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SUBJECT:COMPENSATION MANAGEMENT (4539232)

**MBA SEM 03
Module 01 Chapter 01**

❁ AN OVERVIEW OF REWARD MANAGEMENT ❁

● **An Overview to Reward Management**

Reward management is the introduction of policies and strategies that rewards every employee within the business fairly and consistently across the board. Rewarding employees for outstanding work makes them feel valued and can prove to be a powerful motivational tool that boosts productivity. The most successful reward management programs provide employees with opportunities to elevate themselves and allow businesses to recognize good workers.

Rewards can come in many forms, with the most effective being those which support your business's overall strategy, and purpose, culture and performance, and employee requirements. If you are thinking about implementing a reward management scheme, you should give serious consideration as to how you are going to manage it. What rewards will your employees appreciate – will these rewards benefit your employees financially, add to their lifestyle or improve their lives? Will the rewards benefit your company culture and boost its performance? Are you recognizing and responding to changes in reward expectations of employees?



A compelling reward management programme promotes a healthy work-life balance that allows your employees to feel at and perform at their best. It can also contribute to a thriving business culture and foster a compassionate environment and caring community. Whilst pay and benefits are significant, research has identified that non-financial rewards can be just as incentivizing for employees.

● Meaning of Reward management

Reward management is an integrated process that deals with the strategies, policies and practices required to ensure that the value and contribution people make to achieving organizational, departmental and team goals is recognized and rewarded.

● Characteristics of reward management

- ✓ People
- ✓ Stakeholder approach
- ✓ Integrated (integrated with organization goal. And activity)
- ✓ Strategic (what must be done and to believe in the need to plan ahead and make the planned happen.)
- ✓ Evidence-based

● What is reward management?



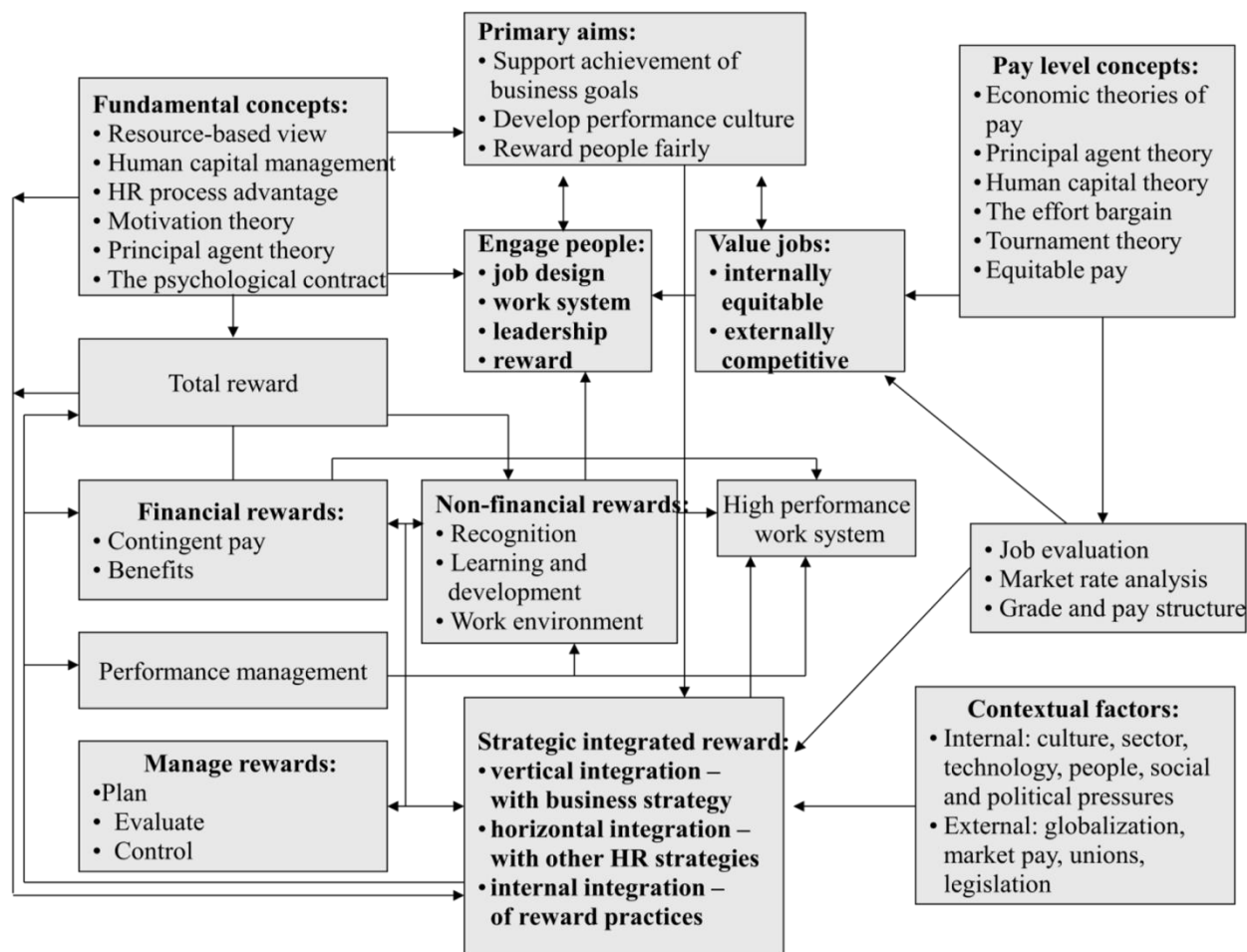
Reward management is a strategic approach to incentivizing your workforce to improve performance, engagement and morale:

- It rewards employees according to a business's values and that they are prepared, or are able, to fund
- It rewards employees for the value they create and contributes to employee well being
- Rewards the things that convey the right message about what is important in terms of behaviors and outcomes within a business
- It helps to contribute to a strong, positive company culture
- It strengthens your EVP (employee value proposition) – your EVP is what sets you apart from other employers (your competitors) and helps you attract top talent to your organization
- It can help motivate employees and confirm their commitment to the business and engagement within it
- Help to retain top talented individuals to your business
- It increases productivity
- It helps you to build a strong reputation – this can be a key way to engage employees, contribute to a positive reputation and have a significant influence on your clients.

● The Reward Management Framework

- It's a complex model but it is simplified by dividing the concepts into,

- Aim of reward management
- Achieving the aims
- Contextual factors
- Concepts





● Aims of reward management

- ✓ Support the achievement of business goals;
- ✓ Reward people according to the value they create;
- ✓ Align reward practices with employee needs;
- ✓ Reward the right things to convey the right message about what is important in terms of behaviors and outcomes.
- ✓ Reward people according to what the organization values and wants to pay for;
- ✓ Help to attract and retain the high-quality people the organization needs;
- ✓ Motivate people and obtain their engagement and commitment;
- ✓ Develop a high performance culture.



● The law on pay and reward

A key aspect of reward management is being able to determine who should be rewarded. How do you go about choosing those who have contributed to a successful project or group goal?

In all pay and reward policies, all employers within the UK must meet strict legal requirements, such as the National Minimum Wage and equal pay, as well as reporting on the chief executive pay ratio and gender pay gap.

The National Minimum Wage applies to all employees and workers over 16 years of age. And although not a legal requirement, more than 7,000 businesses have signed up to the voluntary Living Wage.

Equal pay revolves around sex discrimination and gives the right for men and women to be paid the same for the same, or equivalent, work. Despite this legislation, there still remains huge gender pay differences. This is reflected in the requirement for larger organizations to annually report the size of their gender pay gap.

UK employment legislation also demands businesses provide certain workplace benefits, such as paid leave or pension schemes.

Additionally, businesses must pay their employees in accordance with any contractual agreements. A contract between you and your employee is legally binding and therefore its terms must be upheld by both sides.



● What do we mean by ‘reward’?

The easiest way to separate rewards is to split them into two categories: intrinsic and extrinsic. Intrinsic awards are encompassed by things such as awards, praise, and public recognition, which give a sense of achievement but are not monetized. Whilst extrinsic rewards are physically given and can involve value such as a bonus or paid holiday, for example.

Within that, they can be further divided into three sub-categories: benefits, perks, and rewards.

➤ **Benefits**

Benefits tend to be built into the employee’s salary; these include pensions that they can claim after reaching a certain age. Newer elements such as paid leave to adopt a pet are being introduced by some organizations, as are non-financial rewards including flexible working. Recognition through an “employee of the month” award, and opportunities for personal and career development are all good examples of other types of rewards.

➤ **Perks**

Traditionally perks are seen as little “treats” that can make working life more enjoyable. These range from donut and coffee hump day to dress-down Fridays. Previously thought of as “fringe” perks, they are now gaining in popularity in businesses and starting to count for more with employees.



Many employees also wish to improve their lot in life, and those companies who are switched on to such things are starting to recognize this. Forward thinking companies are now beginning to include making time allowances to learn new languages, join fitness classes, or cycle-to-work programs. It probably hasn't escaped your notice that these types of perks are mutually beneficial to you as an employer. Happier, healthier employees are likely to contribute more to an organization's culture by living better lives both inside and outside their working environment.

➤ **Rewards**

Rewards give you a chance to promote productivity in such a way that meshes with your business's values and culture. Instead of providing financial rewards or perhaps an additional day's holiday for excellent work, think about offering other incentives that advance teamwork, or consideration for others within the workplace, as well as those incentives that encourage quantity and quality of work.

● **Creating an employee reward scheme**

First, you should start by asking yourself two questions: where do we want our reward practices to be in a few years' time? and how do we intend to get there? By being able to determine what your reward process will look like several years down the line, it also shows you the way in which the vision will be realized. A reward strategy defines what your business wants to achieve in the longer term, to its development and how it will implement



reward policies. It also underpins the basis upon which your employees will be valued and rewarded.

Your business objectives should also be measured by long, medium, and short term goals and be able to respond rapidly to a changing and fluctuating market.

➤ **Other aspects to consider:**

- **Multiple reward systems** – if you select a single method of reward, it may not work well for all employees. Different methods appeal to different people. This is particularly apparent at a generational level, and it also limits the opportunities for employees to achieve. Multiple reward systems can create additional levels of achievement and recognition and give your employees a reason to try to reach their full potential, whatever their age. Reward systems that deliver a mix of financial and non-financial provisions with pay and other benefits are known as “total reward” programmes.
- **Design advice** – an important consideration when creating a competitive reward scheme is to understand how other reward schemes within your industry look and how they work. This can be particularly important when attracting and recruiting top talent and making sure they join your business rather than your that of your competitors. That said, it is very difficult to obtain and compile reward data from other businesses, unless they openly agree to share it. However, there are a



number of companies that provide reward scheme design services which can be tailored to your industry's needs.

● The components of a reward management system

- Set reward objectives and criteria with goal setting
- Review your current reward policies and practices by highlighting key reward issues and problems that need addressing
- Measure reward effectiveness – decide what to measure (data, where from, how gathered), specify measures with reference to reward goals and success criteria, collect and analyse data
- Evaluate reward outcomes – this provides you with a defined process for continuing evaluation
- Develop future reward directions and practices – this gives you a clear understanding of what needs to be achieved and why, which provides the basis for future review and evaluation processes
- Implement new or improved reward management scheme

➤ **Employee reward ideas**

- **Saying “thank you”** – whilst this strictly isn't part of an established reward scheme, the power of a simple thank you should never be underestimated. It can mean the world to an employee and create a real sense of respect that many companies lack. You should never shy away



from thanking hard-working employees when they have done a good job.

- **Celebrating success via email** – an email sent company-wide, perhaps in a newsletter style, is great for highlighting employee achievements. These can connect different departments that are not usually aware of the other's work and promote a sense of community within the workplace. The best successes to highlight are those which benefit the company as a whole, particularly if they have helped fulfil your business's mission statement or epitomise a core value. This will encourage other employees to do the same and build a tangible ethos for your business going forward.
- **Employee of the month** – this can work particularly well if the employee of the month is voted for by other employees. This presents a positive reward in front of the workforce and is a fantastic way to emphasize achievement and good work.
- **Company awards** – you might decide to host an annual or bi-annual awards evening based on employee votes, which can be a fun way for individuals to gain recognition. It is a widely known fact that employees who are recognized for their work by their employers and their colleagues are the most productive and happiest.
- **Long service** – long service awards can reward loyalty to the business and show appreciation for an employee's dedication. The reward does



not necessarily need to be expensive, perhaps a meal in a pleasant restaurant, for example, would be unique and requires little effort from those tasked with arranging it.



MBA SEM 03
Module 01 Chapter 02

☼ THE REWARD SYSTEM ☼

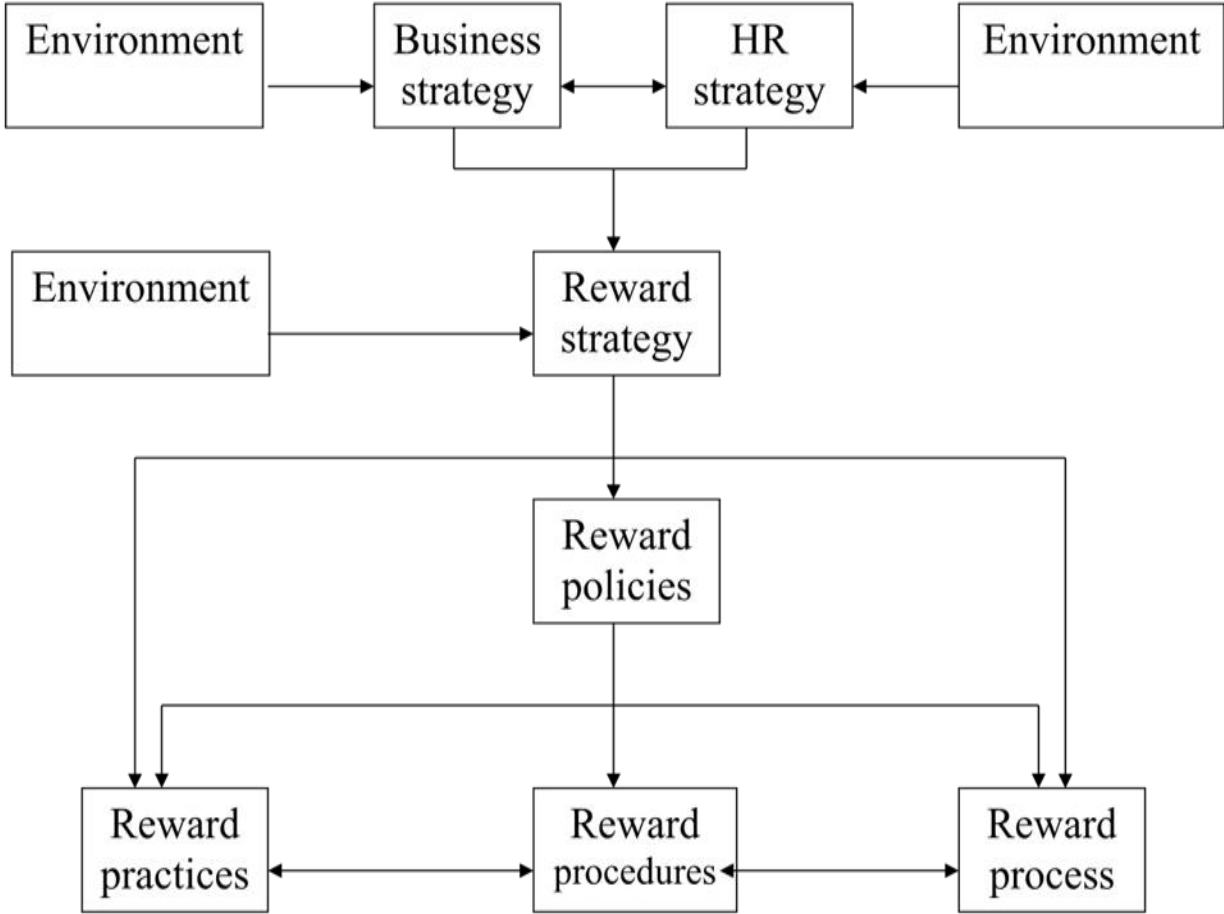
● **Introduction**

Reward is an objective way to describe the positive value an individual ascribes to an object, behavioral act or an internal physical state. Primary rewards include those that are necessary for the survival of species, such as food and successful aggression. Secondary rewards can be derived from primary rewards. Money is a common type of reward. Most of the times, organization rewards its staffs by pay increment or higher bonus. Money is the most direct and easiest way to reward the staff and create a sense of satisfaction.

Nowadays, companies are making many modifications on their rewards system to adopt internal and external changes. Reward system is used as a critical tool for driving business growth and boosting staff morale. It is important to align the right measures and reward systems with firm's structure and culture.

However, the reward system is not emphasized when the operational system is designed. Financial and HR systems are prioritized in the organization. The firm needs to be aware of the importance of the reward system and spend enough manpower and resources to design a decent reward system.

● How a reward system operates





● Five Main Objectives of Reward System

To design an efficient reward system, the organization needs to fully understand the definition and meaning of reward system. It also needs to setup a clear objectives for its reward system.

➤ **These are five key objectives that can be achieved by applying reward system.**

(1) Attraction and Retention:

Research shows that reward system can directly affects the job choice, career choice and turnover rate of the organization. Organization's that give the highest rewards tend to attract and retain more people. This indicates that the better reward system can give a higher satisfaction level to employee. The higher satisfaction level will lead to a longer length of service and reduce organizational turnover rate.

In retail industry, employees are the most important resources. The organization needs to retain high performance employees and remove inefficient employees. To maintain the top performers, current reward system need to be compared with other organization's. The firm need to ensure that its reward system is superior than its competitors.

However, it is very costly to maintain a higher reward system. This will increase the labor cost of the organization. In certain organization, the labor cost covers 50% of overall operational cost. In addition, if all employees are awarded in



the same level, it can cause feelings of inequity because the better performers are likely to feel inequitably treated when they are rewarded at the same level as poor performers in the same organization.

(2) Motivation of Performance:

When certain conditions exist, reward systems have been demonstrated to motivate performance.

The reward system must be directly link to the effective performance. Staffs should be rewarded according to their needs. Once the staff is rewarded for their outstanding performance, they will further improve their work process. The effect of this reward system depends on the situation and the needs of people. There are three factors that can affect the motivation effect by using reward system.

- 1. Performance-Outcome Expectancy:** Individuals expect that if they behave in a certain way, they will get certain outcomes due to their behaviors. For example, if a person sells ten units of product within one month, they will receive their based salary without any additional bonus. In the other hand, they can receive 15% of commission if they can sell 15 units per month. In this case, the staff will be motivated to achieve a higher sells level in order to receive 15% of commission.
- 2. Attractiveness:** Based on the perception of the staff, the outcome of the reward system will lead to different attractiveness to employees. For example, some staffs want to be promoted as they have higher desire to gain



more control power. Other staffs might prefer increment of their salary rather than promotion. The firm needs to understand the employee's need and select the most attractive way to retain and attract motivated staffs. In retail industry, the firm should select the most appropriate approach to reward its employees. For staffs who want to lead a team and manage people, the firm can promote them to be a leader of a sells team. For staffs who enjoy the interaction with customer, the organization can increase their commission and keep them at ground level.

3. Effort-Performance Expectancy: The expectancy represents the individual's perception of how hard it will be to achieve certain behavior. For example, if the employee has very negative thought, they feel that they can never achieve the sells target. The employees will be further discouraged if they really fail to achieve the target. However, if the firm creates a positive working environment, the staff will feel that the quota is achievable and they will be motivated to hit the target and receive the reward. Therefore, most of the retail firms want to encourage their staff to think positively and believe that the sells target is achievable. This could help the staff to performance better.

(3) Create Positive Organizational Culture:

Reward system can help the firm to create a positive culture. Depend on the way that reward systems are developed, administered, and managed, the organizational culture will be affected according to these factors. For example, the



reward system can influence the human resources oriented culture, entrepreneurial culture, innovative culture, competence based culture, fair culture and participative culture. It can also affect the communication, motivation and satisfaction of the employees. For example, the employees will work hard to achieve their personal value if their efforts are recognized organization. However if the organization rewards all staffs equally without appreciation of the individual's effort, most of the staff will tend to slack.

➤ The established culture should be able to meet following standards:

1. The individual believes that the better behavior will lead to better outcomes.
2. The individual feels that the reward is attractive enough for them to improve their work. Organization needs to understand the needs of the staff
3. The individual believes that it is possible to achieve certain level of target. The firm should encourage the staff to think positively and set an achievable target for them. For example, the monthly sells quota need to be reasonable.

(4) Improve on Skills and Knowledge:

The reward system can encourages employees continuously improve their skill sets. The firm can pay employees based on their skill levels. Staffs will be motivated to attend extra courses and improve their skill sets in order to receive more benefit.

For example, the firm can reward staff with outstanding explanation and presentation skills. Staffs will take more initiatives to improve their presentation skill and attend related courses.



Both organization and staffs can be benefited from this. The firm can adjust the setup of the reward system based on the requirement of the organization. For example, effective communication skill and customer service skill are more important in retail industry. The firm can provide benefits to staffs who attend relevant courses and have outstanding customer service skills.

(5) Reinforce and Define Organizational Structure:

The reward system can reinforce and define the organizational structure. The firm might not foresee the impact of reward system on firm's structure changes.

However, the reward systems can have a strong impact of how integrated the organization is and how differentiated it is.

For example, if the company wants to create a united structure, it can reward all staff in the same manner. In this case, more teamwork will be encouraged and there are less competition within the organization. If the firm wants to differentiate the top performers from average performers, they can apply a reward system that can create a more competitive environment. In this system, employees focus on their individual work instead of the benefit of the whole team. Insurance companies encourages on agent's individual efforts. The reward system provides intensive benefit for top sellers and insurance agents are not sharing their information even within their own team.

By studying this theory, the reward system can be used to motivate the staff; encourage continues learning process and build organizational culture/structure.



The retail firm needs to select the most attractive approach that can best fit into the needs of staff.

It is not necessary for the retail firm to focus all five objectives. The firm should select one or two main objectives that have highest priority. For example, some retail firms focus on Motivation of Performance. Supervisors need to consistently encourage their staffs and create a positive working environment. Staffs are informed that the sells quota is achievable if they work hard enough.

Based on the structure of the firm, the reward system need to be carefully designed to meet the organizational target. The retail firm should never underestimate the impact of the reward system on the structure of the firm.

● Requirements of an Ideal Reward System

After identifying the objective of the reward system, the organization also needs to understand the needs of its staffs. A good reward system can meet the needs of the staffs in order to maximize its effect. Reward system needs to address four basic needs of the employees.

1. **Compensation:** Monthly basic pay and salary.
2. **Benefits:** Sharing of organizational profit; bonus and other types of staff welfare
3. **Recognition:** Staffs want to be recognized for their effort and good work. The organization needs to create opportunities for staff to have more exposure and gain recognition.



4. **Appreciation:** The firm should show appreciation to staffs for their achievements. The firm can show its appreciation by promote premonition and giving out award to top performers.

Many businesses miss one or more of these elements (usually recognition and/or appreciation). Most firms only focus on financial compensate since it is the easiest way to reward the staffs, however there are many employees emphasize on recognition and appreciation. If the firm miss these two elements, it might not be able to retain staff effectively.

In addition, an ideal reward system should be able to award both employee's performance and behavior. The performance is easier to measures since it is a direct comparison between the desired target and actual performance of employee. For example, the top sellers should be awarded for achieving and exceeding the selling target. This can be easily measured by looking at the profit generated by individual employee.

It is harder to use reward system to affect the employee's behavior's. The firm needs to define the behavior's that the employee should adopt and design the reward system based on this target. For example, manufacturing firms will award the employees based on their work efficiency. The aim of the reward system is to motivate staff to achieve higher productivity yield. In the other hand, most of the design companies focus more on the innovation and creativity of the staff. Instead of time spend in the office, the firm will reward employees who have more creative ideas.



According to this theory, an ideal rewards system needs to be able to address the needs of the staff and effectively affect staff's behavior's based on the needs of the organization.

● Factors that Need to be Considered When Designing a Reward System

Only set up a clear objective and understand the requirements of an ideal reward system are not enough to design a decent reward system. The firm needs to consider the feasibility of the rewards system before proceed to the designing stage.

There are a few common queries that need to be answered before start to design the reward system.

- **Should reward system be a driver or reinforce of behavior?** The firm can motivate the staff by using reward system. However, this should not be the only driving force for employees to improve their performance.
- **Where does the firm wish to position itself in the labor market (at what percentile)?** By providing an attractive reward system, the firm can recruit and retain a better workforce. The firm should also position themselves based on their financial state and external market environment.



- **What portion of total rewards will be distributed in cash, equity and social benefit programs?** The reward system can be applied in many different forms. Other than cash, the social benefits such as insurance and staff welfare can also contribute to the overall reward system.
- **How much leverage should variable rewards have (how much pay should be at risk at different levels of the organization)?** The firm needs to consider the amount of capital that should be used to apply the reward system. Both over paying and under paying of the reward system will cause serious consequences. The amount of payment should be comparable to the market average salary level.

The firm needs to consider these operational issues seriously to ensure the efficiency of the reward system. The designer might have many wonderful ideas when designing the reward system. They need to consider the feasibility of these ideas in local market environment. For example, Wal-Mart's rewards system in U.S.A is not feasible in China due to the market and culture difference.

- **Efficient Way of Designing the Reward System**

After defining the objective, requirements and consideration of an ideal reward system, the firm can proceed to the design stage.



Reward systems need to be able to fit into the organization's operation system. It will directly affect the effectiveness of the organization and employee's working experience. Therefore, it is crucial to design a reward system based on the type of the industry and the setup of the organization.

In many large organization's, the reward system is not solely adopted from the book. Modification will be made based on the organization's core value, process features and system practices. The firm needs to align the reward system with these three key factors during the designing process.

Core Principle:

This is the key value of the organization. The firm needs to help the employees to build trust on the core principle. The core principle can be the belief in pay for performance; a belief in secrecy about pay and other fundamental long-term commitments such as long service award.

All rewards system need to be designed based on this core principle. The firm needs to maintain the consistency when applying the reward system. It is not convincing enough if the firm is keep changing its core principle and reward system. For example, if the firm wants to promote a fair and united working environment, the reward system needs to treat every employee equally. Even with certain level of objection from the ground level, the organization still needs to make its stand by consistently practicing in the same manner. If the firm wants to promote a competitive working environment, the reward system shall only provide benefit for top performers. The system will create a gap between top performers and average performers.



MBA SEM 03 Module 01 Chapter 03

☼ TOTAL REWARDS ☼

● Introduction

Total rewards is the combination of benefits, compensation and rewards that employees receive from their organizations. This can include wages and bonuses as well as recognition, workplace flexibility and career opportunities.

Total rewards may also refer to the function or department within HR that handles compensation and benefits, or the combined intrinsic and extrinsic rewards (or value) that an employee perceives.

What does total rewards compensation mean?

The elements that make up a total rewards package combine traditional and non-traditional offerings.

Some traditional offerings include:

- Base pay (either a salary or hourly wage rate)
- Access to healthcare / health insurance
- Dental and vision benefits
- Retirement plans and/or contributions
- Life insurance



- Paid time off (PTO)
- Stock options (if applicable)

Non-traditional compensation package offerings include (but are not limited to):

- Variable pay incentives (performance bonuses, profit sharing, etc.)
- Company-sponsored training / Career development opportunities
- Employee wellness / health and well-being programs
- Workplace flexibility options / Work-life balance
- Identity theft protection plans
- Employee discount programs
- Employee assistance programs (short-term counseling, retirement planning, etc.)

Each individual offering is important—but grouped together—and presented as a total rewards package (or even customized to the specific job candidate) can put you in the running for a pool of talent that may have previously been out of reach.

Benefits of a Total Rewards Approach

Whether you build a total rewards package on your own, or with the help of an experienced HR outsourcing provider, like G&A, you will see the benefits of this new approach in a variety of ways, including:

Improved Recruitment Capabilities



Once you have quantified the value of your total rewards package, you can utilize it to demonstrate the value of your organization's benefits package while talking with potential candidates.

Increased Awareness of Total Benefits Provided

Underutilization of employee benefits is a concern for many companies. The time, effort, and resources that go into putting together an employee benefits packages (particularly for a small business) can be considerable, and when those benefits go unused, it can feel like a waste of time and money. The reason employees may not take advantage of certain benefits, however, is because they simply didn't know they existed. A total rewards compensation program can help you better communicate all of the benefits and perks that are available to current and future employees.

Higher Employee Retention Rates

It's human nature to value things based on our own personal cost. The same is true of employee benefits and other rewards. A total rewards compensation package allows you to quantify the value of each individual benefit or perk, as well as the total amount you spend on the rewards.

When an employee can see just how much you're willing to invest in them, above and beyond their paycheck, the results can be very positive, leading to a better work environment, including improved morale, employee engagement, and ultimately, employee retention. Engaged employees are more loyal employees, which means that it's going to take more than a small salary increase to lure them away.



Improved Performance and Productivity

A more engaged workforce isn't just a loyal workforce, it's also a more productive one, and total rewards programs have been linked to increases in overall employee performance and satisfaction. What does total rewards compensation mean?

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Improved Performance and Productivity

A more engaged workforce isn't just a loyal workforce, it's also a more productive one, and total rewards programs have been linked to increases in overall employee performance and satisfaction.

Implementing a Total Rewards Program

Although total rewards compensation packages have grown in popularity, you'd be hard-pressed to find two that are identical. The greater degree of flexibility and variety that these programs offer is a huge part of their appeal, meaning you can customize your rewards packages to fit whatever is most attractive or important to the specific workforce you are targeting.

The virtually endless possibilities can also make implementing a total rewards program seem a bit daunting. As with most employee initiatives, the devil is in the details, and how you choose to build, communicate, and evaluate the success of your total rewards compensation strategy will contribute to how successful the program will be.



Building a Total Rewards Program

Building and implementing a new total rewards compensation program doesn't mean you have to throw out the rewards or benefits you're currently offering. Instead, start by evaluating your current benefits and perks to identify any gaps or areas of opportunity. This is also a good opportunity to communicate with your employees—ask them what rewards they would value the most, either through informal conversations or by conducting a quick survey.

When building or evaluating your total rewards compensation package, make sure to include elements from the following categories:

Compensation

Benefits

Development

Work environment

By incorporating rewards from each of these categories, you're ensuring your program includes elements that appeal to your entire workforce, regardless of generational, seniority, or position-level differences.



During the initial design phase, it's also important to set specific business goals for the program. These goals will vary depending on your motivations for implementing a total rewards strategy, but will generally include increasing participation rates, improving job satisfaction and employee engagement, reducing turnover, and more.

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Building and implementing a new total rewards compensation program doesn't mean you have to throw out the rewards or benefits you're currently offering. Instead, start by evaluating your current benefits and perks to identify any gaps or areas of opportunity. This is also a good opportunity to communicate with your



employees—ask them what rewards they would value the most, either through informal conversations or by conducting a quick survey.

When building or evaluating your total rewards compensation package, make sure to include elements from the following categories:

- Compensation
- Benefits
- Development
- Work environment

By incorporating rewards from each of these categories, you're ensuring your program includes elements that appeal to your entire workforce, regardless of generational, seniority, or position-level differences.

During the initial design phase, it's also important to set specific business goals for the program. These goals will vary depending on your motivations for implementing a total rewards strategy, but will generally include increasing participation rates, improving job satisfaction and employee engagement, reducing turnover, and more.

Process Features:

The process feature will determine how the reward system can be implemented in organization. For example, the communication policies will determine the approach of the reward system. In retail industry, positive communication



approach is widely used to motivate staffs. The reward system needs to emphasize the benefit of achieving the target instead of remind the staff on the consequences of fail to achieve the target. The rewards system needs to fit the process features of the firm.

System Practices:

System practice can determine the method of delivering reward to staffs. This includes pay delivery systems such as profit-sharing plans and other organizational welfare programs. Instead of paying a fixed salary, the firm can share its benefit by paying bonus quarterly. It can also provide a better facility and healthcare benefit to staff. The way of delivering reward system should determine by staff needs and system practices of the organization. Different organization's are having varies ways to deliver their reward systems. For example, insurance company provides free trip for its top performers every year to boost the staff morale. In addition, the insurance agent can receive 50% of the commission for each policy that they sold to client. This encourages agents to reach out for more clients. However, the same practice is not feasible at all in the retail industry. Due to the high operational cost, the firm cannot afford to pay 50% of commission to its employees.

The literature review shows that the firms need to put in many considerations in order to design a decent reward system that can be best fit into their organizational structures.

Firstly, the firm needs to fully understand the definition and objectives of the reward system. In retail industry, the reward system is mainly used to motivate staff and create a positive organizational culture.



In addition, management team needs to consider through the firm's economic state and needs of their employees in order to achieve the best outcome of the reward system. The needs of staff in retail industry might be different depends on their designations. The ground staff might focus on the based benefit and staff welfare. While staffs that work at management level need more recognition and appreciations.

Organization needs to consider its core value, process feature and system practices when the reward system is designed. Therefore, many new reward systems practices have become popular in order to align reward systems with the important changes that are occurring in the way organization's are designed and managed.

There is no good or bad for a particular reward system. The organization must evaluate the context of other systems and business strategy of the organization. The reward system needs to match with the information system; human resource management system and other crucial operating systems for maximize its effect.

Communicating the Program to Employees

After identifying what will be included in your new total rewards package/program, the next step is to get the word out to employees. Why? Because the more your employees are aware of and understand the program, the more likely they are to take advantage of the full offerings and understand the value it provides.

As you launch, implement, and add to your new program, clear and effective communication should also be a top priority. In fact, it's a good idea to announce



the program in person, either during a regular staff meeting or in a special training session—and highlight the different available rewards throughout the year to keep the program fresh and top of mind for your employees.

Another effective way to communicate the value of a total rewards program is to create and distribute personalized total compensation statements. Usually designed to look like a bank statement or paycheck stub, total compensation statements show the monetary cost of each of the benefits you are providing to employees throughout the course of the year, alongside the employee’s annual compensation.

Evaluating the Success of Your Program

This last stage of the implementation process is both the most important and often, the most overlooked. One reason might be that conducting a thorough evaluation can seem like an overwhelming task, especially if you and your team aren’t sure how well the program is being received by employees. By simply measuring the outcomes and results against the goals you set during the building phase, you can take the time and difficulty out of the process.

In fact, the specific goals you set will determine which instruments or tools you can use to measure those results. For instance, if one of your goals is to increase job satisfaction, you might conduct a job satisfaction survey prior to implementing the program and again at the end of the year to compare the responses.



Final Thoughts: Total Rewards Compensation Packages

Implementing a total rewards compensation program isn't an overnight endeavor—it takes careful planning and preparation. Once you successfully make the switch to a total rewards strategy, however, the return on investment will ensure you will never look back.

Like a lot of companies, you may want to implement your own total rewards programs, but feel you don't have the time to research additional benefit offerings, the resources to offer more benefits, or maybe you just don't know where to start.



MBA SEM 03
Module 01 Chapter 04

☼ STRATEGIC REWARD ☼

● **Introduction**

Reward strategy involves **designing and implementing reward policies and practices support your organization's objectives**, delivering a motivated and effective workforce.

Often an organization's pay and reward structure has evolved without any overall goal, sometimes allowing bias and unequal pay issues to creep in. However, applying a strategy to your pay and reward efforts can deliver real benefits your workforce and your business. A pay and reward strategy is something the CIPD recommends employers undertake.

● **Why Does My Organization Need a Reward Strategy?**

We all want to work in an environment where we feel we are truly making a difference, one that encourages us and makes us feel appreciated.

We also want to work with a leader who takes the time to develop and inspire us – recognizing our efforts.



The right reward strategy can help you achieve this for your employees, using benefits, bonuses and pay to encourage employee loyalty. Motivated staff will go that extra mile to contribute towards organizational success and better results. A successful environment will inevitably attract new talent, make existing employees feel rewarded, and help retain your key people.

A reward strategy that reflects the culture of your organization will enable you to achieve your organizational strategy and objectives. Extensive research shows that **having a defined reward strategy helps organizations attain better financial results than those that choose not to.**

What Should a Reward Strategy Consider?

A good reward strategy will consider more than just pay, so it is important to do more than scour the local press to find out what the market is paying.

Organizations can get just as much, if not more, out of non-financial rewards as from financial ones.

A total reward approach looks at what your organization is trying to achieve, what your people want, what is affordable, and the structures needed in place to achieve this.

We base our approach on the **four pillars of workplace fulfilment**, which covers the following areas:



1. Pay

Every organization must pay its employees for the services that they provide (time, effort and skills). This includes both fixed (salary and allowances) and variable (bonus and incentives) pay. The cash compensation provided to employees increases over time and can be linked to a number of different factors, such as performance or career development.

2. Benefits

Organizations use benefits to supplement the cash compensation they provide to employees. These vary depending on the size of the organization and affordability but can provide security and comfort to the employees and their families. The benefits include holidays, medical cover, income protection and pension schemes.

3. Personal Growth

Providing personal and professional growth opportunities to employees is an essential part of any reward strategy. These can be skills acquired on the job as well as formal training programme valued by the employees that also serve the organization's strategic needs. Alongside this development, however, is the need to manage expectations, assessing performance and constantly striving to improve.

4. Positive Workplace

A positive work environment can often be the defining factor in retaining key talent in an increasingly competitive market. Ultimately, we all want to work in an environment where there is genuine feeling of team spirit and togetherness, with a leader that inspires and supports us to achieve success both at work and at home.



MBA SEM 03
Module 01 Chapter 05

INTERNATIONAL REWARD

● **International reward management**

International reward management is the process of rewarding people in international or multinational organizations.

The international scene

The international scene is composed of international and multinational firms working in the context of globalization.

International

- No investment outside home country
- Import-export
- Sells in more than one country
- Standard product



Multinational

- Investment in other countries
- Manufacturing
- Operates in more than one country
- Customized products

● International reward strategy

International reward strategy is concerned with the development of an integrated approach to building reward policies and practices across international boundaries.

- An issue facing all international firms is the extent to which their HR policies, including reward, should either ‘converge’ worldwide to be basically the same in each location, or ‘diverge’ to be differentiated in response to local requirements.
- The factors affecting choice are:
 - Extent to which Local norms are developed;
 - Local environment
 - The strength of the flow of resources – finance, information and people – between the parent and the subsidiary;



- The orientation of the parent to control;
- The nature of the industry
- The specific organizational competences including HRM
- Convergence or Divergence in Reward
 - Total convergence – central reward policy, common benefits
 - Partial convergence – centralization in senior and international staff
 - Partial divergence – job evaluation is recommended but flexibility, comply with principles, incentive, pay level promotion will vary
 - Total divergence – complete freedom

Expatriate remuneration policies:-

- Expatriate remuneration policies may be based on the following propositions:
 - Expatriates should not be worse off as a result of working abroad
 - Home-country living standards should be maintained – The remuneration package should be competitive.
 - Proper consideration to the conditions under which the employee will be working abroad.
 - Higher responsibility should be reflected in the salary paid
 - Account should be taken of the need to maintain equity



- Account also has to be taken of the problems that may arise when expatriates are paid more than nationals in the country in which they are working who are in similar jobs
- The package should be cost effective

Expatriate pay:-

- The main approaches to calculating expatriate pay are:
 - **Home-based pay** – The provision of remuneration (pay, benefits and allowances) to expatriates that is the same as in their home country.
 - **Host-based pay** – The provision to expatriates of salaries and benefits such as company cars and holidays that are in line with those given to nationals of the host country in similar jobs.

Allowances:-

- Companies add a number of allowances such as a
 - cost-of-living,
 - hardship,
 - separation and clothing allowance
 - to the expatriate's salary to calculate the total expatriate remuneration package.



SR. NO.	Question	Answer
1	_____ is the introduction of policies and strategies that rewards every employee within the business fairly and consistently across the board.	Reward management
2	Rewarding employees for outstanding work makes them feel _____.	valued
3	The most successful reward management programs provide employees with _____ to elevate themselves and allow businesses to recognize good workers.	opportunities
4	A compelling reward management programme promotes a _____ that allows your employees to feel at and perform at their best.	healthy work-life balance
5	Reward management is an _____ that deals with the strategies, policies and practices.	integrated process
6	Reward management is a _____ approach.	strategic



7	A key aspect of reward management is being able to determine _____.	who should be rewarded
8	The National Minimum Wage applies to all employees and workers over _____ of age.	16 years
9	businesses must pay their employees in accordance with any _____.	contractual agreements
10	A contract between you and your employee is legally binding and therefore its terms must be upheld by both sides.	true
11	The easiest way to separate rewards is to split them into two categories: _____.	intrinsic and extrinsic
12	_____ are encompassed by things such as awards, praise, and public recognition, which give a sense of achievement but are not monetized.	Intrinsic awards
13	_____ are physically given and can involve value such as a bonus or paid holiday.	extrinsic rewards
14	Traditionally _____ are seen as little “treats” that can make working life more enjoyable.	perks



15	_____ give you a chance to promote productivity in such a way that meshes with your business's values and culture.	Rewards
16	A _____ defines what your business wants to achieve in the longer term, to its development and how it will implement reward policies.	reward strategy
17	if you select a single method of reward, it may not work well for all employees.	true
18	an important consideration when creating a competitive reward scheme is to understand _____.	how other reward schemes within your industry look and how they work
19	_____ is an objective way to describe the positive value an individual ascribes to an object, behavioral act or an internal physical state.	Reward
20	_____ include those that are necessary for the survival of species, such as	Primary



	food and successful aggression.	rewards
21	_____ is a common type of reward.	Money
22	Most of the times, organization rewards its staffs by _____.	pay increment or higher bonus
23	Money is the most direct and easiest way to reward the staff and create a sense of satisfaction.	true
24	_____ is used as a critical tool for driving business growth and boosting staff morale.	Reward system
25	Research shows that _____ can directly affects the job choice, career choice and turnover rate of the organization.	reward system
26	Organization's that give the highest rewards tend to _____ more people.	attract and retain
27	The higher satisfaction level will lead to a longer length of service and _____ organizational turnover rate.	reduce
28	In retail industry, _____ are the	employees



	most important resources.	
29	The organization needs to retain high performance employees and remove inefficient employees.	true
30	The firm need to ensure that its reward system is _____ than its competitors.	superior
31	When certain conditions exist, reward systems have been demonstrated to _____ performance.	motivate
32	The reward system must be directly link to the _____ performance.	effective
33	Reward system can help the firm to create a _____.	positive culture
34	A good reward system can meet the needs of the _____ in order to maximize its effect.	staffs
35	Monthly basic pay and salary.	Compensation
36	Sharing of organizational profit; bonus and other types of staff welfare	Benefits



37	The firm can show its appreciation by promote premonition and giving out award to top performers.	True
38	In addition, an ideal reward system should be able to award both employee's _____.	performance and behavior
39	The _____ is easier to measures since it is a direct comparison between the desired target and actual performance of employee.	performance
40	It is harder to use reward system to affect the employee's _____.	behavior
41	Only set up a clear objective and understand the requirements of an ideal reward system are not enough to design a decent reward system.	true
42	The firm needs to consider the _____ of the rewards system before proceed to the designing stage.	feasibility
43	After defining the objective, requirements and consideration of an ideal reward system, the	design



	firm can proceed to the _____ stage.	
44	Reward systems need to be able to fit into the organization's _____.	operation system
45	it is crucial to design a reward system based on the type of the industry and the setup of the organization.	true
46	The firm needs to maintain the _____ when applying the reward system.	consistency
47	_____ is the combination of benefits, compensation and rewards that employees receive from their organizations.	Total rewards
48	The elements that make up a total rewards package combine _____ offerings.	traditional and non-traditional
49	_____ of employee benefits is a concern for many companies.	Under utilization
50	It's human nature to value things based on our own _____.	personal cost



51	A _____ compensation package allows you to quantify the value of each individual benefit or perk, as well as the total amount you spend on the rewards.	total rewards
52	_____ can determine the method of delivering reward to staffs.	System practice
53	_____ involves designing and implementing reward policies and practices support your organisation's objectives, delivering a motivated and effective workforce.	Reward strategy
54	We all want to work in an environment where we feel we are truly making a difference, one that encourages us and makes us feel appreciated.	true
55	Extensive research shows that having a defined reward strategy helps organizations attain better _____ results than those that choose not to.	financial
56	Every organization must pay its employees for the services that they provide like _____.	(time, effort and skills)



57	The _____ provided to employees increases over time and can be linked to a number of different factors, such as performance or career development.	cash compensation
58	Organizations use _____ to supplement the cash compensation they provide to employees.	benefits
59	Providing personal and professional growth opportunities to employees is an essential part of any _____.	reward strategy
60	A _____ work environment can often be the defining factor in retaining key talent in an increasingly competitive market.	positive
61	_____ is the process of rewarding people in international or multinational organizations.	International reward management
62	_____ is concerned with the development of an integrated approach to building reward policies and practices across international boundaries.	International reward strategy



63	central reward policy, common benefits	Total convergence
64	centralization in senior and international staff	Partial convergence
65	job evaluation is recommended but flexibility, comply with principles, incentive, pay level promotion will vary	Partial divergence
66	complete freedom	Total divergence
67	The provision of remuneration (pay, benefits and allowances) to expatriates that is the same as in their home country.	Home-based pay
68	The provision to expatriates of salaries and benefits such as company cars and holidays that are in line with those given to nationals of the host country in similar jobs.	Host-based pay
69	COLA refers to	Cost of Living Index



MBA SEM 03
Module 02 Topic 01

● PERFORMANCE MANAGEMENT AND REWARD ●

● **Performance**

Performance can be defined as the achievement of quantified objectives, with the help of appropriate behaviour and effective use of required knowledge, skills and competencies.

Performance is not only a matter of what people achieve but also how they are achieving it.

● **Performance Management**

The systematic process which can be employed for the improvement of overall performance of an organization by enhancing individual performance within the framework of a team is called performance management.

This process can be seen as one of the most effective tools for boosting the performance by defining roles within the specified competence framework, setting realistic benchmarks, and communicating various expectations.



● Definition

- According to Ronnie Malcom,

“Performance Management may be defined as a planned and systematic approach to managing the performance of individuals ensuring their personal development and contribution towards organizational goals.”

- According to Armsrong,

“Performance Management is a means of getting better results from the organization, teams and individuals by understanding and managing performance within an agreed framework of planned goals, standards and competence requirements”.

● Features of performance management

- ✓ Ongoing process
- ✓ Involves effective use of technology
- ✓ Lays stress on manager’s training
- ✓ Dynamic system



✓ Linked to other systems of HRM

✓ Based on critical success factors

● Purposes of performance management

(1) Strategic purpose

The major purpose of PM systems is to aid management in achievement of strategic objectives of the firm.

(2) Managerial purpose

PM systems provide valuable and authentic information which serves as basis for managerial decisions regarding employees.

Examples of managerial decisions include decisions related to promotions, demotions, salary adjustments, recognition of improved performance or identification of poor performance, layoffs and termination.

(3) Informational purpose

PM systems act as an important tool of communication. Firstly, performance management system provides feedback to employees on their performance and mentions the particular areas that might require improvements. Secondly, in



relation to strategic objectives, performance management system gives information about the expectations of the organization as well as that of the supervisor.

(4) Developmental purpose

A properly implemented performance management system has feedback as one of its important elements. The feedback can be effectively used for development purposes.

(5) Maintenance purpose

PM system provide information which is useful for the function of workforce planning. Workforce planning encompasses a set of arrangement that facilitate organizations to forecast manpower requirements.

(6) Documentation purpose

With the help of performance management system, organizations can gather valuable information for the purpose of documentation, PM systems facilitate the documentation of valuable managerial decisions which has special significance in litigation cases.



● Performance Management Process

(1) Performance Planning

Planning for performance includes specifying organizational goals and performance outcomes needed from groups and individuals in order to reinforce their efforts for the attainment of desired goals.

(2) Performance analysis

Purpose of performance analysis is to control factors that contribute to performance over a given period of time, so as to improve performance in the coming period.

(3) Performance appraisal

Performance Appraisal can be said as an objective measure for examining the relative worth of an individual or employee within the organization.

(4) Performance development

This stage involves development or improvement in employee's skills, knowledge level and experience.



➤ Aims:

- ✓ Maintaining individual performance at a level which meets performance standards.
- ✓ Improving job related competencies, thereby making the employee suitable for different positions within the organization.

(5) Performance Management Audit

Process of assessing the relative importance or value of the performance management system. This stage is mostly conducted with the help of an external agency to have an unbiased view.

● Importance of performance management

(1) Competitive business environment

It is only the human resource which can ensure the existence, survival, and success of any organization in the dynamic business environment. Thus, in comparison to maintenance and collective bargaining, greater preference is given to the performance oriented human resource management practices.



(2) Business-HR partnership

By providing greater priority to the performance management practices, value addition can be achieved.

(3) Human resource need fulfillment

The majority of employees working in any organization are placed at self-esteem and self-actualization level in the motivational hierarchy.

Their main focus remains on:

- ✓ Being involved in higher level of activities and to deal with professional challenges with flexibility and autonomy
- ✓ Looking for suitable rewards related to their performance which is mostly of non-monetary nature
- ✓ Continuously looking for upgrading skills
- ✓ Looking for a work environment which can motivate the higher level of performance including teamwork
- ✓ Looking for transparency and open communication



All these requirements can be accomplished when there is an existence of performance oriented human resource practices.

(4) Integrated motivation tool

A combination of motivational methods is included in performance management which can accomplish greater performance from the employees.

(5) Installing high performance work culture

The main focus of performance management practices is to develop a unique and constructive work environment.

(6) Long-term impact and sustainable outcomes

By implementing the performance management practices, it is possible to attain long term favourable outcomes for both the organization and employees because both long term and short term needs of organization and its manpower are effectively handled by performance management.

(7) Quantifiable management

It is a common belief that the things which are not quantifiable can not be managed. In comparison to this concept, the interventions and drivers of performance management can be seen as highly quantifiable, measurable and present greater and improved outcomes.



(8) Optimizing human capital

The biggest challenges in front of the organization are to transform the potentials into meaningful skills and competencies, utilizing them smartly for business benefits, and channelizing them towards a defined objective. The core purpose of performance management activities is based on these challenges.

(9) Regular renewal of skills and competencies

There will be a regular requirement of renewing the skills and competencies due to dynamic technological environment, reduced product life cycles, and fluctuating market demands.

When sufficient attention is paid towards performance oriented strategies, drivers, and interventions by the organization, these types of competency and skill renewal are possible.

(10) Fairness and equality in management

It is possible to ensure fairness in all the aspects of the management with the help of performance management.



● Performance management and reward

Reward and Performance management are some of the most important processes in any organization and important levels for the successful implementation of change in any organization.

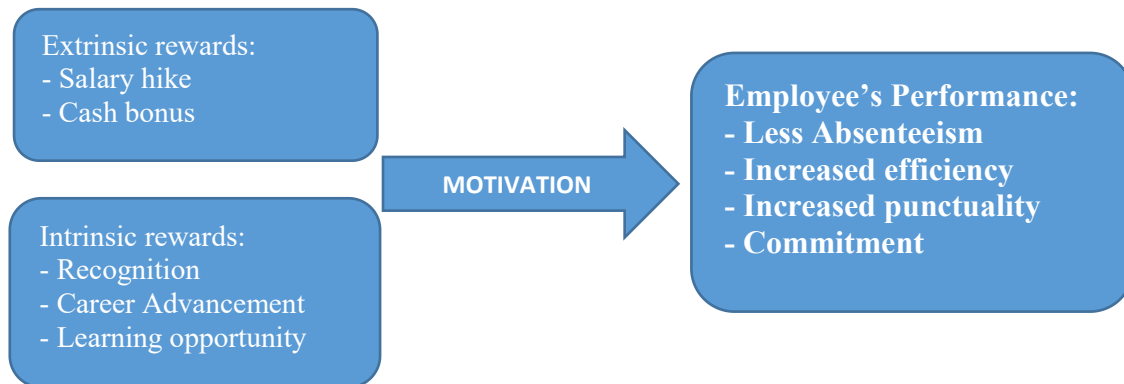
The tie up between the performance and reward should be made for employee retention and their commitment to work, which ultimately improve the contributing factor of the employee.

“Pay for Performance” approach.

Many employees become less committed to work not because of their low pay structure, but for the lack of recognition.

The effectiveness of an organization's performance and reward management can have a major impact not only on morale and productivity but also its ability to attract and retain staff.

● Impact of reward on organizational performance



● High Performance Culture

A high-performance culture (HPC) is an organizational culture built on a set of universally accepted behaviors and norms that are encouraged by leaders and facilitated by optimal tools and processes. These help employees work as effectively as possible to achieve business goals and create value.

Company culture is at the heart of competitive advantage, because it determines how things are done and how people behave; it is the hardest thing for competitors to copy.

High performance Culture is a result of high performance action.

High performers create an environment with a unique personality and soul and with a passion for performance; so that people make right decisions and do the right thing whenever they are in the business.



● Steps in developing HPC

(1) Show leadership from the top

The performance management framework must be operated throughout the organization from top to bottom.

(2) Develop business plans

Business plan must be realistic.

(3) Establish what good performance looks like and how it can be measured

All performance indicators and other criteria used to measure performance must be clearly communicated to staff.

(4) Monitor and evaluate

Systems need to be set-up to ensure that performance, and its effect on service delivery, can be monitored, and evaluated throughout the year.

(5) Agree specific performance objectives

The organization's plans and priorities must be translated into department, team and individual performance objectives.



Objectives should be SMART:

S - Specific

M - Measurable

A - Agreed

R - Realistic

T - Time bound

(6) Develop an integral communications approach

Effective messages should target the intended audience in the whole range of ways available. E.g. E-mail, intranet, newsletter, notice board, team brief and video and in-house TV.

(7) Ensure that performance framework systems are truly in place

A performance review/appraisal system is traditionally used to set objectives, identify support needs, and measure progress against objectives. For it to work effectively, it must be clearly understood by both managers and employees.



(8) Support employees to succeed

Effective induction and probation processes for new employees are extremely important in setting the right expectations of performance for both the employees and the managers.

(9) Encourage performance improvement

Occasionally, performance does not meet the required standard. At organizational level, this should be addressed by identifying what are the barriers to effective performance and putting in place a plan to deliver improvement.

(10) Recognize and reward good performance

Good performance needs to be recognized and, where appropriate, rewarded.

● High performance work systems

HPWS can be defined as a specific combination of HR practices, work structures and processes that maximizes employee knowledge, skill, commitment and flexibility.

The main idea of HPWS is to create an organization based on employee involvement, commitment and empowerment, not employee control.



● Components of HPWS

(1) Involvement

This component is the concept of “increased opportunity to participate in decisions” for employees.

(2) Training

The training provides employees with the necessary skills to perform their jobs in a more effective manner as well as the opportunity to assume greater responsibility within an organization.

(3) Incentives

Elements help to prepare employees and organizations for successful HPWS implementation and operation, but without incentives, the system will most likely fail.

(4) Technology

Within HPWS, technology does not have to be leading edge technology solutions, but it does provide an “infrastructure for communicating and sharing information vital to business performance”.



MBA SEM 03
Module 02 Topic 02

ENGAGEMENT AND REWARD

● **Introduction**

Employee engagement is an organizational approach which confirms the commitment and motivation of employee toward organization.

An employee who is fully engaged has a sense of care and responsibility and he/she will try to seek best possible source to attain organizational success.

● **Definition**

➤ According to Gebauer and Lowman,

“Employee Engagement is a deep and broad connection that employees have with a company that results in a willingness to go above and beyond what is expected of them to help their company succeed.”



● Importance of engagement

(1) Retains employees

Engaged employees are having an emotional and personal connection with organization and colleagues. Whereas disengaged employees work halfheartedly and are ready to switch organization whenever they see any better opportunity.

(2) Retains customers

When employees serves a particular organization for a longer period of time then organization gains stability and unity. This results in skilled and experienced work force that can bring customer satisfaction.

(3) Enhances productivity

With greater degree of employee engagement, productivity of employee also enhances. They work with integration of management and co-workers in order to deliver greater results to organization.

(4) Increase in employees self respect and creativity

With higher degree of employee engagement, self-respect and creativity of employee increases and this evokes organizational talent. They also act as a driving force to innovation so that organization can grow to its full potential.



(5) Helps in building relation

An engaged employee build good personal and long lasting relationship with their colleagues.

● Models of employee engagement

➤ Some important models of employee engagement are:

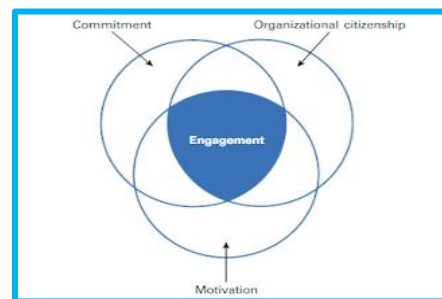
- ✓ IES model of engagement
- ✓ Hay group model for employee engagement

(1) IES model of engagement

The IES model, developed in 2003, emphasizes that employees must feel valued and involved to be properly engaged with their employer. IES engagement model demonstrates the strong relationship between feeling valued and involved and engagement.

➤ IES defines employee engagement as:

‘a positive attitude held by the employee towards the organization and its values. The organization must work to develop and nurture engagement, which requires a two-way relationship between employer and employee.’



Motivation can be defined as goal-directed behaviour, Commitment as the relative strength of individual’s identification with an involvement in an organization, and Organisational citizenship behaviour as ‘innovative and spontaneous activity directed toward achievement of organizational objectives, but which goes beyond role requirements’.

(2) Hay group model for employee engagement

In 2002, The Hay group carried out a large survey to identify the business value of engaged employees. The results were profound and have been a significant contributory factors to the acceleration of interest in employee engagement in recent years.



The Hay survey analyzed the performance difference between ‘engaged employees’ and ‘average employees’.

➤ **The percentage of performance increased for engaged employees over and above average employees are:**

- ✓ For low complexity jobs - 19%
- ✓ For moderate complexity jobs - 32%
- ✓ For high complexity jobs - 48%
- ✓ For sales jobs - 48 to 120%

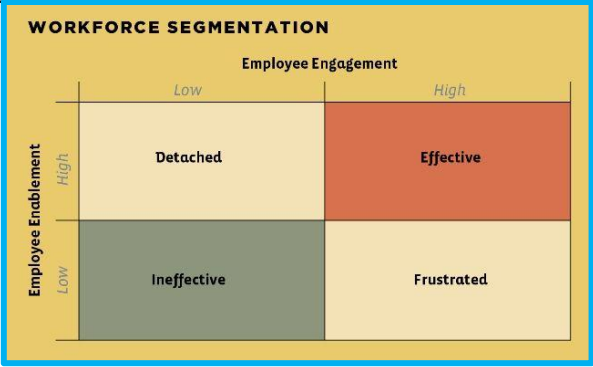
➤ **According to Hay group, engagement is comprised of two components:**

(1) Commitment

Affective attachment to and intention to remain with an organization.

(2) Discretionary effort

The willingness to go above and beyond formal job requirements.



➤ **Result of the study**

- ✓ Engagement and enablement are both important determinants of employee performance.
- ✓ Employee enablement is the process where an employer directly assists their employee in 'realizing' and 'achieving' their 'self-development goals. ' This is done by empowering employees with the right set of tools needed to succeed at 'self-development.
- ✓ Organizations are unlikely to sustain one without the other.
- ✓ Frustrated employees will breakthrough barriers, disengage or leave the job.



MBA SEM 03 Module 02 Topic 03

🌀 FINANCIAL REWARDS 🌀

● Introduction

Financial rewards are direct monetary rewards encompassing the payment of cash compensation to employees for work accomplishment or efforts expended.

1. Paid leave

Supervisors may award employees up to 32 hours of paid leave annually in recognition of meritorious performance.

2. Progression through salary range

Employees may receive salary increases to recognize the attainment of new and/or the enhancement of existing skills/competencies or for assuming increased responsibilities within the scope of the current position.



3. Merit increases

Policy should allow supervisors to give employees an annual merit increase to recognize consistently meritorious performance or successful completion of a project that had a significant impact on a department.

4. Administrative salary supplements

Employees who assume new/additional responsibilities on an interim basis may receive administrative salary supplements that are paid in addition to the base salary.

● Criteria for financial rewards

- ✓ Performance
- ✓ Effort
- ✓ Seniority
- ✓ Skills set
- ✓ Job complexity
- ✓ Discretionary time



● Theoretical framework of financial reward

The theoretical framework of financial rewards is based on the concepts of extrinsic and intrinsic motivation.

➤ **Extrinsic motivation**

Extrinsic motivation refers to behavior that is driven by external rewards. These rewards can be tangible, such as money or grades, or intangible, such as praise or fame.

People who are extrinsically motivated will continue to perform an action, even though the task might not be in and of itself rewarding—for example, doing something at your job that you might not normally find enjoyable or rewarding in order to earn a wage.

Extrinsic motivation is involved in operant conditioning, which is when someone or something is conditioned to behave a certain way due to a reward or consequence.

➤ **Intrinsic motivation**

"Intrinsic motivation occurs when we act without any obvious external rewards. We simply enjoy an activity or see it as an opportunity to explore, learn, and actualize our potentials."



Intrinsic motivation refers to behavior that is driven by internal rewards. In other words, the motivation to engage in a behavior arises from within the individual because it is naturally satisfying to you.

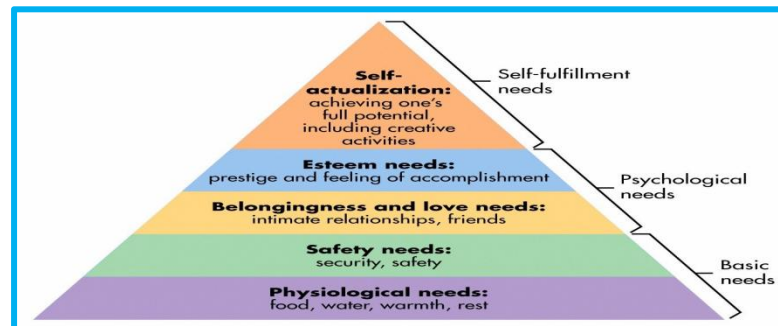
➤ **Financial rewards are mainly based on three motivation theories, which are as follows:**

- ✓ Maslow's need hierarchy theory
- ✓ Herzberg's two factor model
- ✓ Cognitive evaluation theory

(1) Maslow's need hierarchy theory

In a 1943 paper titled "A Theory of Human Motivation," American psychologist Abraham Maslow theorized that human decision-making is undergirded by a hierarchy of psychological needs. In his initial paper and a subsequent 1954 book titled *Motivation and Personality*, Maslow proposed that five core needs form the basis for human behavioral motivation.

Maslow's theory presents his hierarchy of needs in a pyramid shape, with basic needs at the bottom of the pyramid and more high-level, intangible needs at the top. A person can only move on to addressing the higher-level needs when their basic needs are adequately fulfilled.



(1) Physiological needs

The first of the id-driven lower needs on Maslow's hierarchy are physiological needs. These most basic human survival needs include food and water, sufficient rest, clothing, shelter and overall health. Maslow states that these basic physiological needs must be addressed before humans move on to the next level of fulfillment.

(2) Safety and security needs

Next among the lower-level needs is safety. Safety needs include protection from violence and theft, emotional stability and well-being, health security, and financial security.



(3) Social needs

The social needs on the third level of Maslow's hierarchy relate to human interaction and are the last of the so-called lower needs. Among these needs are friendships and family bonds—both with biological family (parents, siblings, children) and chosen family (spouses and partners). Additionally, membership in social groups contributes to meeting this need, from belonging to a team of coworkers to forging an identity in a union, club, or group of hobbyists.

(4) Esteem needs

The higher needs, beginning with esteem, are ego-driven needs. The primary elements of esteem are self-respect (the belief that you are valuable and deserving of dignity) and self-esteem (confidence in your potential for personal growth and accomplishments). Maslow specifically notes that self-esteem can be broken into two types: esteem which is based on respect and acknowledgment from others, and esteem which is based on your own self-assessment. Self-confidence and independence stem from this latter type of self-esteem.

(5) Self-actualization needs

Self-actualization describes the fulfillment of your full potential as a person. Sometimes called self-fulfillment needs, self-actualization needs occupy the highest spot on Maslow's pyramid. Self-actualization needs include education, skill development—the refining of talents in areas such as music, athletics,



design, cooking, and gardening—caring for others, and broader goals like learning a new language, traveling to new places, and winning awards.

(2) Herzberg's two factor model

Herzberg's Motivation Theory model, or Two Factor Theory, argues that there are two factors that an organization can adjust to influence motivation in the workplace.

➤ These factors are:

✓ **Motivators**

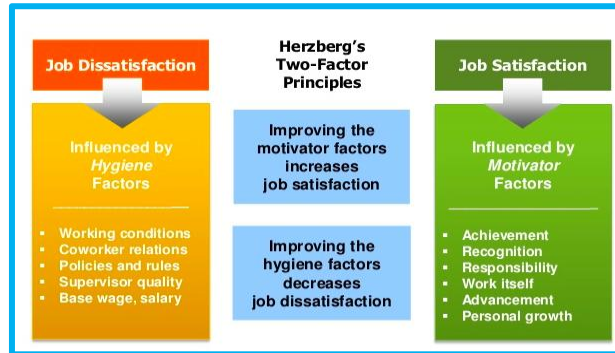
Which can encourage employees to work harder.

✓ **Hygiene factors**

These won't encourage employees to work harder but they will cause them to become unmotivated if they are not present.

Herzberg's Theory of Motivation tries to get to the root of motivation in the workplace. You can leverage this theory to help you get the best performance from your team.

The two factors identified by Herzberg are motivators and hygiene factors.



The presence of motivators causes employees to work harder. They are found within the actual job itself.

The absence of hygiene factors will cause employees to work less hard. Hygiene factors are not present in the actual job itself but surround the job.

The impact of motivating and hygiene factors is summarized in the following diagram. Note that you will often see motivators referred to as factors for satisfaction, and hygiene factors referred to as factors for dissatisfaction.

➤ **Motivating factors include:**

(1) Achievement

A job must give an employee a sense of achievement. This will provide a proud feeling of having done something difficult but worthwhile.



(2) Recognition

A job must provide an employee with praise and recognition of their successes. This recognition should come from both their superiors and their peers.

(3) The work itself

The job itself must be interesting, varied, and provide enough of a challenge to keep employees motivated.

(4) Responsibility

Employees should “own” their work. They should hold themselves responsible for this completion and not feel as though they are being micromanaged.

(5) Advancement

Promotion opportunities should exist for the employee.

(6) Growth

The job should give employees the opportunity to learn new skills. This can happen either on the job or through more formal training.



➤ Hygiene factors include:

(1) Company policies

These should be fair and clear to every employee. They must also be equivalent to those of competitors.

(2) Supervision

Supervision must be fair and appropriate. The employee should be given as much autonomy as is reasonable.

(3) Relationships

There should be no tolerance for bullying or cliques. A healthy, amiable, and appropriate relationship should exist between peers, superiors, and subordinates.

(4) Work conditions

Equipment and the working environment should be safe, fit for purpose, and hygienic.

(5) Salary



The pay structure should be fair and reasonable. It should also be competitive with other organizations in the same industry.

(6) Status

The organization should maintain the status of all employees within the organization. Performing meaningful work can provide a sense of status.

(7) Security

It is important that employees feel that their job is secure and they are not under the constant threat of being laid-off.

➤ The Four Stats

In a general sense, there are four states an organization or team can find themselves in when it comes to Two Factor Theory.

1. High Hygiene and High Motivation

This is the ideal situation and the one which every manager should strive for. Here, all employees are motivated and have very few grievances.

2. High Hygiene and Low Motivation

In this situation, employees have few grievances but they are not highly motivated. An example of this situation is where pay and working conditions are



competitive but the work isn't very interesting. Employees are simply there to collect their salary.

3. Low Hygiene and High Motivation

In this situation, employees are highly motivated but they have a lot of grievances. A typical example of this situation is where the work is exciting and really interesting but the pay and conditions are behind competitors in the same industry.

4. Low Hygiene and Low Motivation

This is obviously a bad situation for an organization or team to find itself in. Here, employees aren't motivated and the hygiene factors are not up to scratch.

(3) Cognitive evaluation theory

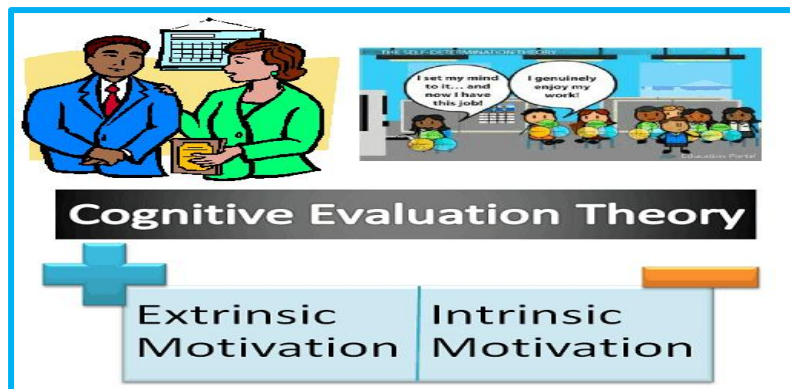
Cognitive Evaluation Theory is a theory in Psychology that is designed to explain the effects of external consequences on internal motivation. Cognitive Evaluation Theory theory suggests that there are two motivation systems; intrinsic and extrinsic which correspond to two kinds of motivators.

➤ Intrinsic Motivators

Achievement, responsibility, and competence; motivators that come from the actual performance of the task or job — the intrinsic interest of the work.

➤ Extrinsic Motivators

Pay, promotion, feedback, working conditions — things that come from a person's environment, controlled by others. One of the other of these may be a more powerful motivator for a given individual.



Cognitive evaluation theory proposes that the introduction of extrinsic reward such as pay, for work effort that previously intrinsically rewarding due to pleasure, commitment and satisfaction associated with the content of the work itself tends to decrease overall motivation.



MBA SEM 03 Module 02 Topic 04

☼ NON-FINANCIAL REWARDS ☼

● Introduction

In employment, It is reward to a worker other than extra pay. Many non-financial rewards are bonus such as company cars, free private medical care, and free pension entitlement.

Non-financial rewards are indirect monetary rewards and include those items of financial value the organization provides to employees that do not result directly in employee's receiving spendable cash. The reward or compensation given in a transaction which does not involve cash is known as non-financial reward.

● Types/ forms of non-financial rewards

There are different forms of non-financial benefits which are as given below:

(1) Achievement

Employees can be rewarded with achievement motivation when they can utilise their abilities and skills in their jobs and are given the opportunity to perform.



(2) Recognition

Appreciating the employees in terms of their significant contribution to the organization, personal achievements and effective performance is referred to as recognition.

(3) Responsibility

Increasing the responsibility of the employees in their individual area of work can be a form of motivation. It is a form of intrinsic motivation that comes with the job contentment.

(4) Influence

Giving employees opportunity to exercise authority and influence can be a form of motivation. Various involvement policies of the organization can motivate the employees that will give them a platform to express views and be heard.

(5) Personal growth

It is a unique experience for an individual to grow. During such growth, the capabilities of people expand and they can sense their own development. This enables individuals to make best use of their skill potential or satisfy it at the very least.



● Significance of non-financial rewards

- (1) Non-financial programs incentive and reward programs are structured to motivate positive behaviour change through means other than money.
- (2) Motivate and retain employees. Non-monetary reward can offer a wide range of opportunities and techniques to motivate employees.
- (3) Helps to build feelings of confidence and satisfaction in employees.
- (4) Can be very important for their long-term effect.

● Disadvantages of non-financial rewards

- (1) Lack of statistical reliability
- (2) Lack of transparency
- (3) Unrealistic expectations and costs
- (4) Unhealthy competition
- (5) Lack of common criteria



MBA SEM 03
Module 02 Topic 05

☼ CONTINGENT PAY SCHEMES ☼

● **Introduction**

Contingent pay (CP) can be defined as any form of monetary reward that is paid over and above the base rate and that is linked to individual performance, skill, competence or contribution.

Contingent pay, also called incentive and variable pay, are arrangements where some or all of employees' earnings are dependent on some measure of performance. It may be determined by individual employees' performance in relation to their level of contribution to organizational performance (individual-based incentive), or profit gained by the organization in which the employee works (organisation-wide incentive).

● **Possible problems associated with contingent pay plans**

- ✓ Poor performance management system is in place
- ✓ Rewards are not considered significant
- ✓ Managers are not accountable



- ✓ There exists extrinsic motivation at the expense of intrinsic motivation
- ✓ Rewards for executives are disproportionately large compared to rewards for everyone else

- **Types of contingent pay scheme**

- (1) **Performance related pay**

The practice of linking performance with compensation is popularly known as “pay for performance” or “merit pay” or “performance related pay”.

Pay for performance or Merit pay is a method by which an individual’s pay-increment schedule is linked to his/her assessed individual performance and is evaluated as per the pre-defined objectives. It provides financial rewards to every employee in the form of increments in his/her basic pay and offers compensation such as cash bonuses.

- **Conditions for successful PRP**

- ✓ Interconnected with performance management
- ✓ Customized to the organizational needs
- ✓ Balanced basis of PRP



-
- ✓ Flexibility

 - ✓ Teamwork

 - ✓ Avoiding short term objectives

 - ✓ Employee's participation in design process

 - **Advantages of PRP**

 - ✓ Compatible with organization's personnel ideology

 - ✓ Encouraging employees for better performance

 - ✓ Ensures consistency in pay distribution

 - ✓ Increased individual and organizational effectiveness

 - **Disadvantages of PRP**

 - ✓ No assured motivation

 - ✓ Reliable on performance management

 - ✓ Need for training



- ✓ Unsatisfied performance evaluation

(2) Competency related pay

This system rewards the employees on the basis of their capabilities and not on the basis of outcomes, which are generally beyond the control of employee.

- According to Brown and Armstrong,

“Competency based pay can be defined as paying for the development and application of essential skills, behaviours, and actions which support high levels of individual, team and organizational performance.”

● **Advantages of Competency related pay**

- ✓ It encourages development of improved competence
- ✓ It helps in development of lateral careers
- ✓ It motivates workforce to develop their professional career by themselves
- ✓ It helps in integrating organizational competences with universal competence
- ✓ It builds up team work and cooperation



- ✓ It focuses on the whole job instead of focusing only on job achievements
- ✓ It offers opportunities for salary increments where promotional increments are inadequate
- ✓ It enhances employee satisfaction level by providing development opportunities
- ✓ It establishes a direct relationship between organizational objectives and reward strategy

● **Disadvantages of competency related pay**

- ✓ Costly and time consuming
- ✓ Standard scale for measuring competencies is difficult to design
- ✓ If competency is related to some other aspects for deciding rewards, the relationship between competency and pay will remain obscure
- ✓ If the system is not implemented properly, the management may end up paying more for the job role without any material increase in competency
- ✓ May require development of training programme for managers
- ✓ System requires utmost care and caution while planning and execution



(3) Contribution related pay

Contribution-related-pay can be defined as a process for making pay decisions that are based on assessments of both the outcomes of the work undertaken by individuals and the level of skill and competence required for that level. Contribution -related-pay can work effectively with a pay structure, which has pay slabs.

It can be defined as mixed model of performance related pay and competency related pay

● Advantages of contribution related pay

- ✓ Employees who work with more competency and contribute more than others, should be paid higher
- ✓ Improvement in performance level can be attained
- ✓ Employees are encouraged
- ✓ Better technique for sharing strategic plans of management with employees of the organization



● Disadvantages of contribution related pay

- ✓ Little historical evidence because very few organizations follow this concept
- ✓ Problems related to individual assessment:
 - Ability of managers to do task with efficiency and objectivity
 - Employees experience fast decline in motivation level
 - Unfair evaluation process
 - Difficult to record results
 - Training to line managers
- ✓ Difficult as compared to PRP or CRP theory
- ✓ Affect cooperation and teamwork within the organization

(4) Skill based pay

Skill-based pay is a salary system that determines an employee's pay based on his or her knowledge, experience, education or specialized training. Depending



on the company, the employee might also receive a higher salary for earning formal certification in his or her industry.

In contrast to job based pay, skill based or knowledge based pay is focused on people and on what the market pays. A skill based system can help an organization actively manage the skill acquisition process by directly motivating individuals to learn specific skills.

➤ The pay increases are usually tied to four types of skills:

1. Horizontal skills

These skills involves a broadening of skills in terms of the range of tasks across several jobs. E.g. in the field of accounts.

2. Vertical skills

These skills involve acquiring skills of a higher level within a single job.

3. Depth skills

These skills involve a high level of skills in specialized areas relating to the same job. E.g. a computer programmer specialising in database programming.

4. Basic skills



These skills involve developing expertise in basic skill areas. E.g. maths, fluency in a particular language.

- **Advantages of skill based system**

- ✓ Flexibility
- ✓ Rewards employees for range, depth and types of skills
- ✓ Develops a more highly skilled workforce
- ✓ Fits best with organizational culture

- **Disadvantages of skill based system**

- ✓ Costly
- ✓ Complex administration
- ✓ Higher pay rates



MBA SEM 03 Module 02 Topic 06

☼ BONUS SCHEMES ☼

● Introduction

Bonus are additions to pay that are linked to individual or team performance and that are measured against a set of objective criteria.

In some organizations, all employees share in the bonus awards if organizational goals are met, whereas in others the size of the bonus is tied to each individual's performance.

● Bonus schemes

A bonus scheme is a reward tool that provides a lump sum payment in return for meeting agreed objectives. The way schemes are designed often means that the value of the bonus is included in the targets that are set, which makes the scheme self-financing. Performance targets can be single issues such as increasing sales, or more commonly a mixture of business goals.



In either case, goals are usually objective, for example a profit target. Performance below and above the stated goal may be recognized as well. The reward strategy usually classes bonus schemes as variable, because the value can change from one performance period to the next.

● Criteria for bonus scheme

(1) Transparency

The bonus scheme must be transparent to employees. He/she must be able to make a proper calculation of his/her bonus.

(2) Simplicity

The bonus scheme must be simple. When an employee do not have a chance to make a proper interpretation of the scheme, the company cannot expect the employees to deliver the results.

(3) Trust

The employees must be sure, the money invested into the scheme will be really released.



● Types of Bonus Schemes

(1) Schemes driven by business results

These schemes often use company profit levels as a measure to help to determine bonuses, with other measures including company turnover, revenue, sales and cash flow.

(2) Individual-based

Under these schemes, payment of the bonus/incentive is determined by some measure of individual performance. Individual bonuses might also be used in the situation where employees, at the top of their pay scale would receive a non-consolidated bonus payment rather than consolidated pay rise.

(3) Team-based

Such schemes link the bonus with some measure of team performance, often with the aim of fostering effective team working.

(4) Combination

Bonus or incentive payments can be based on a combination of two or more of the above types.



(5) Gain-sharing

An approach based on the idea that employees should be able to share in financial gains achieved through improved performance.

(6) Ad-hoc / Project based

The bonus is associated with the completion of a particular project or *ad hoc* task. This arrangement might be used when a particular deadline is imperative.

(7) Department / site-based

A variation on the collective bonus theme, payments could be pitched to reward. E.g. production workers who attain productivity improvements in one particular plant in a manufacturing firm.

● Designing and operating Bonus Schemes

- ✓ Selecting type of scheme
- ✓ Tailoring Bonus Schemes
- ✓ Setting Targets
- ✓ Determining frequency of payments



-
- ✓ Considering practical aspects of scheme

 - ✓ 'Stress-testing' the scheme

 - ✓ Relationship with annual consolidated pay rises

 - ✓ Communicating with employees



MBA SEM 03
Module 02 Topic 07

☼ TEAM PAY ☼

● **Introduction**

Team pay is a method of linking the pay of employees to the level of performance that they have achieved in a team.

By reinforcing group performance by recognising team working, the collective potential of employees can be harnessed.

● **Aims/objectives of team pay**

The aim of team reward processes is to reinforce the behaviours that lead to and sustain effective teamwork.

- ✓ Rewards teamwork and cooperation
- ✓ Encourages the group to improve work systems
- ✓ Increases flexibility and the ability to respond to changing needs
- ✓ Encourages information-sharing and communication



- ✓ Helps to focus people on the wider organization

- **How team pay works**

(1) Team pay formula

The goals, methods of measurement, and bonus amount can be determined in advance and communicated to group members, thereby serving as an incentive for the entire team.

(2) Method of distributing bonus

Bonus payments can be made in cash, corporate stocks, or through non-cash items such as trips, time-off or luxury items. Payments may be distributed equally to all team members or differentially in an effort to reward those who made greater contributions to the team's objectives.

(3) Team pay and individual pay

Some organisations pay team bonuses only. A minority pay individual bonuses as well, which are often related to an assessment of the competence of the person thus, providing encouragement to develop skills and rewarding individuals for their particular contribution.



(4) Project team bonus

Project team bonuses are related to increases in income or productivity or cost savings arising from the project. Project teams can be set targets and their bonuses can be linked with achieving or surpassing target results.

(5) Ad hoc bonuses

Where there are no predetermined arrangements for paying bonuses to teams, a retrospective bonus can be paid to a project or *ad hoc* team in recognition of exceptional achievement.

- **Benefits of team pay**

(1) Stimulate team work

In order to motivate team members for working together efficiently, team-based incentives or team pay are provided by the organizations. Co-operation and collaboration to attain mutual objectives is motivated as a result of team based incentives.

(2) Increase effort

The desire of the employees to contribute into the activities increases because of team incentives as employees do not want to disappoint their fellow team members.



(3) Reduce employee turnover

Employee turnover decreases due to lucrative incentive packages as the workers who are contented with their work environment and pay are less probable to switch job. A considerably lower degree of employee turnover is witnessed by the organizations with long term and team based incentives.



MBA SEM 03 Module 02 Topic 08

☯ REWARDING FOR BUSINESS PERFORMANCE ☯

● Introduction

Many organizations believe that their financial reward systems should extend beyond individual contingent pay, which does not recognise collective effort, or team pay, which is difficult.

They believe that their system should help to enhance engagement and commitment, and convince employees that they have a stake in the business as well as providing them with additional pay.

● Types of formal business performance schemes

- ✓ Profit sharing
- ✓ Share ownership schemes
- ✓ Gain sharing



(1) Profit sharing

➤ According to H. R. Stager,

“Profit sharing is an arrangement entered into by which the employee receives a share, fixed in advance, of profits”.

➤ Methods of profit sharing

(1) Cash payment plan

A share of the profits is distributed at regular intervals. The percentage to be distributed depends on the stability of the company and the management’s philosophy, primarily.

(2) Deferred payment plan

The employee’s share of profits is held in trust for him, to be paid either in installments or as retirement benefits. If the employee is dismissed, the investment amount reverts to him and in the event of death, it is paid to the designated beneficiary.

(3) Combination payment plan



It is a combination of the cash and deferred payment plan; it enables the employer to get some immediate benefits and also to put away something for the future.

(4) Stock ownership plan

As the name suggests, the stock ownership plan enables employees to acquire company stock often at concessional rates. Companies set limits to the amount of stock that employees can buy, which is usually related to the wage or salary earned by the employees, or it may be restricted above certain wage levels.

➤ Importance of Profit sharing

- ✓ Employer-employee relationship
- ✓ Industrial peace
- ✓ Low labour turnover
- ✓ Enhancement of Labor morale
- ✓ Team spirit
- ✓ Effort and reward
- ✓ Sense of belonging



- ✓ Efficient workforce

(2) Employee stock ownership plan

ESOP is a benefit plan which makes it possible for the employees to become the owners of stock of their organisation.

➤ Importance of ESOP

- ✓ Capital appreciation
- ✓ Ownership
- ✓ Tax advantages
- ✓ Reduction in tax liability

(3) Gain sharing

Gain sharing is a system of management in which an organisation seeks higher level of performance through the involvement and participation of its people.

As performance improves, employees share financially in the gain.

➤ Condition flavouring gain sharing plan



(1) Firm size

Gain-sharing is more likely to work well in small to midsize plants, where employees can see a connection between their efforts and the unit's performance.

(2) Technology

When technology limits improvements in efficiency, gain-sharing is less likely to be successful.

(3) Historical performance

If the firm has multiple plants with varying levels of efficiency, the plan must take this variance into account so that efficient plants are not penalised and inefficient plants rewarded.

(4) Corporate culture

Gain-sharing is less likely to be successful in firms with a traditional hierarchy of authority, heavy dependence on supervisors, and a value system that is antagonistic to employee participation.

(5) Stability of the product market

Gain-sharing is most appropriate in situations where the demand for the firm's product or service is relatively stable.



➤ Importance of gain-sharing

- ✓ Helps companies achieve sustained improvement
- ✓ pay-outs are self funded
- ✓ Rewards only performance improvement
- ✓ Aligns employees to organizational goals
- ✓ Foster a culture of continuous improvement
- ✓ Enhances employee focus and awareness
- ✓ Increase the feeling of ownership and accountability
- ✓ Enhances the level of involvement, teamwork and cooperation
- ✓ Supports other performance improvement efforts
- ✓ Promotes morale, pride and positive attitude



MBA SEM 03 Module 02 Topic 09

❁ RECOGNITION SCHEME ❁

- Introduction

Recognition is used to acknowledge employees for their achievements and contributions. Although it should not be the sole means used, the performance appraisal provides one method for conveying appreciation and recognition. The recognition of employee success is often neglected by busy managers, but it is a powerful and no cost method of improving morale, motivation, and employee productivity. Employee recognition is a powerful element to be considered in motivating employees.

- Types of recognition programme

(1) Structured programmes

It can include regular recognition events such as banquets or breakfasts, employee of the month or year recognition, an annual report or yearbook which features the accomplishments of employees, and department or company recognition boards.



(2) Informal or spontaneous recognition

It can take the form of privileges such as working at home, starting late/ leaving early, or long lunch breaks. A job well done can also be recognised by providing additional support or empowering the employee in ways such as greater choice of assignments, increased authority, or naming the employee as an internal consultant to other staff.

(3) Symbolic recognition

It includes plaques or coffee mugs with inscriptions can also be effective, provided they reflect sincere appreciation for hard work.

● **Benefits of recognition schemes**

- ✓ Productivity
- ✓ Job satisfaction
- ✓ Employee happiness
- ✓ Retention
- ✓ Loyalty
- ✓ Team culture



MBA SEM 03 Module 02 Topic 10

● VALUING AND GRADING JOBS ●

● Job Evaluation

Job evaluation can be defined as structured and organised method of assessing jobs and classifying them according to their utility in the organization. Job evaluation refers to a systematic method of determining a given job's relative value or worth in relation to other jobs within a specific organization. Its primary goal is to produce a systematic comparison between jobs in order to assess their relative worth, usually for the purpose of establishing a rational pay structure.

➤ According to Edwin B. Flippo,

“The systematic and orderly process of measuring the worth of job within an organization is called job evaluation”.

● Approaches to job evaluation

(1) Formal Job Evaluation

Formal approaches use standardised methods to evaluate jobs that can be analytical or non-analytical. Such schemes deal with internal relativities and the

associated process of establishing and defining job grades or levels in an organization.

(2) Informal Job Evaluation

Informal approaches price jobs either on the basis of assumptions about external relativities or simply by reference to going or market rates when recruiting people, unsupported by any systematic analysis.

- Methods of Job Evaluation



■ Non-Analytical Methods

(1) Ranking system

Ranking Method is the simplest form of job evaluation method. The method involves ranking each job relative to all other jobs, usually based on some overall factor like 'job difficulty'. This method tends to arrange and rank the jobs according to their values from the simplest to the toughest or vice versa, in a sequence.

This method ranks jobs in order based on each position's perceived value in relation to others. Although this method does not consider market compensation rates, it may work well for smaller companies. Larger companies employing this method could be complex due to the larger number of positions, but could still work if jobs are grouped, for example by professional level.

Ranking of Jobs					
Job	Skill	Mental Requirement	Physical Requirement	Responsibility	Working Conditions
Toolmaker	1	1	2	1	4
Welder	2	2	3	2	3
Electrician	3	3	4	3	5
Assembler	4	4	5	5	2
Office Boy	5	5	1	4	1

1 : Highest and 5 :Lowest



➤ Advantages of ranking system

- ✓ Easy to explain
- ✓ Cost effective
- ✓ Needs less administration
- ✓ Less time consuming

➤ Disadvantages

- ✓ Rater's judgemental view
- ✓ Does not denote to which extent it is more significant than others

(2) Job classification or Grading systems

In the job classification method, the evaluator writes descriptions of each class of jobs and then puts them into the grade that best matches the class description.

The job classification method allows you to predetermine the job classes and assign each job to these classes, which makes evaluating the jobs based on classification very objective.

In this job evaluation method, generic job characteristics are grouped together to reflect their level of skill and responsibility at several predetermined grade classifications. This method tends to be straightforward and not as time-consuming as some others.

For this, individual jobs are compared to groups of pre-determined job characteristics, and then matched to a specific grade classification based on the comparison. This can pose some challenges, as one set of characteristics will not always fit every job within an organization. This system is also subject to grade inflation as jobs proceed to higher levels, which could lead to ineffective evaluations.

Classification Method

CLASS I	CLASS II	CLASS III	CLASS IV
Executives	Skilled Workers	Semi Skilled workers	Un- Skilled workers/ Helpers
CEO Manager Deputy Office Manager Superintendent Dept. Supervisor	Purchasing Assistant Cashier Receipts Clerk	Steno typists Machine operators etc.	Office boys File Clerks



➤ Advantages of job classification system

- ✓ Simple to understand and operate
- ✓ Do not demand extra time
- ✓ Allows administration to deal with different jobs
- ✓ Resolves pay determination issues by grouping all jobs into a classification

➤ Disadvantages of job classification system

- ✓ Job classification influences employee efficiency or performance and their hierarchical relationships
- ✓ In the absence of detailed job analysis, judgement may provide a wrong categorisation
- ✓ Hard to implement when number of jobs is more
- ✓ Complex to understand influence of job's rank of a person on the job
- ✓ Inflexible and inappropriate for large organisation



■ Analytical Method

(1) Factor Comparison method

Factor comparison is systematic and scientific method designed to carry out job evaluation which instead of ranking job as a whole, ranks according to a series of factors. The aim of factor comparison is to assign financial value to the relative parts of each job role.

This strategy has job factors identified under primary groups, and each factor is assigned a dollar value as opposed to a point value. As this tends to be more complex, only a few organizations employ this method. It can also be hard to communicate to employees, and there is an inherent degree of subjectivity involved in the determination of the dollar values.

Factors Key Job	Daily Wage Rate	Physical effort	Factors mental effort	Skill	Responsibility	Working conditions
Electrician	60	11(3)	14(1)	15(1)	12(1)	8(2)
Fitter	50	14(1)	10(2)	9(2)	8(2)	9(1)
Welder	40	12(2)	7(3)	8(3)	7(3)	6(3)
Cleaner	30	9(4)	6(4)	4(5)	6(4)	5(4)
Labourer	25	8(5)	4(5)	6(4)	3(5)	4(5)



➤ **Advantages of factor comparison method**

- ✓ Organised and computable method
- ✓ To determine relative value, jobs are compared
- ✓ easy to understand
- ✓ No restriction on the application of values to each other

➤ **Disadvantages of factor comparison method**

- ✓ Hard to execute for someone who is not familiar with basics of job evaluation
- ✓ changes in wage levels takes place with time, minor deviations may be modified to align all the jobs
- ✓ complicated system



(2) Point ranking method

Firstly, it recognises the number of compensable factors, and secondly, it determines the extent to which each of these factors is available in the job.

The point method is an extension of the factor comparison method. Each factor is then divided into levels or degrees which are then assigned points. Each job is rated using the job evaluation instrument. The points for each factor are summed to form a total point score for the job.

This method identifies specific job factors that add value and worth to a position. These factors are separated into groups such as skill, responsibility, and effort, and are then assigned a numerical or weighted point value. Points for individual factors that a specific job meets are added up to get a point value for the job as a whole. The downsides to this method are that the point values may not always reflect market values of jobs, and the system also poses the risk of generating an internal hierarchy.

Figure: Point System Matrix

Compensable Factors	Minimum 1	Level (Degrees)		
		Low 2	Moderate 3	High 4
Responsibility				
I) equipment process	5	10	15	20
II) material/product	5	10	15	20
III) safety of others	5	10	15	20
IV) work of others	5	10	15	20
Skill				
I) education	14	28	42	56
II) experience	22	44	66	88
III) knowledge	14	28	42	56
Effort				
I) physical	10	20	30	40
II) mental	5	10	15	20
Job Condition				
I) working conditions	10	20	30	40
II) hazards	5	10	15	20
Total points 1000	100	200	300	400



➤ **Advantages point ranking method**

- ✓ Points are given to each factor which makes it easier to allocate values to sum of job points
- ✓ easily acceptable by workers
- ✓ system can not be manipulated easily
- ✓ Large no. of jobs can be handled

➤ **Disadvantages of point ranking method**

- ✓ Installation and creation of this system is expensive
- ✓ Time consuming
- ✓ clumsy
- ✓ if numerous rates are used, clerical work is required in recording and concluding rating scales
- ✓ it is not easy to determine level of factors present within the factors and finally allocating the values



MBA SEM 03 Module 02 Topic 11

☼ PAY LEVELS ☼

● Introduction

Pay Level means the salary range or rate of pay of a classification as provided in the pay schedule of this Collective Agreement, and where necessary, mid-rates shall be used for comparison.

The Pay level is the average wage paid to employees.

Organisations have a wide range of discretion in setting wage levels. although organizations seek-out and use information on what other employers pay, this information is only one of the determinants of wage levels.

● Determinants of Pay

(1) Nature of external and internal Labour market

❖ *External Labour Market:*

Market consists of buyers and sellers of goods. Having too many buyers for a limited number of goods forces prices up, and a surplus of goods beyond what



buyers want forces prices down. The price of labour is the rate of pay required to attract and retain people in organizations.

❖ *Internal Labour Market:*

This is the market that exists when firms fill their vacancies from the ranks of existing employees. Pay in the internal market will be affected by views on the intrinsic value of jobs and what individuals are worth on the basis of their expertise and contribution.

The relationship between internal and external rates will also depend on policy decisions within the firm about its level of pay generally compared with the “going rate” in the external market.

(2) Classical Economic Theory

The demand for funds was held by classical economic theory to derive from the expectations of business with respect to profits. In turn, the expectations of business with respect to profits were held to be a function of the managerial productivity of investment.

The supply of funds, on the other hand was held by classical economic theory to be dependent upon the aggregate willingness in an economy to save. In turn, the aggregate willingness to save was held to be a function of the managerial rate of time preference for funds.



According to economic theory, workers' wages are equal to the marginal revenue product of their labor. If one employee is very productive he or she will have a high marginal revenue product.

(3) Labour theory of value

Karl Marx's labour theory of value asserts that the value of an object is solely a result of the labour expended to produce it. According to this theory, the more labour or labour time that goes into an object, the more it is worth.

Marx defined value as "consumed labour time", and stated that "all goods, considered economically, are only the product of labour and cost nothing except labour".

(4) Human Capital Theory

English philosophers John Locke and John Stuart Mill, Scottish economist Adam Smith and German social theorist Karl Marx argued that training, not natural ability, was important in understanding differentials.

It postulates that expenditure on training and education is costly, and should be considered an investment since it is undertaken with a view to increasing personal incomes. The human capital approach is often used to explain occupational wage differentials.



(5) Efficiency wage theory

This theory states that the productivity of workers depends positively on their wages, and elucidates certain mechanisms that explain its dependence. Higher wages raise morale and company loyalty, attract better quality workers, and result in less shirking.

(6) Agency theory

Agency theory is directed at the ubiquitous agency relationship, in which one party (the principal) delegates work to another (the agent), who performs that work.

The principal–agent problem, in political science, supply chain management and economics occurs when one person or entity is able to make decisions and/or take actions on behalf of, or that impact, another person or entity.

(7) Effort Bargain

A bargain in which the reward to an employee is based on the effort that the employee puts in. Although productivity is not widely used as an explicit wage level determinant, it is always present in the form of the effort bargain. If the employer gets more output for each unit of input, the organization's ability to pay is increased.



● Factors affecting pay levels

(1) Internal job value

Organisations generally relate pay to the relative contribution or internal value of the jobs people do. The bigger the job the more they are paid.

(2) External job value

The rate of pay for jobs and people will be influenced by market rates in accordance with the policy of the organization on how it wants its own rates to relate to market levels and the degree to which market forces affect the pay required to attract and retain people of the quality the organization needs.

(3) The value of the person

Individual employees may be paid more because it is perceived that they are making a bigger contribution, are performing better, have achieved a higher level of skill or competence than other employees, or have been in a job since longer time.

(4) The employer

Affordability, policy of business or fixed national minimum wage also affects the pay levels.



(5) Trade Unions

Pay levels may be determined through collective bargaining. The amount of pressure a trade union can exert on pay levels will depend on the relative bargaining strengths of the employer and the union in pay negotiations.



MBA SEM 03 Module 02 Topic 12

MARKET RATE ANALYSIS

● Introduction

To ensure that pay levels are competitive, it is necessary to track market rates for the jobs within the organization, especially those that are particularly vulnerable to market pressures because of scarcity factors.

To a large extent, pay levels are subject to market forces which have to be taken into account in fixing the rates for particular jobs.

This is sometimes called benchmarking.

Market rate analysis is conducted through surveys that produce data on the levels of pay and benefits for similar jobs in comparable organizations.

● Job Matching

Job matching is about identifying benchmark jobs from compensation surveys in order to assess the market price of a position.

The validity and reliability of a market benchmark depends on the quality of the job matching between internal and external jobs.



● **Benchmark jobs**

Market pricing begins with the selection of benchmark jobs, which serves as anchor points.

● **Sources of data collection**

- ✓ General National and Regional published surveys
- ✓ General Local published surveys
- ✓ Management consultant's databases
- ✓ Sector surveys
- ✓ Industrial surveys
- ✓ Occupational surveys
- ✓ Survey conducted by the organization
- ✓ Pay club surveys
- ✓ Published data in journals
- ✓ Job advertisement



-
- ✓ Recruitment consultants and agencies

 - ✓ Analysis of recruitment data

 - ✓ Other market intelligence



MBA SEM 03
Module 02 Topic 13

GRADE AND PAY STRUCTURES

● **Introduction**

A grade structure consists of a sequence or hierarchy of grades, bands or levels into which groups of jobs that are broadly comparable in size are placed. A grade structure becomes a pay structure when pay ranges, brackets or scales are attached to each grade, band or level.

Grade and pay structures provide a logically designed framework within which an organization's pay policies can be implemented.

They enable the organization to determine where jobs should be placed in a hierarchy, define pay levels and the scope for pay progression, and provide the basis upon which relativities can be managed, equal pay achieved and the process of monitoring and controlling the implementation of pay practices can take place.

● **Types of Grade and Pay Structure**

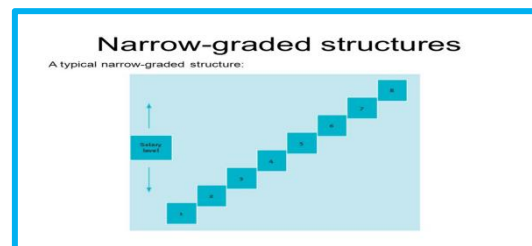
(1) Narrow-graded pay structure

Narrow-graded pay structures are made up of a large number of grades, usually ten or more, into which jobs of broadly equivalent worth are placed.

These types of structure are often found in the public sector or services which were once closely aligned.

Progression through each of the grades is frequently by means of service increments, either annual or bi-annually. However, because the grades are narrow, most employees reach the top of the pay range for their grade fairly quickly. As it is difficult to differentiate between successive grades, this can also encourage 'grade drift', I.e. unjustified upgrading.

Also known as **multi-graded pay structure**. Typically comprise eight to ten grades, with jobs of broadly equivalent worth in each grade. It consists of a sequence of job grades into which jobs of broadly equivalent value are slotted. Range spread is 20% to 40%.

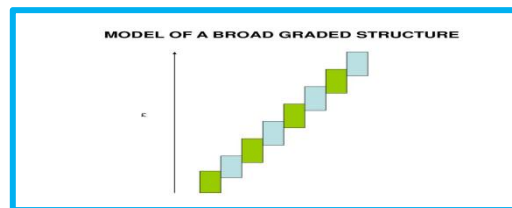


(2) Broad-graded pay structures

Broad-graded pay structures have fewer grades than narrow-graded structures, perhaps six to nine, where the salary band within the grade is usually wider. This can help counter or alleviate 'grade drift' problems that often arises with multi-graded structures, as there is greater scope for an

employee's pay to progress further along the pay grade. These types of structures are sometimes included within a definition of 'broadbanding'.

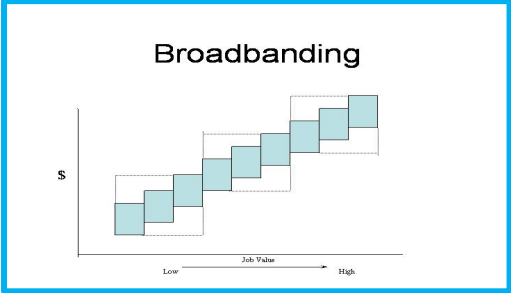
Broad-graded structures have fewer grades, perhaps six to nine, and therefore provide more room for pay progression within the grade. Range spread is 40% to 60%.



(3) Broad-banded structure

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

Broad banding is defined as a strategy for salary structures that consolidate a large number of pay grades into a few "broad bands." In a broadband pay structure, the numbers of salary grades are consolidated into fewer, but broader, pay ranges. Four to six bands. Range spread is 50% to 80%.

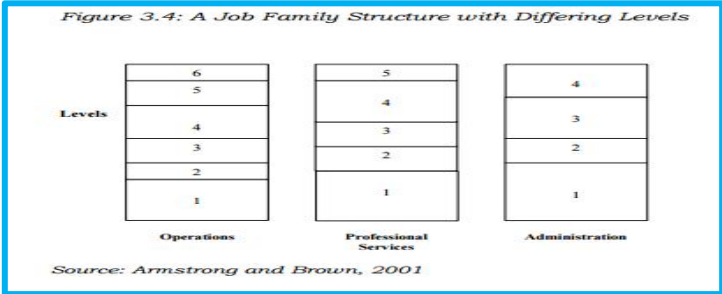


(3) Job family structure

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

A job family structure consists of separate grade and pay structures for different job or career family. Typically there are five to seven levels. Career families are focused on an occupation or function, job families are typically based on common processes.

For example, IT, Finance, HR, Legal jobs are career family structure



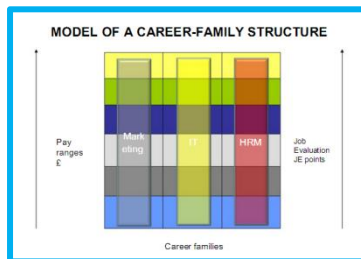
Job families may have different numbers of levels depending on the range of responsibility they cover.

The levels are usually defined as in a career family in terms of accountabilities and skills and knowledge or competence requirements often set-out as role profiles, which can be used both for personal career development and as one of the base for performance management.

(5) Career family structures

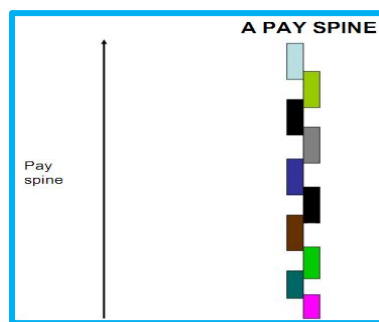
Career families, or career-graded structures, resemble job family structures in that there are a number of different families. However, with this approach, every family employs exactly the same grades and pay ranges for all of the levels included within it. Here the focus is on career mapping and progression,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

In career family structures, jobs are grouped together into ‘families’. Typically career structures have between six to eight levels, which places them between narrow-graded and broad-banded structures.



(6) Pay spines

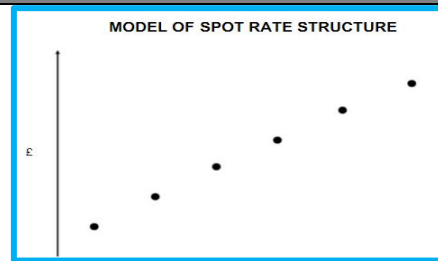
Pay spines are found in public sector or in agencies and charities that have adopted a public sector approach to reward management. They consist of a series of incremental ‘pay points’ extending from the lowest to the highest paid job covered by the structure. It includes 2.5% to 3 % increment.



(7) Spot rates

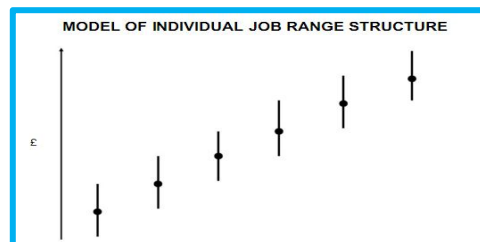
Some organizations do not have a graded structure at all for any jobs or for certain jobs such as directors. Instead they use ‘spot rates’.

This is the most basic method of payment. Spot rates are not located within grades and there is no defined scope for progression while on the spot rate. Spot rates are sometimes attached to a person rather than a job.



(8) Individual job grades

This is a similar pay arrangement to spot rates, but instead of having a single rate for the job, employees are employed on individual pay ranges. This allows for some form of pay progression. This do not apply to executive positions.





SR. NO.	Question	Answer
1	_____ can be defined as the achievement of quantified objectives, with the help of appropriate behaviour and effective use of required knowledge, skills and competencies.	Performance
2	_____ is not only a matter of what people achieve but also how they are achieving it.	Performance
3	The systematic process which can be employed for the improvement of overall performance of an organization by enhancing individual performance within the framework of a team is called _____.	performance management
4	performance management is an _____ process.	Ongoing
5	The major purpose of PM systems is to aid management in achievement of _____ of the firm.	strategic objectives
6	PM systems provide valuable and authentic information which serves as basis for _____	managerial decisions



	_____ regarding employees.	
7	A properly implemented performance management system has _____ as one of its important elements.	feedback
8	PM system provide information which is useful for the function of _____.	workforce planning
9	The biggest challenges in front of the organization are to transform the potentials into meaningful skills and competencies.	true
10	It is possible to ensure fairness in all the aspects of the management with the help of _____.	performance management
11	Many employees become less committed to work not because of their low pay structure, but for the lack of _____.	recognition
12	HPC refers to _____.	High Performance Culture
13	A _____ is an organizational culture built on a set of universally accepted	high-performance



	behaviors and norms that are encouraged by leaders and facilitated by optimal tools and processes.	culture (HPC)
14	High performance Culture is a result of _____.	high performance action
15	The performance management framework must be operated throughout the organization from _____.	top to bottom
16	Business plan must be _____.	realistic
17	In SMART objectives, S refers to _____.	Specific
18	In SMART objectives, M refers to _____.	Measurable
19	In SMART objectives, A refers to _____.	Agreed
20	In SMART objectives, R refers to _____.	Realistic
21	In SMART objectives, T refers to _____.	Time bound
22	Good performance needs to be recognized and, where appropriate, _____.	rewarded
23	HPWS refers to _____.	High performance



		work systems
24	The main idea of HPWS is to create an organization based on employee involvement, commitment and empowerment, not _____.	employee control
25	This component is the concept of “increased opportunity to participate in decisions” for employees.	Involvement
26	The _____ provides employees with the necessary skills to perform their jobs in a more effective manner.	training
27	_____ is an organizational approach which confirms the commitment and motivation of employee toward organization.	Employee engagement
28	An employee who is fully engaged has a sense of _____.	care and responsibility
29	Engaged employees are having an emotional and personal connection with _____.	organization and



		colleagues
30	The IES model was developed in _____.	2003
31	In _____, The Hay group carried out a large survey to identify the business value of engaged employees.	2002
32	In 2002, _____ carried out a large survey to identify the business value of engaged employees.	The Hay group
33	The Hay survey analyzed the performance difference between _____.	'engaged employees' and 'average employees'
34	A good reward system can meet the needs of the _____ in order to maximize its effect.	staffs
35	Monthly basic pay and salary.	Compensation
36	Sharing of organizational profit; bonus and other types of staff welfare	Benefits
37	The firm can show its appreciation by promote premonition and giving out award to top	True



	performers.	
38	In addition, an ideal reward system should be able to award both employee's _____.	performance and behavior
39	The _____ is easier to measure since it is a direct comparison between the desired target and actual performance of employee.	performance
40	It is harder to use reward system to affect the employee's _____.	behavior
41	Only set up a clear objective and understand the requirements of an ideal reward system are not enough to design a decent reward system.	true
42	The firm needs to consider the _____ of the rewards system before proceeding to the designing stage.	feasibility
43	After defining the objective, requirements and consideration of an ideal reward system, the firm can proceed to the _____ stage.	design
44	Reward systems need to be able to fit into the organization's _____.	operation system



45	it is crucial to design a reward system based on the type of the industry and the setup of the organization.	true
46	The firm needs to maintain the _____ when applying the reward system.	consistency
47	_____ is the combination of benefits, compensation and rewards that employees receive from their organizations.	Total rewards
48	The elements that make up a total rewards package combine _____ offerings.	traditional and non-traditional
49	_____ of employee benefits is a concern for many companies.	Under utilization
50	It's human nature to value things based on our own _____.	personal cost
51	_____ are direct monetary rewards encompassing the payment of cash compensation to employees for work accomplishment or efforts expended.	Financial rewards
52	Supervisors may award employees up to _____	32



	hours of paid leave annually in recognition of meritorious performance.	
53	The theoretical framework of financial rewards is based on the concepts of _____.	extrinsic and intrinsic motivation
54	_____ motivation refers to behavior that is driven by external rewards.	Extrinsic
55	_____ motivation refers to behavior that is driven by internal rewards.	Intrinsic
56	In a _____ paper titled "A Theory of Human Motivation," American psychologist Abraham Maslow theorized that human decision-making is under girded by a hierarchy of psychological needs.	1943
57	The first of the id-driven lower needs on Maslow's hierarchy are _____ needs.	physiological
58	_____ needs include protection from violence and theft, emotional stability and well-being, health security, and financial security.	Safety
59	Maslow specifically notes that self-esteem can be	two



	broken into ___ types.	
60	_____ describes the fulfillment of your full potential as a person.	Self-actualization
61	_____ Motivation Theory model, or Two Factor Theory, argues that there are two factors that an organization can adjust to influence motivation in the workplace.	Herzberg's
62	Which can encourage employees to work harder.	motivators
63	These won't encourage employees to work harder but they will cause them to become unmotivated if they are not present.	Hygiene factors
64	The two factors identified by Herzberg are _____.	motivators and hygiene factors

MBA SEM 03
Module 03 Chapter 01





❁ REWARDING SPECIAL GROUPS ❁

(1) REWARDING DIRECTORS AND SENIOR EXECUTIVE

● Introduction

Any remuneration paid to top rank executive is known as Executive compensation.

In other words, it is the reward given to the senior executive such as Managing Director (MD), Executive chairman, Chief Executive officer (CEO), Chief Financial Officer (CFO), Chairman, Board of Directors (BOD) etc. for the expert's service rendered by them to the organization.

Decisions on the pay of directors and, to a degree, senior executives are influenced by corporate governance considerations and the associated codes. Corporate governance is the system by which companies are directed and controlled. Board of directors are responsible for the governance of the company.

● Executive pay levels



When hiring a top class executive, the executive compensation is considered to be of much importance, both to the executive as well as to the company. The task of finding and hiring an executive who would prove to be an asset to the company is a challenging one. The executive compensation offered by the company helps to attract the best candidates' at all top executive levels and also to further retain them.

- **Factors affecting the level and nature of executive rewards**

(1) Agency theory

Agency theory assumes that incentives have an impact on motivation and effort. Research by psychologists has distinguished between intrinsic and extrinsic motivation factors.

Agency theory is used to understand the relationships between agents and principals. The agent represents the principal in a particular business transaction and is expected to represent the best interests of the principal without regard for self-interest.

The different interests of principals and agents may become a source of conflict, as some agents may not perfectly act in the principal's best interests. The resulting miscommunication and disagreement may result in various problems and



discord within companies. Incompatible desires may drive a wedge between each stakeholder and cause inefficiencies and financial losses. This leads to the principal-agent problem.

In large organizations, individual owners or principals are incapable of exercising day to day control over organizational affairs. So that they appoint salaried executives and managers to act as their agents.

Agency theory focuses on the motivational and material separation between the firm's owners and its executive employees and, in particular, on latter's prosperity for risk aversion and self-serving behaviour.

One specific way to reduce 'agency costs' and increased alignment between executives' material interests and those of ordinary shareholders is to make as much of the executive's rewards as possible contingent on the organization's performance and financial returns to the owners.

(2) Tournament theory

Tournament theory sees the governance relationship as being essentially unproblematic and hierarchical management reward structures as desirable and effective.

This theory focuses on the way in which executive reward hierarchies are structured and how and why such structures are necessary for attracting, motivating and retaining executive 'talent'.



Tournament theory suggests that the steep hierarchy of senior manager pay levels is both explained and justified by the content for promotion, status, and power and the struggle to secure the ultimate corporate prize - the position of CEO.

(3) Remuneration committees

Remuneration committee aims to set executive pay level that allows the company to recruit, motivate and retain executives of the high caliber required to run the company and deliver good returns to shareholders.

To ensure that remuneration packages remain competitive the committee benchmarks against a group of comparable companies. Executive benefits are adjusted to ensure that they remain at around median level in the comparison group.

(4) Market forces

To a certain extent, all organizations needs to be externally competitive. Business needs to pay market average to attract and retain reasonably qualified candidate.

Being said, the question becomes- how much do we value internal equity at the expense of external competitiveness, or how much will we let external competitiveness drive real or perceived internal inequalities?

● Individual components of directors remuneration



(1) Basic salary

The salary of individual executive director is reviewed at 1 January each year.

(2) Performance related bonus

A discretionary bonus scheme for the executive directors was first introduced in 1993.

(3) Deferred bonus schemes

With this type of scheme, often designed to work hand-in-hand with other types of long-term incentive plan, the executive's bonus is converted into shares that become available only after certain performance criteria have been met, or after a set period of time, or both.

(4) Executive restricted share schemes

Many executive share option schemes attach a condition of the exercise of the options; merely increasing the share price is insufficient. Many different types



of condition could be used, but as the majority of executive share option schemes grant options based on growth in EPS, their measure in particular is examined.

(5) Other benefits

Executive directors receive a fully expensed car, private health insurance and long-term sickness insurance.

(6) Pensions

Under the terms of their service agreements, executive directors are entitled to become members of one of the group pension schemes or, if preferred, to receive payment of a fixed percentage of salary into an approved personal pension scheme.

(7) Share option and long term incentive agreement

The committee has made awards to executive directors under two schemes:

➤ *Executive share option scheme*

An arrangement that involves the periodic grant of SHARES in a company to the company's executive directors as an incentive for them to improve the fin



financial performance of the company and align their interests more closely with those of the company's SHAREHOLDERS. Options to buy shares are granted at a specified 'exercise' price, which is normally the market price of the company's shares at the date of grant. Most options can be exercised (i.e. 'cashed in') only provided that certain predetermined financial performance 'targets' are achieved over a specified time period, usually three years.

➤ *Long term share incentive scheme*

Long-Term Incentives (LTIs) are a form of variable compensation that is earned in the present but whose payment is deferred and spread over time. ... Their purpose is to give employees an incentive to stay with the organization and to have a long-term stake in company performance.

(2)
REWARDING SALES AND CUSTOMER SERVICE STAFF



● Introduction

The employees from sales and customer service department have a direct contact with customers or retailers; they can generate sales at a very high level. Hence, it is very important for organization to keep these employees satisfied and provide them suitable reward and compensation.

● Rewarding sales representative

Sales representatives are more likely to be eligible for commission payments or bonuses than other staff on the grounds that their sales performance will depend on or at least be improved by financial incentives. Sales staff, including those in retail establishments, are often paid spot rates with a commission on sales.

● Financial method of rewarding sales staff

(1) Salary-only-plans / straight salary method

It is the earliest of all remuneration plans and is the most common method. Under this system, salesmen are paid a predetermined amount, as a salary, generally at the end of every month. There is a fixed time scale, with annual increments, for a continued service. Generally, the amount consists of basic salary, dearness allowance, and any other allowances. Other amounts to meet the business expenses will also be paid.



➤ **Merits of straight salary method**

(1) Control

It provides the sales manager with greater control over the activities of the salesman.

(2) Security for salesmen

This kind of plan provides a sense of security to the field staff. The sales of any product could be subject to seasonal changes, demand supply equation, the other efforts, for example, advertising, brand building exercises, price equation etc.; and it is not the salesman alone who could control sales hence the sales manager must provide him with fixed salary to provide the security to work better.

(3) Simple to understand and easy to calculate

The salesmen is provided with the detailed salary slip at the end of each month, which could be more or less similar for each month and which is simple and easy to understand.

(4) Logical and justified



Many believe that for any organisation entering the market for the first time with a new product or entering a new market with established product, the certainty of the sales cannot be predicted in advance. In this case, straight salary method is most appropriate and justified.

➤ **Demerits of straight salary method**

(1) Lack of incentives

People will not be encouraged to put in the best, when they know that irrespective of performance, only the salary will be paid.

(2) Too much protection

It is believed that just as the market place remain uncertain, the salesman must always be aware of the loss of income to the organisation due to dropping sales. This method works on the contrary.

(3) Common yardstick

This method applies common salary system for all the salesmen and does not take into account the variables.

(4) Needs periodic review



This method cannot be implemented for a longer period of time. It needs a periodic review.

(5) Sales cost factor

As percentage to sales could either rise or fall depending on the volume of sales. In case the volume of sales increases, the salary expenses as a percentage will decrease and vice versa will affect the profitability of the organisation.

(2) Salary plus Bonus plans

Salary plus bonus plans offer a set salary coupled with a bonus. Bonuses usually are single payments that reward employees for achievement of specific, exceptional goals.

➤ Merits of salary plus bonus plans

- ✓ Provides flexibility for determining rewards
- ✓ Defining expectations and modify behaviour
- ✓ Helps management to change territory structure and sales target by preserving level of incentives
- ✓ Helps in rewarding sales team and individuals



➤ **Demerits of salary plus bonus plans**

- ✓ complex and difficult to understand
- ✓ divert employees from main task in greed of profit
- ✓ bonus scheme is not clear as other incentive plans

(3) Straight commission method

This method is based on the result, and not on the basis of time. The productivity, I.e. volume of sales made by a salesman is a basis for remuneration. The rate of commission may be flat or differential. Differential rate aims at lower commission up to a standard performance and a higher rate over and above the standard performance.

➤ **Factors to be considered while developing straight commission plan**

✓ **Commission base**

The base on which the salesperson's performance is measured.

✓ **Commission rate**



Rate to be paid per unit, usually expressed as percentage of sales or gross profit.

✓ **Commission start**

After selling the first unit or after reaching a sales quota

✓ **Commission payout**

It is when the commission are paid

➤ **Merits of straight commission method**

(1) Performance oriented

A salesman gets paid only if he sells and the higher he sells the better will be his earnings. Thus, this system purely looks at the performance as the yardstick.

(2) Incentive and motivation inbuilt

This system provides direct motivation to earn better incentives.

(3) Not a burden on organisation



The liability of paying the salesman occurs only if he sells. No sale means no liability on the sales manager.

(4) Freedom of operation

The salesman enjoys considerable freedom of operation as he is not subjected to any extra pressure of annual increment and review.

(5) Attracts better talent

Since the opportunities of earning higher level of income are much greater, better talent gets attracted and interested to join the organisation.

➤ Demerits of straight commission method

(1) Commission is uncertain

Commission is uncertain, it could rise or fall depending on how the products are accepted and sold in the market.

(2) Lack of control



Straight commission means the salesman is his own boss. He will not be subjected to falling into the systems of reporting on time, submitting reports and getting into the bureaucratic requirements of the job.

(3) Fluctuation in market prices

In order to sell higher quantities, the salesman working on commission may drop the market price and compensate the dealers through some of his commission, and bring down the market prices.

(4) Uncontrolled accounts receivables

The outstanding could go up, because in order to earn his incentive the salesman may bill some of the late payments as well or he could differ from the market to market and all salesmen may not be willing to work on the same commission in all areas.

(5) Rate fixation could be difficult

The commission will have to be fixed on variable basis because the territories, the potentials, the product preference, the brand acceptance could differ from market to market.

(6) Rate of attrition could go up



Since the salesman is not an employee on regularly paid salary, his loyalty and the emotional attachment to the organisation will remain till he is getting his commission, the moment this shows a declining trend, he will take no time to move elsewhere, leaving the company at the crucial stage when his services are badly needed.

(4) Combination of salary and commission

This method is a combination of two methods, I.e. straight salary method and straight commission method. In this method, a salesman gets a salary (fixed component) and a commission (variable component) on the basis of sales made.

➤ The system works in the following two patterns:

- ✓ Salary plus commission on total sales
- ✓ Salary plus commission over certain quota

➤ Merits of combination of salary and commission method

- ✓ Minimum guaranteed income
- ✓ Salesmen take initiative to sell, to get commission
- ✓ More suitable and appropriate



- ✓ Control over salesman's activity

- **Demerits of combination of salary and commission method**

- ✓ There is an increase in the office cost- administration cost

- ✓ More records have to be maintained

- **Other Non-financial compensation to sales representatives**

- ✓ Recognition

- ✓ Gifts and prizes

- ✓ Flex hours

- ✓ Training

- ✓ Status



● Introduction

Knowledge workers are those people in the organisation whose minds rather than the physical capabilities become critical assets for the organisation. human capital in this respect becomes intellectual capital represented in the performance potential of the expertise, competencies, creativity, and commitment within an organization's workforce.

● Core competencies of knowledge workers

- ✓ Thinking skills
- ✓ Continuous learning
- ✓ Innovate terms and teamwork
- ✓ Innovation and creativity
- ✓ Risk taking and potential success
- ✓ Decisive action-taking
- ✓ Culture of responsibility toward knowledge



● Approaches to reward knowledge workers

(1) Total reward policies

A total reward is the monetary and non-monetary return provided to employees in exchange for their time, talents, efforts and results. It involves the deliberate integration of five key elements that effectively attract, motivate and retain the talent required to achieve desired business results.

(2) Recognition and praise

Recognition is one of the most powerful motivators. People need to know not only how well they have achieved their objectives or carried-out their work but also that their achievements are appreciated.

Praise, however, should be given judiciously- it must be related to real achievements.

(3) Personal growth

The availability of learning opportunities, the selection of individuals for high-prestige training courses and programs, and the emphasis placed by the organisation on the acquisition of new skills as well as the enhancement of existing ones, can all act as powerful motivators.

(4) Competency related pay



According to George, “competency based pay links pay to the depth and scope of competencies that are relevant to doing the job. They are typically used in managerial and professional work where what is accomplished may be difficult to identify”.

(5) Career and job family structures

A career family structure is one in which separate job families are identified and defined but a common grade and pay structure applies to all the families.

(6) Pay flexibility

Flexibility is intended to deliver greater differentiation between individuals, teams or units within an organisation and requires greater market sensitivity of rewards.



● Introduction

Manual worker means a person engaging in tasks that involve physical exertion regardless of whether any machinery or tools are used and where such person is remunerated for the work done. Manual worker means a mechanic, workingman or laborer. A manual worker is a worker who works through the expenditure primarily of physical rather than intellectual labour.

● Factors affecting pay of manual workers

(1) Bargaining arrangements

The pay of manual workers is often influenced strongly by national and local arrangements with trade unions, which will determine rates for particular jobs or skill levels. This constitutes an aspect of the effort bargain.

(2) Local labour market pressures

Manual workers are usually recruited from the local labour market, where the laws of supply and demand can have a marked effect on the rates of pay for particular occupations if there is a skills shortage or surplus, or reluctance on the part of workers to carry-out certain jobs.



(3) Technology

The increased use of technology on the shop floor, has meant that the demand for a number of the traditional skills has diminished while the demand for new ones has increased. This is one of the factors that have led to pressures to harmonize shop floor and office or laboratory payment systems.

● **Incentive schemes for manual workers**

(1) Payment by result schemes

Shop floor incentive schemes are based on the principle of payment by results. PBR schemes for manual workers relate extra payment to effort and/or output.

1.1 Straight piece work

The Straight Piece-Work System is the simplest incentive method in which the rate per unit of output is fixed, and the earnings of the worker are computed by multiplying his total output by the rate per unit.

In other words, a system in which the worker is paid according to the number of units produced at a fixed rate per unit during a defined period of time is called a straight piece-work system. Here, the earnings of a worker depend directly on his performance (measured in units). Such as, if the per unit rate is 10 Paise and the total output is 1000 units, then his earnings will be $0.10 \times 1000 = \text{Rs } 100$.



1.2 Work measured schemes

Work Measurement is a technique for establishing a Standard Time, which is the required time to perform a given task, based on time measurements of the work content of the prescribed method, with due consideration for fatigue and for personal and unavoidable delays.

Work measurement, as the name suggests, provides management with a means of measuring the time taken in the performance of an operation or series of operations in such a way that ineffective time is shown up and can be separated from effective time. In this way its existence, nature and extent become known where previously they were concealed within the total.

1.3 Measured day work

A system of wage payment, usually determined by work-study techniques, whereby the wage of an employee is fixed on the understanding that a specific level of work performance will be maintained. MDW is a hybrid between individual PBR and a basic wage rate scheme.

(2) Contingent pay schemes



Contingent pay schemes, which relate pay to performance or skill. Increases may be consolidated or paid as lump sum bonuses.

- ✓ Performance related pay
- ✓ Skill based pay

(3) Collective schemes

3.1 Group or team reward

A team-based reward system is a way to compensate a group of people based on the combined contribution to a project or the organization. It has become a widespread and motivating way to reward a group of people for their efforts to achieve a common goal.

3.2 Factory or plant reward

Gain sharing matches an improvement in company performance to some distribution of the benefits with employees. Usually, gain sharing is applied to a group or all employees, rather than an individual.

MBA SEM 03 Module 03 Chapter 02



☼ EMPLOYEE BENEFITS ☼

(1) EMPLOYEE BENEFITS

● Introduction

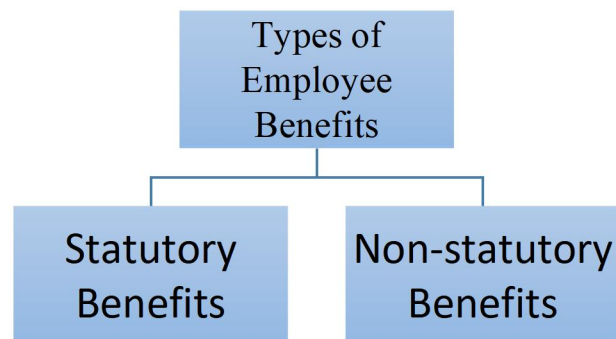
Employee benefits are also popularly known as fringe benefits.

“Fringe benefits are those benefits which are provided by an employer to or for the benefit of an employee and which are not in the form of wages, salaries and time-related payments.”

● Objectives of Employee Benefits

- ✓ To attract the most talented job seekers
- ✓ To boost motivation of employees
- ✓ To provide taxation benefit
- ✓ To improve management-labour relations

- ✓ To promote companionship among employees
- ✓ To act as assurance of concern
- ✓ To reduce HR cost



● Statutory benefits

Statutory benefits are the benefits that are provided to the employees by the employers, as per the provision of law. These benefits represent one fourth of the total benefits that are legally offered to the employees.

● Components of statutory benefits

(1) Insurance benefits

Health and Life related insurance schemes are provided by the organisations to their employees. Under the Employee's state insurance Act,1948, insurance benefits shall be provided to all employees within an industrial establishment.



➤ Under this act, provisions for the following benefits were made:

1.1 Benefits of sickness

Whenever an employee is sick or unwell, periodical payments should be given to him/her.

1.2 Benefits of maternity

There is a provision of giving periodical payments to an insured woman in case of miscarriage, or any other medical problem created in the course of pregnancy, premature delivery of a baby or birth of a healthy child.

1.3 Benefits of disablement

If an insured person suffers from some disability, due to a certain injury or accident sustained by him, then after certain verification by a component authority appointed by the company, periodical payments are made to the insured person.

1.4 Benefits of dependent

If an insured person dies in an employment injury or industrial accident, then payments under this act will be provided to his/her dependents.



1.5 Benefits of medical treatments

If an insured person or any other member of his/her family requires medical treatment, then medical benefits will be provided to the employee. These benefits are non-monetary in nature.

1.6 Payments for funeral

These are the payments, which are provided to the oldest surviving member in the family of a person who was insured under the regulations of employees' act.

Except the benefits of medical treatments, all other benefits are financial benefits.

(2) Retirement benefits

Those monetary benefits, which an employee receives after his/her retirement from the active service of the organisation, are known as retirement benefits. Offering an independent and respectable life to the employees after their retirement is the main aim for providing these benefits.



- Various retirement benefits that are governed by Indian law are as blow:

2.1 Employee's Providend Fund

In order to make it legally mandatory for organisations, The Employee's Providend Funds Act was passed in 1952. In the beginning this act was made applicable to employees with monthly pay, not exceeding ₹300 in six major industries. By the end of the year 1981, modified with pay not exceeding ₹1000.

2.2 Deposit-linked insurance

The employee's Deposit-linked Insurance scheme, 1976 provides following benefit: On the death of an employee (during the service) who is a member of the EPF, the person eligible to receive the PF accumulations will be paid an extra amount equal to the average balance in the PF account of the deceased during the preceding 3 years, if the average balance was not below ₹1,000. ₹10,000 is the maximum amount of benefit payable under this scheme.

2.3 Gratuity

This is a retirement benefit given to an employee either on retirement or at the time of physical disability or to the dependents of the deceased employee.

The Payment of Gratuity Act, 1972, is applicable to the establishments in the whole nation, provides for a scheme of compulsory payment of gratuity by the managements of Railways, factories, oil fields, mines, plantations, shops and other



establishments employing 10 or more persons, to their employees drawing monthly salary not exceeding ₹1,600 per month.

Here wage means the average of the basic pay last drawn by the employee. The maximum amount of gratuity payable to an employee shall not exceed 20 months' wage.

2.4 Pension

These benefits are covered under the Employees' family pension scheme 1971, and are as follows:

A) Family pension

SR. NO.	SALARY/PAY PER MONTH	PERCENTAGE	PAY
1	₹800 and above	12%	₹150 per month
2	₹200 to ₹800	15%	₹96 per month
3	₹200 per month	30%	₹60 per month



B) Retirement benefits

This benefit is in the form of lump sum given, subject to a maximum of ₹4,000 payable to a member on his normal retirement subject to certain rules and regulations.

C) Life insurance benefits

This benefit is in the form of lump sum subject to a maximum of ₹2,000 payable in the case of death of a member.

D) Withdrawal benefits

It is in the form of a lump sum amount payable to the member on leaving the service before retirement age, subject to fulfillment of certain conditions.

(3) Unemployment Compensation

Under Social Security Act, any person who is laid-off by his organisation, due to any reason, is entitled for unemployment compensation up to 26 weeks.

As per Industrial Act, 1947, a worker, whose job is taken away by the company without any fault or misconduct, should be given proper compensation (lay-off compensation) to relieve him/her from the sufferings caused due to unemployment.



Entitled to regular worker only. Name of insured person must be on the master roll or the payroll. Person should have completed at least 1 year of regular service. Total compensation paid to the laid-off employees are equal to 50% of their basic wages and current allowances, which is applicable to the time of his layoff.

According to the provisions in section 25(F) of the Industrial Act, if an employee is laid-off for more than 45 days during a year, employer can legally retrench him anytime, after the expiry of first 45 days of lay-off.

(4) Worker's Compensation

Workman's Compensation Act, 1923.

It acknowledges the need of compensation for employees, who become victims of industrial accident or occupational illness during the course of their employment.

➤ Objectives of this act:

- ✓ In case of an industrial accident, compensation is paid by the employer to employee as a measure of relief and social security.
- ✓ Provides compensation without concerning their negligence towards work.
- ✓ Amounts payable vary with the type of accident and with the extent of injury.



● Non-Statutory benefits

Benefits that are provided to the concerned officials on their discretion are known as non-statutory benefits.

(1) Educational facilities

Organisations take care of the educational needs of the employees and their family members. Organisations grant easy loans to employees for the studying to enhance their qualifications or for the education of their family members.

(2) Housing facilities

Some organisations provide and/or arrange for housing loans for employees at nominal interest rates.

(3) Transport facilities

The provision for adequate transport facilities to workers has been recommended by the committee on labour welfare. This provision enables the workers to reach their respective offices on time without taking any stress.

Whenever such facilities of transport cannot be provided by the employers to their employees, a certain transport allowance should be paid to the employees.



(4) Recreational facilities

It includes facilities like music, art, theatre, sports and games for employees for their overall personality development.

(5) Payment for time not worked

This category includes following:

5.1 Paid holidays

The factories act, 19948, specifies that an adult worker shall have a weekly paid holiday, most probably on Sunday.

5.2 Shift premium

Organisations working in the second and third shifts, compensate by paying a premium to the workers who have worked for the 'odd hours' shift.

5.3 Holiday pay

Workers, who have worked on paid holidays, are paid double the rate of normal salary.



5.4 Paid vacation

Workers, who have worked for 240 days in a calendar year, in the mining, manufacturing and plantations sectors, are entitled for paid vacation at the rate of one day for every 20 days worked in case of adult workers; and at the rate of one day for every 15 days worked in case of minors.

(6) Health care benefits

These includes medical insurance, employee assistance programmes, disease management, wellness programmer and dental insurance. These products are offered to the employees either separately or in combinations.



(2) FLEXIBLE BENEFITS

● Introduction

The flexible benefits plan originally was designed to enable senior executives, top professionals and managers to choose individually many of their benefits and services.

Flexible benefits are also known as Cafeteria benefits, Flex plan, Ala-carte or in-basket benefits. The flexible benefits plan permits an employee to select benefits and services within certain limits.

A flexible benefit plan in India allows employees to structure and modify CTC components based on the offered benefits like medical expenses and conveyance. Usually, the CTC structure of the employee has multiple components like dearness allowance, HRA, medical expense, basic, medical expenses, etc.

● Types of flexible benefits scheme

(1) Flex Individual Benefits

Employees are given the opportunity to vary the size of individual benefits, paying extra if they want more or, in effect, being paid cash if they want less.



A typical example is a flexible car scheme that enables people to pay more for a better model or, if they decide to downsize, receive the reduction in cost to the company in cash.

Choices are made on recruitment or when the car is replaced. Another common arrangement is to provide scope within limits to buy or sell holiday time over the holiday year.

(2) Flex Existing Entitlement

Employees may choose to increase, decrease or end their current benefits and select new benefits from the menu provided. The value of the benefits bought and sold is then aggregated and the net amount added to or deducted from the pay.

The rules often stipulate that such essential core benefits as pensions and life insurance cannot be reduced and limits may be placed on the scope for flexing other benefits, e.g. holidays.

(3) Flex Fund

Employees are allocated a fund of money to 'spend' on benefits from a menu. This is therefore sometimes described as the 'cafeteria' approach.

Certain 'core' compulsory benefits such as pensions and life insurance have to be maintained.



MBA SEM 03
Module 03 Chapter 03

☼ THE PRACTICE OF REWARD MANAGEMENT ☼

(1)
DEVELOPING OF REWARD SYSTEM

● **Introduction**

Developing and implementing new or revised reward system is the most critical and demanding task that anyone concerned with reward has to undertake.

The task of development and implementation is a critical one because of the fast-moving nature of the reward scene. It is necessary to constantly review the system to ensure that it is meeting business needs and innovating new or fundamentally revised processes.

● **Approach to development and implementation program**

A value added approach means that processes and schemes will not be introduced or updated without assessing the effect they are expected to have on the engagement and performance of people, on the ability of the organisation to recruit



and keep the right sort of employees and, ultimately, on the results achieved by the organisation.

(1) Evidence based development

Evidence based development means considering what needs to be done by reference to an analysis of the internal and external context and the strengths and weaknesses of the present reward arrangements, bench marking good practice elsewhere and consulting relevant research.

(2) Issue and risk assessment

A major overhaul of a reward system will raise a number of issues involving risks. These need to be analyzed.

(3) Costs

A new or substantially revised reward system is in investment. But the costs of that investment need to be assessed to answer the question 'is it affordable?' and thus provide the basis for deciding whether or not the investment is worthwhile and indicate what can be done to contain costs, and how costs will be controlled during the project.

(4) Reality check

Any proposals or plans should be subjected to a reality check.



- 1) Is it worth doing?
- 2) Can it be done?
- 3) Who shall do it?
- 4) Do we have the resources to do it?
- 5) How do we manage the change?

(5) Planning for implementation

The plan for implementation should cover;

- 1) The use of pilot tests to identify any operational problems
- 2) The possibility of phasing the introduction of the changed system so that each step is manageable in the time available
- 3) Setting up a projects team with an experienced project manager
- 4) Developing an involvement strategy- deciding who should be involved in the development program and how they should be involved
- 5) Preparing a detailed project plan setting out objectives, timings and cost budgets for each phase and indicating how the project will be controlled



6) Formulating a communications strategy

7) Preparing a plan for briefing and training line managers

(6) Involvement

It is vital to get the contribution of line managers, staff and employee representatives as well as senior management at all stages of the project. The aim is to achieve ownership and acceptance of the outcome of the project.

(7) Communication

Effective communications are important because reward systems can be complex and difficult to understand and therefore need to be explained carefully.



(2) MANAGING REWARD SYSTEM

● Introduction

Reward management involves the management of complex systems. This is a demanding task requiring the formulation and implementation of policies, control, monitoring and evaluation, pay reviews, procedures, using computers and communicating to employees.

(1) Reward policy

A prerequisite for the strategic management of pay and benefits is a reward policy.

➤ Areas of reward policies

1.1 level of rewards

The policy on the level of rewards indicates whether the company is a high payer, is content to pay median or average rates of pay or even, exceptionally accepts that it has to pay below the average.



1.2 External competitiveness versus internal equity

External competitiveness refers to the pay rates of an organization's jobs in relation to its competitors' pay rates.

Internal equity exists when an employer pays wages commensurate with the relative internal value of each job.

1.3 Segmentation

It involves varying the reward package for different jobs or to reflect the types and levels of contribution people make, or providing rewards that are tailored to meet the individual needs.

1.4 Assimilation policies

The introduction of a new or considerably revised pay structure means that policies have to be developed on how existing employees should be assimilated, I.e. adjusted into it.

1.5 Protection policies

Safeguarding is the process of dealing with the situation when, following the introduction of a new pay structure, the existing pay of some employees may be above the maximum for their new grade and they are therefore 'red circled'.



1.6 Transparency

There is no chance of building a satisfactory psychological contract unless the organisation spells out its reward policies and practices. Transparency is achieved through involvement and communication.

(2) Developing reward policies

Reward policies should be developed by doing as suggested below:

- ✓ Referring to the list of policy issues
- ✓ Deciding under each heading, which policy is likely to be most relevant
- ✓ Ensuring that the policies are practical
- ✓ Deciding on the amount of training and guidance that will be required
- ✓ Communicating the policies to all those affected by them

(3) Auditing the reward system

An audit of the reward system consists of

- ✓ An analysis of each component of reward system to assess its effectiveness



- ✓ An assessment of opinions about the reward system by its key users

- ✓ A diagnosis of strengths and weaknesses leading to an assessment of what needs to be done and why

(4) Controlling reward

The implementation of reward policies and procedures should be monitored and controlled to ensure that value for money is obtained. Control is easier if the grade and pay structure is well defined and clear guidelines exist on how it is to be controlled and the benefits arrangements should be managed.

(5) Monitoring and evaluating reward policies

The effectiveness of reward policies and practices should be monitored and evaluated against the requirements of the organisation.

- Methods of monitoring reward policies

- ✓ Compa-ratio analysis

- ✓ Analysis attrition

- ✓ Assessing added value



- ✓ Attitude survey

(6) Conducting pay reviews

Pay reviews can be general or individual. General review give ‘across the board’ increases in response to market trends, increases in the cost of living or negotiated pay settlement. Individual reviews decide on any performance, skill based or competence based increases in the pay of individual employees.

(7) Reward procedure

Reward procedures deal with grading jobs, fixing rates of pay and handling appeals.

- ✓ Grading jobs
- ✓ Fixing rates of pay on appointment
- ✓ Promotion increases
- ✓ Appeals



(8) Communicating reward policy

Key managers must communicate details at great length with an expectation that they disseminate this information among all employees. Efforts also must be made to gather views of managers as well as employees on reward policy and design.



(3) EVALUATING REWARD MANAGEMENT

● Introduction

Evaluation of reward deals with the process of assessing human performance and rewarding it. The evaluation system concerns the assessment of the quality of performance and provides the basis for administration of rewards.

(1) Objective setting

According to Kers, “Reward should be the third thing on organisation, measurements should be the second, clear articulation of desired outcomes should be first”.

(2) Review

A reward review identifies and assesses what is being done about reward. It generally involves researching and gathering both quantitative and qualitative information and evidence on existing reward policies and practices from inside the organisation, as well as collecting information on external reward practices, levels, trends and concepts.



(3) Measurement

As **Mardington** remarked, the HR function sometimes seems to be ‘obsessed with measuring its way to credibility’. It is necessary to be selective and realistic and to recognize that while quantification is ideal it is not always possible. ‘soft’ measures involving a qualitative assessment of outcomes may be necessary and they can be just as useful.

(4) Evaluating the impact of reward innovation

The objectives of a reward innovation should be expressed from the outset as part of a business case - ‘this is what we propose to do’, ‘this is why we propose to do it’, ‘this is how much it will cost’, ‘this is how the organisation and its people will benefit’.



(4)
RESPONSIBILITY FOR REWARD MANAGEMENT

● **Introduction**

(1) Role of Reward Professionals/Managers

A compensation and benefits manager has responsibility for developing, implementing and administering the organization's rewards and benefit policies.

➤ Typical duties of manager includes following:

- ✓ Monitoring the organization's salary structure and benefits provision
- ✓ Researching and analysing salary rates and benefits
- ✓ Undertaking job evaluation
- ✓ Making recommendations on changes to pension and insurance schemes
- ✓ Identifying and determining causes of personnel problems
- ✓ Developing and implementing new benefit packages



- ✓ Negotiating with union representatives on issues related to pay and benefits
- ✓ Managing the payroll system
- ✓ Developing and maintaining personnel record systems in accordance with current legislation

(2) Role of Line managers

The role of line manager is critical, because it is the line manager whom employees tend to believe and trust above all others. Increasingly, responsibilities for managing reward are being devolved to line managers to recognize the fact that people are their major resource and that they should play a full part in managing them.

(3) Using reward consultants

Reward consultants are used frequently to help with major development projects by providing expertise and additional resources. They can conduct diagnostic reviews and employee attitude surveys, and provide disinterested advise.



SR. NO.	Question	Answer
1	Any _____ paid to top rank executive is known as Executive compensation.	remuneration
2	The task of finding and hiring an _____ who would prove to be an asset to the company is a challenging one.	executive
3	_____ assumes that incentives have an impact on motivation and effort.	Agency theory
4	Agency theory is used to understand the relationships between _____.	agents and principals
5	The different _____ of principals and agents may become a source of conflict.	interests
6	_____ sees the governance relationship as being essentially unproblematic and hierarchical management reward structures as desirable and effective.	Tournament theory
7	A discretionary bonus scheme for the executive directors was first introduced in _____.	1993



8	LTI refers to	Long term incentives
9	The employees from _____ department have a direct contact with customers or retailers	sales and customer service
10	Sales representatives are more likely to be eligible for _____ payments or bonuses than other staff	commission
11	People will not be encouraged to put in the best, when they know that irrespective of performance, only the _____ will be paid.	salary
12	_____ plans offer a set salary coupled with a bonus.	Salary plus bonus
13	_____ usually are single payments that reward employees for achievement of specific, exceptional goals.	Bonuses
14	_____ method is based on the result, and not on the basis of time.	Straight commission method
15	_____ is uncertain, it could rise or fall	Commission



	depending on how the products are accepted and sold in the market.	
16	In order to sell higher quantities, the salesman working on commission may drop the _____.	market price
17	_____ are those people in the organisation whose minds rather than the physical capabilities become critical assets for the organisation.	Knowledge workers
18	A _____ is the monetary and non-monetary return provided to employees in exchange for their time, talents, efforts and results.	total reward
19	_____ is one of the most powerful motivators.	Recognition
20	_____ links pay to the depth and scope of competencies that are relevant to doing the job.	competency based pay
21	A _____ is one in which separate job families are identified and defined but a common grade and pay structure applies to all the families.	career family structure
22	_____ means a person engaging in tasks that involve physical exertion.	Manual worker



23	A _____ is a worker who works through the expenditure primarily of physical rather than intellectual labour.	manual worker
24	Shop floor incentive schemes are based on the principle of _____.	payment by results
25	The _____ System is the simplest incentive method in which the rate per unit of output is fixed.	Straight Piece-Work
26	_____ is a technique for establishing a Standard Time, which is the required time to perform a given task.	Work Measurement
27	A _____ system is a way to compensate a group of people based on the combined contribution to a project or the organization.	team-based reward
28	_____ matches an improvement in company performance to some distribution of the benefits with employees.	Gain sharing
29	Employee benefits are also popularly known as _____.	fringe benefits
30	_____ are the benefits that are provided to	Statutory



	the employees by the employers, as per the provision of law.	benefits
31	Benefits that are provided to the concerned officials on their discretion are known as _____.	non-statutory benefits
32	The _____ originally was designed to enable senior executives, top professionals and managers to choose individually many of their benefits and services.	flexible benefits plan
33	Flexible benefits are also known as _____.	Cafeteria benefits, Flex plan, Ala-carte or in-basket benefits
34	Effective communications are important because reward systems can be complex and difficult to understand and therefore need to be explained carefully.	true
35	A prerequisite for the strategic management of pay	reward



	and benefits is a _____.	policy
36	_____ refers to the pay rates of an organisation's jobs in relation to its competitors' pay rates.	External competitiveness
37	_____ deals with the process of assessing human performance and rewarding it.	Evaluation of reward
38	The evaluation system concerns the assessment of the _____ and provides the basis for administration of rewards.	quality of performance
39	Reward should be the third thing on organisation, measurements should be the second, clear articulation of desired outcomes should be first”.	true
40	Any remuneration paid to top rank employee/authority is known as _____.	Executive compensation
41	Decisions on the pay of directors and senior executives are influenced by _____ considerations.	Corporate governance



42	Agency theory and tournament theory are factors affecting level and nature of _____.	Executive reward
43	In agency theory, agent is _____ of the company.	Executive employees
44	Agency theory assumes that _____ have an impact on motivation and effort.	Incentives
45	“Business needs to pay market average to attract and retain reasonably qualified candidate.” is this statement true or false?	True
46	_____ refers to the organisational structures, policies and procedures which govern the relationship between a company.	Corporate governance
47	What is LTIS?	Long term share incentive scheme
48	How many financial methods are there for rewarding sales staff?	Four



49	Which is a most common method of rewarding employees?	Straight salary plans
50	Which of the following is merit of straight salary method?	Logical and justified
51	Which of the following is disadvantage of salary plus bonus scheme?	Complex and difficult, Greed of profit diverts employees, Not clear
52	The base on which the salesperson's performance is measured and commission will be paid is known as _____.	Commission base
53	'Performance oriented' can be an advantage of which rewarding method?	Straight commission
54	Which of the following is demerit of straight commission method?	Uncontrolled accounts receivable



55	Which of the following is a core competency of knowledge worker?	Thinking skills, Innovation and creativity, Decisive action taking
56	Which of the following can be considered as knowledge worker?	Manager
57	Who works through the expenditure primarily of physical rather than intellectual labour?	Worker
58	A manual worker is often referred to as a _____.	Blue collar workers
59	Which of the following is a factor affecting pay of manual workers?	Bargaining arrangements , Technology, Local labour market pressure



60	What is MDW?	Measured Day Work
61	How many incentive schemes are there for manual workers?	Three
62	Employee benefits are also popularly known as _____.	Fringe benefits
63	Which of the following is a non-statutory benefit?	Health care benefits
64	PBR is also known as _____.	Payment By Results
65	Which of the following is not included in Insurance benefits?	Gratuity
66	Which of the following is retirement benefit?	Provident Fund Gratuity Pension
67	Unemployment compensation provides compensation to laid-off workers for how many	26 weeks



	weeks?	
68	Non statutory benefits are _____.	Voluntary
69	Which of the following is not included in payment for time not worked?	Recreation facility
70	_____ is one of the most powerful motivators.	Recognition
71	_____ links pay to the depth and scope of competencies that are relevant to doing the job.	competency based pay
72	A _____ is one in which separate job families are identified and defined but a common grade and pay structure applies to all the families.	career family structure
73	_____ means a person engaging in tasks that involve physical exertion.	Manual worker
74	A _____ is a worker who works through the expenditure primarily of physical rather than intellectual labour.	manual worker
75	Shop floor incentive schemes are based on the	payment by



	principle of _____.	results
76	The _____ System is the simplest incentive method in which the rate per unit of output is fixed.	Straight Piece-Work
77	_____ is a technique for establishing a Standard Time, which is the required time to perform a given task.	Work Measurement
78	A _____ system is a way to compensate a group of people based on the combined contribution to a project or the organization.	team-based reward
79	_____ matches an improvement in company performance to some distribution of the benefits with employees.	Gain sharing
80	Employee benefits are also popularly known as _____.	fringe benefits
81	_____ are the benefits that are provided to the employees by the employers, as per the provision of law.	Statutory benefits
82	Benefits that are provided to the concerned officials on their discretion are known as _____.	non-statutory benefits



	_____.	
83	The _____ originally was designed to enable senior executives, top professionals and managers to choose individually many of their benefits and services.	flexible benefits plan

MBA SEM 03
Module 04

☼ CM RELATED LABOR LAWS ☼

(1)
PAYMENT OF WAGES ACT, 1936

● **Introduction**

With the growth of industries in India, problems relating to payment of wages to persons employed in industry took an ugly turn. The industrial units were not making payments of wages to their workers at regular intervals and wages were not uniform. The industrial workers were forced to raise heads against their exploitation.



The Payment of Wages Act came in to force on 8th march 1937. This Act is applicable to whole India including Jammu and Kashmir.

➤ **The Act is divided in three parts**

- ✓ Part 1 : Regulation and payment of wages
- ✓ Part 2 : Specifies head under which deductions can be made
- ✓ Part 3 : Provides machinery enforcing specific claims

➤ **Objectives of the act**

- ✓ To ensure regularity of payments
- ✓ To ensure payments in legal tender
- ✓ Preventing arbitrary deductions
- ✓ Restricting employers to impose fines
- ✓ To provide remedies to workers



➤ Scope of the act

- ✓ Persons employed in any factory
- ✓ Railway administration
- ✓ Following Industry establishments

Air transport service (other than military, navy, airforce)

Dock or jetty

Mine or oil field

Tramway or motor transport

Plantation

Construction of roads, bridges and canals

Navigation, irrigation, transmission and distribution of electricity

➤ Appropriate government



✓ Central govt:

railways, air transport, mines and oil fields

✓ State govt:

In all other cases

➤ **The term 'wages' includes:**

- ✓ remuneration payable under settlement between the parties
- ✓ remuneration with respect to overtime, holidays and leave period
- ✓ additional remuneration under terms of employment bonus
- ✓ sum payable on termination of employment
- ✓ sum under any scheme framed under any law



➤ **The term 'wages' does not include:**

- ✓ bonus under terms of employment i.e. profit-sharing
- ✓ house accomodation, supply of light, water, medical assistance etc.
- ✓ pension or PF
- ✓ TA
- ✓ special expenses
- ✓ gratuity

➤ **Time period of wages**

- ✓ Where there are less than 1000 employees:

wages shall be paid before expiry of 7th day after last day of the wage period

- ✓ Where there are more than 1000 employees:



wages shall be paid before expiry of 10th day after last day of the wage period

➤ **Mode of wage payment**

According to payment of wages (amendment) ordinance 2016,

The wages must be paid in:

- ✓ currency coins
- ✓ currency notes
- ✓ Cheque
- ✓ direct credit to employee's bank account

➤ **Total amount of deductions [sec 7(3,4)]**

- ✓ cooperative societies : not exceeding 75% of wages



- ✓ Other cases : 50%

➤ Registers, records and notices [sec 13 A]

Every employer should maintain a register giving

- ✓ particulars of persons employed
- ✓ work performed by them
- ✓ wage paid to them
- ✓ deductions made from wages

➤ Authorised / permissible deductions [sec 17]

Total 18 deductions

- ✓ Contribution to insurance scheme
- ✓ fees payable for membership to trade union under TU Act,1926



- ✓ contribution to PM national relief fund
- ✓ for house accommodation and services rendered
- ✓ deduction absence from duty
- ✓ deduction for damage/loss
- ✓ deduction for fines (not exceeding 3% of one wage period)

➤ Penalties

- ✓ Non payment of wages and fails to maintain register or record;

Fine : 1,500-7,500₹

- ✓ If person repeats an offense;

Imprisonment : 1 month - 6 month

Fine : 3,750 - 22,500₹

- ✓ Failure to pay wages on time



Fine : 750₹

(2)
MINIMUM WAGES ACT, 1948

● **Introduction**

Minimum wage is the one which provides not merely for bare sustenance of life, but also the preservation of the efficiency of the worker. The minimum wages act came in to force on 15th march 1948.

➤ **Appropriate government**



✓ Central govt.

railway administration

mine or oil fields

ports

✓ State govt.

agriculture

any other scheduled employment

➤ **Objectives of the act**

- ✓ prevention of extra hard work, toil and poverty arising from very low wages
- ✓ Fixation of just and fair wages for preventing industrial disputes
- ✓ Control of inflationary pressures
- ✓ Raising purchasing power with a view to speeding up the pace of economic recovery



➤ **What is included in wages:**

- ✓ basic wage
- ✓ remuneration in terms of money + house rent allowance

➤ **What is not included in wages:**

- ✓ value of accommodation supply
- ✓ light, water, medical attendance etc.
- ✓ pension and PF
- ✓ gratuity

➤ **Fixation of minimum rate of wages**

- ✓ Time work



- ✓ Piece work
- ✓ Guaranteed time rate
- ✓ Over time work

➤ **Minimum wages consists of**

- ✓ Basic + Cost of living allowances
- ✓ Basic wage +/- COLA + cash equivalent to essential commodities at concessional rate
- ✓ All inclusive rates

➤ **Process of fixation of minimum wage**

- ✓ Appropriate govt.



✓ Committee

sub-committee 1

sub-committee 2

sub-committee 3

✓ Hold enquiries

✓ Advice committee on wage fixation

✓ Committee recommendation to app. govt.

✓ Notification

➤ **Composition of committee**

✓ Persons nominated by app. govt.

✓ Equal number of representatives of employee and employers

✓ Independent persons not exceeding 1/3rd of total members



➤ Mode of payment

- ✓ Cash
- ✓ App. govt. may authorize, either wholly or partly in kind
- ✓ App. govt. supply of essential commodities at concessional rates
- ✓ when employee does two or more classes of work, the employer shall pay wages not less than the minimum rate in force in respect of each such class

➤ Payment & deductions

- ✓ The minimum wages has to be paid without any deductions other than statutory deductions. [as per PWA 1936]

➤ Penalties

Payment by employer to any employee

less than minimum rates fixed



Contravention of any rule

Order relating to hours for normal working days

- ✓ Imprisonment : upto 6 months
- ✓ Fine : upto 500 ₹
- ✓ or both

(3) PAYMENT OF BONUS ACT, 1965

● Introduction

With enactment of this act, the concept of bonus has undergone considerable change. The obligation to pay a minimum bonus irrespective of the financial results has turned bonus into an additional statutory payment by an employer to his employees.

It extends to whole of India including J&K.



➤ Applicable to:

- ✓ Every factory
- ✓ Every other establishment in which 20 or more persons are employed on any day during an accounting year.
- ✓ Where workers are less than 20, then the Act is applicable if app. govt. give notification in official gazette.

➤ Objectives of the Act

- ✓ To provide and regulate the payment of bonus to employees.
- ✓ To impose statutory liability upon an employer of every establishment covered by the Act to pay bonus to employees in the establishment.
- ✓ To define the principle of payment of bonus according to the prescribed formula.
- ✓ To provide for payment of minimum act and maximum bonus and linking the payment of bonus with the scheme of set-off and set-on.



- ✓ To provide machinery for enforcement of the liability for payment of bonus.

➤ Eligibility for bonus (sec 8)

- ✓ All employees engaged in any kind of work whether skilled, unskilled, managerial, supervisory, etc.
- ✓ Having salary less than or equal to 21,000₹ p.m. is entitled to get bonus for every accounting year.
- ✓ If he has worked for at least 30 working days in that year.
- ✓ Employees of LIC, Universities and educational institutions, hospitals, social welfare institutions are not entitled to bonus under this Act.

➤ Disqualification for bonus (sec 9)

- ✓ If employee has dismissed from services for fraud or violent behaviour while in the premises of the establishment.
- ✓ Theft, misappropriation or damage to any property of the establishment.



➤ **Minimum bonus (sec 10)**

- ✓ Irrespective of profit or loss or no allocable surplus each eligible employee shall be paid a bonus of 8.33% of the salary earned.
- ✓ The maximum is fixed at 20%.
- ✓ Minimum amount of bonus payable to an adult employee is 100₹.

➤ Note:

- ✓ Salary = Basic + DA
- ✓ If salary is more than or equal to 7,000₹, bonus will be calculated on 7,000 only.
- ✓ If salary is less than 7,000₹, then bonus will be calculated on actual amount.

➤ **Calculation for bonus**



- ✓ As per the amendment in 2015, when wages or salary exceeds ₹7,000 or the minimum wages fixed by the govt., bonus will be payable on ₹7,000 or the minimum wages as fixed by govt., whichever is higher.
- ✓ Bonus = basic salary + DA *12*8.33%

➤ Time limit for payment of bonus (sec 18)

- ✓ Bonus should be paid within 8 months of accounting year.
- ✓ Bonus paid within 1 month from the date of enforcement of award.

- ✓ In case bonus is due:

Maximum extended period for payment of bonus is 2 years, but with the permission of government only.

➤ Recovery of bonus due (sec 21)



- ✓ Where any bonus is due to an employee by way of bonus, employee or any other person authorized by him can make an application to the app. govt. for recovery of the money due.
- ✓ If the govt. is satisfied that money is due to an employee by way of bonus, it shall issue a certificate for that amount to the collector who then recovers the money.
- ✓ Such application can be made within 1 year from the date on which money became due to the employee.

➤ Duties of employer

- ✓ To calculate and pay the annual bonus as required under the Act.
- ✓ To submit an annual return of bonus paid to employees during the year to the inspector.
- ✓ To co-operate with the inspector, produce before him the registers or records maintained, as may be required by them.
- ✓ To get his account audited as per the direction of a labour court or tribunal.



➤ Rights of an employee

- ✓ Right to claim bonus payable under the Act.
- ✓ Right to refer any dispute to the labour court or tribunal.

➤ Penalties

For contravention of the provision of the Act or rules or failure to comply with the directions made, then the penalty is:

- ✓ Imprisonment : upto 6 months
- ✓ Fine : upto ₹1,000
- ✓ or both



(4)
EQUAL REMUNERATION ACT, 1976

- **Introduction**

The principle of equal pay for equal work to men and women workers has been gaining increasing acceptance all over the world. The doctrine of ‘equal pay for equal work’ is not a fundamental right but a constitutional right.



➤ Objectives of the Act

- ✓ To pay equal remuneration to men and women workers
- ✓ To prevent discrimination, on the grounds of gender, against women in the matter of employment
- ✓ To provide increasing opportunity to women
- ✓ To set-up advisory committees to promote employment opportunities for women

➤ E.R. Act Amendment, 1987

Specifically prohibits discrimination between men and women in relation to conditions of services subsequent to employment such as promotion, transfer & training.

➤ Overriding effect



The provisions of the Act will apply even when they are inconsistent with the provisions of

- ✓ Any other law or
- ✓ With the terms of any award or
- ✓ Agreement or contract of service or
- ✓ With any instrument having effect under any law in force.

➤ **Appropriate government**

- ✓ Central government:

Railway administration

Banking co.

Mine, oilfields

Major port

Any corporation establishment under central government



✓ State government:

Any other cases

➤ **Same work or work for similar nature**

The Act define “work as skill, effort and responsibility required are the same, under similar working conditions, by a man or a woman and the differences if any

Between the skill,effort and responsibility required of man and those required of a women are not of a practical importance in relation to the terms and conditions of employment.”

➤ **Duty of employer to pay equal remuneration**

✓ Equal pay for both men and women workers for performing ‘same work or work of a similar nature’.



- ✓ No discrimination to be made while recruiting men and women workers for same work or any work of similar nature.

➤ Except,

Where the employment of women in such work is prohibited or restricted by or under any law.

➤ These provisions do not affect any priority or reservation for:

Scheduled caste/tribes

Ex-serviceman

Retrenched employees

➤ **Advisory committee**

- ✓ Appointed by app.govt.
- ✓ Instituted to provide increasing employment opportunities.



- ✓ The advisory committee must consist of:

at least 10 people, which will be nominated by the app.govt.

Of which one-half must be women.

➤ Penalties

- ✓ If an employer fails to maintain any register or other document
- ✓ Omits or fails to produce any register, muster-roll or other document relating to the employment of workers.
- ✓ Refuses or omits to give evidence as per requisitions.
- ✓ Refuses to give any information.

Imprisonment : 1 month

Fine : 10,000₹

or both



- ✓ Makes any recruitment in contravention of the provisions of this Act
- ✓ Makes any remuneration at unequal pay for equal work
- ✓ Makes any discrimination between men and women workers
- ✓ Fails to carry out any direction made by the app.govt.

Imprisonment : 3 months to 1 year [repeat up to 2 years]

Fine : 10,000₹ to 20,000₹.

(5)
**INCOME TAX ACT PROVISIONS WITH RESPECT
TO SALARIED PERSON**

● **Introduction**

Income tax act, 1961 came into force on 1st April, 1962. It is applicable to whole of India, including J&K. This Act has 298 sections, various sub-sections and 14 schedules.



➤ Meaning of salary [sec 17(1)]

Salary includes:

- ✓ Wages
- ✓ Any annuity or pension
- ✓ Any gratuity
- ✓ Any fees, commission, perquisites or profits in lieu of or in addition to any salary or wages
- ✓ Any advance of salary
- ✓ Any payment received by an employee in respect of any period of leave not availed by him
- ✓ The annual accretion to the balance at the credit of an employee participating in a recognized PF, to the extent to which it is chargeable to tax



- ✓ The aggregate of all sums that are comprised in the transferred balance of an employee participating in a recognized PF, to the extent to which it is chargeable to tax
- ✓ The contribution made by the central govt. or any other employer in the previous year, to the account of an employee under a notified pension scheme referred to in sec 80CCD

➤ **Basis of charge of salary income [sec 15]**

Following income shall be chargeable to income tax under the head “salaries”:

- ✓ Any salary due from an employer or a former employer to an assessee in the previous year
- ✓ Any salary paid or allowed to him in the previous year by or on behalf of an employer or a former employer though not due in that previous year or before it became due to him



- ✓ Any arrears of salary paid or allowed to him in the previous year by on or behalf of an employer or former employer, if not charged to income tax in any earlier previous year

➤ Provisions for permissible deduction from salary income

- ✓ Section 80C : (deductions on investment)

Under this section tax payer can reduce up to ₹1,50,000 from his/her total taxable income.

- ✓ Section 80CCC : (deduction for premium paid for annuity plan of LIC or other insurer)

This section provides a deduction to an individual for any amount paid or deposited in any annuity plan of LIC or any other insurer.

- ✓ Section 80CCD : (deduction for contribution to pension account)

Employee's contribution

Maximum deduction allowed is 10% of salary (in case of employee)

Maximum deduction allowed is 20% of gross total income (in case of self-employed person)



OR 1,50,000₹, whichever is less

➤ **Provisions or important rules with regard to salaries**

- ✓ Relationship of employer and employee
- ✓ More than one source of salary
- ✓ Salary foregoing or surrendering
- ✓ Loan from employer
- ✓ Salary to partner



(6)
WORKMEN'S COMPENSATION ACT, 1923

● **Introduction**

✓ Title:

Before : Workmen's compensation act, 1923.

After : Title of the act amended in 2009 to "Employee's Compensation Act, 1923".

✓ Words and expressions:

Before : Workman or Workmen

After : Employee or Employees

● **Introduction**

The Act extends to the whole of India, including J&K. It came into force on 1st July, 1924. It is first social security legislation.



➤ Objectives of the Act

To provide security to the employees:

An employee who dies or suffers disablement (partial or total)

Due to accidents arising out of and in the course of employment

➤ Structure of the Act

This Act contains:

36 sections (divided into 4 parts)

4 schedules

✓ Schedule 1 : List of injuries

Part 1 : total disablement

Part 2 : partial disablement

✓ Schedule 2 : List of operations, industries and employments



- ✓ Schedule 3 : List of occupational diseases

- ✓ Schedule 4 : Relevant factor for working out lump sum equivalent of compensation amount in case of permanent disablement or death.

➤ Applicability

Act is applicable to those factories, mines, transport establishments, construction works etc. which are not covered under Employee State Insurance Act, 1948.

➤ Disablement

Means:

Loss of capacity to work or to move

It may result in loss or reduction of his earning capacity



It may be permanent or temporary

It may be partial or total

➤ **Partial disablement [sec 2 (G)]**

Disablement which reduces the earning capacity of an employee as a result of some accident.

➤ **Total disablement [sec 2 (L)]**

Disablement which incapacitates an employee from all work which he was capable of performing at the time of accident resulting in such disablement.



(7)
MEDICLAIM POLICIES AND THEIR SALIENT FEATURES

- **Introduction**

The best and most economical way of being prepared for medical emergencies and protecting the savings is through a medi-claim insurance policy.

The medi-claim was introduced in 1986.

It offered minimum and maximum health coverage of 15,000₹ to 5,00,000₹.

- **Salient features of medi-claim policy**



- ✓ There shall be no restriction on the number of dependents to be covered in a family.
- ✓ The scheme covers existing illness of the members
- ✓ The members are free to avail treatment in any hospital including private consultation
- ✓ Ayurveda and homeopathy treatment are not included in the health insurance scheme
- ✓ The critical illness includes heart disease, stroke, kidney failure, cancer, angioplasty, cerebral haemorrhage and burns above 30%
- ✓ Maternity cases will continue to be covered as per CHS rules
- ✓ 24 hours hospitalization is not necessary for treatments like:

Haemodialysis

Parenteral chemotherapy

Radiotherapy

Eye surgery



Lithotripsy (kidney stone removal)

➤ Factors affecting medi-claim policy

- ✓ Cost
- ✓ Pre-existing medical conditions
- ✓ Family medical history
- ✓ Injurious substances (smoking, tobacco)
- ✓ Gender
- ✓ Age
- ✓ Choice of profession
- ✓ Location of stay



➤ Deduction on Section 80D in Income Tax Act

- ✓ As per financial year 2018-19, the health insurance policy holders are allowed to claim a deduction upto 25,000₹ per budgetary year for medical insurance premium instalments.
- ✓ The premium should be for insured person, his/her spouse, and dependent children.
- ✓ If the age of insured or his/her spouse is a senior citizen, the limit goes upto 30,000₹



SR. NO.	Question	Answer
1	The Payment of Wages Act came in to force on _____.	8 th march 1937
2	The Payment of Wages Act is applicable to whole India _____ Jammu and Kashmir.	including
3	The minimum wages act came in to force on _____.	15 th march 1948
4	Payment of wages act extends to whole of India including J&K.	true
5	The principle of equal pay for equal work to men and women workers has been gaining increasing acceptance all over the world.	true
6	The doctrine of 'equal pay for equal work' is not a fundamental right but a _____	constitutional



	right.	
7	Income tax act, 1961 came into force on _____.	1st April, 1962
8	This Act has 298 sections, various sub-sections and 14 schedules.	Income tax act, 1961
9	Title of the act amended in 2009 to “Employee’s Compensation Act, 1923”.	Workmen’s compensation act, 1923
10	The best and most economical way of being prepared for medical emergencies and protecting the savings is through a _____ insurance policy.	medi-claim
11	The medi-claim was introduced in _____.	1986
12	It offered minimum and maximum health coverage of _____.	15,000₹ to 5,00,000₹
13	The Payment of Wages Act is divided in how many parts?	Three
14	In payment of wages act, railways, air transport, mines and oil fields are governed by	Central government



	_____.	
15	The term Wages includes which of the following?	Sum payable on termination of employment
16	If there is less than 1000 employees in factory, wages shall be paid before expiry of _____ day after last day of wage period.	7th
17	Which law was established with the objective for prevention of extra hard work, toil and poverty arising from very low wages?	Minimum Wages Act,1948
18	Which of the following is not included in wages as per Minimum wages Act?	Pension and PF
19	How can you fix minimum rate of wages?	Time work Piece work Overtime work
20	What is COLA?	Cost of Living Allowance



21	In process of fixation of minimum wage, who appoints committee?	Appropriate government
22	In composition of committee, independent persons should not exceed _____ of total members.	1/3
23	Penalty in Minimum wages Act includes:	6 month imprisonment 500₹ fine Or both
24	Payment of Bonus Act is applicable to factories where _____ persons are employed.	20 or more
25	An employee having salary less than or equal to _____ p.m. is entitled to get bonus for every accounting year.	21,000₹
26	Which of the following employee is eligible for bonus under Payment of Bonus Act?	Managerial employee
27	Minimum amount of bonus payable to an adult	100₹



	employee is _____.	
28	The doctrine of 'equal pay for equal work' is not a fundamental right but a _____ right.	Constitutional
29	Which Act has a basic objective of creating equal opportunities for Men and Women?	Equal Remuneration Act, 1976
30	When a single person is eligible or comes under more than one Law, it is known as which effect?	Overriding effect
31	Banking and corporation establishment comes under which government in Equal Remuneration Act?	Central government
32	To identify same work or work of same nature which factors are considered?	Effort Responsibility Skill
33	Advisory committee is appointed by which government?	Appropriate government
34	As per Income Tax Act, 1961, salary includes:	Wages



		Pension Gratuity
35	Which section provides deduction for investment in Income Tax Act?	Section 80C
36	What is maximum deduction for contribution pension account is allowed for salaried employees?	10%
37	Title of Workman's compensation act, 1923 was amended in which year?	2009
38	Which Act was the first social security Legislation?	Workman's Compensation Act, 1923
39	List of occupational diseases is included in which schedule of Workman's compensation Act?	Schedule 3
40	Workman's compensation Act is applicable to those factories, mines, transport establishments, construction works etc. which are not covered under _____.	Employee State Insurance Act



41	The mediclaim was introduced in which year?	1986
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