

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

Lecture - 35

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 (Contd.)

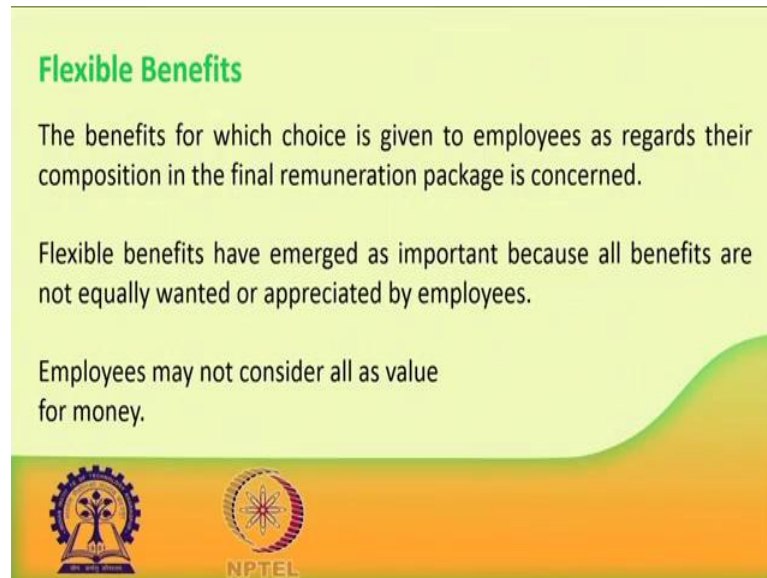
Welcome to the topic on Understanding linkage between performance management and reward, overview of various reward types, financial reward, non financial rewards, contingent pay scheme, bonus scheme, team pay, rewarding business performance and recognition scheme. We were discussing on the various types of benefits.

(Refer Slide Time: 00:45)



Today in concept we will discuss more about benefits which we understand as a flexible benefits. In the last module we have discussed about fringe benefits today we are going to discuss on flexible benefits.

(Refer Slide Time: 01:01)



Flexible Benefits

The benefits for which choice is given to employees as regards their composition in the final remuneration package is concerned.

Flexible benefits have emerged as important because all benefits are not equally wanted or appreciated by employees.

Employees may not consider all as value for money.

The slide features a light green background with a wavy orange and yellow border at the bottom. At the bottom left, there is a logo for IIT Bombay, and at the bottom center, there is a logo for NPTEL.

Now, what is the flexible benefit is? It is the benefits for which choice is given to employees as regards their composition in the final remuneration package is concerned. So, what you understand is like in flexible benefits the choice given to the employees are like what will be the composition in the final remuneration package is concerned is decided by the employees themselves.

And the flexible benefits have appeared, emerged is important because we understand due to the difference in needs of the employees all benefits are not equally wanted or appreciated by employees and all benefits employee may not consider as value for money. So, flexible the beauty of flexible benefit is that it is tune to the differential need of the different kind of employees or for a single employee at different stages of life.

(Refer Slide Time: 02:21)

Why Flexible benefits?

- ❖ Such benefits help in meeting the diverse needs of employees.
- ❖ Enable employees to get better value for money
- ❖ Aid recruitment and selection- make employment attractive
- ❖ Help in controlling costs via substitution

The slide features a green and yellow background with a woman in a pink shawl in the bottom right corner. Logos for IIT Bombay and NPTEL are visible at the bottom.

So, why flexible benefits? Flexible benefits help in meeting the diverse needs of employees, it helps employees to get a better value for money, aid recruitment and selection because it makes employment attractive and it helps in controlling costs via substitution because I am not going to apply for those benefits which we do not want and I am going to apply for only those which we want. So, in that case like by substitution you can like former like basket of benefits which are actually required by the employees.

(Refer Slide Time: 03:09)

Cont..

- ❖ Help harmonize terms in mergers
- ❖ Increase satisfaction
- ❖ Help in controlling attrition

The slide features a green and yellow background with a woman in a pink shawl in the bottom right corner. Logos for IIT Bombay and NPTEL are visible at the bottom.

So, also it helps in harmonizing terms in mergers like what will be the benefits as required by the different employees from like two organizations which are merging together, it increases satisfaction level of employees and it helps in controlling attrition also.

(Refer Slide Time: 03:37)



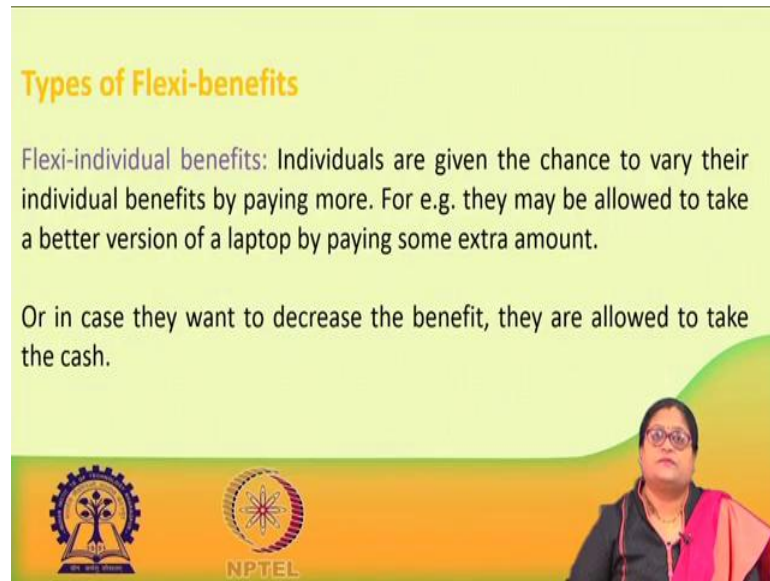
Cont..

- ❖ Display employer's care towards employees of an organization
- ❖ Help in making compensation packages competitive
- ❖ Many times are added to meet legal requirements like maternity leave in India and other countries

More importantly it displays employer's care towards the employees of an organization because I am trying to tailor-made the benefits as per the requirement, need of the employees which shows like it is the more personal and person specific approach toward designing the benefits rather than thinking it's all have required similar kind of benefit in giving a blanket set of arrangement for every employee in the organization without consideration to their specific need.

So, when we talk of this flexible benefits it is more of a personal touch of the employer's knowing what are the priorities now in a employees life and what kind of benefits is going to like be more suitable or attractive to them. So, also it helps in like answering to the legal requirements like maternity leave and India and other countries also it helps in making compensation packages competitive.

(Refer Slide Time: 04:59)



Types of Flexi-benefits

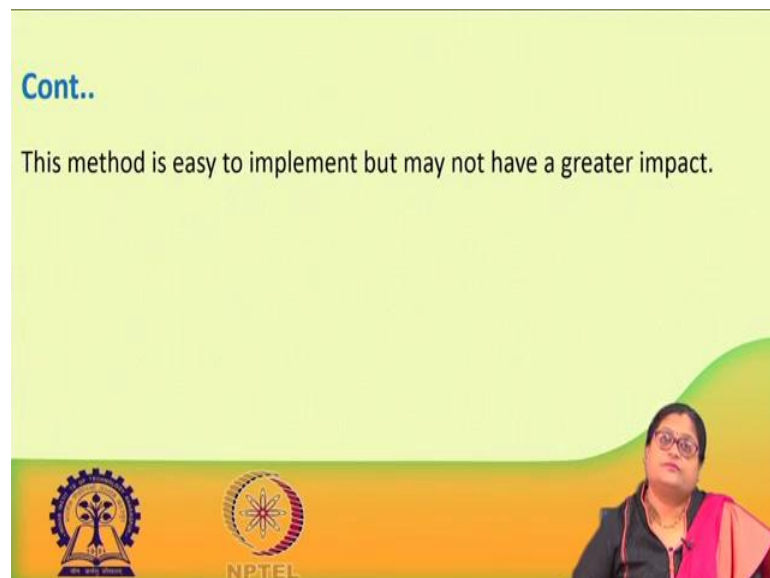
Flexi-individual benefits: Individuals are given the chance to vary their individual benefits by paying more. For e.g. they may be allowed to take a better version of a laptop by paying some extra amount.

Or in case they want to decrease the benefit, they are allowed to take the cash.

The slide features a light green background with a yellow-to-green gradient at the bottom. It includes the logos of IIT Bombay and NPTEL, and a video inset of a woman in a pink and black sari.

Now, we will discuss about the different types of flexi benefits. Flexi individual benefits here individuals are given the chance to vary their individual benefits by paying more. For example, they are allowed to take a better version of laptop by paying some extra amount or in case they want to decrease the benefit they are allowed to take the cash. So, either you pay something extra as a top up and you get a better version of benefit or you can decrease the benefit and you can like take the cash.

(Refer Slide Time: 05:51)



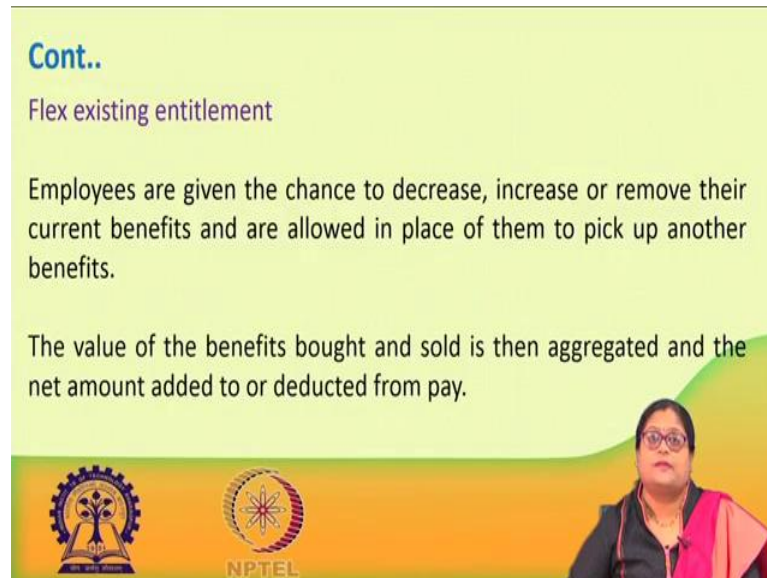
Cont..

This method is easy to implement but may not have a greater impact.

The slide features a light green background with a yellow-to-green gradient at the bottom. It includes the logos of IIT Bombay and NPTEL, and a video inset of the same woman in a pink and black sari.

This is easy to implement, but may not have a greater impact in the sense because the employee may see like I have to get a better version as a need to get a better service I am having to pay more. And the again when the cash is given they very hard to like equalize the fact like we what is the like compromise in the benefit quality of the amount the person is making in lieu of the cash that is given back to the employee.

(Refer Slide Time: 06:33)



Cont..

Flex existing entitlement

Employees are given the chance to decrease, increase or remove their current benefits and are allowed in place of them to pick up another benefits.

The value of the benefits bought and sold is then aggregated and the net amount added to or deducted from pay.

The slide features two logos at the bottom left: the IIT Bombay logo and the NPTEL logo. A woman in a pink and black sari is visible in the bottom right corner of the slide.


Flex existing the entitlement this is where employees are given the chance to decrease increase or remove their current benefits and are allowed in place of them to pick up another benefits. The value of the benefits bought and sold as then aggregated and the net amount is added to or deducted from pay.

(Refer Slide Time: 07:13)

Understanding through example – Example of variations

Benefit	Standard entitlement	Selected entitlement	Monthly cost saving (or extra cost)
Holidays	25 days	22 days	£35
Car	Lease cost £300 per month	£240 per month	£60
Company pension contribution	10% of salary	10% of salary	Nil
Private medical insurance	Cover for self	Cover for self, partner and child	(£45)
Dental insurance	Nil	Nil	Nil
Childcare vouchers	Nil	£200 per month	(£200)
Total monthly adjustment			(£150)

Source: Armstrong, M., 2010. *Armstrong's handbook of reward management practice: Improving performance through reward*. Kogan Pp. 390



Now, we have to like understand through example the various variations. So, like the if the benefit is for holidays standard entitlement is 25 days, selected entitlement is 22 days monthly cost saving is or extra cost is 35. If you see like the if we go through it like in car also what is the standard entitlement and least cost and what is the selected entitlement and then the cost or like saving done.

If you see in dental insurance then there is nil in standard entitlement selected entitlement is also nil and monthly cost saving is also nil. So, this in this way to find over here where the saving is done the this amount is added back to the salary of the employee, but here when you see like the standard entitlement for like private medical insurance the standard entitlement is only for self. But the employee is trying to like get something more cover for self and partner and child this amount will be deducted from the employee salary because he or she is trying to get something opt for something more.

(Refer Slide Time: 09:11)

Flex-fund

Employees are given a fund which they can use for taking benefits from a menu.

This is also called as a cafeteria approach

The slide features a green background with a yellow wave at the bottom. On the left, there are two logos: the Indian Institute of Management (IIM) logo and the NPTEL logo. On the right, there is a small video inset of a woman speaking.

Flex fund; so this is where what you find like the employees are given a fund with which they can use for taking benefits from a menu. So, this is also called a cafeteria approach.

(Refer Slide Time: 09:33)

Example of Flex-fund benefits

Benefit	Minimum choice	Maximum choice	Price
Holidays	20 days	30 days	0.4% of salary per day
Lease car	£300 per month (£3,600 per annum)	£500 per month (£6,000 per annum)	Annual lease times 1.25 (to allow for insurance and maintenance)
Company pension contribution	5% of salary	15% of salary	Face value less 10%*
Private medical insurance	Cover for self only	Cover for self, partner and children	£500 each per adult. £200 for one or more children
Dental insurance	n/a	Level 3 cover for self, partner and children	£40, £100, £180 per individual for Level 1, 2 or 3 cover, respectively
Childcare vouchers	n/a	20% of salary	Face value less 5%*

Source: Armstrong, M., 2010. *Armstrong's handbook of reward management practice: Improving performance through reward*. Kogan Pp. 391

The slide features a green background with a yellow wave at the bottom. On the left, there are two logos: the Indian Institute of Management (IIM) logo and the NPTEL logo. On the right, there is a small video inset of a woman speaking.

Now, we will try to see some of the flex fund benefits. What we see over here like you can see to the examples like if it is holidays his minimum choice is 20 days and maximum choice is 30 days and the price difference is 0.4 percent of salary per day.

If it is lease of a car then you see again the monetary difference which happens and such is for all of the things. These examples are like self explanatory and you can see like

what are the minimum choice is and the maximum choice is what is the difference in price happens and like how the person can choose from all this things to find out like what is the amount that the person is getting and what is that benefit that the person can choose for.

So, this is where you find like the it has to be concern with a specific fund is given; a specific fund is given to the employee and he has to choose from the again the benefits given and the maximum and the minimum limit of the benefit given and what is price difference.

So, accordingly if a person is given an amount of fund he can, he or she can pickup from the basket of choices that is given and find out like make use of his or her own like basket in which all this whatever he or she wants to get the benefit x. Now, what is the difference with this one is here the whatever difference with the flex existing entitlement is. Here they are given the choice of course, like to decrease increase or remove the current benefits and allowed to place to take something in place of them. So, this here the benefit lists are given and the focus is on the benefits presently existing benefits and what the employees like decides to increase or decrease out of it and the whether the same amount want to replace something which is of the similar kind.

But whenever we are talking of the flex funds benefit. So, here the focus is on the fund given and here they are given a particular fund and they are they can use it for taking benefits from a particular menu that is given and they can adjust it to like whether to a minimum level or to a maximum level for a certain kind of benefits from a menu chart sort of they can select like with that fund whatever benefits they can like opt for themselves.

(Refer Slide Time: 13:25)



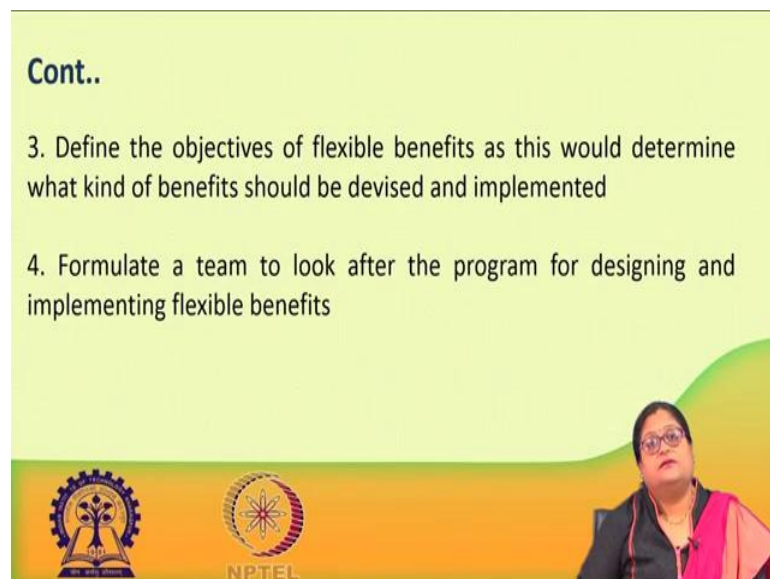
Introducing Flexi-benefits

1. Define benefits in terms of meeting the diverse needs of employees and using them as an attractive mode for recruitment and selection.
2. Seek employees on current benefits and what kind of flexible benefits they look for and ones they do not prefer at all

The slide features a light green background with a yellow-to-orange gradient at the bottom. On the left, there are two circular logos: the first is the logo of Anna University, and the second is the NPTEL logo. On the right, there is a small video feed of a woman with glasses, wearing a pink and black sari, speaking into a microphone.

Now, when we want to introduce flexi benefits, it has to be defined in terms of the diverse needs of the employees and using them as an attractive mode for recruitment and selection. Employees need to we have to go and survey with the employees regarding the current benefits and what are the flexible kinds of the benefits that they look forward to and ones that they do not prefer at all.

(Refer Slide Time: 14:03)



Cont..

3. Define the objectives of flexible benefits as this would determine what kind of benefits should be devised and implemented
4. Formulate a team to look after the program for designing and implementing flexible benefits

The slide features a light green background with a yellow-to-orange gradient at the bottom. On the left, there are two circular logos: the first is the logo of Anna University, and the second is the NPTEL logo. On the right, there is a small video feed of the same woman from the previous slide, speaking into a microphone.

Define the objectives of the flexible benefits as this would determine what kind of benefits should be devised and implemented. Formulate a team to look after the program for designing and implementing flexible benefits.

(Refer Slide Time: 14:31)



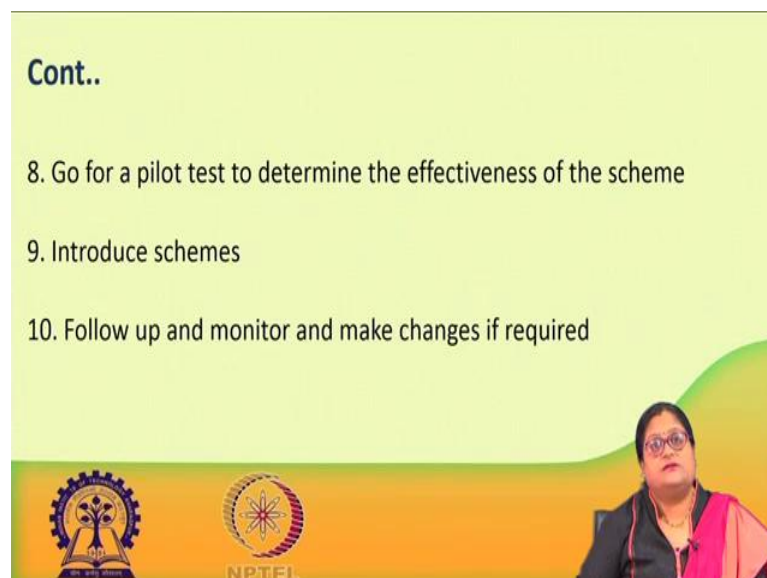
Cont..

5. Fix responsibility for designing and implementing programs
6. Finalize on Flex-schemes
7. Communicate such schemes to employees.

The slide features a light green background with a decorative orange and yellow wave at the bottom. On the left, there are two logos: the Indian Institute of Technology (IIT) logo and the NPTEL logo. On the right, a woman with glasses and a pink shawl is visible in a video call window.

Fix responsibility for designing and implementing the programs this is very important some people must be entrusted with the responsibility for designing and implementing the programs. Finalize on flex schemes like what are the different schemes that should be rolled under the flexible benefits schemes. Communicate such schemes to the employees.

(Refer Slide Time: 14:59)



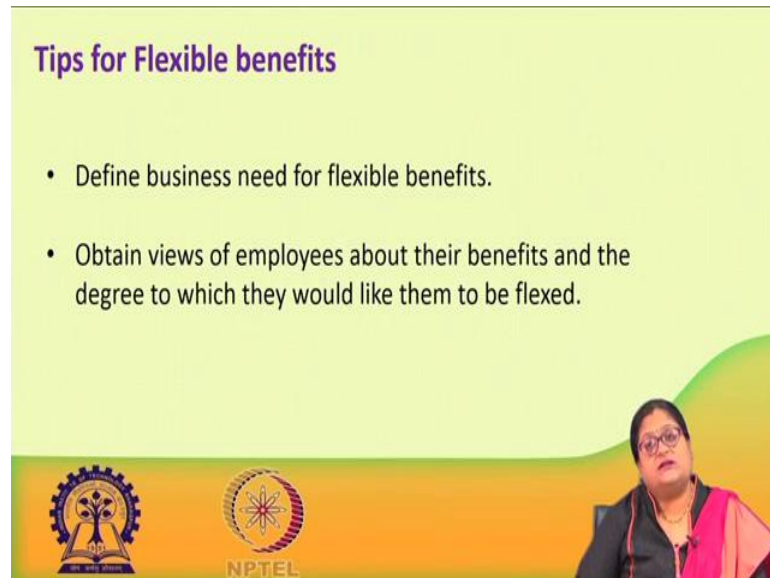
Cont..

8. Go for a pilot test to determine the effectiveness of the scheme
9. Introduce schemes
10. Follow up and monitor and make changes if required

The slide features a light green background with a decorative orange and yellow wave at the bottom. On the left, there are two logos: the Indian Institute of Technology (IIT) logo and the NPTEL logo. On the right, a woman with glasses and a pink shawl is visible in a video call window.

Next is just very important that a pilot testing is done to determine the effectiveness of the scheme, introduce the scheme, follow up and monitor and make changes if required.

(Refer Slide Time: 15:21)



Tips for Flexible benefits

- Define business need for flexible benefits.
- Obtain views of employees about their benefits and the degree to which they would like them to be flexed.

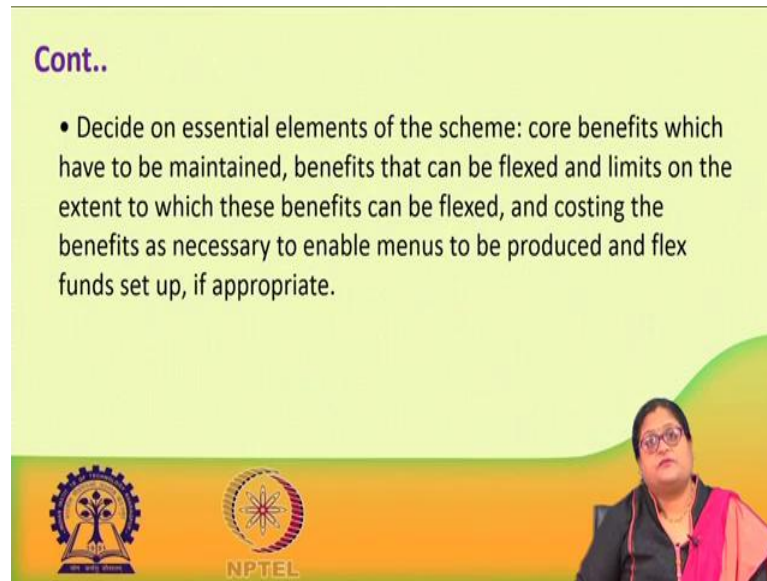
The slide features a light green background with a purple title. At the bottom, there are logos for IIT Bombay and NPTEL, and a video feed of a woman in a pink shawl.

Now, what are the tips for flexible benefits? The first one is to define the business needs for flexible benefits, what is the business need purpose that is going to serve like if you are introducing flexible benefits. Obtain views of the employees about the benefits and degree to which they would like them to be flexed. So, it is because the benefits are designed for the employees it is very important that they need to their views need to be taken care of to understand like fringe benefits are to be flexed and to what degree.

(Refer Slide Time: 16:07)

Cont..

- Decide on essential elements of the scheme: core benefits which have to be maintained, benefits that can be flexed and limits on the extent to which these benefits can be flexed, and costing the benefits as necessary to enable menus to be produced and flex funds set up, if appropriate.



We have to decide on like the essential elements of a scheme and what you find like their certain core benefits which have to be maintained, benefits that can be flexed and also the limits on the extent to which these benefits can be flexed and costing the benefits as necessary to enable menus to be produced and flex funds set up if appropriate. There are certain core benefits which is needs to be maintain and when you are talking a benefits that can be flexed and to on which extent this benefits can be flexed. So, we have to like go back again the examples that you saw. So, here you see like whenever we are talking of like the extent to which benefits can be flexed.

Here in case of flex fund benefits also you have minimum choice and the maximum choice level for each of the benefits. Suppose like for holidays we have minimum choice of 20 days and maximum choice of 30 days. For leasing a car 300 pounds for a month to which is a minimum choice and maximum choice is 500 pounds for month. When we talking of company pension contribution it is minimum is at least 5 percent of salary and maximum choice is 15 percent of the salary.

Private medical insurance is for minimum level is for cover for self only. Maximum level cover for self, partner and children. So, that may be you are not going to like cover for you think you will be covering for extended family you will be covering for neighbors. So, that is not possible; so there is a maximum limit of choice. For dental insurance the minimum choice is not applicable because like you have to this is by default it is the year

like you are you have to take care of your like dental insurance. And when you talking of maximum choice it is like level 3 which is a cover for self, partner and children. For child care vouchers minimum choice is not applicable, but for maximum choice is 20 percent of salary.

And also you see there is a whenever we talking of pension contribution whenever we are talking of the dental insurance child voucher everything at the price level also you will find like what is the percentage of salary per day or what is the whenever we talking the lease of a car annual lease times is 1.25. So, what are the lease times? So, limit are also as set in terms of not only in the like who will be covered and wait, but also in terms of the amount that are payable for these kind of benefits.

Also when you see like the variations in that its standard entitlement and selected entitlement for holidays, car, company pensions, dental insurance the same examples when you see like the variations whichever under the flexi existing system is there. Here also you see like by adjusting on the levels of like the entitlement like if there is standard entitlement and the selected of 25 days and the selected entitlement is 22 days then what is the monthly cost saving.

And in those things needs to be taking care of also while designing for the how what can be flexed to what amount it can be flexed in do something to be kept into the as essential part then what amount can be given back. So, these things need to be taken care of while designing these kind of benefits more specifically with respect to the flex fund benefits. So, where you find like because people have a like for the same benefits as you see in the flex existing benefits the same things in the flex fund benefits people have a choice of taking minimum and the maximum level.

So, supposing case of holidays. So, if in case of holidays it is like a standard entitlement is 25 days and this, but the person has to choose a minimum choice of 20 days and maximum choice of 30 days. So, these are the lower limit and upper limit set. So, that we have to see like all the people are not taking too much of holidays neither they are like exchanging all their holidays for cash and may be they are not taking any holidays which are meant for the person to relax get stress free become rejuvenated and comeback to work. So, when we have to reason out for each of the benefits and the flexi given.

So, this point is really very important when we are talking of decide an essential elements of the scheme, core benefits which have to be maintained, benefits that can be flexed in limits on the extent to reach this benefits can be flexed and costing the benefits as necessary to enable menus to be produced and flex fund setup if appropriate, this is more and more important an applicable whenever we were talking of flex fund benefits.

Because people may have tendency to like encash all the benefits and then not to take even the minimum amount also which may be harmful to their own self or to the relationships or to the physical mental and social health in the longer run. We have to remember like benefits are given for the wellness of the employees as a person in a relationship, the fitness of the employees.

So, that when the comeback toward when they are like, they are mentally physically mentally and socially very healthy. So, that they can contribute in a better way to the output in the to the job requirements and give up as a result there is a better performance.

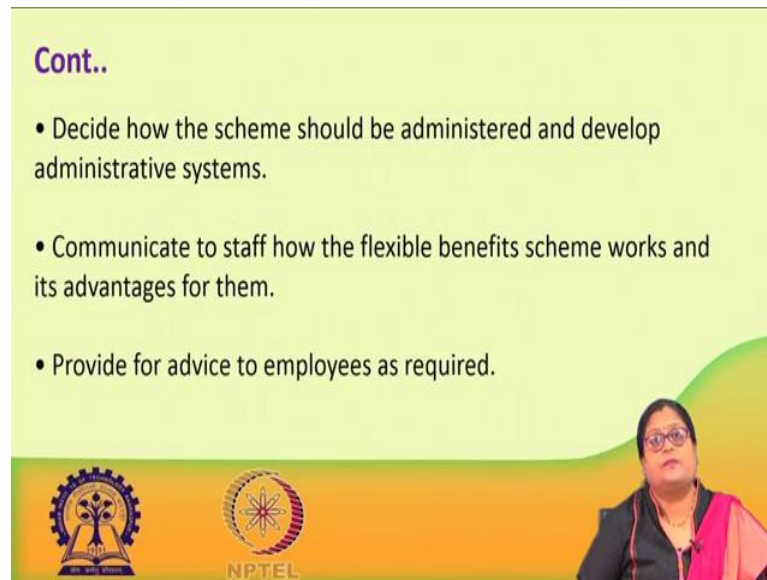
So, in terms of given the opportunity for a flex benefits and like from flex funds where you have or flex existing system where you have opportunity to like get back the cash. So, we have to see like people are not doing like taking away the total cash and not getting utilizing any minimum level of a benefit also. Similarly, on the other side if the maximum limit is not set also some employees may, on taking, go on taking more benefits like which are limitless kind of which again may be a very high cost on the company.

And so or in order to like take those benefits with employee has to pay for it when the it is deducted from the salary we have to set upper limit also. So, that a balance is meant we have to set an upper limit also. So, that the balance is maintained and there is it should not be such like in order to get those benefits maximum of the salary of the employee gets deducted and at the end of the month may be the person do not have much cash in hand to meet up other needs of his family or his personal needs.

So, here the idea is to balance, put a sense of balance in such a way like the employee get some benefits core benefits which cannot be compromised on and other benefits which have flexible in nature there is a minimum amount that is taken and we have to for the wellness of employee and we have to see like it does not cross the maximum amount maximum level which could be a drain on the organizations fund and also on the like the

salary that the employee gets. So, that at the end of the month he is not left with some cash or in terms of salary with which he can meet of his other needs. So, striking a balance is really very important.

(Refer Slide Time: 27:07)



Cont..

- Decide how the scheme should be administered and develop administrative systems.
- Communicate to staff how the flexible benefits scheme works and its advantages for them.
- Provide for advice to employees as required.

The slide features a light green background with a yellow-to-orange gradient at the bottom. On the left, there are two circular logos: the first is the Indian Institute of Management (IIM) logo, and the second is the NPTEL logo. On the right, there is a small video feed of a woman with glasses, wearing a pink and black sari, speaking into a microphone.

So, next point is deciding on how the scheme should be administered and develop the administrative systems. Communicating to staff how the flexible benefits schemes works and its advantages for them and providing advice for employees as required it is very very important to hand hold the employees in terms of reward management.

Specifically in terms whenever with for this flexible system and flexible existing system or flexible fund system because sometime people may not know or not able to judge properly decide for themselves properly given a fund what are the benefits at the person should opt for which are like essential for him or her based on the priorities in his or her life. Sometimes people are not that analytical thinker who can or a critical thinker who can understand the situations of his or her life in a critical way. Try to prioritizes things and find out given a fund we or to have a long term vision of understanding like which benefit to them we will have a long term effect on their wellness and like you for their may be taking care of some needs and aspirations.

So, in that case the providing advice to the employees are very very important in deciding what can they choose for themselves and it is also like they have to be communicated about what are the benefit scheme and its particular advantages to them.

So, clear communication of the importance and advantages of the benefits scheme hand holding the person giving personal advice for to the employee when they are may like making their choices for this benefits are in (Refer Time: 29:24) essential part of when you talking of administering and designing of flexible benefits system.

(Refer Slide Time: 29:37)



These are the references from which this slides have been developed, you can go through the book itself its a very beautiful reading any question please put it on the forum we will be ready to answer to it.

Thank you.