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Pay for Performance and Financial Incentives



Learning Objectives

1. Explain how you would apply five motivation theories in formulating an incentive plan.
2. Discuss the main incentives for individual employees.
3. Discuss the pros and cons of commissions versus straight pay incentives for salespeople.

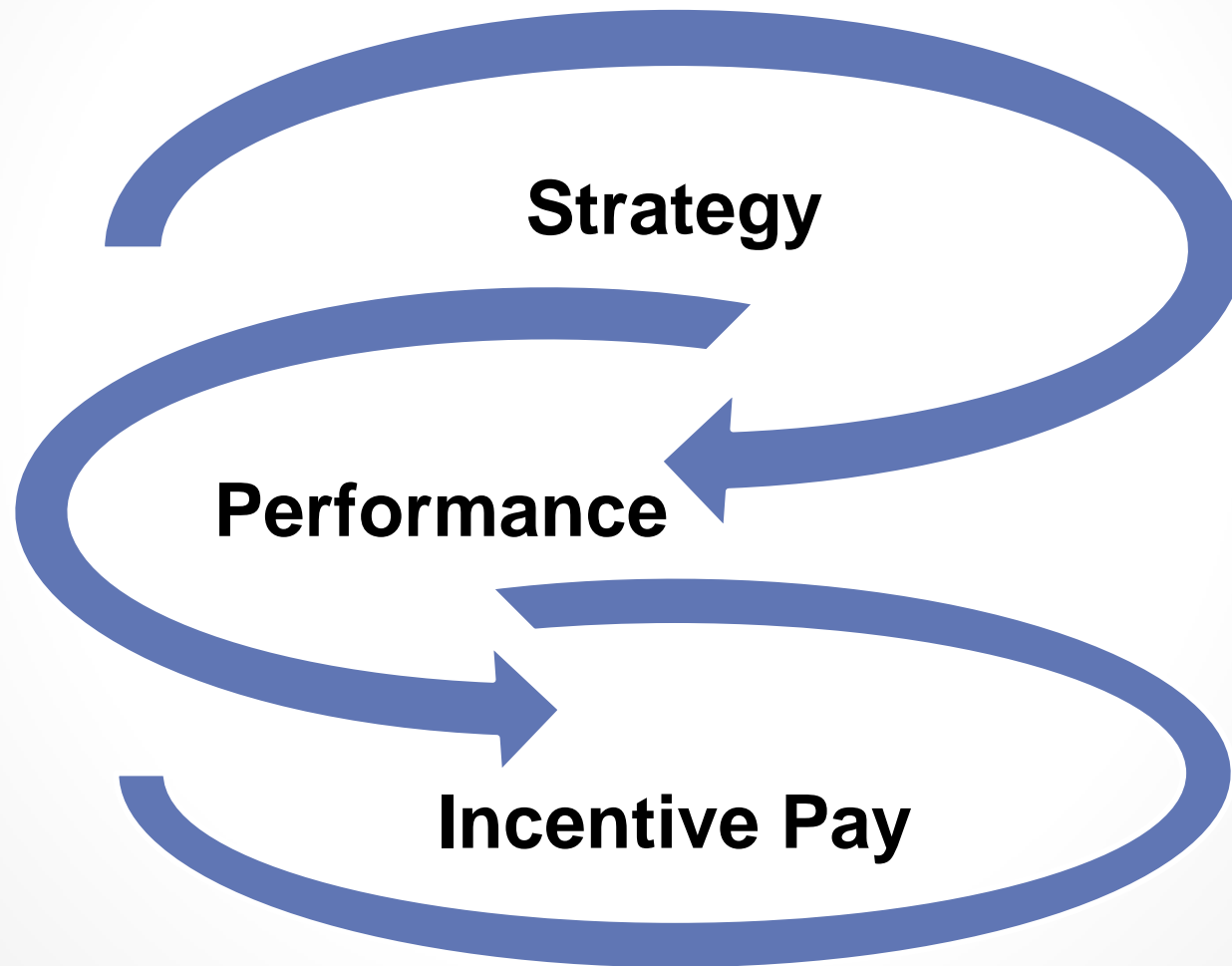


Learning Objectives

4. Describe the main incentives for managers and executives.
5. Name and define the most popular organization-wide variable pay plans.
6. Outline the steps in designing effective incentive plans.



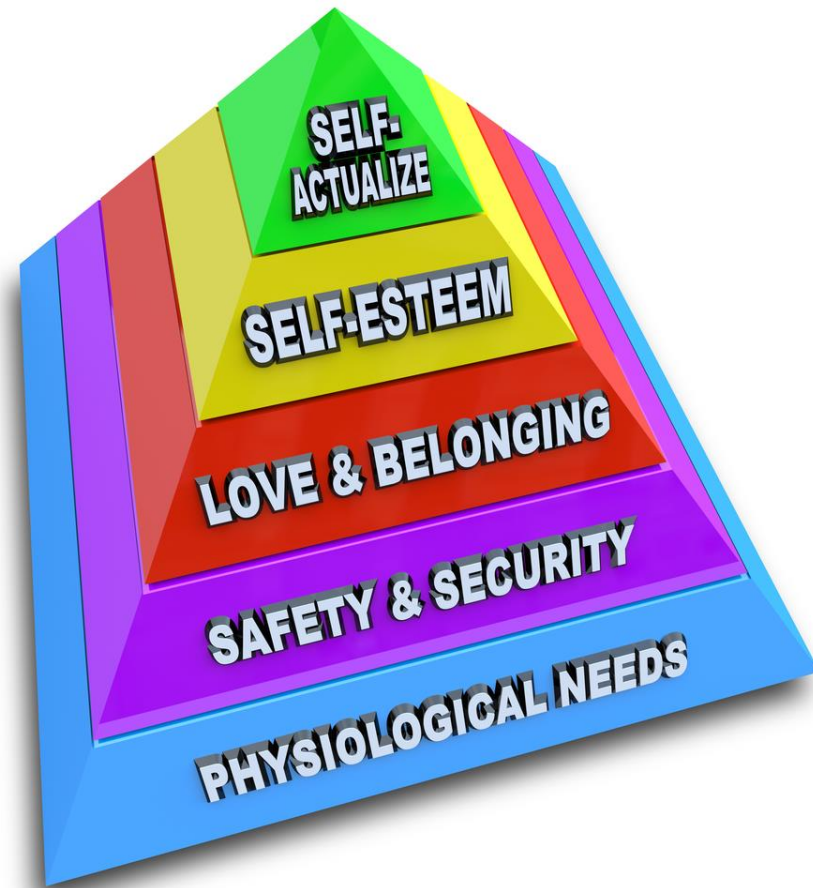
Money and Motivation



**Explain how you would apply
five motivation theories in
formulating an incentive
plan.**

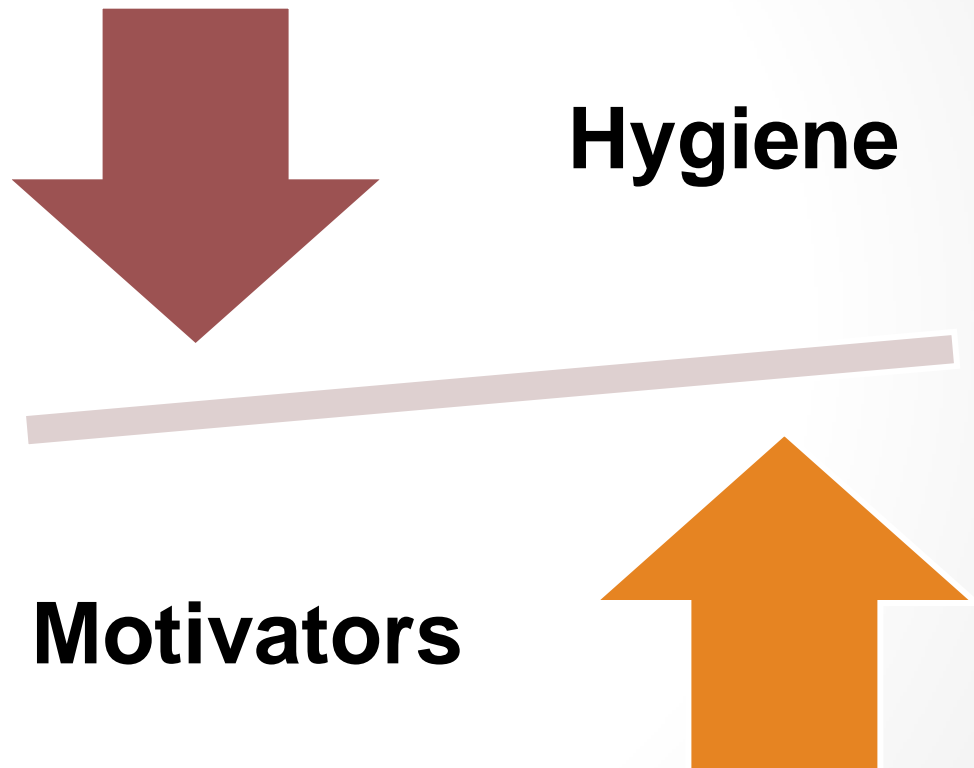
Motivation and Incentives

- Maslow's Hierarchy of Needs



Motivation and Incentives

- Herzberg's Two-Factory Theory
- Deci and demotivators



Motivation and Incentives

- Behavior modification
- Incentive pay terminology
- Employee incentives and the law

Review

- Money and motivation
- Motivation theories
- Incentives
- Terminology
- The law



**Discuss the main incentives
for individual employees.**



Individual Employee Incentive and Recognition Programs

- Piecework plans
 - Straight piecework
 - Standard hour plans
 - Pros and cons
- Merit pay as an incentive
 - Differential pay increases
 - Merit pay options



Individual Employee Incentive and Recognition Programs

- Incentives for professional employees
- Nonfinancial and recognition-based awards
 - Incentives managers can use
- Online and IT-supported awards
- Job design



Review

- Piecework
- Merit pay
- Incentives for professionals
- Nonfinancial rewards
- Online
- Job design



The Pros and Cons of Commissions vs. Straight Pay Incentives for Salespeople

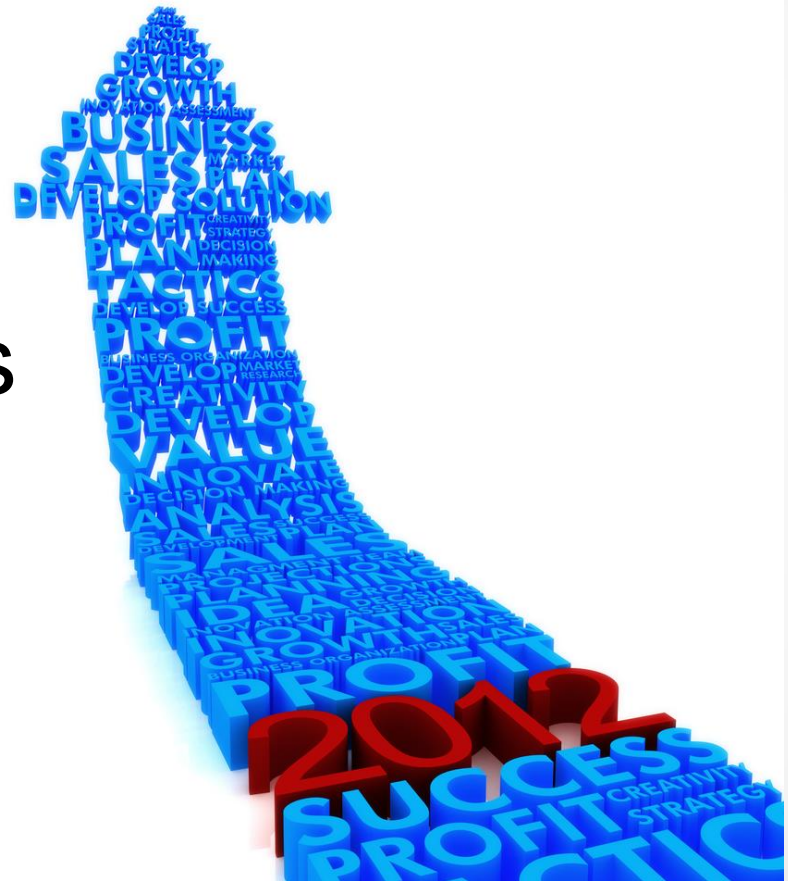


Incentives for Salespeople

- Salary plan
- Commission plan
- Combination plan
- Maximizing sales force results
- How effective are your incentives?

Review

- Types of sales incentives
- Maximizing results
- Effectiveness



Describe the main incentives for managers and executives.



Incentives for Managers and Executives

- Strategy and the executive's long-term and total rewards package
- Sarbanes-Oxley Act
- Short-term incentives, annual bonus
 - Eligibility
 - Fund size
 - Individual performance
 - Formula



Incentives for Managers and Executives

- Strategic long-term incentives
 - Stock options
 - Stock option problems
 - Other stock plans
 - Ethics and incentives
- Other executive incentives



Review

- Strategy and long-term incentives
- Federal law
- Short-term incentives
- Strategic long-term incentives
- Other incentives



The Most Popular Organization-wide Variable Pay Plans



Team & Organization-wide Incentive Plans

- Designing team incentives
 - Engineered standards
 - Pros and cons
- HR inequities that undercut team incentives



Team & Organization-wide Incentive Plans

- Profit-sharing plans
- Scanlon plans
- Other gainsharing plans
- At-risk pay plans
- Employee stock ownership plans

Review

- Team incentives
- Inequities
- Profit-sharing
- Scanlon and gainsharing
- At-risk
- ESOPs



The Steps in Designing Effective Incentive Plans



The Five Building Blocks of Effective Incentive Plans

- Common sense
- Linkages
- Effort ↔ Rewards
- Standards
- Contract
- Measurement



Review

