

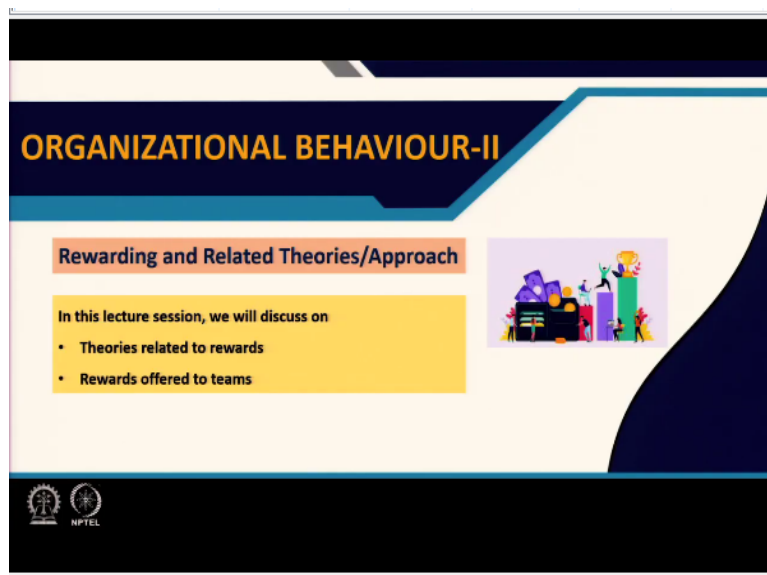
Organizational Behaviour-II
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Lecture-60
Rewarding Teams (Contd.)

Welcome to the lecture 5 of the module 12. And the previous lecture we discussed about various types of rewards and what is reward and then different types of rewards provided to the teams and we also discussed about different dichotomies with respect to intrinsic and extrinsic, performance based, membership based and also, we discussed about financial and non-financial.

Today's lecture we are going to discuss about related theories, because when I was discussing about the dichotomies of intrinsic versus extrinsic or financial versus non-financial profile rewards, we were discussing we have to understand what my employees or what my team really needs based on assessing and understanding that needs or the motivations organization has to design their reward system, so that they will be able to repeat that this most desirable behaviour in the workplace. So, we are trying to understand the theories behind to providing the rewards to the employees.

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So, today we are going to discuss about theories related to rewards what motivates employees to perform and behave in such a way, what kind of rewards will be make them perform, what

has been expected or desirable behaviour and what type of rewards to be offered to the teams?

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Rewarding and Related Theories/Approach

There are theories which have close link to rewarding, such as-

- Motivational Theories and Rewards
- Herzberg's Dual Factor Theory
- Expectancy Theory
- Agency Theory
- Traditional Methods of Administering Pay

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So, let us get into the lecture and try to understand the theories which are related having a relation to the reward systems. We are going to discuss about 5 important aspects, one is about motivational theories. Motivational theory in this specifically we are going to talk about Maslow's hierarchy theory of needs. Then we are going to discuss about Herzberg's dual factor theory. Then we are going to discuss about expectancy theory and we are also going to discuss about agency theory and finally we will discuss about what are the traditional methods of administering pay for the employees in the team or maybe for a team members.

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Rewarding and Motivational Theories

The motivation theories focus on what motivates individual that is the fundamental human needs that motivate man in his environment.

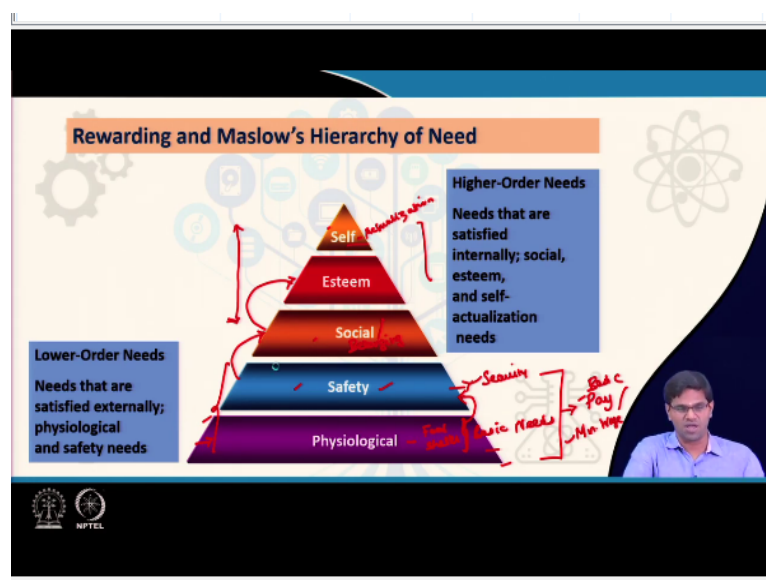
Taylor has conceptualized that the management approach used to deal with the people by training them to behave exactly in case they are expected to be motivated for economic incentive. Among these category, is Maslow's Hierarchy of Need and Herzberg's dual factor theory

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Now, let us understand the theories. So, when you are trying to understand the motivational theories what does it actually focus? It focuses on what motivates individuals to perform or act in a certain way. So, this is largely driven from the need based perspective because based on the need employees or individuals are motivated to behave in a certain way because of the need they behave in a certain way that is going to motivate them then.

So, if you look at the scientific management and the principles where Taylor has actually conceptualized the management approach wherein, he primarily used training the employees behave in a in a systematic way or in the designed way so and aligning the economic incentives, providing economic incentive to influence the way employee will behave in a certain way or the way they will work. So, if drawing from this perspective we are going to discuss about 2 important things: one is Maslow's hierarchy of needs.

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Another is Herzberg's dual factor theory. So, let us discuss this Maslow's hierarchy of needs; some of you would have already learnt about this theory, I am going to explain this theory. So, as per the Maslow's you know Maslow's was saying that there are it is a hierarchy, it is a kind of a parameter you can see that it is a hierarchy theory of needs. So, every individual will have these 5 levels of needs.

This starting from physiological safety, social esteem and self actualization. It is called self actualization. Now so he has actually classified this theory and these needs into lower order and the higher order needs. So, these 2 both physiological and safety needs are lower order

needs. These are all more extrinsic to nature. Now what is these physiological needs? It is about now providing food, shelter and clothing.

These are very basic needs or maybe you can even call it as a basic needs. These are all the basic needs individuals will be first important things now you have to make these basic needs then the safety needs. Now both from physical as well as the psychological safety one expect. Now what he says that every individual will be if the lower order needs are substantially fulfilled then the next level of the needs are activated.

Imagine the situations when you are starving for a food what will be your motivations? You want to earn money and eat or maybe you want to get some food that is what your motivation. So, you have been craving for a food you will be looking for an opportunity to get food. So, when your lower order needs which are physiological needs are not met you cannot think about your social needs belonging, socially means belonging needs.

So, I wanted to have a good relationship, I need friendship, so nobody can think about it when you are really hungry and starving and your immediate need is that what is your motivation you wanted to eat something, so that now you will be able to fulfill your immediate need. So, as per his theory, he says if the lower orders are substantially fulfilled or each levels of the needs are substantially fulfilled then next levels of the need are activated.

When my basic needs are met food, shelter, cloth has been met then comes my safety needs I will be talking about my psychological safety or physical safety, once my safety needs are met then my next need is activated. Then now these needs are met now I am looking for social needs; which are belongingness and I need to have a relationship, I want to have a family or probably I want to have a good friends around me, I am longing for a social relationship.

Once this is actually getting fulfilled then you the next level of the need are getting active which is self-esteem need. If you look at self esteem and self actualization these are higher order need which are intrinsically which are in these needs are satisfied internally. So, self actualization is a stage where one has to capable of realizing one's own capabilities. That is called the highest level of needs a self actualization needs.

So, every individual needs are different based on what level of the hierarchy this individual are, then they will be motivated to satisfy these needs; every individual will be in a different levels of the hierarchy they will be looking out to satisfy certain the needs. So, as in this theory he says that unless otherwise you are not able to feel free the lower order needs and it will be difficult for you to know this is a individual may not go look for the higher order needs.

So, that is why when you talk about a lower order needs is basically if you can able to know provide basic or the salary basic pay or minimum salary or a decent salary, minimum wage. These are all important things which are going to fulfill the employees lower order needs. Then you also provide job security, how long you are going to provide them the job. These are all going to satisfy the lower order needs of the employees.

Then comes we are talking about now esteem or we are talking about belonging or self actualization needs which are more intrinsic motivation. So, as I said if the employees in a different level higher in the positions they will be expecting more of an intrinsic reward. So, that I am looking for self-esteem needs I wanted to feel really satisfied being meaningful in doing some jobs.

And now then we are talking about self actualization, I am able to realize what I really wanted to achieve. So, this each individual will have different levels of needs, based on understanding the needs of the employees or the needs of the teams you have to provide rewards, otherwise what will happen you might assume that people are in these needs and then if you put a reward, it will not motivate the members.

So, they might feel like this is not relevant for me I am not enjoying it, so I do not want it then you cannot motivate the employee. So, understanding the needs will provide a basis for you as a manager or you as an individual to see what is going to motivate me as an individual.

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Rewarding and Maslow's Hierarchy of Need

In the Maslow's hierarchy there are five ordered needs-from physiological, safety, social esteem, to self – actualisation. Maslow suggests that the order is interpreted in a way that category of needs becomes activated only after the lower is relatively satisfied.

The dual -factor theory developed on Maslow's theory to indicate the relationship between the needs and high job performance. The lower level need are the 'hygiene' factors which reflects the three lower level needs in Maslow's hierarchy, while the motivators in the high level needs reflect two high level needs in the Maslow's hierarchy.

Then comes this next theory we are going to talk about is Herzberg dual factor theory and what he says that now he is classifying into 2 factor, 1 is hygiene and motivators. So, when you talk about these 2 and the lower order needs of, I am just trying to relate on a Maslow's hierarchy theory with the Herzberg's dual factor theory where this lower order needs are corroborated to hygiene factors, which are basic needs. Then motivators are most of the higher order needs, higher order needs of self actualization. These are all coming into motivator factor. So, I will explain this in detail now.

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Rewarding and Herzberg's Dual Factor Theory

Bottom Line:
Satisfaction and dissatisfaction are not opposites of the same thing

Hygiene Factors

- Salary
- Work Conditions
- Company Policies

Motivators

- Achievement
- Responsibility
- Growth

Separate Constructs Hygiene Factors— Extrinsic and Related to Dissatisfaction

Motivation Factors— Intrinsic and Related to Satisfaction

Handwritten red notes include: 'Basic Lower Needs', 'Higher Order Needs', 'Job Satisfaction X No Job Satisfaction', 'Job Dissatisfaction X No Job Dissatisfaction', and 'Job Satisfaction - No Job Dissatisfaction'.

So, Herzberg what he says that he is trying to understand what makes an individual to be satisfied in a job, what we generally understand job satisfaction. So, what is opposite of the job satisfaction? We always feel opposite of this job satisfaction is job dissatisfaction, what

he says is opposite of job satisfaction is no job satisfaction. Similarly, he also proposed the idea the concept that opposite of job dissatisfaction is no job dissatisfaction.

He proposes that it is a continuum; job satisfaction, dissatisfaction. So, for example, if I am removing the factor which are making me an individual to feel dissatisfied not necessarily going to make a person satisfied, it is only going to make there is no dissatisfaction. For example; I am not the pay is very low I am really dissatisfied. I am just paying the right pay; it is not going to make me satisfied it is going to remove my dissatisfaction.

Similarly, if you wanted to know provides satisfaction you have to come up focus on certain things. So, that is where he says so to removing what creates dissatisfactions so those are all called hygiene factors. Without this hygiene factor where it is also related to basic needs basic or lower order needs. If you are not able to meet or provide this then you are not able to you cannot create remove the dissatisfaction from the employees.

So, this hygiene factors which are salary, basic work conditions, safety in the workplace and company policies. These are all hygiene factors, what is it actually going to do? It is going to remove the dissatisfaction and move a person to a no dissatisfaction; it is not that I am satisfied. But to create the satisfactions you need motivators what are those motivators? Which are all higher order needs.

Higher order needs which are specifically focusing on achievement, responsibility, growth opportunity and if you are able to create this by these are the motivators; this will actually create satisfaction. So, now if you are trying to understand the concept of reward if you wanted to know remove the dissatisfaction from employees what kind of reward practice you can do?

You can focus on this, providing more salary, probably providing better working conditions. In case you want to create more job satisfaction, you have to focus on the motivators which are more intrinsic to the individuals and whereas the hygiene factors are more of the extrinsic to the individuals, it will be related to dissatisfaction. If you want to remove the dissatisfactions yes you provide this. So, as to remove the dissatisfaction again reiterating, removing dissatisfaction not going to create satisfactions.

In order to create satisfactions; you have to focus on intrinsic rewards if you are able to create a reward system which are going to feed the intrinsic part of the individual then you are going to create job satisfaction among the employees. So, now you understand these 2 theories are essentially providing lot of insight to understand what kind of a reward system will work for employees; am I focusing on dissatisfaction; am I removing the decision or am I focusing on more job satisfactions?

If I am focusing on job satisfaction yes, I as a company or I as a manager I need to work on creating more of intrinsic reward system for my employees, so that I can act as a motivator to have more satisfactions. And if you want to remove the dissatisfaction yes, you focus on the extrinsic rewards in terms of the pay, bonus, working condition, basic things meeting the lower order needs then you will be able to remove the dissatisfaction. Now let us go to the next theory which is an expectancy theory.

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The slide is titled "Rewarding and Expectancy Theory". It contains two paragraphs of text and a diagram. The first paragraph states: "The expectancy model states that people are motivated to work when they expect to achieve things they want from their jobs. A basic premise of the expectancy model is that employees are rational people. They think about what they have to do to be rewarded and how the rewards mean to them before they perform their jobs." The second paragraph states: "Expectancy theory is based on the expectation that people bring with them to the work situation with the context and way in which these expectations are satisfied." The diagram shows a flow from a person to a goal, then to a reward, and finally to a value. Handwritten notes in red ink say "Value" and "Reward". There is also a small video inset of a man in the bottom right corner of the slide.

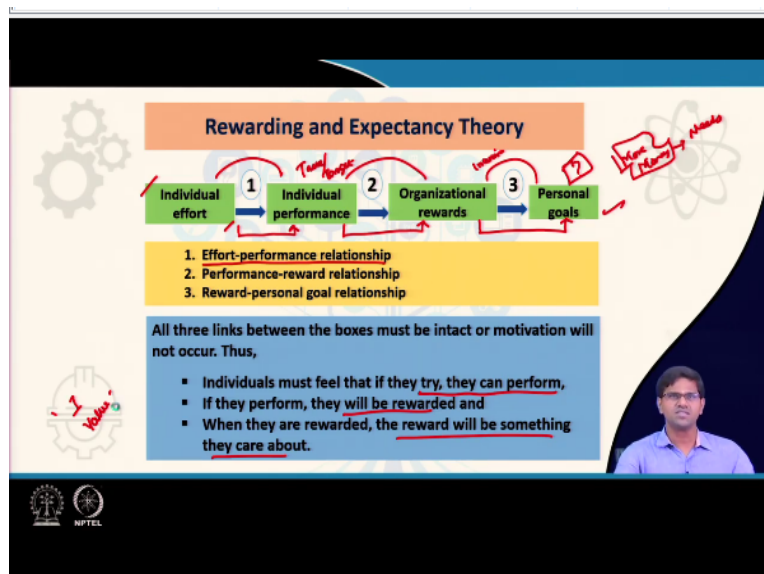
So, what does it expectancy theory of motivation which says that now each individual employees are motivated to work when they expect that now when they are able to achieve certain goal I am going to get a reward that reward is going to be valuable for me or probably let us say, I value this let us say this X. Now I say I am trying to create the link between how this motivation going to work.

Let us say I perceive that yes when I put my effort, I will be able to carry out the task A; when I carry out the task A my company is going to provide me a reward which is B; this reward is related to the X which I value. X is what I value and this is me I am putting an

effort carrying out the task or target then this will leave to get a reward. With this reward will help me to create this value.

So, this is what the expectancy theory, individual will be motivated in expecting that yes if I put an effort; if I am able to deliver something in return my organization is going to respond to me by way of providing me certain rewards, that reward is important to me because that is a value it is going to create.

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Now I want to explain this in detail further; see we are talking about the first sequence yes there is an individual effort I am going to put an effort and then that effort will lead to creating a performance. So, when I perform something means this action part or tasks are able to reach the target. Now, when I am able to reach this performance that will result me and my organization will provide me rewards.

So, that reward is associated with my personal goal, probably let us say my company will pay me more incentives, I am in a need of more money to meet my certain needs. Now imagine, see now I am putting this effort and it will lead to performance that performance will lead to create my organization will be private rewards which are important to me. So, this is the connection of the expectancy that yes.

With that expectations, this is the end expectations I have, expecting this but to get that expectancy or realize that expectancy I need to flow through this of creating a performance; that performance will result in a reward; that reward will give me what I expect. So, this is

what the reward expectancy theory provides. There is an effort performance relationship and performance reward relationship.

This is first level relationship and this is second level of relationship and this is the third level of relationship. So, all these 3 links between the boxes must be intact; it should be connected. Otherwise, you cannot expect the motivation to occur, because I put some effort that will lead to a performance. Let us say now I am putting an effort but it will not lead to a performance what will happen?

Eventually other sequence will be broken; that connection will be broken. So, I put an effort that effort should lead to a performance that performance should lead to a reward, that rewards would lead to what I realize; what I expect. So, individual must feel that if they try, if they put an effort they can perform. If they perform, I will be rewarded, yes, I will be rewarded. If I rewarded that will be which I value the most.

I am coming to see if you can see about something they care about which is what I value, it can be money, it can be a recognition, it can be maybe internal appreciations or the employee of the month or best team of the month probably can be anything which I value the most there is a connection between the what I expect the most. So, this way organization has to build a reward system to meet what my employees expect; if you are able to provide them that will motivate your employees. So, rewarding is also an important function of motivating my employees. So, you have to understand what their expectations are based on that you have to create this reward practices.

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Rewarding and Expectancy Theory

The expectancy theory implies that management need to demonstrate to employees that their effort will be recognised and rewarded, in both financial and non-financial ways.

The expectancy model holds that work motivation is determined by individual beliefs regarding effort-performance relationships and the performance-reward relationship along with desirability of various work outcomes associated with different performance levels.

The slide features a video inset of a man in a blue shirt speaking, a group of people at a table, and various icons like gears and a microscope.

Now comes the next theory we are going to talk about this I already explained in detail and these rewards when you talk about both financial and non-financial ways, we are talking about as I said recognition or rewards and awards.

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Rewarding and Agency Theory

Agency theory draws its name from the fact that the people who are in control of large corporations are seldom the owners; rather, in almost every case, they are agents who are responsible for representing the interests of the owners (Luthans 2011). The highlights of the theory are –

- The theory, has been widely recognized finance and economics approach to understanding behavior by individuals and groups both inside and outside the corporation
- The theory seeks to explain how managers differ from owners in using pay and other forms of compensation to effectively run the organization

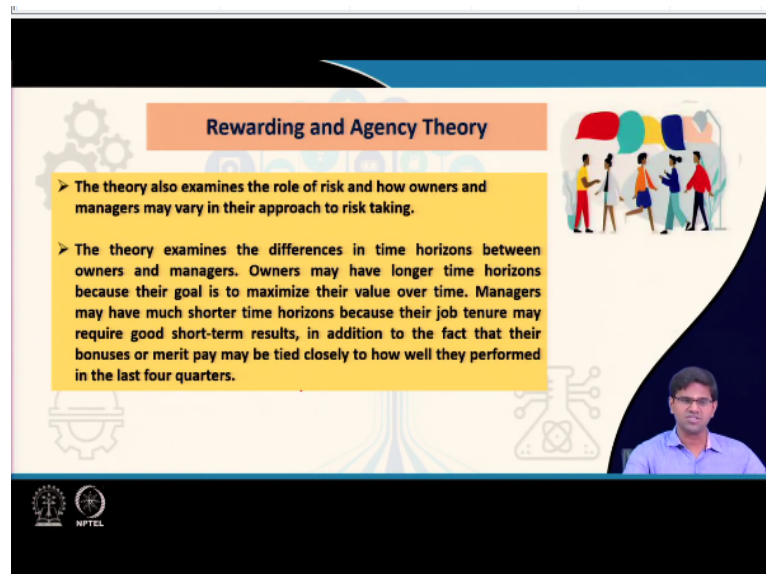
The slide features a video inset of a man in a blue shirt speaking, a group of people at a table, and various icons like gears and a microscope.

Now we are going to discuss about rewarding and agency theory. What is this agency theory? Agency theory draws its name from the fact that yes people who are in control of a large corporations are seldom the owners; rather than in almost all cases these agents are responsible for represent the interest of the owners, maybe sometimes you refer managers or the agents of the organization yes.

So, the ownership lies with somebody maybe the stakeholders but who runs the business CEOs are the managers who are running the business they become an agent of these owners.

This theory has been widely recognized in both finance and economics approach to understanding the behaviour by individuals and group; both inside and outside the corporation. What this theory says? This theory tries to explain how managers are different from the owners in using pay and other forms of compensation to effectively run the organizations because they are the agents of the owners. So, how these manager and owners are different in terms of a pay or compensation practice in running the organizations.

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The slide is titled "Rewarding and Agency Theory" in an orange box. It contains two bullet points in a yellow box:

- The theory also examines the role of risk and how owners and managers may vary in their approach to risk taking.
- The theory examines the differences in time horizons between owners and managers. Owners may have longer time horizons because their goal is to maximize their value over time. Managers may have much shorter time horizons because their job tenure may require good short-term results, in addition to the fact that their bonuses or merit pay may be tied closely to how well they performed in the last four quarters.

The slide also features a video inset of a man in a blue shirt in the bottom right corner, a group of people with balloons in the top right, and various icons like gears and a microscope in the background. The NIPTEL logo is visible in the bottom left corner.

So, what this managers generally do, this theory also explains the role of risk and how owners and managers may vary in approaches to the risk taking, because managers are different in the way they take the risk than the owners. So, this also talks about time horizons between the owners and managers. Because owners are having a long term origin because they are the custodian of the organizations, their long term goal is to maximize the value over time because they are going to stay longer period. Whereas, the managers must have a short time origin because they are given short targets, short time goals, immediate goals to be reached, immediate targets to be provided, so they required a short term results.

So, what they do know they will actually go with incentive system, paid system to its members to enable them to reach the goals. So, what do they do? Managers will come up with short term goals or a short-term incentive system or immediate pay or bonus system; so that how well they performed in last 4 quarters based on that they provide incentives. So, this agency theory which also says that yes how an individual is going to provide kind of an incentive system. So, the managers use a different way of reward system compared to the owners.

Because the owners are the custodians have a long term orientation because they are going to run the organization for a long term where may be the goals or long term goals. Whereas, managers might have a short term goals and the way they engage in realizing the goals they will provide a short term benefits or bonuses or merit pay based may be closely tied, how will they performed in the last 4 quarters because managers will also be evaluated or provided incentives based on how they are able to perform in the last 1 quarter or 1 year. So, there will be short term based focus.

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Rewarding and Traditional Methods of Administering Pay

Traditionally, organizations have used two methods of administering pay such as

- (i) Base pay and
- (ii) Merit Pay

So, now having discussed about all these theory now we are going to go and discuss about different traditional methods of administering pay. So, there are 2 traditional methods. One is basic pay, base pay which is a base pay; another is a merit pay. So, we will discuss this in addition we will also discuss about other forms of pay systems we talk about.

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Rewarding and Traditional Methods of Administering Pay

Base Pay Approach

Base wages and salary is the amount of money that an individual is paid on an hourly, weekly, monthly, or annual basis. Most managers are paid on an annual salary basis, and the sum is broken down into weekly, biweekly, or monthly amounts.

Handwritten annotations:
 - "Basic Component" with an arrow pointing to the text.
 - "Essential / The least pay to be paid" with an arrow pointing to the text.
 - "Set as" with an arrow pointing to a box labeled "Base pay".
 - "Pay" with an arrow pointing from the "Base pay" box.

What is base pay approach? So, base wages or salary is the amount of money that individual is paid based on the hourly basis or the monthly or weekly basis, annual basis? Now these are all can be paid. Now these are generally in its yearly CTC then that will be broken down into monthly CTC. So, these are all the basic components. So, it is a basic components of wage, which are essential or at least the least pay to be paid.

This base pay talk about, I cannot hire somebody below this pay, below this way that is a base pay. The base pay also talks about yes because I am going to hire a people to deliver some set of tasks; it is always set of task case I am going to hire an employee to deliver set of tasks. When they wanted to deliver the set of task, I need to provide some base pay. Then what will happen, so to deliver the minimum set of tasks I need to provide the basic pay, this is a minimum at least that I have to pay to hire somebody for my organization. Now comes a merit pay.

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Rewarding and Traditional Methods of Administering Pay

Merit Pay Approach

Merit pay is typically tied to some predetermined criteria. For example, a company may give all of its employees a cost-of-living allowance and then allocate additional funds for those who are judged meritorious.

However, because of the problems of linking merit pay directly with performance, many organizations have created specific pay-for-performance plans.

Handwritten notes:
 Merit pay → Merit pay
 Performance & Incentive
 Excesses in Performance & Incentive
 Performance Linked pay
 Performance Based pay
 Wage & Salary

What is this merit pay? It is typically try to pre-determine the criteria. For example; a company may give all of its employee’s cost of living allowance then allocate additional funds for those were just meritorious. Meaning that yes, out of this pool of my employees there are different approaches organization follow, full of these employees I am trying to rank 1, 2, 3, 4, 5; I am saying the top 2 performers will get a merit pay.

So, because they are trying to see that yes because they have been really excellent, they are exceeding the performance, I am going to pay them additional incentives that is where merit based pay comes and we are also talk about performance linked pay, performance based pay or variable pay. This is called a merit pay or the variable pay, performance linked bonuses. There is also another thing called merit pay then variable pay and we have also discussed about performance linked pay.

What happened to this performance linked pay? What generally happens I am going to pay you the base pay which is yes, this bare minimum that I have not to pay you for the job you do and also whatever you going to pay, for example; the sales managers based on the volume of sales they do propose net percentage will be paid as an incentive to you. Let us say if you are exceeding let us say you as a sales manager, you have to sale you know a volume of 50 or 100 products then if you go beyond under products then I am to give you more incentives.

Then let us say talk about a performance linked pay then there is also piece rate pay and what you do know when you are able to pay based on the productivity, number of pieces you do then I pay you a piece rate. Then there are other forms of pay system which are going to be

like I am going to discuss about the other forms of reward system which are employee's stock option or we are also going to talk about where when you talk about employee's stock options where the leaders or the teams are the members who do exceedingly well, I want to give you some share options, you can buy the share of a company at the fixed rate.

And then you can keep the share for certain number of years that is kind of motivating my employees if they are able to pay really well if they do exceedingly well, I am going to provide them more incentives way of paying this and then I can also pay profit sharing annual bonuses, cash based bonuses or incentive bonuses. I can pay different ways of rewarding my organization, my employees and teams in terms of the different reward system.

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So, now in this lecture what we discussed is.

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CONCLUSION

In the conclusion of this lecture session, we may recap the discussion held on rewarding and associated theories/approach. The learners obtain knowledge on the overall discussions made in this session.

This is the last session of this week, we have made this programme learners' friendly so as to learn about the organizational behaviour in a systematical way. Enjoy learning. Thank you all.

Handwritten notes:
 Rewards Independent
 ↓
 Association w/ Needs of what motivates?
 → More Fruitful → Both
 → Employee/Team
 → Employer

Now we have discussed about important aspect of a theory related to rewards because this theory says a reward is not an independent activity, what we understand from this is reward is not an independent activity, it should always have an association with respect to needs or what motivates employees. If my rewards are focusing on the needs or what motivates them then it will be more fruitful for both.

Both I mean, employee or team also for employer; yes you will succeed as an employer by providing the rewards and this providing the rewards the employee and team will be able to perform really better. So, this will be more fruitful. So, this and understanding the theories and understanding what is going to influence my employees will provide a basis to understand what kind of a reward I can pay, what kind of a reward system I should develop within my organization to reward my teams and my employees so, as to enable their performances.

So, in this lecture we discussed about now 4 important theories specifically 3 motivational theories, one is about Maslow's hierarchy of needs then Herzberg's dual factor theory and we also discussed about expectancy theory which provides more interesting insights on how the rewards are linked with the performance or the motivation of the employees that will give you insight about.

What should I focus, should I focus on intrinsic rewards or a financial reward or a non-financial reward or should I focus on extrinsic rewards just to know remove the dissatisfaction of my employees then we also discussed about traditional method of paying

we discussed the base pay method and we also discussed about the merit pay beyond that we also discussed about now performance linked pay and variable pay and we also discussed about piece rate and then employee stock up option we call it ESOP which is employee stock ownership.

Stock option wearing that now employees are provided the teams are provided with taking shares of the organization at a fixed price, this is a part of an organization's rewarding practice to the highly performing employees or the teams in an organization. So, with this we are concluding this module and thank you so much for enrolling in this course, thank you.