



Types of Financial & Non Financial Incentives

AS Business

Financial Incentives

- Any thing that has monetary value is known as financial compensation / incentive. Following are some major types of financial incentives: 1.

Wages

2. Salaries

3. Time Rate

4. Piece Rate

5. Bonus

6. Performance related Pay

7. Commission

8. Profit Sharing

Salary

- Is monthly payment process that is usually paid to permanent and full time employees.

Wages

- Wages are paid on weekly or daily basis and it is usually the payment method for part time workers and also for manual labor.

Time Rate

- It is paid on time basis and is usually used for part time workers.

- Pros:
 1. More flexibility as employees need not to be bound to be available for work for certain number of hours
 2. Employees have incentive to work for longer hours to get more compensation.

Piece Rate

- Is any payment method that is linked to the level of output produced by an employee. The rate for each unit of good is fixed and then based on how much an employee has produced his / her compensation will be determined accordingly.

- Pros:
- Incentives for workers to produce more
- Cons:
- However there is a risk that product quality might be negatively affected.

Commission

- It is the payment method that is linked to the amount of sales made by any employee. It is usually used for employees related to sales.
- Pros:

- It incentivizes employees to make more sales
- Cons:
- However at times sales agent might not fully disclose the aspects of any product in the fear that they might lose the customer which can later be a problem if customer is unhappy with the product they bought and so on.

Bonus

- It is an extra financial compensation provided to employees for their good performance during a certain time period.

- Cons:
- Due to uncertainty concerning bonus the employees might not feel very motivated to work harder.

Profit Sharing

- Based on employees' performance the company might want to share some of the extra profit with employees to encourage them to keep working harder in the future.

Performance related Pay

- Any additional compensation received by an employee based on his / her exceptional work. This is totally on managers' discretion.

Non – Financial Incentives

- Any incentives which does not have monetary benefit associated with it is known as non financial incentives.

1. Job Rotation

2. Job Enrichment

3. Job Enlargement

4. Quality Circles

5. Workers' Participation

Job Rotation

- Job Rotation is when employees are moved from one department to another or simply speaking employees are assigned a different nature of task to kill their boredom and to help them develop more diverse skills.
- However due to job rotation the employees might not be able to specialize in any one task / activity.

Job Enlargement

- Is when an employee is assigned more work of the same nature as he / she was doing previously.
- Unlike job rotation that makes an employee to switch to completely different type of work with job enlargement the idea is that an employee is doing more work of the same nature and therefore job enlargement provides more chances of specialization unlike job rotation.
- However the downside of job enlargement is that employee will not learn something new as they are not getting engaged in something new / different.

Job Enrichment

- Job enrichment is when an employee is engaged in multiple activities at the same time. For instance an employee who was previously working in marketing department will now be also working on another project like on the team which is responsible for new product development or a team that is engaged in market research etc.

Quality Circles

- A group of workers who volunteer to work on a specific work related issue. For instance in a school their can be a team that works with students who need extra help and this team can be defined as quality circle.

- Some employees might feel motivated by being part of quality circle knowing that business management values their opinions and extra effort.

Workers' Participation - Delegation

- It is when management takes employees opinions into consideration on different important issues and this can be very motivating for employees for they would know that management values their opinions and so on.

- Delegation: is when the decision making authority is delegated to lower levels of management.

Which of the 2 types of incentives is more beneficial?

It is more costly and expensive for the business to implement financial incentives.

On the other hand, non financial is not that expensive for business to operate and so it can be more cost effective for business to operation.

Some people have financial needs so financial incentives will work better for them

Some people have non- financial needs so for them non financial incentives will work better for them.