The Psychology Behind the Return of Financial Bonuses



Over the past few years the topic of performance bonuses has often occupied a space related to the discomfort most of the public experiences regarding huge bonuses to senior executives of large corporations, including Canadian public sector Corporations, many of which were losing money and laying of employees at the same time as handing out bonuses.

Earlier this year the Insider reported data from the Ranstad global survey on the salary and bonus expectations of employees, “Employee Expectations for the Economy and Their Careers”. In this article we told you that Canadian workers have a modest economic growth outlook for the Canadian economy as a whole but 65% expected a raise in 2014 and 37% expected a year-end bonus. While only 65% of employees expect a raise and 37% expect a bonus the reality is that regardless of expectations many of your employees may need the psychological boost of a bonus to raise their performance level.

Times Change and So Do People’s Expectations

During the hey day of economic growth in the mid 2000’s many organizations were finding that financial compensation as a performance bonus could be replaced by other types of ‘bonuses’. These ‘bonuses’ offered different value to an employee with perks such as flexible hours, time off without pay, health and wellness programs, shared expenses for fitness club memberships and more. When salaries were relatively high compared to the cost of living and employees had individual financial means, options beyond financial compensation as bonuses were more effective motivators. The bonus for the organization was that often these bonuses less cost compared to financial bonuses.

As salaries lost ground during the Great Recession perks such as fitness club memberships or intangible rewards such as ‘employee of the month’ came to hold less power to motivate. It is a matter of human nature that when you have an access to a resource it holds less power and compared to when the resource is scarce.

The challenge for many organizations is the difficulty in scaling back existing perks and bonuses to provide space to offer new ones. Once something becomes woven into expectations employees miss them when they are gone. Already what has been lost to employees over the past few years is their sense of financial comfort. The ‘bonuses’ employees have became used to are now expectations and as a result of their

‘abundance’ they hold less value to motivate.

As a result there has been a change in expectation and the emergence of a pent up demand of employees to regain some financial ground.

Counting the Money

Helping your employees understand the cost and corresponding benefit of the perks they receive may help them understand the value of these as bonuses. Providing them with Internet access or technology, covering the costs of a mobile phone and more that allow the employee to work flexible hours and locations is a bonus that costs real money. As an organization if you can identify the costs of these bonuses and share with employees the average cost per employee you may demonstrate that you do value their contributions.

Social Responsibility As A Bonus

Expectations do vary among your employees based on both individual experiences and also demographics. Older Baby Boomers, Gen X and Y workers who may have experienced a time of more financial comfort often value financial compensation as not only a financial reward but also recognition of their relative value to an organization. When they are paid well and rewarded with financial gain they can see that as respecting and valuing them. For the younger Gen Y and Millennials who did not experience this as an employee the intrinsic value assigned to a financial reward has less impact.

For Millennials the ability to participate in socially responsible activities as part of their workplace has value as a motivating factor. Encouraging other employees to understand the cost of this to your organization in terms of lost hours and the value to them at being involved socially in their community may again show them that as an organization you thinking about how to reward them.

Setting New Expectations

The bottom line for many employees is that as a company grows and profitability evens out or increases employees, especially older employees, will begin to expect additional financial rewards. These rewards can impact both performance and retention.

Providing ‘a la carte’ options for bonuses rewards may be a reasonable option if you can make this work. Generally perks are more cost effective if you can offer them en mass (such as discounts at a fitness club, employee rewards card to retail outlets) but with the mix of generations and individuals in your workplace more choices for bonus options may translate to more individual feelings of being rewarded.

As an organization you may find that bonuses based on performance are more financially cost effective over a salary increase that continue and grow each year. Structuring this bonus as a year-end bonus instead of quarterly ones can have the psychological impact of delivering a higher amount that an employee can watch ‘grow’ over the course of the year. By tracking bonus accumulation quarterly with a year - end payout you offer the psychological high a hard working employee may need to feel valued.

The need to be rewarded and feel valued will continue to change as times and employees change. It can be good practice to understand what your employee’s value as a reward and balance that with what you can afford and evaluate this on an annual or bi-annual basis.