

Summary

Chapter Nine : 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. 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 etc., partly borne by the employee.

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.

9.2 Factors Influencing Compensation

Employee compensation is influenced by external factors like Labour Market, Labour Unions, Cost of Living, Labour Laws, Society and its culture, and prevailing Economic Conditions. It also depends upon internal factors like Business Strategy, Performance Appraisal and Employee Characteristics.

9.3 The Various Components of Compensation

Wages - i] minimum wage fixed by labour laws, ii] fair wage equal to the wage prevailing in either the

same trade or similar kind of work and iii] living wage described as the wage which enables the worker to provide for himself and his family with the basic requirements like food, clothing and shelter are three concepts of wage.

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

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

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.

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

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 covers hospital room and board, surgery charges, home visits & medicines.

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.

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 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.

Maternity leave is allowed per requirements of labour laws or more per company policy. Even paternity leave is granted by some firms.

9.4 Related Reading

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. 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.

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. . Best time to approach the subject is just after your major achievement or break through has been recognized by HR or CEO.