

Study of Compensation Management

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Abstract: *The most complicated task of Human Resource Management is to determine the rates of compensation. It is not only a complex task but also important for both organization and management. This is important for the organization because Salary and wages are an important part of the cost of conducting the business. This is also important for employees because compensation is the main means of their economic survival. The purpose of this paper is to understand the concept of Compensation Management.*

Keywords: Compensation, Ancillary Benefit, Job Description Job Analysis

1. Introduction

The Success of an organization depends on the knowledge and working ability of its employees. We can say that its employees have a big contribution in establishing of organization. When an employee works for a business organization through his physical or mental labour then the reward of his labour is paid to him in the form of salary, wages and dividend this award is called Compensation. Compensation is a Systematic approach to providing monetary value to employees in exchange for work performed. Compensation management is the act of distributing monetary and non-monetary value to an employee for his work through the company's policy or processes. The concept of Compensation Management is not only to attract and retain the talented employees of the organization but compensation management also involves giving monetary and non monetary rewards to employees so that the employees can compensate for the time allotted for their jobs. Compensation Management also known as wage and salary administration, Remuneration Management or Reward management

Objective of Study

The objective of the study is to understand the compensation management.

2. Research Methodology

Paper is based on Secondary data.

Importance of Compensation Management

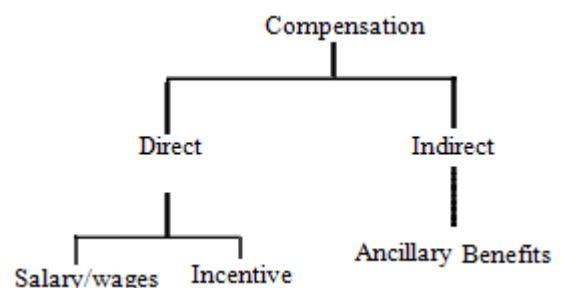
- It Communicates positive control over the ability of worker and encourages them to give their best and meet specific standards.
- It contributes a situated organization that forms the basis of happiness and Satisfaction for worker.
- It enhances the job evaluation process that assist in consistently setting more realistic and achievable demands.
- It builds better relationship among employees and employer and creates and environment of self- esteem efficiency and collaboration among worker and provides satisfaction to worker.

Objective of Compensation Management

- Acquiring qualified and skilled employees.
- Retaining current employees.
- Motivating and rewarding good works.
- Complying the legal regulation.
- Maintaining and controlling cost.

Components of Compensation System

- 1) Job Description - A critical component of both compensation and selection system job descriptions define in writing the responsibilities, requirements, functions, duties, location, environment, conditions and other aspect of Job.
- 2) Job Analysis - The process of analyzing Job from which Job descriptions are developed. Job analysis techniques include the use of interviews, questionnaires and observation.
- 3) Job Evaluation - A system of for comparing job for the purpose of determining appropriate compensation levels for individual Job or Job elements. There are four main techniques: Ranking, Classification, and factor comparison and point method.
- 4) Pay structures - Useful for standardizing compensation practices. Most pay structures include several grades with each grade containing a minimum salary/wages and either step increment or grade range. Step increment are common with Union positions where the pay for each job is pre-determined through collective bargaining.
- 5) Salary Survey - Collection of salary and market data, may include average salaries, inflation indicators, cost of living indicators, salary budget averages. Companies may purchase results of surveys conducted by survey vendors or may conduct their own salary surveys.



1) Wages and Salary

In general terms wages are defined as payment that are given to employees as remuneration for their services which

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may be weekly, daily or monthly. The category of employees receiving wages includes worker, working in factories where salary refers to the payment that is given to employees as a fixed amount for a fixed period of time.

Type of Wages

- **Minimum Wages**- The minimum wage is the amount of money by which the labourer can nurture himself and his family.
- **Fair Wages** – Fair wages are what is given to the worker in proportion to the work efficiency.
- **Subsistence Wages** - A subsistence wage is a wage that provides worker with food, clothing, general comfort and satisfies savings requirements for difficult times.

Methods of Wage Payment

Under the human resource management various methods have been used to provide compensation.

- a) **Time based Compensation System** This is very ancient system of payment of wage. The wages paid according to this method is based on time. The worker is given wage at the time of his work like per hour, per day, per week. It has no relation to the quantity of goods provided by the worker.

$$\text{Wages} = \text{Number of Hours Worked} \times \text{Rate per Hour}$$

- b) **Piece Rate Compensation System** Under this system worker are paid wages according to work. The wage per unit of production is determined in advance. In this system the time element is not given importance in determining wages but this does not mean that worker works in a production indefinitely.

$$E = Nr$$

E= earning of worker

N= number of Unit produced

R= Rate per unit

- c) **Incentive Wage Payment** - Any plan which motivates worker to produce more and earn more is called incentive plan. And remuneration paid for increased output is called incentive wage. Payment of wages based on output is a general kind of incentive plan. But an efficient incentive plan usually implies the payment of a guaranteed minimum wage based on time rate irrespective of the output together with additional remuneration for increased output, time saved, cost reduced and better workmanship. Some incentive plans are given below –

- **Halsey premium plan**

This system is originated by F.A. Halsey. First of all the system was adopted in Canada in 1890 and after in England in 1898. According to this method the time to do work is fixed if the worker finished the work ahead of time the remaining time is considered as his saved time for which he is given additional premium. In this method standard time is determined based on prior records. If the worker does not complete the work in time then he is paid on the basis of time and he completes the certified work ahead of time he is entitled to get up to 50% of the full rate as per the time saved.

$$\text{Wages} = (\text{Time Worked} \times \text{Wage Rate}) + (1/2 \text{Time saved} \times \text{Wage Rate})$$

- **Roman plan**

This plan is an improvement of the Halsey plan. This plan was given by Mr. James Rowan a resident of Scotland. In this plan the workers for the time in which they have worked paid by ordinary rates. If labour completes the work before a certain time then it gets additional Premium for time saved.

$$\text{Total Earning} = \text{Time taken} \times \text{Hourly rate} + \text{Bonus}$$

Where-

$$\text{Bonus} = \frac{\text{Time taken} \times \text{Time taken} \times \text{Hourly rate}}{\text{Time Allowed}}$$

- **Taylor Differential Piece Rate System**

This system is given by F.W. Taylor. This method is different from all other methods. In this method the standard of work is decided on the basis on time and speed studies. This system is useful where the same type of work is repeated daily and where there is maximum production is desirable and where precious machines are used and plant is installed on expensive land or building. This system is implemented for the fulfillment of two purpose one is keeping the worker engaged in greater production while utilizing their full potential and second is to remove the fear of wages cuts. In this system wages are determined on this basis of production unit but no single rate is fixed. One rate is for those workers who work with standard level. Those who working below standard are paid lower wages so that they should work with the goal of achieving the higher standards.

- **Merrick Differential or Multiple Piece Plan**

This plan is sophisticated form of Taylor's plan. In this method the rates of wages are three instead of two workers who work up to 80% are given wages at the lowest rate. Those who work from 80% to 100% are paid wages at an average rate. And those who work more than 100% efficiency are paid wages at the maximum rate. This plan divides workers in three category first worker with less than normal efficiency second worker with normal efficiency and third is efficient worker.

- **Emerson's efficiency Plan**

Emerson's view was that most of the time worker not work according to standard but they produce only 2/3 of the standard work. In this system also worker are assured of daily wages. Time and speed must be studied for standard determination. Workers who do work equal to standard their work efficiency is considered 100%. A bonus of daily wages is given to workers achieving 100% capacity workers whose work efficiency is less than 66.67% only they get minimum wages. From 66.67% to 90% the rate of premium is less than 10%. At 90% premium becomes 10%. After achieving more than 100% efficiency 1% premium is increased per 1% increase of efficiency.

- **Gantt Task and Bonus Plan**

This plan is called Gantt Task and premium plan given by H.L. Gantt. In this method worker are guaranteed wages as per the determined time. The quantity of

production to be done by the group is decided. If that group produces more than the prescribed quantity then workers are given bonus on higher production. In addition the amount of work wage is 20% to 50% of the due wages for the time spent in the work. If a worker is not able to execute the desired amount of work in the specified time then he does not get any bonus.

- d) Ancillary Benefits: Ancillary benefits means the additional convenience that employees receive from their employer evaluated by keeping it separate from salary. In other words the total amount spent by the employer in addition to the timely wage payment is called Ancillary Benefits.

Types of Ancillary Benefit

- 1) Statutory payment (only given by employers) like Payment of old age, unemployment compensation sickness, Insurance, Workman compensation contribution.
- 2) Pension and other payments made on the basis of an agreement between the employee and employer like Contribution of Pension Scheme which is different from pension insurance Scheme, Life Insurance, Assistance at the time of accident, Insurance Premium for medical assistant, Retirement salary allowance, concessional rate for the goods and services purchased by the employee, miscellaneous payment.
- 3) Payment for holiday and non working hour.
- 4) Profit sharing.
- 5) Awards and gifts given on festivals and other occasions.

3. Conclusions

Above study shows the meaning importance need objectives and methods of compensation management. Compensation Management alerts the company. It contributes significantly to the selection of a good worker. Under this awards are given to good and skilled employees. It reduces the risk of losing such an employees when the employees make their contribution efficiently under the compensation management the company also provides opportunity to pursue them. Compensation Management enhances the company's reputation. When a worker receives monetary satisfaction, he becomes an inspiration to other workers satisfied workers bring fresh talent to the organization.

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