



**RED  
MEAT  
PROFIT  
PARTNERSHIP**

A man wearing a green hat, a white tank top, and red shorts is kneeling in a wooden pen. He is holding a blue tool, possibly a shearer or a trimmer, and is working on the sheep. The sheep are white and have thick wool. The background shows a large flock of sheep in a fenced area.

**PERFORMANCE  
AGREEMENT &  
SCHEDULE**

**EXAMPLE**

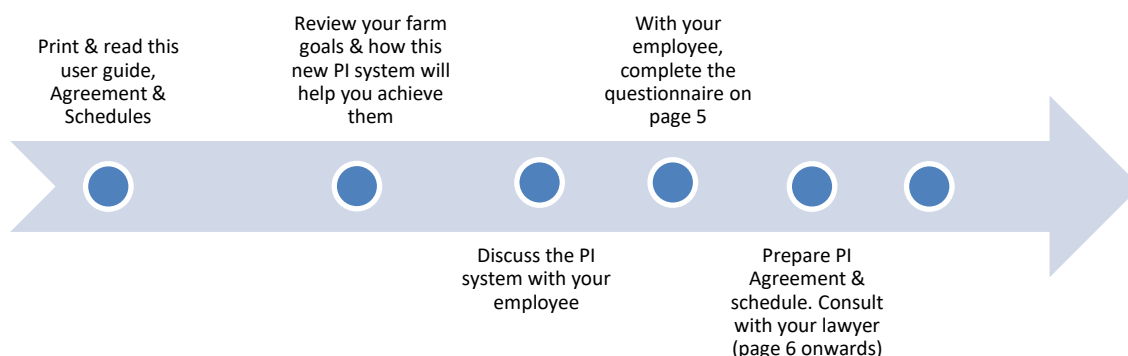
## Performance Incentive Agreement & Schedule

*(to add to employee Employment Agreements)*

A Performance Incentive (PI) Agreement and Schedule can be used to incentivise employee behaviour through the offer of financial or equity based incentives in return for the employee meeting key performance indicators you set for the farm business.

### Where do I start?

- 1 We recommend working through the following steps:



- 2 The rest of the user guide explains some of the key concepts you will need to explore in setting up a Performance Incentive Agreement and Schedules.

### Which of the Agreement templates should I use?

- 3 The Performance Incentive document, when completed, should comprise:

- 3.1 KPI template A or B (the general terms) – see pages 9 to 13 below.

#### *Existing employee:*

If you propose to enter into an incentive arrangement with an existing employee, we recommend using *KPI template A* to amend or “add-on” to the existing employment agreement you have with the employee.

#### *New employee:*

If you propose to enter into an incentive agreement with a new employee, we recommend using *KPI template B* which is designed to be incorporated into a new employment agreement\*.

\* Employment agreements for farm staff can be purchased through Federated Farmers; phone 0800 327 646; [www.fedfarm.org.nz](http://www.fedfarm.org.nz).

- 3.2 Schedule 1 (list of farm KPIs to select from) – see pages 14 to 18.

- 3.3 Schedule 2 (how the incentive is calculated) – see pages 19 to 20.

## Using Schedule 1 – Selecting the KPIs

4 The actual KPIs should be documented using the format suggested in schedule 1 (see pages 14 to 18).

5 Before selecting the KPIs, we suggest you consider:

5.1 The goals or behaviour you are looking to incentivise with the employee.

*For example – are you looking for your employee to assist with improving scanning or lambing percentages or perhaps with a new development programme?*

5.2 Which of the KPIs set out in *schedule 1* might incentivise that behaviour.

*In the above example, you would include the “Scanning” and “Lambing” KPIs. You could also include “Condition score 1 month prior to mating” or “Liveweight 1 month prior to mating” KPIs due to the link these have with scanning and lambing percentages.*

6 If the KPIs are met it is a win-win for both the farm business and the employee. However we also know the season can throw some curve balls and not always go to plan. Before entering into this new arrangement, to maintain employee motivation and maximise their ability to meet the KPIs, we recommend you:

6.1 Discuss a range of “what if” scenarios, agree on how these will be managed and any impact these may have on the incentive payment for that KPI.

*For example, if pasture covers are below target on 1 February (due to dry conditions) and ewe body condition or weights are at risk (and therefore potential scanning and lambing results), how do you want the employee to manage the situation? What are the options you would explore with them?*

6.2 Consider how this will affect the incentive arrangement.

*For example, if the agreement for this scenario is the employee is able to sell some lambs at lighter weights, what is the consequence of this on the budgeted income for the farm? Will the employee be penalised for not achieving the farm income target due to the dry conditions?*

6.3 Document any agreed changes to the KPI targets as you progress through the year. Capture these changes as an ‘Amendment’ to the originally agreed incentive arrangement. Remember the incentive arrangements are designed to be binding on you as the employer so the KPIs (and any amendments you agree to) need to be clearly stated, measurable and documented.

6.4 Consider whether there are any farm plans, policies or templates which need to be agreed on as part of setting up this Performance Incentive agreement – its vital farm policies support achievement of the KPIs; not create barriers.

*For example, if you have not yet documented your farm's health and safety policies and procedures and you want to incentivise health and safety management, the policies will need to be documented as part of this process.*

Visit the Beef + Lamb New Zealand website for examples of farm policies and procedures at [www.beeflambnz.com](http://www.beeflambnz.com)

- 7 In terms of considering the actual KPI targets (or target ranges) to include in *Schedule 1*, we suggest a couple of options:
- Looking up the Beef + Lamb New Zealand benchmark data for your region – ‘Benchmark my farm’ (available at [www.beeflambnz.com/data-tools/benchmark-your-farm](http://www.beeflambnz.com/data-tools/benchmark-your-farm) and using this as a benchmark to set your own targets;
- OR
- Discussing with your staff member, current performance levels and goals for the farm for the next 3 years. Ensure the goals provide sufficient challenge while still being realistic and achievable to ensure they act as a true motivator and incentive for your employee to perform to the desired level.
- 8 There is space in the Schedule at the bottom of each section, for you to add your own KPIs if required.
- 9 We recommend no more than 10 KPIs are used in total.



## Using Schedule 2 – Calculating the Incentive Payment/Reward

- 10 You will need to consider how to calculate the appropriate financial/equity incentive at the end of the period (which the template assumes will be annually).

*For example, if the failure to meet one KPI will disentitle the employee to any payment/equity (option A in schedule 2), failure early on in the year is likely to demotivate the employee to continue to perform.*

- 11 One way to manage this is to have a more flexible measurement mechanism – such as *option B* or *option C* in schedule 2, or to allow the employee to earn a percentage of the incentive if only some of the KPIs are met (by including the *optional part of option A*).
- 12 You could also apply a set dollar value for each KPI, as per *option D*. Be aware that this means the employee does not have to meet all KPIs so its vital you have a detailed conversation with the employee about priorities and where their efforts need to be focused on to ensure the ‘easier to achieve’ KPIs aren’t prioritised over the more difficult ones.
- 13 We highly recommend a three-monthly formal review process be followed so target levels can be reviewed to ensure they’re still appropriate. It may be that there has been a significant event (e.g. illness amongst stock; weather impact) that will have changed what is realistically achievable.

### ***What other matters should I be aware of?***

- 14 Please note that the incentive arrangement constitutes part of an employee’s gross income and will need to be taken into account in the payout of accrued annual leave and holiday pay entitlements if an employment agreement is terminated. This should be discussed with the employer’s accountant or lawyer.
- 15 If the incentive arrangement results in shares being issued to employees, they are likely to constitute employment income and therefore be subject to income tax (which will need to be funded). This should be discussed with the employer’s accountant.
- 16 The KPI schedule has been prepared on the basis that the employee is a senior manager or otherwise has a close professional or business relationship such as would allow them to assess the merits of an offer of shares or obtain information that would enable them to assess the merits of the offer and that the offer (if any) is to a close business associate for the purposes of clause 4 of schedule 1 of the Financial Markets Conduct Act 2013 (**FMCA**). If this exclusion does not apply and shares are to be offered to an employee, then you should ask the employer’s lawyer to consider whether another exclusion in schedule 1 of the FMCA may apply and whether any further requirements will need to be complied with.

## **HOW TO FILL OUT THIS QUESTIONNAIRE:**

- To fill out this questionnaire online you will need to have **Adobe Acrobat Reader**. If you don't have this software tool already, you can download it here: <https://get.adobe.com/reader/> Follow the install options **BEFORE** you click on the questionnaire link
- Once you have filled in the online questionnaire, you need to **EXPORT** your questionnaire. By exporting the questionnaire, you are saving an electronic copy to your computer. This is then the copy you can email on to your accountant or financial advisor or print a hard copy.

### **How do I export?**

On the right hand side of the questionnaire you will see a panel with different actions listed. One says 'Export file'. Click on this and follow the instructions. It will ask you to give your questionnaire its own file name. Save the document in PDF Format directly to your desktop or a personal folder on your computer. For example: My documents\PerformanceAgreement\KPIs.pdf

Once you have exported and saved the questionnaire to your computer, you can send it to your accountant, lawyer or banker by attaching it to an email to send to them or print out a copy to take with you to a meeting.

## Performance Incentives Questionnaire

1 Do you wish to incentivise any existing (or new) employees?

Yes

If Yes, please provide name(s)

and go to question 2.

No  Go to question 3

2 Do any of the employees above already have written employment agreements?

Yes

If Yes, please provide details

No

3 Do you have any goals or behaviours that you wish to incentivise with the employee?

Yes

If Yes, insert behaviour types/generic goals

E.g. formal staff meetings are run each week with minutes recorded at least once per month; livestock condition is accurately 'scored' and recorded at critical times of the year as agreed with the farm owner; the health and safety plan is maintained and up-to-date.

No

4 Are there any farm plans, policies or templates which need to be agreed on as part of this process?

Yes

If Yes, please provide details

No

5 Do you have a dollar value for the incentive in mind? Alternatively, do you have alternative compensation in mind (e.g. shares)?

Yes  \$.....

Not yet  We are still thinking about this

No  We would like to provide alternative compensation (e.g. shares). Please provide details

.....

- 6 Is the employee entitled to part of the incentive if they do not achieve all of the KPIs? Yes   
No

If yes, please explain how you think this would be measured.  
For example:

- The employee has to achieve .....[%] of the KPIs
- There will be some KPIs which are mandatory, and for the others, the employee must achieve .....[%]
- Each KPI will have its own dollar value attributed to it.
- Other (please explain)

- 7 Have you considered “what if”? For example, if the season, prices and/or costs change significantly from the plan or budget, what options will the employee have to manage the situation and what impact might these options have on the targets and incentive arrangement? Refer clauses 6.1 and 6.2 on page three.



## KPI Agreement and Schedules

This document, when completed, should comprise:

- KPI template A or B (*the general terms*)
- Schedule 1 (*list of relevant KPIs*)
- Schedule 2 (*how the incentive is calculated*)

### KPI template A: Amendment to existing employment agreement

*Note: We recommend a cover letter is attached to the Agreement to capture key points you've discussed with your employee and therefore provide some context when the employee is discussing it with their partner or advisors.*

#### DATE

#### PARTIES

[ ] (the **Employer**)

[ ] (the **Employee**)

#### BACKGROUND

- A. The Employer employs the Employee as a **[job title]** of the **[insert farm name]** (the **Farm**) pursuant to an employment agreement dated **[insert date of employment agreement]** (the **Employment Agreement**).
- B. In addition to the Employee's base salary as set out in the Employment Agreement, the Employer now wishes to offer the Employee a performance incentive based on the achievement of the key performance indicators set out in schedule 1 (**KPIs**) on the terms and conditions set out in this amendment agreement.

#### AGREEMENT

- 1 **KPIs:** The Employee shall use **[his/her]** best endeavours to achieve the KPIs, as amended pursuant to clause 2 and/or clause 5 below.
- 2 **Half-year review:** Promptly following the end of **[the first six months of the Farm's financial year]** (**Half Year**) the Employer and the Employee shall meet to discuss in good faith how the Employee and Farm are performing against the KPIs for that Half Year and whether any of the KPIs should be amended.
- 3 **Full-year review:** Within [ ] days following the end of **[the Farm's financial year]** (**Financial Year**), the Employer shall:
  - 3.1 assess the Employee's performance against the KPIs for that Financial Year;
  - 3.2 calculate the incentive earned for that Financial Year following the methodology set out in schedule 2, as amended pursuant to clause 5 below (**Actual Incentive**); and

**[Drafting note: Delete clause 3.3 if no equity based incentive applies:**

- 3.3 Calculate the number of shares in the Employer that the Employee would be entitled to by taking shares instead of cash, based on a valuation **[of \$ per Share][set by the Employer’s accountant based on a fair market value of the Employer as at the end of the Financial Year] (Actual Incentive Shares),]** and notify the Employee accordingly (Incentive Notice).
- 4 **Incentive:** Within [ ] days of giving the Incentive Notice to the Employee, the Employer shall **[If financial incentive applies: pay the Actual Incentive to the Employee][If equity based incentive applies: issue the Actual Incentive Shares to the Employee].**
- 5 **New KPIs:** Promptly following the end of the Financial Year, the Employer and the Employee shall meet to agree upon amended KPIs for the new Financial Year and any amendments to the Actual Incentive for the new Financial Year. If amendments to the KPIs or the Actual Incentive for the new Financial Year cannot be agreed upon, they shall be deemed to remain the same as for the immediately previous Financial Year.
- 6 **Termination of employment:** If the Employee’s employment with the Employer terminates during a Financial Year, then this amendment agreement will also terminate and the Employee acknowledges that **[he/she]** will:
- 6.1 **[Option A: be entitled to any Actual Incentive payment or Actual Incentive Shares [Delete if not relevant Shares] for those KPIs met in full as at the last day of employment]**
- 6.1 **[Option B: not be entitled to any Actual Incentive payment [Delete if not relevant: or Actual Incentive Shares] in relation to the relevant Financial Year.]**
- 7 **Acknowledgements:** The Employee acknowledges that before entering into this amendment agreement, **[he/she]** was given a copy of the agreement in draft, was advised of the right to seek independent advice on its terms and was given a reasonable opportunity to take such advice. **[If equity based incentive applies:** The Employee further acknowledges that this offer of Actual Incentive Shares to the Employee was made to **[him/her]** as a senior manager of the Employer and accordingly, the offer of Actual Incentive Shares to **[him/her]** is an offer to a close business associate for the purposes of clause 4 of schedule 1 of the Financial Markets Conduct Act 2013.]
- 8 **Confirmation of agreement:** In all other respects, the Employer and Employee confirm the Employment Agreement.

**EXECUTION**

Signed by )  
**[Employer] Limited** ) \_\_\_\_\_  
 ) Director

Signed by )  
**[Insert name of Employee]** ) \_\_\_\_\_  
in the presence of: )

\_\_\_\_\_  
Witness signature

\_\_\_\_\_  
Witness name

\_\_\_\_\_  
Witness occupation

\_\_\_\_\_  
Witness town of residence

# KPI template B: Clauses for inclusion in new employment agreement

*Note: We refer to the parties as the “Employer” and “Employee” but this should be amended if required, for consistency with the remainder of the employment agreement.*

## PERFORMANCE INCENTIVE

- 1 **Key performance indicators:** The Employee shall use **[his/her]** best endeavours to achieve the key performance indicators set out in schedule **[1] (KPIs)**, as amended pursuant to clause 2 and/or clause 5 below as part of **[his/her]** employment as **[farm manager]** of the **[insert farm name]** (the **Farm**).
  
- 2 **Half-year review:** Promptly following the end of **[the first six months of the Farm’s financial year] (Half Year)** the Employer and the Employee shall meet to discuss in good faith how the Employee and Farm are performing against the KPIs for that Half Year and whether any of the KPIs should be amended.
  
- 3 **Full-year review:** Within **[ ]** days following the end of **[the Farm’s financial year] (Financial Year)**, the Employer shall:
  - 3.1 assess the Employee’s performance against the KPIs for that Financial Year;
  - 3.2 calculate the incentive earned for that Financial Year following the methodology set out in schedule **[2]**, as amended pursuant to clause 5 below (**Actual Incentive**); and  
  
**[Drafting note: Delete the following clause if no equity based incentive applies:**
  - 11.3 calculate the number of shares in the Employer that the Employee would be entitled to by taking shares instead of cash, based on a valuation **[of \$ per Share][set by the Employer’s accountant based on a fair market value of the Employer as at the end of the Financial Year] (Actual Incentive Shares),** and notify the Employee accordingly (Incentive Notice).
  
- 4 **Incentive:** Within **[insert time frame]** days of giving the Incentive Notice to the Employee, the Employer shall **[If financial incentive applies: pay the Actual Incentive to the Employee][If equity based incentive applies: issue the Actual Incentive Shares to the Employee]**.
  
- 5 **New KPIs:** Promptly following the end of the Financial Year, the Employer and the Employee shall meet to agree upon amended KPIs for the new Financial Year and any amendments to the Actual Incentive for the new Financial Year. If amendments to the KPIs or the Actual Incentive for the new Financial Year cannot be agreed upon, they shall be deemed to remain the same as for the immediately previous Financial Year.
  
- 6 **Termination of employment:** If this agreement terminates during a Financial Year, then the Employee acknowledges that **[he/she]** will:
  - 6.1 **[Option A: be entitled to any Actual Incentive payment or Actual Incentive Shares [Delete if not relevant Shares] for those KPIs met in full as at the last day of employment]**

6.1 **[Option B: not be entitled to any Actual Incentive payment [Delete if not relevant: or Actual Incentive Shares] in relation to the relevant Financial Year.]**

7 **[If equity based incentive applies: Acknowledgment:** The Employee acknowledges that prior to signing this agreement, **[he/she]** has had a significantly close business relationship so as to allow **[him/her]** to obtain information to enable **[him/her]** to assess the merits of the offer of Actual Incentive Shares. Accordingly, the Employee acknowledges that **[he/she]** constitutes a close business associate of the Employer, and accordingly that the offer of Actual Incentive Shares to **[him/her]** is an offer to a close business associate for the purposes of clause 4 of schedule 1 of the Financial Markets Conduct Act 2013.]

## SCHEDULE 1 – Setting the KPIs

***We recommend you select no more than 10 of the following KPIs***

For the year:                    **1 July 20\_\_ to 30 June 20\_\_** (“year”)

KPI Category	KPI measure	KPI target (or acceptable range)	Mandatory KPI
		<i>Note: may be a range, or a minimum, depending on circumstances</i>	<i>Note: only relevant where you use option B of schedule 2. Otherwise this whole column can be deleted.</i>
<b>Farm performance</b>			
Financial budget agreed	Financial budget for the following year agreed between Employer and Employee by 30 May each year	Farm financial budget agreed by 30 May each year	Yes/No
Revised financial budget agreed	Revisions to financial budget for the current year for the Farm agreed between Employer and Employee by 31 December and 31 March each year	Revised Farm financial budget agreed by 31 December and 31 March each year	Yes/No
Cashflow budget agreed	Cashflow budget for the Farm prepared by Employee and agreed to by Employer by <b>[insert date]</b> each year	Farm cashflow budget in place agreed by <b>[insert date]</b> each year	Yes/No
Meat and fibre per hectare	Total weight (in kilograms) of meat and fibre sold during the year divided by the number of hectares farmed on the Farm.	[     ] kgs M&F produced/ha	Yes/No
Personal development	Employee completes all agreed personal development activities for the year fully and on time  <b><i>[Note: A personal development plan should be agreed with the Employee before the year begins]</i></b>	100% of agreed personal development activities completed fully and on time each year	Yes/No

<b>Reporting</b>			
Reporting	<p>Employee provides reports to the Employer in the agreed form no later than the <i>[insert date]</i>th day of every month during the year.</p> <p><b><i>[Note: A template report will need to be prepared and agreed – otherwise the words “in the agreed form” must be replaced with a detailed description of what the Employee will report on.]</i></b></p>	100% of monthly reports provided to the Employer in full and on time each year	Yes/No
Animal welfare	All applicable animal welfare codes for the Farm met in full at all times during the year	100% compliance with all applicable animal welfare codes for the Farm during the year	Yes/No
Animal health	<p>All applicable animal health policies and practices for the Farm followed and met at all times during the year</p> <p><b><i>[Note: Animal health policies and practices should be agreed and documented.]</i></b></p>	100% compliance with all applicable animal health policies and practices during the year	Yes/No
Health and safety	<p>Health and safety policy and procedures for the Farm met at all times during the year.</p> <p><b><i>[Note: Health and safety policy and procedures should be agreed and documented.]</i></b></p>	100% compliance with health and safety requirements during the year	Yes/No



Sheep			
Hogget live weight (for mated hoggets)	Average weight of all mated hoggets as at 1 February each year.	[ ] kgs or above	Yes/No
Hogget live weight	Average weight of all hoggets as at 1 May each year.	[ ] kgs or above	Yes/No
2-tooth live weight at mating date	Average weight of all 2-tooths as at <b>[insert mating date]</b>	[ ] kgs or above	Yes/No
2-tooth and ewe body condition score (BCS) at weaning	Average BCS of all 2-tooths and ewes at weaning each year.	BCS 3 or above	Yes/No
2-tooth and ewe body condition score (BCS) 6 weeks prior to mating	Average BCS of all 2-tooths and ewes at 6 weeks prior to mating each year.	BCS 3 or above	Yes/No
Lambing percentage	Total number of lambs tailed per year divided by the number of ewes mated per year, multiplied by 100	[ ]% or above	Yes/No
Scanning percentage	Total number of lambs counted per year divided by the number of ewes scanned per year, multiplied by 100	[ ]% or above	Yes/No

<b>Cattle</b>			
Mating condition score (1 month prior to mating)	Average condition score of all cows one month prior to mating each year.	Condition score [ ] or above	Yes/No
Mating liveweight (1 month prior to mating)	Average weight of all cows one month prior to mating each year	[ ] kgs or above	Yes/No
Cow liveweight at weaning	Average weight of all cows at weaning each year	[ ] kgs or above	Yes/No
Cow condition score at weaning	Average condition score of all cows at weaning each year	Condition score [ ] or above	Yes/No
Calving percentage	Total number of calves weaned divided by the number of cows pregnant at scanning per year , multiplied by 100	[ ]% or above	Yes/No
Scanning percentage	Total number of calves counted divided by the number of cows scanned per year, multiplied by 100	[ ]%	Yes/No
Liveweight weaned	Average weight of calves weaned per year at <i>[insert number of days of age]</i> days	[ ] kg or above	Yes/No

Environment			
Regional Council compliance	Farm complies with Regional Council requirements during the year	100% compliance	Yes/No
Infrastructure maintenance	Farm infrastructure (i.e. fertiliser, fencing, yards, pasture improvements) maintained at levels existing at start of year for the year.	100% compliance	Yes/No
Infrastructure improvements	Farm infrastructure (i.e. fertiliser, fencing, yards, pastures) improved as per the agreed plan and within required timeframes during the year  <b><i>[Note: A Farm infrastructure improvement plan should be agreed before the year begins and documented.]</i></b>	100% compliance	Yes/No

# SCHEDULE 2 – Calculating Incentive Payments

\$[ ] payable

if the Employer is satisfied in its sole discretion that the Employee has achieved:

**Option A:** all of the KPIs set out in schedule 1 for the Financial Year. **[Optional:]** If not all of the required KPIs have been met, then the Employer shall pay a percentage of the amount set out above, based on the number of KPIs achieved by the Employee as a percentage of the total KPIs set out in schedule 1.

**Option B:** all of the KPIs set out in schedule 1 referred to as mandatory KPIs, plus [ ] of the remaining KPIs set out in schedule 1.

**Option C:** at least [ ] of the KPIs set out in schedule 1.

**Option D:** *[Note - If you use this option, all of the schedule 2 text above can be deleted.]*

*The Employer will pay the amount set out in column 2 of the table below if it is satisfied in its sole discretion that the Employee has achieved the KPI in schedule 1 as referred to in column 1 of the below table:*

Relevant KPI	
<b>Farm performance</b>	
Financial budget agreed	\$[ ]
Revised financial budget agreed	\$[ ]
Cashflow budget agreed	\$[ ]
Meat and fibre per hectare	\$[ ]
Personal development	\$[ ]
	\$[ ]
<b>Reporting</b>	
Reporting	\$[ ]
Animal welfare	\$[ ]
Animal health	\$[ ]
Health and safety	\$[ ]
	\$[ ]

<b>Sheep</b>	
Hogget live weight (for mated hoggets)	\$[     ]
Hogget live weight	\$[     ]
2-tooth live weight at mating date	\$[     ]
2-tooth and ewe body condition score ( <b>BCS</b> ) at weaning	\$[     ]
2-tooth and ewe body condition score ( <b>BCS</b> ) 6 weeks prior to mating	\$[     ]
Lambing percentage	\$[     ]
Scanning percentage	\$[     ]
	\$[     ]
<b>Breeding cattle</b>	
Mating condition score (1 month prior to mating)	\$[     ]
Mating liveweight (1 month prior to mating)	\$[     ]
Cow liveweight at weaning	\$[     ]
Cow condition score at weaning	\$[     ]
Calving percentage	\$[     ]
Scanning percentage	\$[     ]
Liveweight weaned	\$[     ]
	\$[     ]
<b>Environment</b>	
Regional Council compliance	\$[     ]
Infrastructure maintenance	\$[     ]
Infrastructure improvements	\$[     ]
	\$[     ]