



***Compensation & Reward
Management
MBHR6002***

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Index-Session 39

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Session Objectives

Long-Term Incentives

Popular Perks

Offered to Executives

Perks on the Decline?

*Reward Components: Professional
Employees*

IBM Dual Ladders

*Maturity Curve: Years Since Last Degree
Relative to Salary*

Sales Compensation Components

*Key Factors: Designing a Sales
Compensation Plan*

Long-Term Incentives

- **Stock option:** right granted an executive to purchase stock at a fixed price over a fixed period of time
 - Incentive stock options (no taxes at grant or exercise for Ee, no deduction as expense for Co)
 - Nonqualified options (do not have restrictions such as minimum holding time or price requirements; taxed as ordinary income at exercise [on difference between exercise price and fair market value at time of exercise], Co may deduct)

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Long-Term Incentives

- **Stock purchase plans:** allow a short time to exercise purchase rights at a set price
- **Restricted stock:** the outright grant of stock to an executive at no or very low cost but subject to restrictions
 - Phantom stock (“units” granted that can be cashed in)
 - Performance-accelerated restricted stock (shares earned earlier if performance targets met)

Long-Term Incentives

- ◎ Performance-based goal attainment plans: provide the executive a number of units or shares of stock if predetermined long-term goals are met within a specified time period
 - > Formula value grants (value based on formula)
 - > Formula value appreciation grants (value based on appreciation of unit over period)
 - > Full-value grants (full value, not appreciation)
 - > Dividend units grants (dividend entitlement)

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Popular Perks Offered to Executives

- ⦿ Physical exam
- ⦿ Company car
- ⦿ Financial counseling
- ⦿ Company plane
- ⦿ Income tax preparation
- ⦿ First-class air travel
- ⦿ Country club membership
- ⦿ Luncheon club membership
- ⦿ Estate planning
- ⦿ Personal liability insurance
- ⦿ Spouse travel
- ⦿ Chauffeur service
- ⦿ Reserved parking
- ⦿ Executive dining room
- ⦿ Home security system
- ⦿ Car phone
- ⦿ Financial seminars
- ⦿ Loans at low or no interest
- ⦿ Legal counseling

Perks on the Decline?

- ◎ 18% of top officers received company car in 2002, down from 56% in 1998
- ◎ 8% received country club membership, down from 54% in 1998
- ◎ 3% received health club membership, down from 23% in 1998
- ◎ 2% received sports/theater tickets, down from 46% in 1998
 - Source: Wall Street Journal, 4/14/03
- ◎ But, 52% of companies covered cost of personal air travel by their CEOs in 2008, w/ median value of \$115k
 - > Another controversial benefit: tax 'gross-ups' on perks (which cover taxes owed by execs for Er-provided perks and other benefits), provided by 38% of companies, w/ median value of \$16.4k
 - Source: Wall Street Journal, 4/3/09
- ◎ 41 of the 200 companies in the 2009 pay survey have eliminated at least one perk, compared w/ 27 in 2008
 - > Biggest target: 'gross-ups' (29 companies nixed at least one such payment)

Reward Components: Professional Employees

◎ *Dual-career ladders*

◎ *Performance-based incentives*

- > Profit sharing
- > Stock ownership

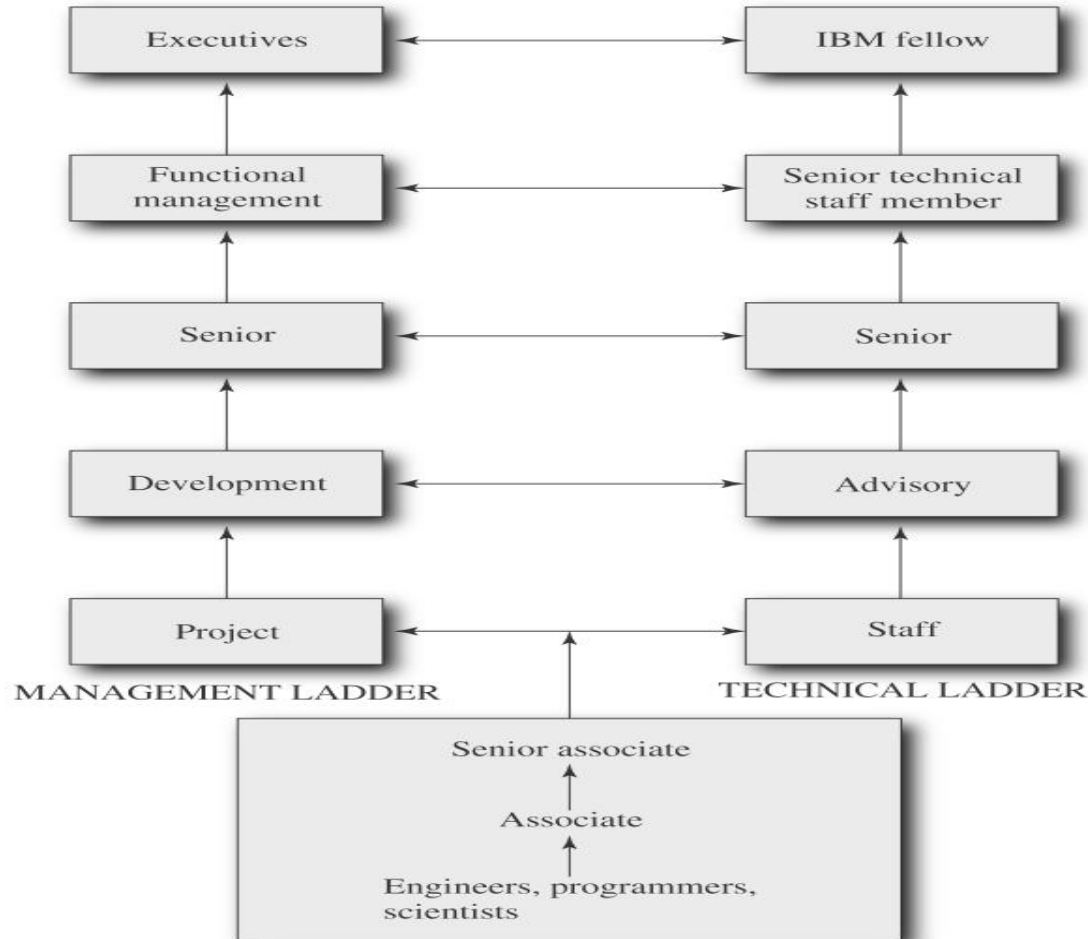
◎ *Bonuses*

- > Completion of projects on or before deadlines
- > Patents
- > Publications
- > Elections to professional societies
- > Attainment of professional licenses

◎ *Perks based on unique needs of professional employees*

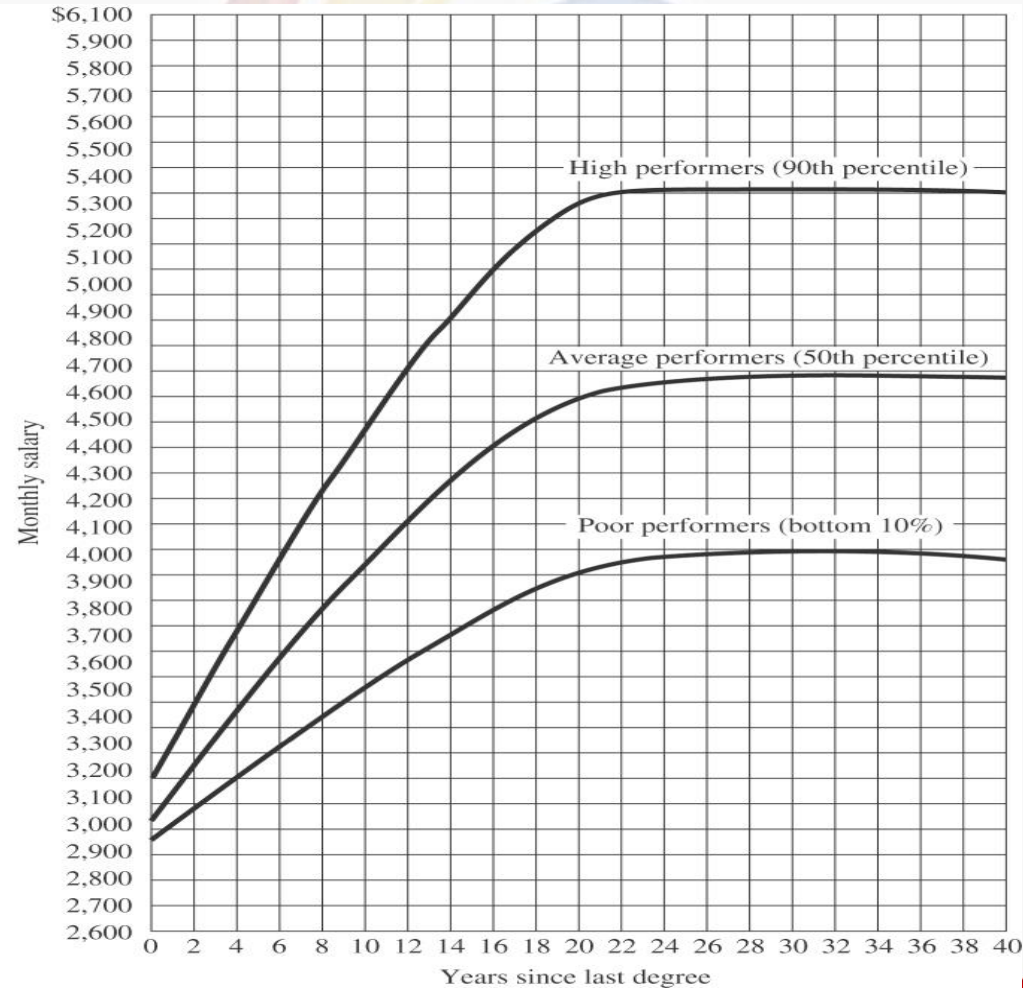
IBM Dual Ladders

EXHIBIT 14.9
IBM Dual
Ladders



Maturity Curve: Years Since Last Degree Relative to Salary

EXHIBIT 14.10
Maturity
Curve:
Years since
Last Degree
Relative to
Salary



Sales Compensation Components

EXHIBIT 14.11 Sales Compensation Components

Source: IOMA, *Report on Salary Surveys 2006 Yearbook* (New York: IOMA, 2006), pp. 10–15, and C. Galea, “2002 Salary Survey,” *Sales and Marketing Management*, May 1, 2003.

Average Salary for Sales Employees						
Level	Base Salary		Bonus plus Commission		Total Compensation	
	2002	2005	2002	2005	2002	2005
Executive	\$87,178	\$95,170	\$35,721	\$49,483	\$122,899	\$144,653
Top-level sales representative	78,483	87,342	60,976	66,075	139,459	153,417
Midlevel sales representative	49,144	58,546	28,035	33,791	77,179	92,337
Low-level sales representative	37,698	44,248	14,294	19,486	51,992	63,775
Average of all representatives	54,452	70,588	25,571	40,547	80,023	111,135

Key Factors: Designing a Sales Compensation Plan

- Nature of people who enter sales profession
- Organizational strategy
- Market maturity
- Competitor practices
- Economic environment
- Product sold

Sales Compensation Packages

- Guaranteed base salary
- Guaranteed base salary + commission
- Guaranteed base salary + bonus
- Guaranteed base salary + commission + bonus
- Commission only

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References

Source: Wall Street Journal, 4/1/10, based on analysis of 200 major U.S. corporations by Hay Group

Source: Wall Street Journal, 4/12/04

Source: Wall Street Journal, 1/21/06

Source: Wall Street Journal, 7/19/05, 1/21/06

Source: New York Times, 4/5/09, based on analysis of 200 large U.S. companies by Equilar

Source: Wall Street Journal, 7/19/05

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In case, you find any difficulty in understanding the concepts of lecture, please feel free to contact.

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Thanks

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