Q1 (a) List out the significance of Internal alignment.

It is **important** and vital to organizations and individuals. ... **Internal alignment**, often called **internal equity**, refers to the pay relationships among different jobs/skills/competencies within a single organization. **Internal alignment** addresses relationships inside the organization

(b) Explain various social security benefits.

Four basic categories of **Social Security benefits** are paid based upon the record of your earnings: retirement, disability, dependents, and survivors **benefits**. These **benefits** all fall under the Old Age, Survivors And Disability Insurance Program (OASDI), which is the official name of **Social Security**.

(c) Discuss the various methods of calculation of compensation

1. STRAIGHT SALARY COMPENSATION

Straight salary refers to the basic salaries and wage given to the worker. In most companies, the base pay is determined by the worker's job title and job role. The company sets a minimum and maximum range that can increase, decrease or remain the same, depending on the worker's performance.

- Salespeople are usually paid on a straight salary compensation, in which there is no opportunity to earn incentives.
- Straight salary plan can help promote a sense of equality among sales people who work as teams or small groups, for everyone is paid equally and the contribution of each team member is also expected to be equal.
- A straight salary can greatly benefit someone who is transferring to a new territory. Once the person has established himself in the area, the company can switch to performance-based salary.

2. SALARY PLUS COMMISSION

This is one of the most reliable types of compensation plans. An employee who agrees to this type of compensation will receive a base salary along with an additional bonus if performance hits or exceeds earning goals.

- In most companies, the bonus is usually tied to a budget or other target that has little significance to the employee.
- Employees earning salary plus commission will have higher income tax rates than a self-employed agent.
- Employees are guaranteed to receive at least base salary to pay the bills, even during a time period when their sales are low.

3. COMMISSION ONLY

This is a primary method for compensating independent sales agents. It is a highly attractive model, especially to start-ups who are seeking to penetrate a specific territory.

- In commission only jobs, companies offer a safety net in the form of "draw against commission." The company pays its salespeople a set amount known as a "pre-determined draw" at the beginning of each pay period. At the end of the pay period, this prepayment is drawn from how much the salesperson earned in commissions. If a

salesperson earns more commissions than he was paid, he keeps the extra money. If he earns less in commissions, he must pay the remainder back to the company.

- If an employee makes no sales during a month, he doesn't get paid. However, successful salespeople tend to make a lot of money with commission than with a salary plus commission job.

4. TERRITORY VOLUME COMPENSATION PLANS

This type of compensation is well-suited for employees who work in a team-based culture. The compensation is usually calculated by finding out territory volume. The sales numbers are added up and all commissions are split equally among all sales professionals.

- This type of compensation plan puts less pressure on individuals and fosters team-building.
- The only downside with territory volume compensation plan is that it can lead to hostility between co-workers if certain members feel that effort isn't equally divided.

5. PROFIT MARGIN/REVENUE BASED COMPENSATION PLANS

Profit margin is one of the most popular types of compensation used by start-up companies. Under this plan, companies compensate its employees entirely on the profits made by the business. Due to the complexity and compliance issues involved, very few companies offer equity or stock.

- Startup companies using profit margin/revenue based compensation plan can also incorporate long-term incentives such as stock to build loyalty and a valuable sales base.

6. RESIDUAL COMMISSION

This type of compensation plan is every salesperson's dream. In this, salespeople continue to receive a commission as long as their accounts are generating revenue for the employer. Sadly, employers are usually reluctant to offer a residual commission deal to employees.

- Good salespeople can continue to receive residual commission ever after they leave the company through negotiation.

Q2 (a) Appraise the purpose of wage survey.

A **salary survey** is a tool specifically for remuneration specialists and managers to define a fair and competitive **salary** for the employees of a company. The **survey** output is data on the average or median **salary** for a specific position, taking into consideration the region, industry, company size, etc.

(b) Explain in detail the point method of Job evaluation.

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

(c) Discuss the factors that influence internal pay structure

Among the **internal factors that affect pay structure** are the **compensation** policies, organizational ability to **pay**, job analysis, and job descriptions, employee, trade union's bargaining power. (i) **Compensation** Policies: ... (a) **Pay** leaders – They are organizations that **pay** higher **wages** and **salaries** than competing firms.

Q3 (a) Elaborate pay discrimination.

Pay or **compensation discrimination** occurs when employees performing similar work do not receive similar **pay**. **Pay discrimination** also occurs when a difference in **pay** has an unlawful basis such as race or sex.

(b) Explain the compensation strategies for special groups.

Compensation Strategies For Special Groups:

1. Use Metrics as the Basis for Incentive Compensation(Metrics based Strategy)

A common mistake for incentive-based compensation is promising incentives that are not tied to specific metrics. By having only discretionary bonuses or incentives, executives are unaware what precisely they need to focus on to be successful.

For each executive, the metrics that are well within their control and follow the SMART criteria (specific, measurable, attainable, relevant and time-bound) should be used as the basis for their incentives. This way, they are aware of what they must focus on and they can optimize their work to achieve those specific goals. Sometimes metrics like revenue and profit are applicable, but, more often, there are better key performance indicators (KPIs) that should be used.

2. Effectively Communicate to Ensure Understanding(Communication strategy)
Another common mistake companies make is when there is a belief that compensation plans are well understood by the executives, but really there is a huge communication gap. Make sure every executive is fully aware of all of the components related to their compensation package.
If an executive does not have a clear picture of their total ability to accumulate wealth in their current position, the likelihood of looking for opportunities with more clarity of the upside is increased. Uncertainty is almost always bad for business, and this is a case where uncertainty on the part of a core team member can have unforeseen deleterious effects on a business.
Progress on a compensation plan should be addressed at least annually, outlining both short-term and long-term incentives. An even better idea is for quarterly communication where the core metrics to which incentives are tied are discussed. This prevents any miscommunication prior to when the awards are issued.
3. Benchmark Compensation Levels(Benchmarking Strategy)
If you're trying to attract top talent, your compensation needs to be competitive. Use benchmarking tools and publications to ensure you're compensating your executives in the way you intend.
In our research, companies often believe they are paying near the top-end of the spectrum for each of their executives when, in reality, they are at or below the median compensation level for similar companies.
Make sure the benchmarks you use are meaningful and relevant to your company. Using multiple reference points to compare your company (for example, by revenue, industry, region, and revenue growth) will give you a much clearer idea of how competitive your compensation levels are.
4. Value Company Equity Regularly(Value Addition Strategy) In our research, more than half of the companies we surveyed do not have a clear idea of what the equity awarded to their executives is worth. By granting equity-linked compensation but not tying them to any real value, you're simply adding uncertainty to the executive's total compensation picture.
If you plan on issuing equity-linked incentives, your company's equity value should be appraised or estimated at least annually. At regular intervals (quarterly, annually, etc.), each executive should be told the estimated current value of their equity-linked incentives, as well as the expected future value.
6. Include Both Short and Long-Term Incentives(Incentives Strategy)

Providing a truly competitive executive compensation package usually requires that your executive team has both short and long-term goals from which they benefit financially should they be met.
A blend of incentive compensation that provides executives with cash incentives in the short-term and longer-term incentives that tie an executive to the overall success of the company helps to ensure your executive team is engaged and feeling rewarded for their hard work regularly.

Implementing an effective executive compensation does not have to be onerous, but it requires time, planning and dedication for it to work properly. We created our CEO & Senior Executive Compensation Report for Private Companies to provide companies with both benchmarks and best practices for their executive team.

© Describe the group incentives plan in Pay-for-performance plans

Group Incentive Schemes:
The incentive schemes can be applied on a group basis also. Group incentive schemes are appropriate where jobs are interdependent. It is difficult to meaningfully measure individual performance and group pressures affect the performance of the members of the group. The chief group incentive schemes are discussed here.
Profit-sharing:
The concept of profit-sharing emerged towards the end of the nineteenth century. Profit-sharing, as the name itself suggests, is sharing of profit of organisation among employees. The International Co-operative Congress" held in Paris in 1889 considered the issue of profit-sharing and defined it as "an agreement (formal or informal) freely entered into by which an employee receives a share fixed in advance of the profits".
The basic rationale behind profit-sharing is that the organisational profit is an outcome of the co-operative efforts of various parties, therefore, employees should also share in profits as shareholders share by getting dividend on their investment, i.e. share capital. The very purpose of introducing profit-sharing is to strengthen the loyalty of employees to the organisation. Thus, profit-sharing is regarded as a stepping stone to industrial democracy.
Both the share (percentage) of profit to be shared by employees and mechanism for its distribution are determined in advance and also made known to the employees. In order to be eligible to participate in profit-sharing. An employee needs to serve for a certain number of years and, thus, earn some seniority. As regards the forms of profit-sharing, Metzger has classified these into three categories, namely,
(i) Current,
(ii) Deferred and
(iii) Combination.
(i) Current:
Under this form, profits are paid to the employees in cash or by cheque or in the form of Stock option immediately after the determination of profits.
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(ii) Deferred:
Profits are credited to employees' accounts to be paid at the time of retirement or at a time of his dissociation from organisation due to reasons like disability, death, severance, withdrawal from employment, etc.
(iii) Combination:
In this case, a part of employee share of profit is paid in cash or cheque or stock and the remaining part is deferred and credited to his/her account.
Employees receive their share in the organisational profit in the form of bonus. In India, the employee bonus is governed by the Payment of Bonus Act, 1965.
The major apprehensions expressed against profit-sharing is mat management may dress up profit figures, as is often done for tax evasion purposes, and deprive employees of their shares in profit. It is also commented that profit-sharing, being a long-term scheme, does not work as incentive due to the absence of immediate feedback about the efforts and rewards.
Co-partnership:
In a way, co-partnership is an improvement over profit-sharing. In this scheme, employees also participate in the equity capital of a company. They can have shares either on the basis of cash payment or in lieu of other incentives payable in cash like bonus. Thus, under co-partnership scheme, employees become shareholders also by having company shares. Now, employees participate in both —profits and management of the company.
The finer points of this scheme are that it recognizes the dignity of labour and also of a partner in the business. This would, in turn, develop a sense of belongingness among the employees and encourage them to contribute their best for the development of the organisation.
Scanlon Plan:
The Scanlon plan was developed by Joseph N. Scanlon, a Lecturer at the Massachusetts Institute of Technology in USA in 1937. The plan is essentially a suggestion scheme designed to involve the workers in making suggestions for reducing the cost of operation and improving working methods and sharing in the gains of increased productivity.
The plan is characterised by two basic features. First, both employees and managers can participate in the plan by submitting their suggestions for cost-cutting methods. Second, increase in efficiency on account of cost-cutting is shared by the employees of the unit.
The Scanlon plan, wherever adopted, has been successful to encourage a sense of partnership among employees, improved employee-employer management relations, and increased motivation to work.

Q4 (a) Elaborate Expatriate Pay.
For **expatriates**, the term base **salary** means the primary component of a package of allowances which are: (a) Foreign service premium, (b) Cost-of-living allowance, (c) Housing and utility allowance, (d) Basis for in-service benefits and pension contributions

(b) Describe the compensation objectives in the pay model.

Pay Model of Compensation Objectives

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

Efficiency

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

Fairness

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

Conformity

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

Compensation System Policies

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

1. Alignment

Internal alignment refers to aligning the salaries for similar types of jobs, as well as the rewarding of different kinds of work. Positions are assessed on their relative contribution to the organisation’s objectives. If the compensation structure is seen as fair by the employees, it will help motivate employees to improve themselves and accept training.

2. External Competitiveness

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

3. Contributions

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

4. Management

The final component of the four policy methods of the Pay Model Compensation is administration; managing the compensation structure. Efficiency is the goal here as well. The system has to work well enough to achieve the objectives, and it also needs to be adaptable to react to new requirements. New requirements can be the result of new regulations or new salary objectives for the organisation.

(c) “Stock options bring both advantages and disadvantages

Although **stock option** plans offer many **advantages**, the tax implications for employees can be complicated. Dilution can be very costly to shareholder over the long run. **Stock options** are difficult to value. **Stock options** can result in high levels of compensation of executives for mediocre business results.

Q5 (a) Define Job Evaluation.

A **job evaluation** is a systematic way of determining the value/worth of a **job** in relation to other jobs in an organization. It tries to make a systematic comparison between jobs to assess their relative worth for the purpose of establishing a rational pay structure.

(b) Why there is growth in employee benefits?

The Top Four Reasons to Offer Employee Benefits

- Retain talent. It costs more to find a new employee than it does to keep an old one. ...
- Boost morale, engagement and productivity. **Benefits** are a highly emotive thing. ...
- Savings for employers and employees.

(c) factors that decide global compensation

he main factors affecting international compensation strategy are; (1) social contract (2) culture (3) trade union (4) ownership and capital markets, and (5) managers’ autonomy.

1. Social Contract

Considered as part of the social contract, the employment relationship is not just an interaction between an employee and an employer, and it also includes the government, all managers and all employees. The relationships and expectations of these groups form the social contract. When thinking about how people get salaries around the world, it is apparent that different people have different ideas, so they think variously of government, employers and employees. The understanding of employee compensation management requires understanding of the social contract in that country. How to change employee compensation systems–for example, to make them serve better to customers, encourage innovative and quality service, or control costs–requires changing the expectations of groups to the social contract.

2. Culture

Culture is an abstract but collective concept, which is not defined as a certain object but covers more than one object. It is a collection of Material wealth and Spiritual wealth including religious, customs, education, regulations, laws, economy and even science. Culture also plays its part in the international compensation system.

People with different cultural backgrounds will view compensation system differently under the influence of culture. So does the management of the system. Culture is a thing deeply rooted in the blood of people. People in the same nation tends hold the same or similar mental programming way to process ideas and information. In other countries, the way may differ. So

is the case of compensation system, the certain culture will inclines to match one culture of a nation if global mind-sets are not brought in and lead people to manage systems in a certain way. A simple and direct way to confirm it is to see the different meanings compensation in different countries.

Culture which forms a system of knowledge, information and beliefs will affect attitudes and behaviors associated with the work. Culture affects the variables of the established compensation system. Though equity customs are shared among the employees from many countries, America and Japan for example, the force of the customs really works differently in different countries. In all, having the awareness of focusing the influence of culture values on employees is extremely important for corporate leaders. When dealing with compensation system, the controlling for context of culture should be paid attention.

3. Trade Unions

Europe keeps highly solidaric and Asia is less heavily unionized. In some countries, team agreement sets how much the workers can earn even though the workers may not be union members. In France for example a majority of workers are paid by collective agreements, but only a few are union members. Social legislation differs among European countries; UK has the fewest requirements, because it has no minimum salaries, no maximum working hours, and no common methods for employee participation. Social insurance in Germany and France are the most generous.

4. Ownership and Capital Markets

Ownership and financing of companies are dramatically different around the world. These differences are vital to the understanding and managing of international payment. These patterns of ownership make certain kinds of pay systems have no significance. Employees in these corporations have various values and expectations. One research indicated that people who work for local or public corporations like salaries according to one’s performance more; however, those who work in federal-owned corporations are on the opposite side. So it is obvious that ownership differences have great effects on types of payment. It is very misleading to consider that every place is just like home.

5. Managers Autonomy

Managerial autonomy reflects managers set his employees to make decisions by themselves. There is a relationship between it and the degree of centralization. Government, trade unions and corporate police are responsible to restrict managerial autonomy. Compensation decisions made in the domestic corporate offices and exported to subsidies all over the world may relate to the corporate strategy but discount local economics and social conditions.

To sum up, international compensation is affected by economic, institutional, organizational, and individual conditions, globalization really represents that these conditions are varying– thus international pay system are altering too

Q6 (a) who are special groups?

special groups is those employees of strategic value to a company, who therefore have **compensation** packages consisting of more than the common, basic hourly wage. In a sense, they can be defined as systematically important employees.

(b) what are advantages and dis-advantages of individual incentive plan?

Incentive Pros and Cons

Well-designed individual incentive pay plans have several positive effects:

- Top performers get rewards and acknowledgment for their great work. That can push them to continue excelling.
- Underachievers may push themselves harder for rewards. Watching what the winners do can teach them how to do the same.
- If your workplace enjoys healthy competition, an incentive plan provides something for which to compete.

However, even good plans can go bad in practice:

- Employees may become fixated on the money rather than the rewards of doing a good job.
- Employees who consistently win rewards may soon take them for granted. At that point, it's no longer an incentive.
- Egotists may decide that receiving awards makes them better than their co-workers, which can hurt team unity.

(c) what shapes external competitiveness?

External competitiveness refers to pay relationships among organizations - an organization's pay relative to its competitors. **External competitiveness** is **expressed in practice** by: Setting a pay level that is above, below, or equal to that of competitors. Determining mix of pay forms relative to those of competitors.

External Competitiveness: External competitiveness refers to compensation relationships external to the organization; i.e., comparison with competitors. How should an employer position its pay relative to what competitors are paying? How much do we wish to pay accountants in comparison to what other employers would pay them? What mix of pay forms—base, incentives,
stock, benefits—will help achieve the compensation objectives? Employers have several policy options. Medtronic's policy is to pay competitively in its market based on its financial performance versus the financial performance of its competitors, while AES's policy is to expect people
to be willing to take less to join the company.
Increasingly, organizations claim their pay systems are market driven, i.e., based almost exclusively on what competitors pay. However, "market driven" gets translated into practice in different ways. Some employers may set their pay levels higher than their competition, hoping to
attract the best applicants. Of course, this assumes that someone is able to identify and hire the "best" from the pool of applicants.

What mix of pay forms a company uses is also part of its external competitive policy. Medtronic sets its base pay to match its competitors but ties incentives to performance. Plus it offers stock options to all its employees to promote a culture of ownership. The assumption is that owners will pay closer attention to the business. Further, Medtronic believes its benefits, particularly the emphasis on programs that balance work and life, make it a highly attractive place to work.

Medtronic believes it is how it positions its pay, and what forms it uses, that gives it an advantage over its competitors. A Medtronic competitor, say MDS, may offer lower base pay but greater opportunity to work overtime or fatter bonuses. AES believes making all employees stockholders is consistent with its emphasis on social responsibility.

External competitiveness decisions—both how much, and what forms—have a twofold effect on objectives: (1) to ensure that the pay is sufficient to attract and retain employees—if employees do not perceive their pay as competitive in comparison to what other organizations are offering for similar work, they may be more likely to leave—and (2) to control labour costs so that the organization's prices of products or services can remain competitive. Thus, external competitiveness directly affects both efficiency and fairness. And it must do so in a way that complies with relevant legislation.

Employee Contributions: The policy on employee contributions refers to the relative emphasis
placed on performance. Should one programmer be paid differently from another if one has bet-
ter performance and/or greater seniority? Or should all employees share in the organization's financial success (or failure) via incentives based on profit? Perhaps more productive teams of employees should be paid more than less productive teams.

The degree of emphasis to be placed on performance is an important policy decision, since it directly affects employees' attitudes and work behaviours. Employers with strong pay-for-per-formance policies are more likely to place greater emphasis on incentives and merit pay. Starbucks
emphasizes stock options and sharing the success of corporate performance with the employees. General Electric emphasizes performance at the unit, division, and companywide level. Recognition of contributions also affects fairness, since employees need to understand the basis
for judging performance in order to believe that their pay is fair.

Administration: Policy regarding administration of the pay system is the last building block in
our model. Although it is possible to design a system that is based on internal alignment, external competitiveness, and employee contributions, the system will not achieve its objectives unless it is managed properly.

Q7 (a)Define Compensation Management.

Compensation management is the process of ensuring that an organization's salaries and bonuses remain competitive, appropriate, and equitable. It also involves **managing** company benefit programs to make sure they meet the needs of the current workforce.

(b) Write short notes on

i) **Long term incentives**

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

ii) **Merit Pay Vs Variable Pay**

Performance or Merit Pay

Meanwhile, other forms of pay for performance involve only temporary payouts that do not involve a permanent increase in the salary. At the heart of it, however, merit pay seeks to achieve what all forms of pay for performance seek to achieve: to motivate the employee to perform better and achieve the goals set for the employee by the company.

(c) Describe the process of Job evaluation

A job evaluation process may consist of the following stages:

a. Select the Programme

b. Plan the Programme

c. Analyse the Jobs

d. Internal Evaluation

e. External Evaluation

f. Designing of Salary Structure

g. Grading of Jobs

h. Development and Maintenance Procedure.