

Principles of Human Resource Management
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Module No. #04
Lecture No. #11
Pay for Performance Systems

Welcome back, to the course on, Human Resources Management. My name is Aradhna Malik. I have been helping you, with the course, till now. We have discussed, a whole bunch of things, in human resources management. We talked about, what HRM is? How you apply it? A different training and development methods. We talked about, compensation, in the last lecture. Today, we are going to talk about, pay systems.

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What is compensation?
(Gomez-Mejia, Balkin & Cardy, 2012)

- Total compensation = Base compensation + pay incentives + benefits
- Base Compensation: “Fixed pay an employee receives on a regular basis, either in the form of a salary or as an hourly wage.”
- Pay incentives: “Programs designed to reward employees for good performance.”
- Benefits or indirect compensation: Additional programs to enhance the level of comfort of the employee in the non-work aspect of life. These include health insurance, vacations, etc.
 - Perquisites: Type of benefits (also called perks) that are “...available to employees with some special status in the organization.”

One thing, that I must revise is, one, what is compensation? And, then the, so, let us go back to this, compensation. Total compensation. Compensation means, how we reward, or, what we give to our employees, in turn for, what ought in return for the work, that they do for us, in return for the inputs, that they provide to the organization. That is what, compensation means. Now, how do we calculate compensation.

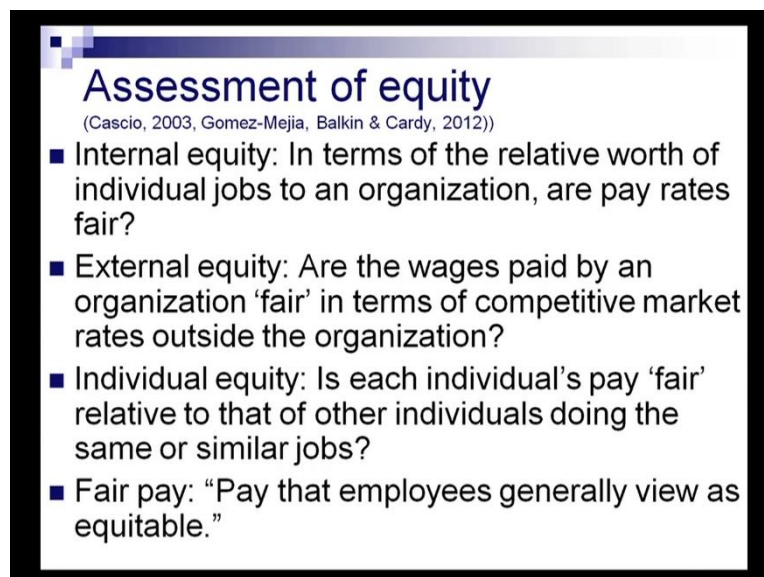
Total compensation equals base compensation, which is the basic salary, plus the pay systems, sorry, the pay incentives, plus added benefits, we give to them, or, added rewards, we give to them, for performing better than, their peers, and benefits, the perquisites. The

non-monetary methods of making their lives, more comfortable, are classified as benefit. So, that is what, total compensation is. Okay.

So, we defined, all these terms. We talked about, perquisites. Perquisites are different types of perks. So, if you are part of a community, like an institute of higher education, like the IIT's, which the large organization, with several thousand employees, and the students, and everybody. So, we stay on campus. We have very nice housing facilities. We have our own hospital, our own market. So, these are the perquisites, that we have. I mean, is our conveniences, plus, because, we are on job. On-the-job, 24 hours a day, 7 days a week.

We have a vacation time. We also get a leave travel concessions. So, all of these, are the perks, as we call them, which is the full form of, which is, perquisites. Then, as we talked about it yesterday, you know, if you are in an organization, that makes something, that manufacture something, will give you those things, for free, if they are of use to you. So, those are all the perks. Then, the other thing, I want to revise is, (coughing) excuse me, equity.

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Assessment of equity
(Cascio, 2003, Gomez-Mejia, Balkin & Cardy, 2012)

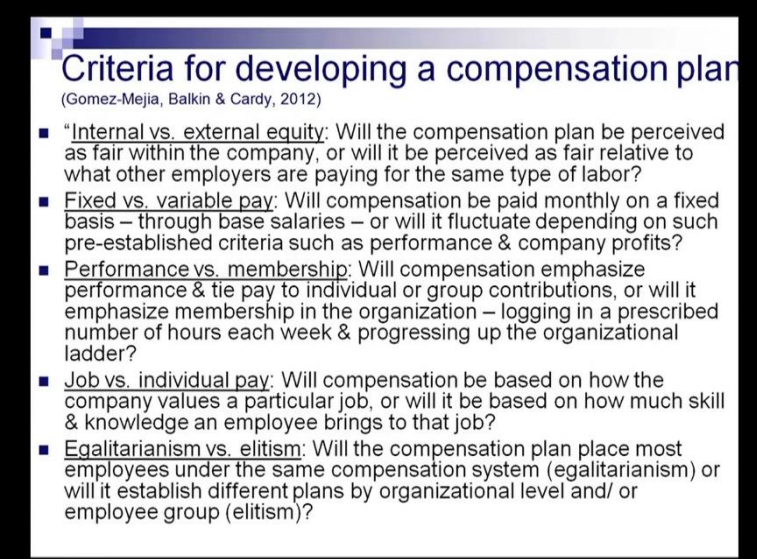
- **Internal equity:** In terms of the relative worth of individual jobs to an organization, are pay rates fair?
- **External equity:** Are the wages paid by an organization 'fair' in terms of competitive market rates outside the organization?
- **Individual equity:** Is each individual's pay 'fair' relative to that of other individuals doing the same or similar jobs?
- **Fair pay:** "Pay that employees generally view as equitable."

Equity means, the sense of fairness, that we have. You know, are we getting paid, enough. Am i getting, what I am. Am I being compensated, enough. Am I being compensated, appropriately. Is the organization, that I am working for, recognizing my work. So, that is the fairness, the sense of justice, in our minds. And, that is called, equity. How I mean, is the amount of input, from my side, or, the output, that the organization sees from me, equal, or

equitable, or fair, in terms of, are balanced with, what the organization is giving me, for it. Okay.

So, is there, some sort of a balance, some sort of a fairness, about whatever, I am putting in to the organization, that they can see. And, whatever they are giving to me, in return for it. Are these two, appropriately balanced. And, that is what, equity means. Alright. So, we talked about, different kinds of equity. We talked about, fair pay.

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Criteria for developing a compensation plan
(Gomez-Mejia, Balkin & Cardy, 2012)

- **Internal vs. external equity:** Will the compensation plan be perceived as fair within the company, or will it be perceived as fair relative to what other employers are paying for the same type of labor?
- **Fixed vs. variable pay:** Will compensation be paid monthly on a fixed basis – through base salaries – or will it fluctuate depending on such pre-established criteria such as performance & company profits?
- **Performance vs. membership:** Will compensation emphasize performance & tie pay to individual or group contributions, or will it emphasize membership in the organization – logging in a prescribed number of hours each week & progressing up the organizational ladder?
- **Job vs. individual pay:** Will compensation be based on how the company values a particular job, or will it be based on how much skill & knowledge an employee brings to that job?
- **Egalitarianism vs. elitism:** Will the compensation plan place most employees under the same compensation system (egalitarianism) or will it establish different plans by organizational level and/ or employee group (elitism)?

We also talked about, the different criteria, for developing a compensation plan. Compensation is all, that the organization, gives me. It is money. It is services. It is benefits. It is additional things, that I get, from the organization. All of that, qualifies as compensation. And, pay salary refers to the, monetary compensation. The monetary, the money part of the compensation, that I get, for whatever, I do. Okay. So, we discussed, some criteria for developing, a plan of compensation.

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Models that can be used to ensure equity of compensation (Gomez-Mejia, Balkin & Cardy, 2012)

- **Distributive justice model:** “Holds that employees exchange their contributions or input to the firm (skills, effort, time, & so forth) for a set of outcomes.”:
 - “Employees are constantly comparing what they bring to the firm & what they receive in return, &
 - Employees are constantly comparing this input/outcome ration with that of other employees within the firm.”
 - “Employees will think they are fairly paid when the ratio of their inputs & outputs is equivalent to that of other employees whose job demands are similar to their own.”
- **Labor market model:** “Wage for any given occupation is set at a point where the supply of labor equals the demand for labor in the marketplace.

We also talked about, some models, that we can use, to ensure that, the compensation is seems fair, go through the organization, and to us.

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Balancing equity (Gomez-Mejia, Balkin & Cardy, 2012)

- A firm should try to establish both internal & external equity
- **Challenges:**
 - Overperforming employees / ‘Superstars’
 - Underperforming employees/ laggards
 - Retention of needed expertise without having to raise salary
 -

Discuss in class/ with peers: Try to come up with strategies to establish internal & external equity in different types of organizations.

And, we talked about, balancing equity. I gave you a question that, you could discuss in class, with your friends. No right or wrong answers. But, it will just, be the purpose of this question, is to stimulate critical thinking, is to stimulate a futuristic thinking, is to stimulate you to find out, how many possibilities, there could be. And, what their advantages and disadvantages could be.

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Strategic integration of compensation plans and business plans (Cascio, 2003)

- Recognition of compensation as a pivotal control and incentive mechanism that can be used flexibly by management to attain business objectives
- Integration of pay systems and business strategy formulation
- Integration of pay considerations into strategic decision making processes
- Viewing organization's performance as the ultimate criterion of the success of strategic pay decisions and operational compensation programs

Okay. We also talked about, strategic integration of compensation plans and business plans. And, this is something, that i would like to reinforce, through this class. We, i know the time is limited. I am revising things. But, business plan for any organization is a plan, that the organization, that for-profit business organization has, in order to make, a certain amount of profit. They know, how much they are putting, in terms of money, resources, time. And whatever, they are aiming for, should be, they want to get, more of these things out, at the end of that activity.

That is, our profit is defined. Profit is the positive difference, between output and input. If your output is more than your input, then you made a profit on it. So, when we talk about a business plan, we are essentially talking about, getting more out of the organization, in terms of, what we, in terms of whatever, money, the energy, efficiency, repetition, whatever. So, when we talk about a business plan, we are talking about, how we can achieve those profits.

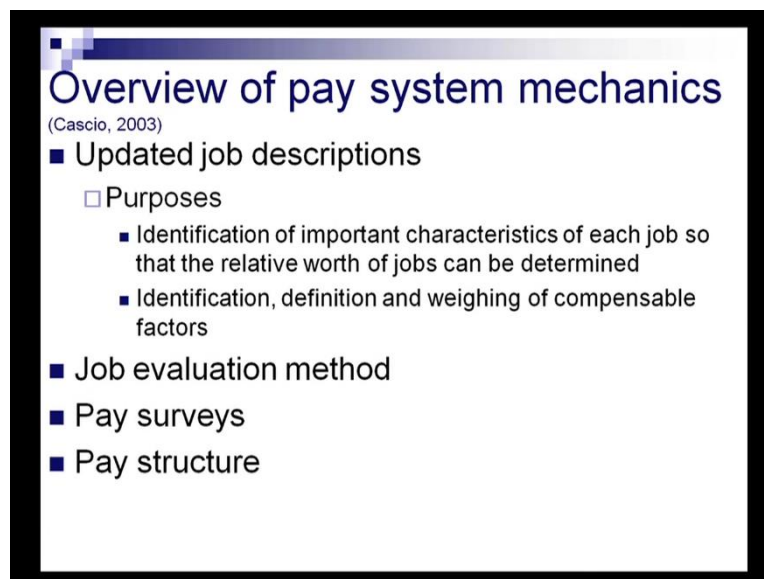
And, when we talk about a compensation plan, we are talking about, what we give to our employees, in return for their services. And, at the end, we want, our, the business plan and compensation plan, tied together in a manner, that it helps us achieve, the maximum amount of profit. We should not pay our salaries. You know, we need to look after our employees. But, we cannot pay them, so much, that we do not make, any monetary profit out of our organization.

We do not get a large amount of money, you know, by selling, whatever, we are creating. It could be a product. It could be a service. So, whatever. At the same time, the compensation, that we give to our employees, should not be very less. So, they do not work, for us. They go to other organizations. They will see, they should not feel, that the organization is being unfair to them.

They will say, okay. You are making, so much money, why can't i get a percentage of it. So, there has to be, some sort of balance, some ratio. Employees understand that, the organization needs to make a lot of money. It should not be too little, so that, the organization does not survive.

It should not be too much, so that, the organization's employees, do not feel slighted, or treated unfairly. And, that is what, this whole strategic integration means. Okay. We need to get commitment from our employees. We also need to get them, to be able to work, in a manner. So, that we end up getting profits, out of whatever, they do.

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Today, we are going to talk about, the pay system. Same sources. Overview of pay system mechanics. Pay system mechanics deal with, how pay systems are designed. What goes into, helping them, function. So, in order to have, pay systems function, we have, we need to keep our job descriptions, updated. Now, we talked about, job descriptions in a previous class. A job description is a clear, is a detailed explanation, of what a particular activity, requires. Okay. How particular activity is done. That is what, a job description is.

We need to, and these job descriptions, evolve with time, with the demands of the industry, with the needs of the employees. And, we need to keep these job descriptions, updated. We need to see, what is going in. Because, we may say that, an employee has to do, X. But, something else comes in. And, the employee is required to do, Y also. I will give you an example, from my own profession. When we join an institute of higher education, we are told that, our primary responsibilities are, teaching and research.

So, we teach in class. And, we produce some knowledge, that contributes to the evolution of the discipline, we are a part of. And, we have administrators. And, slowly, as we become part of the organization, we either take on more administrative responsibilities, or, we are given administrative responsibilities. Because, either, you know, our role, our involvement, in the lives of the students, changes. Or, we are required to help, in the evolution of the department, or, the institute.

And, so, in order to do that, based on our expertise, and our experience, in different areas or because, there are fewer people, who can do this. The responsibility comes to us, in terms of supervising. And eventually, we end up doing everything. It is not part of our job description. It is just occasional administrative responsibilities. Some organizations write that, some do not. But, that occasionally changes. So, over time, when we see that, initially, teaching was only teaching. Then, research was added to it.

So, it was teaching and research, maybe. And, then slowly, autonomous institute said, no, you need to have administrative responsibilities, also. In, traditional university systems, you have separate administrator. So, but here, everybody is, sort of, you know, we are doing everything. So, and again, it varies from organization to organization. You know, things change with the, needs of the industry. And thereby, the resulting in a change of the job description, that one does.

Okay. Purposes are identification of important characteristics of each job. So, that the relative worth of the jobs, can be determined. Different jobs, start occupying, a different start, you know, meaning different things. For example, in a business school, administration is just as important as teaching. And, that is just, as important as, research. Maybe, in a purely

research-based organization, or a research-based department, in a university, administration may not be, so important. For us, as business school teachers, getting our students placed.

Making sure, our rankings are on top, is just as important as, the rest of the work is. May be, for a theoretical scientist, that may not be the case. Placement will happen, eventually. For a business school, if placement does not happen, your rankings go down. And, your school could be shut down, tomorrow. So, it changes. Okay. And, depending on the needs of the industry, things sort of, take on a different shape.

And, so this job, becomes more important. Identification and definition, and weighing of compensable factors. We talked about, compensable factors as, those aspects of any job, that or the, those aspects of other inputs, to any job, that are to be compensated. For example, if you have the ability to stay, awake for longer hours.

And, be productive for longer hours. And, you have a lot of physical strength. You have these two skills, that you can contribute, to your organization. But, if you are in the service industry. Your ability to work efficiently, under stress, for long periods of time. Or, if you are in the medical profession.

For example, if you are doctor. Your ability to work for longer hours, work efficiently for longer hours. And, you know, do with very little sleep time. Maybe, of a lot of value to the organization. But, your ability to lift heavy things, is of no value. You may bring it to the job. But, the organization, does not need it. So, they will not compensate you, for it. They will compensate you, for working efficiently, for longer periods of time. Similarly, if you are working on the shop floor, in the manufacturing industry. Then, you are required, to lift heavy things.

You are required to walk. You are required to do, a lot of things. Or, if you are a tourist guide, for example. You are required to walk for, you know, sometimes miles and miles, showing people the same thing, again and again. And, physical strength required to walk, for that much time, could be more important, than staying away, till late hours. Why, because the shop floor would, in a factory, would probably close at 5 o'clock. You get to go home at 5 o'clock. So, even if you are able to stay awake, till maybe 2 am, it is of no value, to the organization.

A tourist guide, showing people, monuments, that shut down at 5 o'clock, may be, able to stay awake, till one or two in the night. And, may be able to get up, at 4 in the morning, again, and start doing things. But, this person cannot report to his or her job, till about 9 in the morning, or 10 in the morning. So, what is the organization going to do, with this ability to stay awake, and be efficient, for all this time. So, even though, the ability is there, the organization does not need it. And, they will not compensate you, for it.

This is, what is meant by, compensable factors. And, it is very important that, we keep updating the compensable factors, for a job. Why because, the job description is going to change, whether the change in these political environment, economic environment, requirements of the job, culture of the organization, etcetera. We also need to, take into account, the job evaluation method. The method of evaluation of different jobs. We will talk about this, a little later.

We also have pay surveys. We survey, how the industry is paying different employees, for the kinds of work, they do. And so, by doing these surveys, we are able to, benchmark jobs. We will talk about, benchmarking, a little later. So, that is what, pay surveys do. They help us benchmark jobs. They help us stay in touch, with the market trends. We also have a pay structure. How do we decide, who gets, how much salary. How do we decide, you know, how to group people, into the same category?

For example, in my profession, how do we decide, you know, who becomes an assistant professor, and who becomes an associate professor, and who becomes a full professor. So, you know, there are certain defining criteria. If you come with these qualifications, and if this is your output, you are going to be assistant professor. If you want to move on to the next level, you must fulfil criteria A, B, C, D and E. And then, you will compete with others, through an open competition, who have achieved, what you have achieved, in your role as assistant professor.

And then, we will choose the best candidate, and put them, put her or him, in the position of associate professor. So, the jump, at that point is, bigger. But, the pay structure is determined, the other way, that your output, becomes a function of, how much salary you get. And, if you are able to generate, a lot more output. Then, you can become eligible, to compete, for the

next level of the salary structure. Which is again, made more tangible, and more appealing, by a different designation, that is assigned to it. Okay.

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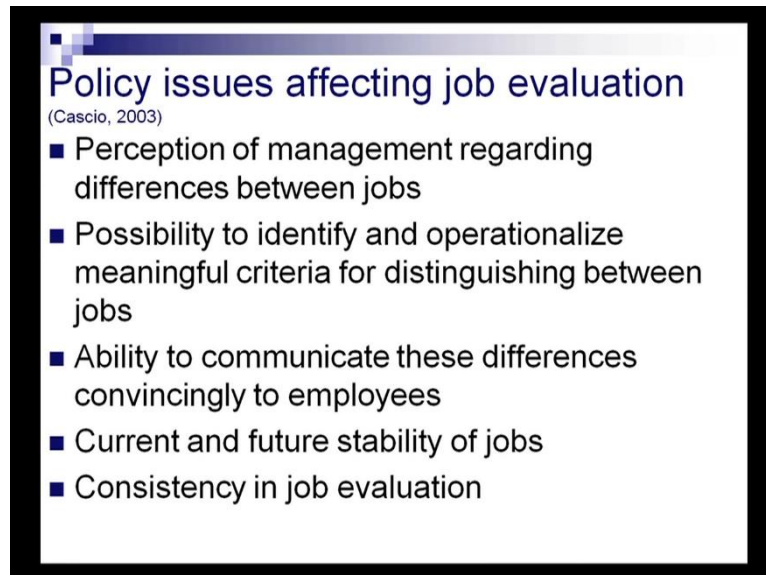
Traditional job-based compensation model, includes traditionally, the compensation was decided, or has been decided on, what you give to the organization. So, this is a function of the characteristics of the job. What, how the job is defined. The compensable factors, as i explained to you, what the organization pays you for. What kind of output, does the organization pay you for? Job evaluation, to rate the relative worth of jobs. Which of these jobs is more important? Which is less important? What is, you know, what can you do, without? What can you not do, without?

Job hierarchy, again the prioritization of different jobs, within a large setup. The pay rates attached pay rates, in the organization, in the industry, to attach pay rates, in jobs. The pay structures, that you decide to classify jobs, by grade levels. For example, we are all, you know, we have a large number of assistant professors. But, all of us, do not get the same salary. Depends on the number of years, we served in the organization. In some organizations, it is also determined, by the output, you have. In terms of this, number of research papers, you publish. Where you publish. How many students, graduate with a PhD, under you.

How many consulting project, you bring in. All of that determines, how much salary, you get. So, these are classified. You are in the same grade. but, even there are different classifications. Okay. Assignment of individual pay, within a range, for each job. So, within

assistant professors, who gets, what. You know, the range is decided. That, an assistant professor will get, anywhere between X to Y. But then, within that also, how much do you get, depends on your output. And, that depends on, you know, how the organization perceives your output. And, this is the way, traditionally, compensation plans have been decided. They take, all of these things, into account.

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Policy issues affecting job evaluation
(Cascio, 2003)

- Perception of management regarding differences between jobs
- Possibility to identify and operationalize meaningful criteria for distinguishing between jobs
- Ability to communicate these differences convincingly to employees
- Current and future stability of jobs
- Consistency in job evaluation

What are the different policy issues, affecting job evaluation? How do we evaluate our jobs? The first one is, how does the management perceive, differences in between jobs. So, for example, Mr. Rattan Tata, decided to build a car. A concept was, you know, somebody came out with the concept of, replacing families on two wheelers, with an alternative affordable method of transport. So, Mr. Rattan Tata decided that, there should be a car. Small, but that should be able to accommodate a family. That should be safer than, the manner in which, people used two wheelers in India.

You know, the whole family, four, five people, on one 2-wheeler. Very dangerous for the family. And, very, very, dangerous for other motorists, on the same road. One person comes up with the concept. Gets others, other stakeholders, to agree to the concept. Divides up the work. Somebody is designing the car, somebody is designing the economic feasibility of the car, somebody is designing the sturdiness of the car, somebody is designing, somebody is figuring out, how to sell the car, to the target customers, etc. Then, those people, break it up, into different parts.

So, the person designing the car, for example, may ask his or her team, to decide, you know, or may assign the task of designing doors, to one person. And, the interiors to another person. And, the engine to third person. And, the boot to another person. And the, so you know, so how the design is split up. And, then, these people will finally, you know, they will, maybe, have their own team of personnel working, on how the shapes are made. And, what type of fiber glass to use, for maybe, some nobs within the car.

What kind of music system, to put in the car? And all of these, people will be coordinating, with different people. Now, the person, who originally came up, with the concept of Tata Nano, knows that, all this is happening. But, may not be in touch with, each of these, different people. And, may not realize, which of these jobs is, more important than the other. And, may not know, how these jobs are prioritized, at the lower levels. So, you know, these differences needs to be communicated. They need to be understood. They need to be perceived.

And somebody, of course, must be briefing him. But still, so you know, how do you decide, which jobs are, how the job of designing, a door handle, for example, is different from, the job of designing a bumper, for the car. And, how is that different from, the job of designing the backseat of the car. And, which of these is more important, than the other. And, how people are to be compensated. And then, ability to communicate, these differences, to convincingly to employees.

For example, if the person, who designs different parts of the engine, gets paid more, than the person, who designs the interiors of the car. Then, you have to convince them. That looks, so and so's job, is more important, for the smooth functioning of the car. It does not. It may matter, what the interiors look like. But, what matters more is, whether the car will run or not. Okay. I am just giving you an example. And, the people have to realize, you know, what is more important.

So, these differences have to be communicated, to the different employees. And, employers have to be convinced, about it. That is what, we mean by, equity. Which is what, we talked about, in the previous class. And, the current and future stability of jobs. Now, stability of jobs. For example, in the technology industry, is very less. I do not know, how many of you are, who are taking this course, are from pre-internet generation. I grew up, without the

internet. Till my, you know, the first time, i saw the, used the internet, was you know, when I was, past the age of 25, 24 or 25.

And, till then, I mean, we had no idea of, what the internet was. And, what it could do. And, we have seen the internet, evolves from a method of connecting people, over the computer to, doing the whole bunch of things. My master's thesis was handwritten. I hand wrote research papers, by going to 6 or 7 different libraries, in 4 different cities.

Photocopying was very expensive. And, very difficult to get. So, we would just sit on the library, and note down, paper after paper. And then, they can get out the information. Now, what do i do. I type in four key words. And, i get, maybe 1 million responses. May be, 10, 20, 30 lakhs, responses, that directly time with that. So, we have seen this transition.

And a very classic example of an outdated technology is the floppy disk. It came and went. VCR's, Video Cassette Recorders. We were kids, when the VCR's came in. And, these are all great. You can actually record something. And then, there is this, handheld handy cam, huge thing. And, you can record things.

And, we had audio cassettes. And, they would, you know, the tape would come out. And, we would stick a pencil in. And, we would rap those things. And, they came and went. And, my father's generation, they have seen these things, come. And, they saw a time, before this. And, for them, audiocassettes, for a novelty. Now, we have a whole big box of audiocassettes, lying at home. And, we do not know, what to do with them. And, we got very classic music on them.

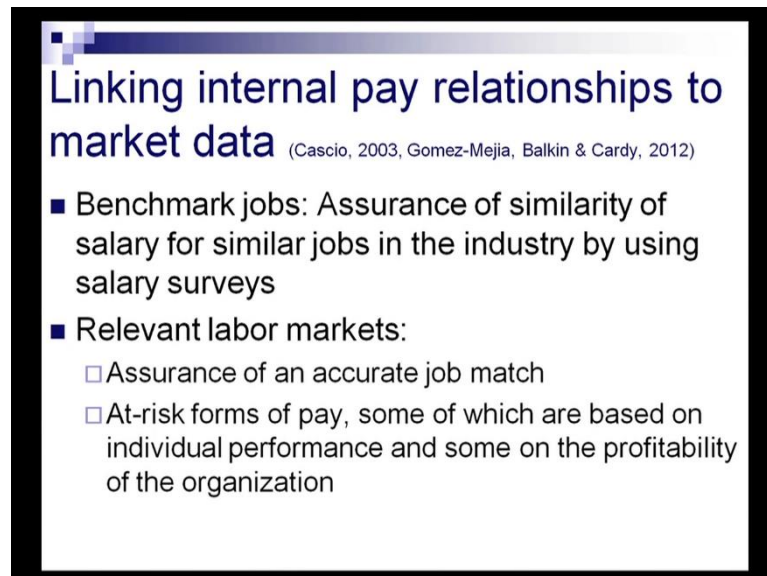
So, these are the industries, that get replaced. And, CD's. Many of you, may have seen, the CD industry, come and go. Floppy disk industry, come and go. The actual floppies, the 3 1/2-inch floppy disk, I think. It was in the market for, maybe 4 or 5 years, at the most. Maybe, 10, 8, 10 years. But, now, do you ever, our computers, even being built to accommodate, that kind of technology.

I doubt it. I do not think, we have drivers, for those floppy disks. So, if you have a floppy disk, it is of no use to you. And the actual floppy disk, that flopped is, it has really flopped. So, you know, I mean, not flopped. But, it is just outdated. Because, technology has

developed, so fast. That is what, we mean by, future stability of jobs. Then, we talk about, consistency of job evaluation.

How do we evaluate jobs? Jobs should be evaluated in a very consistent manner. Different jobs need to be compensated for, in a consistent, standardized, manner. So, people feel that, they are being treated fairly.

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Linking internal pay relationships to market data (Cascio, 2003, Gomez-Mejia, Balkin & Cardy, 2012)

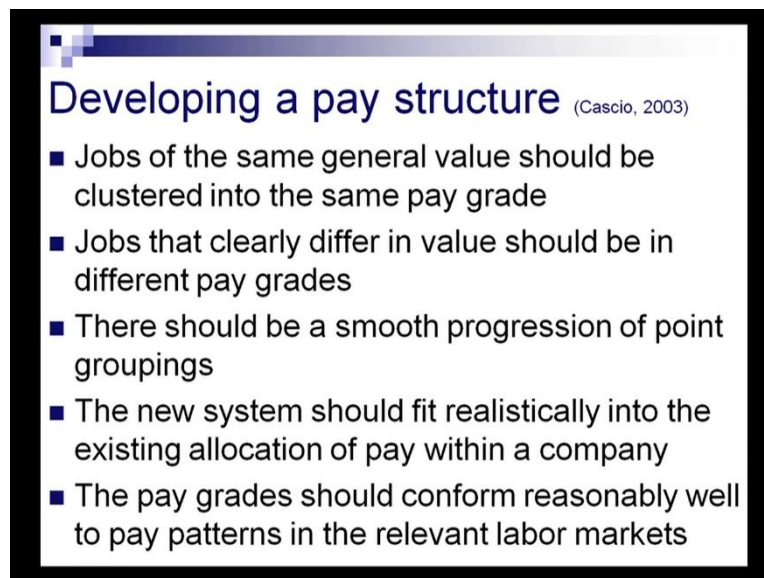
- Benchmark jobs: Assurance of similarity of salary for similar jobs in the industry by using salary surveys
- Relevant labor markets:
 - Assurance of an accurate job match
 - At-risk forms of pay, some of which are based on individual performance and some on the profitability of the organization

How do we link, internal pay relationships to market data? We benchmark our jobs. Okay. We find out, what similar jobs are being. How people doing, similar kind of jobs, are being paid. And, we compensate them, for that. And, we draw, we say okay, this is the minimum, that we will give to our employees. Then, we have relevant labor markets. So, we have labor market is, you know, what is happening in the industry, outside of our organization.

And, we need an assurance, of an accurate job match. We need to find out, whether the kind of jobs, that are being carried out, in our organization, are similar to something, that is being done, in another organization. And, how accurate, these matches are. And then, we also have, at-risk forms of pay. Some of which are, based on individual performance. And, some on the profitability of the organization.

For example, the commissions, you earn a salesperson's, or, the employee stock ownership plans. And, with ESOP's, you know, if the condition is that, if the employee's stocks go up, great. You get a profit. But, if they go down, you lose. And, that is unfortunate. And, many people, have lost a lot of money, through these ESOP's. So, that is an, at-risk form of pay. It seems very appealing. But, if for some reason, your organization is not doing well, then you stand to lose.

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Developing a pay structure (Cascio, 2003)

- Jobs of the same general value should be clustered into the same pay grade
- Jobs that clearly differ in value should be in different pay grades
- There should be a smooth progression of point groupings
- The new system should fit realistically into the existing allocation of pay within a company
- The pay grades should conform reasonably well to pay patterns in the relevant labor markets

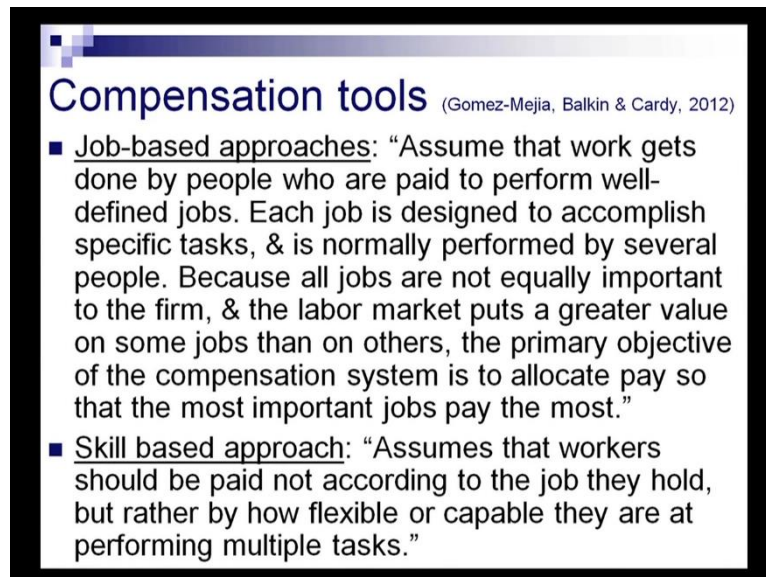
How do you develop a pay structure? Jobs of the same general value, need to be clustered, into the same pay grade. And conversely, jobs that clearly differ in value, should be in different pay grades. There should be a smooth progression of point grouping. So, the transition between, say, you know, assistant professors at various levels, should not be, you know, factor of, maybe 500, could be a factor of 1, or 2, or 5, or 10.

But, not more than that. Depending, of course, you know, this is a relative thing. Or, maybe. Doctors at the same level, or whatever. So, I am sure, you get the idea that, you know, it should not be a sudden jump. It should be smooth progression. And, people should know, how they can get, the next higher level of pay. New system should fit realistically, into the existing allocation of the company.

So, whatever you have, should be taking into account. You know, whatever you are trying to, or whatever you are trying to implement, should be taking into account, whatever is there. So,

it does not seem like, something totally different. Pay grade should conform, reasonably well to pay, patterns and relevant markets. Again, we are talking about external equity.

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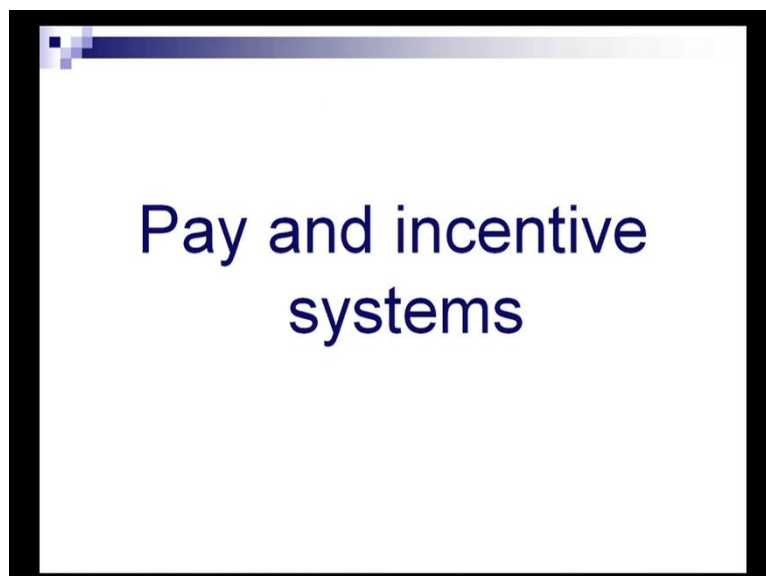
Compensation tools (Gomez-Mejia, Balkin & Cardy, 2012)

- **Job-based approaches:** “Assume that work gets done by people who are paid to perform well-defined jobs. Each job is designed to accomplish specific tasks, & is normally performed by several people. Because all jobs are not equally important to the firm, & the labor market puts a greater value on some jobs than on others, the primary objective of the compensation system is to allocate pay so that the most important jobs pay the most.”
- **Skill based approach:** “Assumes that workers should be paid not according to the job they hold, but rather by how flexible or capable they are at performing multiple tasks.”

Compensation tools. We have job-based approaches. And, we have a skill-based approach. Job-based approach is, you know, a holistic approach, to do the kind of job, you do. Skill-based approach deals specifically with, the kinds of skills, you bring to the table. So, you are paid for the skills, you bring, not for the output.

Job-based approaches for the output refers to the, to compensating you, for the output, as a whole. And, skill-based approach, compensate you for your ability, to do something. We will deal with this, you know, a little later.

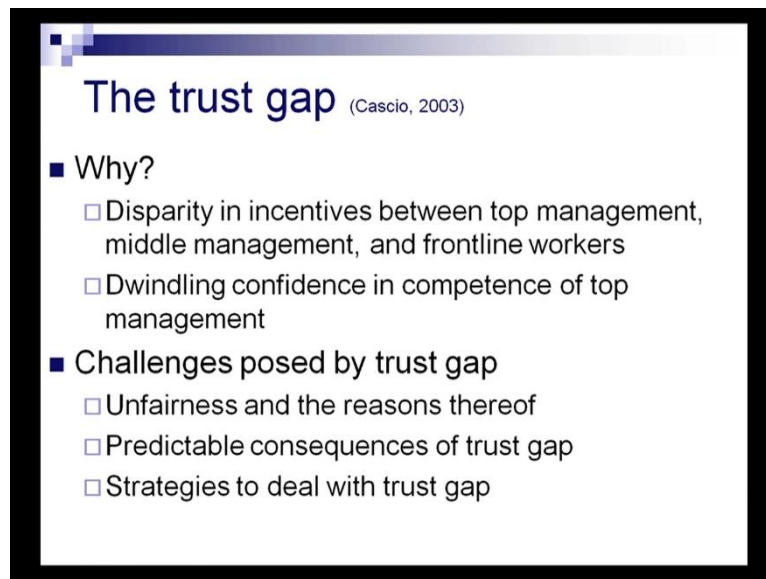
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Pay and incentive systems

And, pay and incentive systems.

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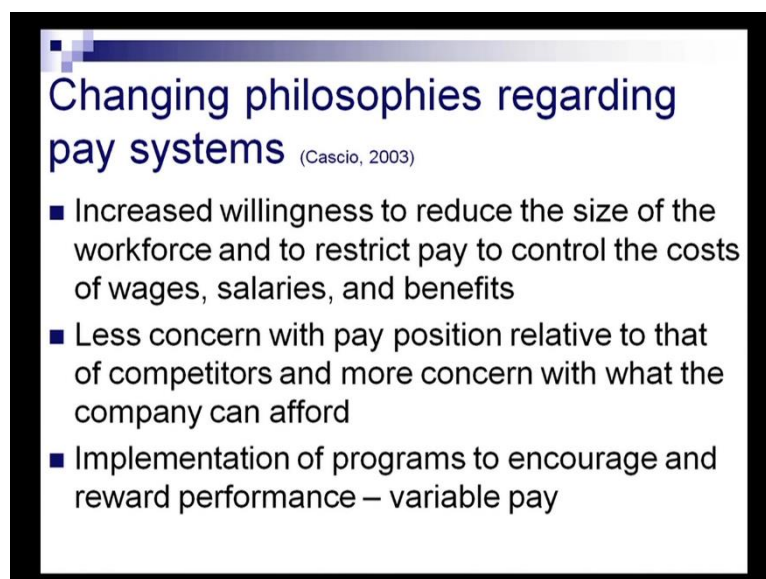
The trust gap (Cascio, 2003)

- Why?
 - Disparity in incentives between top management, middle management, and frontline workers
 - Dwindling confidence in competence of top management
- Challenges posed by trust gap
 - Unfairness and the reasons thereof
 - Predictable consequences of trust gap
 - Strategies to deal with trust gap

We have a trust gap. You know, when we talk about, pay and incentive systems, trust gap occurs, as a result of disparity in the incentives, between top management, middle management, and frontline workers. Dwindling confidence in the confidence of top management. So, there is an element of mistrust.

Some challenges, posed by the trust gap are, one. We employees feel that, we have been, we may be treated unfairly. There are predictable consequence of the trust gap. And, there are strategies, to deal with the trust gap. So, these are some of the challenges.

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Changing philosophies regarding pay systems (Cascio, 2003)

- Increased willingness to reduce the size of the workforce and to restrict pay to control the costs of wages, salaries, and benefits
- Less concern with pay position relative to that of competitors and more concern with what the company can afford
- Implementation of programs to encourage and reward performance – variable pay

Some challenge. Some changing philosophies, regarding pay systems are, the increased willingness, to reduce the size of the workforce, and to restrict pay, to control the cost of wages, salaries, etcetera. Money is becoming increasingly important. So, we are changing the manner in which, we pay our employees. And, the number of people employed in organizations is coming down. And, people are increasingly willing, to do that.

There is less concerned, with the position, relative to that of competitors. And, more concerned with, what the company can afford. We are not, so much concerned, with the labor market. We are saying, this is what, I can do. This is what, i cannot do. Take it, or leave it. Implementation of programs, to encourage and reward, performance. So, if you do more, you get more. If you do less, you get less. And, that is called, the concept of the variable pay. (Refer Slide Time: 30:14)

Changing salary administration systems
(Cascio, 2003)

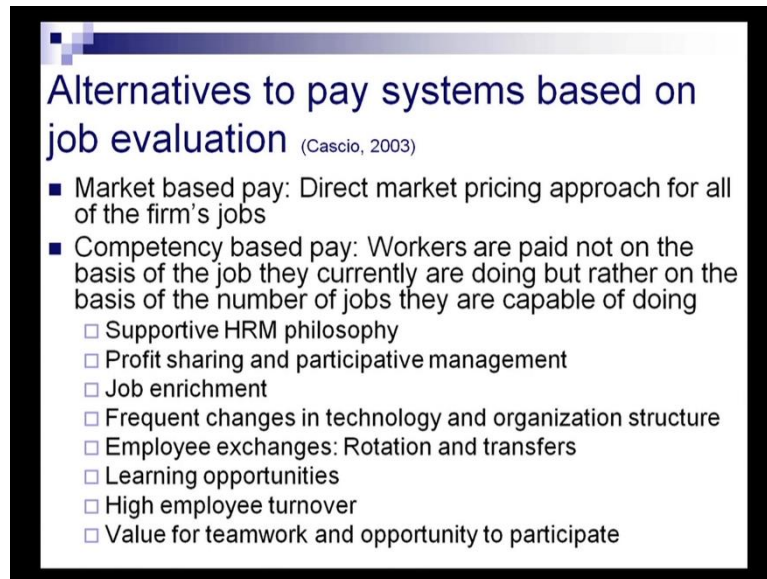
- **Cost containment actions:**
 - Understand economic and legal factors that determine pay levels
 - Tie compensation strategy to general business strategy
 - Address key policy issues
 - Develop systematic pay structures
- **Paying what the company can afford**
- **Programs that encourage and reward performance**

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Components and objectives of organizational reward systems (Cascio, 2003)

- Includes anything an employee values and desires that an employer is able and willing to offer in exchange for employee contributions
- **Reward systems**
 - **Financial**
 - Direct (Salaries)
 - Indirect (Benefits)
 - **Nonfinancial**
 - Protection programs
 - Employee engagement in decision making
 - Effective supervision
 - Recognition
 - Training opportunities
 - Supportive nurturing organizational culture

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Alternatives to pay systems based on job evaluation (Cascio, 2003)

- Market based pay: Direct market pricing approach for all of the firm's jobs
- Competency based pay: Workers are paid not on the basis of the job they currently are doing but rather on the basis of the number of jobs they are capable of doing
 - Supportive HRM philosophy
 - Profit sharing and participative management
 - Job enrichment
 - Frequent changes in technology and organization structure
 - Employee exchanges: Rotation and transfers
 - Learning opportunities
 - High employee turnover
 - Value for teamwork and opportunity to participate

And, we will discuss, changing salary administration systems and components, and objectives of organizational rewards systems, and the alternatives to pay systems based on job evaluation, in the next class. And, we will move on to reward systems per say, in the next class. And, hopefully will finish all that in 30 minutes, that will be awarded to us. Becoming difficult, but we will try. So, thank you for listening. And. I look forward to the next session, on reward systems, with you. Thank you.