

# FACT SHEET

## EMPLOYEE INCENTIVE PAY

Kenneth Wolf\*

Pay is important in motivating workers. Although other factors are more important, pay becomes much more of a motivational force when it is directly tied to an employee's productivity.

Incentive pay plans have been found to increase employee productivity significantly when properly installed and administered.

### What is Employee Incentive Pay?

Incentive pay plans are methods for paying employees in direct proportion to their productivity. Stated another way, it means that the more or the better an employee produces, the more profits the firm owners enjoy. The employers in turn reward the employee accordingly in a monetary way. It is an earned wage, not a benefit or a gift.

### Can All Firms Have an Incentive Pay Plan?

Any firm or other type of organization, or parts thereof, that has a workload that meets the following characteristics has a high potential for installing incentive pay:

- Repetitive work with little variety
- Easily measured production
- A system of quality control; i.e., an inspection, testing or review procedure that controls quality of work.

### Ingredients of a Successful Incentive Pay Plan

- Keep the system simple. Complicated formulae and models have done much to shroud incentive pay plans with mystery and have resulted in suspicion and non-acceptance by workers.
- Employees who will be affected should actively participate in the development and/or changes to an incentive pay plan. The plan should be tailored to fit a specific firm, and be in writing.
- Set standards where average production serves as the bench-mark measure for rewards and

\*Extension economist-agribusiness, The Texas A&M University System.

penalties. Set a base pay or floor that meets minimum wage law requirements.

- Base pay on factors within the control of the worker.
- Make incentive payments as soon after the work is completed as is feasible. To be motivational, incentive payments must be made early enough after the work effort is exerted for the worker to relate the effort to the pay. End-of-year profit-sharing systems cannot be regarded as meeting this requirement except for management-level personnel.
- Review any incentive plan regularly to be sure standards and rates remain realistic. New equipment or technology, changed procedures and organizational changes serve as some of the bases for reviews.
- Set rates of incentive pay so that the ownership of the business receives enough extra net income from the increased productivity to make it a profitable undertaking.

### Benefits Gained

- Employees are more inclined to view their jobs in the same light as do the owners/managers. More productivity means more income for both. This automatically makes supervision easier.
- A team spirit is more easily instilled. Loafers or careless workers usually are disciplined by fellow employees who do not want a weak link in the production chain to adversely affect their productivity and resultant pay. Workers assume a "we" attitude more easily.
- Efforts that go into establishing an incentive pay plan usually result in overall improved management of a firm. The careful study required to set standards often results in many immediate improvements.
- Net income can be increased for owners and employees. Also, employee interest in work can increase, thus more job satisfaction.

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