

WELCOME

III Sem. CWM Subject
HR (Specialization)

Compensation Management

Your Company Name



INTRODUCTION



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Significance of Compensation Management (CM)

Compensation Means

- q “Compensation is what employee receive in exchange for their contribution to the organization”.
- q **Compensation** is what employees get in monetary term by playing their particular role in the firm. These can be in the form of Salaries, Incentives, bonuses etc.
- q “Compensation is referred to as money and other benefits received by an employee for providing services to his employer”.
- q The term compensation is a comprehensive one including wage or pay, incentives, all other allowances and benefits

COMPENSATION means

- l Compensation may be defined by as money received in performance of work plus many kinds of services and benefits that organisation s provide to their employees.



**Give
and Take**

compensation

money





Compensation Vs. Workers Compensation

I). Compensation (Wage and Salary)

- q It is referred to money and other benefits received by an employee for providing services to his employer.
- q Compensation means total of all rewards provided employees in return for their service. Providing adequate, equitable and fair remuneration to employees.
- q “Compensation is what employee receives in exchange for their contribution to the organization”.
- q Compensation is a comprehensive term which includes wage and all other allowances, incentives, and benefits offered by employers for hiring the services of employees.
- q Compensation relating Acts are
 - i). The Payment of Wages Act, 1936,
 - ii). The Minimum Wages Act, 1948,
 - iii). The Equal Remuneration Act, 1976.

II). Workers Compensation

- Ø *Benefit provided to persons injured on the job.*
- Ø *Worker's compensation relating Acts are*
 - i). The Workmen's Compensation Act, 1923,*
 - ii). E.S.I. Act, 1948.*

Compensation - Definition

- **Compensation** means all remuneration capable of being expressed in terms of money, which, if the terms of contract of employment, express or implied, were fulfilled, be payable to a person employed in respect of his employment

Compensation Management (CM)

Means

- q Compensation management, also known as wage and salary administration, remuneration management or reward management.
- q CM is concerned with designing and implementing total compensation package.
- q The term compensation management denotes the process of managing a company's compensation program.
- q The goals of compensation management are to design a cost-effective pay structure that will attract, motivate and retain competent employees.

According to S. P. Robbins:

“The term compensation management denotes the process of managing a company's compensation program. The goals of compensation management are to design a cost-effective pay structure that will attract, motivate and retain”

Nature of Compensation Management

- q Management instrument
- q Organizational tool
- q System of rewarding
- q Return

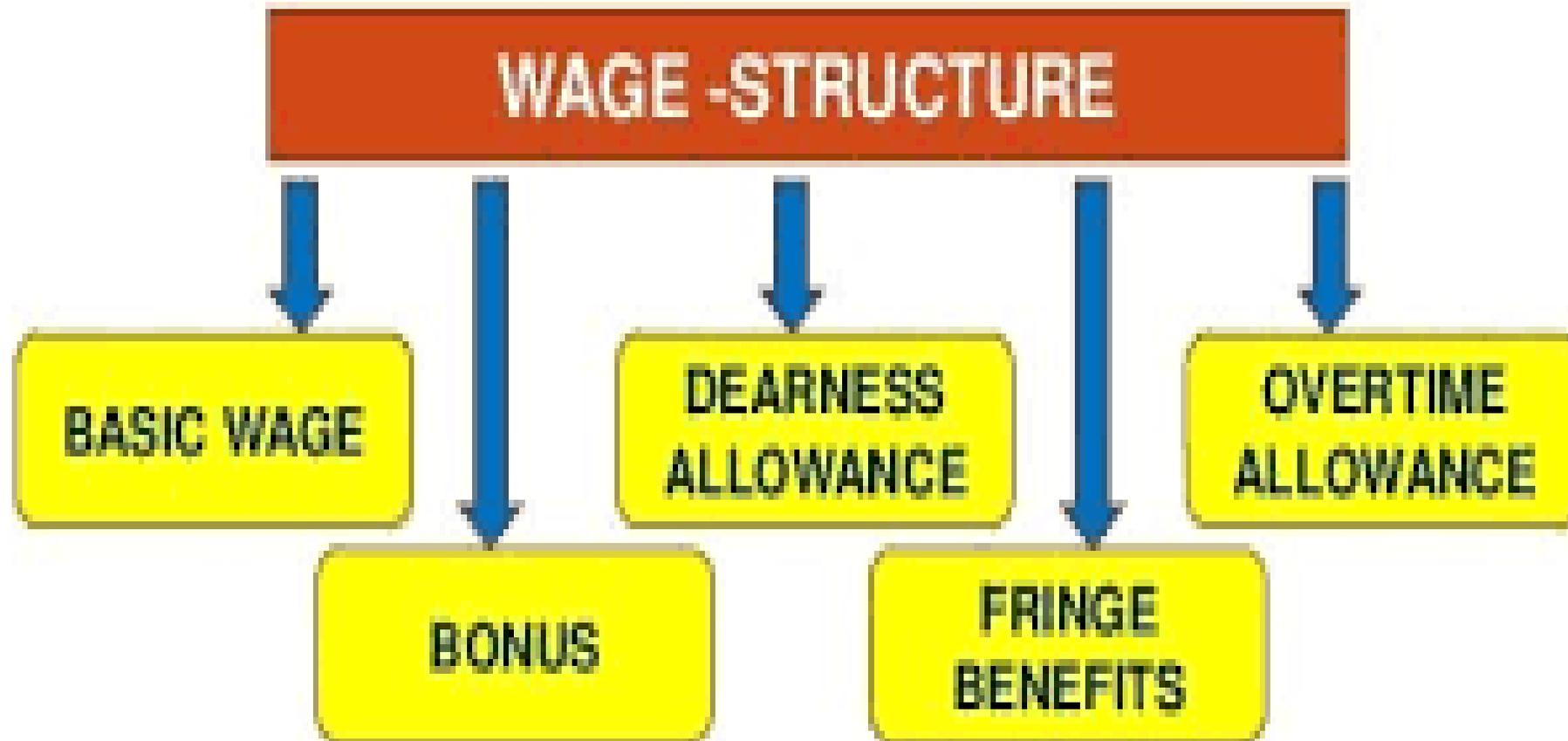
Objectives of Compensation Management

- q Attracting and Retaining Personnel
- q Motivating Personnel
- q Control costs
- q Consistency in compensation
(Internal and External factors)

Components of Compensation

- q Primary Compensation - Basic Pay
- q Supplementary Compensation
 - DA., HRA., Allowances.
- q Incentive Compensation
- q Fringe Benefits
- q Perquisites / Perks
- q Overtime Payment
- q Annual Bonus

Components of wage structure



Components of Compensation

Primary Compensation (Wage and Salary)

- q Wage and salary are the most important component of compensation and these are essential irrespective of the type of organization.
- q Wage is referred to as remuneration to workers particularly, hourly-rated payment. Salary refers to as remuneration paid to white-collar employees including managerial personnel.
- q Wages and salary are paid on the basis of fixed period of time and normally not associated with productivity of an employee at a particular time.
- q The basic aim of wage administration is to attract, retain and motivate employee by developing and maintaining competitive and equitable wage structure. Such as basic wage and salaries.

Supplementary Compensation

- q It signifies incentive payments based on actual performance of an employee or a group of employees.
- q It is an additional payment made by the employer to his employees to compensate them to a certain extent for the rise in the cost of living and other expenses. Such as D.A, CCA, HRA, LTC, medical benefit allowance, conveyance allowance, night shift allowance, and education allowance etc.

Incentive Compensation: Incentives are the additional payment to employees besides the payment of wages and salaries. Often, these are linked with productivity, either in terms of higher production or cost saving or both. These incentives may be given on individual basis or group basis.

Fringe Benefits: Fringe Benefits include such benefits which are provided to the employees either having long-term impact like provident fund, pension, gratuity, medical benefits, accident relief, health and life insurance, or facilitation in performance of job like uniforms, canteens, recreation, etc. Some of these are statutory and non-statutory fringe benefits.

Perquisites/ Perks: These are normally provided to managerial personnel either to facilitate their job performance or to retain them in the organization. Such perquisites include company car, club membership, free residential accommodation, paid holiday trips, stock options, etc.

Overtime Payment: The payment of overtime allowance to the factory and workshop employees is guaranteed by law. All employees who are deemed to be workers under the Factories Act, 1948 under section 59 or under the Minimum Wages Act, 1948 are entitled to overtime allowance at twice the ordinary rate of their wages for the work done in excess of 9 hours on any day or for more than 48 hours in any week.

Annual Bonus: Bonus is a unique component of India's compensation system.

Fringe Benefits

Types of Fringe Benefits



Fringe benefits are the extra advantages provided by the employer in addition to salaries and are considered important in terms of employee satisfaction, motivation and long term goodwill of the organization on the market.



Examples

■ **Fringe benefits**

- Payment for time not worked
- Housing
- Insurance
- Career counseling
- crèche
- Paid memberships in professional organizations

■ **Perquisites or “perks”**

- take home vehicles /chauffeur driven vehicles
- Paid vacations
- Club membership
- Entertainment allowance
- Paternity leave
- free refreshments
- leisure activities on work time (golf, etc.),

Thank you



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Factors Influencing Compensation Plan & Policy

Compensation Policy:

Compensation policy is derived from organizational strategy and its policy on overall HRM.

The policy should be linked with the organizational philosophy on human resource and strategy.

Policy: A written statement that reflects the employer's standards and objectives relating to various employee activities and related matters. General guidelines that focus organizational actions.

Planning: Planning consists of the activities involved in choosing course of action to achieve organizational objectives.

Plan: A series of steps to be carried out or goals to be accomplished.

Factors Affect on Compensation Plan

q Job Analysis and Job Evaluation

q Contingent Factors

1. Internal Factors:

a) Organization's ability to pay

b) Nature of job

c) Nature of personnel

d) Organisation's strategy

2. External Factors

a) Employment market

b) Productivity

c) Comparable rates or going rates

d) Cost of living

e) Level of economic development

f) Trade union

g) Labour laws.

Factors Affect on Compensation Plan

- q Design and Implementation of Compensation Plan
- q Evaluation and Review of Compensation Plan

Thank you



WELCOME

WAGE AND SALARY ADMINISTRATION



INTRODUCTION



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Research Guide

Wage and Salary Administration

- The basic aim of wage administration is to attract, retain and motivate employee by developing and maintaining competitive and equitable wage structure.
- Wage and salary administration refers to the establishment and implementation of sound policies and practices of employee compensation.
- Systematic approach to provide monetary value to employees.
- Establishment and maintenance of equitable as well as cost-effective wage structure.

Wage & Salary Administration- Introduction

- As money is the prime need for human beings to meet their basic needs, everyone tries to earn as much money as possible
- A clerk earning less than a driver may have a vague grievance, but when he earns less than another clerk of comparable qualifications and experience he will show his unhappiness more bitterly. This shows that people have the tendency to compare themselves with others who are in a similar profession and/or with similar qualifications

Difference between Wage, Salary and Compensation

- Wage: Paid to blue-collar workers-paid daily, weekly or monthly-paid for the jobs which can , to some extent, be measured in terms of money's worth
- Salary: Paid to white collar workers-paid monthly-paid to employees whose contribution cannot be easily measured
- Compensation: a comparative term- includes wage and all other allowances and benefits like allowances, leave facilities, housing, travel and non-cost such as recognition, privileges and symbols of status

Gold-collar workers

- q For gold-collar workers, knowledge is not just having information; it is using information--to solve problems, to create solutions and strategies, to learn from experience.
- q Gold-collar workers typically use knowledge from more than one area. In some cases, gold-collar knowledge crosses formal, academic disciplines like science and business; in others, occupationally specific technical knowledge is used in combination with more general process, communication, and learning-to-learn skills.

Difference Between Wage and Salary

Wage:

- q Wage means any economic compensation met the employer under some contract to his employees for the service rendered by them.
- q Wages means the remuneration paid for the service of workers in production, periodically to an employee. Basically there is no difference between wage and salary. Payments made to manual workers (i.e., Blue collar jobs) is generally called as wages .

Salary:

- q Salary means paid periodically to such employees whose output cannot be easily measured in units, such as clerical staff, supervisory staff or managerial personnel, is referred to salaries .

Objectives of Wage and Salary Administration

- q To retain the present employees
- q To establish a fair and equitable remuneration
- q To improve productivity
- q To improve union management relations
- q To control costs
- q To improve public image of the company
- q To attract competent personnel

Objectives of Wage and Salary Administration



- ∅ To acquire competent personnel
- ∅ To retain present employees
- ∅ To provide fair and equitable compensation
- ∅ To ensure desired behaviour
- ∅ To keep labour costs in control
- ∅ To keep organization ability in mind
- ∅ To improve motivation and morale
- ∅ To maintain good image of the organization
- ∅ To impartial implementation

Nature of Wage and Salary Administration

- q Equity
- q Motivation
- q Result oriented
- q Mutual cooperation
- q Stability
- q Simplicity
- q Reasonable standards
- q Minimum guarantee
- q Flexibility
- q Economy

Money Wages and Real Wages

- **Money wages** refers to the monetary form of wage payment.
- **Real wages** refers to the purchasing power of money wages.

The Following are not the Wages

- q **Bonus** or other payments under a profit sharing scheme which don't form a part of the contract of employment.
- q Value of any house accommodation, supply of light, water, medical, attendance, travelling allowance or payment in lieu thereof or any other concession.
- q Any sum paid to defray special expenses entailed by the nature of the employment of a workmen.
- q Any contribution to pension, P.F or a scheme of social security and social insurance benefits.
- q Any other amenity or service excluded from the computation of wages by a general or special order of an appropriate government authority.



Questions?





Thank you



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Principles of Wages and Salary Administration



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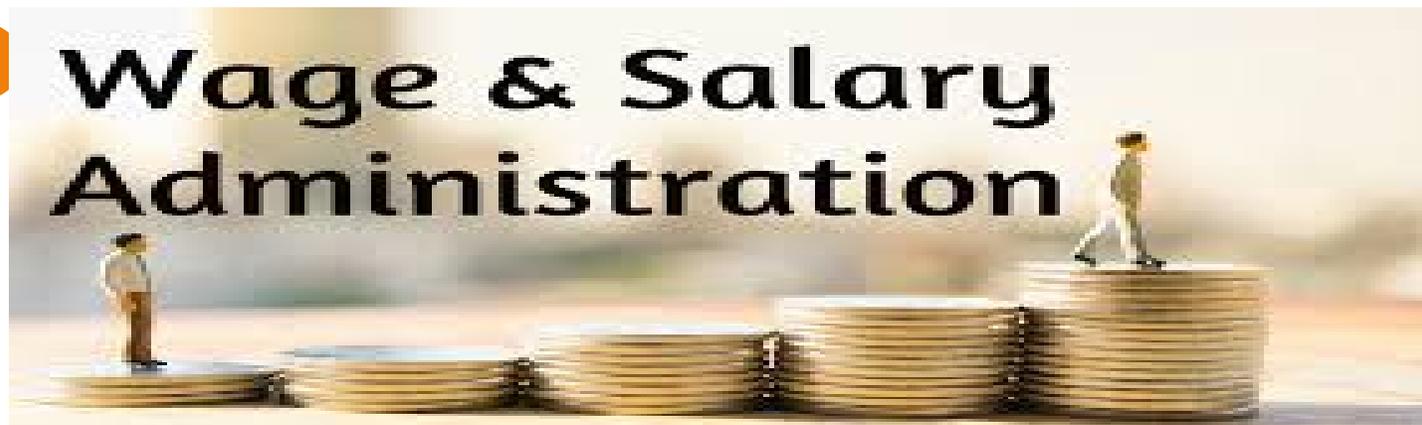
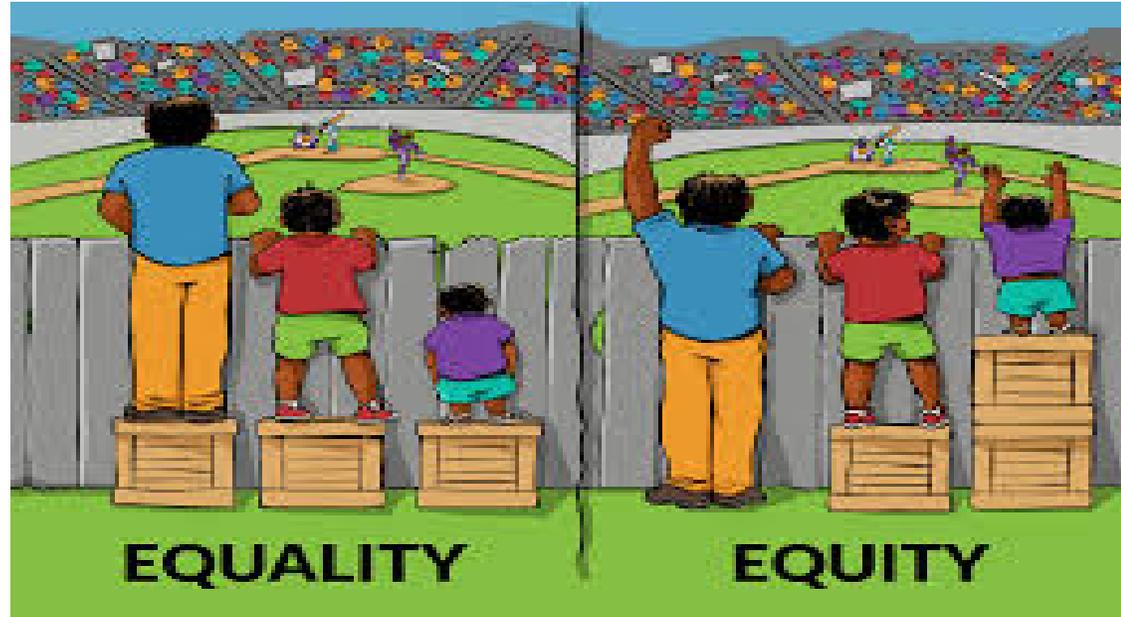
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Principles of Wage and Salary Administration

The main principles that govern wage and salary fixation are three:

1. External Equity
2. Internal Equity
3. Individual Worth



1. External Equity:

- q This principle acknowledges that factors external to organization influence levels of compensation in an organization.
- q These factors are such as demand and supply of HR, the market rate, etc.
- q The principles of external equity ensure that jobs are fairly compensated in comparison to similar jobs in the employment market.

(: :)

2. Internal Equity:

- q Organizations have various jobs which are relative in value term. In other words, the values of various jobs in an organization are comparative.
- q Within your own Department, pay levels of the teachers (Professor, Reader, and Lecturer) are different as per the perceived or real differences between the values of jobs they perform. This relative worth of jobs are ascertained by job evaluation.
- q An ideal compensation system should establish and maintain appropriate differentials based on relative values of jobs.
- q The compensation system should ensure that more difficult jobs should be paid more.

3. Individual Worth:

- q An individual should be paid as per his/her performance.
- q The compensation system, as far as possible, enables the individual to be rewarded according to his contribution to organization.



Principles of Wage and Salary Administration



There are several principles of compensation practices:

- 1). Wage policy should be suited clearly in writing.
- 2). It must be flexible
- 3). Wage policy should be developed keeping in view the interests of the employer, the employees and the community.
- 4) It must be according to the social and economic objective of the organization. It must change according to the local and national conditions.

5. Management should ensure that employees understand the wage policy of the company.
6. An adequate database should be developed for compensation administration.
7. It must simplify the administrative process.
8. Wage policy should be revised periodically in conformation with changing needs.



9. Differences in wages should be based on logical facts.

10. Consistently align with organization plan.

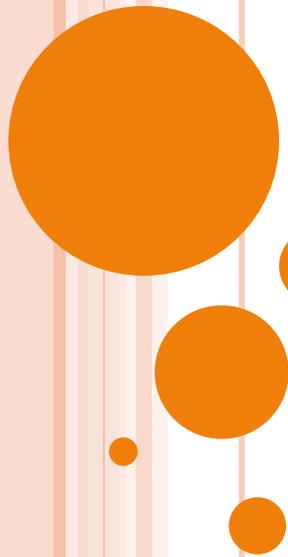
11. Job evaluation must be done scientifically.

12. Must always be consistent with overall organizational plans and programs.

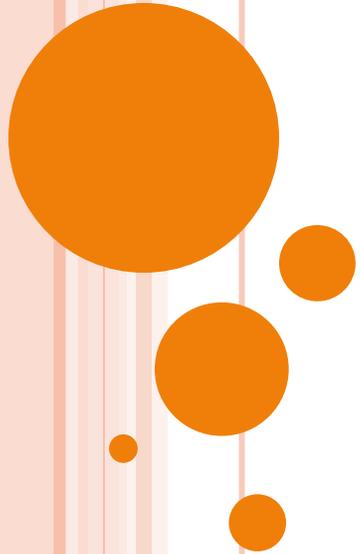
13. Should maintain competitiveness in market.

14. Should maintain Equity.



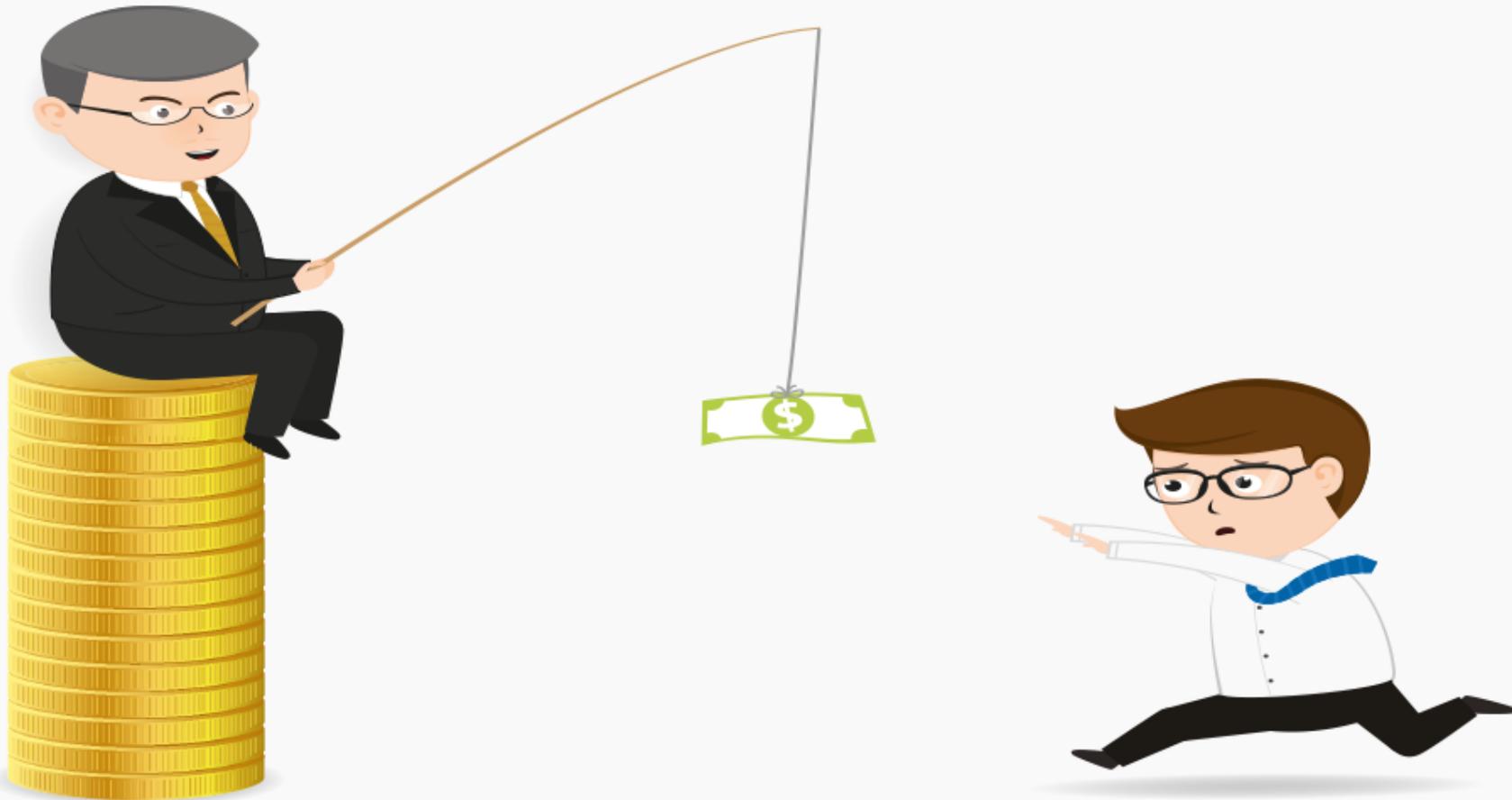


THANK YOU....



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Wage as a Motivator



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A man with short dark hair, wearing a dark suit jacket, a striped shirt, and a red tie, is speaking. He has a surprised or emphatic expression on his face. His hands are raised in front of him, palms facing each other, as if gesturing while speaking. The background is a blurred office environment with windows and desks.

How to motivate

employees in the workplace

Wage as a Motivator

- l “Compensation includes direct cash payments, indirect payments in the form of employee benefits and incentives to motivate employees to strive for higher levels of productivity.”
- l Money is crucial in the way that everyone lives their lives.

Motivating Personnel

- l Compensation management aims at motivating personnel for higher productivity.

Motivation

- **What is it?**
 - Motivation is **will to work**
 - Comes from enjoyment of work itself and/or from desire to achieve certain goals e.g. earn more money or achieve promotion
- **Methods available to motivate employees**
 - Financial methods (e.g. salary, bonus)
 - Non-financial methods (passing on responsibility or praise)

Motivation – Modern Approach

Modern Approach to motivation is based on **identifying** the various **needs** and **wants** of an employee and subsequently using them as a means of the **driving force** behind an employee's **actions** that will in turn have a bearing on the **Organisation's goals** as a whole.

Meaning of Motivation

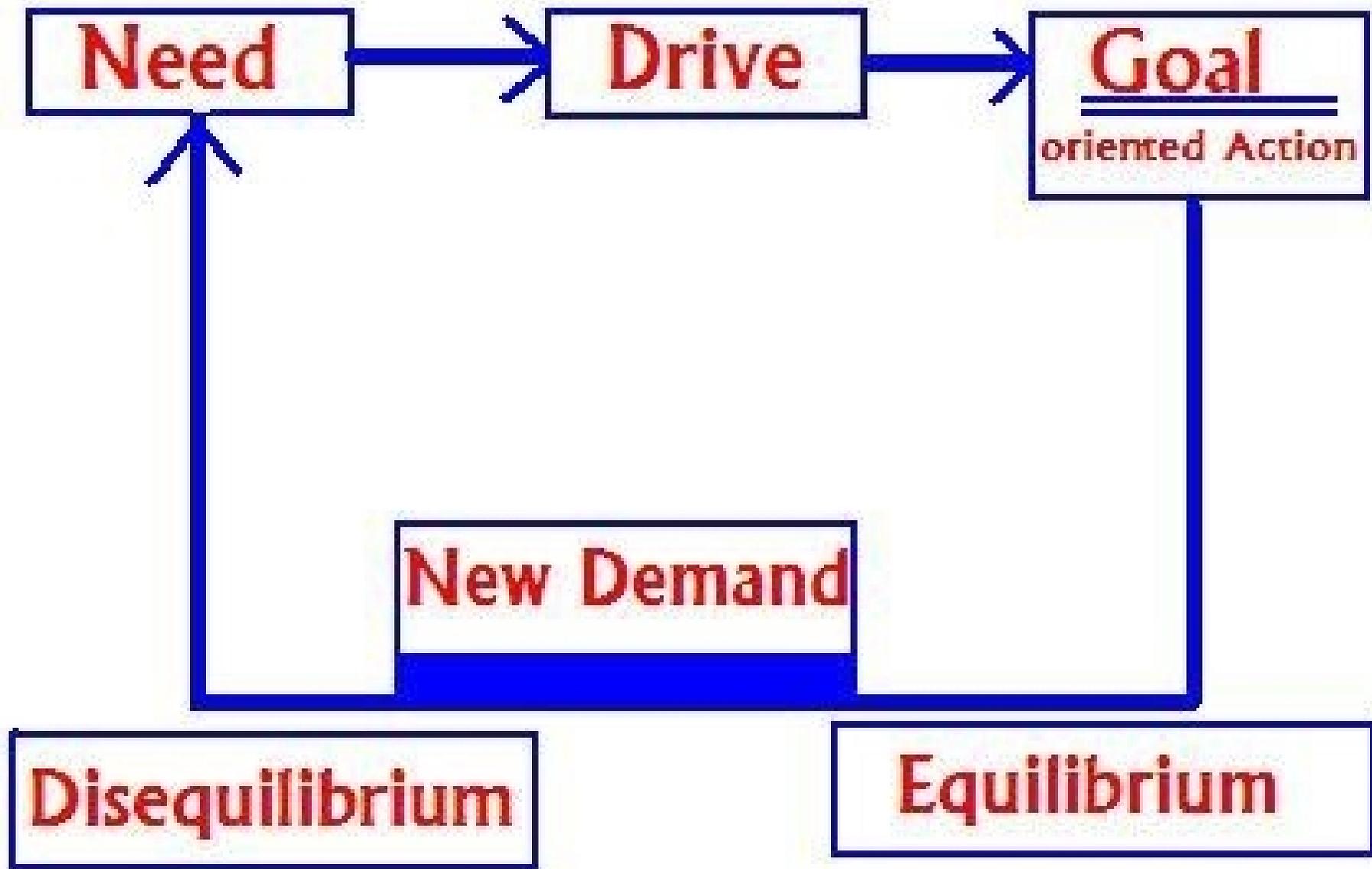
**q The driving force within individuals
By which they attempt to achieve
some goal in order to fulfill some
Needs or expectation.**

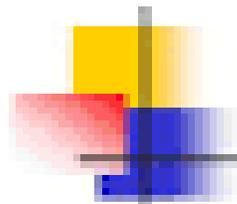


How to Motivate Your Employees

(Its Not Just About Money)







Motivation

- *What is the meaning of motivation?*

~ Motivation basically means providing an incentive that would increase the productivity of an individual/employee

Intrinsic and Extrinsic Motivation

- Intrinsic motivation refers to individuals engaging in activities or tasks purely for the sake of personal interest or enjoyment
- Extrinsic motivation refers to individuals engaging in activities or tasks due to factors which are external to them, such as seeking a reward or being influenced by others

Types of Motivation.

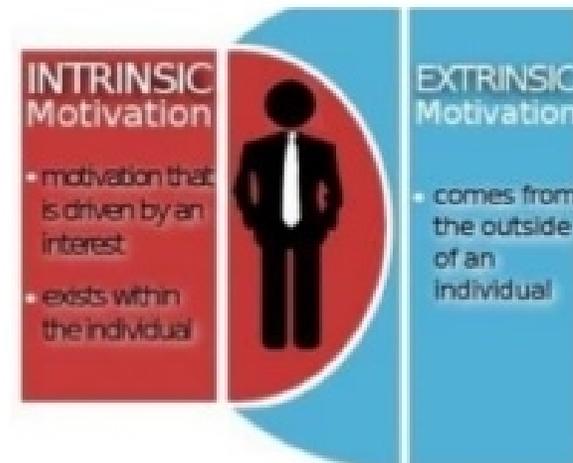
•Extrinsic Motivation.

1. Salary.
2. Bonuses/Perks.
3. Organized activities.
4. Promotion/Grades.
5. Punishment/Layoffs

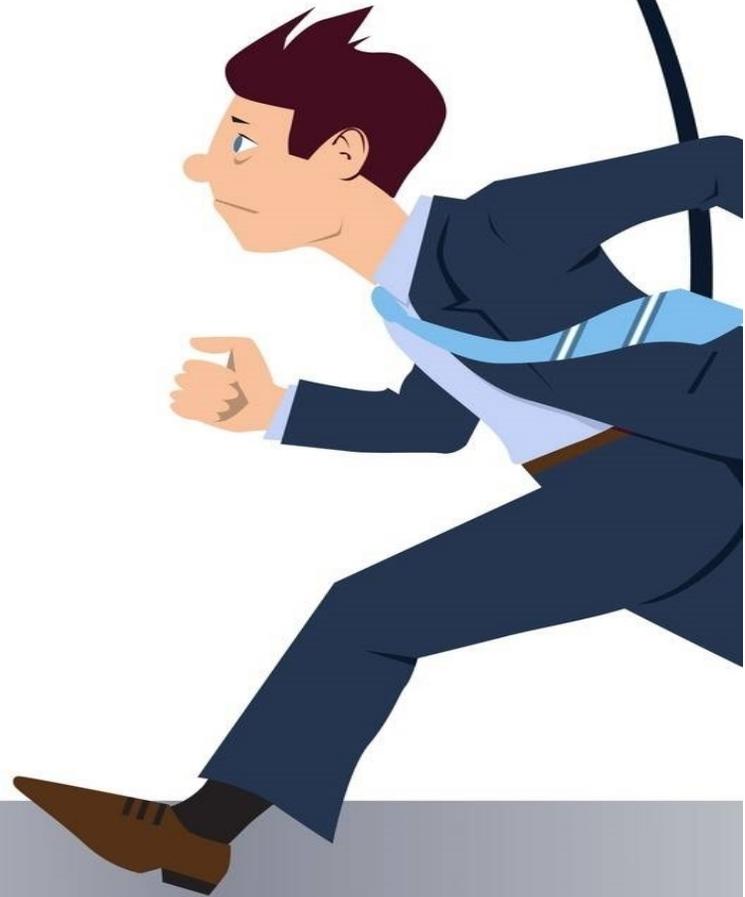
•Intrinsic Motivation:

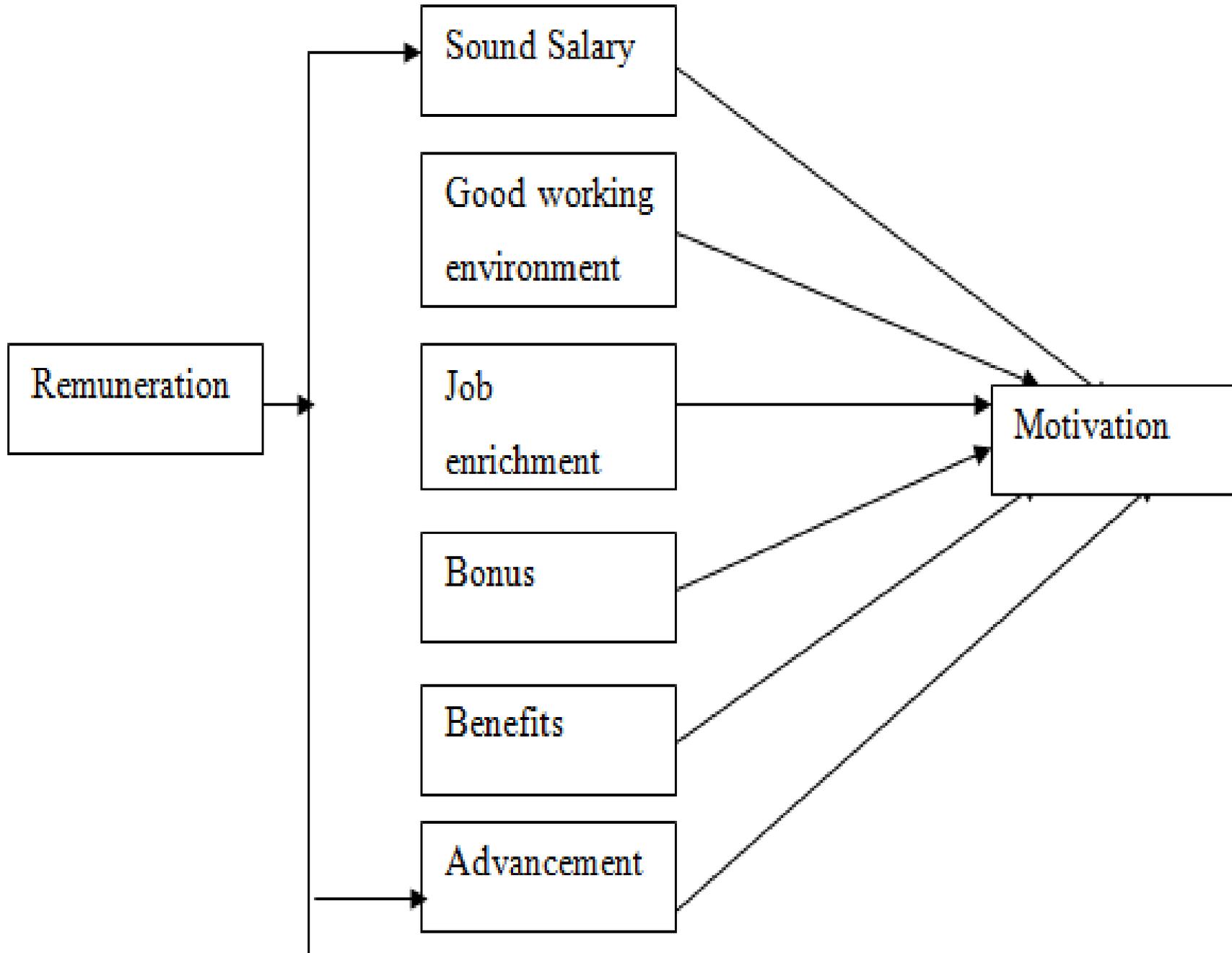
1. Learning and Growth opportunity.
2. Social contact and status.
3. Curiosity
4. Respect and Honour.

Types of Motivators



MOTIVATION

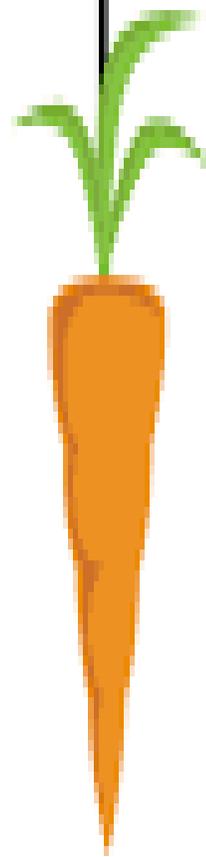




IS MONEY ENOUGH TO MOTIVATE EMPLOYEES?

The Meaning of Rewards and Incentives in the Modern Workplace

There is a fundamental shift occurring in the workplace, and employers are beginning to see that the secret to long-lasting employee performance and satisfaction has more to do with attending to intangible enrichment rather than material rewards. This all begs the question: is money the best incentive to motivate employees?



WHAT MOTIVATES PEOPLE?

Using Money as a Motivator

- q The above discussion of the role of money as a motivator suggests that money will not act as a motivator in all situations and for all individuals in the same situation.
- q Individuals respond differently to an incentive system.
- q If the money is to act as motivator, it is necessary to assume a direct relationship between performance and reward in terms of money.
- q Money to act as motivator should be given in sufficient quantity. It can motivate people only when the prospective payment is large enough relative to their income.
- q Most people accept jobs to earn money.

Using Money as a Motivator

- q Performance, output and productivity form the backbone of organizations. High performance, high commitment and loyalty are the desired expectations of organizations. Individuals enter organizations with some needs, aspirations and expectations about work life. Organizations, on the other hand, focus on productivity, commitment and loyalty.
- q Individual performance is a function of the product of ability and motivation, which may be presented as;
$$\text{Performance} = f(\text{Ability} \times \text{Motivation})$$
- q Ability here may be interpreted as competence, skill or knowledge. The interaction of the basic abilities with motivation leads to performance.
- q Money is definitely playing an important role. However, non-financial rewards are playing an even more important role in motivating employees.



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Process of wage determination

- Job analysis
- Job evaluation
- Wage survey
- Developing wage structure
- Wage administration rules
- Employee appraisal

Factors to be considered in wage fixing/ Problems in wage fixing

- ▶ According to section 141 of the Labour Act, 2006 while fixing minimum wages the Board will consider the following:
 1. cost of living
 2. standard of living
 3. production cost
 4. production capacity
 5. price of produced goods
 6. inflation
 7. nature of work
 8. risk and standard
 9. business capacity and
 10. socio-economic conditions of the country and the respective area
 11. and any other related matter.
- ▶ While fixing the minimum national wage it is also necessary to consider the present and also the future price of essential goods
- ▶ Wages should be raised in proportion with the increase in commodity prices (present price hike is 9.60 per cent)) and inflation.
- ▶ This criterion was necessary so the real wages of the workers does not decline
- ▶ Timely raise in workers' wages will prevent agitations and consequent loss of productivity

Method of Wage Fixation / Determination

Wage

- q These **methods** include Collective Bargaining, Wage Boards, Pay Commission and Judiciary /Legislations.
- q Statutory fixation of minimum wage in industries.
- q Promotion of fair wages agreement in more organized Industries.

Wage Fixation Methods

1. Collective Bargaining

Collective Bargaining term relates to those arrangements under which wages and conditions of employment generally are decided by agreements negotiated between employer and employee representatives

I. Collective Bargaining

Collective Bargaining term relates to those arrangements under which wages and conditions of employment generally are decided by agreements negotiated between employer and employee representatives. Sometimes, groups of employers will bargain together a unit. Bargaining may also take place at the enterprise level and plant level. It may be conducted through a union and an association representing some or all of the employers in an industry in an area, a region, or a nation. Through the mechanism of collective bargaining, workers representatives achieve a voice in the establishment of wages, hours and other conditions of employment, wages and related questions are usually the central issues of collective bargaining.

Definition:-

“Collective Bargaining is a process in which the representatives of a labour organization & the representatives of business organization meet and attempt to negotiate a contract or agreement, which specifies the nature of employee-employer union relationship”. – FLIPPO





Wage Fixation Through Collective Bargaining

Compensation Management



II. Wage Boards

A wage board is tripartite in character. The wage board consist of seven members, it consists of an equal number of representatives of employees and employers with an independent Chairman. Representatives of employees and employers on the board are appointed by the government consulting the concerned organizations in the industry.

Wage Board Composition:-

- **The composition of the wage boards is Tripartite i.e. it comprises of representatives from industry, trade unions and the government.**
- **It constitutes of an impartial Chairman, 2 other independent members and 2 or 3 representatives of workers and employers each**

WAGE BOARDS

- This is one of the important institutions set up by the Government of India for fixation and revision of wages.
- The wage boards fix and revise various components of wages like basic pay, dearness allowance, incentive earnings, overtime pay, house rent allowance and all other allowances

WAGE BOARDS

- **Its concept came into existence during the first five year plan.**
- **First wage board was setup in 1957 for the textile industry.**
- **It helps in determining the wages of workers in different industries.**
- **The objective was to resolve wage disputes.**

WAGE BOARD

While determining the wage structure for an industry following factors are considered:-

- Need-based minimum wage.
- Industry's capacity to pay.
- Prevailing of Labour.
- Level of national in the economy of the country.
- Requirement of social justice.
- Adjustment of wage differentials in such manner as to provide incentives for skill formation.

III. Pay Commission

- q The 1st Pay Commission was established in 1946. The importance is on the report Chairman was Srinivasa Vardachariar.
- q The 2nd Pay Commission was set up in August 1957 and gave its report in two years.
- q The 3rd Pay Commission, set up in April 1970, submitted its report in March 1973. Chairman was Raghubir Dayal.
- q The recommendations of the Fourth Pay Commission covered the period between 1983 and 1986. The Chairman of the commission was P.N.Singhal.
- q The 4th Pay Commission covered the period between 1994-1996. The Chairman of pay commission was Justice S.Ratnavel Pandian.
- q The union cabinet, under the stewardship of Prime Minister Manmohan Singh approved the setting up of the 6th Pay Commission to revise the pay scales of Central Government employees in July 2006. The 6th pay commission is headed by its Chairman Justice B.N.Srikrishna and other members. The pay commission was supposed to submit its report in 18 months.

The pay commission has taken the following factors into consideration.

- q Incidence of poverty in the country
 - q Earning of employees, in State government, private sector, unorganized and agricultural sector
-
- q Enforcement of Minimum Wages Act 1948
 - q Plan allocation
 - q Cost of living index.

The 7TH Pay Commission proposal was put forward in **November 2015** to the Narendra Modi-led National Democratic Alliance (NDA) government at the Centre. Modi and Union Finance Minister Arun Jaitley accepted the recommendations in June 2016, approving hefty increment to government officials. 7th Pay Commission allowance hike: Big rise in central government employees salary; Centre decides to implement this 7th CPC recommendation. 7th **Pay Commission:** Amid Coronavirus hitting the public in general life so badly and the public official's workload increasing manifold, the central government has some good news to share! Central government employees salary is set to see a hike as a result. The Government has decided to implement Night Duty Allowance (NDA) as recommended by the 7th CPC (Central Pay Commission) report.

Pay Commission

- q First Pay Commission in 1946
- q Second Pay Commission in 1957
- q Third Pay Commission in 1970
- q Fourth Pay Commission in 1983
- q Fifth Pay Commission in 1994
- q Sixth Pay Commission in 2006
- q Seventh Pay Commission in 2016

PAY COMMISSIONS

- It is the commission set up by government in order to determine the pay structure of government employees [both central and state government]
- Pay commission covers a wide range of employees in public sector.



IV. Adjudication



The High Court and Supreme Court have also adjudicated upon such wage disputes. The awards given by these authorities not only helped in the formulation of a body of principles governing wage fixation but laid the foundation for the present wage structure in many of the major industries.



Wage-Fixation Acts

qThe Minimum Wages Act, 1948

qThe Equal Remuneration Act, 1976

qThe Industrial Disputes Act, 1947

qThe Payment of Wages Act 1936

The Wage Fixation Methods

It is the Govt. that decides to send the case for adjudication, it is referred to either Labour Court or Industrial Tribunal.

Decision of Industrial Tribunal/ Labour Court can be challenged only in High Court.

The employee or employer can not directly go to the Industrial Tribunal/ Labour Court except in some cases where direct monetary loss can be proved.

The Wage Fixation Methods

There are different methods for fixing the wages of employees.

1. Legal Framework: The different legislations that govern the payment of wages are :

a) Payment of Wages Act, 1936: The purpose of the act is to ensure regular & prompt payment of wages & to prevent exploitation of the earner by prohibiting unauthorised fines & deductions

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Factors Influencing Compensation Levels





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Factors Influencing Compensation Levels

Job needs

Ability to pay

Cost of living

Prevailing wage rates

Unions

Productivity

State regulation

Demand and supply of workforce

Factors Influencing Compensation Levels

- q **Job Needs:** Jobs vary greatly in their difficulty, complexity and challenge. Some need high levels of skills and knowledge while others can be handled by almost anyone. Simple, routine tasks that can be done by many people with minimal skills receive relatively low pay. On the other hand, complex, challenging tasks that can be done by few people with high skill levels generally receive high pay.
- q **Ability to Pay:** Profits determine the paying capacity of a firm. High profit levels enable companies to pay higher wages. This partly explains why computer software industry pays better salaries than commodity based industries. Likewise, multinational companies also pay relatively high salaries due to their earning power.
- q **Cost of Living:** Inflation reduces the purchasing power of employees. To overcome this, unions and workers prefer to link

Factors Influencing Compensation Levels.....

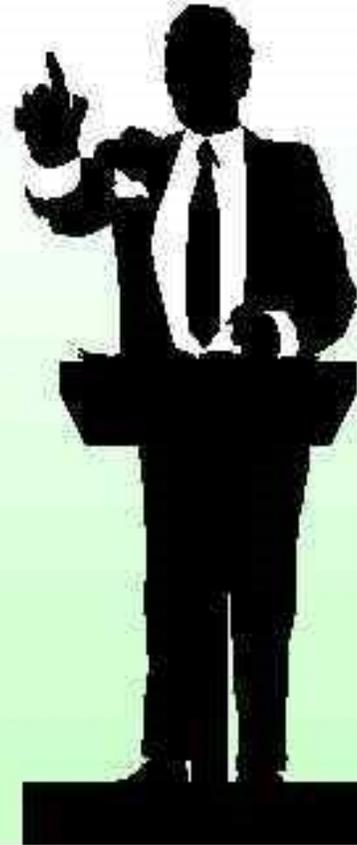
- q **Prevailing Wage Rates:** Prevailing wage rates in competing firms within an industry are taken into account while fixing wages. A company that does not pay comparable wages may find it difficult to attract and retain talent.
- q **Unions:** Highly unionized sectors generally have higher wages because well organized unions can exert pressure on management and obtain all sorts of benefits and concessions to workers.
- q **Productivity:** This is current trend in most private sector companies when workers' wages are linked to their productivity levels. If your job performance is good, you get good wages. A sick industry, for example, can't hope to pay competitive wages, in tune with profit making industry.

Factors Influencing Compensation Levels....

- q **State Regulation:** The legal stipulations in respect of minimum wages, bonus, dearness allowance, and allowance, etc., determine the wage structure in an industry.
- q **Demand and Supply of Workforce:** The demand for and the supply of certain skills determine prevailing wage rates. High demand for software professionals, R&D professionals in drug industry, telecom and electronics engineering, financial analysts, management consultants ensures higher wages. Oversupply kills demand for a certain category of employees leading to a steep fall in their wages as well.

Factors Influencing Pay Level

- Knowledge, skills, abilities
- Authority and responsibility
- Nature of the business
- The environment
- Geographic location
- Performance levels
- Seniority of the employee
- Compensation philosophy



Factors that Influence Wage Levels





Thank you...

