Performance Incentives

RED MEAT PROFIT PARTNERSHIP

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 (KPIs). These KPIs are set out as a schedule in the Employment Agreement.

Benefits

Some of the benefits of using KPIs 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
- KPIs 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.

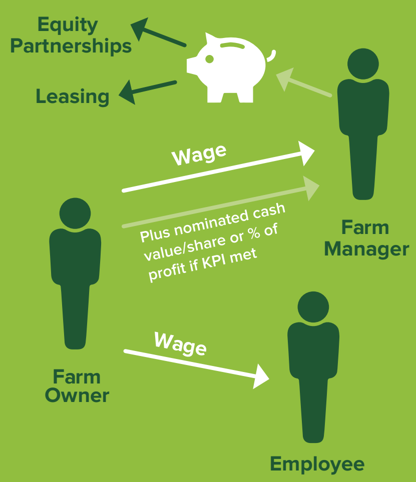
Elements needed

- KPIs that are clear and easily measurable ie. have minimal subjectivity
- 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
- KPIs are set at levels that 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 employer must provide the necessary resources, support, and eliminate any barriers to the manager being able to achieve the KPIs.

Challenges

- It 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)
- 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
- New systems may need to be put in place and/or training undertaken to maximise success e.g. more regular formal staff meetings, improved reporting, and condition scoring skills
- It's vital current performance is objectively measured to start with, and future potential identified in real terms. Programmes such as Farmax and Farm IQ are good tools to assist with this
- In order to improve some indicators, there may be an initial cash outflow required e.g. new genetics, or resewing underperforming paddocks
- 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.

Model diagram



Who could use this option

- Farmers with a good farm or stock manager who 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.

Further resources

Performance Incentive Agreement and Schedule can be found on the B+LNZ Knowledge Hub www.beeflambnz.co.nz

Farmax: www.farmax.co.nz

FarmIQ: www.farmiq.co.nz

Case study

Kevin and Lucy Smith employ three staff (one farm manager, two shepherds). Their farm manager (Sarah) is doing a great job. She has been on the farm for five years. The Smith's want to increase farm profitability so they can buy a rental property within the next five years as part of their succession plan. They are also aware that Sarah is driven and needs to be challenged. She aspires to be part of a farm business within ten 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 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).

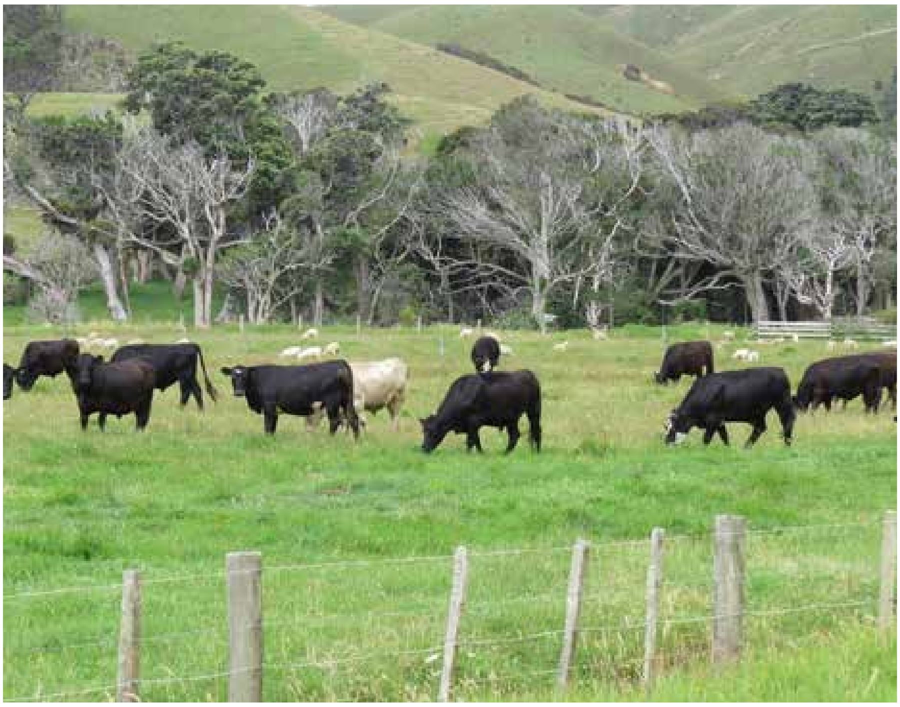
Back at home Kevin and Lucy decided to benchmark their own farm. The results showed the farm's scanning and lambing percentages were not in the 'top 20 percent' for the region. Kevin discussed this with Sarah and she had some ideas around how she felt they could improve this (Step 4 / 7).

Kevin and Sarah sat down and agreed they could improve scanning percentage with better ewe body condition at mating and feed covers in early spring. They agreed this was what they should focus on (Step5/6a). They also discussed changes to improving their planning for animal health.

The Smiths and Sarah agreed that any profit increase compared to the 'budgeted' profit would be split 80 percent to Kevin and 20 percent 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 three months to discuss how they were tracking against the goals and plans (Step 8).



Performance incentives

Steps to success

The following steps help in developing performance incentives:

1. Gather some general performance data to see how your farm is currently performing
2. Benchmark your farm's results against other farms in a similar climate and land type
3. Review the results and identify where your farm has an opportunity to improve
4. Meet with your Manager to discuss areas the farm could perform better
5. Agree on key performance areas to focus on. Seeking outside advice on which performance metrics should be monitored is worthwhile at this point
6. Agree, document and confirm:
   - Which KPIs have been selected and what the targets are
   - The value of the bonus or the percentage of profit share
   - Decide whether the KPI system applies to one or all staff
   - Whether you will monitor the KPIs monthly, quarterly, annually
   - When you will pay out the bonus e.g. one month after year end
   - Communicate any other areas that are still important (but may not be part of the performance incentive bonus system) e.g. health and safety, farm maintenance, etc.
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 and support may be required here)
8. Monitor progress against the KPIs
9. Provide feedback to all staff as to the progress (or otherwise), being made.
10. Pay the incentive payment on time.