

A WorldatWork Survey Brief



Bonus Program Practices

A Survey of Members of WorldatWork
August, 2005

About WorldatWork and WorldatWork Membership Surveys



*The Professional Association for
Compensation, Benefits and Total Rewards*

WorldatWork is the world's leading not-for-profit professional association dedicated to knowledge leadership in compensation, benefits and total rewards. Founded in 1955, WorldatWork focuses on human resources disciplines associated with attracting, retaining and motivating employees. Besides serving as the membership association of the professions, the WorldatWork family of organizations provides education, certification (Certified Compensation Professional – CCP®, Certified Benefits Professional® – CBP and Global Remuneration Professional – GRP®), publications, knowledge resources, surveys, conferences, research and networking. WorldatWork Society of Certified Professionals and Alliance for Work-Life Progress (AWLP) are part of the WorldatWork family.

WorldatWork regularly surveys its membership of compensation, benefits and total rewards practitioners regarding current issues and topics, best practices and common professional practices. The majority of WorldatWork members are at the manager responsibility level or higher, have more than 10 years of experience in the human resources profession, and work in the corporate headquarters of a company based in North America with more than 1,000 employees. The association routinely receives a voluntary response rate from members in the 15 percent to 20 percent range, a response rate that generally ensures the respondents are representative of the WorldatWork membership as a whole.

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Introduction and Methodology

This report summarizes the results of a May 2005 survey of WorldatWork members examining bonus program practices. In the past, WorldatWork has conducted separate surveys on four different types of bonus programs: sign-on, referral, spot and retention. This year, the surveys were combined for a comprehensive look at prevalence, eligibility criteria, payout averages and other information about how WorldatWork members administer bonus programs.

For the purpose of the survey, each type of bonus was defined as follows:

Sign-on bonus: a cash bonus given at the beginning of a service period, usually for accepting an employment offer.

Referral bonus: a cash award paid to a current employee for referring a successfully hired job applicant.

Spot bonus: a type of informal recognition that is delivered in cash, spontaneously or “on the spot.”

Retention bonus: a cash award typically tied to the length of service or some other milestone.

In May 2005, surveys were sent electronically to 4,849 WorldatWork members and 483 responses were received, a response rate of 10 percent. The demographic profile of the survey's respondents is similar to that of the WorldatWork membership as a whole. The typical WorldatWork member (and survey respondent) works at the managerial level or higher in the headquarters of a large organization in North America. Ninety-five percent of the *Fortune* 1000 organizations employ a WorldatWork member.

Executive Summary

A stop and start economy and its attendant uncertainty may have rendered employers cautious in doling out cash incentives in recent years. Subsequent to 2001 and early 2002 when WorldatWork last surveyed its members on their bonus initiatives, the economic forecast has vacillated between recession and recovery, breeding insecurity and curbing spending. According to the current survey, cash-bonus programs in all four categories -- sign-on, referral, spot and retention -- have declined since 2001-2002. Despite the decline, a significant number of employers continue to use cash awards in bonus programs to improve recruitment and retention. The survey found:

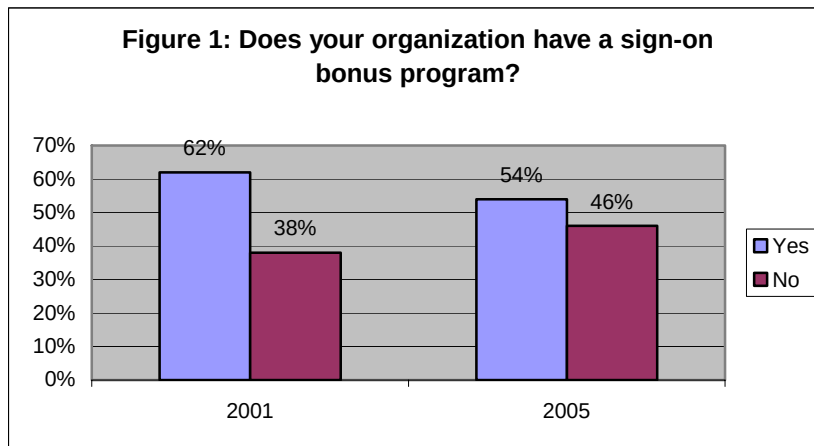
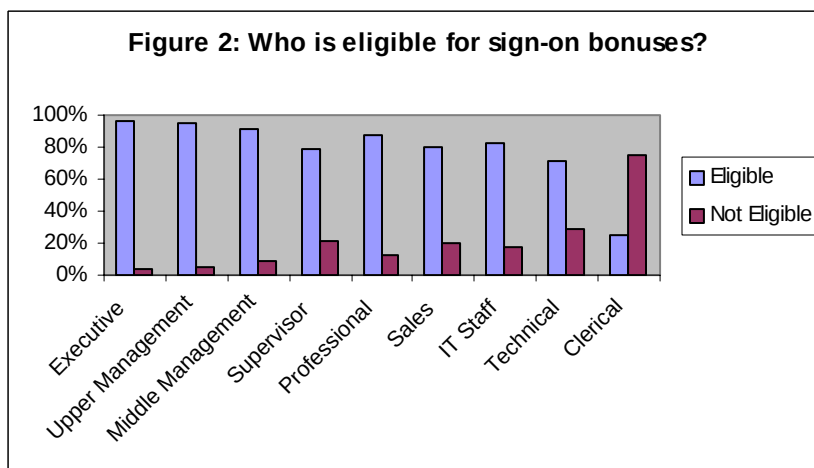
- Fifty-four percent of organizations recruit employees with sign-on bonuses, usually as a flat dollar amount that varies according to the position recruited.
- Fifty-six percent of employers reward employees who refer new talent for positions throughout the organization, including executive positions. Respondents claimed fourteen percent of new hires generated from employee referrals.
- Forty-seven percent of organizations issue cash awards “on-the-spot.” For non-executive positions, maximum spot awards concentrated in amounts between \$1,000 and \$5,000.
- Twenty-five percent of organizations encourage retention through cash bonuses, and a majority does not use length of service as a trigger for program eligibility.

A wavering economy does not relieve organizations of the need to find and keep productive employees. Less cash on hand may compel employers to find creative, non-monetary means to attract and retain key talent, which is in line with a total rewards philosophy. Continued economic recovery may stimulate a resurgence of cash incentives.

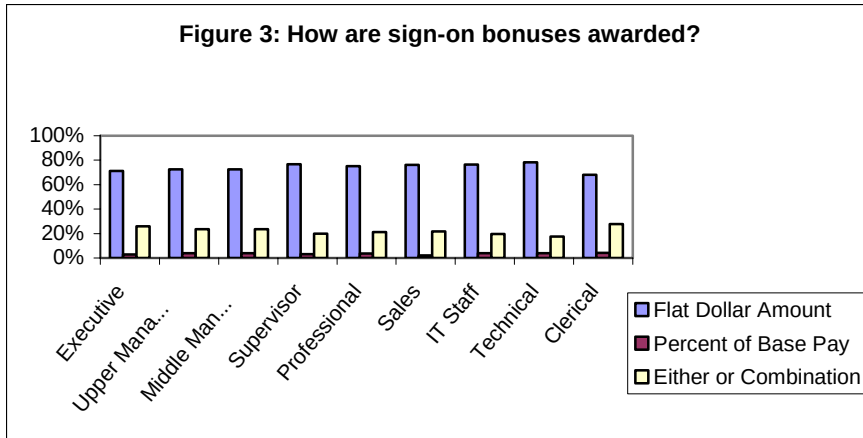
Detailed Survey Results

Sign-On Bonuses

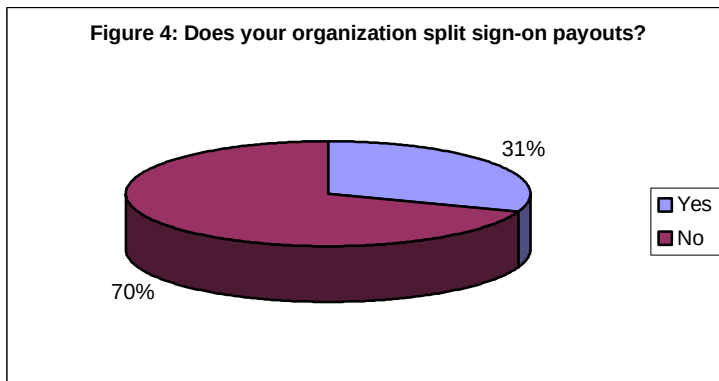
Despite a 10-percent decrease in the number of organizations reporting sign-on bonus programs since the 2001 survey, more than half of the respondents still use sign-on bonus programs to attract new talent. (See Figure 1.) Existing sign-on bonus programs tend to include the full range of positions from executive to clerical. Figure 2 demonstrates that sign-on bonuses are reported more frequently for executive, managerial and professional staff, although one fourth of organizations incorporate clerical staff in their programs.



Typically, sign-on bonuses are awarded as a flat dollar amount regardless of the employee's position within the organization. Less frequently, employers disburse bonuses as a percentage of base pay or as a combination of the two methods. (See Figure 3.)



As in 2001, organizations rarely split sign-on bonus payments. In 2005, approximately 70 percent opted not to split payouts, comparable to the 2001 figure of 66 percent. (See Figure 4.)



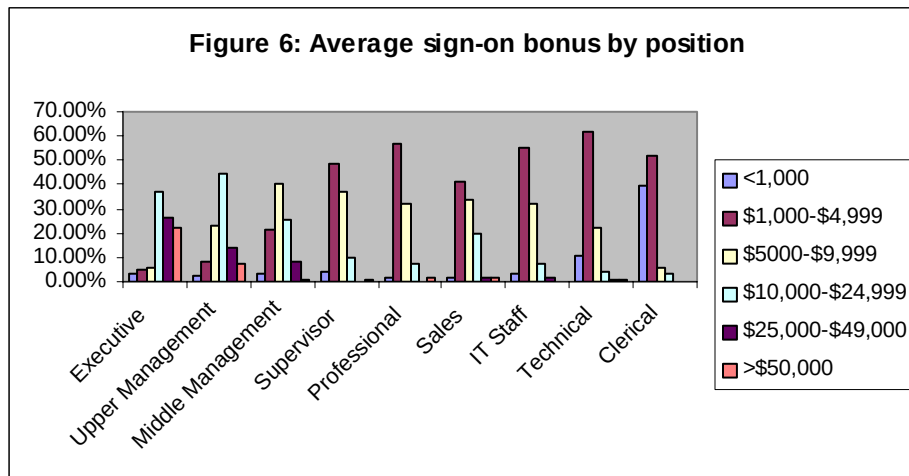
What happens to sign-on bonuses if a new employee voluntarily leaves? Figure 5 illustrates that the most common threshold for forfeiture/payback is the first year of employment. However, between 25 percent and 28 percent of participants report their bonus programs do not contain provisions for forfeiture/payback.

Figure 5: What is the time threshold for forfeit or payback if an employee voluntarily leaves?

	No provision for forfeit or payback	First 3 months	First 6 months	First year	Other
Executive	28%	3%	7%	52%	10%
Upper Management	28%	3%	7%	54%	9%
Middle Management	28%	2%	7%	56%	7%
Supervisor	27%	3%	6%	58%	6%
Professional	28%	3%	6%	56%	7%
Sales	27%	3%	9%	54%	6%
IT Staff	28%	4%	6%	56%	6%
Technical	25%	3%	8%	55%	9%
Clerical	29%	2%	13 %	54%	2%

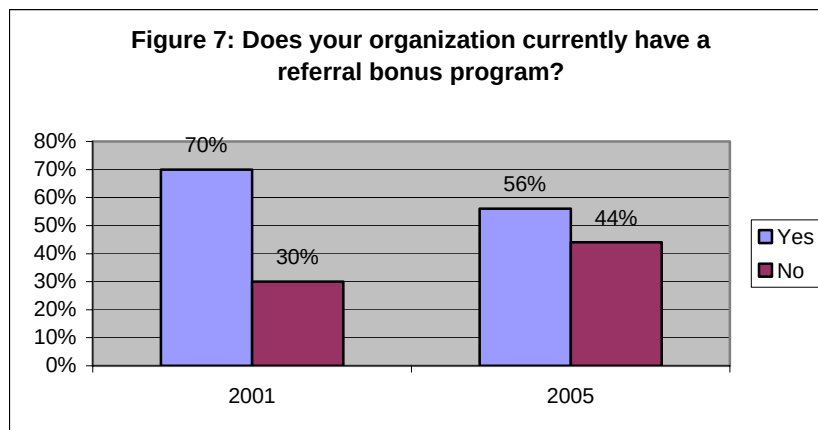
Note: Due to rounding, totals may not equal 100 percent.

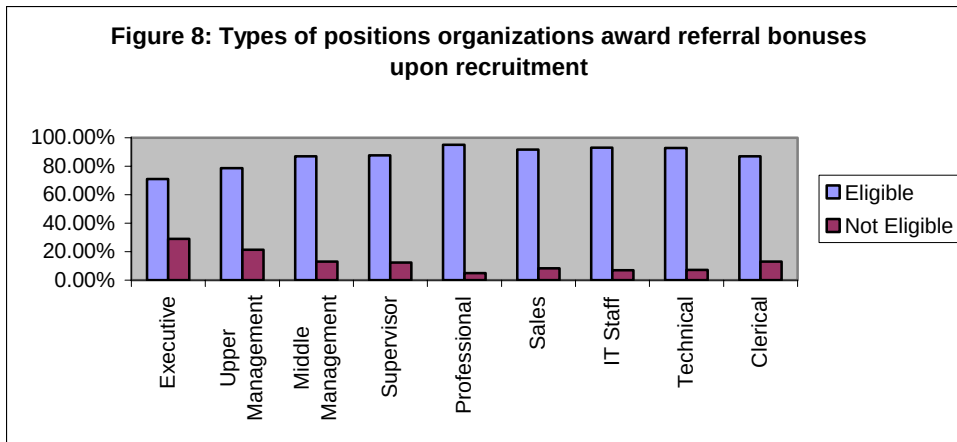
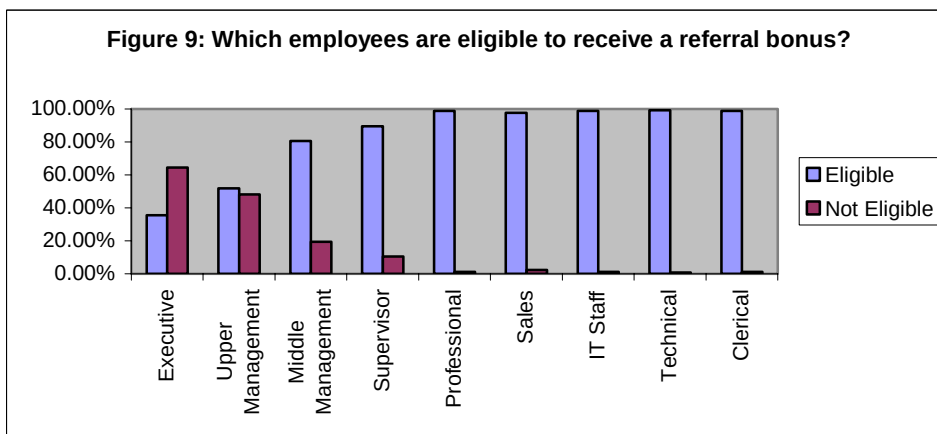
How much do employers award as sign-on bonuses on average? As in 2001, the average amount varies by the type of position the employee holds. (See Figure 6.) Currently, almost half of executives receive awards greater than \$25,000, while about 37 percent earn between \$10,000 and \$25,000 in bonus pay. Upper managers also are most likely to bring in between \$10,000 and \$25,000 in sign-on bonuses. For supervisors, professional staff, sales employees, IT staff, technical and clerical staff, awards most frequently range from \$1,000 to \$5,000.



Referral Bonuses

A majority of respondents claim to have a referral-bonus program. (See Figure 7.), and another 15 percent are considering adding one. Employers currently use their referral programs to recruit for a range of positions, as shown in Figure 8. Despite the prevalence of filling positions via referrals, not all employees are eligible to receive referral monies. (See Figure 9.) For example, while executive positions are recruited using referrals, the majority of executives themselves are not compensated for the employees they refer, and about half of upper management employees are ineligible.





When issuing referral bonuses, approximately 31 percent of organizations choose to split payouts awarding part of the total at the time of hire and the remainder after a set period of time.

For those who do split payouts, about one-third of referring employees wait less than 15 days before receiving their first payout, while another 30 percent wait three to six months. Only about 1 percent of employers wait longer than 12 months to award the first installment. (See Figure 10.)

Often, referring employees do not need to wait long to see their full referral bonus. In organizations that split payouts, almost 42 percent issue the remainder in three to six months. Almost 36 percent complete payouts in six to twelve months. While about 5 percent of employers take longer than one year. (See Figure 11.)

Figure 10: How long do new employees stay before the first referral payout is made?

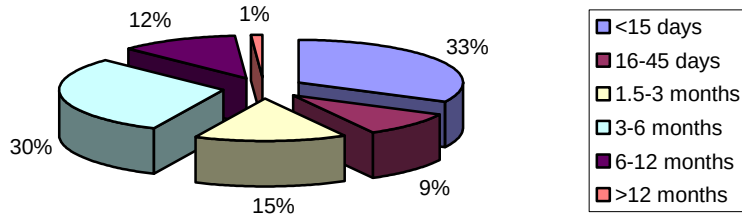
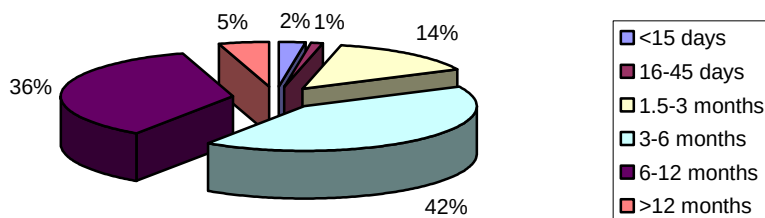
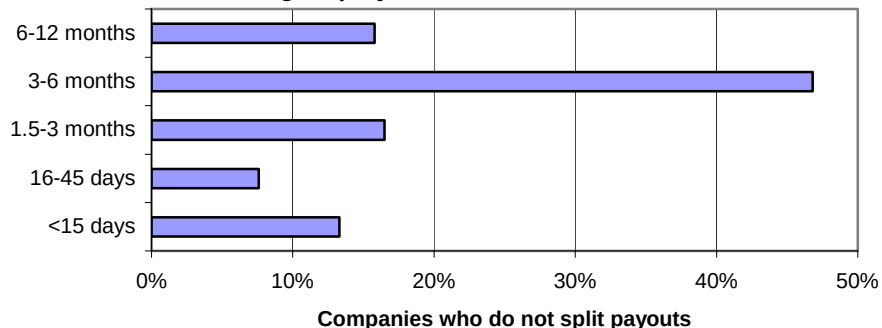


Figure 11: How long from the new employee's hire date until completion of the payout is made?



Comparable to reports in 2001, a majority of organizations (68 percent) choose not to split referral bonus payouts. Figure 12 shows approximately 47 percent of organizations do not split referral awards, yet issue the full amount to the referring employee three to six months into the new hire's employment. About 13 percent wait less than 15 days to issue the full bonus, while less than 16 percent take six to 12 months to complete the award.

Figure 12: How long must the new employee stay before the referring employee receives the full bonus?



For positions other than clerical, the most commonly cited bonus award totaled between \$1,000 and \$2,500. As indicated in Figure 13, less than 30 percent of clerical staff receives between \$500 and \$1,000. Only about 5 percent of executives and less than 4 percent of upper managers garner amounts greater than \$5,000. The figures appear comparable to the 2001 survey results that found a majority of positions accrued at least \$1,000, on average, in referral bonuses.

Figure 13: Average amount of referral bonus in the last twelve months by position

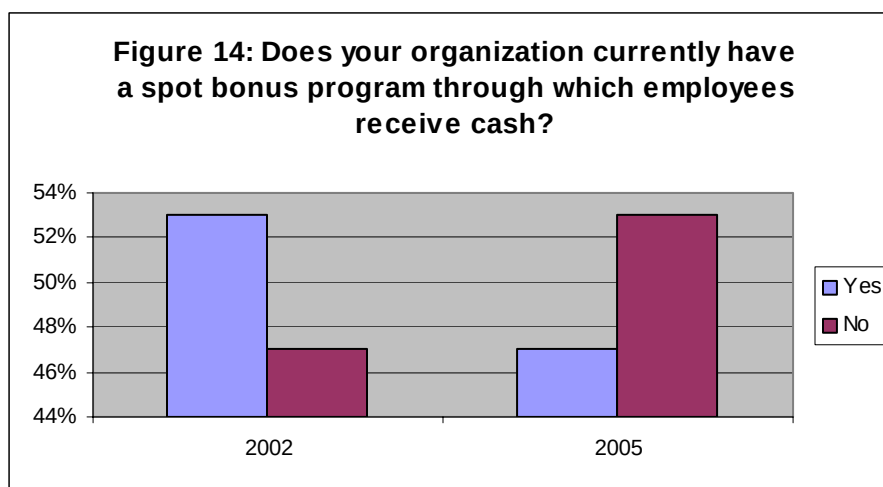
Position	<\$250	\$250-\$499	\$500-\$999	\$1,000-\$2,499	\$2,500-\$5,000	>\$5000
Executive	5%	14%	16%	45%	14%	5%
Upper Management	6%	14%	19%	46%	12%	4%
Middle Management	5%	13%	21%	45%	15%	2%
Supervisor	5%	15%	22%	45%	12%	1%
Professional	5%	14%	25%	44%	12%	1%
Sales	6%	17%	19%	42%	13%	2%
IT Staff	5%	16%	21%	45%	12%	2%
Technical	8%	17%	26%	39%	9%	1%
Clerical	15%	23%	29%	28%	5%	0%

Note: Due to rounding, totals may not equal 100 percent.

Referral programs continue to be a viable source of recruiting. In 2001, 92 percent respondents perceived their referral programs to be successful. On average in 2005, responding organizations further asserted that 14 percent of new hires in 2004 came through employee referrals.

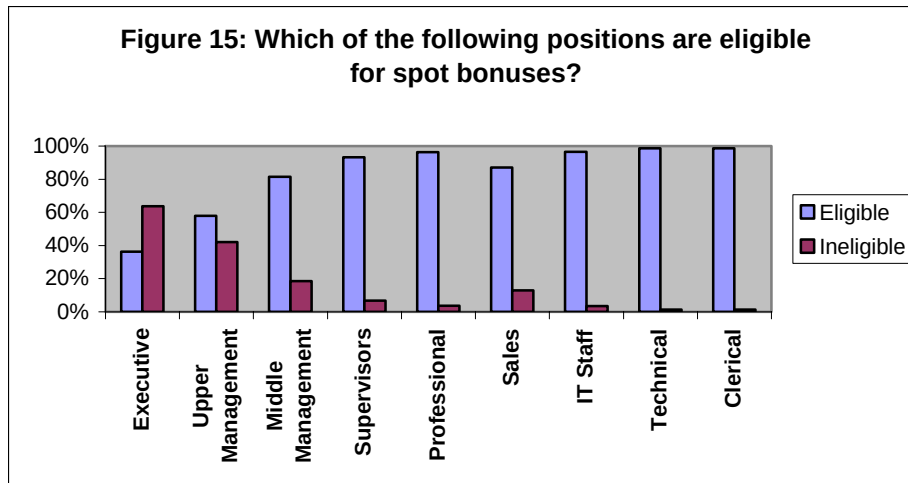
Spot Bonuses

Informal recognition has been cited as part of a total rewards philosophy. In early 2002, just over half of participants reported using cash spot bonus programs. Since then, the number has dropped slightly to 47 percent with another 13 percent considering implementing a spot bonus program. (See Figure 14.)



Organizations who offer spot bonuses do so for most positions. (See Figure 15.) The exception continues to be executive positions. As in 2002, a majority of executives remain ineligible for cash spot awards, although the number of eligible executives has risen about 10 percent. Over half of

upper managers can receive spot awards, and the overwhelming majority of middle managers qualify.



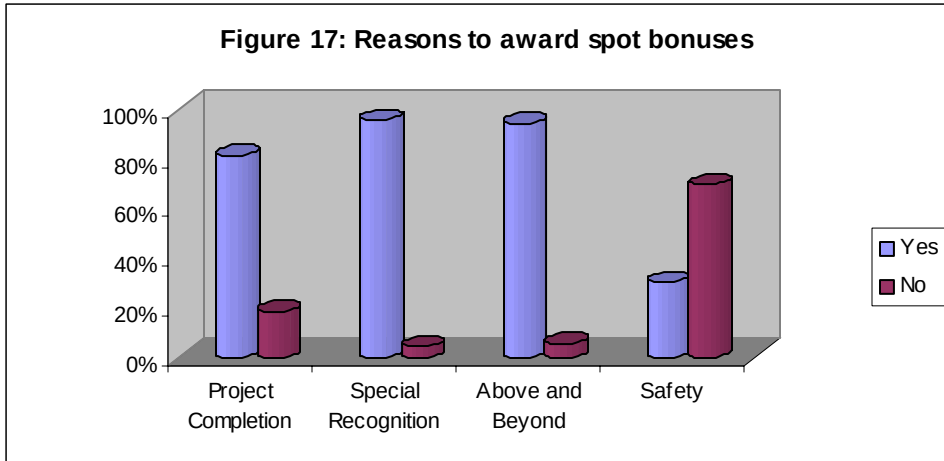
While executives are less likely than other employees to earn spot awards, those who do qualify earn larger maximum awards. Figure 16 depicts maximum awards for each position. For executives eligible to receive spot bonuses, more than 43 percent could receive awards exceeding \$10,000 dollars. About a quarter of upper managers receive maximum awards ranging from \$2,500 to \$5,000 dollars, while about 30 percent garner amounts exceeding \$7,500. For non-executive positions, the maximum amount of spot awards is fairly dispersed concentrating in amounts between \$1,000 and \$5,000 dollars.

Figure 16: Maximum spot awards by position

Position	<\$250	\$250-\$499	\$500-\$999	\$1,000-\$2,499	\$2,500-\$4,999	\$5,000-\$7,499	\$7,500-\$9,999	>\$10,000
Executive	2%	6%	12%	2%	18%	12%	6%	43%
Upper Management	2%	9%	13%	11%	24%	10%	15%	15%
Middle Management	8%	9%	14%	20%	25%	10%	8%	7%
Supervisor	9%	10%	19%	24%	22%	8%	3%	5%
Professional	9%	10%	20%	25%	21%	7%	4%	4%
Sales	11%	11%	24%	24%	16%	4%	3%	7%
IT Staff	9%	11%	20%	26%	22%	4%	4%	5%
Technical	11%	13%	19%	26%	20%	4%	3%	3%
Clerical	13%	19%	23%	22%	18%	2%	2%	2%

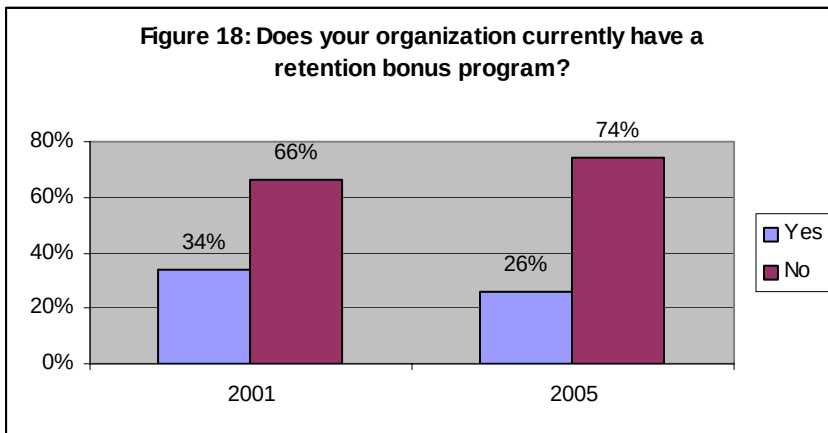
Note: Due to rounding, totals may not equal 100 percent.

For organizations who do award spot bonuses, more than 90 percent grant awards for special recognition and going “above and beyond,” and more than 80 percent merit bonuses for project completion. (See Figure 17.)

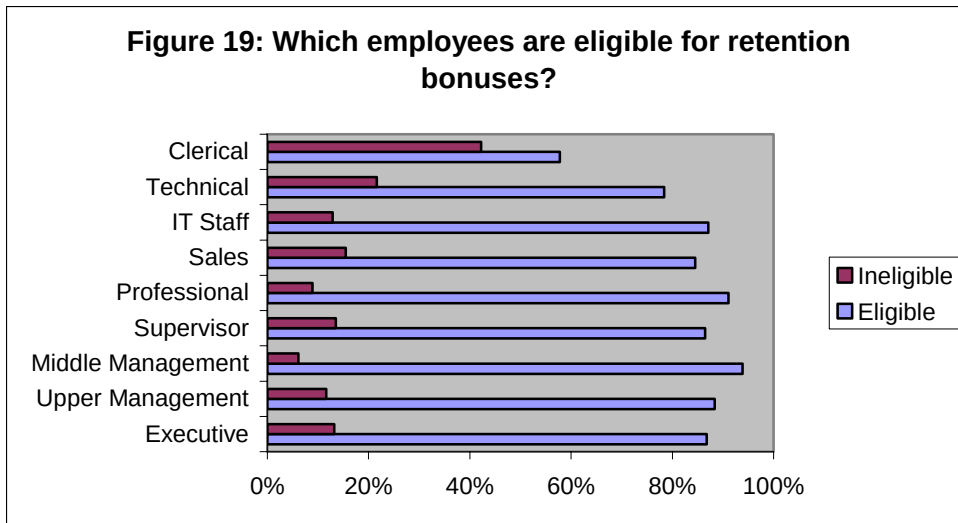


Retention Bonuses

Keeping talent in an organization has always been both a challenge and a necessity regardless of the surrounding economic conditions. Figure 18 indicates about a quarter of participants offer retention bonuses in an attempt to meet this need.



For the organizations that do offer retention programs, about two-thirds indicate their programs are based on management discretion, while about one-third formally set rules and guidelines defining eligibility. Additionally, Figure 19 illustrates most existing retention programs are offered to employees throughout the organization.



Somewhat surprisingly, the majority of retention programs do not tie eligibility to length of service. (See Figure 20.) Employers that do mandate a service requirement, commonly establish greater than one year of service as the eligibility trigger. It's possible that employers utilize markers other than length of service, such as project completion or other performance milestones cited in the 2001 survey, to determine eligibility.

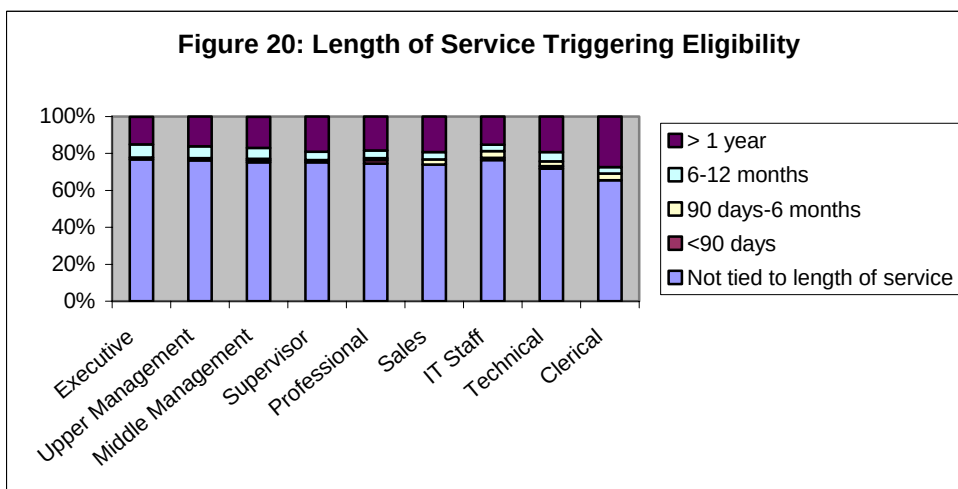


Figure 21 depicts how organizations choose to award retention bonuses, while Figure 22 shows how the amount is calculated. Lump sum payouts appear to be the most common manner to reward employees. More than 60 percent reported using the lump sum method for all position categories followed by regular intervals and progressive timing. Most commonly, employers calculate retention bonuses as a percent of base pay, or according to managerial discretion.

Figure 21: Most common methods of payment for retention bonuses

	Lump Sum	Regular Intervals	Progressive Timing
Executive	69%	16%	15%
Upper Management	69%	17%	14%
Middle Management	65%	21%	15%
Supervisor	62%	19%	18%
Professional	63%	23%	14%
Sales	63%	19%	19%
IT Staff	63%	23%	15%
Technical	63%	23%	14%
Clerical	68%	20%	12%

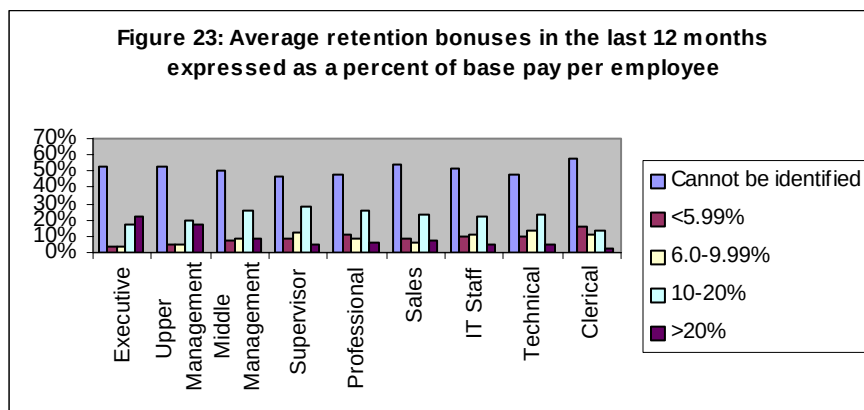
Note: Due to rounding, totals may not equal 100 percent.

Figure 22: How are cash retention bonuses calculated?

	Flat dollar amount	Percent of base salary	Combination of flat and percent of base	Managerial Discretion
Executive	21%	34%	9%	36%
Upper Management	23%	33%	9%	34%
Middle Management	23%	35%	10%	32%
Supervisor	22%	38%	11%	29%
Professional	23%	38%	10%	30%
Sales	21%	36%	12%	32%
IT Staff	24%	38%	11%	27%
Technical	27%	38%	10%	25%
Clerical	20%	39%	14%	27%

Note: Due to rounding, totals may not equal 100 percent.

Average retention bonuses in the last 12 months, calculated as a percentage of base pay, frequently could not be identified. (See Figure 23.) In most of the position categories, at least half of organizations reported they could not identify the average retention bonus. When averages were tabulated, supervisors, professionals, sales employees, IT and technical staff enjoyed an average bonus totaling 10 percent to 20 percent of their base pay.



Respondent Demographics

**Figure 24:
Organization size**

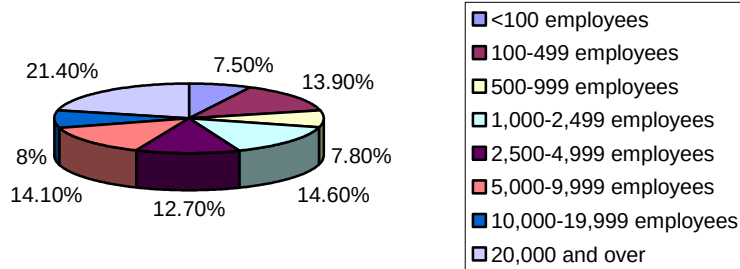


Figure 25: Type of Industry

Type of Industry	% Respondents
Finance & Insurance	18%
Manufacturing	15%
Other	14%
Professional, Scientific & Technical Services	10%
Health Care & Social Assistance	8%
Information (Includes Publishing)	6%
Utilities	5%
Retail Trade	5%
Transportation & Warehousing	4%
Other Services	4%
Public Administration	3%
Educational Services	3%
Wholesale Trade	2%
Real Estate, Rental & Leasing	1%
Accommodation & Food Services	<1%
Arts, Entertainment & Recreation	<1%
Administrative Support, Waste & Remediation	<1%
Construction	<1%
Agriculture, Forestry, Fishing & Hunting	<1%

Note: Due to rounding, totals may not equal 100 percent.