Importance of incentives
An incentive provides additional compensation for those employees who perform well. It attempts to tie additional compensation as directly as possible to employee productivity.

Further incentives are monetary benefits paid to workmen in recognition of their outstanding performance. They are defined as "variable reward granted according to variations in the achievement of specific results".

Incentive systems should be tied as much as possible to performance. If an incentive is actually to spur increased performance and effort, employees must see a direct relationship between their efforts and then-rewards.
Types of gain sharing plans
1.The Scanlon Plan
The Scanlon plan was the first gain sharing plan to be widely used. It ties extra earnings to the ratio of labor cost relative to production value. The greater the amount workers produce relative to the hourly wage they receive, the higher the extra compensation they'll earn.
2.The Rucker Plan
While the Scanlon plan primarily measures productivity in terms of quantity of output, the Rucker plan shifts focus to evaluations of quality. This approach is based on the idea that in some industries, productivity really doesn't vary much, but other variables can provide meaningful data about how well employees are performing.
3.Improshare Plans
An Improshare plan is similar to a Scanlon plan in that it rewards production efficiency. Unlike a Scanlon plan, however, the Improshare approach measures the number of production hours rather than the cost of labor. Performance measures according to a Scanlon plan will vary relative to whether the work has been performed by high-wage or low-wage employees because they measure total payroll cost, which is higher when the work is done by employee.