## New system: "MINIMUM PERFORMANCE STANDARDS"

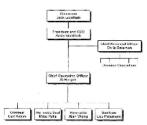
Division borres posi was created based on 20% of PMT-MPs + 25% of PMT-TARGET

Bonuses at 8 poid quarterly: 1976 of that earned 1906 was paid at the retail of the year?



## Old system: "STRETCH TARGETS"









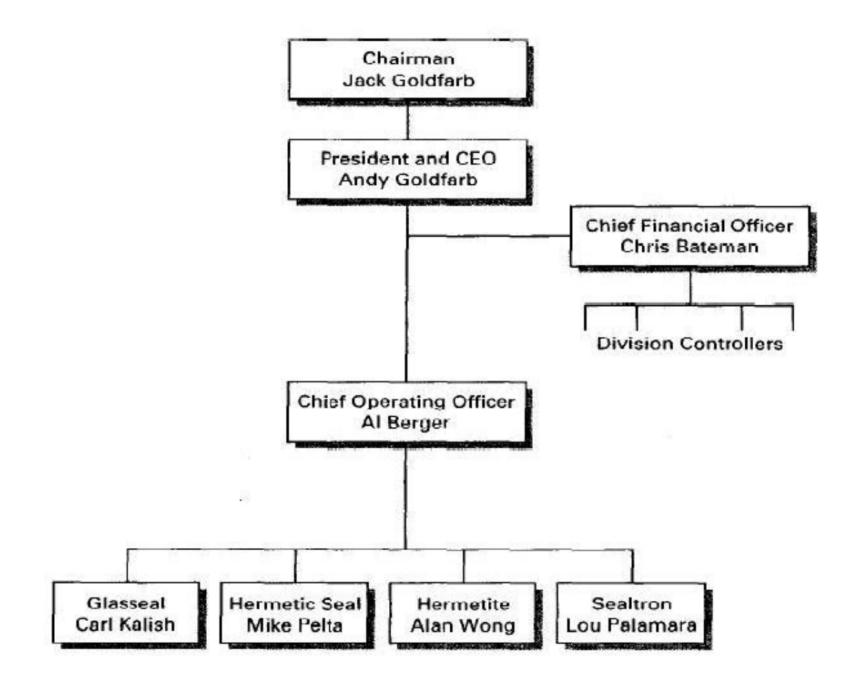


????

Is the problem in the system itself / in the way they implemented it / in the employees themselves?

- Lau Palamara Seattran: "My plan is a tirreat. I may even have to logicff some people
  that we will thely need later, that if I don't do it and thins my minimum performance
  standards, I may get fired."
- "If you keep missing budget how do you feel? You feel like a failure." (MikePelta, general manager of Mermetic Seal).





# Old system: "STRETCH TARGETS"

## **PROCESS**

- Each division manager prepares sales forecast □- targets.
- Together with operating manager they prepare budget for expenses, capital expenditures and cash flow.
- Corporate officers conduct thorough review of preliminary targets  $\square$  review budget is presented to the board of directors and approved.
- Performance reports are send quarterly to corporate manager.

## **FACTS**

- Set targets were set were very optimistic and they were mostly reachable.
- 75 to 80% probability of achievement.
- Budget targets affected bonuses, because they based bonuses on division results.

- BONUS: for most division managers 30% of base salary
  - Objective portion: profit before taxes –
     PBT

ACTUAL DIVISION PBT (% BUDGET)	BONUS PAID (% BONUS POTENTIAL)
<60%	0
60	80
100	100
140	150

 Subjective portion: management's judgement based on accomplishement of the targets in all 7 performance areas.

# PERFORMANCE EVALUATION DISSATISFACTIONS

- Profit before taxes PBT
- Bookings
- Shipment
- Returns
- Rework aging
- Efficiency
- Delinquencies

- Feeling corporation is not achieving its plans.
- OK to miss the budget, because stretch targets are to optimistic.
- Lack of communication to division personnel.
- Delay of awards payout.