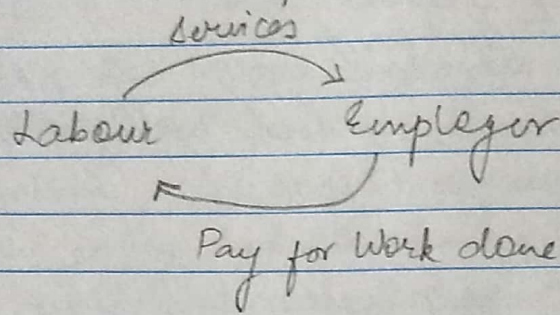


Compensation - Introduction



Today's Org Imp is Balancing the Cost of Compensation and retaining employees.

- It is a measure of justice
- " " the outcome of productivity

In China - was represented by symbols of logs and water
i.e. something which ensures the basic necessities of life

In India - from the Vedic Age - the volume of work and the time required to perform the work were considered to decide compensation.

'Comp. is all forms of financial returns, tangible services and benefits that an employee receives in his tenure of employment.' It is viewed as a system of rewards to motivate employees so that orgs can achieve their intended goals and obj's.

Modern Definition

- ↳ Intrinsic (Employee's mental satisfaction with job accomplishments)
- ↳ Extrinsic (monetary & non-monetary benefits)

Behavioural Issues —

Objectives of Compensation:—

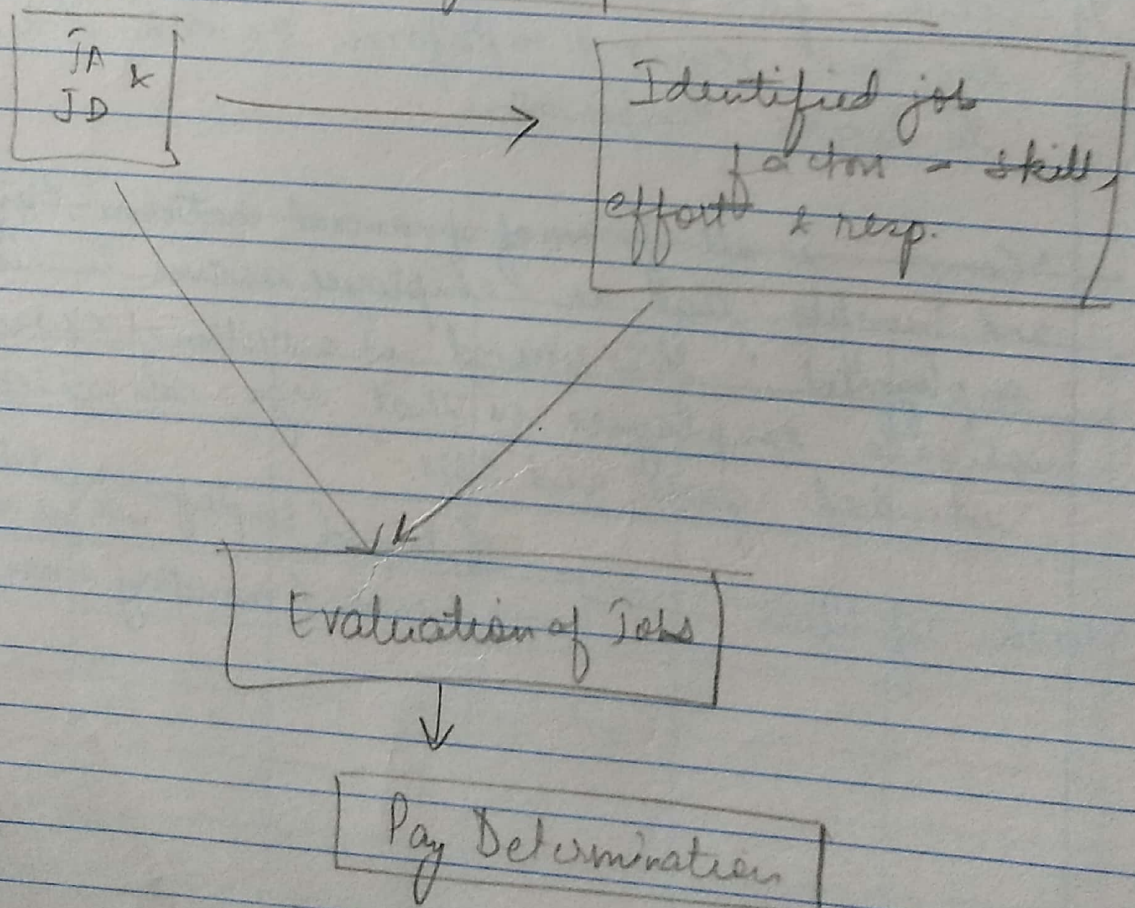
1. EQUITY Internal
External
2. EFFICIENCY
3. MACRO-ECONOMIC STABILITY (High Employment & low inflation)
4. OPTIMUM ALLOCATION OF LABOUR

Acquire qualified personnel
Retain current employees
Reward desired behaviours
Comply with legal regulation

Theory of Wage Determination

- ① Traditional theory
- ② Thy. of Negotiated Wages.

Model of Compensation



Role of Compensation & Rewards in the Org.

Q. A mfg org has 10,000 employees on its rolls in 4 units located in different parts of the country. The org faces many complex problems related to compensation. It also wants to use compensation policy and structure more actively to influence employee performance and org. culture. In pursuit of this objective, they want to appoint a compensation manager.

Ques:

- (1) What kind of person they should look for? Briefly outline his desired academic and professional background profile
- (2) List the main functions and responsibilities he should be charged with as compensation manager.

Framework of Compensation Policy

Constitution, Employers & Unions, Legislature and Courts actively influence public policy → Macro level

Company policy → Micro level.

Macro level

Key Considerations:-

- End exploitation & provide remuneration to capital & labour
- A living wage, conditions of work ensuring a decent std of life.
- Fix statutory minimum wages in sweated industries
- Ensure equal pay for equal work
- Provide for wage differentials
- Link remuneration to productivity
- Compensate for rise in cost of living
- The Capacity to pay

Micro level - Company level

- Attraction & Retention
- Internal Consistency
- External Consistency
- Ability to pay
- Pay & Performance
- Labour Costs & productivity
- Cost of living
- Motivation
- Integrity

Comp Structure and Differentials

Internal Equity - that proper wage differentials are established and maintained within an org on the basis of the relative worth of the jobs.

Same job → people with diff. capabilities
↓
Performance differs
↓
∴ role of Perf. Appraisals.

Wage structure should be built in such a way that would be attractive to retain good employees.

External Equity → Comparison of Internal wage - structure with the external system is known as establishing External Equity.

or
Determining the going rate

PAY & ITS COMPONENTS

- Basic
- Allowances DA, Perks
- Incentives / Bonus (including overtime etc.)

Pay Surveys: -

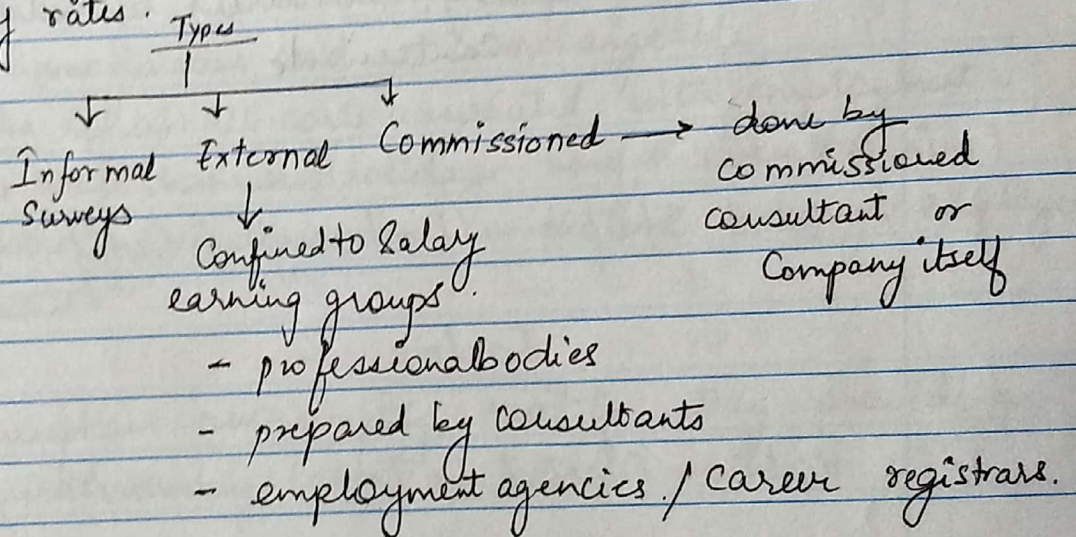
To build up a competitive wage structure, it is necessary to know what are the rates prevailing for similar jobs in the same industry in the area.

Prerequisites of Pay Survey: -

- What is the information to be sought (diff allowances, incentives mode of increment etc.)
- Selection of jobs for which inf. is to be sought
- The units to be approached for information.

Types:

External Equity is the comparison of both Intra & Inter Industry pay rates.



Commissioned Survey

(1) By Job Title Method

The company collecting information gets the pay details for similar job titles in other companies.

but job duties may vary.

(2) Job Description Method.

(3) Job Evaluation Method (JD's are collected and Job Eval. is done on

these JD's.
Jobs for which survey is conducted are known as Key-Jobs or Benchmark Jobs

The type of information to be collected in a pay survey is as follows: —

1. General Info.
 - name of Co
 - Product manuf.
 - Type of Ownership
 - no. of employees
2. No. of weekly, daily working hrs, lunch & tea breaks
3. Holiday
4. Basic Wages, scales of pay
5. Allowances - DA, HRA, city allowance, conveyance all, shift allowance etc.
6. Incentives, bonuses, overtime payments.
7. Facilities - housing, children's education, water, fuel canteen etc.

What Shapes External Equity?

Factors : —

Labour Market Factors : Demand & Supply

Product Market Factors : Degree of Competition
↓
Level of Product Demand.

Organization factors : Industry, Strategy, size
Individual Manager.

- Labour Market & types of markets
 - Quoted price
 - The Bourse

Quoted price → stores that label each item's price or lists a job opening's starting wage

eg. Quoted price → Amazon.com

The Bourse → eBay (bargaining over terms & conditions until an agreement is reached)

Graduating students usually find themselves in a Quoted-labor market

How Labor Markets Work?

4 Basic Assumptions:

- (1) Employers always seek to maximise profits.
- (2) people are homogeneous and \therefore interchangeable
- (3) The pay rates reflect all costs associated with employment.
(eg. base wage, bonuses, holidays, benefits even training)
- (4) The markets faced by employers are competitive so single employer cannot monopolise.

Although these assumptions oversimplify reality, they provide a framework for understanding labor markets.

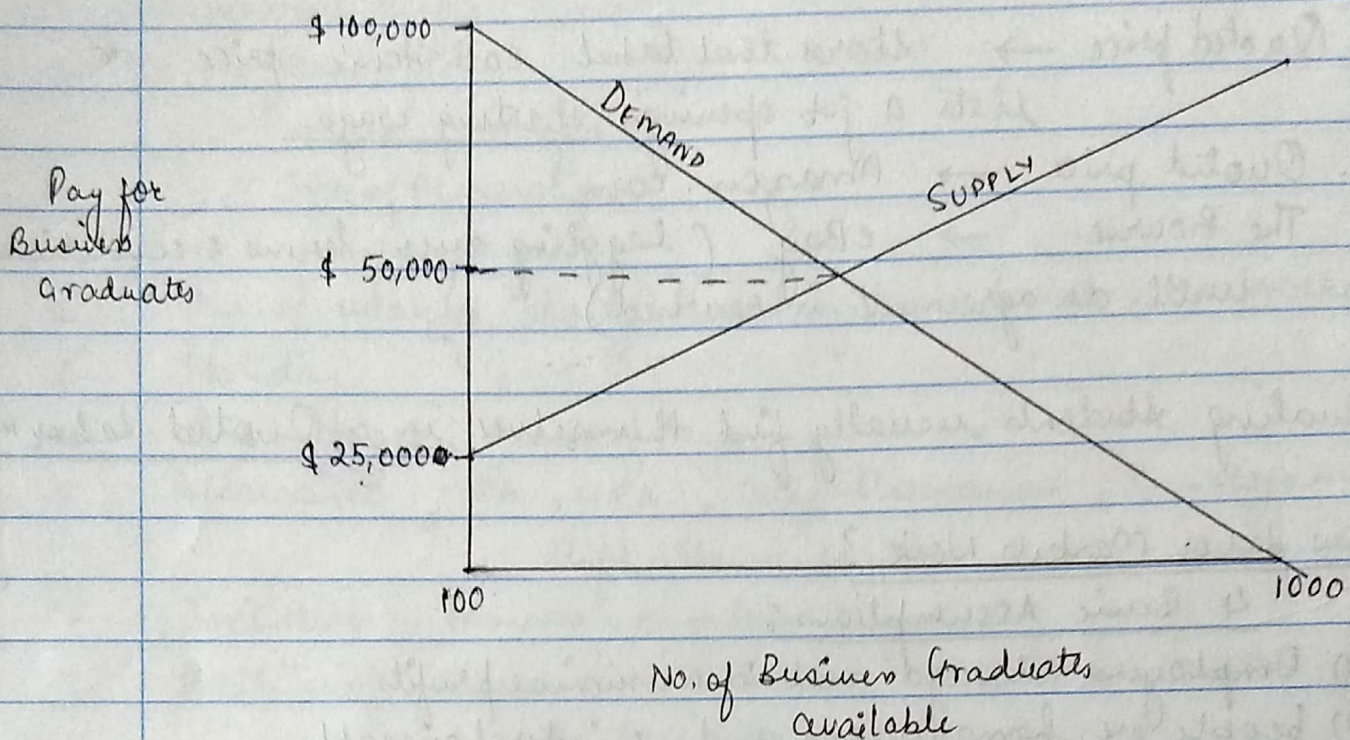
Analysis of Demand and Supply for finding out how Markets Work?

Demand:- Action of the employers — how many new hires they seek and what they are willing and able to pay new employees.

Supply:- potential employees — their qualification and the pay they are willing to accept in exchange for their services.

eg.

Supply and Demand for Business School Graduates in the Short Run.



Demand: is the sum of all employers' hiring preferences for business graduates at various pay levels.

at \$100,000 only 100 graduates will be hired since a few firms will afford them.

at \$25,000 companies can afford to hire 1000 graduates.

Supply: Only 100 are willing to work for \$25,000 as pay rates rise more graduates become interested in working so the labour supply line slopes upward.

Market rate: Where the lines for labor demand and labor supply cross.
i.e. \$50,000.

Because any single employer can hire all the business graduates it wants at \$50,000 and all Business graduates are of equal quality (assumption 2), there is no reason for any wage other than \$50,000 to be paid.

Competitive Pay Policy.

1. Pay above Market (Lead)
2. Pay with Market (Match)
3. Pay below Market (Lag)
4. Flexible Policies (Hybrid Policies)

① Match Policy (Pay with Competition / Market)

A pay with competition policy tries to ensure that an org's wage costs are approx. equal to those of its competitors and that its ability to attract applicants will be approximately equal to its labor market competitors.

② Lead Policy (Pay above Market)

Role of Compensation

- a) It enables an org to attract & retain the manpower it requires
- b) It motivates employees and provides directions to their efforts
- c) It induces employees to develop skills and competencies
- d) It is used to foster values & culture of the org.

Internal Equity / Alignment.

Refers to comparisons among jobs or skill levels inside a single organization. Jobs and people's skills are compared in terms of their relative contributions to the org's business objectives. Internal alignment pertains to the pay rates both for employees doing equal work and for those doing dissimilar work. In fact, determining what is an appropriate difference in pay for people performing different work is one of the key challenges facing mgrs.

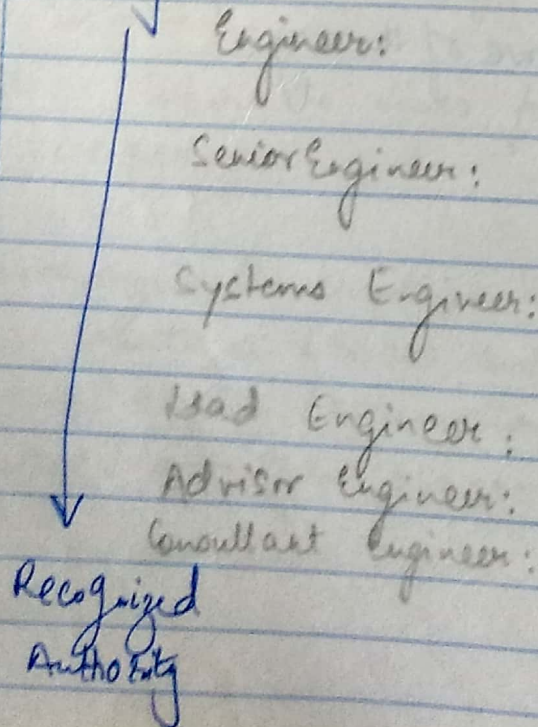
∴ Internal alignment / Equity, refers to the pay relationships among diff jobs / skills / competencies within a single org.

EX1 Shows a structure of Engineering Work at a division of Lockheed Martin, the World's largest defense contractor.

Lockheed also builds, Rockets, shuttles and Martian rovers for NASA.

Lockheed has the contract to build the next shuttle that will take manned flights back to the moon and on to Mars.

Entry level



INTERNAL PAY STRUCTURES :-

Can be defined by

- (1) No. of levels of work
- (2) Pay differentials between the levels.
- (3) Criteria or basis used to determine those levels & differentials

(1)

Levels

\$ 1,40,000

\$ 162,000
Consultant Eng.

\$ 125,000 \$ 37,000
Adv. Eng (20%)

\$ 98,000 \$ 27,000
Lead Eng (28%)

\$ 78,000 \$ 20,000
Sys. Eng (26%)

70,000 \$ 63,000
Senior Eng

\$ 15,000
(21%)

60,000 \$ 52,000
Engineer

\$ 11,000
(21%)

\$ 40,000

Entry level

Recognized Authority

Pay structure at Lockheed Martin

Differentials between levels.

(2) Differentials

The pay differences among levels are referred to as differentials.

Motive of these differentials is to motivate people to strive for promotion to a higher-paying level.

Criteria :-

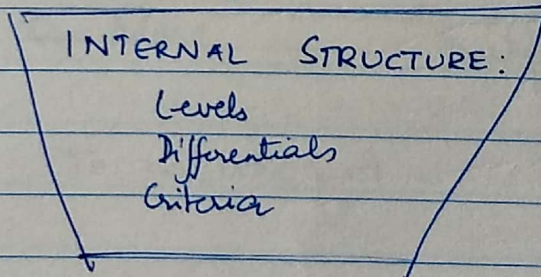
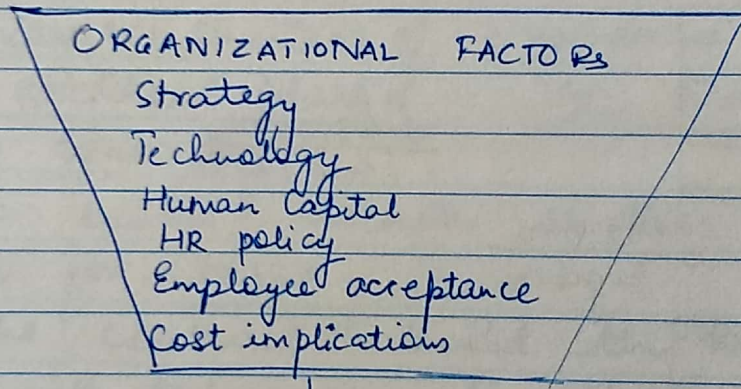
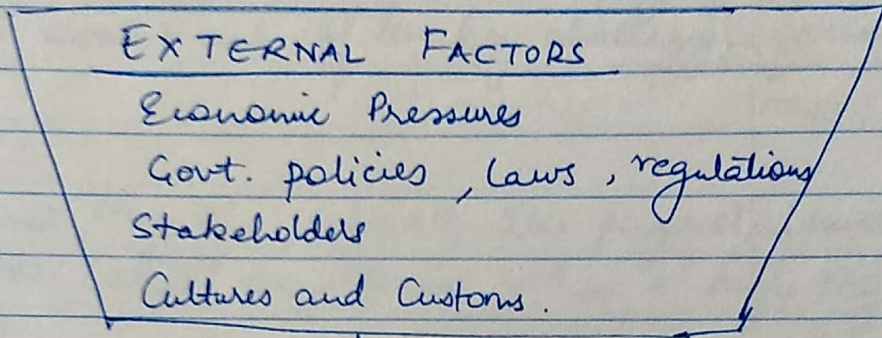
③

Content and Value → worth of the work.

↓
work performed (tasks, behaviors, Knowledge reqd.)

⇒ What Shapes Internal Structures :-

(Pg 59 Milkovich)



⇒ Strategic Choices in Designing Internal Structures.

Aligned pay structures support the way the work gets done, fit the org's business strategy, and are fair to employees.

Greater internal alignment - fit - is more likely to lead to success.

To make pay structure internally aligned

↓
i.e.

pay structure → Org design

2 Strategic choices are involved

(1) how to fit pay to Org design

(2) how to distribute pay throughout the levels in the structure.

(1) Tailored Versus Loosely Coupled.

(2) Egalitarian Versus Hierarchical.

Tailored

A low cost BS followed by McDonald or Walmart is supported by a closely tailored structure. Jobs are well defined with detailed tasks or steps to follow. Their pay structures are similar anywhere you go. Differences in pay among jobs are very small.

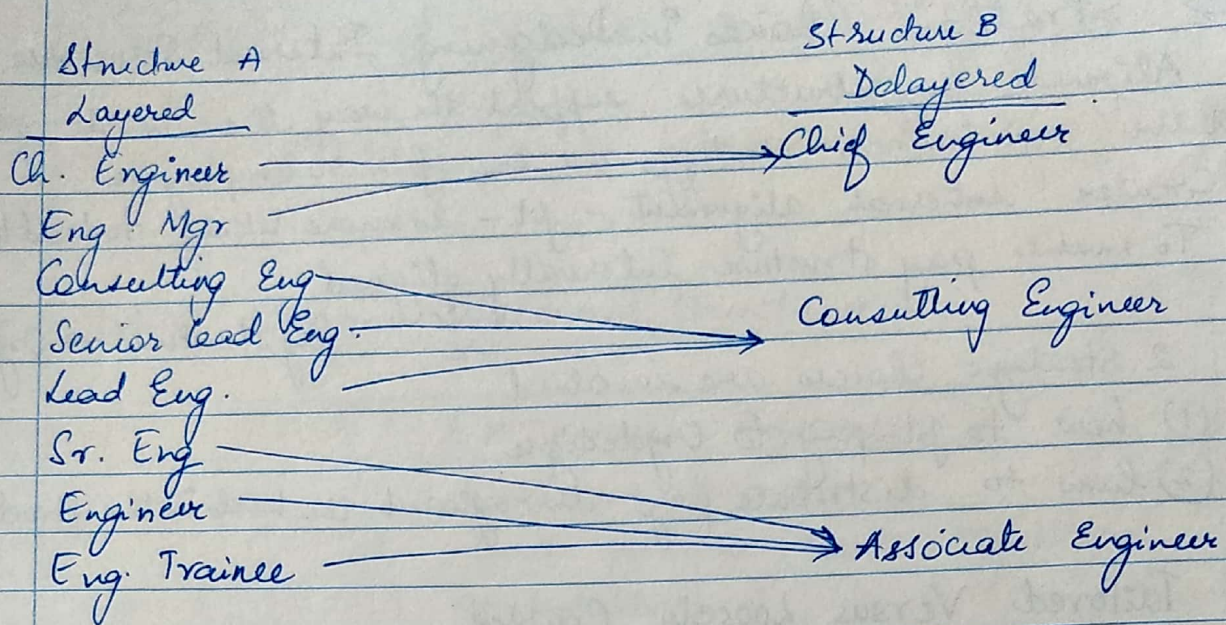
Loosely coupled

3M's BS, product innovation. ∴ No steps to perform a task are laid out. 3M's pay structures are more loosely linked to the organization in order to provide flexibility.

Egalitarian

have fewer levels and smaller differentials between adjacent levels & between the highest and lowest paid worker.

	<u>Hierarchical</u>	<u>Egalitarian</u>
Levels	Many	Fewer
Differentials	Large	Small
Criteria	Person or job	Person or job
Supports	Close fit	Loose fit
Work Org	Individual performers	Teams
Fairness	Performance	Equal treatment
Behaviors	Opp. for promotion	Cooperation



Consequences of Structures :-

Why worry about internal alignment at all?

- ① Efficiency - Aligned structure can lead to better org performance. If the structure does not motivate employees to help achieve the org's objectives, then it needs redesign. Internal pay structures imply future returns. The size of the differentials between the entry level in the structure and the highest level can encourage employees to remain with the organization, increase their experience and training, cooperate with co-workers and seek greater responsibility.
- ② Fairness - If acceptable wage structure is absent result would be turnover, grievances & diminished motivation. If fair differentials among jobs are not paid, individual may have ill will toward the employer.
- ③ Compliance

JOB EVALUATION :-

The purposes that are served by JE are:

Primary Objectives :-

- To establish wage level of a company
- To establish relative wage level in a plant
- To bring new jobs to their proper relative parity with existing jobs
- To facilitate wage negotiations.

Secondary Objectives :-

- To determine qualities for new jobs for employee selection
- To determine criteria for merit rating and promotions
- To analyse wage rates
- To train new supervisors

Institutional Mechanisms for Wage Determination.

There are divergent systems and institutions for wage fixation.

They include unilateral, bipartite (Collective bargaining wage boards and pay commission)
Third party (arbitration or adjudication)

