Case Study

Beyond the hard sell: Redesigning performance-related rewards at Bidgee Bank

Alison Lee is three weeks into her new job as Director of Human Resources at Bidgee Bank and things have yet to start looking up for the 30-something high-flyer. The enormity of the challenge she faces in redesigning the reward system for the 8000 staff and 400 remaining branches in the bank's nationwide retail division seems to loom larger by the day. Since her appointment, she has held daily crisis talks with her new boss - and the bank's new CEO - James Allright, about the public relations and reward management shambles in the retail division and how it can be addressed.

The challenge they face is enormous. Staff morale has plummeted, reward satisfaction is at an all-time low, the Financial Services Union is planning to make performance pay a key issue in the next round of enterprise agreement negotiations, 10 employees have been charged with fraud, customers are deserting the bank in droves, investors have dumped Bidgee Bank shares, and the National Financial Services Commission has launched an investigation into allegations of unethical sales practices in the bank's branches. At the heart of these problems lies the Sales Incentive Scheme (SIS) introduced two and a half years ago amid much fanfare by Lee's predecessor, Graham Starbuck.

Under its previous CEO, Jonathan Rockwell, Bidgee Bank pursued a policy of market expansion in three main areas of retail banking - credit cards, personal loans and housing mortgages. Rockwell's strategy centred on a program of complete corporate transformation involving the closure of low profit branches, the adoption of e-commerce technology and, most importantly, the conversion of the remaining branches from a 'service' culture to a 'sales' culture based on individual 'entrepreneurship'. Rockwell was certain that such an approach would increase both market share and shareholder value.

The SIS was the reward keystone of this ambitious strategy of corporate transformation. Rockwell had recruited Starbuck two and a half years earlier from his position as global Marketing Manager for a major international fast-moving consumer goods supplier to oversee its introduction. Under the 'sales culture' championed by Rockwell and Starbuck, every visit by a customer to a branch is seen as an opportunity to generate additional business - a new personal loan, an extension on a credit card limit, a transfer of funds to a more lucrative account, a new personal superannuation account, a referral to one of the bank's specialist financial advisers, and so on.

Under the SIS, branch employees are eligible for individual bonuses tied to the volume of new business they generate each month in their branch. Each member of staff with customer contact is assigned monthly sales targets by the HR division. Targets are set for each of four key result areas (new accounts, personal loans, card limits and adviser referrals) and are based on average sales volume per staff member in the branch over the preceding 12 months. To contain overall incentive payouts, only the top 40 per cent of staff meeting or exceeding their targets qualify for a monthly bonus. In a bid to deliver immediate results, the scheme was rolled out very quickly and with minimal change to other HR functions such as work organisation staff selection, training and performance management. To reinforce the culture of individualism, pre-existing work teams set up in several branches to focus on the needs of particular client groups (such as high-value mortgagees) were dismantled.

At first, the SIS appeared to deliver the desired results. Both new account business and cross-selling to existing customers rose appreciably. However, many employees evidently unsuited to the new sales culture resigned voluntarily, while many others were dismissed for consistently failing to meet their targets. On the other hand, the scheme allowed high performers to significantly increase their total remuneration by as much as $200 per month.

However, after two years of operation, neither Rockwell nor Starbuck were convinced that the scheme had reached its full potential. Accordingly, six months ago, under pressure from Rockwell. Starbuck released a strongly worded internal staff memo accusing employees in some branches of being 'risk-averse' and of failing to embrace the 'culture of entrepreneurship' that he and Rockwell had championed. For both men, the move proved to be a fatal career miscalculation.

A disgruntled branch manager leaked the Starbuck memo to the financial press. The leak triggered a flood of damaging public revelations about the SIS - from impossible sales targets and employee stress, breakdown and suicide, to high-pressure selling and fraudulent behaviour. One well-placed informant - one of the few remaining 'old-style' managers in the bank's HR division - alleged that the SIS had indeed affected a change in workplace culture. It had, she said, become 'dishonest and unethical'. Union representatives claimed that the SIS placed at risk not only their members' pay but also the industry's 'core values of trust and integrity'. The union also drew a contrast between the unrealistic performance targets imposed on ordinary branch employees and the 'extremely generous' share option entitlements extended to the bank's senior executives.

Other leaked internal documents revealed the full extent of scheme dysfunction. One manager had been dismissed after he increased the size of his own home loan and then claimed a sales bonus for this 'new business". At least 10 other staff members had been disciplined for various "fraudulent behaviour' under the scheme, including the generation of fake sales revenue. One had attempted to claim a bonus for opening new accounts that were never authorised by customers; others had sought to claim credit for sales revenue that they had played no part in generating; and a few had persuaded customers to close one account and open another, claiming the latter as new business. Poaching clients and business from fellow employees had also become a daily occurrence in some branches.

In theory, individual and branch sales levels were to be checked on a monthly basis by the HR division, with the sales activity of top performers subject to weekly audits. However, it is alleged that these checks were not always properly executed, with one internal source suggesting that 'monitoring and compliance had been practically non-existent'. More damaging still were the revelations in relation to the treatment of customers under the scheme. Many had been subjected to aggressive push-selling' tactics; others had been offered increased overdraft and credit limits that were well beyond their debt-servicing capacity. Customers who complained about the 'hard sell' either had a red sticker attached to their passbook or a coded warning inserted in their electronic account records.

Pressure to meet sales targets and daily abuse from irate customers caused a dramatic increase in staff stress levels, illness and absenteeism.

The financial press and the radio talk back hosts have had a field day with these revelations, forcing senior management into damage control mode. Starbuck's initial response was to claim that the cases of abuse involved only a 'few rotten apples'. However, a month after the original memo leak, and with the bank's share price in free fall, a nervous Rockwell reluctantly moved to shore up his own position by dismissing the hapless Starbuck. Two days later, however, the bank's board of directors decided to sacrifice Rockwell himself.

The crisis in the retail division is not as yet life-threatening for Bidgee Bank, but competitors are monitoring the situation - and the share price - very closely, and there is talk around the market of a takeover bid by one of Bidgee's bigger competitors. The smallest of the 'big five' in the Southland banking sector, Bidgee now appears all the more vulnerable to takeover. It is a distant fourth in terms of market capitalisation, has far fewer funds under management than its four larger competitors and less than half of their average customer base. Its share of business and investment banking - the key 'high value-adding' activities of its larger rivals - is lower still. At the same time, a new generation of smaller financial institutions, mainly ex-building societies, have been pursuing market share aggressively in retail banking.

So far, Bidgee Bank has managed to retain market share in retail banking, which has always been its core business. It currently controls 10 per cent of the total housing loan market, 12 per cent of current personal loans and 13 per cent of all domestically issued credit cards. Its retail division handles some five million sales transactions per year. However, in the wake of the SIS revelations, the loyalty of customers and shareholders alike has begun to wear very thin.

In the retail division itself, 60 per cent of the staff positions are of a permanent part-time nature, 80 per cent of the work force are women, 60 per cent are aged under 30 and the average length of staff tenure is four years. As a result of organisational delayering, internal promotion opportunities are virtually non-existent. Work of a more routine nature is subject to close supervision and there is a six-monthly system of supervisory performance appraisal in operation, the purpose of which is developmental rather than evaluative. While most tasks involve one-on-one relations with customers, much of the work is interdependent and requires considerable cooperation, information-sharing and informal mentoring. In addition, the more senior advisory jobs involve considerable discretion and autonomy and a wide knowledge of the bank's products and processes.

Now, with Rockwell about to launch civil action over his own dismissal, his successor, Allright, and Lee face the daunting task of repairing the damage caused by the SIS. At the board's request, Allright and Lee have been asked to give top priority to developing and implementing a new performance-related reward system for the bank's retail division.

What can the new management team do to turn the retail division's fortunes around while simultaneously honouring the board's request to retain performance-related rewards in some form? As a first step, Lee secures Allright's approval to suspend the SIS pending the outcome of a review to consider the reward options and to identify a 'best fit' approach. Allright also asks Lee to investigate the possibility of adopting a multi-measure approach to performance measurement and reward involving four key performance dimensions - financial results, business process improvement, staff satisfaction and customer satisfaction.

QUESTIONS

1. What do you consider to be the main motivational shortcomings of the SIS?

2. Use two contemporary theories of motivation to analyse these shortcomings.

3. Based on your analysis of the shortcomings, use the same two theories to develop a framework for Lee to use as a foundation for a revised reward system.

(adapted from Stone 2002, pp. 522-524)