

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

**Lecture – 55**  
**Developing and Implementing Reward System (Contd.)**

We will continue with the topic on Developing and Implementing Reward Systems. We were discussing on the processes of how to develop and implement the reward systems what are the challenges faced in it and how do we go about it.

(Refer Slide Time: 00:32)



So, we will continue with this discussion over here. So, what we understand like when you talk of reward management it comprises of administration of a multi faceted system like formulation and implementation of reward policies, controlling it, monitoring and evaluation, doing pay reviews. So, these are different aspects which was under reward management.

(Refer Slide Time: 00:56)



**Reward policies**

Provides a specific guidelines for decision making and framework for handling a reward system

It indicates..

- what is organization's expectations about managing reward
- how they will behave when dealing with reward issues

The slide features a green and yellow background. At the bottom, there are logos for IIT Bombay and NPTEL, along with a navigation bar and a small video inset of a woman in a pink and white sari.

So, first is reward policies we have to define a reward policy. Reward policies provide specific guidelines for decision making and framework for handling a reward system. It indicates that what are organizations expectations about a managing reward, how they will behave in dealing with reward issues. So, these needs to be clearly stated in the reward policies; like, what the organization expect and what they will behave with respect to reward issues even in like a debate is there.

How they are going to solve it whether they are going to take the here to the employees voice or not, or they are just going to take a decision on their own. Do they go for arbitration and also, so these how to deal with reward issues needs to be also guide given in the guidelines.

(Refer Slide Time: 02:02)

**Cont..**

*Level of rewards*  
indicates whether the organization is..

- High payer
- median or average payer
- below the average

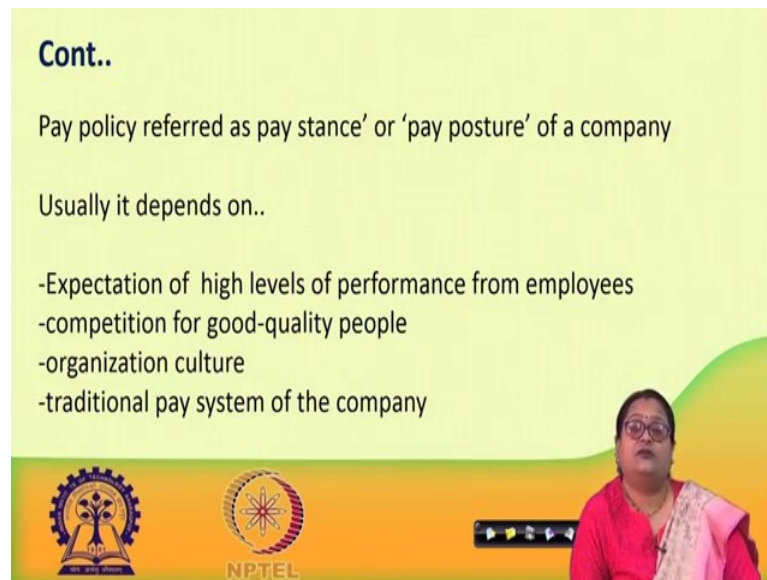
The slide also features the IIT Bombay logo on the left and the NPTEL logo in the center of the bottom banner. A woman in a pink sari is visible in the bottom right corner, and a navigation bar is located between the NPTEL logo and her.

So, when we talk of reward policies it is also very important to understand the organization's ability to pay or the decision to pay as we were discussing in the theories of reward management rewarding you. You must remember like we were discussing about the in comparison with the other studying with the external environment. Finding out like what others are paying and what is the market rate and so and we will be following that or not.

So, based on those theories unlike what we understand like what we are going to do like the organization can decide to be like a high payer, or it can decide to be the median payer, or it can decide to be the below the average. So, it is a decision of the organization based on its strategies also like if it is for cost saving a costly leadership strategy.

So, it may curtail on the rewards and be something which is below average. So, these are decisions again which are connected with the strategic objectives of the organization and like how it is what are its objectives with HR strategies. And accordingly they can be defined as we take a decision to be high payer median or average payer below the average payer.

(Refer Slide Time: 03:45)



**Cont..**

Pay policy referred as pay stance' or 'pay posture' of a company

Usually it depends on..

- Expectation of high levels of performance from employees
- competition for good-quality people
- organization culture
- traditional pay system of the company

IIT Bombay NPTEL

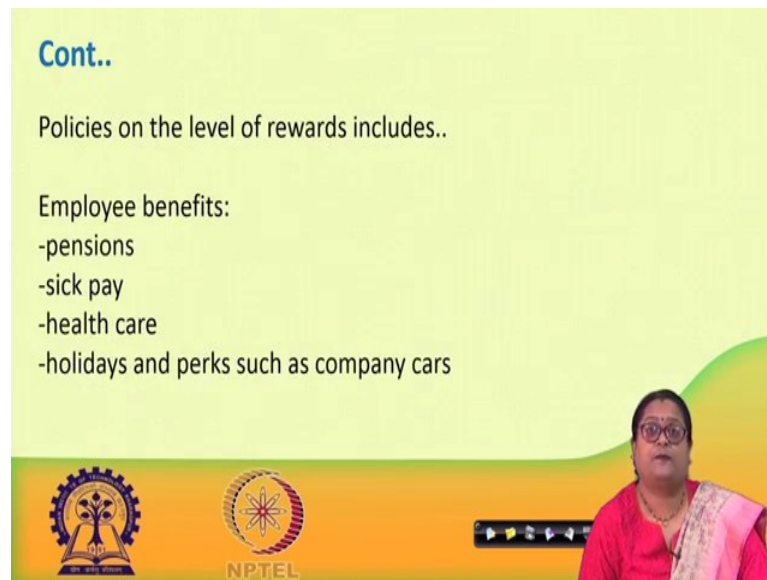
So, the pay policies are generally referred to as the pay stands or pay posture of a company. So, it is usually dependent on the, if I am expecting high levels of performance from the employees, then what is the pay should I give to them. Like if there is a competition for good quality of people like we were discussing, if you remember the demand and supply of the demand of the talent and the supply of the talent sometimes determines whether which job gets paid more.

So, and if there is a shortage of supply of a particular talent and the demand is more there could be competition for good quality people. And some organization may decide to pay many times more than the market rate, so that they are able to attract good quality people.

So, what is the organizational culture with respect to the transparency in pay, equitability in payment of rewards and like equal payment for equal kind of work. So, these and, a transparency in understanding, what amount of work gets paid in what manner rewarded in what manner. So, these are also parts of organizational culture and decision regarding its reward structure.

So, traditional pay system of the company whether you want to follow it or you want to do something different. So, these are things which usually have when based on this the pay policy of an organization is determined.

(Refer Slide Time: 05:35)



**Cont..**

Policies on the level of rewards includes..

Employee benefits:

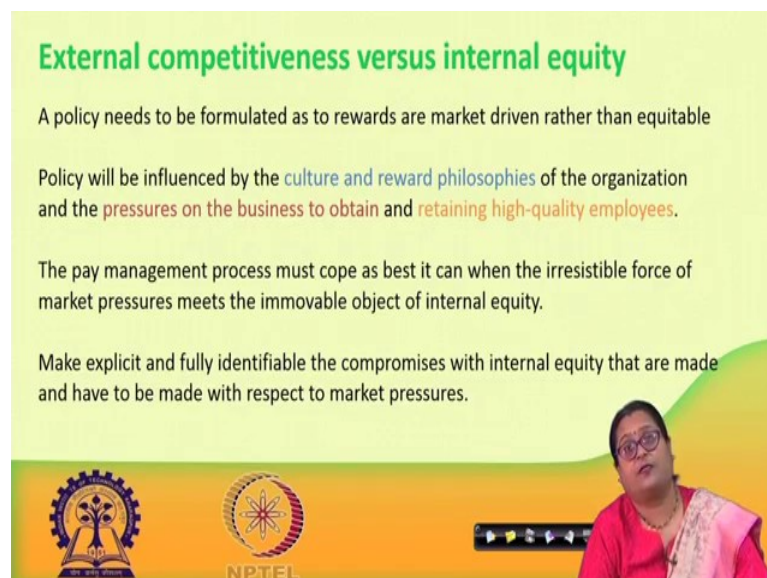
- pensions
- sick pay
- health care
- holidays and perks such as company cars

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

So, when you are discussing on the policies or the different levels of rewards these are connected with like the employee benefits, what kind of benefits should be given to what extent. And what is the amount of money that is invested for it like in terms of pensions, sick pay, healthcare, holiday and perks as the company cars etcetera.

Because these are again part of like financial rewards and it really involves a lot of money in order to give these benefits to the employee. So, what kind of benefits to what extent can be given or will be given will determine the levels of rewards.

(Refer Slide Time: 06:30)



**External competitiveness versus internal equity**

A policy needs to be formulated as to rewards are market driven rather than equitable

Policy will be influenced by the culture and reward philosophies of the organization and the pressures on the business to obtain and retaining high-quality employees.

The pay management process must cope as best it can when the irresistible force of market pressures meets the immovable object of internal equity.

Make explicit and fully identifiable the compromises with internal equity that are made and have to be made with respect to market pressures.

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

Also like when we are discussing about the reward policy we have to understand like if the way when we are discussing about the policy and trying to formulate a policy. There are number of things, number of considerations that we need to take care of and our decisions like whether we want to like be externally competitive or we need to maintain the internal equity.

So, these are two decisions that we need to take and accordingly the pay policy or the reward policy is going to vary. So, policy which needs to be formulated as to rewards are market driven rather than they are equitable. So, policies will be influenced by the culture and reward philosophies of the organization and on one side and of course, on the pressures of the business to obtain and retain high quality employees.

So the internal pressures of the organization, the pressure of the business to obtain and retain high quality employees. This will have an effect on if people will be in a dilemma to choose from external competitiveness and internal equity, but again we can and we really we have to try to balance this both situations.

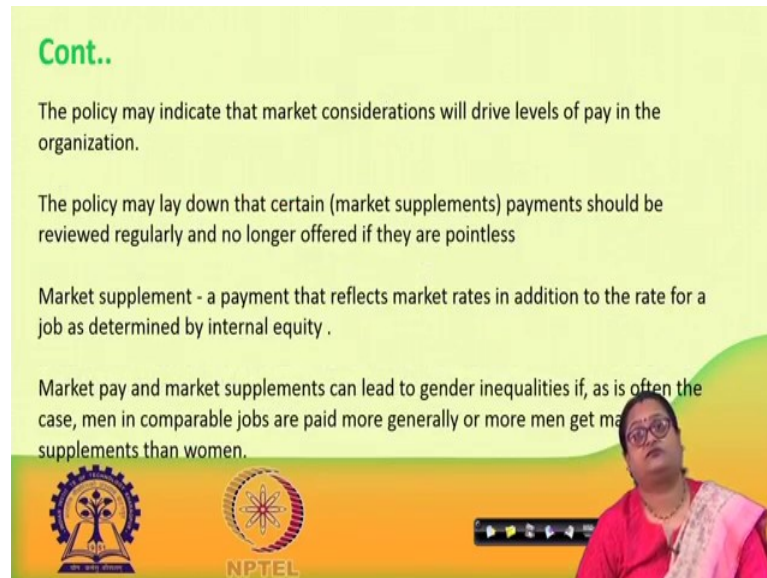
So, we the payment management process needs to cope as it is best it can when the irresistible force of the market pressures meets the immovable object of internal equity means like the internal equity also needs to be maintained. Because then people will talk of if the internal equity is not there, then there could be difficulties with transparency there in the organization. There could be pay secrecy which may not be at the end very contributing when we talking of like trust building in the organization developing like, ethical organization where everybody is able happy to contribute with the free mind.

So, this when we are talking of these things on one hand and on the market pressure to get the best employee from outside and retaining; so, their needs to be a balance in the sense; yes, we have to segment the jobs and the different nature of work and the different employees according to their performances. And then tag these with the do reward system and these needs to be communicated to people very clearly.

So, that is why when we have to discuss about like the how to maintain a balance then we have to understand like what are the compromises maybe when you are talking of equity or we talking of equitable distribution. So, make explicit and fully identifiable the compromises with internal equity that are made and to have and have to be made with

respect to market pressures. So, whether we will go for equity or equitable distributions or payments these are decisions that needs to be taken.

(Refer Slide Time: 10:27)



**Cont..**

The policy may indicate that market considerations will drive levels of pay in the organization.

The policy may lay down that certain (market supplements) payments should be reviewed regularly and no longer offered if they are pointless

Market supplement - a payment that reflects market rates in addition to the rate for a job as determined by internal equity .

Market pay and market supplements can lead to gender inequalities if, as is often the case, men in comparable jobs are paid more generally or more men get market supplements than women.

So, the policy may indicate like the market considerations will drive levels of pay in the organization. So, the policy also may lay down that certain market supplements payment should be reviewed regularly and no longer offered if they are pointless. So, market supplement is a payment that reflects market rates in addition to the rate for a job as determined by internal equity. So, as the based on the job evaluation and the different nature of the job, the internal equity determines the worth of the job when we talk of market supplement. So, it is an additional rate which is added beyond what is determined by the internal equity.


So, and we have to check for it again and again and if we find like it is pointless to offer for those things we make a provision in the pay policy that it can be withdrawn also. So, like when we are talking of a point of caution over here is the market pay and market supplements can lead to gender equalities. So, like when men get more paid than women or they get more market supplements than women. So, these may lead to gender inequalities and we need to take care of it.

(Refer Slide Time: 12:09)

**Cont..**

A survey of grade and pay structures revealed that respondents with market supplements adopted the following policies when such supplements were no longer required (The 2007 e-reward ):

- remove immediately – 33 per cent
- retain until upgraded – 30 per cent
- reduce progressively – 19 per cent
- protect in line with policy – 18 per cent.

The slide features the NPTEL logo on the left and a woman in a red sari speaking on the right. The background is a light green to yellow gradient.

A survey of the grade and pay structures revealed that the respondents with market supplements adopted the following policies when such supplements were no longer required. So, some people like when we talk of remove supplement 33 percent, retain until upgraded 30 percent, reduce progressively 19 percent, protect in line with policy is 18 percent.


(Refer Slide Time: 12:47)

**Segmentation**

Involves varying the reward package for different jobs or to reflect the types and levels of contribution people make, or providing rewards that are tailored to meet individual needs

A policy on segmentation will recognize that parts of the workforce and individuals in the successive stages of their career may be motivated by different combinations of rewards.

Rewards may be segmented to take account of key employee differences. (individual performance-related pay, team reward, other forms of progression, recognition rather than incentive)

The slide features the NPTEL logo on the left and a woman in a red sari speaking on the right. The background is a light green to yellow gradient.

So, because we were talking of like bringing like reflecting the market pay and market supplements with and then with respect to the and balancing it with the internal equity.



So, and in some cases like; sorry, in some cases it becomes essential for segmentation like, it involves the varying reward package for different kinds of job. Or to reflect the different types and levels of contribution of people may providing rewards that are tailored to meet individual needs.

So, a policy on segmentation will recognize that the parts of the workforce and individuals in the successive stages of their career may be motivated by different combinations of rewards. This is very important to have a to understand the life cycle needs of the individuals preferences of the individuals which may change and at different stages of their career they made certain rewards may be more interesting. But at other stages of the carrier certain other rewards may be more interesting and helpful for the employee to continue in a better way in the organization.

So, these as a important consideration in the fact like that to understand the career life cycle stages and to connect the rewards with it. So, what we understand like rewards may be segmented to take into account key employee differences. So, like individual performance related pay, team reward other forms of pay progression recognition rather than incentives.

So, these are rewards which may be classified separately based on the key employee differences. These differences are differences in the needs of the individuals and the preference pattern through the; because we have to understand work life balance is a very very important issue that we need to take care of and in order to go for this work life balance. And based on the nature of the job like if you are an expatriate, you are going to a different country the preferences and needs that you will be facing at that point of time, it is quite different if you are in a domestic country job.

And then if you are in to different segments or different natures of the job and different life cycle stages also it determined what are your preferences. So, it is a very complex whole which determines the what reward will be more effective for what kind of employee. So, when and that, because these the combination of these factors will give rise to key employee differences and the rewards must be segmented according to that.

(Refer Slide Time: 16:03)



**Assimilation policies**

Embracing and adjustment new grade and pay system

- red-circling (identifying and dealing with overpaid people)
- green-circling (identifying and dealing with underpaid people)

In case of..

**red-circled staff:** protection' policies may have to be formulated to safeguard their existing rates of pay

**green-circled staff:** it is to be determined whether pay has to be increased to fit into the new scale.

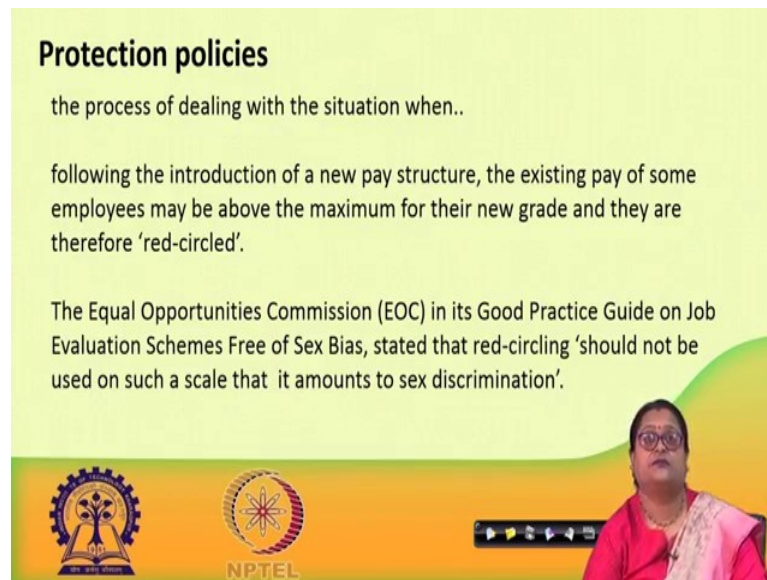
The slide also features logos for IIT Bombay and NPTEL, and a video player interface with a presenter's video feed.

So, it is very important like when we are talking of transition from an old system to a new system, the new policy that is taken. So, and the pay system that is undertaken it has to gel well with the old system and to do this transition it really takes time and effort. So, in order to assimilate the old system and the new system together, so it has to like the new system has to be embraced into the new grade and pay system. So this transition phase the transition stages are crucial.

So, in order to do that the what we do is red circling the job, and green circling the job, red circling the job are identifying and dealing with overpaid people as per the old system and maybe the new system is showing like they are overpaid. Green circling identifying and dealing with underpaid people. So maybe the new system is telling they are being paid more with the old system formula according to that they are getting paid less.

So, what we do in red circled staff is protection policies we have to be formulated to safeguard their existing rates of pay. In green circled staff it is to be determined whether the pay has to be increased to fit into the new scale, so that you know the differences are reduced and equity is maintained.

(Refer Slide Time: 17:57)



**Protection policies**

the process of dealing with the situation when..

following the introduction of a new pay structure, the existing pay of some employees may be above the maximum for their new grade and they are therefore 'red-circled'.

The Equal Opportunities Commission (EOC) in its Good Practice Guide on Job Evaluation Schemes Free of Sex Bias, stated that red-circling 'should not be used on such a scale that it amounts to sex discrimination'.

The slide features a green background with a yellow wave at the bottom. On the left, there are logos for the Indian Institute of Technology (IIT) and NPTEL. On the right, a woman in a red and white sari is visible, likely the presenter. A navigation bar with arrows is located below the logos.

When we talk of protection policies the process of dealing with situations when the following the introduction of a new pay structure. The existing pay of some employees may be above the maximum of their new grade and therefore red circled. So, the equal opportunities commission in it is good practice guide and job evaluation scheme, free of sex bias stated, that red circled should not be used on such a scale that it amounts to sex discrimination.

So, we need to understand like this should not be done in such a way like the gender discrimination happens. So, we have to be like we may see like these jobs are overpaid, but what are the corrective measures we take. And what are the protection policies we take needs to be like well thought of before we are doing it; otherwise it may give rise to gender discriminations in the organization.

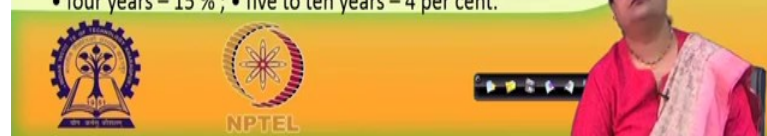
(Refer Slide Time: 19:09)

**Cont..**

The use of red or green circling which maintains a difference in pay between men and women over more than a phase in period of time will be difficult to justify' (Equal Pay Task Force).

The respondents to the 2007 e-reward survey of grade and pay structures adopted the following protection periods:

- unlimited – 53 %
- one year – 12 %
- two years – 10 %
- three years – 6 %
- four years – 15 % ; • five to ten years – 4 per cent.



So, when we are talking a red circling and green circling a job like which generally makes a difference in pay between the men and women for more than a many phases of period of time it will be difficult to justify like, why people have been paid more or less and there are a lot of debates now about it. So, again the respondents to 2007 e-rewards survey of grade and pay structures adopted the following protection periods.

If it is unlimited than 53 percent, 1 year 12 percent, 2 years 10 percent, 3 years 6 percent, and 4 years 15 percent, 5 to 10 years like 4 percent; this again depends on like whether the new revised pay structures are coming in future or not. So, again to what level we will go for deciding on the protection of pay policies these needs again it is a decision taken from the employees' side based on the risk taking ability of that person also.

Because once we talk of protection of a pay at the certain level maybe when the new job policies comes and pay policy comes in. It may have again to be re-looked into and the present job the present pay needs to be again fitted into the new policy. And if you are opting for like 5 to 10 years then it may so happen that you miss out the opportunity of like maybe increased pay in the new revisions coming up. So, again this is a risk taking decision or the risk aversiveness decision the part of the individual and these are the different kinds of responses that is formed.

(Refer Slide Time: 21:20)

**The role of line managers**

- Responsibility for rewards should be given line managers
- reward policy guidelines are followed and that consistent decisions are made across the organization by line manager
- The policy may cover..
  - the level of decisions managers can make,
  - the guidance that should be made available to them
  - how consistency will be achieved.

The slide features the logos of the Indian Institute of Technology (IIT) and NPTEL (National Programme on Technology Enhanced Learning) at the bottom. A video feed of a female presenter is visible in the bottom right corner of the slide area.

Now, the role of line managers in this reward management is very important, because it should be they are the people who are in direct interaction with the employees and have to like rather toil with them to do the work. And so; and they are also the how the people are responding to the environment to their work, they are the first hand like observers for it.

So, responsibility of reward should be given to line managers, reward policy guidelines are followed and that consistent decisions are made across the organizations by line managers only. So, the policy may cover the levels of decisions, managers can take the guidance should be made available to them. And it should be given to; they should be given a training on or a clear instruction on how consistency will be achieved.

(Refer Slide Time: 22:32)

**Transparency**

It is clear that private organizations maintains confidentiality about pay policies secret; which is not acceptable

- people will believe that the organization has something to hide when there is no transparency

IIT Bombay NPTEL

When we talk of pay policies we are talking of transparencies also, so it is clear that in private organization maintains confidentiality about pay policies which is really not acceptable. So, people may think actually there is something to hide when there is no transparency. So, if we are practicing differential pay within the organization based on how it is getting mapped to the external environment that needs to be clearly stated and communicated with the employee.

So, that there is no veil of like secrecy and like hiding some facts and people came to under the assumption like yes we are equally paid when they are actually not. And the day that these comes out there maybe the faith of the organization gets lost and when these values are affected then getting an engaged performance. And perform the employees who things like they can contribute their best to the organization will remain an expectation only, so transparency is really very important.

(Refer Slide Time: 23:52)



**Cont..**

- It is difficult to build committed workforce unless organization spells out reward policy
- it will be achieved through constant involvement and communication.

The slide features a light green background with a yellow-to-green gradient at the bottom. It includes the logos of Anna University and NPTEL, a navigation bar with arrows, and a video inset of a woman in a pink sari speaking.

So, as we are telling it is difficult to build committed workforce unless organization spells out reward policies, it will be achieved through constant involvement and communication only.

(Refer Slide Time: 24:07)



**Controlling reward**

Reward policies and procedures should be monitored and controlled to ensure that value for money is obtained.

Control is easier if the grade and pay structure is well defined and clear guidelines exist.

Should be based on forecasts, budgets and costings

The slide features a light green background with a yellow-to-green gradient at the bottom. It includes the logos of Anna University and NPTEL, a navigation bar with arrows, and a video inset of a woman in a pink sari speaking.

Controlling reward; reward policies and procedures should be monitored and controlled to ensure that the value for money is obtained. Control is easier if the grade and pay structure is well defined and clear guidelines exist and it should be based on forecast, budgeting and costings.


(Refer Slide Time: 24:35)

**Cont..**

*Reward forecasts:*

It is necessary to forecast future payroll costs taking into account the number of people employed and the impact of pay reviews and contingent pay awards

-revised job evaluation scheme




How we do reward forecasting, it is necessary to forecast the future payroll cost taking into account the number of people employed and the maybe the effect or the impact of pay reviews and contingent pay awards. And then the revised job evaluation scheme in which it tells about how the jobs are placed with respect to each other in the particular organization to show the internal equity. So, all these we will determine what the reward forecasting will be.

(Refer Slide Time: 25:15)

**Cont..**

-a new grade and pay structure

-Flexible benefits scheme





And a new grade and pay structure coming in, flexible benefit schemes given in the organization.

(Refer Slide Time: 25:26)

**Cont..**

*Reward budgets:*

Pay review budgets set out the increase in payroll costs that will result for either general or individual pay reviews

used for cost forecasts generally and as the basis for the guidelines issued to line managers on conducting individual reviews

When we talk of reward budgets; so, reward budgets sets out the increase in payroll costs that will be result in for either general or individual pay reviews use for cost forecasting generally. And is a basis for the guidelines issued to line managers on conducting individual reviews, so based on that what is the budget to be allocated to do all these activities.

(Refer Slide Time: 26:03)

**Cont..**

Total payroll budget depends on the number of employees in different jobs and forecast rates of pay

Objective is to get hold on over payroll costs and hold back managers from the enticement to overpay the employees.

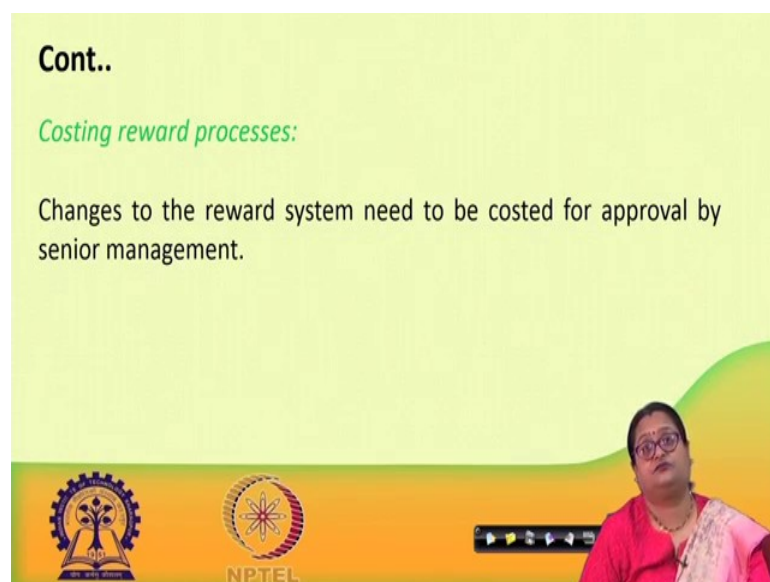
And the total payroll budget will depend on the each number of employees in the different kinds of jobs and forecasted rates of pay. So, the objective is to get a hold on overall pay costs and hold back managers from the enticement to overpay the employees.

So, like what is my budget, what we can really pay and like in the whole system, because it needs to be taken into consideration what is my ability to pay. We will be designing our rewards based and only there is a balance between; yes there were market expectations and there are need to be internal equity also, but at the end of the day there is my capability to pay also.

So, based on this if I do a total budgeting of what is the required like cost for me for the total like rewards I can tell like the, what is the payroll cost. And we can tell managers not to be like deciding on over paying the employees, because sometimes in order to hold back the star employees and star performers.

We sometimes try to pay them overpay as in order to feel like we will be able to retain back these employees by giving them a huge salary which is like very high above the market rate. And like more different from what others are doing, but that may bring in a negative effect into the whole organization as such.

(Refer Slide Time: 27:56)



The slide features a light green background with a yellow-to-green gradient at the bottom. It contains the following text:

**Cont..**

*Costing reward processes:*

Changes to the reward system need to be costed for approval by senior management.

At the bottom of the slide, there are three logos: the Indian Institute of Technology (IIT) logo on the left, the NPTEL logo in the center, and a small video player control bar on the right. A woman in a pink and white sari is visible in the bottom right corner, appearing to be the presenter.

So, costing reward processes is changes to the reward system need to be costed for approval by senior management; this is where we were repeating again and again see the

implementation cost, developing cost of a new reward system as it involves a cost. So, in that case we have to justify for ourselves like with the proper review done, discussions done again the benefits that is gained from the changes in the reward system. And then it has to be costed properly because these cost the opportunity cost for these needs to be taken into consideration also and based on that the approval for the senior management needs to be taken.

(Refer Slide Time: 28:50)

**References:**

e-reward (2007) Survey of Grade and Pay Structures, e-reward, Stockport

Erickson, W (2004) Connecting engagement with reward, address at the Society for Human Resource Management's Annual Conference, New York

The slide also contains logos for an institution (left) and NPTEL (center), and a video inset of a woman in a pink shirt (right).

So, these are the again the references that we have referred to for this discussion, stay tuned with us for the next modules of this discussion.

Thank you.