

THE RIGHTEOUSNESS OF THE BONUS ALLOCATION

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[dx.doi.org/10.18374/IJSM-20-1.4](https://doi.org/10.18374/IJSM-20-1.4)

ABSTRACT

The righteousness in bonus allocation is an intense debate in the public domain. This question is also meaningful for organizations' survival and continuous growth: if CEO receives a larger proportion of the total bonus and employees receive less, employees will lose motivation. In the real life, usually, the board of directors discusses to determine the CEO's annual bonus. Using discussion cannot avoid bias in the allocation process. In literature, it is lack of quantitative method to answer the question of the righteousness in allocation. This paper focuses on discussing: What is the "righteousness" in the bonus allocation? The goal of the research is to define the "righteousness" from the quantitative perspective.

Keywords: Quantitative, righteousness, effective, bonus allocation

1. INTRODUCTION

When you read newspaper, are you shocked by the news below?

1. "Alphabet CEO Sundar Pichai got an early Christmas present Friday (2019) According to an SEC filing, Pichai will receive a \$240 million pay package as well as a \$2 million salary — up from \$1.9 in 2018" [1].
2. "According to the SEC filing, McDonald's new president and CEO Chris Kempczinski will make an annual base salary of \$1,250,000 and "his target annual bonus opportunity was set at 170% of his annual base salary. [2]"

Maybe, you are used to it, then keep reading. What is your feeling after you read the following news?

1. "The average crew member salary at McDonald's is \$9 per hour, with a range of \$7 to \$13; McDonald's cashiers, on the other hand, take home an average \$8 per hour, with a range of \$7 to \$15 [3]". No bonus!
2. "Google pays an average of \$15,597 in annual employee bonuses. Bonus pay at Google, Inc. ranges from \$7,000 to \$48,000 annually among employees who report receiving a bonus. Employees with the title Senior Account Manager earn the highest bonuses with an average annual bonus of \$48,000 [4]."

Are above allocation plans fair for people who worked together for a year? They are in a team, in one organization. Those allocation plan has high quality or not?

2. LITERATURE REVIEW

In literature, most research papers about bonus plan concentrated on CEO's performance, the compensation design, or the compensation structure. These papers assumes that the bonus plan is fair for employees and the top management, like CEO. The topic of the plan righteousness didn't cause enough attention, especially from the quantitative perspective.