Chapter - IV
CHAPTER-IV

COMPENSATION AND BENEFITS

(i) NATURE OF COMPENSATION

An organisation tries to coordinate various factors of production and their efforts in such a way that each factor contributes its maximum towards the achievement of organisational goals and to compensate these factors in relation to their contributions so that this process continues. The contributions of non-human factors depend on the technological combination of these factors and their compensation is prescribed almost in a definite war. However, human factor, being fundamentally different from non-human factors, its compensation becomes more tedious and to compensate human factor, separate techniques and tools are required which taken together are known as compensation management, remuneration management or wage and salary administration. However, the term compensation management is more common in human resource management. Compensation may be in different forms, however, we shall focus our attention on base compensation.

(ii) TYPES OF COMPENSATION

In the case of human resource management, compensation is referred to as money and other benefits received by an employee for providing services to his employer. Money and benefits received may be in different forms — base compensation in money form and
various benefits, which may be associated with employee's service to the employer like provident funds, gratuity, insurance scheme and any other payment which the employee receives or benefits he enjoys in lieu of such payment. 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".

Based on above description of compensation, various components may be identified as under:

(1) **Wage and Salary**: Wage and salary are the most important component of compensation and these are essential irrespective of the type of organisation. Wage is referred to as remuneration to workers particularly, hourly-rated payment. Salary refers to as remuneration paid to white-collar employees including managerial personnel. Wages and salary are paid on the basis of fixed period of time and normally not associated with productivity of an employee at a particular time.

(2) **Incentives**: Incentives are the additional payment to employees besides the payment of wages and salaries. Often, these are linked with productivity, either in terms of higher production or cost saving or both. These incentives
may be given on individual basis or group basis. There are various types of incentives such as individual output-linked incentives, bonus, profit sharing, co-partnership and stock options etc.

(3) Fringe Benefits: Fringe benefits includes such benefits which are provided to the employees either having long-term impact like provident fund, gratuity pension; or occurrence of certain events like medical benefits, accident relief, health and life insurance; or facilitation in performance of job like uniformed canteens, recreation, etc.

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

(iii) COMPENSATION POLICIES

"Wage and salary administration refers to the establishment and implementation of sound policies and practices of employee compensation. It includes such areas as job evaluation, surveys of wages and salaries, analysis of relevant organisational problems, development and maintenance of wage structure, establishing rules for administering wages, wage payments, incentives, profit sharing, wage changes and adjustments, supplementary payments, control
Compensation policy is derived from organisational strategy and its policy on overall human resource management. In order to make compensation management to work effectively, the organisation should clearly specify its compensation policy, which must include the basis for determining base compensation, incentives and benefits, and various types of perquisites to various levels of employees. The policy should be linked with the organisational philosophy on human resources and strategy. Besides, many external factors which impinge on the policy must also be taken care of.

(iv) DEVELOPMENT OF WAGE PAYMENT SYSTEM

According to economic theory; wages are defined broadly as any economic compensation paid by the employer to his labourers under some contract for the services rendered by them. In its actual sense which is prevalent in the practice, wages are paid to workers which include basic wages and other allowances which are linked with the wages like dearness allowances etc. Traditionally, in the absence of any bargaining power possessed by labourers, they did not have any say in the determination of wages paid to them. This has led to the development of several theories of wages such as subsistence theory by Ricardo, wage fund theory by Adam Smith, surplus value theory by Karl Marx, residual claimant theory

by Frascis Walker, marginal productivity theory by Philip Wickstted and John Clark, bargaining theory by John Davidson, and behavioural theory by James March and Herbert Simon. Each theory tries to explain how wages are determined. In the Indian context, soon after the independence, Government of India set up a Committee on Fair Wages in 1948 which has defined various concepts of wages which govern the wage structure in the country specially in those sectors which can be termed as under paid and where workers do not have bargaining power through unions. These concepts are: minimum wage, living wage, and fair wage. Later, the concept of need-based minimum wage was added.

Government enacted legal provisions regarding minimum wages under the Minimum Wages Act, 1948. This Act does not define the concept of minimum wages but empowers the Central Government as well as State Government to fix minimum wages from time to time. Wherever this Act applies, the payment of minimum wages is mandatory. Along with the minimum wage, the Committee on Fair Wages has given the concept of living wage which has been defined as follows:

A living wage is one which should enable the earner to provide for himself and his family not only the bare essentials of food, clothing and shelter but a measure of frugal comfort, including education for his children, protection against ill-health, requirements of essential social needs and a measure of insurance [137]
against the more important misfortunes, including old age”.

Living wage is more than the concept of minimum wage. Such a wage is determined keeping in view the national income and paying capacity of industrial sector. The Committee also observed that since the national income did not support the payment of living wage, it should be implemented in three phases. In the initial stage, the wages to be paid to the entire working class was to be established and stabilised. In the second phase, fair wages were to be established in the community and industry. In the final phase, the working class was to be paid the living wage.

The Concept of fair wage is linked with the capacity of the industry to pay. The Committee has defined fair wage as follows:

"Fair wage is the wage which is above the minimum wage but below the living wage..... The lower limit of the fair wage is obviously the minimum wage ; the upper limit is to be set by the capacity of the industry to pay".

Thus, fair wage depends on different variables affecting wage determination. Such factors are labour productivity, prevailing wage rates, the level of national income and its distribution and the capacity of industry to pay. At present, the concept of fair wages is followed by the most business organisations.

(v) WAGE INCENTIVES

Incentive wages refer to performance linked compensation
paid to improve motivation and productivity of employees. It implies monetary inducements offered to employees to perform beyond acceptance standards. It is related directly or indirectly to productivity and profitability of the enterprise. Wage incentives include all the plans that provide extra pay for extra performance in addition to regular wages for the job. It is a formal system under which the earnings of a worker, a small group or a plant workforce, are related partially or wholly to some measure of output. According to the National Commission on Labour, "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 or targeted results". A wage incentive scheme is essentially a managerial device of increasing a worker's productivity. Simultaneously, it is a method of sharing gains in productivity with workers by rewarding them financially for their increased rate of output. Thus, wage incentive plans are designed to improve productivity and to secure better utilisation of human and material resources of the organisation. In the absence of mutual trust and understanding between management and workers, a wage incentive system may be viewed as an attempt on the part of management to coerce for production. Therefore, management must develop sound industrial relations before introducing the plan. For this purpose, sound policies regarding recruitment, selection, placement, training,
In a country like India wage incentives are an important tool for motivating workers, improving productivity and reducing costs per unit. Various five years plans have suggested introduction of incentive schemes to promote more efficient working of industries. The second plan recommended that the earnings beyond the minimum wage should be related to results and that workers should be consulted before a system of payment by results was introduced. The National Commission on Labour suggested that "under our conditions, a wage incentive is concerned with an effective utilisation of manpower which is the cheapest, quickest and surest means of increasing productivity. The only practicable and self-sustaining means of improving manpower utilisation is to introduce incentive schemes and stimulate human efforts to provide a positive motivation to greater output.

(vi) CRITICAL REVIEW

"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: (1) wage and salary payments, and merit pay; (2) over-time payments, pay for holiday work, or differential payments according to shifts, i.e., all payments which could be considered as incentives to perform work at undesirable times; and (3) premium pay for
performing danger tasks. It is related with wage payment plans which the wages directly to standards of productivity or to the profitability of the organisation or to both criteria.²

Based on the above definition, we may identify the following features of an incentive scheme:

(1) The incentives are in direct monetary form or measurable in monetary worth.

(2) The use of incentives is to motivate people for better performance.

(3) The incentives are linked to performance either on individual basis or on group basis, either directly or indirectly. However, a direct linkage provides more motivation.

Financial incentives have attracted lot of supports and criticisms both from academicians and practitioners. Those who support the positive contributions of incentives to motivate for better performance argue that the existence of chances of earning more money is motivating factor and employees will improve their performance to earn more. Those who criticise the financial incentives put forward the argument that money being an external factor to the job fails to motivate as people derive motivation out of their work and not from external factors. Therefore, both these views must be analysed in order at determining the role of financial incentives.

incentives in motivating for better performance.

The basic logic of monetary incentives is that individuals will use their potentials for better performance in order to earn more money. For example, Giles and Barett have observed that "money may potentially be an effective motivator, regardless of the level one has attained or the amount of money he is earning". Similarly, Mason et al observe that "pay in one form or another is certainly one of the mainsprings of motivation in our society. The most evangelical human relationist insists it is important while protesting that other things are too (and perhaps in his view) nobler. It would be unnecessary to belabour the point if it were not for a tendency for money drives to slip out of focus in a miasma of other values and practices. As it is, it must be repeated; pay is the most important single motivator used in our organised society". Based on these conclusions, organisations generally design incentive systems with the following objectives:

(1) To use incentives as a useful tool for securing better utilisation of human resources, better production scheduling and performance control;

(2) To increase employees' earnings without dragging the organisation into a higher financial costs; and

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To improve the utilisation of physical resources of the organisation.

Some people argue that money does not have similar impact on all. For example, Wernimont and Fitzpatrick have observed that "money does appear to have a good deal of symbolic value, and it does mean different things for people having differing biographies or backgrounds of training and experience".\(^5\)

Based on the research, Herzberg has found that money (pay and incentives) does not motivate personnel but it acts only as maintenance factors.\(^6\) Similarly, Gellerman has pointed out that in most kinds of business organisations, money is actually used as a means for keeping an organisation adequately staffed and not as a motivator.\(^7\) In a more recent comment, Kohn has observed that "corporate incentive plans not only fail to work as intended but also undermine the objectives they intended to achieve. This result is due to inadequate psychological assumptions on which reward systems are based........ They motivate people to get rewards but not to do anything more than the minimum".\(^8\)

If both positive and negative views on the role of money are to be integrated, it appears that money can be used as motivator to some extent. The role of money in motivating personnel can be

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seen in terms of inducement - contribution process which links inducement (rewards) and contribution (performance) as follows:

(1) Each individual in the organisation will continue to give his contributions so long as the inducements are more or equal to his contributions. It is based on the assumption that the individual can value both contributions and inducements.

(2) The contributions from various individuals are the source through which the organisation produces the inducements for individuals.

(3) The organisation will continue to give inducements and receive contributions so long as contributions are sufficient to give inducements.

Thus, the role of money as a motivating factor will work or will not work as shown in the following figure:

*Perceived personal cost and monetary rewards linkage.*

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<table>
<thead>
<tr>
<th>Perceived Personal Cost</th>
<th>More Than</th>
<th>Perceived value of monetary rewards</th>
<th>Negative response to money as a motivator</th>
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<tr>
<td>Perceived Personal Cost</td>
<td>Less Than</td>
<td>Perceived value of monetary rewards</td>
<td>Positive response to money as a motivator</td>
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(vii) **EMPLOYEE BENEFITS**

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.

Since every organisation of a society is not similar to others, each organisation adopts its own approach in providing the benefits to employees. The organisations which adopt philanthropic approach provide more generous benefits and services. In general, from the organisation's point of view, the objectives of benefits and services are as follows:

1. To maintain parity with the general practices adopted by other organisations in the same geographical areas or industry sector.
(2) To provide community and commonly shared services which employees cannot provide individually.

(3) To create better image of the organisation 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.

There may be numerous types of benefits which may be provided to employees, and there may be different ways in which these can be classified. One classification may be in terms of statutory and voluntary benefits. Statutory benefits are mandatory and are provided under various Acts such as paid holidays and leaves, insurance, pension, gratuity, retrenchment compensation, etc. All the organisations covered by different Acts have to make provisions for these. Voluntary benefits are determined by the individual organisations on their own. Such benefits may include transportation facilities, educational facilities, child care, subsidised lunch / refreshment etc.

(a) Security Benefits: Various benefits offered under employee welfare scheme are within the industrial establishment known as intra-mural and outside it known as extra-mural. Committee on Labour Welfare (1969) has defined employees welfare as "such
services, facilities, and amenities as adequate canteen, rest and recreation facilities, sanitary and medical facilities, arrangements for travel to and from work and for the accommodation of workers employed at a distance from their homes, and such other services, amenities and facilities including social security measures as contribute to improve the conditions under which workers are employed".

Social security is essentially related to the high ideals of human dignity and social justice. According to ILO, social security is the protection which society provides for its members through a series of public measures against the economic and social distress that otherwise would be caused by the stoppage or substantial reduction of earnings resulting from sickness, maternity, employment injury, unemployment, invalidity, old age and health. From an organisation's point of view, it is essential that it provides such measures to its employees.

Compensation benefits are payable under two conditions: under Workmen's Compensation Act, 1923 and under contractual obligations. Under the Act, the compensation is payable in the case of injuries, fatal or otherwise, to worker during course of his job performance. The compensation is payable according to the nature of the injuries. Under contractual obligation, an employer is liable to pay equivalent to three months' wage/salary or any other sum specified under the terms of employment.

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(b) Retirement Benefits

There are various schemes which provide benefits of different types. The major ones are as follows:

**Provident Fund Scheme**: Under the provisions of Employees' Provident Fund and Miscellaneous Provisions Act, 1952, the employer has to contribute a certain percent of wages/salaries of employees every month. The employees make equal contribution though they are permitted to contribute more if they so desire. The basic objective of the provident fund scheme is to make payment of total accumulated amount standing in the account of an employee when he retires though in certain circumstances, part of the money can be withdrawn earlier.

**Pension Scheme**: A pension represents the payment of a fixed amount to a retired employee or surviving dependents every month provided the employee has fulfilled certain specific conditions of employment. One of the major conditions is the minimum number of years of services which an employee should put to become eligible for pension. Sometimes, pension is provided in lieu of the employers' contributions to provident fund. Now old pension scheme is discontinued and a new pension scheme is introduced in place of it.

**Gratuity**: The payment of gratuity is regulated by the Payment of Gratuity Act, 1972. Under this Act, gratuity is payable to all
employees after the termination of their services by way of their retirement or resignation provided they have completed five years of continuous services. The gratuity is payable at the rate of 15 days wages / salaries for each year of completed service subject to a maximum of Rs. 3.5 Lacs.

(c) Health Benefits

Insurance benefits are payable to employees covered under Employees' State Insurance Act, 1948. The employees covered under this Act have to contribute to the scheme and the employers have also to contribute. Various types of benefits that are available in this Act are medical, sickness, maternity, disablement, dependents and funeral benefits. Besides, many organisations offer benefits for life insurance either on individual or group basis, the latter being more prevalent.

(d) Holiday Benefit

There are provisions for payments to employees not worked. These include the payments for the following days:

(1) Weekly off-day.

(2) Gazetted holidays — 14 days at present which include Independence Day, Republic Day, and various festivals like Diwali, Dassera, Id, Christmas day, etc.

(3) Personal leave — casual leave, sick leave, privilege leave, and maternity leave. Personal leave may vary from...
organisational to organisation.

(e) Other Benefits

Besides the above benefits, individual organisations offer a host of benefits to their employees. Such benefits include reimbursement of educational expenses for the employee and dependent children, transportation facilities, subsidised housing, subsidised meals / refreshment, child care facilities, recreational and cultural facilities, etc.

Compensation Management in Tourism

Since compensation is viewed as a key driver of behaviour, organisations need to create a strategic link between employee compensation and company performance. To accomplish this, there is a need to effectively communicate business objectives, create flexible programs that accommodate individual employee needs. Tourism sector also needs to involve employees in the design of compensation plans as well as consistently reassess the effectiveness of the plans. Compensation is traditionally based on grade structure, capacity to pay, qualification and setting of pay for the specific skill requirement for a job, market benchmark. This competency-based approach has specific advantages like a great shelf life, attract and retain best talent and transparency and logic for internal disparities.

A critical element of a compensation strategy is also to
decide the relationship between the fixed and variable portions of compensation. In most cases, the variable element is linked to performance of the organisation and the employees' individual and team performance. The fixed portion of compensation can be linked to individual knowledge, competencies and skills. However, whatever the design it is important for it to be aligned with business objectives in order to be effective.

**Rules of Engagement**

The current trend of HRD system in tourism sector is to hire dynamic employees from other hotels, travel agencies. Poaching staff is endemic in an industry that struggles to fill vacant positions. Poaching staff from other hotels and restaurants is a serious global problem in the hospitality industry. The skill shortage is making the well-trained and proficient employee a valuable asset, something worth stealing.

Promotion is given on the basis of seniority Vs merit. Unlike other industries promotion to non-executive is given purely on the basis of performance results over a fixed period of time. Promotion to executives is given on the basis of seniority as well as past performance record. Employees are promoted to higher positions in short span of experience as the numbers of few employees manage most of the travel agencies. Many lower level executives working in the departments like ticketing, tour operation, accounting, banking
and finance do not wait for promotion in their respective travel agencies. Before getting promotion they get better offer in other travel agencies and quit the existing job. Very few employees stay longer in the same travel agencies where they start their career.

Except SITA travels, Swosti Travels, Travels and Rental and Mercury Travels, other recognized travel agencies do not have their branch offices in other parts of the country. Travel agencies having branches in other cities in India, have system of employee transfer but mostly corporate offices prefer to keep the local employees well versed in local language, culture and potential of business. Transfer becomes essential when vacancies occur due to resignation or quit. The job responsibility can not be shared by the existing employees of branch. Besides while opening new branches transfer helps in manning. In rare cases, managerial levels of employees are transferred from one branch to another. It may be either along with promotion or with job enlargement and job enrichment. Swosti Travels has two regional offices at Kolkata and Delhi where two Regional Manager are posted and the posts are transferable to any branch or head office. There is practices of inter-departmental transfer. Before the transfer order is issued to the concerned employee, the Managing Director or General manager holds a discussion with the employee and seeks his willingness and benefits during time of transfer associated with promotion.
Guiding license can be transferred to any Government of India Tourist Offices located across the country. Before applying for transfer, a guide needs to apply to the concerned tourist office under which he wishes to work. The Director general Tourism at Delhi can approve guiding license transfer. In some cases, guides do face difficulties in transferring the license. In case of the site approved tourist guide, there is no provision of transfer. There is no instance of promotion in case of guiding profession, though over a period of time after acquiring profession in guiding the demand of the guide increases and he gets more perks in comparison to others.

The sevekas performed the rituals in routine manner according to their turn of worship. The routine is well set since the past times. If a seveka fails to attend his duties for any reason whatsoever, or if an impurity is because of birth or death arises in his family, there is an arrangement, whereby, someone else may manage his part of the ritual. The concerned nijog makes the arrangement for him. In this case promotions are also rare.

**Compensation Management in the Department of Tourism**

All employees are entitled to get Government pay structure. Presently, Government is giving central pay to all staff of the department of tourism. The central pay system is now a motivational factor for the employees to perform well. Besides, the
basic pay and DA, employees are paid House rent allowance, Medical allowance, Employee Provident Fund, Leave Travel Concession, Travelling allowance and daily allowance during the official tour. Moreover, employees are satisfied with Pay Commission's Salary structure. Sometimes, field staffs are rewarded with certain extra incentives.

**Compensation Management in the Hotel Sectors**

HRD department fixes up the terms and conditions of appointment and decides the salary depending on the nature of job and type of skill and proficiency required in the sector. The Hotel Oberoi is the only five star hotels, which gives requisite salary to all categories of employees whereas other star hotels don't have systematic salary structure for the employees. The general manager of Oberoi is approximately paid Rs. 75000/- per month and other star hotels give better salary to their top executives pay very nominal salary to their lower level employees such as waiter, boy, Gardner, captain, steward, etc. Because most of the time, trainees from the Hotel Management Institutes manage these types of works. Star hotels prefer to keep experience managerial employees and prefer to negotiate salary with them either per month or per year. Managerial staffs get all facilities in the hotels. Non - star hotels do not have systematic salary structure for the employees. The salary is disbursed in the first week of every month and the mode of payment is in cash/cheque.
As hotel is given an industry status, all registered hotels abide by the rules and regulations of industry and Departments of Labour. All employees along with their salary get Contributed Provident Fund, ESI benefits, Bonus, etc. are getting from the hotels. Executives are provided with conveyance, food, telephone, birthday gift, etc. Supervisory and workmen level staffs are given two pair of uniform, shoes, and the cleaning charge and subsidised food, etc.

**Compensation Management in the Travel Agencies**

All leading travel agencies are motivating employees by paying salary and other facilities. Mostly salary is fixed on the performance and contribution to the organisation. Travel agencies like SITA travels, Travels and Rental Mercury travels, Balmier and Lorry and Swosti Travels follow the prescribed rules of the Minimum Wages Act and Payment of Wages Act while fixing and disbursing salary and wages. The salary ranges of these travel agencies vary from different categories of employees. Executives are normally paid more salary, as their contribution to the organisation is more than other staffs. Technical staffs are not only paid the due salary but also given other attractive incentives. Travel agencies give accident compensation by giving financial help and other possible helps also.

All reputed travel agencies having high business turnover
give good and timely salary to their employees. They have provision of assisting them during emergency. Other small travel agencies do not give adequate salary and other facilities to their employees. They do not prefer to recruit professional staffs also and therefore they lack professionalism in their business.

Compensation Management in the Guiding Profession

Government of India, Ministry of Tourism fixes the charges for the registered guides and revises the same from time to time basing on the cost of living index and consumer price index. Guiding charges are made on the basis of days, extra hours, and no. of pax and location of tour. Either guide is paid remuneration directly by the tourists or by the travel agencies as per the approved rate. Some of the travel agencies pay the prescribed guiding charges by the Indian Association of Tour Operators (IATO), Delhi as well as prescribed rates approved by the Archaeology Department of Government of India for the site guides. Some small travel agencies pay negotiable rates to the guides. Besides their charges, guides also get extra benefits like food, accommodation and conveyance in case of outstation. All approved travel agencies like Swosti travels, SITA Travels, Kalinga Travels, Discover Travels and Government of India Tourist Office revise the guiding charges from time to time. Approved Guides are normally paid advance payments in case of long tours or larger size of group. Although, Department of Archaeology has fixed up the [156]
guiding charges for the local guides and site guide, but guides working at the sites charge negotiable rates to the tourists.

**Compensation Management for Temple Priests (Panda)**

The Jatri pandas act as pathfinders for the pilgrimage and tourists from outside the state. They make necessary arrangements for the accommodation, food, darshan, shopping and sightseeing for their customers/Jatris. Each panda maintains a hereditary yatri register in which the concerned Yatri's forefather's name, title, caste and address are written. It is updated regularly and the change of addresses is made. According to the Jati register, a panda identifies his Jatris and takes care of them and also entitle the compensation package given by them. It is very much regulated and restricted on the part of a Panda to guide the Jatri's of other pandas. Sometimes, other pandas take care of the Yatris and give the concerned panda commission of total income from the said yatris. The principal income of the Panda is derived from pilgrims, selling prasad and income from donated land. The sevayatas working in the temple and looking after the various ritualss of the temple and get honorarium from the temple administration. They also get some amount as commission by selling prasad.

**Compensation Management for Rural Artisans**

There is no fixed salary for the artisans. It varies from artisan to artisan. In most of the artisans cooperative societies, the basis
of the payment may be daily i.e. time rate or on the basis of the prices of products produced i.e. piece rate. In some of the occasions like Dussera or Viswakarma Puja, artisans are paid bonus either in the form of cash or kinds. Artisans are never paid leave wages. Senior artisans are paid wages during leave in case of their illness or illness of their family members. Artisans, having long experience in the societies are paid advance at the time of their need.