**Compensation & Benefits**

**September 2022 Examination**

**Read the Case and answer the questions given at the end**:-

The firm Egon Zehnder International (EZI), is an "executive talent search" firm that prefers to stick to the old-fashioned way of paying by seniority. They believe that in their business seniority is a key asset since it helps in building intuition & a good network of contacts with clients across the globe, both of which are critical for success. For EZI, seniority is the proxy for “experience” which means that organizational tenure adds to domain knowledge which betters performance.

**However, most Consulting and Law firms** believe **seniority is irrelevant**. They prefer “pay” to be based on individual performance and so employees are paid according to the size of their client billings and how good they are at bringing in new clients.

In contrast, at EZI, there is no formal procedure for tracking the performance of the branches in different countries, let alone individuals. According to the seniority rule, at the close of a given year, a ten-year partner in any office will receive a larger share of the firm’s profits than a five-year partner, even if the ten-yrs partner in the first office lost money and the five-yrs partner in the second office did exceedingly well.

**Accent on QualityExplaining** the huge success of his firm, the founder, Mr. Zehnder had this to say," First, our approach to compensation forces us to hire consultants who have little interest in self-aggrandizement. We hire people who are true team players, people who get more pleasure from the group's success than their advancement. These individuals by nature tend to be highly collaborative. They eagerly share information and ideas about existing and potential clients. Similarly, they pass around information about the executives who might best meet a client's needs. It is this attitude of sharing and cooperation that is sought from these incumbents.

**Second**, our seniority-based system requires us to find people who want to stay with a company for the long haul, and these men and women still exist who want to spend their entire career with EZI. Tenure builds experience and this means a Consultant who has a well-developed network of executive contacts which is immensely beneficial for EZI. We hire professionals who are not only highly educated but who is also trustworthy and humble and who want to work for one company in their entire careers. Such people help the organization to grow and in the end, everyone wins, from the client to the firm to the individual professional”.

**The Payment System**People join this organization as “Consultants” and later they are allowed to become "Partners" after they have proved their worth. As Consultants, they are paid annual bonuses not on the financial value of individual business conducted, but on how well they have supported their colleagues and how they have contributed to the firm's reputation as a whole. Performance is not restricted to financial matters. For instance, if a consultant has published an article in a reputable business journal, it is marked to his/her credit because the contribution has benefited Egon Zehnder's reputation.

For "Partners", compensation comes in three ways; salary, an equity stake in EZI, and profit shares. To begin with, each partner has an equal number of shares in the firm's equity, whether he has been a partner for 30 years or one year. The shares rise in value each year because the Co puts 10% to 20% of our profits back into the firm. When a partner retires or leaves the firm, he sells back the shares, keeping the difference between the value of his shares at the time of his election to partnership and their value at the time of his departure. Obviously, the longer you stay, the more valuable the shares become. If you stay for five years, your shares will probably double in value. The remaining 80% to 90% of the profit is distributed among the partners in two ways. Sixty percent is divided equally among all the partners, and the remaining 40% is allocated according to years of seniority.

Mr. Zehnder further adds," As we grew, I became more convinced of the fairness of rewarding seniority. Our system, by rewarding seniority, also helps us build the right kind of human capital for our profession. I know that seniority is a very unfashionable idea these days, especially in America, which worships youth and energy. But in our profession, seniority is a key asset: it is only through experience that our consultants can hone the intuition they need to operate successfully in a people-intensive profession. It is also through the length of service that a consultant builds a strong network of contacts".

Mr. Zehnder's philosophy is à No compensation system can work unless it promotes the right kind of behavior among professionals. Proponents of pay-for-individual-performance systems argue that their plans encourage managers to generate more revenue, which more than compensates for any administrative burdens the systems may impose. But those systems have one great drawback: they encourage people to further their interests aheadof the interests of clients and the organization as a whole.

People are the to find the "right type" of people for EZI, the interview process is extremely intensive and their selection has to be vetted by many people across the hierarchy. Apart from technical and professional questions, personal questions are also posed to the candidates, mainly to know whether the person has integrity, whether he/she is honest, sincere, and adheres to a proper value system. This testing of "integrity" and attitude continues even when a Consultant is elevated to the rank of a "Partner. The transition to "partnership" is through a rigorous process as the test is not to see the number of clients they are bringing in, but to make sure they are hardworking, honest, collaborative, and entrepreneurial.

Mr. Zehnder's final advice à EZI's system cannot be copied by all types of organizations, especially in those where there can be big differences in the types of work that people do. For example, the reward for the head of R&D, cannot be decided in the same way as the reward of the head of sales. But at professional services firms, like law firms, where the work is quite homogeneous (what a lawyer does in Tokyo, for instance, isn't all that different from what a lawyer does in Zurich), in these cases, a compensation system similar to EZI, which reinforces common values and sets common expectations, could be adopted.

1. **After a thorough analysis of this case, identify all the "explicit and implicit factors" a part from “Seniority” that contributes to the success of the form EZI?**

**Ans 1.**

**Introduction**

The case study and the interesting firm EZI (Egon Zehnder International), follow such an "executive talent search" that prefers to stick to the **old-fashioned way of paying by seniority**. *According to the core value of this firm, they fathom the belief that seniority is the key asset or the key factor as it helps in building a good network of contacts of clients & intuition across the globe, both of which are rather critical for the success of their business.*

*EZI, in contrast to other consulting and law firms, follows that "seniority" is the yardstick for "experience". This is, according to them, organizational tenure empowers one employee with domain knowledge, bettering his/her performance*.

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1. **Suppose, this company is taken over by another and this company replaces the "Seniority" system of payment with the "Pay for Performance" system. Discuss what could be the impact of this change upon the i) morale ii) culture and iii) profitability of the company.** **(10 Marks)**

**Ans 2.**

**Introduction**

Performance-based pay structures mean encouraging employees to work harder, however, they also can cause higher levels of stress in workers, leading to a lower label of job satisfaction. Performance-based pay has earned popularity specifically among employers over the years. However, according to some research findings it might not be as effective, as many from both the groups (employers & employees) believe. The reason is instead of motivating employees, there are a few types of

1. **The Job Description and Job Specification of the position of a "Payroll Assistant" in an office are given below. Say, you are using the "Point Rating" method of Job Evaluation.**

**So, what are the Compensable factors and the sub-factors that you would select to evaluate this job? Also, decide the appropriate weights of the factors and subfactors that you choose. (5 Marks)**

A) Job Summary (Payroll Assistant)

Feeds employee "time worked" and other pay-related data in computer to calculate wages and deductions and issue paychecks

**B)** Essential Job Tasks

• Process and issue employee paychecks and statements of earnings and deductions.

• Compute wages and deductions and enter data into computers.

• Compile employee time, production, and payroll data from time sheets and other records.

• Review time sheets, work charts, wage computation, and other information to detect and reconcile payroll discrepancies.

• Verify attendance, hours worked, and pay adjustments, and post information to records.

• Record employee information, such as exemptions, transfers, and resignations to maintain and update payroll records.

• Issue and record adjustments to pay related to previous errors or retroactive increases.

• Complete time sheets showing employees’ arrival and departure times.

**C)** Job Context

Works indoors in an airconditioned environment and communicates mostly via telephone.

**D)** Knowledge, Skills, and Abilities Required

• Knowledge of administrative and clerical procedures and systems such as word processing, managing files and records, designing and completing forms, and other office procedures and terminology.

• Knowledge of principles and processes for providing customer service.

• Knowledge of math, arithmetic, and statistics to analyze data and solve problems and use Microsoft Excel.

• Uses logic and reasoning to identify the strengths and weaknesses of alternative solutions, conclusions, or approaches to problems.

• Knowledge of the English language to understand written sentences and paragraphs in work-related documents.

• Gives patient hearing to other people and interacts effectively to understand pay-related problems

• Communicates effectively in writing as appropriate for the needs of the audience.

After a careful reading of his job duties, responsibilities, and knowledge requirement, you are required to assess this office job and convert it into points **(as per the Point Rating Method of Job Evaluation).**

**Ans 3a.**

**Introduction**

As an HR Manager, I have to decide to use the points methods for evaluating the Payroll Assistant job. I need to use 3 general compensable factors and 2 sub-factors for each job. The general factors are **Skill**, weighted at 50%, **Responsibility** weighted at 30% and **Effort** weighted at 20%. My next task will be to calculate the points for each factor and finally calculate each job.

The steps needed in this task are:

1. I have to use the job descriptions related to the Payroll Assistant;
2. I need to determine what the sub-factors percent of weighting is. For instance:

**3.b. For assessing the above job, you have selected the Compensable factors, broken them down (as required) into sub-factors, and also allocated appropriate weights. Now, what else needs to be done to have a suitable instrument so that you can convert this job into equivalent points. (5 Marks)**

**Ans 3b.**

**Introduction**

There are various ways of designing a pay structure. Based on business culture, strategy, and work content, an organization needs to ascertain or find out what approach is best for them. For instance, HR may recommend that if the Payroll Assistant in operations and the administrative assistant in HR perform functional tasks