

**Performance And Reward Management**  
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**Lecture - 33**

**Understanding linkage between performance management and reward, an overview of various types of reward; financial reward, non-financial reward; contingent pay scheme; bonus scheme; team pay; rewarding for business performance; recognition scheme (Contd.)**

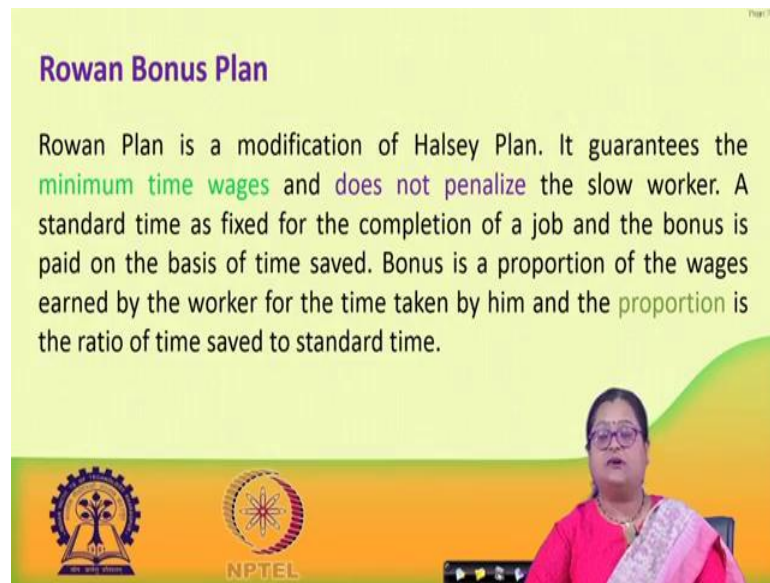
Welcome to the session on the topic Understanding the linkage between performance management and reward and overview of various types of reward; financial reward, non financial reward; contingent pay scheme; team pay; rewarding for business performance and recognition scheme. In the last session we have discussed about the Halsey plan as a part of the individual incentives.

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In this session we will continue with the individual level plans and we will discuss on the contingent plan, pay plans also.

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**Rowan Bonus Plan**

Rowan Plan is a modification of Halsey Plan. It guarantees the **minimum time wages** and **does not penalize** the slow worker. A standard time as fixed for the completion of a job and the bonus is paid on the basis of time saved. Bonus is a proportion of the wages earned by the worker for the time taken by him and the **proportion** is the ratio of time saved to standard time.

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So, the individual incentive plan that we are going to discuss now is on the Rowan Bonus plan. So, the Rowan plan is a modification of the Halsey plan because it guarantees minimum time wages and does not penalize the slow worker. Because what we saw in the Halsey premium plan maybe there is a in order to get the bonus on based on the time saved people may hurry up there could be loss of like quality, lot of wastages.

So, and may be a slow worker also gets penalized by not saving any time and it does not get like eligible for the bonus. So, what, so, based on that the modifications made in the Rowan bonus plan or it is a standard time which is fixed for the compensation of the job, and the bonus is paid on the basis of the time saved. So, bonus is proportion of the wages earned by the worker for the time taken by him and the proportion is the ratio of time saved to the standard time.

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It implies that as the time saved increases, time taken will be reduced and as such the bonus would increase at a diminishing rate. This will check **over speeding** and overcome a major drawback of Halsey Plan.

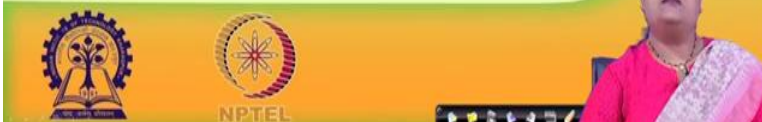
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So, it implies that as the time saved increases the time taken will be reduced and as such the bonus would increase at a diminishing rate. So, this will check up on the over speeding and overcome a major drawback of the Halsey plan.

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Standard time(S) = 10 hours  
Time taken (T) = 6 hours  
Rate ( R) = Rs. 4 per hour  
Total wages =  $T \times R + [ T \times R \times \frac{\text{Time saved}}{\text{Standard time}} ]$   
 $= 6 \times 4 + ( 6 \times 4 \times 4/10 )$   
 $= \text{Rs. } 33.60$

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What we see over here the standard time taken is S is equal to 10 hours, time taken is 6 hours, time the rate is Rs 4 per hour and the total wages calculation is this time into rate plus time into rate into time served by standard time and which is what we find is like the multiplicative factor over here and in total it comes to like Rs 33.60.

$$\begin{aligned}
 \text{Total wages} &= T \times R \times \left[ T \times R \times \frac{\text{Time saved}}{\text{Standard time}} \right] \\
 &= 6 \times 4 + (6 \times 4 \times 4/10) \\
 &=\text{Rs. } 33.60
 \end{aligned}$$

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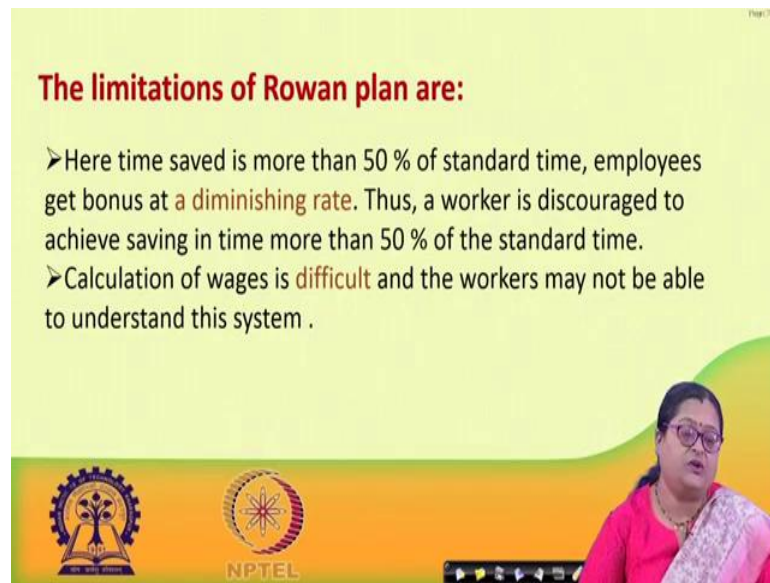
**The advantages of Rowan plan are as follows**

- As under Halsey plan, the minimum wages are assured in Rowan plan also.
- Employer are also benefited when the efficient workers get bonus.
- The efficient workers get bonus at a diminishing rate if they save more than 50 % of the standard time. This checks them to **overstrain themselves** and compels them to maintain quality.

So, as under what are the advantages of Rowan plan are alike as under the Halsey plan here also the minimum wages are assured in Rowan plan. So, employer are also benefited when the efficient worker gets bonus. The efficient worker gets bonus as a diminishing rate like if they save more than 50 percent of the standard time. So, these checks on them to overstrain them themselves and compels them to maintain quality. So, this diminishing rate is very important like if the efficient worker gets a bonus at a diminishing rate.

So, if they save more than 50 percent of the standard time. So, then in the Halsey plan you there is no provision to check on this over strain on themselves and the speeding up, but in the Rowan plan it is based on and diminishing return, diminishing rate. So, it checks for that part of over speeding and helps the person to maintain a constant flow in the work.

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**The limitations of Rowan plan are:**

- Here time saved is more than 50 % of standard time, employees get bonus at a **diminishing rate**. Thus, a worker is discouraged to achieve saving in time more than 50 % of the standard time.
- Calculation of wages is **difficult** and the workers may not be able to understand this system .

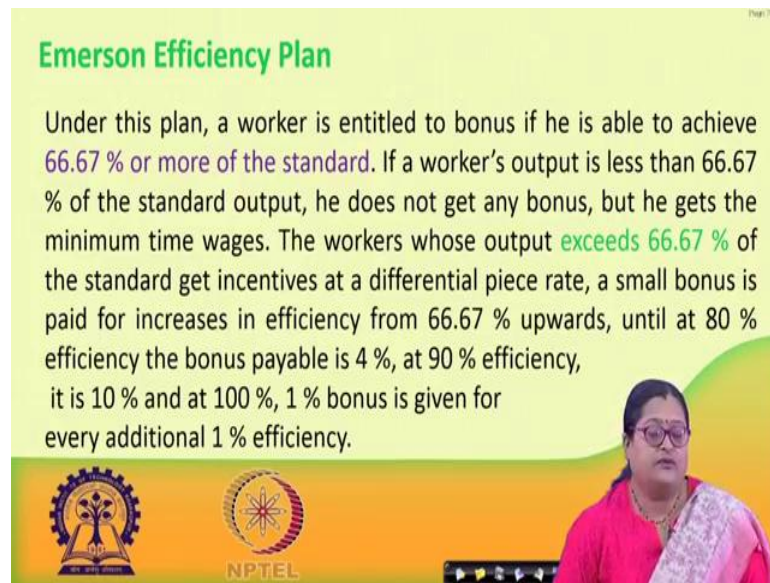
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So, what are the limitations of the Rowan plan are, like here the time saved is more than the 50 percent of standard time. So, the employees get bonus at a diminishing rate.

So, does a worker is discouraged to achieve time saving which is more than 50 percent of the standard time. So, this again maybe it is everything has a pros and a cons part. So, some people maybe who are over enthusiastic want to do much more; much more say they do not get any motivation from saving more than 50 percent. So, in one side it helps to reduce over speeding and on the other side maybe de-motivating for some employees also.

So, calculation of the wages may be difficult because the workers may not be able to understand that system because when it starts in the opposite direction like if you save more time which is more than 50 percent does not mean like you will get an increased bonus, it is difficult for the employees to understand to get this perception, and so, it is difficult to make them understand the calculation of the wages.

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**Emerson Efficiency Plan**

Under this plan, a worker is entitled to bonus if he is able to achieve **66.67 % or more of the standard**. If a worker's output is less than 66.67 % of the standard output, he does not get any bonus, but he gets the minimum time wages. The workers whose output **exceeds 66.67 %** of the standard get incentives at a differential piece rate, a small bonus is paid for increases in efficiency from 66.67 % upwards, until at 80 % efficiency the bonus payable is 4 %, at 90 % efficiency, it is 10 % and at 100 %, 1 % bonus is given for every additional 1 % efficiency.

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Next we have is Emerson Efficiency plan. Under this plan a worker is entitled to bonus if he or she is able to achieve 66.67 percent of more than the standard.

So, if the workers output is less than 66.67 percent of the standard output he does not get any bonus, but if he gets the, but he gets the minimum time wages. The workers would output exceeds 66.67 percent of the standard its incentive at a differential peace rate a small bonus is paid for increased in efficiency from 66.67 percent upwards until at 80 percent efficiency the bonus is payable is 4 percent; at 90 percent efficiency it is 10 percent and at 100 percent 1 percent of bonus is given for every additional 1 percent efficiency.


So, you find like the if this is a more elaborate kind of plan where it which is based on not the time that is saved, but it is based on the nature of the output and the efficiency. So, if you find like when talk of 66.67 percent which is more than that means, which is beyond average or the standard performance and then it gives incentives at a piece rate system. So, it is like a small incentive is paid from 66 percent, 66.67 percent upwards.

So, and till at 80 percent which is become as 4 percent and 90 percent efficiency it is 1 percent its of the like of the standard wage.

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**Bedeaux Point Plan**

In this plan, the minute is the time unit described as the standard minute and accounted as Bedeaux point B. In determining the Bs, the time of operation and the time of rest taken into account. Thus, B may be defined as a fraction of a minute of effort plus a fraction of compensation rest always aggregating unity. The standard time for each job is fixed after undertaking time and motion study and expressed in terms of Bs. The standard time for a job is the number of Bs allowed to complete it. Thus, if the standard time required for a job is five hours, it will be expressed as 300 Bs.



In the Bedeaux Point Plan what you find over here is in this plan the minute is the time unit, described as the standard minute and accounted as Bedeaux point B. In determining the B is the time of operation and the time of rest are taken into account. So, this you will find over here like the breaks taken by the employees are also accounted for over here. So, thus B may be defined as a fraction of a minute of effort plus a fraction of compensation rest always aggregating unity.

So, what is the rest taken and what is the time work together you should come to 1. The standard time for each job is fixed after undertaking time and motion study and expressed in terms of Bs. So, this is also very important improvement if you can see from the Halsey plan, where you find when we were talking of the Halsey plan we were in a doubt about how the standard time is fixed and how people come to the conclusion about who is performing better in what standard time, and what about the slow learners what about if people want some break in between.


So, those kind of questions get answered by the Bedeaux plan in which the standard time for each job is fixed under taking time and by undertaking time and motion study and then it is like expressed in terms of B. So, it is standard time for a job is defined here as the number of Bs allowed to complete it. Thus if the standard time required for a job is five hours, it is which will be expressed as 300 Bs.

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The workers who are not able to or are just able to complete the work within standard time are paid at the normal time rate. Those who are able to complete their work earlier are paid bonus equal to the wages for time saved as indicated by the excess of B point over the actual time taken.

Generally, the bonus paid to the worker is 75% of the wages for time saved. The remaining 25% goes to the foreman.

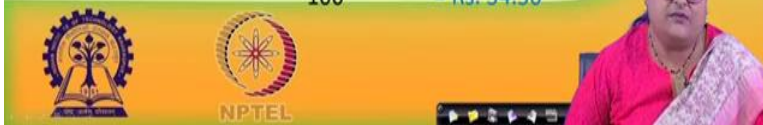


So, the workers who were not able to or just able to complete the work within a standard time are paid at the normal time rate. Those who are able to complete their work earlier are paid bonus equal to the wages for time saved as indicated by the excess of B points over the actual time taken. Generally the bonus paid to the worker is 75 percent of the wages for the time saved and the remaining 25 percent goes to the foreman.

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**The working of the Bedeaux plan**

Standard time (S) = 300 Bs (5 hours)  
Actual time (T) = 240 Bs (4 hours)  
Rate of wages (R) = Rs. 6 per hour  
60 Bs = 1 hour  
Value of time saved =  $\frac{300-240}{50} \times 6$   
= Rs.6.00  
Total wages (W) = S x R + 75% of value of time saved  
=  $5 \times 6 + \frac{75}{100} \times 6$   
= Rs. 34.50





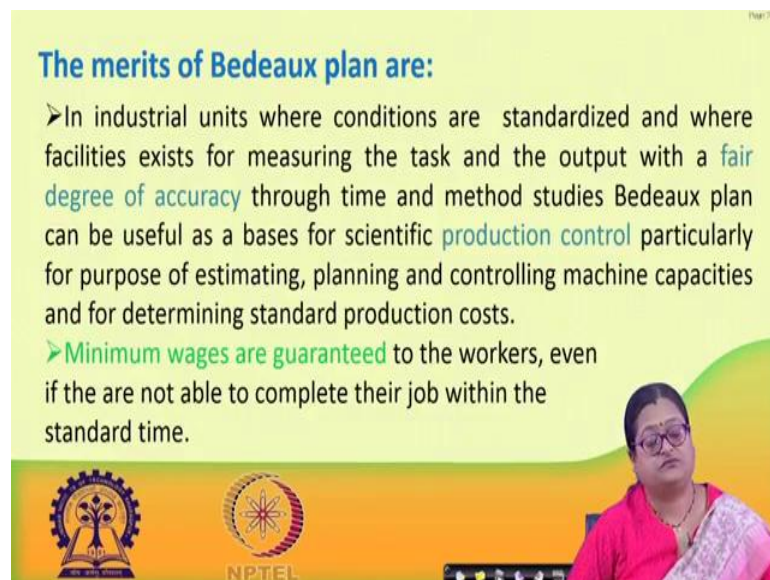
Now, how the calculation is done over here is like the standard time is 300 Bs actual time is 240 Bs and rate of wages is Rs 6 per hour and we understand 60 Bs make an 1 hour.

So, the value of the time saved is 300 minus 240 by 50 into 6 is Rs 6. The total wages that will get calculated is standard into rate plus 75 percent of value of the time saved, it is 5 into 6 plus 75 by 100 into 6 is equal to Rs 34.50.

Total wages (W) =  $S \times R + 75\%$  of value of time saved

$$\begin{aligned} &= 5 \times 6 + \frac{75}{100} \times 6 \\ &= \text{Rs. } 34.50 \end{aligned}$$

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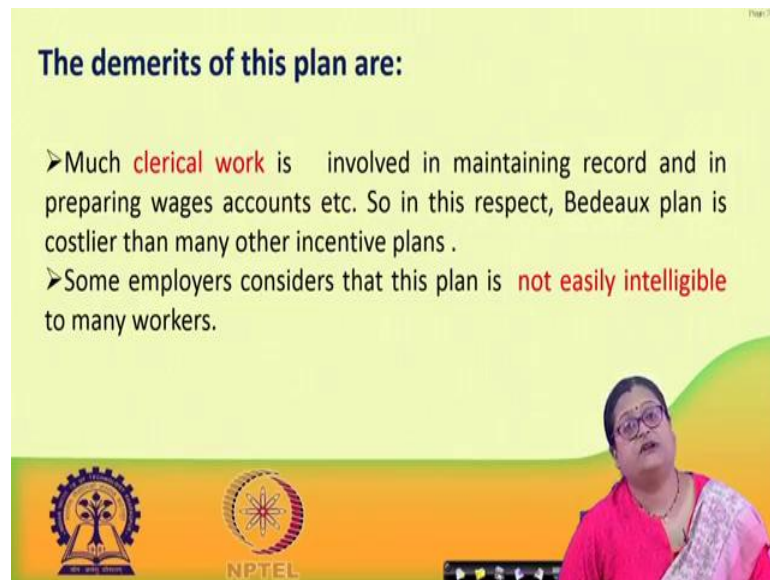
**The merits of Bedeaux plan are:**

- In industrial units where conditions are standardized and where facilities exist for measuring the task and the output with a fair degree of accuracy through time and method studies Bedeaux plan can be useful as a bases for scientific production control particularly for purpose of estimating, planning and controlling machine capacities and for determining standard production costs.
- Minimum wages are guaranteed to the workers, even if the are not able to complete their job within the standard time.

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Now what are the merits of this plan are, the industrial units where conditions are standardized and where facilities exist for measuring the task and output with a fair degree of accuracy through time and motion study the Bedeaux plan can be useful as a Bs for scientific production control particularly for estimating planning and controlling machine capacities and for determining a standard production cost. Here also the importance of this is minimum wages are guaranteed to the workers even if they are not able to complete their job within the standard time that is also very important.

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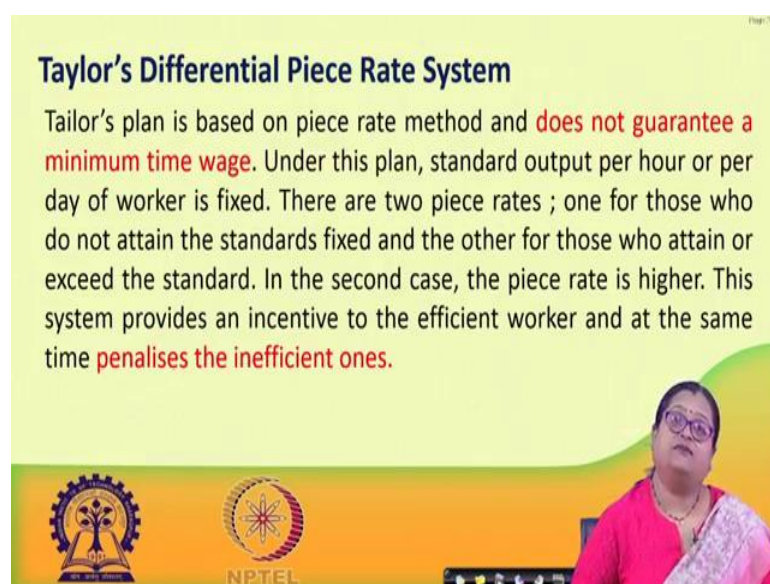
**The demerits of this plan are:**

- Much **clerical work** is involved in maintaining record and in preparing wages accounts etc. So in this respect, Bedeaux plan is costlier than many other incentive plans .
- Some employers considers that this plan is **not easily intelligible** to many workers.

However, the demerits of this plan are like maybe lot of clerical work is involved in maintaining the record and in preparing wage accounts et cetera. So, in this respect Bedeaux plan is costlier than other incentive plans because you have to involve another set of people who will be keeping a watch on these things and noting the things.

So, some employers consider this plan is not easily like may not be easily understandable to the many workers.

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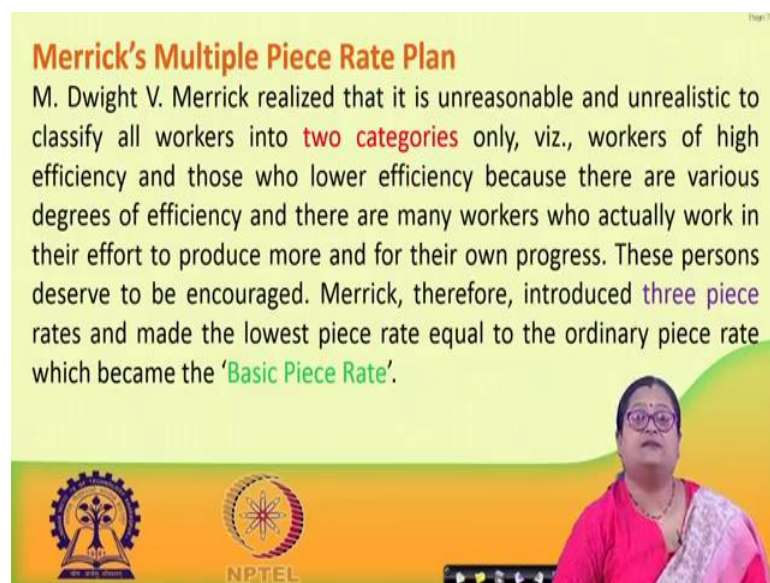
**Taylor's Differential Piece Rate System**

Taylor's plan is based on piece rate method and **does not guarantee a minimum time wage**. Under this plan, standard output per hour or per day of worker is fixed. There are two piece rates ; one for those who do not attain the standards fixed and the other for those who attain or exceed the standard. In the second case, the piece rate is higher. This system provides an incentive to the efficient worker and at the same time **penalises the inefficient ones**.

We have another plan which is called the Taylor's differential piece rate system is Taylor's plan is based on piece rate method and it does not guarantee a minimum wage. So, till now whatever plans we were discussing whether it is an Halsey plan, Rowan plan, Bedeaux plan, Emerson efficiency plan all these guarantee of a minimum wage but because it was either based on time or the output.

But when you are talking of Taylor's differential piece rate system this is not where a minimum wage is guaranteed. Under this plan the standard output per hour or per day of worker is fixed. There are two piece rates one for those who do not attain the standard fixed and the other for those who attain or exceed the standard. In the second case the piece rate is higher this system provides an incentive to the efficient worker and at the same time penalizes the inefficient ones.

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**Merrick's Multiple Piece Rate Plan**

M. Dwight V. Merrick realized that it is unreasonable and unrealistic to classify all workers into **two categories** only, viz., workers of high efficiency and those who lower efficiency because there are various degrees of efficiency and there are many workers who actually work in their effort to produce more and for their own progress. These persons deserve to be encouraged. Merrick, therefore, introduced **three piece rates** and made the lowest piece rate equal to the ordinary piece rate which became the '**Basic Piece Rate**'.

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Merrick's Multiple Piece Rate Plan. So, Dr. Merrick, M Dwight V Merrick he realized that it is unreasonable and like unrealistic to classify workers into two groups like those who can work efficiently and those with lower efficiency, because there are various degrees of efficiency and there are many workers who actually work there try to give their effort to produce more and for their own progress. So, what he felt like these people need to be encouraged also. So, Merrick introduced a three piece rates and made the lowest rate piece rate equal to the ordinary piece rate which became the basic piece rate.

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% of task	Piece Rate wage
less than 83%	Basic Piece Rate
From 83% to 100%	110 % of Basic Piece Rate
Over 100%	120% of Basic Piece Rate




So, what we see here over in the chart here like on the left hand side is the percentage of tasks and the right hand side is a piece rate wage. See if that like 83 less than 83 percent of the task is achieved we get a basic piece rate from 83 percent to 100 percent is achieved, 110 percent of the basic piece rate and over 100 percent it is 120 percent of the basic piece rate.

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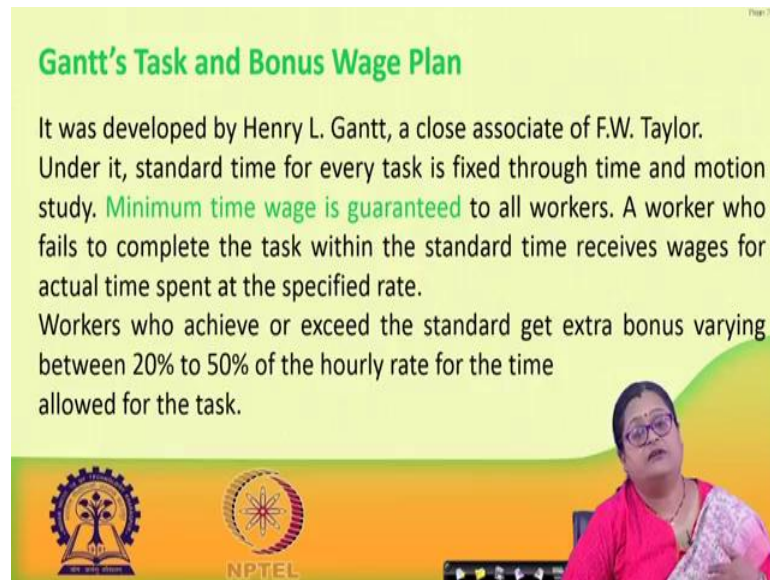
By introducing the basic piece rate for low output, Merrick **removed** the punitive wage rate originated by Taylor. In fact, Merrick's plan is only a **modified form** of Taylor's plan. Like Taylor's plan, Merrick's plan also does not guarantee minimum wages for the workers. Another drawback of the system is the existence of a wide gap in slabs.



So, by introducing the basic piece rate for the low output. So, what was removed from the system was a punitive wage rate which was originated by Taylor.

So in fact, what we tell Merricks plan is only a modified form of a Taylor's plan. So, here also like Taylors plan it does not guarantee any minimum wage for the workers so; however, another of the drawback is the existence of the wide gaps in the slabs.

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**Gantt's Task and Bonus Wage Plan**

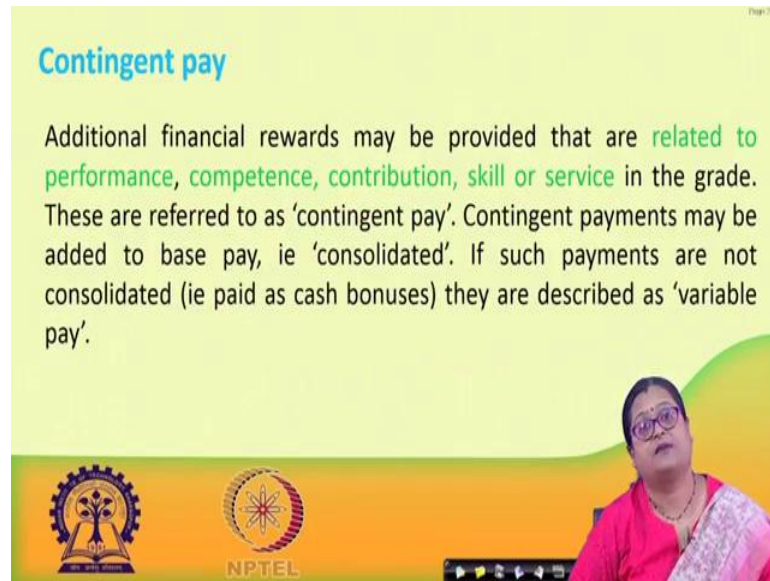
It was developed by Henry L. Gantt, a close associate of F.W. Taylor. Under it, standard time for every task is fixed through time and motion study. **Minimum time wage is guaranteed** to all workers. A worker who fails to complete the task within the standard time receives wages for actual time spent at the specified rate. Workers who achieve or exceed the standard get extra bonus varying between 20% to 50% of the hourly rate for the time allowed for the task.

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Right another kind of plan that takes care of the minimum wage which is guaranteed is taken as the Gantt's task and bonus wage plan it was developed by Henry Gantt in close association with FW Taylor.

So, under this what is taken care of a standard time for every task is fixed through again time and motion study, minimum wage is guaranteed to all workers. A worker who fails to complete the task within the standard time received wages for actual time spent on the specified rate. Workers who exceed achiever exceed the standard is extra bonus varying between 20 percent to 50 percent of the hourly rate for the time allowed in the task.

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**Contingent pay**

Additional financial rewards may be provided that are **related to performance, competence, contribution, skill or service** in the grade. These are referred to as 'contingent pay'. Contingent payments may be added to base pay, ie 'consolidated'. If such payments are not consolidated (ie paid as cash bonuses) they are described as 'variable pay'.

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So, till now what we discussed were in details about the different kinds of incentives which are there in the organization we discussed started our discussion with the group incentive plan and the organizational incentive plan and we have discussed also about the individual level incentive plans. And we have seen over like these are very important ways or to formulate like what kind of incentives be given for what kind of performance how to encourage better performance and how to like discourage also like some behaviors like over speeding and or maybe slowing down so, that ultimately these behaviors get corrected and people start contributing in a better way to the, to the productivity of the organization and as a result they also get benefits in terms of bonuses.

So, now, we will discuss about contingent pay. When we talk of contingent pay so, it is meant contingent means it depends on. So, additional financial rewards may be provided that are related to like the performance competence, contribution, skill or service in a particular grade. So, they are referred to as contingent pay. So, contingent payment may be added to base pay in terms of consolidated. So, if these payments are not consolidated then they are also described as variable pay means we can vary based on certain things situations.

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So, what we see contingent pay is also a performance related pay like it is at the agreed upon outcomes, what are the performance measures, what are the performance in the rating the formula and the performance pay that is given.

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Now, whenever we are talking of contingent pay. So, here we are going to discuss in this section about the developing and implementing individual contingent pay.

So, it is very important to assess the readiness of the individuals and the organization, then the analyze the culture, strategy and existing processes like what are the grade and

pay structure what are the methods of progression like if you are moving from one grade to the another grade. So, how you move forward and what are the pay differentials and whether a proper job evaluation has been done or not.

So, these are important points like in decisions about whether you pay for cash bonuses or not. And we have to decide also like which form of contingent pay is appropriate for the nature of the task like performance related pay, skill based pay or the competency based pay. Here will try to like reiterate like though we have discussed about the different incentive plans earlier in terms of the different kinds of incentive plans which refer to the individual incentive plans or the group incentive plans which we have seen like some plans are based on the piece weeks, some plans are based on the time save, some plans are based in the outcomes based at the output based on the particular job.

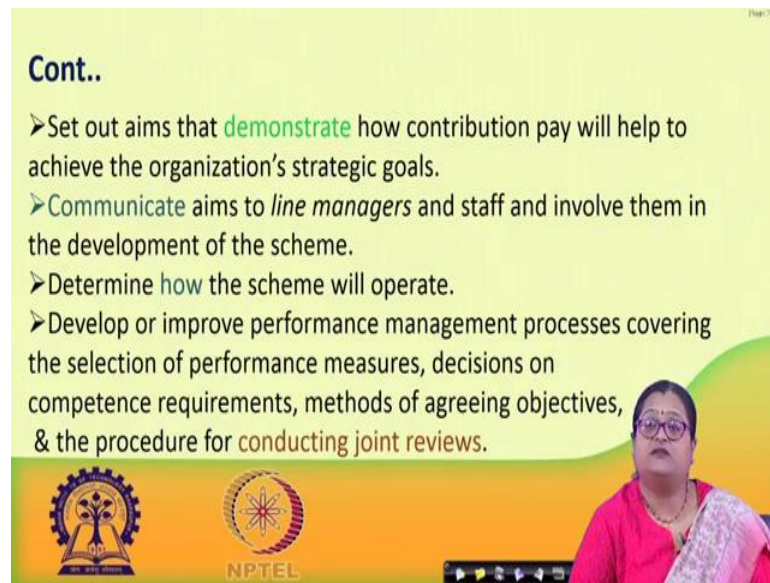
We have to understand like all kinds of plans may not be applicable to all kinds of jobs depending on the nature of the job, we have to design the incentive accordingly. So, if it is a very artistic kind of work which requires time to do it, and to get the level of precision and fineness in that work. May be in that case time saved in a particular job and you get bonus for it may not be the proper incentive plan that you like develop for it.

So, maybe in that case something which is connected with the output something which is connected with the piece pieces produced so, will be more effective. So, we have to understand here we are discussing about the different incentive types or about the different types of contingent pay which may be there a decision about the performance related pay or the skill based pay or the competency related to pay, but ultimately it depends on the philosophy of the organization, the vision and mission of the organization, the strategy of the organization what it is now what it wants to get immediately from the individuals and what is that what human capital it wants to develop in the individuals.

So, that in future if they become future ready for performance to reach the future goals of the organization these things need to be taken care of understood properly before we decide on which form of contingent pay is appropriate based on the current need and the future need of the organization, and accordingly we have to go for whether the performance related pay, skill based pay or the competency related pay.



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- Set out aims that **demonstrate** how contribution pay will help to achieve the organization's strategic goals.
- Communicate aims to *line managers* and staff and involve them in the development of the scheme.
- Determine **how** the scheme will operate.
- Develop or improve performance management processes covering the selection of performance measures, decisions on competence requirements, methods of agreeing objectives, & the procedure for **conducting joint reviews**.

So, we have to like set out aims that demonstrate how contribution pay we will help to achieve the organizations strategic goals. Communicate aims to the line managers and staffs and involve them in the development of the scheme, determine how the schemes will operate, develop an improved performance management processing, covering the selection of performance measures, decisions on competence requirements methods of agreeing objectives and the processes for conducting joint reviews.

These are the things which are required for like arriving at decisions about what kind of contingent pay is more suitable for the strategic goals of the organization.

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- Pilot-test the scheme and amend as necessary.
- Provide training to all concerned.
- Launch the scheme and evaluate its effectiveness after the first review.

And we have to in order to implement that we have to pilot test the scheme and amend it as necessary, provide training to all who work connected to it, launch the scheme and evaluate it effectiveness after the first review.

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References :

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Armstrong, M., & Murlis, H. (2007). Reward management: A handbook of remuneration strategy and practice. Kogan Page Publishers.

School of Open learning, University of Delhi  
<https://sol.du.ac.in/mod/book/view.php?id=794&chapterid=446>

So, these are the books from where these references have been drawn. So, to develop on this chapter, please go through it any queries please try to put it into the forum we will be open to discuss about it.

Thank you.