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Incentive-Based Management -- Show 'em the Money

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By John M. Collard

Would you share the wealth with those who were required to help you create it? Of course you would.

Printing company owners willing to invest in realistic incentives that reward achievements accomplished by managers and employees reap the proceeds. The key to success is to: 1.) set realistic goals and timeframes; 2.) hold managers accountable for performance; 3.) communicate measurement and reward methodology--then step back and let them perform. Always be sure to reward positive results when goals are achieved, but never give a reward when goals have not been accomplished. If goals are met, the cash will be there to pay bonuses.

First, set the directive and goals. Then set the incentive structure to achieve them. The goal-setting process clarifies direction and eliminates confusion, unclear motives and misguided efforts. When you use independent resources to guide the process, they often add credibility and subjectivity.

When workers can see dollar signs and that goals are clearly stated, their mindset changes and they become more creative. Include as many employees as possible as part of an incentive-based structure. Incentive Compensation (IC) should reward performance and teamwork, which produces results.

The ultimate goal of the motivational plan is to improve the equity value of the company. Share profits in proportion to the risks being taken. Owners accept risk when entrusting operations to the capability, judgment and decision-making of the people who work for them.

When an employee's income is based purely on performance, as it is in sales, the risk-to-reward scenario is much greater than for a salaried employee. An individual working under an agreement or union contract governing work behavior and performance, by comparison, will receive less of a bonus for achieving his or her goals. If they want the rewards, they should share the risk.

Develop an incentive pool based on the amount of Gross Margin (G/Mgn) and distribute bonuses to the team based on a weighted average. When the company does well, G/Mgn improves, thereby increasing the size of the bonus pool, and IC is greater. Tie the incentive at budget to a percent of salary to help the weighing average calculation. Managers will have to control several components to achieve results without losing sight of the end goal.

Pay management incentive compensation based 50 percent upon which the employee is directly responsible, 30 percent on how their performance impacts other key departments (i.e.. how sales can improve production throughput) and 20 percent on their ability to improve equity value or other elements within their control. The intent is to measure performance and, as importantly, cooperation between departments and personnel.

Structure a bonus payment scale in accordance with 'Worst', 'Likely', or 'Best' scenarios. In 'Worst' case, few bonuses should be paid because goals were not met. In 'Likely' case, pay 40 percent to 60 percent of the full bonus rate. In 'Best' case, pay maximum bonus rates. The scale is clearly weighted toward higher bonus for greater performance.

Distributions should be on a year-to-date (YTD) calculation, paid quarterly. So the company doesn't take all of the risk, pay two-thirds of the YTD bonus at the end of the first quarter, 75 percent at the end of the second, 85 percent at the end of the third and the remainder at the end of the year. This reserve within the company will avoid early payout for exceptional results, without sufficient catchup period if these results don't continue.

Employees can share in the rewards as they occur rather than waiting until year end--an added incentive.

Direct your general manager to guide the value of the company in terms that an investor or potential purchaser would use to measure the printing operation. The real entity value is based on market value of assets, their ability to produce economic value, the ability of the management team to produce cash and profits on a recurring basis, and on the ability of the company to produce quality products and maintain customers on a consistent basis.

The general manager will drive volume and throughput well beyond breakeven levels, and will support their managers to achieve results. If all managers make their goals, the GM will make his/her goals because the equity value will increase.

Emphasize interdepartmental coordination. Sales can support production by seeking jobs that fit the plant with flexible delivery schedules, if needed. Production can support sales by over-recovering rates and delivering quality products on time and under budget. Pricing/estimating can support the whole process by improving the win ratio of jobs bid, and by leveling the load to stabilize throughput, thus driving volume. If workflow through the plant is level, then overhead as a percentage of sales is reduced, producing greater profits or more competitive rates.

Put salespeople on a tiered commission structure to reward them for new customers and value-added sales. Reward a higher commission percentage for jobs from customers added in their first year with the company, and on a declining scale thereafter. Put customer service on an incentive override above salary to drive revenue growth and retention from existing customers.

The best measure of plant throughput is hours worked vs. hours billed, those on all the time cards compared to invoiced to customers. The closer this ratio is to a 1:1 relationship--the better the productivity, the throughput and the profitability. When they go over on one job, they will be incentivized to go under on another to balance the overall ratio for the period.

The whole concept of 1:1 accountability will bring out issues regarding accuracy of estimating standards, justifying department costs, scheduling inequities, flexibility and the need for volume. It will rebalance the rates and force flex scheduling to meet throughput demands.

Murphy created his laws for a reason; things do go wrong. When there is flexibility in delivery time, and you avoid 'just-in-time' preparation, you drive profitability. The ability to slot another job into production while problems are resolved will maximize yield and eliminate standing around an idle printing press.

Incentive-based management is a catalyst toward improving direction and value creation.

Reference:
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About Collard
John M. Collard, is Chairman of Annapolis, Maryland-based Strategic Management Partners, Inc. (410-263-9100, www.StrategicMgtPartners.com), a nationally recognized turnaround management firm specializing in interim executive leadership, asset recovery, and investing in underperforming companies. He is Past Chairman of the Turnaround Management Association, a Certified Turnaround Professional, and brings 35 years senior operating leadership, $85M asset recovery, 40+ transactions worth $780M+, and $80M fund management expertise to run troubled companies, and advise company boards, litigators, institutional and private equity investors.

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