Organizations have a long history of using incentive compensation bonus systems to motivate workers, reward employees for good performance, and to encourage continued productivity. Incentive compensation bonuses are reward-based programs that allow workers to earn pay above and beyond their base salary. In addition to motivating employees to be more productive, such forward-looking, performance-focused metrics are useful because they help align the employees’ goals with those of the organization. According to a recent survey, more than 90% of organizations—both for- and nonprofit—use short-term incentives (e.g., spot awards, team/small-group incentives) and more than 50% use long-term incentives (e.g., stock options). Moreover, on average, companies spend about 5% of their operating income on short-term incentives. However, results from this survey indicate
that these plans are not always fully effective, suggesting companies may need to reevaluate and redesign these systems to achieve their goals.

The difficulty with incentive compensation bonus programs is that, in most organizations, they are grounded in the traditional practices of that organization and industry rather than grounded in evidence-based management. In other words, if incentive compensation bonuses are used at all, they are usually administered based on what the organization has always done, or what is common in the organization’s industry. However, there is a large body of scientific research and professional literature that provides advice as to how incentive compensation bonuses should be administered that might improve the practices in their organizations.

The purpose of this article is to review this body of work to delineate a set of “best practices” for incentive compensation bonus administration. Readers familiar with incentive compensation bonuses are likely to find many familiar practices. However, like any good checklist, the benefit is in helping ensure that all or at least most of the factors are considered. All readers will probably find some practices they had not considered, and they will also benefit by knowing how much research and professional support exists for the various practices. These best practices might also be useful for other purposes, such as auditing an organization’s practices, defending (or challenging) an organization’s practices in response to a legal challenge and teaching college students or human resource professionals.3

Methodology

We conducted our literature review in the normal scientific manner. First, we conducted a thorough search of the existing literature on incentive compensation bonuses to identify those that make recommendations for practice. These were the practices that the research and professional literatures directly endorsed or advocated for use or that can be inferred from that literature. We included the professional literature in addition to the research literature, because there are many practices that have not been the subject of research but are known and used by organizations to improve effectiveness. We searched all the relevant electronic databases using keywords relevant to incentive bonus compensation. An initial search yielded more than 7,000 citations.

Second, these citations were narrowed down by topic and by quality indicators (e.g., peer-reviewed research journals, authoritative professional magazines, etc.) yielding about 1,000 citations that were reviewed for relevance by reading the titles and abstracts. All the articles and books that appeared potentially relevant were obtained and read. Many additional relevant articles were identified by cross-referencing and by forward-searching. In total, 167 relevant articles and books were obtained and summarized on best practices when developing and implementing incentive compensation bonuses. Given this volume, it was judged that the list of best practices subsequently identified was fairly complete and represented the most common advice in the scientific and professional literature. The only literature excluded was that which was not relevant to best practices in incentive compensation bonuses (e.g., studies of piece rate systems, profit sharing plans, or other incentive compensation processes unrelated to bonuses such as studies of top executive [CEO] compensation). While these other forms of compensation are important, they are specialized and complex in their own right and present independent administrative challenges that are beyond the scope of this article. Finally, the review continued until only redundant practices were being identified and the list of practices was reasonably exhaustive.

Building in part on previous research on best practices in incentive compensation for sales personnel1, all the practices relevant to developing or implementing a bonus incentive compensation process in the 167 articles and books that were cited by multiple sources were identified as best practices. The list of best practices is an attempt to develop a taxonomy, meaning it is intended to be comprehensive,
have conceptually independent elements, with each element having its own research history (e.g., as Fleishman & Quaintance⁵ have done in the domain of human abilities). To create the taxonomy, we used an approach that attempted to balance comprehensiveness and parsimony.⁶ We implemented a modified Delphi-like procedure among the coauthors to develop conceptually distinct and coherent categories of specific practices that were recommended by the research literature. We included all relevant dimensions that we could identify in the research literature. We combined practices using logical partitioning and grouping to create a comprehensive yet parsimonious classification schema of practices.

We then evaluated the extent of research or other evidence supporting each practice using the following scale:

- **Directly tested.** Research studies have directly tested this practice and found support, including simulation studies.
- **Indirectly tested.** Research studies have indirectly tested this practice by finding support for highly similar variables. Furthermore, there is support based on other clear inferences from the findings of the studies, or the research support is based on only weaker research designs such as opinions collected in surveys.
- **Theoretical support only.** Theory supports this practice, but it has not yet been tested directly empirically, sometimes because it would be impossible to test or unnecessary because of strong logical support.

The result of this review was 44 best practices. The practices are supported with anywhere from 3 to 87 citations to the literature, with an average of about 23. Table 1 shows the 44 practices, the number of supporting citations to the literature, and the extent of research support using the scale above. To save space, the full literature citations are available electronically as supplemental material (available with the journal online, or available from the author). Interested readers are encouraged to read the supporting references for more details on the best practices and the evidence supporting them.

### Best Practices

The 44 practices are divided into six broad topic areas: strategy, criteria, contingencies, administration, equity and review (Table 1). These topic areas roughly correspond to stages in the process of developing an incentive compensation bonus program. In what follows, we briefly discuss each category, provide exemplary practices from each and summarize the extent of research support and areas where research is needed.

### Strategy

The first stage is making a set of strategic decisions about the overall design of the program. Foremost among these is alignment with the business goals, objectives and culture. For example, business goals might link bonuses to increases in productivity, quality, cost saving, customer service or other challenges facing the business at the current time.⁷⁸ Incentive compensation can be used for all jobs in some manner, but if the jobs involve any sales component, then incentive compensation is virtually always used.⁹¹⁰ When incentive compensation is utilized, the pay mix generally consists of a base salary plus a bonus potential in order to provide a secure base for the employee, but still motivate higher job performance. The pay mix of base salary and bonus should vary by job level, with a larger bonus component for higher-level jobs.¹¹

Normally, the incentive compensation process should be integrated with the performance evaluation process so it is directly tied to the measurement of job performance.¹² To offer an effective incentive, rewards must be contingent on performance. For individual performance incentives, that means differentiation based on individual performance level. Individual differentiation is not essential for group incentives, but the incentive must be tied to specific levels of group performance to be motivating. To reduce the risk that incentive compensation will increase costs without corresponding profits, incentives are sometimes tied to margins (profits) or are deferred such as equity shares (stock) in the company.¹³
Table 1. Best Practice in Incentive Compensation Bonus Administration.

<table>
<thead>
<tr>
<th>Best practice in compensation</th>
<th>Number of supportive literature citations</th>
<th>Research support</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategy</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. The incentive compensation process should be aligned with the business goals, objectives and culture.</td>
<td>67</td>
<td>Theoretical support only</td>
</tr>
<tr>
<td>2. Incentive compensation should be used for increasing job performance in jobs involving sales.</td>
<td>87</td>
<td>Directly tested</td>
</tr>
<tr>
<td>3. The pay mix should consist of usually a small salary plus a bonus potential in order to motivate high job performance.</td>
<td>66</td>
<td>Directly tested</td>
</tr>
<tr>
<td>4. The pay mix of base salary and bonus should usually vary by job level, with a larger bonus component for higher level jobs.</td>
<td>24</td>
<td>Indirectly tested</td>
</tr>
<tr>
<td>5. The incentive compensation process should be integrated with the performance evaluation process so it leads to improved job performance (e.g., performance plans, goal setting, etc.).</td>
<td>48</td>
<td>Directly tested</td>
</tr>
<tr>
<td>6. The incentive compensation process should adequately differentiate between employees so as to motivate higher job performance.</td>
<td>6</td>
<td>Directly tested</td>
</tr>
<tr>
<td>7. The incentive compensation process should be integrated with the career development process so it leads to opportunities for higher incentive compensation, promotions and other career development outcomes.</td>
<td>7</td>
<td>Theoretical support only</td>
</tr>
<tr>
<td>8. Incentive compensation processes should consider reducing risk by linking incentives to margins (profits) or deferring it by using equity shares (stock) in the company.</td>
<td>30</td>
<td>Directly tested</td>
</tr>
<tr>
<td>9. Higher incentive compensation might be used to reduce the turnover risk of some employees (e.g., employees with potential opportunities to move to another company).</td>
<td>28</td>
<td>Directly tested</td>
</tr>
<tr>
<td><strong>Criteria</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. The criteria considered in determining incentive compensation process should be highly job related.</td>
<td>45</td>
<td>Directly tested</td>
</tr>
<tr>
<td>11. The incentive compensation process should be based in large part on the job performance of the employee.</td>
<td>82</td>
<td>Directly tested</td>
</tr>
<tr>
<td>12. Job performance measures for incentive compensation should be based on both job behaviors and objective results.</td>
<td>58</td>
<td>Directly tested</td>
</tr>
<tr>
<td>13. Measures of job behavior should capture those aspects of performance not fully captured by the productivity measures (e.g., effort, service, teamwork, citizenship and other factors unique to the company).</td>
<td>43</td>
<td>Directly tested</td>
</tr>
<tr>
<td>14. The measures of results should be based on objective quantifiable metrics, such as revenues, margins, risks, sales or other indicators of performance, that are neither overly deficient of the important indicators of performance nor overly contaminated by extraneous factors.</td>
<td>45</td>
<td>Directly tested</td>
</tr>
<tr>
<td>15. Incentives should be provided for customer satisfaction if it is applicable to the context.</td>
<td>24</td>
<td>Directly tested</td>
</tr>
<tr>
<td>16. Normative information should be provided to enhance interpretation for job performance measures used as input to incentive compensation.</td>
<td>11</td>
<td>Directly tested</td>
</tr>
</tbody>
</table>

(continued)
Best practice in compensation

<table>
<thead>
<tr>
<th>Best practice in compensation</th>
<th>Number of supportive literature citations</th>
<th>Research support</th>
</tr>
</thead>
<tbody>
<tr>
<td>17. If possible, multiple managers over the employee should have input to the incentive compensation or performance evaluation for the incentive compensation.</td>
<td>17</td>
<td>Theoretical support only</td>
</tr>
<tr>
<td>18. Job behavior input to job performance measurement for incentive compensation should be collected from other employees in addition to the immediate manager (e.g., peers, subordinates, managers in other areas and other coworkers).</td>
<td>4</td>
<td>Theoretical support only</td>
</tr>
</tbody>
</table>

**Contingencies**

19. Incentive compensation systems should be designed to control costs.                                                                                                                                                    | 17                                       | Directly tested                   |

20. The amount of money spent on incentive compensation should be based in part on the profitability of the company.                                                                                                          | 32                                       | Theoretical support only          |

21. Incentive compensation recommendations should consider the difficulty of the employee's job or other biasing factors (e.g., business conditions, complex tasks, opportunities, unexpected events, constraints, inaccurate reporting, etc.). | 37                                       | Directly tested                   |

22. Incentive compensation recommendations should consider recent changes to the employee’s job (e.g., increases or decreases in responsibilities, recently promoted or laterally rotated, new or loss of experienced coworkers, etc.).               | 5                                        | Theoretical support only          |

23. Incentive compensation recommendations should consider the long-term trends in the employee’s job performance in addition to just the previous year or period.                                                | 31                                       | Directly tested                   |

24. Incentive compensation recommendations might consider the career stage level within compensation range.                                                                                                               | 20                                       | Directly tested                   |

25. The process should consider the important contingencies that influence performance (e.g., exposure, job assignments, market conditions, etc.).                                                                                | 18                                       | Directly tested                   |

26. Incentive compensation processes should consider the risks taken by the employee and not overly reward undo risk-taking (e.g., by adjusting the bonus for the amount of risk, by deferring payments until the outcome of risks are known, or by other means). | 22                                       | Indirectly tested                 |

27. Incentive compensation processes should define the appropriate measures of risk that should be considered for each department, job, level or type of employee.                                                                   | 9                                        | Indirectly tested                 |

**Implementation**

28. The purpose, policies, procedures, and other details of the incentive compensation process should be clearly communicated to employees.                                                                                                    | 21                                       | Indirectly tested                 |

29. The incentive compensation amount and the criteria determining the amount should be clearly communicated and explained to the employee, and the employee should have the opportunity to ask questions to understand and accept the amount as fair. | 16                                       | Indirectly tested                 |
Table 1. (continued)

<table>
<thead>
<tr>
<th>Best practice in compensation</th>
<th>Number of supportive literature citations</th>
<th>Research support</th>
</tr>
</thead>
<tbody>
<tr>
<td>30. The process for determining incentive compensation should be standardized in terms of policies, procedures, etc., to the extent possible.</td>
<td>12</td>
<td>Indirectly tested</td>
</tr>
<tr>
<td>31. The managers who make incentive compensation recommendations should be trained or well instructed.</td>
<td>4</td>
<td>Indirectly tested</td>
</tr>
<tr>
<td>32. The incentive compensation process should be based on standardized rules and procedures, yet be sufficiently flexible to adapt to varying applications.</td>
<td>8</td>
<td>Indirectly tested</td>
</tr>
<tr>
<td>33. Usually, judgment is needed rather than a single formulaic approach to making incentive compensation appropriate with respect to some jobs and employees.</td>
<td>4</td>
<td>Indirectly tested</td>
</tr>
<tr>
<td>34. All reasonable precautions should be taken to reduce subjectivity and potential for bias.</td>
<td>3</td>
<td>Theoretical support only</td>
</tr>
<tr>
<td>35. Where judgment plays a role in the incentive compensation processes, there should be policies, procedures, internal controls and monitoring to reduce subjectivity.</td>
<td>3</td>
<td>Theoretical support only</td>
</tr>
<tr>
<td>36. The Human Resources staff should monitor and provide support to the incentive compensation process as needed (e.g., information, guidance, administrative processing, etc.).</td>
<td>3</td>
<td>Theoretical support only</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>37. Incentive compensation recommendations should be equitable when compared across employees both in the same job (department) and across jobs (departments).</td>
<td>5</td>
<td>Directly tested</td>
</tr>
<tr>
<td>38. The incentive compensation bonus process should be based on principles of internal equity across employees, meaning it ensures that the bonus differences between employees in the same company are justified based on the job and the performance of the employees.</td>
<td>11</td>
<td>Directly tested</td>
</tr>
<tr>
<td>39. The incentive compensation process should be based on external equity with the market, meaning it ensures that the bonuses are the same as that for similar jobs in other companies.</td>
<td>11</td>
<td>Directly tested</td>
</tr>
<tr>
<td><strong>Review</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>40. Incentive compensation recommendations should be reviewed by higher level managers, typically a compensation committee.</td>
<td>12</td>
<td>Theoretical support only</td>
</tr>
<tr>
<td>41. An appeal mechanism should be allowed as part of the incentive compensation process for employees to raise concerns to a higher level of management or outside authority if needed.</td>
<td>15</td>
<td>Theoretical support only</td>
</tr>
<tr>
<td>42. Internal controls should be in place to ensure proper functioning and compliance of the incentive compensation process.</td>
<td>12</td>
<td>Theoretical support only</td>
</tr>
<tr>
<td>43. The incentive compensation process and outcomes should be documented each year.</td>
<td>3</td>
<td>Theoretical support only</td>
</tr>
<tr>
<td>44. The incentive compensation process should be reviewed and audited periodically for effectiveness and compliance, and then be improvements made as needed.</td>
<td>9</td>
<td>Theoretical support only</td>
</tr>
</tbody>
</table>
In addition to linkages to the performance evaluation process, the incentive system should be linked to other human resource (HR) processes. For example, the incentive compensation process should be integrated with career development systems so it leads to opportunities for higher incentive compensation, promotions and other career development outcomes. Likewise, higher incentive compensation might be used to reduce the turnover risk of some employees (e.g., high potential employees who might receive opportunities to move to other companies at higher pay).

The overall amount of research support for the strategic best practices is very strong. One area in need of additional research is the integration of incentive bonus compensation with career development processes in organizations, where the evidence is primarily theoretical. Motivating employees with compensation is only one form of incentives. Employees also highly value promotion and other forms of personal development. Another area in need of more research not directly reflected in the best practices is ways of reducing the apparent need for continual adjustment to incentive compensation systems. Those in practice will readily observe that organizations must continue to adjust their incentive compensation to maintain alignment with business strategy and/or avoid dysfunctional outcomes, such as not incentivizing employees to focus on the most important business objectives.

Criteria

Once the strategic decisions are made, the next stage in developing an incentive compensation bonus program is determining the criteria on which to base the bonuses. Of course, the criteria should be highly job related and, as suggested above, based in large part on the job performance of the employee. The job performance measures for incentive compensation should be based on both job behaviors and objective results. The measures of job behavior should also capture those aspects of performance not fully captured by the productivity measures, such as effort, service, teamwork, citizenship and factors unique to the company.

Results should be measured based on objective quantifiable metrics, such as revenues, margins, risks, sales or other indicators of performance. The objective measures should not be deficient of the important indicators of performance. For example, objective measures of sales might not reflect customer service. Likewise, the objective measures should not be contaminated by extraneous factors. For example, the quality of the sales territory, new products or the general state of the economy might influence performance more than the employee’s hard work.

Sometimes normative information should be provided to enhance interpretation for job performance measures used as input to incentive compensation. Comparisons to other employees, time periods, companies or benchmarks can help interpret the level of performance. If possible, multiple managers over the employee should have input to the incentive compensation or performance evaluation for the incentive compensation because that will increase the reliability of the judgments, as well as bring more observations and information to bear. Sometimes other employees in addition to the immediate manager might have relevant input to the evaluation of an employee’s job performance, such as peers, subordinates, managers in other areas and other coworkers. So-called “360 feedback” is increasingly becoming part of the performance evaluation process in many companies.

The overall amount of research support for the best practices relating to the criteria that should be used to base incentive compensation is also very strong. One exception is the area of alternative sources of subjective input into the judgment of the job performance on which to base the incentive bonus. Although the direct manager is the primary traditional judge, there are many well-known weaknesses of manager judgments in terms of reliability, accuracy, potential biases and so on. This suggests that additional sources of input might have great value, such as other managers and peers. This is especially the case with
jobs that involve teamwork or working with others across the organization, which has become much more common. However, employees may not readily accept peer or other forms of input into the judgment of their job performance, and peers may also have mixed motives in providing accurate feedback.

**Contingencies**

While the criteria are being determined, it is also a good time to consider the various contingencies that can influence the design of the incentive compensation bonus process. Foremost among these contingencies is that any compensation process should be designed to control costs.\(^{22,23}\) One common way to do this is to base the amount of money spent on incentive compensation in part on the profitability of the company.\(^{24}\)

Another key contingency is that incentive compensation bonuses should consider the difficulty of the employee’s job or other biasing factors such as business conditions, complex tasks, opportunities, unexpected events, constraints, inaccurate reporting and so on.\(^{25}\) Bonus recommendations should also consider recent changes to the employee’s job. For example, this might include whether the employee experienced recent increases or decreases in responsibilities, whether the employee was recently promoted or laterally rotated or whether the employee experienced new or a loss of experienced coworkers.\(^{26}\) Incentive compensation decisions should consider the long-term trends in the employee’s job performance in addition to just the previous year or period. Likewise, incentive compensation might consider the career stage or level within compensation range.\(^{27}\) Should less be expected of new or inexperienced employees? Should bonuses consider how highly an employee is paid relative to peers? These are other important contingencies that may influence incentive compensation bonuses.

Moreover, incentive compensation processes should consider the risks taken by the employee and not overly reward undo risk-taking.\(^{28,30}\) Examples include adjusting the bonus for the amount of risk, deferring payments until the outcome of risks are known or by other means. Such factors are commonly considered for jobs involving financial investments, but the logic applies to many jobs that place the organization in a position of risk. When used, the process should define the appropriate measures of risk that should be considered for each department, job, level or type of employee.

Most of these contingencies have been tested in the research in some manner. However, many of them could use more research attention because the research has mostly identified that they are important, but not precisely how to manage them. For example, how much adjustment should be made for career stage? Do senior employees need more or less incentive to stay motivated? Likewise, when business conditions are difficult, should incentives be decreased because the organization may not be able to afford as much pay, or increased to motivate greater effort? One underresearched contingency is the consideration of risk-taking. Some risk-taking might be necessary, but how much? And does shifting some risk to the employee’s bonus effectively reduce risk for the company? Future research should also examine how organizational and country culture influence the importance and tolerance for risk-taking as it relates to incentive compensation.

**Implementation**

The administration of the program should ensure that the purpose, policies, procedures and other details of the incentive compensation bonus program are clearly communicated to employees.\(^{31,32}\) Programs that are not well understood are not as effective in motivating increased effort. In particular, the incentive compensation bonus amount and the criteria that determine the amount should be clearly explained, and employees should have the opportunity to ask questions. This is also critical to ensuring that employees will perceive that the bonus amounts are fair.\(^{33}\)

There are many other ways to enhance perceptions of fairness, as well as ensure that the
program is easy to administer. To the extent possible, the process for determining incentive compensation bonuses should be standardized in terms of policies and procedures. Similarly, the managers who make incentive compensation recommendations should be trained or well-instructed.

However, the process should be sufficiently flexible to adapt to varying applications. There will virtually always be some exceptions and other needs to adjust the bonuses. As such, a formulaic approach may not be widely applicable; therefore, management will need to make judgments appropriate to some jobs and employees. Nevertheless, all reasonable precautions should be taken to reduce subjectivity and potential for bias. Where judgment plays a role in the incentive compensation processes, there should be policies, procedures, internal controls, and monitoring to reduce subjectivity.

In the end, the HR staff plays a key role in ensuring proper administration and fairness. They should monitor and provide support throughout the incentive compensation process as needed, such as providing information, guidance, and administrative processing.

There is much less research on implementation issues, partly because there has been very little research about many implementation principles that are widely accepted as obvious. That incentive bonus process details should be standardized and communicated to employees hardly needs research to prove its value. However, research on procedural justice shows clearly that “how” an HR process is administered is critical to employee acceptance and perceptions of fairness, which can support or undermine the effectiveness of the process. Also, there are many tradeoffs in the implementation of incentive compensation that are not obvious and require more research. For example, although standardization seems fairer than subjectivity, management judgment is often needed to make adjustments when the standardized process leads to undesirable outcomes. Balancing standardization with judgment may not be perceived as procedurally fair when employees receive a smaller bonus because of it.

**Equity**

Aside from procedural fairness as discussed above, any discussion of compensation must consider equity in the sense of pay comparisons. Just like other types of compensation (e.g., base and pay increases), incentive compensation recommendations should be equitable when compared across employees both in the same job (department) and across jobs (departments). In other words, the incentive compensation bonus process should be based on principles of internal equity within the company, meaning it ensures that the bonus differences between employees in the same company are justified based on the job they hold and their performance.

Likewise, the incentive compensation process also should be based on external equity with the market, such that it should ensure the bonuses are the same as those for similar jobs in other companies. However, this practice may not be applicable if the organization is in an industry where bonuses are not common, or where the company intends to differ from the competition by using bonuses as a strategic advantage.

These practices are well supported by the research literature. However, research is needed on whether people are willing to make tradeoffs between direct compensation like bonuses and nonpecuniary rewards. For example, how much less compensation would new hires be willing to accept if they can work remotely and not move when accepting a new job? Similarly, does teleworking or flextime have value equivalent to some amount of monetary compensation? And how can such tradeoffs be managed across employees who may value them to different degrees?

**Review**

As another way of ensuring fairness and equity, bonuses and the process used to determine them should be subject to review. Normally, higher level managers review incentive compensation recommendations. Often, organizations will also have a compensation committee review these recommendations to
allow for the consideration of multiple viewpoints. Membership will include representatives from senior management and finance, as well as the compensation professionals in HR. An important adjunct to review is an appeal mechanism so employees can raise concerns to a higher level of management or outside authority if needed. This is especially important if there is not a compensation committee.

Moreover, internal controls should be in place to ensure proper functioning and compliance of the incentive compensation process. Internal controls refer to checks and balances in the sense of audits in accounting, which are designed to prevent abuse and fraud, as well as to ensure the accuracy of financial records. Related to this, the process and outcomes should be documented annually. Finally, the incentive compensation bonus process should be reviewed and audited periodically for effectiveness and compliance. Like any other process, administrative processes like incentive bonus compensation should be subject to continuous improvement.

Like implementation, there is much less research on review practices because these are so logical that research is not necessary to support them. Again, like implementation, these issues should be viewed through the lens of procedural justice, which might suggest fruitful avenues for research. For example, research on a related HR process, performance evaluation, has gained insight from research on court cases to demonstrate that review with employees is critical to legal defense, while appraisal type and frequency were not. Perhaps research on compensation court cases would show some unexpected findings, as well.

**Conclusion**

An incentive compensation bonus system can be useful for many purposes in organizations. Yet many systems in organizations do not function as well as they could and may have adverse effects for employees that go unnoticed. One reason for this is that these systems can be fairly complex (e.g., in terms of their effects on employees, how they should be integrated with other HR systems). A second reason is that these systems are often grounded in traditions of the organization or industry rather than in evidence-based management. Thus, in this review, we sought to distill the scientific and professional evidence available on incentive compensation bonus systems and use it to generate a set of best practices. Such practices are useful for organizational decision makers as they look to improve the incentive compensation bonus systems within their organizations.

**Authors' Note**

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**Supplemental Material**

Supplemental material is available for this article online.

**Notes**

3. The original version of this checklist was developed in the context of a lawsuit.
4. See Note 1.


22. See Note 11.


30. Department of the Treasury, Office of the Comptroller of the Currency, Federal Reserve System, Federal Deposit Insurance Corporation, and Department of the Treasury


35. See Note 31.


39. See Note 32.

40. See Note 31.


43. See Note 36.


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Michael A. Campion is professor of Management at Purdue University. He is the past president of the Society for Industrial and Organizational Psychology and past editor of Personnel Psychology. He is among the 10 most published authors in the top journals in his field. Awards include a chaired professorship at Purdue and the Distinguished Scientific Contributions Award from SIOP. He has also conducted over 1100 consulting projects for over 160 public and private organizations, as well as spent 8 years at IBM and Weyerhaeuser Company. He has a PhD in Industrial and Organizational Psychology from North Carolina State University.