FACTORS AFFECTING EMPLOYEE COMPENSATION

The **Compensation** is the monetary and non-monetary rewards given to the employees in return for their work done for the organization. Basically, the compensation is in the form of salaries and wages. There are several internal and external factors affecting employee compensation

1. Internal factors

The internal factors exist within the organization and influence the pay structure of the company. These are as follows:

(i) Ability to Pay- The prosperous or big companies can pay higher compensation as compared to the competing firms whereas the smaller companies can afford to maintain their pay scale up to the level of competing firm or sometimes even below the industry standards.

(ii) Business Strategy- The organization's strategy also influences the employee compensation. In case the company wants the skilled workers, so as to outshine the competitor, will offer more pay as compared to the others. Whereas, if the company wants to go smooth and is managing with the available workers, will give relatively less pay or equivalent to what others are paying.

(iii) Job Evaluation and Performance Appraisal- The job evaluation helps to have a satisfactory differential pays for the different jobs. The performance Appraisal helps an employee to earn extra on the basis of his performance.

(iv) Employee- The employee or a worker himself influences the compensation in one of the following ways.

- **Performance-** The better performance fetches more pay to the employee, and thus with the increased compensation, they get motivated and perform their job more efficiently.
- **Experience-** As the employee devotes his years in the organization, expects to get an increased pay for his experience.
- **Potential-** The potential is worthless if it gets unnoticed. Therefore, companies do pay extra to the employees having better potential as compared to others.

2. External Factors

The factors that exist out of the organization but do affect the employee compensation in one or the other way. These factors are as follows:

(i) Labor Market- The demand for and supply of labor also influences the employee compensation. The low wage is given, in case, the demand is less than the supply of labor. On the other hand, high pay is fixed, in case, the demand is more than the supply of labor.

(ii) Going Rate- The compensation is decided on the basis of the rate that is prevailing in the industry, i.e. the amount the other firms are paying for the same kind of work.

(iii) Productivity- The compensation increases with the increase in the production. Thus, to earn more, the workers need to work on their efficiencies, that can be improved by way of factors which are beyond their control. The introduction of new technology, new methods, better management techniques are some of the factors that may result in the better employee performance, thereby resulting in the enhanced productivity.

(iv) Cost of Living- The cost of living index also influences the employee compensation, in a way, that with the increase or fall in the general price level and the consumer price index, the wage or salary is to be varied accordingly.

(v) Labor Unions- The powerful labor unions influence the compensation plan of the company. The labor unions are generally formed in the case, where the demand is more, and the labor supply is less or is involved in the dangerous work and, therefore, demands more money for endangering their lives. The non-unionized companies or factories enjoy more freedom with respect to the fixation of the compensation plan.

(vi) Labor laws- There are several laws passed by the Government to safeguard the workers from the exploitation of employers. The payment of wages Act 1936, The Minimum wages act 1948, The payment of Bonus Act 1965, Equal Remuneration Act 1976, Payment of Gratuity Act 1972 are some of the acts passed in the welfare of the labor, and all the employers must abide by these.

Thus, there are several internal and external factors that decide the amount of compensation to be given to the workers for the amount of work done by them.

Types of Incentive Schemes: Individual and Group Incentive Scheme

The various types of incentives are classified into two broad categories: financial and non- financial. Here, we are concerned with financial incentives only. Financial incentives may further be classified as individual incentives and group incentives. Both are discussed now one by one.

1. INDIVIDUAL INCENTIVE SCHEME:

Under this plan, employees are paid on the basis of results". The chief incentive plans included in this category are discussed in seriatim.

Taylor's Differential Piece Rate Plan:

This plan was developed by F. W. Taylor, the father of scientific management. Under this plan, Taylor prescribed two piece work rates. One, a higher wage rate for those who reach the standard work. Second, a lower wage rate whose performance is below the standard. The standard work is determined on the basis of time and motion studies. This wage plan encourages and rewards the employees who are efficient by giving them wages at a higher rate. At the same time, the plan penalizes those who are slow performers by paying them at a low wage rate.

Halsey Premium Plan:

This plan, originated by F. A. Halsey, an American engineer, is a combination of the time and the piece wage in a modified form. Under this plan, a guaranteed wage based on past experience is determined. If a worker saves time, he gets 50% of wages for time saved (called premium) in addition to normal wages. It is optional for the worker to work on the premium or not. Thus, this plan also provides incentive to efficient workers.

Rowan Premium Plan:

This plan was developed by D. Rowan in 1901. This plan, to a large extent IS similar to that of Halsey Premium Plan. The only difference is in regard to the determination of the premium. Unlike a fixed percentage in case of Halsey plan, it considers premium on the basis of the proportion which the time saved bears to the standard time.

Emersson Efficiency Plan:

Under this scheme, both standard work and day wage are fixed. Bonus is paid on the basis of worker's efficiency. A worker becomes entitled to get bonus only when his/her efficiency reaches to 67%. The rate of bonus goes on increasing till he achieves 100% efficiency. Above 100% efficiency, bonus will be 20% of the basic rate plus 1% for each 1% increase in efficiency. In this way, at 120% efficiency, a worker receives a bonus of 40% and at 140% efficiency worker gets 60% of the day wage as bonus.

Gantt Task and Bonus Plan:

This plan is devised by H. L. Gantt. This plan combines time, piece wage and bonus. Standard time, piece wage and high rate per piece are determined. A worker who cannot complete standard work within standard time is paid only the minimum guaranteed wage. A worker performing up to the standard level of work gets time wage plus a bonus @ 20% of normal time wage. If the worker exceeds the standard, he is paid a higher piece rate but there is no bonus.

The above mentioned various incentive schemes indicate that the incentive may vary along with variation in earning with changes in performance or output.

Thus, based on linkages between performance and incentive, the various incentive schemes (PBR) may be classified into the four types as follows:

1. Incentives in the same proportion as performance.

2. Incentives varying proportionately less than performance.

3. Incentives varying proportionately more than performance

4. Incentives varying in proportions that varies with levels of performance.

The first of the above mentioned schemes is called the straight proportional scheme while the rest are nomenclature as differential or geared incentive scheme.

CONCLUSION

An employee's performance, or say, output is not exclusively due to his own efforts but is influenced by some other factors also. For example, quality of raw material and equipments, their costs, timeliness of completion of job, etc. do also matter and count in one's performance. Therefore, one's performance must be measured in a holistic sense, taking all the factors into account. It has also been felt, over the years that incentives should be given on the basis of performance measured over an extended period of time (e.g. week, fortnight, month or longer) rather than by hour or day.

The underlying rationale is to sustain higher levels of productivity over a period of time and also maintain a measure of stability of employee performance and earnings. But, the duration between performance duration and incentive, i.e. reward should not be unduly lengthened; otherwise it may dampen employee motivation. Therefore, it has been suggested that incentives should be given to the employees at least on a monthly basis.

2. Group Incentive Schemes:

The incentive schemes can be applied on a group basis also. Group incentive schemes are appropriate where jobs are interdependent. It is difficult to meaningfully measure individual performance and group pressures affect the performance of the members of the group. The chief group incentive schemes are discussed here.

Profit-sharing:

The concept of profit-sharing emerged towards the end of the nineteenth century. Profit-sharing, as the name itself suggests, is sharing of profit of organisation among employees. The International Co-operative Congress" held in Paris in 1889 considered the issue of profit-sharing and defined it as "an agreement (formal or informal) freely entered into by which an employee receives a share fixed in advance of the profits". Both the share (percentage) of profit to be shared by employees and mechanism for its distribution are determined in advance and also made known to the employees. In order to be eligible to participate in profit-sharing. An employee needs to serve for a certain number of years and, thus, earn some seniority.

Co-partnership:

In a way, co-partnership is an improvement over profit-sharing. In this scheme, employees also participate in the equity capital of a company. They can have shares either on the basis of cash payment or in lieu of other incentives payable in cash like bonus. Thus, under co-partnership scheme, employees become shareholders also by having company shares. Now, employees participate in both —profits and management of the company. The finer points of this scheme are that it recognizes the dignity of labour and also of a partner in the business. This would, in turn, develop a sense of belongingness among the employees and encourage them to contribute their best for the development of the organisation.

Scanlon Plan:

The Scanlon plan was developed by Joseph N. Scanlon, a Lecturer at the Massachusetts Institute of Technology in USA in 1937. The plan is essentially a suggestion scheme designed to involve the workers in making suggestions for reducing the cost of operation and improving working methods and sharing in the gains of increased productivity.

The plan is characterised by two basic features. First, both employees and managers can participate in the plan by submitting their suggestions for cost-cutting methods. Second, increase in efficiency on account of cost-cutting is shared by the employees of the unit.

The Scanlon plan, wherever adopted, has been successful to encourage a sense of partnership among employees, improved employee-employer management relations, and increased motivation to work.

CONCLUSION

The criticism labelled against group incentive is that the incentive benefits being similar to all members of the group, the best performers may loose incentive. However, this can be overcome if group incentive scheme generates peer-level pressure for superior performance and also reduces the need for supervision. Stability in group may be a necessary condition to make the group incentive scheme successful.

As regards the ultimate impact of incentives on organisational performance, the research studies" conducted in India report that incentive schemes have a positive impact on productivity, labour cost, and industrial relations. It is concluded that "money" has a "salutary" impact on production.

RECENT TRENDS IN COMPENSATION MANAGEMENT

Human needs are continuosly changing with time .This includes need of recognition as well.In order to promote Happy Productivity among employees , organizations have developed certain compensation package .A list of such package may include

Work life balance

Pay Transperancy

Flexi Work Hours

Work From Home

Child Care Facility

Medi Claim

Paid Holidays

Birthday Gifts.Etc.