FLORIDA STATE UNIVERSITY

FLORIDA’S LUMP SUM BONUS PROGRAM:
An Analysis of Options

AN ACTION REPORT SUBMITTED TO
THE FACULTY OF THE COLLEGE OF SOCIAL SCIENCE
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Ms. Cherri Harper, Director  
Human Resource Management  
Florida Department of Management Services  
4050 Esplanade Way  
Tallahassee, FL 32399

Dear Ms. Harper:

It is my honor to submit to you Evaluating Florida’s Lump-Sum Bonus Program: An Analysis of Bonus Program Alternatives. This report is the result of comprehensive research and analysis of various literature, data sources, and personal interviews during the summer of 2003. The Lump-Sum Bonus Program is a significant issue due to its lack of funding and inequitable distribution among employees.

After examining the options, my recommendation is that Florida should consider the implementation of a bonus program funded from a deduction of the Competitive Pay Adjustment and distributed to agencies based on the percentage of full-time employees. This option is recommended on the basis of three evaluative criteria: program equity, increased motivation, and economic efficiency. Establishing a fund scored high against program equity. The equality lies in the formula of distributing the money to agencies based on the percentage of employees in that agency. Creating such a fund also scored highly on both increased productivity and economic efficiency. Theoretically, encouraged and motivated employees will increase their output level.

This recommendation will compensate employees with bonuses without creating a burden on the agencies. With this implementation, Florida can heighten its capability of encouraging the work ethic of state employees, boost morale, strength employee retention, and increase worker output.

Respectfully,

Victoria Smith  
Government Operations Consultant
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EXECUTIVE SUMMARY

The Lump-Sum Bonus Program (hereafter referred to as the Program) is a significant problem in Florida state government. It allows for irregularities, is not distributed equally agency-wide, and lacks funding. This necessitates agencies to exhaust salary dollars for bonuses. While state workers feel under compensated and unappreciated, the current Program fails to serve them in a manner that would circumvent these feelings. The purpose of this action report is to examine alternatives to the current program and assess options against desired criteria.

The research collected for this report was derived from multiple sources. First, wage data and salary comparisons were studied to comprehend worker salaries from a statewide perspective. Next, the guidelines and criteria set forth in the Service First Initiative were analyzed to gain an understanding of what criteria are required for eligibility. Furthermore, information from other states was examined in order to compare and contrast the Program to similar programs. Lastly, unstructured and structured personal interviews were conducted with employees and legislative personnel.

This report provides four policy options: Continue Current Program, Create a Budgetary Fund for Bonuses, Develop Low-Cost Reward System, and Delete the Bonus Program. Each option was examined and ranked according to three evaluative criteria: equitable distribution, increased productivity, and economic efficiency.

After a thorough analysis of all options, using the three criteria, establishing a budgetary fund for bonuses is recommended. This alternative would result in compensating employees by deducting a percentage of their cost of living increase and
earmarking these dollars for a bonus fund. This option would remove the financial burden from agencies and be equitably distributed based on the percentage of full-time employees in that agency.
I. PROBLEM STATEMENT

During the 2001 Legislative Session, the Service First Initiative proceeded successfully through the House and Senate Chambers. On May 14, 2001, Governor Jeb Bush triumphantly signed it into law. Service First has many facets and one of the most debatable is the Lump-Sum Bonus Program. This legislation discontinued the previously instituted merit program and implemented the Program.

The Lump-Sum Bonus Program gave each state agency the authority to award a one-time salary bonus to state employees. For the Fiscal Year 2001-2002, it was decided that these bonuses would be appropriated from 25 percent of that agency’s salary budget during the fiscal year. Agencies can increase this amount by closing or freezing vacant positions. In 2001, each state department was administered additional monies for lump-sum bonuses from the General Revenue Fund or they were granted the authority to use their apportioned Trust Fund dollars. For Fiscal Year 2002-2003, there were not any funds administered for bonuses and agencies were compelled to use unfilled or vacated position salary dollars as bonus money.

Under this legislation, supervisors and peers evaluate employees annually. The law established specific criteria employees must meet in order to be eligible for a bonus. Each agency has the authority to develop scoring methodologies and the ability to design an independent evaluation form. This lack of uniformity allows for inconsistencies across the 26 state agencies.

State workers are already affected by declining salaries. *The State of Florida Annual Workforce Report 2001* reported average Career Service salaries have decreased rather than increased since the year 2000 (Department of Management Services, 2002,
p.55) and the “Increases to Base Rate of Pay” have decreased since 1999 (Department of Management Services, 2002, p.56). This becomes problematic due to the increase in inflation. While one could argue that the Lump-Sum Bonus Program would be of financial help to those employees on the lower end of the pay scale, the Program delivers few incentives and minimal compensation. Employees under the Florida State Personnel System are veritably under compensated compared to the national average earnings of state employees (U.S. Census Bureau, 2001, p. 334), which can result in an increased turnover rate and a disgruntled workforce.

The Lump-Sum Bonus Program is subjective from one agency to another. Money available to each department is disparate. For example, a large agency such as the Department of Corrections (DOC) with 26,071 positions and 2,158 vacancies would not necessarily be adversely affected by freezing open positions. A small agency such as the Department of Elder Affairs (DEA) with 376 positions and 27 vacancies (Department of Management Services, 2002, p.10), needs all the positions it can maintain due to the fewer number of employees. Consequently, the DOC would be able to withhold money allocated for salaries and have more money for bonuses.

The purpose of this Action Report is to evaluate the current bonus program and examine alternative incentive programs to increase the availability and dollar amount allocated in a bonus program or incentive process.
II. BACKGROUND & LITERATURE REVIEW

Background

There are five distinctive factors related to the Lump-Sum Bonus Program that need to be evaluated to comprehend the underlying problems with the current policy: program criteria and distribution, lack of funding, state worker attitudes, current state employee wage data, and incentive programs in other organizations.

First, the Florida Department of Management Services Human Resource Management Program established specific criteria for every state agency to abide by while deploying the Program. In June of every year, each agency is to develop an individual method of assigning bonuses based on these standards. The criteria developed state:

1. The employee must have been employed prior to July 1 of that fiscal year and have been continuously employed through the date of disbursement. 2. The employee must not have been on leave without pay consecutively for more than six months during the fiscal year. 3. The employee must have had no sustained disciplinary actions during the period beginning July 1 through the date the bonus checks are distributed. Disciplinary actions include written reprimands, suspensions, dismissals, or involuntary and voluntary demotions that were associated with disciplinary action. 4. The employee must have demonstrated a commitment to the agency by reducing the burden on those served continually improving the way business is conducted, producing results in the form of increased outputs, and working to improve processes. 5. The employee must have demonstrated initiative in work and have exceeded normal job expectations. 6. The employee must have modeled the way for others by displaying agency values of fairness, cooperation, respect, commitment, honesty, excellence, and teamwork (Florida Statutes 110.1245. Savings Sharing Program; Bonus Payments; Other Awards, 2002).

After an agency has identified eligible employees, supervisors and peers evaluate them on an evaluation form created by that agency. Each agency must allow peer evaluation to weigh at least 40 percent and the remainder is assessed by the employees’
supervisor (Florida Department of Management Services, 2002).

The cap on bonus distribution is 35 percent of each agency’s salary rate allocated for filling positions. The distribution process is problematic because it allows for subjectivity across each state agency. Florida Statutes (2002) lack language mandating agencies utilize a specific evaluation form or format for distributing bonuses. This has led to manipulations and irregularities in agencies. For example, according to GeJuan Ingram, Bonus Coordinator for the Department of Revenue (DOR), “There have been irregular voting patterns within the DOR bonus groups. Without a standard bonus process agencies are going to experience these types of manipulations and have to determine their own corrective action plans” (personal communication, April 23, 2003). Ingram reported that there is consistent skepticism among a majority of employees in regard to the Program’s irregularity.

Second, the Program lacks funding. When the Program was implemented, it was funded by Administered Funds under the General Appropriations Act. In 2002, this was abolished and bonuses are now paid from unspent salary dollars, per agency (Debra Forbess, personal communication, March 24, 2003). Because agencies must use salary money, the amount available for bonuses is limited. This becomes problematic when agencies have to decide on whether to fill positions or give employees a bonus.

Third, some employees have developed negative attitudes towards the Program. Some Florida Department of Transportation workers were very critical after implementation of the Lump-Sum Bonus Program. According to a survey conducted on randomly selected agency employees (n=1045), 66% of employees stated they did not favor the continuation of the “Peer Review” input for bonus payments. Over 70% (72%)
stated they did not want these peer evaluations to be utilized in their annual performance evaluation. The agency wanted to identify whether or not the employees felt as though the peer evaluation was an equitable and reflective process. The numbers reflect the negativity towards the Program felt among agency employees (Florida Department of Transportation, 2001).

Earl Daniell, from the Department of Financial Services states that the Lump-Sum Bonus Program is entirely targeted and favors a chosen few. He reiterates that there is “Insufficient funding to make the program meaningful across the board requiring either too few people to receive the award or the dilution of the award to the level of meaningless. The perception of the average employee seems to be that it is a scam to avoid paying reasonable and earned pay increases with long term benefits to the workforce” (E. Daniell, personal communication, April 10, 2003).

Next, statistical data demonstrates Florida’s annual income averages are below the national average. Over a three year period from 1998-2000, the average median income of households in the United States was $41,790. The median income of households in Florida, during the same period, was $37,307 (U.S. Census Bureau, 2002, p. 435).

The State of Florida Annual Workforce Report 2001 asserts 119,748 people were employed under the Florida State Personnel System in 2001 (Florida Department of Management Services, 2002, p.14). In a ten-year study (1992-2002) of Career Service employee’s gross salaries, research shows a drop in annual salary in January 2001 from $30,468 to $30,121 in January 2002 (p. 56). In a base rate of pay increase study, taking inflation into account, numbers dropped from $9,939 in 2000 to $8,870 in 2001 (p. 56).
Some employees feel unacknowledged and underpaid for their endeavors and labor. Kate Richards, an employee from the Florida Department of Law Enforcement (FDLE), says “Many state employee salaries are not high enough to support a comfortable middle class lifestyle. I feel many state employees are not always adequately salaried, especially with downsizing in state government and additional duties being placed on employees” (K. Richards, personal communication, April 23, 2003). These data provide examples of the current salary decline and the need for an incentive program that will assist state employees financially.

Competitive Pay Adjustments were designed to increase the base salary rate for state employees within the Personnel System. This program is mandated under statute and states that the Florida Department of Management Services (DMS) will conduct salary and wage surveys to achieve a marketable and competitive pay policy. DMS has the authority to administer Competitive Pay Adjustments when needed (Florida Statutes, 2002). Funds for this program are derived from Administered Funds under the General Appropriations Act (Debra Forbess, personal communication, March 24, 2003). These funds exist as monetary assistance for state employees, and each year the legislature must decide whether to utilize them as a cost of living increase in the annual budget. Currently there is an appropriation of $57,353,665 from General Revenue and $24,402,614 under the Trust Fund available for salary increases (Brenda Jackson, personal communication, July 17, 2003).

Last, numerous organizations have developed incentive and compensation programs for employees. For example, Arkansas implemented a Career Ladder Incentive Program (CLIP) for all state employees. This program is a classification series of
grouping classes together that consist of similar job functions and responsibilities for promotional purposes. These employees are required to meet competency-based measures developed by the agencies and authorized by the Office of Personnel Management. When the criterion is met, employees are eligible to receive a bonus payment up to eight percent of their current salary. This method has proved to be successful and has been adopted by Microsoft and recommended by their compensation experts. These programs base compensation and incentive programs on successful job performance and job skills rather than job tenure or popularity contests (Griffeth and Hom, 2001, p.155).

In 2002, the state of Virginia Efficiency and Effectiveness Committee proposed implementation of a merit-based management system for employees. At the time of the recommendation, the state lacked an incentive program and the Commission recommended that the Legislature identify and preserve funds for a bonus program. The Commission expressed the importance of implementing an incentive program. According to Crutchfield (2002), “The State does not promote a true merit-based management system. In other words, the culture does not promote a meritocracy. There is little incentive for outstanding performance and few penalties for poor performance. The state’s pay for performance program is meaningless since there is no money to fund it.” He goes on to say, “A successful reward system sets a strong organizational culture and without a strong organizational culture, destruction and devastation among the state’s workforce can result” (p.4).

California has implemented four salary and wage incentive programs for state employees: Special In-grade Salary Adjustment (SISA), Merit Salary Adjustment (MSA),
General Salary Increase (GSI), and an Alternate Range Change. SISA and MSA are available to all workers who have met the minimum job expectations and are given once a year. Under GSI, employees may enter into a bargaining agreement with the Bargaining Unit and California government officials and the Bargaining Unit decide on salary increases. Alternate Range Change applies to specific job classifications with more than one salary range. The number of ranges and conditions to move around the range depends upon the job classification. The program has proven successful and was re-implemented for the Fiscal Year 2002-2003 (California State Personnel Board, 2003).

California offers a multitude of incentive programs available for state employees all paid for from appropriated funds.

In summary, lack of funding, manipulations with the evaluation process, state employee wage data, and overall employee disappointment are all factors that lead to problems with the Program. Without legislative change, it will continue to be inadequately distributed and unfunded.

**Literature Review**

The relevant information on this topic discusses the following themes: effects of incentive programs on employees in an organization and employee retention.

First, incentive programs have a significant effect on employees in any organization. Frederick Herzberg and Victor Vroom were the founding fathers of two theories associated with the relationship between employees and organizations. Frederick Herzberg developed the “Theory of Motivation” which identified five motivators that enrich job satisfaction: achievement, recognition, the work itself,
responsibility, and advancement. This theory suggests workers need to receive recognition in order to feel assured and motivated to do their job well (Herzberg, 1959).

Vroom’s “Expectancy Theory” assumes people will act a certain way based on the expectation that those actions will yield a fixed outcome that will affect them in a predetermined manner. Vroom’s theory suggests the need for an incentive program which will motivate employees to work hard in order to receive a desired outcome (Vroom, 1964).

Herzberg and Vroom’s theories are an excellent example of what extrinsic and intrinsic needs drive employee performance. The Lump-Sum Bonus Program fails to meet the needs of state employees based on these theories. Therefore, state workers are less likely to be motivated by their work and less likely to increase their work ethic. Employees would be more likely to respond to a bonus program they felt was attainable and significant to their needs. Nelson concurs with these theories by saying, “Desired behavior in a work setting is increased if a person perceives a positive relationship between effort and performance. The behavior is further increased if there is a positive relationship between good performance and rewards, particularly if the reward is valued” (Nelson, 1996). It is important to recognize the psychological impact an incentive program has on employees and an organization as a whole.

Bonuses are an incentive method utilized to better an organization’s work environment and are a type of reward organizations can give to employees. They are used as positive reinforcement and for encouraging performance (Nahavandi & Malekzadeh, 1998, p. 213). Thomas McCoy (1992) points out “Incentive compensation provides all participants with a vested interest in the success of the effort. Rather than
performing as robots, with no ownership, each individual is provided with a reason to develop the most effective means of reaching the organization’s objectives and fulfilling the organization’s needs” (p.48).

Second, employee retention is important to any organization as high turnover can be costly. There are two types quitting that result in turnover, voluntary and involuntary. According to the definition by Griffeth and Hom (2001), “Voluntary turnover means that employees freely choose to leave the job. In contrast, involuntary turnover represents employer-initiated job separations over which leaver have little or no personal say, such as dismissals or lay-offs” (p. 4). Organizations are negatively affected by both, but can help to reduce voluntary turnover and increase retention by understanding why employees leave.

Voluntary turnover is further broken down into two categories; functional and dysfunctional. Functional refers to those employees who limit themselves to meeting standard expectations. Dysfunctional is categorized by those individuals who those who go above and beyond the call of duty. These employees are viewed by the organization as irreplaceable (Griffeth and Hom, 2001, p. 5). Dysfunctional turnovers are the hardest to replace and the worst to lose.

Turnover is costly because employers have to pay for the loss of performance that comes after the employee leaves, job replacement, and training. There are many methods to assist organizations in reducing turnover and organizations need to identify what would be the best choice for them. “In order to attract, retain, and motivate the best people, organizations must be acutely tuned into the factors that drive peak employee performance” (Miller, 2001, p.2).
Compensation and incentive systems are one method organizations can use to retain employees. “It is important that turnover research has demonstrated that tying incentives to job performance can lower dysfunctional turnover” (Griffeth and Hom, 2001, pg. 160). These programs may help to retain valuable employees and increase their work productivity by rewarding them when they do well. B.K. Boyd and A. Salamin (2001) state, “A firm’s compensation plan plays a prominent role in recruiting, motivating, and retaining employees, and this is central to building a durable advantage” (p.777).

In summary, this study expands upon the array of literature and contributes to the selection of the best policy option. Because the literature does not point to one option over another, the study will examine four policy alternatives by employing three evaluative criteria.
III. METHODOLOGY & CRITERIA SECTION

Methodology

This report includes data collected by using the following methods:

- Evaluation of government documents: *The State of Florida Annual Workforce Report 2001* (Florida Department of Management Services, 2002) and Service First Initiative (Florida Department of Management Services, 2001);

- Analysis of applicable laws, rules, and policies;

- Researching applicable academic literature, journals, and online articles;

- Unstructured, 30-minute interviews with staff from the Florida House of Representatives, administrators from the Florida Department of Management Services, and state employees who have participated in the Program (n=10); and

- Review of data from other organizations such as the State of Arkansas, Virginia, and California who have implemented successful incentive programs. These states were chosen on the basis that they provided the most data.

Examination and evaluation of the data and information collected presents a discerning interpretation of the current public policy problem with the Lump-Sum Bonus Program. Research and academic literature was collected using textbooks, laws and policies, state and federal reports, online literature, and professional journals. Unstructured interviews with state employees capture the perspectives of those being affected by the Program. State employees were selected as interviewees on the basis of their association as being candidates for Program. Some workers chose to remain anonymous. State workers (n=8) from the Florida Department of Revenue, Children and Families, Financial Services, Law Enforcement, and Management Services were asked the following questions:

- What is your involvement with the Lump-Sum Bonus Program?
Do you feel as though state employees are adequately compensated?

Do you feel the Lump-Sum Bonus Program is a fair system of rewarding and recognizing state employees?

Do you think the system should be revamped or should be evaluated in an effort to analyze its effectiveness and efficiency?

An unstructured personal interview with Debra Forbess, Budget Director for the Florida Department of Management Services, was completed on March 24, 2003. This interview was conducted in the DMS Southwood Center in Tallahassee, FL. The objective was to obtain professional knowledge about the Program and gain insight as to the purpose and intent it was meant to serve.

A second unstructured interview was scheduled with Leisa Wiseman, Chief Legislative Analyst for Representative Loranne Ausley on May 5, 2003. It was conducted in the Capitol building in Tallahassee, FL. The purpose was to comprehend Representative Ausley’s legislative position on the Lump-Sum Bonus Program. These interviewees were based on their familiarity with Program instrumentation and are not necessarily representative of the entire state employee workforce.

**Evaluative Criteria**

Three evaluative criteria were selected to analyze the proposed policy options. Each criterion will be given a score of one, two, or three. One is the lowest score possible and three is the highest. A score of one is a result of the analyst’s lack of agreement with the selected criterion; two is the analyst’s moderate agreement with the selected criterion; and three is the result of the analyst’s thorough agreement with the
selected criterion.

- Program equity rates the method of distributing bonuses in a manner that appears fair and equal to those qualified to receive the bonus. Data sources include the evaluation of the current criteria and guidelines set forth by Florida Law, and personal communications with eligible candidates and government administrators.

- Increased motivation is defined as a psychological drive or stimulus employees receive from their daily job functions. The work itself and reward for success is what drives the employee to be motivated and enthusiastic. Data sources include researched philosophies such as the “Theory of Motivation” (Herzberg, 1959) and “Expectancy Theory” (Vroom, 1964), studies of programs in Arkansas (Arkansas Code. 2001), Virginia (Crutchfield, 2002), and California (California State Personnel Board, 2003), interviews and personal communications with state employees and legislative staff, and review of academic literature and government documents.

- Economic efficiency is defined by how the identified program is affecting the state financially, the monetary cost of carrying out the program. This can include the expense operating and maintaining the specified program. Data sources encompass researching wage data, personal communications and interviews, and a comparison of other programs in Arkansas (Arkansas Code. 2001), Virginia (Crutchfield, 2002), and California (California State Personnel Board, 2003).

The above-mentioned criteria were selected in an effort to make an informed decision on the best possible policy option and opportunity to evaluate feasible alternatives. Constraints to this study include: detailed cost data for implementing policy options, previous research on the topic, inability to interview or communicate with all state workers, and surveys from each agency. Even with these limitations, it is believed that this report presents a complete and thorough analysis of the Program and similar recommendations would be made using the same methodology identified in this section.
IV. POLICY OPTIONS

The purpose of this section is to propose four policy options that will be analyzed in order to assess the most effective incentive program for the state. These options are: Continue Current Policy, Create a Budgetary Fund for Bonuses, Develop a Low-Cost Reward System, and Delete the Program. Each option will be evaluated using the three criteria previously mentioned: program equity, increased productivity, and economic efficiency. Other incentive program alternatives were considered for this report but were not evaluated.

Option One: Continue Current Policy

This option does not introduce any changes to the Lump-Sum Bonus Program and authorizes agencies to develop their own evaluation, selection, and distribution process. Because the Program lacks funding, agencies must continue to withhold salary dollars for bonuses (Florida Statutes, 2002). See Background and Literature Review for Program details.

Program Equity: The Program is not equitably distributed among agencies, as each agency must independently preserve wages from unfilled or vacated positions in order to pay for bonuses. Because there is inadequate language under statute criteria, departments are authorized to develop their own methodology for distributing bonuses and have the power to develop agency specific evaluation forms (Florida Statutes, 2002). Such independence can lead to the development of forms that do not adequately measure
employee performance as the Program was intended to do.

Many state workers feel as though the lack of uniform standards across all agencies allows peers and supervisors to manipulate the bonus program. Sara Fox, an employee of the Department of Financial Services, states:

These evaluations are not a good source of information if they ask co-workers to rate each other without requiring detailed justification for the rating. Therefore, we give peers an incentive to rate their co-workers low, since they think they will put themselves in a better place for a bonus. The supervisor submits a similar form as the peer evaluations, which allows for discrepancies because neither the peer or supervisor form requires justification for bonus selection. (personal communication, April 22, 2003).

When Florida Department of Revenue employee Michelle Clanton was asked if she feels the program is equitably distributed she said, “No, I am in a sub-section of a large division and the whole division rates everyone. Even though I only directly work with one other person eligible for a bonus, the entire division has the opportunity to rate me even if they do not know me.” Clanton states that in order to benefit other employees, evaluators can use this opportunity to give her a low score whether it was deserved or not (M. Clanton, personal communication, April 22, 2003). Although these two employees are not representative all state workers, their feedback expresses the inequality felt from the lack of standardization.

Increased Motivation: Without funding, using salary dollars for bonuses limits how much is money is available. Because of this, qualified employees have a hard time perceiving the incentive program as significant or worthwhile. According to Griffeth and Hom (2001), “Modest raises inadequately reward high performers who might leave owing to frustrations over insufficient rewards for their contributions” (p.159). One employee says:
The amount of the bonus would determine if I thought that it was worth the effort. State employees’ annual salary is for approximately 2,080 hours a year (52x40) including holidays and paid sick and annual leave. A 100-dollar bonus would average only five cents more per hour. If I was in a call center where I had to answer 60 calls a day, plus additional five calls to be considered for the bonus, it is not much of an incentive. I would be putting much more in than I was getting back. A 1,000 dollar minimum bonus (after taxes) would be more of a performance incentive (S. Fox, personal communication, May 22, 2003).

Because the program has been compared to a popularity contest (M. Clanton, personal communication, April 22, 2003) some employees feel as though favoritism in the current program could hinder the likelihood of receiving a bonus. Fox states “If I believe that favoritism is involved, then no, I do not believe that an increased effort on my part would increase my chances of receiving a bonus. If I felt that the bonus was awarded based upon performance, then yes I believe that an increased effort would increase my chances on receiving a bonus” (S. Fox, personal communication, May 12 2003). Both employees state they felt many in their organization would agree with their perception and beliefs. Without adequate funding for this program, it is difficult to encourage and stimulate employees to be motivated. Therefore, the compensation program becomes weak and meaningless. According to McCoy (1992), “The stronger the incentive opportunity, the greater impact it will have on performance” (p. 240).

**Economic Efficiency:** The Program is solely funded by unspent salary dollars per agency. If an agency is unable to fill a position or freezes a position, it is allowed to use those dollars. Agencies that employ large numbers will have an economic advantage over a small one, as they will likely have more staff available to assume extra job functions in order to keep positions open. This burden trickles down to the employee that has to pick up the extra work.

The heaviest weight lies on each agency to determine how much money will be
available for bonuses and who should receive them. In some agencies, managers were told not to choose a candidate for a bonus due to the lack of funding available. According to Mary Smith with the Department of Children and Families (DCF), some managers were advised to disregard the evaluations since there was not enough money to cover bonuses during that fiscal year (Mary Smith, personal communication, April 22, 2003).

Because the Program is only funded from salary dollars, employees have expressed concern about their not being any salary dollars available for bonuses. A survey of Florida Department of Revenue employees shows frustration employees have. “Where are we going to get our bonuses from when we run out of positions to eliminate? Will we cut real people so the privileged few will get this pittance” (Florida Department of Revenue, 2001, p.2).

The Program does not increase an employee’s annual salary and is a one-time payment is not included in retirement accrueement. It appears to be, more importantly, a cost saving tool for the state than an incentive or reward program for employees. According to Thomas McCoy (1992),

Lump-sum payments are generally given in lieu of increases to base compensation. For the most part, these plans are used to control costs. They are able to do this because the lump-sum payments do not add to the growth of fixed payroll costs or of benefit costs…. This type of program is not the best solution to the need for organization effectiveness and economic growth because the structure fails to address employee’s intrinsic needs of focus and positive reinforcement (p.69).

Because each agency will have disparate amounts of money available, state workers are the ones who suffer. The monetary cost to the state is felt independently by the agencies that have to operate and maintain the bonus program.
In summary, without funding, agencies and employees are equally negatively affected by the Program. Employees are negatively affected because they have to pick up the extra slack and are not able to use bonus money towards their retirement (McCoy, 1992, p. 69); agencies are negatively affected because they have to determine how to pay for bonuses. The Program is inequitably distributed and fails to motivate employees. It is economically inefficient to have a bonus program without having adequate means to pay for it.

**Option Two: Create a Budgetary Fund for Bonuses**

A bonus fund could be created by deducting five percent of the Competitive Pay Adjustment from Administrative Funds and dividing it evenly among all agencies as determined by the percentage of full-time qualified employees. For example, there is a total of $82,756,279 available in this fund and if sixty percent of the 119,000 Career Service employees were eligible, and ten percent received the bonus, 7,140 employees would receive $1,159. This fund would be identified solely for bonus distribution, and agencies would be required to abide by the same eligibility criteria, currently in statute (Florida Statutes, 2002), and utilize the same evaluation form and distribution process established by the Florida Department of Management Services (Debra Forbess, personal communication, March 24, 2003). Legislative analysis would be required for the change in statute and to approximate how much money will be needed.

**Program Equity:** Bonus distribution would be equitably disbursed based on the percentage of Full-Time Employees (FTE’s) per agency eligible to receive a bonus. Using a required form, standard to all agencies, prevents manipulation of the process.
This alternative continues the same 40/60 evaluation rule (40% peer evaluation and 60% supervisor evaluation) as the Lump-Sum Bonus Program, but requires only those who are familiar with the work of an employee or work directly with that employee to be eligible to nominate them. This process eliminates the problem of employees evaluating colleagues who they have no work history with and employees ranking themselves highly to receive a bonus. Because the supervisors’ evaluation weighs 60%, they are able to counter candidate selection based on popularity contests. The program should be based on supervisors and employees evaluating in accordance to the success of each candidate in their job performance.

Employees have shown support for implementing a statewide program and mandating all agencies to accept the same standards. “I would suggest that all state agencies implement the program the same way. A lot can be learned if the bonus program leaders compared notes and implemented some kind of ‘best practice’” (G. Ingram, personal communication, April 23, 2003). Sara Fox concurs with this suggestion, “As a state employee, I feel that across the board at all state agencies, bonuses are rewarded using a different set of standards. I think that consistent guidelines for every state agency would validate the bonus process” (personal communication, April 22, 2003). One DOR employee stated, “The bonuses need to be awarded using the same criteria throughout the state, In the Tampa region other criteria were added that excluded employees that would have otherwise been included to receive a bonus. Performance standards need to be implemented for bonuses to be given fairly” (anonymous, Florida Department of Revenue, 2001, p.2).

**Increased Motivation:** A program that equally distributes bonus money to
agencies, and provides a standard evaluation form, will be more likely to encourage employees to participate in, and be inspired by, a bonus program and their job responsibilities. When employees feel as though the incentive is attainable and consequential, they will work hard to achieve it. One employee in the DOR survey stated, “If I felt as though I had a good chance of getting a bonus, I would absolutely work longer and harder. It is all about being recognized for a job well done” (anonymous, Florida Department of Revenue, 2001, p. 3). Rewarding employees for their achievements can give them a sense of belonging in the organization. According to Griffeth and Hom (2001), “Basing financial rewards on productivity binds high performers to the organization even more because they earn proportionally greater rewards for their higher contributions” (p. 160).

It is vital to have work-related responsibilities and incentive programs meaningful and specific in order for the bonus program to be effective (McCoy, 1992, p. 21). When workers feel as though they are being evaluated fairly, they would be more likely to increase their work ethic in an effort to be recognized. Employees need to be asked to nominate only those employees they work with or have a work history with. This option instills employee motivation in an effort to be recognized so they may be in a better position to be chosen as a bonus recipient.

**Economic Efficiency:** Establishing a fund from a percentage of the Competitive Pay Adjustment would be economically efficient as the operating expense is derived from an established fund. Allocating this fund properly identifies the source and research and analysis will determine how much. It is important to identify how much money will be needed for bonuses and what budgetary source the money comes from prior to
implementing a funded program (McCoy, 1992, 148).

There are many positions in state government that offer so little pay that some state workers still have to live off food stamps and Medicaid, costing the state money. Even though they are working, they just can not make all the ends meet (anonymous, personal communication, April, 22, 2003). Offering them an attainable incentive program might give them the opportunity for an extra financial boost. “Even though they (state workers) may not be able to rely on a bonus as a form of salary, the fact that it exists may help some state workers get off public assistance. The goal should be to give them the opportunity” (anonymous, personal communication, April 22, 2003). The advantage to this policy option is the ability to use dollars already allocated without having to increase the burden on taxpayer dollars or require agencies to locate money to cover the expense of bonuses.

In summary, creating a fund for bonuses, and standardizing the evaluation form and distribution process, would be beneficial to employees and agencies. Offering a bonus program that is attainable and significant can help motivate employees and increase the value of the work being produced. “The quality of your workforce is the mirror-image of the quality of the overall choices you make concerning them up to that point” (Blencoe, 2002. p.2). This alternative could assist in encouraging employees to participate and believe in the bonus program. Having a fund for bonuses allows this option to be economically efficient as there is no extra cost to the state.

**Option Three: Develop a Low Cost Reward System**

This alternative offers plaques, vacation time, parking places, and gift certificates
as recognition tools in lieu of cash incentives. Many agencies use this low-cost method as a way rewarding workers for doing well. Funding for this system would utilize the same funding process as the Lump-Sum Bonus Program, thereby any unused salary dollars would be used to pay for these rewards. Agency Directors are responsible for candidate selection after they receive annual nominations from employees’ supervisors.

**Program Equity:** This alternative is partially equitable because all supervisors have an equal opportunity to nominate any employee they believe to be eligible. Top performers are recognized by their supervisors and Directors must make the awarding decision. For example, the Florida Department of Revenue offers an Employee-of-the-Month award to an employee who has been nominated by their supervisor and chosen by the Program Director as exceeding expectations. This candidate receives a front row parking place, an engraved plaque, and a gift certificate to a local restaurant. The recipient is acknowledged during the monthly staff meetings for all employees to witness and recognize (M. Clanton, personal communication, March 2003).

However, employees may not perceive low-cost rewards to be meaningful and do not share the perception that these types of incentives deliver any type of incitement as a cash bonus would. “If the payouts are insignificant as a result of incremental values not being shared equitably, then the employee response to the incentives may be less than total and less than long-lasting” (McCoy, 1992, p. 236).

Using the same method as the Lump-Sum Bonus Program allows for subjectivity across each agency. Larger agencies may have more salary dollars from unfilled positions and therefore would be able to reward more of their employees as opposed to a small one with little available salary money. This option could result in the same discrepancies as
the Program due to the lack of funding and disparate salary dollars available. There also may be discrimination as the supervisor or Director may have favorites and not nominate deserving employees.

**Increased Motivation:** Employees understand that low-cost rewards are a strategy to implement a less expensive method of compensation. They require little effort to implement and are a small expense to the state. It is an important initiative to reward employees in a way that fortifies the employee’s hard work in an effort to motivate them to continue. According to the *Performance Management Journal*:

Reward Systems need to have a positive impact on behavior. To accomplish this, reward systems need to be 1) Contingent on achieving desired performance levels rather than on merely doing certain tasks; 2) Meaningful and valuable to the individual; 3) Based on objective and attainable goals; 4) Open to all, and not based on competitive struggle within the workplace; 5) Balanced between conditions in the workplace (extrinsic) and fulfillment of individual needs and wants (intrinsic) (Morse, 2002, pg.3).

Productivity will not be affected if the reward is insignificant to the employees of the organization. “A final guide for making informal rewards effective is to be sure they are valued and meaningful to the individuals who receive them. The rewards that are meaningful to a particular employee, however, depend on personal circumstances and tastes” (Nelson, 1996, p.2).

In order for low-cost incentive programs to be successful, the employee must desire the reward. Rewards are usually a method of encouraging a certain behavior and the significance of the reward depends on the worker. According to Nahavandi and Malekzadeh (1999), “Whether an organizational reward encourages the desired behavior depends on the needs on the needs of the individual. Therefore, not all organizational rewards act as reinforcers for all individuals. Additionally, not all reinforcers are positive
and pleasant” (p. 213).

Massachusetts implemented a low cost reward system and conducted a survey to determine the motivational effects of this program. In this survey, 4,292 state employees were questioned in effort to determine the effects of low cost rewards such as personalized gifts and other inexpensive incentives. 37.7% of the employees stated the gift to be not motivating at all. Only 28.5% found the gift motivating and 33.8% found it somewhat motivating. In this same survey, 66% of employees stated cash rewards were motivating (Commonwealth of Massachusetts, 2001). The data show the majority of workers did not feel low cost rewards to be a motivating incentive program. McCoy (1992) states, “Designing an incentive program with too much focus on cost containment and not enough focus on performance improvement will result in a program that the employees will fail to respond to.” He emphasizes the importance of seeing the program through the eyes of the participant (p.53).

**Economic Efficiency:** Rewarding state workers with low-cost rewards is not costly because they are a minimal expense and require very little funding. However, this system can be costly in non-economic terms as employees may not perceive it as a significant incentive program and may not be inclined to take on extra job functions. If workers are minimally completing what is required of them, or not completing tasks at all, the agency is at risk for public and legislative scrutiny. State employees are the servants to the population of the state and provide public service. If the employees are disgruntled and not producing, they are wasting taxpayer dollars. To benefit economically, organizations need to consider cash incentives rather than non-cash incentives (McCoy, 1992, p. 214). Low-cost rewards are economically inefficient to the
state and inefficient to the taxpayers rendering money for salaries.

Low-costs rewards are considered to be a method of identifying employees who are exceeding expectations, but should not be used as a substitute for bonuses. McCoy (1992) states that these types or rewards should be given in addition to incentive programs but not in lieu of and it would be near impossible to find an employee willing to accept inexpensive non-cash incentives in place of financial compensation (p. 213).

This option looks at low-cost rewards as being the sole reward method, but it is important to recognize that they are only recommended to be used in addition to employee bonuses.

In summary, developing a low-cost reward option is an inexpensive tool for recognizing employees. It is possible that not all state workers view this method as an incentive. It is inequitable for agencies to have to use unspent salary dollars, as some may have more money available than others. Because of the opportunity for supervisors and Directors play favorites, some employees may be discriminated against. The expense of operating and maintaining this reward system lies mostly on the agency. Employees may experience the same negative feelings as they did towards the Lump-Sum Bonus Program and a low-cost reward system may not be meaningful or worthwhile to implement.

**Option Four: Delete the Program**

This alternative eliminates the Lump-Sum Bonus Program and removes the statewide reward system for state workers. With the deletion of the Program, agencies need not be concerned with identifying incentive program money, and employees and supervisors do not have to go through the process of evaluating, nominating, and
selecting bonus recipients. The purpose of deleting the Program is to remove the agencies financial responsibility and eliminate the inequitable evaluation process.

**Program Equity:** Deleting the Program appears impartial as no one is able to receive a reward, and this would remove the previous accounts of favoritism and popularity voting that is associated with it. However, it also creates resentment among those who work hard and desire acknowledgment or reward. Because this option removes the reward system, all workers would be treated the same whether they are overachieving employees or under producers. This can lead to feelings of animosity and inequality between the two.

Deletion eliminates the time associated with completing nominations, evaluating forms, and selecting candidates. It prevents anyone from having an unfair advantage in receiving the bonus. In the Florida Department of Revenue survey, one employee specifically stated they would rather have the Program eliminated than to give out bonuses unfairly. The individual stated, “As a manager what can you say to the employees who are dedicated and who perform well, deserving, and yet get no bonus? Try harder? I probably had 35 or 40 people who were eligible and deserving but only seven could get a bonus. I would rather not see a bonus program at all than have to limit it in that regard” (anonymous, Florida Department of Revenue, 2001, p.3). This employee does not represent the entire state worker population, but it is important to recognize they are able to provide managerial insight.

**Increased Motivation:** Eliminating the bonus program has the potential to lead to a decrease in productivity. Without a program, employees might not see a purpose in increasing their output level and managers may find them becoming less involved or
unproductive. Thomas McCoy (1992) states that individuals (employees) fail to perform due to the program itself, and not just due to human nature. He argues that it is not human nature that causes employees to fail within the workplace; it is the lack of incentives and program failures (p. 236). The lack of stimulus results in lack of job motivation and can become a psychological stressor in the work environment. Without incentive programs, organizations have a hard time maintaining a competitive workforce. If employees feel as though they deserve recognition and incentives, they may be more likely to leave. “Getting the talent you need, is one thing; keeping the talent you have and making sure that the talent becomes more than just that, is something else” (Morse, 2002, p. 1)

**Economic Efficiency:** Without an incentive program, government does not have to concern itself with identifying means to fund one. Scarce resources could be reserved for other programs. Whereas this may appear to be a savings catalyst, the result of discarding all recognition programs could lead to a disgruntled workforce. Discontented workers could develop negative attitudes towards their job, their colleagues, and their workload. As previously mentioned, workers that feel as though they are taken advantage of, by being cheated out of a bonus, and may take their frustrations out on the organization (Blencoe, 2002, p.1). This could result in employees slowing down job functions, which could be costly to the state.

Employees that voluntarily leave the workforce due to lack of compensation programs can also be costly to the state. “When performance-contingent rewards are absent, superior performers show a greater tendency to leave then low performers (a positive performance-turnover correlation)” (Griffeth and Hom, 2001, p.161). Turnover
can result in interruptions and delays in service due to the time associated with finding replacements, expensive training costs for new employees and issues with inexperienced replacements.

If employees are not satisfied in their jobs, they are more likely to voluntarily leave (Freeman, 1978). Turnover can also result in an expensive snowball phenomenon among the remaining workers. “Employee exits might worsen the morale and retention of employees who stay behind. When an employee’s friends leave, he or she may feel less attached to the organization owing to fewer personal ties to colleagues” (Griffeth and Hom, 2001, p.29). It is economically inefficient to not have an incentive Program as it could cost the state more money having unproductive workers and risking turnover.

In summary, deleting the program takes away the ability for organizations to recognize hard working employees. Employees may become disgruntled as they feel inequitably treated among their unproductive colleagues. This could lead to a decrease in motivation and influence turnover as workers “…might leave owing to frustrations over insufficient rewards for their greater contributions” (Griffeth and Hom, 2001, p. 159). This places the financial burden on the state to retrain and replace valuable workers. Lack of a statewide incentive program can be very costly to the state as a whole.
V. CONCLUSIONS

This report presented four bonus program policy alternatives: (1) continue current program, (2) create a budgetary fund for bonuses, (3) develop low-cost reward system and (4) delete the program. In the analysis, each policy option was examined based on program equity, increased productivity, and economic efficiency. The following table summarizes the results.

Table 1 – Summary of Alternatives and Evaluative Criteria

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Program Equity</th>
<th>Increased Motivation</th>
<th>Economic Efficiency</th>
<th>Overall Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Option 1 Continue Current Program</td>
<td>Low=1</td>
<td>Low=1</td>
<td>Low=1</td>
<td>Low=1</td>
</tr>
<tr>
<td>Option 2 Create a Budgetary Fund For Bonuses</td>
<td>High=3</td>
<td>High=3</td>
<td>High=3</td>
<td>High=3</td>
</tr>
<tr>
<td>Option 3 Develop Low Cost Reward System</td>
<td>High=3</td>
<td>Moderate =2</td>
<td>High=3</td>
<td>Mod./High =2.67</td>
</tr>
<tr>
<td>Option 4 Delete the Program</td>
<td>Moderate=2</td>
<td>Low=1</td>
<td>Moderate=2</td>
<td>Low/Mod=1.67</td>
</tr>
</tbody>
</table>

Key: Ranking Scale: High=3, Moderate = 2, Low = 1

The analysis shows that the continuation of the current program ranks low
against all criteria. It is not distributed equitably across all agencies and therefore lacks instituting any incentive for state employees to be motivated and stimulated in their jobs. The Program lacks funding and with each agency having to withhold salary money for bonuses, it is economically inefficient.

Creating a budgetary fund for bonuses would be an excellent choice in terms of program equity. The equity of the distribution would be based on agency size and it would be economically efficient by utilizing a small percentage of the Competitive Pay Adjustment allocated by the state legislature. Such a program would appear to be more accessible to employees and could motivate them to be more involved in the bonus program and increase their work ethic.

Developing a low-cost reward system such as ceremonies, vacation time, and plaques would be highly equitable. Top performers would be rewarded fairly among their peers. Even though this program would be exceedingly economic efficient due to the low cost involved, under compensated employees would be further motivated by cash rewards in lieu of low cost rewards and therefore not be inspired by the program.

Deleting the bonus program would be moderately equitable. If workers were not allowed to receive a bonus, then the program would be fair across the board. However, employees would consider lack of compensation to be unjust and result in an unmotivated workforce. Even though deleting it would be economically feasible, due to the fact there are would not be a cost association, turnover can create a financial burden on the state.

After a thorough analysis of the options using the evaluative criteria,
implementing a fund for bonuses ranks as the highest alternative. This fund would be equitably distributed to agencies based on the number of FTE’s within that agency. Establishing a fund could limit the subjectivity of where the money should come from and how much each agency distributes for bonuses.

Mandating a standard evaluation form, developed by the Department of Management Services, would help prevent inconsistencies across different agencies. Standardizing the process, and utilizing it as a performance improvement mechanism, can improve employee growth and therefore strengthen state government. “The performance evaluation process then becomes an action plan for employee development and is then more meaningful to the employee and beneficial to the organization as a tool to bring about long-term development” (McCoy, 1992, p.147). If employees are familiar with what is expected and believe they can exceed those expectations, they will be more likely to improve their performance and should be rewarded for doing so. During implementation, it is important that all employees within the organization understand and accept the program as a good-faith effort where all managers and non-managers will work together to establish performance improvement and the equitable sharing of results (McCoy, 1992, p. 204).

Establishing a fund for bonuses would help reduce turnover and improve productivity among state employees. Bonus program success is related to the fairness of how the program is administered and the program’s ability to meet employees’ expectations. Therefore, this alternative would be equitable, motivational, and economically efficient.
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About the Author
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