

Exclusive: **Christopher Mumford** reveals research into executive bonus schemes

Festive bonus ball for executives

'City Bonus Bonanza' screams the newspaper headlines. Yes it's that time of year when the press works itself into frenzy over the size of bonuses awarded to a handful of investment bankers and estate agents have a renewed spring in their step. While it is the bumper payments in the City which grab the headlines, it is not just workers in the Square Mile who are receiving bonus awards. The increased adoption of performance related pay has resulted in bonuses becoming a widely accepted component of remuneration policies across industry and across all seniority levels.

Over the past couple of decades the implementation of bonus schemes has become more and more prevalent and the majority of employers now recognise that a well-designed programme can have a positive impact on employee attraction and retention.

In a survey of remuneration practices among hotel companies in Europe, HVS found that the overwhelming majority of companies have a bonus scheme in place for executives from hotel department head level upwards. The grant of a bonus however should not be based merely on job on title or an employee's seniority. Bonuses should be viewed as an incentive, not an entitlement. The days of the 'dis-



Candidates for bonus of the year 2005? Hilton's executives celebrate the sale of Hilton International

cretionary bonus' awarded for being 'a jolly good chap' are fading fast and now firmly belong in the past. Executed properly, a bonus plan can significantly strengthen the link between an individual's performance and that of the company.

By their nature, bonus plans are typically aimed at rewarding short-term performance, twelve months or less. The 'performance' measured is

tailored to the specific responsibilities of the position. As the table below illustrates, overall company financial performance accounts for the majority of the bonus awarded to senior corporate executives.

The other piece of the bonus is based upon personal measurements; for example a VP Development will be measured on a factor such as volume of deal completion, while a VP Opera-

tions may be rated on guest satisfaction index scores.

Bonus targets are set at the beginning of each year as part of the employee's general pay review. Ideally, the target bonus should be achievable yet still stretch the individual. We took a look to see if there is discrepancy between the target bonus and the actual bonus being awarded. First we analysed the remuneration data of Vice Presidents of Operations at luxury hotel operators based in the UK and overseeing approximately 5 - 20 hotels.

The results indicate that the actual bonus paid at the end of the last financial year was closely in line with the target bonus set 12 months prior. This correlation was further confirmed when we investigated the bonus results for Area Vice Presidents of Development at major hotel groups in Europe.

It appears therefore that, although the size of the payouts may be slightly out of kilter, it is not just those in the City who are making and beating their bonus targets. As the above results show, improved performance in the hotel sector in 2004 saw healthy bonus awards this time last year. Given the continuing wellbeing of the sector we would expect the forthcoming bonus awards for the past twelve months to put just as big a grin on the faces of those on the receiving end.

Christopher Mumford is managing director of HVS Executive Search.

Company performance relating to senior bonuses

% of Bonus Based on Overall Company Performance

	Minimum	25th Percentile	50th Percentile	75th Percentile	Maximum	Aver
Regional VP Development	50.00%	65.00%	72.50%	81.25%	100.00%	73.75%
Regional VP Operations	50.00%	75.00%	80.00%	96.25%	100.00%	80.83%
Regional VP Finance	50.00%	62.50%	75.00%	85.00%	100.00%	74.17%
Director Operations	50.00%	60.00%	75.00%	92.50%	100.00%	75.71%

Actual bonus meets target bonus in UK

Regional VP Operations - UK	Minimum	25th Percentile	50th Percentile	75th Percentile	Maximum
Target Bonus	22.00%	27.50%	37.50%	40.00%	55.00%
Last Paid Annual Bonus	£31,990.77	£37,997.69	£44,437.50	£67,656.25	£124,000.00
Actual Paid Bonus as % of Base Salary	21.62%	24.53%	31.55%	44.18%	63.92%

Actual bonus meets target bonus for Europe

Regional VP Development - Europe	Minimum	25th Percentile	50th Percentile	75th Percentile	Maximum
Target Bonus	25.00%	35.00%	40.00%	40.00%	50.00%
Last Paid Annual Bonus	40,000.00	45,860.29	52,307.00	62,771.00	90,834.95
Actual Paid Bonus as % of Base Salary	24.22%	33.65%	37.04%	40.00%	56.46%