Performance And Reward Management
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Lecture - 32
Understanding linkage between performance management and reward, an overview of various types of reward; financial reward, non-financial reward; contingent pay scheme; bonus scheme; team pay; rewarding for business performance; recognition scheme
(Contd.)

Welcome back to the topic on Understanding linkage between performance management and reward, an overview of various types of rewards, financial reward and nonfinancial reward, contingent pay scheme, bonus scheme, team pay, rewarding for business performance and recognition scheme.

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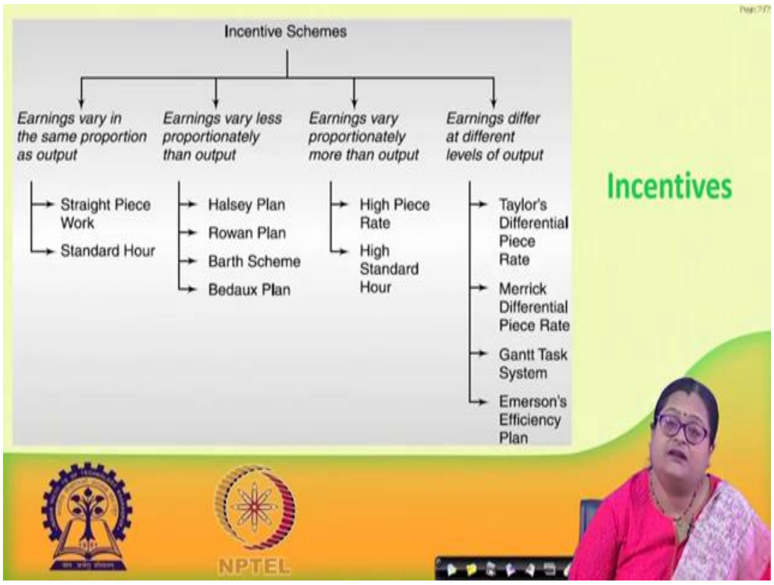

So, in the concept that we will cover today we will focus extensively on incentives. So, when we talk of incentives we have seen in the earlier slide, incentives get classified under the direct financial compensation that received for the work done in the organization.

So, in this section we are going to illustrate more on the incentives and we understand from the word incentive as we have discussed in the earlier sessions also; these will act as reinforcers for increasing the performance. And it is based on how good it is a reinforcer in order to increase the performance and correct for the wrong behaviours done.

So, this is; this helps in behaviour modification also and helps in increasing the performance of the individual and to give more the desired output. So, when we talk of incentive schemes; what we see over here are like then the incentive schemes can vary according to like the earnings vary in the same proportion as output which are like the straight piece or stranded hour.

Earnings vary less proportionately as compared to output is Halsey plan, Rowan plan, Barth scheme and Bedaux plan. And earnings vary proportionately more than the output these are high piece rate high standard hours and earnings differ at different levels of output is Taylor's differential piece rate, Merrick's differential piece rate, Gantt task system and Emerson's efficiency plan.

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And, these are individual plans that we have talked about in group incentive plans; there are different types of group incentive plans in terms of profit sharing, employee stock ownership plans, Scanlon plan, co-partnership and bonuses. So, we will first discuss about the group incentive plans and then we will move forward with the different incentive plans at the individual level and discuss the formula for calculation of those things also.

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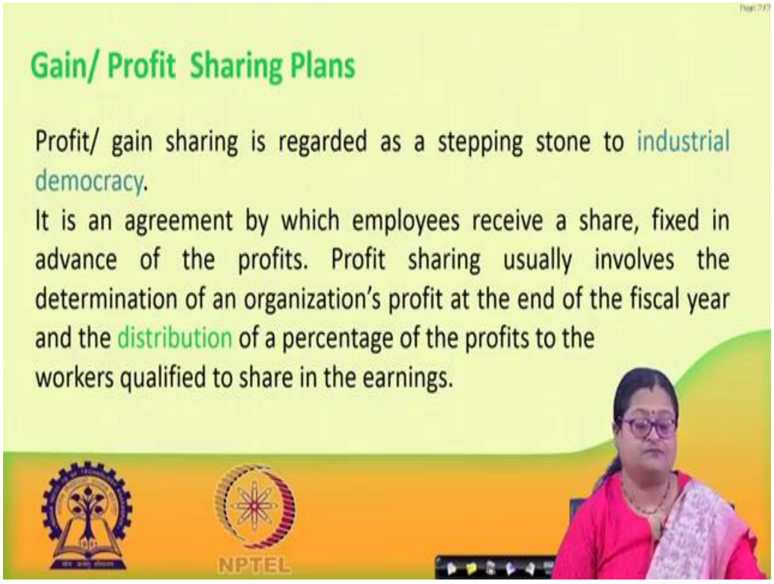

So, the first of the group incentive plans that we discuss over here is gain sharing or profit sharing. So, because why; why we are discussing group incentive plans first? Because we understand nowadays the job nature has changed so much like the performance in team performance in group becomes some sort of a necessary requirement.

And in that case we have to make sure like the people are giving their best to the purpose of the group in order to achieve the objective, no person is taking like hiding and for social going for a social loafing. And like and it is like the one person who works continues working, but again then when it comes to enjoyment of the benefit; it comes to everyone as a result the person who is really contributing hard to the group's purpose feels like maybe deprived, cheated.

So, we have to be taking care of all these things together. We have to also understand like the groups should not be counterproductive to the objective of the greater organization. Because, when we have discussed about performance management we have seen like the organization's goals are like again cascade down into the departmental goals and the departmental goals are again translated into individual goals.

So, there should not be any gap of understanding or perception about like how the individual goals, group goals and individual and the organizational goals gets connected. And like how the organize; group goals should not deviate from the organization's goal.

Because it is only through fulfilling the goals of the organization and the group goals together along with the individual goals; a proper alignment of all these three together will lead to the organizational excellence.

So, but these things we will come only when we were talking; if we talk from the agency perspective, if the employee start also feeling like the organization is their own organization and they are not merely agents working for any principle. So, in order to do that the profit sharing or gain sharing is a very very important step towards industrial democracy.

In that what is done; it is an agreement by which employees receive a share fixed in advance of the profits. Profit sharing usually involves the determination of the organization's profit at the end of the fiscal year and the distribution of a percentage of the profits to the workers qualified to share the in the earnings. So, this gives us worker a good feeling and the sense of completion to understand like they belong to the organization and the organization also belongs to them.

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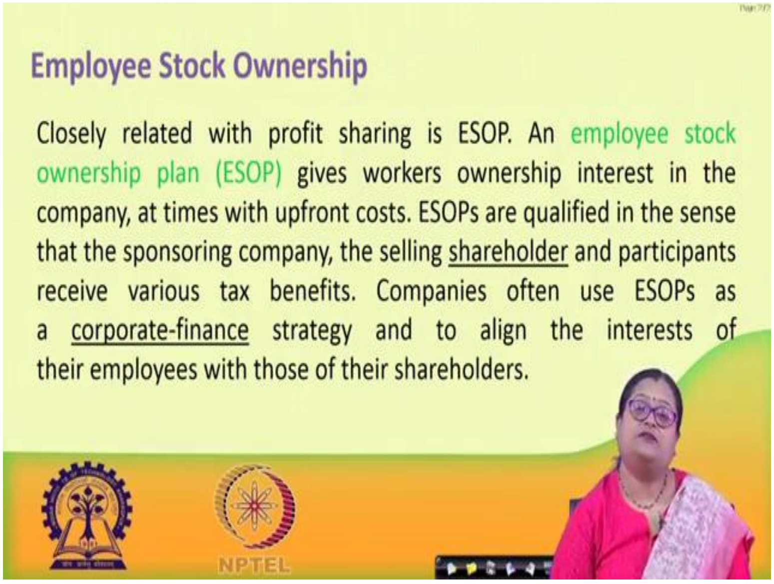

Employee stock ownership plan; these are also called incentives at the organizational level. So, which is closely related to profit sharing is employee stock ownership plan. So, employee stock ownership plan; plan gives the workers an ownership interest in the company at times with upfront costs. So, ESOP's are qualified in the same sense that the sponsoring company, the selling shareholder and participants receive the various tax benefits.

So, companies often use ESOPs as a corporate finance strategy and to align the interest of their employees with those of the shareholders. So, when we are also stock owners of the firm; then the gap of again this is based on the agency theory if there is a gap in the or a conflict of interest between the employees and the shareholders. So, this plan of giving the stock ownership to the employees helps in bridging the gap because they are also becoming shareholders and owners with a particular company.

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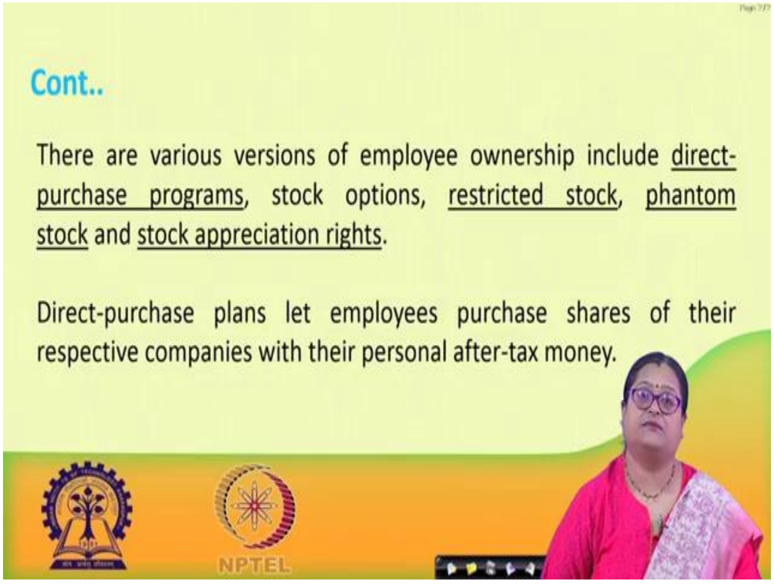

So, there are various versions of employee ownership included like the direct purchase program, stock options, restricted stock, phantom stock and the stock appreciation rights. So, direct purchase plans let employees purchase the shares of their respective companies with their personal after tax money. So, that is called the direct purchase plans.

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So, some countries give special tax qualified plans that let employees purchase company stock at discounted prices. Restricted stock gives the employees the right to receive shares as a gift or a purchased item after meeting particular restrictions that is like working for a specific period or hitting specific performance targets.

So, this is again connected with the payment it is connected with the level of performance that you have given and it is called performance based pay. So, stock options provide employees the opportunity to buy shares at a fixed price for a set of period. When you talk of phantom stock; it provides cash bonuses for good employee performances.

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Now, when we talk of like both these are varieties of profit sharing when we talk of the challenges to profit sharing we understand. So, is that; it is a most of the important challenges it is that lack of transparency.

So, mean their challenge of profit sharing may be due to the fact like many employers do not want to share financial information within their employees. Because of like maybe the greater claims of possible greater claims of employees on greater influence on the company. So, also adapting a profit sharing model strongly depends on supports provided by the public policies of a particular country. So, what; what are the country rules and regulations for it needs to be taken care of.

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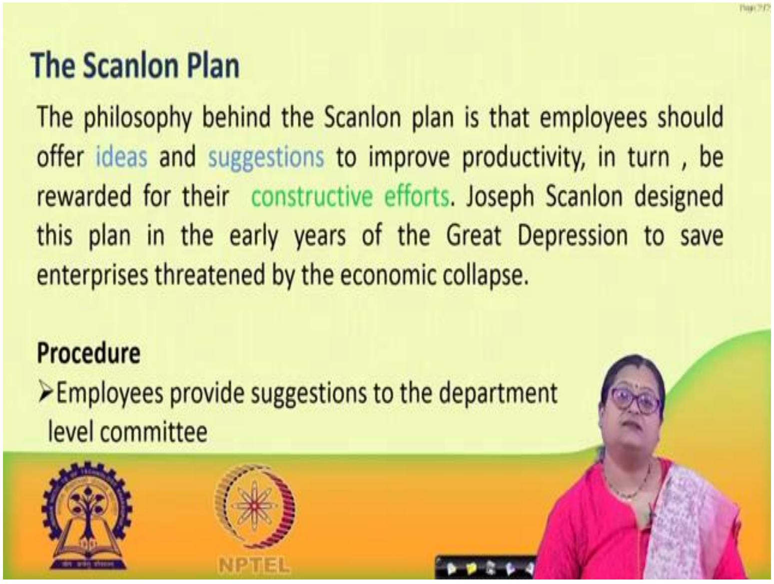

Next, what we have is the Scanlon plan, it is one of the group incentive plan in what you see is the philosophy behind this plan is that the employee should offer ideas and suggestions to improve the productivity; in turn they will be rewarded for their constructive efforts. So, Joseph Scanlon designed this plan in the early years of the great depression to save enterprises threatened by economic collapse.

What are the procedures involved in it? Like employees provides suggestions to the department level committee.

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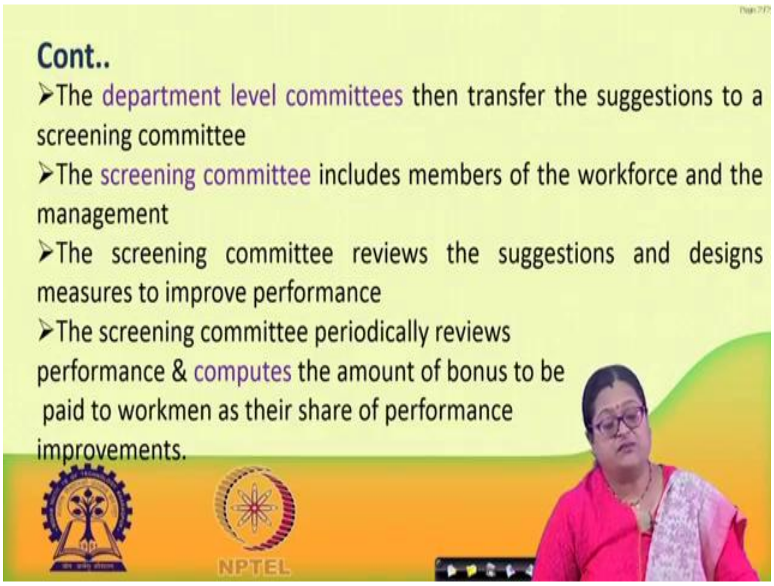

The department level committees then transfer the suggestion to a screening committee; the screening committee includes members of workforce and management. The screening committee reviews the suggestions and designs measures to improve performance. The screening committee periodically reviews performance and computes the amount of bonuses to be paid to workmen as their share of performance improvements.

So, what we find over here if you go through the details of the Scanlon plan; like it is the involvement of the employees, getting involved in the decision making process of what kind of reward for whom, for what nature of performance which is itself very respecting the and recognizing the employees that you can make valuable suggestions for the growth of the organization.

So, and the process that you find is that as we were discussing on performance management and alignment of reward with it; it is similar like the performance management like when we find at the department level committees, the translate the suggestions to the screening committee. And they which includes both the members from the work workforce and the management so that again we were talking of shared vision, shared communication, shared way of reaching at a particular goal. So, this is how you practice it when you are talking of the Scanlon plan.

So, the screening committee then reviews the suggestions and give answers to give the periodical reviews. And it also computes the performance and you see the performance improvements and computes the amount of bonuses to be paid to the workmen. So, it is not only giving suggestions and designing measure of improvement, but also working on it and to improve the performance. And then a periodical feedback is taken about how the performance has improved, what are the changes being achieved and this is done through; again after that only the compute it is computed the amount of bonus to be paid to the workmen as their share of performance improvements.

So, it is not enough to suggest people have to work on it and to show like the performance is improving.

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When we talk of co partnership; this is where we find like the status of the employees needs to be raised. So, they should be treated as equal partners in business and industrial ventures. So, the concept of co-partnership is much wider in scope as compared to profit sharing. So, if you understand when you talk of partnership; co partnership, it is both are at the equal power status, both are at the equal level of dignity and each one is equally powerful as the other.

But whenever you are talking of profit sharing; somewhere is the sense like the employees are like some degree of lower level of status as compared to the employers. And it is like the to, it is under a lot of good art on the employers rather like it is the to share their profit with the employees which if they want they can do which they do not want they cannot do. And as if the employee should remain obligated because they like they are now sharing the profit of the particular organization.

So, somewhere power game is there where employers are put enough at least even to someone to some extent employers are in a higher status as compared to the employees. But when we talk of co partnership and this is more where it is a flat kind of structure in which both the employers and the employees are equally powerful; it is not one is more powerful than the other and it leads to an industrial democracy and labours participation in management. Because you and me are both of the same status then we can exchange thoughts, then we can discuss with each other and then we can participate in a decision making process.

So, in co-partnership employees are made part owners of the enterprise and are allowed to participate in decision making. So, this is majorly important when we talk of profit sharing; it is like you are not involved in the process of take major decisions of the organization, but at the end of the day profit is calculated and it is shared with you as per particular formula. But when we talk of co partnership you are taken as one of the owners who have, who is respected as having important thoughts about the organization and in this way they can contribute towards the growth of the organisation.

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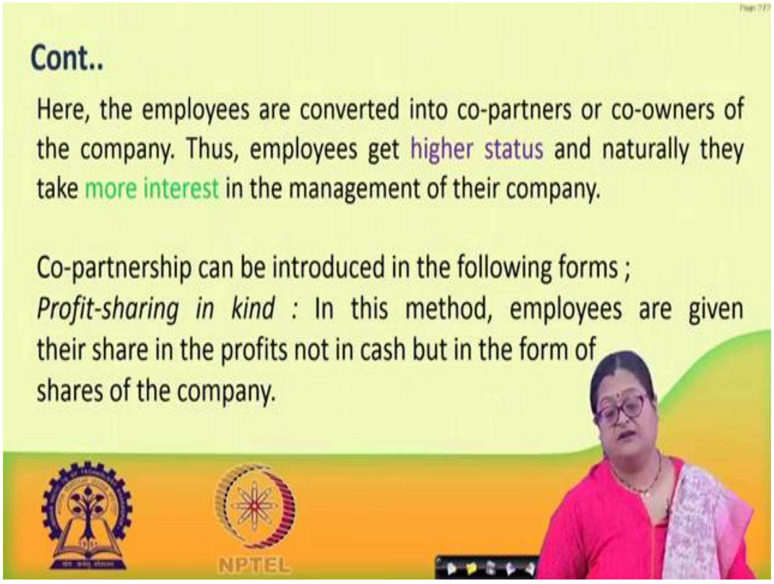

So, here the employees are converted into co-partners or co-owners of the company; so the employees get higher status and naturally they take more interest in the management of their company, so co partnership can be introduced in the following forms. Like profit sharing in kind, in this method employees are given their share in the profits not in cash, but in the terms of shares in the company.

So, when we talk of mixing profit sharing and ESOPs; then we find a link over here.

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So, as a result they become the regular shareholders of the company with powers to attends companies meetings and participate in the management of their company. Payment of bonus in kind, so in this method the bonus payment is made in shares and not in cash; as a result employees are made shareholders of the company with full powers to participate in the management of the company by attending companies meetings with shareholders.

So, this is how you can actually try to get like assimilated into the organization’s self, getting higher status and take more interest in the functioning of the organization is one is by co partnership, which is more or less like profit sharing in kind. And that of like payment of bonus in kind where the bonus method is; it is like the shears that you are given in and whenever you are getting shares, you become like any other shareholders and your voice increases in inside the organisation.

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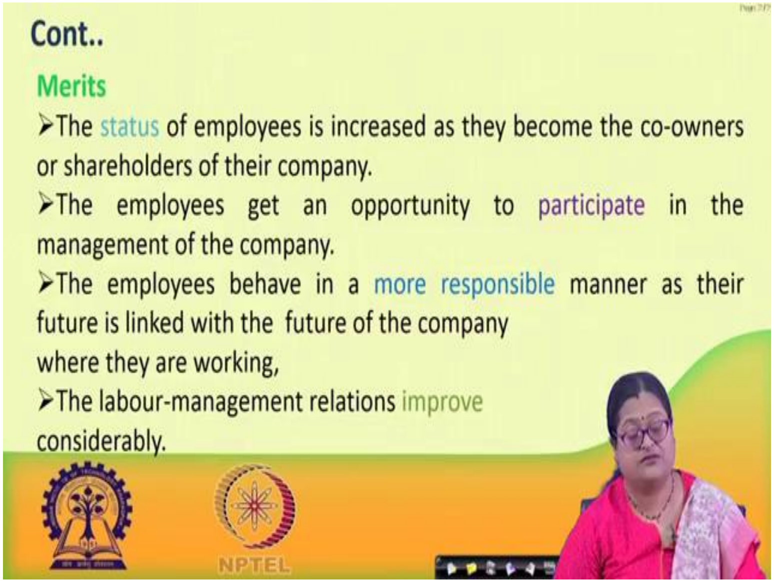

So, the merits of this is like the status of the employees is increased as they become the co owners of the shareholders of their company. The employees get an opportunity to participate in the management of the company, the employees behave in a more responsible manner because with the increased performance increase responsibility comes it becomes more responsible manner as their future is linked with the future of the company.

So and where they are working; so, you have to understand by getting this ownership, the employees feel like it is my organization and I should do something proper; then only this organisation can prosper. And, if this organization prospers then also we are going to keep well. So, it is interconnectivity between the employees' purposes and the organizational purposes and the necessity of both keeping well so that the performance increases and the organizational and individual effectiveness increases also. So, in this case what happens; the labour management relations also improve considerably.

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Now, what are the difficulties in co partnership, specifically in India like and why it has not been very popular are because of the following reasons. So, workers show limited interest in co partnership; so, they demand bonus in cash and do not purchase shares of the company as and when offered.

Employees and their leaders have limited capacity to participate in the actual management of the company. So, this is what happens like the some of the employees because they are not well trained, well groomed, they do not have an exposure to different kind of knowledge factors. So, they may have limited capacity to participate and the actual management of the company.

Because there maybe the background was not such or the type of opportunities that they have received is not such. So, by default like they have a limited capacity and this limited capacity may prevent them the employees and their leaders to actually participate, make some actual contribution in the management of the company. So, as a result what happens even if we are talking of co partnership; it the concept may remain in paper only.

Because both the employers and the employees may need to be required at the same level of competencies as equal partners; then only can this co-partnership can become successful otherwise it will just be a term used. But people because people are not internally competent enough from inside and they have lesser capability to contribute; they may sometimes see it as a threat situations also.

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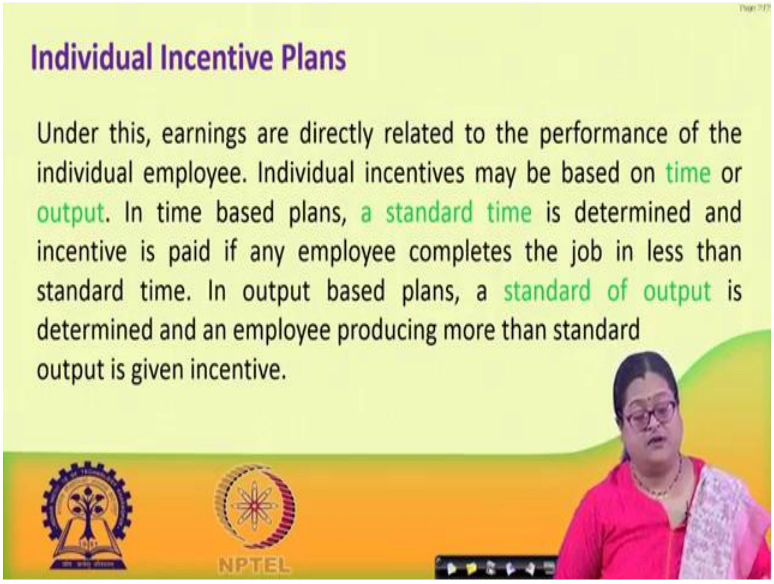

When we talk of individual incentive plans, we have till now talked about the group incentives plans and the organizational level incentive plans. So, when we talk of individual level incentive plans; so, under this the earnings are directly related to the performance of the individual employee.

So, and the individual incentives may be based on the time taken for doing some things or the output. So, the in a time based plans a standard time is determined and the incentive is paid if the employee completes the job in less than standard time. In output based plans standard of output is determined and the employee producing more than the standard output is given incentive.

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The output linked incentives can lead to earnings varying proportion to output or earning varies less proportionately to output or earning varying more proportionately to output or earnings varying in different proportions at different levels of output these could be the varieties of output linked incentives.

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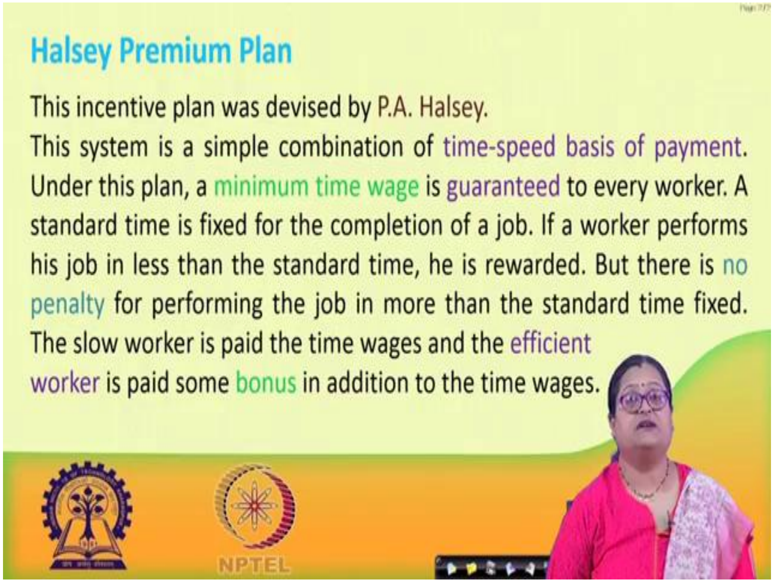

We will discuss here the Halsey premium plan which is an important premium plan incentive plan which is devised by P. A. Halsey. So, this is a symbol combination of time based time speed basis of payment; under this plan a minimum wage is done is guaranteed to every worker.

A standard time is fixed for the completion of a job. If a worker performs his job in less than the standard time he is rewarded, but there is no penalty for performing the job in more than standard time fixed. The slow worker is paid the time wages and the efficient worker is paid some bonus in addition to the time wages.

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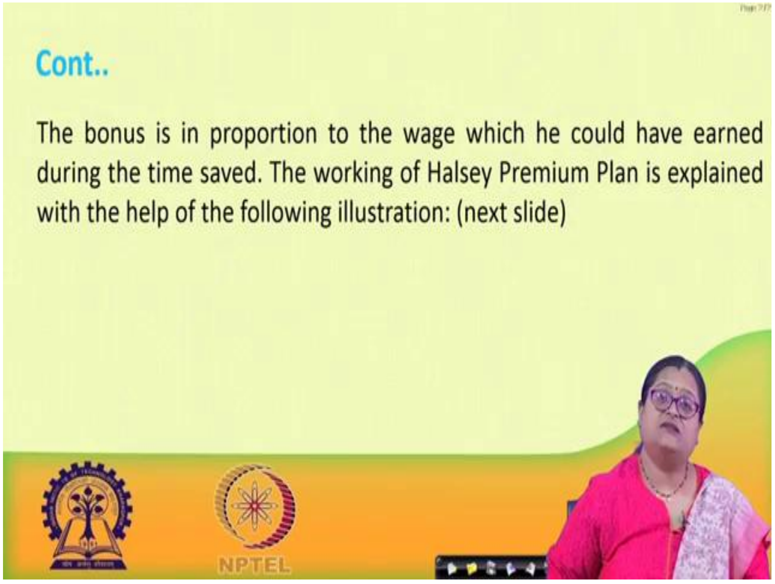

Now, the bonus is proportion to the wage which he could have earned during the time saved. The working of the Halsey premium plan is explained with the help of the following illustration.

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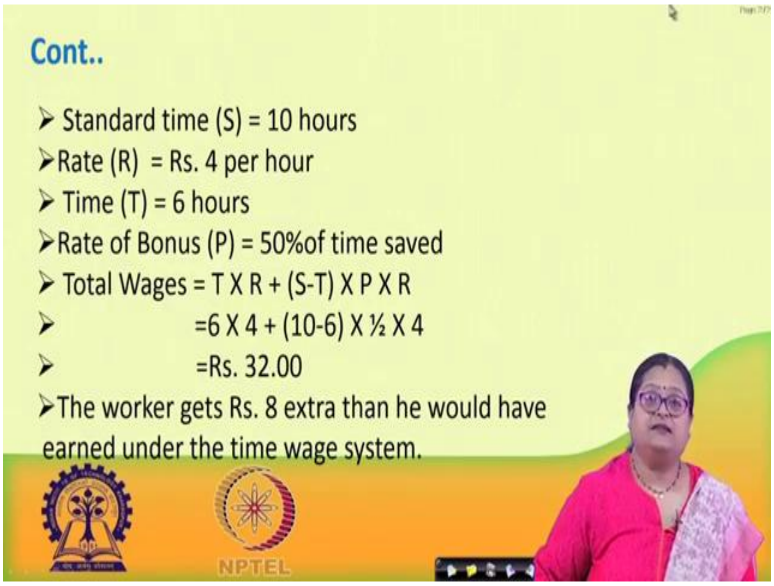

Like standard time S is 10 hours, rate is Rs 4 per hour, time spent on the job is 6 hours. Now the rate of bonus P will be 50 percent of the time saved; so total wages is like the time into rate plus standard time minus time into rate of bonus into the rate.

So, what we find over here 6 time is 6 time of the shift is 6 into Rs 4; 4 per hour plus 10 is the standard time minus 6 hours and half is the 50 percent of time saved into 4. So, which is again the Rs 4 per hour and these comes to Rs 32.

Total Wages = T X R + (S-T) X P X R
=6 X 4 + (10-6) X ½ X 4
=Rs. 32.00

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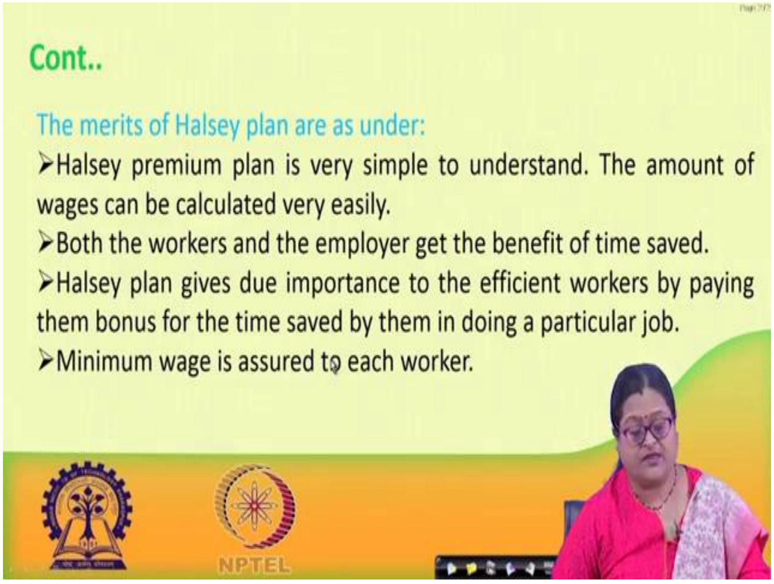

So, the worker gets Rs 8 extra than he would have earned under the time wage system because what we find over here is like the; the bonus is in proportion to the wage that you would have earned during the time saved.

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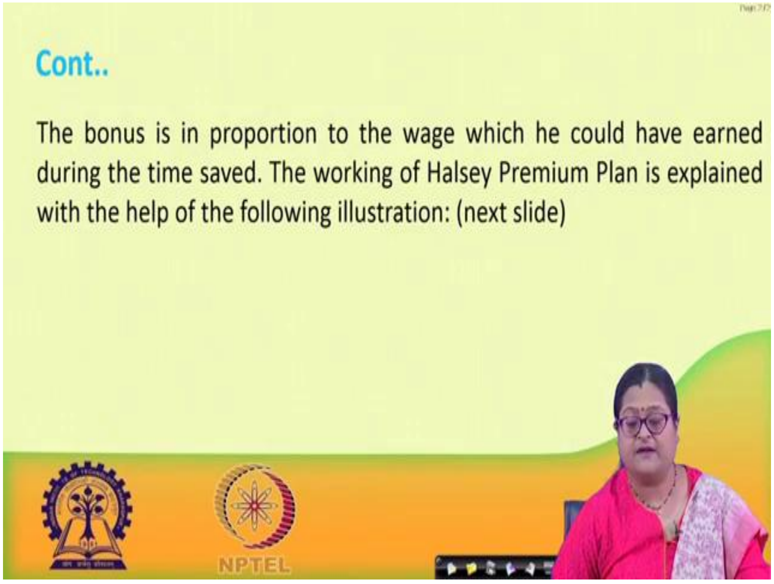

So, if the total wages is 32 for the time saved which is like 4 hours; then the worker will gets Rs 8 extra, then you would have earned under the time wage system. Now, what are the these Rs 8 extra is the bonus that the person is getting because the rate of bonus is 50 percent for the time saved; it is calculated like that and it is the total wages comes to that.

Now, the merits of the Halsey plan are that. So, it is very simple to understand the amount of wages can be calculated very easily. Both the workers and the employer gets the benefit of the time saved. Halsey plan gives due importance to the efficient workers by paying them bonus for the time saved by them and in doing a particular job. So, the minimum wage is again assured to each worker.

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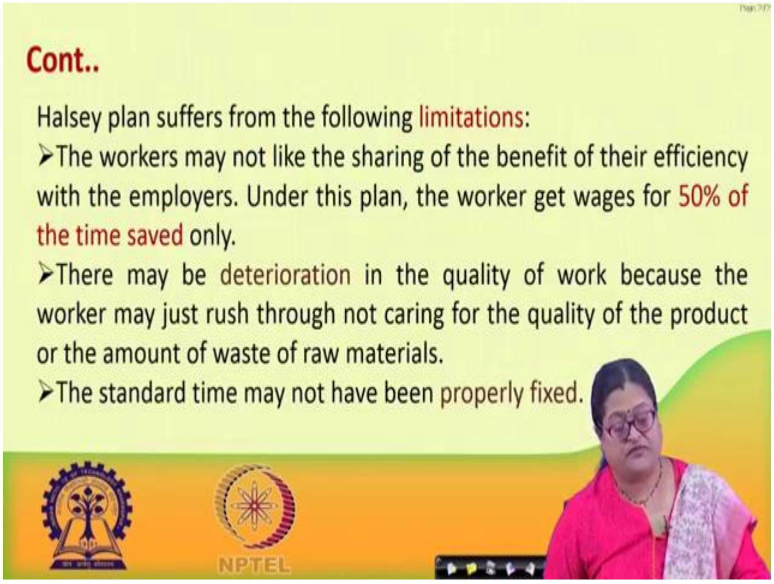

However, it suffers from the following limitations; the workers may not like sharing of the benefits of their efficiency with the employers. So, under this plan the worker gets wages for 50 percent of the time saved only. So, they may not like the share the other 50 percent with their employers.

There may be deterioration in the quality of work because the worker may just rush through not caring for the quality of the products or the amount of waste of raw materials. So, this; what happens because I have to get a bonus which is based on the time saved; so let us hurry up and rush through and get everything completed. So, I can get the maximum bonuses; so, maximum incentive this could be a problem with this.

So, and may ultimately lead to the deterioration in the quality of work because it; it leads to a lot of hurry not caring for the details quality might get compromised lot of wastages be there. So, and the standard time the most important question is the standard time may not have been properly fixed. We have to understand whether it has been done properly with the time and motion study.

Because it may so happen like the first worker performs much fast and if for the based on the fast worker's performance level, a standard time is fixed it may be doing injustice to the persons who are likes progressing in a normal speed or maybe a bit slow also. So, how do you fix up that standard time what is the process for it; so this requires to be taken care of.

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So, these are the references that we have for this slide; in the next session we will continue with the individual level incentive plans.

Thank you.