

## Slide 1

**Chapters Twelve and Thirteen:  
Incentives and Benefits**

## Slide 2

**Challenges**

- ✦ Understand how the components of an executive compensation package motivate executives to make decisions that are in the firm's best interests.
- ✦ Weigh the pros and cons of different compensation methods for sales personnel and create an incentive plan that is consistent with the firm's marketing strategy.
- ✦ Design an incentive system to reward excellence in customer service.

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**Managerial Perspective**

*The HR department in many organization is responsible for designing mechanisms that support managers in linking employees' pay to performance. Managers generally decide who should receive more rewards than others based on merit.*

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### Pay-for-Performance

**Pay-for-performance systems**, also called **incentive systems**, reward employee performance on the basis of three assumptions:

- 1) Individual employees and work team differ in how much they contribute.
- 2) The firms performance depends on the performance of workers.
- 3) Attracting, retaining, motivating, and maintaining equity relies on pay for performance.

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### Pay-for-Performance

#### *Problems with Incentive Pay*

- ◊ Neglecting tasks
- ◊ Psychological contracts
- ◊ Conflict and competition
- ◊ Credibility gaps
- ◊ Lack of control
- ◊ Dissatisfaction and Stress
- ◊ Measuring performance
- ◊ Intrinsic drives

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### Pay-for-Performance Systems

#### *Ways to Enhance Performance Programs*

- ◊ Link pay to performance
- ◊ Promote the culture
- ◊ Create complimentary programs
- ◊ Use multiple layers
- ◊ Increase Involvement
- ◊ Build employee trust
- ◊ Use non-financial rewards

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Types of Pay-for-Performance Plans			
Micro-level		Macro-level	
Individual	Team	Division	Organization
Merit Pay	Bonuses	Gainsharing	Profit Sharing
Bonuses	Awards	Bonuses	Stock Plans
Awards		Awards	
Piece rate			

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Types of Pay-for-Performance Plans	
Individual Plans	
Pros	Cons
◊ Repeated performance	◊ Single-mindedness
◊ Individual equity	◊ Employee disbelief
◊ Culture fit	◊ Lessened teamwork
	◊ Inflexibility

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Types of Pay-for-Performance Plans
<i>Success Factors</i>
Individual plans are likely to succeed when:
◊ Individual contribution can be measured
◊ The job demands autonomy
◊ Cooperation is less critical

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### Types of Pay-for-Performance Plans

*Team-based Plans*

<i>Pros</i>	<i>Cons</i>
◊ Foster group cohesiveness	◊ Cultural incongruence
◊ Facilitate performance measurement	◊ Free-riding effect
	◊ Social pressures
	◊ Identifying groups
	◊ Intergroup competition

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### Types of Pay-for-Performance Plans

*Success Factors*

Team plans are likely to succeed when:

- ◊ *Work tasks are intertwined*
- ◊ *The goal is entrepreneurship*
- ◊ *Appropriate team structures are in place*

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### Types of Pay-for-Performance Plans

*Divisional Plans*

<i>Pros</i>	<i>Cons</i>
◊ Gainsharing plans	◊ Protection of low performers.
◊ Participative management	◊ Criteria used to trigger rewards
◊ Avoids competitiveness	◊ Management-Labour conflicts.

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**Types of  
Pay-for-Performance Plans**

*Success Factors*

Divisional plans are likely to succeed when:

- *The organization is small to mid-sized*
- *Multiple plans are congruent*
- *A participative culture exists*
- *Demand for the product or service is stable*

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**Types of  
Pay-for-Performance Plans**

*Organizational Plans*

<i>Pros</i>	<i>Cons</i>
• Financial flexibility	• Risk for employees
• Employee commitment	• Limited productivity impact
• Tax advantages	• Long-run financial difficulties

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**Types of  
Pay-for-Performance Plans**

*Success Factors*

Organizational plans are likely to succeed when:

- *The organization is larger*
- *Multiple divisions exist*
- *Markets are unstable*
- *Used with other incentives*

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### Special Employee Groups

*Executives*

- 1) How long should the time horizon be for dispensing rewards?
- 2) Should length of service be considered in determining the amount of the award?
- 3) Should the executive be asked to share part of the costs and, therefore, increase his or her personal risk?
- 4) What criteria should be used to trigger the award?
- 5) Should there be a limit on how much executives can earn or a formula to prevent large unexpected gains?
- 6) How often should the awards be provided?
- 7) How easy should it be for the executive to convert the award into cash?

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### Special Employee Groups

*Salespeople - Straight Commission*

<i>Pros</i>	<i>Cons</i>
◦ New accounts	◦ Volume over profit
◦ Higher motivation	◦ Customer service reduction
◦ Recognized contributions	◦ Overstocking customer
◦ Minimal supervision	◦ Less economic security
◦ Controlled costs	◦ Less direct control
◦ Simple administration	◦ Overly high earnings
	◦ Resistance to change
	◦ Easiest sell

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### Special Employee Groups

*Salespeople - Straight Salary*

<i>Pros</i>	<i>Cons</i>
◦ Secure income	◦ Low motivational impact
◦ Performing other tasks	◦ Difficulty retracting or retaining
◦ Simple administration	◦ More supervision required
◦ No overstocking customers	◦ Easiest sell
◦ Low resistance to change	
◦ Low employee turnover	
◦ Salaried professionals	

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### Special Employee Groups

*Salespeople – Combination*

<i>Pros</i>	<i>Cons</i>
» Advantages of commission and salary	» Complicated design
» Recognizes selling and non-selling tasks	» Confusion
» Economic security	» Too many goals
» Monetary incentives	» Costly to administer
» Variety of marketing goals	» Overly high earnings

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### Money and Motivation

**Variable Pay**

- plan that links pay to productivity, profitability, or some other measure of organizational performance
- accurate performance appraisal or measurable outcomes is a precondition for effective pay-for-performance plans

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### Types of Incentive Plans

- individual incentive programs
- group incentive programs
  - profit sharing plans
  - gainsharing plans
- Non-monetary recognition programs

## Slide 22

### Incentives for Operations Employees

- Piecework plans
  - straight
  - Guaranteed
- Standard hour plan
- Team or group incentive plan

## Slide 23

### Incentives for Senior Managers and Executives

**Short-term Incentives**  
*annual bonus*

**Long-term Incentives**  
*capital accumulation plans*

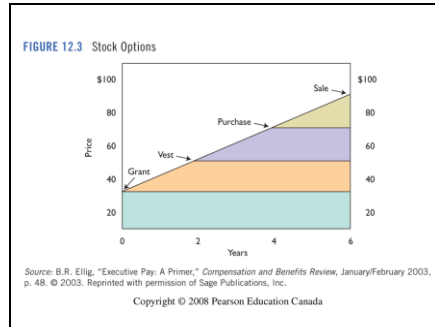
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### Annual Bonus - Decisions

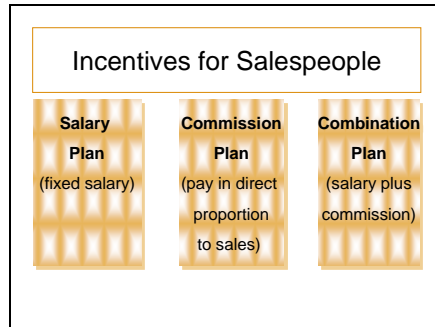
- Eligibility
  - Position; salary level; grade
- fund size
  - Non deductible versus deductible
- determining individual awards



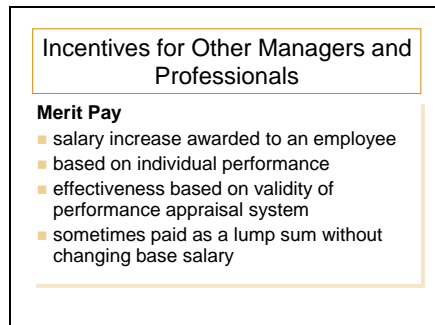
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### Incentives for Professional Employees

- bonus represents small portion of total pay
- incentives based on results longer than one year
- up-to-date equipment and facilities
- supportive management style
- support for research publications

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### Organization-Wide Incentive Plans

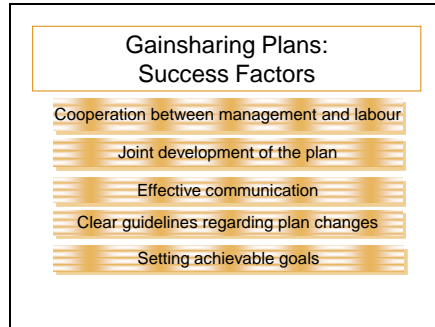
- profit-sharing plans
- employee share purchase/stock ownership plans
- scanlon plans
- gainsharing plans

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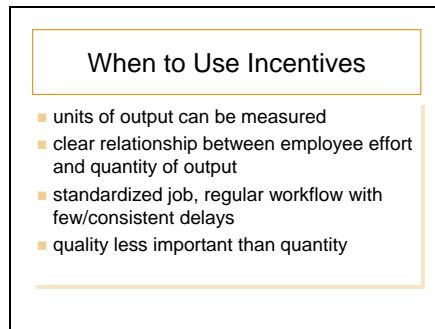
### Scanlon Plan

- engages many or all employees in a common effort to achieve a company's productivity objectives
- any resulting incremental cost-savings shared among employees and the company

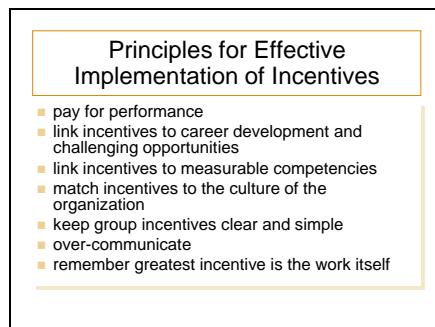
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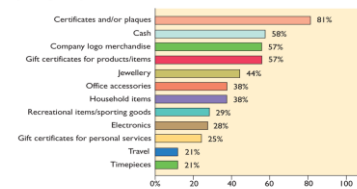
### Employee Recognition Programs

- Lack of recognition and praise is the #1 cause of employee turnover
- cost-effective: praise and modest gifts
- improves employee attitudes and productivity
- creates strategic change if recognition criteria aligned with strategy
- fuels achievement of high performers
- important communication tool

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FIGURE 12.4 Common Recognition Awards

Certificates and plaques continue to be the most common form of recognition to employees, according to a survey of 614 North American organizations by Workday and the National Association for Employee Recognition in 2005. Nearly nine out of every ten organizations (89 percent) offer some form of recognition to staff. Below is a list of various items and the percentage of respondents that offer them.



Source: Workday's Trends in Employee Recognition 2005. Reprinted with permission of Workday, Scottsdale, AZ. [www.workdaywork.org](http://www.workdaywork.org).

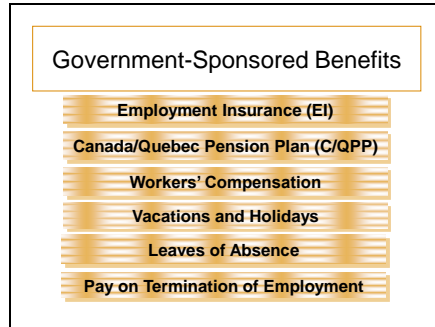
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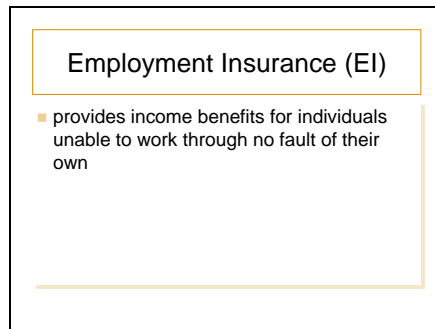
### Strategic Role of Employee Benefits

- benefits are indirect financial payments (such as insurance and pensions) traditionally used to reward loyalty and tenure
- employee services more important today in post-job security era

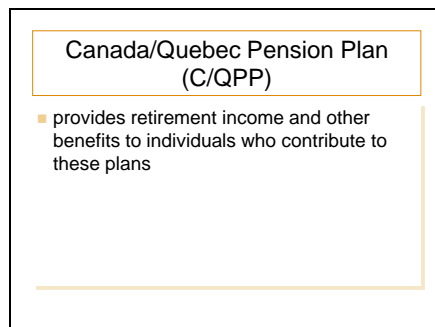
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### Workers' Compensation

- provides income and medical benefits to victims of work-related accidents and illness, regardless of fault

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### Vacations and Holidays

- specified in employment standards legislation
- paid time for vacation and statutory holidays

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### Leaves of Absence (unpaid)

- specified in employment standards legislation
- maternity/pregnancy leave
- paternity/parental/adoption leave
- bereavement leave
- compassionate care leave

## Slide 43

### Pay on Termination of Employment

- specified in employment standards legislation
- pay in lieu of notice
- severance pay
- pay for mass layoffs

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### Voluntary Employer-Sponsored Benefits

- life insurance
- supplementary health care/medical insurance
- short-term disability/sick leave
- long term disability
- additional leaves of absence
- additional paid vacations and holidays
- retirement benefits

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### Life Insurance

- group life insurance
- accidental death and dismemberment insurance
- critical illness insurance

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### Supplementary Health Care/Medical Insurance

**Deductible**

- annual amount of health/dental expense paid by employee before insurance benefits will be paid

**Coinsurance**

- percentage of expenses (in excess of the deductible) paid for by the insurance plan

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### Reducing Health Benefit Costs

- increase the amount paid by employees
- publish a restricted list of drugs covered
- offer health promotion programs
- implement risk assessment programs
- health services spending accounts

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### Short-Term Disability/Sick Leave

- pay for employees who are unable to work due to non-work-related illness or injury
- short-term disability plans pay (often at declining percentages of salary) during entire absence
- sick leave plans pay for a specified number of days only



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### Long-Term Disability

- pay for employees with non-work-related long-term illness or injury (until retirement if necessary)

**Disability Management**

- assists disabled employees with return to work:
  - reduced work hours
  - reduced work duties
  - workstation modification

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### Long-Term Disability: Mental Health Benefits

- depression a "clear and present danger"
  - alcoholism
  - absenteeism
  - injury
  - physical illness
  - lost productivity

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### Additional Leaves of Absence, Vacations, Holidays

- pay for required unpaid leaves
- sabbatical leaves
- vacation in excess of legislated minimum
- additional holidays e.g. floating day

## Slide 52

### Pension Plans: Two Types

**Defined Benefit Pension Plan**  
*contains a formula for determining retirement benefits*

**Defined Contribution Pension Plan**  
*employer's contribution to the employees' retirement fund is specified*

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### Group RRSP/DPSP

- employee contributions to RRSP
- employer contributions to DPSP
- enables both to be tax deductible

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### Pension Planning Issues

- membership requirements
- benefit formula (defined benefit only)
- retirement age
- funding (contributory or non-contributory)
- vesting
- portability

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### Retirement Plans: Recent Trends

- rapid growth of defined contribution plans
- phased retirement
- supplemental employee retirement plans (SERPs)

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### Employee Services: Personal Services

- credit unions
- counselling services
- employee assistance programs (EAPs)
- other (social and recreational)

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### Employee Services: Job-Related Services

- subsidized childcare
- eldercare
- subsidized employee transportation
- food services
- educational subsidies
- family-friendly benefits

## Slide 58

### Executive Perquisites

- loans
- golden parachutes
- financial counselling
- company relocation benefits
- limousines
- executive dining room
- concierge service

## Slide 59

### Flexible Benefit Programs

**Advantages**

- choose benefits to suit individual needs
- meet changing needs of workforce
- increased employee involvement improves understanding
- introduction of new benefits less costly (merely a new option)
- cost containment: firm sets a dollar maximum

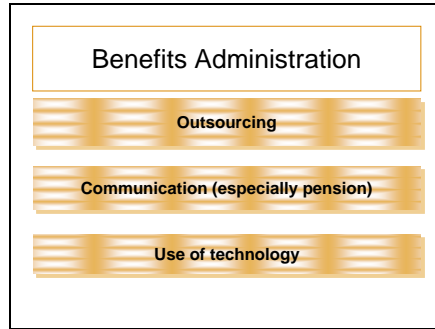
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### Flexible Benefit Programs

**Disadvantages**

- employees make bad choices (not covered for predictable emergencies)
- increased administrative cost
- adverse selection: employees pick only benefits they will use (subsequent high benefit utilization increases cost)

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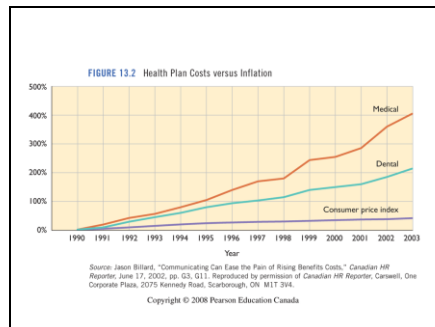
**FIGURE 13.1 Sample Application for Leave of Absence**

**APPLICATION FOR LEAVE OF ABSENCE WITHOUT PAY**

<b>NAME:</b> _____		<b>EMPLOYEE ID:</b> _____	
<b>DATE:</b> _____		<b>DEPT:</b> _____	
<b>POSITION:</b> _____		<b>REPORTING TO:</b> _____	
<b>REASON FOR REQUEST:</b> _____		<b>DATE OF REQUEST:</b> _____	
<b>PERIOD OF LEAVE REQUESTED (include weekends):</b> _____		<b>DATE OF RETURN:</b> _____	
<b>FROM (Please indicate Day of Leave):</b> _____		<b>TO (Last Calendar Day of Leave):</b> _____	
<b>Day</b>	<b>Month</b>	<b>Day</b>	<b>Month</b>
I certify that I am an employee of the University of Toronto and that I am not currently on leave. I understand that this leave is without pay and that I will be responsible for any outstanding financial obligations to the University during this period. I agree to provide the University with a written statement from my physician or other health care provider confirming the need for this leave. I agree to provide the University with a written statement from my physician or other health care provider confirming the need for this leave. I agree to provide the University with a written statement from my physician or other health care provider confirming the need for this leave.			
<b>REASON FOR REQUEST:</b> <input type="checkbox"/> <b>ILLNESS:</b> _____ <input type="checkbox"/> <b>PERSONAL BUSINESS:</b> _____ <input type="checkbox"/> <b>OTHER:</b> _____			
<b>DATE OF REQUEST:</b> _____ <b>DATE OF RETURN:</b> _____ <b>DATE OF REQUEST:</b> _____ <b>DATE OF RETURN:</b> _____			

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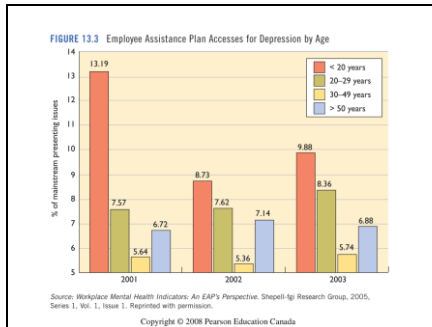
**TABLE 13.1 Initiatives to Control Rising Health-Care Costs**

Initiative	Number of Respondents	Percentage*
Cost-sharing	58	31
Review	40	21
Plan redesign	38	20
Caps/maximums	26	14
Communication/education	25	13
Implementation/considering flexible benefit plans	22	12
Cuts (including cuts to dependants' coverage)	14	7
Negotiating with provider; finding new provider	11	6
Wellness initiatives	9	5
Negotiating with union	5	3

Source: N. Wassink and J.L. MacBride-King, *Beyond Band-Aid Solutions: Managing Organizations' Health Benefit Costs*, Ottawa: Conference Board of Canada, May 2004, p. 3. Reprinted by permission of The Conference Board of Canada, Ottawa.

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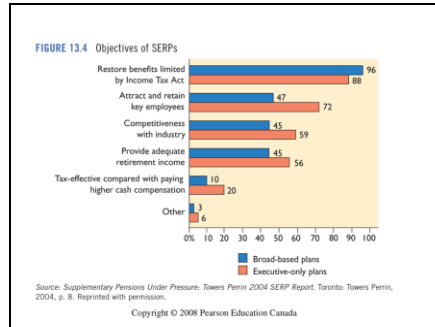
**TABLE 13.2 Registered Pension Plans**

Type of Plan	Number of Plans	Percentage of Plans Registered	Number of Canadians Covered	Percentage of Total Plan Membership
Defined benefit	6 777	47.1	4 546 326	82.2
Defined contribution	7 347	51.1	835 826	15.1
Combination DB/DC	196	1.4	102 137	1.9
Other	56	0.4	43 288	0.8
Total	14 376	100.0	5 527 577	100.0

Source: Adapted from Statistics Canada publication *Pension Plans in Canada: Key Tables*, 2003, Catalogue No. 74-508, release date: September 22, 2004.

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