



Energy Insights



WHAT IF THERE WERE NO ANNUAL BONUSES?

Removing Annual Bonuses Could Help Companies Avoid Time-Consuming Discussions

Posted by Jim Wolf on February 14, 2014

Each February, boards and management spend thousands of hours on their annual bonus programs. Energy companies in particular can struggle to evaluate annual performance in what is inherently a long-term business. Arguing over an incremental handful of bonus points can often take a toll on an otherwise productive relationship between a compensation committee and company leadership, or position a company for difficult messages to the workforce.

- "There isn't enough 'stretch' in these goals."
- "The results were influenced by factors outside management's control."
- "We can't rely on a formula to judge our performance."
- "We need to be competitive with what everyone else is paying."

These and other time-consuming points of contention might lead one to wonder whether it's all worth the fuss. Does having a bonus program improve business results? Imagining what it might be like without an annual bonus program might help focus the conversation on what a bonus should be doing in the first place.

What if a company got rid of its bonus program and shifted all its bonus opportunity into salary and/or long-term stock? – a combination of shares, options or stock performance-based awards. What might happen? Maybe:

- Less focus on short-term results; more focus on long-term objectives?
- Fewer debates on the difficulty of business goals?
- Less distraction from comparisons to bonuses at other companies?
- Compensation more directly aligned to long-term value creation?
- Shorter, more productive board meetings?...

The reason these sound appealing may be that so many bonus programs have drifted away from their primary role: clarifying the company's most important near-term business objectives, motivating the organization to achieve those goals, and communicating how well the company performed against them.

A well-managed program can generate a healthy return on the bonus investment. It requires careful definition and focus on business priorities, common performance expectations between a board and management, and a unified commitment to pay for results – whether good or bad. It still takes a lot of hours, and forces difficult conversations, but it can definitely contribute to performance.

Now, back to setting goals...



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