

What About Year End Bonuses?

12/24/07

What about year end bonuses? Are there any guidelines? We have a group of employees ranging from key players and already highly compensated personnel, to support personnel paid entry level wages. I'm also concerned that with 22 employees in place, paying bonuses to everyone could be a big nut to swallow. And I don't want to over pay a few people who are already more than well paid for the work they do – if you get my meaning. Thanks for your help.

This reader's request makes for an interesting puzzle to solve. There are no rules for year end bonuses, although there are some common practices, which I will get into further on in this article. Paying out a large lump sum in bonuses all at one time can be very costly, unless you've prepared for it – in this issue I can give you suggestions that will be most helpful in 2008.

Making sure that compensation is appropriate for all employees is a challenge for every business owner. You want to pay what's fair and appropriate without overpaying. Bonuses can be a way to close the gap for employees who are under compensated, as long as you don't over-compensate people who are already at the high end of their pay scale.

One advantage of bonuses is that they are not permanent. They can

be given one year, not in another. The type of award can change from year to year, and the amount per person can vary as well. Be careful not to set an expectation that bonuses will always be given. Bonuses are a form of reward, and employees should understand that, not take them for granted.

Here are some general practices. Bonuses, when they are given, typically range from a small gift, perhaps a turkey or ham, to cash awards. When paying out cash, a typical range is all or part of a week's pay. Paying out more than 2 weeks of pay is unusual. Remember, a year end bonus, not tied to performance, is a way of saying thank you, and should not be a major source of income for the employee.

Many companies treat year end bonuses differently from year to year depending on how the business fared. If the business is more profitable, the bonuses may be slightly larger. If the business fell at, or below, breakeven there probably won't be any bonuses.

One company recently asked if they should take out a loan to pay bonuses. They had made almost no profit and had no extra cash on hand. To me, that would be a real no-no. I would prefer that they talk with employees about the reality of where things are, why things are down, and what needs to happen to get an upswing so that bonuses can be

paid in the following year. Involving employees in the solution, rather than tying up lines of credit for past mistakes would be my preferred way to go.

Some companies will scale bonuses depending on job levels and ranges within pay scales. Often owners find that employees in the lower ranks of the organization are the most appreciative of cash awards. An extra week of pay may make a real financial difference to someone at or near entry level in the corporation.

Paying out bonuses to every employee at one time can be a financial strain. One way to handle the strain is to set aside a little bit of money each week, throughout the year. Set up a money market account. Decide how much in total you might expect to pay at year end. Divide by 52 weeks, and start putting funds away now for next year's bonus. For example, with 22 employees, and an average bonus of \$800, you'll need \$17,600 by next December. Putting aside \$340 / week will be a lot easier for many companies, as compared to pulling \$17,600 out of cash flow at the end of next year.

Each year, you may want to mix things up, so that employees don't come to depend on a specific award. One year you may take everyone out for lunch or dinner. Consider taking



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employees out as a group for hors d'oeuvres, if you can't afford a full lunch. The next year you may find a gift to give, that you can get in quantity. The following year you can hand out a turkey or ham, the year after that, a cash award.

If you don't have the funds for bonuses right now, but you still feel committed to making some kind of a gesture, start small. The statement you make can still be meaningful. Take the time to express a heart felt "thank you". Be sincere and put energy into it.

Looking for a good book? Try 365 Ways to Motivate and Reward Your Employees Every Day: With Little Or No Money, by Dianna Podmoroff.

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