

**BEFORE THE WASHINGTON STATE  
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,

Complainant,

v.

MURREY'S DISPOSAL COMPANY, INC.  
d/b/a OLYMPIC DISPOSAL,

Respondent.

Docket No. TG-230778

**RESPONDENT MURREY'S DISPOSAL COMPANY, INC'S**

**REBUTTAL TESTIMONY**

**OF DR. M. PETER SCONTRINO**

**SCONTRINO-POWELL, INC.**

**June 28, 2024**

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EXHIBIT LIST		
Exhibit No.	Description	Page Referenced
PS-2	Curriculum Vitae of Peter Scontrino, Ph.D.	1

**I. IDENTIFICATION OF WITNESS**

1 **Q. Please state your name, business address and role at Scontrino-Powell, Inc.**

2  
3 A. My name is Dr. M. Peter Scontrino, Founder and Senior Consultant for Scontrino-Powell,  
4 Inc., which provides customer-focused and cost-effective consulting services to  
5 businesses in array of industries, including for-profit and non-profit companies, as well as  
6 those operating in regulated industries. My business address is 9605 Fauntleroy Way  
7 SW, Seattle, WA 98136.

8 **II. SUMMARY OF TESTIMONY**

9 **Q. Will you please describe the purpose of your testimony in this proceeding?**

10  
11 A. Mr. Benjamin Sharbono provided testimony on behalf of the Commission Staff in  
12 response to the prefiled testimony filed by Mark Gingrich, Branko Terzic, and Joe  
13 Wonderlick. The purpose of my testimony is to respond to certain portions of Mr.  
14 Sharbono's testimony where he inaccurately analyzed Olympic's bonus and incentive  
15 plans and, in-turn, wrongly recommended the removal of certain expenses from the  
16 Company's rate case. In so doing, I highlight academic studies, literature, data and  
17 evidence compiled by professionals in my field who have long-studied and evaluated  
18 programs and protocols such as I discuss below.

19 **Q. How is your testimony organized?**

20  
21 A. My testimony addresses the testimony offered by Mr. Sharbono concerning Waste  
22 Connections' bonus structure and, specifically, addresses four of the assertions he made:  
23 (1) "normal" means that the expense occurs through the regular operations of the  
24 company,<sup>1</sup> (2) demonstrable evidence that customers benefit from company expenses is

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<sup>1</sup> Sharbono, Exh. BS-1CTr at 5:20-6:2.

1 required,<sup>2</sup> (3) bonuses are available to customers and paid to customers at the discretion  
2 of management,<sup>3</sup> and (4) Waste Connections' justification for severance payments.<sup>4</sup>

3 Specifically, my testimony is organized as follows:

4 **Organization of Testimony**

I. Identification of Witness
II. Summary of Testimony
III. "Normal" Means an Expense Occurs through Company's Regular Operations
IV. Demonstrable Evidence that Customers Benefit from the Expenses
V. Management Discretion Regarding Bonuses
VI. Severance Payments
XI. Conclusion

11 **III. "NORMAL" MEANS AN EXPENSE OCCURS THROUGH THE REGULAR**  
12 **OPERATIONS OF THE COMPANY**

13 **Q. In his testimony, did Mr. Sharbono comment on that which constitutes a "normal"**  
14 **company expense?**

15 A. Yes. Mr. Sharbono stated, in part, that "Normal means that the expense occurs through  
16 the regular operations of the company, required to provide the service, and not in  
17 combination with unusual circumstances."<sup>5</sup>

18 **Q. Do you agree with that characterization of a company's "normal" costs?**

19 A. I do.

20 **Q. Are incentive plans, for instance, normal for companies in the United States?**

21 A. They are.

22 **Q. Do you have data to support this opinion?**  
23  
24

<sup>2</sup> Sharbono, Exh. BS-1CTr at 23:1-5.

<sup>3</sup> Sharbono, Exh. BS-1CTr at 25:9-16.

<sup>4</sup> Sharbono, Exh. BS-1CTr at 19:12-14.

<sup>5</sup> Sharbono, Exh. BS-1CTr at 5:3-5.

1 A. Yes, I do. The vast majority of organizations in the United States have incentive plans. A  
 2 breakdown of these organizations is the following:

- 3 • 99% of publicly traded companies
- 4 • 93% of privately held companies
- 5 • 82% of nonprofit organizations
- 6 • 58% of government organizations

7 These statistics clearly demonstrate that incentive pay is “normal” and occurs through the  
 8 regular operation of the majority of companies and organizations in the United States.

9 Olympic’s utilization of incentive plans should be treated as “normal” since they are the  
 10 type of expenses which are utilized in the regular operation of the majority of companies  
 11 throughout the United States.

12 **Q. Can you elaborate on that data, including the source of the data?**

13 A. Yes, I can. More detailed information on incentive programs is included in the below  
 14

15 **Table 1.**

Incentive Program	Saturation	Source	Additional Information
Spot Bonus/Award	*ALL INDUSTRY: 51% medium sized companies (100-499) 50% of large companies (500-4,999) use spot bonus/rewards.  *CONSTRUCTION/UTILITIES/AGRICULTURE INDUSTRY SPECIFIC: 49% medium sized 62% large sized **GOVERNMENT: 47%	* <a href="#">SHRM Employee Benefits Survey</a> , 2023  **World At Work Study Govt, 2021 (pg. 4)	
Sign-on Bonus	33.97% of companies are using sign-on bonuses to address labor market demands including inflation	<a href="#">Salary.com Survey</a> , 2022 (survey is in referenced document folder, see chart on pg. 2) N = 301	

<p>1 2 3 4 5 6 7</p> <p>Incentive Bonus Plan</p>	<p>Note that a sign-on bonus can also be contingent upon the employee achieving specific goals or staying with the company for a certain period. Because of this, I have included information for “Incentive Bonus Plan” since it’s likely that “sign-on bonus” likely fell into this category for the SHRM source.</p> <p>ALL INDUSTRY: 57% mid-sized 55% large-sized CONSTRUCTION/UTILITIES/AGRICULTURE INDUSTRY SPECIFIC: 66% mid-sized 72% large-sized</p>	<p><a href="#">SHRM Employee Benefits Survey, 2023</a></p>	
<p>8 9 10 11 12 13 14</p> <p>Retention Bonus</p>	<p>*ALL INDUSTRY: 24% mid-sized 34% large-sized CONSTRUCTION/UTILITIES/AGRICULTURE INDUSTRY SPECIFIC: 25% mid-sized 36% large-sized</p> <p>**GOVERNMENT: 25%</p> <p>***18% of companies are using retention bonuses to explicitly address labor market demands including inflation</p>	<p>*<a href="#">SHRM Employee Benefits Survey, 2023</a></p> <p>**World At Work Study Govt, 2021 (pg. 4) N=36</p> <p>***<a href="#">Salary.com Survey, 2022</a> (*survey is also in document folder, see chart on pg. 2)</p>	
<p>15 16 17</p> <p>Referral Incentive</p>	<p>ALL INDUSTRY: 67% mid-sized 68% large-sized CONSTRUCTION/UTILITIES/AGRICULTURE INDUSTRY SPECIFIC: 75% mid-sized 67% large-sized</p>	<p><a href="#">SHRM Employee Benefits Survey, 2023</a></p>	
<p>18 19 20 21 22 23 24</p> <p>Safety Incentive</p>	<p>25% of manufacturers</p>	<p><a href="#">U.S. Govt Accountability Office, 2010</a></p>	<p>“Incentive programs can be an important tool to promote workplace safety and health. One type of incentive program rewards workers for reporting near-misses or hazards, and encourages involvement in a safety and health management system. Positive action taken under this type of program is always permissible under § 1904.35(b)(1)(iv). Another type of incentive program is rate-based and focuses on reducing the number of reported injuries and illnesses. This type of program typically rewards employees with a prize or bonus at the end of an injury-</p>

			<p>free month or evaluates managers based on their work unit's lack of injuries." - <u>OSHA</u>, 2018 (Bad program: reward for "no injuries reported" Good program: reward for reporting near misses or for wearing safety gloves)</p> <p>A study showed that construction worksites that implemented a safety incentive program saw a 44.16% reduction in the mean lost-time workday injury rate. Sites without the program has a 41.84% increase in the mean lost-time workday injury rate. - Goodrum &amp; Gangwar, 2010 (pg. 8)</p>
10	Severance Pay	39% of employers offer severance	Randstad, 2023 (pg. 11, see "cash payout")

**IV. DEMONSTRABLE EVIDENCE EXISTS SHOWING CUSTOMERS BENEFIT FROM OLYMPIC'S BONUS EXPENSES**

**Q. What is another reason Mr. Sharbono took issue with Olympic's bonus program?**

A. Mr. Sharbono asserted that the Staff "removed or modified bonuses, performance pay, and incentive pay because the Commission has indicated that allowable bonus and incentive pay programs require demonstrable evidence that customers benefit from the expenses." Mr. Sharbono stated, "[t]he documentation provided by the company did not show the programs enhance service or customer experience."<sup>6</sup>

**Q. Do you agree that Olympic's bonus programs do not enhance service or customer experience?**

A. I do not.

**Q. On what do you base that belief?**

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<sup>6</sup> Sharbono, Exh. BS-1CTr at 23:1-5.



1 A. Largely empirical evidence. Each of the incentives used by Olympic is used by many  
2 organizations throughout the United States. A breakdown of usage is the following:

- 3 • Sign On Incentive Program 34%
- 4 • Stay On Incentive Program 25%
- 5 • Referral Incentive Program 67%
- 6 • Safety Culture Incentive Program 25%
- 7

8 More detailed information is included in my earlier testimony, at **Table 1**.

9 **Q. Do you believe the type of incentives utilized by Olympic benefit customers?**

10 A. I do, because industry information is clear that these type of programs can have a  
11 significant impact on business performance resulting in enhanced customer service.

12 **Q. Can this benefit be measured?**

13 A. In some cases it can, but such benefits can be difficult to measure on an ad hoc basis,  
14 including in the case of Olympic Disposal.

15 **Q. Why is that?**

16 A. It is difficult to show a direct link between any of Olympic's incentives and customers  
17 benefiting from those incentives because of the small sample size of one company and  
18 the possible interactions between various incentives and other factors. An analogy would  
19 be to test the impact of an experimental drug on one patient. Clinical trials are conducted  
20 using hundreds or thousands of patients to determine the impact of the drug. In a similar  
21 vein, I have consulted and cited data based on thousands of organizations to show the  
22 potential impact of the types of incentives utilized by Olympic.  
23  
24

**Q. What does that show as it concerns sign-on incentive programs?**

1 A. Sign-on (otherwise known as “onboarding”) incentive programs can significantly impact  
2 various aspects of employee integration, performance, and retention. Peer-reviewed  
3 studies provide a wealth of information on these impacts, underscoring the importance of  
4 well-designed incentive strategies. The key findings from those studies are the following:  
5  
6 **1. Increased Employee Retention:** A study published in *Personnel Review* found that  
7 organizations that offered pay-for-performance incentives (such as sign-on bonuses) lose  
8 significantly fewer new hires.<sup>7</sup> Well-supported and engaged employees feel more  
9 connected to their new workplace and are less likely to leave prematurely.  
10  
11 **2. Higher Employee Satisfaction, Commitment, and Trust:** According to a study  
12 published in the *Human Resource Management Journal*, performance-related pay (which  
13 includes sign-on incentives) was positively associated with job satisfaction, employee  
14 commitment to the organization, and trust in management.<sup>8</sup>  
15  
16 **3. Improved Performance:** Research published in *The Review of Financial Studies*  
17 indicates that new hires who receive a signing bonus work harder.<sup>9</sup> The same research  
18 found that a signing bonus incentive is also a tool used to attract higher-quality talent, as  
19 it is perceived as a signal of company quality.  
20  
21 **4. Employee Motivation:** Signing bonuses can enhance new employee motivation and  
22 commitment to the organization. Research published in *The Accounting Review* by Choi  
23 (2014) found that multiple studies emphasize workers’ marginal productivity of effort as  
24 a mechanism by which signing bonuses affect effort.<sup>10</sup> Choi also found that a signing

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<sup>7</sup> Selden et al., *Personnel Review* (2013).

<sup>8</sup> Ogbonnaya et al., *Human Resource Management Journal* (2017).

<sup>9</sup> Dickersin Van Wesep, *The Review of Financial Studies* (2010).

<sup>10</sup> Choi, *The Accounting Review* (2014).

1 bonus can positively affect worker effort by conveying trust and appealing to worker  
2 reciprocity.

3 **Q. How would you summarize the effectiveness of sign-on incentive programs?**

4 A. The impact of sign-on incentive programs, as demonstrated in peer-reviewed journals, is  
5 multifaceted. They lead to higher retention rates, better employee engagement and  
6 satisfaction, improved performance, and enhanced motivation and commitment.

7 Organizations that invest in well-designed incentives are likely to see significant benefits  
8 in terms of employee recruitment, retention, and productivity.

9  
10 **Q. Is there similar data for “stay on” retention programs and, if so, what does it say?**

11 A. There are such data. Retention incentive programs are designed to keep key employees in  
12 an organization by offering financial rewards and other benefits. Peer-reviewed journals  
13 provide evidence of the value and impact of these programs in several ways:

14 1. **Reduced Turnover:** A study published in the *Journal of Educational Evaluation and*  
15 *Policy Analysis* found that retention bonuses effectively decrease turnover rates while  
16 allowing for the retention of high-quality employees.<sup>11</sup>

17  
18 2. **Improved Performance:** Research published in *Performance Improvement* indicates  
19 that retention bonuses and other incentives not only retain employees but also  
20 motivate them to perform better, as high performers are immediately rewarded and  
21 there is also a promise of future high rewards for continued performance.<sup>12</sup>

22  
23 3. **Enhanced Employee Engagement:** According to a study in the *Journal of*  
24 *Humanities and Social Studies*, when a company improves its employee rewards

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<sup>11</sup> Springer et al., *Journal of Educational Evaluation and Policy Analysis* (2016).

<sup>12</sup> Nisar, *Performance Improvement* (2006).

1 system, to include retention bonuses, there can be increased levels of employee  
2 engagement. Engaged employees are more likely to stay with the company and  
3 contribute positively to its culture and success.<sup>13</sup>

4 4. **Cost-Savings:** While the upfront cost of retention bonuses might seem significant,  
5 they can be cost-effective in the long run. A study published in the *Human Resource*  
6 *Management Journal* notes the high replacement costs that come with losing high  
7 performers.<sup>14</sup> Additionally, the study also found that high performers cite extrinsic  
8 rewards (such as retention bonuses) as reasons reported for staying with an  
9 organization.

10 5. **Customer Satisfaction:** A study in *Academy of Management* finds that quits and  
11 dismissals are significantly related to customer satisfaction, where high employee  
12 turnover was associated with a decrease in customer satisfaction.<sup>15</sup> This is particularly  
13 impactful for companies that value customer loyalty.

14  
15  
16 **Q. How would you summarize the effectiveness of retention incentive programs?**

17 A. In summary, peer-reviewed studies consistently show that retention incentive programs  
18 offer multiple benefits, including reduced turnover, improved performance, higher  
19 engagement, cost-savings, and customer satisfaction. These advantages underline the  
20 strategic importance of such programs in managing and retaining talent within  
21 organizations.

22 **Q. Did you consider Olympic's employee referral program incentive?**

23 A. I did.  
24

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<sup>13</sup> Miawati et al., *Journal of Humanities and Social Studies* (2020).

<sup>14</sup> Hausknecht et al., *Human Resource Management Journal* (2009).

<sup>15</sup> Batt, R., & Colvin, A. J. S., *Academy of Management* (2011).

1 **Q. Is there support for the proposition that such incentives benefit customers?**

2 A. There is. Research published in the *Human Resource Management Journal* has provided  
3 compelling evidence that employee referrals result in positive organizational outcomes.<sup>16</sup>  
4 Referral bonus presence, amount, and organizational commitment all positively correlate  
5 to the likelihood of referrals. Here are key insights from additional peer-reviewed  
6 journals that further elaborate on the efficacy of having an employee referral program  
7 incentive:  
8

9 **1. Reduced Hiring Costs:** A study by Zottoli and Wanous (2000) in *Human Resource*  
10 *Management Review* found that employee referrals are often the most effective way  
11 of finding and hiring new talent.<sup>17</sup> The researchers go on to say that employee  
12 referrals are seen as an inexpensive source that consistently yields higher performing  
13 employees at relatively little cost to the organization.

14 **2. Higher Quality Candidates:** Research published in the *Journal of Applied*  
15 *Psychology* indicates that referring employees are likely to offer detailed information  
16 about a job's positive and negative aspects to the candidate, and, ultimately, refer a  
17 candidate that fits the job description.<sup>18</sup>  
18

19 **3. Increased Retention:** Schlachter and Pieper (2019) also note that there is significant  
20 research that reveals a robust positive connection between referred workers and  
21 retention.<sup>19</sup>  
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<sup>16</sup> Pieper et al., *Human Resource Management Journal* (2017).

<sup>17</sup> Zottoli and Wanous, *Human Resource Management Review* (2000).

<sup>18</sup> Schlachter and Pieper, *Journal of Applied Psychology* (2019).

<sup>19</sup> *Id.*

- 1       4. **Employee Satisfaction:** Referred employees not only have higher levels of job  
2       involvement and organizational commitment, but they also showed significantly  
3       higher levels of job satisfaction, as highlighted by a study by Latham and Leddy  
4       (1987) in the *Journal of Business and Psychology*.<sup>20</sup>
- 5       5. **Higher Performance:** Referred employees often exhibit higher performance levels.  
6       Research published in the *American Journal of Sociology* by Castilla (2005) indicates  
7       that referred employees were more productive in the short run than non-referred  
8       employees.<sup>21</sup> Castilla goes on to note that there are clear productivity advantages of  
9       using referral programs and the bonuses associated with them.
- 10      6. **Faster Onboarding:** Referrals are more likely to be hired and to complete their  
11      training, contributing to a faster onboarding process, as Castilla (2005) indicated in  
12      the *American Journal of Sociology*.<sup>22</sup>
- 13      7. **Employee Engagement and Morale:** Referral programs can boost engagement and  
14      morale for both the referrer and the referred, as indicated in the *Journal of Applied*  
15      *Psychology* by Schlachter and Pieper (2019).<sup>23</sup> This is because employees selectively  
16      refer from their social networks, and the hiring of a friend or acquaintance leads to a  
17      socially enriched work environment.
- 18      8. **Incentive Value and Structure:** A review in the *Human Resource Management*  
19      *Journal* found that monetary incentives, ranging from \$250 to \$5,000, are common  
20      and effective for referral bonuses.<sup>24</sup> The research also suggested it is important to

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<sup>20</sup> Latham and Leddy, *Journal of Business and Psychology* (1987).

<sup>21</sup> Castilla, *American Journal of Sociology* (2005).

<sup>22</sup> *Id.*

<sup>23</sup> Schlachter and Pieper, *Journal of Applied Psychology* (2019).

<sup>24</sup> Pieper et al., *Human Resource Management Journal* (2017).

1 balance the incentive value to ensure it is attractive enough to motivate employees  
2 without leading to abuses of the program.

3 **Q. How would you summarize the effectiveness of referral program incentives?**

4 A. Peer-reviewed studies consistently demonstrate that employee referral programs provide  
5 significant added value to organizations. They help reduce hiring costs, improve the  
6 quality of hires, increase retention rates, enhance performance, and boost employee  
7 engagement. The value of the incentives offered in these programs should be carefully  
8 calibrated to maximize these benefits while maintaining fairness and sustainability.  
9

10 **Q. Can employee engagement ultimately benefit customers?**

11 A. It can and typically does. Having an engaged workforce offers substantial value to  
12 organizations, affecting various aspects of business performance positively. This reality  
13 has been analyzed by other experts in my field. Some of the key benefits, and the  
14 supporting research, are the following:

- 15 1. **Increased Performance:** Research published in *Personnel Psychology* showed that  
16 engaged employees are more motivated, leading to higher levels of job  
17 performance.<sup>25</sup>
- 18 2. **Improved Employee Retention:** Engagement reduces turnover rates. A study  
19 published in the *Journal of Applied Psychology* showed that employee engagement is  
20 related to meaningful business outcomes such as a decrease in employee turnover.<sup>26</sup>  
21
- 22 3. **Enhanced Customer Satisfaction:** Harter et al. (2002) found that employee  
23 engagement is related to higher customer satisfaction and loyalty.<sup>27</sup>  
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<sup>25</sup> Christian et al., *Personnel Psychology* (2011).

<sup>26</sup> Harter et al., *Journal of Applied Psychology* (2002).

<sup>27</sup> *Id.*

1 4. **Increase in Organizational Citizenship Behaviors:** Christian et al. (2011) also  
2 found that engaged employees are more likely to perform extra-role behaviors,  
3 pursuing activities helpful to the organization that are not part of their job  
4 description.<sup>28</sup>

5 5. **Reduced Absenteeism:** Engagement is linked to lower absenteeism. A study  
6 published in *Personnel Psychology* showed that employees who are engaged are less  
7 likely to have absence from sickness.<sup>29</sup>  
8

9 **Q. How would you summarize the benefit of an engaged workforce?**

10 A. In summary, the value of having an engaged workforce is multifaceted, impacting  
11 productivity, retention, customer satisfaction, innovation, and absenteeism. Engaging  
12 employees is a strategic investment that yields significant returns across various  
13 dimensions of customer benefits and business success.

14 **Q. Did you consider Olympic's safety incentive which Mr. Sharbono addressed in his  
15 testimony?**

16 A. Yes, I did.

17 **Q. What is the value of a safety incentive program to a company?**

18 A. Safety incentive programs are implemented to enhance workplace safety by encouraging  
19 employees to adhere to safety protocols and reduce the incidence of accidents and  
20 injuries. This is especially important in the transportation industry. Peer-reviewed  
21 journals provide substantial evidence of the value and impact of these programs:  
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<sup>28</sup> Christian et al., *Personnel Psychology* (2011).

<sup>29</sup> Shao et al., *Personnel Psychology* (2020).



- 1       **1. Reduction in Workplace Accidents:** A study published in the *Journal of Safety*  
2       *Science* found that safety incentive programs significantly reduce the number of  
3       workplace accidents. The research demonstrated that organizations with such  
4       programs experienced a 75% decrease in accident rates compared to those without  
5       them.<sup>30</sup>
- 6       **2. Improved Safety Compliance:** Safety incentives can lead to better compliance with  
7       safety regulations and protocols. Research in the *Journal of Applied Psychology*  
8       found that employees are more likely to follow safety guidelines when they are  
9       rewarded for safe behaviors, resulting in a safer work environment.<sup>31</sup>
- 10       **3. Reduction in Lost Workdays:** Implementing safety incentive programs can lead to  
11       substantial cost savings for organizations. A study in the *Journal of Safety Research*  
12       highlighted that companies with effective safety programs had a statistically  
13       significant reduction in the OSHA Lost Time Injury Rate.<sup>32</sup>
- 14       **4. Enhanced Safety Culture:** Safety incentive programs contribute to the development  
15       of a positive safety culture within organizations. According to research in the *Journal*  
16       *of Safety Research*, rewarding those who work safely is critical to a positive safety  
17       culture.<sup>33</sup>
- 18       **5. Employee Motivation and Engagement:** Safety incentives also positively impact  
19       employee engagement. Research published in the *Journal of Applied Psychology*  
20       found that creating a supportive safety climate (where positive safety behaviors are  
21       employee engagement. Research published in the *Journal of Applied Psychology*  
22       found that creating a supportive safety climate (where positive safety behaviors are  
23       employee engagement. Research published in the *Journal of Applied Psychology*  
24       found that creating a supportive safety climate (where positive safety behaviors are

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<sup>30</sup> Yeow & Goomas, *Journal of Safety Science* (2014).

<sup>31</sup> Neal, A., & Griffin, M. A., *Journal of Applied Psychology* (2006).

<sup>32</sup> O'Toole, M., *Journal of Safety Research* (2002).

<sup>33</sup> Frazier et al., *Journal of Safety Research* (2013).

1 rewarded) both motivates employees and positively relates to employee  
2 engagement.<sup>34</sup>

3 **Q. As you have done with other incentive programs in this testimony, could you please**  
4 **summarize the benefit of safety benefits?**

5 A. Yes, I can. In summary, the value of safety incentive programs is well-documented in  
6 peer-reviewed literature. These types of programs lead to reduced workplace accidents,  
7 improved compliance with safety protocols, reduced lost workdays, enhanced safety  
8 culture, and higher employee motivation and engagement. Implementing such programs  
9 is a strategic investment in both employee well-being and organizational efficiency.  
10

11 **Q. Did you also consider Olympic's accounts receivable incentive plan?**

12 A. I did. These type of programs are commonplace and can generally improve  
13 organizational performance. The textbook *Accounts Receivable Management Best*  
14 *Practices* notes that accounts receivable (AR) incentive plans are extremely useful in  
15 motivating employees to optimize the collection of outstanding receivables, thereby  
16 improving financial and employee metrics.<sup>35</sup> Peer-reviewed journals provide evidence of  
17 the value and impact of these incentive plans, including the following:  
18

- 19 1. **Reduction in A/R Days:** A study published in *Healthcare Financial Management*  
20 showed AR incentive plans can reduce the number of days an account is delinquent  
21 by notable amounts.<sup>36</sup> This not only reduces debt risk for the organization but also  
22 improves customer experience.  
23  
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<sup>34</sup> Nahrgang et al., *Journal of Applied Psychology* (2011).

<sup>35</sup> Salek, *Accounts Receivable Management Best Practices* (2005).

<sup>36</sup> Kivimaki, *Healthcare Financial Management* (2007).

1           2. **Enhanced Employee Performance and Motivation:** According to a study in the  
2           *Journal of Personality and Social Psychology*, incentive plans improve employee  
3           performance and motivation.<sup>37</sup> In the context of accounts receivable, employees are  
4           more likely to exceed collection targets and enhance their productivity when they  
5           receive financial rewards for their efforts. The same study noted that employees are  
6           more apt to be interested in their daily job activities and have a positive mood at work  
7           also.

8  
9           3. **Improved Financial Metrics:** Research published in *Management Science* showed  
10           that even small changes in accounts receivable collection could result in a relatively  
11           sizable change in working capital.<sup>38</sup>

12 **Q.     Could you please summarize the benefit of Olympic's accounts receivable incentive**  
13 **plan?**

14 **A.**     Sure. In summary, peer-reviewed research demonstrates that accounts receivable  
15           incentive plans provide multiple benefits, including improved financial metrics and  
16           enhanced employee performance, leading to positive organizational impact. These plans  
17           are effective tools for managing receivables more efficiently and fostering a  
18           performance-oriented work environment and also reduce the overall percentage of bad  
19           debt for a company.

20  
21                                 **V. MANAGEMENT DISCRETION REGARDING BONUSES**

22 **Q.     Do you take issue with any other aspect of Mr. Sharbono's testimony and, if so,**  
23 **what part?**

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<sup>37</sup> Eisenberger et al., *Journal of Personality and Social Psychology* (1999).

<sup>38</sup> Frankel et al., *Management Science* (2017).

1 A. Yes, I do. For instance, Mr. Sharbono wrote, “Staff has concerns about the continuity of  
2 the bonus programs, as all programs included statements that the amount of the bonus is  
3 [at] the discretion of management and condition of receipt of a bonus on management  
4 approval.”<sup>39</sup> Mr. Sharbono also stated, “the bonus program would not be recurring and  
5 normal, or meet the known and measurable criteria for including in rates. Changing or  
6 cancelling bonus programs certainly casts doubts on the benefits of the program to  
7 customers.”<sup>40</sup> Mr. Sharbono is concerned that “management can revise or eliminate  
8 programs in order to affect earnings.”<sup>41</sup> I disagree with these contentions in a number of  
9 ways.  
10

11 **Q. Could you elaborate on that?**

12 A. Yes. Managerial discretion in employee bonuses or incentive programs is also a topic that  
13 has garnered substantial interest in peer-reviewed academic literature. Depending on  
14 company size, 30% to 60% of companies with bonuses include management discretion  
15 for directing those plans. The exception is bonus plans that are part of a contract. For  
16 instance, managerial discretion allows for the customization of bonuses and incentives  
17 based on individual and team performance, which can lead to enhanced motivation and  
18 better alignment with organizational goals. Managers can recognize and reward  
19 employees who make significant contributions, even if these contributions are not  
20 directly tied to pre-set performance metrics. This recognition can foster a positive work  
21 environment and higher levels of employee engagement.  
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<sup>39</sup> Sharbono, Exh. BS-1CTr at 25:1-11.

<sup>40</sup> Sharbono, Exh. BS-1CTr at 25:13-16.

<sup>41</sup> Sharbono, Exh. BS-1CTr at 25:20-21.

1 **Q. In the Murrey's Olympic Disposal discretionary bonus plans that you reviewed for**  
2 **your testimony, did you observe any concerns with consistency and transparency?**

3 A. No. Both the Safety Incentive Program and the Stay On Bonus Agreement have clear  
4 rules spelled out for each program on a document that each employee signs. The rules are  
5 clear. The Tooty, Employee Referral, and I-Rate Programs all include one or two page  
6 program descriptions that employees receive during onboarding, are posted on bulletin  
7 boards, and discussed at department meetings.  
8

9 **Q. Are there any other benefits to allowing for managerial discretion concerning**  
10 **bonuses?**

11 A. Yes, managerial discretion provides the flexibility to adapt incentive programs to  
12 changing business conditions and individual employee circumstances. This adaptability is  
13 crucial in dynamic environments where rigid incentive structures may be ineffective. By  
14 allowing managers to reward innovative and creative efforts, discretionary bonuses can  
15 encourage employees to think outside the box and contribute to the organization's long-  
16 term success.  
17

18 **Q. Are there any concerns relating to managerial discretion concerning bonuses?**

19 A. There are some concerns and risks. One of the primary concerns with managerial  
20 discretion is the potential for bias and favoritism. If not carefully monitored, discretionary  
21 bonuses can lead to perceptions of unfairness and decrease overall morale. Ensuring  
22 consistency and transparency in the application of discretionary bonuses is critical.  
23 Employees need to understand the criteria for receiving bonuses to trust the system and  
24 feel that rewards are distributed fairly. However, because of the potential risk that bias in

1 award might be a factor, Mr. Sharbono seems almost to have automatically concluded  
2 that they should be disallowed.

3 **Q. Are there any other benefits to managerial discretion concerning bonuses?**

4 A. Yes. Studies have shown a positive correlation between managerial discretion in  
5 incentive programs and overall organizational performance. When managers fairly and  
6 effectively exercise discretion, it can lead to improved employee performance, higher job  
7 satisfaction, and better retention rates. Discretionary incentive programs can be tailored  
8 to align with strategic goals, ensuring that employee efforts are directed towards areas  
9 that are most beneficial for the organization.  
10

11 **Q. Would you like to make any other points on the issue of management's role in  
12 achieving organizational goals?**

13 A. I would. The role of management is to create an environment that facilitates the  
14 accomplishment of organizational goals. This point has been highlighted by Peter  
15 Drucker who is widely noted as the father of modern management, as well as Warren  
16 Bennis who is seen as the father of modern leadership. Both of these experts would agree  
17 that Olympic management has used incentives and other management tools to create an  
18 environment that engages their employees.  
19

## 20 VI. SEVERANCE PAYMENTS

21 **Q. Are there any other aspects of Mr. Sharbono's testimony you would care to rebut?**

22 A. Yes, I would like to rebut the portion of his testimony concerning severance packages,  
23 which are commonly negotiated for higher-level executives or long-tenured employees.  
24

1 Severance is often provided in exchange for a release of legal claims against the  
2 employer.<sup>42</sup>

3 **Q. Is there a value or impact of paying severance to a fired employee?**

4 A. There is. According to the Society for Human Resource Management, 96% of U.S.  
5 businesses report offering severance to their employees. Employers often choose to pay  
6 severance to an employee being let go for several legal, strategic, and ethical reasons.  
7 The *Society of Human Resource Management* offers the primary reason for a severance  
8 package is avoiding future lawsuits, where the employee signs a release in exchange for  
9 the severance.  
10

11 **Q. Are there any other reasons to offer severance pay?**

12 A. Yes. Providing severance actually demonstrates to remaining employees that the  
13 company is fair and compassionate, which can help maintain morale and productivity,  
14 particularly during transitional periods. Research published in *Sloan Management Review*  
15 indicated that remaining employees will judge a company's future interactions with them  
16 on how fairly it treats those who are let go.<sup>43</sup>  
17

18 **Q. Are there any further reasons to offer severance pay?**

19 A. Yes. Research published in *Business Ethics Quarterly* supports that severance packages  
20 can be seen as an ethical responsibility, ensuring that managers who have contributed to  
21 the company are supported during their transition to new employment.<sup>44</sup> Thus despite the  
22 pejorative characterization by Staff of "cutting off liability for business torts,"<sup>45</sup>  
23  
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<sup>42</sup> Employee Benefits Survey, *SHRM* (2023).

<sup>43</sup> Mishra et al., *Sloan Management Review* (1998).

<sup>44</sup> Kim, T.W., *Business Ethics Quarterly* (2014).

<sup>45</sup> Sharbono, Exh. BS-1CT at 20.

1 severance pay's aim is characterized far more positively in peer reviewed literature. In  
2 summary, while providing severance to a fired manager is a strategic decision that can  
3 assist the employer avoid liability issues and significant costs associated therewith, it  
4 also serves to maintain a positive reputation, reassure remaining employees and ensure  
5 overall ethical treatment of employees of an organization.

6 **VII. CONCLUSION**

7 **Q. Does this complete your rebuttal testimony?**

8  
9 **A.** Yes it does.