

The background features a collage of historical maps and modern banknotes. The maps show various geographical locations and names in old script, such as 'Desert', 'Harahotun', 'Konkei', 'Chungyang', 'Kinkitao', 'Gande Petcheli', 'Tayven', 'Tsinan', 'Nankin', 'Caifon', 'Sigan', 'Nanichan', 'Futcheou', 'Tintao', 'Tchinchu', 'Koenyan', 'Nanichan', 'Futcheou', 'Nankin', 'Caifon', 'Sigan', 'Nanichan', 'Futcheou'. The banknotes include a 10000 note and a 10 note, both with intricate patterns and text.

TOTAL REWARDS  
INSTRUCTOR'S MANUAL

**SHRM**<sup>TM</sup>

SOCIETY FOR HUMAN  
RESOURCE MANAGEMENT

# Designing Incentives and Rewards

By Dale Dwyer, Ph.D.

## PROJECT TEAM

Author: Dale Dwyer, Ph.D.  
SHRM project contributor: Nancy A. Woolever, SPHR  
External contributor: Sharon H. Leonard  
Copy editing: Courtney J. Cornelius, copy editor  
Design: Terry Biddle, graphic designer

© 2009 Society for Human Resource Management. Dale Dwyer, Ph.D.

**Note to HR faculty and instructors:** SHRM cases and modules are intended for use in HR classrooms at universities. Teaching notes are included with each. *While our current intent is to make the materials available without charge, we reserve the right to impose charges should we deem it necessary to support the program.* However, currently, these resources are available free of charge to all. Please duplicate *only* the number of copies needed, one for each student in the class.

For more information, please contact:  
SHRM Academic Initiatives  
1800 Duke Street, Alexandria, VA 22314, USA  
Phone: (800) 283-7476 Fax: (703) 535-6432  
Web: [www.shrm.org/education/hreducation](http://www.shrm.org/education/hreducation)

# Designing Incentives and Rewards

## **Learning Module Outline:**

Designing Incentives and Rewards is a two-part module. Part 1 presents the concepts of incenting and rewarding employees; Part 2 provides actual practice in designing a program for employees who work in an accounts receivable department.

## **Audience:**

Undergraduate or graduate students in an introductory human resource management or compensation class.

## **Required Reading Prior to First Class Session:**

- Kerr, S. (1975). On the Folly of Rewarding A While Hoping for B. *Academy of Management Journal*, 18, 4, 768-783.

## **Suggested Reading(s) Before the Atlas Corporation Exercise:**

- Chapter 9 in *Designing Incentive Compensation Programs to Support Value-Based Management*; chapter 9 in *Paying for Performance: A Guide to Compensation Management*, 2nd Edition, Peter T. Chingos, (ISBN 0-471-17690-7), April 2002

## **Additional Resources:**

- Students may refer to the SHRM ([www.shrm.org](http://www.shrm.org)), World of Work ([www.worldatwork.org](http://www.worldatwork.org)) and the Department of Labor ([www.dol.gov](http://www.dol.gov)) web sites for additional information about incentive and compensation practices and laws.

## **PowerPoint Presentation:**

Twenty-five (25) PowerPoint slides with teaching notes are included.

## **Classroom Format:**

Length: 150 minutes, designed to be taught over two 75-minute periods or three 50-minute periods (split Class 1 below into two parts).

Class 1: Students are introduced to the idea that incentives should be tied to the goals and objectives of the individual, the department or unit in which they work, and the overall organization. The competing nature of individual, unit and organizational goals is discussed, and students will learn to consider them in designing incentive systems.

Class 2: Form student teams of 3-4 and give them a scenario in which human resource (HR) practitioners (the students) are asked to design an incentive and reward program for employees who work in the accounts receivable department. If students are advanced, this may be done as a graded, individual or team assignment completed outside of class.

**Teaching Notes:**

Specific teaching notes are included with the PowerPoint slides. The actual case used for Class 2 is at the end of this Instructor's Manual.

**Learning Objectives:**

By the end of this learning module, students will:

1. Be familiar with the types of incentives available (not all of them are financial).
2. Understand the linkages among individual performance, team/department/unit performance, and overall organizational performance.
3. Use a case scenario to design an incentive and rewards program and to understand the difficulties in designing incentives that reward the desired (and not undesired) behaviors.

# CASE STUDY: IMPROVING COLLECTIONS AT ATLAS CORPORATION

The Atlas Corporation rents and sells furniture and appliances to individual consumers. The company's primary market focuses on customers who rent-to-own; the customer pays a rental charge (which includes a 28 percent interest rate) for a specified time and at the end of that time, owns the furniture. Atlas has its own credit department for these contracts.

Over the past two years, it has been difficult to collect customer payments in a timely manner. As a result, Atlas has experienced a sharp drop in profitability. The effect on profitability is such that Atlas now pays a higher interest rate (8 percent) to its bank to carry its own indebtedness.

Atlas wants the accounts receivable (A/R) department to increase its collection of past-due bills. It has turned to you in the HR department to develop a system to incent and reward A/R clerks who increase the dollars in collections each month. Each A/R clerk is a non-exempt hourly employee.

Applying what you know about what makes incentives and rewards effective, think through the process of designing an incentive and reward program for Atlas. Identify any issues that must be addressed. The information in the table below provides the previous year's results ("Monthly Total" means the amount due but NOT collected in that month).

PREVIOUS YEAR'S OUTSTANDING PAST-DUE ACCOUNTS (By Clerk)					
MONTH	Clerk A	Clerk B	Clerk C	Clerk D	MONTHLY TOTAL
Jan	\$3,000	\$5,000	\$5,000	\$2,000	\$15,000
Feb	\$3,000	\$11,000	\$17,000	\$4,000	\$35,000
Mar	\$2,000	\$4,000	\$5,000	\$5,000	\$16,000
Apr	\$13,000	\$2,000	\$6,000	\$12,000	\$33,000
May	\$8,000	\$19,000	\$2,000	\$3,000	\$32,000
Jun	\$3,000	\$4,000	\$8,000	\$17,000	\$32,000
Jul	\$2,000	\$10,000	\$5,000	\$8,000	\$25,000
Aug	\$5,000	\$2,000	\$1,000	\$2,000	\$10,000
Sep	\$11,000	\$8,000	\$0	\$4,000	\$23,000
Oct	\$22,000	\$5,000	\$5,000	\$8,000	\$40,000
Nov	\$3,000	\$3,000	\$2,000	\$5,000	\$13,000
Dec	\$1,000	\$4,000	\$5,000	\$2,000	\$12,000
<b>YEARLY TOTAL</b>	<b>\$76,000</b>	<b>\$77,000</b>	<b>\$61,000</b>	<b>\$72,000</b>	<b>\$286,000</b>

**Provide your rationale for the following questions:**

1. What do you think is a realistic goal for Atlas to set to reduce outstanding amounts each month? This can be in dollars or a percentage of the total amount currently due.
2. Should this be an individual-based incentive, a team-based incentive, or a combination? How would you design it?
3. When should the incentive/reward be given—monthly, quarterly or annually?
4. How should it be given—publicly or privately?
5. What should the reward(s) or incentive(s) be? Who should determine what they will be and how they will be distributed?

SHRM members can download this case study and many others free of charge at [here](#).  
If you are not a SHRM member and would like to become one, please visit [www.shrm.org/join](http://www.shrm.org/join).



SOCIETY FOR HUMAN  
RESOURCE MANAGEMENT

1800 Duke Street  
Alexandria, VA 22314-3499