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A study on types of rewards for employees and its impact on employee motivation

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ABSTRACT:

Employee compensation is of one the major determinants of employee satisfaction in an organization. The compensation policy and the reward system of an organization are viewed by the employees as indicators of the management's attitude and concern for them. It is not just the compensation in total, but its fairness as perceived by the employees that determines the success of a compensation management system. Hence, it is very important for the management to design and implement its compensation system with utmost care and tact. A good compensation system should be able to attract and retain employees, give them a fair deal, keep the organization competitive and motivate employees to perform their best.

The study aims at understanding the basic features and objectives of rewards and incentives, the short-term and long-term incentive plans, guidelines for effective incentive plans and the concept of non-monetary incentives and its impact on employee motivation. Incentives motivate employees perform better and enhance employee involvement in organization and positively affect the company bottom-line. The basic purpose of in cent vising an employee is to retain and motivate employees and improve their organizational commitment. More and more organizations are designing and implementing innovative benefit schemes to attract and retain talent. The diversity in workforce gives rise to a need for different benefit schemes to match individual needs. Therefore, contemporary benefit programs try to provide flexibility to employees in designing their own customized programs, from a basket of benefit schemes. This is called the cafeteria-style benefit plan. The compensation program of any organization, including the salary, the incentives and the benefits contribute positively to both the employee and the employer.

Keywords: Employee Compensation, Incentives, Motivation, Retention, Productivity.

INTRODUCTION:

Organizational rewards are those that the employee earns because of his employment with the organization. Most organizations link their reward system to employee performance and commitment to the organization. Rewards can be both extrinsic and intrinsic. Extrinsic rewards are tangible in nature and are normally under the control of the organization. Examples of extrinsic rewards are a promotion or a bonus. Intrinsic rewards are intangible in nature and are internal to the individual. Examples of intrinsic rewards are a challenging assignment or informal recognition. The basic purpose of a reward system is to improve employee morale and job satisfaction. This would result in improved performance and loyalty to the organization.

A good reward system helps in identifying the best performers and rewarding them to increase their job satisfaction. Rewards can also be classified into financial and non-financial. Financial rewards are the rewards that employees receive in monetary terms. Examples are a bonus or an annual incentive. Non-financial rewards are intangible and are paid in kind. They can however be measured in terms of their value to the employee. For example, the employee reaps the benefits of a subsidized cafeteria, though he is not being paid in cash. The value that accrues to the employee, because of a subsidized cafeteria, can be calculated. Incentives are the rewards to an employee, over and above his base wage or salary, in recognition of his performance and contribution. They can be termed as performance-based rewards. Examples of incentives are annual performance incentives (monetary) and ESOP (Employee Stock Option Plans). Benefits on the other hand are the rewards an employee receives for his employment and position in the organization. They can also be termed as membership-based rewards. Benefits include scholarships for employee's children, reimbursement of medical expenses incurred by the employee and his family, or a paid vacation for the employee with his family. The base salary, the incentives and the benefits put together constitute the total compensation of an employee.

The basic objective of providing employee benefits is to ensure the employee's commitment to the organization through social and personal security and comfort.

More and more organizations are implementing innovative employee benefit schemes to attract and retain talent. Some of the basic objectives of a benefit program are: To provide employees special allowances to match the growing cost of living, to provide them social security and to improve the quality of their work life and to reward employees for their employment with the organization and grant them special privileges for holding a particular position.

TABLE 1.1 Challenges in Retention

Challenges in Retention	N	%of Resources agreed it's challenge
Rise in cost of living	56	36
Job change resulting in better hike	46	40
Lack of appreciation	67	60
Ambiguity in understanding appraisal system	49	35
Imbalance in work life balance Post incentivizing	51	38

*N = No. of respondents who answered respective question

Many organizations have taken up the idea of long-term incentive plans, in this highly competitive era. Long-term plans help in providing steady earnings, over a longer time period. Examples of long-term incentive plans are annual bonus, profit-sharing, gain sharing, ESOPs, etc.

Annual bonus: The most common type of annual incentive plan is the annual cash bonus. Most annual bonus plans are based on the annual performance of the company. The factors that determine the bonus are the company profits and the performance of the group/unit. The bonus is normally a one-time payment, made at the end of the financial year. However, in many organizations and in government agencies in India, the bonus is paid at the time of a major festival. For example, employees of many firms and workers in government service get their 'Diwali bonus every year before the festival.

The Parment of Bonus Act, 1965 states that "subject to the other provisions of this Act, every employer shall be bound to pay to every employee in respect of the Accounting year commencing on any day in the year 1979 and in respect of every subsequent accounting year, a minimum bonus which shall be 8.33 per cent of the Salary or wage earned by the employee during the accounting year or one hundred rupees, whichever is higher, whether or not the employer has any allocable surplus in the accounting year." So, as per Indian law, employees are entitled for the payment of a minimum bonus every year. Profit-sharing: In the profit-sharing incentive method, employees earn a share of the company's profit, which is normally calculated as a percentage of the total profit. Walt Disney Corporation was the first company to employ this method. There are different kind of profit-sharing plans.

Distribution plan - In this plan, annual or quarterly cash bonus is paid according to a pre-determined formula and based on the company profits Most Indian companies opt for an annual bonus and distribute the wealth to their employees immediately.

Deferred plan: Under the deferred plan, employee’s car profit-sharing credits instead of cash payment, which are distributed when the employee parts with the organization. This is quite like a deferred income retirement plan.

Combination plan - This plan is a combination of the distribution and deferred plans. Under this plan, employees are allowed to receive a portion of each period's profit in cash bonus, with the remainder put in a deferred plan.

Gain sharing: This is a method of rewarding groups for their successful performance. In this method of incentive payment, the group is rewarded for its teamwork, coordination and other characteristics that have determined its success. The external factors that have influenced the group are disregarded A group is entitled for gain sharing even if the firm has not recorded any profits.

Employee Stock Plans: This is a scheme in which employees are given a part of ownership at a price lower than market price, in consideration of their duration and/or meritorious performance on the job. The basic premise of employee stock plans is that, giving a stake in the company is the best form of rewarding employees and that they also put in their best performance when they have their own stake in the company. In fact, this can be used to enhance employee loyalty and accountability. Therefore, many organizations are making their employees partners in the ownership of the business. The different types of employee stock plans are explained below. Employee Stock Purchase Plan (ESPP) - This is generally used in listed companies. The employees are given the right to acquire shares of the company immediately after they earn them (through duration of employment or performance), normally at a price lower than the prevailing market price. Shares issued by listed companies under ESP will be subject to a lock-in-period during which the employee cannot sell them. This can help the organization in retaining employees.

Restricted Stock Plan: In this type of stock plan, the employees need not put in money. However, the shares are subjected to some restrictions. One of the major restrictions is that the shares may be forfeited if they are not "earned out" over a specific period. The employees are forced to continue their employment with the organization over this specific period.

Employee Stock Option Scheme (ESOS): - Under this scheme, the company grants an option to its employees to acquire shares at a future date. The options are offered at a pre-determined price. Eligible employees are free to acquire shares on vesting within the exercise period. Employees are also free to dispose of the shares, subject to the lock-in-period clause.

Stock Appreciation Rights (SAR) / Phantom Shares: Under this scheme, the employee does not have to put in any money and has the right to relinquish the stock. The employee is given the appreciation in the value of shares from the date the option was granted till the date it was relinquished.

Phantom stock: Phantom stock is a special type of ESOP that protects the holder against any depreciation in the value of the stock. Under this plan also, the employee is not required to put in any money in the option plan.

Premium-priced options: These are also called performance-vesting options. These options are exercisable only if the market price of the stock reaches or exceeds the pre- determined exercise price, which is significantly higher than the current market price. If the market price does not reach the exercise price within the stipulated time, the option would be forfeited.

Employee stock plans have various advantages. They strengthen a company's asset base, decrease the impact of corporate taxes and increase its equity. They also have other advantages like aligning the interests of the managers with those of the owners. The main advantage is that it gives the company an opportunity to reward its employees without affecting its bottom-line.

Many home-grown companies like Infosys, WIPRO, Tata's and ICICI are using ESOPs to retain talent both locally and abroad.

NON-MONETARY INCENTIVES

Giving non-monetary incentives to employees for their performance and contribution is one of the best methods of motivating them. Non-monetary incentives are as important as monetary incentives. Some of the non-monetary incentives are:

1. Recognition of an employee's contribution. This can either be a social recognition or an informal recognition. But it would certainly add to the self. esteem of the employee and improve his job satisfaction.
2. A challenging assignment would assure an employee of the management's confidence in his abilities. This would improve his self-confidence and boost his morale.
3. Giving additional responsibility to an employee act in much the same way as a challenging assignment and motivates the employee.
4. Rewarding an employee for his performance through free gifts or free vacations can boost employee morale. The vacation can also provide him a much-needed break after the completion of a challenging assignment. For example, companies send their best performers ona holiday to exotic locations like Bali or Mauritius.
5. Awards, as a form of incentive, for exceptional performance and valuable contribution will add to the social esteem of an employee.

CONCLUSION

For an incentive plan to be effective as an employee retaining and motivating tool, it has to have the following characteristics. The incentive plan should be linked to employee performance. This would improve the organizational performance and contribute to the employee morale too. The incentive plan should be communicated to the employees clearly. There should be transparency and the employees should view the system as being fair and rewarding performers. Employee suggestions and inputs should be valued and rewarded. The incentive should be proportional to the contribution of each employee. The incentive plan should be minimally affected by external factors like the stock market performance and the industry's performance.

The incentive plan should be flexible enough to accommodate changes in external factors. Companies should upgrade their incentive plans as the environment changes.

The incentive plan of an organization should provide a challenge to the employees to gear up their performance levels. The organizational incentive plan should also benefit the management with tangible savings in labor costs.

The incentive plan should only add value and not have a negative influence on the bottom line of the company.

The incentive plan should include both monetary and non-monetary incentives for employees.

It should be possible to measure the value of the non-monetary incentive plans. Employee benefits have proven to be an excellent tool for employee retention and improving an organization's bottom line. The quality of an organization's employee benefits scheme determines and enhances its image as a caring employer. Employee benefits that an organization offers are a long-term investment that can result in a sustained competitive advantage for the organization.

Benefits have been defined as the fringe advantages that accrue to an employee over and above his salary, because of his employment with an organization and the common employee benefits are:

Free or subsidized lunches -Employees get a free or subsidized working lunch in the office.

Most of the organizations offer lunches to their employees, with a wide variety to choose from. For example, Vandenburgh Group is known for the sumptuous buffet lunch it provides to its employees.

Medical facilities to the employee and his family - Employees and their family members are provided medical facilities, free of cost. In case the employee avails of external medical facilities, reimbursement of the incurred expenses is made to the employee.

1. Paid holiday/vacation to the employee and his family - Employees get a paid holiday, normally every year. In some cases, the company even pays for the vacation of the employee with his family. The LTA (Leave Travel Allowance) scheme, which is applicable to all the employees and their families in all government organizations and many private sector organizations, is a benefit.
2. Retiral benefits like PF and gratuity - It is mandatory for the organization to pay retiral benefits like PF and gratuity to the employee. Most employees are concerned about post-retirement benefits like pension, gratuity, etc. Some firms like ONGC provides its employees and their dependents, free medical facilities. even after their retirement.
3. Employee insurance - Employees have to be insured for life and against accidents or illness, under the Employee State Insurance Act. Many organizations offer the benefits of medical insurance, accident and disability insurance and life insurance to their employees.
4. Maternity leave - In India, it is mandatory for organizations to provide maternity leave of 90 days to expectant mothers. Organizations are increasingly offering extended benefits to expectant mothers and new mothers.
5. Child-care centers - With the number of working mothers increasing, organizations are providing day care centers for the children of their employees. Employees can perform better as their children are taken care of in these care centers.
6. Educational allowance for employees' children - The organization provides a fixed educational allowance towards the school-related expenses of the employees' children.
7. Merit Scholarships for employees' children - Organizations encourage the children of employees to excel in their studies by awarding merit scholarships.
8. Company accommodation - Many organizations provide subsidized quarters for their employees. In case this is not feasible they either pay the lease amount or the rent that the employees must pay.
9. Company transportation facilities - Many organizations provide transportation facilities to their workforce. These could be company buses or company cars and serve to ease the difficulties associated with commuting to work. As many workers in urban and semi- urban areas must commute long distances between their place of work and their homes, and with employees working late hours and night shifts, company transportation is often provided as a benefit.
10. Cafeteria and rest rooms - Companies provide cafeterias with free or subsidized coffee/tea/snacks for their employees. Companies also have rest rooms for employees working

extra time or late hours or for employees feeling sick or tired Study leave - Many organizations encourage their employees to gain more knowledge and earn higher qualifications, by giving them study leave of 2-3 years. The employees rejoin the firm after completing their studies and get paid in full or in part during their studies.

11. Company sponsored study - Some organizations go a step further and sponsor the educational expenses of the employee. Companies which sponsor their engineers for MBA degrees and other post-graduate courses, often consider this an investment and an employee retaining technique.

12. Club memberships - Some organizations offer exclusive club memberships to middle and senior level managers in the organization.

13. Recreational facilities - The recreational facilities provided by organizations can vary from a TV room to a well-equipped gym and can include facilities for yoga, sports and games, weekend parties, etc.

14. Credit cards - Organizations tie up with credit card companies and help employees get credit cards at a subsidized fee.

15. Business and Professional memberships - Organizations pay for the professional membership fee of their employees. Examples of professional/business bodies include IEEE (Institute of Electrical & Electronics Engineers), National HRD

16. Tax assistance - Organizations spare their employees from tax planning hassles by providing professional assistance to them. They help them plan their savings and file their tax return.

17. Other assistance - Some organizations provide assistance to their employees in fulfilling their family responsibilities like admission for children in schools. payment of bills, getting helpers for care of elderly relatives, etc.

18. Interest-free loans - Many organizations lend their employees interest-free loans or nominal interest loans. For example, ONGC provided housing loans to its employees at a rate of 4% even when the market rates were as high as 12%.

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