



A STUDY ON VARIOUS CONDITIONS OF WORKERS IN COMPANIES DURING PERIOD OF INCENTIVES

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ABSTRACT:

We provide a framework for understanding these effects in numerous contexts of interest to accounting researchers and focus particularly on how salient features of accounting settings may affect the incentives-effort and effort-performance relations. Our compilation and integration of theories and evidence across a wide variety of disciplines reveals significant implications for accounting research and practice.. In such a setting, markets fail to limit competitive pressures and cannot commit to the desirable low-powered incentives. Firms may be able to weaken incentives and improve efficiency by obscuring information about individual workers' contribution to output, and thus reducing their willingness to signal through a moral-hazard-inteams reasoning. However, firms themselves may have a commitment problem if the owner has insider information on individual employees. We show that in these circumstances governments may turn out to be the only organizational form able to credibly commit to low-powered incentives even if run by a self-interested politician. Among other reasons, this may happen because of the government's ability to limit yardstick competition and re-election uncertainty.

1.0 Introduction:

Economists often emphasize that "incentives matter." The basic law of gnomists often emphasize that "incentives matter." The basic "law of behavior" is that higher incentives will lead to more effort and higher behavior" is that higher incentives will lead to more effort and higher performance. Employers, for example, often use extrinsic incentives to performance. Employers, for example, often use extrinsic incentives to motivate their employees. Will incentives for increased school attendance, for reading, or for better grades? Will financial incentives encourage higher contributions

to public goods, Should programs to reduce smoking or to encourage exercise include a monetary incentive these applications of incentives have provoked heated debate. That using incentives in those areas could backfire, because re, because extrinsic incentives may in some way crowd out intrinsic motivations extrinsic incentives may in some way crowd out intrinsic motivations that are important to producing the desired behavior. For example, monetary incentives from principals may change how tasks are perceived by agents. If incentives from principals may change how tasks are perceived by agents. If incentives are not large enough, this change in perception can lead to undesired effectives are not large enough, this change in perception can lead to undesired effects on behavior. In other cases, incentives might have the desired effects in the short n behavior. In other cases, incentives might have the desired effects in the short term, but they still weaken intrinsic motivations.

Concept of Incentive:

National Productivity Council defined incentive as a measure stimulating human effort, whereby employees are driven to put in their best Encapsulated the concept of incentives defining it as compensation, other than basic wages and salaries that fluctuates according to employees' attainment of some standard, such as pre-determined benchmark, individual or group goals or organizational earning. Generally, incentives are variable payments made to employees on the basis



of the amount of output or results attained the use of performance incentives dates back to the era of scientific management movement, championed by Frederick Taylor in the 20th century, and ever since then, the private sector has employed the use of incentives as a method to raise the productivity of their employees. Incentive provision is meant to drive employee to go extra mile to achieve better result. It is a tool that can be engaged by any employer of labor, whether public or private employer and regardless of the type of task involved. However, amongst the various forms of incentive, an employer is at liberty to engage anyone considered suitable and affordable. Being a vocation and profit driven, real estate management practitioners engage incentive provision to motivate workers and increase performance

Incentives in Education:

Incentives in Education It may seem that designing incentive mechanisms to improve education may seem that designing incentive mechanisms to improve education should be relatively straightforward. Students may invest too little effort in their hold be relatively straightforward. Students may invest too little effort in their own education because they overly discount the future, have time-inconsistent education because they overly discount the future, have time-inconsistent preferences, or underestimate the return on education. Extrinsic incentives can references, or underestimate the return on education. Extrinsic incentives can then provide immediate returns that give an extra motivation to study. Similarly, hence provide immediate returns that give an extra motivation to study. Similarly, incentives can give parents and teachers additional reasons to put more effort into incentives can give parents and teachers additional reasons to put more effort into educating children or simply making sure the kids get to school children or simply making sure the kids get to school

However, empirical results suggest that positive effects from these kinds of however, empirical results suggest that positive effects from these kinds of incentives are far from certain. Opponents of extrinsic incentives emphasize that incentives are far from certain. Opponents of extrinsic incentives emphasize that financial incentives may crowd out other underlying reasons for educational decennial incentives may crowd out other underlying reasons for educational decisions. An extreme view is given by who refers to incentives provided ions. An extreme view is given by who refers to incentives provided in education as "bribes." Many educators believe paying students is morally wrong. n education as "bribes." Many educators believe paying students is morally wrong. One way to rephrase this claim is to argue that one of the goals of schools is to way to rephrase this claim is to argue that one of the goals of schools is to increase the importance of intrinsic motivation. We do not discuss this argument increase the importance of intrinsic motivation.

Effects of monetary incentives on effort and task performance:

The general hypothesis regarding the effects of monetary incentives on effort and performance is that incentives lead to greater effort than would have been the case in their absence.^{1,2} This basic idea, however, does not explain how monetary incentives lead to increases in effort. Accordingly, theories about mediators of the incentives-effort relation deserve further attention, and we discuss these theories after explication of the effort construct.³ In turn, increased effort is thought to lead to an improvement in the rewarded dimension of task performance. Presents a conceptual framework for the effects of monetary incentives on effort and task performance In the remainder of the paper, we discuss the various relations depicted by our framework. First, we discuss the effort

construct. Greater effort refers either to effort directed toward current performance of the task, which is thought to lead to immediate performance increases, or effort directed toward learning, which is thought to lead to delayed performance increases in effort directed toward current performance are classified as changes in effort direction, effort duration, and effort intensity, whereas effort directed toward learning is characterized as strategy development. Effort direction refers to the task or activity in which the individual chooses to engage.

Person variables:

In this section, we discuss how person variables may affect the relation between monetary incentives and effort and effort and task performance. Person variables include attributes that a person possesses prior to performing a task, such as knowledge content, knowledge organization, abilities, confidence, cognitive style, intrinsic motivation, cultural values, and risk preferences. These person variables (like other variables) can affect performance through various cognitive processes that the person brings to bear while performing a task, such as memory retrieval, information search, problem representation, hypothesis generation, and hypothesis evaluation.

Environmental variables:

Environmental variables include all the conditions, circumstances, and influences surrounding a person who is performing a particular task. These variables include factors such as time pressure, accountability relationships, assigned goals, and feedback. A firm's accounting system also can be viewed as an environmental variable and, to this end, much research in accounting focuses on whether and how the environmental variables associated with accounting settings affect task performance.

2.0 Literature review:

[1] Falola, H.O, Ibidunni A.S, & Olokundun, M. (2014) different expectations that men and women bring to the workplace provide a third possible explanation for women's greater reported job satisfaction. Complaints about work result not just from objective problems at work, but also from the expectations brought to the work situation. Posits that, because of extensive occupational segregation, female workers may have little occasion to compare their jobs with that of their male counterparts contributing to their relative job satisfaction. In effect, they may not have full information on, or at least daily reminders of, the extent to which they are under-rewarded. Thus, women who are in jobs with a high concentration of women may not make the sort of comparisons that would lead them to be dissatisfied with their jobs.

[2] Sprinkle, G. B., & Young, S. M. (2000) particularly valuable in cases where very low performance tends to be caused by bad luck (uncontrollable risk that adversely affects performance) instead of low effort by the employee. Providing some insurance to the employee is valuable in two ways. First, the employer may be able to pay a lower base salary since the employee will require less of a risk premium if the pay plan is less risky. Second, a floor has the effect of making an employee somewhat less risk-averse about the incentive plan. That, in turn, may allow the firm to use a steeper reward-evaluation slope, intensifying incentives for performance above the floor. More generally, in jobs where the firm wants to encourage risk taking and creativity (e.g., research and development, advertising), or wants to avoid punishing the employee for mistakes, a floor can be useful because it

makes the employee less averse to taking some risks in performing the job. Caps have a simple tradeoff. A cost of a cap is that the firm runs the risk of losing its star employees because they may hit their maximum reward before achieving their maximum performance.

[3] **Hopkins, P. E. (1996)** in order to remain competitive in retaining the promoted employee. There seems little that a firm can do to avoid such situations. However, there is an important implication. Employees who have a reasonable chance of earning a valuable promotion may have good incentives built into the system, even if they receive no formal incentive such as a bonus. By contrast, employees who have little hope of further promotion (e.g., those who have topped out at the highest hierarchical level they are likely to achieve) will not have promotion-based incentives. The issues faced in such cases are well known, and are often referred to as the problems of “dead wood” or the “Peter Principle.” An interesting question is why so many compensation systems seem to ignore this problem; they do not substitute some other form of pay for performance for employees who are no longer in contention for promotion.

[4] **Klein, H. J., & Wright, P. M. (1994)** As an important side note, if the firm does not desire the employee's performance to be too far above some level of the evaluation, then it must be the case that the evaluation imperfectly reflects the employee's actual value to the firm. Otherwise, the firm would just want to encourage even greater “performance.” Put another way, because performance evaluation is imperfect, performance evaluations do not always measure

performance, particularly for extreme values. Numeric measures and subjective evaluations are proxies for the employee's actual contributions. For most ranges of performance, they will correlate well with contributions. When they are very low or very high, however, they are more likely to reflect good or bad luck, measurement error, flaws in the method of measurement or judgment, or manipulation of the metric by the employee.

3.0 Methodology:

The effects of incentives on performance, as well as studies examining mediators of the incentives–effort relation note that there must be factors that moderate these relations, thereby causing incentive effects to not always be positive date, however, reviews have discussed relatively few such factors and, as such, little is known about variables that interact with incentives in affecting task performance. Again, it is important to identify factors that moderate the effectiveness of incentives so that researchers and organizations can have better information about the use of monetary incentives in either the field or the laboratory. The remainder of this paper discusses salient accounting-related variables that may moderate the positive effects of monetary incentives on task performance. For each variable presented, we discuss its importance in accounting settings as well as the theoretical and practical importance of examining the variable in conjunction with monetary incentives. We then summarize the prior research examining the joint effects of monetary incentives and the particular variable. In these summaries, we discuss the general findings, attempt to tie these findings back to the theories and underlying cognitive mechanisms previously discussed, and then discuss the potential implications for accounting research and practice. Following this, we highlight numerous open issues regarding the efficacy of

monetary incentives in improving task performance and provide suggestions for how future accounting research could help fill these gaps in our knowledge.

Principles of Performance Evaluation:

There are two keys to an ideal performance evaluation. First, good evaluation incorporates what the employee can control and filters out what the employee cannot control, to the extent that is practical. It incorporates all of the employee's contributions because its purpose is to reward, and therefore motivate, the employee to contribute in all possible ways consistent with the employee's job. That includes the direct effects of an employee's efforts and decisions, and also the indirect effects (e.g., through cooperation and coordination with colleagues). The ideal evaluation incorporates nothing else, because anything else is outside of the employee's control, and therefore imposes risk on the employee. People are risk averse. If the incentive plan rewards and punishes the employee in part for things beyond his/her control, this is costly for the employee. That cost, in turn, implies a cost to the employer. Research finds that incentives based on more noisy performance measures generally require firms to pay higher base salaries as a risk premium to employees. The second consideration in evaluation is that an ideal evaluation motivates the employee to use information and knowledge on behalf of the firm.

Conditions for an effective incentive plan:

It is helpful to break design of an incentive plan into two components and think about each separately, in a specific sequence. This approach is almost always an effective way to organize thinking about incentives Effectiveness of the evaluation. Does the evaluation reflect the employee's efforts, actions and decisions with reasonable strength and accuracy Relationship between the evaluation and

rewards is the evaluation tied reasonably strongly to rewards that the employee these may seem obvious, but it is surprising how many "incentive" plans violate one or both conditions. For example, many large firms use profit-sharing plans, but such plans violate both conditions for all but key high-level employees. The performance measure is divisional or firm-wide profit. This does not reflect the employee's efforts well because it depends not only on the employee, but also on the rest of the organization, and a large number of other factors that are outside the employee's control. An individual employee is unlikely to have any practical ability to affect the performance measure, unless he/she is at a very high level in the company. The signal-to-noise ratio is nearly zero, so such an approach is tantamount to using a lottery ticket as the performance measure. Suppose that employee works for a company with 1,000 employees, and participates in a plan in which 25 percent of profits are shared with employees as a year-end bonus. Suppose further that the employee has a good day, creating \$1 million in profits for your firm. It is 25% the employee's "commission" is only 0.00025. The bonus will be larger than \$250 because the employee will also be rewarded for the contribution of the rest of the organization. However, that will be true no matter whether the employee works hard or not, so it is unlikely to provide incentive. A firm would never use such a trivial commission rate for salespeople, so it is surprising that similar logic is so seldom applied to other employees.

4.0 Results and discussions:

In this paper, we present theories, evidence, and a framework for understanding the effects of monetary incentives on effort and task performance. We first describe the fundamental incentives effort and effort-performance relations and the four dimensions of effort

that monetary incentives theoretically are posited to affect: direction, duration, intensity, and strategy development. We then discuss psychological and economic theories that explicate the incentives-effort link. Here, we detail many of the underlying cognitive and motivational process mechanisms by which monetary incentives are presumed to lead to increases in effort and, thus, increases in performance. We also provide a conceptual framework for the effects of monetary incentives on effort and task performance. This framework facilitates a comprehensive consideration of the variables that may combine with monetary incentives in affecting performance. Specifically, we formulate the incentives-effort and effort-performance relations as a function of person variables, task variables, environmental variables, and incentive scheme variables. We then use our conceptual framework to organize and integrate a large amount of evidence on the efficacy of monetary incentives. In this regard, the framework is employed to focus on how salient features of accounting settings may moderate the positive effects of monetary incentives and, thus, to understand the effects of monetary incentives in numerous contexts of interest to accounting researchers.

Evidence regarding the effects of monetary incentives on effort and performance:

In discussing accounting-related variables that may combine with monetary incentives to affect effort and task performance, we employ and add to three broad categories of variables that determine performance sets $\text{performance} = f(\text{person variables, task variables, environmental variables})$. Such a model allows for full, yet parsimonious, consideration of the factors that may affect performance. We modify model for use in our framework since we focus specifically on the monetary incentives-effort and effort-performance relations. Specifically,

we suggest that these relations $= f(\text{person variables, task variables, environmental variables, incentive scheme variables})$. Person variables are those that relate to the individual performing the task; they are characteristics the person brings to the task such as motivation, personality, and abilities. Task variables are those that relate to the task itself; a "task" can be defined as a piece of work assigned to or demanded of a person. Task characteristics can vary within tasks. For example, a bankruptcy prediction task can be framed as predicting the probability the company will fail or it can be framed as predicting the probability the company will survive. Some task characteristics, like complexity, also vary across tasks. In other words, these variables do not relate to a particular task or person but can surround all tasks and persons in a given setting. Monetary incentives typically are considered an environmental variable, along with factors like time pressure, accountability requirements, and assigned goals discuss them in this way). Because our paper focuses on the effects of performance-contingent incentives we examine environmental variables that interact with incentives.

Effects of assigned goals on the incentives:

Effort performance relation Several studies have manipulated assigned goals alone or in conjunction with monetary incentives. Similar to monetary incentives, assigned goals and performance targets are thought to positively influence effort direction, effort duration, and effort intensity and, as a result, improve performance. Meyer, Assigned goals have been shown to positively influence effort through two mechanisms. First, assigned goals affect the level of personal (self-set) goals, which in turn, positively influences the various dimensions of effort. Second, assigned goals positively affect self-efficacy and, in turn, self-efficacy has (as discussed earlier) a positive influence on both

personal goal levels and the various dimensions of effort note that these effects of assigned goals on effort direction, duration, and intensity are relatively automatic once individuals accept goals. They further suggest that, under some circumstances, goals can positively affect effort directed toward strategy development. First, the level of difficulty of the assigned goal is positively related to performance, until goals become

excessively difficult, at which point performance levels off. The explanation for this goal-difficulty effect is that goal levels are positively correlated with effort intensity and effort duration note that more difficult goals may set a higher standard for people's satisfaction with their performance; this standard may contribute to or explain the effects of difficult goals on effort intensity and duration.

Incentives for Employee Motivation:

1	Pay, Salaries, "efficiency wages"
2	Direct financial benefits e.g. Pension, illness/health/life insurance; allowances (clothing, housing), subsidies, profit sharing, car loan
3	Indirect financial benefits such as subsidized meal, clothing, accommodation, transport, scholarship, tax breaks, seniority pay
4	Flexible Schedules e.g. Part-time, temporary work, sabbatical, study leave, holidays, casual leave, paternity and maternity leave, annual leave, vacation
5	Work environment condition, Occupational health, safety, recreational facilities
6	Amenities, access to school, infrastructure, transport
7	Job security, career, professional development, training opportunities

CONCLUSION:

The employee will be rewarded for the efforts of everyone else as well, plus the effects of many uncontrollable factors. Once again, eventually the employee will figure out that whether he/she works hard or slacks off, the bonus check will still arrive in December. Again, many plans fail to meet this condition. An incentive plan has two main components, which correspond to each of these conditions: the evaluation and how rewards are tied to the evaluation. A simple and useful structured approach to designing an incentive plan is to divide it into those two components and think about each issue separately. Subjectivity can be quite valuable in reducing distortions, ensuring the employee against uncontrollable risk while still holding that worker accountable for controllable risk, and detecting and deterring manipulation. A good subjective evaluation and performance management system has other benefits, of course, but the focus here is on how it can be used to improve the overall evaluation for

incentive purposes. The second step in designing an incentive system is to think about how rewards, both implicit and explicit, vary with the evaluation. The stronger the tie, the stronger the incentive. That is a good thing if the evaluation is effective, but it is why incentives will cause problems if the evaluation is ineffective.

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