Outcome of this Presentation

This Presentation will cover CO5

Statement of CO5 is as follows:

Graduate engineer will be familiarized with the issues in wage administration, Bonus, Incentives, performance appraisal Fringe & retirement terminal benefits.

Compensation

•Compensation is what the employees receive in exchange for their contribution to the organization.

•Generally, employees offer their services for three types of rewards.

•Pay refers to basic wages and salaries normally receive.

•Incentives forms such as bonus, commission and profit sharing plans are incentives designed to encourage the employees to produce the results beyond the normal expectation.

•Benefit such as insurance, medical, recreational, retirement etc represent a more indirect type of compensation.

•So the term compensation is a comprehensive one including the pay, incentives, benefits offered by employees for hiring the services of employees.

Job Evaluation

Job evaluation is the output provided by job analysis. Job analysis describes the duties of a job, authority relationships, skills, required, conditions of work and additional relevant information. Job evaluation, on the other hand, uses the information in job analysis to evaluate each job-valuing its components and ascertaining relative job worth. It involves a formal and systematic comparison of jobs in order to determine the worth of one job relative to another, so that the wage or salary can be fixed. So it is a process by which jobs in an organization are appraised.

It is the process of analyzing and assessing the various jobs systematically to ascertain their relative worth in an organization. Jobs are evaluated on the basis of their content and are placed in the order of importance. Inn this way, a job hierarchy is established in the organization, the purpose being fixation of satisfactory wage differential among various jobs. It is the job that is ranked and not the holders.

Methods of Job Evaluation

Non-analytical Methods

Ranking Method
Job Classification or Job-grading Method

Analytical Method

Point Ranking Method
Factor Comparison Method

Some Important Terms

Basic Wage: The base rate is the amount of pay (the fixed salary or wage) that constitutes the rate for the job. It may be varied according to the grade of the job or, for shop floor workers, the level of skill required. Base pay will be influenced by internal and external relativities. The internal relativities may be measured by some form of job evaluation. External relativities are assessed by tracking market rates. Alternatively, levels of pay may be agreed through collective bargaining with trade unions or by reaching individual agreements.

Dearness Allowance (DA): It is the allowance paid to employees in order to enable them to face the increasing dearness of essential commodities. It serves as a cushion, a sort of insurance against increase in price levels of commodities. Instead of increasing wages every I there is a rise in price levels, DA is paid to neutralize the effects of inflation; when prices go down, DA can always be cut down to size.
DA is linked in India to three factors: the index factor, the time factor and the point factor.

Overtime Payments*:* Most manual workers are eligible for paid overtime as well as many staff employees up to management level. Higher-paid staff may receive time off in lieu if they work longer hours. Typically, organizations that make overtime payments give time and a half as an overtime premium from Monday to Saturday, with double time paid on Sundays and statutory holidays. Some firms also pay double time from around noon on Saturday. Work on major statutory holidays such as Christmas Day and Good Friday often attracts higher overtime premia.

Allowances

Allowances can be defined as the amount of something that is allowed, especially within a set of rules and regulations or for a specified purpose. Various allowances are paid in addition to basic pay.

Some of these allowances are as follows –

Dearness Allowance – This allowance is given to protect real income of an employee against price rise. Dearness allowance (DA) is paid as a percentage of basic pay.

House Rent Allowance – Companies who do not provide living accommodation to their employees pay house rent allowance (HRA) to employees. This allowance is calculated as a percentage of salary.

City Compensatory Allowance – This allowance is paid basically to employees in metros and other big cities where cost of living is comparatively more. City compensatory allowance (CCA) is normally a fixed amount per month, like 30 per cent of basic pay in case of government employees.

Transport Allowance/Conveyance Allowance – Some companies pay transport allowance (TA) that accommodates travel from the employee's house to the office. A fixed amount is paid every month to cover a part of traveling expenses.

Bonus & Incentives

Bonus is the extra payment or financial component which is received as a reward for doing one's job well. Bonus usually comes along with salary of the employee. It is the gesture of appreciation from the organization towards their employees.

Incentives are paid in lieu of superior performance shown by an employee. It is like a reward paid for performance. They are paid as a means to attract, motivate and retain employees. Incentive pay plans can elicit strong feelings. Incentive pay plans is based on the philosophy that a fair day's work is not normally attainable without some proportion of pay being at risk because time based workers produce only about 50 to 60 percent of the output of incentive pay workers. Incentives can be broadly classified into financial and non-financial incentives. Financial incentives are the monitory benefits provided to employees for their superior performance whereas non-financial incentives are those incentives that satisfy social and psychological and esteem needs of an employee.

One of the main differences that exist between bonuses and incentives is that a **bonus plan grants to an individual only after a task completed** by the person. On the other hand, **incentive pay mentions to the employees much before they have started working on the task**

Fringe Benefits

- The term, fringe benefits, refers to various extra benefits provided to the employees, in addition to the compensation paid in the form of wage or salary. These benefits can be defined as any wage cost not directly connected with the employees' productive effort, performance, service or sacrifice. It is also defined as those benefits which are provided by an employer to or for the benefit of an employee and which are not in the form of wages, salaries and time-related payments.

- Different terms are used to denote fringe benefits. They include social security measures, social charges, welfare measures, supplements, workers' benefits, etc.

- We can thus conclude that fringe benefits include both monetary and non-monetary benefits given to the employees during and post-employment period of the employee.

Fringe and Retirement terminal benefits

- Fringe benefits are often augmented by special cash benefits, by the provision of medical and other services or by payments in kind, that form part of the wages for expenditure on the goods and services. In addition, workers commonly receive such benefits as holiday with pay low cost meals, low rent housing, etc. Such additions to the wages proper are sometimes referred to as fringe benefits even though they may constitute a significant part of the worker's total income.

- Retirement benefits are benefits payable to the member of the pension scheme on retirement or earlier withdrawal from service, including retirement pensions; retirement lump sums or gratuities; benefits (such as dependants' pensions) payable following the member's death in retirement and periodic increases on all pensions whilst in payment.

Characteristics of wage administration

1. Payment of wages is in accordance with the terms of contract between the employer and the worker.
2. The wages are determined on the basis of time-rate system or piece-rate system.
3. Wages change with the change in the time spent by the labourer.
4. Wages create utility.
5. Wages may be paid weekly, fortnightly, hourly, or on monthly basis.
6. Wage is the reward paid to the workers for the services rendered by them.
7. Wages can be paid in cash or in kind.
8. All kinds of allowances are included in wages.

Issues in wage administration

1. Wage and Salary Level

2. Wage and Salary Structure

3. Wage Fixation for Individual Employees

4. Methods of Wage Payment

5. Compensation for Executives and Managerial Personnel

6. Control

THANK YOU