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**Introduction to Compensation Management, Components of employee and Executive Compensation**

In simple terms, compensation is everything that a company offers its employees in return for their talent and time. When organized the right way, compensation dollars can be strategically leveraged to reduce turnover, boost employee engagement and attract top talent. The purpose of compensation management is to make the most of company dollars in a way that rewards employees for their work.

Compensation management is the act of distributing some type of monetary value to an employee for their work by means of the company’s policy or procedures. In basic terms, it is paying an employee based upon the decided pay and benefit package for the position. The goal of compensation management is to find quality people who perform quality work and then compensate them in order to retain them and reduce turnover rates. Some different types of compensation include salary, overtime pay, commission, bonuses, and benefits packages that might include health and dental insurance, vacation time, and retirement savings.

**Importance of Compensation Management**

1. Compensation management makes a company vigilant. It drives managers to be on the look out for star performers who must be given rewards for their efforts, which ultimately decreases the risk of losing a valuable employee.
2. It is positive reinforcement. Yes, money doesn’t make the world go round and if line managers are not friendly, helpful and supportive retention is difficult. But cash prizes and consistent monetary perks in conjunction with a great work environment allow companies to grow by leaps and bounds through motivated, hard working employees.
3. Compensation management enhances the company’s reputation. When workers are satisfied with their monetary and intangible rewards, they attract better prospects for vacant positions, bringing new, fresh talent to the organization.

**The basic components of employee**

Employee compensation and benefits are divided into four basic categories:

1. **Guaranteed pay:**A fixed monetary (cash) reward paid by an employer to an employee. The most common form of guaranteed pay is base salary. Guaranteed pay also includes cash allowances (housing allowance, transport allowance, etc.), differentials (shift differentials, holiday differentials) and premiums (overtime, night shift, etc.)
2. **Variable pay:**A non-fixed monetary (cash) 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 paid time off, 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. The most common examples are stock options.

**Components Executive Compensation**

4 Main Components of Executive’s Compensation

1. **A basic salary**

A basic salary this is regarded as a “fixed” element of pay and it does not normally vary in relation to company performance. Since salary establishes the executive’s basic standard of living, it is necessary for both high and low-performing firms to pay at the going market rates.

1. **Short-term incentives**

Short-term incentives are generally awarded annually. Award opportunities reflect hierarchical position relationship in most cases with higher opportunities relative to salary for higher-level positions and vice versa.

1. **Long-term incentives**

Long-term incentives generally refer to grants or awards where the payment is based on performance for a period beyond one year.

The chief grant types fall into three broad categories-stock-price appreciation grants, restricted stock or cash grants and performance-based grants.

1. **Benefits/Perquisites**

The last component of an executive’s total compensation package consists of a wide variety of benefits and perquisites. It is difficult to quantify benefits due to lack of reliability of data. These benefits include company cars, club membership, spouse travel, housing accommodation etc.’

**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, which are discussed in detail below.



**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.

**Employee incentive Schemes**

**Employee incentive schemes** are a great way to motivate and reward staff for their hard work, whilst also boosting productivity and raising morale.

Employee incentives can be defined as a system by which the employees get rewarded for their success and hard work in the workplace. The incentives include various prizes and the recognition among others.

Incentive schemes for employees can vary from business to business and can include both monetary and non-monetary rewards. They are usually implemented within a specific time frame and encourage staff to work towards specific targets.

**The following are various employee incentives**

1. **Compensation incentives**

The compensation incentives may include bonuses, signing bonus, sharing profit and many other stock options. The compensation incentive as the name itself says is about compensating in terms of anything like extra money, rise in the salary and also sharing the profits of company in the proportion decided by the company in its plan or the schedule.

1. **Recognition incentives**

When the employees are recognized in front of whole staff, it is basically the recognition incentive. It includes the actions like thanking, presenting or praising employees by an achievement certificate. Not just this, the company’s manager may even announce the accomplishment of an employee in one of the important meetings.

1. **The reward incentives**

The reward incentives would specifically include the awards to be given to the employees. The awards could be in any form like gifts, special certificates, and monetary rewards and so on. Not just this but some companies make use of the employee referral awards which are used to refer the jobs to some employees. The reward incentives encourage the employees and also keep them away from the boredom.

1. **Appreciation incentives**

When the employees get appreciated for delivering good results or for achieving the goal, it is referred to as appreciation incentives. But now days the definition of appreciation incentives has changed to larger extent and it means joining the company parties, the birthday, anniversary celebrations, paid group lunches, sporting events, ice cream socials and so on.

1. **Offering employee’s equity**

Although this is entirely a new concept but many CEO’s have found a way out on how to spin the wheel while proving these incentives to the employees.

**Set up an Employee Incentive Scheme**

Setting up your own employee reward scheme will allow you to be as creative as possible with your employee benefits, as well as specifically tailoring them to the needs of your business. In order to create a successful incentive scheme for employees, there are a few things you need to consider:

**(I) Set objectives**

First, decide what it is that you want to gain from the scheme. Whether you want to improve staff skills, increase your margins or lower your employee turnover, be sure to know what it is you want to gain from the incentive scheme. By knowing this at the beginning, you will be in a better position to measure its success.

**(ii) Set targets**

You need to set targets that will be specific to each team and/or individual. It’s important that everyone feels involved but make sure that you create different schemes tailored to different people or teams. This will ensure no one is left feeling alienated, and that everyone can get the most out of their scheme. A poorly tailored employee reward scheme could lead to employees feeling cheated and dissatisfied, thus not solving the issue.

When you set targets, be sure to communicate them clearly to all employees so they know what they can get from the scheme. Also be aware of the difference between ambitious and achievable targets.

**(iii) Set a time frame**

Creating a clear time frame not only keeps everyone in the loop but also allows individuals to assess the amount of work that needs to be done. This also means that you can resist the urge to micromanage employees and split long-term goals into shorter ones. By providing short-term goals in this manner, you will be able to better manage the progress towards your long-term goals, without your employees losing focus.

**(iv) Define rewards**

When it comes to showing your appreciation, be creative with your rewards. Monetary rewards are an easy incentive, but it’s still important to ask your employees what they would want. Perhaps give them a few options and let them choose which incentive they would prefer. By selecting an incentive they actually want, they’ll be much more motivated to work towards their targets.

Non-monetary rewards are sometimes a better option as they can promote a better work ethic. Examples include;

* Giving praise
* Increasing the number of paid holiday days
* Giving more autonomy in their current role

**(v) Measure success**

In order to know how well your reward scheme is working, you need to measure its success. You need to make sure that your method of measuring is specifically tailored to your business and your schemes in order to accurately establish whether or not it was worth it.

**Recent Trends in Compensations Management**

We saw some long-anticipated predictions materialize in 2018. We can expect to see these exciting transitions continue this year as we move into the Fourth Industrial Revolution, which has launched many deep and thoughtful conversations on thriving in a world that is rapidly becoming reliant on digital technology.

**FLEXIBILITY**

Today’s technology is enabling more and more professionals to change their mindsets about giving up full-time employment for contract-based opportunities that offer greater control over their time, growth, education, and job security. This trend is largely being driven by those with bulkier resumes and longer tenures especially in STEM (science, technology, engineering and mathematics) industries. The job market is filling up with new and exciting endeavours, but there are a limited number of qualified professionals to fill the need.

Managing contractors – who may only be around for 6-12 months – requires a creative and systematic approach to crafting fair pay and benefits arrangements that can attract, motivate, and protect them. Note that a majority of these employees will be in life stages where time for family and personal growth will take priority. But, the returns to reap can be vast and game-changing for your organization.

Engaging contingent workers can reduce overhead costs, especially for tax and infrastructure expenses. Their valuable experiences and insights can introduce much-needed diversity, dynamism, and agility to your business, and provide cost-effective learning and innovation initiatives. Moreover, they could become ambassadors for the culture and brand, which can boost your organization’s reputation and staffing objectives.

**TECHNOLOGY**

The concept of having greater flexibility in the workplace has been brewing for a long time, but the administrative demands for implementing custom arrangements was a minefield. Nowadays, however, with the world changing at a breakneck speed, organizations have to be ever more robust.

A mere ten years ago, digital spreadsheets and automated charts were all it took to enable pay strategies. Now there are powerful compensation software products to help perform this task. These can not only implement flexible arrangements but more importantly, integrate seamlessly between systems and process, thus enabling linkages between job levelling, market benchmarking, and compensation analytics. This gives compensation professionals increased opportunities to strategize further and determine timely solutions that could give more bang for buck, not to mention save countless hours of manual administration.

**PERSONALIZATION**

Many of the hybrid jobs that now exist weren’t even offered five to ten years ago. These roles will continue to evolve as we speed through the 21st century, which will call for an overhaul of the traditional compensation mindset.

Professionals have previously been content to take their salary and expect an across-the-board approach to pay increases and rewards. But as flexibility in the workplace becomes the norm, employees will also want their compensation and benefits packages to become more personalized.

Organizations will see analytics strongly recommending actions to maximize on human capital by adopting skills-based performance evaluation; customizing pay and benefits to address the employee’s life stage and personal needs; and creating alternative paths of career growth.

It will be worthwhile revisiting your Employee Value Proposition (EVP) and to consider creating customized rewards programmes for the top talent that are vital to your organization. Supplementing analytics with employee insights could steer your EVP towards a more meaningful goal for both the business and your workforce.

**HEALTH AND WELLNESS**

While rapid technological advancements of this era have helped to streamline systems and processes, they have also made the global marketplace even more competitive and demanding. According to our 2016 Staying@Work Survey, over 50% of employees say their jobs are a primary source of stress, especially in companies where there is less regard or prioritization of personal safety, health, and wellbeing. Numerous studies have linked workplace stress with various medical conditions, including cardiovascular disease, obesity, diabetes, hypertension, certain types of cancer, and mental health issues.

However, many employers still view health and wellness as an individual responsibility, preferring to stick with mostly hands-off approaches like providing medical insurance, sick leaves, and occasional off-site activities.

On the other hand, there is evidence that management-led health and wellness programmes, which are thoughtfully planned and coordinated, result in a happier and healthier workplace – with less distress, higher engagement and increased wellbeing. Productivity can be enhanced, and both hard and soft health care costs would decrease.” Successful health and productivity strategies have resulted in 6.5 fewer missed work days, twice higher engagement on the job, 25% fewer employees with hypertension, 24% fewer employees with high blood sugar levels, and 50% higher revenue per employee, among many other benefits.

**PAY AND TRANSPARENCY**

Base salary continues to be the number one driver of attraction and retention for employees in Asia Pacific. It is as crucial as ever to not only get your compensation

**Right:** But to ensure you are communicating openly and honestly to your workforce about pay. People now know that performance evaluation is a two-way street.

**Meaning and Nature of Employee Relation and Industrial Relations**

**Employee Relation**

The term ’employee relations’ refers to a company’s efforts to manage relationships between employers and employees. An organization with a good employee relations program provides fair and consistent treatment to all employees so they will be committed to their jobs and loyal to the company. Such programs also aim to prevent and resolve problems arising from situations at work

Employee relations has become one of the most delicate and complex problems of modern industrial society. Industrial progress is impossible without labour management cooperation and industrial harmony. Therefore, it is in the interest of all to create and maintain good relations between employers and employees.

Employer-employee relations mean the relationships between employers and employees in industrial organizations. According to Dale Yoder, the term employer-employee relations refers to the whole field of relationship among people, human relationship that exist because of the necessary collaboration of men and women in the employment process of modern industry.

**Nature of Employee Relation**

1. Employer-employee relations are the outcome of the employment relationship in industry. These relations cannot exist without the two parties—employer and employees.” It is the industry which provides the setting for employer-employee relations.
2. Employer-employee relations include both individual relations as well as collective relations. Individual relations imply relations between employer and employees. Collective relations mean, relations between employers’ associations and trade unions as well as the role of the State in regulating these relations.
3. The concept of employer-employee relations is complex and multi-dimensional. The concept is not limited to relations between trade unions and employer but also extends to the general web of relationships between employers, employees and the Government. It covers regulated as well as unregulated, institutionalized as well as individual relations. These multi-pronged relationships may be in organized or unorganized sector.
4. Employer-employee relations is a dynamic and developing concept. It undergoes change with changing structure and environment of industry. It is not a static concept. It flourishes or stagnates or decays along with the economic and social institutions that exist in a society. The institutional forces give content and shape to employer-employee relations in a country.
5. Strictly speaking a distinction can be made between human resource management and employer-employee relations. Human resource management deals mainly with executive policies and activities regarding the human resource aspects to the enterprise while employer-employee relations are mainly concerned with employer-employee relationship. Human resource management refers to that part of employment relations which is concerned with employees as individuals, collective or group relationship of employees and employers constitute the subject matter of employer-employee relations.
6. Employer-employee relations do not function in a vacuum. These are rather the composite result of the attitudes and approaches of employers and employees towards each other. Employer-employee relations are an integral part of social relations. According to Dr. Singh (Climate for Industrial Relations, 1968) the employer-employee relations system in a country is conditioned by economic and institutional factors.

Economic factors include economic organizations (capitalist, socialist, individual ownership, company ownership, and Government ownership), capital structure and technology, nature and composition of labour force, demand and supply of labour. Institutional factors refer to state policy, labour legislation, employers’ organizations, trade unions, social institutions (community, caste, joint family, and religions), attitudes to work, power and status systems, motivation and influence, etc.

1. Several parties are involved in the employer-employee relations system. The main parties are employers and their associations, employees and their unions, and the Government. These three groups interact within the economic and social environment to shape the employer-employee relations system.
2. The main purpose of employer-employee relations is to maintain harmonious relationships between management and labour. The focus in these relationships is on accommodation. The parties involved develop skills and methods of adjusting to or cooperating with each other. They also attempt to solve their problems through collective bargaining. Every employer-employee relations system creates a complex set of rules, regulations and procedures to govern the workplace.

**Industrial Relations (IR)**

The term industrial relations explain the relationship between employees and management which stem directly or indirectly from union-employer relationship. Industrial relations are the relationships between employees and employers within the organizational settings.

Basically, IR sprouts out of employment relation. Hence, it is broader in meaning and wider in scope. IR is dynamic and developing socio-economic process. As such, there are as many as definitions of IR as the authors on the subject. Some important definitions of IR are produced here.

According to Dale Yoder’, IR is a designation of a whole field of relationship that exists because of the necessary collaboration of men and women in the employment processes of Industry”.

Encyclopedia Britannica defined IR more elaborately as “The concept of industrial relations has been extended to denote the relations of the state with employers, workers, and other organizations. The subject, therefore, includes individual relations and joint consultation between employers and workers at their places of work, collective relations between employers and trade unions; and the part played by the State in regulating these relations”.

**Nature of Industrial Relation**

 (i) To create healthy relations between employees and employers.

(ii) To minimize industrial disputes.

(iii) To generate harmonious relations among all concerned with production process.

(iv) To improve the productivity of workers.

(v) To provide workers their appropriate position by considering them partners and associating them with management process.

(vi) To provide the workers their due profit share, improve their working conditions and thereby eliminating the chances of strikes and lockout etc.

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