Class of 2021- Semester III

Performance Management & Reward Systems –

Notes

PAY STRUCTURES

What is a Pay Structure?

A pay structure provides a framework within which an organization defines the different levels of pay for jobs or group of job, on the basis of assessments of their relative internal value and of external relativities. Pay structures, also known as salary structures, set out the different levels of pay for jobs, or groups of jobs, by reference to:

Before we look at different pay structures, it is important to look at what do organisations pay for and with what

1. Base Salary Progression(increments) – for overall performance
2. Annual Performance Incentives- for achievement of personal objectives
3. Annual Bonus- for achievement – discretionary
4. Long Term Incentives- (cash or shares) for performance targets
5. Team awards- cash or kind for team contribution
6. Profit shares/Gainsharing- collective award
7. Recognition awards- cash or kind for exceptional contribution
8. Competency an skill based approaches- Skill based pay, contribution based pay

Number of Pay Structures

- ✓ Based on the idea that a data entry operator is somehow more important than a technician managing more important than a technician managing a computer operated machine tool no longer holds water Pay is strongly affected by market rate pressures and some people may therefore have to be paid more for attraction and retention purposes than people whose jobs have been assessed as being at the same level by a process of internal evaluation

Purpose and aim of pay structures

The purpose and aim of pay structures are as follows

- ✓ To provide a fair and consistent basis for motivating and rewarding employees
- ✓ Pay structure should also help the organization to control the implementation of pay policies and budgets

Criteria of Good Pay Structures

The criteria for good pay structures are

- Pay Structures should be appropriate to the characteristics and needs of the organization; its culture, size and the complexity and level of people employed
- Pay Structures should be flexible in response to internal and external pressures
- Pay Structures should facilitate operational and role flexibility
- Pay Structures should give scope for rewarding high-level performance
- Pay Structures should facilitate rewards for performance and achievement
- Pay Structures should clarify pay opportunities, developmental pathways and career leaders

Basis of Pay Structures

Pay Structures have the following bases

Internal Relativities

- Depends on the process of job evaluation
- On the basis of what has to be done to achieve a standard and acceptable level of job performance

External Comparisons: External comparisons are made through **market rate survey**

What are Market Rate Surveys?

Market rate surveys are surveys that compare compensation structures for similar positiosn across organisations in order to

- *To decide on starting rates*
- *Modify and Design Pay structures*
- *Check what is acceptable*
- *Understanding benefit systems*

The following data could be collected through Market Rate Surveys

- Base pay;Cash bonuses; Total earnings (What cash earnings);Employee benefits; Other allowances; Total remuneration; Information on Salary structure.

  (Data could vary depending on region, location, industry and size of organisation)

Market rate surveys are conducted by matching jobs in:

- *Function*
- *Sector*
- *Industry Classification*
- *Location*
- *Size of organisation*
- *Range of responsibilities*
- *Level of responsibility*

Sources of data for Market Rate Surveys

Data is collected through the following sources

1. Published surveys
2. Specialized surveys
3. Company surveys
4. Survey clubs
5. Journal, newspaper, press
6. Job ad analysis
7. Market intelligence
8. Grapevine

TYPES OF PAY STRUCTURES:

Pay Structures can be classified as

Graded Pay Structure; a *sequence of overlapping job grades into which jobs of broadly equivalent size are allocated. Each grade has a range, the maximum of which is usually 20 to 50% above the minimum. Graded pay c*consists of Job Grades; pay ranges and grades; highest-lowest, width, differentials; contain range reference Points; can have overlap between ranges; Pay progression through ranges; Progression through the structure

Broad-banded Structures- Broad-banding is a method for evaluation and construction of job grading structure that exchanges a large number of narrow salary ranges for a smaller number of broader salary ranges. Broad-banding aids in establishing what is required to pay for a specific position.

This type of pay structure encourages the development of broad employee skills and growth while reducing the opportunity for promotion.

It involves compression of a hierarchy of pay grades into a small number of wide bands

(Broad grade Structure- *a number of salary bands are collapsed into 7 to 8 grades)*

Career Band structures-These are structures only four or five bands are used , focus in flexibility and individual career growth Not many bands; Wide pay spans ; Lateral career development; Less hierarchy; Less concern for structure; Pay decisions lie with line manager

Job Family Structures

Job family structures resemble career structures in that separate families are identified and levels of knowledge, skills and competency requirement defined for each level, thus indicating career paths and providing the basis for grading jobs by matching role profiles to level definitions. Like career families, job families may have different numbers of levels depending on the range of responsibility

Job families have the advantage of operating one pay structure for all jobs in terms of achieving consistency and facilitating control system to be obvious. Families may also be distinguished from one another in terms of the market rates for the occupations within the family. The **difference between a career family structure and a job family structure** is that in

the former there is a common grade and pay structure. Jobs in the same level in each career family are deemed to be the same size as assessed by job evaluation and the pay

ranges in corresponding levels across the career families are the same. In contrast, the

families in a job family structure have in effect their own pay structures, which take

account of different levels of market rates between families (this is sometimes called

'market grouping')

Some other types of Structure are

- Individual Job Range
- Benefit Grade Structures
- Pay Curves
- Spot Rate Structures
- Pay Spines
- Pay Structures for manual workers
- Integrated pay structures
- Rate for age scales

Individual Job Ranges

Structures simply define a separate pay range for each job

Individual ranges can also be used in rapidly growing companies where a normal grade structure would restrict recruitment policy too much or in small organizations where a grade structure would be cumbersome

Benefit Grade Structure

Main differences between a broadband structure and a benefit grade structure with individual ranges are that in the former all employees are graded within the banded structure.

GRADE A Senior Management	
GRADE B Middle Management	
GRADE C Junior Management	

Pay Curves

Pay Curves are also known as Maturity or Progression Curves

Pay Curves are a development of job family structures. Each organisation may have different methods of handling pay determination and pay progression

Each job family has different tracks to allow people to move according to their competence level. The pay curve system recognizes that different methods of handling pay determination and progression may have to be used in some job families because graded structures may not be suitable for knowledge workers

Assumptions Related Pay Curves

- ☑ Competence develops progressively through various levels or bands
- ☑ Individuals will develop at different rates and will therefore different levels of performance
- ☑ Market rate consideration should be taken into account when determining levels of pay

Employees would not move into a new band until they have demonstrated that they have attained the level of competence required

Pay increases for individuals are usually determined by line managers by reference to policy guidelines and data provided by the HR department on market rate movements and their pay budgets

Spot Rate Structures (Ad-hoc determination of pay)

The alternative to fixed increments is either spot rates or some form of contingent pay. Spot rate systems in their purest form are generally only used for senior managers or shop floor or retail workers and in smaller organizations and new businesses where the need for formal practices has not yet been recognized. Spot Rates can be fixed entirely by reference to market rates in a market driven structure

Spot Rates are typical for manual workers but they are adopted for other types of staff by some organizations that want the maximum degree of scope to pay what they like

Pay Spines

Pay Spines are a series of incremental points extending from the lowest to the highest in a particular band in the whole structure (E.g. Government jobs)
Pay spines are found in the public sector or in agencies and charities that have adopted a public sector approach to reward management. They consist of a series of incremental ‘pay points’ extending from the lowest- to the highest-paid jobs covered by the structure. Typically, pay spine increments are between 2.5 per cent and 3 per cent. They may be standardized from the top to the bottom of the spine, or the increments may vary at different levels, sometimes widening towards the top. Job grades are aligned to the pay spine, and the pay ranges for the grades are defined by

the relevant scale of pay points. Series of incremental points

Pay Structures for Manual Workers

Typical Pay Structures For Manual Workers and their basis

- Pay structures for manual workers are based on striking a bargain about the relationship; All employees are in a bargaining situation with regard to pay; Fixed by negotiation with trade unions; Structure for manual workers will have the minimum number of grades; Accommodate the clearly differentiated levels of skill and responsibility that exist in the organization

Type of pay structures for manual workers

Spot Rates

Spot rates are fixed base rates for each job which do not vary according to skills or merit

Time Rates

Time rates, also known as day rates, daywork, flat rates or hourly rates, provide workers with a predetermined rate for the actual hours they work. The rate is fixed by formal or informal negotiations, on the basis of local rates or, less often, by reference to a hierarchy produced by job evaluation. The rate only varies with time, never with performance or output. However, additional payments are made on top of base rates for overtime, shift working, night work, call-outs, adverse working conditions and, sometimes, location. There is constant pressure from trade unions to consolidate average bonus earnings into the base rate

A high day rate may include a consolidated bonus element and is probably greater than local labour market rate to attract and retain good quality workers

Integrated Pay Structures

Employees who have traditionally been paid under separate arrangements may be paid in the form of a combination of pay structures

INDIVIDUAL CONTINGENT PAY

Individual contingent pay is the term used to describe schemes for providing financial rewards that are related to individual performance, competency, contribution or skill. Contingent pay may be made available in the form of consolidated increases to base rates or by cash bonuses (variable pay or ‘pay at risk’) or a combination of the two. Contingent Pay can be paid under the following categories

- **Performance-Related Pay**
- **Contribution-Related Pay**
- **Service-Related Pay**
- **Competence-Related Pay**

Performance-Related Pay (Also Known As Merit Pay/Variable Pay)

Performance Related Pay – rewards colleagues for how they perform against their objectives. Performance pay is seen as a one dimensional system.

Contribution Pay – rewards colleagues for how they perform against their objectives and how developed/capable they are. Contribution pay is based on the theory that a fully competent colleague would be expected to fulfil all responsibilities/objectives of the role whereas a new or developing colleague would be expected to achieve fewer or less complex objectives or lower targets/measures. A "master" or expert in the role would be expected to achieve additional or more complex objectives than that required of the basic role. Contribution pay is a two dimensional system. If the company has a development focus, it is keen to help employees realise their maximum potential and has development plans in place for employees then contribution pay is chosen over performance pay. Pay increases are related to the achievement of agreed results defined as targets or outcomes.

Service-Related Pay

Service-related pay provides fixed increments that are usually paid annually to people on the basis of continued service either in a job or a grade in a pay spine structure. Increments may be withheld for unacceptable performance (although this is rare) and some structures have a 'merit bar' that limits increments unless a defined level of 'merit' has been achieved. The age discrimination regulations only permit service related pay for a maximum of five years. Further points in a pay spine can only be used if there is an objectively justifiable reason, such as additional competencies. Service-related pay is a simple concept based on the assumption that increased service in a job automatically enhances performance. It is supported by many unions because they perceive it as being fair – everyone is treated equally. It is felt that linking pay to time in the job rather than performance

Competence Based/ Related Pay

Pay Increases are related to the level of competence. Focuses attention on need to achieve higher levels of competence. Encourages competence development. Can be integrated with other applications of competency based HR management. Assessment of competence levels

may be difficult. Ignores outputs: danger of paying for competences that will not be used. Relies on well-trained and committed line managers.

Skill-based pay

Increments related to the acquisition of skills. Encourages and rewards the acquisition of skills. Can be expensive when people are paid for skills they don't use. On the shopfloor or in retail organizations.

Consolidated pay increases

Scope is provided for consolidated pay progression within pay brackets attached to grades or levels in a graded or career family structure or zones in a broad-banded structure. Such increases are permanent – they are seldom if ever withdrawn.

Cash Bonuses (Variable Pay)

Alternatively or additionally, high levels of performance or special achievements may be rewarded by cash bonuses, which are not consolidated and have to be re-earned.

PERFORMANCE MANAGEMENT AND COMPENSATION

Performance Rewards & Compensation

Compensation refers to the returns employees receive for their contributions to the company. These returns are of different types that include both financial and non-financial. Compensation Management is also known as Wage and Salary administration, Reward management and Remuneration management.

The basic aim of compensation management is to establish and implement sound policies with regard to employee compensation. In this unit we learn about the objectives and components of compensation; work analysis; market comparisons and pension plans and executive compensation. The objectives of performance management are closely related to reward systems. The important objectives of performance management are to provide valid information regarding employees, to take managerial decisions with respect to employees' salary adjustments, promotions, retention or termination, recognition of excellent performance, identification of poor performers, layoffs and giving merit incentives. As such, compensation management is an important component of performance management.

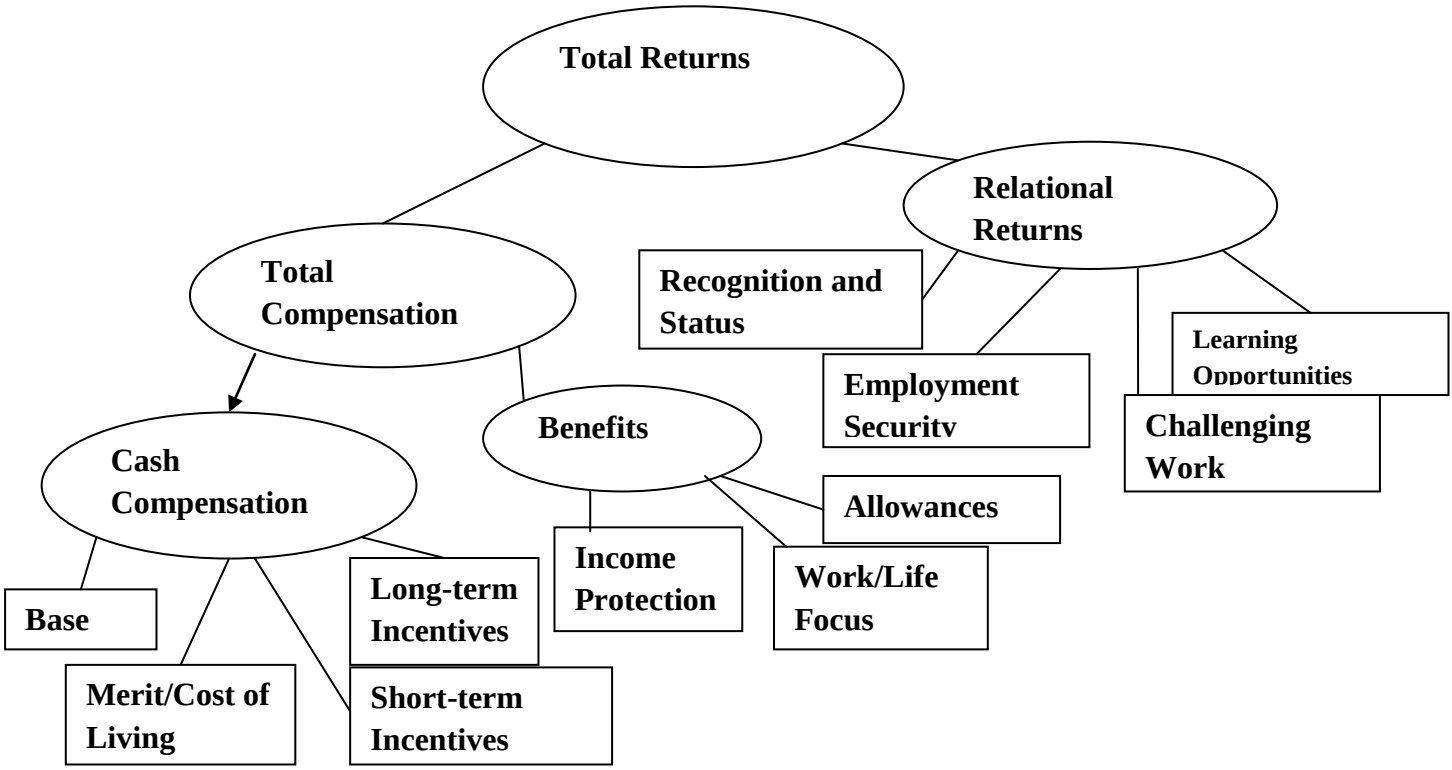
Components and Objectives of Compensation Management:

Different people view pay in different ways. For some pay is a measure of justice, for employers it is an expense and for employees it is a return for the services rendered. Some consider it as a reward for the job done. In large state owned companies, it is considered as an entitlement and just due for employees regardless of their performance. Compensation is what employees receive for their contribution to the organization. The generally accepted meaning of compensation is all forms of financial returns, tangible services and benefits employees receive as a part of an employment relationship. These returns are two types- Total compensation, which includes cash compensation and benefits; the second one is Relational returns that include recognition, security, challenging work and learning opportunity (Refer Figure 12.1).

Objectives of Compensation Management:

- Compensation should be equitable- Each person should be paid fairly and fair treatment is to be given for all employees, taking in to consideration their efforts, abilities and training.
- Compensation should be such that it attracts and retains talented employees.
- Balanced-Pay benefits and other rewards should provide a justifiable reward package. It should strike a balance between the needs of the employees and the capabilities of the organization.
- Cost effective- Pay should be such that it is within the affordability range of the company. It should be optimum with a linkage to performance and affordability.
- Secure- Compensation should be able to meet the basic needs of the employee and secure enough to lead a dignified life.
- Efficiency- Compensation should be such that it enhances performance of the employee and increase quality of the products and services.
- Compliance- Compensation should be in compliance with government laws and regulations, and if global, compliance with all countries
- Motivating- Compensation should motivate employees for superior performance and productive work.
- Consistent and acceptable to the employees- It should take into consideration the internal and external factors- internally, has to look in to the criticality of the job and performance of the employee and externally, it should be par with similar job in similar organizations. The employee should feel that the compensation is reasonable and worthy.

Total Returns for Work- Pay Model(*Source: www.mcgrawhill.ca/college/milkovich, chapter 1 the Pay Model)*



In essence, the components of compensation are

- **Wage and salary-** Fixed pay
- **Incentives-** additional payments to employee besides wages and salary often linked with productivity and performance
- **Fringe benefits-** Fringe Benefits include Provident Fund, Gratuity and Pension, Medical benefits, Accident Relief, Health, Life Insurance, Job uniforms, Canteen facility and the like.
- **Perquisites-** Perks include company car, residential accommodation, paid holiday trips, stock options, club membership and the like.

Work Analysis- Work Evaluation In Deciding Compensation

Work analysis also known as job analysis plays a vital role in compensation management. According to Milkovich, Newman and Gerhat, 'Work analysis is the systematic process of collecting information that identifies similarities and differences in the work'.

Work Analysis

- It tries to identify the content of a job in terms of activities involved and attributes or job requirements needed to perform the activities
- Job analyses provide information to organizations which helps to determine which employees are best fit for specific jobs.
- Helps to understand what the important tasks of the job are, how they are carried out
- the necessary human qualities needed to complete the job successfully
- Job analysis involves the analyst describing the duties of the incumbent,
- Job analysis deals with the nature and conditions of work,
- Job analysis is crucial for first, helping individuals develop their careers, and also for helping organizations develop their employees in order to maximize talent.
- The outcomes of job analysis are key influences in designing learning, developing performance interventions, and improving processes.
- It helps to develop programs to recruit, select, train, and appraise people for the job as it will exist in the future.

Job analysis explains job specification and job description.

- The purpose of the job
- The physical and mental activities the worker undertakes
- The nature of the job- The tasks and activities to be performed by the job holder
- The qualifications required by the job holder to perform the job
- All this helps in fixing compensation for each job. The three Ps of Compensation Management are:

  - **Compensation for Position-** Takes into account the qualifications, education and training one possesses to offer a particular position

  - **Compensation for Person-** to determine the pay structure that is both equitable and competitive. The competencies of the person are important here.

  - **Compensation for Performance-** The basis for fixing a pay is the performance of the person-how well he performed or reached the targets.

Job Analysis- Process of studying and collecting information relating to the operations and responsibilities of a specific job. For Job analysis, Job specification and Job description are necessary.

Job Specification- It specifies the minimum qualities required for acceptable performance.

Job description- It tells what is to be done, how it is to be done and why. It is an organized statement of the duties and responsibilities of a specific job.

Job Evaluation- According to Edwin Flippo, 'it is a systematic and orderly process of determining the worth of a job in relation to other jobs'. It evaluates and rates the jobs of the organization.

Job Evaluation Methods

Job Evaluation Methods can be classified as

1. Non- analytical methods in which whole jobs are examined and compared, without being analyzed into their constituent parts or elements.
2. Analytical methods in which jobs are analyzed by reference to one or more criteria, factors or elements.

Job Evaluation can be done on the basis of

- Job ranking (Job-job, Job-scale)
- Paired Comparison
- Job Classification
- Internal benchmarking
- Market pricing
- Point factor rating
- Graduated factor Comparison
- Factor comparison
- Single factor analysis

Work evaluation in deciding compensation

Different wages/salaries are paid to different worth of jobs. The relative worth of a job means relative value produced. Depending upon different responsibilities, skills, efforts, and working conditions, compensation is decided.

Job is evaluated on the basis of the following factors

- Know-how- Includes technical, human and Managerial Know-how
- Problem-solving and Accountability- How much accountability rests with the job
- Education- How much knowledge is required
- Experience- How much experience is required to handle the job
- Complexity of the job- How much time is taken for learning and adapting to the work and how complex the job is to handle

- Scope of job- The length and breadth of the job
- Supervision received- How much guidance is required
- Authority exercised- How much authority is vested with the job

All these factors determine and evaluate a job.

Job Evaluation Techniques- There are three ways in which jobs are generally evaluated.

1. The Point Method- In point method each factor is defined and assigned certain points based on the value the factor carries to the company. The relative importance of each factor is weighted to know the worth of the job.

2. Simple Ranking Plans- In this method each component is ranked from lowest to highest to know the worth of the job.

3. Paired Comparisons- Two jobs are paired and compared and if there are many jobs, a comparison will be made for every two jobs and valued. Jobs with higher scores/points are considered more valuable than jobs with lesser scores/points.

Cost-To-Company

Components of Cost to Company (CTC)

Cost to Company- CTC is the amount that costs the company or the amount the company spends – directly or indirectly – because of employing the person.

Thus, CTC is the money given to employee plus the money spent by the company because of employing the person, which is inclusive of salary paid to the employee plus deductions. To understand clearly, let us explain the terms associated with CTC:

- Gross Salary- Amount of salary paid after adding all benefits and allowances before deducting tax.
- Net salary- It is generally the take home salary after deductions made by the employer.
- CTC- The cost incurred by the employer, in other words, all the costs associated with an employment contract. CTC includes compulsory deductions like Provident Fund, Medical Insurance and expenses incurred for hiring, maintaining and retaining the employee.

Components of CTC:

- Basic Pay- Fixed compensation paid as basic salary
- Dearness Allowance (DA)- refers to allowances paid to employees in order to face the increasing dearness of essential commodities
- Allowances-include Incentives or bonuses, Conveyance allowance, House Rent Allowance (HRA). Medical allowance, Leave Travel Allowance or Concession (LTA / LTC), Vehicle Allowance, Telephone / Mobile Phone Allowance and Special

Allowances All the above are a part in-hand salary, and therefore, are a part of CTC pay as well.

- Deductions- include deductions like Provident Fund, Medical Insurance. It is mandatory for an employee to contribute 12% of basic salary towards provident fund (PF). Employer makes an equal contribution (12% of the basic). PF is an expense that a company incurs on the employee every month.
- Performance –Linked Pay- many companies pay their employees, generally annually, on the basis of productivity and performance of the employee.
- Taxes—Deductions aid to the Income Tax department

Preparing Compensation Revision Plans

After making market comparisons, compensation revision plans are to be prepared. Comparisons tell the gaps in compensation components. One has to identify not only the financial aspects but also the existing gaps in skills, knowledge and competencies. After assessing the existing gaps, revision plans are to be prepared. Efforts should be made to attract talented people by offering competitive compensation. And retain the existing talented pool by revising their compensation. Compensation Revision plans should contain best in class compensation which is fair and equitable. The word of caution is revision plans should not only match with the goals and objectives of the company but also company's financial capabilities.

Communicating Compensation revision Plans

After revising the plans, all revision plans should be communicated to all stakeholders. Communication should go through varied channels so that it reaches the potential candidates.

Tax Considerations

Tax considerations are those allowances which are exempted from paying taxes. They are known as tax exemptions or applicable deductions or tax benefits. Pay packets are restructured in such a way that they are exempted from paying taxes. For instance, expenses like house rent, medical, transport, education, house loans, insurances are various examples which warrant tax concessions. The purpose of providing tax considerations is to enable employees to have maximum value for the given compensation package. Government stipulates rules and regulations from time to time either to add or delete provisions for tax payment.

Taxes are major revenue for any government. Individuals, corporate, estates, trusts are required to pay income taxes. Taxable income is the difference between the gross income and

deductions. From time to time, the calculations of income tax are changing. The Finance Minister while presenting annual budget underlines the tax exemptions, which are applicable for that financial year, which starts from 1st of April.

Tax exemption calculations vary depending on gender, marital status and number of dependents. Likewise, nature of capital gains and also nature of business/work undertaken also impact tax deductions.

Pension Plans

Employee Retirement Income Security Act (ERISA)

The Employee Retirement Income Security Act of 1974, or ERISA, is a federal law that sets minimum standards for pension plans in private industry. It protects the assets of millions of Americans so that funds placed in retirement plans during their working lives will be there when they retire. ERISA provides information about the Plan. It sets minimum standards for participation and the law specifies minimum number of years of service to become eligible for participation. It gives participants the right to sue for benefits and breaches if violated. It guarantees payment of certain benefits if a defined plan is terminated.

There are three kinds of retirement plans

1. Pension Plans

Pension plans are deferred arrangements. They are in existence for a long time in Civil Service and government organizations. They provide payments over a prescribed schedule. The actual amount of the pension depends on the employee's base pay and length of service. Pension plans are two types- Defined benefits plan and defined contribution plan.

- **Defined benefits plan** – Under this plan an employee's pension is calculated on average earnings in the highest 3 years of employment multiplied with 2% times the total years of service. It is not unusual for an employee with around 30 years of service to receive 50 to 60% of his salary as pension under this plan.
- **Defined contribution plan**- Under this plan, an employee's pension depends on the actual amount contributed and the increased earnings of the invested funds. For example, if an employee contributed 5% his salary with around 30 years of service, he will receive 15% of his salary as pension.

Profit-sharing - It is a plan that gives employees a share in the profits of the company and under the plan each employee receives a percentage of the profits earned by the company. It provides a sense of ownership in the company to the employees. For exceeding financial goals, profits are distributed equally among all employees in proportion to their incomes. Profit sharing plans can be a powerful tool in promoting financial security to employee retirement.

3. Stock-bonus plans

In a qualified stock bonus plan, employer contributes stock to the plan, similar to that of a defined contribution plan. Many pension plans permit an employee to receive pension to the spouse after his death as reduced pension.

Following are some of the Retirement plans offered to US Taxpayers

Employee Stock ownership Plan (ESOP)

An **employee stock ownership plan** (**ESOP**) is an employee-owner method that provides ownership to employees with an interest in the company in an ESOP. It is a contributory retirement plan, where employees participate in corporate ownership. Companies provide their employees with stock ownership, often at no up-front cost to the employees. ESOP shares, however, are part of employees' remuneration for work performed. Shares are allocated to employees and may be held in an ESOP trust until the employee retires or leaves the company. Under ESOP, employer contributes stock to an employee stock bonus trust (ESOT). ESOPs are two types-stock bonus ESOP and leveraged or leverageable ESOP. In a stock bonus ESOP, employee contributes company stock to the ESOT. In a leveraged ESOP, the employer uses the special privileges granted to an ESOT to obtain funding for various purposes. The stock becomes part of an employee profit-sharing or retirement program. Employees receive the stock upon retirement along with special tax credits for the value of the stock the company bought for the employees.

Savings or Thrift Plan

Many organizations have developed savings or Thrift Plans to its employees. Under these plans, employees set aside certain amounts of earnings in order to have a secure and happy retirement. The organization contributes 50-100% amount saved by the employee. These amounts are eligible for tax exemptions. There will be a ceiling on savings, which should not exceed 25% of the salary of the employees.

Cash or Deferred Arrangement (CODA)- 401 (k) Plans-

Many saving and Thrift plans have been modified into CODA plans. Under this plan employees have the right to agree to a reduction in salary in exchange for a comparable employer contribution to a qualified trust. Employees receive a lump-sum amount and generally the contributions are up to 5-6% of salary of the employees.

KSOPS-

Many large companies merged 401(k) plans with ESOPS and called them as KSOPs. Under this plan companies became eligible for dividend deductions. Dividend from company stock paid into the retirement plans are tax deductible. These tax deductions in many cases amounted to one third of company's contribution to employee's retirement plans.

Individual Retirement Account

(IRA) Individuals who do not participate in any retirement plans are eligible for IRA. The employee can contribute up to $3000 under this plan and the amount increases year by year..

The contributions under IRA are tax deductible. The IRA owner has the freedom to select his own investment plan.

Simplified Employee Pension Plans (SEP)

SEP permits employers to establish a qualified IRA program for employees of 25 years age. These plans are similar to qualified plans

Savings Incentive Match Plan for Employees (SIMPLE)

SIMPLE is meant for employees with less than $5000 income per month and in accompany with less than 100 employees. Employee using SIMPLE plan should not contribute to any other qualified plan. Both employee and employer contribute to the saving with lot of flexibility.

Keogh (HR-10) Plan

This is meant for self-employed persons such as partners or sole proprietors for themselves or their employees. There are three types in this plan

- Profit-sharing plan
- Money-purchase plan
- Paired-plan

Roth and Education IRAs

All incomes under this plan are tax free and there is no age limit to contribution. The money is to be used only for education purposes.

College Savings Plan

This plan also provides enhanced options for education savings and earnings on these plans are tax free. There are no income restrictions to participation.

Executive Compensation

Executives play a vital role in organization development, hence their compensation too. Executives belong to the highest decision-making group such as CEOs, Full-time Directors, Senior Managers etc. In India and all other countries executive compensation is a point of discussion-how much it should be, what their components are and how it is to be fixed. There is no unanimous agreement on this. Each company has its own methodology. But one point of agreement is since executives are the top most personnel; they should be compensated heavily because their able, efficient and loyal contributions are responsible for the success of the organizations.

Factors Affecting Executive Compensation:

Complexity of the job they hold- This complexity entails them for higher compensation

Competencies required- Executives have to handle crucial situations and are responsible for the overall development of the organization, requiring superior competencies.

Capacity to pay- Higher executive pay is directly related to the affordability of the company.

Organizational philosophy- Executive compensation depicts the image and philosophy of the company.

International impact- Many of the international companies look at executive compensation to tie up with the organizations.

Legal implications- Several legal implications are involved with executive compensation.

These top 1% executives receive the major part of the profits of the organization, resulting in a big gap between their salaries and that of the remaining staff. From the beginning of 21st Century, there is resentment over the greedy salaries of the executives globally. Social groups opposed the pay disparities between the top personnel and middle and lower level managers.

Major components of Executive Compensation

- Base salary- The minimum base salary in US companies was $1 million
- Short-term performance bonuses- Short-term bonuses ranged from 50% of base pay to even 10 times of the base pay.
- Equity and equity-related components- Stock options such as Incentive stock options and Stock purchase plans were offered to executives.
- Long-term performance bonuses-Long-term performance bonuses were also offered to executives.
- Severance packages-To attract and retain top executives, several packages including front-end bonus, salary, pension, life and medical insurance, cash and deferral bonuses, stock acquisition opportunities, and a variety of other benefits and services.
- Retirement Programs- pension plans, Golden parachute offer
- Wide variety of benefits and perquisites- Company provided car, Counselling service, Opportunities for attending professional meetings and conferences, Home entertainment allowance, special living accommodation, club membership, special dining rooms, season tickets to entertainment events, Special relocation allowance, use of company credit card, medical expense reimbursement, tuition fee reimbursement for children, no and low interest loans.

Source: Richard I. Henderson, ***Compensation Management in Knowledge-Based World****, tenth edition, Pearson Education, 2006.*

Some more components in Compensation

- **Seniority pay-** It is a traditional practice to fix employee's pay on the basis of seniority or length of service. The principle behind in such pay is that employees become more valuable to companies tenure and valued employees will leave the company if they are not given salaries that progress over time**.** This is the essence of Human capital Theory which states that employee's knowledge and skills generate productive capital known as human capital.
- **Merit Pay-** Wage increase granted to employees on the basis of performance. It is based on subjective appraisal of employee performance. Only when performance appraisals are conducted efficiently, merit pay has certain value. This helps in retaining company's valued employees.
- **Lump-sum Bonus**- Granted for performance as one-time payment
- **Incentive Pay**- Incentive pay or variable pay rewards employees for partially or completely attaining pre-determined work objectives.. There are three types of incentive pays:
  Individual Incentive- variable pay for individual performance
  Group incentive plans- Paid to groups for a particular achievement, Variable pay for group performance
  Company-wide plans- paid to employees for company's performance over a period of time
- **Pay for performance-** These are generally rewarded to employees for acquiring job related competencies, knowledge or skills rather than for demonstrating successful job performance. There are two types in it-Pay for knowledge and skill based pay. Both skill and knowledge based pay programs reward employees when they apply their knowledge and skills productively in their jobs.
- **Gain sharing-** Gains made by companies as depicted by increased productivity, increased customer satisfaction or better safety records; are distributed to departments that contributed to the gains. Gain sharing is given to the employees, usually as a lump-sum bonus. It is a productivity measure, whereas profit-sharing is a profitability measure. There are three major types of gain sharing:

- Scanlon Plan: paid on the basis of labour costs.
- Rucker plan: paid on the basis of labour costs, raw materials and monthly service costs
- Improshare: paid for completing the work at or sooner than production standard.

Compensation management is an important component of performance management. Compensation should be fair and equitable so that employees lead a dignified life. It should be cost effective and attract and retain talented people. Compensation returns are of two types- monetary and relational. Compensation includes wage/salary, incentives, fringe benefits and perquisites. In addition to salaries companies offer several benefits to employees while at work and also at retirement. As executives are responsible for the major growth of

the organizations, special emphasis is given to their compensation. The whole unit is concentrated on the various implications of compensation system.

Terms to Consider

1. **Cost to Company-** CTC is the money given to employee plus the money spent by the company because of employing the person.
2. **Job Analysis**- Process of studying and collecting information relating to the operations and responsibilities of a specific job.
3. **Job Specification**- It specifies the minimum qualities required for acceptable performance.
4. **Job description**- It tells what is to be done, how it is to be done and why. It is an organized statement of the duties and responsibilities of a specific job.
5. **Job Evaluation**- 'it is a systematic and orderly process of determining the worth of a job in relation to other jobs'.
6. **Employee Stock ownership Plan (ESOP)-** An **employee stock ownership plan** (**ESOP**) is a contributory retirement plan, where employees participate in corporate ownership
7. **The Employee Retirement Income Security Act or ERISA-** It is a federal law that sets minimum standards for pension plans in private industry
8. **Profit-sharing -** It is a plan that gives employees a share in the profits of the company and under the plan each employee receives a percentage of the profits earned by the company
9. **Gain sharing-** Gains made by companies as depicted by increased productivity, increased customer satisfaction or better safety records; are distributed to departments that contributed to the gains.

Rewarding Team Performance

It is important to know how teams are to be rewarded. Are all the members to be paid equally or they should have individual differences? Will exceptional performers be de-motivated? These are tough questions but every manager faces the problem in rewarding teams. Managers have to look at the situational factors and decide accordingly and take care of the social-loafing problem, where in some members do not contribute to the success of teams with an expectation that other team members' contribution will compensate for their performance. However, management see to it that team members are always motivated with all types of rewards.

Team Rewards can be classified in two ways:

- Financial Team rewards
- Non-financial Team Rewards

Team Rewards

Financial	Non-Financial
Team pay in relation to the achievement of Team targets or for a performance review	Motivational techniques such as positive reactions, feelings, and attitudes expressed for joint achievement
Target-related team bonus which may be distributed equally among team members or in accordance with the job grades	Nominating the team of the month
Team-ratings on the total performance of the team on the basis of which teams are ranked and bonuses are distributed accordingly.	Team outings, and social events in recognition of good team performance

Recognition schemes

A recognition scheme as defined by Michael Rose (1) typically provides for 'noncash Awards given in recognition of a high level of accomplishment or performance, which is not dependent on achievement against a given target'. A recognition scheme can be formal and organization-wide, providing scope to recognize achievements by gifts or treats or by public applause. Importantly, recognition is also given less formally

when managers simply say 'Well done', 'Thank you' or 'Congratulations'

Recognition should be given

- for valued behaviours and exceptional effort as well as for special achievements
- is about valuing people; it should be personalized so that people appreciate that it applies to them;
- should be personal and face to face but can be supported by a handwritten thankyou note;
- needs to be applied equitably, fairly and consistently throughout the organization;
- should be frequent
- should be provided in a way that makes everyone feel they have the opportunity to be recognized
- Recognition must be genuine, not used as a mechanistic motivating device and should not be given formally as part of a scheme if the achievement has been rewarded under another arrangement, for example a bonus scheme;
  needs to be given as soon as possible after the achievement;
  should be available to all – there should be no limits on the numbers who can be

recognized;
should not be predicated on the belief that they are just about rewarding winners

Types of Recognition

Day-to-day recognition

The most effective form of recognition is that provided by managers to their staff on a day-to-day basis. This is an aspect of good management practice such as getting to know people, monitoring performance (without being oppressive) and providing positive feedback. It is provided orally on the spot or in a short note (preferably handwritten) of appreciation and should take place soon after the event (not delayed until an annual performance review)

Public recognition

Recognition for particular achievements or continuing effective contributions can be provided by public 'applause' through an 'employee of the month scheme' or some other announcement using an intranet, the house journal or noticeboards
Formal recognition schemes provide individuals (and importantly, through them, their partners) with tangible means of recognition in the form of gifts, vouchers, holidays or trips in the UK or abroad, days or weekends away at hotels or health spas, or meals out.

International Pay Structures

Types of International Assignments and Pay Structures

- Frequent Flyers- mobility payments and additional benefits
- Short Term Assignments- (3 to 12 mths) – fully paid accommodation and very generous per-diem allowances, additional bonus on assignment completion, frequent visits home
- Commuter Assignments- (Monday to Friday basis) - Hotel accommodation and per-diem allowances
- Expatriate Assignments- (more than a year)- MORE COMPLEX THAN OTHER ASSIGNMENTS

Factors that affect expatriate pay

- Cost of living in the host country; Hardship such as remote country, dangerous and politically unstable, crime, health risk. Climate; Currency fluctuations; Healthcare;

Housing (25% of expatriate costs) – finding accommodation, relocation costs , power , telephone,; Taxation; Education of children

Components of Expat Pay

- Base Pay- home pay, local pay or international pay: Allowances- e.g.: Cost of Living Allowance(COLA), educations , car: Variable or Contingent Pay- performance based: Benefits – home benefits or host country schemes

Type of Pay	**Details**
The Host-Country Approach	Expatriate is paid on the same basis as local employees
Negotiational /Ad-hoc	Based on an individual or ad-hoc basic
The higher of home of host pay	A balance sheet calculation is undertaken and compared with the host net salary
Lump sum	Allowances are bundled and paid as a lump sum
Cafeteria Selection	Choice from a range of benefits up to an agreed limit
Regional Systems	Standardise the treatment of pay and allowances within a geographical location
Global	A common total reward package across a job-grading system

Innovations in Reward Management

Errors in awarding rewards cost too much for the companies. High performing organizations generally do not make such errors and manage their reward policies innovatively. Armstrong et al (2009) consider reward management is not just a soft art but requires scientific and evidenced-based methodologies. Many companies though use balanced score card and benchmarking, yet do not have concrete evidence to justify their reward practices.

Evidence-Based Reward Management (EBRM), researched by Armstrong et al is based on fact rather than opinion, on understanding rather than assumption. On grounded theory rather than dogma. EBRM model illustrates what can be done to increase the effectiveness of reward systems, which follows the following steps:

- Setting objectives and success criteria
- Conducting reward reviews
- Measuring the impact of reward
- Evaluating the impact
- Developing, implementing and applying reward policies and practices on the basis of evidence

The evidence showed that there is no one best method for reward management and only the needs and circumstances of organizations determine the best reward policy. The innovative EBRM framework comprised 7 Cs:

- Competitive externally to recruit and retain
- Convergent with business strategies
- Contribution and performance rewarded
- Customized to needs of different employees
- Communicated well and understood and valued by employees
- Cost effective and affordable
- Changes in response to different needs
- Controlled-efficient to manage and administer
- Complaint legally, internally, equitable, fair

The EBRM approach emphasizes evidence based methodology for reward management. It also says that each organization is unique and reward policy should be based on their needs and circumstances

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