

Individual Incentive Plans

- Piecework Plans

- The worker is paid a sum (called a piece rate) for each unit he or she produces.

- ❖ Straight piecework

- ❖ Standard hour plan



Individual Incentive Plans (cont'd)

- Pros and Cons of Piecework
 - Easily understandable, equitable, and powerful incentives
 - Employee resistance to changes in standards or work processes affecting output
 - Quality problems caused by an overriding output focus
 - Employee dissatisfaction when incentives either cannot be earned or are withdrawn

Individual Incentive Plans (cont'd)

- Merit Pay

- A permanent cumulative salary increase the firm awards to an individual employee based on his or her individual performance.

- Merit Pay Options

- Annual lump-sum merit raises that do *not* make the raise part of an employee's base salary.
- Merit awards tied to both individual and organizational performance.

Individual Incentive Plans (cont'd)

- Incentives for Professional Employees

- Professional employees are those whose work involves the application of learned knowledge to the solution of the employer's problems.

- ❖ Lawyers, doctors, economists, and engineers

- Possible Incentives

- Bonuses, stock options and grants, profit sharing

- Better vacations, more flexible work hours

- Improved pension plans

- Equipment for home offices

Incentives for Salespeople

- Salary Plan

- Straight salaries

- ❖ Best for: prospecting (finding new clients), account servicing, training customer's salesforce, or participating in national and local trade shows.

- Commission Plan

- Pay is a percentage of sales results.

- ❖ Keeps sales costs proportionate to sales revenues.
 - ❖ May cause a neglect of nonselling duties.
 - ❖ Can create wide variation in salesperson's income.
 - ❖ Likelihood of sales success may be linked to external factors rather than to salesperson's performance.
 - ❖ Can increase turnover of salespeople.

Team/Group Incentive Plans

- Team (or Group) Incentive Plans
 - Incentives are based on team's performance.
- How to Design Team Incentives
 - Set individual work standards.
 - Set work standards for each team member and then calculate each member's output.
 - Members are paid based on one of three formulas:
 - ❖ All receive the same pay earned by the highest producer.
 - ❖ All receive the same pay earned by the lowest producer.
 - ❖ All receive the same pay equal to the average pay earned by the group.

Team/Group Incentive Plans (cont'd)

- Pros

- Reinforces team planning and problem solving
- Helps ensure collaboration
- Encourages a sense of cooperation
- Encourages rapid training of new members

- Cons

- Pay is not proportionate to an individual's effort
- Rewards "free riders"