Paper Code – MB 304 – H R - I
Discipline Specific Elective -HR
COMPENSATION MANAGEMENT

COURSE OBJECTIVES:

1. To demonstrate various perspectives of compensation management
2. To provide thorough knowledge of planning and administering compensation in different sectors.
3. To understand the nature of executive and international compensation

COURSE OUTCOMES:

Upon completion of this course, the student will be able to

1. Understand the fundamental concepts and theories of compensation.
2. Recognize the importance of compensation strategy.
3. Analyse, integrate, and apply the knowledge of administering wages in different sectors according to the different wage laws.
4. Comprehend the employee benefits and services
5. Appreciate the advancements in managing compensation at global level.

UNIT I: Fundamentals of Compensation

Concept of Compensation; Different perspectives of Compensation – Stakeholders and determinants of compensation; Compensable Factors; Wage Differentials and Types of Compensation – Base pay, Variable Pay, Benefits, Incentives; The concepts of Minimum wage, Fair wage, Living wage, Money and real wages; Wage Theories – Macro and Micro.

UNIT II: Compensation Planning and Employee Contributions

Developing a total Compensation Strategy and Pay Roll Management System – Competitive Advantage –Compensation Structure - Wage and Salary surveys, the wage curve, Pay grades and Rate ranges, Preparing Salary matrix; Compensation management's association with Employee Motivation, Job design and Job evaluation; Performance-related compensation, Individual and team-based compensation.

UNIT III: Wage Administration

Wage Administration, Wage Policy and Wage Legislation in India - The Minimum Wages Act, 1948. The Payment of Wages Act, 1936. The Payment of Bonus Act, 1965. The Equal Remuneration Act, 1976. The Payment of Gratuity Act, 1972. The Employees' Provident Fund and Miscellaneous Provisions Act, 1952; Wage Structure in different Sectors – in Central Government, in State Government, in PSEs and in Nationalised Banks; Wage Boards - structure, scope and functions – Pay Commissions – Compensation Committees; Compensating contingent employees.

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Objective: Compensation management is the process of managing, analyzing, and determining the salary, incentives, and benefits each employee receives. Compensation management is a crucial part of any talent management and retention strategy.

Unit-1

Different perspectives of Compensation:

There are four perspectives of compensation:

Society

Stockholder

Manager

Employee.

Each perspective creates a different idea of what compensation means to them and the organization.

Who is a Stakeholder

A stakeholder is a party that has an interest in a company and can either affect or be affected by the business. The primary stakeholders in a typical corporation are its investors, employees, customers, and suppliers.

Types of Stake holders

In today's hyper-transparent business world, in which corporates are held accountable by the media, the public and campaign groups, 'authenticity' is the primary factor behind a positive public image. A company's objectives, character and ability to generate profits determine its overall authenticity.This, in turn, dictates its ability to grow both internally **by** increasingstaff numbers, and externally by attracting investors or support from other organisations.

Investors and employees rank among the company's stakeholders. Stakeholders encompass all individuals or groups who have a vested interest in the performance of the business. It is vital that organisations build healthy and balanced relationships with their stakeholders, as their level of authenticity is determined by how well they meet their stakeholders' demands.

The roles of different types of stakeholders

Stakeholders can be broken down into two groups, classed as internal and external. Each has their own set of priorities and requirements from the business.

Internal (primary) stakeholders

A company's employees, managers and board of directors make up a business's internal stakeholders.

- Employees of the company are invested in the company's performance to ensure they continue to be paid and retain their jobs. Depending on the nature of the business, employees may also have a health and safety focus. For many, alignment between their own sense of purpose and the aims of the business is also important.
- Shareholders are focused on a strong performance to maximise the returns on their investments. Traditionally, many businesses have followed a shareholder centric business model, but increasingly are realising that a broadening focus on all stakeholders makes better long-term business sense.
- Managers are focused on project management and how individual elements or departments of the business are run. The egree of autonomy they have, level of influence over their teams, and support they are given to perform their roles are their key priorities.
- The board of directors is interested in maximising the profit the business makes and achieving a return for investors. Efficient business operations are therefore a prime focus for them.

External (secondary) stakeholders

External stakeholders include clients or customers, investors and shareholders, suppliers, government agencies and the wider community. They want the company to perform well for a multitude of reasons.

- **Customers** want to receive the best possible product or service. They may also want to see the business making a positive contribution to society and reducing its impact on the environment.
- **Suppliers** want to see increased demand for the business's products or services so that there is greater requirement for their own.
- **Governments** and **regulatory bodies** want the company to follow laws, employ more people and uphold good financial practice to support the economy.
- **Communities** look upon the business as a source of local employment, supplier of local goods and services, and purchaser of local materials. They are also invested in the impact the business has on the immediate environment and its involvement in community projects.

Which stakeholders are most important?

Despite being grouped together, stakeholders are individuals, with specific needs and demands. They also may straddle different groups.

An employee may also be an investor. A politician may also reside in the community in which the company operates. Despite its best intentions, it is unrealistic for a company to satisfy the demands of all partiesequally. It will regularly face scenarios in which it has to prioritise one stakeholder to the detriment of another.

Should investors wish to cut costs, the company may have to reduce the wages of its employees or let some go altogether. Similarly, they may have to end a relationship with a trusted supplier in favour of a more competitive price to maintain profitability.

To ensure optimum stakeholder satisfaction, companies must identify their primary and most influential stakeholders. These are the ones they should be investing reasonable resources to engage with.

This activity is known as stakeholder prioritisation and is based on three stakeholder features:

- Power: how much weight they carry in the company's operations
- Legitimacy: how they affect the company's perception among the wider community
- Urgency: how quickly they demand action from the company.

Different companies will have varying business objectives, depending on their industry and size, and how long they have been established. This will cause them to prioritise stakeholder groups differently.

For example, a multi-national corporation trading on the public market will likely prioritise its investors first. It wants to maximise profitability for its current investors in the hope of attracting new ones and increasing its share price.

Meanwhile, a start-up or SME will be less concerned with attracting large-scale investment. It will focus instead on establishing good relationships with local suppliers, having a satisfied, loyal workforce and, most importantly, building a solid community customer base.

How can companies prioritise their stakeholders?

As a general rule, stakeholder priority can be divided into three levels. The first and most important comprises employees, customers, and investors, without whom the business will not be able to operate.

Secondary to them are suppliers, community groups and media influencers. Their individual relevance is determined by the performance of the company's primary stakeholders and their response to it.

Finally, there are regulatory bodies. Persistent failure to comply is problematic, but their demands are by and large consistent and straightforward to follow.

In addition to a company-wide stakeholder profile, each project within the company will have its own project stakeholders, which may need to be ranked differently. Project managers and assigned employees will be responsible for prioritising and satisfying their demands to ensure the programme's success.

In the rapidly evolving business world, in which new issues are constantly surfacing and vying for supremacy, stakeholder roles are changing. There cannot, therefore, be a definitive ranking of stakeholder importance to a company.

Instead, its decision-makers must embed constant stakeholder management into their day-to-day decisions. This is the only way to ensure maximum company-wide flexibility to meet constantly changing stakeholder demands.

Securing and maintaining stakeholder trust and satisfaction is a never-ending process. To win the continued commitment and support of their stakeholders, companies must remember the three elements on which they will be judged:

- Behaviour: How do you behave with your stakeholders?
- Communication: How do you listen to and interact with them?

- Performance: Do you achieve your intended objectives?

Understanding Stakeholders Compensation System

Commonly, there are five main stakeholders compensation systems in an organization, including employees, line managers, executives, unions, and government. However, Davis and Landa (2000) discussed that some businesses include more stakeholders compensation systems such as customers and labour market.

Employees:

Compensation professionals must educate employees about their training options and how successful training outcomes will lead to increased pay and advancement of opportunities within an organisation. The compensation professionals should not assume that employees will necessarily recognise these opportunities unless they are clearly communicated. Thus, written memos and informational meetings conducted by compensation professionals and HR representatives could be effective communication media.

The objectives of employees' compensation program as a stakeholder should include protection programs, paid time off, and services. However, companies might or might not include all the protection and benefits program to meet business objectives/goals, therefore, compensation professionals and union representatives must determine which objectives are the most important for their particular workforce.

Line managers:

Compensation professionals use their expert knowledge of the laws that influence pay and benefits practices to help decide compensation judgments for line managers. For example, Labour Act prohibits sex discrimination in pay for employees performing equal work, hence, compensation professionals should advise line managers to pay the same hourly rate or annual salary for men and women hired to perform the same job.

On the other hand, line managers can turn to compensation professionals for advice about appropriate pay rates for jobs. And the compensation experts should oversee the use of job evaluation to establish pay differentials among jobs within a company. In addition, compensation specialists should train line managers on how to evaluate jobs properly.

Executives:

Compensation specialists serve company executives by developing and managing sound compensation systems. Executives usually will look to the system to ensure that the design and implementation of pay and benefits practices comply with pertinent legislation. Violating this rule could lead to penalties.

Further, executives will need the help of compensation professionals to design pay and benefits that will attract and retain talents.

Unions:

Collective bargaining agreements describe the terms of employment reached between management and the union. In this matter, compensation professionals are responsible for administering the pay and benefits policies specified in collective bargaining agreements.

Government:

Compensation specialist is responsible to apply their expertise regarding pertinent legislation to design legally sound pay and benefits practices.

Labour market:

Labour market plays a significant role in compensation management because it can change the compensation rate such as the development of price level, changes in the standard of living of employees, or income distribution.

Customers:

Employee compensation can result in better customer service and retention which affects shareholder value in customer loyalty. That said, some companies bet high on employee compensation to ensure good service and responsive customer service. Yet, some large companies would prefer to design a cost down compensation program because of their influence and market share.

HR guide to compensation system

As mentioned earlier, stakeholder compensation is important to ensure business operations run normally. It also helps build a connection between an organisation team with their work or between shareholders and company. Thusly, to take the lead, here is compensation checklist for human resources department based on Martocchio's book.

- HR should work with line managers to fully understand which roles and types of employees will best support the execution of company strategy.
- HR should collaborate with compensation specialists to run an analysis of market factors to get indicators of compensation norms and standards in order to keep the company's compensation practice competitive.
- HR should create, together with line managers, pay structures wherein roles are placed into appropriate pay grades. Each grade will have a corresponding range that will serve as the basis for assigning pay rates for roles.

If you are a line manager, here is how to lead the system:

- Do educate the staff, along with other business leaders, in order for all to understand what strategy is being employed to achieve specific company objectives.
- Do educate HR on certain aspects of roles that could improve intrinsic motivation which could benefit employees and employers.
- Work together with HR to implement a plan that ties the compensation plan for successful recruitment, training, and development plan.

<u>Compensable factors commonly used by businesses</u>.

- Experience.
- Complexity.
- Level of education.
- Type of supervision required.
- Impact of errors.
- Fiscal accountability.
- Confidentiality.
- Mental and physical demands.

Wage Differentials…Why??

Inter-industries and intra-industry compensation differentials arise when employees with similar occupations and locations receive different pay scales from businesses in the same area. These differences depend on factors like work quality, labour quality, market imperfections, and plant effectiveness.

<u>Types of Wage Differentials</u>

Wages of the insividuals in aorganisation is differentiated by

- Occupational Differences
- Inter-firm Differentials
- Regional Differences
- Inter-Industry Differences
- Personal Wage Differences

There are two main types of compensation:

1. Direct compensation (financial)
2. Indirect compensation (financial & non-financial)

Everyone involved in creating an employee compensation plan and pay structure must first understand the different types of compensation. This is because it is the organization’s responsibility to explain the compensation plan to all candidates and employees. It is especially important during the hiring process, and performance and salary reviews. With so many different options available within the main two types of compensation, employees can easily become confused.

Let’s explore these types of compensation in more detail.

Direct compensation

Direct compensation is a financial (or monetary) form of compensation. Here are the four main types of direct compensation:

Hourly

Hourly wages are often provided to unskilled, semi-skilled, temporary, part-time, or contract workers in exchange for their time and labor.

Jobs where some employees receive hourly wage include the retail, hospitality, and construction industries.

Employees who receive hourly wages are usually able to earn overtime pay. This pay consists of any additional hours worked outside of their set contract.

When setting your employees' wages, you need to be compliant with the local minimum wage legislation.

Salary

Annual salaries are typically provided to most full-time employees or skilled employees and those who fill management positions. A salary often indicates that the organization has invested in this employee for the long-term future.

Examples of employees who receive a salary include teachers, accountants, doctors, and retail and hospitality managers.

Both hourly wages and salary make up an employee's base pay **or** base salary.

Commission

Commission is a common form of compensation provided to employees in sales roles. It will usually be based on a predetermined quota or target. The higher the quota reached, the higher the commission will be.

Commission rates are often based on various specified factors, including revenue and profit margins.

Some employees will work on commission only or obtain a salary with commission.

Bonuses

Companies often offer bonuses to employees based on year-end business results or the individual meeting their set goals. Sometimes, the decision is at the manager's discretion.

Bonuses can be paid annually, quarterly, or even after the completion of each project.

Both commission and bonuses fall under **incentive pay**, along with piece rate, profit sharing, stock options, and shift differentials.

However, bonuses can also be paid without an employee meeting a particular target. For example, if the business has had a great year and decides to reward everybody. In this case, the bonus would be classified as variable pay**.**

Tips are also a common form of compensation in people-based industries, particularly hospitality.

Another umbrella of direct compensation is deferred pay which includes savings plans and annuity.

Merit pay is often given to an employee who meets their targets or performs well in their role.

Indirect compensation

Indirect compensation is still a financial form of compensation since it has a financial value. However, employees do not directly receive it in cash form. That's why certain types of indirect compensation are viewed as monetary, while others are deemed non-monetary. This often varies between organizations.

Indirect compensation is often known as employee benefits or perks of the job.

Here are some common examples of indirect compensation.

Equity package

Equity as part of a compensation package essentially means the employee is offered equity (ownership) in the company, either through shares of stock or the option to buy such shares.

An equity package is common at start-up companies. These businesses may be low on cash or funding and need other incentives to attract and retain employees.

Stock options

This form of compensation entitles employees to purchase a set number of shares at a fixed price after a certain period. This is different from an equity package because the employee will not have any ownership in the company.

Many stock options require employees to work between three to five years before they can access this compensation.

Benefits

Typical employee benefits usually include health insurance, life insurance, retirement plans, disability insurance, legal insurance, and pet insurance.

Healthcare is a common benefit in the US, as discussed, since it’s expensive to purchase. Whereas, in the UK, healthcare is free on the NHS.

Retirement funds and pension plans are also common benefits that employees look for when considering a new role at a new organization.

A survey found that 48% of job seekers in the US said they would be more likely to apply for a job that came with good benefits. So although the base pay you offer is important, thinking about your overall compensation package is essential.

Non-monetary compensation

Non-monetary compensation includes benefits like:

- paid or non-paid time off
- flexi-time
- learning and development opportunities
- parental leave
- childcare
- company cars
- phones or laptops,
- and meals.

A survey by Fractl found American employees value healthcare most as a benefit. Still, additional forms of indirect compensation, including extra vacation time, daycare, and tuition reimbursement, also made the most-wanted list.

Silicon Valley companies offer their employees a wide variety of ever-enticing perks, including concerts, onsite yoga classes, massages, free accommodation stays while on vacation, foosball tables, and catered lunches.

Although some of these forms of compensation seem small or superfluous, they can make a tremendous difference to your employee’s day. This can improve their overall happiness in and outside of the workplace.

It’s important that you offer a variety of benefits that will appeal to different types of people you employ and are looking to hire in the future. For example, if any of your employees have just become new parents or are looking to start or grow a family within the next few years, they will highly value benefits like parental leave and childcare.

In addition, certain forms of compensation can be viewed both as a perk and a disadvantage, depending on the rules you apply to it. For instance, if you provide all employees with a company laptop, are they required to keep this solely for business purposes, or are they free to use it for personal use? Some individuals could view having two laptops as a hassle. Others may not like the idea of the company tracking and monitoring their entire private browsing history. This is why it’s essential to get clear on who your core employees are and what they want before creating a compensation plan.

Once again, there are differences in what counts as non-monetary compensation between organizations.

The right compensation package will help you attract and retain talent

Understanding employee benefits and types of compensation and creating attractive compensation packages for all your employees is essential to attracting top talent to your organization and keeping those employees happy.

Many organizations offer similar wages and salaries, so if an employee is choosing between two different job offers, they are likely to compare smaller details included in the compensation plan. An organization that offers small perks like free lunches and extra vacation time is likely to be more appealing than an organization that provides nothing of the sort.

Therefore, your employee compensation plan is integral to helping you build and maintain a strong team. It forms a large part of your employee value proposition.

If you haven't yet created a compensation package for your employees, there's no better time than now to begin.

Concept of Minimum Wage

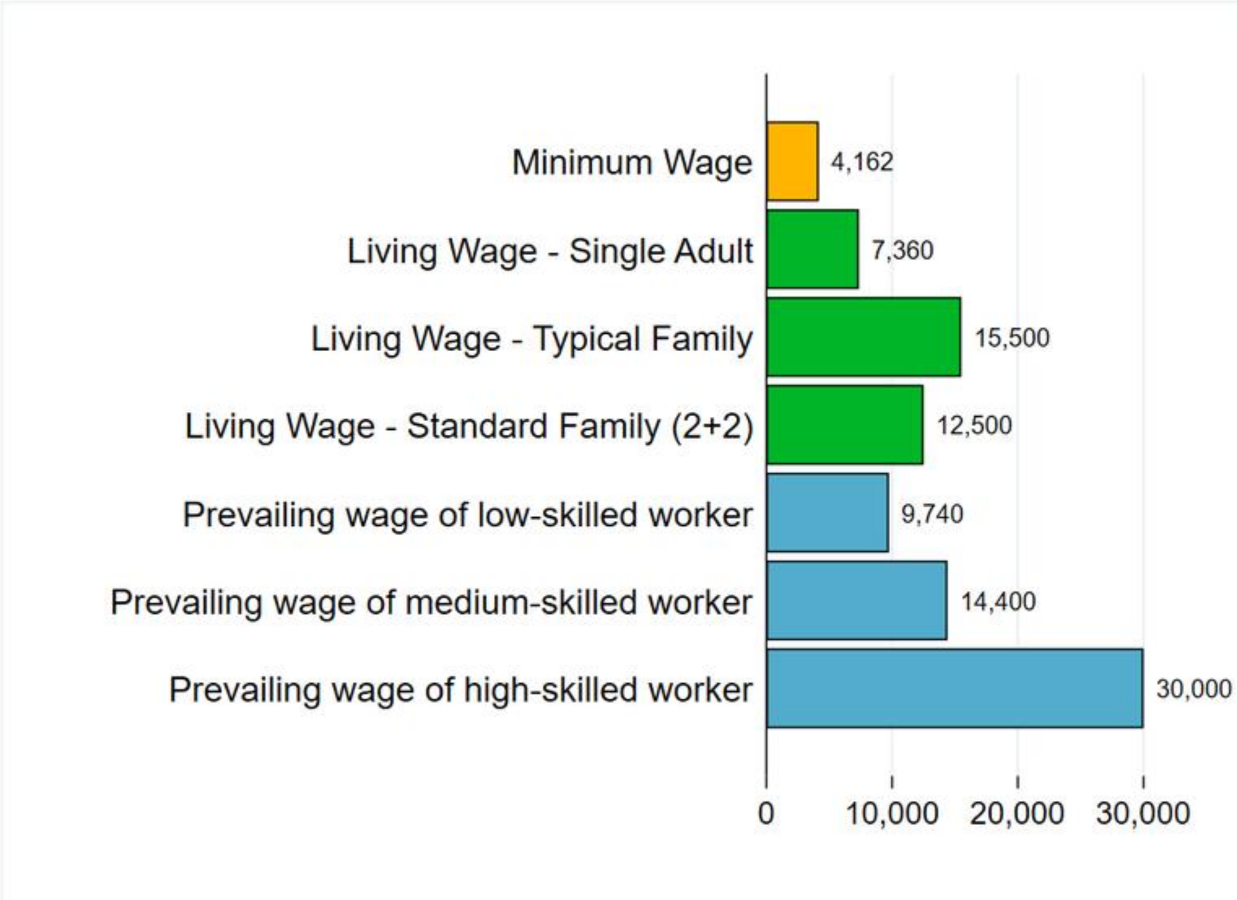
A minimum wage is one which has to be paid by an employer to his workers irrespective of his ability to pay. According to the above committee Minimum wage is the wage which must provide not only for the bare sustenance of life, but for the preservation of the efficiency of the workers.

Fair Wage

Fair wage is the wage which is above the minimum wage but below the living wage. The lower limit of the fair wage is obviously the minimum wage: the upper limit is to be set by the capacity of the industry to pay.

Living Wage

The term living wage refers to a theoretical income level that allows individuals or families to afford adequate shelter, food, and other necessities. The goal of a living wage is to allow employees to earn enough income for a satisfactory standard of living and prevent them from falling into poverty.



Money and Real Wages

Real income, also known as real wage, is how much money an individual or entity makes after adjusting for inflation. Real income differs from nominal income, which has no such adjustments. Individuals often closely track their nominal vs. real income to have the best understanding of their purchasing power.

Wage Theories:(seven)

some important theories of wages are discussed here.

1. Wages Fund Theory:

This theory was developed by Adam Smith (1723-1790). His theory was based on the basic assumption that workers are paid wages out of a pre-determined fund of wealth. This fund, he called, wages fund created as a result of savings. According to Adam Smith, the demand for labour and rate of wages depend on the size of the wages fund. Accordingly, if the wages fund is large, wages would be high and vice versa.

2. Subsistence Theory:

This theory was propounded by David Recardo (1772-1823). According to this theory, "The labourers are paid to enable them to subsist and perpetuate the race without increase or diminution". This payment is also called as 'subsistence wages'. The basic assumption of this theory is that if workers are paid wages more than subsistence level, workers' number will increase and, as a result wages will come down to the subsistence level.

On the contrary, if workers are paid less than subsistence wages, the number of workers will decrease as a result of starvation death; malnutrition, disease etc. and many would not marry. Then, wage rates would again go up to subsistence level. Since wage rate tends to be at, subsistence level at all cases, that is why this theory is also known as 'Iron Law of Wages'. The subsistence wages refers to minimum wages

3. The Surplus Value Theory of Wages:

This theory was developed by Karl Marx (1849-1883). This theory is based on the basic assumption that like other article, labour is also an article which could be purchased on payment of its price i e wages. This payment, according to Karl Marx, is at subsistence level which is less than in proportion to time labour takes to produce items. The surplus, according to him, goes to the owner. Karl Marx is well known for his advocation in the favour of labour.

4. <u>Residual Claimant Theory*:*</u>

This theory owes its development to Francis A. Walker (1840-1897). According to Walker, there are four factors of production or business activity, viz., land, labour, capital, and entrepreneurship. He views that once all other three factors are rewarded what remains left is paid as wages to workers. Thus, according to this theory, worker is the residual claimant.

5<u>. Marginal Productivity Theory</u>

This theory was propounded by Phillips Henry Wick-steed (England) and John Bates Clark of U.S.A. According to this theory, wages is determined based on the production contributed by the last worker, i.e. marginal His/her production is called ‘marginal production’.

6. **The Bargaining Theory of Wages*:***

John Davidson was the propounder of this theory. According to this theory, the fixation of wages depends on the bargaining power of workers/trade unions and of employers. If workers are stronger in bargaining process, then wages tends to be high. In case, employer plays a stronger role, then wages tends to be low.

7. **Behavioural Theories of Wages*:***

Based on research studies and action programmes conducted, some behavioural scientists have also developed theories of wages. Their theories are based on elements like employee's acceptance to a wage level, the prevalent internal wage structure, employee's consideration on money or' wages and salaries as motivators.

Unit-2

1. Assess the current compensation strategy.
2. Gather employee feedback.
3. Analyze the competition and conduct market studies.
4. Discuss the budget with managers and stakeholders.
5. Establish pay grades.
6. Ensure legal compliance.
7. Create a plan for rewards.
8. Communicate your strategy with the company.

Pay roll management System

A payroll management system describes the specialist software that can empower companies by streamlining and automatically carrying out the processes involved in payroll such as working out take home pay and taxes – saving time for the employer and reducing the number of errors.

Competitive advantage in compensation management

The competitive advantage in compensation can be set just for the key job positions in the organization. This solution is cheaper as the rest of the population can be kept in line with the median of the pay market or it can be below the median as the whole organization keeps the median in general.

Wage Structure

Also known as a "wage structure" or "salary structure," a compensation structure is the strategy you use to determine how each employee in your company is paid. It considers information like the length of employment, industry minimums and maximums, and merit.

Salary Survey

A wage and salary survey is used to compile market pay data for a plethora of jobs on either a local or nationwide basis. This survey is usually performed in order to assess the effectiveness of a company's current pay structure and practices.

Wage curve

A wage curve displays the current pay rates for various jobs within a pay grade in relation to their company ranking. This is usually done during the job evaluation process as a way to ensure that employees receive fair compensation for their skill and education level.

Pay grades

A pay grade is a method of compensating employees for their work based on their qualifications, years of experience and other predetermined factors. This type of payment system is preset with a specific structure.

Rate Ranges

- Traditional, or graded pay.
- Market-based, or benchmarked pricing.
- Broadband.

Salary Matrix

Steps in preparing a Salary Matrix Develop a matrix that lists each grade, the positions included in each grade & the no. of levels considered appropriate for each grade. Then determine salary ranges for each level. Each year, salary schedule should be reviewed to see whether it needs adjustment.

Compensation management association with Employee motivation

Employers can create a work-life that motivates employees to stay by providing adequate compensation and benefits that help employees feel valued, appreciated, and secure. Financial motivation is important to employees because it is a tangible way of showing them that their work is appreciated and valued

Job Evaluation and job Design

The purpose of job evaluation is to objectively determine the relative value of jobs within the University through a systematic study and detailed analysis of job duties, relationships and requirements. Jobs are evaluated by joint job evaluation committees using a modified Aiken Plan. This gender neutral point factor system is a universal plan which measures certain identifiable factors present in all jobs, but to varying degrees.

Job evaluation is an ongoing joint process between the University and various employee groups. The procedures and processes have been developed jointly and vary from group to group, and ensure that pay equity is maintained.

Performance related pay

What is performance-related pay? Performance-related pay (PRP) is a way of managing pay by linking salary progression to an assessment of individual performance, usually measured against pre-agreed objectives. It's also known as individual PRP or merit pay.

Individual and team based compensation

Individual compensation pays specifically based on individual performance regardless of team performance. This provides more pay to higher-achieving employees and less pay to lower-achieving ones. It allows for competition among employees for prestige and pay which provides a strong incentive to perform.

Unit-3

Wage Administration,Wage policy and wage legislation

Wage and salary administration is a collection of practices and procedures used for planning and distributing company-wide compensation programs for employees. These practices include employees at all levels and are usually handled by the accounting department of a company.

Wage legislations in India

The Wage Code regulates wage and bonus payments in all employment. The Code combines the provision of the following four laws:

(i) the Payment of Wages Act, 1936,

(ii) the Minimum Wages Act, 1948,

(iii) the Payment of Bonus Act, 1965, and (iv) the Equal Remuneration Act, 1976.

Minimum wages Act 1948

The Minimum Wages Act 1948 is an Act of Parliament concerning Indian labour law that sets the minimum wages that must be paid to skilled and unskilled labours. An Act to provide for fixing minimum rates of wages in certain employments.

Payment of wages of Act

The Payment of Wages Act, 1936 was enacted with a view to ensuring that. wages payable to employed persons covered by the Act were disbursed by the. employers within the prescribed time limit and that no deductions other than. those authorised by law were made by them.

Payment of bonus act 1965

The payment of bonus is dealt by "**Payment of Bonus Act, 1965", read with "payment of Bonus Rules, 1975", (central rules),** the main purpose of the enactment is to impose a legal obligation on the employer to provide for payment of bonus.

The Payment of Bonus Act applies to every factory and establishment employing not less than 20 persons on any day during the accounting year.

Equal Remuneration Act 1976

India Code: Equal Remuneration Act, 1976. Long Title: An Act to provide for the payment of equal remuneration to men and women workers and for the prevention of discrimination, on the ground of sex, against women in the matter of employment and for matters connected therewith or incidental thereto.

The payment of gratuity Act,1972

The Act provides for payment of gratuity at the rate of 15 days wage s for each completed year of service subject to a maximum of Rs. ten lakh. In the case of seasonal establishment, gratuity is payable at the rate of seven days wages for each season.

THE EMPLOYEES' PROVIDENT FUNDS AND MISCELLANEOUS PROVISIONS ACT 1952

An Act to provide for the institution of provident funds 2 [,3 [pension fund] and deposit-linked insurance fund] for employees in factories and other establishments

It extends to the whole of India Subject to the provisions contained in section 16, it applies— (a) to every establishment which is a factory engaged in any industry specified in Schedule I and in which 7 [twenty] or more persons are employed, and (b) to any other establishment employing 6 [twenty] or more persons or class of such establishments which the Central Government may, by notification in the Official Gazette, specify in this behalf: Provided that the Central Government may, after giving not less than two months' notice of its intention so to do, by notification in the Official Gazette, apply the provisions of this Act to any establishment employing such number of persons less than 6 [twenty] as may be specified in the notification.] 8 [(4) Notwithstanding anything contained in sub-section (3) of this section or sub-section.

Wage Structures in different sectors

There are various different types of pay structures that can be implemented within an organisation, although the most suitable structure will depend on a number of factors including the nature and size of your business, the composition of the workforce, and the ways in which you want to incentivise and reward that workforce to meet your objectives.

There are a number of different types of pay structures, although many can be distinguished by two key characteristics: the number of grades, bands or levels, and the width or span of each. Each grade, band or level has a pay range or scale with a minimum and a maximum, where the system of grading forms an important part of reward systems within the workplace.

1. Individual pay rates

2. Individual pay ranges

3. Narrow-graded pay structures

Narrow-graded pay structures are made up of a large number of grades, usually ten or more, into which jobs of broadly equivalent worth are placed. These types of structure are often found in the public sector or services which were once closely aligned.

4. Broad-graded pay structures

Broad-graded pay structures have fewer grades than narrow-graded structures, perhaps six to nine, where the salary band within the grade is usually wider. This can help counter or alleviate ‘grade drift’ problems that often arises with multi-graded structures, as there is greater scope for an employee’s pay to progress further along the pay grade. These types of structures are sometimes included within a definition of ‘broadbanding’.

5. Broadbanding

Broadbanding involves the use of an even smaller number of pay bands, often just four or five. This is designed to allow for greater pay flexibility than other more conventional graded structures, where typical broadbanding places no limits on pay progression within each band.

6. Job families

With job families, rather than the pay structure containing grades or bands, defined by their number and width, the structure is divided into a number of job families consisting of groups of jobs where the nature and purpose of the work are similar but the work is carried out at different levels of responsibility, knowledge, skill or competence

7. Career families

Career families, or career-graded structures, resemble job family structures in that there are a number of different families. However, with this approach, every family employs exactly the same grades and pay ranges for all of the levels included within it. Here the focus is on career mapping and progression, rather than the greater focus on pay of job families.

Minimum and Maximum Pay: The Central Pay Commission (CPC) proposed an increase in the minimum pay at the entry level, rising from INR 7,000 to INR 18,000 per month. Additionally, the maximum pay for top-tier positions like Cabinet Secretary was recommended to be INR 2.5 lakhs per month

State Govt salary structure

Multiply basic pay by 2.57 fitment factor = Rs 20,000 x 2.57 = Rs. 51,400. Addition of TA, HRA, medical Allowances as applicable and according to the revised rates of allowances approved by the Government etc to the amount Rs 51,400

In PSES

Job Title	Salary
Officer In Public Sector Bank salaries - 1 salaries reported	₹43,618/mo
Officer In Public Sector Bank salaries - 1 salaries reported	₹9,58,893/yr
Manager of A Public Sector Bank salaries - 1 salaries reported	₹13,49,550/yr

The Wage Board were set up: - to provide better climate for industrial relations; to represent consumers/public interests; - to standardize wage structure throughout the industry concerned; and, - to align the wage settlements with the social and economic policies of the Government**.**

Pay commissions

Pay Commission is set up by Government of India, and gives its recommendations regarding changes in salary structure of its employees set up in 1947, Since India's Independence, seven pay commissions have been set up on a regular basis to review and make recommendations on the work and pay structure of all civil and military divisions of the Government of India. Headquartered in Delhi (India), the commission is given 18 months from date of its constitution to make its recommendations.

First Pay Commission

The first pay commission was established on January, 1946 and it submitted its report in May, 1947 to the interim government of India.It was under the chairmanship of Srinivasa Varadachariar.The mandate of 1st (nine members) was to examine and recommend emolument structure of Civilian employees.

Second Pay Commission

The second pay commission was set up in August 1957, 10 years after independenceand it gave its report after two years. The recommendations of the second pay commission had a financial impact of 39.6 crore. The chairman of the second pay commission was Jagannath Das.

Third Pay Commission and the Armed forces

3rd CPC was the first CPC for Defence Forces. I quote from para 5, chapter 48 Vol 3 of the report, "5. It is for the first time that a Pay Commission has been asked to enquire into the, structure of emoluments of both the civilian employees, of the Government and the Armed Forces. In the past, the latter, was entrusted to departmental committees which included the representatives of the Services also."

Compensation commitee

A compensation committee is a committee within the board of directors tasked with setting executive compensation packages and incentive plans. They must balance the organization's financial realities and investor expectations, while creating competitive retention strategies.

Compensating contingent employees

According to the U.S. Department of Labor, contingent workers are independent contractors in a global freelance marketplace. These independent contractors, consultants, and other out-sourced, non-permanent workers are hired on a project basis and are not full-time, regular employees of a company.

Since contingent workers are not technically employees, they sign a contract agreement with an employer to carry out the specified work and then leave once the job is complete. Most contingent workers agree to work for a limited period while being compensated with an hourly wage, piecework fee, commission, or a lump sum stipulated in the contract, which can be subject to other factors or policies governed by the employer.

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UNIT-4

Employee benefits and services

Employee benefits are an indirect form of compensation that organizations provide to their workers through programs, policies, or services. Typical examples include health insurance, paid time off, and life insurance.

Which benefits an organization offers will vary according to its business situation and location. Some employee benefits are country-specific. For instance, health insurance is a key component of employee benefits packages in the US. In France, many employees get restaurant vouchers for every workday.

Depending on the country and region, certain benefits are mandated by law. Those that employers are legally required to provide are called *statutory or legally required benefits*. The ones that each employer chooses to supply are referred to as *discretionary benefits*.

Employee benefits are factored into total compensation and total rewards, so they play an important role in whether an employer meets employees' and job candidates' expectations.

In addition to benefits, most employers will provide perks. It's common for perks and benefits to be viewed as the same, but there is a distinction between the two. While benefits are a form of compensation, perks are not factored into pay.

Perks serve as incentives or extra rewards that make an employer more appealing to work for. These can include enticements such as gym memberships, free lunch or snacks at work, or company-sponsored tickets to concerts and sporting events.

Discretionary benefits

Discretionary benefits refer to any type of benefits you are not required to provide by law. This umbrella term includes myriad benefit types, from supplementary dental and vision insurance to perks like wellness programs and child care stipends.

Employee welfare services

Employee welfare is a term that encompasses a broad range of benefits and services that an employer may offer to its employees. It can include things like health insurance, dental insurance, vision insurance, life insurance, disability insurance, 401(k) plans, and paid time off.

Designing planning and administration of benefits program

An organization’s biggest asset is its employees. These employees can make or break your organization. Hence, having an employee benefits program for your employees becomes essential. Benefits programs for employees are one of the critical drivers of employee engagement.

Gone are the days when benefits were all about providing attractive salaries, now the companies have to offer much more than that to retain talent.

Totally integrated employee benefits

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VRS

VRS means Voluntary Retirement Scheme - it is a scheme that allows companies to offer a voluntary retirement to employees who have not reached the age of retirement so that they can cut operational costs during tough times.

UNIT-5

Executive and International compensation

Executive compensation refers to the financial remuneration and non-monetary benefits provided to top-level executives, such as CEOs, CFOs, and other senior management members, in exchange for their services to a company.

Executive compensation theories

1. **Marginal Productivity Theory**
   Marginal productivity theory is mainly concerned with predicting the pay levels of executives. Many of its propositions about executive compensation are made with a context of analysing the firm's ability to generate profits and maximise productive output.

2. **Governance Theory**

It is held that executives should pursue strategies that will create long- term shareholder value and that they should receive closely related rewards. Executives may feel free to pursue interests that do not coincide with those of the firm's owners, knowing that the owners have a limited ability to influence the executive's rewards.

As a result, the executive compensation package may not be effectively linked to performance that creates or maximizes shareholder value.

Marginalise and agency theories are subsets of governance theory that deal with issues arising when the firm's owners are removed from the decision-making processes of the executive.

3. **Managerialism**

The separation of ownership and control in organisations can lead to executive pay decisions that benefit the executive regardless of what the organisational outcomes and effects might be on shareholders.

One researcher has found that when firms are management controlled (i.e. no shareholder owns 5% or more of the company's stock) opposed to owner controlled, there is little uncertainty in executive compensation amounts.

4. **Agency Theory**

Agency theory may be considered as a theoretical extension of managerialism. A firm's owners are called the principals and the hired executives are called the agents. Owing to widely dispersed ownership, the agent may pursue activities that benefit him rather than the firm's owners.

This represents an "agency cost" to firm owners which is the difference between net profits of the firm had the owners been the managers and the net profits under the agent's stewardship. Agency theorists hold that agency costs are a necessary evil that comes with the advantages of modern corporations.

5. **Structural Theory**

Structural theory examines executive compensation at the firm level. Structural theory focuses on the "social standards" of pay at different hierarchical levels. According to this theory, organisations attempt to maintain particular salary differentials between the management and subordinate levels to comply with cultural norms of proportionality.

Executives can expect to receive a relatively large amount of compensation in a firm that is of a considerable size and where there might be a large number of hierarchical levels. Conversely executive compensation levels would decline in response to the trend towards corporate ‘downsizing.’

6. Human Capital Theory

Human capital theorists examine the individual characteristics of the executive in attempting to predict pay levels. These characteristics include factors that are intrinsic to the executive such as his knowledge base. It is possible to calculate a rate of return on investments made in human capital.

The amount of human capital acquired by the executive at any given point determines how valuable he is to the firm. This in turn, predicts how much the firm will pay for his services.

7. Symbolism Theories

The symbolism theories of executive compensation held that the executive’s power and political influence are the primary determinants of his pay level. Power and politics are of more direct importance to those who make executive pay decisions than the economic elements of firm performance and executive productivity

Political Strategist

Tournament Theory

Design and approaches to international remuneration

Home-based approaches have been traditionally the most commonly used to compensate international assignees. Assignees on a home-based approach retain their home-country salary and receive a suite of allowances and premiums designed to cover the costs linked to expatriation.

It relies on comparisons of surveys of the local nationals, expatriates of same nationality and expatriates of all nationalities' pay packages. In this approach, the compensation is based on the selected survey comparison. The base pay and benefits may be supplemented by additional payments for low pay countries.

Challenges of international compensation

One of the main challenges in managing global compensation and benefits is to align them with the local market conditions and expectations. This means taking into account factors such as cost of living, inflation, exchange rates, tax laws, social security, labor regulations, and cultural norms.