CHAPTER FIVE

INCENTIVES FOR EXECUTIVES

5.1 Introduction and Importance

Incentives are planned and objective inducements for achieving greater efforts from individuals in an organisation. They generally form important organisational tactics to motivate people. They also constitute major variables affecting the behaviour of the members working in any productive system. Greater productivity, lower costs and higher earnings are the three primary reasons for launching an incentive plan. The belated recognition and emphasis given to incentives linked to production norms in different economies of the world irrespective of their ideological hues is because of the vital role they play in enhancing productivity. In our country, there is a cry for more and more production to raise the standard of living of the masses, the majority of whom are groaning under poverty.* Hence, every known technique has to be applied which


* The extreme poverty level of the people of Bangladesh can be gauged by the very low per capita GNP of the country which was US $ 90 in 1978 and US $ 110 in 1979. It is lowest in the world, Statistical Year Book of Bangladesh, 1981, Bangladesh Bureau of Statistics, pp. 615-617. Another study has also shown that poverty in the rural sector has increased tremendously in Bangladesh. According to this study, between 1963-64 and 1975 the proportion of the population defined as 'extremely poor' had increased from 5.2 percent to 41 percent. A.R. Khan, 'Poverty and Inequality in Rural Bangladesh' in Poverty and Landlessness in Rural Asia, ILO, Geneva, 1977. Further, it may be stated that in the recent years the people falling in the group to be called as 'extremely poor' is still on the increase. "Almost 80 percent of the population is below the poverty line", The Times of India, New Delhi, Wednesday, December 21, 1983.
can improve our level of production and productivity to enable our people to lead a better quality of life.

It is true that an executive's performance on the job is dependent both on his ability and his willingness to work hard. In other words motivation plays an important role in influencing the quality of performance of an executive. Performance is always a function of motivation of executives - which in turn depends on the incentives - both financial and non-financial.

Historically, paying worker on the basis of his productivity and performance is as old as free craftsmanship and it was in use in factories since the beginning of industrial revolution. Perhaps the incentive schemes got the highest impetus under the scientific management approach enunciated by F.W. Taylor in the 1880's at the Midvale Steel Company. Taylor emphasised the financial aspects of the incentive. Even today Taylor's procedures are accepted as the primary basis for establishing a sound incentive payment system.

Though discussions regarding workers incentives plan are quite widespread, it is rather surprising that incentives for executives are not very popular* especially in the under-

* The reasons for the non-existence of executive incentive schemes may be stated as follows: Firstly, for a considerable period in the past, since ownership was not separated from management, the executives needed no motivation as all the profits of the enterprise went to their pockets. This situation still prevails in many enterprises particularly in the developing economies.
developed countries though this group performs the vital function of assembling and coordinating the resources for production. Since executives are the life-blood for the success of any organisation, motivating executives with suitable incentives becomes imperative in the modern competitive world.

Incentive plans may broadly be categorised into three classes - financial, semi-financial and non-financial.

5.1.1 Financial Incentives and Performance

Financial incentive schemes do motivate executives to contribute their best to increased profitability and growth of the enterprise. As profits spurt, a share of the same goes to the executives thus securing increased earnings for both the owners and the executives. Although it is very difficult to determine the extent to which increased profitability depends on the existence of such incentives, one can point to many leading organisations where incentive schemes are in use for quite considerable period in the past. Also a large number of researches in the developed countries evidenced a positive

Secondly, executives especially occupying top and upper positions identify themselves with the owners. The owners also heavily depend on them for the efficient management of their enterprises. The relationship that develops out of this mutual dependence on each other does not necessitate the implementation of incentive schemes because in such situations executives can always hope to get proper reward for their efforts. Thirdly, since executive personnel unlike other groups of employees are relatively smaller in number and widely scattered, face certain problems of being unionised. However, with the emergence of professional managerial class and percolation of the unionisation mania among them which has already started gripping this group, it may not be possible anymore to exclude this class from being brought under incentive schemes.

relation between executive incentive plans and the enhanced profitability of these organisations. For example, Arch Patton made a study of 41 leading companies for a number of years wherein he found that the companies which had increased the remuneration of their top-management to the maximum also increased their earnings considerably and enterprises not increasing remuneration every high could not earn similar profits. Another study by the same author also showed similar results. Further, a number of other research studies may be cited for showing such relationships. It seems quite logical to conclude that an efficient and properly designed and administered executive incentive plans help to enhance both enterprise's net income and benefit investors. In India, the study group of the National Commission on Labour on 'Productivity and Incentives' has recommended that "wage incentive is concerned with effective utilization 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 plans and stimulate human effort for greater output."  


5.1.2 The Role of Non-Financial Incentives

A system of rewards is obviously essential to the successful operation of any economic system. Further, a business enterprise by its very nature depends primarily upon financial reward for the executive personnel. However, it is true that executives like people in other walks of life, are also strongly motivated by various non-financial considerations which may include: a sense of responsibility, loyalty to the organisation, the challenging job, pride in accomplishment, opportunity to participate in the formulation of organisation policies and plans, easy and ample access to higher management and good physical working condition and pleasant surroundings, etc.

These are generally broad and constructive motivators. Of course, there are variations among executives in this respect. Some executives are motivated in part by a liking and lust for authority, while some by the prestige associated with the company or the position or both, and still others by personal neurotic tendencies such as a fear of failure. But generally non-financial incentives are neither as strong nor as reliable as financial incentives but cumulatively, they are important. For some organisations they constitute a major part of the motivational system as in the Government.


5.2 Executive Incentive Schemes in Some Selected Countries

Before we dwell upon the incentive schemes as obtaining in Bangladesh it would be quite relevant to review some of the incentive system prevailing in India and some other developed countries.

5.2.1 India

In India, incentive schemes for the executives are of the following nature and type.8

a) The Bonus Fund which is created out of profits or production and savings, is shared in pre-determined proportion. Such schemes of bonus-sharing were originally limited to administrative executives such as the managing director, sales and production managers, and the chief engineer. After successful implementation of these schemes, they have subsequently been broadened and extended to cover all managerial people including the lower supervisory staff.

b) Bonus based on overall standard and efficiency achieved by a department or function for which the executive is responsible. This scheme provides for measurement of managerial effectiveness and requires estimation, definition and attainment of a certain pre-fixed standard of operation.

c) Profit-sharing and co-partnership schemes - Profit-sharing schemes include an agreement between employer and workers regarding pre-determined proportional payment, additional to regular remuneration derived from profit funds accrued by the department/section or particular project.

The major shortcomings of the profit-sharing schemes include:

i. Profit guarantee is very rarely definite;

ii. Difficulty in determination of an equitable basis for profit apportionment;

iii. Amount of profit to be shared may fluctuate very widely from year to year;

iv. Profit share distribution may be deferred for a long period;

v. Both non-productive and highly productive employees may share equally which may not be equitable and justified;

vi. Employees may raise questions as to the amount of profit disclosed by the enterprise.

Co-partnership or co-ownership entitles the employees to share in the company's financial capital and ownership profit.

5.2.2 The U.S.A

In the United States, various types of incentive schemes like profit sharing, the Scanlon plan and the cafeteria approach are in practice.

I. Profit-sharing Scheme: According to the profit-sharing plan, the employees are given a bonus dependent on a certain percentage of the organisation's profit. Of course, there are variations in the system. Occasionally, the quantum of bonus is dependent on the amount of dividend paid to the shareholders. Under certain profit-sharing plans, the bonus is paid directly to the employees generally at the end of the year. There are also plans where bonus is deposited in a welfare or pension fund which are known as 'deferred plan', because payments of the benefits are
deferred till the employees retire or make use of the welfare fund. Such a deferred scheme provides the benefit of both profit-sharing and fringe benefits programme.

The benefits claimed by the profit-making plans are as follows - (a) It strengthens the feeling of involvement of the employees toward the company and brings about a sense of proprietorship in the enterprise. (b) It gives incentives to employees to work hard for wastage reduction, sales promotion, maintaining proper working condition of machines and so on. (c) It also enables enterprises to provide pension and fringe benefits by not affecting the fixed costs since funds for these are created out of profits of the organisations.

However, there are some basic controversies in respect of the use of profit-sharing scheme as a fringe benefits programme:

(a) The question arises as to the percentage of profit to be distributed. Three methods are there which an enterprise may follow. A predetermined formula can be worked out or the B/D may decide on the amount of contribution every year. The mixed path is to follow a standard formula which can be applied in different ways. The enterprise may decide to contribute a flat amount or a percentage of total profits earned by it.

(b) There is the question as to participation/the fund. An enterprise may cover all its employees or make some exceptions with regard to certain group of employees.

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(c) There is also the problem of allocation. An enterprise may allocate a certain proportion of an employee's basic pay or it may use a system where points are given for years of service and the amount of pay. The actual fund allocation depends on the total number of points, of an employee.

(d) Finally, there is the problem regarding the method of payment. Some enterprises make no distribution of funds until employees retire. This will create problems, because there is the possibility that employees may change job before they retire.

II. The Scanlon Plan: The Scanlon plan is one of the most dynamic approach for achieving widespread employee-participation and securing industrial peace and greater productivity. It was conceived by Joseph Scanlon and his associates in the late 1930s and was used by a large number and variety of enterprises.¹⁰

It has two basic elements (1) a wage formula and (2) a new method of suggestion system. The wage formula is devised to distribute the fruits of enhanced productivity among the employees involved. The formula is dovetailed to the needs of the enterprise concerned. Wages are determined on the sales value of the goods produced. Bonuses are paid to all categories of employees and sometimes even to top management for proportionate increase in productivity.

In many respects, the suggestion system is similar to the union management grievance procedure that exists in some

organisations. But Scanlon plan is different from the typical suggestion system, where instead of individual rewards for accepted suggestions, the groups get benefit through increased bonus when there is higher productivity. As a result, there is an atmosphere of cooperation among individuals in developing suggestions in lieu of keeping their ideas to themselves.

The Scanlon plan achieves the following benefits: (a) increased productivity and profit, (b) valuable and constructive suggestions, (c) environment conducive to adopting organisational changes, (d) harmonious labour - management relations, (e) enhanced job motivation and increased cohesion among different groups of employees as well as between subordinates and their bosses. Some of the pre-requisites for successful implementation of Scanlon plan are:

(a) Considerable changes in the attitudes of management must take place. Traditional enterprise prerogatives must be avoided and the spirit of appreciating creative ideas for improvement should prevail.

(b) If the union officers do not give up militant view, the plan is likely to fail. So it is necessary that office bearers should be careful to explain new developments to the employees and also should listen to their reactions and feelings with caution.

(c) There should exist a high degree of cooperation and understanding among employees since the benefits under the Scanlon plan are distributed to all irrespective of their individual contribution.
III. Cafetaria System: Under cafetaria system, executives may give option for some benefits they intend to avail from among a number of benefits like leave with pay, profit sharing stock option, medical coverage, insurance, pension scheme, retirement plans etc. Actually, some enterprises allow their executives flexibility in choosing the combination of compensation package and deferred periods within a particular compensation device.11,12

An enterprise may achieve more flexibility by allowing its executives to exercise their preference across payment devices also. Executives become more satisfied and motivated if they have the opportunity of devising their own benefit arrangement. But for the successful operation of such an incentive scheme, an enterprise should have thorough understanding of the cost structures of various alternative forms of compensation. In other words, a cost/benefit analysis must be conducted. Employees also prefer such opportunity of selecting a pay package suitable to their personal needs.13

Some of the disadvantages which have been identified of the cafetaria approach include: (a) Benefits are not always motivators as though out; (b) Operational cost of such a programme are generally very high; (c) Executives have to take decision

that determines their take home pay; (d) The enterprise usually has to bear an increased responsibility for providing information regarding fringes to the executives; and (e) Cost at the initial stage for flexible compensation programme are comparatively higher than those for a fixed programme. 14

5.2.3 The USSR

The fast and tremendous economic growth in the USSR has been the result of the enthusiasm of its people and their interest in the rewards of their work. Performance efficiency has been achieved by combining material and moral incentives, instilling a very high sense of duty and responsibility in the mind of employees by various forms of incentives for good work, updating the wage and salary systems and administration by introducing improved methods of production management. 15 In the recent years there has been considerable increase in the use of economic levers in the management of Soviet industry which has been manifested in the allowing of more freedom to the managers of the enterprises, the laying of increased emphasis on profits and material incentives, and the formulation of a improved price policy for industrial goods by the Government.

One of the most important elements in the development of moral incentives to work is played by socialist emulation, organised by the trade unions. This is an expression of the creative enthusiasm of the people freed from the yoke of exploitation and suppression. Emulation developed into an institution of mass labour heroism for educating the working

people during the period of Soviet power. Public organisations select jointly with the management, the winners of emulation drives, award them certificates of honour, pennants and flags, and inscribe their names in books and on board of honour and the outstanding innovators in the field of production are publicised in the press, radio, television and other media. The most outstanding innovators are awarded government orders and medals, and the highly honoured title of 'Hero of Socialist Labour' and these people command the respect of the entire society.

The most important factor in increasing production efficiency has been the enhancement of economic incentives for the employees of the enterprise. A special fund has been set up at factories and plants for this purpose. There are also incentive funds for financing socio-cultural functions and housing. The size of these funds is directly related with the efficiency and profitability of the enterprise. The benefits derived by workers and office employees in addition to wages and salaries are directly dependent on the size of this fund. This has been an important factor in the Soviet Union to increase employee productivity and also improving the quality of the product.

In the USSR bonuses are merged with the basic pay and employees are entitled to bonus only when the goals set by the plan have been achieved. The Director of the enterprise who

administrates the plant gets a bonus only if these goals have been achieved in all departments of the factory. However, apparently such bonuses are generally the rule. Their quantum is dependent on the production results and cost reduction subject to a maximum of 40 percent of the salary, although average bonuses range between 20 to 30 percent.17

The emphasis shifted from output to reduction of cost in the early 1960s. Premiums are now awarded quarterly and managers can potentially receive premiums equivalent to 40 to 60 percent of their basic salaries, depending on the nature of the enterprise. Targets both of gross output and productivity must be achieved for award of any premium. But the quantum of premiums depends on the degree of overfulfillment of the cost targets. In some situations, additional premiums up to maximum allowable limit may be granted for overfulfillment of output target, but more weight is given to above planned cost savings.18

The reforms also specified the fulfillment of certain other conditions in order to receive premium and these conditions vary depending on the nature of industry and the enterprise which may include certain physical assortment indices, quality and product delivery scheme to customers and so on. The premium is the most highly valued managerial goal even in view of the changes in the system, and is not a mere aspiration but often a reality for many managers.

There are certain other financial rewards available to enterprise management in the USSR. Managers may receive bonuses from the 'enterprise fund' which is constituted of a small portion of the profits earned by the enterprises. There are also a system of bonuses for fulfilling major technological and product-innovation tasks. Although many managers earn premiums, the irregular supply of inputs frequently acts as an obstacle that managers must overcome in order to earn such incentive payment. 19

The Economic Reforms of 1965 introduced the incentive scheme which provides that every one should be paid according to his work. Increased efficiency in production is associated with an enhanced rate of salary and wages to maintain the correct rate of growth ratio between income and consumption of goods by the public. A more careful analysis reveals that most of the plans entail an additional increase in cash wages and salaries from planned funds, often with little variation in the productivity of the labourers. There are two ways of increasing material incentives: (a) centralised increase of wage and salaries, and (b) the more varied and extensive use of the profit earned by each enterprise for material encouragement. The performance of each employee is evaluated from the viewpoint of both individual and collective results. Employees also receive premium from annual profits depending on the period of continuous service in a given productive organisation. Remuneration for such service will always depend on the contribution of the employees to the development of production and effectiveness.

In the USSR there has been suggestion for granting increased wages and responsibility to the foreman. Occasionally workers can earn more than the foreman. But since foreman now contributes more to production, directors have the power to increase the remunerations of highly skilled foreman and other technical personnel to provide them with added incentives for motivation.

5.3 The Rationale for Executive Incentives in Bangladesh

The following may be put forward as valid arguments for introducing incentive schemes for executives in Bangladesh:

1. After the liberation of Bangladesh in 1971, there has been very little change in the salary scales of the executive group, particularly who are in the top and these people suffered comparatively heavier disincentive. The sky-rocketting inflation in the post liberation years made the situation worse. All classes of employees are the victims of such economic change, but employees in the lower hierarchy since better organised could enhance their monetary income by organised activities. They also benefitted from the patronage of the government. The overtime allowances of workers and staff played an important role in this direction and at times it resulted in higher remuneration of these groups compared to junior executives who are not entitled to such allowances for overwork. Though the Government of Bangladesh introduced tax-free salaries for executives, these have not improved the real income of the executives. Rather, compared to pre-independence period, real incomes of the executives have eroded to a considerable extent.
It is often argued by many that public bodies are in a better position to attract persons with talent even with lower salaries because of prestige and status associated with such jobs. But this situation has changed and it must be admitted that these higher motives become prominent only when the basic necessities of life are substantially met by the monetary income.20

The salary structure in Bangladesh which is designed on socialist lines with the objectives of reducing disparity in the distribution of wealth and income and to establish an egalitarian society, has resulted in a sub-standard living of the peoples who are at the helm of economic development of the country. This may have the damaging effect on their abilities of inventiveness, initiative and innovation.

2. After liberation of Bangladesh with the nationalisation of all big industrial and other enterprises a sudden change took place in the management of these enterprises. Previously these enterprises were mostly controlled by the owner-manager but now professional managers took over the controlling role and they had no proprietary interests in the enterprises. Where profit belongs to nobody, very few are interested in making profits. To what extent the various practices like profit sharing, stock purchases, stock option, deferred compensation etc. can be profitably introduced to motivate executives in Bangladesh is an issue for detailed research. But everyone is bound to share the view that such schemes would help growing proprietary interests in an individual.

3. In Bangladesh, there is an acute scarcity of executive talent particularly in the top level in the country. This situation is becoming more serious with the heavy social and national development programme and migration of efficient people to Middle East and other countries to change their fortune.* So unless efficient people are attracted to the Government sector particularly nationalised industrial enterprises with greater incentives to work in these organisations nobody can foresee the future of the country with much hope and aspiration.

4. Enhanced production and productivity is the primary objective of our economy for feeding the growing masses. 'Produce or perish' has been the main slogan of Bangladesh. Therefore, in order to increase productivity, executives must be assured of a share in the increased production and productivity. With this point in mind, our nationalised enterprises have introduced various incentive bonus plans dependent on production, sales or profitability. These schemes should be more carefully scrutinised in order to make them more effective in achieving corporate goals and objectives.

5. Executives are the dynamic life giving element in every organisation. It is their leadership which combines the scattered resources for production. In this competitive world, the ability and performance of the executive determine the effectiveness of

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* In 1981, there had been migration of 1178 administrative/management staff to Gulf countries and other parts of the world. Statistical Year Book of Bangladesh, 1981, Bangladesh Bureau of Statistics, Govt. of Bangladesh, pp. 469-470.
organisations and their survival. So we must appreciate the crucial role of executives and design reward structure accordingly so that this important group is properly motivated to put forth adequate efforts for the organisational success.

5.4 Financial Incentives for Executives in Bangladesh

Incentive schemes for executives in Bangladesh in the different sectors, viz., NIS, NPSI, MNC's and the Government vary widely both in their coverage and quantum depending upon the nature of the organisation. The following pages of this chapter have been devoted to make an analysis of the different kinds of incentives that are available in the different sectors covered by the study.

5.4.1 Nationalised Industrial Sector

The government came into the picture of industrial management without any detail plan and programme for managing these enterprises. Before liberation of Bangladesh, these enterprises were mostly run by owner management and there were also no scientific incentive systems in practice. It varied from enterprise to enterprise according to the sweet-will of the owner managers. But after liberation, with the nationalisation of all large enterprises, management went to the people who were mostly professional managers of the mid and lower level of the organisational hierarchy. With few exceptions these executives had neither the capability, nor the experience of managing such big concerns. Also the post-liberation reorganisation of the enterprises added to the problem.
The Pay Commission, 1973 did not at all consider the special circumstances of the public enterprises which had to compete with the private sector for attracting and motivating able executives for shouldering the challenge of efficiently managing the vast nationalised manufacturing sector. Rather the compensation pattern was matched with that of Government bureaucracy with no incentive elements for boosting up productivity and profitability so vital for enterprises of a commercial nature.

A. The Recommendations of the Planning Commission

The Planning Commission of Bangladesh, however, attempted to come to terms with the contradiction inherent in the Pay Commission's recommendations. The First Five Year Plan of Bangladesh published in November, 1973, recognised that in an economic system based on state or social ownership of the means of production, the executives in the productive sector should be people of outstanding ability. It argued that in the absence of socialist cadres and a general commitment to socialistic goals by the professional class, the executives in the enterprises were to be motivated by material incentives and the challenge of responsibility.

In the Plan, the Planning Commission had further recommended that a suitable incentive scheme, relating rewards to performance, be worked out for the management of the public enterprises in the same way that labour needed to be motivated. The Planning Commission also viewed right from the outset the
of the nationalisation policy that management could not be tied to rigid salary structure. Compensation policy should aim to have a flexible reward structure where efficient work and commercial success could be rewarded in relation to profit or production. These attempts to get policy directions from the cabinet or even to get the corporation to work out incentive structures for their management proved infructuous. Such a policy of motivating public enterprises by performance was also opposed to the interest of fixed income bureaucrats so that they too tended to resist such moves and advised the political leadership against taking any special measures for providing incentives to the executives of public enterprises up to 1975.

B. Incentive Bonus Schemes

In May, 1976 the Government issued the Guidelines determining the relations between the Government and Autonomous Bodies/Corporations. It was stated therein that a Corporation of Commercial nature should operate on commercial considerations having due regard to national interest, in the most efficient and economic manner and the important objective would be to earn additional revenue for the Government.

Keeping in view the above, incentive bonus schemes were introduced in the sector corporations in 1976-77 which are now in force. It was felt necessary to revise the incentive bonus schemes on more realistic production/sales/profit oriented approach to improve performance of the enterprises and to make the management aware to achieve more productivity/sales/profits.
These incentives bonus schemes are subject to revision from year to year in view of the target set by different corporations and also subject to the approval of the administrative ministry under which the corporation concerned is working. These incentive bonus schemes are of the nature of group bonus scheme.

C. Coverage of the Employees Under Incentive Bonus Scheme

It has been observed that all workers, staff and officers even the head of the enterprise are covered by them. However, there are some exceptions: the staff and executives posted in the head office of the corporations are not entitled to such bonus. Again, one corporation, namely, Bangladesh Jute Mills Corporation where no incentive bonus scheme is there for staff and executives of the enterprises because it has been suffering continuous losses. Only in 1979-80 one month's basic pay was paid to all officers and staff of this corporation in view of profit earned by the corporation as also under pressure from the employees concerned. Though provisions for incentive bonus for executives and other employees are there in four out of five sector corporations, it has been seen that the detailed working of the systems vary in several respects. An analysis of the systems prevailing at present in different corporations brings out a number of features of the incentive bonus schemes as discussed below:

I. Bangladesh Steel and Engineering Corporation

In Bangladesh Steel and Engineering Corporation, there are three elements of the operations of enterprises on which
incentive bonus depends. These are production, sales and profit.

a) Production Bonus: Production bonus scheme works as follows:

i. For production upto 70% of target no bonus is allowed.

ii. For production of 71 to 80% of target, the entitlement of bonus is 1 day's pay for each percent above 70%.

iii. For production from 81 to 90% of target achieved, 10 days pay plus 1.5 days' pay for each percent exceeding 80%.

iv. From 91 to 100% of target achieved, 25 days pay plus two days' pay for each percent exceeding 90%.

b) Sales Bonus: The above mentioned production bonus entitlement is, however, subjected to increase or decrease depending on sales performance in the following manner:

i. For each percent of higher sale over 90% of the actual production at the end of the year, there is an additional bonus of 3 days' pay upto a maximum of 15 days pay.

ii. For each percent of less sale that 90% of the actual production, a deduction of $ days' bonus from production bonus is made.

c) Special Bonus on Production and Profit: For exceeding 100% of target 2 days' bonus for each percent of increase of production from 100% upto a maximum limit of 30 days basic pay is payable only on fulfillment of certain conditions, viz.,

i. The enterprise has earned a profit. Profit should be available after payment of bonus.

ii. The product quality should be of accepted standard.

iii. The closing stock of finished product should not exceed 10% of the total production. If it exceeds this limit $ days' pay is deducted from the special bonus for each percent of excess stock.

iv. The average output per head of the total number of personnel in the enterprise has increased over the last year. In case of decrease, $ day's salary is deducted from special bonus for each percent decrease in production.
v. For higher wastage than the previous year, \( \frac{1}{2} \) day's salary is deducted from special bonus entitlement for every 1% increase in wastage.

II. Bangladesh Sugar and Food Industries Corporation

The incentive bonus scheme in enterprises under Bangladesh Sugar and Food Industries Corporation are dependent on two important elements, namely, production and profit. The detail of the schemes for entitlement and payment of incentive bonus are as follows:

(a) Production Incentive Bonus: Production Incentive Bonus are calculated and paid as follows:

<table>
<thead>
<tr>
<th>Production in relation to the installed capacity of the Units</th>
<th>Entitlement of Bonus on production percentage</th>
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<tbody>
<tr>
<td>Less than 65% of Installed capacity</td>
<td>Nil</td>
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<tr>
<td>65% but less than 70%</td>
<td>85% of one month's basic salary</td>
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<tr>
<td>70%</td>
<td>95%</td>
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<td>75%</td>
<td>105%</td>
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(b) Profit Bonus: Incentive bonus dependent on profitability is calculated and paid in the following manner:
Profit in lac Taka | Entitlement of Bonus on Profit percentage
--- | ---
Profit less than Tk 30 lacs | Nil
Tk 30 lacs but less than 40 lacs | 10% of one month's basic salary
Tk 40 | " " | " 50 lacs | 20% " " " "
Tk 50 | " " | " 60 lacs | 30% " " " "
Tk 60 | " " | " 70 lacs | 45% " " " "
Tk 70 | " " | " 80 lacs | 60% " " " "
Tk 80 | " " | " 90 lacs | 80% " " " "
Tk 90 and above | 100% " " " "

(c) Special Incentives for attaining production efficiency over 100% of the installed capacity

In addition to normal production and profit bonus, special bonus for attaining efficiency over installed capacity are paid in the following way:

For more 100% but less than 110% | -25% of one month's basic salary
For 110% and above | -25% of one month's basic salary

III. Bangladesh Chemical Industries Corporation

In Bangladesh Chemical Industries Corporation, incentive bonus schemes of the enterprises are primarily related to production of the enterprises concerned. The following types of incentives bonus schemes are there:

A. Production Target Bonus: Production target bonus are calculated and paid to the employees in the following way:
Production Target Achievement | Rate of Bonus | Amount of Bonus Entitlement
---|---|---
Upto 75% performance of the target | No Bonus | Nil
From 76% " | At the rate of 1 day's basic pay for every 1% increase of production | 15 days basic pay
From 91% to 100% " | At the rate of 1½ days' basic salary for every 1% increase of production | 15 days' basic pay

Maximum allowable production target bonus is 30 days' basic pay for an enterprise.

B. Production Capacity Bonus: This bonus is paid as under:

| Production capacity attained | Rate of Bonus | Amount of bonus Entitlement |
---|---|---
Upto 75% performance of Annual Production (attainable) capacity | No bonus | Nil
From 76% to 90% " | @ 1 day's basic pay for every 1% increase of production | 15 days' basic pay
From 91% to 100% " | @ 1½ day's basic pay for every 1% increase of Production | 15 days' basic pay

Maximum allowable production capacity bonus is equivalent to 30 days' basic pay for an enterprise.

Incentive bonus is calculated on the basis of attainable capacity and production target already fixed by the Corporation and communicated to the enterprises.
C. Special Incentive Bonus: Approval for payment of special incentive bonus to the enterprises under BCIC is also given for exceeding original target strictly on the following terms and conditions:

a) 3 days' bonus for every 1% increase of production above 100% of the original target subject to maximum of 30 days.

But this special bonus is payable subject to the following conditions:

i. That there has been no revision of target during the year;

ii. That the production of bonus paying year is higher than the production of previous year; and

iii. That the enterprise has earned profit during the year.

In this connection it may be mentioned that 30 days' pay is equal to 1 month's basic pay/wages in the respective time scale.

IV. Bangladesh Textile Mills Corporation

In Bangladesh Textile Mills Corporation, incentive bonus schemes are now based on production, quantity sold and profitability of the mills. Previously it was solely based on physical production. The characteristic features of the incentive bonus schemes are as follows:

a) Level of Production: The minimum level of production for bonus entitlement is 85% of the capacity fixed for spinning unit and 75% of the capacity fixed for weaving unit.

b) Effective Capacity: In fixing effective capacity of the mills the following facts are given due consideration: (i) Installed capacity of the mills, (ii) shortage of back process
and partial damage of the machine, (iii) replacement of parts and (iv) normal replacement. In addition, rebates are also given to old mills.

(c) Monthly Target: Monthly target for each mill is fixed, and if the actual production in a given month exceeds the monthly target the incentive bonus is paid for the month concerned provided the desired level of scales can be made.

(d) Sales: For determination of bonus entitlement actual sales turnover both in respect of spinning and weaving units should be considered in relation to the actual production. The achievement of production proportionately increases or decreases in relation to the converted scales quantity upon the converted production.

The method for determination of performance is as follows:

\[
\frac{Actual\, converted\, production}{Attainable\, capacity\, production} \times \frac{Actual\, converted\, sales}{Actual\, converted\, production}
\]

(e) Rate of Bonus: All employees are entitled to have bonus ranging from 15% to 25% for the monthly performance evaluation based on production and sales and 8.33% annual bonus for the higher profitability. The production for spinning and weaving section starts with 85% and 75% achievement in relation to production and sale. The starting bonus is 15% of basic salary which increases at a graduated scale upto 25% on 100% achievement. Bonus for profitability are paid in the following manner:

- If the budgeted profit exceeds by 5% - 1% bonus
- do - 10% - 2%
- do - 15% - 4%
- do - 20% - 6%
- do - 25% - 8.33%
(f) Mode of Payment of Incentive Bonus:

i. Bonus earned in a particular month is paid during the last week of the next month.

ii. Every person of spinning and weaving section gets bonus at rates applicable for spinning and weaving section respectively.

iii. The persons engaged in service divisions and other indirect operation and also administration are given incentive bonus on the basis of average of bonus payable to spinning and weaving sections for composite mills.

iv. Bonus for higher profitability is paid annually after the completion of audit by the external auditors.

(g) No Bonus for Below Target Operation: No incentive bonus is paid if the actual level of production falls short of qualifying stage irrespective of the causes of failures, whether controllable or uncontrollable.

(h) Target Revision: Any change in machine capacity due to remodelling, balancing and modernisation is associated with immediate review and refixation of the production target for bonus entitlement.

D. Comparison between the Incentive Bonus Schemes of Different Sector Corporations

A comparison between the incentive bonus schemes of the different corporations of the NIS shows that the amount of incentive bonus is the same in all corporations which is maximum three months' basic pay of an executive or employee. What differs between various corporations is the method of payment of this bonus and also the element of the operation on which this bonus is dependent. In the Bangladesh Steel and Engineering Corporation provision is there for deduction of bonus for non-
achievement of the production target. This is not there in other corporations. In order to effectively encourage employees such penal provisions should also be incorporated in the incentive schemes for executives for non-fulfillment of the target.

E. Other Incentives

In addition to the financial incentives in the form of incentive bonus schemes, all corporations have provisions of giving special increments of pay and out of turn promotion schemes for executives of both the head offices and the enterprises for outstanding performance as follows:

(a) Special Increments: Executives of the corporation may be granted special increments up to a maximum of two increments at a time but such increments are not granted to more than ten percent of the officers in a particular scale of pay or grade.  

(b) Out of Turn/Accelerated Promotion: Executives of the corporations may also be considered for out of turn promotion for outstanding devotion to duty and loyalty, leadership and initiative in the discharge of duties. But such promotion should not exceed 25% of the vacancies in each grade according to rules and procedures laid down in special promotion/increment rules in this regard. Procedures for granting of special increment and out of turn promotion of the BJMC are given in Appendix 5.1 for perusal. The rules are almost similar in other corporations of the NIS.

(c) **Cash awards for Outstanding Performance:** For outstanding performance in certain field, executives are awarded special token cash prizes and certificate of commendations.

5.4.2. **National Private Sector Industries**

As already discussed most of the private industries owned by Bangladeshi investors irrespective of their size, have no sound and uniform basis for remunerating the executives employed therein. This is true in case of incentive schemes also. As regards financial incentives, these depend on the sweet will of the owners. In many of these enterprises top positions are occupied by the owners themselves. Hence the problem of motivating top level executives are virtually absent in such enterprises. However, the following types of financial incentives are found in varying degrees:

I. **Production Incentive Bonus:** In some organisations incentive bonus depending on the achievement of production target are there. In two out of ten organisations surveyed which followed the salary structures of the Government, it was found that executives are entitled to such bonus which varies from 1½ to 2 months' basic salary per year as production incentive bonus, in addition to one month's salary as festival bonus. In other organisations it has been observed that bonus scheme has become a part of the normal compensation programme which varies from 1½ to 3 months basic salary per year and which has no connection with any element of the operation of the enterprise. However, some exceptions have been observed in the case of upper level executives who are
mostly technocrats or people considered very important for the success of the enterprise. In such cases lavish rewards are given to retain and motivate these executives.

II. Profit-Sharing Scheme: It has been observed that in no enterprise there is any system of profit sharing among the executives. Though there is a wide-spread belief among the junior and middle level executives that upper level executives participate in the profits of the enterprises but this contention has not been accepted by the concerned executives.* Moreover, executives are allowed merit increases of pay, promotion, cash reward, etc. as incentives for outstanding performance.

5.4.3 Multi-National Corporations:

MNC's operating in Bangladesh are providing remunerations to their executives which are much higher than the remuneration levels prevailing in other sectors of Bangladesh. As discussed in the fringe benefits section, these companies also provide their executives a wide range of financial benefits which act as strong motivator for the executives. The job satisfaction and commitment to the job has been revealed by the analysis of their responses discussed in the following chapter on executives' perceptions about different elements of compensation.

The following financial incentives are there in the MNC's operating in Bangladesh:

* This feeling was disclosed by some junior and mid-level executives to the researcher in the course of informal discussion.
I. **Bonus Scheme:** In all MNC's bonus ranging from 4 to 5 months' basic pay is paid to all categories of executives. But it has been observed that this bonus is paid as a part of the service agreement and it is not connected with any element of the operations of the enterprises. Only ½ to 1 month's salary which is paid as 'ex-gratia' is subject to profit and approval of the B/D.

II. **Leave Fare Assistance:** In MNC's executives are entitled to leave fare assistance which is substantial amount every year. In addition to that, upper and mid-level executives are given the opportunity of foreign travel in every year or in alternative years which plays a motivating role for executives in those enterprises.

III. **Expense Account:** Top and upper level executives of the MNC's are entitled to expense account in the form of club membership, club dues, professional body's membership, etc. which help executives to establish social contacts with the power elite. This practice, in addition to incentivating executives, also helps in efficiently procuring business for the enterprise.

IV. **Merit Pay Increments:** In MNC's proper evaluation of the performance of the executives are conducted every year and pay increments are given according to the performance standard of the executives concerned. For outstanding performance, more than one increments may be granted and with increase in pay slab other benefits also increase. This system of pay increase has a great incentive value to the executives.
V. Promotions: Outstanding performers are also granted promotions which have both financial and non-financial aspects.

5.4.4 Government

In the Government bureaucracy, financial incentives are conspicuously absent because of the very nature of the government organisation. Since the government is not a productive organisation surplus generation is virtually missing, the philosophy is that of maintaining rather than motivating the executives employed in the Government. Direct individual or group financial incentive of the type as prevalent in industrial organisation do not exist in the government. But semi-financial incentives which take the form of accelerated promotion, posting in some foreign countries, opportunities of being selected as delegates to conferences, meetings etc. held abroad are there in the government and these have certain financial implications.

5.5 Non-financial Incentives for Executives in Bangladesh

For many years behavioural scientists and practising managers have taken keen interest in providing opportunities which will produce a sense of personal or group achievement. Work offers an opportunity for self-expression or an opportunity to enjoy belongingness to a social group with some common goals for different groups of people. But for everybody, it offers an opportunity to gain some type of material and intangible rewards. Every incentive scheme must cover non-financial components in order to be successful. Non-monetary components include factors
like challenge, achievement, responsibility, recognition, advancement, growth and enjoyment of the work itself. Since these factors are mostly psychological in nature, they have individualistic definitions. They are defined differently by various persons and even individual definitions vary depending on the age, health, life situation, etc. of the individual. Further, organisation may influence and stimulate these factors by its incentive schemes. In developing a sound incentive programme, it is imperative to identify these factors and develop procedures for coordinating financial as well as non-financial rewards.

There is no simple relationship between the financial and non-financial components of an incentive programme because there is nothing simple about the nature of man. It must be recognised that they are not separate entities. Another important fact is that the value of all incentives or rewards have certain limitation. When this limit is reached, the effectiveness of a particular incentive may decrease or vanish. So incentive programme should be dynamic one to suit the individual, group or organisational goals to have a better chance of being effective. 22

Enterprises generally recognize the effectiveness of non-monetary incentives and use them for motivating employees. Some of the most common non-financial incentives used in Bangladeshi organisations are as follows:

a. Designation of the post;
b. Decorated office and its location;
c. Secretarial Assistance;
d. Parking, dining and the use of various special facilities;
e. Power to make independent decision;
f. Opportunities for achievement;
g. Acceptance of merit work;
h. Status;
i. Congenial working environment;
j. Opportunity for public service;
k. Reputation and goodwill of the organisation in the country.

5.5.1 Nationalised Industrial Sector

By the Pay Commission Report, 1973 executives employed in NIS have been given grade similar to that of the government in respect of salaries. Though in number of cases governmental approvals are necessary, nationalised corporations are largely free to operate in their own way. But there is complain from certain quarter that there is discrimination in respect of power and authority by the government in the conduct of the affairs of the corporations. Corporation executives are degraded in certain instances. One of the glaring examples is that some of the corporations are headed by deputationist Government executives who are below the rank of the corporation specialist directors in respect of their placement in the National Pay Scale. The directors of the corporations are placed in grade II in NNPS whereas chairman of some corporations are of the rank of joint secretary in the Government who are placed in grade III of the New National Grade and Scales of Pay introduced in 1977. This creates serious
frustrating effect on the morale of the senior corporation directors.* Though there is complain of inadequate power and authority by some executives, many of them are afraid of taking initiative in decision making because of intolerance of genuine mistakes and excessive public criticism. No body is ready to recognize the fact that public sector in Bangladesh is in the developing stage and it will take some more time before it could develop sound administrative traditions.

The upper level executives of the corporations are provided with well-furnished chamber facilities along with secretarial assistance. In these respects there should not be any complain from any upper level executives. The mid level executives are also provided with independent chamber and, in certain instances, with secretarial assistance too. But junior executives are not provided with all such status symbols.

5.5.2 National Private Sector Industries

In NPSI, non-financial incentive programme for outstanding performances are enormous and also closely connected with financial rewards. Executives always get the proper recognition of their merit performance. Such executives are also given the free rein in respect of decision making power and authority, if the employer has the confidence in the prudence of the executive.

In Bangladesh, the social status of executives in the private sector cannot be compared with that of the public enterprises because of inherent insecurity associated with their job.

*The Researcher's observation of the various aspects of the corporations and discussions with some upper level executives have revealed this phenomenon.
Though situation has changed much in this respect, the change in the attitude of the people still remains a field of detailed research. The perceptions of the executives in these regards will be discussed afterwards.

The upper level executives of the private industries are provided with all the facilities like decorated chamber, car facilities, secretarial assistance, etc. But since run purely on commercial basis there is no set rules in this regard. Everything is determined by the need of the circumstances. Mid-level and junior executives are also provided with the needed facilities as far as practicable. Executives are allowed to take all initiative leading to higher productivity and profitability.

5.5.3 Multi-National Corporations

As already discussed, in the MNC's financial rewards are much higher compared to other sectors in Bangladesh. In respect of non-financial benefits, upper level executives are provided with all facilities which are symbols of their status like well-furnished rooms, car, dining room, secretarial assistance, etc. Mid level executives are also provided with comparable facilities. Merit performance is always recognised and it is associated with both financial and non-financial rewards. The executives are satisfied with regard to non-financial benefits like status, power, delegation of authority, etc. as the discussions in the following chapter have unearthed.
In the society, because of their comparative affluence, they also command prestige and status. It has also been observed that there is a team spirit and a sense of belongingness to a group among the executives in such organisations. Everybody feels proud by associating himself with his enterprise. This is because of the reputation of these companies as good employers.

5.5.4 Government

In the civil service, there is virtually no provision for giving financial incentives. The principal types of incentives on which Government is to depend for motivating the executives are non-financial in nature. Historically, civil service of Bangladesh is a legacy from the British. Before the liberation of Bangladesh, civil servants were highly paid and commanded top-most status and prestige in the society. Even after liberation, their security of tenure, power of decision making involving national policy formulation, status in the society, etc. were enough to constitute them as the power elite of the society. However, with the introduction of the Pay Commission Report, 1973 which made their position at par with other personnel, the importance attached to the specialist, change in political philosophy of the country, the instability of the government, uprise of the military bureaucracy in the country, etc. made their position vulnerable. The infiltration of large scale corruption in the civil service, the abuse of politicians to civil servants for all ills in the country, the emergence of new business class in the country have all deteriorated their
their position. In the recent years, the large scale dismissal of top bureaucrats on corruption and other charges have taken away lot of the charms associated with government service.

In Bangladesh, power is there for the executives but any genuine mistake in exercising power or in decision making is, now-a-days, taken up seriously. Many honest executives are frustrated in this respect and they intend to avoid exercising power for this reason. As regards status, government executives enjoyed very high status previously. Now their feeling in this respect is not very high. The possible reason may be the drastic reduction of their real income compared to pre-independence level which forces some honest executives to maintain a substandard living.

The upper level executives in the Government are allowed chamber of facilities with air-cooler, carpet flooring, toilet facility, etc. They are also given secretarial assistance. Some of the mid-level executives are also provided with such facilities. But junior executives, in most cases, are not provided with such facilities.

5.6 An Overall Comparison of the Incentive Schemes in Various Sectors

Table 5.1 sketches an overall picture of the different facets of the existing incentive schemes in the various sectors. An analysis of the table reveals that in the Government sector, financial incentives are conspicuous by their absence whereas in other sector viz., MIS, NPSI and MNC's financial incentives do
exist. As regards semi-financial incentives these are in use in all the sectors though the nature of such benefits vary among sectors. Non-financial incentives are also available to the executives in different sectors in varied form. Further, it may be observed from the table that there is a great diversity in the amount of financial benefits made available to the executives in different sectors. Again, the elements on which the different types of incentive benefits are given to the executives also vary.

5.7 A Review

Incentive plans may expediently be used with advantage for executives to enable an organisation to reach the acme of success. The experience in both capitalist and socialist countries is an adequate testimony in this regard. Both material and moral incentives are important. In the different sectors covered by the study it has been observed that there is no uniformity in respect of financial incentives. In the Government, there is no financial incentives at all whereas in the MIS financial incentives in the form of incentive bonus do exist which are dependent on productivity, sales or profits of the organisation. The maximum limit of such bonus is three month's basic salary. On the other hand, in the NFISI and MNC's incentive bonus vary from 1½ to 5 months' basic salary of executives. However, these bonuses are not dependent either on profit or productivity excepting two enterprises in the national private sector. In order that bonus has an incentive value these should bear certain
relationship with the operational elements of these enterprises. In respect of semi-financial and non-financial incentives, it has been seen that both the types of incentives are present in all the sectors covered by the study though there are certain variations in the combination of such benefits among different sectors.