

Key features - Company bonus pool

Here is one approach to establish a method of determining a bonus pool, while ensuring the Company X incentive arrangements integrate sustainable business value growth objectives into the operational and individual performance assessments.

- **Bonus potential % split** – for each senior person, their bonus potential in \$'s is based on a % split, apportioning some to *overall business performance* and some to their *individual/team performance*.
- **Performance metrics** – the overall business and individual/team incentive arrangements would have four components applied:
 1. **Measure/target** – this is the desired result (i.e. for Company X it is the overall business budget). This is the financial target on which the bonus potential formula is applied.
 2. **Key performance indicators (KPIs)** – health factors and measures which can be used as benchmarks for assessing the quality of the results.
 3. **Variance and director discretion** – should any or all of the KPIs not be achieved and be outside, for example, a 10% negative variance tolerance limit, then the Board/directors have the discretion to scale and/or not award the bonus.
 4. **Individual role accountabilities** – the above metrics dovetail with the outcomes desired for each role and therefore they are aligned to role accountabilities and the overall objectives of their team and the business.
- **Timing of award** – consideration often needs to be given on timing of bonus payment (e.g. post the end of each financial year, or at more frequent periods during the financial year). This may depend on which level of employee incentive is applied, along with other specific business factors.

EXAMPLE: How to apply the performance metrics

- Measure/target = Revenue
- KPI = % gross profit and size of pipeline (tenders/orders not yet awarded or accepted)
- If gross profit margins are at or greater than budget, and pipeline levels are at or greater than expected levels, then the quality of the revenue result is high.