

# 13

## Benefits and Services

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## LEARNING OBJECTIVES

- 13-1** Name and define each of the main pay for time not worked benefits.
- 13-2** Describe each of the main insurance benefits.
- 13-3** Discuss the main retirement benefits.
- 13-4** Outline the main employees' services benefits.
- 13-5** Explain the main flexible benefit programs.
- 13-6** Explain how to use benefits to improve engagement, productivity, and performance.

In 1983, three youngsters laid the foundation of Blue Dart, which is currently the largest express courier company in South Asia. The company emphasizes on customer service but also recognizes the value of engaged employees. While the courier industry is highly people intensive and experiences high employee turnover, Blue Dart could manage to control it. Many of its current managers joined the company as courier boys. Apart from a caring culture, employee benefits played an important part in its success. We will see what Blue Dart Management did.<sup>1</sup>



## WHERE ARE WE NOW ...

Chapters 11 and 12 addressed salaries (or wages) and incentives. The main purpose of this chapter is to explain the third major pay component: employee benefits. The main topics we discuss are pay for time not worked benefits, insurance benefits, retirement benefits, employees' services benefits, flexible benefits, and using benefits to improve engagement and performance. This chapter completes our discussion of employee compensation. The next chapter starts a new part of this book, and focuses on managing employee relations.

**benefits**

Indirect financial and nonfinancial payments employees receive for continuing their employment with the company.

## Introduction: The Benefits Picture Today

“What are your benefits?” is the first thing many applicants ask. **Benefits**—indirect financial and nonfinancial payments employees receive for continuing their employment with the company—are an important part of just about everyone’s compensation.<sup>2</sup> They include things like health and life insurance, pensions, paid time off, and child-care assistance.<sup>3</sup> In the Indian context, benefits can be classified into two parts: (i) mandatory benefits covering like Provident Fund, NPS, ESI Scheme, Gratuity, Leave/Vacation travel, and Employee Compensation, and (ii) non-mandatory or voluntary benefits (which are provided by an employer). The second category generally includes additional/topup health insurance, life insurance policies, accident insurances, and personal loans. Many Indian firms also provide employee welfare and wellness oriented benefits like gym memberships, employee discount on products, etc. Employee benefits account for about 37% of wages and salaries (or about 30% of total payrolls). Figure 13-1 summarizes the breakdown of benefits as a percentage of employee compensation in the U.S. context.

For most employees, *health benefits* are the 800-pound gorilla of the benefits package. In one U.S. survey, 78% of employees cited health-care benefits as most crucial to retaining them; 75% cited compensation. But the same survey found that only 34% are satisfied with their health-care benefits.<sup>4</sup> A survey in India found that Indian employees are not just looking at standard salary but for benefits that are conducive for high performance, including individual wellness and health. In giving benefits, Indian companies perceive challenges in keeping with competition, hiring and retention of talent, and collecting employee feedback about current benefits.<sup>5</sup> Even human resource managers sometimes underestimate benefits’ attractiveness. The above study also identified communication of benefits as a challenge for Indian companies. One survey concluded that many human resource managers erroneously assume that things like job security and autonomy and independence are more important to employees than are benefits.<sup>6</sup>

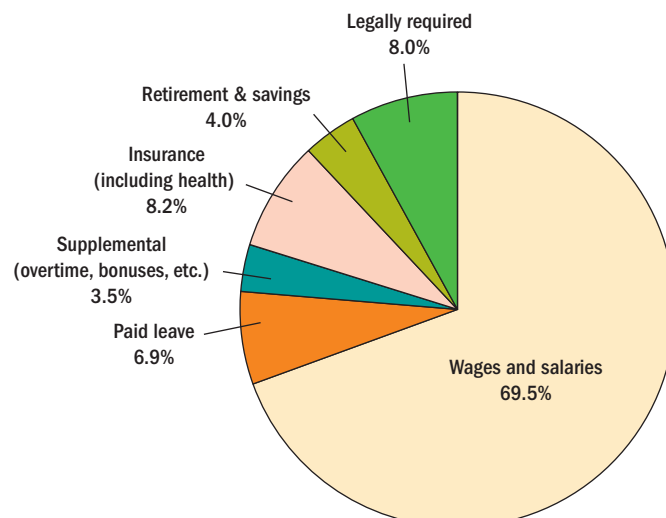
### Policy Issues

Employers therefore should design benefits packages carefully. The list of policy issues includes what benefits to offer, who receives coverage, whether to include retirees in the plan, whether to deny benefits to employees during initial “probationary” periods, how to finance benefits, cost-containment procedures, and how to communicate benefits options to employees.<sup>7</sup>

Legal issues loom large. Labor laws mandate some benefits (such as Social Security in the form of Employee Provident Fund) while other benefits are at the employer’s discretion (see Table 13-1). However, law still affects discretionary benefits

**FIGURE 13-1** Relative Importance of Employer Costs for Employee Compensation (private industry in the U.S.), June 2015

Source: Based on Employer Costs For Employee Compensation—June 2015, <http://www.bls.gov/news.release/pdf/ecec.pdf> accessed September 17, 2015.



**TABLE 13-1** Some Required and Discretionary Benefits in India

Benefits Required by Central or State Laws (applicable only to covered employees)	Benefits Discretionary on Part of Employer*
Social Security [Provident Fund/NPS, Gratuity, Health Plans/Insurance - ESIC or Central Government Health Scheme (CGHS) etc.]	Additional disability, health, life insurance, and pensions under private or top-up schemes
Medical facilities and hospital facilities under ESIC or CGHS	Medical care and insurance support for retired/former employees.
Workers' compensation for accidents/injury, etc.; death benefit, compassionate appointment for relatives in government/PSUs	Paid time off for vacations, holidays, sick leave, personal leave, etc.
Leaves under Maternity Benefit Act; Paternity leave for government/PSUs; Overtime pay as per law	Employee assistance and counseling programs; "family-friendly" benefits for child care, elder care, flexible work schedules, etc.; executive perquisites Educational support for self, support for children's education including freeship, tuition fee reimbursement. Company Housing, Leasing of houses, Provision for self-lease of accommodation, Housing loans, payment of full or part of interest on loans. Compensatory off days, encashment of unused accumulated leaves. Special leaves for occasions, like parent teachers meetings in schools, anniversaries, and leave for women during periods.

*Note:* \*Although not required under law, some employers extend the same.

such as vacation leave. And employers must adhere to the laws of the states in which they do business.

There are many benefits and ways to classify them. One way is to categorize them as mandatory and non-mandatory benefits. More elaborate classifications are also possible. We will classify them as (1) pay for time not worked (such as vacations), (2) insurance benefits, (3) retirement benefits, (4) personal services benefits, and (5) flexible benefits. We will start our discussion with pay for time not worked.

**HR in Practice at the Hotel Paris** As they reviewed the benefits numbers, Lisa Cruz and the CFO became increasingly concerned. They computed several benefits-related metrics for their firm, including *benefits costs as a percentage of payroll* and *sick days per full-time equivalent employee per year*. The results were not what they should have been. They had to change their benefits plan. To see how they handled this, read the case on pages 432.

## Employee Benefits in India

Employee benefits or perquisites are now an integral part of compensation packages offered by all companies. Relevant laws, location specific practices/requirements, and tax laws now determine the type and extent of perquisites given by Indian organizations. The law [for example, the Factories Act of 1948, Plantation Labor Act of 1951, Sales Promotion Employees (Conditions of Service) Act of 1976, Shops and Commercial Establishments Acts of different states, etc.] mandates employers to provide employee benefits like leave and employee welfare measures for free at

nominal cost. The legal benefits and welfare provisions are applicable only for the category of workers who are covered by the legislation.

The welfare measures are intended to enhance the comfort level of workers, thus increasing their productivity. The Factories Act stipulates providing welfare benefits like childcare in the form of a crèche, health facilities for workmen, washing facilities, canteen, drinking water, etc. Other legislations for social security benefits like Provident Fund, health insurance, gratuity, etc., also exist in India. Some of these legislations have been discussed in Chapter 2. Traditionally, the cost incurred by the employer on welfare was not included as a direct part of employee compensation. At present, many firms have adopted cost-to-company (CTC) approach, and they include such costs to determine the total employment cost incurred for each employee.

In addition to the legislated benefits, many Indian companies provide additional privileges to their employees like soft loans for housing, transportation, schooling, etc. While the law on benefits do not include managerial employees, firms have extended the benefits to managers also. Despite lower salary level than MNCs and private sector, people are drawn towards public-sector and government employment because of the benefits such as residential township with facilities for recreation and entertainment; high quality schools where children of employees are guaranteed admissions; and state-run hospitals or contacts with leading hospitals.

The MNCs and private employers also offer attractive perquisites. For example, the Tata Group offers a wide range of benefits, which have been discussed in Chapter 1. Other multi-national players like IBM, Intel, and Accenture India offer a wide range of employee privileges to suit employee needs, business requirements, and local Indian laws. Today, most companies focus on health and well-being of employees and dependents. Some companies have created gym and indoor-games facilities in the office so that employees are saved the trouble of driving down to a private gym. Nowadays, facilities for indoor sports like table tennis, carom, etc., as well as hi-tech gaming are available within the company premises. Other than these, healthy food options have been made available in the office canteens. Festivals and occasions are celebrated in offices, and employees and their families are invited for celebrations. Nowadays, companies also have certain assigned days meant for bringing family members to the office.

## Pay For Time Not Worked

Pay for time not worked—also called **supplemental pay benefits**—is a very costly benefit, because of the large amount of time off most employees receive. Common time-off-with-pay benefits include holidays, vacations, funeral leave, military duty (in case employee has volunteered in Territorial Army of India), personal days, sick leave, sabbatical leave, maternity and paternity leave, and payments for laid-off or terminated employees.

### Unemployment Insurance

In the US and Europe, all states have their own **unemployment insurance (or compensation)** laws. These provide benefits to eligible workers who become unemployed through no fault of their own. The benefits derive from a tax on employers that can range from 0.1% to 5% of taxable payroll in most states. An employer's unemployment tax rate reflects its rate of employee terminations. Unemployment tax rates are rising in many U.S. states.

In India, Employees State Insurance Corporation (ESIC) provides unemployment insurance to insured persons (IPs). Rajiv Gandhi Shramik Kalyan Yojana, a government scheme, mandates payment to employees affected by events like closure of factory/establishment, retrenchment (both under the provisions of Industrial Disputes Act, 1947), or permanent invalidity. The IP should have been registered for three or more years, and the allowance will be equivalent to 50% of wages for two years.



#### LEARNING OBJECTIVE 13-1

Name and define each of the main pay for time not worked benefits.

#### supplemental pay benefits

Benefits for time not worked such as unemployment insurance, vacation and holiday pay, and sick pay.

#### unemployment insurance (or compensation)

Provides benefits if a person is unable to work through some fault other than his or her own.

Such IPs receive financial support for skill upgradation, and they can avail medical care for themselves and families.<sup>8</sup> There is also news that the government of India is considering a national unemployment support scheme for the benefit of poor and unemployed.<sup>9</sup> Already, a few states like Kerala have introduced unemployment pay system for the unemployed. Firms aren't required to let everyone they dismiss receive unemployment benefits—only those released through no fault of their own. Thus, strictly speaking, a worker fired for chronic lateness can't legitimately claim benefits. But many managers are lackadaisical in protecting their employers and eventually end up paying compensation or even reinstating the dismissed employee.

The main rule is to keep a list of written warnings to demonstrate that poor performance caused the dismissal.

### Vacations and Holidays

Most firms offer vacation and holiday benefits. In India, under the Factories Act of 1948, adult workers who have worked for 240 days in a year are eligible for one-day earned leave (or leave with wages) equal to one day for every 20 days worked (Section 79). This implies that almost 4 weeks of leave with wages. Many Indian firms provide 21 days to 30 days of annual paid leave to full-time employees, also termed as earned leave. In the US, about 90% of full-time workers and 40% of part-timers get paid holidays, an average of eight paid holidays off.<sup>10</sup> Common U.S. paid holidays include New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, and Christmas Day.<sup>11</sup> On average, American workers get about 9 days of vacation leave after 1 year's employment, 14 days after 5 years, and 17 after 10 years.<sup>12</sup>

Compared to western countries, Indian employees get more annual holidays. The National and Festival Holiday Act (applicable to all states and establishments) mandates that three national holidays have to be observed in India. These are January 26 (Republic Day), August 15 (Independence Day), and October 2 (Gandhi Jayanti). Apart from these, employees are eligible for holidays according to the calendar decided by the government. The total number of holidays varies between states because of regional events. Some firms give some additional holiday on special days like their foundation day. For the government employees, 14 days are declared as holidays. In addition, depending on regional and religious events, two more days are allowed every year as restricted holidays (Table 13.1 and Table 13.2). Employees who work during holidays are eligible for double wages or, in some cases, a compensatory off. Firms should address several holiday- and vacation-related policy issues, such as how many days employees get, and which days (if any) are paid holidays. Other vacation policy decisions include: Are employees paid for accrued vacation time if they quit before taking their vacations? Will you pay employees for a holiday if they don't come to work the day before and the day after the holiday? And, should we pay some premium—such as time and a half—when employees must work on holidays?

More firms are taking a more flexible vacation leave approach. For example, IBM gives each employee at least 3 weeks' vacation, but doesn't track how much vacation each takes. Indian IT companies, TCS and Infosys, have introduced a new category of leave, titled bereavement leave, that allows employees to take paid off in case of loss of a near relative.<sup>13</sup> Microsoft India introduced the concept of paid caregiver leave of four weeks for employees who are caring for family members.<sup>14</sup> Employees sometimes just make informal arrangements with supervisors.<sup>15</sup>

In contrast, some employers emphasize centralized absence oversight (called "integrated absence management"). This starts with collecting data. For instance, how many people are on leave; how many days of work is the employer losing; how much is the employer spending to replace absent workers; and what units have the attendance problems?<sup>16</sup> These employers then closely monitor all aspects of their employees' leaves and absences. Wage surveys and Web sites<sup>17</sup> provide sample vacation policies for inclusion in the firm's employee manual. PayCheck India provides the required information in the Indian context.

Unemployment insurance/compensation laws provide short-term benefits to people who lose their jobs through no fault of their own.

Mark Peterson/Corbis



**TABLE 13-2** The List of National Holidays in 2017 as Declared by the Government of India

Sr. No	Holiday	Date	Saka Date	Day
1	Makar Sankranti	January 14	Pausha 15	Saturday
2	Republic Day	January 26	Magha 06	Thursday
3	Holy	March 13	Phalguna 22	Monday
4	Mahavir Jayanti	April 09	Chaitra 19	Sunday
5	Good Friday	April 14	Chaitra 24	Friday
6	Idul Fitr	June 26	Ashadha 05	Monday
7	Raksha bandhan	August 07	Sravana 16	Monday
8	Independence Day	August 15	Sravana 24	Tuesday
9	Id-ul-Zuha(Bakrid)	September 02	Bhadra 11	Saturday
10	Dussehra	September 30	Asvina 08	Saturday
11	Muharram	October 01	Asvina 09	Sunday
12	Mahatma Gandhi's Birthday	October 02	Asvina 10	Monday
13	Diwali	October 19	Asvina 28	Thursday
14	Vikram Samvant New year	October 20	Kartika 01	Friday
15	Gururanak Birthday	November 04	Kartika 13	Saturday
16	Id-e-Milad	December 02	Agrahayana 11	Saturday
17	Christmas	December 25	Pausha 04	Monday

(Continued)

**TABLE 13-3** The List of Restricted Holidays in 2017 as Declared by the Government of India

Sr. No	Holiday	Date	Saka Date	Day
1	New year Day	January 01	Pausha 11	Sunday
2	Guru Nanak Govind Singh's Birthday	January 05	Pausha 15	Thursday
3	Makar Sankranti	January 14	Pausha 14	Saturday
4	Pongal	January 14	Pausha 14	Saturday
5	Basant Panchami	February 01	Magha 12	Wednesday
6	Guru Ravidas Birthday	February 10	Magha 21	Friday
7	Shivaji Jayanti	February 19	Magha 30	Sunday
8	Swami Dayand Saraswati Jayanti	February 21	Phalguna 02	Tuesday
9	Holika Dahan	March 12	Phalguna 21	Sunday
10	Chaitra sukadi/Gudi padva/ Cheti Chand	March 28	Chaitra 07	Tuesday
11	Hazarat Ali's Birthday	April 11	Chaitra 21	Tuesday
12	Vaisakhi	April 13	Chaitra 23	Thursday
13	Mesadi	April 14	Chaitra 24	Friday
14	Vaisakhadi (Bengal )Bahag Bihu (Assam)	April 15	Chaitra 25	Saturday
15	Easter Sunday	April 16	Chaitra 26	Sunday
16	Guru Rabindranath's Birthday	May 09	Vaisakha 19	Tuesday
17	Jamat-UL-Vida	June 23	Ashadha 02	Friday
18	Rath yatra	June 25	Ashadha 04	Sunday
19	Raksha Bandhan	August 07	Sravana 16	Monday
20	Janmashtami	August 15	Sravana 24	Tuesday
21	Parsi New year Day	August 17	Sravana 26	Thursday
22	Ganesh Chaturthi	August 25	Bhadra 03	Friday
23	Onam	September 04	Bhadra 13	Monday
24	Dussehra	September 27	Asvina 05	Wednesday
25	Dussehra (Maha Asthmi)	September 28	Asvina 06	Thursday
26	Dussehra (Maha navmi)	September 29	Asvina 07	Friday
27	Maharishi Valmiki's Birthday	October 05	Asvina 13	Thursday
28	Karaka Chaturthi	October 08	Asvina 16	Sunday
29	Deepavli (South India)	October 18	Asvina 26	Wednesday
30	Narka Chaturdasi	October 18	Asvina 26	Wednesday
31	Govardhan Puja	October 20	Asvina 28	Friday
32	Bhai Duj	October 21	Asvina 29	Saturday
33	Chhat puja	October 26	Kartika 04	Thursday
34	Gurtu Teg Bahadur martyrdom day	November 24	Agrahayana 03	Friday
35	Christmas Eve	December 24	Pausha 03	Sunday

Source: Government of India, Ministry of Personnel, Public Grievances & Pension (Department of Personnel & Training) Notification F.NO. 12/8/2016-JCA-2 dated 24.06.2016; available at [http://document.ccis.nic.in/WriteReadData/CircularPortal/D2/D02est/12\\_8\\_2016-JCA-2-24062016A.pdf](http://document.ccis.nic.in/WriteReadData/CircularPortal/D2/D02est/12_8_2016-JCA-2-24062016A.pdf)



## KNOW YOUR EMPLOYMENT LAW

### *Some Legal Aspects of Vacations and Holidays*

Although law doesn't require vacation benefits, the employer must still formulate its vacation policy with care. In India, the employer type (government or private), industry type, and company's HR policies and agreements with unions decide on the number and kind of vacations. Legally, the Factories Act of 1948 and Shops and Commercial Establishments Act have provisions for earned leave, which is akin to vacations. However, teachers of schools and universities can avail vacations in sync with student calendars. As an example, many employers' vacation policies say vacation pay accrues, say, on a biweekly basis. By doing so, these employers obligate themselves to pay new employees pro rata vacation pay if they leave the firm during their first year. But if the employer's vacation policy requires that a new employee pass his or her first employment anniversary *before becoming entitled* to a vacation, the employee gets no vacation pay if he or she leaves during that first year.

Another frequent question is whether the employer can cancel an employee's scheduled vacation, for instance, due to a rush of orders. Here it's important that the employer formulate its vacation policy so it's clear that the employer reserves the right to require vacation cancellation and rescheduling if production so demands. ■

### Sick Leave

#### sick leave

Provides pay to an employee when he or she is out of work because of illness.

**Sick leave** provides pay to employees when they're out of work due to illness. Most policies grant full pay for a specified number of sick days—perhaps 12 or 15 per year (normal in Indian government and PSUs), usually accumulating at the rate of, say, 1 day per month of service.

The problem is that while many employees use their sick days only when sick, others use them whether they're sick or not. In many sectors, Indian blue-collar labor and migrant workers report sick as a way to get paid leave during festivals and harvest seasons. In one survey, personal illnesses accounted for about 45% of unscheduled sick leave absences. Family issues (27%), personal needs (13%), and "entitlement" (9%) were other reasons cited.<sup>18</sup> Such absenteeism costs U.S. employers perhaps \$100 billion per year and similar high cost for Indian employers also, with personal illness accounting for about a third of the absences.<sup>19</sup>

**COST-REDUCTION TACTICS** Employers use several tactics to reduce excessive sick leave absence. Some repurchase unused sick leave at the end of the year by paying their employees a sum for each unused sick day. The problem is that legitimately sick employees may come to work. Others hold monthly lotteries in which only employees with perfect monthly attendance are eligible for a cash prize. Payment of attendance-based bonus is a common practice in many traditional Indian firms. At Marriott, employees can trade the value of some sick days for other benefits. Recognizing the leave pattern and advance planning can help in cost control. Indian cutting and polishing of diamonds industry (CPDs) close operations for a few weeks between October and November so that workers can participate in Diwali celebrations along with their family.<sup>20</sup> Many employers aggressively investigate all absences, calling absent employees at home.<sup>21</sup>

Many employers use *pooled paid leave plans* (or "banks").<sup>22</sup> These plans lump together sick leave, vacation, and personal days into a single leave pool. For example, one hospital previously granted new employees 25 days off per year (10 vacation days, 3 personal days, and 12 sick days). Employees used, on average, 5 of those 12 sick days (as well as all vacations and personal days).<sup>23</sup> The pooled paid leave plan allowed new employees to accrue 18 days to use as they saw fit. (Special absences like serious short-term illnesses and bereavement leave were handled separately.) The pooled plan reduced absences. Most firms don't include federal holidays in their paid time off "banks."<sup>24</sup> The accompanying Profit Center feature shows how one employer cut costs.

## ► IMPROVING PERFORMANCE: *HR as a Profit Center*

### Controlling Sick Leave

Sick leave often gets out of control because employers don't measure it. In one survey, only 57% of employers formally tracked sick days for their exempt employees.<sup>25</sup> Three-fourths of the employers couldn't provide an estimate of what sick pay was costing them. Therefore, the employer should first have a system for monitoring sick leaves and for measuring their financial impact.<sup>26</sup>

As an example, when she became director of the United Kingdom's Driver and Vehicle Licensing Agency, the new director knew steps were needed to address its absence rate.<sup>27</sup> The rate had peaked at 14 days out per employee in 2005, at a cost of about \$20 million per year (then £10.3 million).

The new director organized a human resource absence initiative.<sup>28</sup> The agency set a goal of reducing absences by 30% by 2010. Agency directors received absence-reduction goals, and their progress was tracked. The agency introduced new policies on special leave, rehabilitation support, and monitoring absences. They made it easier for employees to swap work shifts, and introduced a guaranteed leave day policy.

By 2010, the sickness absence rate was down to 7.5 days per employee and productivity was up, for multiyear savings of about \$48 million dollars (£24.4 million). ■

*Source:* Based on "Creating Holistic Time Off Programs Can Significantly Reduce Expenses," *Compensation & Benefits Review*, July/August 2007, pp. 18–19; Rita Zeidner, "Strategies for Saving in a Down Economy," *HR Magazine*, February 2009, p. 28. Judith Whitaker, "How HR Made a Difference," *People Management* 27 (October 28, 2010).

### Paternity Leaves and the Maternity Benefit Act (1961)

Parental leave is an important benefit. About half of workers are women, about 80% will become pregnant during their work lives, and some workers are single parents. Earlier, the Maternity Benefit Act of 1961 (latest amendment was made in 2017) allowed 12 weeks of paid maternity benefit. The act is silent on the marital status of female employees. Other legislations that provide for maternity benefits are the Mines Maternity Benefit Act (1941), the Employees State Insurance Act (1948), and the Plantation Labor Act (1951).

The benefits of this act is applicable to all employees of any firm employing more than 10 workers during the past one year. In 2017, the act was amended to enhance the benefit of leave from 12 to 26 weeks, including 18 weeks after childbirth [Section 5 (3)]. As per the amended legislation, the benefit is admissible for two children, and from the third child, the previous provision of 12 weeks of paid maternity leave will be applicable.

The act also provides for paid leaves of (i) six weeks for miscarriage or medical termination of pregnancy and (ii) two weeks for women undergoing tubectomy operation (Section 9 and 9A). For nursing the child, the act mentions that women must be allowed to visit the crèche four times a day (Section 11). The amendment also saw the introduction of Commissioning Mother (mother who uses her egg to create an embryo in any other woman), who is now eligible for 12 weeks leave after the child is handed over [Section 5 (4)], and Adopting Mother, who is eligible for 12 weeks leave after receiving the child [Section 5(4)]. The act also encourages work-from-home facility based on understanding with employer [Section 5 (5)].

The Indian government had already introduced 180-day maternity leave following the recommendations of the Sixth Central Pay Commission. In addition, the government allows female employees to avail leave up to 2 years (i.e., 730 days) to take care of the needs of children up to 18 years. This includes leave for sickness and preparation for examinations. In 2014, the Supreme Court of India upheld this right, which allowed women employees to take uninterrupted 2 years leave.

While there is no provision for mandatory paternity leave in the Indian private sector, government employees can avail 15 days of paid leave (before and up to six months from birth of child, after which it lapses) for maximum two children [Rule 43-A, 43-AA of Central Civil Services (Leave) Rules, 1972]. Many private sector

companies also provide paternity leaves, ranging from 1 day to 15 days. Cummins India raised its paternity leave benefit to one month, while Salesforce India's employees get 12 weeks paternity benefit, in line with their global policy.<sup>29</sup>

There is no legal provision for parental leave in India. Globally, employers are enriching their parental leave plans to make it more attractive for mothers to return from maternity leave. Tactics include keeping in touch during maternity leave, offering flexible jobs with reduced travel and hours, and longer leaves.<sup>30</sup>

### Severance Pay

#### severance pay

A one-time payment some employers provide when terminating an employee.

Many employers, particularly in the US, provide **severance pay**, which can be over and above legal entitlements, as a one-time separation payment when terminating an employee. In India, the Industrial Disputes Act, 1947, sets the framework for retrenching employees, by paying retrenchment compensation. Companies employing more than 100 workers have to take prior permission from the authority, before retrenching. Most managers expect non-workmen employees to give them one month to three months notice if they plan to quit, so it seems appropriate to provide severance pay when dismissing an employee. Long notice periods, often 90 days, is a contentious matter in India. Many Indian companies extended notice period to control attrition.<sup>31</sup> Reducing the chances of litigation or bad public relations from disgruntled former employees is another reason. Severance pay also helps reassure employees who stay on after a downsizing that they'll receive some financial help if they're let go. In India, separation or termination of workmen/employees is possible under the provisions of the Industrial Disputes Act. The term "retrenchment" is used instead of words like termination or dismissal. (The term lay-off also has a different meaning under Section 25C of the act.) According to Section 2 (oo), retrenchment does not cover instances of separation of employee; dismissal of employee as punishment; leaving employment on grounds of VRS; expiry or non-renewal of employment contract; or termination because of ill health.

Lay-off (Section 25F) requires the employer to give one-month notice in writing with reasons for retrenchment. The information, along with reasons, have to be communicated to the government [Section 25F (c)]. Retrenched employees are eligible for retrenchment compensation at the rate of 15 days wages for each completed year's service (continuous). It's calculated from the date of appointment, with 240 days employment counted as one year.

However, if the establishment employs more than 100 workmen, the law is stricter. Under Section 25N, advance permission from the government has to be taken for retrenchment. The government has powers to refuse or allow retrenchment, and the decision has to be taken within 60 days of application. In the absence of any prior agreement between employer and workmen (through unions) about who will be retrenched first, Section 25G specifies that the last person to be employed will be retrenched first. Any deviation has to be justified to the government.

Apart from the Industrial Disputes Act of 1947, the Shops and Commercial Establishment Act (each Indian state has a separate law) also allows termination, with permission of the state government. Under these circumstances, termination is difficult in India, and the above legal clauses illustrate rigidity of the Indian employment system.

#### supplemental unemployment benefits

Provide for a "guaranteed annual income" in certain industries where employers must shut down to change machinery or due to reduced work. These benefits are paid by the company and supplement unemployment benefits.

### Supplemental Unemployment Benefits

In some industries such as auto making, shutdowns to reduce inventories or change machines are common. **Supplemental unemployment benefits** are cash payments that supplement the employee's unemployment compensation, to help the person maintain his or her standard of living while out of work.

**LEARNING OBJECTIVE 13-2**

Describe each of the main insurance benefits.

**workers' compensation**

Provides income and medical benefits to work-related accident victims or their dependents regardless of fault.

## Insurance Benefits

Most employers also provide a number of required or voluntary insurance benefits, such as workers' compensation and health insurance.

### Workers' Compensation

**Workers' compensation** laws (called the Employees Compensation Law of 1923 in India, which was earlier known as the Workmen Compensation Act, 1923) aim to provide sure, prompt income and medical benefits to work-related accident victims or their dependents, regardless of fault.

**HOW BENEFITS ARE DETERMINED** Workers' compensation can be monetary or medical. In the event of a worker's death or disablement, the person's dependents receive a cash benefit based on prior earnings—usually one-half to two-thirds the worker's average weekly wage, per week of employment. The Employee's Compensation Act also covers certain diseases that workers may contract as a result of the work conditions. Such workers are deemed to have suffered an accident, and have to be compensated. The act also provides methodology for calculating compensation for death and permanent disability. For executives and managers who are outside the purview of this legislation, companies provide relief through group accident insurance schemes and group health insurance schemes. This is purely discretionary for a company. Hence, in case of failure of employer to cover the employee under accident insurance schemes, the burden will be on the employee, and compensation can be claimed after legal battle with the employer.

For workers' compensation to cover an injury or work-related illness, one must only prove that it arose while the worker was on the job. It doesn't matter that he or she may have been at fault. Suppose you instruct employees to wear safety goggles at their machines. One worker doesn't and has an eye injury on the job. The company must still provide workers' compensation benefits.

**CONTROLLING WORKERS' COMPENSATION COSTS** It is important to control workers' compensation claims (and therefore costs). The employer's insurance company usually pays the claim, but the employer's premiums reflect the amount of claims.<sup>32</sup> Fewer claims also imply fewer accidents.

There are several ways to reduce workers' compensation claims. For example, screen out accident-prone workers. Reduce accident-causing conditions. And reduce the health problems that sometimes trigger these claims—for instance, by instituting effective safety and health programs, and complying with safety standards laws. Furthermore, some workers' compensation claims are not legitimate. Red flags include vague accident details, minor accidents resulting in major injuries, lack of witnesses, injuries occurring late Friday, and late reporting.<sup>33</sup>

*Case management* is a popular cost-control method. It is "the treatment of injured workers on a case-by-case basis by an assigned manager, usually a registered nurse, who coordinates with the physician and health plan to determine which care settings are the most effective for quality care and cost."<sup>34</sup>

Moving aggressively to support the injured employee and to get him or her back to work quickly is important too. The involvement of an attorney and the duration of the claim both influence the workers claim cost.<sup>35</sup> Many firms have programs such as physical therapy nursing assistance to help reintegrate claim recipients. Also, monitor health-care providers to confirm they're complying with their fee schedules.<sup>36</sup>

### Hospitalization, Health, and Disability Insurance

Health insurance looms large in many people's choice of employer, because it's so expensive.<sup>37</sup> Hospitalization, health, and disability insurance helps protect employees against hospitalization costs and the income loss arising from off-the-job accidents or illness. Many employers purchase insurance from insurance companies. Others contract with health maintenance organizations or preferred provider organizations. The employer and employee usually both contribute to the plan.

Table 13-4 illustrates the prevalence of health-related benefits in the US.

**TABLE 13-4** Percentage of U.S. Employers Offering Some Popular Health Benefits

Prescription drug program coverage	98%
Dental insurance	96%
Mail-order prescription program	90%
Mental health coverage	89%
Preferred provider organization (PPO)	86%
Accidental death and dismemberment insurance (AD&D)	83%
Vision insurance	82%
Contraceptive coverage	82%
Chiropractic coverage	80%
Employee assistance plan	77%
Long-term disability	77%

*Source:* Employee Benefits An Overview of Employee Benefits Offerings in the U.S (2013). [www.shrm.org/Research/SurveyFindings/Articles/Documents/13-0245%202013\\_EmpBenefits\\_FNL.pdf](http://www.shrm.org/Research/SurveyFindings/Articles/Documents/13-0245%202013_EmpBenefits_FNL.pdf), accessed April 4, 2014. SHRM Foundation.

**HMOs** Many employers offer membership in a **health maintenance organization (HMO)**, a medical organization consisting of specialists (surgeons, psychiatrists, and so on), often operating out of a health-care center. It provides routine medical services to employees who pay a nominal fee. Employees often have “gatekeeper” doctors who must approve appointments with specialist doctors. The HMO receives a fixed annual fee per employee from the employer (or employer and employee), regardless of whether it provides that person service.

**PPOs** Preferred provider organizations (PPOs) are a cross between HMOs and the traditional doctor–patient arrangement: They are “groups of health care providers that contract with employers, insurance companies, or third-party payers to provide medical care services at a reduced fee.”<sup>38</sup> Unlike HMOs, PPOs let employees select providers (such as doctors) from a relatively wide list, and see them in their offices, often without gatekeeper doctor approval. Providers agree to discounts and to certain controls, for example, on testing.<sup>39</sup>

**MENTAL HEALTH BENEFITS** The World Health Organization estimated that more than 34 million people in the United States between the ages of 18 and 64 suffer from mental illness.<sup>40</sup> WHO also estimates that in 2015, five crore Indians suffered from depression and another three crore from anxiety-related disorders. Low- and middle-income countries, including India, account for 78% of the reported suicides, of which Indians account for 1.5%.<sup>41</sup> A study by a leading employee assistance program provider in 2016 reported that 46% of workers in India suffer from stress, which can lead to more severe form of mental illness.<sup>42</sup> A more recent survey among IT/ITES sector after the spate of layoffs and job-losses, placed the figures at 62.5%. The reason was mainly the feeling of job insecurity.<sup>43</sup> Mental illnesses represent about 24% of all reported disabilities, more than disabling injuries, cardiovascular diseases, and cancer combined.

Mental health costs are rising. Reasons include widespread drug and alcohol problems, an increase in demands and claims require employers to offer minimum mental health benefits, and the fact that mental health claims tend to trigger other health-care claims.

### COBRA in the US

COBRA—the Consolidated Omnibus Budget Reconciliation Act—requires most private employers to continue to make health benefits available to separated employees and their families for a time, generally 18 months after separation.<sup>44</sup> The former employee must pay for the coverage.



Employers ignore COBRA's regulations at their peril. The employer does not want separated employees to leave and be injured, and then claim it never told them they could have continued their insurance coverage. Therefore, when a new employee first becomes eligible for the company's insurance plan, the person *must* receive (and acknowledge receiving) an explanation of his or her COBRA rights. And all employees separated from the company should sign a form acknowledging that they received and understand those rights.

### Trends in Employer Health-Care Cost Control

A business with 50 employees might pay ₹1 million or more just for insurance coverage, before accounting for things like sick days. Health-care cost control is therefore one big way the HR department can improve profits.

Employers are endeavoring to rein in health-care costs.<sup>45</sup> Most cost-control efforts should start by instituting methods for measuring and auditing health-care costs.<sup>46</sup> It makes little sense to initiate cost cuts when employers are paying out thousands or millions of dollars in erroneous claims. One U.S. survey found that although the industry standard for percentage of claims errors is 3%, the *actual* percentage of claims with errors was about 6.3%. The U.S. industry standard for percentage of claims dollars actually paid in error was 1%; the *actual* percentage of claims dollars paid in error was 3.4%. So, setting standards for errors and then auditing all claims may be the most direct way to reduce employer health-care expenses.<sup>47</sup>

A study of healthcare cost of Indian companies by Towers Watson in 2015 indicated that healthcare costs are increasing and over 55% employers are spending more than 25% of payroll costs on healthcare.<sup>48</sup> It was also found that unlimited employee health coverage was the main attraction point for Indian PSUs. For workers, the Employees State Insurance Corporation (ESIC) provided health care through its hospital network, and additionally, it provided healthcare insurance to protect against loss of salary due to illness. Under the health benefits, coverage to a larger set of dependents, including parents, is a unique feature in India.<sup>49</sup> Many Indian companies have started to organize preventive annual medical checkups, for employees as well as their family members, through which they expect an early detection of health issues. In a bid to control costs, many employers are also asking employees to share part of the costs.<sup>50</sup>

**WELLNESS PROGRAMS** Because various illnesses are preventable, many employers offer preventive programs.<sup>51</sup> For example, the top three health-care priorities of employers in a recent Aon Hewitt Health Care Survey report were, "Offer incentives or disincentives to motivate sustained health-care behavior change"; "Promote a culture of health in the workplace (e.g., healthy cafeteria, flexible schedules to allow time for physical activity)"; and "Move to rewarding improved health results or outcomes."<sup>52</sup> In one study "employers who undertook prevention programs aimed at cardiovascular disease ... reported an average 28% reduction in sick leave, [and] a 26% reduction in direct health-care costs."<sup>53</sup>

Employers offer a variety of preventive services and incentives.<sup>54</sup> Some *link each employee's health-care premiums* to his or her healthy behaviors.<sup>55</sup> *Clinical prevention* programs include things like mammograms and routine checkups. Walgreens owns companies that provide *on-site health-care services* such as mammograms for employers.<sup>56</sup> *Health promotion and disease prevention* programs include seminars and incentives aimed at improving unhealthy behaviors.<sup>57</sup> Other wellness program trends include obesity management, stress management, senior health improvement, and tobacco cessation programs.<sup>58</sup> Incentives, for instance, \$50–\$100, can boost wellness program participation, but may backfire.<sup>59</sup> Whirlpool gives nonsmoker discounts on health-care premiums worth about \$500. It suspended 39 workers it caught smoking outside the plant after claiming on their benefits enrollment forms that they were nonsmokers.

## IMPROVING PERFORMANCE: *HR as a Profit Center*

### The Doctor Is on the Phone

With more than 12,000 employees in its health plan, Rent-A-Center was looking for a better way to get its employees the medical advice they required, while also reducing health plan costs. The company signed an agreement with Teladoc, Inc. Teladoc's doctors provide medical consultations over the phone. In the first 16 months the new telemedicine program was in effect, Rent-A-Center saved more than \$770,000 in doctor and hospital visits and in employee productivity that would have been lost.

The program seems to be win-win. The Teladoc consultation is free to employees, compared to a \$20 office co-payment, and the doctors are available 24 hours per day, usually within 30 minutes. If necessary, they call in antibiotics prescriptions. And for Rent-A-Center, there's that extra \$770,000 in their bottom line.<sup>60</sup> ■

*Source:* Based on Susan Galactica, "There's a Doctor on the Phone? Employers Dial-Up Telemedicine," *Workforce Management*, September 2012, p. 8. See also, "Speakers tout advantages, \$6 billion potential of telemedicine," *Bloomberg BNA bulletin to management*, December 16, 2014, page 399.

### Long-Term Care

Long-term care insurance—for things like nursing assistance to former employees in their old age—is a key employee benefit. Many Indian employers, particularly the PSUs and traditional Indian private companies, permit extension of healthcare facilities to retired employees and immediate family members. Employers can also provide insurance benefits for several types of long-term care, such as adult day care, assisted living, and custodial care.

### Life Insurance

In addition to hospitalization and medical benefits, most employers provide **group life insurance** plans. The Group Insurance Scheme of the Life Insurance Corporation or LIC is a popular option. Such plans generally offer lower rates than individual plans, and usually accept all employees regardless of health or physical condition.

In general, there are three key personnel policies to address: the benefits-paid schedule (the amount of life insurance benefits is usually tied to the employee's annual earnings), supplemental benefits (continued life insurance coverage after retirement, for instance), and financing (the amount and percent the employee contributes).

*Accidental death and dismemberment coverage* provides a lump-sum benefit in addition to life insurance benefits when death is accidental. It also provides benefits in case of accidental loss of limbs or sight.

#### group life insurance

Provides lower rates for the employer or employee and includes all employees, including new employees, regardless of health or physical condition.

## Retirement Benefits

The first contingent of baby boomers turned 65 a few years ago. This presents two challenges for employers. First (as we explained in Chapter 10 (Careers and Retention)), employers are taking steps to entice older workers to keep working in some capacity.<sup>61</sup> Second, retirement benefits such as federal Social Security and employer pension/retirement plans like the 401(k) are big issues.

### Social Security

Most people assume that **Social Security** provides income only when they are older than 62, but it actually provides three types of benefits. The familiar *retirement benefits* provide an income if you retire and are insured under the relevant acts. In India, the main social security institutions are: (i) Employees Provident Fund, (ii) dependent support provided by the ESIC, (iii) gratuity provided under the Payment of Gratuity Act, 1972, and (d) compensation in case of injury or disability under Employees Compensation Act, 1923. Second are *survivor's or death benefits*. These provide monthly payments to your dependents regardless of your age at death (assuming you're insured under Social Security). Finally, *disability payments* provide payments to employees who become disabled totally (and to their dependents) if they meet certain requirements.

#### LEARNING OBJECTIVE 13-3

Discuss the main retirement benefits.

#### Social Security

Program that provides three types of benefits: retirement income, survivor's or death benefits payable to the employee's dependents regardless of age at time of death, and disability benefits payable to disabled employees and their dependents.

**pension plans**

Plans that provide a fixed sum when employees reach a predetermined retirement age or when they can no longer work due to disability.

**defined benefit pension plan**

A plan that contains a formula for determining retirement benefits.

**defined contribution pension plan**

A plan in which the employer's contribution to employees' retirement savings funds is specified.

**Pension Plans**

**Pension plans** provide income to individuals in their retirement, and just over half of full-time workers participate in some type of pension plan at work.

We can classify pension plans as contributory versus noncontributory plans, qualified versus nonqualified plans, and defined contribution versus defined benefit plans.<sup>62</sup> The employee contributes to the contributory pension plan, while the employer makes all contributions to the noncontributory pension plan. Employers derive certain tax benefits (such as tax deductions) for contributing to qualified pension plans; nonqualified pension plans get less favorable tax treatment. As with all pay plan components, employers should ensure retirement benefits support their strategic needs. For example, set guiding principles such as “assist in attracting employees.”<sup>63</sup>

With **defined benefit pension plans**, the employee's pension is specified (“defined”), in that the person knows in advance his or her pension benefits.

**Defined contribution pension plans** specify (“define”) what *contribution* the employee and employer will make to the employee's retirement or savings fund. Here the contribution is defined, not the pension. With a *defined benefit* plan, the employee can compute what his or her retirement *benefits* will be upon retirement. With a *defined contribution* plan, the actual pension will depend on the amounts contributed to the fund *and* on the success of the fund's investment earnings. Defined contribution plans are popular among employers due to their relative ease of administration, favorable tax treatment, and other factors. **Portability**—making it easier for employees who leave the firm prior to retirement to take their accumulated pension funds with them—is easier with defined contribution plans.

In any case, CEO retirement packages tend to dwarf the average employee's.<sup>64</sup> For example, when Target's CEO stepped down recently after a huge credit card breach, he walked away with retirement plans worth more than \$47 million, plus a \$7.2 million severance payment and \$4.1 million from vested stock awards.

**401(K) PLANS IN THE US** The most popular defined contribution plans are based on section 401(k) of the Internal Revenue Code, and called **401(k) plans**. The employee authorizes the employer to deduct a sum from his or her paycheck before taxes, and to invest it in the bundle of investments in his or her 401(k) account. The deduction is pretax, so the employee pays no tax on those dollars until after he or she retires (or removes the money from the 401(k) plan). The person can deduct annually an amount up to the IRS maximum (about \$15,000). Employers often match employee's 401(k) contributions dollar for dollar up to a set percentage. The employer arranges, usually with an investment company such as Fidelity Investments, to administer the 401(k) plan and to make investment options (typically mutual stock funds and bond funds) available to the plan. In the recent downturn, more employees made “hardship withdrawals” from their 401(k) plans.<sup>65</sup>

Employers must choose 401(k) providers with care. The employer has a fiduciary responsibility to its employees and must monitor the fund and its administration.<sup>66</sup> In addition to trustworthiness, the 401(k) plan provider should make it easy to enroll and participate in the plan.<sup>67</sup> Firms such as Vanguard, Fidelity, and others establish Web-based 401(k) plans with online tools—such as an “asset allocation planner”—even for small firms. Employers must also monitor 401(k) housekeeping issues such as late deposits and incorrect employer matching contributions.<sup>68</sup>

**KNOW YOUR EMPLOYMENT LAW****National Pension Scheme, India**

The National Pension Scheme (NPS) is a voluntary, defined contribution pension fund that has come into force from January 1, 2004. With the introduction of NPS, the government of India has replaced the existing Defined Benefit Pension System with a contribution-based one. All new employees (except for the Armed Forces) who joined employment from January 1, 2004, were covered by the NPS. At present, any



Indian citizen including self-employed professionals can join the NPS scheme. The scheme is offered by Pension Fund Managers (like SBI Pension Fund, LIC Pension Fund, Kotak Pension Fund, Reliance Capital Pension Fund, etc.), and it is regulated by the Pension Fund Regulatory and Development Authority of India (PFRDA).



### TRENDS SHAPING HR: DIGITAL AND SOCIAL MEDIA

There was a time not too long ago when communicating with employees about their benefits required a ponderous and expensive process involving communiqués from the central HR office, but with digital and social media that's no longer the case.<sup>69</sup> First, as just noted, employers are using benefits systems such as Benelogic, and in-house benefits Web sites. Others are pulling their Twitter feeds into their benefits Web sites to keep those Web sites up-to-date. Others use their company blogs to communicate employee perks and benefits. Some use their Facebook and LinkedIn pages to publicize their benefits to a wider audience. Recently, Siemens created an internal social media Web site for its 13,000 UK employees. Among other things, Siemens UK uses it to keep its employees up-to-date about its latest employee benefits offerings, to run real-time employee feedback polls about Siemens benefits, and to remind employees about the availability of various benefits. (For example, that each employee has points to use as part of the Siemens employee recognition program.)

On the other hand, social media sites get some workers in trouble. In one case in the US, an employee took a sick day, saying that chronic pain prevented her from coming to work. Unfortunately, she posted pictures of herself dancing at a festival the day she was supposed to be home sick. One of her Facebook “friends” got the photo and showed it to a company supervisor. The company fired her for absence, and an appeals court upheld the employer’s decision.<sup>70</sup> Similar cases have been reported in India also. ■



#### LEARNING OBJECTIVE 13-4

Outline the main employees’ services benefits.

## Personal Services and Family-Friendly Benefits

Although time off, insurance, and retirement account for the lion’s share of benefits costs, most employers also provide various services benefits. These include personal services (such as legal and personal counseling), “family-friendly” services (such as child-care facilities), educational subsidies, and executive perquisites (such as company cars for its executives).

Challenging economic times mean employers are revamping their personal services benefits. Among the most-dropped benefits have been educational assistance, long-term care insurance, and job sharing. “Most-added” benefits included legal counseling, lactation rooms, work-at-home policies, and paid or subsidized off-site fitness.<sup>71</sup> For example, when the Dallas/Fort Worth International Airport found that its employee fitness and wellness facility wasn’t producing the expected health cost savings, it instituted incentives to get employees to use it more regularly.<sup>72</sup>

### Personal Services

Personal services benefits include credit unions, legal services, counseling, and social and recreational opportunities. (Some employers use the term *voluntary benefits* to cover personal services benefits that range from things like pet insurance to automobile insurance.<sup>73</sup>) We’ll look at some of these.

**Employee assistance programs (EAPs)** provide counseling and advisory services, such as personal legal and financial services, child- and elder care referrals, adoption assistance, mental health counseling, and life event planning.<sup>74</sup> EAPs are popular, with more than 60% of larger firms offering them. According to a survey in India, 46% of Indian employees suffer from stress, while 43% have skewed BMI (body mass index). Some of the issues faced by Indian employees are poor relationships, work performance, expectations, and lifestyle problems like unhealthy eating habits, lack of sleep, consumerist culture with pressures of bank loans, and living standards. Many Indian

#### employee assistance program (EAP)

A formal employer program for providing employees with counseling and/or treatment programs for problems such as alcoholism, gambling, or stress.

Software giant SAS Institute, Inc., is one company that offers generous employee benefits. The North Carolina firm keeps turnover at 4% in an industry where 20% is typical, partly by offering family-friendly benefits like paid maternity leave, day care on site, lunchtime piano concerts, massages, and yoga classes like this one.

Diego Cervo/Shutterstock



organizations use services of EAP (employee assistance program) providers to support employees in these areas. PSUs like SAIL, NTPC, and IOCL have full-fledged medical departments with qualified doctors and referral tie-ups, which can be availed by employees in need. One study found that personal mental health was the most common problem addressed by employee assistance programs, followed by family problems.<sup>75</sup>

For employers, EAPs produce advantages, not just costs. For example, sick family members and problems like depression account for many sick days. Employee assistance programs can reduce such absences by providing expert advice on issues like elder care referrals.<sup>76</sup> Few but the largest employers establish their own EAPs.

In either case, everyone involved including supervisors and EAP staff must respect *confidentiality*. Also, keep files locked, limit access, and minimize identifying information. *Be aware of legal issues.* For example, in most states counselors must disclose suspicions of child abuse to state agencies. *Define* the program's purpose, employee eligibility, the roles and responsibilities of EAP and employer personnel, and procedures for using the plan. Ensure your EAP vendors fulfill *professional and state licensing requirements*.

### Family-Friendly (Work-Life) Benefits

Several trends have changed the benefits landscape. There are more households where both adults work, more one-parent households, more women in the workforce, and more workers over age 65.<sup>77</sup>

Such trends lead many employers to bolster their **family-friendly (or “work-life”) benefits**.<sup>78</sup> These include child care, elder care, fitness facilities, and flexible work schedules—benefits that help employees balance their family and work lives.<sup>79</sup> We'll look at some examples.

**SUBSIDIZED OR ON-SITE CHILD CARE** The Factories Act, 1948, mandates that child-care facilities should be provided by the employer, if the number of women working are 30 or more. Many Indian companies have taken positive steps to provide child-care facilities within their premises. But, most working people make private provisions to take care of their children. Employers who want to reduce the distractions associated with finding reliable child care can help. Some employers simply investigate the day care facilities in their communities and recommend certain ones to employees. Others set up company-sponsored and subsidized day care facilities. For example, Cummins

#### family-friendly (or work-life) benefits

Benefits such as child-care and fitness facilities that make it easier for employees to balance their work and family responsibilities.

India, which has more than 30% women employees, has set up high quality child-care facilities in their offices and factories. Other Indian companies providing similar facilities are ICICI Bank, HUL, EY, etc.<sup>80</sup> Among educational institutions, IIMA has a daycare center which provides child-care and after-school care for the children of the institute's staff. Abbott Laboratories built a \$10 million child-care center at its headquarters north of Chicago, daytime home to about 400 children of Abbott employees.<sup>81</sup>

By establishing subsidized day care, employers assumedly can benefit in several ways. These include improved recruiting results, lower absenteeism, improved morale, favorable publicity, and lower turnover. But, good planning is required. This often starts with a questionnaire to employees to answer questions like, "What would you be willing to pay for care for one child in a child-care center near work?"

**SICK CHILD BENEFITS** Unexpected absences accounted for a cost per absence to employers of about \$700 per episode (for temp employees and reduced productivity, for instance). More employers are thus offering emergency child-care benefits, for example, when an employee's babysitter is a no-show. Texas Instruments built a Web database its employees use to find last-minute child-care providers. Others, like Canada's CIBC, are expanding their on-site child-care centers to handle last-minute emergencies.<sup>82</sup>

**ELDER CARE** The responsibility for caring for aging relatives can affect employee performance.<sup>83</sup> One study found that, to care for an older relative, 64% of employees took sick days or vacation time, 33% decreased work hours, 22% took leaves of absence, 20% changed their job status from full- to part-time, 16% quit their jobs, and 13% retired early.

More employers in the US are therefore providing elder care services, though such facility has to gain acceptance in India. For example, the United Auto Workers and Ford provide elder care referral services for Ford's salaried employees, including assessments and recommendations on the best care.<sup>84</sup>

**EDUCATIONAL SUBSIDIES** The percentage of employers offering education benefits is diminishing.<sup>85</sup> Such programs are expensive, and the employer may also be paying its best employees to leave. Researchers studied how the U.S. Navy's part-time college education reimbursements influenced job mobility. Taking tuition assistance decreased the probability the person stayed in the Navy.<sup>86</sup>

Payments may range from all tuition and expenses down to a fixed amount per year. Many employers also reimburse non-job-related courses (such as a Web designer taking an accounting class) that pertain to company business.<sup>87</sup> Many employers provide college programs on the employer's premises, or remedial work in basic literacy. BITS Pilani provides a range of technical courses, leading to BS or MS degrees. Companies like Cummins India, Zydus-Cadilla, L&T, etc., have tied up with IIMA and other B-schools to provide long duration programs. The ePGP program of IIMA, offered through satellite learning, is an option for companies to encourage employees to obtain formal management qualification.<sup>88</sup>

### Other Personal Services Benefits

Employers provide other personal services benefits.<sup>89</sup> Google, perennially one of the "100 best companies to work for," is famous for its personal services benefits, and the remarkable thing is that most of them cost Google nothing. This is because Google arranges with local vendors to provide on-Google site programs such as ATMs, mobile libraries, bike repair, car wash and oil change, dry cleaning, haircuts and salons, and organic grocery delivery.<sup>90</sup> Free though they are to Google, why does Google even bother? Largely because their on-site availability boosts employees' efficiency by reducing the need for them to seek services off-site. (It also offers the Google Child Care Center, and free shuttle service from San Francisco, for instance.)<sup>91</sup> CVS Caremark, seeking to retain older employees, offers various elder-friendly benefits. Its "snowbird" program lets pharmacists winter in Florida and work in the Northeast

when it's warmer, for instance.<sup>92</sup> Nestlé Purina Pet Care's St. Louis headquarters lets employees bring their dogs to work.<sup>93</sup>

Nonmonetary benefits are another option.<sup>94</sup> In one survey, the nonmonetary benefits most desired by employees were: allowing more flexibility with one's work schedule, making available additional training and development opportunities, offering additional paid time off, and providing opportunities to work abroad.<sup>95</sup>

Unfortunately, it's not easy to evaluate the "profitability" of personal services-type programs.<sup>96</sup> The bottom line is that employers are reviewing (and often reducing) these benefits. Even Google, long known for offering benefits that blow most other employers away, cut back a bit of late.



### Diversity Counts

**DOMESTIC PARTNER BENEFITS** When employers provide *domestic partner benefits* to employees, the employees' same-sex or opposite-sex domestic partners are eligible to receive the same benefits (health care, life insurance, and so forth) as do the husband, wife, or legal dependent of one of the firm's employees. Many U.S. employers offer domestic partner benefits, while Indian employers are yet to openly extend partner benefits to LGBT couples. Godrej Industries is an Indian company which has started initiatives to support its LGBTQ employees and their partners, and make them more comfortable at workplace. Facilities like medical care are extended to the partners, and a three-month break for child adoption is also provided.<sup>97</sup> The company even encourages its employees to support and participate in public events connected with diverse groups like the Bangalore Parade 2015.<sup>98</sup>

The Strategic Context feature illustrates how one employer uses benefits to support its strategic goals.

### ► IMPROVING PERFORMANCE: *The Strategic Context*

Gary Erickson started Clif Bar as a small bakery and grew it into a company that's been growing 20% per year. Central to his "healthy foods" strategy is the idea that his hundreds of employees should live the values of sustainability, healthiness, and eco-friendliness.<sup>99</sup> Therefore, he put together a benefits package that encouraged just such values. For example, the company encourages eco-friendliness by reimbursing employees up to \$6,500 if they buy hybrid or electric vehicles. Those who bike or walk to work receive \$1,500 per year. Clif Bar's subsidized cafeteria serves meals cooked with local organic ingredients. Employees become eligible for 6-week paid sabbaticals after 7 years working for the company. With employee turnover only 3%, in one recent year Clif Bar received over 7,500 applications for 114 open jobs, so his benefits plan also seems to be helping keep workforce costs under control. ■

*Source:* Based on JP Mangalindan, "a healthier, more rewarding workplace," *fortune*, October 6, 2014, pages 49–50.

### Executive Perquisites

When you reach the pinnacle of the organizational pyramid—or close to the top—you will find, waiting for you, the "executive perk." Perquisites (perks for short) are special benefits for top executives. They range from company planes to private bathrooms.

Most fall between these extremes. Perks include *management loans* (typically to exercise executives' stock options); *financial counseling*; and *relocation benefits*, often including subsidized mortgages, purchase of the executive's current house, and payment for the move. Publicly traded companies must itemize all executives' perks (if they total more than \$100,000). Income tax rules in India clearly specifies the tax burden of executive perquisites. Good corporate governance also requires disclosure of such perquisites. For example, in the recent case of Infosys, excessive severance pay to the former CFO and use of private plane were the governance issues raised by its founders.

#### LEARNING OBJECTIVE 13-5

Explain the main flexible benefit programs.

### Flexible Benefits Programs

Employees prefer choice in their benefits plans. In one survey of working couples, 83% took advantage of flexible hours (when available); 69% took advantage of the

flexible-style benefits we'll discuss next; and 75% said that they prefer flexible benefits plans.<sup>100</sup>

Given this, it is prudent to survey employees' benefits preferences, perhaps using a form like that in Figure 13-2. In any case, employers should provide for choice when designing benefits plans.

### The Cafeteria Approach

One way to provide a choice is with an aptly named *cafeteria benefits plan*. (Pay specialists use **flexible benefits plan** and **cafeteria benefits plan** synonymously.) A *cafeteria plan* is one in which the employer gives each employee a benefits fund budget, and lets the person spend it on the benefits he or she prefers, subject to two constraints. First, the employer must of course limit the total cost for each employee's benefits package. Second, each employee's benefits plan must include certain required items such as Social Security, workers' compensation, and unemployment insurance. Employees can often make midyear changes to their plans if, for instance, their dependent care costs rise and they want to divert contributions.<sup>101</sup>

**TYPES OF PLANS** Cafeteria plans come in several varieties. To give employees more flexibility in what benefits they use, about 70% of employers offer *flexible spending accounts* for medical and other expenses. To encourage employees to use this option, some firms are offering *debit cards* that employees can use at their medical provider or pharmacy.<sup>102</sup> *Core plus option plans* establish a core set of benefits (such as medical insurance), which are usually mandatory for all employees. Beyond the core, employees can then choose various benefits options.<sup>103</sup>

The accompanying HR Tools feature explains how many smaller employers manage the costs of their various benefits.

#### flexible benefits plan/ cafeteria benefits plan

Individualized plans allowed  
by employers to accommodate  
employee preferences for benefits.

**FIGURE 13-2** One Page  
from Online Survey of  
Employees' Benefits  
Preferences

Reprinted with permission from  
GrapeVine solutions.

**Your Logo Here.** 125 px  
300 px

**Human Resources - Employee Benefits Survey**

Please take a moment to tell us your thoughts on the Company benefits plan. Your input is valued and will help us make this better.

**Health care**

**1** Please rate the following.  
1-Very Satisfied, 5-Very Dissatisfied

	1	2	3	4	5
Medical plan	<input type="text" value="1"/>	<input type="text" value="2"/>	<input type="text" value="3"/>	<input type="text" value="4"/>	<input type="text" value="5"/>
Dental plan	<input type="text" value="1"/>	<input type="text" value="2"/>	<input type="text" value="3"/>	<input type="text" value="4"/>	<input type="text" value="5"/>
Vision plan	<input type="text" value="1"/>	<input type="text" value="2"/>	<input type="text" value="3"/>	<input type="text" value="4"/>	<input type="text" value="5"/>

**Retirement and Savings Plan**

## ► IMPROVING PERFORMANCE: HR Tools for Line Managers and Small Businesses

### Benefits and Employee Leasing

Many businesses—particularly smaller ones—don’t have the resources or employee base to support the cost of many of the benefits we’ve discussed in this chapter. That’s one big reason they turn to “employee leasing.”

In brief, employee leasing firms (also called *professional employer organizations* or *staff leasing firms*) assume all or most of the employer’s human resources chores. In doing so, they also become the employer of record for the employer’s employees, by transferring them all to the employee leasing firm’s payroll. The leasing firm thus becomes the employees’ legal employer, and usually handles employee-related activities such as recruiting, hiring (with client firms’ supervisors’ approvals), and paying taxes (Social Security payments, unemployment insurance, and so on).

Insurance and benefits are usually the big attraction. Even group rates for life or health insurance can be quite high when only 20 or 30 employees are involved. That’s where leasing comes in. Remember that the leasing firm is now the legal employer. The employees are thus part of a larger insurable group, along with other employers’ former employees. The small business owner may get insurance it couldn’t otherwise afford.

As in dealing with all vendors, the employer should have a detailed negotiated agreement with the employee leasing firm. Define what the services will be; include priorities, responsibilities, and warranties.<sup>104</sup> Understand that if the leasing firm merges into another firm, the new parent may require you to change your systems once the contract period expires.<sup>105</sup>

Source: Based on Bill Roberts, “Good Vendor Relations,” HR Magazine, September 2011, p. 110.

### Flexible Work Schedules

Flexible work schedules are popular.<sup>106</sup> Single parents use them for balancing work and family responsibilities. And for many millennial employees, flexible work schedules provide a way to pursue their careers without surrendering the quality of life they desire. There are several flexible work schedule options.

**Flextime** is a plan whereby employees’ workdays are built around a core of midday hours, such as 11:00 A.M. to 2:00 P.M. Thus, workers may opt to work from 7:00 A.M. to 3:00 P.M. or from 11:00 A.M. to 7:00 P.M. The number of employees in formal flextime programs—from 4% of operators to 17% of executive employees—doesn’t tell the whole story. Many more employees take advantage of informal flexible work schedules.<sup>107</sup> Flexible timing is a much sought-after benefit by Indian employees. A survey indicated that 85% of Indians are not happy with their working hours. At the same time, more Indian companies are willing to offer flexi-time options to their employees.<sup>108</sup> The effect of flextime for most employees is about 1 hour of leeway before 9:00 A.M. or after 5:00 P.M.<sup>109</sup>

**Telecommuting**—using technology to work away from the office—is popular. About 48% of employers offer ad hoc telecommuting options, while 17% offer them on a full-time basis.<sup>110</sup> Some jobs have much higher rates. For example, almost 45% of medical transcription is reportedly work from home.<sup>111</sup> Just over 13 million Americans work from home at least one day per week, with Fridays and Mondays the favorite days to stay home.<sup>112</sup> On the other hand, Yahoo! famously said a few years ago that it needed its employees “working side by side” and brought them back to the office.<sup>113</sup>

Employers that offer telecommuting must calculate the program’s benefits and costs. Thus, Delta Airlines spends an initial \$2,500 for each home-based reservation agent for computer and software licenses, but pays each such agent \$1.50 per hour less than call-center counterparts. Less obvious expenses include having IT answer telecommuters’ technical questions.<sup>114</sup> A telecommuting program at Capital One Bank apparently led to about a 41% increase in workplace satisfaction, and a 53% increase in those who say their workplace enhances group productivity.<sup>115</sup>

#### flextime

A work schedule in which employees’ workdays are built around a core of midday hours, and employees determine, within limits, what other hours they will work.

#### compressed workweek

Schedule in which employee works fewer but longer days each week.

**COMPRESSED WORKWEEKS** Many employees, like airline pilots, don’t work conventional 5-day, 40-hour workweeks. Workers like these typically have **compressed workweek** schedules—they work fewer days each week, but each day they work longer hours. Some firms have four 10-hour day workweeks. Some workers—in

hospitals, for instance—work three 12-hour shifts, and then take off for 4 days.<sup>116</sup> Some experts argue that 12-hour shifts increase fatigue and accidents. To reduce potential side effects, some employers install treadmills, exercise bikes, and special lights that mimic daylight.

### job sharing

Allows two or more people to share a single full-time job.

### work sharing

Refers to a temporary reduction in work hours by a group of employees during economic downturns as a way to prevent layoffs.

**OTHER FLEXIBLE WORK ARRANGEMENTS** **Job sharing** allows two or more people to share a single full-time job. For example, two people may share a 40-hour-per-week job, with one working mornings and the other working afternoons. About 22% of the firms questioned in one survey indicated that they allow job sharing.<sup>117</sup> Job sharing can be particularly useful for retirement-aged employees. It allows them to reduce their hours while the company retains their expertise.<sup>118</sup> **Work sharing** refers to a temporary reduction in work hours by a group of employees during economic downturns as a way to prevent layoffs. Thus, 400 employees may all agree to work (and be paid for) only 35 hours per week, to avoid a layoff of 30 workers.

**EFFECTIVENESS OF FLEXIBLE WORK SCHEDULE ARRANGEMENTS** Studies show that flexible work schedules have positive effects on employee productivity, job satisfaction, and employee absenteeism; the effect on absenteeism is generally greater than on productivity. Highly flexible programs were less effective than less flexible ones.<sup>119</sup>

### LEARNING OBJECTIVE 13-6

Explain how to use benefits to improve engagement, productivity, and performance.

## Employee Engagement Guide For Managers

### Costco's Compensation Plan

Costco's HR strategy is to deflect Walmart's famously low costs and wages by paying employees more, and thereby producing improved employee engagement, productivity, and customer service.<sup>120</sup>

For example, Costco pays its employees on average about \$21 per hour (not including overtime,) almost triple the federal minimum wage.<sup>121</sup> That compares with Walmart's average wage for full-time employees in the United States of \$12.67 an hour.<sup>122</sup> Costco's *starting* pay is \$11.50 per hour, again far above the minimum wage.<sup>123</sup>

Costco's employee benefits are also highly competitive, particularly compared with the typically sparse offerings in the retail industry.<sup>124</sup> For example, Costco pays about 90% of the health insurance costs of its over 90,000 domestic employees.<sup>125</sup> Its other benefits include (as examples) dental care, a pharmacy/prescriptions program, a vision program, a 401(k) plan, a dependent care assistance plan, an external network of professional counselors, voluntary short-term disability, long-term disability, and life insurance.<sup>126</sup> Costco also extends these benefits to employees' spouses, children, and domestic partners. To get the most from these plans, Costco employees can use [www.costcobenefits.com](http://www.costcobenefits.com), for instance, to find physicians in their areas.

Costco doesn't directly measure employee engagement; it says it tracks engagement by "byproducts," such as turnover and productivity.<sup>127</sup> By those criteria, Costco's engagement efforts seem to be working. Its sales per employee are about \$500,000 a year versus \$340,000 at Walmart's Sam's Club.<sup>128</sup> Costco's turnover is far below the retail industry average, and employee retention is higher.<sup>129</sup> Costco, by the way, is not alone. Other large chains with traditionally excellent customer service, like Nordstrom and the Container Store, also do well financially, in part by treating employees well and keeping engagement up.<sup>130</sup>

# Chapter Review

## CHAPTER

## Chapter Section Summaries

- 13-1.** Employers provide numerous **pay for time not worked benefits**. These include unemployment insurance, vacation and other leave days, and sick pay. Minimizing sick leave pay is important, and here cost reduction tactics include paid leave plans that lump sick leave, vacation, and holidays into one leave pool.
- 13-2.** Most employers also provide required or voluntary **insurance benefits**. Workers' compensation laws aim to provide sure, prompt medical benefits to work-related accident victims or their dependents, regardless of fault. Most employer health plans provide at least basic hospitalization and surgical and medical insurance for eligible employees. When an employee is terminated or terminates his or her employment, it is essential that the employer make the person aware of his or her rights. Employers generally work hard to keep the rising cost of health-care insurance under control.
- 13-3.** **Retirement benefits** are important to employees today.
- 13-4.** Most employers also provide various **personal services and family-friendly benefits**. These include credit unions, employee assistance programs, and subsidized child care and elder care.
- 13-5.** Employees prefer choice in their benefits plans, so **flexible benefits programs** are important. Flexible benefits or cafeteria benefits plans are individual plans that accommodate employee preferences for benefits. Some employers turn to employee leasing companies to capitalize on the advantage of the leasing firm's large employee base to get better employee benefits for their employees. Employers also are implementing various types of flexible work schedules, including flextime, compressed workweeks, and other flexible work arrangements such as job sharing.
- 13-6.** Costco's HR strategy is to deflect Walmart's low wages by paying employees more, thereby producing more **employee engagement**, higher productivity, and better customer service. As one example, Costco pays about 90% of the health insurance costs of its over 90,000 domestic employees.

## Discussion Questions

- 13-1.** What is unemployment insurance? Is an organization required to pay unemployment benefits to all dismissed employees? Explain how you would go about minimizing your organization's unemployment insurance tax.
- 13-2.** Explain how ESIC protects employees' rights.
- 13-3.** Describe the main retirement benefits.
- 13-4.** What are the main provisions of the FMLA?

## Individual and Group Activities

- 13-5.** Working individually or in groups, research the unemployment laws of your state. Write a summary detailing your state's unemployment laws.
- 13-6.** Assume you run a small business. Working individually or in groups, visit the Web sites [www.paycheck.in](http://www.paycheck.in) and [www.msme.gov.in](http://www.msme.gov.in). Write a two-page summary explaining: (1) the various social security and retirement savings programs available to small business employers, and (2) which type of benefits you would choose for your small business and why?
- 13-7.** You are the HR consultant to a small business with about 40 employees. Now the firm offers only 5 days of vacation, 5 paid holidays, and legally mandated benefits such as unemployment insurance payments. Develop a list of other benefits you believe it should offer, along with your reasons for suggesting them.
- 13-8.** Appendices A and B at the end of this book (pages 583–600) list the knowledge someone studying for the HRCI (Appendix A) or SHRM (Appendix B) certification exam needs to have in each area of human resource management (such as in Strategic Management, and Workforce Planning). In groups of several students, do four things: (1) review Appendix A and/or B; (2) identify the material in this chapter that relates to the Appendix A and/or B required



knowledge lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam and/or the SHRM exam; and, (4) if time permits, have someone from your team post your team's

questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.

## Experiential Exercise

### Revising the Benefits Package

**Purpose:** The purpose of this exercise is to provide practice in developing a benefits package for a small business.

**Required Understanding:** Be very familiar with the material presented in this chapter. In addition, review Chapter 11 to reacquaint yourself with sources of compensation survey information, and come to class prepared to share with your group the benefits package for the small business in which you work or in which someone with whom you're familiar works.

**How to Set Up the Exercise/Instructions:** Divide the class into groups of four or five students. Your assignment is

as follows: Rani Joseph runs a small personnel recruiting office in Mumbai and has decided to start offering an expanded benefits package to her 25 employees. At the current time, the only benefits are 15 paid holidays per year and 5 sick days per year. The firm works six days a week, and often employees have to attend calls from home or even on Sundays. In her company, there are 2 other managers, as well as 17 full-time recruiters and 5 secretarial staff members. Your assignment is as follows:

- In the time allotted, your group should create a benefits package in keeping with the size and requirements of this firm.

## Application Case

### Striking for Benefits

A few years ago, the strike by Southern California grocery workers against the state's major supermarket chains was almost 5 months old. The main issue was employee benefits, and specifically how much (if any) of the employees' health-care costs the employees should pay themselves. Based on their existing contract, Southern California grocery workers had unusually good health benefits. For example, they paid nothing toward their health insurance premiums, and paid only \$10 co-payments for doctor visits. However, supporting these excellent health benefits cost the big Southern California grocery chains over \$4 per hour per worker.

The big grocery chains were not proposing cutting health-care insurance benefits for their existing employees. Instead, they proposed putting any new employees hired after the new contract went into effect into a separate insurance pool, and contributing \$1.35 per hour for their health insurance coverage. That meant new employees' health insurance would cost each new employee perhaps \$10 per week. And, if that \$10 per week wasn't enough to cover the cost of health care, then the employees would have to pay more, or do without some of their benefits.

It was a difficult situation for all involved. For the grocery chain employers, skyrocketing health-care costs were undermining their

competitiveness; the current employees feared any step down the slippery slope that might eventually mean cutting their own health benefits. The unions didn't welcome a situation in which they'd end up representing two classes of employees, one (the existing employees) who had excellent health insurance benefits, and another (newly hired employees) whose benefits were relatively meager, and who might therefore be unhappy from the moment they took their jobs and joined the union.

### Questions

- 13-9. Assume you are mediating this dispute. Discuss five creative solutions you would suggest for how the grocers could reduce the health insurance benefits and the cost of their total benefits package without making any employees pay more.
- 13-10. From the grocery chains' point of view, what is the downside of having two classes of employees, one of which has superior health insurance benefits? How would you suggest they handle the problem?
- 13-11. Similarly, from the point of view of the union, what are the downsides of having to represent two classes of employees, and how would you suggest handling the situation?

*Source:* Based on "Settlement Nears for Southern California Grocery Strike," *Knight-Ridder/Tribune Business News*, February 26, 2004, item 04057052.

## Continuing Case

### Carter Cleaning Company

#### The New Benefit Plan

Carter Cleaning Centers has traditionally provided only legislatively required benefits for its employees. These include unemployment

compensation, Social Security, and workers' compensation (which is provided through the same insurance carrier that insures the stores for such hazards as theft and fire). The principals of the firm—Jack, Jennifer, and their families—have individual, family-supplied health and life insurance.

Jennifer can see several potential problems with the company's policies regarding benefits and services. One is turnover. She wants to study whether similar companies' experiences with providing health and life insurance benefits enable these firms to reduce employee turnover and perhaps pay lower wages. Jennifer is also concerned that her company has no formal vacation or paid days off or sick leave policies. Informally, at least, it is understood that employees get 1 week's vacation after 1 year's work, but in the past the policy regarding paid vacations for days such as New Year's Day and Thanksgiving Day has been very inconsistent. Sometimes employees who had been on the job only 2 or 3 weeks were paid fully for one of these holidays, while at other times employees who had been with the firm for 6 months or more had been paid for only half a day.

She also wonders whether it would be advisable to establish some type of day care center for the employees' children. Many of them have no place to go during the day (they are preschoolers) or have no place to go after school; she wonders whether a day care benefit would be in the best interests of the company.

### Questions

- 13-12. Draw up a policy statement regarding vacations, sick leave, and paid days off for Carter Cleaning Centers.
- 13-13. What would you tell Jennifer are the advantages and disadvantages to Carter Cleaning Centers of providing its employees with health, hospitalization, and life insurance programs?
- 13-14. Would you advise establishing some type of day care center for the Carter Cleaning employees? Why or why not?

## Translating Strategy into HR Policies and Practices Case\*, §

\*The overall map on page xxxviii of this book outlines the relationships involved.

### Improving Performance at the Hotel Paris

#### The New Benefits Plan

The Hotel Paris's competitive strategy is "To use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability." HR manager Lisa Cruz must now formulate functional policies and activities that support this competitive strategy by eliciting the required employee behaviors and competencies.

While the Hotel Paris's benefits (in terms of things like holidays and health care) were comparable to other hotels', Lisa knew they weren't good enough to support the high-quality service behaviors her company sought. Indeed, the fact that they were roughly comparable to those of similar firms didn't seem to impress the Hotel Paris's employees. Sixty percent of them consistently said they were dissatisfied with their benefits. Lisa's concern (with which the CFO concurred) was that dissatisfaction with benefits contributed to low morale and engagement, and thus to inhibiting the Hotel Paris from achieving its strategic aims. Lisa therefore turned to the task of assessing and redesigning the company's benefits plans.

As they reviewed the benefits numbers, Lisa and the CFO became concerned. They computed several benefits-related metrics for their firm, including benefits costs as a percentage of payroll, sick days per full-time-equivalent employee per year, benefits cost/competitor's benefits cost ratio, and workers' compensation experience ratings. The results, said the CFO, offered a "good news–bad news" situation. On the good side, as noted, the ratios were similar to most competing hotels'. The bad news was that the measures were well below those for high-performing service businesses. The CFO authorized Lisa to design and propose a new benefits plan.

Lisa knew there were several things she wanted to accomplish. She wanted a plan that contributed to improved employee morale and engagement. And, she wanted the plan to include elements that made it easier for her employees to do their jobs—so that, as she put it, "they could come to work and give their full attention to giving our guests great service, without worrying about child care and other family distractions."

The new plan's centerpiece was a proposal for much better family-friendly benefits. Because so many of each hotel's employees were single parents, and because each hotel had to run 24 hours a day, Lisa's

team proposed, and the board approved, setting aside a room in each hotel for an on-site child-care facility and for hiring a trained professional attendant. They considered instituting a flexible work schedule program, but for most of the jobs, this was impractical, because each front-line employee simply had to be there at his or her appointed hour. However, they did institute a new job-sharing program. Now two people could share one housekeeping or front-desk clerk job, as long as the job was covered.

One of the metrics Lisa and her team specifically wanted to address was the relatively high absence rate at the Hotel Paris. Because so many of these jobs are front-line jobs—valets, limousine drivers, and front-desk clerks, for instance—absence had a particularly serious effect on metrics like overtime pay and temporary help costs. Here, at the urging of her compensation consultant, Lisa decided to opt for a system similar to Marriott's BENETRADE. With this benefit program, employees can trade the value of some sick days for other benefits. As Lisa put it, "I'd rather see our employees using their sick day pay for things like additional health-care benefits, if it means they'll think twice before taking a sick day to run a personal errand."

After just less than a year, Lisa and the CFO believe the new program is successful. Their studies suggest that the improved benefits are directly contributing to improved employee morale and commitment, sick days have diminished by 40%, and employee turnover is down 60%. And when they advertise for open positions, over 60% of the applicants cite "family-friendly benefits" as a top reason for applying to work at the Hotel Paris.

### Questions

- 13-15. What is your opinion of the new Hotel Paris benefits plan?
- 13-16. Because employers typically make benefits available to all employees, they may not have the motivational effects of incentive plans. Given this, list five employee behaviors you believe Hotel Paris could try to improve through an enhanced benefits plan, and explain why you chose them.
- 13-17. Given your answer to question 13-16 and what you read in this chapter of Dessler *Human Resource Management*, explain specifically what other benefits you would recommend the Hotel Paris implement to achieve these behavioral improvements.

§Written by and copyright Gary Dessler, PhD.

## Key Terms

benefits, 409  
supplemental pay benefits, 411  
unemployment insurance (or compensation), 411  
sick leave, 415  
severance pay, 417  
supplemental unemployment benefits, 417

workers' compensation, 418  
health maintenance organization (HMO), 419  
group life insurance, 421  
Social Security, 421  
pension plans, 422  
defined benefit pension plan, 422

defined contribution pension plan, 422  
portability, 422  
401(k) plan, 422  
employee assistance program (EAP), 423  
family-friendly (or work-life) benefits, 424

flexible benefits plan/cafeeteria benefits plan, 427  
flextime, 428  
compressed workweek, 428  
job sharing, 429  
work sharing, 429

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