



# ENTREPRENEUR'S CORNER

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## **Nail Employee Bonuses to a Formula or They Might Buy You Trouble**

*by Jack Roseman*

One year at On-line Systems, we got business we never expected and profits were quite high. It was a particularly outstanding year. Now we were a public company, and one thing you don't want as a public company is a lot of fluctuation in your quarterly or annual earnings. It confuses the analysts and your stock price can take a hit when you don't show an increase quarter to quarter. Analysts like growth to be in a straight line, preferably up at least a small hill.

So because the chairman and I didn't want this great year to create unrealistic expectations among analysts and because we thought it would be fair to share the wealth with employees, we decided to give out bonuses. This was getting close to Christmas, and I thought I was going to be Santa Claus.

So John Godfrey (the chairman) and I went over the list of employees and, using what I call the "infinite wisdom

of management" criteria, assigned dollar amounts to specific employees. It was informal. We would look at a name, and based roughly on our perception of the person's output, their contribution to the company and so forth, we might say: "This woman gets \$10,000, this guy gets \$8,000, and this one gets \$4,000." We were just trying to be fair in terms of what, in our judgement, they had done for the company.

And I have to admit, we felt pretty good about ourselves - pretty generous. We had never given out bonuses before, so we figured when these extra checks started falling out of the sky, our employees would be pretty pleased and see us as Santa Claus.

What actually happened was they started talking to each other about their respective amounts and if they got \$10,000 they were pretty happy. But if they got \$8,000

or \$5,000, they were not so happy or grateful.

So what happened, of course, they came to see Jack. And in my office they would say things like: "You gave me a bonus of \$5,000. I worked, I think, harder than so and so, my output was more, and frankly I think that he could have done more sometimes, but that's his business. All I know is I did a helluva lot more last year and he got \$10,000 and I got \$5,000." And then sometimes they would confide to me things like, "To be honest, I always thought he was a brown-noser."

So I thought I was going to be Santa Claus, and everybody was going to thank Santa Claus, but instead people got upset. Unless you were among the few that got the \$10,000. If somebody else got \$5,000, well, that's OK, provided it wasn't them.

And they would ask: "How did you come up with this system?"

And I would jokingly tell them that it was the “infinite wisdom of management” system. Well, some would smile, but most didn’t think it was the funniest thing I ever said.

I’m a slow learner. We had started the precedent, so the next year, which by the way wasn’t all that great, we had to give out bonuses, but they were less. So now the complaint was: “You know, last year I got an \$8,000 bonus. I worked harder this year and this year you gave me \$5,000. Why is that fair? I mean this year I worked more weekends, more nights and just generally put in more hours and I get less of a bonus. That’s appreciation?”

Well, we learned our lesson after that. The next year, bonuses were predetermined as a percent of profits and how much salary the person made. That was the index of their worth to the company. We followed the formula and no one could accuse us of favoritism. They could argue with the formula, the algorithm, but nothing else.

So as Christmas approaches, I advise any entrepreneurs who may be considering handing out bonuses for the first time to consider my experience. Do it only if you can sustain the practice and do it according to a formula. Don’t do it because you want to be seen as Santa Claus. Both you and your employees will be disappointed.

*Jack Roseman is the Director of The Roseman Institute. He was the founder of two successful computer firms and was president of a third, On-Line Systems. Jack formerly was the associate director of the Donald H. Jones Center for Entrepreneurship at Carnegie Mellon University’s Graduate School of Industrial Administration (GSIA). This column was written with Steven N. Czetli, former Executive Editor of T.E.Q.*