



COMPENSATION AND REWARD MANAGEMENT

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BY

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Course Outcomes (COs)

CO's	Course Outcomes
CO1	Understand the concept of compensation, theoretical dimension, economic and behavioral Dimensions.
CO2	Discuss the designing pay model strategic compensation plan, wage and salary Administration at micro level.
CO3	Analyze different types of rewarding procedure of employees on the basis of performance.
CO4	Summarize some similarities and differences between financial and non-financial benefits of the employees.
CO5	Explain about the international nature of Compensation and compensation process.
CO6	Identify the differences between job analysis and job design.
CO7	Analyze the pay model structure Architecture and its components with the help of a diagram.
CO8	Interpret the opportunities provided by the organization and organizational benefits to the employees.
CO9	Describe the role and support of compensation in case of applications, Real estate business, Insurance sector Jobs and employment sites.
CO10	Examine the functional requirements for the employee benefits and services.

INTRODUCTION TO COMPENSATION MANAGEMENT

Compensation, theoretical dimension, economic and behavioral; designing the pay model strategic compensation plan; wage and salary administration at the macro level.

Introduction- Compensation Management

Compensation is referred to as money and other benefits received by an employee for providing services to his employer.

Compensation refers to all forms of financial returns: tangible services and benefits employees receive as part an employment relationship, which may be associated with employee's service to the employer like provident fund, gratuity, insurance scheme and any other payment which the employee receives or benefits he enjoys in lieu of such payment.

According to Dale Yoder, ***“Compensation is paying people for work”***.

“Compensation is what employees receive in exchange for their contribution to the organization”. – Keith Davis

Objectives of Compensation Management

The basic objective of compensation management can be briefly termed as meeting the needs of both employees and the organization.

Employers want to pay as little as possible to keep their costs low. Employees want to get as high as possible.

- Acquire qualified personnel.
- Retain current employees.
- Ensure equity.
- Reward desired behaviour.
- Control costs.
- Comply with legal regulations.
- Facilitate understanding.
- Further administrative efficiency.
- Motivating Personnel.
- Consistency in Compensation.
- To be adequate.

Pre-requisites for Effective Compensation Management

An effective compensation system should fulfil the following criteria:

- **Adequate:** Minimum governmental, union, and managerial pay level positions must be met by the compensation system.
- **Equitable:** Care should be taken so that each employee is paid fairly, in line with his/her abilities, efforts, education, training, experiences, competencies, and so on.
- **Balanced:** Pay, benefits, and other rewards must provide a reasonable compensation package.
- **Secure:** Employees security needs must be adequately covered by the compensation package.
- **Cost-Effective:** Pay must be neither excessive nor inadequate, considering what the enterprise can afford to pay.
- **Incentive Providing:** The compensation package should be such that it generates motivation for effective and productive work.
- **Acceptable to all Employees:** All employees understand the pay system well and feel it is reasonable for the enterprise and the individual.

Even the most rational methods of determining pay must be tempered by good judgment when challenges arise.

The implications of these demands may cause analysts to make further adjustments to compensation.

- Strategic Objectives.
- Prevailing Wage Rates.
- Union Power.
- Government Constraints.
- Comparable Worth and Equal Pay.
- Compensation Strategies and Adjustments.
- International Compensation Challenges.
- Productivity and costs.

Criteria for effectiveness of compensation policy

Glueck (1978) cites Thomas Patten who suggests that in compensation policy, there are seven criteria for effectiveness. The compensation should be :

- Adequate
- Equitable
- Balanced
- Cost effective
- Secure
- Incentive Providing
- Acceptable to the employer

Compensation Dimensions

The total compensation package may be described in many ways, but the classification scheme based on eight dimensions. Each dimension has a number of compensation components. Each component has a variety of features.

- ❖ Pay for work and performance
- ❖ Pay for time and not worked
- ❖ Disability income continuation
- ❖ Differed income
- ❖ Spouse (family) income Continuation
- ❖ Health, Accident and Liability protection
- ❖ Income equivalent payments

Methods of Payment

The following points highlight the top three methods of wage payments. The methods are: **1. Time Rate System 2. Piece Rate System 3. Incentive Wage System.**

Time Rate System:

Under this method of wage payment, the workers are paid the wages on the basis of time. In this system of wage payment, the workers are paid the wages on the basis of time as, per hour, per day, per week, per fortnight or per month etc. This system does not consider the production of the employees during this time.

The amount of wages under this system is calculated as under:

Wages = Time spent by the worker × Rate of wages according to time.

Suitability of Time Rate System:

- This system of Wage Payment is particularly suitable in the following circumstances:
- When it is not possible to measure the production in terms of units or in any other terms.
- When the work is of high standard.
- When it is not possible to divide the production into units.
- When the production is of the nature that it requires efficiency more than the speed.
- When the worker is undertraining

Merits of Time Rate System:

Merits:

- Simplicity
- Certainty of the Amount of the Remuneration:
- High Quality of Production:
- Proper Utilisation of the Factors of Production:
- Co-Operation between Labour and Capital:
- Best System for Artistic Work:
- Co-Operation and Unity of Workers
- Suitable for the Health of Workers

Demerits:

- Need of Intensive Supervision
- Lack of Incentive
- Encouragement of Labour Unions
- Misuse of Time by Workers
- Fall in the Quantity of Production
- High Cost of Production
- It Kills the Efficiency of Workers
- Increase in Cost Per Unit
- Difficult to Measure the Efficiency

Piece Rate System

Under this system of wage payment, the workers are paid the wages on the basis of quantity and quality of work performed by them. Under this system, the rates of wages are determined according to quantity and quality of work and the workers are paid according to these rates.

The amount of wages to be paid to a worker under this system is calculated as under:

$$\text{Wages} = \text{Units of production} \times \text{Rate per unit.}$$

Suitability of Piece Rate System:

This system of wage payment is very suitable in the following conditions:

1. When the work is of standard nature.
2. When the work can be measured easily.
3. When there is a great need of increase in the production

Piece Rate System-merits and Demerits

MERITS OF PIECE RATE SYSTEM:

- Incentive to More Work
- Proper Utilisation of Machines
- Increase in the Quantity of Production
- Best Utilisation of Time
- Decrease in the Cost of Production
- Decrease in the Cost of Supervision and Administration
- Easy and Simple
- Improvement in the Standard of Living of Workers
- Mobility of Workers
- Measurement of the Efficiency

of the Workers

- Justified

DEMERITS OF PIECE RATE SYSTEM:

- Lack of Unity among Workers
- Loss of Workers on the Failure of Machines etc.
- Misuse of the Factors of Production
- Adverse Effect on the Health of Workers
- Low Quality of Production
- Unsuitable for Artistic Work
- Uncertainty of Wages

Incentive Wage System

Under these systems, both the time and speed are considered as the basis of wage payment. These systems provide incentives to the workers to produce more and more maintaining the quality as well. The workers are paid bonus or premium for the additional work. It is important to note that almost all the systems incentive wages provide for minimum guaranteed wages to the workers.

Characteristics of an Ideal Incentive Wage System: Important characteristics of an Ideal Incentive Wage System are as under:

- It must be easy to calculate and to understand.
- The standards of work must be determined on scientific basis.

Characteristics of an Ideal Incentive Wage System:



- It must establish direct relationship between efforts and remuneration.
- It must give a guarantee of minimum wage to all the workers.
- It must be in the interests of both the employers and the employees.
- It must be flexible but stable.
- It must be framed in the manner so that it may be used widely for all the activities of the enterprise.
- It must be helpful in increasing the production as well as productivity.

Incentive Wage System- Merits

1. Wage incentive schemes offer to workers the prospect of earning more thereby raising their standard of living.
2. Wage incentive schemes help in improving the industrial relations and discipline in the organisation.
3. Wage incentive schemes act as rewards for good performance. This encourages workers to come forward with new ideas and suggestions to improve productivity.
4. Wage incentive schemes are based on a standard of performance for the job. The standard is usually set after making a scientific work study. This brings about improvements in methods.
5. Wage incentive schemes are beneficial as they reduce the need for supervision and thereby reduce the cost of production.
6. Wage incentive schemes bring commonality of goals and targets between the management and workers.
7. This helps in developing a feeling of mutual co-operation between the management and the workers

Incentive Wage System- Demerits

Demerits:

- Some workers are more productive than the others. This helps them to earn more. When the earning capacity among workers differs, it results in jealousy among them.
- Workers tend to sacrifice quality for the sake of quantity. This results in the production of sub-standard goods.
- In order to produce more, workers will disregard safety regulations. This may result in injury to workers and breakdown of machinery.
- Workers tend to overwork and these results in undermining their health.
- Workers very often ask for compensation whenever production flow is disrupted due to fault of management.
- Even where an incentive scheme yields an increased output, it may generate tensions among the different parts of an organisation.
- Such tensions often create difficult managerial problems which may eventually affect output.

Reward Management

Introduction:

Reward is the generic term for the totality of financial and non-financial compensation or total remuneration paid to an employee in return for work or service rendered at work.

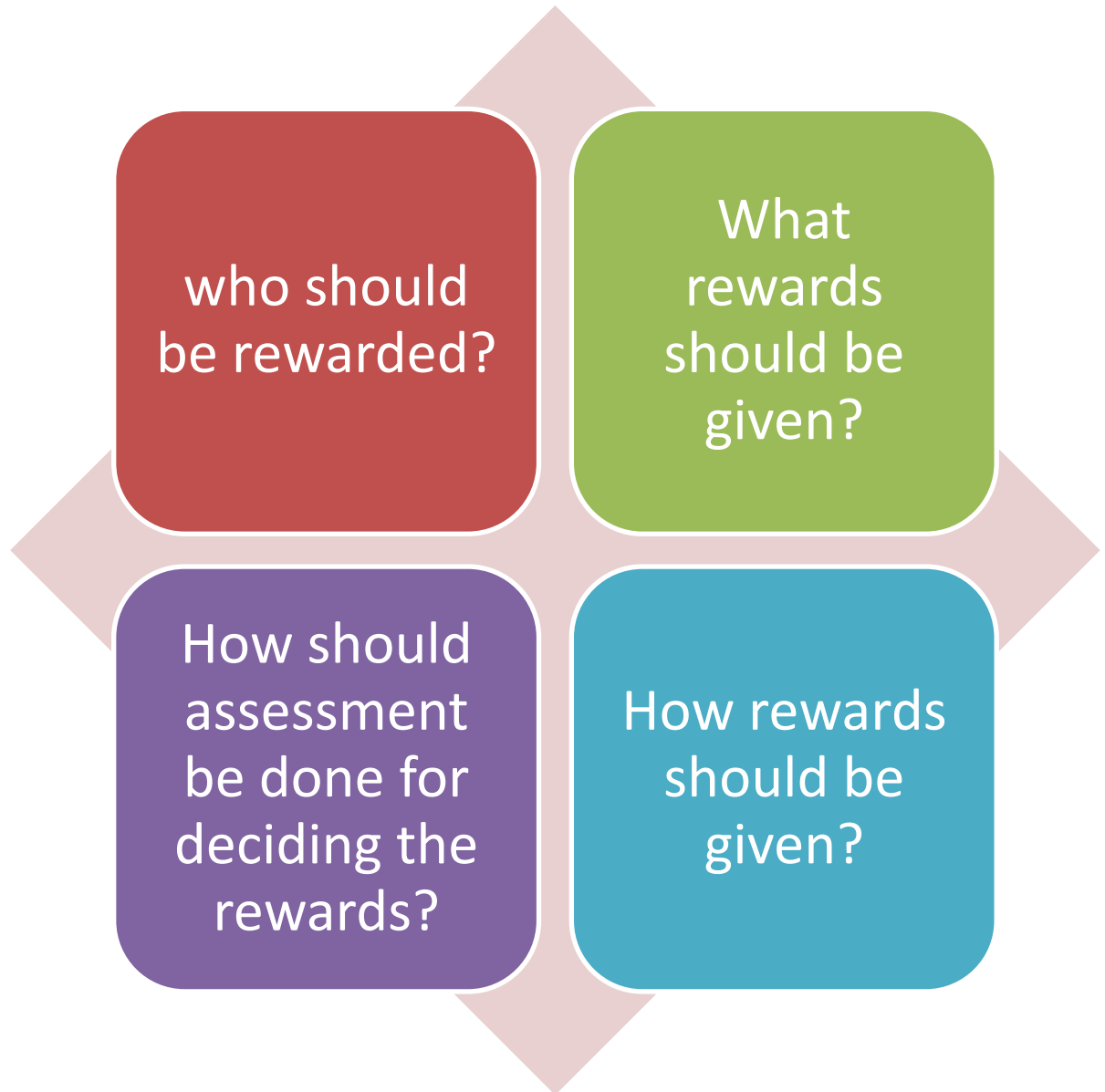
Definition of Reward:

According to Armstrong (2010) reward management is defined “as the strategies, policies and processes required to ensure that the value of people and the contribution they make to achieving organization, departmental and team goals is recognized and rewarded”.

Reward management is important for the following reasons:

- Retains employees
- Attracts new employees
- Avoids the cost of hiring and training new employees
- Builds loyalty and honesty
- Creates a healthy work environment
- Encourages positive attitudes and behaviour
- Makes employees more likely to seek advancement

Designing Reward System



Whom to reward?

Rewards are symbols of appreciation and recognition. Rewards reinforce what the organization values and wants to be strengthened. So, almost everyone related to the organization can be covered by the reward system.

- ❖ **Individual Employees**

- ❖ **Teams**

- ❖ **The organization:** Exceptional performance by the organization needs to be celebrated. Everyone belonging to the organization then develops a sense of people.

- ❖ **Out siders:** Customers, suppliers, vendors, etc. can also be covered in the reward system.

What to reward?

As already discussed rewards are meant to reinforce desirable behavior, high performance, values etc., whatever the organization wants to be strengthened and promoted further. Some of the following aspects can be rewarded:

- Performance
- Speed and efficiency
- Loyalty
- Innovation
- Upholding values
- Technical solution
- Learning-Ex-certification
- Good Behavior
- Sense of Humor
- Teaching
- Publications
- Event Management
- Social concern

How to assess?

Rewards are given to recognize outstanding work of individuals ,teams(units and departments including) or other connected with the organization. It is important to communicate appreciation in public. Celebrating achievement in public boosts the value of the reward.

The following areas should consider for the rewards individually/unit level:

- Empowerment
- Recognition
- Career Growth
- Development
- Celebrating and Fun

Concept of Total Reward System

Total reward system has monetary and non-monetary , direct and indirect components. The Concept has bearing with Herzberg's theory of motivation- both hygiene factors and motivational factors.

Total reward strategies should include:

- **Direct Financial:** Base pay, variable pay, incentives, stock options, bonuses, merit increases, spot rewards, deferred pay etc.
- **Indirect financial:** Fringe benefits, requisites, non-cash recognition, sabbaticals, quality of work life.
- **Identification:** Organizational pride, consultation in decision-making ,praise, recognition, appreciation in public,etc.
- **Work Content:** Clear goals ,feedbacks, challenging assignments, job enrichment, empowerment, etc.
- **Career opportunities:** Career Growth-lateral (job rotation) ,vertical (promotion) , professional growth/ development, opportunity to represent company etc.

Cont...

- ❖ Creating a positive and natural reward experience for employees to understand, accept and support the reward system
- ❖ Aligning rewards with business goals to create a win-win partnership for both the company and its workforce
- ❖ Establishing clear linkages between performance appraisal and reward systems
- ❖ Rewarding an individual's ongoing value with base pay
- ❖ Rewarding results with variable pay, which helps people extend their line of sight to company needs and values

Compensation Trends in New Era

The following are the new trends in Compensation Management:

- Group Mediclaim/Insurance Scheme
- Personal Accident Insurance Scheme
- Company Leased Accommodation
- Recreation/ATM facilities
- Corporate Credit Card
- Club memberships
- Cellular Phone/Laptop
- Personal Health Care (Regular medical check-ups)
- Loans

Compensation Trends in New Era

- Educational Benefits (For Higher studies)
- Regular Get together and other cultural programs
- Wedding Day/Birthday Gift
- Employee Referral Scheme
- Maternity Leave
- Paternity Leave
- Work-life Balance Pay Transparency
- Broad banding
- Variable Pay (Incentive Pay)
- Flexible Benefits

The 3-P Compensation Concept

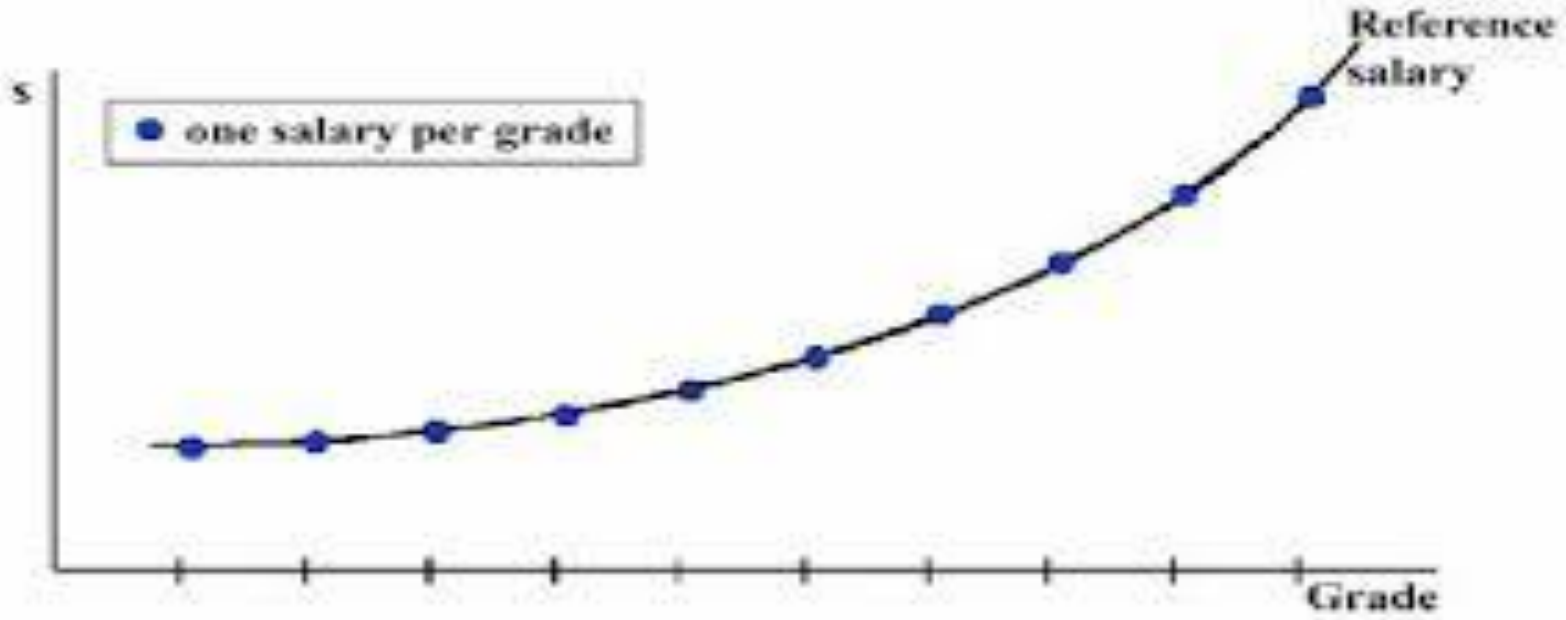
The concept of paying for the 3 P's consists of three parameters that are considered by the management of any organization while deciding the salary as well as the incentives of employees. It is to pay for the position, the person and the performance.

Pay for position: Pay for Position is a more traditional pay structure in which each position is assigned a pay range based on the job duties and pay is based on education and seniority.

- Employee compensation is set in broadband based on qualifications, education, training & experience
- Through broad banding, narrowly structured pay grades determined through job evaluation, are replaced by fewer and wider bands
- Employees progress up through broad band if their performance ratings are good, rather than through steps based on time in the grade
- It reduces different compensation categories to broad compensation bands, grouping jobs together by common characteristic.

Pay for position.....

Pay for Position



- Develop an equitable grading structure
- Create a reference salary structure
- Leverage compensation costs with market survey information

Pay for performance

Pay for Performance, Performance related pay, Performance-based pay is a financial reward system for employees where some or all of their monetary compensation is related to how their performance is assessed relative to stated criteria.

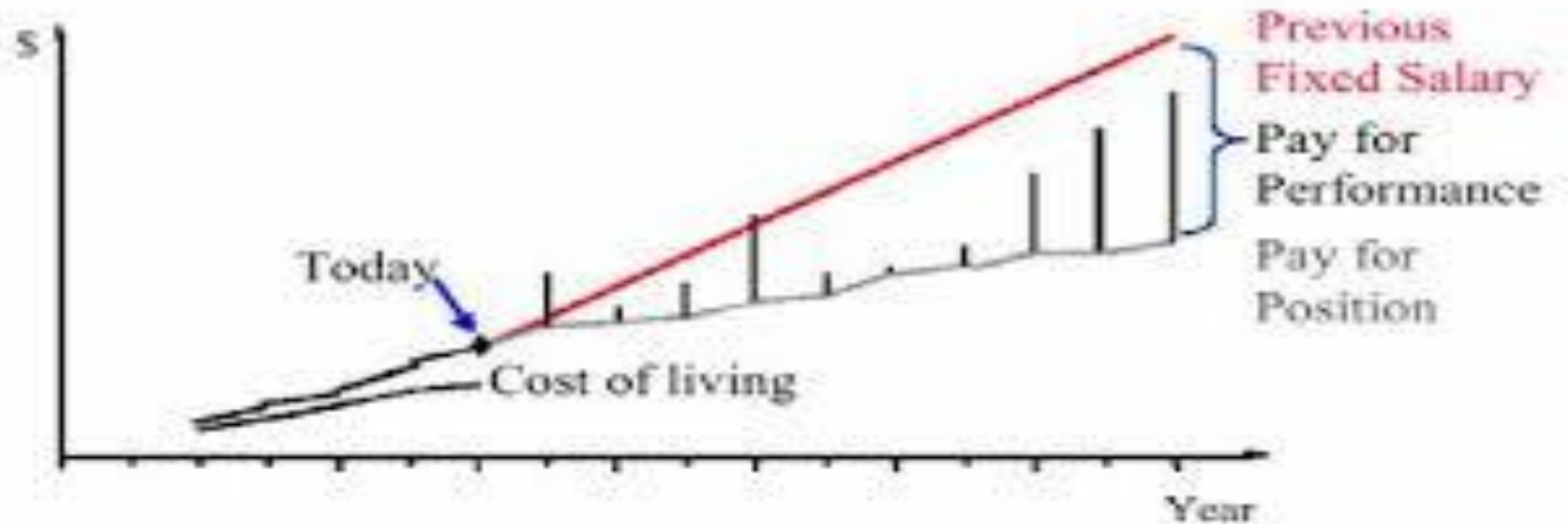
The criteria for performance-related pay scheme may be based on individual, group or organizational performance, or on a mixture of them.

• **Individual-based criteria would require –**

- individual goal-setting,
- an appropriate performance appraisal system
- individual training to increase job knowledge & skills and the individual should have a large measure of control over his/her own performance.
- Team-based criteria are appropriate where individual performance is difficult to measure,

Pay for performance- Contin.....

Pay for Performance



- Design annual bonus and incentives plans that motivate staff
- Shift from merit salary increases to variable pay
- Create long-term reward plans - stock options and deferred compensation

Pay for Person

Pay for Person or Person focused pay or Skill-based pay or Knowledge-based pay or Competency-based pay structures link pay to the depth or breadth of the skills, abilities, competency and knowledge a person acquires and applies to the work.

Structures based on skill, pay individuals for all the skills for which they have been certified regardless of whether the work they are doing requires all or just a few of those particular skills.

The wage is attached to the person. The pay increases are usually tied to three types of skills:

- horizontal skills, which involve a broadening of skills in terms of the range of tasks
- vertical skills, which involve acquiring skills of a higher level
- - depth skills, which involve a high level of skills in specialised areas relating to the same job.

Pay for person..

- Because skill-based pay encourages and rewards a broad range of skills, the employee becomes multi-skilled and more flexible and valuable;
- A job rotation is used to fill in temporary gaps in the workforce.
- Pay for person takes into account the demonstrable characteristics of a person, including knowledge, skills, competency and behaviours, that enable performance
- Take into consideration the person's capabilities & experience in setting a pay level that is both equitable and competitive
- It considers the market demand of a person's unique skills and experience
- It also incorporates market based pay approach

Pay for person..



- Determine competency/skill requirements and employee capabilities
- Pay individuals based on their competency/skill match with position
- Identify and pay market premium for competencies/skill in short supply in the market.

Economic and Behavioral Theories

Economic theories of wages and they have been providing guide in formulation of wage policies. Behavioral science oriented theories highlight the importance of psychological and sociological factors on formulation of compensation of reward.

- Economic theories of wages
- Behavioural theories
- Subsistence Theory (David Ricardo)
- The Employee's Acceptance of a wage level
- Wage Fund theory(Adam Smith)
- The internal wage structure
- The Residual Claimant Theory (Francis A. Walker)
- Wage and motivators

Behavioural (Motivational) Theories

Abraham Maslow postulated that a person will be motivated when his needs are fulfilled. The need starts from lower level basic needs and keeps moving up as a lower level need is fulfilled. Below is the hierarchy of needs:

Physiological: Physical survival necessities such as food, water, and shelter.

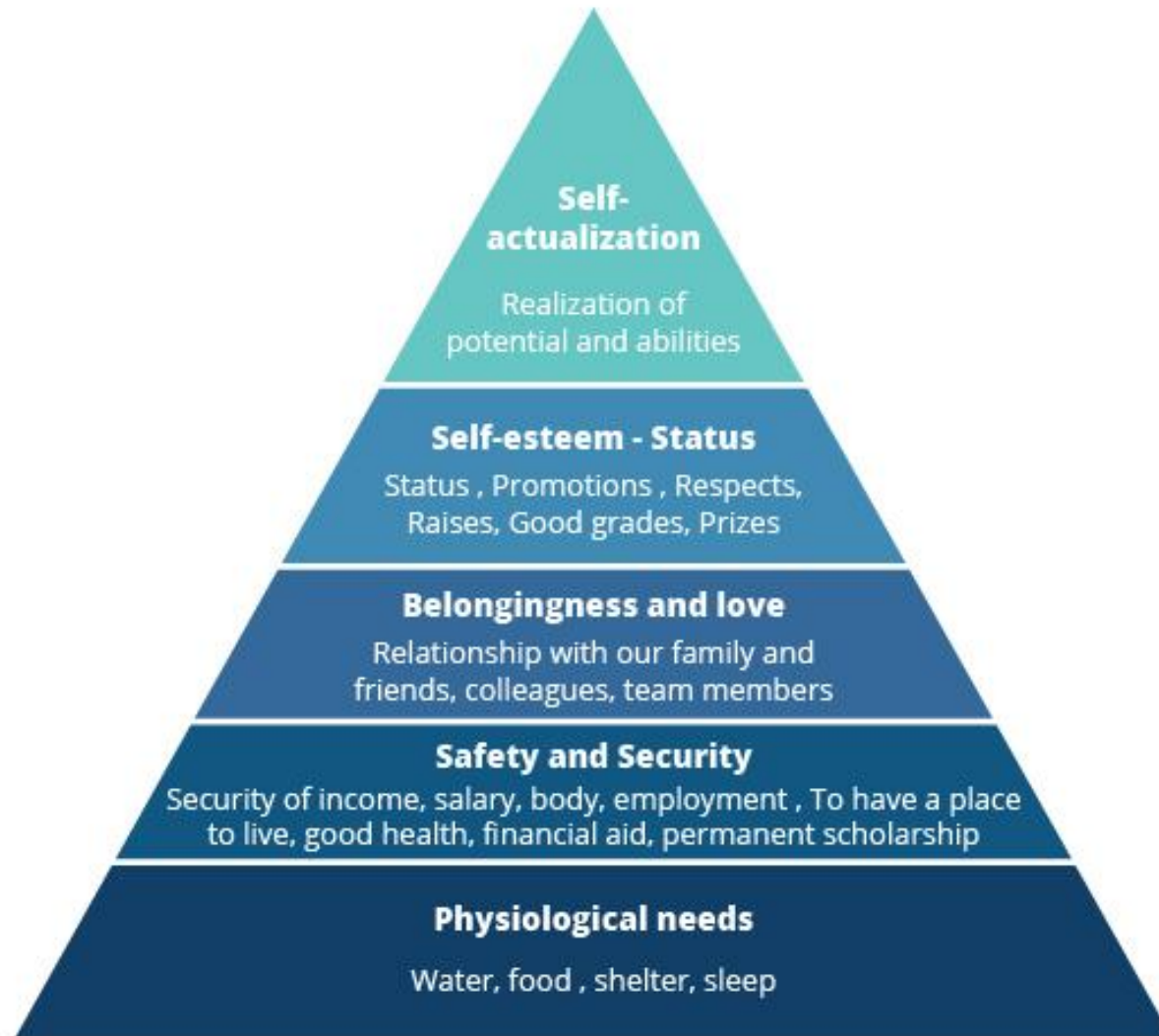
Safety: Protection from threats, deprivation, and other dangers.

Social (belongings and love): The need for association, affiliation, friendship, and so on.

Self-esteem: The need for respect and recognition.

Self-actualization: The opportunity for personal development, learning, and fun/creative/challenging work. Self-actualization is the highest level need to, which a human being can aspire

Abraham Maslow- Theory of motivation



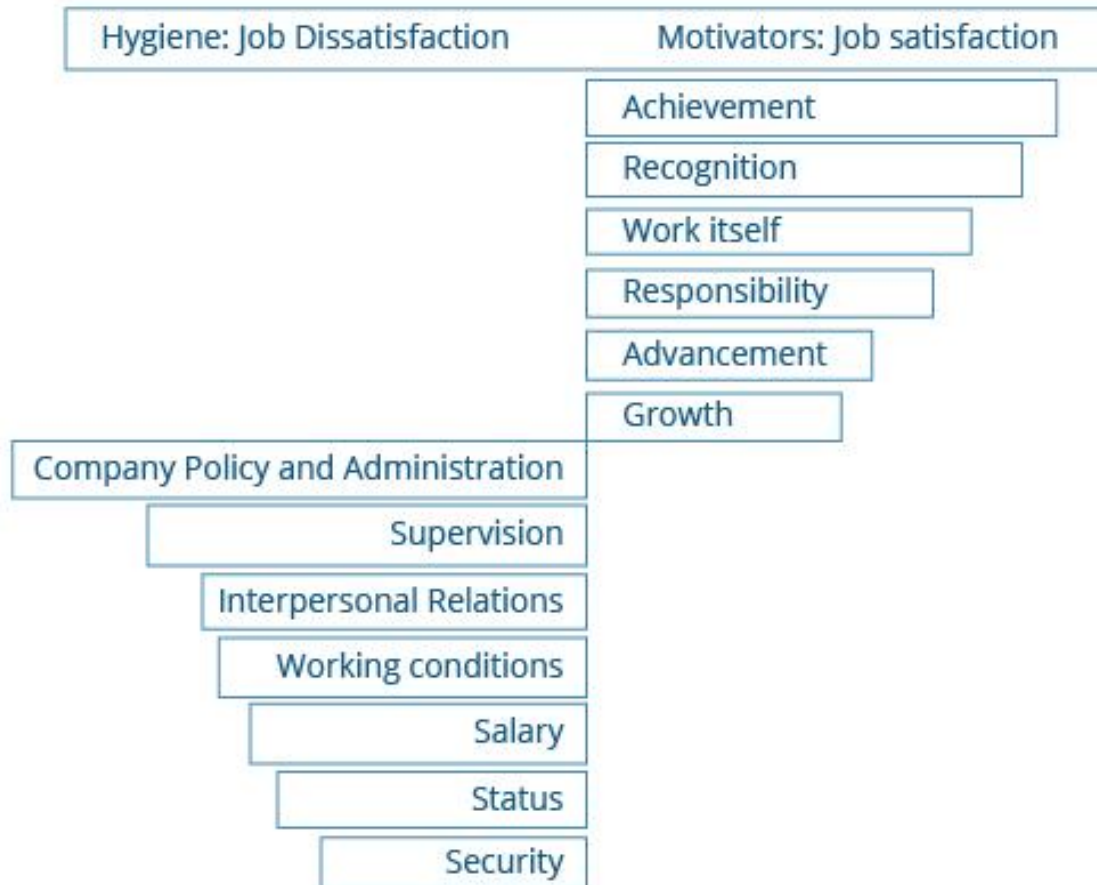
Hertzberg's two factor theory

- According to Herzberg's ,factors contributing to job satisfaction are called motivators. They are separate and distinct from factors that may some times lead to job dissatisfaction. Job satisfaction may be defined as a favorable reaction or feeling towards work.
- The concepts of intrinsic and extrinsic motivators added to the understanding and usefulness of motivators.
- Intrinsic motivators are those drives, generated from within the individual;
- Extrinsic motivators come from outside the individual.

Hertzberg's two factor theory



Hertzberg's Hygiene and Motivating Factors



McClelland's Need Theory

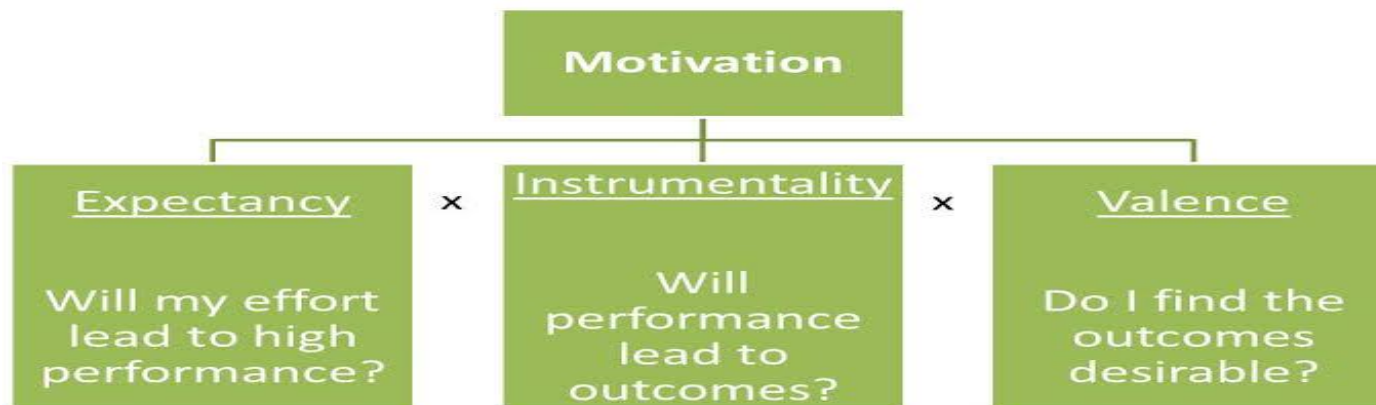
- McClelland affirms that we all have three motivating drivers, and it does not depend on our gender or age. One of these drives will be dominant in our behaviour. The dominant drive depends on our life experiences. **The three motivators are:**
- **Achievement:** a need to accomplish and demonstrate own competence People with a high need for achievement prefer tasks that provide for personal responsibility and results based on their own efforts. They also prefer quick acknowledgement of their progress.

Affiliation: a need for love, belonging and social acceptance People with a high need for affiliation are motivated by being liked and accepted by others. They tend to participate in social gatherings and may be uncomfortable with conflict.

Power: a need for control own work or the work of others People with a high need for power desire situations in which they exercise power and influence over others. They aspire for positions with status and authority and tend to be more concerned about their level of influence than about effective work performance.

Vroom's Expectancy Theory:

- One of the most widely accepted explanations of motivation is offered by Victor Vroom in his Expectancy Theory” It is a cognitive process theory of motivation. The theory is founded on the basic notions that people will be motivated to exert a high level of effort when they believe there are relationships between the effort they put forth, the performance they achieve, and the outcomes/ rewards they receive.
- The relationships between notions of effort, performance, and reward are depicted in Figure:

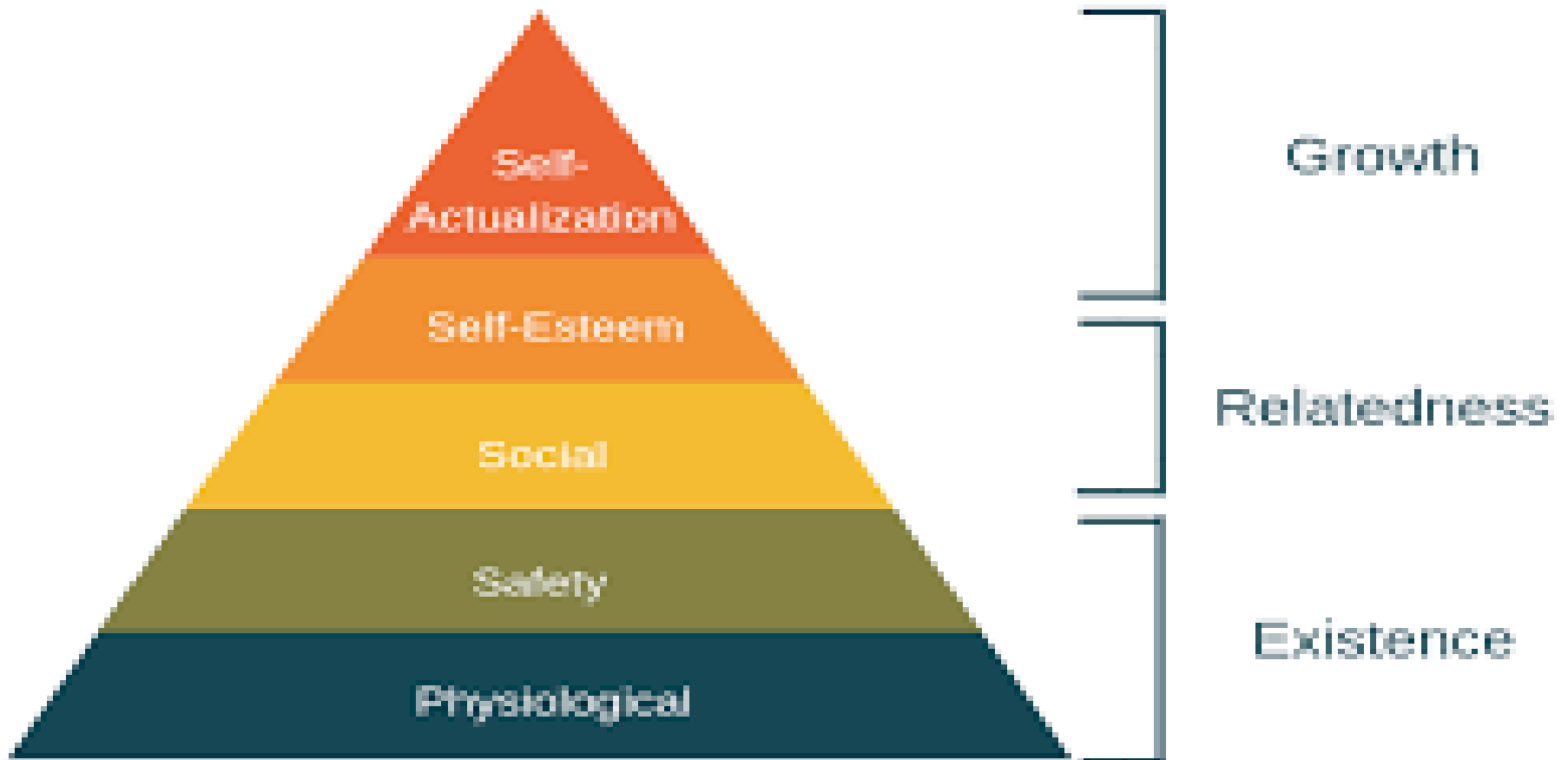


ERG motivation theory Alderfer

- **Clayton P. Alderfer's ERG** theory from 1969 condenses Maslow's five human needs into three categories: Existence, Relatedness and Growth.
- **Existence Needs**
- Include all material and physiological desires (e.g., food, water, air, clothing, safety, physical love and affection). Maslow's first two levels.
- **Relatedness Needs**
- Encompass social and external esteem; relationships with significant others like family, friends, co-workers and employers . This also means to be recognized and feel secure as part of a group or family. Maslow's third and fourth levels.
- **Growth Needs**
- Internal esteem and self actualization; these impel a person to make creative or productive effects on himself and the environment (e.g., to progress toward one's ideal self). Maslow's fourth and fifth levels. This includes desires to be creative and productive, and to complete meaningful tasks.

Cont..

ERG Theory of Motivation



Adam's Equity Theory

Definition: The Adam's Equity Theory posits that people maintain a fair relationship between the performance and rewards in comparison to others. In other words, an employee gets de-motivated by the job and his employer in case his inputs are more than the outputs.

- The Adam's Equity Theory was proposed by John Stacey Adams, and is based on the following assumptions:
- Individuals make contributions (inputs) for which they expect certain rewards (outcomes).
- To validate the exchange, an individual compares his input and outcomes with those of others and try to rectify the inequality.
- There are three types of exchange relationships that arise when an individual input/outcomes are compared with that of the other persons.
- **Overpaid Inequity:** When an individual perceives that his outcomes are more as compared to his inputs, in relation to others. The overpaid inequity can be expressed as:

Adam's Equity Theory

$$\frac{\text{Person's Outcome}}{\text{Person's Inputs}} > \frac{\text{Other's Outcome}}{\text{Other's Inputs}}$$

- **Underpaid Inequity:** When an individual perceives that his outcomes are less as compared to his inputs, in relation to others. The Underpaid Equity can be expressed as

$$\frac{\text{Person's Outcomes}}{\text{Person's Inputs}} < \frac{\text{Other's Outcomes}}{\text{Other's Inputs}}$$

- **Equity:** An individual perceives that his outcomes in relation to his inputs are equal to those of others. The equity can be expressed as

$$\frac{\text{Person's Outcomes}}{\text{Person's Inputs}} = \frac{\text{Other's Outcomes}}{\text{Other's Inputs}}$$

WAGE AND SALARY ADMINISTRATION

Wage and salary administration at the micro level job evaluation ,definition, traditional and new techniques; compensation structure, Indian practices; wage boards, pay commissions, compensation management in multinational organizations.

Wage and salary administration at the micro level

Compensation policies need to be evolved in every enterprise taking the following aspects into consideration, besides due regard to the provision of public policy ,job evaluation and collective bargaining etc:

- Attraction and Retention
- Internal Consistency
- External Parity
- Capacity to pay
- Pay for performance
- Labor costs and productivity
- Cost of living
- Merit and seniority progression
- Motivation

Divergent Perspectives of management and labor

- The perception of capacity to pay depends on what one is looking at. It is difficult to assess employer's real capacity to pay on the basis of balance sheets.

Management	Labor
Ability to pay (Balance sheet).	Ability to live and work (family budget surveys)
Cost effect	Price effect
Wage costs, not wage levels	Wage levels, not wage costs
Unit labor costs	How long to sweat it out for a loaf of Bread
Source of competitiveness – therefore reduce or cut costs.	Source of livelihood-therefore maximize wages/earnings and benefits.

Compensation Strategy at Micro level(Company)

- Industries and corporations develop their compensation models based on three building blocks.
 1. Compensation Objectives
 2. The strategic policies that form the foundation of compensation system
 3. The techniques of compensation

Compensation Objectives



Compensation systems are designed and managed to achieve certain objectives. These basic objectives include efficiency, equity, and compliance with laws and regulations.

The efficiency objective can be stated more specifically:

- Improving performance, quality, delighting customers
- Controlling labor costs

Strategic Compensation polices

- Every employer must address the policy decision shown on the left side of the pay model:
 1. Internal Consistency
 2. External Competitiveness
 3. Employee contributions
 4. Administration of the pay system

These policies from the building blocks ,the foundation on which pay system are built. These policies also serve as guidelines for managing pay in ways that accomplish the system's objectives.

Job Evaluation

Job evaluation is over 100 years old. Job evaluation is a systematic (quantitative and Qualitative) method ,for determining the relative worth of a job In comparison within and outside the organization.

Job evaluation consists of the following:

Job Analysis: The process of examining the content of a job ,breaking it down into it's task,functions,processes, operation and elements.

Job Description: Description of a job based on job analysis.

Job Specification: The statement of the content of job bas/joined on job description and job grading

Job Grading: Ranking of a job as a result of job analysis

Job classification: Grouping jobs according to their worth.

Job assessment/ Job Pricing: The ascription of a monetary value on the basis of job grading.

Objectives of Job Evaluation

The general purpose of job evaluation may include a number of more specific goals:

- To provide a basis for a simpler, more rational wage structure;
- To provide an agreed-upon means of classifying new or changed jobs;
- To provide a base for individual performance measurements;
- To reduce pay grievances by reducing their scope and providing an agreed-upon means of resolving disputes;
- To provide incentives for employees to strive for higher-level jobs;
- To provide information for wage negotiations;
- To provide data on job relationships for use in internal and external selection, personnel planning, career management, and other personnel functions.

Traditional systems/methods of job evaluation

Methods:

- The ranking system;
- The grading or job classification system;
- The point system; and
- The factor comparison system.

The first two systems are popularly known as the non-analytical or non-quantitative or summary systems, because they utilize non-quantitative methods of listing jobs in order of difficulty and are, therefore, simple. The last two systems are called the analytical or quantitative systems, because they use quantitative techniques in listing the jobs. They are more complex and are time consuming.

The ranking system method

Under this system, all jobs are arranged or ranked in the order of their importance from the simplest to the hardest, or in the reverse order, each successive job being higher or lower than the previous one in the sequence. It is not necessary to have job descriptions, although they may be useful.

- **Advantages:**

- It is simplest of all procedures
- It is less time-consuming
- It is far less expensive to put into effect than other systems, and requires little effort for maintenance.
- It requires less time, fewer forms and less work, unless it is carried to a detailed used by company.

The ranking system method

Disadvantages:

- As there is no standard for an analysis of the whole job position, different bases of comparison between rates occur. The process is initially based on judgment and, therefore, tends to be influenced by a variety of personal biases.
- Specific job requirements (such as skill, effort and responsibility) are not normally analyzed separately. Often a rater's judgment is strongly influenced by present wage
- The system merely produces a job order and does not indicate to what extent one is more important than the one below it. It only gives us its rank or tells us that it is r or more difficult than another; but it does not indicate how much higher or more difficult.

Job Classification or Grading Method

- Under this system, a number of pre-determined grades or classifications are first established by a committee and then the various jobs are assigned within each grade or Grade descriptions are the result of the basic job information which is usually 'end from a job analysis.
- After formulating and studying job descriptions and job specifications, jobs are grouped into classes or grades which represent different pay levels ranging from low to high.
- Common tasks, responsibilities, knowledge and experience can identified by the process of job analysis. Certain jobs may then be grouped together a common grade or classification.
- General grade descriptions are written for each classification, and finally these are used as a standard for assigning all the other jobs particular pay scale.

Job Classification or Grading Method

- **Merits:**
- This method is simple to operate and understand, for it does not take much time or require technical help.
- The use of fully described job classes meets the need for employing systematic criteria in ordering jobs to their importance. Since many workers think of jobs in, or related to, clusters or groups, this method makes it easier for them to understand rankings.
- If an organization consists of 500 people holding to different jobs, the jobs might be broken up into perhaps 5 classes, arranged in order of importance from high to low, and described class by class. This class description broadly reflects level of education, mental skill, profit impact or some combination of these.
- The grouping of jobs into classifications makes pay determination problems administratively easier to handle. Pay grades are determined for, and assigned to, all the job classification.
- It is used in important government services and operates efficiently; but it is rarely used in an industry.

Job Classification or Grading Method

- **This system suffers from the following defects:**
- Although it represents an advance in accuracy over the ranking method, it still leaves much to be desired because personal evaluations by executives (unskilled in such work) establish the major classes, and determine into which classes each job should be placed.
- Since no detailed analysis of a job is done, the judgement in respect of a whole range of jobs may produce an incorrect classification..
- It is relatively difficult to write a grade description. The system becomes difficult to operate as the number of jobs increases.
- It is difficult to know how much of a job's rank is influenced by the man on the job.
- The system is rather rigid and unsuitable for a large organisation or for very varied work

The Factor Comparison Method

- Under this system, jobs are evaluated by means of standard yardstick of value. It entails deciding which jobs have more of certain condensable factors than others.
- **Usually five factors are used:**
 - Mental requirements,
 - Physical requirements;
 - Skill requirements;
 - Responsibility and
 - Working conditions.

Merits:

- This system enjoys the following benefits:
- It is a systematic, quantifiable method for which detailed step by step instructions are available.
- Jobs are compared to other jobs to determine a relative value.
- It is a fairly easy system to explain to employees.
- There are no limits to the value which may be assigned to each factor.
- The plan does not require a translation from points to money. It involves a comparative process wherein jobs are priced against other jobs rather than against some established numerical scale.

Demerits:

- It is costly to install, and somewhat difficult to operate for anyone who is not acquainted with the general nature of job evaluation techniques.
- Wage levels change from time to time, and their minor inconsistencies may be adjusted to bring all the jobs into alignment. Jobs in which discrepancies are too wide are discarded as key jobs.
- Money rates, when used as a basis of rating, tend to influence the actual rate more than the abstract point.
- The system is complex and cannot be easily explained to, and understood by, every day non-supervisory organizational employee.

Definition: Pay Survey: A pay survey or a salary survey is typically conducted to gauge the organization's compensation levels with respect to the external environment. This helps in clearly defining the specific pay for each job. Firstly a benchmark job is identified, the pay scale of the organization is positioned, and the relative worth of all the other jobs are established with respect to the benchmark job

- One of the major issues in the area of labor market relates to the question of wages. In most industrialized countries the world over, labor market surveys of different sorts provide the basis for rational and realistic decisions on pay and benefits.
- Pay survey system is costly ,complex, and time consuming.

Why conduct a survey ?

- A good place to start in developing a survey is to answer these two questions:
 - 1) Is it necessary to conduct a survey?
 - 2) If so ,why?

Some of the factors discussed next will help provide the answers.

- Hiring and retaining Competent employees
- Recognizing Pay trends in the market place
- Defending pay practices in a court of law

Pay Surveys- data collection Techniques

After making the decision to perform a survey, the next step is to decide how to collect the survey data.

- Telephone
- Mailed questionnaire
- Online
- Face-to-face interview
- Conference

Type of Pay surveys

- External equity is the comparison of both intra and inter-industry pay rates. Most frequent the payer says that, they are paying as per the on-going rates.
- There are two main types of pay surveys i.e.,
 - Informal
 - External

Informal surveys: These are conducted in an informal way and can vary from personal contacts to specific arrangements for exchanging information with a number of local companies ,or with companies in a particular industry, as even with a wide cross section of firms.

Type of Pay surveys

- **External Survey Method:** whether the pay survey is commissioned through a consultant or by the enterprise itself, the approach is the same.
- There are three methods of wage survey
 1. **Job Title-** information gets the pay details for similar job titles in other companies.
 2. **Job Description** : Comparison is made on the basis of the job description.
 3. **Job Evaluation** : the descriptions are collected for the jobs selected for wage survey in other industries.

Pay levels

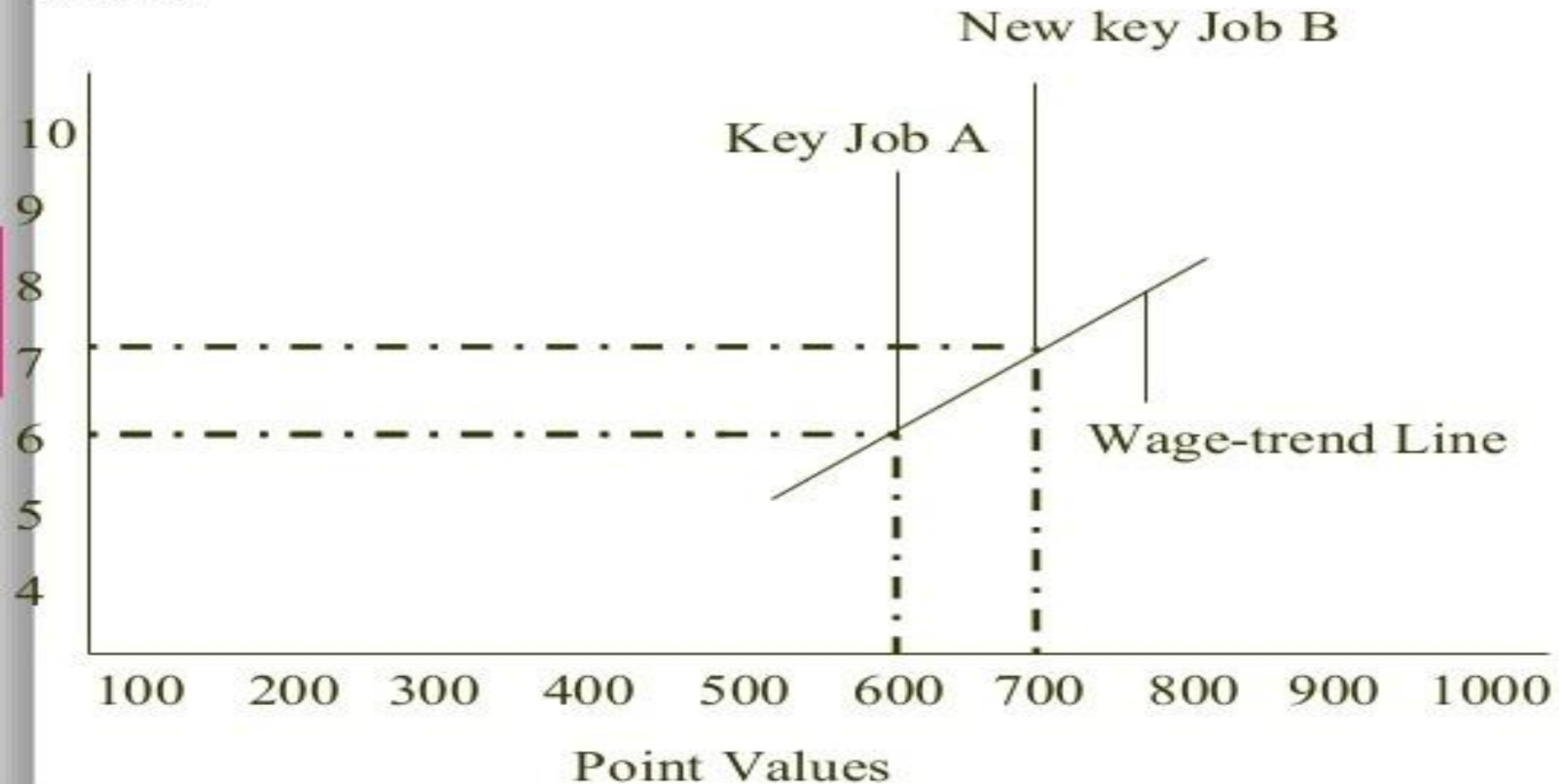
- The appropriate pay levels for any job reflects its worth.
- A job 's relative worth is determined by its ranking through the job evaluation process and by what the labor market pays for a similar job.
- To set the right pay level ,the internal rankings and the survey wage rates are combined through the use of a graph called a Scatter gram.
- The vertical axis is pay rates. If the point system is used ,the horizontal axis is for point.
- The scatter gram is created by plotting the total points and wage levels for all key jobs.

Pay levels

- **The development of a wage-trend line:** Each drop represents the intersection of the point value and the market-determined wage rate for a particular job .
- Example, Key job A is worth 400 points and is compensated Rs.17 an hour
- Though the dots that represent key jobs, a wage-trend line is drawn as close to as many points as possible, using a statistical technique called the least squares method.
- It relates point values (internal worth) to wage /pay rates in the labor market (external worth).
- The wage-trend line then helps in determining the wage rates for non-key jobs.

Pay levels

The Development of a wage trend-line



The compensation structure

- An employer with 3,000 workers and 400 individual jobs would present the wage and salary analyst with complex problems. The existence of 410 separate wage rates would be meaningful because the differences between each job might be only a few rupees.
- Compensation analysts find it more convenient to lump jobs together into job classes.
- In the job grade approach, jobs are already grouped into predetermined categories. With other methods, the grouping is done by creating job grades based on the previous ranking pay, or points.
- In the point system, for example, classifications are based on point ranges: 0 to 100, 101 to 150, 150 to 200 and so on.

Compensation Structure-Indian Practices

- A sound compensation structure must be based on Job Evaluation in order to establish fairer differentials in payment depending upon differences in job contents.
- Besides the basic factors provided by job –evaluation ,job-description and prevailing rate, there are some other factors that are taken into consideration for determining wage structures:
 - Organization's Capability to pay
 - Supply and Demand for labor
 - Prevailing Market rates
 - Cost of living
 - Productivity

Compensation Structure-Indian Practices

- Trade union bargaining power
- Job requirements
- Products Ranges-present and potential
- Requirements of technology
- Psychology and sociological factors

Salary structures

- Salary structure is the details of the salary being offered, in terms of the breakup of the different components constituting the compensation. Any change(s) to the salary structure i.e. among the elements, can have a major impact on what the employee does, such as the kind of tax exemptions claimed.
- Salary structure is a very important information which determines the in hand pay, **gross salary, net salary**, allowances etc. All these variables are paid to the employee as a part of his/her **compensation and benefits**. If an employee does not have details of the components, he/she can not calculate the in hand as well as savings parts like Employee Provident Fund.

Salary structure- Components

The usual components of salary structure include:

- **Basic Salary:** It is the taxable base income and generally not more than 40% of CTC. Basic salary forms the basis of salary structure many a times. Most of the components may be defined as percentage of basic salary.
- **House Rent Allowance:** The HRA constitutes 40 to 50% of the basic salary.
- **Special Allowances:** Makes up for the remainder part of the salary, mostly smaller than the basic salary and completely taxable.
- **Leave Travel Allowance:** The non- taxable amount paid by the employer to the employee for vacation/trips with family within India.

Salary structure- Components

- **Gratuity:** It is basically a lump sum amount paid by the employer when the employee resigns from the organization or retires.
- **Provident Fund:** Fund collected during emergency or old age. 12% of the basic salary is automatically deducted and goes to the employee provident fund.
- **Medical Allowance:** The employer pays the employee for the medical expenditures incurred. It is tax free up to Rs.15,000.
- **Bonus:** Taxable part of the CTC, usually a once a year lump sum amount, given to the employee based on the individual's as well as the organizational performance for the year.
- **Employee Stock Options:** ESOPS are Free/discounted shares given by the company to the employees. Done to primarily increase employee retention.

Salary structure- Components

Global Information Systems Technology Pvt Ltd

Name			
Designation			
Location			
Date of Joining			
Salary Break-up			
Cost to Company	10,00,000.00		
Component	Per Annum	Per Month	Taxable/Non Taxable
Basic	4,50,000.00	37,500.00	Tax
HRA	2,25,000.00	18,750.00	Tax
Medical	15,000.00	1,250.00	Non Tax
Special Allow	1,20,000.00	10,000.00	Tax
Telephon Reim.	36,000.00	3,000.00	
Conveyance Reim	75,000.00	6,250.00	Non Tax
Ex-Gratia	25,000.00	-	Paid Annually / Tax
PF Employer	54,000.00	-	
Total	10,00,000.00	76,750.00	
ESI Deduction		-	
PF Employee	54,000.00	4,500.00	
Labor Welfare Fund	60.00	5.00	
Net In-Hand Salary	72,245.00		

Designing the salary structure

Step 1 : Establish by market rate surveys and studies of existing structures and differentials of the most senior and most junior jobs to be covered by the structure.

Step 2 : Draw up salary structure between the upper and lower limits, as established in in step 1

Step 3 : Conduct a job evaluation exercise ,preferably by means of simple-scheme ranking scheme, although this could be refined by using paired comparisons.

Step 4 : Obtain marker rate data, bearing in mind that there is likely to be a range of market rates rather than a precise figure.

Step 5 : Slot the jobs into the grade structures in accordance with the results of both the job evaluations and the market rate surveys.

Wage Boards

Meaning of Wage Board:

- Wage board is a triplicate body, having representation of employers and labour besides, independent members. The representatives of the former two interests are nominated by their central organizations; others are nominated by the government. It is an important machinery of state regulation of wages.

They have to

- Determine the category of workers to be brought under wage fixation.
- Work out the wage structure based on principles of fair wages.
- Workout the principles of bonus

Growth and Development of Wage Boards:

- Industrial dispute act was enacted under which wage regarding disputes could be settled through adjudication.
- The parties were not satisfied with that, thus the idea of setting up a triplicate wage board was mooted and endorsed in first plan.
- The second plan determine wages through industrial wage boards.
- It consists of equal representative of employers and workers and an independent chairman for a acceptable decision.
- First wage board was set up in cotton textiles and sugar industries

Composition and Functions of Wage Board

Composition:

- It is a tripartite representing the interests of labour, management and the public.
- Labour and management representatives are maintained in equal numbers by the government.
- These board are chaired by government nominated members representing the public

Functions:

- Recommending the minimum wage.
- Differential cost of living compensation.
- Regional wage differentials.
- Gratuity.
- Hours of work, etc.

Pay Commissions

- The pay commission is an administrative system that the government of India set up in 1956 to determine the salaries of government employee.
- Since India independence, seven pay commission have been set up on a regular basis to review and make recommendation on the work and pay structure of all civil and military divisions of the government of India.
- Headquarter in Delhi, the commission is given 18 months from the date of its constitution to make its recommendations.

Previous Pay Commissions

First Pay Commission:

- First pay commission was established on January, 1946 and its submitted its report on May, 1947 to the Government of India.
- Government employees should be paid a living wages.
- Also recommended for payment of dearness allowances.

Second Pay Commission:

- The second pay commission was set up in August 1957, 10 years after independence and it gave its report after two years.
- The recommendations of the second pay commission had a financial impact of Rs. 396 million. The chairman of the second pay commission was **Jagannath Das**.
- It state that the pay structure and the working conditions of the government employee should be crafted in a way so as to ensure efficient functioning of the system by recruiting persons with a minimum qualification.

Third Pay Commission:

- The third pay commission set up in April 1970 gave its report in March 1973, it took almost 3 years to submit the report, and create proposals that cost the government Rs. 1.44 billion.
- The chairman was Raghbir Dayal.
- Appointment of temporary employees, equal payment should be made for equal work, externally competitive compensation to prevent misbalance with other employees.
- Dearness allowances should be treated as part and parcel of compensation structure.

Fourth Pay Commission:

Constituted in June 1983, its report was given in three phases within four year and the financial burden to the government was Rs.12.82 billion. This commission has been set up on 18th March 1987.

The chairman of fourth pay commission was P N Singhal. o It recommended that dearness allowance should be paid.

Previous Pay Commissions

Fifth Pay Commission:

- The Fifth Pay Commission was set up in 1994 at a cost of Rs. 17,000 crore. The chairman of fifth pay commission was Justice S. Ratnavel Pandian.
- 40% increase in pay with 30% reduction in manpower over a three year period, increasing contract employment and bringing about greater accountability of government employees.
- Also emphasizes on new means of recruitment and bringing innovation in training, performance appraisal, transfer policies and greater accountability.

Previous Pay Commissions

Sixth Pay Commission:

- In July 2006, the Cabinet approved setting up of the sixth pay commission. This commission has been set up under Justice B.N. Shri Krishna with a timeframe of 18 months.
- 40% increase in pay. o Group 'D' category employees and compensation of secretary level personnel has been recommended for substantial rise.
- The pay differential between junior employees and senior officer stands increased to 1:12.
- The government of India accepted and implemented the recommendation of it by the announcement made by Prime Minister Dr. Man Mohan Singh on 14th April 2008.

Certain recommendation were rejected.

- Three closed holiday for government employees, flexi work hours for women's and flexi weeks for disabled.

7th Pay Commission



- The government of India has initiated the process to constitute the 7th Pay Commission along with the finalization its terms of reference.
- On September 25, 2013 the finance minister P Chidambaram announced that the Prime minister Manmohan Singh has Approved the constitution of the 7th pay commission.
- Its recommendations are likely to be implemented with effect from January 1, 2016. o Justice A. K. Mathur will be heading the 7th Pay Commission, announcement of which was done on 4th February 2014.

Key Points Of 7 Th Pay Commission

- The commission has recommended a 16% hike in basic salary + increase in DA and allowances like HRA.
- The total increase will be 23.55% of the Gross salary (Basic + DA + Allowances).
- The minimum pay in govt. is recommended to be set at Rs. 18,000 per month.
- Maximum pay is recommended as Rs. 2,25,000 per month.
- Rs. 2,50,000 per month for Cabinet Secretary and others at the same level.
- The rate of annual increment retained at 3%.
- Short service commission officers will be allowed to exit the armed forces at any point in time between 7 to 10 years of service.
- Commission recommends abolishing 52 allowances, another 36 allowances subsumed in existing allowances or newly proposed allowances.

KEY POINTS OF 7 TH PAY COMMISSION

- The commission has proposed a status quo on the retirement age of central government employees. Retirement age for staff employees is 60 years.
- Total impact of are expected to entail an increase of 0.65% points in the ratio of expenditure on to GDP.
- Recommendations will impact 47 lakh serving govt. employees, 52 lakh pensioners, including defence personnel.
- One Rank One Pension proposed for civil government employees on line of OROP for armed forces.
- Ceiling of gratuity enhanced from Rs. 10 lakh to Rs. 20 lakh, ceiling on gratuity to be raised by 25% whenever DA rises by 50%.
- Military Service Pay (MSP) ,which is a compensation for the various aspects of military service, will be admissible to the defence forces personnel only.

Key Points Of 7 Th Pay Commission

- Financial impact of implementing recommendations will be Rs. 1.02 lakh crore-Rs. 73,650 crore to be borne by Central Budget and Rs. 28,450 crore by Railway Budget.
- The 16% hike in basic salary is much lower than the 35% hike employees got in the sixth Pay Commission.

DEMANDS OF THIS PAY COMMISSION:

- Pay scales are calculated on the basis of pay drawn in pay band + GP+ 100% DA by employees as on 01/01/2014.
- 7 th CPC report should be implemented 01/01/2014. In future five year wage revision.
- Scrap New Pension Scheme and cover all employee under Old Pension and Family Pension Scheme.
- Ratio of minimum and maximum wage should be 1:12.5.
- General formula for determination of pay scale based on minimum living wage demanded for MTS is pay in PB + GP

Key Points Of 7 Th Pay Commission

- Annual rate of increment @ 3% of the pay.
- Fixation of pay on promotion = minimum two increments.
- Dearness Allowances on the basis of 12 monthly average of CPI, Payment on 1st Jan and 1st July every year.
- Overtime Allowances on the basis of total Pay + DA+ Full TA. Liabilities of all Government dues of persons died in harness be waived.
- Transfer Policy Group 'C and D' Staff should not be transferred. Do not should issue clear cut guideline as per 5 th CPC recommendation.
- Govt should form a Transfer Policy in each department for transferring on Mutual basis on promotion. Any order issued in violation of policy framed be cancelled by head of department on representation

- Global compensation managers two important compensation related area in which focuses. They must manage highly complex and turbulent local detail while concurrently building and maintaining a unified, strategic pattern of compensation policies, practices and values.
- First payment of the same pay scale for all the employees of a particular rank meets the norm of equity and simplifies the task of keeping track of disparate country by country compensation rates. But, it may create more problems than it solves.
- The cost of living may vary significantly from one country to another. For example, it is enormously more expensive to live in London than in New Delhi.

- The compensation policy should be consistent with the overall strategy, structure and business needs of the multi-national companies.
- The compensation policy must work to attract and retain staff in the areas where the multinational has the greatest needs and opportunities.
- The compensation policy must be competitive and recognize factors such as incentive for Foreign Service, tax equalization and reimbursement for reasonable costs.
- The compensation policy should facilitate the transfer of international employees in the most cost-effective manner for the firm
- The compensation policy should must give due consideration to equity and ease of administration

Key Components of an International Compensation

The international compensation is complex primarily because multi-nationals must cater to three categories of employees: Parent Country Nationals (PCN), Third Country Nationals (TCN), and Host Country Nationals (HCN).

Components:

- Base Salary
- Foreign Service Inducement or Hardship Premium
- *Allowances*
- Cost of living allowance:
- Housing allowance
- Home leave allowance
- Education allowances
- Relocation allowances
- Spouse Assistance

Approaches to International Compensation



- Two main approaches adopted by the MNCs in fixing compensation for their employees are:
- Going Rate Approach
- Balance sheet Approach

Going Rate Approach :In this approach salary has been fixed based on the local market rates. The local market rates are decided based on survey conducted in comparing compensation of local nationals (Host country Nationals (HCNs), expatriates of the same nationality and expatriates of all nationalities. The selected survey comparison the base pay and benefits offered.

Advantages:

- Compensation paid with equality with local nationals
- This method of compensation is easy to calculate
- Compensation decided in identification with host country
- Equity is maintained amongst different country nationals

Approaches to International Compensation

Disadvantages

- Variation in compensation is exist between assignments for the same employee
- Variations between expatriates of the same nationality in different countries
- Due to this method of compensation re-entry problems will come in future.

Balance sheet Approach

- The balance sheet approach aims to develop a salary structure that equalizes purchasing power across countries so expatriates have the same standard of living in their foreign assignment as they had at home. There are three common methods implementing the balance sheet compensation plan.

- **Host Based Method-** bases compensation on the prevailing pay scales in the locale of the foreign assignment, plus foreign-service premiums, extraordinary allowances, home- country benefits, and taxation compensation.
- ***Advantages***
- This method gives advantage in terms of equity between assignments and between expatriates of the same nationality
- This approach facilitates expatriate re-entry
- In this approach it is easy to communicate to employees
- ***Disadvantages***
- This approach of compensation can result in great disparities between the expatriates of different nationalities and between expatriates and local nationals
- This approach of compensation can be complex to administer

CONCEPTS OF EMPLOYEE BENEFITS

Incentives, fringe benefits; establishing a link with performance appraisal and compensation management. Performance linked compensation; benefits and services.

Concept of Employee Benefits

Incentives:

- According to Milton L. Rock, incentives are defined as ‘variable rewards granted according to variations in the achievement of specific results’.
- According to K. N. Subramaniam, ‘incentive is system of payment emphasizing the point of motivation, that is, the imparting of incentives to workers for higher production and productivity’.
- The National Commission of Labour defines incentive as follows: ‘wage incentives are extra financial motivation. They are designed to stimulate human effort by rewarding the person, over and above the time rated remuneration, for improvements in the present and targeted results’

Types of incentives

Incentives can be classified into three categories:

Financial incentives:

- Some extra cash is offered for extra efficiency. For example, profit sharing plan and group incentive plans.

Non-financial incentives:

- When rewards or prizes are provided by the organization to motivate the employees it is known as non-financial incentives.

Monetary and non-monetary incentives:

- Many times, employees are rewarded with monetary and non-monetary incentives that include promotion, seniority, recognition for merits, or even designation as permanent employee.

Advantages of incentive Plan

- Incentive plans motivate workers for higher efficiency and productivity.
- It can improve the work-flow and work methods.
- Incentive plans make employees hardworking and innovative.
- When employees are dedicated, supervision costs can be reduced.
- The National Commission on Labour says that under our conditions, wage incentives are the cheapest, quickest, and sure means of increasing productivity.
- Incentive plans help establish positive response in an organization.
- It helps workers improve their standard of living.
- The other benefits offered by incentive plans are reduced turnover, reduced absenteeism, and reduced lost time.

Disadvantages of Incentive Plan

- Incentive plans can lead to disputes among workers, since some earn more than others.
- Hunger for money among the workers forces them to overwork, which may affect their health.
- Some workers may involve in malpractices in order to earn more money.
- For enhanced incentives, they may sacrifice quality.
- It also leads to corruption by falsifying the production records.
- Incentive plans can create tensions among different personnel

Fringe Benefits

- Fringe benefits refers to the extra benefits provides to the employees in addition of normal compensation paid in terms of wages or salary. Many years ago these benefits and services were labelled " Fringe benefits" because these benefits were relatively insignificant or fringe components of the compensation. But now a days the situation is not the same. Fringe benefits are now a days a great motivator to the employees.
- **Features of Fringe Benefits:**
- They are supplementary forms of compensation.
- They are paid to all the employees (unlike incentives which are paid only to the extra ordinary performers) based on their membership in the organisation.
- These benefits may be statutory or voluntary. For example Provident funds are statutory but the transportation facility is voluntary

Need for Fringe benefits

- **Employee demand:** The employees now a days demand for fringe benefits rather than pay hikes because of reduction in tax burden on the employee's side and in view of galloping price index and cost of living.
- **Trade Unions demand:** Various trade union are competing with each other for getting more and more benefits for there members
- **Employer's Preference:** Employer may also wish to provide fringe benefits to the employees in a view of increasing productivity and motivating the employees.
- **As a social security:** Fringe benefits are also provided to the employees to protect them from certain risk such as contingencies of life like accidents and occupational diseases.
- **To improve human relations:** Improving human relation is a process of addressing the needs of the employees and satisfying them. Fringe benefit satiates employee's economical, social and psychological needs.

Objectives of Fringe benefits



- To create and improve sound industrial relations.
- To motivate the employees.
- To protect health of the employees and safety to the employees against threats such as accidents and occupational diseases.
- To promote employee welfare.
- To provide security against social risks such as old age benefits and maternity benefits.
- To create a sense of belongingness among the employee and to retain them. Fringe benefits are also known as **golden handcuffs**.
- To meet the various legislative requirements relating to fringe benefits.

Types of Fringe Benefits

- Payment for Time not worked:
 - Hours of Work
 - Paid Holidays
 - Shift Premium
 - Holiday pay
 - Paid Vacation
- Employee Security
- Retrenchment compensation
- Lay off compensation
- Safety and Healthy
- Workmen Compensation
- Health benefits
 - Sickness benefit
 - Medical Benefit
 - Temporary disabled benefit
 - Maternity Benefit

The fringe benefits offered by various organisation in India may be following types



- **Hours of Work** – As per Section 15 of the Factories Act, 1948, that no adult worker shall be allowed to work in a Factory for more than 48 hours in a week and more than 9 hours in a day.
- **Rest Period** – Tea break or coffee break are allowed during the day to allow the worker to rest.
- **Holidays** – As per the Factories Act, 1948, an adult worker shall have weekly paid holiday in general on Sunday or any other day in a week.
- **Shift Premium** – Shift premium to the workers who are required to work during second and third shifts in a day.
- **Paid Vacation** – Workers are eligible for paid vacation from 15 days to 30 days in a calendar year.

The fringe benefits offered by various organisation in India may be following types



- **Holidays Pay** – Independence Day, Republic Day, Gandhi Jayanti, Deepawali, Dusshera, Holi, Id and Christmas are gazetted paid holidays. Generally organizations after double the normal rate of the salary if the workers worked during these holidays.
- **Sick Leave** – The employees are entitled to get full day when he is out of work due to sick for a 10 days in a calendar year.
- **Maternity Benefit** – The Women are entitled to maternity leave for 12 weeks (six weeks before the delivery and six weeks after the delivery) in addition to cash benefit of 75 paise per day or twice of sickness benefit, whichever is higher.
- **Disable Benefit** – The employees are entitled to get the benefit under Workmen's Compensation Act 1923, if he is disabled temporarily or permanently (partial or total) during employment injury or occupational diseases.

The fringe benefits offered by various organisation in Ir may be following types



- **Canteens** – Fully or partially subsidized food and refreshments is provided to the employees during working hours.
- **Transport Facilities** – Many organizations are providing conveyance facilities to employees from their residence to work place and back.
- **Housing Facilities** – The big houses are providing company owners housing or subsidized housing facilities to their employees.
- **Purchasing Facilities** – Many of the large organizations has set up the consumer stores in the employee's colonies and supply all essential goods and services at fair prices.
- **Educational Service** – Educational services include tuition fees refunds, scholarships, setting up of schools and colleges, libraries and many more. These facilities not only provide to the employees of the organisation but also to their family members

The fringe benefits offered by various organisation in India may be following types



- **Medical Facilities** – These include clinics, hospitals and counselling services. It reduces tiredness, absenteeism and employee turnover.
- **Financial and Legal Aid** – Many organizations are provided loan funds, income-tax service, assistance in legal matters and group insurance plans to their employees.
- **Recreational Facilities** – Organisations provide social clubs, arrange parties and picnics, reading rooms, libraries and entertainment programmes for their employees.
- **Travel Concessions** – Many organizations are providing leave and travel concessions one time in a financial year to their employees.
- **Miscellaneous** – Many organisations are providing other benefits to their employees such as Dipawali gifts, birthday gifts, pooja gifts and productivity or performance rewards, etc.

Performance Linked compensation

What is Performance?

“ Performance as behavior –the way in which organizations, teams, and individuals get work done.” – Oxford English Dictionary

- Performance Appraisal is the systematic evaluation of the performance of employees and to understand the abilities of a person for further growth and development. Performance appraisal is generally done in systematic ways which are as follows:
- The supervisors measure the pay of employees and compare it with targets and plans.
- The supervisor analyses the factors behind work performances of employees.
- The employers are in position to guide the employees for a better performance

Objectives of Performance Appraisal

- To maintain records in order to determine compensation packages, wage structure, salaries raises, etc.
- To identify the strengths and weaknesses of employees to place right men on right job.
- To maintain and assess the potential present in a person for further growth and development.
- To provide a feedback to employees regarding their performance and related status.
- To provide a feedback to employees regarding their performance and related status.
- It serves as a basis for influencing working habits of the employees.
- To review and retain the promotional and other training programmes.

Advantages of Performance Appraisal

It is said that performance appraisal is an investment for the company which can be justified by following advantages:

- Promotion
- Compensation
- Employees Development
- Selection Validation
- Communication
- Motivation

Definition:

- Performance management is an ongoing process of communication between a supervisor and an employee that occurs throughout the year, in support of accomplishing the strategic objectives of the organization. The communication process includes clarifying expectations, setting objectives, identifying goals, providing feedback, and reviewing results.

Performance management system includes the following actions



- Developing clear job descriptions and employee performance plans which includes the key result areas (KRA') and performance indicators.
- Selection of right set of people by implementing an appropriate selection process.
- Negotiating requirements and performance standards for measuring the outcome and overall productivity against the predefined benchmarks.
- Providing continuous coaching and feedback during the period of delivery of performance.
- Identifying the training and development needs by measuring the outcomes achieved against the set standards and implementing effective development programs for improvement.
- Holding quarterly performance development discussions and evaluating employee performance on the basis of performance plans.

Objectives of performance management

- To enable the employees towards achievement of superior standards of work performance.
- Identifying the barriers to effective performance and resolving those barriers through constant monitoring, coaching and development interventions.
- Creating a basis for several administrative decisions strategic planning, succession planning, promotions and performance based payment.
- Promoting personal growth and advancement in the career of the employees by helping them in acquiring the desired knowledge and skills.

Variable Pay

- Pay for performance is also known as variable performance linked pay or contingent pay. Variable performance is the pay is a financially measurable reward paid to an individual based on his overall performance.
- Variable pay is compensation linked to individual, team, and organizational performance.
- The philosophical foundation of variable pay rests on several basic assumptions:
 - Some jobs contribute more to organizational success than others.
 - Some people perform better than others
 - Employees who perform better should receive more compensation
 - A portion of some employee's total compensation should be contingent on performance.

Types of variable pay

Individual	Group /Team	Organization-Wide
<ul style="list-style-type: none"> • Piece rate • Sales commissions • Bonuses • Special recognitions (trips, merchandise) • Safety awards • Attendance bonuses 	<ul style="list-style-type: none"> • Gain sharing • Quality improvement • Cost reduction 	<ul style="list-style-type: none"> • Profit sharing • Employee stock options • Executive stock options • Differed Compensation

Factors affecting successful variable pay plans

- Most employees adopt variable pay incentives in order to (1) link individual performance to business goals (2) reward superior performance.
- There are a number of different elements that can affect the success of a variable pay plan:-
 - Sufficient financial resources available
 - Consistent with organization culture
 - Clearly separated from base pay
 - Clearly communicated
 - Performance results linked to payouts
 - Measurable performance
 - Results in desired behaviors
 - Linked to organizational objectives

- It encourages teamwork
- It provides open lines of communication
- It's all about involvement
- It shows the company is committed to positive change
- It aligns rewards with key business priorities
- It links compensation with profitability
- It provides job stability

Catalyst to variable pay

- Identify corporative objectives
- Ascertain employee readiness
- Communicate scheme details
- Invest in implementation
- Monitor & review scheme

Fixed Pay	Variable Pay
<ul style="list-style-type: none"> • Day to day responsibilities and ongoing performance • Long term contribution • Skill/competency development and work style 	<ul style="list-style-type: none"> • Special objectives and results • Must be re-earned each year • “Above and Beyond” expected contributions

Forms and types of performance linked reward scheme/contingent pay



- There are several types of performance linked reward schemes. Generally, these are designed to share with or distribute among employees as individuals, groups or collectivity, productivity gains, profit improvement, or the financial gains of the organizational performance. Such schemes fall into the following broad categories:
 - Schemes based on individual or small group performance including piece rates, traditional merit pay, and sales commissions.
 - Incentive schemes that relate pay to profit on the basis of pre-determined formula.
 - Productivity bargaining
 - Long term incentives, Employees stock option plans-ESOP
 - Competency based pay

Main type of contingent pay are

1. Merit pay or Individual performance related pay
2. Skill based pay
3. Shop floor incentive and bonus schemes
4. Team rewards
5. Team /organization based schemes
 - Annual bonus
 - Gain sharing
 - Goal sharing
 - Profit sharing
 - Economic value added /market value added
 - share options/Stock options /EVA
6. Other cash payment

Merit pay or Individual Performance related pay

- A common method which has long been in existence is pay increase or bonus payment on the basis of performance rating.
- The merit incentive pay scheme provides another method of recognizing and rewarding differential performance. This method could be suitable for office staff. The scheme essentially involves the following steps:
 - The determination of result –oriented merit rating procedures
 - The identification of job factors and their relative importance
 - The formulation of a scale of reward
 - The communication of the basis of monetary reward.

Benefits and Services

- Benefits and services are indirect compensation because they are usually extended as condition of employment or with intention of inducement or motivation and are not directly related to performance.
- Objectives of Employee benefits:
 - To increase the commitment of employees to the organization
 - To demonstrate that the company cares for the needs of its employees.
 - To ensure that an attractive and competitive total remuneration package is provided which both attracts and retains high-quality staff
 - To provide a tax-efficient method of remuneration which reduces tax liabilities compared with those related to equivalent cash payments.

Classification of Employee Benefits

- Employee benefits can be further classified under these seven major groups:
 1. Disability income continuation
 2. Loss-of-job income continuation
 3. Deferred income
 4. Spouse or family income continuation
 5. Health and accident protection
 6. Property and liability protection
 7. A special group of benefits and services called perquisites.

Factors influencing choice of benefit package

- **Employer factors**
 1. Relationship to total compensation
 2. Costs relative to benefits
 3. Competitors offerings
 4. Legal Requirements
 5. Role of benefits in
 1. Attraction
 2. Retention
 3. Motivation

Employees factors

1. Equity (internal+ External) what others of same /similar status receive
2. Personal needs as linked to
 - Age
 - Sex
 - Marital status
 - No. of Dependents etc.

Statutory welfare provisions in India

- These are amenities that are necessary to be provided to the employees under different labor legislations.
 - The Factories Act – 1948
 - The Mines Act, 1952
 - The plantation labor Act, 1951
 - The contract labor (regulation & abolition) Act,1970

Social Security : Concept and Evolution

- The concept of social security is essentially related to the high ideals of human dignity and social justice. It is in a way ,one of the pillars of the welfare state.
- The workmen's Compensation Act,1923
- The employee's State Insurance Act,1948
- The employee's Provident Funds and Miscellaneous Act,1952
- The employee's deposit –linked insured scheme,1976
- The maternity benefit Act, 1961
- The Payment of Gratuity Act, 1972

Voluntary welfare Amenities in India

- There are employers who have taken the lead and provided a wide variety of welfare amenities to their employees.
 - Educational Facilities
 - Housing facilities
 - Transport facilities
 - Recreational facilities
 - Consumer cooperative societies.

Flexible benefits

- Flexible system of benefits and services are gaining popularity in multinational companies.

Advantages:

- Employees choose packages that best satisfy their unique needs
- Flexible benefits help firms meet the changing needs of a changing workforce.
- Increased involvement of employees and families improves understanding of benefits.

Disadvantages:

- Employees make bad choices and find themselves not covered for predictable emergencies.
- Administrative burdens and expenses increase.
- Adverse selection-employees pick only benefits they will use. The subsequent high benefit utilization increases its cost.

PERFROMACNE BASED PAY

Managerial remuneration pays commission; Performance based pay system incentives, executives' compensation plan and packages

Managerial Remuneration

- **Elements of managerial remuneration:**

For the purpose of managerial compensation ,we have considered those individuals, who are in the high managerial positions, like, presidents, Vice-presidents, Directors and General managers,etc.

The managerial remuneration of such positions traditionally comprises of four elements. They are

Salary

Bonus

Long-term Incentive

Perquisites.

- Managerial remuneration is the salary paid to the managers of the company on the Top management level.
- Example of one such post is Director of the company.
- The managerial remuneration is operated under Companies Act, 1956.
- To clear up the concept the Act also defines who is a manager and who is a director of the company

Calculation of Managerial Remuneration

- The remuneration can be broken down into – Salaries and Allowances
- Monetary values of various prerequisites – Contribution to provident superannuation, gratuity funds
- Commission
- Benefits
- Any expenditure incurred by the company in providing rent free accommodation, or any other benefit or annuity.
 - Other benefit or concessional benefit
 - Any expenditure in respect of any obligation paid.
 - Any expenditure incurred by company in effecting any insurance on the life of the managerial.

Benefits For Executives

- Retirement benefits
- Health insurance
- Vacations

- Health plans with no payments by executive and no limitations are popular among small and middle sized business
- Trust may be designed to help executives to deal with estate issues
- Deferred compensation offers another possible means of helping executives to overcome tax liabilities

Unique Feature of Managerial Remuneration

- Managerial remuneration cannot be compared to wage & salary schemes meant for non-managerial employees
- Managers are denied the privilege of having unions and collective bargaining
- Their competence and contribution are the strengths for determining their pay package
- Secrecy is maintained in respect of managerial remuneration.
- No two managers in private sectors, in same grade receive same pay
- Compensation and reward depends upon such factors as competence , length of service , contributions, and loyalty to the company

Unique Feature of Managerial Remuneration

- Managerial pay is based organizational performance
- ☐ Manager's own performance directly reflected in corporate performance
- ☐ Managers compensation is subjected to statutory sealing
- ☐ Monthly salary may vary from Rs 40,000 to 100000 subject to limit fixed per annum
- ☐ Exorbitant amounts are paid to executives in some organizations.
- ☐ annual salary of CEOs' range from Rs 50 lakhs to few crore

Methodologies –cum-strategies for managerial Compensation



- Salary/basic salary/consolidated salary continues to remain a major component of compensation
- Performance determines pay and future revisions for individual managers
- Grade wise flat allowances are consolidated , except where tax exemption benefits are available .
- Allowances linked to basic salary as a percentage or by slabs and those increase at discretion
- Reimbursement of expenses incurred for company's work are paid to executives
- Expenses is not considered as part of compensation
- Annual payments, such as, bonus, commission and leave travel concession may be paid to executives
- Some tax relief is applied for the later

Benefits

- Most of the companies are now moving away from traditional compensation package: basics, DA, HRA etc. to cost to company basis
- Companies are talking in terms of gross salary and asking managers to do their own tax planning
- Some companies give executives freedom to design package keeping in view of total cost
- Flexibility is given to executives to choose their lifestyles within certain parameters
- Performance linked payments , bonus, generous increments and merit pay are given
- Trend is to move away from seniority and hierarchy system and attach value to performers
- Concept of star performers are gaining ground
- Lifestyle perks (good accommodation, club membership, liberal furnishing, holiday abroad with family) continues to be the practice

New Way of Pay

- Organizations are increasingly linking their variable pay plans to individuals, teams and organizational performance
- Individual/team performance based profit sharing, productivity based individual/team profit sharing, productivity based incentives, stock options and ownership and other customized schemes
- Organizations with strategically aligned variable compensation have experienced a positive impact on individual as well as organizational performance
- Companies have leveraged the variable pay to aggressively position their top performer at the top end of the market
- Companies are experimenting with “cost to company” concept, with focus on high compensation structure
- New & emerging sectors like retail, telecom, aviation & IT/ITES with younger employees adopting simplified pay structures
- With flexible pay structure employee can choose from defined items of pay and optimize his own tax planning

- Executive compensation in India built around three important factors:
- Job complexity
- Employers ability to pay.
- Executive human capital

EXECUTIVE COMPENSATION OF ORACLE

- Basic salary
- Conveyance
- Special allowances
- Gratuity
- Provident fund
- HRA (House Rent Allowances)
- Travelling Allowances
- Medical claim
- Bank facility

IBM EXECUTIVE COMPENSATION PACKAGE

- Two main components of executive compensation package
 - Base salary and Cash Incentive/Bonus
 - Long-term Incentive Compensation
- Three main elements drive compensation package
 - Competitive marketplace
 - Complexity of leading IBM &
 - Gerstner performance
- Pay for performance not loyalty or tenure Differentiate pay based on the marketplace
- Differentiate increases based on individual performance pay in marketplace
- Differentiate bonuses based on business performance and individual contributions
- Differentiate stock-option awards based on critical skills of individual and risk of loss to competition

COMPENSATION STRATEGIES

Recognizing the worth and value of employees knowledge and skill, rewarding employees contributions and results achieved, supporting team work, compensation package according to current lifestyle and new thinking in the new millennium.

Here are five ways to ensure your most valued assets are hitting the mark and feeling appreciated for it.

1. **Measuring initiative**

- It's no secret that employees who take initiative demonstrate greater productivity and are more likely to take risks that pay off.
- That's why it's critical to distinguish your most motivated workers from the others. One option is to rank employees in terms of their original ideas, innovation and engagement with wider industry trends.
- This exercise will offer you a compelling snapshot of your high-value performers, particular when performance reviews come round.

2. Factoring in emotional expenses:

- Sometimes, your star achievers are also the most likely to bring the rest of your team down.
- Consider the case of the talented web developer with the habit of unfairly criticising teammates or a micromanaging finance manager who has a knack for lowering staff morale.
- Emotionally expensive team members can drain enthusiasm, passion and productivity – factors with consequences for company culture and business growth.
- Emotional expenses are an important quotient for calculating and knowing how to value your employees – failing to address them can be a costly mistake.

3. Cost effectiveness:

- Although it's vital to consider the impact of an employee's personality and attitude, it's equally important to think about whether your staff member delivers on the sum they are paid. Does your favourite hire's skill set match their salary or could they easily be replaced?
- Sometimes, two lower-paid staff members might promise more versatility than a high-flyer who demands an above-industry pay cheque.
- While you shouldn't devalue skills and experience, your employees' cost effectiveness should always line up with your business needs

4. Decisions:

- Sharp decision making is an essential factor in business success.
- However, many employees fail to take the lead when it comes to making the kind of professional choices that will see your company get ahead.
- Typically, high-value employees can determine the pros and cons of two competing choices and take the path that results in the highest return.
- They're also capable of making choices that compromise their likeability in order to serve your organisation in the long term.

5. Loyalty rewards

- Ultimately, character is a powerful indicator of a good employee – recognising integrity is an astute business move
- Loyal employees put commitment to the organisation ahead of their personal agendas and are less likely to flirt with the competition or jump ship.
- Disloyal staff members can poison morale and spell disaster for employee retention and growth.
- Investing in loyal staff members is always a smarter alternative than valuing shiny new hires that may just be a flash in the pan.

- **Nine great ways to show your employees some appreciation:**
 - Do little things that make a big difference. ...
 - Create new opportunities. ...
 - Make it personal and specific. ...
 - Show you trust them. ...
 - Make internal improvements. ...
 - Make time to connect. ...
 - Make mentorship part of the culture. ...
 - Give them ownership

Strong interpersonal skills :

- Interpersonal skills are a key factor in how successful the team can be.
- However, these skills are dependent on each individual on your team.
- Even if someone is shy or quiet, it is possible for them to have strong interpersonal skills.
- By definition, interpersonal skills are anything “used by a person to interact with others properly.
- It’s these skills that allow employees to be more productive while playing off of social expectations and customs.

Open communication :

- Directly tied to a team's overall social skills, open communication is a key factor in creating a collaborative environment.
- Under no circumstances should an employee feel uncomfortable asking for help or advice.
- Promote questions and allow the entire team to pitch in and help find a solution.
- Some managers have found that the best way to foster teamwork is to start with themselves.
- Be open about your personal struggles and ask others for advice. Once you get a conversation started, you can learn more about what would make your team more efficient.

Helpful feedback:

- One of the most important parts of collaboration is feedback. How comfortable your teammates are with each other is a big factor in the type of feedback they give.
- Sometimes, all that's needed is "this is a good idea, keep going!" In other cases, feedback may be more complicated and need to point the entire project in a new direction to be successful.
- Both the person asking for feedback and the person giving their opinion must understand that constructive criticism is not a personal attack.
- If everyone is on the same page about effective feedback, the goal will always be to support each other.

Leadership :

- Although each department will have specific managers who lead the rest of the team, it's important that every teammate is comfortable with leadership.
- This is important because strong leadership skills allow team members to work together at every stage of the project. Together, they can brainstorm and understand what parts of the work will need additional manpower.

Accountability :

- Every manager has experienced a scenario when something went wrong in a project and no one wanted to take accountability for the error.
- If you want to have successful collaboration in the workplace, you'll need to promote personal accountability.

Commitment to success:

- Commitment to success is the final pillar that allows teams to collaborate well in the workplace.
- Even though every employee is interested in collecting their pay check, they should also be motivated by the quality of their work. They should enjoy seeing things from start to finish while making sure that customers are kept happy.
- If everyone on your team is strongly committed to success, you'll find that collaboration is easy to foster and that overall efficiency will improve.
- Thanking people for their hard work and rewarding great outcomes are some ways that managers can help people renew their commitment to the team.



Thank you