

Welcome Students
to an end of
this Ninth
Session in Human
Resource
Management

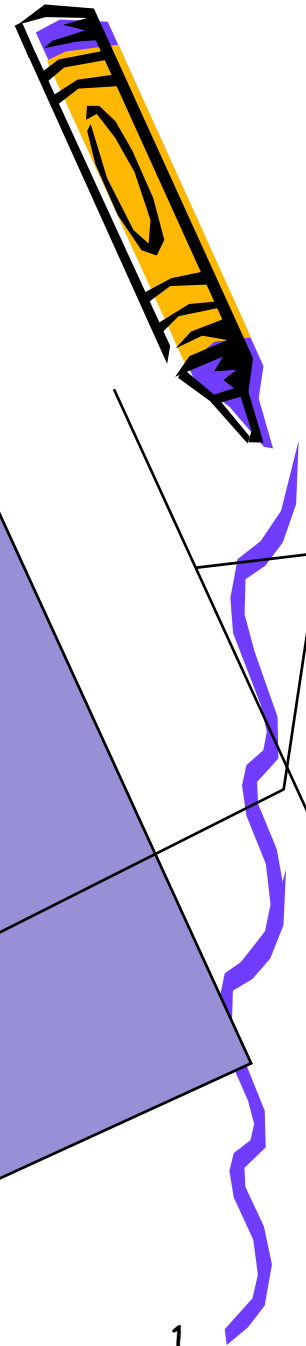
Chapter : *Nine*

Title : **“Compensation
Administration”**

Slides : 33



Human Resource
Management



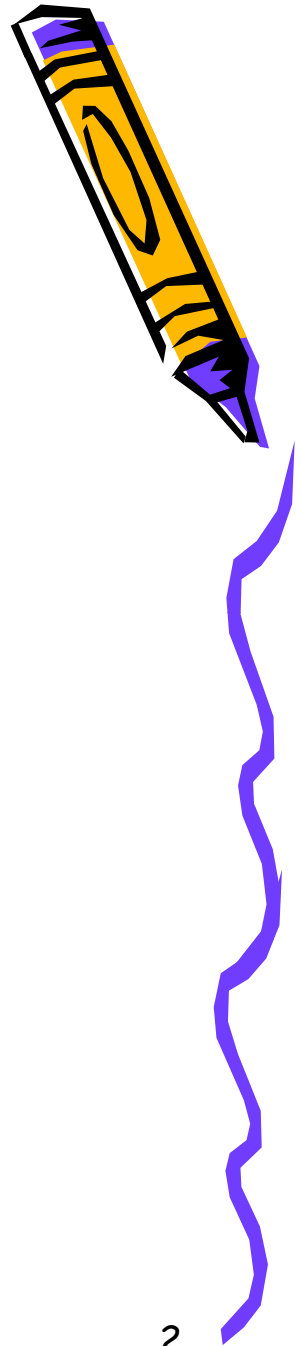
Compensation Administration

Objectives of this session

- Nature and Importance of Compensation.
- The Various Factors Affecting Compensation.
- The Different Components of Compensation



Human Resource
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Compensation Administration

Structure of this session

- Nature and Importance of Compensation.
- Factors Influencing Compensation.
- The Various Components of Compensation
- Related Reading
- Summary



Compensation Administration

9.1 Nature and Importance of Compensation

Compensation is the total reward received by an employee in exchange for services performed for an organization. In order to attract and then retain quality employees, organizations offer a compensation package that is much more detailed than simple salary or wages.

New components like insurance, employee discounts, extended leaves and retirement programmes are added into pay packages.



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9.1 Nature and Importance of Compensation

Wage and salary requirements are usually agreed upon before the employee begins work, and become foundation of compensation package.

One part of this package guarantees pay when employee is on leave. Another provides for health insurance, retirement benefits [either lump sum or monthly basis] or contributions to mutual funds partly borne by the employee.



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9.1 Nature and Importance of Compensation

A fair compensation system is a must for every organization as it provides several benefits to it.

- Employees tend to perform better and fulfill set targets,
- There is more cooperation, efficiency and good morale among workmen,
- Peaceful labour management relations,
- There is competition among employees to work better,
- Compliance with all legal requirements related to wages.



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9.1 Nature and Importance of Compensation

Fair compensation package retains the best talent and employees do not wish to switch over to another job. Labour turnover is low.

The business organization can think of expansion and growth if it has support of skillful, talented and happy workforce.

The sound compensation system is hallmark of organization's success and prosperity. The success and stability of organization is measured with pay package it provides to its employees.



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9.2 Factors Influencing Compensation.

External

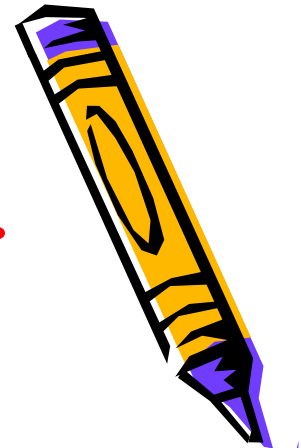


- Labour Market
- Labour Unions
- Cost of Living
- Labour Laws
- Society
- Economic Conditions

Internal



- Business Strategy
- Performance Appraisal
- Employee



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9.2 Factors Influencing Compensation.

External - Labour Market

Demand for and supply of labour influence wage and salary fixation. When supply exceeds demand [as in the case of unskilled workers] , low wage can be fixed but when demand exceeds supply [highly skilled workers] high wages need to be fixed to attract and retain labour.

In case of unskilled labour, minimum wages as per local laws must be paid.



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9.2 Factors Influencing Compensation.

External - Labour Unions

The presence or absence of labour trade unions often determines the amount of wages paid to employees. Employers in non-unionized factories enjoy the freedom to fix wages and salaries.

Labour unions pressurize organizations to pay employees the legal minimum wage and collectively they bargain for increase in the wages of workers. Thus, labour unions determine and revise the pay scales of workers in the organization.



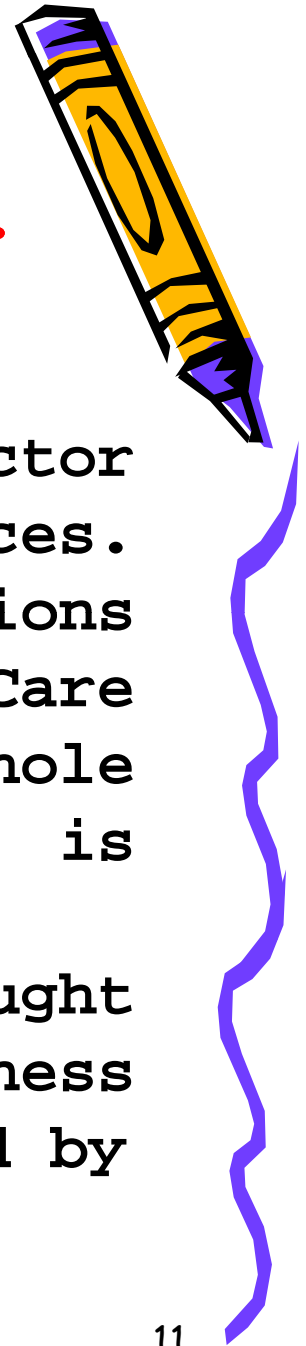
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9.2 Factors Influencing Compensation.

External - Cost of Living

This is a very important factor especially during times of rising prices. Cost of living under these conditions reduce the real wage of the workers. Care has to be exercised to ensure that while fixing wages, the cost of living is considered.

A rise in the cost of living is sought to be compensated by payment of dearness allowance. Normally the DA is determined by a formula which is based on cost of living index.



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9.2 Factors Influencing Compensation.

External - Labour Laws

Labour laws are passed to ensure that the workers are not exploited by the organizations and that they are paid their just dues.

Labour laws like payment of Wages Act 1936, The Minimum Wages Act 1948, The Payment of Bonus Act 1965, Equal Remuneration Act 1976 and the Payment of Gratuity Act 1972 all ensure that payment of wages and other dues are paid by the employer to workers. The Acts safeguard workers' rights.



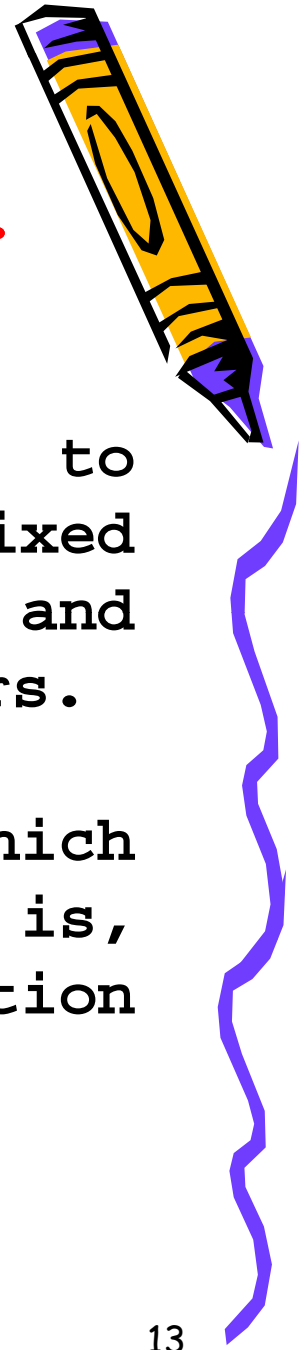
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9.2 Factors Influencing Compensation.

External - Society

Compensation or remuneration paid to employees is reflected in the prices fixed by the organization for its goods and services that are quoted to its customers.

Society as a customer group which consumes these products and services is, therefore, interested in the compensation decisions of the organization.

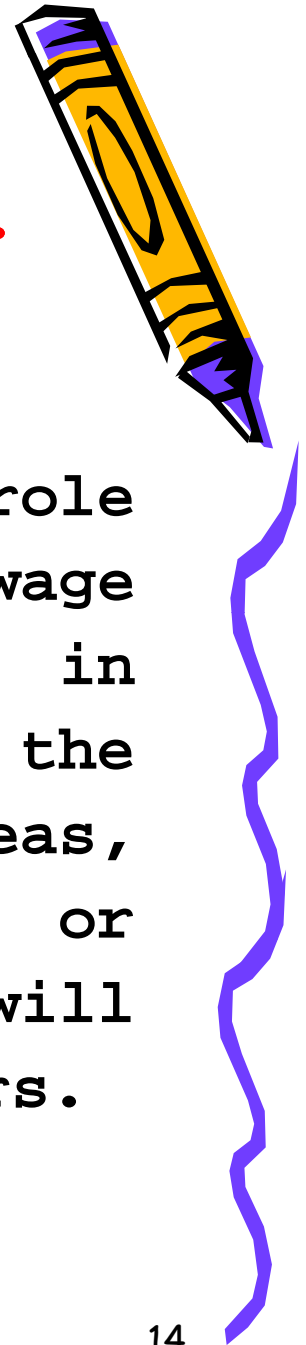


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9.2 Factors Influencing Compensation.

External - Economic Conditions

The state of economy also plays a role in the determination and fixation of wage and salary. When the economy is in recession, organizations cut down on the compensation of its employees. Whereas, when the economy is in boom period or prosperity period, the organization will pay handsome compensations to its workers.



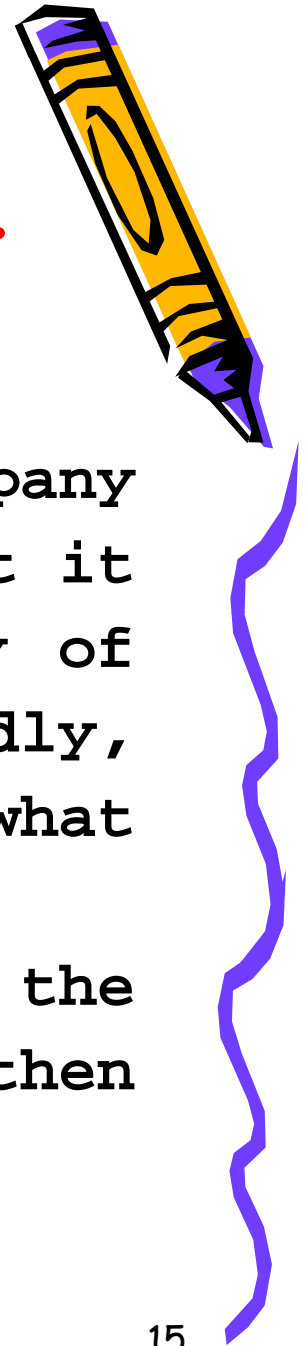
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9.2 Factors Influencing Compensation.

Internal - Business Strategy

The overall strategy which a company follows determines the compensation that it pays to its employees. If the strategy of the company is to achieve growth rapidly, the compensation will be higher than what its competitors may be paying.

If the strategy is to maintain the current savings or to reduce costs, then the company will pay average levels of compensation.



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9.2 Factors Influencing Compensation.

Internal - Employee
Employee related factors like performance, seniority, experience and potential determine an employee's compensation. An employee's performance is rewarded with increase in the pay.

Sometimes organizations pay on the basis of seniority of the employee. This is especially true in case of the compensation paid to the organization's top management.



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9.3 The Various Components of Compensation

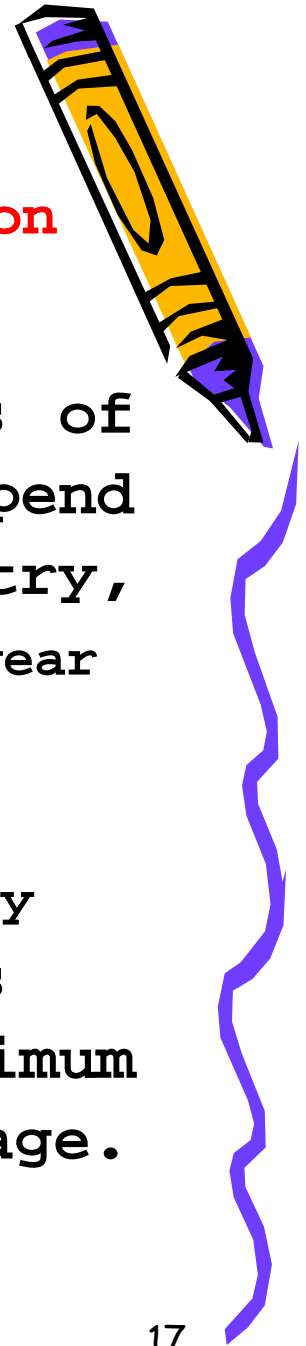
Wages

Wages refer to the hourly rates of pay paid to workers. The rates depend upon the nature of job, type of industry, seniority and merit. They increase each year

Based on

- needs of workers
- capacity of the organization to pay
- prevailing economic conditions

wages can be classified into i] minimum wage, ii] fair wage and iii] living wage.

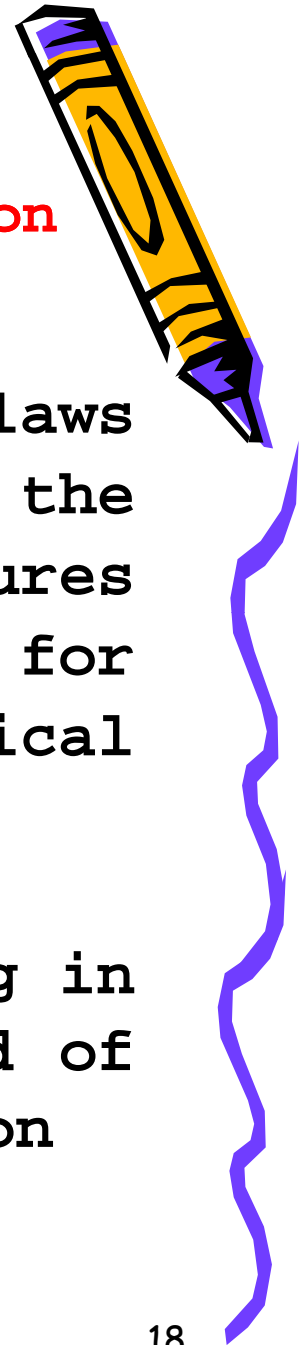


Compensation Administration

9.3 The Various Components of Compensation

Wages - i] minimum wage,
- is usually fixed by labour laws and it is one which provides for the basic living conditions. It also ensures that the wage is sufficient enough for the worker for some education, medical requirements and amenities.

ii] fair wage
- is equal to the wage prevailing in either the same trade or similar kind of work. It is fixed by comparison with accepted standard rate bargained by employees.

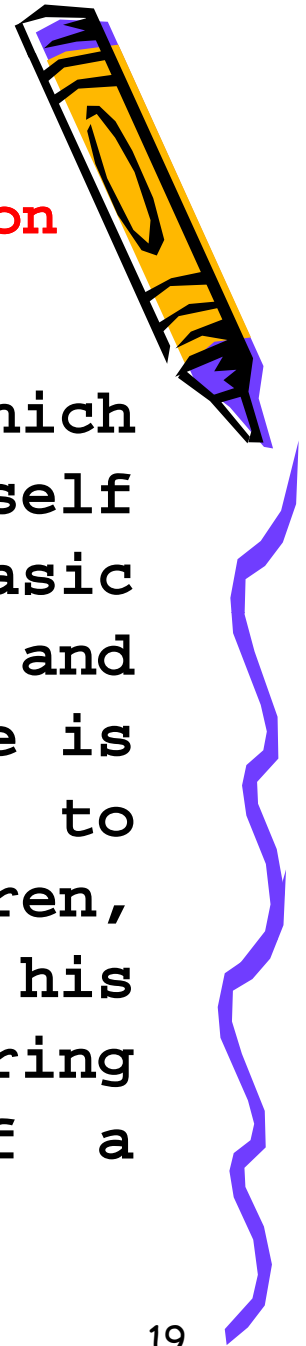


Compensation Administration

9.3 The Various Components of Compensation

Wages - iii] living wage.

- is described as the wage which enables the worker to provide for himself and his family with the basic requirements like food, clothing and shelter. It also ensures that the wage is sufficient enough for the worker to provide education to his children, medical facilities and insurance to his family. It is fixed by considering general economic conditions of a country.



Compensation Administration

9.3 The Various Components of Compensation

Salary

Salary represents the monthly rate of pay paid to employees. They are subject to annual increments. Rates depend on nature of jobs, type of industry, employees experience and seniority.

Bonus

Bonus is usually a short term incentive [annual] based on employee's performance. Sometimes it is paid on achievement of set targets.



Compensation Administration

9.3 The Various Components of Compensation

Commission

Commission is usually paid to employees in sales or marketing department as a % of revenue earned by them for the company.

Stock Options

Stock options are long term benefits offered to executives. They are allowed to purchase certain amount of company's shares at concessional rates. This gives them a sense of ownership and an incentive to stay with the company.



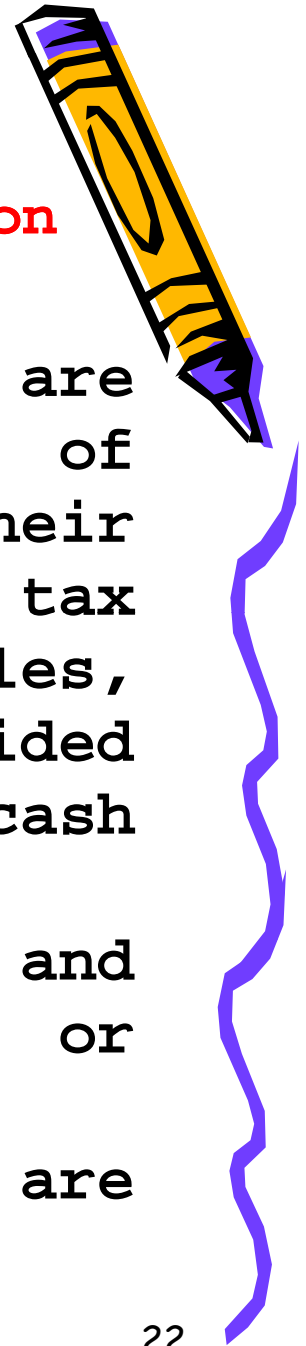
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9.3 The Various Components of Compensation

Perquisites

Several different benefits are received by executives in the form of perquisites or perks to make their compensation attractive and tax effective. Company housing, vehicles, servants, security personnel are provided as perquisites. In some cases cash allowances are paid in lieu of above.

In addition leave travel and entertainment allowances or reimbursement of medical, phone, electricity, petrol expenses are arranged for executives.



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9.3 The Various Components of Compensation

Life Insurance

Most organizations provide life insurance plans to its employees usually on a group basis. Base premium is paid by the employer and employees pay for any additional cover required by them.

Medical Insurance

Other organizations offer their employees some type of medical or hospitalization insurance. It covers hospital room and board, surgery charges, home visits & medicines.



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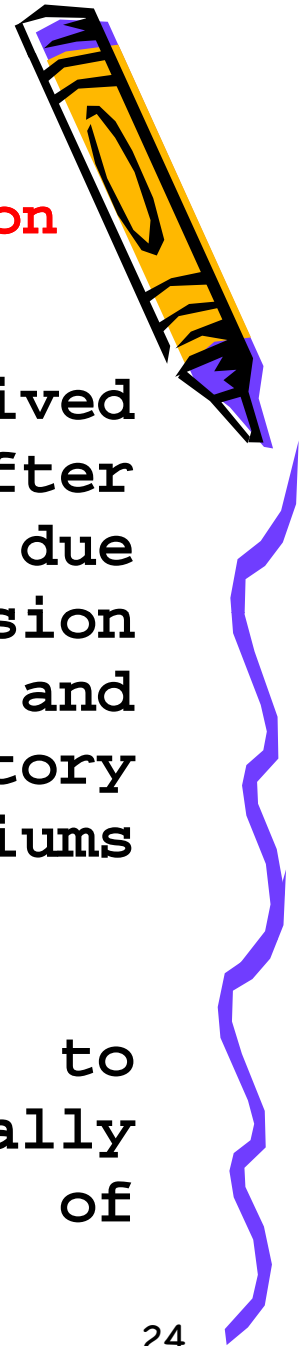
9.3 The Various Components of Compensation

Pension

Pension is an amount received every month by an employee after retirement or pre-mature retirement due to disability. In contributory pension plans premiums are paid by employer and employee together. Non-contributory pension plans are those where premiums are paid by the employer alone.

Gratuity

Gratuity is a lump sum payment to employee on retirement. It normally varies with number of years of service.



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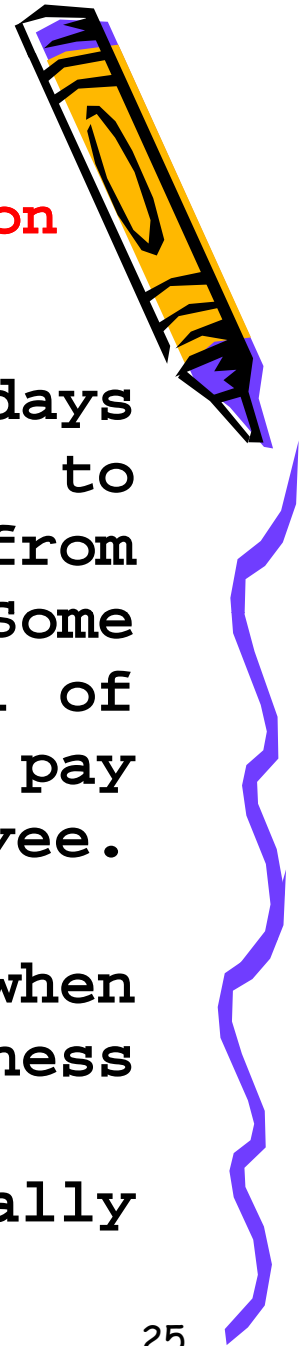
9.3 The Various Components of Compensation

Vacations and Holidays

In India normally 28 days vacation per year is provided to employees. But actual days vary from organization to organization. Some companies insist that employees avail of the vacation each year while others pay cash for vacation un-availed by employee.

Sick Leave

Sick leave provides pay when employees are out of work due to illness up to 12 days a year. Un-availed leave is normally allowed to be accumulated.



Compensation Administration

9.3 The Various Components of Compensation

Maternity Leave

Most organizations provide either 90 or 180 days of maternity leave to the women employees. Full salaries and benefits are paid during their absence for above period.

Paternity Leave

There is a recent trend in a few organizations to grant paternity leave up to three days to its male employees.



Compensation Administration

9.4 Related Reading

Negotiate your way:

Negotiations form a part of our everyday life. Salary negotiation is important one in work life.

One needs to prepare for salary negotiation. First step is self evaluation be measuring one's contribution to the organization.

Next get ready with answers to questions that the boss may raise during negotiation.



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9.4 Related Reading

Negotiate your way:

Timing of the discussion is critical and it is a good idea to seek appointment with the boss so that you will have time to get heard.

Your PPP [powerful past performance] counts during discussion, so avoid any personal reasons for the raise.

This may get you the desired pay hike, but if not, it does not pay to be argumentative or aggressive.



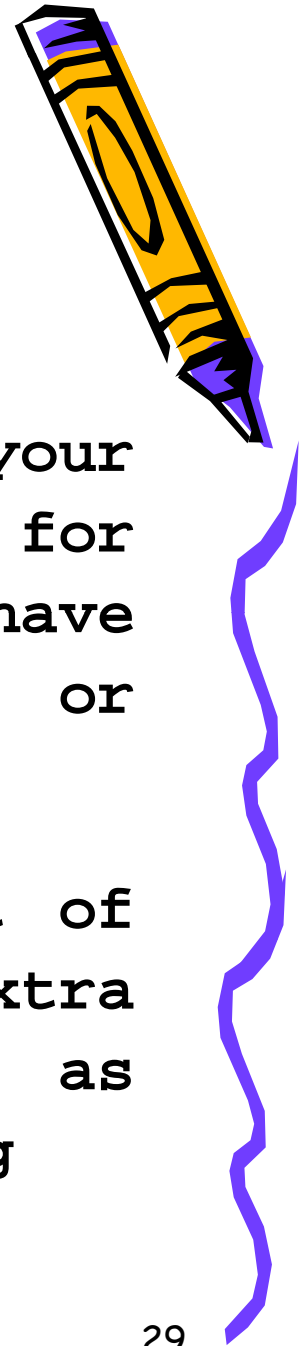
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9.4 Related Reading

Asking for a raise:

It is better to get support of your departmental head to your request for raise in your salary. Then you have better chances when you approach HR or CEO on the subject.

Asking for a raise under threat of resignation or refusal to take extra responsibility is strict no no as this may snub the HR or CEO wrong way.



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9.4 Related Reading

Asking for a raise:

Asking for a raise in less than a year from the last increment may be considered greedy. Best time to approach the subject is just after your major achievement or break through has been recognized by HR or CEO.

Request with great humility and ask for additional growth prospects along with money.



Compensation Administration

9.5 Summary

Compensation is the total reward received by an employee in exchange for services performed for an organization. A sound compensation system is a mark of an organization's success and prosperity. Compensation is affected by many internal factors such as business strategy, performance appraisal and employee and



Compensation Administration

9.5 Summary

and by external factors such as economic conditions, society, labour unions, labour laws. Wages, salary, bonus, pensions are a few components of the compensation package which an organization provides to its employees.





Well students,
at this stage
we now have
come to Ninth
session in HRM
dealing with
'Compensation
Administration'

Human Resource
Management



Next we move
to session Ten
on
" Separation "
Good Luck!