

by Jerry Brennan and Steve Walker

It's Bonus Time

Today, most companies offer some type of total cash compensation (base salary and cash bonus) to senior and mid-level security management positions within the organization. A position's eligibility for inclusion in the bonus program is usually defined by salary grade or title; positions that contribute significantly to the company's success are most likely to be included.

Security managers should have a thorough understanding of what their target bonus is as percent of base pay, what payout schedules are, what measures will be applied to determine their bonus, and how company performance relates to their payout.

A cash bonus is usually defined as a cash payment made to employees in addition to their base salary to reward them when the organization meets or exceeds its financial goals and/or the individual meets or exceeds specific performance goals. Bonuses are generally not guaranteed and are a variable part of the pay program. They are normally paid annually, typically in cycle with the organization's fiscal year, and they are usually designed as a percentage of base pay.

A typical cash bonus plan design has two basic elements: a funding pool that is generated when the company exceeds its performance goals, and a target expressed as a percent of base pay to the bonus plan participant. Generally, the company has to meet or exceed the annual revenue or cash flow goals to fund the bonus pool for payout. If it doesn't, then no individual bonus dollars will be available for payout. Some bonus plans may provide smaller bonuses if some, but not all, of the revenue goals are achieved — in this case a percentage of the total in dollars would be available.

Companies usually set thresholds that have to be met to achieve a bonus, and there are usually accelerators that can significantly increase the bonus pool if the company significantly exceeds the annual goals. There is typically a "cap" on the maximum the bonus pool can accrue, due to windfalls that may have occurred in the business cycle.

The chart below is a simple example of a bonus plan's performance/payout criteria. Below a company threshold of 80 percent, the bonus pool is not funded, because the company did not meet or exceed performance targets. At a bonus threshold of 80 percent, the employee is eligible for 60 percent of his or her target bonus. If the company achieves its performance goals at 100 percent, it will fund the bonus pool entirely, and the employee is eligible to receive 100 percent of his or her target award. If the company exceeds its targets up to 120 percent of the goal, the payout target to participants would accelerate at 2.5 percent for every 1 percent of increased company performance, up to a maximum of 150 percent payout target eligibility.

Company Performance Bonus Pool Funding	Individual Payout as a percent of Base	Accelerator
Threshold 80 percent	60 percent	None
Target 100 percent	100 percent	None
Maximum 120 percent	150 percent	50 percent

Once the bonus pool has been funded due to company performance, upper management typically reviews the eligible security professional against predetermined personal goals that were agreed to at the beginning of the year or the annual bonus cycle. Those individuals that have achieved their personal goals beyond normal job accountabilities are

usually awarded all or a portion of their target award.

It should also be pointed out that in some organizations the company and individual performance for management employees are two separate target percentages with separate accelerator calculations. Therefore, a 37.5 percent bonus, (30 percent target with a 25 percent accelerator) could be paid as a company performance target, and another 45 percent for

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individual performance (30 percent target with a 50 percent accelerator), for a total of 77.5 percent of base salary.

With more and more organizations expanding on their "at risk" compensation for security executives and managers, it is imperative that employees take the time to fully understand how these programs impact them. This will also aid any security professional when evaluating a new opportunity in another organization. **STD**



Jerry Brennan and Steve Walker are co-authors of the book "Security Careers." Mr. Brennan is founder of SMR Group, a job-finding resource for security executives. Mr. Walker is partner in leading compensation consulting and research firm Foushee Group Inc. Both are content expert faculty for the Security Executive Council. For information about the Security Executive Council, visit www.securityexecutivecouncil.com/?sourceCode=std. "Security Careers" may be purchased through the Security Executive Council Web site.