

# FinancialWeek

## Redressed for the holidays

Turkeys and fruitcakes are out, extra year-end performance pay is in

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Ebenezer Scrooge would be pleased. The days of the traditional holiday bonus are gone. But humbug would return when he realized that the performance bonus is taking its place.

"It used to be that [the year-end bonus] was more about affiliation; everyone shared in the success of the company," said Marc Baranski, principal with Mercer Human Resource Consulting. "Now that doesn't get it done in terms of motivating employees."

This year, U.S. companies are spending roughly 11% of their payrolls on variable, performance-based plans, according to a survey by Hewitt Associates, a human resources outsourcing and consulting company. Some 80% of respondents to the survey said they offered at least one broad-based variable pay plan.

Certainly as profits continue to soar (they rose 19.7% from last year on an annualized basis through the second quarter), employees will be expecting a little something extra, and companies are spending more time trying to gauge how much that should be.

Zebra Technologies Corp. has a number of variable pay plans, each targeted to different segments of its 2,600-employee work force, said Bruce Ralph, vice president of human resources at the Vernon Hills, Ill., barcode and plastic card printer manufacturer.

There's the management bonus plan with roughly 300 participants, covering everyone from senior executives to frontline supervisors, that's based on a combination of financial and individual performance measures. Hourly production workers can earn eight additional hours of pay if they have no absences or tardiness during a quarter.

Sales positions obviously have commission plans, while all others are eligible for spot recognition awards.

But Zebra keeps with one age-old tradition: It gave all 1,600 of its U.S.-based employees their holiday turkeys last week.

At 150-employee Fox Chase Bank in Hatboro, Pa., chief executive Tom Petro has brought some new thinking to the post he's held for the last year and a half. His company funds its bonus pool throughout the year by making monthly accruals based on whether it is keeping pace with its earnings plan.

"If we're tracking with the plan, we make the accrual. If we're overshooting the plan, and it's likely to persist, then we'll increase the size of the accrual," Mr. Petro said. "If we're falling short of the plan, guess what? The hole in the plan is plugged by the bonus accrual."

The payout is broken into five employee groups: hourly workers, salaried workers, middle management, senior management and the CEO. The bonuses are paid from the fund in that order.

"When people on the line are doing what we ask, they ought to get their bonus," Mr. Petro said. "If we ask them to do the wrong thing, it ought to come out of my pocket."

For those frontliners, the bonus equates to roughly two weeks' pay, or another paycheck. For middle management, it works out to roughly 20% of their base pay. Mr. Petro can earn as much as 50% of his base salary in his year-end bonus.

Mr. Baranski of Mercer said that the targets for bonuses as a percentage of salary haven't changed much in recent years, with administrative workers earning around 5% and senior executives earning up to 100%.

Where there has been change is in the actual payout. "We're seeing differentiation on the payout side," he said. "A top performer might see two to two and a half times the bonus of a standard performer."

Outside of performance pay plans, corporations generally like to have discretionary spending around the holidays to give out small, personal bonuses, said Jennifer L. Berman, managing director of the human capital advisory services group at CBIZ Inc.

"You don't see the fruitcake anymore, but you see the equivalent," she said. Gift certificates to restaurants and spas are particularly popular, as are American Express gift cards.

Strategic Hotels & Resorts, a real estate investment trust in Chicago, doesn't do anything along those lines—and for good reason, said the company's chief financial officer James Mead.

"In my last job, at year-end each of the employees would get a \$25 card for [grocery chain] Ralph's," he said. "It wasn't very motivating. It was kind of a funny thing." FW

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