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Performance Rewards at Bingo Inc.[1]

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Bingo Inc. specializes in the design, manufacture and distribution of a wide variety of board games. The company has a workforce of 2,500 people, including 250 non-unionized managers and professionals. The salary policy for this latter group provides two methods for rewarding employee performance.

The first method rewards employee performance through annual salary increases. Performance reviews are conducted every year based on pre-determined goals. Salary increases are governed by three factors: the employee's performance score which can range from A to E; the employee's position on the salary scale; and the overall annual budget approved by the company's board for salary increases. The second employee performance reward method permits the allocation of lump sums for "outstanding" contributions, i.e. to a major achievement that significantly advances the company's mission. The annual budget for performance premiums is generally equal to 2% of the total payroll for managers and professionals. The size of lump sum rewards can vary from 2 to 10% of the receiving employee's salary.

Performance premiums have always generated uneasiness among Bingo Inc.'s managers and professionals. Complaints generally focus on the ambiguity inherent in the notion of outstanding contribution ("*It seems to be expected that we must basically walk on water!*") or on the varying number of premiums awarded by each of the company's administrative units ("*I'd really like to work in Finance: everyone over there is a real superman.*"). The most common complaint however evokes the Hygrade syndrome, namely that the same individuals are always paid performance premiums. More specifically, outstanding contributions are often recognized for participation in highly visible special company projects or for working two positions simultaneously for a certain period. In other words, the more chances one has to contribute, the greater one's chances of receiving a premium, the more one has opportunities to contribute, the greater one's chances…, and so on. Up until this point, however, as most managers and professionals were receiving fairly generous salary increases every year (between 5 and 8%), the uneasiness generated by the payment of performance premiums was quickly considered water under the bridge, at least until the following year.

Over the past two years, feelings have however intensified. Bingo Inc. is experiencing financial difficulties and the budget allocated for annual salary increases has been cut significantly. The company

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[1] *English translation from the French by Boreal Expression of the case #9301998003 "La reconnaissance du rendement by Bingo Inc.".*

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is no longer able to award generous salary increases to most of its staff. To preclude some good employees from receiving only a 1 or 2% increase, a boosting practice has become prevalent. All managers and professionals are receiving roughly the same salary increase, regardless of their individual performance: average, good or very good. To get around this situation and enhance compensation for very good work, the directors of some administrative units have begun allocating further amounts for performance premiums. This has led some managers and professionals to receive lump sum payments without any appearance of making outstanding contributions to the company, at least from the viewpoint of those who do not receive any lump sum payment. Finally, the uneasiness associated with these performance premiums is resulting in less motivation and cooperation among managers and professionals, contrary to the purpose of the premiums.

Sensing a worsening situation, the vice-president for human resources adds this item to the agenda of an upcoming management committee meeting. He plans to draw the committee's attention to the situation and its causes, and to present some solutions. As payroll manager, you have been directed to prepare a report on the problem. What will you propose, knowing that the company's other vice-presidents are firmly committed to the principle of properly compensating staff according to performance?

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