

Remuneration and components of compensation

Module 4_Session 2

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Content to be covered

- Remuneration
- Wage administration
- Principles of WA
- Components of compensation

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Remuneration

Base Compensation

- Refers to basic pay in the form of wages and salaries
- Wages and salaries are paid in cash
- Paid to compensate employees for their services.
- Determined on the basis of job evaluation and other relevant factors.

Supplementary Compensation

- Means fringe benefits paid in addition to wages and salaries – housing, medical aid.
- Fringe benefits are paid in kind.
- Paid to retain employees and increase their efficiency.
- Depends mainly on the company's policies and needs.

Wage and Salary Administration

- Employee Compensation may be classified into types – base compensation and supplementary compensation.
- ❑ **Base Compensation** – refers to monetary payments to employees in the form of wages and salaries. The term ‘wages’ implies remuneration to workers doing manual work measured in terms of number of hours worked.
- ❑ **Supplementary Compensation** – signifies incentive payments based on actual performance of an employee or a group of employees.
- ❑ The term compensation administration or wage and salary administration denotes the process of managing a company’s compensation programme. The goals of compensation administration are to design a cost-effective pay structure that will attract, motivate and retain competent employees.

Objectives of Wage and Salary Administration

- ❖ To establish a fair and equitable remuneration offering similar pay for similar work.
- ❖ To attract qualified and competent personnel.
- ❖ To retain the present employees by keeping wage levels in tune with competing units.
- ❖ To control labour and administrative costs in line with the ability of the organisation to pay.
- ❖ To improve motivation and morale of employees and to improve union-management relations.
- ❖ To project a good image of the company and to comply with legal needs relating to wages and salaries.

Principles of Wage and Salary Administration

1. Wage and salary plans should be sufficiently flexible.
2. Job evaluation must be done scientifically.
3. Wage and salary administration plans must always be consistent with overall organizational plans and programmes.
4. Wage and salary administration plans and programmes should be responsive to the changing economic, social and national conditions.
5. These plans should simplify and expedite other administrative processes.

Components of Compensation

Monetary compensation package of employees generally consists of the following components:

1. Basic Pay
2. Allowances
3. Incentives
4. Fringe Benefits/ Prequisites



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Components of Pay Structure in India

- The pay structure of a company depends on several factors such as labour market conditions, company's paying capacity and legal provisions.
- **Basic Wages:**
- The basic wage in India corresponds with what has been recommended by the Fair Wages Committee (1948) and the 15th Indian Labour Conference (1957).
- The various awards by wage tribunals, wage boards, pay commission reports and job evaluations also serve as guiding principles in determining 'basic wage'.
- While deciding the basic wage, the following criteria may be considered:
 - (i) Skill needs of the job;
 - (ii) Experience needed;
 - (iii) Difficulty of work: mental as well as physical;
 - (iv) Training needed;
 - (v) Responsibilities involved;
 - (vi) Hazardous nature of job.

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