

# Compensation Management & Reward Process

## ***Instructor***

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## ***Introduction & Course Objectives***

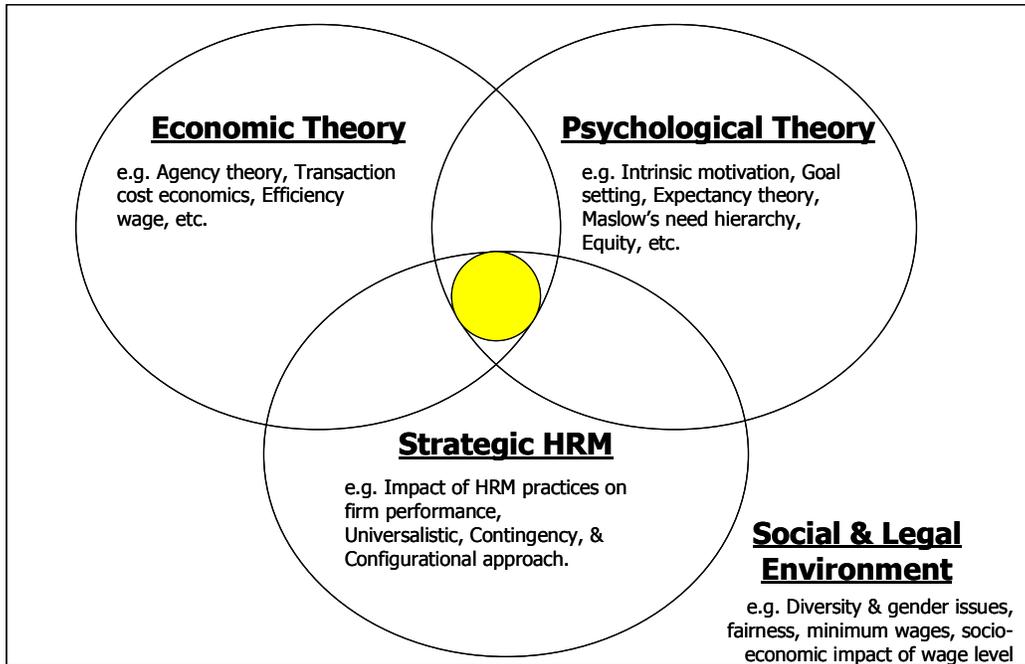
Human Resource Management (HRM) refers to the policies, practices, and systems that influence employees' behavior, attitudes, and performance (Noe, et al. 2006). Compensation management constitutes one of the most important processes within HRM. As practicing managers, the subject of Compensation is important to you in three ways. Firstly, you may someday (i.e. if you are not already in the HR function!) decide to work in the HR department to get exposure prior to moving into a general managerial role. At that time you will be directly responsible for designing and managing an effective compensation system. Even if you do not chose to move into an HR role, as a line manager having responsibility for a team of people, you will be responsible for attracting, assessing, and motivating the people working under you. For line managers, compensation of their subordinates is often a major topic of discussion area during recruitment, performance appraisal, and during their routine attempts at motivating their team to give off their best. Hence, it is imperative that you know enough of compensation policies and practices to be able to adequately guide and support your employees. And finally, even if you chose to remain in a non-leadership (e.g. expert) role, as an employee you (as an individual) are likely to be impacted by the compensation policies and practices of your company. Hence, it makes sense to have a good understanding of these policies and practices and their impact on the individual, the organization, and society.

The course has three broad objectives. At the end of the course, students should:

- a) Understand the economic, psychological, and Strategic Human Resource Management (SHRM) principles underlying executive compensation and discuss their interaction in a socio-legal environment.
- b) Be familiar with the process of designing and managing a compensation system such that it meets the needs of all stakeholders.
- c) Become sensitive to some of the current issues in compensation management (e.g. diversity, social equity, ethics, etc.)

## Pedagogy

In tune with the above objectives, our study of Compensation will follow the integrated model shown below. The model gives an overview of the topics that we will cover during our discussion on compensation and highlights that we will approach the subject of compensation by understanding the interaction of economic theory, psychological theory, and strategic HRM in a socio-legal environment.



## Reference texts

- Milkovich, G. T., & Newman, J. M. (2005). *Compensation [Eighth Edition]*. Tata McGraw-Hill Publishing Company Limited (Reference text).
- Henderson, R. I. (2006). *Compensation management in a knowledge-based world [Tenth Edition]*. Pearson Education (Reference text).

## Grading

<i>Component</i>	<i>Marks Allotted</i>
Class participation & Preparedness Class participation and preparedness will be tested individually through oral questions asked by the faculty. Students are expected to come to class having thoroughly read the required reading materials and having completed the home-work assignments given. <b><i>Students who are not prepared with the readings or the home-work assignment may be told to leave the class.</i></b>	<b>25</b>
Quiz 1 (after Session 8)	<b>25</b>
Quiz 2 (after Session 14)	<b>25</b>
Individual project	<b>25</b>

## ***Individual project***

Each student will be required to complete an individual project which will involve an in-depth study of a particular topic of his or her interest related to compensation. The project will be evaluated along the following milestones:

<b><i>Milestone</i></b>	<b><i>Deadline for submission</i></b>	<b><i>Marks allotted</i></b>
1) Selection of topic	Prior to start of Session 5	Students who fail to submit their topics on time will be allotted topics by the faculty.
2) Literature review. The literature review will include a structured summary of <u>at least 20 articles</u> (from newspapers, magazines, journals, internet websites, etc.) related to the topic of their interest. As a conclusion to the literature review, the student must identify <u>at least 5 questions</u> which he/she would like to investigate/validate with practicing HR managers.	2200 hrs on March 30 <sup>th</sup> , 2008	10* (assessment will be based on contemporariness & relevance of the articles; clarity of presentations; & clear referencing)
3) Field study The field study will involve discussion with <u>at least 5</u> practicing HR managers. The discussion will center on the 5 questions identified in the literature review and the student will capture the managers' experience and insight. The output of the field study will be appended to the literature review.	2200 hrs on April 8 <sup>th</sup> , 2008	5
4) Final presentation	During Session 13 & 14	10

\* Directly copying text from the internet, a book, another student's work, or an article (with or without acknowledging the source) will lead to loss of the entire 10 marks.

Some indicative topics for the individual project are given below...

1. Fringe benefits tax
2. Gender equality in compensation
3. CEO compensation & ESOPs
4. Compensation surveys & external equity
5. Contingent manpower & minimum wages
6. Financial incentives & pay for performance
7. Job evaluation methods & mechanisms
8. Compensation in public sector enterprises
9. Non-financial benefits
10. Expatriate compensation

## Session Plan

No.	Date	Readings
1	Monday 17 <sup>th</sup> March 2008	<b><i>The role of compensation in Strategic Human Resource Management</i></b> ➤ Muczyk, J. P. (1988). The strategic role of compensation. <i>Human Resource Planning</i> , 11(3):225-239. ➤ Williams, M. L., McDaniel, M. A., & Nguyen, N. T. (2006). A meta-analysis of the antecedents and consequences of pay level satisfaction. <i>Journal of Applied Psychology</i> , 91(2): 392-413.
2	Monday 17 <sup>th</sup> March 2008	<b><i>Introduction to the pay model</i></b> ➤ Note on the pay model from Milkovich, G. T., & Newman, J. M. (2005). <i>Compensation [Eighth Edition]</i> . Tata McGraw-Hill, pg. 14-20.
3	Tuesday 18 <sup>th</sup> March 2008	<b><i>Internal alignment</i></b> ➤ Jaques, E. (1979). Taking time seriously in evaluating jobs. <i>Harvard Business Review</i> , Sep-Oct, 124-132. ➤ Morgeson, F. P., & Campion, M. A. (1997). Social and cognitive sources of potential inaccuracy in job analysis. <i>Journal of Applied Psychology</i> , 82(5): 627-655. ➤ Evaluating work: Job evaluation [Chapter 5, Milkovich & Newman (2005)]
4	Tuesday 18 <sup>th</sup> March 2008	<b><i>External competitiveness</i></b> ➤ Designing pay levels, mix, and pay structures [Chapter 8, Milkovich & Newman (2005)] ➤ Cascio, W. F. (2007). Decency means more than “Always low prices”: A comparison of Costco and Wal-Mart’s Sam’s Club. <i>Academy of Management Perspectives</i> , Aug, 26-31.
5	Wednesday 19 <sup>th</sup> March 2008	<b><i>Measuring individual contributions</i></b> ➤ Kaplan, R. S., & Norton, D. P. (1992/2005). The balanced score card: Measures that drive performance. <i>Harvard Business Review</i> , Jul-Aug, 172-180. ➤ Kerr, S. (1995). On the folly of rewarding A while hoping for B. <i>Academy of Management Executive</i> , 9, 7-14. ➤ Kerr, S. (2003). The best laid incentive plans. <i>Harvard Business Review</i> . Jan, 27-37. ➤ Ranking & rating instruments & formats [excerpt from Henderson (2007). Pg. 342-345.]
6	Wednesday 19 <sup>th</sup> March 2008	<b><i>Rewarding individual contributions (economic theories)</i></b> ➤ -Note on economic theories [excerpt from Henderson (2007). Pg. 38-46.]
7	Thursday 20 <sup>th</sup> March 2008	<b><i>Rewarding individual contributions (motivation theories)</i></b> ➤ Note on motivation theories ➤ Deci, E. L., Koestner, R., & Ryan, R. M. (1999). A meta-analytic review of experiments examining the effects of extrinsic rewards on intrinsic motivation. <i>Psychological Bulletin</i> , 125(6): 627-668. ➤ Meyer, H. H. (1975). The pay for performance dilemma. <i>Organizational Dynamics</i> , 3, 39-50.
8	Thursday 20 <sup>th</sup> March 2008	<b><i>Pay for performance &amp; incentives management</i></b> ➤ Hall, B. J. (2002). Incentive strategy within organizations: Objective performance measurement and subjective performance evaluation (excerpt). <i>Harvard Business School Note No. N9-902-131</i> . ➤ Zehnder, E. (2001). A simpler way to pay. <i>Harvard Business Review</i> , 79(4): 53-60. ➤ Steinbrink, J. P. (1978). How to pay your sales force. <i>Harvard Business Review</i> , Jul-Aug, 111-121.
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9	Friday 11 <sup>th</sup> April 2008	<b>Top management compensation</b> ➤ Hall, B. J. (2000). What you need to know about stock options. <i>Harvard Business Review</i> , Mar-Apr, 121-129. ➤ Grossman, W., & Hoskisson, R. E. (1998). CEO pay at the crossroads of Wall Street and Main: Toward the strategic design of executive compensation. <i>Academy of Management Executive</i> , 12(1): 43-57. ➤ Conyon, M. J. (2006). Executive compensation and incentives. <i>Academy of Management Perspectives</i> , Feb, 25-44.
10	Friday 11 <sup>th</sup> April 2008	<b>CEO compensation debate</b> ➤ Singh, M. (2007). <i>Full Text of Prime Minister Dr Manmohan Singh's landmark speech at CII's Annual Session on May 24, 2007.</i> ➤ Kakani, R. K., & Ray, P. (2002). Managerial remuneration in India: Of changing guidelines, fatter pay packets, and incentives to performance. <i>XLRI Working Paper: 02-03.</i>
11	Saturday 12 <sup>th</sup> April 2008	<b>Management of compensation systems</b> ➤ Pay delivery administration [Chapter 18 from Henderson (2007).] ➤ Case, J. (2001). When salaries aren't secret. <i>Harvard Business Review</i> , 79(5): 37-49. ➤ International compensation [excerpt from Henderson (2007). Pg. 404-407.]
12	Saturday 12 <sup>th</sup> April 2008	<b>Diversity and fairness in compensation</b> ➤ Blau, F. D., & Kahn, L. M. (2007). The gender pay gap: Have women gone as far as they can? <i>Academy of Management Perspectives</i> , Feb, 7-23.
13 & 14	Sunday 13 <sup>th</sup> & 14 <sup>th</sup> April 2008	<b>Compensation in practice-I &amp; II</b> ➤ Presentations by students

## **Timeliness & Attendance**

Attendance will be taken by the faculty immediately after the class. Students who enter after the attendance has been taken (for whatever reason) will be marked absent. Students who are unable to attend due to medical reasons must inform the faculty by email, sms, or phone prior to the session that they are likely to miss. Before attending the next session, students must submit a letter mentioning the reason for their absence supported by a medical certificate. Failure to do so will result in complete loss of marks for any quiz, presentation, or oral questions evaluated during that session.

## **Reference readings**

- Job analysis [Chapter 4, Milkovich & Newman (2005)]
- Job analysis formats & methods [except from Henderson (2007). Pg. 121-123 & 138-139.]
- Job evaluation methods [except from Henderson (2007). Pg. 198-203.]
- Action words (for writing job descriptions) [excerpt from Henderson (2007). Pg. 502-507.]
- Mazumdar, D. (2008, February 9). Dissecting India's unorganized sector. *Economic & Political Weekly*, 27-33.
- Indiresan, P. V. (2005, April 4). Fringe benefit and the multiplier effect. *Hindu Business Line*.
- Sengenberger, W. (2001). Decent work: The International Labor Organization agenda. Retrieved from <http://www.ilo.org/public/english/decent.htm> on February 27, 2008.
- Colella, A. Paetzold, R. L., Zardkoohi, R. L., & Wesson, M. J. (2007). Exposing pay secrecy. *Academy of Management Review*, 32(1): 55-71.
- McConvill, J. (2006). Executive compensation and corporate governance: Rising above the "Pay-for-performance" principle. *American Business Law Journal*, 43(2): 413-438.