

QUESTION:

When the budget is too tight to offer a pay rise, how can an SME proprietor motivate staff and heighten productivity?



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With the failure rate of SMEs climbing 38 per cent between March 2008 and March 2009, it is very likely to be the standard, rather than the exception, that many small businesses cannot afford to monetarily reward key, high-potential employees.

In this situation the proprietor still needs to offer value and answer the question of 'what's in it for me?', albeit, more creatively.

One effective option is to develop a series of rolling incentives that act to achieve both key objectives: motivation and retention of key staff.

These types of incentives work around setting KPIs that are challenging yet achievable and, if achieved, ensure that the business is in a stronger position (for example, sales targets).

What is different about these incentives is that they kick in after two or three years of service with the firm. For example, any representative who achieves their budget for three consecutive years earns an additional lump sum of \$50,000 over and above their salary and normal incentives.

Large firms and multinationals use this strategy to great effect and it must be remembered that the key is to structure the incentives in a way, that when any individual qualifies for this type of reward, the firm has more than made up for the incremental spend on bonuses. This represents a meaningful and sustainable differentiator for your firm. The upside is employees forgo a pay rise now, for the opportunity to earn greater rewards down the track. Rewards that you will be in a better position to pay. Simply put, it's a win/win situation.

A 1946 study showed that when asked what they most wanted from their work, employees answered "full appreciation for work done". When their managers were asked what they thought employees most wanted, they responded "good wages and security".

Managers and business owners wrongly believe that the main reason people go to work is money. It's certainly one of the reasons, but for most people, it's not the biggest driver.

In this economic environment, it's time to implement the most effective, but underrated strategy for improving productivity and performance – recognition.

In the past, service awards based on tenure were the primary form of recognition. These days recognition is based more on performance-related criteria. I recommend people think through the approach that will best work in their business, and use a combination of day-to-day recognition, informal recognition and formal recognition. Day-to-day recognition may take the form of awards, celebrations, thank you notes and written and verbal praise.

Informal recognition is the singling out of individuals or teams for progressing toward milestones, achieving goals or completing projects. The employer should provide a small indication of appreciation such as morning tea or dinner to celebrate achievements or effort.

Formal recognition involves creating a structured program with defined criteria linked to company values and goals, a nomination and selection process and an awards ceremony where employees receive public recognition.

Recognition increases employee satisfaction, performance, teamwork and productivity. It reduces turnover, absenteeism, stress and accidents on the job. And it's low cost.

So what are you waiting for?

There are many options an SME proprietor can use to motivate staff and heighten productivity. These include offering equity or rewards based on performance, giving staff opportunities to 'own' a revenue generating project and simply showing appreciation.

Key staff can be offered equity (shares) in the business based on meeting or exceeding targets relating to revenue, profit and generating new business, over a particular period of time. This encourages ongoing performance, loyalty and accountability.

Bonuses and profit share can be offered to staff based on revenue or profit generated by staff members individually or as part of a team. Non-financial rewards such as a day off, a weekend away or winning a prize can be offered to staff based on meeting or exceeding targets relating to revenue, profit and generating new business.

Staff can be encouraged to innovate new products, services, businesses or strategies that will generate revenue. This makes staff feel more involved and an integral part of the business. If the staff member responsible for the new concept is then given ownership of its implementation, that staff member will have a personal vested interest to ensure it is a success.

Appreciation of a staff member's contribution to the business can be shown by complimenting a job well done, saying thank you, buying a personalised gift or giving an early mark.

These strategies encourage a focus on generating revenue, business growth and performance. To be effective, the benefits to the business of staff 'performing' must be greater than the costs of providing equity or rewards, investing in new concepts and providing gestures of appreciation.