

Members Quarterly

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Ask the Expert

Bonus and Incentive Programs: Are They Right for You?

Questions to ask before you leap into the plan



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Q: My employer is looking at offering a bonus and incentive plan for our company. It's not just the issue of crunching numbers. What should our executive management team be looking at while considering these options?

A: Effective compensation means designing a practical and cost-effective program that attracts and retains strong talent and leverages motivation for employees to achieve desired business results. While defining and articulating your compensation philosophy, the topic of bonuses is sure to come up.

Bonus and incentive programs can effectively drive and reward employee behaviour and yield improved business results, but it is important to recognize that every organization is different and "cutting and pasting" in a program you've seen elsewhere could prove to be a big mistake.

It's important to think about whether using bonuses and incentives is right for your current situation and if so, give serious thought to how they should be designed. Bonus plans, if not carefully designed and managed, can cause a number of challenges and in some cases, completely backfire. The following key questions will help you decide if a bonus plan is a good idea and if so, how to design one that will work effectively and achieve the goals you want.

Question #1: Why are we doing this?

What's the point? Why are you considering a bonus or incentive?

Some good reasons to introduce a bonus or incentive include:

- Market Competitiveness – if there is a general expectation that certain people will receive bonuses, based on standard practice within the industry or type of job (ie. Sales people or Executives)
- Focus staff on improving business results – a bonus may be appropriate if you are trying to motivate staff to achieve specific outcomes that are within their personal or team span of control
- Reward "after the fact" specific results or performance
- Create a "team" culture where everyone shares the wealth

Some "not-so-good" reasons include:

- To save money on salaries
- "I know a guy who put one in and it works great!"
- To drive unreasonable or impossible results
- To "press" people to perform better

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Question #2: How will we pay for it?

Most organizations are working in a tight budgetary environment and so it is important to stop and ask “How will we pay for this?” If the organization commits to pay out a bonus if an employee achieves specific results, then it needs to be able to budget for it accordingly.

Cash strapped startups are often attracted to bonus and incentives programs because the programs are perceived to have a direct link to corporate success. The perception is that if the business does not make money, it does not have to pay out. This appears on the surface, to be an obvious benefit to a cash-strapped business as the bonus “self-funds.”

However, there are risks with this thinking. If a bonus plan is created and after lots of extra effort, an employee’s results are achieved but the business can’t afford to pay out, employee trust and commitment are completely broken down. Make sure you set aside the funds required to pay for the results you incent.

Question #3: How should the plan be designed?

To develop a solid bonus or incentive program for your employees, you need to consider the following aspects:

Business goals: What do you expect the employees to achieve? What is the value add to the business? What exactly are you incenting? Are the expectations manageable and reasonable?

Financial goals and constraints: What can you reasonably afford if the results are achieved?

Market trends: What's going on in the market? Are bonuses common for the types of staff you're going to incent? If so, how much is considered competitive?

Employee demographics & preferences: Are your employees likely to embrace or resist a bonus plan? Will a bonus actually incent them to work harder or smarter – do they really care? If a bonus makes sense, how much is enough? Too much? Would they be comfortable even giving up some salary for a bigger bonus opportunity?

The desired behaviours: How will the desired results affect behaviour? Will an employee's specific objectives tempt them to compromise the greater good to get their personal bonus?

Once your plan is designed, it is equally important to communicate the details of how the plan will work to everyone involved and to continually monitor performance, both for budget forecasting and to communicate the status. To get full value from a bonus plan investment, employees need to stay focused on the goals. They also need a direct line of sight to how well they and the organization are doing. This provides an opportunity to realign activities to stay on track and increases the chance of improved overall success.

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