

# Bonus in Private Companies

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In both state-owned and private companies, the bonus payment is based on the following principles:

- Characteristics and importance of the task and product.
- Quantity, quality, safety and thrift.
- Relations between different levels of bonus in the same company.
- Relations between bonuses and other benefits.

In private companies, the bonus payment is also done according to other criteria:

- Viewpoint of the employer and the development strategy of the company.
- Flexibility of the bonus payment.

In fact, private companies are ready to accept some losses in order to protect their brand names and then gain profit from other contracts to make up for the loss. This means that the private company could pay bonus higher than the profitability ratio. This is the flexible approach and it is never found in state-owned companies.

In the public sector, the bonus is usually pegged to a certain average and differences between bonus levels and between companies are not big. In private companies, bonuses could differ widely over employees.

Thus, there are differences and similarities in the bonus payment between state-owned and private companies. In private companies, in my opinion, there are two forms of bonus: ones for creativity and ones for motivation, or incentives.

## 1. Creativity bonus

a. Bonus for activities leading to new developments of the company: In my opinion, employers had better pay high bonuses of this class to the following activities.

- Strategic and feasible ideas that lead to breakthroughs: These ideas could be awarded (1) a proportion of company shares; (2) a proportion of profit they bring about within a length of time; and (3) a lump sum. The decision on the bonus depends on the employer's ability to estimate the value of the idea.

- Inventions and initiatives: Paying bonuses of this kind is common among multinationals and major groups where R&D activities are given full attention.

- More market shares: This bonus could be given to all activities that bring about new market shares, especially ones by sales department. It could be equal to a proportion of profit from the added market share.

b. Bonus as an encouragement to creativity: The company needs a policy to encourage the creativity, including ideas that have been proved profitable. The bonus could be based on a proportion of the profit gained for a length of time.

## 2. Incentive bonus

These bonuses, in my opinion, could be paid periodically in order to encourage laborers to work harder. According to a survey by the Institute of Labor and Social Problems, the salary accounts for 96% of total income of laborers in private companies, and bonus and other benefits account for the remaining 4%. It's worth noting that most laborers pay no attention to the bonus from profit of the company. However, some pri-

ate companies with long-term strategies and financial strength have diverse ways to pay such incentives.

In my opinion, incentives as part of the payroll could be paid on a monthly basis, and paid to skilled laborers from the profit, and paid to laborers who surpass the planned targets.

a. Monthly and quarterly incentives from the payroll fund: These bonuses aim at encouraging laborers to reach targets set by the company. This practice requires criteria that have quantitative features and are publicized to ensure good results. Studies and surveys show that the following criteria are very useful and effective:

- The degree at which the task is completed.
- Initiatives.
- Mutual support among laborers.
- Respect for discipline and regulations.

As for managers, the "ability to delegate tasks and rights" could be added to the criteria. Different characteristics of the tasks require different criteria. To obtain this aim, laborers could be divided into various groups according to their tasks and applied suitable criteria, such as laborers in production shops; employees doing paper work; employees of the low management; employees of the sales department; middle and top managers.

The fund for bonus and distribution of bonuses: Bonuses of this kind are part of the payroll fund and less than 10% of the fund in state-owned companies. This proportion could be higher in private ones depending on the employers' viewpoint.



b. Incentives for skilled employees: These incentives aim at encouraging employees to improve their skills, productivity and performance, therefore they are for a limited number of employees (in order to encourage employees to win the leading positions), high enough to create motivation and awarded in proper ceremony in order to honor the winners. The bonus could be awarded once or twice a year. If the time in which the performance is examined is short, the examination won't be exact; and if it is too long, the effort and enthusiasm will fall.

As for the criteria for awarding such incentives to common workers, the following are worth considering: (1) mastering the task; (2) realizing the plan; (3) facing the challenge; (4) cooperating with others; (5) doing teamwork; (6) prioritizing the tasks; (7) expertise; and (8) predicting the difficulties.

The criteria for indirect laborers could include (9) working attitude and (10) sense of responsibility besides the eight indicators mentioned above. As for managers and technicians, the credibility could be added to the 10 criteria mentioned above. And all of those 11 criteria could be applied to employees of the sales department along with (12) maintaining and developing the market; (13) sales; (14) collecting the debts; (15) follow-up and (16) reporting. Particularly, the criteria for managers require more indicators because of their important position, such as (17) respectability; (18) Being supportive



to employees; (19) managerial skills; and (20) inspection skills.

The fund for bonus and distribution of bonuses: In state-owned companies, the fund for these incentives is less than 2% of the payroll fund. In private companies, the fund is determined by the employers. This fund must be used for the whole company instead of being divided among departments or subsidiaries because it is for skilled laborers and there may be some departments with no excellent laborers. The following principles could be applied: the bonus for an employee must be lower than one for a manager; and the bonus given

this time must be higher than ones given previously.

### 3. Regulations on the bonus payment

To help the bonus payment produce intended results, the company must set forth clear regulations. In my opinion, the bonus payment process must include the following steps:

- Examining the business strategy, organization, policies, quality of human resources of the company.
- Working out a draft about classes of bonuses and their objectives based on research results.
- Making the detailed bonus payment plan based on the classes and contents of the process approved by the employers.
- Gathering feedback from managers of all levels in order to examine and select the best ideas.
- Dealing with conflicts of opinions where necessary before reaching a consensus on the regulations and process.
- Carrying out a trial run.
- Publicizing the regulations.

Private companies, unlike state-owned ones, enjoy full autonomy in their bonus payment process and could realize it according to the laws of the market economy and policies adopted by the employers. Applying an optimal bonus paying process will affect greatly the business performance of the company and working spirit of each laborer. I hope that my opinions in this article could help them work out the best process and contribute to the logical grounds the bonus payment process. ■

