



STET SCHOOL OF MANAGEMENT

(Affiliated to Bharathidasan University)

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Sundarakkottai, Mannargudi-614 016.

Thiruvarur (Dt.), Tamil Nadu, India.

COMPENSATION MANAGEMENT

B.SARANYA

ASSISTANT PROFESSOR

DEPARTMENT OF MBA

II MBA

Semester : III

ELECTIVE - II -COMPENSATION MANAGEMENT- P16MBA3EH2

Inst. Hours/Week : 5

Credit : 4

Objectives:

This course gives an introduction to compensation principles and practices. The goal of the course is to give students an opportunity to comprehend the variety of theories and methods used to recruit, retain and reward employees.

Unit I

INTRODUCTION TO COMPENSATION CONCEPTS

Introduction to Compensation, Goals of Compensation System, Compensation Strategy, Monetary & Non-Monetary Rewards, Intrinsic Rewards ,Cafeteria Style Compensation, Employees satisfaction and Motivation issue in compensation design. Establishing Internal, External and individual equally.

Unit II

ESTABLISHING PAY VARIABLES AND WAGE BOARDS

Strategic importance of variable in a day-Determination of Inter and Intra industry compensation differentials. Individual and Group Incentives.

Unit III

ISSUE RELATED TO COMPENSATION

Dearness Allowance Concept-Emergence & Growth in India. Fringe Benefits and Supplementary Compensation- The role of fringe benefits in reward systems, retirement Plans including VRS / Golden Handshake Schemes.

Unit IV

EXECUTIVE COMPENSATION

Executive Compensation Systems in Multinational Companies and IT companies including ESOP.

Unit V

COLLECTIVE BARGAINING AND EMERGING TRENDS

Collective Bargaining Strategies – Long term settlements – Cases of Productivity

Settlements – Exercise on drawing up 12(3) and 8(1) settlement. Cases of Productivity Settlement. Emerging Trends in IR due to LPG.

Recommended Text books

1. Compensation – By George T. Milovich and C.S. Venkatraman special Indian Edition, Tata Mcgraw Hill.

2. Human Resource Management by C.B. Gupta sultan chand & sons.

3. Compensation Management Rewarding Performance By D.S.Upadhyay Global India Business Publications, New Delhi.E-mail: info@globalindiapublications.com

4. Compensation: Theory, Evidence and Strategic Implications, Barry Gerhart and other ISBN : 8178 2992 08 Sage Publications , New Delhi.

5. Reward Management – A Critical Text Vol:2, By White Geoff ISBN : 0415431891 (PB) Taylor and Francis, 2008 Marketing By Atlantic Publishers, Chennai.

E.mail: chennai@atlanticbooks.com

COMPENSATION MANAGEMENT

UNIT-I

INTRODUCTION TO COMPENSATION CONCEPTS

Introduction to Compensation, Goals of Compensation System, Compensation Strategy, Monetary & Non-Monetary Rewards, Intrinsic Rewards, Cafeteria Style Compensation, Employees satisfaction and Motivation issue in compensation design. Establishing Internal, External and individual equally.

COMPENSATION MANAGEMENT

Meaning

Compensation management is the act of providing monetary value to an employee for the work they do by means of a company process or policy.

Some types of compensation include salary, bonuses, and benefit packages. Companies use compensation management in order to find, keep, and motivate employees to do quality work.

Process of compensation management is to establish & maintain an equitable wage & salary structure & an equitable cost structure .it involves job evaluation, wage & salary survey, profit sharing & control of pay costs.

Two important functions of compensation

- Equity function
- Motivation function

Equity is based on past & current performance

Motivation with which the work has been performed in the past & current performance.

Definition

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.

The Concept of Compensation

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

1.Basic Wages/Salaries

Basic wages / salaries refer 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.

Wages represent hourly rates of pay, and salary refers to the monthly rate of pay, irrespective of the number of hours put in by the employee. Wages and salaries are subject to the annual increments. They differ from employee to employee, and depend upon the nature of job, seniority, and merit.

2.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.

3.Incentives

Incentives are paid in addition to wages and salaries and are also called 'payments by

results'. Incentives depend upon productivity, sales, profit, or cost reduction efforts.

There are:

- (a) Individual incentive schemes, and
- (b) Group incentive programmes.

Individual incentives are applicable to specific employee performance. Where a given task demands group efforts for completion, incentives are paid to the group as a whole. The amount is later divided among group members on an equitable basis.

4. 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.

5. Non-Monetary Benefits

These benefits give psychological satisfaction to employees even when financial benefit is not available. Such benefits are:

- (a) Recognition of merit through certificate, etc.
- (b) Offering challenging job responsibilities,
- (c) Promoting growth prospects,
- (d) Comfortable working conditions,

6. 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.

7. Mixed Plan

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.

8.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.

9.Fringe Benefits

Fringe benefits may be defined as wide range of benefits and services that employees receive as an integral part of their total compensation package. They are based on critical job factors and performance. Fringe benefits are supplements to regular wages received by the workers at a cost of employers. They include benefits such as paid vacation, pension, health and insurance plans, etc. Such benefits are computable in terms of money and the amount of benefit is generally not predetermined. The purpose of fringe benefits is to retain efficient and capable people in the organization over a long period.

10.Profit Sharing

Profit-sharing is regarded as a stepping stone to industrial democracy. Profit-sharing is an agreement by which employees receive a share, fixed in advance of the profits. Profit-sharing usually involves the determination of an organization's profit at the end of the fiscal year and the distribution of a percentage of the profits to the workers qualified to share in the earnings.

Types of Compensation / Base and Supplementary Compensation

I.Direct /Base Compensation

1.Basic Salary

Salary is the amount received by the employee in lieu of the work done by him/her for a certain period say a day, a week, a month, etc. It is the money an employee receives from his/her employer by rendering his/her services

2.House Rent Allowance

Organizations either provide accommodations to its employees who are from different state or country or they provide house rent allowances to its employees.

3.Conveyance

Organizations provide for cab facilities to their employees. Few organizations also

provide vehicles and petrol allowances to their employees to motivate them.

4. Leave Travel Allowance

These allowances are provided to retain the best talent in the organization. The employees are given allowances to visit any place they wish with their families. The allowances are scaled as per the position of employee in the organization.

5. Medical Reimbursement

Organizations also look after the health conditions of their employees. The employees are provided with medi-claims for them and their family members.

6. Bonus

Bonus is paid to the employees during festive seasons to motivate them and provide them the social security. The bonus amount usually amounts to one month's salary of the employee.

7. Special Allowance

Special allowance such as overtime, mobile allowances, meals, commissions, travel expenses, reduced interest loans; insurance, club memberships, etc are provided to employees to provide them social security and motivate them which improve the organizational productivity.



II. Indirect /Supplementary Compensation

1. Leave Policy

It is the right of employee to get adequate number of leave while working with

the organization. The organizations provide for paid leaves such as, casual leaves, medical leaves (sick leave), and maternity leaves, statutory pay, etc.

2.Overtime Policy

Employees should be provided with the adequate allowances and facilities during their overtime, if they happened to do so, such as transport facilities, overtime pay, etc.

3.Hospitalization

The employees should be provided allowances to get their regular check-ups, say at an interval of one year. Even their dependents should be eligible for the medi-claims that provide them emotional and social security.

4. Insurance

Organizations also provide for accidental insurance and life insurance for employees. This gives them the emotional security and they feel themselves valued in the organization.

5.Leave Travel

The employees are provided with leaves and travel allowances to go for holiday with their families. Some organizations arrange for a tour for the employees of the organization. This is usually done to make the employees stress free.

6.Retirement Benefits

Organizations provide for pension plans and other benefits for their employees which benefits them after they retire from the organization at the prescribed age.

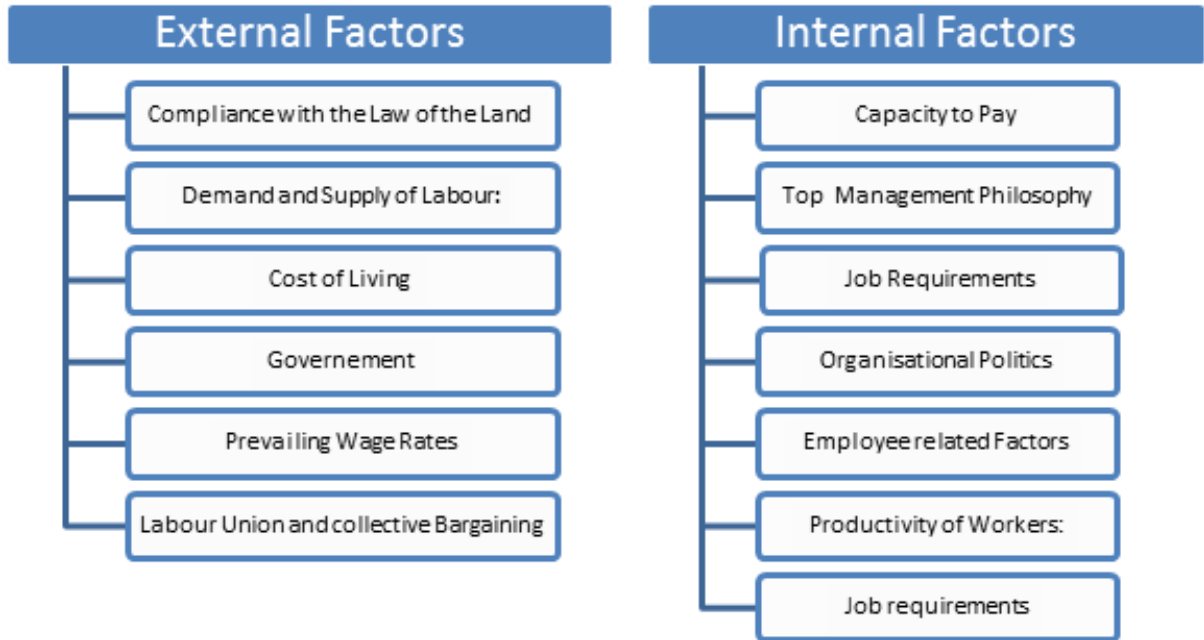
7.Holiday Homes

Organizations provide for holiday homes and guest house for their employees at different locations. These holiday homes are usually located in hill station and other most wanted holiday spots.

8.Flexible Timings

Organizations provide for flexible timings to the employees who cannot come to work during normal shifts due to their personal problems and valid reasons.

Factors Considered in Deciding the Compensation



I.External Factors

Demand and Supply of Labour

Wage is a price or compensation for the services rendered by a worker. The firm requires these services, and it must pay a price that will bring forth the supply which is controlled by the individual worker or by a group of workers acting together through their unions.

Cost of Living

This tends to vary money wage depending upon the variations in the cost of living index following rise or fall in the general price level and consumer price index. It is an essential ingredient of long-term labour contract unless provision is made to reopen the wage clause periodically.

Labour Union

Organized labor is able to ensure better wages than the unorganized one. Higher wages may have to be paid by the firm to its workers under the pressure or trade union.

Government

To protect the working class from the exploitations of powerful employers, the government has enacted several laws. Laws on minimum wages, hours of work, equal pay for

equal work, payment of dearness and other allowances, payment of bonus, etc., have been enacted and enforced to bring about a measure of fairness in compensating the working class.

Prevailing Wage Rates

Wages in a firm are influenced by the general wage level or the wages paid for similar occupations in the industry, region and the economy as a whole. External alignment of wages is essential because if wages paid by a firm are lower than those paid by other firms, the firm will not be able to attract and retain efficient employees.

II. Internal Factors

Ability to Pay

Employer's ability to pay is an important factor affecting wages not only for the individual firm, but also for the entire industry. This depends upon the financial position and profitability of the firm. However, the fundamental determinants of the wage rate for the individual firm emanate from supply and demand of labour.

Top Management Philosophy

Wage rates to be paid to the employees are also affected by the top management's philosophy, values and attitudes. As wage and salary payments constitute a major portion of costs and /or apportionment of profits to the employees, top management may like to keep it to the minimum.

Productivity of Workers

To achieve the best results from the workers and to motivate him to increase his efficiency, wages have to be productivity based. There has been a trend towards gearing wage increase to productivity increases. High wages and low costs are possible only when productivity increases appreciably.

Job Requirements

Job requirements indicating measures of job difficulty provide a basis for determining the relative value of one job against another in an enterprise. Explicitly, job may be graded in terms of a relative degree of skill, effort and responsibility needed and the adversity of working conditions. The occupational wage differentials in terms of

- a) Hardship,
- b) Difficulty of learning the job
- c) Stability of employment
- d) Responsibility of learning the job and
- e) Change for success or failure in the work.

Employees Related Factors

- i) **Performance:** productivity is always rewarded with a pay increase. Rewarding performance motivates the employees to do better in future.
- ii) **Seniority:** Unions view seniority as the most objective criteria for pay increases whereas management prefer performance to effect pay increases.
- iii) **Experience:** Makes an employee gain valuable insights and is generally rewarded
- iv) **Potential:** organizations do pay some employees based on their potential. Young managers are paid more because of their potential to perform even if they are short of experience.

Organizational Politics

- i) Determination of firms included in the compensation survey: managers could make their firm appear to be a wage leader by including in the survey those organizations that are pay followers.
- ii) Choice of compensable factors for the job evaluation plan: Again, the job value determined by this process could be manipulated
- iii) Emphasis placed on either internal or external equity and
- iv) Results of employee performance appraisal may be intentionally distorted by the supervisor

Objectives of Compensation Management

1.To Establish a Fair and Equitable Remuneration

Effective compensation management objectives are to maintain internal and external equity in remuneration paid to employees. Internal equity means similar pay for similar work.

2.To Attract Competent Personnel

A sound wage and salary administration helps to attract qualified and hard-working people by ensuring an adequate payment for all jobs.

3.To Retain the Present Employees

By paying competitive levels, the company can retain its personnel. It can minimize the incidence of quitting and increase employee loyalty.

4.To Improve Productivity

Sound wage and salary administration helps to improve the motivation and morale of employees which in turn lead to higher productivity

5.To Control Cost

Through sound compensation management, administration and labour costs can be kept in line with the ability of the company to pay. It facilitates administration and control of pay roll. The companies can systematically plan and control labour costs.

6.To Improve Union Management Relations

Compensation management based on jobs and prevailing pay levels are more acceptable to trade unions. Therefore, sound wage and salary administration simplifies collective bargaining and negotiations over pay. It reduces grievances arising out of wage inequities.

7.To Improve Public Image of the Company

Wage and salary programme also seeks to project the image of the progressive employer and to company with legal requirements relating to wages and salaries.

8.To Improve Job Satisfactio

If employees would be happy with their jobs and would love to work for the company if they get fair rewards in exchange of their services.

9.To Motivate Employees: Employees

Some of them want money so they work for the company which gives them higher pay.

Some of them value achievement more than money, they would associate themselves with firms which offer greater chances of promotion, learning and development.

10. Peace of Mind

Offering of several types of insurances to workers relieves them from certain fears, as a result workers now work with relaxed mind.

11. Increases Self-Confidence

Every human being wants his/her efforts to get acknowledgment. Employees gain more and more confidence in them and in their abilities if they receive just rewards.

Goals of Compensation System

- To pay salary and benefits to attract and retain highly qualified employees.
- To be competitive with appropriate labor markets.
- To reward meritorious performance by focusing salary increases on individual achievement and contribution.
- To pay equal pay for equal work. To develop consistency in salaries paid persons performing equal work for jobs which require equal skill, effort, and responsibility.
- To operate within the budget established for standard compensation.
- To communicate effectively to enhance understanding between employees and their supervisors about the key elements of the total compensation program, including the pay plan, performance reviews, benefit programs, and the classification system.
- To comply with appropriate federal and state laws.

Significance of Compensation Management

- An ideal compensation system will have positive impact on the efficiency and results produced by employees. It will encourage the employees to perform better and achieve the standards fixed.
- It will enhance the process of job evaluation. It will also help in setting up an ideal job evaluation and the set standards would be more realistic and

achievable.

- › Such a system should be well defined and uniform. It will be apply to all the levels of the organization as a general system.
- › The system should be simple and flexible so that every employee would be able to compute his own compensation receivable. It should be easy to implement, should not result in exploitation of workers.
- › It will raise the morale, efficiency and cooperation among the workers. It, being just and fair would provide satisfaction to the workers.
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Principles of Compensation

- › 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
- › Management should inform the wage/salary related policies to their employees. Workers should be associated in formulation

and implementation of wage policy.

- › All wage and salary related decisions should be checked against the standards set in advance in the wage/salary policy
- › To manage compensation related matters adequate information/data should be developed and stored for future planning and execution.
- › The compensation policy and programme should be reviewed and revised periodically in conformity with changing needs.

Theories related to Compensation Management

1.Traditional Theory of Wage Determination

This theory assumes the market forces demand and supply determines the wages. Computer programmers are in short supply, so they are able to demand higher salaries.

2.Theory of Negotiated Wages

Unionized employee can negotiate salaries. This is done by collective bargaining process normally in any organization; unions periodically submit their memorandum to the management, asking for wage raises to keep pace with market standards and organizational profitability. Then wages are negotiating in a collective bargaining meeting attended by the unions and management nominees.

3.Subsistence Theory

David Ricardo (1772-1832) advocated the Subsistence Theory. It was Thomas R. Malthus's theory of population that provided the raw material for the first economic wage theory. Population, according to the theory, is limited by the means of subsistence: it increases geometrically whereas the means of subsistence increases arithmetically. David Ricardo translated Malthus's theory into the subsistence theory of wages. According to this theory, wages in the long run tend to equal the cost of reproducing labor, the subsistence of the laborer. This theory, often called the iron law of wages, indicated that little could be done to improve the lot of the wage earner because increasing wages leads only to increasing the number of workers beyond the means of subsistence.

4. Wage Fund Theory

The short-term version of classical wage theory was the wages-fund theory. As described by John Stuart Mill, this theory explained the short-term variations in the general wage level in terms of (1) the number of available workers and (2) the size of the wages fund. The wages fund was thought to come from resources accumulated by employers from previous years and allocated by them to buy labor currently. Employers were thought to have a fixed stock of “circulating capital” for the payment of wages. Dividing the labor force (assumed to be the population) into the wages fund determined the wage.

5. Surplus Value Theory

The surplus value theory of wages owes its development to Karl Marx (1818-1883). According to this theory, labour was an article of commerce, which could be purchased on the payment of the ‘subsistence price’. The price of any product was determined by labour and the time needed for producing it. The labourer was not paid in proportion to the time spent on work, but was paid much less, and the surplus was utilized for paying other expenses.

6. Residual Claimant Theory

The Residual Claimant Theory advocated by Francis Walker (1840-1897), assumes that there are four factors of production/business activity-land, labour, capital, and entrepreneurship. Wages represent the amount of value created in the production, which remain after payment has been made for all these factors of production. In other words, labour is the residual claimant.

7. Marginal Productivity Theory

This theory assumes that wages are based upon an entrepreneur’s estimate of the value that will probably be produced by the last or marginal worker. In other words, it assumes that wages depend upon the demand for and supply of labour. Consequently, worker is paid what they are economically worth.

8. Bargaining Theory of wages

The bargaining theory of wages assumes that wages are determined by interaction of management and labour in a collective bargaining process. Although this theory does not

provide adequate analysis of source of wages in the long-run, it forms an effective basis for determining wages in the short-run.

9. Behavioral Theory of Wages

This theory was pioneered by several psychologists, such as Marsh and Simon, Robert Dupin, and Eliot Jacques. Based on their various research studies, we can identify the following area of interest in behavioral theories on wages:

The employee's acceptance of a wage level; Individuals believe in employment stability and prefer to stay on with the same organization, pacing with their salary level. There are however, several other factors to be considered such as size and prestige of the company, trade unions power in the organization, their level of knowledge and competencies, etc.

The internal wages structure: Employees value internal pay equity. Moreover, some jobs also command social status (such as the job of a journalist). Organizations design wages for different cross-section of employees, while considering maximum and minimum wage differentials, norms of span or control, and demand for specialized skill-sets. Balancing wages with such internal equity also keeps employees more motivated.

10. Recognition and Rewards

In a competitive business climate, more business owners are looking at improvements in quality while reducing costs. Meanwhile, a strong economy has resulted in a tight job market. So while small businesses need to get more from their employees, their employees are looking for more out of them. Employee reward and recognition programs are one method of motivating employees to change work habits and key behaviors to benefit a small business

Rewards are said to signal the organizational values to the employees as describes them "as a means of aligning a company's most strategic asset – their employees – to the strategic direction of the organization". **Ghoshal and Bartlett (1998)**

TYPES OF REWARDS

i. Extrinsic rewards

Extrinsic rewards are the non-job related rewards such as pay, salary and work

conditions.

ii. Intrinsic rewards

Intrinsic rewards are the job inherent, intangible, non-financial rewards included in the job itself such as job tasks, challenging and interesting job and training possibilities offered to the employees.

Designing a Reward Program

- ◆ Identification of company or group goals that the reward program will support
- ◆ Identification of the desired employee performance or behaviors that will reinforce the company's goals
- ◆ Determination of key measurements of the performance or behavior, based on the individual or group's previous achievements
- ◆ Determination of appropriate rewards
- ◆ Communication of program to employees

WAGE & SALARY ADMINISTRATION (EXTERNAL EQUITY)

Wage & salary administration is essentially the application of a systematic approach to the problem of ensuring that employees are paid in a logical, equitable and fair manner. In soundness of compensation management depends upon the amount of wage and salary paid to an employee for a fair days work.

Wage and salary is significant to most of the employees as it constitutes a major share of their income "Pay" in one form or another is certainly one of the main springs of motivations in our society 'Salary provides more than a means of satisfying the physical need it provides recognition, a small of accomplishment. The term "wage" may be defined as the remuneration paid by the employer for the services of hourly, daily, weekly and fortnightly employees.'Salary is defined as the remuneration paid to the clerical and managerial personnel employed on monthly or annual basis'.

Principles of Wage & Salary administration

1. Wage & salary plans and policies should be sufficiently flexible.

2. Job evaluation must be done scientifically.
3. Wage & salary administration plans. Must always be consistent with overall organisation plans & programmes.
4. Wage & salary administration plans and programmes should be in conformity with the social & economic objectives of the country like attainment of equality of income distribution and controlling inflationary trends.

The Elements of Wage and Salary System

1. Identifying the available salary opportunities, their costs, estimating the worth of its members of these salary opportunities and communicating them to employees.
2. Relating salary to needs and goals.
3. Developing quality quantity and time standards relating to work and goals.
4. Determining the effort necessary to achieve standards.
5. Measuring the actual performance.
6. Comparing the performance with the salary received.
7. Measuring the job satisfaction gained by the employees.
8. Evaluating the unsatisfied wants and unreachd goals of the employees.
9. Finding out the dissatisfaction arising from unfulfilled needs and unattained goals.

Wage Differential

Wage differential is a term used in labor economics to analyze the relation between the wage rate and the unpleasantness, risk, or other undesirable attributes of a particular job. Wage differential had been classified into three categories (**scribd, 2014**):

Firstly, the differential that can be attributed to imperfections in the employment markets. **Secondly**, the wage differentials were originated in social values and prejudices and which are deeper and more persistent than economic factors. **Third**, occupational wage

differentials, which would exist even if employment markets were perfect and social prejudices, were absent.

Wage differentials arise due to following factors:

- a. Difference in the efficiency of labor, which may be due to inborn quality, education and conditions under which work may be done.
- b. The existence of non-competing group due to difficulties in the way of the mobility of labor from low paid to high paid employments.
- c. Differences in the agreeableness or social esteem of employment.
- d. Differences in the nature of employment and occupation.

Wage Survey

After the relative worth of jobs in the organisation has been determined by job evaluation, the actual wages to be paid to employees must be determined taking into consideration wages of similar job in other organisations.

A major factor in taking such decisions is the survey of wages of similar jobs in other enterprises in the same region and in the same industry. The purpose of wage survey is to determine the extent to which the organisation's pay scale are like those of other enterprises in the region. So they must be taken into consideration while fixing the wages for different jobs in an organisation. The wages and salary practices of other organisation have an important impact on the employment, retention and morale of the personnel.

Method of wage fixation

1. Wage boards

The government of India, acting upon the recommendations of the First Five-Year Plan, appointed wage boards for fixing wages. The first wage board was set up in 1957 for the cotton textile industry. The wage board are tripartite in nature, with independent members and a chairman. It was actually the Committee on Fair Wages that recommended the setting up of wage boards for fixing wages.

2. Job evaluation

Job evaluation is another method of wage fixation. Job analysis explains the duties of a job, authority relationships, skills, required, conditions of work, and additional relevant

information. Job evaluation, on the other hand, uses the information in job analysis to evaluate each job-valuing its components and ascertaining relative job worth.

3. Collective bargaining

Bi-partite union management negotiations determine the wages. It is common in private and public sector enterprises.

4. Wage legislation

In India workers have always needed state protection against exploitation. As such, the state has enacted a number of legislations to ensure regular, expeditious, equitable and minimum payment of wages and bonus to workers.

Laws Relating to Wages

1. Workmen's Compensation Act, 1923

The Workmen's Compensation Act, 1923 provides for payment of compensation to workmen and their dependents in case of injury and accident (including certain occupational disease) arising out of and in the course of employment and resulting in disablement or death. The amount of compensation to be paid depends on the nature of the injury and the average monthly wages and age of workmen. The minimum and maximum rates of compensation payable for death (in such cases it is paid to the dependents of workmen) and for disability have been fixed and is subject to revision from time.

2. Payment of Wages Act, 1936

The **Payment of Wages Act, 1936** is a central legislation which has been enacted to regulate the payment of wages to workers employed in certain specified industries and to ensure a speedy and effective remedy to them against illegal deductions and/or unjustified delay caused in paying wages to them.

It applies to the persons employed in a factory, industrial or other establishment or in a railway, whether directly or indirectly, through a sub-contractor. Hence, the main object of the Act is to eliminate all malpractices by laying down the time and mode of payment of wages as well as securing that the workers are paid their wages at regular intervals, without any unauthorised deductions.

3. Minimum Wages Act, 1948

The Minimum Wages Act, 1948 was enacted to safeguard the interests of workers, mostly in the unorganized sector by providing for the fixation of minimum wages in certain specified employments. It binds the employers to pay their workers the minimum wages fixed under the Act from time to time. The fixation of minimum wages depends on a number of factors such as level of income and paying capacity, prices of essential commodities, productivity, local conditions, etc. The last revision had being Rs. 66/- per day with effect from 1.2.2004, on the recommendations of the Central Advisory Board. All the States/UTs Governments are required to ensure that fixation/revision of minimum rates of wages in all the scheduled employments is not below this national minimum wage.

4. Payment of Bonus Act, 1965

The Payment of Bonus Act, 1965 was enacted to provide for the payment of bonus to persons employed in certain establishments on the basis of profits or productivity and for the matters connected therewith. The Act applies to:- (i) every factory as defined under the Factories Act, 1948; and (ii) every other establishment in which twenty or more persons are employed on any day during an accounting year.

5. Payment of Gratuity Act, 1972

The Act was enacted to provide for a scheme for the payment of gratuity to employees engaged in factories, mines, oilfields, plantations, ports, railway companies, shops or other establishments employing ten or more persons and for matters connected therewith or incidental thereto. The appropriate Government may, by notification, and subject to such conditions as may be specified in the notification, exempt any establishment to which this Act applies or any employee or class of employees employed therein, from the operation of the provisions of this Act, if in the opinion of the appropriate Government, the employees in such establishment are in receipt of gratuity or pensionary benefits not less favourable than the benefits conferred under this Act.

6. Employees' Provident Funds & Miscellaneous Provisions Act, 1952

The Act was enacted with the main objective of making some provisions for the future of industrial workers after their retirement and for their dependents in case of death. It provides insurance to workers and their dependents against risks of old age, retirement,

discharge retrenchment or death of the workers.

7. Employees' State Insurance Act, 1948

The Employees' State Insurance Act, 1948 (ESI Act) provides for health care and cash benefit payments in the case of sickness, maternity and employment injury. The Act applies to all non-seasonal factories run with power and employing 10 or more persons and to those factories which run without power and employing 20 or more persons. The appropriate Government may after notification in the Official Gazette, extend the provision of the Act to any other establishment or class of establishments, industrial, commercial, agriculture or otherwise. Under the Act, cash benefits are administered by the Central Government through the Employees State Insurance Corporation (ESIC), whereas the State Governments and Union Territory Administrations are administering medical care.

8. Maternity Benefit Act, 1961

The Maternity Benefit Act, 1961 regulates employment of women in certain establishments for a certain period before and after childbirth and provides for maternity and other benefits. Such benefits are aimed to protect the dignity of motherhood by providing for the full and healthy maintenance of women and her child when she is not working. The Act is applicable to mines, factories, circus industry, plantations, shops and establishments employing ten or more persons, except employees covered under the Employees' State Insurance Act, 1948. It can be extended to other establishments by the State Governments.

9. Equal Remuneration Act, 1976

The Equal Remuneration Act, 1976 aims to provide for the payment of equal remuneration to men and women workers and for the prevention of discrimination, on the ground of sex, against women in the matter of employment and for matters connected therewith or incidental thereto. According to the Act, the term 'remuneration' means "the basic wage or salary and any additional emoluments whatsoever payable, either in cash or in kind, to a person employed in respect of employment or work done in such employment, if the terms of the contract of employment, express or implied, were fulfilled".

10. Industrial Disputes Act, 1947

Industrial disputes are the disputes which arise due to any disagreement in an industrial relation. The term 'industrial relation' involves various aspects of interactions

between the employer and the employees; among the employees as well as between the employers. In such relations whenever there is a clash of interest, it may result in dissatisfaction for either of the parties involved and hence lead to industrial disputes or conflicts. These disputes may take various forms such as protests, strikes, demonstrations, lock-outs, retrenchment, dismissal of workers, etc.

CAFETERIA APPROACH

In Cafeteria benefit plan the employees could spend their benefits, allowances on a choice of benefits options. The idea is to allow the employee to put together his/her own benefit package subject to two constraints-

1. The employer must carefully limit total cost for each total benefit package.
2. Each benefit plan must include certain non-optional items.

Advantages of Cafeteria approach

1. Employees choose packages that best satisfy their unique needs.
2. Flexible benefits, help firms need the changing needs of a changing workforce.
3. Increased involvement of employees and families improves understanding of benefits.
4. Flexible plans make introduction of new benefits less costly. The new option is added merely as one among a wide variety of elements from which to choose.
5. Cost containment- the organization sets the dollar maximum. Employee chooses within the constraint.

Disadvantages of Cafeteria style

1. Employees made bad choices and find themselves not covered for predictable emergencies.
2. Administrative burdens and expenses increase.
3. Adverse selection- employees pick only benefits they will use. The subsequent high benefit utilization increases its cost.

JOB EVALUATION (INTERNAL EQUITY)

Meaning

Job Evaluation is a systematic (Quantitative and qualitative) method, for determining the relative worth of a job in comparison with in and outside organisation . It helps to eliminate wage inequities and to establish a basis for sound salary and wage-structure.

Definition

British standard Institution (1969) Job Evaluation is "A generic term covering methods of determining the relative worth (Equity) of jobs."

Job Evaluation consists the following:

- Job analysis: the process of examining the content of a job, breaking it down into its task, functions, processes, operation & elements.
- Job Description: description of a job based on job analysis.
- Job Specification: the statement of the content of job based on job description and job grading.
- Job Grading: ranking of job as a result of job analysis
- Job Classification: grouping jobs according to their worth
- Job Assessment: the ascription of a monetary value on the basis of job grading.

Objectives

Primary Objectives:

- To establish wage level of a plant
- To establish relative wage level in a plant.
- To bring new jobs to their proper relative parity with existing jobs
- To facilitate wage negotiations

Secondary Objectives

- To determine qualities (Job-Specification) for new Jobs for employee selection
- To determine criterion for merit rating & promotions
- To analyse wage rates.
- To find scope of automation & improvement
- To train new supervisors
- To improve working condition as better compensation

Job Evaluation Procedure

1. Select the group of jobs

Such as workmen category, office staff, supervisory or managerial as distinct groups.

2. Study the Job (Job analysis)

The jobs are studied by (a) getting information from the employee about his work, (b) Observing the work, and (c) Consulting the supervisors of the employees.

3. Prepare Job Descriptions - approval.

On the basis of detailed information, recorded in the Job Analysis Sheet, Job descriptions are prepared. These job descriptions state simply and clearly a comprehensive picture of the job.

4. Device an evaluation plan - common characteristics/traits

A set of key factors such as education, experience, responsibilities and working conditions are selected and weightages given to all these factors. Each factor is generally divided into degrees which indicates the extent to which the factor is required for successful performance of the job. This constitutes the job evaluation plan. It is known as the point plan as it involves giving points to each of the jobs to indicate their relative values.

5. Establish a committee of raters and Rate/Evaluate

A committee of raters jointly rate the jobs by applying the point plan to the job description. In case of any difference of opinion among the raters, efforts are made to arrive at a conclusion by referring to facts stated in the job description, the job analysis, and in some cases by going back to the work spot.

6. Establish a Committee of raters and Rate/Evaluate

A committee of raters jointly rate the jobs by applying the point plan to the job description. In case of any difference of opinion among the raters, efforts are made to arrive at a conclusion by referring to facts stated in the job description, the job analysis, and in some cases by going back to the work spot.

7. Group or Classify the jobs

The point values given to the job on various factors are totalled up and the total points secured by different jobs are classified into grades. The number of grades into which they can be classified depends upon the policies of the organisation, the view of management and union, and the experience and judgement of the raters.

8. Convert job grades to money value (Wage Survey)

The point values of the jobs are converted into money values on the basis of wage survey results and finances available for establishing a more equitable wage differential in the organisation.

9. Obtain approval from Union & Management

10. Establish a suitable grievance Procedure

A report on the job evaluation containing full details regarding the work done and a set of recommendations is prepared for use, at the time of implementation and in dealing with any appeals from the employees.

Methods and Systems of Job Evaluation

A.CONVENTIONAL:

A variety of job **evaluation** systems are in use and all of them are modifications of four basic systems. These are the **ranking** system, the grading system, the factor comparison system, and the point system. All of them are similar to each other in certain respects and are applicable to all types of jobs at all levels.

I.Non quantitative

a.. Ranking method

b. Classification method

II. Quantitative

a.Points Rating method

b. Factor Comparision method

B.INNOVATIVE/NON-CONVENTIONAL:

These systems are quite innovative and use concepts of management- decision making and related aspects as factors for establishing internal equity. These are:

- i Time span of Discretion method
- ii Decision Band Method
- iii Direct Consensus method
- iv Guide Chart Profile method
- v Urwick Orr Profile method

A.CONVENTIONAL:

1.Ranking Method

In this method simple & easy job-descriptions are made and sorted in the sequential order of their worth as whole. The jobs common in various organisations are checked and jobs are ranked/rated by interpolation. All the jobs in an organisation are ranked in the order of complexity, responsibility and demands they make on the respective employees. Ranking of all the jobs is made easier by first identifying those that come at two extreme ends of the scale and locating the rest in the middle-region. A committee carries out this ranking more than once and the results of repeated ranking are pooled to arrive at the final ranking.

Advantages

- It is simplest of all procedures
- It is less time consuming
- It leaves more room for unions to bargain
- Disadvantages
- Sometimes equal differentials are assessed to adjacent ranks
- None of the committee member is likely to be familiar with all jobs

2.Classification Method

This method is sometimes called as predetermined grading method. A limited number of job grades are established on the basis of a knowledge about the existing jobs in the organisation. Each of these grades is defined in terms of general functions and qualifications

required. This is followed by development of job descriptions which briefly state the nature of duties of each job. These global job descriptions are matched with the grades, and jobs are classified into one or the other grades.

Advantages

- It is comparatively easier method
- It is less time consuming

Disadvantages

- It is irrational in absence of logic, and nearby jobs are sometimes put in different classes
- It is very hard to determine the pre-requisites of classes.

3.Point Rating Method

In this method the whole job is analysed through 5-8 factors and over 20-50 sub-factors based on requirements. These factors/sub-factors are given points which totals out as the overall position of the jobs. Though it is not scientific it is systematic method. It is the most popular method in use today in judging the relative of worth of job factor.

Advantages

- It is the most sophisticated system.
- All the outcome is in hard fact numbers

Disadvantages

- It is time consuming
- Satisfying Benchmark jobs for the degrees are required to be put forth for rating effectively.

4.Factor Comparision Method

The factors usually considered in this system are five in number. Mental requirement, skill, physical requirements, Responsibility and working conditions. The system involves detailed job analysis, ranking jobs in respect of pre-determined factors, apportioning the total money paid to the different factors of the job, fitting key jobs into the system, and locating all other

jobs in relation to the key jobs. The main features of the system consist of evaluating important elements of the job in terms of money value and establishing the relative positions of jobs in terms of specific factors.

Advantages:

- Internal comparison & External comparison of job within and out of the industry are considered.
- Monetary units are used for comparison

Disadvantages:

- Conflict may arise on the valuation of each factor
- It is difficult of apportion the total wage in various factors

B.INNOVATIVE/NON-CONVENTIONAL:

1.Time Span of Discretion Methods

This system uses the concept that all make decisions in their work and the effect of such a decision on the work/organisation is felt after a certain period for taking up a follow-up action. Here "the longest possible time for which discretion (decision' to . fructify) could be exercised without direct managerial review" is considered, as the key factor in determining the levels. For e.g. A decision taken by a board member may get reflected after a few years, as against a supervisors in a week and a worker in a few hours similarly.

Unskilled worker - few hours

Marketing Manager- 2-3 years

Board of direction- 10 years

2.Decision Band Method

Here, type of decision to be made by the job is considered and placed in the applicable band. The Bands are:

- Band E-Policy Making decisions i.e. Top Management
- Band D-Programming decisions i.e. by Senior Managers

- Band C-Interpretive decisions i.e. by middle managers
- Band B-Routine decisions i.e. by skilled operators on line
- Band A-Automatic decisions regarding when, how & where i.e. by semi-Skilled operators
- Band O-Defined decisions by unskilled workmen.

3.Direct Concensus Method

Here the workman & evaluator reach to the value by mutual consensus.

4.Guide Chart Profile method

This method is also called Hay MSL method. Its operational distinction is that it attempts to combine job evaluation with external comparison of market rates as a unified package. Its concern only managerial jobs.

5.Urwick-Orr Profile Method

Here the point & ranking methods are applied with an addition of consensus method. It is not a new method but an advancement in evaluation with the addition of employees! union to a very high degree.

EMPLOYEE SATISFACTION

Meaning

Employee satisfaction or job satisfaction is, quite simply, how content or satisfied employees are with their jobs. Employee satisfaction is typically measured using an employee satisfaction survey. Factors that influence employee satisfaction addressed in these surveys might include compensation, workload, perceptions of management, flexibility, teamwork, resources, etc.

Define

Dawes (2004) describes “Job satisfaction basically as a psychological contract that has two components: an affective component (feelings along with cognition) and a cognitive competent (needs are being fulfilled according to one’s perception)”.

Factor Affecting Employee satisfaction

I. Personal Factor

The personal determinants also help a lot in maintaining the motivation and personal factors of the employees to work effectively and efficiently. Employee satisfaction can be related to determining the numbers of personal variables and psychological factors an of the employees .

i. Emotion

Mood and emotions form the affective element of job satisfaction. Moods tend to be longer lasting but often weaker states of uncertain origin, while emotions are often more intense, short-lived and have a clear object or cause

ii. Race

Research evidence with regard to the relationship between race and job satisfaction have yielded inconsistent results Research conducted on various occupational classes consisting of blue collar and white collar employees, reflected that African employees experienced higher levels of job satisfaction than the other racial groups

iii. Genetics

It has been well documented that genetics influence a variety of individual differences. The genetics also play a role in the intrinsic, direct experiences of job satisfaction like challenge or achievement was suggested by some research (as opposed to extrinsic, environmental factors like working conditions).

iv. Personality

Some research suggests an association between personality and job satisfaction. The research describes the role of negative affectivity and positive affectivity. Negative affectivity is related strongly to the personality trait of neuroticism. Individuals high in negative affectivity were experience less job satisfaction. Positive affectivity is related strongly to the personality trait of extraversion. Those high in positive affectivity were satisfied with most of the dimensions of their life and including their job.

v. Age:

Age is one of the important determinants of employee satisfaction. The younger age employees having higher energy levels, so they were highly satisfied then the older age

employees.

vi. Education:

Education plays a significant determinant of employee satisfaction as it provides an opportunity for developing one's personality. Education develops and creates individual understanding and evaluation process. The highly educated employees can better understand the situation and evaluate it positively as they possess persistence, rationality and thinking power.

vii. Gender Differences

The gender of the employees plays important role in determining of employee satisfaction. Women, the fairer gender are more likely to be satisfied than their counterpart even if they are employed in same job.

viii. Tenure

Tenure refers to the number of years an employee has spent working in organization

ix. Marital Status

The effect of marital status of employee on job satisfaction has produced inconclusive effects. The study carried out by **Kuo and Chen (2004)** found that marital status of employee is highly correlated to general, intrinsic and overall satisfaction and it indicated that married employees experienced higher levels of job satisfaction in comparison of unmarried employees

II. Organizational Factors

The organizational determinants play important role in employee satisfaction play. The employees spend lots of time in organization so there are number of organizational factor that affect satisfaction of the employees.

i. Working Environment

Work environment plays important role in influencing job satisfaction, as comfortable physical work environment that will ultimately renders more positive level of job satisfaction in employees. Lack of favorable working conditions, amongst other things, can affect badly on the employees mental and physical health

ii. Workload and Stress Level

Dealing with a workload that was too heavy and deadlines that were impossible to touch it can cause job dissatisfaction in the most dedicated employee. Falling short of deadlines can cause conflict between employees and supervisors and it could raise the stress level in the workplace.

iii. Respect from Co-Workers

Employees seek to be treated with respect by those they work with. A hostile work environment with rude or unpleasant coworkers is one that usually has lower job satisfaction.

iv. Organization Development

Organizational development is an continuous and organized process to implement effective change in an organization. Its objective is to enable the organization in adopting-better to the fast-changing external environment of new markets, regulations, and technologies. It starts with a careful organization-wide analysis of the current situation and of the future requirements.

v. Policies of Compensation and Benefit

Pay is one of the fundamental components of job satisfaction since it has a powerful effect in determining job satisfaction. Employees should be satisfied with competitive salary packages and they should be satisfied with it when comparing their pay packets with those of the outsiders who are working in the same industry.

vi. Promotion and Career Development

Promotion can be reciprocated as a significant achievement in the life. It promises and delivers more pay, responsibility, authority, independence and status. So, the opportunity for promotion determines the degree of satisfaction to the employee.

vii. Job Security

Job security is an employee's assurance or confidence that they will keep their current job. Employees with a high level of job security have a low probability of losing their job in the near future

viii. Relationship with Supervisor

Research demonstrates that a positive relationship exists between job satisfaction and supervision. According to **Ramsey (1997)**, supervisors contribute to high or low morale in

the workplace. The supervisor's attitude and behavior toward employees may also be a contributing factor to job-related complaints (**Sherman & Bohlander, 1992**).

ix. Leadership Styles

The satisfaction of employees was also affected by the leadership style. Employee satisfaction is high with democratic style of leadership. It is because democratic leaders encourage friendship, respect and warmth relationship among the employees.

Importance of Employee satisfaction

i. Life Satisfaction

Job satisfaction is correlated to life satisfaction which means that people who satisfied with life will tend to be satisfied with the job and people who satisfied with job will tend to satisfied with their life

ii. Productivity

The satisfied workers will be more productive and stay with the organization longer, while dissatisfied workers will be less productive and will have more tendency to quit the work

iii. Organizational Commitment

The researchers showed relationship between organizational commitment and job satisfaction .Both the organizational commitment and the job satisfaction are interrelated, to attitudes .

iv. Reduced Turnover

Another benefit of job satisfaction is reduced turnover. The satisfied employees are more likely to stay in the organization than those who are dissatisfied .

Theories of Employee Satisfaction

i. Comparison Theory

The most widely accepted view of job satisfaction assumes that the degree of affect experienced, results from the objective outcomes from the job received by the individual. Rather, the magnitude of satisfaction is a function of the size of the discrepancy between the individual's standard and what the individual believes he or she is receiving from job. The bigger the discrepancy the bigger the dissatisfaction (**Porter, 1961**). The standard is considered by some as the individual's need (**Porter, 1962; Morse, 1953**), and by others as his values (**Locke, 1976**). This theory referred as the aspiration-achievement or expectation-

achievement discrepancy theory of job satisfaction. However, the situation is complicated by the fact that aspiration and achievement are not independent of each other. Aspiration or expectations can be set by the minimum needs of the individual and/or current level of achievement of needs.

ii. Instrumentality Theory

A second view of job satisfaction is that individuals calculate the degree to which the extent to which the job is satisfying by considering the extent to which the job leads to valued outcomes. This theory postulates that individuals assess their satisfaction with jobs by considering the extent to which the jobs lead to valued outcomes. It is assumed here that each individual has a set of judgments' about how much he values certain outcomes such as pay, promotion, good working, condition etc. The person then estimates the extent to which holding the job leads to these valued outcomes. Job satisfaction then results from a summation of outcomes or instrumentalities obtained multiplied by the valences of these outcomes. Job satisfaction then results from a summation of outcomes or instrumentalities obtained multiplied by the valences of these outcomes.

iii. Social Influence Theory

Salancik & Pfeffer (1997) questioned comparison theories of job satisfaction and suggested that perhaps people decide how satisfied they are with their job not by processing all kinds of information about it but by observing others on similar jobs and making inferences about others satisfaction. The basic assumption of the social influence theory of job satisfaction is that individuals may come into new job not knowing how satisfied they will be with these. They look around, see others like themselves who are satisfied or dissatisfied with these and are then influenced by these observations. Thus people decided how satisfied how satisfied they are with their jobs not by processing all types of information about themselves but by observing others on similar jobs and making inferences about their satisfaction. Thus satisfaction more a product of self- perception and social perceptions, rather than determined by intrinsic characteristic of job. An individual simply infers a level of his or her personal satisfaction by their perception of other's satisfactions.

iv. Equity Theory

Adams (1965) argued that satisfaction is determined by a person's perceived equity, which is determined by his / her input / outcome balance compared to some other's

perceived input / output balance.

The Equity theory of motivation suggests that individuals have a strong want to maintain a balance between what they perceive their inputs or contributions to be in relation to expected rewards (**Dessler, 1988**). In terms of the Equity theory, **Robbins (1993)** states that satisfaction is determined by an individual's input-outcome balance (**Koneru & Chunduri, 2013**).

v. Fulfillment Theory

This theory proposes that employees will be satisfied in a direct proportion to the extent to which their needs are satisfied (**Schafer, 1953**). That people's satisfaction is a function of how much they receive and of how much they feel they should and / or want to receive (**Locke, 1969**).

vi. Dispositional Theory

Crow and Hartmann (1995) offered that job satisfaction "is a result of a multiplicity of factors, most of which cannot be influenced by the employer". They further explained that "enhancing job satisfaction for chronically dissatisfied employees may be impossible", suggesting that some employees will be dissatisfied wherever they will find themselves given their inborn disposition towards life and work, by extension. **Staw and Ross (1985)** suggested that job satisfaction is influenced by an employee's genetics, which might be a determinant of personality. (**Kumari, 2013**)

FRINGE BENEFITS

Meaning

Fringe benefits are supplementary compensation made in addition to wages, the object being to stimulate the interest of the workers and to make the job more attractive and conducive.

Fringe benefits are indirect form of compensation given to employees in addition to the various forms of cash pay- base pay, dearness allowance and inventive pay. They provide a quantifiable value for individual employees. They are the indirect form of compensation as they are not related to the performance but are granted to the employees for just being a member of the organization.

Define

According to the International Encyclopedia of social sciences “A fringe benefits has to meet two tests, it must provide a specific benefit to an employee and it must represent a cost to the employer”

Objectives of FringeBenefits

- › To create and improve sound industrial relations
- › To boost up employee morale.
- › To motivate the employees by identifying and satisfying their unsatisfied needs.
- › To provide qualitative work environment and work life.
- › To provide security to the employees against social risks like old age benefits and maternity benefits.
- › To protect the health of the employees and to provide safety to the employees against accidents.
- › To promote employee’s welfare by providing welfare measures like recreation facilities.
- › To create a sense of belongingness among employees and to retain them. Hence, fringe benefits are called golden hand-cuffs.
- › To meet requirements of various legislations relating to fringe benefits.

Features of FringeBenefits

- › They are the payments and benefits to an employee by his employer in addition to his normal earnings
- › Fringe benefits are not linked to performance or efficiency of any employee
- › Fringe benefits may be statutory or voluntary in nature
- › Difference in fringe benefits may exist due to classification of employees based on organizational status

- › Fringe benefits are paid to all the employees based on their membership in the organization
- › Fringe benefits are indirect compensation because these are usually extended as a condition of employment and are not directly related to performance.
- › Fringe benefits involve labour cost for the employer and are not meant directly to improve efficiency
- › Fringe benefits may be statutory or voluntary. Provident fund is a statutory benefit whereas housing is a voluntary benefit
- › Fringe benefits raise the standard of living of the employees

Types of Fringe Benefits

1.Mandated (Statutory) and Optional (Voluntary) Benefits

Mandated benefits include social security and employee welfare, optional benefits include health insurance, life insurance, retirement plan, leave, welfare and recreational plans

2.Accounting Purpose Classification

- › Payment for the time on the job. It includes overtime payment and cost of living increases
- › Payment for time not on the job. It involves paid holidays, vacations, sick leave, unemployment insurance, vacations and holiday's sick leave, paternity leave, maternity leave, severance pay, supplemental unemployment benefits.
- › Payment for varied benefits (a) pay for time not worked (b) insurance benefits (c) Retirement benefits (d) Employee services

3.Classification Based on its Objectives

Those providing for employees security such as retirement programme, unemployment compensation, workmen's compensation, insurance and allied provisions.Those purporting to increase employees' job satisfaction causing

reduction in labour turnover and improvement in productivity. It includes vacations, holidays, sick leave, discounts on company goods and services and allied intangible and tangible benefits.

4.Deferred Benefits and Immediate Benefits

Pension scheme, insurance cover, sick pay are some of the deferred benefits, whereas providing company car to an employee constitute immediate benefits.

General Types of Fringe Benefits

For Employment Security

Benefits under this head include unemployment, insurance, technological adjustment pay, leave travel pay, overtime pay, level for negotiation, leave for maternity, leave for grievances, holidays, cost of living bonus, call-back pay, lay-off, retiring rooms, jobs to the sons/daughters of the employees and the like.

For Health Protection

Benefits under this head include accident insurance, disability insurance, health insurance, hospitalization, life insurance, medical care, sick benefits, sick leave, etc.

For Old Age and Retirement

Benefits under this category include: deferred income plans, pension, gratuity, provident fund, old age assistance, old age counseling, medical benefits for retired employees, traveling concession to retired employees, jobs to sons/daughters of the deceased employee and the like.

For Personnel Identification, Participation and Stimulation

This category covers the following benefits: anniversary awards, attendance bonus, canteen, cooperative credit societies, educational facilities, beauty parlor services, housing, income tax aid, counseling, quality bonus, recreational programs, stress counseling, safety measures etc.

Employee Security

Physical and job security to the employee should also be provided with a view to promoting security to the employee and his family members. The benefit of confirmation of the employee on the job creates a sense of job security. Further a minimum and continuous wage or salary gives a sense of security to the life.

Retrenchment Compensation

The Industrial Disputes Act, 1947 provides for the payment of compensation in case of lay-off and retrenchment. The non-seasonal industrial establishments employing 50 or more workers have to give one month's notice or one month's wages to all the workers who are retrenched after one year's continuous service.

Lay-off Compensation

In case of lay-off, employees are entitled to lay-off compensation at the rate to 50% of the total of the basic wage and dearness allowance for the period of their lay-off except for weekly holidays. Lay-off compensation can normally be paid up to 45 days in a year.

Health Facility

Employee's health should be taken care of in order to protect the employee against accidents, unhealthy working conditions and to protect worker's capacity. In India, the Factories Act, 1948, stipulated certain requirements regarding working conditions with a view to provide safe working environment.

These provisions relate to cleanliness, disposal of waste and effluents, ventilation and temperature, dust and fume, artificial humidification, over-crowding, lighting, drinking water, latrine urinals, and spittoons.

Safety Facility

Provisions relating to safety measures include fencing of machinery, work on or near machinery in motion, employment of young person's on dangerous machines, striking gear and devices for cutting off power, self-acting machines, easing of new machinery, probation of employment of women and children near cotton openers, hoists and lifts, lifting machines, chains ropes and lifting tackles, revolving machinery, pressure plant, floors, excessive weights, protection of eyes, precautions against dangerous fumes, explosive or inflammable dust, gas etc. Precautions in case of fire, power to require specifications of defective parts of test of stability, safety of buildings and machinery etc.

Accident or Health Plans

The value of accident or health plan coverage provided by the employer is usually not included in the income. However, benefits may be taxable to employee.

If employer does not pay the entire cost of your health insurance, employee may be able to enter into a “salary reduction agreement” with employer. Under these agreements, employer reduces salary or wages by the amount of cost of the health insurance and pays the full amount.

Adoption Assistance

Employee may be able to exclude from your income amounts paid or expenses incurred by your employer for qualified adoption expenses if employee attempt to adopt an eligible child.

DeMinimis Benefits

These are benefits having a minimal value. If the cost is so small it would be unreasonable for the employer to account for it, the value is not included in employee income. Examples would include use of the copy machine, coffee, discounts at company cafeterias, and the cost of company picnics.

Holiday Gifts

If employer gives employee a ham, turkey, or other item of nominal value at Christmas or other holidays, it is not included in employee income. However, cash, gift cards, or similar items are included in the income regardless of the amount.

Qualified Employee Discounts

These are not taxable if the discount for services does not exceed 20%. Discounts for merchandise are limited to the employer’s gross profit percentage. No discounts are allowed for real estate, stock, or other investment property. This is available to employees, spouses, dependents and retirees.

Working Condition Benefits

These include items such as professional dues paid by the employer or subscriptions to professional publications and are not included in income.

Qualified Transportation Fringe Benefits

Employer may provide to the employee transit passes and tokens for parking. These amounts are excluded from employee income. Also, transportation

in a commuter highway vehicle, provided by employer, between employee home and place of work is not taxable income.

Recreation and Athletic Facilities

The use of employer-owned athletic or recreation facilities is not taxable income. This benefit is available for employees, spouses, dependents and retirees.

Educational Assistance

Employer provides educational assistance to employee to go for higher studies, training, children's education etc.,

Employer-Provided Vehicles

Employer provides a vehicle employees personal use is a taxable non cash fringe benefit. Employer must determine the actual value of the benefit and include that amount on employees account.

Retirement Planning Services

Employer has a qualified retirement plan, qualified retirement planning services provided by the employer to employee and his spouse are not included in employee income. This does not include the value of tax preparation, accounting, legal, or brokerage services provided by employer.

Retirement Plan Contributions

Employer's contributions qualified retirement plans for the employee are not included in his income. Generally speaking, contributions into a non-qualified plan are taxable income.

Stock Options

These are classified as non-statutory or statutory options. If it is a non-statutory option employee will have income when he receive the option, when he use the option, or when he sell or otherwise dispose of the option.

Meals and Lodging

Meals provided by an employer may be excluded from an employee's income if the meals are furnished on the employer's premises and are for the

convenience of the employer. Lodging provided by an employer may be excluded from an employee’s income if it is furnished on the employer’s premises, is for the convenience of the employer, and is required that the employee accept the lodging as a condition of employment.

Dependent Care Benefits

These benefits are employee-financed programs that provide care for an employee’s children or other dependents. The care must be care that would qualify for the dependent care credit if the employee had paid the amounts.

MONETARY AND NON –MONETARY REWARD

Meaning

Monetary compensation, in the context of employment, is money paid to an employee in exchange for the use of the employee's labor, as opposed to non-monetary compensation such as health insurance.

Non-monetary compensation is defined as any compensation rewarded to an employee in a non-cash form. On a simple level, that could mean a trip awarded to “Salesperson of the Month,” where the award has a value but is not paid out as additional cash their paycheck. However, the modern workplace provides many other types of non-monetary rewards, whose total value may be less evident to employees at first glance.

Different forms of Non-monetary Rewards

Treats	Knick-Knacks	Awards	Environment	Social acknowledgement	Tokens	On-the-Job Rewards
Free lunches	Decorative	Trophies	Renovation	Information recognition	Movie tickets	More responsibility
Festival bashes	Company Watches	Plaques	Music	Recognition at office get-together	Vacation trips	Job rotation
Coffee breaks	Brooches	Certificates	Flexible Hours	Friendly greetings	Coupons redeemable at stores	Special arrangement

Picnics	Diaries	Scrolls	E-Mail	Solicitation of advice, suggestions	Early time offs	Training
Dinner with Boss	Calendars	Letters of Appreciation		Membership of clubs	Anniversary/ birth day presents	Representing the company at public fora

INTRINSIC AND EXTRINSIC REWARDS IN COMPENSATION

Intrinsic Rewards

It includes all activities that have an impact on the intellectual , emotional , and physical well being of an employee and is not specifically covered by the extrinsic compensation system .

- It is the least costly and one of the most powerful rewards of the organisation .
- It can be done by simply putting a pat on the back of the employee thereby recognizing them as useful and valuable contributors .
- This kind of recognition leads to employee feeling of self worth and pride in making contributions .
- It can be done by providing a healthy and safe working environment to the employees.
- More focus should be given on improving quality of work life of employee .
- Employees feel free to choose the way of working , work from home facility comes under the type of reward .
- Another kind of intrinsic rewards are career growth paths of employees and enhancing their employ-ability.

Extrinsic Rewards

They are tangible rewards given to the employees by the managers .

Basic pay wages and salary add-ons , Deferred payments (pension plans , supplementary income plans etc) , services and benefits (accommodation , medical benefits group insurance , conveyance etc) , pay for work not done (gazetted holidays , leaves etc) .

Objectives that guide the design of compensation system

- **Individual Equity**

- To establish a fair and equitable remuneration offering a similar pay for similar work .
- To attract qualified and competent personnel .

- **External Equity**

- To retain present employees by keeping wage level in tune with the competitors .
- To control labor cost and administrative cost in line with ability of the organisation to pay .
- To improve motivation and morale of employees and to improve union management t relations.
- To project a good image of the company and to comply with legal needs relating to wages and salaries .
- To comply with legal rules .compensation programmes must invariably satisfy governmental rules regarding minimum wages , bonus , allowance etc.
- Ease of operation . the compensation management system should be easy to understand and operate . then only it will promote understanding regarding pay relation matters between employees , unions and managers .
- Reward new and desired behavior . pay should reward loyalty , commitment , experience , risk taking initiative and other desired behaviors .

- **Internal Equity**

- This ensures that more difficult jobs are more
- seniority of employee should take into considerations .

