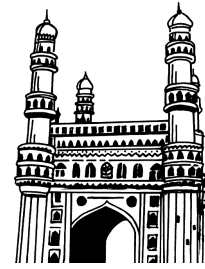


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COMPENSATION MANAGEMENT

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1. Explain the evolution process of compensation management?

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2. "Compensation refers to both extrinsic and intrinsic rewards". Explain the statement.

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Ans:

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4. How compensation for expatriates and repatriates in different? Explain strategic issue involved in it.

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Ans:

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UNIT I

INTRODUCTION TO STRATEGIC COMPENSATION MANAGEMENT

Concept of compensation-Exploring and defining the compensation context-System of compensating-compensation dimensions-concept of reward – Role of compensation in Organization- Non-financial compensation system – New trends in compensation management.

1.1 CONCEPT OF COMPENSATION

Q1. Define the term compensation.

(OR)

What is meant by compensation?

Ans :

Introduction

The meaning of compensation is to counter-balance. In the case of human resource management, compensation is referred to as money and other benefits received by an employee for providing services to his employer. Money and benefits received may be in different forms-base compensation in money and various benefits, which may be associated with employee's service to the employer like provident fund, gratuity, and insurance scheme, and any other payment which the employee receives or benefits he enjoys in lieu of such payment.

Definition

According to Casico "Compensation includes direct cash payments, indirect payments in the form of employee benefits and incentives to motivate employees to strive for higher levels of productivity."

Q2. Explain the evolution process of compensation management?

Ans :

(Imp.)

Today's compensation systems have come from a long way. With the changing organizational structures workers' need and compensation systems have also been changing. From the bureaucratic organizations to the participative organizations,

employees have started asking for their rights and appropriate compensations. The higher education standards and higher skills required for the jobs have made the organizations provide competitive compensations to their employees.

Compensation strategy is derived from the business strategy. The business goals and objectives are aligned with the HR strategies. Then the compensation committee or the concerned authority formulates the compensation strategy. It depends on both internal and external factors as well as the life cycle of an organization.



Figure : Evolution of Strategic Compensation

1. Traditional Compensation Systems

In the traditional organizational structures, employees were expected to work hard and obey the bosses' orders. In return they were provided with job security, salary increments and promotions annually. The salary was determined on the basis of the job work and the years of experience the employee is holding. Some of the organizations provided for retirement benefits such as, pension plans, for the employees. It was assumed that humans work for money, there was no space for other psychological and social needs of workers.

2. Change in Compensation Systems

With the behavioral science theories and evolution of labour and trade unions,

employees started asking for their rights. Maslow brought in the need hierarchy for the rights of the employees. He stated that employees do not work only for money but there are other needs too which they want to satisfy from their job, i.e. social needs, psychological needs, safety needs, self-actualization, etc. Now the employees were being treated as human resource.

Their performance was being measured and appraised based on the organizational and individual performance. Competition among employees existed. Employees were expected to work hard to have the job security. The compensation system was designed on the basis of job work and related proficiency of the employee.



Figure : Maslow's Need Hierarchy

3. Today's Modern Compensation Systems

Today the compensation systems are designed aligned to the business goals and strategies. The employees are expected to work and take their own decisions. Authority is being delegated. Employees feel secured and valued in the organization. Organizations offer monetary and non-monetary benefits to attract and retain the best talents in the competitive environment. Some of the benefits are special allowances like mobile, company's vehicle; House rent allowances; statutory leaves, etc.

Q3. Discuss the objectives of compensation.

Ans :

1. Equitable

Each person should be paid fairly, in line with his effort, abilities & training.

2. Balanced

Pay, benefits & other rewards should provide a reasonable total reward package.

3. Cost-effective

Pay should not be excessive, considering what the organization can afford to pay.

4. Secure

Pay should be enough to help an employee feel secure and aid him in satisfying his basic needs

5. Incentive-Providing

Pay should motivate effective & productive work.

6. Acceptable to the Employee

The employee should understand the pay system & feel it is a reasonable system for the enterprise and himself.

Q4. What are the components of compensation.

Ans :

The following are the components of compensation are :

1. Wage and Salary

Wage and salary are the most important component of compensation and these are essential irrespective of the type of organization. Wage is referred to as remuneration to workers particularly, hourly-rated payment. Salary refers to as remuneration paid to white-collar employees including managerial personnel. Wages and salary are paid on the basis of fixed period of time and normally not associated with productivity of an employee at a particular time.

2. Incentives

Incentives are the additional payment to employees besides the payment of wages and salaries. Often these are linked with productivity, either in terms of higher production or cost saving or both. These incentives may be given on individual basis or group basis.

3. Fringe Benefits

Fringe benefits include such benefits which are provided to the employees either having long-term impact like provident fund, gratuity, pension; or occurrence of certain events like medical benefits, accident relief, health and life insurance; or facilitation in performance of job like uniforms, Canteens, recreation, etc.

4. Perquisites

These are normally provided to managerial personnel either to facilitate their job performance or to retain them in the organization. Such perquisites include company car, club membership, free residential accommodation, paid holiday trips, stock options, etc.

Q5. What are the types of compensation?

Ans : (Imp.)

Compensation provided to employees can be direct in the form of monetary benefits and/or indirect in the form of non-monetary benefits known as perks, time off, etc. Compensation does not include only salary but it is the sum total of all rewards and allowances provided to the employees in return for their services. If the compensation offered is effectively managed, it contributes to high organizational productivity.

A) Direct compensation

Direct compensation refers to monetary benefits offered and provided to employees in return of the services they provide to the organization.

1. Basic Salary

Salary is the amount received by the employee in lieu of the work done by him/her for a certain period say a day, a week, a month, etc. It is the money an employee receives from his/her employer by rendering his/her services.

2. House Rent Allowance

Organizations either provide accommodations to its employees who are from different state or country or they provide house rent

allowances to its employees. This is done to provide them social security and motivate them to work.

3. Conveyance

Organizations provide for cab facilities to their employees. Few organizations also provide vehicles and petrol allowances to their employees to motivate them.

4. Leave Travel Allowance

These allowances are provided to retain the best talent in the organization. The employees are given allowances to visit any place they wish with their families. The allowances are scaled as per the position of employee in the organization.

5. Medical Reimbursement

Organizations also look after the health conditions of their employees. The employees are provided with medi-claims for them and their family members. These medi-claims include health-insurances and treatment bills reimbursements.

6. Bonus

Bonus is paid to the employees during festive seasons to motivate them and provide them the social security. The bonus amount usually amounts to one month's salary of the employee.

7. Special Allowance

Special allowance such as overtime, mobile allowances, meals, commissions, travel expenses, reduced interest loans; insurance, club memberships, etc. are provided to employees to provide them social security and motivate them which improve the organizational productivity.

B) Indirect compensation

Indirect compensation refers to non-monetary benefits offered and provided to employees in lieu of the services provided by them to the organization.

1. Leave Policy

It is the right of employee to get adequate number of leave while working with the

organization. The organizations provide for paid leaves such as, casual leaves, medical leaves (sick leave), and maternity leaves, statutory pay, etc.

2. Overtime Policy

Employees should be provided with the adequate allowances and facilities during their overtime, if they happened to do so, such as transport facilities, overtime pay, etc.

3. Hospitalization

The employees should be provided allowances to get their regular check-ups, say at an interval of one year. Even their dependents should be eligible for the medical claims that provide them emotional and social security.

4. Insurance

Organizations also provide for accidental insurance and life insurance for employees. This gives them the emotional security and they feel themselves valued in the organization.

5. Leave Travel

The employees are provided with leaves and travel allowances to go for holiday with their families. Some organizations arrange for a tour for the employees of the organization. This is usually done to make the employees stress free.

6. Retirement Benefits

Organizations provide for pension plans and other benefits for their employees which benefits them after they retire from the organization at the prescribed age.

7. Holiday Homes

Organizations provide for holiday homes and guest house for their employees at different locations. These holiday homes are usually located in hill station and other most wanted holiday spots. The organizations make sure that the employees do not face any kind of difficulties during their stay in the guest house.

8. Flexible Timings

Organizations provide for flexible timings to the employees who cannot come to work during normal shifts due to their personal problems and valid reasons.

Q6. What is compensation management?

Ans :

Compensation management, also known as wage and salary administration, remuneration management, or reward management, is concerned with designing and implementing total compensation package. The traditional concept of wage and salary administration emphasized on only determination of wage and salary structures in organizational settings. However, over the passage of time, many more forms of compensation as discussed earlier, entered the business field which necessitated to take wage and salary administration in comprehensive way with a suitable change in its nomenclature.

Q7. Discuss principles of compensation management?

Ans :

1. Ability to Pay

Organizations should pay their employees as per their financial capacity and capability. If an organization pays more than its ability, then the organization may get bankrupt. On the other hand, if the organization pays much below its ability to pay, then such organizations are unlikely to attract and/or retain competent employees, which will ultimately adversely affect the effectiveness of the organization.

2. Internal and External Equity

Organizations must compensate their employees according to their qualification, experience, skills, knowledge, job responsibilities and performance. This is called internal equity. If employees are not paid according to their qualification, experience, skills, knowledge and performance, it will adversely affect their morale, commitment and competence.

Such organizations are likely to witness low employee productivity, poor quality, high turnover, poor corporate image, etc. Therefore, maintaining a proper and fair difference in employee's compensation levels in terms of their position, competence, knowledge and performance is necessary for effective business performance.

3. Performance Orientation

Compensation should be in commensuration with individual and organizational performance. Employees exhibiting better performance should be compensated at higher level to maintain enhanced performance or output and encourage them to attain excellence. Performance linkage is essential for creating a performance driven work culture where every employee willingly assumes responsibility and works with ownership. This also helps in maintaining a sense of justice and faith in the organization's leadership.

4. Non-discriminatory

Organizations must pay their employees without any discrimination on the ground of race, religion, gender, nationality and ethnicity. For example, often female employees in India are paid far less than their male counterparts. This is due to misplaced belief that women cannot perform as better as men do. Such biases and prejudices often rooted in our social norms and values, act as deterrent to employee performance and commitment.

5. Legal Compliance

Organizations must pay as per the relevant laws of the land. For example, in India, the Minimum Wages Act, 1948 stipulates that workers in the unskilled, semi-skilled and skilled jobs must be paid a minimum wage. This is essential character of any welfare state committed towards the goals of social justice and securing the rights of the employees to at least minimum standard of living. Therefore, an organization that does not have the ability to pay even minimum wages to its employees has no right to exist.

6. Simplicity and Flexibility

Compensation systems should be simple to design, understand and administer. Compensation plans and policies must be flexible to adapt with ease to the changing profile of the workforce, needs of the individual employees, organizational goals and objectives and labour market conditions. In other words, compensation management must be strategically aligned.

7. Fosters Employee Development

Compensation should be such so as to motivate employees to acquire, sharpen and develop their skills and competencies in conjunction with changing technology, innovations and organizational requirements. Increased differentiation on account of gaps in employee's skills and competencies acts as a motivator.

Q8. What are the objectives of compensation management?

(OR)

How compensation management process effects organization, employees & society?

Ans :

The basic objective of compensation management can be briefly termed as meeting the needs of both employees and the organisation. Since both these needs emerge from different sources, often, there is a conflict between the two. This conflict can be understood by agency theory which explains relationship between employees and employers. The theory suggests that employers and employees are two main stakeholders in a business unit, the former assuming the role of principals and the latter assuming the role of agents.

The compensation paid to employees is agency consideration. Each party to agency tries to fix this consideration in its own favour. The employers want to pay as little as possible to keep their costs low. Employees want to get as high as possible. The compensation management tries to strike a balance between these two with following specific objectives :

1. Attracting and Retaining Personnel

From organization's point of view, the compensation management aims at attracting and retaining right personnel in the organisation. In the Indian corporate scene, there is no birth of personnel at operative levels but the problems come at the managerial and technical levels particularly for growing companies. Not only they require persons who are well qualified but they are also retained in the organisation. In the present day context, managerial turnover is a big problem particularly in high knowledge based organizations.

2. Motivating Personnel

Compensation management aims at motivating personnel for higher productivity. Monetary compensation has its own limitations in motivating people for superior performance. Alfie Kohn has gone to the extent of arguing that corporate incentive plans not only fail to work as intended but also undermine the objectives they intend to achieve. He argues that this is due to inadequate psychological assumptions on which reward systems are based. His conclusions are as follows:

- Rewards punish people-their use confirms that someone else is in control of the employee.
- Rewards rupture relationships-they create competition where teamwork and collaboration are desired.
- Rewards ignore reasons-they relieve managers from the urgent need to explore why an employee is effective or ineffective.
- Rewards discourage risk taking-employees tend to do exactly what is required to earn the reward, and not any more.
- Rewards undermine interest-they distract both manager and the employee from consideration of intrinsic motivation. Notwithstanding these

arguments, compensation management can be designed to motivate people through monetary compensation to some extent.

3. Optimizing Cost of Compensation

Compensation management aims at optimizing cost of compensation by establishing some kind of linkage with performance and compensation. It is not necessary that higher level of wages and salaries will bring higher performance automatically but depends on the kind of linkage that is established between performance and wages and salaries. Compensation management tries to attempt at this.

4. Consistency in Compensation

Compensation management tries to achieve consistency-both internal and external-in compensating employees. Internal consistency involves payment on the basis of criticality of jobs and employees' performance on jobs. Thus, higher compensation is attached to higher-level jobs. Similarly, higher compensation is attached to higher performers in the same job.

Level of jobs within an organisation is determined by job evaluation External consistency involves similar compensation for a job in all organisations. Though there are many factors involved in the determination of wage and salary structure for a job in an organisation which may result into some kind of disparity in the compensation of a particular job as compared to other organizations, compensation management tries to reduce this disparity.

1.2 EXPLORING AND DEFINING THE COMPENSATION CONTEXT

Q9. "Compensation refers to both extrinsic and intrinsic rewards". Explain the statement.

(OR)

Discuss about exploring and defining the compensation.

*Ans :***(Imp.)****Introduction**

Compensation is one of the most important strategic functions of human resource management. Compensation refers to all forms of financial income, tangible services and benefits that an employee receives as a part of his employment. It is an important component of human resource system which is dependent on other functions of HRM. The compensation professionals interact with the executives at various levels i.e., including the top management in the human resource department to effectively carry out the compensation management function.

Compensation mainly focuses on fair amount of remuneration paid to an employee. It serves as a reward for the past services of the employees to the organization. It also motivates the employees to increase their performance in the future. The present day organizations are utilizing compensation and reward systems as effective tools to gain competitive advantages in the following ways,

- (a) Compensation acts as a means through which qualified personnel are selected. Applicants get attracted to those organizations which offer a higher level of pay.
- (b) Compensation is a major tool in retaining competent employees in the organization. This will in turn reduce the turnover as well as increasing the costs of recruiting, selecting and training new employees.
- (c) Compensation motivates the employees to display a high level of performance. Monetary incentives are used to motivate the employees to put in their best efforts especially in sales without hiring new employees thereby reducing the labour cost. Higher productivity is obtained even with fewer employees so that the same level of output is achieved.

Types

Compensation means the remuneration, the tangible services and benefits that an employee receives as a part of his emoluments. Compensation also means remuneration paid to an employee or an individual because of the injuries which he has suffered in the course of job. Compensation basically is of two types. They are,

1. Intrinsic compensation
2. Extrinsic compensation.

Compensation means both the intrinsic and extrinsic rewards that employees receive for performing their jobs.

1. Intrinsic Compensation

Intrinsic compensation indicates the important psychological behaviour of the employees resulting from their job performance which constitutes the important feature of "job characteristics theory". Job characteristics theory states that employees will undergo improved psychological behaviours when their jobs are rated high on the five important job aspects that are as follows:

- (i) Skill variety
- (ii) Task identity
- (iii) Importance of task
- (iv) Autonomy and
- (v) Feedback

The jobs which do not have these important job aspects do not provide much intrinsic compensation. The effect of these important job aspects on intrinsic compensation is explained below.

(i) Skill Variety : Skill variety is a situation in which the individuals need to carry out different tasks using different skills, talents and abilities i.e., the individuals need to be dynamic. Different types of jobs require different types of skills, so it is important for the employees to have skill variety and on the basis of these skills compensation will be offered.

(ii) Task Identity : Task identity is a situation in which the job helps the individual to complete the task and as a result of it, the individual can gain identity. The task identity gives the employees greater job satisfaction and helps them to have their own identification.

- (iii) **Importance of Task** : It is a situation in which the job affects the work of other individuals. This will help the individuals to know the importance of their task and how it influences the lives of other individuals.
- (iv) **Autonomy** : Autonomy is a situation in which the employee has the freedom and independence to take decisions and to find out how to carry out their jobs. The autonomy helps the individuals to become responsible for their work. The employees gain responsibility for the results of their work with autonomy.
- (v) **Feedback** : Feedback enables the people to know about their outcomes and performances. A recent market compensation survey suggests that enhanced intrinsic compensation helps in reducing excessive turnover.

2. Extrinsic Compensation

Extrinsic compensation includes both monetary and nonmonetary rewards. Compensation professionals design monetary compensation programs in order to reward the employee according to their performance in the jobs. Monetary compensation represents core compensation. Nonmonetary rewards include medical insurance, variations etc. which are considered as employee benefits or fringe compensation.

Q10. Explain the monetary and non monetary of compensation management. Also explain its differences.

Ans :

(Imp.)

Monetary Compensation

Monetary compensation refers to incentives given to the employees of the organization in the form of money. Some employees are motivated only if there is a money element involved. The monetary incentives are mostly given based on the performance of an employee. The monetary incentives given to the employee are direct benefits to the employee and are considered as an exposure to the employer.

Some of the monetary benefits, which are given by the organization are

- Profit sharing,
- Stock options,
- Bonuses,
- Commissions,
- Merit pay, etc.

Non-Monetary Compensation

Non-Monetary compensation refers to benefits given to the employees of the organization to increase the employee job performance, employee loyalty towards the organization, employee morale, etc. The Non-Monetary compensation, as the name suggests, does not involve direct money, i.e., the employee doesn't get any money but he gets various benefits like.

- Promotions,
- Food coupons,
- Company uniforms,
- Flexible timings,
- Healthcare Benefits,
- Life insurance policy, etc.

S.No.	Particulars	Monetary compensation	Non monetary compensation
1.	Meaning	Monetary compensation refers to incentives which involve direct money to the employees.	Non-Monetary compensation refers to incentives which donot involve direct money to the employees.
2.	Given To	Monetary compensation are given to the employees who are extremely performing or extremely talented.	Non-Monetary compensation are usually given to all the employees of a certain level to offer them convenience and security.
3.	Nature	Monetary compensation can work as a negative force to the organization because the people of the organization who are getting monetary compensation only concentrates on money by leaving the morality.	Non-Monetary compensation always act as a positive force because the people who are getting non-monetary compensation usually don't get attracted to money and focus on the emotional and psychological benefits.
4.	Perceived AS	Monetary compensation are considered as an expense to the organization because it is an additional payment to the employees.	Non-Monetary compensation are also considered as an expense to the organization but there is no direct money given to the employee.
5.	Conflicts	Sometimes monetary compensation given to one employee may arise conflict in the other employee and there would be a problem of disturbed relationships among the employees in the organization.	Non-Monetary compensation do not arise any kind of conflicts within the employees besides they encourage healthy relationships among them.

Q11. Explain the components of compensation package in an organized industry in India.

(OR)

What do you mean by Compensation Structure ? What are the components of modern Compensation structure?

Ans :

One of the most vital factors the motivation, retention and the morale amongst the employees id the compensation system, policies and review philosophies of any organization. While the bargain able employees generally have their unions to negotiate or review terms with the Management-which are governed by the Long Term Settlements- the terms of the managerial employees are mostly seen to be at the mercy or the goodwill of the organization, reviews of which may or may not be regular or timely, or often do not seem to meet the expectations or logic of such employees.

Management Compensation therefore, now plays a very significant part along with the working style and environment, empowerment etc. in the organization's success strategy. While individual organizations may have differences in their methodologies based on factors best suited their perceived needs, some general directions are evident, and are discussed below.

- 1. Salary, Basic Salary or Consolidated Salary** continues to remain as the major component of compensation, though Salary Scales are often discarded these days, or used only as guides. Individual Salary is generally decided initially using the Scale, but thereafter performance, contribution to targets or results generated determine the revisions periodically, which may vary widely from individual to individual. 'Salary broad handling is therefore, getting recognition and acceptance.

2. **Gradewise flat Allowance** are being considered generally, except where tax exemption benefits are still available, when they continue as separate components. Allowances may be linked to the Salary as a percentage or by slabs, but preference is for flat amounts, which do not increase automatically, and therefore increase could be discretionary, and therefore controllable.
3. **Reimbursements of expenses** incurred on Company work has become limited, and in line to conform to the tax laws. Being actual in most cases, they are not considered as apart of the compensation, unless it is provided towards personal benefits.
4. **Annual payments:** Bonus or Commission, and Leave travel are common features some tax relief's apply for the latter.
5. **Benefits** generally comprise of mostly unfurnished company owned or leased accommodation, use of company or leased vehicles, medical coverage, retrial benefits covering Provident Fund, Pension or Superannuation and Gratuity, post-retrial medical assistance, easy loan schemes at low or zero interest rates for house building, cars or vehicles, furniture or utility items etc. renting employees owned housing, club entrance free reimbursement etc. Minor benefits could be provision of security, driver or gardening assistance, else of products or assets at a concessional rate, relocation and transfer expenses including admission etc.. fees for children, credit card fees, phones etc.
6. **Employee stock option schemes** which has been popular in IT industry-is not extensively used yet, not being tax advantageous to other industries, nor seen as being very attractive with lesser growth trends for their share values especially in the well-established older companies.
7. Most companies, as against earlier visible costs, use the "Total cost to the Company" concept as basis. Cost of the most benefits are averaged or computed on actual basis, and within the system of the overall cost, but with greater compliance to tax laws, this basket concept is on the wane.
8. **Retrial benefits** : Some in recognition of the past contribution of pensioners, and to partly offset the inflation post retirement practices periodic improvement in pensions, or a guaranteed grade minimum pension.
9. **Performance Bonus** that do not increase future liability is being given more as a recognition of results generated. It requires transparent, balanced and fair systems and benchmarks, and also agree targets by the managers in advance during planning and review discussions.
10. From the earlier grade oriented compensation system within reasonable boundaries, compensation often has to be somewhat tailor made for specialist or key contributors to retain them in the very volatile jobmarket.
11. Compensation review periods have become annual generally and sometimes oftener, as compared to every three to five years earlier, in the fast changing market situation.
12. Retention strategies employed are generally the attractive interest free or at low rates for loans, on which market rate of interest may apply on early exit, renting employee owned property to set off repayment of loans, qualifying periods or attractive service benefits added to the retrial benefits or post retirement benefits etc.

1.3 SYSTEM OF COMPENSATING

Q12. Explain the concept of Compensation System and types.

Ans :

Compensation system plays a very vital role in a business organization. Since, among four Ms., i.e. Men, Material, Machine and Money, Men has been the most important factor. It is impossible to imagine a business process without Men.

In any organization, the compensation system is designed and incorporated to streamline the activities.

The activities performed by the human resources earn income to the organization and the organization in turn would reward the efforts of the human resources in terms of monetary gains or in kind.

Compensation system tries to ensure fairness in deciding the worth of the workers and considering promotions or increments.

In designing a compensation system, an organization must value the equity concept clearly define the wage and salary differentiations and career growth plans, is as to motivate and encourage the human resource to perform better.

It is not uncommon for organizations to establish specific objectives for compensation program me. Formalized compensation goals serve as guidelines for managers to ensure that the compensation system achieves its intended purpose.

Organisations mostly compensate employees on an individual basis.

Some of the pay systems used by organisations for compensating individuals are:

1. Piece rate system
2. Commission system
3. Bonus system
4. Skill-based system
5. Merit Pay system

1. Piece Rate System

Organisations involved in the production or manufacturing of goods adopt this pay system. In this system, employees are paid on the basis of the number of units manufactured by them during a time period. Organisations use the output data of other companies, along with time and motion studies to arrive at the minimum number of units that must be made by a worker.

A major disadvantage of this system is that employees feel that management is only concerned about productivity and not their

welfare. A feeling of distrust may develop between management and workers. As the productivity per worker increases, workers may resort to 'go-slow' techniques to prevent management from laying off workers.

The Lincoln Electric plant in Cleveland, has modified the piece rate system of compensation. Their piece rate system is backed by a merit rating-based bonus system. This combination of piece rate and bonus system has led to improvement in product quality because workers want to get a good rating to earn a higher bonus.

2. Commission System

Employees whose productivity can be quantified are usually paid on a commission basis. For example, sales professionals are paid commission on the basis of sales achieved by them. Salespersons feel motivated when they are paid commission in recognition of their efforts.

The commission system is an objective and efficient system for compensating salespersons. However, such a system may lead to the use of unethical techniques for increasing sales, thereby increasing the commission.

3. Bonus System

This refers to a lump-sum payment given to the employees at the end of the year for achieving productivity or performance targets. Since the bonus is paid in the form of a lumpsum, employees feel they have received a large sum of money. Consequently, they feel content about the amount they have received. If the employees were given the same amount spread over twelve months, they may not feel the same sense of contentment. The bonus system is one of the most successful and reliable system for compensating employees.

4. Skill-Based System

In this type of compensation system, employees are paid on the basis of the number of the skills they possess. Unlike the

merit rating or bonus system where employees are paid for performance, in this system they are paid for the skills they learn on the job. Employees are put through various job activities.

Over a period of time, they are expected to develop expertise in all the activities of the job. The purpose of adopting a skill-based system is to train employees in the various aspects of the job. Organisations having high performance work systems and self-managed work groups adopt a skill-based pay system for compensating employees. An example for skill-based compensation is seen in the IT industry.

5. Merit Pay System

Organisations conduct performance reviews at the end of every year. The main purpose of this review is to measure the performance of the employees in the previous year. On the basis of their performance in the previous year, employees receive a hike in pay. This increment is called merit pay because it is commensurate with performance.

The major problem with merit increments is that organisations have to commit themselves to these hikes and cannot withdraw these increments even when the organisation incurs losses. Merit increments are cumulative in nature and prove to be very costly for the organisation in the long run.

Merit pay is dependent on the merit rating one gets from the concerned supervisor. Hence, there may be an element of bias in these ratings. A supervisor's errors in perception may result in unfair ratings. Although the merit rating system has many inherent problems, it is still used by a large number of organisations.

Q13. What are the factors that influence the Compensation System?

Ans :

In order to understand the essentials of an equitable and ideal compensation system, it will be necessary to consider following factors, on which the ideal compensation system shall be heavily depending upon –

1. Demand and Supply Position

Each job demands certain skills, personal qualities and technical education, experience to perform the job. If the demand is more and supply is less then naturally compensation payable will be high and vice versa. For example, if steno typists are scarce in number, compensation offered would be higher.

2. Nature of Business

If the product or service is having the nature of yielding high profits, naturally the compensation paid is relatively higher than what is paid for in other low profit yielding businesses. For example, compensation paid to employees in companies like Reliance Industries Ltd., Bajaj Auto Limited would be definitely higher as compared to the other industries since these are supposed to be high profit earning industries and as such capable of paying the high and handsome compensation.

3. Size of Business

Large organisations like multinational companies pay higher compensation than small industries.

4. Government Rules

In India, there are State and Central Acts for minimising the disparity in wages levels, such as Minimum Wages Act. Similarly, various laws are available for providing social security benefits to the workers.

5. Current State of Industry

Many units producing the similar product form an industry. It is an unwritten rule that different units falling under the industry follow the current wage level in the industry. Similarly, the pattern of payment i.e. components of pay package is almost similar with little variations among these units.

6. Management Thinking

Every management has its own philosophy. Every organisation has its own values and beliefs. Some organisations have great concern about the employees and show high

sense of social responsibility. They provide non-statutory benefits to their employees, liberally. Although their number is small, the compensation to employees is better irrespective of foregoing factors.

7. Disagreeability of the Job

Certain jobs in comparison to others are disagreeable e.g., teachers, nurses, social workers, doctors, cleaners, Fire fighters etc. These jobs have different kinds of working environment. Skills and ability of facing stress, high pressure, and long hours of work, continuous alertness and monotony are demanded by these jobs. Due to these factors, the availability of persons for such work is less and therefore the preference is second or third. Compensation has to be attractive for such jobs.

1.4 COMPENSATION DIMENSIONS

Q14. What are the Dimensions of Compensation?

Ans :

The total compensation package may be described in ways. But there are total eight dimensions. Each dimension has a number of compensation components. Each component has a variety of features. Because of different features one component may relate to more than one dimension. The structuring of features, components and dimensions into a compensation system is a job for the compensation specialist.

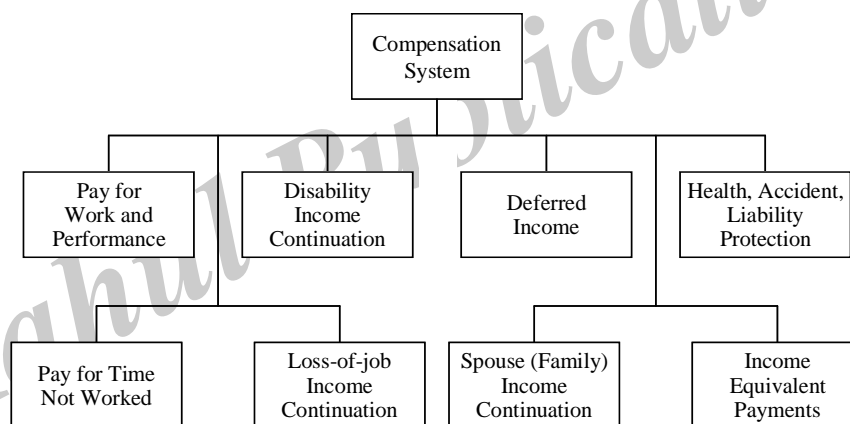


Figure : Dimensions of a Compensation System

The various dimensions are as follows :

(a) Pay and Work and Performance

It includes money that is provided in the short term and that permits employees to pay for and contract for the payment of desired goods and services. The amount of money payments provide to employees normally depends on specified job requirements; outputs that meet or exceed quantity, quality or timeless standards; innovations that might lead to improved productivity; dependability; loyalty; and some combination of these items. The components under this dimension are base pay, premiums and differentials, short-term bonuses, merit pay and certain allowances

(b) Pay for Time Not Worked

Over the years, the number of hour's worker per week and the number of days worked per year have decreased. During the past 40 years, workers have enjoyed more days off with pay for holidays, longer paid vacations and paid time off for a wide variety of personal reasons.

(c) Loss-of-Job Income Continuation

Job Security is and always has been the primary consideration for most workers. They want assurance that their jobs and income derived from working will continue until they are ready to retire. Worker also knows that few jobs are guaranteed to continue to retirement. Changes in economic conditions and technology might restrict or even eliminate the need or demand for the product of the employer, resulting in the decline or demise of the firm. A variety of components such as unemployment insurance, supplemental unemployment benefits and severance pay help unemployed workers subsist until new employment opportunities arise.

(d) Disability Income Continuation

The possibility always exists that a worker will incur health or accident disability. Because of these disabilities, employees are frequently unable to perform their normal assignments. Even so, individuals and family living expenses continue and medical, hospital and surgical bills create additional burdens. Social Security, workers' compensation, sick leave and short and long-term disability plans are examples of components that provide funds for employees who are unable to work for health-related reasons.

(e) Deferred Income

Most employees depend on some kind of employer-provided program for income continuation after retirement. These programs are provided for two basic reasons.

- (i) Most employees do not have sufficient savings at retirements to continue the lifestyles they enjoyed while working. Various kinds of programs, such as Social Security, employer-provided pension plans, savings and thrift plans, annuities, and supplemental income plans provide income after retirements.
- (ii) Tax laws and regulations make deferred income plans more appealing to many employees. Because of tax regulation,

employers can often take immediate deductions and employees can defer tax obligation until income tax rates are possibly more favourable.

(f) Spouse Income Continuation

Most employees with family obligations are concerned with what happen if they are no longer able to provide money that will enable their families to maintain a particular standard of living. Certain plans are designed to provide dependents with income when an employee dies or is unable to work because of total and permanent disability.

(g) Health, Accident, and Liability Protection

When a health problem, occurs employees must be concerned not only with income continuation, but also with payment for the goods and services required in overcoming the illness or disability.

Organisations provide a wide variety of insurance plans to assist in paying for these goods and services. Medical hospital and surgical insurance plans and major medical, dental and vision insurance are only a few of the numerous compensation components designed to provide such protection for workers.

1.5 CONCEPT OF REWARD

Q15. Describe the concept of reward.

(OR)

Explain the concept of reward management.

Ans :

Reward means a thing given to anyone because of his contribution to the organization. Rewards and incentives contribute to strategy implementation by shaping individual behaviour in the organization. Reward management is important for any business that has employees. Human resources are usually in charge of the reward management program in a company. This lesson discusses the theory and importance of reward management. A good design reward system is

consistent with organizational goals, visions, missions and job performance. The most obvious reward that individual gets from the job is in the form of pay.

Reward management is a motivational practice that businesses use to reward employees for their achievements and success. In managerial term, the reward is defined as the total return given by an employer to an employee for rendering his/her services towards the organizational objectives. The company sets goals and establishes rules for its employees to follow to achieve those goals. This is the overall return from the work. Every person asks for return from the organization before involving in any type of activities, which is termed as the reward. It attracts a worker's attention and inspires him/her to perform the task. Moreover, a reward is a pay-off for performance which is directly concerned with the level of motivation and job satisfaction.

Reward management is important for the following reasons:

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

Therefore, management of reward in an organization helps to motivate and retain employees at work. It is a vital aspect of HRM because a well-designed reward system will lead towards organizational productivity and employees satisfaction. Moreover, reward management is the process of creating, implementing and controlling an effective reward system in the organization that helps to maintain and improve organizational performance. It senses the strategic purposes of attracting, motivating and retaining employees. Reward management basically focuses on how the employees can be retained or motivated at work. All employees follow the same reward system, and the system is organized and just. Using a website to

track employee development enables the employee and employer to monitor progress and easily identify when goals are reached and rewards earned.

Hence, reward management is a crucial aspect of Human Resource Management that revolves around designing and implementation of the appropriate payment system. This system helps improve organizational performance and get people motivated at work.

1.6 ROLE OF COMPENSATION IN ORGANIZATION

Q16. Explain the Role of Compensation in Organisation.

(OR)

Explain why compensation management is important in organization to employees.

Ans :

(Imp.)

Compensation and Reward system plays vital role in a business organization. Since, among four Ms, i.e. Men, Material, Machine and Money, Men has been most important factor, it is impossible to imagine a business process without Men. Every factor contributes to the process of production/business. It expects return from the business process such as rent is the return expected by the landlord, capitalist expects interest and organizer i.e. entrepreneur expects profits. Similarly the labour expects wages from the process.

Labour plays vital role in bringing about the process of production/business in motion. The other factors being human, has expectations, emotions, ambitions and egos.

Labour therefore expects to have fair share in the business/production process. Therefore a fair compensation system is a must for every business organization. The fair compensation system will help in the following :

1. An ideal compensation system will have positive impact on the efficiency and results produced by employees. It will encourage the employees to perform better and achieve the standards fixed.

2. It will enhance the process of job evaluation. It will also help in setting up an ideal job evaluation and the set standards would be more realistic and achievable.
3. Such a system should be well defined and uniform. It will be apply to all the levels of the organization as a general system.
4. The system should be simple and flexible so that every employee would be able to compute his own compensation receivable.
5. It should be easy to implement, should not result in exploitation of workers.
6. It will raise the morale, efficiency and cooperation among the workers. It, being just and fair would provide satisfaction to the workers.
7. Such system would help management in complying with the various labor acts.
8. Such system should also solve disputes between the employee union and management.
9. The system should follow the management principle of equal pay.
10. It should motivate and encouragement those who perform better and should provide opportunities for those who wish to excel.
11. Sound Compensation/Reward System brings peace in the relationship of employer and employees.
12. It aims at creating a healthy competition among them and encourages employees to work hard and efficiently.
13. The system provides growth and advancement opportunities to the deserving employees.
14. The perfect compensation system provides platform for happy and satisfied workforce. This minimizes the labour turnover. The organization enjoys the stability.
15. The organization is able to retain the best talent by providing them adequate compensation thereby stopping them from switching over to another job.

16. The business organization can think of expansion and growth if it has the support of skillful, talented and happy workforce.
17. The sound compensation system is hallmark of organization's success and prosperity. The success and stability of organization is measured with pay-package it provides to its employees.

1.6.1 Goals of Compensational Professionals

Q17. What are the Goals of Compensational Professionals?

Ans : (Imp.)

Primary Goals of the Compensation Department

Compensation professionals promote effective compensation system by achieving three main objectives.

1. Internal Consistency

Internal consistent compensation systems fairly describes the comparative value of each job among all the jobs presently existing within an organization to form a job hierarchy which is represented by ordered set of jobs.

They follow an easy approach for building internally consistent compensation system. Therefore, jobs that need higher qualifications, extra responsibilities and more sophisticated type of tasks and duties, should be paid better than the jobs that require less qualification, limited responsibilities and less complex job duties.

The internally consistent job structures identify job features which allow compensation managers to design appropriate pay. Pay professionals use two processes to attain internal consistency, which are,

- (a) Job analysis
- (b) Job evaluation

(a) **Job Analysis** : It is an organized and logical process or method of collecting, filing and analyzing information for the purpose of defining jobs. It gives information regarding contents of a job, needs of employees and occasionally working situations.

(b) **Job Evaluation** : This method identifies the relative worth of the job in comparison with other jobs present within an organization. This is used to set pay differentials as per the employee's performance.

2. Market Competitiveness

The market competitiveness system performs an important role in retaining the most eligible candidates. The compensation professionals develop market Competitive compensation systems on the basis of strategic analysis and compensation surveys.

(a) **Strategic Analysis** : It includes an inspection of an organization's internal factors and external market forces. External market forces are industry profile, competitor analysis and long term growth. The internal factors on the other hand consists of firm's financial position, functional abilities for analyzing the marketing activities and human resource.

(b) **Compensation Surveys** : In compensation survey, the pay professionals first gather the information or data about competition and then examines it carefully. Compensation survey is considered important because it enables the compensation professional to achieve a correct view about the compensation techniques followed by the competitors.

3. Identifying and Recognizing Individual

In any organization, the pay structure for any two employees will not be similar. So, they

are paid and rewarded on the basis of their credentials, knowledge or job performance. The compensation professionals make use of pay grades and pay ranges for designing a pay structure depending on the compensation factors and values.

Q18. What are the objectives of Compensation Professionals ?

Ans :

Compensation professionals promote effective compensation systems by meting three important objectives. They are :

(a) Internal Consistency

Internally consistent compensation system define the relative value of each job among all jobs within a company. This ordered set of jobs represents the job structure or hierarchy. Companies rely on a simple and fundamental principle for building internally consistent compensation systems. Employees in jobs that require greater qualifications, more responsibilities and more complex job duties should be paid more than employees whose jobs require lesser qualifications, few responsibilities, and less complex job duties.

Compensation professionals use job analysis and job evaluation to achieve internal consistency. Job analyses describe content or job duties, worker requirements and sometimes the job context or working conditions. Compensation professionals use job evaluation to systematically recognise differences in the relative worth among a set of jobs and to establish pay differentials accordingly.

(b) Market Competitiveness

Market Competitive pay system plays a significant role in attracting and retaining the most qualified employees. Compensation professionals build market-competitive compensation systems based on the results of strategic analyses and compensation surveys.

Strategic analysis permit business professionals to see where they stand in the market based on external and internal factors. Compensation survey collects and then analyzes competitors' compensation data. They are important because they enable compensation professionals to obtain realistic views of competitor's pay practices. In the absence of compensation survey data, the compensation professional would have to use guesswork to build market-competitive compensation systems.

(c) Recognizing Individual Contributions

Pay structures represent pay rate differences for job of unequal worth and the framework for recognizing differences in employee contributions. Pay grades and pay ranges are structural features of pay structures. HR professionals typically group jobs into pay grades based on similar compensable factors and value. Pay ranges build upon pay and maximum values denote the acceptable lower and upper bounds of pay for the jobs in particular pay grades.

Q19. Discuss in detail about goals of compensation professionals.

Ans :

Compensation professional promotes effective compensation system by following three main objectives:

1. Internal Consistency

Internal consistency plays a major role in analysis of the compensation for the employees in the organization.

This involves:

- (i) Job analysis:** Method of collecting, analyzing and listing information for defining job. It involves contents of a job, needs of employees, occasionally working situations.
- (ii) Job evaluation:** Mostly salaries differ from employee to employee in an

organization compensation professionals must analyze the prioritized jobs which provides more value to the company in terms of profits and goodwill. This is done by comparing the all jobs in the organization.

2. Market Competitiveness

Market competitiveness involves retaining skilled personnel to the organization. Compensation professional develop compensation system by

- (a) Strategic alliances:** Internal factors and external market force are considered when developing compensation system.

Internal factors:

- Company financial status
- Functional abilities
- Human resource capabilities

External market force:

- Company profile
- Competition
- Foreign demand
- Long term prospects of the industry
- Labour market assessment

- (b) Compensation Surveys :** Pay professionals first gather information about competition and then examines it carefully

3. Identifying and recognizing individual:

In any organization, salaries are not equally given to the employees. It depends on their work, skill, educational qualification. Compensation professional make use of pay grades and pay ranges for designing a pay structure depending on the compensation factors and value.

1.7 NON-FINANCIAL COMPENSATION SYSTEM

Q20. Discuss about Non-Financial Compensation System.

Ans :

(Imp.)

In employment, it is a reward to a worker other than extra pay. Many non-financial rewards are bonus such as company cars, free private medical care, and free pension entitlement. However, an employee may be rewarded, for example, by being given a better office or a bigger budget to control, or by being given the choice of where to take a posting in a company. Non-financial rewards can be very cost-effective for companies because, in contrast with a pay increase, little or no income tax or national insurance contributions are paid.

Non Financial Rewards Outcome

- Non-financial Programs incentive and reward programs structured to motivate positive behavior change through means other than money (i.e. "Publicizing, Performance", "Providing Additional Technical Support")
- Motivate and retain employees (A motivated employee will achieve a great deal. A demotivated employee will be slow, horizontal to error and not likely to achieve).
- Helps to build feelings of confidence and satisfaction in employees
- Can be very important for their long-term effect.
- It refers to non-monetary benefits to staff provided in recognition of their performance.

Advantages

Non-financial measures offer 3 clear advantages over measurement systems based on financial data :

1. Financial evaluation systems generally focus on annual or short-term performance against accounting yardsticks. They do not deal with progress relative to customer requirements or competitors, nor other non-financial objectives that may be important in achieving profitability, competitive strength and longer-term strategic goals.

2. Critics of traditional measures argue that drivers of success in many industries are "intangible assets" such as intellectual capital and customer loyalty, rather than the "hard assets" allowed on to balance sheets. Although it is difficult to quantify intangible assets in financial terms, non-financial data can provide indirect, quantitative indicators of a firm's intangible assets.
3. Non-financial measures can be better indicators of future financial performance. Even when the ultimate goal is maximizing financial performance, current financial measures may not capture long-term benefits from decisions made now.

Disadvantages

1. Unlike accounting measures, non-financial data are measured in many ways, there is no common denominator. Evaluating performance or making trade-offs between attributes is difficult when some are denominated in time, some in quantities or percentages and some in arbitrary ways.
2. Lack of causal links is also an issue. Many companies adopt non-financial measures without articulating there nations between the measures or verifying that they have a bearing on accounting and stock price performance. Unknown or unverified causal links create two problems when evaluating performance: incorrect measures focus attention on the wrong objectives and improvements cannot be linked to later outcomes.
3. Lack of statistical reliability: whether a measure actually represents what it purports to represent, rather than random "measurement error". Many non-financial data such as satisfaction measures are based on surveys with few respondents and few questions. These measures generally exhibit poor statistical reliability, reducing their ability to discriminate superior performance or predict future financial results.
4. Although financial measures are unlikely to capture fully the many dimensions of organizational performance, implementing an evaluation system with too many measures

can lead to "measurement disintegration". This occurs when an overabundance of measures dilutes the effect of the measurement process. Managers chase a variety of measures simultaneously, while achieving little gain in the main drivers of success.

Raising wages and incentive pay does not help to reduce turnover. Raising compensation only in fact increased turnover rates. Turnover declined when the employer combined pay increases with efforts to improve career development and corporate communications and efforts to provide flexible staffing (i.e. non-financial rewards programs).

Q21. Define NFCS. What are the features and how NFCS used to motivate employees at workplace?

Ans :

An organization's total reward system consists of financial rewards and non-financial rewards. The financial rewards are the set standards across any industry, while the non-financial rewards vary and are dynamic in nature. NFCS highlights the following unique features /characteristics.

1. Intangible and Non-Quantifiable

Non financial rewards are intangible and hence cannot be measured in the quantitative terms. This is because they are associated with the psychological and emotional aspects in motivating the employees. For example, an employee may be happy and satisfied by having a very supportive working environment. This, satisfaction (i.e., N.F.C) cannot be measured in the quantitative terms.

2. Difficult to Classify

As the non-financial rewards are dynamic and situational in nature, it difficult to classify them into specific classes. They may differ from organization to organization and also from person to person. For example, one employee with strong need for affiliation may take up the additional job responsibilities readily. On the other hand, another employee may be satisfied and motivated by mere safe and clean working environment. Thus it is difficult to classify NFC into different classes, and categories.

3. Infinite Number of Components

Unlike financial compensation, which has a fixed number of components, like base pay, bonus, incentives, and so on, the non-financial rewards includes infinite number of components. This is because they aim at satisfying the emotional and psychological needs, of an employee. These needs, are innumerable in nature. Examples-safety, recognition, achievement, status, trust, support, loyalty and so on.

4. Relate to Job and Work Environment

A distinctive feature of non-financial reward system is that, these rewards are related with the job factors like interest, responsibility, challenges, opportunity for recognition and so on.

They are also associated with the work environmental factors, like safety and hygienic working conditions, supportive management, sound policies and procedures.

5. Emotional, Psychological and Intellectual

Non-financial rewards are non-economic in nature. They basically aim at satisfying the emotional and psychological gaps in the mind of the employees. These rewards work towards intellectual well being of the employee.

Using NFCS for Motivating Employees at Workplace

1. Using Recognition to Motivate

An organization can motivate the employee to be more dedicated and productive towards their work by recognizing the employee's hardwork and efforts. Researches have discovered that getting recognized helps in boosting up the employee's self-respect and morale. Therefore many organizations, are coming up with 'reward and recognition' programs which are facilitating the employees to carry out their work effectively by awarding them with recognition certificates, small mementoes, etc.

2. Providing Safe Environment to Motivate

Talented and knowledgeable candidates usually prefer to work for those organizations, which provide them safe, clean and good working environment. In order to attract and motivate such employees, the modern organizations are providing both safety environment and also clean, eco-friendly premises with good interiors and infrastructural facilities.

3. Providing Resources to Motivate

In any organization most of the employees are hard working and dedicated in nature. However they require all the necessary resources to successfully accomplish their jobs. Merely by providing all the required resources to the employees, the organizations can motivate them to a great extent.

4. Using Autonomy and Empowerment Tools

Behavioral scientist (since 1950) have discovered the changing trend in the organizational power sharing. In the modern organizations, employees are more loyal, and are concerned about the organization if they are provided with autonomy. Thus majority of the organizations today are providing employees, with the opportunity to be a part and parcel of the decision making process.

5. Designing Jobs Attractively to Motivate

Many organizations today are designing the jobs in such a manner so that it reduces job related the boredom, and fatigue. Work related stress, mental pressure and fatigue adversely effect the productivity levels of the employees. Therefore firms are redesigning restructuring and reengineering jobs processes and departments in order to make them more attractive and boost employee's morale towards work.

Q22. Define compensation system. Explain the difference between financial and non financial compensation system.

Ans :

(Imp.)

Compensation management, also known as wage and salary administration, remuneration management, or reward management, is concerned with designing and implementing total compensation package. The traditional concept of wage and salary administration emphasized on only determination of wage and salary structures in organizational settings. However, over the passage of time, many more forms of compensation as discussed earlier, entered the business field which necessitated to take wage and salary administration in comprehensive way with a suitable change in its nomenclature.

The compensation system consists of two subsystems.

1. Financial compensation system.
2. Non-financial compensation system.

S.No.	Area	Financial Compensation System	Non-Financial Compensation System
1.	Meaning	It is defined a form of monetary rewards or payments which are being offered to the employees in exchange of their work performed	It non-monetary is defined as the system which reward all the situations which are not included in the compensation package. Non-financial compensation includes intellectual and the psychological wellness of an employee.
2.	Features	It is economic, extrinsic and tangible in nature.	Non-financial compensation is non-economic, intrinsic and intangible in nature.

3.	Scope	It scope limited only upto satisfying the economic needs of an employees.	Its scope is much wider and is unlimited. It may consist of infinite number of emotional satisfaction of an employee.
4.	Compensations components	It has wages, salaries, include direct form of overtime pay, profit sharing, stock options etc. Indirect financial compensation includes insurance, gratuity, pension and so on.	It consists of components like praise and recognition from the management side job satisfaction, participation and empowerment, constructive relationship at workplace and so on.
5.	Purpose	The purpose financial compensation is to satisfy the physical and economic wants of employee.	The purpose non-financial compensation is to satisfy the psychological, intellectual and emotional needs of the employee.
6.	Example	Salary, wage, bonus perks, paid leaves, retirement program health and family care plans etc.	Appreciation letter from the manager, job enlargement provision of safety tools at work, friendly and cooperative colleagues at work and so on.

1.8 NEW TRENDS IN COMPENSATION MANAGEMENT

Q23. Analyze the emerging Trends in Compensation Management.

(OR)

What are the New Trends in Compensation Management?

Ans :

(Imp.)

As an HR professional its imperative to keep an eye on compensation management trends as you strategize and prepare for each new cycle. So far, 2021 has seen significant disruptions to normal business operations that few anticipated. For many, it has meant reprioritizing and taking a new perspective on compensation. Here are a few of the leading trends shaping the industry:

1. Transition to Longer-term Incentives

There is a shift happening in compensation from short-term incentive plans and one-time bonuses to long term incentive plans. This includes giving more employees Restricted Share Units (RSU), Performance Share Units (PSU) and longer vesting periods for stock and option awards.

2. Educating Employees about Benefits and Total Rewards

Compensation is not just about your pay check or annual bonus. The second compensation trend is organizations are increasingly educating their employees about other aspects of their employment like benefits, retirement contributions, tuition assistance and discounts.

3. Transparency into Bonus Calculations

The goal of most incentive compensation plans is to motivate your employees to drive desired results and actions. Giving employees more visibility into how their bonuses are calculated is allowing organizations to do just that.

4. Continuous Updates on Performance

Digital technologies have made it easier than ever before to give employees continuous updates on how they are trending and where they stand on bonus pay-outs. A retrospective statement is no longer enough. Ambitious organizations are giving their employees monthly and even weekly updates to keep them more engaged and motivated.

5. Engaging Employees on their Terms

As a society, we have become accustomed to getting information from the convenience of our phones when we need it. Why should our employee experience be any different? A digital Total Rewards Experience allows your employees to access their statements and information at any time, from any device.

6. More Focus on Building Corporate Culture and Brand

An organization utilizing digital technologies can not only reach its employees more often, but it can continuously provide them with a stream of new and relevant content. Highlighting employees, charity work and corporate events all help drive home the brand and corporate culture that makes you unique.

7. Expanded Company Ownership

Stock options and equity ownership is no longer just for executives. More and more forward-thinking organizations are expanding their equity and notional equity offering to larger populations. Building a culture of ownership will attract top talent and keep them engaged.

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Short Question and Answers

1. Compensation

Ans :

The meaning of compensation is to counter-balance. In the case of human resource management, compensation is referred to as money and other benefits received by an employee for providing services to his employer. Money and benefits received may be in different forms-base compensation in money and various benefits, which may be associated with employee's service to the employer like provident fund, gratuity, and insurance scheme, and any other payment which the employee receives or benefits he enjoys in lieu of such payment.

Definition

According to Casico "Compensation includes direct cash payments, indirect payments in the form of employee benefits and incentives to motivate employees to strive for higher levels of productivity."

2. Discuss the objectives of compensation.

Ans :

(i) Equitable

Each person should be paid fairly, in line with his effort, abilities & training.

(ii) Balanced

Pay, benefits & other rewards should provide a reasonable total reward package.

(iii) Cost-effective

Pay should not be excessive, considering what the organization can afford to pay.

(iv) Secure

Pay should be enough to help an employee feel secure and aid him in satisfying his basic needs

(v) Incentive-Providing

Pay should motivate effective & productive work.

(vi) Acceptable to the Employee

The employee should understand the pay system & feel it is a reasonable system for the enterprise and himself.

3. Compensation Management

Ans :

Compensation management, also known as wage and salary administration, remuneration management, or reward management, is concerned with designing and implementing total compensation package. The traditional concept of wage and salary administration emphasized on only determination of

wage and salary structures in organizational settings. However, over the passage of time, many more forms of compensation as discussed earlier, entered the business field which necessitated to take wage and salary administration in comprehensive way with a suitable change in its nomenclature.

4. Intrinsic Compensation

Ans :

Intrinsic compensation indicates the important psychological behaviour of the employees resulting from their job performance which constitutes the important feature of "job characteristics theory". Job characteristics theory states that employees will undergo improved psychological behaviours when their jobs are rated high on the five important job aspects that are as follows:

- (i) Skill variety
- (ii) Task identity
- (iii) Importance of task
- (iv) Autonomy and
- (v) Feedback

The jobs which do not have these important job aspects do not provide much intrinsic compensation. The effect of these important job aspects on intrinsic compensation is explained below.

- (i) **Skill Variety** : Skill variety is a situation in which the individuals need to carry out different tasks using different skills, talents and abilities i.e., the individuals need to be dynamic. Different types of jobs require different types of skills, so it is important for the employees to have skill variety and on the basis of these skills compensation will be offered.
- (ii) **Task Identity** : Task identity is a situation in which the job helps the individual to complete the task and as a result of it, the individual can gain identity. The task identity gives the employees greater job satisfaction and helps them to have their own identification.
- (iii) **Importance of Task** : It is a situation in which the job effects the work of other individuals. This will help the individuals to know the importance of their task and how it influences the lives of other individuals.
- (iv) **Autonomy** : Autonomy is a situation in which the employee has the freedom and independence to take decisions and to find out how to carry out their jobs. The autonomy helps the individuals to become responsible for their work. The employees gain responsibility for the results of their work with autonomy.
- (v) **Feedback** : Feedback enables the people to know about their outcomes and performances. A recent market compensation survey suggests that enhanced intrinsic compensation helps in reducing excessive turnover.

5. Extrinsic Compensation

Ans :

Extrinsic compensation includes both monetary and nonmonetary rewards. Compensation professionals design monetary compensation programs in order to reward the employee according to their performance in the jobs. Monetary compensation represents core compensation. Nonmonetary rewards include medical insurance, variations etc. which are considered as employee benefits or fringe compensation.

6. Monetary Compensation

Ans :

Monetary compensation refers to incentives given to the employees of the organization in the form of money. Some employees are motivated only if there is money element involved. The monetary incentives are mostly given based on the performance of an employee. The monetary incentives given to the employee are direct benefits to the employee and is considered as an exposure to the employer.

Some of the monetary benefits, which are given by the organization are

- Profit sharing,
- Stock options,
- Bonuses,
- Commissions,
- Merit pay, etc.

7. Compensation System

Ans :

Compensation system plays a very vital role in a business organization. Since, among four Ms., i.e. Men, Material, Machine and Money, Men has been the most important factor. It is impossible to imagine a business process without Men.

In any organization, the compensation system is designed and incorporated to streamline the activities.

The activities performed by the human resources earn income to the organization and the organization in turn would reward the efforts of the human resources in terms of monetary gains or in kind.

Compensation system tries to ensure fairness in deciding the worth of the workers and considering promotions or increments.

In designing a compensation system, an organization must value the equity concept clearly define the wage and salary differentiations and career growth plans, is as to motivate and encourage the human resource to perform better.

8. Piece Rate System

Ans :

Organisations involved in the production or manufacturing of goods adopt this pay system. In this system, employees are paid on the basis of the number of units manufactured by them during a time period. Organisations use the output data of other companies, along with time and motion studies to arrive at the minimum number of units that must be made by a worker.

A major disadvantage of this system is that employees feel that management is only concerned about productivity and not their welfare. A feeling of distrust may develop between management and workers. As the productivity per worker increases, workers may resort to 'go-slow' techniques to prevent management from laying off workers.

The Lincoln Electric plant in Cleveland, has modified the piece rate system of compensation. Their piece rate system is backed by a merit rating-based bonus system. This combination of piece rate and bonus system has led to improvement in product quality because workers want to get a good rating to earn a higher bonus.

9. Commission System

Ans :

Employees whose productivity can be quantified are usually paid on a commission basis. For example, sales professionals are paid commission on the basis of sales achieved by them. Salespersons feel motivated when they are paid commission in recognition of their efforts.

The commission system is an objective and efficient system for compensating salespersons. However, such a system may lead to the use of unethical techniques for increasing sales, thereby increasing the commission.

10. Reward

Ans :

Reward means a thing given to anyone because of his contribution to the organization. Rewards and incentives contribute to strategy implementation by shaping individual behaviour in the organization. Reward management is important for any business that has employees. Human resources are usually in charge of the reward management program in a company. This lesson discusses the theory and importance of reward management. A good design reward system is consistent with organizational goals, visions, missions and job performance. The most obvious reward that individual gets from the job is in the form of pay.

Reward management is a motivational practice that businesses use to reward employees for their achievements and success. In managerial term, the reward is defined as the total return given by an employer to an employee for rendering his/her services towards the organizational objectives. The company sets goals and establishes rules for its employees to follow to achieve those goals. This is the overall return from the work. Every person asks for return from the organization before involving in any type of activities, which is termed as the reward. It attracts a worker's attention and inspires him/her to perform the task. Moreover, a reward is a pay-off for performance which is directly concerned with the level of motivation and job satisfaction.

11. Non-Financial Compensation System.

Ans :

In employment, it is a reward to a worker other than extra pay. Many non-financial rewards are bonus such as company cars, free private medical care, and free pension entitlement. However, an employee may be rewarded, for example, by being given a better office or a bigger budget to control, or by being given the choice of where to take a posting in a company. Non-financial rewards can be very cost-effective for companies because, in contrast with a pay increase, little or no income tax or national insurance contributions are paid.

12. Define compensation system.*Ans :*

Compensation management, also known as wage and salary administration, remuneration management, or reward management, is concerned with designing and implementing total compensation package. The traditional concept of wage and salary administration emphasized on only determination of wage and salary structures in organizational settings. However, over the passage of time, many more forms of compensation as discussed earlier, entered the business field which necessitated to take wage and salary administration in comprehensive way with a suitable change in its nomenclature.

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Choose the Correct Answer

1. Which of the following is the function of compensation management, [a]
(a) Legal function (b) Managing function
(c) Control function (d) Retention function
2. The following is a situation in which the employee has the freedom and independence to take decisions and authority for directing the individuals to carry out their jobs. [a]
(a) Task identity (b) Importance of task
(c) Autonomy (d) Feedback
3. _____ occurs at the time of protection programs, paid time off and employee services. [c]
(a) Discretionary benefits (b) Legally required benefits
(c) Incentive benefits (d) Merit pay
4. One of the important components of compensation package is [a]
(a) Income (b) Wage and salary add-ons
(c) Property (d) Education
5. Family and Medical Leave Act has been introduced in the year, [b]
(a) 1993 (b) 1992
(c) 1990 (d) 1956
6. The basic functions of HR department consist of the following, [b]
(a) Recruitment (b) Selection and training
(c) Performance appraisal (d) All of the above
7. _____ are the individuals who are connected with the organization and are affected by the success or the failure of an organization. [a]
(a) Shareholders (b) Stakeholders
(c) Investors (d) Government
8. Which of the following elements are part of total reward system? [a]
(a) Cash compensation (b) Benefits
(c) Relational returns (d) All the three
9. This type of reward motivates the employees to work overtime in rotational shifts. [a]
(a) Incentives (b) Bonus
(c) Allowances (d) Commission
10. Which pay system encourages bureaucracy in the organization which may lead to rigidity and low productivity. [b]
(a) Pay for position (b) (c) and (d)
(c) Pay for person (d) Pay for performance

Fill in the blanks

1. _____ is regarded as a part of employer-employee relationship.
2. _____ deals with both monetary reward and nonmonetary rewards.
3. The concept of _____ emphasizes that an employee's compensation should be according to the position he/she holds in an organization.
4. To group jobs into grades, an organization can make use of the _____ process.
5. _____ is a type of reward system which is used for the middle management and other employees in large organizations.
6. _____ is given to the employees who exhibit a difference in their job performances.
7. Strategic analysis includes an inspection of an organization's _____ and _____.
8. According to U.S. government, the organizations should act in accordance with all _____.
9. COLAs is an acronym for _____.
10. Under _____ plans, companies grant employees the right to purchase shares of company's stock.

ANSWERS

1. Compensation
2. Extrinsic compensation
3. Pay for position
4. Internal position evaluation
5. Stock options
6. Merit pay
7. Internal factors and external market forces
8. Employment legislation
9. Cost of living adjustments
10. Employee stock option plans

UNIT II

COMPENSATION AND EMPLOYEE BEHAVIOUR

Bases For Traditional Pay System and Modern Pay System – Establishing Pay Plans – Aligning Compensation Strategy with HR Strategy and Business Strategy - Seniority and Longevity pay - Linking Merit Pay with Competitive Strategy - Incentive Pay - Person focus to Pay – Team Based Pay.

2.1 BASES FOR TRADITIONAL PAY SYSTEM

Q1. What are the Bases for Traditional Pay System?

Ans :

(Imp.)

The base salary for parent – country nationals and third – country nationals is linked to the salary structure of the relevant home country. Additional salary is often given to cover tax differences, housing costs and the other basic living expenses. Perquisites may also be offered such as Foreign Service premiums, hardship allowance, relocation assistance and home leave allowances to help make the assignment more attractive. There are several versions of the balance – sheet approach, such as the headquarters based system. They each essentially are applied in the same manner with the primary difference being that the base salary is equated with a different location.

An advantage of the balance sheet method and perhaps the reason why it is one of the most widely used international compensation scheme is that it eases the repatriation process because it generally maintains comparable compensation with home country colleagues.

It further provides equity between assignments and is relatively easy for employees to understand. Multinationals using the balance sheet approach must frequently review compensation package to ensure that it is keeping up with any rise in cost of living. Opposite to the balance sheet method is the host – country – based or going – rate approach. This approach uses comparable salary in the host country as the base in setting compensation. It perhaps best integrates the expatriate into the host country and host business

unit more quickly because salary survey comparisons are closely linked with host country nationals.

As an alternative, compensation may be benchmarked against expatriates of the same nationality or of all nationalities within the local market. Advantages afforded by this approach include better identification with the host country living standards and host company compensation levels. This may be particularly important in diffusing any resentment that may develop among local national employees regarding inequities in expatriate compensation.

These traditional methods of international compensation are based on the premise that eventually the expatriate will return to his or her home country. However, as globalization requires a constant mobile workforce, these traditional compensation packages are becoming less and less adequate. Challenges develop as the need to transfer employees among international business units increases. It becomes an expensive proposition for companies to continue paying salaries, allowances and perquisites based on a home country location when there are no immediate plans to repatriate the employee.

Q2. Discuss the Challenges for Traditional Pay System.

Ans :

- Although the balance sheet approach provides the benefits of equity for the expatriate between assignments and better facilitates repatriation, it generally comes at a high cost to the company. The longer the foreign assignment lasts, the challenge to

maintain a life style the expatriate may have been accustomed to at home becomes greater.

- The balances sheet approach infers that the expatriate should never have to make any adjustments to his or her host country and company. This can result in great compensation disparities between the expatriate and host company employees as well as third – country expatriates. Problems arise when employees are paid different amounts for performing essentially the same job, leaving a perception of unfairness among the lower paid employees.
- Another challenge with the balance sheet approach is the complexity in administering the program as more expatriates from different home countries are sent abroad. Multiple home countries complicate the administration of the base pay and allowances required to keep the expatriates economically whole. The going rate approach also has its disadvantages as a global compensation program. Assignments to multiple locations likely result in variation of pay.
- This is particularly evident when an employee is transferred from an economically advanced location to perhaps a Second or Third World country. Expatriates facing a possible loss of compensation may be reluctant to take the pending assignment.
- Further more, expatriates from the same home country performing equivalent work in different locations can have a notable difference in pay depending on the host country compensation level. Again, this can result in expatriates being reluctant to take the lower compensating assignments and lead to rivalry among coworkers for the higher paying assignments.

2.1.1 Types

Q3. Explain the types of traditional pay system?

Ans :

(Imp.)

Traditional pay system comprises of two types of pay as follows,

1. Seniority and longevity pay
2. Merit pay.

Increasing the base pay of employees on the basis of seniority or job performance is the traditional practice which companies used to follow in the olden days. Even today, some companies still follow the traditional pay system. Apart from the traditional pay system, there are various other pay systems introduced in the recent years like incentive pay plans, person-focused pay plans etc.

1. Seniority Pay and Longevity Pay

In seniority and longevity pay system, employees are rewarded with additional base pay on the basis of their seniority and the length of service provided by them to the company. Seniority and longevity pay plans presume that employees become more and more valuable to the company with the span of time. This valuable employees can be retained in the company only by making proper additions to their base pay on regular intervals.

Employees grab the required knowledge and skills through formal training, education and on-the-job experience. This knowledge and skills of employees is considered as “human capital” of the company. With the span of time, employees improve their existing skills and develop new skills which helps them in improving their productivity levels. As the name suggests, seniority pay rewards employees with additional compensation for improving their existing skills and developing new skills.

Even today, both unionized private sector and public sector organizations are using seniority and longevity pay plans.

There are various advantages of seniority pay as follows :

- i) Equal treatment of employees as they receive pay increases on the basis of seniority.
- ii) Seniority pay system results in high co-operation among employees.
- iii) The amount to be increased for each employee is preplanned and scheduled in seniority pay system which reduces the burden of the administration of pay programs.

- iv) No bias is possible by employer towards employees because seniority pay system is based on objective standards.

2. Merit Pay

Merit pay program is an important component of pay for performance in most of the organizations. Merit pay refers to an adjustment made in the base pay which is directly linked with employees' performance level. The amount of adjustment relies upon the performance level of the employees. Apart from employees' performance level, some other factors are also considered while making decisions regarding the amount of adjustment to be made in the employee's base pay.

Through merit pay program, many organizations are trying to communicate the message to the employees that their pay would be increased only on the basis of their performances which need not be annually. Employees pay will be increased only when the employees deserve the pay increase and when organization makes good profits. In merit pay system, employees are paid rewards on the basis of performance and not on the seniority basis.

2.2 MODERN PAY SYSTEM

Q4. What are the features for Modern Pay Systems?

Ans :

Features

The following are the features of modern pay systems :

- They seek to balance legal risk and employee relations concerns.
- They embody involvement of employees in designs and transparency.
- They should be equality proofed with rational and defensible progression criteria, flexible and efficient.
- They seek to encourage employees to develop their skills and improve their performance.
- They motivate the marketing personnel.

- They reward competencies not age or service.
- It is towards rewarding skills, competencies, performance and teamwork.
- They are difficult to implement due to legal regulations and trade unions resistance.

Q5. Discuss about Wage and Salary Administration.

Ans :

Wages and salary administration is an integral part of the management of the organization. Wages and salary is a systematic approach to providing monetary value to employees in exchange for work performed.

It may achieve several purposes assisting in recruitment, job performance, and job satisfaction. It is the remuneration received by an employee in return for his/her contribution to the organization. It is an organized practice that involves balancing the work-employee relation by providing monetary and non-monetary benefits to employees.

The vast majority of American adults gain their livelihoods by working for a corporation or partnership that they do not own. This is true of people who work in factories, stores, or offices. It is also true of many highly educated workers, such as doctors, and non-tenured college professors (who have no property rights in their jobs).

Most unskilled and semi-skilled workers are paid by the hour, most professionals or semiprofessionals are paid by the month or the year. Although hourly employees are called wage workers and others are generally considered salaried, all depend for their livelihoods on payment by the owners of productive property (capital) that makes a profit on their labor. In that sense they are all wage workers.

But like assembly line workers, wages are ballplayers' primary source of income, and they are employed by corporations that make a profit from their work. If an owner's team consistently loses money, players will be paid less-or traded.

Meaning of Wages

Wages means all remuneration capable of being expressed in terms of money, which would, if the terms of contract of employment, express or implied, were fulfilled, be payable to a person employed in respect of his employment or of work done in such employment.

Meaning of Salary

A salary is a form of periodic payment from an employer to an employee, which may be specified in an employment contract. It is contrasted with piece wages, where each job, hour or other unit is paid separately, rather than on a periodic basis.

From the point of a business, salary can also be viewed as the cost of acquiring human resources for running operations, and is then termed personnel expense or salary expense. In accounting, salaries are recorded in payroll accounts.

Increment

An employee or any other staff working in the concern has yearly increment, if he has regular attendance they are eligible to get the increment.

It is maintained by the personal branch of ICF, based on the post or position in which they are placed in the organization.

Q6. What are the objectives of wage and salary administration? What factors should be considered in fixing wages?

Ans : (Imp.)

Objectives

The main objective of wage and salary administration is to establish and maintain an equitable wage and salary system. This is so because only a properly developed compensation system enables an employer to attract, obtain, retain and motivate people of required calibre and qualification in his/her organisation. These objectives can be seen in more orderly manner from the point of view of the organisation, its individual employees and collectively. There are outlined and discussed subsequently.

Organisational Objectives

The compensation system should be duly aligned with the organisational need and should also be flexible enough to modification in response to change.

Accordingly, the objectives of system should be to:

1. Enable an organisation to have the quantity and quality of staff it requires,
2. Retain the employees in the organisation,
3. Motivate employees for good performance for further improvement in performance.
4. Maintain equity and fairness in compensation for similar jobs.
5. Achieve flexibility in the system to accommodate organisational changes as and when these take place.
6. Make the system cost-effective.

Individual Objectives

From individual employee's point of view, the compensation system should have the following objectives:

1. Ensures a fair compensation.
2. Provides compensation according to employee's worth.
3. Avoids the chances of favouritism from creeping in when wage rates are assigned.
4. Enhances employee morale and motivation.

Collective Objectives

These objectives include:

1. Compensation in ahead of inflation.
2. Matching with market rates.
3. Increase in compensation reflecting increase in the prosperity of the company.
4. Compensation system free from management discretion.

Beach has listed the five objectives of wage and salary administration:

1. To recruit persons for a firm.
2. To control pay-rolls.
3. To satisfy people, reduce the incidence of turnover, grievances, and frictions.

Factors

The following factors should be taken into consideration in determining wage and salary structure of workers:

(i) Labour Unions

The labour unions attempt to work and influence the wages primarily by regulating or affecting the supply of labour. The unions exert their influence for a higher wage and allowances through collective bargaining with the representatives of the management.

If they fail in their attempt to raise the wage and other allowances through collective bargaining, they resort to strike and other methods where by the supply of labour is restricted. This exerts a kind of influence on the employees to concerned test partially the demands of the labour unions.

(ii) Personal Perception of Wage

Whether the wage is adequate and equitable depends not only upon the amount that is paid but also upon the perceptions and the views of the recipients of the wage. Even though the wage is above the going wage rate in the community if it is lower than that of fellow worker deemed inferior, it will be regarded as inequitable in the eyes of the recipients of the wage. A man's perception of the equity of his wage will undoubtedly affect his behaviour in joining and continuing in the organisation.

(iii) Cost of Living

Another important factor affecting the wage is the cost of living adjustments of wages. This approach tends to vary money wage depending upon the variations in the cost of living index following rise or fall in the general price level and consumer price index. It is an essential ingredient of long term labour contracts unless provision is made to reopen the wage clause periodically.

There are measurement problems both in ascertaining productivity and cost of living increases. This problem may lead to lack of understanding and unanimity on the part of the management and the workers.

(iv) Government Legislation

The laws passed and the labour policies formed by the Government have an important influence on wages and salaries paid by the employees. Wages and salaries can't be fixed below the level prescribed by the government. The laws on minimum wages, hours of work, equal pay for equal work, payment of dearness and other allowances, payment of bonus, etc. have been enacted and enforced to bring about a measure of fairness in compensating the working class.

(v) Ability to Pay

Labour unions have often demanded an increase in wages on the basis that the firm is prosperous and able to pay. However, the fundamental determinants of the wage rate for the individual firm emanate from supply and demand. If the firm is marginal and cannot afford to pay competitive rates, its employees will generally leave it for better paying jobs. However, this adjustment is neither immediate nor perfect because of problems of labour immobility and lack of perfect knowledge of alternatives. If the firm is highly successful, there is little need to pay for more than the competitive rates to obtain personnel.

(vi) Supply and Demand

As stated earlier, the wage is a price for the services rendered by a worker or employee. The firm desires these services, and it must pay a price that will bring forth the supply, which is controlled by the individual worker or by a group of workers acting together through their unions. The practical result of the operation of this law of supply and demand is the creation of "going- wage rate".

It is not practicable to draw demand and supply curves for each job in an organisation even though, theoretically, a separate curve exists for each job. But, in general, if anything works to decrease the supply of labour such as restriction by a particular labour union, there will be a tendency to increase the wage. The reverse of each situation is likely to result in a decrease in employee wage, provided other factors, such as those discussed below, do not intervene.

(vii) Productivity

Increasingly there is a trend towards gearing wage increases to productivity increases. Productivity is the key factor in the operations of a company. High wages and low costs are possible only when productivity increases appreciably. The above factors exercise a kind of general influence on wage rates. In addition, there are several factors which do affect the individual difference in wage rates.

Q7. Explain the principles of wage & salary administration.

Ans :

Principles of Wage and Salary Administration

There are several principles of wage and salary plans, policies and practices. The important among them are :

- (a) Wage and salary plans and policies should be sufficiently flexible.
- (b) Job evaluation must be done scientifically.
- (c) Wage and salary administration plans must always be consistent with overall organizational plans and programs.
- (d) Wage and salary administration plans and programs should be in conformity with the social and economic objectives of the country like attainment of equality in income distribution and controlling inflationary trends.
- (e) Wage and salary administration plans and programs should be responsive to the changing local and national conditions.
- (f) These plans should simplify and expedite other administrative processes.

The Elements of Wage and Salary System

Wage and salary system should have relationship with the performance, satisfaction and attainment of goals of an individual. The following elements of wage and salary system are identified by experts in HR,

- a) Identifying the available salary opportunities, their costs, estimating the worth of its members of these salary opportunities and communicating them to employees.

- b) Relating salary to needs and goals.
- c) Developing quality, quantity and time standards relating to work and goals.
- d) Determining the effort necessary to achieve standards.
- e) Measuring the actual performance.
- f) Comparing the performance with the salary received.
- g) Measuring the job satisfaction gained by the employees.
- h) Evaluating the unsatisfied wants and unreach goals of the employees.
- i) Finding out the dissatisfaction arising from unfulfilled needs and unattained goals.
- j) Adjusting the salary levels accordingly with a view to enabling the employees to reach goals not attained and fulfills the unfulfilled needs.

2.3 ESTABLISHING PAY PLANS**Q8. Discuss the various steps involved in establishing strategic pay plans for an organization.**

Ans :

(Imp.)

Establishing Pay Plans or Establishing Strategic Pay Plans

The compensation professional, must establish and design pay plans such that the plans must support the firm's strategic aims. These pay decision must be fully integrated into the organization's business strategy. Well designed pay plans must promote the retention of valued employees. The basic factors determining pay rates are legal considerations, union influences, compensation policies and equity issues. The compensation manager must take state laws into consideration as well as employees contribution while establishing pay plans so that the issues of equity cannot be raised.

Establishing pay rates involves five steps as follows :

Steps

- Step - 1 : Evaluating jobs
- Step - 2 : Developing pay grades
- Step - 3 : Conducting a salary survey
- Step - 4 : Price each pay grade using a wage curve
- Step - 5 : Fine tuning pay rates.

Step 1: Evaluating Jobs

Job evaluation is the process of systematically determining the relative worth of jobs within a firm. It compares one job with another in terms of fundamental compensable elements of a job such as, skills, effort, responsibility and working conditions. Thus, job evaluation is the basic ingredient in determining the pay rate of an job individual.

Step 2: Developing Pay Grades

Most of the managers group similar jobs into wage or pay grades for determining pay. These groups consist of jobs of approximately equal value or importance as determined by job evaluation. There are three methods, for determining pay grades.

- i) **Point Method** : The pay grade consists of jobs falling within a range of points.
- ii) **Ranking Method** : In this method the pay grade consists of all jobs falling within two or three ranks.
- iii) **Classification Method** : This method automatically classifies jobs into grades, i.e., which jobs fall into which grade.

Step 3 : Conducting a Salary Survey

A salary survey is conducted which aims at determining the prevailing market wage rates. A good salary survey provides information about market wage rates for a specific job. The greatest challenge for the compensation manager is to understand the salary survey data and further know how to evaluate and interpret the results. Based on this interpretation, a pay rate is specified to certain jobs. Methods of survey include formal written questionnaire, which is the most comprehensive one. Telephone surveys, interviews and newspaper are also among the sources of information. Selecting a benchmark job helps to know the employer's pay seek for job and around which other jobs are arranged in order of relative work.

Step 4 : Price Each Pay Grade using a Wage Curve

Job evaluation determines the pay rates currently paid for jobs in each pay grade, according to the points or ranking assigned to each job. The wage curve or line shows the average target wage rate for each pay grade. It shows the relationships between the value of the job as established by job, evaluation process and currently prevailing average pay rate for the grades.

Step 5 : Fine Tuning Pay Rates

It explains what the average wage for each pay grade must be. It checks whether any present wages or salaries are out of market line. For fine tune pay rate, two activities are essential.

i) **Developing Pay Ranges** : One must develop pay ranges that are flexible in meeting external job market rates. It becomes easier for employees to move into pay grades of higher level that allows for rewarding differences in the performance and seniority.

ii) Correcting Out-of-Loan Rates

- By raising underpaid jobs to the minimum rate paid for jobs for their pay grade.
- By cutting pay rates to maximum for overpaid jobs in the pay range for their pay grade.
- Skill competency-based pay plans provide compensation to the employees based on the skills they possess and knowledge they are using rather than the position or the job they currently hold. The basic elements of executive compensation are salary, benefits, short-term incentives or bonuses, long-term incentives or bonuses, and "perquisites" also called as "perks".

Pay equity issues arise when an organizations workforce includes female workforce. In this situation, the HR management requires to provide equal pay for female dominated jobs that are of equal value to male dominated jobs, where value is determined through job, evaluation.

2.4 ALIGNING COMPENSATION STRATEGY WITH HR STRATEGY AND BUSINESS STRATEGY

Q9. How should an organization integrate its competitive strategy into its compensation system what specific steps would you follow?

(OR)

How does an effective compensation as an integral part of HR strategy help an organization to achieves its business strategic objectives?

(OR)

Discuss on compensation strategy with HR strategy and business strategy.

Ans :

Compensation Strategy

1. Strategy refers to the fundamental directions that an organization chooses.
2. Compensation Strategy focuses on the compensation choices those help the organization gain and sustain competitive advantage.

Human Resource Strategy

1. Human resource strategy is designed to develop the skills, attitudes and behaviors among staff chat will help the organization meet its goals.
2. Human resource strategy consists of principles for managing the workforce through HK policies and practices.
3. It covers the various areas of human resources functions such as recruitment, compensation, performance management, reward and recognition, employee relations and training.

Business Strategy

Business Strategy defines the direction in which organization is going in relation to its environment in order to achieve its objectives.

Aligning Compensation Strategy with Business Strategy

1. Compensation systems should align with the organization's business strategy
2. When business strategies change, compen-sation systems should also change.

Aligning Compensation Strategy with HR Strategy and Business Strategy

Strategy	Business Response	HR Program Alignment	Compensation Systems
Innovator: Increase product Complexity and Shorten Product Life Cycle	Product Leadership Shift to Mass Customization Cycle Time	Committed to Agile, Risk-Taking, Innovative People	Reward Innovation in Products and Processes Market-Based Pay Flexible - Generic Job Descriptions
Cost Cutter Focus on Efficiency	Operational Excellence Pursue Cost-Effective Solutions	Do More with Less	Focus on Competitors' Labor Costs Increase Variable Pay Emphasize Productivity Focus on System Control and Work Specifications
Customer Focused: Increase Customer Expectations	Deliver Solutions to Customers Speed to Market	Delight Customer, Exceed Expectations	Customer Satisfaction Incentives Value of Job and Skills Based on Customer Contact

Aligning Compensation Strategy with HR Strategy

HR Strategy	Compensation Strategy
Attract staff	Total reward approaches that help to make the organisation a great place to work
Retain effective performers	Competitive pay structure that helps to retain high quality employee
Support change management process	Variable pay schemes that contributes to the motivation of the people
Establish positive corporate reputation	Performance management process that promotes continuous improvement
Administer reward management to maximise positive impact	Performance management processes that identify learning needs and how they can be satisfied
Enhance purchasing power of employees	Career family structure that defines knowledge and skills requirement
Make Compensation package simple	Total reward approaches that emphasize the importance of enhancing the work environment
Develop human resources	

Aligning Compensation Strategy with Business Strategy

Business Strategy	Compensation Strategy
Achieving competitive advantage through innovation	Provide financial incentive/reward and recognition for innovation
Achieving competitive advantage through quality	Link reward to quality performance
Achieving competitive advantage through low costs	Review all reward practices to ensure they provide value for money

2.5 SENIORITY AND LONGEVITY PAY**Q10. Discuss about Seniority and Longevity Pay.***Ans :***(Imp.)****i) Seniority Pay**

Seniority pay and longevity pay systems reward employees with periodic additions to base pay according to employees' length of service in performing their jobs. These pay plans assume that employees become more valuable to companies with time and that valued employees will leave if they do not have a clear idea that their salaries will progress over time. This rationale comes from *human capital theory*, which states that employees' knowledge and skills generate productive capital known as *human capital*.

Employees can develop such knowledge and skills from formal education and training, including on-the-job experience. Overtime, employees presumably refine existing skills or acquire new ones that enable them to work more productively. Thus, seniority pay rewards employees for acquiring and refining their skills as indexed by seniority.

Political pressures probably drive the prevalence of public sector seniority pay. Seniority-based pay systems essentially provide automatic pay increases. Performance assessments tend to be subjective rather than objective (for example, production data including dollar volume of sales and units produced, and human resource data including accidents and absenteeism) because accurate job performance measurements are very difficult to obtain.

Advantages of Seniority Pay

Seniority pay is useful for both, the organization and also the employees. Seniority pay holders feel that they are treated fairly and as a result their contribution to the organizational success increases automatically. They are more relaxed and satisfied as they receive increased pay according to their level of seniority. The two major advantages of seniority pay for the organization are,

1. The pay increase amounts are well in advance and are implemented later on seniority pay helps in facilitating the administration of pay program more easily.
2. The second advantage is that the organization does not face any difficulty with the employees in case of awards as seniority forms the basis for making awards. This is possible due to the absence of favoritism which leads to the increased levels of motivation among the employees to perform their job.

Effectiveness of Seniority Pay System

1. To motivate and design an organised system of seniority pay plan's for senior employees.
2. Emphasis should be laid towards the growing competition in the external markets, changes in technology and skill requirements of both old and new employees.

3. Rewarding employees for bearing the required job knowledge and skills for making noticeable contributions towards the company's aim to achieve competitive advantage.
4. The public sector organizations must focus on changing the way they service.
5. White-collar employees are paid according to seniority pay plans, there should be a revolutionary change by the federal government for seniority pay system, which has restricted the governments mission and objective to vitally serve the citizens of the country.

ii) Longevity Pay

This pay system rewards those employees who have reached their maximum pay grade and who are not likely to move towards any further higher grades. Normally, the state and local government use longevity pay reward as an incentive to reduce employee turnover and to reward employees for their length of service.

Design of Seniority and Longevity Pay Plans

The object of seniority pay is to reward job tenure or employees' time as members of a company explicitly through permanent increases to base salary. Employees begin their employment at the starting pay rate established for the particular jobs. At specified time intervals – as short as 3 months and as long as 3 years – employees receive designated pay increases. These pay increases are permanent additions to current pay levels. Over time, employees will reach the maximum pay rate of their jobs. Companies expect that most employees will earn promotions into higher paying jobs that have seniority pay schedules.

Longevity pay rewards employees who have reached pay grade maximums and who are not likely to move into higher grades. State and local governments often use longevity pay as an incentive to reduce employee turnover and to reward employees for continuous years of service. Longevity pay may take the form of a percentage of base pay, a flat dollar amount, or a special step increase based on the number of years the employee has spent with the organization.

Q11. How do you link seniority pay with competitive strategies.

Ans :

Fitting Seniority Pay with Competitive Strategies

Seniority pay does not fit well with the imperatives of competitive strategies because employees can count on receiving the same pay raises for average and exemplary performance, and this fact represents the greatest disadvantage of seniority pay systems. Employees who make significant contributions in the workplace receive the same pay increases as coworkers who make modest contributions.

In addition, employees receive pay raises without regard to whether companies are meeting their differentiation or cost goals. Employees clearly do not have any incentives to actively improve their skills or to take risks on the job because they receive pay raises regardless of any initiative they show.

Although seniority pay plans reflect employees' increased worth, they measure such contributions indirectly rather than based on tangible contributions or the successful acquisition of job-related knowledge or skills. Now more than ever, companies need to be accountable to shareholders, which will require direct measurement of employee job performance.

2.6 LINKING MERIT PAY WITH COMPETITIVE STRATEGY

Q12. What is merit pay?

Ans :

Introduction

Merit pay programs assume that employees' compensation over time should be determined, at least in part, by differences in job performance. Employees earn permanent merit increases based on their performance. The increases reward excellent effort or results, motivate future performance, and help employers retain valued employees. Merit increases are usually expressed as a percentage of hourly wages for nonexempt employees and as a percentage of annual salaries for exempt employees.

Merit pay is one of the most commonly used compensation methods in the United States. Its popularity may result from the fact that merit pay fits well with U.S. cultural ideas that reward individual achievement. Merit pay programs occur most often in the private "for-profit" sector of the economy rather than in public sector organizations such as local and state governments.

Q13. What are the elements of merit pay?

Ans :

Companies use merit and incentive reward schemes to motivate employees and align employees' objectives with company goals. The theory is that employees focus their efforts on the areas of work that generate the greatest reward. A 2007 study conducted by WorldatWork found that 79 percent of the private companies surveyed had a short-term incentive plan in place. There are a range of incentive reward schemes available to companies, including merit pay, bonus schemes, profit sharing and ad hoc rewards.

1. Measurable Results

Merit and incentive schemes reward employees for results achieved rather than hours worked. Merit and incentive schemes require defined standards and measurable results. The company must carefully define the desired results to ensure that it achieves its goal. If the company only rewards high levels of production, the quality of each unit produced may drop as employees rush to meet the target. A better measure would be the number of units produced to a defined quality standard.

2. Employee Control

If employees cannot influence the outcome of the reward system, it is unlikely to motivate them or change their behavior. If a company pays a bonus or profit share based solely on the company's overall performance, individual employees will view the payment as a windfall as the factors influencing success are too remote from their individual effort. Merit and incentive reward schemes are most effective when the success or failure of an objective lies within the employee's span of control.

3. Fairness and Transparency

Rewards based on individual merit create winners and losers within the workforce. The company awards the bonus or additional pay only to high performers. Unless employees are satisfied that the scheme is fair and transparent, it could lead to dissatisfaction, lower motivation levels and increased employee turnover. A perception of fairness is more likely when the scheme is open to everyone, goals are achievable and results are visible. Employees should be given regular feedback on progress against targets so that there are no unpleasant surprises at the end of the pay period.

Q14. Discuss about the limitations of merit pay.

Ans :

Despite the popularity of merit pay systems, these programs are not without potential limitations, which may lessen their credibility with employees. If employees do not believe in a merit pay program, the pay system will not bring about the expected motivational impacts. Supervisors, HR managers, and compensation professionals must address the following eight potential problems with merit pay programs.

1. Failure to Differentiate Among Performers

Employees may receive merit increases even if their performance does not warrant them, because supervisors want to avoid creating animosity among employees. Therefore, poor performers may receive the same pay increase as exemplary performers, and poor performers may come to view merit pay increases as entitlements. Consequently, superior performers may question the value of striving for excellent performance.

2. Poor Performance Measures

Accurate and comprehensive performance measures that capture the entire scope of an employee's job are essential to successful merit pay programs. In most companies, employees' job performance tend to be

assessed subjectively, based on their supervisors' judgements. Merit pay programs rely on supervisors' subjective assessments of employees' prior job performances. Unfortunately, developing performance measures for every single job is not only difficult but also expensive.

3. Supervisors' Biased Ratings of Employee Job Performance

Supervisors are subject to a number of errors when they make subjective assessments of employees' job performances. These errors often undermine the credibility of the performance evaluation process. Performance evaluation processes that lack credibility do little to create the perception among employees that pay reflects performance.

4. Lack of Open Communication between Management and Employees

If managers cannot communicate effectively with employees, employees will not trust performance appraisal processes. Trust is difficult to build when decisions are kept secret and employees have no influence on pay decisions. Thus, merit pay decision systems can cause conflict between management and employees. If mistrust characterizes the relationship, then performance appraisals will mean little to employees and could even lead to accusations of bias. In an environment of secrecy, employees lack the information necessary to determine if pay actually is linked to job performance.

5. Little Motivational Value

Notwithstanding their intended purpose, merit pay programs may not positively influence employee motivation. Employers and employees may differ in what they see as "large enough" merit increases to really motivate positive worker behaviour. For example, increases diminish after deducting income taxes and contributions to Social Security, and differences in employees' monthly paychecks may be negligible.

Q15. What are performance based compensation? Discuss its merits and demerits.*Ans :***Meaning**

In performance based system higher and attractive pays are offered to employees of an organisation to improve their performance for the task provided to them by employees.

These pay structures are designed in such a way that employees will be interested in knowing how much additional payment will they receive for certain level of knowledge, skill and motivation.

This is the most effective method used for increasing the productivity which links the pay's to the performance of the employees.

Advantages

1. Managers can use a defined framework for setting goals. It should improve individual productivity and performance.
2. Employees are more likely to focus on what they need to do to improve if this is directly linked to pay.
3. A good PRP system will reward the best performers.
4. It is an effective way of dealing with poor performance.
5. Rewarding high performance can assist in retaining staff.
6. It provides a direct incentive for employees to achieve defined work targets.
7. The contribution an employee makes is recognised with a tangible reward.
8. A healthy performance based culture can be developed with its introduction.

Disadvantages

1. Employees can be de-motivated if the goals set are too hard to achieve.
2. Too much of the process relies on the quality of judgement made by a manager.
3. It reduces pay equity and can make a company liable to costly equal pay challenges if not operated fairly.

4. The performance appraisal process can be affected detrimentally because of the focus on financial reward rather than developmental needs.
5. Team spirit and co-operation can be hindered.
6. As reward is made for a short-term quantifiable goal, it can be too narrowly focused.
7. There is a danger that employees can expect an additional payout year on year. In a low inflation climate the rewards might not appear to be that great.

Q16. Discuss about Linking Merit Pay with Competitive Strategy.*Ans :*

The rationale for the appropriateness of merit pay systems differs according to the imperatives of the lowest-cost and differentiation competitive strategies.

1. Lowest-Cost Competitive Strategy

Lowest-cost strategies require firms to reduce output costs per employee. Merit pay systems are most appropriate only when the following two conditions are met : (1) Pay increases are commensurate with employee productivity, and (2) Employees maintain productivity levels over time. Unfortunately, factors outside companies' control may lead to lower employee productivity from time to time. Personal illness and a shortage of raw materials for production are examples of factors that undermine employee productivity.

2. Differentiation Competitive Strategy

A differentiation strategy requires creative, open-minded, risk-taking employees. Compared to lowest-cost strategies, companies that pursue differentiation strategies must take a longer-term focus to attain their preestablished objectives. Merit pay has the potential to promote creativity and risk taking by linking pay with innovative job accomplishments. However, objectives that are tied to creativity and risk taking must be established on a regular basis for merit pay to be effective under differentiation strategies. Granting merit pay raises for past performance would be tantamount to rewarding employees long after the impact of their past performance has subsided.

2.7 INCENTIVE PAY

Q17. What is Incentive Pay / Variable Pay ? And Discuss.

(OR)

What do you understand by incentive plan? Describe the prerequisites of a sound incentive plan.

Ans :

(Imp.)

Introduction

Incentive pay or variable pay rewards employees for partially or completely attaining a predetermined work objective. Incentive or variable pay is defined as compensation, other than base wages or salaries, that fluctuates according to employees' attainment of some standard, such as a preestablished formula, individual or group goals, or company earnings.

Effective incentive pay systems are based on three assumptions :

- Individual employees and work teams differ in how much they contribute to the company, not only in what they do but also in how well they do it.
- The company's overall performance depends to a large degree on the performance of individuals and groups within the company.
- To attract, retain, and motivate high performers and to be fair to all employees, a company needs to reward employees on the basis of their relative performance.

Much like seniority and merit pay approaches, incentive pay augments employees' base pay, but incentive pay appears as one-time payments. Usually, employees receive a combination of recurring base pay and incentive pay, with base pay representing the greater portion of core compensation.

Incentive pay program is generally implemented by the companies to control the payroll cost or to motivate employee's productivity. Some companies use incentive programs to control payroll expenditure and to link pay to performance. Companies use incentive pay to reward individual employees, teams of employees or whole companies, based on their performance.

Prerequisites of a Sound Incentive Plan

The following seven steps are followed in working out the incentive/motivational plans.

1. Setting Up

The first step is to set up an incentive pay plan on the basis of employee's performance.

2. Planning

The second step is to planning of incentive plan. Based on the experience, compensation professionals plan about the incentive pay.

3. Analyzing Alternatives

The third step in working out the incentive plan is to analyze the purpose for carrying out incentive plan. It is usually implemented by the companies to control pay roll cost to motivate employee, etc. The plans are analysed so that they can be best suited to the purpose.

4. Selecting the Best Plan

The best plan is selected which suits and matches with the business strategy.

5. Approving

The next step is to appraise plan, time, cost and behavior required for the incentive plan.

6. Developing and Implementing Programme

The plan is developed and is implemented. This step involves developing and implementing the programme which is selected.

7. Arranging Feedback Adjustment

The last step is to review and follow ups for the alternatives. Accordingly the feedback adjustments are made in the incentive plan.

Q18. Discuss the design of Incentive Pay plan?

Ans :

While designing an incentive pay plan, the human resource managers and line managers should take into consideration the following aspects,

1. The extent of risk accepted by the employees
2. Performance criteria

3. Whether to use group incentive plans or individual incentive plans.
4. Whether to set long-term goals or short-term goals.
5. Whether to replace or complement the tradition pay system with incentive pay system.

1. Extent of Risk Accepted by the Employees

Employees paid on incentive basis will be at high risk, so it is essential to find out the level of risk being acceptable by the employees while designing the incentive pay plan. Higher the proportion of incentives in the total core compensation, higher would be the risk involved. Risk levels would be high for the top level employees at higher level than the lower level employees at the lower levels of the organization.

In addition to the employee's ranks a company must select the risk level on the basis of the degree of employees' control over the achievement of objectives. Incentive pay plans might not succeed when the employees have no control (or limited control) over the achievement of predetermined objectives.

For example, if a company has decided to pay sales managers on incentive basis and linked incentives with the objective of raising market share by 20%. This incentive plan may fail because sales managers will have little or no control over the market due to the existence of various strong competitors in the market.

2. Performance Criteria

The performance measures which are used for evaluating employees performances must be identifiable and quantifiable. Some general performance measures used in incentive pay plans are - sales revenue, profits and number of units manufactured. The selected performance measures must match the company's competitive strategy.

In case of more than one performance measure, a company uses all these measures as a basis for rewarding employees with incentives. In order to identify significance of each individual performance criteria in the company's competitive strategy, weighing scheme is used.

For example, individual performance 60% weightage, group performance -30% weight age and company performance - 10% weightage. The weights represent the level of risk involved in the incentive plan. In the example, an employee would receive incentive irrespective of the group and company performance.

3. Whether to use individual Incentive Plan or Group Incentive Plan

A company must select that design which suits its company's structure very well. Individual incentive plans award employees for achieving the preestablished individual level objectives like - Production quotas or sales quotas. Individual incentive plans must be based on the independent work instead of interdependent work. For instance, it would be better to pay the incentives on the typing individual employee as it would show accuracy of an individual's ability to accomplish the task. Typing work is an independent work and only some external factors would influence employees capability to perform the work.

On the other side, group incentive plans are best applicable to those situations where is in the employees take- interdependent activities and where measuring individual contributions is a complicated task. In case of interdependent work, a good cooperation is needed among the employees for which the company may link individual compensation with unit or team objectives rather than individual level objectives.

4. Whether to set Long-term Goals or Short-term Goals

The time consumed in achieving short-term goals ranges from 1 to 5 years whereas achieving long-term goals might take even more than five years.

Lower-level employees are paid incentives on the basis of short-term goals which are under their control. For instance, workers at manufacturing unit. The performances of these workers are evaluated within a short period of time, i.e., one hour. On the other hand, higher level employees are paid incentives on the basis of long term goals.

The objectives of higher level employees consume lots of time to achieve their goals. Their performances cannot be assessed within short period of time. For example, the performance of design engineers in designing innovative products.

5. Whether to Replace or Complement Traditional Pay System with incentive Pay System

A company may either decide to replace the traditional pay system with incentive pay system or complement traditional pay system. Replacing traditional pay system means removing traditional pay system completely and using incentive pay system in the place of traditional pay system. Sometimes, company may decide to complement traditional pay system wherein company pay incentives to its employees as an addition to their base pay. Incentive payment involves risk to employees but company can control its pay roll costs through incentive pay system.

Linkage between Incentive Fay and Competitive Strategy

The competitive strategies of the company are divided into two,

- (i) Differentiation strategy and
- (ii) Lowest cost strategy.

A company must design a compensation system in accordance with the company's competitive strategies. An effectively implemented incentive pay system leads to attainment of company's competitive strategy.

(i) Differentiation Strategy

Differentiation strategies encourages employees to suggest new and innovative methods of performing a task and risk taking. Unlike, lowest cost strategies, companies using differentiation strategies emphasize on the long-term achievement of predetermined objectives/goals.

Team based incentives and gain sharing are most suitable for the companies using differentiation strategies. Team based incentives and gain sharing programs encourage the flow of communication among employees and also develop the authority level of the employees to generate innovative methods for achieving the set objectives.

(ii) Lowest Cost Strategy

Companies aiming at achieving lowest-cost strategy demand lowest output costs per employee. Incentive pay system is best suitable for achieving lowest-cost. Individual incentive plans, group incentive plans, behavioral encouragement plans and current profit sharing plans are best suitable for achieving the lowest cost competitive strategy.

Individual incentive plans like piece work system links employee's compensation with his/her productivity levels. The piecework plans will be successful when they encourage employees to increase their productivity levels to match with customer's demand for company's products.

Behavioral encouragement plans are suitable for companies aiming at lowest cost competitive strategy and who are suffering with high irregularity of employees/absenteeism. High absenteeism not only raises costs to employer but also to the employees.

Q19. What are the differences between Traditional Pay and Incentive Pay?

Ans :

(Imp.)

Sl. No.	Traditional Pay	Sl. No.	Incentive Pay
1.	In traditional pay plan, the employees' core compensation comprises of annual salary way.	1.	In incentive pay plan, employees receive incentives which fluctuates or fixed hourly employees' capability of achieving the goals.
2.	Traditional pay plan is also known as "fixed pay plan".	2.	Incentive pay plan is also known as variable pay plan.
3.	In traditional pay plan, annual pay increases as per the seniority and past performance (merit)	3.	In incentive pay plan, the employees' pay is linked with their performance in achieving the predetermined objectives.
4.	Pay roll costs cannot be controlled through traditional pay plan.	4.	Pay roll costs can be controlled through incentives pay plan.
5.	Increase in seniority pay and merit pay are permanent additions made to the base pay of an employee.	5.	Incentive pays are not permanent additions to the base pay of employees. It is variable in nature.
6.	Traditional pay plans are used to reward employees on the basis of their seniority and past performance.	6.	Incentive pay plans are used to reward individuals group of employees or companies on the basis of their performance.
7.	The performance criterias used in merit pay plan are less objective when compared to incentive pay the performance criterias used in incentive pay plan.	7.	The performance criterias used in incentive pay plan are more objective and quantifiable than the performance criterias used in merit pay plan.
8.	The merit amount is not communicated to the employees till the completion of subjective evaluation of employees, performances.	8.	The incentive amount is communicated to the employees in advance.
9.	Employees paid on seniority or merit basis will be at low risk.	9.	Employees paid on incentive basis will be at high risk.

Q20. What are the different types of Incentive Pay Plans?

Ans :

Organizations can opt for an effective incentive plans from the various alternatives available. The organizations usually opt for that incentive plans which suits its requirement the most. As incentives covers the financial matters, organizations need to be very focused in choosing the best alternative that is in alignment to the business goals and objectives.

The various incentives plans available are :

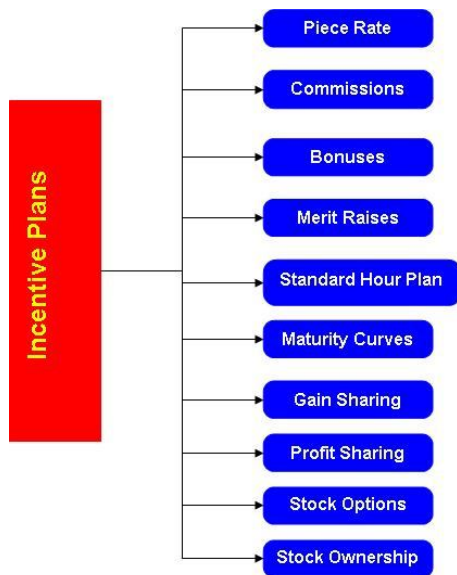


Figure: Types of Incentive Pay Plans

1. Piece Rate

Piece rate incentive is given to the employees based on the number of units produced. This plan is practiced in the sectors dealing with manufacturing of products such as engineering – automobile, telecommunication, FMCG, etc.

2. Commissions

Commission is a variable component of compensation package. It is given on the basis of business generated by the employee. Commission is a pre fixed component say 5% of the total sales done by the employee. It is practiced in the retail, FMCG and other sectors in the marketing and sales segment.

3. Bonuses

Bonuses are given to employees on a pre established goal or criteria. The organizations set policies regarding the bonuses. Usually bonuses are provided during the festive season.

4. Merit Raises

Merit raises are given on the basis of predetermined policies. The employees are given raise on the basis of their performance. The performance standards are set by the organizations much in advance.

5. Standard Hour Pay

Standard hour plan provides incentives to employees based on the time saved by them during the job course. Employees' productivity and quality is evaluated with respect to the set standards.

6. Maturity Curves

Maturity curve incentive plan considers the experience and performance of an employee for giving out the incentives. It is practiced in all the industries. Experience is always given a weight-age as experienced people can produce better quality results.

7. Gain Sharing

Gain sharing incentive plans undertake those employees who give outstanding performances and provide for cost saving measures. Organizations believe in sharing the profits with the employees who are responsible for producing those results.

8. Profit Sharing

Profit sharing incentive plans are practiced in retail and FMCG sectors. Other sectors too implement the plan based on organizational policies. It refers to giving out the share of profits the organization earned to all the employees. Indirectly all the organizations follow the plan by giving out the dividends.

9. Stock Options

A stock option is an incentive offered to employees that want to invest their money into the company stock by purchasing stock with pre-tax money. According to HR Guide, employees that participate in a stock option incentive plan are able to defer paying income tax on the gains realized by their stock purchases until the stock is sold. The company itself does not get any kind of tax break by offering a stock option incentive, but it does reap the benefits of selling more stock.

10. Stock ownership

An employee share ownership plan (or "stock ownership", abbreviated to "ESOP") is the practice of companies giving staff members shares in their company as part of their salary.

An Employee Share Option Plan (ESOP) is a defined contribution employee benefit plan that allows employees to become owners of stock in the company they work for. It is an equity based deferred compensation plan. Under the ESOP plan, companies provide their employees the opportunity to acquire the company's shares at a reduced price over a period of time.

Q21. Discuss about types of individual incentive plans.

Ans :

(Imp.)

It may either be time based or production based. Under time based plan a standard time is fixed for doing the job. A worker is said to be efficient if he completes the job in time and he is given the reward for his efficiency.

(i) The time based individual incentive plans are:

- (a) Halsey plan
- (b) Rowan plan
- (c) Emerson plan
- (d) Bedeaux plan

(a) Halsey plan: Under Halsey plan minimum wages are guaranteed to every worker. A standard time is fixed for the workers. If the workers finish the work before standard time they are given bonus. But no penalty if they fails to do that.

$$\text{Total wages (W)} = T * R + 50\% \text{ of } (S-T) * R$$

$$\text{Standard time (S)} = 15 \text{ hours}$$

$$\text{Time taken (T)} = 10 \text{ hours}$$

$$\text{Rate of wages (R)} = \text{Rs } 10 \text{ per hour}$$

$$\text{Bonus (P)} = \text{Wages of } 50\% \text{ of time saved}$$

$$\text{Than wages} = 10 * 10 + 50\% * (15 - 10) * 10 = \text{Rs } 125$$

(b) Rowan plan: It is the modification of the Halsey plan it also guarantees the minimum wages and does not penalize the slow workers. Standard time is fixed and the bonus is paid on the basis of time saved

$$\text{Total wages (W)} = T * R + [T * R * \text{Time saved} / \text{Standard time}]$$

$$\text{Standard time (S)} = 15 \text{ hours}$$

$$\text{Time taken (T)} = 10 \text{ hours}$$

$$\text{Rate of wages (R)} = \text{Rs. } 10 \text{ per hour}$$

$$\text{Bonus (P)} = \text{Time saved} / \text{Standard time}$$

$$\begin{aligned} \text{Than wages} &= 10 * 10 + [10 * 10 * 5/15] \\ &= \text{Rs. } 133.33 \end{aligned}$$

(c) Emerson plan: In this plan minimum wages are guaranteed to the workers efficiency is measured on the basis of the comparison of actual performance with the standard fixed. Under this method if the efficiency is 100% the bonus would be paid at 20% and above 100% bonus at 30% would be paid. Thus efficient workers will be rewarded at an increasing rate with the increase in saving time.

(d) Bedeaux plan: Under this minute is the time unit described as the standard minute. The standard time for each job is fixed after undertaking time and motion study expressed in terms of B. the standard time for a job is the number of B's allowed to complete it. Generally the bonus paid to the worker is 75% of the wages for time saved. The rest 25% goes to the foreman.

$$\text{Standard time (S)} = 360 \text{ B's (6 hours * 60 minutes)}$$

$$\text{Actual time (T)} = 300 \text{ B's (5 hours * 60 minutes)}$$

$$\text{Wage Rate (R)} = \text{Rs. } 10 \text{ per hour}$$

$$\begin{aligned} \text{Value of time saved} &= 360 - 300 / 60 * 10 \\ &= \text{Rs. } 10 \end{aligned}$$

$$\text{Total wages (W)} = S * R + 75 \% \text{ of value saved}$$

$$= 6 * 10 + 75 / 100 * 10$$

$$= \text{Rs. } 67.5$$

The above discussed wage payment methods were based on the time while the wage payment methods based on the productivity are going to be discussed below:

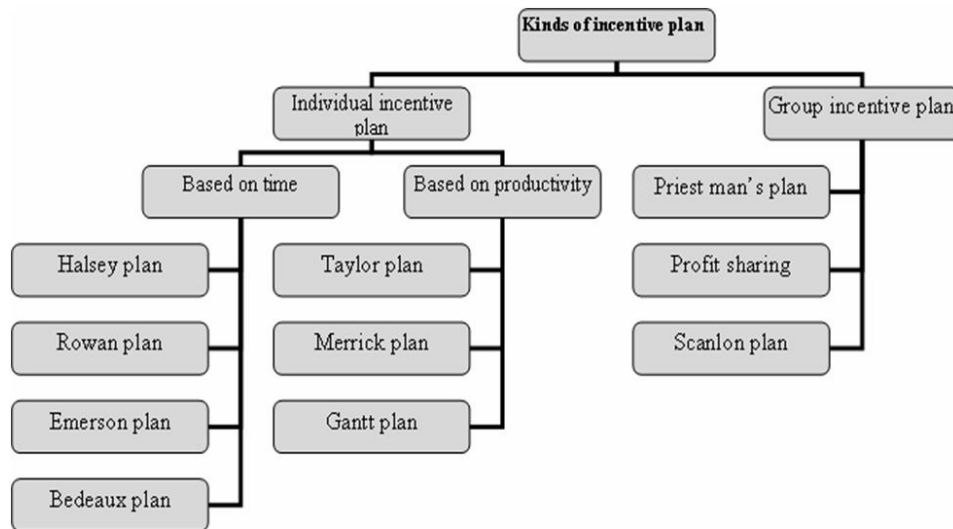


Figure: Kinds of Incentive Plan

(ii) The production based individual incentive plans are

Under the production based incentive plan a standard output is fixed and the workers are paid on the basis of the production. They are given incentive if they produced more number of units than the standard fixed. it includes the

- (a) Taylor plan
- (b) Merrick plan
- (c) Gantt plan

- (a) **Taylor's differential piece rate system:** In this plan, Taylor did not give minimum guarantee to each worker. As per his statement it is possible to calculate standard workload for every worker on the basis of time and motion studies. He gave two piece rates for the workers. The lower rate for average and less efficient workers who produce less than the standard production and the higher piece rate for the above average or efficient workers. So the efficient workers are paid more than the inefficient workers.

Standard production = 40 units in a day

Wage rate = between 60 to 70 rs

If the worker produces 40 units in a day he will be paid $40 * 70 = \text{Rs. } 280$

If the worker produces 30 units in a day, he will be paid $30 * 60 = \text{Rs. } 180$

As only those who give standard output or more will be paid at Rs 70 and rest will be paid at Rs. 60 only.

Thus, in this method inefficient workers are penalized. Workers are treated like machines and there is no guarantee of minimum wages in this method.

- (b) **Merrick's multiple piece rate plan:** Under this plan there are three grade piece rate rather than two given by Taylor.

Workers who produce Less than 83% are paid basic piece rate

Workers who produce between 83% – 100% are paid 110% of basic piece rate

Workers who produce more than 110% paid 120% of basic

Thus, this system is improvement over the Taylor's plan. But this system also does not give guarantee minimum wages to the workers. All the workers producing between 1 to 82% of standard output are considered same and paid at the same piece rate.

- (c) **Gantt's bonus plan:** Under this method minimum wages are guaranteed. If the worker fails to complete the task within the standard time he receives only the wages for actual time spent at the specified rate. But if he completes the task within time he gets extra wages.

Standard time = 10 hours

Rate = Rs. 8 per hour

Bonus 25% of the standard time

If the worker finishes his job within 8 hours he will get rs 80 plus 25% of the day's wages i.e. $80 \times 25\% = 20$ that means total Rs. $80 + 20 = \text{Rs. } 100$. So he will get bonus for 8 hours work.

3. Individual incentives will result in greater job satisfaction and organizational productivity.
4. Individual incentive reduces organizational expenses.
5. Individual incentives can be easily administered and applied.

Disadvantages

1. Since the individual incentive is provided with an additional output, employees tend to increase their output as far as possible and they give less importance to the quality.
2. Goal conflict occurs between individual goals and organizational goals.
3. The quality of work life is reduced.
4. The living standard of employees will be uncertain.
5. Individual incentive does not promote teamwork.
6. Bonuses are not directly linked to employees performance.

Q22. Explain the advantages and disadvantages of individual incentive plans.

Ans :

Incentives are variable rewards granted to employees as per the variations in their performance. To succeed, an organization must attract and retain productive employees.

Individual incentives refer to incentives given to individual employees for their additional contribution towards organizational objectives. Under it, incentives are calculated on the basis of individual performance that can be measurable in quantitative terms. This is a most popular form of incentive in the industry under which employees are rewarded individually for their additional contributions.

Advantages

1. Employees are individually motivated for a higher level of performance in the organization.
2. Organizational ability will increase due to individual's satisfaction at work.

Individual incentive plans can create a sense of healthy competition within an organization, as employees push themselves to excel to keep pace with or surpass top-performing colleagues. There's no blame game with individualized incentive plans. Employees succeed or fail based on their own merit, with staffers understanding that they are in control of their own earning potential.

Q23. Discuss about types of group incentives plans.

Ans :

Group incentive programs reward employees for their collective performance, rather than for each employee's individual performance. Group incentive programs are most effective when all groups members have some impact on achieving the goal, even though individual contributions might not be equal.

Well-designed group incentive plans reinforce teamwork, cultivate loyalty to the company, and increase productivity. For instance, at General Motors's Saturn division, each team is responsible for managing itself. As a result, each team manages

its own budget and determines whom to hire. The renowned quality of Saturn automobiles has been attributed to the effective utilization of teams.

Group incentive pay plans are of two types as follows :

1. Team-based incentive pay plans
2. Gain sharing pay plans.

1. Team-based Incentive Pay Plans

Team-based incentive pay plan is also known as small group incentive pay plan wherein each individual member of the group gets the monetary reward for achieving the group objective. The on time completion of the group objective relies upon the combined efforts of all the group members.

The various criterias depending upon which the group members receive incentive are quality, production, customer satisfaction and safety records. Eventhough the above mentioned performance criterias are also applicable to individual and company wide incentive pay plans, in team based incentive pay plans, each individual member of the group is rewarded on the basis of the group's achievement of preestablished performance objectives. The three methods available for rewarding team members/group members in team-based incentive pay plans are:

- (i) Payment of equal incentives to all group members
- (ii) Payment of different incentives to group members depending upon their share in the total group's performance
- (iii) Payment of different amount of incentives to each group member depending upon the proportion of his/her base pay to the total group's base pay.

2. Gain Sharing Pay Plans

Gain sharing pay plan is a group incentive pay plan which rewards employees depending upon the enhancement in company's performance in the form of enhanced customer satisfaction, reduced costs, enhanced productivity or good safety

records. Gain sharing plan represents a management philosophy which encourages the employee's participation.

Gain sharing plan can be used in such companies where technology does not limit/restrict the productivity enhancements. Leadership philosophy, employee participation philosophy and bonus are the three major components of gain sharing plans. Scanlon plan, Rucker plan and improshare bonus plan are the three general types of gain sharing programs adopted by the companies. In the starting stages of gain sharing plan, Scanlon, Rucker and improshare plans were used but presently the companies are making necessary changes in the traditional plans so that the requirements are fulfilled.

The three gain sharing plans are discussed in detail as follows :

(a) Scanlon Plan

It is one of the oldest and most widely used gain sharing plan. It is designed to reduce the Total Labour Cost (TLC) without reducing the productivity of the organization.

The incentives/gain can be computed by dividing the labour expenses with that of SVOP (Sales Value of Production).

$$\text{i.e., Incentives / Gain} = \frac{\text{Labour Expenses}}{\text{SVOP}}$$

The SVOP consists of two elements, sales revenue and the value of stock. Scanlon plan can be designed by following two steps,

1. Calculating of Allowable Total Labour Cost (ATLC) for base year.
2. Calculating of the gain for current year using ATLC information.

For example, the incentive, the gain for employees of Raft Incorporation for the year 2011 is calculated as

Step 1

Calculate ATLC for 2010 (base year)

SVOP – Rs. 20,00,000

TLC – Rs. 8,00,000

$$ATLC = \frac{TLC}{SVOP} = \frac{8,00,000}{20,00,000} = 0.4 = 40\%$$

Step 2

Calculating gain for current year (2011)

SVOP – Rs. 40,00,000

ATLC – Rs. 16,00,000 (40% of 40,00,000)

Actual TLC (2011) – Rs. 10,00,000

Savings (gain) – Rs. 6,00,000

This saved amount of Rs. 6,00,000 constitutes the gain for the organization out of which, 25% is reserved for the emergency funds while the remaining 75% is distributed among the employees as the "bonus".

(b) Rucker Plan

It got its name after the company Eddy-Rucker Nickels, which has introduced it. It is widely applicable in profitable manufacturing organizations that maintains good labour union and management relations and where the number of employees range between 50 to 800.

The Rucker plan is similar to scanlon plan. However, unlike scanlon plan, it uses different noun or base for measuring the productivity of the organization under this plan, a ratio is calculated that expresses the value added by a manufacturer required for every dollar of the payroll costs. We can better understand this plan with the help of the following example.

Calculation of savings (gain) of AK Ltd., using Rucker plan for the year (2011).

1. The accounting records of AK Ltd., shows that the company spends Rs. 60 towards raw material, labour etc., to produce 1 unit of product worth Rs. 1.00. The value of worth Rs. 0.50 has been added for every Rs. 1.00 of sales value.
2. It is found that 55% of value addition (i.e., 55% of Rs. 0.5) constitutes the Labour Value Addition (LVA) parameter. Thus, we can calculate Productivity Ratio (PR) for labour using the formula.

$$\begin{aligned} PR (\text{labour}) \times VA \times LVA &= \text{Rs. } 1.00 \\ &= PR (\text{labour}) \times 0.50 \times 0.55 = \text{Rs. } 1.00 \\ &= PR (\text{labour}) \times 0.275 = \text{Rs. } 1.00 \\ &= PR (\text{labour}) = \left(\frac{1.00}{0.275} \right) = 3.6 \end{aligned}$$

3. When the labour cost in the year 2011 found to be Rs. 1,00,000 then the expected production value becomes,

$$= 1,00,000 \times PR (3.6) = \text{Rs. } 3,60,000$$

4. The actual production value in the year 2011 is Rs. 6,00,000, which implies that the savings of the organization to be Gain = (6,00,000 – 3,60,000) = Rs. 2,40,000
5. Since, the contribution of labour is 55%, the gain for the labour will be 55% of 2,40,000 = Rs. 1,32,000

Organizations using Rucker plan usually distributes 75% of their savings among the workforce and retains the remaining 25% as emergency fund.

Rucker plan makes use of the following standard formulae,

1. Value added to the products (VA) = Sales Value of Production – Cost of inputs i.e., SVP – COM
2. Payroll costs/cost of labour = Sum of the expenses (or) sum of the various cost overheads incurred by the firm during the accounting periods.
3. Labour Contribution to Value Addition

$$LCVA = \frac{\text{Cost of Labour}}{\text{Value Added}}$$

4. Economic Productivity Index (EPI) = $\frac{1}{LCVA}$

5. Expected Value of Production

$$(EVP) = EPI \times COL \text{ (For distributing bonuses).}$$

(c) Improshare Plan

This profit sharing plan was developed by Mitchell Fein in 1970, so as to bring improvements in the per unit production time. The main aim of this plan is to save the time for the production of a single unit of product instead of emphasizing on the cost saving.

Q24. Explain the process of group incentive pay and discuss about its advantages and disadvantages.

Ans :

Procedure

1. Under this method, the first step is to identify the group employees and products to be included under the study.
2. Next, the company should establish the base period, base cost and the BPF (Base Productivity Factor). The base period refers to the period under study. Base cost represents the costs incurred by the organizations and also the labour hours consumed for the production of output during the base period. Through BPF, the relationship between the total hours worked by all the employees and the product costs incurred by the organization.
3. The last step is to compare the current performance in hours with that of the standards of the base period. The difference is the hours saved by the group which, when converted into monetary terms represent the gains achieved by the employees and groups.

Significance

The significance of group incentive pay plans is clear from the advantages of group incentive pay plans as follows,

1. Identifying the performance measures for group incentive pay plans is much easier and simpler than identifying performance measures for individual incentive pay plans. The number of groups in a company are less than the number of individuals in a company and company uses only few resources like employee time to set performance measures.

2. High group cohesion is another advantage of group incentive pay plans. Cohesive groups are more successful in achieving the common objectives than the individual members in achieving their individual objectives.

Advantages

- The use of group incentive plans has two advantages for companies. First, companies can more easily develop performance measures for group incentive plans than for individual incentive plans.
- There are obviously fewer groups in a company than individuals. Thus, companies generally use fewer resources such as staff time to develop performance measures.
- In addition, judging the quality of the final product makes the most sense because companies must deliver high-quality products to maintain competitiveness.
- Greater group cohesion is the second advantage associated with group incentive plans.
- Cohesive groups usually work more effectively toward achieving common goals than do individual group members focusing on the specific tasks for which they are responsible.
- Undoubtedly, working collaboratively is in group members' best interests in order to maximize their incentive awards.

Disadvantages

- The main disadvantage of group incentive compensation is employee turnover. Companies' implementation of group incentive programs may lead to turnover because of the *free-rider effect*. Some employees may make fewer contributions to the group goals because they possess lower ability, skills, or experience than other group members.
- In some groups, members may deliberately choose to put forth less effort particularly when each group member receives the same incentive compensation regardless of individual contributions to the group goals.

In any case, the free-rider effect initially leads to feelings of inequality among those who make the greatest contributions to the attainment of the group goal. Over time, members who make the greatest contributions are likely to leave.

- Group members may feel uncomfortable with the fact that other members' performance influence their compensation level.
- Exemplary performers are more likely to feel this way when other group members are not contributing equally to the attainment of group goals.
- The lower performance of a few group members may lead to lower earnings for all members of the group. Discomfort with group incentive plans is likely to be heightened where incentive compensation represents the lion's share of core compensation.

Q25. What is meant by employee stock option plan? Explain its merits and demerits.

Ans :

An employee stock ownership plan (ESOP) is an employee-owner program that provides a company's workforce with an ownership interest in the company. In an ESOP companies provide their employees with stock ownership, often at no upfront cost to the employees. ESOP shares, however, are part of employees' remuneration for work performed. Shares are allocated to employees and may be held in an ESOP trust until the employee retires or leaves the company. The shares are then either bought back by the company for redistribution or voided.

Some corporations are majority employee-owned; the term "employee-owned corporation" often refers to such companies. Such organizations are similar to worker cooperatives, but unlike cooperatives, control of the company's capital is not necessarily evenly distributed. In many cases, voting rights are given only to certain shareholders, and more senior employees may be allocated more shares than new hires; typically, they are tied to the compensation an employee receives from the company. Compared with cooperatives, ESOP-

centered corporations often allow for company executives to have greater flexibility and control in governing and managing the corporation.

Most corporations, however, use stock ownership plans as a form of in-kind benefit as a way to prevent hostile takeovers or to maintain a specific corporate culture. The plans generally prevent average employees from holding too much of the company's stock.

Advantages

The tax benefits of an ESOP exit strategy can be significant. These benefits accrue to the selling shareholder(s) (the corporation), and to the employees who participate in the ESOP. The tax benefits to the selling shareholder and corporation vary depending on whether the corporation is taxed as an S- corporation or as a C-corporation.

Non-tax advantages of an ESOP exit strategy are many and also should be considered by the business owner depending on the owner's goals. Some of these advantages are:

1. A ready-made market for the owner's stock
2. A ready-made buyer for the owner's business
3. A lower marketability discount (typically 5 to 10 percent) when valuing shares on a "fair market value basis" vs. a "strategic market value basis", since the ESOP is the market for those shares.
4. A business owner who can gradually transition the ownership over a period of time and thus remain actively involved in the business.
5. A vehicle for the owner to receive the desired liquidity without selling to a competitor or other third parties.
6. A retirement benefit for employees
7. A avoidance of integration plans and their associated costs to restructure operations, reorganize management or reduce staff because management and staff continue in place after the transaction closes.
8. An avoidance of giving out confidential information to a competitor or other potential buyers.

9. A long-term financial investor (the ESOP) that will not seek to sell the corporation in a relatively short time period.

Disadvantages of an ESOP

There are also several disadvantages of ESOPs to consider. Like most business decisions, there are trade-offs with any exit strategy. An ESOP is no different.

It is important to remember that an ESOP is a qualified retirement plan governed not only by the Internal Revenue Code, but also by the fiduciary and disclosure rules of ERISA. High fiduciary duty standards must be met. This adds additional costs to the corporation including the cost of:

1. Retaining an independent trustee, an independent financial advisor and independent legal counsel to advise the ESOP trustee.
2. Engaging qualified ESOP counsel experienced with ESOP stock purchase transactions in addition to corporate counsel.
3. Ongoing administrative, fiduciary and legal expenses associated with an ESOP that might not be present in a sale to a third party.
4. Maintaining the ESOP plan and trust documents, a record-keeper/third- party administrator, a trustee and annual valuations of the share value of the ESOP.
5. Calculating the amounts of tax-deductible contributions made to the ESOP each year.
6. Monitoring who can participate in the ESOP depending on the code section 1042 election, even if they are employees of the corporation.
7. Implementing the anti-abuse provision, Section 409(p), which restricts any one participant of family from receiving excessive share allocations in the ESOP or other synthetic equity issued by the corporation.
8. Obliging the corporation to have a stock repurchase plan (this requirement must be monitored and funded on an ongoing basis for participants who are eligible to receive a distribution of their ESOP stock accounts as they retire or terminate employment. The corporation is then required to repurchase the stock at the current fair market value.

2.8 PERSON FOCUS TO PAY

Q26. Discuss about Person Focused to Pay Plans.

Ans :

Person-focused pay plans generally reward employees for acquiring job-related competencies, knowledge, or skills rather than for demonstrating successful job performance. "What is a Competency"? reviews the present confusion about the meaning of a "competency" among HR management professionals.

Types

1. Competency Based Pay

Competency-based pay often refers to two basic types of person-focused pay programs: pay-for-knowledge and skill-based pay. Sometimes these competency-based pay programs incorporate a combination of both types of person-focused pay systems, which reward employees for successfully acquiring new job-related knowledge or skills. Other times, companies combine competency-based pay programs with traditional merit pay programs by awarding pay raises to employees according to how well they demonstrate competencies.

2. Pay for Knowledge

Pay-for-knowledge plans reward managerial, service, or professional workers for successfully learning specific curricula. The Federal Express Corporation pay-for-knowledge program rewards its customer service employees who learn how to calculate delivery rates and how to document packages for shipment from the United States to various foreign countries.

Advantages of Pay for Knowledge Pay Programs

Employees usually like pay-for-knowledge pay systems for the following two reasons. First, they can provide employees with both job enrichment and job security. Job enrichment refers to a job design approach that creates more intrinsically motivating and interesting work environments.

Companies can enrich jobs by combining narrowly designed tasks so that an employee is responsible for producing an entire product or service.

- (a) **Skill Variety** : The degree to which the job requires the person to do different tasks and involves the use of different skills, abilities and talents.
- (b) **Task Identity** : The degree to which a job enables a person to complete an entire job from start to finish.
- (c) **Autonomy** : The amount of freedom, independence, and discretion the employee enjoys in determining how to do the job.
- (d) **Feedback** : The degree to which the job or employer provides the employee with clear and direct information about job outcomes and performance.

Advantages to Employers

Employers like pay-of-knowledge pay systems because, when properly designed and implemented, these programs can lead to enhanced job performance, reduced staffing, and greater flexibility.

- (a) Pay-for-knowledge pay programs can influence both the quantity and the quality of an employee's work. Employees who participate in a pay-for-knowledge pay program often exhibit higher productivity levels because employees who know more about an entire process may also be able to identify production shortcuts that results in increased productivity.

Product or service quality should also gain from these programs. As employees learn more about the entire production process, the quality of both the product and its delivery often improve.
- (b) Companies that use pay-for-knowledge pay systems can usually rely on leaner staffing because multiskilled employees are better able to cover for unexpected absenteeism, family or medical leave, and training sessions that take individual employees away from their work.
- (c) Pay-for-knowledge pay systems provide companies with greater flexibility in meeting staffing demands at any particular time.

Because participants in pay-for-knowledge pay plans have acquired a variety of skills, they can perform a wide range of tasks. This kind of staffing flexibility helps companies when unexpected changes in demand occur.

Disadvantages of Pay for Knowledge Pay Programs

- i) Employers feel that the main drawback of pay-for-knowledge pay systems is that hourly labor costs, training costs, and overhead costs can all increase. Hourly labour costs often increase because greater skills should translate into higher pay levels for the majority of workers. Because training is an integral component of pay-for-knowledge pay systems, training costs are generally higher than at companies with job-based pay programs. These costs can be especially high during initial start-up periods as HR professionals attempt to standardize employee backgrounds.
- ii) Pay-for-knowledge pay systems may not mesh well with existing incentive pay systems. When both pay-for-knowledge and incentive pay systems are in operation, employees may not want to learn new skills when the pay increase associated with learning a new skills is less than an incentive award employees could earn based on skills they already possess.

3. Skilled Based Pay

Skill-based pay, a term used mostly for employees who do physical work, increases these workers' pay as they master new skills. For example, both unions and contractors who employ carpenters use skill-based pay plans. As carpenters master more advanced woodworking skills such as cabinet-making, they earn additional pay.

Both skill-and knowledge-based pay programs reward employees for the range, depth, and types of skills or knowledge they are capable of applying productively to their jobs. This feature distinguishes pay-for-knowledge plans from merit pay, which rewards employees' job performance. Said another way, pay-for-knowledge programs reward employees for their potential to make meaningful contributions on the job.

2.9 PERSON-FOCUSED PAY VS. JOB-BASED PAY

Q27. Differentiate between Person-focused Pay and Job-based Pay.

Ans :

(Imp.)

Companies institute job-based pay plans or person-focused pay plans based on very different fundamental principles and goals.

Sl.No.	Nature	Person focused Pay	Job-based Pay
i)	Pay level determination	Market basis for skill valuation	Market basis for job valuation
ii)	Base pay	Awarded on how much an employee knows or on skill level	Awarded on the value of compensable factors
iii)	Base pay increases	Awarded on an employee's gain in knowledge or skills	Awarded on attaining a job-defined goal or seniority
iv)	Job promotion	Awarded on the employees' skills base and proficiency on past work	Awarded on exceeding job performance standards
v)	Key advantage to employees	Job variety and enrichment	Perform work and receive pay for a defined job
vi)	Key advantage to employers	Work scheduling flexibility	Easy pay system administration

2.10 TEAM BASED PAY

Q28. What is Team? Explain the concept of Team Based Pay.

Ans :

Definition

According to 'Katzenbach and Smith' – "A team is a small number of people with complementary skills who are committed to a common purpose, set of performance goals, and approach for which they hold themselves mutually accountable".

A team is a group of people making combined efforts to complete or attain few types of assignments like manufacturing of a product, attaining success in sports or winning over rival countries in a military operation etc. A team must have at least 3 members and maximum 15 members.

Formal team working is still in its early days across most organisations. A recent survey found that around 40 per cent of organisations had introduced formal initiatives to encourage team working and that these tended to be organisation wide rather than for one specific occupational group.

Although there is increasing interest in team working most of those firms adopting this approach were still using individual or organisation wide pay schemes (such as merit pay or profit-sharing). Only ten per cent of those with formal team working initiatives supported this with team bonuses or skill based pay (two of the more common forms of pay associated with team working).

Characteristics

Katzenbach and Smith has identified seven characteristic features of a team as follows,

1. Combined work
2. Shared leadership roles
3. Performance is measured through the evaluation of combined work
4. Individual as well as mutual responsibility
5. The team members form a group to discuss, make decision and complete the assigned task work.
6. The purpose of a team is specified by the team itself.
7. Open-ended discussions and problem-solving meetings.

Team Design

The compensation pay programs for team members changes fluctuates according to the "Team Design". Teams can be classified into two types,

(a) Permanent Teams

Permanent teams are the established parts of the organization structure which do not get dissolved like the temporary teams. Permanent teams stay in the organization as long as the organization survives. Permanent teams are usually involved in manufacturing a defined product.

(b) Temporary Teams

Temporary teams are formed in the organization to complete the assigned task. For example, temporary producing teams may be formed for a particular product or solving a specific problem. This team disappears as soon as the assigned task is completed.

Teams can be further classified into two types on the basis of supervision or management under which they work. A team can work under the traditional management hierarchical structure wherein the team leader is assigned task an established management process. The other type of teams are self-managed teams. Self-managed teams are also known as self-directed teams. In this team, members are authorized to select their own team leaders or team managers.

The types of output produced by the team also have significant impact on the team design. The temporary team possesses specialized knowledge on particular subjects. This knowledge is used in finding out solutions for the complicated problems or to introduce new and innovative products in the market.

The compensation pay plan designed for team members may be influenced by the following factors,

1. The type of team (i.e., Permanent or temporary team)
2. Outputs to be produced
3. Knowledge and skills to be possessed by team members.

Whether a supervisor is to be included in the team as a team member or not is the main issue involved in the team design process. Mostly 25 to 50% teams include a supervisor as their team member.

Rahul Publications

Short Question and Answers

1. Merit Pay

Ans :

Merit pay program is an important component of pay for performance in most of the organizations. Merit pay refers to an adjustment made in the base pay which is directly linked with employees' performance level. The amount of adjustment relies upon the performance level of the employees. Apart from employees' performance level, some other factors are also considered while making decisions regarding the amount of adjustment to be made in the employee's base pay.

Through merit pay program, many organizations are trying to communicate the message to the employees that their pay would be increased only on the basis of their performances which need not be annually. Employees pay will be increased only when the employees deserve the pay increase and when organization makes good profits. In merit pay system, employees are paid rewards on the basis of performance and not on the seniority basis.

2. What are the features for Modern Pay Systems?

Ans :

Features

The following are the features of modern pay systems :

- a) They seek to balance legal risk and employee relations concerns.
- b) They embody involvement of employees in designs and transparency.
- c) They should be equality proofed with rational and defensible progression criteria, flexible and efficient.
- d) They seek to encourage employees to develop their skills and improve their performance.

- e) They motivate the marketing personnel.
- f) They reward competencies not age or service.
- g) It is towards rewarding skills, competencies, performance and teamwork.
- h) They are difficult to implement due to legal regulations and trade unions resistance.

3. Wage and Salary Administration.

Ans :

Wages and salary administration is an integral part of the management of the organization. Wages and salary is a systematic approach to providing monetary value to employees in exchange for work performed.

It may achieve several purposes assisting in recruitment, job performance, and job satisfaction. It is the remuneration received by an employee in return for his/her contribution to the organization. It is an organized practice that involves balancing the work –employee relation by providing monetary and non-monetary benefits to employees.

The vast majority of American adults gain their livelihoods by working for a corporation or partnership that they do not own. This is true of people who work in factories, stores, or offices. It is also true of many highly educated workers, such as doctors, and non-tenured college professors (who have no property rights in their jobs).

4. Principles of Wage and Salary Administration

Ans :

- a) Wage and salary plans and policies should be sufficiently flexible.
- b) Job evaluation must be done scientifically.
- c) Wage and salary administration plans must always be consistent with overall organizational plans and programs.

- (d) Wage and salary administration plans and programs should be in conformity with the social and economic objectives of the country like attainment of equality in income distribution and controlling inflationary trends.

5. Seniority Pay

Ans :

Seniority pay and longevity pay systems reward employees with periodic additions to base pay according to employees' length of service in performing their jobs. These pay plans assume that employees become more valuable to companies with time and that valued employees will leave if they do not have a clear idea that their salaries will progress over time. This rationale comes from *human capital theory*, which states that employees' knowledge and skills generate productive capital known as *human capital*.

Employees can develop such knowledge and skills from formal education and training, including on-the-job experience. Overtime, employees presumably refine existing skills or acquire new ones that enable them to work more productively. Thus, seniority pay rewards employees for acquiring and refining their skills as indexed by seniority.

6. Longevity Pay

Ans :

This pay system rewards those employees who have reached their maximum pay grade and who are not likely to move towards any further higher grades. Normally, the state and local government use longevity pay reward as an incentive to reduce employee turnover and to reward employees for their length of service.

7. What is merit pay?

Ans :

Merit pay programs assume that employees' compensation over time should be determined, at least in part, by differences in job performance. Employees earn permanent merit increases based on their performance. The increases reward excellent effort or results, motivate future performance, and help employers retain valued employees. Merit increases are usually expressed as a percentage of hourly wages for nonexempt employees and as a percentage of annual salaries for exempt employees.

Merit pay is one of the most commonly used compensation methods in the United States. Its popularity may result from the fact that merit pay fits well with U.S. cultural ideas that reward individual achievement. Merit pay programs occur most often in the private "for-profit" sector of the economy rather than in public sector organizations such as local and state governments.

8. Incentive Pay

Ans :

Incentive pay or variable pay rewards employees for partially or completely attaining a predetermined work objective. Incentive or variable pay is defined as compensation, other than base wages or salaries, that fluctuates according to employees' attainment of some standard, such as a preestablished formula, individual or group goals, or company earnings.

Effective incentive pay systems are based on three assumptions :

- Individual employees and work teams differ in how much they contribute to the company, not only in what they do but also in how well they do it.

- The company's overall performance depends to a large degree on the performance of individuals and groups within the company.
- To attract, retain, and motivate high performers and to be fair to all employees, a company needs to reward employees on the basis of their relative performance.

Much like seniority and merit pay approaches, incentive pay augments employees' base pay, but incentive pay appears as one-time payments. Usually, employees receive a combination of recurring base pay and incentive pay, with base pay representing the greater portion of core compensation.

9. Team-based Incentive Pay Plans

Ans :

Team-based incentive pay plan is also known as small group incentive pay plan wherein each individual member of the group gets the monetary reward for achieving the group objective. The on time completion of the group objective relies upon the combined efforts of all the group members.

The various criterias depending upon which the group members receive incentive are quality, production, customer satisfaction and safety records. Eventhough the above mentioned performance criterias are also applicable to individual and company wide incentive pay plans, in team based incentive pay plans, each individual member of the group is rewarded on the basis of the group's achievement of preestablished performance objectives. The three methods available for rewarding team members/group members in team-based incentive pay plans are:

- (i) Payment of equal incentives to all group members
- (ii) Payment of different incentives to group members depending upon their share in the total group's performance
- (iii) Payment of different amount of incentives to each group member depending upon the proportion of his/her base pay to the total group's base pay.

10. Gain Sharing Pay Plans

Ans :

Gain sharing pay plan is a group incentive pay plan which rewards employees depending upon the enhancement in company's performance in the form of enhanced customer satisfaction, reduced costs, enhanced productivity or good safety records. Gain sharing plan represents a management philosophy which encourages the employee's participation.

Gain sharing plan can be used in such companies where technology does not limit/restrict the productivity enhancements. Leadership philosophy, employee participation philosophy and bonus are the three major components of gain sharing plans. Scanlon plan, Rucker plan and improshare bonus plan are the three general types of gain sharing programs adopted by the companies. In the starting stages of gain sharing plan, Scanlon, Rucker and improshare plans were used but presently the companies are making necessary changes in the traditional plans so that the requirements are fulfilled.

11. Person Focused to Pay Plans.

Ans :

Person-focused pay plans generally reward employees for acquiring job-related competencies, knowledge, or skills rather than for demonstrating successful job performance. "What is a Competency"? reviews the present confusion about the meaning of a "competency" among HR management professionals.

Types**1. Competency Based Pay**

Competency-based pay often refers to two basic types of person-focused pay programs: pay-for-knowledge and skill-based pay. Sometimes these competency-based pay programs incorporate a combination of both types of person-focused pay systems, which reward, employees for successfully acquiring new job-related knowledge or skills. Other times, companies combine competency-based pay programs with traditional merit pay programs by awarding pay raises to employees according to how well they demonstrate competencies.

2. Pay for Knowledge

Pay-for-knowledge plans reward managerial, service, or professional workers for successfully learning specific curricula. The Federal Express Corporation pay-for-knowledge program rewards its customer service employees who learn how to calculate delivery rates and how to document packages for shipment from the United States to various foreign countries.

Choose the Correct Answer

1. The _____ of wage payment is based on the level of output of the worker. [b]
(a) Performance based system (b) Piece rate system
(c) Incentive payment system (d) Time rated system
2. Which of the following is the factor influencing compensation plan? [d]
(a) Number of levels of employees and grades
(b) Objectives of the organization
(c) Concerns of the community or the society
(d) All the above
3. In _____, the payment varies depending upon the time taken to perform the task. [a]
(a) Time base plan (b) Piece base plan
(c) Output base plan (d) Performance base plan
4. In _____ companies constantly modify production and marketing processes to reduce costs and attain profits by processing in the same type of industry. [c]
(a) Analyzer firms strategy (b) Prospector strategy
(c) Defender strategy (d) None of the above
5. Which of the following is a competitive strategy of an organization? [c]
(a) Lowest cost strategy (b) Differentiation strategy
(c) Both a and b (d) Highest cost strategy
6. _____ reward the employees when the company exceeds the minimum acceptable performance standard. [d]
(a) Group based incentive plans (b) Team based incentive plans
(c) Individual incentive loans (d) Company wide incentive plans
7. The _____ is also known as fixed pay plan. [a]
(a) Traditional pay plan (b) Incentive pay plan
(c) Bonus pay plan (d) None of the above
8. _____ award bonuses to those employees who have given reference to the highly talented and highly qualified applicants. [b]
(a) Piece work pay plans (b) Referral pay plans
(c) Management incentive pay plans (d) Behavioral encouragement pay plans
9. ESOP stands for [c]
(a) Employee share options program (b) Employee share option plans
(c) Employee stock option plans (d) Employer share option plans
10. A _____ is a group of people making combined efforts to complete or attain few types of assignments. [a]
(a) Team (b) Individual
(c) Group (d) Association

Fill in the Blanks

1. _____ and _____ administration is fundamentally practical approach which is concerned with paying a reasonable, equitable and fair compensation to the employees.
2. _____ refers to the extra benefit, besides the total wages in terms of money and benefits.
3. _____ negotiation is a mechanism by which mutually agreed structures can be stipulated in consultation of the employees and the employees.
4. The _____ and _____ strategy are used in vertical alignment with organizational strategy.
5. Seniority _____ and _____ pay system rewards employees on the basis of their service time period in an organization.
6. _____ pay is an adjustment to base pay which is directly related to the employee's performance.
7. Small group incentive plans are also known as _____ incentive plans.
8. _____ plans reward employees for acquiring job related competencies.
9. Teams can be divided into two types _____ teams and _____ teams.
10. _____ is a combination of skills and knowledge to perform a task successfully.

ANSWERS

1. Wage, salary
2. Real wages
3. Tripartite or Bi-party
4. Corporate, business
5. Longevity
6. Merit
7. Team-based
8. Person-focused pay
9. Permanent, temporary
10. Competency

UNIT III

DESIGNING COMPENSATION SYSTEM

Building internally consistent Compensation System - Creating Internal Equity through Job Analysis and Job Valuation - Building Market Competitive Compensation System - Compensation Surveys – Integrating Internal Job Structure with External Market Pay Rates - Building Pay Structures that Recognize Individual Contributions - Constructing a Pay Structure - Designing Pay for Knowledge Program.

3.1 DESIGNING COMPENSATION SYSTEM

Q1. What do you understand by Designing Compensation System?

Ans :

Developing an equitable and functional compensation plan that combines balance consistent motivation and flexibility is extremely challenging in International operations. This is especially true when a company operates in a number of countries, when it has individuals who work in a number of countries or when the sales force is composed of expatriate and local personnel.

Fringe benefits play major role in many countries. Those working in high tax countries prefer liberal expense accounts and fringe benefits that are nontaxable instead of direct income subject to high taxes. Fringe benefit costs are high in Europe, ranging for 35 to 60 percent of salary.

Pay can be a significant factor in making it difficult for a person to be repatriated. Often those returning home realize they have been making considerably more money with a lower cost of living in the overseas market; returning to the home country means a cut in pay and a cut in standard of living.

Conglomerate operations that include domestic and foreign personnel cause the greatest problems in compensation planning. Expatriates tend to compare their compensation with what they would have received at the home office during the same time, and local personnel and expatriate personnel are likely to compare notes on salary. Although any differences in the compensation level may be easily and logically explained, the group receiving the lower amount almost always feels aggrieved and mistreated.

Short term assignments for expatriates further complicate the compensation issue, particularly when the short term assignments extend into a longer time. In general, short term assignments involve payments of overseas premiums (sometimes called separation allowances if the family does not go along), all excess expenses and allowances for tax differentials. Longer assignments can include home leave benefits or travel allowances for the spouse.

Besides rewarding an individual's contribution to the firm, a compensation program can be used effectively to recruit, develop, motivate or retain personnel. Most recommendations for developing a compensation program suggest that a program focus on whichever one of these purposes fits the needs of a particular situation.

If all four purposes are targeted, it can result in unwieldy programs that become completely unmanageable. International compensation programs also provide additional payments for hardship locations and special inducements to reluctant personnel to accept overseas employment and to remain in the position.

3.2 BUILDING INTERNALLY CONSISTENT COMPENSATION SYSTEM

Q2. What is consistent compensation system? How do you build internally consistent compensation system in a large organization ?

Ans :

(Imp.)

Internally consistent compensation systems clearly define the relative value of each job among all jobs within a company. This ordered set of jobs

represents the job structure or hierarchy. Companies rely on a simple yet fundamental principle for building internally consistent compensation systems; Jobs that require higher qualifications, more responsibilities, and more complex job duties should be paid more than jobs that require lower qualifications, fewer responsibilities, and less complex job duties. Internally consistent job structures formally recognize differences in job characteristics that enable compensation managers to set pay accordingly.

Compensation experts and HR professionals create internally consistent job structures through two processes - job analysis followed by job evaluation. Job analysis is almost purely a descriptive procedure; job evaluation reflects value judgements. Effective job analysis identifies and defines job content. Job content describes job duties and tasks as well as pertinent factors such as the skill and effort (compensable factors) needed to perform the job adequately.

Job evaluation is key for casting internally consistent compensation systems as strategic tools. Compensation professionals use job evaluation to establish pay differentials among employees with a company. The descriptive job analysis results directly aid compensation professionals in their pay-setting decisions by highlighting the key similarities and differences between jobs.

Building Internally Consistent Compensation System

An inequality of wages / salaries in any organization or amongst the organizations in the same state or nation not only upsets the industrial harmony creating industrial disputes but also affects the national income by unbalancing the earning/saving ratios. Thus equality is a must in designing a pay structure.

1. Internal Equity

It refers to equivalent compensation for similar jobs in any organization. Thus, it is the major duty of management to reduce the disputes regarding the wage or salary structure within the organization.

2. Job Analysis

Job Analysis is a process to identify and determine in detail the particular job duties and requirements and the relative importance of these duties for a given job. Job Analysis is a process where judgements are made about data collected on a job.

Purpose of Job Analysis

The purpose of Job Analysis is to establish and document the 'job relatedness' of employment procedures such as training, selection, compensation, and performance appraisal.

1. Determining Training Needs

Job Analysis can be used in training/"needs assessment" to identify or develop :

- training content
- assessment tests to measure effectiveness of training
- equipment to be used in delivering the training
- methods of training (i.e., small group, computer-based, video, classroom...)

Job Analysis can be used in compensation to identify or determine:

- skill levels
- compensable job factors
- work environment (e.g., hazards; attention; physical effort)
- responsibilities (e.g., fiscal; supervisory)
- required level of education (indirectly related to salary level)

2. Selection Procedures

Job Analysis can be used in selection procedures to identify or develop :

- job duties that should be included in advertisements of vacant positions;
- appropriate salary level for the position to help determine what salary should be offered to a candidate;

- minimum requirements (education and/or experience) for screening applicants;
- interview questions;
- selection tests/instruments (e.g., written tests; oral tests; job simulations);
- applicant appraisal/evaluation forms;
- orientation materials for applicants/new hires

3. Performance Review

Job Analysis can be used in performance review to identify or develop :

- goals and objectives
- performance standards
- evaluation criteria
- length of probationary periods
- duties to be evaluated

3.3 CREATING INTERNAL EQUITY THROUGH JOB ANALYSIS AND JOB VALUATION

Q3. What can companies do to ensure internal external & individual equity for all employees.

(OR)

How to create internal equity through job analysis and job evaluation?

Ans : (Imp.)

1. Internal Equity

It refers to equivalent compensation for similar jobs in any organization. Thus, it is the major duty of management to reduce the disputes regarding the wage or salary structure within the organization.

2. External Equity

External equity refers to the process wherein same wages are paid to the employees for the same jobs in comparison with the other external organizations. The wage structure helps in attracting and retaining good and efficient employees. So, it is very important

for a firm to create such a wage structure which compares the internal wage structure with the external wage system. Such type of comparison helps in creating external equity in the firm.

In order to make sure that the external equity is maintained in an organization, the management should conduct and analyse wage surveys on timely-basis wage and salary information should be collected as it helps in providing assistance to the management in developing the organizational pay strategy.

Even though conducting wage/pay surveys is a hectic time-consuming and costly task for the firms. But still it helps in attracting and retaining good and efficient employees, identifying the pay trends in the market and defending pay practices in a court of law. The data for the survey can be collected through questionnaires, face to face interview, group conferences, telephone and internet.

Hence, the wage/pay survey helps in maintaining the external equity in an organization.

3. Individual Equity

Individual equity takes place when there are no pay differentials among the employees performing the same job in the organization. A firm can ensure individual equity for all its employees with the help of the following systems,

- (a) **Seniority Based Pay System:** This system helps in rewarding the employees who have been working in the organization from a long period of time.
- (b) **Merit Based Pay System:** This system helps in rewarding the employees for their effective performance.
- (c) **Incentive Plans:** In this type of plan, incentives are paid to the employees on the basis of their job performance.
- (d) **Skills Based Pay System :** In this type of system, compensation is paid to the employees on the basis of the employees skills.

- (e) **Team Based Pay Plans** : These plans help the employees to become flexible and enable them to work cooperatively with the team members.

Q4. Define job analysis. Explain the nature of job analysis.

Ans :

Meaning of Job Analysis

Manpower planning is concerned with determination of quantitative and qualitative requirements of manpower for the organization.

The quantitative aspect deals with determining the total number of people required to do the work. The kind or quality of people required to do the work comes under the qualitative aspect. Detailed knowledge of the nature and requirements of jobs to be filled is essential for determining the kind of personnel required. Such knowledge can be obtained through the process of job analysis.

Job analysis is a formal and detailed examination of jobs. It is a process of gathering information about a job. It tries to "reduce to words the things that people do in human work."

Job-analysis is a detailed and systematic study of jobs to know the nature and characteristics of the people to be employed on various jobs. It involves collection of necessary facts regarding jobs and their analysis. Some of the definitions of job-analysis are given here under to understand the meaning of the term more clearly.

Definitions

- (i) **According to Edwin B. Flippo**, "Job analysis is the process of studying and collecting information relating to the operations and responsibilities of specific job".
- (ii) **According to Michael J. Jucius**, "Job analysis refers to the process of gathering information about the operations, duties and organizational aspect of jobs in order to write-up specifications or as they are called by some job descriptions".
- (iii) **According to Donald**, "Job analysis is a method of scientifically dissecting a job in order to determine the component elements and their influence upon the length of

learning period of the worker, production and labor turnover".

- (iv) **According to Dale Yoder**, "Job analysis is the procedure by which the facts with respect to each job are systematically, discovered and noted. It is sometimes called 'Job study' suggesting the care with which tasks, processes, responsibilities and personnel requirements are investigated".

Nature of Job Analysis

1. Systematic Way of Gathering and Analyzing Information about a Job

The most basic building block of HR management is job analysis which is a systematic way of gathering and analyzing information about the content, context, and human requirement of jobs. Using job analysis to document HR activities is important because the legal defensibility of an employer's recruiting and selection procedures, performance appraisal system, employee disciplinary actions, and pay practices rests in part on the foundation of job analysis.

2. Develop Jobs

Job design attempts to develop jobs that fit effectively into the flow of the organizational work that needs to be done. The narrow focus of job analysis centers on using a formal system to gather data about what people do in their jobs. This data is used to generate job descriptions and job specifications.

3. Identifies Job Factors and Duties

Various methods and sources of data can be used to conduct job analyses. The real value of job analysis begins as the information is compiled into job descriptions and job specifications for Use in virtually all HR activities. To justify HR actions as job related accurate details on job requirements are needed. To be effective, HR planning, recruiting, and selection all must be based on job requirements and the capabilities of individuals. Additionally, compensation, training, and employee performance appraisals all should be based on the specific

needs of the job. Job analysis is also useful in identifying job factors and duties that may contribute to workplace health and safety issues. Finally, job analysis plays a key role in employee/labor relations issues.

4. Redesigns Jobs

Job analysis involves collecting information on the characteristics of a job that differentiate it from other jobs. The information generated by job analysis may be useful in redesigning jobs, but its primary purpose is to capture a clear understanding of what is done on a job and what capabilities are needed to do it as designed.

Q5. Explain the purpose of job analysis.

Ans :

1. Human Resource Planning

Job analysis helps in forecasting human resource requirements in terms of knowledge and skills. By showing lateral and vertical relationships between jobs, it facilitates the formulation of a systematic promotion and transfer policy. It also helps in determining quality of human resources needed in an organization.

2. Recruitment

Job analysis is used to find out how and when to hire people for future job openings. An understanding of the skills needed and the positions that are vacant in future helps managers to plan and hire people in a systematic way.

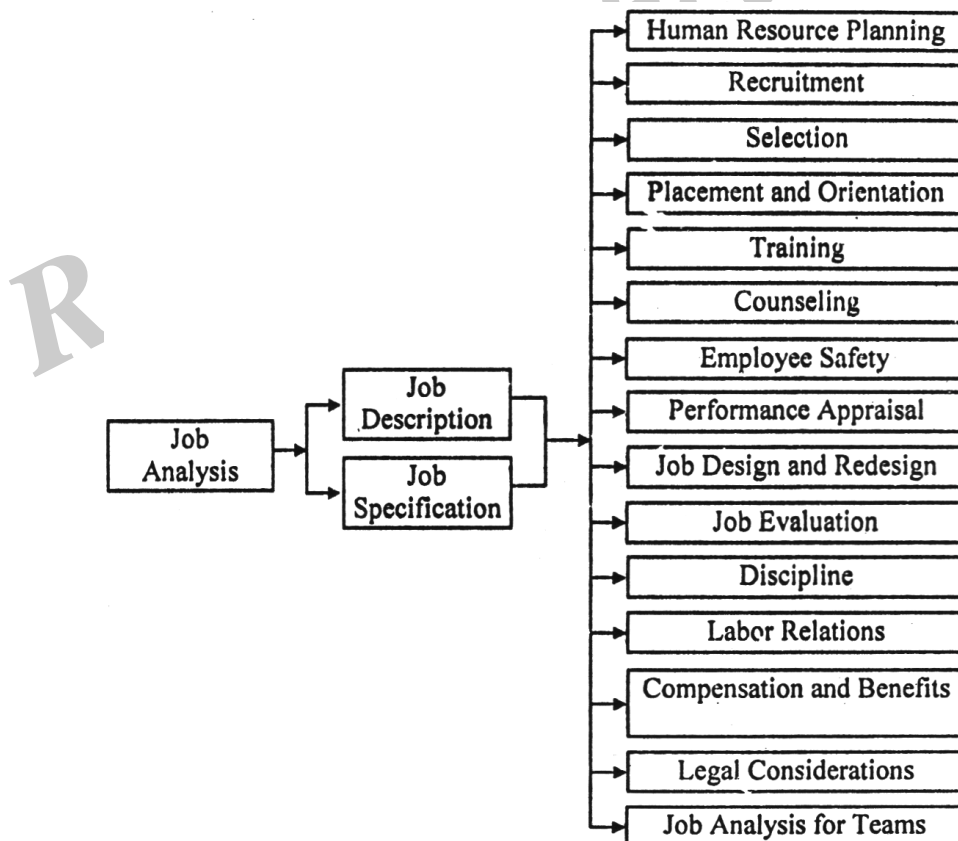


Fig. : Purposes of Job Analysis

3. Selection

Without a proper understanding of what is to be done on a job, it is not possible to select a right person.

For example, if a Super bazaar manager has not clearly identified what a clerk is to do, it is difficult to find if the person selected must be able to position stores items, run a cash register, or keep the account books.

4. Placement and Orientation

After selecting people, we have to place them on jobs best suited to their interests, activities and aptitude. If we are not sure about what needs to be done on a job, it is not possible to identify the right person suited for the job. Similarly, effective job orientation cannot be achieved without a proper understanding of the needs of each job. To teach a new employee how to handle a job, we have to clearly define the job.

5. Training

If there is any confusion about what the job is and what is supposed to be done, proper training efforts cannot be initiated. Whether or not a current or potential job holder requires additional training can be determined only after the specific needs of the jobs have been identified through a job analysis.

6. Counseling

Managers can properly counsel employees about their careers when they understand the different jobs in the organization. Likewise, employees can better appreciate their career options when they understand the specific needs of various other jobs. Job analysis can point out areas that an employee might need to develop to further a career.

7. Employee Safety

A thorough job analysis reveals unsafe conditions associated with a job. By studying how the various operations are taken up in a job, managers can find unsafe practices. This helps in rectifying things easily.

8. Performance Appraisal

By comparing what an employee is supposed to be doing (based on job analysis) to what the individual has actually done, the worth of that person can be assessed. Ultimately, every organization has to pay a fair remuneration to people based on their performance. To achieve this, it is necessary to compare what individuals should do (as per performance standards) with what they have, actually done (as per job analysis).

9. Job Design and Redesign

Once the jobs are understood properly, it is easy to locate weak spots and undertake remedial steps. We can eliminate unnecessary movements, simplify certain steps and improve the existing ones through continuous monitoring. In short, we can redesign jobs to match the mental make-up of employees.

10. Job Evaluation

Job analysis helps in finding the relative worth of a job, based on criteria such as degree of difficulty, type of work done, skills and knowledge needed, etc. This, in turn, assists in designing proper wage policies, with internal pay equity between jobs.

11. Discipline

Job analysis studies the failure of the workers to meet the required standard of performance. Corrective measures may be taken in time to avoid untoward situations. In this way, it helps in maintaining discipline in the organization.

12. Labor Relations

Job analysis will be helpful in improving labor management relations. It can also be used to resolve disputes and grievances relating to work load, work procedures, etc.

13. Compensation and Benefits

In the area of compensation, it is helpful to know the relative value of a particular job to the company before a dollar value is placed on it. From an internal perspective, the more

significant its duties and responsibilities, the more the job is worth. Jobs that require greater knowledge, skills, and abilities should be worth more to the firm.

14. Legal Considerations

A proper prepared job analysis is particularly important for supporting the legality of employment practices. In fact, the importance of job analysis is well documented in the Uniform Guidelines on Employee Selection Procedures. Job analysis data are needed to defend decisions involving promotion, transfers, and demotions, e.g., job analysis provides the basis for tying the functional areas together and the foundation for developing a sound human resource program.

15. Job Analysis for Teams

Historically, companies have established permanent jobs and filled these jobs with people who best fit the job description. The jobs then continued in effect for years to come.

Q6. Elucidate the various Methods for Collecting Job Analysis Information.

Ans : (Imp.)

1. Questionnaire

This method is usually used to obtain information about jobs through a mail survey. The job incumbents who can easily express themselves in writing are asked to provide data about their jobs in their own words. This method is, therefore, best suited to clerical workers. But it is often a very time consuming and laborious process to analyze the data obtained in this manner.

2. Checklist

This method requires the worker to check the task he performs from a long list of possible task statements. However, in order to prepare the checklist, extensive preliminary work is required in collecting appropriate task statements. While checklists are easy for the

incumbent to respond to, they do not provide an integrated picture of the job in question. They are easily administered to large groups and are easy to tabulate.

3. Interview

In this method a group of representative job incumbents are selected for extensive interview - usually outside of the actual job situation. The interview may be carried out either individually or in a group to save time. The replies obtained from the interviewees are then combined into a single job description. This method though very costly and time-consuming helps in getting a complete picture of the job.

4. Observation

This method can be followed right on the job. The analyst observes the incumbent as he performs his work and questions him to get the required data. Besides being slow and costly, this method also interferes with normal work operations. However, it generally produces a good and complete job description. This method is particularly desirable where manual operations are prominent and where the work cycle is short. Working conditions and hazards can also be better described when observed personally by the analyst.

5. Participation

In this method the job analyst actually performs the job himself. In this way he is able to obtain first-hand information about what characteristics comprise the job under investigation. This method is fairly good for simple jobs but in case of complex jobs advance training of the analyst becomes necessary. The method is also time-consuming and expensive.

6. Technical Conference

In this method information about the characteristics of the job is collected from the expert - usually the supervisors - and not from the actual job incumbents. One important

drawback of this method is that the experts may at times show poor knowledge about the job which they are not actually performing themselves and may give answers based upon their past experience.

7. Self-Recording of Diary

In this method the job incumbent is asked to record his daily activities each day using some type of logbook or diary. The method is good in that it systematically collects a great deal of information about the nature of and the time spent on various activities during the day by each incumbent. But it is very, time-consuming and the incumbent may start complaining that he spends more time in writing his diary than in doing his job. This method is particularly useful for high-level managerial jobs.

8. Critical Incident

In this method the supervisor is asked to provide instances of on-the-job behaviors of people which he considers to be noteworthy. Such instances can be both of good and bad on-the-job behavior. The number of such instances can be as many as the supervisor can recall. These instances can provide information about critical aspects of the job, but the method does not provide an integrated picture of the entire task.

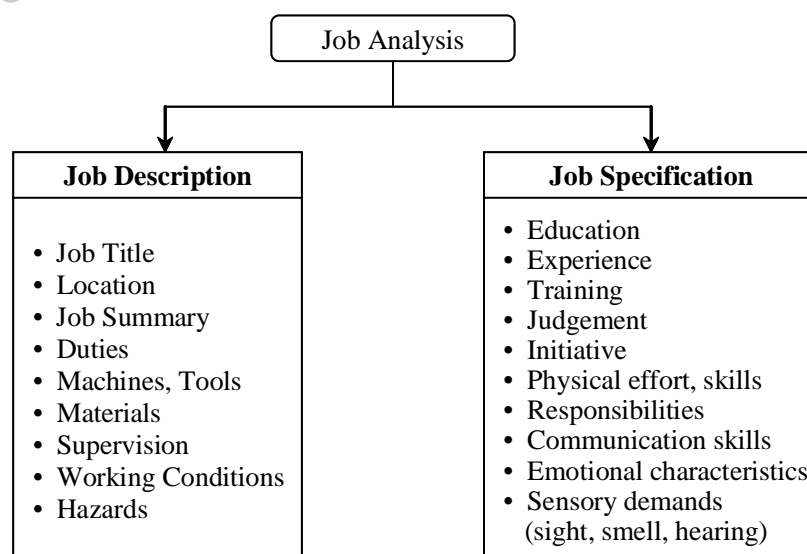
Q7. Briefly explain methods of job-analysis.

Ans :

1. Observation

With the observation method a manager, job analyst, or industrial engineer observes the individual performing the job and takes notes to describe the tasks and duties performed. This method is useful for repetitive jobs and in conjunction with other methods.

- Work sampling
- Worker logbook



2. Interviewing

It requires that a manager or HR specialist visit each job site and talk with the employees performing each job. A standardized interview form is used. Both supervisors and employees must be interviewed to obtain better understanding of the job as a mediator representative of HR is present. This method is time consuming. This method can be used in conjunction with other methods.

3. Questionnaire

This is widely used method. A questionnaire is prepared and given to employees and managers to complete.

The questionnaire covers the following aspects:

- duties
- supervision
- decisions
- contact with other people
- working conditions
- job holder characteristics (knowledge, skills, abilities, training needed)

Aspects

Job Analysis should collect information on the following areas :

- **Duties and Tasks:** The basic unit of a job is the performance of specific tasks and duties. Information to be collected about these items may include: frequency, duration, effort, skill, complexity, equipment, standards, etc.
- **Environment:** This may have a significant impact on the physical requirements to be able to perform a job. The work environment may include unpleasant conditions such as offensive odors and temperature extremes. There may also be definite risks to the incumbent such as noxious fumes, radioactive substances, hostile and aggressive people, and dangerous explosives.

- **Tools and Equipment:** Some duties and tasks are performed using specific equipment and tools. Equipment may include protective clothing. These items need to be specified in a Job Analysis.
- **Relationships:** Supervision given and received. Relationships with internal or external people.
- **Requirements:** The knowledges, skills, and abilities (KSA's) required to perform the job. While an incumbent may have higher KSA's than those required for the job, a Job Analysis typically only states the minimum requirements to perform the job.

Methods

Several methods exist that may be used individually or in combination. These include :

- review of job classification systems
- incumbent interviews
- supervisor interviews
- expert panels
- structured questionnaires
- task inventories
- check lists
- open-ended questionnaires
- observation
- incumbent work logs

A typical method of Job Analysis would be to give the incumbent a simple questionnaire to identify job duties, responsibilities, equipment used, work relationships, and work environment. The completed questionnaire would then be used to assist the **Job Analyst** who would then conduct an interview of the incumbent(s).

A draft of the identified job duties, responsibilities, equipment, relationships, and work environment would be reviewed with the supervisor for accuracy. The Job Analyst would then prepare a job description and/or job specifications.

The method that you may use in Job Analysis will depend on practical concerns such as type of job, number of jobs, number of incumbents, and location of jobs.

Q8. Discuss about Job Evaluation.

Ans :

Job evaluation is the rating of jobs in an organization. This is the process establishing the value or worth of jobs in a job hierarchy and compares the relative intrinsic value or worth of jobs within an organization. Scott, Clothier and Priegel defines job evaluation as "the operation of evaluating a particular job in relation to other jobs either within or outside the organization".

Dale Yoder described job evaluation as "a practice which seeks to provide a degree of objectivity in measuring the comparative value of jobs within an organization and among similar organizations".

Edwin B. Flippo defines job evaluation as "a systematic and orderly process of determining the worth of a job in relation to other jobs".

Terms Related to Job Evaluation

(a) Position

A position is a group of tasks assigned to one individual. There are as many positions in a firm as there are personnel.

(b) Job

Edwin B. Flippo describes job as a group of positions that are similar as to kind and level of work. In some instances only one position may be involved, simply because no other similar position exists. For example, in the typical firm the position of human resource manager also constitute a job since there is only one human resource manager in the organizing.

(c) Job Analysis

It is the process of studying and collecting information relating to the operations and responsibilities of a specific job. The immediate products of this analysis are job descriptions and job specifications.

(d) Motion Study

This also involves study of the job. Motion study is one of the ways of studying job. It is a process of analyzing a job to find the easiest, most effective, and most economical method of doing it. As such, motion study is a part of the job design function.

(e) Job Description

It is an organized, factual statement of the duties and responsibilities of a specific job. In brief, it should tell what is to be done, how it is to be done, and why. It is a standard of function, in that it defines the appropriate and authorized content of a job.

(f) Job Specification

It is a statement of the minimum acceptable human qualities necessary to perform a job properly. It is a standard of personnel and designates the qualities required for acceptable performance.

(g) Evaluation

Evaluation as a data reduction process that involves the collection of large amounts of data which are analyzed and synthesized into an overall judgment of worth or merit.

Q9. What are the objectives, advantages and disadvantages of job evaluation ?

Ans :

Objectives of Job Evaluation

The main objective of job evaluation is to ensure equitable remuneration for relative worth of a job. As per the ILO Report, the aim of the majority of systems of job evaluation is to establish, on agreed logical basis, the relative values of different jobs in a given plant or machinery, i.e., it aims at determining the relative worth of a job. The principle upon which all job evaluation schemes are based is that of describing and assessing the value of all jobs in the firms in terms of a number of factors, the relative importance of which varies from job to job".

The objectives of job evaluation, to put in a more systematic manner are to :

- Establish a standard procedure for determining the relative worth of each job in an organization;
- Ensure equitable wage for a job and reasonable wage differentials between different jobs in a hierarchical organization;
- Determine the rate of pay for each job which is fair and equitable with relation to other jobs in the plant, community or industry;
- Eliminate wage inequalities;
- Use as a basis for fixing incentives and different bonus plans;
- Promote a fair and accurate consideration of all employees for advancement and transfer;
- Provide information for work organization, employees' selection, placement, training and other similar purposes;
- Provide a benchmark for making career planning for the employees in the organization and;
- Ensure that like wages are paid to all qualified employees for like work.

Advantages of Job Evaluation

1. Job evaluation process helps in the development of rational wage and salary structure because rates are fixed according to the characteristics of the jobs held by job-holders.
2. It is helpful in developing harmonious relationship between the employer and the employees because no scope is left for personal bias of the employer for fixing the wage rates. No scope for personal bias is left because in job evaluation the job is rated and not the employee. Therefore, it provides a sound basis for personnel administration.
3. It brings into focus the particular needs of a job and a worker who possesses the particular needs is asked to do the job.
4. As we know, job evaluation is followed by job analysis, so advantages of job analysis are available with job evaluation. These

advantages may be proper recruitment, selection, placement, training, promotion, transfer etc.

5. It helps in job classification and work simplification.
6. It helps in bringing uniformity in wage structure.
7. Employees are satisfied because of proper placement and right job allocation.

Disadvantages

1. Job evaluation alone cannot establish a wage scale. For wage fixation, we need to take into cognizance statutory requirements such as the Minimum Wages Act, 1948.
2. Similarly, other factor of wage fixation such as the capacity to pay, inter-industry wage variation, inter-regional wage variation, and collective bargaining agreements, if any also need to be given importance.
3. Job evaluation is highly subjective (being based on a judgemental estimate). Similarly, it cannot take into account the cyclical effect of market value of occupations.
4. For example, finance jobs were highly priced in the market at one point of time (now IT and marketing jobs are preferred).
5. However, with the failure of non-banking financial companies (NBFC), finance jobs are not profit of finance professionals has taken place.
6. Despite such limitations, the job evaluation technique is considered very useful for reasons explained earlier.

Q10. Explain principles of job evaluation.

Ans :

Principles of Job Evaluation

The job evaluation has certain principles. These principles are supposed to be kept in the mind of the job evaluators. These principles are not only directives of proper job evaluation but also provide clarity in the process of evaluation. According to Kress, these principles are :

- Rate the job and the jobber. Each element should be rated on the basis of what the job itself requires;
- The elements selected for rating purposes should be easily explainable in terms and a few in numbers as will cover the necessary requisites for every job without any overlapping;
- The elements should be clearly defined and properly selected;
- Any job rating plan must be sold to foremen and employees. The success in selling it will depend on a clear-cut explanation and illustration of the plan;
- Foreman should participate in the rating of jobs in their own departments;
- Maximum co-operation can be obtained from employees when they themselves have an opportunity to discuss job ratings and;
- Too many occupational wages should not be established. It would be unwise to adopt an occupational wage for each total of point values.

Job Evaluation Criteria

The system of job evaluation utilizes a total of eight measurement factors. The various factors analyze a position in relation to the skills and experience required for competent performance, the demands made on the job and the overall structure and responsibility/accountability involved. A point rating is derived for each factor and the sum of these points represents the total point's value of the job.

Basic Evaluation Rules

The basic rules for evaluating each position are :

- The current position is evaluated without being influenced by what the job is likely to be in the future or what it may have been in the past.
- The position is evaluated and not the job holder. The assessment of each factor is based on the job being performed competently. The

assessment of the job holder's own performance against the standard required is a quite separate exercise which is outside the scope of the job evaluation rating.

Q11. What are the factors influencing job evaluation?

Ans :

The job evaluation system comprises the following factors: In some cases minor changes to the wording are used to define factors and levels made in order to better align the methodology with the client's culture and environment. Where this is done, great care is taken to ensure inter-organisation consistency is not compromised. The primary factor in determining compensation is an evaluation of work performed. The internal worth of a job is evaluated based upon factor like - Know-How, Problem Solving, and Accountability, Education, Experience, Complexity involved in the job, Scope of job, Supervision received and, Authority Exercised.

1. Know-How

The knowledge, skill and experience required for standard acceptable performance. It considers the requirement for technical and professional skills, expertise and experience, the amount of planning and organizing required and the requirement to work with and through others.

- **Technical Know-How** - Measures levels ranging from learning basics work to specialized techniques and knowledge to professional mastery of scientific theory.
- **Managerial Know- How** - Measures the job's requirements to integrate diversified types of supervisory or managerial activities.
- **Human relation Know-how** - Measures the degree to which the job requires practical person-to-person skills in persuasion, motivation, and selection of people.

2. Problem Solving

The thinking required for analyzing, evaluating, creating, reasoning, arriving at and drawing conclusions; the extent to which this thinking is covered by precedents or circumscribed by standards; and the degree of creativity or original thought required.

3. Accountability

The degree to which the employee is held accountable for taking action and for the consequences of that action. It is the measured effect of the job on end results. The freedom to act measured through the existence or absence of constraints by managers, committees and procedures and the impact of that action on the organization.

Freedom to act Measures the relative degree to which decisions can be made, the level of authority which is needed, or the precedents, policies, and procedures which must be considered before an employee can take action.

4. Education

The level of formal education required to perform the functions required of a position. There is often an overlap between education and experience, and for this reason it is often advisable to consider the education level that would be expected of a new incumbent recruited externally.

5. Experience

The length of practical experience and nature of technical/managerial familiarity required. This experience is in addition to formal education.

6. Complexity

Measured in terms of:

- the time taken to learn and adjust to specific job requirements,
- the level to which the job functions are defined and follow established and predictable patterns and,

- the thinking challenge required to adapt to rapidly changing circumstances and innovative or conceptual thinking needed to initiate new corporate direction.

7. Scope of Job

The complexity and scope of work factors tend to be related to the education and experience level required of a position. The calculation of points for each of these factors is based on the application of a percentage rating of the sum of the points derived in the evaluation of Education and Experience.

8. Supervision Received

The extent of supervision, direction or guidance imposed on the job holder and the freedom the executive has to take action.

9. Authority Exercised

Authority level expressed in terms of routine expenditure, capital expenditure and investments, granting of loans, hiring and firing staff, etc.

Q12. Explain the process of job evaluation.

Ans :

(Imp.)

Job Evaluation is a technique to rank jobs in an organization on the basis of the duties and responsibilities assigned to the job. The job evaluation process results in a job being assigned to a pay grade. The pay grade is associated with a pay range that is defined by a minimum and a maximum pay rate.

- **Step One -Job Description** - The position supervisor assigns duties and writes the job description. If there is an incumbent employee, she / he reviews it, and they both sign it. Instructions and additional assistance are available from Human Resources, if needed. The job description is a snapshot of the job as it presently exists, reflecting the current duties and responsibilities of the job and/or the incumbent.
- **Step Two – Approval** - The vice president reviews job descriptions and, if she / he

concur, approves the responsibilities, requirements, and departmental organization contained within a job description presented for new evaluation, and signs it. If the vice president does not concur with the contents of the description, it is returned to the supervisor for changes.

- **Step Three – Review**- Human Resources reviews the job description as submitted with the supervisor prior to evaluation by the Job Evaluation Committee (Step 4). Human Resources help ensure that there is consistency and equity in the job descriptions and titles by editing them for clarity and format. If the Human Resources Office makes changes, the job description is returned to the supervisor and vice president for signature prior to being presented to the Job Evaluation.
- **Step Four – Evaluation** - The Job Evaluation Committee (JEC) is a multimember committee, the members of which are appointed by the Staff Salary Administration Committee (SSAC), representing employees throughout organization. JEC ensures equity among jobs through the use of established, consistent criteria for evaluation and prevents escalation of the job evaluation grades by validating changes in job content presented for review. Members of JEC receive in-depth training on job evaluation and utilize a consistently applied point system for the evaluations.
- **Step Five – Confirmation** - SSAC confirms all job evaluations and titles recommended by JEC. This committee is composed of the SLCC Vice residents, the human resources director, and other relevant co-opted experts. After confirmation of the evaluation job description, SSAC advises the supervisor of the results of the evaluation and the title. The supervisor then advises the employee of the results of the job evaluation.

Q13. What are the different approaches of job evaluation process?

Ans :

(Imp.)

Top 4 Methods of Job Evaluation (explained with diagram).

There are four basic methods of job evaluation currently in use which are grouped into two categories:

1. Non-quantitative Methods

- (a) Ranking or Job Comparison
- (b) Grading or Job Classification

2. Quantitative Methods

- (a) Point Rating
- (b) Factor Comparison

The basic difference between these two methods lies in the sense that, under non- quantitative methods, a job is compared as a whole with other jobs in the organisation, whereas in case of quantitative methods, the key factors of a job are selected and, then, measured. The four methods of job evaluation are now discussed one by one.

1. Non-quantitative Methods

(a) Ranking Method

The ranking method is the simplest form of job evaluation. In this method, each job as a whole is compared with other and this comparison of jobs goes on until all the jobs have been evaluated and ranked. All jobs are ranked in the order of their importance from the simplest to the hardest or from the highest to the lowest.

The importance of order of job is judged in terms of duties, responsibilities and demands on the job holder. The jobs are ranked according to "the whole job" rather than a number of compensable factors. The ranking of jobs in a University, based on Ranking Method, may be like this:

Table : Ranking of University Jobs:

Ranking Order	Pay Scale
Professor/Registrar	Rs. 16,400, 450-20, 900-500-22, 400
Reader/Dy. Registrar	Rs. 12,000-420-18, 300
Lecturer/Asst. Registrar	Rs. 8,000-275-13, 500

The application of the Ranking Method involves the following procedure:

- (i) Analyse and describe jobs, bringing out those aspects which are to be used for purpose of job comparison.
- (ii) Identify bench-mark jobs (10 to 20 jobs, which include all major departments and functions). The jobs may be the most and least important jobs, a job midway between the two extremes, and others at the higher or lower intermediate points.
- (iii) Rank all jobs in the organisation around the bench-mark jobs until all jobs are placed in their rank order of importance.
- (iv) Finally, divide all the ranked jobs into appropriate groups or classifications by considering the common features of jobs such as similar duties, skills or training requirements. All the jobs within a particular group or classification receive the same wage or range of rates.

Ranking method is appropriate for small-size organisations where jobs are simple and few. It is also suitable for evaluating managerial jobs wherein job contents cannot be measured in quantitative terms. Ranking method being simple one can be used in the initial stages of job evaluation in an organisation.

Merits

- (i) It is the simplest method.
- (ii) It is quite economical to put it into effect.
- (iii) It is less time consuming and involves little paper work.

Demerits

The method suffers from the following demerits:

- (i) The main demerit of the ranking method is that there are no definite standards of judgment and also there is no way of measuring the differences between jobs.
- (ii) It suffers from its sheer unmanageability when there are a large number of jobs.

(b) Grading Method

Grading method is also known as 'classification method'. This method of job evaluation was made popular by the U.S. Civil Service Commission. Under this method, job grades or classes are established by an authorised body or committee appointed for this purpose. A job grade is defined as a group of different jobs of similar difficulty or requiring similar skills to perform them. Job grades are determined on the basis of information derived from job analysis.

The grades or classes are created by identifying some common denominator such as skills, knowledge and responsibilities. The example of job grades may include, depending on the type of jobs the organisation offers, skilled, unskilled, account clerk, clerk-cum-typist, steno typist, office superintendent, laboratory assistant and so on.

Once the grades are established, each job is then placed into its appropriate grade or class depending on how well its characteristics fit in a grade. In this way, a series of job grades is created. Then, different wage/salary rate is fixed for each grade.

Merits

The main merits of grading method of job evaluation are:

- (i) This method is easy to understand and simple to operate.
- (ii) It is economical and, therefore, suitable for small organisations.
- (iii) The grouping of jobs into classifications makes pay determination problems easy to administer.
- (iv) This method is useful for Government jobs.

Demerits

The demerits of this method include:

- (i) The method suffers from personal bias of the committee members.
- (ii) It cannot deal with complex jobs which will not fit neatly into one grade.
- (iii) This method is rarely used in an industry.

1. Quantitative Methods

(a) Points Rating

This is the most widely used method of job evaluation. Under this method, jobs are broke down based on various identifiable factors such as skill, effort, training, knowledge, hazards, responsibility, etc. Thereafter, points are allocated to each of these factors.

Weights are given to factors depending on their importance to perform the job. Points so allocated to various factors of a job are then summed. Then, the jobs with similar total of points are placed in similar pay grades. The sum of points gives an index of the relative significance of the jobs that are rated.

Determine the jobs to be evaluated. Jobs should cover all the major occupational and levels of responsibility to be covered by the method.

Decide on the factors to be used in analysing and evaluating the jobs. The number of factors needs to be restricted because too many factors result in an over-complex scheme with overlap and duplication between factors.

Define the factors clearly in written. This is necessary to ensure that different job raters interpret a particular factor in the same sense.

Determine degrees of each factor and assign point value to each degree.

Point values are assigned to different degrees on the basis of arithmetic progression.

Finally, money values are assigned to points. For this purpose, points are added to give the total value of a job. Its value is then translated into money terms with a predetermined formula.

Merits

The method has the following merits:

- (i) It is the most comprehensive and accurate method of job evaluation.
- (ii) Prejudice and human judgment are minimised, i.e. the system cannot be easily manipulated.
- (iii) Being the systematic method, workers of the organisation favour this method.
- (iv) The scales developed in this method can be used for long time.
- (v) Jobs can be easily placed in distinct categories.

Demerits

The drawbacks of the method are:

- (i) It is both time-consuming and expensive method.
- (ii) It is difficult to understand for an average worker.

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- (i) It is both time-consuming and expensive method.
- (ii) It is difficult to understand for an average worker.

- (iii) A lot of clerical work is involved in recording rating scales.
- (iv) It is not suitable for managerial jobs wherein the work content is not measurable in quantitative terms.

(b) Factor Comparison Method

This method is a combination of both ranking and point methods in the sense that it rates jobs by comparing them and makes analysis by breaking jobs into compensable factors. This system is usually used to evaluate white collar, professional and managerial positions.

The mechanism for evaluating jobs under this method involves the following steps:

1. First of all, the key or benchmark jobs are selected as standards. The key jobs selected should have standards contents, well accepted pay rates in the community, and should consist of a representative cross-section of all jobs that are being evaluated—from the lowest to the highest paid job, from the most important to the least important—and cover the full range of requirements of each factor, as agreed upon by a Committee representing workers and management.
2. The factors common to all jobs are identified, selected and defined precisely. The common factors to all jobs are usually five, viz., mental requirements, physical requirements, skill requirements, working conditions and responsibility.
3. Once the key jobs are identified and also the common factors are chosen, the key jobs are, then, ranked in terms of the selected common factors.
4. The next step is to determine a fair and equitable base rate (usually expressed on an hourly basis) and, then, allocate this base rate among the five common factors as mentioned earlier. Following is a specimen of base rate and its allocation scheme.

Key Jobs	Base Rate (Daily)	Mental Requirements	Physical Requirements	Skills	Working Conditions	Responsibility
Electrician	60	13	12	5	12	18
Welder	50	10	19	5	4	12
Mechanist	80	25	5	23	24	3

5. The final step in factor comparison method is to compare and evaluate the remaining jobs in the organisation. To illustrate, a 'toolmaker' job is to be evaluated. After comparison, it is found that its skill is similar to electrician (5), mental requirements to welder (10) Physical requirements to again electrician (12), working conditions to mechanist (24) and responsibility also to mechanist (3). Thus, the wage rate for the job of toolmaker will be Rs. 54 (Rs.5 + Rs. 10 + Rs. 12 + Rs.24 + Rs.3).

Merits

This method enjoys the following merits:

1. It is more objective method of job evaluation.
2. The method is flexible as there is no upper limit on the rating of a factor.
3. It is fairly easy method to explain to employees.

4. The use of limited number of factors (usually five) ensures less chances of overlapping and over-weighting of factors.
5. It facilitates determining the relative worth of different jobs.

Demerits

The method, however, suffers from the following drawbacks:

1. It is expensive and time-consuming method.
2. Using the same five factors for evaluating jobs may not always be appropriate because jobs differ across and within organisations.
3. It is difficult to understand and operate.

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Now, all the four methods are summarised as follows:

Scheme	Characteristics	Advantages	Disadvantages
Factor Comparison	Jobs graded by reference to market rate data and direct comparisons with jobs at or near the same level within the organization.	Realistic, practical, straightforward and quick	Market rate information may be difficult to obtain or inaccurate.
Ranking	Whole job comparisons are made to place them in order of importance.	Easy to apply and understand.	No defined standards of judgement differences between jobs are not measured.
Job Classification	Job grades are defined and jobs are slotted into the grades by comparing the whole job description with the grade definition.	Simple to operate and standards of judgement are provided in the shape of the grade definitions.	Difficult to fit complex jobs into one grade without using excessively elaborate grade definitions.
Point Ranking	Separate factors are scored to produce an overall points score for the job.	The analytic process of considering separate defined factors provides for objectivity and consistency in making judgements.	Complex to install and maintain-judgement is still required to rate jobs in respect of different factors.

3.4 BUILDING MARKET COMPETITIVE COMPENSATION SYSTEM

Q14. How to build Market Competitive Compensation System ?

Ans :

(Imp.)

Market-competitive pay systems represent companies' compensation policies that fit the imperatives of competitive advantage. Market-competitive pay systems play a significant role in attracting and retaining the most qualified employees. Well-designed pay systems should promote companies' attainment of competitive strategies. Paying more than necessary can undermine lowest-cost strategies: Excessive pay levels represent an undue burden. Also, excessive pay restricts companies' abilities to invest in other important strategic activities – for example, research and development, training – because money is a limited resource.

Compensation professionals create market-competitive pay systems based on four activities.

- (i) Conducting strategic analyses.
- (ii) Assessing competitors' pay practices with compensation surveys.
- (iii) Integrating the internal job structure with external market pay rates.
- (iv) Determining compensation policies.

1. **A strategic analysis** entails an examination of a company's external market context and internal factors. Examples of external market factors include industry profile, information about competitors, and long-term growth prospects. Internal factors encompass financial condition and functional capabilities – for example, marketing and human resources.
2. **Compensation surveys** involve the collection and subsequent analysis of competitors' compensation data. Compensation surveys are important because they enable compensation professionals to obtain realistic views of competitors' pay practices. In the absence of compensation survey data, compensation professionals would have to

use guesswork to try to build market-competitive compensation systems, and making too many wrong guess could lead to noncompetitive compensation systems that undermine competitive advantage.

3. **Compensation professionals integrate** the internal job structure with the external market pay rates identified through compensation surveys. This integration results in pay rates that reflect both the company's and the external market's valuation of jobs. Most often, compensation professionals rely on regression analysis, a statistical method, to achieve this integration.

4. **Compensation professionals** recommend pay policies that fit with their companies standing and competitive strategies.

Compensation professionals must strike a balance between managing costs and attracting and retaining the best-qualified employees. Ultimately, top management makes compensation policy decisions after careful consideration of compensation professionals' interpretation of the data.

Merits of Market Competitive Compensation System.

1. Market competitive compensation systems plays a very important role in attracting and retaining the well qualified employees.
2. Market competitive compensation system helps the firm in attaining the competitive advantage over its rivals.
3. The compensation surveys helps the market competitive compensation system in making effective decisions as how much is to be paid to the employees and also helps in determining what the other organizations are paying to their employees.
4. The compensation surveys acts as a benchmark for deciding the pay of the employees and appointing highly qualified employees in the firm.
5. The compensation surveys helps the firm in gaining competitive advantages in the market by collecting information of basic pay levels, incentive payment, discretionary and fringe benefits of the other firm.

3.5 COMPENSATION SURVEYS

Q15. What is Compensation Survey?

Ans :

Introduction

Market Competitive pay system plays a significant role in attracting and retaining the most qualified employees. Compensation professionals build market-competitive compensation systems based on the results of strategic analyses and compensation surveys.

Compensation survey collects and then analyzes competitors' compensation data. They are focused on competitor's wage and salary practices. Now, fringe compensation is also a target of surveys because benefits are a key element of market competitive pay systems. They are important because they enable compensation professionals to obtain realistic views of competitor's pay practices. In the absence of compensation survey data, the compensation professional would have to use guesswork to build market-competitive compensation systems.

Q16. Discuss the process of compensation survey.

Ans : (Imp.)

Preparation for Compensation Surveys

A) Development, Implementation and Analysis

1. Is skilled talent available to develop and implement the survey?
2. Is skilled talent available to compile and analyze data?
3. If the answers to (1) and (2) are no, where is talent available, or can unskilled employees be trained to perform necessary activities?
4. Who should be selected for these activities (based on individual knowledge, skills, and interests)?
5. What technical and interpersonal skills are necessary?

6. Are computer software packages and hardware available for inputting, summarizing, and analyzing data and for producing desired output?

7. When will the survey data be collected?

B) Classification of Job or Occupation

1. Is the pay problem unique to a small number of jobs or to one occupational group?
2. Is the job unique or exotic?
3. Which jobs are benchmark or key jobs?

C) Pay Structure

1. If the organization has multiple pay plans, will the survey relate to all pay structures or only to specific pay structures?
2. Is the pay structure of the organization so unique that pay data from other organizations will be of little value?
3. Do other organizations face similar pay issues?

D) Identification of the Labour Market

1. Has the labour market been identified properly?
2. Does the organization complete in a variety of labour markets (local or regional for lower-level jobs and interregional or national for more specialized occupations or professionals)?
3. Are demographic variables important considerations (rural or urban, population of community)?

E) Influence of Competing Organizations

1. Do those organizations hiring the largest number of employees or the largest number of employees for a specific job or occupational group dominate the labour market?
2. Is there a relationship between the dollar volume of business and the leadership roles in the setting of pay rates?
3. Does a relationship exist between similarity of output (good or service) or kind of organization public or private, profit or nonprofit)?

F) Selection of Respondents

1. Which organizations appear to have significant influence on applicants seeking employment?
2. Which organizations have lost their employees to the organization conducting the survey?
3. Which organizations require incumbents to perform jobs having similar job content and in turn, require similar incumbent knowledge and skills?
4. Which organizations have enough jobs similar to those identified in the survey to make their responses valuable?

G) Cooperation of Respondents

1. Have mutual needs been identified and stressed?
2. Will introductory telephone calls or even personal visits be necessary, or will a letter or e-mail requesting participation be sufficient?
3. Are introductions available from associations, friends, or managers in either the survey-producing or participating organization?
4. Will respondent's participating efforts be rewarded (promise of delivery of a well-developed summary of the surveys; a formal presentation of summarized data to all participants)?

H) Kinds of Data to be Collected

1. Are only base pay data desired?
2. Is it necessary to analyze job fit – where proper match is made?
3. Should organizational demographic data be requested?
4. Is there a need for various kinds of pay policy data?
5. Should data be collected on other compensation components (compensation policy, incentive plans, benefits, services, perquisites)?
6. If the answer to (5) is yes, how much detail should be requested?

Maintenance of Confidentiality

1. Will concern regarding secrecy prohibit participants from responding to the survey or possibly provide invalid or meaningless data?
2. What procedures will best ensure confidentiality of respondents' data?

The issue of confidentiality received widespread attention when the International Union of Electrical Workers sued General Electric Company (GE) for unfair labour practices before the National Labor Relations Board (NLRB).

Q17. What are the techniques of data collection?

Ans :

If the survey is informal and relates to one or a small number of jobs, the telephone is the simplest and most widely used approach for gathering data. Other increasingly complex techniques include the questionnaire, online, the face-to-face interview, and group conferences.

1. Telephone

Telephone surveys are useful for collecting data on a relatively small number of easily identified and quickly recognized jobs. Telephone contact can be made quickly with compensation specialists in comparable organizations throughout a particular region or even on a nationwide basis. These contracts can provide data for immediate or emergency use. The telephone technique is also useful for clarifying issues, checking discrepancies, or obtaining data overlooked by other collection methods.

2. Mailed Questionnaire

The mailed questionnaire is the most common technique for collecting formal survey data. It not only permits respondents to complete it at their discretion, but it allows time for careful thought and deliberation in job matching. The questionnaire is useful for collecting data on 100 jobs or on 10 jobs.

3. Online

A widely used source of pay data is the Internet. Anyone with a computer and Internet access can obtain pay data online. With this readily available source, employees in any job at any level in any organization can obtain pay data for their jobs for comparison purposes.

4. Face-to-Face Interview

Probably the best technique for collecting data is the completion of a questionnaire during a face-to-face interview. A well-trained interviewer who knows every aspect of the survey intimately and is especially conversant with the functions of the jobs included in the survey is invaluable for collecting valid and reliable data.

5. Group Conferences

Although the conference is one of the least-used techniques for collecting compensation data, it has certain strengths. If a group of specialists has common data requirements and if location is not a problem, this technique can be ideal.

Q18. Explain in detail about compensation survey data. Also discuss about methods of compensation survey.

Ans : (Imp.)

Compensation Surveys

Organizations have to bridge the gap between the industry standards and their salary packages. They cannot provide compensation packages that are either less than the industry standards or are very higher than the market rates. For the purpose they undertake the salary survey. The Salary survey is the research done to analyze the industry standards to set up the compensation strategy for the organization. Organizations can either conduct the survey themselves or they can purchase the survey reports from a reputed research organization.

To determine the prevailing rate for a job, companies can "benchmark" jobs against compensation surveys that are detailed and specific to the companies' industries and regions. A good compensation survey uses standard, proven

methods of data gathering and statistical analysis to determine how much companies pay for a specific job in a specific industry. A number of types of organizations conduct salary surveys, including compensation information businesses, compensation consulting firms, industry associations, educational institutions, and state and federal governments.

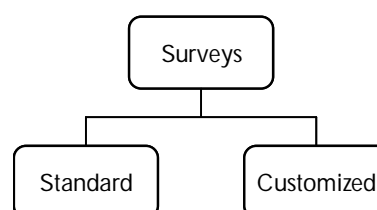
Objectives of a Compensation Survey

1. To gather information regarding the industry standards.
2. To know more about the market rate i.e., compensation offered by the competitors.
3. To design a fair compensation system.
4. To design and implement most competitive reward strategies.
5. To benchmark the compensation strategies.

Types of Compensation Surveys

1. Standard Surveys

Standard surveys are undertaken by organizations on a regular basis. These surveys are conducted annually based on the organizational objectives. These surveys attempt to cover the same companies every year and provide the same time of analysis. The reports are published annually by the research organizations. The organizations willing to formulate their compensation strategies based on the surveys purchase the reports from the research organization.



2. Custom Surveys

At times, a few organizations need to know some specific information. The surveys which cater this need are known as custom surveys. The organizations either hire research organizations to conduct these surveys for

them or they themselves conduct the survey by sampling few of the competitors on their own. These surveys do not have any time interval. They are undertaken as the need arises. They focus on important issues usually one or two.

Types of Data Gathered

Salary Surveys are analyses of compensation data. This data may include quantifiable aspects of compensation such as:

- Base salaries
- Increase percentages or amounts
- Merit Increases
- Salary Ranges
- Starting Salary
- Incentives/Bonuses
- Allowances and Benefits
- Working Hours

Salary Surveys may also include non-quantifiable aspects of compensation such as:

- Educational Requirements
- Geographic Location
- Source of Hire (Internal/External)
- Working Conditions

Q19. How You Can Make Good Use of Compensation Strategy?

Ans :

You can use compensation to attract and retain competent people. This objective requires you to offer a salary that is not lower than the market rates. When you want better customer service, reward employee behaviors that produce superior service.

Do not harp on the amount of salary you are paying yet at the same expect good performance. Your people may conclude that there is insincerity on the part of management. Match the written policy with the right and appropriate actions that demonstrate to your employees that you are a fair and just employer.

Equitable Compensation

Like employees working elsewhere in other organizations, your people are concerned with compensation equity. Take this into consideration in drawing up your compensation strategy. When people notice inequities, their morale and motivation will suffer.

But by adopting a compensation strategy, you don't have to worry about your good people resigning. If they believe in your management's fair-handedness, it is very probable that they will not go away. Decision to leave an organization requires considerations other than or in addition to dissatisfaction with compensation.

Determining Rates of Pay

Compensation strategy involves considering to adopt any of several ways in setting rates of pay.

1. Seniority Based

Pay increase based on employee's length of time spent on the job. This is seniority-based pay that is a good motivator in employee retention. But here, you are not rewarding performance.

2. Performance-based

Performance-based pay is intended to motivate employees to perform better. Such a plan is becoming more common whereby the manager and employee agree on the job goals and performance criteria at the beginning of a specified period, usually at the beginning of the year. The effect of this as a motivator can vary from time to time and from situation to situation.

3. Skills & Knowledge based

You can give pay increases based on job-related skills and knowledge. This is intended to motivate your people to gain additional skills, acquire new competencies and knowledge. Under this method, you do not pay employees for the job they are doing, their job title or seniority. This is competency-based pay.

Alignment of your compensation strategy with organizational objectives.

Your compensation strategy needs to align your compensation objectives to your organizational business objectives. Salary increases are part of this plan. By this, you are recognizing employees' contribution to the accomplishment of your organization's objectives.

Consider implementing a policy whereby employees are given salary increases when your organization can afford to give them, in arrears. This ensures that good performers will continue to perform. They know that they will get what is due to them.

Giving salary increase to an under-performer is not justified. There are organizations who have implemented a policy that employees who are in the last five percent of the performance bracket will have to go.

Pay Increase on Promotion

When an employee is promoted, you may or may not give a significant pay increase. It is not justified to pay an overpaid employee a significant promotional increase. Consider all relevant matters before you make a decision. One important thing to consider is the pay parity with people in the same category and performing similar tasks.

General Salary Adjustment

In performance-based pay, do not give across-the-board increases. Differentiate between outstanding, average and non-performers. If not, your employees will lose trust in the system, resulting in little or no motivational impact. Paying the right salary has impact on employee performance and organizational effectiveness.

Automatic Salary Progression

This has no relationship to performance. Avoid it as it does not encourage your employees to improve their performance. This is fairly common in the public sector. But there are now significant changes made in accordance with sound human resource management principles. The only occasion where you can consider giving some salary increase that is unrelated to performance is in respect of increase in the cost of living.

Anomalous Salary

If you have any employee whose salary is below the minimum for the job or too low in relation to the employee's performance and experience, make the necessary adjustment. This is in addition to an increase based on performance merit.

On the other hand, you may have an employee who is paid above the maximum point in the salary range for the job. You may freeze further salary increases until the relevant pay level is reached. Then give merit increase based on performance. Don't give increase if performance is unsatisfactory.

3.6 INTEGRATING INTERNAL JOB STRUCTURE WITH EXTERNAL MARKET PAY RATES

Q20. Describe the process of Integrating Internal Job Structure with External Market Pay Rates.

Ans : (Imp.)

Companies value jobs that possess higher degrees of compensable factors (for example, 10 years of relevant work experience) than jobs with fewer degrees of compensable factors (for example, one year of relevant work experience). Ultimately, these valuation differences should correspond to pay differences based on compensation survey data.

We indicate that paying well below or well above the typical market rate for jobs can create a competitive disadvantage for companies. Thus, it is important that companies set pay rates by using market pay rates as reference points. To this end, we use regression analysis, which is a statistical analysis technique. Regression analyses enable compensation professionals to establish pay rates for a set of jobs that are consistent with typical pay rates for jobs in the external market.

Regression analysis enables decision makers to predict the values of one variable from another. Compensation professionals' goals are to predict salary levels for each job based on job evaluation points (We cannot list of salaries in the survey to identify the market rates because) Why not simply "eyeball" the list of salaries in the survey to identify the market rates ? There are two reasons.

- (a) Companies pay different rates to employees who are performing the same (or very similar) jobs.
- (b) We wish to determine pay rates for a set of jobs in a particular company).

Regression analysis finds the best-fitting line between two variables. Compensation professionals use job evaluation points assigned to benchmark jobs and the salary survey data for the benchmark jobs. They refer to the best fitting line as the market pay line. The market pay line is representative of typical market pay rates relative to a company's job structure. Pay levels that correspond with the market pay line are market competitive pay rates.

Determination of Pay Rates using Regression Analysis (RA)

It can be calculated easily with the use of regression analysis, a typical survey will make it easy to understand. Before developing RA technique companies should have two sets of information.

The following equation model helps in prediction of market rates.

$$Y = a + bx$$

Where,

- y = Predicted salary
- x = Job evaluation points
- a = They y-intercept (This is the y value at which x = 0)
- b = Slope (change in salary for every one unit change in job evaluation points).

1. Market Lead Policy

Market lead policy and organization differentiates itself from its competitors by offering employees pay higher than most of their competitors. It is useful for those companies who follow a differentiation strategy. To occupy a top position in the organization.

The role of compensation professional is to decide how much to lead the market 5%, 10% or 25 percent or above that the 'How much' relies on two factors.

- (i) How much pay differential should be provided above the market in order to attract and retain the efficient employers (accountants).
- (ii) Is funding being carried out or not in order to promote.

Research and development and to facilitate the differentiation strategy.

2. Market Lag Policy

Market policy is opposite to market lead policy where in they are paying less than the market pay line, usually by compensating less than the most competitors. This policy uses a lowest cost strategy and is best suitable to lowest cost strategies organization. They have more priority towards saving and reducing the cost. Companies following this policy face problems in recruiting and retaining highly qualified employees. The companies following market lag policy need to balance cost savings with productivity and quality concerns.

3. Market Match Policy

Market match policy decides pay structures for employers only according to market pay line, thus pay rates are same as market rates. It is a safe technique as the companies need not spend either very high pay or very less pay as of their competitors. Companies mostly follow market match or market lead policies as the employees contribute more in building competitive advantage.

3.7 BUILDING PAY STRUCTURES THAT RECOGNIZE INDIVIDUAL CONTRIBUTIONS

Q21. Examine the process of Building Pay Structure that Recognize Individual Contributions.

Ans :

(Imp.)

Introduction to Pay Structure

A company's pay structure is the method of administering its pay philosophy. The two leading types of pay structures are the internal equity method, which uses a tightly constructed grid to ensure that each job is compensated according to

the jobs above and below it in a hierarchy, and market pricing, where each job in an organization is tied to the prevailing market rate.

A company needs job descriptions for all its positions so that people know where they fall within the organization. A pay structure helps answer questions about who's who, what each person's role is, and why people are compensated differently. It also helps human resources personnel to fairly administer any given pay philosophy. For example, a company might want to pay everyone at market; or pay some people at market and some above it. Opportunities for incentives are also dealt with in the pay structure. For example, people with strategic roles will likely have opportunities for higher incentives.

Constructing a Pay Structure

Compensation specialists develop pay structures based on five steps :

- Deciding on how many pay structures to construct.
- Determining a market pay line.
- Defining pay grades.
- Calculating pay ranges for each pay grade.
- Evaluating the results.

Step 1 : Deciding on the Number of Pay Structures

Companies often establish more than one pay structure, depending on market rates and the company's job structure. Common pay structures include exempt and nonexempt structures, pay structures based on job families, and pay structures based on geography.

- (a) **Exempt and Nonexempt Pay Structures:** Exempt jobs are not subject to the overtime pay provisions of the act. Core compensation terms for these jobs are usually expressed as an annual salary. Nonexempt jobs are subject to the overtime pay provision of the act.

Exempt jobs, by the definition of the Fair Labour Standards Act, are generally supervisory, professional,

managerial, or executive jobs that contain a wide variety of duties. Nonexempt jobs are generally supervisory in nature, and the duties tend to be narrowly defined.

(b) Pay Structures based on Job Family:

Executive, managerial, professional, technical, clerical, and craft represent distinct job families. Pay structures are also defined on the basis of job family, each of which shows a distinct salary pattern in the market. Companies holding federal contracts meeting these criteria have limited latitude for setting pay for certain jobs; however, the latitude for setting pay rates for other jobs is greater.

Step 2 : Determining a Market Pay Line

Market pay line is representative of typical market pay rates relative to a company's job structure. Pay levels that correspond with the market pay line are market-competitive pay rates.

Step 3 : Defining Pay Grades

Pay grades group jobs for pay policy application. Human resources professionals typically group jobs into pay grades based on similar compensable factors and value. These criteria are not precise. In fact, no one formula determines what is sufficiently similar in terms of content and value to warrant grouping jobs into a pay grade.

Ultimately, job groupings are influenced by other factors, such as management's philosophy. Wider pay grades – that is, grades that include a relatively large number of jobs – minimize hierarchy and social distance between employees. Narrower pay grades tend to promote hierarchy and social distance.

Step 4 : Calculating Pay Ranges for Each Pay Grade

Pay ranges build upon pay grades. Pay grades represent the horizontal dimension of pay structures (job evaluation points). Pay ranges represent the vertical dimension (pay rates). Pay ranges include midpoint, minimum, and maximum pay rates. The minimum and maximum values denote the acceptable lower and upper bounds of pay for the jobs within particular pay grades.

Human resource professionals establish midpoints first, followed by minimum and maximum values. The midpoint pay value is the halfway mark between the range minimum and maximum rates. Midpoints generally match values along the market pay line, representing the competitive market rate determined by the analysis of compensation survey data. Thus, the midpoint may reflect the market average or median.

- (a) **Pay Compression:** The minimum pay rate for a range usually is the lowest pay rate that the company will pay for jobs that fall within that particular pay grade. In theory, newly hired employees receive pay that is at or near the minimum. In practice, new employees often receive well above minimum pay rates, sometimes only slightly below or even higher than the pay moderately tenured employees receive. Pay compression occurs whenever a company's pay spread between newly hired or less qualified employees and more qualified job incumbents is small.
- (b) **Green Circle Pay Rates:** Employees sometimes receive below-minimum pay rates for their pay ranges, especially when they assume jobs for which they do not meet every minimum requirements in the worker specification sector of the job description. Below-minimum pay ranges rates are known as green circle rates.
- (c) **Red Circle Pay Rates:** On occasion, companies must pay certain employees greater than maximum rates for their pay ranges. Known as red circle rates, these higher pay rates help retain valued employees who have lucrative job offers from competitors.

Step 5 : Evaluating the Results

After compensation professionals establish pay structures according to the previous steps, they must evaluate the results. Specially, they must analyze significant differences between the company's internal values for jobs and the market's values for the same jobs.

Compensation professionals must also consider each employee's pay level relative to the midpoint of the pay grade. Again, the midpoint represents a company's competitive stance relative to the market. Compa-ratios index the relative competitiveness of internal pay rates based on pay range midpoints. Comparatios are calculated as follows :

$$\frac{\text{Employee's pay rate}}{\text{Pay range midpoint}}$$

Comparatios are interpreted as follows : A comparatio of 1 means that the employee's pay rate equals the pay range midpoint. Companies with market match policies strive for comparatios that equal 1. A comparatios less than 1 means that the employee's pay rate falls below the competitive pay rate for the job. Companies with market lag policies strive for comparatios of less than 1. A comparatio that is greater than 1 means that an employee's pay rate exceeds the competitive pay rate for the job. Companies with market lead policies strive for comparatios of greater than 1.

3.8 CONSTRUCTING A PAY STRUCTURE

Q22. What are the steps involved in Constructing a Pay Structure?

Ans : (Imp.)

This is the fundamental step in designing of pay structure for employees. These are usually constructed by compensation specialist and are based on the following five steps,

1. Deciding Number of Pay Structures to be Constructed

This is the first step in construction of pay structures. Under this step, companies mostly set up more than one pay structure on the basis of market rates and the company's job structure. A company's pay structure consists of excluded and non-excluded, structures, pay structures based on job families and pay structures based on geography.

- (i) **Excluded and Non-excluded Pay Structures:** Excluded jobs also called as exempted jobs. These are not

subjected to the provision of the act of availing overtime pay and their basic pay is expressed as annual salary. Where as non-exempted or non-excluded pay structure are subjected to overtime salary provisions of the act. Accordingly, their basic pay is expressed an hourly pay rate classifies the exempted job as supervisory, professional, managerial and other executive jobs. Non-exempted jobs are usually non-supervisory in nature and duties performed by the employees under this will have a very narrow scope.

(ii) Pay Structures Based on Job Family: The job family consists of executives, managerial, professional, technical, clerical jobs. All these categories of jobs have different pay patterns in the market.

(iii) Pay Structures Based on Geography: As many firms are vastly geographically located and have many diversified markets, they have sales offices, manufacturing plants, service centers and business offices in different locations. These offices and centres decides the pay structure on the basis of the current market rates in different geographical locations as the local conditions influences the pay level.

2. Establish a Market Pay Line

A market pay line is a true reflector of market pay rates which are consistent with a company's job structure. Thus pay rates that correspond with the market pay line are market competitive pay rates which upon the company's choice of relevant labour market which also encourages internal performance as they gets enhanced with the value of the jobs

3. Defining Pay Grades

The pay grades form jobs for the purpose of pay policy application. These are grouped based on the familiar compensable factors and value. They are also determined by the company's management philosophy. Pay grades are of two types,

i) Wider pay grades and

ii) Narrower pay grades.

(i) Wider Pay Grades: These grades consists of large number of jobs and reduced hierarchy and social distance among the employees.

(ii) Narrower Pay Grades: These grades basically helps in promoting hierarchy and social distance and are opposite to wider pay grades.

The pay grades widths can be developed by HR professionals either as " Absolute" or as its percentage job evaluation point spreads.

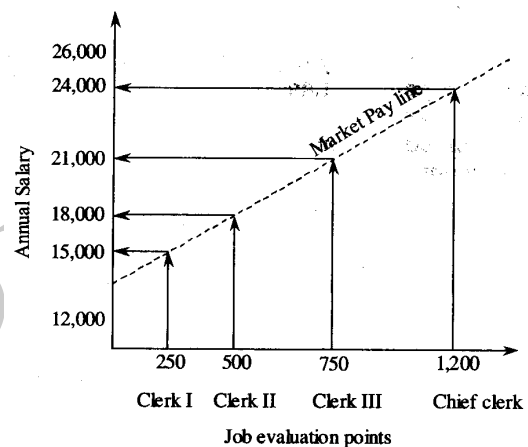


Figure: Pay Structure for Clerk Jobs

4. Calculating Pay Ranges for Each Pay Grade

Pay ranges are formed upon pay grades. Pay grades represents the horizontal dimensions (job evaluation points). The pay ranges depicts the vertical dimension (pay rates). Pay ranges comprises of midpoint, minimum and maximum pay rates, where in the minimum and maximum points denotes the acceptable lower and upper boundaries of pay for the jobs that fall under specific pay grades.

Midpoints are first formed by HR professionals, they initially set midpoints first followed by minimum and maximum values, the midpoints usually match with the values of market and represents competitive market rates. Midpoint values lies between the maximum range and the minimum range.

Hence, the midpoints reflects the average market or median while selling midpoints, the firms must keep in mind that which market line policy is to be followed, if the company desires to lead the market, then midpoints are set higher than the average for same type of jobs at other companies. In market match policy, midpoints should match the average market points, and in case of the firm wants to lag in the market, midpoints will be below the market average.

In order to calculate the pay grade minimum and maximum, the minimum and maximum points are set on the basis of range spread which is the difference between maximum and minimum pay rates of a given pay grade. It is expressed as a percentage of the difference between the minimum and maximum divided by the minimum.

In companies, newly hired employees are paid nearly a minimum pay range, it is the lowest pay rate that the company will offer for jobs within it, sometimes a company's spread between new hired employees or less qualified and more qualified job incumbents is small, this is called "pay compression". Company faces pay compression in two situations,

- (i) Inefficiency to increase the pay range minimums and maximums.
- (ii) Security of qualified individuals for jobs.

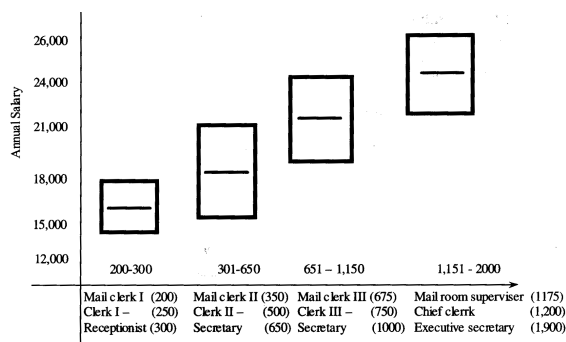


Figure: Pay Range Definitions

Pay compression can harm a company's competitive advantage, by dysfunctional turnover of voluntary termination of high performing employees.

- **Green Circle Pay Rates:** When employees are paid below minimum pay rates for their pay ranges it is called as green circle pay rates. Below minimum pay range rates are the green circle rates. These pay rates are brought to normal range as quickly as possible by both employer and the employee taking essential measures to cover deviation and eliminate the deficiencies in skill or experience that reduced the pay range to minimum.
- **Red Circle Pay Rates:** These are the pay rates in which the organization pays more than the maximum rate for the productive employees, was to retain such employees and restrict them from going to the competitor who offers good pay to the employees. Red circles are also applied in case of job demotions to offer more than the employees current job pay's.

5. Assessing the Outcomes

This is the last and final step in construction of pay structure. Here the compensation professionals analyze the important variations between the internal values for jobs and external market values for jobs, if the variations are found to be correct, then the company must revalue its internal values which they have set for the jobs.

If the firms valuation for jobs goes beyond i.e., (overvalued) than the market's value, than the company must decide whether paying higher than the market rate will weaken their ability to attain competitive advantage. And in case if the firm pays below the market rate i.e., (undervalued) then the managers must decide whether these differences will hinder the firms capability to recruit and retain qualified and hard working individuals.

Compa-ratios : It is an index which is the proportional of competitiveness of internal pay rates based on pay range midpoints compa-ratio are calculated as follows,

$$\text{Compa-Ratio} = \frac{\text{Employee's pay rate}}{\text{Pay range midpoint}}$$

Interpretation of Compa-Ratio

1. A compa-ratio of 1 means that the employee pay rate is equal to pay range mid point. (For example, market match companies have compa-ratio of equal to 1).
2. A compa-ratio < 1 represents that an employee pay rates is lower than the competitive pay rate for the job. (For example, market lag companies have compa-ratio of less than 1).
3. A compa-ratio > 1 means an employee pay rates is more than the competitive market rate. (For example, market lead companies have compa-ratio of more than 1).

Q23. Why are competency-based compensation, broadbanding and variable pay all related to changing strategies for compensating employees?

Ans :

The word compensation refers to all kinds of financial returns, tangible services and benefits which employees receive from their employer in their employment relationship.

Compensation motivates employees behaviour. Employee performance level increases, when they are rewarded in monetary terms. Today, in the competitive era, compensation strategies are acting as a tool to gain competitive advantages over its competitors. the following are the various compensating strategies for the employees,

- I. Competency-based compensation
- II. Broadbanding and
- III. Variable pay

I. Competency-based Compensation

In competency-based compensation system, employees are compensated on the basis of their competencies. People with good competencies usually result in superior performance.

Competencies refers to knowledge, skills and personal traits which helps the employees in performing effectively.

Competency-based pay systems are usually framed to compensate the top-level employees who are at the professional and managerial levels.

The "Compensable Factor Cube" which was developed by Richard I Henderson can be used for planning and designing a competency-based compensation system. The compensable factor cube consists of three dimensions i.e., knowledge, problem solving and decision making and each dimension/factor further consists of three subfactors. All these factors act as competencies which are to be compensated by the organization.

The compensable factor cube is shown in figure.

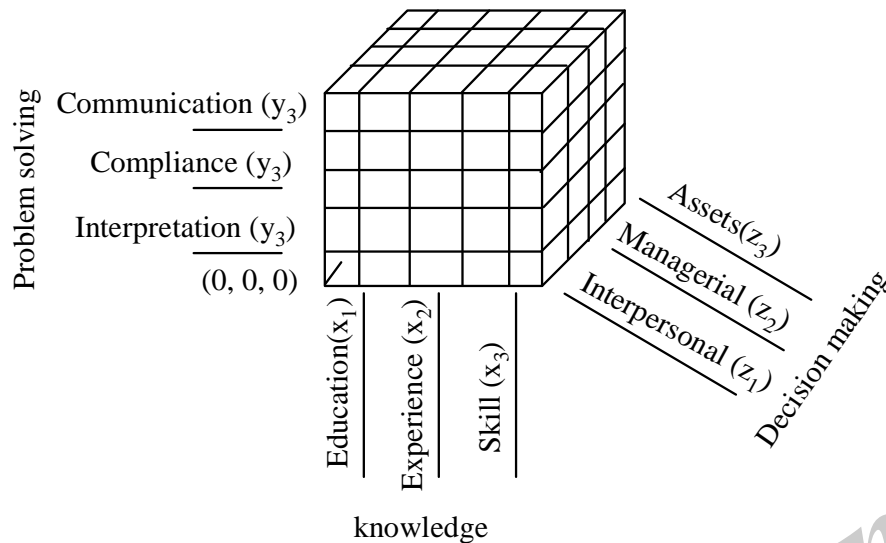


Figure : Compensable Factor Cube

1. Knowledge

Employees need to possess the ability to think and take up the activities required for completing the assigned task. Skills, experience and education are essential for acquiring the knowledge.

- (i) **Skills:** Skills refers to the alertness, accuracy and dexterity required in relation to the degree of complexity involved in accomplishing the assigned task.
- (ii) **Experience:** Experience comes from the direct participation or getting trained in using various equipments, materials, processes, technology or systems in completing the assigned task on time.
- (iii) **Education:** Education refers to the learning process in which an individual builds and develops certain capabilities which are required for taking up a particular task. For example, master's degree, Graduation degree, High school diploma, board of intermediate certificate, Doctorate etc.

2. Problem Solving

Problem solving refers to the process of applying knowledge in solving organizational related problems. Problems can be solved through interpretation, communication and compliance. Problem solving leads to attainment of higher performance levels.

- (i) **Interpretation:** Interpretation is the process of determining and evaluating action-oriented data.
- (ii) **Communication:** Communication is the process of conveying information through instructions, directions and recommendations. Effective communication not only helps the organization in optimum utilization of recommendations. Effective communication not only helps the organization in optimum utilization of resources but also helps them in maintaining proper coordination among various organizational resources.
- (iii) **Compliance:** It refers to the flow of important essential orders and commands from the top management which are required for implementing and coordinating the resources.

3. Decision Making

Decision making involves interactions. Intensity, scope and complexity of interactions are essential for making decisions to attain the desired performance levels. Basically, the subfactors in the decision making are classified as managerial, interpersonal and assets.

- (i) **Managerial:** It includes only the quantity but also the quality of supervision received from superior and provided to the subordinates.
- (ii) **Interpersonal:** It includes sympathy and capability to interact with other people effectively. Example of interpersonal interaction are training and development, counseling, teaching etc.
- (iii) **Assets:** Assets explains the extent of the responsibility towards human and non-human resources in terms of planning, controlling and performing a job.

II. Broadbanding

Broadbanding is defined as bringing together the jobs of significant difference or worth or value within one band. This type of grouping may reason, the complexity level involved and skills and knowledge required for performing the jobs also varies. In broadbanding strategy, all such types of jobs are combined into one group known as banding. The pay scale for broadbands may range from lowest pay rate to highest pay rate. People who are placed at the lower positions where minimum skills and knowledge is required and where complexity levels are also low will be paid less when compared to the people placed at higher positions. The complexity levels and the levels of knowledge and skills required are higher in case of high level positions.

Broadbanding strategy is mostly suitable to those organizations who focus upon encouraging teams and team's efforts. Through broadbanding method, supervisors are given authority to decide or increase the pay scale of his/her subordinate.

Two Tier Pay Structure

The organization which uses two tier pay structure will have different pay structures for rewarding long serving employee and for rewarding newly hired employees.

A newly hired employee is paid less when compared to an experienced employee. In the temporary basis the employee have the chances of progressing from entry level low pay rates to the higher pay experienced by long serving employees.

This type of pay structure is commonly used in the unionized companies. This pay structure helps the organizations to reduce the compensation cost and limit layoffs of employees. This also helps in promoting good industrial relations.

The following table is an example of two tier pay structure of manufacturing firm.

Job Classification	Schedule A	Schedule B
Supervisor	Rs. 50	Rs. 75
Technicians	Rs. 25	Rs. 35
Machine operators	Rs. 20	Rs. 30
Labourers	Rs. 10	Rs. 15

Although the two tier pay structure provides many advantages to the firm, it also have the certain limitations which are as follows.

- (a) The organization may not be able to recruit and retain talented and highly qualified workers due to the lesser pay scale for newly joined employees.
- (b) There can be a conflict between the upper tier and lower tier employees in the firm due to differentiated pay scales which may in turn affect the productivity of the firm.
- (c) Employees who have lower pay structure will have low morale and will lead to high turnover.

III. Variable Pay

Variable pay is also called as pay for performance or contingent pay. In variable pay system, an employee is paid on the grounds of his/her total performance. Performance here is inclusive of the sum of individual performance, business unit performance and organizational performance. Variable pay system aims at giving tangible rewards to the employees who performs more than their ability. Variable pay system was traditionally known as the incentive pay system. Variable pay system is of three types i.e., individual, group and organization wide.

(i) Individual

Individual variable pay plans are used to reward the individual performances. The various types of means used for rewarding individual performances are bonuses, safety awards, piece rate system, sales commissions, attendance bonus, special recognitions like trips, merchandise etc.

(ii) Team/Group

In this type of variable pay plan, individuals are rewarded on the basis of group or team performance. Quality improvement, cost minimization and gainsharing are the ways of rewarding the group performance.

(iii) Organization

In this type of variable pay plan, individuals are rewarded on the basis of the overall organizational performance. Employee stock options, deferred compensation, profit sharing and executive stock options are the basic means which are used to reward the individuals.

Thus, all the strategies like competency-based compensation, broadbanding and variable pay are related to changing strategies for compensating employees.

3.9 DESIGNING PAY FOR KNOWLEDGE PROGRAM
Q24. Write about Designing Pay for Knowledge Program?

Ans :

Pay-for-knowledge programs reward employees for the acquisition of job-related knowledge (or skills, in the case of skill-based pay plans). In practice, companies are concerned with how much employees' performance improve as a result of their newly acquired knowledge.

A fundamental issue in pay-for-knowledge programs is whether investments in training provide measurable payoffs to companies.

1. Establishing Skill Blocks

Skill (knowledge) blocks are sets of skills (knowledge) necessary to perform a specific job (for example, typing skills versus analytical reasoning) or group of similar jobs (for example, junior accounting clerk, intermediate accounting clerk, and senior accounting).

The number of skill blocks included in a pay-for-knowledge structure can range from two to several. Current plans average about 10 skill blocks. The appropriate number of blocks depends on the variety of jobs within a company. The development of skill blocks should occur with three considerations in mind.

2. Job Description

The first consideration a company must look for is job description. It should be treated as design or plan for development of pay for knowledge system. Well designed job description must help in identification of necessary skill. The training programs required by the employees to gain horizontal and vertical skills, and correct measures of performance.

3. Organizing Jobs into Job Families

Single jobs must be organized single into job families or a group of identical jobs such as clerical, technical and accounting the information revealed from a particular job must guide the plan designers to identify skills which are common to all jobs within a job family and the skills which are unique for individual jobs in the family all these leads to identification of the skills required to complete the task.

3. Blocks

Blocks are formed by grouping skills, the general principle followed by the pay professionals is that the group of skills should correlate with specific jobs and duties.

Q25. What are the factors that influence a pay for knowledge program.

Ans :

Factors that Influence a Pay for Knowledge Program

1. Skills Assessment

The skills assessment issue centers on who should assess whether employees possess skills at levels that justify a pay raise, on what basis assessments should be made, and when assessments should be conducted. Gaining employee trust is critical during the transition period, because employees may view new systems as threats to job security. Therefore, some combination of peer and self-assessments, as well as input from known "experts" such as supervisors, may be essential.

A final assessment matter concerns timing. During transition phases, managers should assess employees' performances more frequently to keep employees informed of how well they are doing under the new system.

2. Aligning Pay with the Knowledge Structure

One of the most difficult tasks that managers face as they guide employees toward a pay-for-knowledge system is aligning pay with the knowledge structure. Upon implementation of pay for knowledge, employees' core compensation must reflect the knowledge or skills they have that the company incorporates into its pay-for-knowledge structure.

If employees' actual earnings are more than the pay-of-knowledge system indicates, managers must develop a reasonable course of action so that employees can acquire skills that are commensurate with their current pay. If employees are underpaid, the company must provide pay adjustments as quickly as possible.

3. Access to Training

A final transition matter is access to training. Pay-for-knowledge systems make training

necessary, rather than optional, for those employees who are motivated for self-improvement. Accordingly, companies that adopt pay for knowledge must ensure that all employees have equal access to the needed training for acquiring higher-level skills. They must do so not only to meet the intended aim of pay-for knowledge programs – to reward employees for enhancing their skills – but also to address legal imperatives.

Training and Certification

Successful pay-for-knowledge programs depend on a company's ability to develop and implement systematic training programs. Intense domestic and global competition, rapid technological advancement, and educational deficits of new workforce entrants– progressive companies in the United States have adopted a continuous learning philosophy, which, like pay for knowledge, encourages employees to take responsibility for enhancing their skills and knowledge. Clearly, training represents a key venue for continuous learning.

Short Question and Answers

1. External Equity

Ans :

External equity refers to the process wherein same wages are paid to the employees for the same jobs in comparison with the other external organizations. The wage structure helps in attracting and retaining good and efficient employees. So, it is very important for a firm to create such a wage structure which compares the internal wage structure with the external wage system. Such type of comparison helps in creating external equity in the firm.

In order to make sure that the external equity is maintained in an organization, the management should conduct and analyse wage surveys on timely-basis wage and salary information should be collected as it helps in providing assistance to the management in developing the organizational pay strategy.

Even though conducting wage/pay surveys is a hectic time-consuming and costly task for the firms. But still it helps in attracting and retaining good and efficient employees, identifying the pay trends in the market and defending pay practices in a court of law. The data for the survey can be collected through questionnaires, face to face interview, group conferences, telephone and internet.

Hence, the wage/pay survey helps in maintaining the external equity in an organization.

2. Job Analysis

Ans :

Manpower planning is concerned with determination of quantitative and qualitative requirements of manpower for the organization.

The quantitative aspect deals with determining the total number of people required to do the work. The kind or quality of people required to do the work comes under the qualitative aspect. Detailed knowledge of the nature and requirements of jobs to be filled is essential for determining the kind of personnel required. Such knowledge can be obtained through the process of job analysis.

Job analysis is a formal and detailed examination of jobs. It is a process of gathering information about a job. It tries to "reduce to words the things that people do in human work."

Job-analysis is a detailed and systematic study of jobs to know the nature and characteristics of the people to be employed on various jobs. It involves collection of necessary facts regarding jobs and their analysis. Some of the definitions of job-analysis are given here under to understand the meaning of the term more clearly.

Definitions

- (i) **According to Edwin B. Flippo**, "Job analysis is the process of studying and collecting information relating to the operations and responsibilities of specific job".
- (ii) **According to Michael J. Jucius**, "Job analysis refers to the process of gathering information about the operations, duties and organizational aspect of jobs in order to write-up specifications or as they are called by some job descriptions".
- (iii) **According to Donald**, "Job analysis is a method of scientifically dissecting a job in order to determine the component elements and their influence upon the length of learning period of the worker, production and labor turnover".
- (iv) **According to Dale Yoder**, "Job analysis is the procedure by which the facts with respect to each job are systematically, discovered and noted. It is sometimes called 'Job study' suggesting the care with which tasks, processes, responsibilities and personnel requirements are investigated".

3. Questionnaire

Ans :

This is widely used method. A questionnaire is prepare and given to employees and manages to complete.

The questionnaire covers the following aspects:

- duties
- supervision
- decisions
- contact with other people
- working conditional
- job holder characteristics (knowledge, skills, abilities, training needed)

Aspects

Job Analysis should collect information on the following areas :

- **Duties and Tasks:** The basic unit of a job is the performance of specific tasks and duties. Information to be collected about these items may include: frequency, duration, effort, skill, complexity, equipment, standards, etc.
- **Environment:** This may have a significant impact on the physical requirements to be able to perform a job. The work environment may include unpleasant conditions such as offensive odors and temperature extremes. There may also be definite risks to the incumbent such as noxious fumes, radioactive substances, hostile and aggressive people, and dangerous explosives.
- **Tools and Equipment:** Some duties and tasks are performed using specific equipment and tools. Equipment may include protective clothing. These items need to be specified in a Job Analysis.
- **Relationships:** Supervision given and received. Relationships with internal or external people.
- **Requirements:** The knowledges, skills, and abilities (KSA's) required to perform the job. While an incumbent may have higher KSA's than those required for the job, a Job Analysis typically only states the minimum requirements to perform the job.

4. Job Evaluation.

Ans :

Job evaluation is the rating of jobs in an organization. This is the process establishing the value or worth of jobs in a job hierarchy and compares the relative intrinsic value or worth of jobs within an organization. Scott, Clothier and Priegel defines job evaluation as "the operation of evaluating a particular job in relation to other jobs either within or outside the organization".

Dale Yoder described job evaluation as "a practice which seeks to provide a degree of objectivity in measuring the comparative value of jobs within an organization and among similar organizations".

Edwin B.Flippo defines job evaluation as "a systematic and orderly process of determining the worth of a job in relation to other jobs".

5. Objectives of Job Evaluation

Ans :

The main objective of job evaluation is to ensure equitable remuneration for relative worth of a job. As per the ILO Report, the aim of the majority of systems of job evaluation is to establish, on agreed logical basis, the relative values of different jobs in a given plant or machinery, i.e., it aims at determining the relative worth of a job. The principle upon which all job evaluation schemes are based is that of describing and assessing the value of all jobs in the firms in terms of a number of factors, the relative importance of which varies from job to job".

The objectives of job evaluation, to put in a more systematic manner are to :

- Establish a standard procedure for determining the relative worth of each job in an organization;
- Ensure equitable wage for a job and reasonable wage differentials between different jobs in a hierarchical organization;
- Determine the rate of pay for each job which is fair and equitable with relation to other jobs in the plant, community or industry;
- Eliminate wage inequalities;

- Use as a basis for fixing incentives and different bonus plans;
- Promote a fair and accurate consideration of all employees for advancement and transfer;
- Provide information for work organization, employees' selection, placement, training and other similar purposes;
- Provide a benchmark for making career planning for the employees in the organization and;
- Ensure that like wages are paid to all qualified employees for like work.

6. Grading Method

Ans :

Grading method is also known as 'classification method'. This method of job evaluation was made popular by the U.S. Civil Service Commission. Under this method, job grades or classes are established by an authorised body or committee appointed for this purpose. A job grade is defined as a group of different jobs of similar difficulty or requiring similar skills to perform them. Job grades are determined on the basis of information derived from job analysis.

The grades or classes are created by identifying some common denominator such as skills, knowledge and responsibilities. The example of job grades may include, depending on the type of jobs the organisation offers, skilled, unskilled, account clerk, clerk-cum-typist, steno typist, office superintendent, laboratory assistant and so on.

Once the grades are established, each job is then placed into its appropriate grade or class depending on how well its characteristics fit in a grade. In this way, a series of job grades is created. Then, different wage/salary rate is fixed for each grade.

7. Factor Comparison Method

Ans :

This method is a combination of both ranking and point methods in the sense that it rates jobs by comparing them and makes analysis by breaking jobs into compensable factors. This system is usually used to evaluate white collar, professional and managerial positions.

The mechanism for evaluating jobs under this method involves the following steps:

- (i) First of all, the key or benchmark jobs are selected as standards. The key jobs selected should have standards contents, well accepted pay rates in the community, and should consist of a representative cross-section of all jobs that are being evaluated—from the lowest to the highest paid job, from the most important to the least important—and cover the full range of requirements of each factor, as agreed upon by a Committee representing workers and management.
- (ii) The factors common to all jobs are identified, selected and defined precisely. The common factors to all jobs are usually five, viz., mental requirements, physical requirements, skill requirements, working conditions and responsibility.

8. Compensation professionals

Ans :

Compensation professionals must strike a balance between managing costs and attracting and retaining the best-qualified employees. Ultimately, top management makes compensation policy decisions after careful consideration of compensation professionals' interpretation of the data.

Merits of Market Competitive Compensation System.

- (i) Market competitive compensation systems plays a very important role in attracting and retaining the well qualified employees.
- (ii) Market competitive compensation system helps the firm in attaining the competitive advantage over its rivals.
- (iii) The compensation surveys helps the market competitive compensation system in making effective decisions as how much is to be paid to the employees and also helps in determining what the other organizations are paying to their employees.

- (iv) The compensation surveys acts as a benchmark for deciding the pay of the employees and appointing highly qualified employees in the firm.
- (v) The compensation surveys helps the firm in gaining competitive advantages in the market by collecting information of basic pay levels, incentive payment, discretionary and fringe benefits of the other firm.

9. Compensation Survey

Ans :

Market Competitive pay system plays a significant role in attracting and retaining the most qualified employees. Compensation professionals build market-competitive compensation systems based on the results of strategic analyses and compensation surveys.

Compensation survey collects and then analyzes competitors' compensation data. They are focused on competitor's wage and salary practices. Now, fringe compensation is also a target of surveys because benefits are a key element of market competitive pay systems. They are important because they enable compensation professionals to obtain realistic views of competitor's pay practices. In the absence of compensation survey data, the compensation professional would have to use guesswork to build market-competitive compensation systems.

10. Competency-based Compensation

Ans :

In competency-based compensation system, employees are compensated on the basis of their competencies. People with good competencies usually result in superior performance.

Competencies refers to knowledge, skills and personal traits which helps the employees in performing effectively.

Competency-based pay systems are usually framed to compensate the top-level employees who are at the professional and managerial levels.

The "Compensable Factor Cube" which was developed by Richard I Henderson can be used for

planning and designing a competency-based compensation system. The compensable factor cube consists of three dimensions i.e., knowledge, problem solving and decision making and each dimension/factor further consists of three subfactors. All these factors act as competencies which are to be compensated by the organization.

11. Broadbanding

Ans :

Broadbanding is defined as bringing together the jobs of significant difference or worth or value within one band. This type of grouping may reason, the complexity level involved and skills and knowledge required for performing the jobs also varies. In broadbanding strategy, all such types of jobs are combined into one group known as banding. The pay scale for broadbands may range from lowest pay rate to highest pay rate. People who are placed at the lower positions where minimum skills and knowledge is required and where complexity levels are also low will be paid less when compared to the people placed at higher positions. The complexity levels and the levels of knowledge and skills required are higher in case of high level positions.

Broadbanding strategy is mostly suitable to those organizations who focus upon encouraging teams and team's efforts. Through broadbanding method, supervisors are given authority to decide or increase the pay scale of his/her subordinate.

Choose the Correct Answer

1. _____ is the process which converts the job price into a monetary award to the employee who is performing or will perform in the future. [a]
(a) Individual factor (b) Organizational factor
(c) Competitive factor (d) Product cost factor
2. According to Boston consulting group, job analysis is conducted to collect. [b]
(a) Performance standards (b) Job content
(c) Performance review (d) Human psychology
3. Fringe compensation is a part of, [a]
(a) Compensation survey
(b) Compensation survey data
(c) Published compensation survey data
(d) Labour market
4. The following equation model helps in prediction of market rates. [a]
(a) $y = 1 + bx$ (b) $y = a + bx$
(c) $y = a + b(x)$ (d) $y = a \times b(x)$
5. In this type a policy, organizations pay higher than that of their competitors. [c]
(a) Market lead policy (b) Market lag policy
(c) Market match policy (d) Market lead and lag policy
6. Merit pay system is widely used in, [a]
(a) India (b) Germany
(c) USA (d) England
7. Pay ranges are formed on the basis of. [c]
(a) Pay line (b) Pay grades
(c) Pay structure (d) Pay rates
8. _____ methods include work samples, oral questioning and written test. [c]
(a) Certification (b) Recertification
(c) Time-lines (d) Expertise
9. Thumbnail sketches are used in, [a]
(a) Obtaining data (b) Training
(c) Determining pay (d) Compensation survey
10. _____ is a job-content valuation technique that uses quantitative methodology. [a]
(a) Factor method (b) Compensable factor
(c) Point method (d) Simple ranking method

Fill in the Blanks

1. The relative value of each job among all jobs within a company is defined through _____.
2. _____ helps in the determination of a selection and recruitment.
3. Internal equity refers to _____ for similar jobs in any organization.
4. _____ is the compensation system or policy that fits the competitive advantage of the organization.
5. _____ is the technique which identifies the best fitting line between two variables.
6. _____ decides pay structure for employers according to market pay line.
7. When employees are paid below minimum pay rates for their pay ranges it is called as _____.
8. Compa-ratio = _____.
9. _____ are determined using pay grades that fall within the maximum and minimum pay ranges for respective pay levels of the employees.
10. _____ is done by retraining of employees.

ANSWERS

1. Internally consistent compensation systems
2. Job analysis
3. Equal compensation
4. Market competitive compensation system
5. Regression analysis
6. Market match policy
7. Green circle pay rates
8. $\text{Compa-ratio} = \frac{\text{Employee's pay rate}}{\text{Pay range midpoint}}$
9. Merit pays
10. Recertification.

UNIT IV

EMPLOYEE BENEFITS MANAGEMENT

Components - Legally required Benefits – Benefits Administration – Employee Benefits and Employee Services – Components of Discretionary Core Fringe Compensation - Designing and Planning Benefit Program – Totally Integrated Employee Benefit Program.

4.1 EMPLOYEE BENEFITS MANAGEMENT

Q1. What is Employee Benefits?

Ans :

Meaning

Employee benefits typically refers to retirement plans, health life insurance, life insurance, disability insurance, vacation, employee stock ownership plans, etc. Benefits are increasingly expensive for businesses to provide to employees, so the range and options of benefits are changing rapidly to include, for example, flexible benefit plans. Compensation includes topics in regard to wage and/or salary programs and structures, for example, salary ranges for job descriptions, merit-based programs, bonus-based programs, commission-based programs, etc.

Employee benefits play an increasingly important role in the lives of employees and their families, and have a significant financial and administrative impact on a business. Most companies operate in an environment in which an educated work force has come to expect a comprehensive benefits program. Indeed, the absence of a program or an inadequate program can seriously hinder a company's ability to attract and keep good personnel. Employers must be aware of these issues and be ready to make informed decisions when they select employee benefits.

Employee benefits are that part of the total compensation package, other than pay for time worked, provided to employees in whole or in part by employer payments. E.g. Life insurance, pension, worker's compensation, vacation.

Employee benefits also called fringe benefits, perquisites, perqs or perks are various non-wage compensations provided to employees in addition to their normal wages or salaries. Where an employee exchanges (cash) wages for some other form of benefit, this is generally referred to as a 'salary sacrifice' arrangement. In most countries, most kinds of employee benefits are taxable to at least some degree.

Fringe benefits can include, but are not limited to: (employer-provided or employer-paid) housing, group insurance (health, dental, life etc.), disability income protection, retirement benefits, daycare, tuition reimbursement, sick leave, vacation (paid and non-paid), social security, profit sharing, funding of education, and other specialized benefits.

The purpose of the benefits is to increase the economic security of employees. The term perqs or perks is often used colloquially to refer to those benefits of a more discretionary nature. Often, perks are given to employees who are doing notably well and/or have seniority. Common perks are company cars, hotel stays, free refreshments, leisure activities on work time (golf, etc.), stationery, allowances for lunch, and - when multiple choices exist - first choice of such things as job assignments and vacation scheduling. They may also be given first chance at job promotions when vacancies exist.

Q2. What are advantages and disadvantages of employee benefits. Explain the reasons to offer Employee Benefits.

Ans :

(Imp.)

Advantages

There are a number of advantages to employee benefits for both employer and employee.

1. Employer Advantages

- Helps attract and retain better qualified employees.
- Provides high risk coverage at low costs easing the company's financial burden.
- Improves efficiency and productivity as employees are assured of security for themselves and their families.
- Premiums are tax deductible as corporation expense, which means savings with quality coverage.

2. Employee Advantages

- Peace of mind leading to better productivity as employees are assured of provision for themselves and families in any mishap.
- Employees with personal life insurance enjoy additional protection.
- Confidence in company's EB schemes boost staff morale and pride in company.

Disadvantages

In the UK these benefits are often taxed at the individual's normal tax rate, which can prove expensive if there is no financial advantage to the individual from the benefit.

Reasons

The following are the reasons why employers offer benefits to their employees :

- To attract and hold capable people.
- To keep up with competition.
- To foster good morale.
- To keep employment channels open by providing opportunities for advancement and promotion as older workers retire.

A combination of benefits programs is the most effective and efficient means of meeting economic security needs. For many employers, a benefit plan is an integral part of total compensation, because employers either pay the entire cost of a benefit plan or have employees contribute a small portion of premium costs for their coverage.

Q3. Write about the need of compensation management employees in an organization.

Ans :

Need for Extending Benefits to Employees

Employee benefit programmes are necessary as they help to:

1. Enable employees to guard against rising prices and cost of living.
2. Avail of the most cost-effective compensation plan (from employers point of view).
3. Attract and retain employees.
4. Encash the opportunities of tax saving (wherever possible).
5. Demonstrate employers' concern for employees.
6. Meet the legal requirements of compensation and welfare of employees.
7. Accede to the demands of trade unions.

Q4. What benefits and services are most important to today's increasing diverse workforce?

(OR)

What are the different types of Employee Benefits?

Ans :

(Imp.)

The common types of benefits that may be offered by employers are:

- a) Medical benefits
- b) Retirement benefits
- c) Disability benefits
- d) Life insurance
- e) Paid Time Off
- f) Fringe benefits

a) Medical Benefits

Medical benefits cover the costs of surgeon and physician fees, hospital rooms, and pharmaceuticals. Dental and optical care is not included, but might be offered as part of an overall benefits package. Coverage can

be extended to the employee's family (dependents). Part-time workers are rarely offered family coverage.

b) Retirement Benefits

Retirement benefits are funds set aside to provide people with an income or pension when they end their careers.

Retirement plans fit into two general categories: defined benefit and defined contribution. In defined benefit plans, sometimes called pension plans, the benefit amount is pre-determined typically on the basis of salary and years of service. In these plans the employer bears the risk of the investment. In defined contribution plans (e.g., 401k) employer or employee contributions are specified, but the benefit amount is usually tied to investment returns, which are not guaranteed.

c) Disability Benefits

Disability benefits assist with income replacement when workers are unable to perform their jobs because of illness or injury. This benefit is not commonly offered. The two main types of disability insurance are short-term and long-term:

Short-term disability insurance begins right away or within a few weeks of an accident, illness or some other disability. For example, someone hurt in a car accident would be offered a few paid weeks to recover.

Long-term disability insurance provides benefits to an employee when a long-term or permanent illness, injury, or disability renders the individual unable to perform her/his job duties. For example, an employee with spinal injuries could be entitled to long-term disability benefits until retirement age.

d) Life Insurance

Life insurance provides financial support to a beneficiary after an employee's death. Insurance benefits are paid all at once to the designated beneficiaries of the policy - usually relatives such as a spouse or children. This benefit will be very important to your loved ones if the unexpected occurs.

Life insurance can be either privately purchased in the marketplace (usually for a large sum) or received through an employer at a much lower cost if your employer sponsors a group plan. Company-sponsored life insurance plans are standard for almost all full-time workers in medium and large firms across the country.

e) Paid Time Off

Paid Time Off (also referred to as PTO) is earned by employees while they work. The three common types of paid time off are holidays, sick leave, and vacation leave.

In the majority of cases paid leave is allocated by separate classifications such as vacation, sick leave, and paid holidays. In a few cases employers offer Consolidated PTO, which combines sick leave and vacation into one account for the employee to use as needed.

f) Fringe Benefits

Fringe benefits include a wide variety of non-cash payments, such as tuition assistance, flexible medical or child care spending accounts (pre-tax accounts to pay qualified expenses), other child care benefits, and non-production bonuses (bonuses not tied to performance). Direct cash payments or stock options were not included in the survey.

With the looming prospect of skill shortages in some occupations, fringe benefits are increasingly being used to attract and retain talented employees. Tuition reimbursement is an especially important benefit if you plan to pursue a degree in your evening or weekend hours. It can represent a unique opportunity to advance in your career. Most firms offering it, however, require that courses relate to job duties.

4.2 COMPONENTS OF BENEFIT PLAN

Q5. Explain the factors the influence the benefit choice from employer to another employer.

(OR)

What are the Components of a Benefit Plan?

Ans :

(Imp.)

The various factors that influence the benefit choice from the both the employer's and the employee's perspective is

a) Employer Factors

- i) Relationship to total compensation costs
- ii) Costs relative to benefits
- iii) Competitor offerings
- iv) Role of benefits in
 - Attraction
 - Retention
 - Motivation
 - Legal requirements

b) Employee Factors

- i) Equity: fairness historically and in relationship to what others receive.
- ii) Personal needs as linked to
 - Age
 - Sex
 - Marital status
 - Number of dependents

➤ **Relationship to Total Compensation Costs**

A good compensation manager considers employee benefit costs as part of a total package of compensation costs. Frequently employees think that just because an employee benefit is attractive, the company should provide it. A good compensation manager thinks somewhat differently : "Is there a better use for this money? Could we put the money into some other compensation component and achieve better results?" benefits costs are only one part of a total compensation package. Decisions about outlays have to be considered from this perspective.

➤ **Costs Relative to Benefits**

A major reason for the proliferating cost of benefit programs is the narrow focus of benefit administrators. Too frequently costs of a particular benefit inclusion are viewed in isolation, without reference to total package costs or forecasts of rising costs in future years. Benefit managers negotiated or provided benefits on a package basis rather than a cost basis. The current cost of a benefit would be

identified, and if the cost seemed reasonable, the benefit would be provided for or negotiated with employees. This failed to recognise that rising costs of this benefit were expected to be born by the employer.

A cost-centered approach would require that benefit administrators, in cooperation with insurance carriers and armed with published forecasts of anticipated costs for particular benefits, determine the cost commitments for the existing benefit package. Budget dollars not already earmarked may then be allocated to new benefits that best satisfy organizational goals.

➤ **Competitor Offerings**

Benefits must be externally equitable too. A policy decision must be made about the position the organisation wants to maintain in its absolute level of benefits relative to the competition. One of the best strategies for determining external equity is to conduct a benefit survey. Many consulting organisations, professional associations and interest groups collect benefit data that can be purchased.

Q6. An organization could not attract competent employees today without a competitive benefit program. Do you agree or disagree?

Ans :

Given the rapid growth in benefit and the staggering cost implications, it seems only logical that employers would expect to derive a fair return on this investment. Employee benefits are widely claimed to help in the retention of workers. Benefit schedules are specifically designed to favour longer-term employees. There is also some research to support this common assumption that benefits increase retention. Virtually no other employee benefit had a significant impact on turnover. Employee benefits also might be valued if we could prove they increase employee satisfaction.

From compensation point of view, the organization still pays differently for different job families, but when other incentives are included then the marketing managers get higher pay. Thus, it can be summarized that there does not exist any single

"going mix" a single "going rate" for paying the employee and the organizations design a competitive benefit program to attract and retain the employees.

Legal Requirements

Employers obviously want a benefit package that complies with all aspects of the law. The various legal benefits are

- a) **Family Medical Leave Act** : Mandates 12 weeks of leave for all workers at companies that employ 50 or more people.
- b) **Health Maintenance Act 1973** : Required employers to offer alternative health coverage options to employees.
- c) **Far Labour Standards Act, 1938** : Created time-and-a-half overtime pay. Benefits linked to pay increase correspondingly with those overtime hours.

Absolute and Relative Compensation Costs

Any evaluation of employee benefits must be placed in the context of total compensation cost. Cost competitiveness means the total package must be competitive – not just specific segments. Decisions on whether to adopt certain options must be considered in light of the impact on total costs and in relationship to expenditures of competitors.

Employee Preferences

Employee preferences for various benefit options are determined by individual needs. The benefits perceived to best satisfy individual needs are the most highly desired. In part these needs arise out of feelings of perceived equity or inequity.

Equity

Benefits obtained by a unionized competitor or a unionized segment of the firm's work force are frequently passed along to nonunion employees. While the effectiveness of this strategy in thwarting unionization efforts has not been demonstrated, many nonunion firms would prefer to provide the benefit as a safety measure.

Personal needs of Employees

Employee preferences can be looked at demographic differences. The demographic approach assumes that demographic groups can be identified for which benefit preferences are fairly consistent across members of the group. It assumes that meaningful differences exist between groups in terms of benefits preferences.

Among the benefits available, health/medical and stock plans are highly preferred benefits, while such options as early retirement, profit sharing, shorter hours and counseling service rank among the least preferred options. Beyond these conclusions, most preference studies have shown wide variation in individuals with respect to benefits desired.

The weakness of this demographic approach has led some organisations to undertake a second and more expensive empirical method of determining employee preference surveying individuals about needs.

The empirical method of identifying individual employee preferences is commonly known as a flexible benefit plan also called a cafeteria-style plan or a supermarket plan. Employees are allotted a fixed amount of money and permitted to spend that amount in the purchase of benefit options.

Q7. Discuss the importance of fringe benefits or employee benefits as a competent of wages & salaries.

Ans :

Most organizations have been providing fringe benefits or employee to their employees, year after year, due to reasons such as employee demands, employer's preference, social security, etc.

1. Employee Demands

Employees demand more and varied types of fringe benefits rather than pay hikes because they want a reduction in tax burden, and also because of the rising price index and cost of living.

2. Trade Union Demands

Trade unions compete with each other to get more benefits, such as life insurance, beauty clinics, etc. If one union succeeds in getting a benefit, the other union persuades the management to provide a similar or new benefit. Thus, the competition among trade unions within an organization results in more and varied benefits.

3. Employer's Preference

Employers prefer fringe benefits to pay hikes, as fringe benefits motivate employees to contribute to the organization. They improve morale and work as an effective advertisement.

4. Social Security

It is a security that society furnishes through appropriate organizations to protect members against certain risks. These risks may include contingencies of life, accidents, and occupational diseases.

5. Human Relations

Human relations are maintained when employees are satisfied economically, socially, and psychologically.

Fringe benefits satisfy the worker's economic, social and psychological needs. Consumer stores, credit facilities, canteen, recreational facilities, etc. satisfy worker's social needs, whereas retirement benefits help during post retirement life. However, most benefits minimize the economic problems of the employee.

maintain family income streams, and assist families in crisis. The cost of legally required benefits to employers is quite high.

For example, employers must provide workers' compensation insurance, which pays the medical bills for job-related injuries and provides an income for employees who become disabled because of a job-related injury. Social Security must be paid by the employer (in addition to the amounts deducted from employee's pay) to help meet employees' retirement needs, and employers must pay for unemployment insurance to compensate workers in the event that their job is eliminated.

The Family and Medical Leave Act, passed by Congress in 1993, requires large employers to provide workers with unpaid leave for family or medical emergencies (up to 12 weeks of unpaid, job-protected leave per year). Under this law, employees are guaranteed that they can return to the same or a comparable position and that their health care coverage will be continued during the leave.

These benefits provided a form of social insurance. Prompted largely by the rapid growth of industrialization in the US in the early 19th century and the Great Depression of the 1930s, initial social insurance programs were designed to minimize the possibility that individuals who became unemployed or severely injured while working would become destitute. Social insurance programs aimed to stabilize the well-being of dependent family members were designed to enable retirees to maintain subsistence income levels. These intents of legally required benefits remain intact today.

4.3 LEGALLY REQUIRED BENEFITS

Q8. Discuss the legal system for employee benefits.

(OR)

What are the Legally Requirement Benefits ? Explain their types.

Ans :

(Imp.)

While some benefits are offered as incentives to attract workers, some are legally required. Legally required benefits are protection programs that attempt to promote worker safety and health,

Types

The various legally required benefits are :

1. Social Security
2. Unemployment Insurance
3. Workers' Compensation Insurance
4. Optional Employee Benefits
 - a) Health Insurance
 - b) Long-Term Disability (Ltd.) Insurance
 - c) Pensions
 - d) Life Insurance

1. Social Security

The Social Security Act of 1935, as amended, provides monthly benefits to retired workers who are at least 62 years of age, disabled workers, and their eligible spouses and dependents. Social Security is financed by contributions made by the employee and matched by the employer, computed as a percentage of the employee's earnings. As of 2005, the combined contribution of employer and employee for retirement, survivors', and disability benefits was 12.4 percent of the first \$90,000 of employee income. Monthly benefits are based on a worker's earnings, which are adjusted to account for wage inflation.

The Social Security Act also provides Medicare health insurance coverage for anyone who is entitled to retirement benefits. Medicare is funded by a tax paid by the employer and employee. The tax rate for Medicare is a combined 2.9 percent of the employee's total wage or salary income.

2. Unemployment Insurance

Unemployment compensation provides income to unemployed individuals who lose a job through no fault of their own. Eligible workers receive weekly stipends for 26 weeks. The specific amount of the stipend is determined by the wages the claimant was paid during the previous year. Unemployment compensation laws in most states disqualify workers from receiving benefits under the following conditions:

- a) Quitting one's job without good cause. Workers who voluntarily quit their jobs are not eligible for unemployment compensation unless they can show good cause for quitting. Good cause exists only when the worker is faced with circumstances so compelling as to leave no reasonable alternative.
- b) Being discharged for misconduct connected with work. If employees are discharged for misconduct, they are not eligible for unemployment, unless they can show that the discharge was unfair. To ensure fair discharges, employers should make employees aware of work rules through employee handbooks, posting of rules, and job descriptions. Employers must also

provide workers with adequate warnings prior to discharge (unless a serious violation, such as stealing, has occurred).

- c) Refusing suitable work while unemployed. Eligibility for unemployment compensation is revoked if an employee refuses suitable work while unemployed. Individuals must actively seek work and make the required number of search contacts each week. Benefits are terminated if the claimant refuses a bona fide job offer or job referral.

3. Workers' Compensation Insurance

Millions of workers are hurt or become sick for job-related reasons each year. All 50 states have workers compensation insurance laws that are designed to provide financial protection for such individuals. Specifically, these laws require the creation of a no-fault insurance system, paid for by employers. When workers suffer job-related injuries or illnesses, the insurance system provides compensation for medical expenses; lost wages from the time of injury until their return to the job (employees are given a percentage of their income, the size of which varies from state to state); and death (paid to family members), dismemberment, or permanent disability resulting from job-related injuries.

4. Optional Employee Benefits

Other employee benefits are quite common. Some of the more significant optional benefits are summarized below.

- a) **Health Insurance :** Basic health-care plans cover hospitalization, physician care, and surgery. Traditional fee-for-service health care coverage became increasingly expensive in the late twentieth century. As a result, many U.S. companies adopted "managed care" health care plans. In general, managed care plans cut health care costs for employers by requiring them to contract with health care providers to perform medical services for their employees at an agreed upon fee schedule, in exchange for the employer encouraging (sometimes requiring) the employees to receive their medical care within the approved network of health care providers.

Employers are not legally required to offer health insurance to employees. If they do, however, the Consolidated Omnibus Budget Reconciliation Act (COBRA) provides for a continuation of health insurance coverage for a period of up to three years for employees who leave a company through no fault of their own. Such employees are required to pay the premiums themselves, but at the company's group rate.

- b) Long-Term Disability (LTD) Insurance :** This benefit provides replacement income for an employee who cannot return to work for an extended period of time due to illness or injury. An LTD program may be temporary or permanent. The benefits paid to employees are customarily set between 50 and 67 percent of that person's income.
- c) Pensions :** Pensions, or retirement incomes, may be the largest single benefit most employees receive. In most instances, employees become eligible to participate in company pension plans when they reach 21 years of age and have completed one year of service. After they have satisfied certain age and time requirements, employees become vested, meaning that the pension benefits they have earned are theirs and cannot be revoked. If they leave their jobs after vesting, but before retirement, employees may receive these benefits immediately or may have to wait until retirement age to collect them, depending on the provisions of their specific pension plan.

Employers may choose from two types of pension plans—defined benefit plans or defined contribution plans. Defined benefit plans specify the amount of pension a worker will receive on retirement. Defined contribution plans specify the rate of employer and employee contributions, but not the ultimate pension benefit received by the employee. If a defined benefit plan is chosen, an employer is committing itself to an unknown cost that can be affected by rates of return on investments, changes in regulations, and future pay levels. Consequently, most employers have adopted defined contribution plans.

- d) Life Insurance Plans :** These employee benefits are very common. The premiums for basic life insurance plans are usually paid by the employer. Employee contributions, if required, are typically a set amount per \$1,000 in coverage based on age. Employees are often given the opportunity to expand their coverage by purchasing additional insurance.

4.4 BENEFITS ADMINISTRATION

Q9. Define the term Benefits Administration.

Ans :

Two issues that are crucial to the management of employee benefits are flexible benefit plans and cost containment. Many employers now offer flexible benefit plans, also known as cafeteria plans. These plans allow employees to choose among various benefits and levels of coverage. Under a cafeteria plan, employees may choose to receive cash or purchase benefits from among the options provided under the plan.

Q10. Discuss the of employee benefits advantages.

Ans :

Some of the advantages of employee benefits are enlisted below:

1. Increased Entreat

Employee benefit should be given so as it will help the dedicated and hard-working employees the growth and satisfaction of being in an organization. It often helps to bring along a spirit of ownership by the employees towards their organization.

There have been various surveys across the organization that says that hard-working and dedicated employees are the reason why they aim at providing benefits to the employees. The most important thing an organization will be in need of are the employees who are dedicated towards them and to keep them in that organization for specified stimulated time to the employees.

2. Minimizing the Throughput

Often it seems difficult for a business to maintain its policies if the people working under them are constantly going and coming around. To show that the organization cares about the employee, it is required to offer employee benefits for them. Loyalty works best for the organization. Loyalty helps in bringing the people and the organization closer.

By keeping the benefits to the employees it helps them to stay in the organization for a longer period of time. By minimizing the throughput and keeping the senior and the most dedicated employees stay in the organization it will eventually help the organization to grow better.

3. Improvised Self-esteem

The advantages of offering employee benefits help in boosting up the self-esteem of the employee. Employee benefit helps in defining, completing, understanding the needs of the workforce they are intended to work with. Employees tend to take their job more seriously if any additional offerings are being provided to them in their workplace.

Often the organization shows their concern about their employees by providing them with enough employee benefits that will help the employee and organization relationship and bring loyalty amongst each other.

4. Dedicated Workforce

The organization expects the employee to work with full dedication and offer their work for the sake of an organization and on the other hand, the organization keeps the employees delighted so that they will serve to them for a long period of time.

Providing adequate benefits for the employee and asking for surveys often from the employee to help them in any possible way to enhance their performance will eventually help both the organization and the employee grow.

5. Health is Wealth

Offering benefits may vary from organization to organization but health benefits are those benefits that enhance the growth of the organization up to a greater limit. Assuming if an organization offers a vivid variety of health plan for the employee under the workforce and offering specific sick leave within the stipulated time period will help the employee to take the leave on the day they are not feeling well and at the same time, their salary will not get affected.

By offering various medical plans for the employees the employees can inculcate and support the upliftment more for both themselves and their family and the organization with which they are engaged.

6. Regularity in Health Check-ups

Regular health check-ups and proper medical steps are taken under the various insurance plans from time to time which will first and foremost help in detecting any disease if it is there and secondly will provide proper medication that will boost the employee's immune system and help him get prevented by any disease at its initial phase.

This way of providing daily check-up will ensure the organization that the employee will be taking the minimal leaves as they will not be in need of additional sick leaves as their health will be maintained from time to time and actions are being performed over them instantly

7. Social-Security

This will help them to contribute to the safety and security of themselves and help them to get associated with the organization for a longer period of time. Retirement plans and other life insurance plans also get into account for the employees.

Retirement plans help the employees to properly maintain and get the money as a pension even after they are not working anymore as an interest of the money they have deposited during the time they were working. This amount helps them to live their life happily after retirement.

8. A Step for Betterment

The only motive of providing health benefits is to make the employees healthier so that they can work in the organization for a longer period of time with full determination and dedication. It is a good plan to offer medical insurance to the employees and their families.

To keep the productivity of the organization active they need to keep a good and professional attitude. The more an organization cares about the employee, the more the employee gives in return to the organization considering the organization as their own being.

9. Increased Productivity

By offering employee benefits, the employee gets more reason to care about the company they are serving and being more dedicated towards them as much as possible. A happy employee will help in better productivity for the organization.

If the employees working under an organization seeks attention from the organization when and where required they in return will favor hard work with the full dedication that will eventually help the organization to grow and increase profit, quality and productivity will be the outcome from such dedicated employees.

10. Upbringing Employees' Growth

Private as well as the government employees both contribute their parts for the upbringing of their respective workplaces. Not only in the worldly affairs but within an organization, schemes are given under which the employee working the most will get additional benefits and for this policy of reward management things are being initiated across the various organization to keep the employee have the spirit of competency.

This competency will drive the individual to perform better than other employees to get the maximum benefit out from their work

11. Flexible Working Hours

Flexibility in the working hour helps the employee to complete their work assigned to them as per their condition. It does not include that the employee will get flexible hour or any retention from the stipulate working hour given to them rather it will provide an ease that if for certain reason an employee is unable to give full time in a particular day, she/he can compensate that by working extra for the next day or so.

Flexibility in the working hours helps the employee to work efficiently without any specific fear from constraints.

12. Tax Advancement

Income tax deduction helps the employee for contributing to the tax with minimal tax deduction. The benefit offered to the employees under this tax advancement helps the employee to reduce the tax as much as possible. If the business is incorporated, all costs for the insurance and the employees are deductible.

This will also help the employee for financial saving. This competency will improvise both the company's profit as well as the employee's growth. Offerings a good health benefit will help in creating a stable workplace and will help in creating a position in the world for them.

13. Benefits Offering Advancements

It is often visible that the more the organization provides benefits, the more their staff works. Flexibility helps in providing ease for the employee and helping them to work as per their wish but still, they are asked to meet the deadline and not take their work for granted.

Sick leave benefits are still given to the employee so that they stay up in their home and get well soon so that it does not become contagious for the other employees.

Q11. Discuss the disadvantages of benefit plans.*Ans :* (Imp.)

The following are some of the disadvantages of employee benefits provided to the employees.

1. Difficult to Keep Everyone Happy

As in an organization, the plans chosen are such that are benefited for the majority of the employees but some or few employees will not be satisfied with the current chosen policy and with the amount they have to pay for their portion.

The packages chosen by the organization are often not too delightful and are meant more for their personal benefit. Plans are often changed every year in different organizations and businesses which hinders the growth of the employee in the company as the insurance plans get along on the annual basis gets affected.

2. Legalization and Authentication Curse

Often the benefits create concerns regarding legal complaints against both the employees and the organization on breaking certain policies intentionally or unintentionally. On breaking up of the specific policy and not paying the retention carries legal fees that need to be submitted to get out of trouble which at times becomes troublesome.

3. Too Expensive for the Employees to Fit Into

No matter how much amount the health benefits are favouring the company but they still are going to deduce the amount from the employee more than what they actually want to offer.

Smaller businesses are charged more than the other because they do not have many employees within them while big businesses find benefit expensive as they need to pay a portion of every employee's benefit.

4. Management of Budget Becomes Difficult

The cost associated with health insurance is rising day by day which in turn are increasing

the turnover rate of the company. If the cost increases the company for the compensation forces the employees to give more money to accommodate their plans in the budgets.

If the company cannot afford the increase in insurance, it will force the employee to switch to a new insurance package which will take a great deal of time to find a suitable package and then investing in them from the very initials.

5. Difficulty in Switching

Switching often becomes very difficult to manage and the company loses many employees if proper actions are not being taken. The major disadvantage associated with it is that the more the employees in the organization will be, the more the company needs to pay to the insurance company to manage the account of different employees.

6. Difficult to Maintain

The additional department needs to be established in a company to properly manage the plans in the organization which will turn in hiring additional employees. Some health insurance packages also include help from a lawyer to make sure that the employees are covered and legal fees and other such expenses are added easily.

Lawsuits are again a curse for the organization. Lawsuits are sometimes extremely expensive and take a great amount of time to keep it away from any business. Even if the suit makes it to the court it can be very expensive to pay the legal fees and pay off the fines for its settlement.

Q12. Explain the requirements to be met by employer for firm's health insurance carriers.*Ans :*

Employers also closely examine their firm's health insurance carriers in order to address the following questions :

1. Is the program tailored to company needs ?
2. Are the prices competitive ?

3. Will there be a good provider/vendor relationship ?
4. Will payouts be accurate (e.g., will the correct amount be paid to the right person) ?
5. How good is the customer service ?
6. Is the insurance carrier financially secure ?

Some employers have been able to increase the attractiveness of their benefit programs while holding costs constant, allowing an organization to get more of a "bang for its buck" from these programs.

Q13. Explain benefit program administration process.

Ans :

Benefit Program Administration Process

The whole benefit administration program spends on three functions. They are

- a) communication about the benefits program
- b) claims processing and
- c) cost containment

a) Employee Benefit Communication

Much of the effort to achieve benefit goals focuses on identifying methods of communication. The most frequent method for communicating employee benefits today is probably still the employee benefit handbook. The typical handbook contains a description of all benefits, including levels of coverage and eligibility requirements.

To be most effective, the benefit manual should be accompanied by group meetings and videotapes. While some organisations may supplement this initial benefit discussion with periodic refreshers, a more typical approach involves one-on-one discussions between the benefit administrator and an employee seeking information on a particular benefit.

Employers are increasingly posting their employee benefit handbook components on their intranets. Benefit administration over the Internet is also growing at a rapid pace.

b) Claims Processing

It arises when an employee asserts that a specific event has occurred and demands that the employer fulfill a promise of payment. A claims processor must first determine whether the act has, in fact occurred. If the answer is yes, the next step involves determining if the employee is eligible for the benefit. If payment is not denied at this stage, the claims processor calculates the payment level. It is particularly important at this stage to ensure coordination of benefits.

c) Cost Containment

Employers are auditing their benefit options for cost containment opportunities. The most prevalent practices include :

- **Probationary Periods:** Excluding new employees from benefit coverage until some term of employment is completed.
- **Benefit limitations:** It is not uncommon to limit disability income payments to some maximum percentage of income and to limit medical coverage for specific procedures to a certain fixed amount.
- **Copay:** requiring that employees pay a fixed or percentage amount for coverage.
- **Administrative Cost Containment:** Controlling costs through policies such as seeking competitive bids for program delivery.

Q14. Discuss the critical issues in benefit design planning and administration.

Ans :

(Imp.)

Some of the critical issues in benefits planning are (1) current and future role of government mandated benefits (2) employee demographics and employee preferences, (3) employer ability to pay and employee contributions, (4) possible use of self-funding and third-party administration, and (5) monitoring and auditing programs.

1. Current and Future Role of Government-Mandated Benefit

Benefits to be required by the government include (1) severance pay (2) minimum health insurance for all workers, and (3)

maternity leave. If even one or more of these proposed programs becomes law, the costs of benefits and even total operation can increase significantly for many organizations.

2. **Employed Demographics and Preference**

Organizations recognize that they should offer only those benefits that a prudent organization should provide, and these benefits must be demanded by the majority of the employees.

The design and implementation of a flexible benefits program may permit needed individualization and the opportunity to reduce employer costs.

3. **Employer Ability to Pay and Employee Contributions**

Employer must search for every available option to reduce these costs. One option is to shift as much of the cost as possible to the employee. This is accomplished directly by requiring the employee to contribute to the pension plan, medical insurance premiums (coinsurance), increasing employee payments the deductible before the insurance pays for a claim, and reducing time-off-with-pay opportunities.

4. **Self-Funding and Third-Party Administration**

This includes reviewing all submitted medical bills and second-and third-party reviews of elective surgery, and paying employee claims.

5. **Monitoring and Auditing**

The last phase of any planning process is to review what is happening. Employers must monitor every part of the benefits program. Is it operating as designed? Is it accomplishing its intended goals? Are any areas or parts of the program. Is it operating as designed? Is it accomplishing its intended goals? Are any areas or parts of the program being abused? Feedback in these and other areas assists those responsible for planning and design to make necessary changes.

4.5 **EMPLOYEE BENEFITS AND EMPLOYEE SERVICES**

Q15. What do you mean by employee services?

Ans :

Employee services are compensation components that contribute to the welfare of the employee by filling some kind of demand. These services usually enable the employee to enjoy a better lifestyle or to meet social or personal obligations while minimizing employment-related costs.

Q16. Explain the components or types of employee services.

Ans : (Imp.)

The various sets of components that constitute the employee services group are :

1. Pay for Time not Worked

The more common events which trigger time off with pay are these

➤ **Holidays**

Most organisations now provide employees with 9 to 12 paid holidays per year. Some organisations also offer from 1 to 3 floating holidays per year in which the selection is left to the discretion of the employee or is mutually agreed on between the employer and the employees.

➤ **Vacations**

Many organisations provide a vacation package similar to the following :

- One week after 6 months to 1 year of service.
- Two weeks after 1 to 5 years of service.
- Three weeks after 5 to 10 years of service.

➤ **Civic duty**

Some organisations provide a specified number of days off with pay to employees providing services to civic organisations.

➤ **Military duty**

Many employers provide from 1 to 2 weeks off with pay, depending on the military obligation of the employee and the length of service with the organisation. Some states require employers to pay employees who are performing military duty.

➤ **Funeral leave**

Many employers grant employees 1 to 5 days off to attend the funeral of a member of the immediate family.

➤ **Maternity leave**

Few organisations provide specific paid days off for maternity leave, but most organisations permit pregnant employees to use sick leave and annual leave for paid time off while on maternity leave.

➤ **Personal leave**

A variety of special personal excused absences are permitted for time off with pay.

➤ **Blood donation**

Some employers grant employees paid time off to donate blood. The time may vary from that sufficient to go to a mobile unit to upto 4 hours to go a blood bank.

➤ **Marriage leave**

Some employers grant upto 5 days of paid absence for those planning to continue employment after marriage.

➤ **Paternity leave**

Some employers grant upto 5 days of paid absence for the father to assist his wife after the birth of a child.

➤ **Lunch, rest and wash-up periods**

Some organisations grant employees wash-up time (organisations may allow employees involved in extremely dirty work up to 30 minutes to clean up prior to leaving their jobs for the day), rest periods and coffee breaks and lunch periods.

➤ **Illness in family leave**

Many employers grant up to 5 days to employees to allow them to assist in caring for members of the immediate family.

2. Time off from Work without Pay

For years, some organisations have provided employees with sabbaticals without pay. In this case, an employee has an opportunity to pursue a special interest area. Although the employee is not paid, he or she continues to be covered by the employer's medical, life insurance and disability programs.

This group of compensation components includes some of the most diverse and most desirable kinds of goods and services employees receive from their employers. Most of the components are:

3. Income Equivalent Payments

The ever-increasing diversity and popularity of employee benefits have given rise to significant number of benefits that can be grouped under a category called nonstatutory benefits. The various services under this group are :

➤ **Charitable Contributions**

Many employers now match, either totally or by some percentage, contributions made by employees to their favourite charities or educational institutions. The amount of the contribution the organisation makes to a specific charity chosen by an employee may be limited.

➤ **Counseling**

Organisations often ask to what extent they should counsel employees. Some experts feel that counseling is acceptable only when employees are unable to function in their jobs because of a problem that impairs their work activity or when they specifically request it. Counseling activities include attentive listening by a supervisor to an employee's problem in an attempt to identify by the employee only camouflage more serious, hidden ones. Many employers are offering these services under a program called Employee Assistance.

➤ **Tax Preparation**

This service assists employees in meeting tax requirements and may include the identification of legal methods for reducing or deferring tax liabilities.

➤ **Education Subsidies**

Educational Opportunity provisions are appearing in more and more benefits plans. In addition to the external education and training programs many firms are implementing a wide variety of in-house educational programs ranging from remedial work on basic literacy to training aimed at improving job opportunities.

➤ **Child Adoption**

A few firms have been providing employees with financial assistance for legal and other service cost incurred in adopting a child.

➤ **Child Care**

Child care as an employee benefit is just beginning some of the programs started over the past 15 years have had poor employee participants because of the high cost, transportation problems or competition from other more convenient child care centres.

➤ **Parking**

Many companies have provided parking facilities; those in downtown areas frequently pay for employee parking.

➤ **Transportation to and From Work**

As transportation costs increase, employers are becoming involved in various benefits to help reduce employee transportation costs. Other employers provide mileage allowances for employees who carpool or they share with the employee in the cost of public transportation.

➤ **Housing**

With the high cost of housing, some organisations are building homes, condominiums and rental units for a selected group of their employees. Rental costs or purchase prices are normally below existing market prices.

➤ **Emergency Loans**

A service some employees find useful is the opportunity to obtain emergency loans at little or no interest.

Q17. Explain about fringe benefits and its objectives.*Ans :*

1. Create and improve sound industrial relationship.
2. Boost employee morale.
3. Motivate employees by identifying and satisfying their needs.
4. Provide a good work environment and work life.
5. Provide security to employees against social risks, through benefits such as old-age and maternity benefits.
6. Protect the health of employees and provide safety to employees against accidents.
7. Promote employee welfare by providing welfare measures such as recreation facilities.
8. Create a sense of belonging among employees and to retain them.
9. Meet the requirements of various legislations relating to fringe benefits.

Q18. Differentiate between employee benefits & employee services.*Ans :*

Sl.No.	Particulars	Employee Benefits	Employee Services
1.	Meaning	Employee benefits typically refers to retirement plans, health, life insurance, disability insurance, vacation, etc. EB are also called fringe benefits, perquisites, perks are various non wage compensations provided to employees in addition to normal wages or salaries.	Employee services are compensation components that contribute to the welfare of the employee by filling some kind of demand.
2.	Monetary value	Employee benefits it concerned with those items which have a direct monetary value to the employees and can be calculated like pension, insurance, holiday pay, etc.	Employee services refers to those items which have indirect monetary value such as companies.
3.	Retention of employees	Employee benefits are provided by the employers in order to retain the valuable asset and to boost up the morale of the employees.	Employee service are provided in order to availvarious benefits like the benefits of medical facilities to the employees and their families etc.
4.	Categorization	Employee benefits are grouped under seven major categories as follows, a) Disability income continuation b) Loss-of-job income continuation c) Deferred income d) Family income continuation e) Health and accident protection f) Property and liability protection and g) A special group of benefit and services called perquisites.	Employee service include personal services, job related services, educational subsidies and executive perquisites.

4.6 FUNDING BENEFITS THROUGH VEBA

Q19. Discuss the concept of VEBA ?

Ans : (Imp.)

A Voluntary Employees' Beneficiary Association (VEBA) can be established by employees or by an employer and must consist of employees of the same company or the same labor union. VEBA benefits normally end when the employee leaves the company or labor union with which the VEBA is associated.

Either employees or their employer can contribute funds to a VEBA. Employer contributions are often tax-deductible to the employer. VEBAs themselves are authorized by Internal Revenue Code section 501(c)(9) as tax-exempt organizations as long as their earnings are only used for providing benefits. However, benefits paid out to employees are not necessarily tax-exempt to the employee. An employer making contributions to a VEBA would ordinarily receive a deduction under Internal Revenue Code 162 for amounts contributed. The employer could also receive a deduction if the benefits were paid directly to the employee by the employer as part of a fringe benefit package.

For example, the United Auto Workers formed VEBAs for their workers at the Big Three automobile manufacturers in 2007 and therefore relieved the companies from carrying liability for their health plans on their accounting books.

Q20. Explain the funding requirements can be met by VEBA.

Ans : (Imp.)

A funding vehicle used by many organisations to reduce benefit costs is Voluntary Employee Benefits Association. A voluntary employees' beneficiary association (VEBA) under Internal Revenue Code is an organization organized to pay life, sick, accident, and similar benefits to members or their dependents, or designated beneficiaries if no part of the net earnings of the association inures to the benefit of any private shareholder or individual.

The organization must meet the following requirements :

1. It must be a voluntary association of employees;
2. It must provide for payment of life, sick, accident, or other benefits to members or their dependents or designated beneficiaries and substantially all of its operations are for this purpose; and
3. Its earnings may not inure to the benefit of any private individual or shareholder other than through the payment of benefits described in (2) above.

Membership of this organization must consist of individuals who are employees who have an employment-related common bond. This common bond may be a common employer (or affiliated employers), coverage under one or more collective bargaining agreements, membership in a labor union, or membership in one or more locals of a national or international labor union. An organization that is part of a plan will not be exempt unless the plan meets certain nondiscrimination requirements.

However, if the organization is part of a plan maintained under a collective bargaining agreement between employee representatives and employers, and such plan was the subject of good faith bargaining between such employee representatives and employers, the plan need not meet such nondiscrimination requirements for the organization to qualify as tax exempt.

A major use of the concept was implemented in 2007 when the UAW agreed to form VEBAs for their workers at the Big Three automobile manufacturers, thus relieving the companies from funding health plans.

4.7 COSTING BENEFITS

Q21. What are fringe benefits? Explain components of discretionary core fringe benefits?

Ans : (Imp.)

The term 'fringe benefits' refers to various extra benefits provided to employees, in addition to the compensation paid in the form of wage or salary. These benefits can be defined as any wage cost not directly connected with the employees

productive effort, performance, service, or sacrifice. It is the benefit of an employee, and which are not in the form of wages, salaries, and time-related payments.

Discretionary benefits originated in the 1940s and 1950s. Companies invested in expanding their offerings of discretionary benefits as an alternate to pay hikes as a motivational tools. The various discretionary benefits fall under three categories. They are,

1. Protection Programs

These programs provide family benefits, promote health, and guard against income loss caused by catastrophic factors such as unemployment, disability or serious illnesses.

i) **Income Protection Programs** : Disability Insurance replaces income for employees who become unable to work because of sicknesses or accidents. Employees need this kind of protection. At all working ages, the probability of being disabled for at least 90 consecutive days is much greater than the change of dying while working. They may take two forms :

a) **Short-term disability insurance**: provides benefits for a limited time, usually less than 6 months.

b) **Long-term disability insurance**: provides benefits for extended period between 6 months and life.

ii) **Life Insurance**: Employer-provided life insurance protects employee's families by paying a specified amount to an employee's beneficiaries upon the employee's death. Most companies offer full -time employees life insurance. They take two forms :

a) **Term Coverage**: This is the most common type of life insurance offered by companies provides protection to employee's beneficiaries only during employee's work years.

b) **Whole Life Coverage**: It extends protection to beneficiaries into the insureds' retirement years.

c) **Pension Programs** : These programs provide income to employees and their beneficiaries throughout their retirement. Individuals may participate in more than one pension program simultaneously. It is not uncommon for employees to participate in pension plans sponsored by their companies.

d) **Defined Benefit Plans** : It guarantee the retirement benefits specified in the plan document. This benefit usually is expressed in terms of a monthly sum equal to a percentage of a participant's pre-retirement pay multiplied by the number of years he or she has worked for the employer.

e) **Health Protection Programs** : It has captured both employees' and employers' attention for several years. From the employees' perspective, health coverage is valuable, particularly as the costs of health care have increased dramatically.

f) **Employee Stock Ownership Plans** : It is the basis for a company's plan and plans invest in company securities, making them similar to profit sharing plans and stock bonus plans. They make distribution in company stock rather than cash.

g) **Self-funded Insurance** : It specify areas of coverage, deductibles, coinsurance rates and out-of-pocket maximums, just as indemnity plans do.

2. Paid Time - Off

Provides employees time off with pay for such events as vacations. This category is relatively straightforward. Companies offer most paid time-offs as a matter of custom. The major types of paid time-off are :

- Holidays
- Vacation
- Sick leave
- Personal leave

- Lunch period
- Military leave
- Funeral leave

3. Services

Provide enhancements such as tuition reimbursement and day care assistance to employees and their families. The various services of the discretionary benefits are :

- a) **Employee Assistance Programs** : It helps employees cope with personal problems that may impair their job performance, such as alcohol or drug abuse, domestic violence, the emotional impact of AID and other diseases, clinical depression, and eating disorders. These are widely used. Companies provide these because at any given time an estimated 10 to 15 percent of a company's employees experience difficulties that interfere with job performance,
- b) **Family Assistance Programs** : These programs help employees provide elder care and child care. Elder care provides physical, emotional or financial assistance for aging parents, spouse or other relatives who are not fully self-sufficient because they are too frail or disabled. Child care programs focus on supervising preschool-age dependent children whose parents work outside the home. Many employees now rely on elder care programs because of their parent's increasing longevity and the growing number of dual-income families.
- c) **Flexible Scheduling and Leave** : It allows employees the leeway to take time off during work hours to care for relatives or react to emergencies. Flexible scheduling includes compressed work weeks, flexi time and job sharing, helps employees balance the demands of work and family.
- d) **Day Care** : Some companies subsidize child or elder day care in community-based centers. Elder care programs usually provide self-help, meals, and entertainment activities for the participants. Child care programs typically offer supervision, preschool preparation, and meals.

- e) **Transportation Services** : Some employers sponsor transportation services programs that help bring employees to the workplace and back home again by using more energy-efficient forms of transportation. They may sponsor public transportation or vanpools.
- f) **Stress Management** : These programs can help employees cope with many factors inside and outside work that contribute to stress. Job conditions, health and personal problems can make employees anxious and thus less productive. Seminars focus on recognizing signs of stress and burnout as well as on how to handle family and business related stress. Stress reduction techniques can improve quality of life inside and outside the workplace. Employers benefit from increased employee productivity, reduced absenteeism and lower health care costs.

4.8 COMPONENTS OF DISCRETIONARY CORE FRINGE COMPENSATION

Q22. Discuss some important fringe benefits provided both to PSU employees and private sector employees.

Ans :

(Imp.)

Compensation Practise in Public Sector Organization

1. Wage and Salary Settlements

The guidelines for new wage settlements are issued by the department of public enterprises which is established by the government. On the basis of these guidelines, the management of PSUs are free to negotiate the wage structure, consistent with the generation of resources/profits by the individual/enterprise unit. The wage settlement period is 5 years and there should be no increase in labour cost per unit of output.

2. Wage and Salary Increase

The mechanism of CPI points system of dearness allowances is used to a inflation in public undertakings. A pay commission to analyzes the impact of using prices and to suggests the possible neutralization through the DA increase.

3. Pay Revision for Executives

The executives of public sector enterprise are allowed to adopt the revised scale who are holding posts below.

The board level and non-unionized supervision. They are subject to the following conditions.

1. Revised scale can be adopted in a straight way if the public sector enterprises are making consistent profit during the last three years.
2. Public sector enterprises who have incurred losses continuously for 3 years need to take government approval.
3. A proposal need to be submitted by the new public sector enterprises or constructive public sector enterprises for adopting a revised pay scale to the concerned ministry for approvals.

4. Bonus and Incentives

Quarterly incentives schemes have been permitted by the government to the PSEs. The scheme has also been extended up to the board level executives. The unionized staff and executives on the attainment of 100% capacity utilization the overall payment of incentives is being restricted to 12% of standard wage/salary for workers as well as for executives and if the performance has reached level of 105% capacity utilization then 15% of standard salary is provided.

Government has identified the need for implementing modern concept and principles and have organized training and development programs such as project management, quality management, material and personal management to enhance the performance of executive class. To review the responsible and accountabilities of PSU executives emphasis is also laid on citizen charter.

Compensation Practices in Private Sector Organization

Private sector plays a very important role in the development of an economy by its increasing productivity and a professional approach of management. In India, the emergence of private sector in capital and basic goods, industries has brought about faster industrial revolution. The private sector organization aims at attracting talents and developing a competitive edge. In private sectors, compensation strategies aim at attracting "ready to use" approach. They offer higher pay packages to hire competent or experienced employees. They search for potential individuals at the entry level directly from college through campus interviews or through consultants.

Number of challenges and opportunities are offered by the compensation system and policy in the private sector. It also provides learning and growing opportunities.

The employees will look for the attributes that will enrich their experience at the workplace as their pay being competitive. The management of private sector organizations keeps an eye on the changing environment and competitive market and restructures the jobs of the employees so that they can acquire new skills.

The other factor which acts as a catalyst in the compensation management in the private sector is the professional environment.

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Q23. Differentiate between Perks and Fringe Benefits.

Ans :

S.No.	Particulars	Perks	Fringe Benefits
1.	Meaning	Perks (perquisites) are provided only to the top executives and are also called as "executive benefits".	Fringe benefits are also called as "employee benefits" which the employee receive apart from the remuneration (salary).
2.	Purpose	Perks being provided by the organizations include supplemental pension plans, includes facilities such as chauffeured limousine, counselling service, medical expense reimbursement, no or low-interest loans etc.	The purpose of providing fringe benefits to employees is job protection, providing health care facilities, retirement benefits and to reward the performance of the employees.
3.	Class or employees	Out of all the perks provided to the top executives, the major perk provided to them is the receipt of loans at preferred rate of interest which helps them in exercising stock options.	Fringe benefits include statutory benefits and voluntary benefits provided to all employees.

4.9 TOTALLY INTEGRATED EMPLOYEE BENEFIT PROGRAM

Q24. What are the guidelines for implementation of employee benefits program.

(OR)

Discuss about Totally Integrated Employee Benefit Program.

Ans :

(Imp.)

People dread performance reviews mainly because they expect too much from them. Performance reviews are intended to be a summary of a year or six months of attentive performance management. Find out how a Totally Integrated Performance System can make performance management seamless.

The Totally Integrated Performance System: How to Manage Seamlessly.

To get the best possible results from employees, effective managers employ a system where every aspect of management is integrated. The Totally Integrated Performance System (TIPS) is a simple and powerful performance management system with six distinct processes consisting of :

1. precise hiring with clear descriptions,
2. goal clarification and alignment,
3. consistent performance tracking,
4. regularly scheduled manager-employee conferences,
5. performance improvement plan to address performance problems, and
6. integrated performance reviews.

1. Precise hiring with clear job descriptions

The perfect time to clarify job descriptions is before you hire. When you fill a position, whether it's new or old, take the time to interview all the stakeholders to clarify the job description and the skills needed to fill the job. Too many managers are stuck trying to get the skill level of an unqualified employee up to the real need of the job, simply because the job description doesn't match the current needs.

2. Goal clarification and alignment

Sit down with employees to clarify their performance goals. Make sure they prioritize the skills that are job requirements before developing auxiliary skills. If employees feel strongly that they should focus on other areas than the manager's main focus, review the job description to make certain it's still relevant to the actual job.

3. Consistent performance tracking

Track performance regularly. Make notes of exceptional performance and areas that need improvement on an ongoing basis. Address issues as they arise if appropriate. Whether you intend to give on the spot feedback or not, keep track of every detail worth noting.

4. Regularly scheduled manager-employee conferences

Check in about performance monthly or twice monthly. Don't wait for the final review to check in. The advantages of interim reviews are,

- i) It keeps you focused on performance regularly when you know you will be discussing it soon.
- ii) It allows you to address issues early.
- iii) It gives a forum to address occasional performance issues without having to call a special meeting for it. You can address the issues in a regularly scheduled meeting, which avoids the stigma of calling a special one when there is a problem.
- iv) The final review won't have surprises.

5. Performance improvement plan to address performance problem

Create a performance improvement plan when there is a performance issue. This puts you in partnership with your employee rather than sets you up as the enforcer. It also creates documentation of attempts to help the employee improve performance should improvement attempts fail and there be legal issues.

6. Integrated performance reviews

The previous steps laid the groundwork for painless, effective reviews. There should be no surprises at this point. Refer to the documentation and exchanges throughout the process and be sure to celebrate successes. Then review the job description to make sure it is still relevant, and review performance goals for the upcoming performance period.

Short Question and Answers

1. Employee Benefits.

Ans :

Employee benefits typically refers to retirement plans, health life insurance, life insurance, disability insurance, vacation, employee stock ownership plans, etc. Benefits are increasingly expensive for businesses to provide to employees, so the range and options of benefits are changing rapidly to include, for example, flexible benefit plans. Compensation includes topics in regard to wage and/or salary programs and structures, for example, salary ranges for job descriptions, merit-based programs, bonus-based programs, commission-based programs, etc.

Employee benefits play an increasingly important role in the lives of employees and their families, and have a significant financial and administrative impact on a business. Most companies operate in an environment in which an educated work force has come to expect a comprehensive benefits program. Indeed, the absence of a program or an inadequate program can seriously hinder a company's ability to attract and keep good personnel. Employers must be aware of these issues and be ready to make informed decisions when they select employee benefits.

Employee benefits are that part of the total compensation package, other than pay for time worked, provided to employees in whole or in part by employer payments. E.g. Life insurance, pension, worker's compensation, vacation.

2. Social Security

Ans :

The Social Security Act of 1935, as amended, provides monthly benefits to retired workers who are at least 62 years of age, disabled workers, and their eligible spouses and dependents. Social Security is financed by contributions made by the employee and matched by the employer, computed as a percentage of the employee's earnings. As of

2005, the combined contribution of employer and employee for retirement, survivors', and disability benefits was 12.4 percent of the first \$90,000 of employee income. Monthly benefits are based on a worker's earnings, which are adjusted to account for wage inflation.

The Social Security Act also provides Medicare health insurance coverage for anyone who is entitled to retirement benefits. Medicare is funded by a tax paid by the employer and employee. The tax rate for Medicare is a combined 2.9 percent of the employee's total wage or salary income.

3. Unemployment Insurance

Ans :

Unemployment compensation provides income to unemployed individuals who lose a job through no fault of their own. Eligible workers receive weekly stipends for 26 weeks. The specific amount of the stipend is determined by the wages the claimant was paid during the previous year. Unemployment compensation laws in most states disqualify workers from receiving benefits under the following conditions:

- a) Quitting one's job without good cause. Workers who voluntarily quit their jobs are not eligible for unemployment compensation unless they can show good cause for quitting. Good cause exists only when the worker is faced with circumstances so compelling as to leave no reasonable alternative.
- b) Being discharged for misconduct connected with work. If employees are discharged for misconduct, they are not eligible for unemployment, unless they can show that the discharge was unfair. To ensure fair discharges, employers should make employees aware of work rules through employee handbooks, posting of rules, and job descriptions. Employers must also provide workers with adequate warnings prior to discharge (unless a serious violation, such as stealing, has occurred).

- c) Refusing suitable work while unemployed. Eligibility for unemployment compensation is revoked if an employee refuses suitable work while unemployed. Individuals must actively seek work and make the required number of search contacts each week. Benefits are terminated if the claimant refuses a bona fide job offer or job referral.

4. Workers' Compensation Insurance

Ans :

Millions of workers are hurt or become sick for job-related reasons each year. All 50 states have workers compensation insurance laws that are designed to provide financial protection for such individuals. Specifically, these laws require the creation of a no-fault insurance system, paid for by employers. When workers suffer job-related injuries or illnesses, the insurance system provides compensation for medical expenses; lost wages from the time of injury until their return to the job (employees are given a percentage of their income, the size of which varies from state to state); and death (paid to family members), dismemberment, or permanent disability resulting from job-related injuries.

5. Optional Employee Benefits

Ans :

Other employee benefits are quite common. Some of the more significant optional benefits are summarized below.

- a) **Health Insurance :** Basic health-care plans cover hospitalization, physician care, and surgery. Traditional fee-for-service health care coverage became increasingly expensive in the late twentieth century. As a result, many U.S. companies adopted "managed care" health care plans. In general, managed care plans cut health care costs for employers by requiring them to contract with health care providers to perform medical services for their employees at an agreed upon fee schedule, in exchange for the employer encouraging (sometimes requiring) the employees to receive their medical care within the approved network of health care providers.

Employers are not legally required to offer health insurance to employees. If they do, however, the Consolidated Omnibus Budget Reconciliation Act (COBRA) provides for a continuation of health insurance coverage for a period of up to three years for employees who leave a company through no fault of their own. Such employees are required to pay the premiums themselves, but at the company's group rate.

b) **Long-Term Disability (LTD) Insurance :**

This benefit provides replacement income for an employee who cannot return to work for an extended period of time due to illness or injury. An LTD program may be temporary or permanent. The benefits paid to employees are customarily set between 50 and 67 percent of that person's income.

- c) **Pensions :** Pensions, or retirement incomes, may be the largest single benefit most employees receive. In most instances, employees become eligible to participate in company pension plans when they reach 21 years of age and have completed one year of service. After they have satisfied certain age and time requirements, employees become vested, meaning that the pension benefits they have earned are theirs and cannot be revoked. If they leave their jobs after vesting, but before retirement, employees may receive these benefits immediately or may have to wait until retirement age to collect them, depending on the provisions of their specific pension plan.

Employers may choose from two types of pension plans—defined benefit plans or defined contribution plans. Defined benefit plans specify the amount of pension a worker will receive on retirement. Defined contribution plans specify the rate of employer and employee contributions, but not the ultimate pension benefit received by the employee. If a defined benefit plan is chosen, an employer is committing itself to an unknown cost that can be affected by rates of return on investments, changes in regulations, and future pay levels. Consequently, most employers have adopted defined contribution plans.

- d) **Life Insurance Plans** : These employee benefits are very common. The premiums for basic life insurance plans are usually paid by the employer. Employee contributions, if required, are typically a set amount per \$1,000 in coverage based on age. Employees are often given the opportunity to expand their coverage by purchasing additional insurance.
-

6. Define the term Benefits Administration.

Ans :

Two issues that are crucial to the management of employee benefits are flexible benefit plans and cost containment. Many employers now offer flexible benefit plans, also known as cafeteria plans. These plans allow employees to choose among various benefits and levels of coverage. Under a cafeteria plan, employees may choose to receive cash or purchase benefits from among the options provided under the plan.

7. Employee services

Ans :

Employee services are compensation components that contribute to the welfare of the employee by filling some kind of demand. These services usually enable the employee to enjoy a better lifestyle or to meet social or personal obligations while minimizing employment-related costs.

8. VEBA

Ans :

A Voluntary Employees' Beneficiary Association (VEBA) can be established by employees or by an employer and must consist of employees of the same company or the same labor union. VEBA benefits normally end when the employee leaves the company or labor union with which the VEBA is associated.

Either employees or their employer can contribute funds to a VEBA. Employer contributions are often tax-deductible to the employer. VEBAs themselves are authorized by Internal Revenue Code section 501(c)(9) as tax-exempt organizations as long as their earnings are only used for providing benefits. However, benefits paid out to employees are not necessarily tax-exempt to the employee. An employer making contributions to a VEBA would ordinarily receive a deduction under Internal Revenue Code 162 for amounts contributed. The employer could also receive a deduction if the benefits were paid directly to the employee by the employer as part of a fringe benefit package.

9. What are fringe benefits? Explain components of discretionary core fringe benefits?

Ans :

The term 'fringe benefits' refers to various extra benefits provided to employees, in addition to the compensation paid in the form of wage or salary. These benefits can be defined as any wage cost not directly connected with the employees productive effort, performance, service, or sacrifice. It is the benefit of an employee, and which are not in the form of wages, salaries, and time-related payments.

Discretionary benefits originated in the 1940s and 1950s. Companies invested in expanding their offerings of discretionary benefits as an alternate to pay hikes as a motivational tools.

10. Differentiate between employee benefits and employee services.

Ans :

Sl.No.	Particulars	Employee Benefits	Employee Services
1.	Meaning	Employee benefits typically refers to retirement plans, health, life insurance, disability insurance, vacation, etc. EB are also called fringe benefits, perquisites, perks are various non wage compensations provided to employees in addition to normal wages or salaries.	Employee services are compensation components that contribute to the welfare of the employee by filling some kind of demand.
2.	Monetary value	Employee benefits it concerned with those items which have a direct monetary value to the employees and can be calculated like pension, insurance, holiday pay, etc.	Employee services refers to those items which have indirect monetary value such as companies.
3.	Retention of employees	Employee benefits are provided by the employers in order to retain the valuable asset and to boost up the morale of the employees.	Employee service are provided in order to avail various benefits like the benefits of medical facilities to the employees and their families etc.

Choose the Correct Answer

1. Family and medical leave act of employee benefits was passed in the year. [a]
(a) 1993 (b) 1935
(c) 1997 (d) 1985
2. Are normally a result of collective bargaining. [b]
(a) GIS (b) GAI
(c) SUB (d) DFA
3. The tax-exempt trust designed to meet the specific needs of an organization is _____. [c]
(a) IRC (b) GIST's
(c) VEBA (d) DEFRA
4. Employee benefits are classified under _____ groups. [d]
(a) Five (b) Six
(c) Four (d) Seven
5. _____ was started to monitor the execution of several fringe compensation programs involving medical, life and disability programs. [a]
(a) ERISA (b) COBRA
(c) PPO's (d) FFS
6. These are _____ popular forms of defined contribution plans. [b]
(a) Two (b) Three
(c) Four (d) Eight
7. Benefit administrators in today's corporations are using _____ as a tool to communicate with employees. [c]
(a) Internet (b) Telephone
(c) Intranet (d) Personal views
8. _____ are those programs which provide payment to the employees who are terminated with no fault of their own. [d]
(a) Deferred income (b) Stock bonus plan
(c) Profit-sharing (d) Severance pay
9. The basic principles of economic benefits are formulated by [a]
(a) EdwinB. Flippo (b) Joseph J.Martichio
(c) Peter Francs (d) John Alto
10. The three major set of component that constitute the employee service group are [b]
(a) Pay for overtime (b) Time-off without pay
(c) Pay for pension plans (d) Reimbursement of medical expenses

Fill in the Blanks

1. Employee benefits and services forms _____
2. _____ plans are provided to a selected group of top management employees.
3. Guaranteed Income Stream (GIS) is an addition to income programs which were negotiated between _____ and _____ in 1982.
4. _____ provides financial assistance to the family upon the death of the insured person.
5. VEB A stands for _____
6. Option price is also called as _____ and _____.
7. Social Security Act was passed in the year _____.
8. The duration of _____ leave can be upto one year.
9. Organizations may make the premium payments for _____ of the employees who must be bonded in order to perform certain job assignments.
10. _____ were originally designed to enable senior executives, top professionals and managers to choose individually many of their benefits and services.

ANSWERS

1. Indirect compensation
2. Supplemental disability income
3. Ford and UAW
4. Life insurance
5. Voluntary Employee Benefits Association
6. 'Strike price' or 'grant price'
7. 1935
8. Sabbatical
9. Fidelity Bond Insurance
10. Flexible compensation/Benefit plan/Cafeteria plans.

UNIT V

CONTEMPORARY STRATEGIC COMPENSATION CHALLENGES :

International Compensation and Competitive Strategies-Executive Compensation Packages- Compensating Executives-Compensating the Flexible Workforce-Contingent Employees and Flexible Work Schedules- Strategic Issues and Choices in Using Contingent and Flexible Workers.

5.1 CONTEMPORARY STRATEGIC COMPENSATION CHALLENGES

5.1.1 International Compensation

Q1. Define international compensation? Explain the components of international compensation.

Ans :

(Imp.)

Designing and developing a better compensation package for HR professionals for the international assignments requires knowledge of taxation, employment laws, and foreign currency fluctuation by the HR professionals. Moreover, the socio-economic conditions of the country have to be taken into consideration while developing a compensation package. It is easy to develop the compensation package for the parent country national but difficult to manage the host and third country nationals. When a firm develops international compensation policies, it tries to fulfill some broad objectives:

1. The compensation policy should be in line with the structure, business needs and overall strategy of the organization.
2. The policy should aim at attracting and retaining the best talent.
3. It should enhance employee satisfaction.
4. It should be clear in terms of understanding of the employees and also convenient to administer.

The employee also has a number of objectives that he wishes to achieve from the compensation policy of the firm

- He expects proper compensation against his competency and performance level.
- He expects substantial financial gain for his own comfort and for his family also.
- He expects his present and future needs to be taken care of including children's education, medical protection and housing facilities.
- The policy should be progressive in nature.

Major components in an international Compensation Package

International Compensation is an internal rate of return (monetary or non monetary rewards / package) including base salary, benefits, perquisites and long term & short term incentives that valued by employee's in accordance with their relative contributions to performance towards achieving the desired goal of an organization.

The following are the major components of an international compensation package.

1. Base Salary

This term has a slightly different meaning in an international context than in a domestic one. In the latter case, it denotes the amount of cash compensation that serves as a benchmark for other compensation elements like bonus, social benefits. For the expatriate, it denotes the main component of a package of allowances directly related to the base salary and the basis for in-service benefits and pension contributions. Base salary actually forms the foundation block of the international compensation.

2. Foreign Service Inducement Premium

This is a component of the total compensation package given to employees to encourage them to take up foreign assignments. This is with the aim to compensate them for the possible hardships they may face while being overseas. In this context, the definition of hardship, the eligibility criteria for premium and the amount and timing of this payment are to be carefully considered. Such payments are normally made in the form of a percentage of the salary and they vary depending upon the tenure and content of the assignment. In addition, sometimes other differentials may be considered. For instance: if a host country's work week is longer than that of the home country, a differential payment may be made in lieu of overtime.

3. Allowances

One of the most common kinds of allowance internationally is the Cost of Living Allowance (COLA). It typically involves a payment to compensate for the differences in the cost of living between the two countries resulting in an eventual difference in the expenditure made. A typical example is to compensate for the inflation differential. COLA also includes payments for housing and other utilities, and also personal income tax. Other major allowances that are often made are:

- Home leave allowance
- Education allowance
- Relocation allowance
- Spouse assistance (compensates for the loss of income due to spouse losing their job)

Thus, multinationals normally pay these allowances to encourage employees to take up international assignments to make sure that they are comfortable in the host country in comparison to the parent country.

4. Benefits

The aspect of benefits is often very complicated to deal with. For instance, pension plans normally differ from country

to country due to difference in national practices. Thus all these and other benefits (medical coverage, social security) are difficult to imitate across countries.

Thus, firms need to address a number of issues when considering what benefits to give and how to give them. However, the crucial issue that remains to be dealt with is whether the expatriates should be covered under the home country benefit programmes or the ones of the host country. As a matter of fact, most US officials are covered by their home country benefit programmes. Other kinds of benefits that are offered are:

- Vacation and special leaves
- Rest and rehabilitation leaves
- Emergency provisions like death or illness in the family

These benefits, however, depend on the host country regulations.

5. Incentives

In recent years some MNC have been designing special incentives programmes for keeping expatriate motivated. In the process a growing number of firms have dropped the ongoing premium for overseas assignment and replaced it with on time lump-sum premium. The lump-sum payment has at least three advantages. First expatriates realize that they are paid this only once and that too when they accept an overseas assignment. So the payment tends to retain its motivational value. Second, costs to the company are less because there is only one payment and no future financial commitment. This is so because incentive is separate payment, distinguishable for a regular pay and it is more readily for saving or spending.

6. Taxes

The final component of the expatriate's compensation relates to taxes. MNCs generally select one of the following approaches to handle international taxation.

1. **Tax equalization:** Firm withhold an amount equal to the home country tax obligation of the expatriate and pay all taxes in the host country.
2. **Tax Protection:** The employee pays up to the amount of taxes he or she would pay on remuneration in the home country. In such a situation, The employee is entitled to any windfall received if total taxes are less in the foreign country then in the home country.
7. **Long Term Benefits or Stock Benefits**

The most common long term benefits offered to employees of MNCs are Employee Stock Option Schemes (ESOS). Traditionally ESOS were used as means to reward top management or key people of the MNCs. Some of the commonly used stock option schemes are:

- **Employee Stock Option Plan (ESOP):** A certain nos. of shares are reserved for purchase and issuance to key employees. Such shares serve as incentive for employees to build long term value for the company.
- **Restricted Stock Unit (RSU):** This is a plan established by a company, wherein units of stocks are provided with restrictions on when they can be exercised. It is usually issued as partial compensation for employees. The restrictions generally lifts in 3-5 years when the stock vests.
- **Employee Stock Purchase Plan (ESPP):** This is a plan wherein the company sells shares to its employees usually, at a discount. Importantly, the company deducts the purchase price of these shares every month from the employee's salary.

Hence, the primary objective for providing stock options is to reward and improve employee's performance and /or attract / retain critical talent in the Organization.

- Q2. **Analyze the problems in global compensation management.**

OR

Examine critically the contemporary strategic compensation challenges.

Ans :

Compensation managers face number of challenges while implementing compensation and reward systems in their organization. The following are the present day strategic compensation challenges faced by the compensation managers.

In India, employees are hired permanently and temporarily in both public as well as private sector. The employees are basically appointed on temporary basis due to the labour cost and employment flexibility. The temporary employees will receive their wages via agencies such as labour contractors with a different compensation level, structure wages are paid (according to the minimum skills) and system (payment is made by agency indirectly). There exists internal inequality between the permanent employees and the temporary employees with respect to their compensation level and structure. This leads to the formation of parallel compensation management system which is very complex in nature creating difficult in maintaining equity and managing it effectively. Hence, for maintaining organizational effectiveness, employee equity and social justice in an organization, the duality levels, structures and system should be effectively managed.

2. **Rigid Compensation Structure in Recruitment Process**

In large organization employees are paid as per the organization's standard compensation level, structure and system. The organization having a rigid or inflexible compensation structure will not be able to attract and retain high performing employees as the employees look out for high compensation level and tax friendly structures which are not present in the current compensation system.

3. **Failure in Compensating in Monetacy Terms**

Earlier compensation was regarded as the wages or salary paid to the employees in terms of money for accomplishing/carrying out their work or services in the organization.

But now, compensation consists of both the monetary rewards as well as non-monetary rewards. The organizations have failed to understand the point and does not concentrate on the non-monetary rewards like promotion, appreciation, reassignments etc., and only gives importance to the economic rewards such as cash payments along with some benefits which are statutory in nature.

4. Human Resources

People are regarded as the most important assets of an organization which can help the firms to achieve competitive advantage over its competitors. These organizations who view compensation from an economic perspective pay their employees as low as possible for maintaining external equity and labour market situation.

Hence, compensation is regarded as an investment tool which helps in acquiring and retaining human capital.

5. Absence of Strategic Alignment

For effective management of the compensation, it is essential for the firm to relate/link the compensation with the organizational strategy.

6. Issues Relating to Culture

Compensation management depends on the cultural issues and norms. Some cultures regard compensation as an economic concept whereas in some cultures compensation mainly aims at fulfilling the economic, social and psychological needs of the employees. It is a very difficult and challenging task for the multinational organization to design their compensation system as they need to consider the needs and norms of both the present country and host country.

7. Enhanced Benefits

It may be a very difficult for the firm to maintain a competitive package of benefits for the employees. But today, in order to attract, recruit and retain the efficient and highly skilled employees, it has become essential for the firms to offer strong benefit package for their employees.

5.2 COMPENSATION STRATEGIES OF INTERNATIONAL COMPENSATION

Q3. What are the Competitive Strategies of International Compensation

Ans :

(Imp.)

The presence of U.S. companies in foreign countries is on the rise. You might forget that you are in China while taking a text ride through the streets of Beijing; Billboards and establishments for such U.S. companies as McDonald's Pizza Hut, Pepsi, Coca Cola, and Motorola are common sights.

Several factors have contributed to the expansion of global markets. These include such free trade agreements as the North American Free Trade Agreement, the unification of the European market, and the gradual weakening of communist influence in Eastern Europe and Asia. Likewise, foreign companies have greater opportunities to invest in the United States.

1. Lowest-Cost Producers' Relocations to Cheaper Production Areas

Many U.S. businesses have established manufacturing and production facilities in Asian countries and in Mexico because labor is significantly cheaper than in the United States. There are two key reasons for the cost difference. First, labor unions generally do not have much bargaining power in developing Asian countries or in Mexico, where the government possesses extensive control over workplace affairs. Second, Asian governments do not value individual employee rights as much as the U.S. government does. The Fair Labor Standards Act of 1938 provides employees a minimum hourly wage rate, limits exploitation of child labor, and mandates overtime pay.

2. Differentiation and the Search for New Global Markets

Coca Cola and Pepsi products are well known worldwide because these companies aggressively introduced their soft drink products throughout numerous countries. Establishing Coke and Pepsi products

worldwide does not represent a differentiation strategy. However, Coke and Pepsi could distinguish themselves from competing companies by taking on new business initiatives that depart from "business as usual" and meet specific market needs.

For Coke and Pepsi, "business as usual" means marketing soft drink products – carbonated water with artificial colors and flavors. Marketing bottled spring water would clearly be a departure from business as usual for them. The People's Republic of China (PRC) possesses a definite need for bottled spring water: The China government is unable to provide its citizens and visitors drinkable water because the country does not maintain adequate water purification plants.

Coke and Pepsi could distinguish themselves from other soft drink companies by marketing spring water along with their regular soft drink products. Coke and Pepsi would be known as companies that serve necessary (bottled water) and recreational (soft drinks) beverage needs.

3. How Globalization is Affecting HR Departments

The globalization of business requires that companies send employees overseas to establish and operate satellite plants and offices. Naturally, companies must invest in the development of appropriate HR practices. International business operations are destined to fail without the "right" people.

Human resource professionals must be certain to identify the selection criteria that are most related to successful international work assignments. For example, do candidates possess adequate cultural sensitivity? Do they believe that U.S. customs are the only appropriate way to approach problems? Are candidates' families willing to adjust to foreign lifestyles?

Training is another key HR function. Expatriates must understand the cultural values that predominate in foreign countries; otherwise, they risk hindering business. For example, one of Procter & Gamble's Camay

soap commercials was successful in the United States, but the Japanese perceived the very same commercial that aired in Japan to be rude.

The commercial depicted a man barging into the bathroom on his wife while she was using Camay soap. Japanese cultural values led Japanese viewers to judge this commercial as offensive. The Japanese deemed the commercial as acceptable after Procter & Gamble modified the commercial to show a woman using Camay soap in privacy.

Companies' investments in cross-cultural training vary. Some companies provide release time from work to take foreign language courses at local colleges or universities. Highly progressive companies such as Motorola run corporate universities that offer cross-cultural training courses.

4. Complexity of International Compensation Programs

The development and implementation of international compensation programs typically pose four challenges to companies that U.S. Compensation programs do not have to consider.

1. Successful international compensation programs further corporate interests abroad and encourage employees to take foreign assignments.
2. Well-designed compensation programs minimize financial risk to employees and make their and their families' experiences as pleasant as possible.
3. International compensation programs promote a smooth transition back to life in the United States upon completion of the international assignment. Repatriation is the process of making the transition from an international assignment and living abroad to a domestic assignment and living in the home country.
4. Sound international compensation programs promote U.S. business' lowest-cost and differentiation strategies in foreign markets.

5.3 EXECUTIVE COMPENSATION PACKAGES

Q4. What is executive compensation Packages? Discuss types.

Ans :

Introduction

Executive compensation is a very important thing to consider when evaluating an investment opportunity. Executives who are improperly compensated may not have the incentive to perform in the best interest of shareholders, which can be costly for those shareholders. While new laws and regulations have made executive compensation much clearer in company filings, many investors remain clueless as to how to find and read these critical reports. This article will take a look at the different types of executive compensation and how investors can find and evaluate compensation information.

Types of Executive Compensation

There are many different forms of executive compensation that offer a variety of tax benefits and performance incentives. Below are the most common forms:

1. Cash Compensation

This is the sum of all standard cash salary compensation that the executive receives for the year.

2. Option Grants

This is a list of all options granted to the executive; the information includes strike prices and expiration dates. (For related reading, see *The Controversy Over Option Compensation and A New Approach To Equity Compensation*.)

3. Deferred Compensation

This is compensation that is deferred until a later date, typically for tax purposes. However, changes in regulations have lessened the popularity of this type of compensation.

4. Long-Term Incentive Plans (LTIPs)

Long-term incentive plans encompass all compensation that is tied to performance for tax purposes. Current tax laws favor pay for performance-type compensation.

5. Retirement Packages

These are packages given to executives after they retire from the company. These are important to watch because they can contain so-called "golden parachutes" for corrupt executives. (For more insight, see *Pages From The Bad CEO Playbook*.)

6. Executive Perks

These are various other perks given to executives, including the use of a private jet, travel reimbursements and other rewards. These are found in the footnotes. (To learn more, check out *Footnotes: Start Reading The Fine Print*.)

Finding Executive Compensation

All executive compensation information can be found in public filings with the Securities and Exchange Commission (SEC). The SEC mandates that all public companies disclose how much they are paying their executives, how this amount is derived and who is involved in determining pay. The information itself is disclosed in several locations, including :

- **Form 8-K:** The current event filing can be used to disclose compensation information if the event is related to changes in compensation policies and/or procedures.
- **Form 10-K:** The annual report filing is always used to disclose yearly compensation information.
- **Form 10-Q:** The quarterly report filing also contains quarterly compensation information.
- **S-1/S-3 Forms:** New issues contain executive compensation information relevant for future investors to consider.

Q5. What are the Principles components of Executive Compensation Packages?

Ans :

Principles of Executive Compensation

1. Executive compensation should be closely aligned with the long-term interests of shareholders and with corporate goals and

strategies. It should include significant performance-based criteria related to longterm shareholder value and should reflect upside potential and downside risk.

2. Compensation of the CEO and other top executives should be determined entirely by independent directors, either as a compensation committee or together with the other independent directors based on the committee's recommendations.
3. The compensation committee should understand all aspects of executive compensation and should review the maximum payout and all benefits under executive compensation arrangements. The compensation committee should understand the maximum payout and consequences under multiple scenarios, including retirement, termination with or without cause, and severance in connection with business combinations or sale of the business.
4. The compensation committee should require executives to build and maintain significant continuing equity investment in the corporation.
5. The compensation committee should have independent, experienced expertise available to provide advice on executive compensation arrangements and plans. The compensation committee should oversee consultants to ensure that they do not have conflicts that would limit their ability to provide independent advice.
6. The compensation committee should oversee its corporation's executive compensation programs to see that they are in compliance with applicable laws and regulations and aligned with best practices.
7. Corporations should provide complete, accurate, understandable and timely disclosure to shareholders concerning all elements of executive compensation and the factors underlying executive compensation policies and decisions.

Components of Executive Compensation Packages

Executive compensation has both core and fringe compensation elements, much like compensation packages for other employees. However, one noteworthy feature distinguishes executive compensation packages from non-executive compensation packages. Executive compensation packages emphasize long-term or deferred rewards over short-term rewards. The main components of executive compensation include :

1. Current or annual core compensation
2. Deferred core compensation: stock compensation
3. Deferred core compensation: golden parachutes
4. Fringe compensation : enhanced protection program benefits and perquisites.

Q6. Explain the unique features of executive compensation package.

Ans :

Executive compensation packages has both cor and fringe compensation components similar to that of compensation packages. One of the remarkable feature which distinguishes executive compensation package from the non-executive compensation packages is that the executive compensation packages lays stress on long-term or deferred rewards over the short-term rewards. The important components of executive compensation are,

1. Current or annual core compensation which includes base pay, bonuses and incentives.
2. Deferred core compensation which includes stock compensation and golden parachutes.

1. Base Pay

Bonuses are used by companies to reward employees for the achievement of specific and remarkable goals.

Bonus is an important element of executive compensation packages. Mostly, bonuses are designed by the compensation professionals.

In executive compensation, there are four types of bonuses which are very common. They are,

- i) Discretionary bonus
- ii) Performance contingent bonus
- iii) Predetermined allocation bonus
- iv) Target plan bonus.

i) Discretionary Bonus

On an optional bases, This bonuses are awarded to the executives by the board of directors.

Discretionary bonus is awarded by considering four important factors, the profit of the company, the financial condition of the company, business conditions and the expectation for the future. If market position is strong in nature. company may award discretionary bonus.

ii) Performance Contingent Bonus

These bonuses are awarded on the basis of the accomplishment of specific performance standard.

iii) Predetermined Allocation Bonus

It is based on a fixed formula. The profits of the company is the main factor for deciding the size of the total bonus pool and bonus amounts.

iv) Target Plan Bonus

In the target plan bonus the bonuses are awarded on the basis of the performance of the executive.

If the performance of the executives falls below the minimum acceptable standards then the executive will not receive bonuses. The target plan bonus is different from the predetermined allocation bonus.

2. Short-term Performance Incentives

These bonuses are awarded to the corporate executives, for meeting the desired performance criteria. Short-term incentives recognize the executive's progress towards attaining competitive goals. Short-term incentive compensation programs usually apply to a group of selected executives within an organization.

It does not restrict to only one executive and the plan appose to more than one executive because the synergy that is a result from the efforts and expertise of top executives affects the performance of the company.

The board of directors distributes short-term incentives to each executive based on rank and compensation levels.

3. Long-term Performance Bonus

These are cash payments provided to the corporate executives. This bonus is awarded to the executives on the basis of their performance. The major difference is that it is warded after 2 years or more in the future and the size of the bonus is related to the achieved levels of performance.

4. Stock Compensation

It is a kind of executive's deferred compensation.

Company's stock represents total equity of the firm. Companies design stock compensation plans for the executives to promote a sense of ownership of the company among the executing. This will lead to gain in company's performance and stock value increases with gain in company's performance. Stock compensation include, company's performance. Stock compensation include,

- i) Incentive stock option plans
- ii) Non-statutory stock option plans
- iii) Restricted stock
- iv) Phantom stock plans
- v) Stock Appreciation Rights (SARs).

i) Incentive Stock Option Plans

These plans allows all executives to purchase the company's stock in future at a predetermined price. This means executives are purchasing the stocks at a discount price.

They receive income tax benefits in this case. These are type of employee stock option that can be granted only to employees. ISOs are also referred to as incentive share options or qualified stock point options.

ii) Non-statutory Stock Option Plans

Non-statutory stock options do not provide favorable tax treatment like incentive stock option plans. But they do provide executive an advantage i.e., stock prices increases over time and optical gains will be much greater in the future when they exercise their options than when their companies grant stock option for them.

iii) Restricted Stock

Restricted stock is a common type of long-term executive compensation. Restricted stock means that executive do not possess any ownership over the disposition of stock for a certain period usually 5 to 10 years. They have to sell back the stock to the company if they are leaving the company before the specified restricted period. The advantage is that they do not pay any tax on the income gained on the stock during the restricted period or until the restricted period ends.

iv) Phantom Stock Plans

Phantom stock plans are similar to restricted stock plans. In this case executive must meet two conditions.

v) Stock Appreciation Rights (SARs)

These rights provide executive income at the end of a determined period like those of restricted stock.

They will just be awarded the income based on the difference between the time the stock was granted at a fair market value till the end of the determined period.

5. Severance Packages

Severance plans normally includes employment contract which may contain severance opportunities.

In fact some organization now use these employment contracts to retain the individuals, by making it more difficult for them to get attacked by the recruiting offers from other organizations.

6. Employment Benefit and Prerequisites

Executive are provided with all the benefits which the organizations provide for their employees.

However, a special group of benefits that are provided mainly to executive are called prerequisites or "perks". Prerequisites are available only to executive and are called as executive benefits. Prerequisites begin where employee benefits end.

However, supplemental life insurance and supplemental executive retirement plans distinguish protection programs for executive employees from the protection programs of other employees.

The Executive prerequisites are an integral part of executive compensation packages. Perks cover a broad range of benefits for the executives from free lunches to free use of corporate jets.

Executives use perks for personal comfort or as a business tool. Some of the most common perks include,

- (a) Company provided car
- (b) Parking
- (c) Spouse travel
- (d) Use of company plane
- (e) Special dining rooms

Q7. Discuss the trends of executive compensation in India.

Ans : (Imp.)

1. Revisiting Clawbacks and 'Cause' Definitions

Expanding clawbacks and "cause" definitions to cover misconduct beyond financial matters may help ensure that a company will be able to recoup executive compensation in the event of reputational harm to the company or adverse publicity.

2. Change in Control and Severance Agreements

Due to financial challenges, a number of companies are facing difficult restructuring decisions. In addition, many financial buyers and competitors have not abandoned their strategic business plans and may initiate acquisitions of companies that are temporarily undervalued in the COVID-19-disrupted economic environment. Accordingly, companies may want to review existing change in control or severance arrangements or implement new arrangements.

With respect to severance arrangements, it is important to consider whether they are subject to the Employee Retirement Income Security Act (ERISA) and Internal Revenue Code Section 409A, and, depending on how post-termination health benefits are provided, determine any continuing health benefits compliance issues under COBRA. Companies should consider reviewing change in control arrangements to ensure leadership continues to be focused on the company's business and is protected in the event of an unexpected or unwanted transaction.

3. Temporary Salary Reductions

In light of the ongoing COVID-19 pandemic, many companies have changed a number of their internal compensation policies or practices in 2020. For example, companies may have implemented temporary salary reductions with promises to repay forgone salaries either later in 2020 or in a future year. It may be a good time to revisit such arrangements and ensure that any repayment is completed prior to March 15, 2021 to avoid potential Code Section 409A concerns.

In addition, companies may want to be aware of any state wage and hour laws implicated by these salary reductions. Publicly traded companies may want to confirm whether repayments are required to be disclosed under SEC rules.

Companies that implemented salary reductions may be at risk of losing key executives to competitors and should consider whether restoring compensation (or, alternatively, offering discretionary bonuses or retention awards) would assist in efforts to retain and motivate key executives.

5.4 COMPENSATING EXECUTIVES

Q8. Define executive compensation. What are the objectives of executive compensation.

Ans :

(Imp.)

The **Executive Compensation** refers to the financial payment and other non-monetary rewards given to the top executives in exchange for their services to the organization.

In other words, the executive compensation is the remuneration package given to the higher management of the firm for their work on the behalf of the organization. The kind of employees that are entitled to the executive compensation are corporate presidents, vice-presidents, chief executive officers, chief financial officers and other senior executives.

Often the key elements in the executive pay are:

- Base Salary
- Executive Bonuses
- Long-term incentives, such as stock options
- Retirement packages
- Deferred compensation
- Executive perks
- Other benefits and perquisites.

Objectives

The following are the main objectives of executive compensation policy

- The manager should be incentivized so that they adopt those strategies, investments, and actions that result in the increase in the shareholder value. Thus, an executive aligns his interest with the interest of the shareholder.
- The remuneration package should be designed such a way that it motivates the executives to work harder, take risks and take unpleasant decisions such as termination or retrenchment, aimed at increasing the shareholder's wealth.
- The executive compensation is often designed with the intent to retain the executives during the bad times caused due to the adverse market and industry factors.
- The cost of the executive pay must be limited to the extent where the shareholder's wealth does not get affected and, in fact, maximizes.

Generally, the executive compensation packages are designed by the board of directors, particularly the compensation committee, which is comprised of the independent directors. The purpose for which the committee is created is to

pay incentives to the executive team who play a significant role in decision making and is responsible for the corporate strategy and the overall value creation of the company.

5.5 COMPENSATING THE FLEXIBLE WORKFORCE

Q9. Explain the Compensation for Expatriates and Repatriates.

Ans :

Establishing a compensation plan for a job in a foreign location begins with the determination of base pay. The market or going rate of pay for a comparable job in the home country at the time of expatriation is normally used for setting this rate.

After setting base pay comes the determination of a Foreign Service Premium (FSP), which is an incentive bonus for performing the assignment in the host country. The FSP usually is expressed as a percentage of base pay and is part of the total pay received by the employee each pay period. Some organizations are now granting expatriate lump-sum bonuses in lieu of FSP's. These lump-sum payments are made at the time of expatriation and repatriation.

To maintain the employees' present standard of living in the foreign location, organizations provide a number of allowances to keep them "whole". A major one provides money for additional living costs (food, housing, transportation, and other consumables in the host country). Compensation managers obtain ballpark figures from various sources on additional living costs to be incurred in moving as employees to a foreign location. These courses include

- (1) U.S. Department of State Indexes of Living Costs Abroad and Quarters Allowances, published quarterly by the U.S. Department of State.
- (2) Reports available from other organizations. Other major providers of international compensation data and information are Associates for International Research, Incorporated; The Conference Board, Incorporated; ORC Worldwide, Runzheimer International; and Towers, Perrin. Living costs can include special allowances for utility expenses, servants, operation of the living quarters, and educational allowances for the children.

In host areas where conditions (climatic, political, or social) are undesirable, a "hardship" or "location" allowance is added to base pay. Most pay plans include a cost-equalization allowance that includes cost-of-living and housing allowances. The equalization allowance consists of the difference between the costs of food, other consumable items, services, and housing in the home country and the costs of those items in the host country. In some cases, the cost-of-living adjustment – is tied to a change in the currency exchange rate between home country and host country.

In addition to the aforementioned compensation items, a number of payments and services are provided to employees willing to accept a foreign assignment. These payments and services can be included within the following two groups.

1. Lifestyle enhancement services
2. Service allowances and premiums

Lifestyle enhancement services include a wide variety of programs that make living more acceptable and enjoyable at the foreign site. Some of these services include the following :

1. Provision for employee and family to learn the local language.
2. Education and training of employee and family on local culture, customs, and social expectations.
3. Counseling services for employees and family.
4. Assistance in finding a home at the foreign work site.
5. Assistance in finding schools and suitable education programs for children and dependents.
6. Company car, driver, domestic staff, and child care
7. Use of fitness facilities.
8. Subsidized health care services.
9. Assistance in joining local civic, social and professional organizations.
10. Assistance to spouse in finding suitable and acceptable employment.

Allowances and premiums beyond the Foreign Service Premium and tax equalization allowance could include the following :

1. Temporary living allowance
2. Hardship premium
3. Currency protection
4. Mobility premium
5. Home-leave allowance
6. Stopover allowance
7. Completion of assignment bonus
8. Assignment extension bonus
9. Emergency loan
10. Extended work week payment

Q10. Explain briefly about the different types of incentives offered to the expatriate.

Ans :

Base Pay

Base pay refers to the amount of money which an expatriate receives in his home country. The benefits and bonuses of expatriate are calculated on the basis of base pay. The salaries of expatriates are decided by taking into consideration the base pay of the home country. For example, if a German manager is working in Spain in a US MNC then he will receive basic pay according to the salary structure prevailing in Germany. Base pay is also known as basic pay or basic salary.

The three main incentives offered to expatriates are,

1. Hardship allowances or premiums
2. Foreign service premiums
3. Mobility premiums

1. Hardship Allowances or Premiums

Hardship allowances are paid to the expatriates to overcome undesirable life and poor working conditions in the foreign countries. A small amount of money in the form of allowances is provided to the expatriates at regular intervals till the completion of the foreign assignments.

Most of the MNC's (multinational companies) provide hardship allowance to executives, managers and supervisors. Hardship allowances may range from 10% to 25% of basic salary.

The US Department of State has recognized hardship locations on the basis of three different criteria as follows.

- (a) Extraordinary difficult living conditions like unsatisfactory transportation facilities, unsatisfactory recreational facilities, lack of proper housing facilities, isolation and absence of food or customer services.
- (b) Unhealthy conditions such as lack of hospitals, diseases and epidemics and absence of public provisions.

2. Foreign Service Premiums

Foreign service premiums are offered to motivate the employees to take up the expatriates assignment. Foreign service premiums are monetary rewards are provided the basic salary.

These premiums are calculated as a percentage of basic pay, usually ranging from 10% to 30% of the basic pay.

3. Mobility Premiums

Mobility premiums are paid to the employees for shifting from one assignment to another assignment. Mobility premiums are not paid in installments like the foreign service premiums. They are one time payments, paid in lump-sum amount.

The three types of incentives are paid to the employees for taking up the international assignment

Q11. How compensation for expatriates and repatriates in different? Explain strategic issue involved in it.

Ans :

(Imp.)

Sl.No.	Point of differences	Compensation for Expatriates	Compensation for Repatriates
1.	Meaning	The expatriates who are working for a company located in a foreign country, a subsidiary from their home country.	The repatriates who are coming back to home country after completing their foreign assignments.
2.	Purpose	This perform their tasks assigned to them by their home company in the host or a foreign country.	They already have their work assignments in the foreign country.
3.	Place of work	They have to work in a foreign country.	They have to work both in home and host countries.
4.	Incentives	They receive incentives ranging from cash bonuses to stock options and performance related payments.	They receive from allowances and special pay incentives unlike expatriates.
5.	Method of payment of base pay	The base pay for expatriates are set either by using home country based method, host country based method and head quarters based method.	The base pay for repatriates are set according to the normal compensation practices of the home country.
6.	Authority	They work on foreign assignments they are given complete authority to take independent decisions.	The authority given to the repatriates will be less when compared to expatriate.

5.6 CONTINGENT EMPLOYEES

Q12. Discuss about Contingent Workers / Employees.

Ans :

(Imp.)

Contingent workers engage in explicitly tentative employment relationships with companies. The duration of their employment varies according to their convenience and employees' business needs. Both men and women each account for 50 percent of total contingent employment in the United States.

Contingent workers most commonly hold professional (for example, accountant), clerical (for example, secretary), or laborer (for example, construction worker) positions; they perform jobs in the service and retail trade industries.

Core Employees

Core employees have full-time jobs (that is, they work at least 35 hours per week), and they generally plan long-term or indefinite relationships with their employers. In addition, all core employees are assumed to work standard schedules – fixed 8-hour work shifts, 5 days per week. Compensation practices differ somewhat for the flexible workforce.

Groups of Contingent Workers

There are four distinct groups of contingent workers :

- Part-time employees
- Temporary and on-call employees
- Leased employees
- Independent contractors, free-lancers, and consultants

Part-Time Employees

The Bureau of Labour Statistics distinguishes between two kinds of part-time employees : voluntary and involuntary.

- a) A voluntary part-time employee chooses to work fewer than 35 hours per regularly scheduled workweek. In some cases, individuals supplement full-time employment with part-time employment to meet financial obligations.

Some workers, including a small but growing number of professionals, elect to work part-time as a lifestyle choice. These part-timers sacrifice pay, and possibly career advancement, in exchange for more free time to devote to family, hobbies, and personal interests. They often have working spouses whose benefits, generally including medical and dental insurance, extend coverage to family members.

- b) Involuntary part-time employees work fewer than 35 hours per week because they are unable to find full-time employment. Involuntary part-time work represents the lion's share of all part-time employment. There is a commonly held but inaccurate stereotype of involuntary part-time workers as being low-skilled and uninterested in career advancement. To the contrary, many involuntary part-time workers hold entry-level career-track jobs. Although we have discussed voluntary and involuntary part-time work as part of the contingent workforce, it is important to emphasize that many core workers negotiate part-time schedules with employers.

Companies may experience advantages and disadvantages from employing part-time workers. Flexibility is the key advantage. Most companies realize a substantial cost savings because they offer few or no discretionary benefits. Employers save considerable money in the areas of paid leave, insurance, and legally required benefits.

Companies also save on overtime pay expenses. Hiring part-time workers during peak business periods minimizes overtime pay costs. Retail businesses save by employing part-time sales associates during the peak holiday shopping season.

- c) Job sharing is a special kind of part-time employment agreement. Two or more part-time employees perform a single full-time job. These employees may perform all job duties or share the responsibility for particular tasks. Some job shares meet regularly to coordinate their efforts. Job sharing represents a compromise between employees' needs or desires not to work full-time and employers' needs to staff jobs on a full-time basis.

Temporary and On-Call Employees

Companies traditionally hire temporary employees for two reasons.

1. Temporary workers fill in for core employees who are on approved leaves of absence, including sick leave, vacation, bereavement leave, jury duty, and military leave.

2. Temporary workers offer extra sets of hands when companies' business activities peak, during such times as the holiday season for retail businesses or summer for amusement parks.

Temporary employees perform jobs on a short-term basis usually measured in days, weeks, or months. More recently, companies have been hiring temporary workers for three additional reasons.

1. Temporary employment arrangements provide employers the opportunity to evaluate whether legitimate needs exist for creating new positions.
2. Temporary employment arrangements give employers the opportunity to decide whether to retain particular workers on an indefinite basis.
3. Employing temporary workers is often less costly than employing core workers because temporary workers are less likely to receive costly discretionary benefits.

Leased Employee Arrangements

Lease companies employ qualified individuals and place them in client companies on a long-term basis. Most leasing companies bill the client for the direct costs of employing the workers – such as payroll, benefits, and payroll taxes – and then charge a fixed fee. Lease companies base these fees on either a fixed percentage of the client's payroll or a fixed fee per employee.

Lease companies and temporary employment agencies are similar because both manage all HR activities. Thus, lease companies provide both wages and benefits to their employees. Lease companies and temporary employment agencies differ in an important respect, however. Lease company placements generally remain in effect for the duration of the lease company's contract with the host company.

Independent Contractors, Freelancers, and Consultants

Independent contractors, freelancers and consultants establish working relationships with companies on their own rather than through

temporary employment agencies or lease companies. Independent contractors typically possess specialized skills that are in short supply in the labour market. Companies select independent contractors to complete particular projects of short-term duration – usually a year or less. Adjunct faculty members represent a specific example of independent contractors. Colleges and universities hire them to cover for permanent faculty members who are on sabbatical leave or until they hire tenure-track replacements. In addition, some companies staff segments of their workforces with independent contractors to contain discretionary benefits costs.

Q13. Discuss a plan for compensating flexible workforce.

Ans :

Planning and deliberation are necessary before a flexible benefits plan is started. A number of groups must have a voice in its initial design. Three major groups that must participate are (1) senior management (for setting objectives and determining policy), (2) compensation and human resources specialists (for guiding the development of and assisting in the constructing of program that meets organizational objectives and the perceptions and demand of the employees), and (3) the employees (for providing initial inputs about what should be included in a benefits program, ranking by value, and finally making choice).

1. The modular plan consists of "modules" or packages of benefits. All of the modules have the same kinds of benefits but offer various kinds of coverage. A major disadvantage is that adverse selection can occur.
2. The core plan provides a certain core of benefits to all employees and then offers a certain number of benefit to purchase additional benefits. This kind of plan requires in depth analysis to establish proper pricing.
3. The benefits bank is a modification of the core plan. Only a core package of benefits is provided and all savings between the cost of the core package and the cost of the original benefits package is placed in a bank.
4. The unlimited choice plan grants each employee a fixed amount of credit, and all available benefits are priced. The employee

then matches available funds with selected benefits. No core of benefits is established. This plan can be dangerous because employee might not select proper or adequate protection.

5. The mini-flex plan uses salary reduction to pay the employee's share of contributory benefits. This enables employees to make contributions with pretax rather than after-tax. The plan is easy to administer but does not offer employees a choice of the benefits.

5.7 FLEXIBLE WORK SCHEDULES

Q14. Discuss about Flexible Work Schedules and its advantages and Disadvantages.

Ans :

Many companies now offer employees flexible work schedules to help them balance work and family demands. Flextime and compressed workweek schedules are the most prominent flexible work schedules used in companies. Flexible work schedule practices apply to both core employees and contingent employees.

Flextime Schedules

Flextime schedules allow employees to modify their work schedules within specialised limits set by the employer. Employees adjust when they will start work and when they will leave. However, flextime generally does not lead to reduced work hours. For instance, an employee may choose to work between 10 A.M. and 6 P.M., 9 A.M. and 5 P.M. or 8 A.M. to 4 P.M.

All workers must be present during certain workday hours when business activity is regularly high. This period is known as core hours. The number of core hours may vary from company to company, by departments within companies, or by season.

Some flextime programs incorporate a banking hours feature that enables employees to vary the number of work hours daily as long as they maintain the regular number of work hours on a weekly basis.

Employers can expect three possible benefits from using flextime schedules.

- (a) Flextime schedules lead to less tardiness and absenteeism.
- (b) Flexible work schedules should lead to higher work productivity. Employees have more choice about when to work during the day.
- (c) Flexible work schedules benefit employers by creating longer business hours and better service. Staggering employees' schedules should enable business to stay open longer hours without incurring overtime pay expenses.

Compressed Workweek Schedules

Compressed workweek schedules enable employees to perform their work in fewer days than a regular 5-day workweek. As a result, employees may work four 10-hour days or three 12-hour days. These schedules can promote companies' recruitment and retention successes by :

- Reducing the number of times employees must commute between home and work.
- Providing more time together for dual-career couples who live apart.

Telecommuting

Telecommuting represents an alternative work arrangement in which employees work at home or at some other location besides the office. Telecommuters generally spend part of their time working in the office and the other part working at home. This alternative work arrangement is appropriate for work that does not require regular direct interpersonal interactions with other workers. Examples include accounting, systems, analysis, and telephone sales. Telecommuters stay in touch with coworkers and superiors through electronic mail, telephone, and faxes.

Advantages

Potential benefits for employers include increased productivity and lower overhead costs for office space and supplies. Telecommuting also serves as an effective recruiting and retention practice for employees who strongly desire to perform their jobs away from the office. Employers may also increase the retention of valued employees who choose not to move when their companies relocate.

Employees find telecommuting beneficial. Telecommuting enables parents to be near their infants or preschool-age children and to be home when older children finish their school days.

Disadvantages

Telecommuting programs may also lead to disadvantages for employers and employees. Some employers are concerned about not having direct contact with employees, which makes conducting performance appraisals more difficult. Employees sometimes feel that work-at-home arrangements are disruptive to their personal lives. In addition, some employees feel isolated because they do not personally interact as often with coworkers and superiors.

5.8 STRATEGIC ISSUES AND CHOICES IN USING CONTINGENT AND FLEXIBLE WORKERS

Q15. What are the Strategic Issues and Choices in Using Contingent and Flexible Workers?

Ans :

(Imp.)

The compensation practices which are undertaken by the company must go along with its competitive strategy. If compensation practices are implemented properly then it would result in achieving the company's competitive strategies. The reasons/criteria for suitability of contingent employment and flexible work schedules varies depending upon the significance of low-cost competitive strategies and differentiation strategies.

There are two different competitive strategies which suit the contingent and flexible employees as follows,

1. Differentiation competitive strategy
2. Low-cost competitive strategy.

1. Differentiating Strategy

The employees following differentiation strategy must have creative broad-minded and risk-taking employees. Companies pursuing differentiation strategies must make long-term emphasis on achieving predetermined goals. Differentiation strategy is most suitable for the contingent employment as the fresh candidates are recruited in the company at regular intervals who come up with fresh ideas to contribute in the formation of strategies of the company. Contingent employment must overcome the problem of 'groupthink' wherein all the group members show their approval on wrong solutions due to their similar mindset and the way they perceive the company's issues.

Even flexible work schedules or flexible workers develop the differentiation competitive strategy mainly due to two reasons,

- (a) Flexible work schedules allow workers to work at their own convenient hours (i.e., as per their interest). Employees can work effectively and can make greater contributions. When they are allowed to work flexibly instead of following the standard work schedules.
- (b) Flexible work schedules facilitate employees to work when they are free from personal tensions and worries. Flexible workers can manage their personal and professional life very efficiently than employees with fixed work schedules.

2. Low-cost Strategy

Companies which pursue low-cost competitive strategy are required to minimize the output cost per employee. Contingent employment helps the organization in achieving the low-cost competitive strategy as it does not pay the discretionary benefits to the employees, which constitutes an important part of the company's total fiscal cost.

Companies usually hire trained contingent workers which reduces the training cost of the company. Some contingent employees may lack knowledge regarding the company's specific work practices and procedures. In such situations, company needs to provide proper training programmes to train contingent employees on work related practices and procedures.

The three factors which are responsible for increasing the training cost in the short-term are,

- (a) Downtime when employees are in the training period.
- (b) Training material cost and trainer's fees.
- (c) Cost incurred due to the employee's mistakes before training.

Flexible schedules are also suitable for low-cost competitive strategy. According to a research study, flexible workers are more regular and punctual than employees working at fixed work schedules.

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Short Question and Answers

1. International compensation

Ans :

Designing and developing a better compensation package for HR professionals for the international assignments requires knowledge of taxation, employment laws, and foreign currency fluctuation by the HR professionals. Moreover, the socio-economic conditions of the country have to be taken into consideration while developing a compensation package. It is easy to develop the compensation package for the parent country national but difficult to manage the host and third country nationals. When a firm develops international compensation policies, it tries to fulfill some broad objectives:

- i) The compensation policy should be in line with the structure, business needs and overall strategy of the organization.
- ii) The policy should aim at attracting and retaining the best talent.
- iii) It should enhance employee satisfaction.
- iv) It should be clear in terms of understanding of the employees and also convenient to administer.

2. Base Salary

Ans :

This term has a slightly different meaning in an international context than in a domestic one. In the latter case, it denotes the amount of cash compensation that serves as a benchmark for other compensation elements like bonus, social benefits. For the expatriate, it denotes the main component of a package of allowances directly related to the base salary and the basis for in-service benefits and pension contributions. Base salary actually forms the foundation block of the international compensation.

3. Allowances

Ans :

One of the most common kinds of allowance internationally is the Cost of Living Allowance (COLA). It typically involves a payment to compensate for the differences in the cost of living between the two countries resulting in an eventual difference in the expenditure made. A typical example is to compensate for the inflation differential. COLA also includes payments for housing and other utilities, and also personal income tax. Other major allowances that are often made are:

- Home leave allowance
- Education allowance
- Relocation allowance
- Spouse assistance (compensates for the loss of income due to spouse losing their job)

Thus, multinationals normally pay these allowances to encourage employees to take up international assignments to make sure that they are comfortable in the host country in comparison to the parent country.

4. Benefits

Ans :

The aspect of benefits is often very complicated to deal with. For instance, pension plans normally differ from country to country due to difference in national practices. Thus all these and other benefits (medical coverage, social security) are difficult to imitate across countries.

Thus, firms need to address a number of issues when considering what benefits to give and how to give them. However, the crucial issue that remains to be dealt with is whether the expatriates should be covered under the home country benefit programmes or the ones of the host country. As a matter of fact, most US officials are covered by their home country benefit programmes. Other kinds of benefits that are offered are:

- Vacation and special leaves
- Rest and rehabilitation leaves
- Emergency provisions like death or illness in the family

These benefits, however, depend on the host country regulations.

5. Incentives

Ans :

In recent years some MNC have been designing special incentives programmes for keeping expatriate motivated. In the process a growing number of firms have dropped the ongoing premium for overseas assignment and replaced it with on time lump-sum premium. The lump-sum payment has at least three advantages. First expatriates realize that they are paid this only once and that too when they accept an overseas assignment. So the payment tends to retain its motivational value. Second, costs to the company are less because there is only one payment and no future financial commitment. This is so because incentive is separate payment, distinguishable for a regular pay and it is more readily for saving or spending.

6. Employee Stock Option Plan (ESOP)

Ans :

A certain nos. of shares are reserved for purchase and issuance to key employees. Such shares serve as incentive for employees to build long term value for the company.

7. Stock Compensation

Ans :

It is a kind of executive's deferred compensation.

Company's stock represents total equity of the firm. Companies design stock compensation plans for the executives to promote a sense of ownership of the company among the executives. This will lead to gain in company's performance and stock value increases with gain in company's performance. Stock compensation include, company's performance. Stock compensation include,

- i) Incentive stock option plans
- ii) Non-statutory stock option plans
- iii) Restricted stock
- iv) Phantom stock plans
- v) Stock Appreciation Rights (SARs).

8. Base Pay

Ans :

Base pay refers to the amount of money which an expatriate receives in his home country. The benefits and bonuses of expatriate are calculated on the basis of base pay. The salaries of expatriates are decided by taking into consideration the base pay of the home country. For example, if a German manager is working in Spain in a US MNC then he will receive basic pay according to the salary structure prevailing in Germany. Base pay is also known as basic pay or basic salary.

The three main incentives offered to expatriates are,

1. Hardship allowances or premiums
2. Foreign service premiums
3. Mobility premiums

9. Core Employees

Ans :

Core employees have full-time jobs (that is, they work at least 35 hours per week), and they generally plan long-term or indefinite relationships with their employers. In addition, all core employees are assumed to work standard schedules – fixed 8-hour work shifts, 5 days per week. Compensation practices differ somewhat for the flexible workforce.

10. Part-Time Employees

Ans :

The Bureau of Labour Statistics distinguishes between two kinds of part-time employees : voluntary and involuntary.

- a) A voluntary part-time employee chooses to work fewer than 35 hours per regularly schedules workweek. In some cases, individuals supplement full-time employment with part-time employment to meet financial obligations.

Some workers, including a small but growing number of professionals, elect to work part-time as a lifestyle choices. These part-timers sacrifice pay, and possibly career advance-ment, in exchange for more free time to devote to family, hobbies, and personal interests. They often have working spouses whose benefits, generally including medical and dental insurance, extend coverage to family members.

- b) Involuntary part-time employees work fewer than 35 hours per week because they are unable to find full-time employment. Involuntary part-time work represents the lion's share of all part-time employment. There is a commonly held but inaccurate stereotype of involuntary part-time workers as being low-skilled and uninterested in career advancement. To the contrary, many involuntary part-time workers hold entry-level career-track jobs. Although we have discussed voluntary and involuntary part-time work as part of the contingent workforce, it is important to emphasize that many core workers negotiate part-time schedules with employers.

Companies may experience advantages and disadvantages from employing part-time workers. Flexibility is the key advantage. Most companies realize a substantial cost savings because they offer few or no discretionary benefits. Employers save considerable money in the areas of paid leave, insurance, and legally required benefits.

11. Flextime Schedules*Ans :*

Flextime schedules allow employees to modify their work schedules within specialised limits set by the employer. Employees adjust when they will start work and when they will leave. However, flextime generally does not lead to reduced work hours. For instance, an employee may choose to work between 10 A.M. and 6 P.M., 9 A.M. and 5 P.M. or 8 A.M. to 4 P.M.

All workers must be present during certain workday hours when business activity is regularly high. This period is known as core hours. The number of core hours may vary from company to company, by departments within companies, or by season.

Some flextime programs incorporate a banking hours feature that enables employees to vary the number of work hours daily as long as they maintain the regular number of work hours on a weekly basis.

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Choose the Correct Answer

1. TCNs stands for, [b]
(a) Third Committee Norms (b) Third Country Nationals
(c) Three Country Nations (d) Three Compensating Nations.
2. _____ plans allows executives to purchase the company's stock in future at a predetermined price. [a]
(a) Incentive stock option plans (b) Non-statutory stock option plans.
(c) Phantom stock plans (d) Restricted stock.
3. Temporary workers/employees are also known as [d]
(a) Contractual workers (b) Temps
(c) Seasonal workers (d) a or b or c.
4. _____ is an alternative work arrangement in which employees can work from home. [a]
(a) Telecommuting (b) Flexi time schedules
(c) Compressed work (d) None of the above, week schedules
5. _____ is an agreement between an employee and employer that the employee will receive the compensation from the employer on a future date [c]
(a) International compensation (b) Restricted compensation
(c) Referred compensation (d) Stock compensation.
6. One main issue involved in core compensation for flexible employees is [b]
(a) Paid time off benefits (b) Overtime pay
(c) Working condition fringe benefits. (d) None of the above.
7. _____ are paid to the expatriates facing undesirable life and poor working conditions. [c]
(a) Foreign service (b) Mobility premiums premiums
(c) Hardship premiums (d) a or b.
8. _____ are offered to those expatriates who are working on long-term foreign assignments. [a]
(a) Foreign service premiums (b) Hardship premiums
(c) Mobility premiums (d) Hoarding premiums.
9. Which of the following reason has contributed to the growth of contingent employees. [d]
(a) Global competition (b) Economic recession
(c) Increase in female workforce (d) All the above.
10. Executives trying to protect their own interest rather than shareholder's interest is considered as _____ . [b]
(a) Executives problem (b) Agency problem
(c) Shareholders problem (d) Organization problem.

Fill in the Blanks

1. _____ are those employees who come from other country for operation.
2. The two components of executive compensation packages are core and _____ components.
3. SARs stands for _____
4. _____ provide pay and benefits to executives after the terminations as a result of take over.
5. _____ worker is hired through a temporary help agency on-call basis or on independent contract.
6. _____ income is paid to the expatriate in order to compensate variety of financial obligations.
7. _____ are those people who come back to home country after completing the foreign assignments.
8. Prerequisites are a special group of benefits provided to executives. Prerequisites are also known as _____
9. _____ refers to the rewards offered to executives for providing excellent services and expertise to an organization.
10. Low cost strategy and _____ strategy are the two main strategies which are used for contingent and flexible employees.

ANSWERS

1. Expatriates
2. Fringe
3. Stock appreciation rights
4. Golden parachutes
5. Contingent
6. Discretionary
7. Repatriates
8. Perks
9. Executive compensation
10. Differentiation

FACULTY OF MANAGEMENT
B.B.A III Year V Semester (CBCS) Examination
Model Paper - I
COMPENSATION MANAGEMENT

Time : 3 Hours]

[Max. Marks : 80

SECTION - A (5 × 4 = 20)
Answer any 5 Questions

ANSWERS

- | | |
|---------------------------------------|-------------------|
| 1. (a) Compensation | (Unit-I, SQA-1) |
| (b) Define compensation system. | (Unit-I, SQA-12) |
| (c) Seniority Pay | (Unit-II, SQA-5) |
| (d) Job Evaluation. | (Unit-III, SQA-4) |
| (e) Grading Method | (Unit-III, SQA-6) |
| (f) VEBA | (Unit-IV, SQA-8) |
| (g) Allowances | (Unit-V, SQA-3) |
| (h) Employee Stock Option Plan (ESOP) | (Unit-V, SQA-6) |

SECTION - B (5 × 12 = 60)
Answer all the Questions

- | | |
|--|--------------------------|
| 2. (a) What is meant by compensation? Explain the evolution process of compensation management? | (Unit-I, Q.No. 1, 2) |
| OR | |
| (b) Analyze the emerging Trends in Compensation Management. | (Unit-I, Q.No. 23) |
| 3. (a) Explain the types of traditional pay system? | (Unit-II, Q.No. 3) |
| OR | |
| (b) How should an organization integrate its competitive strategy into its compensation system what specific steps would you follow? | (Unit-II, Q.No. 9) |
| 4. (a) Elucidate the various Methods for Collecting Job Analysis Information. | (Unit-III, Q.No. 6) |
| OR | |
| (b) Discuss the process of compensation survey. | (Unit-III, Q.No. 16) |
| 5. (a) What are advantages and disadvantages of employee benefits. Explain the reasons to offer Employee Benefits. | (Unit-IV, Q.No. 2) |
| OR | |
| (b) Discuss the concept of VEBA ? Explain the funding requirements can be met by VEBA. | (Unit-IV, Q. No. 19, 20) |
| 6. (a) Define international compensation? Explain the components of international compensation. | (Unit-V, Q.No. 1) |
| OR | |
| (b) Discuss about Contingent Workers / Employees. | (Unit-V, Q.No. 12) |

FACULTY OF MANAGEMENT
B.B.A III Year V Semester (CBCS) Examination
Model Paper - II

COMPENSATION MANAGEMENT

Time : 3 Hours]

[Max. Marks : 80

SECTION - A (5 × 4 = 20)

Answer any 5 Questions

ANSWERS

- | | |
|----------------------------------|-------------------|
| 1. (a) Extrinsic Compensation | (Unit-I, SQA-5) |
| (b) Piece Rate System | (Unit-I, SQA-8) |
| (c) Longevity Pay | (Unit-II, SQA-6) |
| (d) Merit Pay | (Unit-II, SQA-1) |
| (e) Job Analysis | (Unit-III, SQA-2) |
| (f) Objectives of Job Evaluation | (Unit-III, SQA-5) |
| (g) Unemployment Insurance | (Unit-IV, SQA-3) |
| (h) Base Salary | (Unit-V, SQA-2) |

SECTION - B (5 × 12 = 60)

Answer all the Questions

- | | |
|---|----------------------|
| 2. (a) "Compensation refers to both extrinsic and intrinsic rewards".
Explain the statement. | (Unit-I, Q.No. 9) |
| OR | |
| (b) What are the Goals of Compensational Professionals? | (Unit-I, Q.No. 17) |
| 3. (a) What are the objectives of wage and salary administration?
What factors should be considered in fixing wages? | (Unit-II, Q.No. 6) |
| OR | |
| (b) What are the differences between Traditional Pay and Incentive Pay? | (Unit-II, Q.No. 19) |
| 4. (a) What are the different approaches of job evaluation process? | (Unit-III, Q.No. 13) |
| OR | |
| (b) Explain in detail about compensation survey data. Also discuss about methods of compensation survey. | (Unit-III, Q.No. 18) |
| 5. (a) What are the Legally Requirement Benefits ? Explain their types. | (Unit-IV, Q.No. 8) |
| OR | |
| (b) Discuss some important fringe benefits provided both to PSU employees and private sector employees. | (Unit-IV, Q. No. 22) |
| 6. (a) Discuss the trends of executive compensation in India. | (Unit-V, Q.No. 7) |
| OR | |
| (b) Discuss about Flexible Work Schedules and its advantages and Disadvantages. | (Unit-V, Q.No. 14) |

FACULTY OF MANAGEMENT
B.B.A III Year V Semester (CBCS) Examination
Model Paper - III
COMPENSATION MANAGEMENT

Time : 3 Hours]

[Max. Marks : 80

SECTION - A (5 × 4 = 20)*Answer any 5 Questions***ANSWERS**

- | | |
|------------------------------------|--------------------|
| 1. (a) Reward | (Unit-I, SQA-10) |
| (b) Intrinsic Compensation | (Unit-I, SQA-4) |
| (c) Wage and Salary Administration | (Unit-II, SQA-3) |
| (d) Compensation Survey | (Unit-III, SQA-9) |
| (e) Broadbanding | (Unit-III, SQA-11) |
| (f) Social Security | (Unit-IV, SQA-2) |
| (g) Benefits | (Unit-V, SQA-4) |
| (h) Core Employees | (Unit-V, SQA-9) |

SECTION - B (5 × 12 = 60)*Answer all the Questions*

- | | |
|---|----------------------|
| 2. (a) What do you mean by Compensation Structure ? What are the components of modern Compensation structure? | (Unit-I, Q.No. 11) |
| OR | |
| (b) Discuss about Non-Financial Compensation System. | (Unit-I, Q.No. 20) |
| 3. (a) Discuss about Seniority and Longevity Pay. | (Unit-II, Q.No. 10) |
| OR | |
| (b) What is meant by employee stock option plan? Explain its merits and demerits. | (Unit-II, Q.No. 25) |
| 4. (a) How to build Market Competitive Compensation System ? | (Unit-III, Q.No. 14) |
| OR | |
| (b) Examine the process of Building Pay Structure that Recognize Individual Contributions. | (Unit-III, Q.No. 21) |
| 5. (a) Explain the components or types of employee services. | (Unit-IV, Q.No. 16) |
| OR | |
| (b) Discuss about Totally Integrated Employee Benefit Program. | (Unit-IV, Q. No. 24) |
| 6. (a) How compensation for expatriates and repatriates in different? Explain strategic issue involved in it. | (Unit-V, Q.No. 1) |
| OR | |
| (b) What are the Strategic Issues and Choices in Using Contingent and Flexible Workers? | (Unit-V, Q.No. 12) |