

(Name of the Organization)

## INTRODUCTION

Your employee bonus system can be structured in whichever way makes sense for your business. However, once you set up an employee bonus system you must follow it consistently and apply it equally to all of your workers, provided they qualify.

### ❖ Types of Employee Bonuses

#### ➤ **Performance-based bonus:**

As the name suggests, this bonus is tied with individual or company performance. These bonuses can be tailor made for each departments

Some examples are enlisted below,

**Sales Team:** Bonuses are generally tied up with Sales Figures achieved and can be in form of a percentage or a fixed amount paid upon each sale with a condition to achieve a particular milestone.

**Customer Support Team:** CS Teams are generally paid bonuses on client contract renewals. This again can be a percentage of renewals with a milestone condition attached.

**HR Teams:** Their bonuses depend on successful new onboardings who complete their probabationary periods and sometimes also linked with keeping the rate of attrition low.

**Spot bonus:** A spot bonus is used to show immediate recognition for outstanding contributions of individuals or teams. It's based on direct observation and/or feedback from others for exceptional effort. Basically, it's

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a quick way to say “thank you” without having employees wait until year-end bonuses are given out.

**Sign-on bonus:** A sign-on bonus is used to attract applicants to join your company. They are given upon hire and not based on performance. In some cases, they’re used for high-demand skills and key talent requirements.

**Retention Bonus:** These bonuses are used to retain critical employees during a transition period, such as a merger or acquisition. They are a promise to pay an employee a pre-determined amount upon the occurrence of a specific event or date. Bonus amounts may vary depending on the employee and their contribution to the achievement of business objectives. The retention bonus is also usually a lump-sum payment, with the employee generally receiving half of the bonus on their paycheck beginning on a specific date, and the second half on another date designated by the company.

**Referral bonus:** These reward current employees for referring job candidates who end up being hired. They serve as an incentive for employees to help you find good job candidates.

**Project-based bonus:** These are used to reward employees or teams of employees for completing a special project on time, under budget and within all performance criteria established at the beginning of the project. They’re based on project metrics and may be used to encourage project team members to meet deadlines. The project-based bonus is also typically a lump sum paid to team members as a designated amount determined at the end of the project.

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**Non-cash rewards:** Sometimes, a big cash reward may not be possible for your company. No worries. You can still show your appreciation without spending loads of money.

**Festive Bonus:** Some companies offer an amount as a Diwali bonus to all employees.

❖ **Benefits of Employee Bonuses**

Employee bonuses can be good for morale. They can also motivate employees to work harder because they'll earn more if they achieve certain objectives. If you tie employee pay to a bonus system, you can also regulate payroll expenditures to correlate with increases in sales, so your payroll is higher when your company earns enough to pay employees extra. If you structure your payroll and bonus system this way, though, you must make sure that each of your employees earns at least minimum wage even when business is slow, and they don't earn much in bonuses.

❖ **Disadvantages of Employee Bonuses**

If you tie employee compensation to bonuses based on specific achievements, workers may not be motivated to do work that doesn't yield the extra bonus pay. If you provide bonuses for certain types of work and milestones, you may create resentment among workers who do types of tasks that don't qualify them to receive bonuses. Also, tying employee rewards strictly to monetary compensation can be impersonal and counterproductive if you don't also make your staff's work-life meaningful and satisfying through gestures such as sincere praise and opportunities for advancement.

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### ❖ Warnings

- Minimize legal risks by warning employees with poor performance early on that they may not be considered for a bonus if poor performance continues. This reduces the risk of favoritism or bias if the employee is not given a bonus later.
- Setting a high bar for performance bonuses that no one can reach is demoralizing.

### ❖ Tips

- If employee bonuses are based on stellar performance, give guidance on how employees can improve their performance to earn those bonuses.