REMUNERATION

HK firms need bonuses based on performance

Merit-related pay motivates employees, giving them a vested interest in achieving top results

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Companies looking to retain and motivate their high achievers in Hong Kong may consider spending a bigger share of their payroll on performance-based bonuses, while shifting their focus away from longer-term salary increases.

More professionals in Hong Kong believe they would be better off if they were paid bonuses based on their performance, even though it would come with a lower base salary, which makes them stand out from their more "risk-averse" Asian peers, a recent study shows.

75%
The proportion of employees who said they would prefer a pay cut and a big bonus

"A performance-related bonus rewards employees for good work and can be very motivating for employees as they have a vested interest in achieving a top result. For employers, this can motivate their team to work at peak efficiency," said Christine Wright, managing director of Hays in Asia.

Seventy-five per cent of employees in the city said they would rather take a cut in base salary for the chance to be rewarded with bountiful bonuses, compared with an average of 64 per cent for Asians overall, according to a poll of 2,361 people across five major economies in Asia launched by Hays, an executive search firm.

By comparison, 63 per cent of employees surveyed in China and Singapore and 48 per cent in Japan said they preferred to receive more cash upfront if they perform well but risk it when their company is disillusioned with their work.

Only 16 per cent of employees in Hong Kong can expect a salary rise of 6 per cent or more this year, while one in two firms in mainland China lifted salaries in their last review by between six to 10 per cent, according to a separate survey by Hays.

Many Hong Kong firms have been using bonuses to reward employees without committing to across-the-board salary raises, making it possible for two people on the same pay scale to receive vastly differently compensation.

It is particularly true for the city's financial firms where executives' year-end bonuses can double their monthly pay, with high performers rewarded with one-time bonuses exceeding half their annual salary.

In the United States, performance-based annual bonuses accounted for 12.7 per cent of payroll last year, a record high since the survey was launched by human resources consultancy Aon Hewitt 35 years ago.

Yet performance-related bonuses may not be such a good way of rewarding staff in public services such as education and health care, said Dean Stallard, regional director of Hays in Hong Kong, as an overreliance on subjective adjustment makes it hard for bosses to justify their decisions.

LEADERSHIP

DON'T LEAVE SUCCESSION PLANS HANGING IN FAMILY BUSINESS

Family conflict at the famed Yung Kee restaurant after the death of its founder proves the case for a long-term approach to succession planning

Morten Bennedsen

From the moment the Yung Kee restaurant sold its first goose in Wellington Street, Central, in the 1960s, its founder Kam Shui-fai groomed two of his sons for management roles. However, he never had the time to develop a structured approach to succession planning.

Following his death, the younger son Ronald Kam Kwan-lai underhandedly stripped the eldest son Kinsen Kam Kwan-sing of his management role at the restaurant. If this were not bad enough, the latter died in unexplained circumstances a few years afterwards, having been pushed out of the only business he ever knew.

Family succession should never end this way – and probably wouldn't – if more founders of successful enterprises followed some basic rules in long-term planning. Before discussing my approach, I would like to share three of my favourite proverbs that illustrate why having a structure in place is so important for family leaders.

Proverb Number One: The comb to groom a successor has brittle teeth. Each high-potential family member is unique and so will be his or her need to have a formal plan to guide actions. The comb used to groom one family member should not be used a second time.

Proverb Number Two: Size should not matter in family planning. No matter how large a business is, the founder or current family leader should develop formal business planning and written policies 20 years in advance of a changeover. Needless to say, many family owners resist putting plans into place because they do not want to devote the time to ensure it is done. In reality, a family owner should take great care to complete the formalisation or professionalism process before the business actually needs it.

Proverb Number Three: Feelings need planning. Some business owners think that formal plans are the surest way to take the spirit out of the family business feeling. Nothing could be further from the truth. Embedding the family business feeling into every aspect of the family business requires formal planning and written rules.

In so doing, owners can create their own organisational culture, which reflects the entrepreneurial spirit of the founder and the socialisation process that has developed within the organisation. Structure needs to evolve as the business grows, so the firm can maintain a family-based culture.

It is unlikely than any of these proverbs resounded at the Yung Kee palace during the many decades that Kam Shui-fai was building his empire. Nevertheless family leaders can avoid such dramatic outcomes by following a structured approach to long-term planning. Having advised many family businesses around the world, I have developed a three-step model that can help families make their businesses sustainable:

- Identify: Evaluate current and prospective family assets and roadblocks;
- Plan: Determine the appropriate ownership structure and management choices;
- Cultivate: Align the ownership design to both family and corporate governance.

Let's look at these steps in more detail. In order to identify assets and roadblocks, a family leader should identify the strengths and weaknesses of the business. To do this, he or she can examine the depth of the family network, the values of the firm, brand awareness, traditions and reputation. On the roadblocks, most of these arise within the family, at the market level or from regulative and cultural-based institutions.

Having put all the cards on the table, the family leader then needs to create a strategic plan that accurately captures these strengths and weaknesses. In so doing, the family business owner can ensure that the direction and pace of growth stay in line with expectations. Tough decisions may need to be taken, especially in cases where external managers are brought in to replace family members or even in situations where an owner-manager considers exiting the business.

20
The number of years a founder needs to prepare for succession planning in family business

Finally, the founder or current leader needs to cultivate the business over a 20-year period from when the three-step planning started. This is the longest step but the most rewarding. Many actions that would be appropriate for one type of planning path would of course not be appropriate for other planning paths.

Cultivating the next generation, for example, would not be valuable for the business if the owner has decided to sell the firm or rely entirely on external management and professional boards in the future. Hence, the core of the cultivation process is to identify the day-to-day governance and leadership issues that the owner manager has to address and that will lead the firm to achieve the 20 year plan that was set up before.

Often in my discussions with entrepreneurs, I use the analogy of a gardener who wants to plant a stand of trees that may take as long as 20 years to grow before they can be harvested for their nuts, fruits or timber. First, the gardener identifies the properties of the soil including humidity levels. Second, he or she decides which type of trees to plant. Third, he or she cultivates the stand over the next 20 years before the harvesting can begin.

> **The comb used to groom one family member should not be used a second time**

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Yung Kee's Kam Shui-fai (centre) with sons Kinsen Kam (right) and Kam Kwan-lai. Photo: SCMP Pictures