Principles of Human Resource Management
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Module No. #04
Lecture No. #12
Pay and Reward Systems

Welcome back, to the class on, Human Resources Management. My name is Aradhna Malik. And, I will be helping you, with this course. So, since the time has been reduced, let us move on.

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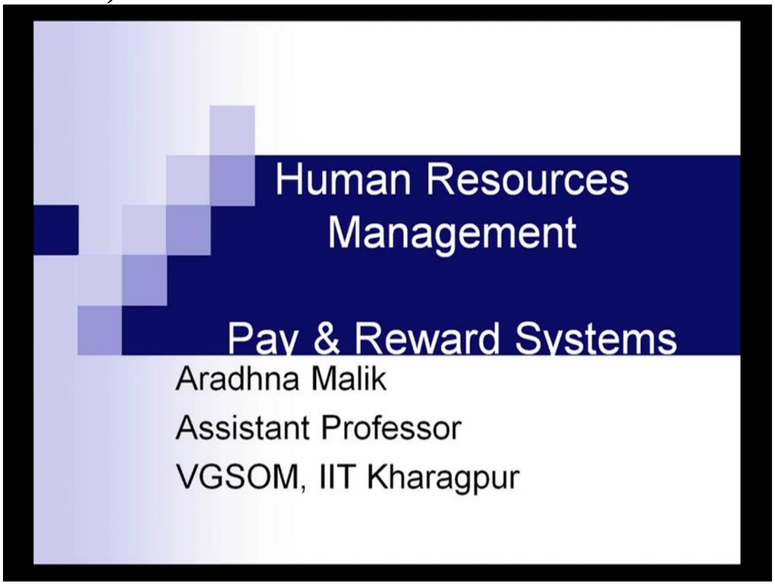

We were talking about, Pay System. Let us discuss, pay and reward systems, today.

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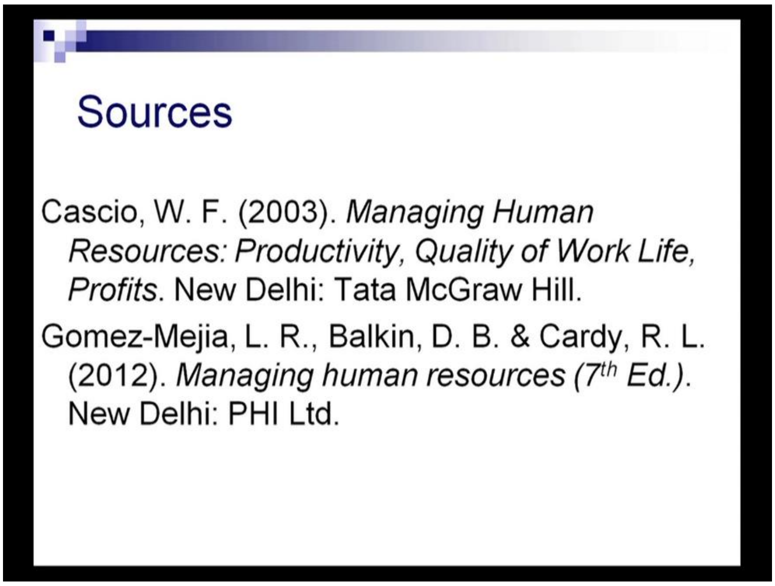

These are the sources, that I have used for these lectures. For this lecture, specifically Cascio. The book by Cascio, and the book by, Gomez-Mejia and Belkin.

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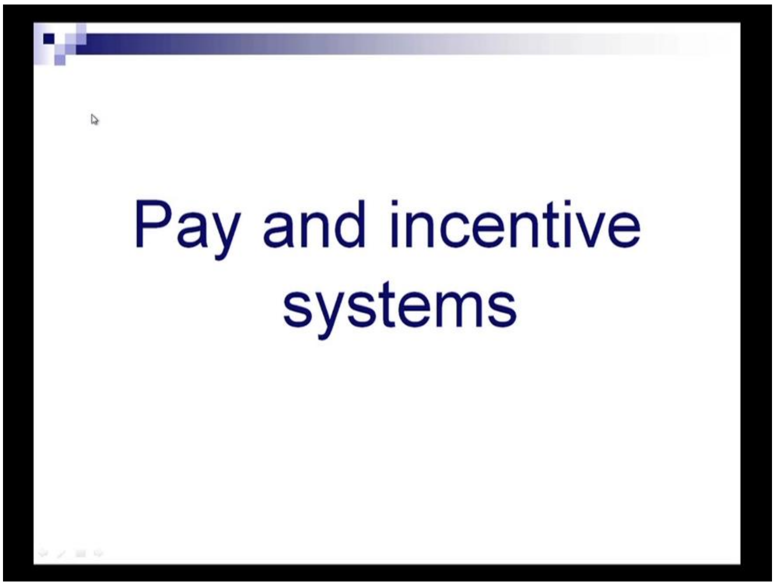

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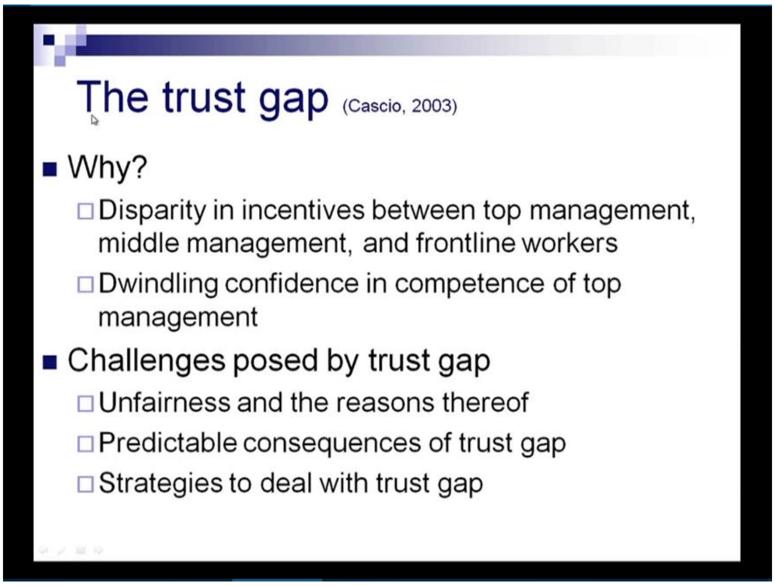

We talked a little bit about, the trust gap. And, why employees do not tend to trust, their organizations, or their employers. Why is there, this gap, why do employees feel that, they are not being treated fairly. There could be disparity in incentives, between top management, middle management, and frontline workers. People may not feel comfortable, with the way, they have been treated. And, the salaries may be too much.

Top management may be paid, too much. And, middle management may not be paid, so much. So, that is why, people may not trust the organization. Dwindling confidence in the competence of top management. People may not trust their seniors, so much. So, that might be a reason. Some challenges, that are posed by the trust gap. Why do we, not trust our seniors. And, how this can affect our work.

We feel that, we have been treated, we, by we, I mean employees. Employees may feel that, they have been treated unfairly. And, they may try to come up with their own reasons, which may, or may not be true. There could be a predictable consequences of trust gap, in terms of, lack of commitment from the employees. And, it could be very difficult, to design strategies, to deal with this trust gap. Especially, if whatever we are doing, is not convincing enough, for our employee.

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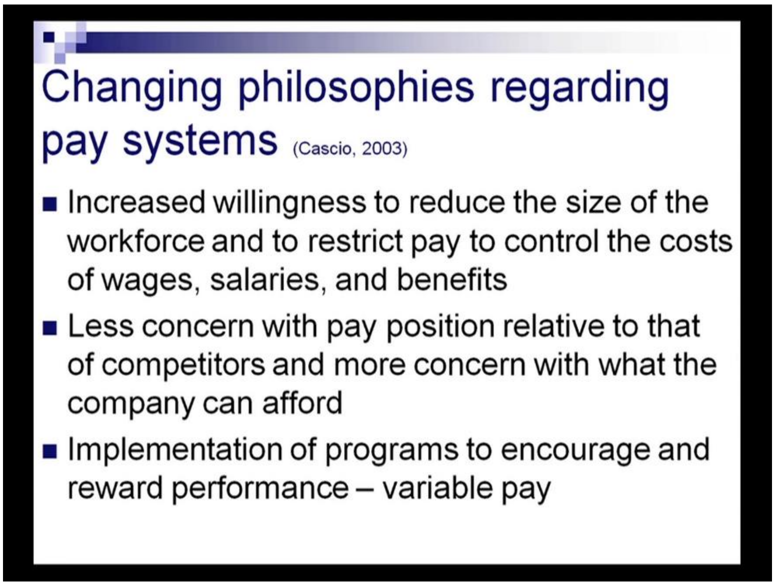

So, some challenges, that are posed by, the trust gap. Now, how are philosophies, regarding pay systems changing. organizations are increasingly willing, to reduce the size of the workforce. And, they are increasingly, becoming more and more accepting of, having fewer people, do a large number of things. The need to employ large numbers of people is not there, so much, as much as, it was in the earlier days. And, there is more pressure, to control the cost of wages, to control the compensation.

Again, we are talking about compensation. There is an increased pressure, to control, how much money, the organization is spending on the employees, on running of the organization, etcetera. There is less concern, with pay position, relative to that of competitors. Why because, there are so many organizations, that are there. And, there are so many employees, so many people, not employees. But, so many people, who can do, what the organization needs, done. That it is not their concern to, offer a large amount of money, to the employees.

So, they say okay. We will give you, this much. Take it or leave it. There are, so many people, who do not have jobs. That the company says, this is all, I can afford. And, if you do not want to work with me. Fine. Go, find another job. So, there is less concern with, what the company should pay. There is more emphasis on, what the company can afford, to maximize its profits. And then, the implementation of programs, to encourage and reward performance. They say, if you can do your work, well. We will give you, more than you expect.

So, there is variable pay. There is, this concept of variable pay. And, the fairness comes in, in terms of, the output of different employees. It is not, what the other person is getting. What you are doing, that should get you, this money. So, there is enhanced emphasis on, or increased pressure on, employees to prove their worth, now, more than, ever before. And, that leads to, a need for variable pay, and more acceptance of the variable pay.

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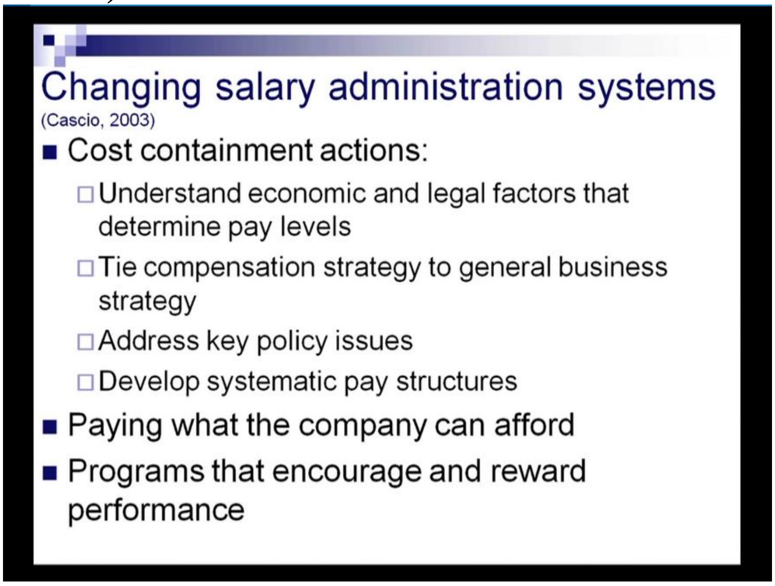

How are, the salary administration systems, changing. Salary administration systems, are employing, cost containment sections. That, in try and understand, cost containment means, to reduce, or to arrest, further costs to the organization. You limit, how much, or you put a slab on, how much the organization can spend, or should spend, on certain things. So, one is, organizations are increasingly trying to understand, economic and legal factors, that determine pay levels.

They are increasingly trying to figure out, how the law deals with, or what the law prescribes for, how much organizations, should pay to their employees. And, what the industry wants them to, or, how the markets need them, to pay their employees. They are also trying to tie, compensation strategy to general business strategy. Which is what, I talked about, in the previous lecture. You know, alignment of your business plan, with your compensation plan.

What should you do, to enhance, commitment from your employees, and to also make profit. So, this is a very delicate balance, that needs to be achieved. Address key policy issues, develop systematic pay structures. If the pay structure is systematic and robust, it cannot be challenged. It will be sustainable. And, that is what, the organizations are going towards. Paying, what the company can afford. Programs, that encourage, and reward performance.

So, you should not be, paying less than, what you can afford. And, you should also, not go overboard. And say, we look after our employees, no matter what. That can result in, further problems. So, they are also trying to implement programs, that encourage and reward performance.

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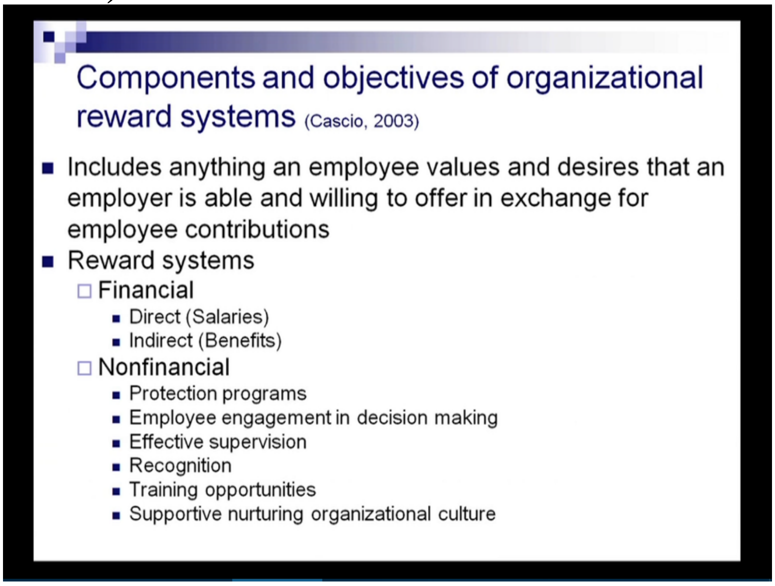


Then, some components and objectives of, organizational rewards systems. How do organizations, reward their employees. Rewards include, anything an employee, values and desires, that an employer is, able and willing to offer, in exchange for employee contributions. Not the regular basic minimum work, that you get a salary for. But, anything that, the company considers valuable. That the company in most cases, does not expect of you, within the regular job description.

So, if the employee is contributing more, then the employee gets more. And, some types of rewards systems, that are, there are financial. You get salary. Salaries are not rewards. Actually, you have the variable pay, and indirect rewards. And which are the benefits. Some non-financial rewards are, the protection programs. So, if you make a genuine mistake, in your, say, line of duty. Or, if you have a problem, in the line of duty. Then, the organization takes care of you, legally, financially, takes care of your health need, etcetera.

Employee engagement and decision-making. If you are doing better than the, especially better than the, organization needs you to do. Then, they may involve you in, decision-making at different levels. Some organizations, anyway, do it as, part of their policy. But, increasingly, organizations are realizing that, employees feel valued, if their opinions are also taken. And, so they select the employees, who is in opinions, they want to take.

Then, we have effective supervision. And, that is a non-financial reward. So, the supervision helps you. Supervisors give you feedback on, how to improve your performance. And, that is very subjective. And, recognition in terms of, what you do. And then, communication of this recognition, throughout the organization. Training opportunities. You do something well, and you say, i want to learn X. And, the organization says, okay, go. They will fund your travel. They will fund your stay. They will fund your needs, to learn more. So, you can come back, and keep contributing to the organization.

And, supportive nurturing organizational culture. I cannot emphasize on this enough. This is, the single most important thing, in running an organization, smoothly. We are all human beings. I will stress upon this, again and again. You and I are human beings. We do not want to be treated, like machines. We should not be treating, anyone else, like a machine. So, what do we need. We need an organization, that treats us like human beings. And, that is why, I love my IIT. I am going to say that, one big family. You make a mistake, you are given an opportunity, to rectify it.

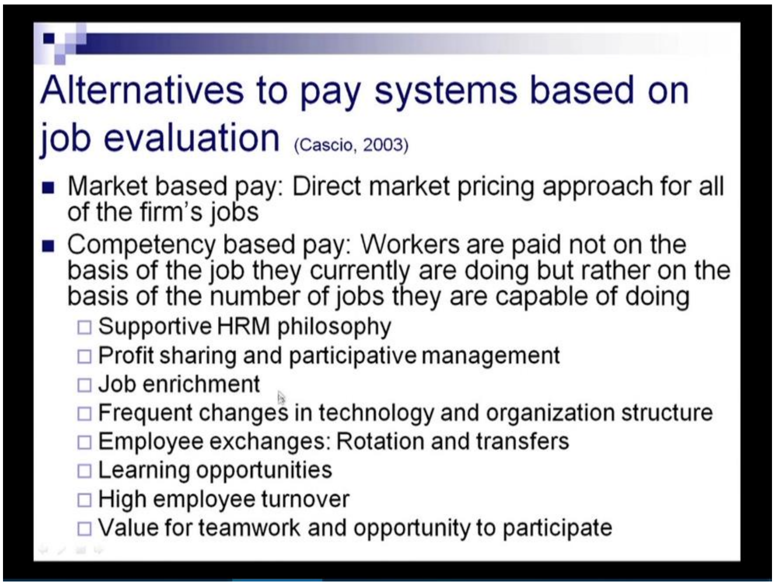
You make a mistake. And, unless, you repeat the same mistake, again, and again, and again, it is taken, in its stride. And, you are given an opportunity, to grow. You say, I want to learn X, and, they do not start. The administration does not start, by saying, prove it. Prove that, you want to learn something. You want to learn something. Okay. Go. We will trust that, you will learn something, new. And, you will come back, and you will, contribute to the organization. It is not, the other way around. A lot of people will question you, why should I spend, so much money. What is the guarantee that, you will learn something?

That does not happen in my organization. I say, I want to learn something. And, my seniors say, oh! Great, you want to learn. What do you want to learn? How can we help? Now, the minute, somebody says that, your commitment, you start bonding with the organization. And, you feel, have been nurtured. So, you feel guilty, about betraying their trust. You just cannot,

not learn. You say, I want to learn. And, they say, great. What can I do, to help? What can I do, to help you grow? What can I do, to help you learn? What you want to learn. And the minute, they say it, you say, oh! My god, I should not take their fair for granted.

I need to be, able to live up, to the expectations, they have, from me. So, what do you do. You go above and beyond, whatever is being expected of you. You come back, armed with all this, and you say, may I experiment it. And, they say, oh! Great, yeah, where? What can we do, to help? What can we do, to facilitate your experimentation? Again, pressure comes back on you. How I am going to prove that, whatever I have learnt, has been worthwhile, and will contribute to the organization. Because, the organization is trusting me, so much.

The minute, you trust your employees, they will do everything, in their capacity, to make sure that, your organization praises, that they do not betray your trust. And, that is the basic fundamental pillar, that human resources management, trusts on. Trust your employees. Nurture them. Be supportive of them. And, the chances of them, becoming deviant. The chances of them, not doing, what is expected of them. The chances of them, being unproductive, go down drastically. So, that is what, we mean by, supportive nurturing organizational culture.



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Alternatives to pay systems, based on job evaluation. So, you know, one is job evaluation. How much output, there is. The other alternative is, market-based pay. So, as the direct market pricing approach, for all of the firm's jobs, we compare, and we see, what similar jobs, in other organizations are being paid. And we, have the same compensation structure. Competency-based pay. Workers are paid, not on the basis of the job, they currently are doing, but rather on the basis of, the number of jobs, they are capable of doing.

It is not what, I am doing now. It is what, the organization perceives, I can do. So, they say, given an opportunity. X will do, A, B, and C. X could also do, D, E, and F. So, let us pay them, this much. So that, today, we do not need them to do, so many things. But, tomorrow, if I need this person to, maybe do job E, instead of job A and B. The person has the capacity to do it. Somebody else does not, but this person does. So, let me compensate them, for what they can do in future, for their ability.

And, this results, this is rests on, a supportive human resources management philosophy. You have to, want to support your employees, otherwise this will not run. The other is, profit-sharing and participative management. We need to take the opinions of our employees, into account, when we design policies, when we design programs, when we design, maybe, not so much, with the ultimate vision, mission, goals, objectives, of the organization.

But, how the organization runs, has to depend largely on, what employees say and feel about, what they are doing. And, when they give you feedback, please take it seriously. And, that will in turn, help them bond with the organization. And then, of course, profit-sharing. So, if you make a profit, share a little bit, with them. Give them a bonus. Give them an added benefit. And, you see, how close they become to you.

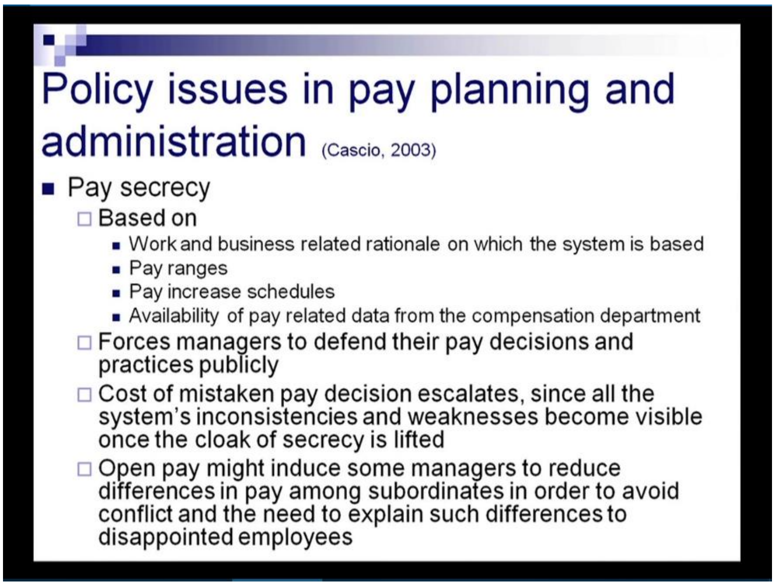
So, they feel that, since they are competent, they are doing their worth. Whatever is expected of them, they are being rewarded. Job enrichment deals with, enhancing opportunities within the job, for the employee, to grow. So, you say that, whatever you are doing, can be done in X, Y, Z way. And, you increase the involvement of the employee, in the same job, by either increasing the scope, or complexity, or doing whatever you can, to help the employee enjoy the job more.

Frequent changes in technology and organization structure. Again, this could be one big factor, in determining, competency-based pay. So, when we talk about, you know, technology changing, unless the person is adaptable to new technologies, or, if the organizational structure changes, from hierarchical structure, to a team-based flatter structure, if the organization is capable, they may not be able to function. But, that again, goes in to deciding, how you reward employees, for their competence.

Employee exchanges, rotation and transfers, help you understand, whether employees can function in other departments, in other roles or not. Learning opportunities are there. High employee turnover, again a function of, or decides the competency-based pay. It determines the competency-based pay. Because, you want people to immediately start contributing, when they come in.

So, you cannot, have fresh training programs, for newer employees, all the time. They need to come with, a certain set of skills, that can be adapted. So, the need for, again, if too many employees are moving out, then you may decide, to compensate them for, what they bring to the table, and not so much, for how long they have been, in the organization, or what they have been doing, in the past.

Value for team work and opportunity to participate is another factor, in deciding competency-based pay.



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Some policies and pay planning and administration. One is pay secrecy. We discussed about this, a little bit in, couple of lectures ago. Pay secrecy is, the disclosure or non-disclosure, the decision to disclose or not disclose, the salary that, one employee is getting, to another employee. Now, this is based on, work and business-related rationale, on which, the system is based. Pay ranges, pay increase schedules, availability of pay related data, from the compensation department.

It forces managers to defend, their pay decisions and practices, publicly. So, when we talk about, pay secrecy, we say, we will not disclose it. But then, it forces us to, if we are secretive, then more and more people, will want to know, why we are secretive. And, it forces us to become, a more systematic in the way, we maintain our pay records. So, that, we are questioned some day. Then, we have a clear-cut response.

The cost of mistaken pay decision, escalate. Since, all the systems inconsistencies and weaknesses, become visible, once the cloak of secrecy is lifted. Pay secrecy comes with, a big challenge, a big problem. You say, okay, I will not disclose my pay. And, no, I do not want employees to know, what the others are earning. And, so people start thinking, something must be wrong, for the organization, to keep its salary structure secret. What is wrong? What is going on?

And then, once the secrecy is lifted. Then, people have more opportunities, to point a finger at you. And say, hey, this is what you did wrong, and that is, what you did wrong. So, that becomes a big problem. Open pay might induce some managers, to reduce differences and pay, among subordinates, in order to, avoid conflict. And, the need to explain such differences, to disappointed employees.

Open pay system comes with its own challenges. And, one big challenge is that, everybody starts comparing, herself or himself, to others. A lot of time, pay decisions are made, in a very subjective manner. And, that is where, the problem comes in. If the decision has been made, in a subjective manner, then the ability to defend, what one has given to one employee, and not given to the other employee, becomes a suspect. And, can result in conflict, or can lead to conflict, between employees.

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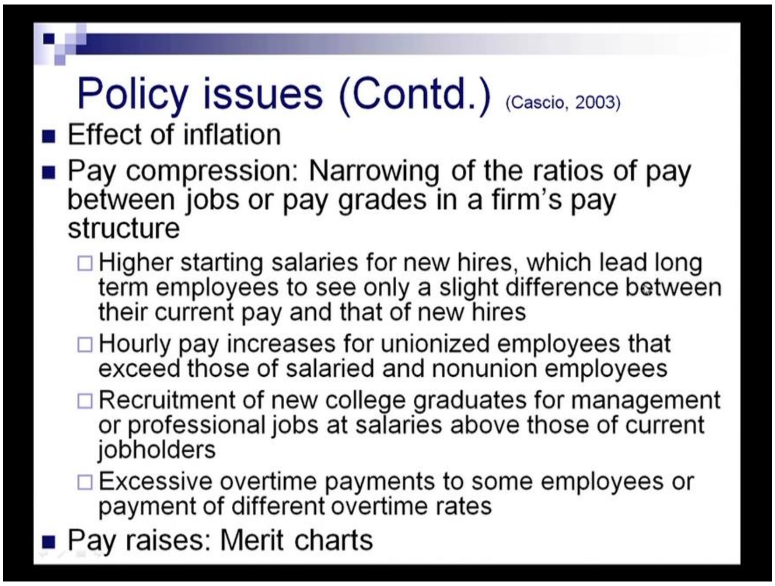


Another policy issue, in determining pay systems, is the effect of inflation. How do we determine pay systems? How does inflation, affect our pay systems? How do we adjust our pay systems, to inflation? Now, in government organizations, we have this concept of, dearness allowance. So that is what, takes care of the annual inflation, or periodic inflation, in. That just reminds us that, we are aware that, things are becoming more expensive.

And, this is how, we are going to compensate you for your, we will try, and we will try and make sure, or, we will we will try our best, to ensure that, your purchasing power remains similar. And, does not, is not affected, because of inflation. So, we have something called as a dearness allowance, to take care of that. We have pay compression. Pay compression refers to, the narrowing of the ratios of pay, between jobs or pay grades, in a firm's pay structure. This is slightly complicated concept.

So, I will explain this to you, in a little bit of detail. The pay grades are, sometimes, the ranges differ from one another, in various ways. So, there is a jump from, say, the level of assistant professor, to associate professor. Now, when we talk about, within the pay range for assistant professors, is clearly defined. And, to move from, say, an assistant professor, who joined two years ago, the salary, this person gets, to the salary of an assistant professor, who joined, may be, one year ago, is not too much.

But, there is a significant amount of difference, in the salary structure, of an assistant professor, and an associate professor. Now, this gap, between, these two grades, is sometimes reduced, so that people, do not feel. They feel, it is easier to progress, from one rank to another. They feel that, trust gap is reduced, as a result of compressing, these pay grades. So, you start paying people higher, sometimes, just to adjust for differences between, different types of employees. The range is increased, but the difference, between the grades is reduced.

So, senior assistant professor, for example, may not be earning, something very significantly, different from his junior associate professor. But, you know, within the range of pay, that is given to assistant professors. The senior-most assistant professor could be earning significantly different. The salary of the senior-most assistant professor, could be significantly different from, the salary of the junior-most assistant professor. So, the range is large. But, the grades have been compressed. And, the progression seems smoother.

Now, how do you do this. You have higher starting salaries, for new hires. Which lead, long-term employees, to see only a slight difference, between their current pay, and that of new hires. Now, this is one big problem, you have higher starting salaries. So, that, this is compressed. But, then people see, people who are already in the organization, see this as a problem, and unfair.

Hourly pay, increases for unionized employees, that exceed, those of salaried and non-union employees. So, pay compression can also be effected by, increasing the hourly pay, for unionized employees. So, but unfortunately, when we say, unionized employees, they are sometimes, the people, who put a lot more pressure on the organization, to compress the salaries.

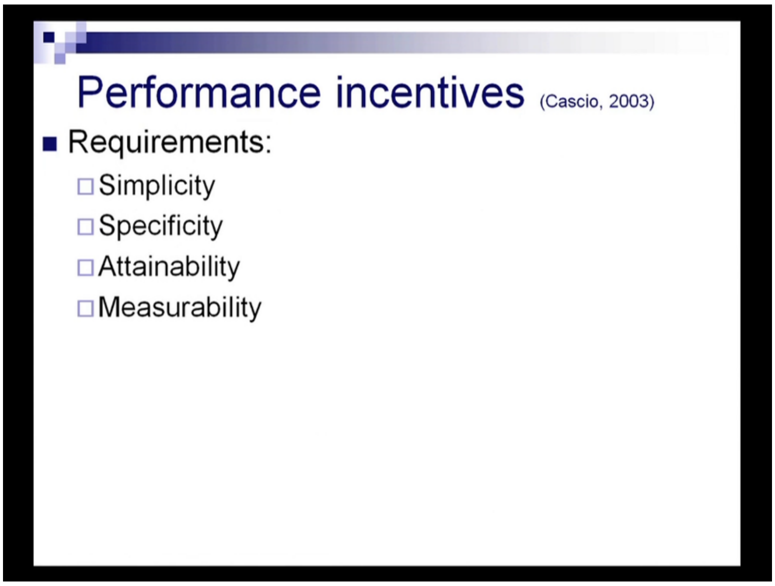
Now, people, who have salaries, cannot be given, an hourly pay raise. But, people, who do not have salaries, people, who are on contract, who are hourly wagers, can be given, a little bit more money. So that, the disparity between their salary, and the salary of a salaried, the pay, the money, they get, and the salary of a salaried person, is not too much. So, they are putting in the same amount of the work. And, they are getting paid by the hour. And, somebody else is putting the same amount of work, but is getting paid every month.

And, so, they say, okay. We have putting in, so much work. Why is there, a disparity. To reduce the disparity, you increase their hourly wage. But, you do not change the salaries, of the other employees. Recruitment of new college graduates, for management or professional jobs, at salaries, above those of current job holders, is another way, to reduce this gap. Excessive overtime payments, to some employees, or, payment of different overtime rates.

You work on a week end, you get extra money. You will work over, you know, after hours, you get extra money. And, that is one way of reducing, this pay disparity. So, that is, you know, one needs to keep, these things into account. And, then decide, whether one wants to compress the pay structure, or not.

Pay raises are dependent on, merit charts. What we call as merit charts. Merit charts are tools, that help us decide, who is worth, what to the organization. What is one bringing to the table. And, where does one standing, in terms of, what the organization expects, of her or him.

And, so, how meritorious one is, how capable one is, in terms of output within that organization. It is not dependent, on the number of gold medals, you have, or what you came to the organization, with. It is dependent on, what you did, once you entered the organization.



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Performance incentives. Incentives are additional benefits, we give to people, who perform better than, what is expected. Some requirements of performance incentives are, one is simplicity. They need to be, people need to understand, what they need to do, in order to, earn an incentive. They need to be specific. They need to be attainable. And, they need to be, quantifiable and measurable.

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Some incentives, that we can give to executives are, you know, when we talk about, incentives for executives, we need to keep a few things in mind. Why use, long-term incentive plans for. Should, we use, long-term incentive plans, for senior executives. If, yes. Why should we do it. Here are the reasons. Short-term incentives are, indicative of, and a result of short-term productivity. So, senior executives do something, the results of which, become visible, only after a certain period of time. And there, so they get that incentives, after a longer period of time.

Long-term plans encourage, stability for senior management. You know, you are going to get an incentive, after two, or three, or four years. And, after that, you know, so you work towards that goal. Development of new processes, plants and products, that open new markets, and restore old ones. So, long-term plans encourage, the setting up of new ventures. Long-term plans, help design strategic gains, rather than, short-term contribution, to profits. The short-term incentives are short lived.

So, long term plans encourage, the integration with strategy. Long-term plans also encourage, ownership of process and results. I started process-A. And, I am going to take it, to its final conclusion. So, that is what, incentives are. Now, we will look at, the detail of these incentives and reward plans, in the next class. But, for this class, this is all, I have for you, at this point. And, we will take it from here, in the next class. And, thank you very much, for listening. If you have any questions, please feel free to post your questions, on the forum, that has been provided, for the purpose. Thank you. I will see, in the next class.