



Bonus Payment and Incentive Compensation

HUMAN RESOURCES MANAGEMENT

Reward Management



Reward management is a motivational practice that businesses use to reward employees for their achievements and success. The company sets goals and establishes rules for its employees to follow to achieve those goals.

It makes sure that employees are clearly aware of these goals, rules, and the rewards they will get for high performance. All employees follow the same reward system, and the system is organized and fair.

Having a good reward system helps keep employees happy, loyal to the company, and eager to move up the ladder.



Importance of Reward Mngmt.

Retains employees

Attracts new employees

Avoids the cost of hiring and training new emp.

Builds loyalty and honesty

Importance of Reward Mngmt.

Creates a healthy work environment

Encourages positive attitudes and behaviors

Employees want to seek advancement

Strengthens the company's reputation

Pay and Compensation

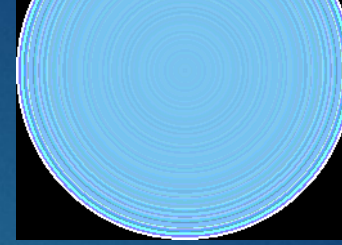
Pay is an important feature of human resource management. It is a sensitive and controversial area that has been extensively debated at both practical and theoretical levels. In the US the term 'compensation' is used to encompass everything received by an employed individual in return for work.

"Employees may see compensation as a return in exchange between their employer and themselves, as an entitlement for being an employee of the company, or as a reward for a job well done" (original emphases).

Milcovich et al (2001: 6)

The reward or compensation people receive for their contribution to an organization includes monetary and non-monetary components. Remuneration does not simply compensate employees for their efforts - it also has an impact on the recruitment and retention of talented people.

Rewards Coverage



Individual

Base pay

Incentives

Benefits

Performance

Team

Team Bonus

Rewards Group Cooperation

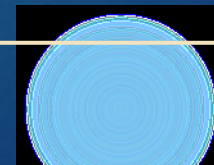
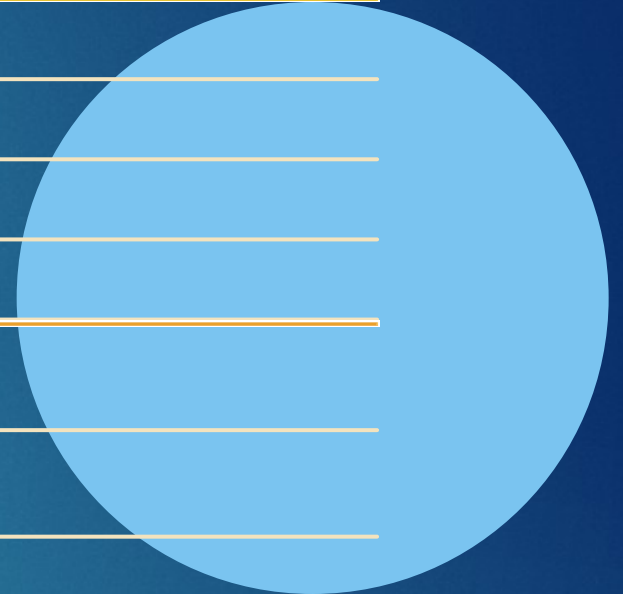
Teamwork Recognition

Organization

Profit Sharing

Shares

Gain-Sharing



Types of Reward: Intrinsic Rewards

Intrinsic rewards are the non-physical rewards. They cannot be seen or touched but are emotionally connected with the employees. In other words, intrinsic rewards can be defined as the feeling of contentment one finds in completion of any task.

Intrinsic rewards are related to job performance as a successful task automatically produces it. Higher the success rate, higher will be the rate of intrinsic rewards one receives.

Intrinsic rewards are ones that come from within the employee. By having regular communication with an employee, a manager can learn about the employee's motivations and might learn creative ways to reward him or her.

Types of Reward: Intrinsic Rewards

Sense of Meaningfulness

- Importance of the purpose you fulfill

Sense of Choice

- You are free to choose how to accomplish the goal

Sense of Competence

- You feel you handle you activities very well

Sense of Progress

- Your efforts are accomplishing something

Types of Reward: Extrinsic Rewards

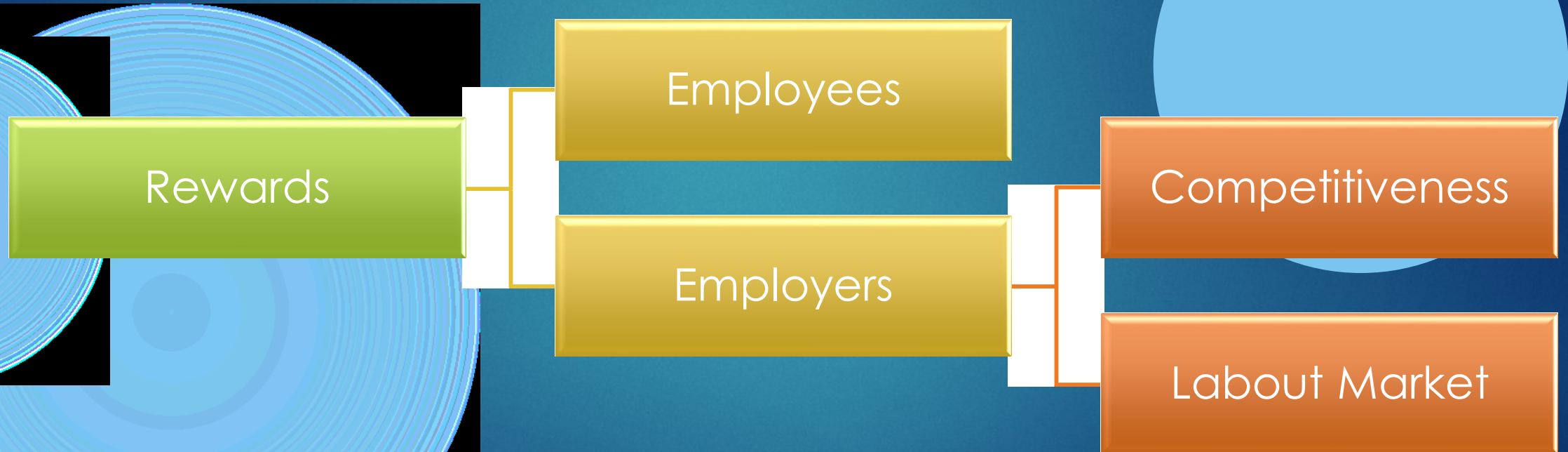
"Extrinsic motivation refers to our tendency to perform activities for known external rewards, whether they be tangible or psychological in nature."

(Brown, *Psychology of Motivation*, 2007)

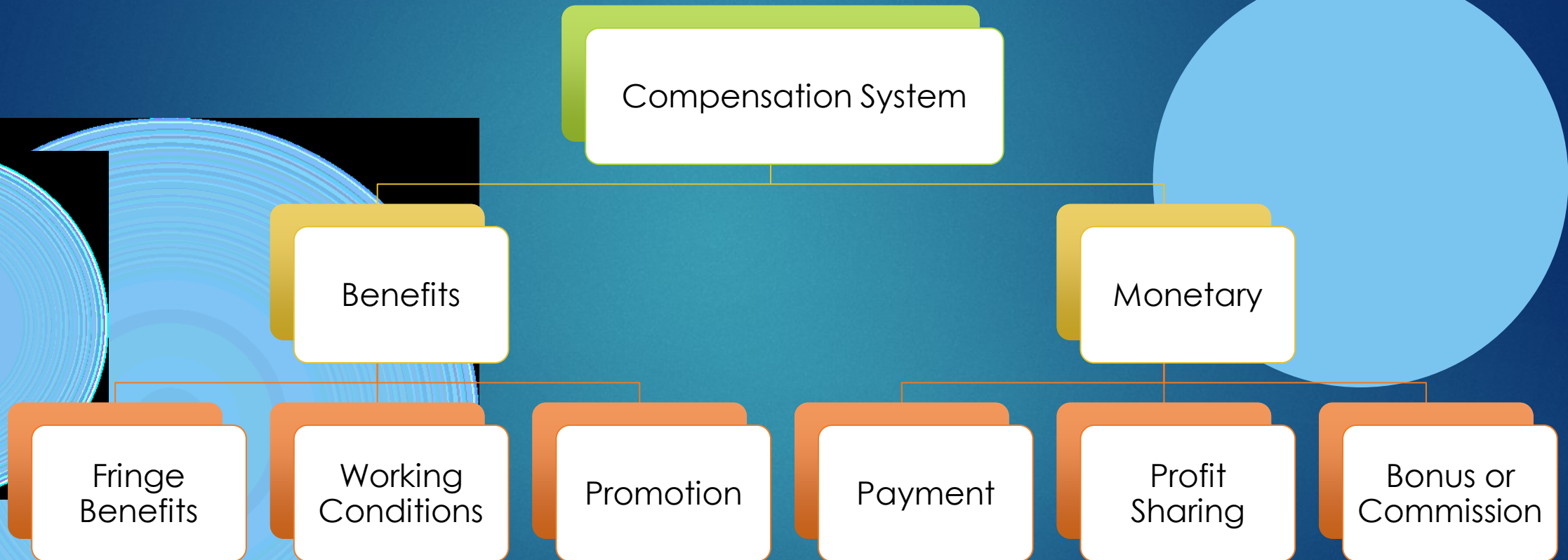
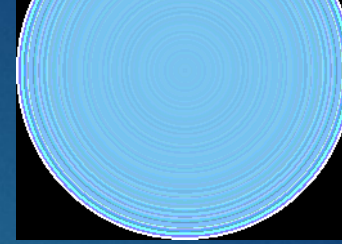
Extrinsic rewards—usually financial—are the tangible rewards given employees by managers, such as pay raises, bonuses, and benefits. They are called “extrinsic” because they are external to the work itself and other people control their size and whether or not they are granted.

Employee Compensation

Employee compensation plays such a key role because it is at the heart of the employment relationship

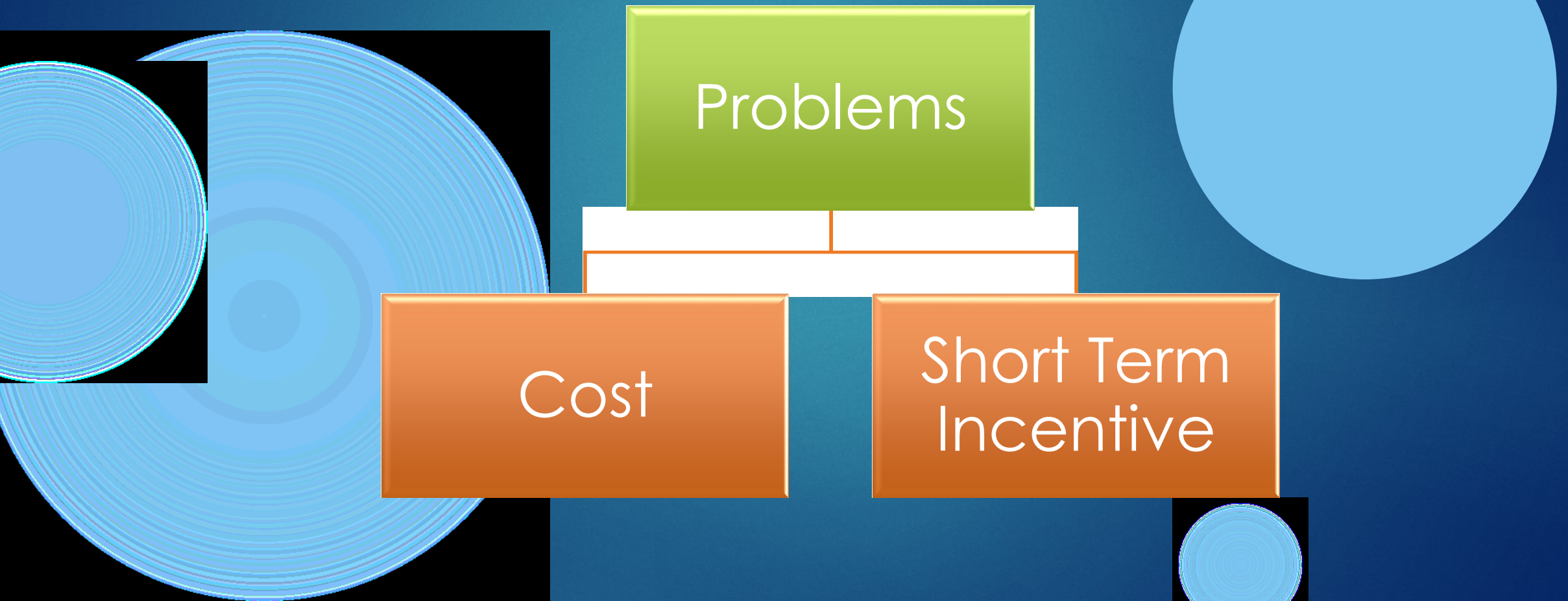


Compensation System



Intrinsic vs. Extrinsic

Individuals tend to work towards intrinsic goals much more than extrinsic.



Bonus Compensation



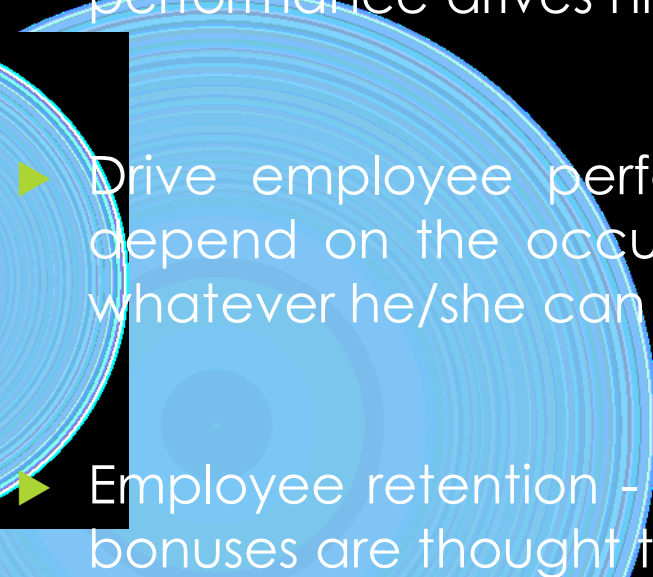
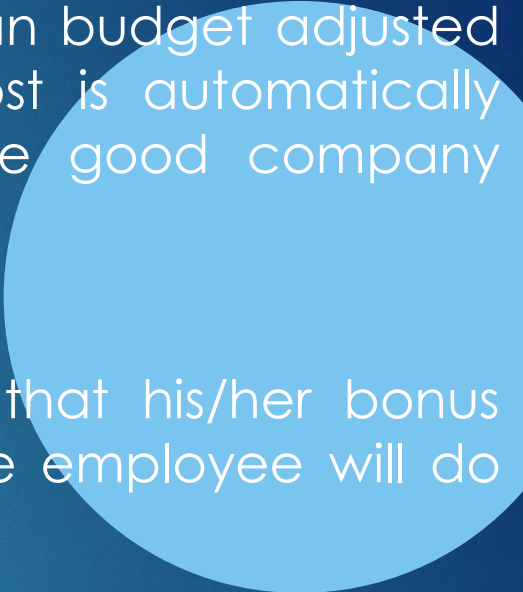
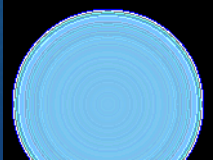
A bonus payment is usually made to employees in addition to their base salary as part of their wages or salary. While the base salary usually is a fixed amount per month, bonus payments more often than not vary depending on known criteria, such as the annual turnover, or the net number of additional customers acquired, or the current value of the stock of a public company.

There are widely-used elements of pay for performance and working well in many instances, including when a fair share of an employee's participation in the success of a Company is desired.



Bonus Plan Objectives




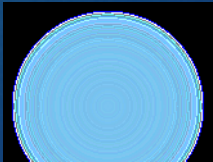
- ▶ Adjust labor cost to financial results - By having bonus plan budget adjusted according to financial results, the company's labor cost is automatically reduced when the company isn't doing so well, while good company performance drives higher bonuses to employees.
 - ▶ Drive employee performance - if an employee knows that his/her bonus depend on the occurrence of a specific event, then the employee will do whatever he/she can to secure this event.
 - ▶ Employee retention - retention is not a primary objective of bonus plans, yet bonuses are thought to bring value with employee retention as well.
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Types of Bonuses

- ▶ **Current Profit Sharing:** One very basic type of bonus program is current profit sharing. A company sets aside a predetermined amount, usually between 2.5 and 7.5 percent of payroll but sometimes as high as 15 percent, as a bonus on top of base salary.
- ▶ **Gain Sharing:** Gain sharing programs pay out bonuses for statistical improvements in production and quality on a quarterly or sometimes monthly basis, providing a sense of excitement for participants.
- ▶ **Spot Bonus Award:** Some companies reward employees on the spot for achievements that deserve special recognition. You can get this just for being extra helpful.

Types of Bonuses



- ▶ **Noncash Bonus:** A well designed noncash bonus program can instill pride and improve employee morale. These awards are sometimes coupled with a token tangible award, such as a gift certificate, a bonus day off, or a great parking space.
 - ▶ **Sign-On Bonus:** Given to new employees who have just joined the company, this award serves two purposes: to establish goodwill and to buy out any compensation "left on the table" from a previous employer.
 - ▶ **Mission Bonus:** Task bonuses are given to a team of employees for achieving a milestone or for completing an important project. Usually these bonuses are offered sparingly, but they have been used more frequently in software and hardware development to encourage meeting tight deadlines. Sometimes these programs incorporate a quality measure to guard against too much focus on speed.
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Types of Bonuses

- ▶ **Retention Bonus:** Retention bonuses are given to employees in unusual circumstances, such as a merger or acquisition, or when an important project needs to be completed. These bonuses are designed to provide continuity when there is potential uncertainty about an employee's continued employment at the company.
- ▶ **Holiday Bonus:** Holiday bonuses range from small gifts to one month's salary. The amount is usually dictated by the company's practices. This practice is usually referred to as a "13-month salary," and is not a true bonus since no performance is required to receive it.
- ▶ **Sales Commission:** Sales commissions are awarded to salespeople for selling. Usually these awards are paid out as a percentage of sales volume. In some cases, commission percentages can increase with higher sales volume. In fewer cases, the percentage can decrease.



Thanks for your attention

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