

Food For Thought

January 2010

Let your Employees dole out the Bonuses

Happy new year. Food for Thought is our way of sharing interesting concepts on corporate leadership and management with others who might find it useful. The thoughts offered are intended to be controversial and thought provoking. They always follow our motto of helping develop logical leadership.

Our topic this month is a befitting start to a new year when many companies plan their variable compensation programs. This month's idea might be of particular interest to smaller companies, or small divisions of larger companies. Mike Lieberman, CEO of Square 2 Marketing (www.square2marketing.com), gets credit for triggering the thought during an email discussion on a related topic.

Variable compensation is intended to motivate employees and align their interests along with those of the owners of the company. The pool of money available to share with the employees is usually determined by how well the company has done. The available pool of money is distributed to the employees based on a combination of their responsibilities and their performance. In other words, devoid of performance consideration, higher level employees will receive larger sums than lower level employees. Top management then adjusts these sums to reflect employee performance. Employees seldom understand the rationale behind the distribution. They usually resign themselves to what they see as a reality of life - management will get more whether or not they do a good job, and the worker-bees will get less no matter what.

So, why not empower the employees to dole out the available pool of money? Employees submit to the CEO their recommendation on who should be rewarded and how much they should receive, along with their justifications for their recommendations. Each employee can recommend any set of employees in the company, other than themselves. To keep these recommendations constrained, each employee is allowed to dole out as much money as they would have received from the pool devoid of performance considerations. So, if the available pool of money, distributed without regard to employee performance, would have delivered manager A \$4000 and worker B \$300, then manager A gets to dole out \$4000 and worker B gets to dole out \$300. This way, the CEO receives recommendations for precisely the amount of money available in the pool. The same amount of money is now being given away, except, not by management but by the employees. The distribution is still performance based - performance, as determined by peers, not management.

How will this motivate employees? First it empowers them to reward the deserving. It has been our experience that, by and large, when such responsibilities are placed on employees, they will take it seriously. Knowing that the CEO is going to review their recommendations, employees will put some thought into them. Further, it will force employees to understand, recognize and appreciate their colleagues' contributions.

The cynical manager might lament that lower level workers, more numerous than management, will simply distribute all of the money amongst themselves and neither appreciate nor reward the stress and responsibilities carried by management. The cynic should note that the amount of money that lower level workers have to dole out is exactly equal to what they should collectively be receiving. So, the cynic's concern is not as acute.

Clearly, the CEO can put in place some elements of caution. For example, the CEO might use this method to distribute only half the available funds, holding the other half to be distributed through more traditional top-down means. The CEO might reserve the right to veto errant recommendations that violate certain fundamental principles of ethics and company policy. But it is important is to preserve the integrity of the employees' recommendation to instill a true sense of empowerment.

Before we close we should report on our last month's pay forward offer of matching your holiday contributions to charitable organizations. The names, amounts and recipient organizations have been published [here](#). We were disappointed that our offer was not fully subscribed, as opposed to the year before when it was over-subscribed. Maybe it is a telling tale of the times and the legacy of 2009. But thank goodness we are on to 2010. We wish you a prosperous new year.

We have received many responses to our Food for Thought mailings, asking if you can freely share and forward these thoughts. Indeed you can. All we ask is that a clear attribution to LogiStyle and our contact information are included. For the interested reader, we have archived some of our recent Food for Thought mailings at our website, and can be viewed at [LogiStyle: Food for Thought Archive](#). As always, we welcome your comments. We hope your business is doing well. If we can be of any assistance please feel free to call – even, if just to chat.

Best Regards,

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