Research Paper
Impact Factor: 4.729
Refereed, Listed & Indexed

IJBARR
E- ISSN -2347-856X
ISSN -2348-0653

A STUDY ON COMPENSATION MANAGEMENT

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Abstract
Compensation plays a critical role in aligning employee behavior with business objectives. Employee has been considered to be the most important factor contributing to organizational effectiveness and efficiency.

Attributes such as lateness, absenteeism, unsafe actions, alcoholism, drug abuse, poor training, and incompetence can upset the apple cart of business objectives. Efficient employment practices are inevitable towards the sustenance of goals by making sure that this one important factor is set right on the path of productivity. There is no doubt that by employing the right kind of man for the right job can discard the wide space called ineffective business management. However, human elements such as expectations, emotions, ambitions, egos etc. too contribute a fair amount to business success. Thus, a fair compensation system is created in every organization on order to make the most of most important 'M' element.

Compensation attributes to all forms of pay and rewards received by employees for their performance, including all forms of benefits, perks, services and cash rewards. It is paramount to acknowledge and announce the total compensation to your employees. This needs to be done so that the significance of what you are putting forth in compensation is clear and hence attracts and retains talent.

Keywords: Compensation, Employee, Organization.

Meaning of Compensation
Compensation is a systematic approach to providing monetary value to employees in exchange for work performed. Compensation may achieve several purposes assisting in recruitment, job performance, and job satisfaction.

Evolution of Compensation
Today's compensation systems have come from a long way. With the changing organizational structures workers' need and compensation systems have also been changing. From the bureaucratic organizations to the participative organizations, employees have started asking for their rights and appropriate compensations. The higher education standards and higher skills required for the jobs have made the organizations provide competitive compensations to their employees.

Compensation strategy is derived from the business strategy. The business goals and objectives are aligned with the HR strategies. Then the compensation committee or the concerned authority formulates the compensation strategy. It depends on both internal and external factors as well as the life cycle of an organization.

Review of Literature
Plessis & Huntley (2009) there has been a move from personnel management PM to human resource management HRM; more recently to international human resource management IHRM. Challenges in IHRM involve the same activities as domestic HRM; the main difference is that domestic HRM is involved with employees within only one national boundary. IHRM assists organizations to best utilize their HR in the international context. Since multinational activities are involved in HRM, it is believed that IHRM is more complex than domestic HRM. In the South African context, employees come from different backgrounds and experiences; it is more difficult to manage them in a multinational corporation MNC than if they were all in the same country. Internationalization impose a movement in the direction of standardization of pay, working conditions and management systems in MNCs, including HRM, the influence of local culture, institutional arrangements and labour market practices. A model was developed by the authors and is recommended for use by South African HR practitioners. Bowra, Sharif (2012)The main endeavor of this study is to examine the relationship and nature of relationship between the employee perceived performance and human resource (HR) practices (compensation, performance evaluation, and promotion practices) in the banking sector of Pakistan. Survey of 235 banking personnel was conducted through personally administrated questionnaire to investigate the impact of HR practices on employees' perceived performance.

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

- Recruit and retain qualified employees.
- Increase or maintain morale/satisfaction.

- Reward and encourage peak performance.
- Achieve internal and external equity.
- Reduce turnover and encourage company loyalty.
- Modify (through negotiations) practices of unions.

Objectives of Compensation
The objective of the compensation function is to create a system of rewards that is equitable to the employer and employee alike. The desired outcome is an employee who is attracted to the work and motivated to do a good job for the employer. Patton suggests that in compensation policy there are seven criteria for effectiveness. Compensation should be:

1. **Adequate** Minimal governmental, union, and managerial levels should be met.
2. **Equitable** Each person should be paid fairly, in line with his or her effort, abilities, and training.
3. **Balanced Pay,** benefits, and other rewards should provide a reasonable total reward package.
4. **Cost-effective** Pay should not be excessive, considering what the organization can afford to pay.
5. **Secure Pay** should be enough to help an employee feel secure and aid him or her in satisfying basic needs.
6. **Incentive**-providing Pay should motivate effective and productive work.
7. **Acceptable to the employee** The employee should understand the pay system and feel it is a reasonable system for the enterprise and himself or herself.

Some of the additional objectives of compensation management:

- **To Attract Top Talent:** One of the primary goals of compensation should be to recruit qualified talent. When you have a competitive compensation plan in place, you'll be better able to attract top industry talent.
- **To Retain & Reward Personnel:** Don't lose your top talent to your competitors because employees believe that the grass will be greener elsewhere. Find out market values for your employees and pay accordingly. You can also set up pay-for-performance models to drive performance by encouraging associates to reach new goals and push farther.
- **To Boost Motivation:** When structured effectively, your compensation plan can drive motivation across your teams. Employees who know that they're being fairly compensated for their work feel appreciated and are therefore more likely to stay engaged, committed, and productive.
- **To Be Compliant:** Compensation isn't just about being fair within the industry; it must also comply with federal regulations. **To Maximize ROI:** It requires some fine tuning, but compensation management is most effective when you get the biggest bang for your buck.

Basic Components of Employee Compensation
Employee compensation and benefits are divided into four basic categories:

1. **Guaranteed Pay:** A fixed monetary reward paid by an employer to an employee. The most common form of guaranteed pay is base salary.
2. **Variable Pay:** A non-fixed monetary reward paid by an employer to an employee that is contingent on discretion, performance, or results achieved. The most common forms of variable pay are bonuses and incentives.
3. **Benefits:** Programs an employer uses to supplement employees' compensation, such as medical insurance, company car, and more.
4. **Equity-based Compensation:** Stock or pseudo stock programs an employer uses to provide actual or perceived ownership in the company which ties an employee's compensation to the long-term success of the company.

Components of A Compensation System
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...

Main Types of Financial Compensation

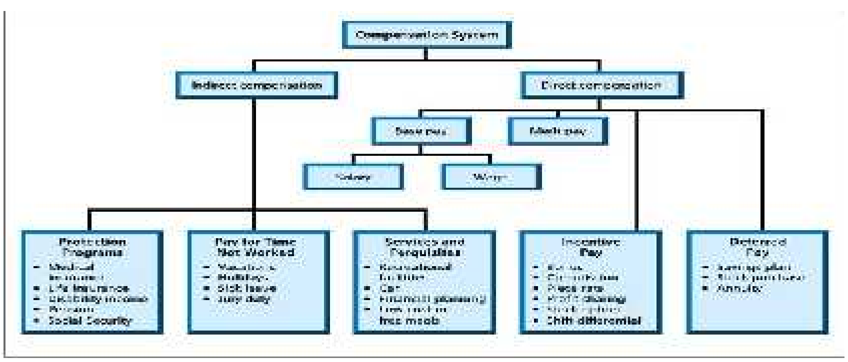
1. **Direct financial compensation** - the pay that a worker receives as wages, salaries, commissions and bonuses, and
2. **Indirect financial compensation** - all financial rewards that are not included in direct compensation.

An example of direct financial compensation is the money the worker receives as wages at the end of the week, or as a salary paid at the end of the month. Many companies pay salaries straight into the employee's bank account.

An example of indirect financial compensation is when the company contributes to an employee's housing subsidy or a pension plan.

Not all compensation is financial. A worker can get great satisfaction from his work and enjoy the environment in which he works. This is called non-financial compensation and cannot be counted in terms of money. For example, a veterinarian might enjoy working outside, going to farms to treat animals and deliver calves. A publisher might enjoy the challenge of producing books that will enrich people's lives.

It is not always possible to provide a perfect pay package (the agreement between the organization and the employee about how much money and other benefits the employee will receive). Because of this, some companies allow their employees to work out their own compensation packages.



Importance of Compensation in the Workplace
Compensation can include monetary and non-monetary components. Compensation often includes an employee’s base salary and additional benefits, such as health insurance, retirement plans and performance bonuses. The compensation packages a business offers to employees affects the company’s recruitment rate, retention rate and employee satisfaction. Several federal laws affect the compensation that businesses offer. A business owner should understand the importance of compensation and the prevailing laws to remain competitive in the market.

Compensation strategy
Defining a compensation strategy is an important activity for all companies, including startups. The compensation strategy must be:

- Affordable for the company

- Reasonably competitive such that it attracts and retains quality people
- Structured to ensure that employees' efforts are directed to achieving the company's goals

Your compensation strategy must be structured to best meet your unique business circumstances. As a startup, you may not be able to compete with large companies on salary. Therefore, you should consider a combination of options to attract and retain key employees.

Do not underestimate the value of the advantages or perquisites that your company has to offer that may not be readily available in larger companies—opportunities for interesting work, lack of hierarchy, flexible environment, and so on.

Some people are motivated by the desire to be on the leading edge of scientific or technological advances. They may take less pay to work for a startup if they believe in its future and the work it has to offer.

Competitive Advantage and Compensation Strategy

Today, the products are similar. It is difficult to distinguish the cars from different car makers. The employees are in the same situation as the consumers. They have the problem to distinguish the employers and they are not able to recognize the excellent organization, when it is not different from the rest. The competitive advantage is the essential part of the mix for the success. The organization has to present itself differently, not just by the presentation, but it should differentiate itself by the different approach toward its employees. The compensation strategy is one of the most successful differentiators.

The excellent compensation strategy does not just differentiate the organization from the other organizations on the job market, it brings the differentiation into the organization as well as the successful employees and top talents feel the success in their pockets.

The effective compensation strategy makes people feel the success and they speak about their successes with their friends. It build the extremely excellent competitive advantage among the competitors as the people feel, the organization really values the success and it can pay the successful employees.

The effective compensation strategy manages the personnel expenses of the organization, but it supports the performance management and differentiates the employees as the successful ones are not motivated to search for a new job opportunity. The good compensation strategy does not provoke employees to search the web job boards during the working hours, it makes them to focus on delivering the results as they can be highlighted and they feel the highlight in their salaries.

The successful compensation strategy gains the competitive advantage and can speed up the innovation processes and improve the performance management practices in the organization.

Compensation in India

Central government employees draw more salary along with benefits than state government employees, compared with private sector employees. There is a particular pay structure fixed for every government employee in India which is not in private companies. The pay structure of government employees in India is as follows

Employee Salary: Basic pay + **Grade pay** + **Dearness Allowance (DA)** + **House Rent Allowance (HRA)** + **City Compensatory Allowance (CCA)**

The details of above said components of salary of government employees are as follows.

- **Basic Pay:** The primary component of employee salary which is bases for calculation of other components in the employee salary.
- **Grade Pay:** An amount which is fixed by the government on the range of employee in government hierarchy. (for example; Group A officers have high grade pay than Group B officers.)
- **Dearness Allowance:** Certain percentage of the amount on basic pay. This percentage varies from state government to Central government employees. An allowance paid to employees on the basis of consumer Price index. Consumer price index denotes the cost of the products which influences by the inflation. (in simple terms cost of living) At present, 41% is for state government employees and 72 % is for Central government employees as dearness allowance on their basic pay.
- **House Rent Allowance (HRA):** Certain percentage of the amount on basic pay. This percentage varies from state government to Central government employees. This allowance is paid to employees are meeting house rent expenditure.
- **City Compensatory Allowance (CCA):** An allowance paid according to the city or town where employee do the job and the purpose of this allowance is to compensate high cost of living especially in cities like Mumbai, Delhi,

IJBARR
E- ISSN -2347-856X
ISSN -2348-0653

Calcutta and Hyderabad et cetera . Government decides the amount of allowance to be paid to employees on basis of city or town.

Today's Modern Compensation Systems

Today the compensation systems are designed aligned to the business goals and strategies. The employees are expected to work and take their own decisions. Authority is being delegated. Employees feel secured and valued in the organization. Organizations offer monetary and non-monetary benefits to attract and retain the best talents in the competitive environment. Some of the benefits are special allowances like mobile, company's vehicle; House rent allowances; statutory leaves, etc.

Conclusion

Compensation is an essential and universal component of the management process of every organization. Most organizations want to fulfill their mission, achieve their objectives and maximize return on their investment, particularly on their human capital. Doing so requires that their compensation philosophy, design, delivery and decisions be balanced, fair, focused, and understood by their employee and potential employee constituencies.

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