

How to offer incentives and gain benefits from your employees

German-Mongolian Corporate Days 2015

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Agenda

- Controversy about the outcome of incentives
- Targets / Management by Objectives
- Incentive system for managers
- Incentive system for non managerial staff
- Designing of incentive systems
- Outcome of incentive systems
- Learnings / summary

What do we mean by incentives?

- monetary stimulus and reward
- with respect to defined targets / performance
- reward varies in dependance from the degree of target achievement / performance
- targets:
 - company targets
 - team targets
 - individual targets

Controversy Incentives

pro

- transparency and prioritization
- focusing on energies
- performance justice
- motivation
 - identification with the goals of the company
 - attention and appreciation from supervisor
 - reward of performance
- cost flexibility

Controversy Incentives

contra

- target based incentives mislead and restrict the perspective
- target foccusing instead of doing what is actually necessary, less flexibility
- lack of cooperation and support others
- money can only avoid dissatisfaction but can't cause long term satisfaction

Controversy

Incentives - yes or no ?

- controversy about incentives is not new but still relevant
- I am missing general accepted (scientific) studies about the outcome of incentives in the long run

but

knowledge and experiences about preconditions and promoting conditions are given

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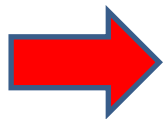
Why targets ?

centralised steering go ahead with a lot of bureaucratic structures, inefficiency, inflexibility, which esp. in a dynamic environment tend to cause problems

Why targets ?

Idea:

More decentralised steering in companies should lead to better results (productivity, speed, innovation, motivation) by using a wide range of know how, creativity of the employees.

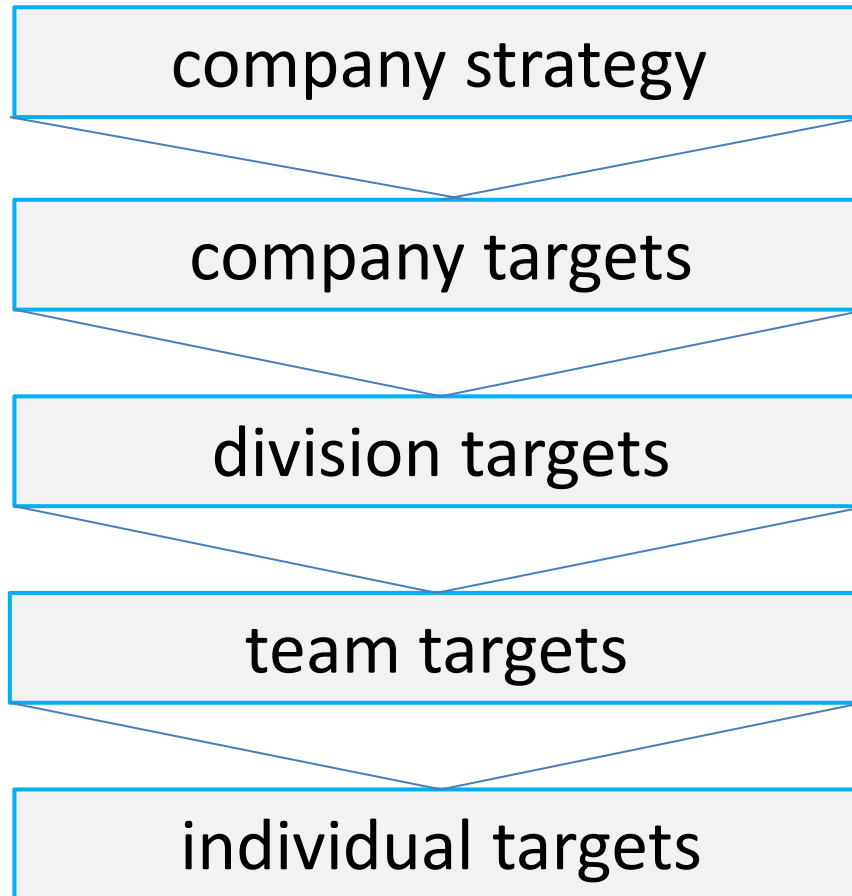


Management by Objectives (MbO)

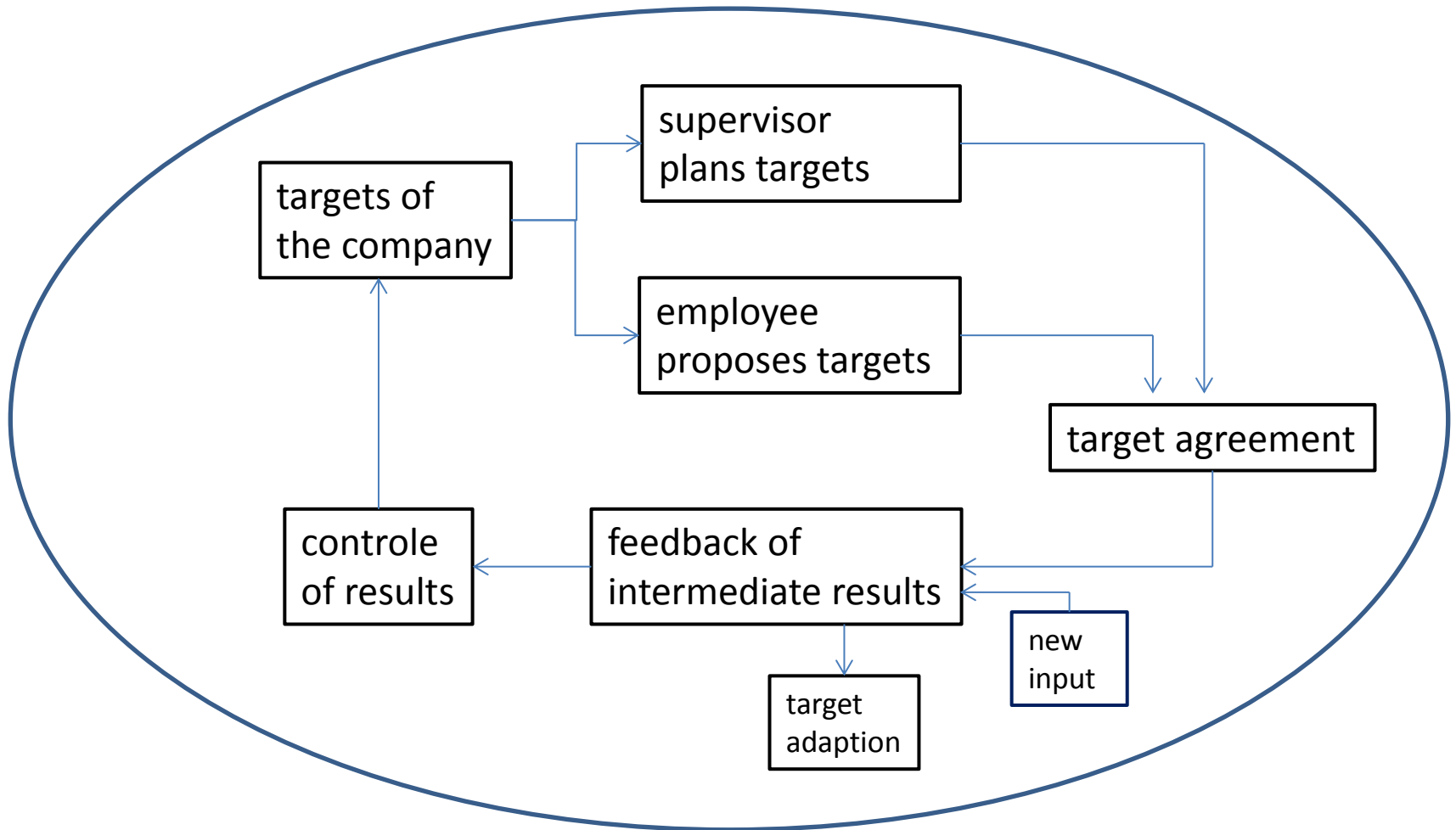
(starting in the fifties of the last century)

Management by Objectives

cascading of targets



Management by Objectives cycle



Target requirements

SMART

S

Specific

M

Measurable

A

Achievable

R

Realistic

T

Timely

Target requirements

SMART- example

S

increase the number of strategic customers

M

with minimum 50.000 Euro turnover p.a.

A

and increase number of key accounts

R

from now 22 to 25

T

within 12 month

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Performance-related pay

- **base salary**
- **incentives / variable pay**

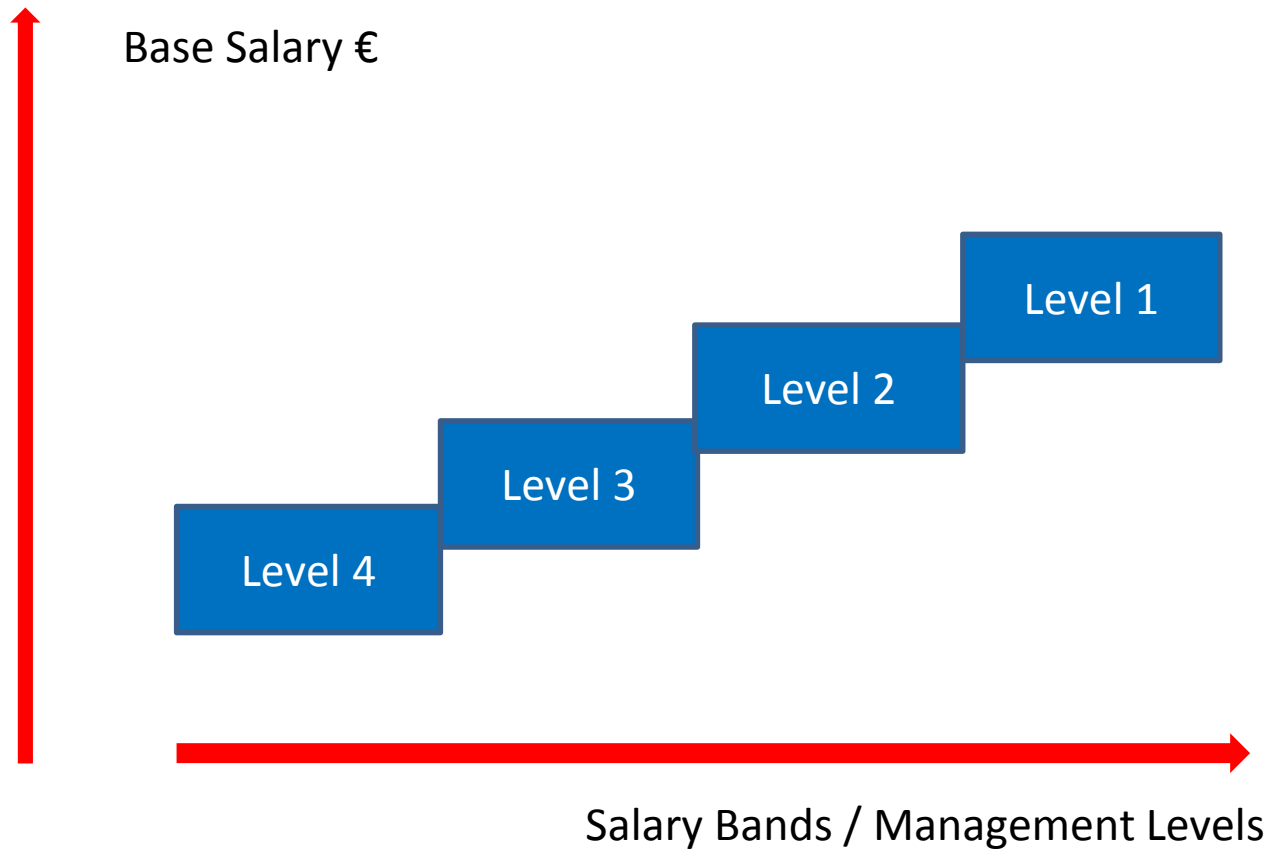


Base salary management levels

top management	level 1
senior management	level 2
middle management	level 3
junior management	level 4

Base Salary

salary bands / management levels



Inventive system

bonus opportunities

- the higher the management level – the higher the bonus opportunity
- example:

Management levels	Annual base salary
1	30 %
2	20 %
3	15 %
4	10 %

Incentive system principles

- transparency
- compatibility with financial targets
- performance-orientation
- personal impact on KPIs
- acceptance in organization
- planning and steering

Toolkit incentive system

How to budget?

Group
Pool

Divisional (BU)
Pool

No Pool

What to measure?

Performance Components

Group
Perform

BU
Perform

Ind
Perform

Linkage of Components

×

Multiplicative
(Zero payout
possible)

+

Additive
(Zero payout
unlikely)

How to measure?

Number / design of KPIs

Group
KPIs

BU
KPIs

Ind
KPIs

Level of KPIs

BU

SBU

Sub
SBU

Region

Country

Product
Group

Toolkit approach enables
clear structuring of modeling incentive system

Incentive system for manager

key components



Incentive system for manager

key components

Company Targets

- limited to 2-3 KPIs
- examples:
 - EBIT-Margin
 - organic NES Growth
 - Cash Flow

Incentive system for manager

key components

Team Targets

- annual target scaling
- business Unit KPIs
- other targets
- projects

Incentive system for manager

key components

Individual Targets

- assessment of concrete targets / projects
- examples:
 - production costs
 - waste
 - complaints
 - quality
 - absenteeism
- assessment of the “day – to day” performance

Incentive system for manager

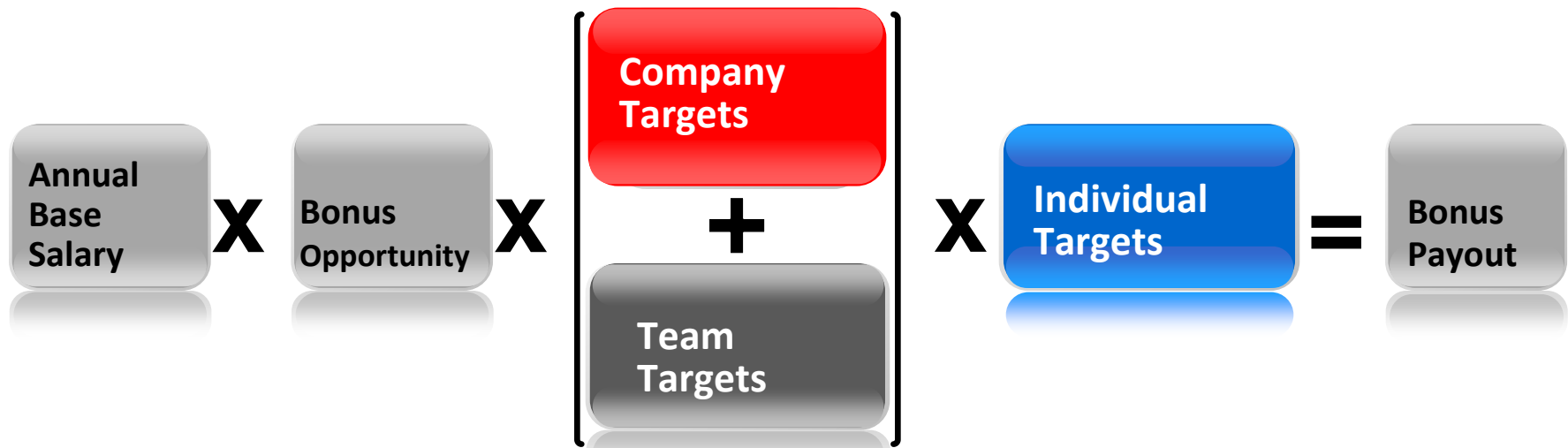
key components



additive linkage of the targets to total calculation

Incentive system for manager

shaping the key components



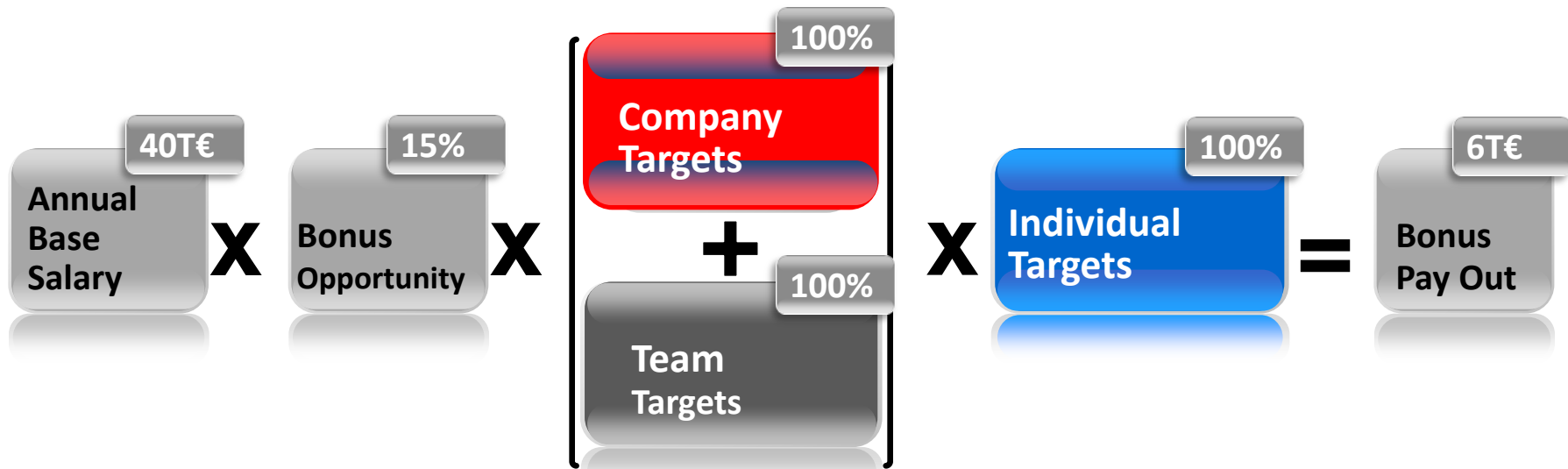
Multiplicative linkage of the targets to total calculation

- enhanced performance differentiation
- stronger reward of individual performance
- increased motivation to outperform

Incentive system for manager

calculation pay out: **strong performer**

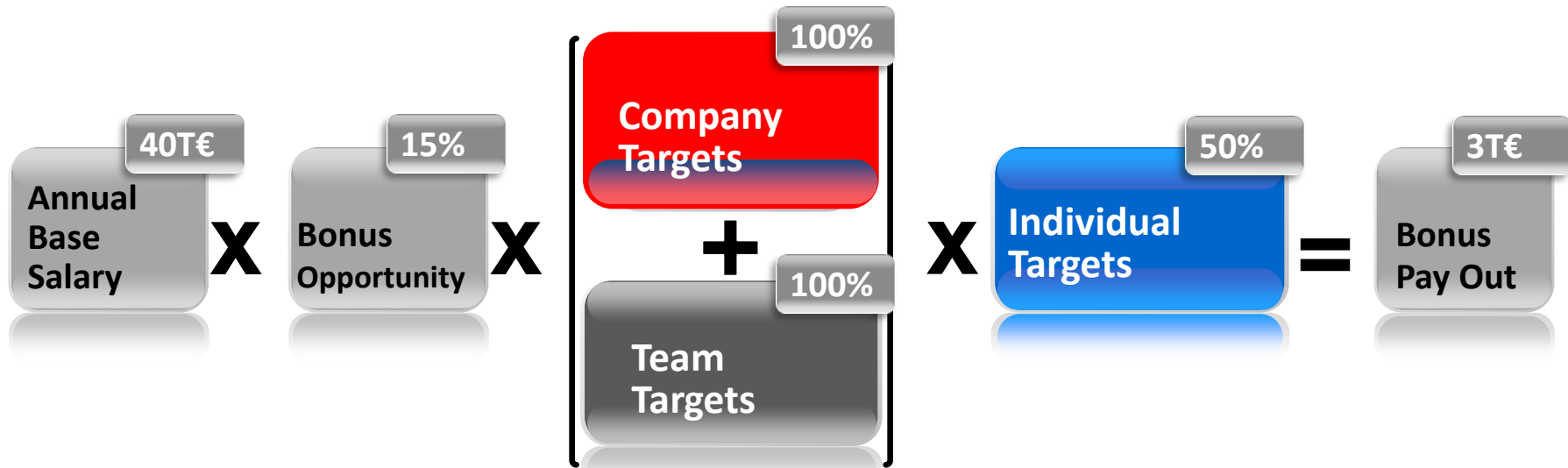
strong performer / good company + good team performance



Inventive system for manager

calculation pay out: **low performer**

low performer / good company + good team performance



Individual Targets

Example: Quality Management

		Plan 2014	Achieved 2014			Incentives
Company targets						
Team targets						
Individual targets						
Key Performance Indicators (KPI)		Balanced Score Card				
Targets	Performance level	Scaling Target Achievement				
		below plan	plan achieved	plan exceeded	plan largely exceeded	
Running time complaints products a	plan = 28	>30	25-29	20-24	<20	
	achieved = 50	0	10	15	20	
Running time complaints products b	plan = 28	>30	25-29	20-24	<20	
	achieved = 25	0	10	15	20	
Quality costs	plan = 1.015	>1.05	1 -1.015	900-1.0	<900	
	achieved = 950	0	10	15	20	
Relative complaints	plan = 3,2	>3,3	3,15-3,29	2,8-3,14	<2,8	
	achieved = 3,2	0	10	15	20	
Number of complaints	plan = 300	>305	295-304	250-294	<250	
	achieved = 295	0	10	15	20	
Points		<40	40-64	65-89	90-100	
Individual bonus: % monthly salary		0 %	50 %	75 %	100 %	

Target Sheet

Name of employee		Organisation / unit		Monthly salary
	Plan	Achieved	Target-achievement*	Bonus €
1. Company targets				
2. Team targets				
3. Individual targets	Plan	Achieved	Target-achievement*	Bonus €
1) BSC				
2) BSC				
3) Project				
Bonus individual targets				
Sum Bonus € 1., 2., 3				
Conversation target agreement				
Date		Signature employee	Signature supervisor	
Conversation target evaluation				
Date		Signature employee	Signature supervisor	

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Incentives for non managerial staff

- incentives for **staff** performance
- incentives for **team** performance
- incentives for **individual** performance

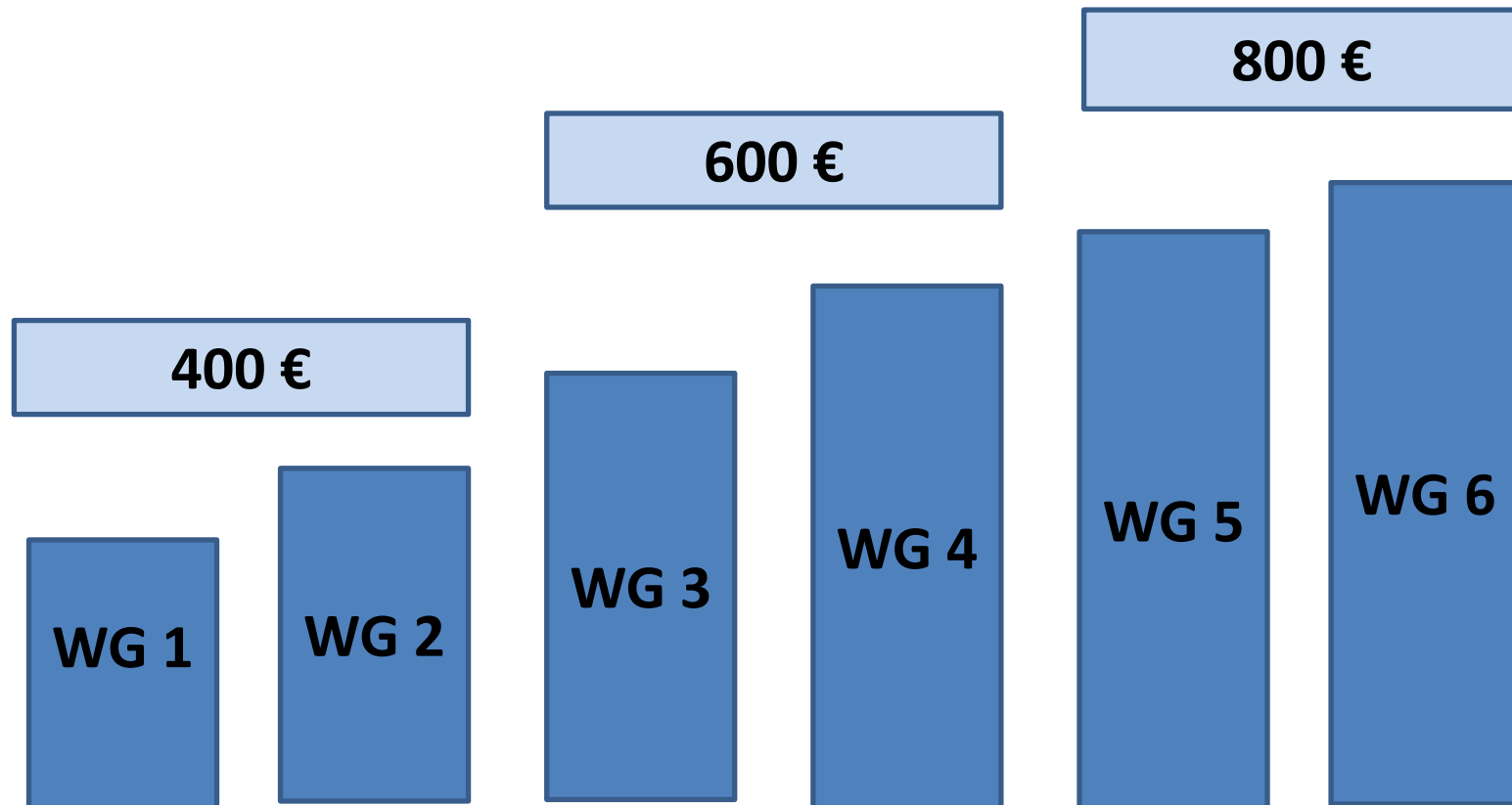


Incentives for **staff** performance

- basis for performance : EBIT-Margin of the company etc.
- incentive payment in dependence from degree of target achievement (e.g. achieved = 100 % payment)
- all employees participate without link to individual performance
- distribution
 - equal pay
 - differentiation (e.g. according wage groups)

Incentives for **staff** performance example

100 % target achievement (e.g. Ebit)

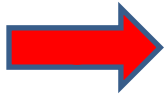


WG = wage group

Incentives for **team** performance

- usually in production areas -

- safety



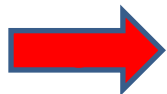
bonus payment in case of no accident in dangerous areas (production, transport ...)

- improvement of quality



bonus payment for reduction of waste and less defect products

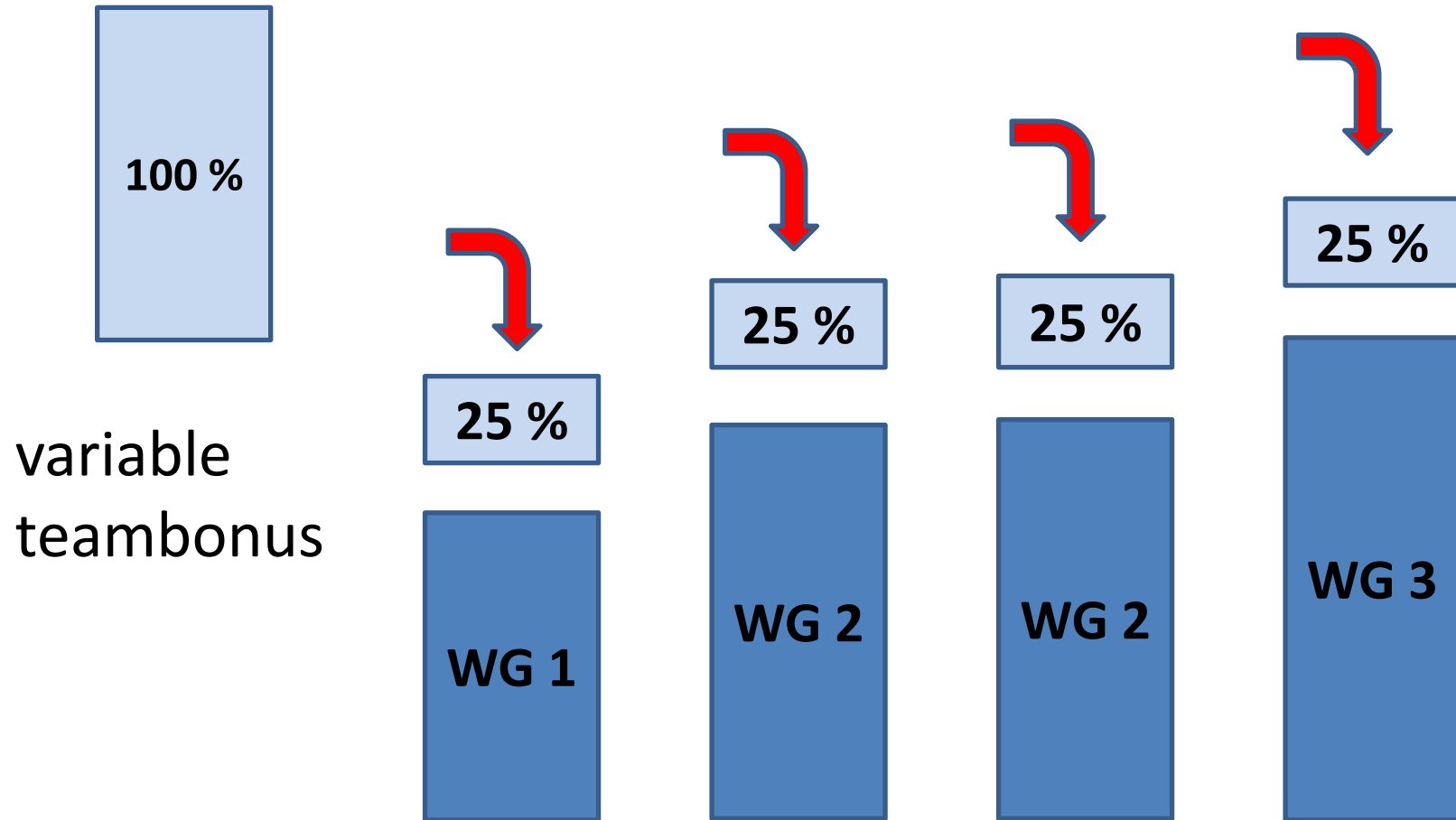
- optimization of work flow, machines ...



bonus payment for realizable proposals from single employees or teams

Incentives for **team** performance

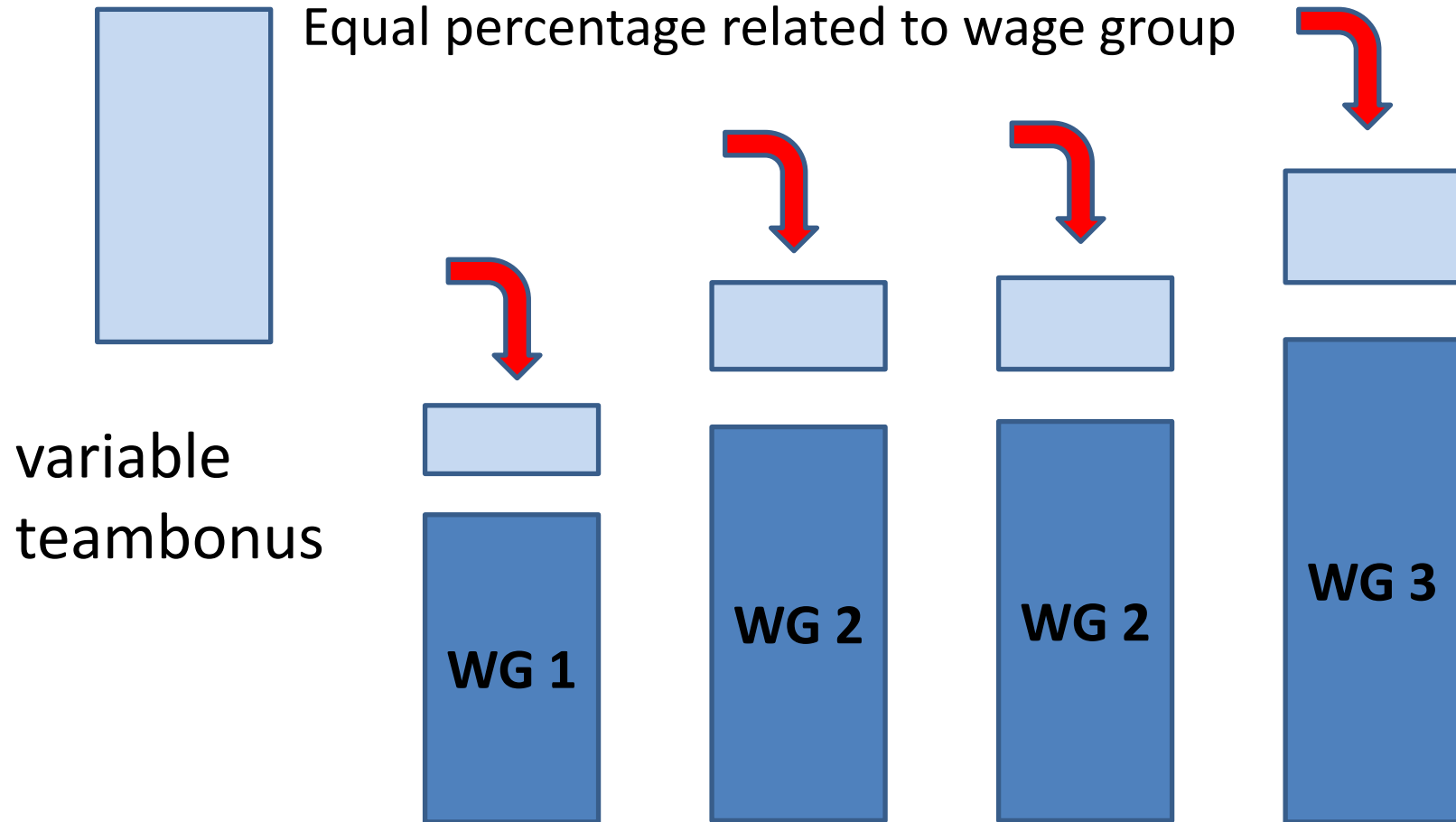
- **absolut** equal distribution -



WG = wage group

Incentives for **team** performance

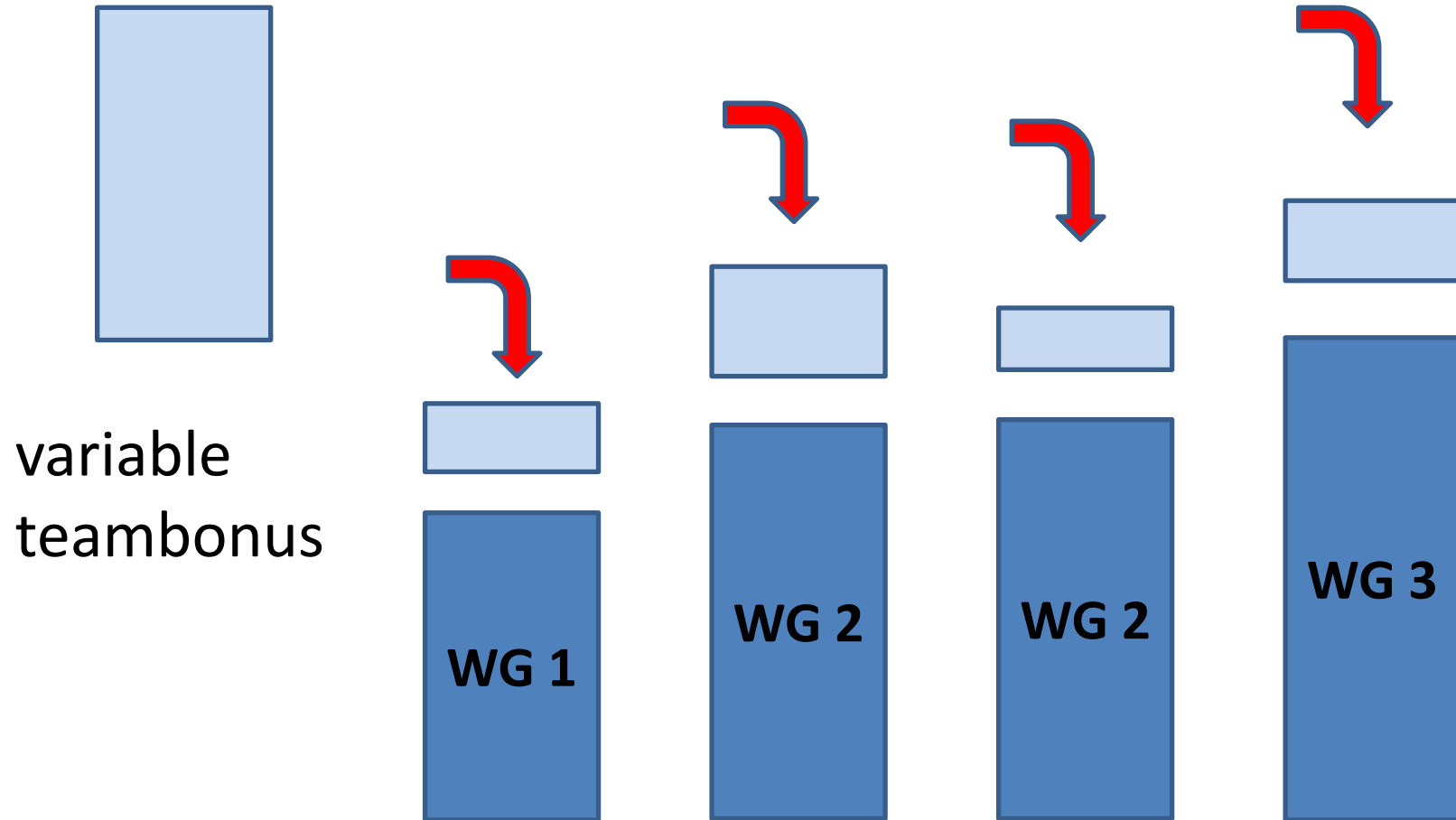
- **relative** equal distribution -



WG = wage group

Incentives for **team** performance

- **individual performance** related distribution -



WG = wage group

Incentives for individuals

- annual evaluation and feedback by supervisor
- annual payment
- no specific targets
- no fixed relation between performance evaluation and amount of payment
- criteria :quantity, quality, safety compliance, cooperation, flexibility, leadership...

Incentives for individuals

Performance Evaluation					
<i>Rating scale</i>	1	2	3	4	5
Quantity					
Quality					
Safety compliance					
Cooperation					
Flexibility					

Incentives for **individuals** example

Employee: Mr. nn
Seniority (years) 2

Payment:
Base Salary + 13 %

Performance Evaluation						
<i>Rating scale/points</i>	1	2	3	4	5	
Quantity				x		
Quality			x			
Safety compliance		x				
Cooperation			x			
Flexibility	x					
Total Points	1	2	6	4	0	13

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Designing of incentive systems (1)

Parameter	Alternatives
Definition of Target Group	a) all Managers b) only Managers of high Levels c) staff
Definition of Performance Components	a) Company Targets b) Team Targets c) individual Targets d) individual Performance (day to day)
Weight of Performance Components	a) equal Weighting b) Prioritization

Designing of incentive systems (2)

Parameter	Alternatives
Linkage of Performance Components	a) additive b) multiplicative c) Combination of both
Scaling Assessment of Target Achievement / Performance	Number of Scales (3 - 6 Scales) Example for 3 Scales: <ul style="list-style-type: none">• below plan• Plan achieved• Plan exceeded
Linkage of the Performance Components with Money	a) absolute Amounts (e.g. differentiated by Management Level / wage group) b) percentage Amounts (e.g. of Base Salary)

Designing of incentive systems (3)

Parameter	Alternatives
How to finance the Implementation of new Bonus System	<ul style="list-style-type: none">a) no additional Costs (transformation)b) additional Costs are accepted in case of exceeded Targetsc) additional Costs become (partly) compensated by low Base Salary Increases in the following Years
Hedging in economically critical Situations	<ul style="list-style-type: none">a) Multiplicative linkage of Performance Componentsb) Correction Factorsc) etc.

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Outcome of incentive systems

Targets / MbO



higher performance



Incentives



higher performance



no effect



lower performance



Motivation Theory*

Extrinsic stimuli

salary, incentives...



hygiene factor

can avoid dissatisfaction but
can't cause (long term)
satisfaction / motivation

Intrinsic stimuli

job, freedom to act, team,
cooperation, apprecia-
tion...



motivation factor

causes long term satisfaction /
motivation

*on the basis of „two-factors theory“ from Herzberg, 1959

Preconditions for positive outcome

good fit of intrinsic and extrinsic factors

Motivation „from insight“ (intrinsic stimuli)
should not be damaged by monetary stimuli

Possible reasons for negative effects:

- ➔ feeling of mistrust (opportunism)
- ➔ feeling of more control
- ➔ feeling of less autonomy
- ➔ feeling of unfairness or injustice

Corporate culture leadership & attitude of supervisor

Preconditions for identification and commitment of the **employess** with the targets are the identification and commitment of the **supervisors** with the targets and his employees.

What are the signals of the right attitude?

Corporate culture leadership & attitude of supervisor

the supervisor has to:

- give background information and justification of the company targets
- strive for target **dialogue** and participative **agreement**
- has to create the necessary scope of action (resources, information flow, freedom to act...)

Corporate culture leadership & attitude of supervisor

the supervisor has to:

- support his employees (without cutting freedom to act, responsibilities)
- be trustworthy and further more has to trust and respect his employees
- be brave (e.g. conflicts in case of missing the targets)

Target negotiation

supervisor:

- challenged targets
- no conflicts



employee:

- foreseeable to achieve
- flexibility
- huge bonus

evaluation of target achievement

reality in lot of companies:

- relatively small differentiation between employees
- usually 100 % (or more) target achievement

Implementation of incentive systems

- time for design and implementation
- pilots for testing (start with the top)
- commitment and training of supervisors
- information and commitment of employees
- transparency, simplicity
- good administration
- not in time of crisis

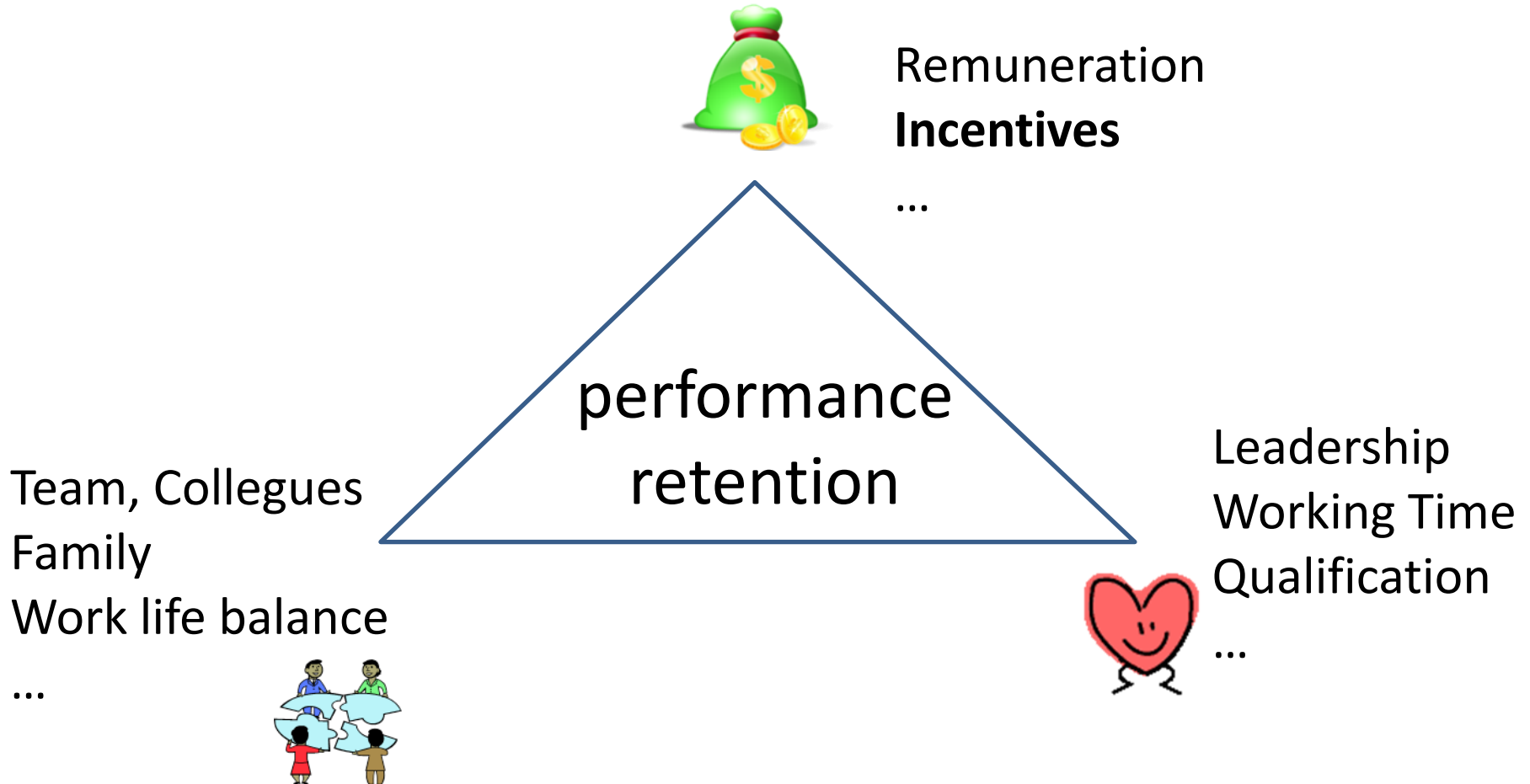
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Incentives require

- strategic & financial planning
- trust (culture)
- leadership (targets, transparency, feedback, support...)
- freedom to act, responsibility
- common sense
- fairness (give & take)

How to offer incentives and gain benefits from your employees



Thank you much for your attention!



Do you have further questions or
remarks?

attachments

History

wage policy for non managerial staff

Piece work wage



Premium wage



Behavior / Performance

Piece Work

- payment per rata to the number of produced pieces
- working result has to be directly influenceable by every single employee
- foreseeable and stable environment
- conflicts with employees and work council about time standards
- lots of administrative effort for setting of time standards, calculation, documentation and controlling

Premium Wage

- target group
 - working teams or a single employee
- payments
 - monthly, quarterly, annual
- basis
 - number of accidents
 - number of ideas for improvements
 - waste reduction
 - ...

Behavior / Performance

example: flexibility-related pay

	Operating	Repairing	Setting up a machine
Production machine 1	X	X	X
Production machine 2	X	X	X
Production machine 3	X	X	X
Packaging machine 1	X	X	X
Packaging machine 2	X	X	X

1 x = base salary
2 x = base salary + 4 %
3 x = base salary + 8 %

4 x = base salary + 12 %
5 x = base salary + 16 %...
6 x = base salary + 20 %

7 x = base salary + 24 %
...
15 x = base salary + 56 %

Behavior / Performance

example: flexibility-related pay

Employee: Mr. nn
Seniority (years) 3

Payment:
Base Salary + 20 %

	Operating	Repairing	Setting up a machine
Production machine 1	X	X	X
Production machine 2	X	X	
Production machine 3			
Packaging machine 1	X		
Packaging machine 2			