



Management Insight

Team Bonus Distribution

Contribution versus Performance

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Introduction

Loosely related to my earlier article about performance reviews this is about the challenge of distributing a bonus to multiple team members. It is not practical to instigate an individual performance review with each of them, so an alternative approach is called for. Below I provide my thoughts on this.

An Example

A team has successfully finished a project and is awarded a team bonus, which can be distributed by the team leader and/or project manager as she sees fit.

Here are our parameters (the actual numbers don't matter but are required for calculating this example):

- 15 team members
- 15,000 Euro team bonus
- It is your task and responsibility to distribute the bonus among the team members. While you can do so as you see fit, you are also the one to explain how and why you distributed the money as you did.

The Easy Way Out

The easy way out seems to be to just distribute the whole amount evenly, which would result in 1,000 Euro per person and everybody being happy with no need to justify the decision and – best of all – very quickly done without “wasting” much time on alternative options.

A perfect solution. Or is it? Let's take a closer look at how good it really is. While it is easy to just distribute the money, this does not mean that it is also justly distributed.

I think a very good case can be made for no team in the world consisting of equally performing team members – not much of an argument there. And this is the main problem with “the easy way”. The bonus distribution is not based on anything tangible (i.e. actual facts). While it is easy to explain to everyone, it is also inherently unjust as it rewards less performing team members just as much as high performing ones.

This is of course good news for the low performers, but has an immediate and lasting impact on the high performers. They will invariably wonder, why they need to perform as well as they can, if it is possible to get the same bonus with less effort.

This approach to bonus distribution is also quite insensible in the long run as it will lead to more people performing worse than they could and most likely to unhappy high performers, who will then leave your company in pursuit of a work place, where their skills and efforts are properly appreciated.

The only one (temporarily) benefitting from the “easy way” is the actual team leader/project manager. She seems to prove that he is capable of a seemingly fair and fast decision. As we have seen, this is an illusion – and a costly one at that.

Contribution-Based Distribution

One alternative is to invest some time and see, how much effort and work each team member actually contributed during the course of the project. This can be based on person-hours, story points, user stories or any other useful measure.

This approach is certainly based on facts (assuming that you do have records of that sort) and can easily explained to everybody. After all it is plain mathematics. But is it a sensible approach and is it really fair?

Imagine team members, who work ten hours per day and produce large quantities of problems (be it bugs in a software or anything else, impeding progress and success). Their contribution in terms of person-hours is very high. It is most likely among the highest in the team. But the result of all this time is not as helpful as it could be. It might even be counterproductive in some cases, causing the team to invest more time into fixing the problems.

Another problem with this approach is that it does not respect a team member's quality and skills. Staying with software development it is clear that a senior person will need less time and possibly produce better results than a junior person, who has to invest much more time and even then not reach the same level of quality output. In such a case, the senior, who delivers better results would get punished and the junior would be unjustly rewarded.

Again we run into some serious shortfalls with this way of distributing the team bonus. The consequences might not be as dire as with the “easy way”, but they are not much better. Such a model would encourage people to spend more time on tasks rather than motivate them to finish them faster. After all they will get more money for more person-hours.

While this makes a weird kind of sense from the team member point of view, it is a disastrous scenario for any company as it would – once again – reward low performers and punish high performers. Not a good idea.

Performance-Based Distribution

Let us take a look at a third option. What if you as the team leader/project manager in charge actually do your homework and invest as much time as required to find out, who of your team members performed better than others? I admit that this is not an easy task, but it is far from impossible and the benefits outweigh the effort by far.

Here is how you could do it:

- Make a list of your team members
- Next to each name note each person’s good and bad deeds
 - Good deeds being actions, tasks, ideas or any other contribution, which significantly contributed to the project’s success or accelerated its achievement.
 - Bad deeds are obviously the opposite. Anything that hindered progress, delayed completion, caused additional effort.
 - This list should also include if and to what extent people adhere to, divert from or help to improve internal processes and tools.
- Assign each team member to one of three groups (A, B, C) based on the above data.
- Divide the whole bonus between these groups by weighing them with a percentage.
- Within each group divide the money evenly among the group members

Sample Calculation

In our example the calculation could look like this:

| Group | Percentage | Group Bonus | People in group | Individual Bonus |
|-------|------------|-------------|-----------------|------------------|
| A | 50% | 7,500 | 4 | 1,875 |
| B | 30% | 4,500 | 6 | 750 |
| C | 20% | 3,000 | 5 | 600 |

Note: You may want to check how many people are in each group and adjust the percentages in order to make sure that “A” people get the highest bonus per person.

This approach is obviously based on facts (performance instead of contribution), it can be explained easily, it is certainly sensible because it promotes a culture and environment, where performance is recognized and rewarded and at the same time shows that anybody (who performs properly) can be in group A and last not least it is transparent.

I would strongly recommend not to make a secret out of the bonus amount and the reasoning behind putting people in a group. People talk and sooner or later everybody would find out that not all people got the same amount of money. And after all it is based on facts and there is absolutely no need to hide it. Quite the opposite: explaining how the system works will make people see that it only depends on themselves to move from group C or B to A, showing that the individual bonus does not depend on their job title but on solely on their performance.

Comparison

I propose the following four criteria to be checked against each of the approaches above. Our questions have to be, whether the distribution is:

| | Easy Way Out | Contribution-Based | Performance-Based |
|------------------------|--------------|--------------------|-------------------|
| <u>B</u> ased on facts | ✗ | ✓ | ✓ |
| <u>E</u> xpliable | ✓ | ✓ | ✓ |
| <u>S</u> ensible | ✗ | ✗ | ✓ |
| <u>T</u> ransparent | ✓ | ✓ | ✓ |

As you can see in the table above I deem the performance-based distribution of a team bonus to be the BEST one. While the alternative options do fulfill some of the criteria, it is the only one to pass all four of them.

Conclusion

Making the bonus payments transparent offers room for discussions. On the other hand, this information never stays secret anyway. People talk and sooner or later they find out about the different bonus amounts. So I strongly suggest not to hide and rather be open with them.

Keep in mind that this only works well, if you really take the time to check the facts and if you are able to explain them properly to anybody who might inquire, why they got less than another person. If this is done right and you apply the same underlying principle of ethical and open behavior and communication to other areas in your organization, it will do worlds of good for everybody.

As always, this article represents my own opinion. If not stated otherwise, all definitions, explanations and conclusions drawn are based on my personal experience and do not necessarily represent ultimate wisdom for each person in any such situation.

Having said that I do hope that it helps you to get a grip on this subject and will be happy to enter any fruitful discussion related to it.