

Human Resource Management

MAS 263



**Department of Human Resource &
Organizational Development**

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Compensation

SALARY

- Regular money received by an employee from an employer on a weekly, biweekly or monthly basis.
- It includes employee benefits such as health and life insurance, saving plans and Social Security.



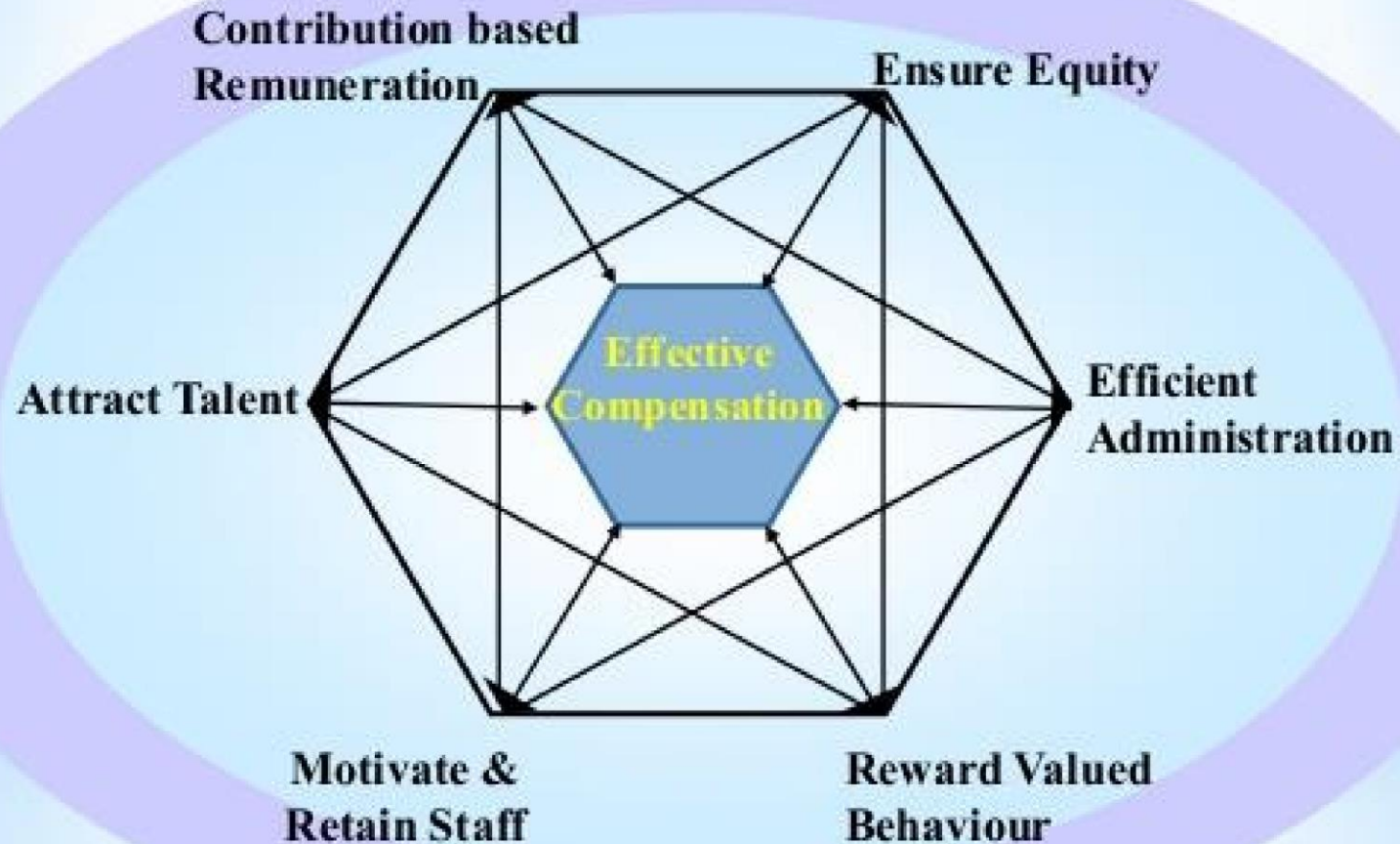
WAGES

Payment for a labour or a worker, especially remuneration on an hourly, daily or weekly basis or by the piece rate.

COMPENSATION

- The sum of all forms of payments or rewards provided to employees for performing tasks to achieve organizational objectives.
- Compensation is the process of providing adequate, equitable and fair remuneration to the employees.
- It is a comprehensive term which includes pay, incentives and benefits offered to the employees.
- Compensation is a systematic approach to providing monetary value to employees in exchange for work performed.

PURPOSE OF COMPENSATION



TOTAL COMPENSATION

Employee Satisfaction



Rewards

- Bonus
- Salary Increases
- Promotions
- Equity Offerings
- Awards
- Recognition
- New job assignments

Salary

- Pay
- Overtime (if in non-exempt classification - Fair Labor Standards Act)

Benefits

- Health Plans
- Retirement Plans
- Vacation/ time off
- Paid Training
- Working Hours

CONTINGENT FACTORS

- Legal requirements or government policies
- Strength of Trade Union
- Labour market conditions
- Capacity to pay

(cont.)

Business Strategy:

- The direction in which organization is going in relation to its environment in order to achieve its objectives.

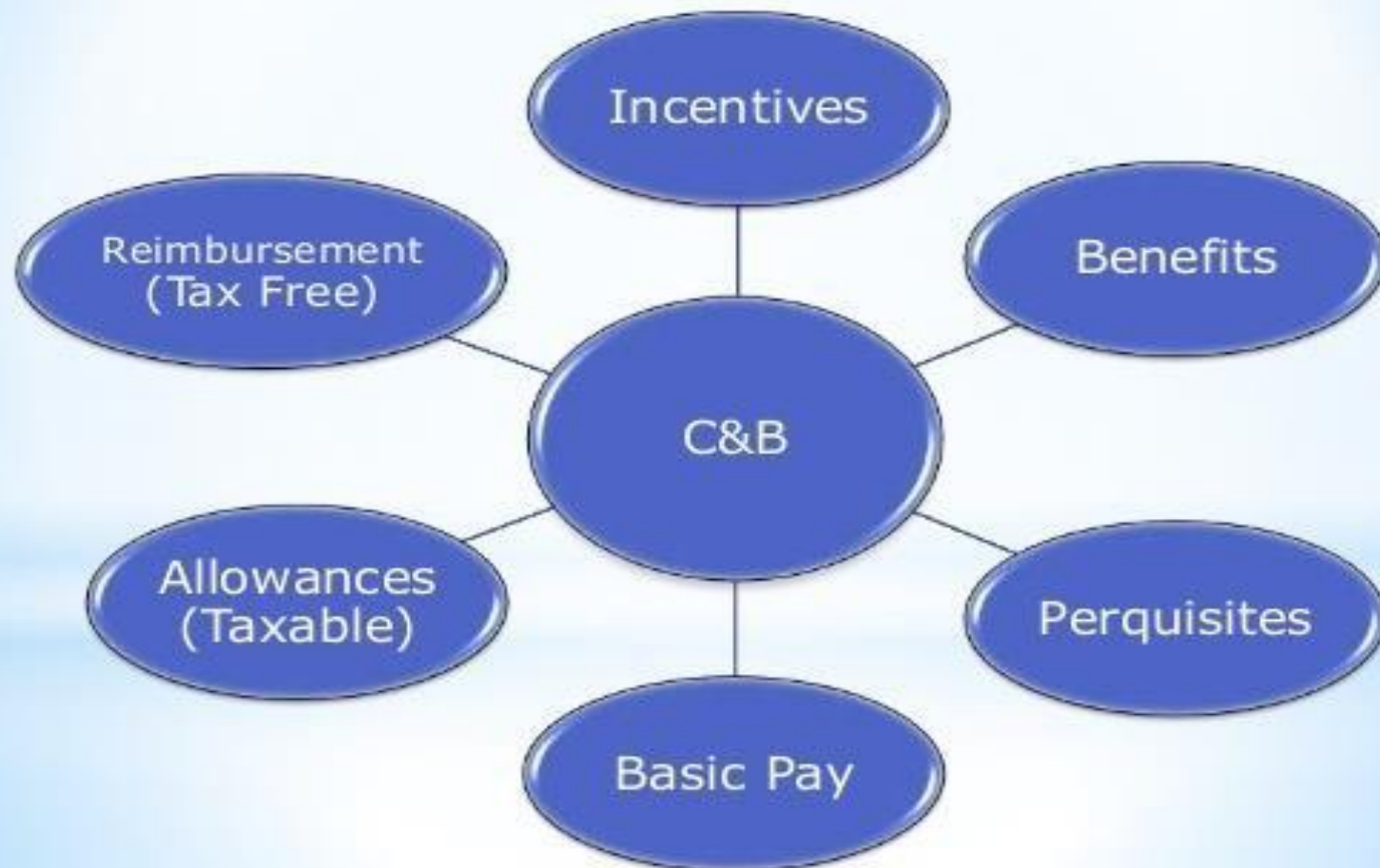
Compensation Strategy:

- The intentions of the organization on reward policies, processes and practices required to ensure that it has the skilled, competent and well-motivated workforce it needs to achieve its business goals.

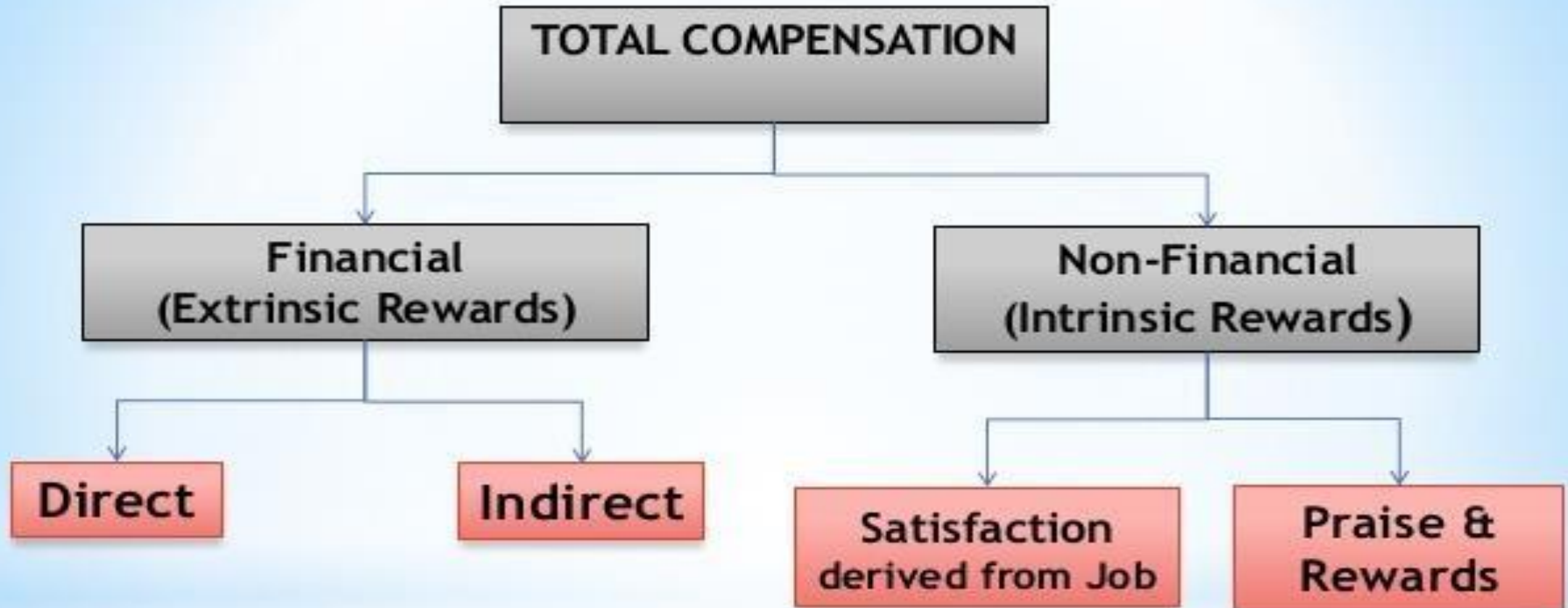
Contingent Factors:

- Legal requirements or Government Policies, Strength of Trade Union, Labour Market conditions and Capacity to Pay.

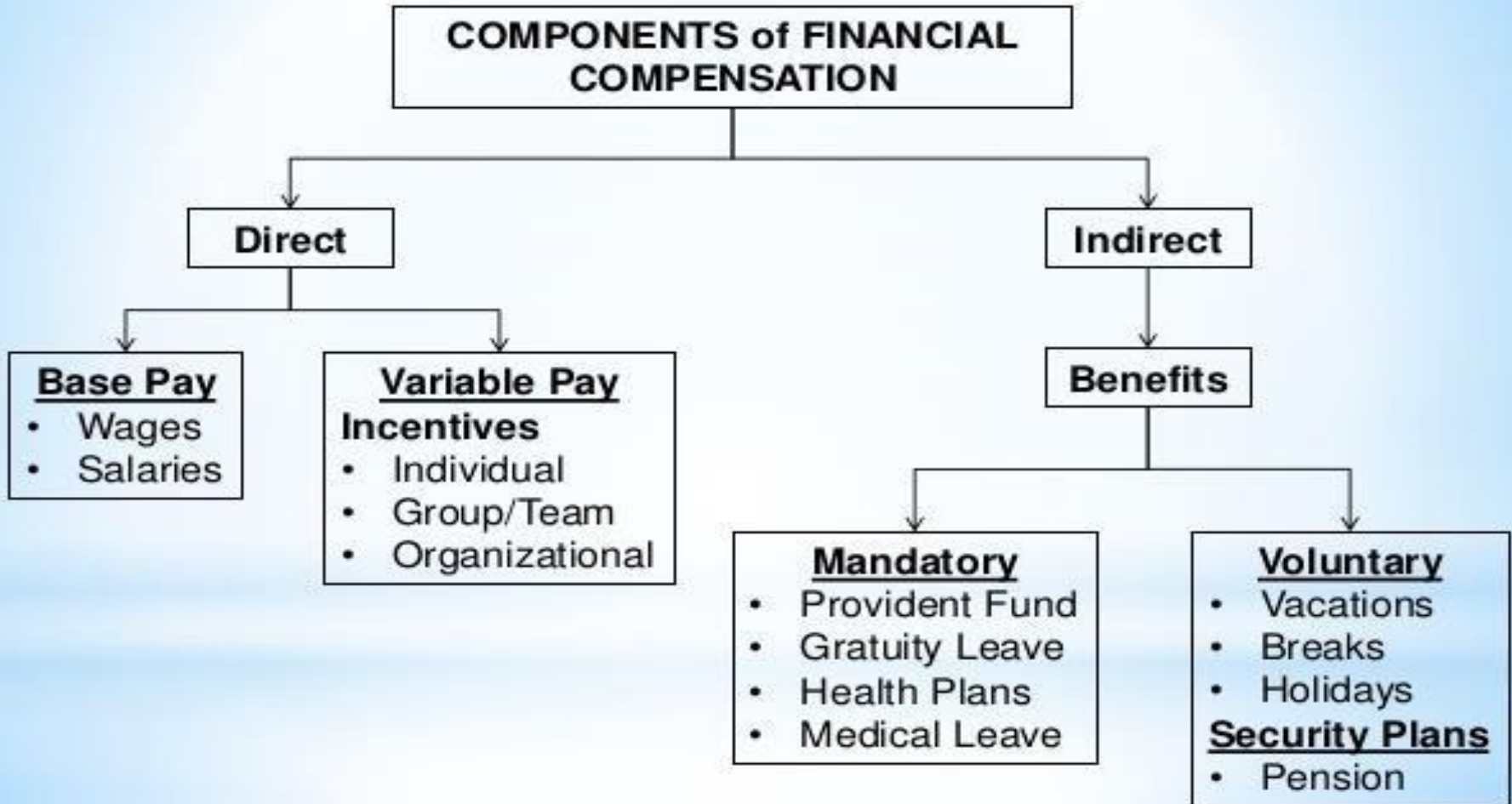
COMPONENTS OF COMPENSATION & BENEFITS



CLASSIFICATION OF REWARDS



COMPONENTS OF FINANCIAL COMPENSATION



BASE PAY

The direct financial compensation an individual receives based on the time Worked.

➤ **Bases of calculation:**

- **Hourly/wage:** payment for the number of hours worked.
- **Salaried:** receive consistent payments at the end of specific period regardless of number of hours worked Nature.

➤ **Generally Market Driven:**

(Demand > Supply = Increase in Pay)

➤ **Job Evaluation:**

- The formal systematic means used to identify the relative worth of jobs within an organization.

VARIABLE

➤ Variable Pay/ Incentives

- Any plan that ties pay to productivity or profitability (i.e.) the standard by which managers tie compensation to employee effort and performance.
- It is linked to individual, group, or organizational performance and not to time worked.
- Establish a performance “threshold” to qualify for incentive payments.
- Emphasize a shared focus on organizational objectives.
- Create shared commitment in that every individual contributes to organizational performance and success.

IMPLEMENTING EFFECTIVE INCENTIVE PLAN

- Link the incentive with your strategy.
- Make sure effort and rewards are directly related.
- Make the plan easy for employees to understand.
- Get employees' support for the plan.
- Use good measurement systems.
- Emphasize long-term as well as short-term success.
- Adopt a comprehensive, commitment-oriented approach.



NON FINANCIAL COMPENSATION

- Are most effective as motivators when the award is combined with a meaningful **employee recognition** program.
- **Intrinsic motivators** are worthwhile as financial package
- Organization **reward** high performing employees
- **Psychological rewards** that employees receive in recognition of their skills and contributions

TYPES of NON FINANCIAL COMPENSATION

➤ Awards

- Often used to recognize productivity gains, special contributions or achievements, and service to the organization.
- Employees feel appreciated when employers tie awards to performance and deliver awards in a timely, sincere and specific way.

➤ Recognition awards

- Recognition has a positive impact on performance, either alone or in conjunction with financial rewards.
- Combining financial rewards with nonfinancial ones produces performance improvement in service firms almost twice the effect of using each reward alone.
- Day-to-day recognition from supervisors, peers, and team members is important.
- Best performer of the month awards in Blue Dart, ALACTEL, XANSA etc.,

➤ Service awards

- Award for the length of service and exactly not on performance
- IBM: thanks award
- IDEA: appreciation card

EQUITY AND MOTIVATION OF EMPLOYEES

➤ Pay Equity (also Distributive Fairness)

- An employee's perception that compensation received is equal to the value of the work performed.
- A motivation theory that explains how people respond to situations in which they feel they have received less (or more) than they deserve.
- Individuals form a ratio of their inputs to outcomes in their job and then compare the value of that ratio with the value of the ratio for other individuals in similar jobs.

RELATIONSHIP BETWEEN PAY EQUITY AND MOTIVATION



The greater the perceived disparity between my input/output ratio and the comparison person's input/output ratio, the greater the motivation to reduce the inequity.

DETERMINANTS OF COMPENSATION

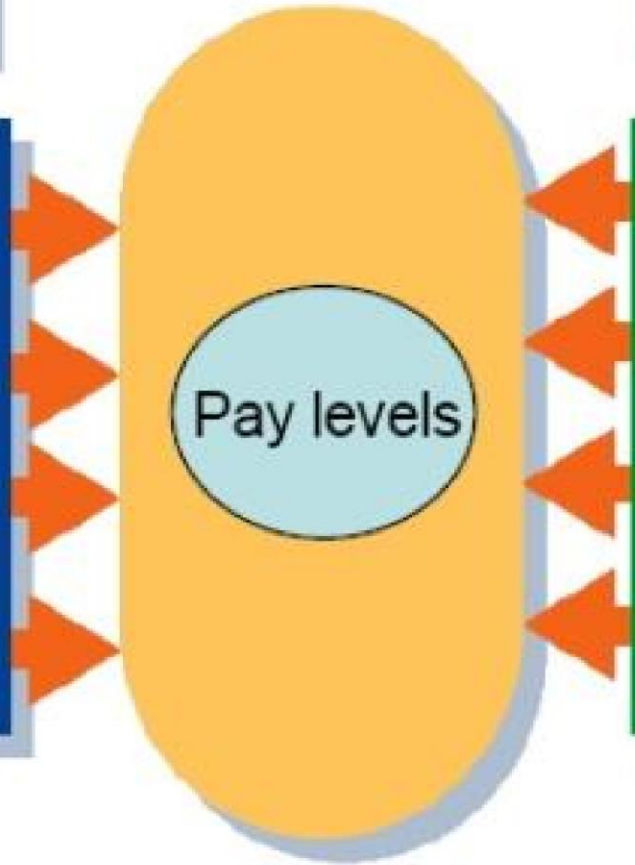
INTERNAL FACTORS

- Compensation strategy of organization
- Worth of job
- Employee's relative worth
- Employer's ability to pay

Pay levels

EXTERNAL FACTORS

- Conditions of the labor market
- Area wage rates
- Cost of living
- Collective bargaining
- Legal requirements



Thank
You!





FINANCIAL OTABIL