

Weighing in on mid-year bonuses

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"Things are looking up. Right after we get through June, I want to give my employees a mid-year bonus. We didn't give raises or bonuses last year. We are now doing much better and I want to show them their hard work is bearing fruit. We have around 30 employees, from entry level and low-wage field people to skilled techs, supervisors and managers. Any suggestions?"

The economy has been tough for so many people. A smaller bonus now may be more useful to some people, as compared to waiting for year-end. Distributing a smaller bonus now may also help focus everyone on what has to happen in the second half of the year, so they can earn another bonus at year-end.

Consider a few angles when planning for bonuses. Make sure you can afford it. Establish a bonus pool. Create a basis for fairly distributing bonuses based.

Let's get to work

Your cash-on-hand position can change surprisingly quickly. Set a goal for having enough cash in reserve, to be able to pay for three to six months of overhead expenses. It is important to insure the company remains financially healthy at all times and savings is one way to do that.

Never pay bonuses out of guilt or fear. If you don't have the money in reserve for emergencies, paying out bonuses puts the company in jeopardy. If something goes wrong down the road and you can't cover your bills you also won't be able to make payroll. Be sure to explain that to anyone who doesn't get it whenever you say you can't afford bonuses.

If you have enough savings on hand, then start a bonus pool. Make sure you put a portion of profits toward paying quarterly or year-end taxes. Put some profits into further increasing savings, some toward paying off principal on any debt and the remainder into an account you can use to pay shareholders and bonus employees.

Rating performance

When it comes time to pay bonuses, you want a fair and equitable method of distribution. It helps if you're comfortable that what you distributed is somehow in proportion to the benefit each individual provided to the company. The last thing you want is to be defending a bonus you can't explain.

Set up a rating percentage for performance categories. Take into account how people perform their individual tasks and contribute to the company's welfare throughout the year. Try rating employees on a scale from 1 (top performers) to 4 (poor performers). Give each group a percentage of the pool - with the biggest percent going to the 1's. For example, weight 1's at 50%, 2's at 35%, and 3's at 15%. Consider not paying a bonus to anyone who's at a 4 (poorest performer).

Calculating the portion

You probably don't want to give out the same bonus amount to a senior manager as you do to an entry-level worker, even if both are performing as 1's (top performers). So you'll need to create a method for scaling base pay. There are several ways to calculate this.

Once you have both performance percentage and salary percentage for each individual, you can multiply them together by individual. Add up all individuals to get a total percentage. Divide each individual's percentage by the total percentage and that's the portion of the bonus pool that an individual receives.

It may sound a little complicated, but it's actually straightforward and fair. Spend a little time to rate each employee. Put the ratings and salaries into an excel spreadsheet. You'll be able to calculate the amounts to pay each individual in no time.

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