

The best laid incentive plan



**ASSIGN
BUSTER**

The best Laid Incentive Plan Case Description The case study presents an interesting concept of organizational behavior and performance measurement systems. The CFO and Chief Administrative Officer of Rainbarrel products, Hiram Phillip was very confident about the changes he brought in Rainbarrel. He had been in the company for only a year and had done lots of infrastructural changes. Some of the changes included cost cutting in budget, headcount reductions of 10 % across all units, introducing the ‘ wall of shame’ policy for customer care representatives, on time shipment policy.

He felt, according to his metrics and figures, he had single handedly improved the company’s performances by leaps and bounds. And today was the day where he would present his numbers to the executives in the corporate executive council meeting. Hiram was applauded by the CEO Keith Randall in the meeting and everything looked good and positive until when certain information started coming out. It came to light for instance the, Research and Development department had developed a breakthrough product that was not being brought to market as quickly as it should have been—because of Hiram’s inflexible budgeting process.

An employee survey showed that workers were demoralized. The customers were unhappy and were complaining about Rainbarrel’s service. Although Hiram’s numbers looked remarkable on paper, there were lots of thing that Hiram was unaware of and was detrimental to the company as a whole.

Diagnosis of the problem The main problem in the case is the shortcomings in the performance measurement systems and the need to develop a

performance measurement system that meets both organizational and individual needs.

The case mentions that Rainbarrel Products has shown difficulties coming back from a slumping economy. A study of the company had shown a recent lax in management could be the reason why Rainbarrel Products have had a slower adjustment to consumer decline than their competitors. To bring Rainbarrel out of hardship the company hired Hiram Phillips as the CFO and Chief Administrative Officer of Rainbarrel Products. After Hiram Phillips evaluated the company he developed a Performance Management System that would enhance business performance for Rainbarrel Products.

One year after the Performance Management System was put into action, Rainbarrel Products showed incredible results. Strengths of these results were reduction in labor costs, costs reduction on commission sales to employees, and clarifying job agendas to each area of sales showed incredible changes. There was evidence of lower costs as a result of higher productivity and improved customer service quality, as well as an increase in the number of on-time shipments being shipped.

The reason these strengths were showing up was because no reliable performance measuring metrics was used. The metrics used by Hiram were too focused on number and too narrow. The eccentric of the performance management was cost reduction. Rewards were based on pay for performance, for example you pay the sales folks only on sales, and there may be more sales, but it may be at bad prices or more returns of goods

later. The rewards were extrinsic rather than intrinsic. Extrinsic rewards fails to motivate employees and this is what exactly we see in the case.

The new policies pushed people to beat the systems like shipping products on due date so that their performance metrics was not affected but their products were lying outside the manufacturing plant, or not to open their emails until they know they cannot resolve the issue. All these issues show that employees were demotivated and stressed out. The second issue in the Hiram's systems was there were no effective feedback systems. As most of the complaints by employees were " No role models. ", " No mentoring:", " No chance to pick the veterans' brains. ", " No knowledge sharing about accounts. In fact by placing systems like " Wall of fame" resulted in humiliation. The new performance management process lacked conducive working conditions, employees had no feeling of achievement, no learning and growth opportunity, According to Herzberg's motivator-hygiene model, these conditions lead to dissatisfaction among employees and leave them demotivated. The employees were stressed out most of the time and were focused only on achieving their targets – whether to release more patents or sell more products or attend more calls per/day thus the company was losing its competitive advantage.

The other stakeholders that are affected by Hiram's performance management policy are the customers. Long term customers like Brenton Brothers have numerous complaints against the Rainbarrel services. They do not get their products on time and customer care doesn't resolve their issues through phone. Their important shipments were not delivered to them on time, but were lying at the rail road near the plant. All this leaves the

customers unhappy and dissatisfied which can hamper their overall business. Course of Action

The key issue we see in the diagnosis is that the metrics used for performance management system is flawed and is highly focused on cost reduction. It has less emphasis on employees and customers. There has to be a significant change in this approach. The performance management system metrics should be based on performances and competencies, i. e. what employees do and how they do it. The metrics should include completing the job, knowledge gained, adaptability to the situation, decisions involved. The metrics should be measurable, well defined and related to the job.

Employee feedback can be taken in developing these metrics and they should be aware of the criteria and understand the performance factors before appraisal. Performance management system can involve observable and measurable goals between supervisor and employee. This is also an example of contingent reinforcement. Rainbarrel has to immediately take this approach. Employees are dissatisfied, and demotivated with the company policies. Management should focus on reconnecting with employees and create conditions that will allow employees to be in line with Rainbarrel's goals and reward them appropriately.

After all company growth lies with the employees. Remove emphasis on target, Research and Development department should be involved be innovation and creativity and not be bothered on releasing number of patents. Sales force commission and performance criteria should involve

territory factor constraint and sales representative should be evaluated accordingly. Call center representative should be communicated that customer satisfaction is top priority, length of call or number of calls should not be a metrics to judge their performance . Instead customer feedback survey can be used as a metrics to evaluate performance.

The other issue that needs to be catered is giving effective performance feedback. In fact if Hiram would have taken feedback from employees or customers on his strategies, he would have had a clear picture way earlier and the damage caused would have been less. The objective of feedback should be information on performance. The feedback should be clear and accurate. Instead of having pay for performance rewards, feedback from subordinate or manager can be used to evaluate performance. Feedback from more than one source should be used to evaluate performance and to eliminate biasness.

Appreciation emails should be sent across immediately if goals are achieved. Goal setting also works as a motivational tool and hence creates a dynamic learning environment. Poor performances should be coached, counseled and mentored accordingly. If above course of actions are indulged effectively it will automatically lead to customer satisfaction and improved performance as a whole of the entire organization. Hiram on the other hand should look at the picture as a whole. He should look from all stand points and not just numbers and costs. He should be considerate and fair towards his employees.

His attitude comes across as a rude guy - for example to reduce the number of calls he could have got an answering machine for the customer care department, but instead he introduced wall of shame policy. This shows his insensitivity towards his workers. He will have to analyze his behavior and improve on it. Also the CEO Keith Randall should be more involved in the company and the changes that take place. He should select right leaders, communicate them effectively about the organizational goals and makes sure that the strategies are aligned with the company culture.