



The need for an integrated approach to employee incentives

The SCCI Response to the government proposal for a legislated performance bonus scheme

Introduction

The Government of Seychelles (GoS) is proposing a performance-based bonus (PBB) incentive scheme framed within employment regulation, with effect from April 2022 to replace the mandatory 13th month pay, which was introduced in 2016. The new regulations will make it compulsory for all employers in the public sector, State Owned Enterprise (SOEs) and the private sector in Seychelles to administer an annual performance based bonus that meets legal requirements, to reward employees who meet set performance targets and criteria by year end.

This PBB proposal was presented to the Private Sector on the 1st March 2022 and the GoS provided the SCCI with the concept and framework of the PBB which was discussed and shared to the SCCI Council and members for their comments.

The SCCI advocates for policies that will deliver a sustainable future for Seychelles. The current economic and business environment, presents a new paradigm, requires innovative thinking and a courageous set of actions that is of a holistic nature and not piecemeal. This paper is written in this context.

Analysis of the government PBB proposal

Performance-based incentive systems, both monetary and non-monetary, are desirable to motivate segments of a workforce that can go the extra mile and in sectors where business growth can be achieved by continuous improvement and innovation. As a direct government intervention in the market however this PBB proposal may well result in certain structural problems as well as market failures. The SCCI articulates its views below:

Impact on the economy and financial environment

- The scheme will add layers of bureaucracy and costs to the economy. The economy is:
 - Still recovering from insidious impacts of the pandemic,
 - The domestic price level continues to be high because of increases in global logistics and commodity costs, and
 - The negative ramifications of a war in Europe are already being felt on the local market and according to experts will get worse.

Government should be anticipating a further downturn in the economy and should be taking steps to mitigate possible impacts rather than increasing costs further.

- The system being proposed is derived completely (as government itself says) from internal government discussion (Ministry of Finance, Public Service Bureau and PEMC) and is integral to the government's Performance Management System (PMS). The one-size-fits-all approach may therefore suit government but not the diversity of private businesses and employers. Furthermore, we are of the view that the increased cost to government and the macro-economic impact will create wage inflationary pressures for the rest of the economy which could lead to an underperforming private sector and a bloated public service.

Impact on human resource development

- This continued piece-meal approach to employment policy and legislation is not desirable. The employment situation should be looked at from a holistic perspective of national human development covering the following:
 - a. Employment promotion and facilitation
 - b. Productivity and skill development
 - c. Promoting entrepreneurship and innovation
 - d. Labour Market Flexibility
 - e. Labour Migration policy

Impact on businesses and employers

- The system demands capacity and administration beyond most businesses as almost 90% of them are SMEs. The proposal mentions various instruments and mechanisms currently not in existence in most businesses (and perhaps not even needed for these businesses): an organizational strategic plan, HR personnel, an organizational PBB scheme and Policy, appraisal against set performance indicators, SMART Target, Performance contract, etc.
- There will be increases in costs to businesses in: administering and delivering the system, money for the bonuses themselves, and management (and pay-out) of grievances as we expect more disgruntled employees to lodge cases with the Employment Dept. It is predicted that in most cases these costs will be rolled out to the consumer and further add to the increasing domestic price level – the classic Catch-22 situation.
- The system is rigid and does not take into consideration the profitability of the company and the ability to pay, especially in changing business or economic situations, as the COVID-19 impacts showed.
- It may create a risk-averse environment that diminishes creativity and out-of-the-box thinking. This may happen if employees are rewarded for doing things in a certain way and taking risks could affect their bonus.

Impact on employees

- What happens to existing incentive systems within businesses? This is not explained except with a sweeping statement that they should be "harmonised". Some may not be able to and employees may lose out. Some employees can be knocked out of existing incentive schemes as employers will try to maintain their bottom line by "harmonising" their systems (as government recommends) and keeping to only the bonus mandated by law.

- The assumption in this system is that incentives must be monetary. The government proposal mentions only revenue sharing but discounts it as not being a benefit. But Seychelles business legislation defines various kinds of benefits to employees. In addition, there are other monetary and non-monetary incentives, including discretionary bonuses, that businesses currently offer depending on the size and nature of the business (see below).
- This system could lead to unintended consequences. For example, it may reinforce the current perception among some employers that Seychellois workers are becoming less competitive - the increased costs associated with them (and not expatriates) under this system may contribute to heightened desirability of expats in the job market (despite the proposal to increase GOP fees in some instances).
- Despite being mandatory, it does not mean all employees are eligible for the bonus. The minimum 40% bonus for eligible employees would somehow create the expectation that employees would at least get 40% of bonus pay.
- A legally prescribed bonus system can lead to a toxic work environment by increasing silos, reinforcing an individual versus a team mindset and even negatively affect the company work culture.

Different bonuses are already being provided by businesses.

This PBB system is being proposed as if bonuses are absent and therefore government is required to step in and force a mandatory bonus system. This is simply not true. Depending on the nature, size and scope of the business, employers provide various kinds of bonuses such as Commissions, Profit Sharing, Spot Bonus, Team Bonus, Non-cash bonus, Referral Bonus, Signing Bonus, Task or Milestone Bonus, Project Bonus, Attendance Bonus, Holiday Bonus, Retention Bonus, Longevity Bonus, Health and Safety Bonus, Sales Bonus.

The solution: A holistic and flexible incentive system

SCCI believes very strongly in a holistic as well as versatile approach to doing business and this includes employee incentives. In general, companies in Seychelles face two main staffing issues: how to attract good talent and how to keep it. So versatile or flexible incentive systems to suit different job profiles and different employees will work the best. Employees are motivated by non-monetary as well as monetary Incentivization. Research in many countries show that incentives that inspire high performance are not always monetary. Sometimes businesses lose employee's not because of pay *per se* but because those employees do not deem the job personally gratifying, or personally growth oriented or the work environment is not supportive or even toxic.

Here are examples of recognized incentives that businesses already provide and, again, it is important to recognize the tangible and intangible benefits.

Financial incentives. Includes various kinds of bonuses (as described previously), salary raises, scholarships, allowances such as for IT, transport, housing, etc.

Recognition incentives. Usually non-monetary, but positively affecting the work environment. Motivational experts often say that complimenting and letting employees know that they matter to the company is important.

Reward incentives. Can be a mix of non-monetary and financial incentives such as gifts, gift vouchers, technology such as smart phone.

Appreciation incentives. Also a mix such as company parties and paid social team building outings.

Work environment incentives. Creating a pleasant aesthetically pleasing work environment and supportive institutional culture, Working from Home, flexi-hours.

Recommendation to Government

Government should facilitate a holistic and versatile/flexible approach to incentive systems for employees and not a prescriptive, one-size-fits-all, piece meal approach like the legislated PBB proposal. The SCCI is not in favor of this. Moving ahead, the SCCI recommends some specific interventions for government to take action on.

- Educate businesses on the various incentives that can be provided to employees.
- Review and remove the employer taxes on benefits to employees under the Income and Non-Monetary Benefit Tax Act.
- Facilitate the introduction of health insurance nationally so relevant businesses can offer this as incentive to employees (whilst at the same time reducing government health budget).
- Remove taxes on employee reward schemes like incentive travel, etc.

In conclusion, the SCCI welcomes the discussion and enhancing the awareness for employers to encourage reward based on productivity and merit. The SCCI is of the strong view that the attempt to regulate such scheme should be avoided. The SCCI is of the strong view that in these uncertain times business be allowed to find their own ways and means to motivate and retain their most productive employees. We welcome the opportunity to discuss our comments above with the GoS and we thank you for allowing us to review the proposal.