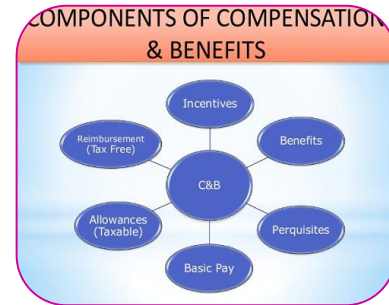




BASICS OF COMPENSATION MANAGEMENT

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ABSTRACT

Organizations achieve their objectives through their employees. Employees are treated the assets of every organization. They are expected to be compensated and rewarded by the organization for their contribution. Compensation package decides organization's ability to attract and retain high performing employees. It is the key reason that employee chooses to work for one organization and not for another. Compensations or reward management is a most important aspect of human resource management.

Employees receive Compensation in exchange of the services rendered by them to an organization. The term 'compensation' refers to all forms of financial returns and tangible benefits that employees receive as part of the employment relationship. It is a complex process that includes decisions regarding benefits and variable pay and is one of the most significant and dynamic of HR practices. Like any other HR practice, it involves the design, development, implementation, communication and evaluation of the reward strategy and processes of the organization.

KEY WORDS: Compensation Management, Rewards, Incentives.

INTRODUCTION

In the era of globalization and privatization the business environment has become complex and challenging. Structuring an effective compensation package to attract and retain talent is an important function of organizational effectiveness. In the recent past, several changes have taken place in compensation packages. There has been tremendous increase in the diversity of pay packages being offered by organizations.

Money definitely provides a means for having more affluent life style- better clothes, vacations, better education and so on. In job situations, money motivates behavior when it rewards people in relation to their performance or contributions, that is, when the employee or management is perceived as fair and equitable and provides rewards in recognition of the employee's true value.

OBJECTIVES OF COMPENSATION AND REWARDS :-

Compensation and reward system are more important in many ways. It has following different objectives.

- 1) Pay each employee fairly, in line with his or her effort, skills, or competencies.
- 2) Attract and retain high performing employees.
- 3) Motivate employee towards higher performance.
- 4) Reinforce desirable employee behavior.
- 5) Communicate the employee his or her worth to the organization.
- 6) Align employee efforts with achievement of organizational objectives.
- 7) Enhance co operation and collaboration among team members

8) Provide employee social statuses.

COMPENSATION DEFINED:-

Compensation is defined as a systematic approach to providing monetary value to employee in exchange for work performed. It helps the organization to achieve several purposes such as recruitment, job performance and job satisfaction.

HOW IS COMPENSATION USED?

Compensation is a tool and used for a variety of purposes by the management to further the existence of the company. Compensation can be used to :

- i) Recruit and retain qualified employees.
- ii) Increase or maintain the moral/satisfaction of the workforce
- iii) Reward and encourage peak performance.
- iv) Achieve internal and external equity
- v) Reduce turnover of employees and encourage them towards company loyalty and
- vi) Modify (through negotiations) practices of unions.

TYPES OF COMPENSATION

Compensation or reward is classified into financial or non financial components.

FINANCIAL COMPENSATION COMPONENTS

The components of the financial compensation and rewards programmed are as follows:

- Basic salary or base pay, that is adjusted for length of service and for cost of living.
 - Variable pay or incentives that take the form of pay-for-performance:- incentives may be individual or aggregate (group):- and
 - Benefits or employer provided rewards, other than wages, salaries or incentives
- To attract and retain high performers, organization will have to focus on compensation strategies such as performance-based incentives. A competitive salary is considered as a hygiene factor, that is, it is essential to prevent dissatisfaction but is unlikely to motivate employees more towards the work. Therefore, components such as bonuses, incentives and variable pay are generally included into compensation packages.

BASE PAY

Base pay is the direct financial compensation an individual receives based on the time worked. Generally, organizations provide to its employees two base pay categories such as hourly and salaried. When employee payments are calculated on the number of hours worked, that is, on an hourly basis, they are called wages. However, when employees of the organization receive consistent payments at the end of a specified period regardless of the number of hours worked, they are said to receive a salary. Today to attract and retain quality personnel, the base pay or salary must be market driven. Market demands different skills among workers. When the demand for certain managerial skills is higher than supply, employees having these skill may be paid a higher base pay to attract the top candidates.

INCENTIVES

Incentive is another form of direct financial compensation used to pay for employees. The terms 'variable pay' and 'pay for performance' are often used synonymously with 'incentive plan'. Incentive or variable pay is defined as 'any plan that ties pay to productivity or profitability usually as a one-time payment'. Pay for performance plan pay employees based on performance of the employees; one such plan is merit pay. Bonuses, profit sharing plans, variable pay and stock options are examples of incentive pay. Incentive plans include individual incentive plans, group incentive plans and organizational incentive plans.

BENEFITS

Other than wages, salary or incentives, some additional benefits are provided. These make up the indirect financial compensation component of the total compensation plan. Employees continue to avail of benefits as long as they work for the organization, regardless of seniority or performance.

Benefits provided to the workers are of two types:

1) Mandatory and 2) Voluntary.

Mandatory benefits are legally binding on the employer. PF, gratuity schemes, health plans maternity leave, medical leave etc. are examples of mandatory benefits.

Voluntary benefits are provided by employer voluntarily. These include compensation for time not worked, for example, paid holidays, family friendly benefits, retirement etc. Organization today offer their employees benefits such as childcare centers, the option to work from home, a job search facility for spouses of employees, language courses etc.

NON FINANCIAL COMPENSATION: COMPONENTS

This is another way to pay to workers for the work done by them. The non financial component of the compensation package is also an important aspect; financial compensation is no longer the only differentiator. Intrinsic motivators, such as getting a challenging assignment, chance to do something worthwhile etc. are as important as the financial package. A major factor of employee retention in any organization is the quality of work that is being done by an organization. Technology companies that focus on R&D can offer their employees to work on cutting-edge technology, which serves as an intrinsic motivator.

Recognition is the most reliable of all rewards. Organizations recognize employees by means of 1) awards 2) recognition awards and 3) service awards.

Awards

Awards affects on efficiency of the workers. It may include cash merchandise, gift certificates, movie tickets, parties, dinner coupon, travel awards to popular destinations etc. It has positive impact on performance on their own as well as when given in conjunction with financial incentives. Non financial incentives have a higher motivational value than financial incentives.

RECOGNITION AWARDS

This is the way to recognize the performance of employees and motivate them to work more. For example, several organizations have 'employee of the month' and 'employee of the year' awards. In service industry enterprises such as hotels, restaurants, guest comment cards are used as the basis for giving recognition award to hourly employees. Recognition awards work best when the organization can demonstrate clearly how an employee was selected for the award and when recognition is given to recognize specific performance that is important for the organization.

SERVICE AWARDS

These reward are used to recognize the length of service, and not the performance of the personnel. For example, some organization have long service award for which those employees who have completed a specified number of years of service in the organization become eligible.

Compensation and Rewards- Determinants

The compensation received by an employee is proportional to the effort exerted by the employee, the nature of the job and the skills of the employee. However, these are not the only factors that influence

compensation. Several external and internal factors determine pay levels that is, the individual financial compensation.

Internal determinants of pay levels

The following internal factors may affect the pay structures

- Compensation policy of the organization.
- Employer's ability to pay
- Worth of a job
- Employee's relative worth

External determinants of pay packages

Factors outside the organizations also affect the pay structure decisions of the organizations. Such as :

- Labor market conditions
- Economic conditions
- Area wage rates
- Government controls
- Cost of living
- Union influences

Compensation and Rewards- Approaches

Following two approaches for compensation and rewards are prevalent

- Traditional and
- Contemporary

Pay for performance Approaches

Pay according to the performance of the worker includes

- Merit pay
- Variable pay
- Skill based pay
- Competency based pay

CONCLUSION:

The compensation structure decides the capacity of a company to attract top professionals , to retain gold collar employees and motivate them to give their best. Compensation structure is greatly influenced by the prevailing economic factors and social environment in the country. Organizations should structure the pay packages in such way that organization can be successful in attracting and retaining the quality personnel with high satisfaction of them.

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