

Annual bonuses in BFSI can lead to short-term thinking

Long-Term Rewards May Reduce Bad Debt In Fin Services

By Vikram Bector

Our GDP is expected to grow from \$2.6 trillion in 2017 to \$6 trillion in the next 10 years and we are poised to become the third-largest economy in the world. A significant pool of capital will be needed to fund this rapid growth in



GDP. Higher financial penetration, significant reforms undertaken by the government and the focus on technology are expected to quadruple the size of the financial services sector—which continues to attract top-notch talent.

Performance-based annual bonuses are a norm in the financial services sector. It is a myth that the annual variable pay and bonuses are effective in boosting performance. In my opinion, annual bonuses are taken as a given in a high-growth setting. It may appear that higher bonuses lead to better performance and motivation, but that is not the case always.

In fact, there are five vectors of success that create high performance for individuals and corporations in the banking, financial services and insurance (BFSI) sector:

The first vector is investment in great talent. It has been proven that successful businesses attract great talent, which



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BOOM TIME? Higher financial penetration and focus on technology are expected to quadruple the size of the financial services sector

in turn creates successful businesses. It is a virtuous cycle. Rapid business growth led by charismatic founding teams attracts top quality talent from within and outside the sector, and has a fantastic snowball effect on the overall performance. Top individuals like to work with winning teams and entrepreneurial leaders.

That brings us to the second vector of destiny: Sharing wealth through long-term incentive programmes. Such plans are more effective as they align the interest of the organisation with that of the individual. Since most money lent by the sector does not come back within the same year, linking incentive plans to the business cycle and closures of loans is the most effective.

Employees need to be rewarded for their annual efforts. However, given the recent challenges in the sector re-

lated to bad debts, a keen eye needs to be kept on delinquencies. Annual bonus plans sometimes lead to short-term thinking and subsequently, risky behaviour. To circumvent this, organisations should align their long-term incentives to performance through the lending cycle so that people can be paid as and when the money comes back to the company. These incentives work when coupled with strong governance mechanisms and risk-mitigation processes.

Entrepreneurship, the third vector, is a strong belief and a core value in several organisations. Hiring and promoting people for their entrepreneurial spirit has enabled sizeable growth in the BFSI sector. Linked to entrepreneurship is the fourth vector of culture and more importantly, a startup culture. New product ideas that

emerge from all levels in an organisation embody a company's deep expertise and reflect a deep understanding of customer needs and wants. Leadership conclaves, skip-level and all-hands meetings have helped organisations preserve this startup culture.

The fifth vector of success is keeping the family at the centre of our universe. It is family—parents, spouses, partners, siblings and children—that provides us all the stability and support to fulfil career aspirations and goals. Organisations which are committed to understanding and fulfilling the needs of the family ecosystem have been able to sustain high performance. Companies must consistently endeavour to partner with its employees and their families in their quest for meeting financial, mental, physical wellness, relationship and career goals.

At Piramal Group, it is our endeavour to focus on a combination of these five vectors of building a successful BFSI business: Investing in great talent, focusing on long-term financial incentives, promoting an entrepreneurial spirit, maintaining the startup DNA, and pursuing a family-first approach.

The writer is president, chief human resources officer, Piramal Enterprises. Views are personal