

Sub:	Compensation and Reward System					Code:	18MBAHR303		
Date:	/11/19	Duration:	90 mins	Max Marks:	50	Sem:	III	Branch:	MBA

		Marks		OBE	
		CO	RBT		
Part A - Answer Any Two Full Questions (20*02=40 Marks)					
1	<p>(a) Define “External Competitiveness”?</p> <p>Answer:</p> <p>Competitiveness pertains to the ability and performance of a firm, sub-sector or country to sell and supply goods and services in a given market, in relation to the ability and performance of other firms, sub- sectors or countries in the same market. It’s the Ability of a firm or a nation to offer products and services that meet the quality standards of the local and world markets at prices that are competitive and provide adequate returns on the resources employed or consumed in producing them.</p> <p>Competitiveness is the comparison of the compensation both inside & outside the organization.</p> <p>External Competitiveness: refers to the pay relationships In external competitiveness, (the second pay policy) comparisons are made outside the organization – comparisons with other employers that hire the same kinds of employees. External competitiveness is expressed in practice by (1) setting a pay level that is above, below, or equal to that of competitors, and (2) determining the mix of pay forms relative to those of competitors</p>	[03]	CO1	L1	
	<p>(b) Briefly discuss the various “Pay Policy Alternatives”?</p> <p>Answer:</p> <p><u>Pay Policy Alternatives:</u></p> <p>Pay level is the average of the array of rates inside the organization. There are 3 conventional pay-level alternatives:</p> <ol style="list-style-type: none"> To-lead: if you <u>Lead</u> the market your pay structure (salary range midpoints) are targeted to be better / higher than the competition. To-meet: to <u>Lag</u> the market is to provide less in midpoints than the proverbial going rate. To-follow: a conscious strategy, many choose to pin their market competitiveness to a certain calendar date, either the first of the year, midway or the end. Their goal is to position themselves to either lead or lag the market as of that target date, which means that their competitive situation would fluctuate before and after 	[07]	CO1	L2	

(c) What do you mean by “Benefits” & discuss the advantages of benefits?

[10]

CO1

L1

Answer:

Benefits:

Employee benefits are that part of the total compensation package, other than pay for time worked, provided to employees in whole or in part by employer payments (e.g., life insurance, pension, workers’ compensation, vacation).

Benefits are the programs an employer uses to supplement employees’ compensation, such as paid time off, medical insurance, company car, and more. Employee benefits are optional, non-wage compensation provided to employees in addition to their normal wages or salaries. These types of benefits may include group insurance (health, dental, vision, life etc.), disability income protection, retirement benefits, daycare, tuition reimbursement, sick leave, vacation (paid and non-paid), funding of education, as well as flexible and alternative work arrangements.

ADVANTAGES OF COMPENSATION AND BENEFITS.

A well designed compensation and benefits plan helps to attract, motivate and retain talent in the firm (which is myWear). A well designed compensation & benefits plan will benefit the boutique in the following ways.

1. Job satisfaction: the employees would be happy with their jobs and would love to work for you if they get fair rewards in exchange of their services.

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

3. Low Absenteeism: Why would anyone want to skip the day and watch not-so-favorite TV program at home, if they enjoy the office environment and are happy with their salaries and get what they need and want?

4. Low Turnover: Would your employees want to work for any other boutique if you offer them fair rewards. Rewards which they thought they deserved?

2 (a) What do you mean by “Employee Assistance Plans” (EAPs)?

[03]

CO3

L1

Answer:

Employee Assistance Plans (EAPs)

An EAP, or employee assistance program, is a confidential, short term, counseling service for employees with personal problems that affect their

work performance. Studies have shown that providing confidential qualified counseling and support can reduce the stress and conflict felt by the employee, which in-turn can reduce absenteeism and ultimately turnover.

One-on-one sessions are offered and online information, coaching and support services are also available. Employees turn to the EAP for help with a variety of issues, including the following:

- | Dependent care issues, such as searching for child care information, identifying services for special needs children, obtaining advice on the college application process, or arranging for residential care for an elder.
- | Dealing with the stress of a major life change (even a positive one), such as having or adopting a child, getting married, moving or buying a home, or getting a promotion.
- | Serious personal or professional concerns, such as general anxiety, depression, substance abuse, burnout, coping with illness, the loss of a loved one, relationship challenges, or resolving interpersonal conflicts.

(b) Briefly discuss the legally required benefits.

[07]

CO4

L2

Answer:

Legally Required Benefits:

- o **Social Security:** For death, retirement, disability, benefits for dependents of retired/disabled worker, survivor benefits
- o **Workers' Compensation:** For work related injuries: permanent and temporary total disabilities, permanent partial disability, survivor benefits, medical expenses, rehabilitation

Insurance paid for by employers

- o **Unemployment Compensation:** For subsistence between jobs, employer provides stability, Varies by state, Financed by employers, Experience rating, **Eligibility, coverage, duration, amount**
- o **Family Medical Leave Act:** 12 "work weeks" of unpaid leave during 12 month period, **Reasons: --Birth or adoption of a child, foster child, Care for close family member with serious health condition, Your own serious health condition makes you unable to perform your job**
- o Firms with 50 or more employees (5% of employers, 60% of workers are covered)
- o Key exemptions for highly compensated employees

Return to an "equivalent position"

(c) Discuss the following(2*5=10)

[10]

CO3

L2

1. Pay Policy Line

2. Pay Grades

Answer:

Pay policy Line: A mathematical expression that describes the relationship between a job's pay & its evaluation points.

Pay Grades: Grouping jobs of similar worth or content together for pay administration purposes. Range spread is the distance between min & max amounts in a pay grade.

3 (a) What do you mean by "Pay-for-Performance" ("PFP")?

[03]

CO2

L1

Answer:

Pay-for-Performance ("PFP")

Pay-for-Performance ("PFP") systems tie compensation directly to specific business goals and management objectives. To do this, companies must deliver competitive pay for competitive levels of performance, pay above market for exceptional performance, and reduced pay for poor performance. To achieve this, companies must match measurable and controllable performance targets to company objectives.

In PFP systems, employees' compensation is composed of a fixed base salary and a variable component. The most commonly used variable components are:

- | Company equity (Phantom or actual) - the quantity and price to be paid are typically based on a percentage of value added as determined by the performance measurement system;
- | Bonuses - cash awards for extraordinary accomplishments or other activity-related distributions;
- | Gain sharing - distribution of a portion of results realized, based on performance versus plan.

(b) Briefly discuss guiding principles of effective reward systems.

[07]

CO2

L2

Answer:

Guiding Principles of Effective Reward Systems

There are a variety of ways to reward people for the quality of the work they do in the workplace. For example, rewards can be in the form of money, benefits, time off from work, acknowledgement for work well done, affiliation with other workers or a sense of accomplishment from finishing a major task.

Rewards should support behaviors directly aligned with accomplishing strategic goals.

This principle may seem so obvious as to sound trite. However, the goal of carefully tying employees' behaviors to strategic goals has only become important over the past decade or so. Recently, the term "performance" is being used to designate behaviors that really contribute

to the “bottom line.” An employee can be working as hard as anyone else, but if his/her behaviors are not tied directly to achieving strategic goals, then the employee might be engaged only in busy-work.

Rewards should be tied to passion and purpose, not to pressure and fear.

Fear is a powerful motivator, but only for a short time and then it dissipates. For example, if you have initially motivated employees by warning them of a major shortage of funds unless they do a better job, then they will likely be very motivated to work even harder. That approach might work once or twice, but workers soon will realize that the cause of the organization’s problems is not because they are not working hard enough. They might soon even resent management’s resorting to the use of fear. If, instead, management motivates by reminding workers of their passion for the mission, the motivation will be much more sustainable.

Workers should be able to clearly associate the reward to their accomplishments.

Imagine if someone told you “Thank you” and did not say what for. One of the purposes of a reward is to reinforce the positive behaviors that earned the reward in the first place. If employees understand what behaviors they are being rewarded for, they are more likely to repeat those behaviors.

Rewards should occur shortly after the behaviors they are intended to reinforce.

The closer the occurrence of the reward to the occurrence of the desired behavior in the workplace, the easier it is for the employee to realize why he/she is being rewarded. The easier it is for him/her to understand what behaviors are being appreciated.

Importance of Sense of Purpose and Feeling Appreciated

Finding and training new employees is a substantial cost, no matter the size of the organization. One of the best ways to retain employees is to reward them for their work. One of the primary rewards for working adults is to feel a sense of meaning or purpose in their work.

(c) What do you mean “Merit Pay” and “Variable Pay”? Briefly discuss the Advantages of both.

[10]

CO2

L1

Answer:

Merit Pay:

Definition:

Merit pay is an approach to compensation that rewards the higher performing employees with additional pay or incentive pay. Merit pay has advantages and disadvantages for the employees and the employer. But,

all-in-all, merit pay is the best way to reward the employees that you most want to keep.

Merit pay plans reward employees with raises rather than bonuses or other forms of financial compensation. Instead of tying raises solely to time on the job or promotion to a higher position, the company gives raises for superior performance. For example, a pizzeria can give merit pay raises for managers who successfully control ingredient costs. A medical billing company can offer merit pay raises for employees who collect a higher percentage of outstanding bills. When an employee receives a merit pay incentive, her salary is permanently increased.

Advantages of Merit Pay

These are reasons why you might want to consider merit pay.

- Compensation
 - Employee Benefits
 - Employee Awards
 - Human Resources Software
 - Sales Rewards Programs
-
- Merit pay helps an employer differentiate between the performance of high and low performing employees and reward the performance of the higher performers.
 - Merit pay, unlike profit sharing or similar bonus pay schemes, allows an employer to differentiate between the performance of the company as a whole and the performance of an individual. While many merit pay programs also provide an overall reward that is distributed to all employees, to promote such values as team work, a portion of the available compensation is reserved for strong performers.
 - Merit pay also provides a vehicle for an employer to recognize individual performance on a one time basis. This is useful for rewarding employees who may have participated in a one-time project such as implementing a new HRIS or opening up a new sales territory.

Disadvantages and Challenges Inherent in Merit Pay

These are the challenges employers experience with merit pay.

- There is no way, with 100% accuracy, to differentiate the performance of various employees to determine deservers of merit pay. The most desirable accomplishments and contributions are almost never measurable so the manager's or supervisor's opinion remains a constant in determining merit pay.
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- The amount of time and energy that organizations invest in an attempt to make performance measurable for merit pay, including developing competencies, measurements, base lines for performance, and so forth, is better spent on delivering service for customers.
- Given the limitations of metrics, the ability of the supervisor to

communicate to each employee the value of his or her contribution, and what superior performance worthy of merit pay entails, is an ongoing challenge. Some supervisors communicate better than others and communication about what entails superior performance is easier in some jobs than others.

Variable pay: The amount of time and energy that organizations invest in an attempt to make performance measurable for merit pay, including developing competencies, measurements, base lines for performance, and so forth, is better spent on delivering service for customers.

- Given the limitations of metrics, the ability of the supervisor to communicate to each employee the value of his or her contribution, and what superior performance worthy of merit pay entails, is an ongoing challenge. Some supervisors communicate better than others and communication about what entails superior performance is easier in some jobs than others.

Even with the limitations that exist in the awarding of merit pay, merit pay is your best opportunity to ensure that your outstanding performers remain with your company and continue to make their astonishing contributions. Nothing demotivates a high performer faster than knowing that employees who have contributed much less in the organization, have received the same pay increase or bonus

ADVANTAGES AND DRAWBACKS OF VARIABLE PAY

Most criticisms of variable pay can be traced to concerns about the nature, implementation, and execution of such programs rather than the theories upon which they are based. "Most [variable pay] programs provide no incentive to anyone and never deliver the promised results," he charged. "Why not? Because in 9 cases out of 10, they are not true bonus programs at all. They are simply profit-sharing programs, and there is a world of difference between the two." By profit-sharing, I mean the practice of taking a percentage of a company's profits, putting it into a pool, and disbursing it to the company's employees, usually sometime after the close of the year." Stack and other analysts contend that such distribution plans are unlikely to encourage employees toward greater productivity because they do not get an adequate sense of how their personal contributions helped generate the business's profits. "Many of the failures to date [in variable pay plans] have occurred because companies simply reshuffled the same amount of compensation in a new plan, offering some through fixed pay and some through incentives," commented Williamson. "But they didn't use the plan to create reach change in the way they organize and value work."

But business consultants agree that variable pay programs that truly reward individual performance can be helpful. The purpose of a good bonus program, Stack said, should be "to make the company stronger, more competitive, able to survive and prosper in the months and years ahead.... A good bonus program draws people into that process. It drives the value of the company by educating people, not with formal training programs but through the work they do every day on the job. It gives them the tools they need to make and understand decisions. It provides them with business

knowledge they can use to enhance their own standard of living and job security as they're making a measurable difference to the company as a whole

4

Part B – Compulsory (2*05=10 marks)

[10]

Mr. Manoj was appointed as the HR manager in a public sector undertaking. Within one year, Mr. Manoj had to sign a wage agreement with the workers union. The union pressed more with regard to production department's workers than with regard to quality department's workers. The management agreed to this, as the overall increase, the union was asking, was well within its reach. Once this decision was communicated to all commotion started among quality department's workers. The quality department's worker walked out of the union and formed a separated union. They moved around the factory with a placard that read, "Are we step children of the management?". "All employees are equal, but production employees are more equal!". The decision of the management led to the perception that production was a high rated job than quality!.

In light of the above information:

- a. Evaluate the pros and cons from employer's point of view. [5]
- b. As a HR manager, suggest a way out for the problem at hand? [5]

CO3 L3

CO3 L5

course Outcomes		PO1	PO2	PO3	PO4	PO5	PO6	PO7
CO1	Gain insights of various conceptual aspects of Compensation and Benefits to achieve organizational goals							
CO2	Determine the performance based compensation system for business excellence and solve various cases.	3a,b,	3c					
CO3	Designing the compensation strategies for attraction, motivation and retaining high quality workforce.	1a,b	1c,2a,b					
CO4	Understand the Legal & Administrative Issues in global compensation to prepare compensation plan, CTC, wage survey and calculate various bonus	2b						

Cognitive level

KEYWORDS

L1	List, define, tell, describe, identify, show, label, collect, examine, tabulate, quote, name, who, when, where, etc.
L2	summarize, describe, interpret, contrast, predict, associate, distinguish, estimate, differentiate, discuss, extend
L3	Apply, demonstrate, calculate, complete, illustrate, show, solve, examine, modify, relate, change, classify, experiment, discover.
L4	Analyze, separate, order, explain, connect, classify, arrange, divide, compare, select, explain, infer.
L5	Assess, decide, rank, grade, test, measure, recommend, convince, select, judge, explain, discriminate, support, conclude, compare, summarize.

PO1 - *Knowledge application*; PO2 - *Analytical and logical thinking*; PO3 - *Team work*; PO4 - *Leadership*; PO5 - *life-long learning*; PO6 - *Analyze and practice aspects of business*; PO7- *Personal and Societal growth*;