Performance And Reward Management
Prof. Susmita Mukhopadhyay
Vinod Gupta School of Management
Indian Institute of Technology, Kharagpur

Lecture - 44
Rewarding Special Groups, rewarding directors and senior executives, sales and customer service staff, knowledge workers and manual workers (Contd.)

Welcome back to the topic on Rewarding Special Groups, rewarding directors and senior executives, sales and customer service staff, knowledge workers and manual workers.

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We will continue with our discussion on the schemes for rewarding executives and the benefits for directors and senior executives.

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The effectiveness of our bonus scheme lies in like whether the targets will be tough but achievable, the rewards should be commensurate with the achievement and the targets will be quantified and agreed upon.

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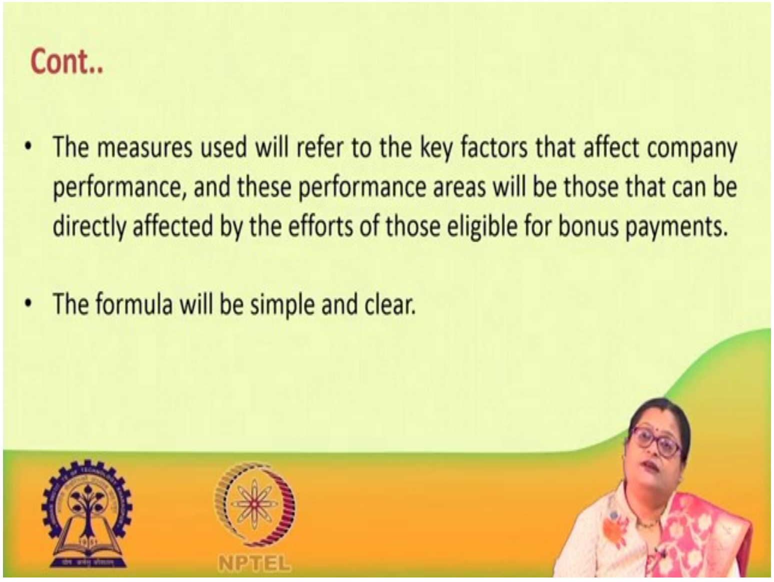

The measures used will refer to the key factors that affect company performance and these performance areas will be those that can be directly affected by the efforts of those who are eligible for bonus payments. So, this is very important that we link the bonus with the performance and we ensure that the performance is linked with the efforts taken by people who are eligible for the bonus and the goals should be referring to the goals of the organization. So, that is why this formula needs to be simple and clear.

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Share option schemes, these such schemes give the option to the directors and executives at higher levels to purchase the shares of the company at the share price ruling when the option was granted. These serve as a source of motivation and encourage directors and executives to stay as the option is for future.

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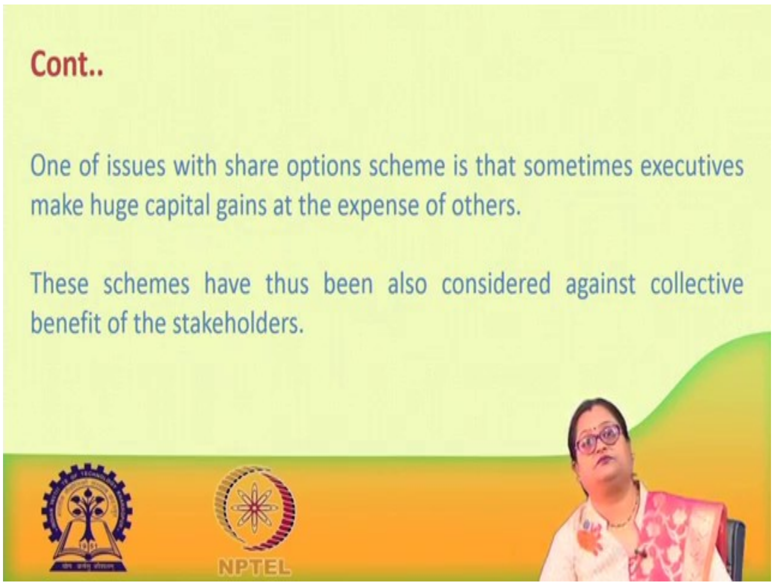

So, one of the issues is that the of the share option scheme is that sometimes executives make huge capital gains at the expense of others because if we understand like when for a result to be reached it is not only the CEO who has worked for it may be he or she has thought about it chocked out the plan motivated others to work but it is also all employees who have like agreed to contribute and listened to whatever was asked whatever they were asked to do and then only based on this like combined effort of all the employees together maybe the objective was reached.

So, but when it comes to like rewarding, when it comes to share options if it is given to the executives then because as there is already a difference in the ratio of between the employees and the other and the CEO, then maybe sometimes it happens like the they make a huge capital gain at the expense of others. So, this and these others are not only the employees, but other stakeholders of the organization. So, these schemes are also to be considered against collective benefit of the other stakeholders.

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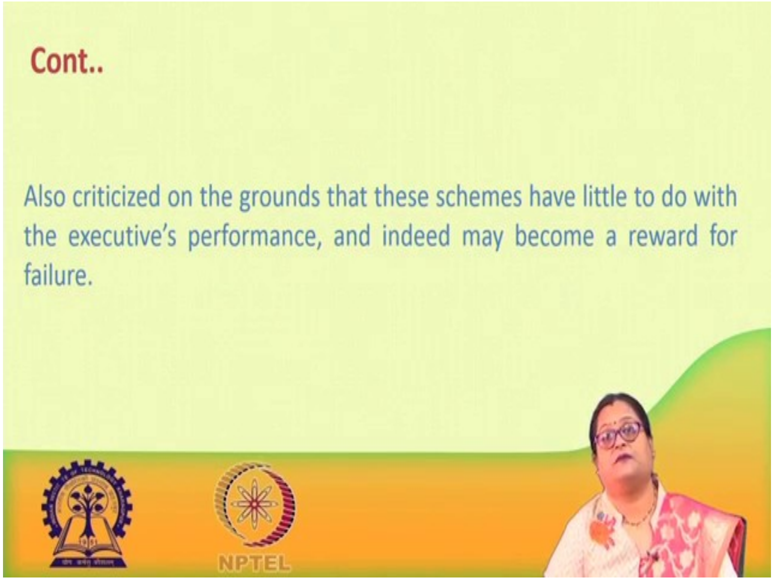

So, and also it is argued that the these schemes have very little to do with the executives' performance and it become and may become a reward for failure because whether like the efforts taken and whether the decision has actually shown any result or not. These does not come immediately this needs to be like waiting for future when the actual results are going to come up because then it has interacting and implementation issues have been faced then only we can understand the actual situation. So, it sometimes it may so happen like that it may become a reward for a failure something which did not work at all.

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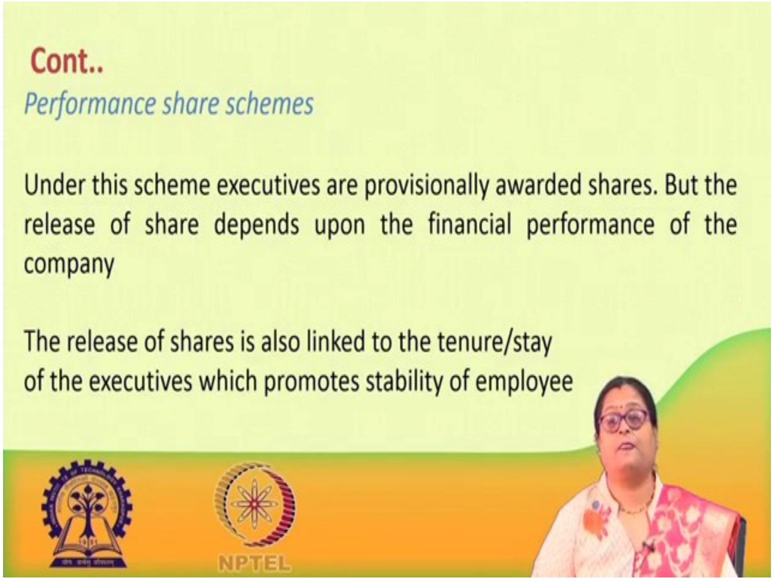

Performance share schemes, in that what happens? Under these scheme executives are provisionally awarded shares, but the release of share depends on the financial performance of the company. So, and it is also linked with the tenure or stay of the executives which promotes stability of employee.

So, it is a better option as compared to the previous share options that we have seen because it is connected with the like financial performance of the company and it is also linked with the tenure or stay of the executives because we understand like when the executives may be leaving the company to join another company which could be a competitive company. Many of the like knowledge gained within the organization may travel along with that CEO to the other organization where he is like taken in because he can contribute to that intrinsic knowledge over there and make value addition to that competitive company.

So, when the release of shares is linked to the tenure or stay of an executive it promotes the stability of the employee within the organization to such an extent where they are staying back and the knowledge remains within the organization itself.

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Executive restricted share schemes. So, under this free shares are provisionally awarded to employees this is restricted option as shares cannot be owned until it is released by the company.

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The release of the shares is linked to the performance of the executives and it will be released to the executive at the end of a defined period.

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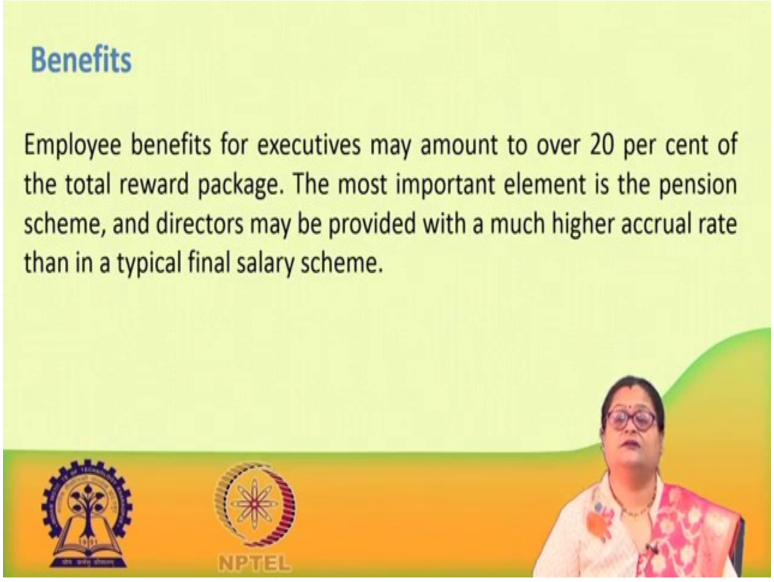

Now, we will talk of , employee benefits for executives may amount to over twenty percent of the total reward package. So, the most important element is the pension scheme and directors may be provided with a much higher accrual rate than is typical in the final salary scheme.

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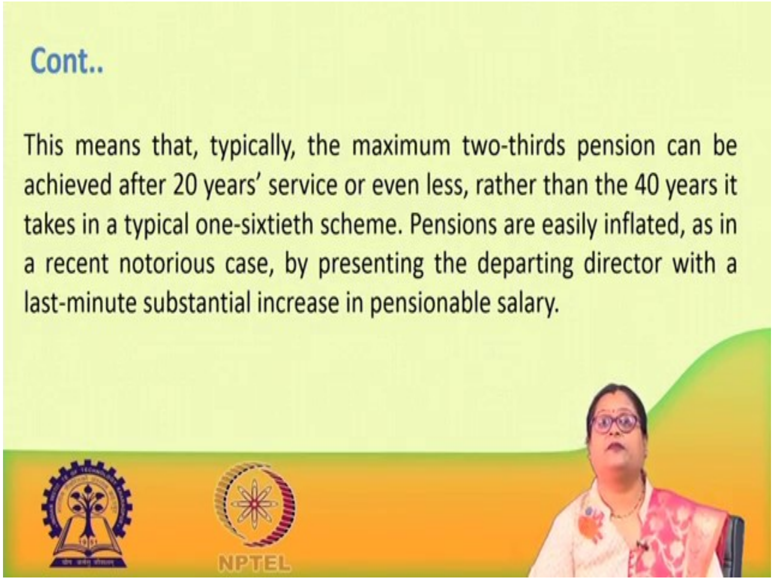

This means that, typically the maximum of two thirds pension can be achieved after 20 years of service or even less, rather than the 40 years it takes on a typical one sixtieth scheme. Pensions are easily inflated as in a recent notorious case, by presenting the departing director with a last minute increase, substantial increase in the pensionable salary.

So, what is the cost to the company with regarding to these pensions also benefits also needs to be re-evaluated re-looked by the remuneration committee again to show that it is in the best interest of all the stakeholders.

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Service contracts: Long term service contracts for directors have been fairly typical, but they are disliked in the city because the high severance payments to the departing chief executives and directors that are made if the contract is for two or three years or when it is suspected or actually the case they have been voted of the board because of inadequate performance. The rolling of contracts for directors are now most likely to be restricted for one year.

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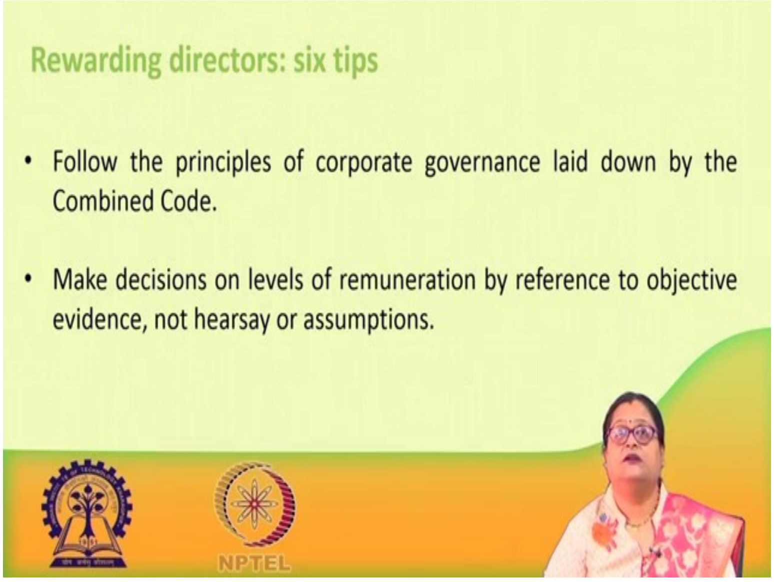

We will now share six tips of rewarding directors. Follow the principles of corporate governance laid down by the combined code. The decisions about the levels of remunerations we made by reference to objective evidence not hearsay or assumptions.

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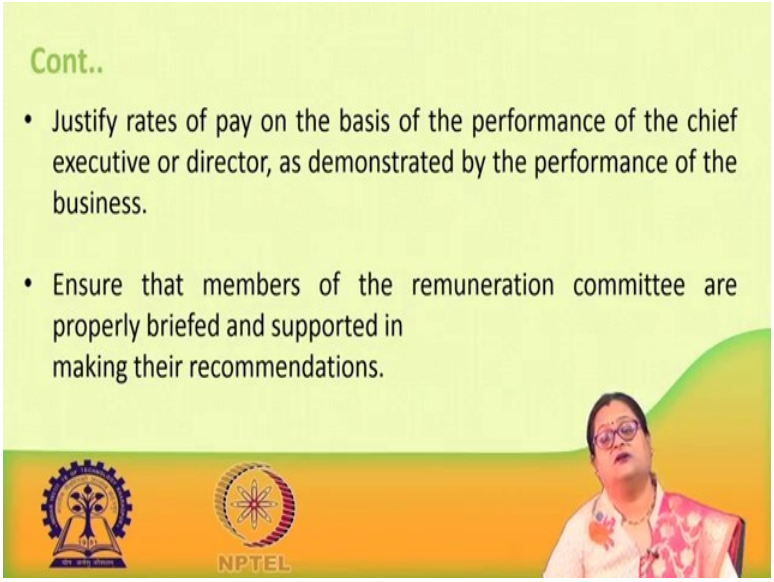

The rates of pay should be justified on the basis of performance of the chief executive or the director and also as demonstrated by the performance of the business because they are the chief architects for the business. So, how, to be frank, they are the think tank behind the business.

So, how the business is actually performing is the reflection of the performance of the chief executives and the directors. Ensure that the members of the remuneration committee are properly briefed and supported in making their recommendations.

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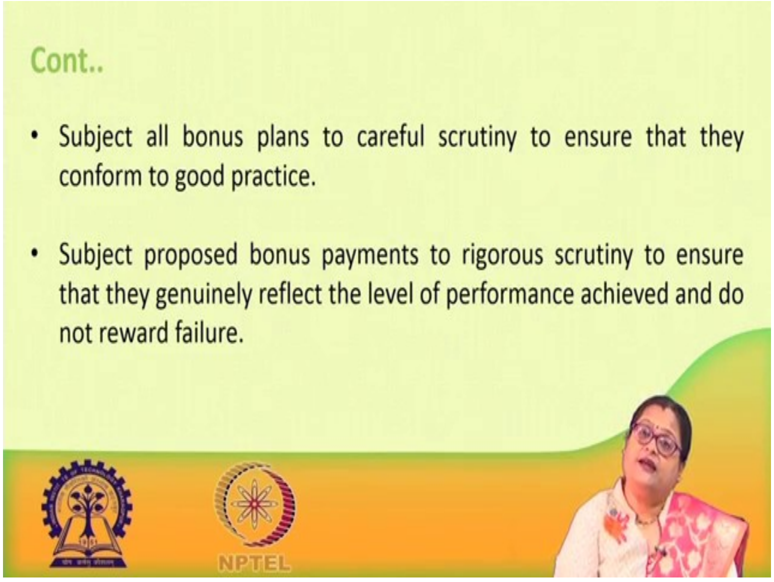

Subject the all bonus plans to careful scrutiny to ensure like that they conform to good practices. Subject proposed bonus payments to rigorous scrutiny to ensure they genuinely reflect the level of performance achieved and do not reward failure.

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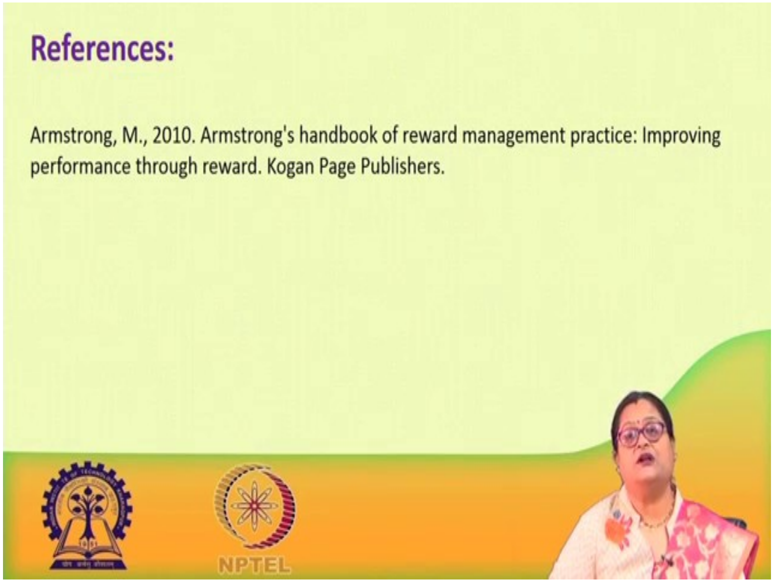

We have referred to this book on Armstrong’s hand book for reward management practice as a reference for developing this discussion you can have a look at this book also for detailed discussion. Any questions put it on the forum we will be happy to answer to your queries.

Thank you.