Employee Compensation

Everything you need to know about the employee compensation. Compensation or Remuneration is a systematic approach to provide monetary value to employees in exchange for work performed by them is called as compensation or remuneration.
Compensation may achieve several purposes assisting in recruitment, job performance and job satisfaction.
Learn about:- 1. Definitions of Employee Compensation 2. Meaning and Concept of Employee Compensation 3. Objectives 4. Factors Influencing 5. Components 6. Planning 7. Steps for Determining Compensation 8. Importance 9. Principles 10. Types 11. Objectives 12. Mistakes in Compensation Design 13. Issues.

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Employee Compensation – Meaning and Concept

Compensation is one of the most important parts of an employment contract that brings in people from outside and makes them members of an organization. The pull effect of an organization's compensation system, however, varies from industry to industry and from position to position within the industry.

Industries that are in a state of flux experiencing rapid change in technology of operation and fast change in business practices may find their employees very sensitive to compensation practices of other organizations. In contrast industries that are relatively stable both in terms of the way business processes are conducted and in terms of the way organizations compete with each other, have employees who may not show much sensitivity to difference in compensation with employees working in other organizations.

In conventional management practice, most organizations pay their employees according to certain historical rates which may have been set well in the past and are adjusted based on the changing cost of living due to inflationary pressure. Ideally an employee should be paid what his or her works and services are worth in the company. But this evaluation of actual worth of an employee service is fraught with a number of complexities.

Firstly, to know the actual service value an employee can rarely trade his/her services in the open market. Most employees' services are traded in an internal market of the employer. Majority of the industrial organizations do business on a few selected numbers of goods and services which are produced from the joint efforts and services of many employees. There is very little revenue that a company earns which could justifiably be claimed as that due to efforts and labour of just one particular employee.

Secondly, unlike daily hired labour most organizations engage their employees over a long period. There is hardly any job which could be executed by a spot contract of hired labour. Most employees' works and efforts are evaluated only over a period of time. And, within this long period there could be many changes in environmental factors that could affect the performance and output of those employees. And, so is the worth of their jobs.

Apart from these job-worth-related complexities, an employee compensation decisions are influenced by three other factors, viz. an employee requirements of income for living, an organization's ability to pay, and it's long-term

1. COMPENSATION MANAGEMENT IMPORTANCE AND FACTORS INFLUENCING COMPENSATION SADIQUE ALI.V.K
2. 2. An investigative study indicated that most of the employees left because of compensation issues.
3. 3. COMPENSATION MANAGEMENT ⎫ Compensation is what employees receive in exchange for their contribution to the organization. ⎫ Compensation in other terms also called as 'Employee Remuneration' ′ Compensation is a systematic approach to providing monetary & non monetary value to employees in exchange for work performed. ′ Compensation may be defined as money received in performance of work and many kinds of benefits that an organization provides to their employees.
4. 4. ′ Remuneration occupies an important place in the life of an employee. His or her standard of living, status in the society, motivation, loyalty, and productivity depend

upon the remuneration he or she receives. For the employer too, employee remuneration is significant because of its contribution to the cost of production

5. 5. 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: ν Attracting & Retaining Talent ν Motivating talent for better performance ν Cost effectiveness
6. 6. SIGNIFICANCE OF EMPLOYEE COMPENSATION To an employee, pay is a primary reason for working. For some individuals, it may be the only reason. For most of us, it is the means by which we provide for our own and our family's needs. Compensation is also important to organization. It represents a large proportion of expenditure. Compensation is also significant in the operation of the economy.
7. 7. ITS IMPORTANCE ν Effective Compensation Motivate & Retain Staff Attract talent Image Building Administratively Efficient Reward Valued Behavior Ensure Equity Institutional effectiveness Legal Compliance Employee Management
8. 8. HIGH COMPENSATION – LOW COMMITMENT Hired Guns HIGH COMPENSATION – HIGH COMMITMENT Professionals LOW COMPENSATION – LOW COMMITMENT Workers as commodity LOW COMPENSATION – HIGH COMMITMENT Family oriented organization
9. 9. TYPES OF COMPENSATION
10. 10. 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.
11. 11. 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, and Holiday Homes.
12. 12. ν Wage and Salary: The most important component of compensation and these are essential irrespective of the type of organization Administered individually Provides employee stabile income and can plan chores of daily life, budget ν 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 group's Additional compensation having immediate effect and no future liability.
13. 13. ′ Demand & supply of labour ′ Cost of living ′ Society ′ Labour unions ′ The economy ′ Labour laws ′ Compensation policy ′ The org. ability to pay ′ Job analysis & description ′ Employee External Internal FACTORS INFLUENCING EMPLOYEE COMPENSATION
14. 14. FACTORS INFLUENCING EMPLOYEE COMPENSATION EXTERNAL FACTORS ¬ Labour market: ¬ Demand for and supply of labour influence wage and salary fixation ¬ Labor markets are based on the supply and demand of labor in a country or a specific location that are able and willing to work. ¬ A low wage may be fixed when the supply of labour exceeds the demand for it. ¬ A higher wage will have to be paid when demand exceeds supply, as in the case of skilled labour.