



# Employee Remuneration



# Opening Vignette

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Vikram had always dreamed of working for a top consulting firm. After months of rigorous interviews, he finally landed a job at Stellar Consulting with a starting salary of ₹12 LPA. Excited, he joined the company, ready to give his best.

However, within six months, Vikram started feeling overwhelmed. The long working hours, constant travel, and high-pressure environment took a toll on his health and personal life. Meanwhile, his friend Neha, who had accepted a job at a mid-sized firm with a ₹9 LPA package, seemed more satisfied. Her company provided flexible work hours, wellness benefits, and regular training programs.

One day, Vikram wondered, *“Did I make the right choice? Is compensation just about salary, or is there more to it?”*

## **Discussion Questions:**

- 1.What are the key components of a compensation package beyond salary?
- 2.How do work-life balance and non-monetary benefits impact job satisfaction?
- 3.If you were Vikram, what factors would you consider before switching jobs?
- 4.How can organizations design compensation packages that attract and retain talent?

# Defining Compensation

Compensation refers to all financial returns and tangible benefits that employees receive as part of an employment relationship.

## Direct Compensation

- **Base Salary** – Fixed pay received on a regular basis (monthly/weekly).
- **Wages** – Hourly or daily pay, often for non-exempt employees.
- **Bonuses** – One-time financial rewards based on performance or company profits.
- **Commission** – A percentage of sales or revenue generated by an employee.

## Indirect Compensation

- **Health Benefits** – Medical, dental, and vision insurance.
- **Retirement Plans** – Provident fund, pension schemes, or 401(k) contributions.
- **Paid Time Off (PTO)** – Vacation, sick leave, and holidays.
- **Stock Options & Equity** – Ownership stakes in the company.
- **Perks & Allowances** – Travel, housing, meal, or education reimbursements.

## Performance-Based Compensation

Rewards linked to employee performance and achievements.

- **Merit Pay** – Salary increases based on performance appraisals.
- **Incentives** – Monetary or non-monetary rewards for achieving targets.
- **Profit Sharing** – Employees receive a share of company profits.

## Non-Financial Compensation

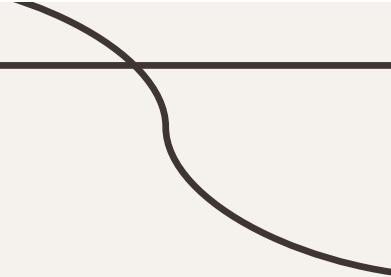
Recognition and career-related benefits that enhance job satisfaction.

- **Career Growth Opportunities** – Training, mentorship, and promotions.
- **Work-Life Balance** – Flexible work arrangements, remote work, and wellness programs.
- **Recognition Programs** – Awards, appreciation certificates, and public acknowledgment.

# Objectives of Compensation

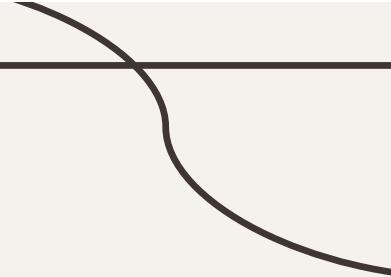
- Supports the achievement of the organization's strategic and short-term objectives by aligning the compensation with the achievement of the organizational objectives through variable pay schemes.
- Motivate all employees.
- Support culture management by driving and supporting the desired behavior.
- Poise the organization to compete in the employment market.
- Promote flexibility by replacing the traditionally rigid pay structures with more flexible structures.
- Provide value for money by evaluating costs as well as benefits in a cost-effective manner.
- Administer pay equitably and consistently.

# Theories of Employee Remuneration



- Productivity of workers
- Ability to pay
- Government policies
- Labor Unions
- Cost of living
- Demand and supply of labor
- Industry standards

# Compensation Structure



- Base Wage and Salaries
- Wage and Salary add-ons
- Incentive payments
- Employee benefits and services
- Performance-related variable pay
- Profit sharing, gain sharing, and equity plans

# Compensation Structure

- Base Wage and Salaries: It involves determination and administration of base wage and salaries.
- Wage and salary add-ons: includes shift differentials, overtime pay, pay for working on weekends and holidays (if applicable) and other add-ons.

# Compensation Structure

- Incentive payments: payment for specified output. Individual activities could be defined precisely, the daily output could be measured and pay could then be tied directly to the measured output.
- Employee benefits and services: This could be legally required programs (workers compensation) and flexible programs (health benefits, pension plans, and paid time-off) such as time off with the pay, when employment has been terminated or suspended, pay when unable to work due to sickness, accident, retirement pay, payments for medical protection, pay to dependents upon the death of the employee.

# Compensation Structure

- Performance-related variable pay: employees could receive either the exact amount committed or even less or more than the committed amount (as it is performance-based). It could be paid once a year or as per the policy of the company.
- Profit sharing, gain sharing, equity plans: a way of sharing the success of the organization with the employees. This could be attained with the help of arrangements to share the profits, sharing ownership through employee stock options, etc.

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# Wage and Salary Survey

Wage surveys mean

- Planning the data collection activities
- Determine the pay rates in the external markets
- Identify the market's pay policy
- Establish the organization's pay policy
- Collecting the survey information
- Analyzing the information

# Wage and Salary Survey

Wage surveys mean

- Planning the data collection activities
  - a. Base pay
  - b. Cash bonuses
  - c. Total earning
  - d. Employee benefits
  - e. Other Allowances
  - f. Salary structure
- Through:
  - a. General salary surveys
  - b. Company surveys
  - c. Published data

# Variable Pay Strategies

- Merit pay
- Profit sharing
- Gain sharing
- Piecework
- Incentives – small group incentives; individual incentives; long-term incentives; team-based incentives
- Rewards – lumpsum payments; recognition programmes.
- Knowledge and skill based pay



# Executive Compensation

- Components or Current or Annual Core Compensation
  - 1. Base pay
  - 2. Bonuses
    - a. Discretionary bonus: Boards of directors award discretionary bonuses to executives on a selective basis. They weigh four factors in determining the amount of discretionary bonus: company profits, the financial conditions of the company, business conditions and prospects for the future.
    - b. Performance bonus: This is based on the attainment of specific performance criteria. The performance appraisal system for determining bonus awards is often the same appraisal system used for determining merit increases or general performance reviews for salary.
    - c. Deferred bonus: This type of bonus is paid proportionately to the executives over a period of three to five years, depending on their performance .
    - d. Target plan bonus: This type of bonus ties the executives to their performance. The bonus amounts increase with performance.

- Short term incentives:
  - a. Deferred core compensation: is a written agreement between the employer and employee, indicating that the employee will continue to receive certain benefits even if the employment contract is terminated by the employer.
  - b. Stock Options: It refers to an agreement linked between an employee and a company to render payment to an employee at a future date. It is supposed to create a sense of ownership, aligning the interests of the executives with those of the ownership or shareholders of the company over the long term.



# International Compensation

- Base Salary –
  - a. Going rate approach
  - b. Balance sheet approach

- Allowances –
  - a. COLA
  - b. Housing allowance
  - c. Home leave allowance
  - d. Education allowance
  - e. Relocation allowance
  - f. Foreign service premiums
  - g. Hardship allowances
  - h. Mobility allowances

- Taxation –
  - a. Tax equalization
  - b. Tax protection