

## The note finished



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**Short Description**

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## **The note finished CAST STUDY solution**

**Read the following Case carefully and answer the questions given at the end.**

Hate to interrupt you, boss, but the meeting N- starts in another 10 minutes," said a male voice V over the intercom. Q

"I am almost through," replied the man inside the big corner room. On any other day, Abhinav Kumar-CEO of the diversified Total Industries-wouldn't have needed a reminder. But today, he had been on a half-an-hour long conference call with one of Total's global customers. And having just finished the call, Kumar was making notes to circulate to his A-team.

The note finished, Kumar poured himself a cup of coffee and darted off to the conference room. It was Vinod Rao, head of HR, who got the ball rolling. "One of the biggest benefits of the ongoing change initiatives at Total is the sharpening of the company's focus. In each of the four divisions-consumer durables, soaps, switchgears, and batteries-there have been both topline and profitability gains. Besides, programmes like Total Quality Management (TQM) have been great levellers."

"I agree," quipped Manoj Kohli, president of the switchgears business. "Special Group Activities (SGAs), which we have introduced as part of TQM, have dismantled hierarchical barriers." Kohli was right. Cross-functional in composition and aimed at solving specific problems, the SGAs were all headed by individuals who were chosen for their expertise rather than rank. Other initiatives like supply-chain management and Activity Based Costing (ABC) had also helped foster an integrated view of business among employees at Total.

"I believe," Rao continued, "this is the right time to tie our reward system to team performance. Identifying new measures of collective contribution and linking them with a system of team rewards is not only a logical step forward, but also the best way to sustain the change momentum.

" What Rao was suggesting was relatively a new concept at Total. Traditionally, the familymanaged company had encouraged individual excellence. The individual had been central to its appraisal, reward, and compensation systems, even as the appraisal system underwent changes. For instance, Total once had a trait-based appraisal system, where everyone above the level of a supervisor was evaluated on five traits : commitment, communication, responsibility, integrity, and intelligence. Carried out by the immediate boss, personal evaluation was the basis for deciding the quantum of individual increments

and promotions.

Total, then, moved from traits to goals. The individual goals, which were meant to be specific, measurable, achievable, realistic, and time-bound (SMART), became the basis of performance evaluation. Currently, Total was using the 360-degree appraisal system, which enabled every manager to be appraised by his subordinates and peers.

"But the individual," Rao pointed out, "is the axis around which our assessment and reward systems revolve.

" "The focus on the individual should remain," said Guneen Roy, head honcho of the soaps business. "After all, in any group situation, there are only a few individuals who perform. High-fliers must be rewarded more than the others. We need role models.

" "I see it a little differently," said Srikant Suresh, the chief of consumers durables. "There is no place for Prima donnas in the current context, simply because our basic purpose as an organisation is to serve our customers. And teams are the basic platforms on which customer focus can be built.

" "Srikant has a point," said Ratika Sahai, the young division head of batteries. "What gets measured and rewarded is what gets done. It is the undue emphasis on individual performance that generates a feeling that an organisation is run by a few heroes. That is why we should take a fresh look at our compensation plan. Look at our limited experience with SGAs. They have enabled individuals develop under peer pressure.

" "What I meant," Roy clarified, "was that we should look at team compensation as an add-on to the existing system of individual rewards. Otherwise, you would have a number of freeloaders whose contribution to the team may be marginal, but get rewarded anyway because the team would have delivered. We need to strike the right balance between the individual reward and the team reward.

" "I think Roy has a point," said Kumar. "But I am curious. Tell me how do our competitors like CPL manage performance rewards ?

" "I have a fair idea how it works at CPL," replied Rao. "CPL is working out a system of what it calls Pride Money. Meant to replace existing bonuses and commissions for everyone above the supervisor level, it is linked to three factors : individual performance, performance of the CTV division, and the overall performance of the company."

"Sounds interesting," quipped Kumar. "It is," agreed Rao.

"Paid twice a year, Pride Money is an add-on to the regular monthly salary. The idea is to

make the monetary equivalent of each measure of performance so transparent that anyone can ascertain his Pride Money well before he or she receives the cheque.

" "From what I know," Suresh pointed out, "there could be a problem with this kind of a system. For one, it breaks up compensation into fixed and variable, and further links the variable component to the unit's capacity utilisation.

" "Explain," said Kumar. "If the monthly salary of a manager is, say, Rs. 40,000, the figure is split up into a fixed base of Rs. 25,000 and the rest variable, linked to a 100-percent efficiency. If the efficiency falls below that level, there would be a proportionate fall in earnings. But if it exceeds 100 percent, the gains would be geometric. That is how CPL will reward both individual and team performance, and also establish the right link between productivity and reward. The variable pay is called the Pride Money, which is basically a team reward.

" "So, what's the problem ?" queried Kumar.

"What if the efficiency falls due to external factors; say, a slowdown in consumption, higher interest rates, or change in product technology. Will our managers accept blame for that ? If not, we will continuously need to redefine what we mean by efficiency.

" "Besides," added Rao, "managers long used to fixed salaries will need a lot of convincing before they agree to anything like this. The implications of variable elements on net earnings will need to be properly conveyed and understood. What might be acceptable in the short run is a system that protects current earnings and looks at team reward, as Roy said, as an add on.

" "That will straightaway increase the costs of operations," said CFO Vikas Singh. "And unless the gains in productivity make up for the new expense, we will end up with lower earnings.

" "It simply means," Kumar pointed out, "that we design the measures and rewards in such a way that they automatically lead to high performance levels. This also means that the weightage for intangibles—like quality, customer orientation, and on-time delivery—should be higher in a team reward system.

" "I agree," said Suresh. "Continued customer satisfaction is crucial to our success. And building multi-disciplinary teams around customer groups is one way of getting close to the customer. This necessarily entails making team performance a crucial element of our appraisal system.

" "That's why, when the meeting began, I said that the time was ripe for a change in the

appraisal system," said Rao. "Frankly, an excessive reliance on individual performance is forcing everyone to work towards short-term individual objectives at the cost of long-term corporate goals. It discourages risk-taking, pits people against one another in pursuit of individual incentives, and prompts them to work in their own self-interest rather than in the interest of the company.

" Kohli was not convinced. "No doubt, working as a team enriches job content, but it also dilutes rank. And when we delink appraisal from individual reward as an integral part of fostering team spirit, promotion prospects are automatically cut. This will impact employee morale and retention. Why don't we opt for an informal system for team rewards.

" Rao was horrified. "An informal system will lead to all kinds of complications. The HR Department won't have any hard data to work with. The subjective element will increase, as will employee complaints.

".Kohli offered a different tack. "I feel that what ABC, our competitor in switchgears, has done makes more sense. They have something called the Development Appraisal. It has two components : the first is a uniform increment for all managers in each of its seven grades based on a flat percentage of the basic pay plus the gradespecific dearness allowance. The percentage, which could vary from 1 to 10, is determined by the financial performance of the company as a whole. Three other variants are also added to the first component. The first rewards the individual's performance on pre-determined parameters; the second factors in the annual rate of inflation, and the third bridges the gap between the company's pay-scale and the compensation trends in the rest of the industry.

" "What about the second component ?" asked Rao.

"That is a function of the performance of the business division of which an individual is part. This is basically a team reward and each member gets it as a lumpsum payment every year.

" "Obviously, ABC's appraisal system has been built to its unique requirements," noted Kumar. "I feel our reward system should also be built to our specific requirements. The question is how ?"

### **Questions :**

(a)What is the strategic issue that the company is faced with and why has the issue arisen ?

(b)Keeping the background of the company in view, discuss the relative merits and

demerits of Individual Appraisal vs. Team Appraisal.

(c) Describe the approaches to Team Reward that have been talked about in the case.

(d) What is ABC (Activity Based Costing) and how can it be useful in TQM ?

(e) What should the company do with reference to the strategic issue it faces and what precautions should it take to guard against possible pitfalls.

## **Details**

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