

Incentive models to improve the installation service of solar panels

- a Case Study at E.ON New Solutions -

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The service sector is becoming increasingly important in the global economy. Therefore, it has never been more important for companies to have well-developed service contracts to ensure their service providers deliver satisfactory results. In contracts, performance-dependent rewards, called incentives, can be used to stimulate the service provider to act as you want them to.

A company working with contracting services is E.ON, one of the largest players in the energy market. Their solar energy division contracts external companies as well as an internally owned company (a subsidiary) to install solar panels. The subsidiary, EMG, was established last year to secure installation capacity over time. Currently, E.ON feels that EMG is not performing at a high enough level. Therefore, this thesis has focused on developing an incentive model to motivate EMG to improve their performance in the installation process.

The setup with E.ON and EMG has three stakeholders: a buyer who contracts a service from a supplier, who in turn performs the service to the buyer's customer. This is called a service triad. Aligning the interests of the three parties and specifying and monitoring performance poses a challenge when designing contracts between the buyer and the service provider. This research has contributed to an increased understanding of the use of incentives in contracts in a buyer-supplier-customer service triad setting.

Before creating an incentive model, it is important to decide how to monitor performance and which performance measures to follow up on. Good performance measures should, among other things, be quantitative,

easy to understand, and in line with the company's strategy. For E.ON this meant pinpointing what performance was necessary for an installation to be considered successful and then finding metrics to monitor this. However, the value gained from monitoring must not be greater than the cost associated with the monitoring activities.

Many parameters should be considered when constructing an incentive model. The purpose of the model could be to shed light on the most important performance areas (effort directing) or to be the motivation to go the extra mile performing a tedious task (effort inducing). Incentives can consist of positive rewards (like praise and recognition, bonuses, or promotion) or negative rewards (like economic penalties). In addition, this research found a successful incentive model should be simple, help maintain a good relationship between the parties involved, promote the wanted performance without sub-optimizing any parameter and have a meaningful impact for the service provider.

The models developed for E.ON had the effort directing and the effort inducing purpose and focused on positive rewards to maintain good relations with the installers. For E.ON, creating an incentive model to improve the performance of the solar panel installation process meant incentivizing KPIs related to the areas efficiency, on-time delivery, quality, safety, and customer satisfaction with a bonus.

In conclusion, incentive models motivating improved performance can be implemented in most service contracts. When used right, incentives create alignment and a win-win situation for all actors in a buyer-supplier-customer service triad.