CHAPTER – 2
EMPLOYEE COMPENSATION PRACTICES IN ENGINEERING UNITS

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CHAPTER - 2
EMPLOYEE COMPENSATION PRACTICES IN ENGINEERING UNITS

2.1 Introduction

Compensation is reward, wage or salary given by an organization to a person or a group of person in return to a work done, service rendered or a contribution made towards the accomplishment of organisational goals. Compensation may be given in monetary or non-monetary terms or a special reward for a specific type of accomplishment, achievement or contribution. Wage, D.A., bonus etc. are examples of monetary compensation while children’s education, transport facility, good accommodation etc. come under non monetary compensation. A good compensation package is a good motivator. Hence, the primary responsibility of the HR manager is to ensure that the company’s people are paid well.

Compensation may be defined as money received in the performance of work, plus the many kinds of benefits and services that organisations provide their employees. Money is included under direct compensation while benefits come under indirect compensation, and may consist of life, accident and health insurance, the employer’s contribution to retirement, pay for vacation or illness and employer’s required payments for employee welfare as social security.
2.2 Meaning and definition of compensation

The compensation which employees receive is often a prime reason for working. However it usually has several meanings to employees.

A. Economic :- The economic meaning is most obvious because pay serves as a way of obtaining the necessities and luxuries people need and want the economic allure of compensation is summed up in the following statement from an anonymous employee: “some people are rich and some are poor – rich is better.”

B. Psychological :- A second meaning of compensation is psychological in nature. Pay and other types of compensation provides a symbolic means of “keeping score and a sense of achievement”. The internal satisfaction may mean more to a person that what he can buy with it.

C. Status:- The fact that compensation acts as a status symbol is well known. People compare their basic pay to determine how they “rank” in the social structure. As a measure of status, compensation gives highly rewarded individuals high social standing and importance.

D. Growth:- Compensation is a means to measure growth. Organisation compensate people for performance. Compensation can be used as one measure of how well employees have grown in their performance and capabilities.

Definition

Compensation may be defined as “money received for the performance of work, plus the many kind of benefits and services that organisations provide to their employees”.
Explanation of compensation

“Money” is included under direct compensation known as wage. A ‘wage’ is the remuneration paid for the service of labour in production and maintenance to employee or worker. It is paid as hourly rate or daily rate (‘blue – collar’ workers). ‘Salary’ normally refers to the weekly or monthly rates paid to clerical, administrative and professional employees (‘white – collar’ workers).

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

2.3 Objectives of wage and salary administration

There are two basic objectives of wage and salary administration and they are as under-

1. To establish and maintain an equitable wage and salary structure.
2. An establishment and maintenance of an equitable labour cost structure. Following are the objectives of a sound wage and salary administration.

(A) For employees:-

(i) Employees are paid according to requirement of their jobs. Highly skilled jobs are paid more compensation than low skilled jobs. This eliminates inequalities.

(ii) The changes of favouritism are greatly minimized.
(iii) Job sequence and lines of promotion are established wherever they are applicable.

(iv) Employees morale and motivation are increased because a wage programme can be explained and is based upon facts.

(B) To Employers:-

(i) They can systematically plan for and control their labour costs.

(ii) In dealing with a trade union, they can explain the basis of their wage programme because it is based upon a systematic analysis of job and wage facts.

(iii) A wage and salary administration reduces the likelihood of friction and grievance over wage inequalities.

(iv) It enhances an employee’s morale and motivation because adequate and fairly administered wages are basic to his wants and needs.

(v) It attracts qualified employees by ensuring and adequate payment for all the jobs.

According to Beach, wage and salary programmes have four major purposes. They are as under-

1. To recruit persons for a firm.
2. To control payroll costs.
3. To satisfy people, to reduce the incidence of quitting grievances and fractions over pay and
4. To motivate people to perform better.
2.4 The process of compensation

Figure 2.1 will give a detail idea about the process of compensation. The process of compensation involves the following steps,

1. Job analysis
2. Wage survey
3. Analysis of relevant organizational problems
4. Framing wage structure
5. Framing rules of administration
6. Explaining these to employees
7. Assigning the grades and price to each job
8. Paying the guaranteed wage

Each and every process is explained in detail as under.

1. Job analysis

Job analysis is a procedure by which the facts with respect to each job are systematically studied. It is therefore sometimes called as job study also. Job analysis is the study of what a job is, in what sequence it is performed and what qualifications are required in an employee to perform it successfully.

(a) Job Description

Job description summarizes in a systematic order the facts revealed by the job analysis. It describes the work performed, the responsibilities involved, the skill or training required, the conditions under which the job is done and the type of personnel required for the job.
(b) Job specification

Job specification is a product of job analysis and job description. It is a written record of the personal characteristics required in an individual worker for doing a given job. It outlines the personal requirements of the employees such as age, experience, special skills and other qualifications.

(c) Job evaluation

Job evaluation is the process of evaluating a particular job in relation to other jobs either within or without the organization.

2. Wage Survey

The second step is wage survey and it is done to decide the following points.

1. To decide the actual amount to be paid
2. To make wage or salary surveys in the area concerned
3. Helps to get answers to the questions like
   (a) what are other firms paying?
   (b) What are they doing by way of social insurance?
   (c) What is the level of pay offered by other firms for similar occupations? etc.

3. Analysis of relevant organizational problems

Besides job analysis and wage surveys, certain other variables have to be given due consideration in establishing wage structure e.g. (1) Whether there exist well established and well accepted relationship
among certain jobs which can upset job evaluation. (2) whether the organisation would recruit new employees after revised wage structure. (3) Are the prevailing rates in industry or community inconsistent with the results of job evaluation? (4) What will be the result of paying lower or higher compensation and (5) what should be the relationship between the wage structure and the fringe benefit structure?

4. **Framing wage structure**
For this several decisions needed to be taken such as (a) whether the organisation wishes, or is able to pay the amounts above, below or equal to the average in the community or industry (b) the number and width of the pay grades (c) the actual money value to be paid as signed to various pay grades (d) differences between pay plans and (e) which jobs are to be placed in each of the pay grades.

5. **Framing rules of administration**
The following rules are to be determined. They are

(1) To what degree, advancement will be based on length of service rather than merit
(2) With what frequency pay increases will be awarded
(3) How controls over wage and salary costs can be maintained
(4) What rules will govern promotion from one pay grade to another etc.
6. **Explaining these to employees**

   Why we are explaining these to employees? This is mainly because of the following reasons.

   (1) Secrecy about wage and salary may create dissatisfaction
   (2) It may not work as a motivating factor as it should be
   (3) To make aware about the company's compensation plan and structure.

7. **Assigning the grades and price to each job**

   The employee is appraised and the wage is fixed for the grade he is found fit.

8. **Paying the guaranteed wage**

   The last step is to pay the guaranteed wage.
Figure 2.1
The process of compensation

Job Analysis
Job description
Job specification
Job evaluation

Wage Survey

Analysis of relevant Organisational problem

Forming wage structure
Wage Legislation

Framing rules of administration

Explaining these to employees

Assigning grades & price to each job

Paying the guaranteed wage

Performance standards

Differential employee appraisal
2.5 Factors influencing compensation structure:-

The compensation policies of different organization vary some what. A sound policy is to adopt a job evaluation programme in order to establish fair differentials in wages based upon differences in job contents. Besides the basic factors provided by a job description and job evaluation, those that are usually taken into consideration for wage and salary administration are

(i) The organisations ability to pay
(ii) Supply and demand of labour
(iii) The prevailing market rate
(iv) The cost of living
(v) Living wage
(vi) Productivity
(vii) Trade unions bargaining power
(viii) Job requirements
(ix) Managerial attitudes
(x) Psychological and sociological factors
(xi) Levels of skills available in the market

All the above points are explained as under

(i) **The organisations ability to pay**

Wage increases should be given by those organisations which can afford them. Companies that have good sales and therefore high profits tend to pay higher wages than those which running at a loss or earning low profits because of the high cost of production or low sales.
(ii) **Supply and demand of labour**

The labour market conditions or supply and demand forces operate at the national, regional and local levels and determine organisational wage structure and level.

If the demand for certain skills is high and the supply is low, the result is a rise in the price to be paid for these skills.

(iii) **Prevailing market rate**

This is also known as the comparable wage or going wage rate and is the most widely used criterion. An organisation's compensation policies generally tend to conform to the wage rates payable by the industry and the community.

(iv) **The cost of living**

The cost of living pay criterion is usually regarded as an automatic minimum equity pay criterion. This criterion calls for pay adjustments based on increases or decreases in an acceptable cost of living index.

(v) **The living wage**

The living wage criterion means that wages paid should be adequate to enable an employee to maintain himself and his family at a reasonable level of existence. However, employers do not generally favour using the concept of a living wage as a guide to wage determination because they prefer to base the wages of an employee on his contribution rather than on his need.
(vi) **Productivity**
Productivity is another criterion, and is measured in terms of output per man-hour. It is not due to labour efforts alone. Technological improvements, better organization and management, the development of better methods of production by labour and management, greater ingenuity and skill by labour are all responsible for the increase in productivity.

(vii) **Trade Union’s bargaining power**
Trade unions do affect rate of wages. Generally, the stronger and more powerful the trade union, the higher the wages. A trade union’s bargaining power is often measured in terms of its membership, its financial strength and the nature of its leadership. A strike or a threat of a strike is the most powerful weapon used by it.

(viii) **Job requirements**
Generally, the more difficult a job, the higher are the wages. Measures of job difficulty are frequently used when the relative value of one job to another in an organisation is to be ascertained.

(ix) **Managerial attitudes**
These have a decisive influence on the wage structure and wage level since judgment is exercised in many areas of wage and salary administration.

(x) **Psychological and social factors**
These determine in a significant measure how hard a person will work for the compensation received or what pressure he will exert to get his
compensation increased. Psychologically, persons perceive the level of wages as a measure of success in life, people may feel secure, have an inferiority complex, seem inadequate or feel the reverse of all these.

Sociologically and ethically, people feel that equal work should carry equal wages, that “wages should be commensurate with their efforts”, that they are not exploited, and that no distinction is made on the basis of caste, colour, sex or religion”. To satisfy the conditions of equity, fairness and justice, management should take these factors into consideration.

(xi) **Skill levels available in the market**

With the rapid growth of industries, business trade, there is shortage of skilled resources. The technological development, automation have been affecting the skill levels at a faster rates. Thus the wage levels of skilled employees are constantly changing and an organisation has to keep its level upto suit the market needs.

Figure 2.2 helps us to understand the factors influencing compensation structure.
Figure 2.2
Factors influencing compensation structure
2.6 Principles of compensation

The generally accepted principles governing the fixation of compensation are:-

1. There should be definite plan to ensure that differences in pay for jobs are based upon variations in job requirements, such as skill effort, responsibility or job or working conditions and mental and physical requirements.

2. The general level of wages and salaries should be reasonably in line with that prevailing in the labour market. The labour market criterion is most commonly used.

3. The plan should carefully distinguish between job and employees. A job carries a certain wage rate and a person is assigned to fill it at that rate. Exceptions sometimes occur in very high level jobs in which the job holder may make the job large or small depending upon his ability and contribution.

4. Equal pay for equal work. If two jobs have equal difficulty requirements, the pay should be the same, regardless of who fills them.

5. An equitable practice should be adopted for the recognition of individual differences in ability and contribution.

6. There should be a clearly established procedure for hearing and adjusting wage complaints. This may be integrated with the regular grievance procedure, if it exists.

7. The employees and the trade union, if there is one, should be informed about the procedure used to establish wage rates. Every employee
should be informed of his own position, and of the wage and salary structure.

8. The wage should be sufficient to ensure for the worker and his family reasonable standard of living. Workers should receive a guaranteed minimum wage to protect them against conditions beyond their control.

9. The wage and salary structure should be flexible so that changing conditions can be easily met.

10. Prompt and correct payments of the dues of the employees must be ensured and arrears of payment should not accumulate.

11. For revision of wages, a wage committee should always be preferred to the individual judgment.

12. The wage and salary payments must fulfill a wide variety of human needs, including the need for self actualization. It has been recognized that "money is the only form of incentive which is wholly negotiable, appealing to the widest possible range of seekers.... Monetary payments often act as motivators and satisfiers interdependently of other job factors".

2.7 Linking compensation to organisational objectives

Compensation has been revolutionized by heightened domestic competition. Globalization, increased employee skill requirements and new technology. Therefore, an outcome of today's dynamic business environment is that managers have needed to change their pay philosophies from paying for a
specific position or job title to rewarding employees on the basis of their individual competencies or group contribution to organisational success. Therefore, compensation specialists speak of value added compensation. It means that the components of compensation package create value for the organization and its employees. Payments that fail to advance their employees or organisation are removed from the compensation programme.

2.8 Legal provisions for payment of compensation

The organization has to take into consideration various acts and provisions while formulating their compensation policies. Some of such acts that have an effect on an organisational compensation policies are:-

1. Minimum wages act 1948
2. Company's act 1956
3. Employee state and Insurance act 1948
4. Payment of bonus act 1965
5. Payment of wages act 1936
6. Industrial truce resolution 1947

(Specifically emphasized the need for the payment of fair wages).

2.9 International Compensation

Different countries have different norms for employee compensation. Managers should consider carefully the motivational use of incentives and rewards in foreign countries. For Americans, while non financial incentives such as prestige, independence and influence may be motivators, money is likely to be the driving force other cultures are more likely to emphasize
respect, family job security, a satisfying personal life or power. Since there are many alternatives to money the rule is to match the reward with values of the culture. In individualistic cultures such as US, pay plans often focus on individual performance and achievement. However, in collectively oriented cultures such as Japan, pay plan focus more on internal equity and personal needs.

2.10 Wage differentials in India

Wages differs in different employment or occupations, industries and localities, and also between persons in the same employment or grade. One therefore comes across such terms as occupational wage differentials, inter-industry, inter-firm, inter-area or geographical differentials and personal differentials. Wage differentials has been classified into three categories.

First, the differentials that can be attributed to imperfections in the employment markets, such as the limited knowledge of workers in regard to alternative job opportunities available elsewhere, obstacles to geographical, occupational or inter-firm mobility of workers, or time lags in the adjustment of resource distribution and changes in the scope and structure of economic activities. Examples of such wage differentials are inter-industry, inter-firm, and geographical or inter-area wage differentials. Second, the wage differentials which originate in social values and prejudices and which are deeper and more persistent than economic factors. Wage differentials by sex, age, status or ethnic origin belong to this category.

Third, occupational wage differentials which would exists even if employment market were perfect and social prejudices were absent.

In other words wage differentials may be:
(i) Occupational differentials or differentials based on skill,
(ii) Inter- firm differentials,
(iii) Inter- area or regional differentials,
(iv) Inter- industry differentials, and
(v) Differentials based on sex.

2.11 Classification of Rewards

Rewards or incentives can be classified into

1. Direct compensation and
2. Indirect compensation.

Direct compensation includes the basic salary or wage that 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 etc.

Indirect compensation includes protection programmes, pay for time not worked, services and perquisites. But these are maintenance factors rather than reward components. Since they are made available to all employees, irrespective of performance, they will tend to retain people in the organization but not stimulate them to greater effort and higher performance.

Sometimes, the rewards are also termed as ‘intrinsic rewards and ‘Extrinsic’ rewards. The former are those that an individual receives for himself. They are largely a result of the job that the worker does. The techniques of job enrichment, shorter work weeks, flexible work hours, project structures, and
job rotation can offer intrinsic rewards through providing interesting and challenging jobs, and allowing the worker greater freedom.

On the other hand, the later rewards refer to direct compensation, indirect compensation, and non financial rewards.

Controversy prevails over the issue of ‘money’ only motivation. For example “money may potentially be an effective motivator, regardless of the level one has attained and the organisation or the amount of money he is earning”. “Money does appear to have a good deal of symbolic value, and it does mean different people having differing biographies or backgrounds of training and experiences”.

“For some people, money can be instrumental in satisfying esteemed and recognition need as well basic physical needs. Motivating people with financial rewards is not a pickers game. A company must be willing and able to give certain employees very large raises and / or bonuses if pay is to motivate performance. If a company cannot afford to do this, or is not willing to do so, it should probably forget about using pay to motivate performance.

“Pay is one form or another is certainly one of the main- springs of motivation in our society. The most evangelical human relationist insists it is important while protesting that other things are too nobler. It would be unnecessary to belabor the point if it were not for a tendency for money drives to slip out of focus in a miasma of other valves and other practices. As it is, it must be repeated: Pay is the most important single motivator used in our organized society”.

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According to Allen Port “Money incentives alone do not bring the desired motivation. Employees in an industry are not ‘economic men’ so much as they are ‘ego men’. What they want, above all else, is credit for work done, interesting tasks, appreciation, approval and congenial relations with their employers and fellow workers. These satisfactions they want even more than high wages or job security. “workers will normally respond to monetary incentives only to a certain point. Beyond that point money becomes ineffective as an inciter of action. This is for two reasons: (i) Money is not foreseen as having the ability to satisfy an urgent need (ii) The worker may respond to money as a motivator if he believes the benefit will be greater than the expenses incurred by him. If the benefits perceived are less than the personal cost he will not respond to money as an incentive any further. In effect, a break even point is reached in which additional money earning become marginal or even undesirable because of the efforts and conditions demanded to earn the added income”.

“Using money as a motivator may decrease intrinsic motivation. To use money and other extrinsic reward as effective motivators, they must be made contingent upon performance”.

It may be summed up that a more reasonable interpretation would be that intrinsic motivation is increased by money if two conditions are met (i) The monetary rewards closely follows performance so as to be reinforcing, and (iii) the monetary reward is perceived by the employee to be a function of his work behaviour. Further, it may be fair to conclude they pay holds motivational properties. However, the issue is considerably more complex than merely stating that “money motivates”.

Classification of rewards can be better understood from the figure 2.3
FIGURE 2.3: CLASSIFICATION OF REWARDS

Rewards

Intrinsic
- Participation
- Indecision Making
- Greater Job
- Freedom and
- Direction
- More
- Responsibility
- More
- Interesting
- Work
- Opportunities
- for Personal
- Growth
- Diversity of
- Activities

Extrinsic
- Direct
- Compensation
  - Basic Wage or
  - Salary
  - Overtime &
  - Holiday
  - Premiums
  - Performance
  - Bonus
  - Profit
  - Sharing
  - Stock
  - Options
  - Indirect
  - Compensation
    - Protection
    - Programmes
    - Pay for time
    - not worked
    - Services and
    - Perquisites

Non-Financial Compensation
- Preferred Office
  - Furnishings
- Preferred
  - Lunch Hours
- Assigned Parking
  - Spaces
- Preferred work
  - Assignments
- Business
  - Cards
- Own
  - Seey
- Impressive
  - Job Titles
2.12 Compensation practices in S.G and GMM

It has been found that in both the units there is no practice of wage system. Both the units have the practice of giving monthly salary. Both the units pay money plus many kinds of benefits to their employee’s. And it is also found that upto a certain level the respondents of both the units are satisfied.

From the study it has been found that both the units have established and maintained a flexible compensation structure. For both the units there are two basic objectives of salary administration and they are as under-

(a) For employees:
(i) To pay the employees according to requirement of jobs (ii) To increase employee morale and motivation (iii) To minimize favouritism and (iv) To establish job sequence and lines of promotion wherever they are applicable.

(d) For employers:
(i) To plan systematically and control labour costs (ii) To reduce the likelihood of friction and grievance over wage inequalities (iii) To enhance an employee’s morale and motivation and (iv) To attract qualified employees by ensuring and adequate payment for all the jobs.

It has been revealed that in both the units the following factors influenced the compensation structure (i) the organisation’s ability to pay (ii) supply and demand of labour (iii) the prevailing market rate (iv) the cost of living (v) productivity (vi) trade unions bargaining power (vii) job requirements (viii) managerial attitudes (ix) psychological and sociological factors and (x) levels of skill available in the market.
The study also reveals that both the units give direct compensation as well as indirect compensation to their employees. Direct compensation includes the basic salary or wage that the individual is entitled for his job. Indirect compensation includes protection programmes, pay for time not worked, services and perquisites.

The study has found the following facts-

(i) incentives given at S.G is comparatively higher than GMM
(ii) for compensation the employees of S.G has to bargain more than the employees of GMM
(iii) both the units have social allowances for special post
(iv) both the units said nothing about social security measures and L.T.C.
(v) both the units are not having consumer stores facility
(vi) S.G provided more qualitative work environment than GMM
(vii) almost all the respondents at both the units are equally satisfied with the fringe benefits except for vehicle allowance and children’s education allowance and
(viii) respondents at both the units are of the opinion that their salary is not in proportion with the cost of the city.