Incentive plans essay example

[Business](), [Company]()

Incentive Plans

Two of the incentive plans that organizations implement are group-based pay plans and incentive compensation plans.

Although individual pay incentives have shown to increase productivity, very few employees are covered by an individual incentive plan such as a commission plan or a piece rate plan (Zenger & Marshall, 1995). As such, companies implement merit increases that are based on various performance categories. In the same regard, this has led to an increase in the implementation of group-based incentive plans where group performance is rewarded instead of individual performance. This type of incentive plan is employed by most organizations as tasks are usually completed in groups and not as individual efforts. In this case, the results of individual performance cannot be easily measured. On the contrary, group performance can be more easily measured and advancements that allow for the accurate measurement of group performance have made group-based incentive plans even more popular.

On the other hand, while group-based incentive plans may be advantageous due to the easy measurement of group performance, this type of incentive plan tends to diminish the incentive (Zenger & Marshall, 1995). In this type of incentive plan, the incentive is shared by all members of the group, but the effort remains to be based on individual effort. As such, if some of the group members do not perform well then the incentive for the entire group is affected. In the same regard, the bigger the group, the less effect a member’s individual performance has on the measure of the group’s performance, yet the amount of effort that he or she has to exert remains the same. On the contrary, a smaller group means that the members have more control over the outcome of the group's performance; thus, leading to higher chances for being rewarded with bigger incentives. Similarly, a smaller company has fewer departments, which means that each department's performance can be more easily observed, compared to larger companies that have more departments and more employees. Moreover, it is easier for members of a small group to monitor each other's performance, which helps ensure that the group's performance level remains high.

In addition, a high level of management involvement is necessary in order to maximize the incentives from group-based incentive plans. This is because managers are the ones who can influence the group or the organization's performance the most. Without a high level of involvement from managers, higher levels of incentive intensity for the employees will not be possible or will be difficult to achieve. As well, some employees may feel that the group-based plan is not fair in that all members of the group exert the same amount of effort and yet their salaries and incentives are not necessarily the same. As a result, some employees may become uncooperative, demoralized, or even leave the company. The same applies to incentives that are given across groups. In summary, the findings of Zenger and Marshall (1995) indicate that group-based incentive plans are more effective for small groups – departments or companies – where employees are able to get higher incentives and the company is able to obtain higher gains.

On the other hand, organizations also accord importance to individual employee compensation as a means for improving employee performance (Liccione, 2007). However, despite the logic behind incentive compensation plans, these incentive plans do not necessarily guarantee improved employee performance. While these incentive plans are good in that they show the importance accorded by the company towards the business interests of their employees, their effectiveness eventually depend on how motivated the employees are to perform well and on how well they perceive the effectiveness of the incentive plan is, that is, whether they believe that their performance goals can be attained and that their employers will recognize and reward them for their good performance. Moreover, the employee’s performance goals must be aligned with their individual goals; otherwise, these goals may be ignored or avoided. As well, there’s a tendency for employees to compare their incentives with those of other employees where they would consider the incentive to be inequitable if they receive less incentive than their coworker when they believe that the amount of effort they’ve exerted is equal to that exerted by their coworker. As such, if they feel that they are being undercompensated compared to their colleagues then they may become less productive. Alternatively, if they feel that they may be overcompensated for their work, compared to their colleagues, then they will likely increase their productivity.

In summary, the effectiveness of incentive compensation plans depend on several individual factors, which include the employee’s commitment to the achievement of their goals; their perception of how attainable the goal is; their expectation of being rewarded for achieving their goals; the actual amount of incentive that they receive; and their perception of the reward’s equitability (Liccione, 2007).

References

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