



INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

THE CASE OF VARIABLE PAY

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ABSTRACT

This case describes about the particular situation or problem of how variable pay is an element of employee shifting the job and even though the external market conditions were the factors that had effected in the variable pay and that its impact on the performance. It also talks about the good leadership qualities of a Manager who tries to convince the employee who is will to quit. This case is totally about the situation and reaction of employee on variable pay.

Keyword: Variable pay, Market conditions, Performance & Leadership qualities.

Introduction

Naveen was wrapping up for the day. and his phone rang. Hai naveen. Anil here. can i pop in for a few minutes yes he said. Anil was a Brand manager at a large FMCG Company and naveen was the Chief of HRD and Naveen Recruited Anil from a mid sized company in Mumbai over a period of few year's they had build up a good rapport and in any case Naveen was the trouble shooter as he has to be as he was after all the H R Person.

Naveen had a vague idea of what Anil might want to discuss but he decided to frame his replies as he thought As promised Anil was with Naveen in a couple of minutes, when was the last time when we had a semi formal meeting like this one? Naveen asked to Anil he replied may be six months ago.

ON a Friday evening till 8:30 i have stayed back and felt unhappy, over this and my pay revision last Fiscal was unsatisfactory But you are informing it now a month Later I have been thinking about it and laying to find it out ami the only one feeling let down. by the new variable pay Scheme said Anil.

The previous fiscal was the first full year of variable pay and Naveen could tell that the executives were unhappy with it. Already a top management employee and General Manager had expressed their displeasure over the new scheme which is known to Naveen. Quitting from the enterprise would not only encourage others to follow suit but also impact the scheme.

My performance targets were unreal said Anil, very true said Naveen. But look at it from organization point of view, there are other units which have taken also a hit. Anil do not forget that we are all sailing in the same boat said Naveen. I promise that I will put forth this subject before the pay panel I can say you this much at the present juncture.

Both of them looked at the clock it was well past 10:00 PM.

The next day the first thing Naveen did was to call his boss Rishab to tell and request to convene a meeting of pay panel as the agenda of the meeting in response to it Rishab says, today I have a list full of things to do you go through it Rishab tells Naveen.

Do me a favor Naveen I will send out the meeting request.

A little time ago the company decided to replace fixed pay scheme to variable pay scheme, and the same was implemented with little advance notice to employees. Which was moderately surprising to the employees depending upon how they perceived and received it. An article was printed in the inhouse magazine of the company and an e-mail from the concerned was also sent. The company which had a turnover of 250 crore's last year, had introduced a profit sharing model and revenue sharing model. The variable component usually paid annually was linked to the performance. Understandably individual performance had a higher Weightage than team performance. That apart there were peer incentives for team and individual incentive for individual performance viz – a paid holiday gift vouchers etc. Since the concept of variable pay was new to Company they decided to implement it only to senior and middle level management employees. Senior people had a variable component of 15 – 40 percent middle management 5 – 15 percent. Anil as a brand manager came at general manager level and last year sales was quiet bad for his division which he headed, volume had come down revenue's were affected because host of factor were responsible which are external in nature and internal in department .

One thing that has bothered naveen all along was the fact that Rishab seems inadequately concerned with Human Resource problems as he was more concerned about what he called strategic issues

By afternoon Naveen had got a conformation to the meeting request sent out by Rishab the committee would meet on Wednesday pre lunch we can't tackle Human Resource issues post lunch we can have it. He acknowledged.

Pay panel committee composed apart from Rishab and naveen .

How widespread is the discontent naveen he was asked I have to reason to believed that it is quite widespread said naveen only handful of people have taken it up with me so far. In that case may be we are over reacting said the top level management. only a handful of people have taken it up with me so far .

We need to give the new system more time after all it is just a year old .I don't think one can possibly over read to such as issue. The worst thing that we can do now is to not let the morale take a hit.

I agree to disagree said the Director of marketing I just can't afford to lose any of my men and certainly not good men like Anil! . We should not care if we have to pay him more.

That's not a good idea pointed out by one member. We cannot be selective in our approach .

The whole idea behind variable pay is to motivate people, across the levels with the promise of greater rewards and returns we cannot make changes arbitrarily.

Then we didn't implement the new structure properly or we should simply revert to the old system .Which according to me just worked fine !.

You are right about poor implementation but it would be a strategic mistake bringing back the old system after all the reasons why we introduced variable pay still holds good. The business environment is changing eventually and that executives have to justify what they perform to earn.

Variable pay is a good way to control costs and improve productivity. Yes when the going is good in the market there is no problem with variable pay. When the markets crash profits shrink naturally. We have to accept it in a broader perspective.

Please make a note that the next year is going to be equally bad for FMCG, companies

The information Technology and other Company's aren't only benching people / Employees but also asking them to take pay cuts, but how many can Join Banking Insurance and Pharma or any other industry as marketing heads or even CEO's? and asking people to deliver 15% growth in the markets which are Shrinking

Actually it is good to look at what is wrong. With the system as I understand even shop floor worker's / Level one worker's whose variable pay is linked to sales is effected Since the sales have come down due to host of reasons which are external in nature.

As far as I can feel about this,

It Is a problem with bad implementation may be we didn't Communicate well. Perhaps we need to fine-tune our measurement System's Review them oftenly and Reward people closer to the date of their achievement

It is a good idea said the member in the group Money may not be the only reason why people work but it is one of the major reason. Besides a change like this it needs time. It's a Material change and people take time to get prepared gradually.

If it was to me, then I would have implemented this over a period of one year. But it was asked to make it happen within three months.

Question's :

1. How to convince people like anil that variable pay will work / help them in the long run?
2. Find out the errors and rectify the mistakes that the company made in its implementation?
3. Finally, should the company scrap variable pay and return to fixed pay system?

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