Frameworks for designing and assessing performance and reward schemes

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Introduction

It is a tough job to design a reward scheme that achieves objectives without having unfortunate unintended consequences, so it needs to be carefully thought through. Overall, is the scheme aimed at maintaining the business or growing the business, innovation, retaining people, developing people, or what? Will changing behaviour achieve the objective, or will sharing the profits be more effective? Such decisions are fundamental in determining the parameters of the scheme and evaluating if it is successful. But if success has not been defined, how will the company know whether the scheme is working or not?

To help with this difficult task, here are three frameworks:

- Reward scheme design framework which takes into account different kinds of performance and different forms of rewards.
- Weighted checklist to review scheme alignment with purpose: to confirm a design or choose from alternatives.
- Framework to identify a scheme's likely intended and unintended consequences.

It is a good idea to follow up your scheme design with these two assessment frameworks before you commit your organisation. See papers on '**Performance in Key Account Management'** and **'Rewarding Key Account Management'** for more about the constituent elements of performance and reward schemes.

Groundwork

Reward schemes have at least ten important elements: the first five should be clarified before the specific details of the scheme are determined.

1. Objectives
2. Participants
3. Budget
4. Compensation balance
5. Performance
6. Measurement
7. Targets
8. Rewards
9. Rates
10. Timeframe

1. Objectives

It is important to specify the scheme's objective(s) and evaluate its outcomes against those objectives, since most reward schemes are challenged sooner or later. Objectives do not all need to be in terms of 'hard data', but they do need to be measurable. Ultimately, the overall objective is probably to increase profit, but KAM is a medium to long-term strategy. Where final goals are some way down the line, the reward scheme may need to focus on intermediate goals, but there is no reason why it should not change each year to reflect progress.

2. Participants

Presumably key account managers will be the principal participants. But are key account managers' line managers also part of the scheme? Their reward package needs to be aligned with the KAM scheme to ensure that everyone is driving in the same direction. Are senior managers in other functions also covered? They may require a different scheme, but is their cooperation assured if they are not incentivised?

Account team members wholly dedicated to an account can be offered a reward package, but for part-time members of account teams it is hard to find workable financial rewards that are seen as fair by everyone, and the perception of fairness is very important. Recognition rewards for teams are probably more feasible and desirable.

3. Budget

The cost of the reward scheme and the source or sources of funds have to be worked out. They will probably come from different sources according to their nature:

- Cash bonus: seen as paid from product/service revenue or, better, customer gross margins
- Salaries: paid over a longer span into the future, from the salary/ establishment budget, not against product/service sales
- Non-financial rewards: can still have significant costs (ceremonies, dinners, weekends away etc) that must be found from somewhere.

The financial justification for the scheme will depend on whether it is seen as investment in people, operational cost, overhead, profit share or what? Whichever, it should be costed and justifiable financially.

4. Compensation balance

Suppliers need to decide what they believe to be an appropriate balance between base salary, variable cash bonus, salary flexibility and recognition. Fixed salary can vary from 100% to 50% of total earnings, but high cash bonuses like 50% are judged by most companies as indicative of a sales job rather than a KAM approach, and are actually counter-productive to KAM. For key account managers, about 85% of total package as fixed salary is fairly common, the remaining 15% consisting of rewards against several performance factors.

5. Performance

The basic structure of a reward scheme depends on what performance is to be rewarded and what will be offered as a reward, so the company needs first to decide what kind of performance it seeks: which should obviously be based on the objective of the scheme. Before getting down to specifics, there should be a discussion on what kind of performance the company values and whether it has the capabilities to manage and measure it. Performance options:

- Individual results — Sales volume in terms of revenue or margin based on the individual's customer or customer portfolio: a 'lag' indicator not entirely controlled by the key account manager.
- Behaviour — Personal competencies and activities, within the key account manager's control, representing inputs to the situation and therefore a 'lead' indicator.
- Account objectives — Inputs, milestones or results/outcomes as identified in the account plan, therefore dependent on the quality of the plan.
- Business objectives — Overall performance of a relevant group or unit, like the account portfolio/key account manager group, to which the key account manager contributes.

Individual results

A certain amount of reward is generally settled on some form of individual sales result, but raw sales volume or revenue is increasingly unpopular as companies realise that revenue does not necessarily equate to a satisfactory margin or contribution.

The use of sales margin as a performance measure for key account managers also causes unease because of the nature of the difference between KAM and sales jobs. Compared with a salesperson, the key account manager spends a good deal of time inside his/her own company, developing concepts and projects, communicating and organising people on behalf of the key account, in line with agreed strategy and their role in it. So they are clearly part of an organisational process and their performance should be judged accordingly.

A focus on short-term sales results may be counter-productive in KAM:

- Pressure may be applied to customers to take more than is right for them in a period of time
- Customers see key account managers as acting in their own self-interest and do not trust them to uphold the customer's interests
- Longer-term relationship-building activity may be neglected
- Individuals try to secure more resources for their customers than they warrant
- Resources are applied according to the persuasiveness of the account manager, at the expense of others
- Prices are sacrificed to volume.

The delay in KAM activity between input and outcome is difficult to handle in a results-based reward scheme. If the key account manager who made the input to, say, an important project that gained an eventual sales output then misses out on the reward because he/she has moved to a new position, while the new incumbent gets an undeserved windfall, neither is motivated by the supposed incentive. In fact, it becomes a distinct disincentive to this kind of highly desirable activity.

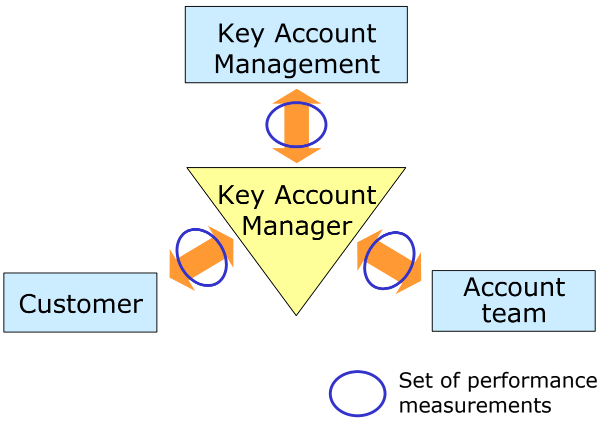
Behaviour

A results-based performance scheme effectively places the reward on a non-specific lag factor that drives key account managers to deliver 'more', but probably more of the same, not 'different'. If the company wants 'different' rather than 'more', the reward should be linked to behaviour.

Taking the broader view of performance favoured by many companies, the figure below shows how a balanced set of performance measurements might be constructed around the principal roles of the key account manager, reflecting the key account manager's performance:

- In functional activities
- Internally, in relation to the account team
- Externally, in relation to the customer.

Focal points of performance



Specific requirements should be focused on something in these areas that the organisation wants to achieve, which is often behaviour/activity. Some companies are using this kind of balanced approach in appraising key account managers. For example, one evaluation set was based on:

- KAM/key account manager measure: Projects
- Customer/key account manager measure: Service to customers
- Account team/key account manager measure: Morale.

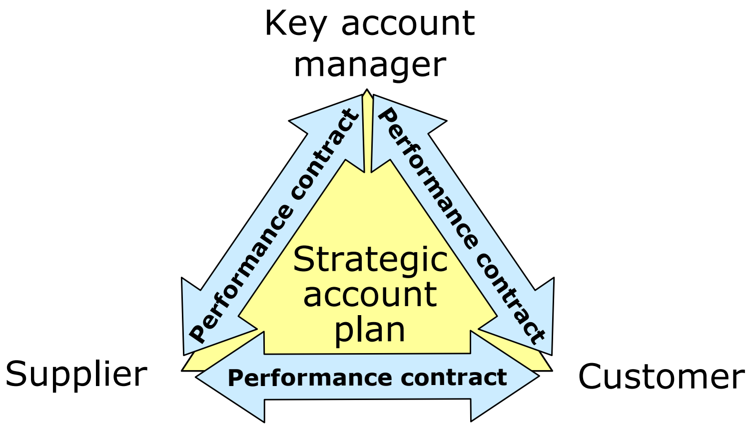
Account objectives

As with KAM itself, 'one size does *not* fit all': e.g. targeting all key account managers with increasing sales from their accounts by 10% is a nonsense. It may look simple and fair, but it is not, and irrelevant targets are a great turnoff. Schemes should recognise the different kinds of performance that might be expected from key accounts in different positions in their life cycle with the supplier. Where there are variations of the reward scheme around different customers, and therefore also different key account managers and teams, the rationale and rules behind the variations should be clear and transparent. Key account plans should be the source of understanding and cater for these differences, but that depends on three things:

- Good quality, rigorous strategic account plans
- Robust and flexible measurement systems
- Good quality line management to judge plans and respond appropriately.

The plan equates to a contract between the individual key account manager and his/her organisation: it encapsulates the expectations the supplier has for the key account manager, and also to the key account manager and, indeed, to the customer as well, and therefore provides the optimum, appropriately-tailored base for specifying performance requirements.

The strategic account plan as a three-way contract



The strategic account plan should capture what the organisation will put into the situation (resources, products/services, projects) as well as what the key account manager should input and what outcomes should be achieved. Sadly, not many companies clarify all of these elements, but when they do, they can develop the best possible, most powerful fit and fairest of performance and rewards to situation.

Business objectives

Some companies consider co-operative behaviour in the KAM unit or group of key account managers as very important, and performance may then be focused on the key account portfolio as a whole. Viewing performance at KAM unit level has virtues of:

- Balancing anomalies and protecting key account managers from exceptional customer risk
- Linking to corporate goals better than individual customer objectives
- Key account managers sharing best practice and learning from each other
- Accommodating accounts at different stages of their life cycle, including maintenance
- Supporting resource allocation rather than resource appropriation

- Allowing more mobility of key account managers v customer and recruits from the rest of the company
- Reducing internal competitiveness and fostering better corporate citizenship.

Collective performance and reward schemes do not reflect the differences between personal contributions, so this kind of performance tends to be seen as a valuable part of a reward scheme, but not the whole scheme.

Framework for designing scheme specifics

Following the discussion on the overall kinds of performance the company seeks, and can handle, specific performance requirements can be logged in the framework. Using a framework helps to ensure that all the factors have been considered and clearly specified.

Performance and reward scheme design framework

	Performance type			
	Individual results	**Behaviour**	**Account objectives**	**Business objectives**
Required performance				
Measurement				
Base/current position				
Target (?)				
Nature of reward				
Rate of reward				

6. Measurement

Rewards in KAM may involve serious sums of money and/or very personal and career issues. As a result, managers feel the pressure to obtain objective measurement against which they can allocate rewards as automatically as possible. However, objectivity is not as readily obtainable as managers hope, since results can be subject to a range of manipulations and excuses even when measured accurately, while qualitative measurements, or quantified judgements, are arguably more objective and less contentious than managers fear, and are often used very successfully by companies. For example, some companies pay rewards against the quality of strategic account plans, scoring them on a clear criteria-based scale of 1 – 5.

Usually there is a mix of 'hard' measures relating to business objectives and other more qualitative elements, where measurement can be systematised to varying degrees, e.g. internal elements like performance on corporate citizenship, values and leadership integrity. Some companies use appraisal discussions with the line manager, but others collect measurable responses by conducting annual 360° feedback surveys with team members, colleagues and customers. They may manage surveys themselves or with third parties to gain advice on what and how to measure, and to reduce challenges to the outputs.

Robust and timely measurement is essential, especially where cash bonuses are paid. For example, companies may want to reward against customer profitability, but if their measurement takes months to produce or it does not stand up to scrutiny, they should pick a measurement that does.

7. Targets

The quantified element relating to results is often attached to a target, which is qualified by:

- Nature of target: e.g. sales revenue, margin, cost to serve, contribution
- Level of target: e.g. £ million revenue for goods delivered in the financial year
- Linkage with rewards: e.g. payment for below target as well as above, capping.

Targets are a big issue. It is considered important that reward schemes are seen as fair, and yet targets themselves are the element most likely to cause problems with setting up a fair scheme, in practice as well as in theory. Furthermore, most of the unfortunate consequences of rewarding on sales results is probably not so much the nature of the measure itself, i.e. sales revenue or margin, but actually owing to the target that has been set for it. Targets might work if they were just used as benchmarks, but that is not the norm. A great deal of research has shown that when they are linked to rewards, they often do not have the effect intended and can even be destructive.

Companies are mostly averse to paying bonus on 'what we would have got anyway'. Ambitious targets are often set for sales results in order to stimulate activity directly focused on short-term sales. However, it is very difficult to set them at the right level and they can promote all kinds of inappropriate behaviour, which are often counter to the interests of the customer. For example, they may be pressured to buy more than they need so the key account manager can reach target.

This can happen even if the target has been carefully and realistically set without outside pressure, e.g. from a Board trying to impress shareholders. However, often targets are set quite arbitrarily and that makes companies are unprepared to respond when there are significant changes in markets, customers or supply.

8. Nature of rewards

The nature of the reward is also an important decision, whether financial (bonus, salary increase) or 'non-financial' recognition (which still costs). A combination of all three types can be employed: choices tend to depend on the culture of the company and what senior management believes in and finds acceptable. Money is seen as simpler than recognition rewards that involve more management effort.

- Bonus — Cash at end of fixed period: month, quarter or year
- Salary increase — Permanent increase, not retractable.
- Recognition — Variety of forms of non-financial reward, e.g. promotion, status, representing company at industry forums, mentoring from senior person, training, development

Companies may be concerned about offering salary increases for good performance, since they cannot be withdrawn in later years. They feel they can afford cash bonuses where they are awarded against sales results and paid out of gross margin. This kind of cash bonus is effectively a profit share, limited to the current year, so that managers do not feel worried about whether it can be repeated in subsequent years.

Some companies take non-financial recognition rewards very seriously, particularly those in professional services, but for others it was 'the icing on the cake' - not enough to count as 'the cake' itself. Views may be correlated with the key account managers' backgrounds: those with a history in sales have been schooled to expect cash rewards.

9. Rate of reward

Having set the main parameters for performance and reward, the rate of reward needs to be decided: percentage bonus or salary increase; single rate or several; sliding scale or binary achieved/not; quality of fulfilment. For example, if the reward is linked to contract acquisition, is there to be any reward for a delayed deal of shorter duration than expected?

Careful calculations and modelling of possible performance and consequent rewards should be explored in advance, considering:

- Ratio of reward to performance
- Targets and trigger points, where higher or lower rates might apply
- Capping and underpinning.

Bonuses are generally paid only on results that fall beyond target or within a specified range, and this is where things can go wrong, when unforeseen circumstances push the performance or the rewards outside anticipated limits. For example, if the market crashes will there be any sales-based bonus at all? There is a view that the key account manager can influence results within a 'bell curve' of expected levels of business. Beyond those limits results are considered to be outside their control, whether they represent an upside windfall, or a downside disaster. Schemes are often capped at the top, therefore, and compensated at the bottom (though this may not be published). Companies should decide in advance the upside and downside levels that trigger contingency plasn.

10. Timeframe

Critical to a scheme's success is a design that reflects the contribution of the key account manager within the timeframe of their tenure in the post. Obviously, they are unlikely to be motivated by rewards that pay off after they have moved on, harvested by their successor. And if rewards are all heaped on short-term wins, they are unlikely to work at initiatives with delayed results.

Clarity around timing is always important, so schemes need to specify:

- The performance reference period
- Point of assessment/review
- Delivery of rewards.

The performance reference period is less critical for qualitative measurements which do not change greatly over short periods of time, compared with sales results, which are much more time dependent. The company also needs to be clear about whether bonus is awarded against orders received in the period, goods/services delivered or invoices paid, since there can be significant differences between them. Rule ambiguity will be seen as unfair and increases opportunities for ‘gaming’.

Example of the framework for design of a performance and reward scheme

Below is a hypothetical example, to give some idea of how this framework may be completed. The best schemes include more than one type of performance, though probably not all, so some columns could be blank.

	Performance			
	Results	**Behaviour**	**Account objectives**	**Business objectives**
Required performance	Gross margin on sales	Hold regular account team meetings Strategic account plan	Gain min. 3-year contracts for new customer locations	More substantial top-to-top meetings in KAs
Measurement	Existing monthly report	No of documented meetings held Timely plan completion to satisfactory level	Signed contract	By senior executives involved
Current position	£0.8m (based on £3.2m rev @ 25% GM)	3 in current year No strategic account plan	Contracts with 4 of customer's 8 locations	Average 1 pa, none with 4 KAs
Target	£0.9m GM	6 = bimonthly Plan completed by 30/8, min. quality level 3	Contracts with 2 new locations.	Minimum 3 per KA, only 2 exceptions of 10 KAs allowable
Nature of reward	Cash	Cash	Salary increase	Non-financial
Rate of reward	2% per £0.1m over target	£1000 for meetings £1000 for plan	2% above inflation	Luxury weekend away in Greece

Two frameworks for assessing performance and reward schemes

A. Against objectives

Reward schemes have a difficult job to fulfil. They need to be effective in promoting KAM and, at the same time, fit into the corporate culture, be aligned with customer needs, manageable and fair and answer to a number of other requirements too.

A project group developed their list of expectations of a reward scheme, and weighted them to reflect how important they thought each should be. The table below shows this set of desirable characteristics, so that it can be used in to assess any scheme that is currently employed or formulated for the future.

The weightings of these characteristics can be adjusted (provided they add to 100) to reflect the views of each company on what its most important in its situation. For example, for some companies the scheme needs to be acceptable in the wider industry as well as inside the company, in order to recognise the key account managers' market value and attract and retain the right people, but others have long-term employees and recruit from within, so this issue is less important for them.

If the company has more than one proposal in front of it, this is a useful way of comparing them. Otherwise, companies should look for a high score from any scheme that they plan to introduce, or they should think again.

Weighted checklist for assessing a reward scheme against objectives

Desired characteristics of reward scheme	Weight	Scheme rating 0 - 10	Score = Weight x rating
Alignment with company culture & strategy	15		
Alignment between required, rewarded & measured activities	15		
Alignment with customer needs & market	15		
Alignment with individual expectations	10		
Strength of impact on key account managers	10		
Match with management time & ability	10		
Objectivity & fairness	10		
Perceived cost	10		
Impact on others	5		
Total	100		

Companies should not just think about how reward schemes will work for key account managers. They need to consider their impact on all concerned:

- The individual key account manager
- The customer
- The account team
- Colleagues
- The rest of the company.

Thought should be given to what kind of effect the reward scheme will have on the customer, alongside the wider impact inside the company. One customer remarked, "When they come in here you can see their compensation plans showing!" Generally, the greatest danger of promoting inappropriate behaviour lies in those schemes heavily biased towards cash bonus based on targeted short-term sales results.

B. Against intended and unintended consequences

Reward schemes are notorious for having both positive and negative effects, and it is difficult to avoid all the pitfalls and achieve a fair, transparent and motivating approach. It is especially difficult for companies embarking on a KAM programme for the first time, and having to move on from their existing schemes, whose workings and effects are familiar to them.

The simple framework below helps to anticipate both valuable and unfortunate consequences of their reward schemes in advance of launching them. The possible permutations of performance and rewards are represented in terms of what kind of performance base could be used and what reward might be given.

Framework for performance and rewards scheme consequences

Required performance		**Reward**					
		Cash bonus		Salary increase		Non-financial recognition	
General	**Specific**	**Positive**	**Negative**	**Positive**	**Negative**	**Positive**	**Negative**
Results: sales revenue, margin etc							
Behaviour: personal objectives							
Account objectives							
Business objectives							

Companies considering the adoption of a scheme giving, say, salary increases based on performance on behaviour (personal objectives) can use their experience to see what advantages and disadvantages it might have, and potentially make amendments to negate any unintended and unfortunate consequences. The framework could help to find combinations of performance and reward that minimise disadvantages in the proposed scheme.

Conclusions

Focus on the purpose
Make sure that whatever is proposed delivers to the purpose of the KAM programme, rather than to expectations that fit other business models. If the scheme is both powerful but misaligned with KAM it will actively undermine its purpose.

Timeliness
New reward schemes need to be introduced at the right time when establishing KAM in the company, sooner rather than later. Waiting to 'see how it goes' gives mixed signals to key account managers.

Inputs and outcomes
Performance most often means 'results' (sales revenue, margin or profit) or 'behaviour' (projects, activities, relationships). Results are outcomes, seen as easy to apply and 'paying for itself', while behaviour is an input to the account that may not turn into sales, for all kinds of reasons. But if a key account manager is to make any difference to what happens, then the time to make it is obviously at the input stage.

The key account manager job is different from sales: it is more about creating opportunities than taking orders, and with longer term initiatives and sales cycles, there may be little a key account manager can - or should - do to expedite immediate sales. Results-based rewards can be a real deterrent to the kind of activity required in KAM.

Rewards
Rewards can be financial, mostly cash bonuses (easy, no future commitment) or salary increases (some concern about sustainability), or non-financial recognition. There is a

vast range of things that can be done to recognise a key account manager's work, but they take more time and management than financial rewards.

Quality of line management

The quality of line managers is often insufficient to cope with schemes requiring management input, which means they probably are not good enough to be in the job. It may be that KAM and key account managers are positioned too far down in the organisation.

Balance

It is important that suppliers acknowledge that the KAM job is different from Sales, and that means changing the reward scheme. Most companies opt for a balance between the various performance parameters discussed in this report, and of rewards as well. There is general agreement that the variable element of key account manager's remuneration and rewards should be less than for a salesperson, reflecting the complexity and longer-term nature of the job they should be doing. The scheme will be successful if it is clearly aligned with the purpose of KAM, well balanced and fairly applied.

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