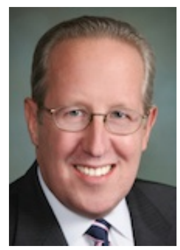
What's in a word?

By MARK J. GOLDEN, FASAE, CAE | 07/19/2012



I was surprised to read that, according to the latest TRENDS Compensation Report, most associations and nonprofits nationwide (63.51%) do not offer bonuses. Why should that be, when the practice is *de rigueur* in compensation systems among most for-profit businesses (including those of our members)?

Perhaps part of the resistance is a matter of terminology. "Bonus" has the connotation of something gratuitous and unearned. In hard economic times, they sound frivolous and extravagant.

But in actual practice, they are anything but. Properly constructed and implemented, bonuses can be a powerful tool that inures to the benefit of *both* the association and the executives who receives them.

Perhaps there would be less resistance to the concept if a bonus was labled more accurately. Throughout most of my tenure as a CEO, my compensation consisted of a base salary and a portion of potential earnings that was at risk. Whether I got it depended on whether I hit (or exceeded) specific performance goals, negotiated at the beginning of the year with the board. Far from a gratuity, I worked just as hard and *earned* those dollars every bit as much as I did every dollar of base. It was always called a bonus, but it was really pay for performance. The association received tangible benefit if I hit my goals and paid only for value actually delivered.

Such compensation structures amount to a money back guarantee from the executive: "If I don't actually deliver what I promised and committed to deliver, you don't pay."

For an association executive, it is certainly less stressful to have your entire salary guaranteed. At-risk means I can't count on that income. But in an era of increased accountability and tight budgets, real pay for performance protects the association's finite financial resources and ensures the association won't overpay for a subpar, or "just par" performance. And that makes it easier to defend the reasonableness of executive compensation if it is ever challenged.

The goals and metrics need to be fair, objective and concrete to protect both parties. Goals and metrics also create an added benefit of forcing a degree of clarity and focus from the board on what is strategically most significant for the association this year, and what success would look like. That, in turn, allows a similar degree of clarity and focus from the executive into how staff and other resources are deployed.

Yes, this creates additional pressure on the executive to perform in order to earn the full compensation available to him or her. But there is no room for vagueness about the board's expectations nor any doubt over what one is going to be graded on at year's end. It also protects the executive from a board, in hindsight, second-guessing whether you were focused on the right things over the past year. It takes away the option of the board shifting the goal posts.

Golden is the former executive director of the National Court Reporters Association and a past chairman of the ASAE Foundation. Contact him at mjgolden@cox.net.

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