

The Bonus Conundrum

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However it is not just the "Wall Street investment banker" who is the recipient of remuneration outside the traditional monthly or fortnightly salary payments. Many, indeed most, executives today receive some form of bonus remuneration as part of their total compensation.

The original objective of the bonus system was as a means of incentivizing performance by motivating excellence in terms of employee output. However, increasingly bonuses are associated with motivating other than excellence — the reward itself has become the motivation.



At best many would argue that bonuses seem to be delivered merely for "turning up" rather than for delivering excellence. At worst they can actually incentivize "selfish" behaviour which may be contrary to the long term best interests of the organisation or its stakeholders.

In the hunt for the best and brightest, many organisations have convinced themselves that high bonuses are necessary to attract the best talent, despite the fact that contemporary research does not necessarily support this view.

While we are not advocating the removal of bonuses, indeed this would be extremely difficult given how they appear to have permeated the executive mindset, nevertheless there are a number of ways suggested to improve their effectiveness:

1. Bonuses are only effective in incentivizing excellence for individuals who have direct control over their own performance — ie external factors should be limited.

2. Bonuses should always be discretionary; a culture of automatic bonuses negates their effectiveness. An "*automatic bonus*" is a salary or fixed compensation, not an incentive!
3. Bonuses should be associated with long term collaborative behaviour and thinking — which is much more in the organisation's interests rather than short term individualism.
4. The allocation system should be reflective of differences between employees in terms of their performance. Differences in skills and abilities should be reflected in performance outcomes. If the organisation is not prepared to do this it should not pay bonuses.
5. A bonus system must be both objective and subjective. It should use an objective criteria to measure outcomes and performance, but a subjective system which also looks at how the outcomes were achieved. This will ensure that the way people achieve results will not be ignored, ensuring unethical behaviour is not motivated.
6. Finally and most importantly, but surprisingly often least recognized, is the importance of the bonus system being clear, transparent and understood by all.