

Rethinking incentives and reward management

In India in April this year, 40 senior personnel from leading public-sector enterprises, private corporations, multinationals, and academia met in New Delhi to take a fresh look at incentive schemes. Their objective was not simply to revise them; they were seeking to reform them. In this quest, they were led by Dr. G.K. Suri, Honorary Professor of the Indian Institute of Management, who was the former Director-General of the National Productivity Council of India and former Head of the APO Research and Planning Division. This report highlights the conclusions and recommendations of this workshop on "Rethinking Incentives and Reward Management."

"The workshop was planned because it was realized that the old assumptions about how people can best be motivated to deliver high levels of performance may not be relevant in the context of the new work, the new worker, the new technology, and the new workplace," explained Dr. Suri. "Also, high-tech and service activities requiring information sharing, problem solving, and teamwork require newer approaches to incentive schemes. What is needed is not a revision of incentive schemes but their reform and restructuring."

Workshop participants discussed contemporary thinking on and experiences with incentive schemes and reached some valuable conclusions. Among others, they recommended an integrated incentive and reward policy linked to organizational corporate policy. They also suggested that economic value added (EVA) may be considered for measuring organizational and group performance, and individual rewards may be given on the basis of achievement of key performance areas (KPA's). Major conclusions and recommendations are recapitulated below.

1. In the contemporary environment characterized by globalization, disinvestment and privatization, liberalization, recession in business, shift from a product-oriented market to a customer-oriented market, focus on quality, changes in tax policy, higher stakeholder expectations, and rapid changes in technology, the traditional incentive schemes linked to physical productivity or its parameters such as capacity utilization, material utilization, etc., are on the wane. The trend seems to be toward adopting EVA as a measure of organizational and group performance and using it to determine the quantum of performance bonus for employees. Individual employees receive their



Dr. Suri (front row, fourth from left) with participants in the workshop

share on the basis of KPA-based performance measurement. In this way, individual, group, and company performance, as linked to organizational strategy, determines the amount of incentive bonus disbursed.

2. The incentive value of fringe benefits needs to be reviewed in light of tax policy. In other words, by taking advantage of tax exemptions through tax planning, the monetary value of some types of incentive can be enhanced.

3. For the effectiveness of incentives, a congenial and supportive work culture is necessary; an authoritarian culture may be counterproductive. Organizations should identify the gap between the present and the desired work culture and develop policies and practices to reduce the gap. This can be done through a diagnostic exercise with professional help, if necessary.

4. Each organization should adopt a package of monetary and non-monetary incentives based on the motivational-need profile of their employees

and within the boundaries of the wage system. A diagnostic exercise may be used to determine this.

5. Variable pay or performance-linked incentives should form a sizeable part of the compensation package. Variable pay should be linked to KPAs/EVA.

6. Where possible, a cafeteria approach to employee compensation may be adopted within the framework of the wage and salary structure of the organization.

Performance-linked incentives require the development of an objective and transparent performance management system. It may be desirable to conduct a diagnostic exercise to determine the degree of preparedness for adopting a KPA-based performance management system.

As there is a need to excel in the current fiercely competitive environment, work excellence awards for employees could be introduced as an added incentive. 