

BBA VI th Semester

Compensation & Reward management(DSE-3)

1.1 What Are the Components of a Total Rewards System?

Managers and executives know that to retain high performers, they need to offer a competitive salary that adequately reflects the business climate of their industry. But what else can you offer as incentives to keep talented individuals on board? Here, we examine the components of a total rewards system which you can implement in your organization:

- **Compensation:** Of course, this includes base salary, but there are also other factors you can consider working into your pay system, such as short-term or long-term incentive pay. Both work well to attract and continually motivate top performers who are confident in their abilities to exceed expectations, according to Ameriprise Financial writer Kevin Johnston.
- **Recognition:** Employees need to feel that their hard work is appreciated and critical to your company's ability to achieve goals. contributing editor Jeff Haden recommends creating a "recognition culture" in which management routinely provides specific, genuine, and timely feedback.
- **Benefits:** Just as a refresher, your benefits package should include leave of absence, sick and bereavement leave, and vacation time. Of course, it will also include the legally-mandated minimum requirements such as Medicare, unemployment, and Social Security. Offering an attractive benefit package can help set you apart from competitors and round out your total rewards system.
- **Work/Life Balance:** More than half of U.S. employees feel overworked, and 28% feel this way often or very often. Your ability to help employees create a manageable workflow and strike a healthy balance between the demands of work and other personal responsibilities is critical to keeping your people happy. Try to be as flexible as possible to accommodate for employees who may have irregular schedules due to family demands. You can also offer counseling to help employees plan for retirement, and provide thorough overviews for investment options.
- **Development:** Lack of development opportunities is the number-one reason employees leave their jobs. Don't let that be the reason your best talent leaves. Offer career development opportunities tailored to your employees' goals for growth, and be sure to provide the resources they need, such as access to training and courses.

When you focus on each of the components listed above, you'll not only retain employees, but you'll also motivate and engage your workforce as well.

(Source : <https://hrsoft.com/blog/what-are-the-components-of-a-total-rewards-system/>)

1.2 Elements of Employee Reward Factors affecting the Rate of Pay



Internal factors: The internal factors exist within the organization and influences the pay structure of the company. These are as follows:

Ability to Pay: The prosperous or big companies can pay higher compensation as compared to the competing firms whereas the smaller companies can afford to maintain their pay scale up to the level of competing firm or sometimes even below the industry standards.

Business Strategy: The organization's strategy also influences the employee compensation. In case the company wants the skilled workers, so as to outshine the competitor, will offer more pay as compared to the others. Whereas, if the company wants to go smooth and is managing with the available workers, will give relatively less pay or equivalent to what others are paying.

Job Evaluation and Performance Appraisal: The job evaluation helps to have a satisfactory differential pays for the different jobs. The performance Appraisal helps an employee to earn extra on the basis of his performance

Employee: The employee or a worker himself influences the compensation in one of the following ways.

Performance: The better performance fetches more pay to the employee, and thus with the increased compensation, they get motivated and perform their job more efficiently.

Experience: As the employee devotes his years in the organization, he expects to get an increased pay for his experience.

Potential: The potential is worthless if it gets unnoticed. Therefore, companies do pay extra to the employees having better potential as compared to others.

External Factors: The factors that exist out of the organization but do affect the employee compensation in one or the other way. These factors are as follows:

1. **Labor Market:** The demand for and supply of labor also influences the employee compensation. The low wage is given, in case, the demand is less than the supply of labor. On the other hand, high pay is fixed, in case, the demand is more than the supply of labor.
2. **Going Rate:** The compensation is decided on the basis of the rate that is prevailing in the industry, i.e. the amount the other firms are paying for the same kind of work.
3. **Productivity:** The compensation increases with the increase in the production. Thus, to earn more, the workers need to work on their efficiencies, that can be improved by way of factors which are beyond their control. The introduction of new technology, new methods, better management techniques are some of the factors that may result in the better employee performance, thereby resulting in the enhanced productivity.
4. **Cost of Living:** The cost of living index also influences the employee compensation, in a way, that with the increase or fall in the general price level and the consumer price index, the wage or salary is to be varied accordingly.
5. **Labor Unions:** The powerful labor unions influence the compensation plan of the company. The labor unions are generally formed in the case, where the demand is more, and the labor supply is less or are involved in the dangerous work and, therefore, demands more money for endangering their lives. The non-unionized companies or factories enjoy more freedom with respect to the fixation of the compensation plan.
6. **Labor laws:** There are several laws passed by the Government to safeguard the workers from the exploitation of employers. The *payment of wages Act 1936*, The *Minimum wages act 1948*, The *payment of Bonus Act 1965*, *Equal Remuneration Act 1976*, *Payment of Gratuity Act 1972* are some of the acts passed in the welfare of the labor, and all the employers must abide by these.

Thus, there are several internal and external factors that decide the amount of compensation to be given to the workers for the amount of work done by them.

(Source: <https://businessjargons.com/factors-affecting-employee-compensation.html>)

1.3 Steps involved in determining wage and salary rates are as follows :

a).Job Analysis: It describes describes the duties, responsibilities, working conditions and interrelationships between the job as it is and the other jobs with which it is associated. Job descriptions are crucial in designing pay systems, for they help to identify important job characteristics. They also help determine, define and weigh compensate factors (factors for which an organization is willing to pay-skill, experience, effort and working environment). After determining the job specifications, the actual process of grading, rating or evaluating the job occurs. A job is rated in order to determine its value in relation to all the other jobs in the organization which are subject to evaluation. The next step is that of providing the job with a price. This involves converting the relative job values into specific monetary values or translating the job classes into rate ranges.

b)Conduct the Salary Survey:

Compensation or salary surveys play a central role in pricing jobs. Virtually every employer, therefore, conduct at least an informal survey. Employers use salary surveys in three ways (i) Survey data are used to price bench mark jobs that anchor the employer's pay scale and around which the other jobs are slotted, based on their relative worth to the firm (ii) Some Jobs (generally 20% or more) of an employer's position are usually priced directly in the market place (rather than relative to the firm's benchmark jobs), based on a formal or informal survey of what competitive firms are paying for comparable jobs (iii) Surveys also collect data on benefits like insurance, sick leave and vacations to provide a basis for decisions regarding employee benefits.

c) Group Similar Jobs into Pay Grades:

After the results of job analysis and salary surveys have been received, the committee can turn to the task of assigning pay rates to each job, but it will usually want to first group jobs into pay grades. A pay grade is comprised of jobs of approximately equal difficulty or importance as determined by job evaluation. Pay grading is essential for pay purposes because instead of having to deal with hundreds of pay rates, the committee might only have to focus on say 8 or 12.

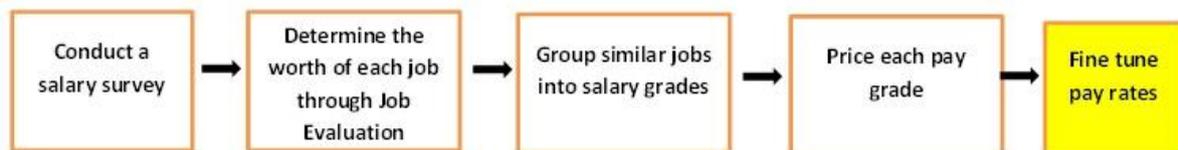
d) Price Each Pay Grade:

The next step is to assign pay rates to pay grades. Assigning pay rates to each pay grade is usually accomplished with a wage curve. The wage curve depicts graphically the pay rates currently being paid for jobs in each pay grade, relative to the points or rankings assigned to each job or grade by the job evaluation. The purpose of wage curve is to show the relationship between (i) the value of the job as determined by one of the job evaluation methods and (ii) the current average pay rates for the grades. If there is reason to believe that the present pay rates are substantially out of step with the prevailing market pay rates for those jobs, bench mark jobs within each grade are chosen and priced via a salary survey. The new market based pay rates are then plotted on the wage curve. The steps involved in pricing jobs with a wage curve are

- i) find the average pay for each pay grade.,since each of the pay grades consists of several jobs
- ii)Plot the pay rates for each pay grade.Then fit a line, called a wage-line through the point just plotted. This can be done either free hand or by using statistical method.
- iii)price the jobsWages along the wage line are the target wages or salary rates for the job in each pay or grade.

e).Fine-Tune Pay Rates

The next step of the process of establishing pay rates involves fine tuning the pay rates. Fine tuning involves 1. Developing pay ranges 2. Correcting out-of-line rates.



Most employers don't pay only one rate to all the jobs in the same pay grade. For instance, an employee having a longer tenure in the company can't get paid at the same rate as a beginner = in spite of being in the same pay grade.

Therefore, vertical pay ranges are formed under each pay grade. These are depicted as vertical boxes against each pay range, depicting the maximum, minimum and midpoint pay ranges for each grade. It is also sometimes depicted in a tabular form against each grade.

f) Wage Administration Rules

The development of rules of wage administration has to be done in the next step. It is considered advisable in the interests of the concern and the employees that the information about average salaries and ranges in the salaries of group should be made known to the employees concerned; for secrecy in this matter may create dissatisfaction and it may also vitiate the potential motivating effects of disclosure. Finally, the employee is appraised and the wage fixed for the grade he is found fit.

Source: <https://www.mbaknol.com/human-resource-management/process-of-salary-and-wage-fixation/>

Source: <https://www.mbaskool.com/business-concepts/human-resources-hr-terms/3311-salary-range-or-pay-range.html>

1.4 Essentials of a sound wage plan for workers

This article throws light upon the top thirteen essentials of a sound wage plan for workers. Some of the essentials are: 1. Equitable to All 2. Fair and Adequate Compensation 3. Simplicity, Certainty and Flexibility 4. Incentive Wages 5. Merit Rating 6. Minimum Guaranteed Earnings Base Rate 7. Easy Collective Bargaining 8. Wage Control 9. Significance of Economic Reward 10. Hedge against Inflation and Others.

1. Equitable to All

The government must secure the willing acceptance and wholehearted support of labour and management for the proposed wage policy and/or plan. On the one side, it must ensure on the spot the norm of a need-based minimum in wage revision claims and in the long run, sooner or later, the target of achievement of living wage for labour.

On the other side, the wage plan must be within the capacity of industry ability to pay the wages set by the plan.

2. Fair and Adequate Compensation:

The wage plan must recognise the principle of “equal pay for equal work”. Of course, there should be proper wage differentials, based on job evaluation, to compensate skill, training, experience and other job requirements

3. Simplicity, Certainty and Flexibility

The wage plan should be simple so that it is easily understandable to average employees and can be administered smoothly. It should have reasonable certainty and stability and yet it should permit adjustment according to changing business conditions, profit situation, etc. The plan should be periodically reviewed to keep it up to date

4 Incentive Wages

Wherever desirable and practical we should introduce elements of wage incentives, i.e., payment by results, and compensation should be directly in proportion to the output above the standard quota.

We should introduce Merit Rating for linking payment directly with merit or performance so that services of able and skilled operatives can be retained and integrated sequences of job promotion by merit can be easily secured. Incentive wages through productivity bonus or premium can facilitate higher production and higher rate of economic growth

5. Merit Rating

Introduction of performance appraisal studies as a regular feature will enable easy promotion, transfers, etc., i.e., organisational flexibility. Sound merit rating policy primarily based on ability and competence will ensure higher employee morale and better industrial relations

6. Minimum Guaranteed Earnings Base Rate

Under any wage incentive plan, we must establish a base wage rate and a salary schedule through a wage survey so that a company wage schedule will be in line with general wage level in that area and incentive workers will be protected against unavoidable delay in production due to machine failure, power failure, material shortage, etc. i.e., lowering of output due to factors beyond the control of workers.

Minimum or base wage rate for each job is fixed on the basis of job evaluation studies. This will give security of income to incentive

7. Easy Collective Bargaining

The wage plan should simplify collective bargaining process between the Management and Labour Union. Voluntary conciliation and arbitration are definitely superior devices than compulsory conciliation and arbitration for settlement of wage problems.

8. Wage Control

The wage plan should help wage-cost determination, control and payroll administration as well as budgeting. Modern management under competitive conditions is vitally interested in unit cost of labour

9. Significance of Economic Reward:

In poor and/or underdeveloped (even developing) countries physical survival occupies nearly 100 per cent time of an average individual. Worker has neither energy nor interest left over for ego-satisfying drives such as power, prestige, status, craving for self-advancement and right of participation in management. Give a decent 'Take Home Pay' that is all workers, in general, are interested in.

In the context of current economic situation India, which is wedded to 'GaribiMitao' policy, monetary or financial incentives constitute the greatest motivators compelling men and women to work with interest. Without economic rewards, in India particularly work cannot become meaningful and interesting.

Economic security alone can ensure high employee motivation and morale. Let us reiterate that unsatisfied want only can act as motivator, a spark plug igniting the will to work and hence, in India, mental tonic or therapy can never be a substitute for physical tonic or therapy/ physiotherapy.

10. Standing Grievance Mechanism:

Under a sound wage plan, management must provide, particularly under incentive plan, effective grievance procedure for listening and adjusting wage disparities and complaints which are almost certain to arise a part of regular machinery for handling of grievances

11. Current Going Rate:

Actual wages and salaries under any plan must be at least in line with the going or prevailing pay level in the labour market or in industry

(Source: <https://www.businessmanagementideas.com/wage/wage-plan/top-13-essentials-of-a-sound-wage-plan-for-workers/4602>)