

26 Feb 23

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Any relational reward will eventually cost the organisation, and thus they will have an impact on transactional rewards. The underline concept is transactional reward which becomes an EVP when seen as from recruitment perspective.

Relational reward shouldn't be glorified but every HR personnel should have an underlying philosophy as to what, why is been paid. Many organisation consider these. Thus, many consultants ask the views of an individual about relational awards, mainly because relational rewards is more sustainable and not so easy to imitate. Many organisation find transactional rewards as something that can be imitated. Like salary can be increase by few percentage etc. Many a times organisations claims a lot but the ground reality when checked from employees are different.

PAY LEVEL & PAY MIX

Market perspective pay mix discussions.

PAY MIX = Various components of pay.
= Fixed/guarantee pay + Variable pay
= [Basic + Allowances + Benefits] + [pay based on individual performance/ team organisation + other criteria]

Guarantee pay variables generally does not go below 70. Organisation performance is variable and salary is guaranteed.

Example: Insurance sector

	<u>Agents</u>	Vs	<u>Unit Manager</u>
① Pay Mix:	Commission variables		Fixed
② Pay Level:	Good performer gets paid for better than Unit Manager.		Fixed.

Entre <u>Entrepreneur</u>	Vs	<u>Employee</u>
High Risk ↓ Higher Returns		Risk Averse ↓ Low returns, as far as it is low risk

Therefore, entrepreneurs are not considered as guaranteed success. On the other hand employees are risk averse; thus preferring to join an organisation, so that individuals are better off than trying their luck on street. So, the employer, employee relationship is based on risk removal concept and therefore this is where guaranteed salary comes into picture.

Guaranteed salary concept is a relationship between the employer and employee. The guarantee part of salary explains why an individual joins the organisation. Guaranteed salary is a key component of entire compensation package.

Example: Organisation with 100% guarantee pay.

New HR policy = Performance focus

$$\therefore \frac{70\%}{\text{guarantee pay}} + \frac{30\%}{\text{Based on individual performance}}$$

$$\therefore 70(\text{fixed}) + 30(\text{Risk component})$$

Whenever any risk factor is added to any return; it can be a maximum 30%, as there is a risk premium attached to it. Therefore, risk premium brings this 30% down to 20% or 22% depending on how one looks at risk as an individual.

As a result employee might look at it as $70 + 20 + 10$. This concept of introducing risk & variable pay is known as PAY AT RISK (part of pay is put at risk). This may be perceived as pay cut by the employees because employees might see it as $70 + 20$ ~~becomes~~ $+ 10$ is risk premium.

Thus, any organisation that goes for a variable pay would talk about " $100 + 20$ " or will say " $80 + 30$ "; they would try to introduce add on to the trust component, so that the total still is 100 from the employee's point of view (basically discounting for risk). This total of 110 will bring some motivation to the individuals.

Therefore, variable pay will cost an organisation to introduce it. Many organisation wants to cut jobs and therefore they introduce variable pay. As an HR professional when an individual is discussing variable pay with finance or CEO, the individual needs to understand that it is going to cost the org'n extra. ~~But~~ If the organisation is planning to hike the pay ~~&~~ but doesn't want to hike it, then the hike could be with variable pay. Normally, the existing guaranteed salary is not touched upon.

Example: Suppose YR 1

component introduced $\rightarrow 100 + 20$

Distribution of Pay at the end of the year.	{	80% - managed to get 120
		10% - got 110
		10% - got 100

- Shows increase in performance; ~~though~~ there is an increase in cost & so performance has gone up.
- If 80% is getting 120 then the organisation's targets are not stretchy enough.

Second point is more prominent than the first one. Most organisation conclude that 80% achieved the target, that means the target wasn't stretched enough.

First year the organisation made the employees fall in love with incentives, so they see incentive plan as something nice. Then the organisation starts stretching the targets, while doing this risk factor gets involved. The more the target

is stretched, the less is the amount of money which the employees make. While stretching the target organisation realises that they need to increase the incentives some more. Thus this vicious circle keeps on going.

While some other organisation may see the performance matrix of the employee. So they will not worry about 120 but will worry about the performance matrix.

Conclusion

The fact that there is risk aversion and as consequence the power of ~~gross~~ guaranteed pay. Therefore, more impact in a small guarantee pay increment than a variable pay; because this is relatively permanent and therefore sustainable. However, there is a limitation to it & so there is a huge discussion on variable pay.

Guaranteed salary is a powerful component of pay package and that should deserve all its respect. Variable pay is generally paid with sales force & senior level management. But about 80% - 85% of work force, the variable pay is not being played with.

FIXED PAY

BASIC + ALLOWANCE + BENEFITS

Basic Pay

Compensation started as a term to mean that

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an individual loose leisure and therefore they are compensated.

Reward is a payment which an individual gets because they work for a particular organisation.

Basic Pay is generally seen to be driven by the position in the organisation.

BASIC

- ① Pay for position (Role, Job)
- ② Higher the hierarchy, more is the impact towards profit.
- ③ Basic is the communication, how significant the role actually is. The more the role is significant, the ^{higher} ~~more~~ is the basic. Therefore, basic signifies as Pay for position, pay for the role, the hierarchy actually.

Every component of pay can become a percentage of basic or it can be attributed to basic. Therefore, arriving at basic becomes delusive as to where the particular role of the individual are placed in hierarchy.

Basic is ① Pay for Position

② It is adjusted for potential.

Example: R1 - fresher / R2 & R3 - New employee but with 3yrs work experience outside the organisation.

It is expected that the person with more years of experience will give more output than a fresher and their potential will also

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be different. Here, the basic doesn't stay at a particular point but starts emerging into a particular range. In this range the potential is matched to the role and further to the basic. Since the basic is operated in a range, as a consequence CTC which is a multiplier of the basic also operates in a particular range. Here the organisation needs to be careful about the range because it is not about minimum and maximum.

How to arrive at Basic?

Market trend is used to arrive at basic. Payment of other organisation with that of one's own organisation which will be either more or less.

Whether the organisation wants to pay lesser or higher than the market depends on the particular organisation, which is further dependant on its strategy and level of talent which is required in the organisation. Thus, talent comes into picture.

Lets say the market assume P60 is being observed in each Role.

R ₃	• P60	P60 of each role is being
R ₂	• P60	observed and seen a market
R ₁	• P60	line which essentially grows.

It should be remembered that in an organisation it is not necessary to stick with P60 for all the jobs. Secondly, P60 need not have a smooth line as shown in the above case; it would

actually be far away / different.

Suppose we have P60, then what does P60 means as a basic for these roles. It means this is the ideal salary an organisation wants to offer to an ideal employee in this particular role. This ideal employee will typically have 3-4 years of experience and with consistent performance. However, organisation might be willing to offer opportunity to the candidates who have the capabilities to earn a required level of potential. This means someone who is a fresher from college might get some kind of opportunity but cannot get paid P60, they would get P40. Therefore, here the organisation is having ideal salary but the organisation is willing to pay much lower than ideal salary i.e. P20 to someone who is willing to work.

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the org'n is ~~but they are~~ willing to pay much lower than ideal salary (P60) i.e. P20 to someone who is willing to work. ~~but~~ The org'n cannot pay so much to these people as they need to teach these candidates a lot and so they are paid much lower. Secondly, in the particular role the org'n thinks that anything more than P75 should be paid as no extra value would be extracted in that particular role. On the contrary the ~~person~~ candidate might leave the role and go to a different org'n; Or the might want this candidate to go up the roles rather than staying in that role, so there is a range which not a range of mining maxima. But this is a range of zone before & around the ideal salary (P60) and thus there is a ranges in these cases.

The way in which this pay range was arrived to is not from how an org'n can go but it is from how it is an ideal salary; and from ideal salary what is the minimal recruitment level (Subject to the minimum legal compliance).

- ① what is typical starting salary that others are paying
- ② Minimal level of talent that ~~some~~ a candidate can do a decent work in an organisation, so that he/she isn't a liability & ~~what is~~ for that level of talent what market is essentially offering them.

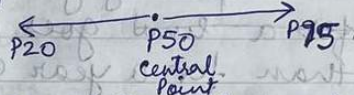
spread of pay range is determined by how accommodating the role itself is. Thus we can conclude by saying that the role gives an accommodation as to what is the minima and maxima.

or a compensation person

Job of HR prof, here is to see if a better talent is acquired at P40 level rather than to increase the cost for the organisation. This part comes through experience; when we learn and try to look at attrition levels, performance at a lower talent levels and decide that maybe P60 isn't required at all. Maybe P40 is better off.

Merit Based Pay

Typical range



Employees enter at P20 and move towards ~~P40~~ P50 every year

Changes ⁱⁿ basic salary would be impacted by what component of an individual's performance or determined by what parameters by which basic should change.

→ Basic should change because the potential of employee has change. Changes in basic - there is a change in potential (experience, skill etc).

This change in potential could not be measured directly therefore proxies like experience, skill, rating system etc.

Because we said basic range is determined by the potential of an individual to do a particular job.

Merit Based Pay system →

Basic pay need not change at all if the individual's performance have improved but the competencies or potentials have not changed at all. Technically basic pay need not be increased but based on org's performance some pay may be given to them. There is no improvement in individual's performance so potential is not no change in individual potential based pay (basic pay).

Since ~~However~~, as the organisation has done well as a whole so ~~so~~ some profit sharing ~~is~~ is done with employees. Technically, these can be done without increasing or touching the basic salary.

There is a correlation between ^{change in} potential and increase in basic salary; because the competencies rarely diminish, they only increase. So when the competency goes up, it ~~does not~~ go up for a ~~time~~ goes up permanently rather than for a year or two; therefore the basic pay goes up permanently.

In India there are other reasons ^{also} for basic to go up.

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Allowance/Benefits

why allowance — Tax exception HRA

HRA
CCA
NSA
DA

Allowance — Basic was suppose to be an essential part of the salary. Two things came into picture which created a need for a separate component.

- Context of job.
- Temporariness of context.

J₁ J_{2A}
B₁ B₁

Context C₁ C₂

Context in terms of market city etc different. The context had temporariness to it. Then org n realised that an extra hardship coming in to the context.

→ since it is temporary should it ~~have~~ need not to be handled with basic. It still needs to be compensated, there is no reward but hardship needs to be compensated; so that the jobs have a parity. This parity was suppose to be done at a temporary level and so allowances ~~can~~ came into picture

Allowances are temporary compensation to take care of horizontal differentiation due to due to context or factors outside the job. If the job itself is different then it is handled through basic; but in this case the problem is the context, which is not permanent but temporary. If the context is permanent then it is better to ~~treat~~ consider the jobs different and having a permanent impact for the other job.*

Ex: ^{An} Organisation have both day & night shift. The night shift is undesirable, then the organisation needs to compensate for this night shift. Since the night shift keeps on changing ^{every month}, the organisation doesn't want to permanently compensate it; then the org'n handles it through a night shift allowances.

But, if the night shift is ~~something~~ of permanent nature; i.e. the org'n employs two set of employees one for day shift and other for night shift. ^{they} ~~and~~ permanently ~~stay~~ work in two different shifts and there is no rotation. Since there is a permanency to it then the allowances doesn't come into the picture at all it can be handled differently.

* Allowances can be removed since the temp'y component is removed.

In some cities it's difficult to get a accommodation & some other cities it was expensive to rent a house. So, an extra component came into the picture called HRA. Interestingly things are tax as in net of food & shelter. So shelter is not essentially added, HRA comes into picture and then it creates a different meaning all together. ~~Today~~ The only reason why ppl worry about HRA is tax reason.

Wherever there is context and context is temporary then allowances become a powerful tool. If the job involves transfer, shifts, small differences like

different ppl in different towns which org'n don't want to see equally allowances comes into picture.

Why DA in govt but not ~~at~~ in other org'n
Revision of pay is once in 10 years so DA is imp in govt.

Y_1 Y_2 Y_3 Y_4 ... Y_{10}
1,00,000 ————— $\uparrow Y_{10}$

- ① When attrition rate is not a issue (like in govt org'n) then the salary need not be revised so frequently.
- ② If the salary is revised once in 10 years, there is no problem. 1 lakh is good enough for 10 years. Eventhough the salary is revised in 10 yrs; But the average of market ~~is~~ every 10 years. After understanding the fluctuation ~~that~~ a solid increase is given every 10 yrs as compared to every year increase. So, after 10 yrs govt has much better data to react when they are giving an increase.
- ③ ^{due to inflation} the 1 lakh rupees ^{given in 1st year} ~~seized to be~~ to be 1 lakh by the time it reaches 10th year. After 10 yrs its ~~value~~ worth might become 75 k. As a consequences org'n introduces a dearness component so that the 1 lakh of 1st year stay as 1 lakh in 10th year; ~~so~~ that is the reason DA component is added. DA is added to maintain the purchasing power.

In any org'n basic goes up due to following reasons:

- ① Demand for talent goes up.
- ② Skills ~~for~~ have moved up.

Allowance is the component of pay, where a temp'y component is introduced. This temp'y component is introduced because there is need for temp'y compensation. This temp'y compensation is given due to a temp'y

hardship faced due to the context of the role; which is not been added to the permanent aspect as the whole role is temporary in nature. Allowances here becomes very powerful. It is used in many orgs where there is a ~~change~~ temporary change either of location or time involved in the picture. It is a ~~component~~ ^{competency} that any compensation manager uses it beautifully.

Pay ~~is~~ for position is determined by geography also

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Benefits

Whenever any benefit is seen but not the cash for it it is benefit. Benefit is something where ends are seen and not the means.

Benefits -

- Focus on ends
- Strictly monetary but cash part is not seen.
- Any reimbursement is strictly a benefit.

Ex - Housing loan benefit is an example of Benefits. It is only ~~long benefits~~ applicable if an individual takes a housing loan & the amount is directly paid to bank.

Benefits & RR are ^{closely} related but the key difference is that benefit has a clear monetary angle to it while RR doesn't have a clarity but they also focus on the ends rather than the means.

Why Benefit

- ① Benefit focus on long ~~term~~ term uncertainty
- ② Benefit focus on encouraging behaviours.
- ③ Third point could be considered as a subset

of second point. But the third point is i.e. the org'n can show that they can save better by giving benefits than through allowances

major aspect

① Long term uncertainty: Bulk of the benefits are insurance plan. Like health insurance, PF, life insurance etc. As individual cannot plan long term uncertainty & so org'n plans of it. "Stay with org'n and org'n will give a good superannuation plan or insurance ^{in higher edu'n} or tuition reimbursement of employees' children, etc". Bulk of benefits were essentially created to ~~deal~~ deal with these long term uncertainty. There are 3 factors involved:

- (a) Individual doesn't plan very well.
- (b) Govt says individual should plan.
- (c) Org'n says that they will do it but they need some tax benefits. Thus the org'n gets tax benefit & so PF & health benefits comes into picture.

It has its pluses & minuses. If an individual keep shifting job then there is no long term.

② Encouraging behaviour: This part is far more popular. ~~with~~ Benefits can encourage an employee to get into a behaviour which an employee may not otherwise rush into.

Ex: Club membership. Org'n want its employees to spend the evening networking & talking ~~to~~ to people in the similar social elite; so that employees understands that it's not that he is being paid low but others also who are paying them low. ^{like} politics everywhere.

By giving club membership organisation is giving ~~some~~ something to an employee which he/she cannot get easily and at the same time org'n encourage their employees to ~~participate in~~ engage themselves

case of certain things permanently without the employee feeling it most of the time.
Ex: Insurance