CHAPTER - 2

LITERATURE SURVEY

- PRODUCTIVITY CONCEPT
- PRODUCTIVITY IN SERVICE SECTOR: - VAGUENESS OF THE CONNOTATION
- FINANCIAL INCENTIVES
- FINANCIAL MOTIVATORS
- LINKING WAGES WITH PRODUCTIVITY
- REFERENCES
"THE concept of Productivity definition and its measurement has been conspicuous by its absence. (9). On the specific theme chosen by the author for this research endeavor, let us mention at the outset that no direct study has been accomplished both in India and Abroad. Howbeit a few stray attempts have been made by acadmecians belonging to the discipline of economics and management to portray the picture of service sector in India. Likewise, several thousand reports and studies have been completed by the leading management consultants, renowned acadmecians and in-house business executives of the corporate world all over the world in the broad areas of incentives and "Productivity Linked Reward Schemes" and linkages found between wages with work and/or productivity. Though innumerable, number of works have been produced on the subject of "Incentives" and Productivity Linked Reward Schemes, both in India & Abroad. But the work titled "Financial Incentive" by M.R. Currie .(10). and "work study" ILO (11) are still regarded as 'Bible' in the aforesaid field. The findings of these studies carry worldwide acceptability both among acadmecians and business practitioners irrespective of the differences in organisation stucture, size of organisation or style of management etc.

2.2 Productivity in service sector organisation is largely reflected in the form of better quality output available to the customers to their satisfaction. It is a direct function of employees output in the form of better and more from the employees and management of the organisation. (12).
Productivity itself is an emerging discipline (since 1983) and there is a need for its synthesis, clarification, definition and/or generic conceptualisation. Endosomw (1988). (13), and Sumanth (1981). (14). have viewed productivity management as a formal integrated management process. According to Suri and Kumar (1989) inefficient utilisation of human resources constitutes the single largest factor (36.3%) for low level of productivity in India Companies followed by Communications & Control Process related (27.05%) . (15). Thus, about 65% of possibility of productivity improvement lies within the scope of employees and management related efforts and reasons. The situation leading is described well as below:

"The situations is further compounded by the fact that unprecedented growth of services sector in post-independence era has increased the white collar jobs manifold, but the managements of service sector organisation by and large have not felt any competition and are used to be seen as expenditure units or social-benefits agents. There may be isolated examples of commendable work done by many service institutes for increasing their operational efficiency. Yet, in the sector as a whole, the executives and employees alike are insensitive to the concept of productivity. To bring in a change in such a situation will pose a great challenge to productivity professionals". (16).
"Features of Service Sector in India (NPC 1993) are that Service Sector is highly employee oriented, that service sector mostly comprises of large Governmental Organisations where social objectives of the Government take precedence over commercial implications such as Employee Provident Fund Organisation, Employee, State Insurance Corporation, Department of Telecommunications, banks etc. Government of India’s policies for achievement of socio-economic objectives coupled with growing demand of services due to rising income level have led to manifold growth in service sector enterprises". (17).

PRODUCTIVITY CONTEXTUAL TO SERVICE SECTOR - VAGUENESS OF THE CONNOTATION.

2.3 Origin of concept of productivity and its usage is traced back in history of agriculture and manufacturing industries. It was defined as physical unit of output per physical unit of mix of input. This is engineering concept. Financial concept of productivity is reflected in profitability where it is defined as total revenues to total costs. In both these definitions there are problems and difficulties of measurement and therefore in its usage to bring about the improvement in productivity.

2.4 It is well known that Taylor Gilberth developed the concepts of industrial efficiency where emphasis was on "the best way of doing a job" McGregor, Likert, Argyris brought in human dimension in 'job role' and approach of behavioural sciences was practiced in manufacturing industries.
Further, Friedmann, Cox, and Sharp showed that 'job content' and 'work design' and its redesign and enlargement is important in job satisfaction and productivity. Thus, over a period of time, the definition and usage of productivity has been undergoing a change and as changing concepts of management are emerging, this definition would undergo further changes. Starting with labour productivity, capacity utilization, it is now recognised that managerial effectiveness is also equally important for overall performance and its evaluation in the context of a firm or corporation. The management science/operations research approach and techniques have been well established practice now, not only in manufacturing industries but also in service industries.

2.5 Since it is believed that Productivity in relation to Service Sector means the customer satisfaction, quality of service and timeliness of the service, the most important internal factors contributing to productivity improvement are economic well being of employee, reward mechanism and control systems. It is thus possible and necessary to study the scope of Productivity of the Services Organisation in further detail to establish the trends of organisational input and output parameters.

FINANCIAL INCENTIVE

2.6 A review of R.M. Currie's is presented in Annexure-1. According to Sumanth (1989) Financial Incentives and reward systems are one of the most important means of productivity improvement from amongst other employee-oriented management Processes. Likewise NPC Survey on Incentives in Indian
Industry (1972) revealed that most of the manufacturing industries have the incentive scheme related to Productivity or Production in one way or the other. (18). The Integrated Productivity Promotion Framework Model of International Labour Organisation (ILO). (19). shows that Awards and Incentives are the input which employers or Govt. can give to build productivity awareness in employees. (For further details, please see, Annexure-II).

**FINANCIAL MOTIVATORS**

2.7 Rewards to employees through a sound, fair and acceptable system of sharing gains of productivity would spur them to high levels of performance. Employees may not develop interest in improving productivity unless they share the gains resulting from its improvement. The impact of benefits of incentive schemes and plans for sharing gains in productivity in different countries clearly indicate that in spite of doubts expressed by some behavioral scientists, motivating role of higher wages is considerable. In India also several research studies have clearly indicated that output, efficiency and productivity increased in Indian organisations following introduction of incentive schemes or wage linked productivity schemes. A study in Kanpur Cotton Textile Mills. (20), and another in some units in Bombay found that payment by results have significant effects on productivity. It has also been observed that given suitable external conditions both to workers and to organisation, the worker in Indian factories does not necessarily have the proverbial low productivity. (21). Moreover, as the Study Group of Wages, Income and Prices held quite rightly the
productivity linking of wages is also a sound principle for enabling workers to get their due share in the benefit of growth in a developing economy. (22). It has usually been found that the financial inventive need not necessarily lead to the desired results in an undertaking unless required pre-conditions of non-financial kind exist. It is unfortunate that non-financial inventives have not been sufficiently investigated in the Indian context. However, we may not go to the other extreme to forget that non-monetary reward may also motivate well. In fact, in the public sectors it is important and worthwhile to partly rely also on the contributory incentive which appeal to the working men a sense of duty at large and at the work place. Conditions must be created to enable employees to improve Productivity. These conditions would include creation of an open climate and employees involvement mechanism among others. Financial motivators should also promote team work, reinforce positive values, and innovative behaviour.

2.8. The non-monetary motivators such as job re-design, decentralization, autonomy, recognition of merit and other related aspects should be the components of a composite motivational strategy. (23). Many personnel practices such as job security, seniority based promotional systems, necessitate linkage of effort and reward at various levels. Creation of a open environment, team work, productive work culture, participative management style, involvement of employees and recognition of employees performance have been found to be the components of an overall strategy. Therefore, any scheme which envisage linking wages with
productivity must be a part of motivational strategy and include both financial and non-financial components.

2.9 A definite trend towards developing broad based schemes emphasising overall organisational productivity is evident from the above historical developments. The present thinking on these schemes is to incorporate a decentralised component by which demarcable entities/units might get a differential reward in addition to the reward due from organisation wide performance. This development stems from a desire to infuse a sense of competitiveness among the various units of the organisation. Broadly the shift in emphasis can be summarised as follows:

* labour productivity to organisational productivity
* production workers to all employees - multi-tier schemes
* time based incentives to multi-factor schemes
* standard formulation to problemsolving approach based specific formulae
* manufacturing industry to service, construction and all types of organisations
* annual increment based on seniority to merit based increments

* quantitative performance to qualitative performance also
* automatic compensation to building relationship with for inflation productivity (partial)
* management decision to union involvement
* share gains with employees to share gains with society
* quality inspectors to self inspection
* cash incentives to welfare facilities

**LINKING WAGES WITH PRODUCTIVITY**

2.10 It has been well recognised that productivity improvement is no more a matter of choice but a national imperative to accelerate process of economic development. (26). Wages and Productivity are the two most vexed questions which have received attention from policy-makers, managers and trade union officials in the preceding four decades since significant changes took place in the wage systems of the organised sector. The economic scenario in India has been characterised by rising aspirations of its people, generation of employment and the quest for achieving a better standard of living for the people. Wage systems have played a key role in achieving these objectives consistent with human and social welfare. The impelling challenge, however, has been to ensure not only steady wage rise but also improvement in purchasing power and Quality of Work Life (QWL) of the employees. It is in this context that immediately after the independence, the questions relating to wage systems received the attention of the policy makers, academicians, management consultants and corporate business executives. Therefore, to start with efforts were made to evolve a national framework rather than mechanism of wage administration so as to cope with the challenge posed for affecting improvement in economic conditions of the working class and ensuring a wage level above the base and subsistence level. (27). This process inspired the academicians, management consultants and
corporate business executives to undertake several meaningful works/studies and to prepare consultancy reports. Besides constitutional measures were also institutionalised both at the level of State Govt. and Central Govt.

2.11 Until 1950’s concerted efforts were directed towards providing statutory protection to the working class against the economic exploitation. This was, to a great extent, achieved by the enactment of Minimum Wages Act and other legislations including Employee’s Provident Fund and Employees State Insurance Act which guaranteed a minimum level of wages and working conditions to the workforce. The design and implementation of wage systems in various organisations was, however, left to managements and trade unions which negotiated within the overall parameters laid down by the government. The pattern of wage payment was heavily biased towards time based wage system vis-a-vis piece based rate system which represented payment by results in the Indian context. For example, wage survey conducted by Indian Labour Bureau in 1958-59 revealed that only 31.8% of workers in the manufacturing sector were piece rated. Few large organisation had designed production incentive schemes for direct production workers and evolved wage structures base on job evaluation.(22).

2.12 With the emergence of Public Sector on the Indian scene and broadly upto the close of 1960s attention was paid to provide reasonable standard of living and provision of additional fringe benefits such as housing, education, medical etc. which were brought within the concept of wage payments. The Payments of Bonus Act, 1965 introduced the
concept of 'deferred wage' and 'profit sharing'. A high-powered committee was set-up by N.P.C. to evolve guidelines on sharing gains of productivity in the 1960's. Based on the discussions of the high-powered committee, NPC brought out a publication entitled 'Sharing Gains of Productivity' which described different models based on which schemes could be custom-designed to meet specific needs of an organisation. (23).

2.13 IN 1970's the concern was aroused on linking wage payments with performance and productivity. The payment of Bonus Act was amended to provide a new Section (31a) making a special provision with respect to productivity - linked annual bonus scheme, as given below:

"Notwithstanding anything contained in this Act, where an agreement or a settlement has been into by the employees with their employer before the commencement of the Payment of Bonus (Amendment) Act 1976 or, where the employees enter into any agreement or settlement with their employer after such commencement for payment of an annual bonus linked with production or productivity in lieu of bonus based on profits payable under this Act, such employees shall be entitled to receive bonus due to them under such agreement, as the case may be".

"Provided that such employees shall not be entitled to be paid such bonus in excess of twenty percent of the salary or wage earned by them during the relevant accounting year". (24).
2.14 Thus industrial engineering techniques such as job Evaluation, Production Incentive Schemes and Productivity Linked Reward Schemes became common. NPC survey (25) during 1970’s indicated that the 63% of the incentive schemes were introduced between 1962-70. The Government also urged the management and trade unions to go in for periodic wage revisions of wages only if they could be sustained by the increase in level of productivity. (26). The second Five Year Plan envisaged a wage structure with rising real wages but commented that wage improvement can only be commensurate with increase in productivity. The Third Year Plan emphasised the need for a minimum wage and higher employment. However, it was only in the Fifth Year Plan that Government observed that wage increases should be controlled. (27).

2.15 In the subsequent years, broadly encompassed by 1980’s many organisation started development of multi-tier schemes and linking of bonus with productivity under Section (31A) of the Payment of Bonus Act. There was a greater use of job evaluation techniques for determining job differential and fixation of norms for working out individual incentive Schemes. During the late eighties, a trend was witnessed where integrated schemes linking a part of the wage of all the employees of the organisation with productivity parameters and/or development of separate schemes for executives.

2.16 SEVENTH Five Year Plan recognised productivity as one of basic three pillars of economy. (28) and 1982 was declared as, "Productivity Year". During this period,
productivity efforts received major thrust and many organisations started developing specific action plans for improving productivity. The partial liberalisation resulting in competition in some sectors of the economy, also emphasised the role of productivity in improving performance.

2.17 During 1986, a NPC survey of Productivity Linked Reward Schemes pointed out that productivity increased upto 16% within three years of implementation of such schemes were achieved in 80% of the units surveyed. (29).

2.18 Incentives based on time standards or in the form of piece rates were first examples of establishing linkage between wages-productivity. The earliest known scheme was introduced in 1936. There has been a growing realisation that wages and productivity should be linked so as to break the vicious circle of inflation and prices chasing each other. Also it is the only way to improve the standard of living of employees and generate surplus required for diversification and technological up-gradation. However, there are not many examples of comprehensive linkage between total wage and productivity. There is a general unanimity on desirability of linking wages with productivity. However, opinions differ on the ways and means of doing it. Number of studies have been conducted to understand relationship between productivity and wages. Results of studies are reproduced in Annexure-III to understand relationship between wage and productivity and development of wage-productivity linkage. The summary of National
Productivity Survey on Incentives is Presented in Annexure-IV.

2.19 The basic issues involved have been studied by many authors and researcher. The studies have revealed the conceptual and operational gaps with regard to wages, incentives and their productivity linkages still exist. This linkages can not be considered in isolation of environmental and other factors which have a significant bearing on successful design and implementation of such schemes. These enviromental factors would include sound industrial relations, productive work culture, rational and equitable wage structure, productivity improvement strategy, participative systems, socio-economic conditions among other. The need for establishing linkage assumes added importance because productivity is not rising rapidly enough to achieve desired levels of standard of living. The incremental capital output ratio has risen to about 4.65 in the seventh plan from 3.20 in the first plan.(30). Needless to say, the infrastructure and other assets created in the last forty years, must be put at more efficient use. Wage increases along with the rising costs of other inputs, low technology and low productivity are eroding the capacity of the industry to compete and generate adequate surpluses. The recent macro level economic reforms, resulting in trade liberalisation, opening up of economy, and dismantling of control mechanism must be seen in this context. These reforms will intensify competition in the economy leading to strengthening productivity efforts in the economy as a whole, productivity and if monetary authorities accomodate
them in order to avoid recession, then cost-push inflation sets-in. The basic issue, therefore, is to develop a system of compensation which will satisfy the basic needs of the employees and motivate them to achieve higher levels of performance. (31). Specific broad issues which needs to be analysed could be development of equitable and rational wage system and its components relevance of financial motivators for improving productivity; wage and productivity linkages; scope, process and contents of relevant concept and parameters and developing the most of productivity models.
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