

## **Course Name: Compensation Management**

### **Course code: DHR 203**

#### **Unit 1: Introduction**

- 1.1 Introduction to compensation management.
- 1.2 Definition of wage and salary and its components.
- 1.3 Objectives of providing compensation.
- 1.4 Determinants of pay decision
- 1.5 Types of compensation.
- 1.6 Guidelines for developing successful incentive plans.
- 1.7 Wage boards in India.
- 1.8 Types of wages.
- 1.9 Modern concept of Pay
- 1.10 Traditional compensation trends vs Current compensation trends.

#### **1.1 Introduction to Compensation management**

Human Resource Management (HRM) has never been as significant as it is today. Companies want to attract, retain and motivate brains to meet objectives. Today human resource is regarded as every company's assets so they need to be efficiently and effectively managed. One of the tools companies use to attract, retain and motivate its people is *Compensation Management*.

Employees today are not willing to work only for the cash alone, they expect 'extra'. This extra is known as employee benefits. Also known as fringe benefits, Employee benefits are non-financial form of compensation offered in addition to cash salary to enrich workers' lives.

Employee benefits are not performance-based, they are membership-based.. Employee benefits as a whole have no direct effect on employee performance, however, inadequate benefits do contribute to low satisfaction level and increase absenteeism and turnover in employees (DeCenzo and Robbins; 2007).

So one has to carefully design the benefit package. The package may include a cell phone to each worker, training workshop participation or seminar, giving them a day or two off every month and so on.

## ADVANTAGES OF COMPENSATION AND BENEFITS.

A well designed compensation and benefits plan helps to attract motivate and retain talent in a firm A well designed compensation benefits plan will benefit the organization/firm in the following ways.

1. **Job satisfaction:** The employees will be happy with their jobs and will love to work for the organization if they get fair rewards in exchange of their services.
2. **Motivation:** We all have different kinds of needs. Some of us want money so they work for the company which gives them higher pay. Some value achievement more than money, they would associate themselves with firms which offer greater chances of promotion, learning and development. A compensation plan that satisfies workers' needs is more likely to motivate them to act in the desired way.
3. **Low Absenteeism:** Compensation management ensures high satisfaction level which in turn will lead to employees loving their jobs and being less absent from work.
4. **Low Turnover:** Would the employees want to work for any other company if the current employers offer them fair rewards?. Therefore, fair, equitable compensation plan ensures that lesser number of people leave the organization in search of better paying job opportunities.

### 1.2 Definition of wage and salary

Compensation refers to all forms of financial return and tangible services and benefits employees receive as part of employee relationship (Mickovich & Newman, 2005). It is an integral part of human resource management that helps in motivating the employees and improving organizational effectiveness by paying salary or wage. Normally the term 'salary' is used for compensation to white-collar employees while the term 'wage' is used to denote the payment made to blue-collar employees.

- The modern definition of compensation considers both intrinsic (psychological) and extrinsic (tangible) components of compensation.
- ❖ **Extrinsic compensation** covers: monetary and non-monetary rewards.
- ❖ **Intrinsic compensation** covers: Employees' mental satisfaction.

## **Wage components**

Wage consists of the following components:

- Bonus or other payments under a profit sharing scheme which do not form a part of the contract of employment.
- Value of any house accommodation (HRA), supply of light, water, medical facilities, travelling allowance etc.
- Any contribution to pension, provident fund, or a scheme of social security and social insurance benefits.

### **1.3 Objectives of providing compensation**

- To ensure equity:-both internal equity (i.e. within the organization) and external equity (comparison with other organizations ).
- Increase and maintain efficiency of an employee and therefore increasing the motivation level and reducing the turnover and absenteeism rate.
- Provide economic stability to the employees and help in maintaining a standard of living.
- Efficient allocation and utilization of labour.
- Acquire qualified personnel for doing the job as compensation is the major factor in attracting talented and qualified personnel to the organization.
- Retain current personnel.
- Reward the desired productive behavior and therefore motivate the employees to repeat the desired performance.

### **1.4 Determinants of pay decision**

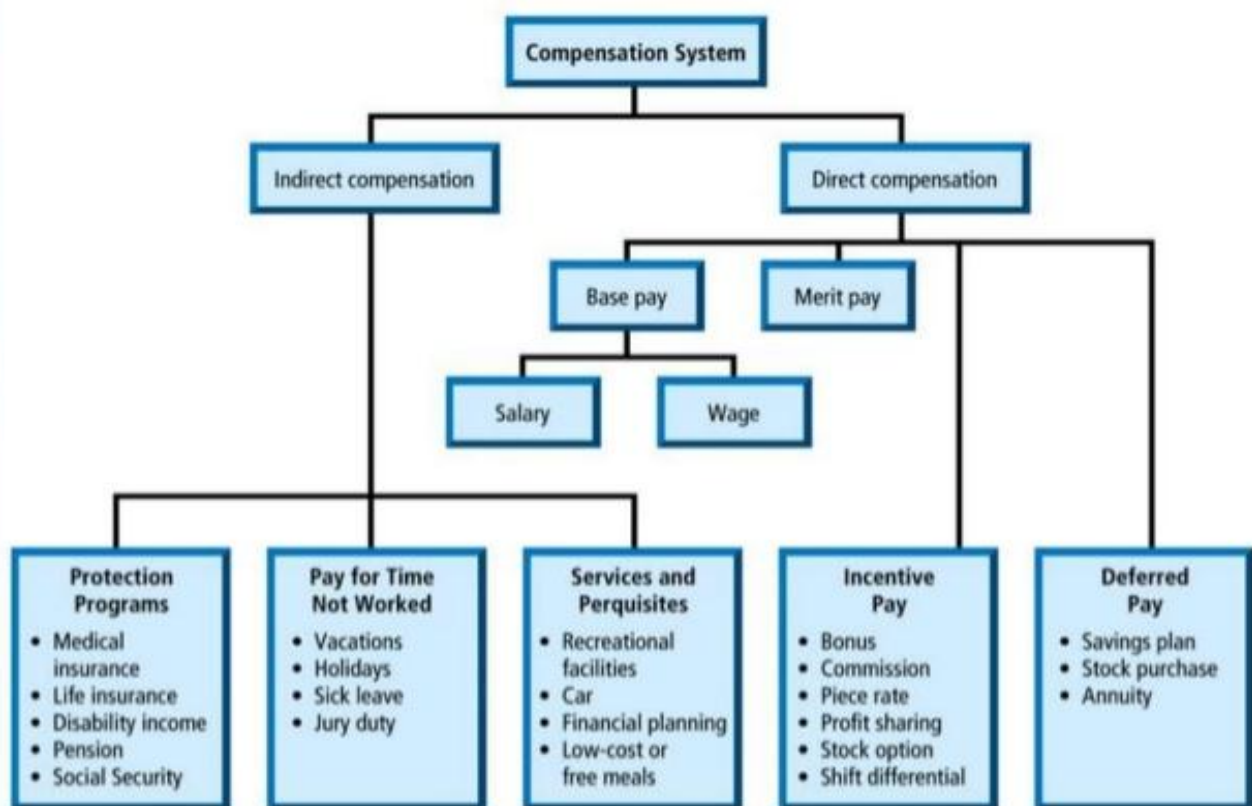
Pay decisions are made on the basis of the following factors:

- Differences in strategies, technology and ability of the company to pay.
- Differences in employee characteristics, education and seniority.  
Based on the importance of the above, the employees are remunerated accordingly.
- Differences in unions and power interests.

The compensation is decided for the various grades of employees in accordance with the demands of the trade unions thereby ensuring industrial peace and good industrial relations.

- Differences in labour and market conditions.
- Differences in nature of work, responsibility, working conditions and skills required.

### 1.5 Types of compensation



Compensation is categorized under the following categories:

**Direct compensation:** It refers to the monetary benefits offered and provided to the employees in return of the services they provide to the organization. The monetary benefits include basic salary, HRA (House Rent Allowance), conveyance, PF, Gratuity etc. They are given at a regular interval at a definite time.

## **Indirect compensation**

It refers to the additional monetary benefits offered and provided to the employees in lieu of the services they have provided to the organization. Example: *Employee Protection programs* like medical insurance, life insurance, disability income, *payment for time not worked* like vacations, holidays, sick leaves, *services and perquisites* like recreational activities, aid in financial planning etc.

## **Fringe benefits**

These are indirect compensation because they are usually extended as a condition of employment and are not directly related to performance i.e. these are provided as motivators to ensure better performance. Fringe benefits are characterized by the following points:

- Fringe Benefits are supplementary to regular wages & salary
- Paid to all employees
- It is a labour cost to employer
- Not direct reward geared to output
- Based on tenure of service, gender, work hazards etc.
- Benefits may be statutory or voluntary
- Raise the living standard of employees.

## **Perquisites**

Paid to the senior executives to facilitate their job performance or to retain them in the organization. E.g.: Deferred pay (i.e. payment of lump sum amount at a predetermined time later on), stock purchase.

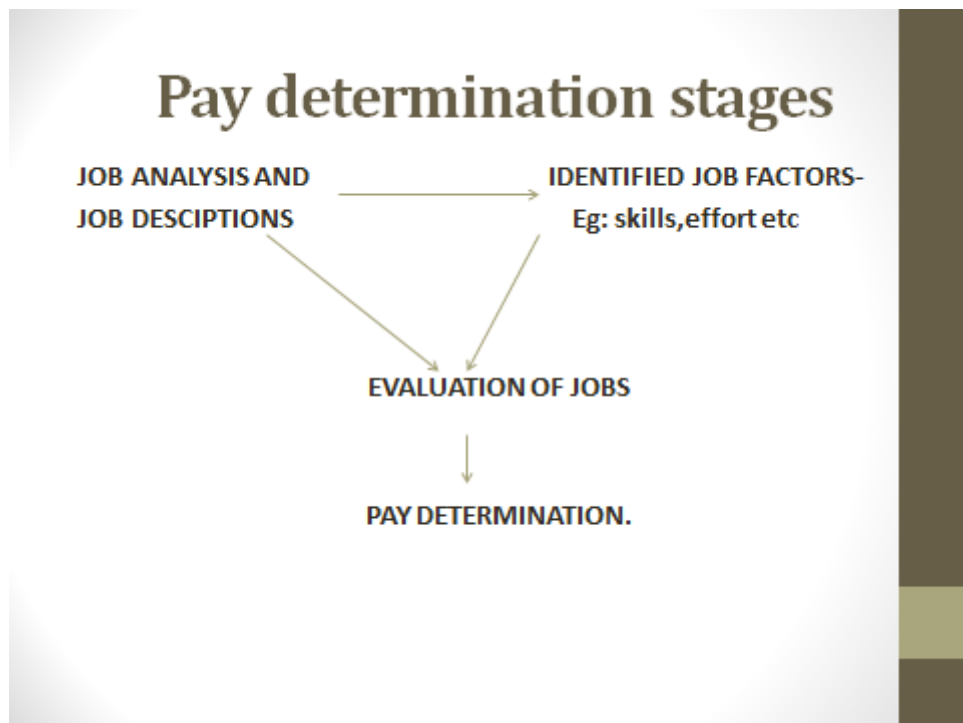
## 1.6 Guidelines for developing successful incentive plans

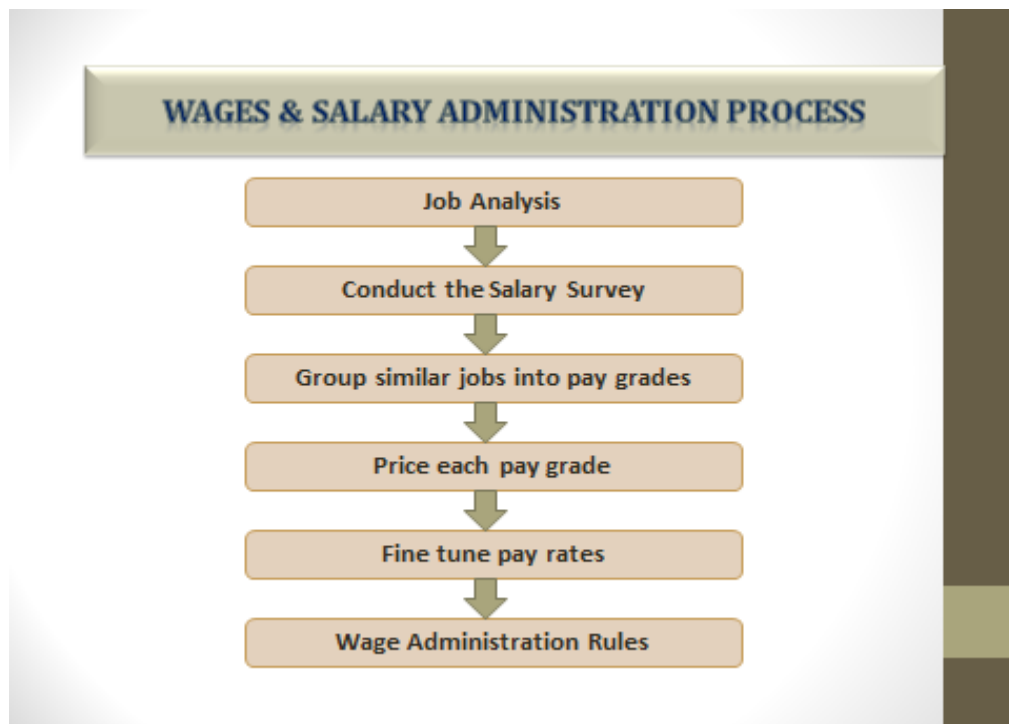
In order to develop a successful incentive plan, the organization needs to pay attention to a number of details which are described in the figure above.

A successful incentive plan consists of the following features:

- Developing clear, understandable plans that are continually communicated to the employees and are in accordance with the organization's overall objectives.
- Use of realistic performance measures which are achievable.
- Keeping the compensation design plans current and linked to organizational objectives
- Linking the results to payouts that recognize differences.
- Identifying the variable pay incentives separately from base pay

### Outline of the of the pay determination rates





## **Wage regulatory body in India**

### **1.7 Wage boards in India**

Wage Boards are set up in India to review the industry's capacity to pay and fix minimum wages such that they at least cover a family of four's requirements of calories, shelter, clothing, education, medical assistance, and entertainment. Under the law, wage rates in scheduled employments differ across states, sectors, skills, regions and occupations owing to difference in costs of living, regional industries' capacity to pay, consumption patterns, etc. Hence, there is no single uniform minimum wage rate across the country and the structure has become overly complex. Wage Boards are tripartite in nature-representatives of workers, employers, and independent members participate and finalize the wage recommendations. Except for the wage boards for journalist, rests of the wage boards are NON-STATUTORY in nature. Non statutory wage board's recommendations are not enforceable under the law.

## **1.8 Types of wages**

There are three types of wages being provided to the workers which are:

- Minimum wage
- Fair wage
- Living wage

These are broadly based and categorized on the basis of

- Needs of workers
- Capacity of employer to pay
- General economic conditions in a country

### **Minimum wages**

Minimum wages- It must provide not only for the bare sustenance of life but for the preservation of the efficiency of the workers by providing some measures of education, medical care, etc.

Criteria for being considered as minimum wages:

- It must be calculated for a family of 4 units (numbers)
- It must be able to provide 2700 calories per adult per day
- It should be sufficient for 18 yards of cloth per unit per annum
- There should be a provision for reasonable house rent, light, fuel and miscellaneous items

### **Living wages**

It is not only for the bare essentials for the worker and his family, but also for comfort, protection against ill-health, decency, social needs and insurance for old age.

### **Fair wages**

It is in-between minimum wages and living wages, but below the living wage.



## 1.9 Modern concept of Pay

### *Broad band pay*

Broad band is a form of pay structure that leads to the consolidation of existing pay grades and pay ranges into fewer, but wider, pay grades. The pay simplifies the classification of positions, increases the emphasis on market based pay and promotes competency based human resource systems including compensation. Provides flexibility for the adoption of other job and employee based components Employees are fitted into a particular level based on their performance criteria.

| SIXTH CPC PAY STRUCTURE |                                    |                         |                       | PROJECTED PAY STRUCTURE FOR 7 <sup>th</sup> PAY COMMISSION        |           |           |
|-------------------------|------------------------------------|-------------------------|-----------------------|---|-----------|-----------|
| Name of Pay Band/ Scale | Corresponding Pay Bands            | Corresponding Grade Pay | Entry Grade +band pay | Projected entry level pay using uniform multiplying factor of '3' |           |           |
|                         |                                    |                         |                       | Band Pay  | Grade Pay | Entry Pay |
| PB-1                    | 5200-20200                         | 1800                    | 7000                  | 15600-60600   | 5400      | 21000     |
| PB-1                    | 5200-20200                         | 1900                    | 7730                  | 15600-60600   | 5700      | 23190     |
| PB-1                    | 5200-20200                         | 2000                    | 8460                  | 15600-60600   | 6000      | 25380     |
| PB-1                    | 5200-20200                         | 2400                    | 9910                  | 15600-60600   | 7200      | 29730     |
| PB-1                    | 5200-20200                         | 2800                    | 11360                 | 15600-60600   | 8400      | 34080     |
| PB-2                    | 9300-34800                         | 4200                    | 13500                 | 29900-104400  | 12600     | 40500     |
| PB-2                    | 9300-34800                         | 4600                    | 17140                 | 29900-104400  | 13800     | 51420     |
| PB-2                    | 9300-34800                         | 4800                    | 18150                 | 29900-104400  | 14400     | 54450     |
| PB-3                    | 15600-39100                        | 5400                    | 21000                 | 29900-104400  | 16200     | 63000     |
| PB-3                    | 15600-39100                        | 6600                    | 25530                 | 46800-117300  | 19800     | 76590     |
| PB-3                    | 15600-39100                        | 7600                    | 29500                 | 46800-117300  | 22800     | 88500     |
| PB-4                    | 37400-67000                        | 8700                    | 46100                 | 112200-20100  | 26100     | 138300    |
| PB-4                    | 37400-67000                        | 8900                    | 49100                 | 112200-20100  | 26700     | 147300    |
| PB-4                    | 37400-67000                        | 10000                   | 53000                 | 112200-20100  | 30000     | 159000    |
| HAG                     | 67000- (ann increment @ 3%) -79000 | Nil                     |                       |   |           | 201000    |
| HAG+ Scale              | 75500- (ann increment @ 3%) -80000 | Nil                     |                       |   |           | 226500    |
| Apex Scale              | 80000 (Fixed)                      | Nil                     |                       |   |           | 240000    |
| Cab. Sec.               | 90000 (Fixed)                      | Nil                     |                       |   |           | 270000    |

**Fig: Example of band pay**

### *Performance based pay*

Seniority based pay and promotion systems have become obsolete. Therefore, performance based pay system needs to be implemented. Performance based pay systems should have the following tools to make it effective:

- **VISION:** there must be a clear purpose for establishing pay for performance
- **ALIGNMENT:** Compensation levels need to match the level of performance desired.

**-HOLISTIC APPROACH-**Pay system to be designed in such a way that it guarantees the growth of the employees as well as the organization.

**-COMMITMENT OF TOP MANAGEMENT** in ensuring that performance will be the determinant of pay and nothing else.

**-BALANCE-** Performance based pay needs to balance the various elements of compensation and performance.

### 1.10 Traditional compensation trends vs Current compensation trends

| Comparison   |   |
|--|---|
| Current Trends   | Traditional Trends  |
| <ul style="list-style-type: none"><li>• Emphasis on employee engagement in health, energy, employer strategic goals</li><li>• Skill and Knowledge Attainment</li><li>• Flexibility in work schedules</li><li>• Emphasis on total compensation</li><li>• Compliance</li><li>• Productivity through business simplification and technology</li></ul> | <ul style="list-style-type: none"><li>• Legacy compensation programs (longevity, shift, overtime, PAT vacation)</li><li>• Non-consumer engaged employee health benefits</li><li>• Paper-based delivery of services</li><li>• Compensation based on service rather than skills and performance</li></ul> |

## **Unit 2: Compensation Administration.**

2.1 Principles of wages & salary administration

2.2 Job analysis/job design and the process of compensation  
Management

2.3 Process of job analysis

2.4 Developing a salary structure.

2.5 Purpose of establishing salary ranges.

2.6 Establishing salary ranges.

2.7 Managing salary rates and increments.

### **2.1 Principles of wages & salary administration**

- Wage and salary plans and policies should be sufficiently flexible.
- Job evaluation must be done scientifically.
- Wage and salary administration plans must always be consistent with overall organizational plans and programs.
- Wage and salary administration plans and programs should be in conformity with the social and economic objectives of the country like attainment of equality in income distribution and controlling inflationary trends.
- Wage and salary administration plans and programs should be responsive to the changing local and national conditions.

### **2.2 Job analysis/job design and the process of compensation management**

For compensation design and management, effective job design, information and documentation of job analysis, job descriptions and job evaluations are important pre-requisites.

### ***Factors affecting the process of job design***

- Job specialization and repetitive operations.
- Changing technology.
- Labour union policies.
- Abilities of present employees/personnel.
- Adequate availability of potential personnel.
- Interaction among jobs.
- Psychology and social needs that can be met by the job.

### ***Techniques of job design:***

- Job rotation.
- Job enlargement
- Job enrichment.
- Autonomous work

#### **Job rotation**

- Job rotation involves vertical and horizontal movement of a group of people within a set of job or tasks.
- Job Rotation provides some relief from the boredom and monotony of the same repetitive jobs or tasks.
- Requires organizations to initiate multi-skilling of employees through continuous training and learning activities.

#### **Job enlargement**

- Job enlargement is essentially the horizontal expansion of jobs and it involves the grouping of a variety of jobs *within* the similar *bands* rather than *between* the bands.
- May increase the job load, but employees may be satisfied by the variety of tasks and develop their sense of responsibility.
- Organization derives the benefit of cost optimization and help people work with more responsibility.

## **Job enrichment**

- This involves the vertical expansion of work.
- Job enrichment expands the scope of jobs and employees feel more motivated and self sufficient
- The wide exposure, prepares the employees for higher positions.

Organizations focus on job enrichment for the purpose of succession plan.

## **Autonomous /independent work groups**

- Autonomous /independent work groups are formed within the same organization.
- The group decides independently who has to do what, and when. Employees select a leader to guide the group.
- Approach was first used by *Volvo* in Sweden.
- Organizations become “bottoms-up” to support the work groups.
- However, the management is responsible for the results.

## ***Factors likely to affect job design***

- Extent of job specialization
- Degree of changing technology
- Prevailing labour union prices.
- Abilities of present employees.
- Adequate availability of potential manpower.
- Interactivity between the jobs and the systems.
- Psychology and social needs.

## **JOB ANALYSIS**

Job analysis is a detailed and systematic study of jobs to know the characteristics and type of the people to be employed in the various jobs.

**Job Analysis** - This involves collecting and evaluating relevant information about jobs. Any data collected should clarify the nature of the work being

performed (principal or essential tasks, duties and responsibilities), the level of the work being performed, the extent and types of knowledge, skill, mental and physical effort and requirements, and responsibility required for the work being performed.

Consists of i.) Job description

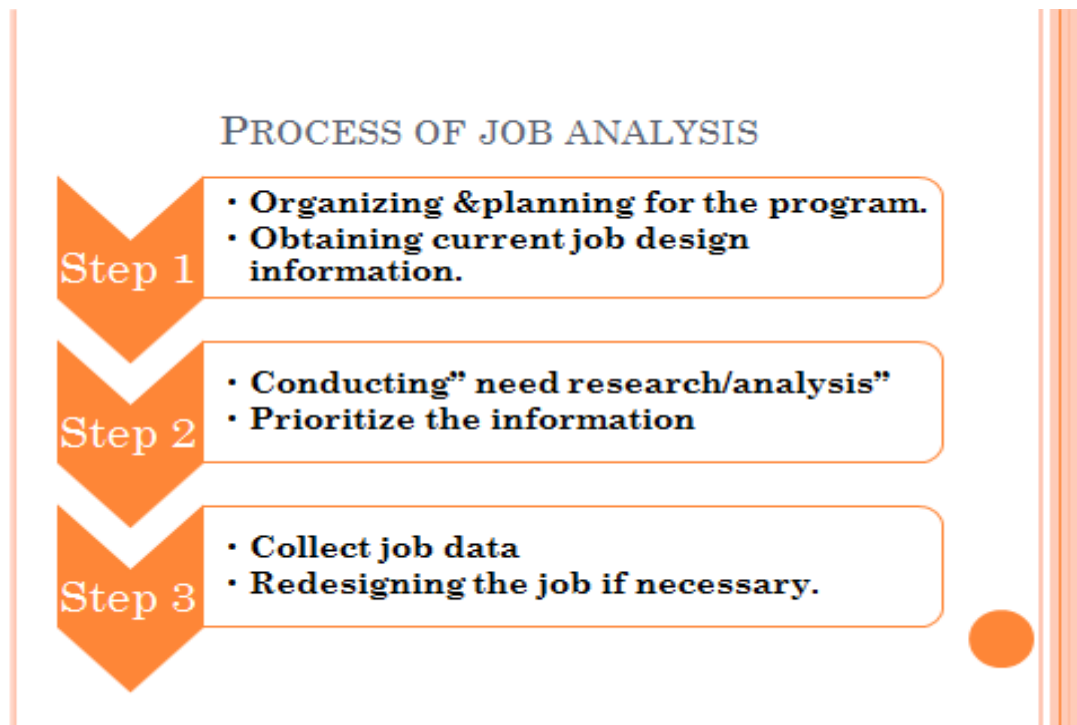
ii.) Job specification

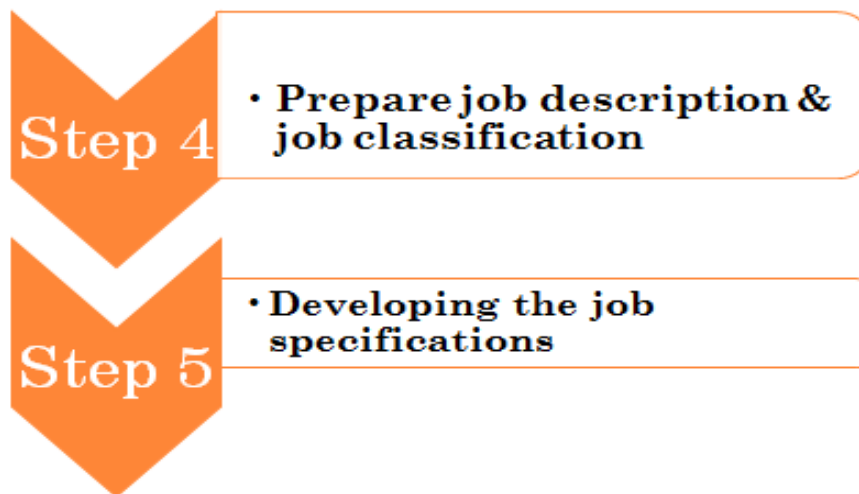
***Points to remember while preparing Job description to understand a job and identify its correct worth:***

- ✓ Job Title
- ✓ Based at (Business Unit, Section - if applicable)
- ✓ Position reports to (Line Manager title, location, and Functional Manager, location if matrix management structure)
- ✓ Job Purpose Summary (ideally one sentence)
- ✓ Key Responsibilities and Accountabilities,
- ✓ Dimensions/Territory/Scope/Scale indicators (the areas to which responsibilities extend and the scale of responsibilities - staff, customers, territory, products, equipment, premises, etc)
- ✓ Skills, expertise and experience required for the job
- ✓ Think about all aspects of the job: processes, planning, executing, monitoring, reporting, communicating, managing people, resources, activities, money, information, inputs, outputs, communications and time.
- ✓ Combine ideas into a set of key responsibilities and rank them roughly in order of importance.

- ✓ Double check that everything on the list is genuinely important and achievable.
- ✓ Do not put targets into a job description. Targets are a moving output over which flexible control is needed.
- ✓ The job description must describe the activities required to ensure that target will be met.

### ***2.3 How will you analyze a job then? Follow the following steps:***





The information now received about the job and the skills of the person required to perform the job is used to determine the rate of pay or the compensation rate for the various types of jobs or the various grades of jobs.

## **2.4 Developing a Salary Structure**

The basis for most salary programs is a salary structure - a hierarchy of jobs with salary ranges and/or rates assigned.

Salary structures are designed so that the greater the worth of a job (as determined by internal or external equity), the higher the salary grade and range.

Developing a salary structure is a process with a series of steps:

1. Job analysis and documentation
2. Development of a job evaluation methodology
3. Establishment of Salary Ranges
4. Benchmarking Data Collection.



## **2.5 Purpose of establishing salary ranges.**

- To accomplish the organization's objectives with regards to a salary program,
- To reflect the organization's philosophy on how it wishes to relate its salary program to the market,
- To demonstrate the internal job values of positions,
- To support how the organization wishes to mix base pay, benefits and incentives.

## **2.6 Establishing salary ranges**

- How should the organization's pay level relate to the external market?
- Should the organization be a pay leader, match the market or pay less than market?
- What is the organization willing to pay for: job content, seniority, performance, skills, cost of labor, or some combination of all of these?
- How does the organization pay its employees:
  - based on a single rate structure (all employees in the same job receive the same pay),
  - based on seniority,
  - based on merit,
  - based on productivity (piece work),
  - based on new skills (skill-based pay),
  - or based on some combination of these factors?

## **2.7 Managing Salary Rates and Increments**

An organization must also decide how to administer their salary structure:

- How to pay new employees?
- How and when to give employees increases?
- How to move existing employees from the minimum to the maximum of their assigned salary range?

- How to determine the pay increase for an employee being promoted from one job to another?
- What influence, if any, cost of labor increases will have on the determination of pay increases for employees?

In addition, an organization must develop policies and procedures that will implement the results of these decisions in a consistent manner.

### Starting Pay for New Employees

In order to avoid paying new employees the same as more experienced employees, most employers choose to start new employees closer to the minimum of the salary range. In general, an employee with minimum qualifications should be paid the minimum of the range. This general rule is not true when a new hire has skills which are in great demand or has skills or other expertise substantially above the minimum.

### Employee Increases

There are several different types of base pay increases: general (across-the-board) increases, cost-of-living/labor increases, promotion increases, step increases (based on longevity), and merit increases.

### Promotion increases

These are given when an employee is moved from one job to another with a higher pay grade and range. The size of the increase will be influenced by the difference between the old and new pay ranges, and the pay of the newly promoted person's peers, superiors and subordinates, if any.

### Merit increases

These are also known as pay for performance. To be successful, an organization must be able to measure differences in job performance and these differences must be significant enough to merit the time and effort required to measure them and pay accordingly. Managers require training in performance planning and appraisal, and control mechanisms must be in place to successfully administer a merit increase program.

## **Unit 3 Wage payment system**

3.1 Types of incentive plans in India

3.2 Current strategies for managerial compensation.

3.3 Compensation trends in India

3.4 Wage legislations in India

3.5 New way of payment.

### **3.1 Types of Incentive Plans in India**

**In India, various types of incentive or compensation plans are followed which are as follows:**

- Individual incentive/recognition programs
- Sales compensation programs
- Team/group-based variable pay programs
- Organization-wide corporate incentive programs
- Executive incentive compensation programs

#### **a) Individual-based plans**

These plans are based on an individual's performance and merit.

##### ■ *Individual-based plans*

- ◆ Merit pay
- ◆ Bonus programs
- ◆ Lump-sum payments

##### ■ *Advantages*

- ◆ Rewarded performance is likely to be repeated – *expectancy theory*
- ◆ Financial incentives can shape an individual's goals
- ◆ Help the firm achieve individual equity
- ◆ Fit in with an individualistic culture

## ■ *Disadvantages*

- ◆ May promote single-mindedness
- ◆ Employees do not believe pay and performance are linked
- ◆ They may work against achieving quality goals, and they may promote inflexibility.

### **b) Sales Compensation Programs**

The huge percentage of the workforce in the growing economy, India, comprises of the marketing executives and sales person .Since the work sales and marketing work is target based, the compensation /incentive plan is also based accordingly. The various sales compensation plan are as follows:

#### ***Straight salaries***

Best for: prospecting (finding new clients), account servicing, training customer's sales force, or participating in national and local trade shows.

#### ***Commission plan***

- Pay is only a percentage of sales
- Keeps sales costs proportionate to sales revenues.
- May cause a neglect of non-selling duties.
- Can create wide variation in salesperson's income.
- Likelihood of sales success may link to external factors rather than to salesperson's performance.
- Can increase turnover of salespeople.

#### ***Combination plan***

Pay is a combination of salary and commissions, usually with a sizable salary component.

Plan gives salespeople a floor (safety net) to their earnings.

Salary component covers company-specified service activities.

Plans tend to become complicated, and misunderstandings can result.

### ***Commission-plus-bonus plan***

Pay is mostly based on commissions.

Small bonuses are paid for directed activities like selling slow-moving items.

### **c) Team-based Plans**

Such a compensation plan is based on the performance of a team

- Team-based plans attempt to support other efforts to increase the flexibility of the work force within a firm.
- These plans normally reward all team members equally based on group outcomes.

#### *Advantages*

- Foster group cohesiveness
- Facilitate performance measurement

#### *Disadvantages*

- Possible lack of fit with individualistic cultural values
- Free-riding effect
- Social pressures to limit performance
- Difficulties in identifying meaningful groups
- Inter-group competition leading to a decline in overall performance.

### **d) Corporate-wide Plans**

Macro type of incentive program and is based on the entire corporation's performance .Such plans are practiced in huge corporate houses .Some such corporate wide plans are as follows:

#### ■ Profit-sharing plans

##### ◆ Cash plans

Employees receive cash shares of the firm's profits at regular intervals.

##### ◆ The Lincoln incentive system

Profits are distributed to employees based on their individual merit rating.

◆ Deferred profit-sharing plans

A predetermined portion of profits is placed in each employee's account under a trustee's supervision.

■ Employee stock ownership plans (ESOPs)

A corporation annually contributes its own stock—or cash (with a limit of 15% of compensation) to be used to purchase the stock—to a trust established for the employees. The trust holds the stock in individual employee accounts and distributes it to employees upon separation from the firm if the employee has worked long enough to earn ownership of the stock.

**e) Executive compensation**

- Executive Compensation or managerial remuneration is how top executives of business corporations are paid. Managers are very short in supply therefore, organizations are competing with each other to attract, retain and motivate managers for their strategic requirement.

They are –1) Salary 2) Bonus 3) Long Term Incentive 4) Perquisites

***Unique feature of Managerial Remuneration***

- Managerial remuneration cannot be compared to wage and salary schemes meant for non-managerial employees in organization. Factors and variable are more numerous in managerial jobs and simple comparisons and ratings are not possible.
- Managerial are denied the privilege of having unions and collective bargaining. Their competence and contribution are the strengths for determining their pay package.
- Secrecy is maintained in respect of managerial remuneration. This is done because no two managers in the private sectors, in the same grade receive the same pay. Compensation and reward depends upon such factors as competence, length of service, contributions, and loyalty to the company.

- Managerial pay is not supposed to be individual performance measure but rather on the unit of organization performance. This is because a managers own performance is assumed to be directly reflected in measure of units of corporate performance
- Finally theoretically, remuneration of managerial personnel is supposed to be guided by job description, job evaluation, salary grades with ranges of pay in each grade and salary surveys .But in practice norms seem to have thrown to winds and exorbitant amounts are paid to decision makers in organizations. The annual salary of CEO's range from Rs 50 lakhs to crores.

The managerial remuneration of such positions comprises of the following elements:

- Base salary
- Annual incentives
- Long term capital accumulation
- Deferred compensation arrangements.
- Supplemental benefits and perquisites.
- Special severance and retirement arrangements.
- Employment and change of control agreements.

*Base salary:-* pay before any commissions, bonus, etc.

*Gross salary :-* total pay before any taxes have been taken out.

*Net salary:-* take home pay, after taxes have been taken out.

Therefore, Base is the minimum amount you will be paid--no commissions, bonuses, dividends. Gross is everything you're paid, including dividends, bonuses, and commissions. Net is what you get after all deductions are taken out, taxes and retirement plans, insurance, etc. attribution.

### **3.2 Current strategies for managerial level compensation**

- Salary/basic salary/consolidated salary continues to remain a major component, though salary scales are often discarded these days or used only as guides. It is the performance contribution that

determines the pay and future revisions, which vary widely from individual managers.

- Grade wise flats allowances are being consolidated, except where tax exemption benefits are available. Allowances may be linked to the salary as a percentage or by slabs, but preferences is for flats amounts, which do not increase automatically and increase at the discretion and therefore controllable.
- Reimbursement of expenses incurred on company's work has been limited, and that in line to conform to the tax laws . Being actual in most cases , they are not considered as part of compensation , unless it is provided towards personal benefits
- Annual – payments – bonus or commission and leave travel are common features. Some tax relief applied for the latter.
- Some of the companies give their managers freedom to design package keeping in view of total cost. It means giving managers the flexibility to choose lifestyles of their own living within the certain parameters.
- Performance linked payments +Bonus +generous increments +merit awards are increasing . The trend is to move away from seniority and hierarchy system and attach value to performers. The concept of star performers are giving ground.
- Lifestyles perks (good accommodation, club membership , liberal furnishing , holiday abroad with family ) continues to be the practice even if these are taxed.

### **3.3 Compensation trends in India**

- Companies are proving higher annual increments.
- Loans to buy two-four wheelers.
- Medical benefits are provided by tie-ups with insurance companies and hospitals.
- Some companies assist the employees in pursuing higher education by sponsoring evening classes or providing paid leaves or sabbaticals at company cost.
- Club memberships



- Loans for purchasing furniture, appliances etc.
- Housing loan or interest subsidy is provided.
- Long term maternity and paternity leaves are provided for.
- Profit sharing schemes for senior executives.

Compensation in India is hence provided for the following criteria:

- Pay for position
- Pay to the person.
- Pay for the performance.

### **3.4 Wage legislations in India**

Various legislations have been framed in India to regulate and control the wage and salary system in India which are listed below:

- Payment of Wages Act 1936
- Minimum wages Act 1948
- Employees' State Insurance Act 1948
- Employees' Provident Funds and Miscellaneous Provisions Act, 1952
- Payment of Bonus Act 1965
- Payment of Gratuity Act 1972
- Equal remuneration Act 1976

### **3.5 New way of paying**

- Against changing patterns , organization are increasingly linking their variable pay plans to individuals , teams and organizational performance, the extent of linkage and the nature ( short/long term) varies for different levels within the organization . Some of the variable pay plans (VPPs) that organizations have successfully implemented include individual/team performance based gain profit sharing, productivity based business individual /team performance, based gained profit sharing, productivity based business incentives , stock options , and ownership and other customized schemes .

- While long term incentive plan is a good mechanism to link organizational objectives to individual rewards. The feedback is that organizations with strategically aligned variable compensation have experienced a positive impact on individual as well as organizational performance. Companies have leveraged the variable pay to aggressively position their top performer at the top end of the market
- Increasingly, companies are experimenting with the “cost to company” concept”. New and emerging sectors like retail, telecom, aviation and IT/ITES which have the advantage of no legal issues and also have younger employee population, tend to adopt simplified structures at the outset.
- Another concept gaining popularity due to changing tax environment is the flexible salary structures where the employee has the freedom to choose from the defined menu of items of pay and optimize his/her own tax planning. This works in a win-win manner and has increasingly gained acceptance as it provides flexibility to the employee and tax compliance to the organization.
- Some of the allowances have Income Tax implications like LTA & other allowances are exempted from IT - Medical allowance/reimbursement is exempted from Tax up to Rs15,000 p.a., Conveyance allowance upto Rs 800/ per month, Child education allowance up to Rs 100 per month per child up to two children etc.
- If you are providing other allowances like Professional Development allowance, Clothing allowance etc. these would have Fringe Benefit Tax implications which is payable by the company.

## **References:**

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