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# Compensation Planning

## Unit III

For Internal Circulation and Academic  
Purpose Only

# Programme Educational Objectives

*Our program will create graduates who:*

- 1. Will be recognized as a creative and an enterprising team leader.*
- 2. Will be a flexible, adaptable and an ethical individual.*
- 3. Will have a holistic approach to problem solving in the dynamic business environment.*

# Performance & Compensation Management

## Course Outcomes

- CO1-Given set of employee profiles; Students should be able to design performance appraisal process.
- CO2-For given organization; Students should be able to explore performance management practices.
- CO3-Students should be able to compare and contrast various organizational performance management programs and outline attributes of effective performance management systems.

- CO4-Students should be able to describe fundamental concepts of compensation, principles of compensation management and give examples of the types of compensation.
- CO5-Given the details of employee benefits, Students should be able to justify suitable employee benefit scheme for various organizations.
- CO6-Students should be able to explain the concept, role, & importance of career development for any organization and illustrate the importance of succession planning.

# Learning Objectives

- Students should be able to understand
- Compensation
- Compensation Planning
- Wages, legal Status of Wages
- Variable Compensation and Supplementary Compensation

# Compensation Management

## ■ What is compensation management

- Compensation is a systematic approach to providing monetary value to employees in exchange for work performed.
- Remuneration is the compensation an employee receives in return for his or her contribution to the organization.
- Compensation Management is designing and implementing total compensation package with a systematic approach to providing value to employees in exchange for work performance.
- Compensation may achieve several purposes assisting in recruitment, job performance, and job satisfaction.

# Compensation Management

## ■ Its importance

Compensation is an integral part of human resource management which helps in motivating the employees and improving organizational effectiveness.

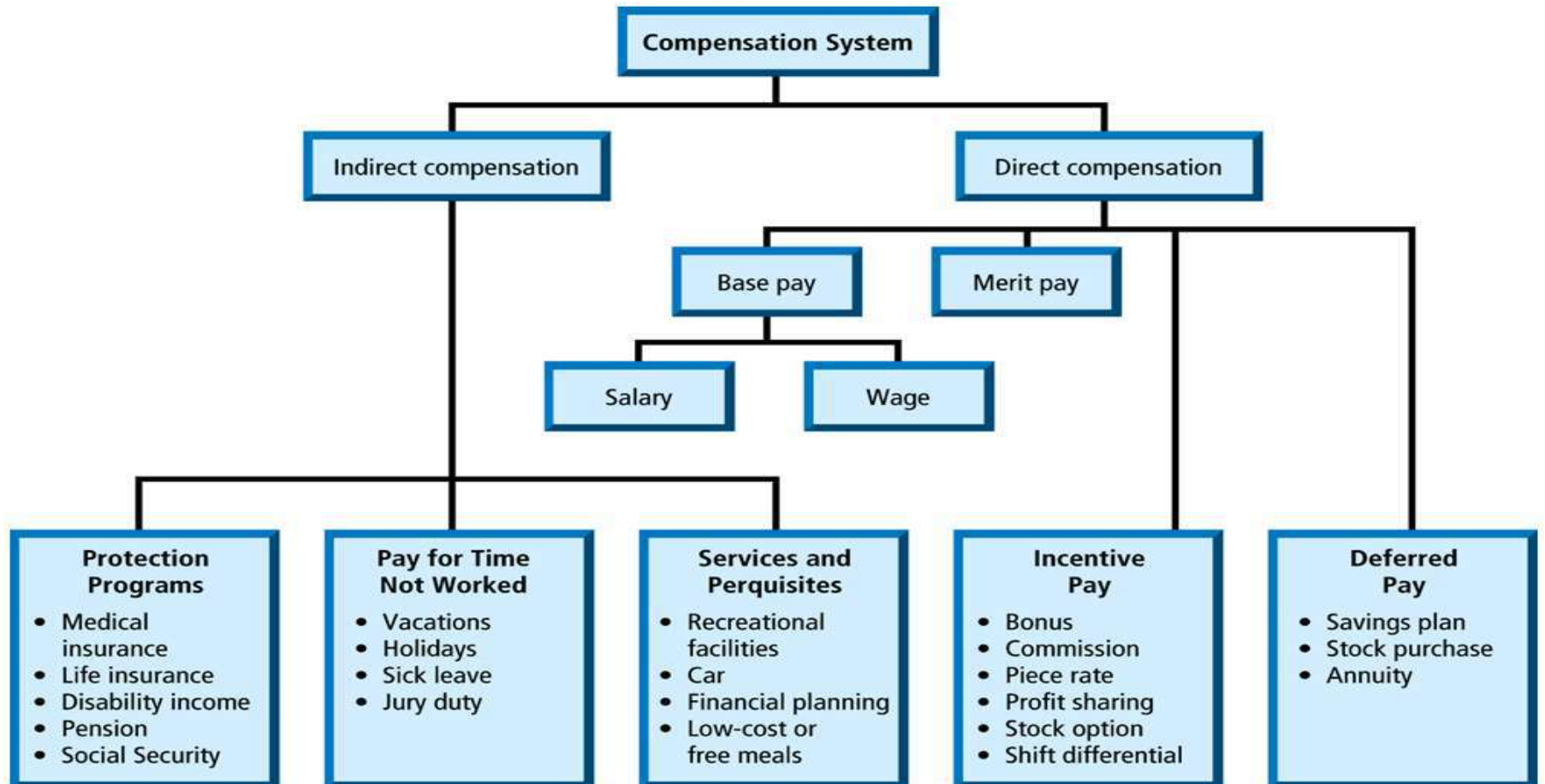
Effectiveness in terms of:

- Attracting & Retaining Talent
- Motivating talent for better performance
- Cost effectiveness



# Compensation Management

## ■ Types of Compensation



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# Components of Remuneration

## Monetary

### ■ Wage and Salary:

- The most important component of compensation and these are essential irrespective of the type of organization
- Administered individually
- Provides employee stable income and can plan chores of daily life, budget

### ■ Incentives:

- Incentives are the additional payment to employees besides the payment of wages and salaries. Often these are linked with productivity, either in terms of higher production or cost saving or both.
- Can be administered individually and for groups.
- Additional compensation having immediate effect and no future liability.

# Monetary Contd.

## ■ Fringe Benefits:

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

Administered for a group mostly

## ■ Perquisites:

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

Administered individually mostly

# Non-monetary

- Challenging job responsibilities
- Recognition of merit
- Growth prospects
- Competent supervision
- Comfortable working conditions
- Job sharing
- Flexitime

# Types of Wages

- **Minimum wage:** Minimum wage providing for sustenance of life plus for preservation of the efficiency of worker (some measure of education, medical requirements and amenities).
- **Fair wage:** Equal to the rate prevailing in the same trade and in the neighbourhood, or equal to the predominant rate for similar work throughout the country.
- **Living wage:** Higher than fair wage. Provided for bare essentials plus frugal comforts (education for children, insurance etc)

# Methods Of Wage Payment

- Time rate wage system:
- Piece rate wage system:

# Methods Of Wage Fixation

- Legislation
- Wage Boards
- Pay Commissions
- Job Evaluation
- Collective Bargaining
- Arbitration and Adjudication

# Legislation

- Payment of wages Act, 1936
- Minimum Wages Act, 1948

Category	Rates as on 01.10.2014 (Rupees)	Dearness Allowances (pm) w.e.f 01.04.2015 (Rupees)	Rates from (Rupees) 01.04.2015	
			Per-Month	Per-Day
<b>Un-skilled</b>	8632.00	416.00	9048.00	348.00
<b>Semi skilled</b>	9542.00	468.00	10010.00	385.00
<b>Skilled</b>	10478.00	520.00	10998.00	423.00

except employment in "Shop And Establishment and employment in 'Clubs'

- Equal Remuneration Act, 1976



# Wage Board

- The wage board is tripartite in nature and is a voluntary negotiation body set up by discussions between the employers and the employees to regulate the wages.
- It consists of an equal number of representatives from the employers and the employees with an independent chairperson.
- **Functioning**
- Wage board examines the need based minimum wage, job evaluation, productivity criteria, socio-economic considerations, need for incentives and employer's capacity to pay to conclude their recommendations for basic pay, DA increase and other allowances.

# Pay Commission

- Pay commission are salary-fixing machinery of the central government for the employees of the public sectors and government employees.
- The commission has a team of economists, secretary/chairman of commerce and industries and representatives from relevant ministries under the chairmanship of a retired judge.

# Job Evaluation

- Job evaluation is the process of systematically determining a relative internal value of a job in an organization. In all cases the idea is to evaluate the job, not the person doing it.
- Job evaluation is the process of determining the worth of one job in relation to that of the other jobs in a company so that a fair and equitable wage and salary system can be established.

# Wage Policy

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Wage policy refers to systematic efforts of the government in relation to national wage and salary system.

Purpose: To regulate the structure of wages and salaries with view to achieve economic and social objectives of the government.

- To give to workers a share in fruits of economic development.
- To set minimum wages for workers whose bargaining power is weak.
- To bring about more efficient allocation and utilization of human resources through wage and salary differential.
- To abolish malpractices and abuses in wage and salary payments.

## **Payment of Wages Act, 1937**

To prohibit any delay or withholding of wages

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## **Industrial Disputes Act, 1947**

Authorizing all state governments to set up industrial tribunals which would look into disputes relating to remuneration

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## **Minimum Wages Act, 1948**

Fixation of minimum rates of wages to workers

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## **Equal Remuneration Act, 1976**

Prohibits discrimination in matters relating to remuneration on the basis of religion, sex etc.

**With all these Acts in place, are there no disparities in wages?**

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# Concept Employee Benefits and Services

- Employee benefits and services include any benefits that the employee receives in addition to direct remuneration.
- The synonyms used are fringes, service programmes, employee benefits and hidden payroll.
- Referred to as ‘fringe benefits’ because years ago they were small, relatively inconspicuous.
- Differ from incentive plans since benefits & services not contingent on performance of individual, team or organization
- Most benefits are not taxed.
- Are of two types: Mandatory & Voluntary

# Objectives of Benefit Programs

- To Improve Morale
- To Meet Health and Safety Needs
- To Attract Good Employees
- To Reduce Turnover
- To Reduce Unionism
- To Maintain a Competitive Position
- To Enhance the Organization's Image





# **Factors influencing the decision to set up a particular employee benefit and service program**

- Cost
- Ability to pay
- Needs of the employees
- Bargaining strength of the trade union
- Tax consideration
- Social responsibility
- The reaction of employees
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# Employee benefits in India

- Old economy sectors dominated by manufacturing firms, engineering companies, government owned enterprises and others - provided employee benefits such as health coverage, leave benefits and statutory retirement programmes.
- Targeted towards a generation who believed and adhered to the concept of lifelong employment.
- As the economy grew, people became mobile and new employment avenues opened.
- HR managers started developing newer employee benefits to attract and retain employees.

# ESOPs

- Overhang of valuation bubble, less visibility on IPO front make employees cagey.
- Executives – How to encash ESOPs which contribute about 60% to the gross annual salary?
- As valuations peak, senior executives in the industry are making a beeline to the offices of lawyers and HR advisors to find ways to encash their ESOPs, before valuations start melting.

## Taking Stock

### EMPLOYEE CONCERNS ON ESOPs

- 1 CONVERTIBILITY
- 2 VALUATION RE-RATING
- 3 LACK OF AWARENESS ON VESTING OPTIONS
- 4 OPTIONS SOMETIMES EXPIRE WITHOUT KNOWLEDGE



Typically, ESOP component in salary could vary between **30% and 70%**

Companies are informally helping employees connect with willing buyers

**ECOMM COS BEING ADVISED TO ISSUE PHANTOM SHARES & RESTRICT STOCK OPTIONS**

# Employee benefits that are commonly offered in India

## 1. Retirement programmes

### a. Employees' Provident Fund (EPF)

- A statutory, hybrid, interest guarantee retirement plan administered and supervised by the government entity called the Employees Provident Fund Organization (EPFO).
- Employees – 12% of basic salary (with an option of paying additional 12% contribution)
- Employers pay 12% of basic salary =  
8.33% (Employee Pension Scheme) + 3.67% (Employee's PF account)
- Interest is credited at a rate that is announced by EPFO each year in consultation with the government.
- Employers pay an additional 1.61% to EPFO partly as an administration charge and partly to buy life insurance for the employees.

# Retirement programmes Contd....

## b. Private plans

### i. Private Provident Funds – EPFO

### ii. Superannuation plans

- Optional retirement plans – offered to selected employees
- Not very popular with rank and file employees because
  - Not portable
  - Have a very long vesting period
  - Funds cannot be withdrawn before a certain age
- Used as long term incentive benefits for middle and senior management
- Funding through insurance products, which takes of administration, compliance and investment management

# Health benefits

- Most expensive employee benefits, range from group health insurance coverage to reimbursement of pharmacy and outpatient bills, on-site doctors on call or discount arrangements with healthcare providers, co-pay health insurance.
- Health coverage for family with or without parents
- Minimum sum assured is above Rs. 2,00,000 to each employee.
- Corporate buffer amount for discretionary coverage.



# Wellness programmes

- Move from *disease management* to *health management*.
- Prevention health check-ups, health risk assessments and gym memberships, curative services (vaccination, yoga and meditation classes), rehabilitation healthcare services (physiotherapy, pre- and post-natal care, etc).
- Funding of these programmes usually take one of three routes :
  - Full funding by the employer
  - Partial funding by the employer and remainder by the employee
  - Employer contracts with various providers (benefit of scales)



# Other benefits

- a. Paid time off/ leave encashment programmes
  - i. Vacation
  - ii. Holidays
  - iii. Sick leave
- b. Food coupons
  - Under the current income tax rule – coupons are non-taxable upto Rs. 50 per meal
  - 22 working days in a month – employee can claim Rs. 1,100 as non-taxable income and employer can claim the same as business expenses
- c. Flextime
  - Strategic business tool
  - Most appreciated by employees but under utilized by employers

# Employee services

In addition to fringe benefits, organizations also provide services that employees find desirable.

These services are provided at low or no cost to the employee.

These are provided at the discretion of the management with consultation with the trade unions.

Eating facilities

Transportation facilities

Child care facilities

Housing services

Financial and legal services

Recreational, cultural and social programs

# Administration of benefits and services

Organizations have seldom established objectives, systematic plans and standards to determine the variability of the program

Lack of employee participation

Managers take little interest in benefits program and trade unions are almost hostile to schemes

Employees have little awareness about such programs

**These problems can be avoided if following steps are taken:**

- To establish benefit objectives
- To assess environmental factors
- To assess competitiveness
- To communicate benefit information
- To control benefit costs and evaluation



# Thank You

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# ***Reference Books***

- *Performance Management by A.S. Kohli, T. Deb- Oxford university press*
- *Personnel & Human Resource Management BY P Subba Rao*
- *Human Resource Development by Dr. D.K. Bhattacharyya, First Edition*
- *Human Resource Management by Ashwatthapa*