A Long Term View
Leveraging project incentives to drive key business outcomes.

As growth starts to pick up and CAPEX cycle revises, large multi-billion dollar projects would become more common. As per one estimate, the energy sector alone might account for more than US$3.3 trillion projects by 2025.

Large players are increasing their investments in China, India and South East Asia. Even a minor variance on time would cost billions of dollars in escalation to organisations. Managing and rewarding talent throughout the project life-cycle becomes a key to ensure timely an effective delivery of these projects.

Project based rewards have the potential to improve project performance – encouraging on-time, on-budget delivery whilst minimising retention issues for mission critical project team members. Of course, these incentive schemes are not without their own challenges – design and governance being the key issue.

We have worked with a number of regional and global players to create and implement project-based rewards. In this paper we explore aspects in relation to their design and implementation, what to consider in their design as well as the key governance criteria used to determine their success.

EMERGING TRENDS IN ASIA

Project based rewards are relatively common in the west but have only recently started to implement in Asia. Companies increasingly see the benefits of project-based rewards because they help bring a sense of focus to project timelines, milestones and overall deliverables, reward a broader, collective effort rather than individual performance and, if structured appropriately, help to retain key talent over the life of the project.

As these forms of rewards gain popularity in the Asia, we see some key trends emerging:

- Eligibility is defined based on whether an individual or job is deemed critical to project completion and success and therefore critical to retain for the length of the project.
- For projects of less than one year, the majority of rewards are based on a one-time payment at the end of the project.
- Longer-term projects have pay-out arrangements (or vesting schedules), that provide some early payments but are heavily skewed towards the later stages of project delivery.
- Support roles are not typically considered for eligibility. However, some companies do make across the board payments on a discretionary basis either at the completion of major milestones and/or at the end of the project.
- Project-based rewards are normally significantly higher than the amount the employee could have otherwise earned as part of the normal annual bonus (but often paid over a longer timeframe).
- Within Asia, project-based rewards are usually calculated as a multiple of total salary, or in some cases a fixed amount.
DESIGN CONSIDERATIONS

**Figure 1**
Project incentives are nearly two times more effective than annual bonus when it comes to reducing attrition of key project-based resources over time.

**MISSION CRITICAL STAFF HAVE A MEANINGFUL IMPACT ON SUCCESSFUL PROJECT DELIVERY. LOSING THEM COULD POTENTIALLY DE-RAIL THE PROJECT**

**INCENTIVE OR BONUS?**
Before we discuss more detailed design considerations, one of the first questions to answer is whether the reward should be in the form of a “bonus” or “incentive”. A bonus may be defined as a backward-looking assessment of performance once all facts are known. The award is determined at the end of the project and the recipient may have no clear idea as to the level of pay-out that may be expected.

In contrast, an incentive-based approach defines the performance metrics at the beginning of the project as well as how success will be measured against those metrics throughout the project life-cycle. The potential amount to be paid is based on threshold, target and superior levels of performance and is clear from the beginning. Recipients know what they might expect in terms of variable pay, rather than waiting until the end of the performance cycle and the discretionary decisions of management have been made. Consequently, a bonus-based approach will have a more limited retention value for participants.

For these reasons, we advise companies considering project-based rewards to adopt a project incentive approach.

**WHAT DO YOU WANT TO REWARD?**
Companies need to reflect on, and be clear about, the purpose of these atypical reward programmes and normally we see companies framing these discussions around:
- Retaining project critical talent
- Delivery against milestones (which may or may not have time horizons attached)
- Delivery of the project to agreed timelines and standards which may have additional criteria applied such as:
  - Completion of mechanical hand-over;
  - Successful conclusion of grace/testing periods.

**WHO SHOULD BE INCLUDED?**
Clarity around the purpose of the plan provides insight as to which individuals and/or roles should be eligible. Often, a role being considered ‘mission critical’ is related to a specific individual’s skills and experience whilst ‘key enablers’ tend to be related more to the specific job or job family. The main criteria should always be whether those covered will have a meaningful impact on successful delivery of the project, whether the individual or role has a skill set that is difficult to replace and whether replacing the skill set will be disruptive enough to de-rail progress on the project.

Figure 2 illustrates how companies typically tend to categorise groups of individuals and employees when thinking about eligibility for project-based rewards. In most situations, team members that are considered ‘mission critical’ and ‘key enablers’ should be included in the incentive program.
Understanding the main drivers for success for the project can also help companies select the most appropriate form of incentive to help meet business need. The table below summarises the three main types of generic plan we have worked with over the recent past – each is a variation on the theme of project-based reward.

<table>
<thead>
<tr>
<th>Type of incentive</th>
<th>Description</th>
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<tr>
<td>Deferred annual project incentive</td>
<td>- An increased annual bonus but with an element deferred over life of the project.</td>
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<td>- Some or all of the deferred element is paid on a major milestones e.g. mechanical completion or handover.</td>
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<td>- The deferred element can be increased if pre-agreed performance goals are achieved life to provide retention effect.</td>
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<tr>
<td>Milestone incentive</td>
<td>- Phased pay out of incentive based on time based goals and/or delivery of agreed project milestones over course of project.</td>
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<td></td>
<td>- Payouts will typically be weighted towards the end of the project.</td>
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<tr>
<td>Project completion incentive</td>
<td>- Simple project completion bonus based on achievement against selected criteria and/or remaining an employee of the company.</td>
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**PAYING FOR PERFORMANCE**

Defining and prioritising the key measures of project success and having a clear and agreed picture of what success looks like is critical. For some roles and projects, success may be focused on goals within a major project such as the achievement of a deadline, cost savings, quality of delivery, management of contractors / service providers and so on. For senior project roles the critical factor is the overall delivery of a major project (with the implicit requirement to manage each sub-project).

The use of an appropriate performance scale is an important factor as it creates better understanding around the success of the projects. Typically, organisations tend to use a three-point scale to evaluate project progress categorised by below target, on-target and above target ratings. However, some organisations tend to be more granular. This approach may be suited to 1-2-year projects but for longer, more complex projects a three-point scale is often more appropriate as it can more accurately reflect unplanned outcomes by providing key stakeholders a better opportunity for qualitative evaluation.

**WHEN TO PAY, AND HOW MUCH?**

The nature of each project and its success, as well as considerations around key talent, will influence how companies want to design any pay-out or vesting of project reward payments.
Pay-outs can be structured so that they are spread evenly across the life of the project or (where there is a strong retention requirement or critical back-end deliverables) pay-outs may be weighted towards the end stages or completion of the project. Alternatively, payments could be structured around project milestones that may not be directly linked to specified dates but simply to the successful delivery of project goals. Similarly, to a retention-based approach, actual pay-outs can be structured so that a smaller proportion of the overall available reward is paid out for earlier milestones and with the greater weight of potential reward geared around final project delivery.

PAYING FOR PROJECT REWARDS

Every company will need to agree the basis on which project rewards are funded. Choices include funding from the project budget itself, pay-outs funded by gains in performance improvement or efficiency gains and cost savings over the course of the project or simply as part of the overall company’s variable pay budget.

Effective project rewards are designed to reward the delivery of initiatives that will dramatically impact future business success and in our view need to be designed so that the pay-outs are materially different from what may be paid elsewhere in the company – otherwise the effort of designing and administering special arrangements will not be realised in superior levels of project performance.

IMPLEMENTATION CONSIDERATIONS

One of the main questions that arises in many companies is whether the existence of project-based rewards should be openly communicated or “kept secret”. We believe that an approach that is well considered and designed should be capable of being openly communicated to all employees since the purpose of the plan and eligibility for project rewards should be capable of being explained as defensible and fair and linked to overall business success.

Setting this issue aside, the success of any reward programme is dependent on how well they are communicated to participants and project-based rewards are no different. The best designed plan in the world will be ineffective if companies do not devote sufficient time and energy to explain the purpose of the plan, the performance standards being set and how they will be measured and ultimately how performance against these will be rewarded.

IN SUMMARY

Project based rewards are gaining in popularity across Asia. Companies see these arrangements as providing a significant competitive advantage in terms of project performance and staff retention as well as enhancing the perception of the company as an employer of choice.

There are a number of core principles and useful guidelines which inform the design of project-based incentives. With so much to consider, designing a plan can seem overwhelming, tempting some companies to adopt a ‘one-size-fits-all’ approach for different types of project. However, to be truly effective, companies must develop a bespoke solution that focuses on the overriding objective driving the development of the plan. When the design is properly considered and the plan effectively communicated, there’s a far great chance of success.

About Korn Ferry

Korn Ferry is a global organizational consulting firm. We help clients synchronize strategy and talent to drive superior performance. We work with organizations to design their structures, roles, and responsibilities. We help them hire the right people to bring their strategy to life. And we advise them on how to reward, develop, and motivate their people.