

# Compensating Strategically

Mapping compensation for retail white good industry: A compensation plan that pays



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## Foreword



Once again, the authors have hit on compelling research to understand what it takes to be successful. This report is a piece of strong evidence that growing one's need to learn leads to more remarkable results. This consulting report has proven to help bridge the gap between academic perspective and pragmatic requirements.

This report's real value is the wealth of practical advice it offers to assess the organization's strategy and devise an operational plan to achieve it. The report will allow readers to understand the concept of compensation, why it matters, and offer advice on developing a fair compensation structure that can boost employee morale and productivity while contributing to the organization's overall health.

The report utilizes a systematic study to design a compensation plan that is robust and applicable to all levels in an organization. A thorough analysis followed by adapting the case in hand to India's white goods industry to devise the compensation plan. The report is structured to give elements to tailor-made a strategic compensation plan to fulfill employees' needs and wants.

Students have drawn from insightful discussions to offer practical advice on a critical strategic area through reading and a learning model. The report provides many insights that are highly actionable for the readers.

I congratulate once again, the students who strive to get the most out of every moment, every day.

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## Contents

Executive summary .....	6
Acknowledgment.....	7
Brief about Case .....	8
Compensation model.....	9
INTRODUCTION.....	10
What is Compensation? .....	10
Equity and its impact on pay rates .....	10
Expectancy and its impact on pay rates .....	11
What a Good compensation plan can do to boost employee and organization productivity. ....	11
If the compensation plan goes wrong, what pitfalls it brings to the organization. ....	11
Indian White Good Industry: Where Rocket Singh makes all the difference .....	12
METHODOLOGY.....	14
ANALYSIS.....	15
Job Evaluation System.....	15
Non-analytical or Non-quantitative Methods .....	15
Job Ranking Method .....	15
Job Classification method.....	15
Analytical or Quantitative methods.....	15
Factor comparison method.....	15
Point-rating method.....	16
Compensable Factors.....	16
Skills.....	18
Effort .....	18
Responsibility .....	18
Job Condition.....	18
Organogram.....	18
Compensation Calculation.....	20
Compensation Breakdown.....	24
Fixed Components.....	24
Special Supplementary Pay/Allowance.....	24
Variable Components.....	24
Refundable or Claimable components.....	24
Deduction.....	25
Legal Aspects to consider.....	26

<b>Minimum Pay</b> .....	26
<b>Insurance and provident or pension fund</b> .....	26
<b>RECOMMENDATIONS AND CONCLUSIONS</b> .....	27
<b>Compensation system of an organization</b> .....	27
<b>Case study of Paulson's store</b> .....	27
<b>Recommended basic practices in big retail chain</b> .....	28
<b>References</b> .....	29

## **Executive summary**

This report utilized our acquired knowledge of compensation to map a compensation plan for Indian White Good Industry. The basis of this report is a case study followed by a class discussion which looks into the compensation model for sales employees at a vacuum store, with differences in compensation for full-time and part-time employees. In this case, the local Oreck vacuum store was 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. The full-time employee worked six days, 48 hours per week (including Saturdays and Sundays), with the part-time employee working only on the weekend. Full-time employees received a straight salary of \$500 a week plus benefits (complete medical and dental coverage, two weeks' paid vacation, no sick or personal days, unpaid holidays when available). They earned a commission of 2.5% of gross store sales over \$7,000 a week. Part-time employees received \$65 a day plus a commission of 2.5% of gross store sales over \$1,000 per day they worked, and they received no benefits. Store revenue generally ran about \$6,500 for the week with a 20% net profit margin. Several ex-employees indicated that the owner put excessive pressure on selling products and services to the customers. (Sherman & Vallas, 2016)

The idea was to indigenize the case to suit the Indian context, and hence, a thorough literature review for the Indian White Good Industry was carried out. To decipher the concept of compensation in a holistic manner, the report talks about what compensation means and the theories (Equity Theory and Expectancy Theory) associated with it reveal behind the concept of compensation. The report also entails what pitfalls a wrong compensation plan can bring to an organization and how a good compensation plan can boost employee morale and productivity.

The knowledge of compensation allowed us to chart a suitable compensation plan to fit the Indian White Goods Industry. After understanding and analyzing various compensable factors, the compensation plan was made, which then were assigned requisite weights to map the entire pay structure for the employees. The compensable factors have been analyzed at length in this report. Some of the factors include skills, job condition, responsibility, etc. The report concludes by making recommendations on vital compensable factors based on the in-depth analysis of each factor. The report will allow readers to understand the concept of compensation, why it matters, and how we can develop a fair compensation structure that boosts employee morale and productivity while contributing to the organization's overall health.

## **Acknowledgment**

The success and outcome of this study required a lot of guidance and assistance from many people, and we are extremely privileged to have got this all along with the completion of our paper. We could do all that we have done only due to such supervision and assistance, and we would not forget to thank them.

We are immensely thankful to our course coordinator, *Dr. Shachi Yadav*, for providing us the opportunity to develop this paper. Her continuous guidance, encouragement, and support throughout this paper's execution helped us come up with innovative solutions and timely completion of the paper. Despite her busy work schedule and commitments, she was a true constant, steering this paper to completion.

We owe our deep gratitude to our library -*Dr. B. R. Ambedkar Central Library, JNU*, which took a keen interest in our work and guided us all along until the completion of our project work by providing all the necessary materials during this challenging time of pandemic by deploying remote access to its vast collection of studies.

We heartily thank our *Dean, Dr. Unnat Pandit, ABV-SME, JNU*, for his guidance, encouragement, and support during this work.

We are thankful and fortunate enough to get constant encouragement, support, and guidance from our school-ABV-SME teaching faculty, which helped us complete our paper. Also, we would like to extend our sincere esteem to all our colleagues for their timely support.

## Brief about Case

This case attempts to solve the high turnover of staff, out of which many were unsatisfied with the compensation model. Mr. Paulson runs a retail store of Oreck vacuum and classified himself as a super salesman. The store had two full-time employees who were asked to work six days a week, including Saturday and Sunday, and one part time employee for weekends.

Paulson put efforts into job training his employees where the employees have to watch Paulson's presentation with take-home material, including a sales script and product information; after some observations, trainees were allowed to change something on his own in the script under the owner's guidance.

In-store, the markup on vacuums and other equipment was 100% while on another product was 200%. Repair includes 200% on parts plus \$29.95 as labor charge. Between two streams, sales accounted for 90% of the revenues (majorly vacuum cleaners).

Paulson's compensation model has \$500 a week for full-time employees along with 2.5% (over \$7,000 a week) and \$65 per day for the part-time employee with 2.5% of gross store sales over \$1,000 per day they worked. Full-time employees also got paid leaves and medical cover as extra benefits.

Paulson allowed his employees to have price flexibility if the customer is going empty handed but cautioned not to drop the price too early or only after the presentation got over. This is available on big items where the prices are not listed. In price flexibility, employees can decrease prices or add some product in the deal or trade-off. Employees complain that the owner put inordinate pressure on them to sell products and services to the customers. Other complaints included tying the commission to total store sales (rather than individual sales), working weekends without a pay differential. The commission base was set higher than the store's weekly average sales. Employees wanted to make long relations but felt unable to make due to owner and salary pressure. Paulson found the turnover average. Even though he believed that the base salary was low but was satisfied with the model and told that employees did not have a sales instinct. This is the process of finding the best employee.

## Compensation model

	Full Time	Part Time
Salary	\$500 a week	\$65 a day
Medical and dental Coverage	Yes	No
Two weeks Paid Vacation	Yes	No
No Sick or personal Days	Yes	No
Unpaid Holidays when available	Yes	No
Commission on Gross Sales	2.5% (over \$7,000 a week)	2.5% of gross store sales over \$1,000 per day they worked,

# INTRODUCTION

## **What is Compensation?**

Joker, one of the most famous pop-culture villains, said, "If you're good at something, never do it for free". Everyone likes to be compensated for the services they provide. But the question here is what exactly compensation is? Compensation is frequently linked to the labor market. During the shortage of supply, laborers are lured into working by offering higher compensation. Compensation is a systematic way in which employees are provided monetary value in exchange for their services. Compensation of a person determines the standard of living, motivation, economic status, and motivation and productivity level.

## **Equity and its impact on pay rates**

People are often treated differently in a working environment with hundreds of different positions and roles, relationships, and treatment. However, it does not have to be unfair or unequal. How employees perceive unfair circumstances can be understood better by using Equity Theory. This will certainly help keep the workforce happy, especially for a sales heavy industry like the white good industry.

Comparison with others is often discouraged in general as it might lead to de-valuing yourself. Though there is truth to this, it is only natural to feel bad when you see a colleague reaping more significant benefits by doing less work than you. This inequality and, in some cases, perceived inequality may lead to demotivation, a sense of disenchantment. It may even lead an unhappy employee to disrupt the flow of things.

Behavioural psychologist John Stacy Adams sought to explain these natural reactions in his Equity Theory. The concept explores how employees regard their inputs and outputs at work compared to others around him (Adams, J.S., 1963). He explains that for an employee to feel valued and motivated, they must believe that what they had given (efforts) is equal to what they received (rewards). What they received does not necessarily mean salary or benefits, but also social compensation in a broader way. This includes recognition, appreciation, and a clear sense of progression and responsibility. Employees' sense of fairness and balanced treatment in relation to their colleagues and peers is another aspect of equity theory. Adams argues that the health of a workplace is dependent upon this.

Equity theory deals with determining whether the distribution of resources is fair to both partners. Older psychological models like Maslow's Hierarchy of Needs (Maslow, A. H., 2013) have some similarities with Equity Theory. Both speak about the motivation of a person. They both realize and understand the impact on one's contentment at work by many individual factors. However, the crucial difference between Adams' theory and those of his predecessors, like Maslow, is the greater attention he gives to the impacts of comparing oneself to others.

This theory has huge implications on turnover rate, employee retention, employee morale, productivity, and relationships. As the purpose of the HR professionals is to make sure an organization or a company is most efficient and as productive as possible by optimizing staff efficiency and effectiveness, taking into account the equity theory when designing compensation

plan can help improve employee's morale and productivity. Often rewarding and recognizing individuals for their work in a fair manner can help.

### **Expectancy and its impact on pay rates**

The expectancy theory states that different employees have different goals and should be motivated by certain expectations. These expectations motivate the employee to push their effort for organization productivity. Leaders have to understand that an employee's motivation must come from an idea that they will gain something when they put maximum effort into their work to ensure great performance. Managers use the expectancy theory, which dictates that when employees believe that increased effort and increased performance will be rewarded greatly. This means that expectancy theory explains the need for compensation. Compensation may be monetary or otherwise. Each specific business should come up with specific compensation programs that cater to all its employees' needs. The business may also provide new compensation opportunities for employees after they have been trained by increasing their responsibilities and pay.

### **What a Good compensation plan can do to boost employee and organization productivity.**

Compensation Strategy is observed as one of the most important human resource management strategies as it plays a significant role in deriving an organization's productivity and growth. Compensation is often also called an award and can be defined as any form of reward given to employees as a reward for the contribution they give to the organization.

According to Ivancevich (2007), the purpose of compensation is to create an appropriate reward system for workers and employers. The desired outcome is a worker who is tied to his job and motivated to do a good job for the employer. The compensation given should reflect the value of a job. Compensation is aimed generally for the benefit of the company and employees. The interest of the company with compensation is to obtain a more significant job performance.

While designing an organization's compensation strategy, design, and actions, many elements need to be well matched to the employees. The HR compensation strategy must understand and comprise what is vital for the organization and its business goals.

The clarity in the organization's mission and vision among the employees can go a long way in increasing employee productivity. Understanding the company mission and empowering managers to help employees take risks and achieve their goals will help align and coordinate efforts to boost productivity more effectively.

Compensation can be used as a tool to reward and encourage employee development. For example, when organizations think about compensation, it should be to reward people as they continuously learn, grow and gain in their skills, says Lindsay McGregor, co-founder of Vega Factor.

### **If the compensation plan goes wrong, what pitfalls it brings to the organization.**

According to Armstrong (Armstrong, 2005, as cited by Hazra, Sengupta and Biswakarma, 2018), compensation management is all about developing a positive employment relationship and psychological contract that adopts a total compensation approach which recognizes that there are several ways in which people can be compensated.

Employee organizational commitment is regarded as a multi-dimensional construct (Mowday et al., 1982, as cited by Hazra, Sengupta, and Biswakarma, 2018), which means many potential

antecedents can affect employee commitment which is to be considered with utmost care while building a compensation plan.

According to the Vroom's expectancy theory (Lunenburg, 2011), increasing the amount of effort will improve performance, and if one increases one's performance level, then the desired outcome will be reached. This is the realistic and general idea behind how an employee gets motivated because of a good compensation plan, but if the compensation plan does not match the efforts and performance level of the employee, the employee can become easily demotivated, which may affect the employer-employee relationship, which is one of the determining factors for the level of employee engagement at an organization.

As Lockwood (2007) mentioned, with a low level of employee engagement, turnover will increase and efficiency will decline, leading to low customer loyalty and decreased stakeholder value. Consequently, because the cost of low employee engagement will be detrimental to organizational success, it is essential for HR to foster positive, effective people managers along with workplace policies and practices that focus on employees' well-being, health, and work/life balance.

### **Indian White Goods Industry: Where Rocket Singh makes all the difference**

The white goods industry is comprised of durable goods and appliances such as televisions, refrigerators, air conditioners, washing machines, mobile phones, and kitchen appliances like microwave ovens. In India, the industry has witnessed impressive growth in recent years, driven by factors like e-commerce and retail boom, demand for real estate and housing, increased disposable incomes, availability of finance, and an overall increase in affluence of the population (Bickerstaffe, 2010). The industry has major international and local players like LG, Samsung, Godrej, BPL, Voltas, Whirlpool etc. The high level of competition among the brands and the entry of multinational companies have ensured the proliferation of different models and frequent technology upgradation.

The increased choice for consumers has been keeping the salespeople on their toes to attract new customers as well as retain old ones. Since differentiating factors between products are narrowing good salespersons are high in demand and also earn good emoluments.

As compared to the compensation plan in the case where it is based on the total weekly sales; in India, the Cost per Sale (CPS) plan is followed by big retail chains in the industry. Working hours for India's sales persons are between 10-12 hours, while promotions are mostly done by senior management. The base salary of the employee ranges from 15,000 INR to 18,000 INR plus commission and incentives.

Many chains have altered the CPS model with different percentage cuts on different products, and the price bracket the product falls in. For example, a particular brand of televisions with price below 1,25,000 INR have a commission between 1.06% -1.28% per sale based on the model while television costing more than 1,25,000 INR have a fixed cut of 1339.50 INR per sale. The commission structure is different for other companies like LG or Samsung with varying brackets of price and commission (Cuelinks, n.d.). The compensation structure is also differentiated by the product being sold like different commission percentage on Phone, Fridge, washing machines or Air Conditioner. While some companies follow these elaborate compensation plans others have a definite set commission of 1.06% -1.08% of the sales irrespective of the product, model, price, or the company to which the goods belong. But CPS is still there.

The Covid crisis's impact has been deeply felt in the sales of white goods industry as sales have declined as consumption of essentials have been prioritized and white goods sales have been postponed by many. The lockdown restrictions have put the retail industry on hold and many sales people have lost their jobs as companies are trying to push for online sales and cut costs of the physical store. But with the opening up of markets in the coming future, there will be a need for new and energetic sales force to capture the consumers' purchase.

## **METHODOLOGY**

To design a compensation plan that is robust and applicable organization wide, a systematic study of various compensable factors was undertaken. Trend analysis of salaries of people working in retail and white good industry are given special focused when designing this compensation plan. All quantitative data are secondary in nature.

Analysis of data and information is thematic for qualitative part, which is to determine and compare the compensable factors and their weightages in the organizations' compensation structure. In addition, for the quantitative part of the analysis, based on the compensable factors relevant to the industry, an analytical approach is followed. Using 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.

Each factor and sub-factors are carefully selected after due consideration and thorough discussion. Each job position in the organization is to be compensated along these factors. The degree of these factors, applicable in each job position, will be available after job evaluation of that particular job. Each point on the table (table no.) is approximated or given a value of about 1500 rupees to 1800 rupees. This figure was generated through trend analysis of salary figures available online on various website.

Using this technique, the compensation structure of any job position of the organization can be produced. Figures are generated in yearly compensation value which can then be divided into monthly figures. Each job position's final figure is then broken down again into fixed, variable and non-monetary compensation. Legal aspects were kept in mind when designing this breakdown of compensation. Special focus where given on the variable components to reflect performance of an employee as an individual, as a team, as a department and as an organization.

Through one of its surveys, IRS found that Analytical or Quantitative methods were favoured by 86 per cent of organizations surveyed (Egan, 2003, as cited by Suff and Reilly, 2006). For this study, the researchers have used the Point-rating method as it is one of the most commonly used methods and gives a more effective and efficient approach to the study. According to Egan (2003), this method is popular as assigning points helps objectivity and provides definite scales to measure each job's specific components. Point-rating method is also popular because it is particularly suitable for computer-based Job Evaluation, which makes it easier to implement.

# **ANALYSIS**

## **Job Evaluation System**

Job Evaluation System is a system used by an organization to evaluate an employee's job based on his or her job content and job description. It also works as a comparison tool to determine which Job Roles have greater impact on the organization's profitability and as a tool to determine the employees' salary. There are majorly two categories of Job Evaluation System: quantitative methods and non-quantitative methods of job evaluation, and that examine job's key performance areas (KPAs) to compare jobs directly or indirectly. (WHO, 2010)

## **Non-analytical or Non-quantitative Methods**

The methods under this category are looking at the whole job as an entity. The methods under this category are as mentioned below-

### **Job Ranking Method**

The Job Ranking method is a method used to rank the jobs in an organisation from highest to lowest. This method is one of the easiest to administer for an organization. Jobs are considered a whole and compared to each other based on the overall worth of the job to the organization through Job Descriptions. This method relies on job descriptions or job titles for the positions to be ranked. It is considered the simplest method since there is no attempt to break down or analyze the job in any way. (WHO, 2010)

### **Job Classification method**

The Job Classification method involves clustering the jobs into classes or grades and fitting jobs into them. Its main characteristic is that the grades and structure or hierarchy are established before every job is ranked. Each level in the grade/category structure for the jobs has a description and associated job titles. A common set of grading standards and instructions can be used to ensure equity in job classification. Classification or grading standards are developed mainly along occupational lines because of the differences in duties, skills and knowledge, and other aspects of trades and labor jobs. Because of its simplicity, Job classification is the most used form of non-analytical job evaluation; in contrast to whole-job ranking, it provides some standards for making judgments in the form of the grade definitions. (WHO, 2010)

## **Analytical or Quantitative methods**

The methods under this category involve analysis and evaluation of job requirements according to different factors, e.g. skill, responsibility, and effort. The methods under this category are as mentioned below-

### **Factor comparison method**

This method involves job comparisons on several specific factors to obtain a numerical value for each job and arrive at a particular job structure. A set of the required number of remuneration factors is identified to determine the worth of jobs. Typically remuneration factors include knowledge and skills, effort, responsibility and working conditions. It begins with the ranking of jobs in each of these factors. The ranking is usually transformed into relative values that determine the ultimate job value for a given organization. Thus, the salary differentials are in some cases, directly related to the ranking. This method begins by deciding the "key jobs" or "benchmark jobs," which are scored factor by factor and ranked according to the total value. (WHO, 2010)

## **Point-rating method**

The Point-rating method compares by rating the jobs on several specific factors and adding the scores from each factor to obtain a total score for a job. This method also uses remuneration factors like physical requirements, mental requirements, knowledge and skill, responsibility, effort and working conditions. Several divisions called degrees or levels are developed, under each factor based on levels of skills, responsibilities, effort and other factors required to do the job. Jobs are then analyzed by keeping both the factor weightage and the degree in mind and then converted to points. A total point score is obtained for the specific job by adding together the points obtained for each factor. Similarly, rated jobs based on total point score can be placed in the same salary grade. Thus, it can be further used to determine the hierarchy as well. (WHO, 2010)

## **Compensable Factors**

Compensable Factors are variables or criteria based on which evaluation of an employee is done at his or her job through the organization's compensation plan. In simple words, these are the factors that are used by an organization to evaluate the employee's job and compensate them accordingly. These remuneration factors are decided by the organization, which they find to fit well with the Job Content or Job Description.

Following compensable factors are identified for the case in hand and weightage for each has been decided after consulting experts and literature about the compensation plan. Table 1 gives the break down of the weightage of each factor and subfactors. It also shows points associated with each degree requirement for each skill.

**Table 1:** Compensation Factors and Sub-factors with weightage and degree /level brake down

Compensable Factors	Sub-Factors	Factor Weightage	Sub-factor Weightage	1st Degree	2nd Degree	3rd Degree	4th Degree	5th Degree
<b>Skills</b>		<b>50</b>						
	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
<b>Effort</b>		<b>15</b>						
	Physical Demand		10	10	20	30	40	50
	Mental or Visual Demand		5	5	10	15	20	25
<b>Responsibility</b>		<b>20</b>						
	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
<b>Job Conditions</b>		<b>15</b>						
	Working Conditons		10	10	20	30	40	50
	Unavoidable hazards		5	5	10	15	20	25
<b>Total</b>		<b>100</b>	<b>100</b>	<b>100</b>	<b>200</b>	<b>300</b>	<b>400</b>	<b>500</b>

### **Skills**

When it comes to determining compensation, skills is a key factor and reliable metric could be design base on it to compare across job title. It is understandable that different organizations may have very different definitions of the same job title. It is also important to note that many skill sets can apply to a wide range of roles. This is why we have given skills the highest weightage when determining compensation. Skills required for a particular job title will be based on three important sub factors i.e. Education & training, Experience & Job Knowledge and Innovation & Ingenuity.

### **Effort**

The main purpose of this factor is to evaluate the degree of coordination and dexterity of mind, eye and hand requirements for a particular job title. This factor will induce physical demand necessary and mental fatigue and/or visual strain. It measures duration of time that mental or visual application is required while performing that particular job, and the intensity at which it is required. It relates to the quantity and concentration of physical and mental or visual application necessary on performing that job and not the degree of intelligence or mental development required.

### **Responsibility**

This factor measures the accountability a particular job title, damage or loss due to an operational mistake. It also measures carelessness or negligence and damage on physical facilities or equipment. Probable amount of liability or damage or loss that could result from an error originating from that particular job title is considered thorough and given appropriate weightage.

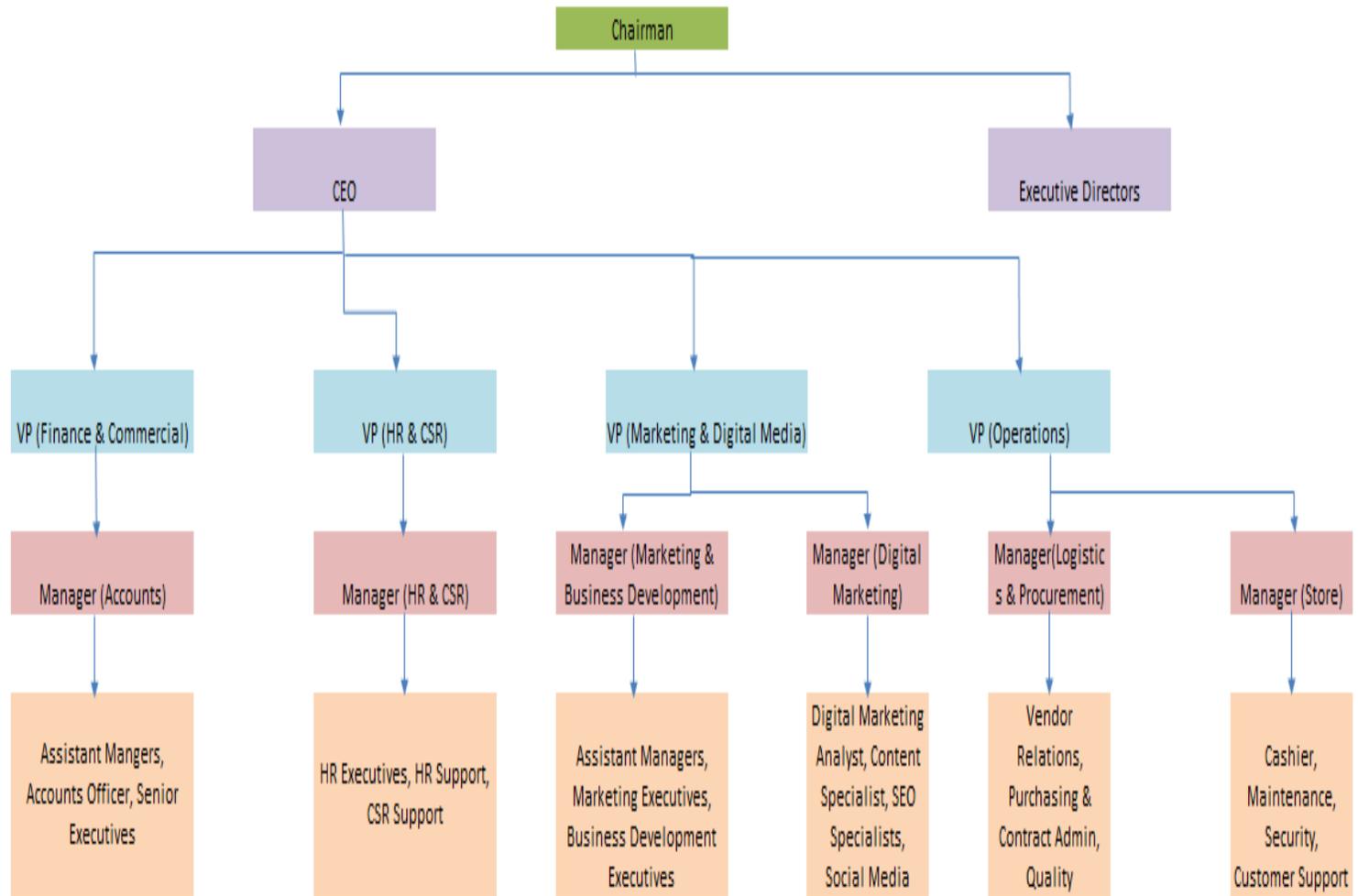
### **Job Condition**

This factor is to evaluate the conditions under which a particular job is be done or executed and the extent to which the conditions make the job uncomfortable, unpleasant and hazardous or threatening.

### **Organogram**

An organogram or org Chart is used to represent an organization's structure graphically. It is generally used to show the hierarchy being followed in the organization and hierarchical relationships between managers from top to lower level of management and the people who have to report them, in same as well as different departments. An organogram is a useful tool for organizations to visualise the style and culture being followed by the organization, the work force distribution and functioning in various departments and clearly representing the line of responsibility and the line of authority each individual in the organization while making implementation, planning and strategizing easier for the organization.

**Fig. 1: A Standard White Good Organization Organogram**



After going through organograms of various organizations from websites of organizations in the retail industry, especially the white goods retail industry, the researchers have tried to create a standard organogram representing organizations in the white goods retail industry. The Organogram consists of four levels, first level being the employees who carry out daily tasks and objectives, second level includes the front line managers responsible for completion of daily tasks and objectives, third level consists of the middle level managers who work on implementation of strategies and policies, while the fourth level i.e. the top level management is responsible for building up policies and strategies for the organization.

### **Compensation Calculation**

After considering the trend of compensation offer in white good industry we have concluded to award one point with 1500 INR to 1800 INR depending on place of operation of the organization and its strategy.

Following tables are examples of how a particular job title in the organization could be carried out. Table 2 evaluates the role of an Assistant Manager in the marketing department. Each degree of the compensable factors carries a point. This point is then summed up to give a total, in this case, a total of 311. This total point would mean he should be compensated at least (Rs 311x1800) 5,59,800 INR a year or 46,650 INR a month.

Similarly, in Table 3, the role of a Senior Executives evaluated and points are awarded for each compensable factor. It is then added, which gives a total 226 points. This mean the Senior Executive should be compensated at least (Rs 226x1800) 4,06,800 INR a year 33,900 INR a month.

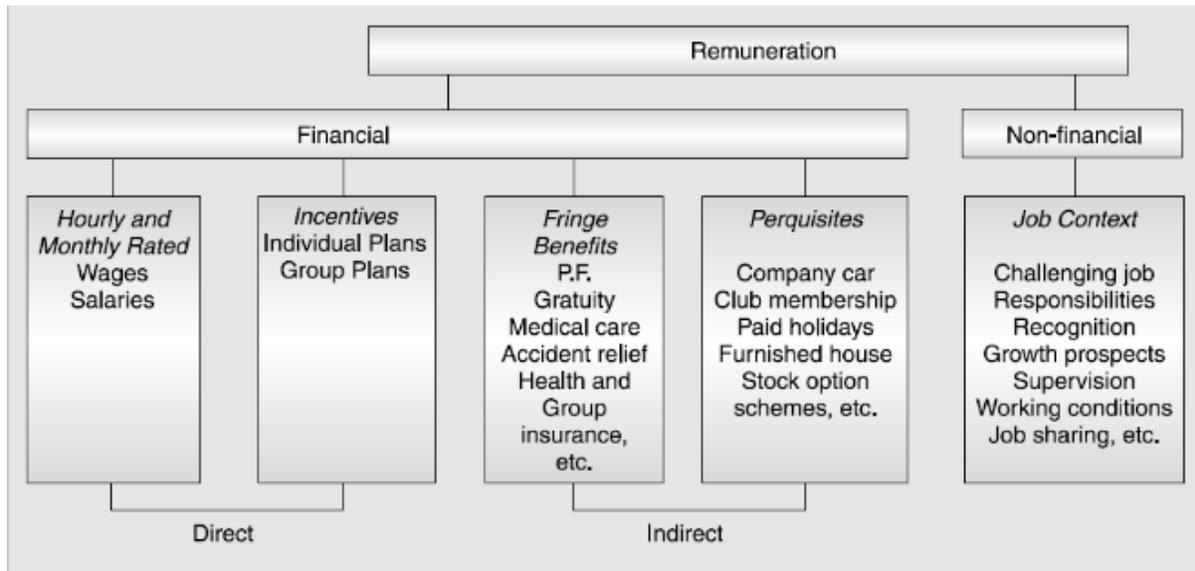
**Table 2: Job Evaluation of an Assistant Manager (Marketing)**

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

**Table 3:** Job Evaluation of a Senior Executive

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

**Fig. 2:** Compensation components (Source: Unpublished)



## **Compensation Breakdown**

The next logical step is to have a breakdown of the total remuneration or compensation offered in to different components. This is usually done to meet certain strategic goals. It may vary from organization to organization, and one job title to another. However, some basic structure given below should be included. It has been prepared with a strategic HR and legal perspective.

### **Fixed Components**

The following table shows an example of how the salary component of the earlier mentioned job title can be broken down into. HRA depends on the city or place where the organization is and usually vary between 40% to 50% and provident fund at the least 10% of the basic pay as per current regulation. Other components such as overtime, statutory bonus and special supplementary pay or allowance, etc. can be included as and when required.

### **Special Supplementary Pay/Allowance**

This can be a part of fix pay. Instead of giving the employees, just one fix allowance, the organization can choose from a wide range of compensation plans. Leave encashment, holiday or festival bonus, retention bonus. Organization can also let the employee choose as per their convenience or requirements from a basket of compensation that they can pick and leave.

### **Variable Components**

Some part of the salary component is further allotted for variable components. This is necessary to motivate the customer in both equity and expectancy perspective. How variable components are implemented can differ from organization to organization. It should not be set so that it is unachievable on one hand and yet discouraging for employees who are performing well. The amount associated with the variable component should not be too high and absurd. It should be reasonable and logical.

### **Refundable or Claimable components**

Some components can be reserved as refundable or have to claim type, such as medical or travel expenses. This could be done to avoid un-necessary expenses and for other strategic reasons. The organization can also choose to offer a Cafeteria Plan or flexible benefits plan. A cafeteria plan is an employee benefit plan that allows employee to select from various pre-tax benefits as per there requirement. When designing flexible benefit plans, the employer should keep in mind the demographic of its employee. Depending on the age some employee may choose medical insurance and some might opt for all expenses paid trip. Plans normally include insurance benefits and benefits that help employees with various life events such as adoption or loan offers with subsidies interest rate, etc. A reward or point redeem system can also be designed as an option for employee to choose from, allowing them to redeem points or rewards in exchange for discount coupons. Collection of rewards or points can also be tied with employee loyalty programs of the organization.

## Deduction

Another important component is the deduction, which will include taxes and other deductible as per requirement. Provident fund may also be included in this category as it mandatory for employer to provide certain section of employees as per Indian regulation.

**Table 4:** Compensation breakdowns

Assistant Manager		Senior Executive	
<b>Fix Pay</b>		<b>Fix Pay</b>	
<b>A</b>		<b>A</b>	
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	
<b>Variable</b>		<b>Variable</b>	
<b>B</b>	5000~10000	<b>B</b>	3000~7000
Performance Base Compensation		Performance Base Compensation	
Competent base compensation		Competent base compensation	
<b>Refundable/claim</b>		<b>Refundable/claim</b>	
<b>C</b>	~5000	<b>C</b>	~3000
*Cafeteria Plan/flexible benefits plan		*Cafeteria Plan/flexible benefits plan	
<b>Deduction</b>		<b>Deduction</b>	
<b>D</b>		<b>D</b>	
Tax	*As per Regulation	Tax	*As per Regulation
Provident/Pension	2,500	Provident/Pension	1,500
<b>Total</b>		<b>Total</b>	
<b>A+B+C-D</b>		<b>A+B+C-D</b>	

### **Legal Aspects to consider**

As per section 6 of The Sales Promotion Employees (Conditions of Service) Rules, 1976, the scope of Workmen's Compensation Act, 1923 is extended to the salespeople. Apart from that, any dispute arising, in the professional capacity, between employer and employee, shall be covered in the provisions of the Industrial Disputes Act, 1947.

Apart from that, other legislation that covers salespeople's employment are Minimum Wages Act, 1948, Maternity Benefit Act, 1961, Payment of Bonuses Act, 1965 & Payment of Gratuity Act, 1972.

### **Minimum Pay**

First and foremost, we must ensure that our compensation structure complies with the existing compensation laws. In India's case, there is a minimum daily wage prescribed by the Ministry of Labour & Employment. The base compensation depends on two aspects – Qualification, as well as the location of workplace. This provision can be used to determine the 'fixed component' of the compensation, while the variable compensation can be certain percentage. Generally, a shop-floor salesperson is considered a skilled sales person, as it is generally required that the salesperson shall exercise independent judgment while discharging duties. Such duties include setting the pitch, convert a cold prospect into a hot prospect, and implement strategies and more. However, as per Indian laws, there has to be a clear distinction between 'fixed percentage beyond fixed salary and a variable component, and not all elements of variable pay are enforceable.

The location generally refers to the tier of cities such as 'A', 'B', 'C'. This segregation is done to determine the general cost of living in the places. Generally, cities like Mumbai and Delhi are included into 'A' category, whereas, Indore shall fall into 'B' category.

A Part from that, it is recommended that an inflation multiplier be added, in case of dearness and housing allowance, which can be reviewed based on the country's existing inflation. This is because DA is the actual cost of living.

### **Insurance and provident or pension fund**

As per Indian Law, if in an establishment where there are 10 or more employees (20 or more in case of Maharashtra and Chandigarh), where the salary of employees is less than INR 21000, the employer contributes 4.75% of gross salary in Employees' State Insurance Scheme (ESIC), whereas employee contributes 1.75% gross salary in ESIC.

## **RECOMMENDATIONS AND CONCLUSIONS**

### **Compensation system of an organization**

A compensation system of an organization is middle ground for which the employee offers his services in exchange for the emoluments provided by the employer. The compensation provided should meet for the needs and desires of the employee and should encapsulate the things that an employee would value.

Any organization's compensation system can be categorized broadly into two components - fixed pay components or base pay and variable components. Further these components may be in monetary form or other non-monetary rewards. Any compensation to be complete should employee a mix of these pay components.

Since any organization has a structure according to which people are deployed and work in tandem to achieve the organizational goals, the pay structure also reflects in this. Each job in an organization requires different skill set, knowledge components, experience, a span of control and the degree of importance of each job and responsibility taken is also not the same across levels. Thus, the compensation plan should reflect the compensable factors for each job position and extra efforts made by employees should be rewarded appropriately.

Through the analysis of the case at hand and through the study of the best practices employed in India's white good industry, the breakdown of a good compensation for sales employees was arrived at. In the compensation system suggested a point system that incorporates the skills, efforts, responsibilities and job conditions was devised. Further a breakdown of the salary components was done. This was made up of four basic components:

1. The basic pay: A fixed emolument according to the job level
2. Add ons: Overtime and other pay
3. Variable pay: May be linked to certain milestone goals to be achieved by the employee
4. Benefits: Provide value in terms of insurance, travel allowances etc.

### **Case study of Paulson's store**

Paulson believes in his compensation plan and is comfortable with employee turnover. The lack of motivation is found in employees with the plan and has almost zero expectation of receiving any incentives. No presence of internal rewards regarding their experience, seniority or loyalty as well as low base income becomes factor for leaving. When employees perceive that they are under-rewarded, they may try to reduce the inequity by decreasing inputs (doing less work, being absent, taking long breaks), rationalizing (finding a logical explanation for inequity) or leave the situation.

An effective plan can be of two types

- Increasing base pay as per the average pays of the region and provide value to employees.
- Make some realistic targets on their individual effort rather than the sale of the week.

Both the scenarios are limited with the conditions how much product will be sold if:-

1. The commission was individual-based;
2. Set to a reasonable level where the expectation of earning a commission was high.

### **Recommended basic practices in big retail chain**

A compensation component called cafeteria benefits, which is an assortment of benefits that an employee can pick and choose from according to the demography and personal choices, is suggested. This ensures that each employee gets chance to pick the most relevant and usable benefits for himself. These benefits can be of different values at different position that the employee holds. The employee should be awarded points for their variable component which can be redeemed through these benefits. Further, a compulsion to avail them at one go at fixed time periods should be avoided and employee should be allowed to accumulate the points and avail benefits associated with higher points at future dates.

Employees are allowed a fixed number of leaves in a particular year and at the end of the year if the employee has not used his fixed leaves they go unclaimed. Thus a natural tendency in employees is to avail these leaves even if the need does not arise. To avoid such absenteeism in employee a leave encashment or reward system can be introduced where in a fixed number of days the leaves unclaimed by the employees can be exchanged for coupons or redeemable vouchers.

Each employee should be able to extract maximum output from his compensation plan and save on taxes. For the firm it is highly beneficial that its compensation plan has a fluid component that can adapt and provide the best version possible to each employee in the sense that it seems tailor-made to fulfill their needs and wants.

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