

HaRe Group newsletter: 12 December 2002

Subject: Death of the Christmas bonus

In many Australian companies, the tradition of paying a uniform Christmas bonus is fading - or long gone. Instead, there is a growing recognition that "business incentives" will help improve corporate performance.

Business incentives are based on performance measures that clearly explain how effective a business strategy is in meeting organisational goals and creating shareholder wealth.

A great example of this approach is the GUD incentive plan, as reported in The Age early this week. The GUD plan uses CVA (cash value added) as the company's measure of business value creation. The incentive plan and the discipline of CVA measurement have been credited for the recent improvement in GUD's performance.

Another key to GUD's success is the simplicity of performance measurement. GUD has adopted a notional weighted cost of capital and excluded variables like goodwill and depreciation. Everyone participating in the plan understands it.

I have found that the success of any incentive plan will depend on the following criteria:

- Specific - focuses employees on desired actions and provides a clear line-of-sight between individual performance and business value creation;
- Measurable/ Meaningful - the employee's contribution and business performance delivers a fair and objective reward;
- Achievable - by mutual agreement, each performance target is a reasonable stretch;
- Realistic - the employees' rewards are contingent on taking action that is fully supported by the organisation;
- Timely - the rewards are delivered within the timeframe necessary to reinforce the desired actions that will achieve short-term and long-term objectives.

As reported in the media several times this year, there is motivating power in money (particularly when your pay decreases, or if you find that you get paid less than your peers). However, incentive plans need to focus on the importance of good performance and measuring the things that really matter. The most effective plans apply the right blend of corporate, team and individual measures.

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