



FACTSHEET

Performance incentives

Definition

In addition to the Employee's base salary as set out in their Employment Agreement, the Employer now wishes to offer the Employee a performance incentive based on the achievement of certain key performance indicators (KPI's). These KPI's are set out as a Schedule in the Employment Agreement.

Benefits

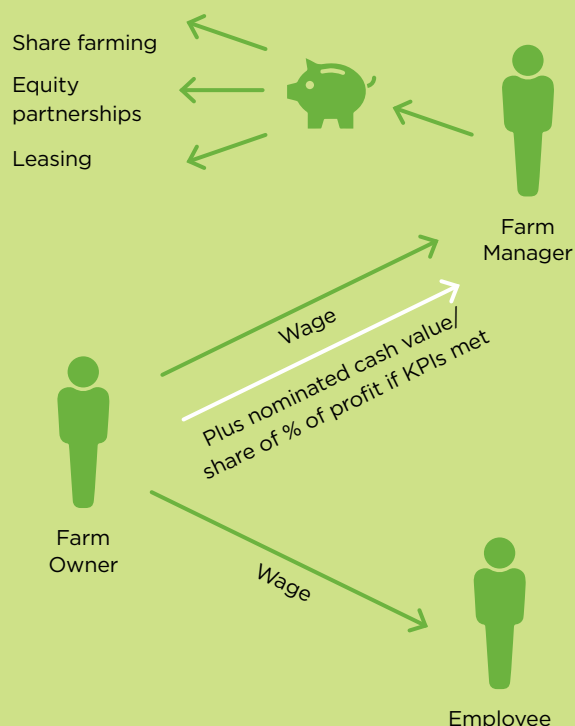
Some of the benefits of using KPI's are:

- When the indicators are clear and built together with your staff it can lead to a shared vision and strategy for the farm. This in turn will increase both staff and farm owner/employer motivation.
- When implemented correctly they help keep good staff longer term and reduce staff turnover.
- KPI's help focus staff on key areas and improve performance in those areas. The use of benchmarking can help identify which areas the farm could focus on.

Elements needed

- KPI's that are clearly and/or easily measurable ie. have minimal subjectivity. **A full KPI schedule is available - see Further Resources.**
- A communication system that includes regular conversations about the farm and progress and formal quarterly reviews against KPIs.
- Value of the incentive payment must be significant enough to make the Manager's additional effort worthwhile.
- KPI's are set at levels that but will lift the performance of the business and are achievable.
- There must be clear benefit to both the farm business and the Farm Manager for introducing Performance Incentives.
- The owner/employer must provide the necessary resources/ support and eliminate any barriers to the manager being able to achieve the KPIs.

Model diagram



Who could use this option

- Farmers with a good Farm/ Stock Manager whom they are wanting to:
 - Reward
 - Challenge
 - Retain
 - Assist in improving farm performance
- Farms where farm performance (not Farm Manager performance) in particular areas has been poor, and they are wanting staff to focus on these areas.
- If a Farm Owner is looking at a future equity partnership with a current staff member, performance incentives can be used as step 1 to help the staff member increase their equity.

Case study

Kevin and Lucy Smith employ 3 staff (1 Farm Manager, 2 shepherds). Their Farm Manager (Sarah) is doing a great job. She has been on the farm for 5 years.

The Smith's want to increase farm profitability so they can buy a rental property within the next 5 years as part of their succession plan. They are also aware that Sarah is driven and needs to be challenged. She has aspirations of being part of a farm business within 10 years. Sarah will need to generate capital to achieve this. Although her current salary is fair and she is happy with it, her salary is not enough for her to save the amount of capital required to enter into farm business ownership.

Kevin recently attended a farm discussion group day where they discussed benchmarking. The Farm Consultant took them through how to benchmark their own farms against other similar farms in the region (Step 1/2/3).

Back at home Kevin and Lucy decided to benchmark their own farm. The results showed the farm's scanning and lambing percentages were not in the 'top 20%' for the region. Kevin discussed this with Sarah and she had some ideas around how she felt they could improve this (Step 4 / 7).

Kevin and Sarah sat down and agreed they could improve scanning % with better ewe body condition at mating and feed covers in early spring. They agreed this was what they should focus on (Step 5/6a). They also discussed Animal Health, Planning, change to improving their planning for animal health.

The Smith's and Sarah agreed that any profit increase compared to the 'budgeted' profit would be split 80% to Kevin and 20% to Sarah (Step 6b). They decided to trial this for one year, with just Sarah, before reassessing and potentially rolling out a bonus system to the other two staff (6c).

In April Sarah and Kevin meet to discuss a feed budget Sarah had prepared for the upcoming year and expenditure for new items including upgrading the yards to make condition scoring and weighing of stock easier for the team (Step 7).

Kevin and Sarah agreed to meet every 3 months to discuss how they were tracking against the goals and plans (Step 8).

Challenges

1. Can be hard to agree on what to monitor that is within the Farm Manager's control (e.g lambing % could be affected by weather).
2. If the indicators purely focus on profitability it can lead to other areas potentially being neglected e.g Long Term Development of the farm, or Health and Safety.
3. In order to improve some indicators there may be an initial cash outflow required. e.g. new genetics, or resewing underperforming paddocks.
4. New systems may need to be put in place and/or training undertaken to maximise success eg. more regular/formal staff meetings and reporting; condition scoring skills.
5. It's vital current performance is objectively measured to start with and future potential identified in real terms. Programmes such as Farmax and FarmIQ are good tools to assist with this.
6. Sometimes KPIs can have a negative impact on staff. This can vary from staff feeling the targets are unachievable, right through to staff who do not receive the Performance Incentives feeling excluded and unmotivated. Open and clear communication and engaging staff through the process will counter this negativity.

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Steps to establish

The following steps help in developing performance incentives:

Step 1

Gather some general performance data to see how your farm is currently performing.

Step 2

Benchmark your farm's results against other farms in a similar climate/land type.

Step 3

Review the results and identify where your farm has an opportunity to improve.

Step 4

Meet with your Manager to discuss areas the farm could perform better.

Step 5

Agree on key performance areas to focus on. Seeking outside advice on which performance metrics should be monitored is worthwhile at this point.

Step 6

Agree, document and confirm:

- a. Which KPI's have been selected and what the targets are.
- b. The value of the bonus or the % of profit share.
- c. Decide whether the KPI system applies to one or all staff.
- d. Whether you will monitor the KPI's monthly, quarterly, annually.
- e. When you will pay out the bonus e.g. one month after year end.
- f. Communicate any other areas that are still important (but may not be part of the performance incentive bonus system) e.g. H&S, Farm Maintenance, etc.

Step 7

Empower your Manager to go away and come up with a plan for how to achieve the targets. If funding is required, the Manager should come back to you with a budget for costs and benefits (training/support may be required here).

Step 8

Monitor progress against the KPI's.

Step 9

Provide feedback to all staff as to the progress (or otherwise), being made.

Step 10

Pay the incentive payment on time.

Further resources:

www.knowledgehub.co.nz – Performance Agreement & Schedule Example