

Koshys Institute Of Management Studies

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UNIT 1

JOB EVALUATION AND PERFORMANCE APPRAISAL

JOB EVALUATION – **Meaning** Job evaluation is an assessment of the relative worth of various jobs on basis of a consistent set of factors. It is a system of determining the relative worth or money value of a job in relation to other jobs in an organisation.

Job evaluation is thus, a method used to describe, analyse, compare and evaluate jobs within a unit, a branch or an industry on the basis of the work content and the job requirements in order to place them under particular wage or salary grades.

Job Evaluation – Definition

Job evaluation may be defined as a process of determining the relative worth of jobs, ranking & grading them by comparing the duties, responsibilities, requirements like skill, knowledge of a job with other jobs with a view to fix compensation payable to the concerned jobholder.

“Job evaluation is a process of determining the relative worth of the various jobs within the organization, so that differential wages may be paid to jobs of different worth”. – Wendell French.

Characteristics of job evaluation

- It is a method of evaluating jobs in a systematic approach
- It is an analysis of the work involved in it's starting point
- It is the process of analyzing and describing positions grouping them and determining their relative value by comparing the duties of different positions in terms of responsibilities and other requirements.
- It is a system to deal exclusively what assessment of the jobs and not concerned with the employees assigned to the job.

- It is designed only to establish wage differential and is not concerned with the absolute wage level.

Objectives of job evaluation

Primary Objectives

1. To establish wage level of a plan
2. To establish relative wage level in a plan
3. To bring new jobs on relative parity with existing jobs and
4. To facilitate wage negotiations

Secondary objectives

1. To determine qualities for new jobs for employee selection
2. To determine Criterion for merit rating and promotions
3. To analyse wage rates
4. To find scope of automation and improvement
5. To train new supervisors

Process of job evaluation

1. Gaining acceptance
2. Creating job evaluation committee
3. Defining types of jobs and identifying jobs to be evaluated.
4. Collect and analyse job information and prepare job description
5. Select method of evaluation
6. Create internal job hierarchy on the basis of evaluation
7. Draw wage grades by taking into consideration overlapping and extent of spread.

Techniques of job evaluation Quantitative & Non quantitative techniques are used to compare jobs in an organisation for the purpose of classifying them & attaching monetary values to them.

1) Ranking Method - The jobs in an organisation are assessed based on the knowledge, Skills, Effort & the other job dimensions associated with each job. Ranking involves preparation of brief job description & ranking each job by arranging them in an ascending order. For ranking the job, some factors related to the jobs must be kept in view: These factors are:-

- a) Difficulty of work
- b) Monotony of work
- c) Responsibility involved
- d) Supervision Required
- e) Working Conditions.

2) Factor Comparison Method- This method consists of evaluating each job on the basis of the following factors:-

- a) Mental Requirements
- b) Skill Requirements
- c) Physical Requirements

- d) Responsibilities
- e) Working Conditions.

By considering each of the above factors, the jobs are ranked. One factor is taken at a time for consideration & each job is compared with the other with respect to its worth on this factor alone. Based on total weightage, a wage rate for job determines the wage scale.

3) Point Method- This method consists of evaluating each job in respect of certain factors. Eg:- Factors such as skill, effort, responsibility & working conditions. The following steps are considered:-

- 1) Determine Type of job
- 2) Decide upon Job Factors

Eg:- Skill may have sub factors Such as Education, Experience, Training & Judgment

- 3) Construction of factor scale

Eg:- Experience – 100 5 10 20 25 40 Upto 3 Months Between Between Overone Over 4 years 3 to 6 months 6months to 1 year Year upto 4 years

- 4) Evaluate each job in terms of the scale constructed- This provides the worth of jobs in terms of points.
- 5) Conducting a Wage Survey - The Points should be converted into money value.
- 6) Designing the Wage Structure.

4) Job Classification or Grading Method – It requires that evaluators categorize jobs into groups with relatively the same value to a business. The groups are commonly called grades. Evaluators categorise the grades with similar compensation characteristics together. The characteristics may include level of responsibility required, competencies required and physical exertion necessary to perform the job. Process includes, identifying know-how, problem solving and accountability.

PERFORMANCE APPRAISAL

Performance appraisal can be defined as the process of evaluating the performance of an employee & communicating the results of the evaluation to him for the purpose or rewarding or developing the employee.

According to Edward Flippo “Performance appraisal is the systematic, periodic & an impartial rating of an employee’s excellence in matters pertaining to his present job & his potential for a better job.”

Objectives of Performance Appraisal

1) Work – Related Objectives:-

- a) To assess the work of employees in relation to job requirements
- b) To improve efficiency

- c) To help management in fixing employees according to their capacity, interest, aptitude & qualifications.
- d) To carry out job evaluation.

2) Career Development objectives:-

- a) To assess the strong & weak points in the working of the employees & finding remedies for weak points through training.
- b) To plan career goal
- c) To guide the job change with the help of continuous ranking.

3) Communication:-

- a) To provide feedback to employee's so that they come to know where they stand & can improve their job performance.
- b) To clearly establish goals i.e what is expected of the employee in terms of performance & future work assignment.
- c) To develop positive superior – subordinated relations & thereby reduce grievances.

4) Organizational Objectives:-

- a) To serve as a basis for promote or demotion
- b) To serve as a basis for wage & salary administration & considering pay increases & increments.
- c) To serve as a basis for planning suitable training & development programme
- d) To serve as a basis for transfers of termination in case of reduction in staff strength.

USES OF PERFORMANCE APPRAISAL

Apart from evaluating the performance of the employee for rewards/punishment & development, a good performance appraisal system has many other users. Some of these are listed below.

- i) Training & development needs of the employees can be determined.
- ii) Organisational effectiveness can be improved by improving the individual performances of the employees.
- iii) The performance appraisal system forms the basis for compensation management in the organization.
- iv) Can be used as basic for transfers, promotions & other career planning activities & individual employees.
- v) It also helps in succession planning in the organization.

Performance Standard

Performance Standard refers to the work performance, in terms of quantity and quality expected from each employee during any specified period. Standards are an integral part of performance appraisal process. It provides both the rater and

the rated with a basis for describing work-related progress in a manner that is mutually understandable and acceptable.

METHODS OF PERFORMANCE APPRAISAL

Performance appraisal methods can be classified into two. They are:-

- 1) Traditional methods
- 2) Modern methods

TRADITIONAL METHODS- It is also known as Traits approach. It is based on the evaluation of traits in a person.

A) GRAPHIC RATING SCALE:- This method of appraisal requires the rater to rate the employee on factors like quantity & quality of work, job knowledge, dependability, punctuality, attendance, etc.

Rating Scales are of two types viz

- a) Continuous rating scale
- b) Discontinuous rating scale.

Advantages:-

- i) It is easy to understand, easy to use & permits a statistical tabulation of scores of employees.
- ii) Ratings are objective in nature.

Disadvantages:-

- i) A supervisor may tend to rate his men high to avoid criticism from them.
- ii) The choice of employee behavior categories – the important ones might get missed out & irrelevant ones may get included.

B) RANKING METHOD: It is otherwise called as Straight ranking method. It is the simplest & old method of merit rating. Every employee is judged as a whole without distinguishing the rates from his performance. A list is then prepared for ranking the workers in order of their performance on the job so that an excellent employee is at the top & the poor at bottom.

Advantages:-

- It permits comparison of all employees in any single rating group regardless of the types of work.
- It is suitable only when there are limited persons employed in an organization.

Disadvantages:-

- This method only tells us about & not the actual difference among them.

C) PAIRED COMPARISON METHOD:- Under this method, the appraiser compares each employee with every other employee, one at a time. For example, there are five employees named A, B, C, D & E. The performance of A is first compared with

the performance of B & a decision is made about whose performance is better. Then A is compared with C, D & E in that order. The same procedure is repeated for other employees. After the completion of comparison, the results can be tabulated & a rank is created from the number of times each person is considered to be superior.

D) FORCED DISTRIBUTION METHOD:- It is developed to prevent the raters from too high or too low. Under this method, the rater after assigning the points to the performance of each employee has to distribute his ratings in a pattern to conform to normal frequency distribution.

E) CHECKLIST METHODS:- The checklist is a simple rating technique in which the supervisor is given a list of statements or words & asked to check statements representing the characteristics & performance of each employee.

Simple checklist method:- under this method, a checklist of statements on the traits of the employee & his or her job is prepared in two columns – viz as ‘Yes’ & ‘No’ columns. All that the rater (immediate superior) should do is tick the ‘Yes’ column if the answer to the statement is positive & in column ‘No’ if the answer is negative. The HR department assigns certain points to each ‘Yes’ ticked. Depending on the number of ‘Yes’ the total score is arrived at.

F) CRITICAL INCIDENT METHOD:- The appraiser makes a note of all the critical incidents that reflect the performance or behaviour of the employee during the appraisal period. These are recorded as & when they occur & can demonstrate either positive or negative traits or performance. At the end of the appraisal period this records forms the basis for evaluation of the performance of the employee.

G) ESSAY OR FREE FORM APPRAISAL:- This method requires the manager to write a short essay describing each employee’s performance during the rating period. Questions or Guidelines are provided to the appraiser, based on which he analysis & describes the employee’s performance.

II MODERN METHODS:- Modern concerns use the following methods for the performance appraisal:-

A) BARS (BEHAVIORALLY ANCHORED RATING SCALES):- BARS concentrates on the behavioral traits demonstrated by the employees instead of his actual performance. These are three steps in implementing a BARS system. They are:-

- Determination of relevant job dimensions by the manager & the employee for each job dimension.
- Identification of behavioural anchors by the manager & the employee for each job dimension.
- Determination of the scale values to be used & grouping of anchors for each scale value, based on consensus.

Example:- Dimension: Planning & Organising Anchors Scale Value

- 5[] Excellent Develops a comprehensive plan, documents well, obtain approval & distributes to all concerned.
- 4[] Good Lays out all plans.
- 3[] Average Revises due dates as project progresses & investigate customer complaints
- 2[] Below Average Poor plans & unrealistic time schedules are common
- 1[] Unacceptable Fails due to lack of planning & is not interested in improving.

B) ASSESSMENT CENTRE:- An assessment centre is a central location where the managers may come together to participate in job related exercises evaluated by trained observers. The principle idea is to evaluate managers over a period of time, by observing & later evaluating their behaviour across a series of select exercises such as role-playing in basket exercises, etc.

C) HUMAN RESOURCES ACCOUNTING:- It deals with cost of & contribution of human resources to the organization. Cost of the employee includes cost of manpower planning, recruitment, selection, placement, induction, training, development wages & benefits, etc. Employee contribution is the money value of employee service which can be measured by labour productivity or value added by human resource. Cost of human resources may be taken as standard. Employee performance can be measured in terms of employee contribution to the organization.

D) MANAGEMENT BY OBJECTIVES (MBO):- Management by objectives is a process whereby the superior & subordinate managers of an organization jointly identify its common goals, define each individual's major areas of responsibility in terms of results expected of him & use these measures of guides for operating the unit & assessing the contribution of its members.

Key features of MBO:

1. Superior and subordinate get together and jointly agree upon the list the principal duties and areas of responsibility of the individual's job.
2. The subordinate sets his own short-term performance goals or targets in cooperation with his superior.
3. They agree upon criteria for measuring and evaluating performance.
4. From time to time, as decided upon, the superior and subordinate get together to evaluate progress towards the agreed-upon goals. At those meetings, new or modified goals are set for the ensuing period.
5. The superior plays a supportive role. He tries, subordinate achieve the agreed upon goals. He counsels and coaches.
6. In the appraisal process, the superior plays less of the role of a judge and more of role of one who helps the subordinate attain the organisation goals or targets.
7. The process focuses upon results accomplished and not upon personal traits.

E) 360 DEGREE PERFORMANCE APPRAISAL:- The employee's performance is evaluated by his supervisor, his peers, his internal/external customers, his internal/external suppliers & his subordinates.

Steps in 360 Degree assessment includes:

- a. Identify and define the key competencies for organisational success based on the do, organisation's vision, values, and goals. Determine the right skills to assess.
- b. Express the key competencies as attitudes against which participants can be assessed,
- c. Select the persons to be evaluated — peers, customers, subordinates, managers, and so on.
- d. Compile the results. Feedback is to be kept confidential.
- e. Provide feedback to the individual.

The 360 degree performance assessment has an advantage is that the individual receives feedback from multiple relevant sources, not just one. It helps foster independent partnership and develops team-based organisations. It is also a move towards participation and openness.

PROCESS OF PERFORMANCE APPRAISAL

- 1) **ESTABLISHING PERFORMANCE STANDARDS**-The first step in the process of performance appraisal is the setting up of the standards which will be used to as the base to compare the actual performance of the employees. This step requires setting the criteria to judge the performance of the employees as successful or unsuccessful and the degrees of their contribution to the organizational goals and objectives. The standards set should be clear, easily understandable and in measurable terms. In case the performance of the employee cannot be measured, great care should be taken to describe the standards.
- 2) **COMMUNICATING THE STANDARDS**- Once set, it is the responsibility of the management to communicate the standards to all the employees of the organization. The employees should be informed and the standards should be clearly explained to the employees. This will help them to understand their roles and to know what exactly is expected from them. The standards should also be communicated to the appraisers or the evaluators and if required, the standards can also be modified at this stage itself according to the relevant feedback from the employees or the evaluators.
- 3) **MEASURING THE ACTUAL PERFORMANCE** - The most difficult part of the Performance appraisal process is measuring the actual performance of the employees that is the work done by the employees during the specified period of time. It is a continuous process which involves monitoring the

performance throughout the year. This stage requires the careful selection of the appropriate techniques of measurement, taking care that personal bias does not affect the outcome of the process and providing assistance rather than interfering in an employees work.

- 4) **COMPARING ACTUAL PERFORMANCE WITH DESIRED PERFORMANCE-** The actual performance is compared with the desired or the standard performance. The comparison tells the deviations in the performance of the employees from the standards set. The result can show the actual performance being more than the desired performance or, the actual performance being less than the desired performance depicting a negative deviation in the organizational performance. It includes recalling, evaluating and analysis of data related to the employees' performance.
- 5) **DISCUSSING RESULTS [FEEDBACK]-** The result of the appraisal is communicated and discussed with the employees on an one-to-one basis. The focus of this discussion is on communication and listening. The results, the problems and the possible solutions are discussed with the aim of problem solving and reaching consensus. The feedback should be given with a positive attitude as this can have an effect on the employees' future performance. Performance appraisal feedback by managers should be in such way helpful to correct mistakes done by the employees and help them to motivate for better performance but not to demotivate. Performance feedback task should be handled very carefully as it may lead to emotional outburst if it is not handled properly. Sometimes employees should be prepared before giving them feedback as it may be received positively or negatively depending upon the nature and attitude of employees.
- 6) **DECISION-MAKING-** The purpose of conducting employee performance appraisal is for making decisions about employees without any bias by the HR manager. Decision-making by HR managers about employees rewarding, promotions, demotions, transfers and sometimes suspensions/dismissal of employees are depended upon the employee performance appraisal. The decision taken by HR manager should match exactly with performance appraisal results of employees to avoid grievance or disturbances in between them, as they affect overall performance of the organisation.

PERFORMANCE REVIEW AND FEEDBACK

Performance review or evaluation interview is necessary with a view to communicate effectively with each employee on his performance. Essentially, reviews of performance should provide managers and their subordinates with an opportunity to take stock jointly of work that has been done. As a control process appraisal should be one means by which information about recent, past, or current performance can be used to influence results in the immediate future.

The objectives of performance review are:

- 1) To let subordinates know where they stand.
- 2) To recognise their good work.
- 3) To point out how and where they can improve.
- 4) To develop them on their present job.
- 5) To develop and train them for higher jobs.
- 6) To let them know how they may progress in the company.
- 7) To serve as a record for assessing the department or unit as a whole, showing where each person fits into the larger picture.
- 8) To warn some employees that they must do better. A thorough performance analysis done prior to the review discussion helps in making the review discussion fruitful.

LIMITATION / PITFALLS OF PERFORMANCE APPRAISAL

- 1) **Halo Effect:** The appraiser allows a single characteristic of the appraisee to dominate his judgment of the employee performance. This can result in either a positive or a negative report.
- 2) **Leniency Effect:** This refers to the situation where the appraiser tends to give high ratings & only positive feedback to the appraisee, irrespective of his actual performance.
- 3) **Stringency Effect:** An appraiser, which feels that the rules & standards of the organization are not strict enough, tries to be very strict in rating his appraises. This might lead to dissatisfaction among his appraises as they would feel that the evaluation is biased & unfair.
- 4) **Recency Effect:** This occurs when the recent performance of the appraisee dominates the appraisal. The appraiser tends to get influenced by the performance of the employee over the last 2-3 months of the appraisal period as it is still fresh in his memory. An employee who has perform well for the preceding nine months but fail to maintain the same level of performance in the last 3 months preceding the appraisal might get the same rating as or an interior one than someone who performed well only in the last 2-3 months of the appraisal period.
- 5) **Primacy Effect:** The performance of the appraiser at the beginning of the appraisal period dominates the evaluation.
- 6) **Central Tendency Effect:** It is the tendency of the appraiser to rate most of the appraiser in the middle of the performance scale. The appraiser gives neither high nor low ratings & tends to give ratings in the middle of the scale to all the appraisers.
- 7) **Stereotyping:** It involves judging someone based on the group he belongs to & the appraisers perception of the group.

Questions Section A (2 marks):

1. What is job evaluation?
2. Define performance appraisal
3. What is BARS?
4. What is a performance review?
5. What is meant by recency effect?
6. What is MBO?

Section B (6 marks):

1. What are the objectives of job evaluation?
2. What are the objectives of performance appraisal?
3. What is 360 Degree Appraisal? Explain
4. Elaborate on the pitfalls of performance appraisal
5. What are the advantages and disadvantages of MBO

Section C (14marks):

1. Explain the techniques of job evaluation.
2. What are different techniques of performance appraisal?
3. What is the process of performance appraisal? How can it be carried out successfully?

UNIT 2

COMPENSATION MANAGEMENT

COMPENSATION – MEANING & DEFINITION:

Compensation is the remuneration paid by the management to the employee for his/her contribution to the organization i.e. work performed. Compensation includes Wages/Salary, incentives, bonus & social security measures or fringe benefits.

“Compensation is the total amount of the monetary and non-monetary pay provided to an employee by an employer in return for work performed as required.” – Susan M Heathfield

Definitions & Concepts Wage & Salary administration: is essentially the application of systematic approach to the problem of ensuring that the employees are paid in a logical, equitable & fair manner.

WAGE: Indian Labour Organisation defines the term Wage as the “the remuneration paid by the employer for the services of hourly, daily, weekly & fortnightly employees.

SALARY: The term salary is defined as the remuneration paid to the clerical & managerial personnel employed on monthly or annual basis.

Direct Compensation:

Direct compensation refers to the monetary rewards that an employee receives directly from their employer in exchange for their work or services. It includes the following elements:

Base Salary or Wages: The fixed amount of money paid to an employee on a regular basis, typically calculated on an hourly, weekly, monthly, or annual basis.

Bonuses: Additional payments provided to employees based on their individual performance, achievements, or the overall performance of the organization. Bonuses can be discretionary or based on predefined criteria.

Commission: In some industries, employees receive a percentage of sales or revenue they generate as commission.

Overtime Pay: Compensation provided to employees who work beyond their regular working hours as mandated by labor laws or company policies.

Indirect Compensation:

Indirect compensation, also known as fringe benefits or employee benefits, refers to the non-monetary rewards and benefits that employees receive as part of their overall compensation package. These benefits are typically provided in addition to the base salary and can include:

Health Insurance: Medical, dental, and vision insurance coverage provided to employees and, in some cases, their dependents.

Retirement Plans: Employer-sponsored retirement plans, such as 401(k) or pension plans, which allow employees to save and invest funds for their post-employment years.

Paid Time Off: Vacation leave, sick leave, personal days, and holidays that employees are entitled to take with full or partial pay.

Insurance Coverage: Life insurance, disability insurance, and accidental death and dismemberment (AD&D) insurance, which provide financial protection to employees and their families in case of unforeseen events.

Employee Assistance Programs (EAPs): Counseling services, mental health support, and resources provided to employees and their families to help address personal or work-related challenges.

Educational Assistance: Reimbursement or financial support for employees pursuing further education or professional development.

Employee Discounts: Discounts or special offers provided to employees for company products or services.

It's important to note that the specific components of direct and indirect compensation can vary between organizations, industries, and countries. Employers strive to provide a comprehensive compensation package that combines both direct and indirect forms to attract and retain employees while meeting their financial and personal needs.

OBJECTIVES OF COMPENSATION

1. **Attracting and Retaining Talent:** A key objective of compensation is to attract qualified candidates and retain valuable employees. Offering competitive compensation packages can help organizations stand out in the job market and attract top talent. It also motivates employees to stay with the organization and reduces turnover.

2. **Motivating and Engaging Employees:** Compensation plays a significant role in motivating employees to perform at their best and remain engaged in their work. By offering fair and performance-based compensation structures, organizations can incentivize employees to achieve their goals, contribute to the organization's success, and maintain high levels of productivity.
3. **Rewarding Performance:** Compensation is often used as a means to reward and recognize employees' contributions and exceptional performance. Performance-based incentives, bonuses, or merit-based salary increases can encourage employees to excel in their roles and achieve desired outcomes.
4. **Ensuring Internal Equity:** Compensation programs aim to establish internal equity by ensuring fair and consistent pay practices within an organization. Employees in similar roles or with similar levels of experience and performance should be compensated appropriately and without bias.
5. **Maintaining External Competitiveness:** Organizations strive to offer compensation that is competitive with industry standards and market rates. By conducting salary surveys and staying informed about compensation trends, organizations can ensure their pay structures are aligned with external market realities. This helps attract and retain talent by offering compensation that is competitive and commensurate with the value employees bring to the organization.
6. **Ensuring Legal Compliance:** Compliance with labor laws and regulations regarding compensation is a crucial objective. Organizations must ensure that their compensation practices adhere to legal requirements related to minimum wage, overtime pay, equal pay for equal work, and other relevant regulations.
7. **Cost Control:** While attracting and retaining talent is important, organizations also aim to manage compensation costs effectively. Balancing competitive compensation with financial sustainability is an objective to ensure the organization's long-term success.
8. **Enhancing Employee Satisfaction and Well-being:** Compensation that is perceived as fair and adequate contributes to employee satisfaction and overall well-being. Fair compensation can reduce financial stress, enhance job satisfaction, and contribute to a positive work environment.
9. **Supporting Organizational Culture and Values:** Compensation programs can be designed to reinforce an organization's culture, values, and strategic objectives. For example, organizations may offer additional benefits or incentives that align with their values, such as wellness programs, flexible work arrangements, or opportunities for career development.

CLASSIFICATION OF COMPENSATION: COMPONENTS OF SALARY BREAKUP STRUCTURE

Total compensation returns are more transactional. They include pay received directly as cash (like base, merit, incentives, cost of living adjustments) and indirectly as benefits (like pensions, medical insurance, programs to help balance work and life demands, brightly coloured uniforms). Programme to pay to people can be designed in a wide variety of ways, and a single employer typically uses more than one.

1. BASIC SALARY

- The basic salary is the fixed component of the salary, excluding any benefits and privileges. It can vary depending on the job location, industry and designation. It accounts for around 40-60% of the CTC and is fully taxable. Therefore, if the basic salary is too high, it will result in increased tax and PF liabilities, and if it is kept too low, it could violate the minimum wage norms.

2. ALLOWANCES

- The allowances depend on the location, designation, and the job role and are provided over and above the basic salary. The amount of allowance depends on the individual policies of the company. The most common forms of allowances.
- House Rent Allowance
- Leave Travel Allowance
- Conveyance Allowances
- Special Allowances

3. STATUTORY BONUS OR PERFORMANCE BONUS

- The company provides a statutory bonus as a reward for an employee's excellent performance. It is given in addition to the basic salary and is paid to motivate the employees under the Payment of Bonus Act, 1965. The bonus amount is expressed as a percentage of the basic pay, depending on the company's policies. It is yearly paid.

4. EMPLOYEE PROVIDENT FUND (EPF OR PF)

- A provident fund is a retirement benefit that the employer provides to the employees. A certain percentage of the basic pay is dedicated every month from the CTC of the employee, and the same amount is contributed by the employer every month towards this fund.

5. GRATUITY

- It is the lump sum amount paid to the organisation's employees after they complete 5 years of service. As the name suggests, it is the amount paid as a gratitude towards the employee for their dedication and hard work over the years of their service. The gratuity amount is calculated at 4.81% of the basic pay, per the Payment of Gratuity Act, 1972.

Gratuity = (Basic pay × 4.81% × number of years of service)

The maximum gratuity amount payable in India is capped at Rs. 20 lakhs. Therefore, even if the calculated gratuity amount exceeds this limit, the maximum

payable will be Rs. 20 lakhs. if the gratuity amount exceeds the limit of Rs. 20 lakh, then the surplus amount is treated as ex-gratia. Ex-gratia payments are voluntary payments made by an organisation as a favour or incentive to employees and do not fall under any law obligation.

6. INSURANCE

- Many companies provide group or individual life health insurance policies to promote the health and well-being of their employees. A small amount is deducted from the CTC of the employee every month and used towards the payment of the premium.

7. TAXES AND LIABILITIES

- After all the allowances, PF and insurance are deducted from the salary; the remaining amount is adjusted towards the income and professional taxes. The tax due on the salary is calculated based on the slab rates applicable.
- The amount of tax calculated is directly deducted from your salary before crediting it to your account. This amount deducted by the employer is known as **TDS (Tax Deducted at Source)**.

SALARY BREAKUP

Particulars		Amount
Basic Salary	(A)	XXXXX
Add: Allowances	(B)	XXXXX
Gross Salary	(C = A+B)	XXXXX
Less: Deductions	(D)	XXXX
Net Salary (In-hand Salary)	(E = C-D)	XXXXX

Salary Components	Calculation	Amount	Deductions	Amount
BASIC	50% OF CTC	15000	PF EMPLOYEE CONTRIBUTION	1800

RA	50% OF HRA	7500	PROFESSIONAL TAX	200
SAVE LEVEL ALLOWANCE	FIXED AMOUNT	3000		
SPECIAL ALLOWANCE	BALANCE FIGURE	2700		
GROSS SALARY	Basic + allowances	28200	TOTAL DEDUCTIONS	2000

EXAMPLE: annual CTC of Rs. 3,60,000. For this the salary breakup structure will look like the above

- BASIC PAY 50% OF 360000 = $(360000 \times 50) / 100 = 180000$
- $180000 / 12 = 15000$ PER MONTH
- HRA 50% OF 15000 = $(15000 \times 50) / 100 = 7500$
- Hence, Net Pay or in-hand salary = $28,200 - 2000 = \text{Rs. } 26,200$
- CTC will be gross salary + Employer contribution of PF
- CTC = $28200 + 1800 = 30000$

INCENTIVES:

- Incentives are the rewards to an employee over & above his base wage or salary, in recognition of his performance & contribution.
- Incentives can be classified on basis of monetary value as Monetary and Non monetary incentives.

TYPES OF INCENTIVES

FINANCIAL INCENTIVES: Monetary rewards are a prevalent form of incentives. They can include various forms such as:

Salary Increases: Providing raises or bonuses based on performance, seniority, or achievement of specific goals.

Profit-Sharing: Sharing a portion of the organization's profits with employees.

Commission: Offering a percentage of sales or revenue as a commission for salespeople or business development roles.

Stock Options: Granting employees the right to purchase company shares at a predetermined price.

Performance-Based Bonuses: Providing additional financial rewards for exceptional performance or meeting specific targets.

NON-FINANCIAL INCENTIVES: Not all incentives are monetary. Non-financial incentives can be equally effective and can include:

Recognition and Awards: Acknowledging and publicly appreciating employees' achievements, such as employee of the month, certificates, or plaques.

Employee Appreciation Events: Organizing social events, team-building activities, or celebrations to recognize and appreciate employees' contributions.

Professional Development Opportunities: Offering training programs, workshops, or conferences to enhance employees' skills and knowledge.

Flexible Work Arrangements: Providing options like flexible schedules, remote work, or compressed workweeks to improve work-life balance.

Employee Perks: Offering additional benefits or privileges such as gym memberships, free meals, discounted services, or access to recreational facilities.

CAREER DEVELOPMENT INCENTIVES: Opportunities for career growth and advancement can serve as strong incentives. These include:

Promotions: Providing employees with upward mobility by offering higher-level positions and increased responsibilities.

Mentoring and Coaching: Pairing employees with experienced professionals who can guide and support their career development.

Training and Education Support: Offering financial assistance or paid study leave for pursuing further education or professional certifications.

Internal Job Postings: Advertising job openings internally to allow employees to apply for positions within the organization before seeking external opportunities.

TIME-OFF INCENTIVES: Providing additional time off can be a valuable incentive for employees:

Paid Time Off (PTO): Granting extra vacation days, personal days, or sabbaticals based on tenure, performance, or achievement of specific milestones.

Time Banking: Allowing employees to accumulate credits for extra hours worked, which they can use to take time off later.

FRINGE BENEFITS

It is the monetary & non-monetary benefits given to employee during their employment tenure. Fringe Benefit means any privilege, service, facility or amenity, directly or indirectly provided to employee by an employer.

OBJECTIVES / PURPOSE OF FRINGE BENEFITS

- ✓ To create and improve sound industrial relations
- ✓ To boost up employee morale
- ✓ To motivate the employees by identifying and satisfying their unsatisfied needs.
- ✓ To provide qualitative work environment and work life.
- ✓ To provide security to the employees against social risks like old age benefits and maternity benefits.
- ✓ To protect the health of the employees and to provide safety to the employees against accidents.
- ✓ To promote employees welfare by providing welfare measures like recreation facilities.
- ✓ To create a sense of belongingness among employees and to retain them. Hence, fringe benefits are called golden hand-cuffs.
- ✓ To meet requirements of various legislations relating to fringe benefits.

TYPES OF FRINGE BENEFITS

I MONETARY REWARDS:-

1. PAYMENT FOR TIME NOT WORKED:-

a) Hours of work:- Sec 51 of the Factories Act, 1948 specifies that no adult worker shall be required to work in a factory for more than 48 hrs in any week.

b) Paid Holidays:- According to the factories act, 1948, an adult worker shall have a weekly paid Holiday, preferably Sunday.

c) Shift Premium:- Companies operating second & third shifts, pay a premium to the workers, who are required to work during the odd hours shift.

d) Holiday Pay:- Organisation offer double the nominal rate of the salary to those workers who work on paid holidays.

e) Paid vacation:- Workers in Manufacturing mining & plantations who worked for 240 days during a calendar year are eligible for paid vacation at the rate of one day for every 20 days worked.

2) EMPLOYEE SECURITY:- Physical & Job security to the employee should also be provided with a view to promoting security to the employee & his family members.

a) Retrenchment Compensation:- The Industrial Disputes Act, 1947 provides for the payment of compensation in case of lay off & retrenchment. The non seasonal industrial establishment employing 50 or more workers has to give one month's notice or one month's wages to all the workers who are retrenched after one year's continuous service. The compensation is paid at the rate of 15 days wage for every completed years of service with a maximum of 45 days wage in a year.

b) Lay-off Compensation:- Employees are entitled to lay off compensation at the rate of 50% of the total of the basic wage & dearness allowance for the period of their lay off except for weekly holidays. It can normally be paid upto 45 days in a year.

3) SAFETY & HEALTH:- Employee's state Insurance Act, 1948 , deals comprehensively about the health benefits to be provided.

a) Sickness Benefits:- Insured employees are entitled to get cash benefit for a maximum of 56 days in a year.

b) Maternity Benefit:- Insured women employees are entitled to maternity leave for 12 weeks (six weeks before the delivery & 6 weeks after the delivery) in addition to cash benefit of 75 paise per day or twice sickness benefits, whichever is higher.

c) Disablement Benefits:- Insured employees who are disabled temporarily or permanently due to employment injury & for occupational diseases are entitled to get the cash benefit under this head.

d) Dependent's Benefit:- If an insured person dies as a result of an employment injury sustained as an employee, his dependents who are entitled to compensation under the act shall be entitled to the periodical payments.

e) Medical Benefits:- This benefit shall be provided to an insured employee or to a member of his family where the benefits is extended to his family.

4) WELFARE & RECREATIONAL FACILITIES:-

a) Canteens:- Sec 46 of the factories act 1948, imposes a statutory obligation to employees to provide canteen in factories employing more than 250 workers.

b) Consumer Societies:- Most of the large organizations located for from the towns & which provide housing facilities near the organisation set up the consumer stores in employees colonies & supply all necessary goods at fair prices.

c) Credit Societies:- To encourage thrift & provide loan facilities at reasonable terms & conditions primarily to employees.

d) Employee Counselling:- It reduces absenteeism, turnover, tardiness etc.

E) Education Facilities:- It includes reimbursement of fees, setting up of schools, colleges, hostels etc.

II) NON-MONETARY REWARDS:-

1) Knick – Knacks Covers accessories, companies Watches, tie-pins, Diaries, Calendars, Wallets & T-Shirts.

2) Tokens, movie – tickets, vacation trips, etc.

ADVANTAGES OF FRINGE BENEFITS

Employers have several reasons why they provide fringe benefits even if this means additional expenses:

- With extensive health coverage plans, companies can keep their key employees and workers who provide satisfying service.
- Usually, most employers enjoy tax breaks especially if they provide group health plans.
- Workers will usually prefer better fringe benefits than higher salary, allowing employers to reduce their expenses. Several studies suggested that employees who are covered by a good health insurance are less likely to be absent from their work.
- When receiving benefits, workers will think that their companies are good employers, boosting their morale and improving their work ethics.
- Employers may get personal benefits for less money if they will purchase a group health coverage for their workers.

DISADVANTAGES OF FRINGE BENEFITS

- For small employers, fringe benefits will cost more. Also, they have less choice in drafting their worker's retirement or health plan because of administrative costs.
- The cost of health insurance coverage is steadily rising, making it less affordable to most employers especially in tough economic times.
- The more benefits a company will provide, the higher the administrative fees will cost.
- Employers may face lawsuit (usually based on discrimination) if they fail to provide fringe benefits to all workers or exclude someone from receiving them.

PERQUISITES - It is a benefit that one enjoys or is entitled to on account of one's job or position.

The term Perquisites is often used colloquially to refer to those benefits of a more discretionary nature. Often, perks are given to employees who are doing notably well and/or have seniority. Perquisites, also known as "perks" are the extras that frequently go with executive status. Used to supplement the basic benefit package, perks range from such amenities special parking & plush offices to pay for vacation travel automobile expenses, & company-paid membership in clubs.

Perquisites are strictly restricted to the CEOs and that small group of key officials who comprise the senior management of the organization. In addition to the status relationship, perquisites provide benefits that either not considered as earned income to the recipient or are taxed at a modest level.

LIST OF PERQUISITES:

- Rent free accommodation
- Furnished accommodation

- Accommodation at a concessional rate
- Perquisite in respect of motor car
- Gas, electricity, water supply provided free of cost
- Free education
- Free transport
- Free domestic servant
- Employee stock options(ESOP'S)
- Interest free advance/loan
- Leave travel concession(LTC

UNIT 3

WAGE AND SALARY ADMINISTRATION

Wage Concepts

Minimum Wage: The basic minimum wage is the bare subsistence wage; above that is fair wage; and beyond the fair wage is the living wage. The content of the minimum wage is not fixed and static. It is dynamic and is bound to vary from time to time and place to place. The International Labour Organisation (110) lists three criteria for fixing the minimum wage. These are:

(i) the needs of workers;

(ii) the capacity to pay; and

(iii) wages paid for comparable work elsewhere in the economy or more generally the standard of living of other social groups.

There is already in existence a Minimum Wages Act, 1948. It lays down norms and procedures for determining wages in the industrial services and agricultural sectors.

Fair Wage: The basis of fair wage is the minimum wage, within the capacity of the organisation to pay & should be related to the productivity of the labour.

Fair wage is a wage above the minimum wage but below the living wage. Between these two limits, the actual wages will depend on:

(i) The productivity of labour;

(ii) The prevailing rates of wages in the same or similar occupations in the same or neighbouring localities;

(iii) The level of the national income and its distribution; and

(iv) The place of the industry in the economy of the country.

LIVING WAGE:

(1) It should be sufficient to purchase the minimum theoretical needs of a typical family calculated in accordance with some more or less scientific formula.

(2) It should be sufficient pay for a satisfactory basic budget, as revealed by a survey of actual family expenditures.

(3) should be comparable with a living wage already established in similar circumstances.

FACTORS INFLUENCING THE FIXING OF WAGES: The wage payment is an important factor affecting the labour management relations. A number of factors thus influence the remuneration payable to the employee. This factors can be categorized into:-

EXTERNAL FACTORS:

1. Demand & Supply: The labour market conditions or demand & supply forces operate at the national & local levels & determine organizational wage structure.
2. Cost of Living: The workers will accept a wage which may ensure them a minimum standard of living. Wages will also be adjusted according to price index number.
3. Trade Union's Bargaining power: Stronger the trade union higher will be the wage rates. The strength of a trade union is judged by its membership, financial position & type of leadership.
4. Government Legislations: It influences wage determination. The two important legislations which affect wage fixation are: the payment of wages Act, 1936 & the Minimum wages Act, 1948.
5. Economy: While it may be possible for some organization to thrive in a recession, there is no doubt that economy affects remuneration decisions. A depressed economy will probably increase the labour supply. This in turn, should lower the going wage rate.
6. Technical Development: The Wage rates of skilled employee constantly change if organizational has to keep its level upto the mark to suit the market needs.

INTERNAL FACTORS

1. **Ability to pay:** The ability to pay of an enterprise will influence wage rates to be paid. If the concern is running into losses then it may not be able to pay higher wage rate. A profitable concern may pay more to attract good workers.
2. **Job Requirements:** The relative worth of a job can be estimated through job evaluation. Simple, routine tasks that can be done by many people with minimum skills receive relatively low pay. On the other hand complex, challenging tasks that can be done by few people with high skill level generally receive high pay.

PRINCIPLES GOVERNING COMPENSATION / WAGE & SALARY ADMINISTRATION:-

1. Maintaining equity in the distribution of wages & salaries in the organization.
2. Maintaining competitiveness in the wage market, in comparison to other players in the industry.
3. Matching employee expectations.
4. Reinforcing positive employee behaviour & contribution to the organisation.
5. Eliminating any discrepancies in wage administration in the organisation.
6. Devising a system that is most efficient for the organisation.
7. Optimization of management & employee interest.
8. Maintaining good industrial relations & harmony, with respect to compensation.

THEORIES OF WAGES

Supply and Demand Theory: This theory states that wages are determined by the balance between the number of available workers (supply) and the demand for their skills by employers. If there are more workers than jobs, wages may decrease. If there are fewer workers and high demand for their skills, wages may increase.

Marginal Productivity Theory: According to this theory, wages are based on how much value an individual worker adds to the production process. If a worker's productivity is high and contributes significantly to the company's output, they are likely to be paid more.

Bargaining Power Theory: This theory focuses on the negotiation power of workers and employers. If workers have strong unions or skills that are in high demand, they can negotiate higher wages. On the other hand, employers may pay lower wages if there is a surplus of available workers or weak labor unions.

Efficiency Wage Theory: This theory suggests that employers may pay higher wages to motivate workers and increase productivity. When workers are paid more than the minimum required, they may feel more committed and work harder to justify the higher pay.

Human Capital Theory: This theory emphasizes the role of education, training, and experience in determining wages. Workers with higher levels of education and skills are seen as having more "human capital" and are usually paid more.

Inflation and Cost of Living Theory: This theory takes into account the impact of inflation and the cost of living on wages. Workers may demand higher wages to keep up with rising prices and maintain their standard of living.

Neo-Classical Labor Market Theory: This theory combines elements of supply and demand, marginal productivity, and bargaining power. It suggests that in competitive labor markets, wages tend to settle at a level where supply and demand for labor are in balance.

WAGE STRUCTURES IN INDIA

BASIC PAY

The concept of basic Pay is contained in the report of the Fair Wages Committee. According to this Committee, the floor of the basic pay is the "minimum wage" which provides "not merely for the bare sustenance of life but for the preservation of the efficiency of the workers by providing some measure of education, medical requirements and amenities." The basic Pay has been the most stable and fixed.

DEARNESS ALLOWANCE

In India, the system of dearness allowance is a special feature of the wage system for adjustment of the wages when there are frequent fluctuations in the cost of living. In our country, at present, there are several systems of paying dearness allowance to the employees to meet the changes in the cost of living. In practice, they differ from place to place and industry to industry. One of the methods of paying dearness allowance is by a flat rate, under which a fixed amount is paid to all categories of workers, irrespective of

their wage scales. The second method is its linkage with consumer price index numbers published periodically by the government. It indicates the changes in the prices of a fixed basket of goods and services customarily bought by the families of workers. In other words, the index shows the rise or falls in the cost of living due a rise or fall in consumer price.

ANNUAL BONUS

This Annual Employee Bonus Plan (“Plan”) is designed to provide an effective means to motivate and compensate eligible employees, on an annual basis, through cash and stock award bonuses based on the achievement of business and individual performance **objectives during each calendar year (“Plan Year”)**.

INCENTIVE SYSTEMS

The term “incentive” has been used both in the restricted sense of participation and in the widest sense of financial motivation. It is used to signify inducements offered to employees to put forth their best in order to maximise production results. Incentives are classified as financial and non-financial.

FRINGE BENEFITS

It is the monetary & non-monetary benefits given to employee during their employment tenure. Fringe Benefit means any privilege, service, facility or amenity, directly or indirectly provided to employee by an employer.

DIFFERENCE BETWEEN SALARY & WAGES

BASIS FOR COMPARISON	SALARY	WAGE
Meaning	Salary is a fixed amount paid or transferred to the employees at regular intervals for their performance and productivity, at the end of the month	wages are hourly or daily-based payment given to the labour for the amount of work finished in a day.
Skills	Skilled personnel	Semi-skilled or unskilled
Type of cost	salary is fixed, i.e. it is predetermined and agreed between the employer and employee.	wages are not fixed, as it varies depending on the performance of the labour.
Rate of payment	Fixed rate	Wage rate
Payment cycle	Monthly	Daily
Basis of payment	Performance basis	Hourly basis
Paid to whom	Employees	Labor
Nature of work	Administrative-office work	Manufacturing-process work
KRA (Key resultant area)	Yes	No
Extra pay for extra hours	No	Yes

BASIS FOR COMPENSATION FIXATION

1. Organizations ability to pay.
2. Supply & Demand of labour.
3. Prevailing market rate.
4. Trade unions bargaining power.
5. Job requirements.
6. Managerial attitudes.
7. Cost of living.
8. Labour Productivity
9. Psychological & Sociological factors.
10. Region & Area in practice.
11. Attraction & Retention.
12. Merit & Seniority progression.

BASIS FOR WAGE CALCULATION

1). TIME RATE SYSTEM OF WAGE PAYMENT

The time rate system is that system of wage payment in which the workers are paid on the basis of time spent by them in the factory. Under this system, the workers and employees are paid wages on the basis of the time they have worked rather than the volume of output they have produced. Hence, according to this system, wages are paid on hourly, weekly or monthly basis. Under time rate system, the wages earned by a worker is determined by using the following formula.

Wages Earned = Time spent(Attended) x Wage rate per hour/day/week/month.

Advantages Of Time Rate System

1. The following are some of the important advantages of time rate system of wage payment:
2. Time rate system is simple to understand and easy to calculate.
3. Time rate system is quite useful for organizations that use costly inputs for quality outputs.
4. Time rate system is beneficial for average and below workers.
5. Time rate system assures regular income and creates the feeling of economic security among the workers.
6. Time rate system does not discriminate the workers and is preferred by trade unions.

Disadvantages of Time Rate System

1. The following are some notable disadvantages of time rate system of wage payment.
2. Time rate system does not help in increasing output and improving efficiency as there is no correlation between effort and reward.
3. Time rate system is not justifiable between efficient and inefficient workers and skilled and unskilled workers.
4. Time rate system pays for idle time, which increases the cost of production.
5. Time rate system encourages a go-slow tendency among workers during working hours and encourages them to work overtime.
6. It is difficult to estimate exact labor cost in advance.
7. It requires strict supervision to get the required quantity of output.

2). PIECE RATE SYSTEM OF WAGE PAYMENT

The piece rate system is that system of wage payment in which the workers are paid on the basis of the units of output produced. Piece rate system does not consider the time spent by the workers. Piece rate system is the method of remunerating the workers according to the number of unit produced or job completed. It is also known as payment by result or output. Piece rate system pays wages at a fixed piece rate for each unit of output produced. The total wages earned by a worker is calculated by using the following formula.

Total Wages Earned= Total units of outputs produced x Wage rate per unit of output.

OR,

Total Wages Earned= Output x Piece Rate

Advantages Of Piece Rate System

The following are some important advantages of piece rate system of wage payment.

1. Piece rate system pays wages according to the output produced by the workers. It encourages efficient workers.
2. Piece rate system helps to reduce idle time.
3. Piece rate system gives incentives to the workers to adopt a better method of production for increasing their production and earning.
4. Piece rate system helps the management to determine the exact labor cost per unit for submitting quotation.
5. Piece rate system reduces per unit cost of production due to increased volume of production.
6. Piece rate system requires less supervision cost.

Disadvantages Of Piece Rate System

The following are the notable disadvantages of piece rate system

1. Piece rate system does not help produce quality output as the workers are concentrated more on quantity than quality.
2. Piece rate system does not help for a uniform flow of production and makes difficult to regulate the production schedule.
3. It is very difficult to fix an acceptable and reasonable piece rate for each item of output or job.
4. Piece rate system adversely affect the workers' health as well.
5. It requires extra supervision cost for quality output and effective use of materials, tools and equipment.

INCENTIVE SCHEMES

(I) INDIVIDUAL INCENTIVE PLAN

Reward systems tied to the performance of individual employees are known as individual incentive plans. These plans depend on the category of workers for which they are designed.

1. TAYLOR'S DIFFERENTIAL PIECE RATE PLAN:

- F. W. Taylor, the father of scientific management, developed this plan. Under this plan, Taylor prescribed two-piece work rates. One, a higher wage rate for those who reach the standard work. Second, a lower wage rate whose performance is below the standard. This wage plan encourages and rewards the employees who

are efficient by giving them wages at a higher rate. At the same time, the plan penalizes those who are slow performers by paying them at a low wage rate.

2.HALSEY PREMIUM PLAN:

- This plan, originated by F. A. Halsey, an American engineer, Determines a guaranteed wage based on past experience under this plan. If a worker saves time, he gets 50% of wages for time saved (called premium) in addition to normal wages. It is optional for the worker to work on the premium or not. Thus, this plan also provides incentive to efficient workers.

3. ROWAN PREMIUM PLAN:

This plan was developed by D. Rowan in 1901. This plan, to a large extent is similar to that of Halsey Premium Plan. The only difference is in regard to the determination of the premium. it considers premium on the basis of the proportion which the time saved bears to the standard time

II. GROUP INCENTIVE SCHEMES

- **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 organization among employees.
- classified these into three categories, namely,

(i) Current,

(ii) Deferred and

(iii) Combination.

CURRENT:

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

DEFERRED:

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

COMBINATION:

In this case, a part of the employee's 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 organizational profit in the form of bonus. In India, the employee bonus is governed by the Payment of Bonus Act, 1965.

- **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.

EFFECT OF VARIOUS LABOUR LAWS ON WAGES

1. **Minimum wage laws:** One of the most direct ways labor laws impact wages is through minimum wage legislation. Minimum wage laws set the lowest wage rate that employers can pay their employees. Increasing the minimum wage can lead to higher wages for low-wage workers, lifting them out of poverty and improving their living standards. However, **some critics argue that increasing the minimum wage could lead to job losses and reduced hiring, particularly for small businesses.**
2. **Collective bargaining laws:** Collective bargaining laws give workers the right to form unions and negotiate wages and working conditions with their employers. Unions can use collective bargaining to secure higher wages for their members and negotiate better benefits. Workers in industries with strong unions enjoy higher wages than non-unionized sectors.
3. **Overtime laws:** Labor laws that govern overtime pay can impact wages for workers who work beyond standard working hours. Overtime laws typically require employers to pay a higher wage rate (**usually 1.5 times the regular rate**) for each hour worked beyond a certain threshold in a given workweek. This can incentivize employers to limit overtime work or provide fair compensation to employees who work extra hours.
4. **Equal pay laws:** Equal pay laws aim to eliminate wage disparities based on gender, race, or other protected characteristics. By mandating equal pay for equal work, these laws can help reduce wage gaps and promote fair compensation for all workers.
5. **Child labor laws:**

Child labor laws restrict or prohibit the employment of children below a certain age or in hazardous conditions. By doing so, these laws help protect children from exploitation and ensure that they do not enter the labor market at lower wages, which could affect overall wage levels.
6. **Workplace health and safety regulations:**

Labor laws related to workplace health and safety can indirectly impact wages. Ensuring a safe working environment can reduce accidents and injuries, reducing absenteeism and increasing productivity. A healthier and more productive workforce may be more likely to negotiate for higher wages.
7. **Anti-discrimination laws:**

Laws that prohibit discrimination in employment, such as the Civil Rights Act, can play a role in ensuring fair wages for all workers. By preventing wage discrimination based on protected characteristics like race, color, religion, sex, etc., these laws promote equitable compensation practices.

- Sexual Harassment of women at workplace (SHW Act)
- Rights of Persons with Disabilities Act, 2016 (“RPD”)
- “HIV Act”

PREPARATION OF PAYROLL

- It is defined as the process of paying salaries to a company’s employees. It starts with preparing a list of employees to be paid and ends with recording those expenses.
1. **Payroll Data Collection:** Gathering and maintaining accurate employee information, including personal details, tax forms, and employment contracts, is vital for payroll processing.
 2. **Calculating Gross Pay:** Gross pay is determined based on various factors, such as regular working hours, overtime, commissions, bonuses, and other earnings.
 3. **Deductions and Withholdings:** Payroll also involves deducting various amounts from gross pay, including income tax, social security contributions, health insurance premiums, retirement plan contributions, and other voluntary deductions.
 4. **Tax Compliance:** Ensuring compliance with tax regulations is crucial, as employers are responsible for withholding the appropriate amount of income tax from employee earnings and remitting it to the tax authorities.
 5. **Payroll Reporting:** Generating payroll reports, including payroll registers, tax reports, and year-end statements, facilitates accurate record-keeping and compliance with reporting requirements.

Payroll processing stages

PRE-PAYROLL PROCESSING ACTIVITIES

Onboard employees

- As the first step, businesses should onboard employees and prepare a list of employees to be paid.

Define your payroll policy

- In this step, businesses should define their policies and get them approved by the management to ensure standard execution. These policies include pay policy, leave and attendance policy, employee benefits policy, etc.

Gather employee inputs

- Employee inputs like PAN, address, bank account details, etc. are important for payroll processing. Usually, these inputs are collected from employees at the time of joining by the concerned teams.
- **Validate employee inputs**

- Once the inputs are received, check for validity of the details with respect to company policy, approval model, etc. Also, ensure that all active employees are taken into consideration, and no former employees are included for salary and compliance payments.

Actual payroll activities

Calculate payroll

- In this stage, the validated inputs are fed into the system for processing payroll. This results in net payment calculations after adjusting necessary deductions and taxes due. These calculations are done using spreadsheets. So, it becomes difficult to reconcile and verify the values to avoid any errors. However, automated software could have eliminated the risk of clerical or mathematical errors.

Post-Payroll activities

Disburse employee salaries

- Then, businesses need to ensure that their bank account has sufficient funds to make salary transfers. Then, a salary bank advice statement is sent to the concerned bank directing the bank to disburse salaries. All these time-consuming tasks can be avoided with one-click salary disbursement feature of automated software.

Pay statutory dues

- At the time of payroll processing, all statutory deductions such as PF, TDS, ESI and PT are deducted. Then, these payments are made to the appropriate government departments with the due dates.

-

- **Distribute payslips and tax computation sheets**

- This step involves payslip distribution employees, along with their tax computation sheets. With an automated payroll system, businesses don't have to distribute payslips individually. Employees can log-in to their account and access their payslips easily.

UNIT 4

REWARDS & INCENTIVES

REWARDS

Reward is an incentive plan to reinforce the desirable behavior of workers or employers and in return for their service to the organization. Rewards can be monetary in the form of salary or non monetary in the form of awards for some special services to the company or simply giving an employee a work which he enjoys doing. The primary objective of organizations in giving rewards is to attract, maintain and retain efficient, high performing and motivated employees.

Rewards serve many purposes in organisations. They serve to build a better employment deal, hold on to good employees and to reduce [employee turnover](#).

The principal goal is to increase people's willingness to work in one's company, to enhance their [productivity](#).

There are two kinds of rewards:

EXTRINSIC REWARDS: CONCRETE REWARDS THAT EMPLOYEE RECEIVE.

- **Bonuses:** Usually annually, Bonuses motivates the employee to put in all endeavours and efforts during the year to achieve more than a satisfactory appraisal that increases the chance of earning several salaries as lump sum. The scheme of bonuses varies within organizations; some organizations ensure fixed bonuses which eliminate the element of asymmetric information, conversely, other organizations deal with bonuses in terms of performance which is subjective and may develop some sort of bias which may discourage employees and create setback. Therefore, managers must be extra cautious and unbiased.
- **Salary raise:** Is achieved after hard work and effort of employees, attaining and acquiring new skills or academic certificates and as appreciation for employees duty (yearly increments) in an organization. This type of reward is beneficial for the reason that it motivates employees in developing their skills and competence which is also an investment for the organization due to increased productivity and performance. This type of reward offers long-term satisfaction to employees. Nevertheless, managers must also be fair and equal with employees serving the organization and eliminate the possibility of adverse selection where some employees can be treated superior or inferior to others.
- **Gifts:** Are considered short-term. Mainly presented as a token of appreciation for an achievement or obtaining an organizations desired goal. Any employee would appreciate a tangible matter that boosts their self-esteem for the reason of recognition and appreciation from the management. This type of reward basically provides a clear vision of the employee's correct path and motivates employee into stabilising or increasing their efforts to achieve higher returns and attainments. Monetary gifts, such as [Gift cards](#) are also more likely to be used for luxury purchases and can build an emotional bond with the organisation.^[9]

- **Promotion:** Quite similar to the former type of reward. Promotions tend to effect the long-term satisfaction of employees. This can be done by elevating the employee to a higher stage and offering a title with increased accountability and responsibility due to employee efforts, behaviour and period serving a specific organization. This type of reward is vital for the main reason of redundancy and routine. The employee is motivated in this type of reward to contribute all his efforts in order to gain managements trust and acquire their delegation and responsibility. The issue revolved around promotion is adverse selection and managers must be fair and reasonable in promoting their employees.
- Other kinds of tangible rewards

INTRINSIC REWARDS: TEND TO GIVE PERSONAL SATISFACTION TO INDIVIDUAL

- Information / feedback: Also a significant type of reward that successful and effective managers never neglect. This type of rewards offers guidance to employees whether positive (remain on track) or negative (guidance to the correct path). This also creates a bond and adds value to the relationship of managers and employees.
- Recognition: Is recognizing an employee's performance by verbal appreciation. This type of reward may take the presence of being formal for example meeting or informal such as a "pat on the back" to boost employees self-esteem and happiness which will result in additional contributing efforts.
- Trust/empowerment: in any society or organization, trust is a vital aspect between living individuals in order to add value to any relationship. This form of reliance is essential in order to complete tasks successfully. Also, takes place in empowerment when managers delegate tasks to employees. This adds importance to an employee where his decisions and actions are reflected. Therefore, this reward may benefit organizations for the idea of two minds better than one.

Intrinsic rewards makes the employee feel better in the organization, while Extrinsic rewards focus on the performance and activities of the employee in order to attain a certain outcome. The principal difficulty is to find a balance between employees' performance (extrinsic) and happiness (intrinsic).^[11]

The reward also needs to be according to the employee's personality. For instance, a sports fan will be really happy to get some tickets for the next big match. However a mother who passes all her time with her children, may not use them and therefore they will be wasted.

When rewarding one, the manager needs to choose if he wants to rewards an Individual, a Team or a whole Organization. One will choose the reward scope in harmony with the work that has been achieved.

Organization:

- **Individual**
 - Base pay, incentives, benefits
 - Rewards attendance, performance, competence

- **Team:** team bonus, rewards group cooperation
- profit-sharing, shares, gain-sharing

REWARDS FOR SALES PERSONNEL

The rewards can be monetary or non-monetary or a combination of both. Financial rewards can include bonuses, premium pay, commissions, stock and non-financial rewards can be:

FINANCIAL REWARDS

1. COMMISSION

With commission pay, they earn additional income for every unit sold, or for each unit sold beyond a base quota.

2. Individual Bonuses

In addition to, or in lieu of, commissions, they may earn bonuses for sales performance.

3. Team or Business Bonuses

Some organizations use sales teams and reward salespeople based on collaborative success. All team members may share quarterly bonus for achieving a certain sales volume, for instance. While this can encourage collaboration and team effort, it can cause conflict if some team members don't carry their weight. Car franchises often pay individual dealerships periodic bonuses for sales performance. This money may go to the dealer owner, sales managers or the entire sales staff.

NON FINANCIAL REWARDS

1. **Vouchers-** Employers with a sales staff can offer vouchers as a reward for success. Vouchers can come in several forms, such as travel coupons. There is an added incentive in that the winner can share the award with family or friends. Vouchers can reward more than one leading performer. For example, while a company could send the top performer on a paid vacation, it could also send an entire sales team that has gone above and beyond.
2. **Public Praise--** Acknowledging the success of a top salesperson in front of his peers can be a powerful motivator and reward. This may encourage other members of the sales team to strive to receive similar praise. Public praise can be doled out in a meeting with an accompanying certificate or plaque.
3. **Prizes-** Employers can create healthy competition among sales staff. The top performer receives a form of non-cash prize. Employers can offer first-, second- and third- place prizes. For example, the highest-value prize could be an iPod or computer. The third place prize could be movie or event tickets.
4. **Perks-** Companies can provide perks to one or more members of a successful sales team. While not breaking the bank, these "extras" add up. Examples of company perks include: paid parking, use of a company car or subsidized gym memberships. Employers can also give less-tangible (but still effective) rewards such as an increased, higher-profile role in company decision-making.

PERFORMANCE-BASED PAY SYSTEM

A performance-based pay system, also known as a merit-based pay system or pay-for-performance system, is a compensation strategy in which an employee's pay or salary is directly linked to their performance and the results they achieve. In this system, employees are rewarded based on their individual contributions, accomplishments, and the attainment of specific goals or targets. The main idea behind a performance-based pay system is to align an employee's compensation with their performance, creating incentives for higher productivity, improved job performance, and overall organizational success.

Key characteristics of a performance-based pay system include:

Variable Compensation: Unlike a traditional fixed salary, performance-based pay introduces variability into an employee's compensation. The amount an employee earns can fluctuate based on their performance outcomes.

Objective Metrics: Clear and quantifiable performance metrics, such as sales revenue, customer satisfaction scores, project completion rates, or individual goals, are established to measure employee performance.

Individualized Rewards: Compensation adjustments, bonuses, or incentives are customized based on each employee's performance, rather than a one-size-fits-all approach.

Motivation and Incentives: Employees are motivated to excel by the potential for higher earnings. The system encourages them to strive for better results and take ownership of their work.

Meritocracy: The system is designed to reward employees proportionally to their contributions, fostering a sense of fairness and recognition for hard work.

Performance Reviews: Regular performance evaluations are conducted to assess employee accomplishments against predetermined targets and metrics.

Clear Communication: Transparent communication is essential to ensure employees understand how their performance will impact their compensation and what is expected of them.

Retention and Attraction: A well-designed performance-based pay system can attract and retain high-performing employees who are motivated by the opportunity to earn more based on their capabilities.

Continuous Improvement: The system encourages ongoing improvement and development as employees work to meet and exceed performance standards.

Risk and Uncertainty: While performance-based pay can provide significant rewards for high achievers, it also introduces a level of risk, as employees may earn less during periods of lower performance.

Complexity: Implementing a performance-based pay system can be complex, requiring careful planning, clear metrics, and effective communication.

Fairness and Bias Considerations: It's important to ensure that the performance metrics are fair and unbiased, and that all employees have equal opportunities to succeed.

THE ADVANTAGES PERFORMANCE-BASED PAY

1. **Unlimited Compensation-** A pay-per-performance plan can sometimes result in situations where the employee may be able to earn a substantial income. A talented salesperson who works strictly on commission may be able to earn more money than a salaried salesperson since he is paid based on the volume of sales. Depending on the compensation structure and the amount of effort put forth, the result could be a six-figure income.
2. **Increased Motivation-** The opportunity to earn a substantial income can lead to increased motivation. Since employees are compensated based on performance, they may be more likely to work harder and longer in order to reach income goals.

3. **Flexibility-** Employees who are paid based on their performance are typically judged by results rather than more subjective methods, resulting in increased flexibility. For example, life insurance salespeople often make their own appointments and set their own schedules. They will be evaluated not by how much time they spent working or the sales methods used, but by their sales volume.

4. **Increased Productivity-** From the employer's standpoint, productivity may increase due to the employee's desire to earn a high income. The result can be greater productivity from fewer workers, reducing the employer's labor cost and transferring the financial risk from the employer to the employee.

5. **Better Retention-** High-achieving performers who are happy with their income and work environment may be more likely to stay instead of exploring other opportunities. They can also attain a certain level of prestige and respect in the company due to their achievements.

THE DISADVANTAGES PERFORMANCE-BASED PAY

1. **Deteriorating Quality-** Pay-for-performance plans can cause employees to focus more on quantity as opposed to quality, which could lead to the deterioration of the latter. A salesperson concerned with making as many sales as possible to achieve a bonus might overlook details such as filling out paperwork properly and ensuring the product is in stock before placing the order. As a result, customers receive the wrong item or have to wait much longer for delivery than promised by the salesperson.

2. **Lack of Teamwork-** Workers attempting to reach personal goals sometimes are less willing to be team players. They might be hesitant to provide assistance to struggling coworkers, because they view this as wasting valuable time that would be better used to improve their own productivity. In some cases, conflict between employees arises from a lack of cooperation or the perception that one employee is hindering the performance of another to prevent her from achieving her objectives.

3. **Measuring Performance-** Unless performance standards are completely objective, such as when awarding a salesperson a bonus for reaching a predetermined sales level, it can be difficult to determine whether the performance merits paying the incentive bonus. This places more pressure on supervisors during performance appraisals to accurately evaluate the performance of each employee. According to the Government Executive website, supervisors have a tendency to provide an inflated appraisal to ensure employees reach their incentives.

4. **Insufficient Motivation-** If employees perceive the amount of the incentive as too low, it does not provide the motivation to reach the desired increased productivity levels. Employees might even resent the employer for not offering a more meaningful program that could have a more significant impact on their standard of living. As a result, they could be motivated to perform to the minimum standard necessary to maintain employment while viewing the putting forth of extra effort as a waste of time.

INCENTIVES : Inducement or supplemental reward that serves as a motivational device for a desired action or behavior.

TYPES OF INCENTIVES

1. Individual incentives
2. Team or group incentives
3. Gain Sharing
4. Spot awards
5. Special non cash recognition
6. Pay for Knowledge

WHY INCENTIVES PLANS FAIL?

1. They seek to change or control behavior. While there are certain positions in an organization where you may want to reward behavior (for example, routine but important task fulfilment), most roles should have a strategic purpose. Rewards should be attached to the outcomes associated with that purpose, not for simply fulfilling certain actions or activities.

2. They rob employees of their creative input. Daniel Pink and others have written about research that demonstrates you don't improve innovation by providing a financial incentive. Creativity grows out of intrinsic motivators not by offering extrinsic "carrots" for getting the job done. Instead, rewards should grow out of the collective value creation that innovation drives (more on this in a minute).

3. They are short-term instead of "big picture" oriented. In VisionLink's work with clients, we observe that most companies have growth goals that are oriented towards building a future company that is bigger and better than the current organization. However, those same companies inevitably reward performance that is achieved in a period of 12 months or less. Variable pay plans should be balanced between rewarding short and long-term results. They fail when they emphasize one to the exclusion of the other.

4. They aren't tied to overall company results and they lack line of sight. In an effort to micro manage the fulfillment of certain results, organizations can end up detaching their incentives from basic company performance requirements. For example, they pay bonuses even though profitability thresholds or department targets have not been met. Instead, too much emphasis is placed on rewarding individual performance. This keeps employees from making a link between the company's financial vision, its business model and strategy, their role and what's expected of them in that role and how they will be rewarded for meeting those expectations. Without that link there is no line of sight. Without line of sight, incentive plans are destined to fail.

5. They are either too discretionary or too quantitative. This is the tyranny of the extremes—which is where most variable pay plans find themselves. A plan that is overly discretionary means the owner or CEO waits until the end of the year to "see what happens" and then tries to come up with a "fair" payout for eligible employees. Participants end up not knowing what they did to "earn" the extra cash—which means it is seen as Webster defines a bonus. It's just extra money. The other extreme is a plan that has so many metrics that employees end up either confused about what they need to do to receive their incentive payout or they are demoralized because

they think the requirements are out of reach. Compensation plans that are tied to performance need to be clear, simple, relevant and achievable to be effective. Otherwise, they will fail.

EXECUTIVE COMPENSATION PLANS AND PACKAGES

They are specialized compensation arrangements designed for senior leaders, top executives, and key personnel within an organization. These plans are meant to attract, retain, and motivate high-level talent by offering competitive and performance-based rewards. Executive compensation often includes a combination of elements that take into account both short-term and long-term performance, as well as the overall success of the company. Here are the key components typically found in executive compensation plans:

Base Salary: This is the fixed annual salary paid to executives. While it serves as a foundation, it's usually lower in proportion to the overall compensation compared to other components.

Bonuses:

Annual Performance Bonus: Executives may receive an annual bonus based on their individual performance or the company's overall performance during the year. Bonuses are often tied to specific financial or operational targets.

Sign-On Bonus: Sometimes offered to new executives as an incentive to join the company.

Short-Term Incentives:

Cash Awards: Performance-based cash incentives tied to specific goals, often linked to key performance indicators (KPIs) such as revenue growth or profitability.

Annual Incentive Plans (AIPs): Structured plans that provide executives with bonuses based on the company's annual performance against predetermined targets.

Long-Term Incentives:

Stock Options: The right to buy company stock at a predetermined price within a certain timeframe. If the company's stock price rises, executives can realize significant gains.

Deferred Compensation: Executives may defer a portion of their compensation to be paid out at a later date, often upon retirement, providing an incentive for long-term commitment.

Pension and Retirement Plans: Offering defined benefit or contribution plans to ensure executives have a stable income stream after retirement.

Benefits and Perquisites ("Perks"):

Healthcare and Insurance: Comprehensive medical, dental, and life insurance coverage.

Company Cars: Providing company vehicles or car allowances.

Club Memberships: Memberships to exclusive clubs or organizations.

Executive Services: Assistance with financial planning, tax preparation, and legal services.

Clawbacks: Certain compensation elements may be subject to "clawback" provisions, allowing the company to recover compensation in cases of financial restatements or misconduct.

Golden Parachutes: Special severance packages designed to provide significant compensation to executives in the event of a change in control of the company, such as a merger or acquisition.

Executive compensation plans aim to strike a balance between rewarding high performance and aligning executive interests with the long-term success of the organization. However, they often attract public scrutiny and require careful design to ensure they are fair, transparent, and aligned with shareholder and stakeholder interests.

UNIT 5

REGULATORY BODIES FOR COMPENSATION MANAGEMENT

WAGE BOARDS

Wage boards, also known as wage-fixing boards or wage determination boards, are government-appointed bodies or entities that play a role in setting or recommending minimum wages, working conditions, and other employment-related matters in certain industries or sectors of the economy. The primary objective of wage boards is to ensure fair wages and working conditions for laborers in industries that may not be adequately covered by collective bargaining or market forces alone

Wage Boards have a long history in the Indian industrial relations systems. As early as 1931 the Royal Commission on Labour recommended the setting-up of Wage Boards for determination of wages. It was envisaged in the First Five Year Plan that permanent Wage Boards with a tripartite composition should be set up in each state and at the Centre to deal comprehensively with all aspects regarding the question of wages.

The first Wage Board was appointed for the cotton textile industry in March 1957, and subsequently Wage Boards were also appointed for sugar, cement, tea, coffee, rubber plantation, iron, and steel industry, etc. It is a statutory body established by the government to handle the disputes relating to the employers or the employees.

CONSTITUTION/STRUCTURE OF WAGE BOARD

Wage Board consists of a Chairperson, an equal number of representatives of employers and employees (two members each), and two other independent members (an economist and a consumer's representative) nominated to the Board.

The Chairman shall be appointed by the Appropriate Government in consultation with the Chief Justice of the High Court concerned or Supreme Court of India, as the case may be. Any person who is or has been or is eligible to be appointed as a Judge of the High Court shall be qualified for appointment as the Chairman.

It has been the practice to nominate a Member of the Parliament to represent the interests of the consumer/ public. The members representing the employers shall be appointed by the Appropriate Government on the recommendation of the most representative organisations of the employers in the activity.

NATURE OF WAGE BOARD

1) TRIPARTITE IN CHARACTER :

Wage Boards are tripartite in character in which representatives of workers, employers and independent members participate and finalize the recommendations.

2) STATUTORY AND NON-STATUTORY :

Except for the Wage Boards for journalists and non-journalists newspaper and news-agency employees, which are statutory Wage Boards, all other Wage Boards are non-statutory in nature. Therefore, recommendations made by these non-statutory Wage Boards are not enforceable under the law.

3) Protect Workers from Exploitation :

Wage Boards are charged with the duty of seeing that the fair wages fixed for any particular industry are not very much out of line with wages in other industries in the region because wide disparities inevitably lead to movement of labour and consequent industrial unrest not only in the industry concerned but in other industries as well.

4) Operates in its Own Sphere :

Wage Boards were set up for individual industries as no two industries were exactly alike in respect of size, capital invested workers employed place in regional/national economy, goods produced and their utility to general consumers, financial capacity, export-oriented nature, etc., and as there could be no general prescription in regard to formulation of wage structure. Each Wage Board operates in its own sphere depending upon the special characteristics/features of the industry. covered.

FUNCTIONS OF WAGE BOARD

The functions of Wage Board may roughly be classified into two categories - primary and subsidiary - though it is difficult to draw an exact demarcation line between the two :

1) Primary Function :

The primary function of the Wage Board shall be to determine the wages payable to the employees of the activity. The Appropriate Government or the recognized organisations of employers and employees, by mutual agreement, may refer to the Wage Board any other matter for determination. The Wage Board shall follow such procedure as may be prescribed; provided that wherever the Appropriate Government has not prescribed any procedure, the Wage Board may evolve its own procedure.

2) Subsidiary Functions :

Subsidiary functions of Wage Board relate to allied problems such as hours of work, holidays with pay, provision for adolescent, sub-standard workers, etc.

PAY COMMISSIONS

Pay Commissions, also known as Wage Commissions or Salary Commissions, are government-appointed bodies or committees responsible for reviewing and recommending changes to the pay structure and compensation of public sector employees, particularly government employees. These commissions play a crucial role in determining salary revisions, allowances, and other benefits for government employees. Pay Commissions are typically established by national or regional governments and

operate at regular intervals, often every few years, to ensure that the salaries and benefits of government employees remain competitive and fair.

THE NEED FOR PAY COMMISSION

Salary Revisions: The Pay Commission periodically assesses the existing pay scales, allowances, and other benefits for government employees. It considers various factors like inflation, economic conditions, the cost of living, and prevailing market rates while recommending revisions. These revisions ensure that government employees receive fair and competitive salaries, in line with the changing economic landscape.

Impact on Public Finances: The recommendations of the Pay Commission have a significant impact on the government's financial expenditure, as the salaries and allowances of a large number of employees are affected.

Ripple Effect on Other Sectors: The recommendations of the Pay Commission often influence salary structures in the private sector and various state government organisations. Many state governments and private companies also use the Central Pay Commission's recommendations as a reference point while revising their own salary structures.

Social Equality: The Pay Commission also addresses the issue of pay parity and social justice. By ensuring that government employees receive fair and competitive wages, it helps reduce income disparities between different sections of society.

Reviewing Allowances and Perks: Apart from basic pay, the Pay Commission also reviews and recommends changes to various allowances and perks provided to government employees, such as housing allowances, medical benefits, and travel allowances.

History Since India's Independence, seven pay commissions have been set up on a regular basis to review and make recommendations on the work and pay structure of all civil and military divisions of the Government of India.

FIRST PAY COMMISSION The first pay commission was constituted in May 1946, and had submitted its report in a year and the importance is on the report. **Chairman was Srinivasa Varadachariar.** The first pay commission was based upon the idea of “**living wages**” to the employees, this idea was taken from the Islington Commission and the commission observed that “the test formulated by the Islington Commission is only to be liberally interpreted to suit the conditions of the present day and to be qualified by the condition that in no case should be a man's pay be less than a living wage.” The commission emphasized on the idea of the living wages and stated that the government that is going to introduce the minimum wages legislation for the workers of the private industry should also follow the same principle for its own employees. The commission recommended that the lowest rung employee should at least get minimum wages.

The Second Pay Commission second pay commission was set up in August 1957, 10 years after independence and it gave its report after two years. The recommendations of

the second pay commission had a financial impact of ` 396 million. The **chairman of the second pay commission was Jagannath Das.**

The second pay commission reiterated the principle on which the salaries have to be determined. It stated that the pay structure and the working conditions of the government employee should be crafted in a way to ensure efficient functioning of the system by recruiting persons with a minimum qualification.

Third Pay Commission The third pay commission set up in April 1970 gave its report in March 1973 i.e. it took almost 3 years to submit the report, and created proposals that cost the government 1.44 billion. **The chairman was Raghbir Dayal.** The third pay commission added three very important concepts of inclusiveness, comprehensibility, and adequacy for pay structure to be sound in nature. The third pay commission went beyond the idea of minimum subsistence that was adopted by the first pay commission, the commission report say that the true test which the government should adopt is to know whether the services are attractive and it retains the people it needs and if these persons are satisfied by that they are getting paid.

Fourth Pay Commission Constituted in June 1983, its report was given in three phases within four years and the financial burden to the government was ` 12.82 billion. This commission has been setup on dated 18.3.1987, Gazette of India (Extra ordinary) Notification No 91 dated 18.3.1987, **The chairman of fourth pay commission was P N Singhal.**

Fifth Pay Commission The Fifth Pay Commission was set up in 1994 at a cost of ` 17,000 crore. The chairman of fifth pay commission **was Justice S. Ratnavel Pandian.** Financial Impact of Fifth Pay Commission With the implementation of the Fifth Pay commission a huge burden was taken up by the central government. It declared hike in salary of about 3.3 million central government employees. Further, it also insisted on pay revision at the state government level. The Fifth pay commission disturbed the financial situation of both the Central and the State Governments and led to a hue and cry after its implementation. The Central government's wage bill before the implementation of the commission's recommendations was 218.85 billion in 1996-1997 which also included pension dues and by 1999 it shoot up by about 99% and the burden on the exchequer was about to ` 435.68 billion in 1999-2000. With regard's to the state government the bill went up by 74%. The state governments which paid about ` 515.48 billion in 1997 as salaries, had to pay ` 898.13 billion in 1999 as salaries.

This clearly indicates the burden on the state and the central government. Many economists say that about 90% of the revenue of the state went in as salaries. 13 states of India were not in a position to pay salaries to its employees due to the hike and hence the central government's help was sought.

Other Recommendations of the Fifth Pay Commission- One of its recommendations was to slash government work force by about 30%. It also recommended to reduce the number of pay scale from 51 to 34 and to not recruit to about 3,50,000 vacant position in the government. None of these recommendations were implemented. Criticisms of World Bank on Fifth Pay Commission The World Bank criticized the Fifth Pay commission, stating that the Fifth Pay Commission as the 'single largest adverse shock' to the public finance of the nation. It also said that the number of employees of the government was

'not unduly' large, but there was a 'pronounced imbalance' in the skills. It noted that about 93% of the employees were of 3rd or 4th grade.

Sixth Pay Commission In July 2006, the Cabinet approved setting up of the sixth pay commission. This commission has been set up under **Justice B.N.Srikrishna** with a timeframe of 18 months. The cost of hikes in salaries is anticipated to be about ` 20,000 crore for a total of 5.5 million government employees as per media speculation on the 6th Pay Commission, the report of which is expected to be handed over in late March/early April 2008. The employees had threatened to go on a nationwide strike if the government failed to hike their salaries. Reasons for the demand of hikes include rising inflation and rising pay in the private sector due to the forces of Globalization. The Class 1 officers in India are grossly underpaid with an IAS officer with 25 years of work experience earning just ` 55,000 as his take home pay. Pay arrears are due from January 2006 till September 2008. Almost all the Government employees received 40% of the pay arrears in the year 2008 and balance 60% arrears (as promised by Government) has also been credited in Government employees account in the year 2009.

The Sixth Pay Commission mainly focused on removing ambiguity in respect of various pay scales and mainly focused on reducing number of pay scales and bring the idea of pay bands. It recommended for removal of Group-D cadre. Controversy Several government services, most notably the armed forces have complained bitterly of down gradation due to pay commissions exceeding their brief, and introducing anomalies in the relative scales of pay of government services. At present, the armed forces have represented to the government for the removal of anomalies which it is felt that the civil servants on the commission have deliberately introduced to upgrade themselves vis-avis service officers in the defence forces.

Seventh Pay Commission- In the month of July, 2016, AK Mathur headed the Seventh Pay Commission and submitted a report on it to Finance Minister Arun Jaitley. The report suggested a 23.55% hike in pay and allowances of government employees. If the 7th pay commission is implemented, government employees will benefit from a pay hike and other benefits. The Government of India is planning to implement the 7th Pay Commission's recommendations by January 2017. Uttar Pradesh has already approved the 7th Pay Commission and have announced that it will be implemented by January 2017

COMPENSATION MANAGEMENT IN MULTI-NATIONAL ORGANIZATIONS.

Compensation management in multinational organizations (MNCs) is a complex and critical aspect of human resource management. It involves designing and administering compensation packages that attract, retain, and motivate employees across different countries and cultures while ensuring compliance with local labor laws and market conditions

OBJECTIVES OF INTERNATIONAL COMPENSATION MANAGEMENT

Following are the objectives of compensation management in international context:

1. **Recruitment and Retention of suitable employees:** MNCs plan compensation packages to attract and retain most suitable employees in terms of skills required to perform job efficiently.
2. **Consistency and equity:** the compensation package designed by MNCs secure consistency between pay and performance. It also seeks to bring equity among employees from different countries, categories and subsidiaries.
3. **Facilitate Mobility:** the compensation package helps employees to move from one country to another in the form of parent company or subsidiary.
4. **Adaptability to foreign environment:** compensation package motivates employees and their families to adapt to the environment and cultures of the foreign countries. If MNCs provide housing facilities, education, medical facilities, and other facilities to live comfortably in foreign countries, will encourage employees and their family members to adapt to foreign country cultures and also help employees to focus on their jobs.
5. **Organisational performance:** MNCs design compensation package to motivate and to enhance employee's job performance and hence add value to the organisational performance.
6. **Competitive compensation package:** MNCs design compensation packages in accordance with their competitors offering to their employees in other countries where they operate so as to attract and retain the best employees. The package is also set to be competitive among various jobs within the organisation to retain the competitive talent for the most demanding jobs.
7. **In accordance with ability to pay:** the pay package offered by MNC should be based on its ability to pay. Pay package is determined by the ability to pay, which in turn determines the quality of employees as well as total cost of the human resources.

ELEMENTS OF AN INTERNATIONAL COMPENSATION PROGRAM

The scope of international compensation is complex primarily It includes four categories of employees:

1. PCN (Parent-country nationals) are employees whose nationality is the same as that of the firm headquarters — for example, a German employee of a German company who is working at a Chinese subsidiary.

2. HCN (Host-country nationals) are employees who have the same nationality as the local subsidiary. This could be a Chinese employee working at the Chinese subsidiary of the German company

3. TCN (Third-country nationals) are employees whose nationality is different from that of either the headquarters or the subsidiary office. In the above scenario, this might mean an Indian employee working at the Chinese office of the German company.

4. Expatriate

Expatriates are the person of the parent country and work in the host country for a specific assignment and when he comes back then they will be known as the repatriate

Let us take an example of defining these terms from an Indian perspective. Dabur India limited is an Indian company.

If the Chinese citizen who works for Dabur in Shanghai is known as HCN. It means HCNs are those countries national who work where the operation are conducted. If the US citizen who works for Dabur in Shanghai is known as TCN. An Indian citizen who works for Dabur in Shanghai is an Expatriate.

KEY COMPONENTS OF INTERNATIONAL COMPENSATION ARE AS FOLLOWS

A. BASIC PAY: IT INCLUDES THREE METHODS FOR SETTING BASIC PAY

Localization Approach:

Approach: In this approach, compensation packages are primarily tailored to the local market conditions of each country where the organization operates. It involves adhering to local salary norms and practices.

Rationale: Localization recognizes the differences in cost of living, wage levels, and labor laws across countries. It aims to ensure that employees are compensated at a level consistent with local expectations.

Global Standardization Approach:

Approach: This approach seeks to establish uniform compensation practices and packages across all countries in which the organization operates. Compensation decisions are made at the global headquarters.

Rationale: Global standardization aims to simplify administration, ensure consistency, and align compensation with global corporate culture and objectives. However, it may not always be practical due to local variations.

Balance Sheet Approach:

Approach: The balance sheet approach calculates compensation by considering the employee's home country as a reference point. It ensures that employees do not experience a significant change in their standard of living when working abroad.

Rationale: This approach addresses expatriate concerns about maintaining financial stability while working in a foreign country. It typically includes components like a foreign service premium, cost-of-living adjustments, and tax equalization.

Cafeteria Approach:

Approach: The cafeteria approach offers employees a menu of compensation components and benefits from which they can choose. It allows employees to customize their compensation packages based on their preferences and needs.

Rationale: This approach recognizes that employees have varying priorities and preferences regarding compensation elements. It provides flexibility and can help attract and retain diverse talent.

Geoeconomic Approach:

Approach: The geoeconomic approach considers global economic factors when determining compensation. It may involve adjusting compensation based on factors like exchange rates, inflation rates, and economic conditions.

Rationale: This approach helps organizations address the impact of economic fluctuations on employees' purchasing power and standard of living.

Host-Country Premium Approach:

Approach: In this approach, employees are paid a premium for working in countries with challenging living or working conditions, such as those with high levels of political instability or security risks.

Rationale: The host-country premium approach acknowledges the additional challenges and risks associated with certain international assignments and aims to compensate employees accordingly.

Performance-Based Approach:

Approach: Compensation in this approach is linked to individual and organizational performance. Employees are rewarded based on their contributions and achievements, regardless of their location.

Rationale: This approach promotes a performance-driven culture and aligns compensation with business objectives, helping motivate employees globally.

Total Rewards Approach:

Approach: The total rewards approach takes a holistic view of compensation, encompassing not only monetary elements but also non-monetary rewards such as career development opportunities, work-life balance, and recognition.

Rationale: It recognizes that employees value a wide range of rewards, and organizations can use a comprehensive rewards strategy to attract and retain talent.

B. VARIABLE/INCENTIVE COMPENSATION

The globalization of business has increased the use of variable and incentive pay around the world

Variable pay plans generally fall into one of two categories:

- Short-term incentive plans are usually annual plans that link awards based on meeting individual or group performance criteria and objectives. Unlike long-term plans, these incentive pay plans provide for the payout to be awarded yearly.
- Long-term incentive plans, on the other hand, can vary in length from three to five years. These plans typically include equity-based incentives, such as stock options, restricted share grants and other types of equity-based plans like phantom stocks

or stock appreciation rights. Awards are closely linked to the achievement of company goals and objectives over the three- to five-year period.

PREMIUMS AND ALLOWANCES

Premiums and allowances are added to the base salary so expatriate employees can maintain their standard of living. Those add-ons are removed when the employee repatriates. Some types of premiums and allowances are as follows:

- **HARDSHIP AND HAZARD/DANGER PAY.** Employers sometimes need to send employees on assignments to host countries where conditions are difficult or hazardous (i.e., remote locations or countries with high rates of violence). As a result, a hardship allowance may be granted as an additional incentive to compensate employees for accepting assignments in less-than-desirable countries. Premiums typically range from 10 percent to 50 percent of base pay, depending on the severity of the hardship. For assignments in developing countries that have a history of violence or are experiencing political unrest, expatriates often receive some form of hazard pay, such as an additional 25 percent of their base salary. See Hazardous Duty Pay Policy: By Position and Location.
- **COST-OF-LIVING ADJUSTMENTS.** A cost-of-living adjustment is an increase or decrease of an expatriate employee's pay in response to fluctuations in the economy, such as inflation or deflation. To prevent attrition of the global employee's purchasing power, companies often raise the employee's base salary to keep up with inflation. When price levels drop, companies may also decrease the base salary accordingly.
- **EDUCATIONAL ASSISTANCE.** Educational assistance for dependents of expatriate employees varies based on conditions in the host country. Assistance is usually not provided if local educational institutions are deemed adequate. When the educational system of the host country is substandard, employers may use a variety of benefits, such as employers operating a school in the foreign country; paying for dependents' educational expenses, including room and board, to attend schools in the United States; or providing an allowance for attendance at private schools in either the United States or the host country. Other employers may simply choose to pay employees a specified amount (stipend) considered necessary for schooling at the nearest adequate school, and the employees make up any difference to send their dependents to an institution of their choice.
- **HOUSING ASSISTANCE.** Assistance for housing is usually provided either in the form of free company-owned housing or via a housing allowance that is typically equal to the difference in housing costs between the home and host countries or based on a specified percentage of an employee's base salary. Housing allowance rates are usually calculated based on either a single person or a two-person household. For employees with larger families living with them, employers may provide an additional supplement, typically ranging from 10 percent to 30 percent of the two-person allowance.

- **HOME LEAVE.** The objective of home leave policies is to give the assignee and his or her family the opportunity to maintain personal and business relationships and remain abreast of any economic, political, social or cultural changes in the home country. Although home leave policies vary among multinational corporations, most policies grant leave based on the employee's level within the organizational structure. Executives, managers and more senior-level professionals are most often granted home leave once a year, or once every other year for a duration of up to four weeks, and lower-level employees may be allowed only a single visit during the course of their assignment. Companies that provide home leave allowances generally purchase or reimburse the employee for any travel-related expenses, such as airline tickets for the employee, spouse or partner and any dependent children younger than college age.

BENEFITS

Health Care Plans

SPOUSAL/PARTNER ASSISTANCE- Assistance with job searches, visas or work permits, career and educational counseling, and resume writing are just a few examples of the types of assistance a multinational employer can provide spouses or partners of transferring employees.

CROSS-CULTURAL TRAINING- The purpose of these programs is to enhance the knowledge and awareness about the employee's new location and the cultural differences affecting communication, behaviors and viewpoints. Training programs typically last a few days; however, for assignments to more remote or difficult locations, programs may also include security training that lasts for a longer period of time. The length and type of training should be directly related to the perceived level of assignment difficulty or differences in the assignment country.

LANGUAGE TRAINING- The inability to communicate can create a sense of vulnerability and loss of control. A basic knowledge of the language empowers expatriate employees to build critical relationships with host country nationals. Some jurisdictions require that employee communications be in the local language.

COMPENSATION ISSUES IN INTERNATIONAL SCENARIO

1. Allowances for repatriation to home country.
2. Tax burdens on expatriates working in a foreign country.
3. Labour regulations in home and host country.
4. Cost of living allowances in the foreign location.
5. currency fluctuations