Not everything that can be counted counts and not everything that counts can be counted.

- Albert Einstein

Introduction

There is a huge population of workers who show up, do what is expected of them, but do not get inspired to create great products and services. Every organization in India is facing problems related to poor Productivity. The efficiency of an average Indian worker is very low. Also, the Indian labour is very poor. We are running as an economy at less than 30% efficiency because so many workers are not contributing as much as they could. This is sapping the organizations’ potential. How can an organization execute effectively in such an environment?

One of the evident means of motivating is by rewarding the employees for their performance, over and above the minimum/basic wage that he receives. However, Rewards should not be linked directly to an individual productivity. Instead the reward system should be concurrent to the overall objectives of the organization.

a) Employees are motivated by Monetary Rewards.
b) Motivated employees perform efficiently.

Performance pay has emerged from the curtains to take center stage in academic debates, in firm strategy, and in government policies. Previously the narrow province of specialists in compensation, it now comprises an intellectual building block for a new generation of labour economists as “the economics of personnel”.

Conflicting Findings

Hunt concludes from a thorough review of his research on performance pay that, ‘today, no one would argue that salary is not a motivator’. Judith Oliver has a slightly less positive conclusion that ‘No one can prove performance related pay improves performance, but then, no one can prove that it doesn’t either’.

Here, we extract two useful conclusions:

**First,** Performance-related pay cannot be endorsed or rejected universally, out-of-hand, as a principle. It appears to work in some situations and not in others.

**Second,** no type of performance-pay schemes is universally successful or unsuccessful. All have their strength and weaknesses, and the key issue for practicing managers is not only to pick the appropriate pay scheme for their own situation, but also to work to maximize the potential advantages and minimize the potential disadvantages

The Existing Payment Mode and Challenges therein:

In the existing scenario, the employees are classified into two categories: the Staff (Junior Staff, Senior Staff and the Executives) and the Workers (Unskilled, Semi-skilled and Skilled). The Staff employees are normally paid a fixed salary at the end of every month, while the workers are paid daily wages depending on the existing market rate, regulated by the Government norms.

Increases in salary are usually tied to the length of service rather than Productivity and Results. Hence, the employees lack commitment for their work, which also results in reduced levels of their efforts. Over the years, it
has been observed that the fixed pay has failed to generate the kind of performance that is required by the organization to attain its goals.

With the increasing global competition in business and employment conditions, profitability and employee retention are shrinking. Also, the pressure on performance is increasing manifold. This is surely the crux of the matter.

Pay is one of the potent communicators of how much an organization values the contributions of an individual or a group. A high performer must surely be differentiated from amongst the average performers and should be rewarded suitably. Variable pay or Pay-for-performance is one of the best options available to the employer.

Performance pay plays an important role in driving performance and behaviours, in co-ordination with fixed pay. It is actually a part of the overall reward strategy and hence should be integrated closely with the other elements. It is definitely not an independent programme that can be run in isolation.

Managing reward is largely about managing expectations – what employees expect from their employers in return for their contribution and what employers expect from their employees in return for their pay and the opportunity to work and develop their skills. Expectations are built into the employment relationship, the starting-point of which, from the reward point of view, is an undertaking by an employee to provide effort and skill to the employer, in return for which the employer provides the employee with a salary or a wage.

Until fairly recently, people knew what to expect – they turned up to work, did what was required and the organization provided security and
development. It was not a complicated relationship and for most organizations it worked well, providing them with a loyal, committed and dependable workforce. But Times have changed.

- Business organizations are neither stable nor long-lived – uncertainty prevails and job security is no longer on offer by employees who are less anxious to maintain a stable workforce.
- Flexibility, adaptability and speed of response are all important and individual roles may be subject to constant change – continuity

Competing through Manufacturing

In recent years the world has become a much smaller place than it was in previous generations. Marshall McLuhan’s idea of the “global village” has come true. Manufacturers in almost every industry find themselves competing with companies from every corner of the globe.

Manufacturing companies are today facing intensified competition. For many, it is a case of simple survival. What makes this challenge so difficult is that the “secret weapon” of their fiercest competitors is based not so much on better product design, marketing ingenuity, or financial strength as on something much harder to duplicate: Superior overall manufacturing capability. For a long time, however, many of these companies have systematically neglected their manufacturing organizations. Now, as the cost of that neglect grows ever clearer, they are not finding it easy to rebuild their lost excellence in production.

The competition is fierce; the competitors are outstanding. The only way for a manufacturing company to succeed is to change. Old habits must be shed, and radical new approaches are needed in every aspect of the manufacturing process, from design to production to customer service.
The revolution taking place in manufacturing companies has many different aspects. One company’s approach can be quite different from another’s because there are differences in production processes, the needs of the market, product technology, and management styles. In addition, the problems and situations faced by manufacturing enterprises vary, and the areas requiring change can differ significantly.

In most of these companies, the bulk of their labour force and assets are tied to manufacturing function. The attitudes, expectations, and traditions that have developed over time in and around that function will be difficult to change. Companies cannot atone for years of neglect simply by throwing large chunks of investment Rupees at the problem. Indeed, it normally takes several years for a company to break the habit of “working around” the limitations of a manufacturing operation and to look on it as a source of competitive advantage.

In practice, of course, the challenge for managers is far more complex than is suggested by the simple dichotomy between “weakness” and “strength”. There is no single end that every manufacturing function must serve – and serve well. There are, instead, several generic kinds of roles that the function can play in a company. At one extreme, production can offer little contribution to a company’s market success; at the other, it provides a major source of competitive advantage.

**Plan your work, work your plan, your plan will work!**

One of the primary objectives of this chapter is to position the research in a paradigm. This involves a choice – a judgmental activity by the researcher - which is based on the aims of the research study.
Theoretical Paradigm

A “paradigm” is the foundation upon which research grounds knowledge, in far as paradigms picture the world in different ways. A paradigm as an interpretive framework is a researcher's epistemological, ontological and methodological premises (Guba and Lincoln, 1998:201). Gummesson (1991) defines paradigm as a worldview that represents people’s value judgments, norms, standards, frames of reference, perspectives, ideologies, myths, theories and so on (Gummesson, cited in Hill and McGowan, 1999).

Paradigm, as an interpretive framework, is a basic set of beliefs that guide action (Guba 1990: 17) Selecting a suitable paradigm helps understand the phenomenon under consideration, especially when data can be interpreted differently by those working in different paradigms. According to Denzin and Lincoln (1998a), all research is interpretative, guided by a set of beliefs and feelings about the world and how it should be understood and studied. Guba and Lincoln (1998:201) suggest that the selection of a paradigm as an interpretive framework will answer questions such as: ‘How does the researcher know the world being studied?’ ‘What is the relationship between the inquirer and the respondent?’ ‘What is the nature of reality?’ and ‘How does the researcher gain knowledge about the world?’

2.1 Title of Research

“Performance based Compensation System in Manufacturing Industries.”

2.2 Scope of Research Problem

The problem covers the “Performance based Compensation system being practiced in the Manufacturing Industries” as part of
motivating and retaining their workforce. An effort will be made to develop a relationship between the compensation system and the financial performance of the company in terms of labour productivity and financial profitability. It has well been proved that satisfied workforce is the primary need to achieve organizational goals; this problem covers the working of the Performance based wage compensation system.

2.3 Research Objectives

The main Objectives of my Research study are as under:

i) To study and analyze the Performance based Compensation system existing at the manufacturing industries, that is, “Labour intensive industries having multiple stages of production; covering both skilled and unskilled labour”.

ii) To identify gaps and the need for finding alternative and effective ways for introducing a compensation system to bring convergence between the Objectives of the Organization and its Employees.

iii) To examine the correct basis of pay increases and their relation, if any to performance and productivity of the employees; and examine possibilities of evolving a direct correlation between PRP and delivery of products to customers/other departments, as the case may be.

iv) The study should evolve measurable, quantifiable criteria for judging performance and productivity of different grades of employees in various departments depending on the nature of their work.
v) To develop an Ideal Performance-based Compensation model that would be superlative for a particular Manufacturing Unit, in a given environment, which is transparent, measurable, fosters accountability and is linked to deliverables.

vi) The study should devise means by which PRP can be introduced. Specifically it should consider the following:

- Should PRP be applied to all jobs and all departments, or higher managerial positions/percentage of jobs or departments to begin with.
- Should PRP be individual based or group based.

The Overall Framework was developed which consists of three main parts:

1. Performance Measures
   - Competency/Skill
   - Effort/Activity
   - Result/Output/Value-added
   - Efficiency/Productivity
   - Quality

2. Modified Pay Structure
   - Fixed (100 – x%)
   +
   - Variable (x%)

3. Enabling Conditions
   - Delegation
   - Transparency
   - Benchmarking
   - Multiple Assessors
There is no single Payment system, no matter how simple or complicated, that fits well for all firms. Competitive salary and a standard benefits package no longer stimulate performance. I want to find out not only how the payment systems are changing, but what kind of factors is driving these changes. Long-term incentives should be linked to company performance and not only on individual productivity.

**A vital facet of this research is to generate a Compensation System that reinforces the objectives of the firm and enhances employee performance in order to sustain in a competitive environment.**

Considerations of a combination of various factors which are responsible for the existing payment systems and the impact it can have on the different functions of the organizations are missing in the Indian Context. There still remains a lot to be researched in this area.

An attempt has been made to study in what way “performance based compensation system results into enhancement of the financial soundness of the units under study and how it is helpful in increasing overall productivity of the employees working in such units. Again, increase in the productivity is not an end to itself, but it must contribute effectively to the improvement in the financial health of the organization.

These aspects have motivated me to undertake this research project, with a limited scope, to gather first hand information on the above mentioned theme.

### 2.4 Research Design

As one of the objectives is to acquire deeper insights into the various pertinent aspects of the problem, this study is thus termed as **Exploratory Study**. Also it has been observed that the variable chosen for the study have not been studied much.
After thorough examination and taking into consideration the intricacy of the present research it was decided not to formulate hypothesis, rather to keep the options open for the interpretation of the obtained results in any direction.

2.4.1 Population

The study will be carried out on a micro-level since it is not possible to conduct it on a macro-level. As such the universe is restricted with reference to manufacturing industries.

2.5 Method of Data Collection

For the purpose of this study and for the collection of information, both types of data i.e. Primary as well as Secondary will be required in order to understand the exact payment structure prevailing at the industries. The data will be collected in the following manner:

2.5.1 Primary Data

Primary Data will be collected from selected group of employees (workers, junior staff, middle management and top management) of the sampled units for the purpose of analyzing the “Performance based compensation system existing at the Manufacturing units.

The employees will be approached personally through a well-structured Questionnaire to collect and record their views and their expectations with regard to the payment they are being provided. They will be assured of the confidentiality of their responses in order to avoid any bias or false information.

2.5.2 Secondary Data

Secondary Data will be collected through:
i) Annual Reports of the sample units  
ii) Concerned Websites  
iii) Policy Manuals  
iv) Daily Newspapers  
v) National / International publicized Journals, Magazines, etc  
vi) Dissertations and Ph.D. Thesis

Besides these sources available for the collection of information, I will also have personal discussions and meetings with the officials of the sample units for the sake of having more clarity about the subject.

The data so collected will be systematically and scientifically edited, classified and tabulated keeping in mind the objectives of the subject.

A suitable Quantitative tool will be used for data analysis depending upon the nature of available data.

2.6 In closing

Research – is contribution to knowledge.

Qualitative methods facilitate study of issues in depth and detail. Approaching field work without being constrained by predetermined categories of analysis contributes to the depth, openness, and detail of qualitative inquiry. Quantitative methods on the other hand, require the use of standardized measures so that the varying perspectives and experiences of people can be fit into a limited number of predetermined response categories to which numbers are assigned.

The advantage of a quantitative approach is that it’s possible to measure the reactions of great many people to a limited set of questions, thus facilitating comparisons and statistical aggression of data. Validity in quantitative research depends on careful instrument construction to
ensure that the instrument measures what it is supposed to measure. The instrument must then be administered in an appropriate, standardized manner according to prescribed procedures. The focus is on the measuring instrument – the test items, survey questions, or other measurement tools. In qualitative inquiry, the researcher is the instrument. The credibility of qualitative method, therefore, hinges to a great extent on the skill, competence, and rigor of the person doing the fieldwork.

Because qualitative and quantitative methods involve differing strengths and weaknesses, they constitute alternative, but not mutually exclusive, strategies for research. Both qualitative and quantitative data can be collected in the same study.

**Inquiry by observation**

What people say is a major source of qualitative data, whether what they say is verbally obtained through an interview or in written form through document analysis or survey responses. There are limitations, however, to how much can be learned from what people say. To understand fully the complexities of many situations, direct participation in and observation of the phenomenon of interest may be the best research method.

The aim of the study is to examine the feasibility of working out a model whereby a base salary is attached to each post / job based on the conventional criterion of skills and responsibility; simultaneously, a second component is introduced that is payable as a percentage of the salary on the basis of productivity and the performance of the employees, either individually or as a group.