
UNIT 7 REWARD SYSTEM

Objectives

After going through this unit, you should be able to :

- 1 distinguish between compensation, incentives and rewards;
- 1 discuss the psychological basis of rewards;
- 1 suggest the main principles of designing a reward system;
- 1 elaborate what, how and whom to reward; and
- 1 critique the issue of punishment.

Structure

- 7.1 Introduction
- 7.2 The Objectives of Compensation-Cum-Reward System
- 7.3 Compensation System
- 7.4 Psychological Basis of Rewards
- 7.5 Designing Reward System
- 7.6 Whom to Reward?
- 7.7 What to Reward?
- 7.8 How to Reward?
- 7.9 How to Assess?
- 7.10 About Punishment
- 7.11 Summary
- 7.12 Self Assessment Questions
- 7.11 Further Readings

7.1 INTRODUCTION

A very important motivating factor for people joining and continuing in an organisation is the kind of work they get, and whether they are valued in the organisation. Unless the organisation satisfies one of the basic psychological needs of being valued and appreciated, people, howsoever well paid, may not like to continue there. However, these are not contradictory. In fact, these have to be integrated, i.e., the compensation system should communicate to the employees that they are valued. It should cater to some basic psychological needs. Given the growing complexity of rewarding employees, companies, especially MNCs, are beginning to develop compensation-cum-reward as a specialised function within HR.

7.2 THE OBJECTIVES OF COMPENSATION-CUM-REWARD SYSTEM

Distinction needs to be made between compensation, incentives and rewards. Compensation is the money paid to an individual in various forms (and other benefits given) for the work he or she does. Incentive is additional payment in cash or kind,

for extra work (production of more units), or effort (more time spent), or working in unfavourable places or conditions. Reward is a symbol or indicator of recognition of exceptional contribution, exemplary behaviour, or unique accomplishment.

The objectives of a compensation-cum-reward system are to:

- 1) attract competent people;
- 2) retain competent and high performing people;
- 3) achieve and maintain high levels of performance;
- 4) develop the work place where people enjoy and are proud of working;
- 5) develop team work and networking;
- 6) promote continuous growth and development of people;
- 7) promote empowerment (people taking charge and leadership roles); and
- 8) attaining and maintaining leadership position (managing change and setting pace in one's field of work)

7.3 COMPENSATION SYSTEM

As stated earlier compensation includes basic pay for the job and other benefits which go with it. Compensation, as a part of the compensation-cum-reward (CCR) system, is generally split into two components: fixed and variable. **Fixed component of compensation** is the pay or salary paid, considering the market rate, and the competence of the employee. Compensation amount may be decided on the basis of the market rate and job evaluation. Market rates can be obtained from published surveys, special surveys undertaken, or information from professional bodies. The rates will vary from the lowest to the highest. An organisation may decide in which quartile of this range it would like to be (lower, medium or upper). Some 10-15 per cent of companies allow executives to make their own mix of salary packages, especially consulting firms like Accenture. In some MNC banks, some perquisites are offered on a use-or-lose basis.

Job evaluation is also done to decide the basic fixed compensation for the job. Job evaluation is the process of assessing the relative contribution a job makes to the main business of the organisation or its goals. Generally, job evaluation is done by breaking down jobs into elements common to all jobs. The key elements are identified as the factors which differentiates the internal values of jobs in the organisation. This is called the factor plan. Typical factors include:

- 1 Competence
- 1 Responsibility
- 1 Decision making
- 1 Complexity
- 1 Role linkage

Each factor is defined in concrete terms. For example, complexity may be defined as: the variety and diversity of the tasks carried out by the job holder and the diversity of skills used. A total score is then allocated to each factor. This score may be 'weighted' in accordance with a judgment of the relative significance of the factors. For example, the total points for the five factors mentioned above may be determined as follows:

Competence	50
Responsibility	50
Decision making	50
Complexity	25
Role-linkage	25

Each of the factors is divided into levels (usually four to six) representing the degree to which the factor is present in the job. Then each level is defined; for example, the lowest level for complexity may be defined as: ‘Highly repetitive work where the same task or group of tasks is carried out without any significant variation’. Finally, a score or range is allocated to each level. A factor plan would look like this:

<i>Factor</i>	<i>Levels</i>				
	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
Competence	10	20	30	40	50
Responsibility	10	20	30	40	50
Decision making	10	20	30	40	50
Complexity	5	10	15	20	25
Role-linkage	5	10	15	20	25

The job evaluation process involves analysing a job in terms of the factors, allocating a level and score for each factor, and then adding up the factor scores to produce a total job evaluation score for the job. For example:

	<i>Level</i>	<i>Score</i>
Competence	3	30
Responsibility	4	40
Decision making	4	40
Complexity	5	25
Role-linkage	3	15
Total score		50

The point scores can then be used to determine how the job should be allocated to grades that have been defined in terms of points.

The following steps are involved in job evaluation.

- 1) Setting up a Job Evaluation Group of (5-6 persons), including both managers and representatives of the employees.
- 2) Selecting the jobs to be evaluated from different function.
- 3) Determining Key Functions (about 5-6 for each job), and Critical Attributes required for the job.
- 4) Analysing each jobs by using the factor plan described above.
- 5) Deciding the level of key factors (5-6) required to perform the job. These are quantified as discussed above. Such evaluation is done by a group.
- 6) Using the scores to decide on the compensation package.

In Wipro the approach to pay benchmarking is done at three levels. At level one, it is based on ‘industry segments’. Thus salaries at the enterprise side of the business may be different from those at the telecom business. At the second level, salaries are differentiated on the basis of ‘job performance’ and ‘job role’ At level three, salary levels are compared based on a ‘components’ analysis of the salary structure. The attempt is to benchmark intelligently so as to give performers a better deal. “Thus, employees in the top and critical segments may be pegged much higher than industry

averages, whereas others would be pegged at more conservative levels when compared to industry standards. Hence, the compensation structure and level would tend to vary from career group to career group and more so from employee to employee within each career group (career groups are Wipro's equivalents of grades) based on role-driven performance parameters in addition to market standards." When it comes to cash versus non-cash rewards, Wipro apportions only the cash components of the salary in the total salary structure. The other elements, including medical, insurance, and other long-term benefits, and support benefits such as transport and concierge services, are provided separately. These are not built into the salary component of the employee.

Eicher has base pay, flexible pay, retirals, company lease and telephones as part of the normal compensation package. "We continually try to be innovative in compensation design to provide maximum flexibility to our employees within the ambit of the laws of the land."

Polaris Software adopts various vehicles to validate and benchmark its salaries and employee emoluments. For example, it participated in a mark-to-market exercise done by agencies that survey compensation trends. It also carries out "continuous, quick market intelligence exercises to validate trends in the marketplace and findings of compensation benchmarking exercises."

Variable Component in Compensation: As already suggested, the compensation (pay) may be broken down into fixed and variable components. According to Luthans there is "90% probability that a systematically administered pay combined with social recognition and feedback performance reward system to employees in manufacturing setting will increase their performance more than those who do not receive this approach". He puts the figure of such benefit at 74% for service organisations. Given the growing competition for good people, companies have begun to innovate with pay and perks; variable pay packages based on EVA (economic value added) and the balanced score card (BSC) are gaining popularity. Typically, variable pay ranges from 20-200 per cent of fixed pay. The Godrej group has implemented EVA with no ceilings or bottoms on performance bonuses. But to keep employees longer, and even out bonus payments from year to year, the group retains a certain portion of the yearly bonus in a notional bank.

At Wipro the payout in terms of variable pay linked to performance varies with levels in the organisation. At higher levels, the variable component in pay could be anything between 30-50 per cent, whereas at lower levels it varies between 7-15 per cent. Cognizant's variable (performance-related) pay component is about 5 to 10 per cent higher than the market. "It is based on the rationale that additional pay should be re-earned every year and employees have to accept the risk that they might not re-earn it. It creates the go-for-it (attitude)".

Cognizant claims to be a leader in performance-linked variable salary. For example, in 2003 its best performers got upto 150% of the indicated performance incentives. The company's compensation philosophy is to adhere to cash as a principle mode of reward. Cash awards are principally determined through industry benchmarking.

Like other software companies, the variable component of pay at Polaris has started playing a more important role in compensation. The variable pay system has been "simplified and streamlined for it to be aligned with two other related processes - goal setting and performance management. As a consequence, at an individual level, the variable component of pay may vary from five per cent at the entry level to 25 per cent at the senior-most level."

Several companies are following performance-linked compensation practice. BPCL has decided to offer differential compensation for high performance. A large portion of variable in increments, for example, must be linked with rewards. Annual

increments help in compensating for inflation, growing needs of the employee (and the family), and comparative compensation practices of the Indian competitors. In addition, a variable portion of annual increment should be linked with reward system.

There are three main issues in relation to variable salary. One relates to the ratio between the fixed and variable parts of compensation. The ratio for the variable component has been going up. According to Mercer Human Resource Consulting, the variable pay as a percentage of total cost to the company has remained the same in 2003 as compared with 2001 for junior executives (about 6%), but has increased for the middle executives (from about 10% in 2001 to about 13% in 2003) and the top executives (from about 13% to 18%). In Infosys this year 50% of top management pay will be varied; this will be 30% for the middle and junior managers. Even software engineers' variable pay will be 10%.

The second issue relates to the linking of variable pay with whose performance? While most companies have been linking variable pay with company performance, the trend is changing. In order to develop commitment of the employees for the team, linking with team performance may also be important and certainly the individual's performance is equally important. Mphasis-BFL has reported a three-tier emerging in linking variable pay to: the company, team and individual performance. The ratio may be decided by the organisation in consultation with its employees. In order to help each employee identify himself/herself with the total organisation, with the unit/department/team of which he/she is a member, variable pay may be composed of the performance levels of the organisation, of the unit/department/team, and of the individual himself/herself. Variable component of pay then functions like rewards. The variable portion of annual increment should be determined by a formula (an example is suggested here): Total company performance (25%), unit/department performance (50%) and individual excellence (25%). If the group/unit has not done well, senior and top management level officers may not be given any incremental part based on unit/department performance.

The third issue relates to the unit of variable pay. Stock option was highly favoured in the hey days of booming business, especially in the new industry. The employees of Infosys benefited a great deal from stock option. In Eli Lilly (India) the company's stock option plan is still a big hit. The company gave 100 shares to all its employees' world wide free of cost. Last year, some employees made as much as Rs. 14 lakhs each when they sold their shares. However, the global economy in the last three years has reduced the enthusiasm for stock option. It was shocking that Microsoft discontinued stock option. In India Infosys and Wipro, the pioneers in stock option discontinued the practice. While Microsoft introduced "stock awards", Infosys and Wipro chose hard cash instead. While most employees prefer cash for variable pay, and most companies are moving in that direction, some alternatives are also available to salvage underwater options of stocks, as shown below: (taken from Business World, September 1, 2003).

Re-Price Options: Reduce the price at which employees have the option to buy to reflect the fall in market prices. But the vesting period will start afresh from the date of re-pricing. "Companies have missed the opportunity because stock prices have recovered, though select companies are evaluating this route," says Harshu Ghate, managing director, Esop Direct, an ESOP consultancy.

Guaranteed Gains: Former Amazon.com COO Joseph Galli negotiated a protection clause that guaranteed \$20-million cash compensation if these options didn't pay off. Try negotiating that with your employer!

Stock Awards: Microsoft awards shares, which vest over time, for free. An employee gains regardless of the price at the end of the vesting period (provided it is not zero). But companies have to expense the stock award in the profit and loss account. That's

a burden only big firms with huge profits can bear. Companies also have to get shareholder approval.

According to the head of Retention and Productivity Solutions at MaFoi, even senior management candidates in the 35-38 age group (people with greater risk-taking capacity) are shying away from options; the most common demand is for a cash performance bonus that is over and above the agreed CTC. There is another reason for the new preference. In the words of R. Shekar, senior vice-president (HR), Polaris Software Lab. "Today, with higher spending on lifestyle products and a greater need for free cash, most employees seem to prefer cash or cash based payouts rather than Esops that take time to mature and also come with a certain risk attached to the quantum of return. This trend has been noticed across the board, be it lateral hires or campus recruits."

This clamour for cash is putting companies under enormous strain, prompting them to move to a variable pay structure. Variable pay is hardly new. But there are two changes now. First, the share of the variable element has seen a dramatic increase. According to MaFoi, two years ago variable pay was 20-30% of total salary, now 50% is the norm. Infosys, which was among the first companies to issue stock options, is leading the way here too. This year, 50% of top management pay will be variable middle and junior managers will have a 30% variable element and even software engineers will have 10%.

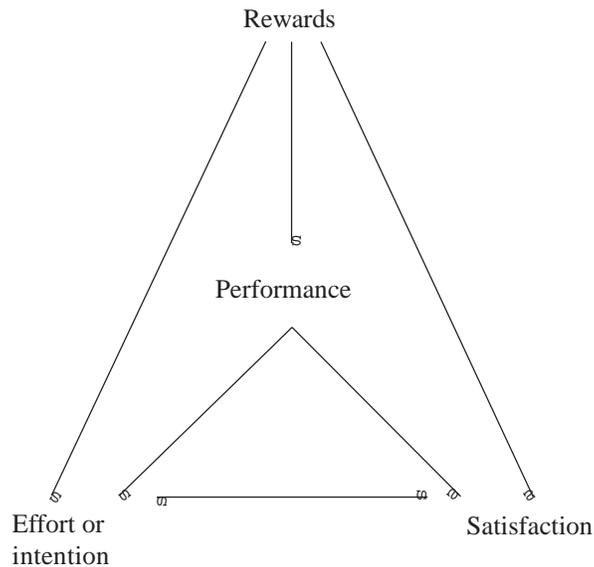
Second, variable pay was earlier linked mostly to company performance. But now, as already pointed out, a three-tiered structure is emerging. Variable pay is linked to company, team and individual performance.

7.4 PSYCHOLOGICAL BASIS OF REWARDS

Expectancy theory of motivation provides the psychological basis of reward system. Expectancy means subjective probability of an outcome. If a student feels that there are very good chances (high subjective probability) that by working hard he can get one of the top positions, the expectancy is said to be high. Expectancy explains the subjective probability of effort resulting in the outcome (called the first-level outcome). A related concept is that of instrumentality. If the first-level outcome is seen as leading to the second-level outcome, the instrumentality is said to be high. The second-level outcome is the ultimate of the two outcomes. For example, if a student preparing to seek the admission to an IIM feels that by working hard, he can get good scores (first-level outcome), the expectancy is high. If he feels that getting high scores (the first-level outcome) will help him in getting into the IIM (second-level outcome), the instrumentality is high. A manager may feel that strenuous effort on his part is likely to result in higher production (high expectancy), and that higher production will result in his getting a reward (high instrumentality). Work motivation is a result of a combination of high expectancy, high instrumentality and high attraction of the second-level outcome. These may be viewed as having a multiplicative relationship to produce motivation, i.e., if any one of the three factors is zero, the resulting motivation is zero; an increase in each of the factors raises the level of motivation. In other words, for high work motivation, the second-level outcome (salary, reward, or promotion) should be valued by the employees; there should be high instrumentality (the belief that the second-level outcome will be the result of the first-level outcome, viz., increase in performance (increased effort will lead to higher performance)). Vroom was amongst the earliest to propose the expectancy theory of motivation, and he used all the three concepts of expectancy, instrumentality, and valence (strength of the individual's preference of a particular outcome) to explain motivation.

Smith and Cranny have put forward another theory using the expectancy hypothesis. According to them work motivation can be explained in terms of the interaction amongst three main variables, i.e., effort, satisfaction, and reward. The relationships amongst these variables are shown in Exhibit 1. As the figure shows, performance is influenced only by effort. But performance, in turn, influences both satisfaction and rewards. The significant part of this model is that all other relationships are two-way relationships, except that of performance, which is influenced only by effort or intention.

Exhibit 1: Work-Motivation Model by Smith and Cranny



Lawler has proposed another model in relation to pay. According to this model the work motivation (motivation to perform at a given level) is primarily determined by two variables: subjective probability that effort will lead to performance, and a combination of beliefs about what the outcomes of accomplishing the intended level of performance will be and the valence of these outcomes. Subjective probability can vary from 1 (sure that effort will lead to intended performance) to 0 (sure that effort will not lead to intended performance), and valence can vary from 1 (very desirable) to 0 (very undesirable). Subjective probability is influenced by subject's self-esteem and his personal and observed experience. The model has been used to explain how pay motivates behaviour.

7.5 DESIGNING REWARD SYSTEM

The organisation should be clear about what it would like to reinforce through rewards: performance, effort, process, credibility, team building, loyalty (retention), sincerity etc. This needs to be clearly communicated in advance to the employees concerned. Regardless of what the management says it rewards, people will respond to what behaviours they perceive are rewarded. Employees should preferably be involved in such a decision.

Rewards can be broadly classified into extrinsic and intrinsic rewards. Extrinsic rewards are bonuses, paid holidays etc. These can be classified as monetary and non-monetary rewards. Examples of monetary rewards are performance bonus, profit sharing, stocks etc. Whereas non-monetary rewards include gifts, holidays, facilities etc. Intrinsic rewards include providing more responsibility, greater job freedom and discretion, more interesting and challenging work, opportunities for personal growth (not vertical time-bound promotion), diversity of activities etc. Since rewards are

symbols of recognition, non-monetary rewards are preferable. Organisational culture is created and maintained and organisational goals are fulfilled not only by individuals, but also by teams. In fact, most organisational tasks are carried out in teams. So it is necessary to think of rewarding both the individuals and the teams.

As the first step in designing a reward system, an organisation should develop consensus on the values, norms and behaviour it wants to reinforce in its members. In short, it should be clear on the kind of organisational culture it wants to create. The following points may be kept in mind while designing reward system.

- 1 Rewards should be given to both individuals and teams.
- 1 A multi-dimensional and wider reward system is likely to reduce undue pressure on promotions from which many organisations in India suffer.
- 1 Variable component of compensation may be included in the reward system.
- 1 Extra increments, as rewards are dysfunctional; lumpsum rewards may instead be considered.
- 1 Rewards must develop pride in belonging to the organisation and a feeling that people are valued. It should promote team work and inter-team collaboration, and should reinforce organisational values and what is desirable in the organisation and the unit/department concerned. HRD should conduct annual surveys in the various units/department to get feedback on these and other dimensions of the reward system. The results should be discussed at the top level.
- 1 A Manual for Reward System may be developed, so that all employees may know about the system. Corporate and Department Rewards Committees may be constituted. The Corporate Rewards Committee may collect data, rate various units/departments on different dimensions, receive recommendations, approve (after discussions with respective unit/department heads) etc. It may also develop policy, formats schemes, procedures etc.
- 1 A Reward Corpus may be formed, for example by contributing some 15% of managers wage bill. All rewards may come out of this fund. Cash rewards, non-cash intrinsic rewards and non-cash extrinsic rewards may be of the same quantum.
- 1 It is very important that there is transparency and fairness in the reward system, and is perceived so by the employees. In Tata Tele-services, research report by an outside agency on fairness, the employee scores were 80% in 2001 and 90% in 2003. The scores on Linkages between rewards and performances were 81% and 84% respectively.

Global Insurance Company ruthlessly follows a philosophy of punishing mediocrity and rewarding performance. It isn't uncommon for the high performers among its 4,000 odd agents to earn Rs. 10 lakh in annual commission. Moreover, they get special offsite, where fun and training are combined in equal measure. A few agents are even sponsored for the Million Dollar roundtables, a worldwide club for insurance agents.

Four main questions in relation to reward system are: who should be rewarded? What rewards should be given? How should assessment be done for deciding the rewards? And how rewards should be given. We shall discuss each issue, with examples of practices in the Indian organisations.

7.6 WHOM TO REWARD?

Rewards are symbols of appreciation and recognition. Rewards reinforce what the organisation values and wants to be strengthened. So, almost every one related to the organisation can be covered by the reward system.

Individual Employees: Individuals showing exceptional behaviour and high performance should be rewarded. Individuals are being rewarded by all organisations that follow a reward system. Variable pay is one type of reward. We shall discuss below individual rewards under other aspects of reward system. Probably about 20% managers are likely to get rewards. Performance at Polaris is categorised into four levels: Premium, Outstanding, Competent and Learning. These are indexed to the 90th, 75th, 50th and 25th percentile. “The Premium performers are at the top end of the industry, and that is consistent with our policy of institutionalising meritocracy at all levels of the company.” Among the reward schemes at Polaris are Konark, aimed at identifying potential leaders and encouraging the “cream to float to the top,” At Cognizant “statistically speaking, the top performers have progressed about 70 per cent quicker, and have received cash award up to three times higher than the others in the organisation. That pretty much sums up our performance ethic.”

Teams: As already stated, individuals work in teams, and the organisations need strong, cohesive, competent and self managed teams. Therefore, in future more and more rewards should be given to teams. Teams need to be empowered by giving high performing teams more autonomy and resources. In Tata Cummins, which runs operations through self managed teams of workers, each team is given money every month to use for raising the level of performance. Teams also include departments. High performing department should also be recognised and rewarded.

One of the four ACE awards given by Ericsson-India is Ericsson Champions Trophy, awarded to the Best Unit, to recognise highest achievement of Unit’s Balance scorecard; Performance audit though year: Process performance + improvements; Balanced score card perspectives; Customer satisfaction; Follow up of action plans; Accomplishing PD talks; Competence development scores.

The Organisation: Exceptional performance by the organisation needs to be celebrated. Every one belonging to the organisation then has a sense of pride.

Outsiders: Customers, suppliers vendors etc. can also be covered in the reward system. In Associated Capsules and Universal Capsules, outstanding employees chosen are asked to name any outsider, who in their opinion, has contributed to the business of the company in the last quarter. They may invite that person to the company’s dinner and the Chairman writes the invitation letter to such persons. This is a very innovative way of recognising external persons through internal people. At ICICI recognition extends to the employees’ family as well: employees’ children who excel in academics or extracurricular activities are recognised through scholarships and sponsorships.

7.7 WHAT TO REWARD?

As already stated rewards are meant to reinforce desirable behaviour, high performance, values etc., whatever the organisation wants to be strengthened and promoted further. Some of the following aspects can be rewarded.

Performance: Performance needs to be rewarded, both of individuals and teams. Criteria of performance excellence and their weightages may be determined. The following criteria and weightages are suggested as an illustration.

Organisational level: Profit, market share, customer satisfaction, employees satisfaction, achievement index of one thrust area to be declared every year exceptional events like new product launch, export award, crossing a significant milestone etc. Should be celebrated.

Unit/ Department level: Internal customer satisfaction, innovations leading to efficiency, achievement-index-of one thrust area to be declared in advance. quality, culture building, team work, creativity, internal customer service, cost reduction, strategic initiatives etc. Any of these could also become annual thrust areas, or some other thrust areas could be declared by the organisation or the unit/department like export, energy saving, wastage reduction, zero defect, safety, breakthrough in chronic problems. A few Chairmen's shields may be constituted, given each year to the units/ departments/being judged as the best units for the year's thrust area, and other aspects to be promoted by the organisation. At RPG gives Best Region and Best Division rewards are given.

Performance at individual level has always been emphasised. The emphasis of the new reward policy of Gujarat Gas is on rewarding "simply the best" employee. Its objective is to provide a sense of recognition and achievement motivation for the significant contribution. It gives "outperform" reward for outstanding performer of the year i.e., performance "always exceeds expectations". RPG has 'Vacation scheme' for best employees.

Speed and efficiency: Ericsson Falcon Award is given for Speed and Efficiency to promote fast, urgent work pace with speed and efficiency. The Qualifiers are: Increase in efficiency; Cost savings for the company; Earnings/rewards for the company. Demonstrated Behaviours for the award are:

- 1 Exceeds timelines consistently
- 1 Completes projects in record time
- 1 Always withstands pressures
- 1 Does not wait for assignments, decides what is needed to be done
- 1 Respond promptly to sudden/unexpected problems in own unit/department

Loyalty: When employees complete their first year with Hughes Software they are presented a watch; when they complete five years, they (and their families) are given a company paid holiday. Ernst & Young also reward people who stay in the company in considerable time.

Innovation: Gujarat Gas gives "innovation helps" reward for an idea given by an employee who has resulted in cost reduction/improved efficiency. Philips Software Centre rewards innovation Rs.5,000 for sending an idea to head office and \$750 when it is filed for patent. So far more than 1,4000 ideas have been filed and in the last two years 12 patents were granted. At Texas Instruments (India) Development Centre, employees feel that they really don't do peripheral work. This fact comes out quite clearly in the patent data. Over the last 16 years, TI's India centre has filed 225 patents out of India. That is more than two and a half times the next company on the list, IBM, which has 85 patents filed from India in 10 years.

At Ericsson-India Ericsson Innovator Awards are given for Innovation, Creativity and Functional Excellence. The purpose is to promote: Innovation, creativity and performance excellence; Initiative taking and doing an extra yard; A climate of experimentation and learning, that focus continuously on new ways to create added value for customers and shareholders. Nominations for this award should consider visible and concrete value addition in the form of increase in revenue; Increase in efficiency; cost reduction; functional value addition. The following are the demonstrated behaviours for this award :

- 1 Uses opportunities to develop new and better ways of doing things.
- 1 Challenges the *status quo*.
- 1 Puts generated ideas into implementation.
- 1 Explores innovative and new ideas in problem solving.
- 1 Reflects on past experiences to learn.
- 1 Approaches problems in generally curious and open minded manner.
- 1 Is able to modify and use learned concepts or methods appropriately.
- 1 Makes a different, original use of the existing information.
- 1 Uses intuitive approach to develop new systems and procedures to increase efficiency; Stimulates creative ideas in others.
- 1 Anticipates and prepares for problems that are not obvious to others.
- 1 Does not stop at the first solution.
- 1 Thinks positively even when faced with obstacles.
- 1 Encourages innovation around him/her.
- 1 Uses tools like brainstorming to stimulate creativity around him/her.

Upholding values: Hughes Software gives formal award for adherence to company values. Ambassador award is given for values and Business Excellence. The award is given to promote: Human and business competencies which are mandatory for Ericsson employees, viz. Ericsson knowledge, customer orientation, communication, teamwork, negotiation, cultural awareness and approach to change; Ericsson values: professionalism, respect and perseverance; Ericsson wanted behaviours passion to win, dedication to customer success; fast, urgent, creativity, value adding teamwork. For the award Ericsson values and behaviours should be demonstrated in the following areas: Visible market or product break-in; Achieving strategic contract; Successful customer partnership; Great enhancements in customer satisfaction. Demonstrated behaviours are :

- 1 Puts forth views influentially because of the deep insight in the matters.
- 1 Handles all customer situations with confidence.
- 1 Shares knowledge, skills and experience in a clear, concise and open manner.
- 1 Leads teams through difficulties by soliciting ideas and eliciting their co-operation.
- 1 Adapts to new challenges and is able to identify, accept and introduce changes in order to meet the future customer and market requirements.
- 1 Persists in face of difficulties.
- 1 Understands business situation and decision making process in client organisation, by establishing contacts with key persons and reading the organisation.
- 1 Exerts to get ahead, is enterprising and gets the job done.
- 1 Delivers promises with speed and a sense of urgency.
- 1 Understands on a strategic level, the relationship between finance/technology/ business areas of the company and uses it effectively in negotiating business deals.
- 1 Understands business situation and decision making process within customers organisation, by establishing contacts with key persons and building relationships.

- 1 Is able to take a decision even under high stress when the risks cannot be planned.
- 1 Understands how the customer gains profit from doing business with Ericsson.
- 1 Has knowledge of Ericsson's main competitors and their competitive strategies.

Technical Solution: Hughes Software holds employee poll for rewarding the “person with best technical solution”.

Learning: Infozech Software rewards the personal achievement of the employees. For example employees who have cleared examination like; MCSM, MCSE, MCIP, MCDBA, CISCO certification, Sun certification, they are given a cash reward in the monthly meeting.

Good behaviour: Hughes Software holds employee poll to reward “the most warm and friendly person”

Sense of humour: Hughes Software also gives reward for the best sense of humour.

Teaching: In Hughes Software employee poll is also held for rewarding “the best teacher”.

Publications: Gujarat Gas gives “the triumph” reward to an individual employee or the team who have come out with an in-house publication.

Event Management: Gujarat Gas also gives reward to persons involved in an event management without help of external agency.

Social Concern: RPG gives awards to people who have done something on social issues like riot relief or flood relief. RPG gives awards people who have done something on social issues like riots relief or flood relief.

7.8 HOW TO REWARD?

A tricky question is how to decide who should be rewarded. In some cases the criteria may be quite objective (e.g., production, selling etc.). However, in most cases some judgment is required. Different ways are used to reduce subjectivity in decision making. One way is to have a team decision rather than individual choices. Various methods have been used as illustrated below. Discrimination of the head of unit/department should also be given importance in rewarding employees.

For Unit/Department level rewards, survey, instruments may be prepared for assessing achievement in the selected areas. Other alternative arrangements may be to have Audit Teams for each aspect, whose recommendations may be sent to the apex team for finalisation of rewards.

If audit is to be used for Business/Corporate function rewards, the top management may constitute two Audit Teams. One Audit Team may cover internal customer satisfaction, strategic initiatives, and the other Audit Team may cover culture/climate, team work, and subordinate development. The Audit Teams can utilise survey data, in addition to their on-the-spot visits. Audit Teams may develop their own guidelines. The teams may score the Units/Depts. in A, B, C categories. The top management may nominate one of the six members as Chairman of the joint teams to finalise their recommendations.

For rewarding individuals some devices have been used to make it more objective. In Huges Software employee polls are used to pick up individuals for rewards. When the management makes decisions in rewarding employees, people may doubt that management would pick up their favourites. Employee polling is free from this kind of bias. In NIIT the HR department organises a poll for choosing best employee. Thirty names are chosen from the poll results and these employees become members

of Presidents Forum. At Net Across one has to be nominated for the best employee by one of the department members. The information about the nominee, the criteria on the basis of which the person has been nominated, the projects he has undertaken and his accomplishments, competency etc. are displayed on intranet. And the best employee is selected after the polling. No cash rewards are connected with this.

7.9 HOW TO ASSESS?

Rewards are given to recognise outstanding work of individuals, teams (units and departments including) or others connected with the organisation. It is important to communicate appreciation in public. Celebrating achievement in public boosts the value of the reward. Exceptional performance by the organisation, crossing a milestone or launching of a new product etc. may be celebrated organisation-wide with small gifts (the same to all employees, from the top to the lowest level). A team of 5 to 7 employees (or preferably their wives), from different levels and locations, may decide the gift to be given.

Based on the “performance” of the units/departments (all units/departments to be rated by a corporate committee as A, B, C), the units/departments may be given discretionary funds from the Reward Corpus, to be utilised to reward their employees. The recommendations made by the unit/department heads, along with justification, should be sent to the Corporate Rewards Committee. The rewards should be declared by the unit/department heads.

Individuals or team rewards may include monetary rewards, computers, family holiday plans, stock/share options, declaration in the newsletter, medals and certificates (to be given in a function by Unit/Department Head /CEO, also a person who collects four medals or so may be given some intrinsic/extrinsic reward), visit to other plants, visits abroad etc.

Survey of customer satisfaction, internal customer satisfaction and employee satisfaction, may preferably be conducted by internal or external team (say by short placement IIM/IIT/other institute graduates). Survey forms may be developed by a Task Force, reviewed and finalised.

Empowerment: One way to reward people is to empower them, giving them autonomy with support to act in relation to their work. One good example is the public sector undertaking, BPCL, which reorganised itself and gave more freedom to people in the field. For example, territory managers in retail can award jobs up to Rs. 2 crore or take action against errant dealers. In Philips Software Centre 70-80% vacancies get filled by employee referrals. Wipro Spectramind has a programme CONTACT (Cutting Out New Talent Activity) for employee referral.

Recognition: Recognition is the greatest reward. Texas Instruments, rated no.1 Great Places to Work in India, recognises people by electing them as TI Fellows, one of the highest steps on the technical ladder. “ATI Fellow is like being a Don at Oxford. Only 0.6% of the TI population are fellows. These are the chaps who are the ‘brains’ - people who help TI meet its most difficult technical challenges. Becoming a fellow is difficult. Your peers and seniors evaluate your work to see if you have been innovative in your thinking right through... Staying there is even harder. You are re-assessed every year. If you fall behind you can lose your fellowship as the total number cannot be more than 1% at any given time.”

In NIIT there is an annual practice of naming a conference room or office or training room after the name of the most outstanding employee of the year. The naming is done ceremoniously and a car is sent to bring the family, cake is ordered, and the

employees assemble in that room. At Federal Express, rated second amongst 25 great places to work in India, an employee can get one of Fed Ex's 500 aeroplanes named after his/her kid. RPG managers give certificates to their employees by on small achievements and good work that they have done.

With the belief that reward and recognition systems are some of the fundamental ways to improve motivation levels, Wipro has a unique package called Encore, which is essentially a basket of non-monetary rewards given to motivate employees and recognise excellent work performance. This basket of rewards comes at two levels – “account” level and the level of the industry or organisation. For example, one account-level award is Feather-in-my cap, which is an on-the sport recognition of an effort that is important to a project or project team. Another award goes by the name of Dear Boss, which recognises the positives of a good boss, including technical, managerial and leadership skills. At the organisational level, there are awards like Mastermind, which is given for the most innovative solution or idea in Wipro. The Wipro Hall of Fame recognises superlative performances in different roles as well as superlative team performance. It stands for the highest consistent performance reward in Wipro.

Career Growth: An excellent way to reward people is to provide career growth to deserving people. In Federal Express an employee started as a receptionist, moved on to operations, and then to customer service. There each employee can tailor his/her career path. Texas Instruments has a “technical ladder”, communicating to people that it does not matter even if they want to remain technical gurus all their lives. They would still be rewarded on par with people who move into management. The tool is the ‘technical ladder’. It is a parallel career path to the management ladder. Eli Lilly (India) career growth is promoted through cross-functional competencies. ELI recently introduced one of parent Eli Lilly's interventions - a technical competency model (TCM) - to help those employees who want to develop deep technical expertise and also want to progress in their specialized function. TCM was introduced after it was debated heavily in the cross functional teams set up to assess the pros and cons of the model.

Development: Developing people, raising their competence and qualifications is a great reward for them. Value is added to them, and their ability to carry higher responsibility increases. Several companies are increasingly investigating in employee development. Employees get more mobility and opportunities for career growth. Texas Instruments have set up Development Centre, so have Aditya Birla Group, Gyanodaya, a learning Centre. Johnson & Johnson have tied up with various business schools for MBA courses for deserving employees. Wipro Spectramind spends about Rs. 30,000 per employee on training and development alone. In Jindal Iron and Steel Company shop floor workers are routinely moved and trained. The company trains them before they are given a new function. They can get Rs. 10,000 allowance once in two year to pay for tuition fees. The result: productivity per worker has increased from 300 tonnes in 2000 to 575 tonnes in 2003.

At Tracmail, a BPO firm, team leaders are sent to B-schools to attend executive MBA programmes in batches. Retention rates at these levels have been very good. Employees also have opportunity to spend six months doing internal projects with various departments: if these projects are found useful, the reward is promotions to a higher level.

Celebrating and Fun: As already discussed, rewards should be celebrated. This may be in many forms. Having a party is one of celebration. In fact, more and more emphasis is being given on developing fun and joy at work place. For example, Vipro Spectramind has a budget of Rs.150-200 per employee per month to have a party,

either on the premises or outside or a weekend party. The company also believes in immediate rewards. Rs. 25,000 to 30,000 a month are spent on on-the-spot rewards as watches, pens, caps, T-shirts, travel bags etc. This is called Pragati initiative.

7.10 ABOUT PUNISHMENT

“Discipline Without Punishment” is the most innovative HR tool. The concept has two basic goals. First it is designed to create an opportunity for the employees to solve the problems, second it is intended to do everything reasonably possible to maintain an effective relationship between the employee, the manager and the organisation. Rarely does the employee “being disciplined” walk away believing or feeling that the manager is trying to create an opportunity for his success. Whether intended or not, the employee usually walks away feeling that the purpose of the discipline was to make sure he/she knew that he/she had made a mistake and that he/she was in big trouble because of it.

In Federal Express a person failing in his performance does not get disciplined, but he gets pulled into a constructive action plan. “If you buy a car and it breaks down, you repair it, not throw it away. From a cost point of view, it’s much more cost-effective to improve (people) rather than to throw (them) away. It just does not make sense”.

The manager must understand that his/her role is that of a coach. A coach is patient. A coach teaches; a coach encourages; a coach focuses the employee’s success, not on his failure. Most importantly, a coach defines what success is.

Oral communication is the first formal coaching step of discipline without discipline. The manager’s goal in this session is to help the employee agree to solve the problem. The manager takes on the role of a supportive coach who is working to help the employee understand what the problem is, why it is a problem and what the employee needs to do to correct it.

Written communication takes the coaching process to the next level. The supervisor focuses on defining the expected performance and soliciting the employee’s agreement to perform at that level. The supervisor provides all help.

Discipline without punishment is not a cure at all. It will not solve problems. It cannot be implemented overnight. It requires planning, training and careful implementation.

7.11 SUMMARY

Satisfying employees’ need is a prime responsibility of all organisations. The needs include psychological and monetary. Monetary aspect covers compensation, reward and incentives. Compensation and reward system of an organisation is usually done by job evaluation. Reward is given to individual employee and also to organisation as a whole. An employee can be rewarded on the basis of performance, speed and efficiency, loyalty and innovation.

7.12 SELF-ASSESSMENT QUESTIONS

- 1) Describe how compensation system is designed in an organisation.
- 2) Elaborate how, what and whom to reward in an organisation,.
- 3) “Discipline without Punishment”, elaborate.

7.13 FURTHER READINGS

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