

# Why Isn't Your Bonus Plan Working?



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Today's Presenter:

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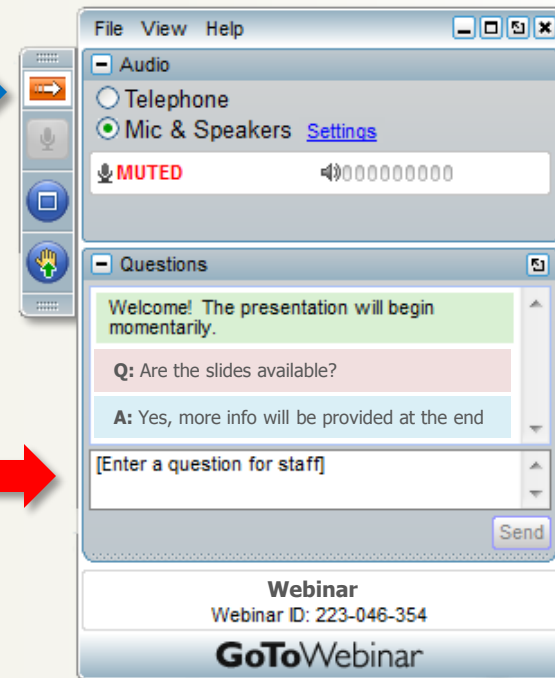
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We're happy to provide a copy of today's slides. Information will be provided at the close of the presentation.

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# For Webinar Participants



One hour consulting call  
with a VisionLink principal  
at no charge

Indicate interest on  
final survey

# **Vision: Help You Become a Wealth Multiplier Organization**

**Transform the way you use  
compensation to share value with  
employees.**





# If you do that...

- Quality of talent will improve.
- Employee engagement will expand.
- Performance will be magnified.
- Business growth will be accelerated.
- Shareholder value will increase.



# Lets define variable pay...

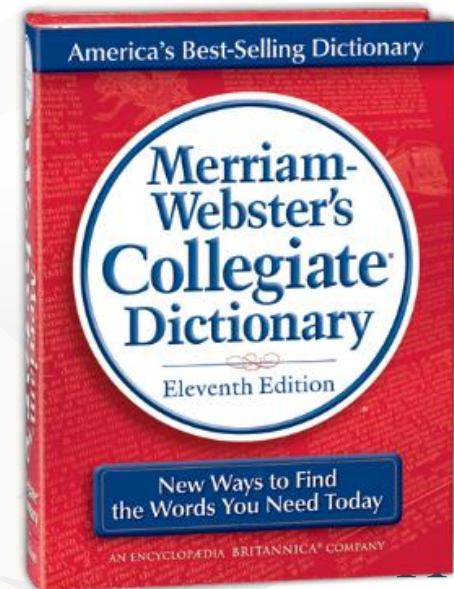
- Variable pay programs have conditions which must be met to earn rewards
  - Company
  - Organizational (Department)
  - Individual
- Typically defined as
  - Bonuses (Spot Awards, Sign-On, Retention)
  - Commissions (Sales)
  - Incentives (Performance)





# Merriam-Webster Definitions

- **Bonus** – An extra amount of money that is given to an employee
- **Commission** – An amount of money paid to an employee for selling something
- **Incentive** – Something that incites to determination or action



# Employee Opinions on Variable Pay

- **Bonus** – Employees would love for you to just give them money
  - Is that always a wise use of company dollars?
  - What is your ROI?
- **Commissions** – Most employees don't have the risk appetite for commissions
  - Unless your employees have intentionally chosen a career in sales, average employees are not interested in sales





# Employee Opinions on Variable Pay

- **Incentives** – Mixed reaction by employees
  - Incentive plans often micromanage employee output
  - Do not always reward for making the right decision



# Most Common Plans

- Performance based pay
- Employee assigned KPI's, Goals, or Objectives
- Interacts with performance management process
- Intends to award those employees who align their behaviors with stated objectives





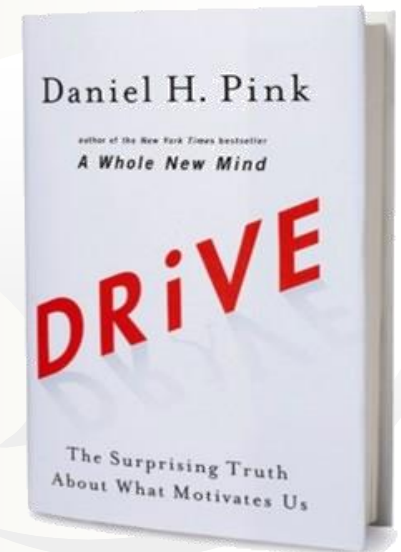
# Market Compensation Trends



- Incentive programs are more common than ever
- 2014 World at Work study showed that 99% of publicly traded companies have incentive plans
- Between 2011 and 2013 private companies with incentives plans have grown from 95% to 97% prevalence

# Incentive Research

- For over 40 years, social psychologists have studied the effects of rewards on behavior and motivation
- In his book *Drive*, author Daniel Pink summarized the effects of over 128 behavioral experiments that proved that rewards have a substantially negative effect on intrinsic motivation and behavior.
- “External rewards and punishments – both carrots and sticks – can work nicely for algorithmic tasks. But they can be devastating for heuristic ones.”  
– Teresa Amabile

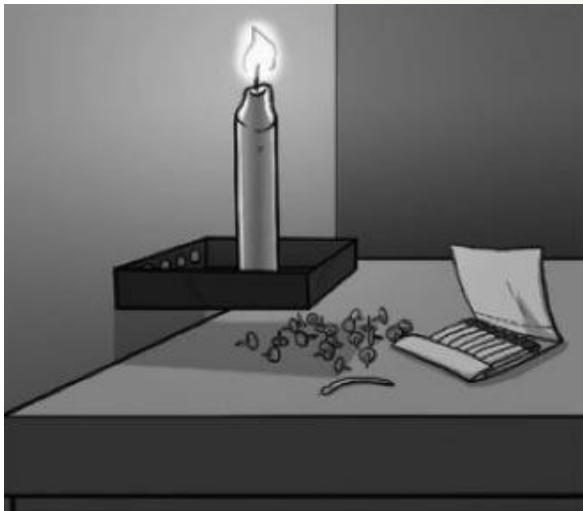




# Incentive Research



- Sam Glucksberg tested the effects of behavior and incentives using the Candle Test
- In the experiment participants were asked to attach a candle to the wall. To do this they are provided with a box of thumbtacks, a candle, and a matchbook.
- Took incentivized employees 3 and half minutes longer



# Question

- If the most common purpose of incentive plans is to drive performance, and they do exactly the opposite, why do we use them?
- Why are they so common?
- Should we cease to use them?

***Is there a smarter and more effective way of establishing bonuses and incentives?***



# Traditional View of Incentives



- “If I put a carrot in front of you, you will do what I want you to do”
- At its heart, when structured inappropriately, incentive plans are perceived as manipulative
- Employees agree to be manipulated for money

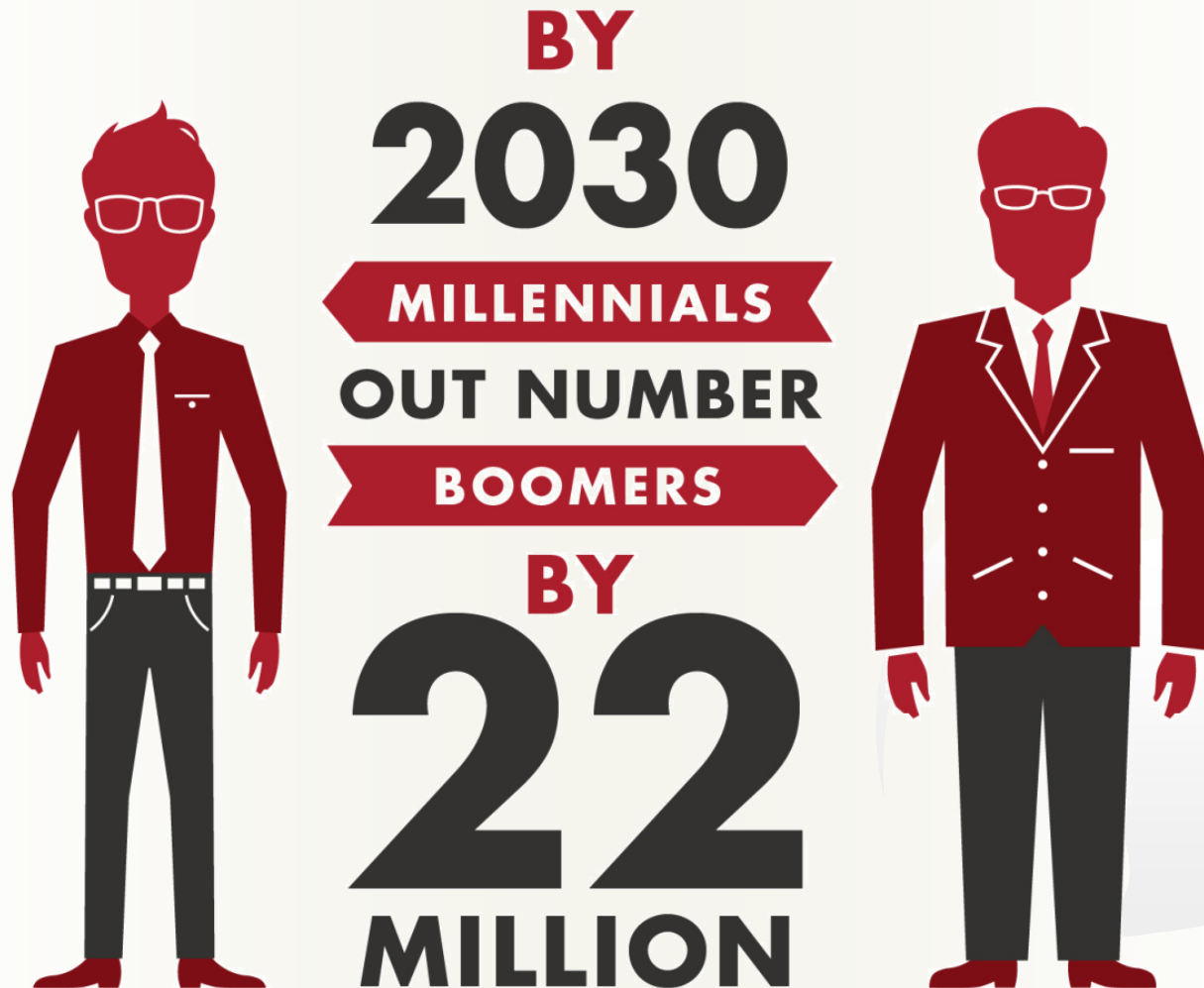


# Effectiveness



- Can be marginally effective at rote tasks
- Do not require thinking or creativity
- Focus on short-term performance
- Assembly line jobs
- Tasks that will be performed by robots soon if not already

# Your Workforce



# Who are Millennials?

Pew Research Center analysis of U.S. Census Bureau data:

- 1/3 of Workforce
- Ages 19 to 35 in 2016
- 24% of the US population (77 million individuals)
- The median income:
  - Younger Millennials--\$25k
  - Older Millennials \$48k





# Millennial Myths

"...studies have started to dispel the myth of the itinerant millennial. Using data from the U.S. Bureau of Labor Statistics, for example, the website FiveThirtyEight.com has shown that millennials change jobs less frequently than gen Xers did at the same age.

"...at least 40 percent of millennials see themselves staying at their current organization for a minimum of nine years — a much longer period than the 16 months to three years that's often reported."

Millennials Play the Long Game, Strategy+Business, Jennifer Deal and Alex Levenson



# Partnership

- Millennials do not value the traditional “employee” and “employer” relationship
- Perceived as a subservience model
  - “Do what I say and I will pay you”
- Prefer a sense of “Partnership.” working together towards a common goal
- Partners rewarded differently than employees



# 21<sup>st</sup> Century Rewards

- Rewards priority will shift from productivity, efficiency, and automation to creativity, ingenuity, and new product development
- Variable pay will continue to be an important form of pay for employers
- Pay programs will reinforce partnership relationship between employee and employer
- We are working towards a common goal and will win and lose together
- This mindset has been creeping into incentives over the past decade





# Why Do Incentive Plans Fail?



- They seek to change/set behaviors
- They rob employees of their creative input
- They reward for completion of small tasks instead of achieving big picture results
- They aren't tied to overall company results/lack line of sight
- They are either too discretionary or too quantitative

## **BOTTOM LINE:**

**Traditional Incentive plans are philosophically broken.  
They are not perceived as empowering a partnership mentality**

# Value Sharing Philosophy



- “We are part of a team. If we all work together we will generate greater success. That success will be shared with everyone if the company succeeds.”
- When structured appropriately, value sharing programs are perceived a partnership.

# Annual Value Sharing Program

- When the company wins, everyone wins.
  - Money is not handed out indiscriminately (bonuses)
  - Awards are not rewarded only for sales activities (commissions)
  - Rewards are not predicated on behaviors that may or may not be in the best interest of the organization (incentives)
- Payments are focused on achieving bigger picture objectives than every day menial tasks
- Requires strong communications





# Basic Construct

- The key factor to plan funding is overall company success
- Employees should be focusing on what they can do to make the company successful
- Focus on big picture success rather than smaller metrics
- Reinforce partnership mindset through continual education and communication



# Basic Construct

- All employees are told they will share in the creation of company value
- Every employee has a defined incentive opportunity aligned to forecasted company results
  - Base – Minimum performance
  - Target - Forecast
  - Superior - Overachievement

	Base Financial Performance	Target Financial Performance	Superior Financial Performance
Company Profit	\$ 45,000,000	\$ 50,000,000	\$ 55,000,000
% of Target	90%	100%	110%
% of EE Salary	5.0%	10.0%	15.0%
\$ Opportunity	\$ 3,750	\$ 7,500	\$ 11,250

# Incentive Calculation

- Depending on how the company performs an actual incentive can be calculated for each employee
- If company results are halfway between Base and Target. Incentives will be calculated halfway between Base and Target
- Actual Results = \$47,500,000
- Calculated Incentive = \$5,625

	Base Financial Performance	Target Financial Performance
Company Profit	\$ 45,000,000	\$ 50,000,000
% of Target	90%	100%
% of EE Salary	5.0%	10.0%
\$ Opportunity	\$ 3,750	\$ 7,500

# Org Unit Performance

- How should departments, business units, or locations be taken into consideration?
- Overall company performance should be **primary objective**
- Org Unit performance can be a **secondary objective**



- Some of the best incentive plans in the world are only tied to company performance
- Org units should be utilized when employee line of sight is singular focused on the org unit



# Plan Weighting/Allocation

- Pool allocation to plan participants contingent on:
  - **Company Performance** – Employees should have all or a majority portion of their bonus based on company performance
  - **Org Unit Performance** – A portion of an employee's bonus can be allocated based on department, location, division, or business unit



# Plan Weighting/Allocation

- Make overall company performance the primary objective (e.g. ~60 - 100%)
- Organizational unit success should be secondary objective (e.g. ~40 - 10%)
- Weight the overall incentive:

	Base Financial Performance	Target Financial Performance	Superior Financial Performance
% of EE Salary	5.0%	10.0%	15.0%
\$ Opportunity	\$ 3,750	\$ 7,500	\$ 11,250
% Company - <b>75%</b>	\$ 2,812.50	\$ 5,625.00	\$ 8,437.50
% Department - <b>25%</b>	\$ 937.50	\$ 1,875.00	\$ 2,812.50

# Individual Performance

- Should employee performance be taken into consideration?
- Trend is to disconnect performance from incentive pay
- Performance Management is still important
- Managers more likely to be honest about performance if incentives are not directly correlated to performance rating
- If performance was deemed “Unacceptable” discretion should be utilized to eliminate incentive payment



# Plan Discretion

- What about employees who made special contributions over the course of the year?
- Create a discretionary reserve inside of plan funding
- Reserved for “Exceptional” performers only
- Often held at the top of the organization (not cascaded down to individual managers). Nomination process.
- Don’t wait until the end of the year to recognize performance.
- Essentially funded Spot awards





# Employee Perspective

- Appreciates being treated like a “partner”
- “I’m not just an accountant. I’m tasked with making this company successful!”
  - Recognizes everything employee does to contribute to success
  - Employees do not feel micromanaged
- Understands the link between pay and performance
- If the company doesn’t perform there is no expectation around pay



# Employer Perspectives



- Defers a portion of pay to overall company performance
  - Self-Funding
- Not simply focused on doing what the job description requires
- Encourages managers to be honest about their performance evaluations
- Removes the headache/traditional power hierarchy associated with distributing rewards
- Egalitarian in nature

# Performance Management

- Not intended to replace strong performance management system
- Performance still best determinant for promotion and merit
- Spot awards encouraged
- Pay for performance Philosophy (Individual & Company)
- Employees with exceptionally poor performance issues need to be excluded from plan payment



# Communications

- Key to the success of the plan
- Employee communication statements should communicate incentive target opportunity
- Regular performance updates during the plan year
- “Partners” understand basic company performance
- Private companies don’t typically disclose all financial information to all employee “Partners”:
  - Financial performance in private companies communicated via percentage against target
  - “After Q1 we are tracking 95% against our ‘Target’ financial performance”





# Communication Statement

- Provide an annual Total Rewards Statement
  - Software tools
  - Mail merge also works
- Communicates incentive opportunity in context of total rewards
- Creates a sense of transparency and “partnership”

FakeCo, Inc.

## Personal Statement of Total Compensation 2016

Dear Stephanie,

We are pleased to provide you with this personalized total compensation statement for 2015.

In addition to the compensation that you receive in your regular paycheck, FakeCo, Inc. provides you with a competitive total compensation package. This statement provides you with a summary of all elements of your personal total compensation.

Sincerely,

John Smith, CEO

*Please note that the information on this statement is intended to provide an overview of your current compensation at FakeCo, Inc. It is not intended to guarantee future payments.*

### Personal Data for Stephanie Jones

Please contact the Human Resources Department if any of the following is incorrect:

Employee Number:	12345	Date of Hire:	11/18/08
Title:	HR Generalist		
Grade:	3	FLSA Status:	Exempt

### Estimated Total Compensation Package

Annualized Salary	Grade <u>Mid Point</u>	2015 Incentive
\$98,744	\$100,000	\$7,234

Incentives Opportunity 2016		
Incentive Opportunity (Base)	Incentive Opportunity (Target)	Incentive Opportunity (Superior)
10%	15%	20%

Employee Benefits		
EE Health and Dental Contribution	401 (k) Contribution	2015 Cell Phone Allowance
\$3,796	\$2,532	\$800

# 21<sup>st</sup> Century Rewards

- Incentives are a critical tool for 21<sup>st</sup> Century Rewards
- Time to move away from 20<sup>th</sup> Century mindset
  - Beginning of 20<sup>th</sup> Century, most “employees” worked in factories
- Have your rewards kept up with changing economy?
- Workforce has changed
  - Growing Millennial population
  - Not Employees – Partners
- Partnership is the key to driving rewards programs for the 21<sup>st</sup> century



# Envision The Future

- What will the future of your company look like?
- How will your rewards programs help align shareholder interests with employee performance
- Your incentive program should be the most performance focused tool you have to drive that vision



**SNEAK PREVIEW**  
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# DO AWAY WITH BONUS FRUSTRATION

With BonusRight, Creating, Communicating and Managing a Bonus Plan is Now a Breeze



# What will it do?

## **BUILD IT. SHARE IT. WORK IT. RENEW IT.**

Control every aspect of your bonus plan with one easy-to-use tool.



### Build

Just upload your employee data; then follow six easy steps to create your plan. **Countless hours are a price you won't have to pay.**



### Manage

Add employees, reflect promotions, adjust your budget. **Plan changes are no longer your problem.**



### Communicate

Introduce your plan, provide updates, promote success. **Clear expectations, clear results.**

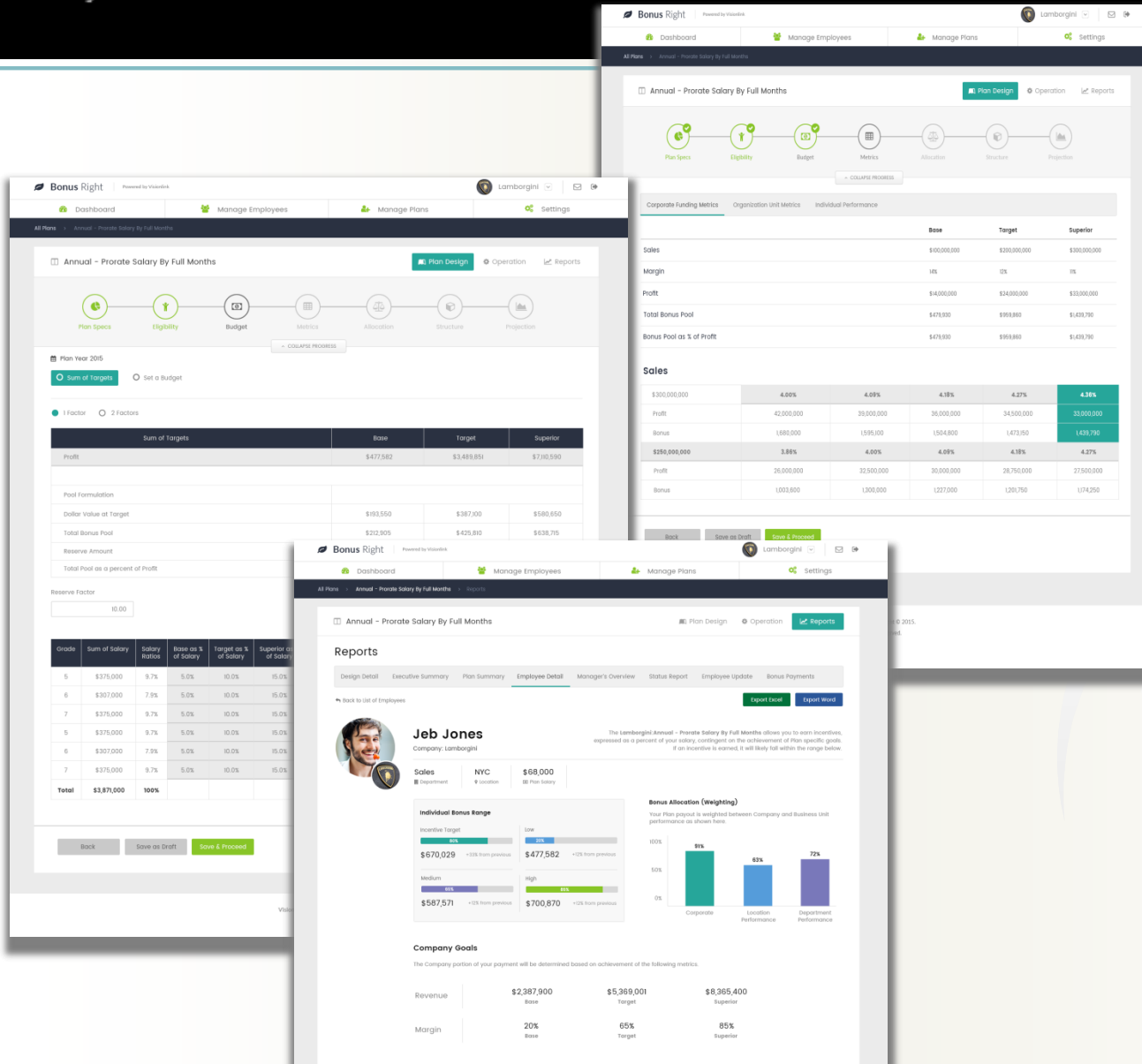


### Renew

Rollover or start over, begin again. **An end-to-end bonus plan with no speed bumps.**

The screenshots illustrate the BonusRight software interface, which is used for managing bonus plans. The interface includes a top navigation bar with options like Dashboard, Manage Employees, Manage Plans, and Settings. The main content area shows a workflow for plan design, including steps like Plan Specs, Eligibility, Budget, Metrics, Allocation, Breakdown, and Reporting. A 'Plan Design' tab is active, showing a 'Sum of Targets' table with columns for Base, Target, and Superior. A 'Reports' tab is also visible, showing a 'Design Detail' report for 'Job Jones' with a 'Bonus Allocation (Weighting)' bar chart. The 'Company Goals' section shows a table with Revenue and Margin targets.

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**Indicate interest on  
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We value your input.

Request a copy of our slides, white paper, complimentary consultation, and invitation to BonusRight rollout.





# Upcoming VisionLink Online Seminars:

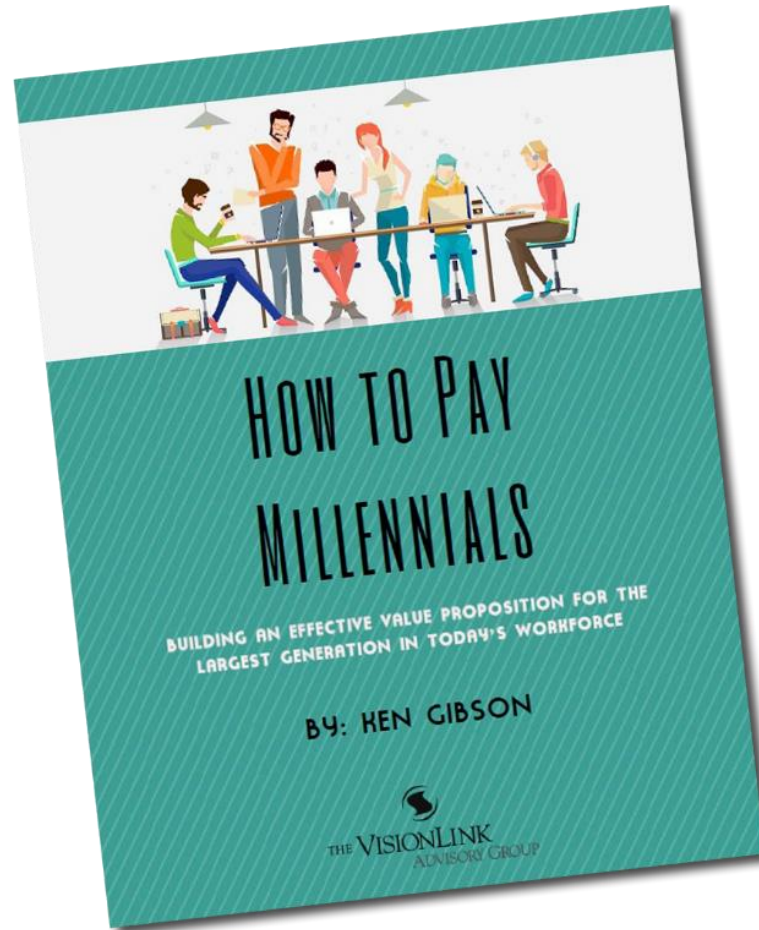
<b>Balancing Salaries and Incentive Pay</b> <i>(HR Specific Webinar)</i>	<b>November 8<sup>th</sup></b>
<b>Pay Strategies that Increase Shareholder Value</b>	<b>December 6<sup>th</sup></b>
<b>Does Pay Impact Employee Engagement?</b>	<b>January 24<sup>th</sup></b>
<b>How Do I Ensure Competitive Base Salaries?</b> <i>(HR Specific Webinar)</i>	<b>February 14<sup>th</sup></b>
<b>What is Phantom Stock &amp; Why Do I Keep Hearing About It?</b>	<b>February 28<sup>th</sup></b>
<b>How to Balance Short and Long-Term Incentives</b>	<b>March 28<sup>th</sup></b>
<b>Pay and the Demise of Performance Management</b>	<b>April 25<sup>th</sup></b>

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Q&A



# Thank you!



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