

There Is No Magic Bonus Plan

By Monroe Porter

Contrary to what you might think, I am not totally opposed to bonuses. However, as a consultant, I tend to stick with what I have experienced and for every good bonus system I encounter; I see 100 that ultimately must be dismantled.

Rewarding people with performance pay is a simple theory but not so easy to practice. Employee compensation is a complex subject. Company culture, regional differences, trade practices and many other factors will impact what is the best compensation approach for your company.

Practice good management, not magic formulas: The best performance system is to pay people well and hold them accountable. One of the greatest advantages of any incentive program is that the nature of giving incentives forces you to measure performance. You must know what each person is doing in order to award the incentive. Such measurement is the first step of good management. So why not just practice good management, which is to hold people accountable and pay the people well who do well and fire the ones that don't!

They call them employees, not competitors: At any given moment, any given employee can make us a little crazy. Ever had an employee call on the radio and say, "Hey boss, its supposed to rain, did you want us to finish this before going home." Like duh, no, why don't you just let it rain and start over tomorrow. As crazy as they can make us, employees are employees, not owners. They do not own a business but rather have chosen to work for someone else and no matter how much you pay them per piece, a commission or whatever else, they are employees, not competitors.

- **Don't mess with their pay:** Employees will forgive you for almost anything but messing around with their pay check. The number one reason most incentive programs fail is that they are not clearly thought out and all scenarios taken into account. Once you start a system, it can be very difficult to stop. So don't start a program until you have clearly planned ahead for various circumstances, such as, a bad economy, a mature workforce, weather situation, the best employees receiving the most difficult jobs, etc. Any incentive system must be fair to both the company and employee. It also should be simple so that employees clearly understand it. Ultimately, wages are determined by supply and demand, so if you do not pay a livable wage, your employees can and probably will go somewhere else. Remember, all systems must also be legal and comply with wage and hour laws.
- **Production Bonus Pitfalls:** It is very difficult to create a field production bonus that is fair. Most contractors assign their best people the most complex and difficult jobs. The most skilled field person normally starts with a more difficult incentive target. What happens when your best field person is killing him or herself on a tough job and receives no bonus? Yet your newest employee is sliding through job production on an easy job and receives a hefty check. Don't think employees don't talk about pay.

Suppose times are tough economically and jobs are quoted with less time and margin? What if your incentive plan improves productivity, as production rates drop, estimates are recalculated with lower rates and the incentives disappear? Ever had it rain or snow in your area, an estimate mistake or have an ugly job where circumstances were out of your control? Any of these scenarios can create an unmotivated workforce when you need his or her best performance.

- **Profit Sharing-Retirement Programs:** Such programs are an employee benefit designed to attract and keep quality employees. Rarely will they actually improve day-to-day productivity. However, just like hospitalization, paid holidays, vacation, etc., profit sharing can be a valuable employment tool.

- **Discretionary versus Formula Bonuses:** Discretionary bonuses are just that, discretionary and are awarded at management's will. The advantage of such a system is that you can make concessions for high achievers who fell outside of the normal formula. The disadvantage is that they are discretionary and subject to employee perceptions. Discretionary bonuses require on-going feedback throughout the year detailing where the company stands. Formula bonuses are based on a set formula. On paper they seem like good ideas but rarely can they be designed where they are totally fair.
- **Christmas and Yearend Bonus:** Arbitrary bonuses that are dispersed at yearend and near the holidays are perceived as gifts and are more likely deferred compensation, not production bonuses. Never distribute performance oriented bonuses near the year end holiday season. Funny how religious people can be at Christmas and faiths seem to intermingle. If you had a "Ground Hog's Day" bonus, you might find some type of new religious or cultural phenomena.

Remember, there is a family factor at work here. If you have given a holiday bonus for years and suddenly stop, you become the bad guy. Family gifts, buying practices, etc may be established around this tradition. A little spouse "pillow talk" can wipe out the memory of even the best thought out company justification as to why no bonuses will be awarded.

- **Net Profit Bonuses:** In theory, basing bonuses on net profits makes sense, with no profit, no bonus logic. However, the realities of such a system are a little different. Do you really want your employees determining when you should buy company vehicles or better yet what kind of vehicle you drive? Remember, bonus programs are not a total partnership deal. If something goes wrong at the company, they come get your house, not the employees. Profit is your return for the risk you take.

Ok, before you get a little nuts with me and start sending dozens of emails about how great your system works, I concede there are good systems out there but each and every company is different. What will work for one company may not work for another. The purpose of this article is merely to make you stop and think through something, prior to just doing it. If you institute a bonus system that seems like a "no brainer", well, it probably is. No long range brain power was used when you put it together.

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