

# MS-108 (Human Resource Management)

## Unit- 14: Compensation Management

Compiled By:

Dr. Sumit Prasad

Uttarakhand Open University

# Compensation Management defined

- Gary Dessler in his book Human Resource Management defines compensation in these words “Employee compensation refers to all forms of pay going to employees and arising from their employment.” The phrase ‘all forms of pay’ in the definition does not include non-financial benefits, but all the direct and indirect financial compensations.
- According to Thomas J. Bergmann(1988) compensation consists of four distinct components: Compensation = Wage or Salary + Employee benefits + Non-recurring financial rewards + Non-pecuniary rewards.

# Concept of Compensation Management

Compensation refers to a wide range of financial and non financial rewards to employees for their services rendered to the organization. It is paid in the form of wages, salaries and employee benefits such as paid vacations, insurance maternity leave, free travel facility, retirement benefits etc., Monetary payments are a direct form of compensating the employees and have a great impact in motivating employees. The system of compensation should be so designed that it achieves the following objectives. The capable employees are attracted towards the organization

- The employees are motivated for better performance
- The employees do not leave the employer frequently

# Components of Compensation Management

- ❑ Basic Wages/ Salaries
- ❑ Dearness Allowances
- ❑ Incentives
  - *Individual Incentive Schemes*
  - *Group Incentive Schemes*
- ❑ Bonus
- ❑ Non-Monetary Benefits
- ❑ Commission
- ❑ Mixed Plans
- ❑ Piece Rate Wages

# Objectives of Compensation Management

- ❑ To Establish a Fair and Equitable Remuneration
- ❑ To Attract Competent Personnel
- ❑ To Retain the Present Employees
- ❑ To Improve Productivity
- ❑ To Control Cost
- ❑ To Improve Industrial Relations
- ❑ Peace of Mind
- ❑ Increase Self-Confidence

# Principles of Compensation Administration

- Compensation policy should be developed by taking into consideration of the views of employers, the employees, the consumers and the community.
- The compensation policy or wage policy should be clearly defined to ensure uniform and consistent application.
- The compensation plan should be matching with overall plans of the company. Compensation planning should be part and parcel of financial planning.

# Process of Compensation Design

- ❑ Determining the critical goal for the organization
- ❑ Translate critical goals into realistic performance expenditure
- ❑ Establish specific performance responsibilities
- ❑ Develop accurate performance measures
- ❑ Compensate employees for results and value received

# Job Evaluation

In the area of job evaluation study, a certain amount of technical terminology is used in order to facilitate communication. It is therefore desirable to list and understand allied terms in the job evaluation, as well as some terms that are related to and often confused with job evaluation.



# Objectives of Job Evaluation

1. Establish a standard procedure for determining the relative worth of each job in an organization;
2. Ensure equitable wage for a job and reasonable wage differentials between different jobs in a hierarchical organization;
3. Determine the rate of pay for each job which is fair and equitable with relation to other jobs in the plant, community or industry;
4. Eliminate wage inequalities;
5. Use as a basis for fixing incentives and different bonus plans;
6. Promote a fair and accurate consideration of all employees for advancement and transfer;
7. Provide information for work organization, employees' selection, placement, training and other similar purposes;
8. Provide a benchmark for making career planning for the employees in the organization and;
9. Ensure that like wages are paid to all qualified employees for like work.

# Principles of Job Evaluation

1. Rate the job and the jobber. Each element should be rated on the basis of what the job itself requires;
2. The elements selected for rating purposes should be easily explainable in terms and a few in numbers as will cover the necessary requisites for every job without any overlapping;
3. The elements should be clearly defined and properly selected;
4. Any job rating plan must be sold to foremen and employees. The success in selling it will depend on a clear-cut explanation and illustration of the plan;
5. Foreman should participate in the rating of jobs in their own departments;
6. Maximum co-operation can be obtained from employees when they themselves have an opportunity to discuss job ratings and;
7. Too many occupational wages should not be established. It would be unwise to adopt an occupational wage for each total of point values.

# Reference

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Thank You!