ANNEXURE - 1

CRITICAL REVIEW OF "FINANCIAL INCENTIVES"
TYPES OF INCENTIVES

I. Incentives in the broad sense may be arbitrarily divided into three categories:

(a) Non-Financial Incentives

Non-financial incentives are those introduced as part of normal process of good management and applying impartially to all employees. Under this heading may be included, for example, such policies as the provision of good working conditions; the fostering of pride in the firm's reputation; and employees well informed about the activities of the company, and the purpose and usefulness of their own contribution.

(b) Semi-financial Incentives

Semi-financial incentives are specifically related to the individual employee, but are only indirectly financial. They include intelligent promotion policies; the provision of canteens and amenities of holidays with pay, pension scheme and so on.

(c) Financial Incentives

Financial incentives reward the employee or group of employees through increased payment. They should be directly related to each man's contribution to production as a whole.

It must be strongly emphasised that it has been concluded in many studies that direct financial incentives cannot stand on their own. Experience has shown that it is little use spending time and effort in developing a scheme to provide a man with large earnings if he works more effectively, unless his employment satisfies him in the other respects. If a man feels frustrated, uniformed and dissatisfied, no direct financial incentive scheme, however efficient, will encourage him to give of his best.

There is no one simple form of financial incentive scheme which has given the maximum improvement in all three ways. In fact there is no one simple answer to the problem of achieving the maximum overall effectiveness of payroll.
employees.
Individual bonus schemes while having an immediate strong
effect on worker’s direct effectiveness, can have a tendency
in unfavorable circumstances to discourage detailed method
improvement. An individual worker might rather take
advantage of his own idea for method improvement in the form
of an increase in his own bonus earnings than make the
knowledge generally available despite the existence of a
suggestions scheme.

When the third objective, the employees’ co-operation
and sense of common interest, is considered it has to be
realised that direct individual incentive scheme may not
have any influence. The apparent conflict between the
possible objectives can only be reconciled by a careful
analysis of the circumstances in any particular case and the
selection of an appropriately constructed scheme or
combination of schemes. It would be wrong, therefore, to
discard the possibility of developing other means by which
to encourage improved methods and a sense of common
interest, after and on top of the application of a direct
payment by results scheme. A really effective suggestion
scheme may be the best way for getting ideas for
improvements and some form of profit sharing may give an
increased sense of common interest.

There are many factors in which improvement may be
sought by a direct financial inventive scheme. In selecting
the aims of any particular scheme the use of a check list
has been helpful. For convenience the factors can be
divided into two groups: material factors and human factors.

(i) MATERIAL FACTORS

(a) Quantity of Output

An improvement in volume of output, within quality and
safety limits laid down by management, is by far the most
common objectives.
(b) Plant Utilisation

With ever-increasing capital investment per producer in industry, making fuller use of plant is growing in importance. Experience is showing that in many types of plant the capital savings due to improved load factors are proving the most substantial of all. These improvements are also being achieved through better labour effectiveness.

(c) Use of Service

Again economies in the use of steam, water, air and electricity may be paramount factors.

(d) Quality of Product

It may be sometimes desirable, for economic or other reasons, to improve the quality of product to a new or more consistent standard.

(e) Process Efficiency

An operator can have a far more significant effect on process efficiency than was previously envisaged. He will only make his full contribution when this is linked with his own interest.

(f) Standard of Safety

In dealing with many products, quite apart from normal good standards, a particularly high level of safety may be important.

(g) Work Cleanliness

Works cleanliness may be a prime objective, quite apart from the housekeeping which is a normal aim of good management.
(iii) HUMAN FACTORS

(a) Effectiveness of Work
Improvement in many of the material factors would come under the general heading of increased effectiveness of work. Nevertheless, effective work is completely dependent on the man who does it.

(b) Interest in Work
A well-devised financial incentive scheme can and should create in an operator a feeling that his job is much more worthwhile. Much lip service is paid to this objective of management; a good scheme can see it implemented.

(c) Waiting Time
Time spent waiting for work, though paid for, is essentially unproductive. It is worthwhile to make its elimination the interest of operators as well as of management.

(d) Need for Supervision
It is undoubtedly desirable that foremen and charge hands should be able to concentrate on organisation, planning and quality rather than having to spend their time directly supervising men to see work is done.

(e) Ideas for New Methods
A direct financial incentive may tend to discourage detailed improvement of methods. On the other hand it is possible for well-devised schemes, applied in a good industrial atmosphere, to stimulate ideas for improvement in methods of working to be rewarded via a suggestions scheme.
(f) Team Spirit

It is quite possible, even within the framework of what is generally known as an individual scheme, to make provision for encouraging the team spirit among a group of men on a particular job. This may be of particular importance in a small team where one man's work is intimately dependent on that of another.

(g) Absenteeism

Any reduction in absenteeism is obviously desirable. Incentive schemes may very well have a desirable effect on absenteeism, which could be expected to be due to increased pride and interest in the job as well as to the increased pay packet.

(h) Labour Turnover

The benefits of decreased labour turnover are many and obvious. A reduction may be brought about locally as a result of proper incentive schemes, and this is not entirely due to the increased pay packet. There is a strong psychological reaction to the application of work study and incentives which is best illustrated in the simple words: 'Somebody thinks my job is important'.

There are other factors which may be important and which an incentive scheme may aim at improving. However, the selection made is intended to represent important considerations of possible objectives before the schemes have been devised.

BASE FOR REWARD

When the objectives of a scheme and their order of importance have been chosen, the next step is to assess a measure of each man's contribution and of the reward he should get. The factors finally chosen make clearly the foundation of the scheme. The correct solution of them is a difficult task; not only must they be such as to achieve the
desired objectives, but they must also be amenable to reliable measurement so that they yield a fair assessment on which to base financial reward. The assessment required can it fact be base on one or more of three main groups of factors mentioned below:

(a) QUANTITY OF WORK

Reliable quantitative measurement of the work done by an operator is by far the most satisfactory and convincing basis for a scheme. Fortunately, such assessment is now possible for an ever-increasing variety of jobs as a result of the development of the technique of work measurement. In nearly every case, work done can be related directly to output. Increased production can then be fairly rewarded in proportion to the effective physical and mental effort involved.

(b) TECHNICAL EFFICIENCY

A number of material factors such as plant utilisation, use of materials, quality etc. may be considered as contributing to technical efficiency. In the same way as increased output can be a basis for additional reward, improved technical efficiency can be measured and used a basis for incentive payment. For too long people accepted the idea that, in circumstances of high material cost or high capital investment, the cost of labour was of small importance and that a few extra people were of little economic significance. Thoughts such as these led naturally enough to a feeling that an incentive scheme had little contribution to make under such conditions. This conclusion is far from correct. It is not that having too many men on the job is the effect which the operators can have on the
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various factors contributing to technical efficiency. The improvement of factors such as quality or process efficiency can be included as basis for an incentive scheme, through the quantitative assessment of the work necessary to achieve the higher attainable standard.

(iii) PERSONAL FACTORS

The field for the application of schemes based on the quantitative measurement of work done is so wide that only in isolated cases need attention be turned to assessing personal factors, such as co-operativeness, as a basis for schemes. The possible use of personal factors, must not be neglected but such a subjective approach should be postponed until more has been done in developing and applying schemes on the other basis. It would be only too easy to fall back on the assessment of personal factors merely to avoid the trouble necessary in using work measurement. This would clearly be a serious retrograde step. Such assessment as a basis for a direct inventive scheme should be used only as a last resort. If it is used it should be based on multiple assessment by different individuals.

(iv) COMBINATION FACTORS

Any of the above three groups of factors may be used independently or combined in varying proportions as basis for incentive schemes. Management have to decide this according to the particular circumstances and the objectives they desire to achieve.

II DEVELOPMENT OF FINANCIAL INCENTIVE SCHEMES

There is a vast difference between the various types of financial incentive scheme. On the one hand there are soundly conceived and administered direct financial
incentive schemes in which men and management can have justifiable confidence. At the other extreme there are the auction market types of scheme, often not far removed from bribery and corruption. They are nothing more than a source of industrial discontent and are more often not administered in an atmosphere which far from satisfies a man's natural seeking for integrity.

A purist may say a direct financial incentive is immoral and that men should work hard for the plain time wages they are paid. This may be accepted in theory; but in the light of industrial experience it does not seem a realistic view.

There are a number of stages in devising a financial incentive scheme. In particular, before drawing up any scheme three important decision have to be taken:

(a) The objectives of the scheme must be chosen.
(b) The factors to be assessed must be selected.
(c) The other bases on which the scheme is to operate must be decided.

Different types of inventive schemes have been found to achieve these results to varying degree.