



KARPAGAM ACADEMY OF HIGHER EDUCATION

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Coimbatore-641021

DEPARTMENT OF MBA

Name : **Dr. C.SAGUNTHALA (Assistant Professor)**

Department: **Management**

Subject Code: **18MBAPH303B**

Semester: **III**

Year: **2018-20 Batch**

Subject : **COMPENSATION MANAGEMENT - Lesson Plan**

UNIT – 1			
S. No	Lecture Hours	Contents	References
1	1	Compensation: Concept and Nature	W1 Pg: 2
2	1	Concept of Equity and Compensation	W1 Pg: 88
3	1	Components of Compensation- Form of Compensation	W1 Pg: 5
4	1	Compensation Plans- Types of Compensation plans.	W1 Pg: 375
5	1	Wage concepts – Components	W1 Pg: 3 & 5
6	1	Criteria of wage fixation	W1 Pg: 13
7	1	Types of Wages	W1 Pg: 16
8	1	Designing Wage, salary and Compensation Policies	W1 Pg: 21
9	1	Wage differentials	W3 Pg: 46
10	1	Recapitulation & Discussion on important questions	-
Total no. of Hours planned for Unit 1			10
UNIT – 2			
1	1	Factors affecting Compensation Designing	W1 Pg: 10
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3	1	Basic Pay, Provisions for Dearness allowance	W3 Pg: 59
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7	1	Recapitulation & Discussion on important questions	
Total no. of Hours planned for Unit 2			9
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1	1	Incentives – Definition	W2 Pg: 8.2.1
2	1	Types of Incentives: Individual incentives	W2 Pg: 8.2.1
3	1	Organization Wide incentives	W3 Pg: 12
4	1	Scanlon Plan	W4
5	1	Kaiser Plan	W4
6	1	Profit sharing, on-financial incentives	W2 Pg: 132
7	1	Fringe Benefits – Definition, Objectives	W2 Pg: 138

8	1	Types of Fringe Benefits.	W2 Pg: 141
9	1	Recapitulation & Discussion on important questions	-
Total number of hours planned for Unit 3			9
UNIT – 4			
1	1	Diagnosis and Bench Marking	W1 Pg: 44
2	1	Obtaining Commitment	W1 Pg:18
3	2	Determination of Inter and Intra-industry Compensation Differentials	W1 Pg: 18
4	2	Internal and External Equity in Compensation Systems	W1 Pg: 17
5	2	Compensation provided by Public sectors & Private Sectors	W1 Pg: 213
9	1	Recapitulation & Discussion on important questions	-
Total no. of Hours planned for Unit 4			9
UNIT – 5			
1	1	Laws Relating to Workmen's Compensation, Employee's State Insurance	W7
2	1	Provident Fund	W8
3	1	Gratuity and Maternity Relief	W3 Pg: 134
4	1	Wages and Bonus Laws	W3 Pg: 63
5	1	The Law of Minimum Wages, Payment of Wages	W3 Pg: 40
6	1	Payment of Bonus	W3 Pg: 61
7	1	Objectives and scope of Laws	W3 Pg: 64
8	1	The Impact of fifth pay scale on Central and State Government.	W6
9	1	Revision of previous year question paper	-
10	1	Revision of previous year question paper	-
11	1	Revision of previous year question paper	-
Total no. of Hours planned for Unit 5			11

Suggested Readings:

1. Er.Soni Shyam Singh. (2009). *Compensation Management*. New Delhi: Excel Books.
2. Sunil Bhaksi. (2000). *Compensation Management*. New Delhi: Galgotia Publications.
3. Dwivedi,R.S. (2009). *Managing Human Resource and P.M in Indian Enterprise*. New Delhi: Galgotia Publishing Company.
4. Wayne Cascio. (2007). *Managing Human Resource*. New Delhi: Tata McGraw Hill.

Websites:

w1 – IUP – Compensation Management - Dipak Kumar Bhattacharyya

w2 - Human Resource Management - PG Aquinas, R.S. Dwivedi & Prof S C Srivastava, Vikas Publishing House Pvt. Ltd.

w3 - Compensation management - Rai Technology university

W4 – mbaskool.com/business-concepts

W5 - <https://sol.du.ac.in>

W6 - <https://www.rediff.com/money/2008/mar/24bspec.htm>

W7 - <https://www.esic.nic.in> › esi-acts

W8 - https://en.wikipedia.org/wiki/Provident_fund

UNIT-I

SYLLABUS

Unit – I : Compensation: Concept and Nature – Concept of Equity and Compensation-Components of Compensation- Form of Compensation, Compensation Plans- Types of Compensation plans. Wage concepts – Components- Criteria of wage fixation, Types of Wages - Designing Wage, salary and Compensation policies – Wage Differentials

Introduction

Compensation of employees for their services is important responsibility of human resource management. Every organization must offer good wages and fringe benefits to attract and retain talented employees with the organization. If at any time, the wages offered by a firm are not competitive as compared to other firms, the efficient workers may leave the firm. Therefore, workers must be remunerated adequately for their services. Compensation to workers will vary depending upon the nature of job, skills required, risk involved, nature of working conditions, paying capacity of the employer, bargaining power of the trade union, wages and benefits offered by the other units in the region or industry etc., Considering that the current trend in many sectors (particularly the knowledge intensive sectors like IT and Services) is to treat the employees as “creators and drivers of value” rather than one more factor of production, companies around the world are paying close attention to how much they pay, the kind of components that this pay includes and whether they are offering competitive compensation to attract the best talent

Definition

Gary Dessler in his book Human Resource Management defines compensation in these words “Employee compensation refers to all forms of pay going to employees and arising from their employment.” The phrase ‘all forms of pay’ in the definition does not include non-financial benefits, but all the direct and indirect financial compensations.

According to Thomas J. Bergmann(1988) compensation consists of four distinct components: Compensation = Wage or Salary + Employee benefits +Non-recurring financial rewards+ Non-pecuniary rewards.

The Concept of Compensation

Compensation refers to a wide range of financial and non financial rewards to employees for their services rendered to the organization. It is paid in the form of wages, salaries and employee benefits such as paid vacations, insurance maternity leave, free travel facility, retirement benefits etc., Monetary payments are a direct form of compensating the employees and have a great impact in motivating employees.

The system of compensation should be so designed that it achieves the following objectives.

- The capable employees are attracted towards the organization
- The employees are motivated for better performance
- The employees do not leave the employer frequently

Components of Compensation

Basic Wages/Salaries

Basic wages / salaries refer to the cash component of the wage structure based on which other elements of compensation may be structured. It is normally a fixed amount which is subject to changes based on annual increments or subject to periodical pay hikes.

Wages represent hourly rates of pay, and salary refers to the monthly rate of pay, irrespective of the number of hours put in by the employee. Wages and salaries are subject to the annual increments. They differ from employee to employee, and depend upon the nature of job, seniority, and merit.

Dearness Allowance

The payment of dearness allowance facilitates employees and workers to face the price increase or inflation of prices of goods and services consumed by him. The onslaught of price increase has a major bearing on the living conditions of the labour.

The increasing prices reduce the compensation to nothing and the money's worth is coming down based on the level of inflation. The payment of dearness allowance, which may be a fixed percentage on the basic wage, enables the employees to face the increasing prices.

Incentives

Incentives are paid in addition to wages and salaries and are also called 'payments by results'. Incentives depend upon productivity, sales, profit, or cost reduction efforts.

There are:

- (a) Individual incentive schemes, and
- (b) Group incentive programmes.

Individual incentives are applicable to specific employee performance. Where a given task demands group efforts for completion, incentives are paid to the group as a whole. The amount is later divided among group members on an equitable basis.

Bonus

The bonus can be paid in different ways. It can be fixed percentage on the basic wage paid annually or in proportion to the profitability. The Government also prescribes a minimum statutory bonus for all employees and workers. There is also a bonus plan which compensates the managers and employees based on the sales revenue or profit margin achieved. Bonus plans can also be based on piece wages but depends upon the productivity of labour.

Non-Monetary Benefits

These benefits give psychological satisfaction to employees even when financial benefit is not available. Such benefits are:

- (a) Recognition of merit through certificate, etc.
- (b) Offering challenging job responsibilities,
- (c) Promoting growth prospects,
- (d) Comfortable working conditions,
- (e) Competent supervision, and
- (f) Job sharing and flexi-time.

Commissions

Commission to managers and employees may be based on the sales revenue or profits of the company. It is always a fixed percentage on the target achieved. For taxation purposes, commission is again a taxable component of compensation.

The payment of commission as a component of commission is practiced heavily on target based sales. Depending upon the targets achieved, companies may pay a commission on a monthly or periodical basis.

Mixed Plans

Companies may also pay employees and others a combination of pay as well as commissions. This plan is called combination or mixed plan. Apart from the salaries paid, the employees may be eligible for a fixed percentage of commission upon achievement of fixed target of sales or profits or Performance objectives. Nowadays, most of the corporate sector is following this practice. This is also termed as variable component of compensation.

Piece Rate Wages

Piece rate wages are prevalent in the manufacturing wages. The laborers are paid wages for each of the Quantity produced by them. The gross earnings of the labour would be equivalent to number of goods produced by them. Piece rate wages improves productivity and is an absolute measurement of productivity to wage structure. The fairness of compensation is totally based on the productivity and not by other qualitative factors.

Fringe Benefits

Fringe benefits may be defined as wide range of benefits and services that employees receive as an integral part of their total compensation package. They are based on critical job factors and performance. Fringe benefits constitute indirect compensation as they are usually extended as a condition of employment and not directly related to performance of concerned employee. Fringe benefits are supplements to regular wages received by the workers at a cost of employers. They include benefits such as paid vacation, pension, health and insurance plans, etc. Such benefits are computable in terms of money and the amount of benefit is generally not predetermined. The purpose of fringe benefits is to retain efficient and capable people in the organization over a long period. They foster loyalty and acts as a security base for the employees.

Profit Sharing

Profit-sharing is regarded as a stepping stone to industrial democracy. Profit-sharing is an agreement by which employees receive a share, fixed in advance of the profits. Profit-sharing usually involves the determination of an organization's profit at the end of the fiscal year and the distribution of a percentage of the profits to the workers qualified to share in the earnings. The percentage to be

shared by the workers is often predetermined at the beginning of the work period and is often communicated to the workers so that they have some knowledge of their potential gains. To enable the workers to participate in profit-sharing, they are required to work for certain number of years and develop some seniority. The theory behind profit-sharing is that management feels its workers will fulfill their responsibilities more diligently if they realize that their efforts may result in higher profits, which will be returned to the workers through profit-sharing.

Types of Compensation / Base and Supplementary Compensation

Total compensation returns are more transactional. They include pay received directly as cash (like base, merit, incentives, cost of living adjustments) and indirectly as benefits (like pensions, medical insurance, programs to help balance work and life demands, brightly coloured uniforms). Programme to pay to people can be designed in a wide variety of ways, and a single employer typically uses more than one.

Direct /Base Compensation

Direct compensation refers to monetary benefits offered and provided to employees in return of the services they provide to the organization. The monetary benefits include basic salary, house rent allowance, conveyance, leave travel allowance, medical reimbursements, special allowances, bonus, Pf/Gratuity, etc. They are given at a regular interval at a definite time.

Basic Salary

Salary is the amount received by the employee in lieu of the work done by him/her for a certain period say a day, a week, a month, etc. It is the money an employee receives from his/her employer by rendering his/her services

House Rent Allowance

Organizations either provide accommodations to its employees who are from different state or country or they provide house rent allowances to its employees. This is done to provide them social security and motivate them to work.

Conveyance

Organizations provide for cab facilities to their employees. Few organizations also provide vehicles and petrol allowances to their employees to motivate them.

Leave Travel Allowance

These allowances are provided to retain the best talent in the organization. The employees are given allowances to visit any place they wish with their families. The allowances are scaled as per the position of employee in the organization.

Medical Reimbursement

Organizations also look after the health conditions of their employees. The employees are provided with medi-claims for them and their family members. These medi-claims include health-insurances and treatment bills reimbursements.

Bonus

Bonus is paid to the employees during festive seasons to motivate them and provide them the social security. The bonus amount usually amounts to one month's salary of the employee.

Special Allowance

Special allowance such as overtime, mobile allowances, meals, commissions, travel expenses, reduced interest loans; insurance, club memberships, etc are provided to employees to provide them social security and motivate them which improve the organizational productivity

Direct Compensation

Indirect /Supplementary Compensation

Indirect compensation refers to non-monetary benefits offered and provided to employees in lieu of the services provided by them to the organization. They include Leave Policy, Overtime Policy, Car policy, Hospitalization, Insurance, Leave travel Assistance Limits, Retirement Benefits, Holiday Homes.

Leave Policy

It is the right of employee to get adequate number of leave while working with the organization. The organizations provide for paid leaves such as, casual leaves, medical leaves (sick leave), and maternity leaves, statutory pay, etc.

Overtime Policy

Employees should be provided with the adequate allowances and facilities during their overtime, if they happened to do so, such as transport facilities, overtime pay, etc.

Hospitalization

The employees should be provided allowances to get their regular check-ups, say at an interval of one year. Even their dependents should be eligible for the medi-claims that provide them emotional and social security.



Indirect Compensation

Insurance

Organizations also provide for accidental insurance and life insurance for employees. This gives them the emotional security and they feel themselves valued in the organization.

Leave Travel

The employees are provided with leaves and travel allowances to go for holiday with their families. Some organizations arrange for a tour for the employees of the organization. This is usually done to make the employees stress free.

Retirement Benefits

Organizations provide for pension plans and other benefits for their employees which benefits them after they retire from the organization at the prescribed age.

Holiday Homes

Organizations provide for holiday homes and guest house for their employees at different locations. These holiday homes are usually located in hill station and other most wanted holiday spots. The organizations make sure that the employees do not face any kind of difficulties during their stay in the guest house.

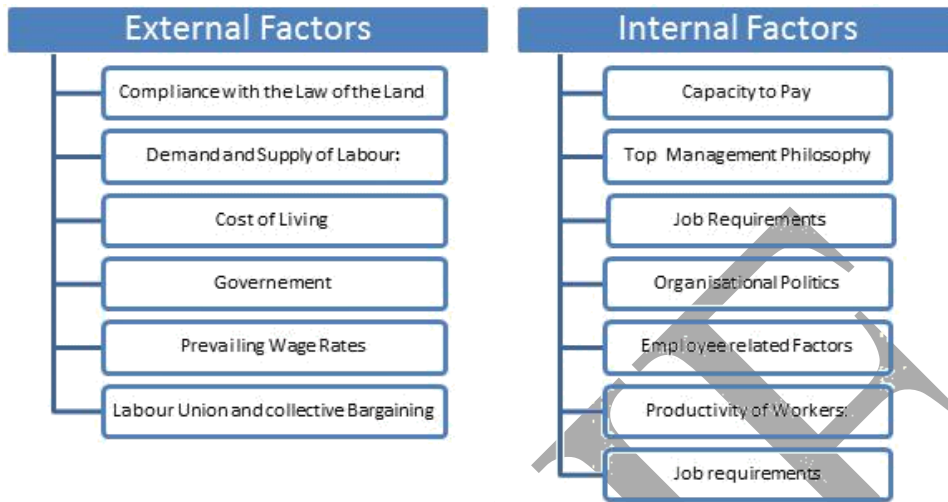
Flexible Timings

Organizations provide for flexible timings to the employees who cannot come to work during normal shifts due to their personal problems and valid reasons.

Factors Considered in Deciding the Compensation

Employers decide on what is the right compensation after taking into account the following points. The Job Description of the employee that specifies how much should be paid and the parts of the compensation package. The Job Description is further made up of responsibilities, functions, duties, location of the job and the other factors like environment etc. These elements of the job description are taken individually to arrive at the basic compensation along with the other components like benefits, variable pay and bonus. It needs to be remembered that the HRA or the House Rental Allowance is determined by a mix of factors that includes the location of the employee and governmental policies along with the grade of the employee. Hence, it is common to find a minimum level of HRA that is common to all the employees and which increases in proportion to the factors mentioned above.

The Job Evaluation that is a system for arriving at the net worth of employees based on comparison with appropriate compensation levels for comparable jobs across the industry as well as within the company. Factors like Experience, Qualifications, Expertise and Need of the company determine how much the employer is willing to pay for the employee. It is often the case that employers compare the jobs across the industry and arrive at a particular compensation after taking into account the specific needs of their firm and in this respect salary surveys and research results done by market research firms as to how much different companies in the same industry are paying for similar roles. The components of compensation that have been discussed above are the base requirements for any HR Manager who is in charge of fixing the compensation for potential employees. Hence, all HR professionals and managers must take this following aspect into account when they determine the compensation to be paid to employees



Factors Considered in Deciding the Compensation

External Factors

Demand and Supply of Labour

Wage is a price or compensation for the services rendered by a worker. The firm requires these services, and it must pay a price that will bring forth the supply which is controlled by the individual worker or by a group of workers acting together through their unions. The primary result of the operation of the law of supply and demand is the creation of the going wage rate. It is not practicable to draw demand and supply curves for each job in an organization even though, theoretically, a separate curve exists for each job.

Cost of Living

Another important factor affecting the wage is the cost of living adjustments of wages. This tends to vary money wage depending upon the variations in the cost of living index following rise or fall in the general price level and consumer price index. It is an essential ingredient of long-term labour contract unless provision is made to reopen the wage clause periodically.

Labour Union

Organized labor is able to ensure better wages than the unorganized one. Higher wages may have to be paid by the firm to its workers under the pressure or trade union.

If the trade union fails in their attempt to raise the wage and other allowances through collective bargaining, they resort to strike and other methods whereby the supply of labour is restricted. This exerts a kind of influence on the employer to concede at least partially the demands of the labour unions.

Government

To protect the working class from the exploitations of powerful employers, the government has enacted several laws. Laws on minimum wages, hours of work, equal pay for equal work, payment of dearness and other allowances, payment of bonus, etc., have been enacted and enforced to bring about a measure of fairness in compensating the working class. Thus, the laws enacted and the labour policies framed by the government have an important influence on wages and salaries paid by the employers. Wages and salaries can't be fixed below the level prescribed by the government.

Prevailing Wage Rates

Wages in a firm are influenced by the general wage level or the wages paid for similar occupations in the industry, region and the economy as a whole. External alignment of wages is essential because if wages paid by a firm are lower than those paid by other firms, the firm will not be able to attract and retain efficient employees. For instance, there is a wide difference between the pay packages offered by multinational and Indian companies. It is because of this difference that the multinational corporations are able to attract the most talented workforce.

Internal Factors

Ability to Pay

Employer's ability to pay is an important factor affecting wages not only for the individual firm, but also for the entire industry. This depends upon the financial position and profitability of the firm. However, the fundamental determinants of the wage rate for the individual firm emanate from supply and demand of labour. If the firm is marginal and cannot afford to pay competitive rates, its employees will generally leave it for better paying jobs in other organizations. But, this adjustment is neither immediate nor perfect because of problems of labour immobility and lack of perfect knowledge of alternatives. If the firm is highly successful, there is little need to pay more than the competitive rates to obtain personnel. Ability to pay is an important factor affecting wages, not only for the individual firm but also for the entire industry.

Top Management Philosophy

Wage rates to be paid to the employees are also affected by the top management's philosophy, values and attitudes. As wage and salary payments constitute a major portion of costs and /or apportionment of profits to the employees, top management may like to keep it to the minimum. On the other hand, top management may like to pay higher pay to attract top talent.

Productivity of Workers

To achieve the best results from the workers and to motivate him to increase his efficiency, wages have to be productivity based. There has been a trend towards gearing wage increase to productivity increases. Productivity is the key factor in the operation of a company. High wages and low costs are possible only when productivity increases appreciably.

Job Requirements

Job requirements indicating measures of job difficulty provide a basis for determining the relative value of one job against another in an enterprise. Explicitly, job may be graded in terms of a relative degree of skill, effort and responsibility needed and the adversity of working conditions. The occupational wage differentials in terms of

- a) **Hardship,**
- b) **Difficulty of learning the job**
- c) **Stability of employment**
- d) **Responsibility of learning the job and**
- e) **Change for success or failure in the work.**

This reforms a basis for job evaluation plans and thus, determines wage levels in an industry.

Employees Related Factors

Several employees related factors interact to determine his remuneration. These include

- i) **Performance:** productivity is always rewarded with a pay increase. Rewarding performance motivates the employees to do better in future.
- ii) **Seniority:** Unions view seniority as the most objective criteria for pay increases whereas management prefer performance to effect pay increases.
- iii) **Experience:** Makes an employee gain valuable insights and is generally rewarded

iv) **Potential:** organizations do pay some employees based on their potential. Young managers are paid more because of their potential to perform even if they are short of experience.

Organizational Politics

Compensation surveys, job analysis, job evaluation and employee performance are all involved in wage and salary decisions. Political considerations may enter into the equation in the following ways:

- i) **Determination of firms included in the compensation survey:** managers could make their firm appear to be a wage leader by including in the survey those organizations that are pay followers.
- ii) **Choice of compensable factors for the job evaluation plan:** Again, the job value determined by this process could be manipulated
- iii) **Emphasis placed on either internal or external equity and**
- iv) **Results of employee performance appraisal may be intentionally distorted by the supervisor**

Thus, a sound and objective compensation system may be destroyed by organizational politics.

Evaluation of Compensation

Today's compensation systems have come from a long way. With the changing organizational structures workers' need and compensation systems have also been changing. From the bureaucratic organizations to the participative organizations, employees have started asking for their rights and appropriate compensations. The higher education standards and higher skills required for the jobs have made the organizations provide competitive compensations to their employees. Compensation strategy is derived from the business strategy. The business goals and objectives are aligned with the HR strategies. Then the compensation committee or the concerned authority formulates the compensation strategy. It depends on both internal and external factors as well as the life cycle of an organization

Objectives of Compensation Management

To Establish a Fair and Equitable Remuneration

Effective compensation management objectives are to maintain internal and external equity in remuneration paid to employees. Internal equity means similar pay for similar work. In other words, compensation differentials between jobs should be in proportion of differences in the worth of jobs.

External equity implies pay for a job should be equal to pay for a similar job in other organizations. Payments based on jobs requirements, employee performance and industry levels minimize favoritism and inequities in pay.

To Attract Competent Personnel

A sound wage and salary administration helps to attract qualified and hard-working people by ensuring an adequate payment for all jobs. For example IT companies are competing each other and try their level best to attract best talents by offering better compensation packages.

To Retain the Present Employees

By paying competitive levels, the company can retain its personnel. It can minimize the incidence of quitting and increase employee loyalty. For example employees attrition is high in knowledge sectors (Ad-agency, KPO, BPO etc.,) which force the companies to offer better pay to retain their employees.

To Improve Productivity

Sound wage and salary administration helps to improve the motivation and morale of employees which in turn lead to higher productivity. Especially private sectors companies' offer production linked compensation packages to their employees which leads to higher productivity.

To Control Cost

Through sound compensation management, administration and labour costs can be kept in line with the ability of the company to pay. It facilitates administration and control of pay roll. The companies can systematically plan and control labour costs.

To Improve Union Management Relations

Compensation management based on jobs and prevailing pay levels are more acceptable to trade unions. Therefore, sound wage and salary administration simplifies collective bargaining and negotiations over pay. It reduces grievances arising out of wage inequities.

To Improve Public Image of the Company

Wage and salary programme also seeks to project the image of the progressive employer and to company with legal requirements relating to wages and salaries.

To Improve Job Satisfaction

If employees would be happy with their jobs and would love to work for the company if they get fair rewards in exchange of their services.

To Motivate Employees: Employees

All have different kinds of needs. Some of them want money so they work for the company which gives them higher pay. Some of them value achievement more than money, they would associate themselves with firms which offer greater chances of promotion, learning and development. A compensation plan that hits workers' needs is more likely to motivate them to act in the desired way.

Peace of Mind

Offering of several types of insurances to workers relieves them from certain fears, as a result workers now work with relaxed mind.

Increases Self-Confidence

Every human being wants his/her efforts to get acknowledgment. Employees gain more and more confidence in them and in their abilities if they receive just rewards. As a result, their performance level shoots up.

Significance of Compensation Management

Compensation and Reward system plays vital role in a business organization. Since, among four Ms, i.e. Men, Material, Machine and Money, Men has been most important factor, it is impossible to imagine a business process without Men.

Every factor contributes to the process of production/business. It expects return from the business process such as rent is the return expected by the landlord, capitalist expects interest and organizer i.e. entrepreneur expects profits. Similarly the labour expects wages from the process.

Labour plays vital role in bringing about the process of production/business in motion. The other factors being human, has expectations, emotions, ambitions and egos. Labour therefore expects to have fair share in the business/production process. Therefore a fair compensation system is a must for every business organization. The fair compensation system will help in the following:

➤➤ An ideal compensation system will have positive impact on the efficiency and results produced by employees. It will encourage the employees to perform better and achieve the standards fixed.

KARPAGAM ACADEMY OF HIGHER EDUCATION, COIMBATORE

Class: II MBA

Course Name: Compensation and Benefits Management

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Unit I

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- It will enhance the process of job evaluation. It will also help in setting up an ideal job evaluation and the set standards would be more realistic and achievable.
- Such a system should be well defined and uniform. It will be apply to all the levels of the organization as a general system.
- The system should be simple and flexible so that every employee would be able to compute his own compensation receivable.
- It should be easy to implement, should not result in exploitation of workers.
- It will raise the morale, efficiency and cooperation among the workers. It, being just and fair would provide satisfaction to the workers.
- An ideal compensation system will have positive impact on the efficiency and results produced by employees. It will encourage the employees to perform better and achieve the standards fixed.
- It will enhance the process of job evaluation. It will also help in setting up an ideal job evaluation and the set standards would be more realistic and achievable.
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- It should be easy to implement, should not result in exploitation of workers.
- It will raise the morale, efficiency and cooperation among the workers. It, being just and fair would provide satisfaction to the workers.
- Such system would help management in complying with the various labor acts.
- Such system should also solve disputes between the employee union and management.
- The system should follow the management principle of equal pay.
- It should motivate and encouragement those who perform better and should provide opportunities for those who wish to excel.
- Sound Compensation/Reward System brings peace in the relationship of employer and employees.
- It aims at creating a healthy competition among them and encourages employees to work hard and efficiently.

- The system provides growth and advancement opportunities to the deserving employees.
- The perfect compensation system provides platform for happy and satisfied workforce. This minimizes the labour turnover. The organization enjoys the stability.
- The organization is able to retain the best talent by providing them adequate compensation thereby stopping them from switching over to another job.
- The business organization can think of expansion and growth if it has the support of skillful, talented and happy workforce.
- The sound compensation system is hallmark of organization's success and prosperity. The success and stability of organization is measured with pay-package it provides to its employees.

Principles of Compensation Administration

- Compensation policy should be developed by taking into consideration of the views of employers, the employees, the consumers and the community.
- The compensation policy or wage policy should be clearly defined to ensure uniform and consistent application.
- The compensation plan should be matching with overall plans of the company. Compensation planning should be part and parcel of financial planning
- Management should inform the wage/salary related policies to their employees. Workers should be associated in formulation and implementation of wage policy
- All wage and salary related decisions should be checked against the standards set in advance in the wage/salary policy
- To manage compensation related matters adequate information/data should be developed and stored for future planning and execution.
- The compensation policy and programme should be reviewed and revised periodically in conformity with changing needs.

Compensation Design

Compensation design determines the value of specific, properly executed accomplishments toward the achievement of desired outcomes. The value of the accomplishment, not the level of activity, is used to establish the nature and amount of compensation. Ultimately, compensation design should

foster a productive and equitable, long-term relationship among members, and between each member and the organization. The process begins by identifying desired outcomes for the organization or operating unit. Importance and value are attached to the results people achieve with reference to the need of the organization.

Compensation is based on the achievement of results that are critical to organizational success. Attracting, retaining and motivating employees in today's business environment requires utilizing a host of tools including base pay, incentives, equity, performance management, and benefits. Balancing these tools in an equitable, affordable and real manner can present difficulties for even the most dedicated employers. No universal, standard programme exists that can meet every organization's needs. In order for the total rewards programme to work, it must fit the organization's culture and strategic initiatives and compensation objectives.

These objectives are as follows

- External competitiveness to recruit and retain
- To reward performance through salary without grade promotions
- Rewards for skill acquisition
- Internal equity among employee
- Pay for the person rather than just the job
- Built-in controls and cost constraints
- An understandable and equitable system
- Parallel career paths for managers and technical employees
- Flexibility to adapt quickly to market changes and
- Management flexibility to assign a range of duties

Process of Compensation Design



Process of Compensation Design

Essentials of a Sound Compensation Design

Internal Equity

It implies a proper relationship between wages paid for different jobs within the company. For example salary of a Sr. Manager is lower than a manager; there is lack of internal equity. Pay differentials should be related directly to differential in job requirements. Fair pay differentials between jobs can be established with the help of job evaluation.

External Competitiveness

Wages and salaries in the organization should be in line with wages and salaries for comparable jobs in other organization. Otherwise the organization may not be able to attract and retain competent personnel. Data relating to pay levels in other organizations can be collected through wage and salary survey.

Built-in Incentive

Wage or salary plan should contain a built-in incentive so as to motivate employees to perform better. Such an incentive can be developed through performance based payment. A part of the total payment should be linked to individual or group performance. A sound performance appraisal system should be used to measure accurately and objectively the performance of individual employees.

Link with Productivity

Some part of the total pay should be linked to productivity. Such linkage is necessary because workers expect a share in productivity gains. This will help to control labour costs.

Maintain Real Wages

At least part of the increase in the cost of living should be neutralized so as to protect the real wages of labour. Dearness allowances are used in India for this purpose.

Increments

Compensation policy can be good motivator if pay increases are linked with merit. But annual increments should partly be linked to seniority or years of service. The logic for seniority based increments is that as a person accumulates experience his skill get sharpened and his efficiency tends to increase.

Challenges Faced by Compensation Design

Designing a truly effective compensation plan is like climbing a mountain. It is a complex, and often difficult, journey with numerous possibilities for pitfalls along the way, the most common of which are:

- Using compensation in lieu of sound management: this equates to trying to solve a problem by throwing money at it. No amount of compensation makes up for poor management.
- Confusing compensation and benefits with rewards and recognition: the fact is that employees rarely leave organization for relatively small increases in pay. More often, they leave for intrinsic reason such as feeling valued by an organization or seeing opportunity for growth. Compensation, no matter how much, does not fill intrinsic needs.

➤➤ Utilizing compensation strategies that are not linked to achieving an organization's goals and objectives: the only reason to hire or retain an employee is because he/she directly or indirectly adds value to the company. Therefore, how much an employee should be paid, depends solely on how much value he/she adds in reaching the company's goals and objectives.

➤➤ Designing compensation strategies that are not aligned with business philosophy: An effective compensation strategies cannot be designed without answering some key questions, such as:

- Does the company want to hire younger, less experienced staff so that they can be paid less, knowing they will have to be replaced in two or three years? Or
- Should an older, more experienced staff be hired and paid more to keep them
- Does the company want to pay the going rate based on competition?
- Does the company want to pay staff in accordance with their level of contribution to the company?

Using compensation strategies that are designed to support change: The companies that stand the test on time are those who are willing and able to embrace change. An intensively competitive marketplace combined with constant innovations in technology makes change an ongoing process.

As a result, the division that is the star performer today may be second best tomorrow, or even outdated the day after that. Conversely, today's one-person department may become tomorrow's powerhouse. Therefore, compensation strategies must be designed to (a) accommodate for increases and decreases in profit and (b) share wealth with those employees who are providing the most value at the time of production.

Factors Considered in Designing Compensation Package/ Compensation System Design Components

Determine the best total rewards philosophy for the organization. Reviewing the current compensation and benefits system to see how it compares to labour market competition and Formulating effective communication strategies focused on the value of the compensation, performance management and benefits programme.

Base Pay to determine the base pay the following is to be taken into consideration

➤➤ Conducting job analysis and documenting job content

➤➤ Developing systematic base pay structures

➤➤ Using market benchmarking or job evaluation methods

➤➤ Development of employer specific base pay strategic

➤➤ Analysis of employee base pay to new base pay structures and

➤➤ Job description development

Incentive Programme to develop the incentive programme the following is taken into consideration

➤➤ Developing motivating variable pay programmes for production, office, management and sales employees that tie organizational strategies and goals to individual or team performance and

➤➤ Creating pay-for-performance system including performance appraisal tools and merit increase guidelines

Benefits Programme to develop benefit programme the following is to be considered

➤➤ Assessing employees' satisfaction with your current benefit package through a Benefit Assessment Survey

➤➤ Analysis of current benefit offerings and recommendation of effective benefit changes

Guiding Principles of Compensation Design

1. Making salary decisions that are based upon appropriate equity and budget considerations
2. Encouraging and rewarding excellent performance with merit increases whenever possible
3. Providing salary increases within available funding and
4. Motivating employees by demonstrating the link between performance and pay

Compensation System Design Issues

Compensation must be viewed strategically as a lot of organizational funds are spent on compensation related activities. Organizations must make a number of important decisions about the nature of a compensation system. Especially the following things need to be questioned.

- What philosophy and approach will be taken?
- How will the firm react to market pay levels?
- Will the job be paid or the person's level of competence?
- Will pay be individual or team based?

WAGES

Meaning and Definition of wages

In the ordinary language the term wages implies 'reward' to the labourers for the services rendered by them. It may be paid daily, weekly, fortnightly, monthly, per hour or per unit. Services rendered by the labourer include both physical and mental services.

In the words of **Benham**. "*Wages are a sum of money paid under contract by an employer to a worker for services rendered.*"

According to **ILO** " *Wages refer to that payment which is made by the employers to the labourer for his services hired on the conditions of payment per hour, per day, per week or per fortnight.*"

Wages refer to that reward which is received from the employer for the services rendered by the labourer per week, per month, per fortnight or per unit It includes allowances also

Concepts of Wages:

The following are the two main concepts of wages:

A. Nominal Wage:

B. Real Wage:

A. Money Wages or Nominal Wages:

The total amount of money received by the labourer in the process of production is called the money wages or nominal wages.

B. Real Wages:

Real wages mean translation of money wages into real terms or in terms of commodities and services that money can buy. They refer to the advantages of worker's occupation, i.e. the amount of the necessities, comforts and luxuries of life which the worker can command in return for his services.

An example will make the things clear. Suppose 'A' receives Rs. 500 p.m. as money wages during the year. Suppose also that midway through the year the prices of commodities and services, that the worker buys, go up, on the average, by 50%.

It means that though the money wages remain the same, the real wages (consumption basket in terms of commodities and services) are reduced by 50%. Real wages also include extra supplementary benefits along with the money wages.

Distinction between Real and Money Wages:

Adam Smith has distinguished the money wages and real wages on the following basis:

1. Relation with Price:

Keeping all other things constant, there exists inverse relation between real wages and price i.e. with the increase in price level real wages tend to decline and vice-versa.

2. Money and Real Wages:

Ceterus paribus, an increase in money wages will lead to an increase in real wages. It is due to the reason that with the increase in money wages, a labourer can purchase more goods and services than before.

3. Basic Difference:

According to Adam Smith, money wages are paid in terms of the quantity of money whereas real wages are paid in terms of necessities of life. Therefore money wages are expressed in terms of money and that of real wages in terms of goods and services.

Classification of wages

Subsistence Wage: - The wage that can meet only bare physical needs of a worker and his family is called subsistence wage.

Minimum Wage: - Justice Higgin propounded the concept of minimum wage as the irreducible level of wage paid to an unskilled worker, considering him a human being living in a civilised

society. In this single sentence, he indicated three important considerations, namely, (i) that minimum wage is an irreducible level which cannot be further reduced; (2) secondly, it is paid to an unskilled worker who has not undergone any expensive training to acquire skill, (3) thirdly, the worker is to be considered a “human being living in a civilised society and therefore he is entitled to same basic needs of food, clothing and shelter which any other human being requires.

Thus according to Justice Higgins a minimum wage is that irreducible wage, which should enable the worker to get three basic necessities of life, namely, food, clothing and shelter.

Fair Wage: - Fair wages is an adjustable step that moves up according to the capacity of the industry to pay, and the prevailing rates of wages in the area of industry.

Living Wage:- Having described the minimum wage to provide for food, clothing and shelter as a basic and irreducible level of wage, Justice Higgins developed his concept of living wage as one which should not only provide for food, clothing and shelter but for some frugal comfort of life, good education to children, some amusement and provision for sickness and old-age including some measure of social security. Again the frugal comfort should be such as measured at the changing values at a given time.

Piece Wages:

Piece wages are the wages paid according to the work done by the worker. To calculate the piece wages, the number of units produced by the worker are taken into consideration.

Time Wages:

If the labourer is paid for his services according to time, it is called as time wages. For example, if the labour is paid Rs. 35 per day, it will be termed as time wage.

Cash Wages

Cash wages refer to the wages paid to the labour in terms of money. The salary paid to a worker is an instance of cash wages.

Wages in Kind:

When the labourer is paid in terms of goods rather than cash, it is called the wage in kind. These types of wages are popular in rural areas.

Contract Wages:

Under this type, the wages are fixed in the beginning for complete work. For instance, if a contractor is told that he will be paid Rs. 25,000 for the construction of building, it will be termed as contract wages.

Wage Differentials

The wage differentials happened because of the following reasons.

Duration

Parity between officers and workers

Parity between the public sector and private sector

Parity at the worker level between the permanent and the casual contract worker

Performance-linked pay

Duration:

Based the working hours of employee“ the wage is differ from individuals.

Parity between officers and workers:

Based the designation wage / salary will differ

Parity between the public sector and private sector:

Based the policies followed in organizations and ability to pay wage will differ

Parity at the worker level between permanent and the contract worker:

Salary will differ on basis of on-roll employee and off roll employee

Performance – linked pay

Based on performance which means productivity result based salary will differ from each individual.

Wages in different plan periods

The First Plan (1951 to 1956):

Suggested the pre-war levels of real wages should be restored as first step towards “living wage” through increased productivity.

The second plan (1956 to 1961):

It suggested a wide application of the system of payment by results with due safeguards such as protection against fatigue and undue aped-up.

The third Plan (1961 to 1966):

Reinforced the wage policy of the proceeding two plans with respect to minimum wage fixation, reduction of disparities and wage differential stressed the role of productivity in raising the living standard of the workers.

The Fourth Plan (1969 to 1974):

Did not provide a fresh direction or any shift of the government's wage policy.

The Fifth Plan (1974 to 1979):

Recommended that the reward structure of the industrial employee in terms of wage and non-wage benefits must be related to performance records in industrial enterprises.

The Sixth Plan (1980 to 1985):

Pointed out that there were marked disparities with respect to wages between the organized and unorganized and urban and rural sectors.

The seventh plan (1985 to 1990):

The basic objectives of the wage policy as visualized by the plan were a rise in the level of real income in consonance with increases in productivity, promotions and productive employment improvement in skills, sectoral shifts in the desired directions and reduction in disparities.

The Eight Plan (1992 to 1997):

Laid focus on formulation of wage policy relating to child labour, bonded labour, rural labour, women labour and inter-state migrant labour.

KAHE

KARPAGAM ACADEMY OF HIGHER EDUCATION
II MBA - THIRD SEMESTER
COMPENSATION AND BENEFITS MANAGEMENT - 18MBAPH303B
UNIT - I

Multiple Choice Questions (Each Questions carries ONE Mark)

S. NO	QUESTIONS	OPTION 1	OPTION 2	OPTION 3	OPTION 4	ANSWER
1	compensation can be _____ benefits.	Monetary	social	political	Technical	Monetary
2	Wages represents _____ rates of pay.	Hourly	Daily	Weekly	Monthly	Hourly
3	_____ are also called 'payments by results'.	allowances	claims	incentives	fringe benefits	incentives
4	Incentives depends upon	productivity	health	family size	salary	productivity
5	The following is paid only at the time of employees exit after serving more than five years	Perquisites	Claims	Gratuity	Allowances	Gratuity
6	The following is a perquisite.	Club membership	Provident fund	Medical allowance	Group insurance	Club membership
7	A behaviour which has rewarding experience is likely to be repeated' is postulated by	Reinforcement and expectancy	Equity theory	Agency theory	None of the above	Reinforcement and expectancy
8	'A fair day work for fair day pay' denotes a sense of _____ felt by employees.	Responsibility	Equity	Happiness	Respect	Equity
9	Characteristic of a good compensation system is:-	Higher the qualification of worker, higher is compensation	Higher the efficiency of worker, higher is compensation	Higher the rank of worker, higher is compensation	All of the above	Higher the efficiency of worker, higher is compensation
10	The Scanlon plan of profit sharing gives utmost importance to _____.	Employee participation	Employer's participation	Both and	None of the above	Employee participation
11	Basic compensations given to employees as salaries or wages are called	base pay	wages	variable pay	salaries	base pay
12	Payments made to employees for amount of time in which	variable pay	salaries	base pay	wages	wages
13	Payments made to employees without taking hours for which	base pay	wages	variable pay	salaries	salaries

S. NO	QUESTIONS	OPTION 1	OPTION 2	OPTION 3	OPTION 4	ANSWER
14	-Inter-firm differentials reflect _____ wage levels of workers.	Minimum	Relative	Maximum	None of the above	Relative
15	Direct compensation includes which of the following:	Flexible benefits	Long-term incentive pay	Workers' Compensation	Unpaid leave	Long-term incentive pay
16	Indirect compensation is represented by which of the following:	Social Security benefits	Short-term incentive pay	Differential pay	Merit pay	Social Security benefits
17	An audit and review of the services and costs billed by health-care providers is known as:	Procedural review	Practice analysis	Utilization review	Operational control	Utilization review
18	Person-based pay systems:	Pay higher performers more aggressively	Pay employees with long service more	Will not work when large numbers of professionals are employed	Pay employees for what they are capable of doing rather than the tasks they currently perform	Pay employees for what they are capable of doing rather than the tasks they currently perform
19	Executives typically receive:	All of their direct compensation in incentives	Fewer perquisites than other employees	A higher percentage of their direct compensation in base salary than do other employees	A wider variety of compensation programs than do other employees	A wider variety of compensation programs than do other employees
20	Which of the following employees must be paid overtime?	A janitor who worked 30 hours during the workweek and was also paid for 12 hours of vacation time	A vice president in charge of operations who worked 50 hours last week	A nonexempt employee who put in 45 hours last week	A dock worker who worked 40 hours, including 10 hours on Christmas	A nonexempt employee who put in 45 hours last week

S. NO	QUESTIONS	OPTION 1	OPTION 2	OPTION 3	OPTION 4	ANSWER
21	Which is an example of a health-related service that would be under the area of employee assistance programs?	Smoking cessation	On-the-job accident protection	Family and marital counseling	High blood pressure control	Family and marital counseling
22	An employee who holds a non-exempt position under the Fair Labor Standards Act:	exercises discretionary authority for	uses the percentage of his or her time	earns an annual income in excess of	none of the above	uses the percentage of his or her time
23	One strategic business reason for offering a comprehensive benefits package to employees is:	to help attract and retain employees	to beat out the competition	to decrease employer operating costs	to offer cafeteria-style health care plans to employees	to help attract and retain employees
24	Which of the following is not one of the three main factors of the Hay system?	experience	know-how	problem solving	accountability	experience
25	What provides counseling and other help to employees having emotional, physical and other personal problems?	employee assistance programs	Drug Free Workplace Act	OSHA	wellness programs	employee assistance programs
26	Which of the following acts deals directly with discrimination in compensation?	Comparable worth	Equal Pay Act	Davis-Bacon Act	Fair Labor Standards Act	Equal Pay Act
27	Total benefits cost (TBC):	is a ratio of benefit cost per employee to average number of employees	is exclusive of miscellaneous items such as education	includes staff time, overhead, processing costs	is not usually calculated because it varies so much	includes staff time, overhead, processing costs
28	Similarity in pay for jobs requiring comparable level of knowledge, skill, and ability, even where actual job duties differ significantly is the:	Equal Pay	Pay Equity	Paycheck Fairness Act	None of the above	Pay Equity
29	An incumbent who is paid below the range set for the job:	red-circled employee	green-circled employee	blue-circled employee	None of the above	green-circled employee
30	Variable pay is also known as:	incentives	group pay	performance pay	Severance pay	incentives

S. NO	QUESTIONS	OPTION 1	OPTION 2	OPTION 3	OPTION 4	ANSWER
31	A security benefit voluntarily offered by employers to employees who lose their job:	COBRA	Severance pay	Unemployment compensation	Supplemental Pay	Severance pay
32	Which of the following categories is not an example of an exempt classification?	Executive	Sales	Professional	Technical	Technical
33	The Equal Pay Act for equal work of same skills, effort, and responsibilities. Which of the following is not an exemption of this act?	Seniority	Performance	Geographic location	Overtime	Overtime
34	Which of the following is an example of payment that is consistent from period to period despite the number of hours worked	Wage	Salary	Reward	Incentive	Salary

UNIT-II

SYLLABUS

Unit – II : Compensation Designing – Factors affecting Compensation Designing. Incentives and Retirement plans: Basic Pay, Provisions for Dearness allowance – Calculation of total compensation package, various methods of compensating cost of living, Neutralization factors

Compensation Design

Compensation design determines the value of specific, properly executed accomplishments toward the achievement of desired outcomes. The value of the accomplishment, not the level of activity, is used to establish the nature and amount of compensation. Ultimately, compensation design should foster a productive and equitable, long-term relationship among members, and between each member and the organization. The process begins by identifying desired outcomes for the organization or operating unit. Importance and value are attached to the results people achieve with reference to the need of the organization.

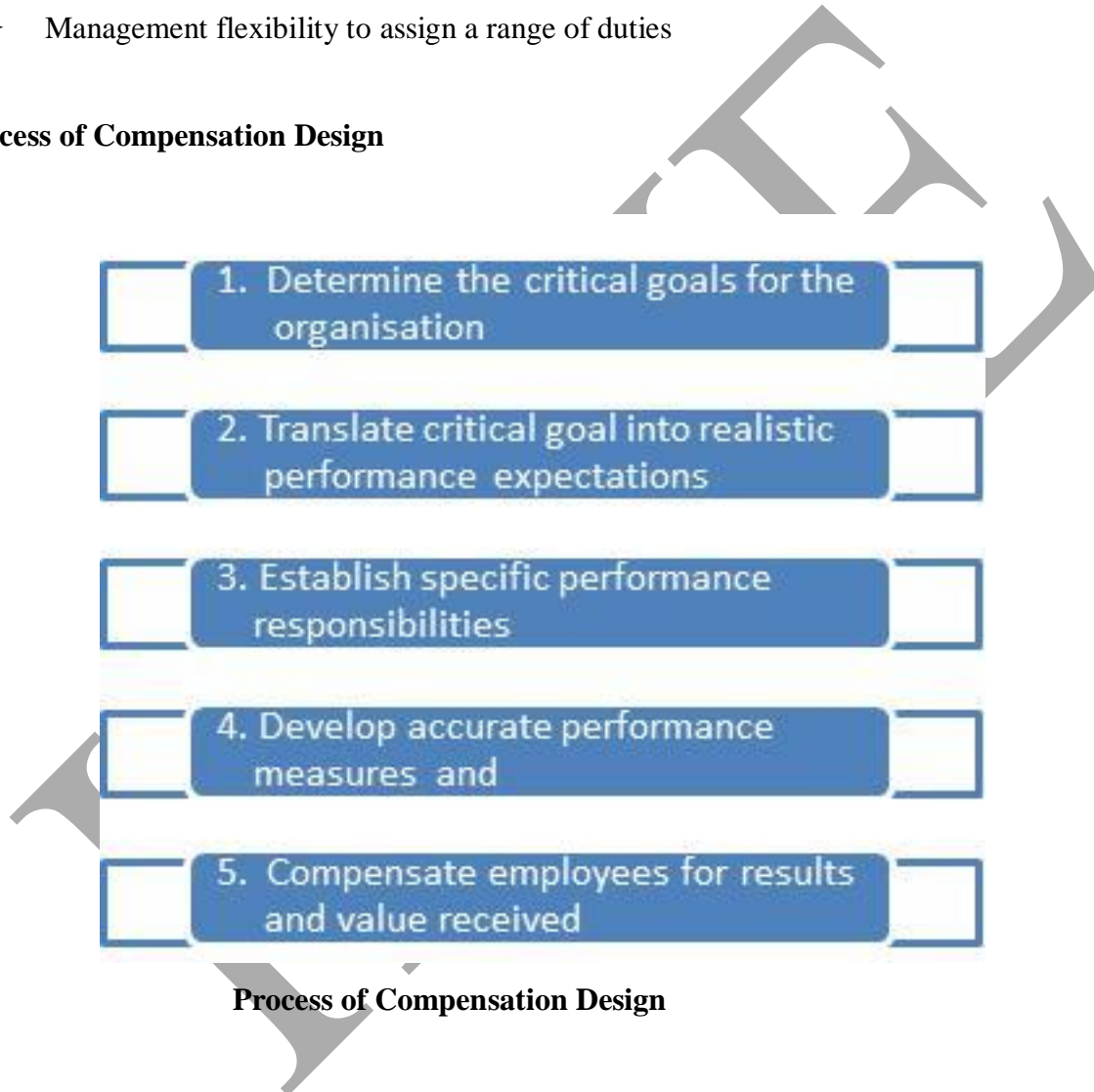
Compensation is based on the achievement of results that are critical to organizational success. Attracting, retaining and motivating employees in today's business environment requires utilizing a host of tools including base pay, incentives, equity, performance management, and benefits. Balancing these tools in an equitable, affordable and real manner can present difficulties for even the most dedicated employers. No universal, standard programme exists that can meet every organization's needs. In order for the total rewards programme to work, it must fit the organization's culture and strategic initiatives and compensation objectives.

These objectives are as follows

- External competitiveness to recruit and retain
- To reward performance through salary without grade promotions
- Rewards for skill acquisition
- Internal equity among employee

- Pay for the person rather than just the job
- Built-in controls and cost constraints
- An understandable and equitable system
- Parallel career paths for managers and technical employees
- Flexibility to adapt quickly to market changes and
- Management flexibility to assign a range of duties

Process of Compensation Design



Process of Compensation Design

Essentials of a Sound Compensation Design

Internal Equity

It implies a proper relationship between wages paid for different jobs within the company. For example salary of a Sr. Manager is lower than a manager; there is lack of internal equity. Pay

differentials should be related directly to differential in job requirements. Fair pay differentials between jobs can be established with the help of job evaluation.

External Competitiveness

Wages and salaries in the organization should be in line with wages and salaries for comparable jobs in other organization. Otherwise the organization may not be able to attract and retain competent personnel. Data relating to pay levels in other organizations can be collected through wage and salary survey.

Built-in Incentive

Wage or salary plan should contain a built-in incentive so as to motivate employees to perform better. Such an incentive can be developed through performance based payment. A part of the total payment should be linked to individual or group performance. A sound performance appraisal system should be used to measure accurately and objectively the performance of individual employees.

Link with Productivity

Some part of the total pay should be linked to productivity. Such linkage is necessary because workers expect a share in productivity gains. This will help to control labour costs.

Maintain Real Wages

At least part of the increase in the cost of living should be neutralized so as to protect the real wages of labour. Dearness allowances are used in India for this purpose.

Increments

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- Will the job be paid or the person's level of competence?
- Will pay be individual or team based?

Incentives plan:

It is variable rewards granted to employee according to variations in their performance. The other name for incentives is „payment by result“.

It may be discussed as

- Incentive Plans for blue – collar workers / Short term wage incentives
- Incentive Plans for managerial personnel / Long term wage incentives

Incentive plans for blue – collar workers / short term wage incentives:

- Short – term incentive plans for blue – collar workers may be broadly classified into three categories. Plans under which the rate of extra incentive is in proportion to the extra output
- Plans under which the extra incentive is proportionately at a lower rate than the increase in output and
- Plans under which the rate of incentives is proportionately higher than the rate of increase in output.
- All bonus or premium plans relate to two factors:
- Set a standard time for the completion of a definite output at piece of work for a fixed wage.

- The fixing of rate of percentage by which bonus would be earned by a worker over and above his set wage.

Disadvantage:

- One of the greatest difficulties with the incentive system is in the setting of piece or bonus rates. Difficulty arises in determining standard performance.
- Problem of financial incentives arise either from the inadequacies of the particular system or from incorrect application and insufficient control.
- Another problem is jealousies may arise among employees.
- Difficulties arise over the introduction of new machine or methods.

Incentives for management / long term wage incentives:

In many organizations managers are paid bonus.

There are two types of bonus plans:

- Determined by formula
- Determined by some discretion used in allocation of bonus

The bonus plans are generally reviewed annually to make them more effective. For top level management, bonuses are generally tied to overall corporate results. The bulk of bonuses is much higher for top level executives and lower for the lower level executives.

Individual incentive schemes:

This reward of incentives is based solely on individual performance. It is extra compensation paid to an individual over a specified amount for his production effort.

The payment is normally on a monthly basis, though in few cases it may be quarterly or other convenient period. The reward under this plan are almost always immediate, that is, paid daily or weekly.

Advantages:

It is relatively obvious and straightforward

It reward the individual for his or her production

The more the worker produces the more the worker earns.

Disadvantages:

- It works best with jobs that are primarily operator – controlled. They may leads to quality problem
- Safeguard must be taken to ensure that quality is not scarified for quantity.

Group incentive schemes:

Group or area incentive schemes provide for the payment of bonus either equally or proportionately to individuals within a group or area. The bonus is related to the output achieved over an agreed standard or to the time saved on the job – the difference between allowed time and actual time.

Advantages of group incentives:

- Better co-operation among workers
- Less supervision
- Reduce incidence of absenteeism
- Reduce Clerical work
- Shorter training time

Disadvantages of group incentives:

- All efficient workers may be penalised for the inefficiency of the other members in the group.
- The incentives may not be strong enough to serve its purpose.
- Rivalry among the members of the group defeats the very purpose of teamwork and co-operation

Requirements of a sound incentive plans

Labour unions:

It attempt employee to work and influence the wages primarily by regulating or affecting the supply of labour.

Personal perception of wage:

Whether the wage is adequate and equitable depends not only upon the amount that is paid but also upon the perceptions and the view of the recipients of the wage.

Cost of living:

This approach tends to vary money wage depending upon the variations in the cost of living index following rise or fall in the general price level and consumer price index.

Government legislation:

The laws passed and the labour policies formed by the government have an important influence on wages and salaries paid by the employee.

Ability to pay:

Labour unions have often demanded an increase in wages on the basis that the firm is prosperous and able to pay.

Supply and demand:

The wage is a price for the services rendered by a worker or employee based on supply and demand prevailing in the market.

Productivity:

It is the key factor in the operations of a company. High wages and low costs are possible only when productivity increases appreciably.

Impact of retirement plans

- Fostering external competitiveness
- Increasing cost effectiveness
- Meeting individual employee's needs and preferences
- Complying with legal compulsions
- Employee chooses packages that best satisfy their unique needs.
- Flexible benefits help firms to meet the changing needs of a changing workforce
- Increased involvement of employee and families improve understanding of benefits
- Flexible plans make introduction of new benefits less costly. The new option is added merely as one among a wide variety of elements from which to choose

- Cost containment – The organization sets the dollar maximum. Employee chooses within that constraint.

Compensation Package includes

- Basic Wage
- DA
- HRA
- PF
- ESI
- Overtime Payment
- Annual Bonus
- Incentive System

HRA or House Rent Allowance: It is an amount paid out to employees by companies for expenses related to rented accommodation.

Leave Travel Allowance (LTA): LTA is the amount provided by the company to cover domestic travel expenses of an employee. It does not include the expenses for food, accommodation, etc. **during the travel.**

Conveyance Allowance: This allowance is provided to employees to meet travel expenses from residence to work.

Dearness Allowance: DA is a living allowance paid to employees to tackle the effects of inflation. It is applicable to government employees, public sector employees, and pensioners only.

Other such allowances are the special allowance, medical allowance, incentives, etc.

Compensation plays the major roles in organization which will leads to

Rewards are now viewed as the complete suite of monetary and non-monetary rewards and the work environment offered to the employee such as corporate culture, freedom to work independently and opportunities to develop skills.

Be selective in compensation approach. Do not be caught in the latest trend. Explore all available options and then decide on the solution that is right for your organization, your culture, and the changes you are going through.

To conclude, compensation is a powerful force in motivating employee. Pay can, if used properly, be a critical key to improving performance, be it in terms of bigger profits, increased value, better products, higher quality work or happier customer.



Total compensation statements

Total compensation statements are usually given out annually. They list base salary along with other pay like bonuses and company-paid benefits with their dollar values. If the company pays for part of any benefit, list only the amount the company pays for. The grand total, or total compensation, is listed at the bottom of the statement.

Total compensation statements can be an effective **retention tool**. Employees who receive these statements are often surprised at how much they actually “earn.” They can see exactly how much their company invests in them and values them. **Templates** for total compensation statements are available online on various human resources websites.

Taxable Employee Compensation

Some items listed on total compensation statements are taxable, and some are not. Basically **any kind of pay is taxable**. That would include salary, paid time off of any kind, bonuses, commissions and profit-sharing payouts. The total of all this goes in the first box of the employee’s “Wages, tips, other compensation.”

Nontaxable Employee Compensation

Nontaxable items include most types of **health insurance**. Tuition assistance is nontaxable as long as it’s under rs. 5,250 for each calendar year. If you offer incentives to encourage employees to commute to work by bike or mass transit, the cost of this benefit can usually be excluded from taxable compensation..

KARPAGAM ACADEMY OF HIGHER EDUCATION, COIMBATORE

Class: II MBA

Course Name: Compensation and Benefits Management

Course Code: 18MBAPH303B

Unit II

Semester: III

Year: 2018 -20 Batch

The cost of employer-paid life insurance with a payout of up to Rs.50,000 is not taxable. However, if you pay for larger policies for your employees, the cost of the coverage that's over \$50,000 has to be included in their "Wages, tips, other compensation."

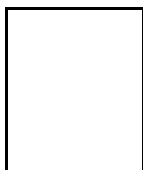
KARPAGAM ACADEMY OF HIGHER EDUCATION
II MBA - THIRD SEMESTER
COMPENSATION AND BENEFITS MANAGEMENT - 18MBAPH303B
UNIT - II

Multiple Choice Questions (Each Questions carries ONE Mark)

S. NO	QUESTIONS	OPTION 1	OPTION 2	OPTION 3	OPTION 4	ANSWER
1	In employees' pension plan, a portion of employees' earnings contribution into fund is classified as	cash balance plans	early retirement window	deferred profit sharing plan	savings and thrift plan	savings and thrift plan
2	Pension plan, in which specific amount of profit is transferred to employees account, that are payable at time of retirement or death is classified as	deferred profit sharing plan	savings and thrift plan	cash balance plans	early retirement window	deferred profit sharing plan
3	A pension plan, an employer's acknowledgement of financial standing of employee's account, placing percentage on basis of annual compensation and interest, regarded as	cash balance plan	severance pay plan	early retirement window plan	employee stock ownership plan	cash balance plan
4	Kind of pension plan in which employer's contribution is specified in employee's retirement savings funds is classified as	defined benefit pension plan	defined contribution pension plan	defined noncontributory pension plan	deferred contribution pension plan	defined contribution pension plan
5	Process of instituting policies to enable employees to get their accumulated pension plans with ease after leaving organization is classified as	compatibility	durability	portability	profitability	portability
6	Which of the following is not an objective of wage incentive programmes?	Developing ownership interest	Improving employee retention	Reducing labour cost	Facilitating the separation of employees	Improving employee retention
7	When the same rate of incentives is paid to the employees for each unit of goods produced by them, it is called	Straight piece rate	Differential piece rate	Task and time bonuses	None of the above	Straight piece rate

S. NO	QUESTIONS	OPTION 1	OPTION 2	OPTION 3	OPTION 4	ANSWER
8	When more than one piece rate is offered to the individuals for goods produced by them, it is called	Straight piece rate	Differential 1 piece rate	Priestman bonus plan	Direct piece rate	Differential piece rate
9	Which of the following methods discourages too much speed in the production by the employees?	Straight piece rate	Differential 1 piece rate	Task and time bonuses	Yearly incentive	Task and time bonuses
10	Evaluating the relative worth of the employees in the organization and then deciding the awards for them is called	Merit rating	Differential 1 piece rate	Task and time bonuses	Straight piece rate	Merit rating
11	Which of following incentive systems recommends a two-piece rate for wage determination?	Merrick multiple piece rate plan	Taylor's differential piece rate plan	Emerson efficiency plan	Gnatt task and bonus system	Taylor's differential piece rate plan
12	In which of the following methods is the standard time stated as minutes and points?	Bedeaux system	Barth variable incentive plan	Task and time bonus	Merit rating	Bedeaux system
13	Which of the following incentive plans has the following equation for computing the earnings of employees? $(\text{Actual hours worked} \times \text{Time rate}) + (\text{Actual time worked} / \text{Standard time}) \times \text{Time saved} \times \text{Time rate}$	Emerson efficiency plan	Rowan incentive plan	Halsey incentive plan	Barth variable incentive plan	Rowan incentive plan
14	Which of the following is not usually a group incentive plan?	Halsey incentive plan	Priestman bonus plan	Rucker incentive plan	Towne's incentive plan	Halsey incentive plan
15	Achieving cost saving not only on labour cost but also on overheads is the crux of	Towne's incentive plan	Priestman bonus plan	Rucker incentive plan	Halsey incentive plan	Rucker incentive plan
16	In which method is the standard time expressed in terms of man-minutes called "MANT"?	Hayne's incentive plan	Rowan incentive plan	Barth variable incentive plan	Bedeaux system	Hayne's incentive plan
17	Administration of an employee wage and salary is called	Wage and salary administration	Wage fund	W.S. policy	Wage study	Wage and salary administration

S. NO	QUESTIONS	OPTION 1	OPTION 2	OPTION 3	OPTION 4	ANSWER
18	Performance appraisal refers to ---- of an employee .	training	placement.	assessment	Induction	assessment
19	Identify the retirement benefit form the following?	Wages	Bonus.	Incentive.	Gratuity	Gratuity
20	compensation quartile strategy' in which 75% of employers pay below than market and remaining 25% pay compensations higher than market is called	forth quartile strategy	third quartile strategy	second quartile strategy	first quartile strategy	third quartile strategy
21	Factors such as earnings level, discretionary authority and percentage of spent time in manual work are factors that must be held to define	overtime pay status	exempt status	non-exempt status	distributive status	non-exempt status
22	Perceived fairness between what person receives and what person did is classified as	procedural justice	distributive justice	recency justice	equity	equity
23	A fair day work for fair day pay' denotes a sense of _____ felt by employees.	Responsibility	Equity	Happiness	Respect	Equity
24	The following is paid only at the time of employees exit after serving more than five years	Perquisites	Claims	Gratuity	Allowances	Gratuity
25	The following is not a concept of wage	Daily wages	Minimum wages	Fair wages	Living wages	Daily wages
26	A _____ must be fixed considering the general economic conditions of the country.	Minimum wages	Fair wages	Living wages	Low wages	Living wages
27	Which of the following plans is considered a company sponsored program that provides income to workers throughout their retirement?	pension plans	severance plans	loyalty plans	longevity plans	pension plans



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UNIT -III

Multiple Choice Questions (Each Questions carries ONE Mark)

S. NO	QUESTIONS	OPTION 1	OPTION 2	OPTION 3	OPTION 4	ANSWER
1	Which of the following is true concerning incentive pay?	The award is earned only when the predetermined work objective is totally completed.	Motivates employees to be more productive, but does little to control payroll costs.	Awards are granted in one-time payouts.	Incentive levels are generally subjective in nature.	Awards are granted in one-time payouts.
2	Customer satisfaction, labor cost savings, materials cost savings, and reduction in accidents were listed as typical performance measures for which type of incentive plan?	individual	group	company-wide	executive	group
3	The concept that a hard working employee is likely to stay at an incentive pay	representative effect	structural effect	sorting effect	output effect	sorting effect
4	Which type of individual incentive plan requires the achievement of multiple, complex objectives without compromising the quality and quantity of output that is generated by employees?	piecework plans	referral plans	management incentive plans	behavior encouragement plans	management incentive plans
5	XYZ Company gives monetary incentive awards to its workers for lower accident rates due to improper use of heavy equipment. Which of the following incentive plans describes this example?	management incentive plans	referral plans	piecework plans	behavioral encouragement plans	behavioral encouragement plans
6	This type of individual incentive plan rewards employees who recruit new customers or new employees.	behavior encouragement	referral	management incentive	piecework	referral
7	On which team is membership relatively permanent and members work full-time?	work (process)	project	parallel	innovative	work (process)

S. NO	QUESTIONS	OPTION 1	OPTION 2	OPTION 3	OPTION 4	ANSWER
8	Which of the following is another name for parallel teams?	task forces	innovation teams	process teams	work teams	task forces
9	Which of the following group incentive system was designed to provide employees with financial incentives for increasing customer satisfaction, increasing productivity, lowering costs, or improving safety?	gain sharing	team based	small group	profit sharing	gain sharing
10	This incentive plan has a buy-back provision.	ESOPs	Rucker	Improshare	Scanlon	Improshare
11	Which of the following is true regarding group incentive plans as opposed to individual incentive plans?	There are more groups in a company than individuals to measure.	Individual group members usually work more efficiently alone than in cohesive groups.	It is easier to develop performance measures for individual incentive plans than group incentive plans.	It is easier to develop performance measures for group incentive plans than individual incentive plans.	It is easier to develop performance measures for group incentive plans than individual incentive plans.
12	Profit sharing plans and employee stock option plans are incentives on what level?	individual	group	companywide	executive	companywide
13	These profit sharing plans award cash to employees on a quarterly or annual basis as part of their regular compensation.	recent profit sharing plans	current profit sharing plans	deferred profit sharing plans	anticipated profit sharing plans	current profit sharing plans
14	XYZ Company pays a portion of company profits to its employees. The management offers this incentive plan as one kind of retirement program. What kind of companywide incentive plan does XYZ Co. offer?	employee stock ownership plan	deferred profit sharing plan	current profit sharing plan	employee stock option plan	deferred profit sharing plan

S. NO	QUESTIONS	OPTION 1	OPTION 2	OPTION 3	OPTION 4	ANSWER
15	What is the main objective of Scanlon plans?	to standardize the workforce	to encourage unionization	to increase workforce competitiveness	to increase employee involvement	to increase employee involvement
16	Which gain sharing plan bases incentives on the ratio between labor costs and sales value of production (SVOP)?	Rucker Plan	referral plan	Scanlon Plan	Improshare	Scanlon Plan
17	Which of the following are the four "universal compensable factors"?	cognitive ability, effort, responsibility, working conditions	cognitive ability, effort, skill, responsibility	skill, effort, responsibility, working conditions	skill, effort, cognitive ability, working conditions	skill, effort, responsibility, working conditions
18	Which one of the following is NOT true about labor participation rate?	Labor participation rate for younger workers is expected to decline.	Labor participation rate for older workers is expected to rise.	Labor participation rate for women is expected to increase slightly.	Labor participation rate for men is expected to increase slightly.	Labor participation rate for men is expected to increase slightly.
19	Which of the following is a typical benefit preferred by employees with children (male or female, coupled or uncoupled)?	life insurance	insurance with prescription drug benefits	generous vacation allowances	physical fitness programs	life insurance
20	Which of the following is NOT a typical benefit preferred by older workers?	insurance with prescription drug benefits	generous sick-leave allowances	flexible work schedules	disability insurance	flexible work schedules
21	Which branch of the federal government is responsible for interpreting laws?	service branch	legislative branch	executive branch	judicial branch	judicial branch
22	A new employee comes into your office and asks you how many hours a year he has to work to qualify towards his vesting requirements. What would you tell him?	1,000	1,400	800	1,200	1,000
23	What specifies the rate at which participants accumulate benefits?	accrual rules	combination procedures	Sarbanes-Oxley	build-up rules	accrual rules

S. NO	QUESTIONS	OPTION 1	OPTION 2	OPTION 3	OPTION 4	ANSWER
24	These represent a series of payments for the life of the participant and beneficiary.	collateral payments	periodic payments	lump sum distributions	annuities	annuities
25	What type of retirement plan is a 401(k)?	defined contribution	defined benefit	qualified benefit	nonqualified benefit	defined contribution
26	Which of the following is associated with 401(k) plans?	Employees pay taxes on their contribution.	Employees do not pay taxes on their contributions.	Investment gains are taxed.	Employees cannot deduct their contributions from taxable income.	Employees do not pay taxes on their contributions.
27	How many components are there in remuneration?	4	5	6	7	5
28	Which of the following option is a component of remuneration?	Fringe Benefits	Commitment	External equity	Motivation	Fringe Benefits
29	What is the alternate name for incentives?	Gratuity	Paid holidays	Payments by result	Salary	Payments by result
30	Which of the following is an example of fringe benefits?	Health and accident insurance	appreciation	salary	profit sharing	Health and accident insurance
31	Benefit offered to employee voluntarily by employers who had lost their jobs is classified as	lump sum pay	severance pay	unemployment pay	insurance option	severance pay
32	Comprehensive analysis of all benefits that must be available to employees is classified as	golden parachute analysis	silver parachute analysis	compensation analysis	benefits needs analysis	benefits needs analysis
33	Kind of benefit plan in which employee is promised to get a pension amount based on service and age of employee is classified as	contributory plan	defined benefit plan	defined contribution plan	noncontributory plan	defined benefit plan
34	This type of defined contribution plan, also known as a CODA, permits only private sector or tax-exempt employers' employees to tax defer part of their compensation to the trust of a qualified plan.	401(k) plan	profit sharing plan	gain sharing plan	incentive plan	401(k) plan
35	Which of the following is NOT a benefit covered by fee-for-service plans?	hospitalization benefits	dentist visits	physician visits	surgical benefits	dentist visits

S. NO	QUESTIONS	OPTION 1	OPTION 2	OPTION 3	OPTION 4	ANSWER
36	What are the two types of fee-for-service plans?	health savings accounts, indemnity plans	health savings accounts, health reimbursement plans	health reimbursement plans, indemnity plans	indemnity plans, self-funded plans	indemnity plans, self-funded plans
37	This type of consumer driven health care program allows employees to carry-over the unused funds still in their account.	health reimbursement account	health savings account	flexible spending account	flexible savings account	health reimbursement account
38	Which of the following represent additional paid time off for employees working in hardship locations?	rest and relaxation leave benefits	permissible premiums	foreign service premiums	chillaxtion time	rest and relaxation leave benefits
39	Profit sharing plans and employee stock option plans are incentives on what level?	individual	group	companywide	executive	companywide
40	Which of the following performance measures corresponds to individual/ group/ companywide incentive plans respectively?	customer satisfaction/ quantity of work/market share	quantity of work/market share/customer satisfaction	quality of work output/customer satisfaction/market share	customer satisfaction/market share/quality of work	quality of work output/customer satisfaction/market share
41	The main disadvantage of group incentive compensation is employee _____.	Turnover	satisfaction	Motivation	health	Turnover

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UNIT - IV

Multiple Choice Questions (Each Questions carries ONE Mark)

S. NO	QUESTIONS	OPTION 1	OPTION 2	OPTION 3	OPTION 4	ANSWER
1	Unemployed people don't work, but having idle workers	facilitates matching workers's skills to the tasks to be performed on jobs	encourages worker exploitation	is a sure sign of demand deficiency	is a symptom of technology replacing workers	facilitates matching workers's skills to the tasks to be performed on jobs
2	Fifty million people were employed last month, and 2 percent of the employed workers have become unemployed this month. The number of workers who transitioned from employment to unemployment is	1 million	2 million	5 million	50 million	1 million
3	A person who searches for a job sequentially	searches while employed	accepts the first job offer	accepts the best job offer after applying for a pre-specified number of jobs	accepts or rejects job offers as they arrive	accepts or rejects job offers as they arrive
4	More generous unemployment compensation _____ unemployment spells.	lengthens	shortens	has no effect on the length of	Dynamism	lengthens
5	One factor that helps explain persistently high unemployment rates in European countries is that _____ in European countries.	minimum wages are low	union bargaining covers a small percentage of jobs	tax rates are low	unemployment compensation is generous	unemployment compensation is generous

S. NO	QUESTIONS	OPTION 1	OPTION 2	OPTION 3	OPTION 4	ANSWER
6	The natural rate of unemployment is	zero	free of pesticides and other chemicals	the lowest rate of unemployment that we observe in cyclical expansions	the unemployment rate from frictional unemployment (without aggregate or sectoral fluctuations)	the unemployment rate from frictional unemployment (without aggregate or sectoral fluctuations)
7	Compensation systems can influence	how motivated workers are	the quality of workers who want to work at the firm	who quits and who stays on the job	All of the above are true	All of the above are true
8	A firm pays its workers a piece rate, and each worker chooses effort to equate the piece rate to	the marginal cost of effort	the price of the firm's product	zero	the value of the worker's marginal product	the marginal cost of effort
9	Piece-rate compensation	underemphasizes the quantity of output produced	attracts the most able workers	doesn't elicit effort in large firms	decreases a firm's productivity	attracts the most able workers
10	A large heating and cooling (HVAC) firm rewards each member of its sales team who reaches the sales target with a \$15,000 bonus. The bonus provides the strongest incentives to the _____ sales worker.	high ability	low ability	typical	Medium ability	typical
11	In the context of relative performance pay, using a large reference group	insulates each worker's pay from coworker-specific fluctuations in performance	raises labor cost	reduces effort and (on average) performance	increases workers' aversion to risk	insulates each worker's pay from coworker-specific fluctuations in performance

S. NO	QUESTIONS	OPTION 1	OPTION 2	OPTION 3	OPTION 4	ANSWER
12	Paying an efficiency wage increases work effort because	workers are required to work harder to get the super-competitive wage	the efficiency wage enriches workers, and they work harder as an income effect	the efficiency wage makes the job more valuable, so workers work harder to reduce the chance of being dismissed	to reduce uncertainty	the efficiency wage makes the job more valuable, so workers work harder to reduce the chance of being dismissed
13	In a competitive labor market, an employer can deter the bad behavior of its workers (e.g., shirking, embezzling funds) by	back-loading pay	front-loading pay	shifting compensation from wages to benefits	requiring that workers pay for their own training	back-loading pay
14	Which of the following factors might make mandatory retirement efficient?	employers back-loading pay	workers' reservation wages trending up over their careers	old workers being more productive than young workers	labor supply curves bending backward	employers back-loading pay
15	CEO Kevin currently holds plenty of stock options that he received as part of his compensation in prior years. These stock options give Kevin the incentive to	enjoy all the perks, such as lavish meals and entertainment and personal use of the corporate jet	grow accounting measures of performance, such as sales revenue and net income	make decisions that increase the price of the firm's stock	Make decisions to decrease the price of stock	make decisions that increase the price of the firm's stock

S. NO	QUESTIONS	OPTION 1	OPTION 2	OPTION 3	OPTION 4	ANSWER
16	In the United States, the 19th century was a period of transition in which production shifted from skilled artisans to factories where complex tasks were simplified and standardized. This form of innovation likely _____ the demand for skilled workers relative to unskilled workers and _____ the wage distribution.	increased; widened	increased; narrowed	decreased; narrowed	decreased; widened	decreased; narrowed
17	A skill-biased innovation	raises the relative supply of skilled workers	does not affect the relative demand for unskilled workers	overstates the effect of skill on wages	increases the demand for skilled workers relative to the demand for unskilled workers	increases the demand for skilled workers relative to the demand for unskilled workers
18	With general training, the net productivity profile slopes up because _____ over the worker's career.	training costs fall	productivity rises	training costs fall and productivity rises	labor exploitation falls	training costs fall and productivity rises
19	If an employer back-loads pay along a competitive wage profile, then	it attracts workers who are bad matches	it promotes workers too quickly	it dismisses workers before it's time to overpay them	workers quit before the firm tries to underpay them	it dismisses workers before it's time to overpay them
20	With general training and employment at will, wages _____ at a _____ rate over a worker's career.	increase; increasing	increase; decreasing	decrease; decreasing	decrease; increasing	increase; decreasing
21	Hours of work are more likely to fall in response to _____ increases in the wage.	predictable	surprise	small	temporary	surprise
22	The U.S. military frequently pays enlistment bonuses to new recruits when they sign on for service, which is typically before the new recruits report for duty. An enlistment bonus is an example of	front-loading pay	back-loading pay	excessive turnover	severance pay	front-loading pay

UNIT-V

SYLLABUS

Unit – II : Social Security Laws – Laws Relating to Workmen’s Compensation, Employee’s State Insurance, Provident Fund, Gratuity and Maternity Relief. Wages and Bonus Laws – The Law of Minimum Wages, Payment of Wages, Payment of Bonus. Objectives and scope of Laws. The Impact of fifth pay scale on Central and State Government.

The Workmen’s Compensation Act, 1923

The Workmen’s Compensation Act, 1923 provides for payment of compensation to workmen and their dependants in case of injury and accident (including certain occupational disease) arising out of and in the course of employment and resulting in disablement or death. The Act applies to railway servants and persons employed in any such capacity as is specified in Schedule II of the Act. The schedule II includes persons employed in factories, mines, plantations, mechanically propelled vehicles, construction works and certain other hazardous occupations.

The amount of compensation to be paid depends on the nature of the injury and the average monthly wages and age of workmen. The minimum and maximum rates of compensation payable for death (in such cases it is paid to the dependents of workmen) and for disability have been fixed and is subject to revision from time to time.

A [Social Security Division](#) has been set up under the Ministry of Labour and Employment , which deals with framing of social security policy for the workers and implementation of the various social security schemes. It is also responsible for enforcing this Act. The Act is administered by the State Governments through Commissioners for Workmen's Compensation.

The main provisions of the Act are:-

- An employer is liable to pay compensation:- (i) if personal injury is caused to a workman by accident arising out of and in the course of his employment; (ii) if a workman employed in

any employment contracts any disease, specified in the Act as an occupational disease peculiar to that employment.

- However, the employer is not liable to pay compensation in the following cases:-

If the injury does not result in the total or partial disablement of the workman for a period exceeding three days.

If the injury, not resulting in death or permanent total disablement, is caused by an accident which is directly attributable to:- (i) the workman having been at the time of the accident under the influence of drink or drugs; or (ii) the willful disobedience of the workman to an order expressly given, or to a rule expressly framed, for the purpose of securing the safety of workmen; or

(iii) the willful removal or disregard by the workman of any safety guard or other device which has been provided for the purpose of securing safety of workmen.

- The State Government may, by notification in the Official Gazette, appoint any person to be a Commissioner for Workmen's Compensation for such area as may be specified in the notification. Any Commissioner may, for the purpose of deciding any matter referred to him for decision under this Act, choose one or more persons possessing special knowledge of any matter relevant to the matter under inquiry to assist him in holding the inquiry.
- Compensation shall be paid as soon as it falls due. In cases where the employer does not accept the liability for compensation to the extent claimed, he shall be bound to make provisional payment based on the extent of liability which he accepts, and, such payment shall be deposited with the Commissioner or made to the workman, as the case may be.
- If any question arises in any proceedings under this Act as to the liability of any person to pay compensation (including any question as to whether a person injured is or is not a workman) or as to the amount or duration of compensation (including any question as to the nature or extent of disablement), the question shall, in default of agreement, be settled by a Commissioner. No Civil Court shall have jurisdiction to settle, decide or deal with any question which is by or under this Act required to be settled, decided or dealt with by a Commissioner or to enforce any liability incurred under this Act.

The State Government may, by notification in the Official Gazette, direct that every person employing workmen, or that any specified class of such persons, shall send at such time and in such form and to such authority, as may be specified in the notification, a correct return specifying the number of injuries in respect of which compensation has been paid by the employer during the previous year and the amount of such compensation together with such other particulars as to the compensation as the State Government may direct.

Whoever, fails to maintain a notice-book which he is required to maintain; or fails to send to the Commissioner a statement which he is required to send; or fails to send a report which he is required to send; or fails to make a return which he is required to make, shall be punishable with fine.

The Employees' State [Insurance](#) Act

The Employees' State [Insurance](#) Act, 1948 is one of the most important [laws](#) that provide social [security](#). It contains six kinds of ESI benefits that injured employees can avail. All of these benefits must arise in the course of employment in order to enable workers to access them.

ESI Benefits

Section 46 of the Act describes all benefits that an injured employee can avail. It is important to note that a worker can avail these benefits in the course of [employment](#) only.

For example, if a worker suffers an injury, this injury must be an employment injury only.

Section 2(8) says that an employment injury is a personal injury that an employee suffers. Such injury must be the result of an accident or occupational disease that arises out of employment.

Who are Eligible for ESI?

To come under the vast umbrella of benefits offered by the *Employee State Insurance Corporation (ESIC)*, an individual should meet certain criteria that has been set by the committee. The ESI scheme is applicable to

- An individual who is employed in a non-seasonal factory that has more than 10 employees. This criteria applies under Section 2 (12) of the Act.
- With effect from 1 January 2017, the wage limit of an employee is set at Rs.21,000 per month for him/her to come under the coverage of the ESI scheme.

ESI Coverage:

This scheme has also been made extended to hotels, shops, cinemas and preview theatres, restaurants, newspaper establishments, and road-motor transport undertakings. This scheme has also been extended to the Private Educational and Medical institutions that have employed 10 or more people. This is applicable in certain states and union territories only.

The ESI scheme has been implemented are-wise throughout the country. This scheme has been implemented in stages in every state in India except Arunachal Pradesh and Manipur. The scheme has also been enacted in all union territories except for Daman and Diu, Dadra and Nagar, and Lakshadweep Islands.

The ESI scheme has been notified in a total of 325 complete districts out of a total of 393 districts. Out of these notified districts, 89 districts implemented the scheme partially.

Key Features and Benefits of ESI:

There are a number of attractive features and benefits that are offered by the Employee State Insurance Corporation. Not only does it provide medical benefits but it also comes with a level of financial security in times of financial hardship like unemployment, etc. Some of these are listed below:

- **Medical Benefits:** The Employee State Insurance Corporation takes care of an individual's medical expenses by providing reasonable medical care. This cover comes into effect from day one of the individual's employment.
- **Disability Benefit:** In case an employee is disabled, ESIC ensures that the employee is paid their monthly wages for the period of the injury in case of a temporary disablement or for the remainder of the employee's life in case of a permanent disablement.
- **Maternity Benefit:** ESIC helps an employee welcome their baby to a household which has been showered with benefits. ESIC provides a total of 100% of the average daily wages for a period of to 26 weeks from the time of going into labor and 6 weeks in case of a miscarriage. 12 weeks of pay is provided in the case of an adoption.
- **Sickness Benefit:** ESIC ensures that there is a flow of cash coming into the employee's household during medical leave. 70% of the average daily wages of an employee is paid during medical leave for a maximum period of 91 days in two successive benefit periods.

- **Unemployment Allowance:** ESI provides a monthly cash allowance for a maximum period of 24 months in case of permanent invalidity due to a non-employment injury or due to involuntary loss of employment.
- **Dependent's Benefit:** In case the employee meets with an untimely death due to an injury at the place of employment, ESIC will provide monthly payments apportioned among the surviving dependents.

The Employees' Provident Fund (EPF)

The Employees' Provident Fund (EPF)- is one of the most beneficial and popular investment scheme for the salaried persons in India. The Employees' Provident Fund Organisation- External website that opens in a new window, a statutory body under the Ministry of Labour and Employment- External website that opens in a new window, Government of India administers social security schemes framed under the Employees' Provident Funds & Miscellaneous Provisions Act, 1952 (310 KB)- PDF file that opens in a new window namely Provident Fund, Pension and Insurance to industrial employees.

Benefits of the Employees' Provident Fund (EPF) Scheme

EPF scheme is among one of the largest and biggest saving schemes available to Indian employees. The key benefits of the scheme are mentioned below:

Tax-Free Savings: EPF Scheme provides certain interest on the deposits at a specific rate which is pre-decided by the organisation. Both the amount of interest received on the deposits and the actual deposited amount is deemed to be tax-free by the Indian Government. Any kind of withdrawal made at maturity or post completion of 5 years of having availed the scheme is 100% tax exempted. However, if the amount is being withdrawn prematurely (within 5 years) it is not free of tax. This feature helps an employee receive special benefits in the form of added income to his savings in the form of interest.

Long-Term Financial Security: Funds deposited in this account cannot be withdrawn easily and hence, helps in ensuring savings.

Retirement Period: The accumulated fund under this scheme may be used at the time of retirement of the employee. This provides relief to the retired employee in the form of monetary security.

Unseen circumstances: The accumulated fund can be used by the employee in case of any kind of emergency. The employee may choose to withdraw his/her fund prematurely. The scheme provides for such pre-term withdrawals in certain special cases.

Unemployment/Income Loss: In case, where the employee loses his/her current job owing to any reason, then these funds may be used to meet expenses.

Resignation/Quitting of Job: The employee post-resignation is free to withdraw his/her 75% of the EPF fund after one month of the date of having quit the job and remaining 25% after 2 months of unemployment.

Death: In case of death of the employee, the collected amount along with the interest is given to the employee's nominee thus helping the family tide through difficult times.

Disability of the employee: If the employee is no longer in the position to work then he/she may use these funds to help him/her get over the difficult time.

Lay-off: In cases of sudden layoffs or retrenchment from the job, this fund may be used by the employee until the time he/she gets another suitable job.

Long run savings: A safe and full proof saving scheme for individuals wishing to have long run investments.

Liquidity of funds: This scheme acts as a sound source of income for an individual at the hour of financial crisis. The funds so obtained may be used to meet unavoidable expenses like medication needs or education needs.

Pension Scheme: The employer not only contributes towards the PF fund but also makes the necessary contributions towards the employee's pension which can be later used by the employee post-retirement.

Insurance Scheme: The act also provides for certain provisions whereby, the employer is required to make certain contributions towards an employee's life insurance where group insurance cover is not present. This scheme ensures that the employees are properly insured.

Accessible All Over: With the help of the Universal Account Number (UAN), employees can easily get access to their PF account via the EPF member portal. They can transfer their accounts whenever they make a shift in their current jobs

Gratuity Act

Gratuity Act is a statutory benefit paid to the employees who have rendered continuous service for at least five years. It is a lump sum amount paid to an employee based on the duration of his total service. The benefit gratuity is payable to an employee on cessation of employment (either by resignation, death, retirement or termination, etc) by taking the last drawn salary as the basis for the calculation. Gratuity is an important form of social security and is in the form of a gratitude provided by the employer to the employees in monetary terms for the services rendered by them to the organisation. It is a defined benefit plan and is one of the many retirement benefits offered by the employer to the employee upon leaving his job. Gratuity payment liability of the employer tends to increase with an increase in the salary and tenure of employment.

Payment of Gratuity Act, 1972 provides for a scheme for the payment of gratuity to employees engaged in factories, mines, oilfields, plantations, ports, railway companies, shops or other establishments. The Payment of Gratuity Act is administered by the Central Government in establishments under its control, establishments having branches in more than one State, major ports, mines, oil fields and the railways and by the State governments and Union Territory administrations in all other cases.

The employer may pay the gratuity proceeds from his current revenue. They may set up a gratuity fund as a part of their financial planning. Many insurance companies have designed special schemes which relate to gratuity.

Applicability of the Act

The Payment of Gratuity Act, 1972 is applicable to the following:

- every factory, mine, oilfield, plantation, port and railway company;
- every shop or establishment within the meaning of any law in which ten or more persons are employed, or were employed, on any day of the preceding twelve months;

KARPAGAM ACADEMY OF HIGHER EDUCATION
II MBA - THIRD SEMESTER
COMPENSATION AND BENEFITS MANAGEMENT - 18MBAPH303
UNIT - V

Multiple Choice Questions (Each Questions carries ONE Mark)

S. NO	QUESTIONS	OPTION 1	OPTION 2	OPTION 3	OPTION 4
1	Which of the following is not included under the definition of wages given under the Payment of Wages Act, 1936?	Basic Wage	Dearness Allowance	Incentive	Gratuity
2	Under which labour legislation in India, the provision of check-off has been accepted?	Industrial Disputes Act, 1947	Trade Unions Act, 1926	Payment of Wages Act, 1936	Industrial Employment (Standing Orders) Act
3	According to this Act, the maximum wage period or payment of wages to employees by employer should not exceed _____.	45 days	15 days	30 days	60 days
4	The total amount of deductions from wages of employees should not exceed _____.	50%	70%	25%	40%
5	Fine should be recovered within _____ days from the date on which fine were imposed.	30 days	45 days	60 days	75 days
6	Fine should not be imposed on any employee who is under the age of _____.	18 years	21 years	14 years	15 years

S. NO	QUESTIONS	OPTION 1	OPTION 2	OPTION 3	OPTION 4
7	Statutory minimum wage is fixed under _____.	Payment of Wages Act, 1936	Equal Remuneration Act, 1976	Workmen's Compensation Act, 1923	Minimum Wages Act, 1948
8	Which one of the following is not based on the principle of welfare?	Mica Mines Labour Welfare Funds Act	Iron Ore Mines Labour Welfare Funds Act	Minimum Wages Act	Dock Workers (Safety, Health, Welfare) Act
9	Which of the following legislations apply to unorganized sector workers in India?	Minimum Wages Act	Industrial Disputes Act, 1947	Factories Act, 1948	Central Labour Laws Act, 1970
10	The minimum wages as fixed under the Minimum Wages Act, 1948 must be revised at least once in _____.	2 years	5 years	3 years	7 years
11	Which of the following is not a method for fixing minimum wages under the Minimum Wages Act, 1948?	Notification Method	Bargaining Method	Committee Method	Inducement method
12	Payment of Wages Act, 1936 was extended to Jammu and Kashmir by _____.	Central Labour Laws Act, 1970	Central Labour Laws Act, 1980	Factories Act, 1948	Minimum Wages Act
13	Wages of every person employed in organization of less than 1000 persons, shall be paid before expiry of _____.	5th day	7th day	10th day	12th day

S. NO	QUESTIONS	OPTION 1	OPTION 2	OPTION 3	OPTION 4
14	In case of termination of employment, wages shall be paid before expiry of _____ from day on which his employment is terminated.	2nd day	5th day	7th day	10th day
15	Royal Commission on Labour in India has following recommendation except _____.	Sum realised from fines should be utilised for a purpose beneficial to employees	Amount of deductions should not exceed the equivalent of service rendered	Children should be not be exempted from fine	Any deduction made on account of damage or loss to goods should not exceed wholesale price of goods damaged
16	Wages means _____.	Remuneration of which the persons employed is entitled in respect of overtime work	Extra pay	Compensation	Social security
17	Fixing or Revising Minimum Rates of Wages under section 3, minimum rates of wages may be fixed by the _____ basis.	hourly, daily, monthly	Bargaining	surplus value	working condition
18	According to Section _____ of Minimum Wages Act 1948, employer shall pay him overtime worked.	Section 14(1)	Section 14(2)	Section 14(3)	Section 14(4)

S. NO	QUESTIONS	OPTION 1	OPTION 2	OPTION 3	OPTION 4
19	The term “Agricultural Income” is defined under _____.	Section 2(3)	Section 2(5)	Section 2(2)	Section 2(4)
20	“Co-operative Society” is defined under _____.	Section 2(8)	Section 2(9)	Section 2(10)	Section 2(11)
21	The Minimum Wages Act, 1948 has _____.	One schedule covering different types of industries	One schedule covering different types of industries, shops and establishments	One schedule covering shops and establishments	Two schedules covering industrial establishments and agriculture
22	What should be minimum bonus of salary or wages by Payment of Bonus Act?	0.0333	0.0833	0.3	0.2
23	Under section _____ of Payment of Bonus Act 1965 details of classes of employees are excluded.	Section 21	Section 22	Section 30	Section 32
24	According to Payment of Bonus Act, 1965, maximum bonus is _____.	20% of the salary or wages	25% of the salary or wages	30% of the salary or wages	35% of the salary or wages
25	Which section of Payment of Bonus Act, 1965 details deduction from gross profits?	Section 5	Section 6	Section 7	Section 8

S. NO	QUESTIONS	OPTION 1	OPTION 2	OPTION 3	OPTION 4
26	Which of the following statements is not correct as per the Payment of Bonus Act, 1965?	It is applicable to construction industry.	It does not apply to employees in Life Insurance Corporation of India.	Allocable surplus means 67% of the available surplus.	Employee means any person including apprentice.
27	The contravention of the provisions of the Act or rules may attract the punishment of _____.	imprisonment upto 3 months, or fine up to ` 500, or both	imprisonment upto 2 months, or fine up to ` 1000, or both	imprisonment upto 6 months, or fine up to ` 1000, or both	imprisonment upto 6 months, or fine up to ` 10000, or both
28	Excess allocable surplus remain after paying the maximum bonus of 20% on the wage or salary of the employee should be carried forward to the next following year for utilizing the payment of bonus in case of the shortage of the allocable surplus or losses occur. This is called as _____.	Set-on	Set-off	Take-on	Take-off
29	Payment of Wages Act is applicable to _____.	India except J & K	Only J & K	Whole India	Only Textile Mills
30	State government can extent the applicability of Payment of Wages Act to other establishment with prior notice of _____.	3 months	90 days	60 days	2 months

S. NO	QUESTIONS	OPTION 1	OPTION 2	OPTION 3	OPTION 4
31	As per Payment of Wages Act in factory, _____ shall be liable to pay wages to employee employed.	Manager	HR Manager	Production Manager	Trade Union Leader
32	Fixation of wage period is covered under _____ of Payment of Wages Act.	Section 15	Section 14	Section 5	Section 4
33	Under _____ of Payment of Wages Act, time of payment is covered.	Section 15	Section 14	Section 5	Section 4
34	Written permission must be obtained from the employee for making payment of wages by _____.	Cheque and crediting in his account	demand draft	Payment in hand	Treasury account
35	Responsibility for payment of wages in Payment of Wages Act is under _____.	Section 4	Section 3	Section 5	Section 13
36	_____ nominated employees are liable for payment of wage in case of railways.	Railway Administration	State Government	Central Government	Trade Union
37	Payment of wages will become risk when _____.	Number of workers are small	Industry in busy area	Total wages is very high	Influence of trade union

B

ANSWER
Gratuity
Payment of Wages Act, 1936
30 days
50%
60 days
14 years

ANSWER
Minimum Wages Act, 1948
Minimum Wages Act
Minimum Wages Act
3 years
Committee Method
Central Labour Laws Act, 1970
7th day

ANSWER
2nd day
Children should be not be exempted from fine
Remuneration of which the persons employed is entitled in respect of overtime work
hourly, daily, monthly
Section 14(1)

ANSWER

Section 2(2)

Section 2(10)
Two schedules covering industrial establishments and agriculture
0.0833
Section 32
20% of the salary or wages
Section 6

ANSWER
Employee means any person including apprentice.
imprisonment upto 6 months, or fine up to ` 1000, or both
Set-on
Whole India
3 months

ANSWER
Manager
Section 4
Section 5
Cheque and crediting in his account
Section 3
Railway Administrati on
Total wages is very high