Let Customers Determine Performance Bonus

M Kakati

This paper by Kakati asserts that customer satisfaction should be the primary driver and measure of employees' performance and hence there is need for linking performance bonus to the customer satisfaction index. Subsequently, it explores theoretical and practical issues regarding the measurement of customer satisfaction and presents three alternative models (linear, conjunctive, and disjunctive) for measuring overall customer satisfaction level. Further, it provides an ideal bonus plan that ties up bonus to the index of customer satisfaction and payoff matrix. Finally, it presents a case study in a hospital industry where a similar bonus plan has been very recently put into operation.

M Kakati is Reader in the Department of Business Administration, Gauhati University, Guwahati.

Of late, customer satisfaction has become a central concern of business for both profit and non-profit oriented organizations. Many organizations have even espoused a "satisfied customer philosophy." Yet, little has been done to advance its usefulness as a measure of performance and as a determinant of bonus. Bonus plans in many organizations are still linked to profitability or some measure of productivity or stock price appreciation. AT&T is one of the rarest few which has been dishing bonuses to employees based on the customer evaluation of the team producing the products/services. This paper explores theoretical and practical issues in the measurement of customer satisfaction and how to link bonus to the customer satisfaction index. It also discusses a bonus plan based on the customer satisfaction index which has been very recently put into operation in a hospital.

Key Indices of Performance

The problem of formulating bonus plan centres around two issues: selection of appropriate indices of performance and how to link bonus to these indices. In general, managers are too easily disposed to accept sales, market share, or profit as an index of performance. These indices have several significant limitations. First, they tend to overemphasize short-term results. Second, they poorly align bonus with the corporate goals. Growth and productivity as measures of performance eliminate some of the shortcomings of the profit and sales measures, but they also poorly capture external performance objective which the customer sees. A customer satisfaction index may be flexibly constructed to capture all the aspects of external performance objectives (error free products, low price, short delivery time, dependable delivery, new and sophisticated products, wide product range, quick after sales service, etc.). Since employees collectively must achieve both internal (profit, growth, etc.) and external performance objectives, three indices of performance — profit index, growth index, and customer satisfaction index — are required to assess their overall performance. These indices together characterize an organization's activities so thoroughly that very little, if any, new information can be brought in by adding another measure.
Construction of Customer Satisfaction Index

Two approaches emerge from the literature on the concept of customer satisfaction (Czepiel and Rosenberg, 1977). The first, or gestalt, approach assumes that a single evaluation of a product can be made, which includes all of the experiences surrounding its purchase and use. The second, or disaggregative, approach assumes that satisfaction can best be quantified by measuring separately each of the various product/service attributes which affect satisfaction and then combining them into an overall measure. A strong theoretical basis for the disaggregative approach is that it recognizes the multiple motivations of customer behaviour, but it also raises questions of how to identify and combine the attributes.

A number of studies have attempted to identify the attributes to be included in the construction of a satisfaction index. However, there has been no unanimity among researchers on the attributes; different studies have laid emphasis on different attributes. Renoux (1973) has identified three elements of customer satisfaction: shopping (availability and adequacy of shopping outlets), buying (ease with which consumer can evaluate alternative products and make purchase decisions); and consuming (experience in using the product). Pfaff (1972) has emphasized product (size, special features) and marketing (price, availability, image); Czepiel and Rosenberg (1977) on purchase process, decision, and functional attributes; Levy and Czepiel (1974) on aesthetic attributes; Baumgarten et al. (1972) on psycho-social attributes; Swan and Longman (1977) on service attributes; and Henion (1972) on environment attributes. This diverse emphasis implies that an index should include every broad aspect of the purchase-consumption process.

Each of the attributes is not of equal importance to all customers. Hence, it is essential to classify them into three categories: order-winning, qualifying, and least important (Hill, 1989; Meredith, 1992; Slack, 1992). Order-winning attributes are those which directly and significantly contribute to winning customers. Higher the organization's performance in these attributes, greater is the level of customer satisfaction. They are the main performance indicators used by customers in their purchase-consumption process and are regarded as the key attributes satisfying their needs. Qualifying attributes may not be the major determinant but are important in another way. They are those for which performance needs to be above a particular level for customers to even consider ordering. Once clearly above the qualifying level, the marginal benefit/satisfaction to the customers is low. The least important attributes which rarely customers even consider should be ignored.

What is regarded as acceptable performance can be rendered inadequate by competitors raising their own and possibly industry standards. Ultimately, competitors provide a standard/benchmark against which customers measure the relative performance of an organization. All improvements in performance are, at least, worthwhile, but that marginal step which takes an organization beyond the performance level of its competitors is by far the most valuable. The importance of competitors in determining a standard/benchmark raises the issue of how to phrase the rating questions. The customer might be asked to what extent the performance of the organization in each attribute is better or worse than its competitors (Table 1). Assigning numerical value weightage would add still another refinement.

The formulation of a satisfaction index under the disaggregate approach requires aggregating all relevant attributes into an overall measure. Three types of models are suggested here: the linear model, the conjunctive model, and the disjunctive model. The linear model is well known. Dawes (1964) and Coombs (1964) have conceptualized the conjunctive and disjunctive models and Einhorn (1970) has proposed mathematical functions that approximate them.

Linear Model

This is a simple additive model

\[ I = \sum W_i X_i \]  

where I is the value of index, W. is the weightage assigned by customers to attribute i, and X is the relative performance of the organization in attribute i.

The linear model is compensatory; that is, a low rating on one attribute can be compensated for by a high rating on another. It has exhibited remarkable robustness and predictive success in a wide variety of tasks. Hofer and Schendel (1978) suggested this model for assessing the firm's overall competitive position; Fishbein (1967) for measuring customer attitudes towards products, services, and advertising; and Slovic (1969) for assessing the attractiveness of common stock. It is, however, appropriate when the index consists of only order-winning attributes. Being compensatory, it is inadequate for order-qualifying attributes.
Table 1: Winning and Qualifying Attributes

<table>
<thead>
<tr>
<th>Winning Attributes</th>
<th>Weighage (Wi)</th>
<th>Evaluation Scale (Xi)</th>
<th>Far Better than Competitors</th>
<th>Marginally Better to Competitors</th>
<th>Equal to Competitors</th>
<th>Marginally Worse to Competitors</th>
<th>Far Worse</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Doctor's Competence</td>
<td>2.40</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Doctor's Responsiveness</td>
<td>2.13</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Quality of Service</td>
<td>2.06</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Cost of Service</td>
<td>2.01</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Qualifying Attributes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Equipment Sophistication</td>
<td>1.96</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Waiting Time</td>
<td>1.90</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Nursing Service</td>
<td>1.90</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Cleanliness</td>
<td>1.90</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Staff Responsiveness</td>
<td>1.70</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Conjunctive Model

The conjunctive model, on the other hand, is non-compensatory; a low rating on attribute cannot be compensated for. Thus, a certain minimum for each attribute must be satisfied for an acceptable outcome. Einhorn’s mathematical approximation of this model is:

\[ I = \prod_{i=1}^{n} X_i W_i \quad (2) \]

or

\[ \log I = \prod_{i=1}^{n} W_i \log X_i \]

The parabolic type of response surface for this function provides a high value when the \( X_i \) value for any particular attribute is not too small. In other words, a prescribed minimum level of performance on each attribute is needed to boost the level of satisfaction. Because of this property, the model is more appropriate when the number of qualifying attributes is high.

Disjunctive Model

In contrast to the conjunctive model, the disjunctive model represents a maximum evaluation function that has to be satisfied by a very high value of at least one attribute for an acceptable outcome. Again, from Einhorn's functional approximation, the model can be written as

\[ I = \left( \frac{1}{C_o - X_i} \right)^{W_i} \]

or

\[ \log I = -\sum_{i=1}^{n} W_i \log (C_o - X_i) \]

where constant \( C_o \) is set above the largest \( X_i \) to ensure that \( I \) remains finite. Because of the hyperbolic type of response surface, this function provides high scores for a high value of just one \( X_i \) even though the ratings of the other \( X_i \)'s may be low. It is appropriate where any single attribute is sufficient to bring a high level of satisfaction.

Growth Index

The major problem in formulating a growth index is to define the variable(s) on which growth should be measured. Unless defined in the strategic plan, the most critical variable(s) that ensures the highest long-term payoff for the organization should be the growth variable. A few examples of critical variables are: NTV of oil and gas reserves discovered in the case of an oil and gas exploration organization, number of patients in the case of a hospital, capacity utilization in the case of the steel industry, and flying hours in the case of an airline.

Profit Index

Current profit is a measure of how well the organi-
zation derives its revenue and controls costs. It is the best way of measuring short-term internal performance of the organization. The profit index should be included in the bonus scheme for several reasons: profit itself determines the organization’s capacity to pay bonus; it measures those aspects of performance not captured by the growth and customer satisfaction indices; it is easy to apply because this measure is already part of the organizational information system.

Payoff Matrix

An ideal bonus plan must recognize the fact that new products or divisions have high growth but low profit prospects, whereas matured products/divisions have high profit but low growth prospects. It is necessary to generate a payoff matrix that trades off short-term profitability with long-term growth objectives. Equation 4 generates the value of the matrix.

\[ P = \frac{RA + XGA}{RS + XGS} \]  

where,  
\[ P = \text{payoff value of the matrix} \]  
\[ GA = \text{actual growth} \]  
\[ RA = \text{actual rate of return} \]  
\[ GS = \text{target growth} \]  
\[ RS = \text{target rate of return} \]  
\[ X = \text{adjustment factor that equates growth with the rate of return} \]  
\[ n = \text{the exponent to impart non-linearity to the equation} \]

Equation 4 compares actual performance with the target, thus avoiding all problems that arise when using a mechanical formula for profit and growth. Because of non-linearity, it rewards substantially those employees whose performance is above the target and marginalizes compensation of those who fail to achieve the target. Further, it allows different divisions/business units to choose different combinations of profit and growth targets with payoff value of 1 (Table 2) and yet equally rewards for their improvement in any direction of the matrix.

An ideal bonus plan emerges when the above payoff matrix is integrated with the customer satisfaction index in the following fashion.

\[ B = S \times C \times P \]  

where  
\[ B = \text{bonus to be paid to an employee} \]  
\[ S = \text{basic salary} \]  
\[ C = \text{percentage of bonus derived from the customer satisfaction index (I)} \]

The implementation of the bonus plan indicated above is not an easy ride and requires effective solutions to many issues surrounding it. A real life case study is chosen to describe the various elements of the suggested bonus plan and to show ways to solve some of the problems of implementation.

Case Study

The organization in question is the Institute of Neurological Science (INS), Guwahati, which is the largest private hospital with all the modern facilities in the north-eastern region. Traditionally, INS has been paying bonus as a fixed percentage of the basic salary. To foster the development of a performance-oriented climate, INS wanted to introduce an innovative bonus plan and hired the author as a consultant.

As a first step, the author along with a team of managers conducted SWOT analysis and drew a strategic plan for the next ten years which enabled the team to identify three key priority areas: image building by increasing patient satisfaction, high growth in the patient inflows, and self-funding by earning a minimum return on assets.

In the second step, INS was organized into 12 profit centres. Since most of the profit centres share common facilities, the team faced many problems in allocating joint capital and revenue costs. In most cases, the joint costs were allocated on the basis of revenue earnings, number of patients, time spent, and square feet occupied.

Three indices of performance were constructed, each corresponding to one key priority area: patient satisfaction index, growth index, and profit index.

Patient Satisfaction Index

Four independent patient surveys were conducted in four different hospitals including INS to ascertain winning and qualifying attributes and their weightage (Wj). Four attributes emerged as winning and five as qualifying attributes (Table 1). Two methods were used to get the customers’ assessment of the performance of each of the profit centres of INS and its competitors: direct interviews with patients/attendants and distribution of "feedback" questionnaire to patients/attendants and asking them to drop the filled questionnaire in the boxes kept for this purpose. A five-point scale was used for each attribute — far better than competitors, marginally better than competitors, equal to competitors, marginally worse than competitors, and far worse than competitors — with numerical value
ranging from 0.5 to 1.5. We decided to calculate the index at the end of every month using the conjunctive model. The choice for the conjunctive model was largely stimulated by the fact that the number of qualifying attributes in the index was high compared to the winning attributes. When a particular attribute was not applicable to a particular profit centre, that attribute was omitted from that profit centre. The entire job was entrusted to the marketing department with periodic reviews by the top management to avoid biases of any form.

**Growth Index**

Increase in patient inflows was selected as a measure of growth for three reasons. First, employee's workload increased in proportion to patient inflow and the team thought that employees could be compensated for extra load if the bonus plan is linked to patient inflow. Second, it is part of corporate strategy: without having a minimum growth in patient inflow (average 30%), it would neither be possible to make costly equipment viable nor upgrade the medical facilities in the near future. Third, for all the newly created departments, growth in patient inflow was considered as a major short-term measure. Since the patient inflow was seasonal (high in summer and low in winter), growth was defined as percentage increase in the total number of patients in the month being measured over the same month a year ago.

**Table 2: Payoff Matrix**

<table>
<thead>
<tr>
<th>0</th>
<th>6</th>
<th>12</th>
<th>18x</th>
<th>24</th>
<th>30</th>
<th>36</th>
<th>42</th>
<th>48</th>
<th>54</th>
<th>60</th>
<th>66</th>
<th>72</th>
<th>78</th>
<th>84</th>
<th>90</th>
<th>96</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 3</td>
<td>.0002</td>
<td>.002</td>
<td>.005</td>
<td>.01</td>
<td>.02</td>
<td>.05</td>
<td>.08</td>
<td>.14</td>
<td>.21</td>
<td>.3</td>
<td>.42</td>
<td>.58</td>
<td>.76</td>
<td>1</td>
<td>1.27</td>
<td>1.6</td>
</tr>
<tr>
<td>5</td>
<td>.002</td>
<td>.005</td>
<td>.01</td>
<td>.02</td>
<td>.05</td>
<td>.08</td>
<td>.14</td>
<td>.21</td>
<td>.3</td>
<td>.42</td>
<td>.58</td>
<td>.76</td>
<td>1</td>
<td>1.27</td>
<td>1.6</td>
<td>1.9</td>
</tr>
<tr>
<td>7 9</td>
<td>.005</td>
<td>.01</td>
<td>.02</td>
<td>.05</td>
<td>.08</td>
<td>.14</td>
<td>.21</td>
<td>.3</td>
<td>.42</td>
<td>.58</td>
<td>.76</td>
<td>1</td>
<td>1.27</td>
<td>1.6</td>
<td>1.9</td>
<td>2.4</td>
</tr>
<tr>
<td>11</td>
<td>.01</td>
<td>.02</td>
<td>.05</td>
<td>.08</td>
<td>.14</td>
<td>.21</td>
<td>.3</td>
<td>.42</td>
<td>.58</td>
<td>.76</td>
<td>1</td>
<td>1.27</td>
<td>1.6</td>
<td>1.9</td>
<td>2.4</td>
<td>2.9</td>
</tr>
<tr>
<td>51</td>
<td>.02</td>
<td>.05</td>
<td>.08</td>
<td>.14</td>
<td>.21</td>
<td>.3</td>
<td>.42</td>
<td>.58</td>
<td>.76</td>
<td>1</td>
<td>1.27</td>
<td>1.6</td>
<td>1.9</td>
<td>2.4</td>
<td>2.9</td>
<td>3.5</td>
</tr>
<tr>
<td>13</td>
<td>.05</td>
<td>.08</td>
<td>.14</td>
<td>.21</td>
<td>.3</td>
<td>.42</td>
<td>.58</td>
<td>.76</td>
<td>1</td>
<td>1.27</td>
<td>1.6</td>
<td>1.9</td>
<td>2.4</td>
<td>2.9</td>
<td>3.5</td>
<td>4.2</td>
</tr>
<tr>
<td>21</td>
<td>.08</td>
<td>.14</td>
<td>.21</td>
<td>.3</td>
<td>.42</td>
<td>.58</td>
<td>.76</td>
<td>1</td>
<td>1.27</td>
<td>1.6</td>
<td>1.9</td>
<td>2.4</td>
<td>2.9</td>
<td>3.5</td>
<td>4.2</td>
<td>4.9</td>
</tr>
<tr>
<td>31</td>
<td>.14</td>
<td>.21</td>
<td>.3</td>
<td>.42</td>
<td>.58</td>
<td>.76</td>
<td>1</td>
<td>1.27</td>
<td>1.6</td>
<td>1.9</td>
<td>2.4</td>
<td>2.9</td>
<td>3.5</td>
<td>4.2</td>
<td>4.9</td>
<td>5.8</td>
</tr>
<tr>
<td>33</td>
<td>.21</td>
<td>.3</td>
<td>.42</td>
<td>.58</td>
<td>.76</td>
<td>1</td>
<td>1.27</td>
<td>1.6</td>
<td>1.9</td>
<td>2.4</td>
<td>2.9</td>
<td>3.5</td>
<td>4.2</td>
<td>4.9</td>
<td>5.8</td>
<td>6.8</td>
</tr>
<tr>
<td>35</td>
<td>.21</td>
<td>.3</td>
<td>.42</td>
<td>.58</td>
<td>.76</td>
<td>1</td>
<td>1.27</td>
<td>1.6</td>
<td>1.9</td>
<td>2.4</td>
<td>2.9</td>
<td>3.5</td>
<td>4.2</td>
<td>4.9</td>
<td>5.8</td>
<td>6.8</td>
</tr>
<tr>
<td>37</td>
<td>.3</td>
<td>.42</td>
<td>.58</td>
<td>.76</td>
<td>1</td>
<td>1.27</td>
<td>1.6</td>
<td>1.9</td>
<td>2.4</td>
<td>2.9</td>
<td>3.5</td>
<td>4.2</td>
<td>4.9</td>
<td>5.8</td>
<td>6.8</td>
<td>7.8</td>
</tr>
<tr>
<td>39</td>
<td>.42</td>
<td>.58</td>
<td>.76</td>
<td>1</td>
<td>1.27</td>
<td>1.6</td>
<td>1.9</td>
<td>2.4</td>
<td>2.9</td>
<td>3.5</td>
<td>4.2</td>
<td>4.9</td>
<td>5.8</td>
<td>6.8</td>
<td>7.8</td>
<td>9</td>
</tr>
<tr>
<td>41</td>
<td>.58</td>
<td>.76</td>
<td>1</td>
<td>1.27</td>
<td>1.6</td>
<td>1.9</td>
<td>2.4</td>
<td>2.9</td>
<td>3.5</td>
<td>4.2</td>
<td>4.9</td>
<td>5.8</td>
<td>6.8</td>
<td>7.8</td>
<td>9</td>
<td>10.4</td>
</tr>
<tr>
<td>43</td>
<td>.76</td>
<td>1</td>
<td>1.27</td>
<td>1.6</td>
<td>1.9</td>
<td>2.4</td>
<td>2.9</td>
<td>3.5</td>
<td>4.2</td>
<td>4.9</td>
<td>5.8</td>
<td>6.8</td>
<td>7.8</td>
<td>9</td>
<td>10.4</td>
<td>11.8</td>
</tr>
<tr>
<td>45</td>
<td>1</td>
<td>1.27</td>
<td>1.6</td>
<td>1.9</td>
<td>2.4</td>
<td>2.9</td>
<td>3.5</td>
<td>4.2</td>
<td>4.9</td>
<td>5.8</td>
<td>6.8</td>
<td>7.8</td>
<td>9</td>
<td>10.4</td>
<td>11.8</td>
<td>13.4</td>
</tr>
<tr>
<td>47</td>
<td>1.27</td>
<td>1.6</td>
<td>1.9</td>
<td>2.4</td>
<td>2.9</td>
<td>3.5</td>
<td>4.2</td>
<td>4.9</td>
<td>5.8</td>
<td>6.8</td>
<td>7.8</td>
<td>9</td>
<td>10.4</td>
<td>11.8</td>
<td>13.4</td>
<td>15.2</td>
</tr>
<tr>
<td>49</td>
<td>1.6</td>
<td>1.9</td>
<td>2.4</td>
<td>2.9</td>
<td>3.5</td>
<td>4.2</td>
<td>4.9</td>
<td>5.8</td>
<td>6.8</td>
<td>7.8</td>
<td>9</td>
<td>10.4</td>
<td>11.8</td>
<td>13.4</td>
<td>15.2</td>
<td>17.1</td>
</tr>
<tr>
<td>51</td>
<td>1.6</td>
<td>1.9</td>
<td>2.4</td>
<td>2.9</td>
<td>3.5</td>
<td>4.2</td>
<td>4.9</td>
<td>5.8</td>
<td>6.8</td>
<td>7.8</td>
<td>9</td>
<td>10.4</td>
<td>11.8</td>
<td>13.4</td>
<td>15.2</td>
<td>17.1</td>
</tr>
</tbody>
</table>

Vol. 24, No. 1, January - March 1999
Profit Index

Return on assets was selected as a measure of performance in the profit front. Return was defined as pre-tax pre-interest operating income divided by book value of assets under the profit centre plus allocated fixed assets and net working capital. The financial model showed that INS required a minimum 19 per cent operating pre-tax return to support 30 per cent annual growth and a modest cash dividend with a debt/equity ratio not greater than 50 per cent.

Payoff Matrix

At the time of formulation of the bonus plan, we noticed that the services offered by the various centres were in different stages of product life cycle: around 20 per cent were in the introduction stage, 35 per cent in the growth stage, and the rest in the matured stage or nearing the maximum capacity utilization with no little growth potential. Hence, the team was willing to accept some trade-off between growth and profit target. Accordingly, a payoff matrix was constructed using equation 4 for a combined target level of 29. The combined target (RS+XGS) was set at 29 considering the required rate of return of 19 per cent, growth rate of 30 per cent, and adjustment factor of 1/3 (X=1/3, because we found that a 3 per cent increase in patient inflows was equivalent in payoff to 1 per cent increase in ROI). The profit centres were given the freedom to select any combination of growth and ROI target that set the payoff value equal to 1 (Table 2). A payoff value of 3.25 or more was considered as outstanding as established by assessing the profit centre's capability and the performance of other hospitals in Guwahati. This level of performance brought a surplus of Rs 130 lakh.

The amount payable as bonus was Rs 65 lakh. This figure was used to find out the value of exponent (n).

Total bonus = total basic salary (S) x C x P

or

65 = 40 x 0.5 x P (C = 50%)

P = 3.25

\[
\frac{RA + XGA}{RS + XGS} = P
\]

\[
\begin{align*}
40 & = 29 \\
\end{align*}
\]

n = 3.66

The matrix (Table 2) was so constructed that an improvement along either axis was rewarded, but the rewards increased more rapidly with progress along the diagonal of the payoff matrix. This was consistent with the corporate goals of rapid growth concurrently with ROI high enough to assure self-funding. Further, for any combination of growth-return targets, the matrix rewarded equally all profit centres for equal level of improvement along any direction. Bonus Payment

Bonus was paid to all employees in proportion to their basic salary using the following bonus formula (equation 5):

\[
B = S \times C \times P
\]

The value of C (i.e., bonus percentage) was directly derived from the patient satisfaction index (I). A linkage was established between the bonus percentage (C) and the index value (I) through Renald five series: 58 per cent increment (5 V10) for the value up to 1 and Renald series of 346 per cent increment (5 V500) for all index values above 1 (Table 3).

### Table 3: Index Value and Bonus Percentage

<table>
<thead>
<tr>
<th>Index Value</th>
<th>Bonus (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.15</td>
<td>5</td>
</tr>
<tr>
<td>0.25</td>
<td>10</td>
</tr>
<tr>
<td>0.39</td>
<td>15</td>
</tr>
<tr>
<td>0.61</td>
<td>20</td>
</tr>
<tr>
<td>1.00</td>
<td>25</td>
</tr>
<tr>
<td>3.60</td>
<td>30</td>
</tr>
<tr>
<td>12.1</td>
<td>35</td>
</tr>
<tr>
<td>42.1</td>
<td>40</td>
</tr>
<tr>
<td>449</td>
<td>45</td>
</tr>
</tbody>
</table>

The minimum value of the index was zero for far worse performance and the maximum value was 638 for far better performance in all the attributes. No bonus was paid for the index value less than 0.15 and the highest bonus was fixed at 50 per cent. If a profit centre, for instance, earns 33 per cent return, grows at 21 per cent, and scores above 500 in the patient satisfaction index, then all the employees including doctors and managers of that profit centre will get a monthly bonus equal to 1.64 times of the basic salary (B=S X 50% X 3.25). Employees belonging to non-profit centres were given bonus based on the average payoff value (P) of all the profit centres of INS and the value of the satisfaction index determined by the patients or internal customers, i.e. user departments.
Since the bonus scheme was based on the profit centre's overall performance, the scheme might introduce a free-rider problem by providing bonus for everyone irrespective of whether that person did a good job or not. Some people might relax and rely on the hard work of others to provide a big bonus. The free-rider problem was mitigated by linking promotion and the annual salary increment to the individual performance appraisal system. Thus, a free-rider in the outstanding profit centre loses a minimum of Rs 528 per month (Rs 328 by way of bonus) compared to hard workers in the same group.

Since doctors' competence and responsiveness were found to be the most important winning attributes, a separate scheme was introduced to upgrade doctors' performance on these two attributes. Under this scheme, 50 per cent of the consultation fees collected from each patient was paid in cash to the doctor concerned at the end of every working day and the remaining was allowed to get accumulated under the head "research fund" created for each doctor separately. Doctors can use this research fund for research work, attending workshops, and training courses abroad. This scheme is now found to be very effective in achieving the two aforesaid performance objectives.

**Conclusion**

An ideal bonus plan must encompass both internal and external performance objectives. The customer satisfaction index which captures all the aspects of external performance objectives is specially important since linking bonus to it reinforces the customer's priorities and concern in the organization. The experience of INS reveals that such linkage really brings a positive change in employee's attitudes towards improving customer satisfaction. Hence, it will find application in other industries too.

**References**


