Establishing strategic pay plan

INTRODUCTION

The Companies Act, 1956 provides for a variety of companies of which can be promoted and registered under this Act. The three basic types of companies which may be registered under the Act are:

- Private companies;
- Public companies ; and
- Producer companies

PRIVATE COMPANY

Section 3(1)(iii), a private company means a company, which has a minimum paid up capital of one lakh rupees or such higher paid-up capital as may be prescribed , and by its articles: a) Restricts the right to transfer its share, if any) Limits the number of its member to fifty c) Prohibits any invitation to the public to subscribe for any share in , or debenture of the company d) Prohibits any invitation or acceptance of deposit from person other than its member, directors of their relative.

PUBLIC COMPANY

Section 3(1) (IV), public company means a company which: a) It not a private company; b) Has minimum paid –up capital of five lakhs rupees such higher paid – up capital as may be prescribed;) Is a private company which is a subsidiary of a company which is not a private company A public company may be said to be an association consisting of not less than 7 members, which is registered under this Act NOTE every public company existing on the commencement of the companies (Amendment)Act, 2000. with a paid-up capital of less than five lakh rupees, was required to within the a period of two year from such commencement, enhance its paid-up capital of five lakhs rupees.

Where a public company failed to do so such company was deemed to be Defunt Company within the meaning of section 560.

EMPLOYEE STOCK OPTION SCHEME (ESOS)

Employee Stock Option Scheme means the option given to the Whole Time Directors, Officers and Employees of the Company which gives them a right or benefit to purchase or subscribe the securities offered by the Company at a predetermined price at a future date. THE MINIMUM WAGES ACT, 1948 ACT NO. 11 OF 1948 1* 15th March, 1948.] An Act to provide for fixing minimum rates of wages in certain employments. The Minimum Wages Act, 1948 is designed to " prevent exploitation of the workers and for this purpose it aims at fixation of minimum rate of wages which the employer must pay " The minimum rate of wages fixed or revised may consist of the basic rate of wages to be adjusted according to the variations in the cost of living index number (cost living allowance).

It also includes house rent allowance. The Payment of Wages Act 1936 – according , all organisation employing less than one thousand employees must pay the wages before expire of the seventh day after the last day of wages period and before the expiry of the tenth day in case it employs thousand or more employees . all payment must be made on working days . n case of terminated employees all wages earned by them shall be paid before the expire of the second working day from the day employment is terminates. All wages must be paid in current coin or currency or by cheque or credit in the bank by prior authorisation.

FIXING OF MINIMUM RATE OF WAGES.

Fixing of minimum rates of wages. -) fix the minimum rates of wages payable to employees employed in an employment specified in Part I or Part II of the Schedule and in an employment added to either Part by notification under section 27: Provided that the appropriate Government may, inrespectof employees employed in an employment specified in Part II of the Schedule, instead of fixing minimum rates of wages under this clause for the whole State, fix such rates for a part of the State or for any specified class or classes of such employment in the whole State or part thereof; b) Review at such intervals as it may think fit, such intervals not exceeding five years, the minimum rates of wages so fixed and revise the minimum rates, if necessary: Concepts of Wages: While evolving, wage policy, three concepts of wages, viz, I) minimum wages, ii) fair wages, iii) living wages are generally considered.

These are broadly based on the needs of workers, capacity of the employee to pay, & the general economic conditions prevailing in a country. Minimum WageMinimum wage is one which provides not merely for bare sustenance of life, but also for the preservation of the efficiency of worker. For this purpose, the minimum wage must also provide for some measure ofeducation, medical requirements & amenities. Fair Wage Fair wage is understood in two ways. In a narrow sense, wage is fair if it is equal to the rate prevailing in the same trade & in the neighbourhood for similar work. In a wider sense, it will be fair if it is equal to the predominant rate for similar work throughout the country. Living Wage Living wage is a step higher than fair wage.

Living wage may be described as one which would enable the wage earner to provide for himself/herself & his/herfamilynot only the bare essentials of life likefood, clothing, & shelter, but a measure of frugal comfort including education for children; protection against illhealth; requirements of essential social needs; &/or measure of insurance against the more important misfortunes including old age.

WHAT IS COMPENSATION?

Compensation may be in the form of financial returns, tangible services, and benefits received by employees as part of their employment. It does not include other forms of rewards such as recognition and interpersonal relationships etc.

Extrinsic Rewards are rewards that an employee receives because of the job itself, including cash compensation, benefits, promotions and job security. Intrinsic rewards come from the workenvironmentand are valued internally by the employee. Job satisfaction, self-esteem, achievement, growth, and professional and personal development are some examples of intrinsic rewards.

COMPONENTS OF COMPENSATION SYSTEM

Compensation systems are designed keeping in minds the strategicgoalsand business objectives. Compensation system is designed on the basis of certain factors after analyzing the job work and responsibilities. Components of a compensation system are asfollows:

TYPES OF COMPENSATION

Compensation provided to employees can direct in the form of monetary benefits and/or indirect in the form of non-monetary benefits known as perks, time off, etc. Compensation does not include only salary but it is the sum total of all rewards and allowances provided to the employees in return for their services. If the compensation offered is effectively managed, it contributes to high organizational productivity. •Direct Compensation •Indirect Compensation Compensation Strategy Strategic compensation is determining and providing the compensation packages to the employees that are aligned with the business goals and objectives.

In today's competitive scenario organizations have to take special measures regarding compensation of the employees so that the organizations retain the valuable employees. The compensation systems have changed from traditional ones to strategic compensation systems. OR Compensation Strategy is the organization's plan for how compensation decisions on the types and amount of pay are made, based on the interests of the employees and keeping with the organization's mission and competitive position in the market.

COMPENSATION POLOCIES

A compensation policy provides general guidelines for making compensation decisions. Some employees may perceive their firm's compensation policies as being fair and unbiased and other may have different opinions.

The result of these perceptions may well have an effect an employee's perception of fairness and result in lower productivity or turnover. Pay leaders. Pay leaders are organizations that pay higher wages and salaries than competing firms. Using this strategy, they feel that they will be able to attract high-quality, productive employees and thus achieve lower per-unit labor costs. Market Rate: it is the average pay that most employers provide for a similar job in a particular area or industry. Pay followers: companies that choose to pay below the going rate because of a poor financial condition or a belief that they do not require highly capable employees Labor Market is the geographical area from which an organization recruits employees and where individuals seek employment .

Market Rate is the rate of pay established for a " benchmark job" outside of the organization. It is determined though the collection of pay data gleaned from surveys of numerous organizations Forms of Pay Base Pay is compensation based on time worked, such as an annual salary or an hourly wage and it does not include pay benefits, overtime or incentive pay Performance Pay is a monetary onetime payment made to an employee, team or the whole organization for achieving results established at the beginning of a performance cycle . Merit Pay is a monetary reward given in recognition of outstanding performance which increases base pay. It may be paid in a lump-sum or added incrementally to base pay.

Indirect Pay is part of an employee's total compensation package, non-cash items or services provided to employees in return for their contribution to the organization (i. e. , health benefits, paid time off). Sometimes the costs for the items are shared by the PAY STRUCTURE Once job analysis has been done organizations need to decide upon the pay structures. Pay structure refers to the process of setting up the pay for a job in an organization. The process deals with internal and external analysis to estimate the compensation package for a job profile. Internal equity, External equity and Individual equity are the most popular pay structures. Job description provides the in depth knowledge about the job profile and its worth. Pay structures are the strong determinant of employee’s value in the organization.

It helps in analyzing the employee’s role and status in the organization. It provides for fair treatment to all employees. Pay structures also include the estimation of incentives. The level of incentives also depends on the level of job position in the organizational hierarchy. •Internal Equity The internal equity method undertakes the job position in the organizational hierarchy. The process aims at balancing the compensation provided to a job profile in comparison to the compensation provided to its senior and junior level in the hierarchy. The fairness is ensured using job ranking, job classification, level of management, level of status and factor comparison. •External Equity

Here the market pricing analysis is done. Organizations formulate their compensation strategies by assessing the competitors’ or industry standards. Organizations set the compensation packages of their employees aligned with the prevailing compensation packages in the market. This entails for fair treatment to the employees. At times organizations offer higher compensation packages to attract and retain the best talent in their organizations. Motivationis the activation of an energized goal-oriented behavior. It is seen not only humans, but even animals show a level of motivation to achieve their goals. People with a vision always control their destiny and the life they live.

If a person is without a vision in life, he or she is controlled by the will of others and end up living a life not their own, but one that is on terms dictated by others. Everyone takes up a job as they are motivated by some factor or the other. Some are motivated by the challenge they will face in carrying out their job, some are motivated by the level of fame they may earn, others and majority of people are motivated by themoneythey will earn. The last factor plays a major role in making or breaking a company. People will work better when they are motivated enough with the pay scale, the incentives and the perks they are offered in return of a job well done. Introduction to Equity Theory

Equity theory helps propose the idea about individuals who think of themselves as over-rewarded or under-rewarded. These individuals will experience distress that tries to restore balance. Equity thus measures the contributions and benefits earned by each individual. It is not necessary one need to put in exactly the same contribution as the other partner, as long as there is a balance between contributions and benefits. Thus, every individual employee feels his contribution and work needs to be rewarded with equal pay. If the individual feels underpaid, s/he will come under distress and feel hostile towards the company. To avoid this feeling of hostility, equity theory comes into play. What is Equity?

When individuals think their inputs are rewarded according to their outputs and are equal to others around them, they are satisfied. But when they notice others are getting more recognition and rewards, in spite of doing the same amount of work, they become dissatisfied. This leads to feelings of unworthiness and under-appreciation. This is the opposite of equity, wherein the outcome (rewards) are directly proportional to the quality and quantity of work of the employee. When all employees are rewarded equally, the general feeling about the organization becomes fair and appreciable. The following equation will help explain what equity is in a clear and concise manner:

Individual’s outcome = rational partner's outcome Individual’s own input rational partner's input Equity Theory Examples As the main focus of the researchers moved towards employees and their motivation factors, following the Hawthorne Study results, there were many theories put forward to understand employee motivation. The following are the five major equity theory examples that have helped in understanding motivation. Maslow's Need-Hierarchy Theory: Maslow put forward five levels of needs of employees. These needs included physiological, safety, ego and self-actualizing.

Maslow put forward an argument that said the lower level needs of employees need to be satisfied before the next higher level need is fulfilled to motivate them. The motivation was categorized into factors by Herzberg; motivators and hygiene. The motivators including intrinsic factors like achievement and recognition help produce job satisfaction. The hygiene or extrinsic factors like pay and job security lead to job dissatisfaction. Vroom's Theory: This theory was based on the belief that employee effort leads to performance and performance leads to rewards. These rewards can be positive or negative. The positive rewards lead to a more positive employee ho is highly motivated. The negative rewards lead to obviously a less motivated employee. Skinner's Theory: This theory states that the positive outcomes will be repeated and behaviors that lead to negative outcome won't be repeated. Thus, managers should try to reinforce the employee behavior, such that it leads to positive outcomes. Negative reinforcement by managers will lead to negative outcomes. Adam's Equity Theory Model: This theory shows that employees strive to achieve equity between themselves and their coworkers. This equity can be achieved when the ratio of employee outcomes over inputs is equal to other employee outcomes over inputs.

Application of Equity Theory of Motivation When a manager is striving to achieve employee satisfaction, motivation levels, etc. then he should consider Adam's Equity Theory. Therefore, he should consider the balance and imbalance that is seen in the inputs and outputs of the employee. When we talk about equity theory, we use the terms input and output. An input is the contribution made on the part of the employee. This input helps determine his/her reward or pay. Some of the inputs made by an individual towards his/her organization include:

- Ability to do his/her job
- Adaptability around the company environment
- Flexibility
- Tolerance
- Determination Enthusiasm to complete a task or job
- Commitment towards his/her work and organization
- Hard work
- Loyalty
- Time given to the company
- Efforts take to complete tasks as required

- Personal sacrifice
- Trusting superiors when it comes to delegation and management
- Support given and taken from colleagues Outputs are the tangible and intangible rewards or pay given to an individual based on his/her inputs. These outputs include:
- Salary received in accordance to company policy, experience and work done
- Job security
- Employee benefits
- Recognition for work done
- Responsibilityentrusted upon an individual
- Praise received Examining Equity

The process of assessing internal equity can serve to highlight many organizational problems. First compensation philosophies need to be identified and examined for fit with internal equity adjustment plans. Next, managers need to know whether the organization has the funds to implement such a plan. Questions that managers may need to consider are

- Is the pay structure properly defined or is it inadequate? • What are employees making in comparison to those with identical skills and equally important experience?
- How are employees compensated for internally developed experience versus external experience brought with them to the organization?
- Is length of service valued? What is the turnover rate and what, if any, impact does internal equity have on it?

- Is the organization unable to attract candidates to a position because it cannot maintain market-competitive salaries?
- Has the organization needed to increase compensation for a position, resulting in it being higher paid than the same type of jobs with more skills or responsibilities, thus throwing salaries out of alignment?
- Does the organization have consistent hiring and promotion practices?

ESTABLISHING STRATEGIC PAY PLANS STEP

1 SALARY SURVEY SALARY SURVEY Organizations have to bridge the gap between the industry standards and their salary packages.

They cannot provide compensation packages that are either less than the industry standards or are very higher than the market rates. For the purpose they undertake the salary survey. The Salary survey is the research done to analyze the industry standards to set up the compensation strategy for the organization. Organizations can either conduct the survey themselves or they can purchase the survey reports from a reputed research organization. These reports constitute the last 2-5 years or more compensation figures for the various positions held by the organizations. The analysis is done on the basis of certain factors defined in the objectives of the research. Uses of salary survey

Salary surveys are a consultative tool that employers and associations use to obtain salary information that is useful in determining the competitive wage rates needed to attract and retain competent employees. Employers can use surveys in different ways; as well as establishing a competitive salary structure, they can use the surveys to support their job evaluation system. When job evaluation and survey data are used jointly, internal and external equity are mutually reinforced. The focus of surveys tends to be on collecting base salary information and they can also be an effective means of researching trends in the design of benefits packages and pay systems. This explains how to identify salary surveys which are relevant to the needs of organizations within the not-for-profit sector, and specifically within community-based agencies.

It also provides information on the meaning of some survey terms and discusses the value of survey participation.

Objectives of Salary Survey:

- To gather information regarding the industry standards
- To know more about the market rate i. e. compensation offered by the competitors
- To design a fair compensation system
- To design and implement most competitive reward strategies
- To benchmark the compensation strategies

Commercial, Professional and Government Salary Surveys BLS gives:

- Area wage surveys
- Industry wage surveys
- PATC surveys Private consultants Hay Associates, Heidrickand Struggles, and Hewitt Associates publish data covering compensation for top and middle management

Types of Compensation Surveys

There are two types of compensation surveys undertaken by the organizations. •Standard Surveys Standard surveys are undertaken by organizations on a regular basis. These surveys are conducted annually based on the organizational objectives. These surveys attempt to cover the same companies every year and provide the same time of analysis. The reports are published annually by the research organizations. The organizations willing to formulate their compensations strategies based on the surveys purchase the reports from the research organization. •Custom Surveys At times, a few organizations need to know some specific information.

The surveys which cater this need are known as custom surveys. The organizations either higher research organizations to conduct theses surveys for them or they themselves conduct the survey by sampling few of the competitors on their own. These surveys do not have any time interval. They are undertaken as the need arises. Survey Reports The survey reports consist of the analysis and conclusion drawn from the evaluative data based on the objectives of the study. The reports also include the data, facts and figures to support the analysis and conclusion. The supportive data and annexure provided in the report form the basis for the un-biased conclusion and validation of the analysis.

BENCHMARK JOBS

A benchmark job is one well-known in the company industry and one performed by a large number of employees. In addition to surveys, there are other ways to obtain compensation data. Some professional organization periodically conducts survey, as do several industry associations. The compensation Survey contains pays and benefits information. Compensation data are presented by worker traits and by characteristics of the establishment. The survey attempts to respond to common question from employers such as: What is the average salary for administrative assistants in my area? How have wage cost changed over the past year? How Have benefit cost, and specially health care cost, changed over the past year?

What is the average employer cost for a benefit plan as opposed to a defined contribution plan? Useful Online Sources for Collecting and Analyzing Salary Survey Data This section lists websites which can be useful for managers in community-based organizations in Canada who are seeking salary survey data that is already published or available by subscription or who wish to conduct or commission a survey. Some sites offer information at no cost. Others require payment.

- Canadian Society of Association Executives (CSAE) at www. csae. com
- Economic Research Institute at www. erieri. ca; and, www. salariesreview. com
- Human Resources Internet Guide at www. hr-guide. com
- Peter T. Boland & Assoc. Inc. at http://ptbaconsulting. com/NonProfitSurvey. html
- Statistics Canada’s Labour Force Surveys are available at www. statcan. ca
- Toronto Board of Trade at www. bot. com
- Vault Employer Research at www. vault. com

STEP 2 JOB EVALUATIONS JOB EVALUATION

Job Evaluation involves determination of relative worth of each job for the purpose of establishing wage and salary differentials. Relative worth is determined mainly on the basis of job description and job specification only.

Job Evaluation helps to determine wages and salary grades for all jobs. Employees need to be compensated depending on the grades of jobs which they occupy.

Remuneration also involves fringe benefits, bonus and other benefits. Clearly remuneration must be based on the relative worth of each job. Ignoring this basic principle results in inequitable compensation. A perception of inequity is a sure way of de-motivating an employee. Job evaluation is a process of analyzing and assessing the various jobs systematically to ascertain their relative worth in an organization. Jobs are evaluated on the basis of content, placed in order of importance. This establishes Job Hierarchies, which is a purpose of fixation of satisfactory wage differentials among various jobs. Jobs are ranked (not jobholders) Scope of Job Evaluation

The job evaluation is done for the purpose of wage and salary differentials, demand for and supply of labour, ability to pay, industrial parity, collective bargaining and the like. Methods of Job Evaluation Analytical Methods Point Ranking Methods: Different factors are selected for different jobs with accompanying differences in degrees and points. In the point method, rates assign numerical values to specific job factors, such as knowledge required and the sum of these values provides a quantitative assessment of a job’s relative worth. We will walk though an example of how the point method works. Select job Cluster Let us assume that we are going to develop a point system for an administrative job cluster.

Identify Compensable Factor

The next selects the factors for measuring job value. These factors become the standards used for the evaluation of jobs. Determine Degrees and Define each compensable Factors The next consideration is to determine the number of degrees for each compensable job factor. Degrees represent the number of distinct level associated with a particular factor. The number of degrees needed for each factor depends on job requirements. If a particular cluster required virtually the same level of formal education fewer degrees would be appropriate than if some jobs in the cluster required advanced degrees. Evaluator must divided each factor into number of degrees. Determine Factor Weights

The committee must then establish factor weights according to their relative importance in the job to be evaluated. In our example let us example let us assume that the committee believes that education is quite important for the administrative job cluster and sets the weight for education at 35 percent. The weight of the other four factor were determined by the committee: Job Knowledge-25; Contact – 18; Complexity of duties - 17; and Initiate – 5. The percent total is 100 percent. Determine Factor Point Values The committee than determines the total number of point for the plan. The number may vary, but 500 or 1, 000 points may work well. Our committee has determined that 500- point system will work fine Job Evaluation Worksheet (500-Point System) Job Factor | Weight | 1 | 2 | 3 | 4 | 5 | | Education | 35% | 35 | 70 | 105 | 140 | 175 | | Job Knowledge | 25% | 25 | 50 | 75 | 100 | 125 | | Contacts | 18% | 18 | 36 | 54 | 72 | 90 | | Complexity of Duties | 17% | 17 | 51 | 85 | | | | Initiative | 5% | 5 | 10 | 15 | 20 | 25 | Factor Comparison Method: The important factors are selected which can be assumed to be common to all jobs. Each of these factors are then ranked with other jobs. The worth of the job is then taken by adding together all the point values. Non-Analytical

Methods Ranking Method: Jobs are ranked on the basis of its title or contents. Job is not broken down into factors etc. Job Grading Method: It is based on the job as a whole and the differentiation is made on the basis of job classes and grades.

In this method it is important to form a grade description to cover discernible differences in skills, responsibilities and other characteristics. Compensable Factors are the most important characteristics of a given job, on which pay rates are established and relative worth evaluated. They are determined by their ability to further an organization's strategy and relate directly to the work itself. The four major criteria most often used to measure jobs are skill, effort, responsibility and working conditions. Job Evaluation Process: The job-evaluation process starts with defining objectives of evaluation and ends with establishing wage and salary differentials Objectives:

The main objective of job evaluation, as was studied earlier, is to establish satisfactory wage and salary differentials. Job analysis precedes the actual programme of evaluation. Job Analysis: It provides job-related data which would be useful in drafting job description and job specification. Job description provides the information relating to duties and responsibilities. Job specification provides information relating to the minimum acceptable quality of an employee Job Evaluation A job-evaluation programme involves answering several questions. The major ones are: i. Which jobs are to be evaluated? ii. Who should evaluate the job? iii. What training do the evaluators need? iv.

How much time is involved? v. What should be the criteria of evaluation? vi. What methods of evaluation are to be employed? Wage Survey: Now that the job hierarchy has been established with the help of evaluation methods, it is time to fix wage and salary differentials. Before fixing such differentials, the wage rate must be ascertained. It is here that wage survey assumes relevance. Employee Classification: The last phase in the job evaluation process is to establish classification. Employee classification is the process of assigning a job title to every employee in the organization. Computerized Job Evaluations:

- Other methods can be time consuming CAJE or computer automated job evaluation streamlines things
- Simplifies job analysis
- Increases objectivity
- Manages data
- Uses structured questionnaire and statistical models

STEP 3 GROUP SIMILAR JOB PAY GRADE

A pay grade is comprised of jobs of approximately equal difficulty or importance as established by job evaluation.

- Point method: the pay grade consists of jobs falling within a range of points.
- Ranking method: the grade consists of all jobs that fall within two or three ranks.
- Classification method: automatically categorizes jobs into classes or grades Pay Structure

Pay Structure is a hierarchy of jobs within an organization. Jobs are ranked based on content and value to the organization.

The pay structure includes all the pay rates for different jobs within a single organization, factoring in the number of pay grades/levels with or without ranges, differences between grades/levels, and the criteria used to determine the differences. Pay Grade Pay Grade is a grouping of jobs of the same or comparable value to the organization. Each job within a pay grade will have the same pay range – minimum, midpoint, maximum. Movement to another grade is through promotions or demotions. Pay Range Pay Range is the upper and lower limit of pay rates to be paid for jobs in a pay grade, from minimum to maximum. Movement through a pay range is a result of experience, seniority, training, etc. Broad banding Broad banding is the condensing of multiple salary grades into several broad and wide ranging grades.

Benchmark (or key) job is a standard job from either within the organization or outside the organization used as a reference point for pay comparisons. These jobs have relatively the same job content and there is not much difference in their rates of pay. Hierarchy (or Job Structure)is a ranking of jobs based on their value to the organization

STEPS 4 PRICE EACH PAY GRADE THE WAGE CURVE

The relationship between the relative worth of jobs and their wage rates can be represented by mean of a wage curve. This curve may indicate the rates currently paid for jobs within an organization, the new rate resulting from job evaluation, or the rates for similar jobs currently being paid by other organizations within the labor market..

A curve may be constructed graphically by preparing a scatter gram consisting of a series of dots that represent the current wage rate Developing a wage curve involves the following:

- Find the average pay for each pay grade
- Plot the pay rates for each pay grade
- Fit the line called a wage line through the points just plotted
- Price the jobs

STEP 5 FINE TUNE PAY RATE

Correcting Out-of-Line Rates

The wage rate for a particular job may fall well off the wage line or well outside the rate range for its grade, as shown. This means that the average pay for that job is currently too high or too low, relative to other jobs in the firm. You should raise the wages of underpaid employees to the minimum of the rate range for their pay grade. PAY RANGES A grade is a horizontal grouping of different job that are considered substantially equal for pay purpose ? Grades enhance an organization ability to move people among jobs within a grade with no change in pay. ? The objective is for all the jobs that are similar for pay purpose to be placed within the same grade ? How many pay grades? A. Number of Jobs B. Organization hierarchy C. Reporting Relationships ? Pay ranges refer to the vertical dimension of the pay structure ? Each pay grade will have associated with it a pay range consisting of a midpoint and a specified maximum and minimum. ? Midpoints correspond to the competitive pay policy. ? Midpoints are the control point of range. The midpoints represent base pay for a seasoned employee. ? The midpoint can be determined as soon as the pay grade limit are set. ? Find the Job Evaluation point value in the centre of the pay grade. ? Substitute that point value for x in your equation of the pay line ? Solve the equation for Y. this value is the midpoint of the range. Range spread is a based on some judgement about how the ranges supportcareerpath, promotions & other organization system. Range spreads vary between 10 to 150 percent. Once the midpoint (based on the pay policy line) and range spread (based on Judgement) are specified, minimum & maximum are calculated Minimum = midpoint / [1+ (1/2 range spread)

Maximum = Minimum + [range spread x Minimum] Pay ranges are a series of steps or levels in a pay grade, usually based on years of service Sample pay grade schedule PRING MANAGERIAL AND PROFESSIONAL JOBS What Determines Executive Pay? • CEO pay is set by the board of directors taking into account factors such as the business strategy, corporate trends, and where they want to be in the short and long term. • CEOs can have considerable influence over the boards that determine their pay. • Firms pay CEOs based on the complexity of the jobs they fill. • Shareholder activism and government oversight have tightened the restrictions on what companies pay top executives. Boards are reducing the relative importance of base salary while boosting the emphasis on performance based pay. Compensating Professional Employees • ‡ Compensating professional employees, like engineers and scientists, presents unique problems. • ‡Analytical jobs like these emphasize creativity and problem solving, compensable factors not easily compared or measured. • Determining professional compensation presents another question?? how is ? performance? to be defined and measured? ‡ • Compensable factors focus on problem solving, creativity, job scope, and technical knowledge and expertise. ‡ • Firms use the point method and factor comparison methods, although job classification is most popular.

COMPENSATING BASED PAY MEANING

Competency--based pay means the company pays for the employees range, depth, and types of skills and knowledge, rather than for the job title he or she holds. Experts variously call this competency -, knowledge--, or skill - based pay. Why Use Competency—Based Pay? [pic] Competency--Based Pay in Practice Main elements of skill/competency/knowledge based pay programs: 1. A system that defines specific skills 2. A process for tying the person's pay to his or her skill 3. A training system that lets employees seek and acquire skills 4. A formal competency testing system 5. A work design that lets employees move among jobs to permit work assignment flexibility [pic] ---- 10 9. 0 8. 0 7. 0 WAGE RATES 100 200 300 400 POINT VALUE OF JOBS Salary Survey FACTOR COMPARISONRATE Extrinsic Reward Intrinsic Reward Compensation JOB RANKING INTERNAL EQUITY POINT SYSTEM JOB CLASSIFICATION ORGANISATIONAL FAIRNESS MARKET RATE INDUSTRY STANDARDD COMPETITORS RATE EXTERNAL EQUITY Determine Degrees and Define each compensable Factors Identify Compensable Factor Select job Cluster Determine Factor Point Values Determine Factor Weights Validate Point System Object of Job Evaluation Job Specification Job Analysis Job Description Job Evaluation Programme

Wage Survey Employee Classification ESTABLISHING STRATEGIC PAY PLAN Job Evaluation Pay grade grouping Price Pay Grade- Wage Curve Fine--Tune Pay Rates Tune Rates Compensating Executives And Managers BASIC PAY

Short-term Incentives Long– term Incentives Executive Benefits/perks Competency-Based Pay Supports High-Performance Work Systems Strategic Aims Performance Management