SHRM Compensation and Benefits

Module 6: Incentives

A group of people raising their hands

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Module 6: Incentives



Time:  2 minutes

Running time: 2 minutes

**Objective**: Introduce the topic of incentives

**Description**:  Introduction to the topic and why it is important to compensation and benefits.

**Instructional Method**: Lecture/ice breaker

**Script:**

Employee incentives are an additional type of reward that is used to motivate and engage employees. The sky is really the limit so far as employee incentives are concerned and highly competitive employers know it. These types of incentives can range from a contest for the server who sells the most Grande Margaritas during a given shift winning $50, to luxury vacations, tuition reimbursement, use of the company limo for a week, etc. These types of reward are used to motivate employees for both short and long-term organizational goals. Sometimes, an organization will allow a vendor to supply incentives that employees can compete to win as well, but ethical issues must be considered when that is the case.

Table

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Time:  2 minutes

Running time: 4 minutes

**Objective**: Introduce the learning objectives.

**Description**: Show the objectives.  Answer any questions.

**Instructional Method**: Lecture

**Script**:

Here are the objectives for this module:

* Define terms related to Incentives
* Distinguish between long and short-term incentives
* Evaluate ethical issues concerning incentivizing employees
* Discuss various forms of exit incentives
* Identify organizations that successfully implement strong incentive programs
* Explain the difference between individual and team incentives

**Facilitator Notes:**

Use the objectives topics to create evaluation for the review.

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Time:  8 minutes

Running time: 12 minutes

**Objective**: Define key terms for incentives

**Description**: Match Key terms to the correct definition.

**Instructional Method**: Game

**Script**:

Let’s play a game to define some key terms used in the compensation and benefits profession.

**Exercise**:  Key terms

1. The instructor will state the definition of each term.
2. Have students choose which term fits the definition.
3. Click to “light up” the correct answer.

Virtual

1. Use chat or annotate/stamp.
2. Read the definition and have students choose the term.

**Define Terms:**

**Short-term Incentives** - Additional compensation and/or rewards offered to employees to help achieve short-term goals. Typically used for lower level employees. An example would be a 2-week sales competition with a trip to Mexico for the winner.

**2.** **Long-term Incentives**- Additional compensation and/or rewards offered to employees to help achieve long-term goals. Typically used for upper-level employees in strategic roles. An example would be a percentage bonus based on overall organizational outcomes over a two-year period.

**3**. **Profit Sharing - “**A plan that focuses on profitability as the standard for group incentive. These plans typically involve one of three distributions: (1) Cash or current distribution plans provide full payment to participants soon after profits have been determined (quarterly or annually); (2) deferred plans have a portion of current profits credited to employee accounts, with cash payments made at time of retirement, disability, severance, or death; and (3) combination plans that incorporate aspects of both current and deferred options”(Milkovich, 2020, p. 715).

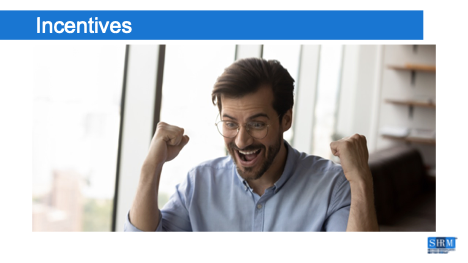
**4.** **Stock Options** - A form of compensation that awards employees with the right to buy a certain number of company stock shares at a special rate. These are often used in executive compensation packages.

**5.** **Employee Recognition -** A financial or nonfinancial form of compensation that rewards employees for a variety of motivational purposes.

**6. Vesting** - The amount of time an employee must spend with an organization to receive both the employee contribution and the employer contribution of a pension fund.

**7. Discretionary Bonuses** - “Promised bonuses such as those announced to employees to induce them to work more efficiently or to remain with the firm are considered nondiscretionary. See 29 C.F.R. 778.211(c). Examples include bonuses based on a predetermined formula, such as individual or group production bonuses, bonuses for quality and accuracy of work, retention bonuses, and commission payments based on a fixed formula” (https://www.dol.gov/agencies/whd/overtime/whdfs17u).

**8. Nondiscretionary Bonuses** - “A discretionary bonus is one in which the employer retains “discretion both as to the fact of payment and as to the amount until a time quite close to the end of the period for which the bonus is paid.” 29 C.F.R. 778.211(b). The amount of a discretionary bonus is “determined by the employer without prior promise or agreement.” Id. For example, a surprise holiday bonus is considered a discretionary bonus” (<https://www.dol.gov/agencies/whd/overtime/whdfs17u>).



Time:  1 minute

Running time: 13 minutes

**Objective**: Define Incentives.

**Description**: Define incentives and transition to next slide for more details.

**Instructional Method**: Transition

**Script**:

Incentives are essentially an enticement to perform in the manner that an employer desires. Whether they are in financial or nonfinancial terms, they are a means to an end for organizations. All employees are not naturally motivated to act in a manner that benefits the organization, so the use of incentives is beneficial. For the purposes of this course, we are focusing on economic incentives (material gain/loss), rather than social (Reputation gain/loss) or moral (conscience gain/loss) incentives (Levitt & Dubner, 2005).

**Facilitator Notes:**

Video 26:25 minutes [Incentives and Rewards](https://www.youtube.com/watch?v=zuoO4url2bs)

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Time:  5 minutes

Running time: 18 minutes

**Objective**: Distinguish between long and short-term incentives

**Description**: Discuss and give an example of long-term incentives.

**Instructional Method**:  Lecture

**Script**:   When discussing incentives, one must take a close look at the use of long-term incentives in meeting organizational goals. These are tied to organizational compensation strategy as much as decisions about leading or lagging the compensation market. When we think about long-term incentives, we are considering more than simply keeping employees happy, it’s about helping an organization reach its goals in terms of quantifiable performance metrics such as sales or retention. In order to accomplish these longer-term goals, organizations create incentive programs that won’t pay off immediately. Employees typically have to be vested in order to receive a payout on this type of reward, and it takes time to earn vestiture.

**Facilitator Notes:**

              Frequently, long-term incentives are awarded in the form of stock, restricted stock,

401(k) contributions, and sometimes cash payouts.

[Example of a Long-Term Incentive Plan](https://learn.financestrategists.com/finance-terms/long-term-incentive-plans/) (Tamplin, Sept. 12, 2022)

Consider the case of Alphabet CEO Sundar Pichai. In 2020, he had a base salary of $2 million and[was awarded](https://www.sec.gov/ix?doc=/Archives/edgar/data/1652044/000165204419000043/sp8-k.htm) a $240 million stock package that vests over a period of three years. The stock package is a combination of performance stock and restricted stock. Pichai will receive a total of $90 million stock based on Alphabet stock’s performance relative to the S&P 500. He is also entitled to receive $150 million worth of restricted stock between 2020 and 2022, subject to his continued employment with the company during this period. $120 million worth of restricted stock will vest at the 1/12th of the total amount each March and July until the total amount is reached. The remaining $30 million will vest at the rate of 1/4th of the total amount each March and July until the total amount is reached.

The real question is, do long-term incentive plans work? The jury is still out on this question, as it really depends on a large number of factors, many of which are completely out of control of either the executive or the organization itself. However, considering the popularity of awarding executives with huge bonus payouts, stock options, use of the company jet, housing, etc., it does seem that incentives are a fairly popular way of encouraging corporate success.

**Video**: 1:44 Minutes [*Incentive Pay for Executives*](https://www.youtube.com/watch?v=q6n5tXyzL5s)

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Time:  5 minutes

Running time: 23 minutes

**Objective**: Distinguish between long and short-term incentives

**Description**: Discuss and give an example of short-term incentives.

**Instructional Method**:  Lecture

**Script**:   While long-term incentives are generally geared toward executives, short-term incentives can be used for employees at any level, and they are used to meet short-term goals.

(add example here)

Short-term incentives can come in so many forms, that the next logical conversation has to be that of what is ethical and what is not. How far can an organization go to incentivize employees? Are there legal limits in terms of compensation? Taxes? How could financial incentives be abused?

**Facilitator Notes:**

* Use this example or use your own example.

A great example of short term is Chili’s Grill and Bar. Years ago, this author was a restaurant manager for the organization. One of the events we participated in was called a “culture club walkthrough.” This event happened annually, and the winners (the management team of the winning restaurant) received a trip to Mexico or another similar destination. This was a short-term incentive that was tied to both short- and long-term strategic plans. Each restaurant was graded by a group of independent inspectors on a variety of standards of which sales played role, but also restaurant cleanliness and organization, employee performance, and more. This competition not only resulted in helping the organization meet longer-term strategic goals of being an industry leader, but did so by developing short-term goals for sales, employee retention, organization, cleanliness, etc. This plan incentivized the management team to develop further short-term incentives for employees to help meet the longer term goal of winning the annual competition. That might have been upselling a particular menu item or eliminating overtime, but it also meant building a culture of pride in our particular restaurant. We weren’t just one of the best restaurants around as a part of the Chili’s organization, we could be the best Chili’s in the country, maybe even the world! We could be leaders in an organization that rewarded pride in our employer brand and in our personal local restaurant where we served our community.

* **Video 2:36 Minutes:** [Short-Term Incentives and the Annual Bonus](https://www.youtube.com/watch?v=mMRve5Nr5OA)

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Time:  10 minutes

Running time: 33 minutes

**Objective**: Evaluate ethical issues concerning incentivizing employees

**Description**: Discuss and give an example of ethical issues concerning incentivizing employees

**Instructional Method**:  Pair and share - Large group discussion

**Script**: What are some ethical issues that you see concerning incentivizing employees?

**Exercise**:

1. Put students into pairs
2. Have students write down three ethical issues that they have heard about or have witnessed. (5 minutes)
3. Discuss in large group discussion

**Facilitator Notes:**   
**Legal Issues** - The Fair Labor Standards Act does provide a guide concerning the legal issues surrounding incentive pay. There is essentially no legal limit on the amount of **nondiscretionary** bonuses, incentive payments, and commissions, however, an employer must consider the the standard salary level for exempt employees. While an employee may meet the duties tests for executive, administrative, professional, and outside sales exemption, their compensation may not meet the salary test. “Employers may satisfy up to 10 percent of the standard salary requirement (68.40 per week) with nondiscretionary bonuses, incentive payments, and commissions”- meaning that the employer must pay the other 90% in regular compensation (<https://www.dol.gov/agencies/whd/overtime/whdfs17u>). However, “employers may not use any portion of **discretionary** bonuses to satisfy any portion of the standard salary level” (<https://www.dol.gov/agencies/whd/overtime/whdfs17u>).

1. **Abuses -** If all incentives are given at the discretion of the manager on duty and are not properly designed, incentive programs can be rife with discrimination. Incentive programs should be based on measurable numeric standards whenever possible and all employees included should have the same access and opportunity to participate, including something as simple as an assigned sales territory that could potentially impact a particular employee’s opportunity to achieve an incentive goal.

Don’t design incentive programs with subjective measures such as “employee

demonstrates a good attitude,” but rather with measures that indicate and

support team, department, or organizational goals, such as “employee received

85% or better ranking from customer interactions in the incentive period.” To further incentivize the customer interactions rating, individual and team incentives can be provided for daily, weekly, monthly, quarterly periods with smaller rewards that eventually add up to the opportunity to earn larger rewards.

1. **Vendor contributions -** Is it appropriate for vendors/suppliers to provide incentives to employees? As with many responses in the world of Human Resources, the answer is, ‘It depends.’ Organizations that are considered governmental or nonprofit, or those vendors who receive federal funding, have policies and rules concerning gifts from vendors. Those rules vary from state to state and are also covered by the IRS.

However, private employers have more leeway in accepting gifts from vendors. These are usually subject to company policy and those policies are typically designed to prohibit unintential discrimination to occur as a result of those gifts. Additionally, gifts from vendors or suppliers are subject to taxation. A general rule of thumb is that insignificant gifts such as cups, t-shirts, pens, etc., are acceptable and not taxable. Season tickets to the New England Patriots games are generally not acceptable and are taxable.

Here’s a great source that will help you do more research on this topic: [Your guide to corporate gift-giving laws](https://sendoso.com/blog/your-guide-to-corporate-gift-giving-laws/) (Shenker, 2022).



Time:  12 minutes

Running time: 45 minutes

**Objective**: Explain the difference between individual and team incentives in recognition programs.

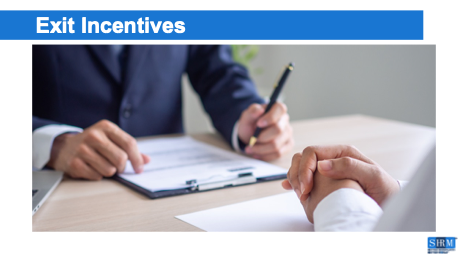
**Description**: Discuss Employee Recognition Programs and the difference between individual and team incentives.

**Instructional Method**:  Lecture – large group discussion

**Script**: Employee recognition programs are frequently associated with rewards based on achievement. This can be years on the job, a good performance evaluation, or even a one-time recognition such as Employee of the Year. These programs sometimes come with a financial incentive such as a one-time cash payment (subject to taxes), a small gift (such as a plaque and a gift card for a dinner), or simply recognition of a job well done. This type of program can be as simple or complex as an employer wants to make it, providing incentives from everything from attendance to job performance.

**Ask**: What types of recognition programs exist at your workplace?

**Video**: 9:41 minutes [HR Basics: Employee Recognition](https://www.youtube.com/watch?v=uiufOswSxGI&t=2s)



Time:  5 minutes

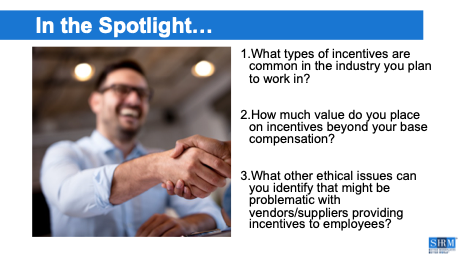
Running time: 50 minutes

**Objective**: Discuss various forms of exit incentives

**Description**: Discuss and give an example of exit incentives

**Instructional Method**:  Lecture

**Script**: Exit incentives are payments used to incentivize highly-compensated employees or employees who the organization would like to replace for various reasons to leave the organization. Sometimes, this is the result of having too many employees. Other times, it may be that the organization is restructuring and needs to entice some employees to retire early so the necessary changes can occur. These programs have a number of titles, but they are universally intended to provide a sufficient one-time payout that will compensate employees enough to want to make a change prior to having to make hard choices about layoffs and downsizing.



Time: 10 minutes

Running time: 60 minutes

**Objective**: Students will review the material by answering the questions on the slide.

**Description**: Students will review the material by answering the questions on the slide.

**Instructional Method**: Pair and share discussions, exercises, homework

**Script:** Answer the questions on the slide.

**Discussion Prompts:**

1. What types of incentives are common in the industry you plan to work in? How much value do you place on incentives beyond your base compensation?
2. What other ethical issues can you identify that might be problematic with vendors/suppliers providing incentives to employees?

**Facilitator Notes:**

* [*Army Announces Force Structure and Stationing Decisions*](https://www.defense.gov/News/Releases/Release/Article/612774/) *You may not be aware of the fact that the U.S. Army underwent a* [*drawdown and restructuring*](https://support.google.com/chrome_webstore/answer/2664769?hl=en) *in the mid-twenty teens. What incentives were provided to entice career soldiers to retire early? Be sure to review the benefits of the* [*Temporary Early Retirement Authority*](https://myarmybenefits.us.army.mil/Benefit-Library/Federal-Benefits/Temporary-Early-Retirement-Authority-(TERA)?serv=122) *for more information.*

**HR Skills Exercises:** It’s time to look at the employee recognition program. It hasn’t been updated for at least 10 years, and no one seems to care about, or even last long enough, to get a gold watch as a reward for 20 years of service. Today’s employees don’t care about the same things that employees cared about when your current program was designed. Provide a recommendation to the CEO that is supported by at least 5 outside sources to describe cutting-edge employee incentive programs that your organization might consider implementing.

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Time:  15 minutes

Running time: 90 minutes

**Objective**: Review main points in this module.

**Description**:  Be sure that students have a fun way to remember the material.

**Instructional Method**: Game – Review

**Script**:

Let’s see how much we remember about this module.

**Facilitator Notes:**

Review Exercise:  Create a fun game to review the material.  Remember to use the objectives to measure learning:

* Define terms related to Incentives
* Distinguish between long and short-term incentives
* Evaluate ethical issues concerning incentivizing employees
* Discuss various forms of exit incentives
* Identify organizations that successfully implement strong incentive programs
* Explain the difference between individual and team incentives

* Have each student submit a question on a piece of paper, crumple it up and toss it in a bucket (clean wastebasket), Instructor will then read them and give points to each team with the correct answer.
* Any game show – Family Feud, Jeopardy, $10,000 pyramid, Password, Tic Tac Toe
* Extra credit quizzes

*Virtual*

There are many ways to review material virtually or in person.  Students can use their phones or computers to navigate to various online review websites.

A few are:

* Kahoot
* Quizlet