

Financial Rewards

Two Main Payment Systems



Time Rates

Employees are paid for the length of time that they work, e.g., an hourly rate, or a weekly wage for completing a set number of hours. Overtime is sometimes paid at a higher rate to employees who work longer than their agreed number of hours.

Piece Rates

Employees receive an agreed payment for every unit or 'piece' of output they produce. They directly reward those who work hardest, whereas time rates are not linked directly to output so cannot reward those who produce most within the time. However, piece rates may encourage workers to sacrifice quality for quantity.

Methods of Financial Reward

Salary

Paying employees a set amount for a year's work, usually on a monthly basis. Workers have more flexibility as to when work is completed. However, salaries may lack any incentive effect, as the financial reward is the same, regardless of effort.

Fringe benefits

Any other rewards, in addition to direct money payments, which are offered to employees as part of their basic pay, including private medical insurance, contributions to pension schemes, company cars and discounts on the company's products.

Bonuses

Any additional financial reward given to an employee in recognition for their efforts. Commission is commonly used to reward staff for making sales, and is usually a percentage of the value of the sale.

Performance related pay

A financial reward for meeting or exceeding previously agreed targets

Profit sharing

Where workers receive a share of the profits made over a period of time by an organisation

Shares & share options

Workers receive company shares, offering the financial benefit of income from dividends and growth in share prices. Share options – where employees are given the right to buy shares in the company at an agreed price at some point in the future. If the share price increases above the agreed rate over the period of the scheme, the employee may make a financial gain.

Remember!

- Not all employees are motivated by money. The effect of financial incentives may wear off over time - more may need to be paid next time to have the same motivational effect
- Financial schemes cost money – they may reduce profits (at least in the short term) and there may not be sufficient resources to implement them.

Question

Which financial methods of motivation do you think would be the most effective?