

# Good essay on base pay vs. incentive pay

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As the world is globalizing, businesses and organizations are increasingly becoming competitive, hence the need to consider strategies that will help them in becoming more competitive, productive, innovative and most importantly, efficient in their operations. In order to optimize for efficiency, labor is a vital resource that often incurs organizations a significant amount of expenses, thus due to this reason, various methods of payments are being employed to ensure there is efficiency (Gregorio, 5). Different pay structures can be used to motivate executive to perform in accordance with the interests of the company they work in. This essay will focus on two payment methods, the base pay and the incentive pay highlighting on the major differences and similarities.

## **Comparison**

Base and incentive pay both pay structures that are used to reward the efforts of individuals in any organizations. If individuals are not adequately compensated for the contribution they make, they will not be motivated to work hard in order to improve the organization's performance and profitability (Schraeder and Bret, 18-24). Therefore, regardless of which method of compensation is employed, workers need to be rewarded for their efforts.

## **Contrast**

Base pay can be defined as the pay received by an employee in a given work period for instance an hour, a month or a week. It is that rate of compensation for a specific position which does not include any allowances or bonuses. While incentive pay is payments higher than base pay designed

to promote the productivity of an individual.

Base pay is tied to the employee's seniority, experience or the prevailing market rates in terms of minimum wage (Boyer, 1). On the other hand, incentive pay varies in relation to the achievements and performance of the worker in any given organizations.

Base pay is paid in relation to a given period of time, this rate is established for workers who fall in a given category and will only change with a given scale allowing for progression, such as a gain in skill and additional experience. But in incentive pay, payment is made given the results, performance and even appraisal of a worker (Boyer, 1).

The base pay is not suitable for workers who exhibit different abilities in their work, on the other hand, incentive pay rewards directly linked to an individual's performance.

## **Trend In Payment Structures**

Pay systems are often used to develop flexibility in compensating the contribution made by workers. Many organizations are moving from the traditional based pay structure such as base pay to other pay programs. The use of incentive pay has become more pervasive in many industries across the globe. Incentive pay for instance is being used by organizations to increase individual performance, promote flexibility and most importantly boost organization productivity, efficiency and innovation (Schraeder and Bret, 18-24). For example, Simcon, a company that manufactures flight simulators, sought to employ an incentive pay program to motivate workers to perform better in order to match the growth they were experiencing. In this case, a base pay would not be enough to motivate workers to put more

effort to align production to growth.

Incentive pay is also of interest to businesses in the service industry that includes payment arrangements such as commission on sales, flat rate per trip, percentage of revenues and many more. It is a modest pay that rewards top performers who significantly contribute to the viability of an organization (Schraeder and Bret, 18-24).

Implementing a pay system that rewards the performance of employees is one of the complementary that firms are embracing. They are also used to reduce on employee turnover, especially long-term incentive paying, hence lowering costs associated with layoffs and turnover.

## **Works Cited**

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