Unit-5
COMPENSATION MANAGEMENT

Meaning:- Compensation Management is the act of providing monetary value to an employee for the work they do by means of a company process or policy. Some types of compensation include salary, bonuses & benefit packages.
Acc. to D.S. Beach " the establishment & implementation of sound policies & practices of employee compensation. It includes such areas as job evaluation, surveys of wage & salaries, analysis of relevant organisational Problems, development & maintenance of wage structure, establishing rules for administrating wages, wage payment incentives, profit sharing, wage changes & adjustments, supplementary payments, control of compensation costs & other related items.

Importance of Compensation Management
A good compensation is a must for every business organization, as it gives an employee a reason to stick to the company.
An organization gains from a structured compensation management in the following ways −

- It tries to give proper refund to the employees for their contributions to the organization.
- It discovers a positive control on the efficiency of employees and motivates them to perform better and achieve the specific standards.
- It creates a base for happiness and satisfaction of the workforce that limits the labor turnover and confers a stable organization.
- It enhances the job evaluation process, which in return helps in setting up more realistic and achievable standards.
- It is designed to abide with the various labour acts and thus does not result in conflicts between the employee union and the management. This creates a peaceful relationship between the employer and the employees.
- It excites an environment of morale, efficiency and cooperation among the workers and ensures satisfaction to the workers.

COMPONENTS OF COMPENSATIOIN MANAGEMENT
1. **Wage:-** wage is general term referring to direct monetary compensation. It is also used specifically to refer to payments to service workers on the basis of hourly rated production.
2. **Salary:-** salary refers to weekly or monthly rates paid to clerical, administrative & professional employees.
3. Allowances:- Allowances can be defined as the amount of something that is allowed, especially within a set of rules and regulations or for a specified purpose. Various allowances are paid in addition to basic pay.
Some of these allowances are as follows −

- **Dearness Allowance** − This allowance is given to protect real income of an employee against price rise. Dearness allowance (DA) is paid as a percentage of basic pay.

□□**House Rent Allowance –** Companies who do not provide living accommodation to their employees pay house rent allowance (HRA) to employees. This allowance is calculated as a percentage of salary.
□□**City Compensatory Allowance** − This allowance is paid basically to employees in metros and other big cities where cost of living is comparatively more. City compensatory allowance (CCA) is normally a fixed amount per month, like 30 per cent of basic pay in case of government employees.
□□**Transport Allowance/Conveyance Allowance** − Some companies pay transport allowance (TA) that accommodates travel from the employee's house to the office. A fixed amount is paid every month to cover a part of traveling expenses.

Incentives and Performance Based Pay

Incentive compensation is performance-related remuneration paid with a view to encourage employees to work hard and do better.
Both individual incentives and group incentives are applicable in most cases. Bonus, gain-sharing, commissions on sales are some examples of incentive compensation.

Fringe Benefits/Perquisites

Fringe benefits include employee benefits like medical care, hospitalization, accident relief, health and group insurance, canteen, uniform, recreation and the likes.

FACTORS AFFECTING WAGES & SALARY

The factors can be catergorised into

I.External Factors:-

External factors are

1.**Demand & Supply:-** the labour market conditions or demand & supply forces operate at the national & local levels & determine organisational wage structure. When the demand for a particular type of labour is more & supply is less then the wages will be more. On the other hand, if supply of labour is more & demand on the other hand is less then persons will be available at lower wage rates.

2. Cost of Living:- the wage rates are directly influenced by cost of living of a place. The workers will accept a wage which may ensure them a minimum standard of living. Wages will also be adjusted according to price index number. The increase in price index will erode the purchasing power of workers & they will demand higher wages. When the prices are stable then frequent may not be undertaken.

3.Trade Union's Bargaining Power:- the wage rates are also influenced by the bargaining power of trade unions. Stronger the trade union higher will be the wage rates. The strength of a trade union is judged by its membership, financial position & type of leadership. Union's last weapon is strike which may also be used for getting wage increases.

4.Government Legislation:- to improve the working conditions of workers, government may pass a legislation for fixing minimum wages of workers. This may ensure them a minimum level of living. In underdeveloped countries bargaining power of labour is weak & employers try to exploit

workers by paying them low wages.
5.Psychological & social factors:- psychologically the level of compensation is perceived as a measure of success in life. Management should take into consideration the psychological needs of the employees while fixing the wage rates so that the employees take pride in their work. Sociologically & ethically, the employees want that the wage system should be equitable. Sociologically & ethically, the employees want that the wage system should be equitable, just & fair.
6.Economy:- economy also has its impact n wage & salary fixation. Whilc it may be possible for some organisations to thrive in a recession, there is no doubt that economy affects remuneration decisions. A depressed economy will probably increase the labour supply. This, in turn should lower the going wage rate.
7.Technonological Development:- with the rapid growth of industries, there is a shortage of skilled resources. The technological developments have been affecting skill levels at faster rates. Thus, the wage rates of skilled employees constantly change & an organisation has to keep its level upto the mark to suit the market needs.
8.Prevailing Market Rates:- No enterprise can ignore prevailing or comparative wage rates. The wage rates paid in the industry or other concerns at the same place will form a base for fixing wage rates. If a concern pays rates then workers leave their jobs whenever they get a job somewhere else. It will not be possible to retain good workers for long.
II. INTERNAL FACTORS
1.Ability to pay:- the ability to pay of an enterprise will influence wage rates to be paid. If the concern is running into losses then it may not be able to pay higher wage rate. A profitable concern may pay more to attract good workers. During the period of prosperity, workers are paid higher wages because management wants to share the profits with labour.
2.Job Requirements:- Basic wages depend largely on the difficulty level & physical & mental effort required in a particular job. The relative worth of a job can be estimated through job evaluation. Simple, routine tasks that can be done by many people with minimum skills receive relatively low pay. On the other hand, complex, challenging tasks that can be done by few people with high skill levels generally receive high pay.

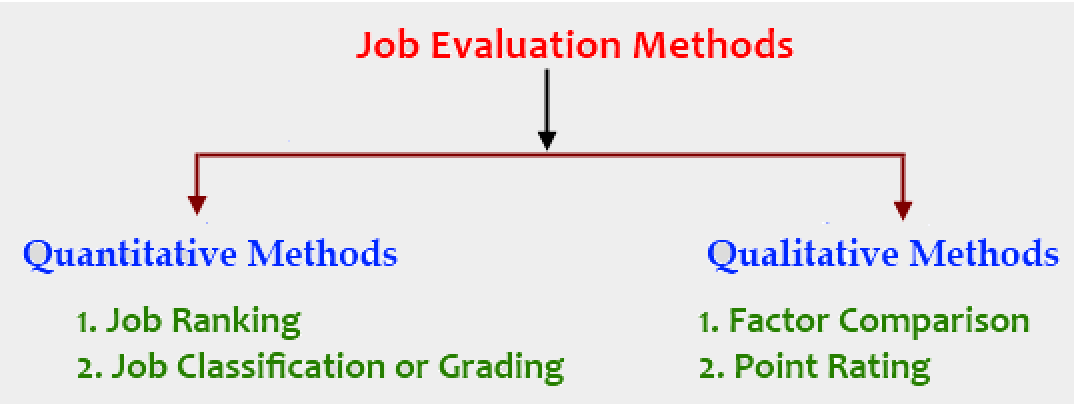
3. Management Strategy:- the overall strategy which a company pursues should determine the remuneration to its employees. Where the strategy of the organisation is to achieve rapid growth, remuneration should be higher than what competitors pay. Where the strategy is to maintain & protect current earnings, because of the declining fortunes of the company, remuneration level needs to be average or even below average.
4. employees :- several employee related factors interact to determine his remuneration these are
i. Performance:- or Productivity is always rewarded with a pay increase . rewarding performance motivates the employees to d better in future.
ii. Seniority:- unions view seniority as the most objective criteria for pay increases whereas management prefers performance to effect pay increases.
iii. Experience:- Makes an employee gain valuable insignts & is generally rewarded.

iv. Potential:- Organisation do pay some employees based on their potential. Young managers are paid more because of their potential to perform even if they are short of experiences.

JOB EVALUATION METHODS

For fixing compensation to different jobs, it is essential that there is internal equity and consistency among different job holders. **Job evaluation** is the process of determining the relative worth of different categories of jobs by analyzing their responsibilities and, consequently, fixation of their remuneration. The **basic objective of job evaluation** is to determine the relative contributions that the performance of different jobs makes towards the realization of organisational objectives.

There are four basic **methods of job evaluation**: ranking method, job grading method, point method and factor comparison method. Out of these, first two methods are non-quantitative and also known as traditional, non-analytical or summary methods. The last two **methods of job evaluation** are quantitative, also known as analytical methods, and use various quantitative techniques in evaluating a job.



The basic difference between qualitative and quantitative **methods of job evaluation** is in terms of;

1. Consideration of the job as a whole versus consideration of different components of a job; and
2. Judging and comparing jobs with each other versus assigning numerical scores on a rating scale.

Usually, in practice, a combination of different methods is followed. Based on this concept, some other methods have also been developed.

1. Ranking Method

In the **ranking method of job evaluation**, a whole job is compared with others and rank is provided on the basis of this comparison. The usual process followed in this method is as under:

1. On the basis of job analysis, each member of the job evaluation committee ranks each job independently either against the benchmark job or against all other jobs. The ranking is provided to the job on the basis of this comparison.
2. In order to increase the reliability of ranking, this exercise is undertaken twice or thrice by the members.
3. If there are significant differences of opinions among the members about the ranking of a particular job, the matter is settled by mutual consultation, or by working out the average.

Merits

Ranking method has certain facial merits. Some of these merits are as follows:

- The method is comparatively simple, easily understandable, and mostly acceptable by labor unions. It is suitable for comparatively smaller organisations which may not like to undertake more laborious exercises.
- The method is less costly to undertake and maintain as compared to other systems.

Demerits

Since ranking method of job evaluation is qualitative and non-analytical. It suffers from the following limitations:

- Ranking method is judgmental and, therefore, it is affected by personal preferences of job evaluators.
- This method ranks various jobs in order of their relative worth. It does not specify the real difference between two jobs. For example, the exact difference between job ranked at first and the job ranked at second cannot be specified.

2. Grading Method

Job grading method also known as job classification method establishes various grades for different categories of jobs. For example, jobs of an operative may be classified as unskilled, semi-skilled, skilled and highly-skilled. The process followed in this method is as under:

1. At the initial stage. a number of job classes or grades is decided on the basis of job analysis. Job grades can be determined on either of two bases. First, all jobs may first be ranked and their natural classes may be determined. The description of each job class is prepared covering all jobs falling in a class. Second, the job evaluation committee may prepare a series of job class description in advance on the basis of which various jobs may be graded.
2. Different characteristics of each job are matched with description of job class and a job is placed in the class with which it matches best.

Merits

Grading system of job evaluation particularly in government jobs is quite popular as this has certain merits over the ranking method. These are as follows:

- It is quite simple to operate and understand as the relevant information is provided by job analysis which serves other purposes too.
- Job evaluation done on grading method makes wage and salary determination easier as these are fixed in terms of various grades of jobs.

Demerits

This system of job evaluation suffers with the following limitations:

- Job grade description is vague and personal biases may distort job grading as the method is not based on any scientific analysis.
- There are chances of employees' resistance when new clusters of jobs are prepared. This is evident by the fad that government employees agitate when recommendations of a new pay commission come.

3. Point Method

Point method of job evaluation is widely used in business organisations. It is an analytical and quantitative method which determines the relative worth of a job on the basis of points alloted to each specific factor of a job. The sum total to these points allotted to various job factors is the worth of the job. This total is compared with that of other jobs and relative worth of various jobs is determined.

4. Factor Comparison Method

This method, also known as key job method, was originally developed at the Philadelphia Rapid Transit Company, USA by Eugene J.Benge in 1926 to overcome two major problems faced in point method of job evaluation. viz. determining the relative importance of factors and describing their degrees. In this method, each factor of a job is compared with the same factor of the other jobs or the key job either defined or existing one. When all factors are compared, the final rating is arrived at by adding the value received at each comparison. For this purpose, Benge identified five factors – mental effort, skill, physical effort, responsibility and working conditions. The procedure for **factor comparison method of job evaluation** is as follows:

1. At the initial stage, some key jobs which are well recognized are selected. These jobs should be from a cross-section of departments. These should represent all levels of wages and salaries which are considered fair, both internally as well as externally.
2. Various factors of the jobs which are to be considered for comparison, should be identified. These factors may be mental requirement. Skills, physical requirement, responsibility and working conditions.
3. Each factor of a job is compared with the same factor of the key job and rank is awarded. This exercise is repeated for all other factors.
4. The relative worth of a job is determined by adding the ranks obtained by different factors of a job. Sometimes, the rank is expressed in terms of monetary values and these values are added together to get the correct wage rate for the job.

Merits

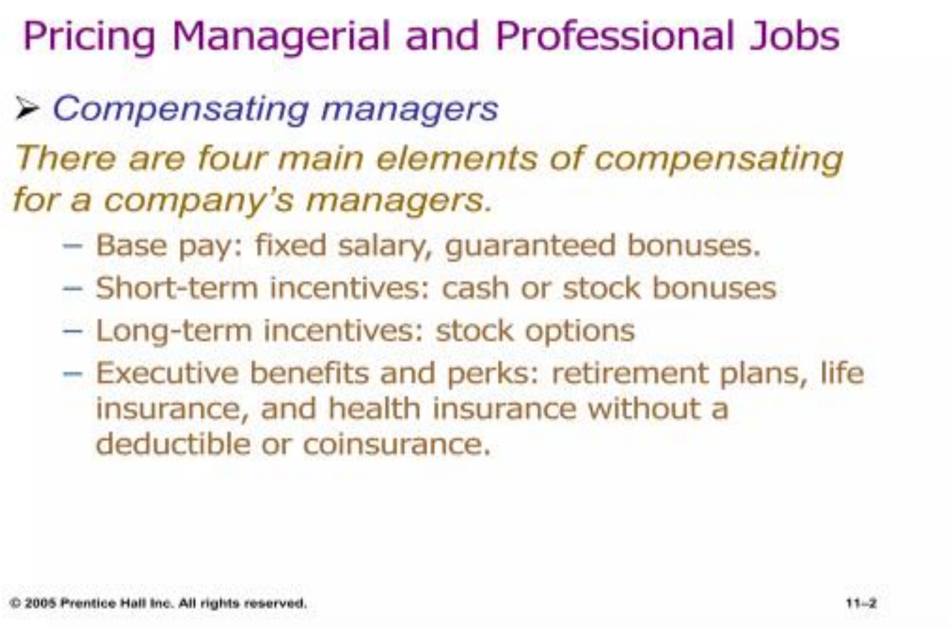
The factor comparison method is more systematic and analytical as compared to any other method and offers following merits:

- It provides more accurate information about the relative worth of a job as different comparable factors are compared with key jobs.
- Since only limited number of factors relevant for the effective job performance are compared, there are reduced chances of overlapping.
- Since the evaluation is more systematic and analytical, its logic can be accepted by trade unions and workers.

Demerits

However, factor rating method has its own operational problems which restrict its adaptability. The major problems are as follows:

- This method is quite costly and time consuming to install and difficult to understand by those not fully conversant with job evaluation process.
- If wage rates are adopted for making comparison, the system may become obsolete very soon as there may not be proportionate increase in wages for all jobs.
- This system considers only limited factors of job for comparison. This may be a positive point so far as avoidance of duplication and simplicity of procedure are concerned, but may ignore other factors which may be important for the performance of the job.



Pricing Managerial and Professional Jobs

- *What Really Determines Executive Pay?*
  - CEO pay is set by the board of directors taking into account factors such as the business strategy, corporate trends, and where they want to be in a short and long term.

  One Recent study that three main Factors:
  - Job Complexity(Span of Control, Functional Divisions)
  - Employer's ability to pay(total profit and rate of return)
  - Executive's human capital (educational level, field of study, Work Experience)

Compensating Professional Employees

- *Employers can use job evaluation for professional jobs.*
- *Compensable factors focus on problem solving, creativity, job scope, and technical knowledge and expertise.*
- *Professional jobs are market-priced to establish the values for benchmark jobs.*

What Is Competency-based Pay?

- *Competency-based pay*
  - Where the company pays for the employee's range, depth, and types of skills and knowledge, rather than for the job title he or she holds.

The Biggest difference between traditional and competency based pay is this:

  - Traditional job evaluation ties the workers pay to the worth of the job based on the job description and duties . Pay is job oriented.
  - Competency-based pay ties the worker's pay to his or her competencies. Pay is person oriented.

Why Use Competency-Based Pay?

There are three reasons:

- Paying for competencies enables the company to encourage employees to develop the competencies the company requires to achieve the Strategic aims.
- Paying for measurable competencies provide for a focus for the employment talent management process.
- Traditional pay plans can backfire if a high performance work system is your goal.

Salient Features of Workmen Compensation Act & Minimum Wages Act

Introduction

Objective:

The **Workmen's Compensation Act,1923** aims to provide workmen and/or their dependents some relief in case of accidents arising out of and in the course of employment and causing either death or disablement of workmen.

The act imposes statutory liability upon an employer to provide payment to employees when they suffer from physical disabilities & diseases during course of employment.

Workmen's Compensation Act, 1923

- (1) It extends to the whole of India.
- (2) It came into force on the first day of July, 1924.

Definition

- The Workmen's Compensation Act, 1923 is one of the important social security legislations. It aims at providing financial protection to workmen and their dependants in case of accidental injury by means of payment of compensation by the employers.

SCOPES & COVERAGE

- The Act extends to the whole of India.
- The workmen whose occupation is hazardous should be included within the scope of this Act.
- It applies to workmen employed in factories, mines, plantations, transport establishments, construction work, railways, ships, circuses, & other hazardous occupations & employments specified in Schedule II to the Act.
- The Act does not apply to members of Armed Forces of the Union & those workers who are insured under the Employees State Insurance Act 1948.
- The coverage of this act is also to cooks employed in hotels and restaurants.

OBJECTIVE

The Workmen's Compensation Act, 1923, aims to provide workmen and/or their dependents some relief in case of accidents arising out of and in the course of employment and causing either death or disablement of workmen.

Applicability Of The Act

- The Act extends to the whole of India except the States/Union Territories of Arunachal Pradesh, Mizoram, Nagaland, Sikkim and Daman & Diu and Lakshadweep.

  The Act applies to workers employed in any capacity specified in Schedule II of the Act which includes Factories, Mines, Plantations, Mechanically Propelled Vehicles, Construction Work and certain other Hazardous Occupations and specified categories of Railway Servants.

Main Provisions And Scope Of The Act

- Under the Act, the State Governments are empowered to appoint Commissioners for Workmen's Compensation for
- (i) settlement of disputed claims
- (ii) disposal of cases of injuries involving death
- (iii) revision of periodical payments. Sub-section (3) of Section 2 of the Act, empowers the State Governments to extend the scope of the Act to any class of persons whose occupations are considered hazardous after giving three months notice to be published in the Official Gazette. Similarly, under Section 3(3) of the Act, the State Governments are also empowered to add any other disease to the list mentioned in Parts A and B of Schedule – II and the Central Government in case of employment specified in Part C of Schedule III of the act.