

# WEEK 9

# COMPENSATION

# Components of compensation

- Cash Payment
  - Wages
  - Salary
- Benefits
  - Compensation given because you are member of the organization
- Incentive Pays
  - Rewards for performance

# Compensation Plan

- **Organization's Strategic Plan**
- **Conduct Pay Survey**
- **Conduct Job Evaluation**
- **Create Pay System**
- **Administer Pay System**
- **Monitor and Update**

# **Pay-for-Performance and Financial Incentives**

# Money and Motivation: Background and Trends

## **Variable Pay**

-plan that links pay to productivity or profitability

# Incentives for Operations Employees

- Piecework plans – straight; guaranteed
- Standard hour plan
- Team or group incentive plan

# Incentives for Managers and Executives

## **Short-term Incentives**

*annual bonus*

## **Long-term Incentives**

*capital accumulation plans*

# Incentives for Salespeople

## **Salary Plan**

(fixed salary)

## **Commission Plan**

(pay in direct  
proportion  
to sales)

## **Combination Plan**

(salary plus  
commission)

# Incentives for Other Professionals

## **Merit Pay**

- salary increase awarded to an employee
- based on individual performance
- effectiveness based on validity of performance appraisal system
- sometimes paid as a lump sum without changing base salary

# Organization-Wide Incentive Plans

- profit sharing plans
- employee share purchase/stock ownership plans
- Scanlon plans
- gainsharing plans
- at-risk variable pay plans

# Developing Effective Incentive Plans

## When to Use Incentives

- units of output can be measured
- clear relationship between employee effort and quantity of output
- standardized job, regular workflow with few/consistent delays
- quality less important than quantity

# Developing Effective Incentive Plans

## **Employee Recognition Programmes**

Lack of recognition and praise  
is the #1 cause of  
employee turnover

# Developing Effective Incentive Plans

## Employee Recognition Programmes

**Cost-effective -> praise and modest gifts**

**Important communication tool**