

**Strategic Performance Management**  
**Prof. K. B. L. Srivastava**  
**Department of Humanities and Social Sciences**  
**Indian Institute of Technology, Kharagpur**

**Lecture - 33**  
**Reward System – 1**

Ok so, welcome to this 33rd lecture of 7th week. Remember in the before this we what we did? We talked about potential appraisal and how potential appraisal can be used, to identify leaders for the future. Right? So, after discussing about potential appraisal what we are going to discuss say that how and why we are going to link performance management with the reward system..

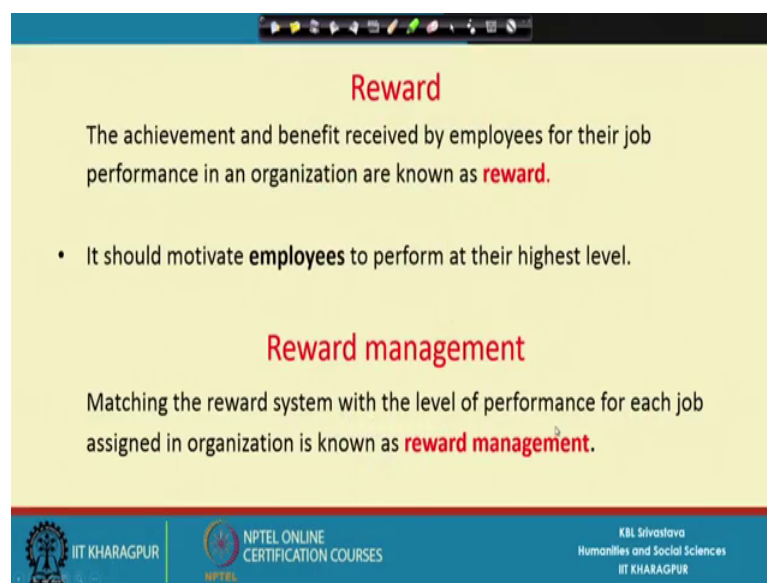
If you remember in the beginning when you are talking about the objectives of the performance management or objectives of performance appraisal particularly, and we discuss that there could be two different kind of objectives of performance appraisal system. One is developmental and the other one is administrative Right? So a developmental adminis and administrative are the 2 major objectives which are used, to see that people are developed and also see that there certain administrative decisions are taken based on the performance of the employees.

Now in this section and the next section that is the next lecture we are going to discuss about first what is the reward system that how we can make use of an effective reward system, to see that those employees were performing well or motivated to perform at a higher level. And we will also see that how performance is linked with the reward and what are the practices that companies adopt, in order to ensure that performance linked reward system is going to be effective for higher performance of the individual.

Now when we are going to talk about reward system as such, then you have to understand that why we are going to link performance with the reward. See when a individual is working in normalization he anticipate certain things, ok? And the most important anticipation is the reward. It means that you are not going to reward in some way, for what he is doing. In fact, if you look at the basic definition of reward is that is, that you are going to adequately compensate individual for the work that is doing right

So, we have to see that we are going to adequately compensate individual. So, individual for the work it means that you are talking about the compensation system. ok? But here, we are not going to talk about compensation as system as such because compensation is given for the work that you do right? But here we are going to talk about another aspect of compensation system that is reward which is given to employees because his performance better than others ok. And then company issues a different kind of reward mechanism to motivate employees for higher performance. Now we are we have to discuss about the reward system

(Refer Slide Time: 03:00)



**Reward**

The achievement and benefit received by employees for their job performance in an organization are known as **reward**.

- It should motivate **employees** to perform at their highest level.

**Reward management**

Matching the reward system with the level of performance for each job assigned in organization is known as **reward management**.

IIT KHARAGPUR | NPTEL ONLINE CERTIFICATION COURSES | KBI Sivastava  
Humanities and Social Sciences  
IIT KHARAGPUR

and other issues related to the reward right?

So, what is a reward that is defined as it is defined it is that it is, the benefit which is given to the employees for better performance right? So, a person is being rewarded if he is performing well right? Now the level of reward might vary depending upon the level of the performance, ok? Now another objective that is going to be fulfilled by this is that it also motivate employees to perform at higher level Right?

And then we have to see whether there is really a good relationship between motivation and performance, which is mediated by what you call the reward. So, is it correct to say that a person would be motivated to perform better provide provided he gets suitable reward right? So, these are some of the questions that we need to look at. And similarly we have to see that how this reward is managed by the organization. Right? Whether this

reward is adequate? Whether people are happy with the kind of reward that they are getting? Right? Whether it is fulfilling the needs and expectations? Whether it is really able to motivate people for better performance or not? Ok?

So, when we are talking about reward management there are various issues that we need to look at it. Because when you are going to develop a reward system which is definitely a part of the compensation system ok? Because if you look at the compensation system it has 2 levels. One is that you are going to pay him for what he does, but in addition to pay if you are going to give certain benefits to the employees in the form of reward then it is in addition to what you call the pay and the (Refer Time: 04:48) that he gets right?

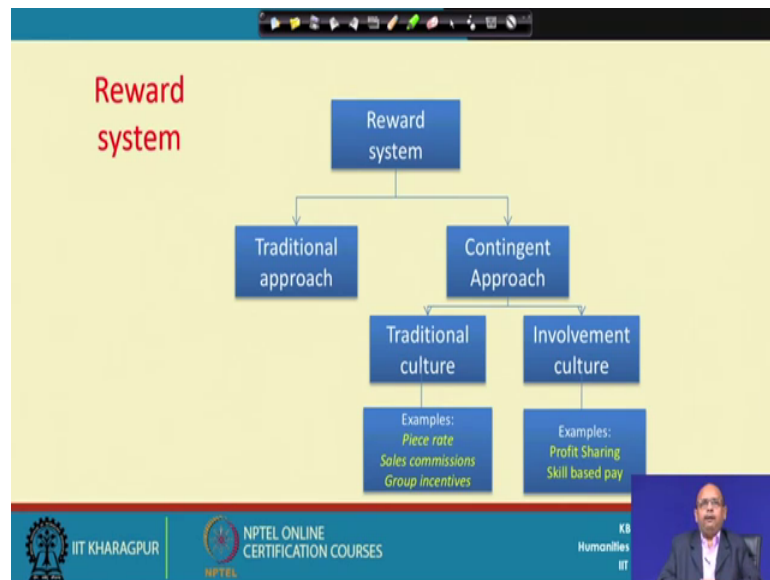
And then companies are trying to link this kind of reward with the performance. And they use different kind of mechanism for performing individuals. So, those who are performing better they might get different kind of rewards compared to those who are not performing better. So, they also try to discriminate people based on the reward system..

So, individuals who are performing at a higher level they might get a better performance and a some sometimes it might motivate others to perform well, but sometimes it also demoralized others and they think that the other person the other person is getting higher reward, a better compensation because of his performance, but since he is not capable he is not able to perform at that level, he is not being rewarded suitably. Right? So, there could be lot of issues related with the reward management that we wish to discuss further.

Now, when we are talking about reward management or the compensation, as I told you that it has 2 components one is, you are the pay and salary and other is benefits, which come basically combines each other and then it is what we call the total compensation packages right? Now out of this total compensation package reward is a part of the benefit because reward is given for something that to do in addition to your regular job or basis defined by your job description ok?

And there could be certain per standard performance criteria against which your performance is measured and then you are being rewarded appropriately. So, there could be different kind of system for rewarding ok? So, what we are going to discuss now is, what are the different kind of reward system? And how it works?

(Refer Slide Time: 06:30)



Now if you look at this reward system there 2 kind of reward system, one is traditional approach one is contingent approach. traditional approach means that you are going to reward people based on what they do in, that is basically based on what a call the companies as sorry the job description of the individual right? So, you look at the job description, evaluates his job, try to find out the worth of a job and then you try to reward him. Or you are going to compensate him right? But if you look at that contingent approach, contingent approach is different compared to traditional approach, is that here the rewards is contingent upon the performance ok?

So, that discriminates between people who are performing better than others right? And if you look at this contingent approach you will find 2 kind of things. One that is the traditional culture, that how performance is being linked with the reward right? For example, many companies follow the system of piece rate where you decide about what to do with the rate per piece that is produced by the employees that is if suppose you have identified that 10 rupees per piece would be given to an employee and then you see that how many pieces he has produced.

So, the number of pieces whether is multiplied by the rate per piece and that is going to be his reward. So, traditionally we follow this kind of systems where you are being paid based upon what you perform. It means you follow a system and many departments in an organization could do go for it, for example production department..

Similarly, if another example that is given here is as a sales people and the commission (Refer Time: 08:23) depending upon how much revenue they are able to generate, how many sales are going to close? Right? Similar that is at the individual level. Now at the group level you will also provide in sentence for improving quality, efficiency, quality and other kind of things. So, these are the traditional parameters that could be used for evaluating performance and then rewarding employees or linking performance with the reward. Now, there are some other progressive you can say systems that have been developed that a later stage, where you expect employees to get better engaged and committed to organization and perform well right?

So, this is what we know as involvement culture. What actually happens is in involvement culture is that you try to see that depending upon the level of engagement and commitment ok, whatever profit is made by the individual or the organization you are going to reward him ok. Some examples that are given here will discuss that in detail, at a later stage like profit sharing. So for example if an organization is making a profit of certain amount. So, that particular amount is shared between the employee's and the employee's right?

Similarly if you look at is skill base pay this is that if you are going to get additional skills, if you have got an additional qualification or experience or a skill, then that is to be compensated. So, this actually motivate people to perform well right? And then employees expect better engagement and commitment from the employees because they think that if you are going to share the profit it would lead to higher involvement of the employees ok?

So, now what you are going to discuss in detail is these 2 kind of approaches that a traditional approach and contingent approach. Traditional approach follows the basic principles that you are going to be compensated for your performance and that depends upon what you call job description right? So, and the second one is that you it is not only is dependent on your job description, but you also said that if a person is going to perform better and more than that, then you are going to have salary differential right? Now it could be understood like this one.

(Refer Slide Time: 10:41)

Rewarding employees based on their job descriptions and not how they do their work.

Grade	Designation	Existing Pay Scale (Pre-revised)
E3	Officer	24,900-3%-50,500/-
E4	Asst. Manager	29,100-3%-54,500/-
E5	Dy. Manager	32,900-3%-58,000/-
E6	Manager	36,600-3%-62,000/-
E7	Sr. Manager	43,200-3%-66,000/-
E8	DGM	51,300-3%-73,000/-
E8	AGM	51,300-3%-73,000/-
E8	GM	51,300-3%-73,000/-
E9	Executive Director	62,000-3%-80,000/-

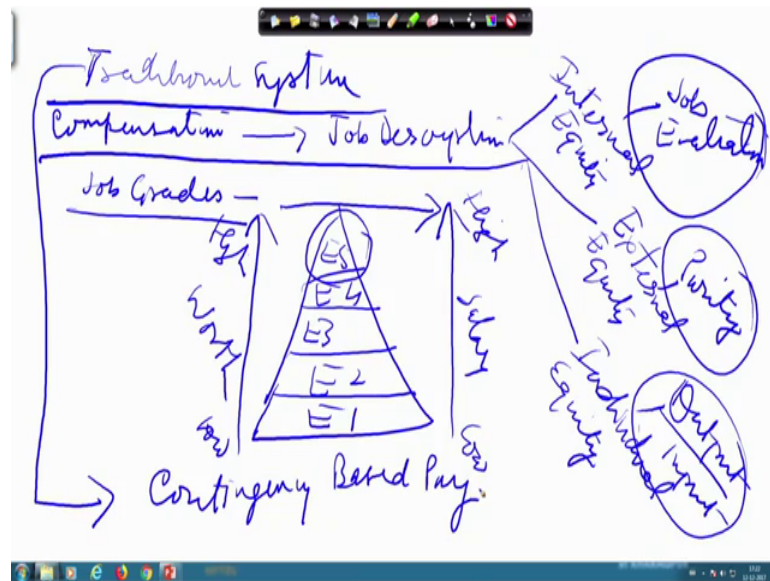
IIT KHARAGPUR | NPTEL ONLINE CERTIFICATION COURSES | KB Humanities

Say this one say traditional approach what happens in this example is that you are going to reward an employ based upon the job description right? So, this is a range of scales or pay scales that you say in an organization ok? Start with this is this is for the managers level, starting with E3 up to E9. And you can see that there is a progression salary progression, depending upon the position ok? For example, if you see that from officers to when you move to assistant manager level ok? There is a slight increase.

As, as you move up to the hierarchy become a deputy manager or manager or senior manager are you reach to the executive director level what happens? There is a progression in your salary ok? And then you also get an annual instrument. So, what I am trying to tell you is that when you are talking about this traditional approach that how does it work? Let us see this one.

So, in traditional approach basically what happens that you talk about, Compensation ok? And this compensation is based upon, job description.

(Refer Slide Time: 11:52)



Right? What you follow or do is that in order to develop a grade what you call this job grades ok? You are going to follow certain mechanism that is, you see that this job grades which you have say for example, at different level starting with a E1, E2, E3, E4, E5. Suppose there are 5 difference job grades, so the salary progresses like this one it from what you call low to high ok.

So, the compensation structure that is decided based on job description takes care of 2 factors that is that your internal equity external equity and the third one is individual equity ok. So, when we are talking about internal equity it means that you try to ensure that, the person is compensated based upon his performance and then how you decide? It the data comes from job description.

So, in order to maintain internal equity you what you do you go for job evaluation. Right? For external equity you try to have parity with other organizations and similar jobs and different organizations ok? And individual equity where you try to look at the output input of the individual the what is the producted productivity and whether the person is satisfied with the productivity of his performance or not?

So, we follow three different methods that is you look at the output input ratio of the individual you also try to ensure that this the external parity, it means similar jobs in other organizations are played at the similar level. And then you also go for internal

equity that is you try to maintain some kind of standards to ensure that depending upon the contribution that the job makes to the organization the salary is given.

So, job evaluation is basically a process of identifying the worth of a job and based on this worth you are paid. So, here when you are saying that the sequence is that the worth is something like this. It starts with low to high worth it means you can say that the job that E5 has its highest paid worth and that is why you will find it is having the highest salary or what whatever you say right? So, this is the most traditional approach that is adopted by the organization..

But in this case what happens that you develop a salary structure a compensation structure, but you forget about reinforcing those who were performing well at different levels. Even if they are performing well the salary does not change right? and that is why it is known as a traditional system right? of identifying pay and reward

So, now the companies have understood that this kind of traditional system is not going to be very effective ok? At the base level it might work, but if people are performing better or at a higher level and if they are not being rewarded then it might have certain repercussions of the organizations ok? They will not be able to manage their deadline. Employee turnover rate would be very high. People would leave for higher paying jobs right?

So, all kinds of problems might happen and that is why most of the companies move from this traditional system to what you call a contingency based pay right? So, you are moving from a traditional base as system to what you know as, contingency based pay right? And this contingency pay based pay is much better because it does not only take care of your job description, which defines your performance standards and then you are compensated, but if you are performing better then it also takes care of high performance and it links it with the reward. So, that you are adequately compensated right?

So, if you look at this traditional approach that I have just discussed that how salary progression is made from E3 to E9 ok? This is the most traditional approach and then this existing pay scale that I have shown here is based on job description and then you go for maintaining internal external equity. And then also based upon the output of the individual right? So, this is what we call the traditional approach.



(Refer Slide Time: 17:16)

**Contingent Pay Plans (CP)**  
(pay for performance)

- These are either added to an employee's base salary or paid as a one-time bonus.

It helps in **motivating employees** when each of the following conditions is present:

1. Employees see a clear link between their efforts and the resulting performance (**expectancy**).
2. Employees see a clear link between their performance level and the rewards received (**instrumentality**).
3. Employees value the rewards available (**valence**).

**Motivation = Expectancy \* Instrumentality \* Valence**

IIT KHARAGPUR | NPTEL ONLINE CERTIFICATION COURSES | KB Humanities IIT

Now from traditional approach we are moving to what you call contingency base pay. Basically this is what is relation to performance ok. It mean that in addition to whatever salary you are getting ok? You are being paid for better performance right? The idea for paying with more for higher performances that it is going to motivate you to continue to perform at a higher level or also sustain at that particular level right?

Now, when we say that whether pay is a motivator or not there could be different theories ok? Some theories tries to explain that pay motivate employees while some theories say suggest that pay does not motivate employees. But my suggestion here is that pay does motivate employees to perform better and also there are certain consequences associated with, like we will be motivated, better engage, there will higher commitment, you will be highly satisfied with the job provided, he understands the value of reward that is being given to him ok?

So, there a lot of motivational theories are there. Now one theory this is very very important is this valence theory, which talks about sorry expectancy theory which talks about that whether the person would a motivated to perform well or not depends upon three factors right?So, we are using this room expectancy theory to explain whether employ would be motivated to perform well and how it is going to be linked with the reward. Now if you look at this formula motivation it talks about 3 indicators that is [vocalied-noise] expectancy, instrumentality and valence. Now if you look at the

definition that is given for expectancy, instrumentality and valence they are multiplied with each other. So, what is expectancy right?

For example, if I am performing at a higher level then I expect better results right? As if there is a better result then it must be linked with higher reward. So, the idea here is that you need to establish between a relationship between the efforts that you been put in and if this effort is resulting in higher performance or not. So, basically at the first level we expect a relationship a positive relationship between effort and performance, with the assumption that higher efforts would result in higher performance right?

Now, at the first level we expect good performance right and for that we are putting in lot of efforts right? Suppose you are going to put lot of effort in doing this course then you expect better grades. So that is reflected in your performance right and suppose you are doing very well and then you are putting lot of effort and then expect higher performance right? And higher performance could be in linked with your grades that could be a reward right? Now at the second stage what happens? Once you have been able to establish a positive relationship it is a and it is a linear relationship because if efforts moves on the performance will also improves ok. So, you can expect linear relationship between effort and performance at the first level.

Now moving to the second level what happens that is what we call instrumentality. What is instrumental? Instrumentality ok? Here you try to establish a link between performance and reward ok. So, there are 3 variables now. Effort first performance second and reward three.

So, at the first level we try to examine the relationship between the effort and the performance and we try to see that there is a positive relationship. At the second level we try to examine the relationship between performance and reward ok? So now there three things effort, performance and reward right? Effort, performance leads to expectancy. Performance, reward is instrumental. It means that reward is instrumental on higher performance right? So, if you perform well you would get better reward right?

Now third factor which is very very important is valence. Valence is basically related to attraction. How attractive or valuable the reward is for the individual right? Though we are trying to establish a linear relationship between effort, performance and reward we also need to see that the reward that is being given to the employees is fulfilling their

needs and expectations he finds it valuable ok. If find if you find that reward is not significant and it does not meet their needs and expectations then, what happens? He will find he will not find it very very valuable and then it if you look at the cycle then he will stop making efforts because he thinks that even if he is making effort and it is leading to higher performance, it does not lead to suitable rewards.

So, the company is have to follow this model to ensure that whatever reward they are giving for higher performance is acceptable to the employees. In a sense that it is meeting their needs and expectations. If it is it is not meeting their needs and expectations then this kind of reward system is not going to be appropriate for the employees.

(Refer Slide Time: 23:00)

**Making rewards valuable and useful**

- *Define and measure performance first, then allocate rewards*
- *Use only rewards that are available*
- *Make sure that all employees are eligible*
- *Make rewards visible*
- *Make rewards contingent*
- *Make rewards timely*
- *Make rewards reversible*
- *Use nonfinancial rewards*

IIT KHARAGPUR | NPTEL ONLINE CERTIFICATION COURSES | K.B. Humanities | IIT

Now, there certain suggestion that could be made to ensure that this reward system are going to be made useful for the employees ok. It means that you have to clearly defined and measure performance, it means that you should have very clear definition of what the performance is that you are expecting and what are the performance standards against which you are going to reward people.

So, first to define your and measure of performance, standards and level and then you link into the reward right? And make sure that while you are giving those rewards which are available which can be offered by the organization, you do not promise something

you do not do something which you cannot give at a later stage. So, do not promise anything which cannot be given.

So, make sure that whatever rewards is available within the system is it is provided and you also ensure that you are not going to discriminate if organization is making a profit ok. So, try to include everyone in this kind of system and make sure that everybody is being rewarded ok, depending upon their level of performance or if it is a organization wise reward then everybody is eligible depending upon his level in the organization. And make sure that it is visible it means that it is significant and it is really motivating employees for higher performance ok.

And another issue that we have already talked about it may should be contingent. Contingent in the sense it should be based on the performance only ok? right? And that is why we say that make rewards contingent. Contingent in the sense that reward must be linked with the performance level or the standards ok?

Another issue that has been identified when we are going to have any kind reward mechanism administration of reward is that when you are going to provide the reward? So, the idea here is that if you are going to provide it timely an appropriate reward is given then it is going to be more effecting. Effective to motivate people, but if we are going to provide it at a later stage then the person would not be in a position to link the reward with the performance because he has done something at previous date and then later on you are going to reward him. So, you would be not be able to establish a clear link between the reward and performance ok

Similarly, if the person is not able to perform well ok, it should be reversible it means that you can also withdraw the reward. It is not only giving the reward, but if the performance level is not achieved by the individual make sure that this performance are withdrawn from the individual ok.

And another thing that is very important is that it is not only financial reward which has going to help people especially at the higher level it has been found that if you are going to provide more nonfinancial rewards right, then it is more effective like status, recognition, challenge. So, these kind of things are more important to individual at a higher level than financial rewards right. So, when you are going to have some kind of

reward system and if you are going to take care this then you are increasing the valence of the reward there is the third point that I have been talking about.

So, when you are going to multiply expectancy with instrumentality and valence and if you are going to have a reward system which follows these guidelines then the value of valence will be high and then it would be in a better position to motivate employees. Yeah. So, when we are talking about different kind of rewards there could be two type of rewards ok?

As I told you intrinsic reward and extrinsic reward. Extrinsic reward means which could be in the form of say money, promotion, fringe benefits ok? It is external to the job and come from outside sources especially that is given by the top management right? Then coming to the intrinsic reward, intrinsic reward it means that when you are doing a job and you feel satisfied, that is I have done something that is worthwhile ok.

(Refer Slide Time: 26:30)

The slide is titled "Types of Rewards" in red text at the top center. It is divided into two columns by a vertical line. The left column is titled "Intrinsic Reward" and contains a definition and a list of examples. The right column is titled "Extrinsic Reward" and contains a definition and a list of examples. At the bottom of the slide, there is a blue footer bar with logos and text for IIT Kharagpur, NPTEL Online Certification Courses, and the presenter's name, K.B. Sivistava, from the Humanities and Social Sciences department.

Intrinsic Reward	Extrinsic Reward
<ul style="list-style-type: none"><li>• The satisfactions one gets from the job itself are its intrinsic rewards.</li><li>• flex time</li><li>• job enrichment</li><li>• shorter work weeks</li><li>• job rotation</li></ul>	<ul style="list-style-type: none"><li>• It is external to the job and come from an outside source, mainly, management.</li><li>• Money</li><li>• Promotions</li><li>• fringe benefits</li></ul>

So, you feel satisfied you find that yes it is something that you have done really good which has contributed to your performance in the (Refer Time: 27:05) performance and where you have the idea that you have made a significant contribution to the job and the performance right? So these intrinsic rewards could be based of satisfaction from the job ok? Which is internal in nature ok?

And then you can follow certain mechanism like giving more responsibility like in receiving the job ok, more freedom right? Giving shorter work away, work weeks are moving the individual to different kind of jobs so that you can share different kind of responsibilities ok? Or moving to flex time so let him decide at what point of time he is going to work ok. So, this kind of actually mechanism is used to ensure that those who are significantly contributing towards the job and performance and are not motivated by external factors ok.

So, basically you need to identify what kind of reward people are looking forward to if people are looking for external rewards then go for it, if people for looking for internal reward go for this kind of things. So, if you want to increase the valence you need to ensure this valence is coming from where and it could vary from individual to individual. Some in some cases people would believed or attracted by intrinsic rewards and that would have more value for them.

So it they might find it more valuable. In some cases people are looking forward to status recognition and challenge right. So, you need to internally satisfy them and make sure that these kind of intrinsic satisfaction is available which is going to be more valuable for them right.

(Refer Slide Time: 28:46)

The slide is titled "Types of Rewards (cont...)" and is divided into two columns. The left column is titled "Financial" and lists three items: Wages, Bonuses, and profit sharing. The right column is titled "Non financial" and lists two items: pension plans, paid vacations, paid sick leaves and purchase discounts; and a statement that these rewards do not increase the employee's financial position, but instead make the employee's life better off the job, with non-financial rewards emphasizing making life on the job more attractive. The slide footer includes logos for IIT KHARAGPUR, NPTEL ONLINE CERTIFICATION COURSES, and NPTEL, along with a small video inset of a speaker.

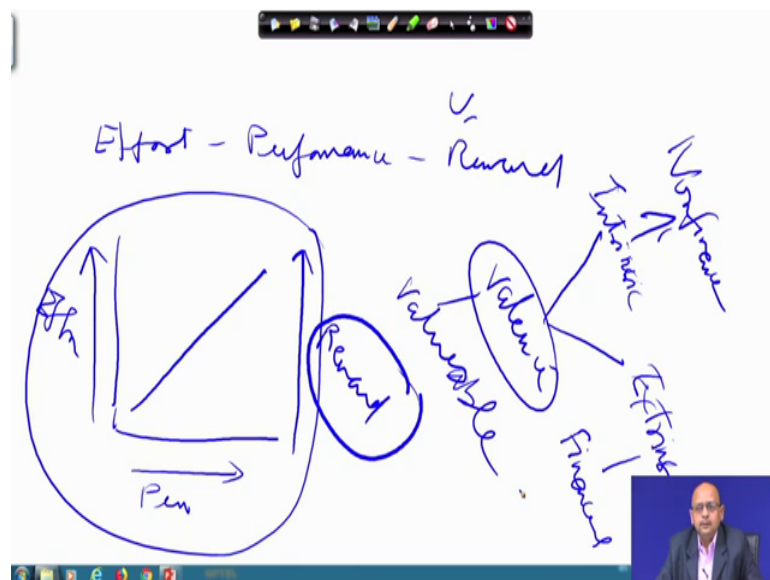
Financial	Non financial
<ul style="list-style-type: none"><li>• Wages</li><li>• Bonuses</li><li>• profit sharing</li></ul>	<ul style="list-style-type: none"><li>• pension plans, paid vacations, paid sick leaves and purchase discounts.</li><li>• These rewards do not increase the employee's financial position, instead of making the employees life better off the job, non financial rewards emphasize making life on the job more attractive.</li></ul>

And similarly you can identify or classify them into financial and nonfinancial rewards ok. So, extrinsic is basically financial and intrinsic is nonfinancial right. So, they that is

another way to categorize rewards right. So, financial rewards include wages or higher wages, more bonus or profit sharing which is extrinsic which is visible in the form of money and non financial like giving them different kind of leaves, benefits and facilities.

So, they are part of fringe benefits basically like giving them a pension or paid vacations or they are going on leave with full salary. So, these kind of things basically does not increase their financial status ok, but they feel more happy and satisfied and it has been found that nonfinancial rewards make life as well as job more attractive compared to financial intrinsic because financial intrinsics or financial nonfinancial rewards lead to more intrinsic satisfaction and financial reward lead to more extrinsic satisfaction. So, when we are talking about valence that is that is what I have been talking about.

(Refer Slide Time: 30:00)



ah Basically we have been looking into this relationship of effort, performance and reward. And we try to say that, if person is putting an higher effort ok, and if this is the level of performance is a linear relationship. Now, if you at this side reward, so whether it means that higher effort more better performance and higher reward right?

Now, the question is that this reward how it is valued by the people in the organization ok. It depends upon the valence. Now there could be lot of variations when we are talking about to the valence and it depends as I told you it depends upon intrinsic factors and extrinsic factors. Extrinsic is non financially in sorry financial in nature. So, you go for financial rewards and this is nonfinancial.

Now you have to identify what is going to provide valence because when we are talking about valence which is coming from the form of reward, so it could be it you can expect this kind of relationship only when the reward is found valuable. If it is not found valuable then you cannot expect a linear relationship between the effort, performance and reward ok..

(Refer Slide Time: 31:47)

The slide is titled "Types of Rewards (cont...)" and is divided into two main sections: "Performance based" and "Membership based rewards".

- Performance based**
  - use of commission, piecework pay plans, incentive systems, group bonuses, or other forms of merit pay plans.
- Membership based rewards**
  - cost of living increases, profit sharing, benefits, and salary increases attributable to labor market conditions, seniority or time in rank, credentials (such as a college degree or a graduate diploma), or future potential (the recent M.B.A. from a prestigious university).

**For instance:** company paid membership in a country club or use of company owned automobiles by executives may be given for membership or performance. If they are available for all middle and upper level executives, then they are **membership base**. However, if they are made available selectively to certain managers based on their performance rather than their entitlement, which of course implies they can also be taken away, we should treat them as **performance based rewards** for those who might deem them attractive.

The slide footer includes the IIT KHARAGPUR logo, NPTEL ONLINE CERTIFICATION COURSES, and a small video inset of a speaker.

Now moving to the next part that is whether it is going to be based on performance or it is going to be based on membership right and that is what basically differentiate between the traditional and nontraditional reward system ok. So, when you are talking about merit base pay it is performance and when you are talking about structured wages or salaries, it depends upon and it is related what you call the membership based reward. For example, you are being compensated for cost of living ok. Organization sharing profit with everybody ok. You are being paid for your seniority and the time that you are going to invest in organization or depending upon your rank. So, these are related with membership base.

So, depending upon your level in the hierarchy there is a prefixed structure of compensation which is which will be paid to you, but it has nothing to do with your performance it is expected that you are going to performance at the standard level right? But when we are going to talk about performance based pay where we are talking about yes whether it is piece rate or any other method or sales commission anything it are any



kind of bonus or incentives that is provided. It is basically dependent upon higher performance right?

So, we have to say that what is going to motivate employees ok. So, membership based reward does not motivate employees more right you will continue to your performance at the standard level. But when you are going for performance based rewards definitely it is going to motivate people because we are going to provide some kind of extensive and rewards to the employees, in addition to what is the compensation in a structured format that is given to the individual right?

(Refer Slide Time: 33:33)

**Types of Rewards (cont...)**

**Tangible returns**

- cash compensations**
  - base pay, cost-of-living and merit pay, short-term incentives, and long-term incentives
- benefits**
  - income protection, work/life focus, tuition reimbursement, and allowances

**Intangible returns (relational returns)**

- recognition and status, employment security, challenging work, and learning opportunities.

**Recognition**  
Appreciation or acclaim for an achievement.

**Reward**  
Something given in recognition of service, effort or achievement.

IIT KHARAGPUR | NPTEL ONLINE CERTIFICATION COURSES | K6 Humanities IIT

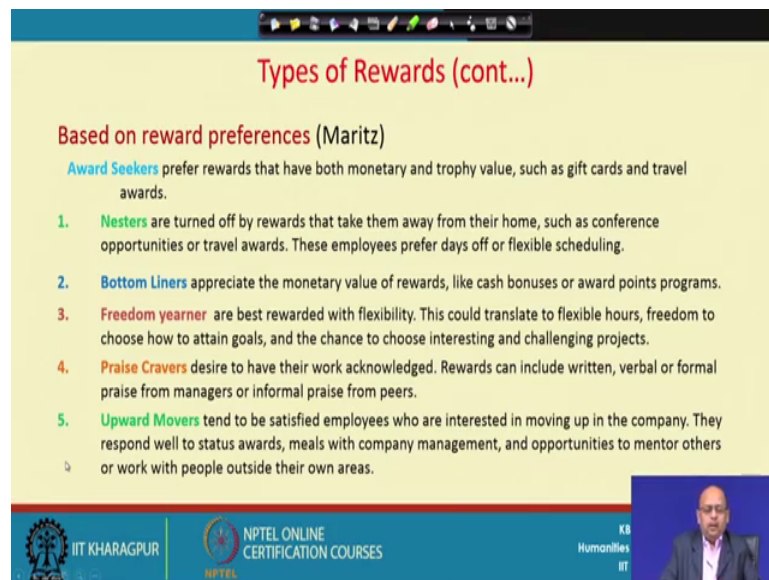
Now, it could be in the form of tangible or intangible rewards like you are whether you are going to provide cash benefits right or whether we are going to provide them non cash benefits. So, basically we have to say that the benefits in the additional benefits which is being given for higher performance is in the form of cash or non cash or whether it is tangible or what is for what you call non tangible. So, when you are going to talk about tangible which can be seen which is concrete in nature like there is a merit pay, cost of living expenses right? Increase in the basic pay right?

So, if this kind of rewards are given then it is tangible. Intangible when you are going for status, recognition, challenge, higher opportunities right? So, that is more effective to motivate employee's right. So, recognition and reward has to be linked but you have to see that whether it is really people looking forward to these kind of things or not it also

depends upon the need, strength of the people at what level there ok. People at the lower level of their need, strength or motivation are looking forward to more tangible returns compare to those who are at the higher level ok. If you are higher motivation need strength or higher level of need strength right, then you look for reward based on the recognition right?

It could be challenging jobs most are self esteem, better recognition for what you do right compare to going for tangible rewards. So, it also another important factor that we need to identify that what is the need strength of the individual right? So, if you are at the lower level of the need strength you are looking for more tangible returns compared to being at higher level look forward to more intangible returns right.

(Refer Slide Time: 35:19)



**Types of Rewards (cont...)**

**Based on reward preferences (Maritz)**

**Award Seekers** prefer rewards that have both monetary and trophy value, such as gift cards and travel awards.

- Nesters** are turned off by rewards that take them away from their home, such as conference opportunities or travel awards. These employees prefer days off or flexible scheduling.
- Bottom Liners** appreciate the monetary value of rewards, like cash bonuses or award points programs.
- Freedom yearner** are best rewarded with flexibility. This could translate to flexible hours, freedom to choose how to attain goals, and the chance to choose interesting and challenging projects.
- Praise Cravers** desire to have their work acknowledged. Rewards can include written, verbal or formal praise from managers or informal praise from peers.
- Upward Movers** tend to be satisfied employees who are interested in moving up in the company. They respond well to status awards, meals with company management, and opportunities to mentor others or work with people outside their own areas.

IIT KHARAGPUR | NPTEL ONLINE CERTIFICATION COURSES | KB Humanities IIT

Now, if when you are looking about reward and what kind of reward people are looking forward to is like here some classifications are been made, that what is valued as a reward by the employees and the certain categories that have been given here like nesters ok. So, they look for opportunities those who want to travel or want to be away from home right? So, they would like to have more flexible schedules. So, if you are this kind you put you are in this category then you want to spend money on traveling or have a flexible schedules so that you can satisfy this kind of need. Then those who are looking for tangible rewards are bottom liners because they are looking for cash rewards, bonus and this kind of things.

Freedom yearners it means that they were more flexibility ok. So, they want to have freedom and how what they what they achieve you decide but how they are going to achieve it they are going to decide it. So, then are looking for more autonomian freedom in their activities, though they are concerned with the performance but you they want to decide how they are going to do it and what they are going to do it. Now the praise cravers basically when you move at the higher levels right? It means that they want to acknowledge for their performance ok. So, it could be in from of appreciation, recognition or whatever it is right. Then upward movers ok..

So, this kind of employees would be satisfied if they are getting some kind of status. They are moving up in the organization and they are getting better opportunities ok. So, different kind of categories have been identified depending upon what kind of reward is going to be available. Again it is related to valence. The idea is that you have to see that what you are looking forward to.

Some form some form of intangible rewards or some form of tangible rewards. So, it depends upon what you are looking forward to because that is going to be more valuable, which increases your attraction that is the valence right. And that is how when you are going to multiply this with the performance and effort we need to ensure that it is going to motivate.

Because if you are looking forward to something as a reward you are not getting then, probably it is not going to motivate you to put in more effort lead into higher performance right. So, we need to be very very careful when we are going to administer a reward see what kind of reward is going to be more successful for the employees right?

(Refer Slide Time: 37:49)

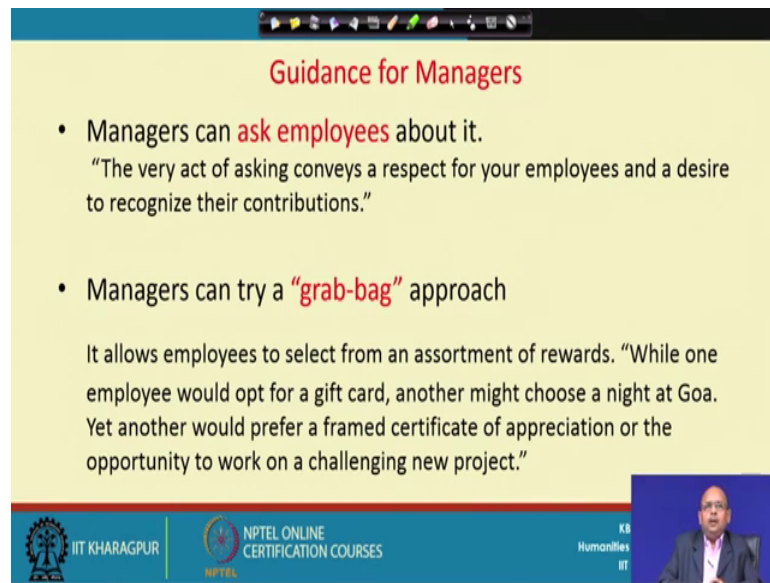
Total Reward			
Transactional Rewards	Basic Pay	Total remuneration	Total Reward
	Contingent Pay		
	Employee Benefits		
Relational Rewards	The work itself (Job design)	Non financial Rewards	
	The work experience		
	Recognition, achievements, growth		

IIT KHARAGPUR | NPTEL ONLINE CERTIFICATION COURSES | KBL Sivastava  
Humanities and Social Sciences  
IIT KHARAGPUR

So, what we have discussed here is basically is the reward mechanism ok, that is whether you are going to for traditional or non traditional methods right? So, the total reward is include your basic pay, salary other things and also non financial performance right. So, it the first part is transactional it means that you are given it for what you do ok.

So, that is basically what you call compensation and benefits right? The relational rewards something different which is non financial in nature which is going to be more attractive to the individual ok. It could lead like a better job opportunities, better learning experiences, recognition, achievement and growth. So, when you are looking at the reward mechanism access we need to look at both ok. The transactional part and the rational relational part because both of them are going to be a part of the total compensation package right?

(Refer Slide Time: 38:46)



The slide is titled "Guidance for Managers" in red text. It contains two bullet points. The first bullet point states "Managers can ask employees about it." followed by a quote: "The very act of asking conveys a respect for your employees and a desire to recognize their contributions." The second bullet point states "Managers can try a 'grab-bag' approach" followed by a paragraph: "It allows employees to select from an assortment of rewards. 'While one employee would opt for a gift card, another might choose a night at Goa. Yet another would prefer a framed certificate of appreciation or the opportunity to work on a challenging new project.'" In the bottom right corner, there is a small video inset showing a man in a suit speaking. The slide footer includes the IIT Kharagpur logo, the NPTEL Online Certification Courses logo, and the text "KB Humanities IIT".

**Guidance for Managers**

- Managers can **ask employees** about it.  
"The very act of asking conveys a respect for your employees and a desire to recognize their contributions."
- Managers can try a **"grab-bag"** approach  
It allows employees to select from an assortment of rewards. "While one employee would opt for a gift card, another might choose a night at Goa. Yet another would prefer a framed certificate of appreciation or the opportunity to work on a challenging new project."

IIT KHARAGPUR | NPTEL ONLINE CERTIFICATION COURSES | KB Humanities IIT

Now when you managers are going to do it they have to see that what they have interested in basically ok. So, you have to see that if they need to be recognized for what they do or what they contribute how we are going to recognize them either using a financial rewards or non financial rewards right. So, you can you have to decide about that what kind of reward is going to be more suitable and is going to help employees to perform better right.

So, you have to adopt a different kind of approach the one approach that is discussed here is grab bag. It means that you identify what are the rewards which is going to be valuable to the employees and you give them or we also follow this cafeteria approach you decide ok. This is the total I mean this is the total value of the reward. Now you decide what kind of reward you are looking forward to right.

And then let the individual decide or the employees decide what kind of reward is going to be more valuable for him and base on that you decide what is to be given to them and then it is going to be more effective in motiva motivating the people right.

(Refer Slide Time: 39:54)

**Role of Reward System**

Research suggests:

- bonuses and certain reward systems have little impact on long-term organizational performance.
- But having an appropriate reward system in place is still a must.
- Use of bonuses and some reward systems are a “hygiene factor” for many organizations.
- So, the organizations should not spend a lot of time on designing and implementing elaborate and sophisticated reward systems to improve performance.
- Organisations have to make sure an appropriate reward system is installed that is considered to be fair and equitable by employees.
- An appropriate reward system — with or without bonuses — is a necessity.

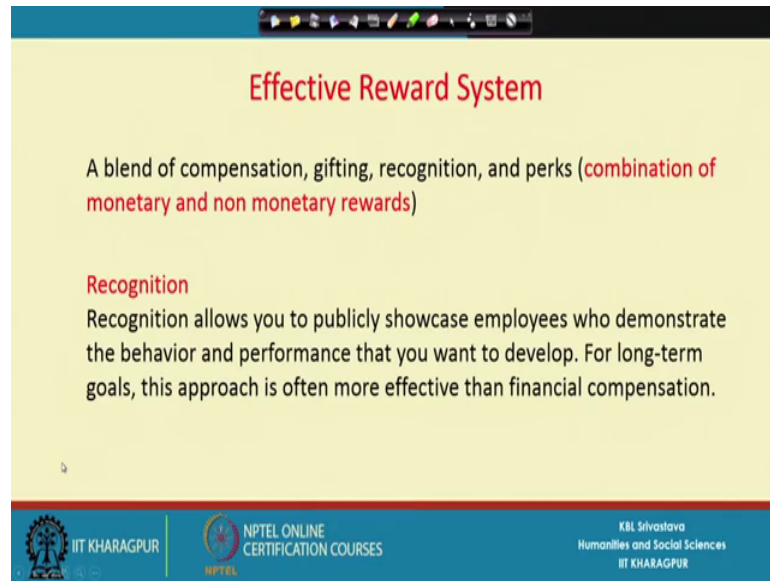
Every high-performing organization should have an **effective reward system** in place defining an effective system as one that “is consistent with the organization’s mission and allows employees to work together to achieve success.”

IIT KHARAGPUR | NPTEL ONLINE CERTIFICATION COURSES | KB Humanities IIT

Now, if you look at this it is very very important that you have a good perform a reward system in place depending upon what employees want? What employee’s value? Right? Ok that is very very important. Whether you are going to pay them financial rewards or non financial rewards? Right? Irrespective of that whether it is going to be intrinsically satisfied or extrinsically satisfied? So, you have to spend time on designing a very important system that is what you call a reward system. And make sure that is leading to higher performance ok.

So, you design a compensation structure in such a way and provide appropriate reward for that people are happy and satisfied ok, and it is fair and equitable as well right? Because we talked about equity that is very very important. Internal, external and individual equity when you are going for internal pricing mechanism right. So, make sure that you have an appropriate reward system which is going from motivate employees for higher performance right.

(Refer Slide Time: 40:53)



**Effective Reward System**

A blend of compensation, gifting, recognition, and perks (**combination of monetary and non monetary rewards**)

**Recognition**

Recognition allows you to publicly showcase employees who demonstrate the behavior and performance that you want to develop. For long-term goals, this approach is often more effective than financial compensation.

IIT KHARAGPUR | NPTEL ONLINE CERTIFICATION COURSES | KBL Silvastava  
Humanities and Social Sciences  
IIT KHARAGPUR

So, whether you are giving monetary or non monetary it is up to you, but the most important factor is that you need to recognize people for better performance. How you are going to recognize them? Whether you are using a financial compensation or non financial compensation? You decide about it, but make sure that is they are being recognized for higher performance or better performance.

Thank you very much.