

Determinants of Performance Related Pay For Rewarding Executives (A Study in the Engineering Sector of Pune Region)

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ABSTRACT

This is an empirical paper based on the author's study in the greater Pune region. Her doctoral research centered on Performance Based Rewards for Indian Executive, particularly to align shareholders interests with the executive remuneration.

Conducted during the period 2000 to 2001, as a part of her doctoral work, the findings have since been reaffirmed, with due modifications. The research was undertaken across ten different sectors, encompassing over fifty organizations, for conducting a comparative study of rewards, as they configure in Performance Related Pay (PRP).

This paper is an offshoot of the doctoral research carried out by the author; the data for this paper has been gathered from 10 major engineering industrial establishments. The research paper has been used as means of developing several propositions that link different determinants for PRP, in the engineering firms, as part of compensation strategy and their effectiveness in achieving the outcome from such initiative. The underlying argument is that effectiveness at realizing intended pay strategies depends significantly on the existence of a match between compensation strategies, organization and environment. Respondents are managers responsible for compensation policies in these firms. The relationships among compensation strategies, organization characteristics and environment are explored. The findings may help authors conceptualize, and practitioners manage the relationship between reward processes and strategy in organizations.

Though the investigation revolves around a comparative study of the various factors considered within each organization for administering PRP, the purpose of the investigation is to determine what constitutes a company's decision in incorporating certain determinants as vital to reward employees, by way of variable pay. Out of this comparative study emerged a set of parameters that could be considered homogenous, and which could be taken as a basis of accepted practice for the purposes of both delineating people management policies and benchmarking people management practices for reward management. Such factors were then espoused as determinants considered critical by the said organizations for the effective implementation of PRP plans. Therefore the determinants included in this study as critical for the success of PRP plan initiative are - Quantum Distribution of PRP to basic salary, Seminal Factors for Administering PRP, Types of PRP Plans used and Coverage of PRP Plan. While selecting determinants for a reward system, it was felt that the end must be kept in mind, such as the purpose behind variable system of pay.

INTRODUCTION

Over the past decade, companies across all industries in India have been challenged by competition from both within the country and outside. The new economic order in India has pushed the country into the race for globalization. In the case of a few industries, high technology in particular, rivalries between companies have heated up to enormous proportions for the most

important resource that these industries need - talent. With increased competition there is need to become cost effective and efficient.

The salary spiral in Indian companies has increased the compensation expense many folds over the past years, while the bottom line has grown at a lesser pace. This spiral is expected to continue with increasing foray of Indian organizations into the global market. Companies find it difficult to match such salary increments under their fixed compensation. Consecutively, it puts enormous pressure on them to attract and retain talent. The flood of reengineering, restructuring and downsizing exercises that corporate India has embarked upon has resulted in redefined employee roles with clear linkages to business results.

Companies are also being challenged by shareholders to provide enhanced investment value, as the stock market becomes a preferred arena for investment for more and more people in the country. Organizations mindful of these challenges are discovering that their traditional short term performance orientation is no longer adequate for managing the decision making process to support the long term strategic planning necessary in today's operating environment. Today, with growing focus on enhancement of shareholder value and the importance of maximizing company performance beyond the current fiscal period, equity linked incentive plans, for instance, are gaining a lot of popularity. Executive compensation tied to shareholder value creation is seen as an important means of aligning the manager and shareholder interests.

Therefore, as corporate India restructures itself to meet the demands of

global competition, there is a growing interest in various issues related to managerial compensation, managerial performance and its contribution to creating shareholder value.

Traditionally, particularly in the Indian context, executives received fixed salaries and incentives. Today time contracting, which does not relate pay to performance and productivity, has outlived its usefulness. The underlying argument is that effectiveness at realizing intended pay strategies depends significantly on the existence of a match between compensation strategies, organization and environment.

The objective behind this empirical investigation was to explore and describe the determinants that are essentially considered critical factors by the organizations in the engineering sector to administer variable pay. Thus emerged the conceptual framework for this investigation. Determinants are explained as key variables in the disbursement of Performance Related Pay (PRP), in ways consistent with the administration of reward policies within the organization.

Such variables that are considered as critical variables by the respondent organizations have been referred as Determinants, and the PRP strategy presented in this paper revolves around them. These determinants are Quantum Distribution of PRP, Seminal Factors for administering PRP, Types of PRP plans used and Coverage of PRP plan.

After focused interviews with the individuals within the organization and observing various characteristics and effects within the sample organisations, the

author has concluded that allocation of different determinants can impact the effectiveness of achieving organizations objectives, for which the initiative is intended. It was also found that firms which were having considerable success rate with the implementation of different determinants, also kept the end result in mind, a fact which helped to bring forth a significant amount of sector consensus in selecting determinants and related objectives. Such determinants also serve as indicators for controlling standard economic determinants of pay.

Though the investigation revolved around a comparative study of the various factors considered within each organization for administering PRP, the purpose of the investigation was to determine what constitutes a company's decision in incorporating certain determinants as vital to reward employees, in the administration of rewards and compensation management. Out of this comparative study emerged a set of parameters that could be considered homogenous, and which could be taken as a basis of accepted practice for the purposes of both delineating people management policies and benchmarking people management practices for reward management. Such parameters were then espoused as critical determinants for the effective implementation of PRP plans.

THEORETICAL UNDERPINNING OF PRP

Pay can be classified as base pay and/or variable pay. The standard base pay technique provides for minimum comparison for particular job and is a type of continuous reinforcement schedule. Pay by the hour for the workers and the base

salary for managers are examples. The technique does not reward above average performance and it is administered on a continuous basis controlled largely by the job rather than by the person performing the job. A variable pay technique however, is an intermittent type of reinforcement schedule and attempts to reward with reference to individual or group differences. Thus it is more performance than job controlled. Seniority is a traditional variable pay plan, which recognizes age and length-of-service differentials. However the increasingly popular merit pay and individual or group incentive plans attempt to reward continuously on the basis of performance. Variable pay plans include individual incentives, work group or team incentives, gains having profit sharing, employee stock ownership plans and stock option plans.

Traditionally, variable pay plans were restricted to the piece rate system for blue-collar workers, merit pay bonuses for supervisors and managers, commissions on the amount sold for sales personnel, and stock options for top management. Contemporary pay practices include employee stock ownership plans and profit sharing for everyone, along with at the group/team level, gain sharing plans with all members sharing equally in a fixed percentage of the documented gains accomplished. With the dramatic changes afforesting organizations in the post 1991 era, pay plans are starting to emerge that are trying to reflect the new paradigm. Plans that are assuming popularity are Commissions beyond sales to customers, Rewarding leadership effectiveness, Rewarding new goals, pay for knowledge workers in teams, Skill pay, Competency pay, Intrapreneurial bonuses that pay for innovation, using Broad-banding as an effective pay administration initiative.

Rewards can be classified along two major dimensions: (i) Intrinsic \ Extrinsic and (ii) System wide \ Individual. Intrinsic rewards are those that an individual provides himself; for instance feeling of accomplishment, as a result of performing a task. Extrinsic rewards on the other hand, are those that are provided to the individual by someone else. Much of the conceptual work on intrinsic motivation is incorporated in the work of Deci (1975) and his cognitive evaluation theory. System wide rewards are those that are provided by the organisation to everyone in a broad category of employees for simply being part of the company. Individual rewards on the other hand are provided to particular individuals, like bonuses and merit increases.

Understanding different types of rewards and their configuration in the administration of rewards is essential. The type of reward administered must be linked with the determinants of rewards in such a way that it helps to elicit the work behavior desired by the organization. Since the area of this research centers around performance related rewards, the core of this investigation focuses primarily on extrinsic rewards, centering on financial gain for the employees concerned.

RESEARCH OBJECTIVES

This paper focuses on the strategic design choices that are involved in managing a reward system by effective selection of determinants and their relationship to organizational effectiveness in administering rewards. The underlying assumption is that a properly designed reward system can be a key contributor to organizational effectiveness.

The purpose therefore is the

identification of a set of determinants that could be considered homogenous, and which could be taken as a basis of accepted practice for the purposes of benchmarking people management practices for reward management in the area of Performance Related Pay.

RESEARCH METHODOLOGY

The research design used involves an Exploratory-cum-Descriptive study of the Engineering sector in Pune region. Industry-Sector interface was carried out with the use of Sample Survey. The data was collected using both secondary and primary research. Industry sector interface was the most critical part of the research. Respondents are managers responsible for compensation policies in these firms and range from chief executives to human resources managers. Data was collected regarding the different components of their organization's compensation structure and the nature of performance related pay existing within the organization, particularly the determining factors for administering PRP and the link between the initiative and the outcome expected. Structured Questionnaire and focused interviews were used to center the investigation essentially on the link between the determinants and the resultant outcome.

Graphic rating scales helped to classify the relevance of each response on a scale and thus facilitated in prioritizing the significance of different parameters used. In order to conduct the intra-sector sensitivity analysis of first cut findings, absolute figures were converted into statistical ratios in terms of averages.

Comprehensive analysis of the data, projects the significance of different

determinants associated with the administration of PRP and the outcome of using them.

OVERVIEW OF FINDINGS

The observations of the author are based on a comparative study of the various determinants incorporated in the PRP plan of the respondent firms to reward employees. This intra-sector sensitivity analysis of the critical determinants that were used extensively by 70% of the firms also resulted in these firms achieving the objectives around which their PRP plan was built. Such determinants considered critical could be taken as a basis of accepted practice to both delineate people management policies, and benchmark people management practices for reward management.

Keeping such perspective in view, an amalgam of practices being followed in the sector have been presented, without signifying predominance of any particular determining facet, relating to a particular firm.

Engineering is a diverse industry with a number of segments. Total number of companies visited in this sector is ten and all the companies are using some form of PRP plan to remunerate their managers.

- On a wide spectrum, the compensation structure in this sector comprises of all or some of these components: basic, fixed allowances, gratuity, superannuation, fixed bonus, and PRP which ranges, on an average, from 15% to 30% of the base/gross pay.

- The determining Seminal factors regarding the Quantum allocated towards PRP is largely individual performance and secondly the company / divisional / departmental performance.
- Survey shows that variable pay plans, like Performance Related Pay, are being used to achieve greater managerial accountability and amongst the participants 88% of the respondent companies are using some form of PRP across the board and others are seriously considering its implementation beyond limited functional areas.
- As many as 73% of the companies have started using PRP plans across the board only after the year 1995.
- Coverage of the PRP plan for 88% of the companies is across the board, with the variant differing across functions and hierarchy.
- 95% of the companies disburse PRP annually."
- ESOP's are being offered by 30% of the listed companies and most offer a vesting period before the right can be exercised.

Seminal factors for administering PRP in these organizations are individual performance, group/team performance or business/ company /divisional performance. Consequently different Types of PRP plans have emerged such as individual awards, group/team awards, business incentives or equity-linked incentives. Respondent companies have

implemented one or more of the above mentioned Determinants in their PRP plans.

However, differences were observed in Quantum of reward disbursement based on Seminal factors, such as individual performance vis-à-vis division / unit / departments performance. For some companies divisional/ departmental performance is used as the most relevant determinant for PRP, followed by individual performance; for others reverse is true.

Intra sector comparison of determinants and the expected outcome achieved by the implementation of these determinants has indicated that such organizations which are using combination of determining factors in the administration of PRP plans have a higher success rate in reaching their predetermined objectives.

(*Note: Sample of a typical sales plan in a respondent organization is presented in the appendix as illustration. This plan indicates employing multiple seminal factors very successfully in achieving a firms preset objectives in the administration of PRP)

While evaluating the performance of the managers, individual targets, and the resulting performance of the division or department plays a major role. For example the HOD conveys to the General Manager the required targets expected from his division in terms of sales and profits; the GM then conveys to his manager operations the targets of management of inventory etc., on which would be dependent the performance related pay for that manager. In this way, there is a cascading effect for setting targets and measuring output.

For the support staff, softer objectives are used and the component of PRP allotted to them ranges from 15% to 20%.

The system of implementing PRP across the board was actively considered by these organizations after the year 1995 and at that time the determinants for rewards were highly team based. Since 1999, PRP has adopted seminal factors which are more individualized and individual targets are given greater percentage appreciation than divisional or company performance.

PRP is administered annually. The types of plans being used are individual awards, productivity based incentives, sales incentives and business incentives. The effort is to align the plan objectives to business results. Plan Coverage is across the board, and on an average, the proportion of PRP to base varies with 15% allotted for support function and 30% for others, amongst different levels.

While calibrating executive compensation the organizations try to remain competitive with the market. The practice of fixed yearly rise for the manager is diminishing with very small component attached to it, and most are even considering calibration of perquisites and other benefits linked with individual performance.

Challenges of PRP

The major challenge in the effectiveness of the determinants and the resultant outcome in some of the firms observed by the author, and probably the most critical aspect for the success of PRP,

is that there is not enough synergy between the plans objectives and the strategic goals of the Business Unit/Division/Department. Such organizations are following the PRP model suggested by the head offices or parent companies. Some respondents were of the opinion that target setting is not being done realistically, for instance taking into account the environment in which the business exists. Once the targets are mismatched the choice of determinants is a shot in the dark.

In other organizations, issues regarding PRP are fundamentally pragmatic. They are constantly striving to achieve a balance with the nature of determinants built into the PRP system and the target setting, measurement and communication.

At the other end of the story, are the views expressed by some respondents at middle-level management, when one is struck particularly by an attitude of reticence on the part of both management and employees towards the system of PRP and its contribution for enhancing individual and company's performance. Management prefers to emphasize on items like economic and social rewards, status symbols and fringe benefits that vary according to the hierarchical levels in the organization. Both management and employees, in these companies, seem to be high on uncertainty avoidance and an unwillingness to exert the effort associated with PRP plans.

The administration of PRP, also results in commonly expressed concerns regarding suitability of differing determinants and enquiries arising thereof, such as -

Should individual or team performance be considered?

Should all team members receive same rewards for team performance?

Those who have not measured up within the team must it be expected that they receive equal reward?

What about employees who are members of multiple teams?

In the case of company or divisional performance related pay, does one compromise the good performers for factors beyond their control?

Can individual performance be rewarded without threatening the harmony of the team?

RECOMMENDATIONS: A Qualitative Perspective.

PRP plans argue in favor of design process that starts with business strategy and organizational design. It argues against the assumption that certain best practices must be incorporated into a company's approach of pay.

The equation that X amount of performance earns Y amount of reward is quite straightforward for an employee. If a statement like that does not bring forth performance which is better in terms of previous performance, then one needs to question the foundation on which lies the system of rewards. Whether or not an organization introduces performance related pay (PRP) will depend upon factors like its culture and the extent to which it believes that a scheme can be developed and maintained, which will meet the objectives set out in the beginning. PRP may be introduced because of a

fundamental belief in the virtues of rewarding people according to their contribution even if it cannot be proved that it will make a striking impact on organizations performance. It then becomes almost an article of faith, justified by the belief that it conveys a clear message of the performance values of the organization. Its perceived prime importance then becomes its prime effect.

The observation of research findings and limitations in the implementation of PRP as experienced by the respondent firms has enabled the means of developing several propositions. These propositions help to link different determinants in the implementation of PRP, in the engineering firms, as part of compensation strategy and their effectiveness in achieving the outcome from such initiative.

Such propositions have been presented by the author as recommendations:

Critical success factors for implementing PRP. **While designing a PRP system management must be clear about the following issues:**

1. What objective do we wish to achieve by a system like PRP?
2. Is the PRP plan objective aligned with the strategic objective of the enterprise?
3. Who should be included in the system?
4. Whose performance should be measured?
5. How will performance be measured?
6. Is the quantum of variant appropriate for the purpose that it wishes to achieve?

Examples of some of the objectives that management may wish to address

through PRP plans could be:

- Linking pay to performance
- Aligning employee efforts towards business incentives
- Attracting and retaining key talent
- Increasing Productivity\Profits\Sales Revenue
- Increasing teamwork
- Culture change
- Shifting compensation expense from fixed to variable
- Increasing employee accountability for performance.

Selecting a suitable PRP Plan

While designing a PRP plan one must be clear about the individuals/teams that will be a part of the system and consequently evaluated for performance. PRP plan should be developed with a specific individuals and/or groups in mind, such as managers of different functions or at different levels. Companies can use different types of PRP plans for different jobs. The decision to use an individual, group or unit PRP plan is critical. The relevant issues to be considered here are the extent to which output is controlled at individual or group level, whether individual performance can be measured and the extent to which teamwork may be affected by the PRP plan.

The type of PRP plan used results in the accomplishment of certain objectives. Therefore the type of plan, its resultant objective and the enterprise wide objectives need to be aligned. For instance, payment by result is payment for producing results; merit pay is for exhibiting the appropriate attitude and commitment. Profit sharing is payment for putting the organization first. From this perspective PRP plans can be

used to achieve certain objectives.

Type of performance measurement system

Every employee working within an organization is there for a purpose, therefore accountable for some outcome. Every activity needs to be measured against certain identifiable standards and consequently every employee must be awarded a fair chance to be evaluated and rewarded for the accomplishment of those identified standards.

PRP plans would usually fall into one of the following spheres of measurement: they are either those based on the achievement of a set of objectives, quantitative or qualitative; alternatively, they are behaviorally based, measuring competencies; a combination of two or more of the above.

Therefore, critical to the success of PRP plan, is the definition and measurement of performance. All activities can be measured if one is ingenious enough to devise the means. Some of the softer issues, that are qualitative in nature, can be subjective. However, some respondents companies have effectively converted process issues into graphic rating scales or behaviorally anchored rating scales thereby enabling behaviorally oriented appraisals of their managers quantitatively. Related to the measurement of performance is the issue about what performance to measure - individual goals and objectives, business team performance or the company performance? Individual PRP plans are more effective when specific worker contributions can be clearly measured. If individual contribution cannot be measured reliably, then the smallest number of

employees, whose performance is determined to be important and measurable in terms of achieving strategic objectives, should constitute the incentive group. An organization may prefer to go for a group plan, even when it is possible to measure individual output where ever there is a likelihood of individual plans reducing co-operation and teamwork. The critical issues regarding the level of aggregation of performance determinant (i.e. individual, group or organization) should be done in terms of performance criteria, which the organization seeks to increase or improve and then link, pay to these determinants. Many companies may decide to incorporate more than one determinant and develop a matrix, which incorporates different determinants with each having either the same or different ratio of related performance pay. For example, an organization may wish to incorporate individual, team and company performance as seminal factors in determining variable pay.

(*Note: Sample of a typical sales plan in a respondent organization using both quantitative and qualitative measures is presented at the end of the paper as appendix. This plan indicates employing multiple seminal factors very successfully in achieving a firms preset objectives in the administration of PRP)

Types of incentives / rewards

Another aspect of PRP plan is the consideration about the type of incentive or reward to be used. Cash payments and rewards such as vacations or other forms of allowances, benefits or perquisites could be used as variable pay. One particular respondent organization has taken the initiative to link most managerial perquisites

to performance. Such rewards are more suited to short-run objectives. Some publicly listed companies prefer to include employee stock ownership plans as part of performance related variable pay. Such plans, it is expected, are appropriate for long-run objectives like retention of employees, greater accountability for creating shareholder value and above all aligning the interests of both managers and shareholders. The types of incentives selected should be company specific and must be of value to the individual employee being rewarded. Unless rewards have high valence for the employees they will not motivate for better performance.

Amongst the payment systems that will be effective for the sector under consideration will be the broad banded ones, which will ostensibly support cultural change by aligning the contribution and competence of individuals with the requirements of the organization. With broad-banded payment systems, it is possible to respond to market pressure without increasing total employment cost, as a high market rate for a particular job can be absorbed without necessarily inflating the rates for the remainder of the grade.

A successful ownership program must impact business results with following factors working in concert.

- A common stake in the company's success.
- Meaningful and consistent information about the company's goals and progress.
- A belief in their ability to impact business results.

The various forms in which equity linked incentives plans can be disbursed are:

- Stock options
- Stock appreciation rights
- Performance plans
- Restricted stock
- Phantom stock

Quantum of pay

In most respondent companies there exists a very small component of pay and performance sensitivity for managers, suggesting that the link is not strong. Again one cannot detect any relationship between pay of executives and the stock market performance of these companies, amongst the publicly held respondent companies. The proportion of PRP to base pay must never be too small to hold much valence for motivation

The appropriate quantum of variant for each business is extremely relative, with no fixed figure being considered as the best. The quantum of variant is a particular figure determined by each company as the amount allocated towards performance related variable pay. It is usually expressed as a percentage of base or gross pay. It could start from five percent and go up to 100% of base/gross pay. Performance related variable pay is usually not tied to the employee's base pay and therefore does not affect the same. Whatever the quantum of variant established it must clearly indicate the differences in the levels of performance and these differences must be considerable between the lowest and the highest degree of performance in order to push employees to excel. Differences in the quantum of variant can also be used in terms of different managerial levels and functions within the organization.

Coverage of the plan

Who should be included in the system? This question indicates towards issues regarding the coverage of the plan such as levels of management:

- Senior management
- Middle management
- Lower management
- Across the board
- Managers in certain function

The ways in which pay is administered tells a lot about the actions and outcome expected out of the employees. In all fairness to every employee within an organization, performance accountability rests on every individual employee. However, the variable part of the package must rest proportionately upon the opportunities available at each level or function in the face of risks involved. The balancing act between risk and opportunity will be the determining factor for the coverage of the plan. Ordinarily, most PRP plans have an across the board coverage, depending upon the maturity of the plan with differences in the quantum of the variant across the levels and functions on the basis of the linkage between the risk and opportunity factor. For instance, at the senior levels where the burden of risk is comparatively higher, one would find a greater component of variable pay to the fixed component and the same applies to different functions.

Emphasis on one measure should not lead to the reduced performance levels in other measures.

For instance, focus on output can reduce quality. However, it must be understood that reward systems when used must take a comprehensive view of

organization competitiveness and consequently these cannot be opposed to the culture of quality or any other process issue, which must be incorporated as an integral part of reward management culture.

Expense of installing and maintaining the PRP system

There are two elements to the cost. One is the cost of the actual award, and the other is the management cost of administering the plan. The award cost can either be met from the salaries budget in which case it is the matter of allocating the available funds between basic and performance related pay or they can be met from the accrued benefits of improvement, as in gain sharing.

The differential administrations costs involve the management time needed to set targets, assess performance, and communicate with team and individuals and allocate funds. All these activities are necessary anyway and part of cost of quality.

The issues of "line of sight"

Performance definition and measurement are very significant to the success of PRP plans. But there is more to PRP plans than definition and measurement of performance. Other supporting systems like employee buy-in on the plan, target setting, and cascading business measures across all employees, communication and training issues are equally crucial to the success of the plan. In many instances, poor communication of plans to employees and lack of attention on plan administration issues have led to the ineffectiveness in perceived outcome of variable pay plans.

Evaluating the success of PRP plan

It is important that the pay plan implemented be evaluated on a regular basis. This will provide an opportunity to modify the plan and to enhance its business impact prior to the next financial period. A combination of interviews, focus groups and structured questionnaires can be used for appropriate assessment.

Finally, it must be understood that best of plans have failed to deliver expected results in the face of employee resistance. Therefore, the significance of employee participation in the process of establishing PRP plans can never be over emphasized.

CONCLUSION

Cultural changes like the enterprise culture and continuous improvement through total quality, both reinforce the thinking behind performance awards. Financial incentives combined with good employee involvement and communication can lead to greater employee commitment to their company and a greater understanding of business realities. Academics and HR professionals may disagree about the effectiveness of PRP; however, the linkage with the culture of continuous improvement of performance is vital. The instrument of pay is used to deliver positive strokes to recognize those who are successfully adapting to the desired culture. There should be a direct, clear and explicit link between performance, outcome and rewards. Overall, the form in which an organization rewards its members should be consistent with the climate it hopes to foster.

While it may not be proved beyond doubt that PRP guarantees better

motivation, neither has it been disproved. The concept that people react positively to financial incentives has considerable face validity, as long as it is not simply argued that money is all they work for, and, as long as the financial rewards are worthwhile and attainable. The impact of PRP as a direct motivator may be arguable and the prospect of a small reward might not provide a powerful incentive. But the achievement of a reward is a tangible means of recognition and can therefore provide for less direct but possibly longer-term motivation. PRP need not be regarded as the only motivator. Attention should also be given to non-financial approaches to motivation and recognition. It is true that PRP will not work unless fair and realistic performance measures are established. If you cannot measure performance you cannot pay for performance. But the belief that only quantifiable performance measures are valid cannot be sustained. It is possible to measure performance by reference to agreed standards of behavior, by adopting a *competency approach* which involves the definition and agreement of the levels of competence required and an assessment of performance in relation to that definition. The use of differentiating competence, i.e., those that separate and distinguish between the excellent and the average, is particularly powerful. It requires skill and this must be developed. The danger of PRP encouraging people to focus narrowly on short-term quantifiable results and quantity rather than quality is a real one. But, it also avoidable if care is taken to widen the criteria for rewards to include behavior which satisfies requirements for innovation, contribution to the achievement of longer term results and quality.

There has been a transition of thought in the area of loyalty and attrition. Earlier it was believed that highly skilled and

knowledge workers were loyal to companies that offered them job security. Thereafter with stagflation running rife in the economy, emphasis shifted to productivity and pay linked to it. The manufacturing and engineering sectors found this of great value, in terms of meeting corporate objectives and so it was retained. Keeping in mind the existing talent shortage, challenge of attracting and retaining talent and the flood of reengineering, restructuring and downsizing exercises that corporate India has embarked upon, employer branding assumes a higher relevance. Hence loyalty and attrition, to a large extent, get linked to how the employer is branded. This investigation reinforced the belief that in order to have the employees absorbed, it becomes imperative to redefine employee roles, with clear linkages to business results, particularly as organizations incur huge expenditure in financial reward systems and their operating costs can go up significantly if these are disbursed indiscriminately.

APPENDIX

EXAMPLE OF A SALES INCENTIVE PLAN

OBJECTIVES OF THE PLAN

(All PRP plans must begin with a statement of objectives)

- " To motivate Field Sales & Service Personnel to achieve highest levels of performance in Order Bookings for the Company.
- " To recognize creation of incremental value by individuals and teams in terms of Sales & Profits for the Company.

- " To keep the administration of the incentive plan simple and transparent.

INCENTIVE PLAN DESIGN

The figures indicated below refer to a part of the current annual basic salary (which would be used as the center point) for the multiplier earned based on attainment of budgeted performance targets and exceeding them. However, for achievement of below the budgeted target, no incentive would accrue and no negative multiplier would be applicable only for FY-08, being the first year of the new Performance Related Pay Scheme.

The Center Point for this incentive scheme is as follows: -

- General Sales & Service Personnel - 12.5% of basic (1.5 months basic salary for Engineers, Sr. Engineers, Asst. Managers)

KEY RESULT AREAS & THEIR WEIGHTAGE - GENERAL SALES

| Key Result Area | Weightage |
|--------------------------|---|
| 1. Sales & OP | 20% |
| 2. Regional Team Results | 30% split as below: 30% for Regional Bkgs. 70% for Regional DSO |
| 3. Individual Results | 50% - split as below: 30% for Bkg Target 30% for Bkg Target 30% for Flow Bkg Target 10% for Personal Objectives |

Payout Rules & Matrix

1. Sales & OP Matrix [20% weightage]

Percentage of sales Target Attainment

| | | | |
|---|------|------|------|
| | 100% | 110% | 120% |
| Percentage of OP Target Attainment | 1.50 | 1.75 | 2.00 |
| | 1.25 | 1.5 | 1.75 |
| | 1.00 | 1.25 | 1.5 |

Explanation: If the Budgeted Sales and OP Target is attained, a 100% each - full 20% weightage would be applicable i.e. Center Point multiple of 1 would be applicable. For incremental attainment, the above-mentioned matrix would apply i.e. if 120% of Sales and 110% of target OP is achieved, then the multiplier would be 1.75.
(For attainment below target - no eligibility would occur.)

2. Regional Team results (30% weightage)
Percentage of Regional Bookings Target Attainment - 30%

| | | | | |
|------|------|------|------|------|
| 100% | 105% | 110% | 115% | 120% |
| 1.00 | 1.15 | 1.25 | 1.5 | 2.00 |

Explanation: If the Budgeted Booking Target is attained, full 30% weightage would be applicable i.e. Center Point multiple of 1 would be applicable. For incremental attainment, the above-mentioned matrix would apply i.e. if 120% of Bookings is achieved, then the multiplier would be 2.

(For attainment below target - no eligibility would occur.)

Regional DSO achievement (70% weightage)

| | | | | | |
|--------|------|------|------|------|------|
| Target | -2% | -4% | -6% | -8% | -10% |
| 1.00 | 1.10 | 1.25 | 1.45 | 1.70 | 2.00 |

Explanation: For budgeted DSO attainment the Center Point multiple of 1 would be applicable. If the DSO is lower than the target, the above mentioned matrix would apply i.e. if the variance - actuals v/s. targets is minus 4%, then the multiplier of 1.25 would be applicable to the weightage.

(If the DSO were more than the target, then no eligibility would occur.)

3. Individual results (50% weightage)

Percentage of Individual Bookings Attainment for RMT / ANA & FLOW

30% weightage for each Product Line

| | | | | |
|------|------|------|------|------|
| 100% | 105% | 110% | 115% | 120% |
| 1.00 | 1.15 | 1.25 | 1.5 | 2.00 |

Explanation: If the Budgeted Booking Target is attained, full 30% weightage would be applicable i.e. Center Point multiple of 1 would be applicable. For incremental attainment, the above-mentioned matrix would apply i.e. if 120% of Bookings is achieved, then the multiplier would be 2.

(For attainment below target - no eligibility would occur.)

(*Note: Examples for calculating PRP are enclosed in the appendices as illustrations- A and B).

Personal Objectives (10% weightage)

(To be decided by the Respective Regional Manager.)

The above mentioned plan has been stated for managers in the sales department, but it must be kept in mind that the functional aspects of the plan remain the same, no matter which function it is applied for; the only alterations occur in the nature of the objectives established. For instance, in order to measure managerial competencies, the plan can establish a mechanism to measure an employee's contribution, (often referred to as the 'soft targets') based on set of predetermined values, and these could for instance refer to the customers' needs, quality, empowerment and any other felt relevant.

(**Note: for examples of the rating system for soft objectives, see Figures 1 & 2 depicted below, which indicate the possible performance levels that can be achieved.)

***ILLUSTRATIONS**

Sales Incentive Plan: - Example A:

- 1. Sales & OP 100% achievement
- 2. Regional Bookings Target Attainment 105% achievement
 - Regional DSO achievement 4% (Target DSO 80 days Achievement 76.88 days Reduction 3.12 days)
- 3. Individual Results
 - Booking Target attainment for DIV-A 100% achievement
 - Booking Target attainment for DIV-B 95% achievement
 - Booking Target attainment for DIV-C 90% achievement
 - Personal Objective 100% achievement

Sales Incentive Working - Example A:

| | Factor | X | Weightage | X | Sub-Weigh-tage | X | Part of Basic Salary i.e. Variable | % Annual Basic Salary |
|--------------------------------|-----------------------|------|-----------|------|----------------|------|------------------------------------|-----------------------|
| A | | | | | | | | |
| 1 | FRIN Sales & OP | 1.0 | X | 0.20 | X | X | 12.5% | 2.50 |
| 2 | Regional Bookings | 1.15 | X | 0.30 | X | 0.30 | 12.5% | 1.29 |
| | Regional DSO Ach. | 1.25 | X | 0.30 | X | 0.70 | 12.5% | 3.28 |
| 3 | Individual Results | | | | | | | |
| | -DIV-A | 1.0 | X | 0.30 | X | 0.50 | 12.5% | 1.88 |
| | -DIV-B | 0 | X | 0.30 | X | 0.50 | 12.5% | 0 |
| | -DIV-C | 0 | X | 0.30 | X | 0.50 | 12.5% | 0 |
| | - Personal Objectives | 1.0 | X | 1.0 | X | 0.50 | 12.5% | 0.63 |
| Total Incentive Payable | | | | | | | | 9.58 |

ELIGIBLE FOR INCENTIVE @ 9.58% APPROX = 1.15 MTHS BASIC SALARY

(See examples of Rating Forms, tables 1 and 2, for evaluating personal objectives in the Appendices)

- Example B :

- 1. FRIN Sales &OP 120% achievement
- 2. Regional Bookings Target Attainment 120% achievement
 - Regional DSO achievement 10% (Target DSO 80 days; Achievement 72 days; Reduction 8 days)
- 3. Individual Results
 - Booking Target attainment for DIV-A 120% achievement
 - Booking Target attainment for DIV-B 120% achievement
 - Booking Target attainment for DIV-C 120% achievement
 - Personal Objectives 120% achievement

Sales incentive Working-Example B

| | Factor | X | Weight | X | Sub-Weight | X | Part of Basic salary i.e. variable | % Annual Basic Salary |
|--------------------------------|-----------------------|-----|--------|------|------------|------|------------------------------------|-----------------------|
| B | | | | | | | | |
| 1 | FRIN Sales & OP | 2.0 | X | 0.20 | X | X | 12.5% | 5.0 |
| 2 | Regional Bookings | 2.0 | X | 0.30 | X | 0.30 | X | 12.5% |
| | Regional DSO Ach. | 2.0 | X | 0.30 | X | 0.70 | X | 12.5% |
| 3 | Individual Results | | | | | | | |
| | -DIV-A | 2.0 | X | 0.30 | X | 0.50 | X | 12.5% |
| | -DIV-B | 2.0 | X | 0.30 | X | 0.50 | X | 12.5% |
| | -DIV-C | 2.0 | X | 0.30 | X | 0.50 | X | 12.5% |
| | - Personal Objectives | 2.0 | X | 0.10 | X | 0.50 | X | 12.5% |
| Total Incentive Payable | | | | | | | | 25.00 |

ELIGIBLE FOR INCENTIVE @ 25% APPROX = 3.0 MTHS BASIC SALARY

Rating Forms, Tables 1 and 2, for Evaluating Personal Objectives

Fig: 1

****CUSTOMER CARE**

| | | | | | |
|---|---|--|---|---|---------------|
| 5 | Anticipates customer requirements. Works with the customer to develop the business relationship. | Sets customer expectations at a high but achievable level. Win-win situations sought between self and customer | Seen by customer as a partner. | Always listens to the customer and suggests improvements to their wants | An ambassador |
| 4 | Seeks to anticipate customer requirements. Listens to customers and influences customers' views. | Asks customers for feedback and follows customer comments through | Sought by customers as an adviser. | Performs in ways that enhance both personal and image | |
| 3 | Reacts to customer requirements. Understands customers' viewpoint. | Accepts ownership of customer problems and complaints. Adds value to the business relationship. | Customers satisfied. Performs in line with reputation and image | | |
| 2 | Performs own job without proper regard for customer opinion. Needs constant reminding about customer skills | Customers sometimes dissatisfied. Falls short of customer first value | Co-operation Responsiveness Customer Relationships Identifying Customer Needs | | |
| 1 | Limited awareness of customer needs or the effect of own actions. Adds no value to the relationship | | | | |

Fig: 2

****COMMITMENT TO QUALITY**

| | | | | | |
|---|---|--|--|---|------------------------------|
| 5 | Explores ways of dealing with problems to produce lasting improvements customer. | Encourages others to work more effectively through quality practices, focused on the | Symbolizes and promotes Company Mission and Values. A role model for others to aspire to. | Consistently meets and sometimes exceeds all business needs and standards | Right first time, every time |
| 4 | Looks for and recommends improvements to own role and departmental procedures. | Consistently meets all departmental needs and standards | Sets an example for others to follow through own behaviour, achievement and personal application of values | Right first time most times | |
| 3 | Aware of company mission, values and strategy. Seeks to improve conduct of and results of own role. | Well organized, understands priorities and always satisfies the detail requirements for the job. | Sets a good example to colleagues. Usually right first time. | | |
| 2 | Aware of company mission and values. Understands own job and complies with required procedures | Makes effective use of time and resources. Mostly right first time. | Reliability Judgment Attention to Detail The Right Things Right First Time | | |
| 1 | Little understanding of company, mission and values. Rarely right first time | | | | |

(Note: At the end of the review period, achievements of the objectives are measured and a percentage rating produced indicating the extent to which objectives are achieved)

WEIGHTING OF ASSESSMENT RATINGS

It is usually recognized that the achievement of personal objectives is vital in higher graded positions and less so in lower grades. For this reason, there is a weighting between the two measures.

| GRADE | OBJECTIVE RATING | OVERALL CONTRIBUTION RATING |
|--------|------------------|-----------------------------|
| 1,2,3 | 25% | 75% |
| 4,5,6, | 75% | 25% |
| 7,8,9 | 85% | 15% |

The above percentages are guidelines indicating the minimum weightings to be applied to the objective ratings in normal circumstances.

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