

Archive: Cash Incentives Are Down, but Not Out

Cash Incentives Are Down, but Not Out

Organizations need to make clear that bonuses are based on performance and are not entitlements.

By Todd Henneman

Last year, Google sought a new way to recognize and reward employee innovations. It introduced a program that doesn't bestow low-cost rewards like extra days off or vendor-provided tokens like engraved trophies. In a time when consultants extol the virtues of intangible rewards, Google chose monetary bonuses.

Last year, the company presented its first two Founders Awards, totaling \$12 million in restricted stock that will vest over four years. One award, for example, went to a team that developed new advertising technology.

Cash bonuses may seem out of vogue in an era of financial conservatism. After four consecutive years of increases, the percentage of organizations offering performance-based cash awards, discretionary bonuses and other forms of variable pay has leveled off, according to WorldatWork, a nonprofit compensation and benefits association. In 2005, 76 percent of organizations are using variable pay, compared with 76 percent in 2004. But management consultants say cash bonuses can work effectively if designed, communicated and monitored correctly.

Psychologist and management consultant Aubrey Daniels recommends setting criteria for earning bonuses and then awarding points to employees as they move closer to reaching the threshold. That way, workers see their progress and get positive reinforcement immediately.

"Bonuses that are not tied to some type of point system are a waste of money," says Daniels, author of *Measure of a Leader*. If there's not a point system, Daniels says, "if you don't get the bonus, you feel like management is being mean or arbitrary or stingy. And if you get it, that's what you expect. But if you set up criteria that say, 'Here's how you earn this bonus,' if you don't earn it, the reason is simple: You didn't do what is listed here."

Bonuses should be tied to the work's impact on the overall business, says Chris Ellis, a senior vice president with Sibson Consulting. Organizations need to make clear that bonuses are based on performance and are not entitlements, he says.

"It's incredibly important that the company continuously communicate the intent behind the performance-reward program and communicate at award time why the award is lower than expected, higher than expected, right on--that there is an ample amount of communication around why the pay is what it is relative to performance," Ellis says.

Traps to avoid include having too many measures, treating bonus programs as static policies rather than strategic activities that require ongoing monitoring and not measuring the return on

investment, Ellis says.

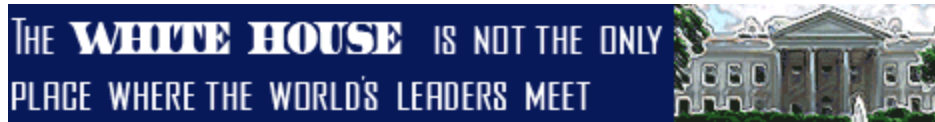
Cash bonuses aren't right for every situation. In his book *1001 Ways to Reward Employees*, Bob Nelson says a drawback of cash-incentive bonuses is that they have no lasting value that reminds recipients of the recognition and becoming expected rewards.

"If you give an employee something that looks like compensation, feels like compensation and smells like it," cautions Christi Gibson, executive director of the National Association for Employee Recognition, "it is compensation, and they'll expect it year to year."

Workforce Management Online, **October 10, 2005** -- [Register Now!](#)

Todd Henneman is a freelance writer based in Los Angeles. E-mail editors@workforce.com to comment.

[Home](#) | [Research Center](#) | [Community Center](#) | [Commerce Center](#) | [The Buzz](#)
[Benefits](#) | [HR Management](#) | [Recruiting & Staffing](#) | [Software & Tech](#) | [Training & Develop.](#) | [Legal](#)
[Current Print Issue](#) | [Print Subscription](#) | [Subscriber Help](#) | [E-Newsletters](#)
[Contact Us](#) | [Site Help](#) | [Terms of Use](#) | [Privacy Statement](#) | [Rights & Permissions](#) | [Advertising Info](#)



Copyright © 1995 -2006 Crain Communications Inc.
All Rights Reserved. [Terms of Use](#) [Privacy Statement](#)