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VNPP

SESCO management consultants

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The Case for and Against the Annual Year-End Christmas Bonus

It is a traditional practice that most businesses, no matter how small, will provide their employees with a year-end "production" or Christmas bonus. There are many different reasons for doing so and in this article, we will explore the pros and cons of this traditional practice.

The **pros** of providing a year-end bonus include:

- Provides employees and their families a "thank you".
- Builds morale (temporarily).
- Creates a "family" culture - "employees are our most valued asset."
- Is just a nice thing to do, re: Christmas - holiday gift.

Please note in the pros that we did not allude to increasing production, higher performance, increasing one's perceived total compensation, etc. If you are going to provide an annual year-end bonus or Christmas/holiday gift, know that this expense needs to be considered just that - a gift. The owner or manager who tells their employees that we had a good year and we want to share "profits" with them, know that the intended message will be lost in the translation and employees will view this bonus as a one-time gift. They will not equate the gift to their efforts, or if they do, it will be temporary.

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By providing financial bottom-line numbers including net profit, sales and other financial indicators, employees will not be committed to overall performance and be engaged in the process. Employees see these financial indicators as the owners or top management team's scores, not theirs. As such, the year-end bonus or incentive payment frustrates employers **and** employees alike oftentimes providing the basis of poor morale.

As such, owners and managers must view this year-end payment as a gift and not an incentive to entice performance and improve the bottom line.

To further understand this phenomenon, we must understand what employees expect in the way of compensation:

What Employees Expect in the Way of Compensation

Initially, most employers don't understand that a large percentage of workers in their organizations don't have a burning desire to jump out of bed in the morning and produce a product or service with the resulting profit motive. You will never convince most leaders of this, but the fact remains, creating a large, financially sound and profit-generating institution is not the driving force that motivates most workers. If it were, employees wouldn't be satisfied with an hourly job and would be in business for themselves in some capacity.

What is on the minds of most employees, however, is the need and desire to:

- Provide a reasonable and comfortable wage for themselves or their families.
- Obtain a good measure of job security.
- Have a substantial amount of pride and satisfaction in what they do.
- Receive regular compensation that is fair, both in relation to their co-workers and the marketplace.
- Experience a quality of work life that is comfortable, if not enjoyable, both socially and environmentally.
- Have ample time off from work to do many other things they hold near and dear to their hearts.

As far as their compensation is concerned, most hourly employees insist on the following tenets in their pay plan:

- They do not want their paycheck at risk. They want to know what they can expect each payday. In fact, they will take less money if they are assured of it on a week-in/week-out basis rather than the opportunity to make more on some type of variable plan that is not assured.
- If a bonus pay plan is used, they will discount the bonus as wages. This is true even if the individual makes thousands of dollars a year from such a bonus offering. For example, a person making $10 an hour ($20,800 per year), plus a $4,000 annual bonus incentive, will be quick to tell you that he or she is only making $10 an hour, and not the $11.92 that is really received. Their response will be the bonus is something "extra" and not guaranteed — "I may not get it next week, next month, or next year. I make $10 per hour."

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CHRISTMAS BONUS

- Employees want and expect competitive wages. They know what is being paid in their community, and if their rate of pay is not up to par, then no amount of bonus will make it right. Predictably, most employers can't pay a meaningful bonus and still have upper-end competitive wage rates as well. Truly, this is a Catch 22 situation in that compensation is the employer's largest controllable cost.
- Employees are very cause-and-effect oriented. When the individual handles 50 calls this week, 20 more than last week, don't expect him or her to understand the reasoning why the bonus payment was not what they expected it to be. The most frustrating part of any employee incentive program is the credibility gap that exists between management and employees when the bonus number does not come out to be what is expected.
- Unfortunately, even the best intended and well-working bonus systems will be negated completely by a series of low-producing bonus periods.
- Additionally, we all remember those months where we and our talented financial advisors couldn't figure out why the profit was or was not what it should have been. If that happens to those of us that make our living with numbers, don't expect employees to know, understand, or accept the financial explanations you offer. Most employees neither understand nor are comfortable with financial summaries and analysis.

If You've Decided to Provide a Bonus Incentive Anyway

To give your bonus plan a good chance to succeed, consider the following tenets that should be considered in creating and implementing a successful incentive offering:

- Define exactly what it is you want employees to accomplish in the incentive opportunity. Define the goal, the production standard, and completely spell it out. It should not be left up to, "Do more," or "If we make a profit, we'll share it." Be specific, such as, "If our (your) customer service results in 'x,' you will receive 'y'."

  (**Reminder** — Penalties for loss of quality should be considered.)
- The attainment goal must be measurable. Keep it simple, and the closer the employee is to confirming the validity of the data the better.
- Be sure the employee has an effect or impact on what is expected/measured. Giving an individual a share of the net profit is too remote a measure and beyond the employee's frame of reference. In time, the individual will lose interest since they can't figure it out. (**Important Point** — The Corporate profit and loss statement is the employer's scorecard — not the employee's. You are excited about it, but don't expect them to be. Most employees are satisfied with the knowledge that the company is successful.)
- Incentive compensation should be timely — perhaps weekly, monthly, but no longer than quarterly should be considered. Additionally, a brief note of explanation of circumstances is important, supporting the payment, but avoid prolonged meetings offering financial analysis or explanation. Talking numbers is boring and even the best of speakers can't make it appear any better.
- Communications should be developed that incorporate not only bonus payments with regular hourly rates, but also fringe benefits to give the employee an on-going feel for their total financial compensation on a regular and recurring basis.

Incentives are needed and necessary in every organization. In some positions such as sales, 100% incentive systems seem to work better than an hourly rate plus an incentive amount. When hourly rates and incentives are combined to create a well-intended, well-rounded opportunity, it combines into a compensation offering that can confuse and frustrate more than it helps. And to add insult, it increases the payroll cost of the organization and the company may not get any credit or improved performance for the increased cost.

Trump's Pick for Labor Secretary

What Business and Industry Needs to Know

Although not confirmed at the time of this newsletter being published, what do employers need to know about Lori Chavez-DeRemer as Trump's pick for Labor Secretary?

Usually when a Republican or Democrat President selects their Cabinet including Labor Secretary, the pick is either liberal or conservative reflecting the traditional party's platform. **However, Trump has chosen a number of non-traditional picks to include Lori Chavez-DeRemer**.

A favorite of Teamsters President, Sean O'Brien, Chavez-DeRemer is considered one of the most labor-friendly republicans in Washington and one of few GOP members to co-sponsor the Protecting the Right to Organize (PRO) Act which makes it easier for workers to unionize.

If confirmed, some of the hot issues will include:

- The PRO Act
- Potential increase in the guaranteed salary basis from $35,568 to meet the white-collar exemptions
- Paid Sick/Family Leave

SESCO will ensure clients are informed of any new developments through our weekly updates, client alerts and newsletter.

Employers of All Sizes Must Conduct an Annual Human Resource and Employment Law Audit

Since 1945, SESCO has been conducting human resource and employment law audits for our valued clients throughout the country. It is critical that employers understand and comply with federal and ever-growing state regulatory requirements.

SESCO retainer (Service Agreement) clients receive an annual compliance assessment. These compliance assessments can be conducted onsite or remotely. The following checklist is utilized but not limited to conducting our compliance assessment.

1. Active Personnel Files
   - Recently hired employees
   - Long-term employees
   - Workers' Compensation, disciplinary, FMLA, or other employee files with unusual or special attention/documentation
   - Required and suggested documentation
2. Inactive Files
   - Recently terminated for cause
   - Recent quits
   - Other separations involving unusual circumstances
3. Medical Files
   - FMLA
   - Workers' Compensation
4. Access to Personnel File Documentation Maintained Separately
   - I-9 Forms
   - COBRA
   - Workers' Compensation
   - Medical Documentation
5. FLSA:
   - Job title
   - Rate of pay (hourly or salary and amount)
   - Overtime (Y-N)
   - Exemptions complete and partial
6. Compensation System/Practices
7. Job Descriptions
   - Essential Functions
   - ADA Required Documentation
8. Interviewing, Screening and Hiring Systems
   - Interviewing Questions
   - Background checks
   - Reference checks
   - Assessment tools
   - Onboarding practices
9. Employee Handbook or Policies/Procedures Manual
10. All Other Human Resource Systems and Practices

Please know SESCO is close as your telephone/email to discuss conducting an audit and/or developing a new relationship with our professional firm through our Professional Service Agreement which provides:

- **4 Flex Consulting Hours:** Clients have four (4) hours annually to use for onsite or virtual human resource and employment law compliance assessment, leadership training, required harassment training, or for other services that we provide. Clients may also apply the hours toward billable services to reduce project fee quotation.
- **Unlimited telephone and email consulting:** Our staff of certified consultants and labor law attorneys are available to discuss any human resource or employment law matters to include follow-up documentation.
- **Employee Handbook Review:** This review is conducted by our employment attorneys with follow-up report providing SESCO recommendations for improvement and compliance.
- **Two free sets of federal and state compliance posters,** less shipping.
- **Free SESCO HR forms and compliance publications.** These will be provided in pdf format.
- **Newsletters and Email Updates:** *The SESCO Report* and SESCO Weekly Updates will be provided by email. Should you wish to receive hard copies, we are happy to provide those via USPS.
- **Reduced Project Fees:** Clients will receive **reduced fees (15%)** on requested project work or services outside of those provided under the monthly Service Agreement as noted above.

Please contact SESCO to learn more about our Professional Service Agreement and services at 423-764-4127 or sesco@sescomgt.com.

Special Thanks to New SESCO Clients!

Luttrell Staffing Group
Kingsport, TN

National Kidney Foundation of Arizona
Phoenix, AZ

Mid-America Tire Dealers Association
Topeka, KS

Harley-Davidson of Dothan
Dothan, AL

Smyth County Charitable Fund
Marion, VA

Monticello Auto Service
Monticello, MN

Central Shenandoah EMS Council
Staunton, VA

Ervine's Auto Repair
Grand Rapids, MI

MD Auto Repair
Kansas City, MO

SESCO
management consultants
P.O. Box 1848
Bristol, TN 37621
(423) 764-4127 • FAX (423) 764-5869
www.sescomgt.com
email: sesco@sescomgt.com

RETURN SERVICE REQUESTED

To all of our valued clients, please know that we greatly appreciate our personal and professional relationship in providing professional human resource and employment law support. Without you, SESCO would not be celebrating its 80th year in business.

We are truly blessed and grateful and wish you, your organization and your families a most joyous and happy Christmas and Holiday Season.

SESCO Client Feedback

"Just wanted to thank you for all of your assistance through our recent work events. Not only are you a trusted associate in the professional world, but you are also a great mentor and trusted friend. Know that you are and will continue to be much appreciated." ~ Amy Howard, Human Resources Manager - Lifespan Health - Savannah, TN

"Bill, thank you so much for your assistance with the FLSA analysis. It was very helpful!" ~ Angie Rasnake, Sr. Manager, HR/ People Operations/Office Management - Universal Companies - Abingdon, VA

"The Session was "well received" if I judge by the comments from the attendees! You absolutely got their attention, provided great and understandable information and highlighted the benefit of the relationship we have with SESCO! A win all the way around! Thank you for the presentation!" ~ Jennifer G. Fidura, Executive Director - Virginia Network of Private Providers, Inc. - Richmond, VA