

Bonus planning in a bear market

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'Bah, humbug!' Think it's too early to hear this seasonal sentiment of anti-merriment? Not when it comes to thinking about holiday bonuses.

With everyone feeling a tad uncomfortable watching the markets dip and swoon, companies are already looking at their year-end bonus pool and wondering whether it will still be there come December.

Meanwhile, employees are slapping themselves upside the head for buying that new dining room set, anticipating that a cool five grand would be coming later in the year.

Don't pay a cent until 2009? Oops.

"We haven't seen the impact of this yet on bonuses. We're in the thick of it right now, but I do know we're getting all kinds of calls from companies about this," says Fiorella Callocchia, president of HR Impact Corp. in Toronto.

WHAT'S IT BASED ON?

Even before this latest economic conundrum, the year-end bonus was already becoming a ghost of Christmas past.

According to a survey that was released in 2007 by Hewitt Associates, a global human resources services company, 63 per cent of companies did not expect to award holiday bonuses last year at all.

Of those that did, 42 per cent gave gift cards, 41 per cent handed out cash, and another 25 per cent hauled out free hams or turkeys for their workers.

That's not to say most employees received nada in terms of extra money. Most employers offered a variable pay plan.

In other words, if employees did a good job, they saw more money in the bank.

Ms. Callocchia says most bonus structures tend to include a combination of corporate success and how much an employee contributes.

That's how it works at Apex Public Relations in Toronto. Every year for the past 10 years, the company has taken 15 per cent of its profit and allocated it to all of its employees.

Those who go above and beyond their day-to-day work, however, receive a higher bonus than those simply showing up and punching in.

What is Pat McNamara, the company's president, looking for? New ideas, volunteer work such as company event planning, and making a tangible difference for the company's clients.

But what happens if profits go soft? Ms. McNamara says she would still look at the long-term picture.

"If I thought people still worked very hard, but maybe we weren't as profitable, maybe I would top it up. I mean, you can't hand out money you don't have, but at the same time, if you just have a bit of a dip because of circumstances, I'm not going to make people pay for that," she says.

STUPID MOVES

Blood from a stone or no, companies shouldn't can a bonus program this year without any warning.

Communication early and often helps keep employees from feeling blindsided, says Edward Navis, a senior professional in human resources for Full Spectrum HR Services in Little Falls, N.J.

Over the years, he's seen his share of weird bonus planning gone bad.

A few years ago one of his clients insisted on pitting teams against each other for bonus money.

If the sales team did a good job on a project, but IT fell short, IT's money would go to sales. It was a young, 150-employee company already experiencing a lot of infighting, Mr. Navis says.

"I said to him, 'Are you out of your mind? They're going to be tripping each other as they walk through the door. Your IT people will walk to their desk and their mice will be missing.' It was tearing the teams apart. Not putting them together," he says.

In another instance, Valerie Johnson, founder and CEO of Big Feet Pajama Co. in Las Vegas, says she worked for an investor relations firm in New York in 2004. That year was the company's most profitable ever.

It had always paid lower-than-industry-standard wages, making up for it with larger-than-average bonuses, but when it came time to pay up, the company told employees that it had decided to allocate the bonus money to opening new swishy offices in Beverly Hills and uptown New York.

"It was so silly. They said, 'This will pay off in the long run because we'll be extra profitable several years from now.' They tried to paint a pretty picture, but it was just ridiculous," she says.

A week later, she left the company and opened her own.

NOW'S NOT THE TIME

The problem with bad bonus planning today is that on one hand there's incredible market volatility and emotional turbulence.

On the other hand, the employee shortage still looms.

"That's the scary thing. Even though the markets are falling, we're still looking at a low unemployment rate," says Jeremy Miller, a partner at LeapJob, a Toronto-based sales recruiting firm.

"People have got choice. So if they see a third of their income disappear in the next six months, it's guaranteed they'll be on the job boards looking for a higher-paying gig."

The solution? If the company bonus pool is drying up, but not completely parched, make sure the money that's left goes to people who deserve it, says Kevin Aselstine, managing principal for Towers Perrin Human Capital Group in Toronto.

"Make sure those dollars are allocated to those people who are key to delivering on business objectives and are performing exceedingly well," he says.

"Now more than ever, it's the time to differentiate."

The Big Switch

No holiday bonus this year? Unless you really are Scrooge, this is not something to undertake without proper planning. Try: Design an incentive plan instead that includes concrete performance measurements.

Introduce your incentive plan at the beginning of a new year - never just before bonus time.

Consider a formula that bases 70 to 80 per cent on measurable performance goals and reserves 20 to 30 per cent for management discretion. That leaves room to address the intangibles.

Pay bonuses more than once a year, perhaps biannually or quarterly. Employees know how they're doing and it allows them to adjust their performance. It also keeps motivation high because the next payout is never too far away.

Source: Ray Silverstein, author of The Best Secrets of Great Small Businesses