

**Performance And Reward Management**  
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**Lecture - 31**

**Understanding linkage between performance management and reward, an overview of various types of reward; financial reward, non-financial reward; contingent pay scheme; bonus scheme; team pay; rewarding for business performance; recognition scheme**

Welcome to this week's module on Understanding the linkage between performance management and reward, an overview of various types of reward; financial reward, non-financial reward; contingent pay scheme; bonus scheme; team pay; rewarding for business performance and recognition scheme.

So, in this section, in this topic we are going to slowly introduce you to the in-depth of the different reward management techniques which are there, different kinds of rewards that which are there, how to calculate for those things, in which situations to use them. And, slowly we will move you through all the different kinds of the whole gamut of compensation which is there in the organization.

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But, before we do that we will discuss the linkage between the performance management and the rewards and we will discuss on some of the theories which guides the performance management and the pay theories, and like how to link these two things

together. So, the concepts that will be covered today are economic theories explaining pay levels, components of compensation, and bonus. So, let us begin.

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**Economic theories explaining pay levels**

The law of supply and demand  
Other things being equal, if there is a surplus of labour and supply exceeds the demand, pay levels go down; if there is a scarcity of labour and demand exceeds the supply, pay goes up.

Practical significance  
Emphasizes the importance of labour market factors in affecting market rates.

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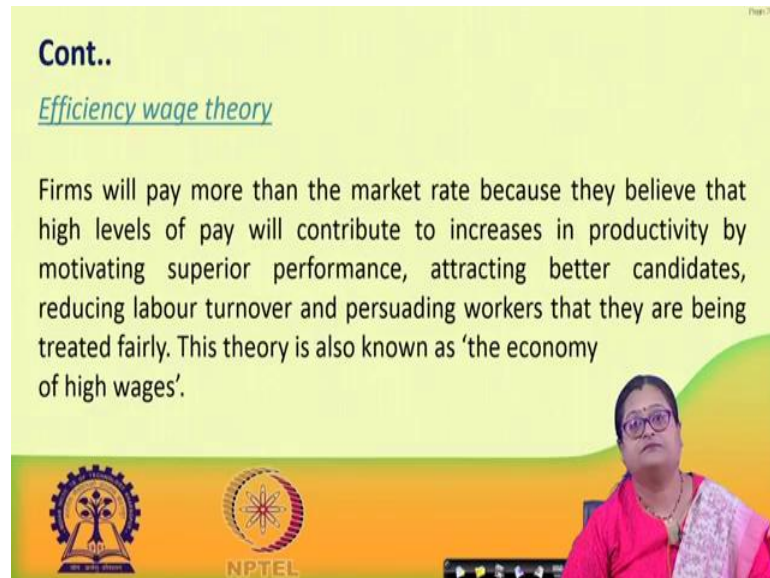
The different economic theories which explain the pay levels are first is of course, the law of supply and demand. So, if other things are being equal, we understand like if there is a surplus of labour and supply exceeds the demand then of course, pay level will go down. However, if there is a scarcity of labour and the demand exceeds the supply pay level goes up.

What are the practical significance of these things are it is it focuses on the importance of labour market factors in affecting the market rates for payment. So, we understand like this theory also has an important link with the skill enhancement competency development because if we understand like if there are many people like you then maybe and many have the same type of skills, then maybe your market worth comes down and your pay level goes down also.

But, if there is a scarcity of labour and if you tell it like the scarcity of the maybe talent that you are possessing then and it the, this and the demands are more the supply in terms of good talent is less but, the demands are more than the pay goes up and your compensation goes up also. And, so it emphasizes on like if there is an increase in the talent supply and then like if you can make yourself more like competent in comparison

to others and there is a demand of that competency in the market then of course, your pay level goes up.

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Efficiency wage theory

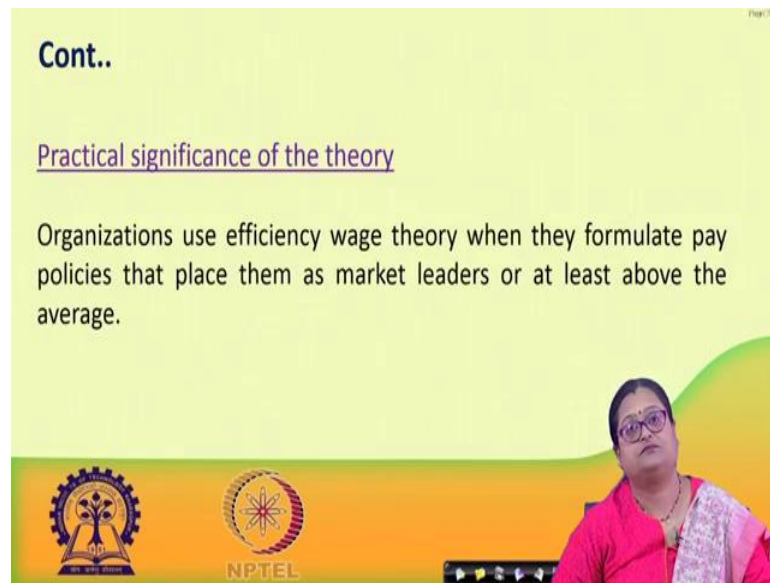
Firms will pay more than the market rate because they believe that high levels of pay will contribute to increases in productivity by motivating superior performance, attracting better candidates, reducing labour turnover and persuading workers that they are being treated fairly. This theory is also known as 'the economy of high wages'.

So, in efficiency wage theory, this theory tells like the firms will be more than the market rate because they believe that high levels of pay will contribute to increase in productivity by motivating superior performance, attracting better candidates, and reducing labour turnover and persuading workers that they are being treated fairly. So, this theory is also known as the economy of high wages.

So, this is again a decision taken by the firm that they will pay above the market rate, more than the market rate because then this if you are going to pay this high levels of pay, so we it is believed like this will lead to higher productivity by maybe motivating superior performance and getting better candidates and reducing labour turnover. And, so, but we have to deal with it, question this practice also because we understand when you are discussing about the financial and the non-financial rewards.

Like paying high salary definitely yes, it is important, but it is not the whole story like when you are talking of like high levels of pay will contribute to increases in productivity this is an assumption that we are having. So, but again we understand the good work culture, good facilitating working environment, opportunity to learn, good team to work with these also are important factors which help in motivating the people to contribute in a better way for superior performance and increase in the productivity.

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Practical significance of the theory

Organizations use efficiency wage theory when they formulate pay policies that place them as market leaders or at least above the average.

Now, what is the practical significance of this theory is this organizations use efficiency wage theory when they formulate pay policies that place them as market leaders or at least above the average. So, they pay they try to place people above average, they try to place the organization above average and by paying high salary they try to attract more people towards them.

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**Human capital theory**

Workers have a set of skills developed by education and training that generates a stock of productive capital.

Practical significance

Employees and employers each derive benefits from investment in creating human capital. The level of pay should supply both parties with a reasonable return on that investment.

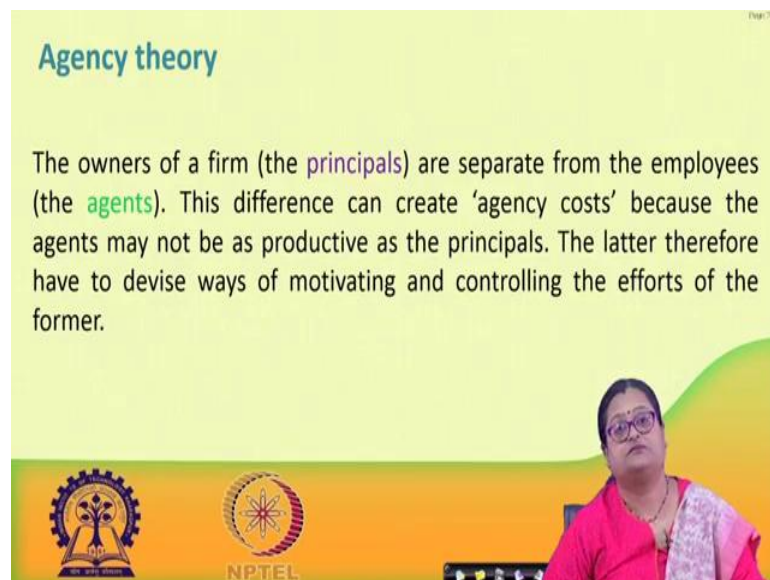
Human capital theory: the workers have a set of skills developed by education and training that generates a stock of productive capital. So, what is the significance practical

significance of this theory is that like the employees and employers each derive benefits for from investing in creating a human capital. So, the level of the pay that is given should supply both the parties with a reasonable return on that investment.

So, when we talk of human capital developing a human capital as I was telling like developing your talents, developing your competencies it requires a lot of time investment; it literally may be a monetary investment also on the part of the employee to grow his or her talent to develop his or her competencies, for a like particular nature of work and become like more effective and efficient. Similarly, like and good pay given for it like it gives a reasonable return on that investment.

Similarly, for the organization which like invest in making you get training and you know they develop your competencies and by paying more to it so, they get also a better output in terms of your productivity from a better candidate, a talented candidate. So, in that case like it is a win-win situation for both the parties for the investment which is made in developing the human capital by education and training.

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**Agency theory**

The owners of a firm (the **principals**) are separate from the employees (the **agents**). This difference can create 'agency costs' because the agents may not be as productive as the principals. The latter therefore have to devise ways of motivating and controlling the efforts of the former.

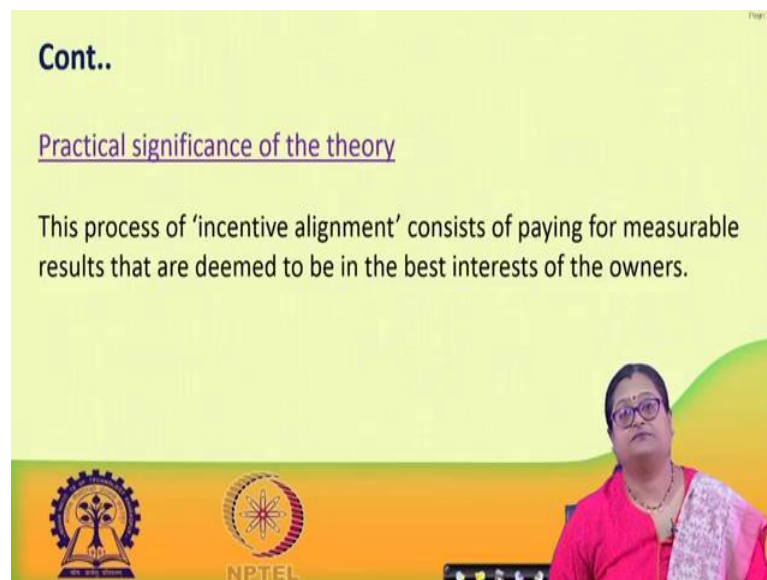
The slide also features logos for IIT Bombay and NPTEL at the bottom left, and a small video feed of a woman in a pink shirt at the bottom right.

When we talk of the agency theory it is the this theory tells like the owners of a firm or the principals are separate from the employees that is the agents. So, the difference can create agency cost because the employees, the agents may not be as productive as the principals. The latter therefore, have a have to devise ways of motivating and controlling the efforts of the former.

So, this is again an ownership issue, ownership problem like when we talk of it is my organization in terms of like me being the principal and it is the employee who is like agent who does not have maybe that ownership for the organization. So, the difference creates the agency cost like in terms of ownership and so, they may not feel that attachment or be as productive as the principals.

Now, these agency costs can be taken care of by developing some organizational wise incentive in terms of ownership plans and that we are going to share it with you again when we will be discussing in details about the incentive schemes in the next session.

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Practical significance of the theory

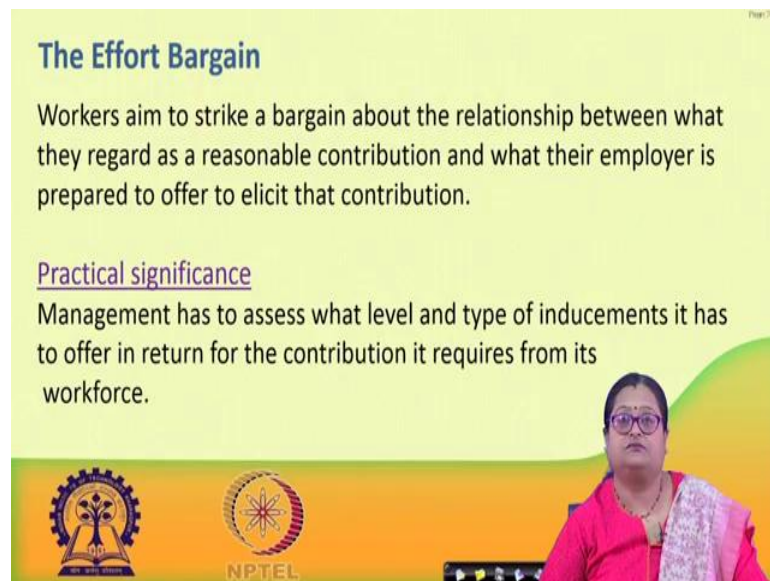
This process of 'incentive alignment' consists of paying for measurable results that are deemed to be in the best interests of the owners.

Now, the practical significance of this theory is that this process of incentive alignment consists of paying for measurable results that are deemed to be the best interests of the owners. So, we will pay the incentives in such a way like the to measure to find out those performances, to find out those outcomes which are deemed to be important from the best interest of the owners in terms of like determining the progress of the organization.

Because, there is a gap between how the owner perceives what are the organizational benefits and what are the progresses the organization is supposed to do and because there is the ownership gap in terms of the agencies. So, the employees may not all always perceive in that way and they may not feel that degree of motivation attachment like that of the owners.

So, when we talk of this agency theory, then we talk of like designing the rewards in such a way like those critical events those critical performances which best map with the vision mission and strategy of the organization gets like more rewarded, paid more. And, so, that is what we talk of like process of incentive alignment consists of paying for measurable results that are deemed to be in the best interest of the owners.

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The slide is titled "The Effort Bargain" in blue text. Below the title, it states: "Workers aim to strike a bargain about the relationship between what they regard as a reasonable contribution and what their employer is prepared to offer to elicit that contribution." Underneath, there is a section titled "Practical significance" in purple, followed by the text: "Management has to assess what level and type of inducements it has to offer in return for the contribution it requires from its workforce." The slide features a green and yellow background with a white curved shape on the right. At the bottom, there are logos for IIT Bombay and NPTEL, and a video feed of a woman in a pink shirt and glasses.

Next the theory that we discuss over here is that of Effort Bargain. When we talk of effort bargain we understand like the this is from the workers side they strive try to strike a bargain about the relationship between what they regard as reasonable contribution and what their employer is prepared to offer to elicit that contribution. So, again it is a named bargain about like the employment contract, a part of psychological contract is also over there.

So, because they what they regard as a win it is very important to get the workers mindset to understand, what they regard as a reasonable contribution and what they have to like bargain there to understand also to do that reasonable contribution what is their organisation prepared to offer to elicit that contribution.

So, the practical significance of this is because this is a bargain situation so, this is also a zone of like approach an approach forward to each other and before which maybe there is like after which more concessions cannot be given. So, again we have to understand

for these the practical significance is that management has to assess what level and type of inducement it has to offer in return for the contribution it requires from its workforce.

So, this is again the organization has to understand what are the what are its capabilities to like offer something. So, in order to get a particular level of contribution what are my capabilities to offer to like suit the demands maybe of the workforce. So, it is very important to assess ones capabilities to understand what level and type of inducement it has to offer in return for the contribution it requires for its workforce from its workforce and to find out whether it can offer those things or not.

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The slide is titled "Components of compensation" in green text. Below the title, it states: "The major components such as Basic salary, DA, Incentives have been discussed earlier. Here we will discuss other aspects of pay." This is followed by a sub-heading: "Let's begin with **Direct /Base Compensation**". The main text defines direct compensation as "monetary benefits (tangible rewards) offered and provided to employees in return of the services they provide to the organization." The slide features a yellow background with a green wave at the bottom. On the left, there are logos for an institution and NPTEL. On the right, a woman in a pink top is visible, likely the presenter.

Based on these so, these are the different theories which guides like what kind of compensation will be given for what kind of performances and do you pay at the market rate, do you pay above the market rate, what do you focus on, is your focus is on human capital development or is your focus on like if you bargaining the workers bargaining about the effort. So, what is the philosophy that is guiding you and your organization is going to determine the components of compensation and the type of your emphasis on the different components of compensation that you are giving and how you design for it.

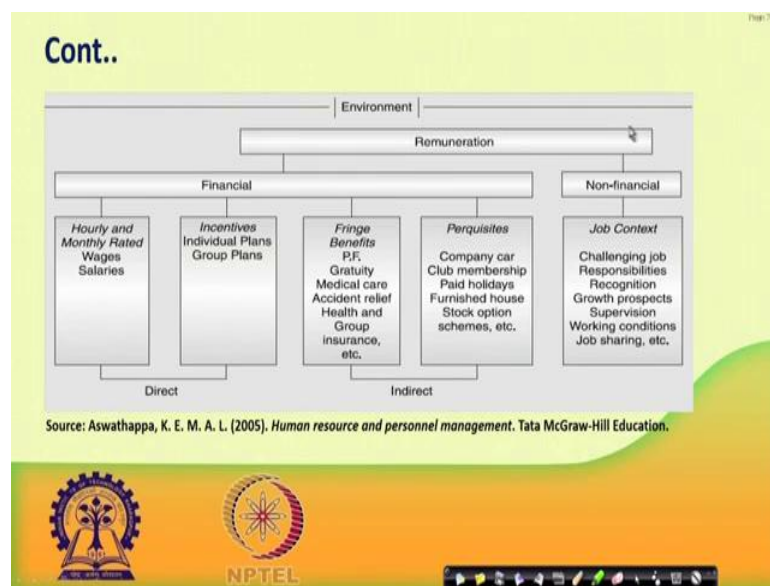
So, now we will look into the different components of compensation and in the forthcoming discussions we are going to slowly introduce you to the different components of compensation. We will be discussing on each one of them in details and then with examples and then we will move forward along with it. So, the major



components of compensation are like the basic salary and incentives have been discussed earlier also, but again we will here we will discuss the other aspects of pay.

So, the first thing that we begin with are like direct or base compensation. So, these are like direct compensation the monetary benefits, tangible rewards offered it is the monetary benefit or the tangible rewards offered and provided to employees in return of the services they provide to the organization. So, these are called direct or base compensation.

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So, if you see like the chart that we have over here which shows about the whole gamut of the compensation that we have. Then, here we were in the initial discussion today we were discussing about the environment, which consists of the market scenarios, which consists of like the what other competitors are paying so, that which has an effect on the remuneration. And, when we talk of remuneration it can be broadly classified and the two headings which we call financial remuneration and non-financial remuneration.

Financial remuneration also can be classified into two– three groups like hourly and monthly rated which we have already discussed under wages and salaries. Incentives are individual plans and group plans connected with the performances and these together consist of the direct payments. In under remuneration and the financial remuneration, we also have fringe benefits like provident fund, gratuity, medical care, accident relief, health and group insurance et cetera. And, the perquisites like company car, club

membership, paid holidays, furnished house, stock options and schemes et cetera. And, these comes under the indirect financial compensation.

Under non-financial compensations we have job context in which challenging job, responsibilities, recognition, growth prospects, supervision, working conditions, job sharing et cetera are very important. So, what we find the whole financial components of the compensation can be subdivided into the direct and the indirect part and also there is a non-financial part of the compensation.

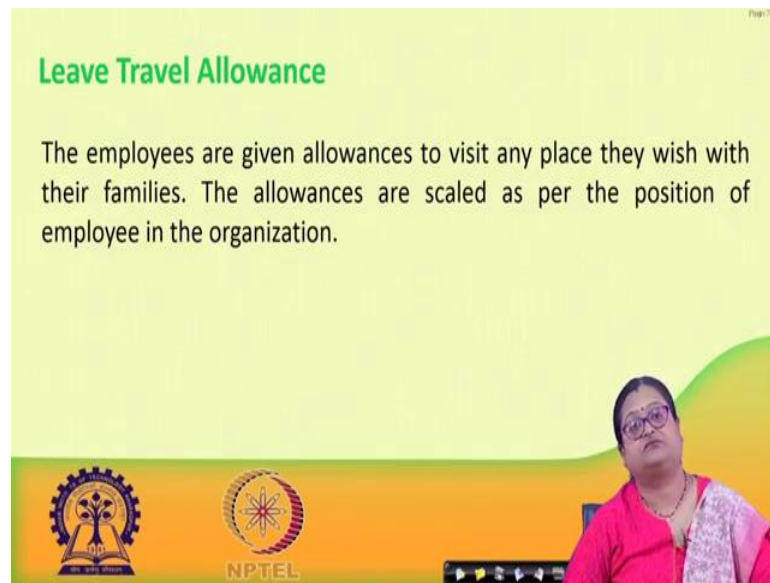
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The slide is titled "Direct /Base Compensation" in orange text. Below the title, it lists monetary benefits: "The monetary benefits include basic salary, house rent allowance, conveyance, leave travel allowance, medical reimbursements, special allowances (i.e. Variable pay), bonus, PF/Gratuity, etc." The slide has a yellow background with a green wave at the bottom. In the bottom right corner, there is a video feed of a woman with glasses and a pink top. At the bottom left, there are logos for IIT Bombay and NPTEL.

So, when we talk of the direct or base compensation so, it includes the basic salary, house rent allowances, conveyance, leave travel allowance, medical reimbursements, special allowances that is variable pay, bonus and then PF, gratuity et cetera.

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**Leave Travel Allowance**

The employees are given allowances to visit any place they wish with their families. The allowances are scaled as per the position of employee in the organization.

The slide features a light green background with a yellow and orange gradient at the bottom. On the left, there are two circular logos: one with a gear and a tree, and another with a star-like pattern. The text 'NPTEL' is visible below the second logo. A woman with glasses, wearing a pink top, is visible in the bottom right corner of the slide.

Leave travel allowances are given to employees to visit any place they wish with their families. The allowances are scaled as per the position of the employee in the organization.

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**Medical Reimbursement**

Organizations also look after the health conditions of their employees. The employees are provided with medi-claims for them and their family members. These medi-claims include health-insurances and treatment bills reimbursements.

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Medical reimbursement: so, these are organizations also look after the health condition of their employees. The employees are provided with medi-claims for them and their family members. These medi-claims include health-insurances and treatment bill reimbursements.

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**Bonus**  
Bonus is paid to the employees during festive seasons to motivate them.

**Special Allowance**  
Special allowance such as overtime, mobile allowances, meals, commissions, travel expenses, reduced interest loans; insurance, club memberships, etc are provided to employees

The slide features a green background with a yellow gradient at the bottom. It includes the logos of the Indian Institute of Technology (IIT) and NPTEL. A presenter is visible in the bottom right corner.

When you talk of bonus, bonus is paid to the employees during the festive season to motivate them. So, special allowances like overtime, mobile allowances, meals, commissions, travel expenses, reduced interest loans, insurance, club membership are also et cetera are also provided to employees.

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So, when we talk of direct compensation it comes with medical reimbursement, basic salary, bonus, special allowance, house rent allowance.

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Tracing back to history, bonus started as an adhoc and **ex gratia** payment. During World War II Bonus was claimed as dearness allowance. In the course of labour history, it has metamorphosed from a reward for good work into a defensible right & just claim. Under the **Payment of Bonus Act, 1965**, it had secured the character of **legal right**. It is argued that bonus is a deferred wage payment which aims at bridging the gap between actual wage & the need based wage.

The slide features a yellow background with a green gradient at the bottom. On the left, there are two circular logos: the first is the Indian Institute of Technology (IIT) logo, and the second is the NPTEL logo. On the right, a woman with glasses and a pink top is visible, appearing to be speaking or presenting. The text is centered on the slide.

So, if we trace back to history bonus started as an adhoc and ex gratia payment. However, during World War II bonus was claimed as dearness allowance. So, in the course of labour history, it has metamorphosed from a reward to good work reward for good work into a defensible right and just claim. So, under the Payment of Bonus Act, 1965, it had secured the character of legal right. So, it is argued that bonus is a deferred wage payment which aims at bridging the gap between actual wage and the need based wage.


So, if you see this history of bonus it was like something which was given as a by the employer as act of goodness has now become a legal right and claim and it is taken to be a deferred wage payment which aims at bridging the gap between the actual wage and the need based wage.

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It is also said bonus is a share of the worker in the prosperity of the organisation.

The third argument is that bonus is primarily a share in the surplus. Recently, the government approved amendments to the Bonus Act, 1965 raising the limit for calculations of bonuses. Earlier this act only covered employees that were earning up to Rs. 10,000 per month and lower. However, the amendment has raised this ceiling to **Rs. 21,000.**

The slide features a yellow background with a green and orange gradient at the bottom. On the left, there are two circular logos: the first is the Indian Institute of Technology (IIT) logo, and the second is the NPTEL logo. On the right, a woman with glasses and a pink top is speaking. The text is in black, with the new ceiling amount 'Rs. 21,000' highlighted in purple.

It is also said that bonus is a share of the worker in the prosperity of the organization. So, another argument about bonus is that it is a share of the employee in this surplus. So, the recently, the government has approved amendments to The Bonus Act, 1965 raising the limit for calculation of bonuses. Earlier this act only covered employees that were earning up to rupees 10,000 per month and lower. However, the amendment has raised the ceiling to rupees 21,000 so, more people will not, will now be covered under getting bonus.

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This has been done with the intention of bringing more employees under the eligibility of the Bonus Act.

**Who is the Bonus Act applicable to?**

The Bonus Act 1965, is only applicable when all of the following conditions are met:

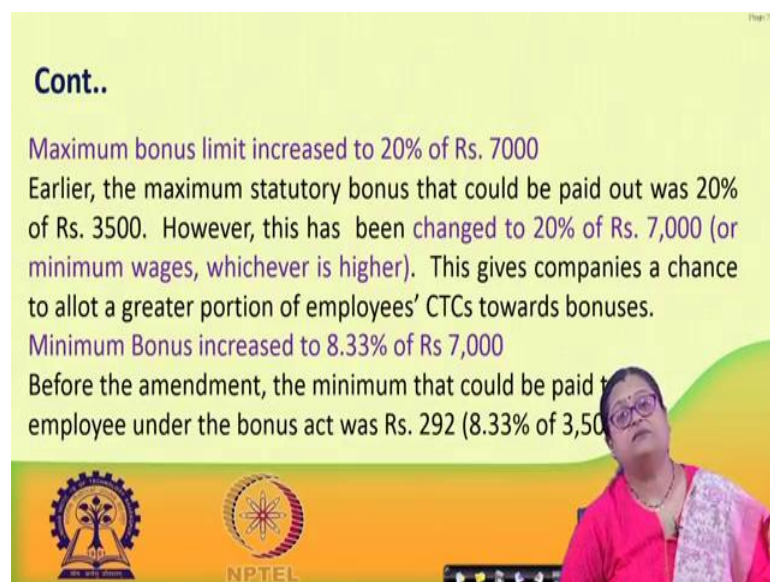
- The company is at least 5 years old
- The company has at least 20 employees
- The company has made a profit in that year
- The employee's wages are not more than 21,000 every month

The slide features a yellow background with a green and orange gradient at the bottom. On the left, there are two circular logos: the first is the Indian Institute of Technology (IIT) logo, and the second is the NPTEL logo. On the right, a woman with glasses and a pink top is speaking. The text is in black, with the list of conditions in red.

So, this has been done to bring in more people under the coverage of Bonus Act. So, we have to understand like who is the bonus applicable to who are the people who can be covered under bonus. The Bonus Act 1965 is only applicable when all these conditions are met. So, the company is at least 5 years old. The company has at least 20 employees. The company has made a profit in that year. The employee's wages are not more than 21,000 every month.

So, these are the criteria like the company is at least 5 years old; the company has at least 20 employees; the company has made a profit in that year; the employees' wages are not more than 21,000 every month.

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Maximum bonus limit increased to 20% of Rs. 7000  
Earlier, the maximum statutory bonus that could be paid out was 20% of Rs. 3500. However, this has been changed to 20% of Rs. 7,000 (or minimum wages, whichever is higher). This gives companies a chance to allot a greater portion of employees' CTCs towards bonuses.

Minimum Bonus increased to 8.33% of Rs 7,000  
Before the amendment, the minimum that could be paid to employee under the bonus act was Rs. 292 (8.33% of 3,500)

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So, the maximum bonus limit has increased to 20 percent of Rs 7000. Earlier the maximum statutory bonus that could be paid was 20 percent of Rs 3500. So, however, this has been changed now to 20 percent of Rs 7000 or minimum wage, whichever is higher. This gives companies a chance to chance to allot a greater portion of employees' CTCs towards bonuses.

Minimum bonus increased to 8.33 percent of 7000. Before the amendment, the minimum that could be paid to employee under the bonus act was Rs 292, 8.33 percent of 3500. So, we are discussing here at length about the bonus act the bonus because these paying bonus and when to do it, how to do it, how much bonus to give is often a crucial questions for HR people who are dealing with mainly with a labour forces and

workforces who are like in factories and other places where to like who become eligible for bonus and how to calculate these bonuses.

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However, this amount has been doubled to become Rs. 583( or 8.33% of the minimum wages, whichever is higher).

**Disqualification for bonus**

An employee shall be disqualified from receiving bonus under this Act, if he is dismissed from service for,-

➤ fraud; or





Now, the minimum amount has been doubled to become Rs 583 or 8.33 percent of the minimum wages whichever is higher. Disqualification in bonus is like if an employee shall be disqualified from receiving bonus under the Act, if he has dismissed from service or for like fraud.

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➤ riotous or violent behaviour while on the premises of the establishment; or

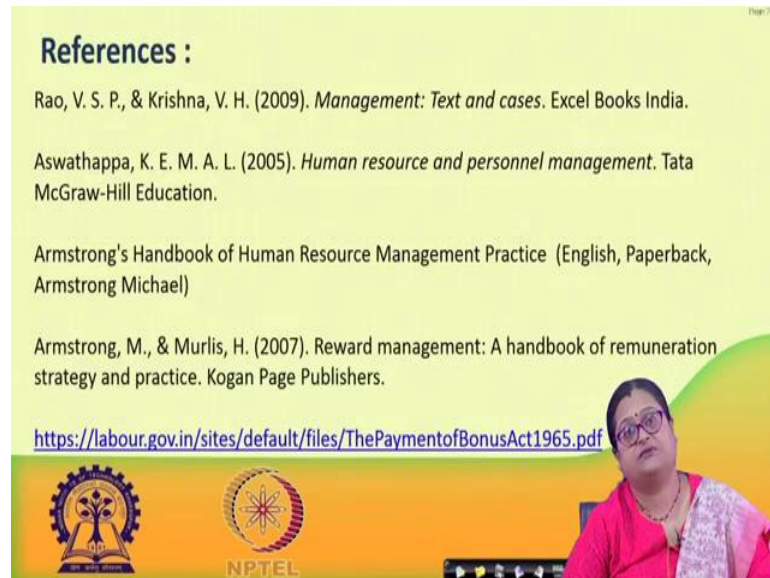
➤ theft, misappropriation or sabotage of any property of the establishment.





Or violent behaviour while in the premises of the establishment. Or theft, misappropriation, sabotage of property of the establishment.

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**References :**

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The slide features the logos of IIT Bombay and NPTEL at the bottom. A small video inset in the bottom right corner shows a woman with glasses and a pink shirt.

So, these are the references that we have for this discussion. In the next session we will be focusing more on the Incentive Plans.

Thank you.