

Key Terms

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| incentive pay, 82 | team-based incentives, 89 | labor hour ratio formula, 93 | employee stock ownership plans (ESOPs), 97 |
| variable pay, 82 | work (process) teams, 89 | buy-back provision, 94 | stock compensation plans, 97 |
| piecework plans, 85 | project teams, 89 | free-rider effect, 95 | deferred compensation, 97 |
| incentive effect, 86 | parallel teams, or task forces, 90 | profit sharing plans, 95 | |
| sorting effect, 86 | gain sharing, 90 | current profit sharing, 96 | |
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| behavioral encouragement plans, 87 | sales value of production (SVOP), 92 | employee stock option plans, 97 | |
| referral plans, 87 | Rucker Plan, 92 | company stock, 97 | |
| group incentive programs, 89 | value-added formula, 92 | company stock shares, 97 | |
| | Improshare, 93 | stock options, 97 | |

Discussion Questions

1. Indicate whether you agree or disagree with the following statement: "Individual incentive plans are less preferable than group incentives and companywide incentives." Explain your answer.
2. There is currently a tendency among business professionals to endorse the use of incentive pay plans. Identify two jobs for which individual incentive pay is appropriate and two jobs for which individual incentive pay is inappropriate. Be sure to include your justification.
3. Critics of profit sharing plans maintain that these plans do not motivate employees to perform at higher levels. Under what conditions are profit sharing plans not likely to motivate employees?
4. Unlike individual incentive programs, group and companywide incentive programs reward individuals based on group (e.g., cost savings in a department) and companywide (e.g., profits) performance standards, respectively. Under group and companywide incentive programs, it is possible for poor performers to benefit without making substantial contributions to group or company goals. What can companies do to ensure that poor performers do not benefit?
5. Opponents of incentive pay programs argue that these programs manipulate employees more than seniority and merit pay programs. Discuss your views of this statement.

CASE

Individual or Team Reward?

Jack Hopson has been making wood furniture for more than 10 years. He recently joined Metropolitan Furniture and has some ideas for Sally Boston, the company's CEO. Jack likes working for Sally because she is very open to employee suggestions and is serious about making the company a success. Metropolitan is currently paying Jack a competitive hourly pay rate for him to build various designs of tables and chairs. However, Jack thinks that an incentive pay plan might convince him and his coworkers to put forth more effort.

At Jack's previous employer, a competing furniture maker, Jack was paid on a piece-rate pay plan. The company paid Jack a designated payment for every chair or table that he completed. Jack felt this plan provided him an incentive to work harder to

build the furniture pieces. Sally likes Jack's idea; however, Sally is concerned about how such a plan would affect the employees' need to work together as a team.

While the workers at Metropolitan build most furniture pieces individually, they often need to pitch in and work as a team. Each worker receives individual assignments, but as a delivery date approaches for a preordered furniture set due to a customer, the workers must help each other complete certain pieces of the set to ensure on-time delivery. A reputation for on-time delivery differentiates Metropolitan from its competitors. Several companies that compete against Metropolitan have a reputation of late deliveries, which gives Metropolitan a competitive edge. Because their promise of on-time

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