

reward sweetens labour

Bonus schemes are a proven way of boosting employee performance levels. But to be effective, such schemes must be easy to understand and linked to appropriate and measurable performance targets, warns HVS Executive Search's **Chris Mumford**.

'People are our most valuable asset' is the preferred mantra of many a company these days, with more and more firms emphasising how it is their employees that give them the edge in an increasingly competitive market-place. One gets the impression with some of these companies that their grandiose statements are just empty words. Yes, their annual report and website make a big song and dance about the company's commitment to people development, hiring and retention, but you also notice that costs such as training and hiring are the first to be cut when times get tough.

Other companies, of course, do actually mean what they say and, driven by the belief and dedication of the chief executive and board of directors, have well-structured talent management programmes. Whichever category a company falls into, the fact is employees will seldom work for free and a system for rewarding performance is essential for the good of

Payment and performance

Of course, effective talent management is a multifaceted discipline and not simply a matter of paying people well. An efficient remuneration policy does, however, play a vital role in the attraction and retention of high-performing employees, as well as in a company's overall human resources strategy.

Remuneration can, and should, include a number of different components, such as base salary, long-term incentives, car, and other benefits such as health insurance and pension contributions. One form of remuneration which often seems to provoke passionate debate is the bonus.

In fact, bonus payments seem to be quite a contentious issue these days. Not a week goes by without a shareholder group objecting to the size of a chief executive's or board of directors' latest bonus award. In the wake of the corporate scandals of the past few years, shareholders are monitoring the actions of their respective companies with renewed interest. It has reached the point where bonuses in general seem to increasingly be viewed in a negative light, whether as the subject of shareholder revolt or of employees gossiping around the water cooler.

Bonuses, however, are not a bad thing if awarded appropriately. Over the past couple of decades, the implementation of bonus schemes has become more prevalent, and the majority of employers now recognise that a well-designed programme can have a positive impact on both employee and company performance.

In a 2003 survey of compensation practices among hotel companies in Europe, HVS found that the vast majority of companies have a bonus scheme in place for executives from hotel department head level upwards.

TABLE 1. TYPICAL BONUS TARGETS

Incentive target as per cent of base salary	Minimum (%)	25th Percentile (%)	50th Percentile (%)	75th Percentile (%)	Maximum (%)
Regional VP development	25	28.75	40	57.50	80
Regional VP operations	25	29	40	62.50	80
Regional VP finance	25	30	40	50	80
Director operations	25	35	40	50	60

However, the award of a bonus should not be based on job title or seniority. Bonuses should be viewed as an incentive not an entitlement. The best way to reward an employee is through a performance-linked incentive bonus. Incentives strengthen the link between an individual's performance and that of the company, and overall business performance improves as a result.

Designing a bonus plan

A successful bonus plan does not stand alone, but is part of a larger, integrated reward scheme and human resources strategy. Before implementing a bonus scheme an organisation or department must carefully define the goals of the scheme, how it fits into the overall HR strategy, and how much weight the bonus carries in the overall reward package.

There is no one-size-fits-all bonus scheme. Rather, each company must tailor its bonus strategy to its individual corporate culture and operating philosophy. For example, an assertive, rapidly growing company may decide to pay a low base salary with a high bonus component. A conservative company, on the other hand, may prefer to pay a high base with a minimal bonus element.

A recent HVS survey of bonus plans applied to Europe-based corporate office positions at international hotel companies showed that typical bonus targets can range from 25 per cent of base salary to as much as 80 per cent of base salary (see Table 1).

By their very nature, bonus plans are aimed at rewarding short-term performance (less than 12 months). An effective scheme requires appropriate, significant and measurable performance targets. In addition, the plan must be simple to comprehend and easy to communicate.

We recommend that a company's bonus programme contain two to four criteria on which to base performance targets, although a company can have as many as it feels are appropriate. Criteria for measuring company performance can include financial measures such as EBITDA, department or company profit, earnings per share (EPS), as well as other factors such as quality ratings or employee satisfaction index scores.

In addition, recognition should be given for the achievement of personal objectives, such as winning a new contract for the company or the implementation of a new training programme. These measures can be weighted accordingly for each position. For example, a development director's bonus may be linked to deal flow and conversion, while the finance director's bonus may be based on cash management and cost-saving initiatives.

Again, the amount of bonus awarded for company or individual performance will be dictated by the company's

TABLE 2. COMPANY VS. INDIVIDUAL PERFORMANCE

Per cent of bonus based on overall company performance	Minimum (%)	Maximum (%)	Average (%)
Regional VP development	50	100	73.75
Regional VP operations	50	100	80.83
Regional VP finance	50	100	74.17
Director operations	50	100	75.71
Per cent of bonus based on individual performance	Minimum (%)	Maximum (%)	Average (%)
Regional VP development	0	50	26.25
Regional VP operations	0	50	16.43
Regional VP finance	0	50	23.33
Director operations	0	50	24.29

TABLE 3. BONUSES FOR EXCEPTIONAL PERFORMANCE

Maximum possible bonus award	Minimum (%)	25th Percentile (%)	50th Percentile (%)	75th Percentile (%)	Maximum (%)
Regional VP development	110	142.50	175	187.50	200
Regional VP operations	40	57.50	118	144	175
Regional VP finance	40	45	110	142	200
Director operations	45	110	110	175	200

Each company must tailor its bonus strategy to its individual corporate culture

overall philosophy and human resources strategy. In general, however, the HVS study showed that companies base more of the bonus award on company performance than individual performance (see Table 2). In fact, in our survey group, no company awarded more than half of the total bonus based on individual performance.

Qualification for bonus awards should be clear, straightforward and well communicated. Once goals have been met, a bonus is paid. The threshold to qualify for a bonus is typically around 95 per cent achievement of goal.

In cases where goals are exceeded, a company often introduces an override bonus to reward exceptional performance. A company can then introduce a cap which corresponds

to the maximum possible percentage as determined in the overall bonus plan (see Table 3).

Designing a bonus plan

Knowing what is theoretically achievable is one thing, but in reality what can hotel executives actually expect to see in their pay packets at the end of the year? In the 2004 Lodging Property Annual Report Europe and Middle East, we looked at what hotel executives in Europe actually took home in 2003 in bonuses as a percentage of base salary.

As one might expect, it is the general managers – those responsible for the overall performance of the hotel – who achieve higher bonus levels than their hotel management colleagues. The Europe-wide average general manager bonus for 2003 was 19.93 per cent of base salary, compared with 12.11 per cent for a resident manager. In fact, sales and marketing and finance are the next best bonus-paying positions after general manager, with an average award of 16.85 per cent for directors of sales and marketing and 15.55 per cent for financial controllers.

On further inspection, there was little disparity between bonus levels according to criteria such as hotel size, type and complexity of operation. Previous research has shown that the size of the base salary fluctuates, depending on the specifications of comparative hotels. However, the bonus-earning potential as a percentage of base salary remains relatively stable.

For example, the average general manager bonus in Europe for a hotel of less than 100 rooms is 18.08 per cent; for a hotel of 200–300 rooms it is 18.66 per cent; and for a hotel of over 500 rooms it is 18.91 per cent (see Table 4). Bonus levels at resorts appear to be slightly higher than those at commercial hotels.

Similarly, first-class hotels in 2003 paid better bonuses than their luxury counterparts. The largest discrepancy is between chain hotels and independents, where bonus levels are 16 per cent lower. Overall, when one considers criteria such as hotel type, class and type of management there is very little difference in the bonus levels on offer.

It is on a geographic basis that we noticed a greater difference in bonus levels. Developing Eastern European markets such as Prague, St Petersburg, Budapest and Warsaw recorded higher bonus levels than their counterparts in Western Europe. The average bonus level for countries in Eastern Europe in 2003 was 22 per cent, compared with 18 per cent in Western Europe. This most likely reflects the sharper performance gains that hotels have been able to achieve in these rapidly growing markets compared with those in more established marketplaces such as London and Paris.

TABLE 4. AVERAGE BONUS LEVELS FOR GENERAL MANAGERS

General manager	Average 2003 bonus as per cent of base salary (%)
Hotel room count	
100 rooms or less	18.08
200 to 300 rooms	18.66
500 rooms or more	18.91
Hotel type	
Commercial	19.18
Resort	20.76
Hotel class	
First class	20.10
Luxury	18.26
Management type	
Independent	18.54
Chain	22.20

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As we look ahead to reviewing the bonus results for 2004, we expect to see a general rise across all markets in the amount hotel executives received in bonuses. Trading conditions and operating performance have generally improved in most markets since 2003. As a result, we expect more people to have hit their targets, and thus to have received higher bonuses.

A bonus plan is a highly effective way of raising levels of employee performance. As such, a bonus scheme should be an intrinsic part of a well-structured human resources strategy, which acknowledges the impact that a successful talent management programme can have on company results.

Bonus plans based on vague, unaccountable criteria such as length of service are to be avoided and will no longer be tolerated by investors. Well-implemented, performance-related bonus schemes, on the other hand, are to be encouraged. They motivate staff, lead to improved business results and are based on measurable targets rather than individual whim. HMI