CHAPTER ONE

INTRODUCTION

Of all the personnel engaged in business and industrial enterprises, executive group is perhaps the most strategic segment whose decisions and judgements have a tremendous bearing on the overall effectiveness, perenniality and profitability of any organisation. These positions essentially envelop such functions as organising, planning, directing, controlling, appraising and supervising the activities of their subordinates which are very important for the success of an organisation. It is the most crucial factor as the successful growth and perpetuation of any enterprise hinges to a considerable extent upon the skill and calibre of the people who happen to man these positions. Since they generally occupy key positions in the organisational hierarchy and if the enterprise is to be erected on an even keel, it must ensure a constant and continuous supply of competent and committed executives.*


2. The idea of how the scarcity of executive personnel can hamper the economic growth of a country may be guessed from an extract of Robert McNamara's speech quoted by Sarvan-Schreiber in his book, The American Challenge, reviewed in Fortune, Sept. 1968: "What separated Europe from the U.S. was not so much a technological gap as a managerial gap." Sarvan further says that managerial gap begins with education and it grows with the lag in research. It seems quite proper to state here that scarcity of executives in public and private sector acts as an impediment to speedy economic growth in Bangladesh. In our country we are spending a very negligible sum of the total GNP on industrial research. The extent and magnitude of executive shortages is well known fact in Bangladesh and what is required at present is to McNamarize Bangladesh on the above analogy.
For survival and prosperity, every organisation has to pay considerable attention to the proper growth and grooming of this tribe of people.

The experience shows that the executive group on an average constitutes about one percent of the total manpower deployed in any organisation. Of course, this situation may vary depending on the organisation's size and structure, its managerial philosophy, the degree of decentralization and the nature of technology.

There are a number of characteristics of the executive group which affect both personnel administration in general and compensation policies and practices in particular.\(^2\)

These are as follows:

a) Since executive decisions and judgements are linked with enterprise profitability, executive positions are evaluated in the organization by their value contribution to the organisation rather than by cost.

b) Executive jobs are not easily definable in terms of what work is done or how it is done. These have to be defined in terms of what is achieved and what executives are expected to accomplish.

c) The number of employees in the executive group is relatively small but their income expectations are usually very high.

d) Executive positions are highly visible to other organisations and are constantly subject to recruitment/raiding, if they have been successful in their jobs. Further, since younger executives are relatively ambitious, they are usually more mobile and quite frequently indulge in job-hopping.

e) Executives are high-risk positions. If they are successful, rewards are high. On the other hand, if they are fiasco on their jobs, their careers are at stake.

Thus, the above mentioned characteristics demand heightened attention to the designing of an appropriate executive compensation programme tailored to the needs and objectives of the enterprise. A good compensation plan adequately requiets executives for the jobs they do towards attainment of organisational objectives.3

Arch Patton4 describes two principal purposes of executive compensation, viz., first, attracting executives with required temperament and skills for a particular organisation and secondly, motivating executives to seek greater responsibilities. As a supplementary to the second objectives a third objective of retaining executives has been added. In modern competitive business world, especially where professionally trained executives are scarce resources,

it is necessary that executive compensation structure of an organisation should be built in such a manner that executives are not easily lured by the competitors in the market. The compensation structure should aim at providing adequate incentives for executives in terms of promotion, suitable rewards for outstanding performance and other comparable conditions prevailing in the outside world.

1.1 Statement of the Problem

Before the liberation of Bangladesh, key positions both in industry and Government were mostly manned by non-Bengali executives. After independence on the 16th December, 1971 which led to wholesale migration of these people to Pakistan, a serious problem of acute shortage of capable executives was witnessed. The emergence of a vast public sector as a result of the nationalisation of all large and medium scale industrial and commercial concerns, banks and insurance companies in Bangladesh by the Policy Declaration of the 26th March, 1972 under the leadership of Late Sheikh Mujibur Rahman, aggravated the situation further.

It may be said that this 'personnel gap' can be bridged up by recruiting capable people from outside the public sector and by improving the skills and performance of those within the sector. Both the means are largely dependent on the compensation which the public enterprises can pay in relation to market wage. An adequate and equitable salary structure can act as a strong motivator to work hard and efficiently.
In the pre-liberation period, the compensation structure of East Pakistan Industrial Development Corporation and Government were not comparable with the top executive remuneration in the private sector. But fringes in different forms were sufficient to put the top executives into the ranks of upper middle class.

Immediately after liberation, one of the first executive acts of the Government was to impose a salary limit of Tk. 1000/- per month for both private and public sector. This was revised upward to Tk 2000/- per month within a year under severe pressure from top bureaucracy. The private enterprises somehow managed to evade the imposed ceiling by providing additional fringe benefits to their executives. This step of the Government grossly neglected the 'principle of comparability' whose objective is to ensure equitable pay for employees performing similar work with similar efficiency irrespective of their sector of employment.

This drastic cut in compensation of top executives had generated serious tensions within the administration which ultimately led to the appointment of a Pay Commission in 1972. The Pay Commission appeared to be motivated by socialistic goals and framed the structure accordingly. The Pay Commission Report, 1973 could not be implemented for executives in Government and other public enterprises because of bureaucratic resistance prompted by relative decline of

their income scales. Rather the Government was forced to sanction ad-hoc relief to executives for non-implementation of the pay scales. In 1977, the Ministry of Finance introduced revised pay scales, having twenty one scales for all categories of public employees of which first ten were for executives in Government. Nationalised industrial sector had almost similar pay structure. The highest ceiling was fixed at Tk 3000 and compensation of Government bureaucracy and other executives in the Public Enterprises were made comparable.

A critical analysis and reviews of executive compensation pattern in Bangladesh reveals the following facts:

a) There is the problem of 'internal comparability' in the compensation policies of the nationalised industrial sector and Government. Executives of different organisations perceive their salary and benefits inequitable when they compare those on the basis of their skills and responsibilities. Majority of the executives are not satisfied with the grade classification of their job and consequent placement in the New National Grades and Scales of Pay.6

b) As regards 'external comparability', it can be said that executive compensation structure of the nationalised industrial sector and Government are not comparable to that of national private sector and multi-national corporations

operating in Bangladesh. This is supported by Report of an ICPE Expert Group Meeting on Bangladesh\textsuperscript{7} which stated that managerial salary level of public enterprises in general are lower than those prevalent in private industry - both national and multi-national. This has created a serious problem of attracting, motivating and retaining capable executives in the public sector.

c) There are two important conditions that compensation policy must satisfy in order to be effective motivator of employee behaviours - i) employees must believe that good performance will lead to more pay and ii) employees must see that other desired rewards in addition to pay result from good performance.\textsuperscript{8} Government compensation practices have negligible incentive elements for rewarding extraordinary performance of executives. However, the Planning Commission recommended in the First Five Year Plan that a suitable incentive system, relating rewards to performance be worked out for public enterprises. It was of the view that management could not be tied to rigid salary structure, and compensation policy should aim at a flexible reward system providing means for rewarding outstanding performance on some basis. But this recommendations could not be implemented because of bureaucratic disinterest since they had nothing to gain out of these plans.


Another serious problem faced by the economy of Bangladesh is the severe inflation which has considerably eroded the real wages of the executives. The standard of living to which such executives were accustomed to could not be maintained and this phenomenon created grave dissatisfaction among them.

In view of the above-mentioned problems, it has been felt necessary to study the compensation patterns of the Industry and Government in Bangladesh. No comprehensive research work has been undertaken in Bangladesh in this field and a wide research and knowledge gap exists. This study, therefore, is a modest attempt in this direction.

1.2 Definition of Executives and Compensation

For the purpose of this study, it is desirable that the terms 'Executive' and 'Compensation' are properly defined. The terms executive, manager and officer are often used in the same sense. In deciding as to who is an executive, one could examine the nature of his responsibility and salary or one could consider his designation. But designations are often misleading because similar designations may carry different levels of responsibility and status in different organisations. It was thought that more suitable basis for defining the term executive would be the basic salary and placement in the pay scales. Nationalised industrial sector and Government officers upto grade IX and X respectively

both having a starting basic salary of Taka 750 are treated as executives. In the case of national private sector industries and multi-national corporations engaged in manufacturing in Bangladesh, their definition of the term executives was accepted. They generally term the people shouldering supervisory responsibilities as executives. However, in this study, the term executive, manager and officer have been used interchangeably to denote the same meaning.

For the purpose of analysis, all executives were divided into three groups, viz., upper, mid-level and junior. In the nationalised industrial sector and Government, officers in the rank of General Manager and Joint Secretary and above were grouped in upper-level executives. In salary term Grade I to III of the pay scales were included in this strata. Officers in the pay scales from IV to V and from IV to VI respectively and VII to IX and VI to X respectively of the nationalised industries and Government were treated as mid-level and junior level executives. In other words, according to New National Grade & Scales of Pay introduced in 1977, executives in the grades with starting basic salary of Tk 2350 and above, Tk 1700 to Tk 2100, and Tk 750 to Tk 1400 p.m., were categorised as upper, mid-level and junior level executives respectively. In case of national private sector and MNC's the categorisation of the organisations as above were accepted for obvious reasons.

In Bangladesh many organisations till recently used salary as the only means of compensating executives. Many organisations include statutary benefits covered by labour
legislation in executive compensation. Now-a-days progressive companies in designing their compensation scheme take full note of researches in the field of motivation. So, a wide variety of benefits, ranging from bonuses to increases in job status and responsibilities etc. constitute executive compensation in Bangladesh. Thus all items whether financial or non-financial which are believed to be relevant to executive compensation have been covered under the term 'compensation' for the purpose of this study.

1.3 Objectives of the Study

The basic objectives of the study are to examine the executive compensation patterns prevalent in the industry and Government in Bangladesh. Specially, the study attempts:

1. To examine the salary structures of the nationalised industrial sector, national private sector industries and multi-national corporations and Government sector and find out intra-sector and inter-sector differentials of salary levels of the different categories of executives.

2. To focus on the various forms of fringe benefits available in different sectors.

3. To bring to light the various incentive schemes - both financial and non-financial - practised in the industry and Government in Bangladesh.

4. To discern the attitudes and feelings of satisfaction of the executive toward the existing compensation policy and programme.
5. To make suggestions for developing sound executive compensation programme for both industry and Government in Bangladesh.

1.4 Scope of the Study:

In order to make a comparison of the executive compensation practices in industry and Government, the study will cover five sector corporations, viz., Bangladesh Jute Mills Corporation (BJMC), Bangladesh Textile Mills Corporation (BTMC), Bangladesh Chemical Industries Corporation (BCIC), Bangladesh Steel and Engineering Corporation (BSEC) and Bangladesh Sugar and Food Industries Corporation (BSFIC), national private sector industries and manufacturing multinational corporations operating in Bangladesh and the Government. For the purpose of this study the above mentioned organisations have been broadly categorised into four sectors, viz. (a) nationalised industrial sector (NIS) which include the corporations managing the nationalised industries, (b) national private sector industries (NPSI) which include industrial enterprises owned by Bangladeshi investors, (c) multi-national corporations (MNC's) which include industrial concerns which are subsidiaries of foreign firm and industrial units which are joint ventures with foreign investors and not under the control of sector corporations managing the nationalised industries and (d) Government sector which include Government bureaucracy. The study has been limited to the development of the compensation practices of the organisations upto June, 1982.
1.5 Justification of the Study

The study has been justified on the following grounds:

I. There is, at present, an increasing concern of the Government for effectively motivating the executives for higher productivity and efficiency of the economy. Compensation being the primary factor in motivating executives is an important area for undertaking research.

II. The perception of equity of compensation - both internal and external - on the part of executives is very much important. It affects morale of the executives of different sectors which is also reflected in the operative efficiency of the organisation. Since no comprehensive study in this regard has been undertaken in Bangladesh, such a study will be of much benefit for the country as a whole.

III. The quantum as well as the combination of total compensation package of the executives in different sectors are things of interest for organisations. The compensation practices followed by different organisations will help the process of comparison among themselves in this regard and will help shaping future compensation pattern on the basis of such comparisons.

IV. Executive’s opinion and feelings regarding different components of the compensation and their suggestions in this regard shall help in formulating compensation practices suitable to the needs of the executives. There have been instances where certain benefits or services entail huge
costs but have very little effectiveness in terms of executives satisfaction. This study may help in bringing down such unproductive costs.

V. In the wake of management education in Bangladesh, it has become urgent to provide valuable teaching material, based on indigenous information to the faculty engaged in management training and education. To the best of the knowledge of the author the present study will help much in this regard.

VI. The study will also help future compensation planners to devise compensation policy particularly in the public sector.

1.6 Sources of Data

Both primary and secondary sources of data have been used. The various secondary sources of data include: different published and unpublished reports, bulleting, handouts and office orders of the Government of the Peoples' Republic of Bangladesh, the various documents of the Planning Commission, annual reports of the sector corporations and other industrial organisations, Bangladesh Statistical Bureau, Legislations of Bangladesh, Plan documents and other books, reports and articles relevant to the topic of the study.

Most of the information required for the research have been collected at two stages through primary sources. At the first stage relevant officers of the nationalised sector corporations, private industrial enterprises and Ministry
of Establishment and Finance were interviewed for collecting data on various aspects of executive compensation practices.

In the light of information collected during the above visit, two sets of questionnaires - one for executives of the nationalised industrial sector and Government and another for executives of the national private sector and MNC's - were prepared to know the opinion of and elicit information from different groups of executives.

A pilot survey covering 12 executives, one from each strata of executive of each sector was conducted. On the basis of data yielded by this preliminary survey, and the suggestions obtained from the executives, necessary modifications were made in the questionnaires. The questionnaires used are appended as appendix 1.1 and 1.2.

The sampled executives of different organisations were contacted again and questionnaires were delivered to the executives personally. Most of the executives filled themselves and returned. In case of a number of executives the responses were personally recorded by the author. The respondents were met individually and separately. Since the executives were learned people, the questionnaires were in English.

1.7 Sampling Procedure

Keeping in view the limitation of time and resources, in case of NIS only the executives of the head offices of five sector corporations were taken for sampling. In respect
of private industries and MNC's a list from the Directorate of Industries was obtained and ten private industrial units and five MNC's were selected purposively so that industries of different nature and size are represented in the sample of industry. In the Government only the executives employed in the secretariat were included in the sample.

In order to give proper representation to all categories of executives of various sectors, it was decided to select executives in the sample in varying percentage depending on the number of executives in a particular group. The formula devised for selection of sample executives was as follows:

For Total Executives upto 100  - 20% of the total
For total Executives from 101 to 200- 10% of the total
For total Executives from 201 to 300- 8% of the total
For total Executives from 301 to 700- 5% of the total
For total Executives from 701 & above- 3% of the total

This variable percentage was followed in selecting sample executives to give proper importance to the executive group which has less number. But some exceptions from the above formula were practised in case of private industries and MNC's because of very insignificant number of executives in most categories according to the above formula. For that reason, in private industries one executive from each strata from all the ten units and in case of MNC's two executives from each strata from all five units were selected as sample executives.
In case of nationalised industrial sector and Government, proper representation of each grade of salary scale included in a particular category of executives have been given and all fractions of an executive were taken as a full number.

For selecting respondent executives of each category, lists of executives were obtained from the relevant authority. The list was alphabetically serialized taking first name first and the required number of executives were randomly selected with the help of random number table. Out of the total 193 executives in the sample 12 were on leave, 13 refused to provide information on the ground that such information should not be disclosed, and 7 executives did not return the questionnaire. Thus the responses of 161 executives which constituted 83.42% of the sample were used for analysis representing 57 executives from nationalised industrial sector, 24 executives from national private sector industries, 21 executives from MNC's engaged in manufacturing in Bangladesh and 59 executives from Government (Table 1.1).

1.8 Analysis of Data

The analysis of data were done at two stages. The first stage relates to the compilation of compensation practices in nationalised industrial sector, ten national private industries and five multi-nationals and Government. At the second stage the executives' opinion and other personal data regarding compensation collected from sample executives were tabulated and the results were analysed in terms of the
Table 1.1: Sample executives from different sectors

<table>
<thead>
<tr>
<th>Sector</th>
<th>Level of executives</th>
<th>Total No. of executives</th>
<th>No. of sampled executives</th>
<th>Responses used for analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nationalised Industrial Sector (NIS)</td>
<td>Upper level</td>
<td>137</td>
<td>14</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td>Mid-level</td>
<td>270</td>
<td>22</td>
<td>18</td>
</tr>
<tr>
<td></td>
<td>Junior</td>
<td>638</td>
<td>32</td>
<td>26</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>1045</td>
<td>68</td>
<td>57</td>
</tr>
<tr>
<td>National Private Sector Industries (NPSI)</td>
<td>Upper level</td>
<td>25</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>Mid-level</td>
<td>51</td>
<td>10</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Junior</td>
<td>72</td>
<td>10</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>148</td>
<td>30</td>
<td>24</td>
</tr>
<tr>
<td>Multi-National Corporations (MNCs)</td>
<td>Upper level</td>
<td>45</td>
<td>10</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Mid-level</td>
<td>65</td>
<td>10</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>Junior</td>
<td>201</td>
<td>10</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>301</td>
<td>30</td>
<td>21</td>
</tr>
<tr>
<td>Government</td>
<td>Upper level</td>
<td>209</td>
<td>17</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>Mid-level</td>
<td>327</td>
<td>16</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>Junior</td>
<td>1048</td>
<td>32</td>
<td>21</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>1584</td>
<td>65</td>
<td>59</td>
</tr>
</tbody>
</table>
sectors - nationalised industrial sector, national private sector, MNC's and Government and also in terms of the responding group of executives - upper, mid-level and junior.

Appropriate tools of statistics such as percentages, averages, t test and co-efficient of correlation were used for making analyses of the data.

1.9 Limitation of the Study

The present study is fraught with certain significant limitations:

Firstly, the limitation is regarding the political environment of the country. When the data necessary for this study was collected, martial law was in force in the country. Executives especially in the nationalised sector and Government were under severe tension because of several martial law regulations under which punitive measures were being taken for charges of corruption and misuse of power. Broadly, it can be said that all executives were scared of giving any information because of fear and mistrust which put a serious handicap in the collection of necessary data for the study.

Secondly, the very nature of the study is also an extremely sensitive area of management. Many executives, particularly in the private sector and MNC's treat these information as strictly confidential. Although it was assured that since aggregate analysis would be made, no individual identify either of the executive or of organisation would be revealed, yet there was considerable reluctance on the part of the executives to provide and part with such information.
Thirdly, the limitation is regarding availability of data. In most cases, in the absence of time series data the analysis is mostly based on 'one point of time' data that could be collected by the author in 1981-82. As break up of payroll costs among workers, staff and executives could not be obtained in many cases - and also data for different element of compensation like salary, fringes and incentive were not available for which many fruitful analysis could not be made.

Fourthly, many of the important information such as sales, profit, executive payroll cost on different accounts were not supplied by the private organisations and MNC's, for which the study becomes limited in nature.

Fifthly, the study covered a very limited number of organisations and respondents and in view of time and resource constraint, only executives stationed in Dhaka City have been included in the study. In this respect, the study also becomes limited in scope.

1.10 Presentation of the Study

The study has been presented in 8 chapters. The present chapter is introductory in nature. The second chapter relates to background information regarding the industry and Government in Bangladesh. While executive salaries in the industry and Government are discussed in chapter three, the fourth chapter surveys the fringe benefits available in different sectors and makes a comparison among
them. The executive incentive schemes - financial and non-financial - in different sectors are the subject matter of fifth chapter. The sixth chapter deals with perceptions, opinions and preferences of the executives of various sectors regarding different elements of compensation. The procedures of compensation administration of various sectors have been discussed in chapter seven. Finally, chapter eight summarises the major findings of the study and offers suggestions.