**Compensation & Benefits**

**April 2024 Examination**

**Q1. The major elements in the “wage structure” of a mid-sized manufacturing company are as follows:- a) Basic Pay; b) Yearly Increments to Mgl staff based on Pay grade c) Individual Incentive scheme to workmen and d) Benefits include i) Pickup & drop facility by Co’s own Transport Dept ii) free lunch in Co’s Canteen iii) Medical Benefit as per ESI scheme for workmen category & actuals for Mgl staff & other statutory b’fits like PF & Gratuity. The company manufactures electrical components for the auto industry and lately it has not been doing too well because of increased competition, mainly from Chinese companies. Accordingly, the Co has requested you to recommend suitable cost saving measures to increase the profitability. What will be your recommendation? (10 marks)**

**Ans 1.**

**Introduction**

In addressing the challenge of enhancing profitability for a mid-sized manufacturing company in the competitive electrical components sector, particularly against the backdrop of intensifying competition from Chinese companies, it's crucial to scrutinize and optimize the existing wage structure. This structure encompasses elements such as Basic Pay, Yearly Increments for Managerial (Mgl) staff, Individual Incentive schemes for workmen, and various benefits including transportation, meals, medical, Provident Fund (PF), and Gratuity. While these components are fundamental for employee satisfaction and retention, the financial strain they impose necessitates a strategic review. The objective is to balance cost-

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**Q2. Preeti and Susan were Chartered Accountants and they had about twenty years of experience each in working with reputed Audit & Financial Consultancy firms. Both resigned from their positions and started a small Audit firm of their own after taking a loan from a bank. Since they were a “start-up” company they employed a few qualified people and also paid them better than the market rate.**

**Initially they struggled, but after some time their financial condition got better and by the end of seven years they reached a very stable position. By that time, they were employing fifteen people who had been inducted into the Co at different levels drawing different pay. However, as there was no regular pay structure, there was wide disparity in the pay drawn by different employees. To rectify this situation, both Preeti & Susan decided to request you to give a framework for employee’s pay fixation. (10 marks)**

**The category of the people employed by the Co is given below:-**

**i) Partners  Chartered Accountants who had about 10 yrs of experience – 3**

**ii) Jr Partners  Cost Accountants having different yrs of experience – 2**

**iii) Audit Assistants  Graduates with Accountancy as major (diff experiences) – 6 iv) Clerk  Ordinary graduates - 3**

**v) Office Boy  Higher Secondary -1**

**Ans 2.**

**Introduction**

In the dynamic landscape of small business growth, Preeti and Susan's Audit firm presents an interesting case study in the evolution of compensation strategies. Their journey from a startup to a stable business entity highlights the critical role that an effective pay structure plays in maintaining equity and motivation among employees. Initially, their strategy of offering above-market rates served well in attracting qualified talent. However, as the firm grew, the lack of a structured pay scale led to disparities, undermining fairness and potentially affecting employee morale and productivity. The challenge now lies in developing a comprehensive framework for employee pay fixation that is equitable, competitive, and

**Q3. Sunil was in his final year of the Diploma Course in Mechanical Engineering when he got a decent job in a medium sized Engineering company manufacturing components for the auto industry.**

**The factory had three main units which were, i) Foundry section which prepared the moulds for casting ii) Casting & Finishing section where the machine parts were cast and cleaned iii) Engineering section where the casting was machined according to the client’s requirements. There were also the usual supporting departments like Purchase, Accounts, Maintenance and Despatch.**

**Sunil was appointed as a “Trainee Engineer” in the Foundry section and was asked to look after the Spare Parts function of the Foundry. The job was not difficult but cumbersome as the Foundry required thousands of mainly small items like linseed oil, sand, special resins, nails of various sizes etc. which were difficult to keep track. However, Sunil put in a lot of effort to understand the entire process and since he was quite intelligent, within a short time, he developed a complete mastery of the entire system. His Supervisor was therefore very pleased and so confirmed him in the position of “Junior Engineer” after expiry of only six months instead of twelve.**

**For the first three years Sunil gave his best to create a good name for himself and to build the foundations of a good career in the organization. He made many suggestions in the procurement process of Spares and also introduced manufacturing of some critical spares in-house which till date were being procured from outside at considerable cost. All these innovations earned him a very good name and so at the end of three years the management gave him an out of turn promotion to “Assistant Engineer”.**

**At this time, he found that other “Assistant Engineers” in the Engineering and Casting sections got considerably more than him as salary and other allowances. His Supervisor told him that this difference was expected as he was working in a “Supporting” department whereas the others were linked with the direct production process. Sunil felt his job was also no less demanding and challenging than the others and he had also contributed in many ways to bring considerable cost savings for the organization. Therefore, he felt that his salary should also be at par with them. So he requested the Chief Engineer (Foundry) for a transfer to the production area but his request was summarily rejected as he was too valuable to be released.**

**Sunil wanted a change of duties, not only for the better pay but also because he had mastered the work in his section and it was no longer challenging. He was also sure that he could contribute much in a new area. After six months he appealed again to the Chief Engr (Foundry) for transfer but it was again refused without giving him a chance to be heard. So, he felt that the organization was not allowing him to grow and this made him very frustrated. As a result, he lost all his initiative and stopped giving suggestions.**

**At this time, he also found that some of his classmates were earning more than him and this made him more frustrated. Thus, at the end of the fifth year, Sunil discreetly started applying outside. He confided about this to his Supervisor but he advised him to wait and stay in the company as he had a very good future. However, Sunil declined his suggestion as he felt that he was being ignored and Co prevented him from showing his potential. By the end of another year he got a good offer and left.**

**Q3a) Would you blame the Supervisor only for Sunil leaving the company? (5 marks)**

**Ans 3a.**

**Introduction**

Sunil's situation in the engineering company highlights a critical issue in human resource management and employee retention. While his initial enthusiasm and innovations significantly contributed to the company, his subsequent experiences reveal the complexities of career progression, job satisfaction, and compensation fairness within an organization. The case illustrates the challenges faced by employees who feel undervalued and restricted in

**Q3b) Do you feel that “compensation” is the only issue why Sunil Left? (5 marks)**

**Ans 3b.**

**Introduction**

The departure of Sunil from the engineering company he worked for raises fundamental questions about employee turnover and its underlying causes. While compensation is often a significant factor in such decisions, it is rarely the sole reason for an employee's departure. Sunil's case, involving unmet career aspirations and perceived inequities, provides an insightful context to explore the multifaceted reasons behind employee attrition. Understanding the broader scope of Sunil's dissatisfaction requires a nuanced examination of