Compensation Management

VI - Semester BBA
Bangalore University

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H.R. 6.6 COMPENSATION MANAGEMENT

OBJECTIVE:
The objective is to enable the students to understand the various aspects of Compensation Management

UNIT-1: JOB EVALUATION AND PERFORMANCE APPRAISAL 10 Hrs
Job Evaluation - Definition - Traditional and New Techniques - Performance Appraisal -Basic concepts -Performance standard - Appraisal methods.

UNIT-2: COMPENSATION MANAGEMENT 10 Hrs
Compensation - Definition - Classification - Types - Incentives - Fringe Benefits.

UNIT-3: WAGE AND SALARY ADMINISTRATION 16 Hrs
Theories of wages - wage structure - wage fixation - wage payment - salary administration. Difference between salary and wages - Basis for compensation fixation- Components of wages - Basic Wages - Overtime Wages - Dearness Allowance - Basis for calculation - Time Rate Wages and Efficiency Based Wages - Incentive Schemes - Individual Bonus Schemes, Group Bonus Schemes - Effect of various labour laws on wages-Preparation of Pay Roll

UNIT- 4:REWARDS AND INCENTIVES 10 Hrs
Rewards for Sales personnel - Pay - commission- Performance based pay system - incentives – executives compensation plan and packages.

UNIT- 5: REGULATORY BODIES FOR COMPENSATION MANAGEMENT 10 Hrs
Wage Boards - Pay Commissions - Compensation Management in Multi-National organizations.

SKILL DEVELOPMENT
- List out the fringe benefits offered to employees of any two companies
- Discuss the role of regulatory bodies in compensation management
- List out various Incentive Schemes of wage payments

BOOKS FOR REFERENCE

1. Compensation & Reward Management, BD Singh, Excel Books
2. Compensation, Milkovich & Newman, TMH
3. Strategic Compensation, Joseph J. Martocchio, 3rd Edition, Pearson Education
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6 Compensation Management, Er Soni Shyam Singh, Excel Books.
7. Richard Thrope& Gill Homen : Strategic Reward Systems - Prentice-Hall.
8. Thomas. P. Plannery, David. A. Hofrichter & Paul. E. Platten: People, Performance & Pay – Free Press.
9. Michael Armstrong & Helen Murlis: Hand Book of Reward Management – Crust Publishing House.
10. Joseph. J. Martocchio: Strategic Compensation – A Human Resource Management Approach - Prentice-Hall.
11. Edwarde. E. Lawler III: Rewarding Excellence (Pay Strategies for the New Economy) – Jossey –Bass

UNIT-1

JOB EVALUATION AND PERFORMANCE APPRAISAL

Job Evaluation - Definition - Traditional and New Techniques – Performance Appraisal – Basic concepts -Performance standard - Appraisal methods.

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Job Evaluation: Concept, Objectives and Procedure of Job Evaluation

Concept of job evaluation:

In simple words, job evaluation is the rating of jobs in an organisation. This is the process of establishing the value or worth of jobs in a job hierarchy. It attempts to compare the relative intrinsic value or worth of jobs within an organisation. Thus, job evaluation is a comparative process.

Important definitions of Job Evaluation:

According to the International Labour Office (ILO) "Job evaluation is an attempt to determine and compare the demands which the normal performance of a particular job makes on normal workers, without taking into account the individual abilities or performance of the workers concerned".

The British Institute of Management defines job evaluation as "the process of analysis and assessment of jobs to ascertain reliably their negative worth using the assessment as the basis for a balanced wage structure". In the words of Kimball and Kimball "Job evaluation is an effort to determine the relative value of every job in a plant to determine what the fair basic wage for such a job should be".

Wendell French defines job evaluation as "a process of determining the relative worth of the various jobs within the organisation, so that differential wages may be paid to jobs of different worth. The relative worth of a job means relative value produced. The variables which are assumed to be related to value produced are such factors as responsibility, skill, effort and working conditions".

Now, we may define job evaluation as a process used to establish the relative worth of jobs in a job hierarchy. This is important to note that job evaluation is ranking of job, not job holder. Job holders are rated through performance appraisal. Job evaluation assumes normal performance of the job by a worker. Thus, the process ignores individual abilities of the job holder.

Job evaluation provides basis for developing job hierarchy and fixing a pay structure. It must be remembered that job evaluation is about relationships and not absolutes. That is why job evaluation cannot be the sole determining factor for deciding pay structures.

External factors like labour market conditions, collective bargaining and individual differences do also affect the levels of wages it, organisations. Nonetheless, job evaluation can certainly provide an objective standard from which modifications can be made in fixing wage structure.

The starting point to job evaluation is job analysis. No job can be evaluated unless and until it is analysed. How job evaluation is different from job analysis, job description and job specification is given in the following Table 14.1.

Table 14.1 : Difference between Job Evaluation and Job Analysis and Job Description and Job Specification

Job Evaluation	*Job Analysis*	*Job Description*	*Job Specification*
A technique used to establish the relative worth of jobs in a job hierarchy.	A process of examining the various components of a job and the circumstances in which it is performed.	It is a description of the duties, scope and responsibilities associated with the job.	The minimum acceptable qualifications that a job incumbent must possess to perform the job successfully.

Objectives of job evaluation:

The main objective of job evaluation is to determine relative worth of different jobs in an organisation to serve as a basis for developing equitable salary structure. States an ILO Report the aim of the majority of systems of job evaluation is to establish, on agreed logical basis, the relative values of different jobs in a given plant or machinery i.e. it aims at determining the relative worth of a job. The principle upon which all job evaluation schemes are based is that of describing and assessing the value of all jobs in the firms in terms of a number of factors, the relative importance of which varies from job to job.

The objectives of job evaluation, to put in a more orderly manner are to:

1. Provide a standard procedure for determining the relative worth of each job in a plant.

2. Determine equitable wage differentials between different jobs in the organisation.

3. Eliminate wage inequalities.

4. Ensure that like wages are paid to all qualified employees for like work.

5. Form a basis for fixing incentives and different bonus plans.

6. Serve as a useful reference for setting individual grievances regarding wage rates.

7. Provide information for work organisation, employees' selection, placement, training and numerous other similar problems.

8. Provide a benchmark for making career planning for the employees in the organisation.

Procedure of job evaluation:

Though the common objective of job evaluation is to establish the relative worth of jobs in a job hierarchy, there is no common procedure of job evaluation followed by all organisations. As such, the procedure of job evaluation varies from organisation to organisation. For example, a job e valuation procedure may consist of the eight stages as delineated in Figure 14.1.

1. Preliminary Stage:

This is the stage setting for job evaluation programme. In this stage, the required information's obtained about present arrangements, decisions are made on the need for a new programme or revision of an existing one and a clear cut choice is made of the type of programme is to be used by the organisation.

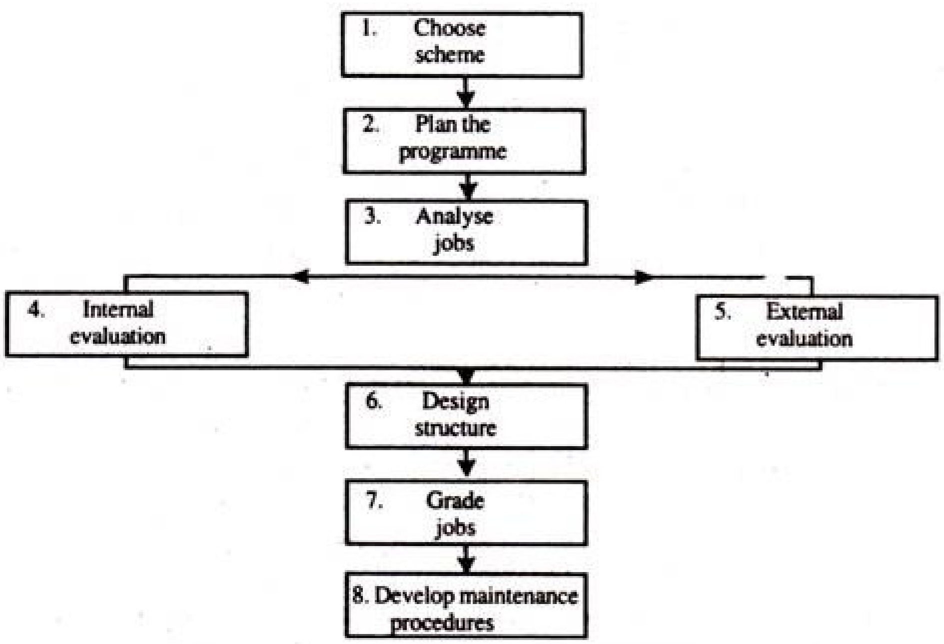

Fig. 14.1: Job Evaluation Programme

2. Planning Stage: In this stage, the evaluation programme is drawn up and the job holders to be affected are informed. Due arrangements are made for setting up joint working parties and the sample of jobs to be evaluated is selected.

3. Analysis Stage: This is the stage when required information about the sample of jobs is collected. This information serves as a basis for the internal and external evaluation of jobs.

4. Internal Evaluation Stage: Next to analysis stage is internal evaluation stage. In the internal evaluation stage, the sample of bench-mark jobs are ranked by means of the chosen evaluation scheme as drawn up at the planning stage. Jobs are then graded on the basis of data pending the collection of market rate data. Relative worth of jobs is ascertained by comparing grades between the jobs.

5. External Evaluation Stage: In this stage, information is collected on market rates at that time.

6. Design Stage: Having ascertained grades for jobs, salary structure is designed in this stage.

7. Grading Stage: This is the stage in which different jobs are slotted into the salary structure as designed in the preceding stage 6.

8. Developing and Maintaining Stage: This is the final stage in a job evaluation programme. In this stage, procedures for maintaining the salary structure are developed with a view to accommodate inflationary pressures in the salary levels, grading new jobs into the structure and regarding the existing jobs in the light of changes in their responsibilities and market rates.

In India, the Indian Institute of Personnel Management, Kolkata has suggested the following five **steps to be taken to develop a job evaluation programme:**

1. Analyse and Prepare Job Description

2. Select and Prepare a Job Evaluation Programme/Plan

3. Classify Jobs

4. Install the Programme

5. Maintain the Programme

Advantages of job evaluation:

According to an ILO publication job evaluation offers the following advantages:

1. Job evaluation being a logical process and objective technique helps in developing an equitable and consistent wage and salary structure based on the relative worth of jobs in an organisation.

2. By eliminating wage differentials within the organisation, job evaluation helps in minimizing conflict between labour unions and management and, in turn, helps in promoting harmonious relations between them.

3. Job evaluation simplifies wage administration by establishing uniformity in wage rates.

4. It provides a logical basis for wage negotiations and collective bargaining.

5. In the case of new jobs, job evaluation facilitates spotting them into the existing wage and salary structure.

6. In the modem times of mechanization, performance depends much on the machines than on the worker himself/herself. In such cases, job evaluation provides the realistic basis for determination of wages.

7. The information generated by job evaluation may also be used for improvement of selection, transfer and promotion procedures on the basis of comparative job requirements.

8. Job evaluation rates the job, not the workers. Organisations have large number of jobs with specialisations. It is job evaluation here again which helps in rating all these jobs and determining the wages and salary and also removing ambiguity in them.

Drawbacks of job evaluation:

In spite of many advantages, job evaluation suffers from the following drawbacks/limitations:

1. Job evaluation is susceptible because of human error and subjective judgment. While there is no standard list of factors to be considered for job evaluation, there are some factors that cannot be measured accurately.

2. There is a variation between wages fixed through job evaluation and market forces. Say Kerr and Fisher, the jobs which tend to rate high as compared with the market are those of junior, nurse and typist, while craft rates are relatively low. Weaker groups are better served by an evaluation plan than by the market, the former places the emphasis not on force but on equity".

3. When job evaluation is applied for the first time in an organisation, it creates doubts in the minds of workers whose jobs are evaluated and trade unions that it may do away with collective bargaining for fixing wage rates.

4. Job evaluation methods being lacking in scientific basis are often looked upon as suspicious about the efficacy of methods of job evaluation.

5. Job evaluation is a time-consuming process requiring specialised technical personnel to undertake it and, thus, is likely to be costly also.

6. Job evaluation is not found suitable for establishing the relative worth of the managerial jobs which are skill-oriented. But, these skills cannot be measured in quantitative terms.

7. Given the changes in job contents and work conditions, frequent evaluation of jobs is essential. This is not always so easy and simple.

Method of Job Evaluation

Job-evaluation methods are of two categories:-

a)Analytical Methods

Point Ranking Methods

Factor Comparison Method

b) Non-analytical Methods

Ranking Method

Job-grading Method

Performance Appraisal

Performance Appraisal is the systematic evaluation of the performance of employees and to understand the abilities of a person for further growth and development. Performance appraisal is generally done in systematic ways which are as follows:

1. The supervisors measure the pay of employees and compare it with targets and plans.
2. The supervisor analyses the factors behind work performances of employees.
3. The employers are in position to guide the employees for a better performance.

Objectives of Performance Appraisal

1. To maintain records in order to determine compensation packages, wage structure, salaries raises, etc.
2. To identify the strengths and weaknesses of employees to place right men on right job.
3. To maintain and assess the potential present in a person for further growth and development.
4. To provide a feedback to employees regarding their performance and related status.
5. To provide a feedback to employees regarding their performance and related status.
6. It serves as a basis for influencing working habits of the employees.
7. To review and retain the promotional and other training programmes.

Advantages of Performance Appraisal

It is said that performance appraisal is an investment for the company which can be justified by following advantages:

1. Promotion: Performance Appraisal helps the supervisors to chalk out the promotion programmes for efficient employees. In this regards, inefficient workers can be dismissed or demoted in case.

2. Compensation: Performance Appraisal helps in chalking out compensation packages for employees. Merit rating is possible through performance appraisal. Performance Appraisal tries to give worth to a performance. Compensation packages which includes bonus, high salary rates, extra benefits, allowances and pre-requisites are dependent on performance appraisal. The criteria should be merit rather than seniority.

3. Employees Development: The systematic procedure of performance appraisal helps the supervisors to frame training policies and programmes. It helps to analyse strengths and weaknesses of employees so that new jobs can be designed for efficient employees. It also helps in framing future development programmes.

4. Selection Validation: Performance Appraisal helps the supervisors to understand the validity and importance of the selection procedure. The supervisors come to know the validity and thereby the strengths and weaknesses of selection procedure. Future changes in selection methods can be made in this regard.

5. Communication: For an organization, effective communication between employees and employers is very important. Through performance appraisal, communication can be sought for in the following ways:

    a. Through performance appraisal, the employers can understand and accept skills of subordinates.

    b. The subordinates can also understand and create a trust and confidence in superiors.

    c. It also helps in maintaining cordial and congenial labour management relationship.

    d. It develops the spirit of work and boosts the morale of employees.

    All the above factors ensure effective communication.

6. Motivation: Performance appraisal serves as a motivation tool. Through evaluating performance of employees, a person's efficiency can be determined if the targets are achieved. This very well motivates a person for better job and helps him to improve his performance in the future.

Performance Appraisal Tools and Techniques

Following are the tools used by the organizations for Performance Appraisals of their employees.

1. Ranking

2. Paired Comparison
3. Forced Distribution
4. Confidential Report
5. Essay Evaluation
6. Critical Incident
7. Checklists
8. Graphic Rating Scale
9. BARS
10. Forced Choice Method
11. MBO
12. Field Review Technique
13. Performance Test

We will be discussing the important performance appraisal tools and techniques in detail.

1. Ranking Method

The ranking system requires the rater to rank his subordinates on overall performance. This consists in simply putting a man in a rank order. Under this method, the ranking of an employee in a work group is done against that of another employee. The relative position of each employee is tested in terms of his numerical rank. It may also be done by ranking a person on his job performance against another member of the competitive group.

Advantages of Ranking Method

i. Employees are ranked according to their performance levels.

ii. It is easier to rank the best and the worst employee.

Limitations of Ranking Method

iii. The “whole man” is compared with another “whole man” in this method. In practice, it is very difficult to compare individuals possessing various individual traits.

iv. This method speaks only of the position where an employee stands in his group. It does not test anything about how much better or how much worse an employee is when compared to another employee.

v. When a large number of employees are working, ranking of individuals become a difficult issue.

vi. There is no systematic procedure for ranking individuals in the organization. The ranking system does not eliminate the possibility of snap judgements.

2. Forced Distribution method

This is a ranking technique where raters are required to allocate a certain percentage of rates to certain categories (eg: superior, above average, average) or percentiles (eg: top 10 percent, bottom 20 percent etc). Both the number of categories and percentage of employees to be allotted to each category are a function of performance appraisal design and format. The workers of outstanding merit may be placed at top 10 percent of the scale, the rest may be placed as 20 % good, 40 % outstanding, 20 % fair and 10 % fair.

Advantages of Forced Distribution

i. This method tends to eliminate raters bias

ii. By forcing the distribution according to pre-determined percentages, the problem of making use of different raters with different scales is avoided.

Limitations of Forced Distribution

iii. The limitation of using this method in salary administration, however, is that it may lead low morale, low productivity and high absenteeism.

Employees who feel that they are productive, but find themselves in lower grade(than expected) feel frustrated and exhibit over a period of time reluctance to work.

3. Critical Incident techniques

Under this method, the manager prepares lists of statements of very effective and ineffective behaviour of an employee. These critical incidents or events represent the outstanding or poor behaviour of employees or the job. The manager maintains logs of each employee, whereby he periodically records critical incidents of the workers behaviour. At the end of the rating period, these recorded critical incidents are used in the evaluation of the worker’s performance. Example of a good critical incident of a Customer Relations Officer is : March 12 - The Officer patiently attended to a customers complaint. He was very polite and prompt in attending the customers problem.

Advantages of Critical Incident techniques

i. This method provides an objective basis for conducting a thorough discussion of an employees performance.

ii. This method avoids recency bias (most recent incidents are too much emphasized)

Limitations of Critical Incident techniques

iii. Negative incidents may be more noticeable than positive incidents.

iv. The supervisors have a tendency to unload a series of complaints about the incidents during an annual performance review sessions.

v. It results in very close supervision which may not be liked by an employee.

vi. The recording of incidents may be a chore for the manager concerned, who may be too busy or may forget to do it.

4. Checklists and Weighted Checklists

In this system, a large number of statements that describe a specific job are given. Each statement has a weight or scale value attached to it. While rating an employee the supervisor checks all those statements that most closely describe the behaviour of the individual under assessment. The rating sheet is then scored by averaging the weights of all the statements checked by the rater. A checklist is constructed for each job by having persons who are quite familiar with the jobs. These statements are then categorized by the judges and weights are assigned to the statements in accordance with the value attached by the judges.

Advantages of Checklists and Weighted Checklists

i. Most frequently used method in evaluation of the employees performance.

Limitations of Checklists and Weighted Checklists

ii. This method is very expensive and time consuming

iii. Rater may be biased in distinguishing the positive and negative questions.

iv. It becomes difficult for the manager to assemble, analyze and weigh a number of statements about the employees characteristics, contributions and behaviours.

UNIT-II

COMPENSATION MANAGEMENT

Compensation - Definition - Classification - Types - Incentives - Fringe Benefits.

Compensation

Definition

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. Essentially, 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, and parking. These components are encompassed when you define compensation.

What is compensation?

Compensation is the total cash and non-cash payments that you give to an employee in exchange for the work they do for your business. It is typically one of the biggest expenses for businesses with employees. Compensation is more than an employee's regular paid wages. It also includes many other types of wages and benefits.

Compensation is a systematic approach to providing monetary value to employees in exchange for work performed. Compensation achieves several purposes, such as assisting in recruitment, job performance, and job satisfaction.

In order to have consistent pay across equivalent positions, it is necessary to first know what the work of each position is and then decide which work is, in fact, equal. This is accomplished in the course of preparing and maintaining a position classification plan.

Types of Compensation include:

- Base pay (hourly or salary wages)
- Sales commission
- Overtime wages
- Tip income
- Bonus pay
- Recognition or merit pay
- Benefits (insurances, standard vacation policy, retirement)
- Stock options
- Other non-cash benefits

INCENTIVES

A monetary gift provided to an employee based on performance, which is thought of as one way to entice the employee to continue delivering positive results. Incentive pay may come in the form of a bonus, profit-sharing, or commission.

Incentives: Meaning, Definition and Other Details!

Anything that can attract an employee's attention and motivate them to work can be called as incentive. An incentive aims at improving the overall performance of an organization. Incentives can be classified as direct and indirect compensation. They can be prepared as individual plans, group plans and organizational plans.

Definition:

1. According to Milton L. Rock, incentives are defined as 'variable rewards granted according to variations in the achievement of specific results'.

2. According to K. N. Subramaniam, 'incentive is system of payment emphasizing the point of motivation, that is, the imparting of incentives to workers for higher production and productivity'.

3. The National Commission of Labour defines incentive as follows: 'wage incentives are extra financial motivation. They are designed to stimulate human effort by rewarding the person, over and above the time rated remuneration, for improvements in the present and targeted results'.

Types of incentives:

Incentives can be classified into three categories:

1. Financial incentives:

Some extra cash is offered for extra efficiency. For example, profit sharing plan and group incentive plans.

2. Non-financial incentives:

When rewards or prizes are provided by the organization to motivate the employees it is known as non-financial incentives.

3. Monetary and non-monetary incentives:

Many times, employees are rewarded with monetary and non-monetary incentives that include promotion, seniority, recognition for merits, or even designation as permanent employee.

Advantages of incentive Plan:

1. Incentive plans motivate workers for higher efficiency and productivity.
2. It can improve the work-flow and work methods.
3. Incentive plans make employees hardworking and innovative.
4. When employees are dedicated, supervision costs can be reduced.
5. The National Commission on Labour says that under our conditions, wage incentives are the cheapest, quickest, and sure means of increasing productivity.
6. Incentive plans help establish positive response in an organization.
7. It helps workers improve their standard of living.
8. The other benefits offered by incentive plans are reduced turnover, reduced absenteeism, and reduced lost time.

Disadvantages of Incentive Plan:

1. Incentive plans can lead to disputes among workers, since some earn more than others.
2. Hunger for money among the workers forces them to overwork, which may affect their heath.
3. Some workers may involve in malpractices in order to earn more money.
4. For enhanced incentives, they may sacrifice quality.

5. It also leads to corruption by falsifying the production records.
6. Incentive plans can create tensions among different personnel.

Fringe Benefits

Fringe benefits are on-the-job benefits that come in a form other than money. Fringe benefits, sometimes called "perks," are offered by some employers to some employees, usually for the purpose of enticing highly qualified individuals to accept or maintain employment at their companies. This type of non-wage benefit is something counted as taxable income, depending on the perk.

> **"Benefits given to an employee in addition to his wages or salary."**

Fringe benefits are a type of compensation provided to an employee outside of his normal wage or salary. Many years ago, employers began to understand that potential employees give great consideration to the wage or salary offered. In an effort to tempt a qualified individual to accept employment with the company, rather than going to a competing company, many employers began offering non-wage compensation in addition to the actual salary offered.

These fringe benefits, often in the form of employer-paid life and health insurance policies, retirement benefits, and other things that might aid in the recruitment of top quality, skilled workers. In fact, fringe benefits play a large role in keeping workers motivated to do quality work and increase production. Some fringe benefits may be classified as taxable income by the IRS.

Types of Fringe Benefit

Many employers offer employees an array of fringe benefits in addition to their salaries. Also considered "job-perks," these benefits cost employers, who pay for such perks, and are therefore considered a portion of the employees' salaries on their books, even if the benefits are not in the form of money, such as bonuses. There are many types of fringe benefit, and which types are offered often depends on the type of employer, and value of the employee's position.

Fringe Benefits Taxable

A person applying for, or accepting, a job that provides certain perks may ask himself "are fringe benefits taxable?" The answer depends on the type of fringe benefit offered, and the tax laws at the time. Many job perks are not required to be added into the employee's taxable income at tax time, others are. The IRS provides a publication on employee fringe benefits, which is targeted at employers, though employees may benefit from it as well.

Non-Taxable Fringe Benefits

There are many types of non-taxable fringe benefits that may be offered to employees without increasing their tax burden. Some of the most common tax-free types of fringe benefit provided to employees by private and public businesses include:

Insurance Coverage

Insurance coverage is perhaps the most common fringe benefit provided to employees, though the structure of how insurance is paid for has changed in recent years. Insurance coverage may include employer-paid life insurance, health insurance, and short or long-term disability insurance.

When an insurance coverage fringe benefit is offered, the employer most commonly shares the cost of premiums at a certain percentage, thus reducing the amount for which the employee is responsible. Of course, insurance coverage may be offered entirely at the employer’s expense. Some employers also offer health savings accounts to their employees, often matching the employees’ contributions to the plan.

Childcare Assistance

Childcare assistance is one fringe benefit that comes in handy for many families, and may increase attendance at work, as well as productivity. This is because parents have additional responsibilities in ensuring their children are well cared-for while they are at work.

Many large employers are offering on-site childcare, either free of charge, or at a discounted price. This allows parents to concentrate on their work, knowing their children are close by, and being cared for. Some smaller employers, while unable to maintain an on-site daycare facility, offer a cost-share for daycare.

Physical Fitness

Some employers make it a priority to ensure their employees have access to gyms or fitness centers in order to promote a healthy lifestyle, which in turn increases attendance and productivity. Some companies maintain on-site fitness centers, where employees can work out on breaks or other off times, while others offer paid gym memberships, or memberships at a discounted price.

Education Assistance

Education assistance in the form of tuition reimbursement, or other assistance in adding to an employee’s education or skillset, is one of the more popular types of fringe benefit offered by employers. Helping an employee gain new job-related skills or knowledge helps the company, as the employee is then able to work at a different level in his current position, or may become able to advance into new areas of the business.

Education assistance perks often mean the employer will work around the employee's school schedule, and may pay all or part of his tuition, and may pay for books and other educational expenses. In many cases, the employer requires a commitment from the employee to remain employed at the company for a minimum period of time after successful completion of the education. This prevents individuals from taking advantage of this fringe benefit, then going to work someplace else.

Qualified Employee Benefits

Employers may offer certain employees, referred to as "qualified employees," benefits in the form of profit sharing plans, stock bonus plans or stock options, and money purchase plans. Qualified employee benefits are generally made available only to employees who have worked for the employer for a specified minimum time period. This time period is often set at one year, but may be as long as five years.

In addition to offering incentives to employees who meet the minimum time of employment, the employer may reward employees for certain levels of achievement by giving them a percentage of the company's profit over a certain amount, or allowing them to purchase stock options at a discounted rate.

Moving Expenses

When an employer hires an employee who is then expected to move from his current home to another city, state, or even country, it may provide reimbursement for the employee's moving expenses. This is usually only seen in larger companies, and with high-level employees. This benefit is only non-taxable if the employee moves farther than 50 miles from his current residence.

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UNIT-III

WAGE AND SALARY ADMINISTRATION

Theories of wages - wage structure - wage fixation - wage payment - salary administration. Difference between salary and wages - Basis for compensation fixation- Components of wages - Basic Wages - Overtime Wages - Dearness Allowance - Basis for calculation - Time Rate Wages and Efficiency Based Wages - Incentive Schemes - Individual Bonus Schemes, Group Bonus Schemes - Effect of various labour laws on wages-Preparation of Pay Roll.

WAGES: Meaning :

The Payment of Wages Act, 1936 - Sec 2 (vi) "wages" means all remuneration (whether by way of salary allowances or otherwise) expressed in terms of money or capable of being so expressed which would if the terms of employment express or implied were fulfilled by payable to a person employed in respect of his employment or of work done in such employment and includes -

(a) any remuneration payable under any award or settlement between the parties or order of a court;
(b) any remuneration to which the person employed is entitled in respect of overtime work or holidays or any leave period;
(c) any additional remuneration payable under the terms of employment (whether called a bonus or by any other name);
(d) any sum which by reason of the termination of employment of the person employed is payable under any law contract or instrument which provides for the payment of such sum whether with or without deductions but does not provide for the time within which the payment is to be made;
(e) any sum to which the person employed is entitled under any scheme framed under any law for the time being in force,
but does not include -
(1) any bonus (whether under a scheme of profit sharing or otherwise) which does not form part of the remuneration payable under the terms of employment or which is not payable under any award or settlement between the parties or order of a court;
(2) the value of any house-accommodation or of the supply of light water medical attendance or other amenity or of any service excluded from the computation of wages by a general or special order of the State Government;
(3) any contribution paid by the employer to any pension or provident fund and the interest which may have accrued thereon;
(4) any travelling allowance or the value of any travelling concession;
(5) any sum paid to the employed person to defray special expenses entailed on him by the nature of his employment; or
(6) any gratuity payable on the termination of employment in cases other than those specified in sub-clause (d).

Meaning and Definition of Wage

In the ordinary language the term wages implies 'reward' to the labourers for the services rendered by them. It may be paid daily, weekly, fortnightly, monthly, per hour or per unit. Services rendered by the labourer include both physical and mental services.

In the words of **Benham.** *"Wages are a sum of money paid under contract by an employer to a worker for services rendered."*

According to **ILO** *" Wages refer to that payment which is made by the employers to the labourer for his services hired on the conditions of payment per hour, per day, per week or per fortnight."*

Appropriate Definition: Wages refer to that reward which is received from the employer for the services rendered by the labourer per week, per month, per fortnight or per unit It includes allowances also.

- **Subsistence Wage: -** The wage that can meet only bare physical needs of a worker and his family is called subsistence wage.

- **Minimum Wage: -** Minimum wage is the wage that is able to provide not only for bare physical needs 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, and the prevailing rates of wages in the area of industry.

- **Living Wage:-** Living wage is that which workers can maintain the health and decency, a measure of comfort and some insurance against the more important misfortune of lie.

Top 7 Theories of Wages :

Some of the most important theories of wages are as follows: 1. Wages Fund Theory 2. Subsistence Theory 3. The Surplus Value Theory of Wages 4. Residual Claimant Theory 5. Marginal Productivity Theory 6. The Bargaining Theory of Wages 7. Behavioural Theories of Wages.

How much and on which basis wages should be paid to the workers for services rendered by them has been a subject matter of great concern and debate among economic thinkers for a long time This has given birth to several wage theories, i.e. how wages are determined. Out of them, some important theories of wages are discussed here.

1. Wages Fund Theory:
This theory was developed by Adam Smith (1723-1790). His theory was based on the basic assumption that workers are paid wages out of a pre-determined fund of wealth. This fund, he called, wages fund created as a result of savings. According to Adam Smith, the demand for labour and rate of wages depend on the size of the wages fund. Accordingly, if the wages fund is large, wages would be high and vice versa.

2. Subsistence Theory:
This theory was propounded by David Recardo (1772-1823). According to this theory, "The labourers are paid to enable them to subsist and perpetuate the race without increase or diminution". This payment is also called as 'subsistence wages'. The basic assumption of this theory is that if workers are paid wages more than subsistence level, workers' number will increase and, as a result wages will come down to the subsistence level.

On the contrary, if workers are paid less than subsistence wages, the number of workers will decrease as a result of starvation death; malnutrition, disease etc. and many would not marry. Then, wage rates would again go up to subsistence level. Since wage rate tends to be at, subsistence level at all cases, that is why this theory is also known as 'Iron Law of Wages'. The subsistence wages refers to minimum wages.

3. The Surplus Value Theory of Wages:
This theory was developed by Karl Marx (1849-1883). This theory is based on the basic assumption that like other article, labour is also an article which could be purchased on payment of its price i e wages. This payment, according to Karl Marx, is at subsistence level which is less than in proportion to time labour takes to produce items. The surplus, according to him, goes to the owner. Karl Marx is well known for his advocation in the favour of labour.

4. Residual Claimant Theory:
This theory owes its development to Francis A. Walker (1840-1897). According to Walker, there are four factors of production or business activity, viz., land, labour, capital, and entrepreneurship. He

views that once all other three factors are rewarded what remains left is paid as wages to workers. Thus, according to this theory, worker is the residual claimant.

5. Marginal Productivity Theory:
This theory was propounded by Phillips Henry Wick-steed (England) and John Bates Clark of U.S.A. According to this theory, wages is determined based on the production contributed by the last worker, i.e. marginal worker. His/her production is called ‘marginal production’.

6. The Bargaining Theory of Wages:
John Davidson was the propounder of this theory. According to this theory, the fixation of wages depends on the bargaining power of workers/trade unions and of employers. If workers are stronger in bargaining process, then wages tends to be high. In case, employer plays a stronger role, then wages tends to be low.

7. Behavioural Theories of Wages:
Based on research studies and action programmes conducted, some behavioural scientists have also developed theories of wages. Their theories are based on elements like employee’s acceptance to a wage level, the prevalent internal wage structure, employee’s consideration on money or’ wages and salaries as motivators.

WAGE STRUCTURE:

Definition: Wage Structure

Wages are paid to blue collared employees mostly on an hourly basis. Unlike salaries, wages don’t have a structure or components as they are primarily time based. If a worker misses work due to illness or goes on a vacation, he loses out on his wages for the time he’s missed.

But these workers are entitled to Overtime Pay over if the work overtime or on holidays/weekends. For example if a worker receives Rs.100 per hour on a normal workday(8 hours), for every additional hour he works beyond the 8 hours he could get Rs.150 per hour. Similarly he could get paid Rs.200 per hour for working on holidays and weekends.

Wages unlike salaries don’t have components for allowances and benefits as well.

Wages should be determined in such a way that they are perceived to be fair and equitable by all the employees. Compensation system should be so designed that it is able to attract, retain and motivate people. Total payable compensation can be paid in different forms. Besides classifying components of compensation in many other ways, one method of classification that has been discussed is **‘financial compensation and non-financial compensation’.**

Concentrating on financial compensation presently, different financial components can be broadly categorized as:

1. Basic wage/salary
2. Dearness allowance

3. Bonus

4. Incentive compensation

5. Fringe benefits and retirement benefits

Different Components mentioned above and their sub-components (mentioned later) are valued by different people differently. Therefore, not only the total reward should be perceived to be fair and equitable, but it should be in such form which is valued by the recipient. In what components, compensation should be paid can be largely decided by the employer and the employee, through there are some other factor influencing such decisions, namely, past practices of the organization, legal requirements and Governments decisions.

Basic Wage / Salary

Basic wage provides the foundation of pay packet. It is a price for services rendered.

Base wage is the cash compensation that an employer pays for the work performed. It remains fairly stable over a long period of time. Determination of such wage is done keeping in mind certain factors like education and skills of employees, ability of the organization to pay, wages paid by other firms in the industry and some such other factors.

The base wage remains fairly stable over some period of time. It happens when the base wage is determined in the manner of spot rate for the skills and abilities possessed by the individual. In other cases, where wage rates are determined according to the grades, it progresses evenly within job grades. Such wage are revised periodically to:

- Keep pace with the increasing cost of living
- Maintain gap between the senior employees and newer employees
- To give the psychological feeling to employees that they have progressed over a year.

The grade determines the range of the wage/salary along with the rate of annual increment for a particular level of employee. For example, the grade would be as follows:Rs. 8,000-275-13500

In the above grade, the amount mentioned in the beginning is the starting salary, the next amount, i.e., Rs. 275 is the amount of annual increment upto a maximum salary 13500.

There are two ways in which basic wages can be determined (though incentives can also be given in these two ways)

(i) Time Wage System

(ii) Piece Wage System

Time Wage System

Under this system, the wages are paid on the basis of time spent on the job irrespective of the amount of work done.. This is the oldest and the most common system and the wages are based on a certain period of time during the course of work. The unit of time may be an hour, a day, a week, a fortnight or a month and the wage rate will depend upon the period of time. Such wages are paid after the time fixed for work is completed irrespective of the output or the completion of the work. For example, if the unit of measurement of time is "hours", wage can be determined as under:

Wages = Number of hours worked * Rate per hour.

Suitability of the Time Wage System

Time wage system is suitable in the following situations:

(a) When it is difficult to fix the standard time for doing a job.

(b) When quality of job is of utmost importance

(c) When the job relates to office or clerical work.

(d) When collective efforts of a group of persons are necessary for the completion of a job.

(e) Where mental work is involved, such as policy making and administration.

(f) Where machines, equipments and tools used for production are delicate and very costly.

(g) Where production process is complicated and demands higher degree of skills.

Merits of Time Wage System

Time wage system offers the following benefits:

(i) Simplicity. It is very simple to understand and implement.

(ii) Feeling of Security. It makes the amount to be paid and received certain. So the employee can plan his expenditures and the employer can make provisions for the payment.

(iii) Equity of wages. All workers doing similar jobs get wages at the same rate, so sense of equality prevails.

(iv) Better Quality. It does not compel worker to speed up work as they are assured of the payment for the time they spent. Thus it results in better quality work.

(v) Less Wastages. As workers are in no hurry to produce more, it leads to proper handling of machines and materials and reduced wastages of materials and damages to machines.

Adaptability. Even if a worker does a variety of jobs, he can be compensated on time wage basis.

Acceptable to Trade Unions. As it cannot lead to exploitation to workers. Workers get same wages irrespective of the number of units produced by them.

Demerits of Time Wage System

(i) Inefficiency. As there is no a link between productivity and wages.

(ii) Lack of motivation. To employees who work more as all get the same amount of wages irrespective of their contribution.

(iii) Strict supervision. Strict supervision is required if high productivity is to be ensured.

Piece Wage System

This system is based on the productivity or output of workers. A predetermined rate is paid for each completed unit of output irrespective of the time taken. Thus under this system,

Wages = Number of units produced * Rate per unit

It is also known as straight piece rate systems as the rate per unit remains the same irrespective of the number of units produced.

Piece wage system is suitable in the following situations:

(a) When method of production are standardized and the job is of repetitive nature.

(b) When productivity of the worker is to be increased.

(c) When the job involves more physical work than the mental work.

(d) Where output can be measured and quality control system exist to discourage low quality production.

(e) Where work does not require personal skills of higher order.

Merits of Piece Wage System

i)Provides incentives to workers to produce more.

ii)Ensures fairness by correlating wages and productivity.

iii)Helps in Personnel decisions like transferring, training, and/or laying off employees.

iv)Lesser supervision as workers know if they produce more, they will get higher wages.

Demerits of Piece Wage System

(i) Quality gets ignored as workers try to produce more. As a result, thorough inspection and quality control become essential.

(ii) Speeding up may cause injury to workers health, increased wastages of raw materials, and increased damages to machines.

(iii) Wage insecurity among workers increases.

(iv) Strained Industrial Relations results if the output is low due to some fault of management.

(v) Fixing Accurate Rate is quite difficult. Lower rate may result in resentment on the part of the workers. Higher rate may cause heavy cost burden on the employer.

The piece wage system guarantees reward efficiency on the one hand, time wage system guarantees minimum wages ,not rewards efficiency on the other .So a system is often should be so devised that guarantees minimum wage (time wage) and rewards efficiency (piece rate).

Dearness Allowance

Dearness allowance also known as cost of living adjustments was used for the first time after World War I to enable the workers to meet the steep rise in prices of essential commodities such as food stuffs. Also called as Cost of Living Allowance (in section 3 of minimum wages Act), the special allowance thus paid aimed at neutralizing the increasing cost of living due to inflation and thus protect the real wages of the wage earners.

Usually, the Consumer Price Index (CPI) is used to link DA with the cost of living . However, there prevail varying practices with respect to the fixation of DA across industries, regions, sectors, and governmental and private undertakings. National Commission on Labor (1969) reports, " In some cases it was linked to the Working Class Consumer Price Index… in others it was not. In some cases it was at flat rate and was applicable in some cases to all employees irrespective of their wages whereas in some other cases; it varied according to wage or salary slabs. A graded percentage, linked to wage or salaries, was also prevalent". In view of this divergence, the DA issue has been usually referred to tribunals and courts for adjudication.

The escalating system of DA linked to movement of the CPI numbers provides more immediate relief to the workers from the increasing rate of inflation. This system has a built in mechanism to ascertain the points of neutralization in terms of fluctuations in the CPI which is related to the cost of basic necessities of life.

The correlation between the increase in the number of points of the CPI to the magnitude of money to be paid must be ascertained to settle the DA problem.

There are divergent suggestions with respect to the extent of neutralization. The NCL had recommended that 95 percent neutralization should be allowed against rise in cost of living to those drawing a minimum wage in non- scheduled employments. There have also been suggestions to provide maximum (i.e., 100 per cent) neutralization at lower levels with a gradual tapering of as wage or salary scale improves.

There has been a great deal of controversy between point to point adjustment and slab-to slab adjustment. While DA can be equated to slab of pay in a way that the lower slabs receive a higher weightage, the size of the slab itself whether it should be five points or 10 points is further a controversial issue. The Dearness Allowance Commission (1967), also called the Gajendragadbar Commission, felt that the slab system would work better than point-to-point adjustment. The NCL also recommended linkage of DA to a five-point slab.

Another controversy with respect to DA relates to its relationship with capacity to pay. The NCL felt that the capacity to pay was not a relevant consideration for payment of DA at the minimum level. At other levels or where DA is fixed on the basis of collective bargaining or other methods, the "capacity to pay" may be a relevant consideration.

Last but not the least, there was a controversy whether DA has to be fully or partly merged with the basic wage. However, this controversy has been answered by the Fifth Central Pay Commission in para 105.11 of their report. The Commission recommended that 'DA should be converted into Dearness pay each time the CPI increases by 50% over the base index used by the last pay commission'. That recommendation of the Fifth CPC was considered and approved by the President. Its implementation came into affect since 1st April, 2004. As per that order DA equal to 50% of the then existing pay was merged with the basic pay. The order further said that such amount should be shown separately as Dearness Pay (DP) which would be counted for purposes like payment of allowances, transfer grant, retirement benefits, contribution to GPF, License Fee, monthly contribution for CGHS, various advances etc. (O.M.,dated 1.3.04). The order further clarified that the entitlements for LIC, TA/DA while on tour and transfer and government accommodation shall, however, continue to be governed on the basis of the basic pay alone without taking into account Dearness Pay.

In the case of pensioners the order clarified that "for existing pensioners, Dearness Relief equal to 50% of the present pension will w.e.f. 1.4.2004 be merged with pension and shown distinctly as Dearness Pension".

The order further clarified that Dearness Allowance/Dearness Relief converted into Dearness Pension respectively would be deduced from the existing rate of Dearness Allowance/Dearness Relief. As the rate of Dearness Allowance was 61% of the base pay w.e.f. 1st January, 2004; 50% of it converted into Dearness Pay meant Dearness Allowance from 1.4.2004 become payable at the rate of 11% (Ministry of Finance, 1st March, 2004).

The following methods are used to calculate Dearness Allowance:

1) Flat Rate

According to this method, DA is paid at a flat rate to all workers irrespective of their wage levels and regardless of changes in consumer price index. This method was used in jute, cotton and engineering industries in west Bengal in the early days of adjudication.

2.Graduated Scale

Under this method , DA increases with each slab of salary. Therefore, DA, as a percentage of basic pay decreases steadily.

3.Index Based D.A

In this method a flat rate per point of index is prescribed so that all workers determine the same amount of DA irrespective of their pay scale.For example, if Rs 1.50 is the rate, Rs 15 will be paid as DA.Whenever the All India Consumer Price Index (AICPP)increases by 10 points.This method is in force in the cotton mills of Bombay and Madras and in many central government undertakings.

4. Da Linked To Index And Pay Scale

Under this method, a higher rate of DA is prescribes, for lower pay scales and a lower rate for higher pay scales. This method is used to pay DA to employees in Government offices and in many central public sector undertakings.

In addition to DA ,several types of allowances are in use. These are given in the table:

Main Types Of Allowances Paid To Employees

1.House Rent Allowance (HRA)

2.City Compensatory Allowance (CCA)

3.Conveyance / Car Allowance

4.Bank Allowance

5.Medical Allowance

6.Education Allowance

7.Tiffin Allowance

Bonus

Bonus is defined as "an allowance in addition to what is usual , current or stipulated; sum given or paid beyond what is legally required to be paid to the recipient; something given in addition to what is ordinarily received by or strictly due to the recipient". Thus, bonus may be a boon, a gift or a gratuitous allowance described as an ex-gratia payment. The word 'bonus' is also sometimes used to denote an incentive payment to the workers aimed at enhancing their efficiency and loyalty to their organization.

In India, the bonus component of the industrial wage structure, though a quite old one, has now assumed a statutory status with the enactment of the Payment of Bonus Act, 1965. The Act is applicable to factories and other establishments employing 20 or more employees. Under the Act, a minimum statutory bonus at the rate of 8.33 per cent of the wages earned by an employee is guaranteed, irrespective of the profit or loss by the firms during an accounting year.

It has been suggested that one of the most effective way of enhancing organization performance is to link bonus with productivity. But productivity linked bonus is often resisted by the workers on the ground that the present level of wages is low and needs to be raised to the fair wage level. However, the Central Government has incorporated productivity linked bonus in its wage policy as far as public sector is concerned. Productivity linked bonus is applicable in railways, posts and telegraphs and several other public enterprises.

Fringe Benefits Or Prequisites

The idea of Welfare State has given birth to the concept of fringe benefits associated with a job. In a wider sense, fringe benefits include all expenditure by the employer on labor other than basic wage and in a narrow sense; it includes those benefits which the employee can convert into cash. These have been variously expressed as ‘wage supplements’ ‘sub wages’, or ‘social charges’:

The compensation that the workers receive for their contribution in the industrial activity cannot be measured by the mere estimation of wages paid to them. Certain supplementary benefits and services known as “fringe benefits” are also provided to them. Some examples of fringe benefits are:

(i) Medical and maternity benefits.

(ii) Educational and recreational facilities.

(iii) Payments for time not worked such as vacations, holidays, sick leave, maternity leave, travel allowance, etc.

(iv) Pension, provident fund, life insurance, gratuity.

(v) Housing benefits

(vi) Compensatory city allowance.

Several new fringe benefits or fringes have been initiated by industrial giants particularly for the executives. Such benefits are referred to as ‘Perquisites’ or ‘perks’. Perks include chauffeur driven car, corporate aircraft, and company apartment, home security, club membership, paternity leave, self defense training, company credit card, etc.

INCENTIVE WAGE PLANS

Incentive wage systems are considered to be incentive management systems. Traditionally, incentive wage plans have been thought of as payment plans based on the output of the employee, generally considered to be a factory employee. But incentive wage systems of today go far beyond the simple single objective of payment for output. Now-a-days incentive wage systems are so designed that the employee feels satisfied intrinsically as well as extrinsically.

Incentive wages relate earnings to productivity and may use premiums, bonuses or a variety of rates to compensate for superior performance (Dale Yoder, 1974). Thus, the incentive plans offer an attraction of extra payment for efficiency or more production. They are popular all over the world and are known by different names like variable pay, pay for performance, contingent pay, merit pay etc.

Objectives Of Wage Incentive Plans

The objectives of incentive wage systems have been made clear by McGregor(1960) when he defines them as “a formal method providing an opportunity for every member of the organization to contribute his brain and ingenuity as well as his physical efforts to the improvement of organizational effectiveness… It is the means by which rich opportunities are provided to every member of the organization to satisfy his higher level needs through efforts directed towards the objectives of the enterprise.”

Benefits Of Incentive Compensation

Incentive compensation, also called ‘payment by result’, is essentially a managerial device for increasing workers’ productivity. Simultaneously, it is a method of sharing gains in productivity with workers by rewarding them financially for their increased productivity. The advantage of incentive plans are as under:

(i) Alignment between Organization's Objectives and Employees' Objectives. The employee tries to increase productivity which is also the aim of the organization.

ii) Wage Get Related to Output. Differences in employees' ability, motivation and output are automatically recognized and rewarded accordingly. This understanding by the employees tends to reduce the friction, jealousy, and resentment in the work group.

(iii) Unit Labor Costs are reduced. Incentive wage plans result in reduction of per unit labor, both direct and indirect, costs as the efficiency is emphasized on.

(iv) Need for Less Supervision. Employees need lesser supervision as the employees are disciplined and responsible.

(v) Good Human Relations. There are good human relations in the firm as the workers are satisfied with higher earnings and management with increased productivity.

Limitations Of Incentives Compensation

Except employee's attitudes, all other limitations of incentive wage systems centre around situations involving the firm. These limitations are briefly discussed below:

(i) Lack of Receptive Attitude on the Part of the Management and the Employees: The proper functioning of the system required existence of mutual trust between labors and management. If workers think that high, unattainable targets have been fixed, and/or management thinks that workers are not putting in their best efforts, the system is going to fail.

(ii) Lack of proper Management Practices: For incentives wages to be equitable, working condition must be as nearly standard, uniform, and dependable as possible. They should be available to all employees. Management must make sure that enough work will be provided to workers so that maximum wages can be earned by them. As most of these sound management practices are absent, wage incentive systems also become less beneficial.

(iii) Leads to Inequities in the Wage Structure: All the jobs in an organization can be divided into two types manual jobs and physical jobs. Performance of physical jobs is not that easily identifiable so they are paid according to straight time basis. Many times, incentive pay systems result in situations where hardworking but low skilled employees working on incentive pay jobs earn more than the more skilled employees working on jobs for which payment is made according to straight time wages. These pay inequities can destroy social relationships, build resentment and animosity among employees.

Types Of Incentive Plans

Following Exhibit shows an overall view of systems of wage payment and incentive plans.

Systems of Wage Payment and Incentive

A good incentive plan should encourage the workers to work hard and produce more than the standard production set for them. There are many wage incentive plans which reward the workers for their better performance. The standard output is determined on the basis of time and motion studies by the specialists and the rates of wages are fixed for different jobs on the basis of job evaluation. Broadly speaking, the various wage incentive plans can classified into two groups:

(a) Individual incentive Plans,

(b) Group Incentive Plans as shown in the following table:

Individual Incentive Plans

Under this, earnings are directly related to the performance of the individual employee. Individual incentives may be based on time or output. In time based plans, a standard time is determined and incentive is paid if any employee completes the job in less than standard time. In output based plans, a standard of output is determined and an employee producing more than standard output is given incentive. Output linked incentives can lead to:

(i) earnings varying in proportion to output; or;

(ii) earnings varying less proportionately to output; or;

(iii) earnings varying more proportionately to output; or;

(iv) earnings varying in different proportions at different levels of output.

Different incentive plans that reward efficiency :

The Straight Piece Work System. Worker is paid at a specified rate per unit of output.

The standard Hour System. A standard time is worked out to complete a job and in case an individual completes the job before time, he earns wages for the time saved.

Halsey Premium Plan

This incentive plan was devised by P.A. Halsey This system is a simple combination of time-speed basis of payment. Under this plan, a minimum time wage is guaranteed to every worker. A standard time is fixed for the completion of a job. If a worker performs his job in less than the standard time, he is rewarded. But there is no penalty for performing the job in more than the standard time fixed. The slow worker is paid the time wages and the efficient worker is paid some bonus in addition to the time wages. The bonus is in proportion to the wage which he could have earned during the time saved. The working of Halsey Premium Plan is explained with the help of the following illustration:

Standard time (S)	=	10 hours
Rate (R)	=	Rs. 4 per hour
Time (T)	=	6 hours
Rate of Bonus (P)	=	50%of time saved
Total Wages	=	T X R + (S-T) X P X R
	=	6 X 4 + (10-6) X ½ X 4
	=	Rs. 32.00

In the above illustration, the worker gets Rs. 8 extra than he would have earned under the time wage system.

The merits of Halsey plan are as under:

1. Halsey premium plan is very simple to understand. The amount of wages can be calculated very easily.

2. Both the workers and the employer get the benefit of time saved.

3. Halsey plan gives due importance to the efficient workers by paying them bonus for the time saved by them in doing a particular job.

4. Minimum wage is assured to each worker. Every worker gets wages for the time he has actually devoted at the fixed rate irrespective of his output.

Halsey plan suffers from the following limitations:

1. workers may not like the sharing of the benefit of their efficiency with the employers. Under this plan, the worker get wages for 50% of the time saved only.

2. There may be deterioration in the quality of work because the worker may just rush through not caring for the quality of the product or the amount of waste of raw materials.

3. The standard time may not have been properly fixed.

Rowan Bonus Plan

Rowan Plan is a modification of Halsey Plan. It guarantees the minimum time wages and does not penalize the slow worker. A standard time as fixed for the completion of a job and the bonus is paid on the basis of time saved. Bonus is a proportion of the wages earned by the worker for the time taken by him and the proportion is the ratio of time saved to standard time. It implies that as the time saved increases, time taken will be reduced and as such the bonus would increase at a diminishing rate. This will check over speeding and overcome a major drawback of Halsey Plan. The working of this plan is explained with the help of the following illustration :

Standard time(S)	=	10 hours
Time taken (T)	=	6 hours
Rate (R)	=	Rs. 4 per hour

$$\text{Total wages} = T \times R \times \left[T \times R \times \frac{\text{Time saved}}{\text{Standard time}} \right]$$

$$= 6 \times 4 + (6 \times 4 \times 4/10)$$

$$= \text{Rs. } 33.60$$

The advantages of Rowan plan are as follows:

1. As under Halsey plan, the minimum wages are assured in Rowan plan also.

2. Employer are also benefited when the efficient workers get bonus.

3. The efficient workers get bonus at a diminishing rate if they save more than 50 percent of the standard time. This checks them to overstrain themselves and compels them to maintain quality.

The limitations of Rowan plan are as under :

1. Where time saved is more than 50 percent of standard time, employees get bonus at a diminishing rate. Thus, a worker is discouraged to achieve saving in time more than 50 percent of the standard time.

2. Calculation of wages is difficult and the workers may not be able to understand this system .

3. The workers do not like sharing of the benefits of time saved by them.

Emerson Efficiency Plan

Under this plan, a minimum time wage is guaranteed to the workers. Conditions of work are standardized and standard output is fixed which is to be completed within a specified period of time .This plan is similar to Gantt's Task and Bonus Plan and is an improvement over the Taylor's Differential Piece Rate Plan.

Under this plan, a worker is entitled to bonus if he is able to achieve 66.67 percent or more of the standard. If a worker's output is less than 66.67 percent of the standard output, he does not get any bonus, but he gets the minimum time wages. The workers whose output exceeds 66.67 percent of the standard get incentives at a differential piece rate, a small bonus is paid for increases in efficiency from 66.67 percent upwards, until at 80 percent efficiency the bonus payable is 4 percent, at 90 percent efficiency, it is 10 percent and at 100 percent, 1 percent bonus is given for every additional 1 percent efficiency. For instance, if the standard output is 25 units and a worker produces 18 units, he is 90 percent efficient. He will get wages for the day plus 10 percent bonus. But if he produces 25 units, his efficiency will be 125 percent and his remuneration will be day's wages plus 45 percent bonus (20per cent of 100 per cent and 25 per cent for efficiency above 100 percent.).

The chief advantage of this plan to the workers is that their minimum wages for the day are secured. If a worker is unable to produce 66.67 per cent of the standard output, he is not deprived of his daily wage. Secondly, there is enough scope for earning more and more for the efficient workers. The rate of bonus increases at an increasing rate. This plan is very beneficial to the extraordinary workers. This plan is criticized by some people because the bonus rates are not uniform. Below 100 per cent efficiency 20 per cent bonus is to be distributed among the additional 33.33 efficiency. But after 100 per cent efficiency, bonus rate increases exactly in proportion to increase in efficiency.

Bedeaux Point Plan

Under this plan, the minute is the time unit described as the standard minute and accounted as Bedeaux point B. In determining the Bs, the time of operation and the time of rest taken into account. Thus, B may be defined as a fraction of a minute of effort plus a fraction of compensation rest always aggregating unity. The standard time for each job is fixed after undertaking time and motion study and expressed in terms of Bs. The standard time for a job is the number of Bs allowed to complete it. Thus, if the standard time required for a job is five hours, it will be expressed as 300 Bs.

The workers who are not able to or are just able to complete the work within standard time are paid at the normal time rate. Those who are able to complete their work earlier are paid bonus equal to the wages for time saved as indicated by the excess of B point over the actual time taken.

Generally, the bonus paid to the worker is 75% of the wages for time saved. The remaining 25% goes to the foreman. The working of the Bedeaux plan is explained with the help of the following illustration:

Standard time (S) = 300 Bs (5 hours)

Actual time (T) = 240 Bs (4hours)

Rate of wages (R) = Rs. 6 per hour

60 Bs = 1 hour

Value of time saved $= \frac{300-240}{50} \times 6$

= Rs.6.00

Total wages (W) = S x R + 75% of value of time saved

$= 5 \times 6 + \frac{75}{100} \times 6$

= Rs. 34.50

The merits of Bedeaux plan are as under:

1. In industrial units where conditions are standardized and where facilities exists for measuring the task and the output with a fair degree of accuracy through time and method studies Bedeaux plan can be useful as a bases for scientific production control particularly for purpose of estimating, planning and controlling machine capacities and for determining standard production costs.

2. The Bedeaux premium plan is mostly used in those units where the performance by individuals machines or workers has to be constantly watched and kept under control by comparing the number of B's actually produced with the number of B's standard.

3. Minimum wages are guaranteed to the workers, even if the are not able to complete their job within the standard time.

4. Since 25% of the wages for time saved goes to the foreman, he is motivated to get higher productivity from the workers.

The demerits of this plan are as under:

1. Much clerical work is involved in maintaining record and in preparing wages accounts etc. So in this respect, Bedeaux plan is costlier than many other incentive plans .
2. Though the earnings of a worker increase as his efficiency rises, the rate of increment in the earning is less than in a straight piece rate plan.
3. Some employers considers that this plan is not easily intelligible to many workers.
4. Like all other incentive plan, the success of this plan depends on the reaction of the workers to the plan. Therefore, before adoption this plan may need a certain amount of modification.

Taylor's Differential Piece Rate System

Tailor's plan is based on piece rate method and does not guarantee a minimum time wage. Under this plan, standard output per hour or per day of worker is fixed. There are two piece rates ; one for those who do not attain the standards fixed and the other for those who attain or exceed the standard. In the second case, the piece rate is higher. This system provides an incentive to the efficient worker and at the same time penalises the inefficient ones. Let us suppose that the standard output per worker has been fixed at 8 units per day and the rate per unit for this standard output or above is Rs.6 per unit. The worker producing 7 units will get Rs.37.50 and the one producing 8 units will get Rs.48. Thus, the first worker is penalised at the rate of Rs.0.50 per unit if he does not achieve the target output.

The benefits of Taylor's plan are as follows:

1. The system not only provides the incentive to efficient workers but also at the same time penalises the inefficient ones. An efficient worker gets full piece rate per unit of production and an inefficient worker (i.e., whose output is less than standard output) is paid at a lower rate per unit.

2. There is increase in production because every worker tries to increase his productivity in order to get higher piece rate.

3. It is simple and easy to understand by the workers.

The drawbacks of Taylor's plan are as follows:

1. Minimum wages are not assured to the workers. So it is vehemently opposed by the Workers.

2. The existence of lower piece rate in Taylor's plan does not act as incentive force, but is a sort of punishment to those who produce below the standard output.

3. This plan fails to attract workers who are accustomed to receiving time rate wages or piece rate wages back by guarantied wage.

On the whole, the scheme is very harsh for those whose productivity is less than the standard laid down. This plan may bring about disunity among the workers because it divides them into two groups, viz., efficient and inefficient, the inefficient workers may feel jealous of efficient ones as the letter get wages at higher rates.

Merrick's Multiple Piece Rate Plan

M. Dwight V. Merrick realized that it is unreasonable and unrealistic to classify all workers into two categories only, viz., workers of high efficiency and those who lower efficiency because there are various degrees of efficiency and there are many workers who actually work in their effort to produce more and for their own progress. These persons deserve to be encouraged. Merrick, therefore, introduced three piece rates and made the lowest piece rate equal to the ordinary piece rate which became the 'Basic Piece Rate'. The rates introduced by Merrick are usually as follow:

Output (% of task)	Piece Rate wage
1. less than 83%	Basic Piece Rate
2. From 83% to 100%	110 % of Basic Piece Rate
3. Over 100%	120% of Basic Piece Rate

To the workers who are potentially high producer, Merrick plan is good incentive system. It seems reasonable to pay production bonus at 110% of the basic piece rate to the workers when they reach 83% task because many workers should be able to reach 83 % task with a little extra effort. When they do so, they will be encouraged to reach the 100% task

By introducing the basic piece rate for low output, Merrick removed the punitive wage rate originated by Taylor. In fact, Merrick's plan is only a modified form of Taylor's plan. Like Taylor's plan, Merrick's plan also does not guarantee minimum wages for the workers. Another drawback of the system is the existence of a wide gap in slabs. As is obvious from the plan, all workers producing 1% to 82% of the standard output are considered as sub-standard workers and are paid the same piece rate

Gantt's Task and Bonus Wage Plan-

It was developed by Henry L. Gantt, a close associate of F.W. Taylor. Under it, standard time for every task is fixed through time and motion study. Minimum time wage is guaranteed to all workers. A worker who fails to complete the task within the standard time receives wages for actual time spent at the specified rate. Workers who achieve or exceed the standard get extra bonus varying between 20% to 50% of the hourly rate for the time allowed for the task. Suppose, the standard time fixed for the job 8 hours and the time rate is Rs 10 per hour and the rate of bonus is 25 per cent. A worker who completes the task in 10 hours he will be paid Rs. 80(8 * Rs. 10) only. On the other hand, the worker who completes the task in 6 hours will receive Rs. 100 (Rs. 80 + 25 % of Rs. 80). Therefore, the actual rate comes out to be Rs.100 / 6 =Rs. 16.67 per hour.

Under this method, minimum wage is assured to all workers, wages increases progressively with increase in efficiency, and at the same time inefficient workers are not penalized severally.
Merits:

- *Minimum wages to every worker.*
- *Incentive for the efficient workers.*
- *Motivates the employees to increase their efficiency.*

Group Incentive Plans

Under these plans, bonus is calculated for a group of workers and the total amount is distributed among the group members on one of the following bases:

- If the group members possess similar skills and abilities, group bonus may be distributed among them on an equal basis; or
- If the group members have different basic rates of wages, the bonus may be distributed in proportion to the basic rates as under priestman's output bonus plan; or
- Group members may be paid bonus on a specified percentage basis.

Such percentage may be determined on the basis of skill, experience and basis rate of pay of each individual worker.

These methods are suitable in the following situations:

- Where it is not possible to measure the performance of each individual employee:
- Where the workers constituting a group possess similar skills, abilities, experience: and
- Where the finished product is the result of collective efforts of group members.

Priestman's Plan

Under this plan productivity of the group as a whole is the starting point. Standard output is laid down for the group. However, a minimum wage is assured to each group member. The group members become entitled to the bonus if their output exceeds the standard. The bonus is paid in proportion to the excess of actual output over the standard output. For example, if the actual production is 20 per cent higher than the standard output, the wages of each group member will rise by 20 per cent. The additional wage of each member is his bonus.

The main benefit of Priestman's Plan is that it brings about a team spirit among the group members. This scheme can be successful only if the number of workers in the group is small. However, as no distinction is made between efficient and inefficient workers, no regard is paid to efficiency of the individual.

Gain Sharing Plan

Towne devised this plan. Under this plan, half of the savings in labor cost as a result of output in excess of the standard is distributed among workers and foreman and bonus is paid half yearly. The percentage of the foreman is fixed in advance.

Goal Sharing Plan or Work Team's Results

It rewards employees for meeting specific goals in terms of quality, service and job performance e.g., an employee may be paid Rs. 20 extra for each one per cent improvement over baseline (minimum performance). Suppose the baseline is 90% and the group achieves 93% performance, this would mean each group member would receive Rs. 60 bonus based on group performance.

PAY ROLL PREPARATIOON

How to Prepare Payroll in a Company

Preparing payroll involves a series of basic calculations to determine each employee's base pay as well as deductions for state and federal taxes, and employee contributions to retirement funds and health insurance plans. This information is then transferred to individual employee paychecks as well as company records that facilitate the process of tracking information for internal and external tax and financial reporting. Developing a comprehensive and user-friendly payroll system will make your life much simpler when it's time to fill our quarterly and annual tax forms. It will also provide you with clear and useful information for understanding your company's financial activities.

1. Calculate each employee's base pay by multiplying the number of hours worked for wage employees, or by referring to salary levels for salaried employees. If you use payroll software, your program will do these calculations for you. Pay wage employees who work more than 40 hours per week one and-a-half times their base pay rate for any overtime hours.

2. Calculate each employee's state and federal deductions. Use federal tax tables or the percentage method to determine federal income tax withholding, and calculate Social Security and Medicare withholdings by multiplying base pay by .0565 as of 2012. Calculate state income tax according to your state's specific income tax rates. Subtract withholding amounts from each employee's gross pay. Also subtract the amounts of other paycheck deductions such as employee contributions to health insurance plans or retirement funds. Prepare paychecks that clearly show the information you have used to calculate each employee's net pay, including regular and overtime hours, and tax and insurance withholdings.

3. Track payroll information and pay payroll taxes on time. Separate the amounts you have withheld from employee paychecks from general business funds, either by depositing them in a separate bank account until it is time to remit them, or keeping a running total of how much you owe so you don't treat this money as regular operating capital. Make federal tax deposits according to the deposit schedule that the IRS gives you, based on your payroll volume. Complete state payroll tax forms quarterly.

4. Use payroll information in your business accounting to evaluate your company's profitability and financial health. Divide payroll information relative to different tasks and departments. For example, if you own a retail grocery store, track the amount you spend on payroll in the meat department versus the amount you spend in the produce department. Compare these amounts to the revenue from each department to assess the profitability of each section.

UNIT- IV

REWARDS AND INCENTIVES

Rewards for Sales personnel - Pay - commission- Performance based pay system - incentives – executives compensation plan and packages.

Rewards and Incentives

Meaning:

Definition: Reward

Reward is an incentive plan to reinforce the desirable behavior of workers or employers and in return for their service to the organization. Rewards can be monetary in the form of salary or non monetary in the form of awards for some special services to the company or simply giving an employee a work which he enjoys doing. The primary objective of organizations in giving rewards is to attract, maintain and retain efficient, high performing and motivated employees.

There can be various types of rewards an organization can give its employees like money, grade, performance based incentive or performance pay, increment, gift cards, recognition or awards, profit sharing, holiday packages, medical coverage, promotion, bonuses etc. Rewards are given mainly to appreciate the performance of employees and to motivate them. This is because motivated workers lead to higher productivity and the organization as a whole prospers. On the other hand if workers are unmotivated they can lead to the failure of the organization by disrupting and de-motivating other workers as well. Rewards are considered separate from salary but they may be monetary and have a cost to company. Rewards are generally aligned to organizational goals, when an employee helps the organization to achieve any of its organizational goals he/she is rewarded.

Rewards can be of two types- Intrinsic and extrinsic rewards.

Intrinsic rewards are rewards which satisfy an employee internally. Only money is not enough to motivate people and it is important to make people realize their contribution to the organization matters. That motivates employees internally. Intrinsic rewards can be giving meaningful work to employees, giving autonomy to employees, allowing employees to take responsibility in areas of their expertise and provide developmental opportunities to employees

Extrinsic rewards unlike intrinsic rewards are mostly tangible rewards like pay, advancement, recognition, time off etc.

Rewards for Sales personnel:

List of Non Financial Rewards for Sales People

Although nothing speaks to employees like cold, hard cash, sometimes that is not a financially viable option for employers. That doesn't mean there aren't ways to reward sales representatives. Recognizing excellence in sales can come in non-financial forms such as public recognition. Whatever the award, in order to see continued high sales performance, the result must be employee satisfaction.

Vouchers

Employers with a sales staff can offer vouchers as a reward for success. Vouchers can come in several forms, such as travel coupons. There is an added incentive in that the winner can share the award with family or friends. Vouchers can reward more than one leading performer. For example, while a company could send the top performer on a paid vacation, it could also send an entire sales team that has gone above and beyond.

Public Praise

Acknowledging the success of a top salesperson in front of his peers can be a powerful motivator and reward. This may encourage other members of the sales team to strive to receive similar praise. Public praise can be doled out in a meeting with an accompanying certificate or plaque.

Prizes
Employers can create healthy competition among sales staff. The top performer receives a form of non-cash prize. Employers can offer first-, second- and third- placs prizes. For example, the highest-value prize could be an iPod or computer. The third place prize could be movie or event tickets.
Perks
Companies can provide perks to one or more members of a successful sales team. While not breaking the bank, these "extras" add up. Examples of company perks include: paid parking, use of a company car or subsidized gym memberships. Employers can also give less-tangible (but still effective) rewards such as an increased, higher-profile role in company decision-making.

Non-Financial Rewards for Sales People

Here are some of the key ways to motivate reps using non-monetary rewards:

1. Recognition – Most people appreciate being recognized for their accomplishments. Certainly, many sales people are competitive and will enjoy the spotlight when they have done well. The recognition can be a big shout out in front of the whole team or a simple pat on the back fro a job well done, but in any case, this is one of the easiest and most powerful ways to reward your reps.

2. Gifts and Prizes – Sales people love a good competition! Prizes such as trips, trinkets, gift certificates, gas cards and dinner vouchers can create great incentives for reps to over-achieve.

3. Flex Hours – I have never been big on working hours, placing more emphasis on achieving goals. So for the reps that meet or exceed targets, I have always given them the opportunity to work flex hours or take some time off. This always proved to be a big motivator in spite of the fact that overachievers typically aren't interested in a whole lot of time off.

4. Training – If your organization is large enough you can offer the opportunity to be mentored by a senior member of the team when someone meets their targets. This offers a unique chance for the motivated to advanced their career.

5. Status – Similar to recognition, formal achievement awards work very well for rewarding sales reps. President's Club is the typical program that companies set up to recognize sales achievement, however other awards such as profit, customer wins, and customer service awards can also be useful in motivating positive behavior and providing appreciated rewards to the sales reps.

Pay for Performance:

The **high performing organizations** always introduce the concept of the **pay for performance**. It is closely connected with the high performance corporate culture and it is not just a compensation and benefits area. The pay for performance is a complex of different HR Processes aimed to build the environment, which encourages employees and managers to stretch the goals and to pay the best employees more than the others. The "pay for performance" has to be included in the corporate culture and cannot be used as separated HR initiatives and HR processes as the separated usage would miss the main goal - paying the employees for the performance reached.

What is "pay for performance"?

Pay for performance is not just a pure compensation and benefits concept. The pay for performance is a right mix of the HR Processes, which supports the optimal performance of the organization and it pays the most performing employees significantly differently, includes special compensation schemes for the selected groups of employees and gives career opportunities to the best talents in the organization.

The pay for performance is not just a tool, it is more about the **philosophy of the organization to reward the best performing employees** and **building the suistainable competitive advantage**. The high performing organizations differs themselves from the other organizations on the market, they reach higher profitability and they have more satisfied employees, who bring innovative ideas and solutions.

The “pay for performance” concept has to be based on the clever mix of the different HR Processes, the right corporate culture and the managerial behavior as the CEO feel the support for reaching the challenging goals and visions. The “pay for performance” concept cannot be based on the exceptions and poor systems, how to work with the top performers and top talents of the organization.

What HR Processes are included in “pay for performance”?

Human Resources has several important HR Processes to support the pay for the performance concept in the organization. The pay for performance cannot be seen as the isolated activity within Compensation and Benefits and Performance Management.

The “pay for performance” includes many processes from Career Development and the Talent Management as the whole concept is about offering more opportunities than just better salaries and higher bonuses to the key groups of employees.

The training and development is the essential part of the “pay for performance” concept as the high proportion of the training and development budget should be focused on the key groups of employees and developing their managerial and leadership skills and competencies.

The recruitment and staffing processes have to be focused on the early identification of the top talents on the job market and preparing the attractive packages for the top talents to attract them to the organization. The Career Development and Compensation and Benefits are then a key to the successful retention of such the top talents.

How to implement "Pay for Performance"?

The implementation of the pay for performance is not easy and it requests the full commitment of the CEO, HR and the top management. When the pay for performance starts cascading through the organization, the middle management starts to act as it is required by the pay for performance concept.

The CEO has to follow strictly the rules given by the pay for performance and the whole idea will spread in the organization quickly as the managers will follow the positive role play given by the top management.

Executive compensation plan and package:

Executive compensation is how top executives of business corporations are paid.

The purpose of compensation of an executive is for an individual who is in a management position at highest levels.

FEATURES OF EXECUTIVE COMPENSATION

Managerial compensation cannot be compared to the wage and salary schemes meant for in other employees in organizations.

Executives are denied the privilege of having unionized strength.

Secrecy is maintained in respect of executive compensation.

Executive pay is not supposed to be based individual performance rather on organizational performance

There are four basic tools executive compensation packages in organization. These are:

- Base salary.
- Allowances.
- Incentives.
- Perquisites.

COMPENSABLE FACTORS

- Job related experience.
- Training time required.
- Frequency of review of work.
- Utilization of independent choice.
- Frequency of reference to guidelines.
- Frequency of work transferred through supervisor
- Analytical complexity.
- Time spent in processing information.

EXECUTIVE COMPENSATION – EXAMPLE

SALARY INCLUDES

- Basic salary
- Conveyance
- Special allowances
- Gratuity
- Provident fund
- H R A(House Rent Allowances)
- Traveling Allowances
- Medical claim
- Bank facility

UNIT- V

REGULATORY BODIES FOR COMPENSATION MANAGEMENT

Wage Boards - Pay Commissions - Compensation Management in Multi-National organizations.

Wage Board and Pay Commission

The Pay Commission is an administrative system/mechanism that the government of India set up in 1956 to determine the salaries of government employees.

The First Pay Commission was established in 1956, and since then, every decade has seen the birth of a commission that decides the wages of government employees for a particular time-frame.

The second Pay Commission was set up in August 1957 and gave its report in two years.

The third Pay Commission, set up in April 1970, submitted its report in March 1973. The recommendations of the Fourth Pay Commission covered the period between 1986 and 1996.

The Fifth Pay Commission covered the period between 1996 and this year. The Union Cabinet, under the stewardship of Prime Minister Manmohan Singh , approved the setting up of the 6th Pay Commission to revise the payscales of central government employees in July 2006.

The 6th Pay Commission is headed by its Chairman Justice B N Srikrishna, and has Ravindra Dholakia, J S Mathur and Sushama Nath as its other members. The Pay Commission was supposed to submit its report in 18 months.

The Government has issued notifications constituting the Wage Boards for Working Journalists and Non-working Journalists of newspapers and news agencies with effect from. 24th

May 2007.

The Boards have been constituted for the purpose of fixing or revising rates of wages of working journalists and newspaper employees and non-journalists newspapers employees in accordance with the provisions of the Working Journalists and Other Newspaper Employees (Conditions of service) and Miscellaneous Provisions Act, 1955.

The headquarters of the Wage Boards will be New Delhi. The Boards have been asked to submit their reports within three years. Both the Wage Boards will have 10 members each headed Payment of Bonus Act, 1965 and Rules framed there under. Representations/ Grievances/ Court Cases.

Working Journalist and Other Newspaper Employees (Conditions of Service) and Miscellaneous Provisions Act, 1965. Review of the Progress of the Implementation of the recommendations of the Wage Board Awards for Journalists & Non-journalists News Paper Employees. Compilation of Progress Reports on quarterly basis received from all States/ UTs. Representations/ Grievances/ Court Cases.

Constitution of Central Level Monitoring Committees to review the Progress of the Implementation of the Wage Board Awards. Constitution of State Level Monitoring Committee to review the Progress of the Implementation of the Wage Board Awards – follow up action. Establishment and financial matters relating to the Wage Boards for Working Journalists and Non-Journalists Newspaper Employees. Setting up and administration of Wage Boards for different industries. Industry-wise wage revision. Working Journalists (Fixation of Rates of Wages) Act, 1958.

In ORGANIZED , collective bargaining is the method whereby workers organize together (usually in unions) to meet, converse, and negotiate upon the work conditions with their employers normally resulting in a written contract setting forth the wages, hours, and other conditions to be observed for a stipulated period. It is the practice in which union and company representatives meet to negotiate a new labor contract. In various national labor and employment law contexts, the term collective bargaining takes on a more specific legal meaning. In a broad sense, however, it is the coming together of workers to negotiate their employment.

A collective agreement is a LABOR CONTRACT between an EMPLOYER and one or more UNIONS. Collective bargaining consists of the process of NEGOTIATION between representatives of a UNION and EMPLOYERS (represented by MANAGEMENT , in some countries by EMPLOYERS' ORGANIZATION) in respect of the terms and conditions of EMPLOYMENT of EMPLOYEES , such as WAGES , hours of work, working conditions and GRIEVANCE-procedures, and about the rights and RESPONSIBILITIES of TRADE UNIONS. The parties often refer to the result of the negotiation as a Collective Bargaining Agreement (CBA) or as a Collective Employment Agreement (CEA).

Collective bargaining includes not only negotiations between the employers and unions but also includes the process of resolving labor-management conflicts. Thus, collective bargaining is, essentially, a recognized way of creating a system of industrial jurisprudence. It acts as a method of introducing civil rights in the industry, that is, the management should be conducted by rules rather than arbitrary decision making. It establishes rules which define and restrict the traditional authority exercised by the management.

Compensation Management in Multi-National organizations:

Introduction:-

The increasing competitiveness of the labour market and turnover of employees had resulted in nightmare in compensation planning. Apart from this, the growing demands of the employees and competitive salaries offered by multinational companies had almost resulted in a compensation war in certain industries.

Therefore, the human resources managers and tax experts have to evolve proper compensation planning for High end and qualified employees. The components of compensation have to be devised in such a way that, it focuses on the growing demands of employees while retaining the competitiveness and profitability of the company.

Industry driven factors:-

There are also certain driven factors that are influencing the compensation planning. The compensation Packages of knowledge workers are different from that of manufacturing sector. The employees working in call centers are compensated differently (vs) employees of technology driven companies.

Some notable examples are.,
a) Compensation paid in IT/ITES,
b) Investment banking/Equity research,
c) Software companies,
d) High-end industries having high technology content like Bio/Nano technology.
e) Private research and related fields.

Components of compensation:-

Basic wages/Salaries:-

These refers to the cash component of the wage structure based on which other elements of compensation may be structured. It is normally a fixed amount which is subject to changes based on annual increments or subject to periodical pay hikes. It is structured based on the position of an individual in the organization and differs from grades to grades.

Dearness allowance:-

The payment of dearness allowance facilitates employees and workers to face the price increase or inflation of prices of goods and services consumed by him. The onslaught of price increase has a major bearing on the living conditions of the labour. The increasing prices reduce the compensation to nothing and the money's worth is coming down based on the level of inflation. The payment of dearness allowance, which may be a fixed percentage on the basic wage, enables the employees to face the increasing prices.

Bonus:-

The bonus can be paid in different ways. It can be fixed percentage on the basic wage paid annually or in proportion to the profitability. The Government also prescribes a minimum statutory bonus for all employees and workers.

There is also a bonus plan which compensates the Managers and employees based on the sales revenue or Profit margin achieved. Bonus plans can also be based on piece wages but depends upon the productivity of labour.

Commissions:-

Commission to Managers and employees may be based on the sales revenue or profits of the company. It is always a fixed percentage on the target achieved. For taxation purposes, commission is again a taxable component of compensation.

The payment of commission as a component of commission is practised heavily on target based sales. Depending upon the targets achieved, companies may pay a commission on a monthly or periodical basis.

Mixed plans:-

Companies may also pay employees and others a combination of pay as well as commissions. This plan is called combination or mixed plan. Apart from the salaries paid, the employees may be eligible for a fixed percentage of commission upon achievement of fixed target of sales or profits or Performance objectives.

Nowadays, most of the corporate sector is following this practice. This is also termed as variable component of compensation.

Piece rate wages:-

Piece rate wages are prevalent in the manufacturing wages. The laborers are paid wages for each of the Quantity produced by them. The gross earnings of the labour would be equivalent to number of goods produced by them.
Piece rate wages improves productivity and is an absolute measurement of productivity to wage structure. The fairness of compensation is totally based on the productivity and not by other qualitative factors.
The GANTT productivity planning and Taylor's plan of wages are examples of piece rate wages and the related consequences.

Sign on Bonuses:-

The latest trend in the compensation planning is the lump sum bonus for the incoming employee. A person who accepts the offer, is paid a lump sum as a bonus.

Even though this practice is not prevelant in most of the industries, Equity research and investment banking companies are paying this to attract the scarce talent.

Profit sharing payments:-

Profit sharing is again a novel concept nowadays. This can be paid through payment of cash or through ESOPS. The structuring of wages may be done in such a way that, it attracts competitiveness and improved productivity.

Profit sharing can also be in the form of deferred compensation at the time of retirement. At the time of retirement the employees may be paid a lump sum or retiral benefits.

Fringe benefits:-

The provision of fringe benefits does not attract any explanation. These includes.,
a) Company cars
b) Paid vacations
c) Membership of social/cultural clubs
d) Entertainment tickets/allowances.
e) Discounted travel tickets.
f) Family vacation packages.

Reimbursements:-
Employees, depending upon their gradations in the organization may get reimbursements based on the Expenses incurred and substantiated. Certain expenses are also paid based on expenses incurred during the course of business.
In many cases, employers provides advances to the employees for incurring certain expenses that are incurred during the course of the business.

Some examples are.,

a) Travel expenses.
b) Entertainment expenses
c) Out of pocket expenses
d) Refreshments expenses during office routine outside office premises.

Sickness benefits/pregnancy:-

The increasing social consciousness of corporates had resulted in the payment of sickness benefit to the Employees of companies. This also includes payments during pregnancy of women employees.

The expenses incurred due to injury or illness are compensated or reimbursed to the employees. In certain companies, the death of an employee is compensated financially.

Companies are also providing supporting financial benefits to the family of the bereaved employees. However, companies covering these cost through appropriate insurance policies like, Medical and life insurance.

Conclusion:-

The whole idea of compensation management can be better understood through the following Pyramid structure.