Unit – 1
Overview of Compensation Management

Learning Objectives

After completion of the unit, you should be able to :

- Understand the objective of Compensation Management.
- Describe the Methods of Compensation , Rewards, Compensation Structure and Policy .
- Explain the definition, Meaning and Implications of Compensation
- Know the Framework of a Compensation Policy

Structure

1.1 Introduction

If the abilities of employees have been developed to the point where they meet or exceed job requirements, it is now appropriate that they be equitably compensated for their contributions. The factors affecting the determination of equitable compensation are many, varied and complex. And management must come to some decision concerning the basic wage or salary. To motivate improved performance on the job many systems of variable compensation have been devised and
finally organizations have developed numerous ways of providing supplementary compensation in the form of fringe benefits.

An incentive or reward can be anything that attracts a workers attention and stimulates him to work. An incentive programme is most frequently built on monetary rewards but may also include a variety of non-monetary rewards. The term reward has been used both in the restricted sense of participation and the widest sense of financial motivation. The concept of reward implies the increased wiliness or motivation to work and not the capacity to work.

Compensation and Rewards determination may have one or more objectives, which may often be in conflict with each other. The objectives can be classified under four broad headings.

The first is equity, which may take several forms. They include income distribution through narrowing of inequalities, increasing the wages of the lowest paid employees, protecting real wages (purchasing power), the concept of equal pay for work of equal value compensation management strives for internal and external equity. Internal equity requires that, pay be related to the relative worth of a job so that similar jobs get similar pay. External equity means paying workers what comparable workers are paid by other firms in the labor market. Even compensation differentials based on differences in skills or contribution are all related to the concept of equity.

Efficiency, which is often closely related to equity because the two concepts are not antithetical. Efficiency objectives are reflected in attempts to link to link a part of wages to productivity or profit, group or individual performance, acquisition and application of skills and so on. Arrangements to achieve efficiency may be seen also as being equitable (if they fairly reward performance) or inequitable (if the reward is viewed as unfair).

Macro economic stability through high employment levels and low inflation, of instance, an inordinately high minimum wage would have an adverse impact on levels of employment, though at what level this consequence would occur is a matter of debate. Though compensation and compensation policies are only one of the factors which impinge on macro-economic stability, they do contribute to (or impede) balanced and sustainable economic development.

Efficient allocation of labor in the labor market. This implies that employees would move to wherever they receive a net gain, such movement may be form one geographical location to another or form on job to another (within or outside an enterprise). The provision or availability of financial incentives causes such movement.

For example, workers may move form a labor surplus or low wage area to a high wage area. They may acquire new skills to benefit form the higher wages paid for skills. When an employer's wages are below market rates employee turnover increases. When it is above market rates the employer attracts job applicants. When employees move from declining to growing industries, an efficient allocation of labor due to structural changes takes place.

1.2 Definitions

Compensation is a systematic approach to providing monetary value to employees in exchange for work performed. Compensation may achieve several purposes assisting in recruitment, job performance, and job satisfaction.

Compensation is a tool used by management for a variety of purposes to further the existence of the company. Compensation may be adjusted according the business needs, goals, and available resources.

Compensation may be used to

· Recruit and retain qualified employees.
· Increase or maintain morale/satisfaction.
· Reward and encourage peak performance.
· Achieve internal and external equity.
· Reduce turnover and encourage company loyalty.
· Modify (through negotiations) practices of unions.

Recruitment and retention of qualified employees is a common goal shared by many employers. To some extent, the availability and cost of qualified applicants for open positions is determined by market factors beyond the control of the employer. While an employer may set compensation levels for new hires and advertise those salary ranges, it does so in the context of other employers seeking to hire from the same applicant pool.

Morale and job satisfaction are affected by compensation. Often there is a balance (equity) that must be reached between the monetary value the employer is willing to pay and the sentiments of worth felt be the employee. In an attempt to save money, employers may opt to freeze salaries or salary levels at the expense of satisfaction and morale. Conversely, an employer wishing to reduce employee turnover may seek to increase salaries and salary levels.

Compensation may also be used as a reward for exceptional job performance. Examples of such plans include: bonuses, commissions, stock, profit sharing, gain sharing.

Employee compensation refers to all forms of pay or rewards going to employees and arising from their employment, and it has two main components. There are direct financial payments in the form of wages, salaries, incentives, commissions and bonuses and there are indirect payments in the form of financial benefits like employee paid insurance and vacations.

So in nutshell we can say that employee compensation refers to all the forms of pay or rewards going to employees and arising from their employment.

Compensation includes direct cash payments, indirect payments in the form of employee benefits & incentives to motivate employees to strive for higher levels of productivity is a critical component of employment relationship.

Compensation is affected by many factors like labour market factors, collective bargaining, government legislation & top management philosophy regarding pay benefits.

1.3 Nature and Purpose of Compensation Management

Process of compensation management is to establish & maintain an equitable wage & salary structure & an equitable cost structure .it involves job evaluation, wage & salary survey, profit sharing &control of pay costs.

Two important functions of compensation

· Equity function
· Motivation function

Equity is based on past & current performance & motivation with which the work has been performed in the past & current performance.

Nature and Purpose of compensation management

The basic purpose of compensation management is to establish and maintain an equitable reward system. The other aim is the establishment and maintenance of an equitable compensation structure, i. e, an optimal balancing of conflicting personnel interests so that the satisfaction of employees and employers is maximized and conflicts minimized. The compensation management is concerned with the financial aspects of needs, motivation and rewards. Managers, therefore, analyze and interpret the needs of their employees so that reward can be individually designed to satisfy these needs. For it has been rightly said that people do what they do to satisfy some need. Before they do anything, they look for a reward or pay-off.

The reward may be money or promotion, but more likely it will be some pay-off-a smile, acceptance by a peer, receipt of information, a kind word of recognition etc.

From individual standpoint -remuneration is a major source of an individual's purchasing power. It determines his or her status, prestige & worth in society.

From enterprise stand point- compensation is a crucial element in the cost of production, which is expected to permit adequate profits leading to increase in new capital, expansion production,
and capacity.

From national point of view –dissatisfied work force hampers equitable distribution of aggregate real income among various group involved .it causes inflation.

A Sound Compensation Structure Tries to Achieve these Objectives

- To attract manpower in a competitive market.
- To control wages &salaries & labour costs by determining rate change & frequency of increment.
- To maintain satisfaction of employees by exhibiting that remuneration is fair adequate & equitable.
- To induce & reward improved performance, money is an effective motivator.

a. For employees

1. Employees are paid according to requirements of their jobs, i.e., highly skilled jobs are paid more compensation than low skilled jobs. This eliminates inequalities.
2. The chances of favoritism (which creep in when wage rates are assigned) are greatly minimized.
3. Job sequences and lines of promotion are established wherever they are applicable.
4. Employees' morale and motivation are increased because of the sound compensation structure.

b. To Employers

1. They can systematically plan for and control the turnover in the organization.
2. A sound compensation structure reduces the likelihood of friction and grievances over remuneration
3. It enhances an employee's morale and motivation because adequate and fairly administered incentives are basic to his wants and needs.
4. It attracts qualified employees by ensuring and adequate payment for all the jobs.

Now we come to the principles of Compensation

· Differences in pay should be based on differences in job requirements.
· Wage & salary level should be in line with those prevailing in the job market.
· Follow the principle of equal pay for equal work.

· Recognize individual differences in ability & contributions.
· The employees & trade unions should be involved in while establishing wage rates.
· The wages should be sufficient to ensure for the worker &his family reasonable standard of living.
· There should be a clearly established procedure for redressal of grievances concerning wages
· The wage & salary structure should be flexible .
· Wages due to employees should be paid correctly & promptly.
· A wage committee should review & revise wages from time to time.

1.4 Components and Types of compensation

Employees as fair if based on systematic components will perceive compensation. Various compensation systems have developed to determine the value of positions. These systems utilize many similar components including job descriptions, salary ranges/structures, and written procedures.

The components of a compensation system include:

· **Job Descriptions:** A critical component of both compensation and selection systems, job descriptions define in writing the responsibilities, requirements, functions, duties, location, environment, conditions, and other aspects of jobs. Descriptions may be developed for jobs individually or for entire job families.
· **Job Analysis:** The process of analyzing jobs from which job descriptions are developed. Job analysis techniques include the use of interviews, questionnaires, and observation.
· **Job Evaluation:** A system for comparing jobs for the purpose of determining appropriate compensation levels for individual jobs or job elements. There are four main techniques: Ranking, Classification, Factor Comparison, and Point Method.
· **Pay Structures:** Useful for standardizing compensation practices. Most pay structures include several grades with each grade containing a minimum salary/wage and either step increments or grade range. Step increments are common with union positions where the pay for each job is pre-determined through collective bargaining.
· **Salary Surveys:** Collections of salary and market data. May include average salaries, inflation indicators, cost of living indicators, salary budget averages. Companies may purchase results of surveys conducted by survey vendors or may conduct their own salary surveys. When purchasing the results of salary surveys conducted by other vendors, note that surveys may be conducted within a specific industry or across industries as well as within one geographical region or across different geographical regions. Know which industry or geographic location the salary results pertain to before comparing the results to your company.

Different Types of Compensation?

Different types of compensation include:

· Base Pay
· Commissions
· Overtime Pay
· Bonuses, Profit Sharing, Merit Pay
· Stock Options
· Travel/Meal/Housing Allowance

Benefits including: dental, insurance, medical, vacation, leaves, retirement, taxes...
In a layman's language the word Compensation means something, such as money, given or received as payment or reparation, as for a service or loss. On the other hand, the word
Reward means something given or received in recompense for worthy behavior or in retribution for evil acts.

Now students let us try to demarcate between compensation and rewards

In a layman's language the word Compensation means something, such as money, given or received as payment or reparation, as for a service or loss.

On the other hand, the word Reward means something given or received in recompense for worthy behavior or in retribution for evil acts.

The word Compensation may be defined as money received in the performance of work, plus the many kinds of benefits and services that organizations provide their employees.

On the other hand, the word Reward or Incentive means anything that attracts an employees' attention and stimulates him to work. An incentive scheme is a plan or a programme 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.

Compensation or rewards (incentives) can be classified into

1. Direct compensation and
2. Indirect compensation.

Money is included under direct compensation (popularly known as basic salary or wage, i.e. gross pay) where the individual is entitled to for his job, overtime-work and holiday premium, bonuses based on performance, profit sharing and opportunities to purchase stock options.

While benefits come under indirect compensation, and may consist of life, accident, and health insurance, the employer's contribution to retirement (pensions), pay for vacation or illness, and employer's required payments for employee welfare as social security.

While French says, 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:

1. Wage and salary payments and merit pay;
2. Over-time payments, pay for holiday work or differential according to shift, i.e. all payments which could be considered incentives to perform work at undesirable times; and
3. Premium pay for performing danger tasks.

It is related with wage payment plans which tie wages directly or indirectly to standards of productivity or to the profitability of the organization or to both criteria. Compensation represents by far the most important and contentious element in the employment relationship, and is of equal interest to the employer, employee and government.

1. To the employer because it represents a significant part of his costs, is increasingly important to his employee's performance and to competitiveness, and affects his ability to recruit and retain a labor force of quality.
2. To the employee because it is fundamental to his standard of living and is a measure of the value of his services or performance.
3. To the government because it affects aspects of macroeconomic stability such as employment, inflation, purchasing power and socio – economic development in general.

While the basic wage or pay is the main component of compensation, fringe benefits and cash and non-cash benefits influence the level of wages or pay because the employer is concerned more about labor costs than wage rates per se. The tendency now is towards an increasing mix of pay element of executive compensation has substantially increased in recent years.

Basic Purpose for Establishment of a Sound Compensation and Reward Administration

The basic purpose of establishment of a sound compensation and reward administration is to establish and maintain an equitable compensation structure.

Its secondary objective is the establishment and maintenance of an equitable labor-cost structure, an optimal balancing of conflicting personnel interests so that the satisfaction of employees and employers is maximized and conflicts minimized.

A sound wage and salary administration tries to achieve these objectives

a. **For employees**

1. Employees are paid according to requirements of their jobs, i.e., highly skilled jobs are paid more compensation than low skilled jobs. This eliminates inequalities.

2. The chances of favoritism (which creep in when wage rates are assigned) are greatly minimized.

3. Job sequences and lines of promotion are established wherever they are applicable.

4. Employees' morale and motivation are increased because a wage programme can be explained and is based upon facts.

b. To Employers

1. They can systematically plan for and control their labor costs.
2. In dealing with a trade union, they can explain the basis of their wage programme because it is based upon a systematic analysis of job and wage facts.
3. A wage and salary administration reduces the likelihood of friction and grievances over wage inequities.
4. It enhances an employee's morale and motivation because adequate and fairly administered wages are basic to his wants and needs.
5. It attracts qualified employees by ensuring and adequate payment for all the jobs.

1.5 Objectives of Compensation and Rewards

The first is equity, which may take several forms. They include income distribution through narrowing of inequalities, increasing the wages of the lowest paid employees, protecting real wages (purchasing power), the concept of equal pay for work of equal value compensation management strives for internal and external equity. Internal equity requires that, pay be related to the relative worth of a job so that similar jobs get similar pay. External equity means paying workers what comparable workers are paid by other firms in the labor market. Even compensation differentials based on differences in skills or contribution are all related to the concept of equity.

Efficiency, which is often closely related to equity because the two concepts are not antithetical. Efficiency objectives are reflected in attempts to link to link a part of wages to productivity or profit, group or individual performance, acquisition and application of skills and so on. Arrangements to achieve efficiency may be seen also as being equitable (if they fairly reward performance) or inequitable (if the reward is viewed as unfair).

Macro economic stability through high employment levels and low inflation, of instance, an inordinately high minimum wage would have an adverse impact on levels of employment, though at what level this consequence would occur is a matter of debate. Though compensation and compensation policies are only one of the factors which impinge on macro-economic stability, they do contribute to (or impede) balanced and sustainable economic development.

Efficient allocation of labor in the labor market. This implies that employees would move to wherever they receive a net gain, such movement may be form one geographical location to another or form on job to another (within or outside an enterprise). The provision or availability of financial incentives causes such movement.

For example, workers may move form a labor surplus or low wage area to a high wage area. They may acquire new skills to benefit form the higher wages paid for skills. When an employer's wages are below market rates employee turnover increases. When it is above market rates the employer attracts job applicants. When employees move from declining to growing industries, an efficient allocation of labor due to structural changes takes place.

Other Objectives of Compensation

1. Acquire qualified personnel – compensation needs to be high enough to attract applicants. Pay levels must respond to the supply and demand of workers in the labor market since employers compete for workers. Premium wages are sometimes needed to attract applicants already working for others.
2. Retain current employees- Employees may quit when compensation levels are not competitive, resulting in higher turnover.
3. Reward desired behaviour- pay should reinforce desired behaviors and act as an incentive for those behaviors to occur in the future. Effective compensation plans reward performance, loyalty, experience, responsibility, and other behaviors.

Control Costs

a rational compensation system helps the organization obtain and retain workers at a reasonable cost. Without effective compensation management, workers could be over paid or under paid.

4. Comply with legal regulations- a sound wage and salary system considers the legal challenges imposed by the government and ensures the employer's compliance.

Facilitate understanding- the compensation management system should be easily understood buy human resource specialists, operating managers and employees.

5. Further administrative efficiency- wage and salary programs should be designed to be managed efficiently, making optimal use of the HRIS , although this objective should be a secondary consideration compared with other objectives.

Rewards

The use of Incentives or Rewards assumes that people's actions are related to their skills and ability to achieve important longer-run goals. Even though many organizations, by choice, or tradition or contract, allocate rewards on non-performance criteria, rewards should be regarded as a "payoff " for performance.

An Incentive Plan has The Following Important Objectives

1. An incentive plan may consist of both 'monetary' and 'nonmonetary' elements.
2. Mixed elements can provide the diversity needed to match the needs of individual employees.

3. the timing, accuracy and frequency of incentives are the very basis of a successful incentive plans.
4. The plan requires that it should be properly communicated to the employees to encourage individual performance, provide feedback and encourage redirection.

Determinants of Incentives
These feature 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.

i.(I and Ill) 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 reaction to incentives vary greatly, incentives must have some redeeming merits. For example, there might be a number of monetary and nonmonetary incentive programmes to motivate employees. Money, gift certificates, praises, or merit pay are of the continuous parade of promotion.

ii. The Work Situation
This is made up of four important elements:
A. Technology machine or work system, if speed of equipment operation can be varied, it can establish range of the incentive.
b. Satisfying job assignments, a workers' job may incorporate a number of activities that he finds satisfying. Incentives may take the form of earned time-off, greater flexibility in hours worked, extended vacation time and other privileges that an individual values.
Feedback, a worker needs to be able to see the connection between his work and rewards. These responses provide important reinforcement.
Equity, worker considers fairness or reasonableness as part of the exchange (or his work, Incentives, in general, are important motivators. Their effectiveness depends upon three factors: drives, preference value, and. satisfying value of the goal objects.

Beyond subsistence level, becoming needs (self-actualization needs) possess greater preference value and are more satisfying than deficiency needs (which are necessary for survival). Below the subsistence level, however, the reverse holds true." He makes the following generalizations:

- i. Incentives, whether they are monetary or non-monetary, tend to increase the level of motivation in a person.
- ii. Financial incentives relate 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's hierarchy, the greater is his vulnerability to non-financial incentives.

“While budgetary restrictions and’ temporary improvements in performance place a limit on the potency of money as a motivator, non-financial incentives involve only human ingenuity as investment and also insure a relatively stable acceleration in output.

Monetary incentive imply’ external motivation, non-monetary incentives involve internal motivation. Both are important. It is a judicious mix-up of the two that tends to cement incentives with motivation.

1.6 Methods of Compensation

The operating companies need to develop a compensation package for their employees depending on the size and type of business, employers may choose to compensate their employees in a number of different ways.
Below is given the different methods of compensation:

1. Wages and Salaries

Although we use the terms wages and salaries interchangeably, in payroll accounting, the two terms have different definitions. Wages refers to the earnings of employees whose pay is calculated on an hourly basis.

Salary refers to the earnings of employees whose pay is calculated on a weekly, bi-weekly, semi-monthly, or monthly basis.

3. Commissions

Sales commission plans vary greatly from company to company, but are generally based on the dollar amount of sales made during a payroll period. Commission income is considered the same as wages or salaries for withholding and reporting purposes. Commissions are usually computed on a certain percentage or commission rate.

Some commissioned employees may not be exempt from the minimum wage requirement. The employer must determine the regular, hourly rate for each non-exempt salesperson during the week and make sure this rate is at least equal to the current minimum wage.

4. Piece-Rate Plan

Workers paid on a piece-rate plan receive a certain amount for each item produced. Gross earnings equal the rate per item multiplied by the number of items produced during the payroll period.

5. Combination Plan

Many businesses pay sales people both a salary and a commission. Such a combination plan provides some regular income and offers an incentive for superior sales.

6. Draws

Draws are often given to salespeople who work only for commission. A draw is an advance given to a salesperson that will be collected when future sales transactions are closed. Draws will be subtracted from a salesperson’s commissions after any applicable taxes and deductions have been withheld. The draw is subject to all payroll withholding taxes.

Other Types of Earnings

7. **Bonuses**

Businesses offer bonuses in many different ways. Some bonuses are based on profitable operations of the business and are paid at year-end. A common type of bonus may be offered to salespeople for selling a specific item. Another type of bonus plan, one that may be part of an employment agreement, pays managers if the yearly sales or profits reach a certain level.

8. **Profit Sharing Payments**

A profit sharing plan, like a bonus plan, can be structured in a number of different ways. An employer may elect to pay cash to employees, give them stock in the business, or set up a deferred compensation fund for retirement.

9. **Other Taxable Forms of Compensation**

Sometimes other payments to employees are required that are equivalent to wages. These include non-cash fringe benefits, reimbursed expenses, sick pay, supplemental unemployment payments are subject to federal taxes.

10. **Non-Cash Fringe Benefits**

Non-cash fringe benefits must be included in an employee’s gross earnings.
Fringe benefits include the following:
· Personal use of company cars
· Free or discounted airline flights
· Vacations
· Discounts on property or services
· Memberships in country clubs or other social clubs
· Tickets to entertainment or sporting events

11. **Reimbursed Expenses**

Payments made to employees for travel and other necessary business expenses are taxable only if: The employee does not have to substantiate those expenses with receipts or other documentation. The employer advances an amount to the employee for business expenses and the employee does not return any unused amount.

Travel and entertainment reimbursements, or other expense allowances, paid to an employee under a non-accountable plan are also included as wages. Under a non-accountable plan, the employee is given a certain amount of money toward expenses, but does not have to substantiate them or return any excess cash.

Under an accountable plan, travel advances paid to the employee prior to travel in excess of substantiated expenses must be repaid to the employer within a reasonable and specified period
of time.

12. Sick Pay

In general, sick pay is any amount paid to an employee because of illness or injury under a plan providing for such benefits. The amounts are disbursed by the insurance company or the employee's trust, and are referenced as third party payments.

13. Tips

In certain businesses, employees receive compensation in the form of gratuities or tips. A tip is an additional amount from a customer for services rendered. Bartenders and restaurant servers usually receive tips in addition to wages. Hair stylists and taxi drivers also depend on tips as a major source of income.

14. Supplemental Wages

Supplemental wages differ from regular wages only in that they may be based on a different payroll period, computed on a different compensation plan or rate, or paid at a different time than regular wages.

In addition, certain payments are, by their nature or timing, supplemental wages. Such payments include retroactive pay increases, severance pay, bonuses, commissions, taxable fringe benefits, awards and vacation pay on termination.

The distinction between regular and supplemental wages is important because special rules apply to withholding on supplemental wages.

15. Exempt Payments:

Compensation not considered wages includes sickness and injury payments under a workers' compensation law, and other payments that are likely to be tax deductible such as qualified moving expense reimbursements.

1.7 Compensation Structure

As it has been discussed that compensation is the act of compensating or the state of being compensated or something, such as money, given or received as payment or reparation, as for a service or loss.

What is Compensation Structure?

A Histogram of what people earn. Although money isn't everything, it certainly is one of the top issues potential employees look at when interviewing new companies. (Yes, face it, they are interviewing YOU.) Whether you're offering a straight basic salary structure or an incentive-based pay structure may make or break you in the eyes of top job candidates.

Compensation structure consists of the various salary grades and their different levels of single jobs or groups of jobs. The term wage structure' is used to describe wage/salary relationships' within a particular grouping. The grouping can be according to occupation, or organization, such as wage structure of craftsman (carpenters, mechanics, bricklayers, etc.)

The wage structure or ‘grade’ is comprised of jobs of approximately equal difficulty or importance as determined by’ job evaluation. If the ‘point’ method of job evaluation is used, the ‘pay-grade’ consists .of jobs falling within a range of points.

If the ‘factor comparison’ plan is used, the grade consists of a range of evaluated wage rates (or points, if the wage rates are converted to points). If the ‘ranking’ plan is used, the grade consists of a specific number of ranks. If ‘classification’ system is used, the jobs are already categorized into ‘class’ or ‘grades.

So the term Compensation structure means the pattern or the break up of the salary paid to the employees in their respective organization.
Please remember that while determining the compensation structure of employees, it is not only the mathematics but other subjects such as biology and psychology play a major role in compensation determination.

Biology, the increase in size or activity of one part of an organism or organ that makes up for the loss or dysfunction of another. Psychology, behavior that develops either consciously or unconsciously to offset a real or imagined deficiency, as in personality or physical ability.

Hence we can realize that compensation management is an integral part of the labor market characteristics in order to attract capable employees by respective organizations.

Determinants of the wage structure
Before discussing the wage determination process in detail let us first discuss the determinants of wage structure.

1. **Economic Determinants**

In the labor market there commonly exists, known as Occupational Wage Differentials. The reason for it’s existence is that in different occupations require different qualifications, different wages of skill and carry different degrees of responsibility, wages are usually fixed on the basis of the differences in occupations and various degrees of skills.
Adam Smith explains occupational wage differentials in terms of :

1. Hardship,
2. Difficulty of learning the job,
3. Stability of employment,
4. Responsibility of the job, and
5. Chance for success or failure in the work.

This is a theory of wage structure. But his standards of worth are equally useful in explaining the complexity of wage structure decisions. The market value of an item is the price it brings in a market where demand and supply are

equal. Use value is the value an individual buyer or seller anticipates through use of the item.
Use value obviously varies among individuals and over time.

2. **Job worth**

These two concepts of worth and the concept of internal labor markets combine to explain important differences among employers in wage structure decisions. Organizations with relatively open internal labor Markets (organizations in which most jobs are filled from outside) make much use of market value. They also make much use of wage and salary surveys in wage structure decisions.

Conversely, organizations with relatively closed internal labor markets (most jobs are filled from inside) emphasize use value. Their analysis of job worth relies more heavily on perceptions of organization members of the relative value of jobs.

3. **Training**

Some other wage structure determinants derived from economic analysis may be noted. Training requirements of jobs in terms of length, difficulty, and whether the training is provided by society, employers, or individuals constitute a primary factor in human-capital analysis and thus job worth. The interaction of ability requirements with training requirements can yield different job values depending on the scarcity of the ability required and the number of people who try to make it in the occupation and fail.

4. **Employee Tastes**

Employee tastes and preferences are another economic factor. People differ in the occupations they like and dislike. In like manner, occupations have non-monetary advantages and disadvantages of many kinds.

1.8 Framework of a Compensation Policy

Employee motivation and performance management depend on good systems that offer both financial and non-financial rewards (non-monetary rewards). This performance management article applies to all organizations.

Constant change and high expectations are taking their toll in some organisations, as well as in industry and government generally. Sometimes this is shown in employee turnover.

Sometimes it is hidden because of job insecurity. Many employees make a New Year's resolution to seek other employment. Many are also seeking more balance in their life.

Rewards and remuneration must be scrutinized. Employee motivation and performance are critical. Non-monetary rewards can be as important as monetary rewards.

In some organisations, a multitude of different salary and pay arrangements exist. It is time to bring these different systems into a new framework.

Employees at all levels need to have confidence in the salary administration system. Employees want the rewards to be shared fairly and equitably. If they are not, dissatisfaction can cause severe morale and performance problems.
If they haven't done so already, leading organisations will need to establish an improved salary administration structure.

It is possible to develop a simple structure that overcomes the difficulties of the past, yet is simple enough for everyone in the organisation to understand. This structure can be tied to a completely new performance management approach, including better performance appraisal mechanisms.

Some industry's remuneration systems have been dominated by the industrial relations system. Enterprise bargaining and local area work agreements, individual performance based contracts,
and the effect of competition on organizational structures, have had a big impact.

A good rewards and remuneration system ensures that each person receives appropriate financial and nonfinancial recognition to account for the personal contribution they are making and the overall value of their position to the organisation.
This includes
· Creating and maintaining an organizational structure and culture that facilitates both employee and organizational performance.
· Recognizing and rewarding individual and team performance, financially and otherwise, in relation to the overall contribution made.
· Implementing compensation systems that fairly treat and recognise all employees, regardless of their level within the organisation. This is the equity issue. It involves matching remuneration with the contribution made, particularly where job requirements can change rapidly.
The best performance appraisal system in the world will not work if it is linked to a rewards and remuneration system that employees do not trust or support.

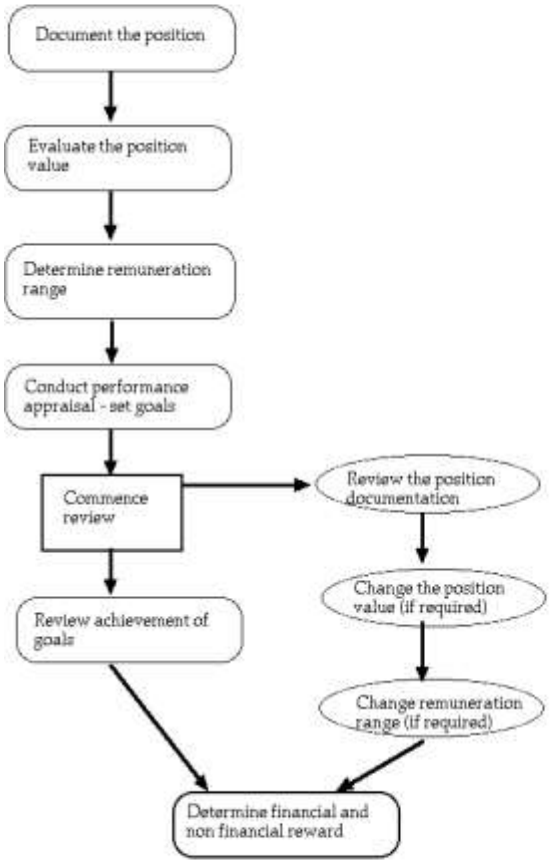
A motivated employee will achieve a great deal. A demotivated employee will be slow, prone to error and not likely to achieve.

Motivation influences performance. It also suggests that the 'lack of ', 'promise of', or receipt of either financial or nonfinancial rewards may also influence motivation. A feedback loop between motivation and performance exists, with each potentially impacting the other.

Remuneration is a component of both financial and nonfinancial reward; financially, in terms of cash and benefits received; non-financially in terms of recognition, status and esteem, e.g. the status of full private use of a motor vehicle. Job evaluation is a process to determine the contribution of a position to an organisation. It needs to be seen by both the employee and organisation as fair and equitable.

Good salary administration requires that employees should receive financial recognition for the contribution that they make, and that positions of equal value should be entitled to equal compensation. If organisations handle this incorrectly, or manipulate it in some way, the impact on the employee is significant.

Past pay systems often paid little attention to incentives. It is only in recent years that some systems have provided for differentiation based on performance. The concept of fair incentives should be on the agenda. An integrated system is required such as the following diagram represents. Perception is the reality. If the current system is not working as intended, then the organisation has a real problem.



· Is the review process conducted fairly and within agreed time limits? As well as checking goal achievement, does the review reconsider the job and changes that may have occurred?
· Are non-financial rewards considered along with financial rewards?
The system should not be bureaucratic, but it has to be perceived as fair. It also has to be actually administered fairly.
Where do you rate your system on a scale of 1 to 10?
1. Employees are showing their total disenchantment by leaving as quickly as they can. Morale and motivation are non-existent.
2 Employees are unhappy and grumble frequently about the non-existence of a remuneration system. They openly talk about the problems instead of getting on with their work.

3. Employees are unhappy and comment frequently about the remuneration system that is supposed to be in place but doesn't work. However, a work ethic exists and they do some work.
4. Employees believe that 'management' controls and manipulates the system. They continue on regardless, but they do not like it.
5. Employees are aware of a remuneration system but do not see it working for them. It causes some dissatisfaction.
6. Employees believe the remuneration system only works for 'management'.
7. Some employees believe the remuneration system is working, others believe it could be better targeted to their particular situation.
8. A comprehensive system is in place. Position value and remuneration is fairly evaluated and most are well compensated. Areas for improvement are recognizing individual and team contributions fairly. The system is reviewed regularly.
9. A comprehensive system is in place. Position value and remuneration is fairly evaluated and nearly all are well compensated. Individual and team contributions are recognised. Higher achievement will come from better implementation.
10.Everyone from the CEO down believes that the remuneration system is working well and being equitably administered. Individual and team contributions are recognized and rewarded accordingly. Although some would like more pay, no one is unhappy with the system. They are motivated and productive.

General Policy Guidelines

This also provides a framework by which interested parties may gauge the quality of company specific executive compensation programs and practices.

General Policy Guidelines

Executive compensation programs should be designed and implemented to ensure alignment of interest of management with the long-term interest of shareowners.

Executive compensation should be comprised of a combination of cash and equity-based compensation. Direct ownership should be strongly encouraged.

Executive compensation policies should be transparent to shareowners. The policies should contain, at a minimum, compensation philosophy, the targeted mix of base compensation and "at risk" compensation, key methodologies to ensure alignment of interest, and parameters for guidance of employment contract provisions, including severance packages. Companies under new SEC guidelines must provide shareowners the opportunity to vote on any material revisions to these plans.

Executive contracts should be fully disclosed, with adequate information to judge the "drivers" of incentive components of compensation packages.

Executive Compensation Policies

In particular, executive compensation policies should contain, at a minimum, the following components:

1. The company's desired mix of base, bonus and long-term incentive compensation This section should include adequate detail to shareowners regarding the company's philosophy of base pay components versus "pay at risk" components of the program. Details should include reasonable ranges based on total compensation within which the company will target base salary as well as other components of total compensation. Overall targets of total compensation should also be provided.

This section should also provide an overview of how the company intends to structure the compensation program, such as how much of overall compensation is based on peer relative analysis and how much of it is based on other criteria. The policy should clearly articulate how the company ensures optimal alignment of interests with shareowners through the design and implementation of its executive compensation program.

2. The company's intended forms of incentive and bonus compensation, including what types of measures will be used to drive incentive compensation. In addition to the relative mix of base salary and any form of incentive compensation, the company should provide a breakdown of the types of incentive compensation and reasonable ranges based on total compensation targets for

each type of incentive compensation within the program. The policy should include the company's philosophy related to the major components of incentive compensation, including the strengths and weaknesses of each and how the overall incentive component of the plan provides optimal alignment of interests with shareowners.

1.9 Let's Sum-up

From the perspective of the employers, the money that they pay to the employees in return for the work that they do is something that they need to plan for in an elaborate and systematic manner. Unless the employer and the employee are in broad agreement (We use the term broad agreement as in many cases, significant differences in perception about the employee's worth exist between the two sides), the net result is dissatisfaction from the employee's perspective and friction in the relationship.

It can be said that compensation is the "glue" that binds the employee and the employer together and in the organized sector, this is further codified in the form of a contract or a mutually binding legal document that spells out exactly how much should be paid to the employee and the components of the compensation package. Since, this article is intended to be an introduction to compensation management, the art and science of arriving at the right compensation makes all the difference between a satisfied employee and a disgruntled employee.

Though Maslow's Need Hierarchy Theory talks about compensation being at the middle to lower rung of the pyramid and the other factors like job satisfaction and fulfilment being at the top, for a majority of employees, getting the right compensation is by itself a motivating factor. Hence, employers need to quantify the employee's contribution in a proper manner if they are to get the best out of the employee. The provision of monetary value in exchange for work performed forms the basis of compensation and how this is managed using processes, procedures and systems form the basis of compensation management.

As the module progresses, readers would be introduced to other aspects of compensation management like the components of compensation management, types of compensation, inclusion of variable pay, the use of Employee Stock Options etc. The aspect of how skewed compensation management leads to higher attrition is discussed as well. This aspect is important as studies have shown that a majority of the employees who quit companies give inadequate or skewed compensation as the reason for their exit. Hence, compensation management is something that companies must take seriously if they are to achieve a competitive advantage in the market for talent.

Considering that the current trend in many sectors (particularly the knowledge intensive sectors like IT and Services) is to treat the employees as "creators and drivers of value" rather than one more factor of production, companies around the world are paying close attention to how much they pay, the kind of components that this pay includes and whether they are offering competitive compensation to attract the best talent. In concluding this article, it is pertinent to take a look at what Jack Welch had to say in this regard: As the quote (mentioned at the beginning of this article) says, if the right compensation along with the right kind of opportunities are made available to people by the firms in which they work, then work becomes a pleasure and the manager's task made simpler leading to all round benefits for the employee as well as the employer.

1.10 Key Terms

Compensation Management, Variable Compensation, Fixed Pay, Wage Inflation, Human Resource

Employee Stock Options, Performance appraisal, Employee morale, Incentives, HR policies, Recruitment

1.11 Self-Assessment Questions

1.12 Further Readings

1. Bhatia S.K.(2003), NEW COMPENSATION MANAGEMENT IN CHANGING ENVIRONMENT, Deep and Deep, Publishers, New Delhi.

2. Chappra T.N. (2006) ESSENTIALS OF ORGANIZATIONAL BEHAVIOR, Dhanpat Rai and Company Delhi.

3. Fisher, Cynthia D, Schoenfeldt Lyle F. Shaw James. B (2004) HUMAN RESOURCE MANAGEMENT, Biztantra, New Delhi .

1.13 Model Questions

Q. What is the role compensation and reward in modern organization?
Q. Explain the need for designing the compensation policy?
Q. What do you mean by compensation structure?

Unit – 2
Compensation Management Practices in Industry

Learning Objectives

After completion of the unit, you should be able to :

- Understand the strategic planning of compensation.
- Describe the Organizational differences in managerial compensation and financial performance
- Explain the definition, Meaning and Implications managerial Compensation
- Know the Executive Pension Old Age Pension

Structure

2.1 Introduction

Employee compensation is one of the major functions of HRM. Dessler (2007) defined employee compensation as "all forms of pay or rewards going to employees and arising from their employment". Compensation is important for both employers and employees. It is important to the employees because it is one of the main reasons for which people work. Employees" living status in the society, motivation, loyalty, and productivity are also influenced by the compensation. Again, it is very important for the employers because it creates substantial cash out flow of an enterprise. Compensation includes both financial and non-financial benefits. Financial elements comprise two elements, namely: direct and indirect forms of payments to the employee. Direct compensation includes hourly and monthly rated wages or salaries, and incentives such as bonuses, commissions, and profit sharing plans. Indirect compensation includes benefits such as provident fund, gratuity, and health insurance, paid leaves, vacations, company car, furnished house, retirement benefits, stock option, and the like. Non-financial benefits comprise challenging job, responsibilities, appreciation, working environment, empowerment, and others. The compensation that an organization provides may be based on either membership (job) or performance (skill). In the traditional system, employees are paid according to the job or membership that has no connection with the employee‟s or organization‟s performance. On the contrary, in the case of performance or skill based pay, employees are compensated with respect to their performance, abilities, and knowledge. In practice, performance may be a minor determinant of compensation though academic theories extend the view that performance-based compensation leads to high motivation of employees. Compensation, once determined, should not remain the same for years. It should be reviewed and changed after a certain period through a proper pay survey. Compensation serves many functions. Sound compensation can attract, motivate, and retain the competent employees of an organization .

2.2 Compensation Trends in India

India continues to make waves as a top destination, no longer just for outsourcing information technology jobs, but now for all types of business development. This looks at how compensation trends have adjusted to the changing business environment.

Until recently, experts the world over tended toward a view of India as a back office—a place where organizations outsourced their information technology-related work. During the last few years, this perception has changed and India now is recognized as a destination that offers not just cost or labor arbitrage, but also highly skilled professionals and a high level of service maturity. This has led to a change in how compensation for the highly skilled is approached. Thus attempts to put in perspective the changing compensation trends in India, the focus on senior management positions, and the steps being taken by the government toward social security and retirement benefits.

Background

Traditionally, the following have been the characteristics of the compensation structure of a white-collar, non-unionized Indian: high "basic" pay, variable pay restricted to senior management in a few private sector companies, government pay scales often used as the benchmark, an almost guaranteed annual increase irrespective of the organization's performance, and promotion in the hierarchy based on number of years of service completed in the organization.

During the last two decades, the compensation philosophy and, indeed, the compensation structure of Indian organizations, have undergone radical change. It is not surprising that the reason for this change is the growth in information technology-enabled services (ITES) and, more recently, in the business process outsourcing (BPO) industry.

The talent war in both of these areas, and the consequent globalization of the workforce across organizations in India, is compelling the finance, human resource (HR), and tax experts to constantly study, benchmark, and redefine the compensation imperatives.

The Job Market

Consider this: a study by Mercer HR, New York, NY, states that the ITES-BPO industry segment is currently a U.S. $5.2 billion industry, with exports constituting more than 88 percent of the revenue generated. The industry is a growing contributor to India's gross domestic product (GDP), and is poised for growth projected at greater than 38 percent for fiscal year 2006.

The ITES-BPO industry is expected to require an additional 93,000 persons in the next year, showing an increase of 29 percent in labor demand. According to studies conducted by the National Association of Software and Service Companies (NASSCOM), New Dehli, India, the segment is expected to employ more than 1.1 million Indians by 2020.

Medical transcription jobs, followed by data processing, billing, and customer support, are some of the pioneering occupations that have been transitioned to India. Today, medical transcription outsourcing has a market size exceeding U.S. $200 million, shared by as many as 150 medical transcription companies in India. BPOs, as the analysis conducted by Mercer HR reveals, refers to those jobs that have pre-set processes and solutions for handling workflow. Key jobs in this category that have been coming into the country include back-office data processing, customer contact jobs, and corporate support functions. The last few years also have witnessed a whole range of value-added jobs being moved into India such as analytics, legal research, and clinical research, as well as crucial research and design functions.

Such jobs involve a more thought-driven solution from the employee. These jobs, termed collectively as "knowledge process outsourcing" (KPO), emphasize the fact that the Indian outsourcing industry has matured and the world has begun to acknowledge the country's specialized capabilities, the high quality of work, and the importance the country places on intellectual property rights.

Given the hunt for high-quality jobs, it is not surprising that today the approach to Indian compensation is changing and compensation packages are, in fact, the fattest at senior management levels. While one would expect that this would be true of managers in the United States or any other Western country, surprisingly it is India that has the highest paid senior managers in the world.

According to a global study conducted by the Hay Group, Philadelphia, PA, and the synopsis published in the *Daily News and Analysis,* a regional daily published in Mumbai, India is in the pole position in terms of global average real salary of senior managers, followed by Germany and Switzerland. For perspective, India's per capita income stands at 12,416 rupees (Rs) per year. What is behind this startling development?

"It's a case of too many jobs at senior levels chasing too few candidates," said Shiv Agrawal, CEO of ABC Consultants, New Delhi, the country's leading head-hunter for senior level placements. "Today, every good senior-level candidate has more than two jobs available."

Among other countries, Brazilian senior level salaries are the fourth best, while Britain places ninth on the list, according to the Hay Group survey. The United States is at a modest 12th, while Japan is 21st—just above China—in the ranking of 24 countries.

Recently a Hewitt Associates LLC, Pleasanton, CA, study found salaries in developed economies were growing at single-digit increments, while Indian salaries were galloping at double-digit levels.

2.3 Implications in Compensation

Compensation is identified as the most vulnerable side of the HRM practices of public sector enterprises. In every aspect of compensation practices such as competitiveness of salary and benefits, competency-based compensation, performance-based compensation, regularity in pay survey, and non-financial benefits, the public sector enterprises are in a lower position than the private sector enterprises. This is due to the fact that in the public sector, compensation is offered with respect to seniority and position. Pay review in the public sector also generally takes place after several years. These generate mismanagement, poor motivation, and corruption in the public sector enterprises. The inequality of compensation between the public and the private sector is now so prevalent that an entry-level officer of a private sector enterprise is getting a higher salary than even a top level manager of a public sector enterprise.

With respect to ownership, the industrial sector is mainly divided into two sectors: public and private. Though governments have been patronizing the development of the private sector since 1975, the importance of the public sector towards the economic development of the country is still well-recognized. Moreover, the public sector is composed of some industries such as fertilizer, jute, and forest where the private sector does not have any mentionable presence. However, these industries (fertilizer, jute) also have significant contributions to the growth in the agriculture sector. Therefore, for the overall economic emancipation, an industrial sector comprising of well functioning public and private sectors is a must. Human resource management practices such as compensation can play vital roles for the public and the private sector led industrial development.

The following implications may be useful to consider in improving the overall status of employee compensation practices of the public and the private sector industrial enterprises of.

Implications of the Findings for the Public Sector Industrial Enterprises

The most unimpressive side of HRM practices of the public sector enterprises is inadequate compensation package for the employees. That is why nowadays it is hardly possible for the public sector enterprises to get and to keep capable employees. As money is the prime motivator, the public sector enterprises should offer competitive salaries and benefits to their employees. Salary and benefits must be linked to the qualifications, skills, knowledge, and performance of the employees. It is reported that pay scale changes in the public sector after every 5 to 10 years, which is quite irrational and frustrating. Regularity in pay review should be maintained through pay survey to offer pay that is equitable and consistent with the society's changing needs. Non-financial benefits should also be provided to the employees who devote time, effort, knowledge, expertise and everything for the improvement of the organizations.

Implications of the Findings for the Private Sector Industrial Enterprises

The private sector enterprises should extend financial and non-financial benefits to their employees. Besides financial rewards, non-financial rewards such as challenging job, empowerment, recognition, job security, better working conditions should also be provided to the employees. Fringe benefits and perquisites such as provident fund, gratuity, medical care, health insurance, paid holidays, transport, housing, stock option schemes should be offered for the overall well-being of the employees and their dependants.

2.3 Current Trends

It is interesting to track the changes—some quite radical—in the Indian compensation scene. The following are true of most organizations today:

- Compensation is now viewed as the total "cost to company," (CTC) rather than an employee's net pay alone. As the environment gets competitive, such an approach helps organizations take a holistic view of what could be the costs and the operating margins.
- Variable pay based on individual performance is the norm, and a larger percentage of the Indian salary is based on performance.
- Organization performance also is factored in while structuring salary increases.
- Some organizations also have implemented highly evolved systems, such as the "economic value added" (EVA) framework, ensuring a performance-oriented culture throughout the organization applicable to all employees.

- Basic, guaranteed pay has seen a gradual reduction.
- Benchmarking against organizations, both nationally and internationally, has become common.
- Employee stock options (ESOPs) that were, a few years back, considered as valuable compensation components have ceased to be so given the erratic nature of the stock market and the lock-in periods.
- Non-taxable benefits, which increased the net "take-home" of an employee, are now subject to the Fringe Benefits Tax (FBT), and so organizations are forced to take second looks at these components.
- Retirement benefits are left to what is mandated by the government. Organizations that were contributing to a superannuation fund for the employee now have to pay the FBT.
- Pension benefits and other similar social security benefits are not on the radar screen of compensation experts in India today, but this component could be under significant discussion and speculation in the coming years.

Of the trends mentioned above, the last three demand a detailed description.

Fringe Benefits Tax

The FBT has been in the spotlight for a long time and has been a cause for a lot of debate ever since the budget and Finance Bill was released last financial season by the Indian finance minister. However, viewed holistically, it is indeed in line with practices followed worldwide.

The taxation of perquisites—or fringe benefits—provided by an employer to his or her employees, in addition to the cash salary or wages paid, is fringe benefits tax.

Any benefits—or perks—that employees (current or past) get as a result of their employment are to be taxed, but in this case, in the hands of the employers. This includes employee compensation other than wages, tips, health insurance, life insurance, and pension plans.

Fringe benefits, as outlined in section 115WB of the Finance Bill, are any privilege, service, facility, or amenity directly or indirectly provided by an employer to his or her employees (including former employees) by reason of their employment. They also include reimbursements made by the employer either directly or indirectly to the employees for any purpose, contributions by the employer to an approved superannuation fund, as well as any free or concessional tickets provided by the employer for private journeys undertaken by the employees or their family members.

As per the Finance Bill, fringe benefits shall be deemed to have been provided if the employer has incurred any expense or made any payment for the purposes of: entertainment; festival celebrations; gifts; provision of hospitality of any kind to any person whether by way of food and beverage or in any other manner, excluding food or beverages provided to the employees in the office or factory; maintenance of guest house; conference; employee welfare; use of health club, sports, and similar facilities; sales promotion, including publicity;

conveyance, tour and travel, including foreign travel expenses; hotel boarding and lodging; repair, running, and maintenance of motor cars; repair, running, and maintenance of aircraft; consumption of fuel other than industrial fuel; use of telephone; or scholarship to the children of the employees.

The benefit does not have to be provided by the employer directly for him or her to attract FBT. FBT still may be applied if the benefit is provided by a third-party or an associate of the employer or by anyone under an arrangement with the employer.

Perquisites that can be attributed directly to the employees continue to be taxed in accordance with the existing provisions of the Indian Income Tax Act. In cases in which attribution of the personal benefit poses problems or for some reason, it is not feasible to tax the benefits of the employee, it is proposed to levy the FBT on the employer on the value of such benefits provided or deemed to have been provided to the employees.

The FBT tax has forced organizations to redesign some of the benefits provided to its employees. The fact that an approved superannuation fund also comes under the purview of the FBT has been debated even before the fund was able to offset the absence of additional government-mandated or other widely practiced retirement benefit plans as available in the Western world. With the FBT, organizations have been forced to rethink the necessity of taking it on themselves to provide such non-statutory retirement benefits, particularly at junior levels.

2.4 Social Security and Retirement Benefits

The government of India provides for two mandatory contributions from the employer for the purposes of providing support to the employee and must be part of the overall individual compensation.

Provident fund. The Constitution of India, under "Directive Principles of State Policy," provides that the state shall, within the limits of its economic capacity, make effective provisions for securing the right to work, to education, and to public assistance in cases of unemployment, old-age, sickness and disablement, and undeserved want.

The Employees' Provident Fund & Miscellaneous Provisions Act, 1952, was enacted by parliament and came into force in March 1952.

Presently, the following three schemes are in operation under the Act: the Employees' Provident Fund Scheme, 1952; the Employees' Deposit Linked Insurance Scheme, 1976; and the Employees' Pension Scheme, 1995 (replacing the Employees' Family Pension Scheme, 1971). The Employees' Provident Fund Organization, India, in New Dehli is one of the largest provident fund institutions in the world in terms of members and volume of financial transactions that it has been carrying on.

Payment of gratuity. Gratuity is payable to an employee after he or she has rendered continuous service for not less than five years and when he or she either resigns or is terminated or has been rendered disabled due to accident or disease. It is paid to an individual nominated by the employee in case of his or her death. The maximum amount that can be paid as gratuity is prescribed by law.

Employee State Insurance Corporation (ESIC). The promulgation of the Employees' State Insurance Act (ESI), 1948, envisaged an integrated, needs-based social insurance scheme that would protect the interest of workers in contingencies that result in loss of wages or earning capacity such as sickness, maternity, temporary or permanent physical disablement, or death from employment injury. The act also guarantees reasonably good medical care to workers and their immediate dependents, and the benefits provided to the employees under the act are in conformity with international labor organization (ILO) conventions. In addition, the scheme also provides some other needs-based benefits to insured employees. These include rehabilitation allowance and vocational rehabilitation.

The scheme prescribes a wage ceiling and is applicable only to those employees whose compensation (wage as defined by the act) is within this ceiling. The act covers a large number of employees and has more than 30,701,300 beneficiaries. An interesting feature of the ESI scheme is that the contributions are related to the paying capacity as a fixed percentage of the workers wages, whereas they are provided social security benefits according to individual needs without distinction.

However, because the ESI is provided only to employees whose salary is within the ceiling, it cannot cover those earning higher wages and hence the coverage of this specific benefit is predominantly restricted to the blue-collar employees. In light of this fact, organizations also are turning to private providers to have employee social security schemes, in addition to the Provident Fund and Gratuity.

The Future of Retirement Benefits

In a report, Anshuman Anand, an actuarial consultant in Mercer HR's retirement business in Mumbai, wrote, "Providing income security for the elderly is a subject that has not received adequate attention either by the Indian government or by the public. India has a very limited social security system, and individuals are often unaware of the impending risks of not planning for their old age. Some progressive employers have set up superannuation schemes for their employees and make regular contributions, but a large percentage of private-sector employees do not have such arrangements. Up until now, there has been no central government agency to either promulgate the concept or to regulate such arrangements."

The government finally has focused on this issue and has organized several studies to make progress in this area. It has set up an interim Pensions Fund

Regulatory Development Authority (PFRDA), which released its first draft of pension funds regulation in September 2005. The draft regulations eventually will be sent to parliament for approval. The draft proposal has ended months of speculation and set the tone for pension reforms in India.
The draft envisions the creation of a permanent retirement account number for plan members maintained by a Central Recordkeeping Agency (CRA), which can be accessed using facilities such as banks, brokerage houses, post offices, and similar institutions.
The PFRDA, as per draft regulations, will consider registering an entity as a pension fund manager based on prescribed requirements and will appoint the managers through a bidding process. Several global fund managers, such as HSBC, Prudential, and Principal, have expressed their desire to establish a presence in India once the sector is opened.
These developments in the government and in unorganized sectors relating to new pension schemes are being watched closely by private companies, as well. Industry pundits say that these reforms eventually will percolate into the private sector, and this scheme may be open to employers' superannuation funds as an investment vehicle.

2.5 COMPENSATION ANALYSIS IN MANUFACTURING INDUSTRIES

The compensation package comprises of monetary and non-monetary benefits that include salary, special allowances, house rent allowance, travel allowance, mobile allowance, employee stock options, club memberships, accommodations, retirement benefits and other benefits. It may include a number of other benefits, including insurance, extended leaves and retirement programs.

Why do companies need to give monetary or non monetary benefits to employees? What will they get in return? Will it have a positive effect on the organizations performance? If yes, then how?

Compensation; both monetary and non-monetary is considered to be important by the organization and employees for various reasons such as:

- Increasing employee morale and motivation
- Improving performance of the employees
- Increasing productivity
- Enhancing employee efficiency
- Reducing employee turnover
- Commitment
- Retaining best employees
- Loyalty gained
- Helps dealing with union issues

Organizational citizenship behaviour Compensation can be divided into two components:

- **Fixed** This component takes care of Basic Pay, HR Allowance (HRA) and Dearness Allowance (DA).

• **Flexible** Under Flexible/ Variable compensation we have the following:

- City Compensatory Allowance (CCA)
- Other Allowance
- Mobile Reimbursement / Month
- Educational Allowance
- Travel Allowance
- Gross per Month = Sum of all the above.
- Gross per Annum= 12*Gross/Month
- PF Contribution= 12% of Basic/Annum
- Gratuity
- ESI Contribution (ESIC)= 4.75% of Gross/Annum
- Medical = The Mediclaim facility provided to an employee who are not covered under Employee State Insurance (ESI).
- EX-Gratia/Bonus

The total cost hence is as follows: Annual Fixed Gross Cost (AFGC) = Gross/Annum+ Ex-gratia

Annual Total Cost = AFGC + PF+ ESIC Annual total cost is also called as CTC the compensation an employee would receive from the organization. In this report five manufacturing companies based in India and abroad would be covered. These five are:

- **Larsen and Toubro**
- **Mahindra and Mahindra**
- **Caterpillar**
- **Tata Motors**

Larsen and Toubro:

L&T's engineering & construction track record consists of implementation of turnkey projects in major core and infrastructure sectors of the Indian industry including many of the country's prized landmarks - its exquisite buildings, tallest structures, largest industrial projects, longest flyover, highest via ducts - have been built by ECC .ECC recognizes that people are the real source of competitive advantage. These values are reflected in our Human Resources practices which have earned national recognition several times. ECC-ites go through a process of continuous learning, assisted by training programmes.

Apart from on-the-job training and technical training, over 100 programmes on general management and behavioral topics are conducted each year. COMPENSATION The governing theme in this organisation is the well being of employees. The salary and benefits offered are on par with the best available in Construction Industry.

A few important perquisites & welfare schemes are highlighted below: Special Facilities for Site employees are provided. These special facilities include:
• Subsidized accommodation,
• Part furnishing of accommodation provided
• Free transport facilities for work.

Special Medical Insurance Scheme
This scheme is in addition to other medical benefits available to employees. Employees have the option of covering their parents, aged upto 85 years under this scheme.
Retirement Benefits
All staff members are covered under Provident Fund and Gratuity Scheme. L&T Institute of Technology, Mumbai is an exclusive facility for L&T employees' children. The Institute conducts four-year industry-integrated diploma courses in Mechanical Engineering and Electronics Engineering. On successful course completion, students are awarded diplomas by the Directorate of Technical Education, Maharashtra to which LTIT is affiliated. Prize Money for Academic Achievement: To acknowledge and motivate meritorious wards of employees, the Welfare Department of L&T presents cash awards to students who have scored high percentage marks. There are several additional benefits at Managerial Levels. Several attractive benefits are available including
• Provision of company car,
• Loans for furniture, housing
• Children' higher education
• Purchase of Personal Computer,
• Membership of Superannuation scheme
• Reimbursement of expenses on club membership

Mahindra and Mahindra:
COMPENSATION RULES AND DESIGN GUIDELINES

Monthly Comp onents	Guidelines
Basic	Minimum Basic figure for skilled, semi skilled and un skilledemployees is a minimum of Rs.2650, 2950 and 3250/-.However on the safer side, Basic figure less is not less thanRs.3500/- p.m. **Income Tax Benefit: NIL**
House Rent All	Maximum 50% basic (Metro cities) 40% basic (non

owance (HRA)	metro cities). **Income Tax Benefit:** Excess of Actual rent paid over 10% of Basic salary OR Maximum HRA allowed (50% or 60% of basic) OR Actual Rent Paid – whichever is lower is Exempt from Tax.
Transport Allo wance	Conveyance allowance meant for transportation bet ween office and residence only. **Income Tax Benefit** :Exempt maximum up to Rs.800/- per month. No proof required.
Children's education allowance	**Income Tax Benefit:** Rs.100 per child subject to max 2 children. Hence maximum Rs.200/- is exempt
Special Allowa nce	Balancing figure - after choosing all the above components with respect to their maximum limits absorbed, remaining amount can be named as Special Allowance. It is fully taxable.
Medical Reimb ursements	Pay against medical bills **Income Tax Benefit:** Maximum Rs.1250/- p.m. (Rs.15000 p.a.)is exempt only if Original Bills are provided
Food Coupons	Non cash component, exempt up toRs.1000/- p.m.
Provident Fund (Retrials)	Employer's contribution (this is given to RPFC dire ctly. However employee's contribution is deducted from his Monthly salary above and sent to RPFC. Hence total deduction works out to be 12+12 = 24% of Basic. **Income Tax Benefit:** Employee's contribution of 12% is eligible for Deduction from Taxable income. It can be treated as exempt investment.
Gratuity(Retiral s)	It is an annual component. 15 days monthly basic per year.
Leave Travel Allowance / Concession (Annual)	Journey within India primarily by Rail – 2nd A/c class for employee and his immediate family (spouse, children, parents, siblings).
Gift Vouchers	Non cash component, these coupon companies like Sodexho Pass provide attractive Gift Vouchers, which is given on Diwali Festival Occasion. For junior employees amount can be lower, for seniors, amount can be higher up to Rs.5000 or so.
PERQUISITE	**For Senior Management Employees only**

S	
Rent Free Accommodation	**Income Tax effect:** Taxable perquisite – Value of rent free accommodation is considered to be taxable for the period of house occupied is either of the following:10% of Salary (for metro cities) or (7.5%for non metro cities) + Excess of Fair Rent Value (market rent) over 60% of salary(i.e. Market Rent – 60% of salary) = Total taxable value of rent-free accommodation
Car (For personal)Owned by the Employer	**Income Tax effect:** Taxable Value includes the following – Actual Running &Maintenance expenditure incurred by the employer + Driver's Salary+ Depreciation – any amount charged by employer to employee for personal use of the car.
Employee Stock Option Plan	Employee exercises the option plan by buying out the shares during the exercise period however tax liability occurs only when an employee sells the shares on the value of sale made under the Capital Gains head of income.
OTHER BENEFITS	
Personal Accident Insurance Scheme	For employee Only
Medical Insurance Scheme	(For employee & dependents which can be spouse, first two children, parents or in-laws (either of them) etc.
Performance linked insurance plan	The Performance Linked Incentive Plan is based on employee's Performance Ratings during the Annual Performance Appraisal Plan in the month of March / April each year. Each employee would be eligible for a performance based incentive plan based on following guidelines. Maximum Potential Incentives under PLIP will be 30% of Total Monthly Salary. OR up to Rs.75000/- p.a.

Caterpillar:

Caterpillar offers incentives that give employees the opportunity to impact their compensation for achieving targeted corporate and business unit results. Caterpillar's incentive plans also ensure that employees continue to consider the outcome of their decisions on the company, as well as their individual business unit.

Retirement

To encourage employees to save for their future and maintain financial stability after retirement, the Indian Government and the Companies have chalked three retirement plans, including the Provident Fund, Gratuity and Superannuation Fund.

Provident Fund

This is mandate as per the Indian Law. Employee contributes 12% of his/her basic pay towards this fund and the employer makes equal contribution. Both the employer and employee have no option but to contribute for this fund.

Gratuity

This plan is again a mandate as per the Indian Law. Any employee who works in the organization or within the same group of companies for a minimum of 5 years is eligible for this fund. The amount for this fund is contributed completely by the employer and the employee makes no contribution to this fund. The employee cannot withdraw this amount until he/ she retires or resigns from the company. The minimum service period must be continuous; in case of discontinuity the employee will not be eligible for the fund.

Superannuation Fund

This fund is not a mandate by the Indian law, however Caterpillar provides this fund to its be employees, to be consistent with the market-based practice. This is more like a loyalty bonus for employees who work in the company for more than 2 years. The employer wholly contributes the amount and the employee makes no contribution to this fund. The above funds and proper investment planning would support the employees in their sunset years. The Compensation Committee assists the board of directors in fulfilling its responsibilities in connection with the compensation of company directors, officers and employees. It performs this function by establishing and overseeing compensation programs, recommending to the board the compensation of directors who are not officers of the company, administering the company's **equity award stock option plans and options** and **restricted stock grants** ,furnishing an annual Compensation Committee Report on executive compensation and approving the filing of a Compensation Discussion & Analysis section.

Employee and Management Compensation

The Committee reviews the Company's salaried and management compensation practices, including the methodologies for setting employee and officer salaries, and fixes the salary and other compensation of all officers of the Company. The Committee also ensures that compensation is competitive and rewards performance, taking into account compensation levels and practices at comparable companies.

Compensation Plans and Programs

The Committee approves and recommends standards for the company's compensation programs and plans including various incentive compensation

Director Compensation

Caterpillar management periodically reviews with the Committee the status of independent director compensation relative to comparable companies scheme.

The liability for post-retirement medical scheme is based on an independent actuarial valuation.

TATA MOTORS

(i) **Gratuity**

The Company has an obligation towards gratuity, a defined benefit retirement plan covering eligible employees. The plan provides for a lump sum payment to vested employees at retirement, death while in employment or on termination of employment of an amount equivalent to 15 to 30 days salary payable for each completed year of service. Vesting occurs upon completion of five years of service. The Company makes annual contributions to gratuity fund established as trust. The Company accounts for the liability for gratuity benefits payable in future based on an independent actuarial valuation.(ii)

Superannuation

The Company has two superannuation plans, a defined benefit plan and a defined contribution plan. Employees who are members of the defined benefit superannuation plan are entitled to benefits depending on the years of service and salary drawn. The monthly pension benefits after retirement range from 0.75% to 2% of the annual basic salary for each year of service. The Company accounts for the liability for superannuation benefits payable in future under the plan based on an independent actuarial valuation. With effect from April 1, 2003, this plan was amended and benefits earned by covered employees have been protected as at March 31, 2003. Employees covered by this plan are prospectively entitled to benefits computed on a basis that ensures that the annual cost of providing the pension benefits would not exceed 15% of salary. The Company maintains a separate irrevocable trust for employees covered and entitled to benefits. The Company contributes up to 15% of the eligible employees' salary to the trust every year. The Company recognizes such contributions as an expense when incurred. The Company has no further obligation beyond this contribution.(iii)

Bhavishya Kalyan Yojana (BKY):

BKY is an unfunded defined benefit plan. The benefits of the plan accrue to an eligible employee at the time of death or permanent disablement, while in service, either as a result of an injury or as certified by the Company's Medical Board. The monthly payment to dependents of the deceased / disabled employee under the plan equals 50% of the salary drawn at the time of death or accident or a specified amount, whichever is higher. The Company accounts for the liability for BKY benefits payable in future based on an independent actuarial valuation.(iv)

Post-retirement Medicare Scheme

Under this scheme, employees get medical benefits subject to certain limits of amount, periods after retirement and types of benefits, depending on their grade and location at the time of retirement. Employees separated from the Company as part of Early Separation Scheme, on medical grounds or due to permanent disablement are also covered under the scheme. The liability for post-retirement medical scheme is based on an independent actuarial valuation.(v)

Provident Fund
The eligible employees of the Company are entitled to receive benefits under the provident fund, a defined contribution plan, in which both employees and the Company make monthly contributions at a specified percentage of the covered employees' salary (currently 12% of employees' salary). The contributions as specified under the law are paid to the provident fund and pension fund set up as irrevocable trust by the Company or to respective Regional Provident Fund Commissioner and the Central Provident Fund under the State Pension scheme. The Company is generally liable for annual contributions and any shortfall in the fund assets based on the government specified minimum rates of return or pension and recognizes such contributions and shortfall, if any, as an expense in the year incurred.(vi)

Compensated absences
The Company provides for the encashment of leave or leave with pay subject to certain rules. The employees are entitled to accumulate leave subject to certain limits, for future encashment. The liability is provided based on the number of days of unutilized leave at each balance sheet date on the basis of an independent actuarial valuation. Some other benefits advanced to the permanent employees are:
• Allowances like Transport allowance, Education allowance, Sanitation allowance, Leave and travel allowance etc.
• Annual Performance linked Payment
• Free Medical facility for family
• Company loans & advances

2.5 Let's Sum-up

While compensation experts burn the midnight oil working toward a competitive framework that will motivate employees and encourage their retention, the changing nature of business has offered highly talented people a variety of good, high-paying jobs. There are organizations in India currently moving toward being role-based organizations as opposed to designation-based, and are in the process of re-banding the roles, which means identifying the "level of impact" that similar roles may have on the organization and compensating them accordingly.
The biggest challenge in India is to identify the hot jobs (which, by the way, will keep changing depending on the direction the economy goes) and work toward a competitive compensation package customized for the most talented individuals possessing the hottest skills.
The second biggest challenge, in light of a population that will get older over the years, is to design innovative retirement schemes—for instance, providing options to allow them to set up a medium-sized business or a modern agriculture entity after retirement and not merely a guaranteed monthly pay.
The third biggest challenge will lie in balancing retirement benefits with the other salary components such as basic or variable pay, keeping in mind that employees today also are taking work-life balance very seriously and are not

considering the post-retirement time to offset years of work put in while in employment.

2.6 Key Terms

compensation, public sector, private sector, industrial enterprises

2.7 Self-Assessment Questions

2.8 Further Readings

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2. Bhatnagar, J. (2007). Talent management strategy of employee engagement in Indian ITES employees: Key to retention, Employee Relations, 29 (2007), pp. 640–663

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2.9 Model Questions

Unit-3

THE EMPLOYEE'S COMPENSATION ACT, 1923

Employee Compensation Act which was earlier known as Workmen Compensation Act which supports employee and its dependents in case of mis-happening with employee during course of employment. As per this act Employer is liable to compensate in case of death or personal injury resulting into total or partial disablement or occupational disease caused to an employee arising out of and during the course of employment. Employee in any capacity irrespective of his status or salary either directly or through contractor is covered under this Act. A person recruited to work abroad is also covered.

Act extends to the whole of India.

THE AMOUNT OF COMPENSATION

For the purpose of calculation of compensation:

- Monthly wage is subjected to ceiling of Rs. 8000/-;
- If monthly wage is less than minimum wage rate as specified by State Govt., in such case minimum wage as applicable to his category is considered as his wage rate;
- Monthly wage is average of last 12 months wages.

IN CASE OF DEATH:

For accidents resulting in death, an amount equal to fifty per cent of the monthly wages of deceased employee multiplied by the relevant factor based on the age of employee (Refer Schedule IV); or an amount of one lakh twenty thousand rupees, whichever is more.

Funeral expenses subject to a maximum of Rs. 5000.

IN CASE OF PERMANENT TOTAL DISABILITY:

For permanent total disablement, an amount equal to sixty per cent of the monthly wages of the injured employee multiplied by the relevant factor based on the age of employee (Refer Schedule IV); or an amount of one lakh forty thousand rupees, whichever is more.

IN CASE OF PERMANENT PARTIAL DISABILITY

Such percentage of compensation payable in case of PERMANENT TOTAL DISABILITY as determined with reference to the extent of loss of earning capacity caused by the injury (Refer Schedule I)

IN CASE OF TEMPORARY DISABILITY

A half monthly payment equal to 25% of the monthly wages, for the period of disablement or 5 years whichever is shorter.

CIRCUMSTANCES IN WHICH EMPLOYER IS NOT LIABLE TO PAY COMPENSATION FOR INJURY:

1. If the injury does not result in total or partial disablement for a period exceeding three days.
2. If the injury does not result in death which is caused by an accident which is directly attributed to:-
   (i) If an employee have been at the time thereof under the influence of drink or drugs;
   (ii) Disobedience of employee to an order expressly given, or to a rule expressly framed, for the purpose of securing the safety of employee; or
   (iii) Willful removal or disregard by employee of any safety guard or other device which he knew to have been provided for the purpose of securing safety of employee.

- Medical expenses to be met by the employer without any limit.

ESI CORPORATION AND EMPLOYEE COMPENSATION:

The liability of payment of compensation shifted from the employer to the Employees State Insurance Corporation.

CONTRACTING OUT:

Employee is prohibited from giving up his right to receive compensation from his employer under the Act. Any contract or agreement made by him relinquishing such right is null and void insofar as it removes or reduces the liability of any person to pay compensation under the Act.

(SCHEDULE I):
List of Injuries Deemed to Result in Permanent Total Disablement

Sr.	Description of Injury	% of loss of earning capacity
1	Loss of both hands or amputation at higher sites	100
2	Loss of hand and a foot	100
3	Double amputation through leg or thigh, or amputation through leg or thigh on one side and loss of other foot	100
4	Loss of sight to such an extent as to render the claimant unable to perform any work for which eye-sight is essential	100

5	Very severe facial disfigurement	100
6	Absolute deafness	100

List of Injuries Deemed to Result in Permanent Partial Disablement

Sr	**Description of Injury**	**% of Loss of earning Capacity**
1	Amputation through shoulder joint	**90**
2	Amputation below shoulder with stump less than 3[20.32] cm from tip of acromion	**80**
3	Amputation from 3[20.32] cms from tip of acromion to less than 3[11.43]cms below tip of olecranon	**70**
4	Loss of a hand or of the thumb and four fingers of one hand or amputation from 3[11.43]cms below tip of olecranon	**60**
5	Loss of thumb	**30**
6	Loss of thumb and its metacarpal bone	**40**
7	Loss of four fingers of one hand	**50**
8	Loss of three fingers of one hand	**30**
9	Loss of two fingers of one hand	**20**
10	Loss of terminal phalanx of thumb	**20**

10-A	Guillotine amputation of tip of thumb loss of bone	**10**
	Amputation Cases – Lower Limbs	
11	Amputation of both feet resulting in end bearing stumps	**90**
12	Amputation through both feet proximal to the metatarso phalangeal joint	**80**
13	Loss of all toes of both feet through the metatarso phalangeal joint	**40**
14	Loss of all toes of both feet distal to the proximal interphalangeal joint	**30**
15	Loss of all toes of both feet distal to the proximal interphalangeal joint	**20**
16	Amputation at hip	**90**
17	Amputation below hip with stump not exceeding 312.70 cms in length measured from tip of great treanchanter	**80**
18	Amputation below hip with stump not exceeding 312.70 cms in length measured from tip of great treanchanter but not beyond middle thigh	**70**
19	Amputation below middle thigh to 18.89cms below knee	**60**
20	Amputation below knee with stump exceeding 18.89cms but not exceeding 112.70cms	**60**

21	Amputation below knee with stump exceeding [1]12.70cms	**2[50]**
22	Amputation of one foot resulting in end bearing stump	**2[50]**
23	Amputation through one foot proximal to the metacarpophal-angeal joint	**2[50]**
24	Loss of all toes of one foot through the metacarpophal-angeal joint	**20**
	Other Injuries	
25	Loss of one eye, without complication, the other being normal	**40**
26	Loss of vision of one eye, without complications or disfigurement of eye-ball, the other being normal	**30**
226A	Loss of partial vision of one eye	**10**
	LOSS OF	
	A. Finger of right or left hand Index Finger	
27	Whole	**14**
28	Two phalanges	**9**
29	One phalanx	**9**
30	Guillotine amputation of tip without loss of bone	**5**

Middle Finger		
31	Whole	**12**
32	Two phalanges	**9**
33	One phalanx	**7**
34	Guillotine amputation of tip without loss of bone	**4**
Right or Little Finger		
35	Whole	**7**
36	Two phalanges	**6**
37	One phalanx	**5**
38	Guillotine amputation of tip without loss of bone	**2**
B. Toes of right or left foot		
Great Toe		
39	Through metatarso-phalngeal joint	**14**
40	Part, with some loss of bone	**3**

Any Other Toe		
4 1	Through metatarso-phalngeal joint	**3**
4 2	Part, with some loss of bone	1

SCHEDULE IV

FACTORS FOR COMPENSATIN AMOUNT IN CASE OF DEATH AND PERMANENT DISABLEMENT

Completed year of age	**Factor for Compensation**	**Completed Year Of age**	**Factor for Compensation**
not more than 16	**228.54**	**41**	**181.37**
17	**227.49**	**42**	**178.49**
18	**226.38**	**43**	**175.54**
19	**225.22**	**44**	**172.52**
20	**224.00**	**45**	**169.44**
21	**222.71**	**46**	**166.29**
22	**221.37**	**47**	**163.07**
23	**219.95**	**48**	**159.80**
24	**218.47**	**49**	**156.47**
25	**216.91**	**50**	**153.09**
26	**215.28**	**51**	**149.67**
27	**213.57**	**52**	**146.20**
28	**211.79**	**53**	**142.68**
29	**209.92**	**54**	**139.13**
30	**207.98**	**55**	**135.56**
31	**205.98**	**56**	**131.95**
32	**203.85**	**57**	**128.33**
33	**201.66**	**58**	**124.70**
34	**199.40**	**59**	**121.05**
35	**197.06**	**60**	**117.41**
36	**194.64**	**61**	**113.77**
37	**192.14**	**62**	**110.14**
38	**189.56**	**63**	**106.52**
39	**186.90**	**64**	**102.93**
40	**184.17**	**65 or more**	**99.37**

EXAMPLES OF COMPENSATION:

Examples 1 :

An employee whose age is 25 years and monthly wage is Rs 5,000/-.Wage of employee is Rs. 5,000/- which is less than MW Rate. We suppose MW Rate is Rs. 7,000/-. For the purpose of compensation, his wage is Rs. 7,000/-.

At age 25 years relevant factor as per Schedule IV is 216.91.

Compensation in case of death:

50% of monthly wages x relevant factor

=3,500 x 216.91

=7,59,185.00

Compensation in case of Permanent Total Disability:

60% of monthly wages x relevant factor

=4,200 x 216.91

=9,11,022.00

Compensation in case of Permanent Partial Disability:

(Suppose loss of thumb)

% (as per Schedule I) of Permanent Total Disability.

=30/100 x 91,022.00

=27,307.00

Compensation in case of Permanent Partial Disability:25% of monthly wages x 2 (twice in a month)=1,750.00 x 2=3,500.00 per month

Examples 2 :

An employee whose age is 35 years and monthly wage is Rs 15,000/-.Wage of employee is Rs. 15,000/- which is above ceiling of 8,000/-. For the purpose of compensation, his wage is Rs. 8,000/-.At age 35 years relevant factor as per Schedule IV is 197.06.

Compensation in case of death:50% of monthly wages x relevant factor

=4,000 x 197.06

=7,88,240.00

Compensation in case of Permanent Total Disability:

60% of monthly wages x relevant factor

=4,800 x 197.06

=9,45,888.00

Compensation in case of Permanent Partial Disability:

(Suppose loss of thumb)

% (as per Schedule I) of Permanent Total Disability.

=30/100 x 9,45,888.00

=2,83,766.00

Compensation in case of Permanent Partial Disability:

25% of monthly wages x 2 (twice in a month)

=2,000.00 x 2

=4,000.00 per month

<u>Examples 3 :</u>

An employee whose age is 61 years and monthly wage is Rs 2,000/-. Employment is non schedule and no minimum wage applicable.

Wage of employee is Rs. 2,000/-. For the purpose of compensation, his wage is Rs. 2,000/-.

At age 61 years relevant factor as per Schedule IV is 113.77.

Compensation in case of death:

50% of monthly wages x relevant factor

=1,000 x 113.77

=1,13,770.00

But minimum 1,20,000.00 is payable.

Compensation in case of Permanent Total Disability:

60% of monthly wages x relevant factor

=1,200 x 113.77

=1,36,524.00

But minimum 1,40,000.00 is payable.

Compensation in case of Permanent Partial Disability:

(Suppose loss of thumb)

% (as per Schedule I) of Permanent Total Disability.

=30/100 x 1,40,000.00

=42,000.00

Compensation in case of Permanent Partial Disability:25% of monthly wages x 2 (twice in a month)

=500.00 x 2

=1,000.00 per month

WHAT DOES ACCIDENT MEANS?

Any accident with employee while working will definitely fall under the definition of Accident under the act but there are some occasions which are doubtful hence below are some cases and verdicts by authority, sharing with you, which will help you to understand what does accident means under the act. Supreme Court in one of its verdict mentioned that there must be a casual connection between the injury and the accident AND the accident and the work done in the course of employment for entitlement of compensation under the act. Below are considered as accident and compensation is applicable:

- Employee falling in well while going to attend a call of the nature while on duty and died.
- Driver killed by co driver while taking company truck from one place to another.
- Employee got chest pain and died while on duty.
- Employee got died or permanent total disability while operating some one else machine.
- Accident of driver while vehicle was not moving.

THE PROCEDURE FOR CLAIMING COMPENSATION PAYABLE UNDER THE ACT:

1. An application for claiming compensation payable under the act has to be made to the Commissioner for Employee's Compensation in the prescribed form.
2. Before filing the application the Employee has to give notice of the accident to the employer containing the details of the accident.
3. Before filing the application the Employee has also to submit himself for medical examination if he is required to do so by the employer.
4. The application has to be made within 2 years of the occurrence of the accident or within 2 years from the date of death.
5. If any applicant is poor, the Commissioner may exempt him from paying the application fees.
6. The Commissioner can take the assistance of any person possessing special knowledge of any matter relating to the case for deciding the application.
7. The commissioner can recover the amount payable by any person under the Act as an arrear of land revenue.

FAQ

Q 1 : Whether contractual employee is eligible for claim under Employee Compensation Act?

Employee Compensation Act do not distinguish between types of employees- contractual, permanent, casual, daily wages and even employee working abroad- all types of employees comes under purview of this Act.

In case of contractual employee both contractor and principal employer are liable to pay compensation to employee in case of mishap defined in the act.

Q 2 : Can an employee or his dependent take claim under both ESI and Employee Compensation Act?

No, employee or his dependent can take claim under only one Act either ESI or Employee Compensation Act.

Q 3 : Can company take insurance policy to insure its liability under Employee Compensation Act?

Yes, there are insurance policies available to cover such liabilities and called WC-Workmen Compensation Policy (now EC- Employee Compensation). In case of any claim, insurance company need to pay the same to claimant.

Also commissioner can direct insurance company to pay claim as per Act even the claimant has claimed lesser amount.

Q 4 : Compensation calculation considering wage which is less than minimum wages of the state. Possible?

In one of the case, Karnataka High court has mentioned that in case employee wage is less than minimum wage of the state then minimum wage should be considered for calculation of Compensation.

Q 5: What type of events should be considered as Accident under the act?

Supreme court in one of its verdict mentioned that there must be a casual connection between the injury and the accident AND the accident and the work done in the course of employment for entitlement of compensation under the act.

Below are considered as accident and compensation is applicable:

- Employee fall in well while going to attend a call of the nature while on duty and died
- Driver killed by co driver while taking company truck from one place to another
- Employee got chest pain and died while on duty
- Employee got died or permanent total disability while operating some one else machine.
- Accident of driver while vehicle was not moving

Below are some examples which can not be considered as Accident under the act:

- Employee suicide in the premises.
- Employee found dead far from company premises during working hours.
- Killing of an employee by her husband at work place.

Q 6: Is there any time limit to claim Compensation?

As per act claim should be made within 2 years from the date of accident but Commissioner can entertain if he is satisfied with reason of delay.

Q 7: What is the time limit of compensation payment by employer?

It should be within one month else 12% interest on amount should be paid by employer apart from 50% penalty.

Q 8 : From which date compensation should be calculated?

Compensation should be calculated from the date of accident incurred.

Q 9 : Who has the onus to prove an accident?

Employee

Q 10 : Educational institute fall under Employee / Employee Compensation Act?

Yes