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White Paper		W. E. F. dd/mm/yy

Best Practice
eXensys – Structured Compensation and Perks
Management



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Introduction:

It is extremely important to have a well-designed compensation system. A properly planned and administered salary structure is one of the most important aspects of Payroll Management. Salary administration addresses the salary issues such as how much amount is to be paid as salary to the employees and how it is paid and so on.

Compensation is defined as money received by the employees for the performance of their work, benefits and other services provided by the organizations. Money is included under direct compensation (popularly known as wages, i.e. gross pay). The benefits (perks) are included under indirect compensation and it may consist of Interest Free Loans, Free Meals, Free Education, and Gifts Vouchers and so on.

eXensys HCM Payroll follows a structured compensation management based on the Payroll Groups. Payroll Group is a logical group of employees that have a common payroll structure. Under a payroll group the required policy can be mapped and it can be assigned to the employees having a common policy structure. Also, individual payroll policy mapping can be done based on the requirement. This will reduce the effort of doing individual payroll mapping for each employee, if they have a common policy structure.

eXensys HCM Payroll has a pre-defined Heads under Perks Management system as per the Indian Income Tax rules. Earlier the Perks are considered, only for the benefit of top level management and senior positions, but now it is provided for almost all the employee levels in an organization. So, it became a vital activity of the employer to manage the perks of the employees.

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Overview:

Compensation is the act of compensating or the state of being compensated. It can also be referred as the act of paying or receiving money for a service or loss.

What is Compensation Structure?

Although money isn't everything, it is certainly one of the top issues potential employees look at when attending interviews in new companies. The candidates check whether the company is offering a straight basic salary structure or an incentive-based pay structure. Compensation structure consists of various salary grades and different levels of jobs or groups of jobs.

The term wage structure is used to describe wage/salary associated with a particular grouping. The grouping can be according to occupation or category such as Management, Executives, Staff, and Workmen and so on.

While determining the compensation structure of the employees; it is not only the mathematics but other aspects such as biology (a study of living organisms) and psychology (a study of mental condition of living beings) plays a major role.

Hence, we can realize that compensation management is an integral part of the labor market characteristics in order to attract capable employees by the respective organizations. A structured compensation program helps to attract and retain employees, because it is a mechanism of ensuring the company's compensation whether it matches with the market as stated in the pay philosophy and to check whether the internal equity is maintained.

Structure Compensation System Contains:

- Defining the Income and Deduction salary elements.
- Identifying the Pay Structures based on the employee's levels/grades.
- Defining the CTC structure by mapping the Income and Deductions salary elements.
- Mapping the Payroll Structure to a Group of Employees/Individual policy mapping.

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How to define a structured compensation in eXensys HCM Payroll?

The following steps give an idea on how the structured compensation system is defined and maintained in eXensys HCM Payroll Module:

1. Defining Income and Deduction Salary Elements

Based on the requirement, a user can define Income and Deduction salary elements. The standard salary elements are the part of the monthly CTC salary elements and all the non standard allowance or deduction elements are monthly varying salary elements.

2. Defining Policies

This process enables to define relevant policies that are applicable to the employees for the generation of payroll. The following policies have to be defined:

CTC Template

This object defines the process of payroll module i.e. how to calculate the payroll and so on. It is associated with a particular Payroll Group/Employee Policy Mapping. There can be 'n' number of policies in an organization, which may be linked with different Payroll Groups/Employee Policy Mapping on different dates. This object will define the complete structure of the salary. Using this process, we can define the guidelines such as which income/deduction heads are to be included while calculating the salary and which denominator and numerator is to be used for the salary calculation.

It is important to note that based on this policy, the salaries will be calculated and a policy cannot be deleted if it is in use.

Overtime Policy

This process helps to create an over time policy. By defining different OT policies, different OT rates can be defined. The OT rates can be assigned to the employees through a payroll group or through the policy mapping of the official information. This object is used to create a guideline to be followed when overtime is calculated. In general, it shall happen at the time of salary sheet preparation.

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This feature contains all the policies to be implemented when the over time is calculated. Using this policy, the information such as the working hours of the employee, whether the working hours of an employee has reached or crossed the minimum working hours, whether the amount can be carry forwarded or not will be defined .

This process also gives the information to you as what to do when the employee comes on a holiday to work, whether it can be considered as over time, how much money can be paid and what amount should be given and so on.

Defining Bonus Policy

This option helps in defining the bonus policy by specifying the effective from and to dates and also mapping the formula defined for bonus under Formula Builder. The same policy can be mapped to Payroll group or employee CTC mapping, based on the requirement.

Perks Management

Perks are a kind of benefits either in the form of cash or a facility given to employees in addition to their wages or salaries. Where an employee exchanges (cash) wages for some other form of benefit, it is generally refereed as a salary sacrifice arrangement. In most of the countries, employee benefits are taxable to at least some degree. Perks are taxable according to Indian Tax Laws.

The term perqs or perks is often used colloquially to refer the benefits in discretionary nature. Often, perks are given to employees who are doing notably well and/or have seniority. The Perks which are pre-defined in eXensys HCM are as follows:

1. Accommodation
2. Cars/Other Automation
3. Sweeper, Gardener, Watchman or Personal Attendant
4. Gas, Electricity, Water
5. Interest free Loans
6. Holiday Expenses

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7. Free Travel
8. Free Meals
9. Free Education
10. Gifts, Vouchers and so on
11. Stock Options
12. Club Expenses
13. Credit Card Expenses
14. Use of Movable Assets by Employees
15. Value of any other Benefit/Service/Privilege
16. Transfer of Assets to Employees

Comparative Analysis between Structured & Unstructured Compensation System

Unstructured Scenario	Structured Scenario
User Efficiency is Low	User Efficiency is High
Polices Defined and Ad-hoc	Structured Policies Defined with Adherence
Low Reliability	High Reliability
Ineffectual Payroll Management	Effective Payroll Management
Manageable for less employees count	Employee count no bar
Dependency on Individuals	No Dependency, because structure defined once and continuous until there is a change
Unprocessed Data	Processed Data

Benefits:

1. Unification of different compensation systems.
2. Defining the compensation structures once and mapping it to employees, instead of defining salary structure for each individual employee.
3. Helps to track the employee compensation growth history over a period.
4. A structured compensation plan facilitates the employees to understand the precise relationship between performance and the incentive reward by knowing the benefits of having a particular salary structure.
5. A well defined Perks can increase the employee motivation, employee retention rate and decrease the attrition rate in order to drive the organization towards goal.

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Conclusion:

Defining the structured compensation pay in HCM Payroll process, establishes a well structured and manageable payroll process. Hence, we can realize that structured compensation management is an integral part of the labor market characteristics in order to attract capable employees by the respective organizations. A structured compensation program helps to attract and retain the employees as it is a mechanism to ensure whether the company's compensation matches with the market as stated in the pay philosophy and to check whether internal equity is maintained. The purpose of the perks is to increase the economic security of employees.

