GCEM

Compensation and Benefits

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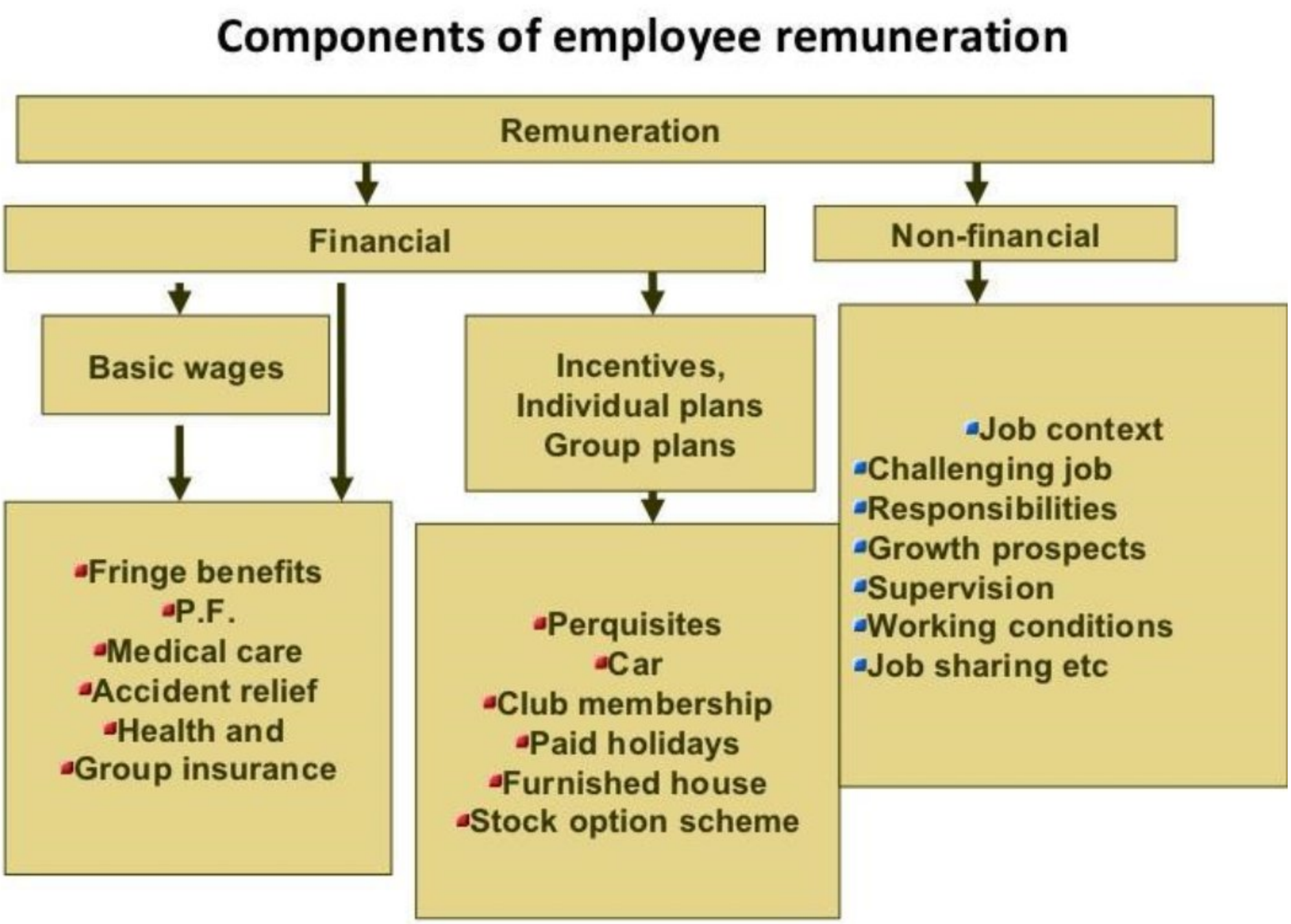
GOPALAN COLLEGE OF ENGINEERING AND MANAGEMENT

Module 1

Introduction To Compensation: Definition of Compensation, The Pay Model, Strategic Pay Policies, Strategic Perspectives of Pay, Strategic Pay Decisions, Best Practices vs. Best Fit Options

Defining Compensation

Compensation, or pay (the words are used interchangeably in this book), refers to all forms of financial returns and tangible services and benefits employees receive as part of an employment relationship.
Compensation (also known as Total Rewards) can be defined as all of the rewards earned by employees in return for their labour. This includes:



- ***Direct financial compensation*** consisting of pay received in the form of wages, salaries, bonuses and commissions provided at regular and consistent intervals

- ***Indirect financial compensation*** including all financial rewards that are not included in direct compensation and understood to form part of the social contract between the employer and employee such as benefits, leaves, retirement plans, education, and employee services
- ***Non-financial compensation*** referring to topics such as career development and advancement opportunities, opportunities for recognition, as well as work environment and conditions
- While employees tend to focus on direct financial compensation when contemplating their rewards, according to the McKinsey Journal, for individuals who are relatively satisfied with their salary, it is the non-financial rewards that tend to be more effective in contributing to long-term employee engagement.

Pay Model

Pay model or the compensation model varies from industry to organizations. Each and every industry has their own pay model which is generally based on three components. The basic components of pay model are:-

1. Compensation motives
2. Compensation Strategies
3. Compensation Techniques

Compensation Motives

Compensation or pay systems are programmed and are formalized to attain organization motives and common motives according to which lead growth of company objectives. The basic objectives are:- • Efficiency in performance

• Equity in pay system
• Compliance with laws and regulations

Efficiency in performance objectives are:-

Firstly it helps in improving performance, increasing quality and satisfying customers need with controlling labor costs.

The equity objectives are:-

Initially designing a pay system which will help in managing and recognizing employee’s contribution and its need. Equity pay system is the basic pay method which portrays equal fair pay for a day work. This pay system ensures equal pay to the employees.

The Compliance with rules and regulations objectives are:-

Pay model should always be according to the various central and state wage legislations and regulations. As the rules and regulations of pay model changes or fluctuates so the compensation system always to be accustomed accordingly.

Internal Alignment:

Internal alignment refers to comparisons between jobs or skill levels inside a single organization. Jobs and people’s skills are compared in terms of their relative contributions to the organization’s objectives. How, for example, does the work of the programmer compare with the work of the systems analyst, the software engineer, and the software architect? Does one contribute to providing solutions to customers and satisfying shareholders more than another? Does one require more knowledge or experience than another? Internal alignment refers to the pay rates both for employees doing equal work and for those doing dissimilar work. In fact, deter-mining what is an appropriate difference in pay for people performing different work is one of the key challenges facing managers. Internal alignment policies affect all three compensation objectives. Pay relationships within the organization affect employee decisions to stay with

the organization, to become more flexible by investing in additional training, or to seek greater responsibility.
By motivating employees to choose increased training and greater responsibility in dealing with customers, pay relationships indirectly affect the capabilities of the workforce and hence the efficiency of the entire organization. Fairness is affected in employees' comparisons of their pay to the pay of others in the organization. Basic fairness is provided by Canadian human rights laws, which make paying on the basis of race, gender, age, and other grounds, illegal.

External Competitiveness:

External competitiveness refers to compensation relationships external to the organization; i.e., comparison with competitors. How should an employer position its pay relative to what competitors are paying? How much do we wish to pay accountants in comparison to what other employers would pay them? What mix of pay forms—base, incentives?
Stock, benefits—will help achieve the compensation objectives? Employers have several policy options. Medtronic's policy is to pay competitively in its market based on its financial performance versus the financial performance of its competitors, while AES's policy is to expect people
to be willing to take less to join the company.
Increasingly, organizations claim their pay systems are market driven, i.e., based almost exclusively on what competitors pay. However, "market driven" gets translated into practice in different ways. Some employers may set their pay levels higher than their competition, hoping to
Attract the best applicants. Of course, this assumes that someone is able to identify and hire the "best" from the pool of applicants.
What mix of pay forms a company uses is also part of its external competitive policy. Medtronic sets its base pay to match its competitors but ties incentives to performance. Plus it offers stock options to all its employees to promote a culture of ownership. The assumption is that owners will pay closer attention to the business. Further, Medtronic believes its benefits, particularly the emphasis on programs that balance work and life, make it a highly attractive place to work Medtronic believes it is how it positions its pay, and what forms it uses, that gives it an advantage over its competitors.
A Medtronic competitor, say MDS, may offer lower base pay but greater opportunity to work overtime or fatter bonuses. AES believes making all employees stockholders is consistent with its emphasis on social responsibility.

External competitiveness decisions—both how much, and what forms—have a twofold effect on objectives:
(1) to ensure that the pay is sufficient to attract and retain employees—if employees do not perceive their pay as competitive in comparison to what other organizations are offering for similar work, they may be more likely to leave—and
(2) to control labour costs so that the organization's prices of products or services can remain competitive. Thus, external competitiveness directly affects both efficiency and fairness. And it must do so in a way that complies with relevant legislation.
Employee Contributions: The policy on employee contributions refers to the relative emphasis placed on performance. Should one programmer be paid differently from another if one has better performance and/or greater seniority? Or should all employees share in the organization's financial success (or failure) via incentives based on profit? Perhaps more productive teams of employees should be paid more than less productive teams.

The degree of emphasis to be placed on performance is an important policy decision, since it directly affects employees' attitudes and work behaviors.
Employers with strong pay-for-per-
Formance policies are more likely to place greater emphasis on incentives and merit pay. Starbucks emphasizes stock options and sharing the success of corporate performance with the employees. General Electric emphasizes performance at the unit, division, and companywide level. Recognition of contributions also affects fairness, since employees need to understand the basis
for judging performance in order to believe that their pay is fair.

Administration:
Policy regarding administration of the pay system is the last building block in our model. Although it is possible to design a system that is based on internal alignment, external competitiveness, and employee contributions, the system will not achieve its objectives unless it is managed properly.
The greatest system design in the world is useless without competent management. Managers choose what forms of pay to include and how to position pay against competitors. They must communicate with employees and judge whether the system is achieving its objectives. They must ask, Are we able to attract skilled workers? Can we keep them? Do our employees feel our system is fair? Do they understand how their pay is determined? How do the better-performing firms, with better financial returns and a larger share of the market, pay their employees? Are the systems used by these firms different from those used by less successful firms? How do our labour costs compare to our competitors? Answers to these questions are necessary in order to tune or redesign the system, to adjust to changes, and to highlight potential areas for further investigation.
At AES, there is no compensation department, nor even a human resources management department. Instead, teams of employees make all the compensation decisions. The assumption is that this approach will ensure that everyone feels they are being treated fairly.
Strategic perspectives of pay:
A strategic perspective focuses on those focuses on those competitive choices that competitive choices that help the organization gain help the organization gain and sustain competitive and sustain competitive advantage.
Pay System Objectives

- Attract and retain employees
- Motivate performance
- Promote skills and knowledge development
- Shape corporate culture
- Reinforce and define structure
- Determine pay costs

Example: The Strategic compensation Decisions Facing Starbucks
Objectives:
How should compensation support business strategy and be adaptive to the cultural and regulatory environment?
Starbucks objectives:

- Grow by making employees feel valued.
- Recognize that every dollar earned passes through

- Employees' hands.
- Use pay, benefits, and opportunities for personal development to help gain employee loyalty and become difficult to imitate.

Alignment:
How differently should the various types and levels of skills be paid within the organization?
Starbucks:

- De-emphasize differences.
- Use egalitarian pay structures, cross-train employees to handle many jobs, and call employees partners

Competitiveness:
How should total compensation be positioned against our competitors? What forms of compensation should we use?
Starbucks:

- Pay just slightly above other fast-food employers.
- Provide health insurance and stock options for all
- Employees (including part-timers).
- Give everyone a free pound of coffee every week.

Contributions:
Should pay increases be based on individual and/or team performance, on experience and/or continuous learning, on improved skills, on changes in cost of living, on personal needs, and/or on each business unit's performance?
Starbucks:

- Emphasize team performance and shareholder returns.
- For new managers in Beijing and Prague, provide
- Training opportunities in the U.S.

Administration:
How open and transparent should pay decisions be to all employees? Who should be involved in designing and managing the system?
Starbucks:

- As members of the Starbuck's "family," our employees realize what is best for them.
- Partners can and do get involved

Strategic Pay Decisions:
Pay decisions refer to the methods used by human resources and payroll professionals to choose the pay scales of employees. Techniques that assist payroll professionals in making their pay decisions include:

- External measures such as benchmarking (salary surveys) and ongoing reporting that constitute a market survey approach.
- Internal measures such as projections, simulations, and predictive modeling or the use of pay grades use an organization's needs to assess the relative value of tasks within it.
- Variable systems like pay-for-performance create a policy line that connects job pay and job evaluation points.

Benchmarking
Benchmarking is when an organization compares its own pay practices and job functions against those of its competitors. Obvious cautionary points in the use of these kinds of salary surveys include the inclusion of only appropriately similar peers in the comparison, the inclusion of only appropriately similar jobs in the comparison, and accurately weigh and combining rates of pay when multiple surveys are used.
There are two types of salary surveys that can be used in benchmarking:

labor market comparisons and **product market comparisons.**
Labor market comparisons are best when employee recruitment and retention is a major concern for the employer and when recruiting costs are a significant expense. Product market comparisons are more salient when labor expenses make up a major share of the employer's total expenses, when product demand is very fluid, when the labor supply is relatively steady, and/or when employee skills are specific to the product market in question.
Within the benchmarking process, the job category and range of pay rates within it are important to the payroll professional. Certain key jobs are very common to organizations in a given field and have a relatively stable set of duties. As a result, key jobs are useful in benchmarking since they allow for more accurate comparison across many organizations. Non-key jobs are unique to their organizations and are therefore not useful in benchmarking. Job content is far more important than job title in this context, although it is easy to confuse content for title. Range of pay rates refers to the variety in pay rates that workers in one job area might receive.
Salary Surveys
The use of salary surveys demands credible survey sources with multiple participating organizations. Organizations responding to a given survey must be similar to the organization using that survey. Close attention to job function is also crucial; it is inappropriate to match and compare salaries based on job title alone.
Internal Measures
Benchmarking uses external measures to make internal pay decisions. Internal measures are also available in most cases, and include the use of analytic techniques such as projections, simulations, and predictive modeling in the pay decision-making process. External and internal measures have very different focuses. External measures ask the market what any given individual should be paid. Internal measures correlate pay decisions to potential organizational benefits.
Pay Grade System
A pay grade system is simply tiered levels of pay based on position, experience, and seniority. Using a pay grade system has its own risks that should be backed by strongly predictive internal measures because 0nce pay grades are in place, the cost of changing and updating them is significant. This can lead to stagnation in an organization's pay scale system.
Connected to this problem is the fact that an existing pay scale can reward skill sets that were highly useful to the organization in the past more than skill sets that are currently needed. Projections, simulations, and predictive modeling assist in counteracting these issues, as they make use of an organization's own internal data to ensure that assessments of value and need are accurate.

Pay for Performance Systems

Variable pay decision systems like pay-for-performance are designed to motivate employees and ensure intra-organizational cooperation. When designing this kind of system, the first thing to assess is the personnel goals of the organization (as this kind of system can be tailored significantly). Interacting with managers across departments can help payroll professionals understand what is most important to the various areas of the organization at any given time.

\Merit and incentive pay programs are common forms of pay-for-performance systems. Promotions based on performance rather than set time periods are also critical to pay-for-performance schemes.

Best Practices vs. Best Fit Options

The best fit approach focuses on the importance of making sure that the HR strategies are suitable to the different circumstances of the entire organization, together with culture, operational processes as well as external environment.

Thus, it focus on the idea that different human resource (HR) strategies have to focus on a given needs of both the organization and its people. Due to the said reason, most of critics and commentators believe that best fit approach is more important and vital than the best practice.

The terms ‘best fit’ and ‘best practice’ are used in strategic human resource management literature and are applied to the specific policy area of reward systems. Each approach attempts to explain the way that HR policies in general and reward policies in particular can lead to greater organizational effectiveness.

Module 2

Defining Internal Alignment: Definition of Internal Alignment, Internal Pay Structures, Strategic Choices In Internal Alignment Design, Which Internal Structure Fits Best?

Definition of Internal Alignment
Internal alignment, often called internal equity, refers to the pay relationships between the jobs / skills / competencies within a single organization. The relationships form a pay structure that can support the workflow support the workflow, is fair to fair to employees ,and directs their behavior directs their behavior toward organization objectives.

Internal Alignment: Engineering Job Structure
Engineer: Limited use of basic principles. Close supervision.
Senior Engineer: Full use of standard principles and concepts. Under general supervision.
Systems Engineer: Wide applications of principles and concepts, plus working knowledge of other related disciplines. Under very general direction.
Lead Engineer: Applies extensive knowledge as a generalist or specialist. Exercises wide latitude.
Advisor Engineer: Applies advanced principles, theories, and concepts. Assignments often self-initiated.
Consultant Engineer: Exhibits an exceptional degree of ingenuity, creativity, and resourcefulness. Acts independently to uncover and resolve operational problems
Internal Pay Structures:
Pay structure, refers to the array of pay rates for different work or skills within a single organization. The number of levels, differentials in pay between the levels, and the criteria used to determine those differences create the structure.
External Factors: Economic pressures, Govt policies, laws, Regulations, Stakeholders, customs & cultures.
Organisation Factors: Strategy, Hr Policy, Technology, HR capital, Employee acceptance, Cost implications
Levels, Differentials, Criteria **Economic Pressures**
Early theorists concentrated on the supply of labour to explain pay structures with the most famous being marginal productivity theory

Govt policies & regulations
" human rights legislation forbids pay systems that discriminate on the basis of gender, race, religion, sexual orientation, national origin and many other grounds. pay equity acts require equal pay for work of equal value,' based on skill, effort, responsibility, and working conditions. 'Much pay related legislation attempts to regulate economic forces to achieve social welfare objects. The most obvious place to affect an internal structure is at the minimums (minimum wage legislation) and maximums (special reporting requirements for executive pay)

Stakeholders:
Unions, stakeholders, and political groups all have a stake in formulating internal pay structures. Unions seek small pay differences among jobs and seniority based promotions as a way to promote solidarity among members.

Cultures "and Customs
Culture is the mental programming for processing information that people share in common. Such shared mindsets may form a judgment of what is "fair".

Organisation Strategy
The basic belief of a strategic perspective is that pay structures that are not aligned with the organization strategy may become obstacles to the organization's success.

Organisation Human Capital
A major influence on internal structures human capital-are education, experience, knowledge, abilities and skills. The stronger the link between skills, experience and an organization's strategic objective, the more pay those skills will command.

Organisation Design of Work
technology used to produce goods and services influences the organization design, work to be performed and skills required performing it.

Overall HR Policies The amount of pay tied to a promotion, the nature of promotions, i.e. the lateral, development, and greater responsibilities) pay differences must be consistent with what the organization is trying to accomplish.

Internal Labour Markets: Combining External & Internal Forces
The notion of internal labour markets, i.e., the policies and procedures that regulate internal hiring and promotions, form career paths, and pay is based on internal policy. This theory combines both economic and organizational factors.

Employee Expectations: key Factors
Acceptance is based on two measures of fairness, distributive justice and procedural justice, along with ensuring employees that the structure is fair.

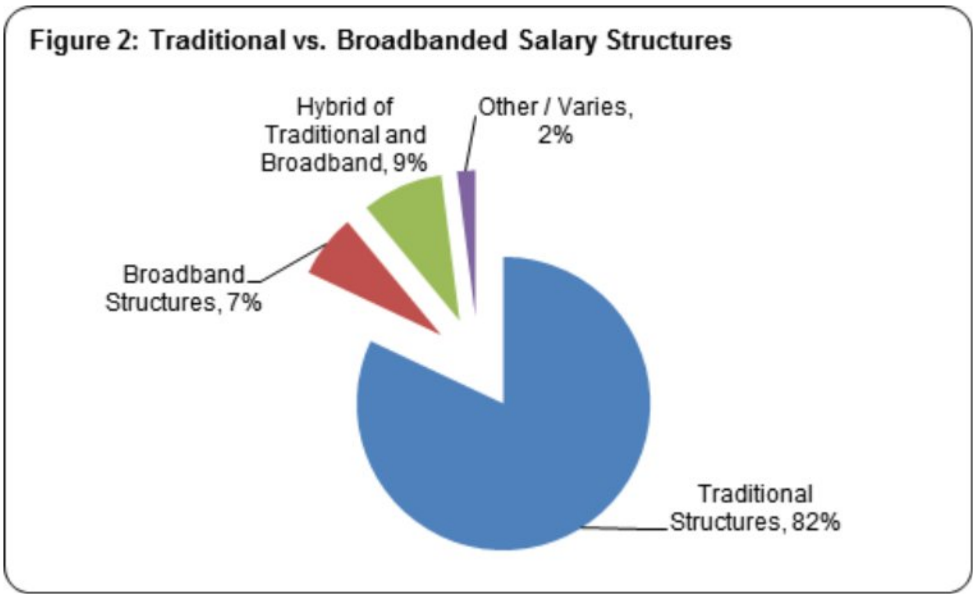
An internal pay structure is defined by:

1. the number of levels of work !
2. the pay differentials between the levels!
3. the criteria used to determine those levels and differentials!

These are the factors that a manager may vary to design a structure that supports the work flow, is fair, and directs employee behaviors toward objectives

Traditional vs. Broadband Salary Structures
Traditional salary structures are organized with numerous layers and range structures (or pay grades) with a relatively small distance between each range. This provides a hierarchal system enabling employees to

be promoted from one pay grade to another. When designed correctly, traditional structures enable the recognition of differing rates of pay for performance and guarantee a reasonable level of control over internal compression and salary expenditures.
Broadband salary structures are more flexible and consolidate pay grades into fewer structures with wider salary ranges.



Single vs. Multiple Salary Structures
Fifty percent of companies with salary range structures have multiple structures varying by job and/or geographic location. There is a strong correlation between job level and number of salary structures. Single salary structures are more common for executives and multiple salary structures are more common for nonexecutive positions

Strategic Choices In Internal Alignment Design:

Tailored versus Loosely Coupled
Tailored structure- pay structure for well-defined jobs with relatively small differences in pay; Loosely & coupled structure- pay structure for jobs that are flexible, adaptable, and changing.

Egalitarian versus Hierarchical:
Egalitarian structures operate on the belief that all employees should be treated equally in their pay. This means that there are few levels, less hierarchy and small pay differentials between levels. A hierarchical structure would form the other extreme, with large pay differentials between levels.

Career Path Differentials: We need to understand how differentials within the career path support work flow. The next several chapters discuss how these internal structures (the levels, differentials, and criteria) are designed and managed.

WHICH INTERNAL STRUCTURE FITS BEST?
"In practice, the decision about which structures best fits a particular business strategy probably lies in our original definition of internal alignment: An internally aligned structure supports the work flow, is fair to employees, and directs their behavior toward organization objectives.
It mainly depends on:

a. How the work is organized
b. Fair to employees
c. Directs behavior toward organization objectives

Module 3

Job Analysis and Evaluation: Why Perform Job Analysis?, Job Analysis Procedures, Job Analysis Data Collection Process, Job Descriptions, Definition of Job Evaluation, Major Decisions In Job Evaluation, Job Evaluation Methods, Final Result – Pay Structure

Job Analysis:

A **job** is defined as a collection of duties and responsibilities which are given together to an individual employee. **Job analysis** is the process of studying and collecting information relating to operations and responsibilities of a specific job.

Job analysis (also known as **work analysis**) is a family of procedures to identify the content of a job in terms of activities involved and attributes or job requirements needed to perform the activities. Job analysis provide information to organizations which helps to determine which employees are best fit for specific jobs. Through job analysis, the analyst needs to understand what the important tasks of the job are, how they are carried out, and the necessary human qualities needed to complete the job successfully.

Job Analysis should collect information on the following areas:

- **Duties and Tasks** The basic unit of a job is the performance of specific tasks and duties. Information to be collected about these items may include: frequency, duration, effort, skill, complexity, equipment, standards, etc.
- **Environment** This may have a significant impact on the physical requirements to be able to perform a job. The work environment may include unpleasant conditions such as offensive odors and temperature extremes. There may also be definite risks to the incumbent such as noxious fumes, radioactive substances, hostile and aggressive people, and dangerous explosives.
- **Tools and Equipment** Some duties and tasks are performed using specific equipment and tools. Equipment may include protective clothing. These items need to be specified in a Job Analysis.
- **Relationships** Supervision given and received. Relationships with internal or external people.
- **Requirements** The knowledge's, skills, and abilities (KSA's) required to perform the job. While an incumbent may have higher KSA's than those required for the job, a Job Analysis typically only states the minimum requirements to perform the job.

Why Perform Job Analysis?,

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

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

- training content

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

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

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

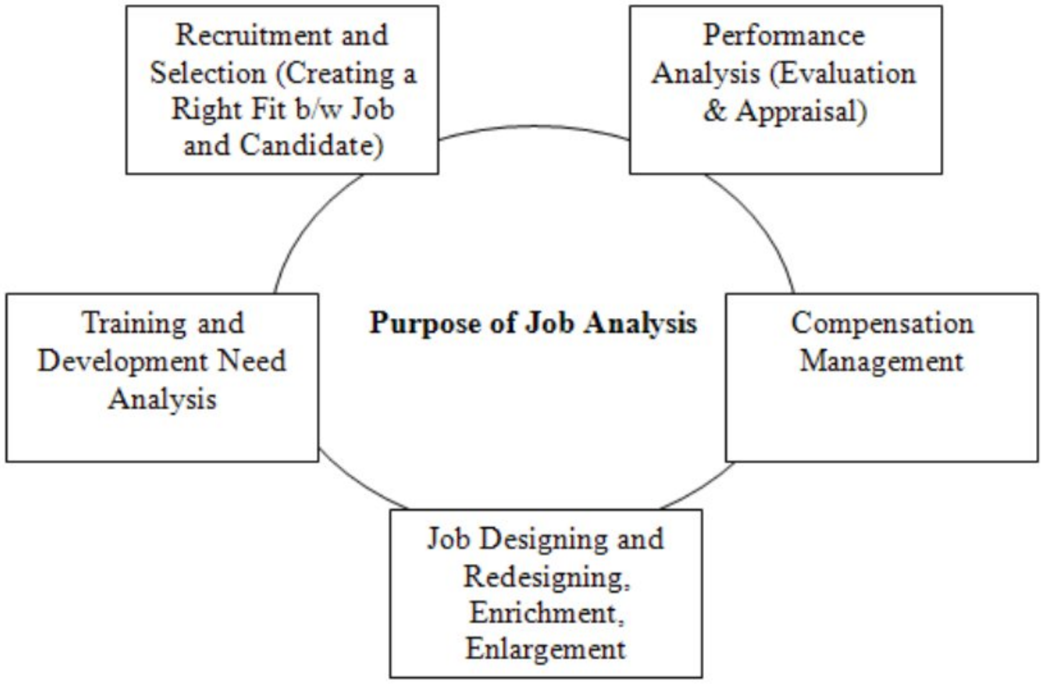
Selection Procedures

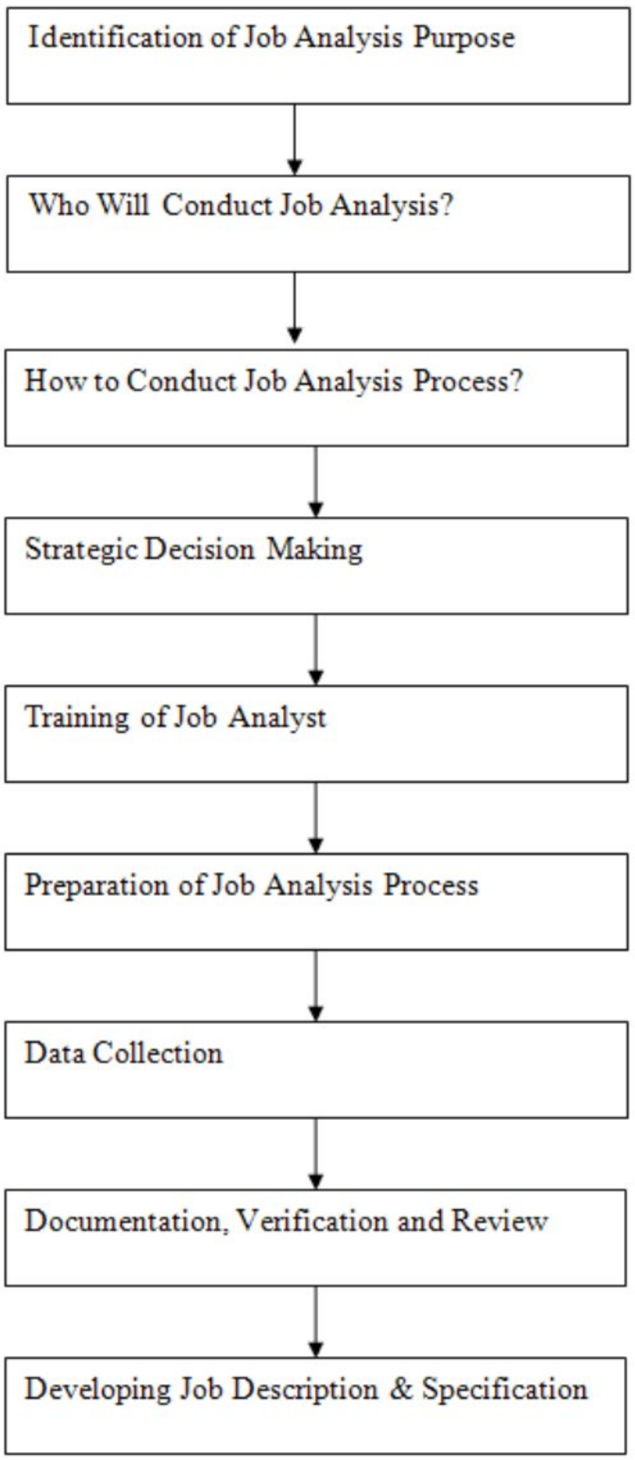
Job Analysis can be used in selection procedures to identify or develop:

- job duties that should be included in advertisements of vacant positions;
- appropriate salary level for the position to help determine what salary should be offered to a candidate;
- minimum requirements (education and/or experience) for screening applicants;
- interview questions;
- selection tests/instruments (e.g., written tests; oral tests; job simulations);
- applicant appraisal/evaluation forms;
- orientation materials for applicants/new hires

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

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


Recruitment and Selection (Creating a Right Fit b/w Job and Candidate)
Performance Analysis (Evaluation & Appraisal)
Training and Development Need Analysis
Purpose of Job Analysis
Compensation Management
Job Designing and Redesigning, Enrichment, Enlargement



Identification of Job Analysis Purpose: Well any process is futile until its purpose is not identified and defined. Therefore, the first step in the process is to determine its need and desired output. Spending human efforts, energy as well as money is useless until HR managers don't know why data is to be collected and what is to be done with it.

Who Will Conduct Job Analysis: The second most important step in the process of job analysis is to decide who will conduct it. Some companies prefer getting it done by their own HR department while some hire job analysis consultants. Job analysis consultants may prove to be extremely helpful as they offer unbiased advice, guidelines and methods. They don't have any personal likes and dislikes when it comes to analyze a job.

How to Conduct the Process: Deciding the way in which job analysis process needs to be conducted is surely the next step. A planned approach about how to carry the whole process is required in order to investigate a specific job.

Strategic Decision Making: Now is the time to make strategic decision. It's about deciding the extent of employee involvement in the process, the level of details to be collected and recorded, sources from where data is to be collected, data collection methods, the processing of information and segregation of collected data.

Training of Job Analyst: Next is to train the job analyst about how to conduct the process and use the selected methods for collection and recoding of job data.

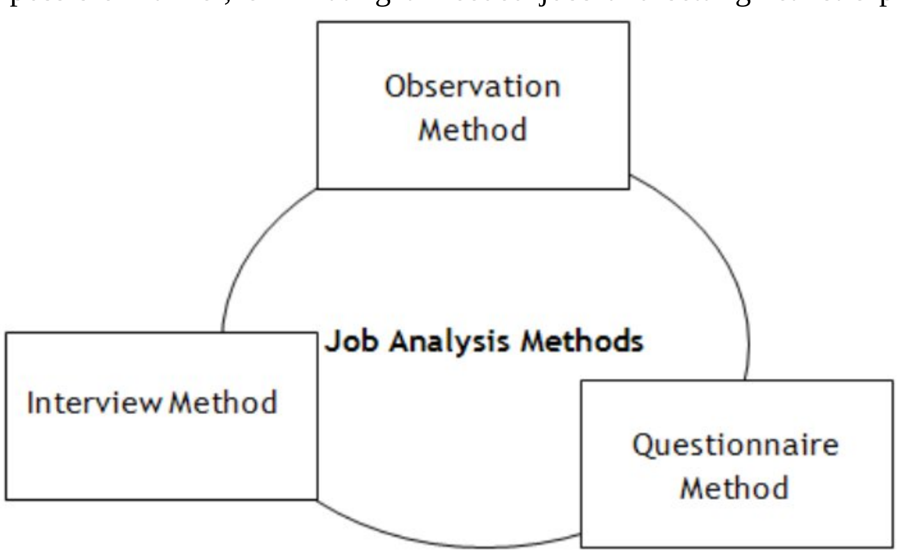
Preparation of Job Analysis Process: Communicating it within the organization is the next step. HR managers need to communicate the whole thing properly so that employees offer their full support to the job analyst. The stage also involves preparation of documents, questionnaires, interviews and feedback forms.

Data Collection: Next is to collect job-related data including educational qualifications of employees, skills and abilities required to perform the job, working conditions, job activities, reporting hierarchy, required human traits, job activities, duties and responsibilities involved and employee behavior.

Documentation, Verification and Review: Proper documentation is done to verify the authenticity of collected data and then review it. This is the final information that is used to describe a specific job.

Developing Job Description and Job Specification: Now is the time to segregate the collected data in to useful information. Job Description describes the roles, activities, duties and responsibilities of the job while job specification is a statement of educational qualification, experience, personal traits and skills required to perform the job.

Thus, the process of job analysis helps in identifying the worth of specific job, utilizing the human talent in the best possible manner, eliminating unneeded jobs and setting realistic performance measurement standards.



Most Common Methods of Job Analysis

Observation Method: A job analyst observes an employee and records all his performed and non-performed task, fulfilled and un-fulfilled responsibilities and duties, methods, ways and skills used by him or her to perform various duties and his or her mental or emotional ability to handle challenges and risks. However, it seems one of the easiest methods to analyze a specific job but truth is that it is the most difficult one. Why? Let's Discover.

It is due to the fact that every person has his own way of observing things. Different people think different and interpret the findings in different ways. Therefore, the process may involve personal biasness or likes and dislikes and may not produce genuine results.

This error can be avoided by proper training of job analyst or whoever will be conducting the job analysis process.

This particular method includes three techniques: direct observation, Work Methods Analysis and Critical Incident Technique. The first method includes direct observation and recording of behaviour of an employee in different situations. The second involves the study of time and motion and is specially used for assembly-line or factory workers. The third one is about identifying the work behaviours that result in performance.

Interview Method: In this method, an employee is interviewed so that he or she comes up with their own working styles, problems faced by them, use of particular skills and techniques while performing their job and insecurities and fears about their careers.

This method helps interviewer know what exactly an employee thinks about his or her own job and responsibilities involved in it. It involves analysis of job by employee himself. In order to generate honest and true feedback or collect genuine data, questions asked during the interview should be carefully decided. And to avoid errors, it is always good to interview more than one individual to get a pool of responses. Then it can be generalized and used for the whole group.

Questionnaire Method: Another commonly used job analysis method is getting the questionnaires filled from employees, their superiors and managers. However, this method also suffers from personal biasness. A great care should be takes while framing questions for different grades of employees.

In order to get the true job-related info, management should effectively communicate it to the staff that data collected will be used for their own good. It is very important to ensure them that it won't be used against them in anyway. If it is not done properly, it will be a sheer wastage of time, money and human resources.

These are some of the most common methods of job analysis. However, there are several other specialized methods including task inventory, job element method, competency profiling, technical conference, threshold traits analysis system and a combination of these methods. While choosing a method, HR managers need to consider time, cost and human efforts included in conducting the process.

Job Description

Job description includes basic job-related data that is useful to advertise a specific job and attract a pool of talent. It includes information such as job title, job location, reporting to and of employees, job summary, nature and objectives of a job, tasks and duties to be performed, working conditions, machines, tools and equipments to be used by a prospective worker and hazards involved in it.

Purpose of Job Description

- The main purpose of job description is to collect job-related data in order to advertise for a particular job. It helps in attracting, targeting, recruiting and selecting the right candidate for the right job.
- It is done to determine what needs to be delivered in a particular job. It clarifies what employees are supposed to do if selected for that particular job opening.
- It gives recruiting staff a clear view what kind of candidate is required by a particular department or division to perform a specific task or job.
- It also clarifies who will report to whom.

Job Specification

Also known as employee specifications, a job specification is a written statement of educational qualifications, specific qualities, level of experience, physical, emotional, technical and communication skills required to perform a job, responsibilities involved in a job and other unusual sensory demands. It also includes general health, mental health, intelligence, aptitude, memory, judgment, leadership skills, emotional ability, adaptability, flexibility, values and ethics, manners and creativity, etc.

Purpose of Job Specification

- Described on the basis of job description, job specification helps candidates analyze whether are eligible to apply for a particular job vacancy or not.
- It helps recruiting team of an organization understand what level of qualifications, qualities and set of characteristics should be present in a candidate to make him or her eligible for the job opening.
- Job Specification gives detailed information about any job including job responsibilities, desired technical and physical skills, conversational ability and much more.
- It helps in selecting the most appropriate candidate for a particular job.

Job description and job specification are two integral parts of job analysis. They define a job fully and guide both employer and employee on how to go about the whole process of recruitment and selection. Both data sets are extremely relevant for creating a right fit between job and talent, evaluate performance and analyze training needs and measuring the worth of a particular job.

Job evaluation

Definition :

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. J*ob evaluation*, on the other hand, specifies the relative value or worth of each job in an organization.

Purpose of Job Evaluation:

Principles of Job Evaluation

- **Definition:** Jobs must be clearly defined such that they are identifiable and easily distinguishable. These jobs must then be part of the job description.
- **Evaluation:** A job evaluation scheme must be arrived upon and used as a standard and all jobs in the organisation must be evaluated as per that scheme only.
- **Job Understanding:** Job evaluators need to have deep insights into the job design process. They must have a methodical understanding of various tasks involved.

- **Concern:** Job evaluation must be concerned with the job and not with the person. i.e. it is the job that has to be evaluated and not the person
- **Assessment:** The assessment has to be carried out in an acceptable manner and by competent people. Further, it is based on judgment and is not scientific but can however be used to make objective judgments if used correctly.

Major Decisions In Job Evaluation:
They are

- Establish purpose of evaluation.
- Decide whether to use single or multiple plans.
- Choose among alternative approaches.
- Obtain involvement of relevant stakeholders.
- Evaluate plan's usefulness.

Establish the Purpose
Job evaluation is part of the process for establishing an internally aligned pay structure. A structure is aligned if it supports the organization strategy, fits the work flow, is fair to employees, and motivates their behavior toward organization objectives.
• **Supports organization strategy**: Job evaluation aligns with the organization's strategy by including what it is about work that adds value—that contributes to pursuing the organization's strategy and achieving its objectives. Job evaluation helps answer, How does this job add value?

• **Supports work flow**: Job evaluation supports work flow in two ways. It integrates each job's pay with its relative contributions to the organization, and it helps set pay for new, unique, or changing jobs.
• **Is fair to employees**: Job evaluation can reduce disputes and grievances over pay differences among jobs by establishing a workable, agreed-upon structure that reduces the role of chance, favoritism, and bias in setting pay.
Motivates behavior toward organization objectives:
Job evaluation calls out to employees what it is about their work that the organization values, what supports the organization's strategy and its success. It can also help employees adapt to organization changes by improving their understanding of what is valued in their new assignments and why that value may have changed. Thus, job evaluation helps create the network of rewards (promotions, challenging work) that motivates employees. If the purpose of the evaluation is not called out, it becomes too easy to get lost in complex procedures, negotiations, and bureaucracy. The job evaluation process becomes the end in itself instead of a way to achieve an objective. Establishing its purpose can help ensure that the evaluation actually is a useful systematic process.
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Single versus Multiple Plans
Rarely do employers evaluate all jobs in the organization at one time. More typically, a related group of jobs, for example, manufacturing, technical, or administrative, will be the focus. Many employers design different evaluation plans for different types of work. They do so because they believe that the work

content is too diverse to be usefully evaluated by one plan. For example, production jobs may vary in terms of manipulative skills, knowledge of statistical quality control, and working conditions. But these tasks and skills may not be relevant to engineering and finance jobs. Rather, the nature of the contacts with customers may be relevant. Consequently, a single, universal plan may not be acceptable to employees or useful to managers if the work covered is highly diverse. Even so, there are some plans that have been successfully applied across a wide breadth and depth of work. The most prominent examples include the Hay plan and the position analysis questionnaire.

A benchmark job has the following characteristics:

- Its contents are well known and relatively stable over time.
- The job is common across a number of different employers. It is not unique to a particular employer. • A reasonable proportion of the work force is employed in this job.

A representative sample of benchmark jobs will include the entire domain of work being evaluated—administrative, manufacturing, technical, and so on—and capture the diversity of the work within that domain.

Job Evaluation Methods

Ranking , classification , and point method are the most common job evaluation methods, though uncounted variations exist. Research over 40 years consistently finds that different job evaluation plans generate different pay structures. So the method you choose matters. They all begin by assuming that a useful job analysis has been translated into job descriptions methods.

Involvement of stakeholders:

If the internal structure's purpose is to aid managers—and if ensuring high involvement and commitment from employees is important—those managers and employees with a stake in the results should be involved in the process of designing it. A common approach is to use committees, task forces, or teams that include representatives from key operating functions, including no managerial employees. In some cases, the group's role is only advisory; in others, the group designs the evaluation approach, chooses compensable factors, and approves all major changes. Organizations with unions often find that including union representatives helps gain acceptance of the results. Union-management task forces participated in the design of a new evaluation system for the federal government. However, other union leaders believe that philosophical differences prevent their active participation. They take the position that collective bargaining yields more equitable results. So the extent of union participation varies. No single perspective exists on the value of active participation in the process, just as no single management perspective exists.

Design Process Matters

Research suggests that attending to the fairness of the design process and the approach chosen (job evaluation, skill/competency-based plan, and market pricing), rather than focusing solely on the results (the internal pay structure), is likely to achieve employee and management commitment, trust, and acceptance of the results. The absence of participation may make it easier for employees and managers to imagine ways the structure might have been rearranged to their personal liking.

Job evaluation Methods:

Job evaluation is done by any of the following methods: • A reasonable proportion of the work force is employed in this job.

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Job evaluation Methods:

Job evaluation is done by any of the following methods:

- **Points rating -** Different levels are accorded to the various elements of jobs and then the points allocated to different levels are totaled to get point score of the jobs which forms the basis of pay structure.
- **Factor comparison -** A comparison of various independent factors of jobs is done and points are given to each factor rank of individual job. These points are then totaled to rank the jobs.
- **Job ranking -** Job is not broken into factors or elements, rather it is evaluated as a whole and is compared with other jobs to be ranked accordingly.
- **Paired comparison -** Jobs are compared with each other and allocated points depending on being 'greater, lesser or equal'. These points are added to create rank order of jobs.

Final Result – Pay Structure

The final result of the job analysis–job description–job evaluation process is a structure, a hierarchy of work. The hierarchy translates the employer's internal alignment policy into practice. These structures are obtained via different approaches to evaluating work. The jobs are arrayed within four basic functions: managerial, technical, manufacturing, and administrative. The

Managerial and administrative structures were obtained via a point job evaluation plan; the technical and manufacturing structures, via two different person-based plans. The manufacturing plan was negotiated with the union. The exhibit illustrates the results of evaluating work: structures that support a policy of internal alignment. Organizations commonly have multiple structures derived through multiple approaches that apply to different functional groups or units. Although some employees in one structure may wish to compare the procedures used in another structure with their own, the underlying premise in practice is that internal alignment is most influenced by fair and equitable treatment of employees doing similar work in the same skill/knowledge group.

Module 4

Determining External Competitiveness and Benefits Management: Competitiveness: Definition of Competitiveness, Pay Policy Alternatives, Wage Surveys, Interpreting Survey Results, Pay Policy Line, Pay Grades

Benefits: Benefits Determination Process, Value of Benefits, Legally Required Benefits, Retirement, Medical, & Other Benefits

Determining External Competitiveness and Benefits Management

Definition of Competitiveness:

Competitiveness pertains to the ability and performance of a firm, sub-sector or country to sell and supply goods and services in a given market, in relation to the ability and performance of other firms, sub-sectors or countries in the same market. It's the Ability of a firm or a nation to offer products and services that meet the quality standards of the local and world markets at prices that are competitive and provide adequate returns on the resources employed or consumed in producing them. Competitiveness is the comparison of the compensation both inside & outside the organization.

External Competitiveness: refers to the pay relationships

In external competitiveness, (the second pay policy) comparisons are made outside the organization – comparisons with other employers that hire the same kinds of employees. External competitiveness is expressed in practice by (1) setting a pay level that is above, below, or equal to that of competitors, and (2) determining the mix of pay forms relative to those of competitors. External competitiveness refers to the pay relationships among organizations – the organization's pay relative to its competitors. Pay level refers to the average of the array of rates paid by an employer: (base + bonuses + benefits + options) number of employees. Pay forms are the various types of payments, or pay mix, that make up total compensation. Both pay level and pay mix focus on two objectives: (1) control costs, and (2) attract and retain employees.

Control Costs

The higher the pay level, the higher the labor costs: Labor costs = pay level x number of employees The higher the pay level relative to what competitors pay, the greater the relative costs to provide similar products or services. So you might think that all organizations would pay the same job the same rate. However, they do not.

Attract and Retain Employees

Different employers set different pay levels. They deliberately choose to pay above or below what others are paying for the same work. Not only do the rates paid for similar jobs vary among employers, but a single company may set a different pay level for different job families. Exhibit 7.1 illustrates this point. However, when total compensation (bonuses, stock options, and benefits) is looked at, the pay rate for the position might be further below or actually above the market rate. For example, an engineer is 2% below the market rate when only his base wage is observed. But when total compensation is taken into consideration, he might be 30% below the market rate.

WHAT SHAPES EXTERNAL COMPETITIVENESS?

Factors that affect a company's decision on pay level and mix: (1) (LABOR MARKET FACTORS) competition in the labor market for people with various skills; (2) (PRODUCT MARKET FACTORS) competition in the product and service markets, which affects the financial condition of the organization; and (3) (ORGANIZATION FACTORS) characteristics unique to each organization and its employees, such as its business strategy, technology, and the productivity and experience of its work force.

These factors act in concert to influence pay-level and pay-mix decisions.

LABOR MARKET FACTORS

Economists describe two basic types of markets: the quoted price and the bourse. Stores that label each item's price or ads that list a job opening's starting wage are examples of quoted-price markets (Amazon). Bourse markets allow for haggling to occur over the terms and conditions until an agreement is reached (e-Bay). In both the bourse and the quoted market, employers are the buyers and the potential employees are the sellers. People and jobs match up at specified pay rates.

How Labor Markets Work

Theories of labor markets usually begin with four basic assumptions:

Employers always seek to maximize profits People are homogeneous and therefore interchangeable; a business school graduate is a business school graduate is a business school graduate. The pay rates reflect all costs associated with employment (e.g., base wage, bonuses, holidays, benefits, even training). The markets faced by employers are competitive, so there is no advantage for a single employer to pay above or below the market rate.

Understanding how markets work requires analysis of the demand and supply of labor. The demand side focuses on the actions of the employers: how many employees they seek and what they are able and willing to pay those employees. The supply side looks at potential employees: their qualifications and the pay they are willing to accept in exchange for their services.

Labor Demand

How many people will a specific employer hire? The answer requires an analysis of labor demand. In the short term, an employer cannot change any other factor of production (i.e., technology, capital, or natural resources. Under such conditions, a single employer's demand for labor coincides with the marginal product of labor.

The marginal product of labor is the additional output associated with the employment of one additional human resource unit, with other production factors held constant. The marginal revenue of labor is the additional revenue generated when the firm employs one additional unit of human resources, with other production factors held constant.

Marginal Product

Diminishing marginal productivity results from the fact that each additional employee has a progressively smaller share of the other factors of production with which to work. In the short term, other factors of production (e.g., office space, number of computers, telephone lines) are fixed. As more business graduates are brought into the firm without changing other production factors, the marginal productivity must eventually decline.

Marginal Revenue

Marginal revenue is the money generated by the sale of the marginal product, the additional output from the employment of one additional person. Therefore, the employer will continue to hire graduates until the marginal revenue generated by the last hire is equal to the costs associated with employing that graduate. Because other potential costs will not change in the short run, the level of demand that maximized profits is that level at which the marginal revenue of the last hire is equal to the wage rate for that hire. A manager using the marginal revenue product model must do only two things: (1) determine the pay level set by market forces, and (2) determine the marginal revenue generated by each new hire. This will tell the manager how many people to hire. The model provides a valuable analytical framework, but it oversimplifies the real world. In most organizations, it is almost impossible to quantify the goods or services produced by an individual employee, since most production is through joint efforts of employees with a variety of skills. So neither the marginal product nor the marginal revenue is directly measurable. However, if compensable factors define what organizations value, then job evaluation reflects the job's contribution and may be viewed as a proxy for marginal revenue product.

Labour Supply

This model assumes that many people are seeking jobs, that they possess accurate information about all job openings, and that no barriers to mobility (discrimination, licensing provisions, or union membership requirements) among jobs exist. If unemployment rates are low, offers of higher pay may not increase supply – everyone who wants to work is already working. If competitors quickly match a higher offer, the employer may face a higher pay level but no increase in supply.

Pay Policy Alternatives:

Pay level is the average of the array of rates inside the organization. There are 3 conventional pay-level alternatives:

1. **To-lead**: if you Lead the market your pay structure (salary range midpoints) are targeted to be better / higher than the competition.

2. **To-meet**: to Lag the market is to provide less in midpoints than the proverbial going rate.

3. **To-follow**: a conscious strategy, many choose to pin their market competitiveness to a certain calendar date, either the first of the year, midway or the end. Their goal is to position themselves to either lead or lag the market as of that target date, which means that their competitive situation would fluctuate before and after

4. **Lead-Lead**: If you want your pay structure to remain ahead of the market for the entire year (i.e., certain industries, skilled workforce, limited labor pool, etc.), you peg your midpoints to be competitive throughout. By targeting the end date, December 31st you will stay ahead of the game even as the market slowly catches up. You will lead the market for both the first and the second six months of the year.

5. **Lag-Lag**: On the opposite scale, if you're satisfied to remain behind the market for the complete fiscal year (i.e., certain industries, less skilled workforce, abundant labor pool, affordability issues, etc.), you peg your pay structure to be competitive (matched) only for one day, the first of the year. From January 2nd

onward your structure then slips behind the market, falling ever further all the way through to December 31st. You will lag the first six months and even more so for the second six months.

6. **Lead-Lag**: A common practice is to split the difference, because you're not too worried over six months of slippage. So you peg your structure to July 31st. You will then lead the market for the first six months, then lag the market by an acceptable amount for the second six months.

Wage Surveys: A wage survey is a systematic process of collecting & making judgements about the compensation paid by other employers. They provide the data for setting the pay policy relative to competition & translating that policy into pay levels & structures.

1. Designing the survey:
2. Who should be involved in the survey design?
3. How many employers should be involved? Which jobs should be included?
4. What information to collect?

Nature of the organization: Fin performance, Size & Structure **Nature of the Total Compensation System:** Cash forms used, Non-Cash forms used
Incumbent & Job: Date job, individual, pay

Interpreting survey results:

1. The policy on competitive position is translated into practice by pay policy lines.
2. The use of grades & ranges recognizes both internal & external pressures on pay decisions.
3. Pay ranges permit the employers to value & recognize these differences with pay.

Pay policy Line: A mathematical expression that describes the relationship between a job's pay & its evaluation points.
Pay Grades: Grouping jobs of similar worth or content together for pay administration purposes. Range speed is the distance between min & max amounts in a pay grade.
Benefits:
Employee benefits are that part of the total compensation package, other than pay for time worked, provided to employees in whole or in part by employer payments (e.g., life insurance, pension, workers' compensation, vacation).
Benefits are the programs an employer uses to supplement employees' compensation, such as paid time off, medical insurance, company car, and more. Employee benefits are optional, non-wage compensation provided to employees in addition to their normal wages or salaries. These types of benefits may include group insurance (health, dental, vision, life etc.), disability income protection, retirement benefits, daycare, tuition reimbursement, sick leave, vacation (paid and non-paid), funding of education, as well as flexible and alternative work arrangements.
Benefits are forms of value, other than payment, that are provided to the employee in return for their contribution to the organization, that is, for doing their job. Some benefits, such as unemployment and worker's compensation, are federally required. (Worker's compensation is really a worker's right, rather than a benefit.)
Prominent examples of benefits are insurance (medical, life, dental, disability, unemployment and worker's compensation), vacation pay, holiday pay, and maternity leave, contribution to retirement

(pension pay), profit sharing, stock options, and bonuses. (Some people would consider profit sharing, stock options and bonuses as forms of compensation.)
Benefits determination process:
The process involves the following steps:

1. What is expected from benefits?
2. Appropriate mix of benefits
3. How much to provide?
4. Which employees should be given benefits?
5. What is received in return for benefits?

Strategic reasons for offering benefits:

- Help attract employees
- Help retain employees
- Elevate the image of the organization with employees & other organizations.
- Increase job satisfaction

ADVANTAGES OF COMPENSATION AND BENEFITS.
A well designed compensation and benefits plan helps to attract, motivate and retain talent in the firm (which is my Wear). A well designed compensation & benefits plan will benefit the boutique in the following ways.
1. Job satisfaction: the employees would be happy with their jobs and would love to work for you if they get fair rewards in exchange of their services.
2. Motivation: We all have different kinds of needs. Some of us want money so they work for the company which gives them higher pay. Some value achievement more than money, they would associate themselves with firms which offer greater chances of promotion, learning and development. A compensation plan that hits workers' needs is more likely to motivate them to act in the desired way.
3. Low Absenteeism: Why would anyone want to skip the day and watch not-so-favorite TV program at home, if they enjoy the office environment and are happy with their salaries and get what they need and want?
4. Low Turnover: Would your employees want to work for any other boutique if you offer them fair rewards. Rewards which they thought they deserved?
ADVANTAGES TO EMPLOYEES
1. Peace of Mind: the offering of several types of insurances to your workers relieves them from certain fears. the workers as a result now work with relaxed mind.
2. Increases self-confidence.

Value of benefits:
A total rewards approach to compensating employees is more than just salaries and bonuses. The human resources professional community has expanded how it defined the discipline generally known as compensation and benefits to rename it "total rewards." The definition of compensation and benefits was rather limited--mainly the perception of it--to mean what you pay employees, and the types of benefits such as medical coverage, income protection options, vacation and sick time.
Components of Total Rewards
Total rewards is a relatively new term coined by members of the human resources professional community and adopted by human resources associations, such as the Society for Human Resources Management and World at Work, an association primarily for compensation professionals.

Formerly referred to as simply compensation and benefits, total rewards takes on a more creative and broad definition of the ways employees receive compensation, benefits, perks and other valuable options. WorldatWork defines this new term: "Total rewards include everything the employee perceives to be of value resulting from the employment relationship."

Small businesses and large corporations alike are affected by the economy, and thus are quick to devise more creative and less-costly options to reward employees. Small businesses with smaller budgets are prone to consider leveling actual compensation and providing benefits to minimize the expense of maintaining a satisfied workforce.

For example, under the old reference to compensation and benefits, employers considered the cost of an employee's salary, the employer versus employee cost for medical coverage, and the value of vacation and sick pay for each worker. Renaming these activities gives employers the motivation to engage in more creative ways to reward employees. Rewards do not always have to be cost of living increases, salary increases for excellent performance and the cost of having employees out of the office for sick days or vacations.

Assessing the Value

The value of total rewards is high, simply because of the wider variety of factors that comprise total rewards. In addition to salaries and wages, total rewards may be broad structures of compensation and benefits package. On the other hand, total rewards may include many noncash incentives and recognition. A total rewards program might include on-site childcare and athletic gym membership. Some companies allow their employees use of the company's retreat or vacation dwelling, very beneficial for travelers who don't want to wipe out their vacation money on lodging. Other substantial perks can include tuition reimbursement, payment for attendance and completion of professional development activities, or opportunities for employees to design their own schedules with arrangements such as telecommuting. All of these rewards are valuable, although there isn't an enormous cash outlay with which you must be concerned. When you consider total compensation in the form of total rewards, the added value is remarkable

Legally Required Benefits:

Social Security: For death, retirement, disability, benefits for dependents of retired/disabled worker, survivor benefits

Workers' Compensation: For work related injuries: permanent and temporary total disabilities, permanent partial disability, survivor benefits, medical expenses, rehabilitation

Insurance paid for by employers

Unemployment Compensation: For subsistence between jobs, employer provides stability, Varies by state, Financed by employers, Experience rating, Eligibility, coverage, duration, amount

Family Medical Leave Act: 12 “work weeks” of unpaid leave during 12 month period,

Reasons: --Birth or adoption of a child, foster child, Care for close family member with serious health condition, Your own serious health condition makes you unable to perform your job

Firms with 50 or more employees (5% of employers, 60% of workers are covered)

Key exemptions for highly compensated employees o Return to an “equivalent position”

Employment Insurance

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

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

Most employees in Canada are considered to be in “insurable employment” and covered by EI. As of January 1, 1997, every hour of work is insurable up to a yearly maximum earnings limit, replacing the previously required weekly minimum earnings or hours worked.

All employees in insurable employment must have EI premiums deducted from their earnings. Premiums are set annually as a rate per $100 of Insurable Earnings up to the level of Maximum Insurable Earnings. Their employers are also required to make payments at 1.4 times the employee rate, unless Human Resources and Skills Development Canada has granted the employer a reduced rate.

Procedures for premium deductions and remittances are outlined in “Canada Revenue Agency Instructions to Employers”

Types of Employment Insurance benefits

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

Regular Benefits

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

Maternity and Parental Benefits

These benefits provide support to individuals who are pregnant, have recently given birth, are adopting a child, or are caring for a newborn.

Sickness Benefits

These benefits are for individuals who are unable to work because of sickness, injury, or quarantine.

Compassionate Care Benefits

These benefits are available to people who have to be away from work temporarily to provide care or support to a family member who is gravely ill with a significant risk of death.

Statutory Obligations

A statutory obligation is a requirement that employers are required to provide their employees as determined by the law of the province or territory where the employer operates.

Employment Standards Legislation sets out the minimum terms and conditions of employment for those who operate federally and for each province or territory. Both employers and employees must follow these minimum obligations unless they offer terms or conditions more generous that the ones mandated by legislation.

Therefore, employment standards legislation sets out minimum standards relating to employment terms and conditions. The legislation also includes exceptions for certain types of employees, such as managers and professionals. Some key areas covered by legislation are:

- Minimum Wage
- Hours of Work
- Vacations and Holiday Leave
- Maternity and Paternity Leaves

- Adoption and Parental Leaves
- Emergency/Sick Leave/Compassionate Leave
- Bereavement Leave
- Leave entitlement
- Grievance procedures
- Termination of employment

Human Rights Legislation goes beyond just the employment relationship but does address certain issues relating to potential workplace discrimination

Occupational Health and Safety Legislation creates health and safety obligations for both employers and employees to minimize the risk of workplace accidents.

Worker's Compensation Legislation provides workers who become sick or injured at work with compensation for both economic and non-economic losses, in certain circumstances for participating organizations.

Retirement

Retirement and pension benefits are provided to retired government officials to ensure a regular income and a secure future. The provision of such financial benefits results in a feeling of independence and a decent standard of life. As far as retirement benefits are concerned, they usually consist of leave encashment, retirement gratuity and contributed provident fund.

Along with these retirement benefits, senior citizens are also entitled to pension benefits that allow them to live a hassle free life after completion of their job tenure. Different types of pension available to senior citizens are superannuation, retiring pension, voluntary retirement pension, compensation pension, compassionate allowance, extraordinary pension and family pension.

Superannuation pension is meant for those government officials who retire at the age of 60 years. Voluntary pension is awarded to those who wish to retire three months in advance after completing 20 years of service. Extraordinary pension is another pension scheme that is awarded to those government employees who are disabled or the families of those employees who lose their lives during the tenure of their job.

Dearness Allowance Rates

Dearness Allowance or DA is another benefit provided to senior citizens. The Government announces DA rates twice a year. This allowance is added to the salary or pension of government employees. DA rates are also applicable to senior citizens who have taken complete retirement. Those who go in for reemployment are not eligible to avail dearness allowance.

Employment-based pensions

A retirement plan is an arrangement to provide people with an income during retirement when they are no longer earning a steady income from employment. Often retirement plans require both the employer and employee to contribute money to a fund during their employment in order to receive defined benefits upon retirement. It is a tax deferred savings vehicle that allows for the tax-free accumulation of a fund for later use as a retirement income. Funding can be provided in other ways, such as from labor unions, government agencies, or self-funded schemes. Pension plans are therefore a form of "deferred compensation". A SSAS is a type of employment-based Pension in the UK.

Some countries also grant pensions to military veterans. Military pensions are overseen by the government; an example of a standing agency is the United States Department of Veterans Affairs. *Ad hoc* committees may also be formed to investigate specific tasks, such as the U.S. Commission on Veterans' Pensions (commonly known as the "Bradley Commission") in 1955–56. Pensions may extend past the death of the veteran himself, continuing to be paid to the widow

Social and state pensions

Many countries have created funds for their citizens and residents to provide income when they retire (or in some cases become disabled). Typically this requires payments throughout the citizen's working life in order to qualify for benefits later on. A basic state pension is a "contribution based" benefit, and depends on an individual's contribution history. For examples, see National Insurance in the UK, or Social Security in the United States of America.

Many countries have also put in place a "social pension". These are regular, tax-funded non-contributory cash transfers paid to older people. Over 80 countries have social pensions.[4] Some are universal benefits, given to all older people regardless of income, assets or employment record. Examples of universal pensions include New Zealand Superannuation [5] and the Basic Retirement Pension of Mauritius.[6] Most social pensions, though, are means-tested, such as Supplemental Security Income in the United States of America or the "older person's grant" in South Africa.[7]

Disability pensions

Some pension plans will provide for members in the event they suffer a disability. This may take the form of early entry into a retirement plan for a disabled member below the normal retirement age.

Phased Retirement

Today's work place is challenged with having up to four different generations working side by side. For most employers, designing a compensation and benefit structure that address the unique needs of each demographic group, is a complex task. Added to that is the shift in pension structures over the past few years. Some non-profit organizations provide their employees with a pension fund; however most tend to offer only contributions to an RRSP. This leads to an increasing number of employees not feeling able to retire.

It is important that organizations understand the details of their pension plan, whether it is a defined benefit or contribution or simply an RRSP program before considering design changes. For those not hindered by a design change, one option that is gaining in popularity, especially in this sector, is providing a phased retirement program for older skilled employees.

For employees:

Components of the phased program are allowing employees who might be considering retiring to delay their departure date, continue to earn a partial income that reduces the burden on their pension income, they continue to receive benefit coverage and are able to acclimate gradually by continuing to reduce their hours until they are prepared to leave.

For employers:

Employers are able to develop a timely and effective succession plan without losing critical skills or intellectual capital. Organizations benefit by being able to tap into the most experienced staff at a reduced salary, while transitioning to a new team or organizational design.

Hurdles:

Employees need to understand the impact continuing to work may have on pension or benefit programs; also to be considered is the timing of starting your phased approach. If an employee starts too soon, they might not have accumulated enough to compensate for the reduced salary.

Employers need to be sure that the phased retirement program is structured in a way that will not diminish the work of the organization or the financial position of the employee.

Medical Benefits

The injured or ill worker who is eligible for workers' compensation will receive necessary medical care directly related to the original injury or illness and the recovery from his/her disability. The treating health care provider must be authorized by the Workers' Compensation Board, except in an emergency situation. Some injured or ill workers may require diagnostic tests, x-ray examinations, magnetic resonance imaging

(MRI) or other radiological examinations or tests. As of March 13, 2007, insurance carriers, which includes self-insured employers and the State Insurance Fund, are authorized to contract with a legally and properly organized diagnostic networks to perform diagnostic tests, x-ray examinations, magnetic resonance imaging or other radiological tests or examinations or tests. In addition, insurance carriers may require claimants to obtain or undergo such diagnostic tests with a provider or at a facility that is affiliated with the network the carrier has contracted with, except when a medical emergency exists requiring an immediate diagnostic test or if the network does not have a provider or facility able to perform the diagnostic test within a reasonable distance from the claimant's residence or place of employment.
Organizational health expense plans are generally permitted in the following areas across Canada:

- Hospital room charges in excess of the standard rate to cover semi-private or private accommodation
- Hospital charges for emergency treatment outside Canada
- Drugs, medication and vaccines and other supplies available only by prescription
- Professional services of a physician for out-of-country medical expenses
- Professional services for private duty nursing
- Charges for special medical appliances such as crutches, artificial limbs or wheelchairs
- Non-emergency ambulance services
- Dental treatments not requiring hospitalization.
- Professional services provided by licensed paramedical, such as psychologists, massage therapists, speech therapists, podiatrists, physiotherapists, chiropractors, osteopaths, or naturopaths.
- Vision care expenses including frames and lenses, contact lenses, fitting and remedial treatment, laser eye correction surgery
- This option is one that many employers struggle to provide their employees with as the number requiring vision care is so great, the cost of including this option could raise the employer’s costs by anywhere from 20 to 40%
- It is common practice to include many of the above items under a single extended healthcare plan. Most benefit carriers will tailor a plan to include only those features and coverage’s desired. Certain items, however, are often restricted or sold in combination with other coverage’s to contain overall plan costs or to subsidize heavily utilized services.
- Extended healthcare plan options should be selected based on the organization’s overall compensation objectives and employee needs. For small organizations, the range of coverage options may be limited if the plans are financed on a fully insured basis. These plans offer restricted flexibility to limit the occurrence of high-risk claims. These pre-packaged plans are available to small organizations through affiliation with umbrella organizations such as chambers of commerce, boards of trade, trade associations and professional organizations. For larger organizations, the range of options is mostly limited by cost considerations.
- Other Benefits
- Dental
- Dental plan design is the art of finding a delicate balance between understanding what the foundational priorities are, and allocating sufficient funds, to ensure that the coverage is perceived as being sufficient and appropriate.
- Although the type of dental work can differ from person to person, some common elements have been found:

- Most employees, their spouses and children, require basic preventative dental care and repair. Therefore, most employers elect to design the plan in such a way as to minimize the cost to employees of basic coverage.
- Since major restorative care and orthodontics tend to be more selective in nature and less common in need across the employee group than basic services, most plans do not
- Provide equal coverage in all areas. For example, the plan might pay 100% of basic and 50% of the other two categories. It is also common to find deductibles, co-insurance and benefit maximums for the non-basic services to free up more funds for the necessary preventive ones.
- High employee deductibles and co-insurance percentages can help to limit plan disbursements because employees will be paying more of the total costs. The potential problem is that these high employee costs may, in effect, force postponement of needed dental work until the repair bill is even higher. Paying 100% of basic preventative care from day one is the overwhelming choice of employers.
- Having the dental plan require a "pre-treatment" evaluation for certain expenses helps control cost levels by ensuring that the plan only pays for reasonable treatments. It also avoids any misunderstanding by the employee as to what services are covered and how much he or she is required to pay. It is always preferable to ensure the employee knows what the plan will pay for and what exact dollar amount is their responsibility.
- A commonly asked question of benefit administrators is why the dental plan is not optional but compulsory? If the plan is optional, only those employees who are likely to need dental care will sign up. They will almost always use services that exceed their contributions, deductibles and co-insurance. Those who feel that the benefits will not cover their costs will decline. Because of this "adverse selection", cost per employee will be so high that employers would not be perceived as competitive.

Life and AD&D

Most employers design their plans with a provision to protect the employee and/or their family in the event of Accidental Death or Dismemberment (AD&D). Employers often provide basic coverage as a factor of the employee's salary, (example: 2x the employee's salary in the event of death or total paralysis) with additional coverage available should the employee chose to purchase it. Each employee benefit plan should include a chart that identifies what coverage is available and the associated cost.

Long-term disability

Long-term disability is an income-replacement provision. This is one provision that cannot be purchased through a spousal plan. Employees are asked to pay the total cost of the premiums in order to receive a tax-free payment should they be unable to work. Long-term disability coverage is applied for when an employee is unable to complete a certain percentage of the essential duties of their role due to illness on an ongoing basis. The structure of each plan can differ slightly, so understanding what you are trying to achieve with this program including elimination periods and termination options, is critical at the outset.

Employee Assistance Plans (EAPs)

An EAP, or employee assistance program, is a confidential, short term, counseling service for employees with personal problems that affect their work performance. Studies have shown that providing confidential qualified counseling and support can reduce the stress and conflict felt by the employee, which in-turn can reduce absenteeism and ultimately turnover.

One-on-one sessions are offered and online information, coaching and support services are also available. Employees turn to the EAP for help with a variety of issues, including the following:

- Dependent care issues, such as searching for child care information, identifying services for special needs children, obtaining advice on the college application process, or arranging for residential care for an elder.
- Dealing with the stress of a major life change (even a positive one), such as having or adopting a child, getting married, moving or buying a home, or getting a promotion.
- Serious personal or professional concerns, such as general anxiety, depression, substance abuse, burnout, coping with illness, the loss of a loved one, relationship challenges, or resolving interpersonal conflicts.

Different types of programs are available to employers to provide employee assistance. Employers can establish their own in-house programs, join a consortium of organizations to provide external services or refer employees to public and private providers of this service. The range of costs across these options can vary widely. Organizations must then decide the most advantageous approach to achieve the level of improved wellness among their employees.

Death benefits replace a portion of lost family income for eligible family members of employees killed on the job.

Maximum Medical Improvement (MMI)

- the point in time when your work-related injury or illness has improved as much as it is going to improve, or
- 104 weeks from the date you became eligible to receive temporary income benefits.
- **Education benefits**
- Alcon provides and/or assists with relevant on-site and external courses, conferences and seminars, tuition reimbursement, professional memberships, etc.

Family benefits

- Employee Assistance Program – provides assistance and support with issues such as mental health and legal problems
- Adoption Reimbursement Program
- Group Legal Plan

Other Benefits, Based on Location

- Associate credit union
- Cafeteria
- Service awards
- Company store
- Auto purchase discounts
- Other corporate discounts

Module 5

Performance Based Compensation System:

Employee Contributions: Pay For Performance (PFP): Rewarding Desired Behaviors, Does Compensation Motivate Performance?, Designing PFP Plans, Merit Pay/Variable Pay, Individual vs. Group Incentives, Long Term Incentives. Compensation of Special Groups: Who are Special Groups?, Compensation Strategies For Special Groups

Performance Based Compensation System

Performance-related pay is a salary paid relating to how well one works. Car salesmen or production line workers, for example, may be paid in this way, or through commission.

Many employers use this standards-based system for evaluating employees and for setting salaries. Standards-based methods have been in de facto use for centuries among commission-based sales staff: they receive more pay for selling more, and low performers do not earn enough to make keeping the job worthwhile even if they manage to keep the job.

DEFINITION :

'Employee Contribution Plan: A company-sponsored retirement plan where employees may elect to have a portion of each paycheck deposited into a retirement account owned by the employee and held in his or her name.

Pay-for-Performance ("PFP")

Pay-for-Performance ("PFP") systems tie compensation directly to specific business goals and management objectives. To do this, companies must deliver competitive pay for competitive levels of performance, pay above market for exceptional performance, and reduced pay for poor performance. To achieve this, companies must match measurable and controllable performance targets to company objectives.

- In PFP systems, employees' compensation is composed of a fixed base salary and a variable component. The most commonly used variable components are:
- Company equity (Phantom or actual) - the quantity and price to be paid are typically based on a percentage of value added as determined by the performance measurement system;
- Bonuses - cash awards for extraordinary accomplishments or other activity-related distributions;
- Gain sharing - distribution of a portion of results realized, based on performance versus plan.
- These systems are designed to retain top-performing employees, motivate the desired performance, and control costs. If a company wants to pay for performance, it must define performance in very specific, objective, quantifiable terms, measure it and track it.

Is Performance Based Pay Practical for Your Company?

Over the years, many companies have attempted to implement performance based pay for employees. Some have been successful with the programs, while others have experienced utter failure. So what makes a performance based pay program work in some situations and not others?

Research and real-world trial and error suggest that the success of a performance based pay system can vary greatly depending on many factors, including:

- Employees' level of commitment to the company
- Length of the program
- Manager expectations vs. employee expectations
- Realistic balance of company cost and employee reward

These are not the only factors that can impact the success of a performance based pay system, of course, but they are all extremely important influences on how the performance based pay system will operate. Consider the following discussion of the points above to determine whether a performance based pay system would be appropriate for your company:

Employee Commitment

- Believe it or not, research indicates that the most successful performance based pay systems are those that are implemented at low-commitment companies. In businesses where employees are highly committed to the company, performance based pay initiatives are often not as well-received by employees as they are at low commitment companies.

- In low commitment companies, employees view the opportunity to receive additional pay based on increased performance as a great way to make extra money, and their productivity increases as a result.
- In high commitment companies, however, performance based pay systems are rarely worth the effort. Often, because they are loyal to their companies, employees are willing to work harder to meet deadlines anyway, making performance based pay incentives an unnecessary expense. Research shows that in some instances, highly committed employees may even become offended by the company's introduction of performance based pay, viewing the program as a form of bribery.

Length of the Program

- The length of your performance based pay program will be a huge determining factor of its success. Research indicates that some of the most successful performance based pay systems tend to be those that are implemented only temporarily.
- The reason behind this is that when faced with an ongoing performance based pay system, many employees adjust to it very quickly. After a time, employees become accustomed to receiving increased pay, and in the event that that pay is lowered (when performance objectives are not met), employees feel as if they have been cheated. This causes morale to drop, which can cause performance to decrease even more. As business researchers Michael Beer and Mark Cannon remarked in their performance based pay research, "A workforce that always expects additional pay for additional progress can become a liability."
- When performance based pay systems are implemented only as temporary solutions, though (for rushed projects, important client deadlines, etc.), employees tend to view the increased pay as a bonus, rather than as a guarantee.

Manager Expectations vs. Employee Expectations

- One of the main reasons performance based pay systems fail is a lack of communication between management and employees. In order for a performance pay program to be successful at your company, you must ensure that employees and managers have similar expectations for the program. Some common points that must be discussed with employees include:
- How long will the program be in place?
- What are the reasons behind the program? (Are you attempting to meet a client deadline, beat the competition to market, temporarily push to fill a productivity gap, etc.?)
- How difficult will it be to see a pay increase based on the requirements of the program?
- How will outside factors affect evaluation? (For example, if an outside manufacturer is late with a delivery that one of your departments needs to continue with production, will the affected department suffer under the performance pay program's deadlines despite the fact that the delay was no fault of their own? If not, how will the rules be adjusted?)
- If management does not discuss the ins and outs of the program with employees, then they are bound to encounter problems. For a performance based pay program to be effective, it must also be fair, and in order for it to be considered fair, it must be completely understood by each and every employee who takes part in it.

Costs vs. Benefits

- The most important component of your company's performance based pay program is the balance of costs and benefits. Studies have shown that a huge number of companies overestimate the benefits of performance pay systems and severely underestimate the costs. In order for your performance pay program to be successful, you must be realistic about the costs and benefits. Consider the following questions when evaluating costs:
- What estimated percentage of employees will receive increased pay under the program?
- How much of a pay increase will employees have to receive in order to sustain increased performance? Can the company afford that increase?
- Realistically, how much will the company benefit from the increased employee performance?
- How long can the company sustain the program?
- How much time will management have to spend implementing, tweaking, and/or redesigning the program? How much will those adjustments cost the company?
- Could the predicted benefits of the performance based pay system also be achieved through more conventional and less costly managerial methods like coaching, training, etc.?

Performance based pay systems are not as straightforward as many companies think, so before implementing one at your business, it's important that you try to learn from the mistakes of those who came before you. While performance pay programs can be extremely effective, they are unlikely to be successful if you do not perform thorough research before implementing them.

If a performance based pay program is to succeed at your company, you must ensure that managers and employees communicate their expectations clearly, that you carefully research the best length of time for your program, and that you find the perfect balance between employee reward and company profit.

Seniority Versus Performance Based Pay Systems

Determining the foundations of a pay system can be a very difficult dilemma. In most cases, the basis of the pay system will boil down to two main options: Seniority-based pay systems and performance-based pay systems. While the decision may seem to have implications solely in the area of compensation management, an inappropriate pay system choice can lead to higher turnover rates, especially for high performers.

Seniority Versus Performance Pay Systems

Seniority-based pay systems are those in which the primary basis for pay increases is the employee's tenure. It should be noted that seniority-based pay systems can take into account performance, but the main factor is tenure. Some benefits of seniority-based pay include loyalty, retention, and stability of all staff members, regardless of performance levels.

Performance-based pay systems consider performance as the primary basis for pay increases. As with seniority-based pay systems, other factors, like tenure, can be accounted for in a performance-based system, but employee performance, however conceptualized by the organization, is the impetus in determining pay raises.

Performance-based pay systems can actually lead to a climate in which all employees are working hard to achieve maximum performance. While this certainly sounds like an ideal option, there are several downfalls, such as the potential for high turnover rates as average and lower performing employees can get discouraged when they regularly fail to receive merit increases. A common analogy used to help conceptualize this is the tournament analogy. The 'winners' are the high performers who often receive increases, and the 'losers' are the average and low performers who are being passed over for increases. As you would expect, those who consistently lose the tournament are likely to stop playing the game, i.e. quitting.

What Factors Can Alter This Process?

Pay System Communication

The amount of communication about how pay increase decisions are made is crucial to the functioning of all pay systems. Workers should be told not only how the system is designed, but also how their pay increases compare to the averages within their jobs. This can be best accomplished by talking about pay increases as percentages, thus avoiding negative feelings related to salary differences. A final, very important note about pay system communication is that low levels of pay communication have shown links to increased union-organizing activities.

Pay Dispersion

The extent to which pay differs across employees in the same job is very important to the effectiveness and implications of pay systems based on both seniority and performance. When pay dispersion is high, there are important implications, especially to the quit rates of high performing employees.

In a seniority-based pay system, quit rates of high performing employees are higher when there is a great deal of pay dispersion. The assumed cause of this relationship is that high performing employees begin to perceive that their greater amounts of effort and performance are not appropriately appreciated by the organization. As a result, high performing employees are likely to leave the organization.

Conversely, when pay dispersion is high in a performance-based pay system, high performing employees tend to be the highest earners, as their high performance is being highly rewarded. In this type of structure, high performers tend to stay with the company, as they feel they are well compensated for their hard work. The downside is, once again, that average and low performing employees are more likely to leave.

Rewarding Desired Behaviors:

Guiding Principles of Effective Reward Systems

There are a variety of ways to reward people for the quality of the work they do in the workplace. For example, rewards can be in the form of money, benefits, time off from work, acknowledgement for work well done, affiliation with other workers or a sense of accomplishment from finishing a major task. **Rewards should support behaviors directly aligned with accomplishing strategic goals**.

This principle may seem so obvious as to sound trite. However, the goal of carefully tying employees' behaviors to strategic goals has only become important over the past decade or so. Recently, the term "performance" is being used to designate behaviors that really contribute to the "bottom line." An employee can be working as hard as anyone else, but if his/her behaviors are not tied directly to achieving strategic goals, then the employee might be engaged only in busy-work.

Rewards should be tied to passion and purpose, not to pressure and fear.

Fear is a powerful motivator, but only for a short time and then it dissipates. For example, if you have initially motivated employees by warning them of a major shortage of funds unless they do a better job, then they will likely be very motivated to work even harder. That approach might work once or twice, but workers soon will realize that the cause of the organization's problems is not because they are not working hard enough. They might soon even resent management's resorting to the use of fear. If, instead, management motivates by reminding workers of their passion for the mission, the motivation will be much more sustainable.

Workers should be able to clearly associate the reward to their accomplishments.

Imagine if someone told you "Thank you" and did not say what for. One of the purposes of a reward is to reinforce the positive behaviors that earned the reward in the first place. If employees understand what behaviors they are being rewarded for, they are more likely to repeat those behaviors.

Rewards should occur shortly after the behaviors they are intended to reinforce.

The closer the occurrence of the reward to the occurrence of the desired behavior in the workplace, the easier it is for the employee to realize why he/she is being rewarded. The easier it is for him/her to understand what behaviors are being appreciated.

Importance of Sense of Purpose and Feeling Appreciated

Finding and training new employees is a substantial cost, no matter the size of the organization. One of the best ways to retain employees is to reward them for their work. One of the primary rewards for working adults is to feel a sense of meaning or purpose in their work. If employees feel that they are serving a useful purpose, they are much more likely to stay at their current job.

A common complaint from employees in small- to medium-sized organizations is that they feel burned out. A common symptom of burnout is to feel unappreciated. One of the best ways to address burnout, and retain employees, is to ensure that they feel appreciated for their work.

Thus, it is critical that organizations give careful consideration as to how they reward their employees. Organizations do not need huge sums of money in order to reward them (besides, the belief that money is the major reward is just a myth). Guidelines in this section will help you to think about what might be the best rewards for your employees and to take steps to ensure that you are providing those rewards.

Guidelines to Rewarding Employees

There is not a set of standard rewards to be used for employees everywhere. Instead, each person has his/her own nature and needs. The following guidelines will help you to determine what might be the best ways to reward your employees.

1. Reward employees by letting them hear positive comments from customers about how the employees' activities benefited the customer.
2. Occasionally have a Board member come to an employee meeting to thank them. This usually means a lot to employees, almost as much as having customers provide positive feedback about the employees' activities.
3. Understand what motivates each of your employees. You can do this by applying the "Checklist of Categories of Typical Motivators" in the previous subsection about supporting employee motivation on page 199. A major benefit of this approach is that each employee is afforded the opportunity to explain what motivates him or her.
4. In each monthly staff meeting, take a few minutes to open the meeting by mentioning major accomplishments of various employees.
5. Present gift certificates to employees who have made major accomplishments. Guidelines for determining who gets this reward should be clearly explained in your personnel policies in order to ensure all employees perceive the practice as fair and equitable. Allow employees to recommend other employees for awards.
6. Probably the most fulfilling for employees is to be able to do useful work. Be sure that each employee understands the mission of the business and how his/her work is contributing to that mission. Post your mission statement on the walls. Discuss the action-planning section of your strategic plan with employees so that they see how their activities tie directly to achieving the strategic goals of the organization.

Additional Perspectives on Rewarding Employees

- Links to Reward Systems
- Rewards and Performance Incentives
- The Pay For Performance Myth
- How To Make Effort Rewarding

- 25 Ways to Reward Employees (Without Spending a Dime)
- When to Reward Employees with More Responsibility and Money
- How to Promote From Within
- Merit Pay: Is It Really the Best Way to Reward Employees?
- Do you prefer to hire supervisors and managers from outside the company or promote from within the company?
- How to Encourage Everyone to Do Their Best Work

Does Compensation Motivate Performance?

Incentive plans are one such way to motivate employees to expend more effort, but they are usually not very flexible. Most incentive plans involve a pay-for-performance arrangement in which employees are rewarded for the achievement of specific objectives. These types of compensation strategies tend to be of medium-range duration, and include performance criteria that feature broad operational or financial metrics. Limitations include the fact that many important performance "events" occur over an irregular timeframe rather than a standard cycle; employees' impact on plan criteria may be narrow or subject to uncontrollable factors; and the fact that employees may not see the trade-off of their extra effort for a set level of payout to be attractive enough to motivate them. For these reasons, employers should consider other compensation strategies to engage and reward their top performers.

Compensation plan to retain and motivate employees and up your sales in a down market.

1. Pay employees salary and incentives. The companies with the highest employee morale and productivity pay a mix of salary and incentives. The salary compensates employees for performing all the tasks required of them and provides them with a consistent income. The incentive (which can be commission for salespeople and a bonus for others) motivates them to meet and exceed their goals and gives them the opportunity to increase their earnings.

Pay employees the salary portion of their compensation monthly or bi-monthly. Pay employees the incentive portion of their compensation as soon after they meet their goals as feasible. Thus, quarterly incentive payments are usually more motivating than annual payments and monthly incentive payments are often best.

2. Keep the incentive part of your plan simple. The test of a good compensation plan is that the incentive part measures no more than two to four performance factors, and all employees can accurately explain the plan in the time it takes to walk from the front door of your office building to your receptionist's desk.

3. Establish SMART goals. SMART goals are: Specific, Measurable, Ambitious, Realistic and Time-bound.

For salespeople, that means establishing monthly and annual revenue goals and/or goals for opening new accounts. For other customer contact people, establish goals for the ratio of customer compliments versus complaints, and/or the number of customer complaints they resolve on the first phone call. For employees in accounts receivable, consider basing goals on how much outstanding revenue they collect against specific targets. For those in manufacturing, consider basing goals on the number of products they manufacture free of defects.

While it's okay to pay a small part of the incentives based on the team's overall results, most of the incentive should be based on individual results.

4.Determine what your competitors are paying.

One way to attract and retain top employees-and keep them motivated is to pay them as much or more than your competitors. Every few years, you should determine what your competitors are paying and adjust your compensation plan accordingly. You can do this informally by asking employees with other companies that you interview about their compensation plan, or more objectively by hiring an outside consulting firm to benchmark your plan against others and advise you on how to adjust it.

5. Modify salaries based on employees' geographic location. While the incentive plan for employees working in different cities should not change, you should adjust the salary portion to reflect the local cost of living, so as not to penalize employees who live in more expensive cities.

6. Use merit increases to reward top performers. In a misguided attempt to keep all employees happy, many companies misallocate the funds they budget for annual merit increases by giving all employees essentially the same merit increases. Your first priority should be to retain and motivate star employees, your second priority to retain and motivate satisfactory employees. Therefore, award the largest salary increases to your stars, much more modest increases to satisfactory performers, and no increases to employees whose performance falls below expectations.

7. Provide employees with non-financial rewards. Besides cash, employees are motivated by other forms of recognition and rewards. For example, consider establishing an annual trip to reward employees who have achieved certain annual goals. Besides increasing motivation, company-sponsored trips build camaraderie and teamwork. How you train, develop and manage your employees also drives retention and performance. However, paying them as well as you realistically can — based on their performance — is one of the best ways to heighten their motivation.

Designing PFP Plans

Defining Performance

It is critical to link compensation to your overall business strategy. To do that effectively, you must be able to identify the direction the organization needs to move and communicate the desired actions to get there. Compensation provides a very effective tool for getting employees to move in the same direction and follow the same path.

For example, suppose a young, growing company wants to increase market share. Its compensation plan needs to reward people for bringing in new customers and clients. In contrast, a more mature company might need a better balance between growth and profit. Accordingly, its compensation plan should equally reward activities that generate growth and profit. Another company might identify world-class customer service as one of its top strategic objectives. It would need to reward the activities (in all areas of the organization, not just the customer service department) that lead to outstanding customer service.

Results vs. Effort

Successful compensation plans pay for results. At the same time, they also need to recognize effort because no matter how hard employees work, sometimes they don't achieve desired results. People can work hard and not reach their goals, and you can't ignore that, especially when factors beyond their control impact their performance. Pay for results, but build into the plan other ways to reward and recognize hard work.

On the results side, you also have to distinguish between performance levels. Most compensation plans pay very little difference between average performance and outstanding performance. Effective plans have a very clear correlation between superior results and superior rewards.

Design Issues

How do you measure the goal? The way you measure results will have a huge impact on plan design. Do you intend to measure profit? Quality improvement? Customer service? Sales growth? A combination of different measures? Whatever the criteria, be very specific about what you intend to measure and how you will measure it. For example, if you measure profit, are you talking about before or after tax? Also, make sure you have a valid and reliable measurement system and process. Employees will not trust an incentive plan based on questionable measures.

Who participates in the plan? As companies move toward nontraditional work forces, this question has increasing importance. Most incentive plans include all full-time employees but exclude temporary, seasonal and contract help. Some companies require employees to be currently on staff or to have been on staff a certain period of time in order to qualify for the incentive pay.
How will the payout be determined? Flat dollar amount? Percentage of salary? Percent of profits above a certain threshold point? Whatever you decide, make sure employees understand the method of payment.
How often does the plan pay out? Incentive plans typically pay out monthly, quarterly or yearly. Keep in mind, however, that the shorter the interval between performance and reward, the more you will impact behavior.
An ongoing research study at the Wharton School of Business demonstrates that short-term, results-based work relationships often create a higher level of commitment than long-term relationships. The researchers believe this is because the short-term contracts give participants a very clear idea of what's expected of them, what they'll gain from delivering, the time limits of the job and the workload necessary to complete it successfully within that time period.
What are the threshold numbers? Some plans pay out after the first dollar of profit; others only after meeting certain minimum levels of return. If you're attempting to incentivize hard-to-measure standards such as customer service or teamwork, you may need to experiment with thresholds. If so, explain to employees up front that the plan may require some experimentation. Otherwise, they may think you're manipulating the plan in order to avoid paying out the incentive. *Who has responsibility for administering the plan?* To maintain credibility with employees, treat your incentive plan with kid-glove care. Assign an administrator who has the respect of employees and who will maintain a constant flow of information.
Who measures performance? Do not let the people responsible for measuring performance design the plan. No matter how honest your employees, the temptation to manipulate the data for personal gain may be too difficult to overcome, particularly with senior managers who stand to gain significant amounts of money by hitting the goals.
Will you pilot the plan? Many companies prefer to test the plan on one department or division before rolling it out to the whole company. This also allows time to make revisions and improvements.
Does the plan pay all monies due or does it have a holdback provision? Some plans have interval benchmarks but don't pay out until the annual goal has been achieved. Others pay in increments and then have a larger lump sum at the end. How you pay will depend on what you measure and what you hope to accomplish with the plan.
What is the life of the plan? All plans should have a "sunset," a designated ending point. This gives you the ability to adjust or periodically change the plan. Make sure to announce the sunset at the beginning of the plan, not at the end.

As a final check before installing a new compensation plan, ask the following questions:

- Is the company paying for time or productivity?
- Does the compensation program reduce the need for employee supervision or maintain it?
- Will the compensation program encourage initiative and creativity or simply reinforce the status quo?
- Does the compensation program automatically increase fixed expenses?
- Does the compensation program reinforce company profits or simply pay for individual effort, regardless of company profitability?

Implementing the Plan

Consider a bridge program. Never decrease base pay in order to put in an incentive plan. Nothing will erode the trust level quicker. (The only exception is a turnaround situation where the company must cut pay in order to survive.) Instead, consider using a bridge program that maintains trust levels while allowing employees to get used to the concept of pay for performance.
A bridging program that combines elements of fixed wage and pay for performance allows employees to get more comfortable with profitability compensation. Plus, it allows you to make course corrections along the way. Test your new program for 90 days and then make adjustments as necessary. Always reserve the right to change the plan so that it benefits the customer, the company and employees.

Merit Pay/Variable Pay
Merit Pay:
Definition:

- Merit pay is an approach to compensation that rewards the higher performing employees with additional pay or incentive pay. Merit pay has advantages and disadvantages for the employees and the employer. But, all-in-all, merit pay is the best way to reward the employees that you most want to keep.
- Merit pay plans reward employees with raises rather than bonuses or other forms of financial compensation. Instead of tying raises solely to time on the job or promotion to a higher position, the company gives raises for superior performance. For example, a pizzeria can give merit pay raises for managers who successfully control ingredient costs. A medical billing company can offer merit pay raises for employees who collect a higher percentage of outstanding bills. When an employee receives a merit pay incentive, her salary is permanently increased.

Advantages of Merit Pay

These are reasons why you might want to consider merit pay.

- Compensation
- Employee Benefits
- Employee Awards
- Human Resources Software
- Sales Rewards Programs
- Merit pay helps an employer differentiate between the performances of high and low performing employees and reward the performance of the higher performers.

Merit pay, unlike profit sharing or similar bonus pay schemes, allows an employer to differentiate between the performance of the company as a whole and the performance of an individual. While many merit pay programs also provide an overall reward that is distributed to all employees, to promote such values as team work, a portion of the available compensation is reserved for strong performers.

Merit pay also provides a vehicle for an employer to recognize individual performance on a one time basis. This is useful for rewarding employees who may have participated in a one-time project such as implementing a new HRIS or opening up a new sales territory.

Disadvantages and Challenges Inherent in Merit Pay
These are the challenges employers experience with merit pay.

There is no way, with 100% accuracy, to differentiate the performance of various employees to determine deservers of merit pay. The most desirable accomplishments and contributions are almost never measurable so the manager's or supervisor's opinion remains a constant in determining merit pay.

Variable pay is awarded in a variety of formats including profit sharing, bonuses, holiday bonus, deferred compensation, cash, and goods and services such as a company-paid trip or a Thanksgiving turkey.

ADVANTAGES AND DRAWBACKS OF VARIABLE PAY

Most criticisms of variable pay can be traced to concerns about the nature, implementation, and execution of such programs rather than the theories upon which they are based. "Most [variable pay] programs provide no incentive to anyone and never deliver the promised results," he charged. "Why not? Because in 9 cases out of 10, they are not true bonus programs at all. They are simply profit-sharing programs, and there is a world of difference between the two." By profit-sharing, I mean the practice of taking a percentage of a company's profits, putting it into a pool, and disbursing it to the company's employees, usually sometime after the close of the year." Stack and other analysts contend that such distribution plans are unlikely to encourage employees toward greater productivity because they do not get an adequate sense of how their personal contributions helped generate the business's profits. "Many of the failures to date [in variable pay plans] have occurred because companies simply reshuffled the same amount of compensation in a new plan, offering some through fixed pay and some through incentives," commented Williamson. "But they didn't use the plan to create reach change in the way they organize and value work."

But business consultants agree that variable pay programs that truly reward individual performance can be helpful. The purpose of a good bonus program, Stack said, should be "to make the company stronger, more competitive, able to survive and prosper in the months and years ahead…. A good bonus program draws people into that process. It drives the value of the company by educating people, not with formal training programs but through the work they do every day on the job. It gives them the tools they need to make and understand decisions. It provides them with business knowledge they can use to enhance their own standard of living and job security as they're making a measurable difference to the company as a whole."

Individual vs. Group Incentives:

Individual incentive plans are based on meeting work-related performance standards, such as quality, productivity, customer satisfaction, safety, or attendance. They are most appropriate when:

- Performance can be measured objectively
- Employees have control over the outcomes
- Plan does not create unhealthy competition

Individual incentive plans require monitoring, and it is important to remember that the incentive scheme is not a substitute for good management.

Spot bonuses can also be used for individuals to show appreciation or give recognition for a job well done. This can be a reward for developing new skills, contributing new ideas, obtaining licenses, or finishing projects early. Typically, a spot bonus is given as a one-time discretionary payment. These are most prevalent among non-executives.

Team or group incentive plans are a reward for collective performance. These are most effective when all group members have some impact on goals. The rewards can be equal or different for each member, but this requires an understanding of team dynamics. Be sure to avoid contrasting motivational forces.

Group Incentive Schemes:

The incentive schemes can be applied on a group basis also. Group incentive schemes are appropriate where jobs are interdependent. It is difficult to meaningfully measure individual performance and group pressures affect the performance of the members of the group. The chief group incentive schemes are discussed here.

Profit-sharing:

The concept of profit-sharing emerged towards the end of the nineteenth century. Profit-sharing, as the name itself suggests, is sharing of profit of organisation among employees. The International Co-operative Congress" held in Paris in 1889 considered the issue of profit-sharing and defined it as "an agreement (formal or informal) freely entered into by which an employee receives a share fixed in advance of the profits".

The basic rationale behind profit-sharing is that the organisational profit is an outcome of the co-operative efforts of various parties, therefore, employees should also share in profits as shareholders share by getting dividend on their investment, i.e. share capital. The very purpose of introducing profit-sharing is to strengthen the loyalty of employees to the organisation. Thus, profit-sharing is regarded as a stepping stone to industrial democracy.

Both the share (percentage) of profit to be shared by employees and mechanism for its distribution are determined in advance and also made known to the employees. In order to be eligible to participate in profit-sharing. An employee needs to serve for a certain number of years and, thus, earn some seniority. As regards the forms of profit-sharing, Metzger has classified these into three categories, namely,

(i) Current,

(ii) Deferred and

(iii) Combination.

(i) Current:

Under this form, profits are paid to the employees in cash or by cheque or in the form of Stock option immediately after the determination of profits.

(ii) Deferred:

Profits are credited to employees' accounts to be paid at the time of retirement or at a time of his dissociation from organisation due to reasons like disability, death, severance, withdrawal from employment, etc.

(iii) Combination:

In this case, a part of employee share of profit is paid in cash or cheque or stock and the remaining part is deferred and credited to his/her account.

Employees receive their share in the organisational profit in the form of bonus. In India, the employee bonus is governed by the Payment of Bonus Act, 1965.

The major apprehensions expressed against profit-sharing is mat management may dress up profit figures, as is often done for tax evasion purposes, and deprive employees of their shares in profit. It is also commented that profit-sharing, being a long-term scheme, does not work as incentive due to the absence of immediate feedback about the efforts and rewards.

Co-partnership:

In a way, co-partnership is an improvement over profit-sharing. In this scheme, employees also participate in the equity capital of a company. They can have shares either on the basis of cash payment or in lieu of other incentives payable in cash like bonus. Thus, under co-partnership scheme, employees become shareholders also by having company shares. Now, employees participate in both —profits and management of the company.

The finer points of this scheme are that it recognizes the dignity of labour and also of a partner in the business. This would, in turn, develop a sense of belongingness among the employees and encourage them to contribute their best for the development of the organisation.

Scanlon Plan:

The Scanlon plan was developed by Joseph N. Scanlon, a Lecturer at the Massachusetts Institute of Technology in USA in 1937. The plan is essentially a suggestion scheme designed to involve the workers in making suggestions for reducing the cost of operation and improving working methods and sharing in the gains of increased productivity.

The plan is characterized by two basic features. First, both employees and managers can participate in the plan by submitting their suggestions for cost-cutting methods. Second, increase in efficiency on account of cost-cutting is shared by the employees of the unit.

The Scanlon plan, wherever adopted, has been successful to encourage a sense of partnership among employees, improved employee-employer management relations, and increased motivation to work. The criticism labeled against group incentive is that the incentive benefits being similar to all members of the group, the best performers may lose incentive. However, this can be overcome if group incentive scheme generates peer-level pressure for superior performance and also reduces the need for supervision. Stability in group may be a necessary condition to make the group incentive scheme successful.

Compensation of Special Groups:

Who Are Special Groups?

Special employee groups have two things in common. The first is that if these people fail at their critical roles, the entire organization can be weakened. Those in special groups tend to be in a strategic position. Also, these special group positions usually have a conflict factor. That conflict is commonplace due to the varying demands of the group Corporate directors, General managers, VP’s, Presidents etc.

Specific groups receive special treatment in the form of...

- Add -on packages not received by other employees
- Compensation components entirely unique in organization

Characteristics of special groups–

- Tend to be strategically (or politically) important to firm
- Positions tend to have built in conflict

Compensation of corporate directors:

- Annual retainer
- Attendance fees
- Fees for participation on subcommittees

Major Benefits Offered to Directors:

Retirement programs

- Matching director’s gift to college or university
- Deferral of cash compensation until retirement
- Grants to charity
- Medical insurance

- Payment of spouses’ travel expenses
- Death benefits

Components of an Executive Compensation Package:

- Base salary
- Short-term (annual) incentives or bonuses
- Long-term incentives and capital appreciation plans
- Executive benefits
- Perquisites

Popular Perks Offered to Executives:

- Company car
- Financial counseling
- Company plane
- Income tax preparation
- First-class air travel
- Country club membership
- Luncheon club membership
- Estate planning
- Personal liability insurance
- Spouse travel
- Chauffeur service
- Reserved parking
- Executive dining room
- Home security system
- Car phone
- Financial seminars
- Loans at low / no interest
- Legal counseling

Executive Pay & Performance

Pay is linked to company performance

- Company performance exceeds industry standards, big bonuses and stock payouts follow
- Poor financial performance means much smaller pay packages

Ways to rein in executive compensation

- Stockholders can vote/ propose limits to compensation
- Use of tally sheet
- Increase government regulation

Compensation Strategies for Special Groups:

1. Use Metrics as the Basis for Incentive Compensation (Metrics based Strategy)

A common mistake for incentive-based compensation is promising incentives that are not tied to specific metrics. By having only discretionary bonuses or incentives, executives are unaware what precisely they need to focus on to be successful.

For each executive, the metrics that are well within their control and follow the SMART criteria (specific, measurable, attainable, relevant and time-bound) should be used as the basis for their incentives. This way, they are aware of what they must focus on and they can optimize their work to achieve those specific goals. Sometimes metrics like revenue and profit are applicable, but, more often, there are better key performance indicators (KPIs) that should be used.

2. Effectively Communicate to Ensure Understanding (Communication strategy)

Another common mistake companies make is when there is a belief that compensation plans are well understood by the executives, but really there is a huge communication gap. Make sure every executive is fully aware of all of the components related to their compensation package.

If an executive does not have a clear picture of their total ability to accumulate wealth in their current position, the likelihood of looking for opportunities with more clarity of the upside is increased. Uncertainty is almost always bad for business, and this is a case where uncertainty on the part of a core team member can have unforeseen deleterious effects on a business.

Progress on a compensation plan should be addressed at least annually, outlining both short-term and long-term incentives. An even better idea is for quarterly communication where the core metrics to which incentives are tied are discussed. This prevents any miscommunication prior to when the awards are issued.

3. Benchmark Compensation Levels (Benchmarking Strategy)

If you’re trying to attract top talent, your compensation needs to be competitive. Use benchmarking tools and publications to ensure you’re compensating your executives in the way you intend.

In our research, companies often believe they are paying near the top-end of the spectrum for each of their executives when, in reality, they are at or below the median compensation level for similar companies.

Make sure the benchmarks you use are meaningful and relevant to your company. Using multiple reference points to compare your company (for example, by revenue, industry, region, and revenue growth) will give you a much clearer idea of how competitive your compensation levels are.

4. Value Company Equity Regularly (Value Addition Strategy) In our research, more than half of the companies we surveyed do not have a clear idea of what the equity awarded to their executives is worth. By granting equity-linked compensation but not tying them to any real value, you’re simply adding uncertainty to the executive’s total compensation picture.

If you plan on issuing equity-linked incentives, your company’s equity value should be appraised or estimated at least annually. At regular intervals (quarterly, annually, etc.), each executive should be told the estimated current value of their equity-linked incentives, as well as the expected future value.

5. Include both Short and Long-Term Incentives (Incentives Strategy)

Providing a truly competitive executive compensation package usually requires that your executive team has both short and long-term goals from which they benefit financially should they be met.

A blend of incentive compensation that provides executives with cash incentives in the short-term and longer-term incentives that tie an executive to the overall success of the company helps to ensure your executive team is engaged and feeling rewarded for their hard work regularly.

Implementing an effective executive compensation does not have to be onerous, but it requires time, planning and dedication for it to work properly. We created our CEO & Senior Executive Compensation Report for Private Companies to provide companies with both benchmarks and best practices for their executive team

Module 6

Legal & Administrative Issues in Compensation: Legal Issues, Pay Discrimination,
Comparable Worth, Budgets and Administration

Legal Issues:

Government is a key stakeholder in compensation Decision making. Governments' usual interests are whether –

- Procedures for determining pay are fair (pay discrimination)
- Safety nets for the unemployed and disadvantaged are sufficient (minimum wage, unemployment insurance)
- Employees are protected from exploitation (overtime pay, child labor)

The legal issues in compensation management are:

Wage and hour legislation: At local levels it provides a minimum wage tailored to living costs in an Area, Because they are so narrowly tailored, it is speculated that their real intention is to reduce any cost savings a municipality might receive from outsourcing from public to private employees.

OSHA (Occupational Safety and Health Administration)
legislation specifies the number of breaks that must be provided in an eight -hour workday –Portal-to-Portal Act provides that time spent on activities before beginning the "principal activity" is generally not compensable

- **Employer pension and benefits legislation**
- **Tax treatment legislation**
- **Antidiscrimination legislation:**

- **Access discrimination –**denial of particular jobs, promotions, or training opportunities to qualified women or other protected groups

Valuation discrimination–looks at pay women, protected groups, and men receive for the jobs they perform. It is discriminatory to pay minorities/women less than males when performing equal work - working side-by-side, in same plant, doing same work, producing same results

Wage and price control legislation

Pay Discrimination:

Compensation practices where pay may be discriminated are:

- extra pay plans
- leave policies
- maternity leave
- pension policies

How to Prevent Wage Discrimination and Ensure Equal Pay

All employers should be keenly aware of their obligation to make certain that their employees are paid fair and equal wages to avoid lawsuits brought under the Equal Pay Act (EPA) and other laws. This How To looks to assist employers who wish to avoid costly wage discrimination lawsuits and ensure equal pay for equal work.

Step 1: Understand the Laws

The Equal Pay Act (EPA) requires that men and women receive *equal pay for equal work*. Generally, jobs do not have to be identical for equal pay to be required, but *substantially equal* in terms of skill, effort and job responsibility, and performed under similar working conditions. The term *pay* refers not just to salary but also overtime, bonuses, vacation and holiday pay, stock options, life insurance, and all other benefits and compensation of any kind paid to employees. Pay disparities may be allowed under a seniority system, a merit system or a system measuring earnings by quality or quantity of production, or, if wages were set based on a factor other than sex. In addition to the EPA, Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act (ADEA), and the Americans with Disabilities Act (ADA) prohibit wage discrimination based on race, religion, sex, national origin, age and disability. However, unlike the EPA, the other statutes apply even if jobs in question are not substantially equal.

Step 2: Institute a Policy Prohibiting Wage Discrimination

In order to ensure equal pay in the workplace, employers should implement and enforce a policy prohibiting compensation discrimination or wage discrimination based on an employee's membership in a protected class. This can often be part of a Discrimination Policy or EEO Policy that prohibits discrimination in compensation and a practice of ensuring equal pay. Employers need to make sure that all employees are paid fair and equal wages based on their position and skill.

Step 3: Make Decisions Based on Skill and Performance

Employers, supervisors and HR managers need to make sure that all employment decisions regarding promotions, raises, bonuses, etc., are based on legitimate and nondiscriminatory factors such as skill, merit and performance rather than an employee's membership in a protected class. Employers should avoid wage differentials based on sex, race, national origin or any other protected class unless they can be justified by legitimate and nondiscriminatory reasons.

Step 4: Train Supervisors and Managers to Avoid Wage Discrimination

Employers need to make sure that all supervisors and managers receive proper training on how to avoid wage discrimination and make employment decisions based on legitimate and nondiscriminatory reasons.

Step 5: Document Guidelines and Requirements for Salaries and Bonuses

Employers should make sure that any salary guidelines or requirements for any bonus (whether it is based on merit, productivity, sales or commissions) are well documented and based on fair, objective, predictable and measurable criteria. This should be adequately conveyed to employees so that they know what the employer's expectations are and are not left wondering how an employer arrived at a particular decision.

Step 6: Be Aware of State and Local Laws Prohibiting Wage Discrimination

Employers need to be aware that a number of states have laws prohibiting wage discrimination. Although the federal EPA only specifically prohibits wage discrimination on the basis of sex, some state laws may go beyond this. Employers should familiarize themselves with the laws of the state and cities in which they operate.

Step 7: Document and Be Ready to Defend All Employment Decisions

Employers need to make sure to carefully document all decisions regarding pay, performance and promotion. Doing so will provide an adequate record and serve as a defense in case of a claim of wage discrimination.

Step 8: Audit Pay Practices

Employers should frequently review their pay practices to make sure that they are not engaging in discrimination. Employers should make sure that any differentials that do exist are based on legitimate and nondiscriminatory factors and supported by written documentation, and if they are not, they should correct them. By doing so, employers may dramatically reduce the chance that they will be faced with a claim for wage discrimination.

Step 9: Aim to Hire an Integrated and Diverse Workforce

Employers should try to make sure that they hire and recruit qualified candidates regardless of gender or membership in a protected class. Employers and hiring managers should make decisions based on education, skill and merit. Employers should avoid making stereotypical assumptions about what a job applicant can and cannot do based on his or her membership in a protected class.

Step 10: Provide Timely and Effective Performance Evaluations

Employers should aim to provide employees with yearly or biannual performance evaluations. In doing so, employers should clearly set out the employer's expectations and show the employee how the employee is meeting them or not meeting them.

Step 11: Do Not Prohibit Employees from Discussing Wages

Employers should not prohibit employees from discussing information regarding wages, salary or benefits with other employees. The National Labor Relations Act specifically affords employees the right to engage in mutual concerted protected activity and work collectively to improve their wages, hours and working conditions. In addition, Colorado, California, Colorado, Illinois and Michigan have laws that prohibit employers from requiring that employees refrain from discussing their wages and/or waive their right to discuss such information.

Comparable worth:

Establishing a comparable worth plan has 4 steps:

1. Adopt a single job evaluation plan for all jobs within a unit.
2. All jobs with equal evaluation results should be paid same.
3. Identify general representation in each group

4. The wage-to-job evaluation point ratio should be based on the wages paid for male-dominated jobs since they are presumed to be free of pay discrimination.

Budgets and Administration:

Budget:

- A formal statement of the financial resources set aside for carrying out specific activities in a given period of time.
- It helps to co-ordinate the activities of the organisation.

Budgetary control:

- A control technique whereby actual results are compared with budgets.
- Any differences (variances) are made the responsibility of key individuals who can either exercise control action or revise the original budgets.

Advantages of budgeting in compensation management:

There are a number of advantages to budgeting and budgetary control:

- Compels management to think about the future, which is probably the most important feature of a budgetary planning and control system. Forces management to look ahead, to set out detailed plans for achieving the targets for each department, operation and (ideally) each manager, to anticipate and give the organisation purpose and direction.
- Promotes coordination and communication.
- Clearly defines areas of responsibility. Requires managers of budget centers to be made responsible for the achievement of budget targets for the operations under their personal control. Provides a basis for performance appraisal (variance analysis). A budget is basically a yardstick against which actual performance is measured and assessed. Control is provided by comparisons of actual results against budget plan. Departures from budget can then be investigated and the reasons for the differences can be divided into controllable and non-controllable factors.
- Enables remedial action to be taken as variances emerge.
- Motivates employees by participating in the setting of budgets.
- Improves the allocation of scarce resources.
- Economizes management time by using the management by exception principle.

Problems in budgeting

Whilst budgets may be an essential part of any marketing activity they do have a number of disadvantages, particularly in perception terms. Budgets can be seen as pressure devices imposed by management, thus resulting in:

a) bad labour relations

b) inaccurate record-keeping.

Departmental conflict arises due to:

a) disputes over resource allocation

b) departments blaming each other if targets are not attained.

It is difficult to reconcile personal/individual and corporate goals. Waste may arise as managers adopt the view, "we had better spend it or we will lose it". This is often coupled with "empire building" in order to enhance the prestige of a department. Responsibility versus controlling, i.e. some costs are under the influence of more than one person, e.g. power costs.

Managers may overestimate costs so that they will not be blamed in the future should they overspend.

Characteristics of a budget

A good budget is characterized by the following:

- Participation: involve as many people as possible in drawing up a budget.
- Comprehensiveness: embrace the whole organisation.
- Standards: base it on established standards of performance.
- Flexibility: allow for changing circumstances.
- Feedback: constantly monitor performance.
- Analysis of costs and revenues: this can be done on the basis of product lines, departments or cost centers.

Budget and administration:

In organising and administering a budget system the following characteristics may apply:

a) *Budget centers:* Units responsible for the preparation of budgets. A budget centre may encompass several cost centers.

b) *Budget committee:* This may consist of senior members of the organisation, e.g. departmental heads and executives (with the managing director as chairman). Every part of the organisation should be represented on the committee, so there should be a representative from sales, production, marketing and so on. Functions of the budget committee include:

- Coordination of the preparation of budgets, including the issue of a manual
- Issuing of timetables for preparation of budgets
- Provision of information to assist budget preparations
- Comparison of actual results with budget and investigation of variances.

c) *Budget Officer:* Controls the budget administration The job involves:

liaising between the budget committee and managers responsible for budget preparation dealing with budgetary control problems ensuring that deadlines are met educating people about budgetary control.

d) *Budget manual:*

This document:

charts the organisation

- details the budget procedures
- contains account codes for items of expenditure and revenue
- timetables the process
- clearly defines the responsibility of persons involved in the budgeting system.

Budget preparation

Firstly, determine the principal budget factor. This is also known as the key budget factor or limiting budget factor and is the factor which will limit the activities of an undertaking. This limits output, e.g. sales, material or labour. a) Sales budget: this involves a realistic sales forecast. This is prepared in units of each product and also in sales value. Methods of sales forecasting include:

- sales force opinions
- market research
- statistical methods (correlation analysis and examination of trends)
- Mathematical models.

In using these techniques consider:

- company's pricing policy
- general economic and political conditions
- changes in the population

- competition
- consumers' income and tastes
- advertising and other sales promotion techniques
- after sales service
- credit terms offered.

b) Production budget: expressed in quantitative terms only and is geared to the sales budget. The production manager's duties include:

- analysis of plant utilization
- Work-in-progress budgets.

If requirements exceed capacity he may:

- subcontract
- plan for overtime
- introduce shift work
- hire or buy additional machinery
- The materials purchases budget's both quantitative and financial.

c) Raw materials and purchasing budget:

- The materials usage budget is in quantities.
- The materials purchases budget is both quantitative and financial.

Factors influencing a) and b) include:

- production requirements
- planning stock levels
- storage space
- Trends of material prices.

d) Labour budget: is both quantitative and financial.

This is influenced by:

- production requirements
- man-hours available
- grades of labor required
- wage rates (union agreements)
- the need for incentives.

e) Cash budget: a cash plan for a defined period of time. It summarizes monthly receipts and payments. Hence, it highlights monthly surpluses and deficits of actual cash. Its main uses are:

- to maintain control over a firm's cash requirements, e.g. stock and debtors
- to enable a firm to take precautionary measures and arrange in advance for investment and loan facilities whenever cash surpluses or deficits arises
- to show the feasibility of management's plans in cash terms
- to illustrate the financial impact of changes in management policy, e.g. change of credit terms offered to customers.

Receipts of cash may come from one of the following:

- cash sales
- payments by debtors
- the sale of fixed assets
- the issue of new shares
- the receipt of interest and dividends from investments.

Payments of cash may be for one or more of the following:

- purchase of stocks
- payments of wages or other expenses
- purchase of capital items
- Payment of interest, dividends or taxation.

Module 7

Global Compensation: Recognizing Variations, Social Contract, Culture & Pay, Strategic Choices In Global Compensation, Comparing Systems, Expatriate Pay, Practical Components

Global Compensation: Recognizing Variations

How people get paid around the world depends on differences (and similarities) in the following general factors

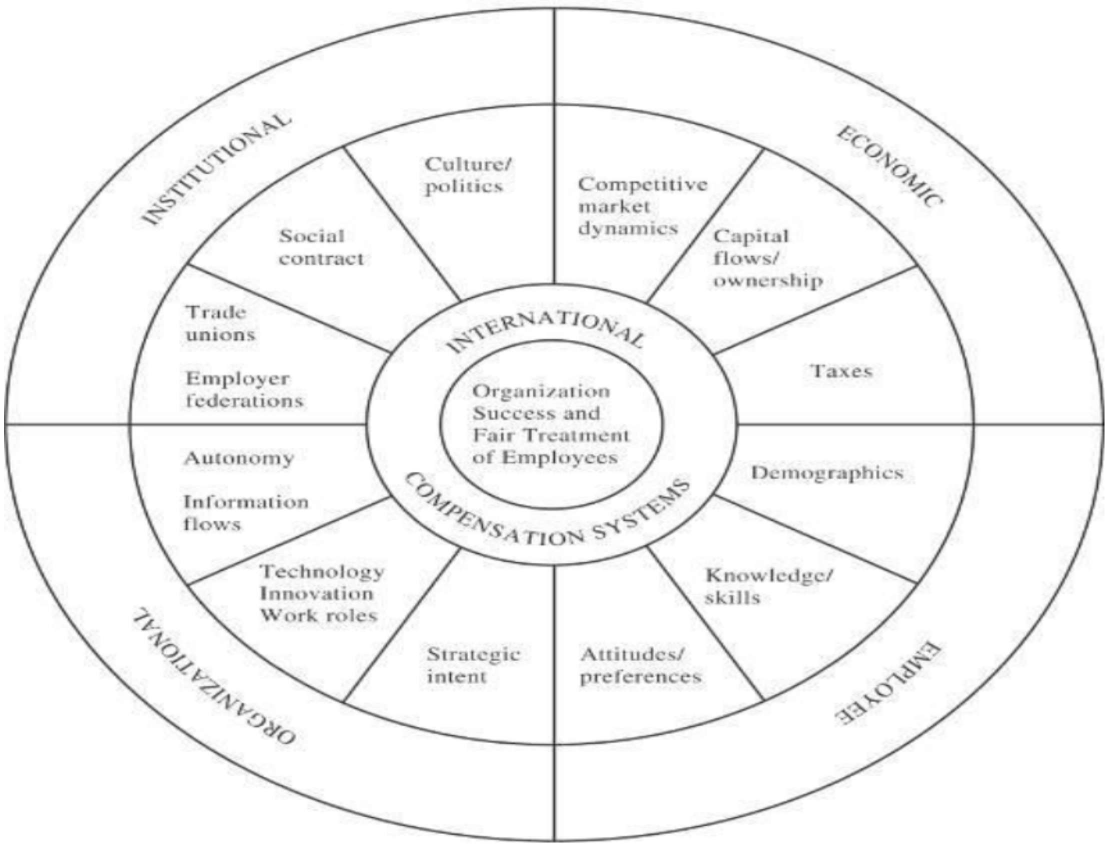
– Economic

– Institutional

– Organizational
– Employee

EXHIBIT 16.1 **Guide to International Compensation**

Source: © George T. Milkovich.



Variation in International Pay Practices:

- Social contracts

- Cultures
- Trade unions
- Ownership and financial markets
- Managers' autonomy

The Social Contract

Employment relationship Viewed as part of the social contract

– Employment relationship is more than an exchange between an individual and an employer

– It includes:

- The government
- All enterprise owners
- All employees
- Relationships and expectations of these parties form the social contract

Culture

- Shared mental programming rooted in values, beliefs, and assumptions shared in common by a group of people
- Influences how information is processed

Culture and Managing Pay

- Assumption that pay systems must be designed to fit different national cultures is based on the belief that most of a country's inhabitants share a national character
- Job of a global manager
- Search for national characteristics whose influence is assumed to be critical in managing international pay systems

Culture Matters, but So Does Cultural Diversity:

How useful is the notion of a national culture when managing international pay?

– Only a starting point

– Can be thought of as the "average"

– Provides some information about what kinds of pay attitudes and beliefs you are likely to find in an area

– Over reliance on the "average" can seriously mislead

Interplay among various conditions within each nation or region, taken as a whole, form distinct contexts for determining compensation

– Economic

– Institutional

– Organizational

– Individual

Factors Affecting International Pay

- Ownership and capital markets
- Managers' autonomy

Comparing Systems/Costs:
Factors affecting wage comparisons
– Standard of living costs
– Purchasing power
– Working time required

Strategic Choices In Global Compensation
Localizer: "Think Global, Act Local"
– Designs pay systems to be consistent with local conditions
– Business strategy is to seek competitive advantage by providing products and services tailored to local customers
– Operate independently of corporate headquarters

Exporter: "Headquarters Knows Best"
– Basic total pay system designed at headquarters and is "exported" world-wide for implementation at all locations
– Exporting a basic system makes it easier to move managers and professionals among locations
– One plan from headquarters gives all managers around the world a common vocabulary and a clear message what the leadership values

Globalizer: "Think and Act Globally and Locally"
- Seek a common system to be used as part of "glue" to support consistency across all global locations
- Headquarters and operating units are heavily networked to shared ideas and knowledge
- Performance is measured where it makes sense for the business
- Pay structures are designed to support business

Types of Expatriates:
- ***Expatriates*** - Individuals whose citizenship is that of employer's base country
- ***Third country nationals (TCNs)*** - Individuals whose citizenship is neither employer's base country nor location of subsidiary
- ***Local country nationals (LCNs)*** - Individuals who are citizens of country in which subsidiary is located

Elements of Expatriate Compensation
- Salary
- Taxes
- Housing
- Allowances and Premiums

Common Allowances in Expatriate Pay Packages:
- Financial Allowances
- Social Adjustment Assistance

- Family Support

Balance Sheet Approach:

- *Premise* – Employees on overseas assignments should have same spending power as they would in their home country
- *Home country* is standard for all payments
- *Objectives*

– Ensure cost effective mobility of people to global assignments

– Ensure expatriates neither gain nor lose financially

– Minimize adjustments required of expatriates

Other Approaches: Compensation for Expatriates

- Negotiation
- Localization
- Modified balance sheet
- Decrease allowances
- Lump-sum/cafeteria plan

Expatriate Systems → Objectives

- How the expatriate pay system affects competitive advantage, customer satisfaction, quality, or other performance concerns
- Lack of attention to aligning expatriate pay with organization objectives
- Employee Preferences