CONNOR BUSINESS RESOURCES

Ten Facts About Bonuses

1. Money required for bonuses comes from profit which belongs to shareholders. It should only be invested in bonuses if it will increase shareholder wealth and/or financial security.
2. If bonuses are distributed too widely among employees, the individual bonuses are invariably too small to act as profit motivators.
3. Small bonuses for outstanding performers are inadequate rewards that probably act as demotivators, and do not motivate continued high performance.
4. Bonuses should be at least 10 percent of an employee's annual salary, and preferably much higher, if the bonus is expected to motivate continued high performance again next year.
5. Bonuses distributed to most employees as the 'same percentage of annual salaries' become an entitlement after two years and do not motivate high performance.
6. Firms cannot continue to pay out large bonuses unless they generate high profits in most fiscal years.
7. Executives, branch managers and other key employees such as chief engineers, principal designers and business developers have greater impact on a company's success than employees performing roles at lower organizational levels, so naturally they will be eligible for bonuses, and their bonuses should be larger than many other employees.
8. Outstanding performers' income packages should include a market-related salary, the opportunity to purchase shares in the company, and an outstanding incentive bonus.
9. An out-of-date business culture can mask unacceptable productivity levels and dangerous marketing problems, both of which contribute to reduced profit and small or no bonuses.
10. Some employees believe that they are already working very hard (input) and should receive a bonus when their performance level (output) is actually less than adequate.