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Incentives for higher performance

The beginning of the year is a good time for a PR firm, like any business, to think carefully about its strategic initiatives. It is an equally opportune time to consider what initiatives really mean to revenue growth and how an agency's key team is compensated.

Strategic planning is critical, especially now when fewer and fewer firms can be all things to all people, trying to offer (usually without success) all types of specialization to all types of clients. However, too much of strategic planning ends at the planning phase and only addresses one piece of the puzzle (e.g., revenues). The best such plans take into account the viewpoint of multiple stakeholders (e.g., owners, employees, and clients), time horizons (e.g., one year, three years, and more), metrics (e.g., revenue, profit), and agency objectives (e.g., organic growth, employee incentive and retention, and sale event considerations).

To accomplish that, a PR firm must ensure it has the right incentive and compensation programs in place to help bring out the best in its key leaders, consistent with the agency's overall culture. Many do not.

If economics drive behavior, it's easy to understand why a totally discretionary annual bonus does not exactly inspire great performance. After all, if the executive does not know early in the year what specific goals he or she and the firm need to reach to achieve certain rewards by year's end, it's not surprising that the results achieved are sub-optimized. In short, if you don't set financial performance goals for key agency leaders, they surely will not reach them, let alone be motivated by a reward system that has not been properly established.

Different PR firms might have different goals for the firm and for their management teams. That not only is appropriate, but also reflects the efficient opportunities and challenges that firms might have. However, all firms would be well advised to acknowledge that a written bonus-pool plan put in place for its key employees can align everyone's interests.

While no two key executive bonus pool plans are identical, here are some of the criteria a firm might want to consider in developing such a plan for a select group of its key employees:

■ **Set 2013 targets for revenue growth.** These can and should be realistic. The revenue growth can either be from existing or new clients, but it should be consistent with the agency's overall strategic plan.

■ **Set 2013 targets for profit growth.** In order to get an incentive plan in place in which a group of non-owner executives think as if they owned the company, the owner of the firm will need to share account profitability with the key executives who are eligible for this bonus pool. Too many PR firm owners can't understand why their account teams over-service the clients' accounts without sufficient regard for the payroll costs and the related expenses associated with doing so.

This phenomenon, however, is hardly surprising if the main way in which an account team is rewarded is if the client is satisfied. A far better alternative is if both the client is satisfied and the team working on the client business has performed the work with increased profitability.

■ **There is no "I" in "Team."** Most firms will be run better – and healthier – from a financial viewpoint if key executives put the firm first and their own personal interests second. This is true even if the key executives are responsible for different practice areas or clients at the agency.

Therefore, an incentive system should reward teamwork and collaboration, not siloed practice areas where executives are less likely to share information and resources. In addition, a portion of any bonus can also be subject to vesting requirements, making it more likely that high performers will stay with you for additional time.

■ **Actions speak louder than words.** Once the criteria of the plan are established, the owner or owners of the firm should agree in advance to set aside a portion of the agency's annual profits, a fixed percentage of annual profits (or perhaps the increase in profits from the prior year) if the pre-set goals are reached. How this bonus pool is divided between and among the group of key executives could be pro rata based on existing compensation.

Alternatively, the design of the bonus pool will allow the owner or owners of the firm to reward individual contributions by the different members of the leadership team differently. The important thing, however, is that the interest of all leadership-team members will be aligned to achieve the targets set forth in the plan.

It's still early enough in 2013 to consider it a new year. Before that ceases being true, smart firms will work with their financial and legal advisors to put in place by the end of this quarter (at the very latest) an incentive compensation plan that makes sense financially, is tax efficient, and aligns the interests of key employees and owners. Only then can firms achieve their full potential and maximum degree of services. ■

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