

Crafting Motivational Bonus Plans

Sarah Sawyer: Welcome to this week's OK at Work with myself, Sarah Sawyer, my colleague Russell Berger, both attorneys at Offit Kurman, and today we are talking about bonus plans. So obviously a bonus plan for an employee or an executive is definitely something that you are probably putting in place to motivate them, retain them.

There's various goals, sharing success. You really wanna be thoughtful in what are you trying to do? How are you trying to motivate someone? Are you trying to retain them? Trying to get them to come over? It might be based on a lot of different factors. And so sometimes they can get complex.

Depending on what you're trying to motivate and how you're tying it into your operations or what goals there are. So what are some things that employers should be thinking about? And we're nearing the end of the year here. Folks might be looking ahead to next year and how they might wanna update bonus plans or compensation plans.

So what are some things you should be thinking about [00:01:00] Russell?

Russell Berger: Yeah, well to your point, now's definitely the right time to think about it as your planning for 2026 and you're determining at an organizational level what your goals are. The question from, a compensation alignment standpoint is, does my comp plan, does my bonus plan support the overall direction that I wanna take this organization. So that's kinda the starting point is am I incentivizing people to do the things that I want them to do consistent with my 2026 plan? And if it doesn't, then now's probably a good time to revisit it and make revisions and, have it be part of the rollout of the 2026 plan and, alert people to it before you get into 2026.

So you hit the ground running when the year starts. And it's a good time to approach that transition. And then once you get into the plan itself, like the nuts and bolts of it, is this clear? Is it easy to calculate? And easy, doesn't necessarily mean there aren't multiple variables in the formula, but that it's an easy enough thing for the employee to ascertain Hey, what this is telling me is I really should focus on this [00:02:00] one thing, or these two, or three or four things, and that's what I'm incentivized to do.

So that's where I'm gonna focus my time so that I get my greatest compensation reward.

Sarah Sawyer: And having clarity, seeing this as a communication with that employee, both, on the front end from a motivation perspective, but then on the backend as well and making sure that the language is very clear that any restrictions, 'cause a lot of times I might tie bonus

structures to how the company's doing and profitability or, some type of commissions or, some type of metric like that. A lot of things can go into those numbers. As far as try to figure out when does this bonus actually kick in? When will it apply? And it's really important to really think about this as really clear communication to the employee, both from a legal risk perspective so that you don't open yourself up to an issue where the employee thinks they're owed something and you don't think that they are, and now they're suing you for it. All of this, we're talking about as far as we're trying to say we want this to motivate the employee.

It's gonna shoot yourself right in the foot if the employee then [00:03:00] now is frustrated because you guys weren't on the same page and they thought they performed and did what they were supposed to do, and you're telling them that no, actually this language means something else and you didn't meet those metrics that can obviously do the opposite of what you're hoping to do and create conflict and tension between you and the employee. So really needs to be clear communication.

Russell Berger: Yeah, absolutely. 'Cause again, if it's not a clear communication besides the potential risk of conflict, you're also not doing a good job of incentivizing the employee. Make it real simple. Here's what I want you to focus on. Here's what I'm going to pay you

if you do this and you do this well ,go do it. You wanna keep it as simple as possible.

Sarah Sawyer: Yeah. Well great advice and we'll see you next time, Russell.

Russell Berger: Thanks Sarah.

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