CHAPTER 12
Recognizing Employee Contributions with Pay
Pay for Individual Performance: 
*Piecework Rates*

**Piecework Rate**
- A wage based on the amount workers produce.

**Straight Piecework Plan**
- Incentive pay in which the employer pays the same rate per piece, no matter how much the worker produces.

**Differential Piece Rates**
- Incentive pay in which the piece rate is higher when a greater amount is produced.
Pay for Individual Performance:  
Performance Bonuses

- Performance bonuses are not rolled into base pay.
- The employee must re-earn them during each performance period.
- Sometimes the bonus is a one-time reward.
- Bonuses may also be linked to objective performance measures, rather than subjective ratings.
Pay for Individual Performance: *Sales Commissions*

- **Commissions** – incentive pay calculated as a percentage of sales.
- Some salespeople earn a commission in addition to a base salary.
- **Straight commission plan** – some salespeople earn only commissions.
- Some salespeople earn no commissions at all, but a straight salary.
Pay for Group Performance: 
*Gainsharing*

- **Gainsharing** – group incentive program that measures improvements in productivity and effectiveness and distributes a portion of each to employees.

- Gainsharing addresses the challenge of identifying appropriate performance measures for complex jobs.

- Gainsharing frees employees to determine how to improve their own and their group’s performance.
Organization Conditions Necessary for Gainsharing to Succeed

1. Management commitment.
2. Need for change or strong commitment to continuous improvement.
3. Management acceptance and encouragement of employee input.
4. High levels of cooperation and interaction.
5. Employment security.
6. Information sharing on productivity and costs.
7. Goal setting.
8. Commitment of all involved parties to the process of change and improvement.
9. Performance standard and calculation that employees understand and consider fair and that is closely related to managerial objectives.
10. Employees who value working in groups.
Pay for Group Performance:
*Group Bonuses and Team Awards*

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<tr>
<th>Group Bonuses</th>
<th>Team Awards</th>
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<td>• Bonuses for group performance tend to be for smaller work groups.</td>
<td>• Similar to group bonuses, but are more likely to use a broad range of performance measures:</td>
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<tr>
<td>• These bonuses reward the members of a group for attaining a specific goal,</td>
<td>- Cost savings</td>
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<td>usually measured in terms of physical output.</td>
<td>- Successful completion of a project</td>
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<td>- Meeting deadlines</td>
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Pay for Organizational Performance: 
*Profit Sharing*

- **Profit sharing** – incentive pay in which payments are a percentage of the organization’s profits and do not become part of the employees’ base salary.
- Profit sharing may encourage employees to think like owners.
- Evidence is not clear whether profit sharing helps organizations perform better.
Considerations for Setting Up a Profit-Sharing Plan

1. Get supervisors on board with the plan.
2. Make sure employees understand how the plan works.
3. Identify the behaviors and results that contribute to greater profits.
4. Make sure managers understand that they contribute to the profit-sharing goals by encouraging their employees and keeping them focused on their goals.
5. Consider linking rewards to the department’s or division’s performance, if profits can be assigned to the group.
6. Make the rewards big enough to matter.
7. Time the profit-sharing payments for maximum effect.
# Pay for Organizational Performance: 
*Stock Ownership*

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<th>Stock Options</th>
<th>ESOPs</th>
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| • Rights to buy a certain number of shares of stock at a specified price.  
  • Traditionally, stock options have been granted to executives.  
  • Some companies are trying to push eligibility for options further down the organization’s structure. | • *Employee Stock Ownership Plan (ESOP)* – an arrangement in which the organization distributes shares of stock to all its employees by placing it in a trust.  
  • This is the most common form of employee ownership. |


Balanced Scorecard

• **Balanced scorecard** – a combination of performance measures directed toward the company’s long- and short-term goals and used as the basis for awarding incentive pay.

• The four categories of a balanced scorecard include:
  – financial
  – customer
  – internal
  – learning and growth
Balanced Scorecard (continued)

• It combines the advantages of different incentive pay plans.
• It helps employees understand the organization’s goals.
• By communicating the balanced scorecard to employees, the organization shows employees information about what its goals are and what it expects employees to accomplish.
**Processes That Make Incentives Work**

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<th>Participation in Decisions</th>
<th>Communication</th>
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<td>• Employee participation in pay-related decisions can be part of a general move toward employee empowerment.</td>
<td>• Communication demonstrates to employees that the pay plan is fair.</td>
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<tr>
<td>• Employee participation can contribute to the success of an incentive plan.</td>
<td>• When employees understand the requirements of the incentive pay plan, the plan is more likely to influence their behavior as desired.</td>
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<td>• Important when the pay plan is being changed.</td>
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Incentive Pay for Executives

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<th>Short-Term Incentives</th>
<th>Long-Term Incentives</th>
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<td>• Bonuses based on the year’s profits, return on investment, or other measures related to the organization’s goals.</td>
<td>• Include stock options and stock purchase plans.</td>
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<td>• Actual payment of the bonus may be delayed to gain tax advantages.</td>
<td>• Rationale for these long-term incentives is that executives will want to do what is best for the organization because that will cause the value of their stock to grow.</td>
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Summary

• Incentive pay is pay tied to individual performance, profits, or other measures of success. Organizations select forms of incentive pay to energize, direct, or control employees’ behavior.

• To be effective, incentive pay should encourage the kinds of behaviors most needed, and employees must believe they have the ability to meet the performance standards.

• Employees must value the rewards, have the resources they need to meet the standards, and believe the pay plan is fair.