

Compensation- Concept and Policies

COMPENSATION

- Compensation is defined as the total amount of the monetary and non-monetary pay provided to an employee by an employer in return for work performed as required.
- It's a combination of the value of your pay, vacation, bonuses, health insurance, and any other perk you may receive, such as free lunches, free events, etc.

Purpose of Compensation

- Attracting the talent
- Motivating the employees
- Retaining the talent

CLASSIFICATION

- Base or direct compensation
- Supplementary or indirect compensation
- Incentive compensation

COMPENSATION

BASE

SUPPLEMENTARY

INCENTIVE

BASIC PAY

ALLOWANCES

FRINGE
BENEFITS/PERQUISITES

INDIVIDUAL

GROUP

Components of Base Compensation

- Basic Pay – Wage and salary
- Dearness Allowance
- House Rent allowance
- City Compensatory Allowance
- Transport allowance
- Other Allowances

How Do Companies Determine Compensation?

Availability of employees with like skills in the marketplace

Desire to attract and retain a particular employee

Employee contributions and accomplishments

Company's profitability or funds available in a non-profit or public sector setting

Market research about the worth of similar jobs

Previous salaries



Factors affecting Compensation

- Demand for and supply of labour
- Ability to Pay
- Cost of living
- Productivity of workers
- Wage Laws
- Trade Unions
- Prevailing wage rates
- Job Requirements

Supplementary Compensation

- Over and above the base Compensation
- **FRINGE BENEFITS**
- Fringe benefits are additions to compensation that companies give their employees.
- monetary and non monetary benefits
- Also termed golden hand cuffs
- Some fringe benefits such as social security and health insurance are required by law, while others are voluntarily provided by the employer.
- Examples of optional fringe benefits include free breakfast and lunch, gym membership, employee stock options, transportation benefits, retirement planning services, childcare, education assistance, etc.

Objectives of Fringe Benefits

- To create and improve sound industrial relations.
- To boost up employee morale.
- To motivate the employees by identifying and satisfying their unsatisfied needs.
- To provide qualitative work environment and work life.
- To provide security to the employees against social risk like old age benefit and maternity benefits
- To protect the health of the employees and to provide safety to the employees against accidents
- To promote employees welfare by providing welfare measures like recreation facilities.
- To create sense of belongingness among employees
- To meet requirements of various legislations relating to fringe benefits

Types of Fringe Benefits

- Payment for time not worked
- Extra pay for time worked
- Protection against hazards
- For security
- Old Age and Retirement benefits
- Legal Payments

Factors influencing Fringe Benefits

- Absolute and per capita cost of fringe Benefits
- Organization financial ability to provide the benefits.
- The bargaining strength of trade unions.
- Employee's significance to the organization.
- Tax benefits to the organization and individual employees.
- Need for building public image for the Organization.
- Organization's awareness and policy towards social responsibility.

Perquisites

- These are normally provided to managerial personnel either to facilitate their job performance or to retain them in the organisation.
- includes company car, club membership, free residential accommodation, paid holiday trips, stock options, etc.

BASE COMPENSATION

- Payments in the form of wages and salaries
- Paid in cash
- Compensate employees for their services
- Determined on the basis of job evaluation and other relevant factors

SUPPLEMENTARY COMPENSATION

- Over and above the regular pay
- Paid in the form of services, benefits and kind
- To increase efficiency and to retain employees
- Depends mainly on companies policies and needs

SYSTEMS OF COMPENSATION

TIME WAGE SYSTEM

- Paid for the amount of time spent on the job
- $\text{Wages} = \text{Number of hours worked} \times \text{Rate per hour}$

PIECE-WAGE SYSTEM

- Paid on the basis of output of work or the number of units turned out
- $\text{Wages} = \text{Number of units produced} \times \text{Rate per unit}$

SYSTEMS OF COMPENSATION- SUITABILITY

TIME WAGE SYSTEM

- Units of output are non-measurable
- Office or administrative work
- Quality of work is of utmost importance
- Collective effort of group of persons required
- Mental work is involved such as policy making and administration
- Machines, equipment's and tools used for production are delicate and expensive
- Production process is complex and demands high degree of skills

SYSTEMS OF COMPENSATION- SUITABILITY

TIME WAGE SYSTEM

ADVANTAGES

- Simplicity
- Feeling of Security
- Equality of wages
- Better quality
- Less Wastage
- Acceptable to trade unions

DISADVANTAGES

- Inefficiency
- Lack of motivation
- Increased supervision
- Fixed wage bill

SYSTEMS OF COMPENSATION- SUITABILITY

PIECE WAGE SYSTEM

- Work done is accurately measureable
- Standardised production methods
- Repetitive jobs
- More physical work than mental work
- Quality control system exists to discourage low quality production
- Does not require personal skills of higher order

SYSTEMS OF COMPENSATION- SUITABILITY

PIECE WAGE SYSTEM

ADVANTAGES

- Incentive for higher productivity
- Fairness
- Costing
- Lesser supervision
- Economy

DISADVANTAGES

- Low quality
- Insecurity to workers
- Strained industrial relations
- More administrative work
- Wastage
- Health hazard
- Opposition by trade unions

COMPENSATION POLICIES

- **Level of Compensation**
 - Wage and Salary Level Policy
 - Lead Policy
 - Lag policy
 - Market Rate Policy
 - Fringe benefit Policy
- **Compensation Structure**
- **Basis of Compensation**
- **Pay Periods policy**
- **Policy governing Incentive**

3-P Compensation Model

- Pay for position
- Pay for Person
- Pay for Performance

Compensation Administration

- wage and salary administration refers to the establishment and implementation of sound policies and practices of employee compensation. It includes such areas as job evaluation, surveys of wages and salaries, analysis of relevant organisational problems, development and maintenance of wage structure, establishing rules for administering wages. wage payments, incentives, profit sharing, wage changes and adjustments, supplementary payments, control of compensation costs and other related items"

Objectives- Compensation Administration

- To establish a fair and equitable remuneration
- To attract Competent Personnel
- To retain the present employees
- To improve productivity
- To control costs
- To establish job sequences and lines of promotion wherever applicable
- To improve union management relations
- To improve public image of the company