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Lecture – 56 Developing and Implementing Reward Systems (Contd.)

Welcome to the topic on Developing and Implementing Reward Systems, we will continue with the discussion as we started in the last session.

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Here we will discuss more on the costs of implementation and the cost of development of the reward system. So, we understand costs would include consultant fees, software, literature, the additional staff and the opportunity costs of outsourcing the job. The implementation costs also need to be projected properly before we get to understand what is the cost of implementation and what is the cost of development and based on that what is the reward that we actually are getting, and what is the output that we are getting based on like if you are doing a cost benefit analysis.

It should not be that that the cost of implementation is more than what is the result that ultimately comes out of it.

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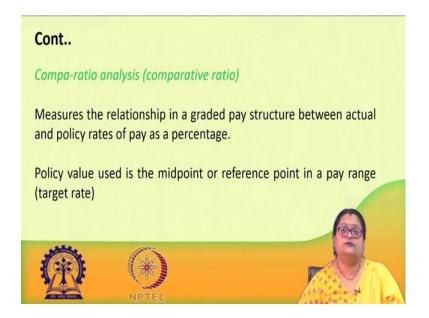
It is very important to monitor and evaluate the reward policies and practices. It is very important to monitor and evaluate the reward policies and practices, the effectiveness of a reward policies and practices should be monitored and evaluated regularly. So, monitoring is carried out through compa-ratio analysis, attrition analysis.

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And then assessing the added value and attitude surveys, we will discuss each of these in details now.

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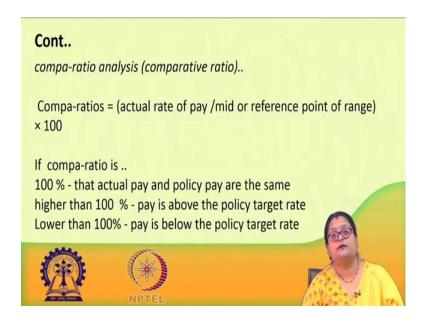
Compa-ratio analysis means a comparative ratio. It measures the relationship in a graded pay structure between the actual and the policy rates of pay as percentage. So, policy value used is the midpoint or reference point in a pay range which is the target rate.

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It indicates what action may have to be taken to slow down or accelerate increase if compa-ratios are too high or too low compared to the policy level.

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So, how do we calculate compa-ratios are actual rate of pay divided by mid or reference point of the range into 100. So, if the compa-ratio is 100 percent that the actual pay and the policy pay are the same; if it is higher than 100 percent ,pay is above the policy target rate, lower than 100 percent pay is below the policy target rate.

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So, accordingly we have to adjust like whether to slow down or to increase. So, that the actual payment matches with the policy target rate. Analyzing attrition is also very important way of understanding whether the like where to like develop and new policies

and practices and reward systems and how to implement it, when we talk of analyzing attrition. So, it means it takes place when employees joins jobs at lower rates of pay than the previous employee. So, it is calculated as total percentage increase to payroll arising from general or individual pay increases minus total increase in average rates of pay. So, this gives the value for attrition.

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Assessing added value: Calculating the added value or the value for money provided by existing practices, or by new practices when they are implemented is the main concern when monitoring and your reward management takes place. So, assessing the cost of innovations may lead to reconsiderations of proposals in order to ensure that they will provide added value. Appraising the value for money obtained from existing reward practices centrals to the identification for the areas of improvements.

So, what is the added value that you are giving getting for the investment that we are making and where it needs to improved. So, or the monetary return that we are getting in terms of the whatever the present practices are and are we really getting whatever we have invested and some value addition to it, we will determine like whether improvement needs to be made.

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While doing this one of the major concerns is of course, the affordability of the organization and because see we have been repeating it times. And again see I may want to get the best of employees or the best of talent. And in order to get that best person maybe like and to meet that person's expectations I have to give a huge salary which are including other things the total reward which may be very different from whatever is the present practice in the organization.

But in order to before we take that decision we have to understand like what is the added value for money that we are getting in or in bringing in that person is it making any very high value change in our organization. And most importantly like whether we are capable to pay it whether we are if we do have the affordable affordability for it. So, because if you are not able to do it in a consistent manner if you are not able to reward the employee in a transistor manner later on each may lead to the frustration not only on the part of the employee, but also for the organization.

So, affordability is a major issue when removing reward management developments and the existing practices. Added value is achieved when the benefits of a reward practice either exceed its cost or at least justify the cost. So, there are two fundamental questions to be answered over here are what are the business needs at these proposals meet and how will the proposal meet these needs.

So, in order to do that the cost benefit analysis should be also be made for the existing practices on the same basis; like what are the business needs that this proposal are going to meet and how will the proposal meet those needs.

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Important also is to get the feedback from the employees regarding the pay policies. So, attitude surveys are really very important and in that attitude survey we here we present a sample format where it is written like my contribution is adequately rewarded, pay increases are handled fairly.

I feel that my pay does not reflect my performance, my pay compares favorably with what I with what I could get elsewhere and there is a strongly agree, disagree and strongly agree, agree, disagree and strongly disagree columns beside it in which the person has to give a response.

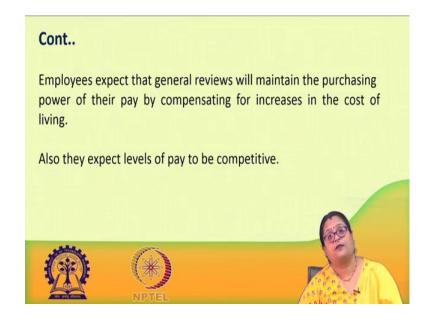
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Also like conducting pay reviews are very important. So, in that reviews regarding the cost of living and whether the pay is able to meet up to it, what are the market rates given and what are the pay negotiations done with the trade unions and the individual reviews done are very very important components of the pay reviews.

So, what we see over here both the external conditions and the internal conditions are taken care of like when we are talking of the pay reviews. So, that we get to understand where to develop and how to implement new practices.

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When we talk of pay reviews; the what are the generally the employees expect that the general reviews will maintain the purchasing power of their pay by compensating for the increases in cost of living also the expectations are that the pay to be competitive. So, where we are talking a review of pay these are the important factors which needs to be taken care of, like the purchasing power of their pay should be rename like intact in terms of compensation. For increases in the cost of living and also they it should be competitive means it should also be at par if not above the market rate.

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So, what happens in general pay reviews happen when there is an increase in response to general market rate movements, increases in the cost of living, union negotiations. General reviews will be conducted to take control over costs to focus employee's attention on the performance related aspect of their remuneration.

So, as remuneration is a big gamut which consists of financial and non-financial rewards and in financial rewards a part is based fix and the other is performance related. So, in when we are talking of general reviews it is done to focus employee's attention on the performance related aspect of the remuneration.

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When we talk of the steps taken to conduct a general review very important is to first to fix up the budget. See in it (Refer Time: 12:34) again we are repeating, budgeting affordability these are important points for development of a reward. We have to understand what is the maximum amount that we can spend and if you are spending for what purpose. So, the side of the budget is very important we should not start without having a particular budget; otherwise, we will not be able to understand what will be the allocation of the money or the cost.

Because again to and to what kind of activity to which department, because again we have discussed previously while we are discussing performance management about prioritization of the different jobs. Prioritization may be in the departments also, prioritization of the roles and some based on the strategic goals that we want to achieve for the organization's excellence. So, what is the budget and what is the allocation for each nature we need to be very specific about it. So, analyze data on pay settlements made by comparable organizations and the rates of inflation.

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Conduct negotiations with trade unions as required this is an also very important point whenever we are talking of shared visions sharing and receive a common point common understanding, sometimes it is very it becomes a required part to go for a negotiation with the trade unions. Because trade unions are the representative bodies of the organization of the employees and they sometimes like think of like how to get the more from the principles. So, that in terms of the agents or the employee's needs are satisfied.

But again there are limitations from the employer side also. So, some it is required that the negotiation is properly done with the trade unions who are the representatives of the employees. So, that a commonly agreeable point is reached by both the employers and the employees. Next after it is done the cost of development and implementation needs to be taken care of and we have to see what is the increase in the cost as compared to the present system and what is the benefit that we are going to receive from it compared to the present system.

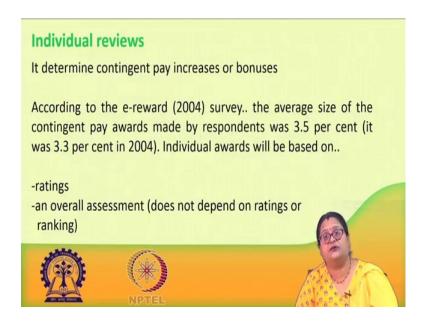
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After that is done we will be fine like in some of the pay structures there are discrepancies. So, what can be done to adjust the pay structure is by either increasing the pay brackets of each grade by the percentage of general increase, or by increasing the pay reference point by the overall percentage and applying different increase to the upper or lower limit of the bracket and then inform the employees.

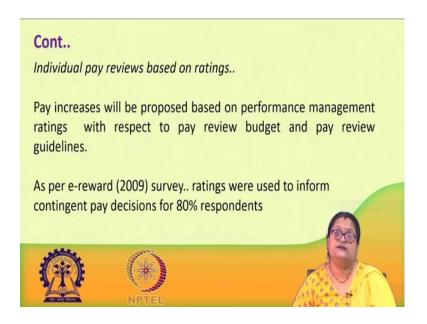
So, these are the two methods like either increasing the pay bracket of each grade or by increasing the pay reference point of by the overall percentage and applying different rate of increase to the upper and lower limits of the brackets, whatever is done inform it to the employees.

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When we talk of individual reviews, it talks of the increases in the contingent pay or bonuses. So, according to the e reward 2004 survey, the average size of the contingent pay awards made by respondents was 3.5 percent, it was 3.3 percent in 2004. Individual awards will be based on ratings and overall assessment does not depend on the ratings or rankings.

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When we talk of individual pay reviews based on ratings. So, pay increases will be based proposed based on performance management ratings with respect to pay review budget

and pay review guidelines. As per e-reward 2009 survey, ratings were used to inform contingent pay decisions for 80 percent of employee respondents.

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So, some of the direct link that we find between the ratings and pay increase is rating of A increases 6 percent, B 4 percent, C 3 percent, D 2 percent, E 0 percent. So, this approach was used by 36 percent of the respondents to the e-reward 2009 survey.

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Very important point to understand in performance management and reward management is to link these two together. So, linking pay reviews to performance reviews is very important. So, linking performance management too explicitly to pay prejudices the essential development, developmental nature of performance management. So, this is one of the caution to it, like we were always talking of like is it good for linking intrinsically motivated job with an external pay. This is something which needs to be debated about within the organization and then it has it needs to come to a conclusion.

So, sometimes linking performance management too much explicitly with the pay; so, where it focuses like somewhere the it gets detract from the nature of development that we like tell about performance management. Because in performance management we emphasize on the point like it is the alignment of the individuals goals with that of the organization goals and also for the self development of the individual as a for in the way of becoming a better equipped employee.

So, when we are talking of like linking performance management with the too explicitly to the different kinds and levels of pay. We sometimes act as a deterrent in terms of what was intrinsically motivating the person may not be trying out, the person may try out to do something for which there is a reward linked with the pay.

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Rating	Percentage pay increase according to performance rating and position in pay range (compa-ratio) Position in pay range				
	80%-90%	91%-100%	101%-110%	111%-120%	
Excellent	12%	10%	8%	6%	A pay matrix
Very effective	10%	8%	6%	4%	
Effective	6%	4%	3%	0	
Developing	4%	3%	0	0	
Ineligible	0	0	0	0	The second second

Here in the pay matrix we will show you the percentage pay increase according to performance rating and positions in pay range which is compa-ratio. On the left hand

side it is rating and the right hand side columns are position in pay range, like 80 to 100 percent, 91 to 100 percent, 101 percent to 110 percent, 111 percent to 120 percent.

So, if we get a rating of excellent. So, position in pay range 80 to 90 percent, we will get 12 percent, 91 to 100 percent we will get 10 percent and 101 to 110 we will get 8 percent and 111 to 120 we will get 6 percent and so it is continued with the other things.

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Sometimes it is important how to like improve on the process of ratings because when you talk of given ratings there could be some biasness acting in it. So, 20 percent of the respondents to the 2009 e-reward survey of contingent pay did without ratings.

So, one respondent to the e-reward survey explained that in the absence of ratings, the approach was used 'informed subjectivity' which meant considering ongoing performance in the form of overall contribution. So, that is what the person is making towards the job. So, ongoing performance in the form of overall contribution towards the job situation and that is going to be linked with the contingent pay reward.

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When we talk of a holistic approach to a particular job, it is where a pay range will be decided considering the grade contribution and relative pay of similar jobs their potential and the relationship of the current pay to markets.

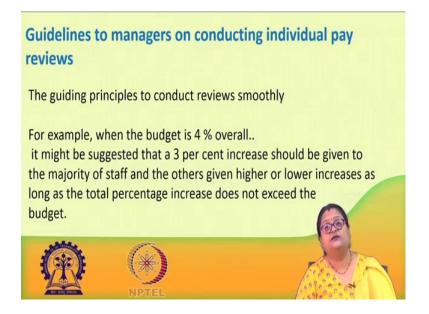
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When, if we talk of rating another respect is that of ranking. In ranking employees will be placed in a rank order according to the overall assessment of their relative contribution. The top 10 percent could get an A rating, the next 15 percent a B rating and so on. Forced ranking or 'vitality curve' system determined proportions of staff in each

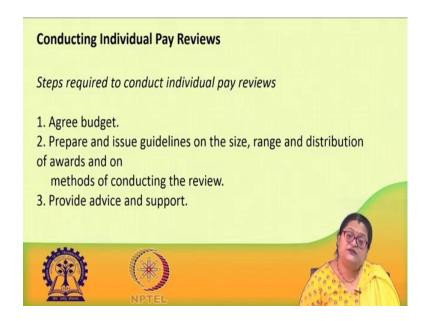
grade. So, in that in the vitality curve system the proportion of staff in each game is in each grade is predetermined and you have to like do a force kind of ranking into this vitality curve.

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What are the guidelines for managers and conducting individual pay reviews like they are the people who will be responsible for doing this pay reviews. For example, when the budget is 4 percent overall, it might be suggested that a 3 percent increase should be given to the majority of the staff and the others given higher or lower increase as long as the total percentage increase does not exceed the budget.

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The what are the steps involved in conducting individual pay reviews are first again agree on the budget, prepare and issue guidelines on the size range and distribution of awards if any and on the methods of conducting the review, provide advice and support.

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Review proposals against a budget and guidelines and agree modifications to them if necessary, summarize and cost proposals and obtain approval, update payroll, inform employees. So, the last point is really very important. Other things we understand like you will be doing as a part of the thing, but again first one which is agreeing on the

budget and then when you see like the issues guidelines issues on the size, range and distribution of awards and then coming to that these are really very important points.

But again the last point which is really-really very important is that of informing the employees, because they will be the first beneficiaries of whatever changes you are bringing in they need to be well informed about in advance; so, that they can also express their views on the topic.

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The reward procedures comes with like deal with grading jobs, fixing rates of pay and handling appeals. Grading jobs, when you talk of grading jobs it is a grade of a new job or re-grade an existing one.

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In that how we do when we are talking of grading jobs, actually we are talking here of job evaluation methods. Whenever we are talking of grading jobs we are talking of job evaluation methods where the responsibility is to grade a new job or re-grade an existing one.

First important is a point factor evaluation used for all new jobs and to deal with requests for re-grading. Analytical matching process used to compare the role profiles of the jobs to be graded with grade or level profiles or profiles of benchmark jobs.

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Fixing rates of pay on appointment; this is a procedure where it should indicate how much freedom the line managers and HR have to pay above the minimum rate for the job. The freedom may be limited to say, 10 percent above the minimum or two or three pay points in an incremental scale. Sometimes it is allowed to respond to market rate pressures or to attract particularly well-qualified staff by paying them up to the reference point or target salary in a pay range. If recruitment supplements or premia are used the rules for offering them to the candidates must be clearly defined.

So, here what we are discussing like by the process of communication discussion with each other and whether these pay rates can be like affected. And what like if as a line manager I see like some person is really working hard it is a nature person, I see like some person is really working hard and it is like beyond. What is expected or more above average whether we can given extra incentives or not and if so, what is the limitation of that freedom.

So, when you see like the talk we are talking of the freedom of the line managers and HR. So, we find it is limited to say 10 percent above the minimum or two or three pay points in an increase increment scale like you start with an increment. So, but when we are talking of again targeting the good quality employee well qualified staff. So, till where we can extend also is to the reference point or to the target salary.

So, if again recruitment supplements are used then what are the rules for implementing them and like what are the and these must be clearly defined to the candidates.

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When we talk of promotion increases it indicates what is regarded as a meaningful increase on promotion. Appeals, it is customary to indicate the right to appeal against grading procedure. Appeals may go through the organization's grievance procedure. So, this is an important area where we feel when we talk of industrial democracy is where the individuals the employees the affected parties beneficiaries. However, you give the name to them they have a provision of speaking communicating their views on a decision taken by the organization.

So, when you are talking of appeals like if it is customary to include the right to appeal against grading procedure this is a very very unique point that needs to be taken care of.

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Because, in the long term it helps in developing the affective bond, affective commitment with the organization and what happens the employees also feels respected that their views are taken care of by the organization, and that gets reflected in the pay structure also.

Use of computers in reward management; so, technology with the change in technology the way that the salary data are reviewed and managed radically have changed. So, data on market rates and pay settlements is published in the internet and users can communicate through email.

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What does it provide? It is providing a reward database, job evaluation, grade and pay structure modeling, pay review modeling, equal pay reviews. So, these are the things that are applicable providing a reward database, then its proper job evaluation is done, then pay reviews and pay structure modeling is done, then pay reviews modeling is done and equal pay reviews is also done.

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So, these with these reviews and again everything being like being through email with these data. We can do lot of analysis to find out what are the components of the pay which are really were more important, which are not really working and needs to be discarded, how to connect the job evaluation with the different reviews and above all like, what is the individual structure and group structure of modeling. We can do lot of analysis based on like what are the different components of the pay, which are going to like act as more rewarding to, what nature of employee and what nature of tasks.

So, these kind of things see this has like when we talk of use of computers in reward management we can understand like these data is huge data and may take time to collect same time to review. So, it is very important that the computers ease us to analyze this data and through the different softwares and it is like reducing more time and effort on the part of the HR and other decision makers before they come to a conclusion about the area of the developing and implementing the reward management practices in the organization.

So, this like technology really has reviewed like the how the salary data are reviewed and managed radically in the organization. These data will help us to do further in depth analysis before to come to a conclusion about it. So, these are again the references given. So, you can these are real good books from which the references have been given, you can go through it any queries please ask us we will be there to answer you.

Thank you.