SPARTADIA

A BATTLE PLAN FOR TODAY'S BUSINESS

E-Book Excerpt

BONUS AS A MEASURING STICK

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Bonus as a Measuring Stick

When done well, a bonus scheme is a great motivational and compensation tool, but the system has to be based on something more substantial than a vague, subjective set of criteria or "company tradition." Bonuses get the best results for both the company and employees when they are performance-based. The measuring stick should be unarguable and the reward should be based on what the worker does, not how well he or she is liked.

An attendance bonus is a great example. There is nothing to debate about it, and every employee who is included in the bonus scheme has the same opportunity to achieve it. A good litmus test is as follows: if a decision has to be made as to whether or not the person gets the bonus, then the awarding process has become subjective, and consequently, the employee should not receive it. Awarding for performance or achievement should be objective and based solely on results.

A second problem with subjective bonus plans is that they put the burden on the shoulders of managers, who are then expected to use independent criteria to decide who gets what. Questions such as, "Did the employee show initiative?" or, "Rate the employee's performance on a scale of one to ten," are not only arbitrary, they offer no incentive to improve, either in job performance or the employees' contribution to the company's bottom line. It is very hard to track such behaviour, not only for making the decision to reward/not reward, but also in determining standards of great behaviour in the future.

There are really only two effective ways of setting up a bonus scheme. With both methods, a clear link must be evident between the employees' work and the results of their labours in such a way that the metrics can be directly measured and not "fudged." When random metrics or measurements are used as the baseline, people will simply make a game out of the bonus system, meaning they will work only for the bonus, and not for the types of achievements that the bonus system is designed to encourage.

Achieving the bonus has to align as closely as possible to a measurable, top-level goal. For example, the manufacturer Nucor

Steel may buy a machine that's supposed to produce 10,000 tons of steel a day. Therefore, anything over 9,000 defect-free pounds may represent bonus-earning production levels for the team that operates the factory. Suppose, one year later, that same factory is making 20,000 tons of steel a day. This means employees have taken the machine and found ways to make it produce twice as much capacity, effectively doubling its money-making potential. There is no way to game that system or cut corners just to get to the bonus. The output numbers speak clearly, and the bonus is appropriately deserved.

Similarly, a company's profit margins and efficiency levels can be measured and compared against competitors to pinpoint primary strengths and weaknesses. A bonus structure can be tied to performance indicators in any identifiable weak areas. For instance, it is possible to tie sales reps bonuses to territory growth, not just bottom-line sales. This bolsters profitability and strengthens needful areas in equal measure.

The second effective way of setting up a bonus scheme is even simpler—connecting the bonus program to areas of the business that need shoring up. It's really a form of profit sharing: a healthy system that relates directly to productivity. In this structure, everyone participates in the growth and the value of the business and reaps the benefits of its success. The goal can be sales: "We have a sales target for the month, and if we reach it, we get the bonus." Or a production bonus, "If we make the target, we get the bonus." No one is trying to work against each other in that system, because everyone sinks or swims together.

A further alternative is to make the bonus seem part of the salary as opposed to gravy. That is to say, the amount of the bonus actually tops up an employee's salary to the expected amount, rather than being a premium on top of salary. In other words, if a person is repeatedly late, s/he will receive only 90 percent of the promised salary. The missing 10 percent is delivered when on-time arrival is consistent. Some may argue that this is in fact a punishment, but that would only be the case if the employee was promised 100 percent of a salary up front, and if their late behaviour proved to be uncharacteristic. However, if the hiring process proves that the right person for a warehouse position is someone whose personality unfortunately also makes them chronically late, then for so long as they arrive late, they make less than their optimum money, as a consequence of their normal practice of lateness. Once they are able to learn and put into practice a better method of managing their time, the bonus kicks in and they start to receive their full pay.

As a business owner or departmental manager, you may find it necessary to phase in bonuses over time, or offer alternative incentives to cash, such as extra vacation time or shortened workdays or weeks. Bonuses, after all, share something in common with outsourcing. It is not possible to fix something that is broken simply by outsourcing. Similarly, if the system is broken, a bonus system is not going to fix it. It is crucial, then, to ensure the motivation for instituting a bonus scheme isn't just a Band-Aid solution to a bigger problem that needs attention. That's key to a bonus system that pays the business back double: they are most useful when things are already working well. That's the time to find a way to work better. Bonuses can help achieve that.

SIDEBAR: The Last 10 Percent Bonus

People sometimes think I am fabricating stories when I talk about the "bonus-as-part-of-the-salary" concept, in which an employee only gets to collect the last 10 percent of his/her salary if certain conditions are met, such as consistent on-time arrival.

But we do actually do this at Qualifirst, in our warehouse.

The way I see it, a traditional bonus is seen as a reward for going beyond the call of duty. But what happens when a person has to go above and beyond just to meet the call of duty?

I have found, for example, that the type of person who does well in a warehouse—industrious, organized and able to tolerate the tedium of the job—this type of person also has some personality traits that are as much a part of their makeup as the skills that got them the job; traits such as perpetual lateness.

In order to match the right person with the right job, I as the employer, must also accept these less-desirable traits in order to have a good warehouse worker under my roof.

However, the job description requires being present at 9:00, not at 9:23.

Therefore, if an employee possesses 90 percent of the skills I am looking for, and is able to apply him/herself to arrive on time, this on-time arrival is not actually going above and beyond the call of the position—it is in fact fulfilling the call 100 percent, and then—and only then—should the remainder of the base salary be paid.