

**ANNAMACHARYA INSTITUTE OF TECHNOLOGY AND SCIENCES, TIRUPATI
(AUTONOMOUS)
Department of MBA**

MBA III SEMESTER

**Compensation and Benefits Management
(22MBA0316)**

**ANNAMACHARYA INSTITUTE OF TECHNOLOGY & SCIENCES::TIRUPATI
(AUTONOMOUS)**

Year: II

Semester: III

Branch of Study: MBA

Subject Code	Subject Name	L	T	P	Credits
22MBA0316	Compensation and Benefits Management	4	-	-	4

Course objectives

- CO1: Understand the basic concepts of compensation management
 CO2: Gain the knowledge of job design, evaluation and compensation methods
 CO3: Understand the employee benefits and welfare.
 CO4: Understand the legal aspects of compensation.
 CO5: Study various compensation mechanisms of executive and expatriate levels.

Unit I – Compensation management: Compensation, types of compensation, Theories of Compensation management, 3–P Concept in Compensation Management, strategic compensation management.

Unit II – Job Design, Job Evaluation and Compensation structures: Job Analysis & Design, Job evaluation and methods, Understanding market pay, Base pay, Performance based pay, Competency based pay and Team based pay.

Unit III – Benefits and Services: Employee benefits, Long–term and Short–term benefits, Administration of benefits and the influencing factors, Employee welfare and services.

Unit IV –Compensation laws in India: The payment of Wages Act 1936, The Minimum Wages Act 1948, The Payment of Bonus act 1965, The Equal Remuneration Act1976, The EPF Act 1952, The ESI Act 1948, The Payment of Gratuity Act 1972, The Maternity Benefit Act 1961.

Unit V – Executive and Expatriate Compensation: Executive compensation – concepts and elements, Quantitative tools, Expatriate Compensation and its Objectives, components of Expatriate’s Compensation, issues related to repatriation.

Textbooks:

1. Strategic Compensation: A Human Resource Management approach - Joseph J. Martocchio-Pearson New International Edition, 2014
2. Compensation by Milkovich and Newman
3. Compensation management by Dipak Kumar Bhattacharya, Oxford

References:

1. Compensation – George T. Milkovich- McGraw Hill, 2015.
2. The Compensation Handbook, Sixth Edition : A State-Of-The-Art Guide to Compensation Strategy and Design – Lance A. Berger- McGraw Hill
3. Rewarding excellence: Pay Strategies for the new economy-Edward E Lawler-Jossey Bass Inc. Publishers

Course Title	Course Outcomes COs	Programme outcomes (Pos)				
		PO1	PO2	PO3	PO4	PO5
COMPENSATION AND BENEFITS MANAGEMENT	CO1	3				
	CO2		2			
	CO3			2		
	CO4	2				
	CO5				2	

UNIT-1

COMPENSATION MANAGEMENT

Compensation represents both the intrinsic and extrinsic rewards that employees receive for performing their jobs

Intrinsic Compensation

- Employees' critical psychological state that results from performing their jobs
- Enhanced when jobs are rated high on five core job dimensions:
 - skill variety – requires a person to perform different tasks and involves different skills, abilities and talents
 - task identity - complete a job from start to finish
 - task significance – when the job has an impact on the lives of other people
 - autonomy – freedom, discretion the employee has in determining how to perform the job
 - Feedback – providing employee with clear information about job outcomes and performance

Extrinsic Compensation

- Monetary rewards: Given to employees according to their performance levels or learning job related knowledge and skills. This is core compensation. It includes base pay; cost of living adjustment; seniority pay; merit pay; incentive pay; knowledge/skill based pay etc/.
- Non-monetary rewards: Includes protection programs (medical insurance); paid time-off (vacations); services (day care). This is fringe compensation or employee benefits. This includes legally required benefits; discretionary benefits etc.

Salary

- A salary is a periodic payment from an employer to an employee, which may be specified in an employment contract
- While there was no first pay stub for the first work for pay exchange, the first work would have required a human society advanced enough to have a barter system to allow work to be exchanged for goods or other work.
- A fixed payment at regular intervals for services, esp. when clerical or professional
- In many countries, salaries are based not on the number of hours worked, but on general job performance.
- A salary is an agreed upon amount of pay that is to be extended at regular intervals, in exchange for the competent performance of specific tasks within the workplace.
- Salary is a fixed amount of money or compensation paid to an employee by an employer in return for work performed.

Wages

- The wage is a compensation, usually financial, received by workers in exchange for their labor.
- Monetary remuneration computed on hourly, daily, weekly, or piece work basis.
- The share of the products of industry received by labor for its work
- The share of the national product attributable to labor as a factor in production.

Perks

- Perks in simple word is also known as 'Employee benefits' or 'Benefits in kind'.
- It is non wage compensation provided to the employees in addition to their normal salaries or wages.

Employee incentive.

- Informal word for perquisites which are privileges granted to employees in addition to their salaries and benefits (such as medical and pension plans).
- 'True' perks have little or no cash value or tax implications and may include company car, vacations, reserved parking space, spacious office, private dining and washroom facilities, etc.

Allowance

- An allowance is a amount of money set aside for a designated purpose.
- Parents giving some amount of money (pocket money) to the children is also known as allowance.
- Money given to employees who have to relocate due to their work.
- The allowance is used to pay for expenses related to moving of residence such as transportation, storage costs, temporary lodging and meals.
- The allowance may be given in lump- sum or reimbursed upon submission of receipts.

Compensation management can also be termed as:

- Wage and Salary Administration
- Remuneration Management
- Reward Management

Objectives

- Administer wages and salary.
- Attract new and skilled employees.
- Retain current employees
- Acknowledge and recognize good work.
- Control unnecessary costs.
- Blend individual goals with organizational goals.
- Adhere to the Government laws related to remuneration.

Internal and External Factors:

Internal factors include:

- Employee
- Business Strategy
- Job Evaluation
- Performance Appraisal

External factors include:

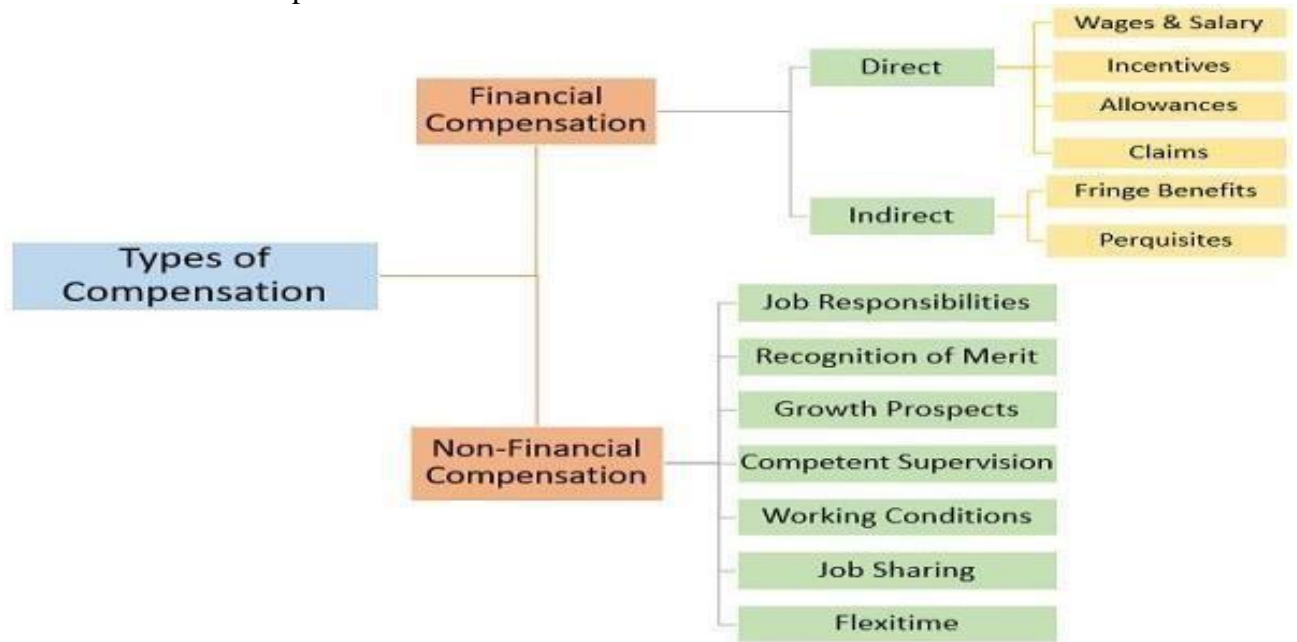
- Labour Market

- Government Legislations
- Society Economy

Types of Compensation Management

Employers can make use of different components for compensating their employees. These components or types of compensation are as follows:

- Financial Compensation
- Non-Financial Compensation



Financial Compensation

In this form of compensation, the payment of rewards takes place in monetary terms. It is further divided into:

- Direct Compensation
- Indirect Compensation

Direct Compensation

1. Wages and Salary

The compensation paid daily for intra-day work is known as *Wages*. Whereas, *Salary* is the monthly payment for the work performed.

2. Incentives

It is the money received in addition to wages or salary based on individual performance.

3. Allowances

Apart from a basic salary, the employer pays a certain amount for a specific purpose or expenditure. Different types of allowances are part of compensation management like:

- Dearness Allowance
- House Rent Allowance
- Conveyance Allowance

- Leave Travel Allowance, etc.

4. Claims

Claims are the reimbursement of bills. Generally, employees claim their bills along with their monthly salary. These include:

- Telephone/Mobile Allowance
- Internet Allowance
- Medical Allowance, etc

Indirect Compensation

1. Fringe Benefits

These are the financial benefits received by the employees. Fringe Benefits include:

- Provident Fund
- Gratuity
- Medical Care
- Accident Relief
- Insurances, etc.

Perquisites

These are the benefits allowed to the executives above salary. Perquisites include:

- Company Car
- Club Membership
- Paid Holiday
- Furnished House
- Stock option scheme

Non-Financial Compensation

In this form of compensation, the employees receive non-monetary rewards. Non-Financial compensation consists of:

- Challenging Job Responsibilities
- Recognition of Merit
- Growth Prospects
- Competent Supervision
- Comfortable Working Conditions
- Job Sharing
- Flextime, etc.

Importance of Compensation Management

1. It integrates employees' efforts towards *organizational goals*.
2. It helps in acquiring, maintaining, and creating a *motivated workforce*.
3. Compensation is an essential *tool* for managers in human resource management.
4. Helpful in attracting a talented workforce and creating *organizational brand value*.

5. It enables enhancement in work efficiency and job satisfaction among employees.
6. Compensation management helps in the creation of *talent pools*.

Principles

1. The company should pay compensation according to its **ability to pay**. If they spend more/less than their ability, they may suffer bankruptcy, or competitors may take advantage of it.
2. Organizations must keep in mind **internal and external equity** while compensating.
3. There should be a **performance-based** rewarding system. It will result in maintaining fairness and justice in the organization.
4. Remuneration paid to employees should be **non-discriminatory**. It must be irrespective of factors like religion, gender, etc.
5. Organizations must pay **minimum wage** to distinct categories specified by law. The compensation scheme should be **flexible** and **simple**. It should be easy to understand and update according to requirement

Theories of Compensation Management

Theories help to find out the most suitable components of compensation. Following are the theories of compensation management:

1. Equity Theory
2. Reinforcement Theory
3. Agency Theory

Equity Theory

This theory focuses on the equity in remuneration among employees. Adam's equity theory suggests that the employee tries to gain equity who don't find equity in their rewards.

Equity is of three types:

- **Internal Equity**
The fairness & difference in remuneration between *different* job roles & responsibilities *within* the organization.
- **External Equity**
The fairness & difference in remuneration between the *same* job roles *outside* the organization.
- **Individual Equity**
The fairness & difference in remuneration between the *same* job roles *within* the organization. The following can be the results of the inequity in the organization:
 - Decreased Productivity
 - Increased Absenteeism
 - Increased Employee Turnover

Reinforcement Theory

According to reinforcement theory, the employees are most likely to **repeat** their rewarding experience. Suppose one employee received a bonus for high performance. After that, he would repeat the same in future. But, if he doesn't receive financial rewards in the future, his performance may degrade.

Agency Theory

This theory aims to align individual interests and goals with organizational goals by using compensation.

The *employer (principal)* and *employee (agent)* are the two stakeholders of the organization. The rewards paid to the employees are *agency costs*.

3-P CONCEPT IN COMPENSATION MANAGEMENT

- Pay for Position**
- Pay for Person**
- Pay for Performance**

Pay For Position:

- Pay for position, Position based pay or Job-based pay**, pays employees for the job to which they are assigned, regardless of the skills they possess.
- In other words, pay is centered on the job or position and not on the person.
- Pay for Position is a more traditional pay structure in which each position is assigned a pay range based on the job duties and pay is based on education and seniority.
- Employee compensation is set in broadband based on qualifications, education, training & experience
- Through broad banding, narrowly structured pay grades determined through job evaluation, are replaced by fewer and wider bands
- Employees progress up through broad band if their performance ratings are good, rather than through steps based on time in the grade
- It reduces different compensation categories to broad compensation bands. Grouping jobs together by common characteristics.
- Develop an equitable grading structure
- Create a reference salary structure
- Leverage compensation costs with market survey information

Pay For Person:

- Pay for Person or Person focused pay or Skill-based pay or Knowledge-based pay or Competency-based pay structures** link pay to the depth or breadth of the skills, abilities, competency and knowledge a person acquires and applies to the work.
- Structures based on skill, pay individuals for all the skills for which they have been certified regardless of whether the work they are doing requires all or just a few of those particular skills
- The wage is attached to the person.
- The pay increases are usually tied to three types of skills:
 - Horizontal skills, which involve a broadening of skills in terms of the range of tasks
 - Vertical skills, which involve acquiring skills of a higher level
 - Depth skills, which involve a high level of skills in specialized areas relating to the same job.
- Because skill-based pay encourages and rewards a broad range of skills, the

- employee becomes multi-skilled and more flexible and valuable;
- A job rotation is used to fill in temporary gaps in the workforce.
- Pay for person takes into account the demonstrable characteristics of a person, including knowledge, skills, competency and behaviors, that enable performance
- Take into consideration the person's capabilities & experience in setting a pay level that is both equitable and competitive
- It considers the market demand of a person's unique skills and experience
- It also incorporates market based pay approach.

Pay for Performance:

- Pay for Performance, Performance related pay, Performance-based pay** is a financial reward system for employees where some or all of their monetary compensation is related to how their performance is assessed relative to stated criteria.
- The criteria for performance-related pay scheme may be based on individual, group or organizational performance, or on a mixture of them.
- Individual-based criteria would require-**
 - individual goal-setting,
 - an appropriate performance appraisal system
 - individual training to increase job knowledge & skills and
 - the individual should have a large measure of control over his/her own performance.
- Team-based criteria are appropriate where individual performance is difficult to measure,
- or where there is a need for a corporate culture to promote team values and cooperation.

Strategic Compensation

- Strategic decisions guide the activities of organizations based on overarching plans
- Tactical decisions support the fulfillment of the strategic decisions.
- Strategic management is done with uncertainty discerning threats and opportunities based on environmental scanning – but is an inexact process.
- Competitive strategy is the planned use of the company resources to promote and sustain competitive advantage.
- Human resource strategies specify the use of multiple HR practices.
- Compensation strategies deal with the use of compensation and benefits practices that support both HR and competitive strategies.

Strategic Decisions

- Competitive strategy
- Human resource strategy
- Compensation strategy

General Tactical HR Decisions

- Recruitment and selection
- Performance appraisal
- Compensation
- Training

Specific Tactical HR Decisions

- Seniority pay
- Merit pay
- Incentive pay
- Knowledge and skill based pay
- Broad banding
- Two tier pay structure
- Discretionary benefits options

Compensation and the HR Department:

Compensation , Recruitment and Selection

- Compensation and Performance Appraisal
- Compensation and Training
- Compensation and Career Development
- Compensation and Labor Management Relations
- Compensation and Employment Termination
- Compensation and Legislation

UNIT-2

JOB DESIGN, JOB EVALUATION AND COMPENSATION STRUCTURE

Job Analysis & Design:

Job analysis is a process of determining which characteristics are necessary for satisfactory job performance and analyzing the environmental conditions in which the job is performed. It analyzes the work content of job & job content of work. The process of job analysis leads to development of two documents viz., job description and job specification.

Job description indicates the tasks and responsibilities, job title, duties, machines, tools and equipment, working conditions and occupational hazards that form part of the job whereas job specification comprises of the capabilities required to perform job, education, experience, training, judgmental skills, communication skills and personal skills required to perform the job effectively.

Significance of Job Analysis:

Job analysis is a vital tool in taking a variety of human resource decisions. It is used to design and executes a number of human resource management activities and programs. They are described here:

1. **Manpower Planning:** job analysis helps in forecasting manpower requirements based on the knowledge and skills and quality of manpower needed in organization.
2. **Recruitment:** A carefully designed job analysis provides information as to what sources of recruitment are to be used to hire employees. For example, job analysis in a retail stores about merchandise sorters tells that village level schools are potential source of recruitment.
3. **Selection:** Selection of the right candidate to the right job can only be done with the help of job analysis. In the case of retail stores, a billing assistant can be selected with the knowledge of accounting, cash, and computer operations. This is possible with the help of job analysis.
4. **Training and Career Development:** Job analysis provides valuable information to develop training programs. It provides information about what skills are to be trained. It also provides information about various techniques to be used in career development of employees.
5. **Placement and socialization:** After people are selected and trained, they must be placed in suitable jobs. Job analysis provides information about the suitability of jobs. A clear job analysis guides the process to socialize the employees to develop sound relationships with all those persons.
6. **Compensation:** Job analysis provides information as to how much compensation and other financial and non-financial benefits to be associated with each job.
7. **Employee Safety and Welfare:** Job analysis details information on working conditions. Thus, management tries to provide safety and welfare measures that are outlined in job analysis.
8. **Performance Appraisal:** Performance of employees is appraised based on standard criteria provided in the job analysis.
9. **Counselling:** A good job analysis provides information to the superiors about the jobs. They use this information to guide and counsel employees about their career options, performance, training requirements and skill up-gradation.
10. **Strategic Planning:** Job analysis enables human resource manager to develop along-

range strategic plan in all concerned areas of human resources.

Components of Job Analysis

1. **Job Description:** It is an important document. It is descriptive in nature. It is useful to identify a job for consideration by job analyst. Important questions to be answered through job description are:

What should be done? - Why it should be done? -Where it should be done?

There is no universal format of writing job description. According to Ghorpade the following information is common in most of the job descriptions.

- **Job title:** title of the job and other identifying information such as wages, salaries, other benefits
- **Summary:** summary is written in one or two lines that describes what outputs are expected from job incumbents.
- **Equipment:** a clear statement of tools, equipment and other information required to perform job effectively.
- **Environment:** a clear description of the working conditions of the job, the location and other characteristics of work environment such as hazards, noise, temperature, cleanliness etc.
- **Activities:** a description about the job duties, responsibilities, and expected behavior on the job. A description of social interactions associated with the job such as the size of work group, interpersonal interaction on the job is made.

Job analyst writes job description in consultations with the workers and supervisors. After writing draft job description, comments and criticism are invited to improve its content. Final draft is then prepared. Job description is written either by making personal observation or using questionnaire to collect relevant information from supervisors and workers. Job description should be reviewed from time to time.

2. **Job Specifications:** It also known as man or employee specifications is prepared on the basis of job specification. It specifies the qualities required in a job incumbent for the effective performance of the job.

Basic contents of a job specification are as follows:

1. Personal characteristics such as education, job experience, age, sex, and extra co-curricular activities.
2. Physical characteristics such as height, weight, chest, vision, hearing, health, voice poise, and hand and foot coordination, (for specific positions only).
3. Mental characteristics such as general intelligence, memory, judgment, foresight, ability to concentrate, etc.

Social and psychological characteristics such as emotional ability, flexibility, manners, drive, conversational ability, interpersonal ability, attitude, values, creativity etc.

Various contents of a job specification can be prescribed in three terms:

1. essential qualities which a person must possess;
2. desirable qualities which a person may possess; and

3. contra-indicators which are likely to become a handicap to successful job performance

3. Job evaluation: It is a process of determining the relative worth of a job. It is a process which is helpful even for framing compensation plans by the personnel manager. Job evaluation as a process is advantageous to a company in many ways:

1. **Reduction in inequalities in salary structure** - It is found that people and their motivation is dependent upon how well they are being paid. Therefore the main objective of job evaluation is to have external and internal consistency in salary structure so that inequalities in salaries are reduced.
2. **Specialization** - Because of division of labour and thereby specialization, a large number of enterprises have got hundred jobs and many employees to perform them. Therefore, an attempt should be made to define a job and thereby fix salaries for it. This is possible only through job evaluation.
3. **Helps in selection of employees** - The job evaluation information can be helpful at the time of selection of candidates. The factors that are determined for job evaluation can be taken into account while selecting the employees.
4. **Harmonious relationship between employees and manager** - Through job evaluation, harmonious and congenial relations can be maintained between employees and management, so that all kinds of salaries controversies can be minimized.
5. **Standardization** - The process of determining the salary differentials for different jobs become standardized through job evaluation. This helps in bringing uniformity into salary structure.
6. **Relevance of new jobs** - Through job evaluation, one can understand the relative value of new jobs in a concern.

According to *Kimball and Kimball*, "Job evaluation represents an effort to determine the relative value of every job in a plant and to determine what the fair basic wage for such a job should be." Thus, job evaluation is different from performance appraisal. In job evaluation, worth of a job is calculated while in performance appraisal, the worth of employee is rated

Methods Of Job Analysis:

Job analysis methods can be categorized into three basic types: (1) Observation Methods; (2) Interview; and (3) Questionnaire

1. **Observation Method:** Observation of work activities and worker behaviors is a method of job analysis which can be used independently or in combination with other methods of job analysis. Three methods of job analysis based on observation are:
 2. (i) Direct Observation;
 3. (ii) Work Methods Analysis; and
 4. (iii) Critical Incidents Technique.
- (i) **Direct Observation:** Using direct observation, a person conducting the analysis simply observes employees in the performance of their duties. The observer either takes general notes or works from a form which has structured categories for comment. Everything is observed: what the worker accomplishes, what equipment is used etc. The limitation of this method is that it cannot capture the mental aspects of jobs, such as decision making or planning, since mental processes are not observable.

(ii) **Work Methods Analysis:** This method is used to describe manual and repetitive production jobs, such as factory or assembly-line jobs. This method is used by industrial engineers to determine standard rates of production.

(iii) **Critical Incidents Technique:**

1. It involves observation and recording of examples of particularly effective or ineffective behaviors. Behaviours are judged to be “effective” or “ineffective” in terms of results produced by the behavior. In this method a person using the critical incidents must describe behaviour in retrospect, or after the fact, rather than as the activity unfolds. Accurate recording of past observations is more difficult than recording the behaviours as they occur.
2. **Interview:** In this method, the Analyst interviews the employee, his supervisor and other concerned persons and record answers to relevant questions. The interviewer asks job related questions and a standard format is used to record the data. The limitation of this method is that it does not provide accurate information because the employee may not provide accurate information to protect his own interest. Success of this method depends upon the rapport between the analyst and the employee.
3. **Questionnaire:** In this method properly drafted questionnaires are sent to jobholders. Structured questionnaires on different aspects of a job are developed. Each task is described in terms of characteristics such as frequency ,significance, difficulty and relationship to overall performance. The jobholders give their rating of these dimensions. The ratings obtained are analyzed and a profile of actual job is developed. This method provides comprehensive information about a job. The limitation of this method is that it is time consuming and costly.

Job Design:

Job design is next to job analysis. Job design involves systematic attempts to organize tasks, duties and responsibilities into a unit of work to achieve certain objectives. Job design integrates the work content and qualifications required for each job that meets the needs of employee and the organization. Job design makes the job highly specialized and well designed jobs are important in attracting and retaining a motivated work force.

According to Michael Armstrong, “Job Design is the process of deciding on the contents of a job in terms of its duties and responsibilities, on the methods to be used in carrying out the job, in terms of techniques, systems and procedures, and on the relationships that should exist between the job holder and his superior subordinates and colleagues.” Job Design is affected by three categories of factors:

1.O rganizational Factors: The organizational factors that affect job design are characteristics of task, work flow, ergonomics and work practices.

- **Characteristic of task:** Each task consists of 3 elements, namely, planning, executing and controlling. Job design involves the assembly of a number of tasks into a job or a group of jobs. A job may require an employee to perform a variety of connected task. All these characteristics of jobs are taken into consideration for job design.

- **Workflow:** The flow of work in an organization is strongly influenced by the nature of the product. This product usually suggests the sequence and balance between jobs if the work is to be completed efficiently.
- **Ergonomics:** Ergonomics is concerned with the designing and shaping of jobs as per the physical abilities and characteristics of individuals so that they can perform their jobs effectively.
- **Work Practices:** Work practices are the set methods of performing work. This can affect the job design as there is little flexibility in designing the job especially if the work practices are approved by employee unions.

2. Environmental Factors: Environmental factors affect job design. Environmental factors include employee abilities & availability and Social & Cultural expectations.

- **Employee Abilities & Availability:** Abilities and availability of people plays an important role while designing jobs. Due attention needs to be given to the employee who will actually perform the job.
- **Social And Cultural Expectations:** Jobs should be designed keeping the employees in mind. Due to increase in literacy rate and knowledge, employees are now more aware and only perform jobs that are to their liking and match their profile.
- **Behavioral Factors:** Behavioral factors are related to human needs and they need to be satisfied properly. Behavioral elements include the following:
 - **Feedback:** Employee should be given proper feedback about his job performance. This will enable the employee to improve his performance and complete the job in a proper manner.
 - **Autonomy:** Employee should be given proper autonomy required to perform the work. The absence of autonomy may lead to poor performance on the part of employees.
 - **Use of Abilities:** The job should be designed in such a manner that an employee will be able to use his abilities fully and perform the job effectively.
- **Variety:** Absence of variety in the job assigned may lead to boredom. Adequate scope to variety factor should be given while designing a job.

Methods Of Job Design

1. Job Simplification: In the job simplification technique, the job is simplified or specialized. A given job is divided into small sub-parts and each part is assigned to one individual employee. Job simplification is introduced when job designers feel that the jobs are not specialized enough.

2. Job Rotation: Job rotation implies systematic movement of employees from one job to the other. Job remains unchanged but employees performing them shift from one job to the other. With job rotation, an employee is given an opportunity to perform different jobs, which enriches his skills, experience and ability to perform different jobs. It is the process of preparing employees at a lower level to replace someone at the next higher level. It is generally done for the designations that are crucial for the effective and efficient functioning of the organization. By this to some extent boredom is reduced. However for this people interest is primary importance. By this they can also learn new things, new techniques, and new ways of doing better work. It may also happen that over a period of time they will be finding a job for which they are better suitable. They can also

contribute in a better way to achieve the goals of the organization.

This aspect of job rotation can be seen widely applied in Retail scenario, where end user or consumer is in direct presence all through. This has for large extent reduced boredom, reduced irregularities due to familiarity, acquired new skills & assuming new & varied responsibilities. In other words it will lead to better job satisfaction, which is the ultimate goal for better contribution.

3.Job Enlargement: Job enlargement means expanding the scope of the job. Many tasks and duties are aggregated and assigned to a single job. It is opposite to job simplification. Job enlargement is an extension of Job rotation, exposing the people to several jobs without changing the job duties to be performed. He is taken off the boring job for a while & is allowed to take up a related task & so on. Monotony is relieved temporarily. Critics are of the opinion that this approach involves nothing more than having to perform several boring jobs rather than one. Job enlargement is to expand in several tasks than just to do one single task. It is also the horizontal expansion of a job. It involves the addition of tasks at the same level of skill and responsibility. It is done to keep workers from getting bored. This would also be considered multi tasking by which one person would do several persons jobs, saving the company money and man hours that normally would be paid to additional workers. Small companies may not have as many opportunities for promotions, so they try to motivate employees through job enlargement. For example when I worked at a restaurant. I would bus the tables, wash the dishes, and run food upstairs. If they had just one person doing each job on the same night, it would cost the management three times the money. This adds more functions; increases variety of tasks & this is short lived. It cannot enrich the human content of job. The ultimate answer is Job Enrichment.

4.Job Enrichment: Job enrichment means making the job rich in its contents so that an employee will get more satisfaction while performing that job. It upgrades the responsibility, scope and challenge. A vast majority of the jobs are repetitive & monotonous in nature. This results in reducing the motivational content & human element of the job with repercussions on performance. The central focus of job enrichment is giving people more control over their work (lack of control is a key cause of stress, and therefore of unhappiness.) Where possible, allow them to take on tasks that are typically done by supervisors. This means that they have more influence over planning, executing, and evaluating the jobs they do. In enriched jobs, people complete activities with increased freedom, independence, and responsibility. They also receive plenty of feedback, so that they can assess and correct their own performance.

Concept Of Job Design:

Job Design is the division of total task to be performed into the manageable and efficient units – positions, departments and divisions; and to provide for their proper integration. In simple words, it is the logical sequence of job analysis. Job analysis provides job related data as well as the skill and knowledge expected of the incumbent to discharge the job. In this connection, Job Design involves conscious efforts to organize tasks, duties and responsibilities into a unit of work to achieve certain objectives. In other words, Job Design involves specifying the content of a job, the work methods used in its performance and how the job relates to other jobs in the organization.

Importance Of Job Design:

Job design is important for an organization to perform the organizational activities in the most efficient and effective manner. It provides the required information about the incumbent and also specifies the way of performing the tasks. Therefore, job design is very important for the organization due to its benefits as follows :

- 1. Organizational Design :** The job design specifies the content and procedures of performing the task in the organization. Hence, it helps in designing organizational structure. The organisational structure is determined by the job design process. It plays a key role in assessing the need and requirement of organisational structure. Job design also specifies organisational culture, norms and values that its members need to follow to achieve organisational goals.
- 2. Structure of Competent Employee :** Job design is a systematic approach of providing job related data and information on skills, knowledge and ability of the incumbent to perform the task. On the basis of the information provided by it, the job description and job specification schedule are prepared, which helps to the best suited candidate for the job. It provides a milestone to select the competent employee who is capable of performing the task well in the organisation.
- 3. Motivation and Commitment of Employees :** Job design makes the work more interesting and challenging, which motivates the employees for higher level of performance. Along with motivation job design also brings high degree of commitment in them towards organisational objectives. This helps to increase organisational productivity and employee satisfaction at work.
- 4. Environmental Adaptation :** An organization is operated in a dynamic environment. Hence, any change in the environmental forces can have direct impact upon organizational performance. Therefore, a systematic job design process tries to address the change that has occurred in the organizational environment. The process of job design and job re-design is prepared in such a way that it helps and manages the organization in the adaptation process with the environmental forces.
- 5. Labour Relation:** A well prepared job design brings a harmonious relation between employees and management. On the other hand, poorly prepared job design creates employee grievances, indiscipline, greater employee turnover, greater absenteeism and conflict.
- 6. Quality of Work Life:** A quality of work life is understood as an efficient relationship between employees and organizational working environment. A properly prepared job design leads to improvement in quality of work life. With a good design of work schedules, people see a growing future in organization which ultimately leads to high motivation at work and a positive change in their thoughts and beliefs. Finally, these changes will have a direct impact upon the quality of work life.
- 7. Organizational Productivity:** The job design specifies the contents and working procedures and how the task is performed. This leads to a positive change in job performance and job analysis. As a result of which, the organizational productivity will be enhanced through efficient work performance.

Factors Influencing Job Design:

Job design is influenced by organizational, environmental and behavioral factors. All these factors that influence job design are described below.

Organizational Factors

Organizational factors include characteristics of task, work flow, ergonomics and work practices. Characteristics of task ----- Job design requires the assembly of a number of tasks into a job or a group of jobs. An individual may carry out one main task which consists of a number of interrelated elements or functions. On the other hand, task functions may be split between a team working closely together or stand along an assembly line. Complexity in a job be a reflection of the number and variety of tasks to be carried out.

The internal structure of each task consists of three elements :

- (a) Planning - deciding the course of action, time and the resources required.
- (b) Executing - carrying out the plan.
- (c) Controlling - monitoring performance and taking corrective action when required.

A completely integrated job will include all these elements for each of the tasks involved. The worker having been given objectives in terms of output, quality and cost targets, decides on how the work is to be done, assembles the resources, performs the work and monitors output, quality and cost standards. Responsibility in a job is measured by the amount of authority someone has to put to do all these things. The ideal job design is to integrate all the three elements.

Work Flow : The flow of work in a form is strongly influenced by the nature of the product or service. The product or service usually suggests the sequence and balance between jobs if the work is to be done efficiently. For example, the frame of a car must be built before the fender and the doors can be added later. After the sequence of jobs is determined, the balance between job is established.

Ergonomics : Ergonomics is concerned with designing and shaping jobs to fit the physical abilities and characteristics of individuals so that they can perform their job effectively. Ergonomics helps employees to design jobs in such a way that worker's physical abilities and job demands are balanced. Ergonomics does not alter the nature of job, tasks but the location of tools, switches and other facilities, keeping in view that handling the job is the primary consideration

Work Practices : Work practices are set ways of performing works. These methods may arise from tradition or the collective wishes of employees. Either way, the HR department's flexibility to design job is limited, especially when such practices are part of a union-management relationship. Failure to consider work practices can have undesirable outcomes. Work practices were, till now, determined by time and motion study which determined the standard time needed to complete a given job.

Environmental Factors : Environmental elements effect all activities of Human Resource Management, and job design is no exception. The external factors that have a bearing on job design are employee abilities and availability, and social and cultural expectations – Efficiency

consideration must be balanced against the abilities and availability of people who are to do the work. Every organisation should be aware and awake about the potentialities of available worker when they are to be engaged to perform a specific task. Proper estimation regarding the abilities and availability minimises the load of training to be given to the workers. Therefore considerable thought must be given as to who will actually do the work.

Social and Cultural Expectations : There were days when getting a job was the primary considerations. The worker was prepared to work on any job and under any working conditions. Now a days, knowledge and awareness among workers have improved considerably, so also their expectations from the jobs. Hence, jobs must be designed to meet the expectations of workers.

Behavioural Factors : Behavioural Factors have to do with human needs and the necessity to satisfy them. Higher level needs are more significant in this context. The behavioural factors to be discussed are as follows –

Feedback – Individuals need to receive meaningful feedback about their performances, preferably by evaluating their own performance and defining the feedback. This implies that they need to ideally work on a complete product or on a significant part of it.

Autonomy – Autonomy is being responsible for what one does. It is the freedom to control one's responses to the environment. Jobs that give workers authority to make decisions will provide added responsibilities, which tend to increase the employee's sense of recognition and self-esteem.

Use of abilities – The job must be perceived by individuals as requiring them to use abilities they value in order to perform the job effectively.

Variety – Lack of variety may cause boredom. Boredom, in turn leads to job dissatisfaction. By introducing variety into jobs, the errors can be minimised.

Job Evaluation

Wage and Salary are the most important factors in maintaining and developing good employer-employee relations. It is in the interest of the organisation to have a sound wage structure so as to attract the talent in an organisation and, on the other hand, to have a satisfied work group. It is one of the most difficult functions of the management to determine the rates of monetary base compensation. Determining the best compensation is again equally important for the employees because it determines the status of employee in the society in the sense of life style and standard of living. The primary objective of a sound wage and salary administration programme is that each employee should be equitable in terms of compensation for the services rendered by the individual to the employer on the basis of –

- (a) The nature of the Job.
- (b) The present relative worth of the Job.
- (c) The effectiveness with which the individual performs the job.

The first two factors are closely related to Job evaluation and the third to the

performance appraisal.

The most important decision on compensation for a job usually involves the comparison of the job to other jobs either within the organisation or to similar jobs in other organisation. This comparison is basically done with the help of Job evaluation.

This is important to note that Job evaluation while identifying the value of a job, evaluates the job not the job holder. Job evaluation assumes normal performance of the job by the worker. Thus the process of job evaluation ignores individual abilities of the job holder.

Job evaluation provides basis for developing job hierarchy and fixes proper wage and salary structure. Job evaluation is an attempt to determine and compare demands, which the normal performance of a particular job makes by normal workers without taking into account the individual abilities or performance of the workers concerned.

The evaluation may be achieved through the assignment of points or the use of some other systematic methods for essential job requirements, such as skills, experience and responsibility. It does not set the price of a job; it merely fixes its relative worth. It presents an effort to determine the relative value of every job in a plant and to determine what the fair basic wage for such a job should be. It is not evaluating the merit of the worker who is doing the work. It rates the job and not the qualities of the individual worker on the job.

Definitions Of Job Evaluation

Some of the important definitions of job evaluation. –

In the words of Edwin B. Flippo, ‘Job evaluation is a systematic and orderly process of determining the worth of a job in relation to other jobs.’

According to International Labour Organisation : ‘Job evaluation may be defined as an attempt to determine and compare the demands which the normal performance of particular job makes by normal workers without taking account of the individual abilities or performance of the workers concerned.

Objectives Of Job Evaluation:

- (a) To secure and maintain complete, accurate and impersonal descriptions of each distinct job or occupation in the entire plant.
- (b) To provide a standard procedure for determining the relative worth of each job in a plant.
- (c) To determine the rate of pay for each job which is fair and equitable with relation to other jobs in the plant, community or industry.
- (d) To ensure that, wages are paid to all qualified employees for advancement and transfer.
- (e) To promote a fair and accurate consideration of all employees for advancement and transfer.
- (f) To provide a factual basis for the consideration of wage rates for similar jobs in a community and in an industry.

Importance Of Job Evaluation:

The importance of Job Evaluation may be judged from the following grounds –

- 1. Rational Wage Structure :** Job evaluation eliminates wage inequalities in the

organisation and facilitates the formation of a rational wage structure. With its help wage structure is designed on the basis of weights allotted to different factors like skill, responsibility, supervision required etc.

2. Removal of Inequalities : Job evaluation evolves standard rates for similar or comparable job in the organisation and thus eliminates wage inequalities. It removes internal as well as external inconsistencies in wages paid in similar firms and social costs are also taken into consideration while fixing the value for the job.

3. Good Industrial Relations : It is a common experience of all concerned that the biggest single factor contributing to industrial disputes and dissatisfaction is inequalities in wage rates. Job evaluation evaluates the job and the job holder and hence it eliminates the said inequalities by fixing accurate and fair wage to each job holder.

4. Proper Emphasis on Job Factors : Job evaluation gives proper emphasis on job factors. It is made after proper scrutiny of the various factors determined by the job analysis and presented by the job values are established only after taking various job factors into consideration.

5. Scientific Selection and Recruitment : It helps in a scientific requirement and selection of employees because jobs are properly described and depicted. Job evaluation involves job analysis and appraisal which are of great use while recruiting personnel. Selection and placement can be made objectively by matching the qualifications of the candidates with job specification. Job evaluation helps in keeping down the cost of recruitment. **Performance Appraisal :** Job evaluation helps in performance appraisal. It helps in the evolution of uniform standard for all the jobs in the organisation. It becomes very easy to review job rates.

6. Training and Development : In a proper job evaluation system, the position of job is fixed. Every worker knows the job description and job specifications of each job. He tries to develop his personality so as to occupy higher position. Job evaluation helps in training the supervisors in the function of judging and helping the personnel.

7. Multifarious Use : Job evaluation facilitates control over labour, proper selection training, incentives to workers, simplification of job and overall improvement of working conditions.

Process Of Job Evaluation:

Job evaluation is a procedure of comparing the content of jobs in relation to one another, in terms of their skill and responsibilities. There is no standardised procedure for planning, installing and operating a system of job evaluation. Each scheme is tailored to meet the needs of the business concerned. An outline of the basic and general procedure involved in job evaluation is given below –

(1) Job Analysis – All necessary informations for job evaluation are collected through job analysis. Job analysis defines the activities involved in job requirement are collected through job analysis.

(2) Job Description – The next step is an analysis and preparation of job description. Job description is very useful in job evaluation because it defines the title of the job; analyses the job; states the responsibilities involved and conditions of employment for each job.

(3) Selection and Preparation of Job Evaluation Plan : In this step, the job is broken down into its component parts i.e. it should involve the selection of factors, elements needed for the

performance of all jobs for which money is paid, determining their value and preparing written instruction for evaluation.

(4) Job Grading or Classification : This requires grouping or arranging jobs in a correct sequence in terms of value and preparing written instruction for evaluation.

(5) Installation of programme : This involves explaining it to the employees and putting into operation. The programme may be amended according to changing requirements and situation.

(6) Maintaining the programme : Jobs cannot continue without updating new jobs and job changes in obedience to changing condition and situation. Therefore, job evaluation programme requires regular upgradation and maintenance.

Methods Of Job Evaluation:

There are four basic, traditional systems of job evaluation, i.e

- (1) The ranking system,
- (2) The grading or job classification system,
- (3) The point system and
- (4) The factor comparison system.

The first two systems are popularly known as the Non Analytical or Non Quantitative or Summary systems because they utilise Non Quantitative methods of listing jobs in order of difficulty. The last two methods are called Analytical or Quantitative systems, because they use Quantitative techniques in listing the jobs. They are more complex and are time consuming.

These four basic methods of job-evaluation currently in use are discussed below –

Ranking Method –

The ranking method is the simplest form of job-evaluation. In this method, each job as a whole is compared with other and this comparison of jobs goes on until all the jobs have been evaluated and ranked. All jobs, under this method, are ranked in order of their importance from the simplest to the hardest or from the highest to the lowest. The importance of order of job is judged in terms of duties, responsibilities and demands on the job holder.

The jobs are ranked according to ‘the whole job’ rather than a number of compensable factors. The application of Ranking Method involves the following procedure

1. Analyse and describe jobs, bringing out those aspects which are to be used for purpose of job comparison.
2. Identify benchmark jobs (10 to 20 jobs, which include all major departments and functions). The jobs may be the most and least important jobs, a job midway between the two extremes, and others at the higher or lower intermediate points.
3. Rank all jobs in the organisation around the benchmark jobs until all jobs are placed in their rank order of importance.
4. Finally, divide all the ranked jobs into appropriate groups or classifications by considering the common features of jobs such as similar duties, skills or training requirements. All the jobs within a particular group or classification receive the same wage or range of rates.

Ranking Method is appropriate for small sized organisation where jobs are simple and few. It is also suitable for evaluating managerial jobs wherein job content cannot be measured

in quantitative terms. Ranking system being simple one can be used in the initial stages of job-evaluation in an organisation.

Merits :

(1) The Ranking system is simple, easily understood and easy to explain to employees. Therefore, it is suitable for small organisation with clearly defined jobs.

(2) It is far less expensive to put into effect than other systems, and requires little effort for maintenance.

(3) It requires less time, fewer forms and less work, unless it is carried to a detailed point used by company.

Demerits :

(1) As there is no standard for an analysis of the whole job position, different bases of comparison between rates occur. The process is initially based on judgment and, therefore, tends to be influenced by a variety of personal biases.

(2) Specific job requirements (such as skill, effort and responsibility) are not normally analysed separately. Often a rater's judgement is strongly influenced by present wage rates.

(3) The system merely produces a job order and does not indicate to what extent it is more important than the one below it. It only gives us its rank or tells us that it is higher or more difficult than another; but does not indicate how much higher or more difficult.

Grading or Job Classification Method

Under this system, a number of pre-determined grades or classifications are first established by a committee and then the various jobs are assigned within each grade or class. Grade descriptions are the result of the basic job information which is usually derived from a job analysis. After formulating and studying job descriptions and job specifications, jobs are grouped into classes or grades which represent different pay levels ranging from low to high. Common tasks, responsibilities, knowledge and experience can be identified by the process of job analysis. Certain jobs may then be grouped together into a common grade or classification depending on their similarities. General grade descriptions are written for each job classification, and finally they are used as a standard for assigning all the other jobs to a particular pay scale.

The following five steps are generally observed in the process of Grading of jobs –

The preparation of job descriptions, which gives the basic job information, usually derived from a job analysis.

1. The preparation of grade description, so that different levels or grades of jobs may be identified. Each grade level must be distinct from the grade level adjacent to it; at the same time, it should represent a typical step in a continuous way and not a big jump or gap. After establishing the grade level, each job is assigned to an appropriate grade level on the basis of the complexity of duties, non supervisory responsibilities and supervisory responsibilities.. Selection of grades and key jobs. At this stage, about 10 - 20 jobs are selected, which include all the major departments and functions and cover all the grades. Grading the key jobs. Key jobs are assigned an appropriate grade level and their relationship to each other are studied. Classification of all jobs. Jobs are classified by grade definitions. All the jobs in the same grade receive the same wage or range of rates. For example - clerks and junior officers may be kept in two different classes as lower and higher.

Merits :

(1) This method is simple to operate and understand, for it does not take much time or require technical help.

(2) The use of fully described job classes meets the need for employing systematic criteria in ordering jobs to their importance. Since many workers think of jobs in, or related to clusters or groups, this method makes it easier for them to understand rankings.

(3) The grouping of jobs into classifications makes pay determination problem administratively easier to handle. Pay grades are determined for and assigned to all the job classification.

(4) It is used in important government services and operates efficiently; but it is rarely used in an industry.

Demerits :

(1) Although it represents an advance in accuracy over the ranking method, it still leaves much to be desired because personal evaluation by executives (unskilled in such work) establish the major classes and determine into which classes each job should be placed.

(2) Since no detailed analysis of a job is done, the judgment in respect of a whole range of jobs may produce an incorrect classification.

(3) It is relatively difficult to write a grade description. The system becomes difficult to operate as the number of jobs increases.

(4) It is difficult to know how much of a job's rank is influenced by the man on the job. Again this system is rather rigid and unsuitable for a large organisation or for a varied work.

Point Rating Method:

This is the most widely used method of job evaluation. Under this method, jobs are broken down, based on various identifiable factors such as skill, effort, training, knowledge, hazards, responsibility, etc. Thereafter, points are allocated to each of these factors. Weights are given to factors, depending on their importance to perform the job. Points so allocated to various factors of a job are then summed. Then, the jobs with similar total of points are placed in similar pay grades. The sum of points gives an index of relative significance to the jobs that are rated.

The procedure involved in determining job points are briefly discussed below –

1. Determine the jobs to be evaluated. Jobs should cover all the major occupational and levels of responsibility to be covered by the method.

2. Decide on the factors to be used in analysing and evaluating the jobs. The number of factors need to be restricted because too many factors result in an over-complex scheme with overlap and duplication between factors.

3. Define the factors clearly in written. This is necessary to ensure that different job raters interpret a particular factor in the same sense.

4. Determine degrees of each factor and assign point value to each degree.

5. Point values are assigned to different degrees on the basis of arithmetic progression.

6. Finally, money values are assigned to points. For this purpose, points are added to give the total value of a job. Its value is then translated into money terms with a pre-determined formula.

Merits :

1. It is the most comprehensive and accurate method of job evaluation.
2. Prejudice and human judgment are minimised, i.e. the system cannot be easily manipulated.
3. Being the systematic method, workers of the organisation favour this method.
4. The scales developed in this method can be used for long time.
5. Jobs can be easily placed in distinct categories.

Demerits :

1. It is both time consuming and expensive method.
2. It is difficult to understand for an average worker.
3. A lot of clerical work is involved in recording rating scale.
4. It is not suitable for managerial jobs wherein the work content is not measurable in quantitative terms.

Factor comparison method:

Thomas E. Hitten was the first to originate factor comparison method of job-evaluation. This method determines the relation rank of the jobs to be evaluated, like middle level or lower level jobs. It is essentially a combination of the ranking and point systems. Like the rank order method, it rates jobs by comparing one with another. Again, like the point system, it is more analytical in the sense of sub-dividing jobs into compensable factors and find rating one expressed in terms of numbers. These factors are not pre-determined and chosen on the basis of Job Analysis. The most widely used factors are – (a) Mental Requirements, (b) Skill requirements, (c) Physical requirements, (d) Responsibilities and (e) Working conditions.

- The mechanism for evaluating jobs under this method involves the following steps –
- (1) First of all, the key or benchmark jobs are selected as per standards. The key jobs selected should have standards contents, well accepted pay rates in the community and should consist of a representative cross-section of all jobs that are being evaluated from the lowest to the highest paid job, from the most important to the least important – and cover the full range of requirements of each factor, as agreed upon by a committee representing workers and management.
 - (2) The factors common to all jobs are identified, selected and defined precisely. The common factors to all jobs are usually five; viz; mental requirements, physical requirements, skill requirements, working conditions and responsibility.
 - (3) Once the key jobs are identified and also the common factors are chosen, the key jobs are, then, ranked in terms of the selected common factors.
 - (4) The next step is to determine a fair and equitable base rate (usually expressed on an hourly basis) and, then, allocate this base rate among the five common factors as mentioned earlier.

Following is a specimen of base rate and its allocation scheme :

Key Jobs	Base Rate (Daily)	Mental Requirement	Physical Requirement	Skills	Working Condition	Responsibility
Electrician	60	13	12	5	12	18
Welder	50	10	19	5	4	12
Mechanist	80	25	5	23	24	3

(5) The final step in factor comparison method is to compare and evaluate the remaining jobs in the organisation. To illustrate, a 'toolmaker' job is to be evaluated. After comparison, it is found that its skill is similar to electrician (5), mental requirements to welder (10) physical requirements to again electrician (12), working conditions to mechanist (24) and responsibility also to mechanist (3). Thus, the wage rate for the job of toolmaker will be Rs. 54 (Rs. 5 + Rs. 10 + Rs. 12 + Rs. 24 + Rs. 3).

Merits :

- (1) It is more objective method of job evaluation.
- (2) This method is flexible as there is no upper limit on the rating of a factor.
- (3) It is fairly easy method to explain to employees.
- (4) The use of limited number of factors (usually five) ensures less chances of overlapping and over weighting of factors.
- (5) It facilitates determining the relative work of different jobs.

Demerits :

- (1) It is expensive and time - consuming method.
- (2) Using the same five factors for evaluating jobs may not always be appropriate because jobs differ across and within organisation.
- (3) It is difficult to understand and operate.

Understanding Market Pay:

Managing market compensation means analyzing your organization's *compensation strategy*, by job and pay structure. You collect market compensation data from external survey sources, to compare the data against your organization's existing pay structures and compensation strategy. This requires an understanding of what your organization's compensation strategy is for these jobs. For example, does your organization want to meet the 50th percentile market rate for the regular base compensation for a job and use aggressive incentives to allow workers to exceed the 50th percentile for total cash

compensation? Or does your organization want to match the 50th percentile market rate for cash compensation for jobs requiring essential technological and managerial skills, and then meet the 40th percentile market rate for the remainder of the jobs? Gain a clear understanding of these issues and identify your organization's compensation strategies.

The process of defining market compensation rates involves:

- Matching your organization's jobs to similar *benchmark* jobs that appear in published compensation surveys.
- Developing market rates for the jobs.
- Comparing your organization's compensation rates to the market rates.
- Determining target market rates for your pay programs.

Jobs that are common across industries (or within an industry) and that appear in published survey sources are *benchmark jobs* (or benchmarks). They provide a basis for comparison against similar jobs in your organization. Jobs in your organization for which there are no corresponding benchmarks are termed *non-benchmark jobs*.

Market rates are the best estimate of the external market value of a job, that is, the prevailing compensation rate for the job in the labor market. The market compensation process typically involves these steps:

1. Import relevant survey data into the system.
2. Transform the survey data to meet your predefined dimensions and requirements.
3. Transform the survey data to update data from multiple sources to a common date, or age old data to the present date.
4. Calculate market rates for each benchmark job based on a weighted average from selected survey samples.
5. Conduct analyses to compare current organization pay programs and actual pay levels to the market.

Base Pay:

Base pay, also commonly referred to as base salary or basic salary, is a fixed amount that an employer agrees to pay an employee in exchange for time and services agreed upon before the employee begins working. Base compensation is most often expressed as an hourly rate, monthly income, or annual salary. It doesn't include benefits or additional earnings, such as commission, tips, overtime pay, or bonuses. With this in mind, base pay may only be one part of an employee's total compensation.

What does base pay mean to job candidates and potential new hires? A job offer may include base salary as well as other details about future wages, such as potential commission for a sales job. But it's typically determined by the employer based on a set workweek and a variety of additional factors including the individual's experience, job duties, and skills. Base pay is often a starting point for salary negotiations, and may increase over time based on employee performance or other demonstrations of an employee's value to the company. And in times when recruiting and hiring are especially challenging, employers may raise base pay to compete for top talent.

Base Pay vs. Gross Pay

Having a firm understanding of base pay vs. gross pay is of utmost importance, especially when negotiating employee salaries. As previously stated, base pay is the hourly rate or salary that an employee earns before any additional payments are added. On the other hand, gross pay includes base earnings plus overtime pay (if applicable), commissions, bonuses, tips, etc. before deductions are taken. In most cases, base pay is a set amount that changes infrequently (e.g., annual performance reviews, market adjustments, etc.), while gross pay may fluctuate based on additional incentives.

In addition to base pay vs. gross pay, you should also keep in mind net pay, which is the amount an employee “takes home” each pay period. This is gross pay minus taxes and other deductions.

How Is Base Salary Calculated

Variables such as the employee's experience level, certifications, and market value for employees in similar roles can all help an employer establish an appropriate base rate while taking into consideration the number of hours the employee will work per week, typically 40 hours for a full-time employee. You may also want to look at salary research data from the U.S. Bureau of Labor Statistics (BLS), which offers information across professions, industries, and geographic areas.

To calculate base pay, you can use one of the following calculations, depending on the employee's classification:

[Regular pay amount per payment period] x [# of payment periods in a year] = Annualized base pay

[# of hours worked in a week] x [# of weeks in a year] x [hourly wage] = Annualized base pay

Base Salary Calculation Examples

Using the basic calculations above, let's take a look at how base salary and base pay can be calculated, along with basic calculations for bonuses and overtime:

Example 1: Base Salary

Regular pay amount per payment period] x [# of payment periods in a year] = Base salary
[\$2,000 bi-weekly salary] x [26 pay periods] = \$52,000 base salary (annually)

Example 2: Base Pay

[# of hours worked in a week] x [# of weeks in a year] x [hourly wage] = Base pay

[30 hours worked per week] x [52 weeks] x [\$25 per hour] = \$39,000 base pay (annually)

Example 3: Bonus as a Percentage of Annual Salary

[Employee's annual salary] x [Percent bonus rate] = Bonus amount

[\$52,000 annual salary] x [3% bonus] = \$1,560 bonus

Example 4: Overtime Pay

[Regular pay rate] x [1.5] x [number of overtime hours] = Overtime pay

[\$20 an hour] x [1.5] x [5 overtime hours] = \$150 overtime pay **Factors**

Impacting Base Pay

It's ultimately up to the employer to determine base pay, but new hires and employees may negotiate for a higher base pay, pointing to any number of factors. While businesses need to ensure they provide pay that meets applicable wage and hour law requirements, base pay can be negotiated or determined by variables such as:

- The employee's experience, skillsets, education, and specialized knowledge
- Any professional certifications that relate to the job
- Amount budgeted for the position
- Geographic location
- How much competitors are paying for similar roles based on market data
- How much current employees in similar roles are compensated
- How long a position has been unfilled
- Whether other forms of compensation are offered, such as equity
- Cost-of-living adjustments

Whether you're trying to bring a new hire on board or are in negotiations with a current employee, consider how important a standardized compensation formula and well-designed salary structure are for cultivating a fair and equitable workplace — in addition to the base pay variables mentioned above. Designed to help businesses recognize a position's value in the overall labor market as well as its internal value to the company, these tools can help businesses take a formulaic approach toward eliminating bias and developing more equitable pay practices.

Performance Based Pay:

Merit pay, also known as pay-for-performance, is defined as a raise in pay based on a set of criteria set by the employer. This usually involves the employer conducting a review meeting with the employee to discuss the employee's work performance during a certain time period.

Employers generally use this method to evaluate how well the employee works and thus they set the salary for that particular position. Standard based methods have been in fact used for many years now among the commission based sales employees. Salespersons receive more for selling more and low performing salespersons are not able to earn enough.

In addition to motivating the rewarded behavior, the above method can present to the employees a standard level of evaluation. This will help in reducing fears of favoritism among employees. For example, in a data entry job, an employer can set a standard minimum of 10000 keystrokes and evaluate employees based on that figure. This will help employees as they will know that their performance has been evaluated objectively and according to some standard measure of work instead of the whims of the manager or against some climbing average of the group.

Pay for Performance Pros and Cons

- Boosts motivation and morale.
- Increases productivity.
- Helps you nurture a high performance culture.
- Clarifies the process of setting achievable goals.
- Helps create a strong bond between employee and employer.
- Plays a part in creating a healthy performance-based culture.



Competency Based Pay:

Competency-based pay is a pay structure that compensates employees based on their skill set, knowledge, and experience rather than their job title or position. A competency-based pay plan encourages employees to reach the pay rate that they want by taking charge of improving their skills and work.

What Is the Difference Between Competency-Based and Traditional PayPlans?

The main difference between competency-based and traditional pay plans is employee potential. Because traditional pay plans are based on an employee's job title and position, their pay can be limited by their ability to move up in seniority at their organization. However, in a competency-based pay plan, employees are able to increase their pay potential by improving on their skills and gaining knowledge related to their field.

Competency-Based Pay Pros and Cons

Like all compensation plans, competency-based pay has both advantages and disadvantages. The following are some examples of competency-based pay pros and cons to help you determine if this pay structure could work for your company

Pros

- **Individual self-motivation:** Instead of basing pay on seniority and job level, the employee achieves as much as they're willing to and is rewarded for it.
- **Company-wide motivation:** Competency-based pay encourages a culture of self-motivation and self-improvement within the company. It can create a company of employees who are actively seeking to improve their skills and finding new ways to contribute to the company. Competency-based pay helps to tie your company's culture directly to the success of the company.
- **Increased transparency:** Employees will better understand what they have the potential to earn with a competency-based pay system and what skills they need to acquire to reach the pay they desire.
- **Reduced turnover:** Employee turnover is costly for a company, and a competency-based pay plan curbs that by helping employees feel that their skills and knowledge are important to the company, which improves retention.

Cons

- **Greater pay subjectivity:** As your company strays away from a traditional pay system, things become more open to interpretation and that brings subjectivity into the equation. The actions of an employee might not be judged correctly or, worse, they might be overlooked.
- **Vulnerability to favoritism:** Employees may start to see favoritism when one worker gets rewarded more than another. Employees might think that they are being treated unfairly and that their skills are not being recognized by the company.
- **Inaccurate measurement of company needs:** It's tricky to determine which skills are important to a company or which skills translate to productivity. Since that's the basis for this pay system, it may introduce more inaccuracy when gauging company needs.

Team Based Pay:

Team compensation is a way of rewarding performance in team settings. That is, individuals are rewarded based on the performance of the team as opposed to individual performance. Team compensation is often referred to as team-based rewards or team-based pay.

Some examples of different forms of team-based rewards are: a portion of the individual's base pay, other financial rewards such as gain-sharing and non-financial rewards such as recognition and praise. Gain-sharing combines pay for performance and employee involvement; as performance improves, employees share financially in the gain generally

monthly or quarterly. In surveys of the Fortune 1000 companies in 1990 and then in 1993, team-based pay has increased its prevalence and usage in organizations from 59% to 70% in three years time.

Several companies give team bonuses to sales, management, and engineering staff. Their performance criteria are based on customer satisfaction, sales revenue, and market share. It is important to link employee objectives to company goals. The team's performance is measured against the team revenue target and the market share. The bonus is paid quarterly but not to poor performers.

Strategy and culture, are important first steps in any kind of design process of a teambased compensation plan. Pay sends a loud message to the employees about what is important in an organization. If teamwork is what the company wants to emphasize, then it is important that the pay structure reinforces that behavior. Strategy and culture and competencies (personal attributes and behaviors such as attitudes, motives, and traits that predict longer-term success) all need to be aligned with compensation in order to be effective. Culture is important in the sense that it tells the organization where you are and allows you to assess where it is that you want to be. This process allows the organization to identify missing values, skills, and behavior necessary to make the transition from one to the other.

Team rewards are very difficult to develop and must be custom-tailored to the organization's configuration. The effectiveness of rewards depends upon the review and evaluation processes. Therefore, it is imperative that organizations set up these programs only when the organization feels that they have a stable design and has assessed which teams should be rewarded.

UNIT-3

BENEFITS AND SERVICES

EMPLOYEE BENEFITS:

The vast majority of employers provide their employees with a benefits package in one form or other, with the likes of annual leave, pensions and public transport season ticket loans among the most popular perks offered. Although few employees will give much thought to it – because it's not necessarily that pertinent – benefits can be split into one of three categories.

There are three types of employee benefits. One is short-term benefits, as was just described. Another is long-term benefits, such as long-term disability, that provide benefits to employees for an extended period of time. A third type is termination benefits, such as pensions, that employee receive after they stop working for an employer.

Types of Employee Benefits

Short-term

Short-term employee benefits are given to the employee within 12 months of them providing a service to the employer. That service might be delivering their standard job, or delivering it to a certain level of performance, for example. Short term benefits include leave pay, time off in lieu and bonuses.

Long-term

Long-term employee benefits, as you might expect, are those that are due after 12 months of an employee providing a service to their employer. They can include anniversary payment, share schemes based on years served and long-term bonuses.

Termination

Termination employee benefits are awarded to employees only after they have stopped working for an employer. Although this may initially seem counterintuitive, they include a number of common benefits, such as pensions, lump sum pay-outs and post-employment life insurance and medical care.

What are Short-Term Employee Benefits

Short-term employee benefits are offered to employees within the current 12-month period. They include the following:

- Absences. Compensated absences where payment is settled within 12 months of when employees render related services, for example, vacation, short-term disability, jury service, and military service.

- Base pay. Wages and social security contributions.
- Nonmonetary benefits. Medical care, housing, cars, and various subsidies for other goods or services.
- Performance pay. Profit sharing and bonuses payable within 12 months of when employees render related services.

Accumulated and Non-Accumulated Employee Benefits

The entitlement to compensated absences can be accumulating or non-accumulating. An accumulating compensated absence is carried forward and can be used in future periods. An accumulating compensated absence can be vesting, so that employees are entitled to a cash payment for unused entitlement when they leave the entity. If an accumulating compensated absence is nonvesting, then employees do not receive such a cash payment when they leave the entity.

Overview of Employees' Benefits Laws in India

India is the country with the second largest labour force in the world. The evolution of labour and employment laws broadly known as “Industrial law” has changed the employer-employee equation. Employees have become aware of their rights and hence, an awakening has brought a whirlwind of changes in the industrial laws. The present article sheds light on some of the key employee benefits under the labour laws.

- Employees' State Insurance Act, 1948
- Employees' Provident Fund & Miscellaneous Provisions Act, 1952 (Epf Act)
- Maternity Benefit Act, 1961
- Payment Of Gratuity Act, 1972
- Employees' Compensation Act, 1923
- Other Points To Be Considered

Employees' State Insurance Act, 1948

- The Employees' State Insurance Corporation (ESIC) is a statutory body under the ownership of Ministry of Labor and Employment, Government of India.
- The Employees' State Insurance Act, 1948 (ESI Act) is enacted with an objective to provide social security benefits to employees. Under the ESI Act, the government has introduced a compulsory insurance scheme known as “Employees' State Insurance Scheme” which confers sickness, maternity benefit, disablement (temporary and permanent) benefit, medical benefits, dependent benefit, confinement expenses, funeral expenses, and unemployment allowance upon the employees during their course of employment.
- All the employees having a monthly wage up to INR 21,000/- per month are mandatorily covered under the ESI Act and the ESI Scheme. However, in the case of

persons with a disability, the maximum wage is capped at INR 25,000 per month.

- The applicability of ESI Act is extended to all factories. Further the ESI Act is extended to establishments employing 10 or more persons, however, in certain states like Maharashtra and union territories like Chandigarh the coverage of applicability of establishments under ESI Act is 20 or more employees. Currently the employees' contribution rate (w.e.f. 1.07.2019) is at the rate of 0.75 per cent of the monthly salary and that of the employer is 3.25 per cent of the monthly salary of such employee.

Employees' Provident Fund & Miscellaneous Provisions Act, 1952 (EPF Act)

- The EPF Act is mandatorily applicable to all establishments having 20 or more employees. The EPF Act continues to apply even if the threshold falls below 20 employees. The term "employee" for the purpose of applicability under the EPF Act is not restricted to those employees who are on the payroll of the establishment. Section 2(f) of the EPF Act gives a wide definition of "employee" to provide any person who is employed for wages in any kind of work, manual or otherwise, in or in connection with the work of an establishment, and who gets his wages directly or indirectly from the employer, and includes any person employed by or through a contractor in or in connection with the work of the establishment.

- Further, any establishment employing less than 20 persons can also be voluntarily covered under section 1(4) of the EPF Act.
- The Employees' Provident Fund Organisation is the statutory body under the Government of India's Ministry of Labour and Employment.
- Under the EPF Act, the EPFO has constituted and maintains a fund known as the Employees' Provident Fund (EPF). Both employer and employees have to make monthly contributions towards the EPF. The rate of monthly contribution payable by both employer and employee currently is 12 per cent each on employee's basic salary and dearness allowance. Further under the EPF Act currently there is a maximum wage ceiling of INR 15,000/- per month except for those employees who qualify as "International Workers" under new para 83 of the Employees Provident Fund Scheme, 1952.

- Further, the rate of contribution payable by the employer is 10 per cent on the monthly wages and an equivalent contribution of 10 per cent is payable by the employee, in case of certain establishments including establishments having less than 20 employees.
- There are three schemes under the EPF Act:

i. **Employees' Provident Fund Scheme, 1952:** Employees' Provident Fund Scheme is set up under the EPF Act for the purpose of providing a post retirement benefit for the employees or a class of employees or their legal heirs in case of death, employed under the establishment.

ii. **Employees' Pension Scheme, 1995:** Employees' Pension Scheme (EPS) is framed under the EPF Act for the purpose of providing the superannuation pension, retiring pension or permanent total disablement pension to the employees and also to provide widow or widower's pension, children pension or pension payable to the beneficiaries of such employees. Under this scheme, out of the employers' contribution of 12 per cent, 8.33 per cent is allocated to Employees' Pension scheme and balance of

3.67 per cent is allocated to Employees' Provident Fund Scheme. The government amended rules related to EPF and Employees' Pension Scheme via notification in August 2014, which became effective from 1 September, 2014, any new joinees/ individuals who joined Employees' Provident Fund on or after 1st September 2014, if at the time of joining their monthly wage (Basic+ Dearness Allowance) exceeded INR 15,000/- per month, they would be ineligible to be a part of

Employees' Pension Scheme, and in such case 8.33 per cent of employer's share is not to be diverted to the pension scheme and total employer's share goes to Employees' Provident Fund Scheme.

iii. Employees' Deposit-linked Insurance Scheme, 1976: Employees' Deposit-linked Insurance Scheme (EDLI) under the EPF Act is for the purpose of providing insurance benefits to the employees of an establishment or a class of establishments to whom this EPF Act applies in case of death while in service. For this scheme no amount is taken from employee's salary. However, the employer has to make a payment of 0.5 per cent of the total pay on which contributions are payable of a maximum of INR 15,000 every month.

Further, it is pertinent to note that there is going to be a new labour law called Code of Wages, 2019 which is currently under implementation stage, and is expected to be notified soon. One of the conditions which is likely to be enforced under the Code of Wages, 2019 is that Employee's "Basic" component should be least 50 per cent of total rest of components enumerated in the exclusion clause of definition of wages or cost to company (CTC) which includes all the allowances like House Rent Allowance (HRA), Conveyance Allowance, bonus, and also employer's contribution towards Employees' Provident Fund Contribution. Although the Wage Code, 2019 has not been officially brought into effect, usually it is seen amongst industries implementing this change to keep the "Basic" salary component to at least 50 per cent of the total CTC.

Maternity Benefit Act, 1961

- The Maternity Benefit Act 1961 (Maternity Benefit Act) is applicable to factory and all establishments having 10 or more employees. There is no wage limit and every female employee irrespective of wage limit is covered.
- The Maternity Benefit Act provides for the duration of paid maternity leave available for women employees up to 26 weeks. Under the Maternity Benefit, this benefit could be availed by women for a period extending up to a maximum of 8 (eight) weeks before the expected delivery date and the remaining time can be availed after childbirth. For women who are having 2 (two) or more surviving children, the duration of paid maternity leave shall be 12 weeks (i.e. 6 weeks before and 6 weeks after expected date of delivery).

Further, with effect from 01/03/2012, a woman to maternity benefit under the Act shall also be entitled to receive from her employer a medical bonus of Rs. 3500/- if pre-natal confinement and postnatal care is provided for by the employer free of charge.

- Further, there is compulsory requirement for all establishments employing at least 50

employees to have a crèche (day-care) facilities.

Payment of Gratuity Act, 1972

- The Payment of Gratuity Act, 1972(Gratuity Act) is applicable to factories and establishments employing 10(ten) or more persons.
- Under the Gratuity Act, an employee irrespective of his salary or status, becomes entitled to monetary benefit usually given at the time of employee separation from organization or retirement. This benefit is mandatory to be provided, if the such an employee has completed five years of continuous services. However, in the event if an employee's services are terminated due to his death or has become disabled due to an accident or a disease, an employer is mandated by law to pay gratuity to him or his nominee/legal heir, as the case maybe, irrespective of the number of years of continuous service.
- The quantum of gratuity is calculated at the rate of 15 days a wages based on rate of wages last drawn by the employee for every completed year of service or a part thereof exceeding 6(six) months.

Employees' Compensation Act, 1923

- The Employees' Compensation Act, 1923 (The Employees' Compensation Act) covers certain employees irrespective of their status or salaries either directly or through contractor.
- The main objective of the Employees' Compensation Act is that it casts liability on the employer to pay compensation to an employee on death or personal injury resulting into total or partial disablement or occupational disease caused to an employee arising out of and during the course of employment.
- The employees who are eligible to be covered include the persons who are listed in Schedule II of the Employees' Compensation Act and persons who are employed in occupations listed in Schedule III to the Employees' Compensation Act. However, it is pertinent to note that the employees who are already covered under the ESI Act as provided above, they are excluded from the ambit of the Employees' Compensation act
- The Employees' Compensation Act provides for different scales of compensation for different kinds of injuries.
- Conditions for Receiving Compensation : An employee to whom personal injury is caused by accident is entitled to receive compensation under this law if the accident arose out of and in the course of his employment. That means the accident must occur while the employee is in employment and it must also be connected with his employment. Circumstances in which the employer is not liable to pay compensation to an employee are as follows:
 - i. If the injury does not result in total or partial disablement of the employee for a period exceeding 3 (three days)
 - ii. If the injury does not result in death of the employee and is caused by an accident which is attributable to:
- If an employee have been at the time thereof under the influence of drink or drugs

- The disobedience of the employee to an order expressly given, or to a rule expressly framed, for the purpose of securing the safety of workman, or
- The willful removal or disregard by the employee of any safety guard or other device which he knew to have been provided for the purpose of securing the safety of employee.
- If any accident occurs on the premises of any employer which results in death of an employee or serious bodily injury to an employee, the employer must, within 7 (seven) days of the death or serious bodily injury, send in the prescribed form a report to the Commissioner for employee compensation giving the circumstances attending the death or serious bodily injury.

Administration of Benefits:

Benefit Administration is the process of creating, managing and updating an organization's employee benefits program. Benefits administration typically falls under the responsibility of Human Resources and involves managing health insurance, retirement accounts, vacations, paid time off and parental leave.

Providing employees with the right mix of benefits is critical to attracting and retaining talent and creating engaged employees. Employees are less likely to look for another job when benefits fit their needs. Better benefits reduce stress and offer peace of mind that both the individual and their family is covered in case of emergency.

To help create a competitive benefits program, organizations often start by determining what kind of insurance coverage and copays the organization will offer. With a benefits program in place, employee benefit administrators or other HR personnel are tasked with enrolling new employees and ensuring all employees understand available plans.

Influencing Factors Of Compensation:

Employees provide their services to the business; they devote their time, energy, skills, knowledge to the organisation. In consideration of this devotion, employer gives compensation to employees.

The compensation awarded to the employee is dependent on the volume of effort exerted, the nature of job and his skill. Besides, there are several other internal and external factors affecting the compensation.

The factors affecting employee compensation can be categorized into:-

1. Internal Factors
2. External Factors.

Internal Factors:

1. Compensation Policy of the Organization:

Firm's policy regarding pay i.e., attitude to be an industry leader in pay or desire to pay the market rate determines its pay structure. The former can attract better talent and achieve lower cost per unit of labour than the ones that pay competitive pay.

2. Employer's Affordability:

Those organizations which earn high profit and have a larger market share, a large business conglomerate and multinational companies can afford to pay higher pay than

others. Besides, company's ability to pay higher pay is impaired by sector-specific economic recession and acute competition.

3. Worth of a Job:

Organizations base their pay level on the worth of a job. The wages and salaries tend to be higher for jobs involving exercise of brain power, responsibility laden jobs, creativity-oriented jobs, technical jobs

4. Employee's Worth:

In some organizations, time rates are granted to all employees irrespective of performance. In such cases, employees are rewarded for their mere physical presence on the job rather than for their performance. However many private sector organizations follow performance-linked pay system. They conduct performance appraisal more often than not which provides input for determining pay levels. It distinguishes the high-performer from the low-performer and the non-performer.

EXTERNAL FACTORS:

1. Labour Market Conditions:

The forces of demand and supply of human resources, no doubt, play a role in compensation decision. Employees with rare skill sets and expertise gained through experience command higher wage and salary than the ones with ordinary skills abundantly available in the job market. But the higher supply of human resources for certain jobs may not lead to reduction of wages beyond a floor level due to Government's prescription of minimum wage levels and employee union's bargaining strength.

Similarly, this factor by itself does not result in lower pay if the vast majority of available resources are unemployable due to poor skill and low talent. Thus, it is clear that law of demand and supply applies to labour market only to a limited extent.

2. Economic Conditions:

Organizations having state-of-the-art technology in place, excellent productivity records, higher operational efficiency, a pool of skilled manpower, etc can be better pay masters. Thus, compensation is the consequence of the level of competitiveness prevailing in a given industry.

3. Prevailing Wage Level:

Most of the organizations fix their pay in keeping with the level for similar jobs in the

industry. They frequently conduct wage survey and accordingly seek to keep their wage level for different jobs. If a particular firm keeps its pay level higher than those of others in the industry, its employee cost becomes heavier which may escalate the end cost of the products. This will affect the competitiveness of the firm. On the other hand, if a firm keeps its pay level lower than the prevailing rates, it may not recruit the skilled and competent manpower.

4. Government Control:

Government through various legislative enactments such as Minimum Wages Act, 1948, Payment of Wage Act, 1936, Equal Remuneration Act, 1976, Payment of Bonus Act, 1965, dealing with Provident Funds, Gratuity, Companies Act, etc., have a bearing on compensation decisions. Therefore, firms have to decide on salaries and wages in the light of the relevant Acts.

5. Cost of Living:

Increase in the cost of living, raise the cost of goods and services. It varies from area to area within a country and from country to country. The changes in compensation are based on consumer price index which measures the average change in the price of basic necessities like food, clothing, fuel, medical service, etc., over a period of time. Allowances like Dearness Allowance. City compensatory allowances are paid to meet the increasing cost of living and parity among employees posted at different geographies.

6. Union's Influence:

The collective bargaining strength of the trade unions also influence the wage levels. Trade unions enjoy an upper hand in certain industries like banking, insurance, transport and other public utilities. Therefore, wage structure in such industries and in such Union-active regions, salary and wage need to be fixed and revised in consultation with the unions for ensuring smooth industrial relation.

7. Globalization:

It has ushered in an era of higher compensation level in many sectors of the economy. The entry of multinational corporations and big corporates have triggered a massive change in the compensation structure of companies across sectors. There is a salary boom in sectors like information technology, hospitality, biotechnology, electronics, financial services and so on.

8. Cross Sector Mobility:

Contemporary companies find it difficult to benchmark the salaries of their staff with others in the industry thanks to mobility of talent across the sectors. For example, hospitality sector employees are hired by airlines, BPOs, healthcare companies and telecom companies.

Employee Welfare

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

off. Employee welfare can also include things like on-site daycare, fitness centers, and subsidized meals.

The benefits of Employee Welfare

There are many benefits to employee welfare, including:

1. Improved employee morale and productivity - When employees feel appreciated and have their basic needs met, they are more likely to be productive and happy at work.
2. Reduced staff turnover - Happy employees are less likely to leave their jobs, which can lead to reduced staff turnover and increased stability within the company.
3. Enhanced company image - A company that takes care of its employees is often seen as more compassionate and caring, which can improve its image in the eyes of the public.
4. Cost savings - Investing in employee welfare can actually save the company money in the long run, through decreased staff turnover and increased productivity.

Employee Welfare

Employee Welfare is a term most often used in the context of human resources and it typically refers to a range of benefits and services that are offered to employees. These can include things like health insurance, dental insurance, 401k plans, and other types of benefits. Employee Welfare can also include services like on-site daycare, gym memberships, and other types of perks and benefits. Typically, Employee Welfare is offered to employees as a way to attract and retain talent, as well as to improve employee satisfaction and productivity.

How do you build an Employee Welfare system

There is no single blueprint for how to build an Employee Welfare system, as the best approach will vary depending on the specific needs and culture of your organization. However, some key steps for creating a successful Employee Welfare system include:

1. Define your goals and objectives. What do you hope to achieve with your Employee Welfare system? Are you looking to improve employee morale, increase productivity, or reduce staff turnover? Define your goals and objectives upfront, and make sure they are measurable so you can track your progress over time.
2. Establish a committee or task force to design and implement the system. This committee should include representatives from all levels of the organization, as well as outside experts if necessary.
3. Create a policy framework. The policy framework should include guidelines for eligibility, benefits, and administration.
4. Develop a communications strategy. The Employee Welfare system should be communicated to all employees, and the committee should be available to answer any questions or concerns.
5. Implement the system and track progress. Once the system is in place, it is important to track progress and make necessary adjustments to ensure that it is meeting the goals and

objectives set out initially.

Employee Services – Definition:

Most organizations offer employees a compensation package which includes benefits. Health insurance, life insurance, disability insurance, retirement savings plans and paid time off are examples of employee benefits. They are a form of indirect compensation which the company offers in addition to the employee's salary, as they help the employee to meet their basic needs in the same way their salary would.

Employee services are a subset of employee benefits. Consider them to be like **perks** of the job. They are designed to **attract new employees** and instill loyalty in existing employees. From the employer's perspective, employee services often cost far less than employee benefits, but can be just as attractive to some employees.

EMPLOYEE SERVICES EXAMPLES

Employee services are designed to make the employee's life easier while working with the company. Employee services examples include:

- **Health services:** Gym memberships or fitness class reimbursements help to create a culture of healthy living in the workplace. Many businesses have company sports teams which build camaraderie in a competitive spirit.
- **Food and drink:** It may seem like a small token, but complimentary food and drink items can be very attractive to new employees. Businesses can offer free beverages such as bottled water, healthy juices and smoothies, energy drinks and sodas. They can also have free food such as snacks and fruit. Some companies hire chefs to cater full meals to their employees.
- **Time off:** Having the option to take additional paid time off is a very attractive bonus for employees. Extra paid time off around major holidays shows employees the business values work-life balance.
- **Parental services:** Companies that offer extended paid maternity and paternity leave encourage loyalty and employee retention. Those that have on-site childcare make it more enjoyable for parents to come to work, giving them the opportunity to be close to their children.
- **Self-care:** For many employees, on-site spa services like back, head and full-body massages are an important service that is of value in the workplace. It saves them time while allowing them to focus on their personal care.
- **Entertainment:** Employees need to let off steam while at work, so indoor entertainment such as ping-pong tables, foosball tables and table tennis are a great addition to the business. Off-site entertainment events such as bowling, golfing or watching movies helps employees to form bonds and get to know one another outside

of the workplace.

- **Travel:** For businesses where employees need to travel often, having a company travel agent or travel concierge can save them time and money.
- **Flexibility:** One of the most important perks is the ability to have flexible working hours. This enables employees to have more control over their schedule and their work-life balance.

UNIT-4

THE PAYMENT OF WAGES ACT, 1936

INTRODUCTION

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

In 1926, Government of India wrote to local governments to ascertain the position with regard to the delays which occurred in the payment of wages to the persons employed in Industry. Material so collected was placed before the Royal Commission on Labour which was appointed in 1929. On the report of the Commission, Government of India re-examined the subject and in February, 1933 the Payment of Wages Bill, 1933, was introduced in the Legislative Assembly and circulated for the purpose of-eliciting opinions. A motion for the reference of the Bill to a Select Committee was tabled but the motion could not be passed and the Bill lapsed. In 1935 the Payment of Wages Bill, based upon the same principles as the earlier Bill of 1933 but thoroughly revised was introduced in the Legislative Assembly on 15th February, 1935. The Bill was referred to the Select Committee. The Select Committee presented its report on 2nd September, 1935. Incorporating the recommendations of the Select Committee, the Payment of Wages Bill, 1935 was again introduced in the Legislative Assembly.

Statement Of Objects And Reasons In 1926 the Government of India addressed local governments with a view to ascertain the position with regard to the delays which occurred in the payment of wages to persons employed in industry, and the practice of imposing fines on them. The investigations revealed the existence of abuses in both directions and the material collected was placed before the Royal Commission on Labour which was appointed in 1929. The Commission collected further evidence on the subject and the results of their examination with their recommendations will be found on pages 216-221 and 236-241 of their Report. The Government of India re-examined the subject in the light of the Commission's Report and in February, 1933 a Bill embodying the conclusions then reached was introduced and

The Punjab Payment of Wages (Procedure) Rules, 1935 circulated for the purpose of eliciting opinion. A motion for the reference of the Bill to a Select Committee was tabled during the Delhi session of 1933-34, but was not reached, and the Bill lapsed. The present Bill is based upon the same principles as the original but has been revised throughout in the light of the criticisms received when die original Bill was circulated. ACT 4 OF 1936 The Payment of Wages Bill, 1935 having been passed by the Legislative Assembly received its assent on 23rd April, 1936. It came on the Statute Book as The Payment Of Wages Act, 1936

The Minimum Wages Act 1948

a tripartite committee, known as the 'Committee on Fair Wages' was established. The committee's report was the benchmark for the formulation of wage policy in India. The committee not only set guidelines for wage rates in the country but also laid down three kinds of wages namely:

1. **Minimum wage:** This is the type of wage provided for bare subsistence so that the workers can maintain a decent standard of living such as providing for education, medical requirements and an adequate level of comfort.
2. **Fair wage:** Any wage paid to the employees that are more than the minimum wage is known as a fair wage. It is the wage that seeks to maintain a level of employment in the industry and also looks after the industry's capacity to pay sufficient remuneration to the employees.
3. **Living wage:** A living wage not only meets the minimum requirement of the employees provided by the employers but also allows individuals or families to afford adequate shelter, food, and other necessities. It also includes health, sanity, education, dignity, comfort, and provide for any contingency.

Objectives of Minimum Wages Act

The significance of the Minimum Wages Act, 1948 is mentioned below:

1. To fix the minimum rates of wages that are to be provided to the employees and revise such rates of wages every five years.
2. To secure an adequate living wage for all the labourers in the interest of the public.
3. To fix the daily working hours of the employees.
4. To prevent exploitation of the workers by the employers.
5. To ensure that the labourers can maintain a decent standard of living.
6. To provide basic physical needs, good health and a level of comfort to the employees.
7. To penalise the employers when they fail to provide minimum wages to the workers.
8. To establish advisory boards to regulate and administer the provisions of the Act.
9. To lay down the powers and duties of the inspectors for the purposes of this Act.
10. To prevent any employer from wrongfully infringing the right of any employees.
11. To establish appropriate authorities where the employees can seek redressal when the employer has failed to pay the daily wage.
12. To authorise the Central and state governments to make rules and regulations for the purposes of this Act.

THE PAYMENT OF BONUS ACT, 1965

1. Applicability of the Act.
 - a) Every factory registered under Factories Act
 - b) Establishment employing 20 or more than 20 on any day during the year
 - c) Central government can notify the application of the Act to the establishment employing more than 10 persons
2. Following employees are not covered with the provision of this Act

- a) Apprentices
 - b) Employees of Central Government or Local Authority
 - c) Employees of Public Sector which sells goods manufactured by it.
 - d) Employees of other Public Sector
 - e) Seaman etc., registered under Dock Workmen (Regulation of Employment) Act, 1948
 - f) Employees of LIC, GIC, Red Cross, Inland Water Transport, Universities and other Educational Institutions.
 - g) New establishment for 5 years following accounting year in which employers sell goods produced or in which he derives profit from the establishment whichever is earlier.
3. Eligibility of Bonus Every employee who has worked for 30 days or more in a year and drawing salary of Rs. 10,000/- or less in an establishment to which this act applied is entitled for bonus. Maximum bonus will be paid to Rs. 3,500/- and accordingly the calculation will be made on the basis of drawing notional salary of Rs. 3,500/- per month.
4. Rate of Bonus. Minimum bonus to the employees payable in an accounting year to the limit of 8.33% of the salary subject to maximum limit of Rs. 3,500/- p.a.
5. Deduction of Bonus In any Accounting year, if the employee is found guilty of misconduct causing financial loss to the employer, the employer will be entitled to recover the loss from the amount of bonus payable to him
6. Timely payment Bonus payable under the Act is to be paid within 8 months from the close of the accounting year or within one month from the date of which award becomes enforceable
7. "Payment of Bonus Register" to be maintained

EQUAL REMUNERATION ACT, 1976

- (1) This Act may be called the Equal Remuneration Act, 1976.
- (2) It extends to the whole of India.
- (3) It shall come into force on such date, not being later than three years from the passing of this Act, as the Central Government may, by notification, appoint and different dates may be appointed for different establishments or employments.

Definitions. -- In this Act, unless the context otherwise requires, -

- (a) "appropriate Government" means – (i) in relation to any employment carried on by or under the authority of the Central Government or a railway administration, or in relation to a banking company, a mine, oilfield or major port or any corporation established by or under a Central Act, the Central Government, and (ii) in relation to any other employment, the State Government;
- (b) "commencement of this Act" means, in relation to an establishment or employment, the date on which this Act comes into force in respect of that establishment or employment;

(c) “employer” has the meaning assigned to it in clause (f) of Section 2 of the Payment of Gratuity Act, 1972 (39 of 1972);

(d) “man” and “woman” mean male and female human beings, respectively, of any age;

(e) “notification” means a notification published in the Official Gazette;

(f) “prescribed” means prescribed by rules made under this Act;

(g) “remuneration” means the basic wage or salary, and any additional emoluments whatsoever payable, either in cash or in kind, to a person employed in respect of employment or work done in such employment, if the terms of the contract of employment, express or implied, were fulfilled;

(h) “same work or work of a similar nature” means work in respect of which the skill, effort and responsibility required are the same, when performed under similar working conditions, by a man or a woman and the differences, if any, between the skill, effort and responsibility required of a man and those required of a woman are not of practical importance in relation to the terms and conditions of employment;

(i) “worker” means a worker in any establishment or employment in respect of which this Act has come into force;

(j) words and expressions used in this Act and not defined but defined in the Industrial Disputes Act, 1947 (14 of 1947), shall have the meaning respectively assigned to them in that Act. 3. Act to have overriding effect. –

The provisions of this Act shall have effect notwithstanding anything inconsistent therewith contained in any other law or in the terms of any award, agreement or contract of service, whether made before or after the commencement of this Act, or in any instrument having effect under any law for the time being in force

4. Duty of employer to pay equal remuneration to men and women workers for same work or work of a similar nature. –

(1) No employer shall pay to any worker, employed by him in an establishment or employment, remuneration, whether payable in cash or in kind, at rates less favourable than those at which remuneration is paid by him to the workers of the opposite sex in such establishment or employment for performing the same work or work of a similar nature.

(2) No employer shall, for the purpose of complying with the provisions of sub-section (1), reduce the rate of remuneration of any worker.

(3) Where, in an establishment or employment, the rates of remuneration payable before the commencement of this Act for men and women workers for the same work or work of a similar nature are different only on the ground of sex, then the higher (in cases where

4 there are only two rates), or, as the case may be, the highest (in cases where there are only

two rates), of such rates shall be the rate at which remuneration shall be payable, on and from such commencement, to such men and women workers: Provided that nothing in this sub-section shall be deemed to entitle a worker to the revision of the rate of remuneration payable to him or her with reference to the service rendered by him or her before the commencement of this Act.

5. No discrimination to be made while recruiting men and women workers. -- On and from the commencement of this Act, no employer shall, while making recruitment for the same work or work of a similar nature, 2 [or in any transfer], make any discrimination against women except where the employment of women in such work is prohibited or restricted by or under any law for the time being in force: Provided that the provisions of this section shall not affect any priority or reservation for scheduled castes or scheduled tribes, ex-servicemen, retrenched employees of any other class or category of persons in the matter of recruitment to the posts in an establishment or employment.

6. Advisory Committee. –

(1) For the purpose of providing increasing employment opportunities for women, the appropriate Government shall constitute one or more Advisory Committees to advise it with regard to the extent to which women may be employed in such establishments or employments as the Central Government may, by notification, specify in this behalf.

(2) Every Advisory Committee shall consist of not less than ten persons, to be nominated by the appropriate Government, of which one-half shall be women.

(3) In tendering its advice, the Advisory Committee shall have regard to the number of women employed in the concerned establishment or employment, the nature of work, hours of work, suitability of women for employment, as the case may be, the need for providing increasing employment opportunities for women, including part-time employment, and such other relevant factors as the Committee may think fit.

(4) The Advisory Committee shall regulate its own procedure.

(5) The appropriate Government may, after considering the advice tendered to it by the Advisory Committee and after giving to the persons concerned in the establishment or employment an opportunity to make representations, issue such directions in respect of employment of women workers, as the appropriate Government may think fit.

7. Power of appropriate Government to appoint authorities for hearing and deciding claims and complaints. –

(1) The appropriate Government may, by notification, appoint

(2) Every complaint or claim referred to in sub-section (1) shall be made in such manner as may be prescribed.

(3) If any question arises as to whether two or more works are of the same nature or of a similar

nature, it shall be decided by the authority appointed under sub-section (1).

(4) Where a complaint or claim is made to the authority appointed under sub-section (1) it may, after giving the applicant and the employer an opportunity of being heard, and after such inquiry as it may consider necessary, direct

(5) Every authority appointed under sub-section (1) shall have all the powers of a Civil Court under the Code of Civil Procedure, 1908 (5 of 1908), for the purpose of taking evidence and of enforcing the attendance of witnesses and compelling the production of documents, and every such authority shall be deemed to be a Civil Court for all the purposes of Section 195 and Chapter XXVI of the Code of Criminal Procedure, 1973 (2 of 1974).

(6) Any employer or worker aggrieved by any order made by an authority appointed under sub-section (1), on a complaint or claim may, within thirty days from the date of the order, prefer an appeal to such authority as the appropriate Government may, by notification, specify in this behalf, and that authority may, after hearing the appeal, confirm, modify or reverse the order appealed against and no further appeal shall lie against the order made by such authority.

(7) The authority referred to in sub-section (6) may, if it is satisfied that the appellant was prevented by sufficient cause from preferring the appeal within the period specified in sub-section (6), allow the appeal to be preferred within a further period of thirty days but not thereafter.

(8) The provisions of sub-section (1) of Section 33-C of the Industrial Disputes Act, 1947 (14 of 1947), shall apply for the recovery of monies due from an employer arising out of decision of an authority appointed under this section.

8. Duty of employers to maintain registers. -- On and from the commencement of this Act, every employer shall maintain such registers and other documents in relation to the workers employed by him as may be prescribed.

9. Inspectors. -- (1) The appropriate Government may, by notification, appoint such persons as it think fit to be Inspectors for the purpose of making an investigation as to whether the provisions of this Act, or the rules made thereunder, are being complied with by employers, and may define the local limits within which an Inspector may make such investigation.

(2) Every Inspector shall be deemed to be a public servant within the meaning of Section 21 of the Indian Penal Code (45 of 1860).

(3) An Inspector may, at any place within the local limits of his jurisdiction, -- (a) enter, at any reasonable time with such assistance as he thinks fit, any building, factory, premises or vessel: (b) require any employer to produce any register, muster-roll or other documents relating to the employment of workers, and examine such documents; (c) take on the spot or otherwise, the evidence of any person for the purpose of ascertaining whether the provisions of this Act are

being, or have been, complied with: (d) examine the employer, his agent or servant or any other person found in charge of the establishment or any premises connected therewith or any person whom the Inspector has reasonable cause to believe to be, or to have been a worker in the establishment; (e) make copies, or take extracts from, any register or other document maintained in relation to the establishment under this Act.

(4) Any person required by an Inspector to produce any register or other document or to give any information shall comply with such requisition.

10. Penalties. -- (1) If after the commencement of this Act, any employer, being required by or under this act

Employees' Provident Fund is a statutory benefit payable to employees working in India. The Employees' Provident Funds and Miscellaneous Provisions Act, 1952 ("Act") is applicable pan-India. The administration and management of Employees' Provident Fund (EPF) is carried out by the Central Board of Trustees (CBT) established by the Central Government consisting of representatives of the Government, employers and employees respectively. The Employees' Provident Fund Organization (EPFO) assists this Board in its activities.

EPF is a welfare scheme brought into force to secure a better future for employees. It is a statutory benefit available to the employees post retirement or when they leave the services. In case of deceased employees, their dependents will be entitled for the benefits. Under the Employees' Provident Fund Scheme (EPF Scheme) both employers and employees have to make their contributions towards the Fund. Interest earned on the amount is credited to the member's Provident Fund Account (PF account) and is available to the employee at the time of retirement or exit from employment as the case may be, provided certain conditions are fulfilled.

Types of schemes under the act

1. **Employees' Provident Fund Scheme, 1952:** Employees' Provident Fund Scheme was set up under the Act for the purpose of providing a post retirement benefit for the employees or a class of employees or their legal heirs in case of death, employed under an establishment to which this Act applies.
2. **Employees' Pension Scheme, 1995:** Employees' Pension Scheme was framed under the Act for the purpose of providing the superannuation pension, retiring pension or permanent total disablement pension to the employees of any establishment or class of establishments to whom this Act applies; and widow or widower's pension, children pension or orphan pension payable to the beneficiaries of such employees.
3. **Employees' Deposit-linked Insurance Scheme, 1976:** Employees' Deposit-linked Insurance Scheme (EDLI Scheme) was framed under the Act for the purpose of providing insurance benefits to the employees of an establishment or a class of establishments to whom this Act applies in case of death while in service.

Applicability

Employees' Provident Fund has been set up under The Employees' Provident Fund and Miscellaneous Provisions Act, 1952 ("Act") applicable pan-India. The Act is applicable to every factory or industry mentioned in Schedule 1 of the Act, wherein 20 or more persons are employed or to any other establishment which the Central Government specifies by notification in the official Gazette, even when the number of employees is less than 20.

Eligibility to be the member of EPF

Enrollment for PF membership is mandatory for:

1. Any person employed for wages for any work of an establishment either manual or otherwise.
2. Any person employed through a contractor or engaged as an apprentice but not being an apprentice under Apprentices Act, 1961.
3. Any person under the standing orders of an establishment, earning less than or equal to Rs. 15,000 per month other than the excluded and exempted employees under Section 17 of the Act.

Withdrawals From EPF Account

1. The funds from an EPF account can be withdrawn completely in full settlements on attaining 58 years of age or at the time of retirement the employee can claim for a complete settlement or if an employee remains unemployed for a period of 2 months or more or in the case of death while in service before attaining the age of retirement, in which case the nominees or legal heirs are entitled to withdraw the accumulated fund.
2. The partial withdrawal of funds from the EPF is available for educational opportunity, medical treatment, repayment of home loan, marriage, purchase of land/house/flat, in case the establishment/factory is closed, natural calamity, an year before retirement and unemployment for a period of more than one month.

Benefits

The employees covered under the various schemes of the Act are entitled for the following benefits

1. Employees can take advances or make withdrawals*.
2. PF amount of a deceased member is payable to the nominees or legal heirs.
3. The employer not only contributes towards the PF but also makes the necessary contributions towards the employee's pension which can be used by the employee post-retirement
4. Under the EDLI Scheme employees are properly insured in order to avail the lump sum benefit at the time of death while in service.
5. EEE (Exempt, Exempt, Exempt) tax benefit under the Income Tax Act enables tax-free returns for the employees.

6. Employees receive special benefits in the form of added income to their savings in the form of interest.
7. PF account can be transferrable if any member changes employment from one establishment to another where such Provident Fund scheme is applicable.

What is Employees State Insurance Act 1948 (ESI Act 1948)?

Employees State Insurance is a self-financed comprehensive social security scheme that comes under Employees State Insurance Act 1948. The Ministry of Labour & Employment is responsible for the functioning of this Act.

- Social security provisions made in the ESI Act 1948 protect the employees against financial distress arising out of events of disablement, sickness, or death due to employment injury.
- Employees State Insurance provides cash compensation for the above cases.
- Employees' State Insurance Corporation (ESIC) administers Employees State Insurance Act 1948.
- Employees' State Insurance Corporation (ESIC) is a statutory corporate body that is established under the employee's state insurance act in India.

Benefits of Employees State Insurance Act 1948

The benefits of the Employees State Insurance Act 1948 are as follows:

- Medical Benefit- medical care will be given to the person and his family members. There will be no ceiling on the expenditure.
- Maternity Benefit- for pregnancy is payable for 26 weeks as well under the ESI Act 1948, which can be extended up to one month on medical advice.
- Sickness Benefit- it will be given in the form of cash compensation at the rate of 70 percent of wages.
- Dependants Benefit- this is paid in the form of monthly payments to the dependants in cases where the death occurred due to occupational hazards or employment injury.
- Disablement Benefit-
 - Temporary disablement benefit (TDB) at the rate of 90% of wage is payable so long as the disability continues.
 - Permanent disablement benefit (PDB) is paid at the rate of 90% of wage in the form of monthly payments. It depends on the extent of the loss.
- Other Benefits of Employees State Insurance Act 1948
 - Funeral Expenses
 - Physical Rehabilitation
 - Old Age Medical Care
 - Confinement Expenses
 - Vocational Rehabilitation

Coverage of Employees State Insurance Act 1948

The Employees State Insurance applies to the factories and other establishments institutions where 10 or more persons are employed. However some states, the limit is 20.

- Under section 1(5) of the Employees State Insurance Act 1948, the ESI scheme has been extended to hotels, shops, cinemas, and restaurants, including road-motor transport, preview theatres and newspaper establishments where employees are 10 or more.
- Again under section 1(5) of the Employees State Insurance Act 1948, the ESI scheme has been extended to educational institutions and private medical employing more than 10 or more persons.
- The ESI scheme is not notified in 526 districts in 35 UT and states, which includes 346 complete districts, 95 district headquarters, and 85 districts.

Introduction

The Employees' State Insurance Act incorporates a number of sections, these sections provide for medical benefits and insurance for any employees working under factories registered under the ESI Corporation. This is an exciting prospect from both an employee's and a legal perspective as the beginning of a formal social security program in India.

This article will explain the highlight sections of the Act, as well as elaborate landmark cases that prove the authenticity of the scheme, and how it worked for the benefit of its employees at times of need.

Application and scope of the Act

The Employees' State Insurance Act, 1948 (ESI), enables the financial backing and support to the working class in times of medical distress such as:

- Sickness.
- Maternity Leave.
- Disorders (mental or physical).
- Disability.
- Death.

It is a self-financed initiative, which serves as a type of social security scheme, to prevent the working class from any financial problems arising out of the above medical issues.

Constitutionality of the Act

The ESI Act serves as a constitutional instrument because of its practice of providing insurance and medical insurance. While the ESI Act is mostly executed through the ESI Corporation, the Central Government takes control of most of the proceedings.

This control by the Central Government largely contributes to the constitutionality of the Act, because Insurance, be it public or private, is listed in the Seventh Schedule of the Indian Constitution as a Union List subject i.e. it can only be legislated by the Central Government.

Employees' Gratuity Act, 1972

Payment of Gratuity Act, 1972 is applicable to

a) every factory, b) every shops and establishments within the meaning of any law for the time being in force in relating to shops and establishments in which 10 or more persons are employed on any day of the preceding 12 months. c) such other establishment or class of establishment in which 10 or more employees are employed.

1. The employee shall be entitled to gratuity calculated at the rate of 15 days salary/wages for every completed year of service or part thereof exceeding six months.
2. Salary/Wages shall be taken to be last drawn.
3. In case of piece-rated employees, the average on total wages received by them during the period of 3 months preceding the termination of the employment shall be the basis.
4. In case of workers in seasonal establishment, the gratuity shall be calculated at the rate of 7 days wages in each season the employee has worked.
5. Wages are to be worked out on the basis of daily wages by dividing last drawn monthly salary or wages by 26 days.
6. The maximum amount which can be paid under this Act, is limited to Rs.10 Lakh.

Condition of Payment

1. The employee becomes entitled to gratuity after his/her completion of 5 years of service with one employer.
2. In case of death or disablement, the requirement of minimum qualifying period has been completely waived.
3. Suspension from service for any period/detachment on closer of unit or otherwise, does not affect the continuity of service.

System of Calculation of Gratuity

Last drawn salary (Basic+D.A.) x 15 days x no. of service years /26 = Gratuity amount
Gratuity Register "to be maintained.

The Maternity Benefit Act, of 1961

Following India's independence, on December 12, 1961, the Union of India approved the Maternity Benefits Act, 1961("Act"). In accordance with the then-applicable international norms, the Act offered conditional benefits for pregnancy, delivery, and problems associated with them. Despite the fact that India was still a developing country and in its 14th year of independence, the Act was quite thorough, and careful attention was devoted to various aspects of factors determining maternity benefits.

In India, maternity benefits are governed by the Maternity Benefit Act, of 1961. The Act applies to all organizations with ten (10) or more workers. The Act states that any woman who has worked for an organization for at least eighty (80) days is eligible for maternity benefits.

The Act states that it is illegal for an employer to fire or dismiss a pregnant employee while she is gone or on account of her pregnancy, to issue a termination notice on a day when the notice would expire while she is away, or to alter any of the conditions of her employment to their disadvantage. The legislation prohibits salary reductions for light tasks assigned to pregnant mothers and pauses for infant nursing.

All companies, including government-owned enterprises and those that hired persons to perform equestrian, acrobatic, and other performances for exhibition in factories, mines, and plantations, are subject to the law.

It also applies to any store or company with ten or more workers. The legislation constituted a substantial advance over the primitive one from 1928 with the addition of provisions for industrial, agricultural, and commercial operations.

Another view is that a rise in the proportion of women working across a wide range of industries necessitated the enactment of legislation that defends and preserves women's rights with regard to maternity care and childcare. Many different women were forced to labor in mines, do arduous activities, and work night shifts in the age before independence, which had an adverse effect on their health and led to prenatal difficulties.

By removing these concerns from women's minds and introducing ideas like paid maternity leaves, the payment of maternity benefits as described in Section 3(h) of the Act, nursing breaks, rights against salary deductions, etc., the Act significantly improved the situations of women.

Scope and Importance of Maternity Benefit Act, 1961

The Act's primary goal is to eliminate the obstacles that women face when they embark on the parenthood journey. The fundamental goal of the Act is to make it possible for women to balance employment and motherhood without having to make concessions. By the end of the 19th century, Germany had established maternity benefits, setting the standard for the rest of the world. The Maternity Protection Convention was developed by the International Labor Organization in accordance with the notion. In the Indian context, N.M. Joshi proposed the Maternity Benefit Bill (No. 31 of 1924) in the Central Legislature in 1929 after seeing the need for maternity benefit legislation.

Prior to this, in the 1920s, the Women's Association of India waged a campaign to obtain maternity rights in the Jamshedpur steel sector. Following that, the Central Government made an effort by passing the Mines Maternity Benefit Act, of 1941, the Employees' State Insurance Act, of 1948, and the Plantations Labor Act, of 1951. These acts eventually made room for the Maternity Benefit Act, of 1961, which was passed by the Parliament with the sole purpose of regulating the employment of women for a specific period before and after childbirth. The ambiguities regarding the various maternity leave periods and the minimum term of service required to be eligible for maternity benefits were the driving forces for the codification.

By providing a woman with complete and healthy maintenance when she is not working, we are able to further the larger goal of safeguarding the dignity associated with motherhood.

Maternity Benefit Act, 1961: Amendment 2017

The 2017 Amendment was enacted in response to the 259th Law Commission Report, which stated:

“The Maternity Benefit Act is revised in conformity with the forward-looking requirements in the CCS Rules, increasing maternity benefits from twelve weeks to 180 days.” Maternity benefits should be made mandatory by the state rather than left to the discretion of employers, and they should apply to all women, even those working in the unorganized sector. It is advised that the government develop policies or guidelines outlining minimum requirements for paid maternity leave for women working in the private sector.”

Mr. Bandar Dattatreya, Minister for Labor and Employment, tabled the Amendment Bill in the Rajya Sabha. The Bill was proposed after the 44th Session of the Indian Labor Conference (ILC) advocated increasing the length of maternity leave, which was reaffirmed in the 45th and 46th Sessions. This was in addition to the recommendations by the Ministry of Women and Child Development to expand the scope of maternity benefits for women. According to World Health Organization recommendations, there was a need to extend Maternity Leave to preserve the health of both the mother and the child, especially since a kid needed to be nursed for the first 24 months to boost survival rates.

Analysis of important Sections incorporated in Maternity Benefit Act, 1961

The following are the important sections that are incorporated into the Maternity Benefit Act, of 1961:

- **Maternity Leave Duration [Section 5(3)]**

According to the Act, every woman is entitled to a 12-week maternity benefit. The Act aims to raise this to 26 weeks. Furthermore, under previous laws, a woman may not use the benefit before 6 weeks from the projected delivery date. The Amendment reduces this to an 8-week timeframe. In the case of a woman who has two or more children, the maternity benefit will remain at 12 weeks, which cannot be used six weeks from the projected delivery date.

- **Adoptive and Commissioning Mothers’ Maternity Leave [Section 5(4)]**

The Amendment also gives a woman who lawfully adopts a child under the age of three months, as well as a commissioning mother, who is defined as a biological mother who uses her egg to develop an embryo implanted in another woman, 12 weeks of maternity leave. The 12 weeks of maternity leave will begin when the kid is given over to the adoptive or commissioning mother.

- **Work from Home Possibility [Section 5 (5)]**

The Amendment includes an innovative provision that allows women to work from home depending on the nature of the task they are to perform. The task might be decided upon by mutual agreement between the employer and the employee. This option does not expire after delivery and can be continued even after delivery for a term mutually agreed upon by the employer and the woman.

- **Crèche Services [Section 11A-(1)]**

The Amendment adds a new requirement requiring creche facilities to be within a certain distance. The mother will be permitted four visits to the creche every day, including rest time.

- **Informing female employees of their maternity leave rights: [Section 11-A (2)]**

The clause asks for raising awareness among female employees about the maternity benefits that are accessible to them during their employment.

- **Miscarriage Leave [Section 9]**

Following a miscarriage or medical termination of pregnancy, a woman is entitled to a 6-week maternity benefit upon submission of medical documentation.

- **Leave with pay for tubectomy surgery [Section 9-A]**

After submitting the required medical documentation, a lady will be entitled to two weeks of maternity leave immediately following the procedure.

- **Informing female employees of their maternity leave rights [Section 11-A (2)]**

The clause asks for raising awareness among female employees about the maternity benefits that are accessible to them during their employment.

- **Dismissal while absence or pregnancy is prohibited [Section 12]**

It is illegal to fire or terminate a female employee who is not present at work in compliance with the terms of this Act. If the employer dismisses or discharges the employee, he is required by law to give her maternity benefits or bonuses. If this is not followed, the injured woman may file an official complaint.

- **Inspectors' appointment [Section 14]**

The government has designated Inspectors to administer and execute the Act. These Inspectors must be Public Servants, as specified in Section 21 of the Indian Penal Code, according to Section 16.

- **Inspector's authority to order payment [Section 17]**

An Inspector may conduct an investigation on his own or in response to a complaint filed by an employee who is dissatisfied. If the allegation is determined to be true after inquiry, the Inspector may order the employer to reimburse the employee. If the employee is dissatisfied with the Inspector's judgment, he or she may file an appeal with the appropriate authorities.

- **Penalty for employer's violation of the Act [Section 21]**

If the employer fails to pay the sum, he will be penalized in line with the Act's requirements. There shall be imprisoned for not less than three months and up to one year, as well as a fine of not less than Rs.2000, which may be increased to Rs.5000. The aforementioned measures demonstrate the legislature's progressive approach to women's rights and the necessity to give women with enough opportunity and room for growth, which they were previously denied. By passing this amendment, the legislature has committed to the spirit of a welfare state.

Maternity Benefits available to a woman in India

Maternity Benefits are benefits granted by a company to pregnant female employees before and after childbirth for a set period of time. Maternity Benefit is now accessible in India under The Code on Social Security, 2020; previously, it was given under The Maternity Benefit Act, 1961. Every woman is entitled to maternity benefits at the rate of the average daily income for the time immediately preceding her delivery and any period immediately after that day.

The following are the Maternity Benefits available to a woman in India:

- **Average Daily Wage**

Average Daily Wage refers to the average wage for the three months preceding the date of her absence due to maternity.

- **Prerequisite for Maternity Benefit**

The woman must have worked for at least 80 days in the 12 months before the date of her expected birth in an enterprise from which she is claiming maternity benefit in order to be eligible for it.

- **Maximum Maternity Benefit Period**The maximum duration for which maternity benefits are eligible is 26 weeks, with 8 weeks preceding the projected date of her delivery and the remaining 18 weeks following the date of her delivery. The maximum length for which a woman with two or more surviving children may get maternity benefits is 12 weeks, of which 6 weeks must precede the date of her projected birth and the remaining 6 weeks must follow the date of her delivery. When a woman dies while giving birth, the maternity benefit is only accessible for the days leading up to and including the day of her death.

When a woman who has given birth dies after the date of her delivery, her employer is responsible for the maternity benefit for the whole time for which she was eligible. If the child dies after birth, the employer is liable for maternity benefits for the days leading up to and including the date of the child's death.

- **Maternity Benefit Payment to Nominated Person/Legal Representative**

Payment of maternity benefits in the event of a woman's death shall be provided to the person selected by the woman, and if no nomination has been made by the woman, it shall be made to her legal representative.

- **Adopting Mother**

When a woman adopts a child under the age of three months, she is eligible for maternity benefits for a maximum of 12 weeks from the day the infant is given to the adoptive mother.

- **Medical Benefit**

A woman who is eligible for maternity leave is also eligible for a medical bonus of Rs. 3500/- from her company.

- **Nursing Break**

A mother who returns to work after giving birth is entitled to two breastfeeding breaks until her kid reaches the age of 15 months.

- **Childcare Services**

A woman at an establishment with 50 or more employees is entitled to a creche facility for four visits per day, which includes the rest periods permitted to her.

- **Invocation of Authority**

If a woman is denied maternity benefits, she has 60 days from the date of transmission of the deprivation order to submit an appeal to the appropriate body.

- **Commissioning Mother**

A biological mother who utilizes her egg to make an embryo that is placed in another woman is referred to as a commissioning mother. Maternity benefit is offered to the commissioning mother for a maximum of 12 weeks from the moment the child is turned over to her. After giving birth, a woman may work from home under terms agreed upon by the company and the woman.

- **Inspector-Facilitator Authority**

After receiving a complaint from a woman or nominated person/legal representative that he/she has been denied maternity benefit or any other amount which the employer is obligated to pay under this code to the employee, the Inspector-cum-Facilitator may conduct an investigation and, if satisfied, direct the employer to make payment and pass such order as he deems just and proper. An aggrieved individual may file an appeal against the Inspector-cum-order Facilitator within 30 days to the authority authorized by the competent government, and the order granted by the prescribed authority is final

UNIT-5

Executive and Expatriate Compensation

Overview

An international assignment compensation system has to finely balance adequately rewarding and motivating expatriates while keeping costs under control for corporate headquarters. The cost of a three-year international assignment can easily exceed \$3 million.

Because of the enormous investment, developing a comprehensive global compensation system for expatriates is one of the most critical challenges facing global human resource management.

Developing a Compensation Philosophy and Strategy

Companies with multinational operations need to develop compensation plans for employees that are in line with their global business strategy. Companies that articulate a clear global pay philosophy and develop corresponding compensation programs are best positioned to effectively execute their strategy. An effective global compensation strategy creates consistency in pay management and facilitates global employee mobility. *See* Viewpoint: Cross-Border Considerations for International Executives. Establishing guidelines and practices with consistent communication of key messages is vital to the success of the compensation program. Although multinational employers are striving to globalize their compensation practices, local and regional approaches to international pay are still most common.

Approaches to Global Compensation

International assignment compensation has many moving parts and is difficult to standardize. Many factors affect the compensation of a particular expatriate, including assignment type and length, location, family needs (if any), and benefits. The main compensation items for expatriates involve base pay, cost-of-living adjustments, housing allowances, home leave, education assistance for dependents and premium pay. *See* How Should We Compensate an Employee on a Foreign Assignment?

The U.S. Department of State indexes the living costs abroad, quarters allowances, hardship differentials and hazard pay allowances. The information, published quarterly, is used by many organizations to assist in establishing private compensation systems. *See* Salaries, Cost of Living and Relocation.

While the U.S. Fair Labor Standards Act does not apply to employees working outside of the U.S., employers must be familiar with the host country's labor laws.

A global compensation plan includes elements typical of any rewards strategy along with a few extra incentives and allowances, depending on the host country.

BASE PAY

When an employee accepts an international assignment, it is up to the employer to determine the base rate of pay (referred to as the base salary). The base salary is normally related to pay ranges in the home country, which then may be adjusted based on local variances (i.e., fluctuations in the economy). Companies take one of the following approaches to establish base salaries for expatriates:

- **The home-country-based approach.** The objective of a home-based compensation program is to equalize the employee to a standard of living enjoyed in his or her home country. Under this system, the employee's base salary is broken down into four general categories: taxes, housing, goods and services, and discretionary income.
- **The host-country-based approach.** With this approach, the expatriate employee's compensation is based on local national rates. Many companies continue to cover the

employee in its defined contribution or defined benefit pension schemes and provide housing allowances.

- **The headquarters-based approach.** This approach assumes that all assignees, regardless of location, are in one country (i.e., a U.S. company pays all assignees a U.S.-based salary, regardless of geography).
- **Balance sheet approach.** In this scenario, the compensation is calculated using the home-country-based approach with all allowances, deductions and reimbursements. After the net salary has been determined, it is then converted to the host country's currency. Since one of the primary goals of an international compensation management program is to maintain the expatriate's current standard of living, developing an equitable and functional compensation plan that combines balance and flexibility is extremely challenging for multinational companies. To this end, many companies adopt a balance sheet approach. This approach guarantees that employees in international assignments maintain the same standard of living they enjoyed in their home country. A worksheet lists the costs of major expenses in the home and host countries, and any differences are used to increase or decrease the compensation to keep it in balance.

Some companies also allow expatriates to split payment of their salaries between the host country's and the home country's currencies. The expatriate receives money in the host country's currency for expenses but keeps a percentage of it in the home country currency to safeguard against wild currency fluctuations in either country.

VARIABLE/INCENTIVE COMPENSATION

The globalization of business has increased the use of variable and incentive pay around the world. But some cultures do not readily accept the practice of linking pay to individual or group performance. Other roadblocks to pay for performance include financial (not enough funding of the pool), target setting (defining performance parameters) and pay equity. Yet when it is done right, pay for performance effectively allocates limited rewards and retains top performers. As such, variable pay has become an increasingly important compensation element in many countries.

Variable pay plans generally fall into one of two categories:

- Short-term incentive plans are usually annual plans that link awards based on meeting individual or group performance criteria and objectives. Unlike long-term plans, these incentive pay plans provide for the payout to be awarded yearly.
- Long-term incentive plans, on the other hand, can vary in length from three to five years. These plans typically include equity-based incentives, such as stock options, restricted share grants and other types of equity-based plans like phantom stocks or stock appreciation rights. Awards are closely linked to the achievement of company goals and objectives over the three- to five-year period.

Participation and eligibility for each type of plan, as well as the level of incentives and average payouts, vary greatly among different companies, industries and countries around the world.

PREMIUMS AND ALLOWANCES

Premiums and allowances are added to the base salary so expatriate employees can maintain their standard of living. Those add-ons are removed when the employee repatriates. Some types of premiums and allowances are as follows:

- **Hardship and hazard/danger pay.** Employers sometimes need to send employees on assignments to host countries where conditions are difficult or hazardous (i.e., remote locations or countries with high rates of violence). As a result, a hardship allowance may be granted as an additional incentive to compensate employees for accepting

assignments in less-than-desirable countries. Premiums typically range from 10 percent to 50 percent of base pay, depending on the severity of the hardship. For assignments in developing countries that have a history of violence or are experiencing political unrest, expatriates often receive some form of hazard pay, such as an additional 25 percent of their base salary. *See Hazardous Duty Pay Policy: By Position and Location.*

- **Cost-of-living adjustments.** A cost-of-living adjustment is an increase or decrease of an expatriate employee's pay in response to fluctuations in the economy, such as inflation or deflation. To prevent attrition of the global employee's purchasing power, companies often raise the employee's base salary to keep up with inflation. When price levels drop, companies may also decrease the base salary accordingly.
- **Educational assistance.** Educational assistance for dependents of expatriate employees varies based on conditions in the host country. Assistance is usually not provided if local educational institutions are deemed adequate. When the educational system of the host country is substandard, employers may use a variety of benefits, such as employers operating a school in the foreign country; paying for dependents' educational expenses, including room and board, to attend schools in the United States; or providing an allowance for attendance at private schools in either the United States or the host country. Other employers may simply choose to pay employees a specified amount (stipend) considered necessary for schooling at the nearest adequate school, and the employees make up any difference to send their dependents to an institution of their choice.
- **Housing assistance.** Assistance for housing is usually provided either in the form of free company-owned housing or via a housing allowance that is typically equal to the difference in housing costs between the home and host countries or based on a specified percentage of an employee's base salary. Housing allowance rates are usually calculated based on either a single person or a two-person household. For employees with larger families living with them, employers may provide an additional supplement, typically ranging from 10 percent to 30 percent of the two-person allowance.
- **Home leave.** The objective of home leave policies is to give the assignee and his or her family the opportunity to maintain personal and business relationships and remain abreast of any economic, political, social or cultural changes in the home country. Although home leave policies vary among multinational corporations, most policies grant leave based on the employee's level within the organizational structure. Executives, managers and more senior-level professionals are most often granted home leave once a year, or once every other year for a duration of up to four weeks, and lower-level employees may be allowed only a single visit during the course of their assignment. Companies that provide home leave allowances generally purchase or reimburse the employee for any travel-related expenses, such as airline tickets for the employee, spouse or partner and any dependent children younger than college age.

COMPENSATING THIRD-COUNTRY NATIONALS

Third-country nationals (TCNs) are employees who are not from the home country or the host country. TCNs have traditionally been technical or professional employees hired for short-term employment and are often considered international freelance employees. *See What are the differences among a local national, an expatriate, a third-country national, and an inpatriate?*

In the case of TCNs, multinational companies have one of three options regarding compensation:

- Pay the TCNs as if they were local nationals.

- Treat them as any other U.S. citizen would be treated.
- Establish an arrangement based primarily on the third country's existing pay ranges.

The option a company chooses depends primarily on how these employees were hired into the organization or how they obtained the international assignment. The most common practices include the following:

- If the company is hiring locally in the host country, a TCN who applies for a job (including a professional or managerial position) may be assumed to be applying under the terms being offered. In this case, unless the TCN was specifically targeted and individually recruited for the position, he or she would most likely be offered the same compensation package provided to other local nationals.
- If a TCN who is already employed by the company transferred or reassigned from another country, the compensation arrangement usually depends on the individual's particular career pattern. TCNs who occupy positions that involve regular transfers or reassignments are most likely to be compensated on the same basis as any one of their U.S. counterparts who are also subject to frequent transfers. This approach, however, may require that these employees be paid based on U.S. salary ranges that are adjusted to support differences in locations each time a transfer occurs.

Benefits

Global benefits for expatriates can be complicated for HR professionals to navigate, given the myriad national health care and pension systems and the laws governing foreign residents. *See* Do we have to offer the same benefits to our employees who work in other countries as to the employees working in the United States?

HEALTH CARE PLANS

Health care coverage can pose significant challenges for expatriate employees because not all U.S. health care plans provide coverage for employees residing abroad. For this reason, the practice of providing health care benefits varies greatly among multinational companies. Multinational companies can provide coverage to employees in one of the following ways:

- Include the assignee in an international health care plan.
- Continue coverage under the U.S. health care plan.
- Provide coverage for the employee through a host country health care plan.
-

RETIREMENT PLANS

Regardless of the compensation approach a multinational company chooses to adopt, most companies commonly provide assignees with the same level of Social Security and pension plan benefit coverage, without any interruption in service, as enjoyed by other employees in the home country location.

Some countries require expatriate employees to participate in their social security or other government welfare benefit schemes. In this case, many companies provide for reimbursement of any payments made to the host country's government scheme.

SPOUSAL/PARTNER ASSISTANCE

Since approximately half of all U.S. marriages are dual-earner partnerships, dealing with

international assignments can pose significant challenges for the trailing spouse or partner, the expatriate employee and the sponsoring organization.

Trailing spouses face many challenges to finding suitable employment in the host country, including language and legal barriers as well as differences in educational, professional or licensing requirements.

Assistance with job searches, visas or work permits, career and educational counseling, and resume writing are just a few examples of the types of assistance a multinational employer can provide spouses or partners of transferring employees. A less common approach is to offer a financial sum to spouses of expatriate employees for any loss of income resulting from the relocation.

Training

Other add-ons that are less commonly offered but can significantly ease expatriate package negotiations include cultural competence training, language training and repatriation assistance.

CROSS-CULTURAL TRAINING

The purpose of these programs is to enhance the knowledge and awareness about the employee's new location and the cultural differences affecting communication, behaviors and viewpoints. Training programs typically last a few days; however, for assignments to more remote or difficult locations, programs may also include security training that lasts for a longer period of time. The length and type of training should be directly related to the perceived level of assignment difficulty or differences in the assignment country.

Employers may conduct training either as an individual program for a single transferring employee and his or her family or as a group program when a number of employees are transferring to the same location within the same general time frame. However, it is advisable when conducting group training to also provide individuals with one-on-one time with the trainer to discuss any specific issues related to the employee's job responsibilities or to address any other more personal concerns or issues. *See* Helping Expatriate Employees Deal with Culture Shock.

LANGUAGE TRAINING

The inability to communicate can create a sense of vulnerability and loss of control. A basic knowledge of the language empowers expatriate employees to build critical relationships with host country nationals. Some jurisdictions require that employee communications be in the local language.

Most companies provide some form of language training for expatriate employees assigned to countries where they are nonnative speakers. Training program options include the following:

- Intensive total immersion courses.
- Cross-cultural training with integrated language instruction.
- Private tutoring or coaching.
- Group language classes.
- Use of language software or audiovisual applications.

REPATRIATION/REASSIGNMENT

Expatriate pay considerations do not end when the assignment ends. Pay can be a significant factor in making it difficult for a person to repatriate. Often employees returning home realize

they made considerably more money with a lower cost of living in the host country; returning to the home country means a cut in pay and standard of living. If the foreign compensation package is disproportionate, an expatriate can suffer financial issues upon repatriation or reassignment to the home or other foreign country. Expatriate families and employees benefit from repatriation training to help readjust to living in the home country and returning to the original work environment. The length of the training often depends on the length of the assignment and the ages of the employees' children. *See Managing International Assignments.*

Similarly, if the leading motivator of the expatriate employee is the long-term career aspect, the company needs to provide a challenging assignment upon return to the home office or shortly thereafter. If this is not feasible, communication about future plans for such an assignment and the timing should come from a mentor or a member of the senior management team. Otherwise, the company may risk losing its entire investment to turnover of returning expatriate employees.

Tax Compliance

United States citizens and resident aliens are taxed on their worldwide income, whether the person lives inside or outside the United States. Multinational companies take one of four approaches to ensure tax compliance:

- Employees are responsible for their own taxes.
- The employer determines tax reimbursement on a case-by-case basis.
- The employer pays the difference between taxes paid in the United States and the host country.
- The employer withholds U.S. taxes and pays foreign taxes.

Qualifying U.S. citizens and resident aliens who live and work abroad may be able to exclude from their income all or part of their foreign salary or wages, or amounts received as compensation for their personal services. In addition, they may also qualify to exclude or deduct certain foreign housing costs.

The foreign earned income exclusion allows an expatriate's annual employment earnings income (up to a cap that is adjusted each year for inflation) to be exempt from U.S. gross. The foreign housing exclusion provides for the amount of housing expenses in excess of U.S. norms to be excluded from taxable income. A foreign tax credit of the amount of foreign tax imposed on overseas earnings can be used to offset the amount of U.S. tax otherwise due by the U.S. citizen or resident.

A common misconception that contributes to the international tax gap is that this potentially excludable foreign earned income is exempt income not reportable on a U.S. tax return. In fact, only a qualifying individual with qualifying income may elect to exclude foreign-earned income, and this exclusion applies only if a tax return is filed and the income is reported. *See Where do expatriates pay income tax?*

U.S. income tax is calculated on foreign-source income and translated to U.S. dollars at the time of receipt. Blocked currency, which is foreign income that is not readily convertible into U.S. dollars, does not constitute taxable income and may generally be deferred until the currency is convertible into U.S. dollars or is used for nondeductible personal expenses. Withholding of U.S. income tax is not required if the employer is required to withhold the host country's income tax.

The U.S. Social Security tax is mandatory if services are performed by a U.S. citizen or resident, and if the employment is for a U.S. employer or for an affiliate of a U.S. company with a 3121(l) agreement. An entity is an affiliate if the U.S. company owns at least a 10 percent interest in the voting stock or profits of the entity. However, employees performing services for an international organization are exempt from FICA, FUTA and federal income tax withholding because services rendered for international organizations do not constitute employment, and remuneration for services rendered to international organizations does not constitute taxable income. Organizations that qualify as international organizations are those that have been designated as such by the president of the United States. The exemption applies to citizens and residents of the United States as well as to nonresident aliens. *See* When an employee is on an international assignment, are we required to withhold Social Security tax from his or her wages?

Although foreign tax rules vary significantly by location, local taxing authorities also reserve the right to impose taxes on any income earned by the expatriate employee in the host country.

EQUALIZATION, REDUCTION AND TOTALIZATION AGREEMENTS

To prevent an expatriate employee from suffering excess taxation of income by both the U.S. and host countries, many multinational companies implement either a tax equalization or a tax reduction policy for employees on international assignments.

A tax equalization policy is an agreement between the employer and the employee to reduce the employee's wages, for which the employer agrees to assume the obligation for the worldwide tax liabilities of the employee. Equalization is accomplished by the use of a hypothetical tax. The hypothetical tax is calculated as if the employee had never left the United States, and it represents the employee's normal or expected tax liability for U.S. income.

Tax equalization is implemented by the use of advances to the employee; proceeds of the advance go to the tax authorities on the employee's behalf. These advances are settled at year end. The result is deferred compensation to the employee, which the host country does not tax.

Under a tax reduction policy, expatriates gain from the differences in income taxes in the United States and the foreign country to which they are assigned, or the compensation of expatriates is adjusted so they experience no loss in income as a result of the net effect of income taxes, both foreign and U.S.

Additionally, the United States government has Totalization Agreements in effect with several countries. These agreements eliminate dual coverage of employees by both the home and host countries. U.S. International Social Security Agreements coordinate with comparable programs in other countries. These agreements assign coverage according to objective rules, provide for no individual coverage elections and require that the employee remains covered by the home country and is exempt in the host country. The expatriate assignment must be for a period of five years or less, and the employee must remain an active employee of the sending employer.

All agreements exempt expatriates from the host country's version of the U.S. Old Age, Survivors, Disability and Health Insurance (OASDHI) program. Some agreements also exempt them from other foreign benefits, such as health insurance, unemployment insurance, workers' compensation, family allowances, cash sickness benefits and maternity benefits.

TAX TREATIES

The United States has income tax treaties with a number of foreign countries. Under these treaties, residents (not necessarily citizens) of foreign countries are taxed at a reduced rate or

are exempt from U.S. income taxes on certain items of income they receive from sources within the United States. These reduced rates and exemptions vary among countries and specific items of income. Treaty provisions generally are reciprocal in that they apply to both treaty countries. Therefore, a U.S. citizen or resident who receives income from a treaty country and who is subject to taxes imposed by foreign countries may be entitled to certain credits, deductions, exemptions and reductions in the rate of taxes of those foreign countries. Treaty benefits generally are available to residents of the United States. They generally are not available to U.S. citizens who reside outside the United States. However, certain treaty benefits and safeguards, such as nondiscrimination provisions, are available to U.S. citizens residing in the treaty countries. *See* Tax Guide for U.S. Citizens and Resident Aliens Abroad.

STATE TAXES

Many states impose taxes on the foreign income of expatriate employees who maintain a home in that state. In addition, states also may impose unemployment insurance taxes on employers that have employees with homes in that state. The reasoning is that, like other resident citizens, the employee derives certain benefits from the state, and the state where the employee resides is the most plausible place for an unemployed worker to seek unemployment compensation.

Expatriate compensation:

The globalization of our world economy has evolved significantly over recent decades as organizations have sought opportunities to perpetuate and remain competitive (Lowe et al., 2002). One of the most obvious implications has been the tremendous increase in the number of US workers who are being transferred to foreign countries. In fact, current estimates suggest that over two million Americans are working abroad for US companies at any given time (McCallum and Olson, 2004; Peterson et al., 1996). Previously, being sent on an overseas assignment was an indicator of a career in decline. Currently, however, many organizations, particularly larger multinational corporations (MNCs), consider an overseas assignment a prerequisite for advancing one's career (Chen et al., 2002; Ioannou, 1995).

The use of expatriate employees by organizations in their foreign subsidiaries represents a substantial investment with costs of expatriate failure reaching exorbitant levels (Baruch, 2004). Specifically, recent estimates suggest that each expatriate failure, a premature departure, can cost an organization in excess of \$1 million (Insch and Daniels, 2002; Wentland, 2003). Taken in aggregate, expatriate failure costs US firms approximately \$2 billion per year (Punnett, 1997).

One of the issues that organizations have to address when considering this failure rate is the role that compensation plays in the whole expatriate dynamic (Baruch, 2004). From an operational perspective, many organizations have adjusted or entirely revamped expatriate compensation (Phillips and Fox, 2003). Organizations quickly discovered that compensation is among the most important factors a prospective expatriate considers when accepting an overseas assignment (Baruch, 2004). In today's intensely competitive labor market attracting and retaining the best and brightest professionals is the lifeblood of any successful organization with global operations. Further, experienced expatriates are more valuable than ever as organizations continue to extend their global markets. This is crucial since organizations need expatriates who can lead the charge as they seek out new global clients and new revenue streams (Dwyer, 1999; Sims and Schraeder, 2004; Zingheim and Schuster, 2001).

A lack of expatriate professionals who know the business and are motivated to perform at the highest level could result in companies not being able to compete adequately in

emerging foreign markets. Further, compensation of expatriates is regarded as a key component in the effectiveness of global operations (Lowe et al., 2002). This reinforces why it is imperative for organizations to effectively compensate expatriates, regardless of location (Dwyer, 1999; Freedman and Vardy, 1998). In regard to compensation, average pay can range depending on a number of factors. Higher packages can range from \$300,000 to \$1 million per year (Wentland, 2003).

To gain a better understanding of pertinent issues related to expatriate compensation, leaders of global organizations need to be aware of several important contextual factors impacting expatriate compensation. More specifically, they should be aware of key factors an organization should consider when compensating expatriates. They should also be cognizant of the commonly used approaches parent organizations utilize to determine the appropriate levels of expatriate compensation. Baruch (2004, p. 220) aptly stated that "... while general guidelines should lead to a 'fair' and constructive system, situational factors will force companies to be inventive and flexible in setting and managing the remuneration system across borders".

The present study was designed, in part, to address these two important considerations by looking at the "how" and "why" of expatriate compensation. The primary purposes of this study were to identify key factors that should be considered when developing expatriate compensation plans and to identify approaches to expatriate compensation that are most prevalent amongst organizations relying heavily on the use of expatriates in their foreign operations.

Expatriate compensation: a closer look at the fundamental issues

Expatriate compensation has long been a source of frustration for organizations. Despite efforts to develop effective expatriate compensation plans, many organizations simply do not obtain the "return on investment" they expect from their plans. Some organizations may have dual and often conflicting goals with respect to compensation systems. For example, on one hand, the organization must seek to control the escalating costs often associated with expatriate compensation packages. However, on the other hand, the organization must be equitable to their current expatriates, while ensuring the organization offers a compensation package competitive enough to attract, retain, and motivate expatriates. Addressing this dilemma often requires a very complicated balancing act for organizations (Cryne, 2004; Gould, 1999). Yet, in order to attract, retain, and motivate qualified expatriates, organizations must find this coveted balance in order to remain competitive in their foreign operations.

This contention is supported by Dwyer's (1999) research arguing that without expatriate professionals who know the business, professionals who are motivated to perform at the highest level, companies may not be able to compete adequately in distant markets. According to Dwyer, expatriate compensation packages are a key requirement for accomplishing success in the foreign operation. Wentland's (2003) research tends to support Dwyer's work in that Wentland focuses on the importance of the selection process in maintaining the viability of an organization's foreign operations. Again, this leads to a variety of pertinent questions that must be considered. Specifically: what factors affect how expatriate compensation is determined? How does the parent organization, in effect, keep the employee whole? How do local market conditions in the host country affect expatriate compensation? There are numerous factors to consider when developing expatriate compensation plans and many organizations are simply not "getting it right" as suggested by a number of studies (e.g. Chen et al., 2002; Wentland, 2003). Some of the most prominent contextual or situational factors identified from a synthesis of related literature are summarized below.

Salient contextual factors affecting expatriate compensation

Ask any international human resource executive about the goal of expatriate compensation packages and they will probably use the word “whole” or the concept of wholeness in their answer: “To keep employees whole” (Oemig, 1999, p. 40). “Wholeness” may mean different things to different groups. In general, however, the concept of wholeness refers to the organization’s desire to ensure that the expatriate does not experience an overt gain or loss when all elements of the compensation package are combined (Wentland, 2003). From the expatriate’s perspective, however, wholeness may embody their desire to avoid spending a dollar more while abroad than they would at home for any given expense category.

Expatriates may even take the concept of wholeness a step further by expecting some type of “hardship” or incentive pay for accepting the expatriate assignment (Oemig, 1999; Wentland, 2003). This may result in a dilemma – the organization’s conceptualization of wholeness may not be congruent with the expatriate’s expectations (Oemig, 1999; Wentland, 2003).

How, exactly, does an organization accomplish “wholeness” considering the fact that many expatriates may be in locations characterized by a deficiency in infrastructure, modern conveniences, schools for children, shopping facilities, and even adequate healthcare? Even those expatriates located in developed countries may not be “whole” (or, perhaps even more importantly, perceive themselves as being kept whole) if simply provided their traditional compensation packages (Oemig, 1999; Wentland, 2003).

As a result, many organizations find themselves in the position of having to offer expatriates a variety of alternative compensation elements in order to maintain their sense of “wholeness.” The following sections will more closely examine the primary factors associated with “wholeness” within the context of expatriate compensation.

Host country market cost of living

A key factor that has an impact on expatriate compensation is the consideration (by the parent organization) of local markets in the host country. Research indicates that perhaps no other variable has a greater impact on expatriate compensation (relative to the home country’s compensation system and market) than the cost of living in the host country (Frazee, 1998b; Overman, 2000). The vast majority of firms (some 92 percent of firms included in a frequently cited study conducted by Price Waterhouse in 1996 of 370 firms that utilized expatriate employees) consider the cost of living in the host country when computing expatriate compensation (Frazee, 1998b). Generally, employers use a “no loss” approach when developing compensation packages. Within this framework, expatriate compensation is adjusted upward for higher costs of living, but is not adjusted downward if the cost of living in the host country is less than the home country (Frazee, 1998b; Overman, 2000).

Typically the parent organization will consider several additional factors when computing the anticipated cost of living. Housing, children’s education, and healthcare costs will be discussed in detail in subsequent sections and, therefore, will not be discussed as “market costs.” Consideration of the local markets (often referred to as host country cost of living) usually involves an analysis of the cost of goods and services in the host country. The analysis, particularly for an organization with expatriates in multiple countries, may be conducted by an independent consulting firm (Solomon, 1995). Cost of living adjustments are usually added as a percentage increase to the expatriate’s base pay.

Adjusting expatriates’ pay based on market costs in the host country may vary widely. For example, a cost of living adjustment in Japan, where gasoline prices are in the five to six dollar range per gallon and where just about everything costs more than in the USA, would be substantial. A recent estimate in one study for a “goods and services allowance” for Japan was an additional 50 percent added to base pay – the highest of any country. Hong Kong was the second highest with approximately 30 percent being added to the expatriate’s base pay, and

Mexico a close third having just under 30 percent added to base pay in the form of a goods and services allowance (Aschkenasy, 1997). The cost of living adjustment for an expatriate located in a developing country, with a very low cost of living, may be substantially less than the estimates associated with prior examples (Solomon, 1995).

In general, prospective expatriates have come to expect that employers will consider local markets and the prices of goods and services in the host country when developing expatriate compensation packages (Wentland, 2003). Also, expatriates expect the parent company to adjust the company package (relative to the firm's US compensation system) to reflect any additional cost of living, thereby keeping the expatriate "whole" or in some cases, more than whole (Oemig, 1999).

While many expatriates consider local market adjustments to be "only fair" and a simple matter of preventing any erosion of their purchasing power, local market adjustments added to expatriates' home country salaries may represent huge Expatriate compensation 101 incremental costs and may become a substantial financial burden to the parent organization. Local market cost of living adjustments are one of the primary reasons why some firms are attempting to reduce the number of their expatriates by "going local." Also, organizations are experimenting with a very different approach to expatriate compensation, referred to as "destination-based."

Health care

According to research by Frazee (1998a), healthcare is one of the primary concerns of expatriates yet it has been largely neglected by researchers. Frazee's research indicates that only 65 percent of international placements are satisfied with the healthcare service they receive under their current expatriate compensation benefits package. Fully a third claimed that the plans provided by their employer, while on foreign assignment, were inadequate resulting in the expatriate not receiving adequate and timely treatment for illness or injury. In some cases the chief complaint was an "unreal bureaucracy" to process claims for treatment in the host country (Frazee, 1998a).

Often, due to US carrier liability restrictions, the home organization may have a separate insurer for expatriates. Say, for example, the insurer is French but the expatriates are located in Hong Kong. Claims, written in Chinese and itemized in Hong Kong currency are sent to the French insurer who may be unaccustomed to dealing with this kind of paperwork. The result may be a situation in which the documents must be translated and the currency converted (incidentally, currency exchange rates may fluctuate in the interim) extending the reimbursement process for months, if not longer (Frazee, 1998a).

Traditional approaches to providing expatriates with healthcare benefits are slowly changing. Some organizations are contracting with insurance companies that offer special plans tailored to the needs of expatriates, such as Cigna and Aetna. These insurers have processes in place to handle language translation and even remove the risk of currency fluctuation. Expatriate claims may be handled internally or outsourced. The result can be that expatriate claims are paid in ten to 15 days, compared to months or even more than a year. Of course, these types of insurance plans, tailored to expatriates and organizations utilizing expatriates, are generally more expensive than a comparable plan for home based employees. However, many organizations feel that they have little choice regarding the provision of these costly insurance plans in an effort to keep their expatriates whole (Frazee, 1998a). Moreover, healthcare is such a critical part of any employee's compensation plan that parent organizations have discovered, particularly when it comes to expatriate healthcare, that a policy causing the least disruption is often prudent (Oemig, 1999).

Housing

A housing allowance or even free housing is often a critical component of an expatriate compensation package (Wentland, 2003). In one study, research indicated that close to a third of organizations provided completely free housing to their expatriates (Gould, 1997; Wentland, 2003). Depending on the nature of the country of assignment, comparable housing for the expatriate may not be available. This could be the case regardless of the level of economic development of the host country. For example, an expatriate family who leaves their 2400 square foot split-level house on a quiet “cul-de-sac” may be quite shocked when they are moved into the company provided CDI 10,2 102 1,200 square foot apartment in Tokyo (Oemig, 1999). Conversely, in some less-developed countries, the housing available for expatriates may exceed the expectations of expatriates (Oemig, 1999). Expatriates often congregate in what have been referred to as “expatriate ghettos.” These are hardly ghettos, however. Instead, they are isolated upper-class communities in which there may be little or no contact with host country nationals (HCNs) (Frazee, 1998b). One would find examples of such communities in Saudi Arabia.

Realizing that adequate housing is a crucial factor in successful expatriate adjustment, many organizations continue to assist the expatriate by both locating and subsidizing housing. Many organizations, as well as their expatriates, continue to view housing assistance as a key part of the expatriate compensation package (Oemig, 1999).

Foreign taxes

Another important factor that often affects expatriate compensation is the issue of dual taxation (Swaak, 1995; Wentland, 2003). Without assistance from the parent company, the expatriate may be in a situation where they pay their US taxes and the taxes imposed by the government of the host country since US expatriates are required to pay taxes on their worldwide income (McCallum and Olson, 2004). There may be an array of additional taxes in the host country. These could include significant income and sales taxes, plus unexpected taxes such as excise taxes on imported goods. If an expatriate and family must ship their household items, including an automobile, excise taxes have the potential to be quite high. Often, however, the parent company may cover much, if not all, of this additional tax burden (Kates and Spielman, 1995; Phillips and Fox, 2003). This element of expatriate compensation is often referred to as tax equalization or tax protection (Phillips and Fox, 2003).

The US Internal Revenue Service does permit a deduction of up to \$70,000 on foreign earned income (when certain time in host country requirements are met). However, it is not uncommon for managerial level expatriates to earn more than \$70,000, thus being assessed two tax bills (Hodgetts and Luthans, 1993). As previously mentioned, parent organizations may offer to pay any extra tax burdens. The goal, however, is not to relieve the expatriate of any and all tax burdens. Most organizations calculate the difference by determining the base salary and other extras (such as bonuses) that the expatriate would earn if based in the home country. The taxes on this income are then computed and compared with the taxes due on the expatriate’s income. Any taxes exceeding what would have been imposed in the home country are paid by the parent organization. Any windfall (due to the \$70,000 US income tax exclusion on this amount of foreign earned income, for example) is usually kept by the expatriate as a reward for taking the assignment (Hodgetts and Luthans, 1993; Phillips and Fox, 2003).

Children’s education

Another factor impacting expatriate compensation is the inclusion of an education allowance, or even free education for the children of expatriates. Many organizations employing expatriates have realized that numerous and complex family issues are involved in an expatriate assignment, including uprooting children from schools. Traditionally, the company has footed the bill for children’s schooling at an Expatriate compensation 103 international school that can

provide some form of continuity in curriculum and language. While the cost associated with such an international school may be somewhat high, parent organizations have

realized that “paying up” in these situations is a virtual requirement. Generally, expatriates today are urged to be more flexible as parent organizations seek to reduce their expatriate costs, but some aspects of the expatriate assignment fall into the non-negotiable category. Typically, childrens’ education comes under the “non-negotiable” category (Allard, 1996).

Ultimately, when the parent company covers the cost of adequate education for expatriate children, it makes it easier for the children to reassimilate into the home country school system once the expatriate assignment is complete (Allard, 1996). As previously mentioned, including an allowance for, or paying entirely, the cost of children’s education is often viewed by expatriates as a critical part of their compensation package (Allard, 1996).

Common approaches to developing expatriate compensation packages

The previous sections have been primarily devoted to reviewing the literature concerning the specific factors affecting expatriate compensation. An improved understanding of salient issues associated with expatriate compensation should not be limited, exclusively, to these factors. Specifically, attention should also be given to approaches commonly utilized by organizations in compensating their expatriates. Consequently, the following section is devoted to examining the different approaches to expatriate compensation.

The balance-sheet approach

One of the most pervasive approaches to compensating expatriates is the balance sheet approach. Research suggests that more than 85 percent of US organizations employing expatriates use the balance sheet approach (Overman, 2000; Wentland, 2003). In a 1996 study commissioned by Price Waterhouse, the figure for usage of the balance sheet approach exceeded 90 percent (Frazee, 1998b). While there is some variation in the use of this approach, experts agree that the balance sheet method remains the method of choice for US- based organizations employing expatriates (Frazee, 1998b).

In addition to being the most common approach to expatriate compensation, the balance sheet method is among the oldest approaches to compensating expatriates. The balance sheet approach was designed soon after World War II as a no gain-no loss method of compensating employees for working overseas. The idea was that the employer would sustain the expatriate employee’s standard of living throughout the assignment so that the expatriate family did not come out ahead or behind (financially) from the assignment. In general, the goal of the balance sheet approach is to “provide equivalent purchasing power abroad to help maintain home lifestyle” (Overman, 2000, p. 88).

When parent organizations utilize the balance sheet approach, it is essential to keep expatriate salaries in line with their home country peers, not with host country colleagues. In other words, the focus is on maintaining internal equity with peers in the home country (Reynolds, 2000). Under the balance sheet approach, an expatriate would typically be responsible for the same costs and expenses as a domestic counterpart with the parent company paying additional income in an effort to keep the employee CDI 10,2 104 whole. As a final note, it is important to recognize that there are numerous versions of the balance sheet approach.

Executive compensation packages may include base salary, stock options, personal benefits, perquisites, bonuses, and other benefits relating to compensation.

Everything you need to know about compensation. Compensation is the reward that the employees receive in return for the work performed and services rendered by them to the organization.

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

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

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

Executive compensation, also known as executive pay, refers to remuneration packages specifically designed for business leaders, senior management and executive-level employees of a company. Executive compensation includes benefits such as salaries, perks, incentives, insurances etc.

"Executive compensation refers to the total reward provided by the firms to the top level of executives in corporation, such as Chief Executive Officer (CEO), Chief Operating Officer (COO), Chief Financial Officer (CFO), and a handful of other executives who occupy the very highest level of management".

Quantitative Tools for Compensation:

In order to plan a strong, effective, and attractive compensation plan various quantitative tools are used by organizations.

Modern organizations are making variable compensation a significant percentage of employee compensations in the form of profit-sharing, bonuses, and stock options. This ensures that employees prosper when the company prospers. The higher the position level within the organization, the more likely the employee will receive significant portions of his or her salary in variable compensations.

Variable Compensation plan, as the name suggests, is a plan in which the level of the award varies with some metric. This metric is normally tied to the company or unit performance. It also may have an individual performance metric as well.

There are typically two main categories of variable compensation plans. One is a bonus plan and the other is an incentive plan..

The module includes:

- Retirement plans
- Payroll management
- Incentive determination and employee benefits
- Group incentive payments

- Overtime wages
- Economic Value Added (EVA)
- Quantitative analysis

Retirement plans : The different types of retirement plans include personal plans, government-sponsored plans, employer-sponsored plans, and annuities.

- **Personal Plans:** The Individual Retirement Agreement or IRA is the most popular example of personal retirement plan. These plans vary according to their tax treatment.
- **Government-Sponsored Plans:** the Social Security plan is the largest government-sponsored retirement plan.
- **Employer-Sponsored Plan:** Employers sponsored plans are of two types namely, Qualified and Non-qualified plans.

Payroll Management- It is defined as a method of administrating employees' salaries in organizations. The process consists of calculation of salaries and tax deductions of the employees, administrating the retirement benefits and disbursements of salaries to employees. A payroll system is the medium through which a company processes its payroll. When designing a payroll system, the company should choose a system one that best suits it and also fulfills all the requisitions of law and taxes.

The steps to be taken in designing a payroll system are as follows,

- Payroll requirements should be assessed by the company for the appropriate system to be determined. It is processed by hand in the manual system. The risk of error in this system is high and therefore should only be used by organizations with a relatively small number of employees.
- A company may create a manual payroll computing system. This may be done with the help of standard time sheets or on spreadsheets or office suite program. Checks may be written by hand or by a typewriter. Under this system, wages and deductions are calculated manually and so the company must be familiar with the tax filings and tax deposit laws.
- If the company chooses in-house computerized system, then appropriate software should be acquired. The software can be used to calculate wages and deductions. Moreover it enables direct deposit, prints paychecks and pay stubs, has the tax tables embedded in the system.
- If the external system is chosen by the company, then a payroll service provider must be selected. Generally, these service providers require the companies to upload their payroll hours via the Internet, or send them by fax or email. The providers then process and send the payroll reports and paychecks by each payday. Online access to the system is permitted by some companies, enabling the company to print their own reports and paychecks.

Once the payroll system has been decided upon then comes the calculation of payrolls. The steps for calculating employee payroll are as follows,

- Calculate workers' pay per hour. Hourly workers are to be paid in keeping with their time sheet or card. This includes regular time, overtime and benefit days, such as vacation and personal time. Regular hours and benefit days should be paid at the

- employee's regular pay rate. Overtime should be paid at the rate of 1.5 times his normal pay rate. To qualify for overtime pay, the hourly employee must work for 40 hours for the week.
- Figure salaried employees' pay. Salaried workers should be paid a set pay for each pay period.

Incentive Determination and Employee Benefits- Employee incentives and benefits provide a goal to motivate staff members within an organization. Incentive programs, benefits, and rewards are a positive way for an organization to honor or acknowledge employees' efforts or achievements. Incentive and employee benefit plans are as individualized as the staff in an organization.

Group Incentive Payments- Group incentive programs can cover groups of employees as large as an entire agency or as small as a work unit or team. No matter how large or small the group, a group incentive program should include the following design features:

- **Measurable Performance:** Group incentive programs require reliable, accepted measures of performance. The program must express the desired goals in terms of those measures. The measures can be quantitative or qualitative and are sometimes expressed in financial terms.
- **Specified Performance Period:** Group incentive programs must select a time frame to measure the group's performance, for example, annually or quarterly. Effective incentive programs ensure clear communication with employees about program time-frames and expectations.
- **The threshold for Payments:** Organizations should grant group incentives based on the goals established at the beginning of the performance period. Payouts are made at the end of the performance period each time a group meets or exceeds the established goals.
- **Payout Formulas:** Programs should have clear, understandable payout formulas. If the goal requires some kind of financial gain or savings, those savings usually are split between the agency and the employees. If the goal is to improve performance to a certain level, organizations should distribute funds specifically budgeted for the incentive program.
- **Employee Participation:** High involvement of employees and their representatives at all stages of program design and implementation increases the likelihood that they will understand and accept the program. Involving employees has the unique advantage of allowing them to understand the overall objectives of the organization as well as their specific role in meeting those objectives.
- **Agency Commitment:** Group incentives are powerful but time-consuming management tools. Organizations must commit to a high level of communication and participative management. The program's success depends on the level of upper-management support it receives.

Overtime Wages- Industrial employees are entitled to additional payment for work done beyond the normal working hours. There are two sets of rules applicable to overtime wages.

- **Overtime Wages under Departmental Rules:** In the case of Day Workers, the overtime is paid at the rate of Basic Pay + Dearness Allowances + City Compensatory Allowance + Personal Pay + Special Pay + Pension to the extent as applicable, divided by 200 for each hour of overtime worked. The hourly rate is the same for the work done

both in Day & Night Shift. In the case of Piece Workers, again there are two sets of rules for Departmental rules. It is calculated @ Basic Pay (alone)/200 per hour in the

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day shift. For working in the night shift, an additional element known as Night Shift Bonus is also added. This is calculated for half an hour for each hour of overtime worked under departmental rules @ (Basic Pay + Dearness Allowances + City Compensatory Allowance)/200.

- **Overtime Wages under Factories Act, 1948:** For work done beyond 9 hours a day or 48 hours a week, there are two sets of rules – one for the day worker and the other for the piece worker. Day Worker: Hourly rate of payment which are applicable equally in the day shift as well in the night shift is calculated at the rate = twice the pay & allowances/200.

Piece Worker: Hourly rate of payment in the day shift is calculated at the rate = twice the pay & allowances/200. In the night shift, the same becomes = (twice the pay + pay/4 + allowances)/200.

Economic Value Added (EVA)– A measure of a company’s financial performance based on the residual wealth calculated by deducting the cost of capital from its operating profit (adjusted for taxes on a cash basis).

The formula for calculating Economic Value Added (EVA) is as follows:

There are three components necessary to solve EVA,

- Net Operating Profit After Tax (NOPAT)
- Invested capital
- Weighted Average Cost of Capital (WACC)

Net operating profit after taxes (NOPAT) can be calculated, but can usually be easily found on the company’s income statement.

Quantitative Analysis- The QA area prepares managers and executives to effectively integrate quantitative analysis into their decision making. This includes learning when and how to skillfully employ quantitative techniques skillfully to gain insights into the resolution of practical business problems. Students design analyses to fit circumstances and interpret results in the context of action choices. The most widely applicable methodologies in decision and risk analysis, forecasting and data analysis, probability and statistics, competitive analysis, optimization and management science are studied and applied in realistic case situations. QA faculty members have applied research interests spanning all of the functional areas of business and pursue research whose origins are firmly rooted in the problems of practicing managers. The elements of compensation are analyzed quantitatively on the basis of the following pay anchors,

- **Total Fixed Cash Compensation (TFCC):** This is a summation of basic salary, all fixed cash allowances and any guaranteed payments made to employees.
- **Total Variable Pay (TVP):** This refers to any bonus, long term/ short term incentive payments made to an individual directly linked with company and/or individual performance.
- **Total Cash Compensation (TCC):** This is a summation of all pay components paid in

cash whether fixed or variable and is computed by adding up Total Fixed Cash Component and Total Variable Pay. All benefits paid to the employees are over and above this.

- **Pensions:** This includes any long term contributions made for a retirement or superannuation plan.

4 Major Objectives on Which Most of the Expatriate Compensation Plans Are Designed

Major objectives on which most of the **expatriate** compensation plans are designed are mentioned below:

The whole area of international compensation presents some tricky problems. On the one hand, there is logic in maintaining uniformity in companywide pay scales and policies so that the employees in the same cadre are paid within the same narrow range.

This reduces the risk of perceived inequalities and dramatically simplifies the job of keeping track of disparate country-by-country wage rates. But not adopting pay scales according to local markets can produce more problems than it solves.

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

1. Attract employees who are qualified and interested in international assignments. Thus the compensation policy works to attract and retain staff in the areas where the multinational has the greatest needs and opportunities.
2. Facilitate the movement of expatriates from one subsidiary to another, from home to subsidiaries, and from subsidiaries back home. To achieve this policy must be competitive and recognise factors such as incentives for Foreign Service, tax equalisation, and reimbursement for reasonable costs.
3. Provide a consistent and reasonable relationship between the pay levels of employees at headquarters, domestic affiliates, and foreign subsidiaries and
4. The policy must be made cost-effective by reducing unnecessary expenses. It must give due consideration to equity and ease of administration.

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

1. The employee will expect that the policy offers financial protection in terms of benefits, social security, and living costs in the foreign location.
2. The employee will expect that a foreign assignment will offer opportunities for financial advancement through income and/or savings.

3. The employees will expect that issues such as housing, education of children and recreation will be addressed in the policy.

Determining equitable wage rates in many countries is no simple matter. One of the greatest difficulties in managing total compensation on a multinational level is establishing a consistent compensation measure between countries that builds credibility both at home and abroad. There are four basic approaches to compensation:

1. HQ-based model: Expatriates are paid according to the headquarters compensation structure.

2. Modified home-country model: Expatriates are paid according to their home- country salary structures, and their living standard is protected so as to be comparable to the home country or some other chosen standard.

3. Better of home or host model: Expatriates receive the higher of the home-country system or the host-country system.

Host-country/local-market package: Expatriates are paid according to the host-country compensation structure.

Besides the above, some multinational companies conduct their own local annual compensation survey. The survey covers all forms of compensation including cash, short and long term incentives, retirement plans, medical benefits, and pre-requisites. The information collected from the survey becomes the basis for annual salary increases and proposed changes in the benefits package.

International Compensation:

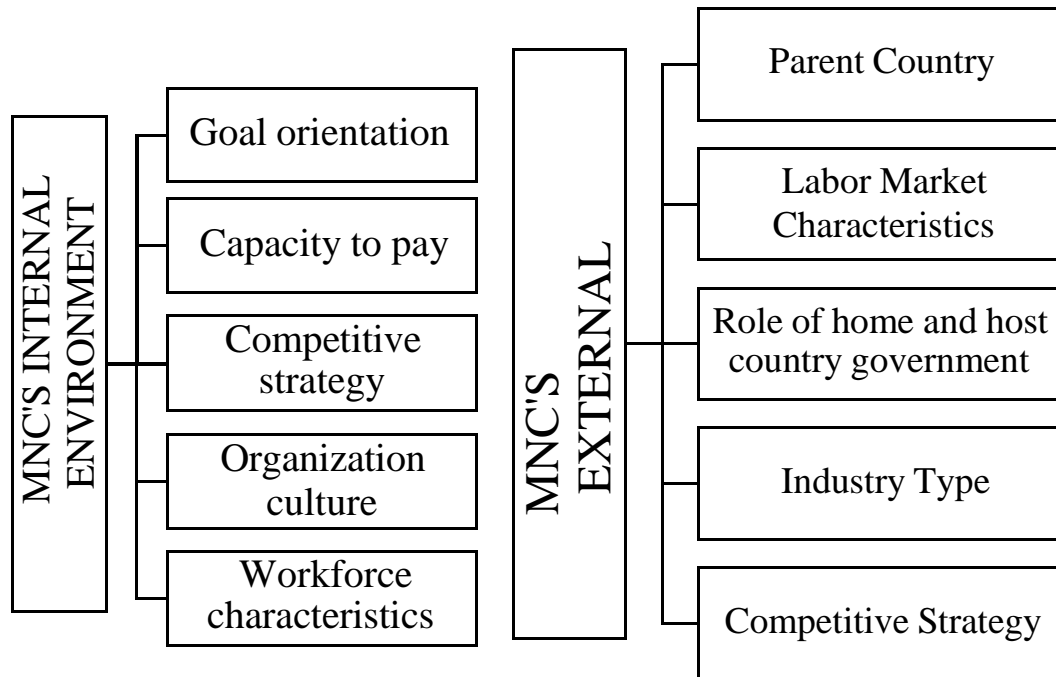
- Compensation is the remuneration received by an employee in returns of their contribution to the organization.
- Compensation is extrinsic reward for an employee. Extrinsic rewards include praise from a superior, salary, employee benefits, career progression etc.
- International compensation refers to all forms of financial returns and tangible benefits that employees of an international organization receive from their employer in exchange for providing their labor and commitment.
- Almost all the employees accept jobs in MNC's take-up assignments in various countries, & take-up the risk, bear inconveniences & discomforts in foreign assignments mostly based on the compensation package.

Objectives of Compensation:

- Recruit & Retain Competent Employees
- Consistency & Equity in Pay
- Employability in a Cost Effective

- Financial Protection to Employees
- Organizational Ability to Pay
- Comparative & Comparable
- Benefit Management
- Improve Organizational Performance

Factors Affecting International Compensation



Internal Variables Affecting International Compensation Strategy

- Goal orientation - UK-based foam manufacturer Zotefoam, where equality is a key aspect of HRM in the company's mission, the only perks that differentiate executives from other workers are private health insurance and a car allowance – MD of the firm sees the internationalizing firm as one with minimal status differences between levels in the org. hierarchy.
- Capacity to pay - Cost constraints on the enterprise
- Competitive strategy - If for eg., as part of the MNC competitive strategy, the IHRM strategy is to be a market leader in employee compensation in order to compete for the most competent candidates, then the levels of compensation might well be higher than if the competitive strategy is based on, say, the provision of secure employment.
- Organization culture- It also influences the degree to which employees are compensated on the basis of seniority, in contrast to personal connections or performance.
- Workforce characteristics -Age, education level, qualifications and experience, along with workforce tastes and preferences, and labor relations factors such as nature of

employment relationship (level of TU involvement within MNCs) will result in different international compensation approaches.

External Variables Affecting International Compensation Strategy

- Nationality of the parent country - In terms of culturally determined values and attitudes towards compensation policy and practices – local culture influences international compensation strategy through the dominant societal values, norms, attitudes and beliefs concerning for eg. bases for compensation differences (performance, family connections, gender), degrees of compensation differences between managerial and non- managerial employees, and the propensity for using particular types of compensation (pay incentives and benefits).
- Labor market characteristics of supply and demand - Education and skill levels, ages and experiences of those in the labor market.
- Role of home and host country government in labor relations Affect the level of govt. regulation of the labor market and employment relationship, including compensation of the workforce
- Industry type
 - Evidence from two global industries, scientific measuring and medical instruments suggest that MNCs competing in a global industry may be more likely to allocate rewards based on corporate and regional performance rather than on subsidiary performance, as favored by MNCs competing in a multi-domestic industry .
 - Different industry sectors also have different norms and practices for international compensation (eg. service-sector and high technology MNCs have been more likely than manufacturers to incorporate equity- based options in their international compensation strategies
- Competitors' strategies
 - Even if the MNC is not seeking to be a market leader in international compensation, it generally cannot afford to fall behind market rates across its locations, as it will risk losing valuable employees to competitors

Components of International Compensation

Designing and developing a better compensation package for HR professionals for international assignments requires knowledge of taxation, employment laws, and foreign currency fluctuation by HR professionals. Moreover, the socioeconomic conditions of the country have to be taken into consideration while developing a compensation package. It is easy to develop the compensation package for the parent country national but difficult to manage the host and third-country nationals. When a firm develops international compensation policies, it tries to fulfill some broad objectives: The compensation policy should be in line with the structure, business needs and overall strategy of the organization.

- The policy should aim at attracting and retaining the best talent.
- It should enhance employee satisfaction.
- It should be clear in terms of understanding of the employees and also convenient to administer.

- The employee also has a number of objectives that he wishes to achieve from the compensation policy of the firm. He expects proper compensation against his competency and performance level. He expects substantial financial gain for his own comfort and for his family also. *He expects his present and future needs to be taken care of including children's education, medical protection, and housing facilities. The policy should be progressive in nature.*

7 Key Components of an International Compensation

1. Base salary
2. Foreign Service inducement/hardship premium:
3. Allowances:
4. Education Allowances for Children:
5. Relocation Allowances and Moving:
6. Tax Equalization Payments:
7. Spouse Assistance

Repatriation issues-

Repatriation is the return of a thing or person to its country of origin. The term may refer to non-human entities, such as converting a foreign currency into the currency of one's own country, as well as the return military personnel to their place of origin following a war. It also applies to diplomatic envoys, international officials as well as expatriates and migrants in time of international crisis. For refugees, asylum seekers and illegal migrants, repatriation can mean either voluntary return or deportation. The repatriate may have to cope with reverse culture shock, no promotion upon return, no opportunity to use the knowledge gained during their assignments or no recognition. This research paper focuses on different factors which influence repatriate adjustment.

Repatriation is the process of returning of a person back to one's place of origin or citizenship. It is likely that problems of repatriation and reverse culture shock will affect the employee for some time. Reverse culture shock is quite similar in effect to a cultural shock that the employee experiences as the employee gradually gets used to living abroad. The various phases include the honeymoon phase, where the employee is happy to return to what he/she perceives as home; followed by an inevitable rejection and persistent nostalgia for the expatriate lifestyle. While this should ideally lead to an adaptation to the "new old" home, the process is long and gradual, often taking up over two years to resolve.

Expatriates tend to focus on practical issues that go hand in hand with returning to the home country – paying off bills, flight tickets, freight issues, etc. Unfortunately, intellectual and emotional preparations required to deal with the change in environment are generally neglected in this process, causing the onset of severe repatriation problems. Generally, the repatriate is surprised to find himself experiencing an intense re-entry cycle; that parallels the one he experienced abroad. Stages of this process include a feeling of shock and homesickness and gradual acceptance and reintegration into society. Reentry is capable of on-setting the same restlessness and vague dissatisfaction with life that is often triggered by initial culture shock.