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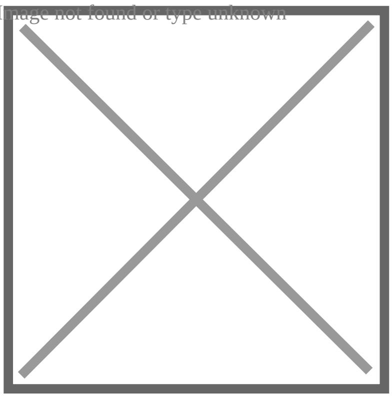

Fixed pay vs Variable pay

Description

Fixed pay is the fixed amount of salary that an employee gets at the end of the month whereas Variable pay is the incentive paid to the employee, monetary or non-monetary, based on their performance for the month.

The ratio of fixed to the variable component, as a norm, varies based on the role the employee plays. As a rule, the employees engaged in the sales activities usually have a larger variable than the employees in the execution role. In India, for the employees engaged in sales activities, the ratio of fixed to variable can be as much as 60:40, while in the countries like the US it could be as much as 30:70.

Impact of the two incentive schemes :-

- **Productivity:** Variable pay definitely increases the productivity of employees. High-performing individuals feel well-compensated and rewarded for their efforts, while the under-performing ones also feel motivated to improve.
- **Contentment:** In variable pay schemes, the employees feel content and motivated with their work. They feel that they are an active part of the organization, the organization recognizes them as a part of its growth and values their efforts.
- **Retention:** Variable pay helps in retaining valuable employees. This helps in retaining good talent for long periods of time and thereby, less spending on hiring new talents. This provides stability to the organization.
- **Competition:** Variable pay can lead to unhealthy competition between the employees. They become less willing to help each other. Team co-operation may get affected negatively. In the long run, relations amongst the colleagues may turn bitter. Whereas, in fixed pay schemes, the employees are able to maintain cordial relationships in the office.
- **Selfish towards customers:** Mostly, sales jobs have a variable component. This might negatively impact the employee’s attitude towards customers. They may force the customers irrationally just to make profits for themselves. They might overstate the price to the customers just to make more profit. Whereas, an employee with a fixed salary would

maintain healthy and positive relations with the customers, striking the right balance in their approach.

- **Lean times:** It has been seen that it is difficult to retain employees in lean times when they are on variable pay schemes. Workers who receive commissions do well when business is good, but they do poorly when business is bad. In times of slow business, even top salespeople might have difficulty making enough sales to earn a decent living. If a market is slow and commissioned workers can't earn enough, they may look for other employment opportunities. In lean times, fixed wages can be more effective at keeping employees from leaving for other opportunities.

Conclusion :-

In light of the above information, it can be said that no single pay scheme trumps the other. A rigid approach, following only one of the two, would not reap benefits in all circumstances. Therefore, companies should be constantly on the lookout to adapt according to the needs of time and make course-corrections whenever necessary. This would require a better communication mechanism between the employees and the administration. Through effective communication, the administration can counter any unwanted hostility.

Your Turn…

What are your thoughts on this topic? Tell us through the comment section below. And subscribe to our blog to read answers to the trending GD topics.

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