

Understanding Bonus Programs

Types of Bonuses

There are several types of bonus programs. Some plans simply give employees a specific share of the company profits (current profit sharing), regardless of the performance of individuals or teams or even perhaps a bonus to the entire company based on the company's performance (organization-wide bonus). Other programs give incentives to individuals (individual incentive) or teams (team incentive/small group incentive) to perform at or above certain levels. In some companies, manufacturing teams are able to share in the gains from improvements in production and quality (gain sharing). And a variety of cash and noncash awards are possible for certain accomplishments in some companies (spot bonus awards, noncash rewards). You can also earn bonuses for simply being hired or getting someone a job at your company.

Current profit sharing

One very basic type of bonus program is current profit sharing. A company sets aside a predetermined amount, usually between 2.5 and 7.5 percent of payroll but sometimes as high as 15 percent, as a bonus on top of base salary. Such bonuses depend on company profits, either the entire company's profitability or from a given line of business. Sometimes the bonuses are given across the board, and sometimes they are given in larger percentages of compensation the more someone earns. The purpose of profit sharing bonuses is to urge employees to understand how their work affects the company's performance and to improve the company's profitability.

Employees need to be taught how the company makes money and how their position can help it make more. The annual report and other statements will give them an idea of how the company is performing.

Gain sharing

This type of bonus program is most common in manufacturing plants and is designed to reward productivity and improved quality of their products. Gain sharing works best when employees become responsible for production quantity and quality and they are urged to improve the way the product is made. This program reflects the thought process that employees know their job best. Gain sharing programs pay out bonuses for statistical improvements in production and quality on a quarterly or sometimes monthly basis, incentivizing the associates. These programs are often very successful, transforming the manufacturing plant through employee commitment.



Spot Bonus award

Some companies reward employees on the spot for achievements that deserve special recognition. Spot bonus awards are typically \$50 and up and can be made by an immediate supervisor and any higher-level person or peer in the company. Employees can receive these for being extra helpful or going the extra mile. These work in employees' favor: companies with spot bonus programs offer approximately 1 percent of payroll and expect to give out such bonuses to 25 percent of the employees eligible for them, allowing them to earn more than one instant (spot) bonus in a year.

Noncash Bonus

The wrong kind of "employee of the month" concept can be tacky or condescending, it's all in the execution. A well-designed noncash bonus program can inspire pride and improve employee morale. Employees who have done a great job should come to the front of a crowded room at a special ceremony, as if they are receiving an Academy Award. The certificate or trophy should be thoughtfully and cleverly designed, and appropriate to the occasion. These awards are sometimes coupled with a token tangible award, such as a gift certificate, an extra day off, or a great parking space.

A company has a good noncash bonus program if these awards are popular, and if people who receive them display them proudly at their desks. Furthermore, this type of award helps management when deciding who gets a promotion.

Sign-on Bonus

No longer just for star athletes, sign-on bonuses have become routine. Their usage now extends to nearly all level of employees in all walks of life, especially when unemployment is low and good talent is hard to find.

Given to new employees who have just joined the company, this award serves two purposes: to establish rapport and to make-up for any compensation the associate is leaving behind from a previous employer. For example, if they are expecting a bonus in a few months, the sign-on bonus can make-up for that loss. Or if they have any stock options, particularly options that are in the money, this can compensate for that (either in cash or new stock options).



You can also include profit-sharing bonuses or defined contributions (for example, a 401(k) match or an Employee Stock Options Program (ESOP)) made to their retirement account. Remember, medium to large signing bonuses may be paid over a period up to a year to protect the company's interests.

Mission Bonus

This is also known as a Task Bonus or a Milestone Bonus. Task bonuses are given to a team of employees for achieving a milestone or for completing an important project. Usually these bonuses are offered in moderation, but they have been used more frequently in software and hardware development to encourage meeting tight deadlines. Sometimes these programs incorporate a quality quota to safeguard against too much focus on speed.

Mission bonuses are in addition to any other compensation program in which you offer and can be significant (one month's salary is not uncommon, and certainly no less than one week). This award is for the type of achievement that significantly affects the company's bottom-line profitability.

Referral Bonus

In key job markets, it can be difficult for employers to find qualified personnel. When talent is limited, many employers retain recruiters to find candidates, typically paying the recruiter 20 to 30 percent of the new hire's first-year pay. Most companies would rather not pay this fee, and instead offer referral bonuses to employees for recommending friends and acquaintances.

Employers are comfortable in hiring friends of employees because employees are unlikely to recommend people who will make them look bad.

Referral bonuses are typically hundreds to thousands of dollars and normally depend on the level of the new hire. Some firms pay as much as \$10,000 to \$20,000 if you introduce a new senior person to the firm. So, don't hesitate to ask your team if their former boss is a good fit for an opening, it might be worthwhile to for you and for the referring associate.



Retention Bonus

Retention bonuses are given to employees in unusual circumstances, such as a merger or acquisition, or when an important project needs to be completed. These bonuses are designed to provide continuity when there is potential uncertainty about an employee's continued employment at the company. The bonus lets employees know the company wants them to complete the project or, in the case of a merger or sale, to stay until a specified date so that critical activities can continue without disruption. Retention bonuses are usually about 10 to 15 percent of salary.

Holiday Bonus

Holiday bonuses range from small gifts (for example, cash, gift certificates or the ever-present holiday turkey) up to one month's salary. The amount is usually determined by the company's practices. This practice is sometimes referred to as a "13-month salary," and is not a true bonus since no performance is required to receive it.

Sales Commission

Simply put, Sales commissions are given to salespeople for selling. Usually these awards are paid out as a percentage of sales volume. In some cases, commission percentages can increase with higher sales volume. In limited cases, the percentage can decrease. It all depends on the predetermined method. Sales commissions are supposed to be a significant source of income for sales employees, making up at least 50 percent of total cash compensation. A small base salary also helps in developing an overall compensation plan for the sales associates.

Bottomline, a bonus is; "A monetary payment made to an employee over and above their standard salary or compensation package. Bonuses are one of the ways employers reward their employees for a job well done. And offering regular, significant bonuses is a way to keep your best people from looking elsewhere for a job." (www.entrepreneur.com)