

Setting Realistic Performance Bonuses for Program & Project¹ implementation Personnel²

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The objective of a systematic project evaluation system is to be able to measure performance of different types of projects (or programs) periodically³ in a consistent manner — in terms of “*Effectiveness*” (i.e. results) and “*Efficiency*” (i.e. timeliness &/or within budgetary constraints). Once indicators have been selected to quantitatively measure **Effective** Program and Project performance, target setting is the next step.⁴

The Executive Management (EM) level sponsoring the Program or Project is responsible for – and usually actively involved in -- authorizing resources, establishing production target levels and setting delivery deadlines. But for most effective management, rather than simply having targets imposed from above, it is also essential that the **Project Implementing Team (PIT)**⁵ ‘*buy-in*’ to those targets and schedules. Otherwise, while the project manager may exhort the team to try to achieve them, the rest of the team may remain indifferent, or regard such targets as simply another bureaucratic – *and all too often unrealistic* – hurdle to try to comply with. Furthermore, in unionized organizations, there may even be active resistance against targets and achievement quotas.

A common Executive Management *buy-in* approach is to **establish -- or negotiate -- performance incentive bonuses.** **Incentive bonuses** -- *not unlike uniforms for identifying team membership* -- are a cohesive means for fostering team spirit and furthering their performance. Such incentives may be a **percentage** of the Project’s planned cost, PIT members individual annual salary levels, or whatever else might be considered appropriate recognition for the group effort.

But what is a reasonable or ‘fair’ bonus, and how can it best be established?

¹ This tool applies to both the management of individual Projects and Programs -- which comprise several Projects with a common objective. Thus, throughout the article, whenever ‘Project’ is mentioned, it applies equally to Programs.

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³ At least Annually.

⁴ The ‘Critical Path’ and ‘Earned Value’ methodologies address the Efficiency aspects, so will not be covered here.

⁵ Employees, or their Representatives in a Unionized workplace.

At the outset in devising a performance bonus system, it should be remembered that whatever the outcome, PIT employees are entitled to fair compensation for their labor. Thus, the system should be “**fail/safe**”⁶ – *i.e.* ‘*topping up*’ compensation for achievement, **but not penalizing implementors for shortfalls** -- especially since so many factors inherent in the project implementing process are beyond the implementing team’s control.

Whatever the nature of the Project or Program – a performance incentive system should strive to accommodate eight key objectives, as follows:

1. Recognize that the EM is ultimately in control of the incentive system.
2. Enable both the EM and PIT to negotiate in good faith; but — *independently* — establish and accept performance targets at their own level of satisfaction.
3. Encourage the PIT to set the highest targets that are realistically attainable.
4. Encourage PIT personnel to strive to attain both targets.
5. Appropriately reward the PIT personnel who are successful in attaining or exceeding targets.
6. Not penalize PIT personnel who fall short of the agreed-upon targets – especially as the cause is/was usually beyond their control.
7. Discourage PIT personnel from demanding -- or the EM acquiescing to -- unrealistically low targets that enable the PIT to subsequently over-achieve, and thereby collect undeserved bonuses.
8. Not over-compensate PIT personnel who do succeed in setting unrealistically low targets.

With Executive Management and Project Implementation Team members coming from different perspectives and with such different objectives, levels of awareness & experience, designing such an incentive system is a complex process.

Indeed, at first blush, these criteria may seem idealistic, and some even incompatible for both parties involved.

Nevertheless, **I have developed a ‘Dual Track’ system which effectively accommodates all the above criteria**; enabling Executive Management to incentivize Project Implementation Teams, while affording Project Implementation Teams the opportunity to either:

⁶ In this regard a frequent EM error is to establish a ‘*carrot & stick*’ plan which, while rewarding teams for reaching or exceeding targets, also penalizes them for shortfalls.

1. **Accept Executive Management target levels and bonus rates**
2. **Proceed with lower PIT-determined targets, but with reduced bonuses.**

Essentially, performance is measured and PIT employees compensated on a sliding-scale bonus based on implementation results, in terms of the “*Percentage Variance from Targets*” as follows:

PLAN “A” THE HARE/JACK RABBIT APPROACH

Accept EM Target & Bonus Levels [and earn even greater rewards if the target is exceeded]

$$\text{a. PIT Bonus} = \text{Executive Bonus Offer Management (EM)} + \frac{\text{Bonus Adjustment Factor}^7 (\text{Actual} - \text{EM Target})}{\text{EM Target}}$$

$$\text{b. Actual Bonus} = \text{PIT Bonus} + \left[\begin{array}{l} \text{\% Over-achievement} \\ \text{[From A above]} \end{array} \right] \times \frac{(\text{Actual} - \text{PIT Target})}{\text{PIT Target}}$$

or

PLAN “B” THE TORTOISE APPROACH

Proceed at a slower pace

$$\text{Actual Bonus} = \text{PIT Bonus} - \left(\begin{array}{l} \text{Bonus Adjustment Factor} \\ \text{[From A above]} \end{array} + \text{Permanent Penalty Offset} \right) \text{ for lower Target}$$

Furthermore, I have computerized these options⁸ to permit interactive trial and error simulations by both parties -- using different combinations of bonus levels, weightings, and “actual” results -- before deciding to accept a final set of options.

Three screen-shots with hypothetical examples are shown on the following two pages for illustrative purposes.

⁷ But with no bonus (or penalty) for less than Targetted achievement

⁸ An Excel template: “**Bonus Setting**”

ENTER DATA IN THE FIVE (5) YELLOW BLOCKS BELOW IN A "TRIAL & ERROR" MODE UNTIL YOU REACH AGREEMENT ON THE COMBINATION OF TARGETS, INCENTIVE BONUS, & ADJUSTMENT FACTORS			
GIVEN:	1,000	=	EXECUTIVE MANAGEMENT TARGET Level
	7.00%	=	Sliding Scale Bonus for Achieving / Exceeding the EXECUTIVE MANAGEMENT TARGET
PERFORMANCE DATA			
THEN IF:	1,200	=	PERFORMANCE LEVEL ACHIEVED
PLAN "A"	<i>GIVEN THE ABOVE TARGETS, ADJUSTMENTS & PERFORMANCE LEVEL, THE BONUS COMPUTATIONS RATES ARE:</i>		
	1	200	PERFORMANCE NUMERICAL VARIANCE FROM EXECUTIVE TARGET
	2	20.00%	PERFORMANCE PERCENTAGE VARIANCE FROM EXECUTIVE TARGET
	3	1.40%	Sliding Scale Bonus Adjustment for EXCEEDING the EXECUTIVE TARGET
	4	8.40%	BONUS EARNED BY PIT EMPLOYEES ACCEPTING EXECUTIVE MGT TARGET
ALTERNATE SCENARIO		PIT EMPLOYEES TARGET IS LOWER THAN THE EXECUTIVE MGT TARGET	
	1	700	TARGET Preferred by EMPLOYEE PROJECT IMPLEMENTING TEAM
	2	3.00%	Permanent Penalty Offset for Selecting Lower Target
PLAN "B"	3	-300	PIT NUMERICAL Variance from EXECUTIVE TARGET
	4	-30.00%	PIT PERCENTAGE Variance from EXECUTIVE TARGET
	5	-2.10%	Bonus Adjustment (without Penalty) for LOWER TARGET Variance
	6	-2.16%	Bonus Adjustment (including Penalty) for LOWER TARGET Variance
	7	500	PIT PERFORMANCE NUMERICAL Variance from THEIR OWN TARGET
	8	71.43%	PIT PERFORMANCE PERCENTAGE Variance from THEIR OWN TARGET
	9	8.29%	BONUS EARNED BY PIT EMPLOYEES WITH A LOWER TARGET

PERFORMANCE DATA			
THEN IF:	1,000	=	PERFORMANCE LEVEL ACHIEVED
PLAN "A"	<i>GIVEN THE ABOVE TARGETS, ADJUSTMENTS & PERFORMANCE LEVEL, THE BONUS COMPUTATIONS RATES ARE:</i>		
	1	0	PERFORMANCE NUMERICAL VARIANCE FROM EXECUTIVE TARGET
	2	0.00%	PERFORMANCE PERCENTAGE VARIANCE FROM EXECUTIVE TARGET
	3	0.00%	Sliding Scale Bonus Adjustment for EXCEEDING the EXECUTIVE TARGET
	4	7.00%	BONUS EARNED BY PIT EMPLOYEES ACCEPTING EXECUTIVE MGT TARGET
ALTERNATE SCENARIO		PIT EMPLOYEES TARGET IS LOWER THAN THE EXECUTIVE MGT TARGET	
	1	700	TARGET Preferred by EMPLOYEE PROJECT IMPLEMENTING TEAM
	2	3.00%	Permanent Penalty Offset for Selecting Lower Target
PLAN "B"	3	-300	PIT NUMERICAL Variance from EXECUTIVE TARGET
	4	-30.00%	PIT PERCENTAGE Variance from EXECUTIVE TARGET
	5	-2.10%	Bonus Adjustment (without Penalty) for LOWER TARGET Variance
	6	-2.16%	Bonus Adjustment (including Penalty) for LOWER TARGET Variance
	7	300	PIT PERFORMANCE NUMERICAL Variance from THEIR OWN TARGET
	8	42.86%	PIT PERFORMANCE PERCENTAGE Variance from THEIR OWN TARGET
	9	6.91%	BONUS EARNED BY PIT EMPLOYEES WITH A LOWER TARGET

ENTER DATA IN THE FIVE (5) YELLOW BLOCKS BELOW IN A "TRIAL & ERROR" MODE UNTIL YOU REACH AGREEMENT ON THE COMBINATION OF TARGETS, INCENTIVE BONUS, & ADJUSTMENT FACTORS			
GIVEN:	1,000	=	EXECUTIVE MANAGEMENT TARGET Level
	7.00%	=	Sliding Scale Bonus for Achieving / Exceeding the EXECUTIVE MANAGEMENT TARGET
PERFORMANCE DATA			
THEN IF:	700	=	PERFORMANCE LEVEL ACHIEVED
PLAN	<i>GIVEN THE ABOVE TARGETS, ADJUSTMENTS & PERFORMANCE LEVEL, THE BONUS COMPUTATIONS RATES ARE:</i>		
"A"	1	-300	PERFORMANCE NUMERICAL VARIANCE FROM EXECUTIVE TARGET
	2	-30.00%	PERFORMANCE PERCENTAGE VARIANCE FROM EXECUTIVE TARGET
	3	-2.10%	Sliding Scale Bonus Adjustment for EXCEEDING the EXECUTIVE TARGET
	4	0.00%	BONUS EARNED BY PIT EMPLOYEES ACCEPTING EXECUTIVE MGT TARGET
ALTERNATE SCENARIO			
PIT EMPLOYEES TARGET IS LOWER THAN THE EXECUTIVE MGT TARGET			
PLAN	1	700	TARGET Preferred by EMPLOYEE PROJECT IMPLEMENTING TEAM
	2	3.00%	Permanent Penalty Offset for Selecting Lower Target
	3	-300	PIT NUMERICAL Variance from EXECUTIVE TARGET
	4	-30.00%	PIT PERCENTAGE Variance from EXECUTIVE TARGET
	5	-2.10%	Bonus Adjustment (without Penalty) for LOWER TARGET Variance
	6	-2.16%	Bonus Adjustment (including Penalty) for LOWER TARGET Variance
	7	0	PIT PERFORMANCE NUMERICAL Variance from THEIR OWN TARGET
	8	0.00%	PIT PERFORMANCE PERCENTAGE Variance from THEIR OWN TARGET
	9	4.84%	BONUS EARNED BY PIT EMPLOYEES WITH A LOWER TARGET

Once the appropriate set of parameters have been agreed-upon and recorded, the template can be set aside until the project is completed. Then the template can be reactivated and awards determined based on actual performance.

Hopefully, using this tool in the future will help corporate executives, program and project managers, project implementers, Union negotiators, arbitrators, and/or government state enterprises (quangos, tutelles) to reach amicable agreements in incentivizing their employees when planning programs and/or projects.

About the Author



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Dr. Kenneth F. Smith has been a project management consultant for ADB, the World Bank, and USAID for decades. He earned his DPA (Doctor of Public Administration) from the George Mason University (GMU) in Virginia and his MS from Massachusetts Institute of Technology (MIT Systems Analysis Fellow, Center for Advanced Engineering Study). A long-time member of the Project Management Institute (PMI) and IPMA-USA, Dr. Smith is a Certified Project Management Professional (PMP®) and a member of the PMI®-Honolulu Chapter.

Ken's book -- **Project Management PRAXIS** (available from Amazon) -- includes many other innovative project management tools & techniques; and describes a "**Toolkit**" of related templates available directly from him at kensmith@aol.com.