INSTITUE OF AERONAUTICAL ENGINEERING COLLEGE (AUTONOMUS)

POWERPOINT PRESENTATION

ON

COMPENSATION AND REWARD MANAGEMENT
IV SEMESTAR

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UNIT-I
INTRODUCTION TO COMPENSATION MANAGEMENT

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Compensation is a systematic approach to providing monetary value to employees in exchange for work performed. Compensation may achieve several purposes assisting in recruitment, job performance, and job satisfaction.

Compensation is a tool used by management for a variety of purposes to further the existence of the company. Compensation may be adjusted according the the business needs, goals, and available resources.

Compensation may be used to:

- ❖recruit and retain qualified employees.
- ❖increase or maintain morale/satisfaction.
- ❖reward and encourage peak performance.
- ❖achieve internal and external equity.
- ❖reduce turnover and encourage company loyalty.
- ❖modify (through negotiations) practices of unions.

The components of a compensation system include

•**Job Descriptions** A critical component of both compensation and selection systems, job descriptions define in writing the responsibilities, requirements, functions, duties, location, environment, conditions, and other aspects of jobs. Descriptions may be developed for jobs individually or for entire job families.

•**Job Analysis** he process of analyzing jobs from which job descriptions are developed. Job analysis techniques include the use of interviews, questionnaires, and observation.

•**Job Evaluation** system for comparing jobs for the purpose of determining appropriate compensation levels for individual jobs or job elements. There are four main techniques: Ranking Classification Factor Comparison and Point Method

•**Pay Structures** Useful for standardizing compensation practices. Most pay structures include several grades with each grade containing a minimum salary/wage and either step increments or grade range. Step increments are common with union positions where the pay for each job is pre-determined through collective bargaining.

•**Salary Surveys** Collections of salary and market data. May include average salaries, inflation indicators, cost of living indicators, salary budget averages. Companies may purchase results of surveys conducted by survey vendors or may conduct their own salary surveys. When purchasing the results of salary surveys conducted by other vendors, note that surveys may be conducted within a specific industry or across industries as well as within one geographical region or across different geographical regions. Know which industry or geographic location the salary results pertain to before comparing the results to your company.

THE TOTALITY OF DECISIONS

Three tests for any source of competitive advantage are align, differentiate, and add value. Discuss whether these tests are difficult to pass. Can compensation really be a source of competitive advantage? Alignment of a pay strategy involves three aspects:

1.alignment with the business strategy;

2. aligned externally with the economic and sociopolitical conditions; and

3.Aligned internally with the overall HR system. Alignment is probably the easiest test to pass.

Job analysis:

Primary tool in personnel management. In this method, a personnel manager tries to gather, synthesize and implement the information available regarding the workforce in the concern. a personnel manager has to undertake job analysis so as to put right man on right job.

There are two outcomes of job analysis:

- Job description
- Job specification

Advantages of Job Analysis

- Job analysis helps the personnel manager at the time of recruitment and selection of right man on right job.
- It helps him to understand extent and scope of training required in that field.
- It helps in evaluating the job in which the worth of the job has to be evaluated.
- In those instances where smooth work force is required in concern.
- When he has to avoid overlapping of authority- responsibility relationship so that distortion in chain of command doesn’t exist.
- It also helps to chalk out the compensation plans for the employees.
- It also helps the personnel manager to undertake performance appraisal effectively in a concern

JOB DESCRIPTION:

job specification is an organized factual statement of job contents in the form of duties and responsibilities of a specific job. The preparation of job description is very important before a vacancy is advertised. It tells in brief the nature and type of job.

Type of document is descriptive in nature and it constitutes all those facts which are related to a job such as:

- The nature of duties and operations to be performed in that job.
- The nature of authority- responsibility relationships.
- Necessary qualifications those are required for job.
- The provision of physical and working condition or the work environment required in performance of that job.

JOB SPECIFICATION

A statement which tells us minimum acceptable human qualities which helps to perform a job. Job specification translates the job description into human qualifications so that a job can be performed in a better manner. Job specification helps in hiring an appropriate person for an appropriate position. The contents are:

- ❖Job title and designation
- ❖Educational qualifications for that title
- ❖Physical and other related attributes
- ❖Physique and mental health
- ❖Special attributes and abilities
- ❖Maturity and dependability
- ❖Relationship of that job with other jobs in a concern.

UNIT-II
WAGE AND SALARY ADMINISTRATION:

DEFINING COMPETITIVNESS:

In the globalized world, the concept of the competitiveness has gained and has been gaining an unprecedented importance in the recent years. After1970s, there occurred an increase in foreign direct investments of the countries causing a change in the business segment of the firms. Before 1970s, the activities of the firms were concentrated on the manufacturing sector with the primary products; however, during and after 1970s, the activities of the firm gave its place to technology intensive manufacturing and services sector. Therefore, 1970s can be regarded as the turning point. In the view of globalization. Furthermore, during 1980s, many developing countries started to be more liberal in their economic policies. Privatization, increasing market economy, financial liberalization and the attempts of the countries for the articulation to the world economy existed in these countries started to be in great demand. Then developing countries began to be more connected to each other which brought an increasing competition in the world. Owing to these changes observed in the world economy, firms in the developed and developing countries became more efficient and they became as a serious rival at the international market

Employee Incentive Plans

Merit Pay Merit pay plans reward employees with raises rather than bonuses or other forms of financial compensation. Instead of tying raises solely to time on the job or promotion to a higher position, the company gives raises for superior performance. For example, a pizzeria can give merit pay raises for managers who successfully control ingredient costs. A medical billing company can offer merit pay raises for employees who collect a higher percentage of outstanding bills. When an employee receives a merit pay incentive, her salary is permanently increased.

pay for Performance Bonuses : The difference between merit pay and other types of pay for performance is that other pay for performance plans are temporary rather than permanent. A salesperson may receive a bonus for exceeding her quarterly sales quota, but the bonus doesn't affect her base pay. If she wants to receive another bonus, she has to exceed her quota again the next time. Companies

Advantages and Disadvantages

If an employee receives a raise year, then the ten-year value of the raise. By putting in extra effort in the short term, the employee can gain over a ten-year period. If an employee receives a bonus, the value of the bonus will never be more. Merit pay can cost companies more in the long term, but is also more effective at motivating employees because the employee's extra effort produces greater rewards. Companies that need to strongly motivate employees to improve performance immediately can benefit from using a merit pay plan. Companies that need to spend less money on their incentive program can benefit from other forms of pay for performance

Pay Commission

Pay commission is set up by Government of India, and gives its recommendations regarding changes in salary structure of its employees. Since India's Independence, seven pay commissions have been set up on a regular basis to review and make recommendations on the work and pay structure of all civil and military divisions of the Government of India. Headquartered in Delhi, the Commission is given 18 months from date of its constitution to make its recommendations. The first pay commission was established on January, 1946 and it submitted its report in May, 1947 to the interim government It was under the chairmanship of Srinivasa Varadachariar.[The mandate of 1st (nine members) was to examining and recommending emolument structure of Civilian employees.

Post War Pay Committee for the armed Forces

Armed forces emoluments structure was determined not by the 1st Central Pay Commission(CPC) but by a Departmental Committee which had service members. The task of this committee was to make recommendations "in the structure of emoluments and benefits of service personnel in the light of the recommendations made by the pay commission for civilian employees

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 created proposals that cost the government 144 core. The chairman was Raghubir Dayal. The third pay commission added three very important concepts of inclusiveness, comprehensibility, and adequacy for pay structure to be sound in nature. The third pay commission went beyond the idea of minimum subsistence that was adopted by the first pay commission. The commission report say that the true test which the government should adopt is to know whether the services are attractive and it retains the people it needs and if these persons are satisfied by that they are getting paid.

Third Pay Commission and the Armed forces:

The 3CPC was the first Pay Commission without military member. Its "Terms of Reference" however included "examination of the structure of emoluments, the retirement benefits and terms and conditions of the Defense Forces

Compensation Tools and Techniques

- Pay Structure
- Salary Structure
- Performance Related Pay
- Merit Payment Scheme
- Incentive Scheme
- Benefit Policies
- Salary Review Guidelines
- Compa-ratio
- Salary Problems

Components Of Salary Administration

The starting point of salary administration is the determination of salary levels by job evaluation. Thereafter, salary administration is concerned with:

- The design and maintenance of salary structures;
- The operation of salary progression systems;
- The administration and control of salary reviews;
- The design and operation of bonus schemes;
- The provision of employee benefits and other allowances;
- The development of a total remuneration policy.

Aims Of Salary Administration

The basic aims of salary administration are to attract, retain and motivate staff by developing and maintaining a competitive and equitable salary structure.

- To ensure that a sufficient number of suitable staff is attracted to join the organization;
- To encourage suitable staff to remain with the organization;
- To develop and maintain a logical salary structure which achieves equity in the pay for jobs of similar responsibility and consistency in the differentials between jobs in accordance with their relative values;
- To ensure that salary levels match market rates;
- To keep the salary levels adjusted in line with increases in the cost of living;

UNIT-III

CONCEPTS OF EMPLOYEE BENEFITS

Incentive Schemes For Sales Staff

Where it is felt that sales staff need to be motivated by an incentive commission scheme the majority of companies find that the best approach is a basic commission on sales volume or, in more sophisticated firms, on the contribution to fixed costs and profits of the sales of each product group or product. The standard commission is typically set at about one-third of salary to provide a noticeable incentive without adversely affecting feelings of security. A successful sales commission plan should satisfy all the criteria listed above for bonus schemes. But it is particularly necessary to ensure the following:

Individual Incentive Schemes

- Straight piece-work
  - payment of a uniform price per unit of production.
  - can be expressed in two main forms:

    - money piecework

    - time piecework
- Differential piecework
  - the wage cost per unit is adjusted in relation to output.

Group Incentive Scheme

- Provide for the payment of a bonus either equally or proportionately to individuals within a group or team.
- Bonus is related to the output achieved over an agreed standard or to the time saved on a job.
- Group bonus scheme are in some respects equivalent to individual incentive schemes.
- It encourages team spirit, breaks down demarcation lines, and enables the group to discipline itself in achieving targets.
- Potential disadvantages are that management is less in control of production – the group decides what earnings are to be achieved and can restrict output.

Aims of Bonus Schemes

- The principal aim of a bonus scheme is to provide an incentive and a reward for effort and achievement. Executive bonus schemes linked to company profits can also aim to make senior managers feel that their personal prosperity is linked to the performance of their company or unit.
- Bonus schemes are supplementary to basic salary and are most appropriate where they apply to entrepreneurial types such as chief executives, marketing men and sales staff who, it is assumed, will strive for material reward, and whose results upon which their bonus depends can be clearly linked to their personal efforts and achievements.

Executive Bonus Schemes

There are innumerable formulae for executive bonus schemes, and each company must adopt one which suits its own circumstances. The simplest formula is for a percentage out of net profits before tax to be paid Pro- Rata to the executive’s basic salary. In some schemes, dividend payments and provisions for reserves are deducted from net profits before the distribution of bonuses and there is usually an upper limit to the amount of bonus that can be paid. These schemes are crude but provide a direct incentive as long as results are directly influenced by the actions of the executives in the scheme. They can get out of hand unless an upper limit is strictly applied, and their emphasis on profits may make some executives seek short term gains at the expense of the longer term development of the company.

Benefits Policies

- **Range of benefits provided**

  benefits such as pensions and holidays are mandatory; whilst permanent health insurance are optional extras.

- **Scale of benefits provided**

  taking into account its cost to the company and its perceived value to employees.

- **Proportion of benefits to total remuneration**

  a decision has to be made on the proportion of total remuneration to be allocated to other benefits which incur expenditure of cash by the company.

  this policy decision is related to decisions on the range and scale of benefits provided.

Wage Compensation

Of all the different types of compensation, wages are the most common and the reason why most people work. Wages are often called the total cash compensation paid to an employee. Most employees are paid an hourly or annual salary. Others are paid a variable rate that is based on the performance of the employee. A great example of this is a car salesperson. Their wages (or commission) are based on the number of cars they sell during each pay period.Employee benefits are defined as a form of compensation paid by employers to employees over and above regular salary or wages. Employee benefits come in many forms and are an important part of the overall compensation package offered to employees .In this small business

Performance appraisal is defined by Wayne Cascio as “the systematic description of employee’s job relevant, strength, weakness. Companies use different methods of appraisal for identifying and appraising the skills and qualities of their employees. The different methods used can be explained with the help of following diagram.

Methods of performance appraisal

•Traditional method

•Modern method

1. Check list method
2. Confidential report
3. Critical incident method
4. Ranking method
5. Graphic rating scale
6. Narrated essay Appraisal Traditional method

Objectives of Performance Appraisal:

Performance Appraisal can be done with following objectives in mind:

❖To maintain records in order to determine compensation packages, wage structure, salaries raises,

❖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.

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❖It serves as a basis for influencing working habits of the employees.

❖To review and retain the promotional and other training programmer

UNIT-IV

PERFORMANCE BASED PAY

PERFORMANCE BASED PAY

COMPENSATION OF SPCIAL GROUPS: Specific groups receive special treatment in the form of… Add-on packages not received by other employees Compensation components entirely unique in organization Characteristics of special group– Tend to be strategically (or politically) important to firm Positions tend to have built-in conflict Key Activities of Corporate Directors

Review senior management actions to ensure congruency with organizational

- Mission
- Vision
- Strategies
- Review policies of key organizational operations to ensure effective use of resources

Managerial Remuneration

Managerial remuneration includes pay, compensation or reward for work provided to a managerial person. The following types of expenditure incurred by a company are also termed as managerial remuneration.

•Expenditure incurred by the company in providing rent free accommodation, or any other benefit or amenity, free of charge, to any of the company’s director and manager.

•Expenditure incurred by the company in providing any other benefit or amenity free of charge or at a concessional rate to any of the company’s director or manager.

•Expenditure incurred by the company in respect of any obligation or service, which, but for such expenditure by the company, would have been incurred by any of the company’s director or manager.

•Expenditure incurred by the company to effect any insurance on the life of, or to provide any pension, annuity or gratuity for, any of the company’s director and manager or his/her spouse and/or child.

REMUNERATION ALLOWED TO MANAGERIAL PERSON:

Section 197 of the Companies Act, 2013 provides a way to pay managerial remuneration in case of Company's having adequate profits. A Public Company can pay remuneration to its directors including Managing Director s and Whole-time Directors, and its managers which shall not exceed 11% of the net profit as calculated in a manner laid down in section 198 of the Companies Act, 2013. Wherein a Company in which there is one Managing Director; Whole-time Director or manager the remuneration to be payable shall not exceed 5% of net profits and where there are more than one of such Directors remuneration payable shall not exceed 11 % of the net profit.

A company with inadequate profit may pay to its managing director or whole-time director 200% of the above mentioned managerial remuneration if shareholders have given their approval through a special resolution .Where the managerial person who is not holding Rs 5 lacks worth of shares or more or an employee or a director of the company not related to any director or promoter at any time during the two years prior to his appointment as a managerial person, In such cases, the company can pay to him up to maximum of 2.5% of the "current relevant profits" and up to 5% with the approval of shareholders by a special resolution .For the purpose of this section, "current relevant profit" means profit calculated under section 198 but without deducting the excess of expenditure over income as defined in section of section 198 relating to all usual working charges in respect of those years during which the managerial person was not an employee, director or shareholder of the company or its holding and subsidiary companies.

PENALTY CLAUSES:

If any person contravenes the provisions of the section 197, he shall be punishable with fine which shall not be less than one lakh rupees and may extend to five lakhs rupees If a company or any officer of a company or any other person contravenes any of the provisions of this Act or the rules made there under, the company and every officer of the company who is in default or such other person shall be punishable with fine which may extend to ten thousand rupees, and where the contravention is continuing one, with a further fine which may extend to one thousand rupees for every day after the first during which the contravention continues.

Types of Pay for Performance Plans

When there are multiple layers in a pay for performance system then the motivation of the individual employees is enhanced which is also result in the better cooperation. For example when bonuses are given to the work units or teams then the cooperation among the employees is enhanced. Besides group bonus, bonus offered to the individual employees can also serve as great motivational force because in such case the individual employee is able to consider his personal contribution leading to the reward. Also there is positive as well as negative aspect of every pay for performance system so it is better to offer multiple incentives for varying work situations instead of offering a single incentive because multiple incentive can generate much better results.

Executive Compensation has four distinct characteristics:

•**Pay Package Design:** Executive pay arrangements typically consist of six distinct compensation components: salary, annual incentives, long-term incentives, benefits, perquisites and severance/change-in-control agreements.

•**Equity Compensation**: The majority of compensation of most executive pay packages comes in the form of company stock.

•**Performance-Contingent Pay**: Executive pay packages are designed so that the bulk of an executive's compensation is contingent on a company achieving pre-established criteria of specific financial results and/or strategic objectives.

•**Vesting Schedules:** Even after financial or strategic criteria for an award is met, full ownership of the equity award are often conditioned on the executive's compliance with certain covenants. Executive Compensation plan characteristics and design are heavily influenced by elements of Corporate Management and Federal Law.

UNIT-V

COMPENSATION STRTERGIES

COMPENSATION STRTERGIES:

Employees receive compensation from a company in return for work performed. While most people think compensation and pay are the same, the fact is that compensation is much more than just the monetary rewards provided by an employer. According to Milko vitch and Newman in their 2005 book, Compensation, it is “all forms of financial returns and tangible services and benefits employees receive as part of an employment relationship.” The phrase “financial returns” refers to an individual's base salary, as well as short- and long-term incentives. “Tangible services and benefits” are such things as insurance, paid vacation and sick days, pension plans, and employee discounts

INFLUENCE OF PAY ON EMPLOYEE ATTITUDES AND BEHAVIOR

Since compensation practices heavily influence recruitment, turnover, and employee productivity, it is important that applicants and employees view these practices in a favorable light. In the following section, we discuss how people form perceptions about a firm's compensation system and how these perceptions ultimately affect their behavior. Equity is an important concern, so individuals responsible for developing a firm's compensation system need to understand how perceptions of equity are formed. Equity theory, formulated by J. Stacy Adams, attempts to provide such an understanding.

INCENTIVES AND BENEFITS FOR TEACHERS

Incentives in the form of trainings, scholarships, fellowships and study grants will allow you to grow in your profession, mingle with other teachers in a different milieu and advance your profession and the world.

• Trainings • Induction program

• Orientation Program • Reorientation Program

• Professional/Technical/Scientific Program

• Career Pathing Program

Compensation in the Public Sector:

To ensure a fair and transparent approach to compensation within public sector organizations, specific policies guide excluded and executive employee compensation Public sector employers are also required to report compensation for senior and executive employees that have an annualized base salary of or more.

Compensation for excluded employees may include:

•base salary

•holdback or bonus

statutory and health benefits and Pension contributions other allowances and/or payments which may include vacation payout, sick leave payout, vehicle allowance, paid parking, severance/salary continuance, retirement allowance or long-service recognition allowance