



Compensating Strategically

JNU-ABVSME - HR
Students



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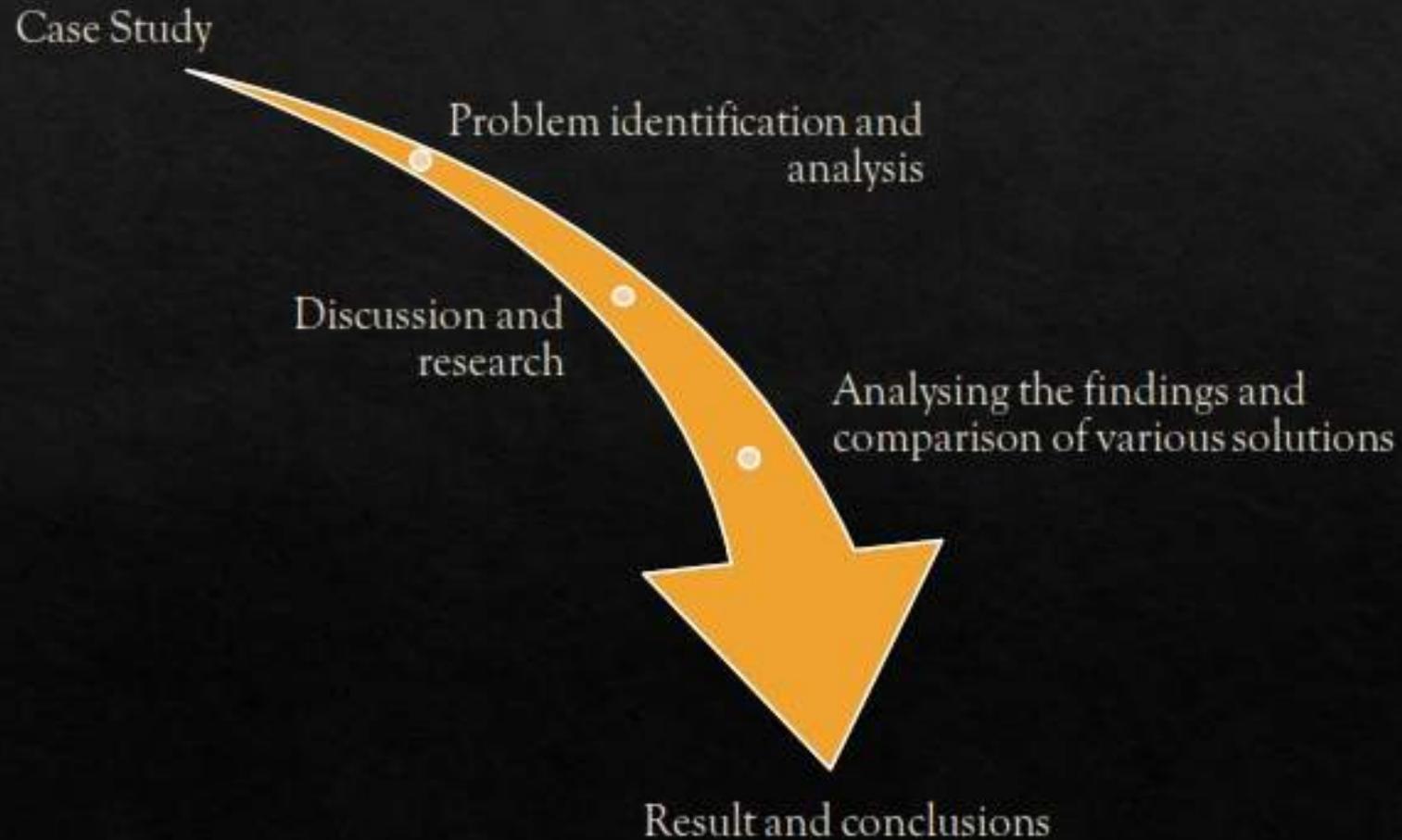
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Executive Summary and Briefing

- ◆ Case: the local Oreck vacuum store owned by Mr. Paulson, who classified himself as a super salesman and the store was always staffed by two employees: one full-timer with one part-timer to cover Paulson's two days off.
- ◆ An attempt to solve high turnover of staff out of which many were unsatisfied with the compensation model.

Executive Summary and Briefing

◆ Paulson actions and efforts included:

1. On job training
2. Compensation model with US\$500 week for full time employee along with 2.5% (over US\$7,000 a week) and US\$65 per day for part time employee with 2.5% of gross store sales over US\$1,000 per day they worked. Full time employees also got paid leaves and medical cover as extra benefit.
3. Employees allowed to have price flexibility at times if customer is going empty hand but cautioned not to drop the price too early or only after presentation got over. This is available on big items where the prices not listed.

Introduction

- ◆ Compensation.
- ◆ Equity and its impact on pay rates.
- ◆ Expectancy and its impact on pay rates.
- ◆ What a Good compensation plan can do to boost employee and organization productivity?
- ◆ If the compensation plan goes wrong, what pitfalls it brings to the organization?
- ◆ Indian White Good Industry: Where Rocket Singh makes all the difference.

Methodology

- ◆ Trend analysis of salaries of people working in retail and white good industry are given special focused when designing this compensation plan.
- ◆ By point Method of job evaluation, a table is designed (table no.) that contains all the compensable factors, their respective weightage and the degree of those factors are applicable for each position.
- ◆ Figures are generated in yearly compensation value which can then be divided into monthly figures. The final figure of each job position is then broken down again into fixed, variable and non-monetary compensation.
- ◆ Legal aspect where kept in mind when designing this breakdowns of compensations.
- ◆ IRS, found that Analytical or Quantitative methods were favored by 86 per cent of organizations.
- ◆ For this study, the researchers have used Point-rating method as it is one of the most commonly used methods and gives a more effective and efficient approach to the study

Analysis

- ◆ Job Evaluation System
- ◆ Non-analytical or Non-quantitative Methods:
 1. *Job Ranking Method*
 2. *Job Classification method*
- ◆ Analytical or Quantitative methods :
 1. *Factor comparison method*
 2. *Point-rating method*

Analysis

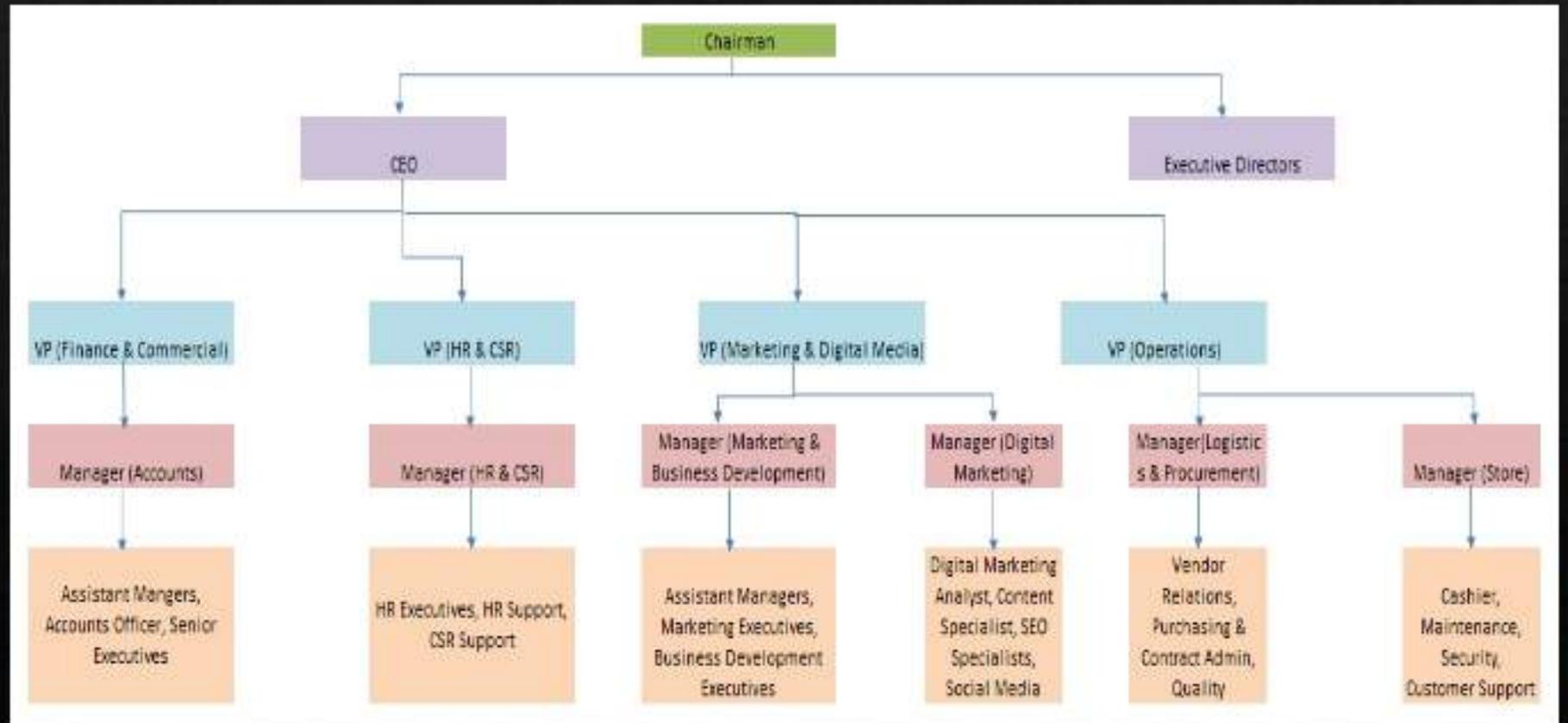
◆ Compensable Factors

Compensable Factors	Sub-Factors	Factor Weightage	Sub-factor Weightage	1st Degree	2nd Degree	3rd Degree	4th Degree	5th Degree
Skills		50						
	Education & Training (Qualification/Certification)		12	12	24	36	48	60
	Experience & Job Knowledge		24	24	48	72	96	120
	Innovative & Ingenuity		14	14	28	42	56	70
Effort		15						
	Physical Demand		10	10	20	30	40	50
	Mental or Visual Demand		5	5	10	15	20	25
Responsibility		20						
	Span of Control		6	6	12	18	24	30
	Role/Job Impact		7	7	14	21	28	35
	Consequences of error		3	3	6	9	12	15
	Job confidentiality		4	4	8	12	16	16
Job Conditions		15						
	Working Conditons		10	10	20	30	40	50
	Unavoidable hazards		5	5	10	15	20	25
Total		100	100	100	200	300	400	500

Analysis

◆ Organogram:

An Organogram or Org Chart is used to represent an Organization's structure graphically.



Analysis

◆ Compensation Calculation

Conclusion to award one point with 1500 INR to 1800INR depending on place of operation of the organization and its strategy.

Compensable Factors	Sub-Factors	Degree	Points
Skills			
	Education & Training (Qualification/Certification)	4th	48
	Experience & Job Knowledge	5th	120
	Innovative & Ingenuity	3rd	42
Effort			
	Physical Demand	1st	10
	Mental or Visual Demand	3rd	15
Responsibility			
	Span of control	3rd	18
	Role/Job Impact	3rd	21
	Consequences of error	2nd	6
	Job confidentiality	4th	16
Job Conditions			
	Working Conditons	1st	10
	Unavoidable hazards	1st	5
Total			311

Table 2: Job Evaluation of an Assistant Manger (Marketing)

Compensable Factors	Sub-Factors	Degree	Points
Skills			
	Education & Training (Qualification/Certification)	2nd	24
	Experience & Job Knowledge	3rd	72
	Innovative & Ingenuity	3rd	42
Effort			
	Physical Demand	1st	10
	Mental or Visual Demand	2nd	10
Responsibility			
	Span of Control	1st	6
	Role/Job Impact	3rd	21
	Consequences of error	1st	3
	Job confidentiality	2nd	8
Job Conditions			
	Working Conditons	2nd	20
	Unavoidable hazards	2nd	10
Total			226

Table 3: Job Evaluation of a Senior Executive

Analysis

◆ Compensation Breakdown

1. HRA depends on the city or place where the organization is and usably vary between 40% to 50% and provident fund at the least 10% of the basic pay as per current regulation.
2. Other components such as over time, statutory bonus and special supplementary pay or allowance, etc. can be included as and when required.
3. Some part of the salary component are further allotted for variable components in order to motivate the customer in both equity and expectancy perspective.
4. Some components can be reserved as refundable or have to claim type, such as medical or travel expenses in order to avoid un-necessary expenses and for other strategic reasons.

Assistant Manager		Senior Executive	
Fix Pay		Fix Pay	
A		A	
Basic Pay	25,000	Basic Pay	15,000
HRA	12,500	HRA	7,500
Provident/Pension		Provident/Pension	
*Over time		*Over time	
*statutory bonus		*statutory bonus	
*Special Supplementary Pay/Allowances		*Special Supplementary Pay/Allowances	
Variable		Variable	
B	5000~1000	B	3000~7000
Performance Base Compensation		Performance Base Compensation	
Competent base compensation		Competent base compensation	
Refundable/claime		Refundable/claime	
C	~5000	C	~3000
*Cafeteria Plan/flexible benefits plan		*Cafeteria Plan/flexible benefits plan	
Deduction		Deduction	
D		D	
Tax	*As per Regulation	Tax	*As per Regulation
Provident/Pension	2,500	Provident/Pension	1,500
Total		Total	
A+B+C-D		A+B+C-D	

Recommendations and conclusion

◆ Compensation system of an organization

There are four basic kinds of compensation in a compensation system:

1. base pay—typically a flat rate, either hourly wage or salary;
2. wage and salary add-ons—includes overtime pay, shift differential, premium pay for working weekends and holidays, and other add-ons;
3. incentive pay—also called variable pay. Incentives are pay for performance and commonly include piece work in production and commission sales;
4. benefits—indirect compensation that provides something of value to the employee.

Recommendations and conclusion

- ◆ Paulson's rationale for the compensation system using different theories.
 1. Expectancy theory: Employees are motivated when they believe they can accomplish a task and the rewards for doing so are worth the effort.
 2. Equity theory: People are motivated to seek social equity in the rewards they receive (outcomes) for their performance (input).

Recommendations and conclusion

- ◆ Effective compensation philosophy:
 - I. The purpose is to focus worker attention on the specific efforts the organization considers necessary to achieve its desired goals. However, if rewards are to be useful in stimulating desired behavior, they must also meet the demands of employees whose behavior they're intended to influence.
 - II. Compensation therefore affects the process of both attracting and of retaining employees.
 - III. The salary plus commission system accomplishes the goal set by Paulson.
 - IV. We do not know how much more product would be sold if:
 - I. commission was individually based;
 - II. set to a reasonable level where the expectation of earning a commission was high.
- ◆ Paulson does have the ability to pay more commission and/or add to the base salary of his workers if he chose to do so.

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Thank you