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More Firms Treating Bonuses as Awards

By Carolyn Said – San Francisco Chronicle
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As a consultant on human capital management, Menlo Park's Valerie Frederickson & Co. tries to practice what it preaches. So it allocates quarterly bonuses to its 12 employees based on a combination of their performance and the firm's profitability.

After a standout 2003, this year's bonuses will total 50 percent of payroll, double last year's. But there are no traditional one-size-fits-all holiday bonuses: no turkey, no Scotch, no mad money.

"If I could dole out year-end bonuses based on how warm and friendly I'm feeling, I would take away people's power to perform and control their own income," said Valerie Frederickson, the company's principal.

She's not alone. Increasingly, companies are doing away with the traditional year-end bonus that was basically a gift awarded to every employee who showed up and warmed a seat. Instead, firms are switching to individual performance bonuses based on measurable goals and tempered by the reality of the bottom line. And with the economy finally thawing after two frigid years, companies have returned to awarding those performance bonuses.

Almost 80 percent of 435 U.S. companies surveyed this year by human resources firm Hewitt Associates offer pay-for-performance plans, up from 51 percent in 1991.

Meanwhile, only 35 percent of the companies surveyed plan to give standard year-end bonuses. Of the companies doing a traditional bonus, the majority budgeted less than 1 percent of payroll expenses for it, while companies with pay-for-performance incentives allocated 9 percent of payroll.

"Companies have moved away from entitlement programs because they want to use their payroll dollars in a more effective way: to pay for excellent performance as opposed to paying for membership in the organization," said Margaret Bentson, a senior consultant at Hewitt's San Francisco office. "As companies are digging out from under the recession, they want to get something for their money. If they pay more, they want to see results."

Bonuses are no longer just a year-end windfall. Many companies dole out four per year, tied to each quarter's results. The "holiday" bonus can come as late as March 15 for companies to count it in 2003 taxes, although employees must report it for the year in which they receive it.

During the past few years of belt-tightening, slashing bonuses was one way companies tried to stay lean. Now, in an encouraging economic indicator, bonuses slowly are starting to return.

San Francisco's Charles Schwab Corp. has gone through a wrenching three years that have seen the loss of 10,000 jobs at the discount brokerage. It hasn't paid its employees a bonus since late 2000. But with profitability up this year, Schwab resumed its quarterly performance-based bonuses in the third quarter and will pay them again for the fourth quarter, though at a reduced rate. "We're not paying the full bonus because we haven't returned to the full financial profile we expect," spokesman Glen Mathison said.

Schwab, which has 16,200 employees worldwide, almost half of them in the Bay Area, this week said it also will resume matching employee 401(k) contributions in 2004. It saved an estimated $48 million to $60 million last year by suspending the incentive.

"Last year and the year before that, when employees said, 'What about my bonus?' the retort from a lot of companies was, 'Be glad you have a job,'" said Paul Dorf, managing director of Compensation Resources in New Jersey. "But this year, business performance is up, and profitability is up."

Companies are using bonuses to reward those who stuck it out through the bad times.

"For a lot of organizations here in San Francisco and even down in the valley, there has been an upturn in the recent time period," said Rick Beal, practice leader for compensation at the San Francisco office of human resources consulting firm Watson Wyatt Worldwide.

"Companies have already undertaken a variety of downsizing measures and are feeling more positive. They really want to take care of the remaining people they've got after they've downsized. Those people tend to be the folks that are better performers. Most HR organizations are concerned that as the economy improves, those better performers may start looking around (for new jobs)," Beal said.

John Challenger, chief executive officer of Chicago outplacement consulting firm Challenger, Gray & Christmas, has seen a similar trend.

"Many companies are saying, 'We've been thinly staffed, employees have seen us through the lean years and now it's time to reward them," he said. Challenger goes so far as to link companies' increased use of pay-for- performance bonuses with the national increase in productivity. Nationwide, productivity rose 9.4 percent in the third quarter, a 20-year record, according to a Labor Department report this month.

"One of the reasons productivity is so high is that these business systems have really been changing," Challenger said. "Year-end (performance) bonuses are an essential way companies can tie compensation more and more toward really rewarding performance."

Still, a number of companies are sticking with the traditional gift bonus and are glad to be able to give anything.

Allison & Partners, a San Francisco PR firm, gave modest cash bonuses "in the low three figures" to its 32 employees this year after forgoing bonuses for the past couple of years. "2001 and 2002 were really tough years for the industry," said Scott Allison, the company's president. "The bonuses were simply a thank you to everyone."

He hopes to keep the gift bonuses but to add a performance-based bonus system next year. "I think you can do both," he said. "You can have a reward system that's inclusive for everyone and also an individual program based on performance."