

# Perceptions of bonus incentive schemes at a major South African private bank

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Private bankers are scarce and the type of bonus incentive scheme banks use to attract and retain them plays a vital role in ensuring that they are motivated to perform in accordance with the outputs expected from them. This study assesses the perceptions of private bankers at a major South African private bank of their current discretionary bonus scheme and of the alternative mechanistic approach. The results indicate that they are dissatisfied with their current scheme and prefer one that incorporates many, if not all, aspects of a mechanistic approach. The subjectivity of management and an unclear 'line-of-sight' were common reasons provided by the private bankers. This study is the first of its kind to focus on the perceptions of private bankers regarding their bonus incentive schemes in the South African context.

## Persepsies van bonusinsentiefskemas by 'n groot Suid-Afrikaanse privaatbank

Privaat bankiers is skaars en die tipe bonusinsentiefskema wat banke gebruik om hulle te werf en te behou, moet hulle motiveer om te presteer in ooreenstemming met die uitsette wat van hulle verwag word. Hierdie studie evalueer die persepsies van privaat bankiers by 'n groot Suid-Afrikaanse privaatbank met betrekking tot hul huidige diskresionêre bonusskema sowel as hul persepsies van die alternatiewe meganistiese benadering. Die resultate dui daarop dat hulle ongelukkig is met hul huidige skema en dat hulle een verkies wat heelwat, indien nie alle, aspekte van 'n meganistiese-tipe benadering inkorporeer. Die subjektiwiteit van bestuur en 'n onduidelike 'lyn-van-sig' is algemene redes wat deur die privaat bankiers gegee is. Hierdie studie is die eerste van sy soort wat fokus op die persepsies van privaat bankiers ten opsigte van hul bonusinsentiefskemas in die Suid-Afrikaanse konteks.

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The origin of the global financial crisis was rooted in the incentive for bankers to maximise shareholder wealth by taking on more risky business which was driven, to a large extent, by the proliferation of banking products and services through the so-called bancassurance business model. This model has transformed the financial services industry into an increasingly complex and profitable one (Artikis *et al* 2008: 106). Besides improving profitability by increasing non-interest revenue, offering insurance products through a bank's distribution channels promotes cross-selling and contributes to diversifying risk (Casu *et al* 2006: 53). Private banks capitalise on the synergies created by the bancassurance approach by having personal consultants, or private bankers, who manage high-net-worth clients (Abratt & Russel 1999: 6). The high-net worth (or wealth segment) is characterised by a bank strategy that profitably attracts and enhances long-term relationships. This is achieved by mutual exchange and fulfilment of promises where the lifetime value created through multiple purchases is considered to be more profitable than single, sporadic purchases (Little & Marandi 2003: 26; Abratt & Russel 1999: 6). Such a relationship can prove to be very profitable over the long term if it is "owned" and used as a competitive advantage (Abratt & Russel 1999: 5). Given that banks are placing increasingly more emphasis on building mutually beneficial relationships with clients, attracting and retaining well-trained and qualified private bankers is fundamental to this relationship in the private banking industry.

The attraction, retention and motivation of these highly skilled so-called 'knowledge workers' is, therefore, crucial for private banks to remain competitive. Given that the private banking environment is very competitive, the level of interaction and communication between a private banker and a client is expected to be direct and personal, with expert advice being provided on all aspects of the banking relationship. The demands placed on private bankers are exceptional and a high premium is set on the retention of experienced private bankers. The banks' incentives to ensure this retention are, therefore, crucial and are the focus of this article.

## 1. Aim of the study

The bonus incentive scheme adopted by a bank quantifies performance and is an essential tool to attract, motivate and retain skilled private bankers. These schemes can be either discretionary or mechanistic (or formulaic). The difference between the discretionary and the mechanistic type of incentive scheme is determined by the way in which the bonus (or reward) is quantified. More specifically, a discretionary incentive scheme is based on subjective judgements by management, whereas a mechanistic scheme is based on mathematical formulae that consider performance only (Robbins *et al* 2006: 158-9, Swanepoel *et al* 2003: 517-21, Fay & Beatty 1988: 111).

The question arises as to whether either a discretionary or a mechanistic scheme is better not only to attract skilled private bankers, but also to retain and motivate existing private bankers. The answer to this question forms the primary objective of this study which investigates the perceptions and expectations of current private bankers at a major South African private bank. More specifically, the research focuses specifically on what the private bankers at this bank believe attracts, retains, and motivates them *vis-à-vis* their current discretionary bonus incentive scheme and other types of schemes in general.

The researcher was not aware of any previous research on the perceptions of private bankers at any bank regarding their bonus incentive scheme in the South African context. Prior studies in the South African context have focused on share incentive schemes (see Grigoriadis & Bussin 2007), but little research has been conducted in South Africa on middle managers and their incentive schemes (Grigoriadis & Bussin 2007). In addition, Kahn & Louw (2010) considered the effect of talent management on the performance work environment in the South African public service; Van der Merwe *et al* (2009) investigated non-financial recognition in the South African IT sector; Arnolds & Venter (2007) investigated which rewards motivate lower level employees in the manufacturing and clothing retail firms in South Africa, and Bussin & Huysamen (2004) considered the driving changes of remuneration policy by South African companies. These authors' definitions of middle managers refer to professional specialists. With private bankers included as middle managers, the

contribution this study makes is justified, given that the bonus incentives of bankers has been cited as being instrumental to the causes of the global economic recession that started in 2007 (Gregg *et al* 2012).

## 2. Literature review

### 2.1 The importance of employee compensation to an organisation

Compensation is an essential aspect of the relationship between the employer and the employee, because it affects the economic and social well-being of the employee (Milkovich & Newman 2005: 5). Milkovich & Newman (2005: 5) indicate that compensation refers to the “entitlement” employees have due to the services they offer the organisation and acts as a “reward” for the services. Compensation includes both monetary and non-monetary rewards aimed to attract, motivate and retain the services of employees. Incentives are used to reward the performance of employees for achieving specific goals or performance-related indicators set by the employer. Incentive compensation differs from other forms of compensation in that it constitutes an additional reward above the basic salary and medical and retirement benefits. It is usually a monetary compensation and its widespread use stems from the general belief that it can motivate employees to exceed minimum performance requirements and increase organisational effectiveness (Swanepoel *et al* 2003: 517).

For an incentive scheme to achieve its desired results, the organisational culture must be conducive to the principles of individual merit and performance (Swanepoel *et al* 2003: 519). Employees must have a clear so-called ‘line-of-sight’ which Swanepoel *et al* (2003: 520) define as “the degree to which employees can see a clear connection between their behaviour and the payout from an incentive system”. This can be fostered by effectively communicating the benefits of the scheme and establishing a highly visible and clear connection between employees’ incentive payments and their performance (Swanepoel *et al* 2003: 520). A clear line-of-sight, therefore, motivates the behaviour of employees and defines the relationship between the job expected

of them and the objectives of the organisation (Snell & Bohlander 2010: 463).

## 2.2 The types of bonus incentive schemes

In recent years, the use of a “pay-for-performance” approach has increased, in large organisations in particular, to incentivise high-performing employees (Grigoriadis & Bussin 2007: 45). The communication of outputs is central to this process whereby employees are made to feel valued for their performance. The incentives, given over time according to individual or organisational performance measures, also cause the remuneration received by employees to vary (Milkovich & Newman 2005: 285). Performance targets are used to measure performance and it should be challenging to achieve them. This implies that incentive payments should not be guaranteed – performance standards or output targets should be based on objectives that are quantified measures agreed upon by both employee and employer. If employees clearly understand the outputs, they are more likely to prioritise their work (Wilson 1995: 49-50). Management can, therefore, use rewards to influence the employees (Little & Marandi 2003: 130).

In a discretionary bonus incentive scheme, the organisation has discretion as to how much the employee is paid (Rynes & Gerhart 2000: 155-6). This feature offers flexibility, mainly in an environment in which performance is determined by predominantly exogenous factors directly beyond the control of the organisation. In the current financial climate, although bonuses based on the discretion of line managers may cause employees to be disappointed at times, the flexibility of a discretionary bonus incentive scheme enables line management to consider this environment openly and award accordingly, despite the potential “subjective perceptions of line managers” (Cohen 2010: 443). Employees need to trust that they will be rewarded fairly for their efforts (Rynes & Gerhart 2000: 155-6). The concern with this trust relationship is that it can create a difference in expectations between employer and employee, and result in perceptions of unfairness that negatively influence the commitment and motivation of employees (Wilson 1995: 59). These perceptions of equity which employees perceive with regards to comparing

compensation with colleagues are indicated by the expectancy theory (Milkovich & Newman 2005: 263). Wilson (1995: 21) claims that discretionary incentive plans can undermine the leadership of an organisation and lead to a number of power-based relationships where the attention of employees is diverted to management issues. Consequently, the employees do not focus on addressing their clients' needs.

In a mechanistic approach, the reward payable to the employee is calculated using a predetermined formula set against pre-specified objectives. If these objectives are met, the formula is used to calculate the reward applicable to the employee. Therefore, there is a clear link between reward and performance. This is vital to the success of an incentive scheme and enables the employee to improve on performance (Amos *et al* 2008: 317). However, unlike the discretionary method, the mechanistic approach does not provide for interpretation and flexibility (Fay & Beatty 1988: 117-8). This is particularly disturbing for employees if their performance is undermined by a declining economic environment. A mechanistic approach has another disadvantage in that it incentivises chasing sales figures or product-pushing rather than explicitly building relationships with clients. This leads to a strong emphasis on “getting” rather than “keeping” clients (Little & Marandi 2001: 26), which is a central theme of current marketing philosophy. With private banks focusing on creating long-term, mutually beneficial relationships with clients, adopting a mechanistic approach may – by its very nature – undermine such a relationship focus. Therefore, banks cannot claim to be client-centric if the performance of private bankers is measured and rewarded predominantly on factors that are focused only on measurable internal financial goals such as increasing assets under management, revenue targets, new client acquisition, satisfying client needs, and retaining clients (PWC 2009: 29).

### 2.3 Incentive schemes in the banking context

This article focuses on the perceptions of private bankers at a major South African private bank. Private bankers are dedicated bankers who deal with professional clients that have complex banking requirements. Building a mutually beneficial relationship between

the private banker and the client is important in the private banking environment. According to Abratt & Russel (1999: 5), the core philosophy of relationship banking is that it should increase the financial services provided to existing clients, thereby increasing long-term profitability. Developing mutually beneficial relationships establishes and maintains a competitive advantage with both social and business dynamics that are, to a large extent, dependent on the quality of the interaction process (Zineldin 1996: 331). Therefore, the relationship-based context required to facilitate and encourage private bankers to focus on improving profitability must be accompanied with a philosophy within the bank to appoint well-qualified and skilled private bankers.

The heart of private banking services lies in building personal relationships and providing professional advice on complex financial products and services to high-net-worth professional clients such as, among others, doctors, engineers, chartered accountants and farmers with large asset portfolios. The private banker should also be able to provide the client with added value by identifying and solving complex financial problems over a period of time and by acting as a trusted advisor in a number of financial services. These may range from complex products such as financial and tax planning, estate planning, innovative and unusual loan structuring, credit financing, investment and insurance services, and stockbroking to basic banking products and services. (Casu *et al* 2006: 58; Roame 2004: 18). Private bankers, therefore, need to have highly specialised skills and knowledge that incorporates the knowledge and expertise of financial services. These aspects should be a central focus of recruitment policy to attract new private bankers.

Product and service differentiation are vital aspects of competitive advantage for private bankers. In addition, the ability to attract and retain quality private bankers is regarded as a critical success factor for banks (PWC 2007: 10; 2005: 7). The fierce competition for scarce and quality private bankers has led some banks to procure them from other institutions (KPMG 2006: 10). Salaries and bonuses have become an integral component of attracting private bankers, which confirms that financial rewards attract talented employees (Arnolds & Venter 2007). It has been suggested that, in certain instances, the size of private banker bonuses has exceeded 40% of basic pay (PWC

2005: 14). This is in line with evidence suggesting that bonuses, salaries, as well as career and training opportunities are important in the retention policy of bankers (PWC 2007: 38).

As such, client-centric measures that increase the 'share-of-wallet' of clients need to be reflected in the key performance indicators of private bankers. The bonus incentive scheme must be linked to the bank's risks and profits over the long term, as this will discourage taking short-term risks that, as a result, ignore sustained profits and growth over the longer term (PWC 2008: 27). The objective must be to have a transparent system where private bankers are objectively assessed; this assessment directly affects their levels of reward. Private banks must, therefore, provide performance criteria that are more relevant to achieving organisational objectives or face the consequence of demoralising and disengaging private bankers. This is particularly so considering the global financial crisis where regulators and governments have called for the development of long-term compensation such as shares or profit-sharing rather than cash (PWC 2009: 7). Needless to say, bonus incentives have been found to be a major contributor to the global financial crisis that started in 2007, albeit the size of bonuses granted to bankers were not exceedingly higher than those granted to management in other industries (Gregg *et al* 2012: 92). A great deal of anxiety has also been evident as to whether or not bankers should be granted bonuses in the continuing recessionary global environment (Kaplan 2010: 42), in particular from an ethical and regulatory point of view (Glinavos 2011: 2).

Although this article is confined to the perceptions of private bankers at only one South African bank, it contributes to the existing body of knowledge and specifically to the perceptions of these private bankers regarding their current discretionary bonus incentive scheme.

### 3. Methodology

This exploratory study used a census to collect the data from private bankers at a major South African private bank. A web-based approach was used to collect the data where the private bankers were all personally e-mailed and asked to complete the questionnaire by connecting to a web link. Total anonymity was ensured and the process to complete the questionnaire was explained in detail in a covering letter explaining

the purpose of the census. Weekly follow-up e-mails were sent to the private bankers, kindly requesting them to complete the questionnaire within a pre-specified three-week period. Upon completion of the questionnaire by the respondents, the results were automatically routed to the researcher for analysis and interpretation.

The questionnaire consisted of two sections. The first section covered the biographical information of the respondents and the second extracted the perceptions of private bankers regarding the effectiveness of bonus incentive schemes to attract, retain and motivate private bankers. Respondents were provided with closed-ended questions which they had to rank according to a five-point Likert scale, followed by a comments section which enabled them to provide any further information they deemed necessary. The closed-ended questions relating to bonus incentive schemes were asked to extract the private bankers' personal perceptions regarding their current (discretionary) scheme at the bank; a mechanistic scheme; a combination of both a mechanistic and a discretionary scheme; their motivation to join the bank; the factors that would retain them at their bank, and the requirements of a bonus incentive scheme.

The total population of 55 private bankers employed at the private bank was used as the target population. A final sample of 49 private bankers completed the questionnaire, resulting in a response rate of 89% from the original population of 55.

#### 4. Data analysis<sup>1</sup>

Tables 1 to 3 provide the basic demographic characteristics of the respondents, and Tables 4 to 9 provide the results extracted from the Likert-scale rankings.

Table 1: Number of years of working as a private banker

Years	Overall	Current bank
< 1 year	18.4%	42.9%
1 < X ≤ 3 years	18.4%	24.5%
3 < X ≤ 5 years	16.3%	10.2%

1 Please bear in mind that, if the values for a particular result do not add up to 100%, it indicates that all the respondents did not answer that specific question.

Years	Overall	Current bank
5 < X ≤ 10 years	32.7%	18.4%
10 < X ≤ 15 years	10.2%	4.1%
> 15 years	4.1%	0.0%

Compiled by author

Table 1 indicates the respondents' overall experience in working as private bankers and with their current bank. The largest percentage of respondents had between five and ten years' work experience as private bankers. Only a small percentage (approximately 4%) had been private bankers for more than 15 years. Over 42% had been working for their current employer as private bankers for less than a year, and over two-thirds had been with their current employer for less than three years. None of the private bankers had been with their current employer for more than 15 years. Based on the evidence, the majority of respondents had less than 15 years' experience as private bankers.

Table 2 provides the geographical dispersion of the respondents. The results indicate that the majority of the respondents were situated in the Gauteng area, specifically Pretoria and Johannesburg. Since this area represents the economic hub of the South African economy, this was to be expected. Approximately a quarter of the respondents were situated in the Western Cape, with KwaZulu-Natal and the combined provinces of the Free State and the Eastern Cape being the least well represented.

Table 2: Region where private banker is currently employed

Free State and Eastern Cape	18.4%
Western Cape	26.5%
KwaZulu-Natal	10.2%
Gauteng	44.9%

Compiled by author

Table 3 refers to the gender, race and age of the respondents. The majority of the respondents (86%) were male. Nearly 82% of the private bankers participating in the census were White, and the

majority were aged between 30 and 40. Only 4.1% of the private bankers were younger than 30 years.

Table 3: Gender, race and age of private bankers

Gender	Male	85.7%
	Female	14.3%
Race	Asian	2.0%
	Black	6.1%
	Coloured	2.0%
	Indian	8.2%
	White	81.6%
Age	< 30 years	4.1%
	31 < X ≤ 35 years	22.4%
	36 < X ≤ 40 years	30.6%
	41 < X ≤ 45 years	16.3%
	46 < X ≤ 50 years	16.3%
	51 < X ≤ 55 years	10.2%
	> 56 years	0.0%

Compiled by author

Table 4 provides the results of the private bankers' perceptions regarding their current purely discretionary scheme as well as their perceptions of a discretionary and mechanistic bonus incentive scheme, respectively.

For purposes of this study, being motivated and retained have two different meanings. Respondents were asked to consider whether or not their current bonus incentive scheme would motivate well-trained and qualified private bankers. This motivation refers to whether the bonus incentive scheme motivates the behaviour of private bankers to achieve the objectives of the organisation by having a "clear line-of-sight" (Milkovich & Newman 2005: 63). In other words, when the respondents were asked questions relating to motivation, this referred to whether or not the bonus incentive scheme motivated them to achieve the objectives of the bank as reflected in the bank's personal performance objectives. By contrast, 'retain' referred to whether or not the bonus incentive scheme would keep them in the employ of the bank. Therefore, it can be concluded that, if one is retained and in the employ of the bank, it does not necessarily imply that one is

motivated to achieve the objectives set by the bank. This distinction is part of the performance management process to which the private bankers are exposed in the bank. The results indicate that there was a strong perception that their current discretionary bonus incentive scheme does not attract, retain, or motivate well-trained and qualified private bankers. By contrast, the private bankers strongly agreed that a mechanistic approach would attract, retain, and motivate well-trained and qualified private bankers. A large proportion of the respondents were neutral regarding the effectiveness of their current bonus incentive scheme to attract, retain, and motivate well-trained and qualified private bankers.

Table 4: Perceptions of discretionary and mechanistic bonus incentive schemes

	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
In your opinion, does your current discretionary bonus incentive scheme					
attract well-trained and qualified private bankers?	10.0%	15.0%	25.0%	15.0%	35.0%
retain well-trained and qualified private bankers?	7.7%	12.8%	28.2%	17.9%	33.3%
motivate well-trained and qualified private bankers?	10.0%	12.5%	30.0%	15.0%	15.0%
In your opinion, would a mechanistic bonus incentive scheme					
attract well-trained and qualified private bankers?	37.5%	45.0%	12.5%	5.0%	0.0%
retain well-trained and qualified private bankers?	45.0%	45.0%	7.5%	2.5%	0.0%
motivate well-trained and qualified private bankers?	47.5%	42.5%	5.0%	5.0%	0.0%

Table 5 indicates that the majority of the respondents either agreed or strongly agreed that a combination of both a discretionary and a mechanistic approach would attract, retain, and motivate private bankers. In addition, the respondents indicated a preference for a scheme that combines discretionary and mechanistic approaches.

Table 5: Perceptions of a combination of bonus incentive schemes

	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
In your opinion, will a combination of a discretionary and a mechanistic bonus incentive scheme					
attract well-trained and qualified private bankers?	32.5%	52.5%	10.0%	2.5%	2.5%
retain well-trained and qualified private bankers?	32.5%	52.5%	10.0%	2.5%	2.5%
motivate well-trained and qualified private bankers?	35.0%	47.5%	10.0%	5.0%	2.5%

Table 6 provides the potential motivators that private bankers may have applied when they joined their current employer. The results indicate that the most important motivator for the private bankers was their annual incentive bonus, with 70% of the respondents regarding this as being extremely important. Other important motivators include the personal growth and development opportunities for the private bankers, the value proposition of the private bank, and the brand of the bank. Monthly salary also ranked high in terms of over 90% of the respondents rating this as at least important. In general, the motivators provided were all considered either important or extremely important, with the exception of being head-hunted and the status associated with being a private banker.

Table 6: Motivators to join current private bank

	Extremely important	Important	Neutral	Unimportant	Extremely unimportant
The value proposition of this private bank to the client	55.00%	37.50%	7.50%	0.00%	0.00%
Brand of this bank	20.00%	32.50%	35.00%	7.50%	0.00%
Brand of this private bank	35.00%	50.00%	10.00%	0.00%	5.00%
Brand of this bank's majority shareholder	37.50%	45.00%	15.00%	0.00%	2.50%

	Extremely important	Important	Neutral	Unimportant	Extremely unimportant
Monthly salary	25.00%	67.50%	7.50%	0.00%	0.00%
Annual incentive bonus	70.00%	22.50%	7.50%	0.00%	0.00%
Head-hunted	20.00%	35.00%	35.00%	5.00%	5.00%
Status of a private banker	10.00%	37.50%	32.50%	15.00%	5.00%
Flexible working hours	35.00%	37.50%	20.00%	5.00%	2.50%
Personal growth and development opportunities	60.00%	32.50%	7.50%	0.00%	0.00%
Long-term career prospects	32.50%	32.50%	12.50%	2.50%	0.00%

Table 7 presents the factors that private bankers would consider if they were to remain in the employ of their current employer. In their view, the three most prominent factors were the products and services they have at their disposal to offer clients, the quantification of the annual bonus based on their performance, and the work environment. The status of the private banker was not considered to be as important as the other factors provided. Flexible working hours and the leads referral process were also considered to be less important than the other factors.

Table 7: Factors that would retain the services of current private bankers

	Extremely important	Important	Neutral	Unimportant	Extremely unimportant
Products and services	60.0%	35.0%	5.0%	0.0%	0.0%
Leads referral process	40.0%	35.0%	20.0%	5.0%	0.0%
Linking the quantification of your annual bonus award to your performance	72.5%	25.0%	0.0%	2.5%	0.0%

	Extremely important	Important	Neutral	Unimportant	Extremely unimportant
Linking the quantification of your annual salary increase to your performance	57.5%	30.0%	12.5%	0.0%	0.0%
Long-term career prospects	50.0%	42.5%	7.5%	0.0%	0.0%
Personal growth and development prospects	57.5%	37.5%	5.0%	0.0%	0.0%
Work environment	52.5%	42.5%	5.0%	0.0%	0.0%
Status of a private banker	15.0%	27.5%	37.5%	15.0%	5.0%
Flexible working hours	42.5%	25.0%	25.0%	5.0%	2.5%

Table 8 indicates the private bankers' views regarding the requirements of a bonus incentive scheme to retain private bankers. The respondents were asked what they believed their respective bonus incentive scheme must be able to do in order to incentivise and rank the options accordingly. All the options provided were mostly regarded as being important or extremely important. The most important requirement was that the bonus incentive scheme must quantify the reward (bonus) against the performance of the private banker. The private bankers were also of the opinion that the rewards must be clearly defined in accordance with the objectives of their job description. The private bankers also regarded the long-term sustainability and growth of their client portfolio with a given level of operational risk as being important. In other words, the private bankers believed that their bonus incentive scheme should, *inter alia*, be linked to the growth of the client portfolio and that they should be supported from an operational point of view to develop this portfolio and, in so doing, generate higher revenue.

Table 8: Requirements of a bonus incentive plan

	Extremely important	Important	Neutral	Unimportant	Extremely unimportant
Equate your individual circumstances as per your performance development plan	47.20%	47.20%	2.80%	2.80%	0.00%
Maintain strategic focus of the organisation	30.60%	58.30%	1.11%	0.00%	0.00%
Be flexible in rewarding the correct behaviour	52.80%	38.90%	8.30%	0.00%	0.00%
Interpret the profitability of the organisation	25.00%	52.80%	19.40%	2.80%	0.00%
Focus on clients and not leadership	41.70%	27.80%	25.00%	5.60%	0.00%
Quantify reward against performance	61.10%	36.10%	2.80%	0.00%	0.00%
Have a long-term focus on sustainable growth of client portfolio with acceptable levels of operational risk	55.60%	33.30%	8.30%	2.80%	0.00%
Equate expectations of the private banker	44.40%	44.40%	11.10%	0.00%	0.00%
Clearly define a reward in respect of objectives of performance management	58.30%	41.70%	0.00%	0.00%	0.00%

Finally, respondents were asked whether the bonus incentive scheme at their current employer exhibited certain factors as reflected in Table 9. Based on the results, the respondents in general disagreed or strongly disagreed with the provided factors. Of particular note is that the respondents were of the opinion that the reward they received was not clearly linked to the objectives as expected by the performance of the private bankers. In other words, the respondents believed strongly

that their current bonus incentive scheme did not provide a clear line-of-sight with regard to the transparency to determine their bonus. They also believed that the objectives they were expected to achieve were not always under their control.

Table 9: The relevance of the current bonus incentive scheme at the bank

	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
Objectives that are specific and have a clear link to the reward that can be expected if objectives are met	11.1%	5.6%	22.2%	22.2%	38.9%
Meaningful rewards when objectives are met	8.3%	16.7%	36.1%	36.1%	16.7%
Achievable objectives within your control	8.3%	13.9%	16.7%	33.3%	27.8%
Reliable and consistent in respect of the operation and management of the purpose of an incentive scheme	11.1%	8.3%	36.1%	22.2%	22.2%

The above results indicate that the private bankers regard a purely discretionary scheme as the option they would most likely least prefer. Rather, a mechanistic scheme, or at the very least a scheme that comprises both mechanistic and discretionary features, would be better than their current discretionary scheme. The bankers also explained that a clear line-of-sight between their expected outputs and the effort they put into achieving these outputs must be evident. The evidence above suggests that the bankers place a premium on transparency and communication when it comes to determining bonuses.

## 5. Discussion of the findings

### 5.1 Perceptions of the current bonus incentive scheme

Private bankers were afforded the opportunity to provide further comments on the specific questions provided in section 5.1 above. In general, they were not satisfied with their current discretionary bonus

incentive scheme. Comments such as “I do not understand how the current incentive scheme works” and “The actual workings of the bonus incentive scheme are unclear to me” indicate that the workings of the scheme were unclear to them. There were also several suggestions that the current discretionary scheme was not being communicated well and that it was unclear. For instance, one respondent stated that he would “like to see a formal document to study”, and another that there is “too much doubt in the system. It is not clear what is possible and if you do exceed targets what the result will be”. This suggests an unclear line-of-sight, as do the following: “... discretionary bonuses payments are too open-ended”; “... bonus scheme is not clearly defined from inception”, and “I was given an undefined expectation of what I may receive as a bonus and the calculation method was not explained”. These results seem to suggest that the private bankers were disillusioned concerning the transparency of their scheme. More specifically, this indicates an unclear line-of-sight as reflected by the determination of the bonus and the bankers’ expectations regarding the size of the bonus.

It appeared that the current discretionary scheme did not motivate several of the respondents. Commenting that a mechanistic scheme would be a better option, one respondent indicated that “defined bonuses created not only certainty but motivation”. A lack of certainty in the size of the bonus was also evident based on the adverse effect of the prevailing market conditions: “... targets are too high for current market conditions [which cause] the stretch target to be unattainable”, and “... pre-set targets [are] not adjusted to changing market conditions and often have a severe impact on your potential bonus”. Although this is the case, the majority of the respondents did indicate that it was more likely that the current bonus incentive scheme would attract new private bankers than retain or motivate existing ones. However, two responses indicated that the initial expectations created upon employment did not necessarily materialise: “... my understanding [of how the current incentive scheme works] is that it is determined at the discretion of the head of private bank”, and “... reality is unlikely to live up to the expectations [regarding the bonus] created at interview stage”.

As the majority of these bankers were employed in the period of the global financial crisis, poor economic conditions exacerbated

the cumulative effect of poor bonuses and the uncertainty of bonus determination. The results indicate that the current discretionary bonus incentive scheme did not create a clear line-of sight and that the private bankers were not too certain as to what bonus they would receive. This appeared to demotivate the private bankers, because an apparent lack of trust between private banker and management was evident. Statements such as “I have my doubts about discretionary schemes because it is very easy to give reasons not to pay a good bonus” and “The banker is not certain how management will approach good performance” are evidence of this view. In addition, the subjectivity of discretion suggested by Swanepoel *et al* (2003: 517) and the issue of power-based relationships broached by Wilson (1995: 21) were also evident from the responses: “It appears that the discretion is given to the bankers that are liked by the executive committee and not on performance”; “[Bonuses are] not related to individual performance [and] very subjective”, and “[A] discretionary scheme relies solely on the ability of the management to make objective decisions. Unfortunately, in today’s day and age specifically in the sales environment, the possibilities of personality clashes occurring are high”. One respondent even commented that a discretionary scheme is “open for abuse and corruption due to personal opinions of managers”. The findings that there is a lack of trust and perceived fairness between the private bankers and management regarding the determination of the bonus, and that private bankers compare bonuses with colleagues are consistent with what Milkovich & Newman (2005: 33), Rynes & Gerhart (2000: 155), and Wilson (1995: 327) have pointed out.

## 5.2 Preferences by the private bankers

The respondents clearly preferred a mechanistic scheme to a discretionary one. Private bankers were of the opinion that it would motivate them, because they would be able to quantify their bonus based on their performance. Comments such as “I can on a monthly basis follow my bonus accumulation which motivates me even further” and “[w]hen targets are achievable and bonus criteria are well defined it serves as better motivation to perform” indicate that a clearly defined and quantifiable bonus would motivate private bankers. One more experienced private banker commented that he had previously been on a mechanistic scheme which was “such a motivator”. Another

respondent suggested that a mechanistic approach would improve personal accountability: "... the employee cannot be upset – what he puts in he gets out". Several respondents indicated that a mechanistic scheme would create a clear line-of-sight: "[There will be] clarity on what to attain to earn a bonus and size of bonus", and "... the line-of-sight between required output and reward is clearly defined and agreed upon upfront". One respondent indicated that a mechanistic approach would encourage one to "position oneself in terms of the criteria set and monitor progress continuously". This supports the view of Wilson (1995: 49) that work is prioritised if expected outcomes are clear. However, the feedback for a mechanistic approach was not all positive. One respondent was of the opinion that it discourages teamwork, while another thought that it is only effective if the targets set for the private banker are realistic and fair. A particularly informative comment suggested that a mechanistic approach does not allow for the flexibility of a discretionary scheme and would encourage private bankers to "chase business at all costs". This would go against the spirit of relationship-building that encapsulates the marketing philosophy of banking in the sales environment. Nevertheless, the results indicate that, compared to a discretionary scheme, the private bankers maintain that a mechanistic approach provides more clarity and promotes certainty as to what is expected from them. The evidence suggests that the respondents perceived a mechanistic scheme as promoting trust with management as they would be motivated to achieve specific outcomes that result in a bonus that is explicitly dependent on performance.

Although respondents preferred a mechanistic approach, several of them indicated that a scheme combining aspects of both a discretionary and a mechanistic approach would be ideal. Comments suggested that a combination of both would "motivate" private bankers, enable management to better "control business activity", and "reward good results and good behaviour". Several respondents indicated that a combination would be particularly ideal when private bankers are new to the profession and building a client base, as it will in all likelihood ensure at least a "minimum known bonus amount". The issue of subjectivity was also raised when a combined approach was considered. One respondent indicated that it could only work if the management approving the bonus were "experienced,

well-trained and mature”. Another commented that it would work if the discretionary component was “not subjective and open to abuse”. Given these results, the private bankers in the study favoured a mechanistic approach or, at least, a combination of mechanistic and discretionary features. It appears that the major driving force for this preference is to avoid uncertainty regarding the determination of the bonus. However, cognisance should be taken of the reality that a scheme with both discretionary and mechanistic components does raise questions as to which components of the scheme itself should be discretionary and which mechanistic. This study did not explicitly deal with this issue, and may be an avenue for further research.

### 5.3 The value attached to certain aspects of the bonus incentive schemes

The respondents were asked to rank the most important motivators they used when joining their current bank and to provide further comments on this, if they deemed it necessary. The most important motivator was related to the annual incentive bonus. The value proposition offered by the bank was also considered to be important, as were the personal growth and development opportunities offered by the bank. These findings indicate that the private bankers ranked the bonus they expected to receive, the value the bank offers the clients in their relationship with them, and the training and development opportunities they expected to receive as the most important factors they considered when deciding whether or not to join their current bank. Given that private bankers are highly specialised professionals and are required to build mutually beneficial bank-client relationships, the need to be compensated well and empowered to provide a superior service offering to demanding clients is reflected.

The value proposition of the bank also encapsulates the organisational ethos or culture that drives its philosophy and it appears that private bankers deem it important to have an employer who not only supports employees’ efforts, but also empowers them. This is especially so, given that the service offerings to private bankers require dealing with complex financial products and services. The need for training and development complements this aspect. The fact that not one private banker regarded these motivators as unimportant

(along with monthly salary) suggests that compensation and training are essential aspects of motivation used by private bankers when selecting their current employer. The results indicate that the least important motivator was the perceived status of the private banker. This is an unexpected finding, given that private bankers are regarded in the profession as the pinnacle in the career of a so-called 'relationship banker'. This further suggests that private bankers appear to be motivated by compensation and the empowerment for self-improvement (and thus better capable to address client needs) rather than by the perceived status attached to being a private banker.

The findings also indicate that private bankers regard the quantification of their reward (bonus) and the products and services at their disposal to address the needs of their clients as the most important reasons for staying with their current employer. It is not surprising that personal growth and development, the work environment, and long-term career prospects also rank as important factors explaining why private bankers would stay with their current employer. Based on the earlier findings, it is clear that the private bankers need a clearly formulated performance management policy that offers a clear line-of-sight that eliminates any ambiguity or a lack of clarity when a bonus is determined. Support systems, not only through their direct work environment, but also through their empowerment by way of the products and services at their disposal and the training and development they receive, play a crucial role in retaining the services of private bankers.

The results further suggest that the quantification of a bonus and how this is measured are regarded as essential requirements of a bonus incentive scheme. The objectives as set out in the performance management policy towards the private banker must be clear and the bonus incentive scheme must take into account the long-term sustainability and growth of the private bankers' client portfolio. This suggests that the private bankers acknowledge that a bonus incentive scheme must incorporate the long-term nature of building bank-client relationships, and this must be an essential consideration when bonuses are calculated and awarded.

The findings also indicate the following: the objectives used to quantify their current bonus were not sufficiently clear; the rewards

(bonus) awarded when objectives are met were not meaningful and indicative of the effort put into achieving the objectives; the achievable objectives were beyond the control of the private bankers, and the operation and management of the bonus incentive scheme were mostly unreliable and inconsistent. These findings suggest that the private bankers regarded a lack of clarity as a dominant aspect of their current bonus incentive scheme and support. Faye & Beatty (1988: 118) contend that a mechanistic scheme would reduce ambiguities and misinterpretations. Although it could be argued that a transparent discretionary scheme could also reduce these ambiguities and misinterpretations, the results indicate that the dissatisfaction with the current discretionary scheme is due to the objectives being unobtainable and the performance management process being considered unreliable and inconsistent. As such, the main cause for concern among the bankers was that they believed that the determination of the bonus was out of their control, because management had no specific formula (or target) whereby the performance of the banker can be measured and the bonus determined. In fact, the bankers were of the opinion that the managers could not suitably explain the process and rationale used to determine the bonus, but rather that management discretion is the sole (or at least, major) determinant of the size of the bonus. In the bankers' opinion, there was too much subjectivity in the process.

It should be borne in mind that this census was conducted during the global financial recession and that high-net-worth clients were directly exposed to the adverse effects of the crisis, given their large wealth and, in particular, investments in national and international financial markets. The needs of these wealthy clients during the crisis were directly affected by a downturn in economic activity, and private bankers, as trusted advisors, were deemed directly responsible for providing financial advice that countered potential loss in wealth. It can be argued that, due to the financial crisis, private bankers were, to a large extent, required to reduce the risk exposure of their clients. This could explain their perception that their current bonus incentive scheme rewarded negative factors beyond their control. Lower revenue generation is, of course, another result of the recession, which is directly linked to the bonus private bankers receive. Needless to say, the poor performance of the economy and the resultant negative

perceptions of the discretionary scheme are also out of the control of the management and need to be clearly communicated as such. Further research could investigate the perceptions of bonus incentive schemes, given different phases in the business cycle.

## 6. Recommendations

Given this discussion, the following is recommended to private bank management when considering the implementation of a bonus incentive scheme to private bankers in South Africa:

- Private bankers seem to prefer a mechanistic scheme to a purely discretionary approach, as it reduces perceived subjectivity by line management and there is a clear line-of-sight. Management must have clear objectives and targets for private bankers, and the incentive attached to achieving those targets must be clearly defined. It is, therefore, proposed that aspects of a mechanistic bonus incentive scheme be implemented, although there must be room for discretion, in particular given that uncontrollable circumstances such as adverse market conditions may lead to negativity from private bankers. The exact composition of the combined model must be discussed between the private banker and his/her line manager prior to the performance review period, and both parties must agree as to which components must be assessed formulaically and which via discretion.
- The determination of the size of a bonus must be clear. Private bankers must know what they are working towards and what the size of a bonus will be, based on a particular level of performance.
- Given the proposal that a combined model be applicable to determine the bonuses of private bankers, management must suitably empower them to address the needs of highly demanding high-net-worth clients. This must incorporate suitable products and services as well as the internal bank processes and policies that facilitate efficient service delivery. This must be ensured so that when the bonuses are calculated upon performance review of the bankers, the managers are able to defend any excuses the banker may use when arguing for a better bonus. If the banker knows that the bank has empowered him/her to the best of its ability, management has more leverage to put the onus on the

banker to justify poor performance, and thus the awarding of a smaller bonus.

- Private banks must afford private bankers the opportunities to develop themselves through personal development initiatives. Given that private banking clients are mainly professional people, private bankers must receive training and/or attend workshops on the latest trends and developments on issues that potentially affect the environment to which high-net-worth clients are exposed.

Given these recommendations, private banks will have private bankers in their employ that are more likely to be retained and motivated in accordance with a bonus incentive scheme that is perceived to be fairer when awarding bonuses.

## 7. Limitations to the study and proposals for further research

Given that the study focused on only one private bank in South Africa, the results may not necessarily be generalised across the industry, albeit that the bank is one of the big four South African banks. In addition, the study did not deal with specific issues that could influence private bankers to be especially retained and motivated in the current bank, but focused rather on the bonus incentive scheme as the unit of analysis. However, the study does provide insight into the perceptions of private bankers regarding their bonus incentive scheme, and is the first study of its kind to do so.

It is proposed that further research extends the study to other private banks in South Africa in order to investigate the rationale management uses when deciding on a particular bonus incentive scheme. A distinction can also be made between locally versus internationally owned private banks, as the value proposition of a parent company outside South Africa could provide valuable insight into different ways to incentivise private bankers. A further distinction could be made between large and small private banks as well as the value that private bankers offer to clients in a rural or urban-based setting. The results of this study also indicate that over 81% of the private bankers were White. This raises questions as to the racial representation of private bankers and whether or not

this is a characteristic of this particular bank only, or of the private banking industry as a whole in South Africa. In addition, it would be interesting to identify whether or not different bonus schemes are preferred among different racial or cultural groups. Further research could shed some light on this, given the requirement of the financial services sector to be demographically representative (see Financial Sector Charter 2003).

## 8. Conclusion

The purpose of this study was to investigate the private bankers' perceptions regarding their bonus incentive scheme. The major findings of the study were that the private bankers were not satisfied with their current discretionary scheme. Respondents maintained that the discretionary approach is too open-ended and is open to interpretation and abuse by potentially subjective management. Private bankers, therefore, believe that a discretionary bonus incentive scheme does not create a clear line-of-sight. This causes uncertainty as to the size of the bonus they will receive. Private bankers rather preferred a mechanistic bonus incentive scheme, citing that it creates more certainty as to what was expected from them and what their resultant bonus would be. At the very least, a scheme that combines discretionary and mechanistic features was also considered to be better than a purely discretionary scheme.

The study further revealed that the private bankers regarded certainty and a clear line-of-sight concerning transparency and communication as critical aspects in developing a bonus scheme. They were of the opinion that subjectivity must be avoided where possible, although they did mention that a combination of discretion and mechanistic features would suffice if performance was not adequately incorporated into the determination of the bonus by means of purely mechanistic measures. The bankers were also of the opinion that training and development, as well as their empowerment to provide a superior product and services offering are paramount to their success in the wealth segment. The bank must, therefore, be able to quantify the bonus, based on the performance of the banker. As such, private banks must ensure that they manage private bankers in a holistic manner that empowers and remunerates them based on the work and

effort they put in. Performance is vital to this, but must be assessed as objectively as possible where private bankers are given a transparent outline of what is expected from them. It is, therefore, crucial that a clear line-of-sight be incorporated into the remuneration policy of private bankers, especially since they work with professionals who set high premiums on the expertise they offer.

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