

C H A P T E R 'I'

INTRODUCTION :

- A) Importance of Personnel Management.
- B) Aims and Objectives of selecting the topic.
- C) Research Methodology adopted.
- D) Theoretical Framework. —
Wage and Wage Incentive.
 - 1) Concept and definitions of 'Wage'
 - 2) Factors determining wages and salary.
 - 3) Principles of wage administration.
 - 4) Types of wages
 - 5) Wage incentives.
 - 6) Need for introducing wage incentive schemes.
 - 7) Factors in an incentive scheme.
 - 8) Classification of incentive schemes.

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CHAPTER 'I'

INTRODUCTION :

(A) Importance of Personnel Management :

Personnel Management is one of the most complex and challenging fields of endeavour. In general it is concerned with the expectations of both the employees and the society. It is appropriate and helpful to study some important definitions of personnel management.

- i) "Personnel Management is that part of management which is primarily concerned with the human relations within an organisations. "

(I.P.N. ENGLAND)

- ii) " It is that phase of management which deals with the effective control and use of manpower as distinguished from other sources of power. "

The functions of personnel management are manifold in a large industrial unit. The functions of personnel management may be classified into following divisions :

- 1) Employment.
- 2) Wage and salary administration.
- 3) Employees benefits and welfare works.
- 4) Personnel research.
- 5) Labour Management relations.
- 6) Safety and health.

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7) Training of employees.

Industrialization has created social and human problems. Technological development has harnessed material forces while on the other side the development of social institutions lagged behind. The result is that there has been a culture lag which is neglected for a long time, may give rise to violent social unrest. Modern Industry has become complicated pattern of social relationship. Therefore, in order to cultivate harmonious relationship between the employer and the employee. Proper importance should be given to the human personality involved in industry. There is a wide gulf between the employer and the employee. In fact industrialization has distorted the prevalent pattern of human relations. Hence personnel management is expected to contribute toward the solution of this risk. It is a method which attempts to handle personal problems in an industry.

Objectives of Personnel Management :

In industry personnel management deals with human factor. Following are the main objectives of personnel management.

1. Finding and selecting the right calibre and number of people required.

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2. Proper orientation and introduction of new employees to the company and to the job.
3. Fair, sound and effective salary and wage administration
4. Establishment of incentives which will result in the highest possible productivity of workers.
5. Well organised and specific training for better job performances.
6. Establishment and maintainance of personnel inventories based on period appraisals of the productivity methods qualifications and potential of employees in all categories.
7. Continuing personal research, from the above discussion it is clear that 'salary and wage administration,' is one of the functions of the personnel management whereas its important objectives are fair, sound and effective wage and salary administration and establishment of incentive schemes, resulting highest possible productivity.

Importance of Wage and Wage Incentives.

In an underdeveloped country like India wage problem is most complicated and complex. All industrial disputes are mainly based on the question of wage and wage incentives. Wages are of extreme importance because they

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constitute the source of income to the workers. Therefore, efficiency of workers depends upon the amount of their earning, which they receive in the form of wages and incentives.

Formerly, the wage problem was not serious for workers were mainly dependent on agriculture. They were getting jobs simply to supplement their agricultural income. Moreover, the workers who had to leave their families behind, were also economically sound because their families were engaged in agricultural occupation. But the situation has now undergone a tremendous change. Due to rapid increase in population and fragmentation of holding agriculture is not a profitable occupation, but a means livelihood. Therefore, present industrial labourers have to maintain their families with them. Hence the most important problem is the problem of their wages.

Majority of labourers being illiterate in comparison with their employer, their bargaining power is very weak. They are not able to protect their rights before the employers. Consequently, labourers in India are paid very low wages and are exploited. Their earnings is so meagre that they are not able to fulfil even the bare

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necessities of life. They get insufficient quantity of food, live in dirty houses and wear dirty cloths. Hence from a humanitarian point of view, the problem of wage is of conspicuous importance.

The standardisation of wage has become difficult due to different manufacturing processes adopted in the same factory or industry. Owing to the different prevailing rates of wages workers move from one industry to another. It thus encourages migration of workers. Therefore, at present, fixation of minimum wages is of immense importance.

The role of wage and wage incentives.

'Wage and wage incentives' is one of the vital areas of personnel management. Wages are perhaps the most important single element in the conditions of employment. Organisational moral can not be maintained at high level without fair, equitable and sound remuneration programme.

A sound wage policy is an essential part of the functions of personnel management. The employees working in any unit expect that wage rates to be consistent with a job requirement and job performances. If the wage rates are not consistent dissatisfaction is prevalent and grievances against wages are common. The task of wage administration is to iron out the grievances of the workers and provide them perfect contentment.

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The wage administration plays an important role in establishing and maintaining an equitable wage and - salary structure. If an organisation is willing to pay high wages, it can usually attract well qualified employees. Wages paid to workers act as motivating factor. If his earning is above acceptable level, based upon the evaluation of his work, the other factors such as security, job status will become less important.

The wages paid to workers are alone not enough. No work is ever performed without an incentive of same kind. Incentives cover the entire range of human desire whether these may be financial or non-financial in character. Wage incentive schemes aim at the fulfilment of one or more of the following objectives.

- 1) To improve the profit of a firm through reduction in the unit cost of a material and labour.
- 2) To avoid and minimise additional capital investment for the expansion of production capacity.
- 3) To increase workers earnings.
- 4) To use wage incentive as a useful tool for securing a better utilisation of a manpower.

Wage incentive schemes are beneficial to both the employers and the workers. They are accepted as a sound technique for the achievement of a greater production

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on the ground that workers would work at their best if they are offered monetary reward for good performances. For employer, the need for vigorous supervision is reduced and consequently, there is a cut in the expenditure on supervision. Incentives may be regarded as a step in the direction of linking the workers compensation with his productivity.

(B) Objective of study :

The objective of the study is to understand the various elements of wages and wage incentives such as pay allowances, basic pay etc. introduced by Kirloskar Brothers Limited. The study aims at and covers the following :

- 1) To study in detail the wages incentive schemes introduced by Kirloskar Brothers Limited.
- 2) To evaluate the wage and salary administration policy of Kirloskar Brothers Limited.
- 3) To suggest some remedial measures to improve the existing wage administration policy of the company.

The general purpose of the study is to find out the feelings of employees towards :

- 1) Personal policies and their execution especially relating to wage and wage incentives. It was assumed that the favourable and unfavourable feelings of employees would

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determine their level of satisfaction.

The specific purpose of the study is to give feedback to management about the current feelings of the employees and their level of satisfaction towards wages and incentives.

(C) Research Methodology :

Name of the research topic :

■ A study of wage and wage incentives in Kirloskar Brothers Limited, Kirloskarwadi ■

Selection of the unit :

The problem of determination of wage exists in all Indian industry. It is seen that organisations have given importance to this problem. Majority industrial disputes are connected with this problem. The employers are often faced with this problem i.e. Fixation of wage rates and introduction of incentive schemes. Therefore, I have decided to study the wage determination process and various incentive schemes and selected the unit 'Kirloskar Brothers Limited' for study. The deliberate selection of the topic had been made with a view to have a broad spectrum representative samples of workers in this unit.

Sources of Data Collection :

The data required for the study are collected from various sources as follows :

1. Personal Interviews :

Personal interviews were held with Personnel

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Managers and other executives to find out structure of wages. Personal interviews were held to find out the feelings of employees with regards their wages and incentives they get.

Further personal interviews were conducted with the employees in personal department in order to get information regarding existing policies and practices.

2. Discussions :

Discussions were held with trade union leaders and some workers at random.

3. Study of record :

In addition to personal interviews relevant records were also studied to check the information collected through interviews.

4. Questionnaire :

A questionnaire was used to measure the attitude of the employees. The construction of the questionnaire was based on the information collected through personal interviews with executives and officers in personnel department.

The questionnaire consisted of two sections :

- a) Section first deals with the personal information - age, experience, qualifications etc.
- b) Section second is designed to understand feelings towards the wages and wage incentives.

The questionnaire were individually administered to the subjects at their work place and were collected on the same day.

The data presented were obtained through questionnaire. Out of 350 questionnaires given to the sampled employees, only 314 were returned. 14 questionnaires were returned unanswered or partially answered. Thus the results are based on the responses given in 300 filled up questionnaire.

Analysis and presentation of information :

After collecting the data, following steps are taken in order to analysis and presentation of data in a systematic manner.

- a) Classification - The first step of analysis is classification of data. I arranged the collected data into various groups with the help of classification. The data become easy to understand.
- b) Coding - After classification, classified data is changed into codes. Codes are symbols like numerals or alphabates.
- c) Tabulation - This data is arranged in tables which is called master sheet. This master sheet shows - - relationship between two or more variables.
- d) Interpretation of the data - Different types of tables are made and their interpretation is done in the

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chapter. The analysed data was tabulated according requirements viz. experience, wages, incentive schemes and so on. Merely collection of data, its analysis and tabulation do not serve any useful purpose without critical comments and drawing conclusions.⁴

As a result the tabulated data is critically analysed, interpreted and conclusions drawn.³

The scope of the study is limited to the functioning of personnel departments with emphasis on policies and their execution regarding wages and wage incentives. The study was sectoral one, limited to the staff employees belonging to class III only. This limitation was due to accessibility of employees. Further employees belonging to this class were spread over in all divisions of the factory and it was felt that their attitudes would be more representative of the entire staff employees.⁴

Cooperation - The researcher got very good cooperation from workers, office staff and management so that he got very useful information about wages and wage incentives and also about the history of concerned organisation, organisation structure and welfare facilities.⁴

(D) * Theoretical Frame work of Wage and Incentive *

1) Concept, Definition of wage :

Wage in the broad sense, covers all forms of compensation paid to the employee of a business. This

includes salaries, bonus, commission or any other of monetary payment. The term wage is frequently used to refer to cash compensation given to hourly paid employees, who are employed on non supervisory jobs.

Wages are those payments which are made by the employer to the employee for his efforts in production. From the point of 'Laissez Fair Policy' wages may be defined in terms of contract income. The contract takes place between the employer and the employee in which the employee sales his labour power to the employed and receives money or goods in return.

In general wages include all kinds of remunerations which are capable of monetary expression.

Daly Yoder defines wage as, "It is general term referring to direct monetary compensation. It is also used specifically to refer to payments to hourly rated production and services of workers."

Wages are composed of two parts.

- a) Basic wages.
- b) Other allowances.

Basic wages :

The basic wage is the remuneration by way of basic salary and allowances which is paid/payable to an employee in terms of his contract of employment for the work done by him.

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Allowances :

These are paid in addition to basic wage to maintain the value of basic wages for a period of time. Such allowances include holiday pay, overtime pay, bonus and social security benefits. These are not included in the definition of wages.

The payment of wages Act 1936 defines wages as,
 " Any award of settlement and production bonus if paid constitute bonus."

The fair wage committee explained in its report the three concept of wages -

- a) Minimum wages.
- b) Fair wages.
- c) Living wages.

Minimum wages : It is the wages to cover bare necessities of life i.e. food, shelter and clothing. It may provide a little for workers efficiency i.e. for his health and education.

Living wages : It is a wage which can offer an employee an incentive to work and produce enough in quantity, without sacrificing quality so that payment of such wage is justifiable by the industry. The components of living wages are :

- i) Bare necessities.
- ii) Insurance cover against ill health and old age.

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- iii) Reasonable expenditure on children's education.
- iv) Saving for the rainy days.
- v) Some margin for self development.

Fair wages : It is the wages equal to that received by employees performing equal work, demanding equal skill, equal difficulty and equal unpleasantness.

In short fair wages are the rate of compensation current for similar workers in the same area or of industry.

2) Factors affecting wage structure :

The following factors must be taken into consideration in determining wage and salary structure.

1. Government legislation and public policy -

Compensation legislation such as minimum wages act, payment of wages act have to be considered in determining wage structure, which must confirm to the legal requirements. The labour policy of the State must be reckoned.

2. Going wage and salary :

The wages and salaries paid for comparable jobs by other firms in the industry and in the community have an impact on wage policies. Without paying at least the going wage, ability to attract and retain personnel will be limited.

3. Labour supply and demand :

The supply and demand factors must be noted and analysed and there must be flexibility in the wage and salary policies. When the labour market is tight and when it is loose

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it must be determined with a view to formulating wage structure.¹

4. Union demand :

The trade unions play an significant role in wage and salary administration. It is necessary to carry the union with you and to have its cooperation and acceptance. Union demand and strategies must be taken into consideration.¹

5. Productivity :

Increasingly, there is a trend toward gearing wage increases to productivity increases.¹ Productivity is the key factor in the operation of a company. High wages and low costs are possible only when productivity increases appreciably.¹

6. Ability to pay :

Wage increase should be given by those organisations which can afford them companies that have high profits tends to pay higher wages than those which run at a loss.¹ All employers, irrespective of thier profits or losses, must pay no less than their competitors and need pay no more, if they wish to attract and keep workers.¹ In the long run, the ability to pay is very important.¹

7. Labour costs :

Wages and salaries paid to employees constitute a cost and no wage programme can ignore the total labour costs and the return that the company gets.¹ An increasing

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wage bill has a series repercussions on company operations, price and profit.

Job requirement :

Generally, the more difficult a job the higher are the wages. Measures of job difficulty are frequently used when the relative value of one job to another in an organisation is to be ascertained. Jobs are graded according to the relative effort responsibility and job conditions required, Psychological and social factors .

These factors determine in a significant measure how hard a person will work for the compensation received. Psychologically persons perceive the level of wages as a measure of success in the life. People may feel secure, have an inferiority complex, seem inadequate or feel the reverse of all these. They may or may not take pride in the wages they get. Therefore, these things should not be overlooked by the management in establishing wage rates. Sociologically and ethically, people feel that 'equal work should carry equal wages.' That wages should be commensurate with their efforts.

3) Principles of wage Administration :

The generally accepted principles governing the fixation of wages and salary are :

1. There should be definite plan to ensure that differences in pay for jobs are based upon variations in a

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job requirements, Such as skill, efforts, responsibility or working conditions and mental and physical requirements.

2. The general level of wage should be reasonably in line with that prevailing in the labour market.

3. The plan should carefully distinguish between jobs and employees. A job carries a certain wage rate and a person is assigned to fill it at that rate. Exceptions sometimes occur in very high level jobs in which the job holder may make the job large or small depending upon his ability and contributions.

4. Equal pay for equal work. If two jobs have equal difficulty requirements, the pay should be the same, regardless of who fills them.

5. There should be a clearly established procedure for hearing and adjusting wage complaints. This may be integrated with the regular grievance procedure.

6. The employees and Trade Union.

If there is one Trade Union, it should be informed about the procedure used to establish wage rates. Every employee should be informed of his own position and of wage structure. Secrecy in wage matters should not be used.

7. The wage should be sufficient to ensure for worker and his family reasonable standard of living. Workers should receive a guaranteed minimum wage to protect them against conditions beyond their control.

8. The wage and salary structure should be flexible so that changing conditions can be easily met.

9. Prompts and correct payments of the dues of the employees must be ensured and arrears of payments should not accumulate.

10. The wage payments must fulfil a wide variety of human needs, including the need for self actualisation.

11. An equitable practice should be adopted for the recognition of individual differences in ability and contribution.

12. Wage administration plan must at all times, be consistent with management policies on programmes.

13. The job rating and compensation plans should be understood by and acceptable to the employees affected in order that they may appreciate the objectivity and impartiality of the procedure.

4) Types of Wages :

The compensation that an employee can expect for his work is based either on the length of time at work or on the production of the worker. They are two methods of wage payments (1) Time wage system (2) Piece wages system or piecewage. All other wage systems are combination of the above two methods in varying proportions.

Time wages :

This is the oldest and most common method of fixing wages. Under this system workers are paid according to the work done during a certain period of time, at the rate of so much per hour, per day, per week or any other fixed period of time. The essential point is that the production of a worker is not taken into consideration in fixing the wages. He is paid at the settled rate for a time spent on the job.

Merits of Time wages :

1. It is a simple and easy to calculate the amount of wages.
2. As there is no time limit for the execution of a job, workers are not in hurry to finish it and this may mean that they will pay attention to the quality of work.
3. It provides guaranteed and secured income, thereby removing the fear of uncertainty and irregularity of income.
4. Due to the slow and steady pace of the workers, there is no rough handling of machinery.
5. It is the only system that can be used profitably where the output of an individual workman or groups of employees can not be readily measured.
6. This system is favoured by labour organisations.

7. It requires less administrative attention.

Demerits of time wages :

1. It does not take into account the fact that men are of different abilities and that if all the persons are paid equally, better workmen have no incentives to work harder and better.
2. The labour charges for a particular job do not remain constant. This puts the authorities in a difficult position in a matter of quoting rates for a particular piece of work.
3. It is very difficult for the employer to determine the relative efficiency of workers for purpose of promotion.
4. The time wage system by itself offers no incentives for employees to put forth their best efforts.
5. It demands adequate incentives and strick supervision over workers. This will increase marginal cost. If the boss is absent, the employees just while away the time in gossiping.

Piece rate wage (system)

Under this system workers are paid according to the amount of work done or number of units completed. The rate of each unit being settled in advance irrespective of time taken to do the task.

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Under this plan workers are working in a given conditions and with a given machinery, are paid exactly in proportion to his physical output.

Workers Earning = No.of pieces produced x Rate per piece.

Advantages :

1. Direct connection between efforts and rewards gives incentives to produce more.
2. This method is easy to understand and simple to calculate.
3. It is a fair in its rewards since earnings are directly proportionate to output.
4. Cost accounting and control by management is facilitated as a labour cost is constant for output.
5. Piece wage system is the best method for maximum output.
6. Supervision charges are not heavy because workers are not likely to while away their time since they know that their wages are dependent upon the amount of work turned out by them.
7. As the direct labour cost per unit of production remains fixed and constant, calculation of costs while filling tenders and estimates becomes easier.
8. The total unit cost of production comes down with a longer output because the fixed overhead burden can be distributed over a greater number of units.

Demerits of piece rate wages :

1. This system is not particularly favoured by workers as the fixation of piece rate by employer is not done on scientific basis.
2. There are greater chances of deterioration in the quality of work owing to over-zealousness on the part of worker to increase production.
3. Excessive speeding of work may result in frequent breaking and demolishing plant and machinery and frequent replacement.
4. In the absence of mutual confidence fixation of piece rate wage is difficult.
5. Under piece wage system we require a lot of supervision to maintain the quality and standard of work, workers are tempted to ignore quality.

Balance or Debts Method.

This is a combination of a time wage and piece rate wage system. The worker is guaranteed an hourly or a day rate with an alternative piece rate. If the earnings of the worker calculated at piece rate exceed the amount which he would have earned if paid on time basis, he gets credit for the balance i.e. the excess piece rate earning over the time rate earnings.

If his piece earning is equal to his time rate earnings, the questions of excess payment does not arise.

Where price rate earnings are less than the time rate earnings, he is paid on the basis of time rate.⁴ But the excess which is paid is carried forward as a debt against him to be recovered from any future balance of piece work earnings over time work earnings.³ This system presupposes the fixation of time and piece rate on scientific basis.⁴

The merit of this system is that an efficient worker has an opportunity to increase his wages, at the same time workers of ordinary ability, by getting the guaranteed time wage, are given a sufficient incentive to attain the same standard, even though excess amount paid to them is deducted latter.³ //

5) Wage Incentives :

Wage is the reward for labour and service where as incentive is the stimulation of efforts and effectiveness by offering monetary inducement or extra facilities.⁴

The term 'wage incentives' has been defined differently by different authors. A few definitions are as follows :

Hummel & Nickerson :

■ Wage incentive refers to all the plans that provide extra pay for extra performance in addition to regular wages for a job. ■

National Commission on labour defines wage incentives as :

▪ Wage incentives are extra financial motivation. They are designed to stimulate human efforts by rewarding the person over and above the time rated remuneration for improvements in the present or targetted results. ▪

Suri defines wage incentive scheme as :

▪ A managerial device of increasing a worker's productivity. Simultaneously it is method of sharing gains in productivity with workers by rewarding them financially for their increased rate of output. ▪

In short the term wage incentive has gradually acquired a wide connotation and includes all the possible factors, besides economic gains, which can possibly motivate human beings towards better and greater performance.

According to 2 Clark Dickinson 'incentives for work' may be listed as :

1. Desire for livelihood and fear of want
2. Desire for approval of master and fear of punishment.
3. Desire for praise and fear of being despised.
4. Impulse to activity.
5. The moral command and fear of conscience.

There are not only differences of opinion about the incentives for the work and their relative importance

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but different individuals are motivated by different factors. Ordinarily people attach more importance to 'money' and prepared to work harder, if paid more. But money is not the only incentive for certain individuals. Man is motivated by money and by other needs - psychological, social and emotional.

6) Need for Introducing Wage Incentive Schemes. :

In a country like India, the role of financial incentives as a primary tool for motivating workers can not be over emphasized. National Commission on labour has recommended.

" under our conditions, a wage incentive is concerned with an effective utilisation of manpower which is the cheapest, quickest and surest means of increasing productivity. The only practicable and self sustaining means of improving manpower utilisation is to introduce incentive schemes and stimulate human efforts to provide a positive motivation to great output. "

The efficiency of labour is very low under current Indian conditions. This is due to various reasons, such as low wages, lack of education and training, absence of Mechanisation etc. The low rate of production is a vicious circle bringing its cause again in prominence through inflation and low standard of living. If workers are given inducement of higher remuneration for higher

efficiency, volume of production will definitely rise. Such as increase in production will lead to reduction in cost and will also check inflation. This will better the general standard of living and finally, the economic condition of the India will improve to a great extent.

The need for introducing wage incentive schemes in India has been felt on the following grounds :

1. The efficiency of the Indian worker is very low and need to be raised. Wage incentives can play an important part in improving his efficiency.
2. The average Indian worker is financially very poor. Financial incentives, therefore, are likely to tempt him to work better.
3. India is at a low level of technology and wage incentives can help in promoting of electronic devices.
4. A proper application of wage incentive schemes can so affect the prices that the community would be benefitted.
5. In the national interest, it is felt that wage incentive schemes should be applied to all economic activities.
- 7) Factors in an incentive system :

The following factors should be considered in

a particular incentive scheme.

1. Productivity :

Productivity is most important factor and it should be considered in detail. If the productivity is higher the cost of production will be lower and the employer will ultimately get the benefit to a great extent.

2. Effect on workers :

Incentive system should be unambiguous and simple. It should be capable of being easily understood by workers of average intelligence for obtaining their co-operation.

3. Incidence of fixed overhead :

Consideration should be given on the incidence of fixed overhead over production units. If the volume of production is increased, the variable cost of production per unit will remain the same but the fixed cost per unit will decrease. Thus the total cost of production will be low due to increase in production efficiency.

8) Principles applicable to incentive schemes :

Monetary incentive plans do motivate employees. But these plans will not be effective unless a careful planning is done and the plans properly implemented.

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Several authors have suggested a list of requisits that monetary incentive plans should meet if the incentive method is to be attractive to the employee and at the same time administratively sound. Some of the more important requisits for developing incentive plans are :

1. The reward must be linked with the effort involved and should be just and fair to both employer and employee.
2. The scheme should be clearly defined and fully understood by workers. It should provide for worthwhile and attainable objectives with standards of performance not beyond the capabilities of average workers.
3. There should be no limits placed upon the amount of additional earnings.
4. The scheme should be reasonably permanent and not to be changed without obtaining workers approval. The scheme should cover indirect as well as direct workers.
5. An employees earnings should not be matters beyond his control. He should be compensated for break downs and other hold ups for which he is not responsible.
6. The scheme should be coupled with a sound routine of inspection to ensure that workers are only paid for good production.

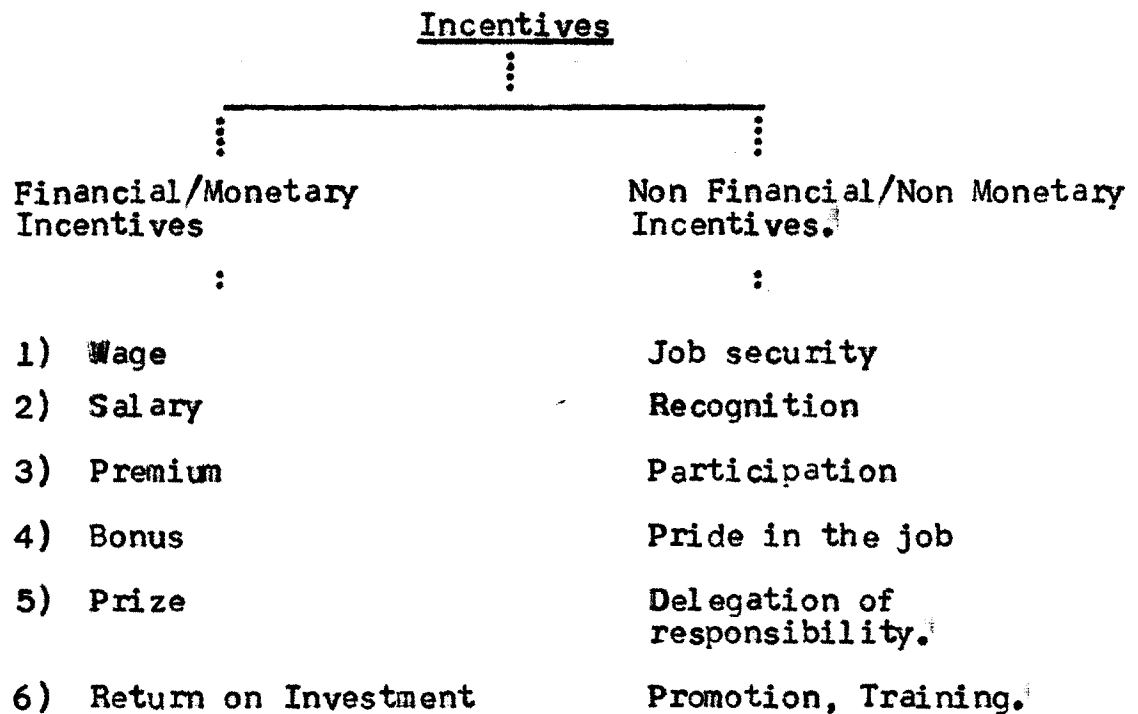
7. The system should be simple and capable of operation without excessive clerical work.
8. The scheme should facilitate supervision and assists in production control. If possible, it should provide a basis for budgetary control and standard costing.
9. The main aim of the scheme should be to influence the workers moral. Every effort should, therefore, be made to promote their understanding of the scheme and their support of it.
10. The scheme should be in conformity with relevant national or local trade agreements.
11. Work standard - The norms or standards upon which wage incentive is based, should be fixed through careful work measurement devices i.e. Time and Motion study.
12. All the interested parties must accept support and co-operate in the incentive plan. In the absence of employees support the programme of incentive will rest on shaky foundation. The plan should be formulated through discussions and participations between management and labour.
13. Grievance procedure - An incentive plan of wage payment should have effective grievance

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procedure to deal with complaints and dissatisfaction ventilated by employees.

Classification of incentives.

Incentives in Industry may be sub-divided into groups.



Financial Incentives :

Financial incentive is the most original of all the incentives. The quantum and the quality of work depends largely on the amount of pay a worker receives. Importance of financial incentives can not be exaggerated. It is only by virtue of monetary incentives that the workers can satisfy their fundamental requirements of food, clothing and shelter. Some cash in their purse

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creates a sense of security. Nominal wage plays a significant role in the life of a worker and when cash wage is coupled with cash incentive, the results are bound to be more productive.

Non-Financial Incentives :

Non-financial incentives include influences planned/unplanned which stimulate exertion. In order to infuse enthusiasm in a worker for greater and better work, non financial incentives have a distinct and significant role. If incentive is provided in other than cash form, it is likely to lead to productive results. Examples of non-financial incentives - job security, recognition etc. Classification of wage incentive plans (schemes).

This classification is done on the basis of types of worker.

1. Incentive plans for blue collar workers.
2. Incentive plans for white collar workers.
3. Incentive plans for managerial personnel.

It is assumed that each of these categories of employees have a separate and distinct needs and specific plans tailored for each category may prove beneficial.

The incentive plans may be further classified as :

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- a) Individual incentive plans - differential piece rate plan.¹
- b) Group and collective bonus plans - exa-scanion plan or profit sharing or copartnership plan.¹

Besides the above classification, some important wage incentive plans are listed below :

- 1.¹ Halsey premium plan
- 2.¹ Halsey-Weir premium plan
- 3.¹ Rowan premium plan
- 4.¹ Bedaux point premium plan
- 5.¹ Emerson efficiency plan.¹
- 6.¹ Taylor's Differential piece rate plan.¹
- 7.¹ Merric's multiple piece rate plan.¹
- 8.¹ Gantt task bonus plan.¹
- 9.¹ Priestman Bonus plan
- 10.¹ Scanion plan.¹
- 11.¹ Profit sharing and labour co-partnership plan.¹

A detailed treatment of these plans was as follows :

1) Halsey premium plan :

This plan was introduced by F.A. Halsey, an American Engineer, in 1891. In this plan time rate was guaranteed and a worker who takes the same time or more than allowed time receives his time rate. If the job is completed in less than allowed time the worker

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is paid a fixed percentage of the saving in time.

This percentage varies from 30 to 70 percent of time saved, the most usual percentage being 50, the remainder 50 % represents the employers share.

Formula - Under a 50-50 sharing.

$$\text{Earnings} - E = HW \times RH + \frac{50}{100} (TA - HW) \times RH$$

Whereas - HW = Hours worked

RH = Rate per hour

TA = Time allowed.

Illustration No. 1 :

Normal time rate - Re 1 per hour

Time allowed for a job 30 hours, time taken for the job 20 hours.

$$\begin{aligned} \text{Total earnings} &= HW \times RH + \frac{50}{100} (TA - HW) RH \\ &= 20 \times 1 + \frac{50}{100} (30 - 20) \times 1 \\ &= 25 \end{aligned}$$

2) Halsey - Weir premium system :

This system was introduced G and J weir limited in Glasgow in about 1900. This is also called 33.1/3 : 66.2/3 sharing plan and is the same as in Halsey plan.

3) Rowan premium plan :

This premium bonus system was introduced in Glasgow in 1898 by James Rowan. It is a similar to the

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Halsey plan in respect of time saved, but a different method is used to calculate the bonus. Bonus hours are calculated as the proportion of time taken which the time saved bears to the time allowed and they are paid for at time work rates.

$$\text{Earning} = \text{HW} \times \text{RH} + \frac{\text{TA} - \text{HW}}{\text{TA}} \times \text{HW} \times \text{RH}$$

Whereas - HW = Hours worked

RH = Rate per hour

TA = Time allowed

Illustration 2 :

Standard Time = 8 hours

Rs. 4/- the day wages, the premium and total wages would be as follows :

Particulars	Premium	Total wages
If the job is completed in 5 hours	1.00	5.00
If the job is completed in 4 hours.	2.00	6.00

Formula - Bonus =

$$\frac{\text{Time saved}}{\text{Time allowed}} \times \text{Time taken} \times \text{hourly rate}$$

4) Bedaux point premium plan :

Under this premium bonus system standard time is determined by work study, the time unit being the

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minute. Each minute of allowed time is called the Bedaux point, thus making 60 units of required work in one hour. The points are indicated on each job ticket.

$$\text{Bonus} = \frac{75}{100} \times \frac{\text{BS} \times \text{RH}}{60}$$

Where BS = Number of points saved
RH = basic hourly rate

Illustration No. 3 :

Standard points for a job 480

Actual number of point earned in eight hours = 560

The rate of pay Rs. 1 per hour.

Total Earning = 8 x 1 + bonus (1) = Rs. 9/-

$$\begin{aligned} \text{Bonus} &= \frac{75}{100} \times \frac{\text{BS} \times \text{RH}}{60} \\ &= \frac{75}{100} \times \frac{80 \times 1}{60} = 1 \end{aligned}$$

5) Emerson efficiency plan :

Under this system a standard time is established for a standard task. The day wage is assured. There is no sudden rise in wages on achieving the standard of performance. The remuneration based on efficiency rises gradually. Efficiency is determined by the ratio between the standard time fixed for a performance and a time actually taken by

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a worker. Thus, if the period of 8 hours is the standard time for a task and if a worker performs it in 16 hours, his efficiency is 50 %. He who finishes the task in 8 hours has a 100 percent efficiency. No bonus is paid to a worker unless he attains 66.2/3 percent efficiency, at which stage he receives a nominal bonus. At 120 percent efficiency, a worker receives a bonus of 40 percent and at 140 percent efficiency the bonus is 60 percent of the day wage.

$$\text{Earnings} = \text{HW} \times \text{RH} + \frac{\text{E.B.P.}}{100} \times \text{HW} \times \text{RH}$$

Where HW = hours worked

RH = Rate per hour

E.B.P.= Emerson bonus percentage

Schedule of Bonus

Efficiency	Bonus
1) Below 66.2/3 % efficiency	: No bonus , only time rate wages.
2) 66.2/3 % to 100% "	: Bonus increasing rapidly to 20 % above basic wage on 100 % efficiency.
3) Over 100 % efficiency	: A bonus of 20 % above basic wage plus 10% for each 1 % increase in efficiency.

Efficiency calculation :

a) Where standard hour method is adopted -

$$\text{Efficiency percentage} = \frac{\text{Actual production in terms of standard hours}}{\text{Actual hours worked}} \times 1$$

b) In terms of output -

$$\text{Efficiency percentage} = \frac{\text{Actual output for a period}}{\text{Standard output for the period}} \times 100$$

6) Merrick's Differential piece rate plan :

This plan was introduced by Dwight V. Merrick. He realised that it was unreasonable and unrealistic to classify all workers into two categories only viz. workers of high efficiency and those of lower efficiency, because there were various degrees of efficiencies. Merrick therefore, introduced three piece rates.

<u>Output (% of task)</u>	<u>piece rate wage</u>
a) Less than 85 %	Basic piece rate
b) From 85 % to 100 %	110 % of basic piece rate
c) Over 100 %	120 % of basic piece rate.

To the workers who are efficient Merrick plan is a good incentive system. It seems reasonable to pay production bonus at 110% of the basic piece rate to the workers when they reach 85% task because many workers should be able to reach 85% task with a little extra effort and when they do so they will be encouraged to reach the 100% task. In fact this plan is only modified form of Taylor plan.

7) Taylor's Differential piece rate plan :

This system was introduced by Taylor with two objects :

1. to give sufficient incentive to workmen to induce them to produce upto their full capacity.
2. To remove the fear of wage cut.

Features :

- a) For each job standard output and task time is stipulated.
- b) If the output of a worker during the time of task is less than the task, he gets his wages at the lower rate. If the output of a worker during the task time is equal to or exceeds the task, he receives his wages at the higher rate.
- c) Under this plan there is no system of paying any guaranteed wage to a worker.

This system is designed to encourage the specially efficient worker with a high rate of payment and to penalise the inefficient by a lower rate of payment. In practice, this plan is seldom used.

8) Gantt Task bonus plan :

This plan has been devised by H.L. Gantt and is the only one that pays a bonus percentage multiplied by the value of standard time. Under this system, fixed time rates are guaranteed. Output standards and time standards are established for the performance of each job. Workers completing the job within the standard time or in less time receive wages for the standard time plus a bonus

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which ranges from 20% to 50% of the time allowed and not time saved. When a worker fails to turn out the required quantity of a product, he simply gets his time rate without any bonus.

Under this plan following are the three stages of payment.¹

- a) Below the standard performance, only the minimum guaranteed wage is to be paid.¹
- b) At the standard performance, this wage plus 20% of time rate will be paid as a bonus.¹
- c) When the standard is exceeded, a higher piece rate is paid but there is no bonus.¹

9) Priestman Bonus plan :

This plan is a collective bonus plan. Under this plan, a committee representing the management and the workers' union sets forth the standard of performances. This task standard is usually set in advance every week or every month. The task standard is set per unit of output.¹

Like other incentive plans, this plan also guarantees a minimum to each worker which remain fixed. Under this plan bonus is calculated by using following formula -

$$\text{Bonus} = \frac{AO - TS}{TS}$$

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Where AO = Actual output

TS = Predetermined standard of performance.

This system of group bonus plan assures the maintenances of labour relations in the concerned.

10) Scanlon plan (The Scanlon plan) :

This plan is also collective bonus plan, which was developed in 1937 by Joseph Scanlon a lecturer at the Massachusetts Institute of Technology and a trade union leader in a steel mill. The plan has two basic features :

1. Financial incentives aimed at cutting cost and thereby increasing efficiency are installed.
2. A net work of departmental and plant screening committees are set up to evaluate employee and management cost cutting suggestions.

This plan is a suggestion system and assumes that efficiency requires companywise/ plantwise co-operation.

According to this plan, worker, supervisors and managers make cost cutting suggestions that are screened and evaluated by the various screening committee. If a suggestion is implemented and successful, all employees usually share in 75% of the savings, and that rest 20 % is set aside for the months in which labour costs exceed the standard.

The most important limitation of this plan is that plan is more effective where there is a relatively

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small of participants, generally less than 1000.

11) Profit sharing and Labour copartnership plan :

In profit sharing schemes there is an agreement between the employer and his workers whereby the employer pays them, in addition to wages, a predetermined share of the profits of the undertaking.

Profit sharing usually involves the determination of an organisations profits at the end of the fiscal year and the distribution of a percentage of the profits to workers qualified to share in earnings. The percentage to be shared by workers is often predetermined at the beginning of the work period and is communicated to the workers so that they have some knowledge of their potential gain.

Copartnership - In industrial co-partnership workers become part owners of the management. They participates in profits, capital and control of a concern workers become share holders under special term and they have the right to put their representatives on the board of management.

Thus, industrial copartnership system is an adjunct to profit sharing plan. The experience of the leading profit sharing concerns seems to indicate that the plan is successful only when it is coupled with shareholding arrangement.

Non-Monetary Incentives :

These incentives are usually related to working and welfare conditions such as health and safety, social and general welfare sports etc. Following are examples of Non-monetary incentives.

Job Security :

Every worker wishes that his job should be safe and secure. There should be no risk of retrenchment, demotion or termination. It is a common experience of all industries that the danger of losing the job leads to decrease in production on the other hand productivity is naturally high in those concerns where there is a feeling of job security.

Recognition -

Recognition of work and of the person himself as a human being is the essence of securing good work.

Pride in the job :

Various techniques can be employed to develop pride in work, Good products, dynamic leadership, Fair service to the community, ethical conduct and many other things serve to stimulate an employee's pride in his company.

Delegation of responsibility :

Delegation of the rights and obligations to executives, a given task often proves to be a strong motivating factor.

Medical facilities :

Medical facilities are of cardinal importance and have a great impact on industrial development and progress. At present provisions for medical facilities have been made under various State and Central Acts. Besides employers have also provided medical facilities to their workers.

Provident Fund :

Provisions for provident fund and gratuities and pensions have also been made under the social insurance scheme for industrial workers. Under the employees provident fund Act 1952, the employer contribution to the funds has been fixed at 6.1/4 %. The employers are required to contribute the same amount as contributed by the employees in respect of them.

Shop facilities :

Grain shops or cloths shop have a great impact on workers. They constitute an important part of labour welfare. In many places employers have provided grain shop facilities to workers.

Canteen :

The canteens have been recognised as an essential part of establishment. The main object behind the provision of an industrial canteen is to make

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available cheap and good quality food to offer an opportunity to relax new place of industrial establishment. The Indian factories Act 1918 has, therefore, made a provision of a canteen for industrial workers.¹

Recreational facilities :

These includes sport facilities and library facilities. In India much attention has been given for recreational facilities. Every Industrial concern tries to provide such facilities through labour welfare programme.

Educational facilities :

Educational facilities are of great importance.² At present the need of education is most urgent as the country is under process of industrialisation.³

Incentives for Indirect workers :

The output of indirect workers is difficult to determine and this tends to exclude them from incentive schemes. But a group bonus for indirect worker is advisable.¹

- 1.² because it is essential to avoid labour unrest as a result of paying time rates only to indirect workers while giving bonuses to direct workers.³
- 2.⁴ because of the need for direct workers to be served by indirect workers at the increased incentive speed of direct workers.⁵

In order to determine a suitable scheme for giving bonus to indirect workers, they may be grouped as under :

- a) Those who work directly with direct workers - checkers, inspectors.¹

- b) Those who provide some general services - Canteen worker.

For the first category, bonus may be based on the output of direct workers whom they serve, where as for second category, bonus should be determined on a wider basis, such as output of the whole factory, bonuses earned by direct producers, job evaluation, evaluation of efficiency etc.

Incentive for Supervisors :

Incentive for supervisors generally take non-monetary form e.g. luncheon vouchers, pension scheme. But a financial incentive scheme for the supervisors and foremen is essential on account of following objectives.

1. To eliminate idle and lost time of workers.
2. To avoid excessive scrap and spoiled and defective work.
3. To increase working efficiency.

Supervisors are paid a weekly or monthly bonus based upon :

- a) Output of the department
- b) Savings in time
- c) Product quality
- d) Reduction of waste and scrap
- e) Reduction of labour turnover.

Incentives to clerical staff :

Individual and group incentive schemes now apply to some factory offices. A payment based on group results may be made where it is possible to establish standards of accomplishment.

Incentive plans for salesman :

The salesmen are usually given incentives in the form of sales commission. Generally all organisations pay salesman on some type of incentive basis. This is due to three factors -

1. The unsupervised nature of most sales work.
2. Tradition in the market.
3. The assumption that incentives are needed to motivate salesman.

There are several incentive plans, each appropriate for different markets, products etc. but all plans are basically variations of following plans.

1. Straight salary method - It is not a incentive plan as salesmen are paid on weekly or monthly or on yearly basis.
2. Straight commission basis - Under this plan salesmen are paid on the basis of sales effected.
3. Combination method of salary and commission basis - According to this plan salesmen get a commission in proportion to the sales effected, addition to a fixed salary.

Incentives for Management Employees :

In many organisations, the managers are paid bonus. There are two types of bonus plans :

- a) Bonus determined by formula.
- b) Bonus determined by some discretion used in allowcation of bonus.

For top level management, bonuses are generally tied to overall corporate results.