



LECTURE NOTES

Subject Name: COMPENSATION MANAGEMENT

Year / Branch: II - IVSem / MBA

Regulation: R22

Prepared By: Dr H viswa Kiran



SREENIVASA INSTITUTE OF TECHNOLOGY AND MANAGEMENT STUDIES
[AUTONOMOUS], CHITTOOR - 517 127
DEPARTMENT OF MANAGEMENT STUDIES

II MBA – Semester - IV					
Course Code	COMPENSATION MANAGEMENT	L	T	P	C
22MBA242C			4	0	0
Course Educational Objectives (CEO):					
CEO1: To provide the basic knowledge on Compensation Management concepts.					
CEO2: To make students understand the basic perspectives of Job Analysis, Job Description					
CEO3: To provide the conceptual knowledge on external competitiveness and benefits					
CEO4: To bring awareness on performance based compensation system					
CEO5: To provide basic knowledge on legal & administrative issues in compensation					
UNIT - I	Introduction To Compensation				Lecture Hrs: 12
Definition of Compensation, The Pay Model, strategic Pay Policies, Strategic Perspectives of Pay, Strategic Pay Decisions, Best Practices vs. Best Fit Options					
Internal Alignment: Internal Pay Structures, Strategic Choices in Internal Alignment Design.					
UNIT - II	Job Analysis and Evaluation				Lecture Hrs: 10
Job Analysis- Job Descriptions - Job Specification - Job Analysis Data Collection Process - Job Evaluation-Significance-Methods.					
UNIT - III	External Competitiveness and Benefits Management				Lecture Hrs:12
Determining External Competitiveness: Definition-Pay Policy Alternatives, Wage Surveys, Interpreting Survey Results, Pay Policy Line, Pay Grades –Pay Ranges.					
Benefits: Benefits Determination Process, Legally Required Benefits, Retirement, Medical, & Other Benefits					
UNIT - IV	Performance Based Compensation System				Lecture Hrs:10
Employee Contributions: Pay For Performance (PFP), Rewarding Desired Behaviors, Does Compensation Motivate Performance, Designing PFP Plans, Merit Pay/Variable Pay, Individual vs. Group Incentives. Compensation of Special Groups: Who are Special Groups? Compensation Strategies for Special Groups					
UNIT - V	Legal & Administrative Issues in Compensation				Lecture Hrs:12
Legal Issues, Pay Discrimination, Comparable Worth, Budgets and Administration					
Global Compensation: Social Contract, Culture & Pay, Strategic Choices in Global Compensation, Comparing Systems, Expatriate Pay					



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Course Outcomes:		
On successful completion of the course the student will be able to,		POs & PSOs related to COs
CO1	Apply the basic knowledge on Compensation Management Concepts.	PO1, PO4, PO5, PO6, PSO1, PSO2
CO2	Analyze the importance Job Analysis and Job Description.	PO1, PO4, PO5, PO6, PSO1, PSO2
CO3	Explain the concept of External competitiveness and Benefits determination process.	PO1, PO4, PO5, PO6, PSO1, PSO2
CO4	Examine the factors of performance based compensation system.	PO1, PO4, PO5, PO6, PSO1, PSO2
CO5	Apply the Knowledge on legal & administrative issues in compensation.	PO1, PO4, PO5, PO6, PSO1, PSO2
Text Books:		
1. Strategic Compensation, 3/e, Joseph J. Martocchio, Prentice Hall, 2006. 2. Compensation Management, Dr. Kanchan Bhatia, Himalaya Publishing House, 2009.		
Reference Books:		
2. Compensation Management in a Knowledge Based World, 9/e, Handerson, Pearson, 2007. 3. Strategic Compensation, 10/e, Joseph J. Martocchio, Pearson Education, 2020. 4. Compensation Management, Tapomoy Deb, Excel Books, New Delhi, 2013. 5. Compensation management, 2/e, Dipak Kumar Bhattacharyya, 2015.		
Online Learning Resources:		
https://smallbusiness.chron.com/definition-employee-contributions-15361.html https://www.shrm.org/resourcesandtools/tools-and-samples/toolkits/pages/buildingamarket-basedpaystructurefromscratch.aspx https://www.indeed.com/career-advice/pay-salary/external-competitiveness https://sportsconflict.org/resource/defining-internal-alignment/		

COURSE OUTCOMES VS POs MAPPING (DETAILED; HIGH:3; MEDIUM:2; LOW:1):

Course	PO	PO	PO	PO	PO	PO	PO	PO	PO	PSO1	PSO2
	CO	1	2	3	4	5	6	7	8		
C2402C : COMPENSATION MANAGEMENT	C2402C.1	3	-	-	3	2	3	-	-	3	2.5
	C2402C.2	3	-	-	2	2	3	-	-	3	2
	C2402C.3	3	-	-	3	3	3	-	-	3	3
	C2402C.4	3	-	-	2	3	3	-	-	3	2.5
	C2402C.5	3	-	-	3	3	3	-	-	3	3
	C2402C	3	-	-	2.6	2.6	3	-	-	3	2.6



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UNIT 1

UNIT – I Introduction To Compensation

Definition of Compensation, The Pay Model, strategic Pay Policies, Strategic Perspectives of Pay, Strategic Pay Decisions, Best Practices vs. Best Fit Options

Internal Alignment: Internal Pay Structures, Strategic Choices in Internal Alignment Design.

1.1 Compensation

Compensation is the remuneration awarded to an employee in exchange for their services or individual contributions to your business. The contributions can be their time, knowledge, skills, abilities, and commitment to your company or a project.

Definitions

According to Dale Yoder, “Compensation is paying people for work.”

“Compensation is defined as "what employees receive in exchange for their contribution to the organization," - Keith Davis,

“Compensation is the value of work of the employees according to the agreement between employer and employee”. - Benham

Types of Compensation

Compensation comprises a number of different elements which may be cash and non-cash payments.

Some of the most common and commonly overlooked types of compensation:

- Base pay (hourly or salary wages)
- Commissions
- Overtime Pay, shift differentials, and longevity pay
- Bonus
- Profit Sharing distributions
- Merit Pay or recognition
- Workers compensation or Workman’s comp
- Incentive plan or achievement award
- Tip income
- Benefits include Dental, insurance, medical, vacation, leaves, retirement, etc.



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- Stock options
- Travel/Meal/Housing Allowance
- Child care and tuition assistance
- Gym memberships and free lunches
- Employee assistance programs that provide counseling, legal advice, and other services.
- Health and wellness benefits
- Other non-cash benefits

Importance of Compensation

Compensation is one of the most important aspects of running a business that can make or break a business. Having a good compensation plan can help organizations to flourish and compete in their respective markets.

Some of the benefits of providing the right compensation package to your employees are:

- Attracts top talent
- Increases employee motivation at the workplace
- Boosts employee loyalty
- Increases productivity and profitability
- Improves job satisfaction and employee engagement
- Helps in retaining top employee
- Helps stay in compliance with the Federal and State government agencies

What is Compensation Management?

Compensation Management is the systematic process of designing, implementing, and maintaining an organization's reward system for employees. It encompasses monetary and non-monetary benefits provided to individuals in exchange for their contributions to the company. This strategic approach involves the administration of wages, bonuses, incentives, benefits, and other perks to attract, retain, and motivate employees.

Objectives of Compensation Management

1. Attract and Retain Talent: To remain competitive, organizations must not only attract skilled individuals but also retain them. This involves crafting compensation packages that go beyond industry norms, offering attractive remuneration to secure and keep top-tier talent. In a fiercely



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competitive job market, distinctive and compelling compensation becomes a strategic tool for talent acquisition and retention.

2. Motivate Employees: Compensation is a potent motivator when structured thoughtfully. By establishing clear links between employee efforts and rewards, organizations encourage high performance. Well-designed compensation systems contribute to fostering a culture of achievement and dedication, where employees are driven to excel due to the tangible connection between their contributions and financial recognition.

3. Fair and Equitable Treatment: The objective of ensuring fairness and equity in compensation extends beyond the monetary aspect. Transparent pay structures are vital for maintaining a positive work environment. Open communication about compensation criteria reduces dissatisfaction among employees, creating a sense of trust and loyalty. Fair compensation practices contribute significantly to employee satisfaction and the overall well-being of the workforce.

4. Cost Control: Striking a balance between offering competitive compensation and managing costs is a delicate but crucial aspect of compensation management. Effective strategies involve meticulous budgetary considerations to sustain reward programs without compromising the organization's financial stability. This requires a comprehensive understanding of market trends, internal financial capabilities, and the strategic alignment of compensation with overall business objectives.

5. Legal Compliance: Compliance with labour laws and regulations is not only a legal necessity but also a fundamental objective for compensation management. Adhering to legal requirements mitigates the risk of legal issues, lawsuits, and penalties. Beyond safeguarding the organization's reputation, it reinforces the commitment to ethical employment practices. Regular reviews and adjustments to compensation systems ensure alignment with evolving legal frameworks, maintaining the organization's integrity and legal standing.

Components of Compensation Management

1. Base Salary: The base salary represents the fixed and regular compensation that forms the cornerstone of an employee's income. It is a stable foundation reflecting the organization's acknowledgement of an employee's skills, experience, and overall contribution. The base salary



provides financial security and stability to employees and is a crucial factor in attracting and retaining talent.

2. Variable Pay: Variable pay includes performance bonuses, incentives, and profit-sharing creating a link between individual or team achievements and financial rewards. This component serves as a powerful motivator, encourages employees to strive for excellence and contributes to establishing a performance-driven culture within the organization. Variable pay aligns individual efforts with organizational goals.

3. Benefits: Beyond monetary compensation, benefits encompass health insurance, retirement plans, and other perks that enhance employees' overall job satisfaction and well-being. These non-monetary compensations play a crucial role in attracting and retaining talent. Offering comprehensive benefits contributes to a holistic compensation package, showcasing the organization's commitment to the welfare of its workforce.

4. Recognition and Rewards: Recognition and rewards are mechanisms for acknowledging exceptional performance, long-term service, or special achievements by employees. This component goes beyond financial considerations and fosters a positive environment. Regular recognition boosts employee morale, motivation, and a sense of belonging within the organization. It reinforces the values placed on individual contributions.

5. Career Development Opportunities: Providing opportunities for skill development and career advancement is a critical component of compensation. This goes beyond immediate financial gains, demonstrating the organization's commitment to investing in its workforce for long-term success. Career development opportunities contribute to employee growth, job satisfaction, and the cultivation of a skilled and motivated workforce. It aligns individual aspirations with organizational objectives, creating a mutually beneficial relationship.

Types of Compensation

There are two main types of compensation, such as:

1. Direct Compensation: Direct compensation involves monetary rewards directly associated with an employee's performance and contribution to the organization. This includes elements such as wages, salaries, bonuses, and commissions. The primary focus is on providing financial



remuneration for the work performed, aligning individual efforts with tangible monetary outcomes. Direct compensation is often considered the core of an employee's overall earnings.

2. Indirect Compensation: Indirect compensation includes benefits, perks, and other non-monetary rewards that contribute to the overall well-being of employees. This type of compensation goes beyond the immediate financial aspect and aims to enhance employees' work-life balance. Benefits such as health insurance, retirement plans, and flexible work arrangements fall under indirect compensation. The goal is to create a comprehensive compensation package that considers both monetary and non-monetary elements, ultimately contributing to employee satisfaction and retention. Indirect compensation recognizes the holistic needs of employees beyond their salary or wages.

Determination of compensation

Compensation is determined through a multifaceted process that takes into account various factors:

- Market conditions play a pivotal role, with organizations conducting regular market surveys to understand industry standards and regional trends.
- Job evaluation, assessing the value of a position based on responsibilities and requirements, helps establish a fair compensation structure.
- Employee performance is a crucial factor, with high-performing individuals often receiving higher compensation to recognize and reward their contributions.
- The organization's financial health and budget considerations also influence compensation decisions, ensuring a balance between competitiveness and cost-effectiveness.
- Overall, compensation determination involves a dynamic interplay between internal and external factors, aiming to create a fair, competitive, and motivating remuneration system.

Major Factors Influencing Compensation

Several factors influence compensation decisions, such as:

1. Industry Standards: Compensation decisions are significantly influenced by prevailing industry standards. Each industry has its own benchmarks and practices regarding pay structures. Organizations need to align their compensation strategies with industry norms to ensure



competitiveness in attracting and retaining talent. Deviating too far from these standards may impact the organization's ability to attract skilled professionals.

2. Geographic Location: Compensation rates are influenced by the cost of living, which varies by geographic location. Organizations with a presence in different regions must consider these variations when determining compensation packages. Adjusting salaries based on the local cost of living helps ensure that employees receive fair and competitive compensation relative to their location, contributing to employee satisfaction and retention.

3. Company Performance: The financial health and performance of an organization play a crucial role in shaping compensation decisions. Profitable organizations generally have more resources available for employee compensation. This allows them to offer competitive salaries and additional benefits, contributing to overall employee satisfaction and organizational stability. Conversely, organizations facing financial challenges may need to carefully balance compensation with financial sustainability.

4. Skill and Experience: The level of skill and experience required for a particular role is a key determinant of compensation. Roles demanding specialized skills or extensive experience often command higher pay. Organizations recognize the value that skilled and experienced employees bring to the table and reflect this in their compensation packages. This factor ensures that employees with unique expertise are appropriately rewarded for their contributions.

5. Market Demand: Compensation is influenced by the demand for specific skills in the labour market. High-demand skills lead to increased competition for talent, prompting organizations to offer more competitive compensation packages to attract and retain individuals with these sought-after skills. This dynamic is particularly prevalent in industries experiencing rapid technological advancements or facing skill shortages, where talent acquisition becomes a competitive differentiator.

1.2 The Pay Model

The Pay Model of Compensation, a widely used framework for designing compensation systems, was developed by G.T. Milkovich and J.M. Newman in 2002. The Pay Model of Compensation helps managers to structurally design and understand the compensation system for their employees.

The model consists of three main components:



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1. Objective of the remuneration model,
2. The policy that is the foundation for the structure, and
3. The techniques that link the policy to the objectives.



1. 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.

2. 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 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. The system has to work well enough to achieve the objectives, and it also needs to be adaptable to react to new requirements. New requirements can be the result of new regulations or new salary objectives for the organisation.

3. Pay Model of Compensation techniques

The third component of the Pay Model of Compensation is the techniques. These techniques connect policy to objectives. In order to comply with internal alignment, as the model shows, the techniques are skills and work analysis. In order to meet the competition policy, surveys can be held and market definitions can be created. The employee contribution is assessed based on performance guidelines. When managing these remuneration plans, communication and change are important factors. Some



organizations opt for payroll outsourcing to help manage these techniques efficiently, particularly when dealing with complex compensation structures

1.3 Strategic pay policies

Strategic pay policies align employee compensation with business goals to drive performance, retention, and cost-efficiency. Key approaches include leading the market (higher pay), matching it, or lagging it, supported by performance-based incentives and transparent communication. Effective policies use job analysis, market data, and pay grades to ensure equity and compliance, while considering total rewards (benefits, bonuses) beyond just base salary.

Strategic Pay Policies & Approaches

1. Market Position Strategies:

- a. **Leading the Market:** Aggressively setting pay above competitors to attract top talent.
 - b. **Meeting the Market:** Paying the industry average to remain competitive without excessive cost.
 - c. **Lagging the Market:** Setting pay below market rates, often used by startups or companies with high non-monetary perks.
2. **Performance-Based Pay:** Aligning compensation with individual, team, or organizational achievements to drive productivity.
 3. **Total Rewards Approach:** Incorporating salary, benefits, bonuses, and non-monetary incentives for a comprehensive employee value proposition.
 4. **Internal Equity & Transparency:** Using job evaluations and structured pay grades (e.g., salary ranges) to ensure fairness, alongside open communication about pay policies.

Steps to Implement Strategic Pay Plans

1. **Define Compensation Philosophy:** Determine if the goal is to be a market leader, follower, or competitor.
2. **Conduct Job Analysis & Evaluation:** Evaluate roles to create fair, consistent job descriptions and hierarchies.
3. **Analyze Market Data:** Review salary surveys to ensure competitiveness.



4. **Establish Pay Structures:** Create pay grades and ranges that align with business strategy.
5. **Ensure Compliance:** Review for legal compliance with labor laws.
6. **Communicate Clearly:** Transparently communicate the pay structure to employees.

Components of a Strategic Pay System

- **Base Pay:** Fixed, competitive salary.
- **Incentives/Bonuses:** Short-term and long-term rewards for performance.
- **Benefits:** Comprehensive packages (health, retirement,, etc.).
- **Career Development:** Opportunities for growth as part of the total reward.

These strategies allow companies to control labor costs while motivating employees to achieve specific business objectives.

1.4 Strategic Perspectives of Pay

A strategic perspective on compensation views pay and rewards not just as costs, but as powerful tools to achieve business goals, attract/retain talent, and gain a competitive edge by aligning total rewards (salary, benefits, performance incentives) with the company's mission, culture, and long-term objectives. It moves beyond basic pay to focus on designing integrated reward systems that drive desired employee behaviors, boost performance, ensure equity, and support overall organizational effectiveness.

Principles

- **Alignment:**
Linking compensation directly to business strategy, whether it's innovation, cost leadership, or quality.
- **Total Rewards:**
Considering all financial and non-financial aspects (pay, benefits, recognition, development).
- **Competitiveness:**
Positioning pay (leading, matching, or lagging the market) to attract desired talent.
- **Performance-Driven:**
Using incentives (bonuses, stock options) to motivate high performance and link rewards to results.
- **Equity & Transparency:**
Ensuring fairness internally and communicating reward philosophies openly.

Components



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- Job Analysis & Market Research: **Understanding the value of roles and external pay rates.**
- Pay Structure: **Creating clear salary bands and structures.**
- Performance Management: **Integrating performance reviews with pay decisions.**
- Benefits Design: **Offering benefits that matter to the workforce.**
- Communication: **Clearly explaining** the compensation philosophy and system.

Strategic Impact

- **Attraction & Retention: Drawing and keeping top talent.**
- **Motivation: Inspiring effort and commitment.**
- **Competitive Advantage: Differentiating from rivals through a superior workforce.**
- **Employee Engagement: Fostering a positive, performance-oriented culture.**

By adopting this approach, organizations transform compensation from a simple expense into a strategic asset for achieving sustainable success.

1.5 Strategic pay decisions

Strategic pay decisions refer to the deliberate and planned choices made by an organization regarding employee compensation in order to support its overall business strategy. These decisions aim to attract, motivate, and retain competent employees while ensuring fairness, competitiveness, and cost control. Effective strategic pay decisions align employee performance with organizational goals and help maintain both internal and external equity.

1. **Benchmarking** is an important aspect of strategic pay decisions. It involves comparing an organization's compensation practices with those of competitors or similar organizations in the same industry. Through benchmarking, companies can understand market pay levels and decide whether to lead, match, or lag the market. This helps organizations remain competitive in attracting talent and prevents issues such as high employee turnover caused by uncompetitive wages.
2. **Salary surveys** play a crucial role in providing reliable and up-to-date information about prevailing wage rates in the labor market. These surveys collect compensation data from various organizations and present details related to salaries, incentives, and benefits. Organizations use salary survey data to design or revise their pay structures, ensuring that



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employee compensation reflects market trends and economic conditions. Accurate salary surveys help in making objective and informed pay decisions.

3. **The pay grade system** is a structured method of organizing jobs into different grades based on their value, responsibility, and skill requirements. Each pay grade has a defined salary range, including minimum, midpoint, and maximum pay levels. This system ensures internal equity by providing equal pay for jobs of similar worth and simplifies salary administration. It also supports employee career progression by offering clear pathways for advancement.
4. **Variable pay**, also known as performance-based pay, refers to compensation that varies according to individual, team, or organizational performance. Unlike fixed pay, variable pay rewards employees for achieving specific targets or exceptional performance. Common forms include bonuses, incentives, commissions, and profit-sharing plans. Variable pay motivates employees to perform better, aligns their efforts with organizational objectives, and encourages productivity, although it must be carefully designed to avoid excessive pressure or unhealthy competition.

1.6 Best Practices vs. Best Fit Options

In compensation management, the **best practices approach** refers to the adoption of compensation methods that are widely recognized as effective across organizations. These practices are based on research and the success of leading companies and are assumed to improve employee motivation, performance, and retention regardless of organizational context. Common best practices in compensation management include market-based pay, performance-linked incentives, pay transparency, standardized pay structures, and regular salary benchmarking. The main advantage of this approach is that it provides proven and reliable compensation systems; however, it may lack flexibility and may not suit organizations with unique strategies or cultures.

The **best fit approach**, on the other hand, emphasizes designing compensation systems that align closely with an organization's specific business strategy, structure, culture, and external environment. Under this approach, compensation is viewed as a strategic tool to support organizational objectives such as cost leadership, innovation, or differentiation. For example, organizations pursuing innovation may emphasize variable pay and long-term incentives, while cost-focused organizations may rely more on fixed pay and strict pay controls. The best fit approach



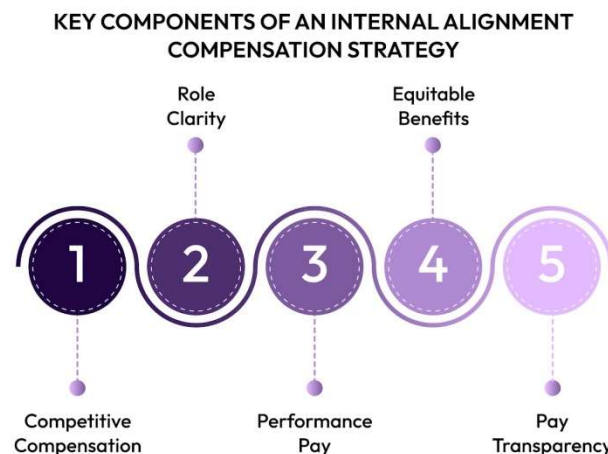
allows greater customization and strategic alignment but requires careful analysis and effective implementation.

Basis	Best Practices	Best Fit Options
Meaning	Universal compensation methods considered effective for all organizations	Compensation systems tailored to organizational needs
Focus	Standardization and proven success	Strategic alignment and customization
Flexibility	Low	High
Role of Strategy	Limited	Central
Applicability	Same practices across organizations	Varies by industry, size, and strategy
Examples	Market-linked pay, performance-based pay	Innovation-based incentives, cost-control pay systems
Risk	Low	Moderate to high
Suitability	Stable organizations	Dynamic and competitive organizations

1.7 Internal alignment:

Internal alignment in compensation refers to ensuring that employees are paid fairly and consistently across all roles, teams, and levels within a company. It's about ensuring that people doing similar work are compensated similarly. They are taking into account their experience, skills, and responsibilities while also staying competitive with market rates.

Components of an Internal Alignment



Competitive compensation is a key component of internal alignment. It ensures that employees are paid at levels that are reasonable and appropriate in relation to their roles and responsibilities within



the organization. While competitiveness often relates to the external market, internally it ensures that pay levels across different jobs reflect their relative importance and contribution to organizational success. Competitive compensation helps reduce dissatisfaction and supports employee retention.

Role clarity plays a vital role in internal alignment. Clear job descriptions and well-defined responsibilities help employees understand what is expected of them and how their roles contribute to organizational goals. When roles are clearly defined, compensation decisions become more transparent and defensible, reducing confusion and perceptions of unfairness among employees.

Performance pay is another important element of an internally aligned compensation strategy. It links employee rewards to individual or team performance, ensuring that higher contributions are recognized and rewarded appropriately. Performance-based pay encourages productivity, accountability, and continuous improvement while reinforcing the principle that pay differences should be based on measurable results.

Equitable benefits contribute significantly to internal alignment by ensuring that non-monetary rewards such as health insurance, leave policies, and retirement benefits are distributed fairly across employee groups. Equitable benefits enhance overall employee well-being and reinforce perceptions of fairness, even when base pay levels differ among roles.

Pay transparency is the final component that strengthens internal alignment. Transparent communication about pay structures, pay ranges, and reward criteria helps employees understand how compensation decisions are made. When employees perceive the compensation system as open and fair, trust in management increases, leading to higher morale and reduced conflict related to pay issues.

1.7.1 Internal pay structures

Internal pay structures refer to the systematic arrangement of jobs and their corresponding pay levels within an organization. They define how compensation differs among various roles based on factors such as job value, responsibilities, required skills, and contribution to organizational goals. The primary purpose of internal pay structures is to achieve internal equity by ensuring that employees perceive pay differences as fair and justified.

Internal pay structures are usually developed through job analysis and job evaluation. Job analysis provides detailed information about job duties and requirements, while job evaluation assesses the



relative worth of jobs to the organization. Based on these evaluations, jobs are grouped into pay grades or bands, each with a defined pay range. This structured approach helps organizations manage compensation consistently and transparently.

There are different types of internal pay structures. Job-based pay structures are the most traditional form, where compensation is linked to job titles and hierarchical levels. Skill-based or competency-based pay structures reward employees for acquiring and applying new skills or competencies, encouraging learning and flexibility. Broadbanding is a modern approach that combines multiple pay grades into wider bands, allowing greater flexibility in pay progression and supporting flatter organizational structures.

Internal pay structures also play a strategic role in aligning compensation with organizational objectives. Well-designed structures support career progression, performance management, and workforce planning. They help control labor costs while motivating employees and reducing conflicts related to pay. When internal pay structures are aligned with organizational strategy and culture, they contribute to higher employee satisfaction, improved performance, and long-term organizational effectiveness.

1.7.2 Strategic choices in internal alignment design

Strategic choices in internal alignment design involve creating pay structures (internal equity) that support organizational strategy, workflows, and desired employee behaviors. Key decisions include determining the level of structural tailing (closely vs. loosely coupled), the degree of hierarchy (hierarchical vs. egalitarian), and the criteria for pay differences (job-based vs. person-based).

Key Strategic Design Choices:

- **Structure Tailoring (Job-based vs. Person-based):**
 - **Closely Tailored:** Structures are designed around specific, well-defined tasks, typical for low-cost strategies (e.g., Walmart) to maximize efficiency and control.
 - **Loosely Coupled:** Structures are broader, often, in delayed organizations, providing more autonomy and allowing employees to define how to best accomplish tasks.
 - **Criteria Selection:** Decisions are made on whether pay is based on job content (duties) or the person (skills/competencies).
- **Hierarchical vs. Egalitarian Structures:**



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- **Hierarchical:** Emphasizes multiple levels with significant pay differences between them, designed to motivate promotion-seeking behavior.
- **Egalitarian:** Uses fewer levels and smaller differentials, fostering collaboration, flexibility, and a sense of equal value among employees.
- **Workflow Integration:** Aligning pay with the organization's operational, technical, and strategic needs to ensure fairness and motivate performance.

Factors Influencing Choices:

- **Strategic Intent:** Alignment must support the overall business strategy (e.g., innovation, cost leadership).
- **Organizational Culture:** the Company's values regarding fairness and teamwork.
- **Operational Context:** The nature of the work, technology, and economic pressures.



QUESTION BANK

Year / Semester: II MBA IV Semester

Regulation: R22

Subject and Code: Compensation Management & 22MBA242C

S.No.	CO	Questions – 2 Marks	BT
Unit I: (Introduction To Compensation)			
1	1	Define compensation.	L1
2	1	What is compensation management?	L1
3	1	List any two types of compensation.	L1
4	1	What is meant by direct compensation?	L1
5	1	Explain the importance (Any Two) of compensation in an organization.	L2
6	1	Describe the objectives (Any Two) of compensation management.	L2
7	1	Explain the importance of the Pay Model.	L2
8	1	Differentiate between direct and indirect compensation.	L2
9	1	An employee receives salary, bonus, and health insurance. Classify these into types of compensation	L3
10	1	A company wants to attract skilled employees. Which compensation strategy should it adopt and why?	L3

S.No.	CO	Questions – 10 Marks	BT
Unit I: (Introduction To Compensation)			
1	1	Define Compensation. Explain its types and importance in organizations.	L1
2	1	Explain the objectives of Compensation Management.	L1
3	1	Define the Pay Model of Compensation and explain its objectives.	L1
4	1	What is Internal Alignment? Explain its components.	L1
5	1	(a) Explain Strategic Pay Policies and their approaches. (b) Discuss the steps involved in implementing a Strategic Pay Plan.	L2



QUESTION BANK

Year / Semester: II MBA IV Semester

Regulation: R22

Subject and Code: Compensation Management & 22MBA242C

6	1	Analyze the components of Compensation Management in detail.	L2
7	1	Explain the Pay Model policies and techniques with suitable examples.	L2
8	1	Compare Best Practices and Best Fit options in compensation management.	L2
9	1	A company wants to adopt a “Lead the Market” strategy to attract top talent. As an HR Manager, design a suitable strategic pay policy and justify your decision.	L3
10	1	An organization is facing internal pay dissatisfaction among employees. Suggest how internal pay structures and alignment strategies can solve this issue	L3

Books to be referred For:

UNIT 1:

- 1. Strategic Compensation, 3/e, Joseph J. Martocchio, Pearson Education, 2006.**
- 2. Compensation Management, Dr. Kanchan Bhatia, Himalaya Publishing House, 2009.**



UNIT - 2

UNIT – 2 Job Analyses and Evaluation

Job Analysis - Job Descriptions - Job Specification - Job Analysis Data Collection Process - Job Evaluation-Significance-Methods.

2.1 Job Analysis and Job Evaluation

Job Analysis and Job Evaluation are two essential processes in human resource management that are often interconnected but serve distinct purposes.

Job Analysis is a fundamental HR practice that helps organizations align their human resources with their strategic objectives and ensures the effective management of their workforce.

Job Evaluation is a systematic process used by organizations to assess and determine the relative value or worth of different jobs within the organization's hierarchy.

What is Job Analysis?

Job Analysis is a systematic process of gathering, documenting, and analyzing information about a job's duties, responsibilities, tasks, qualifications, and working conditions. It provides a comprehensive understanding of what a job entails and serves as the foundation for various HR functions and processes, including recruitment, selection, performance evaluation, training, compensation, and job design.

What is Job Evaluation?

Job Evaluation is a systematic process used by organizations to assess and determine the relative value or worth of different jobs within the organization's hierarchy. The primary objective of job evaluation is to establish an internal structure for equitable and fair compensation, ensuring that salaries and wages are aligned with the value of the work performed.

2.2 Job Analysis

Meaning: Job analysis is a systematic and detailed examination of jobs. It is the process of collecting information about a job — that is, the knowledge, skills, and the experience needed to carry out a job effectively. The jobholder is supposed to possess job-related knowledge useful to carry out the job easily.



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Definitions:

(1) According to Edwin B. Flippo – “Job analysis is the process of studying and collecting information relating to the operations and responsibilities of a specific job. The immediate products of this analysis are job descriptions and job specifications.”

(2) Further, David A. De Cenzo and Stephen P. Robbins has defined “job analysis is a systematic exploration of the activities within a job. It is a basic technical procedure, one that is used to define the duties, responsibilities and accountabilities of a job.”

Job analysis provides the following information about a job:

- i. Nature of jobs required in a concern;
- ii. Nature of organizational structure;
- iii. Type of people required to fit that structure;
- iv. The relationship of a job with other jobs in a concern;
- v. Kind of qualifications required for a particular job;
- vi. Provision of physical condition to support the activities of a concern; vii. Materials, equipments and methods used in performing the job.

Objectives of Job analysis:

The main objectives of job analysis are as follows:

- i. **Work Simplification:** Job analysis provides the information related to job and this data can be used to make process or job simple. Work simplification means dividing the job into small parts i.e. different operations in a product line or process which can improve the production or job performance.
- ii. **Setting Up of Standards:** Standard means minimum acceptable qualities or results or performance or rewards regarding a particular job. Job analysis provides the information about the job and standard of each can be established using this information.
- iii. **Support to Personnel Activities:** Job analysis provides support to various personnel activities like recruitment, selection, training and development, wage administration, performance appraisal, etc.



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Purposes of Job analysis:

1. **Organisation and Manpower Planning:** It is helpful in organisation planning, for it defines labour needs in concrete terms and coordinates the activities of the workforce, and clearly divides duties and responsibilities.
2. **Recruitment, Selection:** By indicating the specific requirements of each job (i. e., the skills and knowledge), it provides a realistic basis for the hiring, training, placement, transfer and promotion of personnel. “Basically, the goal is to match the job requirements with a worker’s aptitude, abilities and interests. It also helps in charting the channels of promotion and in showing lateral lines of transfer.
3. **Wage and Salary Administration:** By indicating the qualifications required for doing a specified job and the risks and hazards involved in its performance, it helps in salary and wage administration. Job analysis is used as a foundation for job evaluation.
4. **Job Reengineering:** Job analysis provides information which enables us to change jobs in order to permit their being manned by personnel with specific characteristics and qualifications.
5. **Employee Training and Management Development:** Job analysis provides the necessary information to the management of training and development programmes. It helps to determine the content and subject matter of in-training courses. It also helps in checking application information, interviewing, weighing test results, and in checking references.
6. **Performance Appraisal:** It helps in establishing clear-cut standards which may be compared with the actual contribution of each individual.
7. **Health and Safety:** It provides an opportunity for identifying hazardous conditions and unhealthy environmental factors so that corrective measures may be taken to minimise and avoid the possibility of accidents.

Methods of Job analysis

Methods of collecting job analysis information include direct observation, work method analysis, critical incident technique, interview and questionnaire method.

1. **Direct Observation Method:** Direct Observation is a method of job analysis to observe and record behaviour / events / activities / tasks / duties when the worker or group engaged in doing



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the job. Observation method can be effective only when the job analyst is skilled enough to know what is to be observed, how to analyze, and what is being observed.

2. **Work Method Analysis:** Work methods analysis is used to describe manual and repetitive production jobs, such as factory or assembly-line jobs. Work methods analysis includes time and motion study and micro-motion analysis.

3. **Critical Incident Technique:** Critical incident technique is a method of job analysis used to identify work behaviours that classify in good and poor performance. Under this method, jobholders are asked to describe critical incidents concerning the job and the incidents so collected are analyzed and classified according to the job areas they describe.

4. **Interview Method:** Interview method is a useful tool of job analysis to ask questions to both incumbents and supervisors in either an individual or a group setting. Interview includes structured interviews, unstructured interview, and open-ended questions.

5. **Questionnaire Method:**

It includes 6 techniques, which are as follows:

a. **Position Analysis Questionnaire (PAQ Model):** PAQ model is a questionnaire technique of job analysis. It developed by Mc Cormick, Jeanneret, and Mecham (1972), is a structured instrument of job analysis to measure job characteristics and relate them to human characteristics. It consists of 195 job elements that describe generic human work behaviours.

b. **Functional Job Analysis (FJA Model):** FJA model is a technique of job analysis that was developed by the Employment and Training Administration of the United States Department of Labour. It includes 7 scales (numbers) that measure- 3 worker-function scales- measure percentage of time spent with: data, people, things; 1 worker-instruction scale; 3 scales that measure reasoning, mathematics, and language.

c. **Work Profiling System (WPS Model):** WPS model is a questionnaire technique of job analysis, is a computer-administered system for job analysis, developed by Saville & Holdsworth, Ltd.

d. **MOSAIC Model:** MOSAIC model is a questionnaire technique of job analysis used to collect information from incumbents and supervisors. It contains 151 job tasks rated in terms of importance for effective job performance and 22 competencies rated in terms of importance, and needed proficiency at entry.

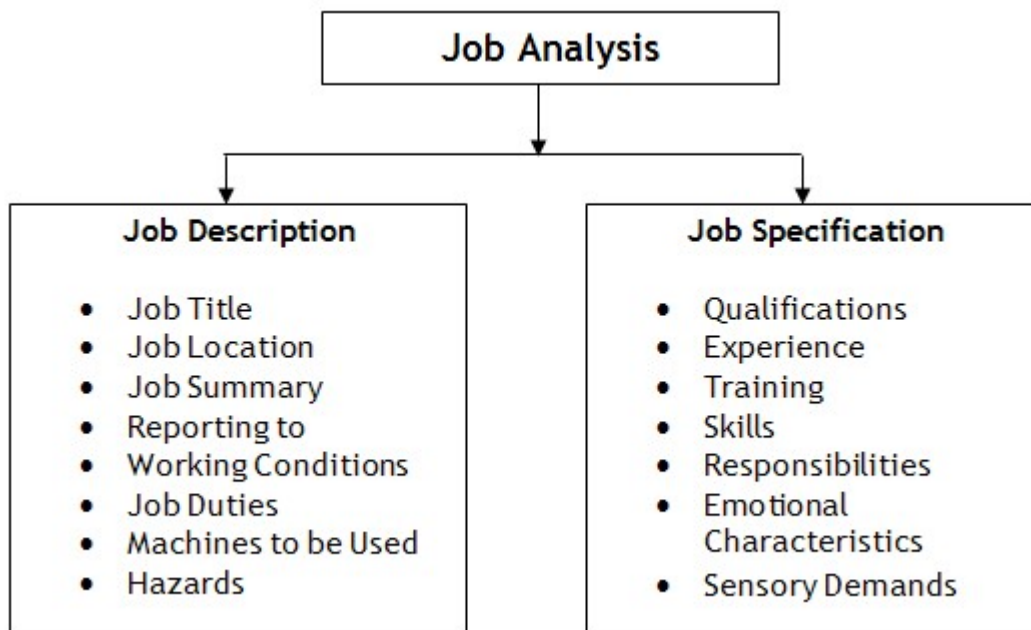


e. **Common Metric Questionnaire (CMQ Model):** CMQ model is a technique of job analysis that was developed by Harvey as a “worker-oriented” job analysis instrument designed to have applicability to a broad range of exempt and nonexempt jobs. It includes 41 general questions of background section, 62 questions of contacts with people, 80 items of decision making, 53 items of physical and mechanical activities, 47 items of work setting.

f. **Fleishman Job Analysis System (FJAS Model):** FJAS model is a technique of job analysis that describes jobs from the point of view of the necessary capacities. It includes 52 cognitive, physical, psycho-motor, and sensory ability; each of the categories consists of two parts – an operational and differential definition and a grading scale.

2.3 Job description and job specification

Job Analysis is a primary tool to collect job-related data. The process results in collecting and recording two data sets including **job description** and **job specification**. Both job description and job specification are essential parts of job analysis information.





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2.3.1 Job Description

Job description includes basic job-related data that is useful to advertise a specific job and attract a pool of talent.

It includes information such as job title, job location, reporting to and of employees, job summary, nature and objectives of a job, tasks and duties to be performed, working conditions, machines, tools and equipments to be used by a prospective worker and hazards involved in it.

Purpose of Job Description

- The main purpose of job description is to **collect job-related data** in order to advertise for a particular job. It helps in attracting, targeting, recruiting and selecting the right candidate for the right job.
- It is done to determine what needs to be delivered in a particular job. It clarifies what employees are supposed to do if selected for that particular job opening.
- It gives recruiting staff a clear view what kind of candidate is required by a particular department or division to perform a specific task or job.
- It also clarifies **who will report to whom**.

2.3.2 Job Specification

Also known as employee specifications, a job specification is a written statement of educational qualifications, specific qualities, level of experience, physical, emotional, technical and communication skills required to perform a job, responsibilities involved in a job and other unusual sensory demands. It also includes general health, mental health, intelligence, aptitude, memory, judgment, leadership skills, emotional ability, adaptability, flexibility, values and ethics, manners and creativity, etc.

Purpose of Job Specification

- Described on the basis of job description, **job specification helps candidates analyze whether are eligible to apply for a particular job vacancy or not**.
- It helps recruiting team of an organization understand what level of qualifications, qualities and set of characteristics should be present in a candidate to make him or her eligible for the job opening.



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- Job Specification gives detailed information about any job including job responsibilities, desired technical and physical skills, conversational ability and much more.
- It helps in selecting the most appropriate candidate for a particular job.

2.4 Job Analysis Data Collection Process

Job analysis data is collected through methods like interviews, questionnaires, direct observation, employee diaries/logs, the critical incident technique, and technical conferences (SME panels), often using a mix to capture tasks, responsibilities, skills, and work environment details, with the best choice depending on resources and job type

1. Direct Observation Method: Direct Observation is a method of job analysis to observe and record behaviour / events / activities / tasks / duties when the worker or group engaged in doing the job. Observation method can be effective only when the job analyst is skilled enough to know what is to be observed, how to analyze, and what is being observed.

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2.5 Job Evaluation

Job Evaluation is defined as a systematic procedure used to ascertain the monetary worth of a role and is typically conducted by the HR department.

Job evaluation is the process of determining the relative worth of different categories of jobs by analyzing their responsibilities and consequently, fixation of their remuneration.

Definitions of Job Evaluation

Edwin B. Flippo defines. “Job Evaluation is a systematic and orderly process of determining the worth of a job in relation to other jobs.”

Maurice B. Cumming, “Job Evaluation is a technique of assessing the worth of a job in comparison with all other jobs throughout an organization”.



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Objectives of job evaluation

Objectives of job evaluation serve a number of purposes which may be grouped into three categories: wage and salary fixation, restructuring job hierarchy and overcoming anomalies.

1. **Wage and Salary Fixation:** The basic principle of wage and salary fixation is that it should be based on the relative contributions of different jobs and not on the basis of who the job holders are. If this principle is adopted, the first requirement is to identify the likely contributions of different jobs. This is what job evaluation precisely does. It provides the information about what is the worth of a job in terms of its contributions to the achievement of the organizational effectiveness. From equity point of view, this method is more appropriate.
2. **Restructuring Job Hierarchy:** Job evaluation helps in restructuring job hierarchy. Job hierarchy refers to arranging various types of jobs in the order of their importance wither on ascending basis or descending basis. Sometimes, job hierarchy becomes too lengthy creating administrative problems and creating organizational problems by increasing the number of levels in the organization. In today's context, more emphasis is being put on flat structure instead of tall one. Job evaluation exercise can be undertaken to reduce the number of job levels by merging closely related jobs together.
3. **Overcoming Anomalies:** Job evaluation, if carried on periodically and objectively, helps in overcoming various anomalies which may develop in an organization over the period of time with regard to compensation management. Knowles and Thompson have identified that there are following anomalies and evils which may develop in an organization and may be overcome by job evaluation.
 - Payment of high wages and salaries to persons who hold jobs and positions not requiring great skill, effort and responsibility;
 - Paying beginners less than that they are entitled to receive in terms of what is required of them;
 - Giving a raise to persons whose performance does not justify the raise;
 - Deciding rates of pay on the basis of seniority rather than ability;
 - Payment of widely varied wages and salaries for the same or closely related jobs and positions; and
 - Payment of unequal wages and salaries on the basis of race, sex, religion, or political differences.



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Steps in the Job Evaluation Process

Job evaluations typically follow these steps:

1. Review the choices of job evaluation methods such as job ranking, classification, factor comparison and point factor analysis and select the method most appropriate to meet the organization's needs.
2. Gather information on each job within the organization, analyzing job content to make sure it is clear and understandable; job content can be revealed utilizing job questionnaires, job descriptions, interviews and/or work site visits.
3. Ensure that each job description lists pertinent accountabilities and responsibilities; revise or expand job descriptions using the information collected.
4. Evaluate each position utilizing the chosen method and link the ranked job to the organization's existing compensation system or to a newly developed pay structure. The point system evaluates the skill, effort, responsibility and working conditions involved in the job; here, each of these factors is subdivided into sub factors to provide standards against which each job is rated to determine its relative worth.
5. Create the appropriate pay grades and pay ranges in the pay structure and along with policies and procedures setting out employee progress within the range.
6. Periodically review the job evaluation system itself, developing procedures for evaluating and modifying the system and the resulting compensation decisions.

2.6 Significance of Job Evaluation

1. **Assist in employee's selection:** This is one of the major advantages provided by technique of job evaluation. It properly analyses the job specification in line with the competencies of candidates. Employees are chosen on the basis of their qualification required in delivering the role effectively. All these factors enable in choosing right candidates by organization.
2. **Specialization:** Job evaluation assist in specialization of labor by organization. There are large number of job positions within an enterprise which requires many employees for performing them. Therefore, a job evaluation technique does a clear division of labor by defining them their roles properly which results in specialization of labor.
3. **Develop harmonious relations among manager and employees:** Every company want to develop harmonious relations with their staff members. Job evaluation works towards



minimizing controversies among manager and employees by eliminating all wage differentials within the business enterprise.

4. **Avoids inequalities in salary structure:** Job evaluation approach focuses on avoiding inequalities in wage and salary structure of organization. It establishes a scientific basis for fixing remuneration of workforce by collecting all relevant information about job positions. Proper salary structure is an important determinant of affecting the efficiency and motivation level of workers.
5. **Prevents conflicts within organization:** It resolves all conflicts within organization by paying peoples in a fair manner. All inequalities in wage rate and personal prejudices are eliminated by doing a standardization of salary and wage rate. Job evaluation collects key information about job positions which serve as a logical basis for collective bargaining and wage negotiations thereby avoiding any conflicts in an organization.

2.7 Methods of Job Evaluation

Job evaluations, which are systematic processes to ascertain the monetary value of a position, can be categorised into two primary types: Qualitative and Quantitative. The qualitative methods, such as job ranking and classification, are typically quicker, while the quantitative methods, like factor comparison and point factor, take into account the skills and responsibilities required by each role.

1. Job Ranking: This method involves arranging each role in a hierarchy, based on its value to the company or the complexity of its duties. It is particularly suitable for smaller companies due to its simplicity and can handle up to 100 jobs. It is also useful when reducing positions, as similar roles can be grouped together during the ranking process. However, it is subjective and may benefit from being combined with a quantitative method for more accurate results.

2. Job Classification: This method involves sorting roles based on a pre-established grading system or classification method. For instance, categories could include executives, skilled workers, semi-skilled workers, and unskilled workers. Each role is then placed into a category, which helps determine the salary for each position within that category. This method can be subjective and may struggle to categorise unique roles.

3. Market Pricing: This external job evaluation method involves setting salaries based on what other companies pay employees in the same position. This can be determined through third-party



compensation surveys, allowing you to offer competitive wages. However, it does not consider internal equity, which could result in an employee earning less than their colleagues or the demands of their work if the market rate for their role is low. To mitigate this, market pricing can be combined with an internal job evaluation method.

4. Point Factor: This method involves assigning points to each role and then ranking them. A detailed point system is developed, where each skill or job responsibility could represent a point. The roles are then assigned a total number of points and ranked from highest to lowest to help determine their salaries.

5. Factor Comparison: This method combines the job ranking and point factor methods. Each job is ranked based on certain factors, such as the number of skills required or the necessary knowledge. These factors are then assigned points, and the total number of points determines the job's ranking.



QUESTION BANK

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Regulation: R22

Subject and Code: Compensation Management & 22MBA242C

S.No.	CO	Questions – 2 Marks	BT
Unit II: (Job Analysis and Evaluation)			
1	2	Define job analysis.	L1
2	2	What is job evaluation?	L1
3	2	What is a job description?	L1
4	2	What is a job specification?	L1
5	2	Explain the purpose of job analysis.	L2
6	2	Describe any two differences between job analysis and job evaluation	L2
7	2	Write the significance of job evaluation in organizations.	L2
8	2	List the steps in the process of job analysis data collection	L2
9	2	A company wants to prepare a job description for a manager. What information should be included?	L3
10	2	If two jobs have similar responsibilities but different pay, how can job evaluation help resolve this issue?	L3

S.No.	CO	Questions - 10 Marks	BT
Unit II: (Job Analysis and Evaluation)			
1	2	Define Job Analysis. Explain its objectives and purposes.	L1
2	2	Define Job Evaluation. State its objectives.	L1
3	2	Differentiate between Job Description and Job Specification.	L1
4	2	Explain the significance of Job Evaluation.	L1



QUESTION BANK

Year / Semester: II MBA IV Semester

Regulation: R22

Subject and Code: Compensation Management & 22MBA242C

5	2	(a) Explain the methods of Job Analysis. (b) Discuss the Job Analysis Data Collection Process.	L2
6	2	Describe the steps involved in the Job Evaluation Process.	L2
7	2	Explain qualitative and quantitative methods of Job Evaluation	L2
8	2	Discuss the various questionnaire techniques used in Job Analysis	L2
9	2	An organization is facing wage inequality and employee dissatisfaction. How can Job Evaluation help overcome anomalies and salary conflicts?	L3
10	2	A manufacturing company wants to redesign jobs to improve productivity. Explain how Job Analysis can assist in work simplification and job reengineering.	L3

Books to be referred for:

UNIT 2:

- 1. Compensation Management, 2/e, Dipak Kumar Bhattacharyya, 2015.**
- 2. Compensation Management, Tapomoy Deb, Excel Books, New Delhi, 2013.**



UNIT – 3

UNIT – 3 External Competitiveness and Benefits Management

Determining External Competitiveness: Definition-Pay Policy Alternatives, Wage Surveys, Interpreting Survey Results, Pay Policy Line, Pay Grades –Pay Ranges. Benefits: Benefits Determination Process, Legally Required Benefits, Retirement, Medical, & Other Benefits

3.1 External Competitiveness and Benefits Management

External competitiveness refers to an organization's ability to attract, retain, and motivate employees compared to other companies operating in the same industry or labor market.

Definition:

“The pay relationships among organizations — the organization's pay relative to its competitors.”

Milkovich and Newman

“External competitiveness refers to how an organization's pay levels compare with those of other organizations in the external labor market.” **Armstrong**

3.2 Pay policy alternatives

Pay policy alternatives in compensation management range from traditional market-based approaches to modern, flexible, and skill-based structures designed to attract and retain talent. Key alternatives include leading, lagging, or matching market rates, alongside performance-driven, equity-based, and competency-based models that reward output and skills over tenure.

The following are some of the Pay Policy Alternatives

1. Market-Based Policies (Lead, Lag, Match):

- **Lead Policy:** Offering higher pay than competitors to attract top talent and reduce turnover.
- **Match Policy:** Aligning with competitors' rates, which is the most common approach to manage costs while remaining competitive.



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- **Lag Policy:** Paying below market rates, often used to minimize labor costs, sometimes balanced with higher non-monetary benefits.

2. Performance-Based Pay:

- **Merit-Based Pay:** Increases based on performance appraisals.
- **Incentive Pay:** Bonuses, commissions, or profit-sharing linked to individual or team results.

3. Alternative Compensation Models:

- **Competency/Skill-Based Pay:** Rewards employees for the range and depth of skills, knowledge, and capabilities they possess, rather than just their job title.
- **Equity-Based Compensation:** Utilizing stock options or restricted stock units to align employee interests with long-term company success.
- **Flexible Benefits:** Personalized, cafeteria-style, or "salary sacrifice" benefits (e.g., retirement, health insurance, or child care assistance) that cater to individual employee needs.
- **Variable Compensation:** A flexible, "result-oriented" structure often used in modern, agile organizations to reward, rather than just pay for, attendance.

Structuring the Approach

Employers often combine these methods, such as utilizing a, Competency-based pay for technical staff while using a, Lead policy for executive roles to optimize performance and cost.

3.3 Wage Surveys, Interpreting Survey Results

Wage Survey – Meaning & Purpose

- A **wage survey** is the systematic process of collecting and evaluating compensation data from other employers to understand market pay practices.
- **Purposes include:**
 - Adjusting pay levels based on competitors' rates
 - Setting the mix of pay components (basic pay, benefits, etc.)
 - Pricing or establishing a pay structure
 - Analyzing pay-related problems
 - Estimating labour costs for competitive products/services.



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Defining the Relevant Market

Before conducting a survey, the employer must decide which competitors to include. Relevant market competitors are those who:

- Employ similar occupations or skills
- Operate in the same geographic area
- Produce similar products or services

This ensures the survey reflects the appropriate external labour market.

Designing the Survey

Important design decisions include:

1. **Who is involved:** Compensation managers usually lead, with possible involvement from managers/employees or consulting firms.
2. **Number of employers:** Choose a representative set of organizations for reliable results.
3. **Which jobs to include:**
 - *Benchmark jobs* are key roles widely recognized across companies, allowing consistent comparisons.
 - *Low-high approach* can be used when matching competency-based or generic jobs.
4. **What data to collect:**
 - Organization information
 - Total compensation system details
 - Specific pay data for incumbents in each job surveyed.

Interpreting Survey Results

1. Verify Survey Data

- Check the **accuracy of job matches**—if they are similar but not identical, adjustments (survey leveling) may be applied.
- Look for **anomalies** (outliers) or patterns that don't fit the rest of the data.
- Identify if **any one company dominates** the results, which may skew averages.

2. Conduct Statistical Analysis

Survey data can be analyzed using:

- **Frequency distributions**
- **Measures of central tendency:**



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- Mode
- Mean
- Median
- Weighted mean
- **Measures of variation:**
 - Standard deviation
 - Quartiles and percentiles

These statistics help interpret how pay rates are distributed across the market.

3. Update/Age Survey Data

- The collected data may not reflect current market conditions if it is older.
- Employers update (or “age”) the data to project competitive rates at the time when pay decisions will be implemented, considering labour market trends and economic outlook.

4. Construct the Market Pay Line

- A **Market Pay Line** links internal job structure (horizontal axis) with external market rates (vertical axis).
- This line visually summarizes the going rates paid by competitors and helps integrate **internal pay structure** with **external competitiveness**.

After interpreting survey results, the data can be used to **design pay grades and pay ranges** that reflect both market competitiveness and internal job relationships.

3.4 Pay policy line

A pay policy line is a graphical tool in compensation management that plots internal job evaluation points against external market salary data to determine competitive pay levels

Objectives of Pay Policy Line

- **Maintain internal equity:** Ensures that employees performing jobs of similar value are paid fairly, reducing pay inequalities within the organization.
- **Ensure external competitiveness:** Aligns organizational pay levels with market wages to attract and retain competent employees.
- **Control compensation costs:** Helps management plan and regulate salary expenses within the organization’s financial capacity.



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- **Provide consistency in pay administration:** Ensures uniform and systematic pay decisions across departments and job levels.

Types of Pay Policy Line

- **Lag the Market:** The organization pays below the market rate, usually adopted to minimize labor costs or when non-monetary benefits are strong.
- **Match the Market:** Pay levels are set equal to prevailing market rates, balancing competitiveness and cost control.
- **Lead the Market:** The organization pays above market rates to attract, motivate, and retain high-quality talent.

3.5 Pay Grades – Pay Ranges

Pay Grade

A pay grade is a structured compensation level within an organization that defines the range of salaries for specific job roles or classifications. Pay grades are used to ensure consistency and equity in compensation by establishing standardized salary ranges based on factors such as job responsibilities, qualifications, experience, and market rates. Organizations use pay grades to create a transparent and systematic approach to compensation management.

Components of Pay Grade

Pay grades involve several key components:

- **Job Classification:** Grouping similar job roles or classifications within the same pay grade based on their responsibilities and requirements.
- **Salary Range:** Defining the minimum, midpoint, and maximum salary levels within each pay grade.
- **Market Analysis:** Conducting market analysis to determine competitive salary ranges for specific job roles or classifications.
- **Internal Equity:** Ensuring internal equity by aligning pay grades with the organization's compensation philosophy and structure.



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Types of Pay Grade Structures

Organizations implement different types of pay grade structures to manage employee compensation based on their specific needs and organizational culture. These structures provide systematic frameworks for determining salaries and career progression opportunities across various positions.

1. Vertical Pay Grades

Vertical pay grade structures align compensation directly with job titles, responsibilities, and experience levels within an organization's hierarchy, especially **vertical organizational structure**. This framework establishes salary increases based primarily on an employee's position and time with the company.

Employees typically advance through the vertical structure by taking on roles with expanded responsibilities or obtaining higher qualifications. In vertical structures, salary and step increases correlate directly to job titles, years of experience, and corresponding responsibilities. This model often reflects specific requirements needed for positions, including degrees or certifications that may determine initial placement within the structure.

2. Horizontal Pay Grades

Horizontal pay grade structures focus on rewarding experience and length of service within the same job level, usually in a **horizontal organizational structure**. Unlike vertical structures, the distinguishing characteristic of horizontal pay grades is their emphasis on compensating for quality of work performance rather than just positional advancement. In this framework, salary increases follow a preset path while allowing for variability based on performance quality. For instance, a company might offer a salary range where high-performing individuals earn compensation at the upper end of their designated grade. Horizontal structures enable organizations to reward expertise development without requiring employees to change positions.

3. Level-Based Pay Grades

Level-based pay grade structures organize compensation around career stages or responsibility tiers rather than specific job titles. These systems frequently appear in government agencies, technical organizations, and educational institutions where clear progression paths exist.

For example, India's **7th Pay Matrix** implemented a structured 18-level system with a pay matrix for government employees. Each level corresponds to a specific pay band and salary range that



progresses as employees gain experience or are promoted. Organizations using level-based structures typically group jobs into families based on similar skills and responsibilities, subsequently assigning appropriate compensation ranges to each level. This approach facilitates greater transparency in salary administration while maintaining organizational hierarchy.

Benefits of Pay Grade

Pay grades offer several benefits for organizations and employees:

- **Consistency:** Ensures consistency and equity in compensation practices across the organization.
- **Transparency:** Promotes transparency and clarity in compensation management, fostering trust and understanding among employees.
- **Flexibility:** Provides flexibility to adjust salaries within defined ranges based on performance, experience, and market conditions.
- **Retention:** Enhances employee retention by offering competitive and fair compensation aligned with market rates.

Challenges of Managing Pay Grades

While pay grades offer benefits, managing them also presents challenges:

- **Market Fluctuations:** Keeping up with market fluctuations and changes in wage rates for specific job roles or classifications.
- **Internal Equity:** Ensuring internal equity and alignment with the organization's compensation philosophy and structure.
- **Communication:** Communicating pay grade policies and practices to employees effectively and transparently.

Implementing Effective Pay Grade Practices

To implement effective pay grade practices, organizations should:

- **Conduct Market Analysis:** Regularly conduct market analysis to determine competitive salary ranges for specific job roles or classifications.
- **Define Salary Ranges:** Define clear and transparent salary ranges within each pay grade, including minimum, midpoint, and maximum levels.
- **Ensure Internal Equity:** Align pay grades with the organization's compensation philosophy and structure to ensure internal equity.



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- **Communicate Clearly:** Communicate pay grade policies and practices to employees effectively and transparently.

3.5.1 Pay ranges

What Are Salary Ranges?

Salary ranges are the defined minimum, midpoint, and maximum compensation levels for a specific pay grade. These ranges provide flexibility and structure, ensuring that employees within the same pay grade are compensated according to their experience, skills, and market value.

Companies often set salary grades based on industry standards and internal job evaluations to ensure fairness and competitiveness.

Salary ranges consist of:

- **Minimum Salary:** The lowest amount an employee can earn within a particular pay grade. It typically represents the entry-level salary for someone with the least amount of experience or qualifications for that role.

Midpoint Salary: The middle point of the salary range, often representing the market median for that job in the given industry or region. Employees who perform at a high level and have significant experience may fall closer to this midpoint.

Maximum Salary: The highest salary within the range, generally reserved for employees with extensive experience, specialized skills, or exceptional performance in the role.

Salary ranges provide organizations with the flexibility to adjust pay within a specific range, allowing for considerations like performance, tenure, and market trends. They also help maintain internal equity by ensuring that compensation remains consistent across similar roles within the same pay grade.



3.6 Benefits Determination Process

This is the process organizations follow to decide **what benefits to offer and how**.

1. **Legal Compliance**
2. **Organizational Objectives**
3. **Employee Needs Assessment**
4. **Cost Analysis**
5. **Market Benchmarking**
6. **Design & Implementation**
7. **Review & Evaluation**

1. **Legal Compliance**

Legal compliance refers to identifying and providing all benefits that are required by law, such as social security, health insurance, paid leave, and retirement contributions. Organizations must ensure that their benefits policies fully comply with labor laws, government regulations, and statutory requirements. Failure to comply can lead to legal penalties, fines, and damage to the company's reputation.

2. **Organizational Objectives**

Benefits should be aligned with the organization's overall goals and strategies. Companies design benefits programs to support employee retention, improve performance, and strengthen employer branding. When benefits are linked to business objectives, they help attract skilled employees and motivate them to contribute effectively to organizational success.

3. **Employee Needs Assessment**

Employee needs assessment involves understanding the diverse needs of the workforce. Factors such as age, family size, lifestyle, and health requirements are considered while designing benefits. Organizations often use surveys, interviews, or feedback mechanisms to identify employee preferences, ensuring that benefits provided are relevant and valued.

4. **Cost Analysis**

Cost analysis focuses on evaluating the affordability of benefits within the organization's budget. Management must balance the cost of benefits with the expected returns, such as increased productivity, reduced turnover, and higher employee satisfaction. Effective cost control ensures sustainability of the benefits program without compromising organizational finances.

5. **Market Benchmarking**

Market benchmarking involves comparing the organization's benefits with those offered by competitors and industry standards. This helps companies remain competitive in the labor market and avoid offering benefits that are either inadequate or excessively costly. Benchmarking ensures that benefits are fair, attractive, and aligned with market trends.

6. **Design & Implementation**

Design and implementation include selecting appropriate benefit types, coverage levels, and eligibility criteria. Once designed, benefits must be clearly communicated to employees so



they understand their value and usage. Proper implementation ensures smooth administration and effective utilization of benefits.

7. **Review & Evaluation**

Review and evaluation involve periodically assessing the effectiveness of the benefits program. Organizations analyze employee satisfaction, utilization rates, and cost efficiency to identify areas for improvement. Regular updates help ensure that benefits remain compliant, competitive, and aligned with changing employee needs and business goals.

3.6.1 Legally required Benefits:

Statutory benefits: Statutory benefits are legally mandated benefits that employers must provide to their employees. These include:

- **Employee Provident Fund (EPF):** EPF, is a retirement savings scheme where both the employer and employee contribute a portion of the employee's salary.
- **Gratuity:** In gratuity, a lump sum payment is made to employees upon retirement, resignation, or termination after at least 5-years of service.
- **Maternity benefits:** Maternity benefits offer paid leave for female employees, as mandated by the Maternity Benefit Act.
- **Employee State Insurance (ESI):** The ESI is a health insurance scheme providing medical benefits to employees earning below a certain threshold.

3.6.2 Retirement benefits

Retirement benefits are monetary provisions made available to employees after they retire so that they have a steady income and financial security. These are designed for government employees but are also available in private-sector pension plans. The objective is to help retirees be financially independent and live comfortably post-retirement.

Retirement benefits include:

Leave Encashment

- Employees can accumulate leave and convert it into cash on retirement.
- Helps create a big retirement corpus.

Retirement Gratuity

- A lump sum payment based on the employee's last drawn salary and years of service.
- Acts as a financial cushion post-retirement.

Provident Fund (PF) Savings



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- Employees contribute a portion of their salary to a Provident Fund (PF) account throughout their career.
- The accumulated amount along with interest is paid out on retirement.

These all together form a financial safety net so that retirees can manage expenses without financial dependency.

Types of Pension Plans

In addition to the retirement corpus, government employees are eligible for pension benefits which are as follows:

1. Superannuation Pension: For employees who retire at the official retirement age of 60 years.
2. Voluntary Retirement Pension: For employees who retire after completing 20 years of service.
3. Compassionate Allowance: In the case of employees who may not meet the eligibility criteria but need financial support.
4. Family Pension: For spouse or dependents of deceased employee.
5. Compensation Pension: When an employee is forced to retire due to the abolition of his job.
6. Extraordinary Pension: For employees who become disabled during service or for families of employees who die during duty.

Importance of Retirement Benefits

1. Ensures financial stability in the absence of regular income.
2. Reduces dependency on family members for financial support.
3. Provides healthcare security by covering medical expenses.
4. Encourages long-term financial planning, so that employees can plan for their future.

Retirement benefits are must for a stress free and financially secure retirement so that one can maintain their lifestyle without financial constraints.

3.6.3 Medical Benefits to Employees

Medical benefits are provided by employers to protect employees from health-related expenses and risks. These benefits improve employee well-being and job satisfaction.

1. Health Insurance

Covers medical expenses such as hospitalization, surgeries, doctor visits, and medicines.

2. Preventive Healthcare



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Includes regular medical checkups, vaccinations, and health screenings to prevent serious illnesses.

3. Maternity Benefits

Provides medical care and paid leave during pregnancy and after childbirth.

4. Mental Health Benefits

Covers counseling, therapy, and stress-management programs to support emotional well-being.

5. Disability Benefits

Provides medical and financial support in case of temporary or permanent disability.

6. Wellness Programs

Includes fitness facilities, yoga, health camps, and nutrition guidance.



QUESTION BANK

Year / Semester: II MBA IV Semester

Regulation: R22

Subject and Code: Compensation Management & 22MBA242C

S.No.	CO	Questions – 2 Marks	BT
Unit III: (External Competitiveness and Benefits Management)			
1	3	What is wage?	L1
2	3	Define minimum wage.	L1
3	3	What is wage structure?	L2
4	3	What is dearness allowance?	L2
5	3	Explain the concept of wage determination.	L1
6	3	Write about the components of wage structure.	L2
7	3	Write about the role of government in wage determination	L1
8	3	Differentiate between minimum wage and fair wage.	L2
9	3	A company increases wages due to inflation. Which component of wage is adjusted?	L3
10	3	If a firm pays below industry standards, what impact will it have on employees?	L3

S.No.	CO	Questions – 10 Marks	BT
Unit III: (External Competitiveness and Benefits Management)			
1	3	Define External Competitiveness. Explain its importance.	L1
2	3	Explain Pay Policy Alternatives	L1
3	3	Define Wage Survey and state its purposes	L2
4	3	What are Pay Grades and Pay Ranges?	L2
5	3	(a) Explain the process of conducting Wage Surveys. (b) Discuss how survey results are interpreted.	L1



QUESTION BANK

Year / Semester: II MBA IV Semester

Regulation: R22

Subject and Code: Compensation Management & 22MBA242C

6	3	Explain the concept of Pay Policy Line and its types.	L2
7	3	Discuss the types of Pay Grade Structures with examples.	L1
8	3	Explain the Benefits Determination Process in detail.	L2
9	3	A company wants to revise its pay structure using market data. Explain how the Market Pay Line and survey data can be used to design pay grades.	L3
10	3	An organization is planning to introduce a new benefits program. Design a benefits determination process considering legal compliance, cost, and employee needs.	L3

Books to be referred for:

Unit 3:

- 1. Strategic Compensation, 10/e, Joseph J. Martocchio, Pearson Education, 2020.**
- 2. Compensation Management, Dr. Kanchan Bhatia, Himalaya Publishing House, 2009.**

To summarise...

Medical employee benefits in India are no longer limited to health insurance. Employers are now proactively searching for ways to ensure the best possible medical care for their team.

If you're someone who is looking to build a happier and healthier workspace for your team, Nova's tech-first and all-in-one platform aims at providing the right support to your employees by making all wellness benefits easily accessible.

UNIT-IV

Performance Based Compensation System

Introduction:

Performance-based compensation is when an employee's pay, bonuses, and/or financial incentives are directly tied to both their individual work performance and/or the business's overall performance.

The main aim behind this approach is to motivate employees to excel in their roles and positively impact a business's success by linking their financial rewards to their results.

Types of performance pay

There are various types of performance pay structures, each designed to align employee incentives with organizational goals. Here are some common types of performance pay:

Merit pay

This is a salary increase based on an individual's performance evaluation. It's designed to reward high performers and encourage continued excellence.

Piece Rate Pay

Employees are paid a set amount for each unit of work they complete. This can be motivating for employees who want to control their earnings, but it can also lead to rushed work or cutting corners.

Commission-Based Pay

Employees receive a portion of the sales they generate. This can be highly motivating for salespeople, but it can also be unstable and lead to unethical sales practices if not managed carefully.

Profit Sharing

Employees receive a share of the company's profits, typically based on a pre-determined formula. This can help align employee interests with the company's success and boost morale.

Gainsharing

Similar to profit sharing, but bonuses are based on improvements in specific performance metrics, such as productivity or quality. This can be a more targeted way to incentivize desired behaviors.

Stock Options and Equity-Based Compensation

Employees are given the right to purchase company stock at a discounted price or receive shares directly. This can tie employees' interests directly to the company's performance and promote long-term commitment.

Competency-Based Pay

Employees are rewarded for acquiring and demonstrating specific skills and knowledge. This can encourage continuous learning and development, and ensure employees have the skills needed to succeed.

Spot Bonuses

One-time payments are awarded to recognize and reward exceptional performance or achievements. This can be a powerful tool for boosting morale and motivation.

How to Calculate Performance-Based Pay

Before calculating performance-based compensation, you need to decide which pay method you want to use (e.g., commissions, bonuses, merit increases, etc.). For example, if you choose commissions, the formula to calculate performance-based pay is:

Commission pay = Commission rate x Sales generated

For merit increases, the calculation would be:

Merit pay increase = base salary x (merit increase percentage ÷ 100)

For example, Zack sold a total of \$3000 worth of products with a 4% commission; he would receive \$120. As per the merit pay increase, if Zack's salary is \$50000 and the merit increase percentage is 4%, he would receive a \$2000 merit pay increase based on his salary and performance appraisal.

pay for performance

Pay for performance is a payment structure that builds on an employee's base pay when they meet or exceed measurable performance metrics. Pay for performance is often seen as a fairer and more adaptive way to reward employees who put in great effort and get better results compared to the traditional salary system.

Pay for performance works best in roles where performance is measurable numerically, like the number of boxes moved or assets created. To implement this system, employers require a clear, fair, and pre-determined method to measure performance and distribute rewards.

Pay for performance models

1. Merit-based pay and merit increase

[Merit-based pay](#) works on a salaried or hourly pay structure in which high performance can consistently earn [merit increases](#). At the next salary review, the employee will be given a raise to their base pay for each performance period in which they meet or exceed the set goals.

2. Performance-based pay

In performance-based pay, the employee receives a bonus on top of their base pay for meeting and exceeding set performance goals. These may be set at milestone performance or incremental with units of work.

Unlike merit-based pay, which increases the base salary, performance-based pay provides bonus pay for each pay period of high performance.

3. Variable pay

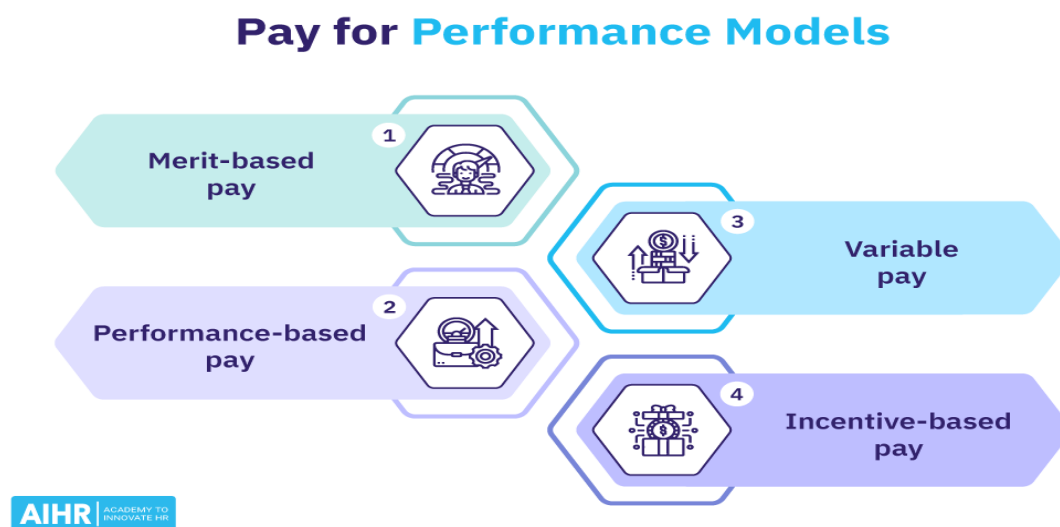
[Variable pay](#) also provides bonuses on top of base pay but in a less predictable manner. Variable pay may be paid in discretionary (spontaneous) bonuses for in-the-moment performance or non-discretionary bonuses based on set long-term or short-term goals and milestones.

Compared to performance-based pay, however, variable pay is more likely to reward an entire team for team performance than individual performance.

4. Incentive-based pay

[Incentive-based pay](#) is when an employee receives rewards for hitting specific performance goals, but the incentive is not always money.

A salesperson's commission is an example, but incentive-based pay can also include [paid time off](#), vacation trips, gift certificates, stocks, and gifted items in addition to the employee's base pay.



Advantages and disadvantages of pay for performance

Pay for performance is a popular choice where employee performance is easily measured in numerical units. It can be seen as a benefit, allowing employees to set their own [rate of pay](#) by the effort they choose to put in, but it can also lead to competition or burnout if not implemented strategically.

Advantages

- Motivates employees to reach for performance goals
- Rewards hard workers for their hard work
- Gives employees a chance to earn more than their [base pay](#)

- Offers employees more control over their compensation
- Helps managers set measurable and achievable goals

Disadvantages

- Can cause competition between team members
- More likely to result in stress and burnout
- Can over-value quantity above quality
- Can be difficult to change or revoke
- Risk of bias or favoritism in incentive distribution

Implementing pay for performance

1. **Set measurable and equally achievable goals:** Help managers set consistent, measurable performance goals that anyone can achieve with focus and hard work.
2. **Set appropriate compensation levels:** Set equal compensation and bonus pay levels that are appropriate for the work provided.
3. **Balance the cost and value between incentives and increased performance:** Ensure that the cost of paying incentives is balanced with the value gained from increased performance when milestones are met.
4. **Ensure transparency:** Provide transparency between performance and rewards.
5. **Prevent bias and discrimination in incentive implementation:** Ensure managers distribute performance pay evenly without bias, discrimination, or favoritism.
6. **Maintain compliant compensation plans:** Check [compliance](#) with state, county, and city regulations and laws.

Rewarding Desired Behaviors

Rewarding employee performance is an essential aspect of creating a motivated and high-performing workforce. By acknowledging and incentivizing exceptional performance, organizations can boost employee morale, increase engagement, and drive productivity.

Benefits of Rewarding Employees for Good Performance

Recognizing and rewarding employees for their outstanding performance can have a multitude of positive effects on both the individual and the organization as a whole. In fact, [80% of employees](#) would work harder if they felt better appreciated

1. Increased Motivation and Engagement

Rewarding employees for good performance serves as a powerful motivator. When employees know that their hard work and contributions will be recognized and rewarded, they are more likely to stay engaged and committed to achieving excellence. One study even found that individuals who felt their employers' rewards met their needs were [7x more likely](#) to say they were engaged at work than employees who were dissatisfied with their organizations' rewards. This heightened motivation leads to improved job satisfaction and a greater sense of purpose in their work.

2. Enhanced Productivity

Rewards and recognition can significantly impact productivity levels within an organization. In fact, [82% of employees](#) consider recognition an important part of their happiness at work. It boosts employee morale and fosters a sense of pride and satisfaction in their work. When employees are acknowledged for their accomplishments, they are inspired to continue performing at their best. This, in turn, leads to higher levels of productivity, as individuals strive to achieve recognition and reap the associated rewards.

3. Improved Employee Morale

Recognizing and rewarding performance creates a positive and supportive work environment. It boosts employee morale and fosters a sense of pride and satisfaction in their work. When employees feel valued and appreciated, they are more likely to have a positive attitude, collaborate effectively with colleagues, and contribute to a harmonious workplace culture.

4. Talent Retention and Attraction

A well-designed rewards program can be instrumental in attracting top talent and retaining valuable employees. Over [91% of HR](#) professionals believe that recognition and rewards make employees more likely to stay. When individuals see that their efforts are acknowledged and that there are opportunities for growth and rewards, they are more inclined to stay with the organization. This reduces turnover rates, saves recruitment costs, and ensures continuity in a high-performing workforce.

5. Encourages Continuous Improvement

Rewards programs that focus on performance excellence encourage employees to strive for continuous improvement. By setting clear performance goals and offering rewards tied to specific achievements, organizations promote a culture of ongoing learning and development. Employees are motivated to enhance their skills and knowledge to attain recognition and reap the associated benefits.

6. Team Collaboration and Camaraderie

Rewarding individual performance can also foster teamwork and collaboration. When employees see their colleagues being recognized and rewarded, it creates a sense of healthy competition and camaraderie. This can lead to increased collaboration, knowledge sharing, and a supportive team environment, ultimately contributing to the overall success of the organization.

Does Compensation Motivate Performance?

Making sure that [employees are properly motivated](#) is one of the most common problems that a lot of companies face. Without a dedicated and motivated workforce, you will have problems reaching your goals. In effect, this will have a toll on your bottom line and that is the last thing that you would want as a business owner.

This is why it is very important you understand how your employees are motivated. You need to understand that you will not be able to motivate every employee you have in the same way. One common [method of motivating employees](#) is to compensate them properly or more than adequately. Proper compensation should be done in the first place regardless of any other fact

but if you go a bit deeper you will understand compensation is a really important and complex topic.

How Compensation Motivates Employee Behavior

First of all, you need to understand that top talent is in high demand right now. Therefore, the competition to get these people is really intense at the moment. Another challenge is, provided you do get to hire a model employee, [retaining these top talents](#).

Proper compensation packages can go a long way when it comes to motivating employees. You need to understand what the demands of your specific employees are. After you understand the demand they have, you will be in a much better position to judge whether they deserved that amount of compensation or not. If they do deserve it, give it to them. If you think, after thorough consideration, that they don't deserve the compensation they expect, you need to properly communicate the reasons to them.

Before we move on, it has to be mentioned that compensation is not the only thing that motivates employees. A lot of other factors will come into play. These include things like your work environment, the culture in action at your company, how much flexibility you provide, etc. So, while proper compensation is going to motivate employees, it is not the only factor that will determine their motivation levels.

Effects of Compensation on Employees

Improper compensation or low compensation packages have a really negative impact on those same employees. With all things being said and done, proper compensation packages will have very positive effects on your employees' motivation levels. **Job Satisfaction**

When employees know and feel that they are being valued properly by their employers, they will have a true sense of satisfaction from their jobs. People appreciate it when their efforts are recognized and appreciated. A proper compensation package is one of the best ways to accomplish this.

Retention

As we have talked about earlier, top talent is in high demand. There will be other employers and other companies who may try to pry away your top talent with better compensation packages. So, in order to improve worker retention and to make sure you do not lose your best employees to your competitors, make sure that all your employees are under the compensation packages they deserve.

Prospective Recruitment

Word of mouth is very powerful. When your existing employees will be properly satisfied with their individual compensation packages, they will be more than willing to express that gratitude publicly. They will tell their friends and family about how well your company is run and how well your employees are treated and compensated.

This will, in turn, entice other top talents to at least get curious about your company. This is one of the best ways to hire top talent.

Work Productivity

Finally, and most importantly, when your employees will feel like they are properly compensated, their overall performance and productivity will go up. This is the main point and the one that you need to pay the most attention to.

When productivity is up, you will notice several positives for your company. You will have a much more engaged workforce and this will ultimately, positively affect your bottom line.

Is Money Enough to Motivate Employees?

Motivating employees is a complicated matter. Of course, money will be able to motivate your employees but bear in mind that this is not the only variable that will account for their motivation levels.

There are certainly other factors that will also determine how motivated your employees are. This includes things like the culture of the company, the interpersonal relationships built with other colleagues, how much flexibility is on offer, etc. These factors are also important when it comes to motivating employees.

Motivation is a complicated thing to understand properly. Not everyone functions in the same way and therefore, how each individual is motivated will depend completely on them. However, money is probably the most important thing when it comes to the motivation and productivity levels of your employees. Other factors matter but nowhere near as much

Designing PFP Plans

Companies are now turning towards pay-for-performance schemes in a bid to reward better-performing employees. But Now HR practitioners build the foundation for such a compensation plan. The Process of a Designing PFP Plans are as Follows:

Step 1: State your objectives

first step to developing a pay-for-performance scheme is to understand where the organisational direction is going and how a pay-for-performance scheme will enhance these business objectives. What are your critical success areas for the company? What is the preferred outcome from implementing the pay-for-performance scheme? What is the success or failure of the pay-for-performance scheme based on?

Step 2: Conduct your research

The next stage is to conduct a feasibility assessment to understand whether your company is equipped to roll out a pay-for-performance plan. Is the pay-for-performance scheme a common standard in the industry? Aside from learning what the industry benchmarks are, when collecting data, one should take into account both the benefits and problems that arise from this scheme. Collecting data should be done internally as well. Understand how receptive (or not) employees are towards the idea of a variable pay programme. What concerns do they have? And how will a variable pay programme affect their overall employee engagement in the company? For employees who have worked in other competing industries, how does a variable pay programme distinguish your company from the rest of the industry?

Step 3: Build your foundation

So what are some of the more common organisation pay-for-performance plans that organisations use?

Incentives:

One of the most common pay-for-performance scheme is awarding compensation incentives when an employee has achieved certain management-set goals, such as a specified sales target. This incentive can be based on team/department target or an individual target.

Profit-sharing:

Employees who typically participate in profitsharing schemes often receive a stated percentage of the company's profits, if they meet a set revenue profit.

Gain-sharing:

This incentive is used when companies share any productivity or profitability improvements with the relevant employees.

Goal-sharing:

Similar to gain-sharing, goal-sharing places an emphasis on employees to reach certain management-set goals.

Whichever incentive scheme you choose, a good pay-for-performance needs to be supported by a reliable, clear and transparent performance data collection which employees feel they are fairly measured and evaluated against.

Step 4: Working out the finer details

Once you have finalised which incentive scheme your company will adopt, it is time to work out the smaller details. Some of the questions which need to be addressed are:

- Who would be eligible for the pay-forperformance programme?

- What will employees be measured against? Will this be the same across the entire company? If not, how will the standards and payments differ between the various company levels?

– How many award levels should you implement? Will there be stretch targets? While it is good to have various targets to motivate employees to reach their higher goals, making the system too complicated may demotivate employees.

– How will the company issue payout? Will this be in company shares or in cash? When, and how often, would the payouts take place? How can the payout frequency be weaved into the company's retention scheme?

Typically, companies measure employees' performance based on three main factors. Due to the different nature of each job, companies may opt to measure different groups of employees based on key performance indicators (KPIs).

Employees are typically evaluated based on one or a combination of the below:

Revenue generation:

This is when employees' KPIs are dependent on sales, income generated or profitability margins. These goals are typically aligned with the business objectives. Typically, employees' KPIs would include a financial revenue goal, in which not achieving this goal would mean that no bonus payouts would be given.

Productivity:

While various companies measure productivity differently, productivity is usually seen as the relationship of a company's input to its product output. Variable pay formulas typically depend on labour, materials, inventory and contracted services, which are factors employees can control in their day-to-day job scope.

Quality:

While productivity and working more efficiently are good gains to have, if the quality of the product diminishes, it would be detrimental to the company as well. This is why companies also have a quality KPI that aims to complement their productivity KPI.

Step 5: Test your model

Once a pay-for-performance system has been designed, HR practitioners should test the feasibility of the model by testing it against its previous business results – both in good financial times and bad. In those scenarios, how would payouts have worked? Would the model help the business achieve its goals?

Besides a financial viewpoint, companies should garner a range of views from employees across the spectrum to see how the model would affect their departments and compensation plans.

Step 6: Communicate and implement

Companies should spare no effort in communicating to their employees at every step of the implementation stage. Whether it is through emails, company videos or in large town hall meetings, business leaders need to address all the concerns which employees have to gain their buy-in.

Not only should business leaders communicate the new pay-for-performance scheme and its objectives, they should address how this scheme would affect employees' in the short and long run. How will this affect existing recognition and incentive awards?

Conclusion

Ultimately, this scheme should not be seen as a way for companies to drive down the wages of employees.

Instead, employees should feel as though they would be able to earn more if they perform well at work, and that the company is doing well at recognises higher-achieving employees **from the average ones.**

Merit Pay/Variable Pay

Merit pay is the type of compensation a company uses to reward higher-performing employees with ongoing additional pay. Merit pay is sometimes called incentive pay or pay-for-performance, and it involves giving employees base pay increases or bonuses based on their performance. Merit pay may take the place of simple pay raises, compensation increases based on employee seniority or general cost-of-living adjustments.

The history of merit pay

The concept of merit pay has its roots in behavioral psychology, the study of how thoughts and actions relate. In the early 1900s, scientists realized that even though people are rational and make their own decisions, incentives and deterrents can influence their actions. The first time this theory was applied to employee compensation was in Newton, Massachusetts in 1908. Through the following decades, employers used various ways to determine pay increases—usually some combination of seniority, merit and predicted increase in living costs. By the 1990s, merit pay had become a common way for employers to manage employee raises

How does merit pay work?

A company using merit pay establishes a set of criteria to measure employee performance. The company also creates a schedule for reviewing employee performance against those benchmarks, usually with check-ins scheduled at monthly or quarterly intervals leading up to the review date. Employers also determine the dates when merit pay increases go into effect for each fiscal year. For merit pay to be a successful compensation approach, a company must be able to produce accurate, detailed data to measure employee performance.

How much do companies give as merit increases?

Most companies establish a percent scale for merit pay. They usually offer employees a small percentage of their existing salary or pay rate. It's common for a department or business unit to allocate its overall percent increase according to employee performance during their merit evaluations. For example, the average 3% increase may be given to individual employees in increments of .5%, with top performers getting over 3% increases and others receiving less than 3%

Some potential advantages of merit pay

Companies may choose merit pay as their compensation model based on its potential benefits. These advantages include:

Attracting top talent: Offering merit-based pay can help a company attract confident talent. Top employees who know their worth and believe in their skills are generally eager to have their pay tied to their performance.

Clarifying expectations: When compensation is related to their performance, employees have clear guidance regarding what their employer considers exceptional work. In that way, merit pay can help differentiate critical tasks and low priority undertakings.

Identifying employee rankings: Employers can use merit evaluations to create a ranked list of employees by strength. Top performers receive the highest merit pay and underperforming employees receive less or no merit pay.

Making company objectives clear: When companies tie compensation increases to accomplishing goals, they make their business objectives real to their employees. Presenting an actionable to-do list that leads to more pay takes vision and mission statements from concepts to reality.

Increasing productivity and efficiency: When employees know there are financial rewards for quality work, they are more likely to self-motivate. Merit pay can help combat workplace complacency.

Generating team-friendly competition: In a positive corporate culture, merit pay can inspire employees to compete to produce the best results. When pay increases are directly related to accomplishing company goals, both top performers and the business itself are winners.

Some potential disadvantages of merit pay

While merit pay can have many benefits, there are also a few potential drawbacks, such as:
Subjectivity of application: Even when merit pay is based on objective goals, managers may still award it subjectively.

Perceived favoritism: Employees who are not satisfied with their merit pay may feel like there is manager favoritism toward other employees, regardless of their performance reviews.

Use of resources better spent elsewhere: Merit pay systems require a business to develop competencies, determine measurements and create performance baselines in addition to scheduling and holding actual evaluations, so they require a lot of resources. Not all businesses can implement merit pay because they need to use those resources for the profit-driving aspects of the business.

Managerial burden: Thoughtful completion of the merit pay process takes a lot of work from managers. Since no two managers are the same, some may be more up to the challenge than others. Managers who have better [communication skills](#), for example, may find it easier to express what employees need to do to qualify for merit increases.

Morale implications: Merit pay can have negative implications on company morale. Some employees may be discouraged by what they see as unequal rewards for the same work, while others may feel like they are being compensated similarly to other employees whose work they view as subpar.

Unfounded expectations: Merit pay can lead employees to expect the same increase year after year, regardless of budgetary restraints and changes in employee behavior.

Negative competition: In less positive company cultures, the promise of merit pay may encourage employees to act selfishly instead of in the company's best interest.

Variable Pay:

Variable pay is often based on two main factors: your own performance and your company's performance. So, most schemes evolved by companies have a target-setting and actual payout based on that combination. Variable pay is one of the five main components of total rewards in any organization and is usually a percentage of fixed pay.

Employers typically pay employees variable pay for success related to the personal, team, or company performance. Variable compensation can be communicated in advance as an incentive, or presented as a reinforcement or bonus after the fact. Many employers

compensate employees with variable pay in the form of cash, stock, or paid time off from work.

How has Variable Pay evolved in India?

The concept of variable pay started gaining importance in the Indian market in the last decade. Typically a western concept, it came into Asia and other emerging markets, migrating with the MNCs. But Indian companies are now progressing on a par with the West since the best part about variable pay is that it's performance-linked. Even the PSUs are now moving towards it the percentage of variable pay given there is typically not that high

Types of Variable Pay Plans:

There are 3 most common forms of variable pay plans that are in use today are mentioned below:

1. Bonuses

A bonus is a one-time payment to the employee that is not built into his or her pay rate. The basis of the bonus may be any performance desired by the organization, and the payment schedule can be designed like that of the standard hour or measured day work. Some organizations have adapted their merit pay plan to a bonus plan. The base pay of all employees stays the same or increases by a cost-of-living factor. Then the results of the merit pay plan are converted into bonuses that are distributed in various ways, from a lump sum to add to each paycheck. The point, however, is that the bonus is just for the current period and not built into the base pay.

Besides performance bonuses, there are other types of bonuses that are used by the organizations: Hiring Bonus, Referral Bonus, Spot Bonus, Retention Bonus, [Discretionary Bonus](#), Spot Bonuses, and more.

2. Gain Sharing

This approach rewards outcomes that are direct measures of the success of the organization as opposed to the success of an individual employee. A gain-sharing plan is a popular type of organization-wide variable pay plan. The purpose of gainsharing is to tie the employee to the performance measures. Although clear performance-reward connections can be made in these circumstances, it is difficult to make a performance-effort connection.

3. Profit Sharing

A further option for tying employees to the economic success of the organization is by granting them a share of the profits of the organization. This type of incentive is useful only in a profit-based organization. Profit-sharing may be the oldest form of an organization-wide variable pay plan. They were installed to deal with employee's grievances over low salaries and to combat the feelings that organizations made huge profits but paid workers very little of the gains. Later the idea of aligning worker and management goals appeared.

Advantages and Disadvantages of Variable Pay:

Advantages	Disadvantages
One of the primary advantages of variable pay is employee retention.	Most of the companies fail to establish an equalizer in their variable pay. It results in a seemingly high pay package, which turns out very less paid in reality.
Variable Pay helps the organization to balance out and equalize the salaries of their employees.	If the criteria for variable pay are not defined accurately, it can result in the improper implementation of the pay structure.
Performance-based variable pay helps to reward hard-working employees, thereby motivating them.	An increase in variable pay adds to the cost of the organization.
Variable pay allows organizations to tie compensation to revenue and financial performance.	Variable Pay isn't factored into an employee's annual compensation, although the amount may be based on the employee's salary .

Individual vs Group Incentives

Individual Incentives:

Individual incentive plans are based on meeting work-related performance standards, such as quality, productivity, customer satisfaction, safety, or attendance. They are most appropriate when:

- Performance can be measured objectively
- Employees have control over the outcomes
- Plan does not create unhealthy competition

Individual incentive plans require monitoring, and it is important to remember that the incentive scheme is not a substitute for good management

Spot bonuses can also be used for individuals to show appreciation or give recognition for a job well done. This can be a reward for developing new skills, contributing new ideas, obtaining licenses, or finishing projects early. Typically, a spot bonus is given as a one-time discretionary payment. These are most prevalent among non-executives.

Group Incentives:

Team or group incentive plans are a reward for collective performance. These are most effective when all group members have some impact on goals. The rewards can be equal or different for each member, but this requires an understanding of team dynamics. Be sure to avoid contrasting motivational forces

Pros of Individual Incentive Plans

Individual incentives are dependent on the individual's performance. This sort of incentive is frequently utilized to keep top performers on board. This incentive scheme ensures that employee remuneration is appropriate for their achievements.

Individual incentive plans are acceptable in a society that promotes individuality, which is common in Western nations. Employees and employers do not have a dispute since their demands are met because employees are rewarded for their efficiency, and companies are pleased with enhancing productivity. Because the workers are driven to work more, less monitoring is necessary. This frees up time for supervision for the supervisor. They can use this time for more critical tasks.

We can enlist a few of the many benefits that individual incentive plans can provide:

1. Inspires Employees

Employees are motivated to accomplish their best through individual incentives, encouraging them to learn from high performers. Top performers are rewarded and recognized for their achievements. This may encourage them to keep improving. Underachievers may feel compelled to work more in order to receive incentives. Observing the winners' actions can educate them on how to achieve similar results. Employees are individually driven to achieve better levels of organizational performance.

2. Increased Productivity

Employees are encouraged to go above and beyond the set goal. It contributes to an improvement in productivity. It motivates and rewards top achievers for their achievements.

Work engagement and overall organizational performance will improve as a result of individual incentive plans.

3. Higher Job Satisfaction & Low Staff Turnover

Individual incentives, which are appropriate for an individualistic culture, assist employees in achieving a better degree of job satisfaction. They ensure that pay is distributed fairly.

Individuals' overall organizational abilities will improve due to their job happiness. It aids in the retention of high-performing individuals inside the company. As a result, staff turnover is minimal as it aids in retaining top performers.

4. Cost Minimization

Individual incentive plans aid in improving the performance of the workforce, resulting in fewer downtimes and greater output. Increased productivity aids in the reduction of the cost of production. Hence, it is safe to say that individual incentives save money for the company. Increased output lowers per-unit costs, resulting in a direct benefit to the business.

5. Healthy Competition

Individual incentive plans encourage positive workplace competitiveness among individuals. They cultivate a culture that prioritizes sales. An incentive plan gives something for which your workforce may compete if your company likes a healthy and positive competitive spirit.

6. Clarity

Individual incentive plans are simple to formulate and execute. It's simple to track the performance of the employees and decide the consequences. They clearly distinguish between those who contribute and those who do not. They aid in the correlation of remuneration to individual performance. Needless to say, individual incentives are simple to manage and implement.

Cons of Individual Incentive Plans

Even good individual [incentive plans may go awry](#) in actuality while delivering so many fantastic benefits. One of the drawbacks of individual incentive plans is that uncompensated factors may go unrecognized. Incentive performance can be influenced by factors outside the employee's control. Furthermore, unions often oppose these systems, preferring remuneration based on seniority or job classification. There's more to it than that. Some of these flaws are also present in the individual incentive plans:

1. Higher Attrition

Although individual incentive plans have been shown to boost performance, there have been some doubts raised. Low-performing employees are discouraged via individual incentive plans. As a result, they may opt to leave the company, resulting in significant staff turnover.

2. Lack of Teamwork

Individual incentive plans motivate employees to achieve higher levels of performance. As a result, there is a lack of collaboration at the workstation. Setting performance goals takes work, and unreasonable expectations hinder drive further. Employees and management may lose trust as a result of individual incentives. An attitude of trust and collaboration is required for these initiatives to be successful.

3. Sacrificed Quality

Employees may be encouraged to enhance productivity and concentrate solely on volume. It has the potential to lower the product's quality. Hence, individual incentive plans such as piece rates may induce employees to maximize the quantity of output while compromising quality if quality control measures are insufficient.

4. Conflicts

There's a possibility that individuals' personal ambitions and corporate goals would clash, resulting in mistrust between management and employees. These initiatives, in particular, may mean that the staff are competing with one another, which might have negative consequences. For example, commission-based department store salesmen may compete for consumers, pushing them away. Customers, admittedly, do not even mind who they engage with as long as the experience is positive.

Group Incentive Plans

In contrast to individual incentive schemes, group incentive plans include incentivizing the entire group of workers. Each member of the group gets awarded based on the performance of their group under this arrangement. This technique is extremely beneficial in situations when individual worker output cannot be quantified, but group worker output can be commonly measured. The emphasis in group incentive plans is mostly on teamwork toward a common goal.

The group incentive plans include a focus on the group meeting a specified level of output and thereby qualifying for the incentive payment. A team approach is required, with all

members contributing to achieving and maintaining the output. Such collaborative efforts can be rewarded with group incentive plans based on the piecework or variations thereof, as well as the conventional hour plan.

Suitability

Group incentive plans are best suited for and appropriate in the following scenarios: When individual performance cannot be properly quantified.

1. A group of employees all have the same sort of talent or ability.
2. The accomplishment of the goal is tied to the group's collaborative efforts.
3. The goal is to incentivize indirect employees rather than direct workers.
4. A group is made up of a small number of people.

Types of Group Incentive Plans

1. Profit-Sharing

One of the types of group incentive plan is– Profit sharing. It is a collaborative incentive program in which you pay a share of your company's overall earnings to your employees. Profit-sharing fosters a sense of responsibility amongst employees and supports higher levels of team performance. Employees understand that the stronger their performance, the healthier the corporation's economic picture, and the greater their own prospective monetary incentives.

2. Priest Man's Plan

Another type of group incentive plan includes Priest Man's plan. This plan establishes a standard performance for the whole organization. If performance surpasses the benchmark, an incentive is given in proportion to the increase. In the event that output does not meet the criteria, workers are only paid the minimum pay. Workers are sufficiently motivated to improve their performance. Individual workers are not compensated under this system. Workers exhibit a sense of teamwork since productivity will rise as a result of the combined efforts of the organization's numerous limbs. Inefficient workers contribute to the efforts of efficient workers since higher output helps everyone in the firm.

3. Scalon Plan

. Except for senior management, all employees are eligible for the incentive. The appropriate sum or bonus is not paid on a monthly basis. A reserve fund of one-half of the first fifteen per cent is established to compensate for any changes in labour costs. If this reserve is still

unclaimed at the end of the year, it is dispersed among workers in the final month of the year, and a new reserve is formed.

4. Employee Stock Ownership Plans (ESOPs)

Employee stock ownership plans (ESOPs) provide workers with business shares, either as an outright grant or at a beneficial price that may be less than market value. These plans are more popular in large insurance providers, banking institutions, gas and electric providers, and businesses with more than \$500 million in revenue. The primary goal of ESOPs is to encourage mutuality of interests and to make employees feel that they are part of a company and understand the management's point of view. As co-partners, they will act responsibly and strive to make the company more lucrative and successful. Other potential merits include the encouragement of thrift and confidence, the establishment of an additional incentive to work effectively and collaboratively, and providing a new source of investment money.

Examples of Group Incentive Plans

1. Spot Bonuses

A spot bonus is a significant incentive given to employees on the spot in exchange for performing a specified assignment. These are usually monetary awards, which can start as little as \$50 and go up from there. This bonus encourages a group of employees to take the initiative and go above and beyond. If you spot a group that is performing extremely well in their area, you can award the prize to that group on the spot. Offering spot incentives has the advantage of providing a quick response to excellent employee conduct. Even if an employee receives an annual performance bonus, receiving a modest amount of cash immediately away gives praise and encouragement.

2. Project Bonuses

Employers can commemorate and acknowledge project completion by scheduling project incentives. Project incentives often stipulate a certain deadline that the team must reach in order to receive a monetary award. When adopting a project-based compensation incentive, make it clear what criteria employees must achieve in order to get the bonus, such as financial constraints and milestones. Because everyone on the project team has a role in whether or not everyone earns a project bonus, project incentives promote collaboration and friendship. Each member would be driven to work as a team and assist one another in accomplishing the objectives.

3. Non-Monetary Incentives

Aside from the standard paid time off, try giving your staff additional vacation days in exchange for performance gains. This assists them in achieving a better work-life balance. Some employees choose to dress casually, such as in jeans and a T-shirt. Consider having a casual dress day once a week for the top-performing team. Company picnics allow employees to get away from the office. They're also a terrific technique to boost teamwork. An excursion to an amusement park or similar recreational facility, for example, is an alternative to the typical picnic in the park.

Compensation for Special Groups:

- . Compensation for special groups is excessive because over the years, many thriving firms have been and they are competition in paying their supervisors and executives. The competition is because there has been a tradition that many firms believe the success of the firm is greatly dependent on the special groups. In other words, supervisors and executives are integral in the company's success. The excessive compensation of the special groups has of the recent past created a shift between executives and employees. The compensation disparities have been unwarranted and massive because of the following:
 - a. For routine tasks and objectives, the compensation is effective but when it comes to standard tasks and creativity, this compensation is not effective
 - . b .Extrinsic motivation should be crowd out by intrinsic motivation. The need to self-achievement and meeting of set goals should motivate the executives and not being motivated by compensation as this can fall without massive fruits.
 - c. Contingent pay leads to achievement and grade fixation as people will try to cook grades and ensure they meet the positions.
 - d. The success and overall achievement of the business is weakened by performance fixation as people will only be trying to meet the target rather than acquiring the right skills and knowledge to make required progre

Who Are Special Groups?

- A. Special treatment, either in the form of add-on packages not received by other employees or in the form of compensation components entirely unique in the organization, tends to focus on a few specific groups.
- B. Special groups share two general characteristics.
 - 1. They tend to be strategically important to a company.

- a. The work these employees perform is central to the strategic success of a company.
- b. If they do not succeed at their jobs, success for the whole organization is in jeopardy.
2. Their positions tend to have built-in conflict that arises because different factions place incompatible demands on members of the group.
- C. When both of the above characteristics are present, distinctive compensation practices are adopted to meet the needs of special groups.

II. Compensation Strategy for Special Groups

A. Supervisors.

1. The conflict for supervisors is based on trying to meet the production demands of upper management and the needs of employees for rewards.
2. The major challenge in compensating supervisors centers on equity; thus, some incentive must be provided to entice non-exempt employees to desire to advance to supervisor.
3. Employers have developed several strategies to address the equity issues and to attract employees into supervisory jobs.
 - a. The most popular method is to key the base salary of supervisors to some amount exceeding the top-paid subordinate in the unit; 5 – 30% represents the typical size of the differential.
 - b. Another method to maintain equitable differentials is to pay supervisors for scheduled overtime.
4. The biggest trend in supervisory compensation is the increased use of variable pay. Slightly more than half of all companies now have a variable pay component for supervisors, up from 16% in prior years.

B. Corporate Directors.

1. A typical board comprises 10 outside (a company) and 3 inside directors, each having a term averaging 3 years.
2. Historically, directors were frequently given the role of “rubber stamping” decisions made by top management.
3. Modern corporate boards have changed considerably.
 - a. Approximately 2/3rds of boards now include more outside directors than inside directors.
 - b. This move to more outside directors involves higher compensation; total compensation for directors of large companies equal \$250,000



QUESTION BANK

Year / Semester: II MBA IV Semester

Regulation: R22

Subject and Code: Compensation Management & 22MBA242C

S.No.	CO	Questions – 2 Marks	BT
Unit IV: (Performance Based Compensation System)			
1	4	What is incentive pay?	L1
2	4	Define bonus.	L1
3	4	What are fringe benefits?	L2
4	4	What is profit sharing?	L1
5	4	Write the importance of incentive plans.	L2
6	4	Describe different types of incentives.	L2
7	4	Write the concept of employee benefits.	L2
8	4	Differentiate between monetary and non-monetary benefits	L2
9	4	A company rewards employees based on performance targets. Identify the type of incentive plan	L3
10	4	Suggest a suitable benefit plan for improving employee satisfaction in an IT company.	L3

S.No.	CO	Questions – 10 Marks	BT
Unit IV: (Performance Based Compensation System)			
1	4	Define Pay for Performance (PFP). Explain its objectives and features.	L1
2	4	What is Merit Pay? Differentiate between Merit Pay and Variable Pay.	L1
3	4	Define Individual Incentives and Group Incentives. discuss between Incentives and Group Incentives	L2



QUESTION BANK

Year / Semester: II MBA IV Semester

Regulation: R22

Subject and Code: Compensation Management & 22MBA242C

4	4	Who are Special Groups in compensation management? Explain their characteristics.	L1
5	4	(a) Explain the concept of Employee Contributions in a Performance-Based Compensation System. (b) Discuss how compensation can be used to reward desired behaviors in an organization.	L2
6	4	Does compensation really motivate performance? Analyze the relationship between pay and employee motivation.	L2
7	4	Explain the process of Designing an effective Pay for Performance (PFP) Plan	L2
8	4	(a) Compare Individual Incentives and Group Incentives. (b) Explain the advantages and limitations of both systems.	L2
9	4	A company is experiencing low productivity despite offering high fixed salaries. As an HR Manager, design a Performance-Based Compensation Plan to improve employee performance and justify your design.	L3
10	4	(a) An IT company wants to design a compensation strategy for special groups such as executives and sales employees. (b) Suggest appropriate compensation strategies for these special groups with reasons.	L3

Books to be referred for:

Unit 4:

- 1. Compensation Management in a Knowledge Based World, 9/e, Handerson, Pearson, 2007.**
- 2. Strategic Compensation, 10/e, Joseph J. Martocchio, Pearson Education, 2020.**

UNIT-V

Legal & Administrative Issues in Compensation

Legal Issues:

Legal Issues in Compensation- The laws of compensation and work hours are very complex. An employer with best intentions could also commit mistakes while going through the various terms and conditions. Federal and state laws take the issue of an employer to trust on the requirements in such a favorable manner for most of the employees. It is really tough to judge which employees are perfectly immune and not exempt from the lowest amount of wage.

Compensation and Income Tax Act, 1961

Income under heads of salary is defined as remuneration received by an individual for services rendered by him to undertake a contract whether it is expressed or implied.

According to the Income Tax Act 1961, these are the following conditions where all such remunerations are chargeable to income tax:

When remuneration is due from the former employer or present employer in the previous year.

When remuneration is paid or allowed in the previous year, by or on behalf of a former employer or present employer, though not due or before it becomes due.

When arrears of salary is paid in the previous year by or on behalf of a former employer or present employer, if not charged to tax in the period to which it relates.

Under Section 197 of the Income Tax Act, 1961 the income which come under the heads of salary are as follows:

Salary (including advance salary)

Wages

Fees

Commissions

Pensions

Annuity

Perks

Gratuity

Annual bonus

Income from Provident Fund

Leave Encashment

Allowance

Awards

Pay Discrimination

Pay discrimination involves paying employees differently for similar work based solely on factors like sex, race, or other prohibited grounds. Laws such as the Equal Pay Act of 1963 and Title VII of the Civil Rights Act of 1964 prohibit sex-based pay discrimination. Under these laws, employees of the opposite sex must be paid equally for substantially equal work, regardless of the number of employees an employer has.

Employers can pay employees differently based on seniority or a merit system, but wages should be based on objective criteria like performance, skill requirements, and responsibility levels.

If an employee suspects pay discrimination, there are steps they can take to address the issue:

- **Document the Discriminatory Practices:** Keep records of salary information, pay stubs, and any wage-related details that indicate discriminatory practices.
- **Seek Information and Support:** Contact the U.S. Equal Employment Opportunity Commission (EEOC) hotline for guidance on legal rights and consider consulting with an attorney experienced in workplace discrimination.
- **Utilize Internal Resources:** Check if the company has an equal employment officer or human resources representative who can assist in understanding internal grievance procedures or filing complaints.
- **Act Promptly:** Time limits may apply to filing claims, so acting quickly is essential. Different laws may have varying deadlines for filing complaints.
- **Build a Support Network:** Facing discrimination at work can be challenging, so seek support from friends, family, or other networks.
- **Prepare for the Process:** Fighting discrimination may be a lengthy process, so maintaining records of job performance and seeking emotional support is crucial.

Types of Pay Discrimination

Some common types of pay discrimination include:

- **Direct discrimination:** Paying an employee less than another employee doing the same or similar work solely because of a protected characteristic like gender, race,

age, disability, etc. For example, paying a woman less than a man for the same nursing job because of her gender.

- **Indirect discrimination:** Having a neutral pay policy or practice that has an adverse impact on employees in a protected group, even if the policy appears neutral on its face. For example, providing extra pay to employees who are the head of household, which may disproportionately benefit men.
- **Unequal pay for equal work:** Paying employees differently for performing substantially equal work that requires equal skill, effort, and responsibility, and is performed under similar working conditions. This is prohibited by the Equal Pay Act, even if the jobs have different titles.
- **Discrimination in benefits:** Providing different benefits to employees based on a protected characteristic like sex. For example, offering life insurance benefits only to male employees.
- **Failure to promote or provide advancement opportunities:** Denying promotions or advancement opportunities to employees in protected groups, resulting in lower pay.
- **Retaliation:** Taking adverse pay actions against an employee for complaining about discrimination or participating in an investigation.

How to Prevent Wage Discrimination and Ensure Equal Pay

All employers should be keenly aware of their obligation to make certain that their employees are paid fair and equal wages to avoid lawsuits brought under the Equal Pay Act (EPA) and other laws. This How To looks to assist employers who wish to avoid costly wage discrimination lawsuits and ensure equal pay for equal work.

Step 1: Understand the Laws

The Equal Pay Act (EPA) requires that men and women receive equal pay for equal work. Generally, jobs do not have to be identical for equal pay to be required, but substantially equal in terms of skill, effort and job responsibility, and performed under similar working conditions. The term pay refers not just to salary but also overtime, bonuses, vacation and holiday pay, stock options, life insurance, and all other benefits and compensation of any kind paid to employees.

Step 2: Institute a Policy Prohibiting Wage Discrimination

In order to ensure equal pay in the workplace, employers should implement and enforce a policy prohibiting compensation discrimination or wage discrimination based on an employee's membership in a protected class. This can often be part of a Discrimination Policy or EEO Policy that prohibits discrimination in compensation and a practice of ensuring equal pay. Employers need to make sure that all employees are paid fair and equal wages based on their position and skill.

Step 3: Make Decisions Based on Skill and Performance

Employers, supervisors and HR managers need to make sure that all employment decisions regarding promotions, raises, bonuses, etc., are based on legitimate and non discriminatory factors such as skill, merit and performance rather than an employee's membership in a protected class. Employers should avoid wage differentials based on sex, race, national origin or any other protected class unless they can be justified by legitimate and nondiscriminatory reasons.

Step 4: Train Supervisors and Managers to Avoid Wage Discrimination

Employers need to make sure that all supervisors and managers receive proper training on how to avoid wage discrimination and make employment decisions based on legitimate and nondiscriminatory reasons.

Step 5: Document Guidelines and Requirements for Salaries and Bonuses

Employers should make sure that any salary guidelines or requirements for any bonus (whether it is based on merit, productivity, sales or commissions) are well documented and based on fair, objective, predictable and measurable criteria. This should be adequately conveyed to employees so that they know what the employer's expectations are and are not left wondering how an employer arrived at a particular decision.

Step 6: Be Aware of State and Local Laws Prohibiting Wage Discrimination

Employers need to be aware that a number of states have laws prohibiting wage discrimination. Although the federal EPA only specifically prohibits wage discrimination on the basis of sex, some state laws may go beyond this. Employers should familiarize themselves with the laws of the state and cities in which they operate.

Step 7: Document and Be Ready to Defend All Employment Decisions

Employers need to make sure to carefully document all decisions regarding pay, performance and promotion. Doing so will provide an adequate record and serve as a defense in case of a claim of wage discrimination.

Step 8: Audit Pay Practices

Employers should frequently review their pay practices to make sure that they are not engaging in discrimination. Employers should make sure that any differentials that do exist are based on legitimate and nondiscriminatory factors and supported by written documentation, and if they are not, they should correct them. By doing so, employers may dramatically reduce the chance that they will be faced with a claim for wage discrimination.

Step 9: Aim to Hire an Integrated and Diverse Workforce

Employers should try to make sure that they hire and recruit qualified candidates regardless of gender or membership in a protected class. Employers and hiring managers should make decisions based on education, skill and merit. Employers should avoid making stereotypical assumptions about what a job applicant can and cannot do based on his or her membership in a protected class.

Step 10: Provide Timely and Effective Performance Evaluations

Employers should aim to provide employees with yearly or biannual performance evaluations. In doing so, employers should clearly set out the employer's expectations and show the employee how the employee is meeting them or not meeting them.

Step 11: Do Not Prohibit Employees from Discussing Wages

Employers should not prohibit employees from discussing information regarding wages, salary or benefits with other employees. The National Labor Relations Act specifically affords employees the right to engage in mutual concerted protected activity and work collectively to improve their wages, hours and working conditions. In addition, Colorado, California, Colorado, Illinois and Michigan have laws that prohibit employers from requiring that employees refrain from discussing their wages and/or waive their right to discuss such information.

Comparable Worth

Comparable worth, also known as "equal pay for work of equal value" or "equal pay for work of comparable worth," is a concept that aims to address pay disparities by ensuring that employees who perform work deemed to have the same value receive similar monetary compensation.

This strategy focuses on comparing the value that different roles bring to a company, regardless of job titles, and seeks to level out salaries based on the value of skills and responsibilities across professions, irrespective of gender. Comparable worth is distinct from the Equal Pay Act of 1963, which mandates equal pay for men and women holding equal jobs, whereas comparable worth looks at the value that different jobs bring to a company rather than job titles.

The implementation of comparable worth has been a subject of debate, with proponents advocating for its role in addressing pay inequities, especially in professions predominantly held by women, while critics express concerns about its potential impact on the free market and companies' ability to set salaries based on supply and demand.

Examples of Comparable Worth

Some examples of comparable worth in practice include:

- **Raising Wages in Female-Dominated Occupations:** Comparable worth initiatives aim to raise the wages of women in occupations traditionally dominated by females to align with the value of the work performed, regardless of gender. This can involve reevaluating job roles and compensating employees based on the value of their contributions rather than historical gender biases.
- **Equalizing Pay for Jobs of Equal Value:** Comparable worth principles advocate for equal pay for jobs of comparable worth, irrespective of gender or other demographic factors. For instance, if two positions are deemed to have equal importance to a company based on factors like skill level, responsibility, and effort, they should receive the same wage under a comparable worth system.
- **Job Evaluation and Compensation Alignment:** Comparable worth involves conducting job evaluations by vocational experts to assess the value of different roles within an organization based on various criteria like skill, education, effort, decision-making requirements, and working conditions. This evaluation process helps determine employee compensation to ensure fair and equitable pay based on job worth.
- **Addressing Occupational Segregation:** Comparable worth initiatives address wage disparities resulting from occupational segregation, where women are more likely to be employed in lower-paying occupations compared to men. By focusing on the value

of work rather than gender stereotypes, comparable worth seeks to rectify these disparities and promote pay equity.

- **Public Sector Implementation:** Comparable worth policies have been primarily implemented in the public sector to address wage gaps between male- and female-dominated occupations. These policies aim to align wages with the prevailing-wage principle, ensuring that public employees receive fair compensation comparable to private sector wages for similar work.

Difference b/w Comparable Worth and Pay Equity

- **Focus of Comparison:**

Comparable Worth: Comparable worth, also known as "pay equity," focuses on comparing the value that different roles bring to a company, regardless of job titles or gender. It aims to set employee salaries based on the value of comparable skills and responsibilities across professions, ensuring that jobs of similar value are compensated equally.

Pay Equity: Pay equity, on the other hand, typically refers to ensuring equal pay for equal work, as mandated by laws like the Equal Pay Act of 1963. It requires that men and women be paid equally for the same job, regardless of sex. Pay equity addresses the issue of paying individuals equally for performing the same job, while comparable worth looks at the value that different jobs bring to a company.

- **Legal Framework:**

Comparable Worth: Comparable worth is an economic concept that does not have a **direct** legal basis but is often associated with principles codified in laws like the Equal Pay Act of 1963 and Title VII of the Civil Rights Act of 1964. It seeks to address wage disparities by evaluating the value of different jobs based on factors like skill, education, and effort.

Pay Equity: Pay equity is a legal concept that is enshrined in laws like the Equal Pay Act of 1963 and Title VII of the Civil Rights Act of 1964. It mandates equal pay for equal work, prohibiting pay discrimination based on sex, race, color, national origin, and religion. Pay equity laws focus on ensuring that individuals are paid equally for performing the same job.

- **Approach to Wage Setting:**

Comparable Worth: Comparable worth seeks to establish fair compensation by comparing the value of different jobs within an organization, even if they are unrelated or have different job titles. It aims to address wage disparities by evaluating the worth of positions based on various criteria like skill, effort, and responsibility.

Pay Equity: Pay equity primarily focuses on ensuring that individuals are paid equally for performing the same job, regardless of their gender or other protected characteristics. It aims to eliminate wage discrimination by requiring equal pay for equal work, without considering the value of different jobs within an organization.

Budgets and Administration

Budgets and administration are crucial aspects of public administration and financial management. Here are some key points about budgets and administration:

Types of Budgets in Public Administration

- **Revenue Budget:** Details the revenue received by the government through taxes and other sources, and the expenditure met through it.
- **Balanced Budget:** Has no deficit or surplus, with revenues equal to expenditures.
- **Performance Budget:** Focuses on the end result or performance of developmental programs to ensure cost-effectiveness and efficiency.
- **Zero-Based Budget:** Starts from a zero base, with the needs and costs of every function of the organization considered for the next year's budget.

Role of Budgets in Public Administration

- **Political Tool:** In a parliamentary system, budgets become a tool of political compromise, where coalition parties keep each other in check.
- **Developmental Challenges:** With increasing developmental challenges and awareness regarding the usage of taxpayer money, new budgeting methods like performance-based budgeting have emerged as transparent and accountable approaches.
- **Offices of Budgets and Administration**
 - ✓ **University of Houston:** The Office of Budgets and Administration for the College of Liberal Arts and Social Sciences aims to provide faculty and staff with quality support.
 - ✓ **Butler University:** The Office of Budgets and Grants Administration provides pre- and post-award financial services.
 - ✓ **Morehead State University:** The Office of Budgets and Financial Planning is responsible for developing and implementing the University's unrestricted operating budget and financial planning.
- **Budgeting in Research Administration**
 - ✓ **Arizona State University:** The ERA budgets guide provides best practices for data entry in budgets to ensure accurate information.

- ✓ **Cost Sharing Budgets:** Cost sharing items are budgeted separately, and departments contributing to cost sharing have a workflow created for approval/rejection.

Role of Budgets and Administration in Public Administration

The role of the Office of Budgets and Administration in public administration is to provide financial support and services to ensure effective management of funds within an organization or institution.

This office is responsible for overseeing budget development, financial planning, and administration to ensure that resources are allocated efficiently and in line with organizational goals and priorities. Specifically, the Office of Budgets and Administration may be involved in the following key functions:

- **Budget Development:** Developing and managing budgets to allocate resources effectively and ensure financial sustainability within the organization.
- **Financial Planning:** Engaging in strategic financial planning to support the organization's mission and objectives, including forecasting financial needs and identifying funding sources.
- **Financial Oversight:** Monitoring and evaluating financial activities, ensuring compliance with financial regulations and policies, and identifying areas for improvement in financial management practices.
- **Resource Allocation:** Allocating funds to different departments or programs based on organizational priorities and needs, ensuring that resources are used efficiently and effectively.
- **Reporting and Analysis:** Providing financial reports, analysis, and recommendations to support decision-making processes and improve financial performance.
- **Grant Administration:** Managing pre- and post-award financial services related to grants, including budget development, financial reporting, and compliance with grant requirements.

Global Compensation

Global compensation refers to the total compensation package offered to employees working abroad, encompassing both direct and indirect forms of compensation. Direct compensation includes the base salary and any bonuses, while indirect compensation comprises additional benefits provided by the employer, such as pension plans, group insurance, personal days, vacation time, share purchase plans, and other perks.

This comprehensive approach to compensation takes into account the monetary value of benefits beyond the base salary, aiming to attract and retain talent by offering a competitive and appealing rewards package.

Global compensation strategies are essential for multinational organizations to ensure fair and equitable remuneration for their international workforce, considering factors like local cost of living, benefits offerings, and compliance with international labor laws

Benefits of Global Compensation for Employees and Organization

A well-designed global compensation strategy offers several benefits for both employees and organizations:

Benefits for Employees

- ✓ **Competitive Pay:** A global compensation strategy ensures employees receive salaries that are competitive within their local markets, enabling organizations to attract top talent.
- ✓ **Equitable Rewards:** By considering factors like job role, experience, and location, a global compensation strategy promotes pay equity and ensures employees in similar positions receive fair compensation.
- ✓ **Attractive Benefits:** In addition to competitive salaries, a global compensation strategy provides employees with attractive, locally-tailored benefits packages that improve their quality of life and make them feel valued.
- ✓ **Transparency:** A clear and transparent global compensation strategy helps employees understand how they are being rewarded and what they need to do to advance their careers and increase their compensation.

Benefits for Organizations

- ✓ **Compliance:** A global compensation strategy helps organizations navigate the complex web of local employment laws and regulations related to minimum wage, income taxes, statutory benefits, and equal pay legislation, ensuring compliance across multiple jurisdictions.
- ✓ **Talent Attraction and Retention:** By offering competitive compensation and attractive benefits, organizations can stand out in the global talent market and secure top talent, while also retaining their existing workforce.
- ✓ **Cost-Effectiveness:** A well-structured global compensation strategy allows organizations to manage their compensation costs effectively, ensuring they are not overpaying for talent while still remaining competitive.

- ✓ **Organizational Culture:** A fair and transparent global compensation strategy can contribute to a positive organizational culture, where employees feel valued and motivated to contribute to the company's success.
- ✓ **Scalability:** As organizations expand globally, a robust compensation strategy enables them to manage their workforce compensation effectively, ensuring consistency and fairness as they grow.

By prioritizing global compensation and developing a comprehensive strategy, organizations can create a win-win situation for both employees and the company, fostering a positive work environment, promoting talent retention, and supporting long-term growth and success.

Potential Drawbacks of Global Compensation Strategy

The potential drawbacks of a global compensation strategy include:

- **Complexity and Administration Burden:**

Managing compensation across multiple countries with varying regulations, currencies, and cost-of-living standards can be administratively complex and resource-intensive, requiring significant time and effort to ensure compliance and fairness.

- **Currency Fluctuations:**

Global compensation strategies may be impacted by currency fluctuations, affecting the purchasing power of employees in different locations and potentially leading to disparities in real income levels.

- **Legal and Compliance Challenges:**

Adhering to diverse labor laws, tax regulations, and reporting requirements in multiple countries can pose legal and compliance challenges for organizations, increasing the risk of noncompliance and potential penalties.

- **Cost Considerations:**

Implementing a global compensation strategy that offers competitive salaries and benefits worldwide can be costly for organizations, especially when considering factors like exchange rates, local market conditions, and benefits packages tailored to each location.

- **Equity Concerns:**

Ensuring equity and fairness in compensation across different regions and roles can be challenging, as factors like local market conditions, cultural norms, and employee expectations may vary, leading to potential perceptions of unfairness or inequality.

➤ **Retention and Motivation:**

Inconsistencies in compensation levels or benefits across different regions may impact employee retention and motivation, as disparities in pay or rewards could lead to dissatisfaction and disengagement among the workforce.

Addressing these potential drawbacks requires careful planning, regular review of compensation structures, and a deep understanding of local regulations and market conditions to ensure that the global compensation strategy remains effective, compliant, and competitive in the long term.

Social Contract

The concept of a social contract in global compensation refers to the agreement between employers and employees regarding the terms and conditions of employment, including compensation, benefits, and working conditions, across different countries and cultures. This social contract is essential for multinational organizations to ensure fair and competitive compensation for their globally distributed workforce, while also considering local labor laws, cultural norms, and business objectives.

Key Elements of a Global Compensation Social Contract

A comprehensive global compensation social contract should include elements such as:

- **Base Salary:** Determining the base rate of pay for employees, considering factors like local purchasing power, inflation rates, and special tax policies.
Allowances and Premiums: Providing additional monetary benefits, such as cost-of-living adjustments, housing allowances, and hardship pay, to ensure employees maintain a similar standard of living across different locations.
- **Benefits and Perks:** Offering a range of benefits, including health insurance, retirement plans, and stock options, to attract and retain top talent globally.
- **Compliance with Local Labor Laws:** Ensuring that compensation practices comply with minimum wage and compensation laws across all geographies, as well as local regulations regarding employee benefits and working conditions.
- **Fairness and Equality:** Striving for fairness and equality in compensation practices, considering factors like job role, experience, and location, to promote a positive work environment and employee satisfaction.

Challenges and Considerations:

Developing and implementing a global compensation social contract can be complex due to factors like:

- **Currency Fluctuations:** Managing the impact of currency fluctuations on employee compensation and benefits.
- **Local Labor Laws and Regulations:** Ensuring compliance with diverse labor laws and regulations across different countries.
- **Cultural and Regional Differences:** Adapting compensation practices to local cultural norms and regional differences in cost of living, benefits expectations, and working conditions.
- **Global Economic Trends:** Responding to global economic trends, such as changes in minimum wage laws, collective bargaining agreements, and social protection policies.
- **Best Practices and Strategies :** To develop an effective global compensation social contract, organizations can consider the following strategies:
- **Location-Independent Pay:** Paying employees the same salary regardless of their location, with adjustments for local cost of living and other factors.
- **Localized Pay:** Paying employees based on local market rates and conditions, with consideration for global equity and fairness.
- **Total Rewards Approach:** Focusing on the overall compensation package, including base salary, benefits, and perks, to attract and retain top talent globally.
- **Regular Review and Adjustment:** Regularly reviewing and adjusting compensation practices to ensure they remain competitive, fair, and compliant with changing local and global conditions.

By adopting a comprehensive and flexible global compensation social contract, organizations can promote a positive work environment, attract and retain top talent, and ensure compliance with local labor laws and regulations.

Culture Pay

Culture pay refers to the impact of cultural factors on international compensation systems and practices. Here are the key points about culture pay in global compensation:

- **Cultural Influence on Compensation:**

Cultural issues, including local culture and corporate culture, play a significant role in shaping international compensation systems.

Compensation strategies that align with local cultural values are more likely to succeed, while those that conflict with cultural norms may fail.
- **Motivation and Rewards:**

Cultural attitudes towards motivation and rewards greatly influence the effectiveness of using compensation as a motivator.

In group-oriented societies, motivations that focus on group aspirations and potentials are more effective than individual recognition.

Incentive programs need to align with cultural norms to be successful.

➤ **Challenges in Cultural Transition:**

Moving to a new culture presents challenges such as coping with loss of familiarity, building new support systems, and adapting to different ways of feeling competent and worthy.

Support and guidance can ease the transition by reducing instability and addressing doubts about living in a new culture.

➤ **Approaches to Global Compensation:**

The home-country-based approach aims to equalize the employee's standard of living enjoyed in their home country.

The host-country-based approach bases the expatriate employee's compensation on local national rates.

The balance sheet approach calculates compensation using the home-country-based approach with all allowances, deductions, and reimbursements.

➤ **Developing a Global Compensation Strategy:**

Global compensation strategies provide the general framework that determines how an organization's international employees get compensated for their work.

Factors to consider include compliance with local laws, competitiveness in attracting talent, cost-effectiveness, and ensuring fairness and equality.

Impact of Culture pay on Global Compensation strategies

Cultural differences can significantly impact global compensation strategies in several ways:

➤ **Alignment with Cultural Values:**

Cultural differences influence how compensation is perceived and valued in different regions. Global compensation strategies need to align with local cultural values to be effective and well-received by employees.

➤ **Motivation and Rewards:**

Cultural attitudes towards motivation and rewards vary across different cultures. In group-oriented societies, motivations that focus on group aspirations and potentials

may be more effective than individual recognition. Compensation strategies need to consider these cultural nuances to effectively motivate employees.

➤ **Fairness and Equality:**

Cultural differences can impact perceptions of fairness and equality in compensation. What is considered fair and equal may vary across cultures, affecting how compensation packages are structured and perceived by employees.

➤ **Communication and Transparency:**

Cultural differences in communication styles and expectations can influence how compensation information is shared with employees. Transparent communication about compensation practices is essential, but cultural norms may shape how this information is received and interpreted.

➤ **Local Market Conditions:**

Cultural differences can impact local market conditions, cost of living, and expectations around compensation. Global compensation strategies must consider these factors to ensure that employees are fairly compensated based on regional norms and standards.

➤ **Employee Engagement and Retention:**

Cultural differences in attitudes towards work, rewards, and recognition can affect employee engagement and retention. Compensation strategies that resonate with local cultural values are more likely to foster employee loyalty and satisfaction.

Strategic Choices in Global Compensation

When developing a global compensation strategy, organizations face several strategic choices that can significantly impact their ability to attract, retain, and motivate a globally distributed workforce. Here are some key strategic considerations:

➤ **Location-Independent Pay vs. Localized Pay**

Organizations can choose between two main approaches for international compensation:

- ✓ **Location-Independent Pay:** Paying employees the same base salary regardless of their location, with adjustments for local cost of living and other factors.

- ✓ **Localized Pay:** Basing employee compensation on local market rates and conditions, while considering global equity and fairness.

The choice between these approaches depends on factors like the company's values, objectives, and perceptions of fairness.

- **Alignment with Cultural Values**

Cultural differences can significantly influence how compensation is perceived and valued in different regions. Global compensation strategies need to align with local cultural values to be effective and well-received by employees.

- **Fairness and Equality**

Ensuring fairness and equality in compensation is crucial when working with a global workforce. However, opinions on what counts as fair and equal may vary across cultures. Organizations must define their own standards of fairness based on factors like job role, experience, and location.

- **Compliance with Local Laws**

Global compensation strategies must comply with minimum wage and compensation laws across all geographies where the organization operates. Failure to comply can result in legal issues and penalties.

- **Cost-Effectiveness**

Developing and implementing a global compensation strategy can be costly, especially when considering factors like currency fluctuations and the need to pay employees in multiple currencies. Organizations must balance competitiveness with cost-effectiveness.

- **Transparency and Communication**

Transparent communication about compensation practices is essential, but cultural differences in communication styles and expectations can influence how this information is received and interpreted by employees. Organizations should strive for clear and culturally-appropriate communication about compensation. By carefully considering these strategic choices, organizations can develop global compensation strategies that effectively attract, retain, and motivate a diverse global workforce while ensuring fairness, compliance, and cost-effectiveness.

Comparing Systems

When comparing systems in global compensation, organizations must consider various factors to ensure fairness, compliance, and effectiveness across different regions. Here are

some key points from the provided sources that can aid in comparing systems in global compensation:

Approaches to Global Compensation:

Organizations can choose between different approaches such as location-independent pay and localized pay when designing international compensation systems.

Location-independent pay involves paying employees the same base salary regardless of their location, with adjustments for local cost of living, while localized pay bases compensation on local market rates and conditions.

Base Pay Considerations:

Base pay is a fundamental element of global compensation and can be calculated based on the employee's home country, host country, headquarters location, or using the balance sheet approach.

Different approaches like the home-country-based approach, host-country-based approach, headquarters-based approach, and balance sheet approach offer varying methods for determining base pay in global compensation systems.

Variable and Incentive Compensation:

Variable pay, linked to performance and tenure, covers bonuses, stock options, and restricted share grants, providing additional incentives for employees.

Premiums and Allowances:

Premiums and allowances, added to the base salary, help employees maintain their standard of living and cover costs associated with international moves. These can include hardship or hazard pay, cost of living adjustments, educational assistance, housing assistance, and home leave.

Benefits and Perks:

International benefits and compensation beyond base salary include paid time off, health insurance, retirement plans, and spouse or partner assistance, which vary based on local laws and regulations.

Compliance and Fairness:

Ensuring compliance with local labor laws, maintaining fairness and equality, and considering factors like skills, experience, industry, and job level are crucial when comparing systems in global compensation

Expatriate Pay

Expatriate pay refers to the salary and benefits provided by an employer to an employee living in a foreign country. It includes compensation designed to offset the cost of living in

the host country and may encompass additional benefits like housing, transportation, and health insurance. Expatriate pay is crucial for ensuring that employees working abroad are fairly compensated and supported during their international assignments.

components of expatriate pay packages

The typical components of expatriate pay packages include:

➤ **Base Salary:**

The base salary is a fundamental component of expatriate compensation, serving as the main benchmark for other elements in the package, such as bonuses and benefits.

➤ **Hardship Premium:**

For expatriates facing "hardships" due to their transfer to a foreign location, a hardship premium may be provided to compensate for challenges like adverse living conditions, climate, or infrastructure issues.

➤ **Allowances:**

Various types of allowances are common in expatriate compensation packages, including:

✓ **Cost of Living Allowance:** Compensates for differences in expenditure between the home country and the host country, considering factors like inflation and price levels.

✓ **Housing Allowance:** Ensures expatriates can maintain their home-country living standard in the host country, either through direct payments or housing facilities provided by the organization.

✓ **Home Leave Allowance:** Facilitates visits back to the home country once or twice a year, enabling expatriates to renew personal and business ties.

✓ **Relocation Allowance:** Supports the relocation of expatriates to the assignment location, covering moving, shipping, storage costs, and subsidies for purchasing appliances and vehicles.

➤ **Tax Equalization and Tax Assistance:**

To address the complexities of dual tax obligations, companies may offer tax equalization to cover additional tax liabilities incurred during the international assignment. Tax assistance and access to tax advisors can also be provided.

➤ **Health Insurance:**

Comprehensive health coverage, including medical, dental, and emergency medical evacuation insurance, is crucial for expatriate employees and their families' well-being in a foreign country.

➤ **Education Support:**

Education allowances or subsidies for international schools may be offered to ease the financial burden of providing quality education for expatriates' dependents in the host country.

➤ **Cultural Training and Support:**

Providing cultural training and language assistance helps expatriates adapt to the new environment, promoting a smoother transition and better integration into the host country's work and social culture

Expatriate Pay v/s Domestic Pay

Expatriate pay differs from domestic pay in several key ways:

➤ **Cost-of-Living Adjustments:**

Expatriate pay often includes cost-of-living allowances to help offset the differences in living expenses between the home country and the host country where the expatriate is working.

Domestic pay does not typically include such allowances, as employees are living and working in their home country.

➤ **Housing and Relocation Assistance:**

Expatriate compensation packages frequently provide housing allowances and cover relocation expenses, such as moving costs and temporary housing, to support the expatriate's move to a foreign country.

Domestic employees do not receive these types of benefits, as they are already living in their home country.

➤ **Tax Equalization:**

To ensure that expatriates are not disadvantaged by the tax implications of working abroad, many companies offer tax equalization, where the expatriate pays the same amount of tax they would have paid in their home country.

Domestic employees are subject to the standard tax laws and regulations of their home country.

➤ **Education Assistance:**

Expatriate packages may include education allowances or subsidies for international schools to help cover the costs of providing quality education for expatriates' dependents in the host country.

Domestic employees do not receive such benefits, as their children typically attend local schools in the home country.

➤ **Hardship Premiums:**

In some cases, expatriates working in challenging environments or locations with poor living conditions may receive hardship premiums as part of their compensation package.

Domestic employees do not receive hardship premiums, as they are not working in foreign countries.

➤ **Repatriation Assistance:**

When expatriates complete their assignments and return to their home country, some companies provide repatriation assistance to help with the transition, such as job search support or a repatriation bonus.

Domestic employees do not require repatriation assistance, as they are already living and working in their home country.



QUESTION BANK

Year / Semester: II MBA IV Semester

Regulation: R22

Subject and Code: Compensation Management & 22MBA242C

S.No.	CO	Questions – 2 Marks	BT
Unit V: (Legal & Administrative Issues in Compensation)			
1	5	What is pay discrimination?	L1
2	5	Define comparable worth.	L1
3	5	What is global compensation?	L1
4	5	What is labour law in compensation?	L1
5	5	What are the legal issues in compensation	L2
6	5	Describe the concept of pay equity.	L2
7	5	What are the challenges in global compensation.	L2
8	5	Differentiate between domestic and international compensation.	L2
9	5	A company is accused of gender-based pay differences. Which concept is violated?	L3
10	5	An MNC is paying employees differently across countries. What factors should it consider?	L3

S.No.	CO	Questions – 10 Marks	BT
Unit V: (Legal & Administrative Issues in Compensation)			
1	5	Define Legal Issues in Compensation. Explain their importance in pay administration.	L1
2	5	What is Pay Discrimination? Explain its causes and consequences.	L1
3	5	Define Comparable Worth. Why is it important in compensation management?	L1
4	5	What is Expatriate Pay? Explain its basic components.	L1



QUESTION BANK

Year / Semester: II MBA IV Semester

Regulation: R22

Subject and Code: Compensation Management & 22MBA242C

5	5	(a) Discuss the major Legal Issues in Compensation Management. (b) Explain how organizations can ensure compliance in compensation administration.	L2
6	5	Explain the concept of Comparable Worth and analyze its implications for organizations.	L2
7	5	(a) Explain the concept of Social Contract in Global Compensation. (b) Discuss how Culture influences pay systems across countries.	L2
8	5	Compare different Global Compensation Systems and analyze the strategic choices involved in global pay decisions.	L2
9	5	A multinational company is facing complaints regarding pay discrimination between male and female employees. As an HR Manager, suggest measures to address pay discrimination and ensure legal compliance.	L3
10	5	a) An Indian company is sending managers to the USA for a three-year international assignment. Identify the key challenges involved in designing an expatriate compensation package. (b) Design an appropriate expatriate compensation package considering factors such as cost of living, taxation, housing, hardship allowance, and cultural adjustments.	L3

Books to be referred for:

Unit 5:

- 1. Strategic Compensation, 10/e, Joseph J. Martocchio, Pearson Education, 2020.**
- 2. Compensation Management, Tapomoy Deb, Excel Books, New Delhi, 2013.**