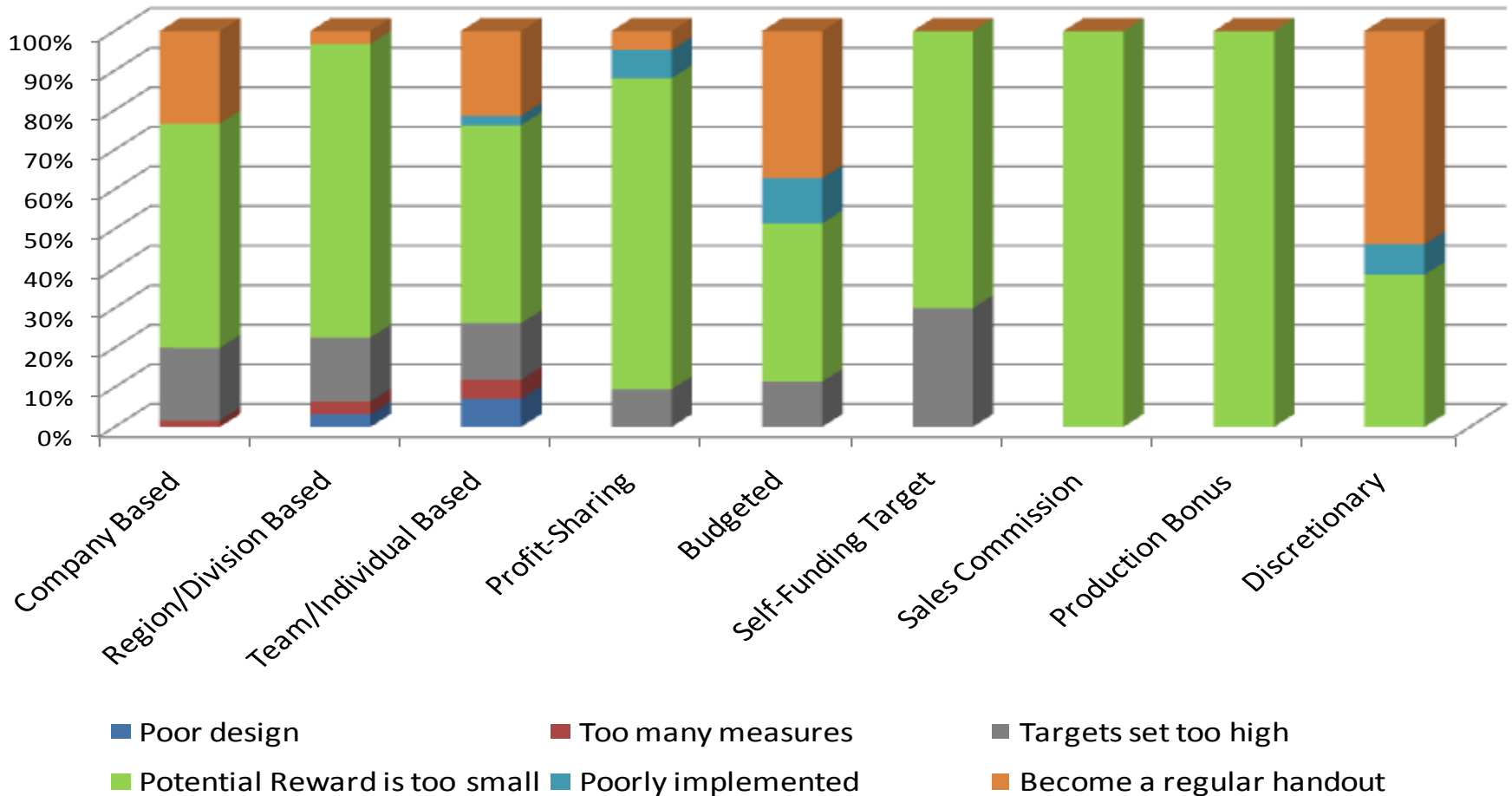


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For each of the STI's you have rated as AVERAGE or POOR in terms of its effectiveness, please select what the main reason is.



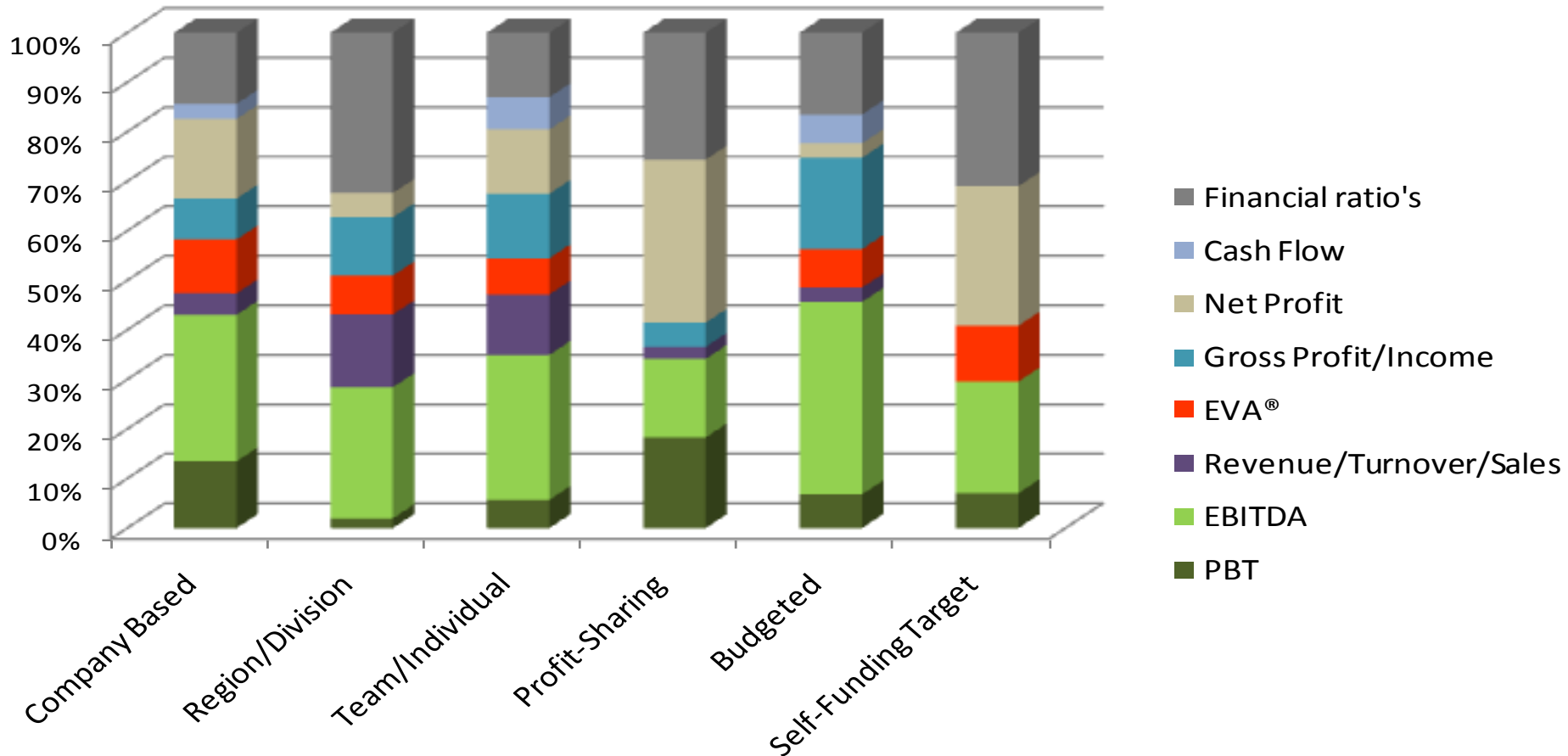


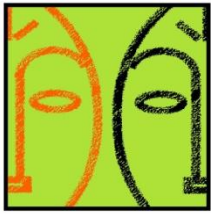
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If any of the STI's in your organisation have a financial formula or measure, please specify what they are.



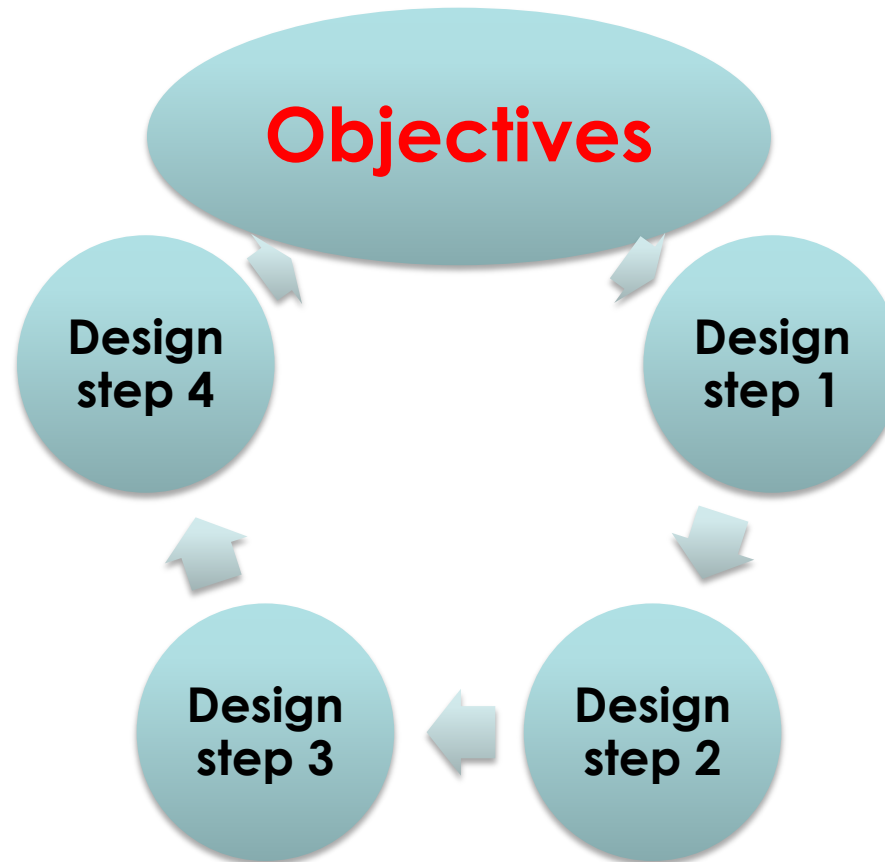


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Objectives of YOUR incentive scheme/s





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Reasons for implementing incentive schemes

Alignment with organisation's goals

- Must be cascaded/aligned to budgets
- Should link in to organisations strategy

Fixed vs. Variable Costs

- Increases compound year on year
- If poor performance, still have to pay fixed costs

Focus & Drive Behaviour

- Well designed schemes encourage right behaviour
- Act as a motivator

Perceived Control of Costs

- If self-funded, then feel as if in control

Preferred by Shareholders

- Must be properly designed
- Like idea of sharing the risk

Source: Hewitt



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Key Success Factors

Source: Hewitt

1. Does it align with the vision, strategy, culture and objectives of the organisation?
2. Does it align with the stakeholders interests?
3. Is it focused on the essential key value drivers?
4. Do the targets match the operational plans?
5. Is there sufficient balance between short and long term objectives?
6. Is the scheme self-funding and based on added value?
7. Is the potential reward significant enough to change behaviour?
8. Is the scheme well understood and bought into by participants?
9. Does it excite participants and encourage the correct changes in behaviour?
10. Is there well communicated, regular and transparent feedback during the measuring period on progress against the scheme measures?



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Common Mistakes

Source: Hewitt

1. Too many metrics
2. Only applies to top levels
3. Funding not significant enough for plan
4. Execs on individual and company and rest only on company measures
5. Misalignment of individual bonuses and organisation performance
6. No variation in line with company performance
7. Not clear as to who participates
8. Bonus paper left on desk after year end
9. Payment only after 5 months after year end



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3 Reasons why schemes fail

Wrong design

Objectives
not clear

Poor
design

Wrong
type of
scheme

Parameter Problems

Wrong
measures/
metrics

Targets
too high

Reward
too small

Poor implementation

Poor
understanding

No
buy-in

Poor
communi-
cation



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Do's and Don'ts: Lessons learnt from South African case studies

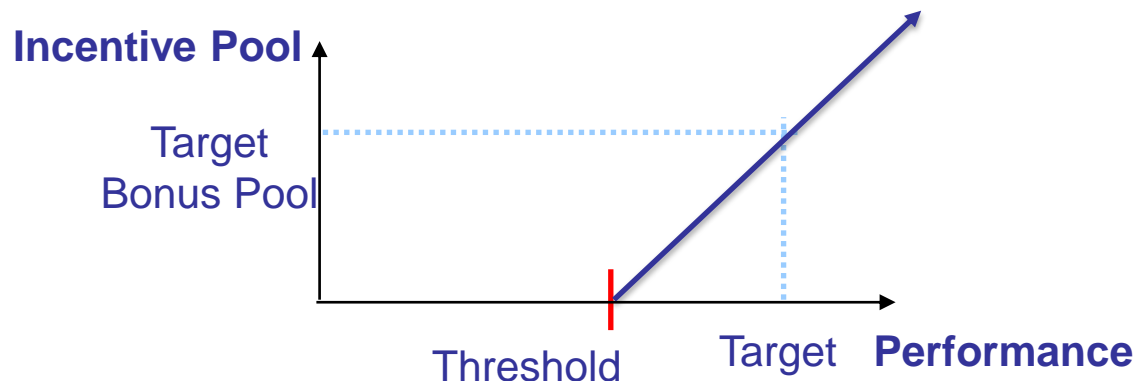
Case Study 1: Mining Company Production Bonus: Wrong Design

Percentage of Package (Additive) Type

KPA	Weight	Rating max 5	Score max 5
KPA 1	40%	4	1.60
KPA 2	25%	3	0.75
KPA 3	15%	4	0.60
KPA 4	20%	2	0.40
Total	100%		3.35

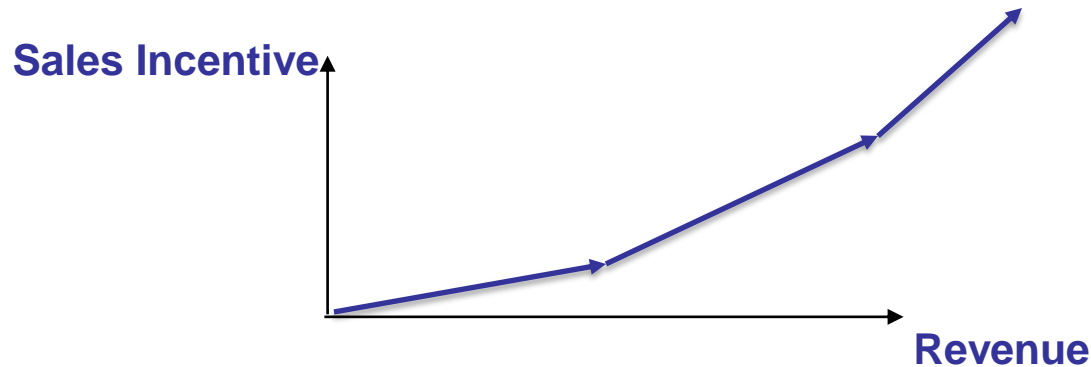
Score	% Bonus	Bonus
5	200%	R 40,000
4	150%	R 30,000
3	100%	R 20,000
2	0%	R 0
1	0%	R 0
3.35	117.50%	R 23,500.00

Changed to: Funded Scheme

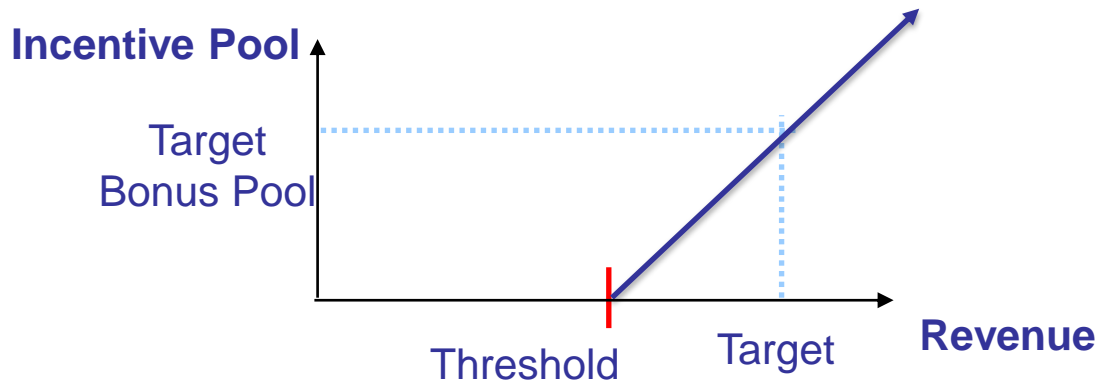




Case Study 2: Consumer Goods Wholesaler: Wrong Design Commission Sales Scheme



Changed to: Target Scheme





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Case Study 3: Knowledge Company: Wrong Design & Parameter

EVA[©] Scheme

Too Complicated: Even multiple 'degreed' could not understand

Not a good measure of management value add: Been shown to have little or no relationship to management performance (Prof. Stanley Paulo)

Mixes short and long term schemes: Prefer having separate schemes specifically focussed on each objective

Changed to: New scheme design using EBITDA and a separate LTI



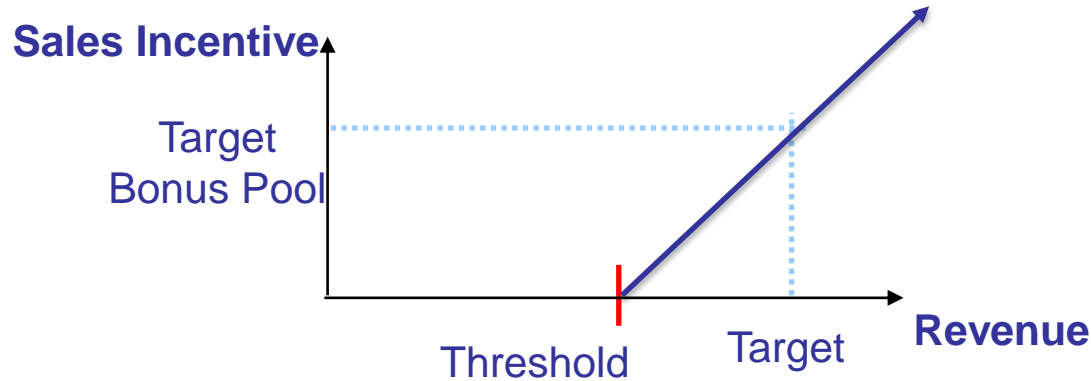
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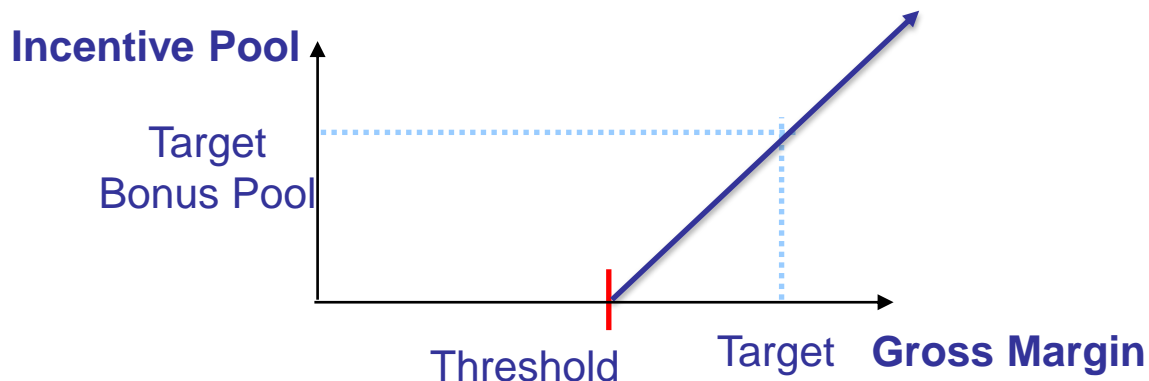
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Case Study 4: Industrial Product Company: Wrong Parameter

Sales Scheme based on Revenue



Change: **Gross Margin = Revenue less cost of goods and direct costs**

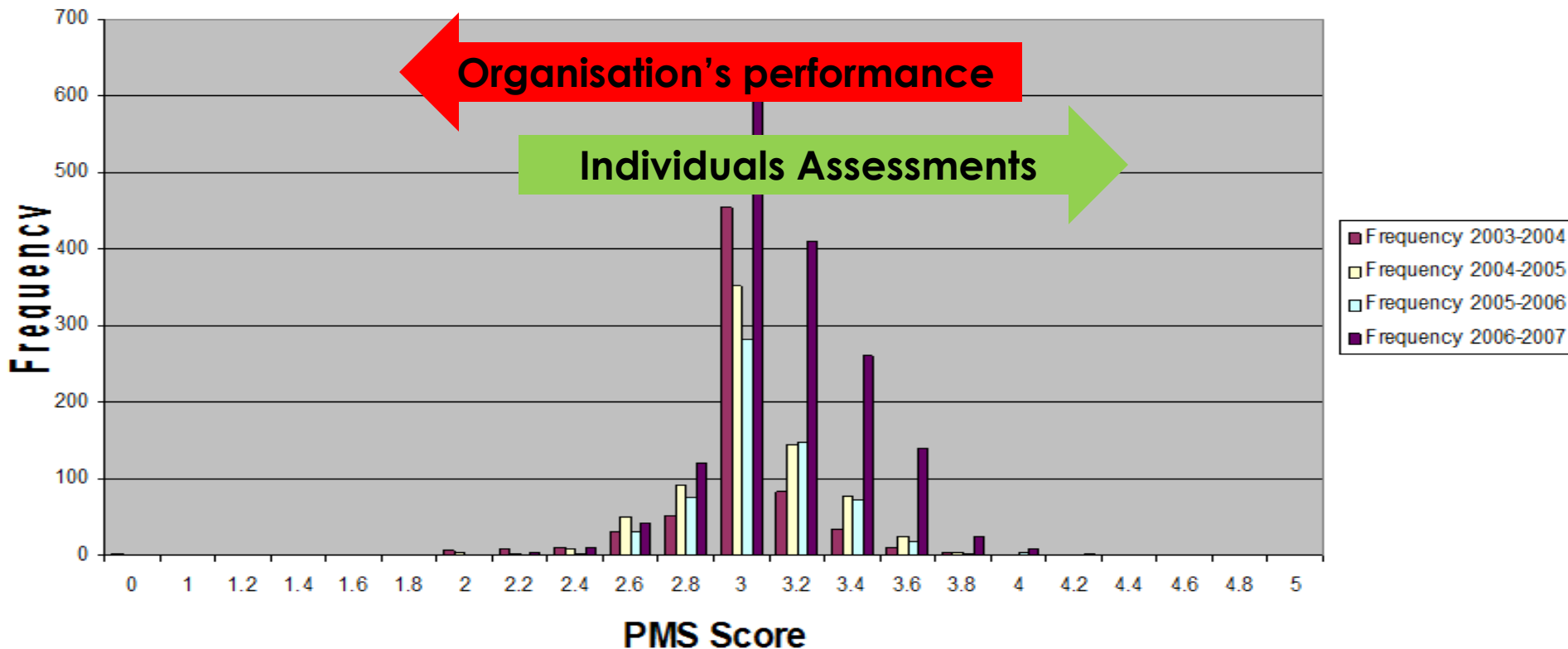


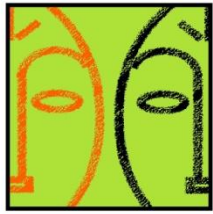


Case Study 5: Services Company: Poor Implementation

Ensured alignment between Company and Individuals Performance

Frequency of PMS Scores





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One last word:

**Make sure your CEO is 100% behind
the project.**

Thank You