

# De-mystifying Compensation

Presented by: Debolina Dutta

About me ?



# Schedule of Sessions

Session#	Topic	Pedagogy
1. (6 <sup>th</sup> April 2025)	Demystifying Compensation	Class Lecture
2. (6 <sup>th</sup> April 2025)	Introduction to Annual Merit Increase/Promotion	Excel File assignment to groups ( if pre-assigned groups-please indicate; else will create random group)
3. (13 <sup>th</sup> April 2025)	Solution for Annual Merit Increase file	Groups present solutions and recommendations
4.& 5. (4 <sup>th</sup> May 2025)	Global mobility	Clarification of concepts, in-class group activity of 4 caselets.
6. (11 <sup>th</sup> May 2025)	Total Rewards & Hyper-personalization of Employee Experience	Tesco Business Solutions: Enhancing Employee Experience Through Hyper-Personalization of the Employee Value Proposition <a href="https://hbsp.harvard.edu/product/IM023B-PDF-ENG?Ntt=debolina">https://hbsp.harvard.edu/product/IM023B-PDF-ENG?Ntt=debolina</a>

Session#	Topic	Pedagogy
1. (13 <sup>th</sup> April 2025)	Emerging Tech in Learning and Development	Learning & Development - Metaverse and e-learning at redBus <a href="https://hbsp.harvard.edu/product/IMB977-PDF-ENG?Ntt=debolina">https://hbsp.harvard.edu/product/IMB977-PDF-ENG?Ntt=debolina</a>
2.& 3. (20 <sup>th</sup> April 2025)	AI in Recruitment - HyrGpt Case	2 sessions AI in Talent Acquisition - HyRGPT recruitment and benefits
1. (11 <sup>th</sup> May 2025)	AI in Employee Engagement	Discussion of Amber Case Employee Engagement - Amber by Infeedo - <a href="https://hbsp.harvard.edu/product/IMB851-PDF-ENG?Ntt=debolina">https://hbsp.harvard.edu/product/IMB851-PDF-ENG?Ntt=debolina</a>

# What are your expectations (from my module) ?

- ▶ How do we design compensation package for employees-designation wise ?
- ▶ How is compensation of an individual derived based on skills - benchmarking ?
- ▶ **Compliance part for C&B ? (Labor laws)**
- ▶ Comp & Bin frameworks
- ▶ AI used for benchmarking compensation /with competitors
- ▶ Benchmarking with peers- what is the basis and how to get the data ?
- ▶ Any standard benchmarking based on industry - health care/service/mfg

## MY EXPECTATIONS



- ▶ Be ALIVE!
- ▶ Please keep videos on.
- ▶ Read the material before the class!
- ▶ Participate in all group activities- no sleeper cells allowed....
- ▶ Share your experiences- challenge the status quo!
- ▶ Connect - Office Hours  
(please email- [debolina@iimb.ac.in](mailto:debolina@iimb.ac.in))
- ▶ Future CHROs- ENJOY!

# What will you learn from this session

Evolving the compensation strategy

Total rewards philosophy & key components

Job Evaluation methodologies

Building the organization hierarchy( bands)

Employee pay structure

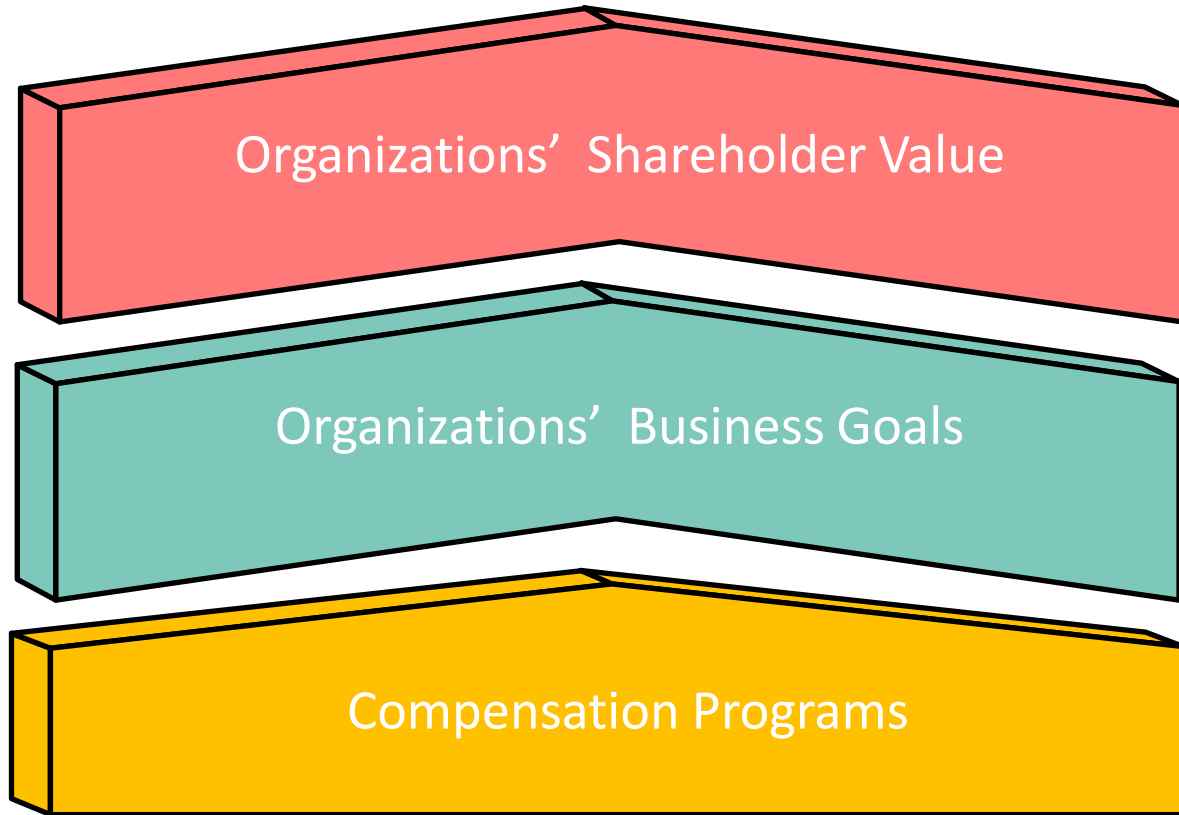
# Organizations' Compensation Policy

Alignment of Compensation Programs with Business Goals Key to Success

Organizations' Shareholder Value

Organizations' Business Goals

Compensation Programs



# Compensation Program Objectives

*Internal Equity & External competitive*

The programs are designed to achieve the following objectives:

## Market Competitive

- Provide competitive compensation that reflects the market value of the position's responsibilities

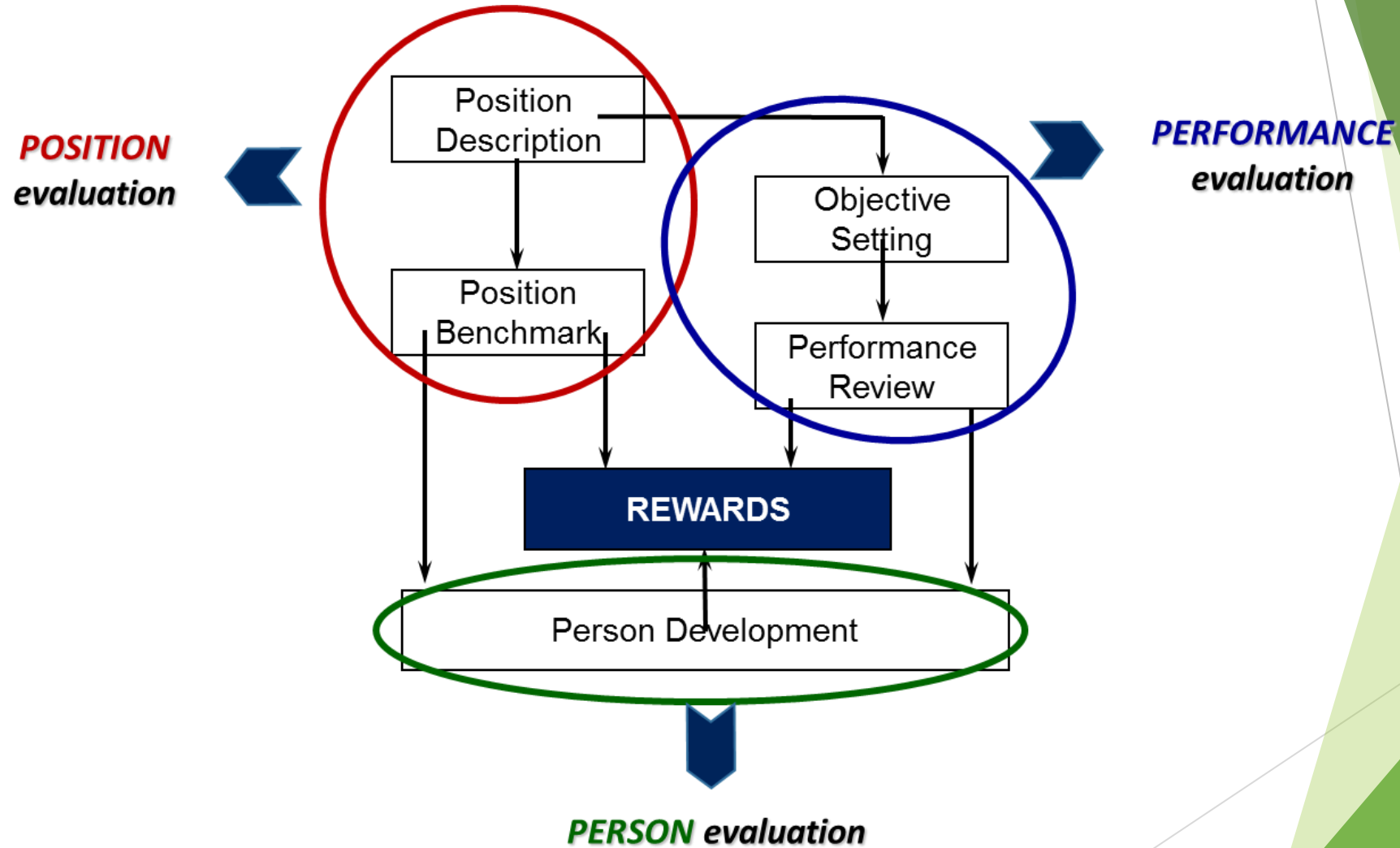
## Internal Equity

- Ensure that compensation reflects the relative contribution and internal value of the positions to the organization

## Performance Oriented

- Reward associates for annual performance that improves earnings and creates greater value for its shareholders

# 3P Compensation Management Framework



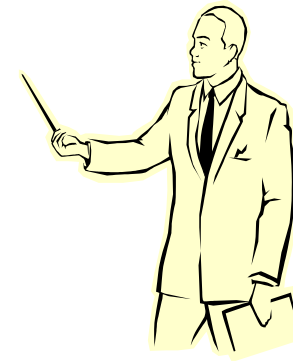


# What is a Position?

## *Definition summary*

Position is...

- an organization's most basic unit
- result-oriented / delivers output
- dynamic but relatively stable
- belongs to the organization, not the position holder



When associates are promoted...

- they bring along their working style, competence and performance
- they leave behind the scope and responsibilities of their positions

In other words, their positions/jobs still exist

# Position Description

**Job Description**

**1. Identity:** Fundamental information of the role

**Basic Information**

Company		Department	
Position		Reporting To	
Work Location		Version Date	

**Signature**

	Job Holder	Supervisor	HR
Signature			
Name			
Date (dd/mm/yyyy)	/ /	/ /	/ /

**Job Content**

**2. Purpose:** The reason why the position exists, with what permanent objectives,

**3. Area of Responsibility:** The definition of roles and their expected final results

**Key Purpose of the Job:**  
1.

**Key Area of Responsibility:**  
1.

**Major Challenge:**  
1.

**Financial and Management**

Number of Subordinates Directly Reporting to this Position: \_\_\_\_\_

Number of Subordinates Indirectly Reporting to this Position: \_\_\_\_\_

Around \_\_\_\_\_

Annual Budget under the Job Holder's Authority: \_\_\_\_\_

Around US\$ \_\_\_\_\_

Limit of Approval Authority: \_\_\_\_\_

Below US\$ \_\_\_\_\_

**4. Scope & Framework:** The pertinent financial and non-financial framework

**Know-how and Competency Requirements**

**5. Minimum Requirement:** Education & training, experience and business qualifications necessary

**6. Communication:** The most challenging communication expected for this position

**7. Competencies:** The measurable skills, abilities, and behaviours required to be successful in the position

**Minimum Relevant Experience:** \_\_\_\_\_ year(s)

**Minimum Supervisory Experience:** \_\_\_\_\_ year(s)

**External Communication Required:** Yes / No

**Frequency:** \_\_\_\_\_ %  
(Others, please specify: \_\_\_\_\_ )

**Minimum Academic Requirement:** \_\_\_\_\_

**Major Subject:** \_\_\_\_\_

**Required Professional Qualification:**  
1.  
2.  
3.

**Party of Internal Communication & Degree of Difficulty:**  
•  
• Difficulty arises from \_\_\_\_\_

**Required Written Language:**  
1: English Fluency: General/Quite Fluent/Local Level  
2: Chinese Fluency: General/Quite Fluent/Local Level  
(Others, please specify: \_\_\_\_\_)

**Required Oral Language:**  
1: English Fluency: General/Quite Fluent/Local Level  
2: Cantonese Fluency: General/Quite Fluent/Local Level  
3: Mandarin Fluency: General/Quite Fluent/Local Level  
(Others, please specify: \_\_\_\_\_)

**Required Competencies:** \_\_\_\_\_  
(Others - Please specify: \_\_\_\_\_)

**Report to – Organization (Please attach the org chart)**

# Compensable Factor Approach

- ▶ Compensable factor approach is the quantitative method of job evaluation. It is defined as the criteria used to judge job values for creating a job-worth hierarchy and constitutes intrinsic elements of a job that add value to the organization and for which it would want to pay (skill, effort, responsibility and working conditions which are universal factors).
- ▶ Skill - experience, knowledge, dexterity, analytical ability, creativity, communication and complexity of the job
- ▶ Mercer uses the **International Position Evaluation (IPE)** methodology# which emphasizes the impact a job makes in contributing to the organization results and gives the highest weight in assigning the points for this factor.
- ▶ Hay Point Factor focuses on know-how (technical, managerial, human relations), problem solving, accountability and working conditions to evaluate jobs.

# "International Position Evaluation: One Management Tool with Several Business Applications," March & McLennan Companies, [https://www.imercer.com/content/Europe/pdfs/ipe\\_article\\_2010\\_anthology.pdf](https://www.imercer.com/content/Europe/pdfs/ipe_article_2010_anthology.pdf)



Product value chain allows for industries including manufacturing, consumer durables, energy, etc.

Evaluation of the role and not the incumbent

Ease of transition & system embed using IPE™'s online portal

This step shall set the organization context for evaluating the roles

# Mercer ipe™ methodology - 5 factors and 12 dimensions

## 1 Impact *Level of contribution*

### 1.A) Nature of work

Work	Delivery	Operational	Tactical	Strategic	Visionary
Score	1	2	3	4	5

### 1.B) Level of contribution

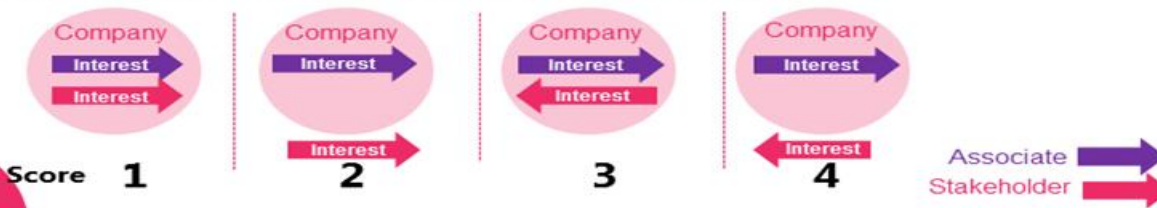
Level	Limited	Some	Direct	Significant	Major
Score	1	2	3	4	5

## 2 Communication *Level of communication skill required to perform role*

### 2.A) Level of communication

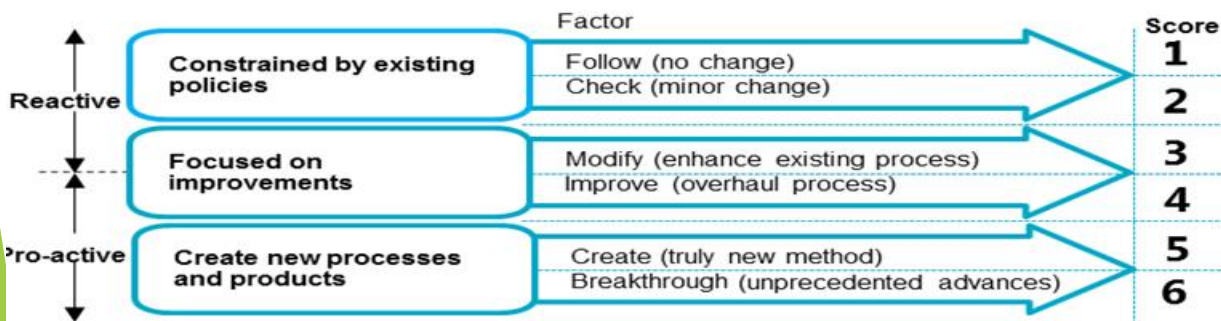
Work	Only 1 way	2 way	↔ + Influence decision	↔ + Short term negotiation	↔ + Long term negotiation
Score	1	2	3	4	5

### 2.B) Type of stakeholder and their interest (frame)



## 3 Innovation *Level of innovation required in the role*

### 3.A) Level of innovation



### 3.B) Complexity

Level	Defined	Difficult	Complex	Multi-dimensional
Score	1	2	3	4

57%  
11%

## 4 Knowledge *Level of knowledge required to do the job*

### 4.A) Level of knowledge

Level	Limited Job Knowledge	Basic Job Knowledge	Broad Job Knowledge	Expertise	Professional Standard	Org. Generalist / Specialist	Broad Practical Experience	Broad & Deep Practical Experience
Score	1	2	3	4	5	6	7	8

### 4.B) Role in organization

Level	Team Member	Team Leader	Teams Manager
Score	1	2	3

### 4.C) Geographic spread of working

Level	Domestic	Regional	Global
Score	1	2	3

An additional factor of Risk with a weightage of 2% may be applicable for certain roles. Risk factor has 2 dimensions: Risk and Environment:

# Position Grading

Grade IV



Grade III



Grade II

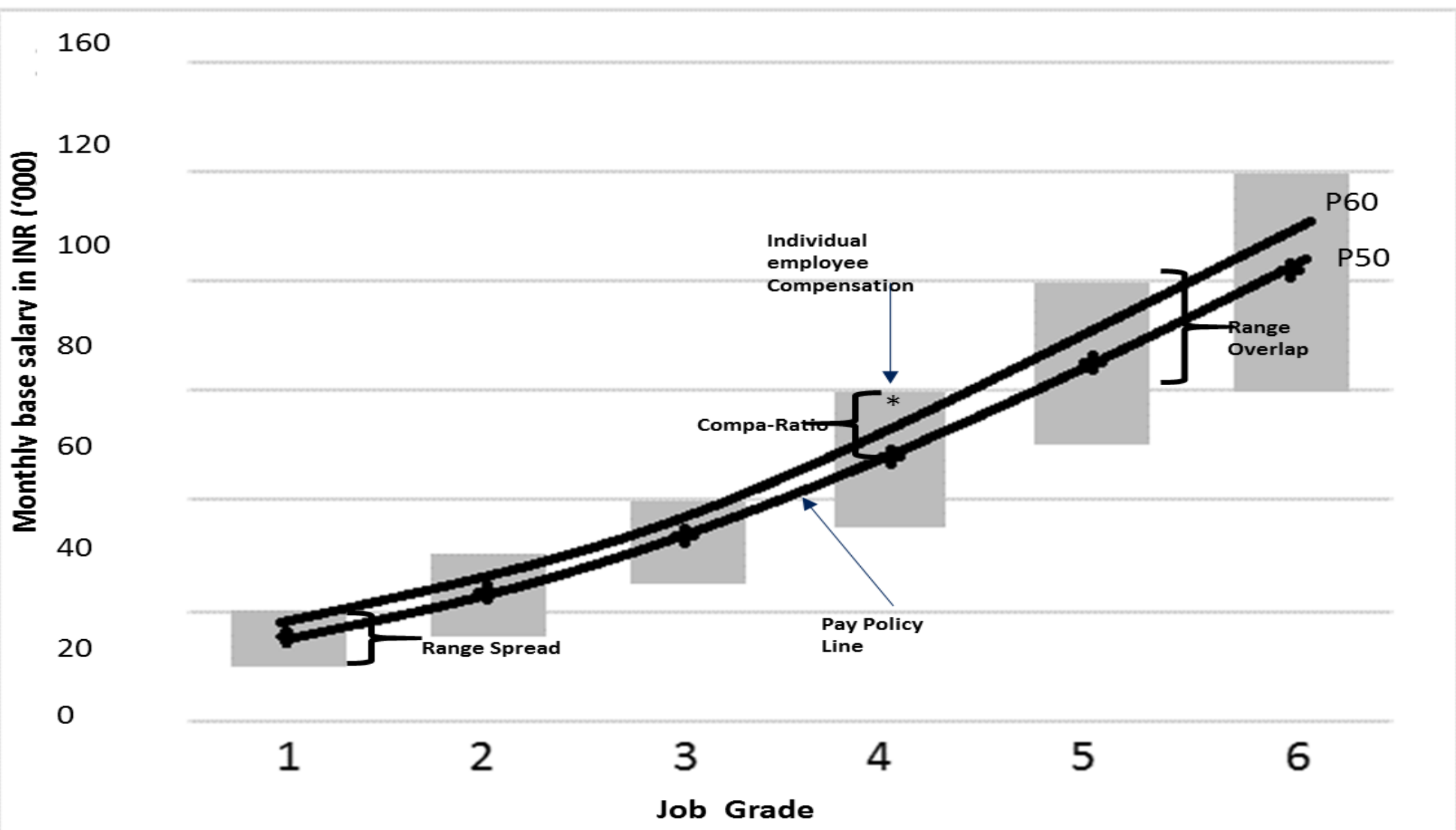


Grade I



## What is position grading?

- Position grading is:
  - Process of assigning Grade to a Position using job evaluation tool
  - Based on the evaluation of a Position against critical factors such as functional knowledge, business expertise, leadership, problem solving and nature of impact
- Grades are the foundation of compensation, benefits and talent programs.



# Common Terms in Compensation

- ▶ **Range Spread:** is the difference between the minimum and maximum salary range expressed as a percentage of the grade minimum [Range spread = (Grade maximum- grade minimum)/ Grade minimum]. The degree of range overlaps depend on range spreads and mid-point differentials
- ▶ For developing midpoints within ranges is *Present value-future value formula*
  - ▶ [Present Value = Future Value/ (1+i) ^n ] where
  - ▶ “i” is the percentage difference in mid-points
  - ▶ “n” is the desired grade interval
- *Regression Analysis*, while there is also an accepted practice is to use the average of market pay rate for different jobs within benchmark job groupings
- ▶ Compa-ratio /PIR : comparative ratio is the ratio of the actual pay and the mid-point of the salary range
- ▶ Pay policy line : the stated competitive compensation stand of the organization based on comparison with the market, with different lines indicating the percentile positioning

# Base Salary Overview

The objective of the base salary program is to pay salaries that are competitive with the external labor market given a position's role and responsibilities, while reflecting an individual's experience and performance over time.

## Consider the External Labor Market

- Identifying appropriate competitors
- Matching selected positions with those competitors' positions
- Recognizing appropriate local, regional or national labour markets
- Most organizations adopt a consistent competitive positioning which is based on base salary and over 90% target the midpoint at the 50<sup>th</sup> percentile of the market\*.

\* "Salary Structure Policies and Practices," WorldatWork and Deloitte Consulting LLP, October 2012,

◦ <https://www.worldatwork.org/waw/adimLink?id=65885>.

# Pay Competitiveness

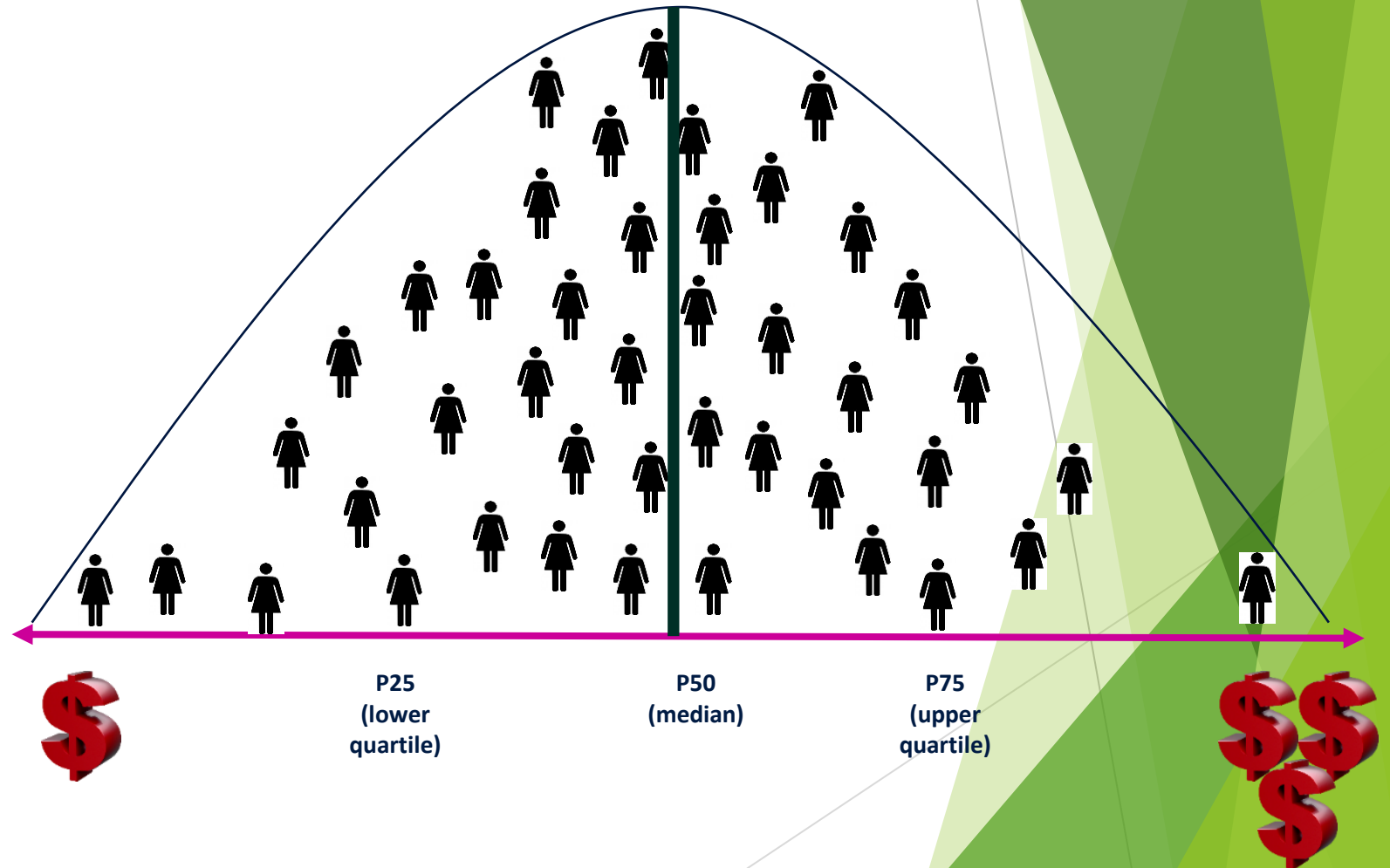
There are a number of people holding a similar job in different companies in the market. They are being paid differently.

Independent company collects the pay information and runs statistics on annual basis.

Different companies would have different pay positioning based on their own compensation philosophy.

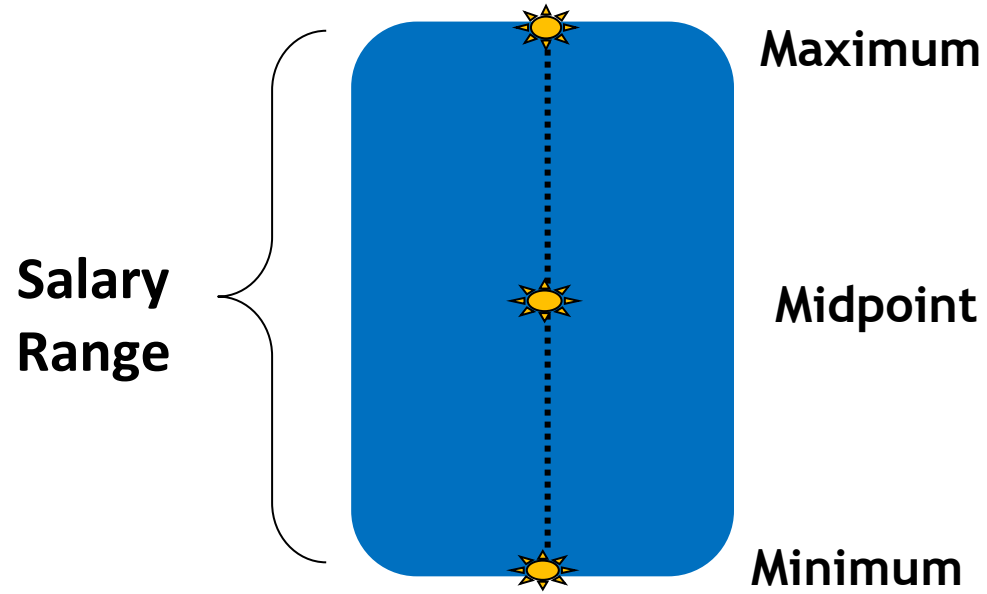
## Pay Positioning :

Annual Total Cash at P50 among companies in same industry with similar product lines and business model



# How to Translate into Salary Structure

Salary Range is a full range of base pay opportunity for a position and provides enough flexibility for individuals to grow within each grade



- **Maximum** is a maximum value of a salary range (*i.e. more senior or experienced associates*)
- **PIR (Position-in-range)** is 100%
- **Midpoint** is where the pay positioning for the company
- **Midpoint** is a middle pay value of a salary range - represents the market competitiveness for a position or grade (*i.e. fully qualified associate*)
- **PIR (Position-in-range)** is 50%
- **Minimum** is a minimum value of a salary range (*i.e. new or developing associate*)
- **PIR (Position-in-range)** is 0%

Salary range is defined as **80% to 120%** of the midpoint

- Midpoint = Fully competent in role
- Minimum to Midpoint = New to job, learning, gaining experience / skills or have been in the role for some time but performance is below average
- Midpoint to Maximum = Consistently high performance for extended period of time, high level of related experience, career at plateau

Associate Name	Associate's CTC	Market Survey Report				Deviation From the Market				Position In Range (PIR) compare to market
		25P	50P	60P	75P	25P	50P	60P	75P	
A	700,000	738,061	819,964	845,866	989,272	95%	85%	83%	71%	Below 25th P
B	800,000	738,061	819,964	845,866	989,272	108%	98%	95%	81%	Between 25th P & 50th P
C	830,000	738,061	819,964	845,866	989,272	112%	101%	98%	84%	Between 50th P & 60th P
D	900,000	738,061	819,964	845,866	989,272	122%	110%	106%	91%	Between 60th P & 75th P
E	1,000,000	738,061	819,964	845,866	989,272	135%	122%	118%	101%	Over Max



Graphical representation of your median for each survey level compared with market

Your median data for each survey position

# Paying for Position vs. Person

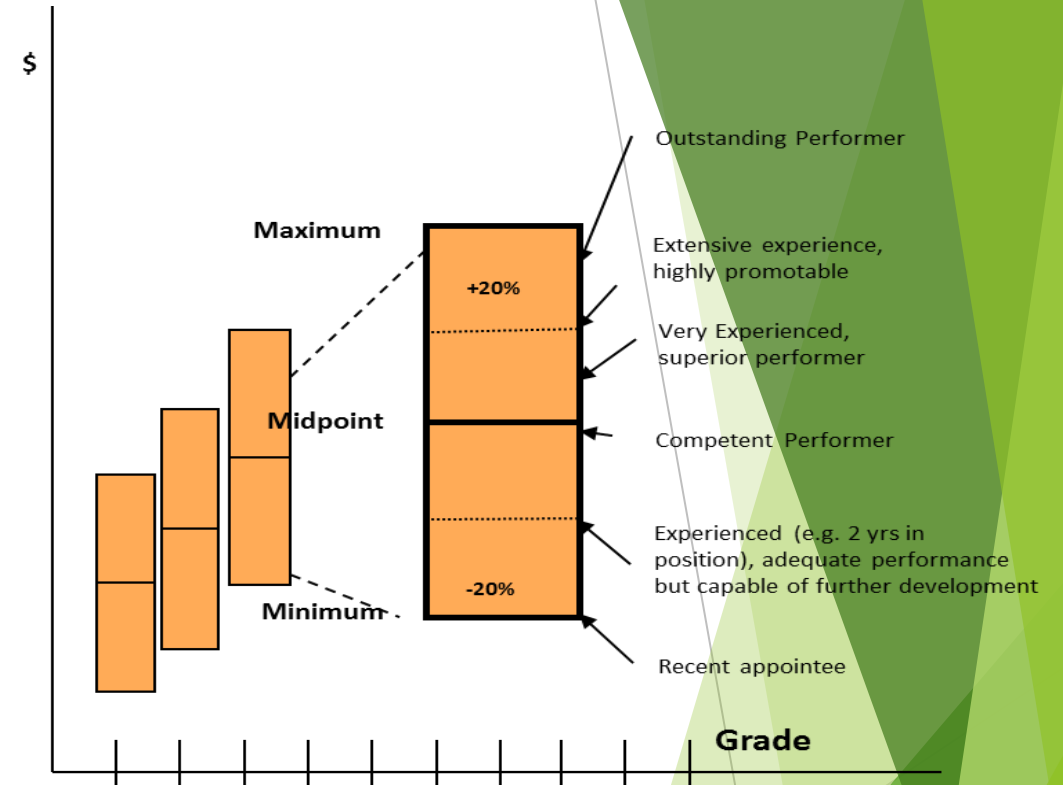
Remember...

A “POSITION” is assigned to a grade:

Minimum and maximum salary range is established for each grade

An “ASSOCIATE” is paid within the grade based on sustained level of:

- ▶ Individual performance
- ▶ Experience
- ▶ Competency growth & potential



Country Merit Budget		CHINA							
>	6.50%	Unsatisfactory	Developing		Strong		Exceptional		
Pay Position in Salary Range	> 67%	0%	2.1%	- 5.0%	4.3%	- 7.1%	6.4%	- 9.2%	
	33% - 66%	0%	3.6%	- 6.4%	5.7%	- 8.5%	7.8%	- 10.7%	
	<33%	0%	5.0%	- 7.8%	7.1%	- 10.0%	9.2%	- 12.1%	

# Incentive Plans

## Long-term Incentive Plans

- ▶ Long-term incentives (LTIs) are compensation in addition to base pay designed to reward performance and productivity based on the achievement of specific individual and/or long-term goals.
- ▶ Only applicable to senior executives


## Short-term Incentive Plans

- ▶ Short-term incentives (STIs) are compensation in addition to base pay designed to reward performance and productivity based on the achievement of specific performance criteria, typically within a year timeframe.
- ▶ Short-term incentives reward employees for doing a good job:
  - ▶ Meeting or exceeding their individual performance objectives, and
  - ▶ Contributing to the achievement of company priorities and goals

## Other incentive plans

- ▶ Sales incentive/ Commission for retail employees
- ▶ Wholesale incentive for account executive with strong sales focus

# Annual Compensation Cycle



# Salary Review & Bonus Allocation

**Annual merit and bonus cycle begins in January every year**

## **Annual Merit Review**

- A major means of implementing the company's reward policies for improving performance and ensuring the continued motivation and retention of employees
- The way that merit process is executed reflects our reward philosophy and the company's culture
- It links to the labor cost budget for the year

## **Short-term Incentives are aimed to:**

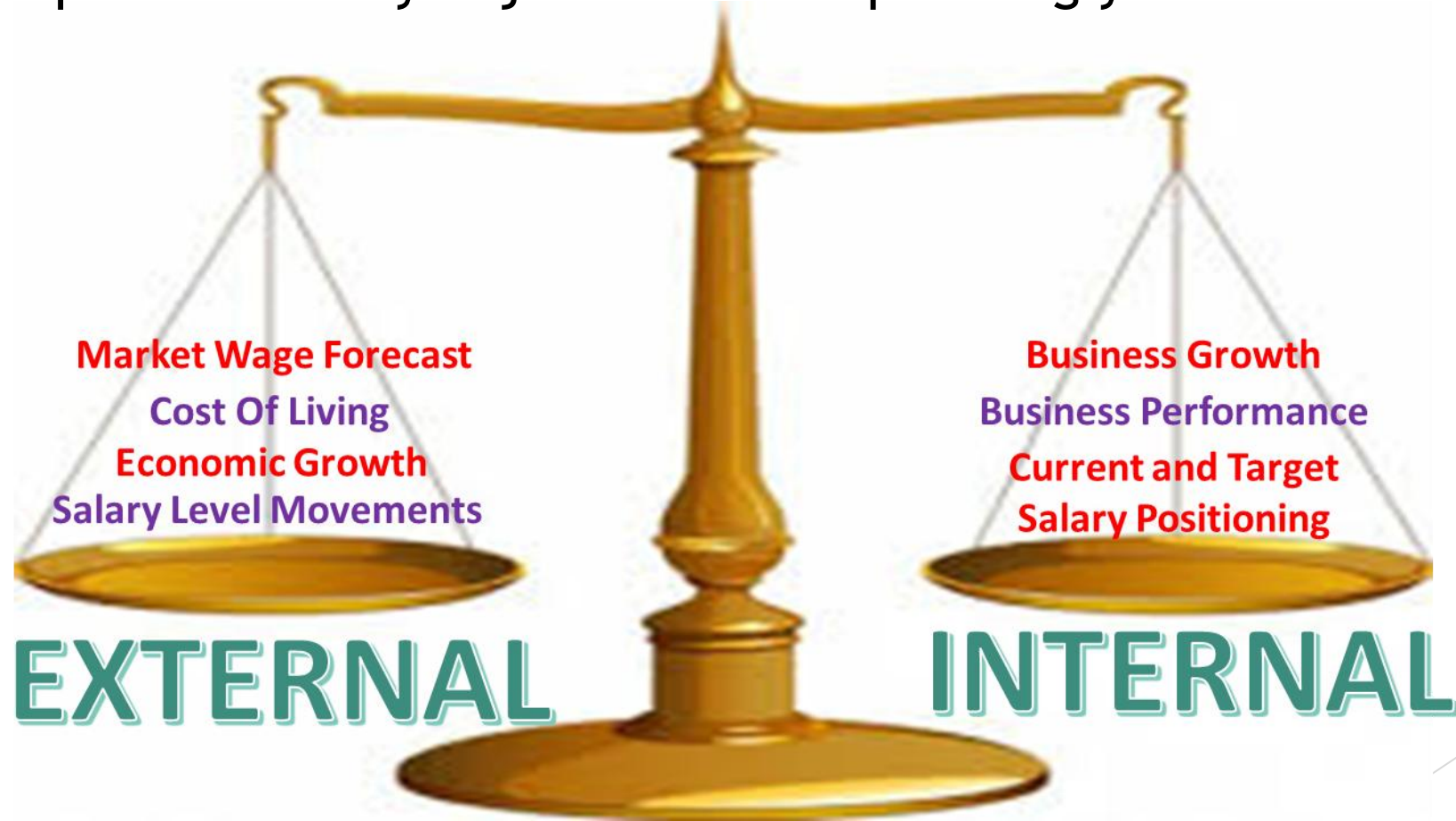
- Motivate all employees, not only the high performers but also the core on whom the company depends;
- Deliver a positive message about the performance expectations of the company
- Differentiate rewards to people consistently and equitably according to their contributions
- Reinforce existing cultures and values which foster high levels of performance, innovation, quality and teamwork

## **Off-Cycle Salary Adjustments / Promotions**

- Limited for unpredictable organization movements or changes

# Labour Cost Budgeting

Set up the pool for salary adjustments in upcoming year



# Making Compensation Decisions - Differentiation

## PERFORMANCE Differentiation

- The degree to which associates' performance ratings differ based on the level of associate performance.
- A highly differentiated distribution implies that there is a range of performance ratings across a population

## COMPENSATION Differentiation

- The degree to which merit pay increases and bonus amounts are distributed based on a differentiated performance rating distribution.
- A highly differentiated distribution means that associates with the highest performance ratings receive substantially more pay than those with lower performance ratings.

# Making Compensation Decisions - Promotion

## Promotion is granted when:

- ▶ Job size / scope has increased significantly
- ▶ Individual's performance has been above average on continuous basis

## Promotion is NOT...

- ▶ Used to recognize seniority
- ▶ A mean to provide higher salary increase outside of merit guidelines

## Promotion increase

- ▶ Typically twice the average merit increase of the respective country
- ▶ New salary after promotion is typically at PIR lower than 50% as the individual is not fully competent to the newly promoted role yet

# Managing Annual Merit Review Process

Step 1 : Gather information

Step 2 : Assign preliminary merit pay based on the information

Step 3 : Adjust pay decision

Differentiation is not significant to promote the pay for performance culture

					Trial One				Trial Two			
Employee	Job Title	Annual Salary	PIR	Perf Rating	New Salary	Inc \$	Inc %	PIR	New Salary	Inc \$	Inc %	PIR
Chris	Product Executive	\$80,000	54%	E	\$84,800	\$4,800	6.0%	61%	\$87,200	\$7,200	9.0%	68%
Beth	Sr Product Executive	\$86,000	20%	S	\$91,160	\$5,160	6.0%	22%	\$92,450	\$6,450	7.5%	25%
Anthony	Administrator	\$40,000	40%	S	\$42,400	\$2,400	6.0%	55%	\$41,800	\$1,800	4.5%	52%
Daniel	Sr Product Executive	\$110,000	75%	D	\$114,400	\$4,400	4.0%	79%	\$111,650	\$1,650	1.5%	72%
Ellen	Product Analyst	\$70,000	85%	E	\$73,500	\$3,500	5.0%	94%	\$72,100	\$2,100	3.0%	88%
<b>TOTAL</b>		<b>\$386,000</b>			<b>TOTAL</b>	<b>\$20,260</b>			<b>TOTAL</b>	<b>\$19,200</b>		

Merit Budget is 5% = \$19,300

Total merit amount has exceeded the pool



# Thanks!

Any questions?