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DEVELOPING BONUS PLANS FOR MANAGERS IN ORDER TO MAXIMIZE VALUE FOR OWNERS

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Abstract. *Rewarding managers in the corporate enterprise means that they receive profit for achieving planned performance while for achieving above the planned level they receive various types of stimulation. Bonuses are the most common form of incentives for managers that are paid in proportion to their contribution to the success of the business. In the corporate enterprise it is necessary to develop such a system of rewarding managers which will motivate them to act in accordance with the interests of owners and encourage them to undertake those risky business activities that will contribute to the maximizing of the value for owners.*

In order to ensure guidance for managers towards the continuous improvement of companies' performances, developed bonus plans should be based on performance measures important to the owners (measures are based on: concept of accounting result, concept of economic results and cash flow concept). For rewarding top managers, the application of measures based on the concept of the accounting result that directly correspond to the price of shares is the most appropriate for the calculation and payment of bonuses (yield rate implied by the price of shares, yield rate provided by the manager in the strategic plan, as well as the price of the capital). For managers of business units it is not always possible to establish a direct link between rewarding and the movement of share prices, therefore the most suitable criteria for the calculation of bonuses are the criteria based on the concept of economic result (the most suitable is EVA) and criteria based on the cash flow (the most suitable is SVA). Rewarding managers on the operational level of management is linked to performance, which in essence represents macro or micro value drivers, that can be directly linked to the performance of these managers.

Rewarding managers also implies that short-term and long-term incentives are balanced in their compensatory package, which also applies to the bonuses. Efficient compensatory system should contribute to the harmonization of the individual goals of the managers and the objectives of the owners, in the short and long term, and to ensure fair distribution of bonuses in the management structure. Rewarding managers by bonus disbursement should ensure readiness and loyalty of the management to achieve the expected yields for the owners not only in short, but in the long run as well.

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INTRODUCTION

In the modern corporate enterprise, in which the function of ownership is separated from management function, the development of compensatory system (reward system) represents an important step in achieving the primary objective of business i.e. maximizing value for owners. Despite the fact that the goals of the managers often differ from the objectives of shareholders, the task of management is to realize the expectations of the owner.

Different interests of managers and owners can evoke agency problem (the problem of decision-making by management which are not in the interest of the owner). In addition to solving this problem, the development of an adequate system of remuneration should contribute to directing the behavior of managers and other employees towards continuous improvement in business performance and creating value for its owners. This requires for the compensatory system to be based on performance criteria important for the owners. Selected performance criteria should enable the determination of the contribution of managers to the achieved success and level of adequate financial and non-financial incentives that may be significant for meeting the objectives of managers and owners, and thereby reducing agency costs.

As components of compensation packages for managers there appear: earnings (basic salary), stimulations, various types of benefits (supplementary pension insurance, life insurance, etc.) and other benefits (soft loans, free legal and financial advice, paid seminars, as well as some non-monetary benefits). Rewarding a manager entails that they gain profit for the achievement of planned (target) performance, whereas achievement above the planned level brings special incentives. In the structure of incentives most frequently occur: raise of the base salary on a monthly or annual basis, special awards for achieving above average results, lump-sum payments (for professional engagement for example), options on shares for top managers and others. Still, the best-known form of stimulation are bonuses, which are not an integral part of their earnings, but are realized on the basis of the contribution of managers to the business success of the company.

The planning of a bonus in the short run is done through bonus plans, and bonus payments may be immediate or delayed, usually in cash. Long-term motivation of managers is realized through various instruments of their involvement in the ownership, typically through a free allotment or sale of shares under certain conditions. As far as long-term planning of a bonus as a form of compensation for managers is concerned, it is achieved through a bonus bank, as a special bonus fund.

In the compensatory system based on values there are multiple solutions for rewarding managers at different levels of governance through bonuses, and they vary in terms of performance criteria through which the performance of managers is monitored (the performance criteria based on: the concept of accounting result, the concept of economic results and cash flow concept).

The subject of this paper are bonus plans developed in order to reward managers in accordance with their contribution to the success of the business based on various performance criteria significant to the owners of the capital. The aim is to show the different types of bonus plans for managers who depart from the performance criteria based on different concepts of results (the concept of accounting result, the concept of economic results and cash flow concept), as well as to highlight their advantages and disadvantages in the context of the motivation of managers to contribute to maximizing value for capital owners in the corporate enterprise.

1. Traditional Bonus Plan Based on the Concept of Accounting Results

Based on the performance criteria significant to the owners bonus plans for managers differ: bonus plans based on the concept of accounting results, bonus plans based on the concept of economic performance and bonus plans based on the cash flow concept [12, 153-170]. This division is in accordance with the classification of criteria of success significant for the owners of the capital in three groups [12, 65-103]: criteria based on accounting profits (EPS, ROI, RONA, ROCE, ROE)[1] , criteria based on economic result (EVA, MVA)[2] and criteria based on cash flow concept (FCF, ROGI, CFROI, TSR, TBR, CVA, SVA)[3] .

Bonus plans for managers based on the concept of accounting result in the calculation and payment of bonuses start from the accounting performance criteria such as absolute criteria (operating profit, net profit, etc.) and different types of yield rates on capital invested in the business.

The traditional bonus plan is based on the concept of accounting result and has the following essential characteristics [21, 131-133]:

- target bonus is related to planning (target) financial performance,
- the minimum level of performance that must be realized in order to achieve bonus is provided and
- there is no upper limit for the payment of a bonus.

The traditional bonus plan based on the concept of accounting result is presented in figure 1.

In most cases, traditional bonus plan provides a minimum level of performance which provides rewards at the level of 80% of target performances. Below this level, the bonus is not earned. The maximum bonus is calculated at the level of 120% of target performance. Traditional bonus plans, mainly in corporations in developed countries, include a payment of a 50% bonus in the case of a minimum level of performance, and 150% reward at achieving maximum performance level.

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[1] Earnings per share (EPS), Return on investment (ROI) Return on net assets (RONA), return on capital employed (ROCE), return on equity (ROE)

[2] Economic profit or economic value added (EVA), market value added (MVA)

[3] Free cash flow (FCF), cash flow return on gross investment (ROGI) Cash flow return on investment (CFROI), Total shareholder return (TSR) Total business return (TBR), cash value added (CVA), Shareholder value added (SVA)

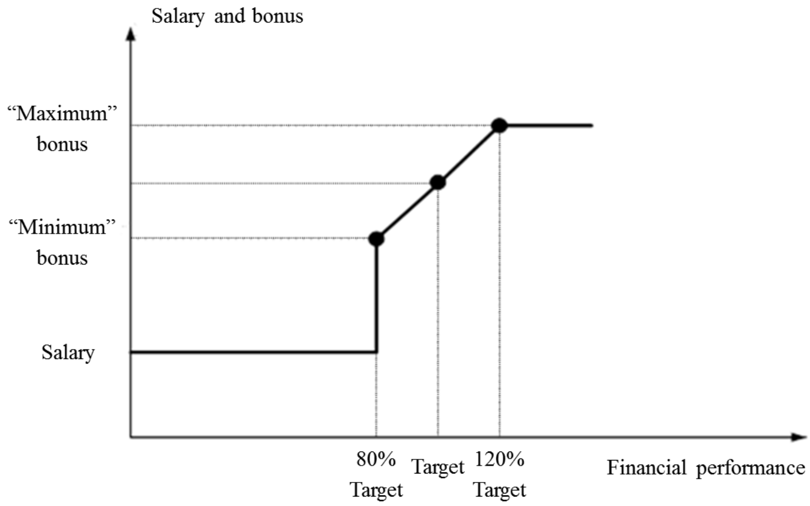

Fig. 1 Traditional bonus plan based on the concept of accounting result
Source: [21, 132]

Disadvantages of traditional bonus plan from the standpoint of maximizing value for the owners are the following:

- accounting performance criteria (operating profit, yield rate on capital employed) often do not have a strong connection with creating value for owners [21, 133]; added value for owners need not always be achieved if there is an increase of accounting performance criteria, which can happen when a positive yield rate on investments can not cover the total cost of capital, and there will be a reduction in shareholder value, although there is no basis for compensation payment;
- this reward system may condition speculative behavior in managers of business units; this implies that, in the case where managers have achieved performance which provides maximum bonus in the current period, they can postpone income for the next period; that way they can apply a redistribution of income in successive accounting periods, allowing them a maximum bonus for a longer period;
- there may be problems in defining new performance targets for the next accounting period; successful managers of business units will be punished with new bonus plan for the next fiscal year because of the reduced opportunities for achieving superior performance that are anticipated at a higher level and are more difficult to achieve compared to the previous period; unsuccessful managers of business units will, in turn, be rewarded because their new bonus plan reduces the level of performance targets and does not set ambitious goals;
- traditional bonus plan may initiate a conflict while achieving the goals (short and long-term) of managers and owners; with this bonus plan short-term results are pushed in the foreground, which is often only in the interests of managers but with long-term negative consequences for both managers and owners;
- traditional bonus plan is not conducive to good managers, while for mediocre managers fees are guaranteed;

- managers set the target performance and report on their accomplishment, which can lead to manipulation by managers which can affect the level of bonus paid; on the one hand, traditional bonus plans can often be subjective, because managers are the ones who design the financial parameters of success, which opens up space for underestimating potential (target) levels of performances; On the other hand, inadequate accounting policies and low targets performances may influence managers in the financial statements to present unrealistically high achieved performance and achieve high bonuses [5, 103].

In practice, a linear bonus plan is known, based on performance criteria based on the concept of accounting result which seeks to limit, i.e. eliminate manipulating of managers to some extent, which can lead to poor management decisions and have a negative impact on the value for the owners. This bonus plan emphasizes the principle of paying for realized performances, rather than potentiate the determination of objectives and the lower and upper limit of the bonus, so that it defines a bonus formula by which the bonus is directly tied to specific performances [11, 129]:

Achieved performance x % Bonus

If, however, an objective is determined, formula for determining bonuses would look like this:

Target performance x Effectiveness of achieving target performance x % bonus

Linear bonus plan is shown in figure 2:

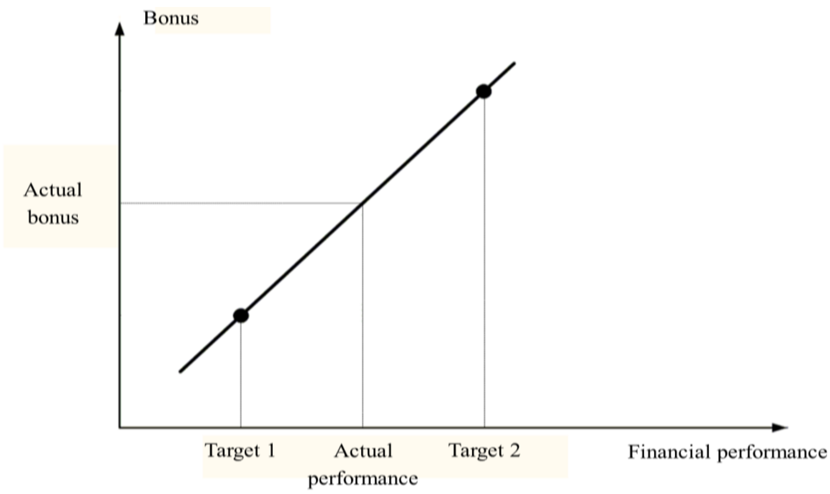

Fig. 2 Linear bonus plan
Source: [8, 98]

The position and slope of the bonus in the chart are very important. If this curve moves to the right in the creation of the compensation plan, it means that the possibility to receive bonuses is hindered, while the movement of the curve to the left indicates the facilitation of opportunities to obtain bonus. This bonus plan allows you to set the curve of the bonus on long-term projection of accounting performance criteria and the development of enterprise, which is an advantage over the traditional bonus plan. The disadvantage is that it is not easy for the managers to accept the linear model of determining bonuses because objective-based bonuses are deeply embedded in their thinking. Also, the disadvantage of this bonus plan is that the success of its application will depend on selected accounting performance criteria that are used to define the objectives, positioning of the bonus line and its slope.

It should be noted that the bonus plans based on the concept of accounting result are particularly suitable for the calculation and payment of incentives to top managers. To determine the bonuses of top managers the most appropriate yield criteria based on the accounting concept of results which directly correspond to the price of shares are as follows: yield rate implied by the share prices and the yield rate provided by the manager in the strategic plan, but also the cost of capital [17, 110]. Theorists who favor these performance criteria argue that their use of remuneration enables harmonizing of the interests of top managers with the interests of the owner and that they should be rewarded only if they meet or surpass market expectations[4] .

Bonuses for managers of business units (divisions) can also be determined using the bonus plans which start from performance criteria based on the accounting concept of results. Most appropriate performance criteria for this level of managers are: net gain[5] , the rate of return on capital employed (ROCE), return on equity (ROE)[6]. However, as mentioned, performance measures do not directly correspond to the share price, they are considered insufficiently appropriate for rewarding managers of business units.

For managers at lower (operational) levels of management bonus plans based on performance criteria that fall within the domain of macro and micro drivers of value are suitable. Usually, these criteria are based on the concept of accounting result complemented by specific non-financial criteria that can be linked to the performance of the managers at this level of management.

The deficiencies of the performance criteria based on the accounting concept of results influenced the change in the basic postulation of successful business enterprises and in the placing of new demands in the sense of performance measurement and enterprise management. All this has resulted in the development of more suitable concepts of performance measures in the function of creating shareholder value. Certain conditions should be met for a performance measure to show success of the company and an increase in the value for owners [21, 34]:

- there should exist an adequate database on the basis of which performance measure may be determined in practice;

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[4] In the setting of the system for rewarding managers the following relations are typically used:

Capital sum of market expectations = Corporate rate of return implied in the price of shares - capital cost, and

Planned surplus or deficit = Corporate rate of return anticipated strategic plan – Corporate rate of return implied in the price shares.

The difference, however, between the capital sum of market expectations and planned surplus (or deficit) is a part of the capital sum of market expectations that managers must achieve. For more see: A. Rappaport, "Creating Shareholder Value: A Guide for Managers and Investors", The Free Press, 1998, p. 110.

[5] Bonus Plan defines a certain percentage of the realized net profit of business units (divisions).

[6] The application of these rates implies the definition of profitability rates and comes to the profit potential that divisional manager needs to realize. If they achieve lower profitability, there is no basis for stimulation, but for punishment. For the realized rate of profitability higher than the target, divisional manager is rewarded.

- it should provide an opportunity for detailed analysis;
- there should exist a direct relationship with the created value of an enterprise;
- it should evaluate the performance of the company, taking into account the risk and expected yield of the owner;
- there should be a possibility of comparison with other enterprises;
- it should also allow use in lower organizational units of the enterprise;
- it should stem from the assumption that the main goal of the enterprise is the long-term growth of capital value.

With this in mind, it is considered necessary that the bonus plan for managers proceed from those performance measures that would be a good basis for remuneration, on the one hand, and in relation to the contribution of managers to the created value for owners, on the other hand. Hence, in practice, there has been the development of bonus plans based on performance criteria that enable better measurement of projected and created value for the owners in relation to criteria based on the accounting concept of results. These are bonus plans based on the concept of economic results and cash flow concept, which will be presented in the next two sections.

2. Bonus Plan Based on the Concept of Economic Result (Economic Profit)

The group of criteria based on the concept of economic result starts from the economic result (economic profit), which represents the difference between the accounting net result (profit) and cost of total capital (own and borrowed). The concept of economic profit in contemporary business becomes the conceptual basis for the development of new criteria for measuring the newly created value for owners (EVA, MVA, discounted economic profit) [12, 153-184]. Economic Value Added (EVA)[7] occurs in the 90s of XX century, when it was patented as the "invention" of Stern, Stewart & Co.; it is similar to economic profit with the inclusion of numerous modifications of accounting data when calculating[8]. Among other things, EVA has proved to be a good measure for the development of bonus plans for managers, because it shows the absolute amount of value that the enterprise had realized or lost during the year [19, 66]. In theory and in practice there are two known versions of the bonus plans based on the concept of EVA: original and modern bonus plan based on the concept of EVA.

The original version of the bonus plan that is based on the concept of EVA has been an important tool for the creation of strong, sustainable and cost-effective incentives. Original EVA bonus was calculated at a certain percentage of EVA [21, 135]:

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[7] EVA is calculated as follows:

a) *Commercial approach: EVA = NOPAT* – (*WACC x IC*), *wherein:*
NOPAT - net business (operating) profit after tax
WACC - average weighted price of capital
IC - invested capital

b) *Financial approach: EVA = (ROIC - WACC) x IC*
ROIC - profitability of invested capital
(*ROIC* - *WACC*) – range of return
IC - Invested Capital

[8] There are 160 possibilities to adjust the gain according to generally accepted accounting principles (GAAP), however, it is not necessary in every enterprise to make all the adjustments, given that some components are of negligibly small value. Because of this it is considered that the economic value added (EVA) is only one of the variants of residual profits.

$$Bonus = x\% \ x \ EVA$$

which can be shown in figure 3:

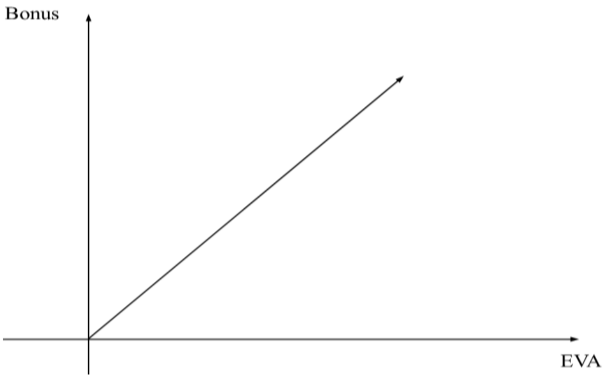

Fig. 3 EVA original bonus plan
Source: [21, 135]

Compared to traditional and linear bonus plans which are based on the accounting performance criteria, the original EVA bonus plan provides realistic bonus payments in accordance with the contribution of managers to the created value for owners. However, the EVA bonus plan was not fully able to realize all the goals of compensations. The shortcomings of the original bonus plan are as follows:

- this bonus plan provides bonuses to managers of business units in the case when the rate of return on investment is higher than the cost of capital; if the rate of return on investment equals the cost of capital, managers will not get bonuses; in cases where managers improve performance (for example from a negative rate of return to the rate of return that corresponds to the cost of capital) it is unfair because they lose their bonuses;
- this bonus plan can be expensive for the shareholders in the event of problems in calculating EVA criteria; for example, if the capital is stated at historical accounting value instead of the market value, EVA will be positive, even if the owners do not get a fair return on invested capital;
- even when EVA is well calculated, the bonus plan does not take into account the fact that the market value of the company is reflected next to the property value and the value of possible future growth; as the shareholders pay for both components of the market value of the company, they expect a return of the entire market value of their investment and future growth; positive EVA enables the realization of the first component only, but if there is a decrease in stock prices at the same time, EVA bonus plan will contribute to the creation of high costs for shareholders because they are obligated to pay a bonus; conversely, negative EVA, which is accompanied by an increase in stock prices and the creation of opportunities for future growth, will condition the absence of bonuses;
- complicated calculation of EVA performance can increase the effective cost to shareholders and make this bonus plan expensive for them, and therefore, in order to create incentives that will not result in excessive costs for the shareholders, it is necessary to focus on changes in EVA performance; this has led to the development of

the original EVA bonus plan in terms of its reliance on the percentage of a certain level of EVA and the percentage of change in EVA:

$$Bonus = (x\%\ x\ EVA) + (y\%\ x\ \Delta\ EVA).$$

Such calculation of bonuses avoids the problems that occur with the original bonus plan, because the percentage that is applied to the expected EVA can provide a good incentive for managers, while the percentage from the improvement of EVA can provide a competitive bonus.

Further development of the bonus plan has been directed towards designing a modern bonus plan that is based on the improvement of EVA criteria. There are three reasons for this:

- changes (improvements) of EVA criteria enable efficient incentives,
- changes (improvements) of EVA can be calculated and applied in every company (in those with a positive as well as in those with a negative EVA) and
- EVA changes (improvements) provide a direct connection between a bonus and the return to the shareholders.

The total bonus in modern EVA bonus plan equals the sum of the target bonus and the percentage (fixed percentage of excess EVA improvement) of differences between the actual and expected EVA improvement [21, 139]:

Bonus = Target bonus[9] *+ Incremental* (*additional*) *bonus*, or

$$Bonus = Target\ bonus + y\%\ (\Delta\ EVA - EI)$$

Δ *EVA* – improvement of EVA (EVA 1 - EVA 0)
EI – expected improvement of EVA (EVA interval)
y – fixed percentage of excess EVA improvement.

Representation of modern EVA bonus plan is given in figure 4:

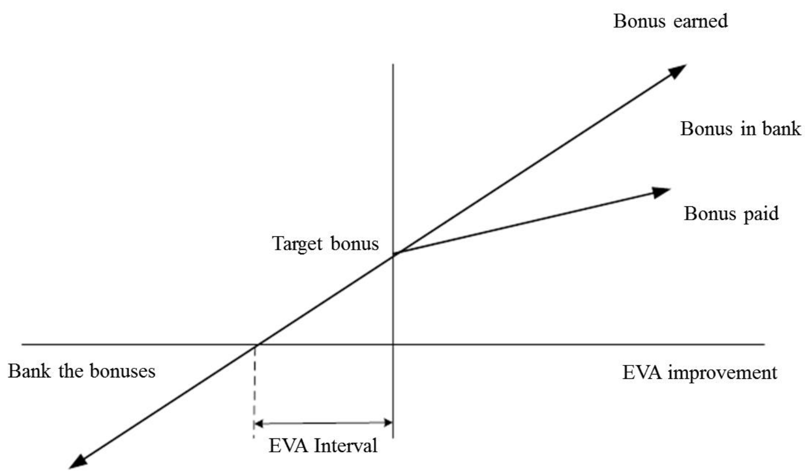

Fig. 4 Modern EVA bonus plan
Source: [21, 139]

[9] Target bonus, according to the advocates of such a plan is necessary to make it more consistent with the practice in the labor market in relation to the payment of bonuses for planned or expected performance.

The chart shows that the total bonus earned is the summation of the target bonus and a fixed percentage of EVA improvement. The target bonus is consistent with the practice of bonus that is valid at the market manager, and is provided on the basis of expected EVA improvement.

Contemporary bonus plan is determined annually in a process called calibration of bonus plans[10]. Three key points are determined in the process [21, 141]:

- target bonus,
- expected EVA improvement and
- EVA interval (EI).

The target bonus of an enterprise/ business unit is determined at the level of the target bonus of the enterprise with similar competence. Business unit managers will achieve the target bonus if they achieve the expected EVA improvement. Then the expected EVA improvement should bring the return on the market worth of their investments in the amount of the price of the capital to the shareholders, which is identical to their expectations. If the expected EVA improvement is exceeded, managers will gain bonus above target bonus, however if the expected EVA improvement is not achieved, their bonus will be below the level of the target bonus.

In order to truly align the interests of managers and owners, the expected EVA improvement should reflect investors' expectations in terms of performance. Only when the expected improvements of EVA are realized will the investors get a refund i.e. the return on market value of their investments. A good approach in evaluating the expected EVA improvement involves extrapolation of a series of future expected EVA improvements which includes the current stock price of the enterprise[11]. Also, the EVA advocates recommend the use of perennial and predefined expected EVA improvement, because the annulment of EI each year can result in rewarding of poor performances with lower EI and punishing of good performances with higher EI.

EVA Interval (EI) should be defined so that managers receive zero bonus for achieved zero level of return (refund) for shareholders. To determine the EVA interval it is necessary to establish the excess return on the market value of investments (enterprises) via the formula [21, 142]:

$$\textit{Excess return} = \textit{WACC x market value of investments in the company}$$

WACC – average weighted cost of capital
EVA interval is then determined as follows:

$$\textit{EVA interval } (EI) = \textit{Excess return} / ((1 - WACC) / WACC).$$

When the adjustment of the expected performance of EVA and EVA interval (EI) is based on market expectations, it is possible to align managers' fees with investors' return. However, that can put a lot of pressure on managers and create a problem for their retention and motivation. In order to prevent this, the adjusting of the expected performance of EVA and EI can be performed, consistent with the desired probability of zero bonus during the period covered by the plan.

[10] Bonus plan calibration - According to Young, S., O'Byrne D., F, S.
[11] The approach in the implementation of EVA in the original EVA bonus plan involved a combination of EVA from the previous years and set goals related to EVA in previous periods.

A problem that can arise from focusing on EVA performance of the current period at the expense of future performance can be solved by using a system of EVA bonus bank. The basic idea behind EVA bonus bank is that managers are only paid a portion of the bonus (one-third) which had been earned during the period, while the remaining part (two-thirds) of the bonus is transferred to the next year. EVA bonus bank provides:

- taking into account the long term interests of the owner,
- limitation of large variations in the payment of bonuses,
- payment of bonuses to managers in accordance with the improvement of EVA and
- linking of short-term and long-term decision-making.

Continuity in the payment of bonuses will only exist if there is sustainability in increasing EVA. Otherwise there will not be payments of bonuses. Such a situation should affect the managers to focus on achieving long-term, sustainable improvements of EVA, and not on the current performance of the EVA. These incentives can be strengthened by using non-financial criteria such as customer satisfaction, product innovation, etc. These criteria, along with the movement of stock prices, can facilitate understanding of problems in the actions taken to improve EVA in the current period.

EVA bonus bank enables retention of the managers, because the leaving manager has to sacrifice a fee earned in the previous period, which would be paid in the future. EVA bonus bank at the same time provides an opportunity for good managers (with a large positive bonus in the bank) to remain in the company and encourages bad managers (with the negative balance in the bank) to leave the company.

The advantages of a modern EVA bonus plan are:

- objectivity in the definition of planned (target) performance in accordance with the expected value for the owners;
- encourages good managers to remain with the company, and bad to leave it;
- contributes to resolving the agency problem ie. encourages managers to make decisions in accordance with the interests of the owner;
- enables the connection of short-term and long-term incentives for managers in order to get them closer to the interests of the owners and to maximize value for owners.
- provides remuneration of managers at the business unit level.

Disadvantages of modern EVA bonus plan are:

- some authors argue that the movement of EVA performance does not adequately monitor the movement of share prices, and for that reason it is not so good for rewarding managers, as thought by the advocates of application of EVA concept in the development of bonus plans;
- there are limitations to this bonus plan which are conditioned by cultural differences in certain countries [7, 46-74]; in countries whose national culture is characterized by uncertainty avoidance, low degree of individualism and difficulty in accepting challenges EVA bonus plan will be ignored, while in countries whose national culture is characterized by individualism, readiness to change in the organizational structure of the corporate enterprise EVA bonus plan will be well accepted;
- it requires implementation of the EVA concept at all levels of management, which may cause a problem of delegation of responsibility in the achievement of EVA performance at the operational levels of management; it showed that EVA is not suitable for use in rewarding managers at the operational management level, because it

is not possible to reliably determine the relationship between the contribution of their work and created values for owners;

- differences in tendencies towards risk taking in business among managers at different levels of management and owners can be a problem in the development of EVA compensatory system in the corporate enterprise; managers of business units are more afraid of risks in the business than top managers and owners;
- shows certain limitations, i.e. it is not always a suitable foundation for rewarding in corporate enterprises which operate in emerging markets, as well as in industries with cyclical movement [21, 142-145].

3. Bonus Plan Based on a Cash Flow Concept

In the compensatory system based on cash flow performance criteria, the remuneration of employees is mainly done according to the following criteria: total business return (TBR) and shareholders value added (SVA).

TBR in the development of bonus plans based on cash flow concept proved to be suitable for rewarding managers in long and short term. TBR[12] can be used as a basis for compensatory system in two ways: firstly, in the case of long-term investments, when used to measure the created value during several years (usually five years) and secondly, as a basis for defining annual objectives to be achieved in order to achieve long-term results[13].

The level of bonus based on TBR is determined as follows:

Bonus = TBR x target bonus

At the business unit level, rewarding of managers based on TBR is a common approach of the phantom option plan [21, 421-422]. The level of remuneration established by this plan is obtained by applying a fixed percentage to the increase of the shareholding wealth. Increase in shareholding wealth represents the difference between the shareholding wealth at the end and shareholding wealth at the beginning of the observation period.

In this system of planned bonuses, rewards for managers of business units depend on the size factor of the net operating profit after taxes (NOPAT-a[14]), which is used for calculating the value which remains to the owners with extinguishing businesses. And the impact of that residual value in forming a basis for rewarding compared to the achieved yearly performances makes this compensatory system inferior to the reward system based on the concept of EVA, as well as the one based on the concept of SVA.

Compensatory system for rewarding managers of business units based on SVA[15] provides reward only in the case of achieving superior SVA. The calculation of superior SVA is done in six steps [18, 91-101]:

- the first step - projection of value drivers: the rate of sales growth, NOPAT rate and the rate of incremental investment in fixed assets and net current assets. The

[12] TBR is calculated using the formula:
TBR = (Net present value of cash flow / Net cash invested in assets) x 100%
[13] In planning the level of annual operating profit, which will provide the desired level of TBR.
[14] Net Operating Profit After Tax
[15] SVA is calculated as follows:

$$SVA\ \ cumulativeforproject.period = \sum_{n=1}^{t} \frac{\Delta NOPAT_t}{WACC\left(1+WACC\right)^{t-1}} - \sum_{n=1}^{t} \frac{Inkrement.\ \ investment_t}{\left(1+WACC\right)^t}\ .$$

projection is performed on the basis of historical performances, business plans of a business unit and strategic moves of the competition;

- the second step - translating the projected value drivers into the projections of annual cash flows and determining the present value of projected annual cash flows using the price of capital (this is the price of capital specific to a particular business unit).Obtained projections lead to the valuation of each business unit;
- the third step - the aggregation of value of each business unit to check whether the aggregate amount is approximately equal to the market value of the entire enterprise;
- the fourth step - determining of expected annual SVA in the planned period (usually three years).This is done on the basis of projected cash flows;
- the fifth step - the calculation of the realized SVA at the end of each year. The calculation is done as in the previous step, but this time using the actual rather than projected data;
- the sixth step - determining the difference between realized SVA and expected SVA. If the realized SVA is higher than the expected SVA, realized SVA is superior. This positive difference is the basis for rewarding managers of business units.

Compensatory system based on the concept of SVA is suitable for rewarding managers of business units because it can be developed in the long-term (usually for a period of three years). This is done because the creation of value is a long-term phenomenon. Thus setting the annual level of performance, the realization of which brings a bonus, must be based on long-term planning of maximizing value for owners. In this compensatory system, rewarding managers of business units is carried out according to the three-year plan of variable SVA called a rolling three-year plan of variable SVA.

CONCLUSION

In the corporate enterprise managers are those who govern and decide on the allocation of capital, and the owners are striving to control them and to ensure that they are taking actions that will lead to increase of their wealth.

Bonuses are an important element in the structure of compensations (incentives) for managers. In the foundation of bonus payments to managers there is the intention to establish a strong link between managerial behavior and realized business performances, as well as to motivate them to take action in order to maximize value for the owners. Development of bonus plans that are based on measures significant to the owners (measures based on concept of accounting result, measures based on concept of economic result and measures based on cash flow concept) contributes to that.

In theory and in practice there are two known types of bonus plans based on the concept of accounting result - traditional and linear bonus plan, developed by using accounting performance measures (absolute profitability measures, different types of rates of return on invested capital, but also measures that are directly related to the movement of stock prices such as yield rate implied in the price of stocks, the yield rate anticipated by managers in the strategic plan and the cost of capital).

The advantages of a traditional bonus plan are: remuneration of managers is based on the target bonus which is linked to a planned (target) financial performance, there is a lower and upper limit for the payment of bonuses and it is particularly suitable for rewarding top managers, as well as those at the operational level (in combination with other performances).

The disadvantages of this bonus plan are: accounting performance criteria often do not have a strong connection with creating value for the owners, and bonus payments may not always be accompanied by the creation of value for the owners; it may condition the speculative behavior of managers of business units so it will hold off revenues for the next accounting periods and thus provide bonuses for a longer period; it may initiate a conflict in achieving short-term and long-term interests of managers and owners, because short-term results are placed in the foreground; it is not conducive to good managers, while it guarantees bonuses for mediocre managers; managers set the target performances and report on their achievement, which can lead to manipulation by managers that can affect the level of bonuses paid.

Linear bonus plan based on the accounting criteria of performance in the calculation and payment of the bonuses starts from the accomplished accounting performances or from the achievements of effectiveness of target performance. It also enables long-term projection of accounting performance criteria and the development of enterprises, which is an advantage over the traditional bonus plan. However, what is criticized in this bonus plan is that success in its implementation will depend on the chosen accounting performance criterion and is not popular with managers because of their propensity to calculation and payment of bonuses which are based on a set goal.

In order to eliminate serious deficiencies of bonus plans based on the concept of accounting result, there has been a development of bonus plans based on the concept of value for the owners (based on the concept of economic result and cash flow concept), which provide rewarding of managers according to their contribution to the created value for owners. In practice, EVA (original and modern) bonus plans and bonus plans based on TBR and SVA proved the most suitable.

Proponents of EVA concept believe that the EVA performance measure is best suited for rewarding managers. This is supported by: objectivity in the definition of planned (target) performance in accordance with the expected value for the owners; the possibility of bonus payments to managers according to their contribution to the created value for the owners (even when the negative EVA is achieved) in the short and long term; contribution to solving the agency problem and retaining good managers, while bad managers are encouraged to leave the corporate enterprise. There are still some objections to EVA bonus plans: some authors believe that the movement of EVA performance does not adequately follow the movement of share prices; the implementation of the EVA concept is required at all levels of management (and it is not good enough for rewarding managers at the operational level); differences in tendencies to taking risks in business can cause a problem with managers and owners in the development of EVA compensatory system in the corporate enterprise and the limitations of this bonus plan conditioned by cultural differences across countries.

From bonus plans based on cash flow concept SVA bonus plan proved to be most suitable in practice. It provides rewarding of managers with almost the same benefits as the EVA bonus plan, only in remuneration it starts from the calculation of the realized SVA and its comparison with the expected SVA. The disadvantages are the complexity and high cost of construction of this compensatory system for rewarding managers.

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RAZVIJANJE BONUS PLANOVA ZA MENADŽERE U CILJU MAKSIMIZACIJE VREDNOSTI ZA VLASNIKE

Nagrađivanje menadžera u korporativnom preduzeću podrazumeva da oni za ostvarivanje planiranih performansi dobijaju zaradu, a za ostvarenja iznad tog planskog nivoa dobijaju različite vidove stimulacija. Bonusi su najčešći vid stimulacija za menadžere koji se isplaćuje srazmerno njihovom doprinosu ostvarenom uspehu poslovanja. U korporativnom preduzeću potrebno je razviti takav sistem nagrađivanja menadžera koji će ih motivisati da deluju u skladu sa interesima vlasnika i podstaknuti ih da preduzimaju one rizične poslovne aktivnosti koje će doprineti maksimizaciji vrednosti za vlasnike.

Radi obezbeđenja usmeravanja menadžera u pravcu kontinuiranog poboljšanja performansii preduzeća razvijeni bonus planovi treba da budu zasnovani na merilima performansi značajnim za vlasnike (merila zasnovana na: konceptu računovodstvenog rezultata, konceptu ekonomskog rezultata i cash flow konceptu). Za nagrađivanje top menadžera kao osnova za obračun i isplatu bonusa *najpogodnija je primena merila zasnovanih na konceptu računovodstvenog retultata koja direktno korespondiraju sa cenom akcija (stopa prinosa implicirana u ceni akcija, stopa prinosa predviđena od strane menadžera u strategijskom planu, kao i cena kapitala). Za menadžere poslovnih jedinica nije moguće uspostaviti uvek direktnu vezu nagrađivanja sa kretanjem cena akcija, pa su se za obračun bonusa kao pogodnija pokazala merila zasnovana na konceptu ekonomskog rezultata (najpogodnija je EVA) i merila zasnovana na cash flow-u (najprimerenija je SVA). Nagrađivanje menadžera operativnog nivoa upravljanja se vezuje za performanse koje u svojoj suštini predstavljaju makro ili miropokretače vrednosti, a koje se mogu direktno povezati sa učinkom rada ovih menadžera.*

Nagrađivanje menadžera, takođe, podrazumeva da se u njihovom kompenzacionom paketu izbalansiraju kratkoročni i dugoročni podsticaji, što važi i za bonuse. Efikasan kompenzacioni sistem treba da doprinese usklađivanju individualnih ciljeva menadžera i ciljeva vlasnika, u kratkom i dugom periodu, kao i da obezbedi pravednu alokaciju bonusa u upravljačkoj strukturi. Nagrađivanje menadžera isplatom bonusa treba da obezbedi spremnost i lojalnost menadžmenta da ostvari očekivane prinose za vlasnike ne samo u kratkom, već i u dugom roku.

Ključne reči: *bonus plan, bonus banka, bonus, stopa prinosa na ulaganja, dodata ekonomska vrednost, dodata vrednost za akcionare*.