HRM 1

Module No 1: Introduction to Compensation Management

Meaning

Compensation is the monetary remuneration provided to an employee in exchange for their work. It is typically paid directly to the employee through salaries, bonuses, benefits, and other forms of remuneration.

Compensation definition

According to Cascio (1995) the **"Compensation includes direct cash payments and indirect payments in form of employees benefits and incentives to motivate employees to strive for higher levels of productivity".**

According to Milkovitch and Newman (2005) the **"Compensation is all forms of financial returns, tangible services and benefits employees receive as part of an employment relationship."** The phrase "financial returns" refers to an individual's base salary, as well as short- and long-term incentives. "Tangible services and benefits" are such things as insurance, paid vacation and sick days, pension plans, and employee discounts.

Classification of Compensation

- Monetary
- Non Monetary

Types of Compensation

Compensation is of two types Direct Compensation and Indirect Compensation.

- **Wages**: **Hourly**

Gig-workers, unskilled labor, semi-skilled labor, temporary workers, part-time employees, or contract workers often charge their employers by the hour. They get paid for the time they work, irrespective of their output.

This can be seen in the fields of construction, tourism, and logistics. In most countries, strict minimum wage standards have to be adhered to.

Salary: Full-time employees, skilled employees, and those who are in senior management positions typically receive salaries. Having a fixed salary generally indicates that the employee's company has plans to invest in this employee and work with them for the foreseeable future.

Some jobs that usually get paid in annual salaries are teachers, accountants, doctors, managers, and so on.

DA: 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.

Consolidated Pay: Consolidated pay means a total salary without any breakup, which means consolidated salary is not divided into salary components like basic wage, HRA, transport & medical allowances, etc. It can be paid on a weekly or monthly basis to the employees.

Equity based programs: Equity, or a small part of the company in the way of shares, has become an increasingly popular way of compensating employees. Typically seen in law firms in the past, now even IT firms and large retail organizations have started giving their employees equity.

Commission: The commission is usually a favoured way of paying sales teams. The commission percentage is usually fixed for a certain number of items sold. It may increase if the sales targets are exceeded.

The commission percentage varies depending on what is being sold and the profit margins involved. Typical industries where commission-based compensations are commonplace are real-estate, automobile sales, software sales, and so on.

Bonus: Bonus is paid to the employees during festive seasons to motivate them and provide them the social security

Short term And Long term Incentives: Incentive compensation is performance-related remuneration paid with a view to encourage employees to work hard and do better.

Both individual incentives and group incentives are applicable in most cases. Bonus, gain-sharing, commissions on sales are some examples of incentive compensation

Social Security: Bonus

Retirement Plan: Organizations provide for pension plans and other benefits for their employees which benefits them after they retire from the organization at the prescribed age.

Pension Plan: Organizations provide for pension plans and other benefits for their employees which benefits them after they retire from the organization at the prescribed age.

<u>Profit Sharing plan</u>:
The company contributes a portion of its pre-tax profits to a pool that will be distributed among eligible employees. The amount distributed to each employee may be weighted by the employee's base salary so that employees with higher base salaries receive a slightly higher amount of the shared pool of profits. Generally this is done on an annual basis.

Advantages

- Brings groups of employees to work together toward a common goal (the success/benefit of the company).
- Helps employees focus on profitability.
- The costs of implementing the plan rise and fall with the company's revenues.
- Enhances commitment to organizational goals.

<u>Stock Bonus Plan:</u> This type of compensation allows employees to purchase a fixed number of shares at a specified price after a certain tenure. Stock options do not mean that employees have any ownership of the company.

- **Benefits**

Benefits that are given to employees usually entail healthcare benefits, health insurance, mental health benefits, retirement plans, and so on.

Retirement funds and pension plans are also attractive benefits that could be offered to employees.

<u>ESOP:</u> Employee Stock Ownership Plan (ESOP)
An ESOP is a defined contribution employee benefit plan that allows employees to become owners of stock in the company they work for. It is an equity based deferred compensation plan.

<u>Employer Benefits and Employee Cost for ESOP:</u>

<u>Benefits of Employer</u>

1. Productivity Growth

2. Employee Retention

3. A Strategy for Recruiting New Talent

<u>Cost of Employee :</u> Legal fees, accounting fees, and administrative expenditures may be included in the initial costs of an Employee Stock Ownership Plan (ESOP) in India.

Individual Retirement Account: Individual retirement accounts (IRAs) are retirement savings accounts with tax advantages.