ABIT

COMPENSATION & BENEFIT MANAGEMENT

Introduction (Module-1)

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CONCEPT OF COMPENSATION

Compensation of employees for their services is important responsibility of human resource management. Every organization must offer good wages and fringe benefits to attract and retain talented employees with the organization. If at any time, the wages offered by a firm are not competitive as compared to other firms, the efficient workers may leave the firm. Therefore, workers must be remunerated adequately for their services. Compensation to workers will vary depending upon the nature of job, skills required, risk involved, nature of working conditions, paying capacity of the employer, bargaining power of the trade union, wages and benefits offered by the other units in the region or industry etc. Considering that the current trend in many sectors (particularly the knowledge intensive sectors like IT and Services) is to treat the employees as “creators and drivers of value” rather than one more factor of production, companies around the world are paying close attention to how much they pay, the kind of components that this pay includes and whether they are offering competitive compensation to attract the best talent.

The literal **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 form and various benefits, which may be associated with employee’s service to the employer like provident fund, gratuity, insurance scheme and any other payment which the employee receives or benefits he enjoys in lieu of such payment.

Definition- Compensation refers to all forms of financial returns and tangible services and benefits employees receive as part of an employee relationship.

Characteristics of Compensation Plans

1. **Availability of compensation**– For employees to perform well in the job there should be adequate compensation. Availability of high compensation motivates employees to perform better.
2. **Timeliness** – Compensation must be provided to all employees on time.
3. **Performance Related** – There should be a direct relation between performance and compensation.
4. **Durability** – Some types of compensation like the non-monetary ones(autonomy, accountability etc) provide a long-lasting effect.
5. **Equity**–Compensation should always be equal for people with the same job profile. When employees compare compensation it should be perceived to be equal.
6. **Visibility**–There should be a degree of visibility in terms of compensation so that employees perceive that the jobs with more responsibility carry more compensation.
7. **Flexibility**– There should be some amount of flexibility in the system to accommodate different contingencies for staff.
8. **Cost Effective** – From the organization's perspective, compensation is a cost. Hence, they always try to minimise this cost.

Concept of Compensation Management

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

Compensation Management is designing and implementing total compensation package with a systematic approach to adding value to employees in exchange for work performance.

Importance – It is an integral part of HRM which helps in motivating the employees and increasing the organizational effectiveness.

All companies must determine how and what to pay their workers and when to offer things like raises, bonuses and other incentives

Principles of Compensation Management

1. The compensation should be paid to each employee on the basis of their abilities and training.

2. Compensation should be in the form of package.

3. It should motivate the employees towards increasing productivity.

4. It should be capable of taking care of employees for safety and security needs also.

5. It should be flexible and clear.

6. It should not be excessive.

7. Compensation should be decided by the management as per the norms fixed by the legislations in consultation with the union.

Objectives of Compensation Management:

1. **Equity** – Compensation management strives for external and internal equity. Internal equity requires that pay be related to the relative worth of the job so that similar jobs get similar pay. External equity means paying workers what other firms in the labour market pay to comparable workers. The differences in compensation are related to differences in skills and contribution.

2. **Efficiency**–The objectives of efficiency are reflected in attempts to link a part of wages to productivity or profit.

3. **Macroeconomic Stability** – It can be achieved through high employment levels and low inflation.

4. **Efficient Allocation of Labour** – This implies employees will move to wherever they receive a net gain. Such movements may be from one geographical location to another, or from one job to another. The provision or availability of financial incentives causes such movement.

Apart from these objectives, a well-designed compensation package helps and organization achieve these additional objectives:

5. **Recruit qualified people** – Compensation needs to be high enough (Premium wages) to attract qualifies personnel.

6. **Retain present employees** – Employees may quit when when compensation levels are not competitive.

7. **Reward desired behaviour** – Pay should reinforce desired behaviour and act as incentive for such behaviour to occur in the future. Effective compensation plans reward performance, loyalty, experience, responsibility.

8. **Appreciate smart work, creativity & innovation** – The compensation package should make considerations for smart work, creativity and innovation.

9. **Control costs** – A rational compensation system helps the organization to obtain and retain workers at a reasonable cost.

3P COMPENSATION CONCEPT

There are three parameters which need to kept in mind while designing the compensation system in an organization.

1) Payment for Position

It is also called as Pay for Position / Position based Pay / Job Based Pay. It pays employees for the job to which they are assigned, regardless of the skills they possess. The pay is centred on the job or position and not on the person. It is traditional in approach.Each position is assigned and pay range is based on the job duties. The employee compensation is set in broadband based system or on qualification, education, training & experience. The broadbanding is used to help employees progress up through the broadband.

2) Payment for Person

It is called known as Pay for person / Person focussed Pay/Skill based Pay/ Knowledge based Pay / Competency based pay structure. The pay is linked to the depth or breadth of the skills, abilities, competency and knowledge a person acquires and applies to the work. The structure is based on skill and pays individuals for all the skills for which they have been certified regardless of whether the work requires it or not. The pay increases are usually tied to 3 types of skills :

- Horizontal skills and broadbanding of skills in terms of the range of tasks
- Vertical skills – Involves acquiring skills of a higher level.
- Depth Skills – Involves a high level of skills in specialized areas relating to the same job

As this encourages and rewards a broad range of skills, the employees become multiskilled and more flexible and valuable. It considers the market demand of a person's unique skills & expertise.

3) Payment for Performance

It is also known as Pay for Performance / Performance related pay / Performance based Pay. It is a financial reward system for employees where some or all of their monetary compensation is related to how their performance is assessed relating to a stated criteria.The criteria is based on individual, group or organizational performance or on a mixture of them. The individual based criteria are:

- Individual goal setting
- An appropriate performance appraisal system
- Individual training to increase job knowledge & skill
- Individual should have a large measure of control over his / her own performance

Team based criteria is appropriate where individual performance is difficult to measure.

Factors Influencing Compensation

Internal Factors

1) **Ability to pay** – This is the most important determinant of compensation. Often organizations with their good intention to pay fail to pay competitive compensation due to their financial handicap.

2) **Organizational Strategy –** Compensation programme of an organization is also influenced by their strategy and business goals. For faster growth, some organizations offer higher compensation. For stable growth, organizations may stick to reasonable compensation level.

3) **Competency Level** – When employees' competency level matches with the organization's required competency level for the specific job positions, competency would be higher.

4) **Performance of employees** – Employees get more compensation when they meet and exceed the expected level of performance.

5) **Seniority & Job experience** – With experience and seniority, employees are expected to perform better due to their increased understanding of the job.

6) **Employee Compensable factors for the job** – The compensable factors are determined by job evaluation. Jobs with higher compensable factors get higher compensable and vice versa.

External Factors

1) **Legal mandates** – In all countries legal mandates influence the compensation design. In India we have the Minimum Wages Act, Factories Act, Payment of Wages Act, Payment of Bonus Act, Industrial Disputes Act, Equal Remuneration Act etc

2) **Labour market trends** – This not only takes into account the demand and supply of labour but also the other issues like compensation trend, cost of livingand other organizational practices.

3) **Economic state of the country** – Economic ups and downs may have potential effect on compensation.

4) **Inflation Rate** – Fluctuation in the rate of inflation may affect the compensation levels.

5) **Technological changes** – Technological changes bring compositional shift in skill requirements, resulting in increased pay for employees who acquire such skills.

Determining Compensation Structure

The compensation structure in any organization is composed of the different compensation rates within an organization. This includes the difference in the amount of compensation given to each level, the no. of levels and the rate of progress by an employee in each level. The five steps used to develop a compensation structure are as follows:

1) Determining the no. of pay structures
2) Determining a Market Pay Line
3) Defining Pay Grades
4) Calculating Pay Grades for Each Pay Grade
5) Evaluating the Results

1) **Determining the no. of pay structures** – Depending upon the market rates and the job structure of the firm, more than one pay structure is decided by many firms. Most of the common pay structures include:

   i) Pay structures based on job family – Executives, clerical, managerial, technical, craftsmen etc are different job families.
   ii) Pay structures based on geography – Pay structures vary in diff locations due to difference in cost of living. The same firm having units in diff locations can pay differently.
   iii) Exempt and Non-exempt pay structures – In case of exempt category of jobs there will be no overtime pay provision. This is available only to non-exempt category and is decided by the firms.

2) **Determining a Market Pay Line –** A market pay line is drawn by comparing the typical market pay rates in comparison to the job structure of the company. The pay rates in the organization which conform to the market pay rates are called the competitive pay rates.

3) **Defining Pay Grades –**Jobs are clubbed into different grades depending on the same compensable elements and values.Job grades are groupings of positions with similar worth. Organizations can either use their job evaluation data to group

positions into job grades or use their market data to band together positions based on similar salary survey data. An employer can have as many or as few pay grades as it wants. A startup or small organization may have only three or four pay grades. Larger organizations can use more pay grades as required.Each grade is assigned its compensation and all the pay grades taken together decide the pay policy.

Job Family	Job Category	Job Title
Human Resources	Comp and Benefits	Total Rewards Manager
		Compensation Specialist
		Benefits Specialist
	Talent Acquisition	Talent Acquisition Manager Senior Recruiter
	Employee Relations	Employee Relations Manager
		Training Specialist
		Culture Specialist
	Support	Payroll Coordinator
		HR Systems Analyst
		HR Administrative Assistant

4) **Computing Pay Ranges for each Pay Grade -**Pay grades are thebasis of pay ranges. The horizontal aspect of a pay structure is represented by pay grades whereas the vertical aspect is represented by pay ranges. The lower and upper levels of pay for certain job within a certain pay grade are presented by minimum and maximum levels.

For each pay grade, an organization will need to establish minimum, midpoint and maximum pay ranges. Often employers consider their midpoint of a salary range to be somewhere between the 25th percentile and the 75th percentile. Some employers will use the 50th percentile, the median, mean or mode if they want to meet the market. If a company's philosophy is to lead the market, the salary point will be above the 50th percentile for most positions. A simple way to establish a proposed midpoint is to average the market data between the different positions grouped in a grade. There is no hard and fast rule on creating salary ranges. A traditional salary range is commonly 30 percent to 40 percent. It is common that top salary grades (i.e., for executives and top management) have a wider range (sometimes greater than a range of 40 percent) and that the lowest salary grades often have the narrowest range (sometimes smaller than 30 percent). Broadbanding occurs when employers decide to have very few salary grades and to make those ranges much wider.

The formulas for a 30 percent range using the midpoint as the base are:
Maximum = Midpoint x 1.15 Minimum = Midpoint x 0.85
The formulas for a 40 percent range when the midpoint is known are:
Maximum = Midpoint x 1.20 Minimum = Midpoint x 0.80

Pay grade ranges will usually overlap. The more overlap, the more cost-effective it will be for career progression; less overlap will require a larger pay increase for internal promotions. Each job family can have its own pay grades and pay ranges that are established independently from other job families.
Examples:

Proposed Ranges	**Min**	**Mid**	**Max**
Grade I	**$11.48**	**$13.50**	**$15.53**
Maintenance I	(market salary = $13.00)		
Administrative Asst.	(market salary = $14.00)		
Grade II	**$15.09**	**$17.75**	**$20.41**
Mechanic I	(market salary = $17.50)		
Machinist	(market salary = $18.00)		

After the salaries for current employees have been placed into the range, several employees will inevitably not be in line with the guidelines and ranges the employer has established.
"Red circle rates" are salaries/wages that are above the maximum rate the organization has established for the position's salary range. Strategies to rectify red circle rates include the following:

- In lieu of base salary increases, offer star employees a bonus that is roughly the amount of what the pay increase would have been. This allows for recognition of an employee's outstanding performance without raising his or her base pay even more.
- Explore developmental opportunities to facilitate promotion into the next pay grade.
- Restrict further salary increases by freezing pay.
- Lower an employee's base pay to bring it in line with the range. This option will likely lower employee morale and may motivate an employee to start job hunting. For this reason, it is important to encourage valuable employees to seek developmental opportunities that could lead to promotion.

"Green circle rates" are salaries below the minimum rate the employer has established for the position's salary range. Green circle rates are equally as problematic as red circle rates in that they do not follow established guidelines. A solution is to provide pay increases up to at least the minimum in the range. An exception may be if an employee has been performing below expectations. In this case, the employer may want to consider requiring successful completion of a performance improvement plan prior to receiving a pay increase.

5) **Evaluating the Results -** Once the pay structures are decided, the results are then analysed. If the pay ranges provided by the firm is greater than the market pay range, then the firm should decide whether this will affect their competitive advantage and profits. If it is lower, then they have to see whether there is any negative impact on attracting and recruiting new talent.

Companies use the “Compa-ratio” to determine the firm’s relative competitiveness of internal pay rates. It is the average of all actual salaries in a pay grade divided by the midpoint of the range. This is used to monitor distribution of salaries and identify grades that are out of control.

- CR = 1.00 is the ideal (Employee’s pay rate is same as the competitive pay)
- CR > 1.10 is quite high (Employee’s pay rate is greater than competitive pay rates. Firms which try to have market led policies adopt this)
- CR < .90 is quite low (Employee’s pay rate is lesser than competitive pay rates.)

System of Compensation:

Compensation is a tool used by management for safeguarding the existence of the company. Compensation can be of two types –

A) Financial Compensation
B) Non-financial Compensation

A) Financial Compensation System – These are monetary rewards and benefits that employees receive for their services rendered. These include:

DirectCompensation:

i) Basic pay
ii) Dearness allowance
iii) Incentives
iv) Bonus

Indirect Compensation:

i. Legal requirement (Provident fund, Gratuity, Pension, Insurance, Medical leave, Accident benefits, Maturity leave)
ii. Optional sick leave
iii. Casual leave
iv. Travelling allowance
v. Telephone bills
vi. Canteen allowance
vii. Club membership

B) Non-Financial Compensation System – These benefits are non-financial in nature but motivate the employees in enhancing their performance. These include:

i) Achievement

ii) Recognition

iii) Responsibility

iv) Influence

v) Personal Growth

Importance of Compensation

1. Helps in attracting high skilled people.
2. Improves efficiency of the organization
3. Acts as a link between employer and employee.
4. Helps in retaining employees
5. Helps to motivate employees
6. Helps to distinguish between good and poor performers
7. Encourages healthy competition
8. Stimulates employee involvement
9. Strengthens organization competitiveness
10. Maintains organizational harmony

Limitations of Compensation

1. Pay Secrecy
2. Pay Reviews
3. Wage Compression
4. Inflation Effect
5. Reduction in Wages

New Trends in Compensation

a) Work – Life Balance

Work-life balance is an important aspect of a healthy work environment. Maintaining work-life balance helps reduce stress and helps prevent burnout in the workplace. Chronic stress is one of the most common health issues in the workplace. It can lead to physical consequences such as hypertension, digestive troubles, chronic aches and pains and heart problems. Employees who work tons of overtime hours are at a high risk of burnout. Burnout can cause fatigue, mood swings, irritability and a decrease in work performance. By creating a work environment that prioritizes work-life balance, employers can save money and maintain a healthier, more productive workforce.

Work-life balance means something a little different to everyone. Over the years, the knowledge and approach of work-life balance has been constantly evolving, and it might be helpful for employers to identify these differences. For some it may be spending quality time with their family and therefore perks like telecommuting, extended maternity/paternity time and adequate vacation time is important to them. For others, its flexibility and workplace happiness is a priority. Creating a flexible work environment is one of the best ways to satisfy the work-life balance needs of most employees – no matter which category they belong to. A flexible work environment has been shown to decrease stress, boost levels of job satisfaction and help employees maintain healthier habits. Employers should offer flexible work hours, the ability to work from home and unlimited PTO to create a more flexible work environment that appeals across generations of workers.

b) Pay -Transparency

Earlier the pay packages were not openly discussed and usually kept discreet. This led to a lot of misinformation, misunderstanding and miscommunication which sometimes led to good employees leaving the organization. The end or goal is pay equity. Employees who perceive a transparent pay system are more satisfied with the organization and have a lower tendency to leave.HR and business leaders have taken note of research showing that pay transparency boosts employee motivation, collaboration, and performance. And now, the advent of websites like Glassdoor and Payscale has made it easy for any non-HR employee or prospective applicant to access compensation information.

c) Broad – Banding

It is the consolidation of salary grades and ranges into just a few wide levels or bands, each of which contains a relatively wide range of jobs and salary levels. It involves collapsing of salary grades into few grades into a few broad bands, each with a sizeable range - one minimum and one maximum. The wide bands provide more flexibility in assigning workers to different job grades.

d) Variable Pay (Incentive Pay)

Variable Pay is the pay which is linked to individual, group / team or organizational performance. It can come in many forms like:

- **Piece – work – incentive**–Paid a certain amount of money per unit produced.
- **Pay for Performance** - Refer to 3P concept
- **Pay for Person** – Refer to 3P concept
- **Awards** - These are usually performance awards (cash awards), recognition awards or service awards.
- **Merit Pay**– A raise in base pay based on performance.
- **Bonus** – A one time payment to an employee as a reward for meeting certain performance or productivity goals.
- **Sales incentives** – It is a plan given to employees to motivate them to reach and exceed their sales goals.
- **Profit sharing** – A system to distribute a portion of the profits of the organization to the employees.
- **Gain Sharing** – The sharing with employees of greater than expected gains in productivity through increased discretionary efforts.
- **Employee Stock Ownership Plans (ESOP)** - A plan that gives the employees the right to purchase a fixed no. of shares of company stock at a specified price for a limited period of time. If market price of the option is above the specified option price, the employees can purchase the stock and sell it for a profit. If the market price of the stock is below the specified option price, the stock option is worthless to the employees. Employees get tax benefits under ESOPs. It also nurtures a feeling of ownership of the company.

e) **Flexible Benefits (Cafeteria Plans)**

Flexible pay or cafeteria plans allows employees to pick benefits as per their needs. The idea is to allow each employee to choose a benefit package that is individually tailored to his or her own needs and situation. The three most popular types of benefit plans are:

i) **Modular Plans** – Modular plans are pre-designed package of benefits with each module put together to meet the needs of a specific group of employees. So a module designed for a single employee with no dependents might include only essential benefits. However, a module designed for single parents might have additional life insurance, disability insurance and health coverage.

ii) **Core plus potions** – It consists of a core of essential benefits and a menu like selection of other benefits options from which employees can select and add to the core.

iii) **Flexible spending plans** – These allow employees to set aside up to the amount offered in the plan to pay for particular services. It is a convenient way for employees to pay for health care etc.

f) Knowledge Based Pay – Also known as Skills Based Pay. This strategy is based on compensating individuals on the basis of their knowledge and skills instead of their performance

g) **Competency – Related Pay –** This strategy compensates individuals for their competencies and capabilities in their workplace rather than results.

Compensation Dimension

The compensation system can be classified into 8 dimensions. They are:

1) Pay for Work & Performance

It includes money that is provided in the short term (weekly, monthly and other annual bonus / awards). The total amount of payment given to the employees will depend on the needs of the specified job, results that meet or exceed the standards of quality, quantity or time and innovations that lead to improvements in productivity, loyalty, trustworthiness or acombination of these features.

Examples are basic pay, short term bonus, merit pay and certain allowances.

2) Pay for Time not worked

Over the years, the no. of hours per week and the no. of days worked per year have decreased. Workers now enjoy more days off with pay for holidays, longer paid vacations, and paid time off for a wide variety of reasons. Though the components of payment for non-working days raises the labour cost yet they allow for lifestyle changes and enhance the quality of life.

3) Loss of Job Income Continuation

Job security is a primary aspect for most workers. Employees need to be assured of their jobs and economic security. Accidents, personal problems, work performances are some of the reasons that will cause a temporary cessation of employment or a permanent termination.

Eg – Unemployment insurance, unemployment added – benefits and salary during the severance period have been generated to assist affected employees who have neither been offered any alternative position by the organization, nor found any work.

4) Disability Income Continuation

When an employee suffers from a disability due to illness or accident, he is unable to execute his tasks effectively. In addition to paying for daily living expenses, the employee also has to pay for the hospital bills.

Examples - Employees compensation, in the form of medical leave and short – term and long – term disability plans, exists to assist an employee is incapable of working due to poor health.

5) Deferred Income

Most employees depend on programmes provided by their employers to ensure a continuous income after retirement. There are two main reasons why such programmes exist. First, most people do not have enough savings upon retirement to enable them to continue enjoy the comfortable lifestyle they were accustomed to when they were working.

Therefore, programmes like retirement allocation planning programme, savings and thrifty plans, annuities and additional income plans are drawn up by organizations to provide employees an ongoing income after their retirement. Secondly, the law and tax regulations make the deferred income plans more attractive to the employees.

6) Spouse (Family) Income Continuation

Employees with families worry that they will not be able to provide and care for and support their dependents in the event of their death or disability. To this end, certain plans have to be created to provide the dependents with the financial means to go on if an employee dies or is incapacitated due to temporary or permanent disability.

7) Health, Accident & Liability Protection

Apart from income to sustain a comfortable lifestyle, income for products and services to heal an illness or disability is also of great concern to employees. Therefore, an organization offers various insurance plans to assist employees in paying for their medical care and treatment.

8) Income Equivalent Payments

Income equivalent payments are also known as perquisites or perks. Some of these special benefits are exempted from tax, and this is advantageous for employers and employees.

Ex – Provision of credit cards, allowance to attend official meetings, subsidised food and childcare services.

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 etc. Salary Surveys are tools used to determine the median or average compensation paid to employees in one or more jobs. Compensation data, collected from several employers, is analyzed to develop an understanding of the amount of compensation paid. Surveys may focus on one or more job titles, geographic regions, employer size, and or industries. Salary surveys may be conducted by employer associations (e.g., SHRM), survey vendors, or by individual employers. Survey data is often time sensitive and may become out-of-date quickly. Because of the time sensitive information, surveys are often identified by the year or quarter in which the data was collected.

Types of data gathered in a salary survey - Salary Surveys are analysis of compensation data. This data may include quantifiable aspects of compensation such as:

1. Base salaries
2. Increase percentages or amounts
3. Merit Increases
4. Salary Ranges
5. Starting Salary
6. Incentives/Bonuses
7. Allowances and Benefits
8. Working Hours

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

1. Educational Requirements
2. Geographic Location
3. Source of Hire (Internal/External)

4. Working Conditions

Objectives of Compensation Survey

1. To compare or draft the HR policy
2. To find out the income level and return ratio of similar industries
3. To understand wage differentiation
4. To establish hiring rates favourable to the community
5. To minimise labour turnover due to pay disparity
6. To increase employee's satisfaction and morale
7. To learn about the trends of benefits in the market

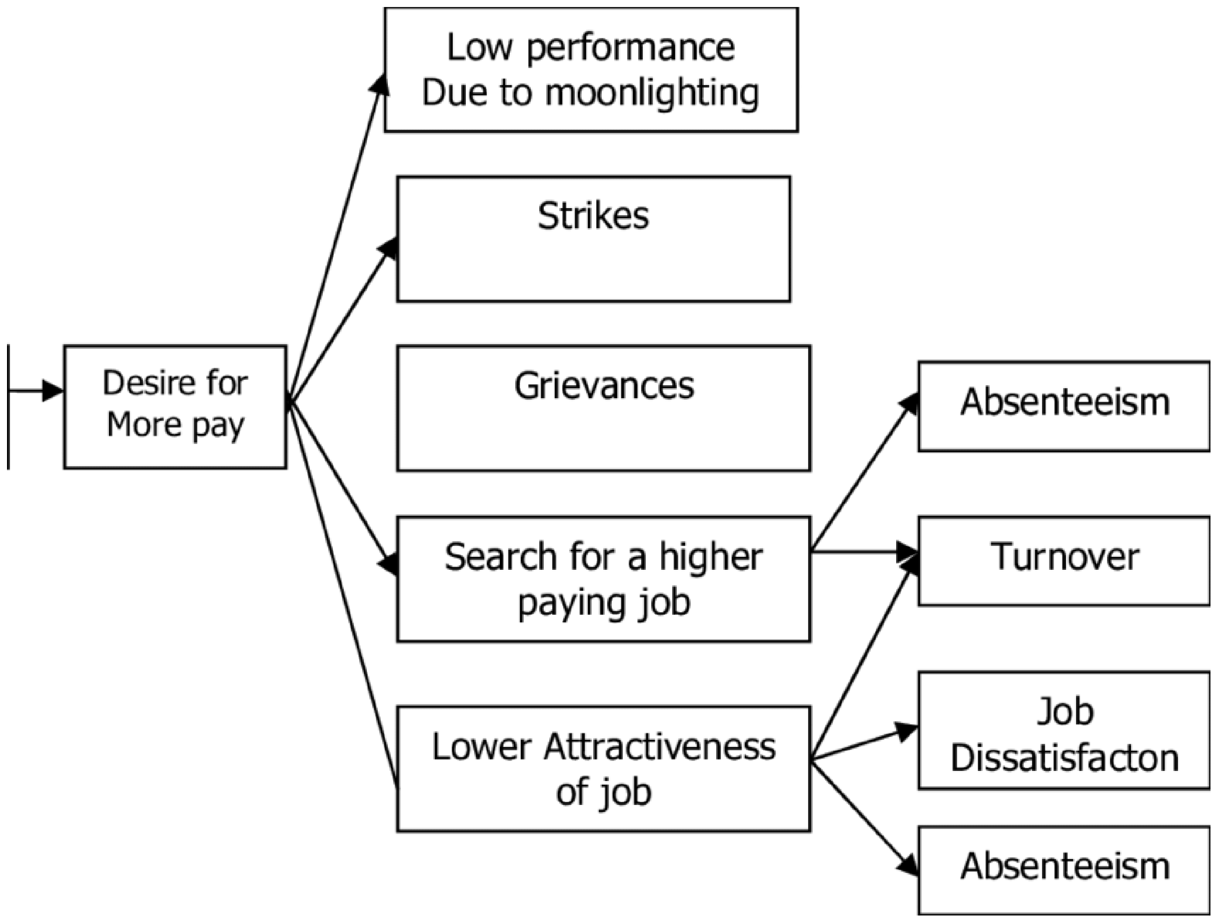
Types of Compensation Survey

1. Commissioned or Packaged Survey (Generally Published Surveys)–In this a research body keeps on surveying and collecting data and provide this data on request for a charge.

2. External or Participative Survey (Compensation Club Surveys) - This survey is done among member industries of a particular sector / club and the data shared amongst the members only.

3. Internal or Mutual Survey (Customised Surveys) - Done within the organization.

Consequences of Pay Dissatisfaction



Importance of Compensation Management

1. It tries to give proper refund to the employees for their contributions to the organization.
2. It discovers a positive control on the efficiency of employees and motivates them to perform better and achieve the specific standards.
3. It creates a base for happiness and satisfaction of the workforce that limits the labor turnover and confers a stable organization.
4. It enhances the job evaluation process, which in return helps in setting up more realistic and achievable standards.
5. It is designed to abide with the various labor acts and thus does not result in conflicts between the employee union and the management. This creates a peaceful relationship between the employer and the employees.
6. It excites an environment of morale, efficiency and cooperation among the workers and ensures satisfaction to the workers.

ORGANIZATIONAL COMPENSATION POLICY

The **compensation policy** is the basic document, which drives the detail of the compensation practices in the organization. As the compensation strategy sets the high level compensation goals of the organization, the compensation policy describes the details of the individual compensation components, their behavior and their role in the compensation scheme of the organization. The compensation policy describes the details of the compensation components in the organization, how they are used and the conditions for the employees as the compensation component can be applied in their specific situation.

Each organization uses many compensation components and they have to be described.

The compensation policy provides the basic explanation of the compensation component, how it is calculated, who is eligible for the usage and the approval procedure.

Objectives of Compensation Policy:

1. To formulate the organization's reward philosophies.
2. Impart the guidelines based on which the strategies for compensation policy can be formulated.
3. To deal with the issues of internal equity, market pressures, attraction and retention oh human resources etc.

Areas of Compensation Policy

1. General salary policy
2. Base Compensation
3. Premium Pay
4. Merit Increase
5. Promotions
6. Transfers
7. Job Descriptions
8. Job Evaluation
9. Salary Surveys
10. Incentive Compensation
11. Salary level adjustments
12. Benefits

Developing Organizational Compensation Policy

The following points need to be kept in mind when developing the compensation policy:

1. To be finalise the list of policy issues by adding or deleting the required heads keeping in mind the points that are relevant to the organization like its values, management style, philosophy etc
2. To decide the policy approach under each heading. This has to be one after proper consultation.
3. To ensure that the policies are implementable and to have guidelines for implementing them.
4. To decide on the amount of training and guidance that will be required to implement the policies consistently.
5. To communicate the policies to all those affected by them.

Implementing Organizational Compensation Policy

1. The objectives have to be clearly defined.
2. A Project Director with requisite staff to help him should be appointed with accountability to the management.
3. The project plan should be prepared which should have the budget, time lines, resources.
4. Proper monitoring and reviewing needs to be done at regular intervals.
5. Evaluation of outcomes against objectives need to be done.

Reviewing Organizational Compensation Policy

The Compensation Policy needs to be dynamic and should change with changes in organization structure, strategy, core values, processes and technologies. The aim of the review process is to ascertain the following points:

1. Is it relevant?
2. Is the guidance level provided sufficient?
3. What are the problems in implementation?
4. Are there any new headings that need to be implemented?

5. Is anyone in the organization looking to change it?

Concept of Wages

A wage is a basic compensation for labour.It is referred to as the remuneration of workers particularly, hourly–rated payments.

Wage rate – Compensation for labour per period of time

Broadly, there are two wage components –

i. Base or Basic Wages - This is the remuneration by way of basic salary.

ii. Other Allowances – These are paid in addition to the basic wage to ensure that the value of basic wages does not fall over a period of time. This is paid or payable to employees per terms of the contract of employment for the work done. E.g. – holiday pay, overtime pay, bonus, social security benefits etc. Some allowances are statutory others are voluntary.

What are not the components of wages –

- Bonus or other payments under a profit-sharing scheme
- Value of any accommodation, supply of light, water, medical attendance, travelling allowance or payment in lieu thereof
- Any sum paid to defray special expenses entailed by the nature of the employment of a workman
- Any contribution to pension, PF or a scheme of social security & social insurance benefits
- Any other amenity or service excluded from the computation of wages

Types of Wages

A) Minimum Wage Rate

The term 'Minimum Wage' has been defined in the Minimum Wages Act, 1948. The minimum wage includes not only the bare physical necessities but also a modicum of comfort otherwise known as conventional necessities. For this purpose, the minimum wage must also provide for the same measure of education, medical requirements, and amenities. Therefore, any employer who is unable to pay this minimum wage to workers has no right to exist. The Concept of minimum wages was to be dynamic and is subject to change with the passage of time.

Procedure for fixing and revising minimum wages – The Central Govt. appoints a Central Advisory Board to advise the Central and State governments on the fixing and revising the min rates of wages, as well as to coordinate the work of advisory boards. For the calculation of minimum wages, the following norms are followed by any board in this field. These are:

i) The standard working-class family should be taken to consist of three consumption units for the earner – earnings of women, children, and adolescents should be disregarded.

ii) The minimum food requirements should be calculated on the basis of the net intake of 2,700 calories per adult.

iii) The clothing requirements should be estimated at a per capita consumption of 18 yards per annum per person.

iv) In respect of housing, the norms should be the minimum rent charged by the govt in any area for houses provided under the subsidized housing scheme for lower income groups.

v) Fuel, lighting, and other misc items of expenditure should constitute 20% of the total minimum wage.

Subsistence Wage meets only the bare physical needs of a worker and the family. The minimum wage provides not only for bare physical needs, but also aims to preserve the efficiency of workers. It also provides for some measure of education, health and other benefits.

B) Living Wages

This is defined as the wage which should enable the earner to provide for himself / herself, and his / her family not only the bare essentials of food, clothing and shelter, but also a measure of frugal comfort, including education for his children, protection against ill – health, requirements of essential social needs, and a measure of insurance against the important misfortunes, including old age. In other words, a living wage was to provide for a standard of living that would ensure good health for workers and their family, a measure of decency, comfort, education for their children, and protection against misfortunes.

C) Fair Wages

Fair Wages represents the wage above the minimum wage but below the living wage. The lower limit of the fair wage is obviously the minimum wage; the upper limit is set by the capacity of the industry to pay. Fair wages depends on the following factors :

i) Minimum wages

ii) Capacity of the industry to pay

iii) Prevailing rates of wages for in the same and similar occupations in the same or neighbouring localities.

iv) Productivity of labour

v) Level of national income and its distribution

vi) The place of the industry in the economy of the country.

D) Real Wages

Real wages are the wages are in tune with inflation.

METHODS OF PAYMENT

A) Time Rate System (TRS)

B) Payment by Results (PBR)

C) Measured Day Work (MDW)

A) Time Rate System (TRS)

It is a system where wages are paid on the basis of time spent by workers on the job. Time may be spent in hours, days, weeks or month, that is, wages may be paid per hour, per day, per week or per month. Total wages are determined by multiplying wages per unit of time with total time spent on the job.

Wages = Rate per unit of time x Total units of time spent

If wages are determined on hourly basis say Rs. 100/- per hour and a worker works for 8 hours a day, his total wages will be Rs. 800 (Rs. 100 x 8). If wages are determined on daily basis, say Rs. 500/-per day and a worker works for 20 days in a month, his total wages for the month will be Rs. 10,000 (Rs. 500 x 20).

This system of payment rewards experience rather than performance. Irrespective of the abilities of employees or the quality and quantity of performance, time rates focus on time spent on the job. It is usual to find that most of the organisations pay fixed salary to employees based on fixed number of hours they spend on the job. However, there is increase in salary as there is a scale of pay along which the employee moves with increments every year until he reaches the maximum of the scale.

Merits of Time Rate System:

a) Simple - It is simple to understand. Workers can easily understand it and, therefore, feel satisfied with the amount of wages they earn.

(b) Quality work - This is a good system for doing quality work. Workers are not in a hurry to finish their work. They work slowly and do not compromise with quality of work. It does not emphasise on quantity of output at the cost of quality.

(c) Reduction in costs - Quality work reduces wastage and cost of supervision. This reduces overall administrative costs. It also helps in predicting the labour costs as fixed amount is paid to employees. Number of hours per day are usually fixed and do not vary frequently.

(d) Promotes sense of unity - Workers working for same time get same pay. This promotes unity amongst them. Differences in pay are due to incremental scale or different positions.

(e) Sense of guarantee - Unless a worker is absent from work, this method assures wages irrespective of output. Even if he cannot produce the desired units of output, his wages are not affected if he works for fixed hours a day. There is, thus, stability of job. People know there will be gradual increase in rewards within the grades.

Limitations of Time Rate System:

(a) Affects production - As workers are paid on the basis of time, they do not hurry to complete their jobs. This negatively affects production.

(b) Affects efficiency - The system makes no distinction between efficient and inefficient workers. As efficient workers are paid the same amount (who produce more) as inefficient ones (who produce less) provided they work for same time, the efficient workers tend to slow their speed of work. They have no motivation to become more productive.

(c) Closed supervision - Workers tend to be slow and take time to complete the work. This increases control and supervision over their activities. The cost of supervision is, thus, high.

(d) High cost of labour - Labour cost fluctuates for same units of output. This affects cost of products and their prices (and thereby profits).

(e) Employer-employee relations - Employers want employees to complete the work fast but employees work slowly as they have no incentive to produce more. This strains employer – employee relations which affects organisational efficiency.

Suitability of Time Rate System:

The time rate system of wage payment is suitable in the following cases:

(a) Where quality of goods is to be maintained.

(b) Where artistic work like carving is to be performed.

(c) Where workers are new to the job. Beginners learn to work without contributing much to output.

(d) Where skilled work (computer operations) needs to be performed.

(e) Where work cannot be measured in terms of output like wages to gate man, machine operator, typist etc.

(f) Where production is time consuming because of frequent movement of goods from one machine to the other.

B) Payment By Results (PBR)

It is also called the **Piece Rate System**. It is a payment or remuneration method used to reward workers or employees in proportion with the amount of work done or deliverables achieved. In this method, a staff member or worker or even an external service provider, such as an agent or advertising agency or a consultant, is remunerated on the basis of achievement of objectives:

i. For a factory worker, it may be defined as wages based on the amount of factory units produced
ii. For a service agent, the number of customers serviced satisfactorily.
iii. For a salesman, it may be compensated by sales commission on the basis of number of units sold.

Wages = Rate per unit of output x Total number of units produced.
If wage rate is Rs. 10 per unit and a worker produces 100 units in a week, his wages for the week will be Rs. 1,000 (10 x 100). Another worker who produces 120 units in the same time will earn Rs. 1,200 (10 x 120).

The underlying principle behind ‘variable pay’ in most organisations is mostly based on rewarding employees according to the amount of work done by them in terms of predefined deliverables.The same evaluation, and hence, remuneration system may be used for compensating external service providers/ agencies/ consultants also, by linking their ‘pay’ with the requisite levels of desired ‘performance’. This kind of remuneration compensation method has increasingly gained popularity in social, health and public sectors, and attracted both positive and negative publicity.
Wages = Rate per unit of output x Total number of units produced.

Merits of Payment by Results:
(a) High output: This system provides incentive to produce more. Employees are motivated to put extra efforts to earn more.
(b) Low cost: As workers work fast, cost of supervision is low. Cost of production is also spread over larger number of units. This reduces cost and increases profits.
(c) Efficient handling of machines: Employees work on machines carefully. They know that mishandling will slow the production and their wages.

(d) Rewards related to efforts: It distinguishes between efficient and inefficient workers. Those who produce more are paid more. Though everybody working on the same job does not receive the same income, there is fairness in the system of payment as rewards are related to production.

(e) Optimum utilisation of time: Workers work at leisure. They make best use of time to produce more in order to earn more.

(f) Easy acceptance to change: Workers accept changes in methods and techniques of production. New methods result in more production and more wages.

Limitations of Payments By Results:

(a) Low quality: In the effort to produce more (to earn more wages), workers may compromise with the quality and safety standards. They produce quantity rather than quality. Increase in output may increase the scrap rate. For this system to operate, thus, there should be quality control mechanism in the organisations.

(b) Mishandling of tools: Workers hurry with production processes. They want to produce more and in doing so, they may mishandle the tools and machines. This increases maintenance cost of tools and equipment's.

(c) Loss for beginners: Those who have just begun to work on jobs may not be able to produce as much as others can. Their wages are, thus, lower than others.

(d) Long-run perspective: Maximising output puts physical and mental strain on workers. This can negatively affect their health which is bad for the organisation in the long- run.

(e) Overproduction: Continuous effort by employees to produce more may result in over production. Unless there is corresponding increase in sales, money gets blocked in stock.

(f) Discrimination amongst workers: Though efficient workers should be paid more than inefficient ones, this system develops conflicts amongst inefficient workers. This may result in inter-personal jealousy and rivalry and make the work place unfriendly.

(g) Suitability: This system is not suitable for all types of jobs. Output cannot be easily measured in certain jobs like service sector and managerial jobs. Spending time, effort and skills on the job are more important variables than quantity.

Suitability of Payment By Results:

1. Where output can be determined in terms of number of units.

2. Where quantity of output is important than quality.

3. Where production processes do not require specialised skills.

4. Where work procedures are standardised in nature.

Time Rate System and Payment By Results :

1. Wages are determined on the basis of time spent by employees on the job.

2. It does not distinguish between efficient and inefficient workers.

3. It is suitable where quality is important than quantity.

4. It requires supervision to ensure that workers do not waste time.

5. It ensures efficient handling of machines and tools.

6. Workers work at ease. They work slowly.

7. It results in high cost of production.

Piece rate system:

1. Wages are determined on the basis of units produced by employees.

2. It makes distinction between efficient and inefficient workers.

3. It is suitable where quantity is important than quality.

4. It requires supervision to ensure that workers do not overproduce goods.

5. It may result in inefficient handling of machines and tools.

6. Workers work fast. They strain themselves.

7. It results in low cost of production.

C) Measured Day Work (MDW)

Measured day work (MDW) is a hybrid between individual PBR and a basic wage rate scheme. Pay is fixed and does not fluctuate in the short term providing that the agreed level of performance is maintained. MDW systems require performance standards to be set through some form of work measurement and undergo revisions as necessary. Motivation comes from good supervision, goal setting and fair monitoring of the worker's performance. MDW is difficult and costly to set up and maintain. It requires total commitment of management, workers and trade unions. There must be effective work measurement and efficient planning, control and inventory control systems. The pay structure is often developed by job evaluation and with full worker consultation. A version of MDW is 'stepped' MDW. Under this scheme the worker agrees to maintain one of a series of performance levels and different levels of pay apply to each one. Movement between levels is possible, usually after a sustained change in performance.MDW is now relatively rare. It suits organizations where a high, steady, predictable level of performance is sought, rather than highest possible individual performance. MDW may be worth considering where stability of earnings is important, or where the manufacturing cycle is lengthy.

Difference between Salary and Wage

Wages	Salary
Wages refer to money paid on an hourly, daily or a weekly basis	Salary refers to a fixed regular payment, typically paid on a monthly basis
Calculated using the no. of hours worked	Not calculated using the no. of hours worked
If a wage-earner doesn't work, he won't receive payment for that day	Workers have a no. of paid leaves
Usually earned by unskilled and semi-skilled workers	Earned by office workers or management
Usually have lower positions and fewer responsibilities	Usually have higher positions and more responsibilities

Theories of Wages

The theories that affect wage determination are of two types:

A. Economic Theories
B. Behavioural Theories

A. Economic Theories

1. Subsistence theory
2. Wage fund theory
3. Surplus value theory
4. Residual claimant theory
5. Marginal productivity theory
6. Bargaining wages theory
7. Employment theory
8. Competitive theory
9. Human Capital Theory
10. National Income Theory

1. Subsistence Theory

David Ricardo advocated the subsistence theory. Subsistence means existence. The basic things that you need to exist. As per Ricardo, it is the “natural price” of labour was simply the price necessary to enable the labourers to subsist and to perpetuate the race. Ricardo’s statement was consistent with the Malthusian theory of population, which held that population adjusts to the means of supporting it.If wages fell below subsistence level, the no. of workers will decrease, pushing the wages up.If wages are more than subsistence level then their population will increase which would lead to bringing down the wages.

Criticisms

- Explains wages from the supply side and ignores the demand side.
- If all labourers must get the bare necessities of life, all must get equal wages. But there are many differences in wages. Thus, this theory ignores wage differences.
- This theory asserts that wages are fixed at the subsistence level. Therefore, it assumes that the trade unions are powerless in increasing the wages. This is a wrong notion.
- This theory is based on the Malthusian theory of population according to which a rise in wages above the subsistence level will lead to rapid increase in population. But experience shows that a rise in wages leads to higher standard of living and not increase in population.

- This theory is pessimistic because it excludes all possibility of improvement in the conditions of labour either through increased efficiency or due to general economic progress.

2. Wage Fund Theory

It was advocated by Adam Smith on the assumption that there was a pre-determined fund of wealth (surplus saving of the wealthy). The wages are paid out of this surplus for work done by labourers. If the fund is large, wages would be high; if the fund is small, wages will be reduced to subsistence level.So, the demand for labour and the level of wages were determined by the size of the fund.

Criticisms

- The demand for labour was not determined by a fund but by the consumer demand for products.
- Inability to prove the existence of any kind of fund that maintained a predetermined relationship with capital.
- Unscientific and illogical because it first decides the wages fund and then determines wages. But in reality, wages should be found first and from that wage fund should be calculated.
- This theory neglects the quality and efficiency of the workers in determining the wage rate. This is considered to be a basic weakness of the theory.
- Failed to identify what portion of the labour force's contribution to a product was actually paid out in wages.
- The total amount paid in wages depended upon a number of factors, including the bargaining power of labourers.
- This theory believes that wages are paid out of circulating capital. But when the process of production is short, wages are paid out of current production. When the process of production is long, wages are paid out of capital.

3. Surplus Value Theory

It was advocated by Karl Marx. According to this theory, Labour is an article of commerce which can be bought on the payment of the "subsistence price". The price of any product is determined by the labour and the time needed for producing. In Marx's estimation, it was not the pressure of population that drove wages to the subsistence level but rather the existence of large numbers of unemployed workers. Marx blamed unemployment on capitalists. The labourer is not paid in proportion to the time spent on work, but is paid much less and the surplus is utlilized for paying other expenses.

Criticisms

- Labour is treated as a commodity.
- Price cannot be determined by labour time.
- No emphasis on productivity
- Not applicable in organized sector

4. Residual Claimant Theory

This theory owes its development to Francis A. Walker (1840-1897). According to Walker, there are four factors of production or business activity, viz., land, labour, capital, and entrepreneurship. He views that once all other three factors are rewarded what remains left is paid as wages to workers. Thus, according to this theory, worker / labour is the residual claimant.

Criticisms

- This theory assumes that the share of landlords, capitalists and entrepreneurs are fixed, and it is absolutely wrong.
- It is not the worker who is the residual claimant but the entrepreneur.
- It does not explain the influence of trade union in wage determination.
- The supply side of labour has been totally ignored by the theory.

5. Marginal Productivity Theory

This theory was advocated by Phillips Henry Wick-steed (England) and John Bates Clark of U.S.A.This theory assumes that wages are based upon an entrepreneurs' estimate of the value that will be produced by the last or marginal worker. In other words, it assumes that wages depend upon the demand for and supply of labour. Consequently, workers are paid what they are economically worth. The theory is true under certain assumption such as the following :

1. There is perfect competition in factor market and in product market.

2. Labour is homogeneous.

3. The law of diminishing returns operates in production.

4. There is free entry and exit of the firms.

5. There is perfect knowledge about the market conditions.

6. All factors of production can be substituted for each other.

7. There is free mobility of factors of production.

8. Factors of production are divisible.

Criticisms

1. In the real world, perfect competition does not exist—both in the product market and in the labour market.

2. Labour can never be homogeneous— some may be skilled and some may be unskilled. Wage rate of a worker is greatly influenced by the quality of labour. A higher wage rate is enjoyed by the skilled labour compared to the unskilled labour. This simple logic has been totally ignored by the authors of this theory.

3. Perfect mobility of labour is another unrealistic assumption. Mobility of labour may be restricted due to socio-political reasons.

4. The marginal productivity theory of wage ignores the supply side of labour and concentrates only on the demand for labour. It is said that labour is demanded because labour is productive. But why labour is supplied cannot be answered in terms of this theory.This is because of the fact that, at a given wage rate, any amount of labour is supplied. But we know that higher the wage rate, higher is the supply of labour. This positive wage-labour supply relationship has been ignored by the makers of this theory.

5. Full employment of resources is another unrealistic assumption.

6. This theory, in fact, is not a wage theory but a theory of employment. Wage rate is predetermined. At the given wage rate OW, how many units of labour are supplied can be known from this theory. In this sense, it is a theory of employment and not a theory of wages.

7. Finally, this theory ignores the usefulness of trade union in wage determination. Trade union, through its collective bargaining power, also influences wage rate in favour of the members of the organization.

6. Bargaining Theory of Wages

It was propounded by John Davidson.According to this theory, the fixation of wages depends on the bargaining power of workers/trade unions and of employers. If workers are stronger in bargaining process, then wages tend to be high. In case, employer plays a stronger role, then wages tend to be low.The power of a trade union depends on the size of its membership, the size of its fighting fund and the extent of the dislocation to the national economy it can cause by a strike. In times of full employment, the union will be in a strong position, in a depression they will be weaker.

7. Employment Theory

It is based on the inter – relation between wages and employment.Unemployment would disappear, if workers were to accept a voluntary cut in wages, pleaded for wage flexibility for promoting employment at a time of organization depression. The lowering in prices would cause additional demand, which will increase production, and will increase employment of workers.

8. Competitive Theory

Adam Smith said that wages are fixed in accordance with demand and supply, workers would be attracted by high wages to industries, occupations and localities. They would tend to leave industries where the supply of labour is greater than demand.Employers compete amongst themselves by offering a higher wage to attract employees. Employees compete with one another for jobs by offering their services at a lower wage.

9. Human Capital Theory

Human Capital is seen as an investment instead of a cost (as payment is made). This theory was given by Ehrenberg and Smith. They stated that workers have a set of skills which they 'rent out' to the employers. The knowledge and skill that a worker has – which comes from education, training and experiencegenerate productive capital. For an employee, the returns on human capital investment are a higher level of earnings, greater job satisfaction and security of employment. For the employer, the return on investment in human capital is improvement in performance, productivity, flexibility, innovation etc due to enlarged skills base.

10. National Income Theory

This was postulated by John Maynard Keynes. It is also known as the **Full Employment Wage Theory**. According to this theory, full employment is a function of national income. National income is equal to the total of consumption plus private or public investment. If the national income falls below the level at which there is full employment, then the govt. has to interfere and manipulate any or all of the three variable to increase national income to return to full employment.

Behavioural Theories Related to Wages

Many behavioural scientists—notably psychologists and sociologists- like March and Simon, Robert Dubin, Eliot Jacques—have presented their views on wages and salaries on the basis of research studies and action programmes conducted by them. It has been found that wages are determined by such factors as size and prestige of the company, strength of the union, the employer's concern to maintain the workers, contribution by different kinds of workers, etc.

Wage differentials are explained by social norms, traditions, customers prevalent in the organisation psychological pressures on the management, prestige attached to certain jobs in terms of social status, need to maintain internal consistency in wages at the higher levels, the wages paid for similar jobs in other firms, etc. The main theories are as below:

1. Employee's Acceptance of a wage level

This type of thinking takes into consideration the factors, which may induce an employee to stay on with a company. The size and prestige of the company, the power of the union, the wages and benefits that the employee receives in proportion to the contribution made by him - all have their impact.

2. Internal Wage Structure

Social norms, traditions, customs prevalent in the organization and psychological pressures on the management, the prestige attached to certain jobs in terms of social status, the need to maintain internal consistency in wages at the higher levels, the ratio of the maximum and minimum wage differentials, and the norms of span of control, and demand for specialized labour all affect the internal wage structure of an organization.

3. Wage and Motivators

Money often is looked upon as means of fulfilling the most basic needs of man. Food, clothing, shelter, transportation, insurance, pension plans, education and other physical maintenance and security factors are made available through the purchasing power provided by monetary income - wages and salaries. Merit increases, bonuses based on performance, and other forms of monetary recognition for achievement are genuine motivators. However, basic pay, cost of living increases, and other wage increases unrelated to an individual's own productivity typically may fall into maintenance category.

4. Tournament Theory

The economists, Edward Lazear and Sherwin Rosen invented this theory. Tournament theory opines that workers can be rewarded based on their rank in an organization, explaining the reason why large salaries are paid to senior executives. This is done to provide a 'prize' or 'reward' to workers who put in enough effort to earn a top position.

ABIT

COMPENSATION & BENEFIT MANAGEMENT

(Module- 2)

Mitrabinda Nayak

There are many factors which need to be taken into consideration during wage and salary administration. Also the wage and salary aims at achieving certain objectives.

Objectives of Wage & 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.

4. To motivate people to perform better

5. To maintain a good public image.

Principles of Wage & Salary Administration

1. External Equity:

This principle acknowledges that factors/variables external to organisation influence levels of compensation in an organisation. These variables are such as demand and supply of labour, the market rate, etc. If these variables are not kept into consideration while fixing wage and salary levels, these may be insufficient to attract and retain employees in the organisation. The principles of external equity ensure that jobs are fairly compensated in comparison to similar jobs in the labour market.

2. Internal Equity:

Organisations have various jobs which are relative in value term. In other words, the values of various jobs in an organisation are comparative. Within your own Department, pay levels of the teachers (Professor, Reader, and Lecturer) are different as per the perceived or real differences between the values of jobs they perform.

This relative worth of jobs is ascertained by job evaluation. Thus, an ideal compensation system should establish and maintain appropriate differentials based on relative values of jobs. In other words, the compensation system should ensure that more difficult jobs should be paid more.

3. Individual Worth:

According to this principle, an individual should be paid as per his/her performance. Thus, the compensation system, as far as possible, enables the individual to be rewarded according to his contribution to organisation.Alternatively speaking, this principle ensures that each individual's pay is fair in comparison to others doing the same/similar jobs, i.e., 'equal pay for equal work'. In sum and substance, a sound compensation system should encompass factors like adequacy of wages, social balance, supply and demand, fair comparison, equal pay for equal work and work measurement.

The principles of wage and salary administration are as follows :

1. **Principle of Definite Plan -** Differences in pay for jobs are based upon variations in job requirements (skill, responsibility, physical conditions etc)
2. **Principle of Labour Market Criterion -** Level of wages and salaries should be reasonable and in line with that prevailing in the labour market.
3. **Principle of Differentiation -** The plan should carefully distinguish between jobs and employees.
4. **Principle of Equal Pay -** Equal pay for equal work.

5. **Principle of Equitable Practice -** Equitable practice should be adopted for the recognition of individual differences in ability and contribution.
6. **Principle of Hearing Complanits -** Clearly established procedure for hearing and adjusting wage complaints.
7. **Principle of Wage Assurance -** Communication to employees regarding the procedure used to establish rates.
8. **Principle of Consistent Plans -** Wage & salary distribution must be reliable and in accordance with the organizational planning.
9. **Principle of Flexibility -** Wage and salary structure should be flexible so that changing conditions can be easily met.
10. **Principle of Correct Distribution -** Prompt and correct payments of the dues of the employees must be ensured.
11. **Principle of Responsiveness to Change -** Periodical revision of wages as per local or national changes.
12. **Principle of Need Fulfilment -** Wage and salary payments must fulfil a wide variety of human needs like self-actualization.

The wage and salary structure should have the following features :

1. Should be sufficiently flexible.
2. Job evaluation must be done scientifically.
3. Must always be consistent with overall organizational plans and programs.
4. Should be in conformity with the social and economic objectives.
5. Should be responsive to the changing national and local conditions.
6. Should maintain equity.
7. Should maintain competitiveness in the market.
8. Optimization of employee and employer's interests.

What is a job?

A job may be defined as a collection or aggregation of tasks, duties and responsibilities, which as a whole, are regarded as a regular assignment to individual employees. When the total work to be done is divided and grouped into packages, we call it a job. Each job has a definite title based upon standardized trade specifications within a job.

For compensation design and management, the important pre-requisites are effective job design, job analysis, job description and job evaluation.

Job Design

The process of defining how work will be performed and what tasks will be required in a particular job. The aim of job design is to motivate employees by making jobs more interesting and challenging and increase productivity. A successful job design lies in balancing the requirements of the organization and the job holder.

It involves three steps :

i) Identification of individual tasks

ii) Specification of methods to carry out the job

iii) Combination of tasks into specific jobs to be assigned to individuals.

The factors which affect job design can be categorized into three types :

i) **Organizational Factors** – Characteristics of a task, work-flow, Ergonomics & Work Practices

ii) **EnvironmentalFactors** - Abilities of the existing personnel, Availability of adequate personnel, social and cultural expectations

iii) **Behavioural Factors**– Feedback, Autonomy

Characteristics of Job Design

Jobs where employees experience a high level of job satisfaction generally have at least one or more of the following characteristics:

1) **Task Variety** – It enables an employee to move from one job to another within an organization. Such variations in job provides a change in mental activity (takes place when the employee moves from one job to another) as

well as physical well-being (takes place through different body posture requirement for different types of jobs).

2) **Task Identity** – Tasks should fit together to make a complete job as this gives the employee a sense of doing the whole job from the beginning to the end with a visible output. There is a sense of belongingness when an employee can trace his performance to the overall goals and target achievement of the organization.

3) **Task Significance** – By establishing task significance, organizations can make workers feel that they have achieved something meaningful in the course of their working. Workers can contribute on their own when they have clearly understood the significance of the task.

4) **Autonomy**–To ensure autonomy in job design, employees should be provided inputs such as how their jobs are done, the order of tasks, the speed of work etc. It involves the degree of freedom, independence, and decision-making ability the employee has in completing assigned tasks. Most people like to be given responsibility; it demonstrates trust and helps motivate employees to live up to that trust. Responsibility can also help speed up work processes by enabling the employee to make decisions without having to wait for management approval.

5) **Feedback** – Feedback provides an opportunity to workers to understand their strengths, weaknesses and areas of opportunity. This helps them mature and do better.

Strategies / Techniques of Job Design

1) Job Rotation

It involves periodic vertical and horizontal movement of employees within a set of jobs or tasks. It provides some relief from the boredom and monotony of the repetitive jobs or tasks. To achieve this, organizations need to continuously train& develop employees to make them multi-skilled.

Advantages

1. Avoids monopoly :- Job rotation helps to avoid monopoly of job and enable the employee to learn new things and therefore enjoy his job
2. Provides an opportunity to broaden one’s knowledge: - Due to job rotation the person is able to learn different jobs in the organization this broadens his knowledge.
3. Avoiding fraudulent practice: - In an organization like bank jobs rotation is undertaken to prevent employees from doing any kind of fraud i.e. if a person is handling a particular job for a very long time he will be able to find loopholes in the system and use them for his benefit and indulge (participate) in fraudulent practices job rotation avoids this.

Disadvantages

1. **Frequent interruption :-** Job rotation results in frequent interruption of work .A person who is doing a particular job and get it comfortable suddenly finds himself shifted to another job or department .this interrupts the work in both the departments.
2. **Reduces uniformity in quality :-** Quality of work done by a trained worker is different from that of a new worker .when a new worker I shifted or rotated in the department, he takes time to learn the new job, makes mistakes in the process and affects the quality of the job.
3. **Misunderstanding with the union member :-** Sometimes job rotation may lead to misunderstanding with members of the union. The union might think that employees are being harassed and more work is being taken from them. In reality this is not the case.

2) Job Enlargement

This is basically horizontal expansion of jobs. It involves grouping of a variety of jobs within the band rather than between bands. This approach allows the employee to add some extra tasks somewhat similar to their existing tasks. Here the employee is not rotated on job but is given additional tasks. This provides variety in their job and makes it more interesting.

Advantages

- **Variety of skills :-** Job enlargement helps the organization to improve and increase the skills of the employee which leads to organization as well as the individual benefit.
- **Improves earning capacity :-** Due to job enlargement the person learns many new activities. When such people apply for jobs in other companies they can bargain for more salary.
- **Wide range of activities :-** Job enlargement provides wide range of activities for employees. Since a single employee handles multiple activities the company can try and reduce the number of employees. This reduces the salary bill for the company.

Disadvantages

- **Increases work burden :-** Job enlargement increases the work of the employee and not every company provides incentives and extra salary for extra work. Therefore, the efforts of the individual may remain unrecognized.
- **Increasing frustration of the employee** :- In many cases employees end up being frustrated because increased activities do not result in increased salaries.
- **Problem with union members :-** Many union members may misunderstand job enlargement as exploitation of worker and may take objection to it.

3) Job enrichment

This involves vertical expansion of jobs. It is an attempt to motivate employees by giving them the opportunity to use the range of their abilities. It is an idea that was developed by the American psychologist **Frederick Hertzberg** in the 1950s. It can be contrasted to job enlargement which simply increases the number of tasks without changing the challenge. An enriched job should ideally contain:

- A range of tasks and challenges of varying difficulties (Physical or Mental)
- A complete unit of work - a meaningful task
- Feedback, encouragement and communication

Job enrichment is a type of job redesign intended to reverse the effects of tasks that are repetitive requiring little autonomy. Some of these effects are boredom, lack of flexibility, and employee dissatisfaction (Leach & Wall, 2004). The underlying principle is to expand the scope of the job with a greater variety of tasks, vertical in nature, that require self-sufficiency. Itis a way to motivate employees by giving them increased responsibility and variety in their jobs. Many employers traditionally believed that money was the only true motivating factor for employees and that if you wanted to get more work out of employees, offering them more money was the only way to do it. While that may be true for a small group of people, the majority of workers today like to work and to be appreciated for the work they do. Job enrichment— allowing the employees to have more control in planning their work and deciding how the work should be accomplished—is one way to tap into the natural desire most employees have to do a good job, to be appreciated for their contributions to the company, and to feel more a part of the company team.

Job enrichment has its roots in Frederick Herzberg's two-factor theory, according to which two separate dimensions contribute to an employee's behaviour at work.

- **The first dimension,** known as hygiene factors, involves the presence or absence of job dissatisfactors, such as wages, working environment, rules and regulations, and supervisors. When these factors are poor, work is dissatisfying and employees are not motivated. However, having positive hygiene factors does not cause employees to be motivated; it simply keeps them from being dissatisfied.

- **The second dimension**of Herzberg's theory refers to motivators, which are factors that satisfy higher-level needs such as recognition for doing a good job, achievement, and the opportunity for growth and responsibility. These motivators are what actually increase job satisfaction and performance. Job enrichment becomes an important strategy at this point because enriching employees' jobs can help meet some of their motivational needs. There are basically five areas that are believed to affect an individual employee's motivation and job performance: **skill variety, task identity, task significance, autonomy, and feedback**. Job enrichment seeks to find positive ways to address each of these areas and therefore improve employee motivation and personal satisfaction.

Job Enrichment Options

The central focus of job enrichment is giving people more control over their work (lack of control is a key cause of stress, and therefore of unhappiness.) Where possible, allow them to take on tasks that are typically done by supervisors. This means that they have more influence over planning, executing, and evaluating the jobs they do.

In enriched jobs, people complete activities with increased freedom, independence, and responsibility. They also receive plenty of feedback, so that they can assess and correct their own performance.Here are some strategies you can use to enrich jobs in your workplace:

- **Rotate Jobs –**Move your workers through a variety of jobs that allow them to see different parts of the organization, learn different skills and acquire different experiences. This can be very motivating, especially for people in jobs that are very repetitive or that focus on only one or two skills.

- **Combine Tasks –** Combine work activities to provide a more challenging and complex work assignment. This can significantly increase "task identity" because people see a job through from start to finish. This allows workers to use a wide variety of skills, which can make the work seem more meaningful and important.

- **Identify Project-**Break your typical functional lines and form project-focused units.
- **Create Autonomous Work Teams –** This is job enrichment at the group level. Set a goal for a team, and make team members free to determine work assignments, schedules, rest breaks, evaluation parameters, and the like. You may even give them influence over choosing their own team members. With this method, you'll significantly cut back on supervisory positions, and people will gain leadership and management skills.

- **Implement Participative Management –** Allow team members to participate in decision making and get involved in strategic planning. This is an excellent way to communicate to members of your team that their input is important. It can work in any organization - from a very small company, with an owner/boss who's used to dictating everything, to a large company with a huge hierarchy. When people realize that what they say is valued and makes a difference, they'll likely be motivated.

- **Redistribute Power and Authority –** Redistribute control and grant more authority to workers for making job-related decisions. As supervisors delegate more authority and responsibility, team members' autonomy, accountability, and task identity will increase.

- **Increase Employee-Directed Feedback –** Make sure that people know how well, or poorly, they're performing their jobs. The more control you can give them for evaluating and monitoring their own performance, the more enriched their jobs will be.

Advantages

1. **Interesting and challenging job :-** When a certain amount of power is given to employees it makes the job more challenging for them, we can say that job enrichment is a method of employee empowerment.
2. **Improves decision making :-** Through job enrichment we can improve the decision making ability of the employee by asking him to decide
3. **Realization of higher order needs :-**Needs like ego, self-actualization etc.can be achieved through job enrichment.
4. **Reduces work load of superiors :-**Job enrichment reduces the work load of senior staff. When decisions are taken by juniors the seniors work load is reduced.

Disadvantages

1. Job enrichment is based on the assumptions that workers have complete knowledge to take decisions and they have the right attitude. In reality this might not be the case due to which there can be problems in working.
2. Job enrichment has negative implications ie. Along with usual work decision making work is also given to the employees and not many may be comfortable with this.
3. Superiors may feel that power is being taken away from them and given to the juniors. This might lead to ego problems.
4. This method will only work in certain situations. Some jobs already give a lot of freedom and responsibility; this method will not work for such jobs.
5. Some people are internally dissatisfied with the organization. For such people no amount of job enrichment can solve the problem.

Job Analysis

It is the systematic process of collecting information related to the nature of a specific job. A job is a groupof essentially similar activities or tasks performed by a person or group of persons. These activities or tasks together become a job. So a job analyst basically gathers job information by recording the responsibilities that a manager has assigned to san employee. The following basic areas of information are collected by a job analyst::

- Fundamental purpose of the job
- Work elements in the job (Study of specific tasks, areas of responsibility etc)
- General importance of each job element, its relationship to the total operation, and how it is integrated with the total job.
- Approximate time spent on each task or specific area of responsibility.
- Scope of the job and its impact on the operation
- Inherent authority (Includes not only formal delegation but informal also)
- Working relationships (including supervision0

- Specific methods, equipment, or techniques that are required for the job.
- Job climate (Objectives and work environment)
- Job conditions such as physical effort, hazards, discomfort, chasing of deadlines, travel requirements, creativity and innovations required.

Method of Analysis

Job information can be obtained wither by staff analysts or by line managers. Because of functional proximity it is better to use line managers in compiling job information. There are 2 easy ways to do this – through **questionnaires** and by **direct observation**.

The different methods of job analysis are :

1) **Questionnaire** - A questionnaire is a structured form, either written or printed, consists of a formalized set of questions designed to collect information on some subject or subjects from one or more respondents.
2) **Direct Observation** - Direct job observation of work is essential to understand a job role. However, it is more costly and time consuming.
3) Job information can also be obtained through organization manuals, time-study reports, former job descriptions and method studies.
4) Assessment Centres
5) Position Analysis Questionnaire (PAQ)
6) Standard job components inventory
7) Profile matching method
8) Advanced Ergonomic Techniques (AET)

Questionnaires –A **questionnaire** is a structured form, either written or printed, consists of a formalized set of questions designed to collect information on some subject or subjects from one or more respondents.

(1) Economical–It is an economical way of accumulating informationboth for the sender and for the respondent in time, effort and cost. The cost of conducting the study with the help of questionnaire method is very low.

(2) Wide Coverage–It is probably the best method to collect information, compared to the other methods like interview or observation, when the sample population is spread over a large territory. It permits a nationwide or even international coverage.

(3) Rapidity–Replies may be received very quickly in questionnaire method.

(4) Suitable in Special Type of Response–The information about certain personal, secret matters can be best obtained through questionnaire method.

(5) Repetitive Information–Compared to other methods like schedule, interview or observation, questionnaire method is regarded as more useful and cheap, where the repetitive information has to be collected at regular interval.

(6) An Easier Method–Questionnaire is comparatively an easier method to plan, construct and administer. It does not require much technical skill or knowledge.

(7) It Puts Less Pressure on the Respondents–It puts less pressure on the respondents for immediate response. He can answer it at his own leisure, whereas interview or observation demands specific fixation of time and situation.

(8) Uniformity: It helps in focusing the respondent's attention on all the significant items. As it is administered, in a written form, its standardized instructions for recording responses ensure some uniformity. Questionnaire does not permit much of variation.

(9) Useful Preliminary Tool–Questionnaire may be used as a preliminary tool for conducting a depth study later on by any other method.

(10) Greater Validity–Questionnaire has some unique merits as regards validity of information. In methods like interview and observation, the reliability of responses depends on the way the investigator has recorded them. Here they may present biased or prejudiced information of their own. But in questionnaire method, the responses given by the subjects are available in their own language and version. Therefore, it cannot be wrongly interpreted by the researcher.

(11) Anonymity–Questionnaire ensures anonymity to its respondents. The respondents have a greater confidence that they will not be identified by anybody for giving a particular view or opinion. They feel more comfortable and free to express their view in this method.

(12) Most Flexible Tool for Data Collection–Questionnaire is no doubt the most flexible tool in collecting both quantitative and qualitative information.

Disadvantages of Questionnaire

(1) Limited Response–One of the major limitations of the questionnaire is that it can be applicable only to those respondents who have a considerable amount of education. It can neither be used for illiterate nor for semi-literate persons.The questionnaire quite often fails to cover very busy and pre-occupied persons among the respondents, lazy and indifferent type of persons, the type of respondents who need to conceal a lot about themselves, the easy-going and shirkers among the respondents, the persons who have a unreasonable contempt for research and reform and the persons who unnecessarily doubt the research worker's intentions, sincerity, devotion and commitment.These are the people who constitute a very important segment of the respondents to be covered in the collection of data, but they can be seldom caught. Thus questionnaires are hardly appropriate for a larger section of this type of population.

(2) Lack of Personal Contact–As in case of questionnaire the researcher does not go to the field, he is not able to establish a proper personal relationship with the respondents. If the respondent fails to understand some of the technical terms or he has any doubt, there is nobody to clarify these technical terms or doubts.Without the proper personal contact it is very difficult to motivate the respondent to fill up the questionnaire.

(3) Poor Response–In case of mailed questionnaire method, the proportion of return is usually low. The factors which are likely to affect the returns are: the layout of the questionnaire, its size, the organisation conducting the research work, the nature of appeal, the kind of respondents chosen for research, inducement for response etc.

(4) Unreliability–The information collected through questionnaire cannot be said to be very much reliable or valid. If the subject misinterprets a question or gives an incomplete or indefinite response very little can be done to connect such response.

(5) Illegibility–Illegible handwriting of the respondent sometimes creates much difficulty for the researcher to understand the responses. Sometimes the respondents erase and over write too much. These create many difficulties in reading the answers.

(6) Incomplete Entries–Often most of the respondents fill up the questionnaire form very poorly. They sometimes leave out many questions altogether or fill in such a way that, it becomes very difficult on the part of the investigator to follow those responses. Other than this, there may be the problem of language, use of abbreviations and ambiguous terms etc. All these make a questionnaire an incomplete one.

(7) Possibility of Manipulated Entries–In case of interview the investigator directly interacts with the respondents personally and intensively in a face to face situation. He can judge a respondent, his attitude, understanding of the research topic and, if necessary, can ask some cross questions to correct various errors.So usually the respondent cannot manipulate his answer. But in questionnaire it is very difficult to detect the errors of the respondents. Here the investigator does not have any facility to check the validity and reliability of the information. In the absence of the researcher, the respondents may supply manipulated information.

(8) Useless in Depth-Studies–In questionnaire method, it is not possible on the part of the researcher to conduct an intensive or in-depth study of the feelings, reactions and sentiments of the respondents. All these require a healthy interaction of the researcher with the respondents. But in questionnaire method, the investigator is not present in the field, so nothing can be done to establish rapport with the respondent. Due to this lack of interaction with the respondent, the researcher cannot go into the details of the respondent's life. So through questionnaire method one cannot conduct an in-depth study.

(9) Response from Improper Representative Section of People–The respondents who return the questionnaires may not constitute a representative section of the entire group. Only mere responsible, research minded or those in favour of the issue may prefer to respond. Some of the important sections of the group may totally remain silent. This vitiates the final conclusions and findings.

(10) Lack of Rapport with the Subject–There are many people who would not like to share any important information unless and until they are impressed about the rationale of the study and personality of the investigator. The questionnaire does not provide for any opportunity to the investigator to establish rapport with the subject and this cannot attract the respondent for a better response.

(11) Not Suitable for Delicate Issues–Some of the research areas are so delicate, sensitive, intricate and confidential in nature that it becomes difficult to frame questions on them. It is impossible to put down certain delicate issues in writing.

Position Analysis Questionnaire

- *It was developed by Dr E.J. Mc Cormick et al.*
- *It consists of 194 job elements of a 'worker oriented' nature, which are divided into 6 categories.*
- *The analyst rates the job elements on a scale of 0 to 5.*
- *Out of 194 elements – 189 are behavioural and 7 are related to monetary compensation.*

The 6 divisions are : -

- ***i.*** *Information input – Where are how does one get information on the jobs to perform (35 items)*
- ***ii.*** *Mental process – Information processing and decision-making in performing the job (14 items)*
- ***iii.*** *Work Output – Physical work done, tools and devices used (50 item)*
- ***iv.*** *Interpersonal relationships – Connection between two or more people (36 items)*
- ***v.*** *Work situation and job context (18 items)*
- ***vi.*** *Other job characteristics – Physical and social contexts (36 items)*

(Organization Name)

Input data sheet

Position Analysis Questionnaire – Methodology

Employee Name: **Employee code:**

1. Position Detail **Date:**

1.	Job Position / Designation					
2.	Grade					
3.	Department					
4.	Location					
5.	Role Definition					
6.	Position Reporting to					
7.	No. of employees directly supervised					
8.	Qualification (min. required)					
9.	Experience (range)					
10.	Training required (As per org.)	*Weekly*	*Monthly*	*Quarterly*	*biannually*	*Annually*

2 Primary Job Function

A.

Activities	Frequency					Time Allotted %
	Weekly	*Monthly*	*Quarterly*	*Biannually*	*Annually*	

Page **1** of **4**

Standard job components inventory

- *It is a structured job analysis technique containing 7 sections.*

- *These are Tools & equipment, Physical & perceptual requirements, Mathematical requirements, Communication requirements, Decision making and responsibility and Job conditions & perceived job characteristics*

Advanced Ergonomic Technique (AET)

- *It was developed by Rohmert and Landau*
- *It is based on stress – strain concept*
- *There are 216 elements in AET which are coded*
- *One code defines the stressors (whether a work element qualifies as a stressor or not). Other codes defines the degree of stress associated with a job.*
- *Some other codes describe the duration and frequency of stress during the work shift.*

What is the difference between job design and job analysis? Why is it important for a manager to understand both concepts?

Job analysis is the process that identifies tasks, duties, responsibilities, required qualifications, skill and knowledge etc. for an individual for a job. Job analysis is done for recruitment, to evaluation the employee's need of training and evaluation. On the other hand,job design is allocation of tasks to an employee or group of employees in an organization. Job design determines those job, tasks and responsibilities and employee (group) have to perform.

Job design and Job analysis differs not only on their purpose of creation but also their timing of performing. That means Job design is performed before Job analysis. Job analysis is performed when new job is created or job nature and method is changed due to change in technology or requirements. Job design mainly focuses on work division and effective performance of tasks and job completion whereas Job analysis is about effective and appropriate selection of candidates. Job design attempts to implement the available manpower effectively and efficiently but Job analysis deals with the required skills, qualification of employees who are to be assigned tasks. Job analysis covers wide range of information viz. Job description, Job Specification, Job Design, Recruitment and Selection process, Compensation and remunerating employees. Job analysis defines about evaluation of employees too. Job design deals with business objectives and structuring works.

Job Description and Job Specification

With the help of job analysis, two main documents are prepared namely, job description and job specification.

Job Description

- Job descriptions are written records of job duties and responsibilities, which provide factual basis for job evaluation.
- The JD should first name the job.
- The JD should contain in a single for, in short sentences a list of duties assigned.

Objectives of Job Description

A JD helps in getting things done. It has the following objectives :

1. Efficiently organizing the jobs
2. Recruiting for the organization
3. Assigning jobs to people by communicating their duties and responsibilities and setting up job standards
4. Reviewing performance of people
5. Improving performance through appraisal and training
6. Rewarding employees

Job Specification

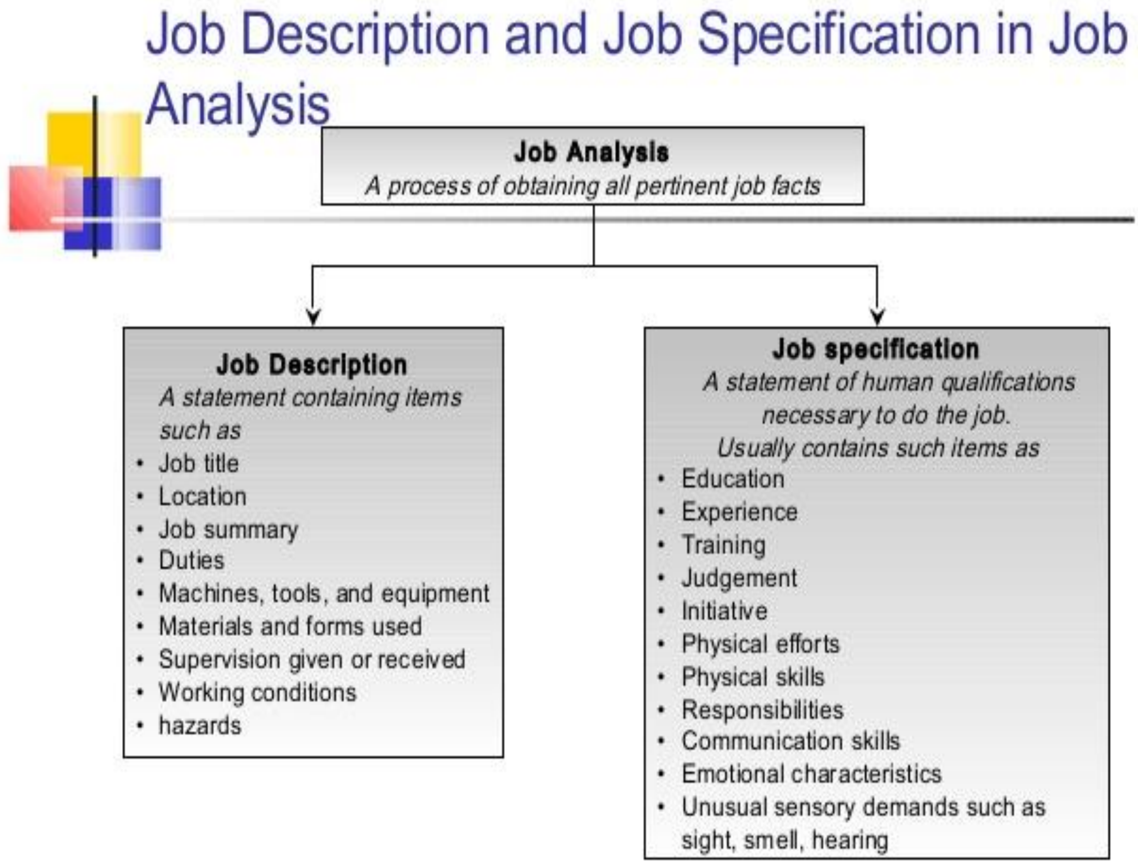
- It is a statement of employee characteristics and qualifications required for satisfactory performance of defined duties and tasks comprising a specific job or function.
- It is the compilation of attributes required for a job position.
- Job specification is derived from job analysis.

- Incorrect job specification will lead to selection of wrong employees.

Job Description differs from job specification, in the sense that the former is a statement that explains the essential needs of a job whereas the latter is a statement which states the least qualifications, required in the job holder for the performance of a particular job.

These are an integral part of HRM because it is required for every single position of the organisation, whether it is a finance manager, HR manager, production manager, marketing manager or any other job of low echelon.

Job description list out the job title, tasks, duties, roles and responsibilities, with respect to the particular job. On the other hand, **job specification** is concerned with the listing of the incumbent's qualification, skills, and abilities, that are needed to discharge the job efficiently. The article presents you significant differences between job description and job specification in tabular form.



BASIS FOR COMPARISON	JOB DESCRIPTION	JOB SPECIFICATION
Meaning	Job Description is a concise written statement, explaining about what are the major requirements of a particular job.	The statement which explains the minimum eligibility requirements, for performing a particular job is known as Job Specification.
Lists out	Job title, duties, tasks and responsibilities involved in a job.	Employee's qualification, skills and abilities.

BASIS FOR COMPARISON	JOB DESCRIPTION	JOB SPECIFICATION
What is it?	It expresses what a prospective employee must do when he will get the placement	It expresses what an applicant must possess for getting selected.
Prepared from	Job Analysis	Job Description
Describes	Jobs	Job Holders
Comprises of	Designation, place of work, scope, salary range, working hours, responsibilities, reporting authority etc.	Educational qualifications, experience, skills, knowledge, age, abilities, work orientation factors, etc.

Template for Job Description

Smith Ltd

Job description

Name of employee	James Jones
Job title	Junior web developer
Division or department	Web development
Location	AB1 2CD
Name of employee's supervisor	Jane Nelson

This job description provides an outline of the duties and responsibilities of the role and the necessary skills and knowledge required to perform them as at the date it was created. The employee accepts that over time this job description may be subject to change as the employee's duties and job evolves.

Job purpose: Web developer responsibilities include building our website from concept all the way to completion from the bottom up, fashioning everything from the home page to site layout and function.

Main responsibilities and duties

1. Be responsible for maintaining, expanding, and scaling our site
2. Cooperate with web designers to match visual design intent
3. Create and maintain software documentation
4. Create website layout/user interface by using standard HTML/CSS practices
5. Gather and refine specifications and requirements based on technical needs
6. Integrate data from various back-end services and databases
7. Stay plugged into emerging technologies/industry trends and apply them into operations and activities
8. Write well designed, testable, efficient code by using best software development practices

Required knowledge and skills

1. A solid understanding of how web applications work including security, session management, and best development practices

2. Ability to work and thrive in a fast-paced environment, learn rapidly and master diverse web technologies and techniques

3. Adequate knowledge of relational database systems, Object Oriented Programming and web application development

4. BS in computer science or a related field

5. Familiarity with at least one of the following programming languages: PHP, ASP.NET, Javascript or Ruby on Rails

6. Hands-on experience with network diagnostics, network analytics tools

Specialist, Marketing Graphic Design

FLSA Status: Non-Exempt
Pay Grade: 13
Job Title ID: 102016
Job Series/Job Family: President's Series / Public Information/Marketing/Publications Family

Reports To

Manager, Graphic Design

Job Purpose

To plan, analyze, design, and create official college marketing materials that educate and inform both internal and external audiences about ACC's mission, people, programs, and services.

Description of Duties and Tasks

Essential duties and responsibilities include the following. Other duties may be assigned.

Required

1. Provides creative support for web graphic needs.
2. Formats text and graphics, creates graphs and charts from data; coordinates proofing and corrections.
3. Prepares electronic files according to commercial printer's requirements and checks printer proofs.
4. Compiles and organizes information from multiple sources throughout the college; formats and updates written material and graphics provided in multiple formats including hard copy, Word, Excel, and Adobe Acrobat.
5. Provides preliminary proofing of text and reviews final product to ensure it is complete and accurate.
6. Coordinates, designs, and produces a variety of official college publications and marketing collateral which may include brochures, catalogs, print ads, posters, fliers, booklets, mailers, PowerPoint slides, and promotional merchandise.
7. Originates design concept and layout for materials including photo selection, digital manipulation, and font usage adhering to college brand standards; generate updates and changes as needed.
8. Collaborates with staff and consults with copywriters on text that accompanies the design to ensure the needs of the client, the message the design should portray, and its appeal to end users is effective.

Knowledge

Must possess required knowledge and be able to explain and demonstrate, with or without reasonable accommodations, that the essential functions of the job can be performed.

Required

- Graphic design theory, typography, color theory.
- Technical expertise with graphic design and print production software.
- Publication layout and design.
- Commercial printing requirements and practices.

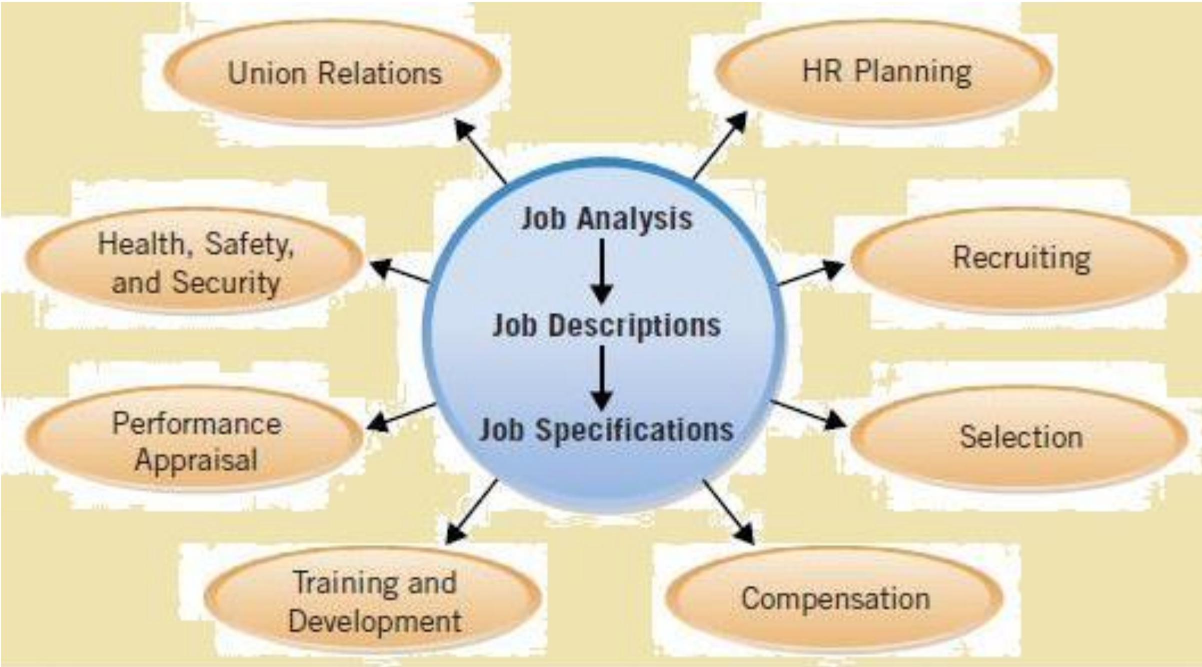
Skills

Must possess required skills and be able to explain and demonstrate, with or without reasonable accommodations, that the essential functions of the job can be performed.

Required

- Maintaining an established work schedule.
- Creativity, communication, and problem-solving skills.
- Effectively managing tight deadlines and multiple tasks in a fast-paced work environment.

Uses of JD



Compensable Factors

- Compensable factors can be simply understood as the criteria used to evaluate a job and on the basis of which salary/wages of the employee is computed.
- It is like the organization is willing to pay based on certain must have competencies or other eligibility factors.
- Each of the compensable factors have their own importance and weight in the process of final evaluation.
- The Equal Pay Act of 1963 has defined 4 most basic compensable factors: effort, skill, responsibility and working conditions.
- There are usually 5 to 12 compensable factors in any evaluation procedure. The compensable factors are different for different evaluations.
- Degree of importance is tested in a 5 point Likert type scale.

For example, following could be the compensable factors for preparing a job description:-

1. Experience- the prior experience of the employee, whether he has worked in similar industry previously or some other.

2. Education- all the educational qualifications that are mandatory for the job.

3. Working Condition- the working condition of the job in which the employee would be working.

4. Confidential Data- the extent to which the employee is exposed to the confidential data.

5. Consequences of errors- consequences of the error occurrence by the employees, results of the mistake.

6. Complexity of duties- the difficulty level of the task, whether too much decision making is required or not.

7. Responsibility- the extent of the responsibility the employee entitled to.

8. Mental and physical demands- the degree of concentration and the environment accordingly.

J**ob evaluation**

- A **job evaluation** is a systematic way of determining the value/worth of a job in relation to other jobs in an organization.
- It tries to make a systematic comparison between jobs to assess their relative worth for the purpose of establishing a rational pay structure.
- It analyses and assesses the content of jobs to place them in some standard rank order.
- The end result is used for a fair and logical remuneration system.
- A properly devised job evaluation scheme provides the management with a definite systematic and reliable data for determining wage and salary scales.
- The data is used for logical wage negotiation which reduces wage grievances, dissatisfaction with wage differentials and ensure fair treatment for each employee.

Use of Job Evaluation

- It also provides a logical basis for promotion.
- To reduce turnover
- It increases output
- Improves morale

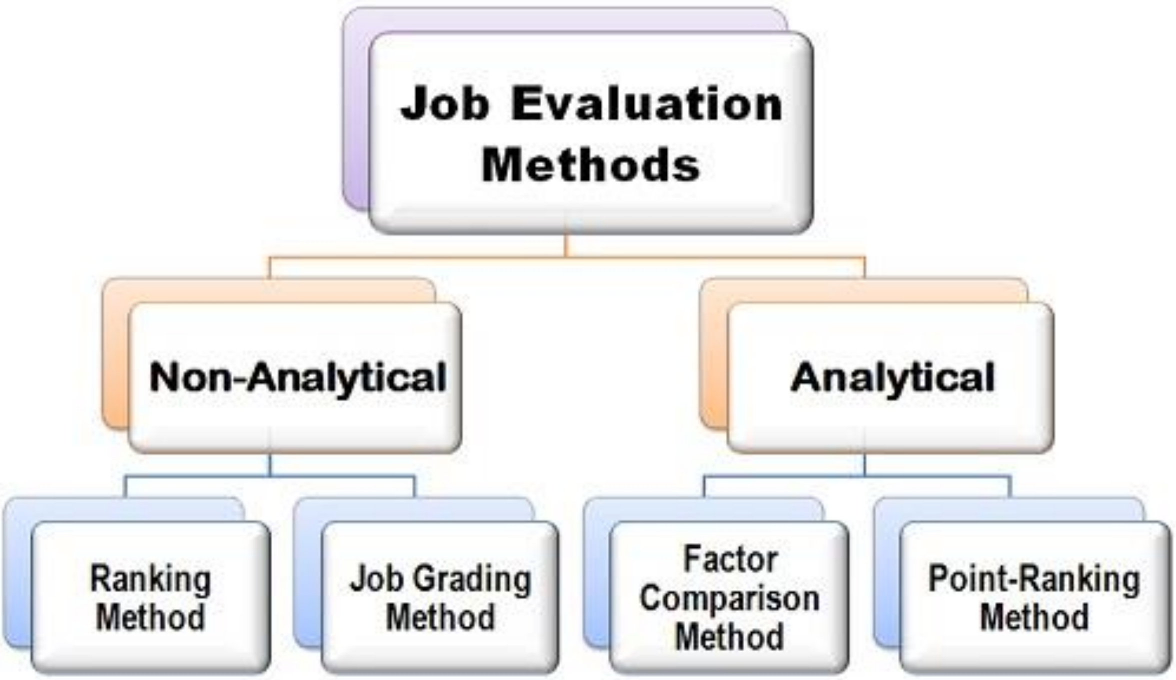
- Reduces loss of time due to wage negotiation and disputes
- Reduces complaints regarding wages
- Reduces wage and salary anomalies

Steps in Job Evaluation

1. Job Assessment (Detailed examination of the job)
2. Preparation of Job Description
3. Job Analysis
4. Comparison of one job to another
5. Arrangement of jobs in a progression
6. Relating the progression of jobs to a financial scale

Job Evaluation Techniques

1. Ranking
2. Classification / Job Grading
3. Point Rating
4. Factor Comparison



1. **Ranking Method**

- Ranking simply orders the job descriptions from highest to lowest based on a global definition of relative value or contribution to the organization's success.
- It judges each job as a whole and tries to understand its relative worth by ranking one whole job against another job.
- There are 2 methods in this :–

  i. **Alternation Ranking** – Alternate extremes of least valued and most valued jobs are decided. Then the other jobs are put in between.

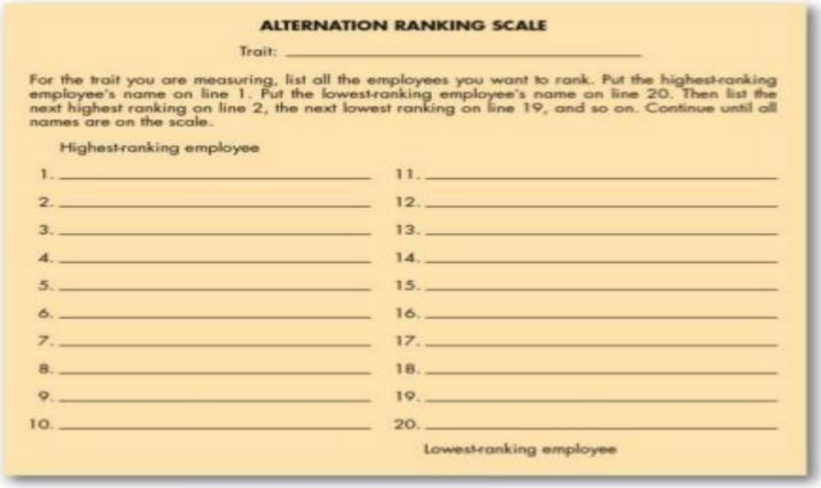
  ii. **Paired Comparison** – This uses a matrix to compare all possible pairs of jobs.

Example: Ranking Method

Rank	Job	Monthly Salaries
1.	Accountant	Rs 60,000
2.	Accounts Clerk	Rs 30,000
3.	Purchase Assistant	Rs 25,000
4.	Machine-Operator	Rs 20,000
5.	Typist	Rs 17,000
6.	Office Boy	Rs. 15,000

Job	Wage rate in money units	Skill		Mental Requirement		Physical Requirement		Responsibility		Working Conditions	
		Money value attributed	Ranking of the job	Money value attributed	Ranking of the job	Money value attributed	Ranking of the job	Money value attributed	Ranking of the job	Money value attributed	Ranking of the job
Toolmakers	20	9.0	1	5.0	1	2.0	2	3.0	1	1.0	4
Mechinist	18	8.0	2	4.0	2	1.0	3	2.0	2	3.0	3
Electrician	16	6.0	3	3.0	3	3.0	4	1.5	3	2.5	5
Assembler	14	4.0	4	2.0	4	1.5	5	1.0	5	5.5	2
Janitor	12	2.0	5	1.0	5	4.0	1	0.5	4	4.5	1

Alternation Ranking Method – is where employees are ranked from best to worst on a particular trait, choosing highest, then lowest, until all are ranked.



ALTERNATION RANKING SCALE

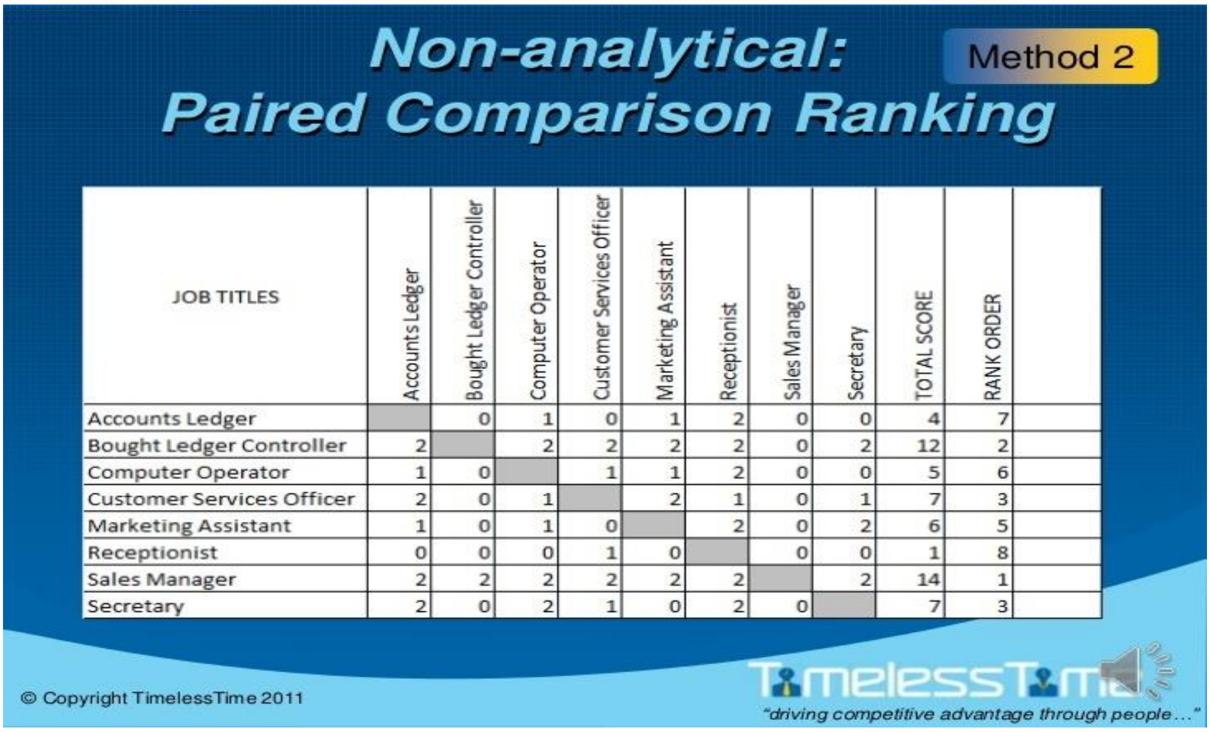
Trait: ____________________

For the trait you are measuring, list all the employees you want to rank. Put the highest-ranking employee's name on line 1. Put the lowest-ranking employee's name on line 20. Then list the next highest ranking on line 2, the next lowest ranking on line 19, and so on. Continue until all names are on the scale.

Highest-ranking employee

1. ______	11. ______
2. ______	12. ______
3. ______	13. ______
4. ______	14. ______
5. ______	15. ______
6. ______	16. ______
7. ______	17. ______
8. ______	18. ______
9. ______	19. ______
10. ______	20. ______

Lowest-ranking employee



JOB TITLES	Accounts Ledger	Bought Ledger Controller	Computer Operator	Customer Services Officer	Marketing Assistant	Receptionist	Sales Manager	Secretary	TOTAL SCORE	RANK ORDER
Accounts Ledger		0	1	0	1	2	0	0	4	7
Bought Ledger Controller	2		2	2	2	2	0	2	12	2
Computer Operator	1	0		1	1	2	0	0	5	6
Customer Services Officer	2	0	1		2	1	0	1	7	3
Marketing Assistant	1	0	1	0		2	0	2	6	5
Receptionist	0	0	0	1	0		0	0	1	8
Sales Manager	2	2	2	2	2	2		2	14	1
Secretary	2	0	2	1	0	2	0		7	3

Advantages of Ranking Method

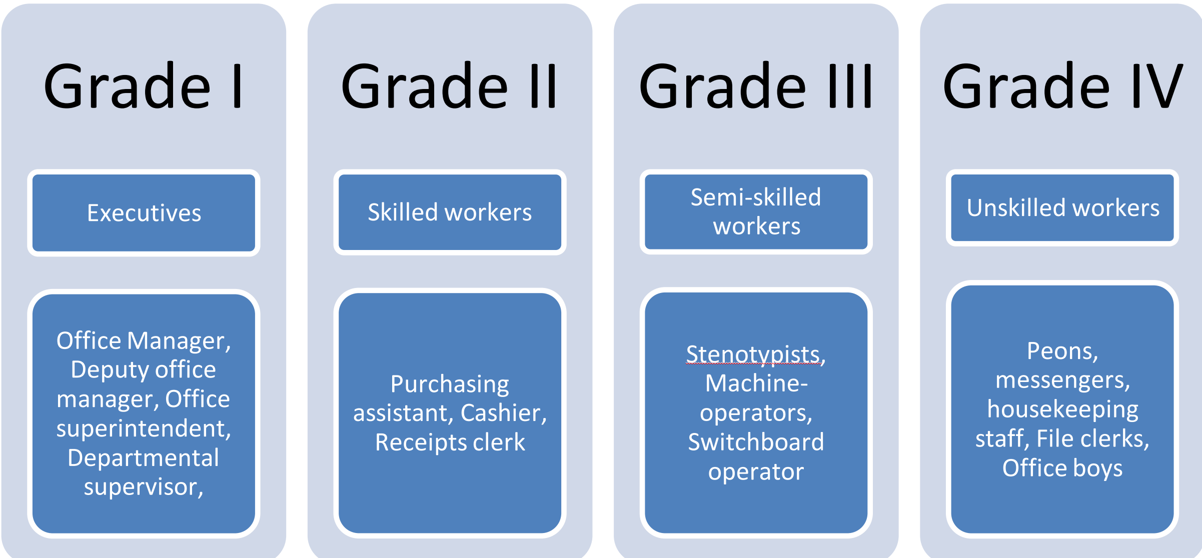
1. It is simple to understand
2. Very effective when no. of jobs are large.
3. It is less time consuming

Disadvantages of Ranking Method

1. It becomes difficult to administer as no. of jobs increases.
2. Rank judgements are subjective.
3. The process will have to be repeated each time a new job is added to the organization.

Classification or Job Grading Method

- Under this method the job grades or classes are predetermined and then each job is assigned to these and is evaluated accordingly.
- Each level in the grade/category structure has a description and associated job titles.
- Each job is assigned to the grade/category providing the closest match to the job.
- The classification of a position is decided by comparing the whole job with the appropriate job grading standard.
- To ensure equity in job grading and wage rates, a common set of job grading standards and instructions are used.
- Because of differences in duties, skills and knowledge, and other aspects of trades and labor jobs, job grading standards are developed mainly along occupational lines.



Merits of Job Grading

1. This method is easy to understand and simple to operate.
2. It is economical and, therefore, suitable for small organisations.
3. The grouping of jobs into classifications makes pay determination problems easy to administer.
4. This method is useful for Government jobs.

Demerits of Job Grading

1. The method suffers from personal bias of the committee members.
2. It cannot deal with complex jobs which will not fit neatly into one grade.
3. This method is rarely used in an industry.

Factor Comparison Method

- A set of *compensable* factors are identified as determining the worth of jobs.
- Typically the number of compensable factors is small (4 or 5).
- Examples of compensable factors are:
    - i. Mental requirements
    - ii. Skill requirements
    - iii. Physical requirements
    - iv. Responsibilities
    - v. Working Conditions
    - vi. Next, benchmark jobs are identified.
- Benchmark jobs should be selected as having certain characteristics.
    - i. equitable pay (not overpaid or underpaid)
    - ii. range of the factors (for each factor, some jobs would be at the low end of the factor while others would be at the high end of the factor).
- 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.

- 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.
- The jobs are then priced and the total pay for each job is divided into *pay* for each factor.
- The final step in factor comparison method is to compare and evaluate the remaining jobs in the organisation.

Job Evaluation: Factor Comparison					
		The hourly rate is divided into pay for each of the following factors:			
Job	**Hourly Rate**	Pay for **Skill**	Pay for **Effort**	Pay for **Responsibility**	Pay for **Working Conditions**
Secretary	$9.00	4.50	2.00	2.00	0.50
Admin Assistant	$11.00	5.50	2.50	2.50	0.50
Supervisor	$15.00	6.00	3.50	4.00	1.50
Manager	$21.00	9.00	3.50	7.00	1.50

Merits of Factor Comparison Method

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 of Factor Comparison Method

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.

Point Rating Method

- The point method is a widely used technique in which factors that are important to the job are rated numerically.
- This is the most widely used method of job evaluation.
- Under this method, jobs are broken down based on various identifiable or compensable 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.

<u>**Process**</u>

1. **Select Factors for each job.**

- Clearly define each factor in detail like
  - Skills
  - Responsibility
  - Effort
  - Working Condition
- The above factors are generic factors.
- You need to choose what factors are relevant for the job which is selected.

2. Determine the sub-factors under each factor.

- For e.g the sub-factors under Skill are :
- Experience
- Education
- Knowledge
- Judgment
- Interpersonal Skills

3. Determine the degree levels for each factor or sub-factor.

- E.g. – Education
- Degree 1 : SSC / 2 : HSC / Degree 3: Graduation / Degree 4 : Post Graduation / Degree : 5 Graduation + Special Certification

4. Determine the total no. of points. It is an arbitrary no. like 500

5. Assign weightage to each of the factors and assign relevant points accordingly.

- e.g – Skill – 50% / Effort – 15%

6. Assign points in each factor.

- Skill – 250
- Effort – 75

6. Assign points in each factor.

- The sum of the highest value in all the sub-factors is equal to the value of each factor.

E.g. - In skill

- Education (Highest Value) = 75
- Experience (Highest Value) = 100
- Knowledge (Highest Value) = 70

Total of the above is 250 (Value for each factor skills)

7. Compute the points.

- As per the sub-factor degree for each of the jobs, calculate the value for each factor.
- Sum all the factor values to arrive at the points for the job.

8. Conversion of the job points into money value

- Once the worth of a job in terms of total points is expressed, the points are converted into money value keeping in view the hourly/daily wage rates.

			Levels					
Factors	Points	Weight	1st	2nd	3rd	4th	5th	Total Job Points
Skill								
•Education			15	30	45	60	75	
•Experience			20	40	60	80	100	
•Knowledge	250	50%	15	30	45	60	75	165
Effort								
•Physical Demand			10	20	30	40	50	
•Mental Demand	75	15%	5	10	15	20	25	40
Responsibility								
•Equipment or proce			5	10	15	20	25	
•Material or product			5	10	15	20	25	
•Safety of others			5	10	15	20	25	
•Administrative	100	20%	5	10	15	20	25	70
Job Conditions								
•Work Condition			10	20	30	40	50	
•Hazards	75	15%	5	10	15	20	25	45
		Total Job Points						320

Merits of Point Rating Method

1. It is the most comprehensive and accurate method of job evaluation.
2. Prejudice and human judgment are minimised, i.e. the system cannot be easily manipulated.
3. Being the systematic method, workers of the organization favour this method.
4. The scales developed in this method can be used for long time.
5. Jobs can be easily placed in distinct categories.

Demerits of Point Rating Method

1. It is both time-consuming and expensive method.
2. It is difficult to understand for an average worker.
3. A lot of clerical work is involved in recording rating scales.
4. It is not suitable for managerial jobs wherein the work content is not measurable in quantitative terms.

Hay's Method of Job Evaluation

- The Hay System is a job performance evaluation method that is widely used in North America and Europe.
- The four factors are used in job evaluation: Skill, Effort, Responsibility and Working Conditions are translated by Hay into Knowledge, Problem Solving, Accountability and Working Conditions.
- The system works on an integration of all the factors.
- A job is evaluated by looking at
  i) the knowledge required to do the job (whether practical or intellectual)
  ii) the kind of thinking required to solve the problems which the job commonly faces
  iii) the responsibilities (accountabilities) assigned
  iv) the work environment in which the work is performed.
- Each of these four dimensions is measured according to duration, intensity and frequency.
- All of these factors are evaluated in each job evaluation and the cumulative total is a total point factor for the position.
- Because jobs have so many different variables it is possible that a job without a high score in Know How but with severe Working Conditions could result in the same number of points with a job that has the opposite components.
- For example, an insurance clerk and a bus driver have few job responsibilities that are similar, but might be evaluated in total at the same point level.

Factor	***Intermediate insurance clerk***	***School bus driver***
Total Points	155	155
Know how	100	87
Problem solving	19	16
Accountability	25	22
Working conditions:	Physical effort 2	Physical effort 9

Factor	***Intermediate insurance clerk***	***School bus driver***
	Physical environment 1	Physical environment 7
	Sensory attention 6	Sensory attention 9
	Mental stress 2	Mental stress 5

Criteria for Selecting any Job Evaluation Method

1. Validity – Should be technically sound and consistent.
2. Usability – Right fit for the organization and nature of jobs.
3. Acceptability – Should be acceptable to the members of the orgn.
4. Sustainability – Necessary to sustain the selected technique for a longer period of time unless some major issues arise.

Graded Pay Structure - A graded pay structure is designed based on job evaluation reports. A series of pay grades can be developed even within the same position based on the intrinsic worth of the individual on the job. A graded pay structure is applicable for different hierarchical levels within the same job family.

Merit Based Pay

It refers to a **performance-related pay (PRP)** which provides bonuses or base pay increases for employees who hit the target or perform their jobs effectively, according to measurable criteria over a predetermined period of time.

Forms of PRP

- Increase in annual salary
- Bonus program or system
- Direct compensation for quantified production

Merit pay (or pay for performance) can take several basic forms. First, **annual salary increases** can be based on some sort of assessment of the employee's productivity (however that might be measured). Those judged as "better" will receive greater salary increases which maintain over the years. The second method of rewarding "superior" employees is to use a **bonus program or system**, where a very productive employee will receive some sort of bonus payment, which is a one time, non-recurring event.

The third approach involves **direct compensation for quantified production**. In a factory setting, for example, an employee may receive a "piecework" rate -- being paid x dollars for the production of each ten items. In essence, that's supposed to reward those that work faster. Or, there's a commission structure, such that you'd find in real estate industries. The more you sell, the more you get paid, and the "pay for performance" is actually built into the entire system. In the direct compensation for quantified production, one nice thing is that the link between objectively determined production and pay or compensation is clearer, better defined and requires less judgment.

Objectives of Performance Related Pay

- To motivate employees as they will see that their rewards are directly related to their efforts.
- To increase employees' focus on and commitment to corporate objectives.
- To help develop a performance culture or to reinforce the existing culture.
- To reward the contribution made by individual to the organization's success.
- To help recruit and retain high-quality staff.
- To ensure that rewards are in line with organizational performance.

Conditions for the successful introduction of Performance Related Pay

For Performance Related Pay to be introduced successfully, the following factors must be obtained:

- The scheme must be appropriate to the organization's culture.
- The scheme must be closely linked to a comprehensive performance management process.
- The performance management process must include a robust mechanism for setting objectives and targets that meet the criteria set out earlier, and for reviewing, assessing performance against these.

- There has to be top management commitment to the process.
- The scheme should be sufficiently flexible to be able to take account of changes in business or individual circumstances.
- The link between financial rewards and performance must be clear one and should be effectively communicated to the employees.
- There is a need to ensure that performance measures are not just quantitative but also qualitative in nature including, for example, such measures as teamwork and innovation.

Types of Performance Pay The two common **types of incentives** are:

A. Monetary or Financial Incentives

The reward or incentive which can be calculated in terms of money is known as monetary incentive. These incentives are offered to employees who have more physiological, social and security need active in them. The common monetary incentives are:

1. **Pay and allowances**. Regular increments in salary every year and grant of allowance act as good motivators. In some organizations pay hikes and allowances are directly linked with the performance of the employee. To get increment and allowance employees perform to their best ability.
2. **Profits sharing**. The organization offer share in the profits to the employees as a common incentive for encouraging the employees for working efficiently. Under profits sharing schemes generally the companies fix a percentage of profits, and if the profits exceed that percentage then the surplus profits is distributed among the employees. It encourages the employees to work efficiently to increase the profits of the company so that they can get share in the profits.
3. **Co-partnership/stock option**. Sharing the profit does not give ownership right to the employees. Many companies offer share in management or participation in management along with share in profit to its employees as an incentive to get efficient working form the employees. The co-partnership is offered by issue of shares on exceeding a fixed target.
4. **Bonus**. Bonus is a onetime extra reward offered to the employee for sharing high performance. Generally when the employees reach their target or exceed the target

then they are paid extra amount called bonus. Bonus is also given in the form of free trips to foreign countries, paid vacations or gold etc. some companies have the scheme of offering bonus during the festival times.

5. **Commission**. Commission is the common incentive offered to employees working under sales department. Generally the sales personal get the basic salary and also with this efforts put in by them. More orders mean more commission.
6. **Retirement benefits**. Some organizations offer retirement benefits such as pension, provident fund, gratuity etc. to motivate people. These incentives are suitable for employees who have security and safety need.
7. **Perks/ fringe Benefits/ perquisites**. If refers to special benefits such as medical facility, free education for children, housing facility etc. these benefits are over and above salary. These extra benefits are related with the performance of the employees.

B. Non-Monetary/Non-Financial Incentives

Money is not the only motivator, the employees who have more of esteem and self actualization need active in them get satisfied with the non-monetary incentives only. The incentives which cannot be calculated in terms of money are known as non-monetary incentives. Generally people working at high job position or at high rank get satisfied with non-monetary incentives. The common means or ways of non-monetary incentives are:

1. **Status.** Status refers to rank, authority, responsibility, recognition and prestige related to job. By offering higher status or rank in the organization managers can motivate employees having esteem and self- actualization need active in them.
2. **Organizational climate.** It refers to relations between superior/ subordinates. These are the characteristics which describe and organization. These characteristics have direct influence over the behaviour of a member. A positive approach adapted by manager creates better organizational climate whereas negative approach may spoil the climate, Employees are always motivated in the healthy organizational climate.
3. **Career advancement.** Managers must provide promotional opportunities to employees. Whenever there are promotional opportunities employees improve their skill and efficiency with the hope that they will be promoted to high level. Promotion

is a very big stimulator or motivator which induces people to perform to their best level.

4. **Job enrichment/ assignment of challenging job.** Employees get bored by performing routine job. They enjoy doing jobs which offer them variety and opportunity to show their skill. By offering challenging jobs, autonomy to perform job, interesting jobs, employees get satisfied and they are motivated. Interesting, enriched and challenging job itself is a very good motivator or stimulator.
5. **Employee's recognition.** Recognition means giving special regard or respect which satisfies the ego of the subordinates. Ego-satisfaction is a very good motivator. Whenever the good efforts or the positive attitudes are show by the subordinates then it must be recognized by the superior in public or in presence of other employees. Whenever if there is any negative attitude or mistake is done by subordinate then it should be discussed in private by calling the employee in cabin. Examples of employee's recognition are congratulating employee for good performance, displaying the achievement of employee, giving certificate of achievement, distributing mementos, gifts etc.
6. **Job security.** Job security means life-time bonding between employees and organization. Job security means giving permanent or confirmation letter. Job security ensures safety and security need but it may have negative impact. Once the employees get job secured they lose interest in job. Of example government employees do not perform efficiently as they have no fare of losing job. Job security must be given with some terms and conditions.

Advantages of Merit Based Pay

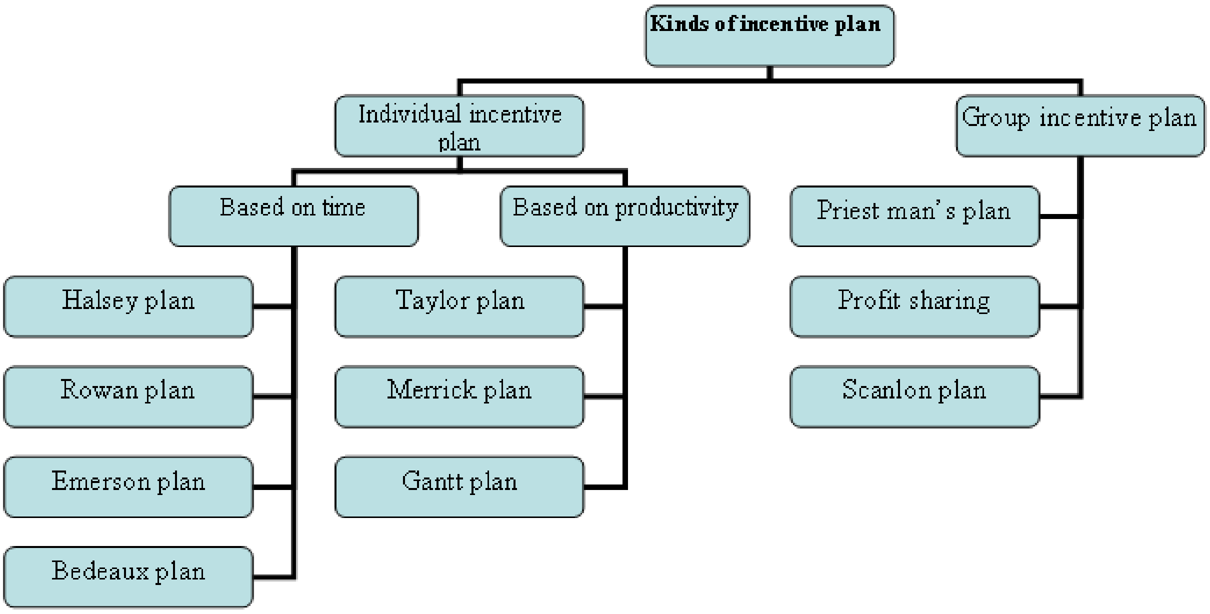
- Increased effectiveness as a reward is tied to performance
- Better company standards due to the recruitment of employees with the skills and confidence to work within a PRP system
- Increased retention of key employees who benefit from a pay system that rewards
- Enables the employer to differentiate the high performers by giving them a higher pay
- If exceeding targets/expectations employees can be rewarded fairly.

Disadvantages of Merit Based Pay

- It is subjective and may be biased.
- Employees develop a tendency to expect consecutive pay raises.
- Competition between employees and acting in self-interest rather than in the interest of the company.

Types of Incentive Plans

1. Individual Incentive Schemes
2. Group Incentive Schemes
3. Enterprise Incentive Schemes



Individual Incentive Schemes

- Reward systems tied to the performance of individual employees are known as individual incentive plans.
- These plans depend on category of workers for which they are designed. Under this plan mostly a certain pay rate is guaranteed and the rewards represent additional compensation.
- Individual Incentive Plans can be based on 2 parameters – time and productivity.

Based on Time

1. Hasley Plan
2. Rowan Plan
3. Emerson Plan
4. Bedaux Plan

Based on Productivity

1. Taylor Plan
2. Merrick Plan
3. Gantt Plan

Based on Time

1. Hasley Premium Plan

This plan was developed by F.A. Hasley. A specific amount of time is allotted for the accomplishment of a particular task. Afterwards, the rate per hour is decided. If employee is completing the allotted task within the stipulated time period or even after it, he will be paid at the time-rate. If the employee is completing his job well before time, he will be paid at the time-rate plus a bonus for the time saved. In practice, the bonus may vary from 33½ % to 66½ % of the wages of the time saved. If there is no saving in the standard time allowance, the worker is paid only his day rate.

Thus, if S is standard time, T the time taken, R the labour rate per hour, and % the percentage of the wages of time saved to be given as bonus, total earnings of the worker will be:

$$T \times R + \% (S - T) R.$$

Under Halsey — Weir plan, the premium is set at 30% of the time saved.

ILLUSTRATION 4. Rate per hour = ₹ 1.50 per hour
Time allowed for job = 20 hours
Time taken = 15 hours

Calculate the total earnings of the worker under the Halsey Plan. Also find out effective rate of earning.

SOLUTION

S (Standard Time) = 20 hours
T (Time taken) = 15 hours
R (Rate) = ₹ 1.50 per hour

Total Earnings $= T \times R + 50\% (S - T) \times R = 15 \times ₹\, 1.50 + \frac{50}{100}(20 - 15) \times ₹\, 1.50$

$= ₹\, 22.50 + ₹\, 3.75 = ₹\, 26.25$

Total wages for 15 hours = ₹ 26.25

Therefore, effective rate of earning per hour $= \frac{\text{Total Wages}}{\text{Actual Time Taken}} = \frac{₹\, 26.25}{15} = ₹\, 1.75$

Note. Percentage of bonus is to be taken 50% when it is not given.

Advantages of the Halsey Premium Plan

1. It is simple to understand and relatively simple to operate.

2. It guarantees time wages to workers.

3. The wages of time saved are shared by both employers and workers, so it is helpful in reducing labour cost per unit.

4. It makes distinction between efficient and inefficient workers because it provides increasing incentive to efficient workers.

5. Fixed overhead cost per unit is reduced with increase in production.

6. The employer is able to reduce cost of production by having reduction in labour cost and fixed overhead cost per unit. Lower cost gives him incentive to provide the best possible equipment’s and working conditions.

Disadvantages of the Halsey Premium Plan

1. Quality of the work suffers because workers are in a hurry to save more and more time to get more and more bonus.

2. Workers criticise this method on the ground that the employer gets a share of wages of the time saved.

3. Difficulties are experienced in determining standard time and hourly rate of wages which may be acceptable to workers.

2. Rowan Plan

This plan was originated by James Rowan of David Rowan and Sons of Glasgow, Scotland. The system is similar to Halsey plan except for a different method of computation of bonus. Here the bonus is calculated as a proportion of the wages of time taken which the time saved bears to the standard time. The main features of Rowan plan are:

(i) There is a guaranteed day-wage for actual time taken on the basis of time rate.

(ii) Bonus is paid for the time saved.

(iii) Bonus is based on that proportion of the time wages which the time saved bears to the standard time.

Total earnings of a worker will be:

$$\text{Bonus} = \text{Time Saved} \times \frac{\text{Time taken}}{\text{Standard Time}} \times \text{Wage Rate}$$

Wage = Time Taken X Wage Rate

Total Earnings = Wage + Bonus

Advantages of Rowan Plan

(i) The plan assures a minimum hourly rate.

(ii) The quality of output is protected since the bonus declines after the worker has reached a given level of efficiency.

(iii) Labour cost per unit and fixed overhead cost per unit are reduced with increase in production.

Disadvantages of Rowan Plan

(i) The plan is not easily followed by most of the workers.

(ii) Efficiency beyond certain point is not rewarded. It fails to distinguish between a very efficient worker and a worker with a little more than average efficiency.

(iii) Since the employer gets a share of the wages of the time saved, the workers do not get the full benefit of their efforts.

3. Emerson Plan

Under Emerson Plan, the standard time for the completion of a task is fixed against which the actual performance of the workers is measured. The worker's efficiency can be determined by dividing the time taken by the standard time. In Emerson Plan, the worker is paid only the time rate for the efficiency up to 67%. At 100% efficiency, the worker is paid time wages, plus a bonus of 20% on the wages earned. The worker is paid one percent additional bonus for each additional one percent efficiency added after the standard.

Standard output in 10 hrs = 200 units
Rate per unit = Rs 2

Case (1): Output in 10 hrs = 100 units
Efficiency = 50% (100/200 x 100)

As efficiency is below 67% the worker is entitled to only time wage,
thus, Earnings = 10 x 2 = 20.

Case (2): Output in 10 hrs = 200 units
Efficiency = 100% (200/200 x 100)

As the efficiency is 100%, then the worker is paid time wages, plus a bonus of 20% on wages earned. Thus, Earnings:

Time Wages = 10 x 2 = Rs 20

Bonus = 20/100 x 20 = Rs 4

Total earnings = Rs 24

Case (3): Output in 10 hrs = 260 units

Efficiency = 130% (260/200 x 100)

For 100% efficiency, the worker will get a bonus of 20% on wages earned, plus one percent additional bonus for every one percent increase in efficiency, i.e. 30%. Thus, the total bonus of 50% of time wage is paid to the worker.

Earnings:

Time wages = 10 x 2 = Rs 20

Bonus = 50/100 x 20 = Rs 10

Total Earnings = Rs 30

Calculate total wages of worker under Emerson Efficiency Bonus Plan from the following information:

Standard output in 12 hours: 192 units

Actual output in 12 hours: 168 units,

Time Rate Rs. 0.75 per hour.

As per Emerson bonus percentage table, bonus percentages at 87 % and 88 % efficiency are 7.56 and 8.32 respectively.

What will be the total earnings, if the output of the worker is 240 units?

Solution:

$$\text{Efficiency} = \frac{\text{Actual Output} \times 100}{\text{Standard Output}} = \frac{168 \times 100}{192} = 87.5\%$$

$$\text{Bonus percentage at 87.5 efficiency} = \frac{p \text{ at } 87\% + p \text{ at } 88\%}{2}$$

$$= \frac{7.56 + 8.32}{2} = 7.94$$

Total wages = $(12 \times .75) + 7.94/100 \times 12 \times .75 = 9 + .7146 =$ ₹. 9.7146

$$\text{Efficiency at 240 units} = \frac{240 + 100}{192} = 125\%$$

Bonus percentage = $20 + (125 - 100) \times 1\% = 45\%$

$$\text{Total wages} = 12 \times .75 + \frac{45 \times 12 \times .75}{100} = 9 + 4.05 = \text{₹. } 13.05$$

Advantages of Emerson Plan

1. It is simple easily understandable by workers.

2. Workers get security because minimum wages are paid if efficiency is upto 66 2/3 %.

3. It provides stimulus to workers for increasing their efficiency. The rate of bonus increases progressively so provides encouragement for improving efficiency.

4. It provides incentive even to beginners and less efficient persons.

Disadvantages 0f Emerson Plan

1. Standards may be set fairly high and workers may not be able to achieve them.

2. Workers may not be encouraged to increase their output beyond the standard level because benefits may be nominal after that level.

3. The records of standards will have to be kept separately for different categories of workers. It increases clerical work.

4. Bedaux Plan

The Bedaux Plan is an incentive scheme in which the standard time for the completion of a job is fixed and the rate per hour is defined. Each minute of the standard time is called as point or B, such as in one hour there are 60 Bs. Under Bedaux plan, every job has a standard number of Bs. If the worker completes the job in more than standard hours, then he is paid according to the time-rate, i.e. time taken is multiplied by the hourly rate. In case, the work is completed in hours less than the standard time; then the worker is entitled to the bonus in addition to the hourly rate. A bonus is equal to the 75% of the earned/saved points (in excess of 60 per hour) multiplied by one-sixth of the hourly rate. Even if the worker does not reach the standard, then he is paid according to the time-rate.

For example, standard time required for a job is 20 hours i.e., 1,200 B's in terms of minutes (20 x 60) whereas a worker has taken 16 hours i.e., 960 B's (16 x 60) instead of 1,200 B's. The worker has saved 240 B's or 4 hours (4 x 60). Suppose time wage rate is Rs 2 per hour; the time saved will be equal to Rs 8 (4 hours @ T 2). The worker will get 75% of Rs 8 as bonus.

Time wages for 16 hours (actual time taken @ ₹ 2 per hour)	**32**
Bonus—75% of 4 hours wages $\left[\frac{75}{100} \times 4 \times ₹\,2\right]$	**6**
Total earnings	**38**

This method ensures time wages to the workers and has the novel feature of distributing the wages of time saved among workers and foremen. It serves as a strong incentive for workers for improving their performance above 100% of the standard.

But workers criticise this method as foremen are given a share of wages of the time saved. It is a complicated method as the determination of standard time in terms of B's is not easily understood by workers.

Advantages of Bedaux Plan

1. It ensures minimum wages to all workers.

2. This method is very simple and is easy to understand.

3. The supervisor is motivated to co-operate with the workers for increasing their efficiency.

Disadvantages of Bedaux Plan

1. Workers are tempted to hurry up with the job and strict supervision will be necessary for maintaining proper quality control.

2. Worker resent sharing of their efforts with supervisors or superior.

3. The standard task may be too difficult to perform within a specified time.

Based on Productivity

1. Taylor Differential Piece – Rate Plan

This system was introduced by Mr. F.W. Taylor. The underlying principle of this system is to penalise a slow worker by paying him a low piece rate for low production and to reward an efficient worker by giving him a higher piece rate for a higher production. Taylor was of the view that an inefficient worker should have no place in the organisation and he should be compelled to leave the organisation by paying him a low piece rate for low production. Taylor proceeded on the assumption that through time and motion study it is possible to fix a standard time for doing a particular task. Under this system, standard time for every work is determined on the basis of time and motion study. Two rates of wages are determined-as High rate and Low rate. The workers, who complete their work within standard time or before standard time, are paid wages according to the high rate. The workers, who complete their work in more time than standard time, are paid the wage according to lower rate.

Basic features of this system are as under:

1. The workers, who complete their work in more time than the standard time, are paid the wages at lower rate.

2. Two rates of wages are determined i.e., Higher rate and Lower rate.

3. Standard time of the work is determined.

4. The workers, who complete their work within standard time or before standard time, are paid the wages at high rate.

Example:

- Standard work = 10 units per day
- High rate of wage = Re. 1.00 per unit
- Lower rate of wage = Re.0.80 per unit

Solution:

If a worker completes his standard work, he will be paid the wages at higher rate and if a worker is unable in completing his work within standard time, he will be paid at lower rate.

Calculate the earnings of workers A and B under Straight Piece-rate System and Taylor's Differential Piece-rate System from the following particulars:

- Normal rate per hour = Rs 1.80
- Standard time per unit = 20 seconds
- Differentials to be applied:
- 80% of piece rate below standard
- 120% of piece rate at or above standard.
- Worker A produces 1,300 units per day and worker B produces 1,500 units per day.

SOLUTION

Standard production per 20 seconds = 1 unit

Standard production per minute $= \frac{60}{20} = 3$ units

Standard production per hour $= 3 \times 60 = 180$ units.

Standard production per day of 8 hours (assumed) $= 180 \times 8 = 1{,}440$ units

Normal rate per hour = ₹ 1.80

∴ Normal piece rate $= \frac{₹\ 1.80}{180 \text{ units}} = 1$ paisa

Low piece rate below standard production $\frac{1 \text{ P.} \times 80}{100} = 0.8$ paisa

High piece rate at or above standard $\frac{1 \text{ P.} \times 120}{100} = 1.2$ paise

Earnings of Worker A :

Under Straight Piece-rate System

1,300 units @ 1 P. $= \frac{1{,}300 \times 1}{100} =$ ₹ 13

Under Taylor's Differential Piece-rate System

1,300 units @ 0.8 P. $= \frac{1{,}300 \times 8}{10} \times \frac{1}{100} =$ ₹ 10.40

Low piece-rate has been applied because worker A's daily production of 1,300 units is less than the standard daily production of 1,440 units.

Earnings of Worker B :

Under Straight Piece-rate System

1,500 units @ 1 P. $= \frac{1{,}500 \times 1}{100} =$ ₹ 15

Under Taylor's Differential Piece-rate System

1,500 units @ 1.2 P. $= \frac{1{,}500 \times 12}{10} \times \frac{1}{100} =$ ₹ 18

High piece-rate has been applied because worker B's daily production of 1,500 units is more than the standard daily production of 1,440 units.

Advantages of Taylor Differential Piece Rate System

1. This system helps in reducing the cost of production per unit.

2. This system is based upon scientific calculations, proper work and job standardisation.

3. Most important merits of this system are that it rewards an efficient worker and penalises the inefficient worker.

4. This system helps in eliminating the workers who are quite inefficient, because in the course of time, they will try to get the work elsewhere.

5. This system is very easy to understand and to calculate.

Disadvantages of Taylor Differential Piece Rate System

1. If the standard work of a worker is less than his normal capacity it causes great dissatisfaction among the workers.

2. The greatest demerit of this system is that it does not guarantee minimum wages. Therefore, it is opposed by the labour unions.

3. This system classifies the workers into two categories— efficient and inefficient.

4. This system helps in eliminating the workers who are quite inefficient, because in the course of time, they will try to get the work elsewhere.

5. This system is very easy to understand and to calculate.

6. This system is not suitable for the unity of workers.

2. Merrick Plan

The Merrick Differential Piece-Rate System is a modification of Taylor's differential piece-rate system. Here which three piece-rates are used to distinguish between the beginners, the average workers, and the superior workers, against two piece-rates in Taylor's system. The worker is paid the straight price rate up to 83% of the standard output, 10 % above the normal rate for producing between 83% – 100% and 20% above the normal rate for producing more than 100% of the standard output. Here also, the minimum wages of the worker are not guaranteed. Under Merrick differential piece-rate system the workers are not penalized for producing below the standard output up to 83%.

The Merrick Differential Piece-Rate System can be illustrated by the example given below:

Standard Output = 200 units
Piece-rate = 10 paise

Case (1): Output = 160 units
Efficiency = 160/200 x 100 = 80%

Since the efficiency is less than 83%, the worker is paid only the basic rate, i.e. 10 paise. Thus, earnings will be Rs 8 (80 x 0.1).

Case (2): Output= 180 units
Efficiency = 180/200 x 100 = 90%

As the efficiency is more than 83% but less than 100 percent, 10% above the normal rate is paid to the worker. Thus,
Earnings = 90 x 110/100 x 0.1 = Rs 9.9

Case (3): Output = 220 units
Efficiency = 220/200 x 100 = 110%

As the efficiency is 110%, 20% above the normal rate is paid to the worker. Thus,
Earnings = 110 x 120/100 x 0.1 = Rs 13.30

Advantages of Merrick Plan

1. It is good for efficient workers.
2. There is no sudden rise in the wages at one point.
3. It has all the merits of Taylor's Differential Plan.

Disadvantages of Merrick Plan

1. This system doesn't guarantee minimum wages for the workers.
2. There is a wide gap in the slabs.

3. Gantt Task and Bonus Plan

Gantt's task and bonus plan is based on careful time and motion study. A standard time is fixed for doing a particular task, worker's actual performance is compared with the standard time and his efficiency is determined.

Under this plan there are three stages of payment:

i) Below the standard performance, only the minimum guaranteed wages are paid

ii) At the standard performance, min guaranteed wages + 20% of the time-rate will be paid but there is no bonus.

iii) When the standard is exceeded, a higher piece-rate is paid but there is no bonus.

If a worker takes more time than the standard time to complete the task (i.e., his efficiency is below 100%), he is given wages for the time taken by him and if a worker takes the standard time to perform the task (i.e., efficiency is 100%), he is given wages for the standard time and a bonus of 20% on the wages earned.

If the worker completes the task in less than the standard time he is given wages for the standard time plus a bonus of 20% of the wages for the standard time.

In other words, if a worker's performance is more than 100% he is given piece wages plus bonus at 20% of piece wages.

Thus, with every reduction in time, the plan ensures progressive increase in total wages. For this reason, the plan is also known as "Progressive Rate System".

From the following data, calculate total monthly remuneration of three workers A, B and C under the "Gant's Task and Bonus Scheme":

(i) Standard production per month per worker is 1,000 units.

(ii) Actual production during the month:

A—850 units, B—1,000 units and C—1,100 units.

(iii) Piece work rate—50 paise per unit.

SOLUTION

Standard production per month is 1,000 units and piece work rate is 50 paise per unit. Therefore guaranteed monthly payment is ₹ 500 (*i.e.,* 1,000 units @ 50 paise).

Level of Performance

Standard output per month	= 1,000 units
Worker *A*'s output	= 850 units
Worker *A*'s level of performance	$= \frac{850}{1,000} \times 100 = 85\%$
Worker *B*'s output	= 1,000 units
Worker *B*'s level of performance	$= \frac{1,000}{1,000} \times 100 = 100\%$
Worker *C*'s output	= 1,100 units
Worker *C*'s level of performance	$= \frac{1,100}{1,000} \times 100 = 110\%$

Earnings of Worker A :

Worker *A*'s level of performance is 85% which is below the standard performance. Therefore, he will g₹ 500—the guaranteed monthly payment.

Earnings of Worker B :

Worker B's level of performance is 100% ; so he will get wages for the standard time and a 20% bonus. Thus, his earnings will be as follows :

	₹
Wages for 1,000 units @ 50 paise per unit	500
Add : 20% bonus	100
	600

Earnings of Worker C :

Worker *C*'s level of performance is 110%, which is more than the standard performance; so he will get pie wages plus 20% bonus.

	₹
Thus, his earnings are as follows :	
Piece wages for 1,100 units @ 50 paise per unit	550
Add : 20% bonus $\left(i.e., 550 \times \frac{20}{100}\right)$	110
Total earnings	660

Advantages of Gantt's Task and Bonus Plan

1. The plan is not so harsh as the Taylor's differential piece rate is. Therefore, it is more acceptable to the workers.

2. It is simple to understand.

3. It ensures guaranteed time wages to the worker who is below average workers.

4. It makes distinction between efficient and inefficient workers because the system ensures time wages for sub-standard workers and piece wages plus 20% bonus for standard and super-standard workers. Increasing rate of bonus is very satisfying to the efficient workers, so every worker tries to become more efficient.

5. Fixed cost per unit decreases with increase in production due to incentive for efficiency given under this scheme of wage payment.

Disadvantages of Gantt's Task and Bonus Plan

1. Like Taylor's differential piece rate method, it divides the workers into competing categories—one who earns the bonus and the other who does not earn the bonus. This brings disunity among workers and becomes unacceptable to the labour union.

2. The guaranteed time wages may not encourage efficiency if workers feel satisfied with the time wages.

Advantages of Individual Incentive Plans

- Performance that is rewarded will be repeated.
- Individuals are goal oriented and financial incentives help in achieving them.
- Assessing the performance of each employee individually helps the firm to achieve individual equity.

Disadvantages of Individual Incentive Plans

- Leads to narrow focus of selfish goals
- Plans may work against achieving quality goals
- Promotes inflexibility

Group Incentive Plans / Gainsharing Plans

- This strategy rewards employees for the productivity of their work groups.
- These are usually distributed equally amongst employees involved in the form of variable pay.

- The main purpose of gainsharing is to drive performance of an organization by promoting awareness, alignment, teamwork, communication and involvement.
- The various types of gainsharing plans are :

i) Scanlon Plan
ii) Rucker Plan
iii) Improshare

i) **Scanlon Plan**

- The Scanlon plan was the first gain sharing plan to be widely used.
- It ties extra earnings to the ratio of labor cost relative to production value.
- The greater the amount workers produce relative to the hourly wage they receive, the higher the extra compensation they'll earn.
- Without a gain sharing plan, employees who are paid strictly according to an hourly wage have little reason to produce more thimbles in less time.
- In fact, they may even have a perverse incentive to move and work more slowly because the longer it takes them to produce the required number of thimbles, the more they'll earn.
- However, workers who receive extra compensation for more productive work have a real incentive to produce more in less time.
- They earn more money per hour even if they work fewer hours. In addition to the undeniable appeal of finishing early but earning the same amount of pay, they may take extra pride in being able to complete work more efficiently as their skills develop.

ii) Rucker Plan

- While the Scanlon plan primarily measures productivity in terms of quantity of output, the Rucker plan shifts focus to evaluations of quality.
- This approach is based on the idea that in some industries, productivity really doesn'tvary much, but other variables can provide meaningful data about how well employees are performing.

- A Rucker plan might measure waste relative to production volume, rewarding employees for making a larger amount of finished product out of a particular quantity of raw materials.
- Alternately, a Rucker plan might measure the number of defective items returned and reward workers for lower rates of returns.
- An industry that uses a Rucker plan may have processes that are mechanized enough to ensure reasonably consistent rates of production while relying on employees to use materials judiciously or to inspect a finished product to ensure that defective items aren't packaged and sold.

iii) Improshare

- The Improshare approach originates from the consultative style of management. It measures the number of production hours rather than the cost of labor. Improshare plans treat all employee hours similarly, whether those employees are the company's top performers or the lowest.
- Despite its cumbersome name, an Improshare plan is easy to implement and track because all hours are entered in the same category. Instead of drawing from payroll records to determine how many hours at what rate of pay have gone into a production run, you can simply track the total hours and total output and then calculate the ratio between them.

Advantages of Gainsharing Plans

- Helps companies achieve sustained improvement in key performance measures
- Rewards only performance improvement
- Payouts are self-funded from savings generated by the plan
- Aligns employees to organization goals
- Fosters a culture of continuous improvement
- Enhances employee focus and awareness
- Increases the feeling of ownership and accountability
- Enhances the level of involvement, teamwork and cooperation
- Supports other performance improvement efforts and helps promote positive change

- Promotes morale, pride, and more positive attitudes toward the organization

Disadvantages of Gainsharing Plans

- Measures are narrower than organization-wide profit and therefore gains may be paid even though profits may be down.
- Requires a participative management style
- Requires that management openly shares information related to performance measures
- Employees may question or challenge management decisions that may adversely impact a gain.
- Increases the level of organizational stress since everyone has more of a financial stake in the organization's success
- Applies best to and a work environment that requires teamwork and collaboration rather that individual entrepreneurship
- Paid on the basis of group performance rather than individual merit

Enterprise Incentive Schemes

- These are available to all the employees.
- Employees are compensated based on organizational success over a period of time.
- It aims to inculcate a sense of belongingness among the employees.
- The different types of Enterprise Incentive Schemes are :

i) Profit Sharing
ii) Cafeteria Plans
iii) Stock Options
iv) ESOPs

Profit Sharing Plans

- A profit-sharing plan is a retirement plan that gives employees a share in the profits of a company.

- Under this type of plan an employee receives a percentage of a company's profits based on its quarterly or annual earnings.
- This is a great way for a business to give its employees a sense of ownership in the company, but there are typically restrictions as to when and how a person can withdraw these funds without penalties.
- A company that offers a profit-sharing plan adjusts it as needed, sometimes making zero contributions in some years. In the years when it makes contributions, however, the company must come up with a set formula for profit allocation.

Types of Profit Sharing Plans

1. Cash Payment Plan – Share of the profit is regularly distribiuted among the employees.
2. Deferred Payment Plan – The employee's part of the profit is kept in a trust and is given in small instalments, or during his retirement or on event of this termination or death.
3. Combination Payment Plan – This plan combines features of both the above plans.
4. Stock Ownership Plan – An employee is offered stocks at discounted rates. The amount of stock an employee can buy is limited and there are conditions attached to it.

Advantages of Profit-Sharing Plans

- Better Employer – Employee Relationship
- Industrial Harmony
- Low Labour Turnover
- Enhancement of Team Spirit
- Sense of Belongingness
- Attraction for Efficient Workforce

Disadvantages of Profit-Sharing Plans

- Distrust caused due to distribution of profit

- Uncertainty
- Non-recognition of efficient workers
- Fluctuations in bonus
- Lack of enthusiasm due to time lag between effort and reward

Cafeteria Plans

An employee benefit plan that allows staff to choose from a variety of benefits to formulate a plan that best suits their needs. Also known as "cafeteria employee benefit plan" or "flexible benefit plan". These plans become more useful as diversity within workforces continues to grow. For example, the benefit needs of young families may differ greatly from those of a single person.

A cafeteria benefit plan helps employees to choose which types of benefits they would like rather than being handed a standard package by their employer. Some may choose to have more comprehensive health care plans, others may be more interested in retirement schemes or life insurance. Some companies offer a flexible benefit budget to their staff allowing them to “buy” the benefits best suited to their needs. The employees can then pick and choose what is best for them and companies can offer new types of benefits more quickly as they don’t need to extend them throughout the firm.

There are two main types of benefits plans:

➢ **Core Plus** - It consists of a core of essential benefits and a menu like selection of other benefits options from which employees can select and add to the core. These plans provide a set of mandatory benefits that are usually designed to meet the basic needs of all employees. In addition to legally-required benefits, medical insurance, long-term disability insurance, and retirement benefits are often included in the core. Optional benefits are offered to employees who spend benefit credits to select other benefits that best fit their needs.

➢ **Modular Plan** - Modular plans are pre-designed package of benefits with each module put together to meet the needs of a specific group of employees. Usually package several different bundles of benefits that offer increasingly extensive arrays of benefits. The basic module might include only the legally-required benefits, basic health insurance, and life insurance. A second module might include everything in the basic module plus additional benefits. A third module might include everything in modules one and two and even more benefits. Employees would choose the module that best fits their needs and life situation. So, a module designed for a single employee with no dependents might include only essential benefits. However, a module designed for single parents might have additional life insurance, disability insurance and health coverage.

- **Flexible spending plan -** These allow employees to set aside up to the amount offered in the plan to pay for particular services. It is a convenient way for employees to pay for health care etc.

Advantages of Cafeteria Plans

- Tax Savings
- Savings enjoyed by employers
- Reimbursement for Medical expenses for the employees
- Flexible spending accounts / plans

Disadvantages of Cafeteria Plans

- Complicated to administer
- Problems in selecting options

Stock Options

A stock option is the right to purchase a specific number of common shares at a fixed price over a set period of time at a future date. In other words, it gives the owner of the option the ability to purchase shares at a future date for a specific price regardless of what the market price is.

A stock **call option** grants the purchaser the right but not the obligation to buy stock. A call option will increase in value when the underlying stock price rises. A stock **put option** grants the buyer the right to sell stock short. A put option will increase in value when the underlying stock price drops.

Types of Stock Options

- A **qualified stock option** is a type of company share option granted exclusively to employees. It confers an income tax benefit when exercised. Qualified stock options are also referred to as "incentive stock options" or "incentive share options." They should fulfil the requirements of the Internal Revenue Code (IRC), Sec 422 for preferential tax treatment.
- A **Non- Qualified Stock Option** is a type of employee stock option wherein you pay ordinary income tax on the difference between the grant price and the price at which you exercise the option.

Advantages of Employee Stock Options

For Employees	**For Employers**
1. Receive financial benefits	1. Can increase cash flow and provide a tax deduction
2. Cab get the benefits while being employed.	2. Powerful motivator for employees
3. No investment required	3. Provides key to attract and retain key employees.

Disadvantages of Employee Stock Options

- Risky Strategies
- Confusion for Investors

- Poor performance

Employee Stock Ownership Plan

- An employee stock ownership plan gives workers ownership interest in the company.
- ESOP is usually formed to allow employees the opportunity to buy stock in a closely held company to facilitate succession planning.
- ESOPs encourage employees to do what's best for shareholders since the employees themselves are shareholders and provide companies with tax benefits, thus incentivizing owners to offer them to employees.

Advantages of ESOPs

- Capital Appreciation
- Incentive based retirement
- Tax advantages
- Reduction in tax liability

Disadvantages of ESOPs

- Dilution
- Fiduciary Liability
- Liquidity
- Stock Performance

Wage Differentials

A wage differential refers to the difference in wages between people with similar skills within differing localities or industries. It can also refer to the difference in wages between employees who have dissimilar skills within the same industry. It is generally referenced when discussing the given risk of a certain job. For example, if a certain line of work requires someone to work around hazardous chemicals, then that job may be due a higher wage when compared to other jobs in that industry that do not necessitate coming into contact with dangerous chemicals. There are also geographical wage differentials where people with the same job may be paid different amounts based on where exactly they live and the attractiveness of the area.

The five causes of wage differentials are as follows: 1. Occupational Differences 2. Inter-firm Differentials 3. Regional Differences 4. Inter-Industry Differences 5. Personal Wage Differences.

As there are individual differences, so are wage differentials also. An organisation offers different jobs, thus, differentials in wages for different jobs are inevitable. Wage differentials are also known as inter-industry, inter-firm, inter-area or geographical differentials.

Wage differentials may be due to following causes:

1. Occupational Differences:

Occupations in an organisation widely differ from one another in terms of skill requirement and the extent of requirement and the extent of responsibility. Accordingly, wages vary from occupation to occupation. Such differences in occupations induce people/workers to undertake more challenging jobs, encourage workers to develop their skills by way of education and training. It is varying skill requirement for different occupation that shapes the manpower planning in an organisation-be it an industrial organisation or educational institution.

2. Inter-firm Differentials:

There are wage differentials of workers in different plants in the same area and occupation. Factors like differences in quality of labour employed by different firms, imperfections in the labour market and differences in the efficiency of equipment's and supervision result in inter-firm wage differentials. Added to these are differences in technological advance, managerial efficiency, financial capability, firm's age and size, availability of raw material, power and transport facilities also account for differences in wages among firms.

3. Regional Differences:

Not only wages differ among occupations, but these also differ in case of workers working in the same occupation at different geographical regions. These differences are the result of working conditions prevalent in different regions of the country.

Forexample; the Central Government employees serving in the remote and disturbed areas like the North Eastern States of India are paid additional remuneration in the form of the Remote Area Allowance. Sometimes, such wage differentials are used to attract people to serve in particular regions.

4. Inter-Industry Differences:

These differences in wages surface in case of workers working in the same occupation and the same area but in different industries. These differences are the result of varying skill requirements, level of unionisation, nature of product market, ability to pay, the stage of development of an industry, etc.

5. Personal Wage Differences:

These differences arise because of the differences in the personal characteristics (age or sex) of workers working in the same unit and occupation. Though provision of 'equal pay for equal work' is certainly there, but it is still not the reality. Instances are there when woman worker is paid less than her male counterpart for doing the same job. Of course, there are other reasons also which cause wage differentials between male and female workers.

Rationale behind wage differentials

There are two views about it. One, in view of the principles of socialistic pattern of society in which the object of the representative. Government is to minimise inequalities, in incomes and distribution of wealth.

Two, wage differentials are justified given the wide differences in demand and supply of jobs along with wide variations in job requirements like skill, ability, aptitude, knowledge, experience and so on. That wage differentials full exploitation of the national resources is yet another justification given in support of wage differentials.

Basis of Wage differential

"Fair Wages Committee" recommended that Wage Differential should be based on :

- Degree of skill required
- The strain of work

- Experience involved
- Extent of training required
- Levels of responsibilities
- Mental & Physical exertion
- Fatigue involved

Reasons for or Factors affecting Wage Differentials

- The personal policy of the employer to maintain differentiations
- Imperfection of the labour market
- Relative bargaining strengths of employees and employers
- The value of employee to the employer
- The growing importance of fringe benefits
- Degree of skill and training to do a job
- Nature of the work to be performed
- Nature of the role and responsibilities required
- Extent of unionization and its strength
- The extent of authorization
- Centralization of decision- marking
- Need of geographical growth for the national growth.

Purpose of Wage differential

- To induce employees to learn and acquire new skills
- To shift employees to new industries
- To motivate employees to accept more responsible jobs / positions.
- To undertake social and welfare activities
- To increase the pace of economic development

Wage Policy

"Wage policy" here refers to legislation or government action calculated to affect the level or structure of wages or both, for the purpose of attaining specific objectives of social and economic policy.

Constitution of India on Wages

Article 39 - The State shall, in particular, direct its policy towards securing that :

i) the citizens, men and women equally shall have a right to an adequate livelihood,

ii) ii) there shall be equal pay for equal work for both men and women.

Article 43 - The State shall endeavour, by suitable legislation or economic organization or in any other way, to give all workers, agricultural or otherwise, work, a living wage, conditions of work ensuring a decent standard of life and full enjoyment of leisure and social and cultural opportunities.

Committee of Fair Wages (1948) – Provided guidelines for wage structures in the country. The concept of living wage, minimum wage and fair wage emerged.

Criteria for Wage Fixation

The Central Govt. appoints a Central Advisory Board to advise the Central and State governments on the fixing and revising the min rates of wages, as well as to coordinate the work of advisory boards. For the calculation of minimum wages, the following norms are followed by any board in this field.

These are:

1. The standard working-class family should be taken to consist of three consumption units for the earner – earnings of women, children, and adolescents should be disregarded.
2. The minimum food requirements should be calculated on the basis of the net intake of 2,700 calories per adult.
3. The clothing requirements should be estimated at a per capita consumption of 18 yards per annum per person.
4. In respect of housing, the norms should be the minimum rent charged by the govt in any area for houses provided under the subsidized housing scheme for lower income groups.
5. Fuel, lighting, and other misc items of expenditure should constitute 20% of the total minimum wage.

Features of an Ideal Wage Policy

An ideal wage and salary policy should :

- Establish good labour relations
- Decide on appropriate wages
- Decide wages based on individual's capacity
- Develop a pre-determined scheme of payment of wages
- Establish linkages of wage payment with performances
- Maintain parity of wages with other organizations
- Provide for incentive payment
- Guarantee minimum wages
- Provide for inflation
- Develop wage structure that can attract talent

National Wage Policy

International Labour Organization (ILO) has laid down certain guidelines for wage policy. The National Wage Policy has the following objectives (**Socio-economic Objectives of Wage Policy**):

1. Elimination of malpractices in the payment of wages.

2. Setting minimum wages for workers to reduce wage differential between organized and unorganized sectors.

3. Reduction of disparities of wages and salaries between the private sector and public sector in a phased manner.

4. Compensate workers for cost of living arrangement.

5. Reduce gap the gap between the highest and lowest paid workers.

6. Support trade unions and collective bargaining

7. Ensure just share to the workers in the fruits of economic development.

8. Avoid substitution of capital for labour

9. Restrain high profit-making units to discriminate wages with high compensation offer.

10. Institutionalize collective bargaining within national framework.

11. Encourage incentive payment for increase of productivity and real wages.

12. Ensure efficient allocation and utilization of manpower through appropriate wage differentials.

In order to achieve the above objectives under the national wage policy, the following regulations have been adopted by the state:

1. Minimum Wages:

In order to prescribe the minimum rate of wages, the Minimum Wages Act, 1948 was passed. The Act empowers the government to fix minimum rates of wages in respect of certain sweated and unorganised employments. It also provides for the review of these wages at intervals not exceeding 5 years.

2. Compulsory Conciliation and Arbitration:

With the object of providing for conciliation and arbitration, the Industrial Disputes Act 1947 was passed. It provides for the appointment of Industrial Tribunals and National Industrial Tribunals for settlement of industrial disputes including those relating to wages.

3. Wage Boards:

A wage board is a tripartite body with representatives of management and workers, presided over by a government nominated chairman who can act as an umpire in the event of disagreement among the parties.

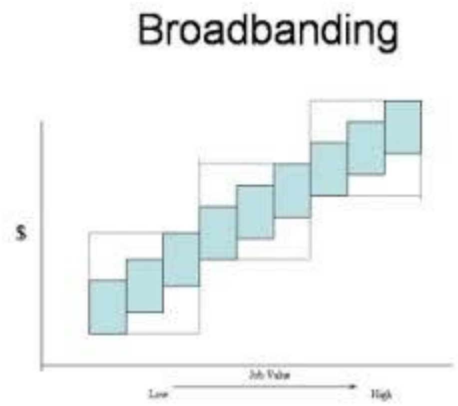
Wages Policies in India

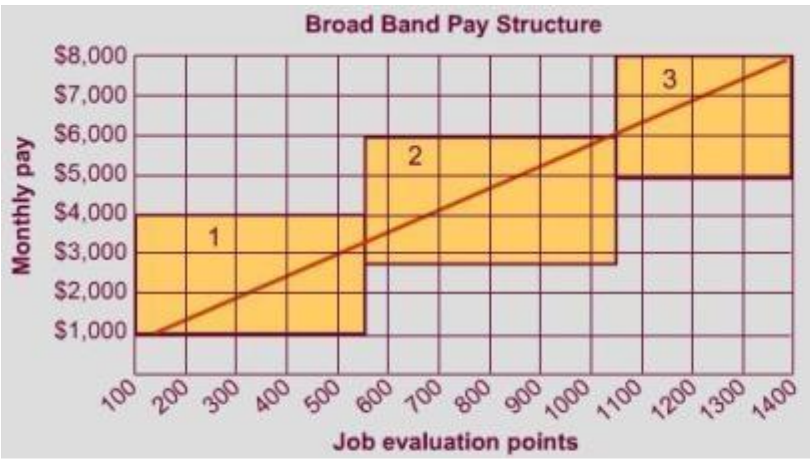
1. Payment of Wages Act, 1936
2. Industrial Dispute Act, 1947
3. Minimum Wages Act, 1948
4. Equal Remuneration Act, 1976
5. Payment of Bonus Act, 1965
6. Wage Boards

Broadbanding

It is a pay structure form that leads to the consolidation of existing pay grades and pay ranges into fewer, but wider pay grades. Broadbanding consolidates a large no. of pay grades and salary ranges into much fewer but broader bands with relatively wide salary ranges.

Broadbanding evolved because organizations want to flatten their hierarchies and move decision-making closer to the point where necessity and knowledge exist in organizations. In flattened organizations, fewer promotional opportunities exist so the broadbanding structure allows more latitude for pay increases and career growth without promotion.





Uses of Broadband

Companies use broad band to :

1. Facilitate change
2. Avoid multiple pay structure
3. Provide greater latitude in management pay decisions

4. Promote lateral moves or in-grade promotions
5. Reduce use of promotions to increase pay
6. Promote career development and learning
7. Reduce the no. of precise job evaluation / analysis

Structure

Companies adopting a broadband structure generally reduce the no. of salary ranges by one-half to two-thirds. The broadband ranges spread is generally 75% to 125%. It may be greater. Most broadbanding companies use 10 bands –

i) 2 for executive level
ii) 4 for managerial or professional level
iii) 4 for non-managerial or hourly level

Typically, each salary band will have many consolidated, smaller grades within it, usually with a range spread of 80% to 200% of the median. For example, if the median salary for a range is $50,000, then it has a minimum of $40,000 (i.e., 80% of $50k) and a maximum of $100,000 (i.e., 200% of $50k).

Advantages of Broad Banding :-

1. It Streamlines hierarchy structure within the organization, this helps during a change in the organizational structure
2. It promotes and facilitates Internal Movement within the organization and is considered to put forward other attributes of a position, other than the pay grade which is already disclosed
3. Gives more transparency and added trust in management

Disadvantages of Broad Banding :-

1. There is absolutely no awareness of external market rates as the traditional salary bands cannot be compare against broad banding
2. Broad banding leads to lack of promotions within the organization as there are fewer salary bands leads to fewer opportunities to climb the organizational ladder.

Executive Compensation Plan

Executive compensation or executive pay is composed of the financial compensation and other non-financial awards received by an executive for their service to the organization. It is typically a mixture of salary, bonuses, shares of or call options on the company stock, benefits, and perquisites, ideally configured to take into account government regulations, tax law, the desires of the organization and the executive, and rewards for performance.

Factors affecting Executive Compensation

1) Company size – A firm's size is ascertained based on its assets, sales and no. of employees. Executive jobs in larger organizations are more complex leading to higher pay for its executives. Larger organizations also have larger hierarchical levels which results in more pay differentials between the hierarchical levels resulting in more pay for its executives. Executives achieve better results by increasing sales which makes them beneficiaries for higher compensation.

2) Firm Performance –Executives are accountable for the firm's performance. Hence their compensation is linked to the results of the organization's performance.

3) Industry Characteristics –Executive Compensation varies with the type of industry. The compensation packages in the service sector are higher than those of the manufacturing sector. Again within the service industry, IT & ITES organizations are paid higher than transport service providers.Soquality of manpower plays an important role. Typical occupational hazards, security, and safety involved in a job also result in compensation differences.

4) Human Capital – Variation in human capital makes significant differences in performance and productivity on the job which may be due to education, work experience and skill differences. This is because those who have invested more in enriching their value need to be paid better than others.

Power Politics – Political and social factors also influence executive compensation. Due to their proximity with authority, executives can manipulate and get higher compensation. This is known as power politics.

The compensation program serves three main purposes.

- It must attract executives with the skills, experiences, and behavioral profile necessary to succeed in the position.
- It must be sufficient to retain these individuals, so they do not leave for alternative employment.
- It must motivate them to perform in a manner consistent with the strategy and risk-profile of the organization and discourage self-interested behavior.

Principles of the Executive Compensation

- Clear focus on profits generation
- Long-term orientation of the compensation scheme
- Motivation of manager by high bonuses
- Non-cash focus of the compensation (stock options, shares, share phantom schemes)
- Risk Management
- Balanced Scorecard implemented into the Compensation Scheme.

Unique Feature of Managerial Remuneration

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

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

Components of Executive Compensation

1) Current Core Compensation

i. Base Pay - A basic salary this is regarded as a “fixed” element of pay and it does not normally vary in relation to company performance.

ii. Bonus – There are 4 types of bonuses:

a. **Discretionary Bonus -** Discretionary bonus is a compensation given to an employee based entirely on his or her logical discretion. In addition to there being no expectation of paying these bonuses, there are no set guidelines regarding how to become eligible for one. For a bonus to be considered discretionary, it should be awarded at the sole discretion of the employer rather than expected to be received by the employees. A discretionary bonus is a form of variable pay; the amount, requirements, timing and announcement of the bonus should not be disclosed in advance, as this may appear to be a motivator or incentive implying that meeting certain levels would guarantee a bonus or reward. The employer determines after the fact that there is a reason for awarding a bonus, such as reaching company and financial goals, or chooses to reward an individual employee after exceptional performance.

b. Performance-Contingent Bonus - A performance bonus is compensation beyond normal wages and is typically awarded after a performance appraisal and analysis of projects completed by the employee over a specific period of time.

c. Predetermined Allocation Bonus – It is warded to executives based on a fixed formula. Company profits are often the main determinant of the bonus amounts.

d. Target Plan Bonus – These are designed to restore benefits restricted under qualified plans.

2) **Short Term Incentives -** Short-term incentives compensation is awarded to executives to recognize their progress toward fulfilling competitive strategy goals. They may participate in current profit sharing plans and gain sharing plans. They usually apply to a group of select executives within a company. The plan applies to more than one executive because the synergy that results from the efforts and expertise of top executives influences corporate performance.

3) Deferred Core Compensation – Also Known as Stock Based Compensation (also called Share-Based Compensation or Equity Compensation) is a way of paying employees, executives, and directors of a company with equity in the business. It is typically used to motivate employees beyond their regular cash-based compensation (salary and bonus) and to align their interests with those of the company's shareholders. Shares issued to employees are usually subject to a vesting period before they are earned and can be sold.

The different types of stock compensation are

a. Incentive Stock Options - An incentive stock option (ISO) is a corporate benefit that gives an employee the right to buy shares of company stock at a discounted price with the added benefit of possible tax breaks on the profit. The profit on qualified ISOs is usually taxed at the capital gains rate, not the higher rate for ordinary income.

b. Non-Statutory Stock Options - A non-qualified stock option (NSO) is a type of employee stock option wherein you pay ordinary income tax on the difference between the grant price and the price at which you exercise the option

c. Restricted Stock - Restricted stock lets employees receive shares through purchase or gift after working a set number of years and meeting performance goals. Restricted stock requires the completion of a vesting period. This may be done all at once after a certain period of time. Alternatively, vesting may be done equally over a set period of years or any other combination management finds suitable.

d. **Phantom Stock** - A phantom stock plan is an employee benefit plan that gives selected employees (senior management) many of the benefits of stock ownership without actually giving them any company stock. This type of plan is sometimes referred to as shadow stock. Rather than getting physical stock, the employee receives mock stock. Even though it's not real, the phantom stock follows the price movement of the company's actual stock, paying out any resulting profits. By simulating stock ownership, without actually providing it, management ensures that equity does not become diluted for other shareholders.

e. **Discount Stock Option Plan –** Also called as Employee stock purchase plans (ESPPs), it lets employees buy company shares at a discount.

f. **Stock Appreciation Rights -** Stock appreciation rights (SARs) are a type of employee compensation linked to the company's stock price during a predetermined period. SARs are profitable for employees when the company's stock price rises, which makes them similar to employee stock options (ESOs). However, employees do not have to pay the exercise price with SARs. Instead, they receive the sum of the increase in stock or cash. The primary benefit of stock appreciation rights is that employees can receive proceeds from stock price increases without having to buy stock.

4) Fringe Compensation - Fringe benefits are additions to compensation that companies give their employees. Some fringe benefits are given universally to all employees of a company while others may be offered only to those at executive levels. Some benefits are awarded to compensate employees for costs related to their work while others are geared to general job satisfaction.

These include health insurance, life insurance, tuition assistance, childcare reimbursement, cafeteria subsidies, below-market loans, employee discounts, and personal use of a company-owned vehicle.

Golden Parachute

A golden parachute consists of substantial benefits given to top executives if the company is taken over by another firm, and the executives are terminated as a result of the merger or takeover. Golden parachutes are contracts with key executives and can be used as a type of anti-takeover measure, often collectively referred to as poison pills, taken by a firm to discourage an unwanted takeover attempt. Benefits may include stock options, cash bonuses, and generous severance pay.

Golden parachutes are thus named as such because they are intended to provide a soft landing for employees of certain levels who lose their jobs.

Golden Handcuff

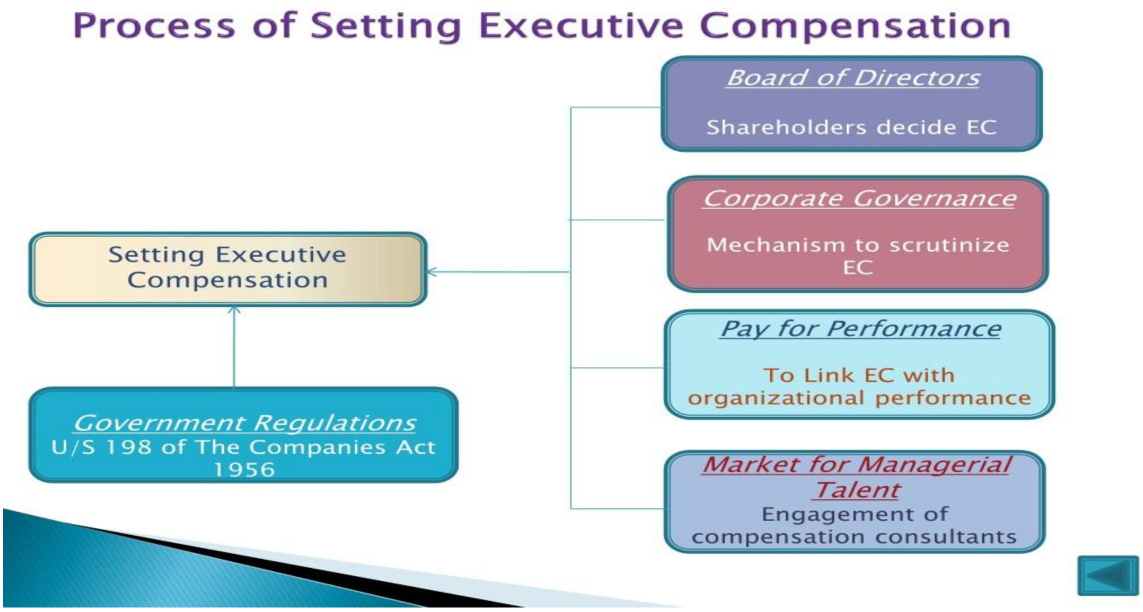
It is a form of employee benefits or executive compensation, in which a (substantial) bonus is built into an executive's contract, subject to continuous employment for a certain number of years. In case of leaving the employment premature there would be substantial financial penalties or the entire amount may have to be repaid.

Golden Handshake

It is a form of employee benefits or executive compensation, wherein a large payment made by a company to a senior executive is done upon termination of employment (retirement) before his/her contract ends.

Golden Hello is a form of employee benefits or executive compensation, wherein a signing bonus is given to an executive to induce him to leave a previous employment in order to take up a new employment by the payment of a large sum of money or other considerable remuneration. Such welcome arrangement could be in cash or in shares or in options.

Process of Setting Executive Compensation



Theories of Executive Compensation

Agency Theory

Shareholders are the actual owners of the company. The executives are hired to serve the interests of the shareholders. Hence compensation of top executives is designed keeping in mind the mutual interests of both the parties.

Tournament Theory

According to this theory, compensation is viewed as the prize in a series of tournaments or contestsamong middle and top level managers who aspire to become the CEO. An executive's promotion to a higher rank signifies a win and more lucrative compensation is the prize.

Indian Practices

Executive compensation in India built aroundthree important factors:

- Job complexity
- Employers ability to pay
- Executive human capital

Private Vs Public Sector

- The salary of top executives of public sector are miserable compared to private sector
- S B I chief is paid 10 % of HDFC Bank Managing Director
- BHEL'S chief is getting about 10 to 12 lakhs per annum as against Asea Brown Boveri's (ABB) MD getting nearly 40 to 50 lakhs

Say on Pay

In 2008, Robert Iger of Walt Disney was given 78% more compensation over the package of the previous CEO. In 2001, CEO of Ford Motors was offered higher package than the previous CEO even though the company was in loss. Say on Pay is a movement which gives the opportunity to company's shareholders to oppose or approve executive compensation by voting against or for it.

ABIT

COMPENSATION & BENEFIT MANAGEMENT

(Module- 3)

Mitrabinda Nayak

Employee Benefits

Employee benefits are non-wage compensation provided to an employee as part of the employment contract.

Definition :Employee benefits are that part of the total compensationpackage, other than pay for time worked, provided to employees in whole or in part by employer payments. It typically refers to life insurance, disability insurance, paid leave, maternity leave etc.Employee benefits include fringe benefits and perquisites or perks.

Types of Employee Benefits

Employment Security

- Unemployment Insurance
- Lay-off Compensation
- Retrenchment compensation
- Leave Travel Pay
- Overtime Pay
- Maternity Leave
- Holidays
- Cost of living bonus
- Jobs to Children / spouses

Health Protection

- Accident Insurance
- Disability Insurance
- Health Insurance
- Hospitalization
- Life Insurance
- Medical Care
- Sick Leave
- Sick benefits

Old Age & Retirement

- Deferred Income plans
- Pension
- Gratuity
- Provident Fund
- Old Age Assistance
- Medical benefits for retired employees
- Travelling concession for retired employees
- Jobs to spouse / children of deceased employee

Personnel Identification, Participation & Stimulation

- Anniversary awards
- Attendance bonus
- Canteen
- Educational facilities
- Housing
- Income tax aid
- Recreational programs
- Stress counselling
- Safety measures

Fringe Benefits

These include such benefits which are provided to employees either having long-term impacts, on occurrence of certain events & facilitation in performance of jobs.

- Long-term impacts – Providend Fund, Gratuity, Pension
- Events – Medical benefits, accident benefit, health & life insurance
- Facilitation on job – Uniforms, Canteen, Recreation etc

Types of Fringe Benefits

<u>Payment for time not worked -</u>

- Sick leave with pay
- Vacation Pay
- Paid rest and relief time
- Paid lunch periods

- Grievance time
- Bargaining time
- Travel time

Extra pay for time worked

- Premium pay
- Incentive bonus
- Shift premium
- Old age insurance
- Profit sharing
- Unemployment compensation
- Festival bonus
- Food cost subsidy
- Housing subsidy

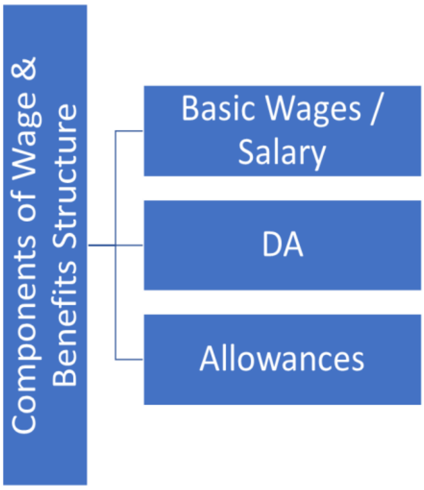
Perquisites

They are normally provided to managerial persons to facilitate their job performance or retain them in the organization.Examples – Company car, Club Membership, Free residential accommodation, paid holiday trips, stock options etc

Objectives of Employee Benefits

1. To attract the most talented job-seekers
2. To boost motivation of employees
3. To provide taxation benefit
4. To improve management-labour relations
5. To promote companionship among employees
6. To act as assurance of concern
7. To reduce HR cost

Components of Wage and Benefit Structure



Basic Wages / Salary

It is the pay for the standard job duties, roles and skills. It is a core component of the salary structure. It depends one one's grade in the company and is a fixed part of the one's compensation structure. It is determined by personal factors such as age, years of employment, academic qualification, etc.

Features of Basic Salary

- It is the level of pay that constitutes the rate of the job.
- It is a platform for additional payments. It also governs pension entitlement or life insurance.
- It may be expressed as annual, weekly or hourly rate.
- The basic pay level is determined by internal and external factors.
- Usually levels of pay are long standing which evolve with time.

Determinants of Basic Salary

- Type and level of Required Knowledge, skills and Abilities (KSAs)
- Employee seniority and experience

- Supply and demand of a particular skill
- Public Vs Private Sector
- Capital Intensive Vs Labour Intensive Business
- Size of Business
- Company Strategy (Growth strategy / Cost-effective strategy)
- Profitability of firm

Dearness Allowance (DA)

The Dearness Allowance (DA) is a cost of living adjustment allowance paid to government employees, public sector employees (PSE) and pensioners in India, Bangladesh and Pakistan. It is calculated as a percentage of one's basic salary to mitigate the impact of inflation on people. Since, this allowance is related to the cost of living, the DA component differs for various employees based on their location. DA is different for employees working in the urban sector, semi-urban sector and the rural sector.DA is calculated as a part of a person's salary.It is taxable and is linked to the price index and hence increases changes with an increase in price.

System of Payment of DA

It is governed by the **Minimum Wages Act, 1948**. Usually two systems are used :

- **Linked with Price Index**- It is the most commonly used system of payment of DA. DA is calculated in the following ways :

  i) Flat rate – An absolute amount is fixed irrespective of the grade.

  ii) Graduated rate – A graduated scale of DA for different grades in fixed which has a minimum and maximum limit.

- **Not Linked with Price Index** - There is no specific formula related to CPI is followed. Some percentage increase is decided after mutual consultation.

Consumer Price Index (CPI) – It shows the average percentage change of prices of essential commodities or services being consumed by a particular population group. This is calculated month after month with reference to a fixed period called "base period".

Calculation of Dearness Allowance

It is calculated twice every year – in January and July. The formula to calculate the DA in 2006 by the Government. Presently, DA is calculated as per the following formula:

For the employees of Central Government

% of DA = {(Average of the All-India Consumer Price Index (Base year -2001 =100) for the last 12 months -115.76)/115.76} x 100

For Central Public Sector Employees

% of DA = {(Average of the All-India Consumer Price Index (Base year -2001 =100) for the last 3 months -126.33)/126.33} x 100

Allowances

1. House Rent Allowance (HRA)

House Rent Allowance/ HRA is the salary component provided to an employee by their employer to meet the expenses with respect to the accommodation. HRA applies to both private and public sector employees, while only public sector employees are entitled to DA. Additionally, there are certain Tax exemptions applicable to HRA which are not available for the DA.

2. Conveyance Allowance

3. Leave Travel Allowance

4. Tiffin Allowance

5. Telephone / Mobile Allowance

6. Children Education Allowance

Employee Benefit Planning, Design and Administration

There has to be a match between the benefits plans and the organizational objectives.

Employee Benefit Planning & Design

1. **Align the benefit strategy with business objectives.** Revisit the strategy regularly to ensure it evolves as regulations and employee requirements change, while still supporting business priorities.
2. **Aim for global consistency with local relevance.** Cultural differences among locations can be accommodated as long as they are in keeping with the strategic commonalities that support the company's underlying principles.
3. **Provide core security and increase employee choice.** Health cover, life insurance, and a pension are among the core benefits that provide employees with financial security and should be available to all. Once these essentials are taken care of, employers can offer a selection of add-ons for individuals to choose from. The options could be tailored to the individual's career stage, caring responsibilities, or personal aspirations.
4. **Educate employees about the benefits programme.** Explain how it fits in with the company's goals and rewards policy to boost employee appreciation and understanding and, ultimately, the value of the programme to the company.
5. **Deliver high-performing programmes.** Design best practices based on research into employee behaviour. Improve administrative efficiency. Use technology to enhance cost-effective delivery of the programme. Use data and claim analytics to support decision-making. Establish quality standards for insurance products.

Employee Benefit Administration

1. **Deciding Recipient of Benefits** – This must be decided by the employer. The following categories are usually included in this :

   i. Active full-time employees
   ii. Dependent members of active full-time employees
   iii. Employees who have retired from the job
   iv. Dependents of retired employees
   v. Part-time employees
   vi. Dependents of part-time employees
   vii. Employees who are disabled
   viii. Dependents of disabled employees

ix. Survivors of deceased employees
x. Employees who have quit
xi. Dependents of employees who have quit
xii. Employees who on temporary leave
xiii. Dependents of employees who are on temporary leave

2. **Determining the inclusion of retirees in the plan-** The employer has to decide whether employee and his dependents will be included or not after retirement. Attitude of the employer and the extent of protection provided under other plans like social security are the two main considerations.

3. **Probationary Periods –** During the probationary period, employees cannot claim anything thereby reducing the financial and financial burden on the employers.

4. **Financing** – Contributions by both the organization and employee is done. The ratio varies from employer to employer.

5. **Employee Choice –** Different methods are used for gaining the viewpoints and choice of employees regarding different benefit plans. These are :

i. Personal Interviews
ii. Simplified Questionnaires
iii. Sophisticated Research Methods

6. **Cost Containment –** The aim is to reduce the size of the claim or decrease the administrative costs linked with the benefit plans.

7. **Communication –** The benefits given to the employees need to informed to them through different means (written and orally) with the legal framework so that the employees can fully appreciated.

Factors affecting growth of Employee Benefits

1. Industrialization
2. Influence of Organized Labour
3. Wage Controls
4. Cost Advantages

5. Tax Advantages
6. Inflation
7. Legislation

Principles of Employee Benefits

- Fringe benefits must be truly beneficial to the employees.
- These have to be related to the welfare of the employees.
- The benefits should justify the costs.
- Administration of fringe benefits must be well-planned and should consider everyone.
- Concerns of labour unions should be considered.
- Adequate finance should be made available to cover the cost of benefits.
- Benefits should cover as many employees as possible.
- Employees should be well – informed to use these benefits.

Employee Benefits Policies

1. Types of benefits
2. Allocation of policies
3. Scale of benefits
4. Proportion of benefits to Total Remuneration
5. Flexibility and Choice
6. Market Considerations
7. Fiscal Considerations
8. Trade Unions

Importance of Employee Benefits

1. Financial Security for Workers
2. Reduction in Attrition Rate

3. Enhancement of Productivity
4. Enhances Employee-Employer Relationship

Problems of Employee Benefits

1. Paternalism Charge
2. Huge Expenditure
3. Sets a benchmark / trend
4. Handling less productive employees

Employee / Labour Welfare

Labour welfare may be understood to mean “such services, facilities and amenities which may be established in or in the vicinity of undertakings to enable the persons employed in them to perform their work in healthy and peaceful surroundings and to avail of facilities which improve their health and high morale.”

“Labour welfare refers to the efforts made by the employers to improve the working and living conditions over and above the wages paid to them. In its widest sense it comprises all matters affecting the health, safety, comfort and general welfare of the workmen, and includes provision for education, recreation, thrift schemes, convalescent homes”. It covers almost fields of activities of workers e.g., social, economic, industrial and educational.

“Anything done for the intellectual, physical, moral and economic betterment of the workers, whether by the employers, by the government or by other agencies over and above what is laid down by law or what is normally expected on the part of the contractual benefits for which worker may have bargained.”

Employee Welfare Benefits

Employees welfare schemes can be Statutory and Non-Statutory.Some of the Employee Welfare Laws in India are :

1. Factories Act, 1948
2. Maternity Benefit Act, 1961
3. Employee State Insurance Act, (ESI) 1948

4. Employees' Provident Fund Scheme, 1952
5. Payment of Bonus Act, 1965

Scope of Employee Welfare

1. **Conditions of Work Environment** – These comprise of situations that the workers face while working such as hygiene, cleanliness, aeration, humidity, removal of dust, gases, posture, sitting arrangement etc
2. **Health Services for the Worker** – This includes medical examination of workers, health centre, dispensary in the factory for treatment of workers and their family etc.
3. **Labour Welfare Programmes** – These include factory council made up of worker's and employee's spokespersons, vocational testing and interview, departments taking care of social welfare, hiring, follow-up and arbitration.
4. **Economic Welfare Programmes for Workers** – These include cooperative stores, cooperative societies for credit, facilities, health cover etc
5. **General Welfare Work** – This comprises of relief and fun activities, legal and medical aid, child care etc.

Objectives of Employee Welfare

1. To promote Economic Development
2. To improve efficiency
3. To provide proper human conditions for work and living
4. To minimize hazards
5. To supplement wages in monetary terms
6. To prevent social evils

Principles of Employee Welfare

- **Principle of Adequacy of Wages** – Labour wages cannot be substituted by labour welfare activities.

- **Principle of Social Liability of Industry** – The industry is obliged to take care of its employees.
- **Principle of Efficiency** – Labour welfare schemes tend to increase the efficiency of the workers.
- **Principle of Personality Development** – Labour welfare should offset the negative consequences of the industrial system.
- **Principle of Totality of Welfare** – Welfare schemes should reach all levels in the organization hierarchy.
- **Principle of Coordination and Integration** – Coordination & Integration are crucial for the successful accomplishment of any welfare activity.
- **Principle of Democratic Values** – Workers should understand the importance of these schemes and rationally contribute in its designing and implementation.
- **Principle of Accountability** – Proper evaluation and review of the welfare activities is essential.
- **Principle of Self-help** - Workers should be capable to support themselves in the long-run and take responsibilities of their jobs and growth.

Agencies of Welfare Agencies

1. **Government** - The government has introduced various laws in view of making labour welfare mandatory. These are

   i. Factories Act, 1948
   ii. Plantation Labour Act, 1951
   iii. Motor Transport Worker Act, 1961
   iv. Mines Act, 1952
   v. Inter-state Migrant Worker's Act, 1979
   vi. Merchant Shipping Act, 1958
   vii. Contract Labour Act, (Regulation & Abolition), 1970
   viii. Dock Worker's Scheme (Safety, Welfare & Health), 1961

2. Employers

3. Trade Unions

Types of Employee Benefits

Statutory Benefits	
Health Care Benefits	Dental Insurance
	Vision Care
	Prescription Drug Benefits
	Wellness Programmes
Retirement Benefits	Pension
	Employee Provident Fund
	Deposit LinkedInsurance
	Gratuity
Insurance Benefits	Benefits of Sickness
	Benefits of Maternity
	Benefit of Disablement
	Benefit of Dependents
	Benefit of Medical Treatments
	Payment for Funeral
Unemployment Compensation	
Worker's Compensation	

Non-Statutory Benefits	
Educational Facilities	

Housing Facilities	
Transport Facilities	
Recreational Facilities	
Payment for time not worked	Paid Holidays
	Shift Premium
	Holiday Pay
	Paid Vacation
Other Facilities	Canteen, Restrooms, Lunchrooms
	Washing facilities, Medical Aid, LTC
	Consumer Cooperative Stores
	Personal Healthcare
	Flexitime
	Employee Assistance Programs
	Harassment policy
	Maternity & Adoption Leave
	Mediclaim Insurance Scheme
	Employee Referral Scheme

Statutory Benefits

- These are benefits provided to the employees by the employers, as per the provisions of law.
- These benefits represent 1/4th of the total benefits that are legally offered t o employees.
- The important components are :
    1) Health Care Benefits
    2) Retirement Benefits
    3) Insurance Benefits
    4) Unemployment Compensation
    5) Worker's Compensation

6. **Health Care Benefits**

i. **Dental Insurance** – This is designed to pay a portion of the costs associated with dental care.
ii. **Vision Insurance** – Some companies provide vision care coverage for medical treatment relating to eye conditions. These typically cover eye examinations, corrective eye-glasses, contact lenses, laser surgery.
iii. **Prescription Drug Benefits** – These are a major expense for healthcare plans.
iv. **Wellness Programmes** -With a view to tackle the ever increasing healthcare costs, companies have now started looking at wellness programmes which go a long way in decreasing healthcare costs, reducing absenteeism and increasing productivity. Wellness programmes are deifned as programmes designed to maintain or improve employee health before the problems arise.

7. Retirement Benefits

Retirement benefits are benefits payable to the member of the pension scheme on retirement or earlier withdrawal from service. There are various benefits that are governed by Indian Laws which are as below :

i. Pension
ii. Employee's Provident Fund
iii. Deposit-Linked Insurance
iv. Gratuity

i. Pension

The minimum eligibility period for receipt of pension is 10 years. A Central Government servant retiring in accordance with the Pension Rules is entitled to receive pension on completion of at least 10 years of qualifying service.In the case of Family Pension the widow is eligible to receive family pension on death of her spouse after completion of one year of continuous service or even before completion of one year if the Government servant had been examined by the appropriate Medical Authority and declared fit for Government service.W.e.f 1.1.2006, Pension is calculated with reference to emoluments (i.e. last basic pay) or average emoluments (i.e. average of the basic pay drawn during the last 10 months of the service) whichever is more beneficial. The amount of pension is 50% of the emoluments or average emoluments whichever is beneficial.Minimum pension presently is Rs. 9000 per month. Maximum limit on pension is 50% of the highest pay in the Government of India (presently Rs. 1,25,000) per month.Pension is payable up to and including the date of death.

ii. Employee's Provident Fund (EPF)

Employee's Provident Fund (EPF) is a retirement benefit scheme that's available to all salaried employees. This fund is maintained and overseen by the Employees Provident Fund Organisation of India (EPFO) and any company with over 20 employees is required by law to register with the EPFO.It's a savings platform that helps employees save a fraction of their salary every month that can be used in the event that you are rendered unable to work, or upon retirement.

The Employees's Provident Fund is currently governed by the Employees' Provident Funds & Miscellaneous Provisions Act, 1952 which extends to the whole of India. The Act and Schemes framed there under are administered by a tri-partite Board known as the Central Board of Trustees consisting of representatives of Government (Both Central and State), Employers, and Employees.The Central Board of Trustees operates three schemes - EPF Scheme 1952, Pension Scheme 1995 (EPS) and Insurance Scheme 1976 (EDLI).The Board is assisted by the Employees' PF Organization (EPFO), consisting of offices at 135 locations across the country.

PF Deduction from Salary

- When you start working, you and your employer both contribute 12% of your basic salary (plus DA, if any) into your EPF account. The entire 12% of your contribution goes into your EPF account along with 3.67% (out of 12%) from your employer, while the balance 8.33% from your employer's side is diverted to your Employee's Pension Scheme (EPS). It's important to note that if your basic pay is above Rs. 6,500 per month, your employer can only contribute 8.33% of 6,500 (i.e. Rs. 541) to your EPS and the balance goes into your EPF account.

- These funds are pooled together from many employees like yourself and invested by a trust. This generates an interest of 8% - 12%, which is decided by the government and the central board of trustees. The annual interest rate is available on the official EPF India website, and is currently at 8.75%.
- EPF is active every time you receive your pay. **If you're changing jobs, it's important to also update your EPF information with your new company, giving them your EPF number so that they can continue the contribution.**

Interest on EPF

- The compound interest that's decided upon by the government and central board of trustees is paid on the amount standing to the credit of the employee as on the 1st of April every year.
- While your contributions are made monthly, the interest is calculated yearly. At the start of every year, you have an opening balance (which is the amount accumulated till that point). Your opening balance for the next year would be: **opening balance + total monthly contributions + interest on the (old opening balance + contribution)**.

Tax Benefits - The employer contribution to your EPF is tax-free, and your contribution is tax-deductible under Section 80C of the Income Tax Act. The money you invest in EPF, the interest earned and the money you eventually withdraw after the mandatory specified period (5 years) are exempt from Income Tax.

Option of not paying PF – Only available at the start of your career. If you've contributed towards EPF even once and have an account created in your name, you cannot opt out of this scheme.

Withdrawal of EPF

- Withdrawals are generally not allowed from your EPF account, unless you've given up working or want to be self-employed, etc. As per the rules, you can withdraw money from this account only if you have no job at the time you apply for a withdrawal and a waiting period of 2 months has passed.

Employees planning to settle abroad, or those who have landed jobs in a foreign country are eligible to receive PF withdrawal immediately after registration.

- A lesser known waiver to the waiting period is that a female employee can withdraw her PF money if she is leaving service for the purpose of getting married.
- You can withdraw a portion of your EPF savings for the purpose of:
    - **Marriage or education** of yourself, your siblings, or children.
    - Addressing **emergency medical expenses** for yourself, spouse, children, or dependant parents.
    - **Repaying housing loans** for a house owned by you, a spouse, or jointly by both of you. You can do this only after 10 years of service and contribution to EPF.
    - Paying the costs of **alterations/repairs** to your existing home. You'll need to have been in service and contributing for 5 years for alterations and 10 for repairs.
    - If you've completed 7 years of service, you can withdraw 50% of your EPF contribution up to 3 times in your working life.
- You can contribute more than the minimum 12% towards your EPF , but this is voluntary and the extra contribution does not need to be matched by your employer.

EPF Contribution Breakup with Example:

Mr. Babu starts working with a basic salary of Rs. 20,000, and receives a 5% increment in salary every year.

- He has worked for 35 years (starting at age 20, up to age 60) and has contributed 12% of his basic salary, which has been matched by his employer as 3.67% to EPF and 8.67% to EPS.
- His total contribution in 35 working years has been Rs. 26.01 lakh and the company has contributed Rs. 7.95 lakh, making it a total contribution of Rs. 33.96 lakh.

- This amount will grow to a total of **Rs. 1.38 crore at the time of his retirement!** (Assuming the rate of interest stays constant at 8.5%).

iii. **Deposit-Linked Insurance**

Employees Deposit Linked Insurance Scheme (EDLI) is an insurance cover provided by the EPFO for private sector salaried employees. The registered nominee receives a lump-sum payment in the event of the death of the person insured, during the period of the service. This is governed by the Employees Deposit Linked Insurance Scheme (EDLI)**,** 1976.

EDLI applies to all organisations registered under the Employees Provident Fund and Miscellaneous Provisions Act, 1952. All such organisations must subscribe to this scheme and offer life insurance benefits to its employees. This scheme works in combination with EPF and EPS. The extent of the benefit is decided by the last drawn salary of the employee.

Features of Employees Deposit Linked Insurance Scheme

➢ EDLI applies to all employees with a basic salary under Rs. 15,000/- per month. If the basic salary goes above Rs. 15,000 per month, the maximum benefit is capped at Rs. 6,00,000/-

➢ There is no need for the employees to contribute to EDLI. Their contribution is required only for EPF.

➢ There is a bonus of Rs. 1,50,000/- available under the EDLI.

➢ Any organisation that has more than 20 employees needs to register for EPF. Therefore, any employee who has an EPF account automatically becomes eligible for the EDLI scheme.

➢ There are no exceptions to the insurance coverage provided by EDLI. It protects the insured person round the clock, all around the world.

➢ An employer can opt for another group insurance scheme, but the benefits offered must be equal to or more than those offered under EDLI.

➢ As per the provisions of the EDLI, the contribution of an employer must be 0.5% of the basic salary or a maximum of Rs. 75 per employee per month. If there is no other group insurance scheme, the maximum contribution is capped at Rs. 15,000/- per month.

- For all calculations under EDLI, dearness allowance must be added to the basic salary.

Calculation of EDLI :

{Average Monthly Salary of the Employee for the last 12 months (capped at 15,000/- p.m.) x 30 } + Bonus Amount (Rs. 1,50,000/-)

iv. Gratuity

Gratuity is a sum of money paid by an employer to an employee for services rendered in the company. However, gratuity is paid only to employees who complete 5 or more years with the company. It can be understood as a form of tip paid by employer to the employee for services offered in the company. Since tips are a function of culture, various countries have various gratuity limits that are doled out by employers. It is payable under the Payment of Gratuity Act 1972.An employer may offer gratuity to his/her employees from his/her own pocket or may take a group gratuity plan with an insurance provider. Annual contributions are then paid by the employer to the insurance provider for this. The employee too can contribute to his/her gratuity amount. The gratuity paid by the insurance company is based on the clauses in the group insurance scheme.

Few Significant Points about Gratuity:

a. An employee can receive a gratuity amount higher than Rs.10,00,000 from his/her employer, the exemption for tax in this case will be calculated as per the points listed above under taxation.

b. In the recent Interim Budget of 2019, the existing tax-free gratuity limit will be increased to Rs.30 lakh.

c. In case of death of the employee, the nominee or heir of the employee is paid the gratuity amount. The taxation for this is calculated for the receiver under the head – income from other sources.

Gratuity Rules

Forfeiture of Gratuity - According to the Payment of Gratuity Act of 1972, an employer holds the right to forfeit their gratuity payment, either wholly or partially despite the employee having completed 5 and more years of service in a company. The only situation where this works is when the employee has been terminated due to disorderly conduct wherein, he/she tries to physically harm individuals during his/her employment.

Timeline for Gratuity payment - There are three steps involved regarding gratuity payment. These include:

- Initiation: An individual or a person authorised must send in an application to an employer regarding the gratuity he/she is owed by a company.
- Acknowledgement and calculation: As soon as the application is received, the company which owes gratuity will calculate the amount and also provides a notice of the same to the individual and the controlling authority with the amount specified.
- Disbursal: The employer, having sent the acknowledgement, has a time period of 30 days to pay the gratuity amount to the individual.

Gratuity Eligibility:

- An employee should be eligible for superannuation
- An employee retires
- An employee resigns after working for 5 years with a single employer
- An employee passes away or suffers disability due to illness or accident

Gratuity Formula: Gratuity = N*B*15/26 where N = number of years of service in a company, B = last drawn basic salary plus DA,

Example: If Amit is an engineer who has worked with SF Company for 20 years of service and had Rs.25,000 as his last drawn basic plus DA amount, then,

Gratuity Amount for Amit = 20*25,000*15/26 = Rs.2,88,461.54

However, an employer can choose to pay more gratuity to an employee (since it is a form of tip as mentioned in the beginning) but then the amount as restricted by the Gratuity Act cannot exceed more than Rs.10 lac. Anything above the amount Rs.10 lac is known as ex-gratia which is a voluntary contribution and not something compulsorily imposed by the law.

Calculation of gratuity for the employees who are not covered under the Gratuity Act:

Salary, in this case, is calculated including basic pay, commission on sales, and dearness allowance.

Formula - Gratuity Amount = (15 * Last drawn salary amount * period of service) / 30

Example: Mr. X is an employee of ABC Pvt. Ltd. which is not covered under the Gratuity Act. The last basic salary that he has drawn is Rs.50,000 per month. He has been working in the organisation for 10 years and 8 months. Thus, the gratuity amount for Mr. X will be as follows:

Gratuity Amount: (15 * 50,000 * 11) / 30 = Rs.2.75 lakh.

Gratuity on retirement : Gratuity Amount is equal to one-fourth of the last-drawn basic salary of an employee for each completed six-month period. The retirement gratuity amount which is payable is 16 times of the basic salary. However, it is subject to a cap of Rs.20 lakh.

Calculation of gratuity in case of death of an employee: In case of death of an employee, the gratuity benefits are calculated on the basis of the tenure of service of the employee. The amount is, however, subject to a maximum of Rs.20 lakh. The following table shows the rates at which the gratuity will be payable in case of death of an employee:

Tenure of service	Amount payable towards gratuity
Less than a year	2 * basis salary
1 year or more but less than 5 years	6 * basic salary
5 years or more but less than 11 years	12 * basic salary
11 years or more but less than 20 years	20 * basic salary
20 years or more	Half of the basic salary for each completed six-monthly period. However, it is subject to a maximum of 33 times of the basic salary.

8. **Insurance Benefits**

Health and life related insurance schemes are provided by the organizations to their employees. This is governed by the Employees' State Insurance Act, 1948. The followings provisions are present under this act.

i. **Benefits of Sickness –** These are periodic payments made to the employee when he / she is sick after due evaluation by an appropriate doctor.

ii. **Benefits of Maternity –** Periodical payments can be made to women who have insured if any problem arises during their pregnancy.

iii. **Benefits of Disablement–** An insured person who suffers from some disability is liable to get some periodical payments.

iv. **Benefits of Dependents**– If an insured person dies in an injury or accident related to his employment then payments will be made to his/her dependents.

v. **Benefits of Medical Treatment**– If an insured person or his family members require medical treatment, then medical benefits will be provided to the employee.

vi. **Payment for Funeral** – These are payments which are provided to the oldest living member of the family of the insured to cater to the funeral expenses.

9. Unemployment Insurance

It is provided to workers losing their jobs under no fault of their own (on account of closure of factories, retrenchment or permanent invalidity of at least 40% arising out of non-employment injury). It is governed by the Industrial Act, 1947.Only a regular worker of the company who has completed at least 1 yr (anything less is not admissible) of regular service is eligible.Weekly holidays are not considered during this period.

Unemployment allowance is the 50% of an insured worker's daily average earnings. It is paid up to one year to the workers who have paid contributions for at least 3 years.

In the course of a year, for an employee who is laid-off for more than 45 days, he will not be given no compensation during any time of the year.During this time, free medical care is also provided to beneficiaries and their dependents.If an employee is laid-off for more than 45 days during a year, the employer can legally retrench him at any time-period, after the expiry of first 45 days of lay-off.

10. Worker’s Compensation

Workman’s Compensation is in accordance with the Workmen’s Compensation Act, 1923.The policy covers the financial liability of an organization if its employees or workers face any bodily injury during the course of employment. The policy usually covers accidental death, permanent total disablement, permanent partial disablement, temporary disablement, etc. If the company’s employee or worker faces an accidental injury or death during the course of employment, the *policy pays a specified benefit* to the employee or worker or their families (in case of death). Thus, the organization does not have to face the costs incurred in compensating the family of the injured worker as the insurance policy takes care of it.

Non-Statutory Benefits

a) **Educational Facilities** – For employees and their children, establishment of schools, library etc.

b) **Housing Facilities** - Employee quarters, housing loans at nominal interest rates.

c) Transport Facilities

d) **Recreational Facilities** – Music, art, theatre, sports & games. Holiday homes, excursions etc

e) Payment for time not worked

i) Paid Holidays – Min once weekly. Some give 2 days a week

ii) Shift premium – Extra premium payment for extra hours worked

iii) Holiday Pay – Workers working on paid holidays will be paid double the rate of normal salary.

iv) Paid Vacation – Worked for 240 days, get paid vacation @ 1 day for every 20 days worked

f) Other facilities

ii. Canteen, Restrooms, Lunchrooms

iii. Washing facilities, Medical Aid, LTC

iv. Consumer Cooperative Stores

v. Personal Healthcare

vi. Flexitime

vii. Employee Assistance Programs

viii. Harassment policy

ix. Maternity & Adoption Leave

x. Mediclaim Insurance Scheme

xi. Employee Referral Scheme

Importance of Employee Welfare

1. Facilitates high employees retention
2. Enhances efficiency and productivity
3. Improves job focus
4. Preserves physical & mental health
5. Improves standard of living
6. Promotes cordial labour-management relations
7. Improves employee morale and loyalty
8. Reduces government intervention

Pay for Performance (PFP) or Performance Related Pay (PRP)

The term “pay-for-performance compensation” refers to performance-based pay programs where an employee is incentivized and rewarded for achieving goals or objectives.PRP plans are extremely popular and almost 75% of organizations currently leverage pay-for-performance compensation as part of their overall compensation plan.

Objectives of PFP

- Stimulates higher level of performance
- Establishes a high performance culture
- View of justice and equality

Designing PFP Plans

Step 1: **State your objectives** - Understand where the organisational direction is going and how a PFP scheme will enhance these business objectives.

Step 2: **Conduct your research** - Conduct a feasibility assessment to understand whether your company is equipped to roll out a PFP plan. Industry standards, benchmarks, pros and cons should be considered. Collecting data should be done internally as well to understand employees’ concerns.

Step 3: **Build your foundation** – Some of the common organisation PFP plans are :

- **Incentives**:One of the most common pay-for-performance scheme is awarding compensation incentives when an employee has achieved certain management-set goals, such as a specified sales target. This incentive can be based on team/department target or an individual target.
- **Profit-sharing**:Employees who typically participate in profitsharing schemes often receive a stated percentage of the company’s profits, if they meet a set revenue profit.
- **Gain-sharing**:This incentive is used when companies share any productivity or profitability improvements with the relevant employees.
- **Goal-sharing**:Similar to gain-sharing, goal-sharing places an emphasis on employees to reach certain management-set goals.

Whichever incentive scheme you choose, a good pay-for-performance needs to be supported by a reliable, clear and transparent performance data collection which employees feel they are fairly measured and evaluated against.

Step 4: **Working out the finer details -** Once you have finalised which incentive scheme your company will adopt, it is time to work out the smaller details.

Some of the questions which need to be addressed are:

- Who would be eligible for the pay-for - performance programme, what will employees be measured against, will this be the same across the entire company, if not, how will the standards and payments differ between the various company levels, How many award levels should you implement, Will there be stretch targets, how will the company issue payout, Will this be in company shares or in cash?, When, and how often would the payouts take place, How can be the payout frequency be weaved into the company's retention scheme?
- Typically, companies measure employees' performance based on three main factors. Due to the different nature of each job, companies may opt to measure different groups of employees based on key performance indicators (KPIs). Employees are typically evaluated based on one or a combination of the below:
  - Revenue generation
  - Productivity
  - Quality

Step 5: **Test your model**

Once a pay-for-performance system has been designed, HR practitioners should test the feasibility of the model by testing it against its previous business results – both in good financial times and bad. In those scenarios, how would payouts have worked? Would the model help the business achieve its goals? Besides a financial viewpoint, companies should garner a range of views from employees across the spectrum to see how the model would affect their departments and compensation plans.

Step 6: **Communicate and implement**

Companies should spare no effort in communicating to their employees at every step of the implementation stage. Whether it is through emails, company videos or in large town hall meetings, business leaders need to address all the concerns which employees have to gain their buy-in. Concerns about how employees will be affected should be considered.

Advantages of PFP

- Compatible with organization's HR ideology
- Encouraging employees for better performance
- Ensures consistency in pay distribution
- Increased individual and organizational effectiveness

Disadvantages of PFP

- No assured motivation
- Dependence on Performance Management
- Need for training
- Unsatisfied Performance Evaluation

Incentive Schemes

Incentive may be defined as any reward or benefit given to the employee over and above his wage or salary with a view to motivating him to excel at work.

Advantages of Enterprise Incentive Schemes

- Financial Flexibility for the firm
- Increased employee commitment
- Tax Advantages

Disadvantages of Enterprise Incentive Schemes

- Uncertainty and risk beyond the control of employees
- Limited effect on productivity

- Long-run financial difficulties

Wage Incentive Plans

- Most popular type io the Piece-rate plan.
- Widely prevalent in textiles, matches, coir matting, carpet weaving and tanneries.
- Small percentage of worker paid in this system in iron and steel and chemical industries.
- Another popular type if the payment of production bonus.
- This could be a group plan or an enterprise plan.

Requirements of Effective Incentive Plan

- Motivation
- Definite and Quantifiable Objectives
- Reduction in Production Cost
- Easy to understand
- Payment for increased production
- Simple to administer
- Efficacy
- Guarantee of Minimum Wage
- Compliance with Policy and Labour Law
- Reducing Turnover

Merits & Demerits of Incentives

Merits	Demerits
• Higher output • Greater profit • Less idle time • Supervision not required • Efficient workers are able to earn more • Turnover is lower • Reduction of complaints & grievances	• Quality of work may suffer • Inter-personal relationships may suffer • Wear & tear of machines more • Increase in accidents • Increase in paper work / documentation • Standards are based on past performance