



INSTITUTE OF AERONAUTICAL ENGINEERING

(Autonomous)

Dundigal, Hyderabad -500 043

MASTER OF BUSINESS ADMINISTRATION

COURSE LECTURE NOTES

Course Name	COMPENSATION AND REWARD MANAGEMENT
Course Code	CMBB60
Programme	MBA
Semester	IV
Course Coordinator	Dr. MRS. Surya Narayana Reddy, Assistant Professor, MBA
Course Faculty	Dr. MRS. Surya Narayana Reddy, Assistant Professor, MBA
Lecture Numbers	1-45
Topic Covered	All

COURSE OBJECTIVES (COs):

The course should enable the students to:	
I	Understand compensation and reward system it must get approval from the govt. or top management in the organization.
II	Provide useful information about the latest thinking and developments Compensation must be sufficient so that needs of the employees are fulfilled substantially
III	Understand the practice of compensation management Employees must have guarantee of getting wages or compensation regularly without any break.
IV	Explore the new realities of how organizations are approaching the vital tasks of managing for rewards and developing the capabilities of their people.

COURSE LEARNING OUTCOMES (CLOs):

Students, who complete the course, will have demonstrated the ability to do the following:

CMBB40.01	Understand the concept of compensation, theoretical dimension, economic and behavioural Dimensions.
CMBB40.02	Discuss the designing pay model strategic compensation plan, wage and salary Administration at micro level.
CMBB40.03	Analyze different types of rewarding procedure of employees on the basis of performance.
CMBB40.04	Summarize some similarities and differences Between financial and non-financial benefits of the employees.
CMBB40.05	Explain about the international nature of Compensation and compensation process.
CMBB40.06	Identify the differences between job analysis and job design.
CMBB40.07	Analyse the pay model structure Architecture and its components with the help of a diagram.
CMBB40.08	Interpret the opportunities provided by the organization and organizational benefits to the employees.
CMBB40.09	Describe the role and support of compensation in case of applications, Real estate business, Insurance sector Jobs and employment sites.
CMBB40.10	Examine the functional requirements for the employee benefits and services.

SYLLABUS

UNIT -I	INTRODUCTION TO COMPENSATION MANAGEMENT:	Classes: 10
Compensation, theoretical dimension, economic and behavioral; designing the pay model strategic compensation plan; wage and salary administration at the macro level.		
UNIT-II	WAGE AND SALARY ADMINISTRATION:	Classes: 10
Wage and salary administration at the micro level job evaluation, definition, traditional and new techniques; compensation structure, Indian practices; wage boards, pay commissions, compensation management in multinational organizations.		
UNIT-III	CONCEPTS OF EMPLOYEE BENEFITS:	Classes: 10
Incentives, fringe benefits; establishing a link with performance appraisal and compensation management. Performance linked compensation; benefits and services.		
UNIT-IV	PERFORMANCE BASED PAY:	Classes: 10
Managerial remuneration pays commission; performance-based pay system incentives, executives' compensation plan and packages.		
UNIT-V	COMPENSATION STRTERGIES:	Classes: 10
Recognizing the worth and value of employee's knowledge and skill, rewarding employees contributions and results achieved, supporting team work, compensation package according to current lifestyle and new thinking in the new millennium.		
Text Books:		
<ol style="list-style-type: none"> 1. Richard.i. Henderson, "Compensation Management in a Knowledge Based World", Prentice-hall, 1stEdition, 2001. 2. Edwarde.e. Lawler, "Rewarding excellence (pay strategies for the new economy)", Prentice-hall, 1stEdition, 2004. 3. B D Singh, "Compensation and Reward Management", Sterling Publishers (P) Ltd, Kindle Edition, 2001. 		
Reference Books:		
<ol style="list-style-type: none"> 1. Thomas. P. Plannery, David, "People Performance and Pay", Free Press, 1stEdition, 2002. 2. Michael Armstrong, "Hand book of Reward Management", Crust Publishing House, 2ndEdition, 2003. 3. Joseph. Martocchio, "Strategic Compensation - A Human Resource Management Approach" Prentice Hall, 4thEdition, 2005. 		
Web References:		
<ol style="list-style-type: none"> 1. https://iedunote.com/compensation-management 2. https://www.managementstudyguide.com/compensation-management.htm 3. https://www.slideshare.net/805984/compensation-management-16470965 4. http://www.pondiuni.edu.in/sites/default/files/Compensation-mgt-260214.pdf 5. http://www.eiilmuniversity.co.in/downloads/Compensation-Management.pdf 6. https://www.studynama.com/community/threads/compensation-management-pdf-notes-ebook-download-for-mba-hr-students.348/ 		
E-Text Books:		
<ol style="list-style-type: none"> 1. https://www.amazon.in/Compensation-Management-Dipak-Kumar-Bhattacharyya/dp/0199456542 2. https://www.peplematters.in/blog/sports-books-movies/4-books-every-compensation-and-benefits-professional-should-read-16440 		

UNIT-I

INTRODUCTION TO COMPENSATION MANAGEMENT

Compensation, theoretical dimension, economic and behavioural; designing the pay model strategic compensation plan; wage and salary administration at the macro level.

Compensation management, also known as wage and salary administration, remuneration management, or reward management, is concerned with designing and implementing total compensation package.

Compensation is the human resource management function that deals with every type of reward individuals receive in exchange for performing an organizational task. The consideration for which labour is exchanged is called compensation.

Compensation is what employees receive in exchange for their work. It is a particular kind of price, that is, the price of labour. Like any other price, remuneration is set at the point where the demand curve for labour crosses the supply curve of labour.

Compensation and Compensation Management:

Compensation is referred to as money and other benefits received by an employee for providing services to his employer.

Compensation refers to all forms of financial returns: tangible services and benefits employees receive as part an employment relationship, which may be associated with employee's service to the employer like provident fund, gratuity, insurance scheme and any other payment which the employee receives or benefits he enjoys in lieu of such payment.

According to Dale Yoder, "**Compensation is paying people for work**".

"Compensation is what employees receive in exchange for their contribution to the organization". – Keith Davis

In the words of Edwin B. Filippo, "**The function compensation is defining as adequate and equitable remuneration of personnel for their contributions to the organizational objectives**".

Cascio has defined compensation as follows;

"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"

Beach has defined wage and salary administration as follows;

“Wage and salary’ administration refers to the establishment and implementation of sound policies and practices of employee compensation. It includes such areas as job valuation, surveys of wages and salaries, analysis of relevant organizational problems, development, and maintenance of wage structure, establishing rules for administering wages, wage payments, incentives, profit sharing, wage changes and adjustments, supplementary payments, control of compensation costs and other related items.”

Compensation can be in the form of cash or kind. Compensation may be defined as money received in the performance of works, plus the many kinds of benefits and services that organizations provide their employees.

Objectives of Compensation Management

The basic objective of compensation management can be briefly termed as meeting the needs of both employees and the organization.

Employers want to pay as little as possible to keep their costs low. Employees want to get as high as possible.

Objectives of compensation management are;

1. Acquire qualified personnel.

Compensation needs to be high enough to attract applicants. Pay levels must respond to the supply and demand of workers in the labour market since employees compare for workers.

Premium wages are sometimes needed to attract applicants working for others.

2. Retain current employees.

Employees may quit when compensation levels are not competitive, resulting in higher turnover.

Employees serve organizations in exchange for a reward. If pay levels are not competitive, some employees quit the firm. To retain these employees’, pay levels must be competitive with that of other employers.

3. Ensure equity.

To retain and motivate employees, employee compensation must be fair. Fairness requires wage and salary administration to be directed to achieving equity.

Compensation management strives for internal and external equity.

Internal equity requires that pay be related to the relative worth of a job so that similar jobs get similar pay.

External equity means paying workers what comparable workers are paid by other firms in the labour market

4. Reward desired behaviour.

Pay should reinforce desired behaviours and act as an incentive for those behaviours to occur in the future. Effective compensation plans reward performance, loyalty, experience, responsibility, and other behaviours.

Good performance, experience, loyalty, new responsibilities, and other behaviours can be rewarded through an effective compensation plan.

5. Control costs.

A rational compensation system helps the organization obtain and retain workers reasonable cost. Without effective compensation management, workers could be overpaid or underpaid.

6. Comply with legal regulations.

A sound wage and salary system consider the legal challenges imposed by the government and ensures employers compliance.

7. Facilitate understanding.

The compensation management system should be easily understood by human resource specialists, operating managers and employees

8. Further administrative efficiency.

Wage and salary programs should be designed to be managed efficiently, making optimal use of the HRIS, although this objective should be a secondary consideration with other objectives.

9. Motivating Personnel.

Compensation management aims at motivating personnel for higher productivity. Monetary compensation has its own limitations in motivating people for superior performance. Besides money people also wants praise, promotion, recognition, acceptance, status, etc. for motivation.

10. Consistency in Compensation.

Compensation management tries to achieve consistency-both internal and external in compensating employees. Internal consistency involves payment on the basis of the criticality of jobs and employees' performance on jobs.

11. To be adequate

Compensation must be sufficient so that the needs of the employee are fulfilled substantially.

Pre-requisites for Effective Compensation Management

An effective compensation system should fulfil the following criteria:

1. **Adequate:** Minimum governmental, union, and managerial pay level positions must be met by the compensation system.
2. **Equitable:** Care should be taken so that each employee is paid fairly, in line with his/her abilities, efforts, education, training, experiences, competencies, and so on.
3. **Balanced:** Pay, benefits, and other rewards must provide a reasonable compensation package.
4. **Secure:** Employees security needs must be adequately covered by the compensation package.
5. **Cost-Effective:** Pay must be neither excessive nor inadequate, considering what the enterprise can afford to pay.
6. **Incentive Providing:** The compensation package should be such that it generates motivation for effective and productive work.
7. **Acceptable to all Employees:** All employees understand the pay system well and feel it is reasonable for the enterprise and the individual.

Challenges or Problems of Compensation Management

Even the most rational methods of determining pay must be tempered by good judgment when challenges arise.

The implications of these demands may cause analysts to make further adjustments to compensation.

1. Strategic Objectives.
2. Prevailing Wage Rates.
3. Union Power.
4. Government Constraints.
5. Comparable Worth and Equal Pay.
6. Compensation Strategies and Adjustments.
7. International Compensation Challenges.
8. Productivity and costs.

1. Strategic Objectives

Compensation management is not limited to internal and external equity. It also can be used to further an employer's strategy. Employee compensation might have been initially anchored by the relative worth of jobs and the prevailing wage rates in the local market.

2. Prevailing Wage Rates

Market forces may cause some jobs to be paid more than their relative worth. Demographic shifts and relative supply and demand relationships affect compensation.

3. Union Power

When unions represent a portion of the workforce, they may be able to obtain wage rates that are out of proportion to the relative worth of the jobs.

Unions may also limit management's flexibility in administering merit increases since unions often argue for raises that are based on seniority and are applied across the board equally.

4. Government Constraints

Government sets minimum wage, overtime pay, equal pay, child labor, and record-keeping requirements. The minimum-wage and overtime provisions require employers to pay at least a minimum hourly rate regardless of the worth of the job.

5. Comparable Worth and Equal Pay

Beyond "equal pay for equal work" is the idea of "comparable pay for comparable work" called comparable worth. It requires employers to pay equal wages for jobs of comparable values.

Comparable worth is used to eliminate the historical gap between the incomes of men and women.

6. Compensation Strategies and Adjustments

Most organizations have compensation strategies and policies that cause wages and salaries to be adjusted.

A common strategy is to give non-union workers the same raises that are given to unionized employees; this often is done to prevent further unionization.

7. International Compensation Challenges

The globalization of business affects compensation management.

Compensation analysts must focus not only on equity but on competitiveness too. The growing globalization of business also means a greater movement of employee among countries.

As employees are relocated, compensation specialists are challenged to make adjustments that are fair to the employee and the company while keeping competitiveness in mind.

8. Productivity and costs

Regardless of the company or social policies, employers must make a profit to survive. Without profits, they cannot attract enough investors to remain competitive.

Therefore, a company cannot pay its workers more than the workers give back to the firm through their productivity.

Compensation is a tool used by management for a variety of purposes to further the existence of the company. Compensation may be adjusted according to the business needs, goals, and available resources.

Compensation Management:

Process of compensation management is to establish & maintain an equitable wage & salary structure & an equitable cost structure. It involves job evaluation, wage & salary survey, profit sharing & control of pay costs.

Two important functions of compensation

- Equity function
- Motivation function

Equity is based on past & current performance & motivation with which the work has been performed in the past & current performance.

Nature and Purpose of compensation management:

The basic purpose of compensation management is to establish and maintain an equitable reward system. The other aim is the establishment and maintenance of an equitable Compensation structure, i. e., an optimal balancing of conflicting personnel interests so that the satisfaction of employees and employers is maximized and conflicts minimized. The compensation management is concerned with the financial aspects of needs, motivation and rewards. Managers, therefore, analyze and interpret the needs of their employees so that reward can be individually designed to satisfy these needs. For it has been rightly said that people do what they do to satisfy some need. Before they do anything, they look for a reward or pay-off. The reward may be money or promotion, but more likely it will be some pay-off—a smile, acceptance by a peer, receipt of information, a kind word of recognition etc.

The Significance of Compensation

From individual standpoint -remuneration is a major source of an individual's purchasing power. It determines his or her status, prestige & worth in society.

From enterprise stand point- compensation is a crucial element in the cost of production, which is expected to permit adequate profits leading to increase in new capital, expansion production, and capacity.

From national point of view –dissatisfied work force hampers equitable distribution of aggregate real income among various groups involved. It causes inflation.

A Sound Compensation Structure Tries to Achieve These Objectives

- To attract manpower in a competitive market.
- To control wages & salaries & labour costs by determining rate change & frequency of increment.
- To maintain satisfaction of employees by exhibiting that remuneration is fair adequate & equitable.
- To induce & reward improved performance, money is an effective motivator.

a. For employees

- Employees are paid according to requirements of their jobs, i.e., highly skilled jobs are paid more compensation than low skilled jobs. This eliminates inequalities.
- The chances of favoritism (which creep in when wage rates are assigned) are greatly minimized.
- Job sequences and lines of promotion are established wherever they are applicable.
- Employees' morale and motivation are increased because of the sound compensation structure.

b. To Employers

- They can systematically plan for and control the turnover in the organization.
- A sound compensation structure reduces the likelihood of friction and grievances over remuneration
- It enhances an employee's morale and motivation because adequate and fairly administered incentives are basic to his wants and needs.
- It attracts qualified employees by ensuring and adequate payment for all the jobs.

Now we come to the principles of Compensation

- Differences in pay should be based on differences in job requirements.
- Wage & salary level should be in line with those prevailing in the job market.
- Follow the principle of equal pay for equal work.
- Recognize individual differences in ability & contributions.
- The employees & trade unions should be involved in while establishing wage rates.
- The wages should be sufficient to ensure for the worker & his family reasonable standard of living.
- There should be a clearly established procedure for redressal of grievances concerning wages

- The wage & salary structure should be flexible.
- Wages due to employees should be paid correctly & promptly.
- A wage committee should review & revise wages from time to time.

components of a CompensationSystem:

Employees as fair if based on systematic components will perceive compensation. Various compensation systems have developed to determine the value of positions. These systems utilize many similar components including job descriptions, salary ranges/structures, and written procedures.

The components of a compensation system include:

Job Descriptions: A critical component of both compensation and selection systems, job descriptions define in writing the responsibilities, requirements, functions, duties, location, environment, conditions, and other aspects of jobs. Descriptions may be developed for jobs individually or for entire job families.

Job Analysis: The process of analyzing jobs from which job descriptions are developed. Job analysis techniques include the use of interviews, questionnaires, and observation.

Job Evaluation: A system for comparing jobs for the purpose of determining appropriate compensation levels for individual jobs or job elements. There are four main techniques: Ranking, Classification, Factor Comparison, and Point Method.

Pay Structures: Useful for standardizing compensation practices. Most pay structures include several grades with each grade containing a minimum salary/wage and either step increments or grade range. Step increments are common with union positions where the pay for each job is pre-determined through collective bargaining.

Salary Surveys: Collections 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. When purchasing the results of salary surveys conducted by other vendors, note that surveys may be conducted within a specific industry or across industries as well as within one geographical region or across different geographical regions. Know which industry or geographic location the salary results pertain to before comparing the results to your company.

Policies and Regulations

Different Types of Compensation:

- Different types of compensation include:

- Base Pay
- Commissions
- Overtime Pay
- Bonuses, Profit Sharing, Merit Pay
- Stock Options
- Travel/Meal/Housing Allowance

Benefits including: dental, insurance, medical, vacation, leaves, retirement, taxes...

In a layman's language the word Compensation means something, such as money, given or received as payment or reparation, as for a service or loss. On the other hand, the word Reward means something given or received in recompense for worthy behavior or in retribution for evil acts.

Demarcate between Compensation and Rewards

In a layman's language the word Compensation means something, such as money, given or received as payment or reparation, as for a service or loss. On the other hand, the word Reward means something given or received in recompense for worthy behavior or in retribution for evil acts.

The word Compensation may be defined as money received in the performance of work, plus the many kinds of benefits and services that organizations provide their employees.

On the other hand, the word Reward or Incentive means anything that attracts an employees' attention and stimulates him to work. An incentive scheme is a plan or a programme to motivate individual or group performance.

An incentive programme is most frequently built on monetary rewards (incentive pay or monetary bonus), but may also include a variety of non-monetary rewards or prizes.

Compensation or rewards (incentives) can be classified into

1. Direct compensation and
2. Indirect compensation.

Money is included under direct compensation (popularly known as basic salary or wage, i.e. gross pay) where the individual is entitled to for his job, overtime-work and holiday premium, bonuses based on performance, profit sharing and opportunities to purchase stock options.

While benefits come under indirect compensation, and may consist of life, accident, and health insurance, the employer's contribution to retirement (pensions), pay for vacation or illness, and employer's required payments for employee welfare as social security.

While French says, the term “Incentive system” has a limited meaning that excludes many kinds of inducements offered to people to perform work, or to work up to or beyond acceptable standards. It does not include:

- Wage and salary payments and merit pay;
- Over-time payments, pay for holiday work or differential according to shift, i.e. all payments which could be considered incentives to perform work at undesirable times; and
- Premium pay for performing danger tasks.

It is related with wage payment plans which tie wages directly or indirectly to standards of productivity or to the profitability of the organization or to both criteria. Compensation represents by far the most important and contentious element in the employment relationship, and is of equal interest to the employer, employee and government.

- To the employer because it represents a significant part of his costs, is increasingly important to his employee’s performance and to competitiveness, and affects his ability to recruit and retain a labor force of quality.
- To the employee because it is fundamental to his standard of living and is a measure of the value of his services or performance.
- To the government because it affects aspects of macro- economic stability such as employment, inflation, purchasing power and socio – economic development in general.

While the basic wage or pay is the main component of compensation, fringe benefits and cash and non-cash benefits influence the level of wages or pay because the employer is concerned more about labor costs than wage rates per se. The tendency now is towards an increasing mix of pay element of executive compensation has substantially increased in recent years.

Methods of Payment:

The following points highlight the top three methods of wage payments. The methods are: 1. Time Rate System 2. Piece Rate System 3. Incentive Wage System.

Time Rate System:

Under this method of wage payment, the workers are paid the wages on the basis of time. In this system of wage payment, the workers are paid the wages on the basis of time as, per

hour, per day, per week, per fortnight or per month etc. This system does not consider the production of the employees during this time.

The amount of wages under this system is calculated as under:

Wages = Time spent by the worker × Rate of wages according to time.

Suitability of Time Rate System:

This system of Wage Payment is particularly suitable in the following circumstances:

1. When it is not possible to measure the production in terms of units or in any other terms.
2. When the work is of high standard.
3. When it is not possible to divide the production into units.
4. When the production is of the nature that it requires efficiency more than the speed.
5. When the worker is undertraining

Merits of Time Rate System:

1. Simplicity:

It is very easy to calculate the amount of wage under this system.

2. Certainty of the Amount of the Remuneration:

This system of wage payment provides certainty of the amount of wage payment to the employee. It develops the feeling of confidence and certainty among them.

3. High Quality of Production:

As this system of wage payment has no concern with quantity of production, quality of production produced by the workers under this system is very high.

4. Proper Utilisation of the Factors of Production:

As this system is not related with speed, the workers perform their work in very confident manner. They make the best Utilisation of the factors of production.

5. Co-Operation between Labour and Capital:

This system of wage payment brings the industrial peace because it satisfies the workers and the industrialists. Thus, it develops harmony and cooperation between labour and capital.

6. Best System for Artistic Work:

This system of wage payment is most suitable for artistic work.

7. Co-Operation and Unity of Workers:

As all the employees doing the work for same nature get the same amount of wages, this system develops the feeling of co-operation and unity among the workers.

8. Suitable for the Health of Workers:

This system of wage payment is suitable from the point of view of health of workers.

Demerits of Time Rate System:

1. Need of Intensive Supervision:

This system requires intensive supervision over workers. It increases the cost of supervision.

2. Lack of Incentive:

This system of wage payment makes equal payment to both the efficient and inefficient workers. Therefore, efficient workers do not get any incentive for more production.

3. Encouragement of Labour Unions:

This system encourages labour unions. Sometimes, these labour unions misuse their powers.

4. Misuse of Time by Workers:

Under this system of wage payment, the workers do not make proper Utilisation by their time.

5. Fall in the Quantity of Production:

Under this system of wage payment, the quantity of production decreases because the workers do not get any incentive for increasing the production.

6. High Cost of Production:

As the production is low and the payment to the worker is more, this system increases the cost of production.

7. It Kills the Efficiency of Workers:

As this system does not make any difference between efficient and inefficient workers, it kills the efficiency of efficient workers.

8. Increase in Cost Per Unit:

This system increases the cost per unit of production. Under this system, the cost per unit of production is uncertain because the quantity of production differs from time to time.

9. Difficult to Measure the Efficiency:

Under this system of wage payment, it is very difficult to measure the efficiency of workers because all the workers of equal status are paid the wages at equal rate.

PIECE RATE SYSTEM:

Under this system of wage payment, the workers are paid the wages on the basis of quantity and quality of work performed by them. Under this system, the rates of wages are determined according to quantity and quality of work and the workers are paid according to these rates.

The amount of wages to be paid to a worker under this system is calculated as under:

Wages = Units of production × Rate per unit.

Suitability of Piece Rate System:

This system of wage payment is very suitable in the following conditions:

1. When the work is of standard nature.
2. When the work can be measured easily.
3. When there is a great need of increase in the production.

MERITS OF PIECE RATE SYSTEM:

1. Incentive to More Work:

This system encourages the workers to do more and more work because they get their wages according to their work.

2. Proper Utilisation of Machines:

Under this system, the workers use their machines and equipment with proper care because they feel that if their machine is out of order, their work will be held up and their wages will be low.

3. Increase in the Quantity of Production:

The system of wage payment gets more production because all the workers make their best efforts to increase the production.

4. Best Utilisation of Time:

As the workers are paid according to their work, they make the best possible utilisation of their time. They do not want to waste their time.

5. Decrease in the Cost of Production:

This system decreases the cost of production because the maximum production is done by the workers in the minimum time. It decreases the cost per unit of production also.

6. Decrease in the Cost of Supervision and Administration:

This system of wage payment minimises the needs of supervision. It reduces the cost of supervision.

7. Easy and Simple:

This system of wage payment is very easy to understand and very simple to calculate.

8. Improvement in the Standard of Living of Workers:

Workers get more wages because they produce more. It increases their efficiency and productivity. It increases their remuneration also which improves their standard of living.

9. Mobility of Workers:

This system of wage payment increases the mobility of workers because they can change their enterprise easily.

10. Measurement of the Efficiency of the Workers:

This system provides an opportunity to measure the efficiency of the workers. It makes proper distinction between efficient and inefficient working staff of the enterprise.

11. Justified:

This system of wage payment justified also because the workers are paid the wages according to the work performed by them.

12. Helpful in Maintaining Industrial Peace:

This system brings industrial peace also because it satisfies both the workers and the employer.

DEMERITS OF PIECE RATE SYSTEM:**1. Lack of Unity among Workers:**

This system lacks the unity and mutual co-operation among workers. They feel themselves competitor to each other.

2. Loss of Workers on the Failure of Machines etc.:

It because of any reason, the machines fail or the power fails, the work of workers is held up and they lose their wages.

3. Misuse of the Factors of Production:

The workers do not pay proper attention towards the factors of production. They only want to increase the speed of production.

4. Adverse Effect on the Health of Workers:

This system motivates the workers to do more and more work. It affects the health of workers adversely.

5. Low Quality of Production:

This system of wage payment does not pay any attention on the quality of production. As a result of it the quality of production falls down.

6. Unsuitable for Artistic Work:

This system is not suitable for artistic work because artistic work cannot be paid only on the basis of quantity of production.

7. Uncertainty of Wages:

As the amount of wages depends upon the quantity of production, the actual amount of wages to be paid is always uncertain. The workers also cannot estimate their remuneration in advance.

INCENTIVE WAGE SYSTEM:

There are two basic systems of wage payment—time rate system and piece rate system. Both the systems have their merits and demerits. No system can be considered suitable for all times and under all circumstances. To maintain the merits of both the systems

and to overcome the demerits of these systems, some experts have developed the systems of incentives wage.

These systems are also known as incentive wage systems, progressive wage system and bonus schemes etc. Under these systems, both the time and speed are considered as the basis of wage payment.

These systems provide incentives to the workers to produce more and more maintaining the quality as well. The workers are paid bonus or premium for the additional work. It is important to note that almost all the systems incentive wages provide for minimum guaranteed wages to the workers.

Characteristics of an Ideal Incentive Wage System:

Important characteristics of an Ideal Incentive Wage System are as under:

1. It must be easy to calculate and to understand.
2. The standards of work must be determined on scientific basis.
3. It must establish direct relationship between efforts and remuneration.
4. It must give a guarantee of minimum wage to all the workers.
5. It must be in the interests of both the employers and the employees.
6. It must be flexible but stable.
7. It must be framed in the manner so that it may be used widely for all the activities of the enterprise.
8. It must be helpful in increasing the production as well as productivity.

Advantages of Incentive Wage System:

According to the National Commission on Labour, “Under our conditions, wage incentive is the cheapest, quickest, and surest means of increasing productivity”. The various merits of wage incentive schemes are:

1. Wage incentive schemes offer to workers the prospect of earning more thereby raising their standard of living.
2. Wage incentive schemes help in improving the industrial relations and discipline in the organisation.
3. Wage incentive schemes act as rewards for good performance. This encourages workers to come forward with new ideas and suggestions to improve productivity.
4. Wage incentive schemes are based on a standard of performance for the job. The standard is usually set after making a scientific work study. This brings about improvements in methods.

5. Wage incentive schemes are beneficial as they reduce the need for supervision and thereby reduce the cost of production.
6. Wage incentive schemes bring commonality of goals and targets between the management and workers.
7. This helps in developing a feeling of mutual co-operation between the management and the workers

Disadvantages:

1. Some workers are more productive than the others. This helps them to earn more. When the earning capacity among workers differs, it results in jealousy among them.
- 2 Workers tend to sacrifice quality for the sake of quantity. This results in the production of sub-standard goods.
3. In order to produce more, workers will disregard safety regulations. This may result in injury to workers and breakdown of machinery.
4. Workers tend to overwork and these results in undermining their health.
5. Workers very often ask for compensation whenever production flow is disrupted due to fault of management.
6. Even where an incentive scheme yields an increased output, it may generate tensions among the different parts of an organisation.
7. Such tensions often create difficult managerial problems which may eventually affect output.

Reward Management:

Introduction:

Reward is the generic term for the totality of financial and non-financial compensation or total remuneration paid to an employee in return for work or service rendered at work.

Reward, which is sometimes been refer to as compensation or remuneration, is perhaps the most important contract term in every paid-employment. Its impact on workers (or employee's) performance is in most instance greatly misinterpreted. The understanding of this term is very important; this is because the incentive scheme given to an employee will influence the behaviour and level of engagement to the organisation.

Definition of Reward:

According to **Armstrong** (2010) reward management is defined "*as the strategies, policies and processes required to ensure that the value of people and the contribution they make to achieving organization, departmental and team goals is recognized and rewarded*".

Armstrong and Murlis (2004) defined reward management *“as the process of formulating and implementation of strategies and policies that aim to reward people fairly, equitably and constantly in accordance with their value to the organization. It also deals with the design, implementation and maintain of reward processes and practices that are geared towards the improvement of organizational, team and individual performance”*.

Reward management is important for the following reasons:

- Retains employees
- Attracts new employees
- Avoids the cost of hiring and training new employees
- Builds loyalty and honesty
- Creates a healthy work environment
- Encourages positive attitudes and behaviour
- Makes employees more likely to seek advancement

Therefore, management of reward in an organization helps to motivate and retain employees at work. It is a vital aspect of HRM because a well-designed reward system will lead towards organizational productivity and employee’s satisfaction. Moreover, reward management is the process of creating, implementing and controlling an effective reward system in the organization that helps to maintain and improve organizational performance. It senses the strategic purposes of attracting, motivating and retaining employees. Reward management basically focuses on how the employees can be retained or motivated at work. All employees follow the same reward system, and the system is organized and just. Using a website to track employee development enables the employee and employer to monitor progress and easily identify when goals are reached and rewards earned.

Hence, reward management is a crucial aspect of Human Resource Management that revolves around designing and implementation of the appropriate payment system. This system helps improve organizational performance and get people motivated at work.

ECONOMIC THEORY OF WAGES:

The Subsistence Theory of Wages:

The theory was formulated by David Ricardo. According to them wages would be equal to the amount just sufficient for subsistence. Lassalle, a German economist developed this theory. According to this theory, wages are determined by the cost of production of labour or subsistence level. The wages so determined will remain fixed.

If actual wages are higher than the subsistence level, then population will increase leading to an increase in labour supply and lower wages. If on the other hand, the actual wages fall below the subsistence level, population will decrease resulting in a decline in labour supply and rise in wages. Since there is a tendency for the wages to remain fixed at the subsistence level, it is called as Iron Law of Wages or Brazen Law of Wages.

This theory is based on two assumptions:

- Food production is subject to the law of diminishing returns, i.e., there is a limit to expansion of food production.
- Population increases at an increasing rate.

Criticisms:

- The subsistence theory of wages explains wages from the supply side and ignores the demand side.
- If all labourers must get the bare necessities of life, all must get equal wages. But there are many differences in wages. Thus this theory ignores wage differences.
- This theory asserts that wages are fixed at the subsistence level. Therefore, it assumes that the trade unions are powerless in increasing the wages. This is a wrong notion.
- This theory is based on the Malthusian theory of population according to which a rise in wages above the subsistence level will lead to rapid increase in population. But experience shows that a rise in wages leads to higher standard of living and not increase in population.
- This theory is pessimistic because it excludes all possibility of improvement in the conditions of labour either through increased efficiency or due to general economic progress.

Standard of Living Theory:

This theory is an improved and refined version of subsistence theory. According to this theory, wage is determined by the standard of living of the workers. Standard of living

refers to the bare necessities of life and also education, and recreation to which the worker is habituated.

Merits:

This theory has two merits:

- This theory gives importance to the efficiency and productivity of the worker.
- When workers are paid a high wage rate for a considerable period of time, they become accustomed to a high standard of living and they will try to maintain the same high standard of living.

Criticisms:

In spite of its merits, the theory has been subjected to many criticisms:

- Individuals do not have any fixed standard of living. Critics point out that there is no such thing as a standard of living to which a worker is accustomed.
- When wages depend on standard of living, the latter should not change. But workers' standard of living remains fixed for sometimes but wages change frequently.
- No doubt, wages are determined by standard of living. It is also true that standard of living is determined by wages.

Wage Fund Theory:

This theory was developed by J.S.Mill. According to him, the employers set apart a certain amount of capital to pay wages for labourers. This is fixed and constant. This is called as wages fund. Wage is determined by the amount of wages fund and the total number of labourers.

According to J.S.Mill, "wages depend upon the demand and supply of labour or as it is often expressed as proportion between population and capital. By population is here meant the number only of the labouring classes or rather of those who work for hire and by capital, only circulating capital.....".

Wage rate=Wage fund / Number of labourers

An increase in wage rate is possible only by an increase in wage fund or by a reduction in the number of labourers. Thus there exists a direct relation between wage rate and wages fund and inverse relation between wage rate and number of labourers. This theory also states that trade unions are powerless in rising the general wage rate.

Criticisms:

- Wage fund theory states that the wage rate is found by dividing the wage fund by the number of workers. But it does not tell us about the sources of wages fund and the method of estimating it.
- Wage fund theory is unscientific and illogical because it first decides the wages fund and then determines wages. But in reality, wages should be found first and from that wage fund should be calculated. This theory neglects the quality and efficiency of the workers in determining the wage rate. This is considered to be a basic weakness of the theory.
- This theory neglects the quality and efficiency of the workers in determining the wage rate. This is considered to be a basic weakness of the theory.
- This theory assumes that wages can increase only at the expense of profit. This is not correct. The operation of the law of increasing returns will lead to a great increase in total output, which may be sufficient to raise both wages and profits.
- The wages fund theory has been criticized by the trade unions for its assumption that wages cannot be increased through bargaining.
- Wages fund theory has failed to explain the differences in wage rates.
- This theory believes that wages are paid out of circulating capital. But when the process of production is short, wages are paid out of current production. When the process of production is long, wages are paid out of capital.

Residual Claimant Theory:

This theory was propounded by Walker. According to this theory, rent and interest are contractual payments. After deducting rent and interest from total product, the employer will deduct his profits. What remains after deducting rent, interest and profits is wages. It is possible to increase wages by increasing the total product by improving the efficiency of the workers.

This theory has several defects:

- This theory assumes that the share of landlords, capitalists and entrepreneurs are fixed and it is absolutely wrong.
- It is not the worker who is the residual claimant but the entrepreneur.
- It does not explain the influence of trade union in wage determination.
- The supply side of labour has been totally ignored by the theory.

Marginal Productivity Theory:

Marginal productivity theory of wages is an extension of marginal productivity theory of distribution. According to this theory, wage for labour should be equal to the value of the marginal product under conditions of perfect competition. Marginal product is the addition made to total product by the employment of one unit of labour. The value of the marginal product of labour is equal to the price at which the marginal product can be sold.

Under conditions of perfect competition, an employer will continue to employ more and more of labourers till the value of the marginal product is equal to marginal factor cost(MFC). Marginal factor cost is the cost of employing an additional worker. In order to find out the marginal productivity of labour we have to keep the quantity of other factors constant while employing one more unit of labour.

The difference in total production is the marginal productivity. The employment of an additional unit of labour will result in increase in output and cost. As long as MPP is greater than MFC, the employer will employ additional units of labour. But he will stop employing additional units of labour when $MPP=MC$.

Assumptions:

This theory is based upon the following assumptions:

- There is perfect competition in factor market and in product market.
- Labour is homogeneous.
- The law of diminishing returns operates in production.
- There is free entry and exit of the firms.
- There is perfect knowledge about the market conditions.
- All factors of production can be substituted for each other.
- There is free mobility of factors of production.
- Factors of production are divisible.

Criticism:

The theory is found to be unsatisfactory and various criticisms have been leveled against this theory.

- The theory deals with the demand side only. The supply side is totally ignored.
- This theory is unjust because wages are determined by the marginal productivity. But justice demand that workers should be paid on the basis of average productivity.
- Further, marginal productivity of the worker cannot be calculated as factors are not divisible into small units.

- Factors of production are neither mobile nor perfect substitutes. Their Knowledge is also imperfect.
- This theory assumes perfect competition in the product market. But the market for goods is characterised by imperfect competition.
- Marginal product of labour depends not only on its support but also on the supply of other factors. If other factors are plentiful and labour is scarce, marginal product of labour will be high and vice versa.
- This theory fails to explain the differences in wages.

Rejecting the marginal productivity theory Marshall states, “This doctrine has been put forward as a theory of wages. But there is no valid ground for any such pretension... Demand and supply exert equally important influences on wages; neither has a claim to predominance; any more than has either blade of scissors, or either pier of an arch... The doctrine throws into clear light, one of the causes that governs wages”.

Discounted Marginal Productivity Theory:

Taussig has given a modified version of the Marginal Productivity theory of wages. According to this theory, the wage for labour is determined not by its marginal product but by the discounted marginal product. Labourers cannot get the entire amount of the marginal product because production is a long drawn out process.

In the same way, sales also take time. As the labourers are poor and cannot wait till the product is sold, they have to be supported by the employers. The employer does not pay the full amount of the marginal product of labour. In order to compensate the risk involved in giving advance to the workers, the employer deducts a certain percentage from the final output. This deduction is made at the current rate of interest. It is the discounted marginal product that determines the wage of the labourers.

Criticisms:

- This theory is abstract. It is “a dim and abstract one remote from the problem of real life”.
- It is very difficult to determine the discounted marginal product of labour.
- This theory fails to take into account other factors which determine the wage rate.
- This theory has failed to explain differences in wage rate.
- Taussig’s theory is another version of the Residual Claimant Theory of wages. Therefore, it is subject to all criticisms put forward against the Residual Claimant Theory.

Behavioural (Motivational) Theories:

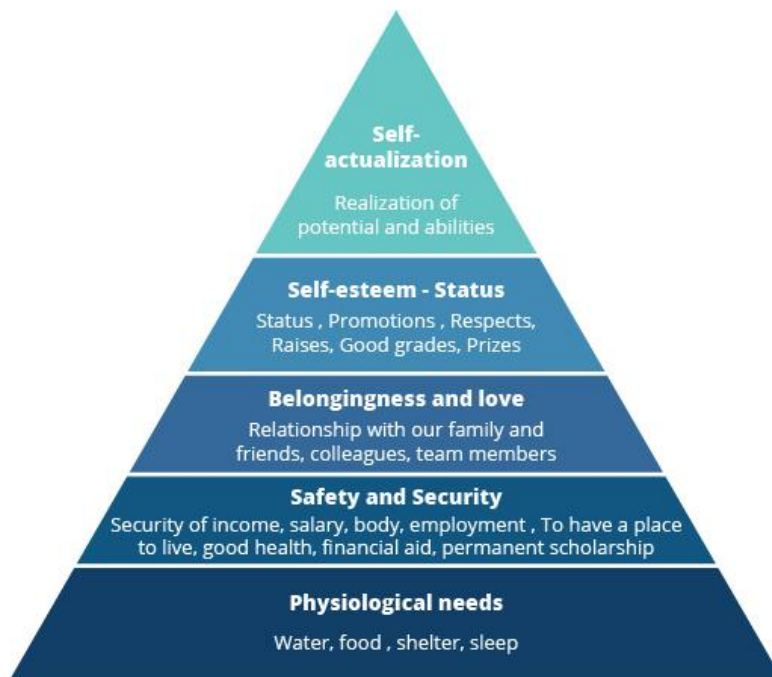
Motivation is a state-of-mind, filled with energy and enthusiasm, which drives a person to work in a certain way to achieve desired goals. Motivation is a force which pushes a person to work with high level of commitment and focus even if things are against him. Motivation translates into a certain kind of human behaviour.

It is important to ensure that every team member in an organization is motivated. Various psychologists have studied human behaviour and have formalized their findings in the form various motivation theories. These motivation theories provides a greater understanding on how people behave and what motivates them.

Motivation is a huge field of study. There are many theories of motivation. Some of the famous motivation theories include the following:

Abraham Maslow postulated that a person will be motivated when his needs are fulfilled. The need starts from lower level basic needs and keeps moving up as a lower level need is fulfilled. Below is the hierarchy of needs:

- **Physiological:** Physical survival necessities such as food, water, and shelter.
- **Safety:** Protection from threats, deprivation, and other dangers.
- **Social (belongings and love):** The need for association, affiliation, friendship, and so on.
- **Self-esteem:** The need for respect and recognition.
- **Self-actualization:** The opportunity for personal development, learning, and fun/creative/challenging work. Self-actualization is the highest level need to, which a human being can aspire



The main criticisms of the theory include the following:

1. The needs may or may not follow a definite hierarchical order. So to say, there may be overlapping in need hierarchy. For example, even if safety need is not satisfied, the social need may emerge.
2. The need priority model may not apply at all times in all places.
3. Researches show that man's behaviour at any time is mostly guided by multiplicity of behaviour. Hence, Maslow's preposition that one need is satisfied at one time is also of doubtful validity.
4. In case of some people, the level of motivation may be permanently lower. For example, a person suffering from chronic unemployment may remain satisfied for the rest of his life if only he/she can get enough food.

Notwithstanding, Maslow's need hierarchy theory has received wide recognition, particularly among practicing managers. This can be attributed to the theory's intuitive logic and easy to understand. One researcher came to the conclusion that theories that are intuitively strong die hard'.

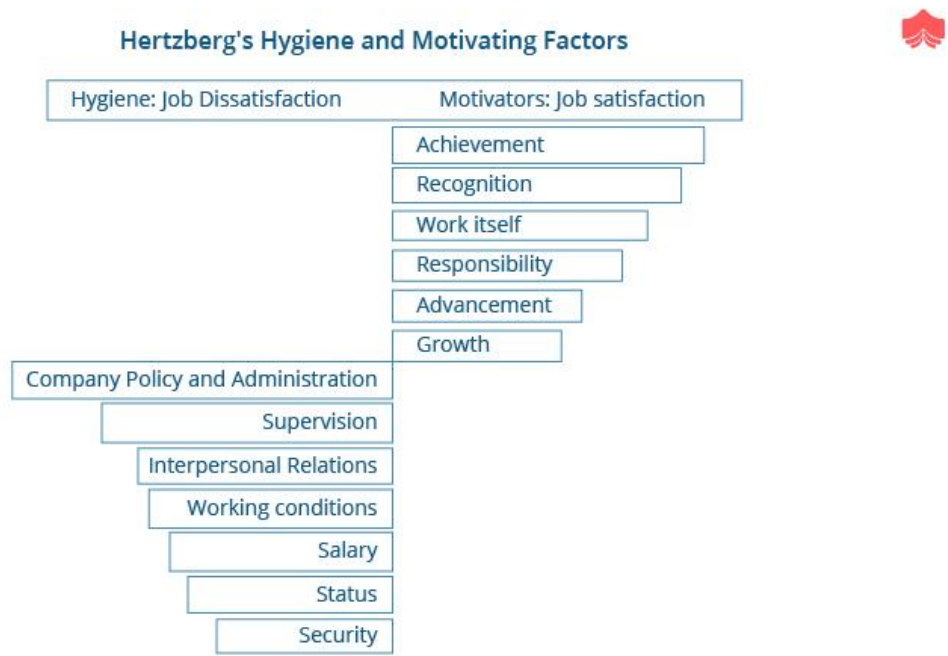
2. Herzberg's two factor theory:

The psychologist Frederick Herzberg extended the work of Maslow and propped a new motivation theory popularly known as Herzberg's Motivation Hygiene (Two-Factor) Theory. Herzberg conducted a widely reported motivational study on 200 accountants and engineers employed by firms in and around Western Pennsylvania.

He asked these people to describe two important incidents at their jobs:

- (1) When did you feel particularly good about your job, and
- (2) When did you feel exceptionally bad about your job? He used the critical incident method of obtaining data.

The responses when analysed were found quite interesting and fairly consistent. The replies respondents gave when they felt good about their jobs were significantly different from the replies given when they felt bad. Reported good feelings were generally associated with job satisfaction, whereas bad feeling with job dissatisfaction. Herzberg labelled the job satisfies motivators, and he called job dissatisfies hygiene or maintenance factors. Taken together, the motivators and hygiene factors have become known as Herzberg’s two-factor theory of motivation.



However, Herzberg’s model is labelled with the following criticism also:

- 1. People generally tend to take credit themselves when things go well. They blame failure on the external environment.
- 2. The theory basically explains job satisfaction, not motivation.
- 3. Even job satisfaction is not measured on an overall basis. It is not unlikely that a person may dislike part of his/ her job, still thinks the job acceptable.
- 4. This theory neglects situational variable to motivate an individual.

Because of its ubiquitous nature, salary commonly shows up as a motivator as well as hygiene.

Regardless of criticism, Herzberg's 'two-factor motivation theory' has been widely read and a few managers seem untrained with his recommendations. The main use of his recommendations lies in planning and controlling of employees work.

McClelland's Need Theory:

McClelland affirms that we all have three motivating drivers, and it does not depend on our gender or age. One of these drives will be dominant in our behaviour. The dominant drive depends on our life experiences.

The three motivators are:

- **Achievement:** a need to accomplish and demonstrate own competence People with a high need for achievement prefer tasks that provide for personal responsibility and results based on their own efforts. They also prefer quick acknowledgement of their progress.
- **Affiliation:** a need for love, belonging and social acceptance People with a high need for affiliation are motivated by being liked and accepted by others. They tend to participate in social gatherings and may be uncomfortable with conflict.
- **Power:** a need for control own work or the work of others People with a high need for power desire situations in which they exercise power and influence over others. They aspire for positions with status and authority and tend to be more concerned about their level of influence than about effective work performance.

Vroom's Expectancy Theory:

One of the most widely accepted explanations of motivation is offered by Victor Vroom in his Expectancy Theory" It is a cognitive process theory of motivation. The theory is founded on the basic notions that people will be motivated to exert a high level of effort when they believe there are relationships between the effort they put forth, the performance they achieve, and the outcomes/ rewards they receive.

The relationships between notions of effort, performance, and reward are depicted in Figure



ERG motivation theory Alderfer:

Clayton P. Alderfer's ERG theory from 1969 condenses Maslow's five human needs into three categories: Existence, Relatedness and Growth.

Existence Needs

Include all material and physiological desires (e.g., food, water, air, clothing, safety, physical love and affection). Maslow's first two levels.

Relatedness Needs :Encompass social and external esteem; relationships with significant others like family, friends, co-workers and employers . This also means to be recognized and feel secure as part of a group or family. Maslow's third and fourth levels.

Growth Needs: Internal esteem and self actualization; these impel a person to make creative or productive effects on himself and the environment (e.g., to progress toward one's ideal self). Maslow's fourth and fifth levels. This includes desires to be creative and productive, and to complete meaningful tasks.

Even though the priority of these needs differ from person to person, Alberger's ERG theory prioritises in terms of the categories' concreteness. Existence needs are the most concrete, and easiest to verify. Relatedness needs are less concrete than existence needs, which depend on a relationship between two or more people. Finally, growth needs are the least concrete in that their specific objectives depend on the uniqueness of each person.

Adam's Equity Theory

Definition: The Adam's Equity Theory posits that people maintain a fair relationship between the performance and rewards in comparison to others. In other words, an employee gets de-motivated by the job and his employer in case his inputs are more than the outputs.

The Adam's Equity Theory was proposed by John Stacey Adams, and is based on the following assumptions:

Individuals make contributions (inputs) for which they expect certain rewards (outcomes).

To validate the exchange, an individual compares his input and outcomes with those of others and try to rectify the inequality.

There are three types of exchange relationships that arise when an individual input/outcomes are compared with that of the other persons.

Overpaid Inequity: When an individual perceives that his outcomes are more as compared to his inputs, in relation to others. The overpaid inequity can be expressed as:

$$\frac{\text{Person's Outcome}}{\text{Person's Inputs}} > \frac{\text{Other's Outcome}}{\text{Other's Inputs}}$$

Underpaid Inequity: When an individual perceives that his outcomes are less as compared to his inputs, in relation to others. The Underpaid Equity can be expressed as

$$\frac{\text{Person's Outcomes}}{\text{Person's Inputs}} < \frac{\text{Other's Outcomes}}{\text{Other's Inputs}}$$

Equity: An individual perceives that his outcomes in relation to his inputs are equal to those of others. The equity can be expressed as

$$\frac{\text{Person's Outcomes}}{\text{Person's Inputs}} = \frac{\text{Other's Outcomes}}{\text{Other's Inputs}}$$

Thus, Adam's equity theory shows the level of motivation among the individuals in the working environment. An individual is said to be highly motivated if he perceives to be treated fairly. While the feelings of de-motivation arise, if an individual perceives to be treated unfairly in the organization.

Thus, an individual's level of motivation depends on the extent he feels being treated fairly, in terms of rewards, in comparison to others

UNIT-II

WAGE AND SALARY ADMINISTRATION

Wage and salary administration at the micro level job evaluation, definition, traditional and new techniques; compensation structure, Indian practices; wage boards, pay commissions, compensation management in multinational organizations.

Introduction-Job Evaluation

Job evaluation is the process of methodically establishing a structure of jobs within an organization based on a systematic consideration of job content and requirements. The purpose of the job structure or hierarchy is to provide a basis for the pay structure. The job structure, as seen in previous lessons, is only one of the determinants of the wage structure. But it is an important one often used.

Definition of Job Evaluation

The **I.L.O.** defines job evaluation as “an attempt to determine and compare demands which the normal performance of a particular job makes on normal workers without taking into account the individual abilities or performance of the workers concerned.”

The Bureau of Labor Statistics, U.S.A., says that “job evaluation is the evaluation or rating of jobs to determine their position in the job hierarchy. The evaluation may be achieved through the assignment of points or the use of some other systematic method for essential job requirements, such as skills, experience and responsibility.”

In the words of the Netherlands Committee of Experts on Job Evaluation, “job evaluation is a method which helps to establish a justified rank order of jobs as a whole Being a foundation for the setting of wages. Job evaluation is the only one of the starting r establishing the relative differentiation of base wage rates.”

Kimball and Kimball define job evaluation as “an effort to determine the relative every job in a plant to determine what the far basic wage for such a job should be.

According to Wendell French, “job evaluation is a process of determining the worth of the various jobs within the organization, so that differential wages may to jobs of different worth.” The relative worth of a job means value produced factors as responsibilities skill, effort and working conditions.

We may define job evaluation as. a process of analyzing and describing positions, g them and determining their relative value by comparing the duties of different s in terms of their different responsibilities and other requirements.

Why to do Job Evaluation?

Organizations usually begin the process of designing a wage structure by determining their job structure. Two often-cited principles of compensation are

- Equal pay for equal work and
- more pay for more important work. Both imply that organizations pay employees for contributions required by jobs.

Most organizations utilize job assignment as a major determinant of employee contributions. A formal wage structure, defined as a rate or range of rates established for job classifications, seems to be standard organization practice, except in very small organizations. Formal job evaluation or informal comparison of job content is the almost universal base of pay rates.

Job evaluation is concerned with jobs, not people. A job is a grouping of work tasks. It is an arbitrary concept requiring careful definition in the organization. Job evaluation determines the relative position of the job in the organization hierarchy. It is assumed that as long as job content remains unchanged, it may be performed by individuals of varying ability and proficiency.

Objectives of Job Evaluation

The general purpose of job evaluation may include a number of more specific goals:

- To provide a basis for a simpler, more rational wage structure;
- To provide an agreed-upon means of classifying new or changed jobs;
- To provide a base for individual performance measurements;
- To reduce pay grievances by reducing their scope and providing an agreed-upon means of resolving disputes;
- To provide incentives for employees to strive for higher-level jobs;
- To provide information for wage negotiations;
- To provide data on job relationships for use in internal and external selection, personnel planning, career management, and other personnel functions.

Also, says an I.L.O. Report, “the aim of the majority of systems of job evaluation is to establish, on agreed logical basis, the relative values of different jobs in a given plant or machinery, i.e., it aims at determining the relative worth of a job.

The principle upon all job evaluation schemes are based is that of describing and assessing the value jobs in the firms in terms of a number of factors, the relative importance of which varies from job to job:

- To secure and maintain complete, accurate and impersonal descriptions of each distinct job or occupation in the entire plant;
- To provide a standard procedure for determining the relative worth of each job in a plant;
- To determine the rate of pay for each job which is fair and equitable with relation to other jobs in the plant, community or industry;
- To ensure that like wages are paid to all qualified employees for like work;

Relationship between Job Evaluation and Job Analysis

Job evaluation is the output provided by job analysis. As seen earlier, Job analysis describes the duties of a job, authority relationships, skills required, conditions of work, and additional relevant information. Job evaluation on the other hand, uses the information in job analysis to evaluate each job valuing its components and ascertaining relative job worth.

It involves, in other words, a formal and systematic comparison of jobs in order to determine the worth of one job relative to another, so that a wage or salary hierarchy results. So it is a process by which jobs in an organization are evaluated. When jobs are evaluated, the relative worth of a given collection of duties and responsibilities to the organization is assessed. This process is adopted to help a management to maintain high levels of employee productivity and employee satisfaction.

If job values are not properly studied, it is very likely that jobs would not be properly realized, i.e, high valued jobs may receive less pay than low-valued jobs.

When employees realize that this is happening, they become dissatisfied. They may leave the organization, reduce their efforts or perhaps adopt other modes of behavior detrimental to the organization. Therefore, in modern society, a great deal of attention is paid to the value of a job. What a particular job should be paid is greatly influenced by the value of judgement about the worth of a job. In other words, a person is paid for what he brings to a job his education, training and experience provided that these are related to the requirements of the job which he is assigned.

Procedure of Job Evaluation

After studying the principles of job Evaluation it is important to know the process and procedures involved in job evaluation, it is useful at this point to understand the steps in the process.

The **first step** is a study of the jobs in the organization. Through job analysis, information on job content is obtained, together with an appreciation of worker

requirements for successful performance of the job. This information is recorded in the precise, consistent language of a job description.

The **second step** is deciding what the organization “is paying for”—that is, what factor or factors place one job at a higher level in the job hierarchy than another. These compensable factors are the yardsticks used to determine the relative position of jobs.

In a sense, choosing compensable factors is the heart of job evaluation. Not only do these factors place jobs in the organization’s job hierarchy, but they also serve to inform job incumbents which contributions are rewarded.

The **third step** in job evaluation is to select a method of appraising the organization’s jobs according to the factor(s) chosen. The method should permit consistent placement of jobs containing more of the factors higher in the job hierarchy than jobs involving lesser amounts.

The **fourth step** is comparing jobs to develop a job structure. This involves choosing and assigning decision makers, reaching and recording decisions, and setting up the job hierarchy.

The **final step** is pricing the job structure to arrive at a wage structure. Strictly speaking, this step is not part of job evaluation. As seen earlier in this chapter, many wage structure determinants are used by organizations. The job structure is only one of these. This view of job evaluation implies that its major purpose is to classify jobs and establish a job hierarchy based on job content.

Other perspectives are that job evaluation

- links external and internal markets, and
- is a process used to gain consensus and acceptance of a pay structure.

Perhaps these views could all be accommodated by the recognition that job structures and wage structures are separate concepts and that the relationship between them is a decision that varies among organizations.

Significance of Job Evaluation:

Job evaluation is a valuable technique in the hands of management by which a more rational and consistent (Internal and external) wage and salary structure can be evolved. Internal consistency is concerned with the maintenance of relative wages within the firm and external consistency refers to a desired relativity of a firm’s structure to that of the industry or region. It helps in bringing or maintaining harmonious relations between labour and management since it tends to eliminate wage and equalities within the organization and the industry. It standardizes the process of determining the wage differentials for various jobs.

It means uniform standards will be applied to all jobs in the organization to know their relative worth. It provides a rate for the job and not for the men because of division of labour and specialization any large enterprise may have hundreds or thousands of different jobs to be performed by a substantial no of workers. Many workers work together on the same or technically interdependent jobs. An attempt should be made to precisely define the jobs and fix wages accordingly. This is possible only by job evaluation. It helps in keeping down the cost of recruitment and selection of workers. It also assists in retaining the workers or keeping down the rate of labor turnover because workers wages are determined systematically by the process of job evaluation.

Traditional systems/methods of job evaluation:

- (i) The ranking system;
- (ii) The grading or job classification system;
- (iii) The point system; and
- (iv) The factor comparison system.

The first two systems are popularly known as the non-analytical or non-quantitative or summary systems, because they utilize non-quantitative methods of listing jobs in order of difficulty and are, therefore, simple. The last two systems are called the analytical or quantitative systems, because they use quantitative techniques in listing the jobs. They are more complex and are time consuming

1. The Ranking System

Mechanism: Under this system, all jobs are arranged or ranked in the order of their importance from the simplest to the hardest, or in the reverse order, each successive job being higher or lower than the previous one in the sequence. It is not necessary to have job descriptions, although they may be useful.

Sometimes, a series of grades or zones are established, and all the jobs in the organization are arranged into these. A more common practice is to arrange all the jobs according to their requirements by rating them and then to establish the group or classification.

The usually adopted technique is to rank jobs according to “the whole job” rather than a number of condensable factors.

According to this method, the ranking for a university may be like thus.

Table

Ranking of University Personnel	
Ranking Order	Pay Scale Range
Professor	Rs.5000-8000
Associate Professors	Rs. 4000-7000
Assistant Professors	Rs.3500-6000
	Registrar
	Rs. 4000-7000
	Dy. Registrar
	Rs.3500-5000
	Assistant Registrar
	Rs. 3000-4500
	Clerk Grade I
	Rs. 1000-2500
	Clerk Grade II
	Rs. 900-1800
	Class Four Servants
	Rs. 500-800

After ranking, additional jobs between those already ranked may be assigned an appropriate place/wage rate.

Generally speaking, the following five steps are involved in system:

Step 1: Preparation of job description, particularly when the ranking of jobs is done by different individuals and there is a disagreement among them.

Step 2: Selection of Ratters, jobs may be usually ranked by department or in “Clusters” (i.e., factory workers, clerical workers, menials, etc). This eliminates need for directly comparing factory jobs and clerical jobs. Most organizations use a committee of ratters.

Step 3: Selection of rates and key jobs, usually a series of key jobs or bench-mark jobs (10 to 20 jobs, which include all major departments and functions) are first rated; then the other jobs are roughly compared with these key jobs to establish a rough rating.

Step 4: Ranking of all jobs. Each job is then compared in detail with other similar jobs to establish its exact rank in the scale.

For this each rater may be given a set of ‘index card,’ each of which contains a brief description of a job.

These jobs are then ranked from ‘lowest to highest’ or from ‘highest to the lowest’ are ranked first and then the next highest and next lowest and so forth until all the cards have been ranked.

Step 5: Preparation of job classification from the rating: The total ranking is divided into an appropriate number of groups or classifications, usually 8 to 12. All the jobs within a single group or classification receive the same wage or range of rates.

The ranking system of job evaluation usually measures each job in comparison with other jobs in terms of the relative importance of the following five factors:

- Supervision and leadership of subordinates;
- Co-operation with associates outside the line of authority;
- Probability and consequences of errors (in terms of waste, damage to equipment, delays, complaints, confusion, spoilage of product, discrepancies, etc.);
- Minimum experience requirement; and
- Minimum education required;

Merits

- The system is simple, easily understood, and easy to explain to employees (or a union). Therefore, it is suitable for small organisations with clearly defined jobs.
- It is far less expensive to put into effect than other systems, and requires little effort for maintenance.
- It requires less time, fewer forms and less work, unless it is carried to a detailed used by company.

Demerits

- As there is no standard for an analysis of the whole job position, different bases of comparison between rates occur. The process is initially based on judgment and, therefore, tends to be influenced by a variety of personal biases.
- Specific job requirements (such as skill, effort and responsibility) are not normally analysed separately. Often a rater's judgment is strongly influenced by present wage
- The system merely produces a job order and does not indicate to what extent more important than the one below it. It only gives us its rank or tells us that it is more or more difficult than another; but it does not indicate how much higher or more lit.

Job Classification or Grading Method

Under this system, a number of pre-determined grades or classifications are first established by a committee and then the various jobs are assigned within each grade or Grade descriptions are the result of the basic job information which is usually derived from a job analysis.

After formulating and studying job descriptions and job specifications, jobs are grouped into classes or grades which represent different pay levels ranging from low to high.

Common tasks, responsibilities, knowledge and experience can be identified by the process of job analysis. Certain jobs may then be grouped together a common grade or classification.

General grade descriptions are written for each classification, and finally these are used as a standard for assigning all the other jobs particular pay scale.

Mechanism

The following five steps are generally involved:

The preparation of job descriptions, which gives us basic job information, usually derived from a job analysis.

The preparation of grade descriptions, so that different levels or grades of jobs may be identified. Each grade level must be distinct from the grade level adjacent to it; the same time, it should represent a typical step in a continuous way and not a big jump or gap.

After establishing the grade level, each job is assigned to an appropriate grade level on the basis of the complexity of duties, non-supervisory responsibilities and advisory responsibilities.

Selection of grades and key jobs. About 10 to 20 jobs are selected, which include all the major departments and functions and cover all the grades. Grading the key jobs. Key jobs are assigned to an appropriate grade level and their relationship to each other studied.

Classification of all jobs. Jobs are classified by grade definitions. All the jobs in the same grade receive the same wage or range of rates. For example, menials may be put into one class; clerks in another; junior officers in a higher class; and the top executive in the top class.

Table 1.3 gives us the gradations of five classes designed by a title label and increasing in value.

Grades Classification	Description of Job Classification
ClerkGradeI	Must have the characteristics of a second-class clerk and assume more responsibility.
ClerkGradeII	Nosupervisionbyothers,especiallyskilled for the job by having an exhaustive knowledge of the details.
ClerkGradeIII	Pure routine concentration, speedand accuracy, works under supervision; may or maynotbeheldresponsibleforsupervision.
Seniorclerk	Technically varied work, occasionallyindependent thinking and action due to difficult work which require exceptional clerical ability and extensive knowledge of principles and fundamentals of the business of his department. Not charged with the supervision of others to any extent; works subject to a limited

	check; dependable, resourceful and able- to take decisions.
Headclerk	Those handling or capable of taking a major decision on the work they do; complicated work requiring much independent thinking; able to consider details outside the control.

Merits

- This method is simple to operate and understand, for it does not take much time or require technical help.
- The use of fully described job classes meets the need for employing systematic criteria in ordering jobs to their importance. Since many workers think of jobs in, or related to, clusters or groups, this method makes it easier for them to understand rankings.
- If an organization consists of 500 people holding to different jobs, the jobs might be broken up into perhaps 5 classes, arranged in order of importance from high to low, and described class by class. This class description broadly reflects level of education, mental skill, profit impact or some combination of these.
- The grouping of jobs into classifications makes pay determination problems administratively easier to handle. Pay grades are determined for, and assigned to, all the job classification.
- It is used in important government services and operates efficiently; but it is rarely used in an industry.

Demerits:

This system suffers from the following defects:

- Although it represents an advance in accuracy over the ranking method, it still leaves much to be desired because personal evaluations by executives (unskilled in such work) establish the major classes, and determine into which classes each job should be placed.
- Since no detailed analysis of a job is done, the judgement in respect of a whole range of jobs may produce an incorrect classification.
- It is relatively difficult to write a grade description. The system becomes difficult to operate as the number of jobs increases.
- It is difficult to know how much of a job's rank is influenced by the man on the job.
- The system is rather rigid and unsuitable for a large organisation or for very varied work

The Factor Comparison Method

Under this system, jobs are evaluated by means of standard yardstick of value. It entails deciding which jobs have more of certain condensable factors than others.

Here analyst or the Evaluation Committee selects some 'key' or 'benchmark' jobs for which there are clearly understood job descriptions and counterparts in other organisations, and for which the pay rates are such as are agreed upon and are acceptable to both management and, labour.

Under this method, each job is ranked several times – once each condensable factor selected. For example, jobs may be ranked first in terms of factor 'skill.' Then, they are ranked according to their mental requirements. Next, they ranked according to their 'responsibility,' and so forth. Then these ratings are combined for each job in an over-all numerical rating for the job.

Mechanism: The major steps in this system consist of the following:

Step 1: Clear-cut job descriptions are written and job specifications then developed.

Preferably in terms of condensable factors. The people writing job specifications are generally Provided with a set of definitions which have been used in each of the condensable factor selected.

Usually five factors are used:

- Mental requirements,
- Physical requirements;
- Skill requirements;
- Responsibility and
- Working conditions.

These factors are universally considered to be components of all the jobs.

Step 2: Selecting of Key-Jobs: Such jobs are those jobs which represent the range of jobs under study; and for which pay is determined to be 'standard' or 'reference points' and for which there is no controversy between the management and the employees. These 'key' jobs serve as standards against which all other jobs are measured.

They are selected in such a way that they cover the range from the 'low' to the 'high' paid jobs. Besides, such jobs must be those on the pay of which analysts and executives do not disagree. Again, they should be definable in accurate and clear terms. Usually 10 to 30 jobs are picked up as 'key' jobs.

Step 3: Ranking of 'Key' Jobs: Several different members of the job Evaluation Committee rank the key jobs on each of the five factors (mental requirements, physical

requirements, skill, responsibility, and working conditions). Ranking is made individually and then a meeting held to develop a consensus (among raters) on each job.

Mental requirements involve inherent mental trait (such as memory, intelligence, reasoning, ability to get acquired education, and acquired specialization of education or knowledge).

Physical Requirements consist of physical effort (climbing, pulling, walking and lifting); and physical conditions (age, height, weight, sex, eye-sight and strength); skill requirements are concerned with acquired facility in muscular co-ordination, assembling, sorting, and dexterity of fingers; and acquired job knowledge for an effective performance of the job. Responsibility involves responsibility for raw and processed materials, tools, equipment and property; money securities; profit and loss; supervision; and maintenance of records. Working Conditions include atmospheric conditions (illumination, ventilation, noise, congestion); hazards of work and its surroundings; and hours of work.

Step 4: Valuing the Factors: The basic pay for each ‘key’ job is allocated to each factor. Pay for such jobs should range from about the lowest to, at or near the highest, and there must be complete agreement on job selected. Usually, 15 to 20 jobs are chosen against which to evaluate all the other jobs.

Step 5: Comparing all. Jobs with Key Jobs: All the other jobs are then compared with the key jobs, factor by factor, to determine their relative importance and position in the scale of jobs, to determine also their money value.

This identical process is repeated for all the other factors. The pay rate assigned to a job is obtained by adding the determined amounts as indicated by the money values shown in the five scales that individually set a job money value in relative comparison to fixed key jobs.

Step 6: Establishing the Monetary Unit Value for all Jobs: Monetary values are assigned to each factor of every key job. This should reflect a range from the lowest to the highest.

Table

Factors used in a Typical System

Cents per hour	Mental Requirement	Skill requirements	Physical requirement	Responsibility	Working conditions
200	Toolmaker*	Labourer			
180	Toolmaker		Electrician		
160			Toolmaker*	Inspector*	

140	Electrician*	Machinist		Toolmaker*	Toolmaker*
120	Machinist!	Electrician!	Machinist*		Inspection
100	Assembler!	Assembler!	Inspector	Machinist	Electrician
60	Inspector	Inspector	Assembler!	Electrician	Machinist!
50	Labourer!			Assembler!	Assembler!
25		Labourer!		Labourer!	Labourer!

The following example will clearly show how the system works:

Suppose job E and job A are similar in skill (Rs. 3.00); job B in responsibility (Rs.85); job C in effort (Rs. 1.40); and job D in working condition (Rs. 1.20); then its correct rate of pay will be Rs. 6.45, i.e., the sum total of all.

Table :Key Jobs, Job Factors and Correct Rates of Jobs

Job factor	Job A correct Rate:Rs 20	Job B correct Rate:Rs 16	Job C correct Rate:Rs 14	Job D correct Rate:Rs 12	Job E correct Rate:Rs 24
1. Skill	10	8	7.50	5	11
2. Effort	5	3	4	4	6
3. Responsibility	3	1	1	1	4
4. Working Conditions	2	4	1.50	2	3

This system is usually used to evaluate white collar, professional and managerial positions.

Merits

This system enjoys the following benefits:

- It is a systematic, quantifiable method for which detailed step by step instructions are available.
- Jobs are compared to other jobs to determine a relative value.
- It is a fairly easy system to explain to employees.
- There are no limits to the value which may be assigned to each factor.

- The plan does not require a translation from points to money. It involves a comparative process wherein jobs are priced against other jobs rather than against some established numerical scale.
- The reliability and validity of the system are -greater than the same statistical measures obtained from group standardized job analysis plans.
- The limited number of factors (usually 5) tends to reduce the possibility of overlapping and over-weighting of factors.

Demerits

- The system suffers from the following shortcomings:
- It is costly to install, and somewhat difficult to operate for anyone who is not acquainted with the general nature of job evaluation techniques.
- Wage levels change from time to time, and their minor inconsistencies may be adjusted to bring all the jobs into alignment. Jobs in which discrepancies are too wide are discarded as key jobs.
- Money rates, when used as a basis of rating, tend to influence the actual rate more than the abstract point.
- The system is complex and cannot be easily explained to, and understood by, every day non-supervisory organizational employee.
- The use of five factors is a growth of the technique developed by its originations. Yet using the same five factors for all organizations and for all jobs in an organization may not always be appropriate.
- advantages for job Evaluation:
- Job evaluation is a logical and, to some extent, an objective method of ranking jobs relative to one another. It may help in removing inequalities in existing wage structures and in maintaining sound and consistent wage differentials in a plant or industry.
- In the case of new jobs. the method often facilitates fitting them into the existing wage structure.
- The method helps in removing grievances arising out of relative wages; and it improves labour-management relations and workers' morale. In providing a yardstick, by which workers' complaints or claims can be judged, the method simplifies discussion of wages to be explained and justified.

- The method replaces the many accidental factors, occurring in less systematic procedures, of wage bargaining by more impersonal and objective standards, thus establishing a clear basis for negotiations.
- The method may lead to greater uniformity in wage rates, thus simplifying wage administration.
- The information collected in the process of job description and analysis may also be used for the improvement of selection, transfer and promotion procedures on the basis of comparative job requirements.
- Such information also reveals that workers are engaged in jobs requiring less skill and other qualities than they possess, thereby pointing to the possibility of making more efficient use of the plant's labour.

Limitations of Job Evaluation

These are:

- Though many ways of applying the job evaluation techniques are available, rapid changes in technology and in the supply and demand of particular skills have given rise to problems of adjustment. These need to be probed.
- Substantial differences exist between job factors and the factors emphasised in the market. These differences are wider in cases in which the average pay offered by a company is
 - lower than that prevalent in other companies in the same industry or in the same geographical area.
- A job evaluation frequently favours groups different from those, which are favoured by the market. This is evident from the observations of Kerr and Fisher. They observe, "the jobs which tend to rate high as compared with the market are those of janitor, nurse and typist, while craft rates are relatively low. Weaker groups are better served by an evaluation plan than by the market; the former places the emphasis not on force but on equity.
- (iv) Job factors fluctuate because of changes in production technology, information system, and division of labour and such other factors. Therefore, the evaluation of a job today is made on the basis of job factors, and does not reflect the time job value in future. In other words, continuing attention and frequent evaluation of a job are essential.

- Higher rates of pay for some jobs at the earlier stages than other jobs or the evaluation of a higher job higher in the organizational hierarchy at a lower rate than another job relatively lower in the organizational hierarchy often give rise to human relations problems and lead to grievances among those holding these jobs.
- (vi) When job evaluation is applied for the first time in any organization, it creates doubts and often fear in the minds of those whose jobs are being evaluated. It may also disrupt the existing social and psychological relationships.
- A large number of jobs are called red circle jobs. Some of these may be getting more and others less than the rate determined by job evaluation.
- Job evaluation takes a long time to install, requires specialized technical personnel, and may be costly.
- When job evaluation results in substantial changes in the existing wage structure, the possibility of implementing these changes in a relatively short period may be restricted by the financial limits within which the firm has to operate.

Compensation Structure:

The Concept of Compensation

Compensation refers to a wide range of financial and non-financial rewards to employees for their services rendered to the organization. It is paid in the form of wages, salaries and employee benefits such as paid vacations, insurance maternity leave, free travel facility, retirement benefits etc., Monetary payments are a direct form of compensating the employees and have a great impact in motivating employees.

The system of compensation should be so designed that it achieves the following objectives.

- The capable employees are attracted towards the organization
- The employees are motivated for better performance
- The employees do not leave the employer frequently

Components of Compensation

Basic Wages/Salaries:

Basic wages / salaries refer to the cash component of the wage structure based on which other elements of compensation may be structured. It is normally a fixed amount which is subject to changes based on annual increments or subject to periodical pay hikes.

Wages represent hourly rates of pay, and salary refers to the monthly rate of pay, irrespective of the number of hours put in by the employee. Wages and salaries are subject to the annual

increments. They differ from employee to employee, and depend upon the nature of job, seniority, and merit.

Dearness Allowance

The payment of dearness allowance facilitates employees and workers to face the price increase or inflation of prices of goods and services consumed by him. The onslaught of price increase has a major bearing on the living conditions of the labor.

The increasing prices reduce the compensation to nothing and the money's worth is coming down based on the level of inflation. The payment of dearness allowance, which may be a fixed percentage on the basic wage, enables the employees to face the increasing prices.

Incentives

Incentives are paid in addition to wages and salaries and are also called 'payments by results. Incentives depend upon productivity, sales, profit, or cost reduction efforts.

There are:

- (a) Individual incentive schemes, and
- (b) Group incentive programmes.

Individual incentives are applicable to specific employee performance. Where a given task demands group efforts for completion, incentives are paid to the group as a whole. The amount is later divided among group members on an equitable basis.

Bonus

The bonus can be paid in different ways. It can be fixed percentage on the basic wage paid annually or in proportion to the profitability. The Government also prescribes a minimum statutory bonus for all employees and workers. There is also a bonus plan which compensates the managers and employees based on the sales revenue or profit margin achieved. Bonus plans can also be based on piece wages but depends upon the productivity of labor.

Non-Monetary Benefits

These benefits give psychological satisfaction to employees even when financial benefit is not available. Such benefits are:

- (a) Recognition of merit through certificate, etc.
- (b) Offering challenging job responsibilities,
- (c) Promoting growth prospects,
- (d) Comfortable working conditions,

- (e) Competent supervision, and
- (f) (f) Job sharing and flexi-time.

Wage Boards

Introduction

In the 1950s and 60s, when the organized labour sector was at a nascent stage of its development without adequate unionization or with trade unions without adequate bargaining power, Government in appreciation of the problems which arise in the arena of wage fixation, constituted various Wage Boards. The Wage Boards are tripartite in character in which representatives of workers, employers and independent members participate and finalize the recommendations. With the passage of time, it was felt that Government need not set the wage rates in respect of employees in different sectors and can be left to the industry itself. However wages are still decided by the Wage Boards for journalists and non-journalists newspaper and news-agency employees, since the award given by the Wage Boards are non-statutory in nature, recommendations made by these Wage Boards are not enforceable under the law.

The importance of the non-statutory Wage Boards has consequently declined over a period of time and no non-statutory Wage Board has been set up after 1966, except for sugar industry, where last such Wage Board was constituted in 1985. The trade unions, having grown in strength in these industries, are themselves able to negotiate their wages with the management. This trend is likely to continue in future.

The Working Journalists and other Newspaper Employees (Conditions of Service) and Miscellaneous Provisions Act, 1955 (45 of 1955) (in short, the Act) provides for regulation of conditions of service of working journalists and non-journalist newspaper employees. The Section 9 and 13 C of the Act, inter-alia, provide for constitution of two Wage Boards for fixing or revising the rates of wages in respect of working journalists and non-journalist newspaper employees, respectively. The Central Government shall, as and when necessary, constitute Wage Boards, which shall consist of

- Three persons representing employers in relation to Newspaper Establishments;

- Three persons representing working journalists for Wage Board under Section 9 and three persons representing non-Journalist newspaper employees for Wage Board under Section 13 C of the Act.
- Four independent persons, one of whom shall be a person who is, or has been a judge of High Court or the Supreme Court, and who shall be appointed by the Government as the Chairman thereof.

Since 1955, the government has constituted 6 wage boards for the working journalists and non-journalist newspaper employees. The following table gives the details of the constitution of wage boards and other relevant details:

S. No.	Name of the Industry	Date of appointment of Wage Boards	Date on which final report was submitted to Govt.	Date of acceptance of recommendation by Govt.	Remarks
1.	2.	3.	4.	5.	6.
(I)	Wage Board for Working Journalists	02-05-1956	NA	11-05-1957	
(II)	(a) Wage Board for Working Journalists	12-11-1963	17-07-1967	27-10-1967	
	(b) Wage Board for Non-Journalist Newspaper Employees	25-02-1964	17-07-1967	18-11-1967	

(III)	(a) Wage Board for Working Journalists	11-06-1975	13-08-1980	26-12-1980 & 20-07-1981	Converted into one man Tribunal on 9th Feb, 1979 (Palekar Wage Boards)
	(b) Wage Board for Non-Journalist Newspaper Employees	06-02-1976			

(IV)	Wage Boards for Working Journalists and Non-Journalists Newspaper Employees	17-07-1985	30-05-1989	31-08-1989	
(V)	Wage Boards for Working Journalists and Non-Journalists Newspaper Employees	02-09-1994	25-07-2000	05-12-2000 and 15-12-2000	
(VI)	Wage Board for Working Journalists & Non-Journalists Newspaper Employees	24-05-2007	31-12-2010	11-11-2011	

Source: Ministry of labor

The Government of India constituted two wage boards (Majithia Wage Boards), one for working journalists and other for non-journalist newspaper employees in 2007 as sixth Wage Board under the Chairmanship of Justice Krupp as per the provisions of The Working Journalists and Other Newspaper Employees (Conditions of Service) and Miscellaneous Provisions Act, 1955. Chairman, Justice K. Narayana Krupp resigned with effect from 31st July, 2008. Subsequently Justice G.R. Majithia took over charge as Chairman on 4th March, 2009. The Majithia Wage Boards submitted their final report to the Government of India on 31st Dec., 2010.

The Government accepted the recommendations of the Majithia Wage Boards and accordingly notified it vide S.O. No. 2532(E) dated 11/11/2011. The recommendations have been uploaded in the Ministry's web-site and in public domain. The notification is subject to the outcome of the Writ Petition (Civil) No. 246, of 2011 in the matter of ABP Pvt. Ltd. & ANR Vs. Union of India & others. In addition, 9 other Writ Petitions have also been filed upto April, 2012 before the Hon'ble Supreme Court by the different employers of newspaper industry regarding constitutional validity of the Wage Boards and not to implement the

recommendations of the Majithia Wage Boards. There is no stay order by the Hon'ble Supreme Court on the implementation of the recommendations of the Majithia Wage Boards. The primary responsibility for implementation of the recommendations lies with the State Governments/UTs. Accordingly, a copy of the notification (both Hindi & English) was forwarded to all the State Governments /UTs vide this Ministry's letter dated 24/11/2011. In order to monitor the implementation of the notification, a Central Level Monitoring Committee has been set up under the Chairmanship of Principal Labour and Employment Adviser with Joint Secretary, Ministry of Information and Broadcasting & Chief Labour Commissioner (Central) as Members and Dy. Director General as Member Secretary.

Pay Commission

A Pay Commission is a panel of members of the Union Cabinet of India for review and revision of the salaries of government employees. It was set up by the Central Government in the year 1965 and as an administrative committee to determine the salaries of central government employees. Six pay commissions have been set up till date.

History

Since India's Independence, six pay commissions have been set up on a regular basis to review and make recommendations on the work and pay structure of all civil and military divisions of the Government of India.

First Pay Commission

The first pay commission was constituted in May 1946, and had submitted its report in a year. and the importance is on the report. chairman was Srinivasa Varadachariar we The first pay commission was based upon the idea of "living wages" to the employees, this idea was taken from the Islington Commission and the commission observed that "the test formulated by the Islington Commission is only to be liberally interpreted to suit the conditions of the present day and to be qualified by the condition that in no case should a man's pay be less than a living wage." The commission emphasized on the idea of the living wages and stated that the government which is going to introduce the minimum wages legislation for the workers of the private industry should also follow the same principle for its own employees. The commission basically recommended that the lowest rung employee should at least get minimum wages.

Second Pay Commission

The second pay commission was set up in August 1957, 10 years after independence and it gave its report after two years. The recommendations of the second pay commission

had a financial impact of ` 396 million. The chairman of the second pay commission was Jaganath Das. The second pay commission reiterated the principle on which the salaries have to be determined. It stated that the pay structure and the working conditions of the government employee should be crafted in a way so as to ensure efficient functioning of the system by recruiting persons with a minimum qualification.

Third Pay Commission

The third pay commission set up in April 1970 gave its report in March 1973 i.e. it took almost 3 years to submit the report, and created proposals that cost the government ` 1.44 billion. The chairman was Raghu Bir Dayal. The third pay commission added three very important concepts of inclusiveness, comprehensibility, and adequacy for pay structure to be sound in nature. The third pay commission went beyond the idea of minimum subsistence that was adopted by the first pay commission, the commission report say that the true test which the government should adopt is to know weather the services are attractive and it retains the people it needs and if these persons are satisfied by that they are getting paid.

Fourth Pay Commission

Constituted in June 1983, its report was given in three phases within four years and the financial burden to the government was ` 12.82 billion. This commission has been set up on dated 18.3.1987, Gazette of India (Extra ordinary) Notification No 91 dated 18.3.1987, The chairman of fourth pay commission was P N Singhal.

Fifth Pay Commission

The Fifth Pay Commission was set up in 1994 at a cost of ` 17,000 crore. The chairman of fifth pay commission was Justice S. Ratnavel Pandian.

Financial Impact of Fifth Pays Commission

With the implementation of the Fifth Pay commission a huge burden was taken up by the central government. It declared hike in salary of about 3.3 million central government employees. Further, it also insisted on pay revision at the state government level. The Fifth pay commission disturbed the financial situation of both the Central and the State Governments and led to a hue and cry after its implementation. The Central government's wage bill before the implementation of the commission's recommendations was 218.85 billion in 1996-1997 which also included pension dues and by 1999 it shoot up by about 99% and the burden on the exchequer was about to ` 435.68 billion in 1999-2000. With

Other Recommendations of the Fifth Pay Commission

One of its recommendations was to slash government work force by about 30%. It also recommended to reduce the number of pay scale from 51 to 34 and to not recruit to about

3,50,000 vacant position in the government. None of these recommendations were implemented.

Criticisms of World Bank on Fifth Pay Commission

The World Bank criticized the Fifth Pay commission, stating that the Fifth Pay Commission as the 'single largest adverse shock' to the public finance of the nation. It also said that the number of employees of the government was 'not unduly' large, but there was a 'pronounced imbalance' in the skills. It noted that about 93% of the employees were of 3rd or 4th grade.

Sixth Pay Commission

In July 2006, the Cabinet approved setting up of the sixth pay commission. This commission has been set up under Justice B.N. Srikrishna with a timeframe of 18 months. The cost of hikes in salaries is anticipated to be about ` 20,000 crore for a total of 5.5 million government employees as per media speculation on the 6th Pay Commission, the report of which is expected to be handed over in late March/early April 2008. The employees had threatened to go on a nationwide strike if the government failed to hike their salaries. Reasons for the demand of hikes include rising inflation and rising pay in the private sector due to the forces of Globalization. The Class 1 officers in India are grossly underpaid with an IAS officer with 25 years of work experience earning just ` 55,000 as his take home pay. Pay arrears are due from January 2006 till September 2008. Almost all the Government employees received 40% of the pay arrears in the year 2008 and balance 60% arrears (as promised by Government) has also been credited in Government employees account in the year 2009. The Sixth Pay Commission mainly focused on removing ambiguity in respect of various pay scales and mainly focused on reducing number of pay scales and bring the idea of pay bands. It recommended for removal of Group-D cadre.

Controversy

Several government services, most notably the armed forces have complained bitterly of down gradation due to pay commissions exceeding their brief, and introducing anomalies in the relative scales of pay of government services. At present, the armed forces have represented to the government for the removal of anomalies which it is felt that the civil servants on the commission have deliberately introduced to upgrade themselves vis-a- vis service officers in the defense forces.

SC Constitute a New Pay Commission for Trial Court Judges

The chief justice and other supreme court and high court judges got a threefold salary hike in the sixth pay commission however the trial court judges were paid low and a bench comprising Chief Justice K G Balakrishnan and Justices P Sathasivam and J M Panchal constituted a new pay commission for the trial court judges headed by retired Madras High Court judge, Justice E Padmanabhan for recommendation of revision of about 14000 trial court judges. This order from the SC came because of a petition filed by All India Judges Association, which stated that the first judicial commission which was headed by Justice Jagannatha Shetty had said that there should be an upward revision of salaries of lower court judges in proportion to the hike to the judges of high court and Supreme Court. It also sought direction from the court to the Centre for setting up a committee “forthwith appoint a committee of one or more persons to look into the matter” relating the salary of officers in the lower judiciary.

Compensation Management in Multinational Organizations:

Introduction

Global compensation managers two important compensation related area in which focuses. They must manage highly complex and turbulent local detail while concurrently building and maintaining a unified, strategic pattern of compensation policies, practices and values. For multinationals successfully manage compensation and benefits requires knowledge of employment and taxation, customs environment and employment practices of many foreign countries, familiarity with currency fluctuations and the effect of inflation on compensation and an understanding of why and when special allowances must be supplied and which allowances are necessary in what countries all within the context of shifting political, economic and social conditions.

The level of local knowledge needed in many of these areas requires specialist advice and many multinational retain the services of consulting firms which may offer a broad range of services or provide highly specialized services relevant to Human Resource Management in a multinational context.

International compensation management is difficult issue due to two reasons. First payment of the same pay scale for all the employees of a particular rank meets the norm of equity and simplifies the task of keeping track of disparate country by country compensation rates. But, it may create more problems than it solves. The cost of living may vary significantly from one country to another. For example, it is enormously more expensive to live in London than in New Delhi. Unless the cost of living differences are duly incorporated in compensation levels, it may be highly difficult to make executives take up the high cost

overseas assignments. Thus, one of the most difficult problems in managing compensation in multinationals is establishing a consistent compensation measures between countries that builds credibility and is fair and equitable.

Objectives of International Compensation Management

During course of compensation policies development, the firm should seek to satisfy the following objectives:

1. The compensation policy should be consistent with the overall strategy, structure and business needs of the multi-national companies.
2. The compensation policy must work to attract and retain staff in the areas where the multinational has the greatest needs and opportunities.
3. The compensation policy must be competitive and recognize factors such as incentive for Foreign Service, tax equalization and reimbursement for reasonable costs.
4. The compensation policy should facilitate the transfer of international employees in the most cost-effective manner for the firm
5. The compensation policy should must give due consideration to equity and ease of administration
6. The compensation policy should give financial protection in terms of benefits, social security and living costs in the foreign location.
7. Compensation should give to the expatriate some opportunities in terms of financial advancement through income and or/ savings.
8. The compensation should meet the issues such as employees housing, education of children and recreation needs.

Key Components of an International Compensation

The international compensation is complex primarily because multi-nationals must cater to three categories of employees: Parent Country Nationals (PCN), Third Country Nationals (TCN), and Host Country Nationals (HCN).

Base Salary

The term base salary acquires a somewhat different meaning when employees go abroad. In a domestic context, base salary denotes the amount of cash compensation serving as a benchmark for other compensation elements such as bonuses and benefits. For expatriates, it is primary component of a package of allowances, many of which are directly related to base pay. For example foreign service premium, cost of living allowance, housing

allowance and also the basis for in service benefits and pension contributions. It may be paid in home or local country currency. The base salary is the foundation block for international compensation whether the employee is a PCN or TCN. Major difference can occur in the employee's package depending on whether the base salary is linked to the home country of the PCN or TCN, or whether an international rate is paid.

Foreign Service Inducement or Hardship Premium

Parent country nationals often receive a salary premium as an inducement to accept a foreign assignment or as compensation for any hardship caused by the transfer. Under such circumstances, the definition of hardship, eligibility for the premium and amount and timing of payment must be addressed. In cases in which hardship are determined.

Allowances

Issues concerning allowances can be very challenging to a firm establishing an overall compensation policy, partly because of the various forms of allowances that exist.

Cost of living allowance: which is typically receives the most attention, involves a payment to compensate for difference in expenditures between the home country and the foreign country. Often this allowance is difficult to determine, so companies may use the services of organization who are expert in calculating above.

Housing allowance: implies that employees should be entitled to maintain their home-country living standards or, in some cases, receive accommodation that is equivalent to that provided for similar foreign employees and peers. Such allowances are often paid on either an assessed or an actual basis. Other alternative include company provide housing, either mandatory or optional, a fixed housing allowance or assessment of a portion of income, out of which actual housing costs are paid.

Home leave allowance: Many employees cover the expense of one or more trips back to the home each year. The purpose of paying for such trips is to give expatriates the opportunity to renew family and business ties, thereby helping them to avoid adjustment problems when they are repatriated. Although firms traditionally have restricted the use of leave allowances to travel home, some firms give expatriates the option of applying the allowances to foreign travel rather than returning home.

- **Education allowances:** for expatriates the children are also an integral part of any international compensation policy. Allowances for education can cover items such as tuition, language class tuition, enrolment fees, books and supplies, transportation, room and board and uniforms.

- **Relocation allowances:** usually cover moving, shipping and storage charges, temporary living expenses, subsidies regarding appliance or car purchases and down payments or lease related charges. Allowances regarding perquisites (cars, club memberships, servants) may also need to be considered.
- **Spouse Assistance:** to help guard against or offset income lost by an expatriate's spouse as a result of relocating abroad. Although some firms may pay an allowance to make up for a spouse's lost income.

Benefits

The complexity inherent in international benefits often brings more difficulties than when dealing with compensation. Pension plans are very difficult to deal with country –to- country, as national practices vary considerably. Transportability of pension plans, medical coverage and social security benefits are very difficult to normalize. Therefore, firms need to address many issues when considering benefits, including:

- Whether or not to maintain expatriates in home-country programs particularly if the firm does not receive a tax deduction for it.
- Whether firms have the option of enrolling expatriates in host-country benefits programs and or making up any difference in coverage.
- Whether expatriates should receive home-country or host-country social security benefits.

Approaches to International Compensation

Two main approaches adopt by the MNCs in fixing compensation for their employees are:

1. Going Rate Approach
2. Balance sheet Approach

Going Rate Approach

In this approach salary has been fixed based on the local market rates. The local market rates are decided based on survey conducted in comparing compensation of local nationals (Host country Nationals (HCNs), expatriates of the same nationality and expatriates of all nationalities. The selected survey comparison the base pay and benefits offered.

Advantages

- Compensation paid with equality with local nationals
- This method of compensation is easy to calculate

- Compensation decided in identification with host country
- Equity is maintained amongst different country nationals

Disadvantages

- Variation in compensation is exist between assignments for the same employee
- Variations between expatriates of the same nationality in different countries
- Due to this method of compensation re-entry problems will come in future.

Balance sheet Approach

The balance sheet approach aims to develop a salary structure that equalizes purchasing power across countries so expatriates have the same standard of living in their foreign assignment as they had at home. There are three common methods implementing the balance sheet compensation plan.

Home based Method- sets compensation based on the salary of a comparable job in his or her home city.

Headquarters based Method set salary in terms of the salary of a comparable job in the city where the MNCs has its headquarters and

Host Based Method- bases compensation on the prevailing pay scales in the locale of the foreign assignment, plus foreign-service premiums, extraordinary allowances, home- country benefits, and taxation compensation.

Advantages

- This method gives advantage in terms of equity between assignments and between expatriates of the same nationality
- This approach facilitates expatriate re-entry
- In this approach it is easy to communicate to employees

Disadvantages

- This approach of compensation can result in great disparities between the expatriates of different nationalities and between expatriates and local nationals
- This approach of compensation can be complex to administer

Salary Structure in India:

Salaries are paid by organizations to their employees in exchange for the services rendered by them. The salary paid to employees comprises of a number of different components, such as basic salary, allowance, perquisites, etc.

Salary structure is the details of the salary being offered, in terms of the breakup of the different components constituting the compensation. Any change(s) to the salary structure i.e. among the elements, can have a major impact on what the employee does, such as the kind of tax exemptions claimed. Knowledge of what makes up the salary earned is crucial since it helps keep the employee informed about how much goes into forced savings and what kind of tax exemptions to claim.

Components of Salary Structure:

Some of the components of the salary structure include:

Basic Salary:

Basic salary is the base income of an employee, comprising of 35-50 % of the total salary. It is a fixed amount that is paid prior to any reductions or increases due to bonus, overtime or allowances. Basic salary is determined based on the designation of the employee and the industry in which he or she works in. Most of the other components, like allowances, are based on the basic salary. This amount is fully taxable.

Allowances:

Allowance is an amount payable to employees during the course of their regular job duty. It can be partially or fully taxable, depending on what type it is. Allowances provided and the limits on it will differ from company to company, according to their policies.

Dearness Allowance - Dearness allowance is a certain percentage of the basic salary paid to employees, aimed at mitigating the impact of inflation. It is paid by the government to employees of the public sector and pensioners of the same.

House Rent Allowance – A house rent allowance is that component of the salary which is paid to employees for meeting the cost of renting a home. It offers tax benefits to the employees for the sum that they pay towards their accommodation every year. Salaried individuals residing in rented homes can claim this exemption and reduce their tax liability.

Conveyance Allowance - Conveyance allowance, also known as transport allowance, is a kind of allowance offered by employers to their employees to compensate for their travel expense to and from their residence and workplace. Note - In Union Budget 2018, a standard

deduction of Rs. 40,000 has been introduced in lieu of transport (Rs 19,200) and medical (Rs 15,000) allowances.

Leave Travel Allowance - Leave travel allowance is eligible for tax exemption. It is offered by employers to their employees to cover the latter's travel expense when he or she is on leave from work. The amount paid as leave travel allowance is exempt from tax under Section 10(5) of Income Tax Act, 1961. Leave travel allowance only covers domestic travel and the mode of travel needs to be air, railway or public transport.

Medical Allowance - Medical allowance is a fixed allowance paid to the employees of an organization to meet their medical expenditure. Note - In Union Budget 2018, a standard deduction of Rs. 40,000 has been introduced in lieu of transport (Rs 19,200) and medical (Rs 15,000) allowances.

Books and Periodicals Allowance - Books and periodicals allowance is a type of allowance provided to employees for helping them meet the expenses associated with purchase of books, periodicals and newspapers. It is tax exempt to the extent of actual expenditure incurred towards purchase of books and periodicals.

Gratuity: Gratuity is a lump sum benefit paid by employers to those employees who are retiring from the organization. This is only payable to those who have completed 5 or more years with the company. The gratuity amount is paid in gratitude for the services rendered by the individual during the period of employment. According to the Payment of Gratuity Act, 1972, gratuity is calculated as 4.81% of the basic pay. Most firms with a workforce of 10 or more employees come under the Act.

Employee Provident Fund: Employee Provident Fund is an employee benefit scheme where investments are made by both the employer and the employee each month. It is a savings platform that aids employees to save a portion of their salary each month, from which withdrawals can be made following a month from the date of cessation of service or upon retirement. At least 12% of an employee's basic salary is automatically deducted and goes to the Employee Provident Fund every month. The contributions are maintained by the Employees Provident Fund Organization (EPFO).

Professional Tax: Professional tax is a tax levied on the income earned by salaried employees and professionals, including chartered accountants, doctors and lawyers, etc. by the state government. Different states have varying methods of calculating professional tax.

The maximum amount that is payable in a year is Rs. 2,500. Employers deduct profession tax at prescribed rates, from the salary paid to employees, and pay it on their behalf to the State Government. The revenue collected is used towards the Employment Guarantee Scheme and the Employment Guarantee Fund.

Perquisites:Perquisites, also referred to as fringe benefits, are the benefits that some employees enjoy as a result of their official position. These are generally non-cash benefits given in addition to the cash salary. Some examples of perquisites include provision of car for personal use, rent-free accommodation, payment of premium on personal accident policy, etc. The monetary value of perquisites gets added to the salary and tax is paid on them by the employee.

ESIC:If a company has 10 or more employees (20 in case of Maharashtra and Chandigarh) whose gross salary is below Rs. 21,000 per month, then the employer is required to avail ESIC scheme for such employees. The employer's contribution will be 4.75% of gross salary, whereas the employee's contribution will be 1.75% of gross salary.

UNIT-III

CONCEPTS OF EMPLOYEE BENEFITS

Incentives, fringe benefits; establishing a link with performance appraisal and compensation management. Performance linked compensation; benefits and services.

Anything that can attract an employee's attention and motivate them to work can be called as incentive. An incentive aims at improving the overall performance of an organization. Incentives can be classified as direct and indirect compensation. They can be prepared as individual plans, group plans and organizational plans.

Definition:

1. According to Milton L. Rock, incentives are defined as 'variable rewards granted according to variations in the achievement of specific results.
2. According to K. N. Subramaniam, 'incentive is system of payment emphasizing the point of motivation, that is, the imparting of incentives to workers for higher production and productivity'.
3. The National Commission of Labour defines incentive as follows: 'wage incentives are extra financial motivation. They are designed to stimulate human effort by rewarding the person, over and above the time rated remuneration, for improvements in the present and targeted results.

Types of incentives:

Incentives can be classified into three categories:

1. Financial incentives:

Some extra cash is offered for extra efficiency. For example, profit sharing plan and group incentive plans.

2. Non-financial incentives:

When rewards or prizes are provided by the organization to motivate the employees it is known as non-financial incentives.

3. Monetary and non-monetary incentives:

Many times, employees are rewarded with monetary and non-monetary incentives that include promotion, seniority, recognition for merits, or even designation as permanent employee.

Advantages of incentive Plan:

1. Incentive plans motivate workers for higher efficiency and productivity.
2. It can improve the work-flow and work methods.

3. Incentive plans make employees hardworking and innovative.
4. When employees are dedicated, supervision costs can be reduced.
5. The National Commission on Labour says that under our conditions, wage incentives are the cheapest, quickest, and sure means of increasing productivity.
6. Incentive plans help establish positive response in an organization.
7. It helps workers improve their standard of living.
8. The other benefits offered by incentive plans are reduced turnover, reduced absenteeism, and reduced lost time.

Disadvantages of Incentive Plan:

1. Incentive plans can lead to disputes among workers, since some earn more than others.
2. Hunger for money among the workers forces them to overwork, which may affect their health.
3. Some workers may involve in malpractices in order to earn more money.
4. For enhanced incentives, they may sacrifice quality.
5. It also leads to corruption by falsifying the production records.
6. Incentive plans can create tensions among different personnel.

Financial Incentives

In today's socio-economic condition money has become a very important part of our lives. We need money to satisfy almost all our needs as it has purchasing power. Thus, financial incentives refer to those incentives which are in direct monetary form i.e. money or can be measured in monetary terms.

Financial incentives can be provided on an individual or group basis and satisfy the monetary and future security needs of individuals. The most commonly used financial incentives are:

(a) Pay and Allowances

Salary is the basic incentive for every employee to work efficiently for an organization. Salary includes basic pay, dearness allowance, house rent allowance, and similar other allowances. Under the salary system, employees are given increments in basic pay every year and also an increase in their allowances from time-to-time. Sometimes these increments are based on the performance of the employee during the year.

b) Bonus

It is a sum of money offered to an employee over and above the salary or wages as a reward for his good performance.

(c) Productivity linked Wage Incentives

Many wage incentives are linked with the increase in productivity at individual or group level. For example, a worker is paid 50 rupees per piece if he produces 50 pieces a day but if he produces more than 50 pieces a day, he is paid 5 rupees extra per piece. Thus, on the 51st piece, he will be paid 55 rupees.

(d) Profit-Sharing

Sometimes the employees are given a [share](#) in the profits of the organization. This motivates them to perform efficiently and give their best to increase the profits of the organization.

(e) Retirement Benefits

Retirement benefits like gratuity, pension, provident fund, leave encashment, etc. provide [financial](#) security to the employees post their retirement. Thus, they work properly when they are in service.

(f) Stock Options or Co-partnership

Under the Employees Stock Option Plan, the employee is offered the ordinary shares of the company at a price lower than its market price for a specified period of time. These are non-standardized offers and shares are issued as a private contract between the employer and employee. These are generally offered to management as a part of their managerial compensation package.

Allotment of shares induces a feeling of ownership in the employees and they give their best to the company. Infosys, GoDaddy and The Cheesecake Factory are some of the companies that have implemented the scheme of the stock option.

(g) Commission

Some organizations offer a commission in addition to the salary to employees for fulfilling the targets extremely well. This incentive encourages the employees to increase the client base of the organization.

(h) Perquisites

Several organizations offer perquisites and fringe benefits such as accommodation, car allowance, medical facilities, education facilities, recreational facilities, etc. in addition to the salary and allowances to its employees. These incentives also motivate the employees to work efficiently.

Non-Financial Incentives

Apart from the [monetary](#) and future security needs, an individual also has psychological, [social](#) and emotional needs. Satisfying these needs also plays an important role

in their [motivation](#). Non-financial incentives focus mainly on the fulfilment of these needs and thus cannot be measured in terms of money.

However, there are chances that a particular non-financial incentive may also involve the financial incentive as well. For example, when a person is promoted his psychological needs are fulfilled as he gets more authority, his status increases but at the same time, he has benefitted monetarily also as he gets a rise in salary. The most common non-financial incentives are:

(a) Status

With reference to an organization, status refers to the position in the hierarchy of the organizational chart. The level of authority, responsibility, recognition, salary, perks, etc. determine the status of an employee in the organization.

A person at the top level management has more authority, responsibility, recognition and salary and vice-versa. Status satisfies the self-esteem and psychological needs of an individual and in turn, motivates him to work hard.

(b) Organizational Climate

Organizational climate refers to the environmental characteristics of an organization that are perceived by its employees about the organization and have a major influence on their behaviour. Each organization has a different organizational climate that distinguishes it from other [organizations](#).

Some of the factors that influence the organizational climate of an enterprise are organizational structure, individual responsibility, rewards, risk and risk-taking, warmth and support and tolerance and conflict. When the organizational climate is positive employees tend to be more motivated.

(c) Career Advancement Opportunity

It is very important for an organization to have an appropriate skill development program and a sound promotion policy for its employees which works as a booster for them to perform well and get promoted.

Every employee desires growth in an organization and when he gets promotion as an appreciation of his work he is motivated to work better.

(d) Job Enrichment

It refers to the designing of jobs in such a way that it involves a higher level of knowledge and skill, a variety of work content, more autonomy and responsibility of employees, meaningful work experience and more opportunities of growth. When the job is interesting, it itself serves as a source of motivation.

(e) Job Security

Job security provides future stability and a sense of security among the employees. The employees are not worried about the future and thus work with more enthusiasm. Owing to the unemployment problem in our country, job security works as a great incentive for the employees. However, there is also a negative aspect of this incentive that employees tend to take their job for granted and not work efficiently.

(f) Employee Recognition Programmes

Recognition means acknowledgment and appreciation of work done by employees. Recognition in the organization boosts their self-esteem and they feel motivated. For example, declaring the best performer of the week or month, displaying their names on the notice board and giving them rewards, fall under the Employee recognition program.

(g) Employee Participation

Involving the employees in decision making regarding the issues related to them such as canteen committees, work committees, etc. also helps in motivating them and inducing a sense of belongingness in them.

(h) Employee Empowerment

Giving more autonomy and powers to subordinates also make them feel that they are important to the organization and in turn they serve the organization better.

Problems arising out of incentives

The following problems are bound to arise while implementing an incentive plan:

1. ***Quality of work may suffer:*** The workers, those in the production department in particular, may give undue importance to the quantity of output produced neglecting the quality of output. Such a problem can be overcome only if the organization has a perfect system of quality control.
2. ***Inter-personnel relationships may suffer:*** Only those employees who are really efficient will be benefited out of incentives. This may promote ill-feelings among the employees of an organization
3. ***Wear and tear of machines may be more:*** As the employees are keen on increasing the output all the time, they may handle the machines carelessly. This increases the wear and tear of machines.
4. ***Health of the workers may get affected:*** Some workers tend to overwork in order to earn more and this may affect their health.
5. ***Increase in accidents:*** There is always a preference to step up output disregarding even safety regulations and this may increase the rate of accidents in the workplace.

6. **Increase in paper work:** Proper administration of any incentive scheme involves lot of paper work. It necessitates the maintenance of proper records and books.

Requirements of a sound incentive plan

A good incentive plan shall fulfill the following requirements:

1. Trust and confidence – The success of any incentive plan depends on the existence of an atmosphere of trust and confidence between the workers and the management. In the absence of such an atmosphere, the workers may resist any such proposal by the management.

2. Consensus required – The management should not take a unilateral decision while evolving an incentive scheme. Consensus between the workers and the management is necessary for the success of the plan.

3. Assured minimum wage – Payment to any worker should not be totally related to his performance. Every worker should be assured of a minimum wage notwithstanding performance. Only then the workers would have a sense of security.

4. No scope for bias or favouritism - The standards set under the incentive plan should be based on objective analysis. It should not expect too much out of the employee nor should it give scope for bias or favouritism.

5. Simple to operate - The incentive plan should not involve tedious calculations. It should be so simple that the worker will be in a position to work out his total earnings himself.

6. Beneficial to both the workers and the management - The incentive plan should be beneficial to both the workers and the management. From the management's point of view, it should be cost effective. From the workers' point of view, it should offer return, at a rate higher than the normal rate of wages, for the extra efforts made by them.

7. Sound system of evaluation - A perfect system of evaluating the employees performance should be created in the organisation. The results of evaluation should be made known to the employees at the earliest.

8. Redressing grievances - Grievances and complaints are bound to arise whenever any incentive plan is in vogue in the organisation. Proper machinery should be installed for the quick handling of all such complaints.

9. Review - The progress of the incentive scheme should be periodically reviewed. Only then it would be possible to notice and remove defects, if any, in the plan.

Categories of Incentive Plans

Incentive plans fall under two categories:

(i) Individual incentive plans and

(ii) Group incentive plans

In the case of individual incentive plans, an individual worker is rewarded for achieving a certain level of performance. Such plans may be further divided into:

(i) Time-based incentive plans and

(ii) Output-based incentive plans

In the case of time-based plans, a standard time is determined for the job and the worker gets his incentive only when he completes the work in less than the standard time. Under the output-based plans, standard output is determined and the worker gets his incentive only when he produces more than the standard output.

Under the group incentive plans, incentive is determined based on the collective output of a group of workers whose work is inter-dependent. Such an amount is apportioned among the group members on an agreed basis.

Time-based Individual Incentive Plans

Halsey's Plan

F.A.Halsey, an American engineer, introduced this plan. Under this plan, standard time is determined for each job. A worker who completes the job by taking the standard time or even exceeding it is paid normal wages calculated at the time rate. In case, he completes the job in less than the standard time, he is given bonus equal to 50% of the money value of the time saved.

The bonus payable to the worker and his total earnings, under the Halsey's plan, are calculated as follows:

Bonus = 50% (Time Saved x Time Rate)

Total Earnings = Time Rate x Time Taken + Bonus

Merits of Halsey's Plan

The following are the plus points of Halsey's plan:

1. It is simple to understand.
- 2 The workers are assured of a minimum wage.
3. The employer and the worker share equally the benefit resulting from savings in time.
4. The plan encourages workers to be more efficient in their work.

Demerits

Halsey's plan, however, suffers from the following limitations:

1. The efficiency of the worker is rewarded to the extent of 50% only.
2. The time saved is wholly due to the efficiency of the worker but the

management grabs 50% of the resulting benefit.

3. The plan does not say anything about, the quality of the work done.

Rowan's Plan

Under Rowan's plan, the manner of calculating bonus is slightly different from that under the Halsey's plan. Bonus, under Rowan's plan is calculated as follows:

Bonus = % of Time saved x Time Wage

Standard Time

Total Earnings of the worker = Time Wage + Bonus

Merits

The following are the positive aspects of Rowan's plan:

1. Minimum wage is guaranteed to all workers.
2. When compared with Halsey's plan, bonus under Rowan's plan is more although the basic time wage is the same under both the plans.
3. The plan provides a check against over-speeding by workers. As the worker saves more time, his bonus and total earnings only begin to decline. In the above illustration, suppose, the worker completes his task within one hour, i.e. he saves 4 hours, his bonus will only be Rs.16. He earns the same bonus of Rs.16 by completing the task in 4 hours, saving just one hour.

Demerits

The drawbacks of Rowan's plan are given below:

1. It is not as easy as Halsey's plan is.
2. The earnings of the worker become less as he saves more time. This discourages efficient workers

Emerson's Efficiency Plan

Under Emerson's plan too minimum wage is guaranteed to all workers. Payment of bonus, however, is related to the efficiency of the workers. Efficiency is determined by the ratio of time taken to standard time. Usually, a worker is given bonus only when his level of efficiency, in terms of percentage, is above 66.67%.

Merits

The following are the advantages of Emerson's efficiency plan:

1. Minimum wage is guaranteed.
2. It pays bonus to workers based on their level of efficiency.
3. The 66.67% or two-third efficiency criterion is within the reach of many workers.

Demerits

The disadvantages of the plan are as follows:

1. It is not a straight-forward approach to determining bonus.
2. If the standard time allowed itself is low, it may not be possible for many workers to fulfil the efficiency criterion laid down under the plan. .

Bedeaux's Plan

Under this plan, the standard time and time taken for each job is reduced to minutes, and each minute is referred to as "B", i.e., one hour is the same as 60 B's. The bonus and total earnings of the worker, under the plan, are calculated as follows:

Bonus = 75% (Standard Time - Time Taken) x Time Rate

Total Earnings = Time Wage + Bonus

Merits

The benefits of Bedeaux's plan are:

1. It guarantees minimum wages to the workers.
2. It enables efficient workers to earn more.
3. The benefit of three-fourth of the time saved is given to the worker.

Demerits

The weaknesses of the plan may be stated as follows:

1. The unit name of 'B' in place of the 'minute' does not make the plan altogether different.
2. The entire benefit of time saved by the worker is not passed on to him.

OUTPUT-BASED INDIVIDUAL INCENTIVE PLANS

Taylor's Differential Piece Rate Plan

F. Taylor, who is known as the *Father of Scientific Management*, developed the differential piece rate plan. Under the plan, two-piece rates are laid down –

- (i) A lower rate for those workers who are not able to attain the standard output within the standard time; and
- (ii) A higher rate for those who are in a position to produce the standard output within or less than the standard time.

Under the plan, minimum daily wage is not guaranteed.

Taylor's differential piece rate plan has the following components:

- (i) Standard Output.
- (ii) Standard Time
- (iii) A Lower Piece Rate and

(iv) A higher Piece Rate

Merits

The following are the merits of Taylor's differential piece rate plan:

1. It is easy to understand and simple to operate.
2. It enables efficient workers to earn more.
3. Workers not reaching the standard are paid at a lower rate. Such people, thus, are punished for their inefficiency. This protects the interests of the organisation.

Demerits

The limitations of Taylor's plan are given below:

1. It does not guarantee minimum wage. This creates a sense of insecurity for the workers. .
2. There may be ill-feelings among workers in view of the differential piece rates.
3. The quality of the output is ignored.

Merrick's Multiple Piece Rate Plan

Under this plan too a standard task is set for the workers. But unlike Taylor's plan that provides for two differential rates, Merrick's plan contemplates three rates as shown below:

(i) Workers producing less than 83% of the standard output are paid at a basic rate.

(ii) Workers producing between 83 % and 100% of the standard output will be paid 110% of the basic piece rate.

(iii) Those producing more than the standard output will be paid at 120% of the basic piece rate.

Merits

The merits of the plan may be stated as follows:

1. It is an improvement over Taylor's plan.
2. It has greater flexibility.
3. It offers greater scope for efficient workers to earn more.

Demerits

The following are, probably, the drawbacks of the plan:

1. It is a complicated plan.
2. Even a worker achieving 83% target is branded as a poor performer.

Gantt's Task Plan

This plan guarantees minimum daily wage. Its special feature is that it combines time rate, piece rate and bonus. A worker who is unable to produce the standard output receives only the time wage. He becomes eligible for bonus only when he attains or exceeds the standard output within the standard time. The rate of bonus varies between 20% to 50% of his wages.

Merits

The plus points of Gantt's task plan are:

1. It has, as mentioned above, time wage, piece rate and bonus. It is, therefore, a three-in-one scheme.
- 2 It guarantees daily minimum wage.
3. It provides enough opportunities for efficient workers to earn more.

Demerits

The weaknesses of the plan are:

1. It is not easy to understand.
2. The fluctuations in the output levels, of different workers not attaining the standard, are ignored and they all receive the same daily minimum wage. In the illustration given above, if two workers produce 6 units and 8 units respectively (against standard output of 10), each is assured a daily wage of Rs.50

GROUP INCENTIVE PLANS

Profit sharing

Profit sharing is the most popular method rewarding the employees. Under it, the employees are paid in addition to the regular wage, a particular share of the net profits of the business as incentive.

Characteristics of Profit Sharing

The key features of profit sharing may be stated as follows:

1. It is based on an agreement between the employer and the employees.
2. It is a payment made after ascertaining the net profits of the business. It is not therefore, a charge on profits.
3. The amount paid to the employees is over and above their normal pay.
4. The amount to the paid is determined based on some agreed formulas.
5. The payments based on seniority and wage level of individual workers.

Merits of Profit Sharing

The advantages are profit sharing are as follows:

1. Better employer-employee relations - This is possible, as the employer is ready to share the profits of the enterprise with his employees.

2. Increase in productivity -The employees make every possible effort to increase productivity because they know very well that higher profits for the enterprise would mean higher bonus for them.

3. Better living standards - It helps to increase the living standards of the employees as the amount received is in addition to the usual wages.

4. Reduced costs of supervision - The workers themselves are duty conscious and, therefore, they need no close supervision. Thus, costs of supervision are reduced.

5. Promotion of team spirit - The employees know the importance of teamwork, as only such an effort would result in higher output.

Limitations of Profit Sharing

The limitations of profit sharing are as follows:

1. Regular income not assured: Payment to workers, by way of profit sharing, at a particular rate depends upon the profits of the enterprise. If the enterprise makes low profits or incurs losses, it will not be in a position to pay bonus as agreed.

2. Suppression of profits: Attempts may also be made to suppress true profits so that the employees need not be paid their share. This is done by manipulating accounts.

3. No inducement: Payment under the profit-sharing scheme will be made to the employees once or twice a year when accounts are closed. Such payments at longer intervals may not really motivate employees. Daily or weekly incentive payments are far more superior to profit sharing.

4. All workers paid alike: Payment to workers under profit sharing is made without considering their relative level of efficiency. This amounts to doing injustice to those who have really made target attainment possible.

Fringe Benefits:

Fringe benefits refers to the extra benefits provides to the employees in addition of normal compensation paid in terms of wages or salary. Many years ago these benefits and services were labelled” Fringe benefits” because these benefits were relatively insignificant or fringe components of the compensation. But now a days the situation is not the same. Fringe benefits are now a days a great motivator to the employees.

Features of Fringe Benefits:

1. They are supplementary forms of compensation.

2. They are paid to all the employees (unlike incentives which are paid only to the extraordinary performers) based on their membership in the organisation.
3. Fringe benefits are indirect compensation because they are extended as a condition for employment and are not directly related with the performance.
4. These benefits may be statutory or voluntary. For example, Provident funds are statutory but the transportation facility is voluntary.
5. These benefits help raise the living standards of the employees.

Need for Fringe benefits:

Employee demand: The employees now a days demand for fringe benefits rather than pay hikes because of reduction in tax burden on the employee's side and in view of galloping price index and cost of living.

Trade Unions demand: Various trade union are competing with each other for getting more and more benefits for their members. If one union succeeds in persuading the management for a new benefit the other union will try to convince the management for an additional benefit.

Employer's Preference: Employer may also wish to provide fringe benefits to the employees in a view of increasing productivity and motivating the employees.

As a social security: Fringe benefits are also provided to the employees to protect them from certain risk such as contingencies of life like accidents and occupational diseases.

To improve human relations: Improving human relation is a process of addressing the needs of the employees and satisfying them. Fringe benefit satiates employee's economic, social and psychological needs.

Objectives of Fringe benefits:

- To create and improve sound industrial relations.
- To motivate the employees.
- To protect health of the employees and safety to the employees against threats such as accidents and occupational diseases.
- To promote employee welfare.
- To provide security against social risks such as old age benefits and maternity benefits.
- To create a sense of belongingness among the employee and to retain them. Fringe benefits are also known as **golden handcuffs**.
- To meet the various legislative requirements relating to fringe benefits.

Types of Fringe Benefits:

Payment for Time not worked:

- **Hours of work:** Factory's Act , 1948 specifies that no adult workers shall be required to work in factory more than 48 hours a week. In some organisations number of working hours per week are less than the legal requirements.
- **Paid Holidays:** According to Factory's Act, 1948 an adult worker shall have a weekly paid holiday, normally Sunday. When a worker is deprived of weekly paid holidays, he/ she is to be compensated with the same number of holidays in the same month. Some organisations offer two weekly paid holidays.
- **Shift Premium:** Workers working on odd shift are to be compensated with more than the normal wage rate, generally known as premium.
- **Holiday Pay:** Generally, organisations offer double the normal rate to those workers who work on holidays.
- **Paid Vacation:** Workers in mining, manufacturing and plantation who have worked for 240 days in year are entitled for paid vacations at a rate of 1 day for every 20 days worked in case of adult workers and 1 day for every 15 days worked in case of child workers.

1. Employee Security:

Physical and job security to the employees should also be provided with a view to ensure security to the employee and his family members. When the employee's services get confirmed, his job becomes secure. Further, a minimum and continuous wage or salary gives a sense of security to the life.

- **Retrenchment Compensation:** The Industrial Disputes Act, 1947 provides for the payment of compensation in case of lay off and retrenchment. The non-seasonal industrial establishment employing 50 or more workers have to give one month's advance notice or one month's wages to all the employees who are retrenched after one year's continuous service. The compensation is paid at the rate of 45 day wage for every completed year of service. Workers are eligible for compensation as stated above in case of closing down of undertakings.
- **Lay Off Compensation:** In case of lay off the employees are entitled to lay off compensation at the rate equal to 50% of the total of the basic wage and dearness allowance for the period of their lay off except for the weekly holidays. Lay off compensation can normally be paid up to 45 days a year.

2. Safety and Healthy:

Employee's safety and health should be taken care in order to protect the employees against accidents, unhealthy working conditions and to protect the worker's productive capacity. In India, Factory's Act, 1948 stipulated certain requirements regarding working conditions with a view to provide safe working environment. These provisions relate to cleanliness, disposal of waste and effluents, ventilation and temperature, dust and fumes, artificial humidification, overcrowding, lighting, urinals, drinking water, latrines, spittoons etc.

Provisions relating to safety measures include fencing of machinery, work on or near machinery in motion, employment of young persons on dangerous machines, self-acting machines, casing of new machinery, hoists and lifts excessive weights, lifting machines, chains, ropes explosive or inflammable dust , gas etc.

4. Workmen's Compensation:

In addition to safety and health measures, provisions for payments of compensation has also been made under the Workmen's Compensation Act, 1923. The Act is intended to meet the contingencies of death and invalidity of worker due to employment injury and occupational diseases specified under the Act as the sole responsibility of employer. Under the Act the amount of compensation demands upon the nature of injury and monthly wages of the employee. Dependents of the employee are eligible for compensation in case of death of the employee.

5. Health Benefits:

These benefits include

- **Sickness benefits:** Sickness benefit is roughly 50% of average daily wages and is payable for 91 days during 2 consecutive benefit period.
- **Medical benefit:** The Employee's state Insurance Scheme provides full medical care in the form of medical attendance, treatments, drugs and injections, specialist consultation, and hospitalization to insured person and also to members of their families where the facility has been extended to the families.
- **Temporary Disablement benefits:** TDB is payable to an employee suffers from employment injury or occupational diseases and is certified to temporarily incapable of work.
- **Permanent Disablement Benefit:** PDB is payable to an employee who suffers permanent residual disablement as a result of employment accident or occupational diseases. The maximum rate of PDB can be equal to TDB.

- **Maternity Benefits:** Maternity benefits is payable to and insured women in the following cases subject to contributory conditions: – (a) Confinement, (b) Miscarriage or medical termination of pregnancy (MTP), (c) sickness arising out of pregnancy.

6. Voluntary Arrangement:

However, most of the large organisations provide health services over and above the legal requirements to their employees free of cost by setting up hospitals, clinics, dispensaries, and homeopathic dispensaries. Company's elaborate health service programmes includes:

1. Providing health maintenance services, emergency care, on the job treatment for minor complaints, health counselling, medical supervision in rehabilitation, accidents and sickness prevention, health education programmes, treatment in employee colonies etc.
2. Medical benefits are extended to employee family members and to the retired employees and their family members.
3. Small organisations which cannot setup hospitals provide the medical services through local hospitals and doctors. Sometimes they provide reimbursements of medical expenses borne by the employee.

7. Welfare and Recreational facilities:

These benefits include canteens, consumer stores, credit societies, housing, legal aids, employee counselling, welfare organisation, holiday homes, educational facilities, transportation, picnics and parties etc.

Fringe benefits offered by BHEL to its employees:

Profit Sharing, Production Bonus, Club & Gym, Cell & its Bill, Subsidised Food, Interest Free Festival advance, Leave Travel Reimbursement, Leave Travel encashment, Car Loan, Travel Allowance, News Paper & Periodical, Professional Membership fee, free medical (till life lasts), Computer at office, Lap top For home, Children Education Fee Reimb, Maternity/Paternity Leave, free medical for spouse, House Building Advance, Late Night snack allowance, apart from conveyance, pf, leave encashment, city compensatory allowance and a retirement pay plan etc. are some of the perks offered by BHEL.

Fringe Benefits in HRM – Importance to Employees and Employer

Fringe/employee benefits are important not only for the employers and employees, but also for the community. A brief mention of these will be appropriate for discerning their importance. Some of the popular employee benefits comprise the following – medical and sickness benefits, workmen's compensation, insurance, provident fund, pension, maternity benefit, housing accommodation with ancillary facilities, transport facility, leave travel facility and education facilities for the children of the employees.

These benefits may be provided under the company policy or under the agreement with the union or as a result of legislation.

1. Importance for Employees:

The benefits are important to the employees for the following main reasons:

- (i) They enhance the real earnings of the employees and enable them to save money, which they would, otherwise, have spent in the absence of these benefits.
- (ii) Money value of these benefits has, for long, not been taxable under income tax law, thus enhancing employees' living standards. However, during more recent years, the value of these benefits is adjusted in the income tax payable by individual employees, but many of these still do not come into the ambit of income tax deductions.
- (iii) Availability of the social security benefits in the event of such contingences as unemployment, sickness, disability, old age, maternity and so on mitigates the worries of the employees regarding apprehended insecurity.
- (iv) Many benefits, particularly medical and refreshment facilities, are conducive to the protection of health of employees and enhancement of their efficiency.
- (v) Housing accommodation with ancillary amenities and transport facilities result in saving of time and add to employees' convenience.
- (vi) Many benefits are made available to the employees' family members, which promote congenial family life and strengthen employees' motivation.
- (vii) Many companies make available to their employees plots for construction of houses or flats on lease basis, and also bear a part of the burden of interests on house loans. Thus, a major item of worry of the employees is mitigated.
- (viii) Some companies advance loans to their employees on liberal terms for the purchase of vehicles and household appliances. This facility also raises the living standards of employees.

2. Importance for Employers:

Fringe/employee benefits are advantageous to the employers for the following main reasons:

- (i) Employers have, for long, been enjoying substantial rebate on these benefits under income tax law. This advantage has, however, increasingly diminished during more recent years. Nonetheless, employers still receive rebates for expenditure on many of these benefits.
- (ii) In establishments facing chronic problems of unstable workforce and absenteeism, long-term social security benefits such as life insurance cover, provident fund and pension and housing accommodation have proved effective in reducing their incidence.

(iii) These benefits generally tend to strengthen employees' motivation and efficiency resulting in higher production and reduction of labour cost.

(iv) Many companies have experienced establishment of sound employee and industrial relations as a result of provision of these benefits, especially when these benefits have emanated from agreement with the union.

(v) In some cases, the companies have been able to keep wage-rates at a low level on the ground of providing substantial benefits to their employees.

(vi) Provision of these benefits also enhances the prestige of the company in the community and enables competent workers to be attracted towards the company.

Fringe/employee benefits are also significant for the community and economy. It was during the Second World War period in the USA that the concept of "fringes" emerged in the context of compensation. The War Labour Board, which was entrusted with the responsibility of controlling wage increases, allowed fringe benefits holding that these would not stand in the way of measures intended to prevent inflation.

Even today, such a premise holds well in the situation of inflationary pressure under which "wages chasing prices and prices changing wages" is a usual phenomenon. Availability of fringe benefits diminishes pressures for wage increases which is helpful in fight against inflation.

Besides, many big companies have created infrastructure near workplaces in the form of housing colonies, roads, parks, lighting arrangements and community, educational and recreational centres. These benefit not only the residents of the locality, but also many others in the community. The facilities in the hospitals and dispensaries established and maintained by companies are generally made available to the public in the vicinity.

Marketing centres established by companies are similarly open to the public. Many other examples may be easily cited to show that the community derives advantages from the benefits intended to be provided for the employees.

Fringe Benefits in HRM – Principle of Benefits in Social and Organizational Context

Fringe benefits act as a maintenance factor in terms of motivation theories. It implies that provisions of benefits and services work as dissatisfies if not provided but do not stimulate employees for higher performance if provided. Therefore, the question arises- what is the rationale behind providing benefits and services?

The answer of this question involves the analysis in a much wider context than merely the organizational context; it has to be analysed both in social as well as organizational contexts.

i. Social Context:

Every society takes care of its members by providing some kinds of benefits. The value and form of benefits depend on the economic conditions of the society. The basic logic behind such benefits is that members of the society will enjoy comparatively better lives as compared to what they can enjoy in the absence of these benefits. The objective is not necessarily to make them more efficient to work.

Therefore, every country adopts the concept of benefits in its framework which governs the country. For example, Constitution of India provides in its Article 43 that “all workers should be given living wage, conditions of work ensuring decent standard of life and fuller enjoyment to social and cultural opportunities.” Various benefits and services provided to the employees serve this purpose.

ii. Organizational Context:

Since every organization of a society is not similar to others, each organization adopts its own approach in providing the benefits to employees. The organizations which adopt philanthropic approach provide more generous benefits and services.

In general, from the organization’s point of view, the objectives of benefits and services are as follows:

1. To maintain parity with the general practices adopted by other organizations in the same geographical area or industry sector.
2. To provide community and commonly shared services which employees cannot provide individually.
3. To create better image of the organization so as to attract and retain competent employees.
4. To increase morale and work life of employees so that they can concentrate on their jobs.
5. To satisfy the trade unions by providing benefits and services to employees.

Fringe Benefits in HRM – Types: Employment Security; Health Protection; Old Age and Retirement; Personnel Identification; Participation and Stimulation & Miscellaneous

Organizations provide a variety of fringe benefits.

The fringe benefits are classified under five heads as given here:

1. Employment Security:

Benefits under this head include unemployment, insurance, technological adjustment pay, leave travel pay, overtime pay, level for negotiation, leave for maternity, leave for grievances, holidays, cost of living bonus, call-back pay, lay-off, retiring rooms, jobs to the sons/daughters of the employees and the like.

2. Health Protection:

Benefits under this head include accident insurance, disability insurance, health insurance, hospitalization, life insurance, medical care, sick benefits, sick leave, etc.

3. Old Age and Retirement:

Benefits under this category include deferred income plans, pension, gratuity, provident fund, old age assistance, old age counselling, and medical benefits for retired employees, traveling concession to retired employees, jobs to sons/daughters of the deceased employee and the like.

4. Personnel Identification, Participation and Stimulation:

This category covers the benefits like anniversary awards, attendance bonus, canteen, cooperative credit societies, educational facilities, beauty parlour services, housing, income tax aid, counselling, quality bonus, recreational programs, stress counselling, safety measures, etc.

Other Miscellaneous Categories:

i. Payment for Time Not Worked:

Benefits under this category include sick leave with pay, vacation pay, paid rest and relief time, paid lunch periods, grievance time, bargaining time, travel time, etc.

ii. Extra Pay for Time Worked:

This category covers the benefits such as premium pay, incentive bonus, shift premium, old age insurance, profit sharing, unemployment compensation, Christmas bonus, Diwali or Pooja bonus, food cost subsidy, housing subsidy, recreation.

iii. Retrenchment Compensation:

The Industrial Disputes Act, 1947 provides for the payment of compensation in case of lay-off and retrenchment. The non-seasonal industrial establishments employing 50 or more workers have to give one month's notice or one month's wages to all the workers who are retrenched after one year's continuous service.

The compensation is paid at the rate of 15 days wage for every completed year of service with a maximum of 45 days wage in a year. Workers are eligible for compensation as stated above even in case of closing down of undertakings.

iv. Lay-Off Compensation:

Layoff is the temporary suspension or permanent termination of employment of an employee or a group of employees for business reasons, such as the decision that certain positions are no longer necessary or business slowdown or interruption in work.

Originally the term 'layoff' referred exclusively to a temporary interruption in work, as when factory work cyclically falls off. In case of lay-off, employees are entitled to lay-off compensation at the rate to 50% of the total of the basic wage and dearness allowance for the period of their lay-off except for weekly holidays. Lay-off compensation can normally be paid up to 45 days in a year.

Fringe Benefits in HRM – Statutory Benefits: Applicable to the Employees after Retirement and during Old Age

These benefits are related to the social security of employees because the economic and saving conditions of the employees are very poor due to the low wages and high living cost.

With a view to develop social security feeling after retirement and during old age the following statutory fringe benefits are applicable to the employees:

1. Gratuity:

As per the Payment of Gratuity Act, 1972, the gratuity is payable to all the employees who render a minimum continuous service of five year with the present employer or at the age of superannuation or death or disablement due to accident or disease. The maximum limit of gratuity payable to an employee shall not exceed Rs.3.5 Lakhs and the rate for the purpose of calculation is that the 15 days wages for every completed year of service.

2. Provident Funds:

The Employee's Provident Fund and Miscellaneous Provisions Act, 1952 provides provident fund and deposit linked insurance to the employees. Both employer and employees contribute to the fund. The rate of contribution is the 12% of the Basic Pay and Dearness Allowance in case of contribution to provident fund scheme and only 12% of the Basic Pay in case of provident fund scheme where the contribution from the employer side is not applicable.

Generally the organizations pay this fund amount with interest to the employee on superannuation or separation from the organisation by any means or to the dependents of the employee, in case of death.

3. Deposit Linked Insurance:

This scheme was introduced in 1976 in the Provident Fund Act. If a member of Employees Provident Fund dies during in service then his dependents will be paid an additional amount equal to the average balance during last three years in his account. The maximum amount payable is Rs.10000 under this scheme.

4. Pension:

The Government of India introduced a pension scheme in the year 1995 where the contributory provident fund scheme is applicable.

5. The Employee State Insurance Act, 1948:

The Workmen Compensation Act, 1923 and Maternity Benefit Act, 1961 are another statutory benefit schemes related to the health of employees comes under fringe benefits category.

The Human Resource Department is generally responsible for administration of the organisation. These are one of the means to ensure welfare of employees and to develop a sense of belongingness among employees towards organisation. Some of the organisations may provide even more than the aforementioned various fringe benefits programmes or may not provide all the benefits described due to the financial ability of the organizations.

Fringe Benefits in HRM – Administration (With Problems and Steps)

Fringe benefits and services are very useful for the employees. These provide help to the employees and fulfil their needs. It contributes to maintain the satisfied workforce. For this, it is required that the benefits and services must be managed properly. But in many organisations management does not pay proper attention towards administration of benefits and services.

Following are the problems faced in administration of benefits and services:

- (a) Workers have different interest in benefits and services.
- (b) Trade unions oppose such schemes.
- (c) Workers and managers do not have knowledge about benefit policy of the company.
- (d) Managers are overloaded with work. Hence they are not able to pay proper attention towards administration of benefits and services.
- (e) Lack of training in administration of benefits and services.

Administration of benefits and services must be proper; otherwise it will lead to confusion.

Following steps must be taken for effective management of benefits and services:

- (a) Study of environmental factors.
- (b) Study of competitor's schemes and their administration.
- (c) Formulation of benefit and service objectives.
- (d) Fixing responsibility of administration of benefits and services.
- (e) Communications of scheme to the employees and trade unions.
- (f) Control of costs of benefits and services.
- (g) Review of existing schemes.

Fringe Benefits in HRM – Types of Benefits Offered by Various Organisation in India: Hours of Work, Rest Period, Holidays, Shift Premium and a Few More

The provision of fringe benefits in Indian industries has not been very remarkable. There has been diversity in nature and quantum of these benefits in various industries. There are two types of fringe benefits being provided by Indian employers, some are legal, and some are voluntary.

The contribution to the provident fund of the employees, pension schemes, gratuity, contribution to employees, states insurance fund, lay off compensation, leave travel concession; maternity benefits are some examples of legal fringe benefits, which cost on an average equal to 21.3% of the annual wages.

On the other hand, in many industrial houses, various schemes are being operated for the benefit of their employees voluntarily. Their values range from 10% to 21% of the annual wages in different industries. Public sector enterprises have taken a lead in providing such benefits to their employees.

In spite of such high percentage, the provision of fringe benefits in India cannot be said to be adequate and satisfactory. The cost of fringe benefits is by no means significant as compared to other countries.

The fringe benefits offered by various organisation in India may be following types:

1. **Hours of Work** – As per Section 15 of the Factories Act, 1948, that no adult worker shall be allowed to work in a Factory for more than 48 hours in a week and more than 9 hours in a day.
2. **Rest Period** – Tea break or coffee break are allowed during the day to allow the worker to rest.
3. **Holidays** – As per the Factories Act, 1948, an adult worker shall have weekly paid holiday in general on Sunday or any other day in a week.
4. **Shift Premium** – Shift premium to the workers who are required to work during second and third shifts in a day.
5. **Paid Vacation** – Workers are eligible for paid vacation from 15 days to 30 days in a calendar year.
6. **Holidays Pay** – Independence Day, Republic Day, Gandhi Jayanti, Deepawali, Dussehra, Holi, Id and Christmas are gazetted paid holidays. Generally organizations after double the normal rate of the salary if the workers worked during these holidays.
7. **Sick Leave** – The employees are entitled to get full day when he is out of work due to sick for a 10 days in a calendar year.

8. **Maternity Benefit** – The Women are entitled to maternity leave for 12 weeks (six weeks before the delivery and six weeks after the delivery) in addition to cash benefit of 75 paise per day or twice of sickness benefit, whichever is higher.

9. **Disable Benefit** – The employees are entitled to get the benefit under Workmen's Compensation Act 1923, if he is disabled temporarily or permanently (partial or total) during employment injury or occupational diseases.

10. **Absence Leave** – The pay is provided to an employee if he is absent from the work place due to the participating in training and development programmes.

11. **Canteens** – Fully or partially subsidized food and refreshments is provided to the employees during working hours.

12. **Transport Facilities** – Many organizations are providing conveyance facilities to employees from their residence to work place and back.

13. **Housing Facilities** – The big houses are providing company owners housing or subsidized housing facilities to their employees.

14. **Purchasing Facilities** – Many of the large organizations has set up the consumer stores in the employee's colonies and supply all essential goods and services at fair prices.

15. **Educational Service** – Educational services include tuition fees refunds, scholarships, setting up of schools and colleges, libraries and many more. These facilities not only provide to the employees of the organisation but also to their family members.

16. **Medical Facilities** – These include clinics, hospitals and counselling services. It reduces tiredness, absenteeism and employee turnover.

17. **Financial and Legal Aid** – Many organizations are provided loan funds, income-tax service, assistance in legal matters and group insurance plans to their employees.

18. **Recreational Facilities** – Organisations provide social clubs, arrange parties and picnics, reading rooms, libraries and entertainment programmes for their employees.

19. **Travel Concessions** – Many organizations are providing leave and travel concessions one time in a financial year to their employees.

20. **Miscellaneous** – Many organisations are providing other benefits to their employees such as Deepawali gifts, birthday gifts, pooja gifts and productivity or performance rewards, etc.

Performance Appraisal is the systematic evaluation of the performance of employees and to understand the abilities of a person for further growth and development. Performance appraisal is generally done in systematic ways which are as follows:

1. The supervisors measure the pay of employees and compare it with targets and plans.
2. The supervisor analyses the factors behind work performances of employees.

3. The employers are in position to guide the employees for a better performance.

Objectives of Performance Appraisal

Performance Appraisal can be done with following objectives in mind:

1. To maintain records in order to determine compensation packages, wage structure, salaries raises, etc.
2. To identify the strengths and weaknesses of employees to place right men on right job.
3. To maintain and assess the potential present in a person for further growth and development.
4. To provide a feedback to employees regarding their performance and related status.
5. To provide a feedback to employees regarding their performance and related status.
6. It serves as a basis for influencing working habits of the employees.
7. To review and retain the promotional and other training programmes.

Advantages of Performance Appraisal

It is said that performance appraisal is an investment for the company which can be justified by following advantages:

1. **Promotion:** Performance Appraisal helps the supervisors to chalk out the promotion programmes for efficient employees. In this regards, inefficient workers can be dismissed or demoted in case.
2. **Compensation:** Performance Appraisal helps in chalking out compensation packages for employees. Merit rating is possible through performance appraisal. Performance Appraisal tries to give worth to a performance. Compensation packages which includes bonus, high salary rates, extra benefits, allowances and pre-requisites are dependent on performance appraisal. The criteria should be merit rather than seniority.
3. **Employees Development:** The systematic procedure of performance appraisal helps the supervisors to frame training policies and programmes. It helps to analyse strengths and weaknesses of employees so that new jobs can be designed for efficient employees. It also helps in framing future development programmes.
4. **Selection Validation:** Performance Appraisal helps the supervisors to understand the validity and importance of the selection procedure. The supervisors come to know the validity and thereby the strengths and weaknesses of selection procedure. Future changes in selection methods can be made in this regard.

5. **Communication:** For an organization, effective communication between employees and employers is very important. Through performance appraisal, communication can be sought for in the following ways:

- a. Through performance appraisal, the employers can understand and accept skills of subordinates.
- b. The subordinates can also understand and create a trust and confidence in superiors.
- c. It also helps in maintaining cordial and congenial labour management relationship.
- d. It develops the spirit of work and boosts the morale of employees.

b) All the above factors ensure effective communication.

1. **Motivation:** Performance appraisal serves as a motivation tool. Through evaluating performance of employees, a person's efficiency can be determined if the targets are achieved. This very well motivates a person for better job and helps him to improve his performance in the future.

Performance Management - Definition

Performance management is an ongoing process of communication between a supervisor and an employee that occurs throughout the year, in support of accomplishing the strategic objectives of the organization. The communication process includes clarifying expectations, setting objectives, identifying goals, providing feedback, and reviewing results.

A performance management system includes the following actions.

- Developing clear job descriptions and employee performance plans which includes the key result areas (KRA') and performance indicators.
- Selection of right set of people by implementing an appropriate selection process.
- Negotiating requirements and performance standards for measuring the outcome and overall productivity against the predefined benchmarks.
- Providing continuous coaching and feedback during the period of delivery of performance.
- Identifying the training and development needs by measuring the outcomes achieved against the set standards and implementing effective development programs for improvement.
- Holding quarterly performance development discussions and evaluating employee performance on the basis of performance plans.

- Designing effective compensation and reward systems for recognizing those employees who excel in their jobs by achieving the set standards in accordance with the performance plans or rather exceed the performance benchmarks.
- Providing promotional/career development support and guidance to the employees.
- The major **objectives of performance management** are discussed below:
- To enable the employees towards achievement of superior standards of work performance.
- To help the employees in identifying the knowledge and skills required for performing the job efficiently as this would drive their focus towards performing the right task in the right way.
- Boosting the performance of the employees by encouraging employee empowerment, motivation and implementation of an effective reward mechanism.
- Promoting a two way system of communication between the supervisors and the employees for clarifying expectations about the roles and accountabilities, communicating the functional and organizational goals, providing a regular and a transparent feedback for improving employee performance and continuous coaching.
- Identifying the barriers to effective performance and resolving those barriers through constant monitoring, coaching and development interventions.
- Creating a basis for several administrative decisions strategic planning, succession planning, promotions and performance based payment.
- Promoting personal growth and advancement in the career of the employees by helping them in acquiring the desired knowledge and skills.
- **WAGE BOARDS**
- **INTRODUCTION**
- The institution of wage boards has come to be widely accepted in India as a viable wage determination mechanism. The boards have been successful in fulfilling their primary object of promoting industry-wise negotiations and active participation by the parties in determination of wages and other conditions of employment.
- Wage boards are set up by the Government, but in selection of members of wage boards, the government cannot appoint members arbitrarily. Members to wage boards can be appointed only with the consent of employers and employees. The representatives of employers on the wage boards are the nominees of employers' organization and the workers' representatives are the nominees of the national centre of trade unions of the industry concerned.

- The composition of wage boards is as a rule tripartite, representing the interests of labour, Management and Public. Labour and management representatives are nominated in equal numbers by the government, with consultation and consent of major Central Organizations. These boards are chaired by government nominated members representing the public. Wage board function industry-wise with broad terms of reference, which include recommending the minimum wage differential, cost of living, compensation, regional wage differentials, gratuity, hours of work etc.
- **THE OBJECTIVES OF WAGE BOARDS:**
 - (a) To work out wage structure based on the principles of fair wages as formulated by the Committee on Fair Wages.
 - (b) To work out a system of payment by results.
 - (c) To involve a wage structure based on the requirements of social justice.
 - (d) To evolve a wage structure based on the need for adjusting wage differentials in a manner to provide incentives to workers for advancing their skill.
- **GROWTH AND DEVELOPMENT OF WAGE BOARDS**
 - The history of wage boards in India dates back to the 1930's. The Royal Commission on Labour recommended the setting up of tripartite boards in Indian industries. It said
 - We would call attention to certain cardinal points in the setting up of (wage – fixing) machinery of this kind. The main principle is the association of representatives of both employers and workers in the constitution of the machinery. Such representatives would be included in equal members, with an independent element, chosen as far as possible in agreement with or, after consultation with, the representatives of both the parties.
 - Take decisions regarding wage adjustments so much or on reference from parties or from the government.
 - No action was taken during that plan period. However, the Second Plan emphasized the need for determining wages through industrial wage boards. It observed.
 - The existing machinery for the settlement of wage disputes has not given full satisfaction to the parties concerned. A more acceptable machinery for settling wage disputes will be the one which gives the parties themselves a more responsible role in reaching decisions. An authority like a tripartite wage board, consisting of an equal number of representatives of employers and workers and an independent chairman, will probably ensure more acceptable decisions. Such wage boards should be instituted for individual industries in different areas.

- This recommendation was subsequently reiterated by the 15th Indian Labour conference in 1957 and various industrial committees. The government decision to setup the first wage board in cotton textile and sugar industries in 1957 was also influenced by the Report of the ILO.
- The appointment of a wage board often results from the demands for labour unions. It has been reported: The formation of wage boards in all industries has been the result of demands and pressures on the part of trade unions. In their efforts to secure the appointment of wage boards, trade unions have to repressures not only the government but also the employers whose formal or informal consent to their establishment must be obtained.
- In India, the Bombay Industrial Relations (Amendment) Act of 1948 may be regarded as perhaps the earliest legislation included a provision for the establishment of wage boards in any industry covered by the act. Accordingly,
- the first wage board was set up in Bombay for the cotton textile industry. The principal purpose of starting wage boards was to relieve the Industrial Courts and Labour Courts of a part of their adjudication work. The amending act of 1953 has tried to avoid multiplicity of proceedings under the Act. It empowered Industrial Courts and Labour Courts wage boards to decide all matters connected with or arising out of any industrial matter or dispute
- **Industries Covered**
- The first non – statutory wage board was set up for the cotton textile and sugar industries in 1957. Since then, 24 wage boards covering most of the major industries have been setup by the Centre: cotton textiles, sugar, cement, working journalists and non – working journalists (twice each), jute, tea, coffee and rubber plantations, iron ore, coal mining, iron and steel, engineering, ports and docks, leather and leather goods, limestone and dolomite. On 17th July 1985, three wage boards were constituted, one each for working journalists, non – working journalists and the sugar industry. But no central act contains any provision for setting up wage boards. They are set up by a resolution of the government; and they come to an end with the submission of their reports.
- **COMPOSITION AND FUNCTIONS OF WAGE BOARDS**
- The wage boards are, as a rule, tripartite body representing the interest of labour, management and the public. Labour and management representatives are nominated in equal numbers by the government, after consultation with and with the consent of

major central organizations. Generally, the labour and management representatives are selected from the particular industry which is investigated. These boards are chaired by government – nominated members representing the public.

- They function industry – wise with broad terms of reference, which include recommending the minimum wage, differential cost of living compensation, regional wage differentials, gratuity hours of work, etc.
- **Wage boards are required to:**
 - a. Determine which categories of employees (manual, clerical supervisory, etc.) are to be brought within the scope of wage fixation.
 - b. Work out a wage structure based on the principles of fair wages formulated by the committee on fair wages.
 - c. Suggest a system of payment by results.
 - d. Work out the principles that should govern bonus to workers in industries.
- In addition to these common items, some wage boards may be asked to deal with the question of Bonus (like that of the wage boards for cement, sugar and jute industries); gratuity (like that of the wage boards for iron ore mining, limestone and dolomite mining industries) and the second wage board on cotton textile industry; demands for payments other than wages (wage boards for jute and iron and steel industry); hours of work (rubber plantation industry); interim relief (wage boards for jute industry and post and dock workers).
- Some wage boards (Wage boards for sugar, jute, iron ore, rubber, tea and coffee plantations, limestone and dolomite mining industries) have been required to take into account the ‘special features of the industry’.
- Thus, wage boards have had to deal with a large number of subjects. Of these, the fixation of wage – scales on an industry – wide basis constitutes the biggest of all the issues before them.
- In evolving a wage structure, the board takes into account:
 - (a) the needs of the industry in a developing economy including the need for maintaining and promoting exports:
 - (b) the requirements of social justice, which ensures that the workman who produces the goods has a fair deal, is paid sufficiently well to be able at least to sustain himself and his family in a reasonable degree of comfort, and that he is not exploited;
 - (c) the need for adjusting wage differentials (which is in relation to occupational differentials; inter-firm differentials; regional or inter-area differentials; inter-industry

differentials and differentials based on sex) in such a manner as to provide incentives to workers for improving their skills.

- For the determination of fair wages, the board has to take into consideration such factors as the degree of skill required for his work, the fatigue involved, the training and experience of the worker, the responsibility under-taken, the mental and physical requirements for work, the disagreeableness or otherwise of the work and the hazards involved in it. The board is required to make due allowances for a fair return on capital, remuneration to management and fair allocation to reserve and depreciation.
- **In evolving a wage structure, the board takes into account:**
 - (a) the needs of the industry in a developing economy including the need for maintaining and promoting exports:
 - (b) the requirements of social justice, which ensures that the workman who produces the goods has a fair deal, is paid sufficiently well to be able at least to sustain himself and his family in a reasonable degree of comfort, and that he is not exploited;
 - (c) the need for adjusting wage differentials (which is in relation to occupational differentials; inter-firm differentials; regional or inter-area differentials; inter-industry differentials and differentials based on sex) in such a manner as to provide incentives to workers for improving their skills.
- For the determination of fair wages, the board has to take into consideration such factors as the degree of skill required for his work, the fatigue involved, the training and experience of the worker, the responsibility under-taken, the mental and physical requirements for work, the disagreeableness or otherwise of the work and the hazards involved in it. The board is required to make due allowances for a fair return on capital, remuneration to management and fair allocation to reserve and depreciation.

UNIT-IV

PERFORMANCE BASED PAY

Managerial remuneration pays commission; performance-based pay system incentives, executives' compensation plan and packages

Compensation Plans, Packages:

Introduction: There is a tendency that highly skilled sales marketing personnel have become high flying. To compete with different sales methods in states of our country, with different companies and internationally, we have to show lot of marketing activities. These activities are not a direct consequence of college education. It is an intrinsic worth and hence command very high compensation.

While Zeal, dynamism, Concentration, intelligence, et are intrinsic motivation, education, experience, Training can be taken as extrinsic worth.

This also should be born in mind that executives alone are not responsible for hike in sales. Their brain power and talent are to be utilised in sales organisation with salaries and sops as earlier explained

Again, while we can gang the salary necessities of salesmen by evaluating their jobs we cannot use the same yard stick to sales executives. For executives it also depends on employer ability availability of such persons (depending on the product be the marketed) and employees bargaining capacity If he is experienced; "he will build a castle in the air around" and show them to the employer.

Packages: package depends on the intelligence, talent education, nature, nurture, sincerity, zeal initiative, devotion will power and optimism of the person. A sample of the above requirement can be seen from his earlier employment place position et.,

Package data are general type, and particular type as explained earlier.

General type in package is pronounced at the outset like P.F., Medical, Insurance, Leave Travel, Picnic provision H.R.A., Car allowance etc.

Later packages will be limited with performance productivity – like incentive, ((commission etc.

Compensation Which are of straight salary method the assurance of regular pay at the end of the month makes sales force feel secure their safety needs as per Maslow's motivational steps are achieved. They will put their heart and soul to the work.

Another method as discussed earlier, commission plan rewards are tied directly to the sales volume done, this method helps high performers risk (calculated) takers gain more. But in all cases, fluctuating market may make the pay pocket dangling uncertainty looms consequent panic reaction will swallow vitality of the sales force. This aspect may turn as „Carrot and Stick“ type of luring the sales people.

To avoid this Catastrophic condition a combination plan is envisaged wherein a base line fixed salary is fixed for his decent living wage over which the commission is worked and slapped.

An arrangement like: Commission and profit-sharing Bonus; may work well as per nature of selling product. Non-financial compensation.

Career growth –Nowadays when hefty salaries are given to sales executives – they want attention of the company on their career path It is designation which counts than few hundred chips here and there sales manager wants to be called as salesmen. Sales manager wants to be designated as marketing officer regional, Zonal etc.

Sales boy wants to be called as salesmen now the above circle indicates the necessity to look to the designation. At the same time requisite management training and Development programmes are to be undertaken to enable them to cope with their new assignments.

Proper and timely recognition besides reward- sans reward recognition of meritorious exemplary outstanding service done can be openly applauded.

First recognition by fattening, putting the performance of excellence volume etc on the notice boards, company in house magazines etc.

Second stage of recognition is giving token reward performance excellence certificate, citations etc in company meetings, annual or on republic day etc.

Monitoring; - All incentive, compensation plans should be well calculated and implemented properly. There may be needs to revise it at regular intervals or whenever there is an upheaval

in the marketing volumes. All above should be monitored relentlessly to retain and attain the purpose for which they are established.

Pay for Performance:

The high performing organizations always introduce the concept of the pay for performance. It is closely connected with the high-performance corporate culture and it is not just a compensation and benefits area. The pay for performance is a complex of different HR Processes aimed to build the environment, which encourages employees and managers to stretch the goals and to pay the best employees more than the others. The “pay for performance” has to be included in the corporate culture and cannot be used as separated HR initiatives and HR processes as the separated usage would miss the main goal - paying the employees for the performance reached.

What is “pay for performance”?

Pay for performance is not just a pure compensation and benefits concept. The pay for performance is a right mix of the HR Processes, which supports the optimal performance of the organization and it pays the most performing employees significantly differently, includes special compensation schemes for the selected groups of employees and gives career opportunities to the best talents in the organization.



The pay for performance is not just a tool, it is more about the **philosophy of the organization to reward the best performing employees and building the sustainable competitive advantage**. The high performing organizations differs themselves from the other organizations on the market, they reach higher profitability and they have more satisfied employees, who bring innovative ideas and solutions.

The “pay for performance” concept has to be based on the clever mix of the different HR Processes, the right corporate culture and the managerial behaviour as the CEO feel the support for reaching the challenging goals and visions. The “pay for performance” concept cannot be based on the exceptions and poor systems, how to work with the top performers and top talents of the organization.

What HR Processes are included in “pay for performance”?

Human Resources have several important HR Processes to support the pay for the performance concept in the organization. The pay for performance cannot be seen as the isolated activity within Compensation and Benefits and Performance Management. The “pay for performance” includes many processes from Career Development and the Talent Management as the whole concept is about offering more opportunities than just better salaries and higher bonuses to the key groups of employees.

The training and development is the essential part of the “pay for performance” concept as the high proportion of the training and development budget should be focused on the key groups of employees and developing their managerial and leadership skills and competencies. The recruitment and staffing processes have to be focused on the early identification of the top talents on the job market and preparing the attractive packages for the top talents to attract them to the organization. The Career Development and Compensation and Benefits are then a key to the successful retention of such the top talents.

How to implement “Pay for Performance”?

The implementation of the pay for performance is not easy and it requests the full commitment of the CEO, HR and the top management. When the pay for performance starts cascading through the organization, the middle management starts to act as it is required by the pay for performance concept.

The CEO has to follow strictly the rules given by the pay for performance and the whole idea will spread in the organization quickly as the managers will follow the positive role play given by the top management.

Executive compensation is how top executives of business corporations are paid.

The purpose of compensation of an executive is for an individual who is in a management position at highest levels.

FEATURES OF EXECUTIVE COMPENSATION

- Managerial compensation cannot be compared to the wage and salary schemes meant for in other employees in organizations.
- Executives are denied the privilege of having unionized strength.
- Secrecy is maintained in respect of executive compensation.
- Executive pay is not supposed to be based individual performance rather on organizational performance.

There are four basic tools executive compensation packages in organization. These are:

- Base salary.
- Allowances.
- Incentives.
- Perquisites.

COMPENSABLE FACTORS

- Job related experience.
- Training time required.
- Frequency of review of work.
- Utilization of independent choice.
- Frequency of reference to guidelines.
- Frequency of work transferred through supervisor
- Analytical complexity.
- Time spent in processing information.

EXECUTIVE COMPENSATION – EXAMPLE SALARY INCLUDES

- Basic salary
- Conveyance
- Special allowances
- Gratuity
- Provident fund

- H R A (House Rent Allowances)
- Traveling Allowances
- Medical claim
- Bank facility

Components of Executive Remuneration:

For the purpose of remuneration, an executive is considered to be an individual who is in a management position at the highest levels. Specifically, this category includes presidents, vice-presidents, managing directors and general managers. Their remuneration generally comprises five elements. They are:

1. Salary
2. Bonus
3. Commission
4. Long-term incentives
- 5 Perquisites (perks)

Salary:

Salary is the first component of executive remuneration. Salary is supposed to be determined through job evaluation and serves as the basis for other types of benefits. But job evaluation may be only a partial solution because executives must be paid for their capabilities-for what they can do-rather than for job demands. This is the reason why norms of wage and salary fixation are generally not observed while fixing salaries for executives.

Salary as a component of total remuneration is not significant as it is subject to deduction at source and is also capped by government regulations. In order to make good the cuts and ceilings, executives are offered hefty incentives and attractive perks.

Bonus :

Bonus plays an important role in today's competitive executive payment programs. This type of incentive is usually short-term (annual) and is a definition of performance is crucial.

There are almost as many bonus systems as there are companies using this form of executive remuneration. In some systems, the annual bonus is tied by the formula to the share price or the return on investment. Other bonus plans are based on the subjective judgement of the board of directors and the chief executive officer.

More complex systems establish certain targets, for example, a 10 percent increase in corporate earnings from the previous year, and then a bonus pool after the target is attained.

The bonus is then distributed, either in accordance with a present formula or on the basis of subjective judgements. Executives deserve bonus because they have much more opportunity to influence organizational success than non-managerial staff.

Commission :

Some companies pay commission to their executives and going by the figures, commission constitutes a major share in executive remuneration. But the Companies Act puts a ceiling on the amount of commission payable to executives.

Long-term Incentives

If bonus constitutes a short-term benefit, stock options are long-term benefits offered to executives. Companies allow executives to purchase their shares at fixed prices. Stock options are valuable as long as the price of share keeps increasing. The share price crashes when the company starts incurring loss, and executives stand to lose in the process.

Stock options are attractive to shareholders too. First, an option is not a bonus. Executives must use their own resources to exercise their right to purchase the stock. Second, the executives are assuming the same risk as all other shareholders, namely, that the price could move in either direction. Options are a form of profit sharing that links the executive's financial success to that of the shareholders.

Finally, stock options are one of the few ways to offer large rewards to executives without the embarrassment of "millions of dollars of obvious money changing hands." Nevertheless, the risk factor in this type of incentive may be too great for it to be attractive to executives.

ESOPs (Employee Stock Option Plans) have lost their sheen. The companies which championed the cause of stock options have reverted back to cash incentives. Organizations still opting for stocks are few and far between. Global economic recession has hit stock markets. With share prices crashing by the day, no more are the ESOPs attractive to employees. Employees are more worried about job security than the so called long-term incentives.

Perquisites :

Perks constitute a major source of income for executives. In addition to the normally allowed perks like provident fund, gratuity and the like, executives enjoy special parking, plush office, vacation travel, membership in clubs and well-furnished houses. Perks take care of all possible needs. Executives are rarely required to spend money from their pockets. Their holidays, servants, telephone bills and even electricity and gas bills are taken care of by their companies.

Typically, perks to executives include the following. But the list is not exhaustive.

- A company provided car
- Accessible, no cost parking
- Limousine service, the chauffeur may also serve as a bodyguard
- Kidnapping and ransom protection
- Counselling service, including financial and legal services
- Professional meetings and conferences
- Spouse travel
- Use of company plane and yacht
- Home entertainment allowance
- Special living accommodations away from home
- Club memberships
- Special dining privileges
- Season tickets to entertainment events
- Special relocation expenses
- Use of company credit cards
- Medical expense reimbursement; coverage for all medical costs
- Reimbursement for children's college expenses
- No- and low-interest loans.

There are two more components of executive compensation as well. **One is pension** and the **second is termination benefits**. Some companies have pension scheme in place, either specially designed for executives or open to a wide range of employees. In the US, a certain part of the compensation is often deferred until the executive reaches retirement age.

Many companies provide termination benefits for executives, either as a lump sum or in the form of continued payment of compensation after the expiry of a contract. The termination clauses may preclude payment if the termination of the contract is caused by the executive, in the event of unilateral termination of contract, for example, or as the result of a serious fault of the executive.

Executive Compensation:

Executive compensation differs substantially from typical pay packages for either hourly workers or salaried management and professionals in that executive pay is heavily biased toward rewards for actual results. Hence if a company underperforms, the executives typically receive a smaller fraction of their potential pay. Conversely, if a company meets its

annual objectives and the stock price responds long term, the executives stand to receive a much larger payout.

This section of the site describes the typical Executive Compensation program and explains the most commonly used terms. It includes several charts, including one below that shows the share of compensation that is at risk by executives, as compared with managers and hourly employees.

The pay packages given to the senior executives of corporations often consist of six components:

- Base salary
- Performance based annual incentive (bonus)

Short-Term Incentives

The purpose of the annual incentive is to compensate executives for achieving the company's short-term business strategy. Thus, it is based on achieving a number of goals specified for the company by the company's Board of Directors. The nature of these goals varies depending on the business, company strategy and other conditions.

Annual objectives can include such items as:

increasing revenue or market share
improving profit margins
implementing a new corporate strategy
development of new products
expanding to a new market, and completion of a critical project

Typically, the annual incentive is paid in cash and is expressed as a percentage of the CEOs annual salary. Most annual incentives include a two-tier structure: a "target" level, which is the executive's normal expected performance, and a "stretch" component, meaning that the company would have to obtain extraordinary results for the maximum incentive to be paid. This is done to encourage executives to achieve superior results

- Performance based long term incentive

Long-Term Incentives

By far the largest potential component of executive pay is the long term-incentive. The purpose of the long-term incentive is to reward executives for achievement of the company's strategic objectives that will maximize shareholder value.

Typically these have been provided in the form of stock-based compensation, such as:

- stock

- stock options
- restricted stock
- performance-vested stock, options, or similar devices

The performance period for a long-term incentive typically runs between three and five years, with the executive not receiving any pay from the incentive until the end of the performance period. Long-term incentive goals vary by company but the most prevalent are focused on total return to shareholders, earnings per share and other return measures, such as return on assets. Like annual incentives, long-term incentives typically have a target and a stretch component to encourage executives to achieve superior performance.

- Benefits

Employee Benefits

Benefit programs run the normal range familiar to salaried employees. They include statutory benefits such as Social Security, Medicare, Workers Compensation, and Unemployment Insurance. Executives also participate in other company benefits such as vacation, holidays, sick days, severance pay, life insurance, and medical insurance.

In addition to the benefits provided salaried employees, executives are often eligible to participate in special retirement plans. These plans, unlike those that apply to all employees, are not protected by federal tax and pension rules and are not typically secured by a trust. Instead, the amounts in these plans are at risk, and if the company is unable to pay them, such as in insolvency or bankruptcy, the executive would be at risk to lose such benefits.

These special plans include the following:

nonqualified deferred compensation plans which allow executives to voluntarily defer salary and bonus amounts until a date certain, death or retirement (much like a non-tax-favored 401(k) plan).

Supplemental Employee Retirement Plans (SERPs) which are meant to supplement traditional pension plans, but are at risk

Many nonqualified deferred compensation plans and SERPs are "restoration plans" designed to allow executives to save the same percentage of income as other employees may save in tax-favored plans.

- Executive perquisites

Perquisites

Executive perquisites or "perks" constitute additional compensation for senior executives which are not available to other salaried employees. These extra benefits are normally

structured to recognize the value of the executive to the company, extraordinary demands on his or her time and other unique conditions.

Some perks are structured to maximize executive work time including drivers to and from work, convenient parking, installation of home communications systems, financial planning, and even the use of company airplanes for personal travel. Others recognize the unique positions of executives, especially CEOs, by providing security both at home and when traveling. Typically, executive perks constitute a modest component of executive

- **Contingent Payments**

- **Performance-Contingent Pay**

- Many executives are also covered by severance which provide for payments to executives in the case of involuntary termination except in the event of termination for cause. They are often included in agreements for executives hired from outside the company to encourage him or her to leave a prior employer in case the new arrangement sours.

- Change-in-Control agreements, also known as "golden parachutes," compensate executives for loss of job due to mergers or sale. They are structured to provide additional protection to executives in the event of a change-in-control thereby allowing executives to focus on sale or merger opportunities that are in the best interests of shareholders without being overly concerned as to the potential impact on their career.

- Executive pay is structured to reward company performance and align executive pay with shareholder value. As a result, unlike most other employees, a majority of executive pay is at-risk; in other words, executives may never receive it. However, if executives and the company perform well, they along with the company's shareholders stand to gain much more from superior performance.

UNIT-V

COMPENSATION STRTERGIES

Recognizing the worth and value of employee's knowledge and skill, rewarding employees' contributions and results achieved, supporting team work, compensation package according to current lifestyle and new thinking in the new millennium.

How to value your employees - 5 ways to calculate:

If you a business leader who believes your company's profitability lives and dies by the health of your balance sheet, then this might be the right article for you.

Taking the time to also consider the impact your staff has on shaping and driving the worth of your organisation can often impact your bottom line in more ways than you may realise.

Knowing how to value your employees is critical to assembling a workforce that can take your business to greater heights, and even ensure they feel recognised and rewarded for their efforts.

Here are five ways to ensure your most valued assets are hitting the mark and feeling appreciated for it.

1. Measuring initiative

It's no secret that employees who take initiative demonstrate greater productivity and are more likely to take risks that pay off.

That's why it's critical to distinguish your most motivated workers from the others. One option is to rank employees in terms of their original ideas, innovation and engagement with wider industry trends. This exercise will offer you a compelling snapshot of your high-value performers, particular when performance reviews come around.

2. Factoring in emotional expenses:

Sometimes, your star achievers are also the most likely to bring the rest of your team down. Consider the case of the talented web developer with the habit of unfairly criticising teammates or a micromanaging finance manager who has a knack for lowering staff morale.

Emotionally expensive team members can drain enthusiasm, passion and productivity – factors with consequences for company culture and business growth.

Emotional expenses are an important quotient for calculating and knowing how to value your employees – failing to address them can be a costly mistake.

3. Cost effectiveness:

Although it's vital to consider the impact of an employee's personality and attitude, it's equally important to think about whether your staff member delivers on the sum they are paid. Does your favourite hire's skill set match their salary or could they easily be replaced?

Sometimes, two lower-paid staff members might promise more versatility than a high-flyer who demands an above-industry pay cheque.

While you shouldn't devalue skills and experience, your employees' cost effectiveness should always line up with your business needs.

4. Decisions, decisions:

Sharp decision making is an essential factor in business success.

However, many employees fail to take the lead when it comes to making the kind of professional choices that will see your company get ahead. Typically, high-value employees can determine the pros and cons of two competing choices and take the path that results in the highest return.

They're also capable of making choices that compromise their likeability in order to serve your organisation in the long term.

5. Loyalty rewards

Ultimately, character is a powerful indicator of a good employee – recognising integrity is an astute business move

Loyal employees put commitment to the organisation ahead of their personal agendas and are less likely to flirt with the competition or jump ship.

Disloyal staff members can poison morale and spell disaster for employee retention and growth.

Investing in loyal staff members is always a smarter alternative than valuing shiny new hires that may just be a flash in the pan.

How to value your employees

Calculating employee value can be a tricky process, but it's necessary if you want to see your business soar.

Remember that your staff members are your most lucrative assets – if you don't measure their worth, you risk sacrificing growth.

Nine great ways to show your employees some appreciation:

- Do little things that make a big difference. ...
- Create new opportunities. ...
- Make it personal and specific. ...
- Show you trust them. ...
- Make internal improvements. ...

- Make time to connect. ...
- Make mentorship part of the culture. ...
- Give them ownership

Employee Reward and Recognition Systems:

In a competitive business climate, more business owners are looking at improvements in quality while reducing costs. Meanwhile, a strong economy has resulted in a tight job market. So while small businesses need to get more from their employees, their employees are looking for more out of them. Employee reward and recognition programs are one method of motivating employees to change work habits and key behaviours to benefit a small business.

REWARD VS. RECOGNITION

Although these terms are often used interchangeably, reward and recognition systems should be considered separately. Employee reward systems refer to programs set up by a company to reward performance and motivate employees on individual and/or group levels. They are normally considered separate from salary but may be monetary in nature or otherwise have a cost to the company. While previously considered the domain of large companies, small businesses have also begun employing them as a tool to lure top employees in a competitive job market as well as to increase employee performance.

As noted, although employee recognition programs are often combined with reward programs they retain a different purpose altogether. They are intended to provide a psychological—rewards a financial—benefit. Although many elements of designing and maintaining reward and recognition systems are the same, it is useful to keep this difference in mind, especially for small business owners interested in motivating staffs while keeping costs low.

DIFFERENTIATING REWARDS FROM MERIT PAY AND THE PERFORMANCE APPRAISAL

In designing a reward program, a small business owner needs to separate the salary or merit pay system from the reward system. Financial rewards, especially those given on a regular basis such as bonuses, profit sharing, etc., should be tied to an employee's or a group's accomplishments and should be considered "pay at risk" in order to distance them from salary. By doing so, a manager can avoid a sense of entitlement on the part of the employee and ensure that the reward emphasizes excellence or achievement rather than basic competency.

Merit pay increases, then, are not part of an employee reward system. Normally, they are an increase for inflation with additional percentages separating employees by competency. They are not particularly motivating since the distinction that is usually made between a good employee and an average one is relatively small. In addition, they increase the fixed costs of a company as opposed to variable pay increases, such as bonuses, which have to be "re-earned" each year. Finally, in many small business's teamwork is a crucial element of a successful employee's job. Merit increases generally review an individual's job performance, without adequately taking into account the performance within the context of the group or business.

DESIGNING A REWARD PROGRAM

The keys to developing a reward program are as follows:

Identification of company or group goals that the reward program will support
Identification of the desired employee performance or behaviour's that will reinforce the company's goals
Determination of key measurements of the performance or behaviour, based on the individual or group's previous achievements
Determination of appropriate rewards
Communication of program to employees

In order to reap benefits such as increased productivity, the entrepreneur designing a reward program must identify company or group goals to be reached and the behaviours or performance that will contribute to this. While this may seem obvious, companies frequently make the mistake of rewarding behaviours or achievements that either fail to further business goals or actually sabotage them. If teamwork is a business goal, a bonus system rewarding individuals who improve their productivity by themselves or at the expense of another does not make sense. Likewise, if quality is an important issue for an entrepreneur, the reward system that he or she designs should not emphasize rewarding the quantity of work accomplished by a business unit.

Properly measuring performance ensures the program pays off in terms of business goals. Since rewards have a real cost in terms of time or money, small business owners need to confirm that performance has actually improved before rewarding it. Often this requires measuring something other than financial returns: reduced defects, happier customers, more rapid deliveries, etc.

When developing a rewards program, an entrepreneur should consider matching rewards to the end result for the company. Perfect attendance might merit a different reward than saving the company \$10,000 through improved contract negotiation. It is also important

to consider rewarding both individual and group accomplishments in order to promote both individual initiative and group cooperation and performance.

Lastly, in order for a rewards program to be successful, the specifics need to be clearly spelled out for every employee. Motivation depends on the individual's ability to understand what is being asked of her. Once this has been done, reinforce the original communication with regular meetings or memos promoting the program. Keep your communications simple but frequent to ensure staff members are kept abreast of changes to the system.

TYPES OF REWARD PROGRAMS

There are a number of different types of reward programs aimed at both individual and team performance.

Variable Pay

Variable pay or pay-for-performance is a compensation program in which a portion of a person's pay is considered "at risk." Variable pay can be tied to the performance of the company, the results of a business unit, an individual's accomplishments, or any combination of these. It can take many forms, including bonus programs, stock options, and one-time awards for significant accomplishments. Some companies choose to pay their employees less than competitors but attempt to motivate and reward employees using a variable pay program instead. Good incentive pay packages provide an optimal challenge, one that stretches employees but remains in reach. If too much is required to reach the goal, the program will be ignored.

Bonuses

Bonus programs have been used in American business for some time. They usually reward individual accomplishment and are frequently used in sales organizations to encourage salespersons to generate additional business or higher profits. They can also be used, however, to recognize group accomplishments. Indeed, increasing numbers of businesses have switched from individual bonus programs to one which reward contributions to corporate performance at group, departmental, or company-wide levels.

According to some experts, small businesses interested in long-term benefits should probably consider another type of reward. Bonuses are generally short-term motivators. By rewarding an employee's performance for the previous year, they encourage a short-term perspective rather than future-oriented accomplishments. In addition, these programs need to be carefully structured to ensure they are rewarding accomplishments above and beyond an individual or group's basic functions. Otherwise, they run the risk of being perceived of as entitlements or regular merit pay, rather than a reward for outstanding work. Proponents, however, contend

that bonuses are a perfectly legitimate means of rewarding outstanding performance, and they argue that such compensation can actually be a powerful tool to encourage future top-level efforts.

Profit Sharing

Profit sharing refers to the strategy of creating a pool of monies to be disbursed to employees by taking a stated percentage of a company's profits. The amount given to an employee is usually equal to a percentage of the employee's salary and is disbursed after a business closes its books for the year. The benefits can be provided either in actual cash or via contributions to employee's 401(k) plans. A benefit for a company offering this type of reward is that it can keep fixed costs low.

The idea behind profit sharing is to reward employees for their contributions to a company's achieved profit goal. It encourages employees to stay put because it is usually structured to reward employees who stay with the company; most profit sharing programs require an employee to be vested in the program over a number of years before receiving any money. Unless well managed, profit sharing may not properly motivate individuals if all receive the share anyway. A team spirit (everyone pulling together to achieve that profit) can counter this—especially if it arises from the employees and is not just management propaganda.

Stock Options

Previously the territory of upper management and large companies, stock options have become an increasingly popular method in recent years of rewarding middle management and other employees in both mature companies and start-ups. Employee stock-option programs give employees the right to buy a specified number of a company's shares at a fixed price for a specified period of time (usually around ten years). They are generally authorized by a company's board of directors and approved by its shareholders. The number of options a company can award to employees is usually equal to a certain percentage of the company's shares outstanding.

Like profit sharing plans, stock options usually reward employees for sticking around, serving as a long-term motivator. Once an employee has been with a company for a certain period of time (usually around four years), he or she is fully vested in the program. If the employee leaves the company prior to being fully vested, those options are canceled. After an employee becomes fully vested in the program, he or she can purchase from the company an allotted number of shares at the strike price (or the fixed price originally agreed to). This

purchase is known as "exercising" stock options. After purchasing the stock, the employee can either retain it or sell it on the open market with the difference in strike price and market price being the employee's gain in the value of the shares.

Offering additional stock in this manner presents risks for both the company and the employee. If the option's strike price is higher than the market price of the stock, the employee's option is worthless. When an employee exercises an option, the company is required to issue a new share of stock that can be publicly traded. The company's market capitalization grows by the market price of the share, rather than the strike price that the employee purchases the stock for. The possibility of reduction of company earnings (impacting both the company and shareholders) arises when the company has a greater number of shares outstanding. To keep ahead of this possibility, earnings must increase at a rate equal to the rate at which outstanding shares increase. Otherwise, the company must repurchase shares on the open market to reduce the number of outstanding shares.

One benefit to offering stock options is a company's ability to take a tax deduction for compensation expense when it issues shares to employees who are exercising their options. Another benefit to offering options is that while they could be considered a portion of compensation, current accounting methods do not require businesses to show options as an expense on their books. This tends to inflate the value of a company. Companies should think carefully about this as a benefit, however. If accounting rules were to become more conservative, corporate earnings could be impacted as a result.

GROUP-BASED REWARD SYSTEMS

As more small businesses use team structures to reach their goals, many entrepreneurs look for ways to reward cooperation between departments and individuals. Bonuses, profit sharing, and stock options can all be used to reward team and group accomplishments. An entrepreneur can choose to reward individual or group contributions or a combination of the two. Group-based reward systems are based on a measurement of team performance, with individual rewards received on the basis of this performance. While these systems encourage individual efforts toward common business goals, they also tend to reward under-performing employees along with average and above-average employees. A reward program which recognizes individual achievements in addition to team performance can provide extra incentive for employees.

RECOGNITION PROGRAMS

For small business owners and other managers, a recognition program may appear to be merely extra effort on their part with few tangible returns in terms of employee performance. While most employees certainly appreciate monetary awards for a job well done, many people merely seek recognition of their hard work. For an entrepreneur with more ingenuity than cash available, this presents an opportunity to motivate employees.

Nor will the entrepreneur be far off the mark. As Patricia Odell reported, writing for *Promo*, "Cash is no longer the ultimate motivator." Odell cited data from the Forum for People Performance Management and Measurement at Northwestern University—which had discovered that non-cash awards tend to be more effective; the exception was rewarding increasing sales. "The study found," Odell wrote, "that non-cash awards programs would work better than cash in such cases as reinforcing organizational values and cultures, improving teamwork, increasing customer satisfaction and motivating specific behaviours among other programs."

In order to develop an effective recognition program, a small business owner must be sure to separate the program from the company's system of rewarding employees. This ensures a focus on recognizing the efforts of employees. To this end, although the recognition may have a monetary value (such as a luncheon, gift certificates, or plaques), money itself is not given to recognize performance.

Recognition has a timing element: it must occur so that the performance recognized is still fresh in the mind. If high performance continues, recognition should be frequent but cautiously timed so that it doesn't become automatic. Furthermore, like rewards, the method of recognition needs to be appropriate for the achievement. This also ensures that those actions which go farthest in supporting corporate goals receive the most attention. However, an entrepreneur should remain flexible in the methods of recognition, as different employees are motivated by different forms of recognition. Finally, employees need to clearly understand the behaviour or action being recognized. A small business owner can ensure this by being specific in what actions will be recognized and then reinforcing this by communicating exactly what an employee did to be recognized.

Recognition can take a variety of forms. Structured programs can include regular recognition events such as banquets or breakfasts, employee of the month or year recognition, an annual report or yearbook which features the accomplishments of employees, and department or company recognition boards. Informal or spontaneous recognition can take the

form of privileges such as working at home, starting late/leaving early, or long lunch breaks. A job well done can also be recognized by providing additional support or empowering the employee in ways such as greater choice of assignments, increased authority, or naming the employee as an internal consultant to other staff. Symbolic recognition such as plaques or coffee mugs with inscriptions can also be effective, provided they reflect sincere appreciation for hard work. These latter expressions of thanks, however, are far more likely to be received positively if the source is a small business owner with limited financial resources. Employees will look less kindly on owners of thriving businesses who use such inexpensive items as centrepieces of their reward programs.

Both reward and recognition programs have their place in small business. Small business owners should first determine desired employee behaviours, skills, and accomplishments that will support their business goals. By rewarding and recognizing outstanding performance, entrepreneurs will have an edge in a competitive corporate climate.

Importance of teamwork and collaboration in the workplace:

The phrase “No man is an island” is especially important in modern businesses. This saying simply points out that no single person is entirely self-sufficient.

When working with a team, everyone has to understand that they have to rely on each other for support. This is the best way to make the most out of everyone’s skills.

Studies have found that 39% of employees believe that people within their company don’t collaborate often enough. Avoid letting your team fall into this trap and becoming a statistic. Make sure to promote great teamwork and collaboration within your office.

Pillars of great teamwork and collaboration:

In addition to using a task management tool, managers should make sure that they’re supporting teamwork in-person as well.

Personal communication preferences may differ, but there are certain traits that universally help people collaborate.

Strong interpersonal skills :

Interpersonal skills are a key factor in how successful the team can be. However, these skills are dependent on each individual on your team.

Even if someone is shy or quiet, it is possible for them to have strong interpersonal skills. By definition, interpersonal skills are anything “used by a person to interact with others properly. It’s these skills that allow employees to be more productive while playing off of social expectations and customs.

If a certain teammate is condescending, their lacking interpersonal skills may actually stunt others on your team. It's important for a project manager to speak one-on-one with that team member. To make this happen, you can brainstorm ways to improve their behaviour and collaborative skills in the future.

Open communication

Directly tied to a team's overall social skills, open communication is a key factor in creating a collaborative environment.

Under no circumstances should an employee feel uncomfortable asking for help or advice. Promote questions and allow the entire team to pitch in and help find a solution.

Some managers have found that the best way to foster teamwork is to start with themselves. Be open about your personal struggles and ask others for advice. Once you get a conversation started, you can learn more about what would make your team more efficient.

Open communication can also be built through company culture and outings. By having a team lunch, you can discuss important projects as well as what people are doing during the weekend.

Remember, the more relaxed your teammates are with each other, the more efficient everyone will be.

Helpful feedback

One of the most important parts of collaboration is feedback. How comfortable your teammates are with each other is a big factor in the type of feedback they give.

Sometimes, all that's needed is "this is a good idea, keep going!" In other cases, feedback may be more complicated and need to point the entire project in a new direction to be successful.

Both the person asking for feedback and the person giving their opinion must understand that constructive criticism is not a personal attack. If everyone is on the same page about effective feedback, the goal will always be to support each other.

Leadership

Although each department will have specific managers who lead the rest of the team, it's important that every teammate is comfortable with leadership.

This is important because strong leadership skills allow team members to work together at every stage of the project. Together, they can brainstorm and understand what parts of the work will need additional manpower.

If you have someone on your team who is more detached from everyone else, you may want to work with them to improve their leadership skills. You can help these individuals out by teaching them to take ownership of their work and collaborate whenever possible.

Accountability

Every manager has experienced a scenario when something went wrong in a project and no one wanted to take accountability for the error.

If you want to have successful collaboration in the workplace, you'll need to promote personal accountability.

This may seem counterintuitive because teamwork is all about a collective of people. However, personal accountability will motivate everyone to do their best and correct any problems that arise. Accountability is a motivating factor because it allows people to take pride in their work.

Commitment to success

Commitment to success is the final pillar that allows teams to collaborate well in the workplace.

Even though every employee is interested in collecting their pay check, they should also be motivated by the quality of their work. They should enjoy seeing things from start to finish while making sure that customers are kept happy.

If everyone on your team is strongly committed to success, you'll find that collaboration is easy to foster and that overall efficiency will improve.

Thanking people for their hard work and rewarding great outcomes are some ways that managers can help people renew their commitment to the team.

Ultimately, your team is relying on you to create an environment that supports open communication and collaboration. Though the steps to succeed may look different, the fact remains that teamwork and collaboration can ultimately make or break a company.