

Compensation Management

Q1.a. What is the role of compensation and rewards in modern organization? What are the advantages of a fair compensation system?

Ans1a. Role of Compensation and Reward in Organization:

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

Land, Labor, Capital and Organization are four major factors of production. Every factor contributes to the process of production/business. It expects return from the business process such as Rent is the return expected by the Landlord. Similarly Capitalist expects Interest and Organizers i.e Entrepreneur expects profits. The labour expects wages from the process.

It is evident that other factors are in-human factors and as such labour plays vital role in bringing about the process of production/business in motion. The other factors being human, has expectations, emotions, ambitions and egos. Labour therefore expects to have fair share in the business/production process.

Advantages of Fair Compensation System:

Therefore a fair compensation system is a must for every business organization. The fair compensation system will help in the following:

1. If an ideal compensation system is designed, it will have positive impact on the efficiency and results produced by workmen.
2. Such system will encourage the normal worker to perform better and achieve the standards fixed.
3. this system will encourage the process of job evaluation. It will also help in setting up an ideal job evaluation, which will have transparency, and the standards fixing would be more realistic and achievable.
4. Such a system would be well defined and uniform. It will be apply to all the levels of the organization as a general system.
5. The system would be simple and flexible so that every worker/recipient would be able to compute his own compensation receivable.
6. Such system would be easy to implement, so that it would not penalize the workers for the reasons beyond their control and would not result in exploitation of workers.
7. It will raise the morale, efficiency and cooperation among the workers. It, being just and fair would provide satisfaction to the workers.
8. Such system would help management in complying with the various labor acts.
9. Such system would also bring about amicable settlement of disputes between the workmen union and management.
10. The system would embody itself the principle of equal work equal wages. Encouragement for those who perform better and opportunities for those who wish to excel.

1b. Explain the need for designing of compensation Policy. What is the importance of compensation system in business organizations?

Ans1b. After going through the role and essentials of a sound compensation system, it becomes imperative that every business organization should be set up for itself a proper Compensation Policy. The Management of the organization must have a well-designed Compensation Policy.

The policy calls for deciding the criteria for promotions, up-gradations etc. It would also be necessary to fix up the standard expectations from each and every workmen/employee. The policy should determine the norms to be followed for Performance Appraisal or Job Evaluation. It should also chalk out the need for training, provisions for fringe benefits, welfare schemes etc. It must prescribe the manner in which such benefits would be extended and levels within the organization to whom such benefits are extendable.

The incentive schemes and its details, Pay package structure, Tax implications etc. are matters of concern while designing the compensation Policy.

Importance of Compensation / REWRAD System in business organizations.

Money makes the mare go is the proverb. It holds good for all the factors participating in the business process expects its fair share of prosperity of the business. Compensation/ Reward System plays a vital role in the business organization. And its importance can be very well ascertained as follows:

1. sound Compensation/Reward System brings amicability and peace in the relationship of employer and employees.
2. The system brings out the best out of every employee in the organization. It aims at creating a healthy competition among them. And as such, encourages them to work hard and efficiently.
3. The system provides adequate opportunities to those who wish to perform better. The system provides growth and advancement opportunities to the deserving employees.
4. The system upholds the principle of equal wages. It provides transparency and parity too.
5. The perfect Compensation system provides platform for happy and satisfied workforce.. this minimizes the labour turnover. The organization enjoys the stability.
6. The organization is able to retain the best talent by providing them adequate compensation thereby stopping them from switching over to another job.
7. The business organization can think of expansion and growth if it has the support of skillful, talented and happy workforce.
8. The sound Compensation system is hallmark of Organization's success and prosperity. The success and stability of organization is measured with pay-package it provides to its employees.

9. Both employer and employees get benefited because of the sound Compensation System.
10. A sound Compensation System helps the organization keep pace with changing environment. It helps the organization to cope up with the wage levels in neighboring industries.
11. Sound Compensation System minimizes the complaints from the employees, provides them the congenial work environment to perform better and sets up for them the targets to be achieved. Definite targets help employees know their role in the organization, which minimize wastage, and enhance overall efficiency. It also helps organization to reduce the cost of production and maximize profits.

Q2.a) What is the concept of Cost? What are the different elements of cost?

Ans2a. Cost is the basic amount of expenses a businessman is likely to incur to be able to manufacture or process one unit of proposed product. Prior to starting of any business, a businessman has to prepare a rough sketch of the product he wants to produce. And he has to estimate amount of money he is likely to spend to be able to produce just one unit of such proposed product. The product is made up only after spending some sums of money on raw material, labour, expenses for electricity, transportation, packing and packaging as well as advertisement and sales promotion.

The most important consideration a businessman has while thinking about production of any goods and services for his business is the operational portion of his business. He has to think of two most important elements of money management viz.

1. The cost of his product or services
2. And the budget of his business activity

The necessary data is to be collected to be able to estimate the elements of expenditure required to be incurred will definitely focus on the objective of arriving at the cost unit of his product or cost of his service that he intends to render. Cost of his goods and service is the starting point to exercise control over his finances. A businessman therefore needs to know the elements of the cost of goods and services he intends to manufacture/render.

Various Cost Concepts/Elements of cost:

The elements of cost are:-

- 1) Material
- 2) Labour
- 3) Expenses

The material that is directly required for the actual production of goods and services, the value for such direct material constitutes important part of cost of production. Labor that would be directly engaged with the production of goods/services will be yet another constituent of the cost. And the expenses that are directly related to such production are also essential element of cost of product or services. The total of the Direct Material, Direct Labour, and Direct Expenses will be **Prime cost**. Indirect Material, Indirect Labour and Indirect Expenses added to prime cost with other elements of expenses, will provide the businessman with the **TOTAL COST OF PRODUCTION**.

The businessman has to decide the percentage of profits he wishes to earn over and above the cost of production, additions of which shall ensure THE SELLING PRICE of the product. The business therefore needs to decide in advance what should be the price of his product and services.

The business is a process that has to be kept continuously monitored. A comprehensive Cost control exercise ensures the costs and the resources in the form of money would be definitely utilized in most economical and efficient manner.

The indirect material, labour and expenses are also required to be incurred since its not just production, staff or not jut raw material enables the business enterprise to produce the goods and services. For example accounting staff, administrative staff, store workers, helpers also help in completing the production process. And hence , the material , labour and expenses, which are indirect in nature still constitute the element of expenses and therefore part of cost pf the product. These Indirect Material , Labour and Expenses help in arriving at what one can call cost of production.

Q2b. What is labour turnover? Explain various causes for labour turnover. What are the effects of labour turnover? How is it measured?

Ans. 2b. Labour Turnover : Labour Turnover is national problem of evry country and leads to high costs and low productivity. The extend of labour turnover varies according to industry, proportion of male and female in labour force, Structure of employment in the country, and physical condition within a particular organization. A thorough understanding of the causes of labour turnover and analysis and comparison of coat of such turnover may help in controlling the situation.

Turnover means a chang. We often observe that either a friend or relative of us change his job. When he changes the job he leaveshis original company say 'X' and joins a new company say 'Y'. In this case, this change has twofold effect. Company 'X' strength of workers/employees has been changed with reduction by one number and for company Y; there is change because of additional one number.

Thus, any change in the composition of strength or number of workers or employees is known as Labour Turnoer. It can be defined as the 'change or rate of change in the working force of the organization during a particular time period.

Causes of Labour Turnover.

There are various reasons on account of which an employee leaves. However for additional employee the reasons can be:

1. Expansion of departmental functions and activities
2. Increase I production facilities and target of higher output.
3. Creation of new level of management in the organization structure.
4. Change in technology, process, methods and operations
5. Change in legal provisions

6. New activities, project taken up by the organization.
7. Diversification into new product lines or services.
8. Mergers and Acquisitions.
9. New services required by the organization.
10. In house programs of training
11. Replacement in place of old employee.

Causes of labour turnover can be classified into two:-

- a. Avoidable causes: Unsatisfactory pay package, Absence of job satisfaction, Monotony in the work, unsafe or risky job, long working hours, Unhealthy relationship, unfair treatment from management, Lack of scope for self development, Absence of HRD functions, feeling of insecurity.
- b. Unavoidable causes: Better prospect, Death, Retirement, shift from one place to another, Accidents, National Service, Transport problem, Family problem, Dismissal, Promotion.

Generally a good organization prepares a report on labour and every month it is submitted to policy making authorities.

Measurement of Labour Turnover:

There are two parts of Labor turnover. When the employee leaves the organization he gets separated from the workforce. Thus an outgoing employee on account of registration, transfer, promotion results into separation from the present work force.

The second part is replacement of an employee by another employee. Many times the separated employee may not get replaced. Therefore while measuring labour turnover the formula is to be selected according to the choice of the interest of the management .

The labour turnover can be expressed by using any one method. By using following formula we get the rate of labour turnover and it is expressed as percentage.

1. Separation Method/ Rate:

$$\frac{\text{Number of employees separated in a period}}{\text{Average number of employees in the period}} \times 100$$

Where,

Average Number=(Number of employees at the beginning + Number of employees at the end)/2

2. Replacement Method/Rate:

$$\frac{\text{Number of employees replaced in a period}}{\text{Average number of employees in the period}} \times 100$$

(Here only those who are replaced, that number are to be considered. Suppose 100 employees are separated however only 50 are replaced, then only 50 to be considered.)

2. Flux Method/ Rate:

This is combined measure of both separation and replacement.

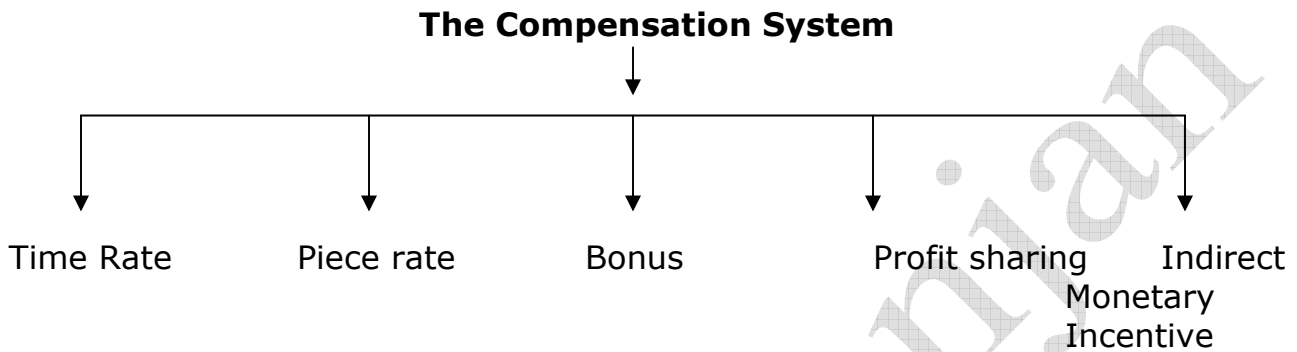
$$\frac{\text{Number of employees separated} + \text{Number of employees replaced}}{\text{Average number of employees in the period}} \times 100$$

Average number of employees in the period.

Q4a. What are different compensation systems?

Ans4a. Various Compensation Systems

There are basically two compensation system viz. Basis Time Rate and Piece Rate. These two systems are devised to make payment to workers of different skills, efficiency levels. It is meant for making payment, which should adequately compensate the worker for his efforts.



1. Time Rate System:

This system is divided into three categories.



Ordinary Level:

It is calculated on time (daily, monthly, weekly etc.) The formula for calculation of salary is

Rate per hour X Hours worked = Earnings (RPH X HW=E).

High Wage Level :

It is calculated on hourly basis but overtime is not paid. The formula for calculation of salary is

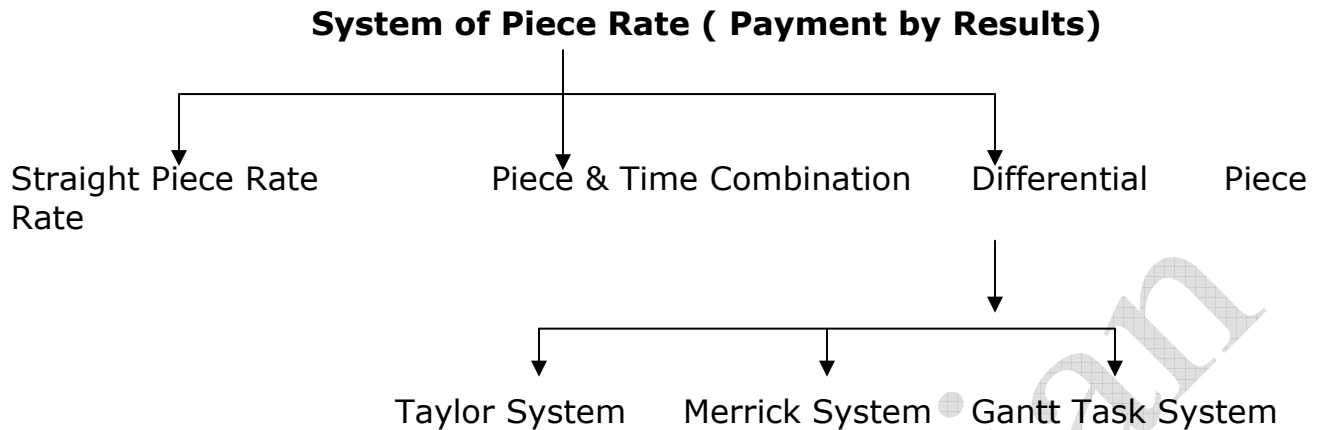
RPH X HW = E

Graduate System:

Payment : the basis is linked with dearness cost of living. The index of cost of living is varying and that is considered for calculating the remuneration.

Formula: Basic Salary is Rs. 2,000/- and Cost of living Index (D.A) is 100% then, Rs 2000+100% of Rs 2000 as cost of living is added, thus total remuneration is Rs. 4000/-. It after 6 months, cost of living index change 15%. Then basic salary + 15% of basic salary i.e Rs 3,000/- will make it Rs, 5000.

2. Piece Rate/ Payment Rate (Payment by Results)



Straight Piece Rate:

Payment : Flat rate is applicable per unit, which is predetermined. The time spent is not considered.

Formula: $PPR \times O = \text{Earnings}$.

Piece Rate and Time Rate Combinations:

Payment: It is a dual rate system, designed to protect inefficient workers. The worker is ensured to get the minimum payment. If the payment is calculated on the basis of piece rate guarantees and number of pieces fall below the minimum wages guaranteed, he is paid by time Rate.

Differential Piece rate:

Payment: In favour of piece rate system, minimum wages were assured. However, under this system, instead of combining time-rate and piece-rate, there are dual rates for different efficiency level. The purpose behind keeping high piece rate for higher efficiency is as the level of production increases, the cost per unit falls.

4. **Bonus:**

Bonus is given by the company to their employees as a reward. It is been fixed by the government i. e 8.33%. Bonus encourages the employees to work hard. It is a motivating factor for the employees to improve their efficiency.

5. **Profit Sharing:**

Profit Sharing is the most motivating factor. When the company makes profit it gives some kind of share to their employees as a Annual increment. This helps to motive employees to work hard and get more increment.

6. Indirect Monetary Incentive :

Indirect Monetary Incentives like traveling allowance, HRA, Dearness allowance, medical facility, etc are very motivating for the employees.

Q4b. Distinguish between of Time rate and piece rate system.

Ans.4b.

No.	Particular	Time Rate System	Piece Rate System
1.	Definition	When the payment of wages is made to employees irrespective of the production the system is called Time Rate System.	When the employee is paid on the basis of output/units produced/completed and predetermined rate for the same irrespective of spent for the work is called piece rate system.
2.	Significant factor	Attendance time	Production /Output
3.	Additional payment component	Overtime at higher rate	Additional output at higher piece rate
4.	Formula	Hours worked x rate per Hour= Earning (HW X RPH = E)	Units produced x Piece rate = Earning (UP X PR = E)
5.	Pre-requisite	The work is of the nature, which cannot be measured, in quantitative terms, e.g. Preparing engineering drawing of a job. Supervision of the work.	The work should be measurable in quantitative terms. E.g. winding of transformers, packing articles in plastic bags.
6.	Suitability to Industries	Performance is not possible to measure accurately. Where jobs involves art and skill, like ornament making, fashion designing, furniture making etc.	Where precisely the work can be measured. Where the job is to stereotype nature (Assembly of parts).

7.	Work nature	To be performed with machines and equipments, without intervals	Generally manually, with intervals.
8.	Workers a. Literary level b. Skill c. Need of managerial ability d. Creativity e. Tenure f. Job Satisfaction g. Responsibility	High Highly Skilled	Low Unskilled Low
9.	Incentive paid by	Higher time rate	High rate for additional output
10.	Benefits	Of all these	Very low
11.	Cost	High cost, fixed cost	Low cost, variable cost
12.	Advantages	Consistency, loyalty integration	Speedy work with adjustments.

Q6a. Write a note on elements or ingredients of a good wage plan.

Ans 6 a. Elements or Ingredients of a Good Wage Plan:-

Before we discuss these two plans, it would be fruitful to know the ingredients of a good wage plan. These are:-

1. It should be easily understandable i.e all the employees should easily understand what they are to get for their work. They should be instructed in how the wage plan works.
2. It should be capable of easy computation i.e. it should be sufficiently simple to permit quick calculation. Mathematical tables may be supplied, by reference to which calculations can be quickly made.
3. It should be capable of effectively motivating the employees, i.e it should provide an incentive for work. If both the quality and quantity of work are to be stressed at the same time, a plan should be selected that will not unduly influence the worker to work too fast or to become careless about quality.
4. It should provide for remuneration to employees as soon as possible after the effort has been made. Daily or weekly payment of wage would be preferable to induce employees to work.
5. It should be relatively stable rather than frequently varying so that employees are assured of a stable amount of money.

Q6b. What are the reasons or factors affecting wage differentials?

Ans6b. Wage differ in different employments or occupations, industries and localities, and also between persons in the same employment or grade. One therefore comes across such terms as occupational wage differentials. Wage differentials have been classified into three categories:

First, the differentials that can be attributed to imperfections in the employment markets, such as the limited knowledge of workers in regard to alternative job opportunities available else where, obstacles to geographical, occupational or inter-firm mobility of workers, or time lags in the adjustments of resource distribution and changes in the scope and structure of economic activities. Examples of such wage differentials are inter-industry, inter firm and geographical or inter-area wage differentials.

Second, the wage differentials which originate in social values and prejudices and which are deeper and more persistent than economic factors. Wage differentials by sex, age, status or ethnic origin belong to this category.

Third, occupational wage differentials, which would exist even if employment markets were perfect and social prejudices were absent.

Wage differential arises because of the following factors:-

- a. Difference in the efficiency of the labour, which may be due to inborn quality, education and conditions under which work may be done.
- b. The existence of non-competing group due to difficulties in the way of the mobility of labour from low paid to high paid employments.
- c. Difference in the agreeableness or social esteem of employment.
- d. Differences in the nature of employment and occupations.

Q7a. What are the norms for fixation of wages in industry?

Ans7a. Norms For Fixation of Wages In Industry.

1. While computing the minimum wages, the standard working class family should be considered as consisting of four consumption units and the earnings of women, children and adolescents should be excluded.
2. The minimum food requirements should be determined on the grounds of a net intake of 2700 calories as laid down by Akroyd for a normal adult in India
3. Clothing needs should be established on the basis of a per capita consumption of 16.62 meters per year.
4. As regards housing, the minimum wages should be determined from the standpoint of the rent corresponding to the minimum area specified under the government Industrial Housing Scheme.
5. Miscellaneous expenditure on items such fuel, lighting etc. should form 20 per cent of the total minimum wage. The resolution further prescribes that the authorities involved in the issue should justify any deviation from these norms.

Q7b. What are the retirement benefits related enactments in India? Explain each of them in detail.

Ans7b. Retirement benefits related enactments.

Employees' Provident Fund Act

The Act was passed with a view to making some provision for the future of the industrial worker after his retirement or for his dependents in case of his early death and inculcating the habit of saving among the workers. The object of the Act is to provide substantial security and timely monetary assistance to industrial employees and their families when they are in distress and or unable to meet family and social obligations and to protect them in old age, disablement, early death of the bread winner and in some other contingencies.

The act provides for a scheme for the institution of Provident Fund for specified classes of employees. Accordingly, the Employees' Provident Funds Scheme was framed under Section 5 of the Act, which came into force on 1st November, 1952.

Main features of the Act

The Act is applicable to factorize and other establishments engaged in specified industries classes of establishment, which have completed three years of their existence and employing 20 or more persons. The Act, however, does not apply to co-operative societies employing less than 50 persons and working without the aid of power. An establishment, which is not otherwise coverable under the Act, can be covered voluntarily with the mutual consent of the employer and the majority of the employees. Employees drawing a pay not exceeding Rs 5000 per month (And now it is amended to Rs. 6500/- recently) are eligible for membership of the fund. Every employee employed in or in connection with the fund from the date of joining the factory or establishment.

The normal rate of contribution to the provident fund by the employees and the employers as prescribed in the Act is 10 percent of the pay of the employees. The term "wages" includes basic wage. Dearness allowance including cash value of food concession and retaining allowance, if any.

Employees' State Insurance Scheme.

The Employees' State Insurance Scheme. Act, 1948 is a pioneering measure in the field of social insurance in our country. This act came into force from 19th April, 1948. The Scheme under the Act aims at providing for certain cash benefits to employees in the case of sickness, maternity, employment injury and medical facilities in kind, and to make provisions for certain other matters in relations thereto.

The term "employee" has wide connotation and would include within its scope functions of clerical, manual, technical and supervisory. Persons whose remuneration (excluding remuneration for overtime work) does not exceed Rs 6500 a month are covered under the Act.

The Act does not make any distinction between causal or temporary employees or between technical or non-technical employees. Employees employed directly by the principal employer and those employed by or through contractor. However, the definition of "employee" does not include any member of the Indian naval, military or air force.

Contribution

The contribution will have to be payable for every wage period. Employees contribution has to be calculated individually for each employee at the rate of 1.75% of the wages paid/payable for every wage period. But in the case of employer's contribution, the same may be calculated at the rate of 4.755 of the total wages paid to all the employees covered under the ESI scheme in each wage period, rounded to the next higher multiple of five paise.

The total value of the combined employer's share as well as the employee's share has to be deposited in State Bank of India or in any other authorized bank branch through a challan in quadruplicate as per Performa on or before the 21st of the month following the calendar month in which the wages fall due. An employer who fails to pay contribution within the periods specified shall be liable to pay of the default of delay in payment of contribution, and also may be liable for damages for late payment. It will be in the interest of the employers if the payment of contributions is made within the time limits laid down under the law so as to avail the permissible deductions under Section 43 of the Income Tax Act.

Contribution Period	Corresponding Benefits Period:
1 st April to 30 th September	1 st January to 30 th June
1st October to 31 st March of the year following.	1 st July to 31 st December

In the case of a person who becomes an employee within the meaning of the act for the first time, the first contribution period will commence from the date he enters into insurable employment for the first time in the contribution period current on that day and his corresponding benefit period will commence on the expiry of nine months from the date of such employment. For example, if a person joined insurable employment for the first time, say on 5th January his first contribution period will be from 5th January to 31st March and his corresponding first benefit period will be 5th October to 31st December.

Q8a. What do you mean by Compensation Structure? What are the components of modern Compensation structure?

Ans8a. Introduction

One of the most vital factors the motivation, retention and the morale amongst the employees is the compensation system, policies and review philosophies of any organization. While the bargainable employees generally have their unions to negotiate or review terms with the Management-which are governed by the Long Term Settlements- the terms of the managerial employees are mostly seen to be at the mercy or the goodwill of the organization, reviews of which may or may not be regular or timely, or often do not seem to meet the expectations or logic of such employees.

Management Compensation therefore, now plays a very significant part along with the working style and environment, empowerment etc. in the organization's success strategy. While individual organizations may have differences in their methodologies based on factors best suited to their perceived needs, some general directions are evident, and are discussed below.

- 1. Salary, Basic Salary or Consolidated Salary** continues to remain as the major component of compensation, though Salary Scales are often discarded these days, or used only as guides. Individual Salary is generally decided initially using the Scale, but thereafter performance, contribution to targets or results generated determine the revisions periodically, which may vary widely from individual to individual. 'Salary broad handling is therefore, getting recognition and acceptance.
- 2. Gradewise flat Allowance** are being considered generally, except where tax exemption benefits are still available, when they continue as separate components. Allowances may be linked to the Salary as a percentage or by slabs, but preference is for flat amounts, which do not increase automatically, and therefore increase could be discretionary, and therefore controllable.
- 3. Reimbursements of expenses** incurred on Company work has become limited, and in line to conform to the tax laws. Being actual in most cases, they are not considered as apart of the compensation, unless it is provided towards personal benefits.
- 4. Annual payments:** Bonus or Commission, and Leave travel are common features some tax relief's apply for the latter.
- 5. Benefits** generally comprise of mostly unfurnished company owned or leased accommodation, use of company or leased vehicles, medical coverage, retirement benefits covering Provident Fund, Pension or Superannuation and Gratuity, post-retirement medical assistance, easy loan schemes at low or zero interest rates for house building, cars or vehicles, furniture or utility items etc. renting employees owned housing, club entrance free reimbursement etc. Minor benefits could be provision of security, driver or gardening assistance, else of products or assets at a

concessional rate, relocation and transfer expenses including admission etc. fees for children, credit card fees, phones etc.

6. **Employee stock option schemes** which has been popular in IT industry-, is not extensively used yet, not being tax advantageous to other industries, nor seen as being very attractive with lesser growth trends for their share values especially in the well-established older companies.
7. Most companies, as against earlier visible costs, use the "**Total cost to the Company**" concept as basis. Cost of the most benefits are averaged or computed on actual basis, and within the system of the overall cost, but with greater compliance to tax laws, this basket concept is on the wane.
8. **Retiral benefits:** Some in recognition of the past contribution of pensioners, and to partly offset the inflation post retirement practices periodic improvement in pensions, or a guaranteed grade minimum pension.
9. **Performance Bonus** that do not increase future liability is being given more as a recognition of results generated. It requires transparent, balanced and fair systems and benchmarks, and also agree targets by the managers in advance during planning and review discussions.
10. From the earlier grade oriented compensation system within reasonable boundaries, compensation often has to be somewhat tailor made for specialist or key contributors to retain them in the very volatile job market.
11. Compensation review periods have become annual generally and sometimes oftener, as compared to every three to five years earlier, in the fast changing market situation.
12. Retention strategies employed are generally the attractive interest free or at low rates for loans, on which market rate of interest may apply on early exit, renting employee owned property to set off repayment of loans, qualifying periods or attractive service benefits added to the retrial benefits or post retirement benefits etc.

To summarize, the need to regularly carry out detailed compensation reviews both within or without, and with full support and commitment from the top is essential. Openness and transparency are important to the mangers in the very sensitive and personal issue of management remuneration, and therefore policies and practices should match. The remuneration and the system have to be, and seen to be, fair and just, non bureaucratic and dynamic, and which dealt with human feelings and necessary speed, still remain competitively attractive.

Q8b. Explain the importance of salary survey. What are the objectives of such a survey?

Ans8b. Salary Survey becomes immensely important. It has following twin objectives.

1. To identify the elements of dimension of managerial compensation in the region, neighbouring industries and economy as a whole.
2. To present the complete pay-packages-covering not just salary and perquisites, but also non-monetary benefits, ranging from housing facilities and furnishing allowances to overseas travel facilities and equity participation schemes-earned by managers, rather than only the monetary components, which are often misleadingly low.

Q9a. What are the issues related to Compensation in service/Hospitality industry.

Ans9a. Issues related to Compensation in Service/Hospitality Industry:

1. Types of staff/workmen employed, their skill sets and their expectations as against salaries/wages offered in neighbouring units.
2. Size of the organization, its organization structure and volume of transactions.
3. The customer base, customer's expectations and the seasonal influx due to factors like vacations, monsoon, festivals, holidays, changing habits of tourists etc.
4. Employee turnover in Service Industry.
5. Availability of the required manpower .
6. Government Policies in relation to such industries.
7. Local/State tax structure and other regulatory rules affecting the industry.
8. The up-gradation of the knowledge base of employees, training and development activities as well as availability of the Vocational Training Institute imparting required knowledge to new/budding or aspiring persons wanting to get employed in such industries.
9. Difficulties in marketing the service i.e, Service marketing: It is difficult to convince the customer about need for such service.

Q9b.Explain the findings of wage and salary administration in Hospitality industry?

Ans9b. The administration of wages and salary is the most important task in personnel-administration. Mere determination of the wage structure is not enough; it must be properly implemented and administered.

Wage survey, wage plans and job evaluation are the three important methods used for this purpose. These methods have to be applied with prudence. Wage and salary are also subject to a variety of legislation and in this context, compliance with existing legislative measures is very important.

The aim of a wage and salary policy is to recognize the value of each job, provide stability in earning, allow individuals to reach full earning potential and to ensure that all staff share in the organization's prosperity.

Wage levels in a organization are determined by factors like the organization's ability to pay, supply and demand of labour, job requirement, cost of living index, prevailing wage rate trade union bargaining power, psychological and social factors. Suitable levels have to be set after consideration of all these factors. Therefore an attempt was made to assess the main consideration for determining the wage and salary structure in the selected hotel units.

Competition demands adherence to the same relative wage level, and trade union encourage this practice so that their members can have equal pay for equal work and geographical difference can be eliminated. But during the research it was found that in certain cities, prevailing wage rates are very low whereas organizational ability to pay is more. This has led to frustration in employees and requirements, and cost of living index are the next important factors in determining wage and salary structure. Whereas trade union bargaining power and psychological and social factors are only involved in five-star and are 16 percent only.

Duration of pay revision.

By keeping in view the natural expectation of employees to gain higher wage and salaries as their experience curve yearly takes an upward trend and to avoid frustration in employees on not getting a timely pay hike, several organization have decided the duration of wage and salary revision. It was also found that 20 percent and 30 percent of the two-star and unapproved hotels respectively do not have fixed duration of increments.

Labour turn-out.

It is seen that most financially sound organizations take into consideration the prevailing wage rate factor while fixing the wage and salary structure of their employees. This may engineer a sense of frustration in employees leading to heavy labour turnout. In this regard, an attempt was made to find out the

percent of labour turnout due to non-satisfaction with wage and salary structure.

Labour turn-out due to non-satisfaction of wage and salary structure is 10-15 percent in 50 percent of five star hotels. In more than 50 percent of the two, three four star and heritage this percentage is between 0-5 percent and in unapproved hotels the percentage of labour turnout is very low due to loyalty towards the owner, social causes and illiteracy of the employees.

Conclusion:

Hotels must realize that satisfied human resource is a valuable assets for the organization. An organization pay must be competitive and equitable. This will not only ensure the cooperation of their managerial and non-managerial personnel but also reduce the percentage of labour turnout beside maintaining industrial peace. If an organization fails to do so, it attracts criticism from social reformers and trade unions. Therefore the business organization must develop a balanced package of wage and salary administration in a most appropriate and effective manner.

Q10a. What are the aspects of manufacturing or engineering industries compensation survey.

Ans 10a. Following aspects were observed while determining pay ranges :

1. It is important to keep in mind that there is an adequate differential between supervisors and subordinates-whether they are paid under the same pay plan or under different ones.
2. When the pay-range of one group is changed, equal attention must be given to the pay level of the other.
3. Because of the continuous rise in wage and salary levels, a rise resulting from a variety of environmental pressures, considerable attention must be given to handling upward changes in wages structure. Some firms give general percentage or "across the board" pay increase based on merit or length of service. The sound thing is to make general adjustments in wage structure according to the price index number.
4. The existing pay structure should be regularly reviewed and revised. This will make job evaluation programme more acceptable to employees.
5. Regional differences in wages should invariably be maintained. Forces that favour regional differences between areas, added sources of income, or characteristics (rural versus urban or industrial), seasonal occupations as in agriculture versus stable occupations.

However , it was observed that, several forces work to level these differences. The forces that favour uniformity in wages are: high mobility between regions and /or employees, access to timely, reliable information, wide spread unionization efforts (often along industry/occupational lines.)

Q10.b. What are the factors that influence wage and salary structure in manufacturing industries.

Ans10b. Factors that were usually taken into consideration for wage and salary administration are:

1. The organization's ability to pay
 2. Supply and demand for labour
 3. The prevailing market rate
 4. The cost of living
 5. Living wage
 6. Productivity
 7. Trade Union's bargaining power
 8. Job requirements
 9. Managerial attitudes and
 10. Psychological and sociological factors.
-
1. The organization's ability to pay : Wage increases were given by those organizations, which could afford them. Companies that have good sales and therefore, high profits tended to pay higher wages than those which running at a loss or earning low profits because of the high cost of

production or low sales. All employers, irrespective of their profits or losses, had opted to pay no less than their competitors and needed pay no more if they wished to attract and keep workers. In the long run, the ability to pay no more if they wished to attract and keep workers. In the long run, the ability to pay is very important. Marginal firms and non-profit organizations (like hospitals and educational institutions) paid relatively low wages because of low or no profits.

2. Supply and Demand of labour: The labour market conditions or supply and demand forces operated at the national, regional and local levels, and determine organizational wage structure and level. If the demand for certain skills and the supply was low, the results was a rise in the price to be paid for these skills. The other alternative was to pay higher wages if the labour supply was scarce, and lower wages when it was excessive.
3. Prevailing Market rate: This is also known as the 'comparable wage' or 'going wage rate' and was most widely used criterion. An organization's compensation policies generally tended to conform to the wage -rates payable by the industry and the community. It was observed: ' Some companies paid on the high side of the market in order to obtain goodwill or to insure and adequate supply of labour, while other organizations paid lower wages because economically they had to, or because by lowering hiring requirements they could keep jobs adequately manned.'
4. The cost of living: the cost of living pay criterion is usually regarded as an automatic minimum equity pay criterion. This criterion called for pay adjustments based on increases or decreases in an acceptable cost of living index. In recognition of the influence of the cost of living, "escalator clauses" were written into labour contracts.
5. This criterion means that wages paid should be adequate to enable an employee to maintain himself and his family at a reasonable level of existence. However, employers did not generally favour using the concept of a living wage as a guide to wage determination because they preferred to base the wages of an employee on his contribution rather on his need.
6. Productivity: It is another criterion, and was measured in terms of output per man-hour. It was not due to labour efforts alone. Technological improvements, better organization and management, the development of better methods of production by labour and management, greater ingenuity and skill by labour were all responsible for the increase of productivity. Actually, productivity measured the contribution of all the resource factors men, machine, method, materials and management.
7. Trade Union's bargaining power: Trade unions do affect rate of wages. Generally, the stronger and more powerful the trade union, the higher

the wages. A trade union's bargaining power was often measured in terms of its membership, its financial strength and the nature of its leadership.

8. Job requirements: Generally, the more difficult a job, the higher are the wages. Measures of job difficulty were frequently used when the relative value of one job to another in an organization was to be ascertained. Jobs were graded according to the relative skill, effort, responsibility and job conditions required.
9. Managerial Attitudes: ` Top management's desire to maintain or enhance the company's prestige had been major factor in the wage policy of a number of firms. Desires to improve or maintain morale, to attract high-caliber employees, to reduce turnover, and to provide a high living standard for employees as possible also appeared to be factors in management's wage policy decisions.
10. Psychological and social factors: theses determined in a significant measure how hard a person will work for the compensation received or what pressures he would exist to get his compensation increased. Psychologically, persons perceived the level of wages as a measure of success in life, people might feel secure, has an inferiority complex, seemed inadequate or feel the reverse of all these. Sociologically and ethically, people feel that "equal work should carry equal wages" that 'wages should be commensurate with their efforts" that " they are not exploited" and "that no distinction is made on the basis of caste, color, sex or religion." To satisfy the conditions of equity, fairness and justice, a management should take these factors into consideration.

Conclusion:

Generally engineering industries had bad patch during last 7 or 8 years. And as such the wage restructure programs, worker's education programs and other welfare activities are on the back-burner. The matters of discussions had been the restructure of the organization or downsizing by resorting to schemes like voluntary retirements etc. Except few industrial sectors like pharmaceuticals, fertilizers or agro-based industries, food industries rest of engineering or manufacturing industries have resorted to go steady technique as far as compensation policies are concerned.

Q11a. What are the observations on compensation survey of IT/Telecom industries?

Ans11a. this wasn't a good year for IT pay packets. But all told, it wasn't bad year either. Increments that big annual hoopla of the industry-lost some of their sheen despite which IT jobs remain among the best paying in the country.

Consider some numbers-by and large, entry-level salaries for people with less than two years' experience range from 2 to 3 lakh., with some development centers of international product companies even offering Rs 5 lakh per year.

Nearly half the workforce with 2-5 years of experience gets between Rs4 and Rs. 6 lakh annually. Infact, if you ignore the fringe numbers, most IT employees with 2-5 years experience fall in the Rs 2-6 lakh income bracket. Between 5-10 yrs the pay packet largely ranges from 6 to 9 lakh. After that salary figures stop making sense, varying all the way from 10 to 90 lakh per annum for those with over 10 years of experience.

The bad news? The increment chart is suddenly looking a lot flatter and is likely to remain that way through this year. Salary hikes had already been affected drastically during the recent salary survey conducted by a popular magazine of April last year when they went down from an average of 40 % or so to 15 % in most companies.

This year , that fall got broad-based. Over 50 % of IT employees got increments of 15% or less, compared to 39% last year. This percentage is among those who even got increments in the first place.

Q11b. What is the business concept of Dotcom companies?

Ans. 11b. The business concept of the Dotcom companies.

The business concept on which dotcoms were founded was to address customer requirements at far greatest speeds and greater economy than traditional "physical" business. Dotcoms were to supply goods and services to consumers and other business without incurring huge capital costs. Direct interactions with customers and client organizations were expected to reduce costs by eliminating intermediaries. The physical market place was to be transformed into a virtual marketplace.

Four Phases of Dotcoms: Movement of Pay.

Phase I- Ideation- At this stage the idea for the company has germinated and it being sold to probable financiers. The focus of the start up is to obtain venture capital funding and launch the idea in the market. The start up company is in the process of recruiting its workforce CEO downwards. Typically in this phase, cash compensation is kept low and stock options are seen as the primary means of attracting and retaining talents.

Phase II- Development- In the second phase, which is the developmental phase the company continues to tap its financiers for capital. At this stage the business is seeing its first real revenue flows. The brand is being built up. The company is investing heavily to generate awareness of the company and build the brands.

Phase III- IPO- In the third phase, the company has become profitable and the promoters are focused on the launch of a successful IPO. At the IPO phase the company begins to pay at the market level to retain "key" employees.

Phase IV- Post IPO- In the fourth stage, which is the post IPO stage, the stocks of the company is subject to the vagaries of the market. The company may or may not continue to attract high valuations based on its actual and expected performance. The company has to look at a more balanced total rewards package.

During the boom time employees found the jobs in dotcoms very challenging and rewarding. The upper and middle management of the old economy companies were being offered CEO and top management positions in these dotcoms.

Q12a. What is incentive? What are the determinants of incentives?

Ans 12(a) "The things about incentive plan is that people take notice.(if you don't have the right objective),you can meet your goal –and run yourself right out of business."-Jim Bernstein ,CEO General health Inc.

If you rely on incentives to direct your team's efforts, thinking up new and different prizes become a job in itself.

An 'incentive' or 'reward' can be anything that attracts a workers attention and stimulates him to work. In other words, "An incentive scheme is a plan or programmes to motivate individual or group performance. An incentive programme is most frequently built on monetary rewards (incentive pay or monetary bonus), but may also include a variety of non-monetary rewards or prizes."

On the other hand, the term" incentive system has a limited meaning that excludes many kinds of inducements offered to people to perform work, or to work up to or beyond acceptable standards. It does not include: i) Wage salary payments and merit pay, ii) over-time payments, pay for holiday work or differential according to shifts- i.e. all payments which could be considered incentives or perform work at undesirable times; iii)premium pay for performing danger tasks. It is related with wage payment plans which tie wages directly or indirectly to standard of productivity or to the profitable of the organization or to both criteria."

DETERMINANTS OF INCENTIVES :

These features are contingencies, which affect the suitability and design of incentives to varying degrees. The effective use of incentives depends on three variables – the individual, work situation, and incentive plan.

The individual and the incentives: Different people value things differently. Enlightened managers realize that all people do not attach the same value to monetary incentives, bonuses, prizes or trips. Employees view these things differently because of age, marital status, economic need and future objectives. However, even though employee's reactions to incentives vary greatly, incentive must have some redeeming merits.

The work situations : This is made up of four important elements : a) Technology ,Machine or work system ,if speed of equipment operation can be varied, it can be establish range of the incentive b) Satisfying job assignments ,a worker's job may incorporate a number of activities that he finds satisfying .c) Feed back ,a worker needs to be able to see the connection between his work and rewards. These responses provide important reinforcements. d) Equity , a worker considers fairness or reasonableness as part of the exchange for his work.

Incentive plan : In general ,are important motivators. Their effectiveness depends upon three factors : drives ,preference value ,and satisfying value of the goal objective.

Following generalizations are derives from above :

- i) Incentives ,whether they are monetary or non-monetary , tend to increase the level of motivation in a person.
- ii) Financial incentive relates more effectively with basic motivation or deficiency needs.
- iii) Non-financial incentives are linked more closely with higher motivation, or becoming needs.
- iv) The higher the position of a person in an organization hierarchy, the greater is his vulnerability to non-financial incentives.

Determinants of incentives or rewards can be classifies into:

- i) Direct compensation : it includes the basic salary or wages that the individual is entitled to for his job, over-time work and holiday premium ,bonuses based on performance, profit sharing and opportunities to purchase stock options ets.
- ii) Indirect compensation: It includes protection programme like insurance plans, pensions, pay for time related work, services and perquisites. But these are maintenance factors than reward components. Since they are made available to all employees, irrespective of performance, they will tend to retain people in the organization but not stimulate them to greater efforts and higher performance. Some times, the rewards are also termed as "Intrinsic" rewards and "Extrinsic" rewards. The former are those that an individual receives for himself. They are largely a result of the job that the worker does. The techniques of job enrichment , shorter work weeks, flexible work hours ,project structure , and job rotation can offer intrinsic rewards through providing interesting and challenging jobs, and allowing the market greater freedom.

Q12b. What are the points to be considered for a successful wage incentive plan?

Ans 12b. A success wage incentive plan should consist of the following key points;

1. The management should recognize that the effectiveness of an incentive depends on the total situation, which includes worker-management confidence, relation with the trade union, the quality of communication and of supervision and the traditions in an industry.
2. Management should not introduce an incentive system until it has taken action to ensure full understanding of what is involved. This may call for procedures for the participation of employees and negotiations with the trade union.
3. the management should avoid any action that may be interrupted as unfair. There must be proper machinery for handling grievances. The management should avoid actions that resemble "rate cutting" because of the need to change methods and rate from time to time.
4. It is essential that the management pay in proportion to output, once this output has risen above that required amount for guaranteed pay.
5. The management should train supervisors all the way down the lines so that foremen and department managers are able to deal with problems within their own departments.
6. Great care should be taken in setting up standards to avoid rates that are too loose or too tight.

Que14(a): Explain possible inputs and outputs to and from the payroll process.

Ans14(a): The payroll process is an important function of any business organization. This function is handled either by human resource department or finance department .If the organization is large in size ,this function is independently handled .The major of the inputs received by the payroll process are:

1. Attendance of every employee for whom payroll is to be processed for the month.
2. New employee input viz. Employee No, Name, Date of joining ,Date of birth ,Basic rate of pay, Allowance payable ,His /Her bank account No. where his/her salary/wage to be sent, his/her other entitlements / eligibilities , annual /monthly entitlement for any part of compensation administered outside the payroll process or flexible pay packet like medical reimbursement .Leave travel assistance.
3. Promotion /Increment /Revisions :Input for promotion, increment and or revision is also to be provided to payroll department basis with arrears if any will have to be calculated and paid in the month under process. The input will include employee number ,name , effective date of such promotion/ increment, old designation ,new designation if applicable ,old basic ,new basic, old allowances and new allowances etc.
4. Details of perquisites payable to such promotees, new entrants etc.
5. Any recovery to be made on account of loss/ damage to the property, any recoveries to be made for any training programs that were chargeable from each such participants etc.
6. Details of employee/ workman left during the period, his /her last salary/ wage payable , period for which he/she is payable, his/her last date i.e. date of leaving/ relieving etc. any dues payable to him /her like part of entitlement , leave balance , leave enhancement payable , any advice related to Gratuity payable etc.
7. Any other payment like additional bonus ,special incentives, cash prizes payable through payroll is to be sent through the inputs from HR Department.
8. Every input sent from HR Department must have employee no as a unique code allotted to each and every employee and inputs must necessarily have employee no. without which inputs shall be incomplete.
9. HR Department can also send directives about the policies designed for various promotions, transfers, perquisites and such compensation related matters.

10. HR Department also has to send important communications received with reference to any changes in legal provisions of any enactments to which payroll process is directly connected .
11. It must sent communication regarding change in cost of living index to enable to payroll process calculated dearness allowance correctly if applicable and implement the same in the salary payable for the month.
12. Now a days HR department has also to communication and coordinate closely with payroll department with special reference to voluntary retirement schemes. Compensation payable ,Tax deductible and advices to be made to employees concerned as well as management are to be coordinated with the help of payroll department.

Que 14(b): Explain how the earnings are computed?

Ans 14(b): Computation of earning:

Net Earning = Gross Earning -Deduction

(A) The components of gross earnings are :

Basic Salary

Dearness allowance

Other allowance , like house rent allowance ,Medical allowance ,Overtime.

Exgratia

Bonus

Incentives

Other occasional incomes like cash rewards.

Leave encashment ,leave travel allowance etc.

(B) Components of deductions :

Professional tax

Income tax

E S I contribution pf employee

Fine , leave without pay

Charges for services provided by the organization

For exam, transport, canteen housing, furniture, gas, electricity etc.

Premium of Life Insurance Corporation.

Union membership contribution

Housing loan installments

Credit society installments

Other bank loan installments.

(C) Net Earning , which popularly known as take home salary is worked out as

Net Earning =Gross Earning – Gross Deduction.

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