

HaRe Group newsletter: 31 July 2020

Subject: When has good performance been more important?

Sitting at my desk in “blissful” isolation, I’ve been talking to business leaders who are striving to keep their people focused on their performance objectives. Of course, some objectives have been turned inside-out since COVID hit, and it’s been a huge challenge in some companies that have had to do a **COVID pivot**.

The more successful employers are sticking with a disciplined approach to identifying any new performance measures in four segments:

- Financial/ Strategy: To satisfy our stakeholders, what strategic goals must be met?
- Customer: To meet our goals, which customer needs must we fulfill and how will we know they are satisfied?
- Operations/ Innovation: To satisfy our customers, how should we innovate and in which processes must we excel?
- People: To function successfully and to satisfy our customers, how must we manage our people?

Revising goals and objectives during the year requires more effort than in the normal annual planning phase. While recalibration of some targets using the same measures is understandable (eg. reduction of a profit target), some objectives could be scrapped and replaced – for example, see the media reports about companies that are innovating and producing new products for new customers, like this:

<https://archierose.com.au/journal/archie-rose-produces-over-100000-bottles-of-hand-sanitiser-in-one-month>

In all cases, managers must be proficient at engaging employees with these changes to performance objectives and targets.

So what are the remuneration consequences of these changes? Nearly every cash-strapped business will dump employee bonus payments for 2019-20 – in many cases, the June quarter has wiped out all but the best gains during the first three quarters. Strangely, some companies receiving JobKeeper payments may find their profits are sustained while their revenues have fallen – here, some poorly designed incentive plans could still deliver bonus payments.

Since many employers are looking beyond COVID conditions, it seems that most long term incentive (LTI) plans will continue without recalibration, which would reflect the interests of shareholders. New LTI plans (ie. starting this financial year) should be calibrated for business recovery, TSR and the contribution of the participants in the plan.

The COVID conditions we face will present some innovation opportunities for many companies. Employers will need to evaluate the best method of rewarding their people for succeeding in the new, less predictable future.

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