

# Enhancing Execution success through Reward and Incentives



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# Alan V Fell

- ▶ Formerly – commercial banker in UK
- ▶ Since 1996
  - ▶ Management Consultant and Trainer
  - ▶ Corporate Performance Management –
    - ❖ *Balanced Scorecards / Strategy Execution*
  - ▶ Main focus on Middle East ( 65% ) and SE Asia / RoW ( 35% )



**35+ years experience in Corporate Performance Management**

**30 years experience with Balanced Scorecards**

**Senior Associate, Balanced Scorecard Institute since 2010**



**You can have results  
or excuses. Not both.**

Arnold Schwarzenegger

# So what is it that supports a Results / Performance Culture – not the acceptance of Excuses ..?

- **Pride in being part of the (successful) Organisation**
- **Effective Leadership that motivates / inspires**
- **“Compensation” – Reward and Incentives**

# The FIRST question ...?

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# The basic proposition ...

1. People work best under a combination of “carrot and stick”
2. It makes sense that people are incentivised to implement the strategy of the organisation – and specifically those aspects of strategy under their direct control
3. Too many so-called incentive schemes do not actually incentivise the desired behaviours or outcomes

4. *Don't forget the “stick” ....*

# The Pros and Cons of conventional “Incentive systems”

- ▶ **Conventional wisdom**
- ▶ **Appears logical**
- ▶ **Winning and greed are powerful emotions**
- ▶ **Results, not excuse, culture**

- ▶ **Unintended results**
- ▶ **Divisive**
- ▶ **“Stick” can be unworkable**
- ▶ **Game playing**
- ▶ **Focus on internal target not the competition**
- ▶ **Badly designed HR systems**

# “Team based competitive success” – e.g. SALES

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## ▶ OVERALL SALES TARGET (“Inward”)

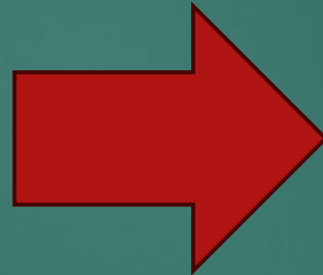
- ▶ Baseline last year 1,000
- ▶ Target for this year 1,200 (+20%)
- ▶ Each of 4 salespeople get target of 300

This inward-focused target quates to a market share REDUCTION to 9.6%

## ▶ OVERALL SALES TARGET (“Outward”)

- ▶ Baseline last year – Market Share 10%
- ▶ Market last year 10,000
- ▶ Target for this year MS 11%
- ▶ Market this year is 12,500 (+25%)
- ▶ Target equivalent 1,375
- ▶ 4 salespeople work as team to achieve 1,375, NOT work against each other

Overall performance  
creates  
a “*bonus pool*” -  
  
i.e. the capacity  
to pay bonuses



***Distribution***  
  
of that bonus pool  
is determined by  
individual person's  
contributions to  
the overall  
result

# “Common sense is not very common”

- ▶ Incentivising people to achieve short-term wins (*at the expense of the longer term*) is arguably not common-sense, but it happens often



## BOEING

Market cap before “Max” problems  
USD 200 bn

Market cap today  
c USD 100 bn

# Measuring Strategy Execution...

Group IT Scorecard Aggregation - Performance Update as at end December 1995 (based on data available as at 17 January 1996)

Index	Objective	Objective Weighting in Index	Measure / Index Target met or exceeded?	Measure	Weighting in Objective	Weighting in scorecard	Baseline (1994)	1995 Target	Current Position (end December)	% Improvement Required to hit Target	Current Performance vs Target	Weighted Current Performance vs Target	End of Year RAG Status
HR Index 20%	Manage Staff Skill Base	35%	✓	Staff skills match	100%	7.0%	72%	75%	78.0%	-3.9%	104%	7.28%	G
	Increase Staff Satisfaction	40%	✓	Staff Satisfaction (Morale)	100%	8.0%	2.50	2.75	2.84	-3.2%	103%	8.26%	G
	Increase Management Effectiveness	25%		Upward Appraisal	100%	5.0%	3.44	3.80	3.65	4.1%	96%	4.80%	A
HR Index			✓			20%						20.35%	
Quality Index 25%	Improve Client Performance	80%	✓	SLAs - Year to Date	45%	9.0%	77%	88%	91.5%	-4.4%	105%	9.41%	G
			✓	Ongoing Projects	25%	5.0%	61%	90%	98.0%	-8.2%	109%	5.44%	G
				Comp. Proj. - Imp. Date	15%	3.0%	50%	90%	79.8%	12.8%	89%	2.66%	R
	Improve Internal Performance	20%		Comp. Proj. - Costs	15%	3.0%	55%	90%	73.4%	22.6%	82%	2.45%	R
Quality Index				Change Errors	100%	5.0%	93%	98%	95.4%	2.8%	97%	4.87%	A
Productivity Index			✓			25%						24.83%	
Productivity Index 20%	Increase Manpower Productivity	25%		FPs per man month	60%	1.5%	11	15	13.1	14.5%	87%	1.31%	R
			✓	Staff to manage assets (summary)	40%	2.0%	83%	100%	124.6%	-19.8%	125%	2.49%	G
	Reduce Overall Time to Deliver	25%	✓	Time to process new work	38%	1.9%	40%	60%	78.7%	-23.8%	131%	2.46%	G
			✓	Development Timescales	38%	1.9%	25%	48%	67.5%	-28.9%	141%*	2.64%	G
			✓	Time to process bids - scope	13%	0.6%	10	100%	114.3%	-12.5%	114%	0.71%	G
			✓	Time to process bids - prop	13%	0.6%	30	100%	100.0%	0.0%	100%	0.63%	G
	Keep Unit Costs Low	25%	✓	Unit Costs (summary)	100%	6.5%	79%	100%	105.9%	-5.5%	106%	6.88%	G
Maintain Appropriate Capacity	25%	✓	Asset Utilisation (summary)	100%	5.0%	91%	100%	107.9%	-7.3%	108%	5.39%	G	
Financial Index			✓			15%						22.51%	
Financial Index 15%	Budget Effectively	80%		Budget Effectively	100%	12.0%	100%	100%	100.78%	-0.8%	99.23%	11.91%	A
	Increase Cost Flexibility	20%	✓	Increase cost flexibility	100%	3.0%	22%	30%	35.0%	-14.3%	117%	3.50%	G
Client Index			✓			15%						15.41%	
Client Index 20%	Satisfy Client Executive	30%		Satisfaction - Client Exec	100%	6.0%	31	50	45	11.1%	90%	5.40%	R
	Satisfy Project Sponsors	15%	✓	Satisfaction - Post Project - ITD	100%	3.0%	55	65	70	-7.1%	108%	3.23%	G
	Satisfy Front Line Staff	40%	✓	Satisfaction - Post Project - ITO	100%	3.0%	33	65	78	-16.7%	120%	3.60%	G
Client Index				Satisfaction - Front line	100%	8.0%	54	62	57	8.8%	92%	7.35%	R
Client Index						20%						19.59%	

\* Capped at mid-point between target and actual

Check Total Weighting

100%

Resulting GIT Performance **102.68%**

NB ALL SCORES SUBJECT TO VERIFICATION AND FINAL SIGN OFF BY RSL

## SCORING - 3 practical options ...

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Based on just one measure  
( = *profit sharing* ..? )

Based on small basket of  
key results measures

Based on full BSC  
(*previous page example*)

<b>FINANCE ( 7 )</b>
Net profit
Sales turnover
ROE
Market value
Cash Flow
Overhead cost ratio
Development in future
<b>CUSTOMER ( 8 )</b>
Customer retention
New customers
New products
Future orderbook
Service %
Geographical mix
Contrib to community top 20 cust.
<b>INTERNAL PROCESSES ( 4 )</b>
Quality Index
Productivity Index
IT performance
Inventory / sales
<b>PEOPLE &amp; LEARNING ( 3 )</b>
Skills
Leadership
Retention high performers

**A basket of 6 key  
results measures**

*Note that the focus on Sales is  
more strategic than just  
increasing overall Sales*

- Comparison of actual and plan / target performance enables an overall “basket score” to be calculated as below :

Measure	Weight %	Plan Target	Actual	Measure score	Basket score
Net profit	25.0%	40	36	90.0%	22.5%
Sales turnover	20.0%	380	390	102.6%	20.5%
ROE %	15.0%	20	22	110.0%	16.5%
New customers	15.0%	12%	15%	125.0%	18.8%
New products	15.0%	9%	8.3%	92.2%	13.8%
Service as % sales	10.0%	14%	16.1%	115.0%	11.5%
<b>TOTAL</b>	<b>100.0%</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>103.6%</b>

**Management  
priority**

**Plan and actual  
performance  
results**

**Actual  
performance  
as a % of  
target / plan**

**Weighted average  
score  
compared to plan  
Plan is regarded  
as 100%**

# The mix of performance that determines how much each individual member of staff earns as a bonus

	Member of staff of a Dept	Manager of Dept	SBU Head	Corporate HoD
Corporate BSC score	15%	20%	30%	50%
SBU BSC score	15%	30%	70%	50%
Dept BSC score**	20%	50%	nil	Nil
Performance appraisal	50%	nil	nil	nil
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

## How NOT to .....



*My boss pulled up in his brand new black BMW and I couldn't help admiring it.*

*"Nice car ", I said as he got out.*

*"Well", he said, noticing my admiring look, "If you work hard, put the effort and the hours in, I will have an even better one next year. "*

## Key Rules ...

1. **Whatever is the incentive scheme..**
  - *It is perceived as Fair to all staff*
  - *It genuinely incentivises staff to work smarter: no “guaranteed bonus”*
  - *It is worthwhile, not derisory benefits*
  - *Not subject to end of year over-ride by Board*
2. **Everyone knows the targets and scheme details by 1 January**
3. **No “step effects” – use straight line calculations**
4. **Menu approach can maximise the perceived benefit to the individual**

Thank you ...

