

Chapter 10 - Pay for Performance: Incentive Rewards

1. When is employee compensation referred to as variable pay?
 - a. when employee pay is linked to performance
 - b. when employer costs vary with the incentives offered
 - c. when employee pay varies with market pay
 - d. when employee pay is comprised of varying components

ANSWER: a

2. According to research, which of the following best describes incentive plans?
 - a. They can contribute to organizational performance if certain conditions are met.
 - b. They usually improve organizational performance by at least 10 percent.
 - c. They usually lead to negative outcomes such as confusion and competition.
 - d. They tend to drive up organizational costs and decrease profits because more pay has to be given to employees.

ANSWER: a

3. Under which of the following conditions can incentive plans fail to achieve their objectives?
 - a. when the goals are based on organizational performance
 - b. when employees are too motivated
 - c. when employees have little ability to affect performance standards
 - d. when the objectives are too focused

ANSWER: c

4. Which of the following is a key factor that contributes to the success of incentive plans?
 - a. employee entitlements
 - b. management support
 - c. high employee expectations for pay gains
 - d. undefined performance measures

ANSWER: b

5. Why are performance measures vital in incentive plan design?
 - a. because they drive profitability
 - b. because they ensure management support
 - c. because they communicate the importance of the organizational goals
 - d. because they are fair and equitable

ANSWER: c

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6. When setting performance measures for incentive systems, what can we say about the best measures?
- They are quantitative, simple to understand, and show a clear relationship to improved performance.
 - They are qualitative, flexible, and create competition between employees.
 - They are those measures that allow employers to “ratchet up” standards and base rewards on qualitative standards.
 - They are unattainable in order to inspire increased levels of performance.

ANSWER: a

7. When employees receive a higher rate of pay for all of their work if production exceeds a standard level of output, what type of incentive plan is the employer using?
- higher piece rate
 - standard piece rate
 - exception bonus rate
 - differential piece rate

ANSWER: d

8. At Steelcase, an office furniture maker, employees can earn more than their base pay if they produce more units, such as upholstering more chairs. This part of their pay is determined on units produced. Which of the following plans is being used here?
- piece rate plan
 - completion pay plan
 - time division plan
 - standard hour plan

ANSWER: a

9. A new start-up firm wants to encourage team behaviours and a “culture of ownership” among all employees in the organization. Which of the following types of pay plans is NOT advisable?
- differential piece rates
 - employee stock ownership plans
 - profit sharing
 - stock options

ANSWER: a

10. Which of the following is an important reason why employers use piece rate systems in their compensation strategy?
- It is difficult to predict labour costs accurately.
 - It helps with desired team behaviours.
 - Piece rates are simple to compute.
 - Piece rates promote team work.

ANSWER: c

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11. Which of the following is an advantage of piece rate pay systems?
- They allow for teamwork.
 - They allow employees to break down their work piece by piece.
 - They help to groom high performance managers.
 - They have a direct link to performance.

ANSWER: d

12. What is a potential consequence of “rate busting”?
- production targets not being achieved
 - increase in group incentives
 - disapproval from fellow workers
 - improved cooperation among workers

ANSWER: c

13. When is piecework most appropriate?
- when the job is fairly standardized
 - when quality is more important than quantity
 - when performance measures are difficult to define
 - when technology changes are frequent

ANSWER: a

14. Several organizations have an incentive that managers can give to their employees for outstanding singular effort not tied to any planned performance standard. What is such an incentive usually called?
- a stock option
 - a spot bonus
 - merit pay
 - a differential piece rate

ANSWER: b

15. All of following are reasons for earning a merit raise, EXCEPT which one?
- a profit merit decision
 - successfully performing the job
 - achieving an objective performance standard
 - a superior’s subjective evaluation

ANSWER: a

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16. Mark recently received an incentive for a special contribution not directly tied to a performance standard. What is this incentive called?
- a piece rate plan
 - a spot bonus
 - a special incentive
 - a differential piece rate

ANSWER: b

17. Which of the following is a key condition for the success of merit pay raises?
- The amount must be fairly substantial.
 - Employees must work in teams.
 - The performance goals must be tough to achieve.
 - The raise should be awarded every two months.

ANSWER: a

18. Many potential errors, as well as discrimination, can occur in the performance appraisal process. Which of the following can such errors lead to?
- problematic stock options
 - problematic merit pay
 - problematic job evaluations
 - problematic market pay rates

ANSWER: b

19. What is a consequence of lump-sum merit raises?
- higher costs versus merit raises
 - lower budgets
 - increased performance standards
 - no merit-based increase in base pay

ANSWER: d

20. Which of the following is NOT a reason that merit raises may fail to achieve their intended purpose?
- Merit raises may be based on seniority or favoritism.
 - The performance appraisal system is deficient.
 - Employees are unable to differentiate between merit and other pay increases.
 - Incentive rewards are linked to organizational goals.

ANSWER: d

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21. Aren received a \$500 pay bonus as a result of his job performance last year; however, this extra money was not added to his base pay. This is an example of which of the following?
- annual merit raise
 - group incentive plan
 - lump-sum merit pay
 - percentage wage increase

ANSWER: c

22. Amelia received a stellar performance appraisal in 2014, which translated to a 10 percent pay raise for 2015. Her 2014 base pay was \$50 000. Which of the following applies to 2015?
- Her employer would give her a bonus of \$5000.
 - Her pay would remain \$50 000 but she would most likely get a promotion.
 - Her employer would add 10 percent to all her 2014 compensation components—base pay, incentives, benefits, and perks.
 - \$5000 would be added to her 2014 base pay.

ANSWER: d

23. Which of the following is an advantage of merit increases on a lump-sum basis?
- They do not contribute to escalating base salary levels.
 - They add a permanent sum to the base salary.
 - They are done in conjunction with promotions.
 - They reflect annual adjustments in base salary.

ANSWER: a

24. Navin works as a sales representative for Rogers Pet Foods. He is on a commission plan. His individual performance has been steady over the past few months but he has noticed a decline in his pay. Which of the following is NOT a likely cause for Navin's pay decline?
- changes in the economy
 - increased competition from rival pet food suppliers
 - his intrinsic motivation
 - seasonal fluctuations in the demand for pet food

ANSWER: c

25. ABC Corporation has a sales compensation plan that requires salespeople to be paid for performing various duties not reflected in their sales volume. What type of pay plan does this exemplify?
- a straight salary plan
 - a merit plan
 - lump-sum merit pay
 - a standard hour plan

ANSWER: a

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26. Lana works as a salesperson at Fashion Galore. She is paid on a percentage of her sales only. What type of pay plan is this?
- a. straight ratio plan
 - b. straight salary plan
 - c. straight bonus plan
 - d. straight commission plan

ANSWER: d

27. Which of the following is the most widely used sales incentive program?
- a. straight salary
 - b. straight commission
 - c. combined salary and commission
 - d. commission plus bonus

ANSWER: c

28. Malo is an engineer. Her salary range was extended to the range used for administrative employees. What is this type of pay system?
- a. a hybrid wage system
 - b. broadbanding
 - c. extended range pay system
 - d. a double-track wage system

ANSWER: d

29. Who normally decides the compensation package for the Chief Executive Officer in a Fortune 500 firm?
- a. the vice-presidents or the second level of executives
 - b. members of the Board of Directors
 - c. the unions through collective bargaining
 - d. the shareholders of the firm

ANSWER: b

30. Last year, many CEOs of Canada's largest companies earned less than \$500,000 base pay, yet their overall compensation was on average more than \$9 million. What was the major source for the large total pay?
- a. stock options
 - b. executive perquisites
 - c. bonuses
 - d. benefits

ANSWER: a

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31. As part of her compensation package, Mariana was granted the rights to purchase shares of her organization's stock at an established price for a fixed period of time. What type of compensation is this?
- Executive perks
 - Share appreciation rights
 - Stock options
 - Phantom stock

ANSWER: c

32. It was revealed in the press that the former CEO of a Fortune 100 firm enjoyed special use of the company plane and a country club membership as a part of his reward package. Which of the following best describes these benefits?
- They are illegal, but executives usually get away without being caught.
 - They are known as perquisites.
 - They are known as golden parachutes.
 - They are unusual for top executives.

ANSWER: b

33. Which of the following is a major concern about executive compensation?
- the timing of the stock awards
 - the lack of objective performance data
 - the lack of perquisites
 - the growing gap between leaders and the company's lowest-paid employees

ANSWER: d

34. Peter Drucker, the management expert, has argued that CEO pay should not be more than 20 times that of the rank-and-file employee. What did his concern focus on?
- the pay gap between CEOs and employees
 - the perks that CEOs enjoy
 - the need to raise the minimum wage for workers
 - the relative basic education of executives versus the increasing sophistication of employees' knowledge

ANSWER: a

35. As an incentive, Ahmed was offered the opportunity to buy shares of their organization's stock at a discount price. What type of compensation is this?
- share bonus
 - stock bonus
 - stock options
 - stock purchase

ANSWER: d

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36. What's the first step in the three-step approach in deciding on team incentives?
- performance measures are decided
 - the size of the incentive is decided
 - a payout formula is determined
 - a survey is conducted

ANSWER: a

37. Which of the following pay plans can be plagued by the "free rider" effect?
- piece rates
 - team incentives
 - base pay
 - retirement plans

ANSWER: b

38. What's the overarching philosophy of gainsharing plans?
- Gains that are shared with employees will multiply over time.
 - Involved employees will improve productivity through more effective use of organizational resources.
 - Organizations need to pay employees more.
 - Individual incentives are motivational.

ANSWER: b

39. What is the philosophy behind the Scanlon Plan?
- Rewards are shared with employees based on improved profits.
 - Employees should offer ideas and suggestions to improve productivity and, in turn, be rewarded for their constructive efforts.
 - Organizational profits should improve through sales efforts.
 - Managers and employees should establish quality and quantity goals for optimum organizational performance.

ANSWER: b

40. Which of the following is a key objective of enterprise incentive plans?
- to limit "free ridership"
 - to reward top performers
 - to support government reward programs
 - to create a "culture of ownership"

ANSWER: d

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41. What is a major problem with profit sharing plans?
- They increase the fixed costs of organizations.
 - The line of sight between employee performance and organizational profits is blurred.
 - The profits distributed to employees can be too much.
 - There is no agreed upon procedure to determine profits.

ANSWER: b

42. What is the purpose of a profit-sharing plan?
- to allow workers to contribute ideas and suggestions
 - to motivate a total commitment to the organization as a whole
 - to enable workers to share in labour cost savings
 - to instil commitment to the employee's immediate work group

ANSWER: b

43. What's the range of net profits generally shared with employees in profit-sharing plans?
- 5%?25%
 - 5%?50%
 - 10%?25%
 - 10%?50%

ANSWER: b

44. Profit-sharing plans represent one way that wealth can be redistributed at which of the following levels?
- the international level
 - the regional level
 - the national level
 - the firm level

ANSWER: d

45. Recently, stock options have been strongly criticized in the press following controversies at several companies. What has this criticism focused on?
- the comparative low executive base pay
 - the amount of the options granted and exercised
 - the fact that mainly males are CEOs and that they get these options
 - the stock prices in competitive firms

ANSWER: b

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46. Which of the following is NOT a type of stock plan?

- a. stock option plan
- b. stock bonus plan
- c. stock purchase plan
- d. stock incentive plan

ANSWER: d

47. Which of the following is a major problem of ESOPs?

- a. Employees may become demotivated and frustrated if the share price falls, even though they have worked productively.
- b. ESOPs place employees' pensions at risk because they are tied to the market performance of the organization.
- c. Because of the cash involved, ESOPs can be damaging to the financial well-being of the organization.
- d. Employees view the ESOP as a form of management control.

ANSWER: a

Scenario 10.1

BioMetrics Imaging Ltd. is a small Saskatoon-based firm that designs and produces one-of-a-kind machines that are capable of capturing medical imaging similar to that of MRI machines but with a higher percentage of accuracy. So far, the company has been able to sell various units to privately owned medical clinics and a few hospitals in the United States. The problem currently facing BioMetrics Imaging is finding salespeople with the appropriate experience who not only understand the equipment but are also trustworthy and willing to work extremely hard to bring the product to the marketplace. It takes roughly six months to convince potential clients to purchase the machines. Sales agents receive a hefty paycheque when a unit is sold based on a percentage of the unit price, and all travel expenses are covered. Still, the company is not able to retain its employees because the time lag between beginning to sell machines and getting paid is too long.

48. Refer to Scenario 10.1. What type of compensation plan is BioMetrics utilizing for its salespeople?

- a. a straight commission plan
- b. a straight salary plan
- c. a combination salary and commission plan
- d. a sales plus bonus plan

ANSWER: a

49. Refer to Scenario 10.1. Which of the following factors is least likely to affect sales for this equipment?

- a. economic and seasonal fluctuations
- b. sales competition and changes in demand
- c. producing the machines in a timely manner
- d. the nature of the sales territory

ANSWER: c

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50. Refer to Scenario 10.1. One way to address the turnover problem that is driven by the frequency of payout would be to have some form of guaranteed pay. Which pay method for sales employees addresses this issue?
- straight commission
 - salary and commission
 - bonuses
 - gainsharing

ANSWER: b

Scenario 10.2

Meritas Financial Ltd. is a financial advisory firm located in downtown Toronto. Most of the firm's senior employees (referred to as partners) are paid top dollar for bringing in huge accounts regardless of whether these accounts bring in the appropriate amount of business to justify the incentives paid. The partners are compensated on the net worth of the companies that sign on to use Meritas as their financial advisor. The owner is now concerned about this pay arrangement and wants to make changes to the way he compensates his employees. However, he is worried that with a potential reduction of salary and short-term incentives, he might lose some of his most valuable employees and the accounts that they brought on board.

51. Refer to Scenario 10.2. Meritas may be able to increase short-term incentives and retain its most valuable employees by embarking on which of the following?
- an employee stock bonus plan
 - an employee stock purchase plan
 - profit-sharing plans
 - employee stock option plans

ANSWER: c

52. Refer to Scenario 10.2. Meritas wants to keep these employees happy and motivated. Which of the following is NOT a positive impact of implementing profit sharing?
- having an adverse effect on productivity and employee morale
 - helping stimulate employees to think and feel more like partners
 - encouraging a total commitment from employees
 - contributing to the growth of the organization's profit

ANSWER: a

53. Refer to Scenario 10.2. In implementing a new profit-sharing plan, Meritas has various options by which payouts can be made to its employees. Which of the following is the best way for Meritas to distribute profits?
- deferred payment added to pension
 - bonus payments added to yearly salaries
 - disbursements in cash paid monthly
 - a combination of deferred and cash payouts

ANSWER: d

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54. One clear trend in strategic compensation management is the growth of incentive programs for employees throughout the organization.

- a. True
- b. False

ANSWER: True

55. Approximately 50 percent of Canadian companies offer some form of variable pay.

- a. True
- b. False

ANSWER: False

56. Incentive plans can create an organizational environment of “shared commitment,” since individuals contribute to organizational success.

- a. True
- b. False

ANSWER: True

57. Meshing compensation and organizational objectives helps employees assume ownership of their jobs, improve effort, and improve performance.

- a. True
- b. False

ANSWER: True

58. One philosophy of incentive systems is that tying compensation to employee effort will improve employee performance.

- a. True
- b. False

ANSWER: True

59. Incentive plans are not effective in service and government organizations because of the difficulty in measuring productivity.

- a. True
- b. False

ANSWER: False

60. A key advantage of incentive plans is that they represent variable costs that are linked to the realization of goals as opposed to a fixed cost such as salary that may be largely unrelated to true performance (i.e., output).

- a. True
- b. False

ANSWER: True

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61. Management must be careful to ensure that incentive payments are viewed as both a reward and an entitlement.
- a. True
 - b. False

ANSWER: False

62. For incentive plans to be successful, one of the most critical requirements is that managers be willing to grant incentives based on differences in individuals, teams, or organizational criteria.
- a. True
 - b. False

ANSWER: True

63. Incentive plans based on productivity can reduce labour costs.
- a. True
 - b. False

ANSWER: True

64. Employees receive a specified payment for each unit produced under a straight piecework program.
- a. True
 - b. False

ANSWER: True

65. Differential piece rate plans guarantee employees at least a base pay.
- a. True
 - b. False

ANSWER: False

66. Under a differential piece rate plan, employees whose performance (i.e., production) exceeds the standard amount of output receive a higher rate for all of their work than the rate paid to those who have not exceeded the standard amount.
- a. True
 - b. False

ANSWER: True

67. Under a straight piecework plan, five minutes is the standard time to produce one unit. The employee's hourly rate is \$7.50. The piece rate is \$1.50 per unit.
- a. True
 - b. False

ANSWER: False

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68. Piecework is inappropriate where technology changes are frequent.

- a. True
- b. False

ANSWER: True

69. Employees working under a standard hour plan are paid on the basis of a predetermined time allowed to finish the job.

- a. True
- b. False

ANSWER: True

70. Standard hour plans are popular in service departments in automobile dealerships.

- a. True
- b. False

ANSWER: True

71. A bonus is supplemental to base wages.

- a. True
- b. False

ANSWER: True

72. Spot bonuses are usually provided for some employee effort that is not directly tied to an established performance standard.

- a. True
- b. False

ANSWER: True

73. A merit raise is a form of bonus that is given to an employee beyond their base wage.

- a. True
- b. False

ANSWER: False

74. Merit raises may be perpetuated year after year even if performance declines.

- a. True
- b. False

ANSWER: True

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75. Under the merit pay system, employees who have better political connections within the company may bear a threat to their supervisor and therefore may end up with a larger share of the “merit pie” than their performance would warrant.

- a. True
- b. False

ANSWER: True

76. Merit pay plans have been criticized because the merit increase may not be sufficient to raise the employee’s base pay.

- a. True
- b. False

ANSWER: True

77. The operation of a merit pay plan depends on the effectiveness of the performance appraisal system.

- a. True
- b. False

ANSWER: True

78. Employers using a lump-sum merit program will need to periodically increase base salaries in order for employees to keep pace with the cost of living or general market wages.

- a. True
- b. False

ANSWER: True

79. Lump-sum merit pay does not contribute to escalating base salary levels.

- a. True
- b. False

ANSWER: True

80. Financial incentives for salespeople are widely used.

- a. True
- b. False

ANSWER: True

81. Performance measures are rather simple to develop and standardize, as sales volume is an objective measure of performance that is not dependent upon external factors.

- a. True
- b. False

ANSWER: False

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82. Sales incentives can be affected by external factors beyond the salesperson's control.

- a. True
- b. False

ANSWER: True

83. Under a straight commission plan, compensation is based entirely on a percentage of sales.

- a. True
- b. False

ANSWER: True

84. A salesperson with a sales volume of \$275 000 earning a straight commission of 3 percent would receive \$8250.

- a. True
- b. False

ANSWER: True

85. A straight salary plan is the most frequently used type of sales incentive plan.

- a. True
- b. False

ANSWER: False

86. Straight commission plans may induce salespeople to grant price concessions.

- a. True
- b. False

ANSWER: True

87. Professional employees are difficult to develop incentive plans for only because their outputs are difficult to measure.

- a. True
- b. False

ANSWER: False

88. The level of incentives given to executives may depend on their level in the firm.

- a. True
- b. False

ANSWER: True

89. Balanced scorecards refer to the use of operational yardsticks as well as traditional financial measures as a basis for computing executive pay.

- a. True
- b. False

ANSWER: True

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90. Stock options are rights attached to the achievement of specific organizational objectives.
- a. True
 - b. False

ANSWER: False

91. A potential difficulty with pay-for-performance programs is how to measure employee performance.
- a. True
 - b. False

ANSWER: True

92. Perquisites are special benefits given to executive employees.
- a. True
 - b. False

ANSWER: True

93. Team incentive plans reward team members when performance standards are met or exceeded; however, they tend to foster a psychological climate that negatively impacts team cooperation.
- a. True
 - b. False

ANSWER: False

94. Gainsharing plans are designed to improve productivity through more effective use of organizational resources.
- a. True
 - b. False

ANSWER: False

95. The idea behind the Scanlon Plan is that employees not only should offer ideas to improve productivity, but also should be rewarded for those ideas.
- a. True
 - b. False

ANSWER: True

96. The most important lesson learned from Scanlon and Improshare plans is that if management wants to gain the cooperation of its employees in improving efficiency, they must permit the employees to become involved psychologically as well as financially in the organization.
- a. True
 - b. False

ANSWER: True

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97. Enterprise incentive plans allow all organizational members to participate in the plan's payout.
- a. True
 - b. False

ANSWER: True

98. In most profit-sharing plans, about 20 to 25 percent of net profits are shared with employees.
- a. True
 - b. False

ANSWER: True

99. A weakness of profit-sharing plans is that employees do not have total control over the profitability of the organization.
- a. True
 - b. False

ANSWER: True

100. Because profit-sharing plans often fail to pay off for several years in a row, they can have limited motivational value.
- a. True
 - b. False

ANSWER: True

101. Because of failing popularity and media scandals, the number of Canadian companies granting stock options to nonexecutive personnel has been decreasing in recent years.
- a. True
 - b. False

ANSWER: False

102. Employers use stock ownership incentive plans to increase employee "ownership" in the company.
- a. True
 - b. False

ANSWER: True

103. ESOPs can increase employees' pride of ownership in the organization, providing an incentive for them to increase productivity and help the organization prosper and grow.
- a. True
 - b. False

ANSWER: True

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104. ESOPs have been criticized because of potential inability to pay back the stock of employees when they retire.
- True
 - False

ANSWER: True

105. Briefly discuss three individual incentive plans. (Students should discuss three of the four following plans.)

ANSWER: Piecework is one of the oldest incentive plans. When piecework is used, employees receive a certain rate for each unit they produce. Their compensation is then determined by the total number of units they produce during a given pay period. The piecework system is easier to implement and is more likely to succeed when output can be easily measured, the quality of the product is less critical, the job is fairly standardized, and a constant flow of work can be maintained. Piecework has the advantage of motivating employees who want to increase their earnings. Although piecework has advantages, it is limited in that it cannot be used for certain types of jobs, such as where individual contributions are difficult to distinguish or where employees have little control over output as a result of mechanization. In addition to this limitation, piecework may not be an effective motivator at all times. For example, employees may not exert maximum effort if they feel it will lead to disapproval from coworkers.

The standard hour plan is an incentive technique that sets incentive rates based on a predetermined “standard time” for completing a job. If employees finish the work in less time than expected, they are still paid based on the standard time for the job multiplied by their hourly rate. Standard hour plans are easily suited to operations with a long cycle or to jobs that are nonrepetitive and require a variety of skills. While standard hour plans motivate employees to produce more, quality may suffer if employees become careless and do their work too fast.

A bonus is an incentive that is given to an employee beyond one’s normal base wage. Bonuses do not become part of base pay. They can be paid out on the basis of cost reduction, quality improvements, or other performance criteria.

Merit pay is normally given on the basis of an employee having achieved some objective performance standard. In order to provide motivational value, merit pay plans should distinguish between an increase in base pay and the merit increase. Merit increases are normally granted yearly in conjunction with an employee’s annual performance review. They can, however, be given out at any desired time period. Organizations may award lump-sum merit bonuses when they do not wish to raise an employee’s base pay.

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106. Discuss the problems identified with merit raises. As a manager, what would you do to ensure that merit raises fulfilled their intended value?

ANSWER: There are number of problems identified with merit raises. First, unlike a bonus, a merit raise may be perpetuated year after year even when performance declines. When this happens, employees come to expect the increase and see it as being unrelated to their performance. Second, employees in some organizations are opposed to merit raises because, among other reasons, they do not really trust management. What are referred to as merit raises often turn out to be increases based on seniority, organizational politics, favouritism, or raises to accommodate increases in cost of living or area wage rates. Third, money available for merit increases may be inadequate to satisfactorily raise employees' base pay. Fourth, managers may have no guidance in how to define and measure performance, resulting in vagueness regarding merit award criteria. Fifth, employees may be unable to differentiate between merit pay (i.e., compensation tied to effort and performance) and other types of pay increases. Sixth, there may be a lack of honesty and cooperation between management and employees. Finally, it has been shown that "overall" merit pay plans do not motivate higher levels of employee performance.

There are no easy solutions to these problems. However, organizations may establish a merit pay guidelines chart that functions as a "look-up" table for awarding merit increases on the basis of (1) employee performance, (2) position in the pay range, and in a few cases, (3) time since the last pay increase. In addition, organizations should strive to ensure that their performance appraisal system is reliable and valid. Any deficiencies in the performance appraisal system (as discussed in Chapter 8) can impair the operation of a merit pay plan. A third tactic that organizations may use is to implement a lump-sum merit pay plan. Under this type of plan, employees receive a single lump-sum increase at the time of their review, an increase that is not added to their base salary. This innovative approach provides financial control by maintaining annual salary expenses and helps to provide a clear link between pay and performance.

107. Identify the principal methods for compensating salespeople and the advantages of each method.

ANSWER: Compensation plans for sales personnel may consist of a straight salary plan, a straight commission plan, or a combination salary and commission plan. The straight salary plan allows salespeople to be paid for performing duties not reflected immediately in their sales volume. It enables them to devote time to providing services and building customer goodwill without jeopardizing their income. A limitation of this plan is that employees may not be motivated to maximize their sales volume.

The straight commission plan bases compensation on a percentage of sales. This plan provides maximum incentive and is relatively easy to compute and understand. However, disadvantages of this type of plan include an emphasis on sales volume instead of profits. In addition, customer service after the sale is likely to be a lower priority.

When a combination salary and commission plan is used, the percentage of cash compensation paid out in commissions is called leverage. Leverage is a ratio of base salary to commission. The amount of leverage is determined after considering the constraining factors affecting performance. The combination plan has the advantages of both the straight salary and the straight commission plans, with few disadvantages.

Chapter 10 - Pay for Performance: Incentive Rewards

108. Identify and briefly describe one gainsharing plan that encourages maximum effort and cooperation but is not tied to profit fluctuations, as are profit-sharing plans.

ANSWER: Scanlon Plan. The Scanlon Plan enables employees who offer ideas and suggestions that improve productivity to be rewarded for these suggestions. The plan allows for employee participation primarily through shop committees established in each department. These committees consider production problems and make suggestions for improvement within their respective departments to an organization-wide screening committee. Both of these committees are composed of employees and managers. The screening committee reviews the data that serve as the basis for monthly bonuses, in addition to acting on suggestions received from the shop committees and advising top management. An established formula, based on increases in employee productivity as determined by a norm that has been established for labour costs, serves as the basis for financial incentives.