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SUSHMA INDUSTRIES: THE GORDIaN KNOT OF COMPENSATION DESIGN

Debolina Dutta and Munwari Padmanabhan wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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It was a cool afternoon in July 2016 in Bangalore, India, when S. Suveer, the 29-year-old chief executive officer of Sushma Industries Private Limited (SIPL), warmly welcomed 48-year-old G. Padmanabhan, the head of human resources (HR) at SIPL. Suveer said to Padmanabhan:

A lot of people questioned my wisdom and judgment in hiring you a year back, but I knew that you would be able to pay back your cost multi-fold, which you certainly have done. I needed strategic talent interventions to transform this two-and-a-half decades old organization, shake it out of its somnolence, and set it on the growth path that I had envisioned. I didn’t know if we had the right people in place for the right jobs and if we were paying them appropriately to motivate and retain them. We needed to revisit these things and build a culture of performance here. I know it has been an uphill task for you, to change the way things have been done here for the last two decades, but if we didn’t start the change a year back, we would have perished!

Padmanabhan had worked for multiple engineering and services organizations through the various domains of HR and had over 25 years of experience. Accustomed to professional systems and processes, Padmanabhan had been challenged by the complete lack of structure within SIPL when he had joined the company in June 2015, but he had also been excited by the possibility of designing and implementing systems that could take the organization to the next level of growth. The problem appeared as complex as the Gordian knot,[[1]](#footnote-1) and he had not been sure where to start unravelling the informal structures and processes that had become the norm for SIPL.

ORGANIZATION AND INDUSTRY CONTEXT

SIPL was started by Sadananda Murthy in 1986.[[2]](#footnote-2) After graduating as a mechanical engineer in 1971, Murthy worked for a few years with the National Aerospace Laboratory, a government organization that supported the Indian aerospace industry. As he acquired experience, Murthy realized a gap existed in Indian manufacturing for precision instruments that supported the work of quality functions within organizations. With quality systems and processes slowly creeping into the manufacturing ecosystem in the 1970s, most companies at that time relied on expensive imported machines to support their fledgling quality practices. There was limited training offered and negligible post-sales support once the imported machines were installed. The reliability of these machines was contingent on regular calibration, which was difficult to arrange and extremely costly.

Murthy saw this undeveloped space as an opportunity to provide economical machines of high quality, augmented by strong post-sales training and regular calibration services. Supported by his wife, a science graduate, who took on the responsibilities of administration and accounts, Murthy started SIPL with three employees in a small shed in Peenya, an industrial belt on the outskirts of Bangalore. The initial client base of three clients slowly expanded to cover manufacturing organizations across the breadth of India. Client acquisition happened more by word of mouth, with considerable value being seen in the customized offering and in the strong calibration and after-sales services provided.

With calibration services increasingly contributing to SIPL’s revenue stream, Murthy decided to open a dedicated calibration centre in 1995 as a separate profit centre. The calibration centre was established as a world-class lab that met stringent national and international standards, and provided services in the area of testing and measurements, both for SIPL and other companies’ products. The calibration centre contributed nearly 35 per cent of the total revenues for SIPL.

SIPL had started as a technology company and focused its product portfolio on the field of torque, force, and pressure sensors. The products it manufactured found application in all industries requiring testing, measurement, and calibration services, which encompassed engineering, automobile, pharmaceutical, and process manufacturing organizations, as well as government and defence institutions. SIPL offered complete design, development, and manufacturing of standard products.

Much of the business was generated by SIPL’s ability to create customized products, tailor-made to a specific client’s needs. This customized work required a strong research and development (R&D) team that excelled in delivering customized solutions for force, torque, and pressure sensors; gauges and display units; spring testers, crimp testers, and torque tool testers; motor testing systems, automotive component and performance testing systems, and more.

SIPL also offered standardized product ranges that included torque tool testers, with its main competitors being Norbar Torque Tools Ltd. and Crane Electronics Ltd. from the United Kingdom, and Tohnichi Mfg. Co. Ltd. from Japan. By 2010, SIPL’s market share in this product category was 30 per cent. For sensors and display units, another standardized product, SIPL held a market share of 5 per cent, competing against Honeywell International Inc. (in the United States and India); Hottinger Baldwin Messtechnik (HBM) GmbH of Germany; FUTEK Advanced Sensor Technology, Inc. of the United States; and Syscon Instruments Pvt. Ltd. from India. For a newer standardized product offering of force testing systems, SIPL held a market share of less than 1 per cent and competed against Instron Corporation, MTS Systems Corporation, and Zwick Roell Group, all U.S.-based firms (see Exhibit 1).

By 2000, with nearly 80 per cent of SIPL’s revenues coming from customized solutions, the company had a strong need for a robust R&D team. The customized solutions also resulted in relatively longer product development and go-to-market times, and comparatively less net profitability (see Exhibit 2). In 2014, the organization transitioned from being a proprietorship firm to a private limited company.

SIPL’s INITIAL DECADES OF GROWTH: TALENT ACQUISITION, COMPENSATION, AND MERIT INCREASES

In the early days of SIPL’s growth during the late 1980s and through the 1990s, talent was normally acquired through known references; the employees were hired based primarily on a contingency basis. Compensation decisions for new hires were done on an as needed basis by Murthy. Most of the talent recruited by SIPL were needy people without any work experience or with experience in non-relevant domains. Murthy made the hiring decision, predominantly relying on intuition, informed by the emotional connection the candidate established with Murthy, and a combination of a candidate’s perceived attitude to life, aspirational levels, and expressed socio-economic needs. Until 2012, SIPL had done no competency-based, role-based, or needs-based recruitment.

In 1986, Shiv, a fresh diploma graduate from the Industrial Training Institute, approached Murthy through a relative. The company did not have any active requirement for staff; however, Murthy created a new position, justifying his decision by saying, “An extra pair of hands is always useful. He is a humble and needy person, and comes across as a quick learner. We need people like him.”

Shiv stayed in the same premises as Murthy and his family, and worked late hours and all weekends. He gathered experience across all roles within the factory and, in 2016, had risen to the level of production head of the factory. Speaking about his experience with Murthy, Shiv said, “I was in a shipwrecked situation and Murthy Sir threw me the lifeline. I owe him everything. Murthy Sir is the only god that I know; I would give my life for him.”

Over the years, Murthy rewarded Shiv’s loyalty through significant financial support for Shiv’s marriage, by purchasing him a plot, and by helping him build a house. Personal loans were offered at no interest to help Shiv achieve his financial milestones. Other employees had similar experiences, and they remained staunchly loyal to Murthy. Attrition was negligible at SIPL during these years. A few of these employees developed the R&D skills required to support the frequent demand for customized products that SIPL supported until 2010.

In a few instances, people were hired at a salary lower than they had earned at their previous employment. The value proposition for these hires was the envisaged growth and learning opportunities available at SIPL, which Murthy passionately believed in and promised to all prospective hires. In contrast to other emerging organizations in this space, SIPL allowed its technicians to work the product cycle from end to end, thereby increasing their exposure and learning opportunities.

While SIPL recorded a growth in revenue from ₹0.11 million[[3]](#footnote-3) in 1986 to ₹67.2 million in 2016 (see Exhibit 2), annual merit increases were disbursed in a discretionary manner, and not evenly for the entire organization. While a few employees were given increments ranging from 2 to 10 per cent, some remained exempt from the process. A few of the exempted employees may have taken soft loans for asset building or for personal expenditures such as marriage; and they understood that they would receive no increment. A few were deprived of any increment due to perceived poor performance; because SIPL had no culture of dismissing non-performers, the absence of a merit increase was quietly accepted.

SIPL had no structured performance management system. Instead, goals were tacitly understood and periodically changed due to business exigencies; Murthy subjectively evaluated employees’ performance against goals. Occasionally, some employees expressed dissatisfaction with the compensation to Murthy, who would arbitrarily revise the compensation. This correction could happen any time during the year, usually only for a select few employees, and without a formal process of revision. A few newcomers to the organization who had prior experience with structured performance management systems were silenced by the ethos of the organization, and the odd few who could not adjust left within a year of joining.

CHANGE OF GUARD

In 2010, Murthy transferred management of the business to his 23-year-old son, Suveer, an electronics and communication engineering graduate. Suveer was a relatively familiar figure at SIPL, having spent summer holidays and free time within different departments, where his presence was indulgently tolerated. An overlap period until 2012 allowed Suveer to learn the business, engage with the employees, and begin to assume Murthy’s position. Handing over the charge, the boundaries of change were defined by Murthy:

Don’t change the people philosophy and the people-centric approach, which are the core of SIPL’s values. I would not like to see old-timers let go; there should not be any employee unrest and people should be kept happy. I would be happy to implement any other changes you may deem necessary, so long as you don’t change this DNA.

Suveer was a second-generation entrepreneur who had vision, passion, ambition, and aspiration, combined with a commitment to growth. He wanted to grow SIPL from a revenue of ₹36 million in 2012–2013 to ₹500 million by 2020, and firmly believed that putting in formal systems and processes was required to achieve this growth vision. He defined the revenue milestones that SIPL needed to achieve as ₹200 million by 2017, ₹350 million by 2018, and ₹500 million by 2020. The business strategy to support and enable this growth was to leverage the top 20 products of the 200-odd product portfolio, expand into new industry sectors such as food, and gain a stronger position in other sectors such as pharmaceuticals. Apart from these plans, Suveer also wanted to establish a presence in international markets.

Core business capabilities required to catalyze this vision were talent with strong sensor and machine designing skills, enhanced overall domain knowledge among the workforce, and a solution orientation for the sales teams to facilitate increased customer satisfaction. However, Suveer faced multiple challenges on all fronts. In June 2015, to put the people processes in place, Suveer took the unprecedented step of hiring a professional HR manager, G. Padmanabhan. Padmanabhan was a respected professional and a veteran in the field with 25 years of experience. It was a relatively steep cost to put the company in order.

Padmanabhan started by looking at the organization’s structure and reporting hierarchy. He found many overlapping responsibilities within the team, with work allotment based on employees’ perceived capacities. When he assessed the capability of the existing workforce, Padmanabhan found a clear gap in competencies and technical skills. For instance, the sales teams were comfortable growing and maintaining existing client accounts, but they neglected or did not understand business development as a specialized focus area. To help SIPL achieve its growth targets, searching for new business was critical, and Padmanabhan felt this strategy required the right talent and focus. Since replacing the employees was not an option, the workforce would need to be augmented, and clear, non-conflicting responsibilities would need to be defined.

Padmanabhan proposed a new organizational structure. The major changes included consolidating manufacturing operations under one head, who would be responsible for cost, inventory management, and on-time deliveries. Purchasing would be consolidated under the finance function to ensure stronger controls on vendor selection and management. Sales teams were segregated into the “hunters,” to bring in new business, and “farmers,” who retained and serviced existing customers. The key responsibility areas were sharply defined for each function and cascaded down the teams.

COMPENSATION AND BENEFITS RESTRUCTURING

Padmanabhan knew that SIPL needed to adopt a structured approach to compensation and benefits (see Exhibit 3). He recognized that those organizations that had well-crafted compensation structures and reward philosophies were able to enhance trust, loyalty, and sense of fairness among their employees.[[4]](#footnote-4) To develop the total rewards philosophy for SIPL, Padmanabhan looked at SIPL’s strategic positioning to propose a reward strategy that aligned with the industry dynamics, which he combined with the organization’s focus.

Padmanabhan defined and evaluated the jobs within SIPL, which he believed was the first step toward establishing and evaluating internal equity in the organization. He felt that defining and evaluating the jobs would provide the required clarity, both to the job holder and the organization, and allow for the correct compensation decisions to be made. The erstwhile overlap of responsibilities resulted in 35 differentiated job roles for the small workforce of 54 employees. Over a couple of months, for the key roles in the organization, Padmanabhan developed job descriptions that encompassed the job purpose and its desired deliverables. The job descriptions also outlined the competencies and abilities required of the job holder to successfully deliver on the role (see Exhibit 4).

In October 2015, to better define the pay elements and priorities to be given, Padmanabhan conducted an employee survey to evaluate how the workforce felt about the existing compensation system (see Exhibit 5). The survey feedback indicated that employees felt the compensation and benefits were significantly below the market standards. Informal feedback also disclosed a perceived lack of parity among similar functioning roles. In 2012, the salary structure was on an ad hoc, or as-needed, basis (see Exhibit 6), and certain statutory compliances, such as paying minimum wages, not observed. Additionally, components such as the production incentive had, in fact, become a guaranteed wage. While SIPL paid an annual bonus of one month’s salary around the festival period of Diwali (the festival in India that was culturally associated with financial windfall), variable compensation, both for the production and sales staff, was done on an ad hoc, or as-needed, basis.

Reviewing the insurance benefit offered to SIPL employees, Padmanabhan discovered that group medical insurance and term life insurance for the employees had not been renewed since 2012. The lapse appeared to have been inadvertent, due to the absence of a dedicated HR person accountable for the benefits administration. Additionally, a lack of claims from the employees did not alert the senior management to the problem. Padmanabhan reintroduced the insurance coverage, but had to pay a penalty to the insurance provider to take advantage of the no-claims benefit.

A similar concern emerged when SIPL was unable to make a gratuity payment to a tenured employee who left the company in October 2015.[[5]](#footnote-5) SIPL had entered into an agreement with a leading national insurance organization, wherein the company made annual gratuity payments to the insurance company, which, in turn paid out the gratuity to eligible employees as required by the government statute. However, SIPL had not made the gratuity payments to the insurance provider for 2014 and 2015. To renew the benefit, the company would first need to pay both the pending gratuity amount and the accumulated interest. Padmanabhan realized that failing to adhere to the basic regulatory requirements was a compliance risk and would limit SIPL’s ability to attract new talent. It would also dilute the credibility of the organization with both internal and external stakeholders.

Compensation disparity between old and new employees remained a point of contention. This difference was highlighted when some of the long-time SIPL staff interviewed some newcomers. The established managers were shocked to see the compensation that the professionally qualified newcomers were expecting—and attaining. Manjula, a veteran of 21 years, was deeply affronted by the changes she saw in the recent recruitments. She exclaimed, “I am getting ₹28,000 a month as the manager of the department, and now have just made an offer to my new team member, an executive hired at ₹22,000 per month. I am double his age, and this is the price of my loyalty?” Padmanabhan realized that he needed to quickly put in place a revised compensation structure with a supporting performance management system.

DEVELOPING THE ROADMAP FOR CHANGE IN COMPENSATION

By March 2016, Padmanabhan had designed the compensation revision process (see Exhibit 6). However, multiple implementation challenges threatened to derail implementation of the revisions. While he had created the job evaluation and grading structure for SIPL, he still needed to complete the external market benchmarking (see the Microsoft Excel spreadsheet for students).

The practice of equating compensation for the organization’s jobs to that paid by representative external comparator organizations was commonly adopted to review the competitiveness of rewards. This comparison helped to establish the market rate for comparable jobs or skill sets, and served as critical input for the total rewards strategy. The normal practice involved obtaining salary analyses, an industry study, market pricing, and job matching reports. These data reports were obtained from national and global compensation survey market leaders that invested in building the research and data with reliability and consistency. However, these reports were expensive, and Suveer was not convinced that this investment was merited at the current stage and for the present scale of operations. But without accurate benchmarking, Padmanabhan ran the risks of having inaccurate market competitiveness data. He wondered how he could obtain accurate data at an economical cost, without diluting the reliability of the data.

As an economical step to evaluate the competitiveness of each job family, Padmanabhan looked at sample sets of nearly 50 data points obtained from top job portals and reference points provided by his contacts in the HR fraternity to develop an estimate of the market positioning. Seeing SIPL’s disparity with the market rate, Padmanabhan realized that a one-time correction would significantly strain the salary budget. An informal discussion with Suveer identified which key talent to retain. Padmanabhan proposed a three-year plan to revise compensations across the board, with the first year’s corrections applicable only to the key talent.

An estimate indicated that the proposed revisions in compensation were likely to increase the organization’s cost base by about 80 per cent. The proposed restructured compensation affected different employees in different ways. A few would see an increase in their statutory payments, requiring that their salaries be increased to buffer their statutory deductions and protect their net pay. Re-aligning the variable compensation and linking it instead to the newly developed performance management system meant managing a huge change and educating the entire workforce, which was accustomed to seeing variable compensation as a deferred but guaranteed pay.

Padmanabhan had some sense of the resistance that would be forthcoming. Some small changes he had made in the HR policies and processes were creating a high level of discomfort. Padmanabhan had started formally documenting HR policies, but he faced considerable resistance from the workforce even for the small changes to more basic policies such as leave, attendance, and reporting systems. Paradoxically, while employee feedback indicated the absence of discipline was a concern, the established employees objected to the introduction of formal working hours and the discipline of clocking attendance:

In earlier days, Murthy would come in with us by 8:30 a.m. and work with us till lights out. I used to come in early, go home for lunch, and worked till whatever hours were needed to get the job done. Now, I am being asked to swipe my attendance and log my hours. So, operation successful, but patient dead!

Padmanabhan introduced an attendance management program (Time Office Function) to limit people wandering around the building and outside of work premises unexplained during working hours, and to increase accountability and availability for productive outcomes during working hours. Padmanabhan explained the concerns:

There was no accountability of who was in the factory or office premises and where and why they were going. The informal environment allowed a lot of easy mingling, but this was counterproductive to efficient working, resulting in unnecessarily long hours. As I saw the need to adhere to *Factory Act* requirements, I did not want to increase wage costs due to overtime charges, which were actually not merited. I wanted the workforce to be efficient and productive during the regular hours, go home at the stipulated time, and maintain a healthy work–life balance.

Making the changes to compensation would be a huge challenge. Padmanabhan needed to develop a talent strategy and establish a compensation structure that aligned with the financial viability and strategic direction of the organization, and that appeased employee preferences. He might also need additional people processes to complement the salary restructuring for a more effective implementation, and there was the additional challenge of communicating and gaining acceptance for the proposed changes. Was the organization even ready for this kind of change, and when would be the correct time to make the changes?

How would Padmanabhan unravel this knot and where should he start?

EXHIBIT 1: Sushma Industries Private Limited’s PRODUCT MIX AND REVENUE SALIENCE, 2015

Source: Sushma Industries Private Limited.

EXHIBIT 2: Sushma Industries Private Limited’s FINANCIAL PERFORMANCE, selected years, 1985–2016

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Particulars** | **Financial Year** | **Revenue (₹)** | **Direct Expenses (₹)** | **Gross Margin (%)** | **Indirect Expenses (₹)** | **Salaries & Staff Welfare (₹)** | **Net Margin (%)** | **Employee Headcount (#)** | **Merit Increase (%)** |
|  | 1985–86 | 111,302 | 151,031 | −35.69 | 264,476 | 9,201 | −171.7 | 3 | Nil |
| 1986–87 | 337,412 | 110,523 | 67.24 | 275,280 | 23,166 | 0.5 | 5 | Nil |
| 1987–88 | 489,301 | 271,969 | 44.42 | 337,956 | 33,189 | 19.7 | 5 | Nil |
| 1990–91 | 1,326,964 | 728,497 | 45.10 | 486,340 | 65,753 | 6.9 | 9 | Nil |
| 1995–96 | 7,223,116 | 2,900,326 | 59.85 | 2,313,087 | 364,022 | 5.0 | 12 | Nil |
| 2000–01 | 13,757,357 | 5,329,179 | 61.26 | 6,043,106 | 3,213,300 | 11.5 | 20 | 5 |
| 2005–06 | 19,839,391 | 6,319,282 | 68.15 | 3,890,091 | 3,213,300 | 7.4 | 25 | 5 |
| Audited | 2010–11 | 32,579,056 | 19,933,375 | 38.82 | 7,826,367 | 3,213,300 | 10.5 | 25 | 5 |
| 2011–12 | 21,335,655 | 13,772,963 | 35.45 | 3,821,655 | 2,966,955 | 12.1 | 28 | 7 |
| 2012–13 | 35,973,240 | 20,198,102 | 43.85 | 11,300,523 | 4,578,651 | 8.9 | 30 | 8 |
| 2013–14 | 47,639,099 | 26,747,987 | 43.85 | 16,481,994 | 7,069,470 | 6.4 | 40 | 12 |
| 2014–15 | 47,013,331 | 37,202,410 | 20.87 | 20,645,039 | 9,006,248 | 4.2 | 54 | 8 |
| Unaudited | 2015–16 | 67,194,412 | 43,067,744 | 35.91 | 18,115,049 | 16,063,880 | 6.2 | 60 | 20 |

Note: ₹ = INR = Indian rupee; US$1 = ₹67.45 on July 1, 2016; All financial years end March 31.

Source: Sushma Industries Private Limited.

EXHIBIT 3: DEVELOPING Sushma industries private limited’s COMPENSATION STRUCTURE

**SIPL Business Strategy \***

**SIPL Rewards Strategy & Compensation Philosophy\***

**SIPL Internal Equity (Job Evaluation & Grading)\***

**SIPL External Market Benchmarking\***

**SIPL Salary Structure**

**SIPL Annual Budgeting & Pay Management**

**SIPL Other Rewards, Components, and Benefit Policies**

**SIPL Long- and Short-Term Incentive Design**

**1**

**2**

**3**

**4**

**5**

Note: SIPL = Sushma Industries Private Limited; Shaded boxes indicate steps completed by Padmanabhan.

Source: Sushma Industries Private Limited.

EXHIBIT 4: Sushma industries private limited’s SAMPLE JOB DESCRIPTION FOR a QUALITY MANAGER

Job Description: Quality Manager Template

**Section I: Basic Information about the Position** Manage quality assurance, control, and improvement. Enhance and maintain the capability of the quality processes, and document practices that meet the true interpretation of the quality management system standards.

**Section II: Organizational Relationships**

|  |  |  |
| --- | --- | --- |
| **Company** | **Department** | **Location** |
| SIPL | Quality | Head Office (Bangalore) |
| **Position (Title)** | **Approved by, and Date** | **Reports to (Title)** |
| Manager Quality | Chief Executive Officer | Head, Quality |
| **Reports to (Name)** | **Reporting Jobs** | **Review Date** |
| XXXXXXX | Quality Engineers, Inspectors, Auditors, Analyst | March 2016 |

**Section III: Purpose of the Role** Quality management is an important function for maintaining product quality and providing inputs for further improvement. The incumbent is expected to focus on the basket of products and services, assure consistency and quality of processes and products, and play an important role in overall business operations. There are three main components of quality management in this position: quality control, quality assurance, and quality improvement. Quality Manager focuses on the quality of products and services offered by the organization, using quality assurance and control of processes and products in an effort to be more consistent.

**Section IV: Key Responsibilities and Accountabilities of the Role** Work with and understand customer requirements; Enhance the capability of processes to exceed customer expectations; Identify projects and select project team members; Work with sponsors to develop a quality deployment strategy; Act as an internal consultant; Lead quality projects; Train/mentor/coach 5S quality and project team; Act as a catalyst for process improvement; Provide teams with ongoing support and leadership; Report and effectively communicate to a project sponsor; Understand when and how to use quality or 5S tools; Provide feedback to management.

**Section V: Performance Goals and Indicators for the Role** Improved customer experience/satisfaction rate; Customer experience index with target 8 categories; Product quality index; Index for reduced reworks and rejections percentage and in-turn costs saved; Supplier rating index.

**Section VI: Experience, Qualifications and Skills**

|  |  |
| --- | --- |
| **Knowledge/Competencies** | **Scale**  **(Low/1–High/5)** |
| Diploma / B.Tech / M.Tech — Mechanical / Electronics / Electrical / Instrumentation / Aeronautical / Automobile with 8-10 years of experience |  |
| Expert in quality assurance processes and controls | 4–5 |
| Professional expertise in designing and deploying management systems | 4 |
| Prior experience independently handling the processes in quality assurance and improvements | 3–4 |
| Certified in quality processes such as 5S, Black Belt, Yellow Belt, Green Belt | 4 |
| Prior people leadership and team management responsibilities | 3–4 |

**Section VII: Key Interactions**. Internal and external customers and management; Internal departments: calibration, production, sales and marketing, operations, research and development, finance, human resources, and factory maintenance, auditors, vendors, and analysts.

Source: Sushma Industries Private Limited.

EXHIBIT 5: EMPLOYEE FEEDBACK ON COMPENSATION AND BENEFITS AT Sushma Industries Private Limited

|  |  |
| --- | --- |
| Satisfaction with Fixed Pay | 26% |
| Satisfaction with Adherence to Statutory Compliances | 32% |
| Satisfaction with Correlation of Variable Pay Linkage to Performance | 10% |
| Timeliness of Salary Payout | 60% |
| Timeliness of Salary Revision | 30% |
| Satisfaction with Salary Revision | 10% |
| Satisfaction with Perceived Market Competitiveness | 20% |
| Satisfaction with Long-term Benefits | 70% |
| Satisfaction with Short-term Benefits | 30% |
| Satisfaction with Training/Career Development Opportunities | 28% |
| Intention to Stay | 53% |

Note: Feedback indicates percentage of employees with score of 3 and above on a 5-point Likert scale.

Source: Sushma Industries Private Limited.

EXHIBIT 6: SAMPLE EMPLOYEE SALARY SLIP IN 2012 AND in 2015,

After RESTRUCTurING COMPONENTS

|  |  |  |
| --- | --- | --- |
| **Earnings** | **Monthly** | **Annual** |
| Basic + DA | 9,059 | 108,708 |
| Conveyance | 800 | 9,600 |
| Employer PF | 1,087 | 13,044 |
| Employer ESIC | 867 | 10,404 |
| Washing Allowance | 100 | 1,200 |
| Production Incentives | 8,394 | 100,728 |
| **Gross Pay** | **20,307** | **243,684** |
| **Cost to Company** | **20,307** | **243,684** |
| **Deductions** |  |  |
| PF | 1,087 | 13,044 |
| ESIC | 319 | 3,828 |
| PT | 200 | 2,400 |
| Total Deductions | 1,606 | 19,272 |
| **Net Pay** | **16,750** | **201,000** |

|  |  |  |
| --- | --- | --- |
| **Earnings** | **Monthly** | **Annual** |
| Basic + DA | 13,384 | 160,608 |
| HRA | 5,354 | 64,248 |
| Conveyance | 1,600 | 19,200 |
| Flexible Compensation (= a + b + c) | 11,266 | 135,192 |
| a. Medical allowance | 1,250 | 15,000 |
| b. LTA | 2,788 | 33,456 |
| c. Special Allowance | 7,228 | 86,736 |
| **Total Base Pay**  (= 1 + 2 + 3 + 4) | 31,604 | 379,248 |
| Employer PF | 1,606 | 19,272 |
| Washing Allowance | 250 | 3,000 |
| **Gross Pay** | **33,460** | **401,520** |
| **Cost to Company** | **33,460** | **401,520** |
| **Deductions** |  |  |
| PF | 1,606 | 19,272 |
| PT | 200 | 2,400 |
| **Net Pay**  [= (5 + 7) − (11 + 12)] | **30,048** | **360,576** |

Note: DA = dearness allowance (a cost-of-living adjustment); PF = Provident Fund; ESIC = Employee State Insurance Corporation; PT = professional tax; HRA = house rent allowance

Source: Sushma Industries Private Limited.

1. *Gordian knot* was the proverbial term for a problem solvable only by bold action. It referred to the story of Alexander the Great, who, in 333 BCE, found a chariot of the Gordius, the ancient founder of the city Gordium. The chariot had its yoke lashed to the pole by means of an intricate knot whose end was hidden. According to tradition, this knot was to be untied only by the future conqueror of Asia. By popular accounts, Alexander the Great solved the problem by slicing through the knot with his sword rather than attempting to untangle the knot. The phrase “cutting the Gordian knot” thus came to denote a bold solution to a complicated problem. [↑](#footnote-ref-1)
2. Sushma Industries Private Limited, “Company,” accessed April 21, 2016, www.sushmaindustries.com/company. [↑](#footnote-ref-2)
3. ₹ = INR = Indian rupee; all amounts are in ₹ unless otherwise specified; US$1 = ₹67.45 on July 1, 2016. [↑](#footnote-ref-3)
4. Lauren Weber, “Why There Is No Science in Your Salary,” *Wall Street Journal*, August 2, 2016, accessed September 1, 2016, www.wsj.com/articles/why-there-is-no-science-in-your-salary-1470153316. [↑](#footnote-ref-4)
5. The gratuity benefit was a lump sum benefit akin to a retirement benefit that a company paid to an employee upon leaving the company. India’s *Payment of Gratuity Act, 1972* required all companies and institutions employing 10 or more workers to pay this gratuity benefit to their employees. [↑](#footnote-ref-5)