

**SOS POLITICAL SCIENCE AND PUBLIC  
ADMINISTRATION,  
JIWAJI UNIVERSITY, GWALIOR  
MBA HRD II SEM  
PAPER - HRD 202  
SUBJECT: WAGES & SALARY  
ADMINISTRATION**

**TOPIC: EMPLOYEE COMPENSATION**

## EMPLOYEE COMPENSATION

- Employee compensation is a vital part of HR management. wages ,salary and other form of employee compensation constitute a very large component of operating costs.
- Salary or wage—the compensation an employee receives for a fair day's work.

## Compensation Management

### ■ **What is compensation management**

- Compensation Management is designing and implementing total compensation package with a systematic approach to providing value to employees in exchange for work performance,
- Compensation is a systematic approach to providing monetary value to employees in exchange for work performed.
- Compensation may achieve several purposes assisting in recruitment, job performance, and job satisfaction.

# Compensation management

- Administration of employee compensation is called **compensation management** or salary & wage administration.
- It involves formulation and implementation of **policies** and programmes relating to wages, salaries and other form of compensations.
- It includes **job evaluation, wage/salary survey** , development and maintenance of **wage structure** rules for administration of wages, profit sharing and other incentives .

## Objective of Compensation management

- To establish a fair and equitable remuneration
- To attract competent personnel
- To retain the present employee
- To improve productivity
- To control costs
- To establish job sequence and lines of promotion wherever applicable
- To improve union management relations
- To improve public image of the company

• To improve public image of the company

# COMPENSATION MANAGEMENT

## COMPENSATION:

Compensation is what employees receive in exchange for their contribution to the organisation.

Total compensation =

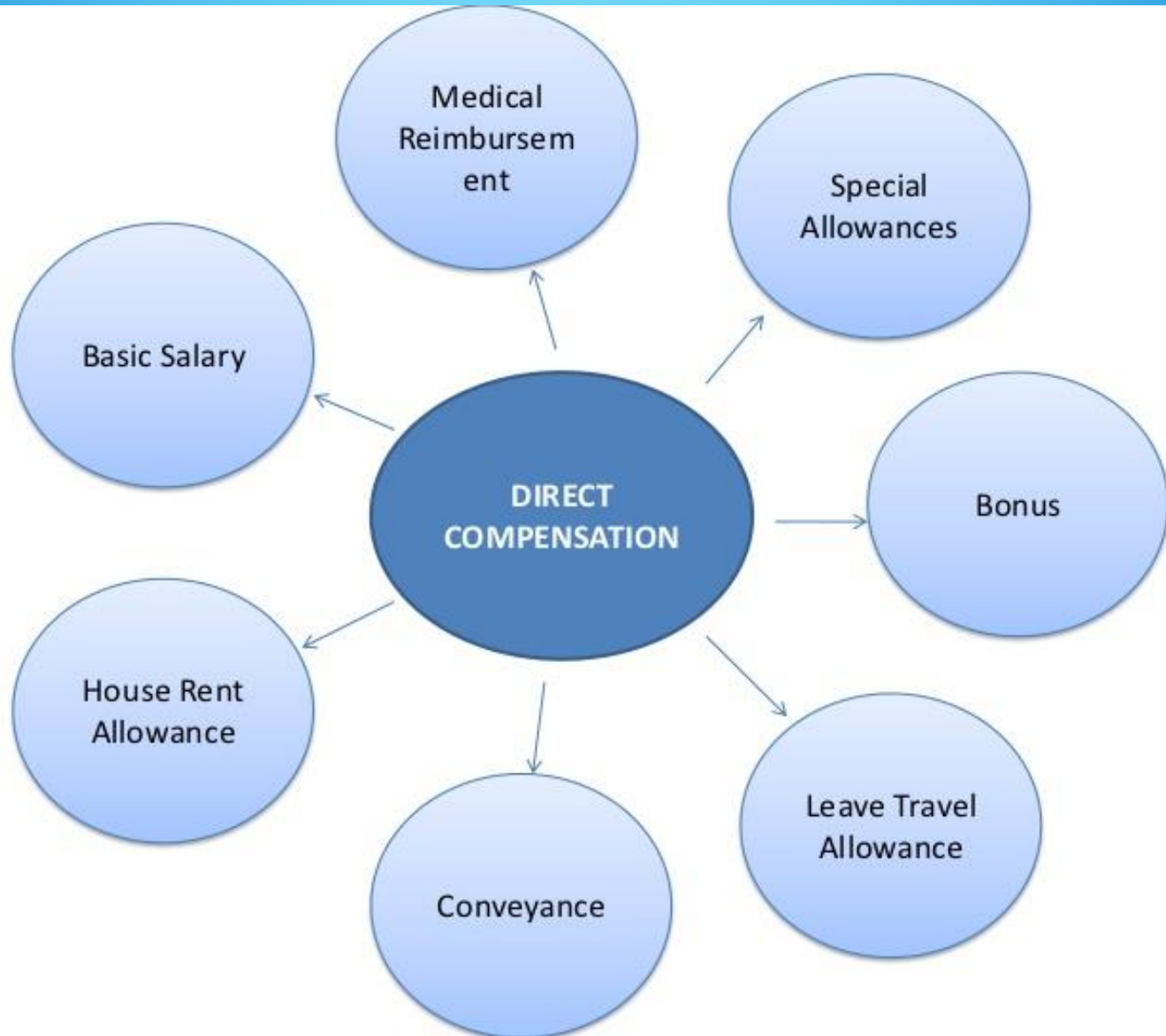
Direct + Indirect Compensation

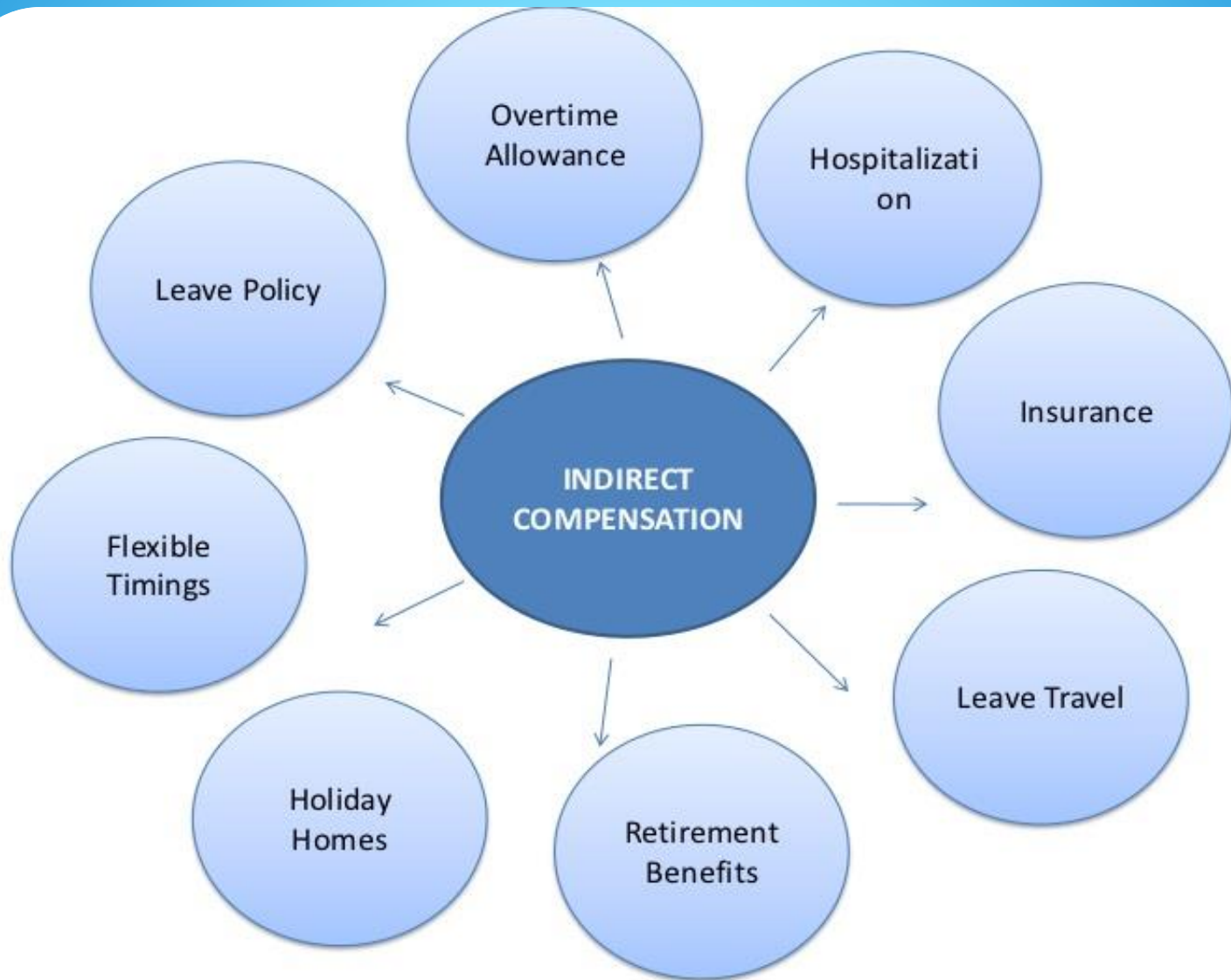
Base Pay

Incentives

Benefits







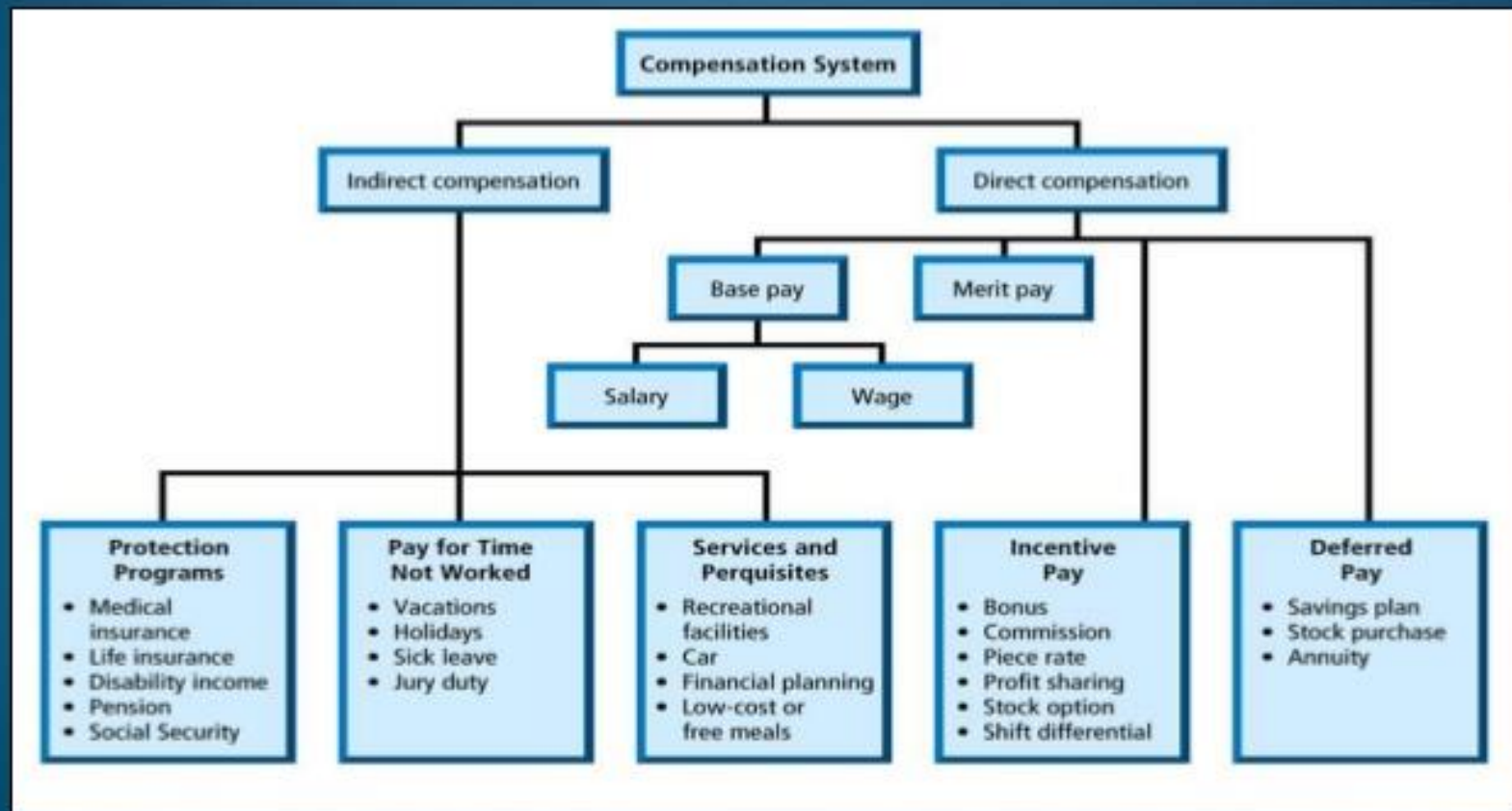


# Components of compensation

- Basic pay
- Allowances
  - Dearness allowance
  - House rent allowance
  - City compensatory allowance
  - Transport allowance
- Incentives
- Fringe benefits

# Compensation Management

## Types of Compensation



# Compensation Management

## ■ Types of Compensation

### Direct compensation

It refers to monetary benefits offered and provided to employees in return of the services they provide to the organization. The monetary benefits include basic salary, house rent allowance, conveyance, leave travel allowance, medical reimbursements, special allowances, bonus, PF/Gratuity, etc. They are given at a regular interval at a definite time.

# Compensation Management

## ■ Types of Compensation

### Indirect compensation

It refers to non-monetary benefits offered and provided to employees in lieu of the services provided by them to the organization. They include Paid Leave, Car / transportation, Medical Aids and assistance, Insurance (for self and family), Leave travel Assistance, Retirement Benefits, Holiday Homes.

## Compensation Management

- **Constituents of Compensation – CTC, heads**

- **Wage and Salary:**

- The most important component of compensation and these are essential irrespective of the type of organization**

- Administered individually**

- Provides employee stable income and can plan chores of daily life, budget**

- **Incentives:**

- Incentives are the additional payment to employees besides the payment of wages and salaries. Often these are linked with productivity, either in terms of higher production or cost saving or both.**

- Can be administered individually and for groups**

- Additional compensation having immediate effect and no future liability.**

## Compensation Management

- **Constituents of Compensation – CTC, heads**

- **Fringe Benefits:**

Fringe benefits include such benefits which are provided to the employees either having long-term impact like provident fund, gratuity, pension; or occurrence of certain events like medical benefits, accident relief, health and life insurance; or facilitation in performance of job like uniforms, Canteens, recreation, etc.

Administered for a group mostly

- **Perquisites:**

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

Administered individually mostly

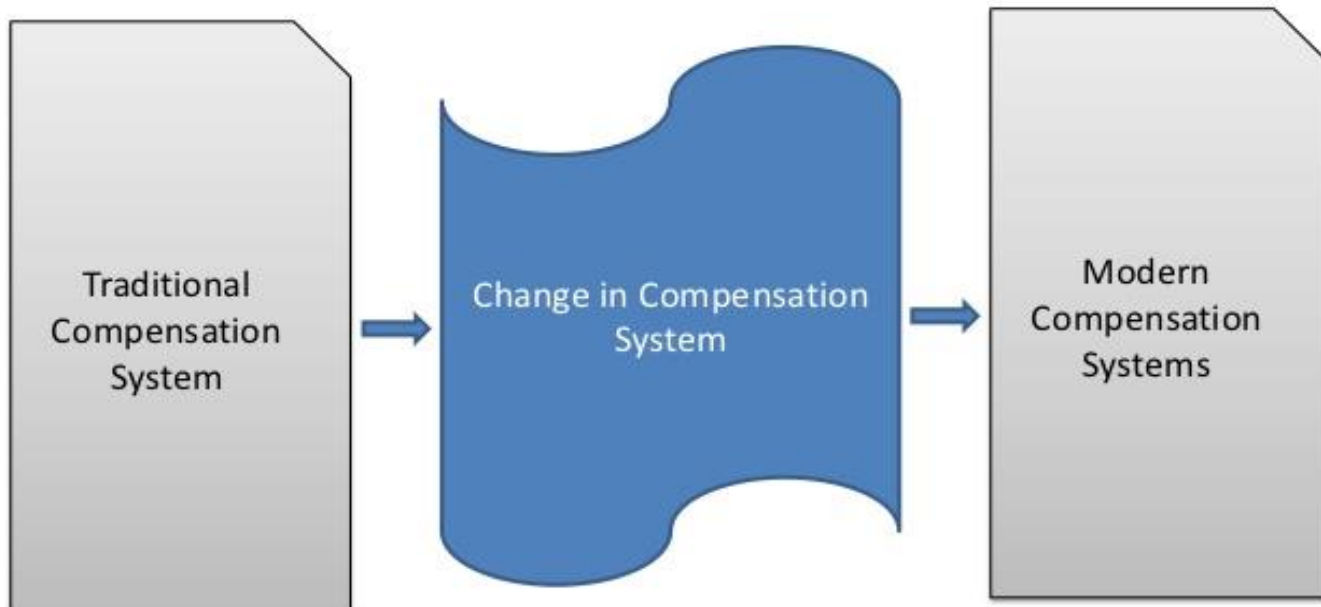
# Dearness Allowance

- The main objective of DA as a component of wage is to neutralize the increase in price. In certain cases the DA is more than the basic pay or double the basic pay. The DA is computed according to changes in consumer price index and sometimes the DA is linked to pay slabs also, i.e., as the basic pay goes up, the rate of DA will come down

come down

basic pay goes up, the rate of DA will

# Evolution of Strategic Compensation





# Compensation Management

- Purpose of Compensation



# Compensation Management

## ■ Purpose of Compensation

### For Employer

- Brand image (employer of choice) for attracting candidates
- Motivating employees for higher productivity and performance
- Retaining talent
- Consistency in compensation
- Provoking healthy internal competition

### For Employee

- Work-life Balance
- Recognition as tool to self esteem
- Planning for better quality of life

## Difference in Wages, Salary & Compensation Terms

### WAGES

Paid to BLUE Collared  
On Daily, weekly, Monthly  
Can be measured in terms  
of money

### SALARY

Paid to WHITE collared  
Employees  
Paid at specified Intervals  
Paid to Employees whose  
contribution cannot be  
measured

### COMPENSATION

Comparative Form  
All Basic , gross amount ,  
allowances + Benefits

## Types of Employee compensation

- Base or primary compensation

It refers to the basic pay in the form of wages and salaries . It is fixed and paid on the basis of time expended on the job.

## Types of Employee compensation

- Supplementary compensation

It consists of fringe benefits such as housing, medical aid, paid leave , retirement benefits ,etc.

Basis of Comparison	Base compensation	Supplementary compensation
Meaning	It means wages and salary paid to the employees	It means fringe benefits paid in addition to wage and salaries
Form	Cash	Paid in kind
Purpose	To compensate employee for their services	To retain employee and to increase their efficiency
Basis	On the basis of job evaluation and other factors.	Depends on company policies and needs.

## Types of Employee compensation

- Incentive compensation

It refers to the monetary compensation paid to the employee to motivate them . it is either based on the individual performance or performance of the whole group.

## **Types of Wage Incentive Plans**

Wage incentive plans may be classified into two broad categories as follows:

- Individual incentive plans, and
- Group incentive plans.

### **Individual Incentive Plans**

- Under individual incentive plans, earnings are related directly to the performance of the individual worker. In case of group incentive schemes, earnings of a group are related to the performance of the group as a whole. Individual incentives may be based on time or output. Under time based plans, a standard time is determined and bonus is given if a worker completes the job in less than standard time. Under output based plans, a standard of output is determined and workers producing more than the standard output are given bonus.

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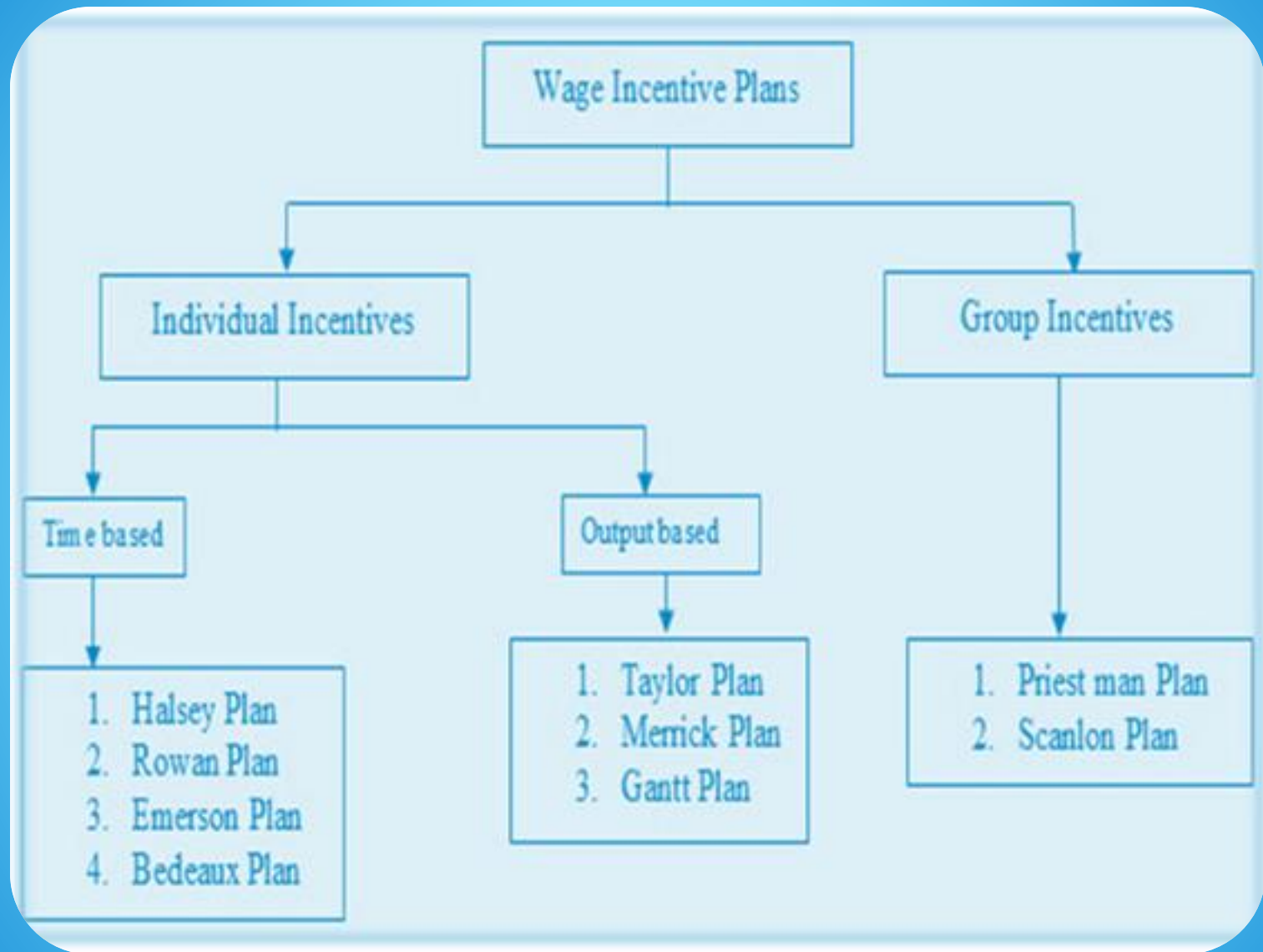


- **Group Incentive Plans**

In all the incentive wage plans given above, incentive is linked to individual performance. But in some cases, e.g., assembly line industries it is not possible to determine the performance of an individual worker. This is so because several workers are required to jointly perform a single operation. In such cases it is desirable to introduce a group incentive scheme. Under such a scheme, the bonus is calculated for a group of workers and the total amount is distributed among the group members in preparation to the wages earned by each.

**Group incentive plans, however, suffer from the following disadvantages:**

- An efficient worker may be penalized for the inefficiency of some inefficient members of the group.
- The incentive for an individual worker may not be strong enough to motivate.
- Rivalry among the members of the group may defeat the very purpose of team work and cooperation.



† Bedeaux Plan  
2. Emerson Plan

## Types of Incentive Plans

- SHORT TERM PLANS:

Halsey Plan, Rowan, Barth, Point Rating System, Progressive Bonus

- LONG TERM PLANS:

Annual Bonus, Profit Sharing



## Compensation Management

- Factors affecting Compensation

Mental requirements,  
Physical requirements,  
Skill requirements,  
Responsibility level, and  
Working conditions (risk, time, hazards)

## Compensation Management

- Factors affecting Compensation

### Organizational Affordability

Man power planning

Sales – salary ratio

### Market Rate for Talent

### Economic Conditions

## Issues in compensation management

The main challenge in developing a compensation system are :-

- A. To achieve firm's strategic objective
- B. To mould it to the firm's unique characteristics and environment.

## Compensation Management

### ■ Its importance

Compensation is an integral part of human resource management which helps in motivating the employees and improving organizational effectiveness.

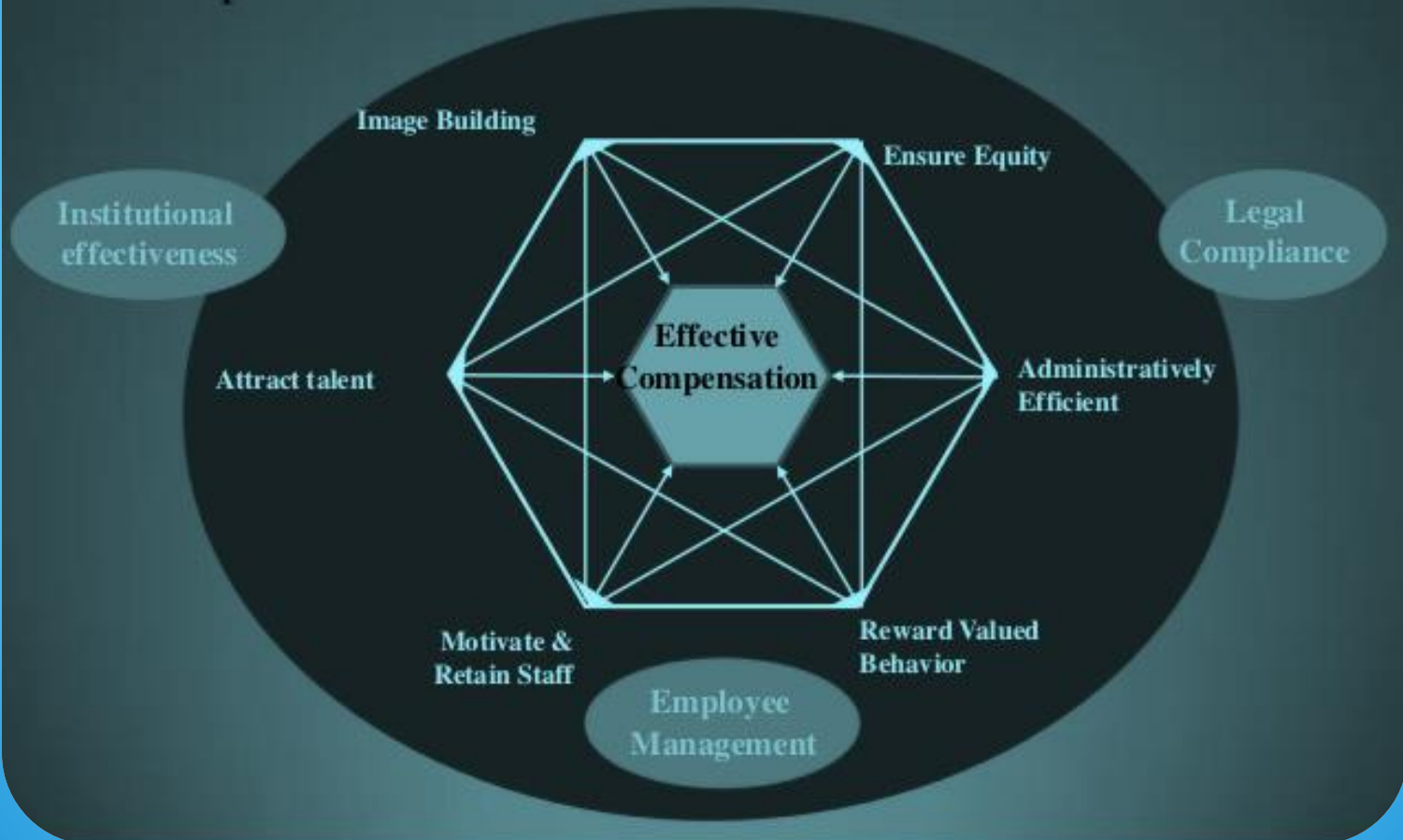
Effectiveness in terms of:

- Attracting & Retaining Talent
- Motivating talent for better performance
- Cost effectiveness



# Compensation Management

## ■ Its importance



## Examples of different organizations compensation and benefits plan

- Google
- Procter & Gamble
- Apollo
- Wipro

The Google logo, featuring the word "Google" in its signature multi-colored font (blue, red, yellow, blue, green, red) with a trademark symbol.The Procter & Gamble logo, consisting of the letters "P&G" in a large, bold, blue serif font, with "Procter & Gamble" written in a smaller, blue serif font below it.The Apollo Hospitals logo, featuring a stylized blue and green graphic of a person with a flame above their head, next to the word "Apollo" in a large, bold, blue font, with "HOSPITALS" and "TOUCHING LIVES" in smaller blue fonts below it.The Wipro logo, featuring a colorful, multi-colored sunburst graphic above the word "WIPRO" in a bold, black, sans-serif font, with "Applying Thought" in a smaller, italicized black font below it.

# Google

- Health care , plus on-site physician and dental care
- Vacation days and holidays, and flexible work hours
- Maternity and parental leave
- Adoption assistance
- Google Child Care Center
- Fuel Efficiency Vehicle Incentive Program
- Employee discounts
- Onsite dry cleaning

# Procter & Gamble

- Financial Benefits & Compensation
- Health & Family-Friendly Benefits
- Vacation & Personal Time-Off
- Employee Engagement.
- Community Involvement

# Apollo Hospitals

- Benefits include the traditional medical and dental.
- 401k, company-paid life insurance.
- Child care subsidies
- Flex time
- Educational assistance and
- Professional development programs.

# Wipro

- Flexible Benefits.
- Medical Assistance Plan and Medical claim benefits.
- Group Life Insurance Program and Employee Deposit Linked Insurance (EDLI) Program.
- Wipro Cares “Mitr”
- Kids @ Wipro (fun way of learning)
- Fit for Life.
- Eco Eye.



