FINANCIAL INCENTIVES FOR MIDDLE MANAGEMENT
IN BRITISH COLUMBIA

by

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We accept this thesis as conforming to the
required standard

THE UNIVERSITY OF BRITISH COLUMBIA

June 1963
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Date June 7, 1963
The objective of this study was to determine the use of financial incentives in the manufacturing industry of British Columbia as applied specifically to middle-management personnel. Many unproven statements have been made in the past regarding the use of financial incentives. It has been assumed that incentives were often offered for the purpose of pleasing the employee rather than encouraging improved performance. It has also been assumed that the application of financial incentives in British Columbia industry was less extensive than in United States industry. In addition few of the aspects of other successful incentive plans appeared to be evident among the plans in operation in British Columbia. This study was undertaken to dispel misconceptions and to confirm conditions thought to exist in British Columbia industry respecting the use of financial incentives for middle-management employees.

A systematic random sample was drawn from a large group of manufacturers composed of small and large companies engaged in a variety of manufacturing operations located throughout British Columbia. The companies sampled were requested to provide information on their actual use of, experience with, and opinions about various types of financial incentives.
The results of the survey indicated that in British Columbia manufacturing industry, as much interest was shown in providing financial incentives for middle management as in offering incentives to top management and to first-line supervisors. In some companies the use of financial incentives for middle management seemed to be encouraged if the company had had previous experience with incentive pay methods among office and production worker groups. Medium-sized companies exhibited more interest in providing financial incentives for middle management than did small- or large-sized concerns. In medium-sized companies it appeared that financial incentives were being used for middle management in an attempt to offset small proportionate increases in basic salaries for this management group compared to recent pay increases for other groups of employees. No company indicated an interest in making large-sized incentive awards which might provide effective motivation of employees. Results from the survey suggested that many firms relied unduly on the granting of salary increases to have a continuing incentive value in encouraging improved employee performance over an extended period.

The use of financial incentives for management groups in British Columbia industry seemed to be nominal; they were offered more for the purpose of pleasing the employee with a distribution of a portion of the firm's profits or with a Christmas bonus than for encouraging specific effort and
improved performance valuable to the company. The application of financial incentives in British Columbia industry for all employee groups in management appeared to be less intensive and specifically less satisfactory than some long-established incentive plans in American industry. Few, if any, of the tenets of effective financial incentives exhibited by many of these successful plans were evident among the plans operated in British Columbia.
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Sincere thanks are also extended to Mr. James Rankin of the Canadian Manufacturers Association and to the many manufacturers of British Columbia who responded to the survey. Without their helpful and willing cooperation this study would not have been possible.
CHAPTER I

MIDDLE MANAGEMENT PROBLEM IN INDUSTRY

Encouragement of Middle Management Is Essential to Industry

There is a demand for more well-trained and widely experienced administrators in business to meet the increased and specialized needs of diversified and expanded industry. Many firms are neither efficient nor progressive because many managers in industry and business are not fully qualified for their responsibilities. This inefficiency is a serious threat to any industrial economy dependent on the effective management of an increasing number of small and large business concerns. This shortage of executive ability in top management is related to past and present shortages of people with pertinent experience in the lower levels of management, and arises mainly from their lack of opportunity to gain practical experience in making responsible management decisions.¹

Methods to improve the training and to widen the experience of lower management personnel in industry are essential to the eventual improvement of the higher levels of management. Since the best sources of top-management personnel are the

ranks of lower management where the techniques of effective management are either learned well or not learned at all, industry must see that middle management—all the individuals whose functions lie between those of top management and the first-line supervisor—are given a chance to develop. Suitable financial incentives could materially assist in the progressive development of middle-management personnel in industry.

Incentives for middle management in the form of compensation may not be receiving the consideration and attention most conducive to the encouragement of today's middle-management individuals to qualify for tomorrow's top-management positions. In fact the compensation for management groups compared to that for office and plant workers seems to be decreasing in the United States, as in shown in Table I. Even though middle-management personnel are often assigned routine responsibilities, they are usually familiar with, and knowledgeable about, many essential details of company-wide operations. This know-how permits middle-management people to assume considerable responsibility for major company operations, often with little suitable recognition of their performance.

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### TABLE I

**CHANGE IN AVERAGE GROSS COMPENSATION**

<table>
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<th>Percentage change in average gross compensation 1939 to 1950 (in U.S.A., excluding overtime)</th>
<th>Percentage change in average gross compensation adjusted for increased taxes and living costs to 1950 (in U.S.A.)</th>
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<tr>
<td><strong>TOP MANAGEMENT</strong>&lt;sup&gt;b&lt;/sup&gt; (Highest paid to 1/10 of 1% of large company payroll)</td>
<td>35 %</td>
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<tr>
<td><strong>MIDDLE MANAGEMENT</strong>&lt;sup&gt;b&lt;/sup&gt; (Next highest 9/10 of 1%)</td>
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<sup>a</sup>Edward C. Bursk, "Thinking Ahead: Lag in Executive Compensation", *Harvard Business Review*, March/April 1952, page 142. The findings of a survey made by Arch Patton of McKinsey and Company were made public here for the first time. They were based on a survey of 41 firms representing steel, non-ferrous metals, mining, food, automobile, aircraft, banking, insurance, glass and metal containers, petroleum, railroads and miscellaneous consumer goods industries.

<sup>b</sup>The average gross compensation of top management does not include capital gain arising from individual stock options, nor reflect income deferred to the future under specific arrangement by individual executives. Both of these methods are increasingly important income sources to top management throughout their lifetime, but are seldom available to middle management. Individuals in middle management do not have the personal funds generally required to take up stock options, so it is likely that such sources of income would alter the changes shown for middle management less than for top management.
Little research has been performed on the needs of middle-management employees and their motivation by suitable compensation plans. Numerous articles appear in business publications which deal with executive compensation, but few, if any, apply to middle management.\(^3\) An exhaustive bibliography on "Executive Compensation" contained very few articles referring to middle management.\(^4\) Furthermore, there was a definite lack of data about compensation patterns and the use of financial incentives for top management in Canadian industry, let alone for the middle management group.\(^5\)


\(^5\) Canada, Department of Labor, Economics Research Branch, "Methods of Wage Payment in Canada in Manufacturing, October 1954", The Labor Gazette, April 1956, page 435. This is a lone report on the use of "payment by results" schemes for the wage earners in Canada, and makes no reference to similar schemes for management or supervisory personnel.

The 1952 level of 20% for the use of such schemes for wage earners in Canada was less than half the 50% occurrence in the United States, as reported by the National Industrial Conference Board, Personnel Activities in American Business, (Revised), Survey of Personnel Policy # 86; New York: 1947, page 12. Interest in incentives, even for wage earners, seems to lag in Canada as compared with greater acceptance in the U. S. A.
It appeared to the writer that little attention had been directed toward the study of compensation plans designed for middle-management in Canadian industry. No evidence was found to indicate that any study of this area had been made in British Columbia. The present effort was initiated to discover what financial incentives were being used by British Columbia industry for middle-management people.

Financial Incentives for Middle Management Are Important

The middle segment of management personnel in industry is growing rapidly. Industry in Canada and in British Columbia is growing with the country's expansion in population and requires more management people. In Canada, the proportions of reported employees classed as salaried staff in manufacturing industries increased from 16.3% in 1946 to 18.5% in 1950 and to 24.4% in 1960. These figures show the average for all companies large and small. In large companies this increase in the proportion of salaried personnel, of which middle management forms a very large part, is perhaps greater.

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Patton reports the increase in employment in a large United States Manufacturer as considerably greater for salaried employees than for hourly rated workers:
Many industrial concerns in the United States, when threatened with a shortage of trained and experienced future executives, have recognized the importance of middle-management people by providing suitable financial incentives. Following the initiation of a program for decentralization, the General Electric Company recently turned to the utilization of economic incentives for nearly 2000 key employees. The company uses incentive compensation along with intensive training and other techniques designed to develop leaders and train management personnel in decision-making. This is an example of how financial incentives are being recognized as an important course available to industry for the development of middle-management individuals.

Financial incentives are not a panacea, but in an intensive study of compensation and incentives for industrial executives, Fetter concluded that such plans are important to business activity. Financial incentive plans for management

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<td>Hourly-rated</td>
<td>+ 60%</td>
<td>+ 16%</td>
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<tr>
<td>Salaried</td>
<td>+ 130%</td>
<td>+ 70%</td>
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personnel can materially help in assuring that past industrial progress is maintained or preferably increased. If adequate financial incentives are not available, it is possible that potential top executives for industry will be fewer in number as well as less capable, less productive, and less dynamic. Accordingly, if British Columbia industry wishes to remain competitive, it is important that more financial incentives are made available to middle management to encourage the development of future top-management people.

Purpose and Hypotheses

The purpose of this study is to determine what use is being made of financial incentive plans in British Columbia manufacturing industry for management people, particularly middle management personnel. It is desirable to determine what types of incentives are being used and if industry is offering more, or less, encouragement to middle management than it is giving to other employee groups. More specifically, an attempt will be made to evaluate the following hypotheses:

(1) The attention given by industry to the actual use of financial incentives for middle management is lagging behind attention given financial incentives for a) top management, and b) first-line supervisors.

(2) Large firms (of over 400 employees) show more interest in the use of financial incentives for middle management than do smaller firms.
Firms using financial incentives for office and production workers pay less attention to the use of financial incentives for middle management than do firms not using them.

A salary increase is used more often than any other type of financial incentive to motivate employees.

It is anticipated that the acceptance or rejection of these hypotheses will determine the broad characteristics of the use of financial incentives for middle management in the manufacturing industries of British Columbia. Perhaps this preliminary approach will uncover conditions, or arouse interest, leading to further work on the middle-management problem to the ultimate benefit of industry in the province.

Methodology

A search was made of available sources of information in respect to motivation theories, the use of financial incentives for middle management, and the use of financial incentives in Canadian industry. Publications at two local libraries and studies from other private and government sources in Canada and the United States were utilized.

The failure to find data and information concerning the application of financial incentives to middle management personnel in industry necessitated a study of primary sources in British Columbia. These sources comprised all the resource industries and secondary manufacturing industries in the province.
The study should reveal in the first instance what types of financial incentive plans were being used and for which employee groups.

Since the manufacturing firms in British Columbia number several thousand and since many are located hundreds of miles apart, it was necessary to sample this group with a mail survey supplemented by direct interviews. A systematic sample of 111 companies was drawn from a known group of 555 firms actually manufacturing in British Columbia. 10 This group was composed of small, medium, and large manufacturing concerns which included steel fabricators, pulp, paper, and lumber producers, clothing manufacturers, and food processors. They were located on the lower mainland, on Vancouver Island, and throughout other areas of British Columbia.

The questionnaire form, consisting of ten questions together with a covering letter, an explanation of terms used, and a stamped reply envelope, was mailed to each firm sampled. The main questions covered the use of financial incentives for different sizes of companies and for various

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10 A systematic sample comprises every \( k^{th} \) item on an ordered list of the population commencing with a number from 1 to \( K \) chosen at random. Here \( K \) is 5, picked from an alphabetical list of manufacturing firms. See Appendix A for details of sampling method.
employee groups. To provide valuable relative information, other questions covered the reasons for use or non-use of financial incentives and the choice of suitable incentives for specific employee or company needs. The resulting opinion scores indicated the interest in the application of incentives and in the use of different incentives for specific purposes.

After the data obtained in the survey was recapitulated, totals and ratios were developed to provide a basis for comparing and statistically accepting or rejecting the proposed hypotheses. Several questions on the survey provided direct checks on the results by asking for the same data in a different manner. Questions utilizing opposite approaches, e.g. "most" versus "least" choices, provided further substantiation of survey results. Some of the tabular data was charted to more effectively illustrate the relationships existing between some groups of data. Where possible, the results from this survey were compared with similar data from other sources. The content of the replies provided specific data and also suggested avenues suitable for further analysis that were beyond the confines of this study.²²

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¹¹ See Appendix A for details of survey questions and procedures.

¹² See "Limitations Applied to This Study", on page 17.
Approach Followed in the Balance of Thesis

The general character of the needs of both the company and the individual employee will be outlined in the second chapter to provide a basis for the ensuing discussion of the methods of compensation available to industry. Attention will then be focused on financial incentives with a detailed treatment of the "Current Motivator" and "Deferred Holding" groups of incentives considered to be of particular interest to this study.

The specific requirements of middle-management personnel, and the use of financial incentives to assist in providing them with desirable challenges, will be presented in the third chapter. Several long-established and successful incentive plans will then be examined to see what they actually provide in motivation for middle-management personnel, with conclusions about the characteristics of effective financial incentive plans. A background on the purposes and applications of financial incentives is thus provided to aid in the analysis of the survey data presented.

The fourth chapter is concerned with presenting a recapitulation of the results obtained from the mailed queries and

13See "Definitions of Terms Used", on page 12.
direct interviews. These results will be discussed in detail and comparable or interesting relationships evaluated or illustrated on charts. The findings will be applied to the acceptance or rejection of the proposed hypotheses. New relationships that become apparent will be discussed, and notable aspects arising from survey interviews will be presented.

A summary of the findings and conclusions will appear in the fifth chapter, together with facets of the problem which may be suitable for further study.

Additional details on the survey method, relative data from other sources, and several incentive plans will be carried in four appendices.

**Definitions of Terms Used**

Definitions of a few specific terms most frequently used in this study are now given for clarity and uniformity of understanding.\(^{14}\)

*Manufacturing industry* consists of any organization, company, or department whose purpose is to increase the worth of materials by performing work thereon, as opposed to a sales organization marketing products or services, public utilities, or other similar non-manufacturing business activities.

*Management* consists of all individuals in the organization

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\(^{14}\)Definitions of the more important terms also accompanied the survey form sent to sample groups. See Appendix A.
of an industrial enterprise including the president and the first-line supervisor or foreman directly guiding the efforts of the production and office workers. Management provides the guidance and decision-making that give effective direction to cooperative human effort in the firm through "planning", "organizing", "staffing", "directing", and "controlling" functions. Normally management personnel are salaried individuals as opposed to hourly-rated employees and are often referred to as "exempted classifications" because they are not classified as "employees" entitled to unionize under the British Columbia Labor Relations Act.

Top management consists of the top management group responsible for long-term risk decisions. In larger companies this will usually include the President, Vice-Presidents, and related positions of controller, treasurer, and similar positions on the same level, all of whom are probably employed under individual contract with bonuses, options, or other specific financial arrangements. In smaller companies this top management group will likely consist of the Owner-President and managers who are probably enjoying specific financial arrangements with the owner.

Middle management is composed of professional, line, and staff personnel performing functions that lie between those of top management and the first-line supervisor and that are concerned mainly with making short-term operating decisions.  

First-line supervisor is the individual on the management team responsible for the direct supervision of the office, clerical, or production worker. He is a member of the "bottom level"of management, but is still within the group of "salaried employees".

Basic salary or wages includes regular pay, overtime, and such employee benefits as holidays, pension plans, health, accident, and group life insurance plans or similar allowances which are not based on, or changed with individual performance.

16Edward C. Bursk, "Thinking Ahead: Lag in Executive Compensation", Harvard Business Review, March/April 1952, page 141; and Richard C. Smyth, "Bonus Plans for Executives", Harvard Business Review, July/August 1959, page 68. Both Bursk and Smyth suggest that "Top Management" comprises the highest 1/10 of 1% of the payroll in large companies, and up to 1/2 of 1% in medium-sized companies. Further that "Middle Management" positions will typically comprise the next 9/10 of 1% in very large companies, and will range from 1/2 of 1% to 2% in the medium-sized companies. These detailed segregations are offered here for comparison purposes only, as they were not followed in the British Columbia study.

17It was assumed in this study, as it is in most discussions of incentives, that the basic salary offered for any position was competitive with that paid for like positions with like responsibilities in that locality.
An incentive is an objective goal which tends to encourage and motivate action or performance improvement and is capable of satisfying an individual's needs or desires.¹⁸

Financial incentives consist of additional employee income over and above established basic salary or wage; these incentives are designed to increase the total yearly earnings, actual or calculated, and at the same time to encourage more productive, efficient performance of the individual or of the group with which he works, and to encourage creativity in methods, processes or products.¹⁹

"Current Motivator" Types of Financial Incentives ²⁰

Cash bonus (incentive type (a) on questionnaire) is a bonus paid currently in cash or company stock; it is usually paid

¹⁸ Frederic Hooper, Management Survey, Harmondsworth, Middlesex: Penguin Books Ltd., 1960, page 121. States that "Incentives are at the root of all that a good climate means to workers at every level, to the success and stability of the business and of the society in which the business forms an important representative social institution."

In addition Hooper quotes Nigel Balchin as saying that an incentive "Must be something that a man can see and feel all around him at his bench or his desk on a wet Monday morning---not a huge principle in a public speech."

¹⁹ Increases in salary attached to competitive offers of employment from other than a current employer, as interpreted herein are not considered financial incentives for an individual in a given position.

²⁰ Types of "Current Motivator" and "Deferred-holding" forms of financial incentives of specific interest to this study are briefly defined here, and are discussed in detail in the latter part of Chapter II.
promptly following the commendable action or performance it recognizes and is usually based on a measurement of that performance against a predetermined goal or operating budget.

**Profit sharing** (incentive type (b) on questionnaire) is any procedure under which an employer pays, in addition to prevailing rates of pay, special current or deferred sums based on the profits of the business.21

*Stock plans* (incentive type (c) on questionnaire) usually permit a broad group of employees to purchase company stock at current market prices, with or without company contributions of additional stock. *Stock options* are often granted only to a limited number of executives for the purchase of company stock at reduced prices at a future date.

"Deferred-Holding" Types of Financial Incentives

**Deferred income** (incentive type (d) on questionnaire) is entirely separate from regular pension plan arrangements and is that part of earned salary not paid until retirement when the recipient expects to enjoy a lower income tax rate.

**Increases in salaries and wages** (incentive type (e) on questionnaire) as a form of financial incentive are those increases granted specifically in consideration for unusual non-recurring specific efforts or performance. They are not

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automatic increases, increases on basis of merit rating, or general increases to match changes in salary or wage levels in the community.

Other financial incentives (incentive type (f) on questionnaire) may be any form of financial incentive not falling in the above defined types, such as guaranteed annual wages, safety bonus, or piecework.

Limitations Applied to This Study

In the analysis of a problem by means of a survey, it is not possible or feasible to establish field conditions most suitable to obtaining reproducible results. Specific field conditions cannot be established nor can existing conditions be held constant for all firms sampled. It is therefore necessary to recognize limiting conditions beyond the control of the surveyor which cannot be eliminated from the method of survey, analysis of returns, or the results and conclusions.

The following limitations apply to this study:

(1) This study is concerned only with the production and management personnel of the manufacturing industries of British Columbia. 22

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22 Sales staff personnel are excluded, as often their remuneration pattern with frequent use of commissions differs considerably from that of other manufacturing company personnel; and the proportion of sales may vary considerably both by company and by industry within the general area of manufacturing activity.
(2) The type differentiation of industry existing in British Columbia is assumed to be similar to that occurring in other industrial areas.

(3) The firms surveyed are classified only by the number of employees and by the location of the company head office.

(4) No attempt will be made to isolate, define, or evaluate the effect of abnormal variations or bias arising from any source such as:

   (a) Sampling or tabulation procedures used;

   (b) Mis-interpretation of terms, phrasing, and classification of incentives on questionnaire used;

   (c) Non-uniformity of positions held by respondents from different companies; and

   (d) Personal interests and experience of respondent.

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23. The large proportion of sawmills and other wood processing plants in British Columbia may differ considerably from other areas covered by survey data used for comparison. The lumbering industry may exhibit specific conditions and problems not evident in other manufacturing plants producing industrial and consumer goods. Likewise industries covered may vary greatly in custom and policy from those existing in other areas.

24. This overlooks variations in response caused by companies being branch operations, tightly controlled subsidiaries, privately or publicly owned, or similar. The existence of middle management in different-sized companies may not be proportionate or comparable.

25. The non-response, for example, of 25% of the systematic random sample could arise from a common characteristic, or attitude towards financial incentives which was not reflected.
(5) The acceptable confidence level obtained in the survey applies only to the actual use of financial incentives in the manufacturing industries of British Columbia.  

(6) Basic salaries and wages in an employee group are assumed to be equitable with other positions and salary scales within the company and with those in the local area.

(7) The comparison of the survey results with other data is limited to that available in Canada or the United States and by the lack of fully comparable or like information.

(8) The only motivating technique being examined is that provided by the use of financial incentives.

by those that did reply. The people being spoken to and reporting from each company or industry are not holding identical company positions. They could be influenced by the responsibilities of their positions, the attitudes or behavior expected of them by the organization, or by members of their immediate work group. The personal interests of the specific respondent and his attitude towards the management group of which he is a member, may well affect his evaluation and treatment of that group on the questionnaire.

This lack of comparability arises from the great variety of organizational structures, managerial group divisions, and groupings by company size. One American survey excludes all companies with less than 100 employees, which would exclude all small and some medium-sized companies in British Columbia, as used in this survey.

The main reason is specific and practical—money or remuneration is the only motivational reward that can readily be measured objectively. All other motivations are qualitative requiring subjective evaluation rather than objective measure-
(9) The specific effectiveness of different financial incentives is not being determined.

(10) The use of a specific type of incentive by an industry is accepted as evidence that interest exists in the application of financial incentives to some employee group.

(11) The methods used by companies to measure or control the effectiveness of individual or group performance are not being evaluated.  

(12) The existence of, or the influence of, any differences in the organizational structure and characteristics of companies of the same or different sizes were not evaluated.

It has been convenient to classify financial incentives according to the nature of their effectiveness, "Current Motivator" and "Deferred-holding" groups. This is not meant to be an absolute measure of their effectiveness.
CHAPTER II

NEEDS AND METHODS OF COMPENSATION

Because the objectives of a business today extend beyond the traditional theorem of maximization of profits to include a balance of a variety of needs and goals, a compensation and incentive plan to be fully effective should further the objectives of both the company and of the individual. Performance and results are set in terms of company resources, productivity, market standing, innovation, employee performance, manager development, worker attitudes, and public responsibility. The objectives of the individual are to meet his own needs and those of his family for food, shelter, belongingness, status, and opportunities for personal development and achievement. A successful financial incentive should motivate an individual to behave in a way which will lead him towards his personal objectives and the fulfilment of his own needs, while at the same time furthering the objectives of the company by satisfying pressing organizational needs.

An examination of the nature of the needs of both industry and employee is necessary for an understanding of the character-  

istics of effective financial incentives and their use in advancing the purposes of industry and in meeting the needs of the individual. The needs of both company and employee are constantly changing with the changing environment, but the basic structure of needs should be recognized before the nature of this change can be understood. This recognition will assist in the development and application of financial incentives important to the advancement and growth of a successful enterprise.

The Needs of the Company

To survive and grow in the face of competition a company needs to use effectively both its physical and human resources. The decisions made by management respecting the best utilization of the company's human resources are important in determining the future of the enterprise. To assure that the best decisions are made it is essential that the company have a staff capable of adjusting to changing conditions in the work place, and in the work force. The development of a good staff necessitates attracting, retaining, and motivating management individuals, and applying measurement techniques to assure that the required levels of performance are attained. These critical

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and basic needs, centered around the provision and maintenance of capable company staff, are discussed in this section.

The workplace has altered considerably, - it differs greatly from that of the past. Over the ages, the industrial activities of man have expanded from the small shop of the home artisan to the larger business activities of partnerships and finally, as a result of industrial revolution, to the plants of private and public companies. This process of growth is still continuing, and since both the size and complexity of industrial corporations are continually increasing, the present-day industrial enterprise will continue to alter. The cluttered single workbench by the window has given way to the giant power-driven machine or spotless air-conditioned laboratory. Mass production and assembly-line techniques are being threatened by the automation of continuous processes.

This evolution of industrial activities has also involved many changes for the work force. The artisan fabricated the complete product, but today's machine operator often performs a monotonous routine task which is only part of a larger operation. The employee is usually specially trained, frequently works as a member of a large group or team, and is often a member of a plant union. New specialized management positions have evolved which are seriously concerned with the effective supervision and full utilization of all human resources available to industry.
The industrial company of today is faced with ever-changing problems in the expansion and structure of its organization. The company must learn and apply the principles of good personnel management, at the same time successfully direct all corporate functions of the concern, and sometimes expand these endeavors in the face of competitive activity. The concerted teamwork and the full utilization of the most qualified management personnel available to the company are required.

To attain the company objectives through the utilization of available human resources, the greatest concern of any sound and comprehensive plan of management should be:

1. **To attract** the desired calibre of management talent from other companies or from subordinate positions within;

2. **To retain** the desired calibre of management personnel;

3. **To motivate** management personnel to a sustained high level of personal performance to achieve corporate profit and growth objectives.3

Attracting, retaining, and motivating management personnel are challenging problems to most manufacturing firms. High salaries alone without additional incentives are usually not sufficient inducement to retain key personnel and to motivate them to adapt their performance to the demands and changes forced by competitive activity and progressive pressures.

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Some form of compensation which is directly linked to actual individual performance is required to hold and to encourage individuals to perform as effective members of cohesive and necessarily interlocked groups in the industrial complex of today.

A bonus plan based on specific results from better than normal efforts by management personnel can be used to motivate industrial personnel. For example, the General Motors bonus plan, in operation with changes since 1918, has been of considerable benefit to the stockholders through the years. In 1955, an unusually profitable year, General Motors paid $92 million in bonuses to some 13,000 management employees. If this had been diverted to the shareholders, half of the $46 million left after taxes would have provided only approximately $.08 per share in addition to $2.17 paid per share. The continued existence and planned expansion of this bonus plan are proof that the board of directors considered that the best interests of the shareholders and company were served by the bonus distribution made on a performance basis. Thus the measurement of management personnel performance is an essential step in keeping both company and employee aware of how well the firm's human resources are being

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utilized.\textsuperscript{5}

Performance measurement is vital to the success of every financial incentive plan, particularly when one or more of several types of incentives are used. The use of overall

\textsuperscript{5}Performance measurement is an essential step in awarding financial incentives directed at rewarding individuals for their performance. For management personnel, who are not producing easily counted or measured units of production, this is often a vague and difficult procedure. Recourse is generally made to the performance appraisal by superiors, but this is not sufficiently objective to be used as a fully satisfactory basis for determining the financial incentive payments for management individuals.

Performance measurement is usually obtained in much the same manner that supervisors carry out job evaluations and make recommendations for salary changes. Often supervisors try to second-guess their subordinates, who in turn try to give top management the picture they think is wanted "upstairs".

This approach frequently results in "data adjustment" that clouds the true situation, to the ultimate and continuing detriment of company operations according to McGregor.\textsuperscript{6} Likert also reports that performance reviews have been found to be detrimental to the future development of managerial personnel, as they often seriously "deflate the employee's sense of importance and personnel worth."\textsuperscript{6}

It is virtually impossible to tell an employee that he does not "measure up", without having him feel threatened, rejected, and discouraged—which impairs the job performance of both supervisor and subordinate.

compensation plans with specific financial incentives tied to objective performance measurement could conceivably reinforce the cycle of performance and motivation. The use of objective methods for measurement is desirable because people seem most willing to accept information about their own inadequacies in the form of objective evidence such as the extent to which the goals of the individual or of his work group assist in the achievement of the organization's objectives. But the ability to measure the performance of management personnel objectively must precede the successful application of financial incentives in the management area. This is a specific problem

7Rensis Likert, ibid., page 79. In a group of decentralized companies or different departments within a company "the use of measurements as guides to action enables each manager to tap the full experience of his entire company---and other companies---in seeking ways to improve his behavior and his performance."

When each manager, at different levels in an organization wants the objective measurements for his own information and guidance to better performance, he is motivated positively to better performance and to the collection of correct data for measurement and evaluation within both the group he leads and the group he belongs to, under his own supervisor.

This interlocked chain of teamwork is an entirely different situation from many existing under established methods of performance appraisal. It is an important adjunct to an effective incentive plan.

in itself and will not be developed further in this study.\textsuperscript{9}

The preceding discussion has emphasized that the fulfillment of the basic needs of the company in attracting, retaining, and motivating personnel, and objectively measuring their performance is important to long-term company progress. The satisfaction of these needs has an important bearing on the effective application of compensation methods to management personnel, but a parallel consideration of the needs of individual employees is also pertinent to a satisfactory solution of the problem and will be covered in the following section.

Needs of the Employee

To understand the use and application of different financial incentives from the individual worker's point of view, it is desirable to consider the basic needs and motives of employees. This examination should provide a background for evaluating financial incentives which may be useful and applicable to work situations in industry.

It may be said that man is motivated to work by the main incentive of money and the secondary fear of unemployment---"the carrot and the stick" hypothesis.\textsuperscript{10} Some men will claim

\textsuperscript{9}See "Limitations" at end of Chapter I, page 17.

they work because they have to in order to live. Others\(^\text{11}\) will say that they work for money, for its usefulness in providing their basic needs for food, clothing, and shelter—and their ancillary desires for possessions, power, prestige, and enjoyable pastimes.

The many needs of men may be classified, according to Maslow, into five basic groups:

(1) Physiological needs,
(2) Safety needs,
(3) Belongingness and social needs,
(4) Esteem or egoistic needs, and
(5) Self-actualization needs.\(^\text{12}\)

These are arranged in order of requirement, rising in steps to higher order of need; the first are innate and the latter are acquired.

**Physiological needs** are those biological needs of hunger, thirst, maternal drives, and sex urges. These needs are presumably so well satisfied in our society when an employee is enjoying an equitable basic salary or wage that they do not normally enter into consideration of employee needs by industry.\(^\text{13}\)

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\(^{11}\) "Others" refers essentially to all others.


\(^{13}\) See "Basic Salary or Wages", in Chapter I, page 14.
**Safety needs** are the desire for security. The employee wants to be assured that his job is secure as long as his performance is good and as long as economic conditions are such that employment is possible. The desire to have protection when old or ill is also involved. Pensions, insurance plans, sickness benefits, and similar considerations in general use throughout industry are specifically designed to meet this need.

**Belongingness and social needs** are the desire to be a member of a group, to belong to some organization greater than ourselves. This is the need to be a member of a team, to have the opportunity to help other people, and to develop close friendships. In industry this need is provided primarily by associations in the working group, but it is also supplemented by employee associations with their athletic or social activities, and by being a member of a specific firm, company or union.

**Esteem or egoistic needs** are fulfilled by the feeling of self-esteem arising from holding a certain position. This includes status and pride---the need to feel oneself a person of consequence and to enjoy the respect and admiration of others. Included here are aspects of business and industry such as authority, opportunity for action, participation in goal-setting and determination of procedures, which are often offered by the various committee structures associated with successful incentive plans.
Self-actualization needs are those opportunities for personal growth and development, self-fulfilment, and a feeling of worthwhile accomplishment and achievement. This involves also the need to feel that one is doing a job that needs to be done—and the need to know that one is doing that job well.

In the work situation the employee would like management to explain changes affecting his work before the changes are made—he desires to have a voice in the affairs that affect him. He wants to know how he is doing, where he fits in the organization, what is expected of him, what is going on in the company, and as far as possible—why. Particularly he wishes to know that he is being taken seriously and is being considered when he offers suggestions or lodges complaints.

Each want has become thoroughly ingrained in the ideals of our industrial society. In fact these employee wants are established so deeply that they are often thought of as "human rights"—the essentials of personal dignity and of human justice.

Even though these wants are basic they do not individually maintain a consistent position of importance—for each person a new primary need is always arising.\(^{14}\) Primary needs seldom

\(^{14}\)The primary needs of an individual are those dominant at a given time, which for him are of current importance.

Maslow's five groups of needs are not to be thought of as
remain satisfied for long, for they are constantly altering position and are replacing each other. This state of flux or continuing variation in the current primary needs of the individual employee must be recognized if any approach to motivating individuals in the work place is to be successful.

The same basic needs and primary patterns of wants cannot be applied to separate groups of employees, which are somewhat differentiated by social and work environments. It cannot be assumed that the personal needs of the members of one management group parallel exactly in variety or strength those of other groups of employees. Using the hierarchy of basic needs proposed by Maslow, Porter structured the needs of lower and middle management into security, social, esteem, autonomy and self-actualization categories. He found that some differences in needs did exist between middle and lower management groups, being wanted by each individual in a given order of requirement, in a given amount, or even all at one time. These wants and needs also vary between individuals in both what is the need, and in what would probably fulfill it.

Apart from the innate physiological needs all others are acquired, and are being altered in the process of everyday living and interaction in our culture. Thus, needs vary greatly with the individual, the company environment, the position held, the work situation, and with the passage of time.

but he did not investigate those of top management. A better understanding of the needs and wants of all management people will probably be possible when more work in these areas has been reported.

**Employee Needs and Work Rewards**

Brown suggests that there are three reasons for working, each related in varying degrees to work itself and to the fulfilment of some of the needs of the individual discussed in the previous section.  

- **First**, work may be performed as an end in itself---this is the most satisfactory reason for working---not only for the sake of "craftsmanship", but also for the "companionship" of fellow workers. This purpose is nullified if the work is meaningless to the worker or if it is carried out under conditions not permitting communication with his fellows; when these conditions exist, often being generated by automation, specialization and division of labor in industry, the employee becomes bored.

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17 Important as these non-financial needs and rewards may be, they will not be expanded further or considered in the field survey, because motivation provided by the use of financial incentives is the main interest of this study. See "Limitations" in Chapter I, page 17.
Secondly, work may be carried out willingly for reasons other than the first but associated with the work situation, i.e., for esteem---status, power, position, etc., and for self-actualization---achievement and self-fulfilment.

Thirdly, work may be performed for strictly extrinsic values---for money to be used to provide for the family, to use for a hobby, or to collect capital permitting the worker to set up his own business.

Work rewards in the form of money, which may be termed an "in-between motive" or goal, seem to be deeply involved in the process of satisfying the many and changing needs of employees. Pay or financial compensation, perhaps because it does satisfy several types of needs directly and indirectly, is a crucial item of great interest for all employees. Monetary rewards often assume some of the non-monetary values formerly carried by important needs that were previously satisfied by the job environment. Money is frequently a means of measurement or evaluation of our abilities and efforts on the job. But most important it provides each worker with flexible and mobile means to meet ever-changing needs existing off the job.


This is the opinion of Lincoln, president of a company operating possibly the most outstanding incentive management plan in America today. See Appendix C for further details.
job or not available in the work situation.

Financial compensation is usually designed to encourage continued work at the same level of effort or to improve that performance effort. Salaries\textsuperscript{19} and protective compensation such as pensions, insurance, or deferred income are mainly used as compensation for a normal amount or level of work. Managerial staff employed on straight salary is unlikely to be concerned about increasing their effort or improving their performance. It is only when supplemental pay in the form of financial incentives is offered that management personnel can be induced to behave in an enterprising manner profitable to themselves and to the company also.

Money that is truly a financial incentive can be most effective in forwarding the objectives of an enterprise.\textsuperscript{20}

\textsuperscript{19}In this study it is assumed that salaries are equitable and further consideration will not be given to any motivating effect of basic salary structures. See "Limitations" in Chapter I, page 17.

\textsuperscript{20}Lincoln, op. cit. Appendix and Addendum to Appendix in fifth printing, 1960. The price of Lincoln welding units in 1959 was approximately 80\% of that in 1934, while the prices have increased three times for steel, four times for copper, and five times for hourly rates of pay.

The annual increase in productivity has averaged 15\% yearly (3\% for all manufacturing); sales value of products per employee are 4 times in 1959 of that in 1934 (double that of all manufacturing industry).
An incentive program with a "payment for results" approach can provide definite benefits to the company and at the same time offer the employee a way to add to his basic pay. In a survey of thirty-three manufacturing companies, Opinion Research Corporation found that profit-sharing plans added more than 10% to the basic pay of about 40% of the production and managerial employees. Compensation plans using other types of financial incentives by themselves or in conjunction with profit-sharing frequently provide larger additions to income for employees than do profit-sharing plans alone.

The use of financial incentive plans by American industry appears to be widespread and increasing. A survey in 1946 by the Industrial Conference Board of 600 manufacturing companies reported that 32% were using some form of financial incentives for salaried personnel. In the companies studied by Fetter,

21Opinion Research Corporation, "How Profit Sharing Affects Employee Attitudes", Public Opinion Index for Industry, October 1957, Princeton, N. J.: Opinion Research Corp., copyrighted. 384 employees had 10% to 19%, and 72 had more than 20% added to their pay among a group of 1068 receiving bonuses out of 2153 employees of a group of firms sampled.

22Lincoln, op. cit. Addendum in fifth printing, 1960. Average annual earnings including incentive bonuses of all employees were $10,000 ($5,500 for all manufacturing industries); labor turnover per month was less than 1% (3% for all manufacturing industries); and the company paid a regular 6% dividend to shareholders up to 1950 (later data not given).

23National Industrial Conference Board, Personnel Activities in American Business (Revised), Survey of Personnel Policy # 86,
there was an almost equal use of straight salary and of salary plus incentive plans, with the latter slightly favoured.  

A later report of the U. S. Department of Labor indicated the increasing importance of financial incentives as part of compensation plans with 44% of the 9680 firms reporting such use in 1960 among salaried personnel.  

Types of Financial Incentives Critical to This Study

A great variety of financial incentive or bonus pay plans supplemental to salaries have been developed and utilized. There are two general ways in which these plans may operate:

(1) they may promise the participant a share of the profits

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The survey also reports that similar financial incentives were used for hourly-rated production workers by about 50% of the group surveyed in 1946.


The studies of Fetter concerning compensation and incentives for top management in industry were directed at the problem of how capable executives are to be compensated so that they are induced to exert their most productive efforts for rewards that are economically and also socially acceptable.

if the company prospers; and (2) they may reward the individual for his personal and specific contribution towards that profit. These will be discussed when the different types of financial incentives considered critical to this study are examined in this section.

In studying the use of financial incentives for middle management as compared to other management groups, it is necessary to determine which financial incentives are being used for each employee group. Individually in the smaller company and collectively in the larger concern, people in middle management play a variety of roles. It is probable that compensation plans for middle management vary with the manner in which individuals are organized to advance the objectives of the concern. Since it was not feasible to investigate separately all the variations and combinations of financial incentives being utilized in British Columbia, similar types were grouped and arranged into a classification better suited to making comparisons when analyzing the result of the survey of industry.

The primary interest of this study lies in the use of types of financial incentives grouped under (a) Cash Bonus,

(b) Profit Sharing, and (c) Stock Plans. These are all current motivators of day-to-day job performance and will be referred to as the "Current Motivator" group of financial incentives. The remaining types in general use, (d) Deferred Income, (e) Increases in Salaries and Wages, and (f) Other Financial Incentives, are of secondary interest, all having a "Deferred-holding" effect. The main characteristics of each type, its utilization in industry, and its suitability for company and employee will now be examined.

"Current Motivator" group of incentives

(a) **Cash Bonus**

Cash bonuses\(^{27}\) are frequently considered to be the most effective form of incentive, particularly when directly related to the performance of an individual or group as measured against a predetermined goal or operating budget.\(^{28}\)

Distribution of bonuses according to individual performance,

\(^{27}\)"Cash Bonus" was defined in Chapter I, page 15.

\(^{28}\)Fetter and Johnson, *op. cit.*, page 87, report from a survey of 20 companies using incentive plans, that two-thirds of them "made direct payment in cash of the entire amount of the bonus for the period in which it was awarded; and National Industrial Conference Board, *Top Executive Compensation*, Studies in Personnel Policy No. 179, New York: Natl. Ind. Conf. Board, 1960, page 15. Here, 52% of 634 companies surveyed operated some form of bonus plan for three top executives. About 65% of 327 firms operating bonus plans paid the entire bonus at the close of the year in which it was earned.
ranging from no reward to a large financial share, usually creates more incentive effort than if awards are made as a percentage of salaries. When a strong team-effort is also desired, awards made on a combination of salary and individual performance may be more effective motivators. No one method or plan is necessarily suitable for every firm or division of a company. Each situation requires a specific "tailored-to-measure" program for best results.

Cash bonuses are most acceptable because of their promptness, but they should not become a regularly expected event unless justified by a continuing improvement in performance. A bonus that becomes fixed, known, or established on some regular basis other than performance ceases to be an incentive. Scarcity is characteristic of effective incentive rewards.

Cash bonuses tend to dramatize short-term contributions to profit and help to focus constant attention on worthy efforts which are often overlooked when compensation consists of salary only.

If cash bonuses are fully contingent on a profit in a current period, they develop some of the unsatisfactory characteristics of profit-sharing in that a commendable effort of an individual or a group which has highly desirable long-term benefits to the company may go unrewarded.\footnote{Profit-sharing will be discussed in the following section.}
Since this in turn may discourage similar efforts by others, it is desirable that some provisions be made by budgeting for bonus payments in order that a consistent policy of continued recognition may prevail over the long run.\footnote{30}

(b) Profit Sharing

Profit sharing is an ideal based on the premise that the goals of the company and its employees are similar.\footnote{31} Welsford claims that profit sharing works because top management makes it work and that it is only as successful as management desires.\footnote{32} Management should not embark on a profit-sharing plan unless it fully supports the philosophy and underlying ideals of truly sharing the profits.


\footnote{31}{Definition of Profit Sharing in Chapter I, page 16; and J. B. Meir, ed., \textit{Profit Sharing Manual}, Chicago: Council of Profit Sharing Industries, 1957.}

\footnote{32}{W. D. Welsford, "Installing a Profit Sharing Plan in Your Company", \textit{Cost and Management}, April 1956 (Society of Industrial and Cost Accountants of Canada, Hamilton, Ont.), page 153.}
Key people in both top and middle management who are making pertinent company decisions or performing functions contributing to an increase in company profits often feel that they should share in that profit. Many companies consider this reasonable and acceptable.\textsuperscript{33}

Advantages arising from profit-sharing plans depend basically on the continued operation and prosperity of the company involved. Workers under a profit-sharing plan tend to become more cost conscious, willing not only to work more effectively but also to reduce wastage of materials. Profit sharing provides a common ground of mutual interest, confidence, and respect on which management and workers may meet; it promotes team-work and fosters a spirit of unity among personnel participating in a group activity.\textsuperscript{34}

Disadvantages to profit sharing tend to stem from the rise and fall of company profits resulting in a disappearance of sharing when profits decline seriously. Likewise when profits permit only small payments to employees relative to

\textsuperscript{33}National Industrial Conference Board, \textit{Sharing Profits with Employees}, Studies in Personnel Policy No. 162, New York: National Industrial Conference Board, 1957, page 9. Following the Second World War the growth of these plans has been phenomenal, and the number qualified under the United States Internal Revenue Code had risen to an estimate of 10,000 or more by the end of 1956.

\textsuperscript{34}W. Irvin Brennan, "What about Profit Sharing?" \textit{American Business}, August 1955, page 9.
their earnings (8% or less), the effectiveness of the plan ceases. Dissatisfactions reported by plan users were mainly (a) "No stimulation for efficiency", and (b) "Took plan for granted".  

The bonus arising from profit sharing is usually distributed on the basis of salary earned; thus all individuals share proportionately in that portion of the profits available for distribution. This is effective for the management group when only two or three persons are involved, but its incentive value is seriously diluted when a large number share the profit in common. A particular weakness occurs when some individuals do not carry their share of the work load. Again some individuals may be ignored to the detriment of company operations if the profit shared is limited by arbitrary evaluation of company success in a given period and paid only to those with a basic salary above a specified amount or to those with certain required years of service. These problems tend to be overcome only when distribution of bonuses, from whatever source, is directly related to the performance and contributions of the individual.


Smyth prefers the use of a formula setting aside a given portion of the earnings from a particular period which is distributed according to some specific performance pattern to management personnel on an individual basis. The earnings to be distributed should arise solely from the effort of the employee participants. These amounts should not include capital gain on assets and inventories, or returns from investments in other companies over which the management individuals participating in the bonus exert no control.

Two general types of profit sharing exist, plus a combination of both. The current or cash payment plan provides incentive for improved performance as a plant unit or company group when payments are made on the basis of salary earned. The deferred plan, usually with the existence of a trust agreement, provides for the segregation of funds arising from the profits and for delayed payments to participants. This enlarges pension coverage and improves security, but provides little incentive to improve day-to-day effort as the employee currently has nothing tangible in hand. Opinion Research Corporation reported that deferred plans were used more than cash types for management groups, while both types or a

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combination were more suitable for production employees.  

The National Industrial Conference Board reported in 1957 that the trend was actively towards the use of deferred payments and away from the current plan method of distributing payments, with a growing interest in the use of a combination of both plans.

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38 Opinion Research Corporation, loc. cit.

TABLE III

PROFIT SHARING PLAN - 'TYPE USED, AND ADDITIONS TO PAY\(^a\)

<table>
<thead>
<tr>
<th></th>
<th>Percentage Base</th>
<th>Pays by Current Plan</th>
<th>Pays by Deferred Plan</th>
<th>A Combination Plan</th>
<th>Not Reported</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL EMPLOYEES</td>
<td>2153</td>
<td>31%</td>
<td>43%</td>
<td>22%</td>
<td>4%</td>
</tr>
<tr>
<td>Clerical</td>
<td>467</td>
<td>17%</td>
<td>62%</td>
<td>17%</td>
<td>4%</td>
</tr>
<tr>
<td>Production</td>
<td>1431</td>
<td>39%</td>
<td>32%</td>
<td>25%</td>
<td>4%</td>
</tr>
<tr>
<td>Professional and Managerial</td>
<td>235</td>
<td>8%</td>
<td>77%</td>
<td>14%</td>
<td>1%</td>
</tr>
</tbody>
</table>

PROFIT SHARING ADDED TO PAY

<p>| | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - 4%</td>
<td>220</td>
<td>26%</td>
<td>40%</td>
<td>32%</td>
<td>2%</td>
</tr>
<tr>
<td>5 - 9%</td>
<td>392</td>
<td>30%</td>
<td>41%</td>
<td>28%</td>
<td>1%</td>
</tr>
<tr>
<td>10 - 19%</td>
<td>384</td>
<td>43%</td>
<td>41%</td>
<td>14%</td>
<td>2%</td>
</tr>
<tr>
<td>20% or more</td>
<td>72</td>
<td>19%</td>
<td>55%</td>
<td>24%</td>
<td>2%</td>
</tr>
</tbody>
</table>

\(^a\)Table content is based on replies to question: What kind of profit sharing plan does your company now have? Received from 33 manufacturing companies surveyed in 1957.

39 National Industrial Conference Board, Survey of Personnel Policies No. 162, loc. cit. A survey covering 242 companies using profit sharing plans, reported use by types as follows:

(a) 24% operated current or cash plans,
(b) 59% used deferred plans, and
(c) 17% utilized combined plans.
(c) **Stock Plans and Options**

In both stock plans and stock options, the actual cash benefit to the participant is normally deferred to some later date. The size of the ultimate cash benefit depends both on the investment made by the employee and on the future increased market value of the stock either purchased or contributed by the company—that is, on the general company prosperity.

A deferred benefit has a limited value as an individual incentive, but its value increases as the participant is able to influence the profit-making potentials of the company. Thus participating top management may benefit appreciably.

The stock option presently appears to be used specifically for the top executive in order to motivate and compensate the few risk-takers in the upper management group. In a median company surveyed in the United States, only $\frac{1}{2}$ of 1%, or thirty of six thousand employees, received stock options. In Canada, thirty-three of thirty-eight companies with stock listed on the Canadian stock exchanges reported in detail on one of the first surveys made in Canada. Of these, twenty-three were manufac-

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40 Definitions of "stock plans" and "stock options" are given in Chapter I, page 16.


turing firms, and only seven stock plans had commenced before 1955.

Stock options, though primarily provided for top management, are considered by some investigators to be in the public interest because they encourage good management over the long term. The stock option costs the company no cash outlay, maintains the established salary pattern, and usually is not subject to any government salary stabilization policy.

"Deferred-holding" group of incentives

Although this group would seem to have little incentive value, it is utilized by many companies as a specific appeal to older employees nearing retirement. It was included in the survey both for this reason and for simplicity, because a large number of respondents would likely have written about some of these types with lessened attention to others.

(d) Deferred Income

As a result of high personal income taxes which have risen sharply since 1940, many companies have adopted a "tax deferral plan" in the form of a profit-sharing trust or a deferred compensation contract. In some cases this resulted in industrial

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43 Henry Ford II, "Stock Option Plans Are in the Public Interest", Harvard Business Review, July/August 1961, page 51. They..."keep the best man in positions that have the greatest impact on the whole economy...with raising of incomes and living standards."

44 See Definitions in Chapter I, page 16.
executives' being paid as much for not working as they were for working.

The intent appears to be to reduce the "tax bite" rather than to offer compensation as an incentive or reward for responsibility assumed. The major risk in assuming that the "tax bite" will be less for the employee in later years is that no assurance can be obtained that the present tax policies will not alter in the future.

There is also another serious hazard to the company's welfare when it follows the whims of current practice or the expected expediency of tax avoidance: the economic pressure patterns of normal salary differentials and supplemental incentives could be seriously distorted. A deferred income plan will usually cost a company less in cash outlay than the equivalent increases necessary to restore traditional salary differentials between all management levels.45

(e) Increases in Salaries and Wages

If granted specifically for outstanding performance, increases in salaries may motivate performance improvement in a firm where it is well established and generally recognized

that the company benefits from frequent demonstrations of such individual effort.⁴⁶

Such a policy inevitably requires budgeting for these salary increases. There is often the tendency then to automatically award salary increases on a length-of-service basis, which generates little desire for performance improvement. It is also difficult to foresee justified increases, thus the allocated amount is often too large, resulting in added costs and over-generous awards. Conversely, if business declines, budget-cutting becomes popular if not essential. This works against the deserving individual who unfortunately missed earlier consideration. Such budgeted salary increases frequently become "cut and dried", are often "expected", and "when not granted, reactions are not likely to be constructive".⁴⁷

Automatic salary increases based on seniority or general increases have little incentive value for management personnel particularly if such increases parallel union gains for non-management workers. The practice of extending general salary increases to middle management may create dual allegiance---both to the company and to the production wage earner's union.

⁴⁶"Increases in Salaries and Wages" are defined in "Definitions" in Chapter I, page 16.

This occurs because the salaried employee is convinced that his salary increase depends on the success of the workers' union rather than on his own performance.48

Although incentive salary increases may be intended to act like a "bonus paid on the installment plan", the incentive effect on an individual's performance is of short duration and is probably considerably less than with a more frequently available cash bonus. Such increases are part of the normal salary cheque and soon become accepted as the regular and just remuneration to be expected for the usual work of that position.

(f) Other Financial Incentives

This category was established to accommodate all other financial incentives, such as piece-work and guaranteed annual wage which cannot be grouped with types (a) to (e) above.

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CHAPTER III

FINANCIAL INCENTIVES FOR MIDDLE MANAGEMENT

Different types of financial incentives, their characteristics, and their use in meeting the needs of both company and individual employees have been outlined. Companies are faced with the problem of selecting financial incentives for middle management which are both suitable for the individuals involved and effective in promoting the company objectives. This problem will be approached by examining some of the characteristic work situations and needs of middle-management people which differ from those of other groups of employees. A few incentive plans currently in operation will then be described with emphasis on how they accommodate the typical needs of industry and middle management. This approach will lead to conclusions about the apparent characteristics of effective financial incentive plans.

The Requirements of Financial Incentives for Middle Management

Middle management, even within a single company, is often a mobile, changing group composed of a variety of individuals performing many different functions in the business organization. These individuals operate in production, marketing, and treasury departments; they perform a variety of duties in jobs that range from a technical specialist to an assistant
department manager. Often middle-management personnel are on company-sponsored training programs and move through a series of positions over the years, or are individually improving and extending their skills and knowledge through private efforts. Because of this great variation in job responsibilities and tenure, middle-management interests both individually and as a group are usually varied and frequently full of change; they are probably less homogeneous in nature than those of either top management or first-line supervisors. Therefore the requirement is for flexible and diverse incentive plans to accommodate both the variability of individual goals and of company objectives as viewed by middle-management people.

Management, in addition to furthering company objectives, has a fundamental responsibility as "coordinator of human efforts"---a responsibility both to the concern and to the community within a free enterprise society. The exercise of this responsibility is vital to the successful operation of business and to the continued growth of our industrial efforts. Individuals in middle management recognize that


"The character of leadership is the most important factor in the operation of a business. This leadership belongs not only to top management but to the middle rank as well; and it must be integrative in order to use the growing specializations in our day. Coordination is the central problem of management and the junior administrators are key people in achieving it. Through them top management carries out its coordinative
not only do they share this responsibility with top management, but also that in time many of them must be ready to assume additional responsibility when they move into top-management positions.

The executives of tomorrow as members of top management will be faced with challenging competitive conditions in industry. Secondary manufacturing industry, particularly in British Columbia, is subject to increasing competitive pressures. For some secondary industry this could arise from imports coming from well-industrialized countries throughout the world; for others an increasing competitive pressure might arise from attempting to expand their markets by exporting manufactured goods from British Columbia.

Energetic, aggressively trained management personnel at all levels will be needed if this competitive pressure is to be met successfully. Men with dynamic outlooks, developed to a keen perceptiveness by active and practical competitive experience, will be required to direct and operate companies large and small. It is important to the future of many companies that suitable ways be found for management personnel to develop effectively. The provision of full and adequate financial incentive programs for middle-management individuals and responsibilities."
groups could materially help in providing the motivators and challenges needed to encourage them to prepare for the responsibilities of the top-management positions of tomorrow.\(^2\)

The increased use of financial incentives for management personnel was reported earlier.\(^3\) Incentive bonuses are becoming an established and important part of management compensation plans in some areas of American industry. Howe reports that in one survey of 20 industrial concerns in a wide variety of fields, approximately 59% of middle-management personnel received bonuses, which provided an addition of approximately 28% more income over their basic salaries as in Table IV,\(^4\) page 56.

A later and more extensive national survey reported that with 1146 manufacturing firms in the United States bonuses increased basic earnings of classified professional and

\(^2\)Robert B. Fetter and Donald C. Johnson, *Compensation and Incentives for Industrial Executives*, Bloomington, Indiana: Indiana University Press, 1952, page 125. In their conclusion they propose, among other suggestions, that one of the areas most likely to yield maximum results to industry through providing better management for tomorrow, would be a survey of the attitudes and reactions of middle management to financial incentives.

"Those who will be tomorrow's top executives must be our primary concern today."

\(^3\)Discussed under "Employee Needs and Work Rewards" in Chapter II, page 33.

administrative positions by from 5% to 20%. This indicates a fairly extensive trend. It appears that financial incentives can measurably increase the earnings of middle-management personnel.

Probably the most important requirements of financial incentives are that they be designed to motivate employees by being substantial in size when actually paid to individuals delivering outstanding performances, and that they be attainable by a fair proportion of the group, but not by all members. The value of incentives basically lies in their scarcity, but this value fades if they become so scarce that they are unknown or unwanted.

The actual size of bonuses for middle-management individuals in practical and successful use in industry varies with position and organization. According to Smyth, typical bonuses at the top-officer level usually amount to 40% - 50% of base salary, whereas at the middle-management level, 20% - 30% of salary would be more representative of bonuses actually paid. It is Smyth's belief, assuming that fair basic salaries

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6Richard C. Smyth,"Bonus Plans for Executives", Harvard Business Review, July/August 1959, page 67. The figures are based on confidential information obtained from companies of varying size in the steel, office equipment, automotive, food,
### TABLE IV

**DATA ON BONUS PRACTICES FOR DIVISIONAL OFFICERS***

<table>
<thead>
<tr>
<th>Function</th>
<th>Per Cent of Cases Receiving Bonus</th>
<th>Average Bonus as a Per Cent of Base Salary in Cases Receiving Bonus</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TOP MANAGEMENT</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Division Manager</td>
<td>73%</td>
<td>40%</td>
</tr>
<tr>
<td>Assistant Manager</td>
<td>69</td>
<td>38</td>
</tr>
<tr>
<td>Sub-total Average***b</td>
<td>72%</td>
<td>39%</td>
</tr>
<tr>
<td><strong>MIDDLE MANAGEMENT</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing Head</td>
<td>70</td>
<td>28</td>
</tr>
<tr>
<td>Sales Head</td>
<td>68</td>
<td>32</td>
</tr>
<tr>
<td>Engineering Head</td>
<td>67</td>
<td>29</td>
</tr>
<tr>
<td>Control Financial</td>
<td>64</td>
<td>21</td>
</tr>
<tr>
<td>Personnel Head</td>
<td>51</td>
<td>19</td>
</tr>
<tr>
<td>Purchasing Head</td>
<td>50</td>
<td>18</td>
</tr>
<tr>
<td>Industrial Engineer</td>
<td>41</td>
<td>19</td>
</tr>
<tr>
<td>Sub-total Average***b</td>
<td>59%</td>
<td>28%</td>
</tr>
</tbody>
</table>

#### ADDITIONAL DATA

In operations of equal size, managers earning bonuses (head and subordinates) earned an average of 19% less in base salary than non-bonus earners, but total compensation of bonus earners was 7% more than for non-bonus earners.

*Robert J. Howe, "Price Tags for Executives", *Harvard Business Review*, May/June 1956, page 98. It was based on a survey of 20 prominent industrial concerns in a wide variety of fields. The report covered 55 autonomous product-line divisions under divisional managers and some 300 subordinate principal function heads. Employment ranged from 100 to over 20,000, and sales from $1 to $300 million.

*Arithmetic averages of Howe's figures; weighted values and quantitative data were not available.

and other industries. Data are based on 1957 averages of 62 companies for top management, and based on 1957 averages of 43 companies for middle management.
are paid at the going local rate, that the bonus opportunity required to "provide sustained high level performance" is as follows:

**Top Level Positions** - A bonus opportunity of from 40% to 60% of base salary for outstanding personal performance in a year when the company makes a good fiscal showing.

**Middle Positions** - A bonus opportunity of from 30% to 40% of base salary.  

These bonus opportunities for middle management are better than one-third more than the 1957 practice, while the estimated requirement for top management is approximately one-quarter more than the existing 1957 range.

If the value and worth of individuals in middle management is not acknowledged in organizational status and reflected by both adequate basic compensation and sizable bonus opportunity, the discouragement of the potential members of top management has commenced, and the company is likely to suffer from accumulated results. Greater challenges and expanded opportunities for middle management are both required by most companies and wanted by the middle-management ranks. If these are not adequately provided, individuals looking for possible oppor-

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7See Chapter I, pages 13-14, for "Definitions" of top and middle management; and Smyth, op. cit., 1959, page 68.

8Other methods of acknowledging the worth of individuals exist, but only financial incentives are being considered in this study. See "Limitations" in Chapter I, page 17.
tunities to test their potentials will continue to look else­
where. Alternatively they will lose their enthusiasm, lower
their sights, and tend to become resigned to the incomplete
application and utilization of their abilities.

Examples of Established Incentive Plans

Many incentive plans have been developed for the manufac­
turing industry, though frequently they are not described to
any extent in the business literature. A few plans will be
outlined here to illustrate how they accommodate the needs of
industry or affect middle-management individuals. 9

Consideration given to middle management by early plans

Many early plans were commenced with the main emphasis
on meeting the needs of production workers as well as on
supporting and expanding the company's business activities.
In some, particularly the Scanlon type of plan, 10 the middle-
management personnel were usually included in the company-wide

group of participants, which often extended to the company
president. Firms which used the Scanlon plan or some adaptation
of it usually used a combination of group incentives and

9 A more detailed discussion of each plan with additional
references is provided in Appendix C.

10 Fred G. Lesieur, The Scanlon Plan, New York: John
Wiley and Sons, 1958, page 173; Industrial Councillors Inc.,
Group Wage Incentives: Experience with the Scanlon Plan, New
opportunities for employees to share in the task of thinking about their work through various types of committee participation.

Occasionally, middle management vigorously entered into the program, as in Lincoln's "incentive management". The Lincoln Electric Company plan, which has been most successful in increasing both employee earnings and company profits over many years, uses a system of individual incentives and bonuses for suggestions rather than a group bonus. The backbone of their success is a vigorous employee committee which has met with top management on all problems affecting work and workers since 1913.

In other long-standing and successful plans, such as the Nunn-Bush operation, middle management does not appear to be as actively involved in either the plan or the company operations. However, it is recognized that the descriptions of many plans tend to be enthusiastic historical accounts of their development rather than specific analyses of the how and

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why of their operation and particular advantages or disadvan-
tages. The Nunn-Bush Shoe Company has involved workers and
union in some aspects of decision making and, at the same
time has given employees 52 pay cheques a year based on labor's
percentage share in value added by manufacture.

Recent development - the Rucker plan

These early plans often appeared to have been born amid
turmoil and financial crises, with workers and management
forced by the necessity of survival to find a common path
of mutual cooperation towards salvaging both jobs and company
existence. Under these conditions it is reasonable to expect
that the problems of middle management would receive little
specific consideration, let alone acknowledgement of existence.
Recently, the dominant tendency has been towards the establish-
ment of well-conceived, balanced, and integrated compensation
plans using several types of financial incentives. This is most
evident in large, established companies seriously interested
in solidifying and improving their manner of operation over a
long period.

One of the more interesting developments in recent years
is a plan devised by Allen W. Rucker of the Eddy-Rucker-Nickels
Company in which employee committees and meetings are a basic
ingredient of the incentive operation. It is a group plan

Approach, Cambridge, Mass.: The Eddy-Rucker-Nickels Company,
often applied to hourly-rated production workers, to middle- and top-management groups, or in some cases to all employees in the company. It is based on an historical relationship established between total earnings, including fringe benefits of an hourly-rated or of a salaried group, and the net production values created by the company. Workers and the company share any increases in "value added by manufacture" which arise from their joint efforts. An integrated incentive is provided to encourage

(1) The same labor cost for greater value or less cost for the same value of production;
(2) Reduction of material and supply costs;
(3) Improvement in product quality;
(4) Reduction in scrap and returns by customers.

Since the plan is based on realized production value income, the company's ability to increase sales volume and to provide steady employment is improved as well as its ability to meet competition by lowering prices.

A recent application of the plan is to the widely diversi-

fied operations of the American Can Company. The plan originally was applied at the top-management level only, but in 1959 all middle-management personnel were included. It appears that here the utilization of financial incentives commenced with a Rucker type of application, which was expanded downwards as experience was gained.

In the Hewitt-Robins organization, a diversified manufacturer and distributor of conveying and transmission equipment, many trials and modifications of profit sharing were attempted without successfully meeting its varied requirements of segregated production plants. This organization has recently adopted a Rucker application which covers individuals in middle management and which is tailored to suit a number of production operations, manufacturing different and unrelated products.

These plans are carefully designed, integrated applications utilizing financial incentives which also tap the potentials of work groups by giving the employees the chance to have a say in their work with better utilization of their interest,

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work capacity, and ability to improve methods and product.

Effective Financial Incentives

The preceding, brief descriptions of a few incentive plans, some of which have operated successfully for many years with considerable satisfaction to both company and employee, indicate that with diligence and concerted effort, workable answers can be evolved for one of industry's most perplexing problems—the motivation of people to improve their performance. There is a growing realization that salaries alone do not fully fill the many needs of both working people and of the industrial concern. Supplemental pay plans with financial incentives offering opportunity bonuses rather than protective compensation plans using pensions may be more helpful in attaining more goals of both employee and company.

An appreciation of the important aspects of effective financial incentive plans would be valuable in the future development and utilization of financial incentives. The outstanding characteristics exhibited by plans previously described and considered to be the main features common to effective financial incentive programs are summarized as follows:

(1) **Integrated Plan.** Integrated, overall compensation plans, covering basic salaries, financial incentives, and employee participation, are more likely to be successful than a single one-shot approach.

(2) **Specific Application.** Financial incentives are specific and can accomplish only that for which they are designed; they are only a part, though probably a very important part, of integrated compensation programs—they are not transferable.¹⁷

(3) **Competent Management.** Top management must be reasonably competent, sincerely honest, and thoroughly convinced of the value of incentive compensation. Top management must be openly willing to make the necessary effort to see that the incentive plan is productive.

(4) **Permanent Acceptance.** The incentive program should be

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September/October 1951, page 38; and Frances Torbert, "Making Incentives Work", *Harvard Business Review*, September/October 1959, page 89. These investigators support the above tenets with emphasis depending on approaches taken.

¹⁷Successful balancing of money payments with other factors of employee needs, company goals, organization structure, and communication methods is necessary on a continuing basis for effective achievement and maintenance of competitive company position. Financial incentive plans working successfully in one company cannot be transplanted to another and yield effective results. Self-development of a plan to meet specific situational needs is characteristic of successful approaches.
a permanent force approved by shareholders and not subject to short-term profits or the whims of any one individual or group.

(5) **Organization and Objective Evaluation.** The company should be organized and segmented so that grouped and individual responsibilities are defined and clear-cut, thus permitting the best possible objective evaluation of contributions.

(6) **Mixture of Needs.** Within a company and its employee groups, a mixture of both financial and non-financial needs may exist which require a blend of incentive methods and plans to meet conditions most effectively.

(7) **Continuous Change.** A process of continuous change in the use of various plans is necessary to successfully meet the changing needs of employees and companies, such as the application of group incentive plans jointly with, or as replacement for, systems of individual incentives.

(8) **Involves All Employees.** All employee groups, including middle management, are covered by effective plans so that all employees may be fully active in forwarding company objectives and participating in the results.

(9) **Participative Efforts.** The objective evaluation of methods and performance by some committee-like body participated in by representatives of all employee groups is conducive to the better understanding and communication of individual and company problems and to their satisfactory solution.
(10) **Substantial Awards.** Incentive or bonus payments should be substantial and awarded on the basis of both individual contributions and the overall long-term company achievements and welfare.

(11) **Prompt Payment.** The shorter the period of performance under review and the sooner that incentive awards follow this period, the better is the motivation for improvement.
CHAPTER IV

THE USE OF FINANCIAL INCENTIVES IN BRITISH COLUMBIA

In Chapter I four hypotheses were stated which defined the purpose of this study, namely to evaluate the use of financial incentives for middle-management personnel in the manufacturing industries of British Columbia. The needs of the company and of the individual were related in Chapter II with work rewards and the types of financial incentives considered critical to this study. The more specific requirements of financial incentives for middle-management people were discussed in Chapter III together with illustrations of how some existing incentive plans attempted to meet these requirements. The more important aspects of effective financial incentives were then summarized to assist in the evaluation of the results obtained from the survey of the use of financial incentives in the manufacturing industry of British Columbia.

To determine the utilization made of financial incentives a survey questionnaire was designed, tested, revised, and then applied to a sample of manufacturing industries in British Columbia.\(^1\) The purpose was to provide the data required to test

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\(^1\)Details of the survey design, size of the systematic random sample required, and the testing of the questionnaire are provided in Appendix A. The statistical acceptability of the survey response is also discussed.
the hypotheses proposed in Chapter I. The acceptance or rejection of these four hypotheses was essentially to define the extent of current interest in British Columbia in applying financial incentives to various employee groups including middle management.

Chapter IV will present and analyze the survey data in respect to the four hypotheses. The chapter will conclude with an examination of supplementary information obtained from the survey and observations arising from interviews.

Classification of Data from Survey

The survey of a sample of British Columbia manufacturing industries yielded data which reflected the use of financial incentives for five different groups of employees: top management, middle management, first-line supervisors, office workers, and production workers. Specific information was obtained respecting the number of companies using financial incentives for middle management (the prime interest group for this study) as well as comparative data for other groups of management personnel and for operating personnel in office and plant as shown in Table V. Other categories of data were provided by

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2 See Chapter I, page 7, for statement of hypotheses.

3 Definitions are given in Chapter I, page 15, and in Chapter II, page 37.

4 Definitions of each of these employee groups are given in "Definition of Terms Used" in Chapter I, page 13.
### TABLE V
CLASSIFICATION OF DATA FROM SURVEY

<table>
<thead>
<tr>
<th>Classification</th>
<th>Top Mgmnt</th>
<th>Middle Mgmnt</th>
<th>Supvr.</th>
<th>Office Worker</th>
<th>Plant Worker</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company Size</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Size</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small - 1 to 74</td>
<td>15</td>
<td>14</td>
<td>13</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>Medium - 75 to 399</td>
<td>16</td>
<td>17</td>
<td>19</td>
<td>11</td>
<td>5</td>
</tr>
<tr>
<td>Large - 400 and over</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Totals</td>
<td>33</td>
<td>33</td>
<td>33</td>
<td>19</td>
<td>11</td>
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<tr>
<td>Head Office Location</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In British Columbia</td>
<td>21</td>
<td>20</td>
<td>21</td>
<td>12</td>
<td>7</td>
</tr>
<tr>
<td>Not in British Columbia</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Totals</td>
<td>26</td>
<td>25</td>
<td>26</td>
<td>17</td>
<td>10</td>
</tr>
</tbody>
</table>

---

a The use reported is for "Current Motivator" type of financial incentive only. For identification of this type and of the employee groups as used here refer to "Definitions" in Chapter I, page 13.

b Company size-groups were established as discussed in "Survey Procedure" in Appendix A, page 1. The number of companies using financial incentives was reported in detail in Table XXVII in Appendix D.

c The "Head Office Location" was used to separate companies into those operating under policies established by local interests in British Columbia and those likely to be influenced by policies established by national and international corporations with head offices located outside of British Columbia as discussed on page 72 of this chapter. The number of such companies using financial incentives was reported in detail in Table XXVIII in Appendix D.
the answers given by 83 firms to ten survey questions circulated to the 111 firm's comprising the sample. These data were similarly reported for all firms together as well as for two sub-classifications by the size of the firm and by the location of its head office.

Companies comprising the sample group were classified by size according to the total number of employees reported: small companies employing up to 74 persons, medium-sized companies employing 75 to 399 persons, and large companies employing 400 or more persons. It was estimated that these size-groupings divided the total employment and the total payroll of the group of manufacturing firms sampled into three approximately equal-sized sub-groups. Each of these sub-groups of survey data were associated with small-, medium-, or large-sized companies which might have reflected different applications of financial incentives used to meet the specific needs of different operations depending on company size. These sub-groups of data were obtained in replies from 43 small-sized companies (39% of the companies sampled), from 31 medium-sized companies (28% of sample), and from 9 large-sized companies (8% of sample) as illustrated in Figure 1,

5A copy of the Survey Form containing the ten questions is provided in Appendix A, page 143.
Part A. DISTRIBUTION OF SURVEY RETURNS BY SIZE OF COMPANY
(From Table XVIII, Part C.)

- NO REPLIES: 25%
- LARGE COMPANIES: 8%
- MEDIUM-SIZED COMPANIES: 28%
- SMALL COMPANIES: 39%

Part B. DISTRIBUTION OF SURVEY RETURNS BY LOCATION OF COMPANY HEAD-OFFICE
(From Table XXVIII, Parts A and B)

- HEAD-OFFICE NOT IN B.C.: 19%
- HEAD-OFFICE IN BRITISH COLUMBIA: 48%
- NO REPLIES: 35%

FIGURE 1.
DISTRIBUTION OF SURVEY RETURNS BY SIZE OF COMPANY AND BY LOCATION OF COMPANY HEAD-OFFICE.
Part A. This classification of data according to the size of the company reporting the information provided the main basis for analyzing the survey results.

The companies surveyed were also classified according to whether their head offices were, or were not, located in British Columbia. The purpose of this secondary criterion of head office location was to provide a possible explanation of evident variations in the use of financial incentives among manufacturing industries in British Columbia. This criterion tended to separate British Columbia manufacturing firms which were guided by policies originating locally from those companies guided by policies established at a head office located outside of British Columbia. The latter group might have included national and international corporations exhibiting policies which possibly were at variance with those of firms which were managed by local British Columbia interests. It seemed that some companies considered this information confidential --- of the 83 companies responding to the survey only 72 (65% of the 111 companies comprising the sample) indicated whether their head offices were located in British Columbia as shown in Figure 1, Part B. Such hesitancy in answering this as well as other questions on the survey greatly increased the difficulty.

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Replies were received from a total of 83 companies or 75% of the 111 companies comprising the systematic random sample drawn from the universe of 555 companies as detailed in Appendix A.
in obtaining a sufficient number of replies to justify sound conclusions particularly in respect to matters of opinion and choice.

**Increases in Remuneration from 1951 to 1961**

It was necessary to establish what pattern of remuneration existed in British Columbia because recent changes in average earnings (excluding overtime) of employees might have had a bearing on the use of financial incentives. If recent changes in the remuneration of any management group appreciably differed from changes in the remuneration of other employee groups, or if the changes for management as a whole differed materially from changes enjoyed by a non-management group of employees, an imbalance in the pattern of employee compensation could have developed. Such an imbalance might have become a serious detriment to the effective growth and operation of the firm or of the industry concerned.

This retardation could be particularly significant to an industry in the long term if middle management were involved because of the importance of middle management as a source of future top-management personnel. An imbalance or significant recent change in the employee remuneration pattern might also have a significant impact on the findings of this study.

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The essentiality to industry of encouraging middle management personnel was indicated in Chapter I, page 1.
Accordingly the questionnaire requested a statement of "the approximate percentage increase in average typical remuneration (excluding overtime) since 1951" for each of five employee groups for a ten-year period.  

About one-third of the companies responding to this request stated that they had granted increases in remuneration to their employees during the ten-year period ending in 1961 as shown on Table VI. This ratio varied by the size of the company reporting: one-quarter of the small-, one-third of the medium-, and one-half of the large-sized companies granted increases in remuneration during the same ten-year period. The typical increase in compensation offered to employees ranged from approximately 45% to 60% in different-sized companies. Because of the small number of companies responding to this information, firm conclusions about the significance of the variations shown cannot be reached in this study.

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8Refer to question no. 4 on Survey Form in Appendix A, page 145.

9The size-groupings used in this study are described in Appendix A, page 130. The organizational structure and characteristics occurring in companies of different sizes are not evaluated in detail herein as stated in "Limitations" in Chapter I, page 20. Refer to Table XXV in Appendix D for details of remuneration increases by size of company.

10See "Limitation (5)" in Chapter I, page 19.
<table>
<thead>
<tr>
<th>Employee Category</th>
<th>Per Cent Increase in 1961 over 1951&lt;sup&gt;a&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Management</td>
<td>54%</td>
</tr>
<tr>
<td>Middle Management</td>
<td>54%</td>
</tr>
<tr>
<td>First-line Supervisors</td>
<td>57%</td>
</tr>
<tr>
<td><strong>SALARIED MANAGEMENT</strong></td>
<td><strong>55%</strong></td>
</tr>
<tr>
<td>Office Workers and Clerical</td>
<td>48%</td>
</tr>
<tr>
<td>Plant Workers on Production</td>
<td>54%</td>
</tr>
<tr>
<td><strong>HOURLY-RATED WORKERS</strong></td>
<td><strong>51%</strong></td>
</tr>
</tbody>
</table>

<sup>a</sup>Refer to Table XXV in Appendix D for details on increases according to the size of the company.
However, the changes in the remuneration levels for employees of manufacturing industries in British Columbia as shown in Table VI appeared to be in general agreement with available outside data. Information from the Dominion Bureau of Statistics permitted an estimate of a 57% increase in earnings over ten years for salaried personnel in British Columbia. The 55% change in earnings of salaried groups in manufacturing industries as reflected in Table VI compares favourably with this estimate. A lower rate of increase of 51% for hourly-rated employees was similar to the lower estimated rate derived from the D. B. S. information.

This comparison was important because it gave an indication that the current survey results were probably representative

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Canada, Dominion Bureau of Statistics, Labor Division Employment, Earnings and Hours of Work in Manufacturing, Cat. No. 72-204, Annual, Table B. Ottawa: Dominion Bureau of Statistics.

A straight line projection of 1951-1960 data to 1961 is shown in brackets. No further breakdown into employee groups is available.

### TABLE VII

CANADIAN INCREASE IN WEEKLY EARNINGS SINCE 1951

<table>
<thead>
<tr>
<th></th>
<th>Hourly-rated Employees</th>
<th>Salaried Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1951-60</td>
<td>1951-61 (Est.)</td>
</tr>
<tr>
<td></td>
<td>1951-60</td>
<td>1951-60 (Est.)</td>
</tr>
<tr>
<td>Canada</td>
<td>41%</td>
<td>52.5%</td>
</tr>
<tr>
<td>British Columbia</td>
<td>43%</td>
<td>57.5%</td>
</tr>
</tbody>
</table>
of conditions existing in British Columbia industry. Further, it suggested that the differential between typical earnings of salaried management and hourly-rated non-management personnel in British Columbia manufacturing industry had not changed within the past ten years compared with the general industrial situation in Canada as a whole.

Among the three salaried management groups of employees it appeared that the change in remuneration level for middle management (MM) as compared to those for other management groups was not significant in the current survey of British Columbia industry. The increase in remuneration of 54% for MM was the same as that for top management (TM). The difference between the increase of 54% for MM and that of 57% for first-line supervisors (FLS) was not statistically significant; there was 43% probability that this difference could occur by chance.

---

12 Data from other sources suitable for comparison purposes was very limited. See "Limitation (7)" in Chapter I, page 19.

13 Reference to employee groups throughout tables and text will often be identified by capital letters as follows:

- TM - Top Management
- MM - Middle Management
- FLS - First-line Supervisor
- OW - Office Worker
- PW - Production Worker

Because of the small response to this question and apparent large variance in supplied data, sound conclusions were not possible.\textsuperscript{15}

The changes in remuneration for employee groups have been plotted by the size of companies in Figure 2. In small and large companies, the proportionate increases in remuneration for top- and middle-management groups were larger than they were in medium-sized companies. In contrast, the increases in remuneration for first-line supervisors (FLS), clerical and office workers (OW), and plant workers (PW) were less in large companies than in small- and medium-sized companies. Particularly the proportionate increases in typical remuneration for first-line supervisors were markedly less than for clerical and office workers or for plant workers in large companies.

1958, page 141.

\[ \text{Using Critical Ratio} = \frac{P_1 - P_2}{\sqrt{\frac{P_1 q_1}{n_1} + \frac{P_2 q_2}{n_2}}} \]

normal curve areas; where,

in group 1, proportion = \( p_1 \), \( q_1 = 1 - p_1 \); sample size = \( n_1 \),

in group 2, proportion = \( p_2 \), \( q_2 = 1 - p_2 \); sample size = \( n_2 \).

\textsuperscript{15}A few isolated cases which reflected changes more accurately in unit percentages (as opposed to steps of 5 percentage points) among small and medium-sized companies supported the trend towards lesser increases for top- and middle-management groups as reported by Bursk and Patton in Table I, Chapter I. Replies from large companies did not indicate any similar conditions.
PERCENT INCREASE IN 1961 OVER 1951 (Based on Table XXV)

KEY TO EMPLOYEE GROUP

TM - Top Management
TM - Middle Management
FLS - First-line Supervisor
OW - Office Worker
PW - Production Worker

FIGURE 2.

INCREASE IN THE AVERAGE TYPICAL REMUNERATION OF EMPLOYEE GROUPS IN 1961 OVER 1951 BY SMALL-, MEDIUM-, AND LARGE-SIZED COMPANIES.
This suggested that some characteristic differences existed in company policies, management techniques, or operational methods which were associated with company size and which affected the changes in remuneration for different employee categories.

The management groups of small- and medium-sized companies might have not only fewer individuals, but also persons with a lesser degree of specialization among their top- and middle-management groups than have larger companies. Thus, these companies might place comparatively more reliance and responsibility on the members of the first-line supervisor group than did large companies. If this was generally true in British Columbia, the greater dependence on first-line supervisors might then be reflected in the greater proportionate increase in their remuneration evident among small- and medium-sized companies with the reverse situation likely to exist in large companies not so dependent on first-line supervisors. This dependence on first-line supervisors might have been conscious or unconscious on the part of top management, and though it probably arose from staff shortages, it might also have resulted from the attitudes and the abilities of top-management individuals involved. This was one possible explanation of the variations found and illustrated in Figure 2.
Evaluation of Hypotheses

An individual evaluation of each hypothesis was made using the applicable data from the survey as reflected in Tables XXV to XXXVI in Appendix D. The acceptance or rejection of each hypothesis was at 95% confidence level as foot-noted in the following discussion of the first hypothesis. Comparisons with similar data from other sources were made whenever suitable data were available.

First hypothesis

The first hypothesis stated that "The attention given by industry to the actual use of financial incentives for middle management is lagging behind attention given financial incentives for (a) top management, and (b) first-line supervisors."¹⁶

Information about the use of both the "Current Motivator" and the "Deferred Holding Effect" groups of financial incentives were considered to be of primary importance in evaluating this hypothesis.¹⁷ These two groups formed classifications suitable for survey and analysis purposes because they represented

¹⁶"The attention given by industry to the actual use of" is synonymous with the usage of financial incentives as reported on the survey. It was assumed that an equally thorough study and planning of suitable incentives had been made for each application reported.

¹⁷Refer to "Types of Financial Incentives Critical to This Study" in Chapter II, page 37.
frequently used and commonly known types of financial incentives. Questions on the survey form were designed to reflect the actual use of different types of incentives for different employee groups. The resultant data permitted an evaluation of this hypothesis by a comparison of the use of financial incentives by employee groups as reported in Table VIII.

**TABLE VIII**

**USE OF FINANCIAL INCENTIVES BY ALL SIZES OF COMPANIES**

<table>
<thead>
<tr>
<th></th>
<th>Top Mgmt.</th>
<th>Middle Mgmt.</th>
<th>First-line Supvr.</th>
<th>Office Worker</th>
<th>Plant Worker</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Motivators</td>
<td>40%</td>
<td>40%</td>
<td>40%</td>
<td>23%</td>
<td>13%</td>
</tr>
<tr>
<td>Deferred-holding Effect</td>
<td>12%</td>
<td>15%</td>
<td>19%</td>
<td>13%</td>
<td>17%</td>
</tr>
<tr>
<td>Total Current and Deferred</td>
<td>42%</td>
<td>43%</td>
<td>43%</td>
<td>25%</td>
<td>20%</td>
</tr>
</tbody>
</table>

Refer to Table XXVI in Appendix D for further details of survey results.

As shown in Table VIII the proportions of companies using "Current" and "Deferred" types of financial incentives

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18 Refer to question no. 2 on the Survey Form in Appendix A, page 143.

19 This use was accepted as evidence of the application of incentives to an employee group as indicated, subject to "Limitations" listed in Chapter I, page 17.
for top management (42%), for middle management (43%), and for first-line supervisors (43%) did not differ significantly. Therefore, the first hypothesis was rejected at 95% confidence level.  

This indicates that companies in the manufacturing industries of British Columbia gave as much attention to the use of financial incentives for middle management as they gave to incentives for top management and for first-line supervisors. More than one-third or 40% of the 83 firms responding to the survey used one or more types of financial incentive with "Current Motivator" characteristics for the three management groups of employees. Less than one-fifth or 12% to 19% of these companies used "Deferred-holding Effect" types of incentive plan either alone or in conjunction with "Current" incentives for management personnel.

The results from this survey of financial incentives in British Columbia were compared to one other similar study made recently in North America. The United States Department of Labor in a 1960 survey reported that 44% of a selection

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20 Refer to McCormick and Frances, loc. cit.

21 Refer to "Survey Design" in Appendix A for comments on acceptable confidence intervals in an opinion type of survey. The results of the present survey permitted an estimate of 95% confidence for an interval of ± and -10 percentage points, that from 30% to 50% of the group of 550 British Columbia manufacturers used financial incentives for management personnel.
mainly of manufacturing industries used "cash bonus supplementary pay plans" for professional, technical, and clerical job classifications falling largely in the middle-management area. This 44% usage of incentive plans is comparable to the 40% usage of the equivalent "Current Motivator" types of financial incentives found in British Columbia by current survey.

Comparison with Canadian conditions was not possible because no other study of the use of financial incentives for management people has been made by either the British Columbia Government or the Canadian Government. A Canadian survey covering wage earners completed in 1954 reported that 20% of the plant production workers surveyed were either paid by a payment-by-results scheme (incentive bonus plan) and another 10% were paid on a piece-rate basis. No follow-up

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23 British Columbia, Department of Industrial Development, Trade and Commerce, Bureau of Economics and Statistics, private communication; June 1962; and British Columbia, Department of Labor, private communication, June 1962.

24 Canada, Department of Labor, Economics and Research Branch, Methods of Wage Payment in Canadian Manufacturing, October 1954. The Labor Gazette, April 1956, page 435; and Canada, Department of Labor, Economics and Research Branch, private communication, June 1962.
study has been made to date.

**Second hypothesis**

The second hypothesis stated that "Large firms (over 400 employees) show more interest in the use of financial incentives for middle management than do smaller firms."

The data obtained from the survey on the use of financial incentives by small-, medium-, and large-sized companies as shown in Table IX indicated that there was a significant difference in the use of incentives for middle management depending on the size of the company. The greatest use, 55%, occurred in medium-sized companies and decreased to 33% in small companies and to only 21% in large firms. Thus large companies showed significantly less interest in the use of financial incentives, and the second hypothesis was rejected at 95% confidence.

The use of financial incentives by small-, medium-, and large-sized companies was also presented graphically in Figure 3, page 87. This showed that the pattern of the use of financial incentives among the three size-groupings of companies differed considerably both by company size-group and by employee category within these groups. Medium-sized companies exhibited greater use of financial incentives for

---

25The difference is significant at 97% confidence level. For formula used see McCormick and Frances, _loc. cit._
each employee category than did either small or large companies for the same employee categories. Small companies in turn exhibited a greater use of financial incentives than did large companies.

TABLE IX

USE OF FINANCIAL INCENTIVES BY SMALL, MEDIUM AND LARGE COMPANIES

<table>
<thead>
<tr>
<th></th>
<th>Top Mgmt.</th>
<th>Middle Mgmt.</th>
<th>First-line Supvr.</th>
<th>Office Worker</th>
<th>Plant Worker</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small-sized Companies^b</td>
<td>35%</td>
<td>33%</td>
<td>30%</td>
<td>16%</td>
<td>14%</td>
</tr>
<tr>
<td>Medium-sized Companies</td>
<td>51%</td>
<td>55%</td>
<td>61%</td>
<td>35%</td>
<td>16%</td>
</tr>
<tr>
<td>Large-sized Companies</td>
<td>21%</td>
<td>21%</td>
<td>21%</td>
<td>11%</td>
<td>0%</td>
</tr>
</tbody>
</table>

^aRefer to Table XXVII in Appendix D for supporting detailed results. Company size-groups are discussed in Appendix A, page 130. Only the use of "Current Motivator" group of financial incentive (see "Types of Financial Incentives Critical to This Study" in Chapter II, page 37) was reflected in the table above because this group included the more effective types of financial incentives of primary interest to this study.

^bThe three company size-groupings divided both the total payroll and the total employment of the manufacturing industries of British Columbia into three approximately equal-sized parts. Refer to Table XVII in Appendix A where "Survey Design" is discussed.

The graphical pattern in Figure 3 formed by the plot of the usage of financial incentives among different employee categories of TM, MM, FLS, OW and PW was different for each company size-group. In the small companies the use of incentives was greatest for TM and decreased progressively downward through the
PERCENT OF COMPANIES USING FINANCIAL INCENTIVES (Based on Table XXVII)

KEY TO EMPLOYEE GROUP

TM - Top Management
MM - Middle Management
FLS - First-line Supervisor
OW - Office Worker
PW - Plant Worker

FIGURE 3.
USE OF FINANCIAL INCENTIVES BY SMALL-, MEDIUM-, AND LARGE-SIZED COMPANIES
organization from MM to PW. In medium-sized companies the FLS enjoyed the most extensive application of incentives while upward through the company organization to TM and downward to PW there was a drop-off in the use of financial incentives. In large companies there appeared to be an equal use of financial incentives for TM, MM and FLS, with lesser use for OW and none for PW.

In order to explain this situation, the use-pattern for financial incentives was charted in Figures 4 and 5 for each of five employee groups, three being shown in Figure 4 and two in Figure 5, along with the respective increases in remuneration for each employee category (TM, MM, FLS, OW and PW) for each of three incentives for a given employee category was low. This pattern of inverse relationship between the large use of financial incentives and the low per cent increase in remuneration seemed to hold to a lesser extent for FLS and for PW as shown in Figure 5.

A further analysis of this data was made in an effort to determine whether the inverse relationship specifically applied to each of the five employee categories in all three size-groupings of companies. The per cent of companies using financial incentives was plotted against the per cent increase of remuneration for each employee category in the different size-groupings of companies. If the inverse relationship existed, i.e., if the per cent of companies using financial
PERCENT INCREASE IN REMUNERATION
(1961 over 1951, from Table XXV.)

PERCENT OF COMPANIES USING FINANCIAL INCENTIVES
(From Table XXVII.)

<table>
<thead>
<tr>
<th>TOP MANAGEMENT</th>
<th>MIDDLE MANAGEMENT</th>
<th>OFFICE WORKER</th>
</tr>
</thead>
<tbody>
<tr>
<td>PERCENT</td>
<td>PERCENT</td>
<td></td>
</tr>
<tr>
<td>60%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>50%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>40%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>30%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>20%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>0%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

COMPANY SIZE
(S=Small, M=Medium, L=Large)

FIGURE 4.
COMPARISON OF THE USE OF FINANCIAL INCENTIVES WITH INCREASES IN AVERAGE REMUNERATION FOR TOP MANAGEMENT, MIDDLE MANAGEMENT AND OFFICE WORKERS IN SMALL-, MEDIUM-, AND LARGE-SIZED COMPANIES.
PERCENT INCREASE IN REMUNERATION
(1961 over 1951, from Table XXV.)

PERCENT OF COMPANIES USING FINANCIAL INCENTIVES (From Table XXVII.)

<table>
<thead>
<tr>
<th>PERCENT</th>
<th>FIRST-LINE SUPERVISOR</th>
<th>PLANT WORKER</th>
</tr>
</thead>
<tbody>
<tr>
<td>60 %</td>
<td></td>
<td></td>
</tr>
<tr>
<td>50 %</td>
<td></td>
<td></td>
</tr>
<tr>
<td>40 %</td>
<td></td>
<td></td>
</tr>
<tr>
<td>30 %</td>
<td></td>
<td></td>
</tr>
<tr>
<td>20 %</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10 %</td>
<td></td>
<td></td>
</tr>
<tr>
<td>0 %</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

COMPANY SIZE
(S = Small, M = Medium, L = Large)

FIGURE 5.
COMPARISON OF THE USE OF FINANCIAL INCENTIVES WITH INCREASES IN AVERAGE REMUNERATION FOR FIRST-LINE SUPERVISORS AND PLANT WORKERS.
incentives increased over a given range while the per cent increase in remuneration decreased for the respective employee group, then the plot would have yielded a straight line or a series of straight lines. Even though the plots for TM and MM tended to form a straight line the plots for other employee categories were widely scattered. Similarly, the per cent of companies using financial incentives was plotted against the reciprocal of the per cent increase in remuneration for respective employee categories. If the inverse relationship had existed it would have been reflected by the plot of the survey data falling on or near a curve. It is possible that the inverse relationship was valid for the TM and MM groups because respective points fell close to a curve but the points for the other three employee categories were widely scattered.

The results of both graphical analyses were considered inconclusive because data were available for only three size-groupings of companies with limited representation from the group of companies sampled. The lack of conclusive results did not mean that the inverse relationship did not exist, but only that its existence could not be substantiated from the available data. The provision of additional data was beyond the scope of this study.

If the inverse relationship had existed, this would have meant that financial incentive plans were being used to supplement low rates of remuneration—that is, financial incentives
were being used in companies where increases in typical average earnings of a group of employees were low compared to those of similar employee categories in other companies. This might have been the case with the salaried TM and MM categories of employees among the companies responding to the survey. When the earnings of an employee category came more under the influence of pressures from active unions or from market prices for well-established skills or specializations, there might have been a reduced need for additional compensation and the inverse relationship would have ceased to operate. This might have been the case with PW and FLS groups, particularly where the earnings of FLS were based on hourly-rates or were closely related to the earnings of hourly-rated production workers.

If the inverse relationship had existed and incentives were being used in British Columbia to supplement low regular earnings, it might then follow that incentives were being distributed to personnel proportionately to their basic pay rather than on the basis of improved individual performance. When distributed on the proportionate basis incentives would not have been effective motivators, but merely an expected part of regular earnings.\textsuperscript{26} If incentives had been widely used

\textsuperscript{26}Refer to "Effective Financial Incentives", Chapter III, page 63.
in British Columbia as effective motivators for increasing individual production levels and were distributed on the basis of individual performance the inverse relationship would not have been expected to exist. Rather there would have been an increased use of financial incentives paralleled by an increase in typical average earnings rather than a decrease as with the inverse relationship.

**Third hypothesis**

The third hypothesis stated that "Firms using financial incentives for office and production workers pay less attention to the use of financial incentives for middle management than do firms not using them."

In order to evaluate this hypothesis reference was made to the data in Table X for companies which used financial incentives for middle-management personnel according to whether those companies did, or did not, use financial incentives for their office and plant workers. These data indicated that two-thirds of the companies that used incentives for their office and plant workers also used them for middle management; while only one-third of the companies that did not use incentives for OW and PW applied incentives to MM. Accordingly, the third hypothesis was rejected at 95% confidence level. 27

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27 The difference between 66% and 30% is statistically significant at more than 98% confidence level; see McCormick and Frances, *loc. cit.*
### TABLE X

**USE OF INCENTIVES FOR MIDDLE MANAGEMENT BY COMPANIES**

**USING INCENTIVES FOR OFFICE AND PLANT WORKERS**

<table>
<thead>
<tr>
<th>Companies that Do Not Use Incentives for OW and PW</th>
<th>Companies that Do Use Incentives for OW and PW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of companies using &quot;Current&quot; and &quot;Deferred&quot; incentives for Middle Management</td>
<td>9</td>
</tr>
<tr>
<td>Number of companies using no incentives for Middle Management</td>
<td>21</td>
</tr>
<tr>
<td><strong>PER CENT OF COMPANIES USING</strong> <strong>FINANCIAL INCENTIVES FOR MIDDLE MANAGEMENT</strong></td>
<td>30%</td>
</tr>
</tbody>
</table>

*a* These data were obtained by reclassifying replies to question no. 2 according to use of financial incentives for OW and PW as reported in Table XXVIII, Part C, in Appendix D.

The use of "proving ground tactics" among employee groups commencing with the introduction of financial incentives to PW and OW groups suggested that this procedure was frequently responsible for the successful application of incentives. The conclusion that firms which used incentives for one category of employees tended also to apply incentives to other employee groups suggested that past experience and familiarity with the use of financial incentives likely encouraged their wider application, particularly if the first experience with incentives had been successful. Therefore, it seemed that if every effort
had been made in a given company to make the initial incentive plan effective in all respects, this led to further incentive applications of benefit to both the company and its employees. If, however, the incentives had not initially been applied and used effectively, as may have occasionally been the case in British Columbia, then wider application of incentive plans would have likely been retarded. Thus it seemed to be important that the initial application of financial incentives in a company should be well planned and designed specifically to meet the requirements of both the company and of the employee group involved.28

The introduction of incentives in successive steps to other employee groups once the value and acceptability of financial incentives had been established among plant or office workers seemed to be due also to the nature of the company objectives and the organizational climate which they fostered. Company objectives were not examined or formally assessed on the survey but their nature often became evident during interviews and from the comments on the questionnaires. When interest in the use of financial incentives was not evident there was also frequently little evident enthusiasm towards better individual efforts in support of improved

28 Refer to the characteristics of "Effective Financial Incentives" in Chapter III, page 63.
company profits and progress. The apparent absence of company objectives towards which the individual employee could personally contribute in a measurable and acknowledgeable manner seemed to be detrimental to the company well-being. However when financial incentives were an important part of the job environment, because they were an integral part of the company's objectives, enthusiasm and interest in the attainment of company objectives were frequently evident also. Thus, financial incentive plans seemed to be a means to an end rather than just an end in themselves.

**Fourth hypothesis**

The fourth hypothesis stated that "A salary increase is used more often than any other type of financial incentive to motivate employees." The purpose of this hypothesis was to focus attention on the fairly common use of salary increases "type e(1)" as a financial incentive expected to operate in a manner similar to the operation of the "Current" group types "(a) Cash Bonus", "(b) Profit Sharing", and "(c) Stock Plans".29

29 The group "(e) Increases in Salaries and Wages" including types "e(1), e(2) and e(3)" was used by 24% of the responding companies and thus appeared to enjoy considerable acceptance. But when broken into its components "e(1) Salary Increases etc." is the only important motivating incentive; type "e(2) Basic Wages or salary higher than local average" is a "Deferred Incentive" of value in obtaining and holding employees but not in motivating them to improved performance.
### TABLE XI

**RELATIVE INTEREST IN DIFFERENT FINANCIAL INCENTIVES**

<table>
<thead>
<tr>
<th>Types of Incentives</th>
<th>Number of Companies Using</th>
<th>Percentage of Companies Using</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;Current&quot; Incentives</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Cash Bonus</td>
<td>17</td>
<td>25%</td>
</tr>
<tr>
<td>(b) Profit Sharing</td>
<td>23</td>
<td>34%</td>
</tr>
<tr>
<td>(c) Stock Plans and Options</td>
<td>7</td>
<td>10%</td>
</tr>
<tr>
<td>&quot;Deferred&quot; Incentives</td>
<td></td>
<td></td>
</tr>
<tr>
<td>e(1) Salary Increases</td>
<td>6</td>
<td>9%</td>
</tr>
<tr>
<td>All others</td>
<td>68</td>
<td>100%</td>
</tr>
</tbody>
</table>

*a* The preference pattern of various financial incentive types for management personnel as reflected by actual usage was practically identical with the pattern of "most suitable" incentives as established by indirect questioning of opinion or choice of suitable incentives. Refer to Table XXXII in Appendix D for further details.

*b* Refer to question no. 2 on Survey Form in Appendix A, page 143; and to "Types of Financial Incentives" in Chapter II, page 37.
The relative interest in different types of financial incentives shown in Table XI indicated that "Profit Sharing" was used by 34% and "Cash Bonuses" by 25% of the reporting companies, while "Salary Increases" were only used as financial incentives by 9% of the responding companies. "Salary Increases" or the incentive type "e(l) Salary increases for unusual, non-recurring, specific effort" was the only sub-group of "(e) Increases in Salaries and Wages" deemed to be used to specifically motivate the employee to more effective performance. This usage of 9% was significantly different at 95% confidence level from the 25% and 34% values; thus "Profit Sharing" and "Cash Bonuses" were of more interest to British Columbia manufacturing industry than any other type of financial incentive including even "Salary Increases". Accordingly, the fourth hypothesis was rejected at 95% confidence level.

The interest shown by the manufacturing industry of British Columbia in the use of "e(l) Salary Increases" thus seems to be of minor importance, though sizeable. This apparent interest could have arisen from one or more of several possible conditions:

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30The conclusion reached here that type "e(l) Salary Increases" is of lesser importance may not agree with importance assigned to this type by some companies in B. C. manufacturing industry. Perhaps this may have occurred because they were not fully cognizant with, nor familiar with, the operational characteristics of effective incentive plans as discussed in Chapter III, page 63.
(1) Salaries might not have been equitable within the manufacturing firm or in comparison with the going rates in the local community. This was contrary to a basic assumption made at the beginning of this study, which therefore might not have been generally true in British Columbia.  

(2) Great variation may have existed in respect to the basis used for awarding salary increases, e.g. for unusual non-recurring effort, for changes in job responsibilities, or for meeting the rising salary levels in the local business community. Some of the replies to this section of the survey reported salary increases being given "for general performance", "for merit", and "at the discretion of management". These reports did not suggest that increases were being awarded for actual improved performance and increased productivity as recommended for the effective application of incentive plans. But it appeared that salary and wage increases, irrespective of the reasons for which they were granted, tended to be accepted and used by British Columbia industry as financial incentives.

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31 See "Limitation (6)", Chapter I, page 19.  
33 Salary increases may have some incentive value until the earner's level of income is equivalent to a basic or acceptable standard of living in the community, but once this level has been reached, the incentive value likely decreases.
(3) The attempts to use "Increases in Salaries and Wages" as a motivating incentive may have arisen and persisted from reliance on a long-used or accepted practice without full evaluation of current results or from little familiarity with, or knowledge of, an alternative method of providing incentives for employees.

(4) A general misinterpretation of definitions and questionnaire phrasing may have existed among many respondents. Further evaluation of local British Columbia conditions seemed to be necessary before firm conclusions could be made respecting either the inclusion of "salary increases" with "current motivators" for survey purposes or their acceptance as a practical and continuing incentive for the improvement of employee performance.34

Reasons for Non-use, Discontinuance of Financial Incentives

During the preliminary testing of the questions on the survey form,35 it was evident that a number of firms had

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34 See "Limitations Applied to This Survey" in Chapter I, page 17. Reference is also made to "Effective Financial Incentives" in Chapter III, page 63. It should also be noted that fully effective incentives are retractable, that is they are reduced or not awarded when effort or performance decreases. Therein lies much of their value.

Salary increases on the other hand, once they are instituted become permanent and are accepted as a non-retractable alteration to the basic remuneration structure. This is a basic difference between the use of salary increases or financial incentives as effective methods for motivating people to improve their performance and efforts on the job.

35 Refer to "Survey Design" in Appendix A, page 135.
discontinued the use of financial incentives in recent years. Accordingly questions were included on the questionnaire requesting reasons why financial incentives were not used, and also what financial incentives had been discontinued and why they had been abandoned.36

Two-thirds of the responding companies reported that they did not use any form of financial incentive plan. Among the various reasons given for this, item "(C) Funds available for rewards are limited", was checked most frequently, with item "(D) Employees are now fully rewarded", being next, followed by item "(A) Too difficult to administer" as shown in Table XII. Variations in this order occurred by sizes of company, with smaller companies favoring C, medium-sized companies favoring D, and large companies placing equal stress on items C and D.

Comments written in under item (E) did not reflect any pattern of specific or common reasons or indicate any common or major difficulty that prevented or discouraged the use of incentives for any management group. Indirectly the scarcity of reported reasons under item E could have reflected the general lack of experience with, or interest in, the application of financial incentives to management groups.37

36 See questions nos. 5 and 6 on the Survey Form in Appendix A, pages 145 and 146.

37 This tends to support the suggestion made on the preceding page that financial incentives have not been applied effectively to any great extent in British Columbia. Actually, only one
**TABLE XII**

RELATIVE FREQUENCY OF REASONS GIVEN FOR

NOT USING FINANCIAL INCENTIVES\(^a\)

<table>
<thead>
<tr>
<th>Reason</th>
<th>Weighted Per Cent of Companies Reporting a Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Too difficult to administer</td>
<td>15%</td>
</tr>
<tr>
<td>B. Other incentives than financial are better motivators</td>
<td>6%</td>
</tr>
<tr>
<td>C. Funds available for rewards are limited</td>
<td>40%</td>
</tr>
<tr>
<td>D. Employees are now fully rewarded</td>
<td>31%</td>
</tr>
<tr>
<td>E. Other reasons</td>
<td>8%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100%</td>
</tr>
</tbody>
</table>

\(^a\)Refer to Table XXXIII in Appendix D for detailed results by company size.

The replies reflecting past experience with discontinued incentive plans were few, and the reasons given were similar to those offered for non-use. The most common reasons given in Table XXXIV in Appendix D, for abandoning incentive plans, centered around "not adequate", "no incentive value left", and "too difficult to administer". This pattern of reasons suggested that incentive plans were not designed to meet

respondent gave a detailed description of their plan, which was considered by them to be effective and desirable.
the specific needs of the company involved, or were not modified to meet changing needs as they arose.

**Company Interest in Employee Groups**

To assist in the evaluation of the factual results obtained from the survey it was desirable to assemble some information about company attitudes towards salaried-employee groups, particularly in respect to how these groups might influence company operations. The purpose was to discover what purposes management had intended to further by the use of financial incentives or which employee groups was expected to offer most support in reaching those objectives. To indicate company attitudes towards different employee groups specific questions on the survey sought to obtain information in three areas: employee-group influence on company-wide results, employee-group influence on long-term company progress, and the influence of company organization.

**Employee-group influence on company-wide results**

Opinion about which employee-group was considered to have the greatest influence on the improvement of company-wide results was obtained in an indirect approach by requesting that a selection be made from a number of incentives offered for particular efforts.\(^{38}\) The results shown in Table XIII indicated that 39% of expressed opinion favored Middle Manage-

\[^{38}\text{Refer to question no. 7 on the Survey Form in Appendix A, page 146.}\]
ment, 26% for the First-line Supervisors, 23% for the Plant Worker, and 12% for Top Management as the group of employees most able to influence company-wide results.

**TABLE XIII**

<table>
<thead>
<tr>
<th>EMPLOYEE GROUP CONSIDERED MOST ABLE TO INFLUENCE COMPANY-WIDE RESULTS(^a)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Relative Interest</strong></td>
</tr>
<tr>
<td>Top Management</td>
</tr>
<tr>
<td>Middle Management</td>
</tr>
<tr>
<td>First-line Supervisors</td>
</tr>
<tr>
<td>Production Plant Worker</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

\(^a\)Refer to Table XXXV in Appendix D for detailed results.

When separated into opinion by company-size in Table XIV, both small- and medium-sized companies placed the middle management group first. This was of interest when it was realized that small companies frequently did not have middle-management personnel. By obtaining these data in an indirect manner, opinions on the value of management groups might have been obtained independently of the existence of these groups in a given company.\(^{39}\)

\(^{39}\)The non-existence of truly "middle management" groups in some small firms likely has little bearing on above results.
Large companies placed more emphasis on the importance of first-line supervisors in furthering company-wide results. This greater interest in FLS may have been the result of respondents in MM looking on the FLS as being important to MM in helping them to obtain the best company-wide results. The low interest in TM may have been due to the low acceptability of the incentives offered to this group, or to the fact that these incentives were primarily of interest to TM in larger companies of a size not existing in British Columbia.

TABLE XIV

EMPLOYEE GROUP CONSIDERED MOST ABLE TO INFLUENCE COMPANY-WIDE RESULTS, ACCORDING TO COMPANY SIZE

<table>
<thead>
<tr>
<th>Employee Group</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Management</td>
<td>12%</td>
<td>13%</td>
<td>11%</td>
</tr>
<tr>
<td>Middle Management</td>
<td>40%</td>
<td>45%</td>
<td>22%</td>
</tr>
<tr>
<td>First-line Supervisor</td>
<td>22%</td>
<td>22%</td>
<td>50%</td>
</tr>
<tr>
<td>Plant Worker</td>
<td>25%</td>
<td>21%</td>
<td>17%</td>
</tr>
</tbody>
</table>

Refer to Table XXXV for detailed data obtained from question no. 7, in Appendix D.

because many such firms tended not to answer this question, writing in "does not apply", "no experience", or simply "owner-operated".
When supplying the data reported in Table XIV the respondent was requested to choose a group of incentives "to give the best company-wide results". The question was externally directed away from the individual towards the company interests and the replies probably reflected little personal bias. On this basis, the results reflected in Table XIV should be accepted for what they indicated, namely that middle management was the group which if motivated with incentives was considered most able to influence company-wide results. In large companies the respondents favored the first-line supervisor; this was probably a variation due to a variability of respondent positions in different-sized companies.

Consideration of the organizational structure of a typical manufacturing company suggested that when taking a "company-wide" point of view, the respondent was more likely to emphasize the value of the group on which he depended most for results ---namely the group comprising the organizational layer immediately below the one he occupied himself. This approach assumed that the respondents from small and medium-sized companies were part of top management, and the respondents from large companies were generally drawn from middle management.

40Irrespective of the soundness of this assumption, it should be noted that in surveys involving opinion or subjective evaluations, the position and relationship of the respondent to the organizational structure within which he operates, should be established. The individual respondent may reply from either
and offered a plausible explanation of the opinions reported above.

**Employee-group influence on long-term company progress**

In view of the expressed opinions that middle management was considered valuable to industry, it was considered desirable to establish the attitude taken by British Columbia industry toward various groups of salaried employees. To obtain data on this attitude a number of incentive types were linked to various employee groups in question no. 10 on the survey form. The respondents were requested to rank these linked groups in the order of their estimated value for increasing the long-term company profit and progress. The results by ranked positions placed the greatest importance on FLS, followed by MM and then TM in estimated ability to influence long-term company progress.42

The importance accorded to the first-line supervisor differed from data previously reported in Table XIV, page 105, the company's point of view or from his own as an individual, with an effect on the results from companies with different structures and operational methods. See suggestions made respecting areas suitable for further study in Chapter V, page 122.

41 Refer to "Encouragement of Middle Management Is Essential to Industry", Chapter I, page 1; and to footnote 2 in Chapter III, page 54.

42 Refer to Table XXXVI in Appendix D for the rank-position of other employee groups.
which rated MM in small- and medium-sized companies as highest in ability to influence company-wide results. This greater interest in middle management was supported by additional data reported in Table XV which showed the greater interest evidenced in TM and particularly MM groups as reflected indirectly when the "most suitable" and "least suitable" types of financial incentives were "chosen" on the survey.

**TABLE XV**

RELATIVE INTEREST SHOWN IN EMPLOYEE GROUPS,
BASED ON CHOICE OF "SUITABLE" INCENTIVES

<table>
<thead>
<tr>
<th>Employee Group</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Management</td>
<td>46%</td>
<td>33%</td>
<td>40%</td>
</tr>
<tr>
<td>Middle Management</td>
<td>32%</td>
<td>36%</td>
<td>40%</td>
</tr>
<tr>
<td>First-line Supervisor</td>
<td>22%</td>
<td>31%</td>
<td>20%</td>
</tr>
</tbody>
</table>

Refer to Table XXIX in Appendix D for detailed data based on "most suitable" choices from question no. 3, and "least suitable" choices from question no. 8.

The apparent variation in the conclusions drawn from these two sets of data may have been due to the variation in the interpretation of the different initiating questions by the respondents, to the dissimilarity of the company objectives reflected in the two questions, or the direction of the attention of the respondent towards factors of self-interest
to each specific employee group. Additional study and further survey work appeared to be necessary before this "difference of opinion" could be reconciled fully.

Another approach was to reclassify the rank-position data previously reported for all companies, into data by size of responding company. This placed three different management groups in the first-ranked positions among small-, medium- and large-sized companies, namely FLS, TM and MM

43 In the questions no.s 3 and 8 which supplied the information reflected in Table XV, page 108, the attention of the respondent was directed internally towards self-interest factors. It is possible that the interest shown here in TM and MM groups might have arisen largely from the personal bias of the individual respondents with strong self-interest in their own employee-group. This was the point of view probably taken by most respondents when they put themselves in the place of the company when replying to these particular queries. This differs from the "externally directed" nature of the initiating question associated with Table XIV data, previously discussed on page 106.

44 British Columbia industry may desire and choose freely to give more consideration to TM and MM than to FLS. But in actual practice industry apparently endeavors to be impartial or is pressured by the proximity of organized labor to the FLS or the going market price for skilled supervisors. Conditions or requirements for financial incentives may differ appreciably between companies, and some variation in the characteristics of companies of different size may alter the choice of incentives suitable for some employee groups. As no attempt was made in this survey to closely examine the differing aspects of company operation in British Columbia, no firm conclusions can be reached here. See "Limitations" in Chapter I, page 17.

45 Refer to Table XXXVI in Appendix D.
respectively. Similarly the employee groups in the second-ranked positions were TM, FLS and FLS. These data did not appear to form a pattern which could be rationalized. The fault may lie with structure of the question or the interpretation by the respondents. It was concluded that firm agreement about, or the discernment of, common factors that may have existed respecting the use of financial incentives in British Columbia industry for specific purposes would require a more extensive investigation than was possible with the small number of questions used in this survey.46

Influence of company organization

Company organization might have had an influence on the interest shown in the use of financial incentives and in their application to different employee groups. Even though a fuller knowledge of the structure of the organization of different companies might have been helpful in evaluating the use of financial incentives for middle management, it was not feasible to obtain detailed information from this initial exploratory survey, and only one query was made in this area.

The largest variation in company policy toward incentives among companies in British Columbia might have depended on whether the company was a part of a large national corporation

46Refer to "Concluding Remarks" in Chapter V, page 117; and to "Limitations (4)" in Chapter I, page 18.
or whether it was a separate local organization. It was considered that this information would be of value in qualifying the results of the survey. To assist in obtaining this information an indirect approach as to whether the company head office was located in or out of British Columbia was used to divide data into two groups which might have exhibited different patterns related to policy-making and organizational structure.

This approach permitted a further analysis of survey data as shown in Table XVI. There was no significant difference in the use of incentives for middle management (38%) as compared to either TM (40%) or FLS (40%) in companies with head offices in British Columbia. Likewise, for companies with head offices outside of British Columbia there was no difference in the use of financial incentives for different employee groups (all at 26%). The difference in the size of financial incentives (for middle management for example) by companies with head office in British Columbia (38%) and by companies with head office outside of British Columbia (26%) was not significant at 90% confidence level.47

47Refer to McCormick and Frances, loc. cit.
### TABLE XVI

**PER CENT USE OF FINANCIAL INCENTIVES ACCORDING TO LOCATION OF COMPANY HEAD OFFICE**

<table>
<thead>
<tr>
<th>Employee Group</th>
<th>Head Office Located in British Columbia</th>
<th>Head Office Not in British Columbia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Management</td>
<td>40%</td>
<td>26%</td>
</tr>
<tr>
<td>Middle Management</td>
<td>38%</td>
<td>26%</td>
</tr>
<tr>
<td>First-line Supervisor</td>
<td>40%</td>
<td>26%</td>
</tr>
</tbody>
</table>

---

*a* Refer to Table XXXVIII, Parts A and B, in Appendix D for data from question no. 2 reclassified according to location of head office.

The organizational structure of companies, inasmuch as it is determined by the location of the head office, did not appear to have any influence on the interest shown by companies in using financial incentives for different employee groups. This observation is based on only one determinant, head office location, and is not a conclusive evaluation of the effect of different company organizational structures on the use of financial incentives. As stated previously a more exhaustive study of the possible causal factors would be required to establish firm conclusions in this area.
Observations Arising from Interviews

During survey interviews several individuals associated with firms which did not use financial incentives expressed the opinion that incentives could be effectively applied to their operations. Others commented likewise and expressed an interest in obtaining a summary of the survey results. Apparently, a need and a desire for the application of incentives existed in some companies in British Columbia. However, it was also frequently evident in other companies that the respondent was not familiar with financial incentives as a method of compensation and usually thought of "bonus" in terms of a "Christmas bonus". These management people might have only wanted a "cure-all", not an effective incentive plan.

Profit sharing seemed to enjoy a greater amount of popularity, both favourable and unfavourable, than any other type of financial incentive. It was probable that this was due, not to its proven effectiveness, but rather to the general familiarity with, and the popular appeal of, the idea in the sense of its being something which might be obtained with little additional individual effort.

Users of incentive methods frequently evidenced not only satisfaction with their program, but also a cheerful willingness to "get on with the job"—both in supplying survey information and in performing the usual functions of their position. This attitude was entirely different from that frequently encountered
in concerns which were not using financial incentives. Here there was a tendency to explain why their business was different, to exhibit some discouragement when facing problems, and to appear to be busy and overloaded with work.

Additional observations of an informal and secondary nature are included with "Concluding Remarks" at the end of Chapter V.
CHAPTER V

SUMMARY AND CONCLUSIONS

Summary of Survey Results

The objective of this study was to determine by a survey what use was being made of financial incentives in the manufacturing industries of British Columbia for management personnel, particularly for middle-management individuals. Specifically the purpose was to determine what types of financial incentives were being used for middle-management people and whether these individuals were being offered more or less encouragement with financial incentives than were other employees. General data on recent increases in the remuneration for different groups of employees were obtained in order to establish the background for the examination of the use of financial incentives in British Columbia industry.

About one-third of all companies surveyed reported that they had granted increases in employee remuneration during the ten years ending in 1961. Indications were that the increases in salaries for all salaried personnel as reflected in this survey agreed with other data for British Columbia and for Canada. These increases appeared to be slightly more than those gained by hourly-rated employees over the same period. Increases for middle-management personnel appeared to be similar to those
for top management and for first-line supervisors.

The first hypothesis concerning the lesser use of financial incentives for middle management as compared to the use for top and middle management was rejected. The survey indicated that middle management was offered as much opportunity to participate in financial incentive plans as were other management groups and probably more than were office and production workers. Financial incentives for management, including middle-management personnel, were used in about 40% of the manufacturing concerns in British Columbia, which compared favorably with the use of financial incentives in United States industry. The frequent use of year-end and Christmas bonuses together with the absence of any mention of prompt awards suggested that most incentive plans did not provide for large-sized bonus awards to be made immediately following the improvement of employee performance when the most effective motivation might occur.

The second hypothesis dealing with the greater use by large firms of financial incentives for middle management was rejected. Middle-management groups in medium-sized companies were offered significantly more incentive plans than were those in small- or large-sized companies. It appeared that financial incentives were being used for middle management in an attempt to offset smaller proportional increases in basic salaries.

The third hypothesis concerning the lesser use of financial incentives in companies with established plans was rejected.
Financial incentives for middle management were used more frequently in companies which had experience with incentive plans for their office and plant workers than in companies which did not have this experience. The experience and knowledge about incentive methods gained by companies using piece-rates and production bonuses were usually applied next to first-line supervisors and management personnel as measurement and control methods were developed in these areas.

The fourth hypothesis dealing with the greater use of salary increases than of any other financial incentives was rejected. "Profit Sharing" and "Cash Bonuses" were used more frequently by British Columbia manufacturing industry than any other type of financial incentive including "Salary Increases". Indications were that undue reliance was often placed on salary increases to motivate employees to improve their performance for an extended period of time.

The preceding conclusions apply only to financial incentives and are subject to certain limitations which were set out at the beginning of the study.

Additional conclusions arising from the study might also be of interest to policy makers in management when they are planning or considering the use of financial incentives.
(1) Few if any of the generally accepted tenets of successful financial incentive plans were being applied in the manufacturing industries surveyed in British Columbia.

(2) It seemed that financial incentives were used mainly as minor adjuncts or supplements (Christmas or year-end bonuses) to the basic earnings of middle management rather than as a sizeable, additional financial payment earned by the employee for increased production or improved performance within a well-designed plan to motivate personnel to improved effort and above-normal performance.

(3) The incentive program which was static and did not accommodate the changing needs of employees and company soon became ineffective and was frequently terminated.

(4) Bonuses were frequently awarded at the discretion of the manager or president without reference to objective measurement or evaluation of an employee's increased individual or group effort.

(5) Individual employee interest in the company progress and competitive position frequently appeared to be lacking,  

1 The non-financial aspects of rewards offered by well-designed incentive plans are important and valuable in motivating employees but are not discussed in this study in compliance with "Limitation (8)" in Chapter I, page 19. For more information respecting non-financial rewards and incentives refer to the Bibliography for articles by Chris Argyris, Howard Dresner, Rensis Likert, Elton Mayo, Arch Patton, Robert Saltonstall and James Worthy.
probably because when incentive awards were made, they were usually distributed uniformly to all employees of a company plant as a percentage of earnings, rather than to individual employees based on the measurement of their performance. The latter method usually provides a more direct linkage between the efforts of the individual employee and the successful attainment of company objectives.

(6) Little opportunity was provided whereby the employee could earn additional satisfactions or bonuses for himself by associating his personal objectives more closely with those of the company, even though the desire to please the employee was frequently evident. Practical and workable interpretations of this desire might have been provided by suitably designed financial incentive plans.

(7) The use of increases in salaries and wages to motivate employees to better and increased performance appeared to be effective for only very short periods and did not encourage continuous job improvement or performance over an extended period of time.

(8) Management frequently appeared to consider that profits had to be increased BEFORE an incentive plan could be instigated, seldom realizing that improved productivity with reduced direct costs could be a sound and continuing justification for providing financial incentive awards. Price changes and other factors that may affect company profits which are
beyond the control of individual employees, should not become involved in the provision of financial awards for improved productivity.

Concluding Remarks

When a company executive is charged with the responsibility for developing an incentive plan, he will probably find that familiarity with how incentive plans are currently being used by industry in other communities is of considerable assistance. This familiarity could materially influence the successful utilization of financial incentives in British Columbia by suggesting applications which might be most suitable for specific local situations. Such knowledge by both company officers and employees might also greatly improve the general comprehension of incentive principles and constructively assist in the development of workable local applications.

Great care and attention should be given by management to the design of multi-purpose financial incentive plans which will meet the changing needs of both the employees and of the company. Many failures of incentive plans have apparently developed from using one incentive approach to improve one specific situation, and then expecting this simplified plan to also accommodate several other problem situations important to improved employee performance and effort. Changing conditions and changing requirements of the work situation should be promptly matched with appropriate changes in the
incentive program.

Many policy makers in industry might well consider increasing the number of variables controllable by employees which affect the attainment of company objectives, particularly if these employees are offered financial incentives directly linked to the success of the company in reaching its objectives. Middle management occupies a strategic position in this control pattern and is frequently responsible for many variables affecting company progress. Attention should be given to directing middle management's motivation-need-fulfilment behavior-cycle into efforts most profitable to the company by using more financial incentives specifically associated with and linked to definite middle-management responsibilities.

A number of unanswered questions developed from the conclusions arising from the rejection of the hypotheses and the observations which followed. For example, it appeared that the reported interest in financial incentives tended to vary when the survey question or local conditions within the company tended to center interest internally on an individual employee and his work-group, or externally on the company as a whole; and when basic company objectives were short-term and directed towards immediate profits, or were long-term and directed towards the best company-wide progress. It seemed evident that important aspects of the use of financial incentives for middle-management personnel in the manufacturing industries of British
Columbia required a more thorough collection of data than had been possible in an exploratory survey.

Further Study

A further study of the use of financial incentives might benefit from a consideration of the inter-relationships that may exist among the following:

(a) The relative size of additional earnings added to basic salary by specific incentive plans for different employee groups;

(b) The methods of making incentive awards and their relationship to the objective measurement of employee performance;

(c) The applicability of different types of incentives for various needs and requirements;

(d) The change of company earnings with the change of company employment levels by employee groups;

(e) The measurement of productivity in plants both using, and not using, financial incentives; and

(f) The use of financial incentives for individuals and for groups, separately and in combination.

These suggestions, while not exhaustive, emphasized by their variety the perplexing multiplicity of factors facing management having an interest in the effective application of financial incentives. Probably a greater realization of the need for improvement in British Columbia industry must occur before any
large measure of success will be attained in using financial incentives.
BIBLIOGRAPHY


Ware, T. M. "Stock Options: Their Morality and Practical Applications", *Barron's*, June 19, 1961, pp. 5-6.

OTHER SOURCES


Canada, Department of Labor, Economics and Research Branch. Private communication, June 1962.

APPENDIX A

SURVEY PROCEDURE AND QUESTIONNAIRE

Survey Design

To survey the whole manufacturing industry of British Columbia in order to ascertain the amount of interest taken in the use of financial incentives for middle management was too large an undertaking for this study; therefore, recourse was made to a sample survey.

An alphabetical listing of some 650 manufacturers with current postal addresses and names of company presidents or managers was available. This group consisted of medium- and large-sized manufacturers, who, it was expected, would have middle-management individuals in their organizations, as well as smaller manufacturers, who would have a few middle-management individuals. This group was essentially representative of manufacturers in British Columbia with the exception of very small firms of fifteen or less employees. It was thus suitable for the purposes of this study, and readily lent itself to systematic random sampling.

The division of the sample into typical small, medium, and large firms was helpful in making the analysis and relating results to actual practice in known companies. The most recent available information on the distribution of manufacturers
in British Columbia by plant size was examined to establish group sizes.\(^1\) Grouping of firms by the total number of company employees was used to define small firms as those with 74 or less employees, medium-sized firms as those with 75 to 399 employees, and large firms as those with 400 or more employees. These size-groupings divided the total British Columbia manufacturing employment and payroll into approximate thirds as shown in Table XVII.\(^2\) This division into size groups provided a basis convenient for the analysis of some variables, but was not suitable for stratified sampling because a full and current listing by firm size was not available.

### TABLE XVII

MANUFACTURING FIRMS IN BRITISH COLUMBIA ACCORDING TO EMPLOYMENT AND PAYROLL AS PER 1958 SURVEY

<table>
<thead>
<tr>
<th>Employment</th>
<th>1-74</th>
<th>75-399</th>
<th>400 or over</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per Cent of Firms Reporting</td>
<td>94.3</td>
<td>4.8</td>
<td>0.9</td>
</tr>
<tr>
<td>Per Cent of Total Employment</td>
<td>38.5</td>
<td>30.1</td>
<td>31.4</td>
</tr>
<tr>
<td>Per Cent of Total Payroll</td>
<td>33.9</td>
<td>30.2</td>
<td>35.9</td>
</tr>
</tbody>
</table>


\(^2\)Ibid., page iii.
Size of Sample Required

Since the survey was made in a subject area which had not been investigated previously, an exploratory examination of numerous unknowns was indicated. A simple random sample of fairly general nature, likely to cover the main unknowns, was desirable. There was no comprehensive theory for designing multipurpose samples, so some assumptions and generalizations were made in estimating the size of the required sample.

As the main interest was in the proportionate use of financial incentives, this was the criterion used to estimate the sample size. The maximum conditions for acceptable error apply when a proportion of .5 for the occurrence of incentives exists, lessening as the ratio decreases. However, human errors could enter from variations in interpretation, inaccuracy of reported information depending on who reports for the company, limitations on the information available to the respondent, variations between company policy and the respondent's interpretation of that policy, incomplete or hurried consideration of questionnaire items respecting opinion, and possible errors in recording and interpreting the replies. Since these were only some of the possible sources of error beyond the control of the

investigator, the setting of a confidence interval of $\pm 10$ percentage points seemed reasonable. The reduction of this confidence interval at 95% confidence level by requiring more exacting sampling methods did not seem feasible.

The decision was made to use a mail survey initially because it would be the most economical means of contacting manufacturers throughout British Columbia. It was estimated that a 50 per cent mail return could be expected from a sample of the group of manufacturers in question. If needed at a later date, interview and follow-up procedures could be taken to ensure an adequate reply.

On the basis of these assumptions, the sample sizes required at 95% confidence level to provide a confidence interval of $\pm 0.1$ for a range of proportions are:

<table>
<thead>
<tr>
<th>Proportion $p =$</th>
<th>.5</th>
<th>.4</th>
<th>.3</th>
<th>.2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sample size $n =$</td>
<td>84</td>
<td>80</td>
<td>72</td>
<td>56</td>
</tr>
</tbody>
</table>

At 50% response, required mailing is 168 160 144 112

During the planning stage the proportion of companies using financial incentives in British Columbia manufacturing

\[ n = \frac{(1.96)^2 \text{ pq}}{d^2} + \frac{(1.96)^2 \text{ pq}}{N} \]

\text{Ibid., page 652. Using } d = .1, \text{ and finite population } N = 650 \text{ in } N = 650 \]
industry was not known, but with an estimated proportion of .25 and a ± and - 10 percentage point confidence interval (.15 to .35), plus 50% allowance for non-response, the size of the required sample was estimated to be 130. This was one-fifth of the group of 650 firms to be sampled, which would permit systematic sampling of every fifth firm on the alphabetical list of this group.

A financial incentive program which is most suitable for a given company is probably unique in character and specific in design. Among the programs in force in British Columbia, it was expected that a great variety existed. To serve the purposes of this study it was not necessary to obtain a detailed description of each separate program or to evaluate its merits and suitability, but only to establish the existence of financial incentives by type and to define the employee group covered. The purpose was to determine the relative interest in the use of financial incentives as motivators for different groups of management.

To confine the study questionnaire within the strict definition of financial incentive as used herein would probably have raised questions of degree among the respondents and caused unnecessary difficulties and variations in data quality. Accordingly, the questionnaire was designed to permit an indication by respondent of the incentives in use within fairly well-known or easily identified groups and a breakdown of these
groups into types for specific identification. It was hoped that this approach would eliminate the necessity for an extensive "write-in" of data. The types of financial incentives considered to be of most interest in this survey have already been described.\textsuperscript{5}

A tentative questionnaire was prepared and tested on a pilot sample of a dozen different firms. This procedure assisted in the improvement of the wording, of the layout of the form, of the styling of questions, and of the definition of terms accompanying the survey questionnaire.

The first question was a qualifying question used to later divide the replies into groups from small, medium and large firms, or into groups of firms having their head office in or outside British Columbia. The main interest of the survey centered around the answers to question two, respecting the actual use of different types of financial incentives for different groups of employees. The remaining questions, numbered three to ten, were of less importance to the survey results, providing reasons why financial incentives were or were not utilized in British Columbia. These latter questions also reflected free-standing choices separate from the actual usage pattern and supplied some information about the considered suitability and preferences exhibited in the use of different

\textsuperscript{5}See Chapter II, page 37.
types of financial incentives for specific management groups.

Survey Procedure and Response

The questionnaire, the explanation of terms used, a stamped return envelope and the covering letter dated June 8, 1962 were mailed to a systematic random sample of 130 firms, being one in five from a 650-member group. No unaccepted mail was returned. Two follow-up letters dated July 4 and July 17, 1962 were mailed with another copy of the questionnaire to the outstanding non-respondents as of those dates. Nevertheless, numerous personal and telephone interviews were required to obtain replies from non-respondents. About half of the replies were received by mail, with half of these being anonymous.

Two-thirds (18) of the final non-response group of 28 were distributed in areas of British Columbia outside of Greater Vancouver and New Westminster. Wood processing plants and sawmills accounted for two-thirds (12) of the "no-show" group in non-metropolitan areas. The distribution of these throughout British Columbia made communication by other than mail infeasible.

The "no-show" metropolitan group was not dominated by any one industry. The questioning of local non-respondents gathered excuses of "too busy", "short staffed", "holiday season", "the individual who knows is out of town", or simply "please count us out this time".

All respondents answered questions one and two, but their
replies to other questions dropped off due to "lack of time", "pressure of business", "information not available", "no experience with incentives", "private company, not available for publication", "referred to head office for reply", and similar reasons.

The largest single non-response to the questionnaire arose from disqualification as "not manufacturing in British Columbia". This was reported by 19 firms or about 15% of the original mailing, which reduced the net sample to 111 firms. As this condition was in accordance with the defined boundaries of the universe desired for the survey, it was accepted as a legitimate reduction of sample. On the basis of these replies the size of the group being sampled was adjusted to approximately 550 firms actually carrying on manufacturing operations in British Columbia.

The total response by 83 firms was approximately 75% of the net mailing to 111 firms. This is compared in Table XVIII to the total number of manufacturing firms in British Columbia and to the specific group of manufacturers being sampled. It was considered that the member firms of this group represent the more forward and progressive concerns in British Columbia; thus the results may not reflect conditions existing among other firms in British Columbia.
### TABLE XVIII

COMPARISON OF SAMPLE RESPONSE, GROUP OF MANUFACTURERS, AND THE MANUFACTURING INDUSTRIES OF BRITISH COLUMBIA

<table>
<thead>
<tr>
<th>Size of Establishment</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
<th>All Co.s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees per Plant</td>
<td>1-74</td>
<td>75-399</td>
<td>400+</td>
<td>25(Avg.)</td>
</tr>
</tbody>
</table>

**A. All Manufacturers in British Columbia**

<table>
<thead>
<tr>
<th></th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
<th>All Co.s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of firms on 1958 basis</td>
<td>8770</td>
<td>446</td>
<td>84</td>
<td>9300</td>
</tr>
<tr>
<td>Per cent of total number of establishments</td>
<td>94.3%</td>
<td>4.8%</td>
<td>0.9%</td>
<td>100%</td>
</tr>
<tr>
<td>Total employees (M = 1000)</td>
<td>90M</td>
<td>70M</td>
<td>73M</td>
<td>233M</td>
</tr>
<tr>
<td>Average number of employees per plant</td>
<td>10</td>
<td>157</td>
<td>870</td>
<td>25</td>
</tr>
</tbody>
</table>

**B. Group of 550 Manufacturers (Universe)**

<table>
<thead>
<tr>
<th></th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
<th>All Co.s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated number of firms</td>
<td>340</td>
<td>170</td>
<td>45</td>
<td>555</td>
</tr>
<tr>
<td>Per cent of respective size-group in B. C.</td>
<td>3.9%</td>
<td>38%</td>
<td>54%</td>
<td></td>
</tr>
<tr>
<td>Estimated total employment (M = 1000)</td>
<td>3.4M</td>
<td>27M</td>
<td>39M</td>
<td>60.5M</td>
</tr>
<tr>
<td>Per cent of respective size-group in B. C.</td>
<td>4%</td>
<td>39%</td>
<td>53%</td>
<td>26%</td>
</tr>
</tbody>
</table>

**C. Response from Sample**

<table>
<thead>
<tr>
<th></th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
<th>All Co.s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of mailings made to companies</td>
<td>68</td>
<td>34</td>
<td>9</td>
<td>111</td>
</tr>
<tr>
<td>Number of responses received</td>
<td>43</td>
<td>31</td>
<td>9</td>
<td>83</td>
</tr>
<tr>
<td>Response as per cent of respective size-group in:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sample of 111 firms</td>
<td>39%</td>
<td>28%</td>
<td>8%</td>
<td>75%</td>
</tr>
<tr>
<td>Universe of 550 firms</td>
<td>7.8%</td>
<td>18%</td>
<td>20%</td>
<td>15%</td>
</tr>
<tr>
<td>B.C. manufacturing industry</td>
<td>0.5%</td>
<td>7%</td>
<td>11%</td>
<td>0.9%</td>
</tr>
</tbody>
</table>

---

The response of 83 replies from the adjusted universe numbering 550 firms actually manufacturing products in British Columbia provided an estimate that 40% of them ± 10 percentage points at 95% confidence level were using financial incentives for the management groups, as reported by answers to question two on the questionnaire. A lesser response was made to other questions, and was reported in Chapter IV with the discussion of the results from specific questions.

\[ E(p) = p' \pm 1.96 \sqrt{\frac{N - n}{N - 1} \times \frac{p'q'}{n}} \]

Where \( E(p) \) is the estimated proportion in the universe at 95% confidence level; \( N = \) size of universe = 555; \( n = \) sample size = 83; \( p' = \) proportion in sample = .4; and \( q' = 1 - p' \).

---

\( ^6 \) Based on average number of employees per plant in Part B of Table XVIII, page 138.

\( ^{\text{op. cit.}} \) McCarthy, op. cit., page 650.
SURVEY QUESTIONNAIRE FORM
Dear Sir:

The use of Financial Incentives for both salaried and hourly employees may be of value to management in developing better employee performance and more profitable manufacturing industries in British Columbia.

As part of his work towards the Master of Business Administration degree at the University of British Columbia, Mr. B. A. Robinson is studying applications of Financial Incentives. In this connection, he would like to ascertain the present use and acceptability of various Financial Incentives for personnel (excluding sales staff), of B. C. manufacturing industries.

You have been selected as part of a random sample, and your cooperation in scoring and returning the enclosed survey form will be greatly appreciated. All survey data will be reported in aggregate without disclosure of source or company identity.

The results of this work may be published, and if it is, we will be glad to send you a summary if you wish to return the request slip.

Thanking you for your cooperation, I am

Sincerely,

W. O. Perkett
Assistant Professor

Request to:
Mr. B. A. Robinson
c/o Prof. W. O. Perkett
Commerce and Business Administration
University of British Columbia
Vancouver 8, B. C.

PLEASE SEND ME A SUMMARY OF FINANCIAL INCENTIVE SURVEY
Name
Company
Address
City
EXPLANATION OF TERMS USED

MANUFACTURING INDUSTRY consists of any organization, company, or manufacturing department whose purpose is to increase the worth of materials by performing work thereon, as opposed to a sales organization marketing products or services, public utilities, or similar activities.

FINANCIAL INCENTIVES consist of additional employee income over and above an established basic salary or wage, designed to increase the total yearly earnings, actual or calculated, and at the same time to encourage more productive, efficient performance of the individual or of the group with which he works, and/or to encourage creativity in methods, processes or products.

BASIC SALARY OR WAGES includes regular pay, overtime, and such employee benefits as holidays, pension plans, health, accident, and group life insurance plans or similar allowances which are not based on, or changed with individual performance.

TOP MANAGEMENT consists of the top management group responsible for long-term risk decisions. In larger companies this will usually include President, Vice-Presidents, and related positions of controller, treasurer and similar positions on the same level; all of whom are probably employed under individual contract with bonuses, options, or other specific financial arrangements. In smaller companies this top management group will likely consist of Owner-President and managers who are probably enjoying specific financial arrangements with the owner.

MIDDLE MANAGEMENT is that part of management comprised of professional, line, or staff personnel charged largely with making only short-term operating decisions, and whose functions lie between those of top management and the first-line supervisor.

FIRST-LINE SUPERVISOR is the individual on the management team responsible for the direct supervision of the office, clerical or production worker.
SURVEY OF FINANCIAL INCENTIVES IN B. C. MANUFACTURING INDUSTRIES,
For Management, Office, and Plant Employees ONLY, SALES STAFF EXCLUDED.

1. TOTAL NO. OF ALL OUR EMPLOYEES FOR HIGHEST WEEK IN 1961 WAS (Check Group),
1-74 □, 75-399 □, over 400 □; OUR HEAD OFFICE IS IN B.C. □, NOT IN B.C. □

2. WE USE FINANCIAL INCENTIVES FOR EMPLOYEE GROUPS AS CHECKED (✓) IN BOXES BELOW.

<table>
<thead>
<tr>
<th>TYPE OF INCENTIVE</th>
<th>TYPE OF EMPLOYEE GROUP</th>
<th>OFFICE, CLERICAL WORKER</th>
<th>PLANT or PRODUCTION WORKER Hourly &amp; Piecework</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>TOP MANAGE'MT Officers, Vice-Pres, Managers</td>
<td>MIDDLE MANAGE'MT Professionsal, Line, &amp; Staff</td>
<td>FIRST-LINE SUPERVISOR Foreman or Supervisor</td>
</tr>
<tr>
<td>a. CASH BONUS for individual or group effort based on:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) Planned goal &amp; budget</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) Better Production (time, cost, quality)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3) Predetermined Job Standards</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(4) Creativity in Methods, Processes, or Product</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(5) Other</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. PROFIT SHARING based on a predetermined fixed % of profits, as:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) Cash, % of payroll</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) Cash, for unusual non-recurring specific effort</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3) Deferred or Trusteed Employee Fund</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(4) Fixed % of Profits by personal agreement</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(5) Other</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. STOCK PLANS involving company stock usually:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) Stock Bonus in lieu of Cash Incentive</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) Stock Option for later Purchase</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3) Employee Stock Purchase Company may contribute too</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(4) Other</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
2. (Continued)  TYPE OF INCENTIVE

<table>
<thead>
<tr>
<th>TYPE OF INCENTIVE</th>
<th>TOP MANAGE'MT</th>
<th>MIDDLE MANAGE'MT</th>
<th>FIRST-LINE SUPERVISOR</th>
<th>OFFICE, CLERICAL</th>
<th>PLANT or PRODUCTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>d. DEFERRED INCOME until retirement at lower tax</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) Deferred Salary</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) Special individual life insurance coverage</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3) Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>e. INCREASES IN SALARIES &amp; WAGES</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) Based on unusual non-recurring specific effort (NOT ON seniority or cost of living).</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) Basic salary and wages higher than local average</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3) Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f. OTHER FINANCIAL INCENTIVE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) Guaranteed Annual Wage</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) Safety Bonus for reduction of accidents</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3) Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

3. PLEASE SELECT FROM THE LIST OF FINANCIAL INCENTIVES LISTED UNDER QUESTION 2 ABOVE, THOSE INCENTIVES WHICH YOU CONSIDER LIKELY TO BE MOST SUITABLE FOR EACH GROUP OF MANAGEMENT:-

Choice, in order of importance

A. TOP MANAGEMENT

1. 
2. 
3. 
4. 

Reason for selection

1. 
2. 
3. 
4. 

B. MIDDLE MANAGEMENT

1. 
2. 
3. 
4. 

Reason for selection

1. 
2. 
3. 
4. 

144
3. (Continued)

C. FIRST-LINE SUPERVISOR

1. ____________________________  1. ____________________________
2. ____________________________  2. ____________________________
3. ____________________________  3. ____________________________
4. ____________________________  4. ____________________________

4. IN YOUR COMPANY WHAT HAS BEEN THE APPROXIMATE PERCENTAGE INCREASE IN
AVERAGE TYPICAL REMUNERATION (EXCLUDING OVERTIME) SINCE 1951 FOR EACH
OF THE FOLLOWING CATEGORIES:-
(The use of a representative job in each group will assist in making estimate)

<table>
<thead>
<tr>
<th>Category</th>
<th>% Increase since 1951</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOP MANAGEMENT</td>
<td>(1)</td>
</tr>
<tr>
<td>MIDDLE MANAGEMENT</td>
<td>(2)</td>
</tr>
<tr>
<td>FIRST-LINE SUPERVISOR</td>
<td>(3)</td>
</tr>
<tr>
<td>CLERICAL &amp; OFFICE WORKERS</td>
<td>(4)</td>
</tr>
<tr>
<td>PLANT or PRODUCTION WORKERS</td>
<td>(5)</td>
</tr>
</tbody>
</table>

5. WE DO NOT USE FINANCIAL INCENTIVES FOR OUR MANAGEMENT EMPLOYEES FOR THE
FOLLOWING REASONS BY EMPLOYEE GROUP:-

Code for Reasons
(A) Too difficult to administer.
(B) Other incentives than financial are better motivators.
(C) Funds available for such rewards are limited.
(D) Employees are now fully rewarded.
(E) Other(Specify) ____________

Indicate reasons by placing letter codes (A, B, C, D, E) under groups where applicable.

<table>
<thead>
<tr>
<th>Group</th>
<th>Reasons</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOP MANAGEMENT</td>
<td></td>
</tr>
<tr>
<td>MIDDLE MANAGEMENT</td>
<td></td>
</tr>
<tr>
<td>FIRST-LINE SUPERVISOR</td>
<td></td>
</tr>
</tbody>
</table>
6. WHAT TYPES OF FINANCIAL INCENTIVES HAS YOUR COMPANY DISCONTINUED, AND FOR WHICH EMPLOYEE GROUPS WERE THEY USED?

A. Type of Incentive Discontinued

1. 

2. 

3. 

B. Employee Group or Groups Covered

1. 

2. 

3. 

C. Why were they discontinued?

1. 

2. 

3. 

7. RATHER THAN RELYING ON ONLY ONE TYPE OF FINANCIAL INCENTIVE, WHAT GROUP OF FOUR WOULD YOU CHOOSE TO GIVE THE BEST COMPANY-WIDE RESULTS? (CHECK) (four ) (only )

A. Cash bonus for creativity in methods, processes & product. 

B. Stock option plan at price less than market. 

C. Deferred salary plan with tax benefit. 

D. Cash bonus for reaching planned goal. 

E. Incentive payment for reducing labor costs. 

F. Wages paid proportional to production volumes. 

G. Bonus for good safety record on the job. 

H. Salary levels higher than the local average. 

I. Bonus for improvement in production (time, cost, quality). 

J. Supervisory salaries at least 20% higher than plant wages. 

K. Generous expense accounts. 

L. Bonus for reduction of "Waste material & Scrap" in shop.
8. WHAT TYPES OF FINANCIAL INCENTIVES (see listing under question 2.) DOES YOUR COMPANY CONSIDER LEAST APPLICABLE TO THE FOLLOWING GROUPS?

<table>
<thead>
<tr>
<th>Considered LEAST applicable for:</th>
<th>Reason for Rejection</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. TOP MANAGEMENT</strong></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>1.</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>2.</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>3.</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>B. MIDDLE MANAGEMENT</strong></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>1.</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>2.</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>3.</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>C. FIRST-LINE SUPERVISOR</strong></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>1.</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>2.</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>3.</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
9. FOR WHICH EMPLOYEE GROUP OR GROUPS, DO YOU CONSIDER THESE FINANCIAL INCENTIVES MOST SUITABLE?

Please indicate your choice by using (1) for TOP MANAGEMENT
(2) " MIDDLE MANAGEMENT
(3) " FIRST-LINE SUPERVISOR
(4) " OFFICE, CLERICAL WORKER
(5) " PLANT or PRODUCTION WORKER

Insert numbers on each line for as many suitable applications as you wish.

<table>
<thead>
<tr>
<th>Employee Stock Purchase Plan</th>
<th>A.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit Sharing Plan, based on payroll and/or effort</td>
<td>B.</td>
</tr>
<tr>
<td>Increase in pay, for unusual non-recurring effort.</td>
<td>C.</td>
</tr>
<tr>
<td>Guaranteed Annual Wage Plan</td>
<td>D.</td>
</tr>
<tr>
<td>Cash bonus based on meeting planned goal or budget</td>
<td>E.</td>
</tr>
<tr>
<td>Pay rates generally higher than local average.</td>
<td>F.</td>
</tr>
</tbody>
</table>

10. ACCORDING TO YOUR ESTIMATE OF THEIR VALUE FOR INCREASING LONG-TERM COMPANY PROFITS AND PROGRESS, HOW WOULD YOU RANK (FROM 1 to 6) THE FOLLOWING:

| A. CASH BONUS FOR YOUNGER MANAGEMENT | A. |
| B. PIECEWORK PAY FOR PLANT OR PRODUCTION WORKER | B. |
| C. PROFIT SHARING FOR TOP EXECUTIVES ONLY | C. |
| D. COMPANY FINANCED TRAINING PROGRAMS FOR MIDDLE MANAGEMENT | D. |
| E. PRODUCTION BONUS FOR FIRST-LINE SUPERVISORS | E. |
| F. CASH BONUS FOR OFFICE, CLERICAL WORKER FOR EXCEEDING QUOTAS | F. |

THANK YOU FOR YOUR COOPERATION.

Please return questionnaire survey to:

Mr. B.A. Robinson, c/o Prof. W.O. Perkett,
Commerce and Business Administration,
University of British Columbia,
Vancouver 8, B. C.
Dear Sir:

Last month we sent you a "Survey of Financial Incentives in B. C. Manufacturing Industries", requesting your opinion anonymously.

If you have returned this survey please accept our thanks and disregard this letter.

Even if you do not use financial incentives in your firm, your answers and opinions on the other questions are vital to our study. A reply from you with completion of survey will be warmly appreciated.

Thanking you sincerely
in anticipation of your cooperation,

I am,

B. A. ROBINSON.
C/o Prof. W. O. Perkett,
Faculty of Commerce & Business Administration,
UNIVERSITY OF BRITISH COLUMBIA,
Vancouver 8, B. C.

July 17, 1962.

Dear Sir:

Last month we sent you a "Survey of Financial Incentives in B. C. Manufacturing Industries", requesting your opinion anonymously.

If you have returned this survey please accept our thanks and disregard this letter.

Even if you do not use financial incentives in your firm, your answers and opinions on the other questions are vital to our study. A reply from you with completion of survey will be warmly appreciated.

Thanking you sincerely,
in anticipation of your cooperation,

I am,

B. A. ROBINSON.

P.S.
Enclosed is another copy of form. Please let us have a reply even if you cannot answer all questions.

Many thanks,

B.A.R.
APPENDIX B

ADDITIONAL DATA FROM OTHER SOURCES

National Industrial Conference Board, 1939, 1946 and 1954

The data obtained from early surveys concerning the use of incentives and bonuses for salaried personnel often are not comparable. A nationwide survey (the Conference Board Study of Personnel Policy No. 20) in 1939 covering 2,700 companies in all types of business employing five million persons indicated that in 51.7% of the companies, wage incentive plans of some kind were being used.¹ A 1946 survey covering 600 manufacturing companies reported that 77.4% of the companies used some form of financial incentives according to Table XIX, which also shows similar 1939 data covering 900 companies.²


TABLE XIX

USE OF INCENTIVES IN 1939 AND 1946

<table>
<thead>
<tr>
<th></th>
<th>1946</th>
<th>1939</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production Workers</td>
<td>49.7%</td>
<td>51.7%</td>
</tr>
<tr>
<td>Supervisors</td>
<td>15.2</td>
<td>18.3</td>
</tr>
<tr>
<td>Executives</td>
<td>10.8</td>
<td>- x</td>
</tr>
<tr>
<td>Office and Clerical</td>
<td>6.0</td>
<td>4.8</td>
</tr>
</tbody>
</table>

\[x\] No data available.

National Industrial Conference Board, 1947

The incidence of profit-sharing plans, year-end bonuses, and incentive plans for salaried personnel was available only as isolated data (Tables XX and XXI) which were not suitable for purposes of comparison.

TABLE XX

PROFIT SHARING PLANS FOR SALARIED PERSONNEL

<table>
<thead>
<tr>
<th></th>
<th>1954(^a)</th>
<th>1947(^b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Companies</td>
<td>446</td>
<td>446</td>
</tr>
<tr>
<td>Using General Merit Awards</td>
<td>6.2%</td>
<td></td>
</tr>
<tr>
<td>Have Profit Sharing</td>
<td>17.3%</td>
<td>7.1%</td>
</tr>
<tr>
<td>Reflecting Cost of Living</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Have Year-end Christmas Bonuses</td>
<td>42.4%</td>
<td>35.4%</td>
</tr>
</tbody>
</table>


TABLE XXI

SALARIED EMPLOYEES PAID INCENTIVES

| Replies from Companies | 1939<sup>a</sup> | 1947<sup>b</sup> |
|------------------------|----------------|----------------|----------------|
| None Paid              | 230            | 466            |
| Supervisor Foreman     | 68.7%          | 76.8%          |
| Executives             | 8.7            | 8.4            |
| Officers               | 6.1            | 1.3            |
| Department Heads       |                |                |
| Key Personnel          |                |                |
| Superintendents        | .4             |                |
| Department Heads       | .4             | 1.7            |
| Planning and Production Department Personnel | .4 | .2 |
| Buyers                 | .4             | .4             |


Canada, Department of Labor, 1954.

A study performed by the Canadian Department of Labor on Methods of Wage Payment in Canadian Manufacturing in 1954 reported that more than three times as many (67%) plant employees were paid by time as by "payment-by-results" schemes (20%).

Almost half of these (10%) were on piecework and 9% on incentive bonus schemes, with 13% of the employees not being covered.

by the survey. Production bonus schemes tended to be found in larger establishments while piecework schemes were found in plants much smaller than the average-sized concern utilizing a production bonus scheme.  

No similar study for either hourly-rated workers or salaried personnel has been performed since, except that in 1957 a brief review found that the percentage of plant workers on timework had increased from 67% in 1954 to 73% in 1957.  

Management personnel were not covered in either survey.  

**Bureau of National Affairs, 1957**  

In 1957 the Bureau of National Affairs Inc. issued a "Personnel Policies Forum" based on data from 50 companies which reported the principal ways in which executives were compensated for their services.  

Bonus plans were carried in 44 per cent of companies represented in the Forum. In about half of the companies with such plans, all executives were eligible for bonuses; in others bonuses were generally given only to officers and plant or branch managers. On the average, such bonuses made up 20 per

---

5 Canada, Department of Labor, Economics and Research Branch, Ottawa, Ontario, private communication, July 1962.  
cent of an executive's annual pay in larger companies and between 10 and 15 per cent in smaller firms.  

Stock option programs for executives were conducted by a third of the larger firms and a sixth of the smaller companies. Most of these companies limited the number of shares that could be offered to the executive group as a whole, as well as to individual executives. In most cases, an executive could buy the company stock at 95 per cent of the market price and was given from five to ten years to pay for it.

Profit-sharing plans for executives were in effect in 38 per cent of the larger firms and 56 per cent of the smaller ones. A number of these plans were combined with pension plans, while a few others were tied in with savings plans. The amount of profit shared was generally a fixed percentage of net profit. Deferred compensation not related to a profit-sharing plan was offered by only a few companies.

United States, Department of Labor, 1960 and 1961

The U. S. Department of Labor in a 1960 survey of 8 job classifications with pay levels for 77 occupation work levels

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8 Ibid., page 7.
9 Ibid., page 8.
covered 30,600 companies employing more than 100 persons each for a total of 14,000,000 workers. Almost 19,000 of these companies were manufacturing concerns with more than 9,000,000 workers. A total of 1606 establishments were studied for professional and administrative occupations, 1146 being manufacturing concerns, and 6079 were studied for technical and clerical occupations, 3132 being manufacturing concerns.

This survey, mostly of manufacturing industry, reflected the use of salaries together with cash bonus payments. Cash bonuses in total were in effect in from 31% to 48% of the establishments; the use of Christmas bonuses or year-end bonuses ranged from 16% to 35%; profit sharing ranged from 4% to 10%; and the use of others including management incentive bonuses and length of service bonuses ranged up to 14% of establishments surveyed (Table XXII).

For employees who actually received cash bonuses the supplementary payments added considerably more to their earnings than that shown in Table XXIII (as per cent increase on average salary for the category involved), page 158.

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11 Ibid., page 31.
### TABLE XXII

PER CENT DISTRIBUTION OF ESTABLISHMENTS BY TYPE OF SUPPLEMENTARY CASH BONUS PLAN\(^a\)

FOR SELECTED OCCUPATIONAL GROUPS, WINTER 1959-60\(^b\)

<table>
<thead>
<tr>
<th>Cash Bonus Plan</th>
<th>Clerical</th>
<th>Clerical Supvr.</th>
<th>Accountant</th>
<th>Personnel Mgmt.</th>
<th>Attorneys</th>
<th>Draughtsmen &amp; Scientists</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establishments with employees in occupational groups</td>
<td>30</td>
<td>11</td>
<td>16</td>
<td>9</td>
<td>2.5</td>
<td>8.5</td>
</tr>
<tr>
<td>No. of est'ts. in 1000's</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Per cent</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Supplementary cash bonus plan</td>
<td>39</td>
<td>44</td>
<td>48</td>
<td>44</td>
<td>36</td>
<td>31</td>
</tr>
<tr>
<td>Christmas or year-end</td>
<td>34</td>
<td>34</td>
<td>35</td>
<td>27</td>
<td>16</td>
<td>23</td>
</tr>
<tr>
<td>Profit sharing</td>
<td>4</td>
<td>5</td>
<td>8</td>
<td>9</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
<td>5</td>
<td>6</td>
<td>8</td>
<td>14</td>
<td>2</td>
</tr>
<tr>
<td>No supplementary cash bonus plan</td>
<td>61</td>
<td>56</td>
<td>52</td>
<td>56</td>
<td>64</td>
<td>69</td>
</tr>
</tbody>
</table>

\(^a\) Supplementary cash bonus plans applicable to a majority of employees in jobs studied within selected job groups in each establishment.

\(^b\) United States Department of Labor, Bulletin no. 1286, op. cit., page 30.

Note: Because of rounding, sums of individual percentages may not equal totals.
**TABLE XXIII**

**BONUS PAYMENTS AS PER CENT OF AVERAGE SALARIES**

<table>
<thead>
<tr>
<th>Bonus Payments as Per Cent of Average Salaries</th>
<th>Job Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.7% - 10.9%</td>
<td>Directors of Personnel</td>
</tr>
<tr>
<td></td>
<td>Directors of Research</td>
</tr>
<tr>
<td></td>
<td>Mathematicians</td>
</tr>
<tr>
<td>3.0% - 4.8%</td>
<td>Accountants</td>
</tr>
<tr>
<td></td>
<td>Attorneys</td>
</tr>
<tr>
<td></td>
<td>Chemists</td>
</tr>
<tr>
<td></td>
<td>Engineers</td>
</tr>
</tbody>
</table>

*United States Department of Labor, Bulletin no. 1286, *op. cit.*, page 8.*

These bonuses increased specific recipients' basic earnings by 5% to 20%. Even though average basic pay of those receiving bonuses was lower than non-bonus earners, their average gross compensation including bonuses was higher.

A survey of the use of cash bonuses for professional and administrative positions was made in 1959-60 by the United States Department of Labor. A review was made of conditions in 1960-61. Changes in the use of bonuses are summarized in Table XXIV.
TABLE XXIV

COMPARISON OF DISTRIBUTION OF SUPPLEMENTARY CASH BONUS PLANS

FOR 1959-60 AND 1960-61a

<table>
<thead>
<tr>
<th>Item</th>
<th>Per Cent of Establishments</th>
</tr>
</thead>
<tbody>
<tr>
<td>establishments with employees in professional and administrative occupations studied:</td>
<td></td>
</tr>
<tr>
<td>Number 9,680</td>
<td></td>
</tr>
<tr>
<td>Per Cent 100</td>
<td></td>
</tr>
<tr>
<td>Cash bonus plans applying in both 1959-60 and 1960-61 survey periods 44</td>
<td></td>
</tr>
<tr>
<td>Bonuses paid in both periods 41</td>
<td></td>
</tr>
<tr>
<td>Bonuses paid in 1960-61 period only 1</td>
<td></td>
</tr>
<tr>
<td>Bonuses paid in 1959-60, but not in 1960-61 period 1</td>
<td></td>
</tr>
<tr>
<td>Bonuses not paid in either period 1</td>
<td></td>
</tr>
<tr>
<td>Cash bonus plan discontinued in 1960-61 period 1</td>
<td></td>
</tr>
<tr>
<td>Cash bonus plan initiated in 1960-61 period (less than 0.5)</td>
<td></td>
</tr>
<tr>
<td>No cash bonus plan applying either in 1959-60 or 1960-61 period 53</td>
<td></td>
</tr>
<tr>
<td>Information not available 2</td>
<td></td>
</tr>
<tr>
<td>establishments with employees in professional and administrative occupations studied who were eligible to participate in cash bonuses paid in both 1959-60 and 1960-61 survey periods:</td>
<td></td>
</tr>
<tr>
<td>Number 3,927</td>
<td></td>
</tr>
<tr>
<td>Per Cent 100</td>
<td></td>
</tr>
<tr>
<td>Bonus added about the same to employee's pay in both periods 56</td>
<td></td>
</tr>
<tr>
<td>Bonus added more to employee's pay in 1960-61 period 13</td>
<td></td>
</tr>
<tr>
<td>Bonus added less to employee's pay in 1960-61 period 28</td>
<td></td>
</tr>
<tr>
<td>Bonus paid in both periods, year-to-year comparison not available 3</td>
<td></td>
</tr>
</tbody>
</table>

by comparison between bonuses paid in 1959-60 and 1960-61 survey periods."

"Coverage in this table is limited to the 9,680 establishments in the 1960-61 survey which had employees in the professional and administrative occupations studied. An establishment was considered as having a cash bonus plan if 1 or more of its employees in the professional and administrative occupations studied were eligible to participate. Bonus information relates to the year preceding the 1959-60 and 1960-61 survey periods."
APPENDIX C

EXAMPLES OF INCENTIVE PLANS AND MIDDLE-MANAGEMENT PARTICIPATION

Scanlon Plan

Following financial difficulties at the Adamson Company, a steel concern, the cooperative incentive bonus plan to become known as the Scanlon Plan was installed in 1938 by Joseph Scanlon and Clinton S. Golden, then Vice-President of the Steel-workers' Union. With an understanding of the working man, of the potentials of cooperative management, and of worker efforts, Scanlon developed a plan that compensated the working force fairly for increased production without burdening the company which was often hard pressed financially. Scanlon sought to utilize each worker's superior know-how about his own particular job together with management in a more "mature relationship" of mutual understanding and cooperation to replace the old relationship of collective bargaining which often was near primitive warfare.

The plan provided that the workers would get a bonus if and when the ratio of labor and salary costs to the sales value of production dropped below a ratio based on what was

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considered to be normal past experience. The outstanding feature of the plan was the handling of suggestions for plant and work improvements by a worker-management screening committee which brought former antagonists together for common, comparative consideration of company problems. Variations of this plan operated in many plants and were often applied to management levels right up to the president of the company.

The Scanlon Plan had a flexible design without a specific formula; the plan seemed to work best if it grew from the mutual wants and needs of both worker and management groups. Joe Scanlon considered that the best results accrued when a strong union existed because this permitted the worker to speak up with his suggestions without fear of reprisals.

The Scanlon Plan is usually initiated with money incentives as a purpose - with a monthly bonus being paid to everyone in the plant - but the plan may best be thought of as a plan for psychological reorganization of the company. Through the

\[^3\] Ibid., pages 166-7.
\[^4\] Ibid., pages 22-34. LaPoint Machine Tool Company is an outstanding application.
\[^5\] Ibid., page 114.
operation of production committees every man's take-home pay is tied to the productive efficiency of the company as a whole - not just to his own individual productivity. This adds to the fulfilment of his own individual needs by supplying a means of meeting better the two social needs of belongingness and esteem. Thus the employee on his job is not only working for himself, but also the the team or company - which tends to increase the individual's "ownership attitude" and to push the whole organization towards oneness. This in turn requires an honest "feed-back" by the company which must now face up to criticism of poor decisions as well as receive credit for profitable decisions.

The Scanlon Plan is a multiple incentive plan - money incentives, greater opportunities for independence, and greater participation in planning and decision making.

The multiple incentive system has paid handsome dollar dividends to management and worker alike. Its cost is that management and everyone else must operate in a glass house.

This approach provides effective economic education in industry through group financial incentives and group interaction

---

9 Harold J. Leavitt, op. cit., page 183.
based on actual facts about production, sales, and costs. Honest communication encourages the understanding of company operations, and the better recognition of important problems ---with the result that necessary adjustments are made and satisfactory solutions are evolved through joint deliberations of management and workers.\(^{10}\)

**Lincoln Electric Company Incentive Management Plan**

The incentive management plan operated by the Lincoln Electric Company grew from the necessity for cooperation when J. F. Lincoln took over the management of an operation of which he knew less than the men in the plant. The record of bonuses and total average earning is outstanding.\(^ {11}\) The plan utilized high wage rates, profit sharing with incentive bonuses, suggestion system, employee stock plan, an Advisory Board, and a way of operating that closely emulated the "Spartan philosophy" of its president. The sincerity of the management, with its traditional frankness and willing policy of full disclosure, are some of the basic reasons why the plan has continued to be a very satisfactory operation since 1934.\(^ {12}\)


The sincere frankness of the Lincoln brand of cooperation encouraged the development of each man's latent ability. This cooperation was utilized to the fullest to everyone's advantage including that of the consumer. The Advisory Board is a joint management-worker committee which resulted from attempts to increase job content and worker responsibility by giving the worker knowledge of, and responsibilities for, improvements. The Board operates on the theory that management cannot know everything about all plant operations, that the workers are experts in their fields, and that this "know-how" is valuable. Lincoln Electric Company is not unionized and has the advantage that workers can be advanced on merit or pushed back for incompetence without regard to seniority. Lincoln says:

"...each worker is rewarded for his individual contribution. His skill is recognized. He is made outstanding as an individual in his own and his contemporaries' estimation."

---

13 James F. Lincoln, Incentive Management, Cleveland, Ohio: The Lincoln Electric Company, 1951 (1960 printing with Addendum to Appendix), page 11.

"The fundamental effect that determines success or failure of incentive management is the development of the individual through his desire to rise in his usefulness in industry and through his desire to work together with his co-workers from top to bottom to produce better products more efficiently. If all do this, success is assured under normal leadership following the same philosophy." With this attitude and in the face of rising cost of materials the product prices over many years have dropped when those of competitors are increasing; as shown by Chart on page 282.

14 Lincoln, Ibid., page 112.
Sherif and Cantril consider that the dominant nature and success of the Lincoln Electric Company Incentive Management plan is due to the manner in which Lincoln "employees regard themselves more as 'business men'---identify themselves with the company and its welfare, not with other working people in the larger world outside."¹⁵

Middle management participated in this 'incentive management' environment and received bonuses in 1942 amounting to 6 times base salary; and plant workers enjoyed bonuses which often exceeded their base wages.¹⁶ These bonuses have been made possible "through increased productivity" and are regarded by both worker and management as something the employees have "earned, not as something dispensed by the management as largesse".¹⁷

Management individuals too must "earn their places on the team". They hold them only until a better individual rises to displace them. Management members are subject to regular periodic assessment by their supervisors---the competition is keen, but effective.

Undoubtedly the words of Mr. Lincoln apply to middle management just as they do to all other employees when he defined

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two steps in Incentive Management:

(1) Employees' feeling that their reason for existence is to build a better product to be sold at a better price;

(2) Every man rewarded in accordance with his contribution to the success of that venture. 18

Specific information on the manner of middle management operation under this plan can only be pieced together from many sources. But one concludes that as individuals middle management were active, important members of the team and were proportionately well rewarded compared to their subordinates. Cause and effect are usually interlocked in the pattern of human behaviour and it is doubtful indeed that Lincoln Electric Company would have obtained the same results if the outstanding bonus opportunities had not been available to middle-management people.

Nunn-Bush Shoe Company Share-Production Plan

A Share-Production Plan sparked by company problems and the observation that wages bore an almost constant relationship to sales prices in the period from 1926 to 1934 through boom and depression was started at the Nunn-Bush Shoe Company. Though similar to the Rucker Plan, 19 the Share-Production Plan was developed independently in 1935 by the Nunn-Bush Shoe

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Company and has remained essentially constant in character over the years. 20 Labor's share in the Nunn-Bush plan was based on 36½% of the value added to the product after the cost of raw material was deducted from the sales value of production. 21 The Nunn-Bush company has operated under a union contract without strikes since 1914.

Even though the Share-Production Plan may be an outstanding plan for the production worker, it is not clear that supervisors participated directly in the plan in an incentive manner. 22 Mr. Nunn recognized that management, and middle management in particular, should "participate in the fruits of their efforts directly, rather than to be only hired men", 23 but available information does not indicate how this participation was accomplished at the Nunn-Bush Shoe Company.

21 Ibid., page 14.
22 Ibid., page 36. "Finding a satisfactory formula for supervisors posed a special problem. A plan was finally devised under which supervisors were kept at their current salaries as long as production remained at its present level. If output went up, their salaries were to be raised, but not in direct proportion to the increase. Likewise if production should go down, their salaries were to be reduced, but again on a graduated basis."
23 Ibid., page 139.
The Rucker Plan

The "Rucker Share of the Production" plan was developed by an American consulting firm. It was based on research originally computed by Allen W. Rucker in 1932 on United States Census of Manufacturing data from 1899 to 1929 covering approximately 300,000 manufacturing firms. He found that factory payrolls are directly proportional to factory production value. Factory payrolls rise and fall with production value in a simple percentage relationship. Therefore production value output per $1.00 of regular wages input is a near constant.

This "labor share of production" for all U. S. manufacturing combined was consistently 39.395% of production value, with only a small deviation of plus or minus 1.663% for years 1914 to 1939 and 1947 to 1957. Management's share is 60.605%. This principle also prevails in individual firms, industries, or countries.

The accounting records required to prepare this ratio were few and the calculations simple and clear to all employees.

24 Rucker, 1934, loc. cit.
26 Ibid., page 5.
The Rucker incentive plan was a practical application and extension of only five basic records. It was proposed by Rucker that these records were all that was needed by manufacturers "to maintain effective control".\(^{29}\)

The Rucker Plan treats productivity, not in the conventional physical measure of product output per labor man-hour input,\(^{30}\) but in terms of 'economic productivity' (\(e\)) represented by the production value (\(V\)) or 'economic output' in dollars, divided by the wages (\(W\)) or 'economic input':\(^{31}\)

\[ e = \frac{V}{W} \]

The economic productivity (\(e\)) is determined from the regular accounts of any given firm and then used as a constant to compute the "wages in proportion to productivity".\(^{32}\) Thus


\(^{31}\) *Ibid.*, page 27. Economic output or production value is defined as "the aggregate realized amount of business gross income over and beyond the cost of purchased materials, supplies and components". It is the sum total of factory "conversion charges" which are paid by customers as a part of product prices, i.e., "own factory production value added to raw materials by conversion and fabricating processes" (page 24), or the United States Bureau of Census term "value added by manufacture". Wages are the "total payroll of all
for each 1% increase in production value, the plan provides for a 1% increase in wages (and salaries of management if they are included in the group) without threatening the production cost per unit produced. The company's ability to increase sales volume by lowering prices to meet competition and to provide stable employment is increased.

The Rucker Plan is a group-incentive plan which may be applied to all hourly-rated plant workers and to salaried management personnel. It utilizes a "share of the production" committee comprising representatives from workers and supervisors. In the most successful installations these committees are as aggressive as in the Scanlon companies.33

American Can Company and Hewitt-Robins Incorporated

The American Can Company is a widely diversified operation including paper, glass, and metal containers and respective raw material sources. In applying the Rucker Plan to its operations the company has developed productivity standards for 100 different plants or operations including general staff groups throughout the world. The company emphasizes that the

hourly-rated plant labor" (page 23).

32 Ibid., page 29.

incentive plan is not based on improved profits but "pays for improved economic productivity over standard and for nothing else". 34

The American Can Company extended the plan from 300 top management in 1958 to 3000 in 1959 down to assistant foremen, and in spite of the steel strike in 1959, realized progress in improving their economic productivity in many plants and were confident of continuing improvement.

Mr. Rucker has contributed to the advancement in our knowledge of productivity...we will always use this plan as a management incentive. ..... Mr. Stock, our president, was emphasizing that production improvement—productivity—is the key to the Company's success—-(in naming) our plan 'Management Production Improvement Incentive Plan'. 35

Many years ago the Hewitt-Robins Corporation, which manufactured a wide line of bulk-material handling equipment such as conveyors, feeders, screens, gears and speed reducers, established a profit sharing plan "based on how well the corporation as a whole did in any year". They realized that this approach could not gear the added or incentive pay for individuals in each plant directly to that plant's own


35 Ibid.
superior performance—or relatively poor performance.\textsuperscript{36}

After some years of studying incentives and discarding many plans, they finally adopted the Rucker Plan in 1960 as a solution to their many complex problems in bettering productivity. At the time of their report, less than a year after the installation of the new plan in two plans,

the short-term experience is most encouraging––the performance is well above standard, and hence well above past several years.

They found that their supervisory groups generated more "highly practical suggestions" through group meetings and

a definite note of improved teamwork, vertically between all levels of supervision, and horizontally between all operating departments.\textsuperscript{37}

The functioning and effect of the Rucker Plan at Hewitt-Robins is best summarized by the following statement by Kullander:

Incentive pay for all participants in each plant is in direct proportion to the improvement in that plant in economic productivity. The incentive rate is the same percentage on regular pay as the percentage improvement in economic productivity over standard. Each participant gains at the same rate as the management team performance and in the same proportion. The incentive opportunity for first-line and mid-management is fully comparable to that for hourly-rated labor––and provides the means for


\textsuperscript{37} Ibid., page 9.
halting and perhaps reversing the erosion of pay differentials between management personnel and their hourly-rated subordinates.\textsuperscript{38}

The Advantages of the Rucker Plan\textsuperscript{39}

(1) It is based on sound economic relationships shown by U. S. Bureau of Census Statistics.

(2) It is a \textbf{GROUP} incentive plan, requiring no time studies, and is easily understood. Union grievance over "standards" are eliminated.

(3) It provides an effective medium for increasing productivity and profits and for building harmonious relations between labor and management.

(4) It covers \textbf{ALL} factory workers, direct and indirect. It can also be engineered for coverage of Executive, Mid-Management, Supervisory, or Clerical personnel.

(5) It is ideally suited to "Job" or "Custom" shops where establishment of individual standards is impractical, as well as to all types of production plants which do not wish to incur the expense of involved incentive systems.

(6) Its "partnership" features encourage greater worker response in increasing productivity, improving quality, saving materials, and reducing overhead.

\textsuperscript{38} \textit{Ibid.}, pages 6-7.

\textsuperscript{39} Eddy-Rucker-Nickels Company statement, Mimeo.
(7) Its Productivity Bonus is earned. No "profit-sharing" or "give-away" is involved.

(8) It is a basis for negotiating less costly labor contracts; wage increases can be geared to the Company's Productivity improvement.

(9) It is a basis for scientifically computing the optimum competitive price; for measurement of productivity improvement; and as a control for capital expenditures.

The Disadvantages of the Rucker Plan

(1) The cost of operation is probably more than for profit sharing plans but less than that for individual time and motion study based plans.

(2) Most plans demand the integrity of management; this plan requires probably more than average trust by workers in the figures provided by management.
Rucker Share of Production Plan

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1956-1957


1958-1959


1960


APPENDIX D

TABULATED DATA OBTAINED FROM SURVEY

Organization of Appendix D

The data from the survey was classified in tables, normally with each table reflecting data arising from the replies to a single question. Because the questions on the survey were arranged in a scrambled order to reduce bias in responses, they were not numbered in an orderly manner. Therefore Tables XXV to XXXI, appearing in this Appendix, were arranged as nearly as possible in the order in which the data were used when the hypotheses were evaluated.

Table XXV shows the increase in the remuneration of employee groups during the ten years prior to 1961, obtained from replies to question no. 4. The use of various types of financial incentives as reflected by replies to question no. 2 for all sizes of companies, for different sizes of companies, and for different employee groups was reported in Tables XXVI, XXVII and XXVIII respectively. This information was applied to the evaluation of the first, second, and third hypotheses.

Data obtained from questions no.s 3, 8, and 9 on the "desirability" and "suitability" of different types of financial incentives were reported in Tables XXIX, XXX and XXXI. These tables reflected free-standing "choices" or preferences for
different types of financial incentives as distinguished from the actual usage reported in Tables XXVI, XXVII and XXVIII. Data required to evaluate the fourth hypothesis were consolidated in Table XXXII from Tables XXVI, XXIX, XXX and XXXI.

Supplementary information was reported in Tables XXXIII to XXXVI. Reasons obtained from the survey for not using financial incentives and for discontinuing incentive plans previously in operation were summarized in Tables XXXIII and XXXIV respectively. Incentives considered most suitable for specific employee groups and incentives chosen to give best company-wide results were reported in Tables XXXV and XXXVI respectively. These "choices" were compared with the actual usage of financial incentives.
TABLE XXV

REPORTED APPROXIMATE INCREASE IN AVERAGE TYPICAL REMUNERATION
(EXCLUDING OVERTIME) FOR 1961 OVER THAT FOR 1951,
BY EMPLOYEE CATEGORIES (REPLIES TO QUESTION # 4)

<table>
<thead>
<tr>
<th>Employee Category</th>
<th>All Co.s</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Management</td>
<td>54</td>
<td>53</td>
<td>48</td>
<td>59</td>
</tr>
<tr>
<td>Middle Management</td>
<td>54</td>
<td>55</td>
<td>45</td>
<td>59</td>
</tr>
<tr>
<td>First-Line Supervisor</td>
<td>57</td>
<td>61</td>
<td>55</td>
<td>40</td>
</tr>
<tr>
<td>Salaried Management</td>
<td>55</td>
<td>57</td>
<td>50</td>
<td>54</td>
</tr>
<tr>
<td>Clerical and Office Workers</td>
<td>48</td>
<td>54</td>
<td>44</td>
<td>43</td>
</tr>
<tr>
<td>Plant or Production Workers</td>
<td>54</td>
<td>53</td>
<td>57</td>
<td>52</td>
</tr>
<tr>
<td>Hourly-Rated Workers</td>
<td>51</td>
<td>54</td>
<td>51</td>
<td>48</td>
</tr>
</tbody>
</table>

Number of Companies
- Reporting Increases: 26, 11, 11, 4
- Responding to Survey: 83, 43, 31, 9
- Per Cent of Companies Granting Increases: 31%, 25%, 36%, 45%

*a Due to incomplete replies to this question the confidence interval is wide, + and - 17% at 95% confidence level. b Much of the reported information was tagged "approximate", while omissions were excused with comments such as "unknown", "unavailable", or "confidential".


Where confidence interval at 95% = $\pm 1.96 \sqrt{\frac{N - n}{N - 1}} \cdot \frac{p \cdot q}{n}$

and $N =$ Universe, $n =$ Sample, $p$ = proportion, $q = 1 - p$. 
TABLE XXVI
USE OF FINANCIAL INCENTIVES BY INCENTIVE TYPE AND EMPLOYEE GROUP FOR ALL SIZES OF COMPANIES
(REPLIES TO QUESTION # 2)

A. CURRENT MOTIVATORS

<table>
<thead>
<tr>
<th>Incentive Types</th>
<th>Use by Employee Group</th>
<th>Totals for Incent. Types</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Cash bonus for effort</td>
<td>12 15 17 5 4 53</td>
<td></td>
</tr>
<tr>
<td>(b) Profit sharing</td>
<td>23 20 17 13 7 80</td>
<td></td>
</tr>
<tr>
<td>(c) Stock plans and options</td>
<td>8 7 7 4 2 28</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>TM</th>
<th>MM</th>
<th>FLS</th>
<th>OW</th>
<th>PW</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of incentive types used</td>
<td>43</td>
<td>42</td>
<td>41</td>
<td>32</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>Number of companies using</td>
<td>33</td>
<td>33</td>
<td>33</td>
<td>19</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>Number of companies reporting</td>
<td>83</td>
<td>83</td>
<td>83</td>
<td>83</td>
<td>83</td>
<td></td>
</tr>
<tr>
<td>Per cent of companies reporting use</td>
<td>40% 40% 40% 23% 13%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

B. DEFERRED-HOLDING EFFECT

<table>
<thead>
<tr>
<th>Incentive Types</th>
<th>Use by Employee Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>(d) Deferred income, insurance</td>
<td>4 3 3 3 1 14</td>
</tr>
<tr>
<td>(e) Increase in salary, high basic rates</td>
<td>7 13 16 13 10 59</td>
</tr>
<tr>
<td>(f) Other incentives, safety bonus</td>
<td>1 7 8</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>TM</th>
<th>MM</th>
<th>FLS</th>
<th>OW</th>
<th>PW</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of incentive types used</td>
<td>11</td>
<td>16</td>
<td>19</td>
<td>17</td>
<td>18</td>
<td></td>
</tr>
<tr>
<td>Number of companies using</td>
<td>10</td>
<td>13</td>
<td>16</td>
<td>11</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td>Number of companies reporting</td>
<td>83</td>
<td>83</td>
<td>83</td>
<td>83</td>
<td>83</td>
<td></td>
</tr>
<tr>
<td>Per cent of companies reporting use</td>
<td>12% 15% 19% 13% 17%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(continued)
TABLE XXVI (Continued)

<table>
<thead>
<tr>
<th>Use by Employee Group</th>
<th>TM</th>
<th>MM</th>
<th>FLS</th>
<th>OW</th>
<th>PW</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>C. BOTH CURRENT MOTIVATOR AND DEFERRED-HOLDING</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of incentive types used</td>
<td>54</td>
<td>58</td>
<td>60</td>
<td>49</td>
<td>31</td>
</tr>
<tr>
<td>Number of companies using</td>
<td>35</td>
<td>36</td>
<td>36</td>
<td>21</td>
<td>17</td>
</tr>
<tr>
<td>Number of companies reporting</td>
<td>83</td>
<td>83</td>
<td>83</td>
<td>83</td>
<td>83</td>
</tr>
<tr>
<td>Per cent of companies reporting use</td>
<td>42%</td>
<td>43%</td>
<td>43%</td>
<td>25%</td>
<td>20%</td>
</tr>
</tbody>
</table>

\[a\] TM - Top-Management group, 
MM - Middle-Management group, 
FLS - First-Line Supervisor group, 
OW - Office Worker group, and 
PW - Plant Worker group.

\[b\] Incentive types (a), (b), (c), (d), (e), and (f) are the same groups of incentive types listed in question no. 2 of Survey Form sample in Appendix A.

\[c\] This group can be divided into sections as follows:

<table>
<thead>
<tr>
<th>e(1) - Increase for unusual, non-recurring specific effort</th>
<th>TM</th>
<th>MM</th>
<th>FLS</th>
<th>OW</th>
<th>PW</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3</td>
<td>5</td>
<td>7</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>e(2) - Basic rate, higher than local average</td>
<td>3</td>
<td>5</td>
<td>6</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>e(3) - Other, increase for merit, etc.</td>
<td>1</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>1</td>
</tr>
</tbody>
</table>
### TABLE XXVII

USE OF FINANCIAL INCENTIVES (CURRENT MOTIVATORS ONLY) BY INCENTIVE TYPE AND EMPLOYEE GROUP, ACCORDING TO COMPANY SIZE (REPLIES TO QUESTION # 2)

<table>
<thead>
<tr>
<th>Use by Employee Group</th>
<th>TM</th>
<th>NM</th>
<th>FLS</th>
<th>OW</th>
<th>PW</th>
</tr>
</thead>
<tbody>
<tr>
<td>SMALL COMPANIES (less than 75 employees)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Cash bonus for effort</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>(b) Profit sharing</td>
<td>11</td>
<td>9</td>
<td>8</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>(c) Stock plans and options</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Number of plan-types used</td>
<td>16</td>
<td>15</td>
<td>14</td>
<td>9</td>
<td>7</td>
</tr>
<tr>
<td>Number of companies using</td>
<td>15</td>
<td>14</td>
<td>13</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>Number of companies reporting</td>
<td>43</td>
<td>43</td>
<td>43</td>
<td>43</td>
<td>43</td>
</tr>
<tr>
<td>Per cent of companies reporting use</td>
<td>35%</td>
<td>33%</td>
<td>30%</td>
<td>16%</td>
<td>14%</td>
</tr>
</tbody>
</table>

| MEDIUM COMPANIES (75 to 399 employees) |
| Number of plan-types used | 23 | 25 | 25  | 12 | 6  |
| Number of companies using | 16 | 17 | 19  | 11 | 5  |
| Number of companies reporting | 31 | 31 | 31  | 31 | 31 |
| Per cent of companies reporting use | 51% | 55% | 61% | 35% | 16% |

| LARGE COMPANIES (400 and more employees) |
| Number of plan-types used | 4  | 2  | 2   | 1  | 0  |
| Number of companies using | 2  | 2  | 2   | 1  | 1  |
| Number of companies reporting | 9  | 9  | 9   | 9  | 9  |
| Per cent of companies reporting use | 21% | 21% | 21% | 11% | 0% |

---

^a^ See same note on Table XXVI.

^b^ See same note on Table XXVI.

^c^ "Plan-types" are different types of financial incentives which may be included in one incentive plan.
TABLE XXVIII

USE OF FINANCIAL INCENTIVES (CURRENT MOTIVATORS ONLY) BY TYPE AND EMPLOYEE GROUP, ACCORDING TO COMPANY HEAD OFFICE LOCATION

(REPLIES TO QUESTION # 2)

<table>
<thead>
<tr>
<th>Use by Employee Group</th>
<th>TM</th>
<th>MM</th>
<th>FLS</th>
<th>OW</th>
<th>PW</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Reported by Companies with Head Office in B. C.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Cash bonus for effort</td>
<td>10</td>
<td>11</td>
<td>14</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>(b) Profit sharing</td>
<td>15</td>
<td>12</td>
<td>9</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>(c) Stock plans and options</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Number of plan-types used</td>
<td>27</td>
<td>25</td>
<td>24</td>
<td>13</td>
<td>8</td>
</tr>
<tr>
<td>Number of companies using</td>
<td>21</td>
<td>20</td>
<td>21</td>
<td>12</td>
<td>7</td>
</tr>
<tr>
<td>Number of companies reporting</td>
<td>53</td>
<td>53</td>
<td>53</td>
<td>53</td>
<td>53</td>
</tr>
<tr>
<td>Per cent of companies reporting use</td>
<td>40%</td>
<td>38%</td>
<td>40%</td>
<td>23%</td>
<td>13%</td>
</tr>
<tr>
<td>B. Reported by Companies with Head Office outside B. C.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Cash bonus for effort</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>(b) Profit sharing</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>(c) Stock plans and options</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Number of plan-types used</td>
<td>8</td>
<td>6</td>
<td>6</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Number of companies using</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Number of companies reporting</td>
<td>19</td>
<td>19</td>
<td>19</td>
<td>19</td>
<td>19</td>
</tr>
<tr>
<td>Per cent of companies reporting use</td>
<td>26%</td>
<td>26%</td>
<td>26%</td>
<td>26%</td>
<td>16%</td>
</tr>
<tr>
<td>C. Use of Incentives for Middle Management as Reported by Companies Using Incentives for Office and Production Workers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Co.s that Do Not Use for OW &amp; PW</td>
<td>Co.s that Do for OW &amp; PW</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Co.s that Do</td>
<td>Use for OW &amp; PW</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number using &quot;Current Motivator&quot; types for MM</td>
<td>9</td>
<td>10</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number using &quot;Deferred&quot; types for MM</td>
<td>0</td>
<td>4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total using incentives for MM</td>
<td>9</td>
<td>14</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number using no incentives for MM</td>
<td>21</td>
<td>7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL number of companies reporting</td>
<td>30</td>
<td>21</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Per cent of companies reporting use of incentives for Middle Management</td>
<td>30%</td>
<td>66%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(continued)
a Capital letters are used to designate employee groups as in Table XXVI.

b Small letters (a) to (f) are used to identify plan-types. See footnotes to Table XXVI.

### TABLE XXIX

FINANCIAL INCENTIVES CONSIDERED MOST (AND LEAST) SUITABLE
FOR MANAGEMENT GROUPS, IN ALL SIZES OF COMPANIES
(REPLIES TO QUESTIONS # 3 AND # 8)

<table>
<thead>
<tr>
<th>Type of Incentive</th>
<th>Top Mngmt.</th>
<th>Middle 1st-Line Mngmt.</th>
<th>Supvr. Groups</th>
<th>Net</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Cash bonus for effort</td>
<td>11 M</td>
<td>8 L</td>
<td>13 M</td>
<td>4 L</td>
</tr>
<tr>
<td>(b) Profit sharing</td>
<td>19 M</td>
<td>4 L</td>
<td>16 M</td>
<td>5 L</td>
</tr>
<tr>
<td>(c) Stock plans, options</td>
<td>15 M</td>
<td>4 L</td>
<td>13 M</td>
<td>6 L</td>
</tr>
<tr>
<td>SUB-TOTALa</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&quot;CURRENT MOTIVATORS&quot;</td>
<td>44</td>
<td>43</td>
<td>32</td>
<td></td>
</tr>
<tr>
<td>No. of co.s reporting</td>
<td>29</td>
<td>29</td>
<td>29</td>
<td></td>
</tr>
<tr>
<td>Ratio of choicesb</td>
<td>.505</td>
<td>.49</td>
<td>.37</td>
<td></td>
</tr>
<tr>
<td>(d) Deferred income, insr.</td>
<td>10 M</td>
<td>7 L</td>
<td>5 M</td>
<td>9 L</td>
</tr>
<tr>
<td>(e) Increases in salary &amp; wages, basic rates higher than local average</td>
<td>11 M</td>
<td>8 L</td>
<td>12 M</td>
<td>9 L</td>
</tr>
<tr>
<td>(f) Other: guaranteed wage</td>
<td>0</td>
<td>9 L</td>
<td>0 M</td>
<td>10 L</td>
</tr>
<tr>
<td>SUB-TOTALb</td>
<td>22</td>
<td>17</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>&quot;DEFERRED HOLDING&quot;</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL (a) to (f) of all incentives</td>
<td>66</td>
<td>60</td>
<td>52</td>
<td></td>
</tr>
<tr>
<td>TOTAL (a, b, c, e only)</td>
<td>55</td>
<td>55</td>
<td>48</td>
<td></td>
</tr>
</tbody>
</table>

a Sub-total for types a, b, c, and e ONLY are given in last
Comments on the Choice of Financial Incentives for Employee Groups

One intention of the study was to discover by indirect means how much interest companies had in various financial incentives for different employee groups irrespective of whether incentives were actually being used. This information was to supplement and provide a check on information reflected from the actual use of financial incentives as reported in Tables XVI and XVII.

A listing of financial incentives considered most applicable to each management group was requested in question no. 3, while the discovery of those least suitable was the purpose of question no. 8. These data were reported in Tables XXIX and XXX, and consolidated in Table XI for analysis in respect to evaluation of the fourth hypothesis on page 96 of Chapter IV.

The total number of incentives chosen for each management group also provided a measure of company interest in applying financial incentives to these employee groups. The "Current Motivator" sub-totals of the number of plan-types chosen were 44, 43, and 32 for top-management, middle-management, and first-line supervisor groups respectively. Plan-types of incentives group several individual incentives similar in purpose together. The difference between 32 and 43 for FLS and MM is just significant at 95% confidence level.

This differed for the FLS group in respect to the actual use of financial incentives, but this difference was not significant. The difference between 32 and 41 for FLS in the "choice" and "use" groups as per Tables XXIX and XXVI respectively is not significant, with a 27% probability that this or a greater difference could occur by chance.

The inclusion of type (e) votes along with the "Current Motivator" group provided a total choice score of 55, 54, and 48 for TM, MM, and FLS respectively. This brought FLS more into line with the interest shown for TM and MM. It is possible that this reflected the reliance placed by British Columbia industry on the anticipated incentive value of salary and wage increases.

Financial incentives may be effective in an expanding business cycle or a rapid-growth industry if granted at frequent intervals, but they have little true incentive value when competition is stiff and company profits do not permit their continuation in the face of continued improvement in individual performance.

See also comments following Table XXXI.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Most Suitable = M; Least = L</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**SMALL COMPANIES (under 75 employees)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Cash bonus</td>
<td>4</td>
<td>1</td>
<td>4</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>(b) Profit sharing</td>
<td>9</td>
<td>1</td>
<td>5</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>(c) Stock plans and options</td>
<td>4</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>1</td>
</tr>
</tbody>
</table>

Sub-Total of
"Current Motivator" group 17 12 8 37

Per cent of Group Interest 46% 32% 22% 100%

**MEDIUM (75-399 employees)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Cash bonus</td>
<td>6</td>
<td>5</td>
<td>7</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>(b) Profit sharing</td>
<td>8</td>
<td>2</td>
<td>9</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>(c) Stock plans and options</td>
<td>8</td>
<td>2</td>
<td>8</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

Sub-Total of
"Current Motivator" group 22 24 21 67

Per cent of Group Interest 33% 36% 31% 100%

**LARGE (400 and over employees)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Cash bonus</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>(b) Profit sharing</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>(c) Stock plans and options</td>
<td>3</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>

Sub-Total of
"Current Motivator" group 6 6 3 15

Per cent of Group Interest 40% 40% 20% 100%

---

*See comments following Table XXXI.*
TABLE XXXI

CHOICES FROM SELECTED LIST OF FINANCIAL INCENTIVES CONSIDERED
MOST SUITABLE FOR SPECIFIC EMPLOYEE GROUPS

(Replies to Question # 9)

A. SUMMARY OF ALL SCORES BY ALL COMPANIES

<table>
<thead>
<tr>
<th>Incent. Group Type</th>
<th>Question # 9 Survey Item</th>
<th>Number of Choices Made</th>
<th>ALL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>TM</td>
<td>MM</td>
</tr>
<tr>
<td>(c) A. Stock purchase plan</td>
<td>22 16 9 6 6</td>
<td>59</td>
<td></td>
</tr>
<tr>
<td>(b) B. Profit sharing</td>
<td>23 20 14 9 10</td>
<td>76</td>
<td></td>
</tr>
<tr>
<td>e(1) C. Increase in pay, unusual effort&lt;sup&gt;a&lt;/sup&gt;</td>
<td>5 10 14 9 7</td>
<td>45</td>
<td></td>
</tr>
<tr>
<td>(f) D. Guaranteed annual wage</td>
<td>3 4 4 6 11</td>
<td>28</td>
<td></td>
</tr>
<tr>
<td>(a) E. Bonus for meeting goal</td>
<td>6 13 15 5 5</td>
<td>44</td>
<td></td>
</tr>
<tr>
<td>e(2) F. Pay higher than local</td>
<td>7 10 14 20 13</td>
<td>64</td>
<td></td>
</tr>
<tr>
<td>TOTAL OF ALL CHOICES</td>
<td>66 73 70 55 52</td>
<td>316</td>
<td></td>
</tr>
</tbody>
</table>

B. APPLICATION OF "CURRENT MOTIVATORS" A, B AND E BY COMPANY SIZE (Representing incentive types c, b and a respectively)

<table>
<thead>
<tr>
<th>Company Size</th>
<th>Number of Companies Repling</th>
<th>Number of Choices Made</th>
<th>ALL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>TM</td>
<td>MM</td>
</tr>
<tr>
<td>Small</td>
<td>12</td>
<td>19 15 9 6 9</td>
<td>58</td>
</tr>
<tr>
<td>Medium</td>
<td>17</td>
<td>22 23 22 9 7</td>
<td>83</td>
</tr>
<tr>
<td>Large</td>
<td>6</td>
<td>10 11 7 5 5</td>
<td>38</td>
</tr>
<tr>
<td>All Companies</td>
<td>35</td>
<td>51 49 38 20 21</td>
<td>179</td>
</tr>
</tbody>
</table>

C. TOTALS FOR ITEMS A, B, C AND E (EXCLUDED D AND F) BY COMPANY SIZE (Incentive types a, b, c, and e(1) only)

<table>
<thead>
<tr>
<th>Company Size</th>
<th>Number of Choices Made</th>
<th>TM</th>
<th>MM</th>
<th>FLS</th>
<th>OW</th>
<th>PW</th>
<th>ALL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>22 21 18 10 13</td>
<td>84</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medium</td>
<td>23 26 26 13 10</td>
<td>98</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Large</td>
<td>11 12 8 6 5</td>
<td>42</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All Companies- Totals</td>
<td>56 59 52 29 28</td>
<td>224</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Per cent of total</td>
<td>25% 26% 23% 13% 13% 100%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<sup>a</sup>Incentive type e(1) is "Salary Increases for Unusual Non-recurring Specific Effort". See Appendix A, and comparison made in Table XXXII.
"Comments on Contents of Tables XXX and XXXI"

In questions no.s 3, 8, and 9 the respondent was asked to choose incentives he considered most suitable for various employee groups. Multiple choices could be made, so questions became an indirect poll of the "popularity" or of the relative interest taken in the different employee (TM, MM, and FLS) groups.

The separation of the "choice vote" by different sizes of companies to indicate interest in providing "Current Motivator" type of financial incentives for the three groups of management in questions no.s 3 and 8 showed that in medium-sized companies the interest in TM, MM and FLS was essentially balanced or equal (Table XXX). In the larger concerns interest in the FLS group lessened, and in the small firms the interest in both the MM and the FLS group was less than the interest shown in the TM group.

Question no. 9 of the Survey requested that for each of five employee groups, any number of selections be chosen from a limited list of financial incentives. The incentives offered could be applied to any employee group and were representative examples from each type-group of incentives except type "(d) Deferred Income". This type was omitted to reduce the confusion on the respondent's part because deferred income is easily confused with pensions and fringe benefits. About equal interest was shown in the use of all incentives for the three management groups, TM, MM and FLS in medium-sized companies.
### TABLE XXXII

**RELATIVE INTEREST IN DIFFERENT GROUPS OF FINANCIAL INCENTIVES**

<table>
<thead>
<tr>
<th>Source Table:</th>
<th>XXXI Most Suitable Choices (All Emp.)</th>
<th>XXIX Most Suitable Choices (Mngmt. Only)</th>
<th>XXVII Actual Use (All Employees)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Types of Incentive</strong></td>
<td><strong>Choices</strong></td>
<td><strong>Order</strong></td>
<td><strong>Net (^c) Order of Votes</strong></td>
</tr>
<tr>
<td>(a) Cash bonus</td>
<td>44</td>
<td>4</td>
<td>+25</td>
</tr>
<tr>
<td>(b) Profit sharing</td>
<td>76</td>
<td>1</td>
<td>+29</td>
</tr>
<tr>
<td>(c) Stock plans and options</td>
<td>59</td>
<td>2</td>
<td>+12</td>
</tr>
<tr>
<td>(d) Deferred income</td>
<td>Omitted(^b)</td>
<td>-7</td>
<td></td>
</tr>
<tr>
<td>(e) Salary increase and basic rates</td>
<td>55(^d)</td>
<td>3</td>
<td>+18</td>
</tr>
<tr>
<td>(f) Other: guaranteed annual wage</td>
<td>28</td>
<td>-23</td>
<td>8</td>
</tr>
</tbody>
</table>

**Number of Companies Reporting** 68 1.00

\(^a\) Types of incentives as listed in item 2 on Questionnaire in Appendix A.

\(^b\) Type (d) Deferred Income was not represented in question reported in Table XXXI.

\(^c\) Votes reflected here are differences between Most Suitable choices and Least Suitable choices.

\(^d\) Average of 45 for e(1) "Increase in pay for unusual effort" and 64 for e(2) "Pay higher than local average" as taken from Table XXXI, Part A.

(continued)
Separated into types of incentives as follows:

<table>
<thead>
<tr>
<th>Type</th>
<th>Number of Companies</th>
<th>Ratio of Use</th>
</tr>
</thead>
<tbody>
<tr>
<td>e(1) Increases for unusual, non-recurring, specific effort</td>
<td>6</td>
<td>.09</td>
</tr>
<tr>
<td>e(2) Salary and wages higher than local average</td>
<td>8</td>
<td>.12</td>
</tr>
<tr>
<td>e(3) Increase for merit, or general conditions</td>
<td>2, 16</td>
<td>.03, .24</td>
</tr>
</tbody>
</table>

This is a breakdown of the results from question no. 2, and an extension of the data reported in Table XXIX.

Refer also to comments to Tables XXX and XXXI.
### TABLE XXXIII

**REASONS FOR NOT USING FINANCIAL INCENTIVES FOR MANAGEMENT GROUPS (REPLIES TO QUESTION # 5)**

<table>
<thead>
<tr>
<th>CODE&lt;sup&gt;a&lt;/sup&gt;</th>
<th>All</th>
<th>Small (75 or Less)</th>
<th>Medium (75 to 399)</th>
<th>Large (over 400)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ALL</td>
<td>ALL</td>
<td>ALL</td>
<td>ALL</td>
</tr>
<tr>
<td>(A)</td>
<td>TM</td>
<td>MM</td>
<td>FLS</td>
<td>MGT.</td>
</tr>
<tr>
<td></td>
<td>34</td>
<td>5</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>(B)</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>66</td>
<td>6</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>(C)</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td>40</td>
<td>31%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(D)</td>
<td>6</td>
<td>6</td>
<td>7</td>
<td>19</td>
</tr>
<tr>
<td></td>
<td>31</td>
<td>31%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(E)</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>8%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Number of companies reporting reasons | 22 | 8 | 8 | 6 |
| Per cent of responding companies which were not using incentives | 47% | 31% | 58% | 86% |

<sup>a</sup>Code for Reasons:

(A) Too difficult to administer;
(B) Other incentives than financial are better motivators;
(C) Funds available for rewards are limited;
(D) Employees are now fully rewarded;
(E) Other reasons (as reported): "Bonuses became expected", "Lost incentive value", "Not national policy", "Not considered necessary"
TABLE XXXIV

REASONS FOR DISCONTINUING INCENTIVE PLANS

(REPLIES TO QUESTION # 6)

<table>
<thead>
<tr>
<th>Typea</th>
<th>Group Covered</th>
<th>Reason Plan Was Discontinued</th>
</tr>
</thead>
<tbody>
<tr>
<td>d(2)</td>
<td>All employees</td>
<td>Not adequate, deflation defeated ends.</td>
</tr>
<tr>
<td>a</td>
<td>All employees</td>
<td>Became part of earnings (regular basic).</td>
</tr>
<tr>
<td>b(1)</td>
<td>Salaried</td>
<td>Company reorganized.</td>
</tr>
<tr>
<td>a(2)</td>
<td>Production workers</td>
<td>Too complicated.</td>
</tr>
<tr>
<td>a</td>
<td>Production workers</td>
<td>Other incentives found to be better.</td>
</tr>
<tr>
<td>a(4)</td>
<td>Suggestion plan for all except TM and MM</td>
<td>Uneconomical, cumbersome, heavy administration costs; did not pay its way.</td>
</tr>
<tr>
<td>a</td>
<td>Clerical and hourly-rated production workers</td>
<td>Found to be no incentive.</td>
</tr>
<tr>
<td>a &amp; b</td>
<td>All employees</td>
<td>(1) Bonuses difficult to discontinue; (2) Most employees do not fully appreciate stocks or fully understand their value.</td>
</tr>
<tr>
<td>a(5)</td>
<td>Year-end for MM and FLS</td>
<td>Tend to become expected; lose incentive value; replaced by salary increases.</td>
</tr>
<tr>
<td>b</td>
<td>Profit sharing for MM and FLS</td>
<td>Group felt that they had so little control over profit that all incentive was lost.</td>
</tr>
</tbody>
</table>

aTypes of financial incentives identified here by code are the type-groups used in question no. 2 on Survey Form. Refer to Appendix A for a breakdown of each of the following type-groups of financial incentives:

(a) Cash bonus
(b) Profit sharing
(c) Stock plans
(d) Deferred income
(e) Increase in salaries and wages
(f) Other financial incentives

The use of a letter alone "(a) to (f)" when not followed by a number in brackets to designate a separate type in the group, will refer to the group as a whole and include all types in that group as listed on Survey Form.
### TABLE XXXV

**INCENTIVES CHOSEN TO GIVE BEST COMPANY-WIDE RESULTS**

*(REPLY TO QUESTION #7)*

<table>
<thead>
<tr>
<th>Company Size:</th>
<th>Frequency of Choice&lt;sup&gt;a&lt;/sup&gt;</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Small</td>
<td>Medium</td>
</tr>
<tr>
<td>Applicable to Top Management&lt;sup&gt;b&lt;/sup&gt;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>B. Stock option priced low</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>C. Deferred salary, tax benefit</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>K. Generous expense accounts</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Total for TOP MANAGEMENT</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Applicable to Middle Management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A. Cash bonus for creativity</td>
<td>11</td>
<td>7</td>
</tr>
<tr>
<td>D. Cash bonus, for reaching goal</td>
<td>6</td>
<td>9</td>
</tr>
<tr>
<td>H. Salaries, higher than local</td>
<td>9</td>
<td>11</td>
</tr>
<tr>
<td>Total for MIDDLE MANAGEMENT</td>
<td>26</td>
<td>27</td>
</tr>
<tr>
<td>Applicable to First-Line Supervisors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>E. Incentive for lower labor cost</td>
<td>9</td>
<td>5</td>
</tr>
<tr>
<td>J. Salaries 20% higher than plant wages</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>L. Bonus for waste reduction</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Total for FIRST-LINE SUPERVISORS</td>
<td>14</td>
<td>12</td>
</tr>
<tr>
<td>Applicable to Production Workers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>F. Wages proportional to production</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>G. Bonus for safety record</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>I. Bonus for production improvement</td>
<td>11</td>
<td>9</td>
</tr>
<tr>
<td>Total for PRODUCTION WORKERS</td>
<td>16</td>
<td>13</td>
</tr>
<tr>
<td>Total for ALL GROUPS</td>
<td>64</td>
<td>60</td>
</tr>
</tbody>
</table>

<sup>a</sup>"A" through "L" designate choices offered in question no. 7 from which a group of FOUR ONLY were chosen:

<sup>b</sup>Incentives have been rearranged in groups of three under employee group for which they are most suitable.

*(continued)*
Comments on the Group Influence on Company-wide Results

Many incentives have been developed which are of specific value or interest to one employee group such as stock options for top management, incentives for first-line supervisors to reduce labor costs, and bonuses for production workers for improving level of quality. From a list of twelve such financial incentives in Question no. 7 the respondents were requested to make a choice of four incentives considered to give the best company-wide results. This list offered three incentives considered specifically applicable to each of three management and one production-worker groups. Each incentive listed was essentially specific and suited to only one employee group, but it was not obviously tagged with the group name. The intention was to identify the incentive but reduce the possible bias towards any one employee group. Middle-management people have a variety of interests and responsibilities, and because no incentives have been originated that are of specific interest to them, the particular incentives considered as applicable to middle management were more of a general nature than those applied to other groups.

This may have biased survey results by encouraging choices in this area because they have a general appeal, instead of considering them as specific for middle-management group, thus any bias towards middle management would tend to be negative. See "Limitation (4)" in Chapter I.

The measurement used was a "group-vote" indicating the employee group which, if motivated with incentives, was considered most able to influence company-wide results. This suggested both the application of teamwork and the utilization of all factors likely to influence long-term company results rather than a limited day-to-day approach only.

The items "A" to "L" offered in Question no. 7 were scrambled in the survey form, but in the summary of results given in Table XXXV, they have been rearranged under the applicable employee group. The limitation of choices to four in number only, offered variety for the respondent as well as providing a ranking of the accumulated results. Total scores for each group will be the main measurement used, as this will tend to reduce the bias shown for any one incentive type.
TABLE XXXVI

FINANCIAL INCENTIVES RANKED BY VALUE FOR INCREASING
LONG-TERM COMPANY PROFITS AND PROGRESS

(REPLIES TO QUESTION # 10)

<table>
<thead>
<tr>
<th>Order of Choice</th>
<th>Employee Group and Weighted Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All Companies</td>
</tr>
<tr>
<td>1.</td>
<td>FLS</td>
</tr>
<tr>
<td>2.</td>
<td>MM(2)</td>
</tr>
<tr>
<td>3.</td>
<td>TM</td>
</tr>
<tr>
<td>4.</td>
<td>MM(1)</td>
</tr>
<tr>
<td>5.</td>
<td>PW</td>
</tr>
<tr>
<td>6.</td>
<td>OW</td>
</tr>
</tbody>
</table>

Number of companies ranking this question 29 12 12 5
Number of companies reporting 83 43 31 9

Code from Questionnaire Items "A" to "F" in terms of employee groups:

- Item A. - MM(2) or Middle Management (Secondary interest)
- B. - PW or Production Worker
- C. - TM or Top Management
- C. - MM(1) or Middle Management (Primary interest)
- E. - FLS or First-Line Supervisor
- F. - OW or Office Worker

Weighted rank obtained by averaging ranks given each item over number of respondents.

Comments on Group Influence on Long-term Company Progress

To focus the purpose of the question a specific but generally acceptable company objective was established, namely ---better long-term company profits and progress. Then in line with the subject matter of the survey, an opinion-type question utilizing a choice of incentives as the vehicle of opinion was used in the survey.

Incentives offered in question no. 10, which were to be
ranked in order of estimated value, were considered to be generally applicable to any group of employees, but each incentive was associated or linked with a specific employee group.

Emphasis was directed at specific employee groups by identifying one group with each incentive offered. Two items were used for middle management:

MM(1) - Company-financed training program for middle management;

MM(2) - Cash bonus for middle management.

It could be expected that this would bias the results in favor of middle management. It may have, but with the exception of returns from medium-sized companies placing a tie on these MM items, other sizes of companies differentiated between MM(1) and MM(2) by at least one full rank number. Item MM(1) for a company-financed training program is not a typical financial incentive, but it was linked specifically to MM to offer a medium for showing direct interest towards that group.

Respondents were asked to make their choices in the order of the estimated relative value of these "linked incentives" for increasing the long-term company profits and progress. The direct approach used here was in contrast to the indirect nature of question no. 7 and might have introduced considerable personal bias. See "Limitation (4)" in Chapter I.