CHAPTER 1

INTRODUCTION
all the resources of any organisation, the human assets are probably the most critical and difficult to manage. These are most critical because these are the only active resource at its disposal, and the effective use of all other resources directly depends on efficient utilisation of these. Rensis likert rightly observes: "All the activities of any enterprise are initiated and determined by the persons who make up that institution. Plants, offices, computers, automated equipment and all else that a modern firm uses are unproductive except for human efforts and direction. Human beings design or order the equipment; they decide where and how to use computers; they modernise the technology employed; they secure the capital needed and decide on the accounting and physical procedures to be used. Every aspect of a firm's activities is determined by the competence, motivation and general effectiveness of its human organisation (1).

The human resources, however are also difficult to manage. It is because human behaviour is highly unpredictable. It differs not only from individual to individual but often on the part of the same individual at different points of time. Inspite of biological and cultural similarities human beings not only differ in their appearance but also in their capabilities based on their respective background, training and experience; in their personality characteristics as reflected in their sensitivities, intelligence, initiative, interests, commitment and motivation; and in their susceptibility to peer and group pressures, which account for differences in their attitude, behaviour and/or performance.

Emotions, however, play more important a part in affecting attitude, behaviour and/or performance of the same person from one point of time to another. Thus, the success of any enterprise today depends on due recognition of human capabilities, potential and aspirations and proper utilisation of human traits and emotions (*2).

Garry Berryman who runs Honda's training in Ohio said "An organisation, with all its greatest muscle-machinery, equipment, money, facilities can't do anything, unless it's got a brain. The brain is the people" (*3). The importance of human factor/contributions to productivity has been well established by Chowdhry(*4), Nanjundiah(*5), Nand (*6), Rao(*7) and Swamy(*8). Nanjundiah for instance maintains that management should not aim for higher production directly; rather, it is far more desirable to adopt meaningful and humane personnel standards and practices. When this is done, workers will be happier and productivity will increase automatically.

Truly speaking, people are the enterprise. Figure 1.1 represents graphically the manner in which the human element, the character and relations of

FIGURE 1.1

PEOPLE IN AN ENTERPRISE

SOURCE: The Enterprise and Factors Affecting Its Operations, ILO, Geneva

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people-permeate the whole undertaking. Without people, the enterprise can't begin to live (*9). However, the desire to do more or to work harder depends upon motivation.

Norman Maier has observed that every motivating situation has two aspects—Subjective and Objective. The subjective side is represented by a stimulus, tension, need, desire or inducement that provokes one to act in a particular manner and therefore, arises within the individual. This aspect motivates a person to do more for getting/earning more. With the help of this, a person pushes automatically with his inner feelings. The objective aspect, is a goal or incentive which is outside the individual and helps to satisfy the subjective aspect of the situation. When the nature of the need and of the incentives are such that obtaining the incentive satisfies (i.e., removes) the need, we speak of the situation as motivating. For example, hunger is a need and food is incentive. Thus, to motivate, both the need and the incentive must be present to arouse performance (*10).

The objective aspect is also represented by what Mcgregor has termed as extrinsic and intrinsic rewards. Extrinsic rewards exist as characteristics of the environment and their relationship to behaviour is relatively direct. Money is the most obvious of them; but fringe benefits, praise, promotion, criticism, recognition and social acceptance and rejection are other examples (*11).

Intrinsic rewards are inherent in activity itself. The reward is the achievement of goal. These can't be directly controlled externally, although characteristics of environment can enhance or limit the individual's opportunities to obtain them. Thus achievements of knowledge or skill, of autonomy, of self respect, of solutions to the problems are examples (*12). These two aspects are valid in relation to all kinds of working people at conscious or unconscious level. He observes that human being is an organic system, not a mechanical one. Because he is, by nature, motivated, if he is not, then he is considered as dead. This is the sense in which the behavioural scientist distinguishes between an organic and a purely mechanical theory of human nature (*13). But the main point needed here is how to provide appropriate incentive to motivate people.

**INCENTIVES: MEANING AND SIGNIFICANCE**

Incentives are very often used as a synonym for wage payment but usually include all influences, positive and negative which stimulate action. Thus these are the devices that are used to induce employees managerial or non-managerial, as individuals or members of groups to contribute effectively to improve performance. There may be thought of as something that has a tendency to incite action, by not only facilitating satisfaction of lower level needs viz physiological/economical, security and social, but also by providing status, self respect and a sense of involvement, achievement and personal worth. However, as the nature and relative strength of needs varies

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12. Ibid.
over the period of time, in order to optimise results, the incentives have to be adopted to evolving phases of people's career. Figure 1.2 depicts the development and elaboration of needs as a person moves from childhood, through formal education, through the early phases of career and finally becomes established in a career (*14).

Early in life, a person's needs are relatively small in number and general. As a person enters the early stages of a career in an organisation, he or she is probably concerned with the prospects for advancement, developing friendships etc. Once a person has become well established in a career (perhaps between the age of forty and forty five), a slightly different set of needs are felt, which may include a need for finally achieving long run career goals, autonomy in one's work; prestige among a wider group of people. The second implication is that needs change through a career in organisations primarily through the process of learning. Thus, a kind of reinforcement a person experiences in formal education and on various jobs influence the development of subsequent needs. Thus, incentives are important to persons because they help to fulfil work related needs.

Thus, the changing pattern of needs require different forms of incentives as shown in Figure 1.3 (*15).

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CHANGING PATTERNS OF HUMAN NEEDS

FIGURE 1.2

TIME

PRE-SCHOOL

SCHOOL

SECOND JOB

FIRST JOB

FOURTH JOB

ESTABLISHED CAREER

YOUTH

EARLY CAREER

ACHIEVEMENT

INDEPENDENCE

INCOME

AFFILIATION

INFLUENCE

POWER AND PRESTIGE

RECOGNITION

LOVE

SECURITY

ADVANCEMENT

QUALIFICATIONS

SELF-ACTUALIZATION

FIGURE 1.2

### NEED-PATH-GOAL-MODEL

<table>
<thead>
<tr>
<th>Needs</th>
<th>Paths</th>
<th>Goals</th>
</tr>
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<tbody>
<tr>
<td>Self-realisation (Actualisation)</td>
<td>O/s performance (high commitment, effort &amp; regular improvement in skill &amp; capability)</td>
<td>challenging work (job with opportunity for growth, creativity, responsibility)</td>
</tr>
<tr>
<td>Esteem (Ego)</td>
<td></td>
<td>Promotions, recognition from superiors, titles &amp; other marks of status, pay</td>
</tr>
<tr>
<td>Social (belonging)</td>
<td>Group norms determine low effort performance</td>
<td>Recognition from co-workers, Acceptance by group.</td>
</tr>
<tr>
<td>Safety (security)</td>
<td>Minimally acceptable performance (meeting of at least lower limits of standards-no major violations of rules and regulations)</td>
<td>Job tenure, seniority, pension plans, avoidance of censure from superiors</td>
</tr>
<tr>
<td>Physiological (food clothing shelter etc)</td>
<td></td>
<td>Regular pay &amp; benefits, working conditions.</td>
</tr>
</tbody>
</table>

Figure 1.3 explains that incentives on the right are arranged to fall opposite a need which they might be logically expected to help satisfy. Thus in order to achieve basic pay and benefits, a member must achieve a level of performance which meets at least minimal standards. Further by maintaining at least minimal performance, he may hope to achieve some measure of security as provided by seniority or other related provisions. In the broadest sense, the paths to various incentives are the focal points of the organisation's incentive scheme. It is through these requirements that management attempts to extract from employees the behaviours necessary to the achievement of organisational goals. So it is clear that money has incentive value in an economic sense and when available in appropriate relationship to job behaviour may influence the level of motivation, but its impact can also be largely symbolic.

CLASSIFICATION OF INCENTIVES:
According to Krishna (*16), incentives can mainly be classified as:

1. Negative Incentives and
2. Positive Incentives.

The negative incentives force the worker to achieve the desired performance level by penalising him for poor performance. Since negative incentives are based on fear, threat or punishment, they are not long lasting.

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Positive incentives aim at rewarding the worker for better performance. These can further be sub-divided into two categories:

1. Non-financial e.g. appreciation, recognition, merit certificates, etc.

2. Financial e.g. cash incentives, bonus etc.

NON FINANCIAL INCENTIVES:- In the context of motivation, non-financial incentives are no less important as these boost workers' morale by satisfying particularly their egoistic needs (*17). With the growing consciousness and aspirations of Indian workers, the very concept of work has undergone a significant change. It's no more being regarded as a mere means to an end but also an end in itself. While facilitating satisfaction of lower level needs viz physiological, economical, security and social, it provides people status, prestige, self respect and a sense of accomplishment, satisfaction and personal worth. Thus, work is both a means of livelihood and a way of life, and therefore, people can't be satisfied by economic rewards alone, irrespective of their quantum. Their personality and emotional needs have to be adequately taken care of at or through work. They like to feel important and to have their work recognised as important. They like to feel secure and independent in their relations with their superiors. Moreover, they like to express their feelings. They like to be listened to and have their feelings and point of view taken into account, they like to be consulted.

about and to participate in the making of any changes which will affect them personally (*18). Thus today, people are not interested in just any work, as a means of livelihood but in work which is recognisable, challenging and meaningful.

Figure 1.4 shows some of the forces affecting productivity and wage incentive schemes:

"One of the very important effects of this view of the level of production is that it at once becomes clear that it can be raised either by increasing the forces below the line or by reducing forces above the line".

According to Allport, employees in industry are not 'economic men' so much as they are 'ego men'. What they want, above all else, is credit for work done, interesting tasks, appreciation, approval, congenial relation with their employers and fellow workers. These satisfactions they want even more than high wages or job security (*19).

Sen (1957) also states that incentives may be financial or non-financial. The latter involves labour participation and workers' recognition. Immediate rewards are more effective.

The most important factor, however, is the relationships of the foreman to the worker (*20).

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Forces Affecting Individual Productivity and Pay Incentive Plans

<table>
<thead>
<tr>
<th>Weeks</th>
<th>Production</th>
<th>Fair Day's Work</th>
<th>Fear of Loss</th>
<th>Desire for Promotion</th>
<th>Pressure from Foreman</th>
<th>Desire to Do More</th>
<th>Fear of Rate of Production</th>
<th>Fear of Job</th>
<th>Too Hard</th>
<th>Resentment of Group Set Rate</th>
<th>Resentment of Social Pressure of Management</th>
<th>Reluctance to Work</th>
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![Diagram](image)

Figure 1.4
FINANCIAL INCENTIVES: These incentives involve a monetary motivation commensurate with extra efforts put in by the employee. Wage incentives are measures to stimulate human effort and induce people to put in their best. In spite of the role of non-financial incentives in motivation, however, financial incentives continue to remain the most important influencing and motivating factor up to a certain limit. It is only after a certain level of earning is reached that the worker will look for other satisfaction. The quantum and quality of work depends largely on the amount of pay a worker receives. It is only by virtue of monetary incentives that workers can satisfy their fundamental requirements of food, clothing, and shelter, according to their sweat will (*21).

The financial incentives may take many forms:

The direct incentive schemes themselves have been classified into 4 groups (*)22) as shown in Figure 1.5 according to which workers earning vary:

1. in the same proportion as output.
2. proportionately less than output.
3. proportionately more than output.
4. in proportion which differs at different levels of output.

This classification has been improved by R. Harriot at the instance of the Medical Research Council, U.K. Who added two more groups of incentives to the ILO framework.

TYPES OF INCENTIVE SCHEMES

- Directly linked to output
- Short term incentive for
- Long term incentive schemes

Sources: Chatterjee, N., Management of Personnel in Indian Enterprises, Concepts

When long term targets are explicitly stated or are implicit and some form of bonus is paid at intervals ranging from one month to a year, when the target is reached. This basis has been reclassified into two groups:

(a) Incentives based on a standard derived from past performance in such tangible terms as weight of the product or the ratio of wages or labour costs to sales, and
(b) profit sharing or copartnership schemes.

When they are not directly related to the amount produced, but have a decisive effect on products in short or long run which include:

(a) those based on personal assessment of the worker e.g. merit rating, attendance etc.
(b) those which are supplementary to production e.g. quality bonus, waste reduction bonus etc (*23)

Money - as a Motivator: - In the treatment of money as a motivator, Lawler points out that "Motivating people with financial rewards is not a picker's game. Large amounts of money must be given to the good performers if employees are to place a high value on good performance and raises to which it leads. A company must be willing and able to give certain employees very large raises and/or bonuses, if pay is to motivate performance. If a company can't afford to do this or is not willing to, it should probably forget about using pay to motivate workers to increase their performance (*24).

Many employers and managers think that motivation can be achieved only through money. Money works equally well for raising production, quieting dissatisfaction and inculcating loyalty for the organisation. Money certainly contributes a lot in shaping the thoughts and behaviour patterns of production workers (*5). Those who, are primarily motivated by money are often prepared to take risks and challenges of entrepreneurship, salesmanship having the attraction of commissions and other incentives associated with it. As in India, standard of living is comparatively low and money can be used as a powerful tool to stimulate efforts and improve job performance. Whatever incentive schemes have been introduced in organisations, they are based on the assumption that money is the main, if not the sole, means of motivating employees to work better (*26). Therefore, how an individual would react to a financial incentive scheme would depend on his level of satisfaction, value system as well as his outlook of life.

The people will work harder and in a manner more consistent with the role prescriptions not only to gain the things that money can buy but also to obtain the esteem and status that money represents. Whatever specific meaning of money to the individual may be, it can be safely assumed that it will normally be desired, and that as a result, it can be used

to induce a maximal contribution to the organisation. The worker may respond to money as a motivator if he believes the benefits will be greater than the expenditure required of him as shown in Fig. 1.6. If the benefits perceived are less than the personal cost, he will not respond to money as an incentive any further (*27).

In practice, a breakeven point is reached in which additional monetary earnings become marginal or even undesired because of the efforts and conditions demanded to earn the added income. In economic terms, it has been said that, "a man will work upto the point where the marginal utility of the income he derives from his work equals the marginal disutility he incurs in the effort to acquire it".

The perceived value of money as per Figure 1.7 is considered in terms of the expectations the individual worker holds for potential earnings as a means of providing fulfillment of his needs. Perceived personal cost of earning additional money can be analyzed in several ways. Maximization of earnings under a piece rate plan often calls for more physical and mental effort than the worker believes is justifiable, which further requires the diversion of his attention from other activities such as maintenance of friendly relationship with other workers. In these situations, the benefits of earning more money seem to be less than the costs. The motivation of a person depends on two things; his needs and the incentives available to him. It is clear from the above discussion that the

Figure 1.6

If Perceived Personal Cost
< (in terms of efforts, sacrifice, unpleasant work demand, etc.)

The perceived monetary reward
< (value of opportunity to earn more)

The perceived value of obtaining

Money is enhanced.

If perceived personal cost
>

The perceived monetary reward
>

The perceived value of money

As an incentive is reduced or eliminated.
BREAKEVEN ANALYSIS OF PERCEIVED MONETARY VALUE AND PERCEIVED PERSONAL COST.


Figure 1.7
relative fulfillment of the workers' hopes and desires within his employment situation will determine his degree of job satisfaction and hence the extent of his work endeavour that those who are in-touch with the labour force might ultimately provide job satisfaction. This might be accomplished by the provision of stimulating and motivating conditions such as, financial incentive schemes.

**Wage Incentives—The Concept:** Of all the incentives, however, wage incentives are probably the most important. The term wage incentive has been used differently by different authors varying from the restricted sense of 'financial motivation' to the broadest sense of 'participation.' Shemmin (*28) uses the term to refer to objects in the external situation whose function is to increase or maintain some already initiated activity either in duration or intensity. Hummel and Nickerson (*29) use the term to refer to all plans that provide extra pay for extra performance in addition to regular wages for a job. The study group on 'productivity and incentives' appointed by the National Commission on Labour, defines "wage incentives" as extra financial motivation (*30). In this sense, it is designed to stimulate human effort by rewarding...

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the person, over and above the time rated remuneration for improvements in the present or targeted results. Florence (*31) uses the term to refer to increased willingness as distinguished from capacity.

The rigidity or flexibility of the relation between workers earnings and performance standard is the basic factor which determines whether or not a given method of wage payment should be classified as a wage incentive system. The basic principle underlying an incentive scheme is that an offer of additional money will motivate workers to work harder and more skillfully for a greater part of their working time which result in a stepped up rate of output (*32). The major concern is not with inducement for increasing the possibility of increasing the work intensity by financial inducements and of differentiating between the work intensity of various labour units is the basic postulate of an incentive scheme. N.N. Chatterjee observes that wage incentive is the extra compensation paid to employees for production over a specified standard amount which results from their exercise of more than normal skills, efforts or concentration when performed in a pre-determined manner with standard tools, facilities and materials (*33). Thus the term wage incentive refers to systems of remunerating rank and file workers under which the earnings

of a worker or a group of workers are directly, promptly and automatically related to his output by a predetermined formula relating his actual performance to a specified standard of performance (34).

EVOLUTION OF WAGE INCENTIVE SCHEMES

As early as the thirteenth century, time wage payment for work done was quite common. With the advent of the factory system and resulting expansion of the labour force, difficulties arose affecting productivity and supervision which led to a greater emphasis on the piece rate method of wage payment and ultimately, to other more elaborate incentive plans.

Towards the end of the nineteenth century, Frederick W. Taylor, father of Scientific Management developed his Principles of Management. He suggested Differential Piece Rate System as a part of the scheme of scientific management. The underlying principle of this system was to reward an efficient worker and penalise the inefficient persons. In Taylor's views, inefficient persons had no place in the organisation. In the opening paragraph of the 'Principles of Scientific Management' Taylor states: "the principal object of management should be to secure the maximum prosperity for the employer, coupled with the maximum prosperity for each employee... maximum prosperity for each employee means not only higher wages than are usually received by men of his class, but, of course, more important still, it also means the development of each man to his

state of maximum efficiency, that he may be able to do generally speaking, the highest grade of work for which his natural abilities fit him, and it further means giving him, when possible, this class of work to do" (*35).

To assist management and worker to reach maximum prosperity, Taylor, among other things, carefully studied and analysed the job, seeking the quickest, easiest and most economical method of performing the operations. Once the best method was determined, the job was timed and standard established. Then, Taylor painstakingly taught the worker how to use the 'best method'. Finally, inducements were offered in the form of higher earnings for meeting or exceeding standards.

Taylor's philosophy was to attain a high level of output and it was based on sharing in some prefixed proportion between the management and the workers, of the gains which resulted from high output. Figure 1.8 shows the Taylor's Differential Piece Rate System.

As this system developed by F.W. Taylor in 1880 had allowed piece rate for output below standard and a higher piece rate for output above standard with a large bonus of 50 percent of the time rate, when standard output is reached. This system penalises the slow workers, but rewards handsomely workers with a high output (*36).

Taylor (1880) believed that optimum results to efforts could be achieved only by disrupting the evil practice of

The Taylor Differential Piece Rate System.
systematic 'soldiering' which he found in the steel plant. Many financial incentive schemes inculcate confidence in workers and management and results in enhanced productivity and good industrial relations. Nevertheless, the wage incentive schemes when completely devised, formulated and implemented could undoubtedly benefit both the management by increased productivity and the workers by increased earnings. The formulation of any incentive scheme must emphasise the operative word 'Well-devised'. Wage incentives were thus introduced into scientific management and have now become an important tool of the industrial engineer to pay the worker fairly, and to profit the employer by reducing his unit cost (*37).

Under the impact of Taylorism, the role of monetary incentives in motivating workers to better work efforts and consequently raising productivity was widely accepted. Taylor almost exclusively relied on monetary incentives for motivating the workers (Taylor 1974). Later studies by Elton Mayo, other behavioural scientists and management experts emphasised the significance of other factors in affecting work motivation and productivity. But since late fifties, particularly following Hergberg, some behavioural scientists tended to deny the role of money as a motivator (*38).

Actually, the wage incentive schemes are based on Adam Smith's concept of economic man, one who is motivated by

monetary factors. Adam Smith emphasized the engineering concepts of the division of labour and specialization and viewed wages as the major motivating factor. This is not to say that the modern approach to wage incentive need to be one dimensional and assume that man is motivated to work solely by money/wages. At the same time, one should not go to the other extreme and assume that wages are just a 'hygiene' factor and not really a source of motivation at all (*39). Karnik (1984) (*40) explains with an example that workers are assured of the basic rate of wages for normal production. Incentives are available to workers in the form of higher earnings proportionate to increase in production as per Figure 1.9.

NEED FOR INSTALLATION OF WAGE INCENTIVE SCHEMES: In a developing economy like India's, improving output and quality with reduced cost of production is a basic prerequisite for rapid industrial development. The system of wage incentives is one of the methods for increasing productivity of workers in industries (*41). The underlying assumption is that under a wage incentive scheme, workers reach a higher level of motivation and improve intensity of efforts. The only aim for higher output may bring neither output nor contentment on the part of the workers.

Proportionate Earnings for Higher Production


Figure 1.9
workers, but if the aim is to bring more personal satisfaction to the worker in his work and surroundings, then both output and job contentment may be achieved ("42). Thus, it is useful in improving the utilisation of available manpower resources.

According to N.N. Chattergee (1978), very often the rates of pay or wages in force in the pre-incentive period are found not to be related to a minimum acceptable standard of performance. The wage rates are often based upon the prevailing market rates or rates negotiated with workers or their unions or fixed as a result of wage Board Awards or Industrial Tribunel or court awards. Wage fixation because of all these factors can never be a simple clear cut process. However, when management discovers that production levels are unsatisfactory in relation to the wages paid or production levels must be raised in response to demands or orders received from customers or the wage cost as a percentage of the total cost of production is higher than what obtains in a competitor's enterprise, it calls for installation of incentive schemes. The object of such a process is to induce the employees from the existing level of performance, first to a level which may be regarded as the minimum acceptable level of performance and from there, under the stimulus of higher rates of pay or wages to move on the optimum achievable performance ("43).

OBJECTIVES OF WAGE INCENTIVE SCHEMES:

Wage incentive schemes primarily aim at improving production volume and quality and profitability of an organisation by inducing employees to give better performance on factors under their control. These have to be related to the attainable level of efficiency of those who are to be motivated through the schemes to improve their performance. Based on these considerations, wage incentive schemes may aim at the fulfilment of one or more of the following objectives (*44).

1. Improving the profit of the firm through a reduction in the unit costs for labour or materials or both.
2. Avoiding or minimizing additional capital investment for expanding production capacity.
3. Increasing workers' earnings without dragging the firm into a higher wage rate structure irrespective of productivity.

SIGNIFICANCE OF WAGE INCENTIVE SCHEMES: The primary task of a manager is that of maintaining an organisation that functions effectively. To do so, he must see that his employees work efficiently and produce results that are beneficial to the organisation. "Since every action a manager takes in an organisation stimulates a reaction in his employees, he has no choice of whether or not he motivates them, it is only of how he does it". Keith Davis

as quoted by Gauri Shankar explains the same thing by the following equation:

Human Performance x Resources = Organisational Performance

Where Human Performance = Ability x Motivation

(Ability x motivation) x Resources = Organisational Performance.

If motivation is assumed to be zero, the total organisational performance will be zero. In other words if other things remaining the same higher the motivation, higher will be organisational performance and vice-versa.

Importance of motivation is also emphasised in the following schematic representation:

\[ P = M(A+K) \]

Where \( P \) = Performance
\( M \) = Motivation = I-DI
\( I \) = Incentives
\( DI \) = Disincentives
\( K \) = Knowledge
\( A \) = Abilities

It is interesting to note that if the disincentives outweigh the incentives, then performance will go down irrespective of the excellence of the recruiting, selecting and training procedures. Here lies the importance of incentive schemes (*45).

Sayles and Strauss (1977) (*46) observe that incentive schemes allow an employee to earn more by working more without the need for any outsider to award him a merit.

increase or recommend a promotion. According to Tomlupton and Bowey (1975) (*47) "Incentive schemes are essential not only for workers and supervisors but also for management because they enable the managers to share in-corporate prosperity. Alternatively, incentives may be seen as a means of emphasising and developing high standards of business performance and of differentially rewarding those managers who make the biggest contribution. Due to the competitive and financial pressures facing most of the companies in contemporary business conditions, the appropriate policy would be performance related incentives.

In considering the problem of incentives, the first pre-requisite, therefore, is the climate prevailing in an enterprise. Any scheme imposed on unwilling workers or in a climate of distrust is destined to fail. Incentives, therefore, can't be treated as a substitute for good management and any establishment which is suffering from strained labour management relations must first strive to improve the relations before thinking of initiating any incentive scheme.

**NATURE**: There are no set laws of behaviour. One type of behaviour that comes close to being a law is that it is highly predictable, is that people will continue to do what they have been rewarded for doing. This simple statement however, is actually more complex than what it may appear to be. One person's reward may be another person's punishment, for example, or something may be rewarding for a person under some conditions but not under other conditions.

There is hardly any job to which an incentive scheme of some type would not apply. Use of incentives varies with conditions in each industry and occupation. Individual incentives may continue to decline as automation makes them more difficult to apply because it lessens an employee's control on the rate of production; and therefore, it removes the reason for incentive. But, David McClelland believes that primarily people with low achievement needs require money incentives to make them work harder. Persons with high achievement motivation are driven to work by their need for achievement, as long as their pay is satisfactory.

**SCOPE:** It can well be assumed that in a poor economy with relatively low levels of wages and widespread unemployment, workers respond highly favourably to earnings and employment opportunities. The much publicized social barriers have been shown to be of little much consequence for the supply of labour even involving distant interregional movement of industrial workers in India. The basic fact of the power of earnings to make people go to work can't be denied more particularly in a country like ours. But the incentive mechanism, as pointed out earlier, is concerned with the intensity of efforts and effectiveness of work resulting in higher productivity rather than mere willingness and effort to go to work.

T.S. Papola (*48*) states that a study of 16 industrial units in Bombay very clearly brought out the fact that it was not mere high wages but high wages through wage incentives that

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had resulted in higher efficiency among workers. While a relationship between wage rates/levels and productivity imply a casual relationship in either direction, the relationship of methods of payments with productivity suggests the basis for workability and the effectiveness of wage incentive schemes in Indian industry.

The basic condition of the effectiveness of financial incentives is to induce people to work, to move to a distant place to work, and to increase intensity and duration of efforts.

**INDIAN SCENARIO:** There has been growing interest in the use of wage incentives in recent time in the developing countries such as Malaysia, Singapore, Sri Lanka and India. India probably leads the way in the use of wage incentives as there has been an increasing recognition of the need to raise the productivity of labour and there is a direct correlation between performance and wage incentives. It is in this context that the first and second five year plans recommended the introduction of incentive schemes to promote more efficient working in industries with due safeguards to protect the interests of workers, through the guarantee of a minimum wage and protection against fatigue and undue speeding up (*49*).

In a developing country such as ours, per capita income is very low and vast majority of the population is below the poverty line. The average Indian worker is on a subsistence level. Similarly, the efficiency of an average Indian worker is known to be at a sub-standard level and there is an

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urgent need to raise it. Wage incentives offer a relatively easy way to pull up the efficiency to a higher level and may be motivationally more effective than other forms of incentives, particularly non-financial.

Three principles (*50) which ensure the development of any Wage Incentive Scheme are:

1) The more important the job, the more the pay.
2) The more valuable the man, the more the pay due to differences in their performance at the same level.
3) The more production, the more the pay.

Wage incentives gear earning to productivity, they may come handy as a method of payment and an aid to improve productivity. The wide spread application of these principles has entailed development of Wage Incentive Scheme.

India is characterised by labour intensive technology in which job control vests in workers. Therefore, through their conscious efforts they can increase their rate of output. The very rationale underlying the introduction of wage incentives is to motivate people to perform better and to produce more. The Study Group on 'Productivity and Incentives' of the National Commission on Labour in its report has recommended that "under our conditions, wage incentive is concerned with effective utilisation of manpower, which is the cheapest, active, quickest and surest means of increasing productivity (*50A). The only practicable and self-sustaining means of improving manpower utilisation is to introduce...

wage incentive schemes and stimulate human efforts to provide a positive motivation to have greater output. The wage incentives have been mainly a post war II phenomenon, to improve industrial productivity on the one hand and the earnings and standards of life of working people on the other. Within the framework of a planned economy, wage incentives tend to assume a greater significance. They encourage workers to follow the improved technological methods at higher than standard speeds of performance. Thus, in the long run, an increase in efficiency and hence economy results in a rise in standard of living.

In India, it is only during the last 25 years or so that serious attempts have been made, generally by labour intensive industries, to introduce incentive schemes. R.D. Aggarwal (1973) (51) states that there appears to be a growing awareness in industrial societies of the importance of non-economic and non-technological factors in the working of incentives. However, in countries such as India, where rapid industrialisation is a recent phenomenon, there is a need to point out the sociological dimensions of incentive schemes. In India, average earnings of workers fall short of the average earnings of workers in the advanced countries like UK, USA etc. That is why the unit labour cost in India tends to be on the higher side. Although, there are numerous ways of reducing this unit labour cost and motivating workers to become more productive and competitive, the monetary factor is often the predominantly

effective incentive, especially in India, where there is a
general need to raise living standard. Similarly, the
impact of "demonstration effect" on widening the horizon of
needs of workers in the developing countries is to be recognised
as a major factor in strengthening the role of monetary
incentive for motivating workers in India in different stages
of economic growth (*52).

In the present economic situation in India, it has become
necessary to export substantially in order to buy from
abroad capital goods and expert services required for
industrial development. This need has become more urgent
for maintaining a certain level of employment and improving
the standard of life of the people. But the achievement of a
favorable balance of trade is possible only under highly
competitive conditions and this can only be done if India
produces goods for exports at reduced cost of production by
steadily improving the efficiency of the industry. Reduced
cost of production need not, however, reduce the earnings of
the workers, because earnings would tend to increase where
they are associated with increases in industrial output by
means of wage incentive schemes (*53).

G.K. Suri states that the current efficiency in India in the
sense of workers' application to jobs and the intensity of
the pace of work has been traditionally low. It will
probably be more accurate to state that there is a wide gap
between the current and the potential efficiency of workers.

52. Ghosh, Subrata; "Productivity and Monetary
53. "Incentive Systems; Principles and Practice in India,
Labour Bureau, Ministry of Labour and Employment Government
of India, P.20.
Wage incentives offer comparatively an easy way of tapping this potential for these reasons:
(a) the capital structure involved is negligible,
(b) the gains are significant and
(c) the gestation period is small (*54).
In India, under the conditions of economic planning and developmental expenditure, it may be possible to give assurance of employment security on the installation of incentive schemes. It may neutralise workers' fears of losing jobs on the introduction of incentive schemes. Thus, factors such as job security and income security which account for workers' movement from one place to another are comparatively more important in developing countries as compared to the developed ones. There is an emerging consensus in favour of the use of wage incentives which forms an integral part of the productivity movement. The situational factors in general, favour the introduction of wage incentive schemes.

PROPOSED ANALYSIS AND COVERAGE: Now a days, there has been a continuously growing interest in the use of wage incentives in developing countries and India is no exception. In these countries, per capita income is very low and most of the people are below the poverty line and are unable to satisfy their even basic needs. Under these circumstance, people are likely to be motivated by increased rewards in terms of wage incentives (*55).

55. Ibid, PP. 16-17.
There is also an emerging consensus in favour of the use of wage incentives in India, which forms an integral part of the productivity movement. Our country is not characterised by capital-intensive technology. And job control is in the hands of workers who can increase their rate of output through their efforts. As wage incentives gear earnings to productivity, they may come handy as a method of payment and an aid to improving productivity.

The present study on 'Wage Incentives in Engineering Industry in Northern Region: A study of selected units' is an attempt to understand the nature of wage incentive schemes in Engineering industry in India which is one of the fastest growing industries in the country. This research study is in response to the growing need in India, for factual information about the extent of application of wage incentive schemes in industry and their effect on certain parameters such as productivity, efficiency, effectiveness, absenteeism etc. However, due to constrain of resources, particularly time four engineering units situated in Northern Region have been selected for detailed study and analysis the names of which have been concealed for the sake confidentiality.

OBJECTIVES OF THE STUDY:

The objectives of the proposed study are as follows:

1. to study the nature of wage incentive schemes in the selected engineering units;
2. to study how workers perceive different aspects of a wage incentive scheme like the standard of performance and the relationship between effort and reward;
3. to see what is the general effect of the wage incentives
on employees productivity;
4. to find out the dysfunctions of the wage incentive scheme and their impact on organisational effectiveness; and
5. to suggest measures for the improvement of the wage incentive scheme.

HYPOTHESIS:
However, with a view to study the wage incentive schemes in different organisations the following hypothesis would be tested.
1. Most of the wage incentive schemes in engineering industry have failed to bring about the desired results.
2. There exist some apprehensions (or mis-apprehensions) amongst the workers about the wage incentive schemes.
   These are:
   a) The incentive schemes are unilaterally imposed by the management, without any involvement of workers either in their formulation or implementation;
   b) workers are not fully aware of the incentive schemes;
   c) Workers are not satisfied about standard rates;
4. Wage incentive schemes remain an area of controversy.
3) Wage incentive schemes in Public Sector Enterprises are more effective than in the Private Sector units in terms of their contents and effectiveness.

APPROACH:
The organisations under study are large and small scale from Public and private sectors. A thorough study of wage incentive schemes which have been introduced in these organisations in the last few years have been made. These incentive schemes are individual and/or group schemes company-wise. The views of both managers as well as workers have been
obtained regarding wage incentive schemes in their respective organisations at macro level and at micro level (i.e. organisational departmental and individual); and the role they have played in formulating and implementing these. In the interest of adequacy and authenticity of data efforts were made to secure information through questionnaires followed by personal interviews. Visits to the factories and personal discussion with the management and union representatives was also attempted to have a comprehensive and clear picture of the impact of wage incentive schemes on various aspects of organisational working.

The study was planned and carried out in three stages. In the first stage, efforts were made to locate the industries where wage incentive schemes were in use. Follow up contacts were made with these companies in order to prepare ground for collection of detailed data. While the companies cooperated in supplying the text, some degree of hesitation was noticed regarding furnishing detailed information.

In the second stage of this research, special efforts were made to collect detailed data. Suitable questionnaires were prepared and sent in advance for pre-testing. After reviewing the responses of pretest stage, final questionnaires were prepared and sent to the concerned individuals for gathering the statistical information in detail.

Only a few completed questionnaires were returned by them. Follow up interviews with the managers, supervisors and workers proved very effective in obtaining most of the
information required on the questionnaires. As a result of personal visits and repeated efforts made, most of them provided detailed information. However, many persons could not supply full information. It was also noted that in various cases, accurate vital information such as labour turnover, machine utilisation was not being maintained by the companies.

In the third stage, it was decided to compile wage incentive schemes in a suitable form so as to have a collection of different types of wage incentive schemes prevalent in Northern Region.

RESEARCH METHODOLOGY:

While keeping objectives and hypothesis in mind, in this study, Random samples of workers as well as managers have been taken from each one of the four companies. For this purpose, Tables of Random digit have been employed. The sample sizes in each company were:

<table>
<thead>
<tr>
<th>Group</th>
<th>Sample Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workers</td>
<td>60</td>
</tr>
<tr>
<td>Managers</td>
<td>50</td>
</tr>
</tbody>
</table>

In each company, the sample size for workers and managers were 60 and 50 respectively. However, there were some non-responses. Further, some responses were not intelligible and thus could not be used. Thus, the actual sample size resulted in 30 for workers and 25 for managers in each company. Hence, the overall sample size for workers and managers was 120 and 100 respectively. These sample sizes were decided on the basis of time and cost constraints and also keeping in view, that sizes must be large enough (i.e above 25).
Structured questionnaires were designed separately for workers and managers. Wherever necessary, informal and indepth interviews were also conducted to elicit proper information. The analysis comprised of various tabulations, according to different characteristics and uses of the statistical technique—chi square contingency.

SOURCES OF INFORMATION/DATA COLLECTION:
For data collection the questionnaire has been used as a research instrument. Information was drawn mainly from the primary sources such as industrial units and supplemented with statistics published by various agencies. Information collected through questionnaires and interviews were also supplemented by relevant figures supplied by the companies. Mainly personal visits alongwith interviews of managers and senior executives were used to seek classifications and fill up the gaps in the secondary data included in journals, annual reports of the companies concerned and company magazines etc. Opinions on human aspects of incentives were also collected through personal interviews.

ANALYSIS OF DATA:
Various dimensions were studied with respect to age, qualifications, income, total work experience in the company and elsewhere of managers and workers. Chi-square analysis, was used to test for any significant association between each desirable result and income level and also partition analysis was made. Factual information as well as opinions regarding wage incentive schemes in use were secured through questionnaires and follow up interviews. All the data were processed through application of statistical methods and tests.
SCHEME OF THE STUDY

The study is organised into six chapters. While handling the various aspects of the topics, a few of them are further divided in order to allow flexibility.

Chapter 1 introduces the concept of wage Incentive Schemes and states their nature, scope, significance, and Indian Scenario.

Chapter 2 explains the position of Engineering Industry in India in general and northern region in particular. It presents various aspects such as growth rates, targets and achievements, production indices, export position, etc. of the engineering industry.

Chapter 3 reviews the company profiles of the selected units regarding objectives, production, financial highlights, employment breakup and human resource development.

Chapter 4 traces the evolution as well as the latest position of wage Incentive Schemes in the selected units in detail. It also contains discussion on aspects like coverage, eligibility, criteria used, cutoff points and maximum incentive earnings.

Chapter 5 analyses the outcome of the results of wage Incentive schemes in selected units in the northern region.

Chapter 6 summarises the results of the study and gives suggestions for improvement.