

Compensation Management

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Compensation

- Compensation is what employees receive in exchange for their contribution to the organisation
- It is the employees' gross earnings in the form of financial rewards and benefits as part of employment relationship
- It offered both directly through *base pay* and *variable pay* and indirectly through *benefits*

Objectives of CM

- Attract and acquire Qualified Personnel
- Retain Present Employees
- Ensure Equity
- Reward Desired Behaviour
- Control Costs
- Comply with Legal Regulations
- Facilitate Understanding
- Further Administrative Efficiency

Difference in Wages, Salary & Compensation Terms

WAGES

Paid to BLUE Collared

On Daily, weekly, Monthly

Can be measured in terms
of money

SALARY

Paid to WHITE collared
Employees

Paid at specified Intervals

Paid to Employees whose
contribution cannot be
measured

COMPENSATION

Comparative Form

All Basic , gross amount ,
allowances + Benefits

Terminology

- *Earnings*
- *Nominal Wage*
- *Real Wage*
- *Minimum Wage*
- *Statutory Minimum Wage*
- *Living Wage*
- *Fair Wages*
- *Incentive Wage*

- **Minimum Wage:** - Minimum wage is the wage that is able to provide not only for bare sustenance of life but also for preservation of efficiency of worker plus some measure of education, health and other things.
- **Fair Wage:-** Fair wages is an adjustable step that moves up according to the capacity of the industry to pay, place of the industry in the national economy and the prevailing rates of wages in the area of industry. It is above minimum wages and below the living wage.

- The **living wage** should enable the male earner to provide himself and his family not merely the basic essentials of food, clothing and shelter but a measure of frugal comfort including education for the children, protection against ill-health, requirement of essential social needs and measures of insurance against old age.

Components

Direct Compensation

- It refers to monetary benefits offered and provided to employees in return of the services they provide to the organization. They are given at a regular interval at a definite time

Indirect Compensation

- It refers to non-monetary benefits offered and provided to employees in lieu of the services provided by them to the organization.

Direct Compensation

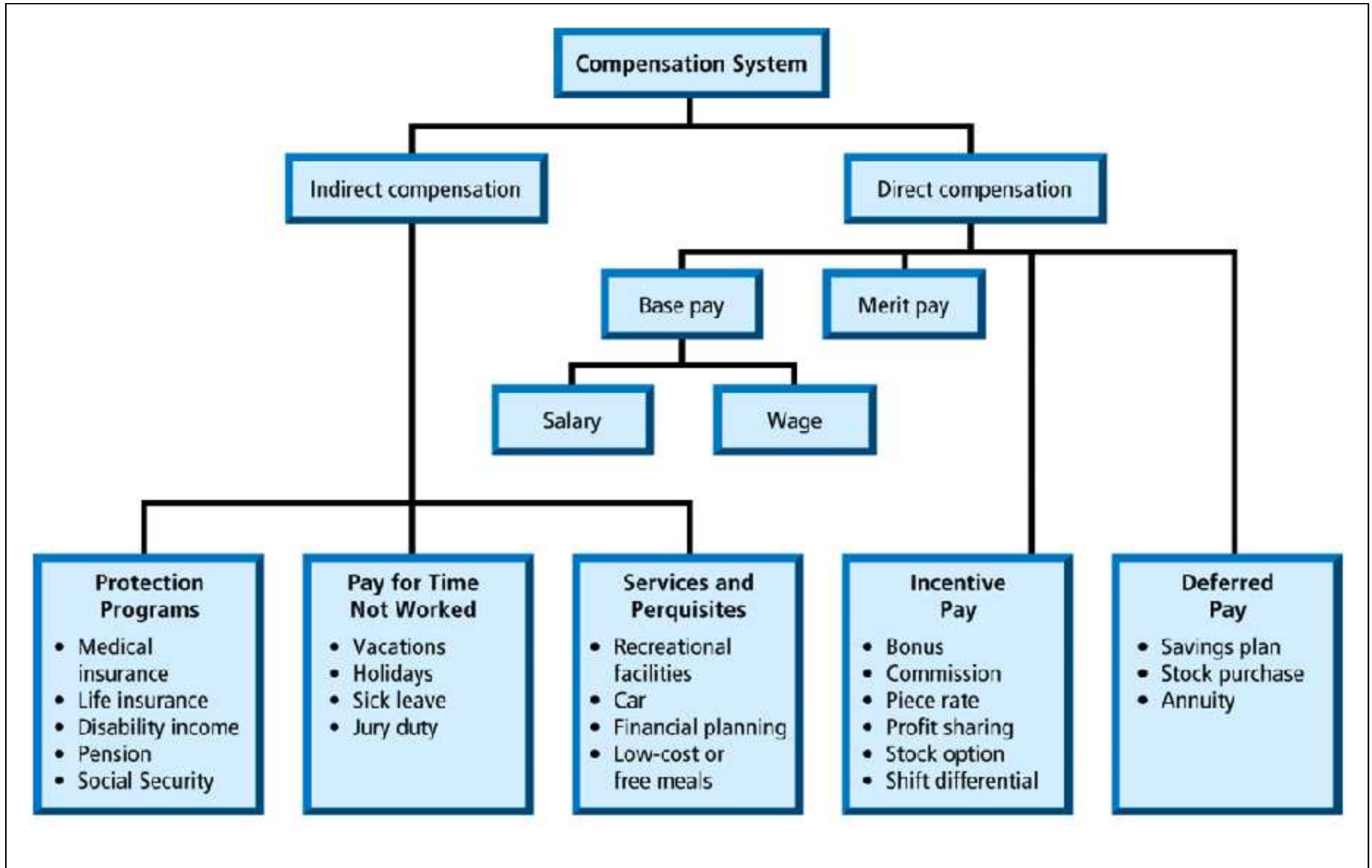
Fixed pay, Variable pay and Reimbursements

- Basic pay
- Dearness allowance
- HRA
- City Compensatory allowances
- Conveyance allowance
- Leave Travel allowance
- Medical allowance
- Special allowances
- Bonus
- Overtime Payment
- Incentives

Indirect Compensation

- Holidays
- Sick leaves
- Provident fund
- ESI
- Gratuity
- Medical insurance
- Leave encashment
- LTC
- Low cost or free meal
- Interest subsidy on loan

Compensation Management



Non-Financial Compensation

- It does not have any monetary value; instead it involves the satisfaction that an employee receives from his work environment. This satisfaction may be emotional or psychological.
 - **Job**
 - **Job Environment**
 - **Workplace flexibility**

- Interesting and challenging job, recognition, Opportunity for advancement, Feeling of achievement, Autonomy
- Supportive leadership, Supportive co-workers, interpersonal relations, Status, working condition
- Flextime, compressed work week, telecommuting, job sharing

Criteria of Wage Fixation

- Prevailing Rates of Wages
- Demand and Supply of Labour
- Firm's Ability to Pay
- Cost of Living
- Productivity
- Union Pressure and Strategies
- Government Legislations

Wage determination in India

- Collective Bargaining
- Adjudication
- Wage Boards
- Pay Commissions
- Legislations

Methods of Payment

- **Time Rate System**
- **Piece Rate System or Payment by Result (PBR)**
 - ✓ *Straight piece rate*
 - ✓ *Differential piece rate*
- **Balance or Debt method**

Wage Differentials

- Occupational differentials
- Inter-firm differentials
- Inter-area or regional differentials
- Inter-industry differentials
- Personal wage differentials
- Sector differentials

Functions of wage differentials

- To attract the talent and skilled people
- To pay on the basis of employees' talents and skills
- To satisfy the talented employees as they get higher salaries compared to low skilled employees
- To allow the companies to build distinctive competences
- To encourage less skilled employees to develop their skills and other human resources in order to get higher pay
- To discriminate highly committed from less committed and positive attitude employees from negatives
- To maximise organisational productivity and efficiency