

The bonus question

How to boost performance and recruitment while ensuring transparency

By Dennis Wolff

Bonuses easily qualify as among the most hotly debated forms of payment. The sophisticated schemes and hefty sums of the 1990s and early 2000s still elicit strong emotions as we recall those bailed-out Wall Street executives handing themselves handsome bonuses, even while economic uncertainty continues to this day.

While the percentage of employees fortunate enough to get mega-bonuses is miniscule, most corporate professionals do have some bonus component to their compensation. Bonuses are typically tied to performance, either individual or company-based. Often a bonus links to both, as a percentage of the base salary.

Yet bonuses remain mysterious to most of us. Unlike base compensation, they're almost never clearly quantified in employment contracts. Therefore they can be distributed at the employer's discretion, communicated as thanks to employees for achieving certain goals. Such vagueness inadvertently produces a disconnect between employees' expectations and what companies are really prepared to pay.

If bonuses are to reward performance, companies must establish clear rules and expectations as to how they measure corporate and individual results. A business that prides itself on encouraging performance but then hides behind discretionary "thank-you" bonuses risks being perceived by potential employees as hypocritical to its staff.

At the core of a bonus plan is the intention to align individual performance with what's best for the company.

It's relatively easy to set up key performance indicators (KPIs) for employees who affect the bottom line directly, but it gets more complicated when performance

doesn't generate profit immediately.

Creating awareness of how each employee contributes to the success of the business is an important first step.

Once you've established KPIs for each role, the next step is to identify high yet attainable goals. To ensure internal buy-in, develop these goals collaboratively with each employee and review them together regularly. If bonuses are based on performance, people must be confident in their ability to attain their goals.

Incentives become notoriously more complicated than they appear to the people who first set them up, so put the structure in writing. Be as specific and unambiguous as possible. People will focus their actions on areas on which they'll be measured. An unbalanced incentive structure leads to neglect of important deliverables. Good employment contracts and clearly defined performance plans can help you minimize this problem. Be unmistakable about what constitutes performance and how each employee's performance will be measured, so that every person understands how his or her own contribution affects the organization's success.

Lastly, it doesn't always have to be about money. Most Fortune 500 companies also support innovation and creativity through recognition. Positive reinforcement and active engagement are key indicators of corporate cultures that celebrate success and produce high performance.

Continuing economic challenge offers an excellent opportunity for companies to take hard looks at their corporate cultures, for realigning their approaches to measurement and recognition. An environment in which employees are passionate about doing their best every day results in higher profitability, which, in turn, allows for better bonuses. ■

Bonus dos and don'ts

Dos

■ **Do** ensure that any performance targets for earning a bonus are within the individual's area of control or influence.

■ **Do** set goals ambitiously but make sure they're attainable. Follow the SMART rule: make goals specific (S), measurable (M), attainable (A), relevant (R) and time-bound (T).

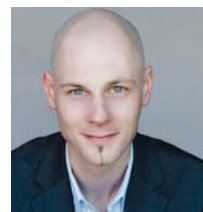
■ **Do** aim for transparency. Track performance consistently. Give your employees full access to their comparisons to the benchmarks.

Don'ts

■ **Don't** be cheap. If the bonus isn't worth the extra effort in the employee's eyes, you're defeating its purpose.

■ **Don't** make it too complicated. Use easy-to-understand formulas for bonus payments, and you'll avoid frustration and conflict.

■ **Don't** wait until the next performance review to discuss shortcomings. Discuss performance issues immediately.



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