**COMPENSATION & REWARD MANAGEMENT**

 **PROFESSIONAL ELECTIVE-V**

MODULE-I

INTRODUCTION: COMPENSATION MANAGEMENT

Compensation is the reward that the employees receive in return for the work performed and services rendered by them to the organization.

Compensation includes monetary payments like bonuses, profit sharing, overtime pay, recognition rewards and sales commission, etc., as well as non­monetary perks like a company-paid car, company-paid housing and stock opportunities and so on.

Compensation is a systematic approach to providing monetary value to employees in exchange for work performed. It is a tool used by management for a variety of purposes to further the existence of the company. It may be adjusted according to the business needs, goals and available resources.

Compensation is relevant to most other fields of human resource management such as recruitment and selection, training and development, performance appraisal, incentives, industrial and employee relations, promotion and separation and outside intervention in human resource matters.

Generally the term compensation refers to compensating any damage, loss or mental harassments, wages or salaries as reward for physical and/or mental efforts to perform any agreed task or job. But the concept of equity in remunerating any work or task has forced us to perceive wages and salaries as compensation, because people work efficiently only when they are paid according to their worth or feel satisfied with the remunerations.

Besides basic salaries or wages, companies are forced to view the benefits and services to justify the positional and esteem needs of employees and to provide adequate cushion for inflations. Though the cost of human resources is estimated at between 2% to 20% of the operating cost (depending upon the type of industry), to retain the employees or to avoid job-hopping, some of the industries are even forced to adopt varying scales and benefits.

**The most common questions that arise in the minds of employees are:**

Therefore, the study of compensation is of outmost importance from both an academic as well as practical point of view as wages and salaries are the major factors in socio-economic analysis. From an economic point of view, compensation refers to the payments to the efforts made by an individual.

In a society it is an occupational category and reflects the individual’s status, while psychologically, compensation relates to the satisfaction of an individual’s needs and aspirations.

It is compensation which directly affects one’s standard of life, meets the needs of his/ her family, enables him/her to save for future liabilities and justifying his/her worth for a job. Wages/salaries, on the other hand, add to the cost of production and are a vulnerable part of a company’s overhead, which affects the profit to the employers.

Both employers and the employees are concerned about the adequacy of the compensation. Employers are interested to hire competent employees by offering attractive and bearable cost to the company, while employees try to get maximum return on their skills, knowledge, expertise or payment to justify their worth.

### Compensation – Meaning and Concept

Compensation is the reward that the employees receive in return for the work performed and services rendered by them to the organization. Compensation includes monetary payments like bonuses, profit sharing, overtime pay, recognition rewards and sales commission, etc., as well as non­monetary perks like a company-paid car, company-paid housing and stock opportunities and so on.

Apart from the basic financial pay the employees receive paid vacations, sick leave, holidays and medical insurance, maternity leave, free travel facility, retirement benefits, etc., and these are called benefits.

Compensation is a vital part of human resource management decision making as it helps in encouraging the employees and improves the organizational effectiveness.

Compensation packages with good pay and benefits help to attract and retain the best employees. Employees consider pay package to be fair when the amount of wage covers basic living expenses, keep up with inflation, leave some money for savings (perhaps for retirement) and leisure and there is increment over time.

HRM is concerned with the determination of adequate and equitable remuneration of the employees in the organization. HRM use techniques like job evaluation and performance appraisal for determining remuneration.

Factors that are considered for determining the remuneration of personnel are their basic needs, requirements of jobs, legal provisions regarding minimum wages, capacity of the organization to pay, wage level afforded by competitors, nature of job, skills required, risk involved nature of working conditioning, bargaining power of the trade union, etc.

Wages and salaries form a substantial part of total costs in most of the organization. Hence a systematic approach must be followed for determining wage and salary structure so as to ensure logical, equitable and fair pay to the employees.

The term equity in pay means – pay corresponding to difficulty level of the job assigned to an employee meaning more difficult the job more should be the pay (called internal equity); compensating an employee equally in comparison to similar jobs in the labour market(called external equity ) and equal pay for equal jobs(called individual equity)

Compensation may be defined as money received in performance of work and many kinds of services and benefits that an organization provides to their employees.

Compensation is a systematic approach of providing monetary value to employees in exchange for work performed. It may help to achieve several purposes, such as recruitment, job performance and job satisfaction. It is also defined as the package of quantifiable rewards an employee receives for her or his labour.

It represents both, the intrinsic (psychological mind-sets resulting from job performance) and extrinsic (including both monetary and non-monetary) rewards. The term, compensation refers to all forms of financial returns and tangible benefits that an employee receives as a part of employment relationship. In the globalization era, where the business environment has become increasingly complex and challenging, designing an effective compensation program to attract and retain talent is an important function of organizational effectiveness.

**Concept of Compensation:**

Compensation is a systematic approach to providing monetary value to employees in exchange for work performed. It is a tool used by management for a variety of purposes to further the existence of the company. It may be adjusted according to the business needs, goals and available resources.

i. Individual worth – The value of a job is related to similar jobs of the company or the competitors but the value of an individual to perform that job may vary according to his/her skill/knowledge, expertise and more so his behaviour on the job and with associating persons. The combinations of these attributes decide the worth of individual. This definition is a perception of the employees.

ii. Cost to Company – Human resource is considered as an asset to the organisation. The investment on this asset by the company with respect to skill, competence or expertise is a cost to the company and the employer’s intention is to make aware the employees that he/she has to ensure return on this investment through his/her consistent and continuous performance.

iii. Flexible Compensation Package – Employees are being offered compensation structure with numbers of benefits to choose to plan tax plan and provide freedom to choose to get maximum benefit.

### Compensation – 2 Main Objectives: Primary and Secondary Objectives

**The primary objectives of compensation or wages are classified under four broad categories:**

i. Equity,

ii. Efficiency,

iii. Macro-economic stability, and

iv. Optimum allocation of labour.

1. **Equity:**

The first category is equity, and may take several forms. Equity includes income distribution through narrowing down of inequalities, increasing the wages of the lowest paid employees, protecting real wages, and the concept of equal pay for work of equal value. Compensation management strives for internal and external equity. Internal equity requires that pay should be related to the relative worth of a job such that similar pay is assured for similar jobs.

External equity refers to making comparable payments, that is, paying workers what other firms in the labour market pay comparable workers. Compensation differentials, based on differences in skills or contribution, are all related to the concept of equity. Internal equity actually means employees and their contribution are treated fairly with a pay programme in relation to other jobs in the organization.

1. **Efficiency:**

Efficiency is often closely related to equity. These two concepts are not adverse. The objectives of effi­ciency are evidenced in attempts to link a part of wages to productivity or profit, group or individual performance, acquisition and application of skills, and so on. Preparations to achieve efficiency are also seen as being equitable, provided they fairly reward performance. The preparations are treated as inequitable if the reward is viewed as unfair.

1. **Macro-Economic Stability:**

Companies try to achieve macro-economic stability through high employment levels. Low inflation helps to achieve macro-economic stability. For instance, an inordinately minimum wage would have an adverse impact on the levels of employment, though at what level this consequence would occur is a matter of debate. Although compensation and compensation policies are two of the many factors which influence macro-economic stability, they do contribute to or hinder balanced and sustainable economic development.

**iv. Efficient Allocation of Labour:**

Employees consider the net gain. Efficient allocation of labour refers to the concept of labour/employee moving out of a situation to another for a net gain. Such movement may be from one geographical location to another, from one job to another, and within or outside an enterprise. The provision or availability of financial incentives causes such movement.

For example, workers are likely to move from a labour surplus or low-wage area to a high-wage area. On acquiring new skills, they may be tempted to derive benefit from moving to jobs with higher wages. Employee attrition is more when an employer’s wages are below market rates. Again, an employer attracts job applicants when his wages are above market rates. When employees move from declining to growth industries, an efficient allocation of labour due to structural changes takes place.

#### Objective # 2. Secondary Compensation:

From the standpoint of human resource management, a well-designed compensation package helps an organization to achieve additional objectives which are the secondary objectives of compensation. The secondary objectives include acquiring competent personnel, complying with regulations, controlling costs, enhancing administrative efficiency, facilitating understanding, retaining employees, and reward­ing desired behaviour.

1. Acquiring competent personnel –

Good compensation helps an organization attract competent applicants. As everyone has become aware of their value in the market, it is only wise for the management to provide suitable compensation packages to the employees for their retention.

1. Complying with regulations – A sound wage and salary system considers the legal challenges imposed by the government and ensures the employers compliance.

Iii Controlling costs –

 A rational compensa­tion system helps the organization obtain and retain workers at a reasonable cost. Without effective compensation man­agement, workers might be over-paid (when product costs go up) or under-paid (which reduces employee motivation).

1. Enhancing administrative efficiency

– Any organization desires and attempts to optimally use the human resource information systems (HRIS). A well-designed sound wage and salary programme helps to manage HRIS efficiently.

1. Facilitating understanding –

The compensation management system should have a high level of clarity. In addition to the human resource specialists and operating managers, the employees also should understand the compensation management system easily.

vi. Retaining employees –

Attrition may increase when compensation levels do not fulfil employees’ expectations. They quit due to the feeling that compensation is not competitive.

vii. Rewarding desired behaviour –

 Companies expect certain types of behaviour from the employees. Pay is likely to reinforce desired behaviours and acts as an incentive for the behavioural modi­fication, and for the behaviour to occur in the future. Effective compensation plans reward per­formance, loyalty, experience, responsibility, and other behaviours.

### Compensation – Purpose: Attracting the Talent, Retaining the Talent and Motivating the Employees

**An organisation has to design its compensation system to attain the following purpose:**

#### Attracting the Talent:

It is widely accepted that human resources of an organisation give it an edge over its competitors. By offering a well-designed pay package, an organisation can get best talent available in the job market.

#### (2) Retaining the Talent:

Because of liberalisation, globalisation and privatisation, the workforce has become highly mobile. The practice of lifelong employment and commitment between the employer and the employee which was practised in some economies of the world (William Ouchi’s Theory Z) is fast disappearing.

Now, employees don’t hesitate leaving an organisation and joining the other if they are offered better pay package. Therefore, each organisation should design such compensation system that talent not only gets attracted but also stays with the organisation.

#### 3) Motivating the Employees:

The talented employees may not be motivated to use their talent unless they feel that they will be rewarded duly for their contribution towards the organisational objectives. Therefore, compensation system must be designed to motivate the existing employees to contribute their maximum towards the organisational objectives.

### ****Compensation**** – Pay Structure and Its Components

There are some unique groups of jobs in each company and these jobs have to be identified, evaluated and plotted on a table. These are known as key jobs. Once this is done, the non-key jobs have to be compared against the key jobs and plotted on the chart. The key jobs are treated as benchmark jobs. This method appears to be a bit complex and involves a series of decisions. In this section, we will look at the methods of collecting information through surveys and utilizing such data and information for setting up wage levels and grades.

Conducting wage and salary surveys is a common practice in many countries and industries across the world. In order to provide a competitive wage scales and salary levels, a company must know what other companies in a community or area pay for their employees.

If a company simply ignores this type of information, the company may lose out their talented employees to other companies. Such surveys will give us a good idea as to what fair wages and salaries are in a community. These surveys are conducted by some consulting groups, professional associations, and government agencies. At times, the companies themselves carry out these surveys and share the output with other companies in the community.

The Singapore National Employers’ Federation (SNEF) conducts a detailed survey annually and distributes as a directory to its members. Such directories give a fairly good idea as to what the current practices are in the community when it comes to wages, salaries, and benefits. If companies are not going to line up their wages and salaries in line with other companies in the community, they will not be able to draw good and talented candidates.

The information obtained through surveys will be useful for benchmarking and against which other companies in the community compare their levels of wages and salaries. Generally only key jobs are used for survey purposes. Since every company in the community requires such information to set their standards, they show their interest participating in such surveys. Similar jobs will be considered for surveys and not necessarily similar job titles.

**Wage Curve or the Trend Line:**

After conducting surveys, the next step is to price the key jobs. Let us see how to go about doing this. By taking the worth of the job obtained through job evaluation and matching it with the value or worth obtained from the labor market. Wage levels for each job must be established and grouping pay levels into a pay structure. Scatter gram is a graph which shows pay levels (on vertical axis) and the point values (on horizontal axis), in case, the point system is used.

**Accordingly, the compensation structure can be broken up into popularly accepted components as:**



**1. Basic:**

This is the main part of the pay package, which refers to the component of compensation that justifies the worth of a job, as compared to a similar job in another industry/organization.

It matches job worth with the human skill, knowledge and experience to perform the job and is a stable wage/salary part of the compensation paid over a period of time, which could be weekly or monthly, and must be paid by the employer to meet the basic needs of the employees.

As per the Fair Wage Committee, it is a fair wage or the minimum wage to be paid by the employer to all categories of employees in a grade. It is a normal rate for a given output by an average employee of the particular grade.

**Fixation of Basic Pay:**

It is fixed as per the job evaluation points for a particular group of jobs and by comparing its worth with other job prices for similar jobs in other organizations to cover equity concept. This basic component, once fixed, remains stable for a reasonable period of time unless some substantial change intervenes.

It is built upon the statutory minimum wage criteria, the tribunal awards as well as the directives of the Pay Commission at the national or state level and collective bargain.

**2. Dearness Allowance (DA):**

It is the second important part of the compensation structure, which compensates the employee fully or partly for the loss of real earning. It takes care of the price inflation that affects the purchasing power of the employees. It is a regular and continuing part of the compensation package that gets changed according to the price increase, i.e., to establish a real wage concept.

It is linked with the price index (an approved calculation of the Government formulated from time to time depending upon the changes in the price index). However, the W/S policy defines the system of the DA changes and the management is committed to use this protection device.

Since the Wage/Salary grades once fixed cannot be changed quite frequently (till the next Wage Board or Pay Commissions recommendations), DA increase is not termed as the increase in wage or salary, but it is a relief to the employees to meet the additional burden due to price escalation.

In India, the practice of paying this allowance to compensate for the price increase began during the First World War when Mahatma Gandhi sat on a fast in 1918 in support of the Ahmedabad Textile workers’ protest against the increased cost of living.

DA as a continuing component of wage or salary came into existence during the conditions created by the Second World War as the cost of living shot up abnormally towards the end of the Second World War. That time, the AICI (All India Consumption Index) moved up from 269 in 1945 to 285 in 1946 and to 329 in 1947.

The practice of the payment of dearness allowance relates to all the sectors of organizations, as has also been referred to in the Minimum Wage Act, 1948. However, the multinational and private sectors do not separately define this component in their compensation structure, especially those of executives, and put more emphasis on perks and benefits to project more attractive packages.

The Wage and Salary policy defines the system of DA changes and the management is committed to use this protection device. However, the multinationals and private sectors do not separately define this component in their pay packages, especially those of executives, and put more emphasis on perks and benefits to cover this aspect to link the pay to performance and not to inflation.

**Fixation of DA:**

In the context of the changing pattern of prices of commodities and consumption rate, the real wage or salary is likely to fluctuate greatly, which may upset the employees to meet the basic needs and to support their families. DA is that component of the pay structure which takes care of this fluctuation.

Therefore, an accurate and scientific approach is necessary to review and calculate this component so as to avoid conflicts or dissatisfactions in the minds of employees. For the employees of PSUs, Governments through the Wage Board and/or the Pay Commissions fix this component periodically based on the CPI (Consumer Price Index) to satisfy the real values of wage or salary.

**General Principle of Fixing DA:**

Whether it is pay fixation or DA fixation, some principles are to be followed to balance the loss of real earning to the employees and the extra financial burden on the employers.

**The system of payment of DA was designed based on the following principles:**

a. The extent of neutralization of the rising cost

b. The frequency of altering the rate of DA

c. The decision of various tribunals in this regard.

However, the employers felt that the lower paid employees are generally affected by price fluctuations and that class only needs to be protected.

**The Gregory Committee appointed by the Government of India thus suggested the** **following principles for the payment of clearness allowances in India (in 1944):**

a. The payment of DA should be limited to an income level of Rs. 200 pm.

b. The amount of DA should be fixed in terms of rupees and not in percentage of basic pay.

c. The payment of additional DA should be considered on the basis of the CPI.

d. There should be a single DA in the same region.

e. The system of payment should be designed based on the extent of neutralization of the rising cost of living.

**DA Fixation Process:**

Generally the employees demands that the DA increase or be revised whenever they feel severely affected and approach the management/Wage Board/Pay Commissions for the settlement of the issue.

The Wage Board or Pay Commission accordingly appoints a committee to examine the issue and fix/revise the DA based on the impact of the raised Consumer Price Index. They also do the neutralization of the old percentage.

**Fixation of DA:**

The Wage Board or Pay Commission fixes the DA increase by considering the comparative price index and by neutralizing the old percentage of DA in wage or salary. In this process, the last price index is taken as 100% and the increase in price is worked out in points. For every change of 4 points after every six months one DA is considered worth to meet the cost of living.

**For example, if the increase in the price index is 12 the DA increase will be 3 points as calculated below:**

DA at the time of 100% datum = Pi x 3/100

**Neutralization of DA:**

Neutralization of DA means merging some part of this component in the basic wage/salary and adding the new DA in the pay scale. The method and extent to which neutralization in the cost of living is to be considered have been under constant examination by the industrial tribunals and other wage/salary fixing authorities.

Most of the Wage Boards provide for a flexible component of DA to neutralize the rising cost of living. However, the principles and practices in different Wage Boards, in establishing a link between the price index and the DA, vary widely.

**System of Payment of DA:**

The practice of payment of Dearness Allowance relates to all the sectors of organizations as has been referred to in the “Minimum Wage Act, 1948”. However, the system of payment of DA varies from industry to industry and even within the same centre of industry. Some link it with an increase in the price and some may follow the flat rate system or graduated rate system for the ease of calculations.

**As such, two systems of the payment of DA are mostly used, as below:**

i. Linked with Price Index

ii. Not Linked with Price Index.

1. **Linked with Price Index:**

It is the most commonly used system of payment of DA. In this system, DA automatically increases or decreases with a rise or fall of price index, i.e., the real value of money. The Consumer Price Index is intended to show, over a period of time, the average percentage change of prices of essential commodities or services being consumed by a particular population group.

The average percentage change of the price index is calculated month after month with reference to a datum or a fixed period known as the “Base Period”. The change in the DA is calculated in the points by which the CPI has risen above the base period index.

1. **Flat Rate:**

The Gregory Committee (1944) advocated this system, wherein it was advocated that a fixed amount of DA in terms of rupees should be an absolute amount. Under this system, the management analyzes the impact of the price increase on the real value calculations and after discussing with the union, decides a flat rate or a fixed amount, say, Rs. 20/30/50, etc., to be paid to the workers and staff, irrespective of their pay scales.

The main advantage of this system is that it is very simple and gives greater relief to the workers and staff with an assurance of an additional amount they will get if there is a price increase. However, this has a disadvantage that the employees at different grades and scales have to be satisfied with the same rate to everyone.

**b. Graduated Rate:**

This system provides a graduated scale of DA for different grades of employees grouped in a mutually agreed slab. However, in this system also a fixed DA rate is decided for different slabs and a maximum limit is also fixed. This method is the most popular as it satisfies the employees at different slabs and is convenient.

This system also has both a fixed percentage system as well as a variable rate with different percentages for different slabs.

**ii. Not Linked with Price Index:**

Some of the industries/organizations fix the DA proportion of wage or salary for automatic escalation without following any specific formula related to the CPI. The management, in consultation with the employees’ representatives, takes a decision to increase some percentage for providing relief to the employees and reducing the financial burden on the organization.

**Impact of DA:**

DA, as an essential component of compensation, is linked with the CPI and is highly injurious to the financial stability of any organization, as its increase has no correlation with the increase in productivity. The DA increase is to ensure the real value of money to the employees but the employees at the supervisory and executive levels draw much less increase as compared to the employees whom the supervise or manage.

Such disparity does influence the effectiveness or the productivity and is highly dangerous to the organization. Therefore, there is a need of proper schemes for supplementing the payment of DA with a close network of fair price shops.

**3. HRA – House Rent Allowance:**

It is another component of pay, which takes care of the cost of living and provides extra money to meet the housing accommodation expenses so that the employee can maintain his/her status. This allowance is generally provided to outside employees to manage their stay so that they do not feel a reduction in their compensation or worth or loss of real earning.

However, there is no provision for HRA to the workers under the existing labour laws as the employers generally consider the workers’ quarters in their project cost to ensure the quick availability of the workers at work. But the problem of getting house accommodation is becoming acute. In order to give some relief to the industrial workers, some of the states have made laws to provide for HRA paid by the employers.

In the case of executives, this component plays a vital role to let them maintain their status and get tax relief. This allowance is generally based on the class of city, the standard of life in the region and the capacity of the company to pay to maintain their own image as well as that of their executives.

**Fixation of HRA:**

The fixation of HRA depends on the category of city, the collector’s rate for rents in different areas, proximity to railway station/bus stand, hospitals and schools, etc. Generally the position or level of employee, the ability of the company to pay rental value in a city and income tax criteria help in deciding the percentage for HRA.

The Wage Board or Pay Commission fixes HRA in the government sector, and in the private sector it is fixed by the employers depending upon the wage/salary policy and the capacity to pay.

**4.****CCA (City Compensatory Allowance):**

In the same region, the rental rates may vary according to the ranking of the city such as urban, metro, or class A, B, C etc. To meet the expenses of cost of living, in different grades of the city, the employer includes CCA in the compensation package, which depends upon the grade of city like Class A, Class B, Class C, etc.

**5.****Annual Bonus:**

Bonus is the most expected component of compensation, especially when an employee stays with the organization for more than a year and expects recognition of his/her continuous efforts throughout the year to let the organization earn and grow. It is also perceived as a reward for continuing services to an organization and the expectations of the employees to share the fruits of their efforts for developing the organization.

Bonus is also regarded as an incentive for regular attendance, an encouragement for good work, an award for excellence, and as an ex-gratia payment, depending upon the goodwill of the employer.

**Forms of Annual Bonus:**

(a) Customary Bonus

(b) Profit based Bonus.

(a) Customary Bonus – This is a commitment of the organization defined in their policy, such as ex-gratia payment, attendance bonus, productivity bonus, etc., which cannot be claimed as a right but depends on the company’s policy and plans. Customary bonus does not require calculation of profit or availability of surplus. It is a payment based on long usage.

(b) Profit based Bonus – This award refers to the payment of the share of profit or extra earning achieved through the efforts of the employees, and the employee has a right to share in the increased profits that are made in a particular period.

The Bonus Act, 1965, however, assumed the payment of bonus as statutory with the enactment of this Act. This Act is intended to enable the employees to share in the prosperity of the establishment to which they contribute.

The bonus under this Act varies from industry to industry and also varies in payment from year to year.

**Other Forms of Bonus:**

**Bonus related to performance are generally termed as:**

i. Productivity bonus: extra payment for increasing the productivity

ii. Performance bonus: award for increasing the efficiency or proving oneself different from others

iii. Excellence bonus etc.: a reward for doing something special or innovative.

**Some Other Allowances:**

**Some of the industries also offer allowances such as project allowance, shift allowance, washing allowance:**

i. Project allowance is offered to the employees sent to implement any project outside the works and to motivate him/her to be away from the family.

ii. Shift allowance is to encourage an employee to work in shifts such as employees of call centres or outsourcing agencies.

iii. Washing allowance helps the employees to maintain neatness and cleanliness without losing their real earnings.

### Compensation – Contingent Factors in Compensation Plan

Contingent factors are of two types. These are internal factors and external factors.

#### Internal Factors:

1. Organizational strategy and attitude

2. Organizational culture

3. Nature and worth of job

4. Capacity to pay

5. Nature of human resource

#### External Factors:

1. Nature of HR market

2. Cost of living

3. Employee union

4. Legal framework

5. Socio-economic factors

Both factors influence the compensation system in an organization. In fact because of such reasons the compensation system is very strategic in nature. Global competition in human resource market influence the retention of employees within the organisation. From the employer’s perspective, compensation is an issue of both affordability and employee motivation.

Companies must consider what they can reasonably afford to pay their employees and the ramifications of their decisions: will they affect employee turnover and productivity? In addition, some employers and managers believe that pay can influence employee work ethic and behaviour and hence link compensation to performance.

Moreover social, economic, legal, and political forces also exert influence on compensation management, making it a complicated yet important part of managing a business.

**More specifically, six primary but interrelated factors can shape a company’s pay structure:**

**i. Social Customs:**

Beginning in the thirteenth century, employees began demanding a “just” wage. This idea evolved into the current notion of a federally mandated minimum wage. Hence, economic forces do not determine wages alone.

**ii. Economic Conditions:**

Demand for labour influences employee wages. Employers pay wages based on the relative contributions employees make to production goals. In addition, supply and demand for knowledge and skills helps the organization to determine the wages.

**iii. Company Factors:**

Pay structures depend on the kind of technology a company has and on whether a company uses pay as an incentive to motivate employees to improve job performance and to accept more responsibilities.

**iv. Job Requirements:**

Some jobs may require greater skills, knowledge, or experience than others and hence fetch a higher pay rate.

**v. Employee Knowledge and Skills:**

Likewise, employees bring different levels of skills and knowledge to companies and hence they are qualified to work at different levels of a company hierarchy and receive different rates of pay accordingly.

**vi. Employee Acceptance:**

Employees expect fair pay rates and determine if they receive fair wages by comparing their wages with their co-workers’ and supervisors’ rates of pay. If employees consider their pay rates unfair, they may seek employment elsewhere, put forth little effort in their jobs, or file lawsuits.

### Compensation – 2 Important Types: Financial Compensation and Non-Financial Compensation

#### Type # I. Financial Compensation:

**1. Direct Financial Compensation:**

Financial compensation means monetary payment made to an employee in exchange for his work. This includes basic pay, bonus, incentives, overtime payment, commission and variable pay.

a. Basic Pay – It is the direct financial compensation an employee gets for the time worked. It takes the form of wage or salary.

b. Incentives – It is a plan that links pay to productivity or profitability. It may be linked to the performance of an individual or a team or the entire organizational level performance. Bonus, profit-sharing plan, variable pay and stock options are examples of incentive plans.

**2. Indirect Financial Compensation:**

It includes benefits like pensions, insurance, paid holidays. These benefit are available to all employees.

**Benefits:**

They are employer-provided other than wages, salaries, or incentives. They make up indirect component of a financial compensation plan. These benefits are not performance-based and are awarded to all employees by virtue of their membership in a given organization.

**They are of two types:**

1. Mandatory and

2. Voluntary

**1. Mandatory Benefits:**

These benefits are legally binding on an employer to provide to the employees., viz., Provident fund, gratuity scheme, health plan, maternity leave, medical leave, etc., are examples of these benefits.

**2. Voluntary Benefits:**

These are discretionary and provided by the employer voluntarily. These include compensation for’ time not worked, for example, paid holidays, family-friendly benefits, retirement benefits, etc. Organizations today offer their employees benefits like sabbaticals, Childcare centers, work from home option, job search facility for spouse, health/life/accident insurance, company-sponsored education facility, Free transport, subsidized meals, free concierge services by which employees have their telephone, electricity bills, etc., paid.

#### Type # II. Non-Financial Compensation:

These are psychological rewards given to employees who entertain a feeling that their skills are recognized. Employees at senior and middle levels who prefer to work on high end technology, desire empowerment. Besides recognition awards and service awards there are also other important non-financial compensations given to employees by contemporary employers.

**They are:**

1. Awards – Awards include cash, gift certificates, movie tickets, parties and dinner coupons for family members, travel concessions to famous destinations, etc.

2. Recognition awards – Felicitation award for employee of the month and employee of the year given at a colourful event have the potential to motivate the employees for better performance. Individuals who make contribution to society, work beyond the call of duty or whose ideas have impact on business are given suitable awards.

3. Service awards – Employees who have completed a certain number of years become eligible for loyalty award.

4. Appreciation – When an employee performs the job to the full satisfaction of superiors, appreciation of superior in the presence of colleagues is a sure-fire reward for the employees.

5. Challenging task – Assignment of a challenging task to the promising employees has the potential to unlock latent talent in the employees concerned.

6. Deputation for foreign assignment – Selection of best performing employees for training and for important overseas assignment would certainly trigger their motivation and it adds to their value and prestige among their colleagues.

7. Seeking consultation – Consulting key employees on strategic issues and seeking their honest opinion has a tremendous bearing on their morale and positive energy.

8. Participatory opportunity – Employees participation in decision-making, in the form of joint decision-making autonomous workgroup, consultative committees, kaisen management, collective bargaining, quality circles, suggestion committees and so on would indubitably kindle their enthusiasm and impel them to contribute positively towards the goal of the organization.

9. Power delegation and decentralization – Decentralization of power to employees, fixation of accountability, delegation of authority have the power to enable the employees to unleash their otherwise dormant potentials.

10. Conducting of refresher training – Conducting frequent training to freshen up the knowledge skill, competency of employees has the potential to empower the employers and recharge their energies.

11. Provision of congenial work environment – Provision of congenial work environment like separate cubicles, latest electronic

communication gadgets, air conditioned rooms, secretarial facilities, comfortable desk & chair, pleasant interior decoration, clean drinking water, relaxation facility, etc., can help the employees in sustaining pleasant mood and creates a mind-set for churning out quality works.

12. Alternate work schedule – Alternate work schedule like past time work, job sharing, flexi time, annulated work hours, work from home, option to work in day shift, etc., go a long way towards sustaining the loyalty of employees.

13. Provision of leadership development career development opportunities – These opportunities are sure to attract and retain challenge-loving employees.

14. Liberal holidays – Providing various type of holidays and sabbatical is one of the powerful motivations for employees.

15. Career counselling and mentoring Facilities – Provision of career counselling and guidance mentoring have power to inspire the contemporary employees to unearth their potential.

16. Conducting events – Conducting various events like founders day independence day, festivals, new year’s day, sports events, literary events, carnival day, etc., ensure a feeling of oneness among the employees.

17. Transparency dealing – Transparent performance appraisal reward system, award system, transfer system, promotion on career advancement practice, etc., help in positive inclination towards the employer.

18. Well-developed communication system – Conduct frequent town hall meetings, barrier free flow of communication, fixation of deadlines, clear-cut rules, well defined policies, processes and strategies, in-house news enlightening the dynamics in the company and in the industry stop spread of rumours, breed a conducible and healthy work environment and help employees stay positive in the facility.

### Compensation – Importance of Compensation to Other Fields of Human Resource Management

Compensation is relevant to most other fields of human resource management such as recruitment and selection, training and development, performance appraisal, incentives, industrial and employee relations, promotion and separation and outside intervention in human resource matters.

**The importance of compensation in some of these areas is briefly explained below:**

#### Recruitment and Selection:

In order to attract potential and competent employees, it is necessary to offer lucrative remuneration to the aspirants. In the era of competition, where companies compete for getting best candidates, this aspect has become all the more relevant. Managements have to take decisions about the appropriateness of the quantum and form of compensation—direct or indirect, short-term or long- term remuneration and also the packages being offered.

#### 2. Training and Development:

Employees will be more willing and responsive to training and development programmes if they are aware that, after the successful completion of training and improvement of their skills, they will receive suitable monetary rewards. When the compensation policy and practices of the organisation assure such enhancement of reward is in somewhat definite terms, they are very likely to be attracted towards such programmes.

It is, however, desirable that the training and development programmes are well designed and are open to all employees without any element of discrimination.

#### 3. Performance Appraisal and Incentives:

Where an objectively designed and clearly understood performance appraisal system is in operation, the employees become aware that they will get pay rises and other rewards based on the extent of their contributions towards improvement of the quantity and quality of products and accomplishing other targets. Similarly, the success of specific incentive schemes depends, in large part, on their clarity and adoption of an acceptable system of sharing the fruits of increased production.

#### 4. Disputes and Grievances:

In many organisations, grievances and disputes often arise on the question of compensation. A study of causes of industrial disputes in India as in many other countries of the world clearly shows that the highest number of industrial disputes leading to work stoppages have taken place on the question of wages and allied matters.

In order to prevent such disputes from arising, it is essential for the management to adopt effective compensation policies and plans which could be acceptable to the union and which are in conformity with governmental policy and prevailing norms. Similarly, grievances often arise on the question of wage relativities worked out on the basis of job evaluation.

As such, management should be careful in designing such a system of job evaluation, which is acceptable to majority of employees in the organisation. In order to ensure transparency in the system, it is often beneficial to associate employees’ representatives in the formulation and implementation of the system.

#### 5. Promotions and Transfers:

Employees expect suitable rise in compensation when they are promoted to higher jobs. In many cases there is rise in jobs, but with meagre or no corresponding enhancement of remuneration. Such a phenomenon generates dissatisfaction amongst the promoted employees. Management should, therefore, try to ensure that payments made to promoted employees are commensurate with the value of the jobs to which they are promoted.

Similarly, when employees are transferred to a more disagreeable environment, they should also be suitably compensated for the inconvenience to which they are put.

#### 6. Industrial Relations:

In many organised establishments, compensation issues are vital in negotiations. In order to ensure the establishment of harmonious industrial relations on a durable basis, it is desirable for the management to take a realistic approach towards compensation issues.

#### 7. Termination of Service:

Employees are interested not only in the compensation packages during the tenure of their service but also in financial gains in the event of superannuation and retirement, or otherwise termination of service resulting from lay-off, retrenchment, closure, disability, dismissal and so on.

Availability of attractive post-retirement benefits in the forms of pension, provident fund and gratuity is conducive to generating greater satisfaction among the employees and strengthening of their commitment towards the organisation. Managements should also give due attention to the payments to be made to the employees affected as a result of lay-off, retrenchment, disability and similar other circumstances. This will enhance the prestige of the organisation and will attract competent workforce for it.

#### 8. Governmental Intervention:

Many areas of compensation have come to be regulated by labour laws, adjudication awards and court decisions. In most cases, these lay down the minimum standards in the field of compensation. Managements are generally free to make payments over and above the minimum either on their own or in agreement with the union.

The importance of compensation to other fields of human resource management has also been emphasized by many scholars. As a matter of fact, compensation matters pervade through a wide range of fields of human resource management in a variety of ways. The nature of its relevance to a particular human resources field, however, varies from organisation to organisation.

### Compensation – Theories

Generally theories provide a solid background and a framework for putting the concepts and ideas into practice. A number of sound ideas have been generated by these theories to provide a framework for implementing compensation (wage and salary) system in organizations. These theories will occur from time to time where they find relevance. These theories may be related to Economics, Management, Behavioral Sciences, and other fields. We will not get too deep into Economics since you will come across those theories in Economics courses.

Gerhart and Rynes suggest reasons why some companies pay more than the others and provide a theory, evidence, and strategic implications of these theories. Adam Smith who is identified with Classical Theory argues that market forces would force employers to offer jobs roughly equal overall attractiveness and that any differences in the short-range in attractiveness would disappear in the long-run.

Adam Smith’s Wealth of Nations (the tide was altered at a later stage to this title) published in 1776 is considered to mark the beginning of Classical Economics. This school was active into the middle nineteenth century and was followed by neo-classical economists, who claimed that free markets regulate themselves when free of any interventions. Adam Smith referred to the so-called ‘invisible hand’ which will move market towards their natural equilibrium without any outside interventions.

Several people are associated with Neo Classical Theory and they are inclined to contend that pay levels are always tending towards equality while those who take alternative views tend to say that there are substantial and durable differences in pay for the same type of work carried out across employees, even in the same regions.

Some tend to believe that employers are by and large “wage takers”. They have considerable discretion to act strategically in setting up pay practices. The Neo-Classical theorists contend that there is little room for employers to manage compensation. Good in states that the employee compensation system plays an important role in efforts to manage human resources better.

Equity theory focuses on the fairness of compensation system. This theory suggests that employee perceptions of their contribution to the organization, and in return what they receive, and how their contribution-return ratio compares to others inside the company and outside the company ‘determine how fair they think their employment relationships to be’. To put it simply, inequity causes employees to take action to get back equity.

There is behavioral element in the theory when Adams says that when employee perceives unfairness or inequities in the employment situation, changes his or her behavior.

**If they feel that they have been treated unfairly in comparison with other employees, they will react in one of the following ways:**

1. Some will change their output to be equal to their rewards

2. Some will ask for a raiser through request or legal action

3. Some will try to change their own perception of inequality by rationalizing

4. Some decide to quit rather than to try to change the situation.

Representatives of transport Workers Union presented a petition hearing to the Chief Executive online about compensation practices at American Airlines.

 Due to economic crisis, the employees took a pay cut and made other concessions to the management amounting to more than billion dollars in 2008. While all these things were happening, the top executive received a bonus payment of 2.1 million dollars.

There were more than 500,000 e-mail messages sent in protest. It looks that the employees had chosen one of those options.

As per Porter-Lawler Theory states the perceived value of reward is determined by both intrinsic and extrinsic rewards that result in need satisfaction. When a job is completed, the individual receives intrinsic rewards because of performing the task well, and the extrinsic rewards are outside the task, mostly from the environment in which the task is performed.

The Vroom Expectancy Theory emphasizes some complexities of motivation. This theory is based on the premise that felt needs cause human behavior. As per this theory, motivation strength is determined by the value of the result of performing a behavior and the perceived probability that the behavior performed will cause the result to materialize. People tend to perform the behavior that enhances the value of reward in the long-run.

According to Vroom, individuals assign values to the outcomes of each alternative course of action. The assignments of values reflect the individual’s expectations and order of preferences among the alternative courses of action and their outcomes. The expected outcomes, however in some cases are not truly valid. The outcome may give the person greater satisfactions than he or she anticipated, or it may cause him or her harm which he or she failed to anticipate.

The individual is faced with a set of alternative outcomes. These outcomes occur at two levels — the first and the second level. The choice of outcome is based upon how the choice of first level outcome is related to second level outcomes. The preference for a particular outcome is based upon the strength (valence) he or she attaches to that outcome. The performance he or she attaches depends on second level outcome. The perception of this relationship is known as instrumentality.

Expectancy is the probability that a specific action will be followed by a particular first level outcome. A subjective probability ranging from zero to one can be assigned to this. Valence is measured by asking employees to rank important individual goals and instrumentality by using a rating scale that determines the strength of perceived relationship between the first and second level outcomes.

The assignment of values reflects the individual s expectations among the alternative courses of action and their outcomes. The expected outcome, however, may in some cases not be truly valid. The outcome may give the person greater satisfaction than anticipated, or it may cause harm which the individual failed to anticipate. When it comes to needs, this theory recognizes the individual differences and differences in their goals and expectations.

This theory recognizes that preferences and expectations differ among individuals, but it makes no attempt to describe the differences or to categorize individuals in any way. The surer the employees are of their estimates of expectancies and instrumentalities, the more likely it is possible to predict their behavior accurately.

B.F. Skinner’s Theory is known as the Reinforcement theory. According to Skinner, the following are the components of behavior that occurs as a result of rewards for performance enhancement. For example, when performance is high, an employee will get a pay increase.

If employee perceives this relationship, he or she will tend to strive for higher performance because he or she knows that the behavior will be rewarded. The theory assumes that the results or consequences of an individual’s behavior will determine the level of motivation.

There are a number of other theories which will be related to various aspects of human resource management. These theories will be covered in Behavioral science, Economics and other courses. Here, we have just examined the relationship of some of these motivational theories to compensation aspect. McClelland identifies three types of basic needs namely, need for power, need for affiliation and the need for achievement.

The importance of these non-monetary needs should not be over-looked in setting up compensation system in an organization. We have examined the needs and motivation aspect in designing compensation systems in organizations.

### Compensation – Main Advantages and Disadvantages to Employer and the Employee

Compensation is beneficial to both the employer and the employee.

#### A. Advantages:

**1. With the Point of View of Employer:**

(i) Workers compensation protection narrows an employer’s disability benefit planning for its employees to the areas of accidents or illnesses that are not job related.

(ii) Employees are limited as to the amount of benefits they may recover.

(iii) Workers compensation is the exclusive remedy for on-the-job injuries, therefore employees may not seek further damages through a separate tort suit against the employer.

**2. With the Point of View of Employee:**

(i) Payments are made to an employee’s spouse or dependent children in the event of death.

(ii) Medical expenses are compensated.

(iii) Prompt payment of claims following an injury.

(iv) Payments are based on the employee’s day-to-day earnings.

(v) Coverage is provided without direct cost to the employee.

#### B. Disadvantages:

Compensation is disadvantageous to both the employer and the employee.

**1. With the Point of View of Employer:**

**Main disadvantages are as under:**

(i) Premiums may be high due to the nature of the employer’s business as the cost of the premiums is based on the accident record of the company;

(ii) An employer is required to file accident reports with the administering state authority, thus increasing its paperwork burden.

(iii) In some cases, time is spent defending against spurious claims.

**2. With the Point of View of Employee:**

 **Main disadvantages are given as under:**

(i) An employee’s retirement plan benefits may be reduced by the amount of worker’s compensation benefits that he or she receives; and

(ii) The employee is denied the opportunity to seek further damages such as pain and suffering or punitive damages – through a separate tort action against the employer;

(iii) In some states, worker’s compensation benefits may be offset by social security disability benefits.

### Compensation – Recent Developments

Integration of compensation criteria into corporate objectives is becoming increasingly important. The organizations are realising the need for a new benchmarking for deciding the reward for the employees with a view to attract, retain, and to motivate the best brains to contribute at the maximum of their capacity.

Therefore, the rewards for an employee must ensure fairness vis-a-vis compensation standards in the industry, a fair deal in comparison to his colleagues and his unique contribution to the company.

**To achieve the above purpose the following new methods of compensation are being adopted by various organizations:**

#### 1. Increased Emphasis on Merit or Performance Related Pay (PRP):

Under this method the individual’s increase in compensation is solely dependent on his/her performance appraisal or merit rating. This rating not only take into consideration to output on the job but also other indicators such as – quality, flexibility, job behaviour, contribution to team working and ability to achieve the goals.

This method is primarily used for managerial levels, although attempts are being made to introduce it at lower levels also but so far, it has not been very successful.

This method helps –

1. To increase the attractiveness of salaries in order to improve recruitment and retention as it sends the right message in rewarding those whom the organization wants to keep and not those whom organizations would prefer to lose.
2. To facilitate change in organization culture to encourage desired qualities among employees, like flexibility, dynamism, entrepreneurial spirit, etc.
3. To weaken trade unions; since the compensation would be performance based rather than through collective bargaining or negotiations with the management. This may also lead to the removal of grievances of the employees as most of the grievances are due to compensation issues and thus a consequential reduction in support for the trade unions.
4. To increase the role of the line managers, the managers would be required to pay more attention to evaluating the performance of their subordinates and discussing with them the methods to improve their performance.
5. To improve the performance and advancement in their career through development – since the employees will be getting constant feedback on their performance, they would develop desire to improve themselves for better compensation.

#### 2. Flexible Compensation Schemes-Cafeteria Benefits:

The organizations are facing the problem of adjusting the salaries of new comers at all levels in the existing compensation structure as they come from different organizations and enjoying different benefits – both monetary and non-monetary.

Such organizations may use this flexible compensation scheme called Cafeteria Benefits which is recommended, especially for the managerial employees. Under this scheme, the overall price is fixed for each level with a menu of benefits.

Each employee is allowed to pick the benefits within the overall limit. Thus the employees are able to decide which benefits they prefer and how to balance the amount of compensations they are to get.

This scheme also provides enough flexibility to the employees to plan their income tax apart from helping them increase their motivation.

However, this scheme has not been adopted on large scale by companies, as the employees tend to compare the benefits different employees are enjoying and they want all those benefits which any other employee is enjoying without realising that they had exercised their option in favour of other benefits the principle of equity is raised in support of their argument.

#### 3. Harmonisation:

Traditionally, at least two methods of payment of wages and salaries have been in operation -one for blue collared and the other for white collared-or one for workers and the other for supervisory and managerial employees. The workers are paid for their work and the supervisory and managerial employees are paid for not only the work but also for their qualifications, experience and personal characteristics.

This differentiation problems in the organization, in the sense that the employees who are not enjoying the benefits which others are, feel de-motivated and feel divided into two separate classes.

Harmonisation is a process of bringing different conditions of service into some sort of alignment. The purpose is to have a single status for all employees in the organization by having same salary structure.

This could be achieved by –

(i) Gradual elimination of differences between different categories of employees’ conditions of employment, like holidays, working hours, use of punch cards, deductions for late coming, separate canteens,

(ii) Single status, which means all employees are treated equally in all aspects of employment except pay.

(iii) Extending staff status to certain non – staff employees,

(iv) Providing similar fringe benefits including transport, catering, medical care, education facilities for children of all employees, etc.

The advantages of this system are that it seeks to bring in a measure of equity and fair play and contribute to the improvements in employee attitudes and performance apart from simplification of payroll procedures and fringe benefit administration.

#### 4. Decentralisation of Payment Systems:

With the organizations becoming multi-technology, multi-location, multinational, there seems to be increasing interest in the decentralisation of compensation determination with a view to take the local financial performance and labour market conditions into consideration.

The disadvantage of this method in India is that the employees tend to compare and ask for those benefits which could benefit them, irrespective of their location. Although in the Public Sector and the Government Departments, the quantum of allowances vary but by and large the allowances, head-wise, remain the same.

Although, this system is the need of the hour, but it should be introduced very carefully so that it does not cause any dissatisfaction among employees at various locations or units.

#### 5. Contingency Theory:

After going through the different systems, it may be concluded that there is no best way to design a compensation system which would be suitable for the organizations under all conditions. The management must take into account factors such as – the type of product it manufactures, the technology it uses, the characteristics of the labour force available and the market conditions of the labour.

The organizations must keep on designing and inventing newer and innovative schemes and benefits to remain ahead of the competitors, market demands and practices, to attract, the employees to the fold of the organization. The schemes should also encourage employees to go for training in multiple skills, accept redeployment and relocation.

According to Lupton and Bowey, “Essentially a contingency approach” is one in which it is argued that in some industries and in some environment one kind of managerial practice will contribute to some desired objectives, but in other industries and circumstances entirely different results may occur. Therefore, in order to be sure of the outcome of a scheme the manager needs to consider the particular circumstances of his/her firm.

The compensation systems do not operate within a vacuum-remuneration strategies. Both affect, and are affected by all aspects of the employment relationship. Thus, the design of compensation systems should not only be integrated with other human resource management policies but also reflect and perpetuate the overall objectives of the organization.

Moreover, companies must be aware that the differences in individual motives will determine how they, either as individual or on a collective basis, will respond to certain compensation methods.

No single method of compensation could be considered as suitable for all organizations under all conditions; therefore, this approach suggests use of any method which would meet the requirements of the organization at a point of time.

The current approach towards the adoption of schemes as PRP and Profit sharing, harmonisation, decentralisation of pay determination, and the contingency theory do reflect some change in the emphasis on compensation management as a tool to achieve the objectives.

But this is not the end, nor it should be treated as such, rather continuous efforts should be made to come up with innovative ideas so that the present day as well as the problems which are likely to come up in near future, are taken care.

#### 6. Changing Practices in Compensation Management in India:

The present day trend in compensation management has moved from fixed salary grades and fixed allowances to more flexible grades and allowances/reimbursements. The grades are being used these days to indicate the starting or the minimum salary for a particular level, and the allowances are being worked out in ranges so that the varying demands of new employees in terms of emoluments could be met.

In addition, it is being observed that different companies have large number of components for paying to the employees the compensation package. Some of the companies have even system of giving freedom to the employees to determine and work out the distribution of the compensation under different heads themselves.

This has happened as the companies found that different companies were compensating their employees under various heads, and have different structure. It has been observed specially in the case of new companies – for example, provident fund is not payable for first three years, but the employees who are getting this benefit from their previous employer, demand the same from their new employer and are compensated in some other form or under different head.

However, when the employer has to introduce provident fund for its employees as a statutory requirement, they find it difficult to withdraw the amount which was given to the employees in line of provident fund. In case of Orissa Synthetics, this happened and the employees went on strict when the payment being made in lieu of provident fund was withdrawn.

In case of another company, Pasupati Acrylon, the company did not withdraw this amount and paid provident fund contribution, over and above the adjustment which they had made for provident fund contribution of the previous employers of their employees. However, this meant additional cost to the company which they had to pay to prevent the employees from going on strike.

To avoid this confusion and to work proper compensation, most companies have started negotiating with the new employees in terms of cost to the organization. The new organization would ask the new employee to list out all the benefits in terms of cash along with the allowance and salary which he is drawing from his present employer and then negotiate the amount he would like to have for joining the new organization.

This method, although, has been found to be quite systematic but it has been observed that at times employees find it difficult to work out their net take home salary or at times organizations tend to over compensate new employees. The new benefits which it might have given to the new employee may be forced to introduce for all employees subsequently.

Similar has been the situation in case of annual or half-yearly increments. The rate of increments for employees at different levels has been different in different companies. The employees on their joining new organization have been demanding the same rate or better rate of increment.

At times, this meant higher compensation to be fixed in the structured salary grades which it did by giving percentage increase in emoluments to new joinees and adjust the same in their grade. Even increments to the employees now a days are granted on the basis of percentage increase and not on the basis of fixed increments. This system has provided more flexibility in wage/ salary adjustment.

The percentage of increment these days is worked out simply by taking the inflation figure as the base or the starting point and followed by higher rate of percentage. For example, if the inflation figure for the year is 10 percent, then 10 percent increase in salary would be the lowest rate of increment and higher rates could be linked with the performance.

The annual rate of increment had been as high as 35 to 50 percent during the last four five years which has now come down to 15 to 20 percent due to slump in the economy.

Another important trend in compensation management has been to reward employees on their achievements for the organization immediately and not waiting for the annual increment time.

This helps motivating the employees and at the same time allows organizations to save from recurring expenditure due to granting increment in the grade. This practice is being followed not only in the private sector but also in the public sector.

This system followed for this practice is to pay a percentage of the gain to the organization due to the efforts of the employee or to work out the total cost of one graded increment for one year and pay that amount to the employee. This system is worth following in more and more organizations.

Another trend which can be observed is that the organizations have started compensating their employees with goods for use of the employees or sanction them facilities instead of making cash payments. The best example in this case is the facility to the senior executives to travel abroad with family and treat it as official trip for promoting the interest of the organization.

The present day flexibility in the compensation management coupled with increments in terms of percentage could be used for replacing Dearness Allowance as a component of salary the employees could be compensated to the extent of increase in the consumer price index as well as reward for extra hard work put in by the employees. The employees will be able to see the relation between the two – performance and compensation.

The flexibility in the compensation structure has assumed greater relevance for the Indian industry as the multinational companies have entered the Indian economy in a big way and are offering much higher wages for attracting the right employees.

It is being said that the employees who were being compensated in thousands couple of years ago, are being compensated now in lakhs. Therefore, the increase in compensation package could best be taken care by flexible compensation management.

To sum up, we would say that for determining compensation policy, we must lay down the job objectives, determine its worth through job evaluation or wage boards or by setting standards and linking wages with productivity or by using another method, conduct a labour market survey, decide where the company should be positioned compensation management – wise and then fix the price of the jobs keeping in view the economic forces, labour market.

3P’S CONCEPT;

Pay-for-Position;

Employees are paid for the jobs to which they are assigned regardless of their skills. Each position is assigned a pay range based on the job duties. Getting a higher pay means moving to a higher job not performing better in your current job. The pay is based on education, experience and seniority which may not necessarily translate into competencies.

Pay-for-Person;

Often described as either person-focused pay, skill-based pay, knowledge-based pay or competency-based pay. Pay is linked to the depth and breadth of the skills, abilities and competencies a person brings to the work. The market demand for the person’s unique skills is also considered.

Pay-for-Performance;

A reward system where some or all pay is related to job performance metrics. Meeting pre-set goals or measures influences pay and rewards. More pay and other rewards go to the best performers.

**Public sector pay management strategy:**

Determining effective strategies for public sector compensation is essential to meet the needs of the organization. Cox and Waters (2011) analyze compensation in the public sector by exploring tools for employee compensation. Cox and Waters focus on the importance of internal, external, and individual equity with corresponding techniques and objectives in the pay system,

Cox and Waters determined that “internal equity should be addressed first as it drives pay level placement according to position and market comparisons” (2011, 13). Minimum qualifications, essential job functions, skills, knowledge, abilities, education, experience, and working conditions are all factors considered in the job evaluation process, and are defined as compensable factors (Cox and Waters, 2011). Public sector agencies may also use alternative strategies to determine compensation for classes. Federal agencies, such as the Department of Veteran Affairs, use pay grades. This method is most common in the Federal government as it sets a framework for salaries based on the job duties (GoGovernment.org, 2015). Alternative pay methods agencies may also use are based on pay-banded systems or point systems such as the Hay System. Pay for performance models may also be implemented.

A pay for performance model “rewards employees for positive behavior or outcomes” (Magid and Susseles, 2005, 32). This is a more complex system to implement and may only be found effective if the program implementation uses best practices, such as gaining employee buy-in to the program, ensuring adequate funding for the program, and making sure that reasonable rewards are set (Magid and Susseles, 2015). Best Practices The International City and County Management Association (ICMA) established a list of best practices for determining compensation. They suggest that municipalities should follow these guidelines to ensure that compensation methods are “fair, reasonable, transparent, and based on comparable public salaries nationally and regionally” (ICMA, 2010, 1). “Compensation should be based on the position requirements, the complexity of the job reflected in the composition of the organization and community, the leadership needed, labor market conditions, cost of living in the community, and the organization’s ability to pay” (ICMA, 2010, 1). ICMA recommends benchmarking to comparable local governments or public sector agencies in order to provide fair and reasonable compensation levels. Benchmarking guidelines include agencies with similar services, employee size, socio-economic makeup, similar employers in the area, and are within close proximity. Governments should also develop markets in line with their labor market and consider long-term financial resources that the organization has “to establish and maintain a reputation as a competitive, fair, and equitable employer as well as a good steward of public funds” (ICMA, 2010, 4). The International Public Management Association for Human Resources (IPMA-HR) published a summary of a study conducted by Fox Lawson & Associates LLC for North Carolina, which determined that pay for employees in a broader career banded system is managed according to financial resources, market rate of the job, internal pay alignment, and required competencies (Fox Lawson & Associates LLC, 2009).

Thom and Reilly (2015) suggest following the best practices set forth by Howard Risher. These best practices include gathering salary information from valuable markets and to “mandate benchmarking by including relevant provisions in city or county charters” (Thom and Reilly, 2015, 350). Risher also suggests that salary studies do not need to be conducted annually, but should be conducted every two to five years, or at a rate comparable to collective bargaining contract negotiation cycles (2012). If agencies decide to outsource their compensation study to a third party in order to maintain objectivity, they should remain cautious over the “security and use of the benchmarking information;” (Thom and Reilly, 2015, 350-351) however, public disclosure of benchmarking results is encouraged for transparency and accountability (Thom and Reilly, 2015). Finally, they suggest that “[h]uman resource professionals and/or governing bodies must also establish how benchmarking will be integrated into collective bargaining processes and governments’ overall compensation plans. This should include developing policies and procedures that explain whether and how benchmarking study results will affect existing and future compensation structures”

 MODULE-II

INTRODUCTION OF PAY MODEL STRATEGY

The Pay Model of Compensation and benefits helps managers to structurally design and understand the compensation system for their employees. The model consists of three main components: objective of the remuneration model, the policy that is the foundation for the structure, and the techniques that link the policy to the objectives.

Compensation includes the basic salary as well as rewards in the form of bonuses, overtime, leave, insurance, company car, expense account, and other benefits. Not all compensation models are alike. Some plans put the emphasis on the basic salary, while others are more focused on using performance incentives. Some organisation also offer [profit](https://www.toolshero.com/financial-management/gross-margin/) share schemes to their employees if they help to increase production and lower costs.

The compensation model that an organisation uses should match the [company objectives](https://www.toolshero.com/personal-development/smart-goals/). This can help determine which plan is the most beneficial in the long term. This means that elements from different compensation models are sometimes combined. The remuneration plan also has to be on par with that of the competition or be better. And it’s important to comply with laws and regulations.

The Pay Model of Compensation was developed by G.T. Milkovich and J.M. Nemwan in 2002. They define compensation as forms of [financial gain and tangible services](https://www.toolshero.com/psychology/hierarchy-of-needs-maslow/) and benefits that employees receive as part of their employment.

The model consists of three components: policy, techniques, and objectives.

**Pay Model of Compensation Objectives**

Compensation systems, according to the Pay Model of Compensation, are developed to achieve organisational objectives. As shown in the image, these include efficiency, honesty, and observance of the rules.

**Efficiency**

Effective remuneration systems contribute to efficiency in the form of improved performance, better quality, satisfied customers, or lower costs.

**Fairness**

Fairness refers to designing and introducing a reward system that rewards performance and meets the needs of the employees. Fairness is the foundation for healthy work relationships, which means it’s important that employees are treated fairly and get a salary that matches the work they do.

**Conformity**

Compensation models have to conform to the requirements of various central and national salary legislation and regulations. Conforming with regulations is an integral part of any organisation that wants to act in accordance with the law. When laws change, the compensation system has to be changed as well.

**Compensation System Policies**

According to the Pay Model of Compensation, the compensation system has to relate to internal consistency, competitive performance, and the contribution of employees. These are the four pillars on which the policy of a compensation structure is based.

**1. Alignment**

Internal alignment refers to aligning the salaries for similar types of jobs, as well as the rewarding of different kinds of work. Positions are assessed on their relative contribution to the organisation’s objectives.

If the compensation structure is seen as fair by the employees, it will help [motivate employees](https://www.toolshero.com/psychology/two-factor-theory-herzberg/) to improve themselves and accept training.

**2. External Competitiveness**

Competitiveness is about the remuneration plan being competitive enough compared to what competitors are offering. The plan has to offer sufficient benefits for the potential employee to get them interested and keep them. The salaries can’t be too high either, as that would negatively impact competitiveness of the products and services.

**3. Contributions**

Employee contribution is about how important the performance of the employees is regarding the remuneration model. Strong employee contribution means that incentives and rewards are based on what the employees add.

**4. Management**

The final component of the four policy methods of the Pay Model Compensation is administration; managing the compensation structure. Efficiency is the goal here as well.

## To Summarise the Pay Model of Compensation

The Pay Model Compensation by Milkovich & Newman gives a structured way of how compensation systems should be organised. The model consists of three components: objective of the remuneration model, the policy that is the foundation for the structure, and the techniques that link the policy to the objectives.

A remuneration system has to be sufficiently competitive and strive for compliance with laws and regulations. There are different types of compensation. The total remuneration plan consists of a basic salary, commissions, bonuses, or other benefits.

**Purpose of Job Analysis**

Job Analysis plays an important role in recruitment and selection, job evaluation, job designing, deciding compensation and benefits packages, performance appraisal, analyzing training and development needs, assessing the worth of a job and increasing personnel as well as organizational productivity.



* **Recruitment and Selection:** Job Analysis helps in determining what kind of person is required to perform a particular job. It points out the educational qualifications, level of experience and technical, physical, emotional and personal skills required to carry out a job in desired fashion. The objective is to fit a right person at a right place.
* **Performance Analysis:** Job analysis is done to check if goals and objectives of a particular job are met or not. It helps in deciding the performance standards, evaluation criteria and individual’s output. On this basis, the overall performance of an employee is measured and he or she is appraised accordingly.
* **Training and Development:** Job Analysis can be used to assess the training and development needs of employees. The difference between the expected and actual output determines the level of training that need to be imparted to employees. It also helps in deciding the training content, tools and equipments to be used to conduct training and methods of training.
* **Compensation Management:** Of course, job analysis plays a vital role in deciding the pay packages and extra perks and benefits and fixed and variable incentives of employees. After all, the pay package depends on the position, job title and duties and responsibilities involved in a job. The process guides HR managers in deciding the worth of an employee for a particular job opening.
* **Job Designing and Redesigning:** The main purpose of job analysis is to streamline the human efforts and get the best possible output. It helps in designing, redesigning, enriching, evaluating and also cutting back and adding the extra responsibilities in a particular job. This is done to enhance the employee satisfaction while increasing the human output.

Therefore, job analysis is one of the most important functions of an HR manager or department. This helps in fitting the right kind of talent at the right place and at the right time

**Job Analysis Process**



**JOB EVALUATION**;

Job evaluation is part of the balanced compensation package. It’s a process that serves the needs of the compensation system in an organization by determining the relative value of one job in relation to another. Professionally done it helps eliminate pay inequities which may exist because of illogical pay structures, such as might develop over time when care is not taken in how compensation is determined.

People are a much undervalued resource in many organizations. They are taken for granted until problems develop. People value their jobs. They are major determinants of the amount of financial compensation and other benefits received. Organizations pay for the value perceived to attach to certain duties, responsibilities, and other job-related factors, like working conditions. The relative worth of jobs is usually determined through a combination of job analysis, job descriptions, and job evaluation. Job analysis and job description determine and express the content of a given job, while job evaluation makes use of this data to compare jobs and set compensation. When well done it serves to focus management valuing people and makes for sound human and industrial relations.

Job evaluation is used to accomplish the following tasks:

* Identify the job structure of the organization;
* Bring order and equity to the relationship among jobs;
* Develop a hierarchy of job value to create a pay structure;
* Achieve a consensus among managers and employees concerning jobs and pay.

Among the decisions to be made is whether a single or a multiple job evaluation plan will be instituted. Job evaluation plans usually vary depending on the job families, classifications or groupings, for example, clerical or professional.

Breckenhill has a special interest international development. In any environment, but especially in developing, under-developed or post-conflict countries a well-designed, appropriate process for paying and rewarding people, reflective of cultural, operational, economic and social environments will go a long way into reducing the temptation to participate in corrupt activities. The person who feels fairly treated, recognized for his contribution, receiving sufficient income to look after his various needs will normally be able to see that it is not in his or her interest to jeopardize their position situation.

Breckenhill has the experience, tested methodologies and other tools to develop balanced, merit-based comprehensive compensation programs. We cover the range of key processes from the analysis of the short and long-term strategy of the organization, its organizational and operational processes, job description and job evaluation. We create salary and benefit programs that take into account both the internal and external economic environments, performance and reward management including the review and/or development of the relevant legislative framework, policies, procedures, forms and others documentation.

**Pay for performance:**

The term “pay-for-performance compensation” refers to performance-based pay programs where an employee is incentivized and rewarded for achieving goals or objectives. Pay-for-performance plans are extremely popular – according to [**our recent Pay Practices and Compensation Strategy survey**](https://www.salary.com/blog/compensation-trends-organizations-embracing-variable-pay/), 75% of organizations currently leverage pay-for-performance compensation as part of their overall compensation plan.

## ****How Does Pay-for-Performance Compensation Work?****

There are two general categories of pay-for-performance compensation: merit pay increases and variable pay programs. As you look to implement a pay-for-performance program in your organization, you can use either of these two types of pay-for-performance plans – or both – to incentivize employee performance and drive your desired outcomes.

**Merit Pay Increases**

A merit pay increase refers to an increase to an employee’s base pay due to high performance. These raises are typically delivered an annual basis, and are budgeted for as part of the annual salary increase budgeting process. Merit pay increases are the most commonly used pay-for-performance model for recognition of employee performance, as they deferentially reward top performers for their contributions with a bump to their base salary for the following year.

However, according to Chris Fusco, the Senior Vice President of Compensation at Salary.com, the [**external market is progressing in pay faster than merit pay**](https://www.salary.com/news-and-events/salary-increase-budgets-2018/) increases alone can match. This makes top performers in your organization a [**flight risk**](https://www.salary.com/blog/how-to-keep-flight-risk-employees-grounded/), because they could potentially walk out the door just to take a job that offers more competitive pay.

**Addressing Market Movement with Pay-for-Performance Programs**

In this competitive environment, many organizations are turning to variable pay programs to keep top recruits’ and top performers’ pay competitive with the market. Whereas [**salary increase budgets have remained flat at 3%**](http://www2.salary.com/l/250572/2018-07-02/3w97v4) for the last several years, data from Salary.com’s *Pay Practices and Compensation Strategy Survey* shows that many firms are adding budget to their variable pay programs. According to our survey, the percentage of organizations committing at least 10% of their payroll budget towards non-discretionary bonuses and discretionary bonuses has more than doubled since 2017, while the percentage of organizations committing less than 3% of their total payroll budget to such programs has diminished over time.

Clearly, the organizations that offer variable pay programs have seen performance boosts because of these incentives, and are now beginning to allocate a larger proportion of their budget to them each year.

**Variable Pay Programs**

Variable pay programs encompass a variety of discretionary and non-discretionary bonuses that can vary according to the payout period, the employees who are eligible, and the metrics that employees are measured against. Unlike merit pay increases, variable pay programs are increasingly administered not just annually but multiple times a year (e.g., once a quarter) and a mix of different variable pay programs are often used in combination to achieve the desired results.

**Discretionary bonuses** are awarded on an ad-hoc basis to employees who demonstrate exceptional performance, often without consideration of pre-defined goals and objectives. Some common discretionary bonus types are:

* **Spot bonuses** – Reward employees “on the spot” for achievements that deserve special recognition.
* **Project bonuses** – Reward employees for completion or superior completion of a specific project.
* **Retention bonuses** – Typically awarded to long-tenured employees, or employees in hot jobs, to decrease their flight risk.

**Nondiscretionary bonuses** are awarded when employees, teams, or the entire organization meets specific, pre-defined goals and objectives. Based on the duration of the assessment period (the amount of time over which performance is measured), they are considered either [**short-term incentives (STI) or long-term incentives (LTI)**](https://www.salary.com/blog/an-overview-of-sti-options-for-your-organization/). Some common nondiscretionary bonus types include:

* **Company-wide bonuses** – these focus around specific improvement goals for the organization, and reward employees based on how much improvement is made on these goals within a certain period of time.
* **Team-incentive bonuses** – these focus around specific improvement goals for one team (e.g., marketing or sales) and are rewarded based on performance for that team.
* **Individual incentive bonuses** – these plans are often based on predetermined, measurable business objectives (MBOs) that are evaluated periodically (e.g., each quarter) based on one person’s performance

Of all the variable performance bonus types, individual incentive pay plans were the most popular, used by [**53% of participants in our survey**](https://www.salary.com/blog/compensation-trends-organizations-embracing-variable-pay/). An organization’s pay-for-performance compensation strategy will likely include a combination of merit increases and short-term incentive plans.

**Hiring bonuses** and **referral bonuses**, while not tied pay for performance, were the most widely used form of bonus compensation in our survey. These bonuses are designed to attract and hire strong candidates, and are especially popular in today’s tight recruiting market.

## ****A Proven Recipe to Boost Employee Engagement – Compensation and Performance****

Our research also shows that organizations with a formal pay-for-performance philosophy are more than twice as likely to have above average or excellent employee engagement. That means that tying compensation to performance can be a strategic human resource management strategy.

[**Pay-for-performance compensation models**](http://www2.salary.com/l/250572/2017-01-20/5558i) improve employee engagement and retention by clearly tying employee or company achievement of performance goals to tangible financial rewards. These programs also enable employees to see a clear connection between the work they do every day and the success of the company as a whole.

Since they are frequently awarded, they can also facilitate more regular conversations about individual and company performance, allowing managers to provide critical feedback outside the annual review process.

Pay-for-performance compensation plans are not just necessary to keep up with today’s talent market. Pay-for-performance plans can help employees grow professionally due to their desire to be rewarded. Frequent rewards can also lead to increased employee retention, as the money motivation helps keep staff at your business long-term. And of course, increased retention will lead to greater productivity and lower turnover costs.

Public sector pay management strategy:

The strategic and operational issues that surround the management of public sector payrolls. Expenditure on salaries and allowances paid to public sector employees will be an entirely familiar concept to most readers. In this chapter, however, comparisons are presented between the different management approaches adopted in various countries, with a view to identifying both the shortcomings in some of the more traditional methods and the evolution of good and best practices. The chapter considers the overall financial and fiscal impact of payrolls and suggests how payroll operations need to be conducted in terms of their accuracy, timeliness and compliance with other requirements, irrespective of the stage of development of public financial management (PFM) systems and procedures. Notwithstanding the significant issues around comparative metrics, as noted by Schiavo-Campo and others (2005) the financial significance of payroll for PFM is clear).

 For all countries, irrespective of geography or maturity of the economy, public sector payroll costs are substantial. They typically account for between 10 and 40 percent of central government expenditures, and the proportion can rise further once tiers of regional, state or local government are included in an overall perspective: In developed countries, even with outsourcing to the private sector of jobs once .

 done by civil servants, the figure remains remarkably high. This is a reflection in part of the overall higher salary levels in such economies as well as fundamental shifts in the political economy from direct service delivery to focus more upon policy and intellectual assets – one indicator of this is the growth in the proportion of staff with degrees and other tertiary qualifications.

 ● In some developing countries large publicly funded establishments or headcounts are the primary contributor to the overall high payroll costs. A World Bank review identified that, although practices vary across sub-Saharan Africa, some countries have quite low salaries with high civil service numbers and some have the reverse (in general terms, francophone countries in this region tended to have significantly higher salary rates, for example). In either case, the combination leads to high payroll expenditure

The establishment of staffing budgets (always a key driver of costs and a joint

 ● human resources and payroll process, as well as a budgetary exercise); ●

The management of employee lifecycle events (hiring, promotion, leave, incentive payments and retirement) that generate detailed payment records which influence individual compensation;

● The periodic calculation of the payroll; and The resulting accounting transactions and audit findings.

 ● Clearly, in this context, the management of payrolls, both as a series of processes and often as a discrete organizational function, is a much more complex and important contributor to effective public financial management than mere calculation activities, the most visible outputs of which are funds transfers to employee bank accounts. The body of literature that considers the derivation of actual salary structures, rates of payment, economic considerations of affordability, motivation and linkages to civil service outcomes is large. This chapter focuses instead on the PFM dimensions of the payroll function. Whether or not pay is considered to be the critical factor in motivating civil servants, paying employees accurately and on time is most certainly a key issue of trust between employee and employer. Successful payroll operations tend to attract civil servants who are reliable, diligent, detail focused and used to working to tight deadlines

 MODULE-III

INTRODUCTION OF EMPLOYEE BENEFITS AND SERVICES;

**Meaning of Employee Benefits:**

In addition to compensation in the form of wages and salaries, organisations provide workers with various services and programmes known as employee benefits. Previously these services and programmes were known as fringe benefits. Now these have become part of compensation package hence the word fringe in now not used and not appropriate even. Nowadays employee benefits are regarded as an important tool to retain employees and to improve the bottom-line of the organisation.

Benefit programmes play a vital role to maintaining an employee’s standard of living when he suffers from health problem. The organisations that provide these benefits to their employees have improved image of caring employer. These benefits are the advantages that accrue to an employee apart from salary. They are not related to performance. According to Cockman, “employee benefits are those benefits which are supplied by an employer to or for the benefits of an employee, and which are not in the form of wages, salaries and time rated payments.”

According to C.B. Mamoria, employee benefits are, “primarily a means in the direction of ensuring, maintaining and increasing the income of the employee. It is a benefit which supplements to a worker’s ordinary wages and which are of value to them and their families in so far as it materially increases their retirement.”

**Characteristic Features of Employee Benefits:**

(1) Employee benefits are those payments which are paid to him in addition to the wages and salary he receives.

(2) These benefits are not given to the worker for any specific performance of the jobs but they offered boosting his interests in work and make the job more productive for him.

(3) Employee benefits represent labour cost. Whatever benefits are offered to the employees in kind or in money terms account for cost.

(4) These benefits are offered to employees irrespective of their merit. Merit or non merit is not the criterion for these benefits.

(5) Benefit given by the employer is meant for all the employees and not a specific group of employees.

(6) This is a positive cost incurred by an employer to finance employee benefit.

**Common Employee Benefits:**

1. **Following are some of the benefits offered by employers to employees:**

 (1) Free lunch or lunch at subsidized rates offered to the employees.

(2) Free medical facilities to the employee and the members of his family.

(3) Employees are insured for life against accidents or illness. In India there is a provision for this under Employees State Insurance Act.

(4) Provisions for retirement benefits such as provident Fund, gratuity, pension etc.

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 (5) Leave Travel Allowance scheme is implemented by many govt. and non govt. organisation counts for paid holidays to the employees.

(6) Maternity leave for 90 days is given to female employees.

 (7) Free education to the children of employees by providing educational allowance to the employees. Scholarships to the meritorious students of the employees are also given. Free transport service is provided to the school and college going students of the employees by the employers. This service is also provided to the employees for attending their duties in the office or factories. This service is provided freely in some companies and or at subsidized rates in other organisations.

(8) Housing accommodation is yet another benefit provided to the employees at subsidized rates.

(9) In some organisations where highly qualified employees are required, for their education study leave is granted. This is also a paid leave. In some cases company sponsors the employee for higher studies and bears all the expenses of his education.

(10) Subscriptions for professional association is also borne by the employers.

(11) Recreational facilities are also provided by the employers.

**The following objectives are achieved through benefit and service programmes:**

(1) To attract and retain the best employees in the organisation.

(2) To fulfill the needs of the employees which he himself cannot provide such as protection against accidents and hazards?

(3) To provide employees with such benefits which are prevailing in similar organisations.

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(4) Special privileges are provided to the employees for holding a special position in the organisation.

(5) Some benefits are provided at the behest of the unions first to maintain good harmonious industrial relations.

(6) Some special allowance provided to the employees to enhance their standard of living so as to increase their quality of working life.

(7) Providing benefits to the employees enhances the image of the organisation in the eyes of the people in general and the consumers in particular.

(8) By providing benefits to its employees the organisation fulfill their social commitment as contained in the Article 43 of the Indian constitution which states, “— All workers should be given a living wage, conditions of work ensuring decent standard of life and fuller enjoyment to ensure social and cultural opportunities.”

(9) Benefits protect precious human resources during bad phases of life or period of contingencies of life. These benefits keep the human resources in ideal conditions which in turn increase the output. This is must for increase in growth of economy of the country.

 (10) The benefit by way of spending on the training and d

**Guidelines for Effective Benefit Programme:**

Following are some of the useful tips to make benefit programme more effective.

(1) Benefit programme should be treated as a worthy tool of Human Resource Management.

(2) Benefit programme should accommodate future. It should be taken up as policy of the organisation.

(3) Benefit programme should now be competitive as the labour is globally mobile.

(4) Beneficiary of the programme should be individual employee rather than group.

**Difference between employee benefits and services:**

Employers can offer a wide variety of benefits to their employees. Benefits are designed to help employees meet basic needs they might not otherwise be able to meet on their own. For instance, the high cost of health insurance is often offset by employer contributions to the employee's premium.

. Employee services are employee benefits, but they are a more specific form of employee benefit that employers offer to help instill loyalty among their workers. Small business owners must decide which benefits and services to offer employees. With limited resources, some can offset expensive benefits with less expensive employee services.

## What Are Employee Services?

Employee services can include anything an employer deems necessary to provide as a perk for employees. No real limit exists as to what can be included as an employee service. Some companies provide cafeterias and event catering services for employees. Others have coffee shops, gyms in-house, or anniversary gifts, according to [AIHR Digital](https://www.digitalhrtech.com/types-of-employee-benefits/). Employee services are more of a convenience than a true benefit.

Busy corporate offices, for example, might provide dry cleaning pickup services for employees. Employers in remote locations might offer shuttle services to and from work. The types of services depends upon each employer. Small business owners can use employee services such as on-site childcare to make their positions more attractive to potential employees.

## What Are Employee Benefits?

Employee benefits differ from employee services in that benefits tend to be necessities for many people and their families, according to [Money Zine](http://www.money-zine.com/Career-Development/Finding-a-Job/Top-Employee-Benefits/). Basic insurance needs are covered by many employee benefit plans. Insurance options provided by employers can include health insurance, but they can also include life insurance, accidental death and disability insurance, dental insurance and unemployment insurance also.

Other types of benefits usually include a retirement plan in the form of a 401(k) or some other qualified tax-deferred plan. Although employee services might be considered a benefit, they are usually optional and not necessarily what job seekers first look for when conducting a job hunt.

## Importance of Benefits and Services

Benefits and services for employees play important roles in the culture of a company. For employees, these provisions can create a sense of loyalty to the employer and indicate the employer cares for their well-being. Employee benefits, such as health insurance and retirement plans, also provide employers with tax advantages. Employees also benefit in this manner with tax-deferred retirement plans. A carefully implemented benefits plan that also includes some basic employee services can go far toward creating a positive business culture.

## Pros and Cons

A small business owner should consider the pros and cons of employee benefits and services before implementing either as part of a compensation package. Employee benefits packages can be cost prohibitive but can benefit the business owner as a tax deduction. Business owners might be limited in the benefits they can provide and might have to compete with other business owners to provide the most comprehensive benefits packages.

Employee services have the potential to make a less comprehensive benefits package appear to be more generous because of the additional perks they provide. Employee services can also prove to be expensive for employers. In businesses where employee services are an established part of the benefits offered, it might be difficult for employers to cut the services even when they become too expensive.

# What Is a Non-Benefited Employee?

Successful small-business owners who want to expand their companies often hire employees to help with increasing workloads. Businesses can give employees two basic types of compensation: cash compensation or salaries and benefit compensation. A non-benefited employee is a worker who only receives cash compensation.

## Employee Benefit Basics

An employee benefit is any form of compensation a worker receives other than his stated hourly wage or salary. Common types of employee benefits include health insurance coverage, access to a retirement plan, dental insurance and vacation benefits. Non-benefited employees do not receive any of these job benefits. According to the Department of Labor, federal law does not address employee benefits such as health benefits and vacation benefits in the private sector, so employers do not have to offer benefits to all employees.

## Temporary Workers

Temporary workers are employees that a company hires for seasonal work or other short-term tasks. Temporary workers often do not receive the same benefits as full-time workers and may be completely non-benefited.

## Newly Hired Workers

New full-time employees sometimes do not receive benefits immediately after accepting job offers. New workers may have to go through a probationary period of a few months or more where they get no benefits or reduced benefits. It is common for employees to have to wait six months or longer before getting access to retirement benefits.

## Part-Time Workers

Part-time employees are workers who perform services for less than 40 hours a week. In many companies, full-time workers receive benefits but part-time employees are non-benefited. Some companies offer benefits to part-time workers if they work more than a certain minimum number of hours per week.

## Contractors

Independent contractors are workers who hire out their services to clients and control how they perform the jobs they are given. Independent contractors are technically self-employed business owners, so they are not employees of the companies that hire them. Because they are not employees, contractors generally do not receive benefits from their clients.

# Types of Employee Services

Many organizations offer different types of employee services to attract and retain employees. These services provide assistance to employees in a variety of ways to improve their work and personal life. Along with standard fringe benefits such as health care and paid time off, many employers are creating more ways to keep employees satisfied. Many of these services can be implemented in small businesses at low costs.

## Flexible Work Schedules

Some employers offer their employees flexible work schedules. These programs are arranged to meet an organization's goals while assisting employees with their personal lives. For full-time employees who work a 40-hour work week, arrangements can include working four days per week, 10 hours each day or working extra hours throughout the week to leave early on Fridays. Because of technological advances, some employers allow employees to work from home one or several days per week. This gives employees some flexibility to maintain a balanced personal life and continue to successfully complete their work responsibilities.

## Wellness Programs

In 2008, the Harvard School of Public Health noted a national study by Harris Interactive showing that 91 percent of employers "believed they could reduce their health care costs by influencing employees to adopt healthier lifestyles." Many employers offer wellness programs to improve employees' health. These programs can be applied in a variety of ways, including reimbursable gym membership costs, on-site fitness facilities, and events to promote healthy living and eating.

## Child Care

Many large employers offer on-site child care services to employees. A 2007 study by Bright Horizons found that 90 percent of working parents having access to a work-site child care center "positively affects their ability to successfully concentrate on the job and be productive." For a small business, child-care services can reduce the stress of many working parents. These services can also be provided by child care centers close to the employer by providing discounts to employees who use those services.

## Product/Service Discounts

Most individuals clip coupons and shop for sales to save money. Some employers work with local and national retail product and service providers to offer employees discounts for their personal needs. These types of programs can include everything from discounts on groceries to purchasing a vehicle at a lower cost. Free or discounted on-site food and drink services such as lunch, snacks and coffee can also assist employees by saving them time and money. These types of services are often appreciated by employees and can be implemented at little or no cost.

# What Are Fringe Benefits for an Employee?

Fringe benefits are forms of compensation you provide to employees outside of a stated wage or salary. Common examples of fringe benefits include medical and dental insurance, use of a company car, housing allowance, educational assistance, vacation pay, sick pay, meals and employee discounts. Total compensation includes regular income and all of these paid benefits.

#### Tip

Fringe benefits are forms of compensation you provide to employees outside of a stated wage or salary. Common examples of fringe benefits include medical and dental insurance, use of a company car, housing allowance, educational assistance, vacation pay, sick pay, meals and employee discounts.

## Offering Fringe Benefits

Fringe benefits are a major consideration in a total compensation package. Salaries are important, but employees often accept or leave a job based on the quality of fringe benefits. Health insurance costs have become very expensive and employees that may have previously left a job more likely stay for these benefits. Your company can use fringe benefits as a tool to hire and retain top talent and to help create a motivated workforce.

## Fringe Benefits and Taxable Income

Fringe benefits are often taxable income and the IRS publishes an annual Taxable Fringe Benefit Guide that helps address routine and special treatment of fringe benefits in individual tax preparation. The IRS defines various benefits as either nontaxable, partially taxable or tax-deferred, meaning you pay taxes later when you file your return.

Qualified health plans are noted as a common qualified exclusion or nontaxable item. Transportation subsidies are often partially taxable up to a certain level. Pension plans are noted as a common tax-deferred item where an employee pays no taxes initially but does at tax time. The guide explains in more detail common tax rules and exclusions.

## Annual Benefits Statement

Employers usually provide all employees with annual personalized benefits statement. This lists regular income and the value of the benefits you provide. A common format lists employer paid benefits on one side and any employee paid expenses on the other. Some employers pay partial premiums on certain insurances and offer optional coverages as well. This statement gives your employees a better since of the investment you make in them. This is useful generating employee loyalty and demonstrating to employees that you genuinely value them.

## Talent Acquisition and Retention

Some employers offer unique fringe benefits as a way to create an employee-friendly atmosphere and to attract certain types of employees. High-tech companies, for instance, may provide employees with iPads, cell phones and other technology routinely used for work. Others offer coffee bars and free snacks to create a more homelike office feel.

Generally, the more competitive the industry, the more fringe benefits you have to offer to attract top talent. If the employee pool is large, you have more flexibility in offering what you believe are motivating benefits.

**A Long Term Incentive plans:**

A long-term incentive, as the name suggests, is a vehicle that has an extended time horizon (generally greater than one year) and that can be a strategic compensation vehicle to promote long-term retention and alignment with company goals. LTI can be a win-win for all participants:

* For employers, LTI present an opportunity to reward the achievement of long-term plans, promoting buy-in to corporate performance.
* For employees, LTI can be a reward for outstanding performance and are a vehicle for capital accumulation.
* For shareholders, LTI are a vehicle that aligns employees with the performance of shares (for market-based equity vehicles) and the long-term vision of the company. When employees become shareholders themselves, they have incentive to increase company value as the performance of the shares directly affects their own compensation.

**What are the types of LTI?**

LTI can generally be broken down into the following three types:

1. **Appreciation-based:**Value is delivered based on the increase in the company’s underlying value, which in the case of a public company, is reflected in share price. Per unit, employees will receive the difference between the value of the underlying unit at some point in the future, and the underlying value when the stock options/stock appreciation rights (SARs) were granted.
2. **Stock-based:** Value is delivered in shares of the company stock. Payout may be tied to achievement of performance goals, but ultimately, employees will receive a share of company stock. Note that some companies may grant “phantom shares.” Which track the movement of value of the underlying shares but pay out in cash.
3. **Cash-based:** Value is delivered in cash and is not tied to the performance of shares; employees will receive a cash payout, based on service, achievement of predefined performance goals, or both.

**What are common LTI Vehicles?**

**Stock Options**

A stock option entitles the grantee the right to purchase shares of a company at a fixed price (known as the exercise price) in the future. Generally, the option’s exercise price will be the stock’s closing price on the date of the grant. Once a stock option vests (see “What is Vesting?” below), the grantee can exercise the right to purchase stock at the exercise price. For example, if a share is trading at $10, and the exercise price is $5, the grantee can purchase a share at $5 and sell at $10 in the open market, resulting in a $5 profit per unit.

The window of time that a grantee can exercise the option is referred to as the term. Most companies grant options with 10-year terms. An option has no value if in the future the share of the company is below the exercise price (since the grantee would be paying above-market price, and there would be no impetus to exercise the option). These options are referred to as being “underwater.”

**Stock Appreciation Rights**

Stock Appreciation rights, or SARs, function very similarly to a stock option in that a recipient of a SAR will receive the value of the increase in stock price in cash (though sometimes it is received in stock). The major distinction between a SAR and a stock option is that a SAR does not require the actual purchase of shares.

**Time-based Restricted Stock/Restricted Stock Units**

Time-based restricted stock/units vest based on a predetermined length of time. A company can choose to grant equity based on a predefined value on the grant date or predefined number of shares (the former is more popular). Unlike an appreciation-based award, a restricted stock will still have value upon vesting even if the per-stock value decreases.

**Performance Shares/Units**

These are also full-value shares; however, the vesting of these types of shares is contingent upon meeting predetermined performance goals. These goals can be internal or external, and can be measured on a relative basis (compared to other companies), absolute basis (compared to predefined achievement levels), or both. These have grown in popularity over recent years due to the ease of linking payout to long-term performance. Metrics used by companies differ but are generally consistent within each industry, since the metrics that define good performance tend to be similar. One of the most popular metrics is total shareholder return (TSR), which measures the increase in share price over a predefined period (most commonly three years).

Companies will generally grant 100% of shares at a target level and give the shares both downward and upward leverage (meaning shares can vest at less than 100% for poor performance, and shares can vest at greater than 100% for outstanding performance).

**Long-term Cash Units**

These are non-equity-based long-term grants that pay out in cash. The grantee will receive a cash payout after the vesting period.

**Performance Cash Units**

These are cash-based long-term grants that vest based on performance achievement. These are more common at private companies, due to the difficulty of share valuation.

**What is Vesting?**

LTI are typically granted with what is known as a vesting period. What this means is that grantees are conditionally granted equity, but they do not actually own it until the vesting period expires. This is the retentive feature of LTI; unless the grantee fulfils the applicable vesting requirement (e.g., staying with the company for three years after grant or meeting a performance goal), they forfeit the grant.

There are two types of vesting: cliff and ratable. Awards that cliff vest are paid out all at once, at the conclusion of a predetermined time period. Awards that vest ratably vest a portion at a time (e.g., an award that vests 25% each year for four years). If an employee terminates prior to the end of the final vesting period, the employee still owns the portion that has vested.

**Who Receives LTI?**

Commonly, LTI are more prevalent for employees at higher levels of an organization because the value of the company is predominately affected by those with line-of-sight into the long-term strategic vision of the company. Let’s say a company grants performance shares that are contingent on achieving a net income target. Would the CEO be able to influence corporate profitability? Yes (at least we hope so). But an entry-level accountant? Probably not. There is less value in administering performance-based LTI to lower-level positions, since these roles do not have the impact that effect that type of change. For this reason, LTI for lower-level employees typically focus more on retention.

LTI are more prevalent at public companies because of their liquidity and ease of valuation (i.e., a share of a public company is valued by and can be sold on the open market, whereas the value of a share at a private company can differ widely based on valuation methodology).

**Conclusion**

The appropriateness of an LTI vehicle ultimately varies from company to company. No one LTI vehicle is superior to another, and it typically requires an overall assessment of culture, company strategy, and goals to select the right mix, amounts, and vesting mechanics. Mercer consultants have experience in every industry and can help you determine the right approach when it comes to utilizing long-term incentives as part of the total rewards package for your employees.

# Strategic Plan for Employee Compensation and Benefits:

Compensation and benefits are key factors in recruiting and retaining the best talent for any level job in every industry. Employers know that it is tough to find and keep good talent. As a result, more companies are offering very competitive benefits packages. It might be difficult for a smaller company to compete with bigger companies because a smaller company might not have the financial means to do so. Even without the deep pockets that big corporations have, small business owners can strategically plan to compete with compensation and benefits programs.

## Identify Employee Objectives

Take a look at your workforce and at the kinds of people who would apply for positions in your company. Corporate cultures often attract similar types of employees. Understand what is important to different workers by talking to existing employees or take a look at industry data. Older employees are often concerned with retiring and healthcare benefits while other employees might want paid time-off and opportunities for growth, such as access to education funding.

Where possible, look at what your competitors' compensation and benefits programs contain. Although everyone wants to make as much money as possible, employees are often willing to sacrifice a bit in their pay rate, if the benefits package meets their goals.

## Set a Budget

Take a realistic look at your company's personnel budget. Determine the total amount you can spend on any one employee. Remember, valuable employees pay for themselves in work efficiency. Factor in all costs for the employee, including taxes, payroll costs, existing benefits, compensation and bonuses. Once you have the numbers, determine what you can afford in compensation and the immediate benefits that are deemed priorities. Then, look at where you can save money on the front end and reward your employees based on loyalty or performance. The idea is to protect you financially if an employee is not working out.

For example, you might offer a retirement plan or a vacation package to employees who have been with you for a specified minimum amount of time. This is called vesting, and it promotes loyalty among employees and also gives you time to evaluate the employee over time. If the employee doesn't stay with the company after the required minimum time, you save funds that haven't been spent on the vested plans. Set annual reviews and give employees performance metrics to qualify for a pay raise.

## Implement a Plan

Implementing the compensation plan requires writing it out and incorporating it into a new, updated employee manual. Although specific compensation numbers are private and not for all employees' eyes, the rules to receive other benefits must be listed for everyone to review.

State everything in detail. List the number of sick days and vacation weeks each person is eligible for and at what employment date eligibility begins. List paid holidays. Discuss what is required for schedule changes and approval for overtime. State the benefits packages, such as healthcare and retirement plans, with all of the eligibility rules.

Distribute the new plan and hold a meeting with all employees so they can review it. The plan must also be shared with new employees as part of the onboarding process. Clarity helps keep employees focused and motivated.

## Get Creative

If your competitors have much bigger compensation or broader benefits programs, you'll need to be creative in your strategy. For example, offering a flexible schedule to an employee might be what gets a commitment from a single mom who has to get her child to preschool at a certain time. Lower wages might be offset by higher bonus packages for successful sales. If you have surveyed your existing team, you should have a good sense of what excites them and will be appreciated as a benefit.

# Employee Benefit Strategies

Every employee compensation package offers two main components: salary and benefits. Though what an employee is actually paid before taxes is a significant part of employee compensation costs, approximately 30 percent of those costs are for benefits, according to the results of a March 2010 Bureau of Labor Statistics report. Some employee benefits, such as disability coverage, are mandated by law, but if you are looking to set your business apart from the pack by offering certain benefits to attract and retain key people, then developing a benefit strategy plan can bolster your bottom line.

## Review Plan

Before making changes to your benefits package, review your current plan to see how it stacks up against your competitors. Your health, dental and vision insurance plans should be competitive, and you may want to offer some sort of retirement plan. Time off in the form of vacation, holidays and paid leave are also important, and life insurance, child care subsidy, education reimbursement and telecommuting options may also be important to your employees

## Evaluate Costs

Small businesses may find that they have very little flexibility in what they can reasonably offer their employees. Spiraling health care costs can thwart the expansion of your benefits program as can mandated requirements, including workers' compensation. Shop around for coverage options; poll your employees to find out if they'd accept a higher insurance co-pay in exchange for a new benefit.

## Offer Varying Benefits

Consider not offering the same benefits to every employee. Attorney Robin Thomas, writing for TechRepublic, says that employers are not required to offer the same benefits to every employee rather they must offer these benefits on a nondiscriminatory basis. Federal or state law may mandate certain benefits, such as health insurance, but you have flexibility when it comes to employees who are part-time versus full-time, and when new employees are eligible to receive benefits. You can also limit your benefits to employees only, excluding family members and domestic partners.

## Take Appropriate Action

Once you have surveyed your employees, compared what you currently offer to your competition and have evaluated your costs, be prepared to adjust your benefits plan accordingly. Consider waiving the benefits eligibility requirement for a prized recruit while allowing a dependable employee to telecommute if that no- or low-cost plan will keep her on your team. By managing a small business, you may be able to offer more flexibility than what some much larger businesses in your area have to offer.

# How to Design a Compensation Strategy

A compensation strategy differs from a compensation budget in that it aims to improve recruiting and retention of employees, rather than simply minimizing expenses. Creating a compensation strategy goes beyond examining pay scales and takes into account total rewards that help make you an employer of choice.

## Examine Your Budget

You’ll be better able to determine how to create a compensation strategy if you know what your budget limitations are. It doesn’t make sense to create your wish list and then find you don’t have enough money to offer the key items on it. Meet with your accountant to determine what you can afford in terms of labor costs. Take into consideration salaries, wages, bonuses, commissions, payroll taxes, benefits and workers’ compensation costs.

## Review Organization Chart

If your company is growing, project your staffing needs into next year. This will help you set aside part of your budget for new hires. If you plan on giving promotions, these might need to come with raises. Project your sales as far in advance as possible. This will help you determine increased hourly wage needs and additional revenues you have to work with. Look at what positions you can fill with contractors to reduce payroll costs. Evaluate which positions can or should be performance based to increase productivity.

## Create Total Rewards Package

A total rewards approach offers employees an attractive package of base pay, bonuses, benefits and perks. This allows employers to potentially offer lower pay than competitors because the overall compensation and benefits package is so attractive. Examine the cost of benefits. Providing employees the option to sign up for benefits such as different types of insurance, a 401(k) plan or a health savings account costs you little or nothing and attracts workers. Look into the cost of offering on-site day care or a day care stipend, commuting or parking reimbursement, paid time off and flexible working hours. Create morale-building programs such as a monthly birthday party, employee-of-the-month award and wellness initiatives.

## Consider Ages

Workers in different generations won't have the exact same needs or wants regarding compensation and benefits. Young workers aren’t thinking about their health care and retirement needs as much as older workers are, for example. If your goal is to create a younger workforce, consider offering more pay and fewer benefits. If you want to reduce turnover or keep senior employees, focus more on benefits. Both generations might appreciate a wellness program, with younger workers wanting more fitness activities and older workers wanting more health education. You might not be able to offer different compensation packages to different age groups; meet with a legal expert to ensure you avoid bias in your compensation offerings.

## Research

Go online and look at what other companies in your profession and in your geographic area are paying for positions similar to the ones you have. Visit the website of the U.S. Bureau of Labor Statistics to determine current pay and trends for specific positions. Examine any research provided by professional and trade associations. Meet with your employees to discuss what will motivate them to stay with you. Be prepared to discuss salary, wage, benefits and other compensation options rather than simply asking employees what they want. They might volunteer that they are willing to sacrifice pay for benefits, flexible working hours and security. Calculate the cost of replacing an employee to determine at what level it makes more sense to give her a raise than to try and replace her.

## Put It All Together

Using the information you gathered to evaluate your budget, marketplace conditions and employees suggestions, create a compensation package that emphasizes as much of what your employees want that can fit within your budget. Work with your insurance provider and a benefits company to tailor your benefits to your workforce. Create a document or materials that emphasize the depth and breadth of what you offer, using statistics to show current and potential employees the benefits that come from participating in all of your compensation options.

# How to Establish New Policies & Procedures That Will Attract the Highest Quality Staff Possible

Employee engagement, qualifications and employee recognition are key components to sustaining a productive workforce. But how do you ensure you're attracting superbly qualified applicants and that your company has bench strength that consists of high-quality staff already on board? Your recruitment and selection strategy -- also called talent acquisition -- is an essential first step, followed by implementing your strategic goals and mapping the functional activities best suited to building a cohesive team.

## Recruitment Strategy

In companies with dedicated human resources departments, frequent and extensive discussions between HR leadership, recruitment staff and the company's executive leadership team are critical. Recruiting strategy doesn't just affect the HR department -- it affects the organization's overall productivity and profitability. Your recruitment and selection policies and procedures will then depend on your organization's strategic direction and your workforce development plans. In many cases, your compensation structure also plays an integral role in developing a recruitment strategy if your company intends to use tangible, extrinsic rewards as a means to attract qualified applicants.

## Survey Existing Staff

If you don't know what makes your current employees stay, you can't possibly know how to attract applicants who will become long-term contributors to your organization. Conduct regular employee surveys that include questions about what employees like about their jobs, the company, their co-workers, compensation and benefits, working conditions and what suggestions they have for improvement. Some factors that involve job satisfaction are challenging assignments and pleasant working conditions that accommodate employees' need for time off and flexibility, according to Catherine Oak, international business and insurance consultant, in her article titled, "Ten Ways to Attract and Retain Great Employees." But employees generally want more than work that tests their aptitude and excites them or the ability to take a four-day weekend. Job satisfaction includes employees' respect for leadership, collegial work relationships and employee recognition, which are all factors that you should look for in your employee survey results.

## Recruiter Training

Policies and procedures such as portraying the company in the best possible light is a recruiter's job. Train recruiters how to sell applicants on the company and the vacancy. The recruiter usually is solely responsible for screening applicants, but once the recruiter and applicant reach the interview stage, the discussion about employment opportunities should be a two-way conversation. Applicants often get advice and counseling on how to sell their skills, but recruiters also should sell the applicant on the benefits -- tangible and intangible -- of working for the organization.

## Compensation

Before you set a compensation structure, review psychologist Abraham Maslow's motivation theory to understand why employees have different needs. The compact version of Maslow's theory is that employees are motivated by their immediate needs. Job satisfaction and engagement matters may be most important to employees who are satisfied that their physiological and safety needs are met, such as food, shelter and job security. Their motivation for working isn't to amass wealth -- they're motivated by intrinsic rewards, such as contributing to the organization's goals and attaining their own professional goals. On the other hand, financial rewards such as bonuses, cash incentives and awards may be important to employees whose basic personal and family needs -- again, food, shelter, health and security -- require that they prioritize the tangible rewards an employer has to offer. There's nothing wrong with either group, because they're both generally willing to work hard for their respective rewards. Develop compensation policies that reward employees fairly with good wages and benefits, and balance that extrinsic form of recognition with policies that recognize employees' talents and skills.

## Assessment

Although too many instances of trial-and-error can be costly, your new policies and procedures for building an outstanding workforce might work, but others may need periodic tweaking. Evaluate how well your company is doing with its current policies, assess the performance of recruiters and hiring managers in making wise hiring decisions and monitor turnover through conducting exit interviews so you know what works and what doesn't.

# HR Compensation Issues

Small-business owners must address a variety of issues as they design compensation programs to attract and retain talented employees. For example, how much you are paid, the value of your benefits, how big your bonus is, whether you were promoted and how you were recognized for going "above and beyond" are personal issues every employee thinks about.

## Competing for Talent

As HR professionals strive to establish competitive pay rates so an organization can attract and retain the right talent, they compare their compensation rates to the rates in published surveys to gauge their competitiveness. However, many nuances complicate the process. For example, when you're hiring the head of software development, the competition for talent might be a different set of companies than when you're hiring an administrative assistant.

## Legal Compliance Issues

Legal considerations are also on the mind of HR professionals who manage compensation programs. In addition to being competitive with the external market, pay must be equitable internally within the organization. Companies generally want to reward high performers with more money and try to create pay differences between employees in the same job to recognize outstanding performance.

However, small businesses must be careful not to violate discrimination laws, improperly set up benefits packages such as retirement or health insurance contributions or avoid overtime pay requirements. The Equal Pay Act, for example, requires that men and women receive equal pay for equal work, points out the [U.S. Equal Employment Opportunity Commission](https://www.eeoc.gov/equal-paycompensation-discrimination#:~:text=The%20Equal%20Pay%20Act%20requires,equal%20pay%20for%20equal%20work.&text=If%20there%20is%20an%20inequality,sex%20to%20equalize%20their%20pay.).

## Designing Executive Compensation

If you offer management at your small business many more visible perks than the average employee gets, you can create morale and retention problems at your company. For example, if your executives all have free, front-row parking spots, or get pubic transit passes or go to frequent lunches with the boss or get big bonuses each year, employees might wonder why you don't have enough money to give them a raise this year.

On the other hand, if you don't offer your top talent competitive pay and perks, you might have a hard time attracting and retaining them. Creating attractive executive compensation packages and keeping them private is an important process for any small business.

## Recognizing and Rewarding Employees

HR professionals design programs to successfully motivate employees to perform at their best and that recognize and reward employees for their contributions in a way that's affordable to the company. These programs are critical for maintaining employee retention according to the [Society of Human Resource Management](https://www.shrm.org/resourcesandtools/tools-and-samples/toolkits/pages/managingforemployeeretention.aspx).

However, ultimately, it's the supervisors and managers in a company who recognize and reward employees, and compensation staff must train and educate managers on how to use rewards and recognition to make employees feel appreciated by the company and happy in their jobs.

**MODULE IV:**

**EMPLOYEE REWARDS AND RECOGNITIONS:**

Reward management consists of analysing and controlling employee remuneration compensation and all of the other benefits for the employees. Reward management aims to create and efficiently operate a reward structure for an organisation. Reward structure usually consists of pay policy and practices, salary and payroll administration, total reward, minimum wage, executive pay and team reward.

HISTORY:

Reward management is a popular management topic. Reward management was developed on the basis of psychologist' behavioral research. Psychologists started studying behavior in the early 1900s; one of the first psychologists to study behavior was sigmund and his work was called the psychoanalytic theory Many other behavioural psychologists improved and added onto his work. With the improvements in the behavioral research and theories, psychologists started looking at how people reacted to rewards and what motivated them to do what they were doing, and as a result of this, psychologists started creating motivational theories, which is very closely affiliated with reward management.

Defining motivation as "the degree to which an individual wants and choose to engage in certain specific behaviours", to which Vroom (quoted in Mitchell, 1982) adds that performance = ability x motivation. To have an efficient Reward System then, is mandatory that employees know exactly what their task is, have the skills to do it, have the necessary motivation and work in an environment allowing the transformation of intended actions into an actual behaviour. From the company point of view instead, an effective performance appraisal has to be present, in order to let motivation be a major contributor to the rewarded performance.

**OBJECTIVE:**

Reward management deals with processes, policies and strategies which are required to guarantee that the contribution of employees to the business is recognized by all means. Objective of reward management is to reward employees fairly, equitably and consistently in correlation to the value of these individuals to the organization. Reward systems exist in order to motivate employees to work towards achieving strategic goals which are set by entities. Reward management is not only concerned with pay and employee benefits. It is equally concerned with non-financial rewards such as recognition, training, development and increased job responsibility

Kerr (1995) brings to attention how Reward Management is an easily understandable concept in theory, but how its practical application results often difficult. The author, in fact, points up how frequently the company creates a Reward System hoping to reward a specific behavior, but ending up rewarding another one. The example made is the one of a company giving an annual merit increase to all its employees, differentiating just between an "outstanding" (+5%), "above average" (+4%) and "negligent" (+3%) workers. Because the difference between the percentage increasing was so slight, what the company obtained from the employees was indifference to the extra percentage point for a superlative job or the loss of one point for an irresponsible behavior. In the following table other common management errors are summarized

TYPES OF REWARDS:

Rewards serve many purposes in organisations. They serve to build a better employment deal, hold on to good employees and to reduce Employee turover

The principal goal is to increase people's willingness to work in one's company, to enhance their productivity.

Most people assimilate "rewards", with salary raise or bonuses, but this is only one kind of reward, exxtrinic reward. Studies proves that salespeople prefer pay raises because they feel frustrated by their inability to obtain other rewards, but this behavior can be modified by applying a complete reward strategy.

There are two kinds of rewards:

* Extrinsic rewards: concrete rewards that employee receive.
	+ Bonuses: Usually annually, Bonuses motivates the employee to put in all endeavours and efforts during the year to achieve more than a satisfactory appraisal that increases the chance of earning several salaries as lump sum. The scheme of bonuses varies within organizations; some organizations ensure fixed bonuses which eliminate the element of asymmetric information, conversely, other organizations deal with bonuses in terms of performance which is subjective and may develop some sort of bias which may discourage employees and create setback. Therefore, managers must be extra cautious and unbiased.
	+ Salary raise: Is achieved after hard work and effort of employees, attaining and acquiring new skills or academic certificates and as appreciation for employees duty (yearly increments) in an organization. This type of reward is beneficial for the reason that it motivates employees in developing their skills and competence which is also an investment for the organization due to increased productivity and performance. This type of reward offers long-term satisfaction to employees. Nevertheless, managers must also be fair and equal with employees serving the organization and eliminate the possibility of adverse selection where some employees can be treated superior or inferior to others.
	+ Gifts: Are considered short-term. Mainly presented as a token of appreciation for an achievement or obtaining an organizations desired goal. Any employee would appreciate a tangible matter that boosts their self-esteem for the reason of recognition and appreciation from the management. This type of reward basically provides a clear vision of the employee's correct path and motivates employee into stabilising or increasing their efforts to achieve higher returns and attainments. Monetary gifts, such as giftcards are also more likely to be used for luxury purchases and can build an emotional bond with the organization
	+ Promotion: Quite similar to the former type of reward. Promotions tend to effect the long-term satisfaction of employees. This can be done by elevating the employee to a higher stage and offering a title with increased accountability and responsibility due to employee efforts, behaviour and period serving a specific organization. This type of reward is vital for the main reason of redundancy and routine. The employee is motivated in this type of reward to contribute all his efforts in order to gain managements trust and acquire their delegation and responsibility. The issue revolved around promotion is adverse selection and managers must be fair and reasonable in promoting their employees.
	+ Other kinds of tangible rewards
* Intrinsic rewards: tend to give personal satisfaction to individual
	+ Information / feedback: Also a significant type of reward that successful and effective managers never neglect. This type of rewards offers guidance to employees whether positive (remain on track) or negative (guidance to the correct path). This also creates a bond and adds value to the relationship of managers and employees.
	+ Recognition: Is recognizing an employee's performance by verbal appreciation. This type of reward may take the presence of being formal for example meeting or informal such as a "pat on the back" to boost employees self-esteem and happiness which will result in additional contributing efforts.
	+ Trust/empowerment: in any society or organization, trust is a vital aspect between living individuals in order to add value to any relationship. This form of reliance is essential in order to complete tasks successfully. Also, takes place in empowerment when managers delegate tasks to employees. This adds importance to an employee where his decisions and actions are reflected. Therefore, this reward may benefit organizations for the idea of two minds better than one.

Intrinsic rewards makes the employee feel better in the organization, while Extrinsic rewards focus on the performance and activities of the employee in order to attain a certain outcome. The principal difficulty is to find a balance between employees' performance (extrinsic) and happiness (intrinsic).[[11]](https://en.wikipedia.org/wiki/Reward_management#cite_note-11)

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

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

* Individual
	+ Base pay, incentives, benefits
	+ Rewards attendance, performance, competence
* Team: team bonus, rewards group cooperation
* Organization: profit-sharing, shares, gain-sharing

EMPLOYEE RECOGNITION

Ask yourself the importance of a chocolate or a muffin to motivate your child to finish his homework or clean his room. Same way, the rewards and recognition can prove to be extremely beneficial to keep your employees motivated to perform extraordinary, achieve the targets and stick to the organization.

The power of employee recognition can not be underestimated especially when they have thousands of lucrative opportunities in front of them.

Who doesn’t want to attract, hire and retain the best talents of the industry? Why not explore the new ways to foster employee motivation and drive them to achieve their targets then? After all an organization’s performance is directly related to the performance of its human resources. This is a simple logic; if you make their day, they make your organization.

**Employee rewards and recognition system is not just a positive thing to do with people but communicating it effectively is an efficient tool in encouraging them to create and bring business for you**. Treating your employees like your assets and maintaining harmonious relationships with them doesn’t only yield business in present but also an effective strategy for future. Employers and management need to be pro-active to develop a talented and dedicated workforce that can take you to your goals.

Fulfilling employees’ needs, recognizing their efforts and presenting them with monetary and non-monetary rewards help you create a right workforce for your organization that can be your partner in success. Recognition of their efforts and boosting their morale results in increased productivity and decreased attrition rate. It is a proven fact that the motivated and dedicated workforce can change the fate of a company. After all, human effort is the biggest contributing factor in success of any organization. It is just next to impossible to achieve organizational goals only by the efforts of top management. It’s the workforce who executes their plans and helps them achieve their financial as well as non-financial aims.

Establishing and implementing a reward system needs careful analysis of the company policies and procedures. Deciding how to recognize employees’ efforts and what to provide them requires thorough analysis of responsibilities and risks involved in a particular job. Reward system of an organization should also be in alignment with its goals, mission and vision. Depending upon the job profile, both monetary and non-monetary rewards can encourage employees to contribute more to the organization.

* **Monetary Rewards:** A raise in salary, incentives, movie tickets, vacation trips, monetary allowances on special occasions, redeemable coupons, cash bonuses, gift certificates, stock awards, free or discounted health check-ups for the entire family and school/tuition fees for employees’ children fall in this category. While designing company policies for monetary rewards, management should make sure that benefits should be as broad-based as possible. It requires sound planning and effective implementation.
* **Non-monetary Rewards:** Non-monetary rewards may include trophies, certificates, letters of appreciation, dinner with boss, redecoration of employee cabin, membership of recreation clubs, perks, use of company facilities, suggestion awards, tie-pins, brooches, diaries, promotion, say in management, etc.

A combination of monetary and non-monetary rewards can work wonders and drive employees to perform well continuously. A proper and efficient employee reward and recognition program can establish harmonious relationships between employees and employer.

**Definition of total reward**

Definition of total reward Total reward is the term adopted to describe a reward strategy bringing together all the investments an organisation makes in its workforce (e.g. pay, pensions and learning and development), with everything employees value in working for an organisation, such as flexible working and career opportunities. It goes beyond base pay by highlighting the range of benefits within the employment package that underpins the organisation’s culture and organisational objectives. It promotes and encourages employee engagement, which in turn improves organisational performance. Its aim is to give all employees a voice and choice on the total reward offerings, and enhance the psychological contract between employer and employee. Total reward is a long-term approach, which does not need to be theoretically complex. It can be based on incremental rather than on radical change and does not have to include all the monetary values of the employment package from the outset for it to be of benefit to both employer and employee. It can be introduced in a gradual and relatively inexpensive way, by understanding what employees’ reward preferences are and effectively communicating what is already in place. Total reward describes a range of monetary and non-monetary rewards, which can assist councils in promoting and enhancing their reputation as a great place to work. Councils already have a great deal to offer and total reward helps ensure employees fully value the totality of their employment package.

**What do employers need to be aware of?**

The success of a total reward approach relies upon, both the organisation clearly communicating what it is trying to achieve through corporate objectives, and the ability of line managers to actively engage and motivate their teams. A total reward approach is a tool which can assist with engaging the workforce; it will not in itself engage people, unless managers know what engagement really means and more importantly apply it in their day to day activities. While total reward as a philosophy emphasises all aspects of the employee proposition, pay remains the foundation on which everything else is built. It continues to be a key consideration for employees joining an organisation. Highlighting other elements of the employment package does not mean employees will forget about their base pay, which needs to be fair and equitable. Once base pay is perceived to be fair by employees, communicating the value of the more intangible elements of the employment package can help to bring about higher levels of engagement, improve recruitment and retention and – ultimately – increase productivity.

**The equality dimension, employment law and benefits**

Equality Councils need to ensure that the provision and management of benefits do not discriminate and fully meet with equality and diversity legislation. Councils are reminded to carry out an equality impact assessment on the totality of the total reward offering and its corresponding policies. It is important to define who has access to the scheme or different elements of it. For example a fixed term employee can have access to some elements, but not others depending on the length of their contract. From 1 October 2011, agency workers must have access to some benefits such as the provision of car parking or crèche facilities, but would be excluded from entering the pension or sick pay schemes.

Employment Law and benefits Councils also need to be aware that certain benefits on offer to employees are an ongoing entitlement and must continue during maternity leave, such as child-care vouchers. This will have financial implications and how this is to be treated is best set out in the council’s own policies. Consideration also needs to be given in terms of how benefits need to be dealt with when employees are absent on short-term and long-term sickness or take unpaid leave. Care needs to be taken on how benefits are applied, as there is potential for discrimination on disability or sex for example. Councils will need to honour the contractual agreements

**Implementing total reward –**

* 1. Developing a business case

Elected members and senior managers clearly need to support the implementation of a total reward approach, and this requires putting together a sound business case. When setting out your business case, ensure that you are clear about what you want to achieve. Ask yourself why you want to introduce total reward and how you can measure the results. In many councils these indicators will already form an integral part of the HR strategy. Do you want to …. - underpin the delivery of outstanding customer service? - become an excellent employer? - attract and retain additional talent? - develop existing talent? - increase employee engagement and productivity? - offer a work-life balance and create a healthy work environment? - provide a workplace where people enjoy coming to work? - contribute to the efficiency savings councils need to achieve? Once you are clear on the desired outcomes, you will need to check whether or not the reward strategy complements the HR strategy. Does it support and underpin what the organisation is trying to achieve or does it need changing?

 Who do I need to involve?

You cannot do this alone, and nor should you expect to. You will need assistance at various stages in the process from: - elected members and senior management, who need to 'buy-into' the change at an early stage;

 local trade unions and staff representatives; - colleagues within HR, who can provide specialist knowledge on recruitment, training and development, legal issues such as equal pay, diversity and employment contracts; - line managers, who will be responsible for the implementation and day-to-day management; - employees themselves, after all, the aim of total reward is to increase the engagement and performance levels of employees, thereby improving organisational performance; organisations often find that the process of asking employees for their views on reward, motivation and work actually increases levels of engagement; - you may want to obtain outside assistance, particularly if your department is already operating at the limit of its capacity, or if there are areas of knowledge which the organisation does not have readily at hand; - a project manager.

1. **Analysing the existing package**

 Before considering the design and implementation of a total reward package, councils should assess their existing approach to pay, benefits and tangible rewards. A health check of all the appropriate HR policies and processes in place should be carried out, to ensure those policies support the values the council wishes to promote. Furthermore, it generally involves consultation with employees, managers and trade unions about both the content and communication of the existing package. Exit interviews can also provide a source of data, as finding out why people have decided to leave can reveal important ‘gaps’ in what the organisation is offering. Does the current reward policy underpin what the organisation wants to achieve? Are employees generally satisfied with the range of monetary and non-monetary benefits? Could the design stage simply involve ‘repackaging’ the existing items and devising a more effective communication strategy?

Look at the demographics of your workforce and check whether the take-up of benefits is different in various parts of the organisation. Consider whether you need to make changes to the existing offering. For example, is what is on offer linked to the needs of employees? If you have a young workforce they are more likely to be interested in say music vouchers, whereas older employees may value the pension scheme more.

This consultation process is very important, as the value of any total reward package is ultimately determined by employee perception. And, as with any new initiative, taking a collaborative approach should aid employee buy-in.

1. Elements within total reward

The beauty of the total reward approach is that councils can build upon the existing offerings at any time and include whatever they decide underpins the culture they want to create most. Every council is unique, which is why copying a model which worked for one organisation - even one which is very successful - may not work for your council. Tailor it to the needs of your council.

Please find a list of the various components which form part of the total reward offering.

.1 Pay

2 Local Government Pension Scheme (LGPS)

3 Non-Cash rewards & recognition

4 Employee benefits (Flexible and Voluntary benefits)

5 Buying and Selling Annual Leave 3.6 Total remuneration statements (TRS)

Each element or aspects of a comprising element can be introduced individually, as a step by step approach or implemented simultaneously as a comprehensive package. It depends on what is right for your council.

1. **Design stage**

 Following consultation, councils may decide to introduce new benefits or policies. It is important to ensure that any new element included within the total reward approach is aligned with the corporate strategy. The analysis stage may also reveal that different elements are valued by different parts of the workforce. For example parents may value a flexible working policy, or employees nearing retirement may place a higher value on their pension. Some councils may decide the best approach for them is to make an up-front investment and engage an outside supplier to implement an employee benefits scheme as part of their benefits offering. Others may decide it is more appropriate to introduce a non-cash reward and recognition scheme. Such schemes are likely to have low set-up costs and if done well can engage and motivate employees just as much. When designing a total reward package, councils should typically seek to provide a comprehensive offer that has elements which appeal to all groups of employees. It is important to decide from the outset, who you want to target within your workforce. Is it more important to achieve a high take-up rate across the board, or offer benefits to certain groups within the workforce which are of high value to them? You may have low take-up rates for childcare vouchers, and feel people don’t value this, but of course employees without children won’t be interested, whereas those with children will find this benefit very important. When deciding what fits your council best, you will need to involve finance colleagues to understand what your budget is. Introducing employee benefits can bring savings, such as employer’s National Insurance savings. Find out whether or not any such savings, can be used to enhance the total reward offering or whether or not they will be moved into the overall corporate budget. Consult with payroll, tax and pension managers to ensure you are fully aware of all the processes, so that there will not be any unforeseen consequences later. You will also need to be very clear about who can take advantage of which benefits since there will be different issues for different parts of the workforce e.g. Teachers buying and selling annual leave.

1. **Implementation**

(see point 3 for elements within total reward) You will need to have a clear idea about how you want to implement total reward. What is the best approach in terms of your organisational culture and what is likely to give you the greatest success? ‐ Will it be a ‘big bang’ approach? ‐ Will you carry out a pilot first and then launch it to the rest of the organisation? ‐ Do you want to roll it out on a team by team basis? ‐ Is it ‘merely’ communicating the existing package in a more effective way? It is quite common to pilot a new total reward offering on a selected group of employees to gain feedback before rolling it out to all. If, on the other hand you decide you want to introduce a comprehensive new package – incorporating diverse elements, such as employee benefits and/or a new flexible working policy, you may wish to consider a phased implementation.

1. **Communication and employee engagement**

 Evidence shows that even if you offer the most attractive and expensive rewards, it can fail to engage employees if it is not communicated well. Total rewards, employee benefits, performance related pay and many of the most popular reward trends all place an increased emphasis on employees to understand and support how their pay and rewards are determined. Yet one recent CIPD survey states: - 70 % of HR professionals reported that few of their employees understood their reward strategies and policies; - 56 % felt that their reward communications were not effective; - 43 % did not believe that employees understood how their pay linked to their performance. The Hay Group also reports that 44 % of employers are making changes to their reward communication as a result. The communication strategy needs to be able to deliver the message on what the desired organisational behaviours are and how they will be rewarded. This can be reinforced through creating an employer brand. The CIPD defines the employer brand as a set of attributes and qualities – often intangible – that makes an organisation distinctive, promises a particular kind of employment experience, and appeals to those people who will thrive and perform best in its culture. Therefore, communicate what you want to be known for as an employer and what you are offering employees in terms of rewards and experience. Keep the promises you.

Measuring and reviewing total reward Putting together a benefits package that delivers a return for councils as well as keeping employees engaged and motivated is the ultimate outcome. One reason why employers shy away from measuring benefits success is that it can be difficult to decide what needs to be measured. Councils will have to identify what success means. For instance, is it a 100% take-up of a particular benefit? Just getting agreement on what should be measured with the key decision makers can be challenging.

Why measure at all?

There are several reasons why councils should be measuring the success of their total reward offering. To start with, it can help fine-tune the benefits they offer. For example, if a large number of employees are taking out private medical insurance or health cash plans through the employee benefits scheme, councils could introduce benefits such as health assessments and gym membership to tap into employee’s appetite for health-related benefits.

The data councils collect can also indicate how they could improve the way benefits are communicated. As part of an employee survey, councils could provide a list of benefits and ask employees which benefits are already on offer and which new benefits they would like to receive. This will often throw up some anomalies, with employees unaware of all the benefits they receive, either not picking them in the first exercise or asking for a benefit that the council already offers. This information can help councils target communications and make their benefits package more successful, but it can also be a valuable communication tool in its own right, reminding employees about their employment package.

 There is also a more fundamental reason why councils need to measure the success of benefits – without data, councils cannot show whether benefits are effective. There are a number of statistics that can be used to help determine the success of a benefits package. These can include benefits take-up, employee engagement, absence levels and the National Insurance savings made through a salary sacrifice scheme.

**Elements within total reward**

**Pay:**

The way pay is structured serves as a powerful communicator to both employees and the public’s view of councils’ values and should be linked to business objectives.

 A council’s reward strategy needs to assert the importance of fair and nondiscriminatory pay. Of course, it also needs to reflect the external market for recruitment and retention purposes, and links between performance and pay will be a consideration for most, but fairness is just as important as engaging your employees. Hay research shows that in the wake of the financial crisis, return on investment, cost control, risk and engagement have emerged as the key concerns driving change in reward. Their study examined how organisations – from the board down – are looking to their reward programmes to deliver the performance they need. However, the option of paying more for retention or performance is often no longer available and employers are focusing more on intangible rewards (such as motivational leadership, challenging work and career development) to boost engagement.

Councils may want to consider a review of their strategic approach to pay and reward in light of the challenges ahead. The National Joint Council for Local Government Services national agreement (aka the Green Book) offers councils a framework to develop their own approaches to pay and progression according to their strategic priorities. For example it gives individual councils a great deal of discretion over pay rates so they can be adjusted to the local labour market. In addition there is nothing in the Green Book that precludes the introduction of performance related pay, nor is there anything that stops councils from withholding increments, as long as this is objectively justified. Of course councils exploring such options will need to involve Trade Union colleagues locally.

 If after reviewing your reward strategy you conclude that your pay structure is still suitable and relevant, it may just be a case of communicating and reinforcing what you already have in place in a different way.

Local Government Pension Scheme (LGPS)

The local government pension scheme is provided to employees by authorities who pay a large part of the cost of providing the excellent range of benefits, so it is a most valuable part of the employment package. There is a great deal of scrutiny about the value of public sector pensions at present and there will inevitably be further reform of the existing scheme. Ideally the total reward approach would enable an employer not only to be able to highlight the value of the pension scheme, but even trade off other aspects of the reward package. Many employers in the private sector show the employer’s percentage contribution to the pension scheme in their total remuneration statements. However, the LGPS is a final salary (Defined Benefit) pension scheme and not a money purchase (Defined Contribution) scheme. Showing the employer’s percentage contribution to a Defined Benefit scheme would give employees potentially misleading information as, unlike in a Defined Contribution scheme, the amount of the employer’s pension contributions from year to year have no material effect on the level of the employee’s pension.

 Councils contribute to the pension fund administered by their local pension fund administering authority. There are 89 funds in England and Wales. Every three years, there is a valuation of each of the pension funds at which an actuary sets the employer’s pension contribution rate for the following three years. The employer’s contribution rate could increase or decrease depending on the funding level of the fund at the time of the valuation. If the fund’s assets relevant to it’s liabilities have gone up, the employer’s contribution rate can be reduced; and if the fund’s assets relative to its liabilities have gone down, the employer’s contribution rate can be increased. The danger in showing the employer contribution rate on the total remuneration statement is that the employee might think that when the employer rate goes up they will get more pension and when it goes down they will get less pension. Neither is true as the amount of the employer’s contribution does not affect the benefits that will be paid to the employee. The amount the employee will be entitled to is defined in the scheme rules and is not dependent on the amount of contributions paid.

Showing the employer contribution on the total remuneration statement might also be misleading when an employee is thinking of applying for a job with another authority.

**Non-cash rewards and recognition**

In order to be most effective in motivating employees, the reward has to be seen as meaningful and motivational by the recipient. Examples of non-cash rewards include thank you letters, employee of the month awards and these can be positive tools for motivating employees at low cost.

Different types of rewards can be used to acknowledge a whole range of positive behaviours shown by employees, which could range from high attendance levels, hitting long-term targets or coming up with innovative ways to improve the efficiency of the organisation.

When deciding what to reward and how to reward employees, it is important to ensure that the benefits are inclusive for all employees. E.g. a bottle of wine may not be appropriate in councils that have a high level of Muslim employees.

Offering an evening meal out might not be good for parents with childcare responsibilities. Councils will need to ensure that all incentives are managed in a non-discriminatory way, and that targets and measures are not disadvantaging particular employee groups.

Employee benefits (Flexible and Voluntary benefits)

There are a whole range of flexible and voluntary benefits available and these can be either paid for by the employer or the employee. Many organisations also refer to such benefit offerings as their Flexible Benefits scheme and can include:

. Private Medical Insurance

♣ Dental Insurance

♣ Travel Insurance

♣ Give as you earn

♣ Leisure and retail vouchers

♣ Cash-back schemes

♣ Child care vouchers

♣ Buying and selling leave

♣ The main reasons for introducing an employee benefits scheme continue to be; -

attraction and retention of employee, -

recognising the diverse needs of the workforce, -

 creating savings through a salary sacrifice scheme and - greater awareness of the benefits offering leading to improved employee engagement.

Employee benefit schemes can also help organisations manage the impact of other harder changes they may need to make, such as low pay awards.

Employee benefits should be branded in such a way that they are an extension of the organisation’s values, to achieve the greatest success.

 Councils should analyse what their values are, and then ensure the benefits scheme reflects those.

Employee benefits allow councils to offer their employees a variety of reward options which employees can select from, to complement their personal circumstances.

 Setting up voluntary benefits schemes can cost councils very little, whilst at the same time being attractive to employees because of the savings they can make through discounts on products, services and leisure activities. In order for them to be seen as a valuable benefit, they need to negotiated and offer better savings than can be achieved on the High Street. There are also savings to be made for councils if the employee opts to sacrifice part of their salary in return for a tax-efficient benefit, such as childcare vouchers. It is advisable to consult a tax expert and get sign off from your local HMRC office if you are planning on offering a salary sacrifice scheme

This will avoid any costly tax and National Insurance penalties.The savings on National Insurance contributions that would otherwise have had to be paid on the amount sacrificed may even enable councils to cover the cost of a provider to administer and help communicate the employee benefits scheme.

**Buying and Selling Annual leave**

 Councils in general are committed to assisting employees with achieving a healthy balance between their work and personal lives, and offering employees the option to buy and sell annual leave can support this. It is important that all benefits on offer are fair and transparent. If councils can objectively and reasonably justify that access for some employee groups cannot be granted because of service delivery needs or the nature of their employment contract, then this is acceptable. For example teachers cannot be granted access to buying and selling annual leave, due to the nature of their contract, work and the impact it would have on service delivery.

In order for this scheme to be successful however, the working environment needs to be one of trust between the employee and the line manager. Employees and line managers will need to act responsibly and reasonably when requesting to buy additional annual leave. There should be a discussion around the impact on the service delivery as well as the employee’s needs. It is advisable that line managers are familiar with the scheme, and ensure it is applied in a fair and transparent manner across their team and the organisation. Developing a clear policy, which is perceived to be fair by all, around how it should be applied will help in making this a successful scheme.

the statutory minimum annual leave entitlement from April 2009 is 5.6 weeks including public holidays (or 28 days per annum for those working a five-day week, pro-rata for part-time workers).

 So when deciding how many days leave your council will allow employees to buy or sell, you will need to take account of the contractual leave as well as the statutory leave. Employees must not be allowed to sell leave that takes them below the statutory annual leave entitlement.

**Total remuneration statements (TRS)**

 Total remuneration statements outline the monetary value of traditional benefits such as salary, pension contributions and private medical insurance schemes. They are personalised statements and enable employers to raise awareness of the investment they make in their employees. Councils may simply decide to produce total remuneration statements without making any changes to the existing employment package. The cost of providing total remuneration statements will vary depending on the size of an organisation, the number of sets of terms and conditions, the format of delivery (paper or on-line) and the accessibility and quality of data. Total remuneration statement can be a good starting point in terms of the overall total reward approach. There will be a one-off implementation cost and an ongoing cost per employee involved with providing total remuneration statements, which need to be considered.

The production of such statements can be challenging for the following reasons: -

they can be costly to implement in terms of IT systems set-up and can be resource intensive (this is dependent on the size of your organisation and the quality of your data); -

it may be difficult to provide on-line statements for a large proportion of employees who are not office based - the data presented to employees needs to be 100% accurate, therefore a thorough data cleansing exercise with linked resource requirements will need to be factored into the process –

 in the current financial climate where the value of the employment package is likely to stay the same or go down in real terms, remuneration statements could act as a disincentive, unless you continue to focus on the positive elements; -

 highlighting to younger employees, how much they are contributing to the pension scheme may not be perceived as a benefit and, -

stating the LGPS employers’ pension contribution rate does not accurately reflect the actual benefit the employee will receive at retirement and could be wrongly interpreted. Councils who are considering this approach will need to be careful about how they express the value of the local government pension. Please note advice under the LGPS section.

**MODULE-V**

**INTERNATIONAL COMPENSATION:**

**Global** enterprises require **global compensation** systems that allow the organization to maintain the flexibility and ease of transfer between countries and regions while providing employees a just wage. A **compensation** system must be designed to work regardless of where the expatriate is sent on assignment.

For many companies, maintaining a **domestic compensation program**  that supports the strategic goals of the organisation and meets the needs of  employees is a difficult challenge. This challenge is intensified when a similar  program must be designed to operate in multiple countries with different  cultures. For organizations competing in a global marketplace, managing compensation requires a through understanding of the taxation of compensation  and benefits, differing state social systems, differences in living standards and  employee values and expectations.

**TRADITIONAL SYSTEM GOBAL COMPENSATION**

Of the traditional global compensation schemes, **the balance sheet  method** is most commonly used. More than 85% of US companies  use some variation of this method to compensate their expatriates. The objective  of the balance sheet method is to keep the expatriate economically whole or to  ensure that the expatriate doesn’t financially suffer or come out ahead as a result  of the International assigment. It is intended to maintain the employees home  standard of living during the international assignment.  The base salary for parent country nationals and third country  nationals is linked to the salary structure of the relevant home country.  Additional salary is often given to cover tax differences, housing costs and the  other basic living expenses. Perquisites may also be offered such as foreign  service premiums, hardship allowance, relocation assistance and home leave  allowances to help make the assignment more attractive. There are several  versions of the balance sheet approach, such as the headquarters based system.  They each essentially are applied in the same manner with the primary  difference being that the base salary is equated with a different location.

An **advantage of the balance sheet method** and perhaps the reason why it  is one of the most widely used international compensation scheme is that it eases  the repatriation process because it generally maintains comparable compensation  with home country colleagues. It further provides equity between assignments  and is relatively easy for employees to understand. Multinationals using the  balance sheet approach must frequently review compensation package to ensure  that it is keeping up with any rise in cost of living.

Opposite to the balance sheet method is the host country based or  **going rate approach**. This approach uses comparable salary in the host country  as the base in setting compensatio. It perhaps best integrates the expatriate into  the host country and host business unit more quickly because salary survey  comparisons are closely linked with host country nationals. As an alternative,  compensation may be bench-marked against expatriates of the same nationality  or of all nationalities within the local market. Advantages afforded by this  approach include better identification with the host country living standards and  host company compensation levels. This may be particularly important in  diffusing any resentment that may develop among local national employees  regarding inequities in expatriate compensation.

These **traditional methods of international compensation** are based on the  premise that eventually the expatriate will return to his or her home country.  However, as globalization requires a constant mobile workforce, these  traditional compensatio packages are becoming less and less adequate.  Challenges develop as the need to transfer employees among international  business units increases. It becomes an expensive proposition for companies to  continue paying salaries, allowances and perquisites based on a home country  location when there are no immediate plans to repatriate the employee.

## Challenges for the Traditional System

Although the balance sheet approach provides the benefits of equity for  the expatriate between assignments and better facilitates repatriation, it generally  comes at a high cost to the company. The longer the foreign assignment lasts,  the challenge to maintain a life style the expatriate may have been accustomed  to at home becomes greater. The balances sheet approach infers that the  expatriate should never have to make any adjustments to his or her host country  and company. This can result in great compensation disparities between the  expatriate and host company employees as well as third — country expatriates.  Problems arise when employees are paid different amounts for performing  essentially the same job, leaving a perception of unfairness among the lower  paid employees.  Another challenge with the balance sheet approach is the complexity in  administering the program as more expatriates from different home countries are  sent abroad. Multiple home countries complicate the administration of the base  pay and allowances required to keep the expatriates economically whole.

The going rate approach also has its disadvantages as a global  compensation program. Assignments to multiple locations likely result in  variation of pay. This is particularly evident when and employee is transferred  from an economically advanced location to perhaps a Second or Third World  country. Expatriates facing a possible loss of compensation may be reluctant to  take the pending assignment. Further more, expatriates from the same home  country performing equivalent work in different locations can have a notable  difference in pay depending on the host country compensation level. Again, this  can result in expatriates being reluctant to take the lower compensating  assignments and lead to rivalry among coworkers for the higher paying  assignments.

# Expatriate Compensation Plans Are Designed

Most **expatriate compensation** plans are designed to achieve four major **objectives**: 1. Attract employees who are qualified and interested in **international** assignments. Thus **the compensation** policy works to attract and retain staff in **the** areas where **the** multinational has **the** greatest needs and opportunities.

**EXPATRIATE COMPENSATION APPRAOCHES**.

Expatriate Compensation – A good compensation package is one that is considered fair by an expatriate, but it must also be cost-effective for the organization. It should be planned to achieve the mobility and staffing goals of the organization. There are a few methods commonly used to determine global expatriate compensation. These include: home-based approach (also known as the balance sheet approach), the host-based approach, and the global market approach. And one of the greatest challenges is determining which method is best for your organization.

**Home-Based Approach**

The home-based, or balance sheet approach, is the most popular of these approaches and used by more than 85% of U.S. multinational companies. The balance sheet approach provides international employees with an expatriate compensation package that equalizes cost differences between the international assignment and the same assignment in the home country of the individual or the organization. The balance sheet approach is based on some key assumptions and is designed to protect expatriations from cost differences between their home and host countries.

 **Host-Based Approach**

The host-based approach means the assignee transfers to the host country payroll and receives base and incentive pay based on host country compensation practices and regulations. There are limited, if any, assignment related allowances. The host payroll typically delivers base pay and incentive pay and above-base allowances. With organizations looking for cost-cutting opportunities, they have looked to localize assignees. The host-based approach may be a cost-effective option to the traditional home-based approach, including local plus policy components. Difficulties can occur in repatriating assignees, if applying this approach, because it integrates employees into the local host salary structure. It can make it very difficult to move the assignees to another destination or back to their home country.

 **Global Market Approach**

Unlike the balance-sheet approach, a global market approach to expatriate compensation requires the international assignment be viewed as continuous, even though the assignment may be for various periods of time and the employee may be in various countries. All assignees are on the equivalent compensation scale, regardless of their home country. This approach is much more inclusive. Regardless of which country the assignee is assigned, the main benefits are provided.

There are benefits and drawbacks to each approach. The objectives of each assignment, among other issues, should be measured before choosing the right compensation approach. Variations in laws, living costs, tax policies, and other factors all must be considered in establishing the compensation for expatriates. You want to maintain equity and consistency among the expatriate group. Many organizations look for a company specialized in this practice, as it is clear that international compensation is very complex.

 OBJECTIVES OF INTERNATIONAL COMPENSATION

It can be extremely expensive to live in some countries. Therefore determining equitable wage rates in many countries is not a simple matter of equality in pay. Most expatriate compensation plans are designed to achieve four major objectives:

1. Attract employees who are qualified and interested in international assignments. Thus the compensation policy works to attract and retain staff in the areas where the multinational has the greatest needs and opportunities.

2. Facilitate the movement of expatriates from one subsidiary to another, from home to subsidiaries, and from subsidiaries back home. To achieve this policy must be competitive and recognise factors such as incentives for Foreign Service, tax equalisation, and reimbursement for reasonable costs.

3. Provide a consistent and reasonable relationship between the pay levels of employees at headquarters, domestic affiliates, and foreign subsidiaries and4. The policy must be made cost-effective by reducing unnecessary expenses. It must give due consideration to equity and ease of administration.

Besides the above major objectives, the international employee will also have a number of objectives that need to be achieved from the firm’s compensation policy:

1. The employee will expect that the policy offers financial protection,The employee will expect that the policy offers financial protection in terms of benefits, social security, and living costs in the foreign location.

2. The employee will expect that a foreign assignment will offer opportunities for financial advancement through income and/or savings.

3. The employees will expect that issues such as housing, education of children and recreation will be addressed in the policy.Determining equitable wage rates in many countries is no simple matter. One of the greatest difficulties in managing total compensation on a multinational level is establishing a consistent compensation measure between countries that builds credibility both at home and abroad.

**PROBLEMS/CHALLENGES IN COMPENSATION MANAGEMENT**

Managing compensation is one of the most difficult aspects of being an HR professional, irrespective of the size of the company. Compensation professionals in the HR department face issues in determining the right pay and relevant perks that recognize and reward employees for the contributions they make to the company.

The operations and processing can take a huge chunk of your time. It is more pronounced in companies with a workforce that spans across different geographies. In smaller companies, the challenges are of a different kind; most small businesses are limited by budget and so the extent to which these companies can go to attract new talent in a competitive landscape while being fiscally responsible to themselves is small.

#### External competition

We live in an incredibly competitive world where businesses are willing to pay top dollar to get the cream of the crop talent. In order to attract and retain talent, your company must establish a compensation package that’s on par with other companies in the same industry and location.

There are several market surveys to gauge the right pay for different roles. If you’re constrained by budget, you can innovate by offering attractive vacation time offs, child care facilities, and other benefits that don’t cause a dent on your budget.

#### Executive compensation

The many nuances of compensation management come into play when deciding the salaries of senior executives. This is particularly important for public companies that need to reveal the salaries of their top 5 employees which might not go well with shareholders and the general public. Even if that’s not the case, the pay packages need to strike a balance between attracting good talent while being acceptable.

#### Internal equity

Take a pay review and we’re sure you’ll be surprised by the results. Even though the government and businesses strive to achieve pay equity, the wage gap persists. In fact, the World Economic Forum estimates that it will take at least 202 years to close the wage gap.

You should continuously assess your pay gap efforts and create awareness in the senior management to fix this issue. Managing gender wage gaps is something that’s so close to our hearts so much so that we wrote a whole blog about it. You’ll find it here.

#### Gaps in employee expectations

There’s always a conflicting disparity between what the employee expects to be paid and what the organization wants to pay. And, the HR is stuck in between. Also, employees usually don’t take into account the entirety of their compensation package. They only consider the net pay.

You can bridge this gap by providing total compensation systems to clearly communicate the value of their compensation in its entirety.

#### Lack of digitization

Managing compensation and communicating the outcomes is a very effort-driven task. When not done digitally, it can take up to several months from design to implementation and finally to communication and requires a lot of data crunching/ formulas/ sheets on Excel. Obviously, it’s not the best use of your time nor skills.

Spreadsheets and legacy software force you to focus on administrative details, most of which can be automated by using online compensation management software like compport. It can simplify your processes, save your time and resources, and enable you to design smarter, engaging compensation plans for your workforce. According to real-life examples with different Compport clients, it has been proven that Compport can bring in 95 percent more efficiency.

Your compensation strategy should be connected to business goals and financial data so you can get a complete picture of its effectiveness. When wrongly handled, it can cause a rift between employees and management. Though these challenges may seem daunting, proper planning and diligent efforts can help you overcome them. The right tools will help you move beyond manual work and transactions and focus on what’s important–motivating your employees and building a great culture.

**Coclusion of compensation management:**

Compensation, incentives, benefits and safety/ health concern is an interesting area in human resource to study. In the modern workplace, compensation is very important as it aims at improving job satisfaction and also the staff morale. Incentives tend to raise the self-esteem of the workers and at the same time makes the workers be proud of the organization they are working for.

Provision of incentives day in day out helps to attract more qualified personnel to the company which will, in turn, raise the company competitiveness in the market.

Benefits that are often directed to the workers is also important when it comes to propagating staff morale.

Giving benefits such as health insurance and family free time helps workers to energize and be more productive once they are back in the workplace. Safety/ health concerns also matter a lot since when workers know that the employer is concerned about their welfare, they are able to accomplish their duties with no or less fear.

Compensation, incentives, benefits and safety/health concerns are very important in any modern workplace and all the managers across the globe need to consider this.

 Attending to the employees in the appropriate manner will help to attract more qualified staff to the organization and also help to retain the existing staff altogether.



