UNTI-4 EMPLOYEE ENGAGEMENT

Compensation plan – Reward – Motivation – Application of theories of motivation – Career management – Mentoring - Development of mentor – Protégé relationships- Job Satisfaction, Employee Engagement, Organizational Citizenship Behavior: Theories, Models.

COMPENSATION

DEFINITION:
Flippo (1984) defined compensation as the adequate and equitable remuneration of personnel for their contributions to the organizational objectives.

COMPENSATION PLANNING

Compensation planning is the development of a compensation strategy that supports a company's business strategy, operating objectives, and employee needs. Compensation planning also incorporates how employees are paid, how and when they're eligible for raises and bonuses, and more.

STRUCTURE AND COMPONENTS OF COMPENSATION

1. **Wages and Salary:**
   - Wages and salary are generally paid on monthly basis, though many times, wages are paid on hourly or daily basis, whereas in the case of salary, the number of hours worked is not at all considered.
   - Wages and salary are subject to annual increments. They differ from job to job, depending upon the nature of the job.

2. **Incentives:**
   - Incentives which are also called 'payments by results' are paid to the employees in addition to wages and salaries. Incentives depend upon productivity or efficiency of the workers, sales effected, profit earned or cost reduction efforts.
   - Incentives schemes may be classified as
     (i) individual incentive schemes
     (ii) group incentive schemes.

1. Fringe Benefits:

Fringe benefits which are given to employee include such benefits as provident fund, gratuity, medical care, hospital allowance, accident relief, health insurance, canteen benefits, recreation, leave-travel allowance, etc.

1. **Perquisites:**

   Perquisites are the allowances given executives and other higher-level officers. They include such allowances as company car, club membership, paid holidays, stock option schemes, foreign travel benefits etc.

2. Non-Monetary Benefits:

- Non-monetary benefits include such benefits which are given in kind and not in terms of money.
- They include such benefits as recognition of merit, issue of merit certificates, job responsibilities, growth prospects, competent supervision, comfortable working conditions, job-sharing, flexi-time etc

Objectives Of Compensation Management

The basic objective of compensation management can be briefly termed as meeting the needs of both employees and the organization.

1. **Acquire Qualified Personnel** – Compensation needs to be high enough to attract applicants. Pay levels must respond to supply and demand of workers in the labour market since employers compete for workers.

2.Retain Present Employees – Employees may quit when compensation levels are not competitive resulting in higher turnover.

3.Ensure Equity – Compensation Management trives for internal and external equity which requires that pay is related to relative worth of jobs and is comparable to the workers getting in other firms.

4.Reward Desired Behaviors – Pay should reinforce desired behaviour and act as an incentive for those behaviours to occur in the future.

5.Control Costs – A rational compensation system helps the organization obtain and retain workers at reasonable cost.

6.Comply with Legal Regulations – A sound wage and salary system considers the legal challenges imposed by the Government and ensures the employers compliance.

7.Facilitate Understanding – The Human Resource specialists, operating managers and employees should easily understand the compensation management.

8.Further Administrative Efficiency – Wages and Salary programmes should be designed to be managed efficiently, making optimal use of HRIS.

PRINCIPLES OF COMPENSATION

1.**Ability to pay** – Organization should pay their employees as per their financial capacity and capability. If an organization pays more than its ability, then the organization may get bankrupt.
2.**Internal and external equity** – Organization must compensate their employees according to their qualification, experience, skills, knowledge, job responsibilities and performance. This

is called internal equity.
Organizations must pay their employees a compensation which is at least comparable to their competitors or industry standards. This is called external equity.

3.**Performance orientation** – Compensation should be in commensuration with individual and organizational performance. Performance linkage is essential for creating a performance driven work culture.

4.**Non-discriminatory** – Organizations must pay their employees without any discrimination on the ground of race, religion, gender, nationality and ethnicity.

5.Legal Compliance – Organizations must pay as per the relevant laws of the land. For example, in India, the Minimum Wages Act, 1948.

6.Simplicity and Flexibility – Compensation system should be simple to design, understand and administer. Compensation plans and policies must be flexible to adapt with ease to the changing profile of the workforce.

7.Foster employee development – Compensation should be such so as to motivate employees to acquire, sharpen and develop their skills and competencies in conjunction with changing technology, innovations and organizational requirements.

FACTORS AFFECTING COMPENSATION

The factors affecting employee compensation can be categorized into: -

I. External Factors.
II. Internal Factors.

I. External Determinants of Compensation:

1. Labour Market Conditions:

The forces of demand and supply of human resources, no doubt, play a role in compensation decision.

Employees with rare skill sets and expertise gained through experience command higher wage and salary than the ones with ordinary skills abundantly available in the job market.

2. Economic Conditions:

Organizations having state-of-the-art technology in place, excellent productivity records, higher operational efficiency, a pool of skilled manpower, etc., can be better pay masters.

Thus, compensation is the consequence of the level of competitiveness. prevailing in a given industry.

3. Prevailing Wage Level:

Most of the organizations fix their pay in keeping with the level for similar jobs in the industry.

They frequently conduct wage survey and accordingly seek to keep their wage level for different jobs.

4. Government Control:

Government through various legislative enactments such as Minimum Wages Act, 1948, Payment of Wage Act, 1936, Equal Remuneration Act, 1976, Payment of Bonus Act, 1965, dealing with Provident Funds, Gratuity, Companies Act, etc.,

Have a bearing on compensation decisions. Therefore, firms have to decide on salaries and wages in the light of the relevant Acts.

5. Cost of Living:

Increase in the cost of living, raise the cost of goods and services. It varies from area to area within a country and from country to country. The changes in compensation are based on consumer price index which measures the average change in the price of basic necessities like food, clothing, fuel, medical service, etc., over a period of time.

6. Union's Influence:

The collective bargaining strength of the trade unions also influence the wage levels. Trade unions enjoy an upper hand in certain industries like banking, insurance, transport and other public utilities.

7. Globalization:

It has ushered in an era of higher compensation level in many sectors of the economy. The entry of multinational corporations and big corporates have triggered a massive change in the compensation structure of companies across sectors.

8. Cross Sector Mobility:

Contemporary companies find it difficult to benchmark the salaries of their staff with others in the industry thanks to mobility of talent across the sectors. For example, hospitality sector employees are hired by airlines, BPOs, healthcare companies and telecom companies.

II. Internal Determinants of Compensation:

1. Compensation Policy of the Organization:

Firm's policy regarding pay i.e., attitude to be an industry leader in pay or desire to pay the market rate determines its pay structure. The former can attract better talent and achieve lower cost per unit of labour than the ones that pay competitive pay.

2. Employer's Affordability:

Those organizations which earn high profit and have a larger market share, a large business conglomerate and multinational companies can afford to pay higher pay than others. Besides, company's ability to pay higher pay is impaired by sector- specific economic recession and acute competition.

3. Worth of a Job:

Organizations base their pay level on the worth of a job. The wages and salaries tend to be higher for jobs involving exercise of brain power, responsibility laden jobs, creativity-oriented jobs, technical jobs.

4. Employee's Worth:

In some organizations, time rates are granted to all employees irrespective of performance. In such cases, employees are rewarded for their mere physical presence on the job rather than for their performance.

TYPES OF COMPENSATION

Compensation can be classified into two categories:

1. Financial Compensation
2. Non-Financial Compensation

1.Financial Compensation:

- Financial compensation is most popular and important compensation that is given in the form of money.

- It is the most important motivational factor that satisfies employees' basic needs like food, clothing, etc.

It is further categorized into two parts:

I. Direct Compensation:

Direct compensation means compensating employees by paying them money in the following forms:

a.Wages-Wages means remuneration paid in cash for the work performed by an employee.

b.Bonus- Bonus means extra cash paid to an employee for exceeding his performance or on completion of specified project or target.

Other financial incentives that are directly given to employees in the form of cash.

II. Indirect Compensation (Fringe Benefits):

- Dessler refers to indirect compensation as the indirect financial and non- financial payments employees receive for continuing their employment with the company which are an important part of every employee's compensation.
- Other terms such as fringe benefits, employee services, supplementary compensation and supplementary pay are used.

Types of Indirect Compensation:

a. Social Security:

- This is a federally administered insurance system.

- According to law, both employer and employee must pay into the system, and a certain percentage of the employee's salary is paid up to a maximum limit.

b. Workers' Compensation:

- It is meant to protect employees from loss of income and to cover extra expenses associated with job-related injuries or illness.
- The laws generally provide for replacement of lost income, medical expenses, rehabilitation of some sort of death benefits to survivors, and lump-sum disability payments.

c. Retirement Plans:

- Retirement and pension plans, which provide a source of income to people who have retired, represent money paid for past services.
- Private plans can be funded entirely by the organization or jointly by the organization and the employee during the time of employment.

a. Paidholidays

These comprise Christmas Day, New Year's Day, Independence Day, Labour Day, etc.

One relatively new concept is the floating holiday, which is observe at the discretion of the employee or the employer.

Another relatively new concept is referred to as personal time-offor personal days.

b. Paid Vacations:

a. Typically, an employee must meet a certain length-of-service requirement before becoming eligible for paid vacation.

b. The time allowed for paid vacations generally depends on the employee's length of service.

c. Other Benefits:

a. Organizations may offer a wide range of additional benefits, including food services, exercise facilities, health and first-aid services, financial and legal advice, and purchase discounts.

Type # 2. Non-Financial Compensation:

Non-financial compensation refers to compensating employee not in form of money but in some other forms that stimulate employees' morale and also improve his performance.

It can be in the following forms:

I. Job security

II. Recognition

III. Participation

IV. Pride in job

V. Delegation of responsibility

Compensation Management – 4 Main Functions

(1) The Equity Function

- It is the first and foremost important function of compensation which ensures that the employees are fairly paid and that their worth is appropriately compared.
- This function ensures that more difficult jobs are paid more and that they are fairly compensated in comparison to similar jobs inthe market.

(2) The Welfare Function

- This function is to take care of their psychological and social need satisfaction.
- The employees worry about the family, and the liability should be reduced and their self-esteem needs should be met to allow them to work without tension or unwanted stresses.

(3) The Motivation Function

- The motivational function is to encourage an employee to take further challenges, perform better and develop oneself for superior positions.
- This function, therefore, takes care of career plans and training and development activities.

(4) The Retention Function

- Today, human resources are being considered as a valuable asset to the organization and because of retaining and developing the knowledge bank, the retention of employees has become an important function of compensation management.

THE COMPENSATION PROCESS

1. Organisation's Strategy

- Organisation's overall strategy, though not a step of compensation management is the starting point in the total human resource management process including compensation management.
- Companies operating in different types of market/products having varying level of maturity, adopt different strategies and matching compensation strategy and blend of different compensation methods.

2. Compensation Policy

- Compensation policy is derived from organisational strategy and its policy on overall human resource management.
- In order to make compensation management to work effectively, the organisation should clearly specify its compensation policy, which must include the basis for determining base compensation, incentives and benefits and various types of perquisites to various levels of employees.
- The policy should be linked with the organisational philosophy on human resources and strategy. Besides, many external factors which impinge on the policy must also be taken care of Job Analysis and Evaluation.

3. Analysis of Contingent Factors

- Compensation plan is always formulated in the light of various factors, both external and internal, which affect the operation of human resource management system.
- Various external factors are conditions of human resource market, cost of living, level of economic development, social factors, pressure of trade unions and various labour laws dealing with compensation management.
- Various internal factors are organisation's ability to pay and employees' related factors such as work performance, seniority, skills, etc. These factors may be analysed through wage/salary survey.

4. Design and Implementation of Compensation Plan

- After going through the above steps, the organisation may be able to design its compensation plan incorporating base compensation with provision of wage/salary increase over the period of time, various incentive plans, benefits and perquisites.
- Sometimes, these are determined by external party, for example, pay commissions for Government employees as well as for public sector enterprises.

- After **designing the compensation plan**, it is implemented. Implementation of compensation plan requires its communication to employees and putting this into practice.

5. Evaluation and Review

- A compensation plan is not a rigid and fixed one but is dynamic since it is affected by a variety of factors which are dynamic.

- Therefore, compensation management should have a provision for evaluating and reviewing the compensation plan.

- After implementation of the plan, it will generate results either in terms of intervening variables like employee satisfaction and morale or in terms of end-result variable like increase of productivity.

INCENTIVES

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

TYPES OF INCENTIVES

1. Financial incentives:

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

2. non-financial incentives:

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

3. Monetary and non-monetary incentives:

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

<u>Time based incentive plans</u>

I. Halsey Incentive Plan:

- In this method a standard time is fixed for the completion of the job. A minimum base-wage is guaranteed to every worker.

- If a worker completes his job in just the standard time, he will not be given any incentive. If a worker performs his job in less than standard time, he is given incentive. The incentive will be equal to 50% of the time saved by the worker.

W=TR+(S-T) R%

Were

W=Total Wages
S=Standard time
T=Time taken to complete the job

%=Percentage of wages of time saved to be given as incentiveR=Rate;
For example, if rate hour is Rs.3 standard time for completion of job is10 hours.

A worker completes the job in 8 hours, his total wages will be:

W= 8x 3+ (10-8)3×1/2

= Rs.27

In the above example, worker is given an incentive of 50% (1/2) of timesaved.

II. Rowan Plan:

- This plan is quite similar to Halsey plan. It differs only in terms of calculation of incentive for time saved.

- The worker gets the guaranteed minimum wages. The incentive for completing the job in time lesser than standard time is paid on the basis of a ratio, which is time saved over standard time per unit standard time.

Incentive is calculated as:

Incentive or Bonus=S-1/SX T x R Total
wages=T x R+ incentive
=T x R(S-T)/S x T x R

Where, W=Total wages
S=Standard time
T=Time taken to complete the jobR=Rate;
For example, if rate per hour is Rs.3and standard time for completion of job is 10 hours.

A worker completes the job in 8 hours, his total wages will be:
W=8×3+ (10-8)/10x 8x 3=Rs.28.4

III. Emerson's Efficiency Plan:

- In this plan, a minimum wage is guaranteed to every worker on time basis and incentive is given on the basis of efficiency.
- Efficiency is determined by the ratio of time taken to standard time. Payment of bonus/incentive is related to efficiency of the workers. Incentive will be given to those workers who attains more than 2/3rd i.e., 66.67% of efficiency.
- No incentive will be given at 66.67% efficiency. At 100% efficiency incentive is 20% of the hourly rate.
- For efficiency exceeding 100%, 1% incentive/bonus is paid for every 1% increase in efficiency.

Output-Based Plans:

I. Taylor's Differential Piece Rate System:

- This system was introduced by Taylor, the father of scientific management. The main characteristics of this system are that two rates of wage one lower and one higher are fixed.

- A lower rate for those workers who are not able to attain the standard output within the standard time; and a higher rate for those who are in a position to produce the standard output within or less than the standard time.

- **For example**, if standard production in 8 hours is fixed at 10 units. The lower piece rate is Rs.3 and higher piece rate is Rs.3.5. If a worker produces 9 units, his wages = 9 x 3 = Rs.27. In case a worker produces 10 units, his wages = 10 x 3.5 = Rs.35.

II. Merrick's Multiple Piece Rate Plan:

To overcome the limitations of Taylor's differential piece rate system, Merrick suggested a modified plan in which, three-piece rates are applied for workers with different levels of performance.

III. Gantt's Task and Bonus Plan:

This plan is based on careful study of a job. The main feature of this plan is that it combines time rate, piece rate and bonus. A standard time is fixed for doing a particular job. Worker's actual performance is compared with the standard time and his efficiency is determined.

Type # 2. Group Incentive Plans:

A group incentive plan scheme is designed to promote effective teamwork, as the bonus is dependent on the performance and outputof the team as a whole

Some of the group incentive plans are:

I. Priestman's Plan.

II. Scanlon's Plan.

I. Priestman's Plan:

- In this plan workers are not considered individually but collectively. This system considers the productivity of all workers as a whole. Bonus is paid in proportion in excess of standard output per week.

- **For example**, if in 2009 the output per worker per unit time is 10 units and in year 2010 the output per worker per unit time comes out to be 12 units, the wages in 2010 will be 20% more than in 2009. The drawback of this system is that individual efficiency is not considered.

II. Scanlon's Plan:

- A Scanlon plan is a type of gain sharing plan that pays a bonus to employees when they improve their performance or productivity by a certain amount as measured against a previously established standard.

- A typical Scanlon plan includes an employee suggestion program, a committee system, and a formula-based bonus system. A Scanlon plan focuses attention on the variables over which the organization and its employees have some control.