

South African Payroll Association
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Managing expectations of bonuses in tough economic times

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The year is rushing to an end and many South Africans are looking forward to a well-deserved break. It has been a difficult year for most companies with the unprecedented negative economic and political climate. Companies are battling to be profitable.

It is also a time of year where many employees have an expectation of receiving some reward in the form of an annual bonus. A bonus is different from a 13th cheque, as the payment of annual bonuses is not guaranteed. The employer can decide whether he wants or is able to reward his employees by paying a bonus. If it has never been the practice there is no fear that the business falls foul of the labour laws.

If the company has a policy of paying a guaranteed 13th cheque which is stipulated in the employee's employment contract, it will be a transgression of the labour laws if the payments are not made. And, if the company habitually pays out bonuses, but this year they cannot afford to do so, it has to inform its employees well in advance that it is deviating from its normal practice.

Ideally employees would be informed at least six months before the time that there will be no bonuses to ensure there are no expectations of getting one. People tend to over-commit themselves if they have an expectation of getting a bonus at the end of the year. Many spend the bonus long before they receive it and this can cause hardship or even greater indebtedness.

Performance-linked bonus

Many companies have also established a policy of "performance linked bonuses" where performance targets are set at the start of a financial year. Specific performance targets are set for individual employees, mainly those who are in senior management positions who have a direct influence in the way the company is run and perform.

The bonus is normally calculated as a percentage of the employee's remuneration and the company should have a clear policy in place, which sets out the criteria that have to be met in order for the bonuses to be paid out.

In most instances there will be a component of business performance targets to be achieved for the company. It is quite likely that the business may have performed well, but certain individuals were unable to meet their individual performance targets, or the other way around.

The policy must be clear about how the bonuses will be calculated and this must be completely transparent.

Impact of no bonus

Despite receiving forewarning that annual bonuses will not be paid out, it certainly is demotivating. As this potentially affects productivity, it would benefit a company greatly if it is open and transparent about its financial situation and future prospects of re-introducing bonuses.

Furthermore, companies can find other, less expensive ways of motivating its employees if they are unable to afford bonuses. These include days off for years worked or rewarding overtime with days off. It may even include a wellness day at the office or allowing for flexible working hours in certain circumstances.

The fortunate ones

Employees who are in the fortunate position of receiving a bonus should be cautious not to spend it all on holidays or gifts, but rather to use it wisely to reduce debt, for instance.

Many companies have a policy of a 13th cheque that is paid at the end of the year. This payment is guaranteed if it forms part of the company's total cost to company. The employment contract will stipulate whether the employee gets a guaranteed 13th cheque, or a bonus that depends on individual performance or the performance of the company.

Employees must ensure that this is clearly stipulated in their employment contracts. If there is no mention of a 13th cheque, the employer is not obliged to pay it. However, if it is clearly stipulated in the contracts, and the company does not honour this agreement with its employees, it amounts to unfair labour practice.

Even in tough times it is expected that the company makes provision for the payment of the 13th cheque. Companies are committed to this payment in the same way they are committed to paying salaries.

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