



Staff KPIs – Potential Links to Remuneration

In the December 2011 edition I outlined some recent experiences with advice firms who have introduced Key Performance Indicators (KPIs) for their people. I stressed at the time that it was not necessary to link the KPIs directly to financial rewards as there were ample benefits in developing KPIs without a “bonus system”. However, I thought it would be timely to explore the traps, as well as the options, that await any business that wants to implement financial benefits for their staff based on KPIs.

Let’s assume, for the benefit of this discussion, that you have selected appropriate KPIs and the measures are tested and trusted. It makes sense that the KPI system will be further embedded and more “alive” for your people if there are tangible rewards available for the achievement of their targets. However, the implementation of a bonus system is fraught with danger and requires a great deal of thought. This is primarily because your people are very human and the impact on their behaviour may be unpredictable. Indeed, all of the risks associated with KPIs (eg sharing financial information; team v individual measures) are amplified when real money is at stake.

Design Issues

At its most basic the tangible rewards can take many forms so before jumping into a cash bonus framework you might consider alternatives. These could take the form of prizes for individuals or an offsite for the whole team, with or without partners. (Don’t forget to check the FBT implications).

Many small businesses have gone ahead and introduced a bonus system with the underlying thought: How hard can it be? If you are contemplating paying bonuses of some form you might like to consider the following questions:

- Will the bonuses be based on a % of salary or a share of a profit pool or some other basis?
- Will bonuses be based on individual, team or business performance?
- What happens if the business does not achieve its profit target or revenue target?
- Will the financial basis for the scheme be shared as a team or only explained one-on-one? What happens if people compare their outcomes?
- Will entitlement be purely determined by quantitative means or will there be a qualitative component? ie How important is behaviour (or misbehaviour)?
- Will bonuses be paid quarterly or annually? And when?
- Will the payment of the bonus be subject to ongoing employment? For how long?
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- Who will participate? How will part-time employees be treated? What about recent recruits?
- How will the advisers be assessed relative to the non-advisers?
- What will be the tax treatment of the rewards?

Mindset v Toolset

Most of these questions can be solved in a rational or analytical manner and I have seen plenty of great spreadsheets which facilitate the system. The problem is that business owners can get excited about the new system (ie the tools) and forget about the impact on the mindset of their team. Frankly, people are not always rational and the analytical design may inadvertently produce behavioural outcomes that may be undesirable. Particular care must be taken in considering the alignment with the values espoused by the business owners – as clashes can occur.

Values Issues

Let's say that one of the values articulated in the business is teamwork. Imagine the confusion if KPIs and financial rewards are then set at an individual level. What might be the consequences for the willingness of the members of your team to help out their colleagues?

Similarly, let's say that one of the values articulated in the business is client satisfaction. Imagine the concern if there are no KPIs (and no financial rewards) based on client feedback. This problem will only be exacerbated if the KPIs stress efficiency (eg time measures) rather than effectiveness (eg client outcomes). What might be the consequences for client service?

It might not fit readily into the spreadsheet but it is critical that the design is aligned and consistent with the true values of the business.

These are the best of times to fully engage your team in your business by linking the achievement of their goals to financial rewards - in a manner that is right for your business.