

# **PRINCIPLES & CHARACTERISTICS OF WAGE INCENTIVE**

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# MAIN PRINCIPLES FOR A SOUND SYSTEM OF WAGE INCENTIVE

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- ***Just and Fair:*** The reward for a job should be linked with the effort involved in that job and the scheme should be just and fair to both employees and employers. This involves the following:
  - The standard required of the workers should be carefully set, if possible through proper time and motion studies.
  - If the work is of repetitive type, the entire benefit of the time saved should be available to the worker but, in the case of non-standardised work or where precise standards cannot be set, the benefit of the time saved, if any, should be shared by the employer, the supervisor and the worker.

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- ***Well defined scheme:*** The scheme should be clearly defined and be capable of being understood by the employees easily. The standards set should be such that they can be achieved even by average employees. While standards are being set, the workers concerned should be consulted.
- ***Worker's Expectations:*** As far as possible, no limit should be placed on the amount of additional earnings; otherwise it will dampen the initiative of the workers. In this regard, what is important is not what actually prevails but what the workers think—if they think, even wrongly, that the employer will stop wages from rising beyond a certain limit, the incentive scheme may not be really effective.

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- **Stability:** The scheme should be reasonable and stable, and should not be changed or modified too often without consulting the employees.
- **Charge on employees:** The scheme should take care that the employees are not penalised for reasons beyond their control.
- **Incentive based on quality:** The scheme should provide for inspection of output so that only good pieces qualify for incentives. It would even be better not to introduce any incentive scheme if workmanship is of vital importance in sales.
- **Adequate Resources:** The management should ensure that there is no cause for complaint by the workers that they are sitting idle, say for want of tools or materials. Management has to see that there is, as far as practicable, no interruption of production.

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- **Limited Costs:** The operation of the scheme should not entail heavy clerical costs. In fact the scheme should facilitate the introduction of budgetary control and standard costing.
- **Morale booster:** It should be capable of improving the morale of the employees and it should be in conformity with the local trade union agreements and other government regulations.
- **Guaranteed wages:** There should be a guaranteed wage on time basis which generally works as a good psychological boost to incentive scheme.



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- ***Equality in payment:*** the effect of incentive scheme on those who cannot be covered should be gauged and taken note of. Sometimes, highly skilled workers have to be paid on time basis whereas semiskilled or unskilled workers may be put on incentive scheme. If the latter earn more than former, the incentive schemes on the whole prove harmful.

# ESSENTIAL CHARACTERISTICS OF A GOOD INCENTIVE SYSTEM

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- It should be just both to the employer and to the employee. It should be positive and not unnecessarily punitive and so operated as to promote confidence.
- It should be strong both ways i.e. it should have a standard task and a generous return. The latter should be in direct proportion to employee's efforts. It should reflect the employer's contribution to the success of the company.
- It should be unrestricted as to the amount of the earning.
- It should be reasonable, apart from being simple, for employee to figure out his incentive in relation to his individual performance, as far as practicable.
- It should be flexible and intimately related to other management controls.

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- It should automatically assist supervision and, when necessary, aid team work.
- It should have employee's support and in no way should it be paternalistic.
- It should have managerial support in so far as production material, quality control, maintenance and non-financial incentives are concerned.
- It should not be used temporarily and dropped in recession times as means of wage reduction.
- There should be correct measurement of the effort made for incentive purpose. Measurement of effort is made by time and motion study and based on job evaluation; the rates of wages are fixed for different operations