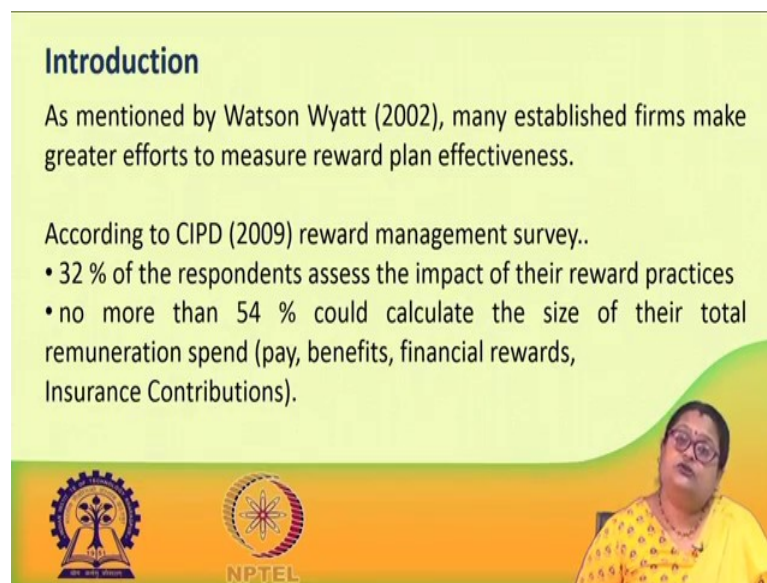**Performance And Reward Management**
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**Lecture – 57**
**Developing and Implementing Reward Systems (Contd.)**

Welcome to the session on Developing and Implementing Reward Systems. We were discussing on monitoring and evaluating reward management processes; in the course of thinking on deciding on whether to continue with the existing system or to introduce a new system and whether to understand whether it is functioning or not. So, in that process evaluating the reward system is very important. In today's session we are going to discuss on evaluating the reward management.
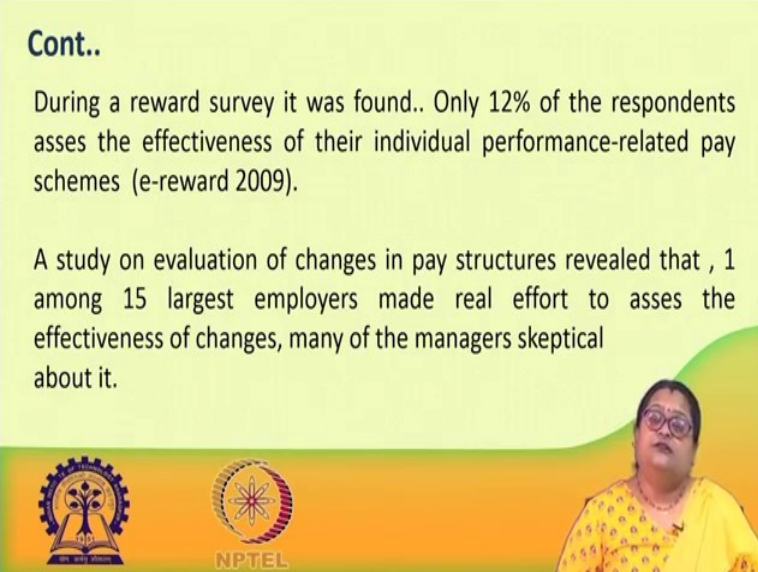
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So, as mentioned by Watson Watt in 2002 many established firms make a greater efforts to measure reward plan effectiveness. According to CIPD 2009 reward management survey 32 percent of the respondents assess the impact of the reward practices. No more than 54 percent could calculate the size of the total remuneration spend like the pay benefits financial rewards and insurance contributions.

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During a reward survey it was found that only 12 percent of the respondents assess the effectiveness of the individual performance related pay schemes. A study on evaluation of changes in pay structures revealed that one amongst 15 largest employers made real effort to assess the effectiveness of changes many of the managers were skeptical about it.

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Why it is important to evaluate? So, we understand like many organizations are investing huge amount of money on rewards, but they have failed to measure its effectiveness.

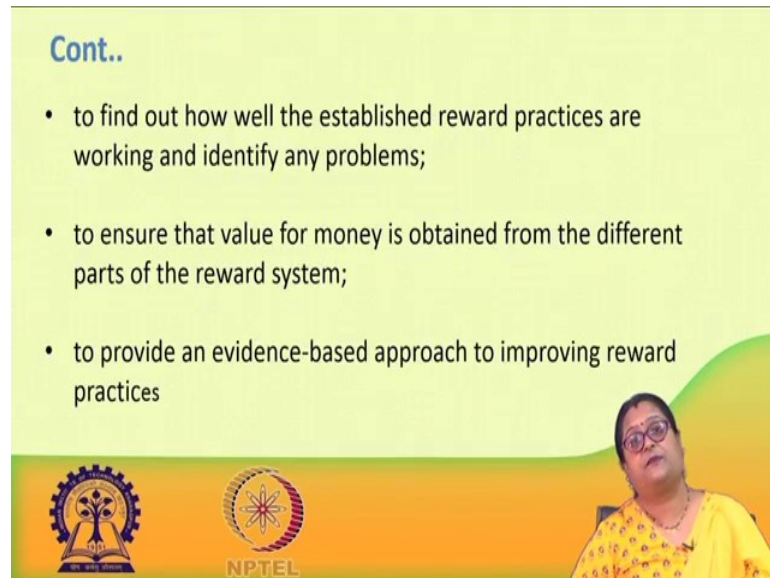Some of the reasons why it is essential to evaluate the effectiveness of reward policies are to establish whether reward innovations are functioning as planned and achieving objectives set for them.

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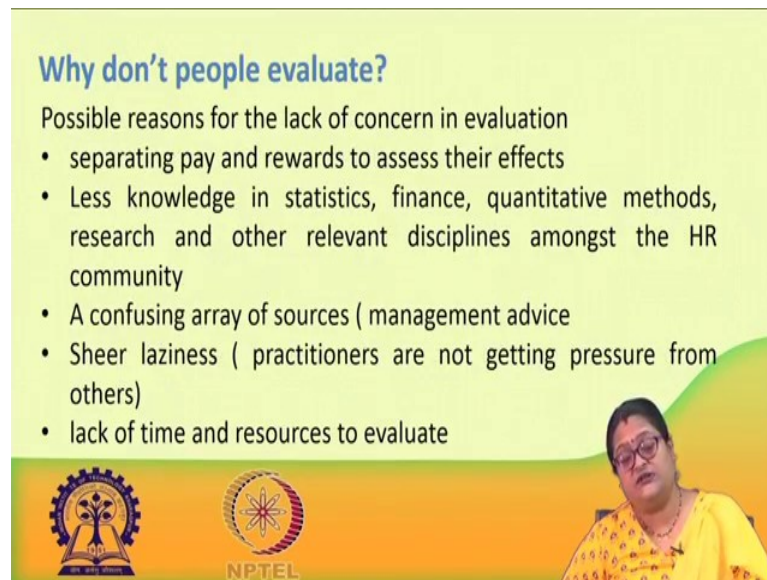


To find out how well the established reward practices are working and identify any problems. To ensure the value for money is obtained from the different parts of the reward system. To provide an evidence based approach to improving the reward practices. So, it is like it is not enough to assume like if we are taking a reward management practice it is going to improve one our performance, but because it requires a lot of investment in terms of not only money, time, energy dedication for studying it introducing it.

So, it is a huge cost of implementation is that and we have to see like whether like the return that we are getting from it the output that are getting from it gives, ensures the value for the money investment like we have put into it. So, and also like if you have to justify a new approach is required then evidence is required for it. So, for all these reasons it is important to evaluate.

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However, people are not very like eager to make this evaluation because like the possible reasons could be like lack of concern in evaluation and like the separating it is difficult to maybe separate pay and rewards and assess their effects.
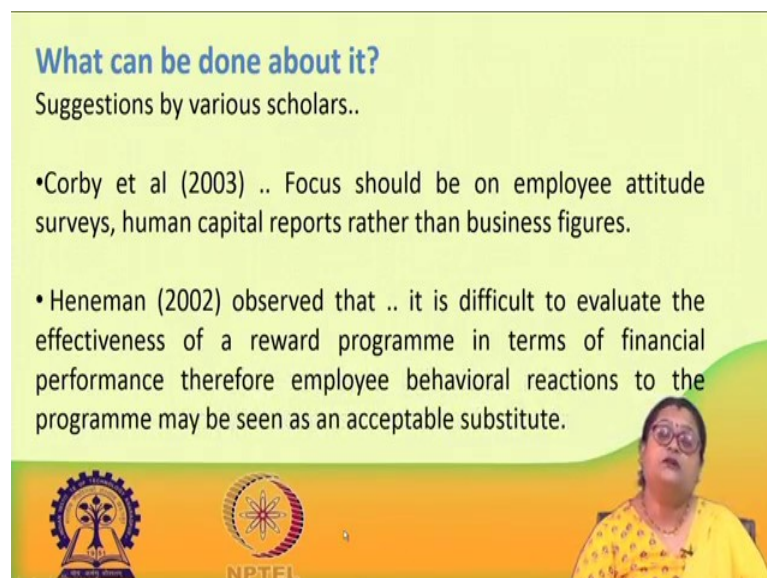
So, they have maybe less knowledge in statistics, finance and quantitative methods etcetera, but now the situations are improving. So, a confusing array of sources like whom from whom source the data will be taken and maybe laziness and lack of time and resource to evaluate.

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Now, what can be done about it, let us look into some of the suggestions given by scholars. Corby et al in 2003 suggested focus should be on employee attitude surveys human capital reports rather than business figures.
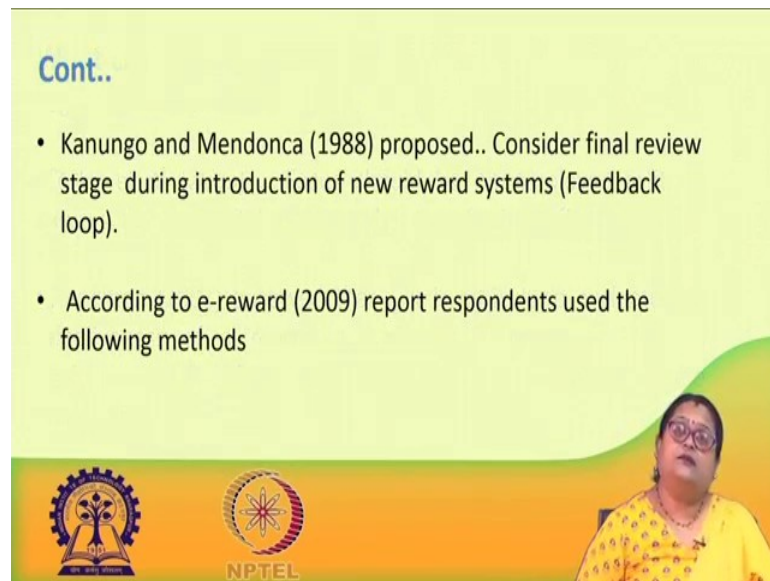
Heneman in 2002 observed that, it is difficult to evaluate the effectiveness of a reward programme in terms of financial performance. Therefore, employee behavioral reactions to the programmes may be seen as like acceptable substitute.

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Kanungo and Mendonca , 1988 proposed consider final review stage during introduction of the new reward systems that is the feedback loop. According to the e-reward 2009 report respondents used the following methods.

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External market survey was used by 113 respondents, staff attitude survey was taken by 99 respondents, benchmarking by 71 respondents, internal data analysis 66 respondents, equal pay reviews 41 respondents.

So, whenever we are talking of like the e-rewards 2009 report the respondents used the following methods. And through these following methods they tried to find out whether the present system is working properly, what are the drawbacks where it needs to be improved and if a new system has been implemented whether it is working properly or not.

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When we talk of the reward effectiveness reviews, it is very important to understand the reward goals and success criteria. Armstrong et al followed the following steps are essential. Identifying reward goals and success criteria. Accumulate qualitative and quantitative data on reward policies and practices within the organization.

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Gather data on external reward practices that is that levels and trends market trends, utilize the data to make assessment of the effectiveness of the reward practices and goals.

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Identify the key reward issues, this is very important we have seen like there are critical events, critical jobs, critical departments. So, based on the objective and the goal setting of the organization the mission vision statement were translated if the goals of the organization, there are again prioritization among the different natures of the job and the departmental goals also. And that will be linked with the reward processes and like some key elements in the rewards processes so, that though critical elements get rewarded properly.

So, in order to find out whether like these reviews reward effectiveness are important or not it has to understand like there will be some problems of implementation and of the while in the process of implementation some issues may come up.
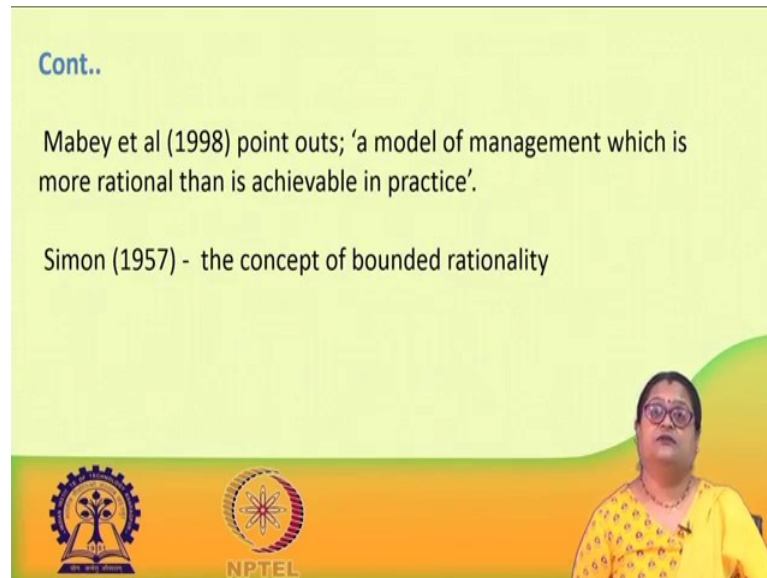
So, here you have to identify the key reward issues consider potential alternatives and modifications to make the reward systems better, review the strengths and weaknesses of with respect to the existing reward practices. So, we have earlier discussed also we should not be going for me or copying because others are doing we should be doing also no.

So, we will first see the strengths and weaknesses of our present system whether it is like functioning properly if not what is that part which is not functioning and we need to detailed attention and like then whether we can introduce a new system into it.

So, I have to accept the improvements essential to augment the effectiveness and the plan for their execution. We have to come to a common point of understanding yes, the existing system has certain drawbacks in certain point and there of these some essential improvements are there which needs to be included in the existing system. So, it is like the augmentation of the effectiveness takes place and they can plan for their execution.

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So, when we talk of like Maybe et al. So, they it points out like the model of management when we talk of Maybe et al it points out of model of management which is more rational than is achievable in practice and it with the concept of bounded rationality in explaining these things. Like when we are talking of in discussing on the improvements which are essential to augment the effectiveness.

With this we come to understand like whenever we are discussing about what are the improvements required for which to essential to augment effectiveness, the way that we operationally define it should keep into consideration whether it is achievable or not. Because we see like the organizations different functions are related to each other function it and it is also related with the goals of the organization. There is an internal environment and also an external environment which is linked to it's like the whole system.

So, the when we try to define these things done by the organization we will determine the effectiveness that it has been effective or not and we are setting the parameters for it
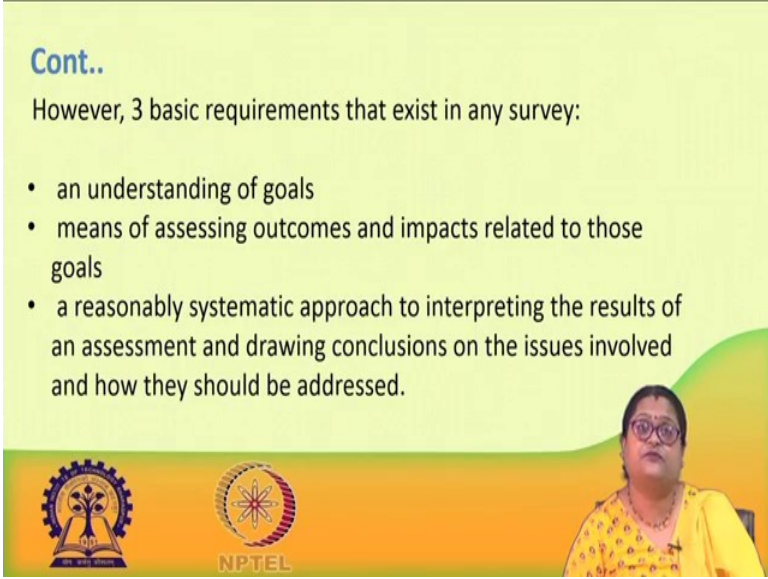
we have to take into consideration the contextual factors which may act as a facilitator or inhibitor in the achieving whatever is expected.

So, we should not be focusing on like something will be which is not achievable in practice and we talk of and from that maybe with these two points of concept of bounded rationality and this model of management which is more rational than achievable in practice. These are two very helpful models of decision making to understand like given our level of constraints and the different controlling things we have, then what is that goal we should set in which is realistically achievable by us in practice.

Otherwise what happens we may just think of so many things, but when you start implementing it the hassles faced the hurdles faced and the frustrations from not reaching to the target, would be so high like the implementation may be deserted in between people may be lose interest in developing and implementing a proper reward system.

So, for that reason what needs to be done is when you are setting these like the improvements required, then we should have a reality check on it based on whether it is achievable or not.

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So; however, three basic requirements that may exist in any survey are an understanding of the goal, means of assessing outcomes and impacts related to those goals a reasonably

systematic approach to interpreting the results of an assessment and drawing conclusions on the issues involved and how they should be addressed.

So, what are the results of an assessment and what are the issues involved how we can solve them should be addressed properly.

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Now, in fixing up the reward goals there are when you talk of reward goals, which is what we want to achieve by giving rewards. So, goals are guiding principles and some examples are like for British airways; support a performance culture, Colt telecom promote a performance culture that underpins company business strategy, diageo support and enable the talent agenda. BT, use the full range of rewards salary, bonus, benefits and recognition to retain and recruit and retain the best people. KPMG market leading rewards for market leading performance and Tesco develop a more flexible organization.

So, based on these reward goals reward will be designed and given to the employees. So, these goals are achievable and people can function properly within that system. So, like when British airways tells us support a performance culture. So, the performance here will be rewarded and which is leading to the more to this goal and to the major goal of the organization.

So, in this way the each of the reward goals will determine again the combination of rewards we were talking of the contingent rewards, total rewards. So, the goals that we

have for the reward we will determine what is the mix and match of the reward taken for each employee or a group of employees in a particular hierarchy, where which will help them to reach towards this reward goal for the organization. And these reward goals are of course, connected with the objective or the business goals.

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Corby et al 2003 categorized such goals as like resourcing, recruitment, retention and employee turnover related goals; behaviour goals like engagement, motivation and commitment; working practices like flexibility performance like productivity and profitability. So, what we find like the reward goals could be regarding like in order to attract employee in terms of recruitment, retention and employee turnover, in terms of changing behaviour patterns of other existing, individuals in the organization in terms of engagement motivation and commitment.
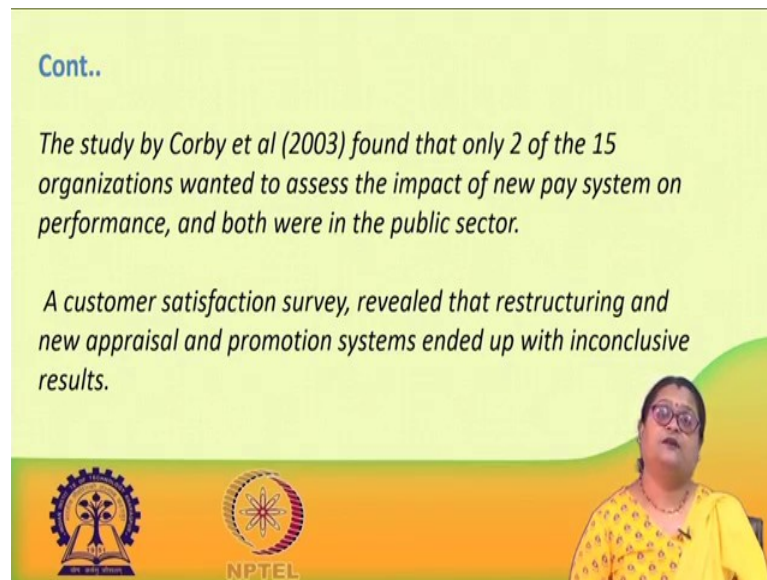
Like reward goals could be regarding work practices like introducing the flexibility in the system itself is a kind of reward goal and when you talk of performance it is how it is connected with the productivity and profitability directly and we talk of it performance related incentives.

And the study by Corby et al 2003 found that only 2 of the 15 organizations wanted to assess the impact of new pay system on the performance and both were in the public sector.

So, a customer satisfaction survey again revealed that restructuring and new appraisal and promotion systems ended up with inconclusive results. Now, why these things happen is like the people are if it is not a reward system is not worked out properly. If it is not properly connected with the goals of the organization and the individual's goals, then it is very difficult to tell like this improvement in performance is only for the reward.

So, we can see the changes in behaviour pattern intention to work more or commitment, but when you talk of performance. There are so many factors which are affecting performance like changes in organizational variable, changes in external environment, internal environment and the people nature of the job structure though it is defined like whether it is a group based or it is an individual based kind of job. How are the team members and colleagues whether there is a facilitating environment or not. So, many things affect performance.
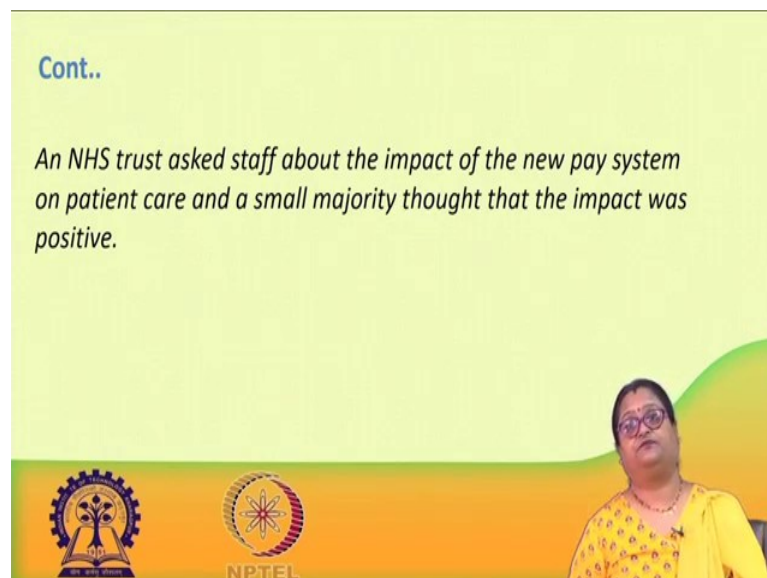
So, whenever we are talking of like linking and finding out like for this record this has the improved in performance. So, many people are skeptical about it and sometimes may lead to inconclusive results if not we have understood like these goals properly. And in

order to reach these goals like what are the how to categorize these goals and if you have reached these goals then what are the activities that are required, what kind of reward should be given if we have not worked out in each of the steps properly. Then it is may be and in doing it from the start itself like before developing and implementing if you have not done a background study well and we have done our homework well for connecting different kinds of things answering the different probable questions.

Finding out whether the increase will is different from the existing one, if yes then how do we get to know about it, how what will be the formula for calculating that increase in productivity, if these things are not checked from the start itself. So, at the end when we want to do the impact analysis, then we may be in a doubt to understand whether the pay system is really effecting performance or not, ok.

And also like in that cases like restructuring new appraisal and promotion systems may end up with inconclusive results, if people are not very clear and methodologically sound, statistically sound in order to measure the effect of like the increase in pay structure on the like differencing performance. So, for that some confusions may be there.

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So, like an NHS trust asked staff about the impact of the new pay system on patient care and a small majority thought that the impact was positive.

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So, ideally what happens, the measurement of the impact of reward would compare actuals and trends with targets. So, reward practices use a variety of measures like the resignation rates, staff surveys and performance management data the most popular measures. Profit and productivity measures are used to a much smaller extent in the private sector.

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So, whenever we are talking of the common measures used to assess reward practices by sector we find like we will be discussing this sector wise where we find like in the

manufacturing and production sector. The common measures used our employee resignation rates, staff surveys, performance management and appraisal data, a employee absence and well being time taken to fill vacancies profit, job offer, refusal rate, length of service distribution, percentage of staff participating in the staff benefits, productivity per employee. So, these are the common measures that we want to see to assess the reward practices in the power sector.

Private sector again employee resignation rates, staff service, performance management and appraisal data, percentage of staff participating in staff benefits, employee absence or well being, time taken to fill vacancies, vacancy rate, reward budget costs and productivity per employee. When we talk of voluntary sectors again staff survey employee resignation rate, performance management and appraisal data, percentage of staff participating in staff benefits, length of service distribution, employee absence or well being, vacancy rate, time taken to fill vacancies, competencies or staff skill level.

In public services you find like staff surveys, employee resignation rate, vacancy rate, employee well being, performance management in appraisal data, customer satisfaction, time taken to fill vacancies, workforce demographics, length of service distribution, competency and staff level. So, if you see like that major two three measures are coming up is of course, like the employee resignation rates list and staff service and the vacancy rate how quickly its getting filled up and all.

So, what you find the manufacturing and production, employee resignation is like the common measure used by the 83 percent and rates. So, is for the private sector and in the voluntary sector is the staff service and in the public service also it is the staff service. So, what we find over here employee resignation rate, the staff surveys then the time taken to fill a vacancy, then all these will be indicators to whether a reward practice has been successful or not, because these are indicators of satisfaction or dissatisfaction of the people with the organization and its reward system.

So, by studying this the frequency of the resignation from the organization like that service taken from the staff what is the vacancy and time taken to fill up that vacancy, these are some of the pointers is to find out like whether the reward has been successful or not.

Also what we find over here is like the competency or staff level skill and also both in voluntary sector and public sector are very important, because it shows the improvement you to like impact competencies by participating in different kinds of activities and getting rewarded for it.

So, this also like competency and staff skill levels like where these are also important pointers to understanding, if competencies have increased and if the staff skill levels have increased this itself is a reward for the employee.

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When we talk of possible reward evaluation measures by Armstrong et al. We will see like when we talk of productivity and reward cost it is overall staff productivity and return on staff costs versus competition, profit value added or sales per employee total pay and reward costs compared to competition. So, what is the reward cost and related productivity with it?

Financial and non-financial rewards; financial and non-financial recognition for behaviours in line with strategy and values. Appropriate forms of rewarding performance and contribution place like individual or team, short term or long term, this again will be based on the goals of the organization and the reward goals. Proportions of staff covered by methods of rewarding performance and contribution. Rewards effectively integrated with performance management process and risk management and the risk assessment of

bonus plan design plan design whether it is fixed or variable pay range of performance measures etcetera and again clear demonstration on return on cost of bonus.

So, these are again some of the possible rewards and assessment of those things whether it has been done properly or not these are some of the financial and non-financial rewards.

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When we talk of employment it is like the number of job offers per acceptances staff involuntary turnover divided by resignation turnover or resignation rates and retention of high performance or key skill staff. Staff turnover and absence levels this will determine the satisfaction with the employment in the organization and whether we have been able to fill up the vacancies based on the rewards even or not and like what can be done to improve on it.

Reward management in general like actual market position compared to the desired, take-up and level of activity in flexible rewards; so, how it can be managed in a flexible way. So and how you can like choose your own options, equal pay reviews carried out and acted upon in quantity quality and frequency of reward communications like the clarity, range of media etcetera. Training and evidence of line managers capability because we have repeated time and again like the line managers are really the people who were working with the employees whose rewards are we are discussing over here.

So, who will be rewarded to what extent and with what kind of reward the line managers is best to understand it. So, we have, but to do that the line manager needs to be a good observer an unbiased thinker and so the line manager needs to be trained for it and also when we talk of the HR developing some implementation process and developing HR reward systems. Sometimes because they do not have the competence in capability of the line managers what they may develop or develop the steps for implementation would be so, elaborate that the line managers may find it difficult while they are trying to implement it.

So, the HR manager should also develop an eye of the line manager to just find out whether whatever they are suggesting is it practically possible or not given the job situations and the demands of the job the employee is presently in. So, training and evidence of line manager capability is an essential part of the reward management in general.

Engagement and satisfaction with rewards. So, survey overall employee engagement levels, employee overall satisfaction with pay and rewards, employee opinions that rewards are competitive, employee opinions that performance is rewarded and managed effectively, employee opinions on level of understand understanding the rewards, managers feel whether reward arrangements are flexible and meet their needs.

So, these are the engagement and the satisfaction of the rewards will happen only when like the see when we talking of overall employee engagement level survey about it or overall satisfaction with the pay and rewards these are instead variables that we are trying to measure to find out whether they have been engaged or not. So, but when employees are opinion are taken regarding the what is the what performance is to be rewarded and how and when.

So, what will be the different kinds of levels of rewards and differential in the rewards, then whether like the rewards can be fitted according to their needs or not. So, whether this reward and a humans are flexible and can meet their needs or not.

So, when these type of involvement of the employees in formulating the decision the reward management processes and the reward design processes development and implementation is done, then automatically the people are going to get more satisfaction

and be engaged with the reward management system and developing implementation of the process.

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Whenever we were talking of reward innovations like this is doing in a different way trying to find out something new about the reward. So, this is the objective of reward innovation is this is what we propose to do, this is why we propose to do and this is how much it will cost. So, when we talk of these three objectives like what we this is what we propose to do then and this is when you talk of this is why we propose to do this is where a comparisons its contribution to the goals of the organization, departmental goals and individual goals needs to be stated and this is how much it will cost.

So, every innovation that you try to do because of its testing, pre testing phases and all; so, different nature of individual may get attached to it you may have to run rerun the reward system time. And again to check for its reliability and validity and this we will incur costs. So, this is how much it will cost.

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And then of course, this is we need to state like this is how the organization and its people will benefit from it and what are the success criteria for each of the objectives defined. Because when we next when after implementation we will think of evaluating the reward process, then or the innovation then we really need to have some pointers. And criteria based on which to tell like the or to argue like the reward innovation has been done properly and it has truly yielded result.

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So, when we talk of the evaluating the impact of reward innovations, we have to understand the model of evaluation is a continuous process. The final step is to review the whole process by answering the whole question, how well have the reward changes been implemented and to what extent they are like delivering on the reward objectives.
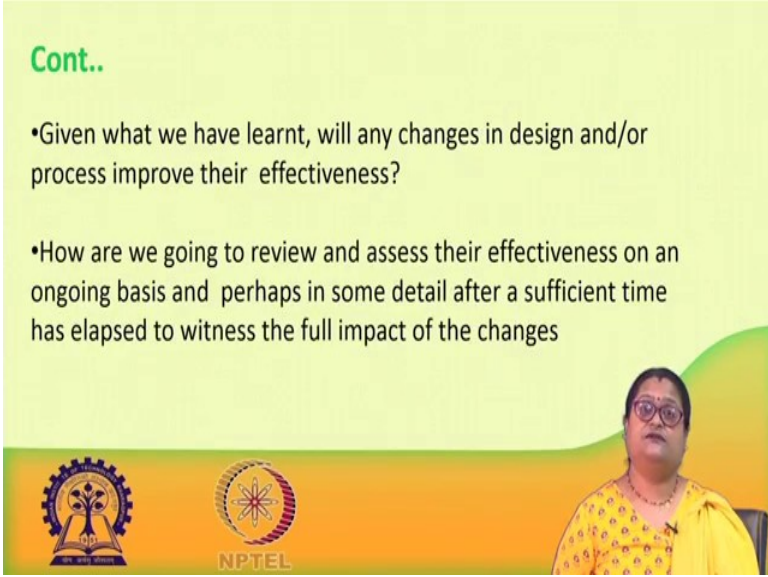
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Given what we have learnt, will any changes in design and or process improve their effectiveness? How are we going to review and assess their effectiveness on an ongoing basis and perhaps in some details after a sufficient time has elapsed to witness the full impact of the changes?

So, this is a very very crucial question because when we started discussing on performance management and reward management. We started with the concept like it is a continuous process this is not a onetime activity that you do. So, and we have to do it repeatedly. So, how to do it an ongoing basis and then take a feedback in some details after a sufficient time has like passed in between; so, that we can understand the full impact of the changes.

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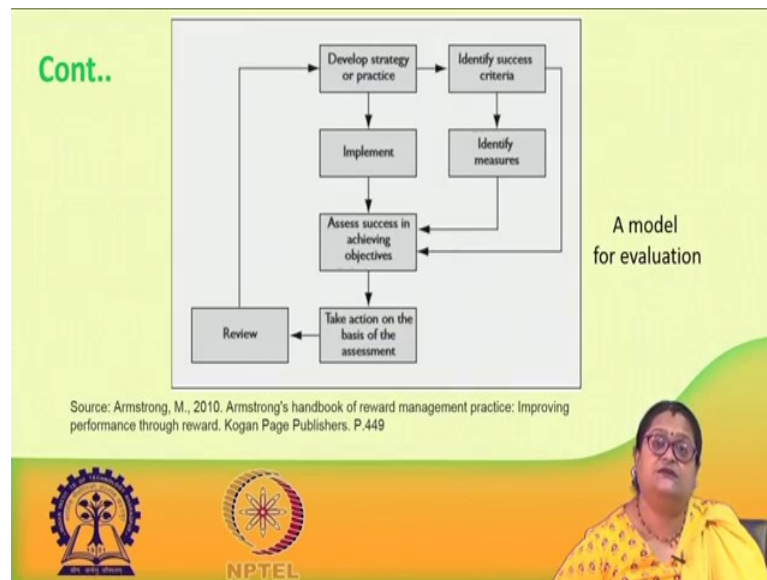


So, when we talk of a model for evaluation what we find over here is for each review like of pay that is done, it is develop a strategy or practice then implement it, then assess success in achieving the objectives, take action on the basis of assessment and then this gives a feedback on the review process.

And again like developing a strategy or practice leads to identify success criteria, then identify measures for success in which leads to like success in achieving objectives and ultimately it will lead to review. So, what we have find like these two steps are like simultaneously going like developing a strategy or practice and then if that is developed then what are the success criteria what if done, what if practiced will lead to the success criteria and these are the points for success.

So, that we will when we have developed a success criteria, then only we will be able to develop whenever developed success criteria then only we will be able to identify the measures and this also is a simultaneous chain like after developing. We will be implementing the system and then we have to assess success in terms of the achieving objectives achieving and for these the measures are there. So, what are the success criteria and how do you measure for it together will help to you in understanding the what is the present successful to be achieved in the organization and whether it has been achieve the objectives or not.

And based on that we take an action on the basis of the assessment whether to improve on the present system or to continue with the present system, some minor changes here and there. Because we have to understand each of these involves investment, in terms of money, in terms of cost in terms of human resources and we should not be doing anything which is very superfluous which cannot be, like we cannot justify for the cost incurred for it and the benefits that we get out of it. And then based on these discussion again the it is the reward is reviewed.

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When, we talk of reward objectives and success criteria. So, when we talk of these we have already discussed these things when we talk of like rewarding culture from like here we have discussed about the reward evaluation measures and where we finds like develop a performance culture is our reward innovation objective. Then the success criteria are likely reports of performance reviews show the performances improved there is evidence of improvement from other performance indicators also. So, we find like if there is improvement overall, then maybe if the culture has changed to certain extent.

Enhanced engagement is when you find like this scores in engagement survey has increased by certain percentage. Increase in overall employee satisfaction with rewards scores in the rewards survey as increased by x percentage. Increase key staff retention levels, employee turnover for key categories of staff have been reduced by x percentage. Attract high quality applicants, surveys of new starters revealed that x percentage of

them were attracted by the employee value proposition offered by the firm. Develop employee value proposition there is evidence that the attraction and retention rates have improved.

Enhance pay competitiveness. Survey data show that pay levels are competitive in line with market stance policy. Increase employee satisfaction with contingent pay decisions, scores in the contingent pay section of the reward survey have increased by x percentages. So, when we talk of objectives these are expectations that we have that we must be doing and when we talk of success criteria, then these are like achievable end states which will show like their objectives have been reached or not and these are in quantifiable terms.

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We will continue with the reward objectives and success criteria, here we will see replace decayed job evaluation scheme and use to develop new grade structure. So, the evaluation scheme is accepted as fair by staff, the cost of administering the scheme is within the budget, successful appeals against gradings are less than x percentage of staff, the cost of implantation does not exceed x percentage of payroll. So, if this, if we before we go for developing a new grade structure these needs to be taken care of.

Introduce career family structure to support career planning there is evidence that career ladders is defined as competency levels are being used to guide career planning and development. Reduce grade drift there is evidence that upgradings are being properly

justified by job evaluation. Introduce contribution related pay scheme there is evidence that it has improved performance; staff feels that the scheme fairly recognizes their contribution these feedback needs to be taken. Conduct an equal pay review and act on it, equal pay review is conducted as planned; action is taken which reduces the pay gap by x percentage. Introduce flexible benefits, take-up of scheme; level of satisfaction in reward attitude survey.

So, these are again achievable points, doable points what you can see, what you can observe you can measure and then if that is reached we understand these objectives have been reached also.

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Evaluating reward systems now we will share with you some quick six tips about how to evaluate the reward systems. So, first of all we have to identify the objectives are set for each key element of the reward system and then identify the evaluation criteria as we have done over here like for each of the reward objectives that you have found we have worked on the it is like what are the success criteria. Because each things needs to be stated very clearly before we think of evaluating developing and implementing on a reward system.

So, to reach a particular objective what are the success criteria these needs to be chalked out and first. So, when we talk of this ensure the objectives identify the evaluation criteria select an evaluation methodology whether it is a data analysis, whether it is a

survey depends on what kind of reward you are talking of, whether you are talking of the financial reward increase in the financial reward or in the non-financial reward do you want to see the monetary changes or you want to see people's perception. And levels of survey, levels of change of attitude with respect to the rewards and how it is changing their behavior.

So, that is more important we think for reward management because people have to perceive the changes important for them and value addition to themselves satisfactory for themselves because that is going to make them more engaged employees and like which we will again motivate them to perform more in the organization. So, what kind of evaluation methodology you are going to use data analysis or survey that needs to be predetermined also.

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After that again collect and analyze the data, interpret the findings find out what people are trying to express through the surveys where we need to work on more and based on that again develop and implement the program for improvements. Let time pass on for a certain time, again collect data about how the survey is how the system is working interpret the findings and again go for a correction check where things are going maybe to some extent wrong. And these process needs to be repeated maybe time and again it is an ongoing process before we try to we can establish a proper like reward system which is going to be fully functioning.

So, this cycle maybe needs to be repeated time and again before we are able to close the gap between like what was expected and what is the actual and what needs to be improved on the actual and this is an ongoing process. So, these are the six tips that we are sharing with you for evaluating the reward systems and only on a proper evaluation we can understand the development and implementation process will be successful.

So, for developing and implementing a proper reward management program it is very essential like the objective setting is done properly and we are evaluating the monitoring and evaluating the process properly. It is done on an ongoing basis and done regularly the cycle is repeated again and again to close the gap between the expected.

And the actuals of how far we could achieve and then, what are the people feedback about it how they are finding that reward system actually working or not effective or not in helping them to grow as a person and contribute in a better way to the objectives of the organization. So, with this we come to the conclusion of the topic on the developing and implementing a reward management system.

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These are the references based on which this whole discussions have been done. Any queries please put it in the forum we will be happy to answer it for now.

Thank you.