

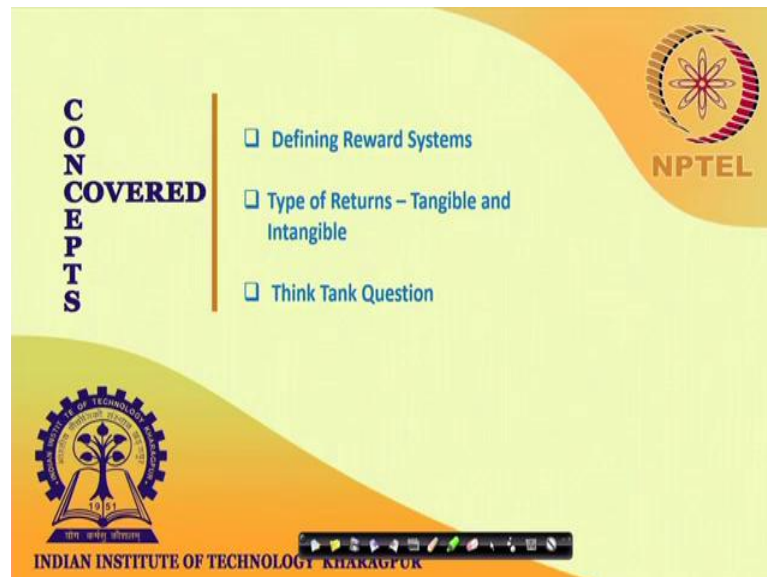
**Performance and Reward Management**  
**Prof. Susmita Mukhopadhyay**  
**Vinod Gupta School of Management**  
**Indian Institute of Technology, Kharagpur**

**Lecture – 03**

**Understanding Meaning of Performance Management and Reward Systems  
Management with Performance Management Process (Contd.)**

Welcome to the third module of the first week of the topic on Understanding Meaning of Performance Management and Reward Systems Management with Performance Management Process.

(Refer Slide Time: 00:41)



The topics for today's discussion are, define reward systems, type of returns, tangible and intangible. And will give you a question to ponder on which you may reply back in the forum discussion forum and which about which we will again continue our discussion.

(Refer Slide Time: 00:59)

**Defining Reward Systems**

A set of mechanisms that ensures the distribution of both tangible and intangible returns to employees in return of the services offered by them to an organization.

**Tangible returns:** Cash compensation like salary, short term and long term incentives

Now, when we start defining what is rewards systems, so we can understand it is a set of mechanism which ensures that the distribution of both tangible and intangible returns to employees in return of the services that they are offering to the organization. So, the pointer from highlight over here is you find like there are two important terms tangible and intangible returns.

So, when we talk of rewards we have to keep in mind like it is not only something that we can count and like salary and short term and long term incentives which needs always to be monetary in nature. But, there can be other intangible returns also and these returns are given to the employees in return of the services that they in return of the services offered to them offer to the organization by the employees.

So, we can understand it, it is a system which is based on the operant conditioning mechanism like the employees have to perform first. And, based on their performance the rewards are given as a recognition of their performance and also to motivate them to perform better and to reach the organizational objectives next in turn when they are performing. Here today we are going to discuss about the different types of rewards given by the organization and we have classified them under the heading of tangible returns and intangible returns.

Now, what are tangible returns? Tangible returns are like the cash compensation that we were talking of, it is like this salary, short term and salary, short term and long term incentives given by the organization to the employees in return of their services.

(Refer Slide Time: 03:25)

**Defining Reward Systems**

**Intangible returns:** Recognition, status, challenging work, opportunities for growth and development, Learning opportunities

It is important for us to understand that all returns may not share a correspondence with performance system. For e.g. a few allocations may be rather based on seniority

So, when we talking of the intangible returns, now intangible returns you see like these are again in terms of recognition, status, challenging work ; challenging work, opportunities for growth and development and learning opportunities. So, fourth see these are intangible in the sense like the fourth is you may not have always to spend lot of money.

But this is the attitude of the organization to recover to give value to the employees, to make them feel and really they also believe it is not only they make them feel the employees like they are important. But, the organization truly believes in the fact that the employees are really very important for us and it is their value, they are valuable assets for us and they need to be, their contribution to the organization needs to be recognized.

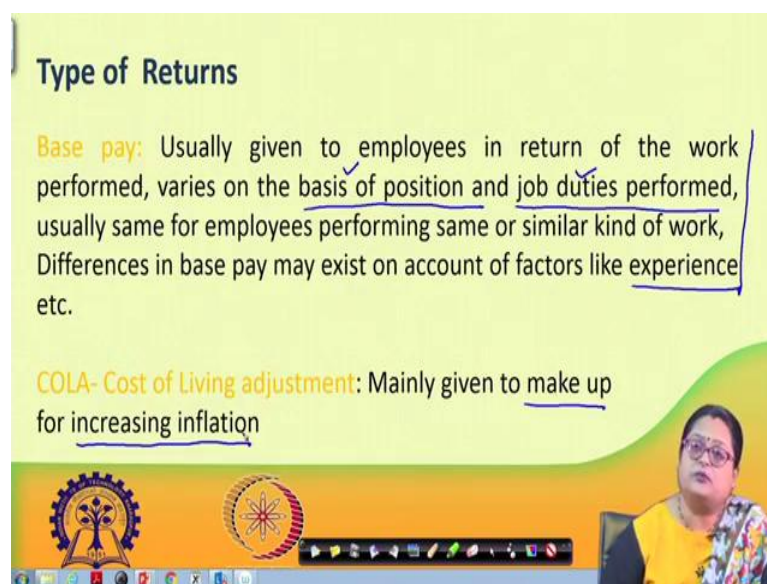
So, recognition status challenging work, sometimes what happens the work itself if it is very motivating in nature people will get interested to work, because that is giving them a sense of like achieving something of their need for achievement gets fulfilled over there. If I am able to do a challenging work and reach that objective I too have a sense of my competency like yes I can do something.

I can take up challenges and meet up those challenges; opportunity for growth and development in the employees' carrier is well planned in the organization. If through the different job exposures the employees get the opportunity for growth and development and also learning opportunities through the different job roles that the employee is taking up in the organization.

Then it gives them again a sense of fulfillment, it enriches their self esteem, it makes them feel more gives them a feeling of more self efficacy. So, all these are intangible returns that the organization can give which makes the employee feel more valuable toward self and socially valuable also. So, these are intangible returns given by the organization.

So, it is like also important to understand like here that all returns may not shared with a correspondence with a performance system. Few allocations may be rather based on seniority, but sometimes these are again pockets of ethical concerns. Like this is actually a point of debate, like when you were talking of reward management and performance management together; like should the rewards be based on rewards for performance, it is merit based on your performance or should it be based on the seniority. Your years of stay in the organization through which we like respect we recognize the loyalty of the person stay in the organization. It is a point of debate and we need to come to a balanced conclusion about it.

(Refer Slide Time: 07:45)



**Type of Returns**

**Base pay:** Usually given to employees in return of the work performed, varies on the basis of position and job duties performed, usually same for employees performing same or similar kind of work, Differences in base pay may exist on account of factors like experience etc.

**COLA- Cost of Living adjustment:** Mainly given to make up for increasing inflation

The slide features a green background with a yellow wavy border at the bottom. It includes two logos: a gear with a tree and a sun-like emblem. A woman in a yellow shirt is visible in the bottom right corner. A Windows taskbar is visible at the very bottom of the image.

So, when we talking of different types of returns given in the organization, now we will discuss them like one by one; it is the first is the base pay. Now, what was the base pay? So, it is the return which is given to the employees in return of the work performed. So, and it varies based on the nature of the position, the job duties performed.

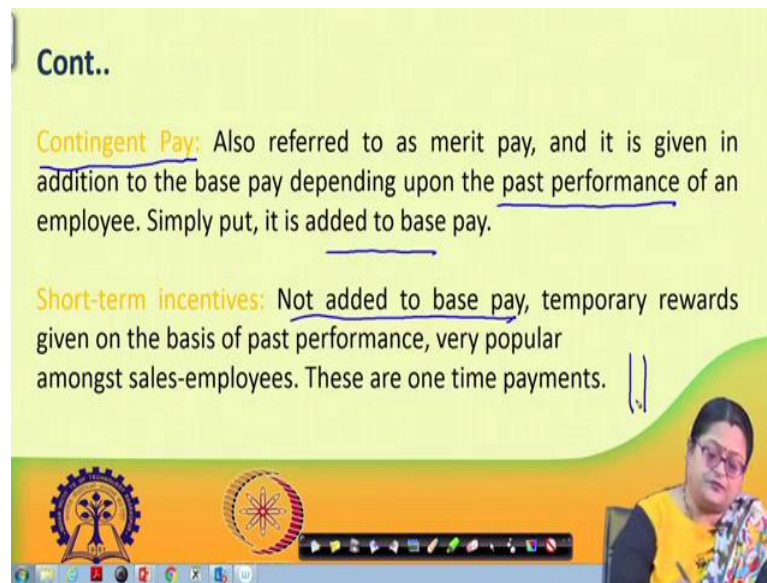
And it is generally same for workers perform your employees performing similar kind of work and these differences of base pay may exist on factors based on experiences, higher grades et cetera. So, base pay is the base that you get for the return of the work that you performed and it varies, this is important it varies, on the basis of position and job duties performed. This again we will come back later. How do we determine this base pay?

So, for this determining the base pay it is very important to understand the process of job analysis and the process of job evaluation also. Because you see the focus of this difference in base pay is in the basis of position and the based on that position the different job duties performed. So, if we are not able to classify the jobs properly if you are not able to understand like with transition from position maybe one to position two in the hierarchy. Then what are the different role expectations that are increasing, then it we cannot justify the difference in the base pay.

So, as it varies according to the job position in the duties performed it is very very important to do a proper job analysis and job evaluation. We will come back on these discussions in the later part of our different modules. So, and that is why you see like differences in base pay may exist on account of factors like experiences.

That is also told because the more you progress through the organization the different job roles that you go through you like get to understand more complex roles. And, in more which requires more may be responsibilities taken for the organization and that is how you are pay may vary. When you talk of COLA which we talk of Cost Of Living Adjustment, it is mainly given to make up for increasing inflation. So, it is on top of the base pay.

(Refer Slide Time: 11:11)



**Cont..**

**Contingent Pay:** Also referred to as merit pay, and it is given in addition to the base pay depending upon the past performance of an employee. Simply put, it is added to base pay.

**Short-term incentives:** Not added to base pay, temporary rewards given on the basis of past performance, very popular amongst sales-employees. These are one time payments.

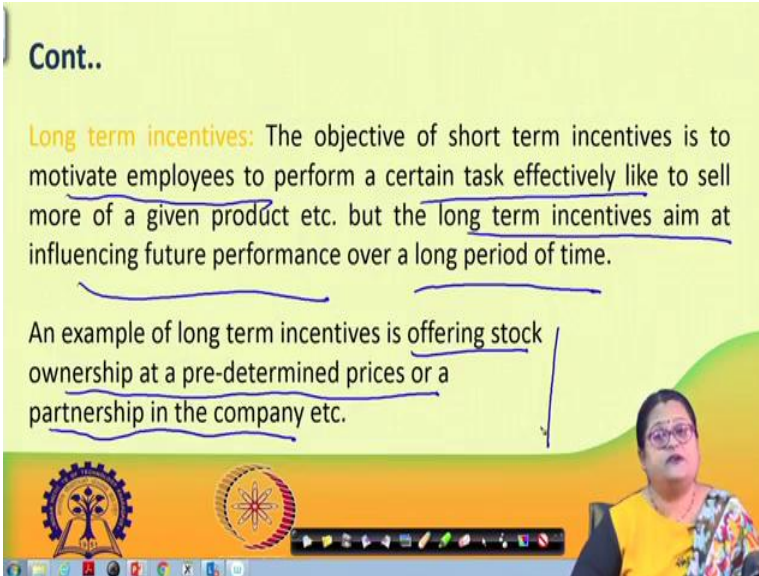
Contingent pay this is also known as merit pay and this is given in addition to the base pay depending on the past performance of an employee, so it is added to base pay. So, here we see depending on your past performance what is that payment that you get which is when we talk of contingent, the word contingent is important.

So, you have to understand your payment is contingent on something and this contingent on what contingent on your past performance and this we called performance based pay. When we talk of short term incentives, so these are temporary rewards given on the basis of past performance very popular amongst the self employees, but the difference with the contingent pay is that it is not added to base pay. So, though contingent pay and short term incentives are both based on performance, payment for performance, but we have to understand contingent pay is added to the base pay. But short term incentives are not added to the base pay these are temporary rewards even based on the basis of past performance.

So, where you are talking of this short term incentives later on we need to when will be discussing in details about reward management system and designing of rewards. Here in this chapter we are introducing you to the different kinds of rewards, but when we discuss in details about the reward management system. We will pick up each of these topics and we are going to discuss on how to design this.

So, that it acts as a reinforcer we have to understand like when you are talking of performance based pay. And it is based given on the base of past performance or the organizations why it is giving is, is to motivate the person to continue that level of performance if it is good one or to improve on it or to like perform better next time. So, it should act as a reinforcer for the person, so how to design this incentive is a very challenging task for the HR persons. And in our next courses of discussion we are going to discuss on these issues also.

(Refer Slide Time: 14:11)



**Cont..**

**Long term incentives:** The objective of short term incentives is to motivate employees to perform a certain task effectively like to sell more of a given product etc. but the long term incentives aim at influencing future performance over a long period of time.

An example of long term incentives is offering stock ownership at a pre-determined prices or a partnership in the company etc.

Long term incentives, in long term incentives; so what is the difference with a short term incentive and a long term incentive? It is like when you focused on short term incentive it is like focused in a particular task. Like with the, it is to motivate the employees to perform a certain task effectively like, to sell more of a given product.

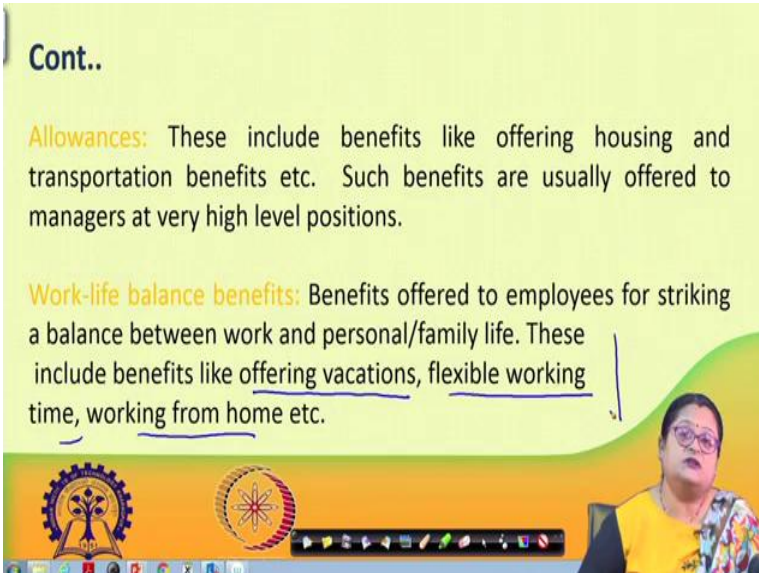
But when we talk of long term incentives it is more realizing the fact like you are the employees a valued member of the organization. And, this feeling of worth in the employee may improve the future performance of the employee in the organization and it may lead to continued performance over time. So, the long term incentives that is given it is influencing future performance over a long period of time.

So, it is not that you are performing now because, focused on your short term incentive given, but if a long term incentive is given you continue with better performance, so that is very important. An example is, offering stock ownership at a predetermined prices or a

partnership on the company. So, here you will see the focus on the long term incentives that is given it is trying to recognize employees as the owners of the company also.

So, when you are offering stock ownership in a predetermined prices and the partnership in the company it is trying to offer you a ownership of the company. And, it gives a feeling to the person it is my company and when you have that feeling of its my company; I am one of the owners of this company in whatever small proportion maybe, it gives you a sense of commitment to the organization to perform in a better way. So, that is the motto of giving a long term incentive.

(Refer Slide Time: 16:51)



**Cont..**

**Allowances:** These include benefits like offering housing and transportation benefits etc. Such benefits are usually offered to managers at very high level positions.

**Work-life balance benefits:** Benefits offered to employees for striking a balance between work and personal/family life. These include benefits like offering vacations, flexible working time, working from home etc.

Allowances; these includes benefits like offering, housing and transportation benefits, so these are generally offered to people who are in a very high level position. There are certain benefits like which focus on work life balance benefits these are like giving you vacations, flexible working time, working from home et cetera.

See for this, what is required is designing the rewards properly. When we will talk of, later on we'll talk of cafeteria benefits, I will talk of perks and like allowances in a much in depth where you get to understand the whole gamut of the whole picture of the reward system in which when you talk of; in work life balance when you see these includes benefits like offering vacations, flexible working time, working from home these requires a lot of thinking on the part of the organization.



So, that about the employees and there are different life situations what will make their life easy, so that they can balance both their work and the family, their life, their social life. So, this requires a lot of thinking on the part of the HR people and this when we talk of work life balance, benefits these are sometimes more important as compared to the salary because, people need try to look for work which helps them to do equal justice to all the different roles that they have in their life.

(Refer Slide Time: 19:05)



**Cont..**

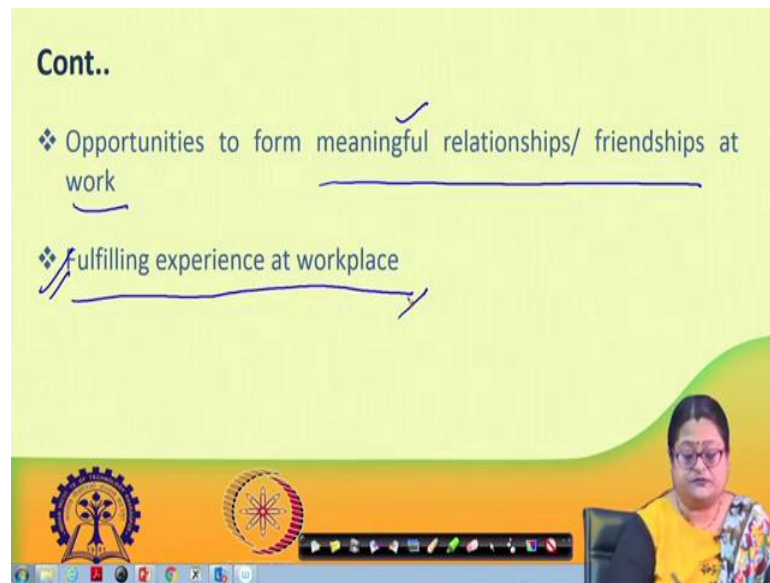
**Relational or Intangible Returns:** These returns are intangible in nature and include elements like:

- ❖ Recognition and Status
- ❖ Security of Job
- ❖ Opportunities to learn and grow

The slide also features the logos of IIT Bombay and NPTEL, and a small video inset of a woman in the bottom right corner.

When we talk of intangible returns these are like intangible and may include elements like recognition and status, security of the job and opportunities to learn and grow.

(Refer Slide Time: 19:25)



Opportunities to form meaningful relationships and friendships at work and fulfilling experience at work; so, when we talk of recognition and status at work these are important points in the sense like knowing each employee by their name; recognizing their contribution, giving them a status sometimes work wonders.

Security in the job: some people like in the different life stages, in the different career stages may be more concerned about the security in the job. So, some basic sense of security in the job gives you a sense of like stability and these are important. Opportunities to learn and grow of course, is a important in the sense, if I do not see myself growing in the organization then it becomes a problem; why should I stay in the organization if I do not see like I am going to develop as a person, I am learning something new, I am able to like be, I am becoming more equipped as I am staying in the organization, I am becoming a better human being or a better person in terms of getting more equipped with different competencies.

So, opportunities to learn and grow are also very important for the employee and these are taken to be important intangible returns. Opportunities to form meaningful relationships at and friendships at work; so, this is also important nowadays like people are more people are more into forming friendships and relationships, networking at work and we have found may be from the past Hawthorne studies also. Like if you have a set of likeminded people who are working together or with whom you can exchange your

thought process like, in which gives you brief feeling that improves your performance with the organization.

It is very important to share your feelings with each other, it not only improves your performance, but it also gives you a sense of it makes you out of stress. Because you get a peer support to understand you as a person, who understands your thought process, can give you certain ideas which will help you in better decision making.

So, meaningful relationships and friendships at work are important for you like performing in a better way. And, the organization has to find out how to give avenues for this friendship to the employees, but the word meaningful relationship is important. We have to understand like these friendships and relationships you not act contra to the organizational objectives.

So, how the organizational promoted meaningful relationships and friendships can happen and people are able to utilize this relational strength, relational capital for their own development and development the organization as such is what the organization needs to take care of, design and monitor. Fulfilling experiences at work are also very important like how to set challenging goals, how to get the employees involved in those challenging goals and, how to give them a sense of fulfillment, what are the rewards like how what are the incentives to be given for it, then what recognition has been given for it.

So, all these are going to design the fulfilling experience at work, we have to really design for this fulfilling experience at work, keeping in mind the employees nature also. So, the in order we may design for a challenging work, but that, but how to design it step by step gradually increase the difficulty level. Because, it should not in the process of developing a challenging work we should not like pose a threat to the employee where the employee feels suffocated in nature, so how to design for it is also very important.

(Refer Slide Time: 24:45)



**Think Tank**

Do you think Performance Management and Reward Management are related?

If yes, How?

So, the thing that question we told like we at the start we told you let me be giving you a question for to ponder on, it is like do you think performance management and reward management are related? In performance management we discussed like how the organizations objectives are first designed, how it is thought of. Then how it gets cascaded into the departmental of department's objectives and, then to the individual levels goals and objectives. And, what they need to the activities that they need to do, how to monitor it, how to take feedback about it and how to see how that they can improve.

And in reward management we are talking of it is a set of returns given to employees in return of the work that they are performing and it is given in terms of tangible rewards and in terms of intangible rewards also. Now, here is a challenging question for you like whether performance management is related with the reward management system. And, whether can we discuss on, whether we should always give tangible returns whether we should give nothing in terms of tangible.

We should only giving recognition and status and growth opportunities to the employees or it should be a mixture to what kind of work will give, what kind of reward and how it can be linked. Whether it is at all linked? and if linked what kind of work, for what kind of reward we are going to give or whether tangible and intangible and or do we, we may make the people like not focused on any reward, they are only self motivated to do. And

we do not recognize, we do not give any reward. The answer is with you, please think on it; we will come back with this discussion again in your next upcoming modules.

Thank you.