SECTION – 2

QUESTION-1.

ANSWER:-

Significance of Incentives:-

Definition:

1. According to Milton L. Rock, incentives are defined as ‘variable rewards granted according to variations in the achievement of specific results’.

2. According to K. N. Subramaniam, ‘incentive is system of payment emphasizing the point of motivation, that is, the imparting of incentives to workers for higher production and productivity’.

Types of incentives:

Incentives can be classified into three categories:

1. Financial incentives:

Some extra cash is offered for extra efficiency. For example, profit sharing plan and group incentive plans.

2. Non-financial incentives:

When rewards or prizes are provided by the organization to motivate the employees it is known as non-financial incentives.

3. Monetary and non-monetary incentives:

Many times, employees are rewarded with monetary and non-monetary incentives that include promotion, seniority, recognition for merits, or even designation as permanent employee.

Advantages of incentive Plan:

1. Incentive plans motivate workers for higher efficiency and productivity.

2. It can improve the work-flow and work methods.

3. Incentive plans make employees hardworking and innovative.

4. When employees are dedicated, supervision costs can be reduced.

5. The National Commission on Labour says that under our conditions, wage incentives are the cheapest, quickest, and sure means of increasing productivity.

6. Incentive plans help establish positive response in an organization.

7. It helps workers improve their standard of living.

8. The other benefits offered by incentive plans are reduced turnover, reduced absenteeism, and reduced lost time.

Disadvantages of Incentive Plan:

1. Incentive plans can lead to disputes among workers, since some earn more than others.

2. Hunger for money among the workers forces them to overwork, which may affect their heath.

3. Some workers may involve in malpractices in order to earn more money.

4. For enhanced incentives, they may sacrifice quality.

5. It also leads to corruption by falsifying the production records.

6. Incentive plans can create tensions among different personnel.

Gain Sharing Plan Definition:-

A gainsharing plan is a type of management scheme that a firm utilizes to increase profitability by increasing the employees' financial and emotional stake in the success of the business. It involves offering employees financial shares of the business' gains from improved performance in order to motivate them to perform better. Gainsharing plans provide an effectual alternative to conventional pay structures which are often perceived as uninspiring forms of remuneration. A gainsharing plan directly equates employee earnings with performance and as such, is an effective instrument in boosting performance and motivation levels. Gainsharing plans can be traditional or customised to suit a firm's unique business environment and requirements. However, it is important to note that a gainsharing plan is in no way an individual incentive scheme.

There are three primary types of gainsharing programs –

The Scanlon Plan, formulated by Joe Scanlon in the 1930s,

The Rucker Plan, and

Improshare.

Of these, we shall study the first two in detail.

The Scanlon Plan:-

The Scanlon plan is in essence, the progenitor of all gainsharing programs. It is a cost-saving employee incentive program that correlates incentives with the ratio of production cost relative to production value. In simple terms, in a Scanlon plan, the higher the production output of an employee relative to his hourly compensation, the higher is his extra incentives. For instance, an employee working five hours a day at an hourly rate of $20 receives a compensation of $100 for a day's work. Suppose his job is to fix windshields on pickup trucks, which he accomplishes at the average rate of six trucks an hour. However, with a Scanlon plan in place, the employee may increase his rate of production to eight trucks an hour, thus taking home an extra incentive in addition to the usual $100 he makes.

In the absence of such a gainsharing plan, an employee working on an hourly pay basis has little motivation to perform better. As a matter of fact, such a worker may attempt to manipulate his timesheet by reducing his performance in order to show more hours for the same amount of work performed. A Scanlon plan eliminates the possibility of such misdemeanors by offering employees a real incentive to perform better. It also acts as a foundation for developing a worker’s production skills.

The Rucker Plan:-

The Rucker plan is another gainsharing program that aims to reduce production costs by correlating labour costs to a share of cost of production. It differs from the Scanlon plan in that its primary focus is an appraisal of quality and not quantity of output. Such an approach is especially suitable for industries with negligible variance in productivity figures, since it offers appraisal of other variables in order to measure performance. Rucker plans often consider parameters such as the ratio of waste to production volume or the number of defective parts per notation.

Advantages and Disadvantages of Gainsharing Plans:-

Gainsharing plans benefit businesses by fostering better employee engagement in the production process and ensuring higher quality of work. Nonetheless, it may still be difficult for the average worker to fathom the inner workings of such a system.

Moreover, the primary objective of most gainsharing plans is to enhance productivity. However, there are several situations where high productivity is either not mandated or is a detriment. For example, companies that do not have steady orders can actually be negatively impacted by high production figures (in the form of warehousing costs of unsold goods).

Gainsharing plans that incentivize high sales or higher bottom line profits also drive workers towards focusing only on products that typically offer higher margins. Workers often manipulate sales and marketing initiatives to favor such products. This can significantly damage a company’s image by suggesting to its clientele that the business is only interested in selling products that offer higher margins.