LECTURE NOTES

ON

COMPENSATION AND REWARD MANAGEMENT

IV SEMESTAR

(ELECTIVE – V)

Ms. K. MAMATHA

ASSISTANT PROFESSOR

Department of Master of Business Administration

INSTITUTE OF AERONAUTICAL ENGINEERING
(Autonomous)
Dundigal, Hyderabad - 500 043

UNIT-I

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.

UNIT-1

The Pay Model Strategy:

Compensation

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.

Recruitment and retention of qualified employees is a common goal shared by many employers. To some extent, the availability and cost of qualified applicants for open positions is determined by market factors beyond the control of the employer. While an employer may set compensation levels for new hires and advertize those salary ranges, it does so in the context of other employers seeking to hire from the same applicant pool.

Morale and job satisfaction are affected by compensation. Often there is a balance (equity) that must be reached between the monetary value the employer is willing to pay and the sentiments of worth felt be the employee. In an attempt to save money, employers may opt to freeze salaries or salary levels at the expence of satisfaction and morale. Conversely, an employer wishing to reduce employee turnover may seek to increase salaries and salary levels.

Compensation may also be used as a reward for exceptional job performance. Examples of such plans include: bonuses, commissions, stock, and profit sharing, gain sharing.

What are the components of a compensation system?
Compensation will be perceived by employees as fair if based on systematic components. Various compensation systems have developed to determine the value of positions. These systems utilize many similar components including job descriptions, salary ranges/structures, and written procedures.

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

- **Job Evaluation** A 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.

- Policies and Regulations
- What are different types of compensation?

Different types of compensation include:

- Base Pay
- Commissions
- Overtime Pay
- Bonuses, Profit Sharing, Merit Pay
- Stock Options
- Travel/Meal/Housing Allowance
- Benefits including: dental, insurance, medical, vacation, leaves, retirement, taxes...pensation Plans

Develop a program outline.

- Set an objective for the program.
- Establish target dates for implementation and completion.
- Determine a budget.

Designate an individual to oversee designing the compensation program.

- Determine whether this position will be permanent or temporary.
- Determine who will oversee the program once it is established.
- Determine the cost of going outside versus looking inside.
- Determine the cost of a consultant's review.

Develop a compensation philosophy.

- Form a compensation committee (presumably consisting of officers or at least including one officer of the company).
- Decide what, if any, differences should exist in pay structures for executives, professional employees, sales employees, and so on (e.g., hourly versus salaried rates, incentive-based versus noncontingent pay).
- Determine whether the company should set salaries at, above, or below market.
- Decide the extent to which employee benefits should replace or supplement cash compensation.

Conduct a job analysis of all positions.

- Conduct a general task analysis by major departments. What tasks must be accomplished by whom?
- Get input from senior vice presidents of marketing, finance, sales, administration, production, and other appropriate departments to determine the organizational structure and primary functions of each.
- Interview department managers and key employees, as necessary, to determine their specific job functions.
- Decide which job classifications should be exempt and which should be nonexempt.
- Develop model job descriptions for exempt and nonexempt positions and distribute the models to incumbents for review and comment; adjust job descriptions if necessary.
- Develop a final draft of job descriptions.
- Meet with department managers, as necessary, to review job descriptions.
- Finalize and document all job descriptions.

Evaluate jobs.

- Rank the jobs within each senior vice presidents and manager's department, and then rank jobs between and among departments.
- Verify ranking by comparing it to industry market data concerning the ranking, and adjust if necessary.
- Prepare a matrix organizational review.
- On the basis of required tasks and forecasted business plans, develop a matrix of jobs crossing lines and departments.

- Compare the matrix with data from both the company structure and the industrywide market.
- Prepare flow charts of all ranks for each department for ease of interpretation and assessment.
- Present data and charts to the compensation committee for review and adjustment.

Determine grades.

- Establish the number of levels - senior, junior, intermediate, and beginner - for each job family and assign a grade to each level.
- Determine the number of pay grades, or monetary range of a position at a particular level, within each department.

Establish grade pricing and salary range.

- Establish benchmark (key) jobs.
- Review the market price of benchmark jobs within the industry.
- Establish a trend line in accordance with company philosophy (i.e., where the company wants to be in relation to salary ranges in the industry).

Determine an appropriate salary structure.

- Determine the difference between each salary step.
- Determine a minimum and a maximum percent spread.
- Slot the remaining jobs.
- Review job descriptions.
- Verify the purpose, necessity, or other reasons for maintaining a position.
- Meet with the compensation committee for review, adjustments, and approval.

Develop a salary administration policy.

- Develop and document the general company policy.
- Develop and document specific policies for selected groups.
- Develop and document a strategy for merit raises and other pay increases, such as cost-of-living adjustments, bonuses, annual reviews, and promotions.
- Develop and document procedures to justify the policy (e.g., performance appraisal forms, a merit raise schedule).
- Meet with the compensation committee for review, adjustments, and approval.

Obtain top executives' approval of the basic salary program.

- Develop and present cost impact studies that project the expense of bringing the present staff up to the proposed levels.
- Present data to the compensation committee for review, adjustment, and approval.
- Present data to the executive operating committee (senior managers and officers) for review and approval.

Communicate the final program to employees and managers.

- Present the plan to the compensation committee for feedback, adjustments, review, and approval.
- Make a presentation to executive staff managers for approval or change, and incorporate necessary changes.
- Develop a plan for communicating the new program to employees, using slide shows or movies, literature, handouts, etc.
- Make presentations to managers and employees. Implement the program.
- Design and develop detailed systems, procedures, and forms.
- Work with HR information systems staff to establish effective implementation procedures, to develop appropriate data input forms, and to create effective monitoring reports for senior managers.
- Have the necessary forms printed.
- Develop and determine format specifications for all reports.

- Execute test runs on the human resources information system.
- Execute the program.

Monitor the program.

- Monitor feedback from managers
- Make changes where necessary.
- Find flaws or problems in the program and adjust or modify where necessary.

What image does the word "compensation" bring to mind? It does not mean the same thing to everyone. Yet, how people view compensation affects how they behave at work. Thus, we must begin by recognizing different perspectives. Societies some people see pay as a measure of justice. For example, a comparison of earnings of women with those of men highlights what many consider inequities in pay decisions. The gender pay gap in Canada for fulltime, full-year workers narrowed from 42 percent in 1967 to 30 percent in2000. Despite this narrowing, and despite pay equity legislation, the gap persists, and always to the benefit of men. The latest studies show that, because women often withdraw temporarily from the labor force for family-related reasons, the resulting reduction in their experience has a serious impact on pay over the long term

Stockholders

To stockholders, executive pay is of special interest. In Canada, pay for executives is supposed to be tied to the financial performance of the company. Unfortunately, this does not always happen. For example, between 1990 and 2001, share prices increased about 300 percent; corporate profits increased 116 percent, but CEO pay increased by 535 percent. Consider the high pay–low performance of BCE Inc.'s CEO Jean Monty in 2001. In a year when returns to BCE shareholders declined by 14 percent, Monty's pay increased by 452 percent.5

Managers Managers also have a stake in compensation: It directly influences their success in two ways. First, it is a major expense. Competitive pressures, both internationally and domestically, force managers to consider the affordability of their compensation decisions. Studies show that in many enterprises labor costs account for more than 50 percent of total costs.

The pay individuals receive in return for the work they perform is usually the major source of their financial security. Hence, pay plays a vital role in a person's economic and social well- being .Employees may see compensation as a return in an exchange between their employer and themselves, as an entitlement for being an employee of the company, or as a reward for a job well done. Compensation can be all of these things, though how many employees see their pay as remains an open question. Employees in large state-owned companies (e.g., in China) and in highly regulated countries (e.g., Sweden) sometimes believe their pay is an entitlement: their just due, regardless of their own performance or that of their employers. It is not uncommon for political leaders, trade unions, and employer federations in some countries such as Sweden and Germany to negotiate compensation policies that support their country's sociopolitical as well as economic priorities.8 Describing pay as a reward may sound farfetched to anyone who has reluctantly rolled out of bed to go to work. Even though writers and consultants use that term, do people really say, "They just gave me a reward increase," or "Here is my weekly reward check".

FORMS OF PAY

The variety of returns people may receive from work. They are categorized as Total compensation and relational returns. The relational returns (development opportunities, status, opportunity to belong, challenging work, and so on) are the psychological returns people believe they receive in the workplace.11 Total compensation includes pay received directly as cash(e.g., base, merit, incentives, cost-of-living adjustments) and indirectly as benefits pensions, medical insurance, programs to help balance work and life demands, and so on). Programs to

Deliver compensation to people can be designed in a wide variety of ways, and a single employer typically uses more than one way. Both relational returns and total compensation can be designed
To help the organization be successful. However, this book focuses on total compensation, which includes cash compensation and benefits.

Cash Compensation: Base

Base wage is the cash compensation that an employer pays for the work performed. Base Wage tends to reflect the value of the work or skills and generally ignores differences attributable to individual employees. For example, the base wage for machine operators may be an hour. However, some individual operators may receive more because of their experience and/or performance.

A PAY MODEL

The pay model serves as both a framework for examining current pay systems and a guide to most of this book. It contains three basic building blocks:

- The strategic compensation objectives,
- The strategic policies that form the foundation of the compensation system,
- The techniques of compensation.

The Pay Model

COMPENSATION OBJECTIVES

Compensation systems are designed and managed to attain certain objectives in any company. The basic objectives include:-

- Efficiency
- Equity
- Compliance with laws and regulations The

efficiency objectives are:-

1. Improved performance, Increasing quality, Delighting customers
2. Controlling labor costs.

The equity objectives are:-

1. Designing pay systems that recognize employee's contribution.

2. Designing pay systems that recognize employee's need.

Equity is the fundamental to compensation system. The equity signifies that offering fair treatment to all the employees and offering a fair day pay for a fair's day work. Thus equity attempts to ensure fair treatment for all the participants.

CHAPTER 2 STRATEGY: 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. Differentiation of a pay strategy involves having a different strategy compared to one's competitors. Advocates of the strategic approach propose that sustained advantage comes from how the pay system is managed. While it may be easy to imitate any single pay practice of a competitor, the strategic perspective implies it is the way pay practices fit together and fit the organization's strategy that is hard to copy. Simply copying competitors, blindly benchmarking and following best practices amounts to trying to stay in the race – not winning it. A compensation system adds value if it allows the company to attract, retain, and motivate the kinds of employee behaviors that will help the company achieve its goals. It must do so in a cost- effective manner, so the company is not at a competitive disadvantage in marketing its goods and services. Since compensation is often a company's largest controllable expense, the challenge is determining how to calculate the return on investment (ROI) of different form
et up a debate over the following proposition: Nonfinancial returns (great place to work, opportunities to learn, job security, and flexible work schedules) are more important (i.e., best practice) than pay. Students answer will vary. Essential facts include the shift in ideology about higher pay being the only incentive for ones' career. Evidence supports affective and cognitive aspects such as job satisfaction, motivation and innovation as being furthered by non- financial returns attributable to ones' job. Emotional, mental, and physical well-being have taken on a vast

Role in career decision making and is supported by major companies around the world that strive to provide necessary facilities that move beyond the scope of job analysis.

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:

1. Job description
2. Job specification

The information collected under job analysis is

1. Nature of jobs required in a concern.
2. Nature/ size of organizational structure.
3. Type of people required to fit that structure.
4. The relationship of the job with other jobs in the concern.
5. Kind of qualifications and academic background required for jobs.
6. Provision of physical condition to support the activities of the concern. For example- separate cabins for managers, special cabins for the supervisors, healthy condition for workers, and adequate store room for store keeper.

Advantages of Job Analysis

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

A personnel manger carries analysis in two ways:

a. Job description
b. Job specification

1. **JOB DESCRIPTION:** 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. This

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

1. Title/ Designation of job and location in the concern.
2. The nature of duties and operations to be performed in that job.
3. The nature of authority- responsibility relationships.
4. Necessary qualifications those are required for job.
5. Relationship of that job with other jobs in a concern.
6. The provision of physical and working condition or the work environment required in performance of that job.

Advantages of Job Description

- ✓ It helps the supervisors in assigning work to the subordinates so that he can guide and monitor their performances.
- ✓ It helps in recruitment and selection procedures.
- ✓ It assists in manpower planning.
- ✓ It is also helpful in performance appraisal.
- ✓ It is helpful in job evaluation in order to decide about rate of remuneration for a specific job.
- ✓ It also helps in chalking out training and development programmers.

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.

Advantages of Job Specification

- ▪ It is helpful in preliminary screening in the selection procedure.
- It helps in giving due justification to each job.
- It also helps in designing training and development programmers.
- It helps the supervisors for counseling and monitoring performance of employees.
- It helps in job evaluation.
- It helps the management to take decisions regarding promotion, transfers and giving extra benefits to the employees.

Job evaluation is a process of determining the relative worth of a job. It is a process which is helpful even for framing compensation plans by the personnel manager. Job evaluation as a process is advantageous to a company in many ways:

1. **Reduction in inequalities in salary structure -** It is found that people and their motivation is dependent upon how well they are being paid. Therefore the main objective of job evaluation is to have external and internal consistency in salary structure so that inequalities in salaries are reduced.
2. **Specialization -** Because of division of labor and thereby specialization, a large number of enterprises have got hundred jobs and many employees to perform them. Therefore, an attempt should be made to define a job and thereby fix salaries for it. This is possible only through job evaluation.
3. **Helps in selection of employees -** The job evaluation information can be helpful at the time of selection of candidates. The factors that are determined for job evaluation can be taken into account while selecting the employees.
4. **Harmonious relationship between employees and manager -** Through job evaluation, harmonious and congenial relations can be maintained between employees and management, so that all kinds of salaries controversies can be minimized.
5. **Standardization -** The process of determining the salary differentials for different jobs become standardized through job evaluation. This helps in bringing uniformity into salary structure.
6. **Relevance of new jobs -** Through job evaluation, one can understand the relative value of new jobs in a concern.

According to Kimball and Kimball, “Job evaluation represents an effort to determine the relative value of every job in a plant and to determine what the fair basic wage for such a job should be.”

Thus, job evaluation is different from performance appraisal. In job evaluation, worth of a job is calculated while in performance appraisal, the worth of employee is rated.

UNIT-II

WAGE AND SALARY ADMINISTRATION:

Wage and salary administration at the micro level job evaluation, definition, traditional and newtechniques; compensationstructure, Indianpractices; wageboards, pay commissions, compensation Management in multinational organizations.

UNIT-2

DEFINING COMPETITIVNESS:

Introduction

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

All these developments and changes gave rise to the increased volume of trade in the world and paved the way for accelerating competitiveness and prevailing globalization. In this regard, the concept of“international competition power” gained importance in the world. This implies that in general, international competition power is explained as the share of trade volume in the world trade that a country owns. In the matter of “competition power” or “competitiveness” of a country, competitiveness is defined as "the ability of a country to produce goods and services that meet the test of the international markets and simultaneously to maintain and expand the real income and also rise the welfare level of its citizens" (Hague, 1995) the concept of competition power shouldn't be totally explained by only the ability of a country's productivity, it should also be explained by the firm level competition power and the industrial level competition power.

The purpose of this paper is to disclose the concept of the competition power of a country, to examine the variables and the indicators used for measuring the competition power, to compare the scores obtained from the indicators used for measuring competitiveness and to clarify the competitiveness of the countries which are revealed as the rivals of Turkey or the countries which are seen as the potential rivals for Turkey. In this regard, the competition power of 11 countries (Brazil, China, Colombia, Egypt, India, Indonesia, Malaysia, South Korea, South Africa, Russia and Vietnam) will be compared with Turkey in line with this purpose. This paper consists of four sections; after the introduction section, in the second section literature search will be given in chronological order. In the third section, competition scores and the rankings of 11 countries according to the indices-related with competitiveness prepared by 3institutions: World Economic Forum (WEF), International Institute for Management Development(IMD) and International Finance Corporation will be analyzed. Then, with regards to these scores and rankings, general situation for competitiveness of Turkey will be compared with that of mentioned countries. Moreover, which one of these indices is more reliable and when is more reliable will be elucidated by obtaining a correlation between these scores and rankings of three indices. In the fourth and final section, a general evaluation will be made for each country Defining and Measuring Competitiveness

Defining Competitiveness National competitiveness as “the catchphrase in the

Global world” refers to a country’s ability to create, produce, distribute and service products in the international trade while earning rising returns on its resources (Scott & Lodge, 1985)

Although there are different criteria in determining the national competitiveness of the countries, competitiveness is substantially related with the productivity growth of the countries both at the macro and micro level. In this regard, national competitiveness is well enlightened by def inning the national competitiveness at the firm level, at the industrial level and at the international level. National competitiveness at the firm level implies the ability to make production at lower costs and higher quality. Therefore, the most important determinants of the competitiveness at the firm level are quality, cost (such as labor costs and cost of capital) and the price levels. For a country to be more competitive, the development of countries should be improved at the firm level with the help of firms’ increasing performance. National competitiveness at the industrial level is generally defined as the ability of an industry to achieve the highest level of efficiency to meet challenges posed by foreign rivals. In this regard, the term of “efficiency” has an important position since maintaining this efficiency is also crucial for the competitiveness at the industrial level. In the perspective of competitiveness at the international level, a country should have the ability to increase the welfare and real income levels by producing goods and services under fair international market conditions. Measuring Competitiveness Although there are different theoretical approaches to the measurement of competitiveness, three well known indices such as Global Competitiveness Report prepared by World Economic Forum WEF), The World Competitiveness Yearbook prepared by Institute for Management Development (IMD) and Business Competitiveness- Ease of Doing Business Report prepared by International Finance Corporation (IFC) are substantially prominent. However, owing to different definitions, indices and data sources they use, rankings of competitiveness of countries are different. For example, Turkey is at the 39thposition according to the World Competitiveness Yearbook by IMD, at the 59thrank according to the Global Competitiveness Yearbook by WEF and at the 65thposition according to Business Competitiveness - Ease of Doing Business Report by IFC. So, it is necessary to analyze how these indices are generated to determine the source of this difference and also show the correlations between the ranks of these series.

Employee Incentive Plans

Pay for performance

In healthcare gives financial incentives to clinicians for better health outcomes. Clinical outcomes, such as longer survival, are too difficult to measure, so pay for performance systems usually measure process outcomes, such as measuring blood pressure, lowering blood pressure, or counseling patients to stop smoking.

Aaron E. Carroll, a professor of pediatrics who writes a column for the New York Times, said after reviewing the medical literature in 2014 that pay for performance in the U.S. and U.K. has brought "disappointingly mixed results." Sometimes even large incentives don't change the way doctors practice medicine. Sometimes incentives do change practice, but even when they do, clinical outcomes don't improve. Critics say that pay for performance is a technique borrowed from corporate management, where the main outcome of concern is profit. In medical practice, many important outcomes and processes, such as spending time with patients, can't be quantified.

Also known as "P4P" or “value-based purchasing,” this payment model rewards physicians, hospitals, medical groups, and other healthcare providers for meeting certain performance measures for quality and efficiency. It penalizes caregivers for poor outcomes, medical errors, or increased costs.

Studies in several large healthcare systems have shown modest improvements in specific outcomes, but these have been short-lived, and reduce performance in outcomes that were not measured. They also failed to save money. Professional societies have given qualified approval to incentive programs, but express concern with the validity of quality indicators, patient and physician autonomy and privacy, and increased administrative burdens.

PAY FOR PERFORMANCE PLANS: A FIELD GUIDE

Although there is a startling array of pay for performance plan designs in use, they can be described and classified on some common design dimensions. In Figure 5-1 we have classified pay for performance plans in a two-dimensional matrix. The first dimension represents design variation in the level of performance measurement—individual or group—to which plan payouts are tied. The group level of measurement encompasses work group performance, facility (plant or department) performance, and organization performance. The second dimension represents design variation in the plan's contribution to growth in base pay: some plans add payouts to base salary; others do not.

The matrix cells in Figure 5-1 provide examples of pay for performance plans distinguished on both design dimensions. Merit plans are an example of pay for performance plans found in the first cell. They are tied to individual levels of performance measurement (typically performance appraisal ratings), and the payouts allocated under merit plans are commonly added into an individual employee's base

Salary. The performance appraisal ratings used with merit plans often combine both behavioral (for example, provided timely feedback to employees) and outcome (for example, reduced overhead 10 percent) measures of performance. Performance appraisal ratings are used along with the employee's pay grade, position in grade, and the company's increase budget to determine the payout each employee will receive. The average payout offered by a merit plan is typically smaller than that offered by other types of plans and is provided annually (HayGroup, Inc., 1989). (Merit pay increases do, however, compound from one year to the next—over time, outstanding performers will reach a significantly higher pay level than average performers.) Merit plans are used across the spectrum of employee groups, from hourly and clerical to high-level managers.
Examples of individual pay for performance plans in which payouts are not

		LEVEL OF PERFORMANCE	
		Individual	Group
CONTRIBUTION TO BASE SALARY	Added to base	(a) Merit plans	(d) Small group incentives
	Not added to base	(b) Piece rates Commissions Bonuses	(c) Profit sharing Gainsharing Bonuses

Pay for performance plan classes.

Added to base salaries—cell b—include piece rate and sales commission plans. Piece rate plans involve engineered standards of hourly or daily production. Workers receive a base wage for production that meets standard and incentive payments for production above standard. Piece rate plans are most commonly found in hourly, clerical, and technical jobs. Sales commission plans tie pay increases to specific individual contributions, such as satisfactory completion of a major project or meeting a quantitative sales or revenue target. These plans are most commonly found among sales employees. Payouts under individual incentive plans are typically larger than those found under merit plans (Hay Group, Inc., 1989) and are often made more frequently (piece rate plans, for example, can pay out every week).It is important to note that, although individual incentive plans can offer relatively large payouts that increase as an employee's performance increases, they also carry the risk of no payouts if performance thresholds are not reached. Thus, unless employers make market or cost-of-living adjustments to base salaries, individual incentives pose the risk

Of lower earnings for employees and the potential advantage of lower proportional labor costs for employers. The same is true of group incentive plans .helps to simplify and guide our discussion of research on pay for performance plans, but it is difficult to classify all plans neatly into one cell or another. Bonus plans particularly those typical for managerial and professional employees are a good example. These plans often combine both individual- and group-level measures of performance, with an emphasis on the latter. For example, a managerial bonus plan may combine measures of departmental productivity and cost control with individual behavioral measures, such as "develops employees." Like the other individual and group incentive plans, these bonus plans offer relatively large payments that are not added into base salaries (Hay Group, Inc., 1989), but they do not necessarily pay out more than once a year. We consider these types of bonus plans under research on group incentives.

Pay for performance plans tied to group levels of measurement can, in principle, also be divided into those that add payouts to base salaries and those that do not .However, few examples of group plans that add payouts into base salaries exist (cell d in Figure 5-1). More common are plans that tie payouts to work group, facility (such as a plant or department), or organization performance measures and do not add pay into base salaries (cell c). There are many variations on profit-sharing plans, but most link payouts to selected organization profit measures and often pay out quarterly. A cash profit- sharing plan, for example, might specify that each employee covered will receive a payout equal to 15 percent of salary if the company's profit targets are met. Gain sharing plans, like profit-sharing, come in many forms, but all tie payouts to some measure of work group or facility performance, and most pay out more than once a year. Traditional gain sharing plans, such as Scanlon, Rucker, or Imp share plans (named by or for their inventors), commonly provide a monthly bonus to workers of a production line or plant. The bonus is based on value added or cost savings, defined as the difference between current production or labor costs and the historical averages of these costs (as established by accounting data). Savings are split between employees and management; the employees' share of the savings is then typically allocated to each employee as some uniform percentage of base pay.

Our choice of matrix dimensions was deliberate; they distinguish the major differences between merit pay and other types of pay for performance plans, and they reflect distinctions made in the research we reviewed. We refer to the matrix throughout our review of research to help distinguish the four types of pay for performance plans and the research findings related to each.

What Is the Difference Between Merit Pay Incentives & Pay for Performance?

Merit pay rewards past performance to motivate future performance.

- Negative Effects of Merit Pay
- The Advantages of Pay Raise Incentives During Performance Appraisals
- What Are the Essential Elements of Merit and Incentive Reward Systems?
- How to Wipe an I Pad to Factory Settings Without a Pass code
- The Five Stages of the Strategic Management Process
- The Importance of Marketing for the Success of a Business

Merit pay and pay for performance are related but not exactly identical terms. Merit pay incentive plans reward performance by increasing the employee's salary on a long-term basis. Other forms of pay for performance reward employees without increasing their salary. All forms of pay for performance are designed to motivate employees to meet performance goals.

Pay for Performance

Pay for performance plans reward employees for being good at their jobs. Sometimes the area of performance is easy to quantify. For instance, a car dealership can reward employees for consistently exceeding sales goals. In other cases, the company is trying to improve performance in less quantifiable aspects of the job such as teamwork. In this situation, the incentive is tied to the supervisor's subjective rating of employee performance at a scheduled review. Employees who receive higher ratings earn more incentive pay. All incentive plans that provide financial rewards for performance are pay for performance plans, but only some of them are merit pay 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

Decide whether to use merit pay or variable pay for performance plans based on cost and other factors.

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.

UNIT-III

CONCEPTS OF EMPLOYEE BENEFITS

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

UNIT-3

CONCEPTS OF EMPLOYEE BENEFITS

Employee compensation refers to the benefits that an employee receives in exchange for the service they provide to their employer. Employee compensation is generally one of the largest costs or expenses for any organization. Approximately 92% of the working population in the United States is made of employees earning compensation from their employer. There are many different types of compensation paid to employees. The following are a few examples of the compensation paid to employees:

- Cash compensation consisting of wages or salaries
- Retirement plans (employer contributions)
- Employer-paid health insurance
- Life insurance
- Paid leave for vacation and sick days
- Disability insurance
- Types of Compensation
- Let's look closer at some of the types of compensation:

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 “101” article, we’ll take a closer look at the definition of employee’s benefits, discuss different types of employee benefits, and provide examples. Definition of Employee Benefits Employee Benefits Definition Employee benefits are defined as indirect, non-cash, or cash compensation paid to an employee above and beyond regular salary or wages .Some employee benefits are required by law. For example, employers are required to make payments on employees' behalf for Social Security and Medicare. Employers must also pay for unemployment benefits on employees' behalf. Other benefits are offered by employers to enhance the compensation provided to employees. Employee benefits such as health insurance, life insurance, paid vacation, and workplace perks are common offerings used to recruit and retain employees.

Related: The Top 5 Types of Employee Benefits

Employee Benefit Examples

Here is a list of popular employee benefits in the U.S

Paid time off, such as PTO, sick days, and vacation days

- Health insurance
- Life insurance
- Dental insurance
- Vision insurance
- Retirement benefits or accounts
- Healthcare spending or reimbursement accounts, such as HSAs, FSAs, HRPs, and HRAs
- Long term disability insurance

- Short term disability insurance
- Tuition reimbursement
- Childcare benefits
- Gym memberships or discounts
- Bonuses or incentives
- Wellness programs
- Relocation assistance
- Commuting/travel assistance
- Telecommuting options

Workplace perks such as recreational activities, food and coffee, and flexible work schedules

Many of these employee benefits may be provided tax-free. To read more about tax-free fringe benefits.

Ways to Structure Employee Benefits

In addition to the different types of employee benefits, companies must evaluate how to structure the benefit. In general, companies have two different ways to structure, contribute, and offer employee benefits.

1) Organizational-oriented Benefits: Employee benefits structured in the traditional way that are generally employer-owned and employer-selected. Examples include a traditional health insurance policy, retirement pension or 401(k), or formal wellness program.

2) Consumer-oriented Benefits: Employee benefits structured to focus on the end-user (the employee) as an individual consumer. With this approach, each employee uses employer-funded dollars to customize their benefits using technology.

To help clarify these definitions, here is a chart showing examples of common employee benefits using these two approaches.

Concepts of Employee Benefits:

Anything that can attract an employee's attention and motivate them to work can be called as incentive. An incentive aims at improving the overall performance of an organization They can be prepared as individual plans, group plans and organizational plans.

Incentives: Meaning, Definition

Anything that can attract an employee’s attention and motivate them to work can be called as incentive. An incentive aims at improving the overall performance of an organization. Incentives can be classified as direct and indirect compensation. They can be prepared as individual plans, group plans and organi-zational plans.

Definition:

1. According to Milton L. Rock, incentives are defined as ‘variable rewards granted according to variations in the achievement of specific results’.
2. 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 Labor 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’.

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 incentivesMany 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:

1. Incentive plans motivate workers for higher efficiency and productivity.

2. It can improve the work-flow and work methods.

3. Incentive plans make employees hardworking and innovative.

4. When employees are dedicated, supervision costs can be reduced.

5. The National Commission on Labor says that under our conditions, wage incentives are the cheapest, quickest, and sure means of increasing productivity.

6. Incentive plans help establish positive response in an organization.

7. It helps workers improve their standard of living.

8. The other benefits offered by incentive plans are reduced turnover, reduced absenteeism, and reduced lost time.

Disadvantages of Incentive Plan:

1. Incentive plans can lead to disputes among workers, since some earn more than others.

2. Hunger for money among the workers forces them to overwork, which may affect their heath.

3. Some workers may involve in malpractices in order to earn more money.

4. For enhanced incentives, they may sacrifice quality.

5. It also leads to corruption by falsifying the production records.

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:

1. Financial incentives:

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

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:

1. The supervisors measure the pay of employees and compare it with targets and plans.
2. The supervisor analyses the factors behind work performances of employees.
3. The employers are in position to guide the employees for a better performance.

A fringe benefit is a form of pay for the performance of services. For example, you provide an employee with a fringe benefit when you allow the employee to use a business vehicle to commute to and from work. Although generally voluntary, some of the most important “fringe” benefits have actually come to be expected from employees. These major types of fringe benefits include health insurance, retirement plans and paid time off. Information regarding these benefits is covered in the Health Insurance, Retirement Plans and Leave and Time Off sections. Fringe benefits covered in this section include:

- Flexible Hours
- Transportation Benefits
- Bonuses
- Severance
- Adoption Assistance
- Childcare Assistance
- Educational Assistance
- Employee Assistance Programs (EAPs)
- Life Insurance
- Long-Term Care Insurance
- Company Vehicles
- Chart of Tax Treatment of Various Types of Fringe Benefits

What are 'Fringe Benefits'

Fringe benefits are benefits provided by an employer to an employee, independent contractor or partner, some of which are tax-exempt when certain conditions are met. Recipients of taxable fringe benefits have to include the fair market value of the benefit in their taxable income for the year.

BREAKING DOWN

Fringe benefits commonly include health insurance, group-term life insurance coverage, educational assistance, childcare and assistance reimbursement, cafeteria plans, employee discounts, employee stock options, personal use of a company-owned vehicle and others. Whether a fringe benefit is tax-exempt depends on the type and, in some cases, the value of the benefit. By default, all fringe benefits are taxable unless they are specifically named as being tax-exempt.

Tax-Exempt Benefits

Benefits that are exempt from income tax include the following:

- accident and health benefits
- achievement awards
- adoption assistance
- athletic facilities
- dependent care assistance
- educational assistance
- employee discounts
- employee stock options
- employer-provided cell phones
- group-term life insurance coverage
- health savings accounts (HSA)

- lodging on business premises
- meals
- moving expense reimbursements
- no-additional-cost services
- retirement planning services
- commuting benefits
- tuition reduction
- working conditions benefits

All of these exemptions are subject to certain conditions. For example, achievement awards are only exempt up to a value of $1,600 for qualified plan awards and a value of $400 for non-qualified plan awards. For moving expenses, the new job location must be at least 50 miles farther away from the employee's old home than the old job location. Some exemptions are not available to highly compensated employees if the benefits favor them over other employees; these include employee discounts, adoption assistance and dependent care assistance.Most fringe benefits that are income tax-exempt are also exempt from Social Security, Medicare and Federal Unemployment taxes, but not all: adoption assistance is exempt from income tax only, for example.

Any fringe benefit not named above, or any of the benefits named above which does not conform to the IRS's rules for exemption, is taxable. Working condition benefits are taxable to the extent that they are for personal use. For example, if an employee receives a company computer, their taxable income would include the computer's fair market value multiplied by the proportion of time they devote to personal use. If they only use it for business purposes, there's no additional taxable income. If 80% of their use is personal, their taxable income must include 80% of the value of the computer.

Valuing Fringe Benefits

In general, fringe benefits are valued at fair market value. This is the amount the employee would pay for the same benefit in a third-party, arms-length transaction. All relevant circumstances, such as geographic area and current market conditions, must be taken into account. The fair market value may be different from the actual cost to the employer of providing the benefit; this fact does not affect the valuation. Valuing the use of a company vehicle is more complicated. Using the fair market value is one option. If the car could have been leased on a cents-per-mile basis, the miles driven can be multiplied by an IRS-determined standard cents-per-mile rate If the employer sponsors a ride-sharing program, three or more employees regularly commute to work in a company vehicle, and the employees are not allowed to use the vehicle for personal reasons, the employer can use a rate of per employee per commute. Under certain circumstances, the employer can use a daily or prorated annual lease value determined by the IRS.

Performance appraisal

. Identify areas where improvement is required so that training can be provided. Give incentives and bonus to encourage employees etc. Method of performance appraisal 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

Traditional method of performance appraisal has been used by companies for very long time. A common feature of these methods is they are all relatively simple and involve appraisal by one senior.

1. Check list method:-

In this method the senior, the boss is given a list of questions about the junior. These questions are followed by check boxes. The superior has to put a tick mark in any one of the boxes This method can be explained with the following eg. Y N Does the employee have leadership qualities? Y N Is the employee capable of group efforts? Y N Has the employee shown analytical skills? on the job As seen in the above . A questioner containing questions is given to the senior. This method is an extremely simple method and does not involve a lot of time. The same set of questioners can be given foe every employee so that there is uniformity in selecting employee.

2**. Confidential report:-**

This method is very popular in government departments to appraise IAS officers and other high level officials. In this method the senior or the boss writes a report about the junior giving him details about the performance about the employee. The +ve and – ve traits, responsibilities handled on the job and recommendations for future incentives or promotions. The report is kept highly confidential and access to the report is limited.

3. **Critical incident method:-**

In this method critical or important incidents which have taken place on this job are noted down along with employee's behavior and reaction in all these situations. Both +ve and –ve incidents are mentioned. This is followed by an analysis of the person, his abilities and talent, recommendations for the future incentives and promotions.

4. Ranking method :-

In this method ranks are given to employees based on their performance. There are different methods of ranking employees. Simple ranking method Alternate ranking method Paired comparison method i. Simple ranking method :- Simple ranking method refers to ranks in serial order from the best employee eg. If we have to rank 10 best employees we start with the first best employee and give him the first rank this is followed by the 2nd best and so on until all 10 have been given ranks.

ii. Alternate ranking :- In this method the serial alternates between the best and the worst employee. The best employee is given rank 1 and then we move to the worst employee and give him rank 10 again to 2nd best employee and give him rank 2 and so on.

iii. Paired comparison :- In this method each and every person is the group, department or team is compared with every other person in the team/group/department. The comparison is made on certain criteria and finally ranks are given. This method is superior because it compares each and every person on certain qualities and provides a ranking on that basis.

5. Graphic rating scale :-

Graphic rating scale refers to using specific factors to appraise people. The entire appraisal is presented in the form of a chart. The chart contains certain columns which indicate qualities which are being appraised and other columns which specify the rank to be given. Eg. Employee A Quality of work Quantity of work Intelligence Excellent Very good good satisfactory poor The senior has to put a tick mark for a particular quality along with the ranking. Such charts are prepared for every employee. According to the department in which they work. Sometimes the qualities which are judged may change depending upon the department. 6. Narrated essay :- In this method the senior or the boss is supposed to write a narrative essay describing the qualities of his junior. He may describe the employees strength and weakness, analytical abilities etc. the narrative essay ends with a recommendation for future promotion or for future incentives.

Modern methods :

Modern methods of appraisal are being increasingly used by companies. Now days one of the striving feature that appraisal involves is, the opinion of many people about the employee and in some cases psychological test are used to analyze the ability of employee. These methods are as follows

1. Role analysis :-

In this method of appraisal the person who is being apprised is called the focal point and the members of his group who are appraising him are called role set members. These role set members identify key result areas (KRA 2 marks) (areas where you want improvement are called KRA) which have to be achieved by the employee. The KRA and their improvement will determine the amount of incentives and benefits which the employee will receive in future. The appraisal depends upon what role set members have to say about the employee.

2. Assessment centers: -

Assessment centers (AC) are places where the employee's are assessed on certain qualities talents and skills which they possess. This method is used for selection as well as for appraisal. The people who attend assessment centers are given management games, psychological test, puzzles, questioners about different management related situations etc. based on their performance in these test an games appraisal is done.

3. Management by objective:-

This method was given by Petter Druckard in 1974. It was intended to be a method of group decision making. It can be use for performance appraisal also. In this method all members of the of the department starting from the lowest level employee to the highest level employee together discus, fix target goals to be achieved, plan for achieving these goals and work together to achieve them. The seniors in the department get an opportunity to observe their junior- group efforts, communication skills, knowledge levels, interest levels etc. based on this appraisal is done.

4. Behavioral anchored rating scale: -

In this method the appraisal is done to test the attitude of the employee towards his job. Normally people withapproach or attitude view and perform their job differently as compared to people with a –ve approach.

5. Psychological testing:-

In this method clinically approved psychological test are conducted to identify and appraise the employee. A feedback is given to the employee and areas of improvement are identified.

6**. Human resource audit/accounting: -**

In this method the expenditure on the employee is compared with the income received due to the efforts of the employee. A comparison is made to find out the utility of the employee to the organization. The appraisal informs the employee about his contribution to the company and what is expected in future.

7. 360* appraisal: -

In this method of appraisal and all round approach is adopted. Feedback about the employee is taken from the employee himself, his superiors, his juniors, his colleagues, customers he deals with, financial institutions and other people he deals with etc. Based on all these observations an appraisal is made and feedback is given. This is one of the most popular methods. Process of performance appraisal Performance appraisal is defined by Wayne Cascio as "the systematic description of employee's job relevant, strength, weakness. Process of performance appraisal followed by different companies is different. A general procedure is explained below with the help of a diagram. Process of performance appraisal Setting performance standards Communicating standards set to the employee Measuring performance Comparing performance with standard Discussing result Collective action Implementation and review 1. Setting performance standards: - In this very first step in performance appraisal the HR department decides the standards of performance i.e. they decide what exactly is expected from the employee for each and every job. Sometimes certain marking scheme may be adopted eg. A score 90/100 = excellent performance, a score so 80/100 = good. And so on. 2. Communication standard set to the employee: - Standards of performance appraisal decided in 1st step are now conveyed to the employee so that the employee will know what is expected from him and will be able to improve his performance. 3. Measuring performance: - The performance of the employee is now measure by the HR department, different methods can be used to measure performance i.e. traditional and modern method. The method used depends upon the company's convenience. 4. Comparing performance with standard: - The performance of the employee is now judged against the standard. To understand the score achieved by him. Accordingly we come to know which category of performance the employee falls into i.e. excellent, very good, good, satisfactory etc. 5. Discussing result: - The results obtained by the employee after performance appraisal are informed or conveyed to him by the HR department. A feedback is given to the employee asking him to change certain aspects of his performance and improve them. 6. Collective action: - The employee is given a chance or opportunity to improve himself in the areas specified by the HR department. The HR department constantly receives or keeps a check on the employee's performance and notes down improvements in performance. 7. Implementation and review: - The performance appraisal policy is to be implemented on a regular basis. A review must be done from time to time to check whether any change in policy is required. Necessary changes are made from time to time. Limitations of performance appraisal Performance appraisal are defined by Wayne Cascio as "the systematic description of employee's job relevant, strength, weakness. The following are the limitations of performance appraisal 1. Halo effect: - In this case the superior appraises the person on certain positive qualities only. The negative traits are not considered. Such an appraisal will not give a true picture about the employee. And in some cases employees who do not deserve promotions may get it. 2. Horn effect: - In this case only the negative qualities of the employee are considered and based on this appraisal is done. This again will not help the organization because such appraisal may not present a true picture about the employee. 3. Central tendency: - In this case the superior gives an appraisal by giving central values. This prevents a really talented employee from getting promotions he deserves and some employees who do not deserve anything may get promotion. 4. Leniency and strictness: - Some bosses are lenient in grading their employees while some are very strict. Employee who really deserves promotions may lose the opportunity due to strict bosses while those who may not deserve may get benefits due to lenient boss. 5. Spillover effect: - In this case the employee is judged +vely or –vely by the boss depending upon the past performance. Therefore although the employee may have improved performance, he may still not get the benefit. 6. Fear of losing subordinates and spoiling relations: - Many bosses do not wish to spoil their relations with their subordinates. Therefore when they appraise the employee they may end up giving higher grades which are not required. This is a n injustice to really deserving employees. 7. Goodwill and techniques to be used: - Sometimes a very strict appraisal may affect the goodwill between senior and junior. Similarly when different departments in the same company use different methods of appraisal it becomes very difficult to compare employees. 8. Paper work and personal biased: - Appraisal involves a lot of paper work. Due to this the work load of HR department increases. Personal bias and prejudice result in bosses favoring certain people and not favoring others. Advantages/needs/importance/use/purpose of performance appraisal Performance appraisal is defined by Wayne Casio as "the systematic description of employee's job relevant, strength, weakness. 1. Feedback to the employee: - Performance appraisal is beneficial because it provides feedback to the employee about his performance. It identifies the areas for improvement so that employee can improve itself. 2. Training and development: - Due to performance appraisal it is easy to understand what type of training is required for each employee to improve himself accordingly training programs can be arranged. 3. Helps to decide promotion: - Performance appraisal provides a report about the employee. Based on this report future promotions are decided, incentives, salary increase is decided. 4. Validation of selection process :- Through performance appraisal the HR department can identify whether any changes are required in the selection process of the company normally a sound selection process results in better performance and positive appraisal. 5. Deciding transfers and lay off of the worker: - Employee with specific talent can be transferred to places where their talents are utilized properly; similarly decisions regarding termination of employees depend upon performance appraisal reports. 6. Human resource planning and career development:- Companies can plan for future vacancies at higher levels based on performance appraisal reports. Similarly career planning can be done for the employee on the performance appraisal report.

Objectives of Performance Appraisal:

Performance Appraisal can be done with following objectives in mind:

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

Advantages of Performance Appraisal

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

1. **Promotion:** Performance Appraisal helps the supervisors to chalk out the promotion programmers for efficient employees. In this regards, inefficient workers can be dismissed or demoted in case.
2. **Compensation:** Performance Appraisal helps in chalking out compensation packages for employees. Merit rating is possible through performance appraisal. Performance Appraisal tries to give worth to a performance. Compensation packages which include bonus, high salary rates, extra benefits, allowances and pre-requisites are dependent on performance appraisal. The criteria should be merit rather than seniority.
3. **Employees Development:** The systematic procedure of performance appraisal helps the supervisors to frame training policies and programmer. It helps to analyses strengths and weaknesses of employees so that new jobs can be designed for efficient employees. It also helps in framing future development programmer.
4. **Selection Validation:** Performance Appraisal helps the supervisors to understand the validity and importance of the selection procedure. The supervisors come to know the validity and thereby the strengths and weaknesses of selection procedure. Future changes in selection methods can be made in this regard.
5. **Communication:** For an organization, effective communication between employees and employers is very important. Through performance appraisal, communication can be sought for in the following ways:
    a. Through performance appraisal, the employers can understand and accept skills of subordinates.
    b. The subordinates can also understand and create a trust and confidence in superiors.
    c. It also helps in maintaining cordial and congenial labour management relationship.
    d. It develops the spirit of work and boosts the morale of employees.
6. **Motivation:** Performance appraisal serves as a motivation tool. Through evaluating performance of employees, a person's efficiency can be determined if the targets are achieved. This very well motivates a person for better job and helps him to improve his performance in the future.

Following are the tools used by the organizations for Performance Appraisals of their employees.

1. Ranking
2. Paired Comparison
3. Forced Distribution
4. Confidential Report
5. Essay Evaluation

6. Critical Incident
7. Checklists
8. Graphic Rating Scale
9. BARS
10. Forced Choice Method
11. MBO
12. Field Review Technique
13. Performance Test

We will be discussing the important performance appraisal tools and techniques in detail.

1. **Ranking Method**

The ranking system requires the rater to rank his subordinates on overall performance. This consists in simply putting a man in a rank order. Under this method, the ranking of an employee in a work group is done against that of another employee. The relative position of each employee is tested in terms of his numerical rank. It may also be done by ranking a person on his job performance against another member of the competitive group.

Advantages of Ranking Method

i. Employees are ranked according to their performance levels.
ii. It is easier to rank the best and the worst employee.

Limitations of Ranking Method

- The "whole man" is compared with another "whole man" in this method. In practice, it is very difficult to compare individuals possessing various individual traits.
- This method speaks only of the position where an employee stands in his group. It does not test anything about how much better or how much worse an employee is when compared to another employee.
- When a large number of employees are working, ranking of individuals become a difficult issue.
- There is no systematic procedure for ranking individuals in the organization. The ranking system does not eliminate the possibility of snap judgments.

2. **Forced Distribution method**

This is a ranking technique where raters are required to allocate a certain percentage of rates to certain categories (e.g.: superior, above average, average) or percentiles (e.g.: top 10 percent, bottom 20 percent etc). Both the number of categories and percentage of employees to be allotted to each category are a function of performance appraisal design and format. The workers of outstanding merit may be placed at top 10 percent of the scale; the rest may be placed as 20 % good, 40 % outstanding, 20 % fair and 10 % fair.

Advantages of Forced Distribution

i. This method tends to eliminate raters bias

ii. By forcing the distribution according to pre-determined percentages, the problem of making use of different raters with different scales is avoided.

Limitations of Forced Distribution

- ✓ The limitation of using this method in salary administration, however, is that it may lead low morale, low productivity and high absenteeism.
- ✓ Employees who feel that they are productive, but find themselves in lower grade (than expected) feel frustrated and exhibit over a period of time reluctance to work.

3. Critical Incident techniques

Under this method, the manager prepares lists of statements of very effective and ineffective behavior of an employee. These critical incidents or events represent the outstanding or poor behavior of employees or the job. The manager maintains logs of each employee, whereby he periodically records critical incidents of the workers behavior. At the end of the rating period, these recorded critical incidents are used in the evaluation of the worker's performance. Example of a good critical incident of a Customer Relations Officer is: March 12 - The Officer patiently attended to a customer's complaint. He was very polite and prompts in attending the customer's problem.

Advantages of Critical Incident techniques

i. This method provides an objective basis for conducting a thorough discussion of an employee's performance.

ii. This method avoids regency bias (most recent incidents are too much emphasized)

Limitations of Critical Incident techniques

- ❖ Negative incidents may be more noticeable than positive incidents.
- ❖ The supervisors have a tendency to unload a series of complaints about the incidents during an annual performance review sessions.
- ❖ It results in very close supervision which may not be liked by an employee.
- ❖ The recording of incidents may be a chore for the manager concerned, who may be too busy or may forget to do it.

4. Checklists and Weighted Checklists

In this system, a large number of statements that describe a specific job are given. Each statement has a weight or scale value attached to it. While rating an employee the supervisor checks all those statements that most closely describe the behavior of the individual under assessment. The rating sheet is then scored by averaging the weights of all the statements checked by the rater. A checklist is constructed for each job by having

Persons who are quite familiar with the jobs. These statements are then categorized by the judges and weights are assigned to the statements in accordance with the value attached by the judges.

Advantages of Checklists and Weighted Checklists

i. Most frequently used method in evaluation of the employees' performance.

Limitations of Checklists and Weighted Checklists

- This method is very expensive and time consuming
- Rater may be biased in distinguishing the positive and negative questions.
- It becomes difficult for the manager to assemble, analyze and weigh a number of statements about the employees characteristics, contributions and behaviors.

Compensation & Benefits

Statutory Benefits

Statutory is defined as something "fixed, authorized, or established by statute", therefore the benefit packages that Canadian employers offer, are designed to enhance the well-being of their employee base, and will contain both statutory and discretionary benefits. Statutory benefits are some of the benefits also referred to as "employer paid" benefits.

In this Section:

- Employment Insurance
- Canada/Quebec Pension Plans
- Statutory obligations

Employment Insurance

Employment Insurance provides temporary financial assistance for unemployed Canadians while they look for work or upgrade their skills. People who are sick, pregnant or caring for a newborn or adopted child, as well as those who must care for a family member who is seriously ill with a significant risk of death, may also be assisted by Employment Insurance.

Employment Insurance (EI) premiums are calculated on, and deducted from, an employee's maximum insurable earnings (MIE), which are insurable salary, wages, cash allowances and other remuneration, paid to an employee. The Canada Revenue Agency is responsible for determining what is considered insurable employment and which earnings are insurable.

Most employees in Canada are considered to be in “insurable employment” and covered by EI. As of January 1, 1997, every hour of work is insurable up to a yearly maximum earnings limit, replacing the previously required weekly minimum earnings or hours worked.All employees in insurable employment must have EI premiums deducted from their earnings. Premiums are set annually as a rate per $100 of Insurable Earnings up to the level of Maximum Insurable Earnings. Their employers are also required to make payments at 1.4 times the employee rate, unless Human Resources and Skills Development Canada has granted the employer a reduced rate.
Procedures for premium deductions and remittances are outlined in “Canada Revenue Agency Instructions to Employers”

Manulife Financial

Types of Employment Insurance benefits

There are several types of benefits available to Canadians, depending on their situation.

Regular Benefits

These benefits are available to individuals who lose their jobs through no fault of their own (for example, due to shortage of work, seasonal layoffs, or mass layoffs) and who are available for and able to work, but can’t find a job.

Pension

The minimum eligibility period for receipt of pension is 10 years. A Central Government servant retiring in accordance with the Pension Rules is entitled to receive superannuation pension on completion of at least 10 years of qualifying service.In the case of Family Pension the widow is eligible to receive pension on death of her spouse after completion of one year of continuous service or before even completion of one year if the Government servant had been examined by the appropriate Medical Authority and declared fit for Government service.Pension is calculated with reference to average emoluments namely, the average of the basic pay drawn during the last 10 months of the service or last basic pay drawn whichever is beneficial. Full pension with 10/20 years of qualifying service is 50% of the average emoluments or last basic pay drawn whichever is beneficial. Before 1.1.2006, for qualifying service of less than 33 years, amount of pension was proportionate to the actual qualifying service broken into completed half-year periods. For example, if total qualifying service is 30 years and 4 months (i.e. 61 half-year periods), pension will be calculated as under:-

Pension amount = **R**/2(X)61/66

Where **represents** average reckonable emoluments for last 10 months of qualifying service or the last pay drawn as opted by the govt servant. Minimum pension presently is Rs. 3500 per month. Maximum limit on pension is 50% of the highest pay in the Government of India (presently Rs. 45,000) per month. Pension is payable up to and including the date of death

Commutation of Pension

A Central Government servant has an option to commute a portion of pension, not exceeding 40% of it, into a lump sum payment with effect from 1.1.1996. No medical examination is required if the option is exercised within one year of retirement. If the option is exercised after expiry of one year, he/she will have to undergo medical examination by the specified competent authority.

Lump sum payable is calculated with reference to the Commutation Table constructed on an actuarial basis.

The monthly pension will stand reduced by the portion commuted and the commuted portion will be restored on the expiry of 15 years from the date of receipt of the commuted value of pension. Dearness Relief, however, will continue to be calculated on the basis of the original pension (i.e. without reduction of commuted portion).The formula for arriving for commuted value of Pension (CVP) is CVP 40(X) Commutation factor* (X)12 The commutation factor will be with reference to age next birthday on the date on which commutation becomes absolute as per the New Table as Annexure to this Deptt's O.M. No. 38/37/08-P&PW (A) dated 2.9.2008

Death/Retirement Gratuity

Retirement Gratuity

This is payable to the retiring Government servant. A minimum of 5 years qualifying service and eligibility to receive service gratuity/pension is essential to get this one time lump sum benefit.

Retirement gratuity is calculated @ 1/4th of a month Basic Pay plus Dearness Allowance drawn before retirement for each completed six monthly period of qualifying service. There is no minimum limit for the amount of gratuity. The retirement gratuity payable is 16times the Basic Pay, subject to a maximum of Rs. 10 lakes.

Death Gratuity

This is a one-time lump sum benefit payable to the widow/widower or the nominee of a permanent or a quasi-permanent or a temporary Government servant, including CPF

Beneficiaries, dying in harness. There is no stipulation in regard to any minimum length of service rendered by the deceased employee. Entitlement of death gratuity is regulated as under:

Qualifying Service	Rate
Less than one year	2 times of basic pay
One year or more but less than 5 years	6 times of basic pay
5 years or more but less than 20 years	12 times of basic pay
20 years of more	Half of emoluments for every completed 6 monthly period of qualifying service subject to a maximum of 33 times of emoluments.

Maximum amount of Death Gratuity admissible is Rs. 10 lakh. 1.1.2006

Service Gratuity

A retiring Government servant will be entitled to receive service gratuity (and not pension) if total qualifying service is less than 10 years. Admissible amount is half month basic pay last drawn for each completed 6 monthly period of qualifying service. There is no minimum or maximum monetary limit on the quantum. This one time lump sum payment is distinct from and is paid over and above the retirement gratuity.

Issue of No Demand Certificate

Dues owed by the retiring employees on account of License Fee for Government accommodation, advances, over payment of pay and allowances are required to be assessed by the Head of Office and intimated to the Accounts Officer two months in advance of the date of retirement so that these are recovered from retirement gratuity before payment. For this purpose the License Fee for those in occupation of Government accommodation is taken into account up to the end of the permissible period for which accommodation can be retained after retirement under the Rules on normal rent. The recovery of License Fee beyond that period is the responsibility of the Directorate of Estates. If, for any reason final dues cannot be assessed on time, then 10% of gratuity is withheld from gratuity.

General Provident Fund and Incentives

As per General Provident Fund (Central Services) Rules, 1960, all temporary Government servants after a continuous service of one year, all re-employed pensioners (Other than those eligible for admission to the Contributory Provident Fund) and all permanent Government servants are eligible to subscribe to the Fund. A subscriber, at the time of joining the fund is required to make a nomination, in the prescribed form, conferring on one or more persons the right to receive the amount that may stand to his credit in the fund in the event of his death, before that amount has become payable or having become payable has not been paid. A subscriber shall subscribe monthly to the Fund except during the period when he is under suspension. Subscriptions to the Provident Fund are stopped 3 months prior to the date of

Superannuation. Rates of subscription shall not be less than 6% of subscriber emoluments and not more than his total emoluments. Rate of interest on GPF accumulations with effect from 1.4.2009 is 8% compounded annually and the rate of interest will vary according to notifications of the Government. The Rules provide for drawl of advances/ withdrawals from the Fund for specific purposes.

Deposit Linked Insurance Revised Scheme

Under the GPF Rules, on the death of subscriber, the person entitled to receive the amount standing to the credit of the subscriber shall be paid an additional amount equal to the average balance in the account during the 3 years immediately preceding the death of the subscriber subject to certain conditions provided in the relevant Rule. The additional amount payable under that Rule shall not exceed Rs. 60,000/-. To get this benefit, the subscriber should have put in at least 5 years service at the time of his/her death.

Contributory Provident Fund

The Contributory Provident Fund Rules (India), 1962 are applicable to every non- pensionable servant of the Government belonging to any of the services under the control of the President. A subscriber, at the time of joining the Fund is required to make a nomination in the prescribed Form conferring on one or more persons the right to receive the amount that may stand to his credit in the Fund in the event of his death, before that amount has become payable or having become payable has not been paid.

A subscriber shall subscribe monthly to the Fund when on duty or Foreign Service but not during the period of suspension. Rates of subscription shall not be less than 10% of the emoluments and not more than his emoluments. The employer’s contribution at that percentage prescribed by the Government will be credited to the subscribers account and this is 10%. Rate of interest with effect from 1.4.2009 is 8% compounded annually. The Rules provide for drawls of advances/ withdrawals from the CPF for specific purposes. As in GPF Rules, the CPF Rules also provide for Deposit Linked Insurance Revised Scheme.

Leave Encashment

Encashment of leave is a benefit granted under the CCS (Leave) Rules and not a pensioner benefit. Encashment of Earned Leave/Half Pay Leave standing at the credit of the retiring Government servant is admissible on the date of retirement subject to a maximum of 300 days. There is no provision under the Rule for payment of interest on delayed payment of Leave Encashment.

Central Government Employees Group Insurance Scheme

A portion of monthly contributions paid while in service is credited in a Saving Fund, on which interest accrues. A Government servant while entering service has to apply in Form No. 4 of the above Scheme to the Head of Office, who shall issue a sanction for the payment of subscriber accumulation in the Savings Fund segment together with interest and arrange for its Disbursement, soon after retirement. Payments under this Scheme are made in accordance with the Table of Benefit which takes in to account interest up to the date of cessation of service. Insurance cover benefit under this Scheme is available to the family in the event of death of the subscriber. No interest is payable on account of delayed payments under this Scheme.

UNIT-IV

PERFORMANCE BASED PAY

Managerial remuneration pays commission; performance based pay system incentives, executives' Compensation plan and packages.

UNIT-4

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

Ensure senior management is properly staffed.

Major Benefits Offered to Directors

- Retirement programs
- Matching director's gift to college or university
- Deferral of cash compensation until retirement
- Grants to charity
- Medical insurance
- Payment of spouses' travel expenses

Corporate Directors: Recent Changes Boards now include more outside directors than inside directors Along with shift in duties, pay has moved towards

Pay for performance Stock options have gained prominence in the corporate directors package

Components of an Executive Compensation Package

- Base salary
- Short-term (annual) incentives or bonuses
- Long-term incentives and capital appreciation plans
- Executive benefits
- Perquisites
- Executive Pay & Performance
- Pay is linked to company performance

- ❖ Company performance exceeds industry standards, big bonuses and stock payouts follow
- ❖ Poor financial performance means much smaller pay packages
- ❖ Ways to rein in executive compensation
- ❖ Stockholders can vote/ propose limits to compensation
- ❖ Use of tally sheet

❖Increase government regulation

Managerial Remuneration – Director's Salary as per Companies Act

As per the Companies Act, 2013, Managerial Person means a managing director, whole-time director or manager of a company incorporated in India. Managerial renumeration includes pay, compensation, or reward for work which is earned by a managerial person. Companies Act, 2013 has certain restrictions on pay of Managerial Renumeration. In this article, we look at such restrictions.

Applicability

Private limited and public limited companies are both required to comply with the regulations pertaining to payment of managerial remuneration. Hence, its important for any person becoming a Director of a company to be aware of Managerial Remuneration, as per Companies Act, 2013.

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.
- Expenditure incurred by the company on behalf of its managerial person for indemnifying them against any liability in respect of any negligence, default, misfeasance, breach of duty or breach of trust for which they maybe guilty in relation to the company and if such person is proved to be guilty, the premium paid on such insurance would be treated as part of its renumeration.
- Expenditure incurred by the company for maintenance of vehicles pertaining to personal use by director or manager.

Managerial Remuneration – Company Having Profit

A company can pay any remuneration by way of salary, dearness allowance, perquisites, commission and other allowances not exceeding 5% of its net profit for one managerial person. If there are more than one managerial person, then managerial remuneration cannot exceed 10% of net profit for all of the managerial persons together.

Managerial Persons covered are Managing Director, Whole-time Director, Part time Directors and managers who shall be paid remuneration subject to and in accordance with provisions of Section 197 of the Companies Act, 2013. As compared to various sections and chapters viz section 198, 309, etc of Companies Act, 1956 which deals with Managerial remunerations separately, the new Act has solved this issue by consolidating all provisions under a single provision of 197.

APPLICABILITY OF PROVISIONS TO WHOM:

Section 196 deals with appointment of Managerial Personnel an d is applicable to private companies and public companies both while section 197 which deals with remuneration payable to managerial personnel is applicable to public companies only. Schedule V is partly applicable to private companies (i.e. in relation to Part I that deals with appointment) and partly not applicable to private companies (i.e. Part II that deals with remuneration)

DEFINITION AND COMPOSITION OF WORD MANAGERIAL REMUNERATION:

The managerial remuneration shall be payable to a person appointed within the meaning of section 196 of the Companies Act, 2013. Under the Companies Act, 2013 the provisions of payment of managerial remuneration are governed by Section 197, 198,199 and Schedule V. The word remuneration is defined under section 2 (78) of Companies Act, 2013 which says that "remuneration" means any money or its equivalent given or passed to any person for services rendered by him and includes perquisites as defined under the Income Tax Act, 1961. Section 17(2) of Income Tax Act, 1961 has given an inclusive definition of the term "perquisite". This clause comprises of eight sub-clauses followed by two provisos, and they deal with the following perquisites:

1. Value of rent-free accommodation provided to the assesses by his employer.

2. Value of any concession in respect of rent respecting any accommodation provided to the assesses by his employer.

3. The value of any benefit or amenity granted or provided free of cost or at a concessional rate to employee directors; or to employees who have substantial interest and certain specified employees with some exceptions.

4. Sums paid by the employer in respect of any obligation which, but for such obligation, would have been payable by the assesses.

5. Sums payable by the employer to affect an assurance on the life of the assesses– employee or to effect a contract for an annuity.

6. W.E.F assessment year 2010-11, value of securities / sweat equity shares allotted or transferred by the employer or former employer to the employee.

7. W.E.F assessment year 2010-11 a contribution made by an employer to an approved superannuation fund to the extent it exceeds Rs 1 lakh.

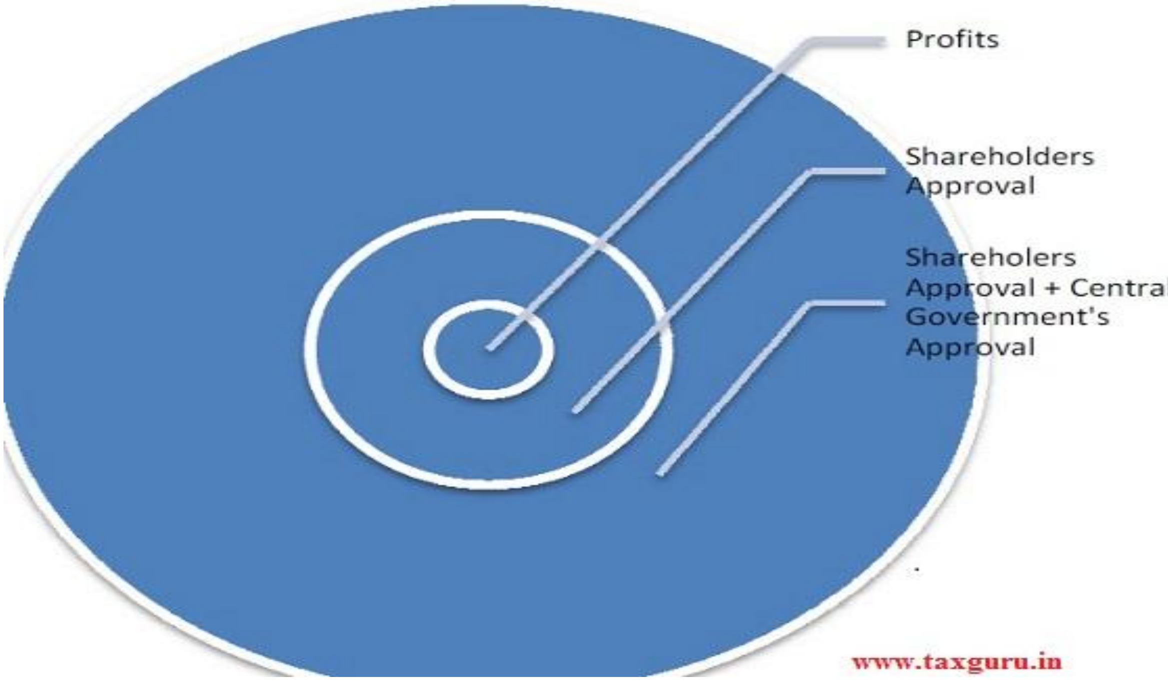
8. Value of any other fringe benefit or amenity as may be prescribed.

9. The first proviso states that certain medical benefits are not treated as perquisites in certain specific situations.

Any expenditure incurred by the Company to affect any insurance on the life of, or to provide any pension, annuity or gratuity for, any of the persons aforesaid or spouse or child shall be included in managerial remuneration. We can say that definition of remuneration as well as perquisites are inclusive in nature and hence it covers every amount that the company pays or spends for or for the benefit of a Director, in whatever form and by whatever name. Moreover, any remuneration for services rendered by any such director which are of professional nature shall not be included in the managerial remuneration. Further, a director may receive remuneration by way of a fee for each meeting of the Board, or a committee thereof attended by him.

Where if insurance is taken by a company on behalf of its Key Managerial Personnel for indemnifying against any liability in respect of any negligence, default, misfeasance, breach of duty or breach of trust for which they may be guilty in relation to the company, the premium paid on such insurance shall not be treated as part of remuneration. But if such Key Managerial Personnel is found guilty then such insurance shall be treated as income part of remuneration. If a manager or any director enjoys benefit or amenity without the company incurring any expenditure there for , such benefit or amenity may not be included in the managerial remuneration.An Independent director shall not be entitled to receive stock option. However, in case of other directors, Stock options would be part of remuneration.

THREE WAYS TO MANAGERIAL REMUNERATION:



1. Automatic Route by Profits.

2. Shareholders' Approval Route for more.

3. Shareholders' and Central Government for even more.

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.

MAXIMUM REMUNERATION PAYABLE BY A COMPANY TO ITS MANAGERIAL PERSONNEL:

If a Company wants to pay remuneration in excess of the above limit payable then a Company shall have to follow Schedule V of the Companies Act, 2013.Part II of Schedule V Remuneration Payable by a company in case where is no profit or inadequacy of profit without central government is detailed below

Where Effective Capital is	Limit of Yearly Remuneration payable shall not exceed (Rupees)
(i)Negative or less than 5 Crores	30 lakhs
(ii) 5 Crores and above but less than Rs 100 Crores	42 lakhs
(iii) 100 crores and above but less than 250 crores	60 lakhs
(iv) 250 Crores and above	60 lakhs plus 9.91% of the effective capital in excess of Rs 250 crores

Acompany 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.

However, Section IV Part II of Schedule V states that a managerial person shall be eligible for the following perquisites which shall not be included in the computation of the ceiling on remuneration specified in Section II and Section III:—

(a) Contribution to provident fund, superannuation fund or annuity fund to the extent these either singly or put together are not taxable under the Income-tax Act, 1961 (43 of 1961);

(b) Gratuity payable at a rate not exceeding half a month's salary for each completed year of service; and

(c) Encashment of leave at the end of the tenure.

Looking at clause it is clear that any contribution made to provident fund, superannuation fund or annuity fund in excess of taxable limits under IT Act, 1961 shall not be included for the purpose of calculation of managerial remuneration in the event of inadequate profits or nil profits. The law herein clearly prescribes what value of perquisites shall not be considered as part of remuneration in cases of inadequate profits. Further, had the intent of law been to include only taxable amount of perquisites in the definition of 'remuneration' under section then this clause would have been rendered meaningless. Thus, one can safely presume that where the intent was to specifically cover taxable value of perquisites law has been drafted clearly.

Therefore, to conclude, for the purpose of calculation of remuneration:

i. in the event of adequacy of profits – the entire value of perquisites as per IT Act, 1961 will have to be considered.

ii. In the event of inadequacy of profits of nil profits – only the taxable amount of perquisites should be considered. This is relevant only in case of managerial person.

While an expatriate managerial person shall be eligible for the following which shall not be considered in the definition of remuneration under Schedule V:

a) Children's education allowance

b) Holiday package studying outside India or family staying outside India

c) Leave travel concession

If any of such directors receive any amount in excess of limits mentioned under the provisions of the Act, he shall refund such sums to the company and until such sum is refunded, hold it in trust for the company .Further, if a Company wants to pay remuneration exceeding Schedule V of the Act then it shall require a Central Government approval. Section 197 of the Company Act 2013 also does not bar a managing or whole-time director of a company to receive compensation from its holding company or subsidiary provided the same should be disclosed in the director's report.

Meaning of Effective Capital:

For the purpose of Section 197 of Companies Act'2013, the term "Effective Capital" means:

- The aggregate of paid up share capital (excluding share application money pending allotment),
- Share premium,
- Reserves and Surplus excluding Revaluation Reserve,
- Long term loans and deposits repayable after one year, as reduced by –
- The aggregate of investments (except investments made by an investment company whose principal business is dealing in shares, stocks, debentures or any other securities),
- Accumulated losses, and
- Preliminary expenses not written off

This is also important to know as to when the effective capital should be calculated for the purpose of payment of managerial remuneration. In this regard, the following should be noted:

1. If the appointment of managerial person is made in the year in which the company is incorporated, then the effective capital should be calculated on the date of appointment of such managerial person.

2. In case other than above, the effective capital should be calculated on the last day of the Financial Year immediately preceding the Financial Year in which the appointment of managerial person is made.

PROFIT OR INADEQUATE PROFIT IN SPECIAL CIRCUMSTANCES –

In certain special circumstances, a company suffering from no profit or inadequate profit may pay managerial remuneration in excess of limits specified in Section II above and that too without the approval of Central Government. Those circumstances are specified below:

1. The company paying managerial remuneration in excess of maximum specified limits is either a foreign company or a company who has got approval of its shareholders in this regard and the total managerial remuneration payable by such company is within the permissible limits of Section 197 of Companies Act'2013.

2. Where the company is:

A newly incorporated company and is in existence for last seven years from the date of its incorporation, or
A sick company in respect of which a scheme for revival and rehabilitation has been ordered by BIFR or NCLT for a period of five years from the date of sanction of revival scheme It may pay managerial remuneration up to two times of the amount specified in Section II, given above.
3. Where such excess managerial remuneration is fixed by BIFR or NCLT, subject to fulfillment of certain additional conditions apart from that given in Section 197 of Companies Act'2013

RESTRICTION ON INDEPENDENT DIRECTOR:

Section 197(5) of the Act 2013 specifically permits different fees to be paid to Independent Directors, there is no such enabling provision with respect to profit related commission. This means profit related commission may be paid uniformly to all non-executive directors. A company may pay such commission within the limit of 1% or 3% of the net profits, as the case may be. Further, Independent Directors cannot be granted stock options.

A company in or resident in India, to make payment in rupees to its non WTD who is resident outside India and is on visit to India for the company's work and is entitled to payment of sitting fees or commission or remuneration, and travel expenses to and from and within India, in accordance with the provisions contained in the company's MOA & AOA or in agreement entered into by it or in any resolution passed by the company in general meeting or by Board, provided the requirements of any law, rules, regulations, directions applicable for making such payments are duly complied with.

MINIMUM REMUNERATION IN CASE OF LOSSES DURING THE TENURE OF MANAGERIAL PERSONNEL:

According to Departmental Clarification regarding amendments made by the Companies (Amendment) Act, 1988 as revised 1993, the Approval of Central Government shall not be required in case of loss or inadequacy of profit during the tenure of Managerial Person were the appointment was made and minimum remuneration paid was strictly in accordance with Schedule XIII of the 1956 Act.

DEVALUATION AND MANAGERIAL REMUNERATION:

A non-resident Indian may occupy the position of managerial person in certain companies, it has been examined by foreign exchange, taxation, Company Law and other aspects and was accordingly decided as a matter of policy that, in case of devaluation of currency there was a need to compensate such non-resident managerial persons to maintain these remittances at the pre-devaluation level and such increase in remuneration is allowed even if the resultant increased remuneration exceeds the statutory limits imposed by the Companies Act.

REMUNERATION PAYABLE TO A MANAGERIAL PERSON IN TWO COMPANIES:

Subject to the provisions of sections I to IV, a managerial person shall draw remuneration from one or both companies, provided that the total remuneration drawn from the companies does not exceed the higher maximum limit admissible from any one of the companies of which he is a managerial person.

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.

Pay for Performance System Challenges and Their Solution:

The pay linked with the qualified or quantified work performed by an individual is called pay for performance.

Performance for pay plan consists of variable pay plan in which a portion of the pay of an employee is put at some risk for the purpose of earning some extra pay. On the other hand in gain sharing plan, all or a group of employees make collective efforts to accomplish the productivity goals so that they can avail group incentives. Another form of stock option provides the opportunity to buy the stock of organization in some future time.

There is a famous compensation philosophy that states that the higher contributors should be paid higher. Corporate performance & personal performance served as basis for the calculation of performance.

Challenges to Pay for Performance System

Following are some major challenges that are faced by the system of pay for performance.

The Syndrome of Work Performed in Relation to Pay

When the pay is dependent on only certain performance indicators than the employees neglect the other important components of their job & focus only on the specified indicators.

Negative Results on Spirit of Cooperation

The employees do not cooperate with other employees by restricting certain useful information to them if they consider that this withholding information can become helpful to other employees in future.

Lack of Control

This challenge is related to the lack of control by the employees on all the factors that affect their performance.

Difficulties in Measurement of Performance:

Another big challenge face by the management of organization in the area of pay for performance is that the performance of employees is quite difficult to measure especially when there is some possible reward attached with the measurement.

Psychological Contracts

When a system of pay for performance is implemented in an organization, the employees of the organization form a psychological contract with the organization that would become resistant to the changing circumstances.

The Credibility Gap

This is a challenge that is related to the credibility of the pay for performance system. The employees of the organization consider that the implemented pay for performance system is not fair enough to reward the performance.

Job Dissatisfaction & Stress

Although the productivity in the organization is enhanced due to the pay for performance system but the job satisfaction among the employees is reduced.

Potential Decrease in Intrinsic Drives

The pay for performance system compels the employees to perform the required work so that they would obtain the resultant reward but this badly affects the creativity & talents of the potential employees.

Solution of Challenges to Pay for Performance System

When the pay for performance programs are effectively designed then the interests of the employees are properly aligned with the objectives of the organization. The desired results are not generated by only applying the appropriate pay for performance programs but instead the proper hrm programs must also implemented together. Following are some useful solution to the challenges of the pay for performance systems.

Appropriately Linking of Pay and Performance

Usually the formula of measuring pay to the performance is not appropriate enough and only in some cases the rewarded pay can be justified by the management.

Pay for Performance as Component of HRM System

Unless the complementary Human Resource Management programs are not applied, the solely pay for performance programs are not complete enough to generate the expected results.

Building of the Trust of Employees

One of the effective solutions to the challenges of pay for performance system is that the management should build the trust of the employees. If there is cutthroat culture in the organization or if the labor relation are poorly handled by the management of the organization in the past, then even the most effective program of pay for performance can become negative.

Performance makes a Difference

The concept that performance makes a different can be served as healthy solution to the challenges of the pay for performance system. When the organization promotes this concept in its employees then the high achievement culture is promoted in the organization which otherwise become as low achievement if the potential concept is not rooted in minds of the employees.

Multiple Layers of Rewards

It is a big fact that there are definitely some positive as well as some negative impacts of any pay for performance system. So when the rewards are offered in layers according to different situations which mean more than one kind of incentives, then the results of pay for performance systems becomes effective.

Increase in the Involvement of Employees

The employees should be involved when the pay for performance system is developing in the organization because this system is design for smooth working of the employees. If the employees do not consider an implemented pay for performance program as legitimate, then they can take some actions to make it subvert.

Non Financial Incentives & Motivation

Some employees of the organization are not much interested in the financial aspects of their job, but rather they also take into account the non financial aspects of the job. So employees should be motivated to perform well other than through the financial compensation.

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. When multiple incentives system is implemented in an organization, there are more benefits offered to the employees and the side effects of each incentive plan are minimized. There are different kinds of pay for performance systems that are designed for giving the rewards to the individuals, teams, division of organization, the whole organization and even the combination of these.

What Is Executive Compensation?

Executive Compensation is a broad term for the financial compensation awarded to a firm's executives. Executive Compensation packages are designed by a company's Board of Directors, typically by the Compensation Committee consisting of independent directors, with the purpose of incentivizing the executive team, who have a significant impact on company strategy, decision-making, and value creation (Pay for Performance) as well as enhancing Executive Retention. To help accomplish these goals, Executive Compensation has four distinct characteristics:

1. **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.
2. **Equity Compensation**: The majority of compensation of most executive pay packages comes in the form of company stock.
3. **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.
4. **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 strategy: 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.

UNIT-5

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. An organization's compensation practices can have far-reaching effects on its competitive advantage. As compensation expert Richard Henderson notes, “To develop a competitive advantage in a global economy, the compensation program of the organization must support totally the strategic plans and actions of the organization.” Labor costs greatly affect competitive advantage because they represent a large portion of a company's operating budget. By effectively controlling these costs, a firm can achieve cost leadership. The impact of labor costs on competitive advantage is particularly strong in service and other labor-intensive organizations, where employers spend between 40 and 80 cents of each revenue dollar on such costs. This means that for each dollar of revenue generated, as much as 80 cents may go to employee pay and benefits .terms of compensation, employee payment is divided into different subcategories based on what sort of job the employee has and what payment plan the organization follows for that particular job.

Jobs generally have two classifications, exempt and non-exempt, based on the qualities and position of the employment. Management positions, professional jobs, and many other higher-level positions within an organization are exempt, meaning that they are paid by salary instead of wage. Exempt positions are salary positions, where the employee is paid not by the hour but by a certain interval of time, upon which the employee receives a predetermined amount of payment. Most exempt positions receive higher compensation and benefits than non-exempt jobs but do not receive any added payment for overtime; indeed, people in exempt positions are expected to fulfill expectations often requiring more effort and longer hours than non-exempt positions.

Non-exempt jobs are paid with a wage, an hourly amount. Nearly all entry-level positions and “unskilled” jobs fall in this category, with the employee receiving payment based on a predetermined, hourly wage. This wage, like the salary, is subject to change based on performance reviews. A different wage is usually available for the employee when working overtime, over 40 hours a week, or on holidays. This wage is higher than the normal hourly rate.

Payment systems are also divided according to two different classifications. First, payment can include a base pay, or set amount that the employee will receive. This is the amount that defines the salary or wage; it is set by the organization through the study of many factors, including the market rate and the history of payment for that position. The base pay and the definition of the job are closely connected. The other type of employee compensation is variable pay, or payment based on some type of performance by the employee. Variable pay can take many forms, including incentives and commissions. Most American jobs are a combination of base and variable pay, the ratio changing for different positions, although American jobs tend to have a higher variable pay component than other nations previously did, an organizational decision that is now being adopted globally.

LEGISLATION

Several important forms of national legislation have had a significant effect on employee compensation over the last hundred years of United States business. State legislation has often added onto national legislation, increasing compensation for wages or creating additional requirements for organizations, but federal law has led the way in

The Fair Labor Standards Act of 1938 (FLSA) applied to all commercial jobs and set the foundation of regulation of employee compensation. Among other things, the act established the first national minimum wage, set restrictions against the employment of minors by defining oppressive child labor, and enforced time-and-a-half policies for overtime work (the law stating that, for certain positions, employees must be paid 50 percent more per hour for overtime). Several other acts throughout American history have affected the FLSA. The Portal-to-Portal Act, enacted in the 1940s, defined work time and what sort of work had to be paid. Other amendments defined more specifically what businesses were covered by the FLSA, made coverage a requirement for care facilities, public establishments, and all government positions, and raised the federal minimum wage several times.

Also important to the history of employee compensation is the Equal Pay Act of 1963, which was created in order to prevent discrimination in pay, especially sexual discrimination. This act included several reasons Congress had for enforcing equal payment for the sexes, citing economic gain and living standards. The act also focused on requiring payment systems to be based solely on skills and experience, rather than gender. The Employee Retirement Income Security Act of 1974 required a minimum pension plan amount for businesses, and established a series of tax laws to govern the use of pension plan payments.

In 2004, the government enacted several changes to the FLSA, called Fairpay. Fairpay dealt mostly with reclassifying job positions and their definitions. This caused many jobs to be switched between the categories of exempt and non-exempt. Some supervisors who had previously been on wages were required to switch to salaries, losing their overtime benefits. Other employees, especially in supportive roles of business administration, were moved from wages to exempt status. These changes were made in order to classify jobs more according to their functions and responsibilities than to their titles .Most recently; the Fair Minimum Wage Act of 2007 again raised the federal wage level, from $5.25 to $7.25 an hour, to better represent state and private wages across the nation. This act will reach completion in 2009.

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. The theory states that people form equity beliefs based on two factors: inputs and outcomes. Inputs (I) refer to the perceptions that people have concerning what they contribute to the job (e.g., skill and effort). Outcomes (O) refer to the perceptions that people have regarding the returns they get (e.g., pay) for the work they perform. People judge the equity of their pay by comparing their outcome-to-input ratio with another person's ratio. This comparison person is referred to as one's “referent other.” People feel equity when the ratios of the individual and his or her referent other are perceived as being equal. A feeling of inequity occurs when the two ratios are perceived as being unequal. For example, inequity occurs if a person feels that he or she contributes the same input as a referent other, but earns a lower salary.

Government Laws and Regulations of Compensation, Incentives and Benefits

government laws on compensation republic act no. 6758 "compensation and position classification act of 1989" an act prescribing a revised compensation and position classification system in the government and for other purposes.

Statement of Policy It is hereby declared the policy of the State to provide equal pay for substantially equal work and to base differences in pay upon substantive differences in duties and responsibilities, and qualification requirements of the positions. In determining rates of pay, due regard shall be given to, among others, prevailing rates in the private sector for comparable work. For this purpose, the Department of Budget and Managements (DBM) is hereby directed to establish and administer a unified Compensation and Position Classification System, hereinafter referred to as the System, as provided for in Presidential Decree No. 985, as amended, that shall be applied for all government entities, as mandated by the Constitution. Government Laws on Compensation revised compensation and position classification system republic act no. 6758 year 1 national compensation circular no. 72 executive order no. 164 year ii national compensation circular no. 74 executive order no. 218 year iii national budget circular no. 448 executive order no. 290 year iv national budget circular

issuances/number of issuance title/subject republic act no. 6758 an act prescribing a revised compensation and position classification system in the government and for other purposes joint senate-house of representatives resolution no.1, s. 1994 joint resolution urging the president of the philippines to review the existing compensation and Position Classification System in the Government and to Implement the Same Initially Effective January 1, 1994 National Compensation Circular No. 57 Index of Occupational Services, Position Titles and Salary Grade National Compensation Circular No. 58 The Position Allocation List National Compensation Circular No. 59 List of Allowances/Additional Compensation of Government Officials and Employees which shall be deemed Integrated into the Basic Salary National Compensation Circular No. 72 Guidelines for the Initial Implementation of the Revised Compensation and Position Classification System National Compensation Circular No. 74 Guidelines for the Second Year Implementation of the New Salary Schedule in the Government National Budget Circular No. 448 Guidelines for the Third Year Implementation of the New Salary Schedule in the Government National Budget Circular No. 458 Guidelines for the Full Implementation of the New Salary Schedule in the Government Executive Order No. 164 Adopting A Revised Compensation and Position Classification System in the Government Executive Order No. 218 Second Year Implementation of the New Salary Schedule in the Government Executive Order No. 290 Third Year Implementation of the New Salary Schedule in the Government Executive Order No. 389 Implementing the Fourth and Final Year Salary Increases Authorized by Joint Senate and House of Representatives Resolution No. 1, series of 1994 Corporate Compensation Circular No. 10 Rules and Regulations for the Implementation of the Revised Compensation and Position Classification System Prescribed under RA No. 6758 for Government Owned and/or Controlled Corporations (GOCCs) and Financial Institutions .

SALARY STANDARDIZATION LAW

Another great Law was recently implemented. “A law that would benefit many of the Filipinos.” To be specific it’s the Salary Standardization Law III, It provided for a substantial increase in the salary of government employees in the Philippines. Salary Standardization Law III was signed into law by Former President Gloria Macapagal Arroyo last June 17, 2009. The author of the said law is Sen. Eduardo Angara and his co-author Former Senator Richard Gordon.

Under the Salary Standardization Law III: those under the Sub-Professional level (Salary Grades 1-9) will receive 28% to 36% increase those in the Professional level (Salary Grades 10- 24) will receive 38% to 100% increase, and Those in the Executive category will receive 71%- 142% increase.

A new teacher’s entry-level status for example, is at salary grade 11 which is P18,549. Considering that this will be implemented in four years, this will mean an increase of P1,630.75 annually or an additional P6,523 increase in four years. A teacher who has a specialization in Science or Math will be granted a salary three steps higher in his or her assigned salary grade. It was the latter who, just days before President Arroyo’s term ended; she signed Executive Order No. 900 implementing an increase in the basic pay in all government salary grades, including the President’s.

Other details on SSL3 are the following: Salary Grade 1 is at P9,000 or an increase of P2,851 or a 46% hike from the current P6,149; The starting pay of Nurses is at Salary Grade 11, equivalent to P18,088 per month; Barangay Councilors will be placed at Salary Grade 10; An Armed Forces of the Philippines Sergeant at SG 11; Barangay councilors and chairmen at SG 10 and 14 respectively; the President at P120,000 or an increase P50, 122; a 71.7% hike from the P69, 878 that the president currently receives; Medical Officers I (doctors) and Legal Officers I (lawyers) will have an increase by 79.2 percent from P15,181 to P27,198. Their grade levels will be upgraded from SG 14 to SG 16; Utility workers and those who are in clerical positions will, on the average, receive a thirty percent salary increase; and Directors and Assistant Secretaries will be at P68,428 and P73,903, respectively.

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

INCENTIVES AND BENEFITS

• Study Grants/Scholarships/Fellowships Also Available are scholarship grants which are either competitive or non-competitive and study-leave without pay, both local and foreign • Local Scholarship Program of the Civil Service Commission • DOST-SEI Scholarship Program • Scholarship as Provided in the Magna- Carta for Public School Teachers

INCENTIVES AND BENEFITS

• Leave Privileges for Teachers Teaching is a full-time job. A teacher like you spends eight hours a day in school. Oftentimes you still take home some of your school work. You cannot budget your time well, you may get burnt out early in your career. To give space and time for teachers to do important activities for themselves and family members, leave privileges are provided in addition to a two-month grand vacation in summer.

LEAVE PRIVILEGES

• Maternity Leave

• Paternity Leave

• Study Leave

• Sick Leave

• Vacation Leave

ENTITLEMENTS/BENEFITS FOR TEACHERS

• Monetary Benefits

• Hazard pay

• Productivity incentive benefit

• Cash allowance

• Mid/End Year bonus

• Cash gifts

• Clothing Allowance

• Chalk Allowance

All employees hired by private companies are required to become an SSS member This system aims to protect its members for when they are unable to work such as sickness, disability, maternity, old age and death, or other such contingencies not stated but will result in loss of income or results to a financial burden. BENEFITS REQUIRED BY

THE GOVERNMENT TO EVERY WORKING FILIPINO SOCIAL SECURITY SYSTEM (SSS)

Philippine Health Insurance Corporation is the medical insurance company of the Philippines. all employees are required to be contributors of this service (republic act 7875). Members are given health and hospitalization subsidies should they or a dependent be hospitalized. Benefits required by the government to every working Filipino Philippine health insurance.

Employers are also required to contribute, on behalf of their employees, to the home development mutual fund (republic act. This company provides the lowest interest housing and land acquisition loans to its members that are payable for up to 30 years. Benefits required by the government to every working Filipino home development mutual fund

Common wealth act no. 186 the gins is created as a social insurance fund for all employees of the Philippine government. Republic act no. 3593 amended commonwealth act no. 186 to provide immediate life insurance coverage and compulsory membership as well as increase additional life insurance coverage to all government employees. Benefits required by the government to every working Filipino government service insurance system

Republic act no. 4968 amended again commonwealth act no. 186 to further define life insurance, retirement insurance, compulsory membership and rates of premium contributions. Republic act no. 8291 otherwise known as the government service insurance act of 1997 which amended the 20-year old revised charter of the gigs, known as presidential decree Benefits required by the government to every working Filipino

The labor code of the Philippines presidential decree no. 442, as amended title ii retirement from the service art. 287. Retirement. - Any employee may be retired upon reaching the retirement age established in the collective bargaining agreement or other applicable employment contract. in case of retirement, the employee shall be entitled to receive such retirement benefits as he may have earned under existing laws and any collective bargaining agreement and other agreements: provided, however, that an employee’s retirement benefits under any collective bargaining and other agreements shall not be less than those provided therein.

republic act no. 7641 retirement pay law an act amending article 287 of presidential decree no. 442, as amended, otherwise known as the labor code of the Philippines, by providing for retirement pay to qualified private sector employees in the absence of any retirement plan in the establishment section 1. Article 287 of presidential decree no. 442, as amended, otherwise known as the labor code of the Philippines, is hereby amended to read as follows: "art. 287. Retirement. - any employee may be retired upon reaching the retirement age established in the collective bargaining agreement or other applicable employment contract. Retirement teachers are more secure than the other profession because of the retirement benefits. if you are teaching in the government, you can retire with benefits under r.a.1616, Teacher must have been employed in the government prior to may 31, 1977 regardless of age and employee status. has rendered at least 15 years of service at least 60 years of age at the time of retirement is not receiving a monthly pension benefit for permanent total disability. 660 a member of the retirement insurance fund and employed prior to may 31, 1977. Attained and/or completed the required age and length of service. There are absolutely lots of teachers who are trying to come into the profession, but they are not attracted enough to say, going to switch careers to do it,' or they are often not retained... because the salaries and the compensation aren't there to make it happen. Melinda gatesr.a. 1616 requirements • teacher must have been employed in the government prior to may 31, 1977 regardless of age and employee status • teachers must have rendered at least 20 years of service and the last three years must be continuous • teacher’s leave of absence without pay if any during the last three years immediately preceding retirement do not exceed one (1) year benefits • gratuity benefits equivalent to one month salary for each year of service for the first 20 years; one and one half months (1.5) salary for each year over 30 years based on the highest salary rate received. • refund of retiree’s personal contributions with interest and the corresponding government contributions without interest

8291 requirements • has rendered at least 15 years of service • at least 60 years of age at the time of retirement • is not receiving a monthly pension benefit for permanent total disability benefits • five years lump sum (60 x basic monthly pension for life starting at the end of five years guaranteed period • the cash payment (18 x basic monthly pension) plus the basic monthly pension for life starting immediately upon retirement r.a. 660 requirements • a member of the gsis retirement insurance fund and employed prior to may 31, 1977. • attained and/or completed the required age and length of service as indicated below • age: 52 53 54 55 56 • service: 35 34 33 32 31 • age: 57 58 59 60 61 • service: 30 28 26 24 22 benefits • any of the three schemes can be enjoyed by the retiree. • automatic annuity-monthly pension is paid guaranteed for five years from the date of retirement. after the five year period, payment of the monthly annuity continues if retiree is still living. • five-year lump sum – available only for those who are at least 63 years or over on the date of retirement. after five year, if still living, retiree is paid monthly annuity for life.r.a. 660 requirements • age: 62 63 64 65 up • service: 20 18 16 15 up benefits • initial three-years lump sum – available only for those who are at least 60 years of age on the date of retirement. the subsequent two-year lump sum is paid to the retiree on his 63rd birthday. after five years, if still living, the retiree is paid monthly annuity for life.

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 compensationPublic 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, professional dues or fees, and/or administrative leaves not required by the employer for the position

Allowances and reimbursable expenses

The Public Sector Employers' Council Secretariat coordinates the broad executive compensation disclosure on an annual basis and provides specific instructions and support to assist public sector organizations in meeting this annual statutory requirement under the Public Sector Employers Act

The Financial Information Act requires public bodies and organizations to prepare a statement of financial information for all employees who earned more than $75,000 in cash compensation — or total remuneration paid to the employee and total amount paid for the employee's expenses — within six months after the end of the organization’s fiscal year.

Compensation Guidelines for Employees in the Public Sector

The Public Sector Employers’ Council (PSEC) Secretariat provides guidelines to help public sector employers design and implement plans for excluded and executive employees. The PSEC Secretariat plays a central role in coordinating excluded and executive compensation, which accounts for approximately 18 percent of B.C.’s public sector compensation costs. The PSEC Secretariat works with employers to promote a cost-conscious approach to recruitment and retention of excluded and executive leaders through consistent and appropriate compensation levels and practices. The PSEC Secretariat also provides guidelines with specific instructions on how to disclose executive compensation for the CEO/President and top four decision-makers in a public sector organization. Public sector employers must also disclose compensation and report on executive and senior employee excluded compensation.

Crown Agencies and Board Resourcing Office

The Crown Agencies and Board Resourcing Office oversees and facilitates the implementation of the governance framework for British Columbia's Crown corporations. It has the lead responsibility for government's Shareholder Expectations Manual (PDF) and the Crown Agency Accountability System. The Office provides advice, information and support necessary to promote good governance, continuous improvement and accountability for Crown corporations.

Compensation for Public Service Employees

The BC Public Service Agency maintains information for compensation for the public service, such as salary and wages, benefits, and reimbursement for work-related expenses. Appointee benefits and terms of employment noted in the remuneration guidelines can be found in the BC Public Service Agency's Human Resource Policies and the Terms and Conditions for Excluded Employees / Appointees.

Pensions in the Public Sector

Public sector pension plans in B.C. represent more than 500,000 members and invest more than $1 billion on behalf of their beneficiaries:

College Pension Plan

Municipal Pension Plan

Public Service Pension Plan

Teachers' Pension Plan

Government manages its risks and interests in these plans through its role as Partner in each of these plans, under the authority of the Minister Responsible for the Public Sector Pension Plans Act.

Joint Trust Agreements established boards of trustees, which are comprised of people appointed by the Partners in the plans, including the Government Partner. The Partner's role in this is governance, while the boards' role is administration. The boards are responsible for the administration of the plans and the investment of the plans' funds. Their primary service providers, the BC Pension Corporation and the BC Investment Management Corporation, assist the boards in their administrative responsibilities.

Role of the Secretariat

The Public Sector Employers' Council (PSEC) Secretariat represents government in its role as Government Pension Plan Partner. The Secretariat provides the Strategic pension advice and recommendations to the Government Partner Critical link between the Government Partner's fiscal and policy direction and the Boards of Trustees, other plan partners, employers and their associations, and other organizations The PSEC Secretariat monitors and manages the Government Partner's risks and interests on a day-to-day basis.

Public Sector Management

Public sector organizations are created to provide programs and services on behalf of the B.C. government. They maintain a close working relationship with B.C. government and together are responsible for ensuring they:

- Achieve public policy objectives
- Serve the public interest
- Demonstrate accountability to B.C. and its citizens

All public sector organizations operate under taxpayer accountability principles (PDF) and are required to work with the B.C. government to plan and report out through the year.To ensure transparency and accountability to B.C. citizens, public sector organizations must follow specific guidelines for employee compensation, board appointments, board remuneration, and must disclose annually executive compensation and board remuneration.