

Industrial electronics bonus



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Industrial Electronics, Inc. Is an electronic equipment company that has annual sales exceeding \$ 8 Billion. The company is set up by product line and operates as 16 divisions, reporting to four business managers.

Unfortunately, due to the recession and the competitiveness of the emerging and developing industry, the bonus pool for the employees has decreased causing Issues with employee morale, and can overall affect the profitability of the organization If the company analyzed the ROI of turnover and training.

Therefore, the company reviewed the current bonus structure and proposed a new bonus structure for the Division Managers, as they currently felt their contributions to their departments was not being rewarded. The current bonus system focus on the overallgoals of the company. Although it is essential to set and communicate company goals, having this one structure as the only measurement for bonus can be detrimental. If one or a few departments contribute to the company not achieving their goals, this means that all employees and departments are not being recognized for their contributions.

The current goal is a 10% bonus pool of the company's profitability after taxes in excess of 12% of the company's book net worth allocated for the bonus pool. The proposed bonus structure Is set up to drive the performance more directly related to the division, but not does not focus on any overall company goals. In order to stay in business the overall goals and financial metrics need to be a part of the bonus system. The targets for this new structure are set and negotiated during the budgeting process.

If the division managers are going to be held to achieve and/or meet these standards their input should be taken into consideration during the budgeting process if they are not directly involved or responsible for the budgets. This will allow the organization to have the buy in and accountability from the Division Managers and their employees throughout the year in achieving these targets. This will also allow for employees to be more responsible for controllable cost and waste.

The proposed bonus system percentage awards of the Division Managers Base Salary would be: Division A : 63.5% - 150% (this is the maximum amount payable) Division B: 63.7% Division C: 68% Division D: 68% Division E: 26.2% An optimal bonus plan for Industrial Electronics, would be one that comprises both success overall in order to pay out bonus and provide employment, but they can drive this overall company success also through operational excellence, key metrics and standards at the divisional level.

Therefore, the bonus plan should include company objective and division objective. The divisional objectives should be directly related to divisions related business relevance to the organization, with set key performance indicators which can include sales, output, controllable costs as labor, reduce costs, waste, turnover, etc. The bonus plan also should not be structured as an all or nothing.

For example, maybe if the division does not achieve its sales goals but maintain the controllable expense in accordance with the achieved sales, they receive a partial bonus. If the division does not hit its target but the company does the employees still received a portion of the bonus, as they

are part of the organizational teams overall success. Their individual performance behaviors or lack thereof, should be addressed during their buy seines reviews and/or salary review and increases.