

LECTURE 2: COMPENSATIONS AND WAGES MANAGEMENT

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For Students of 1 Master, HRM

Course: Wages and incentives management

WAGE LEVEL



What is a Wage Level?

- The 'wage levels' represent the money an worker makes in a geographic area or in his organization. It is only an average; specific markets or firms and individual wages can vary widely from the average.



What is a Wage Rate?

- A **wage** is an amount of money paid to a worker for some specified quantity of work. When expressed with respect to time, it is typically called the wage rate.
- The **wage rate** is the pre-tax amount of payment, usually monetary, paid per unit of labor.



WAGE DIFFERENTIAL

- A wage differential refers to the difference in wages between people with similar skills within differing localities or industries. It can also refer to the difference in wages between employees who have dissimilar skills within the same industry.



WAGE DIFFERENTIAL

- It is generally referenced when discussing the given risk of a certain job. In other Words Wage differential is a term used in labor economics to analyze the relation between the wage rate and the unpleasantness, risk, or other undesirable attributes of a particular job.



WAGE AND SALARY ADMINISTRATION.



Wage and salary administration definition

- It is a collection of practices and procedures used for planning and distributing company-wide compensation programs for employees. These practices include employees at all levels and are usually handled by the accounting department of a company.



Wage and Salary Administration – Nature

- 1. To establish and maintain an equitable wage and salary structure.
- 2. It is concerned with the establishment and maintenance of equitable labor cost structure i.e. an optimal balancing of conflicting personnel interest so that the satisfaction of the employees and employers is maximized and conflicts are minimized.



WAGE AND SALARY ADMINISTRATION – NATURE

- 3. It is concerned with the financial aspects of needs, motivation and rewards.
- 4. Employees should be paid according to the requirements of their jobs i.e. highly skilled jobs are paid more compensation than low skilled jobs.
- 5. To minimize the chances of favoritism.



Wage and Salary Administration – Objectives

- To compare or draft company HR policy
- Find out the income level and return ratio of similar industries
- To understand wage differentiations
- To establish hiring rates favorable to the community



WAGE AND SALARY ADMINISTRATION – OBJECTIVES

- To keep abreast wage and salary rates with production cost
- To minimize labor turnover due to pay disparity
- To increase employee's satisfaction and morale
- To learn about the trend of perks and benefits in the market
- To resolve existing labor problems concerning compensation.



FRINGE BENEFITS

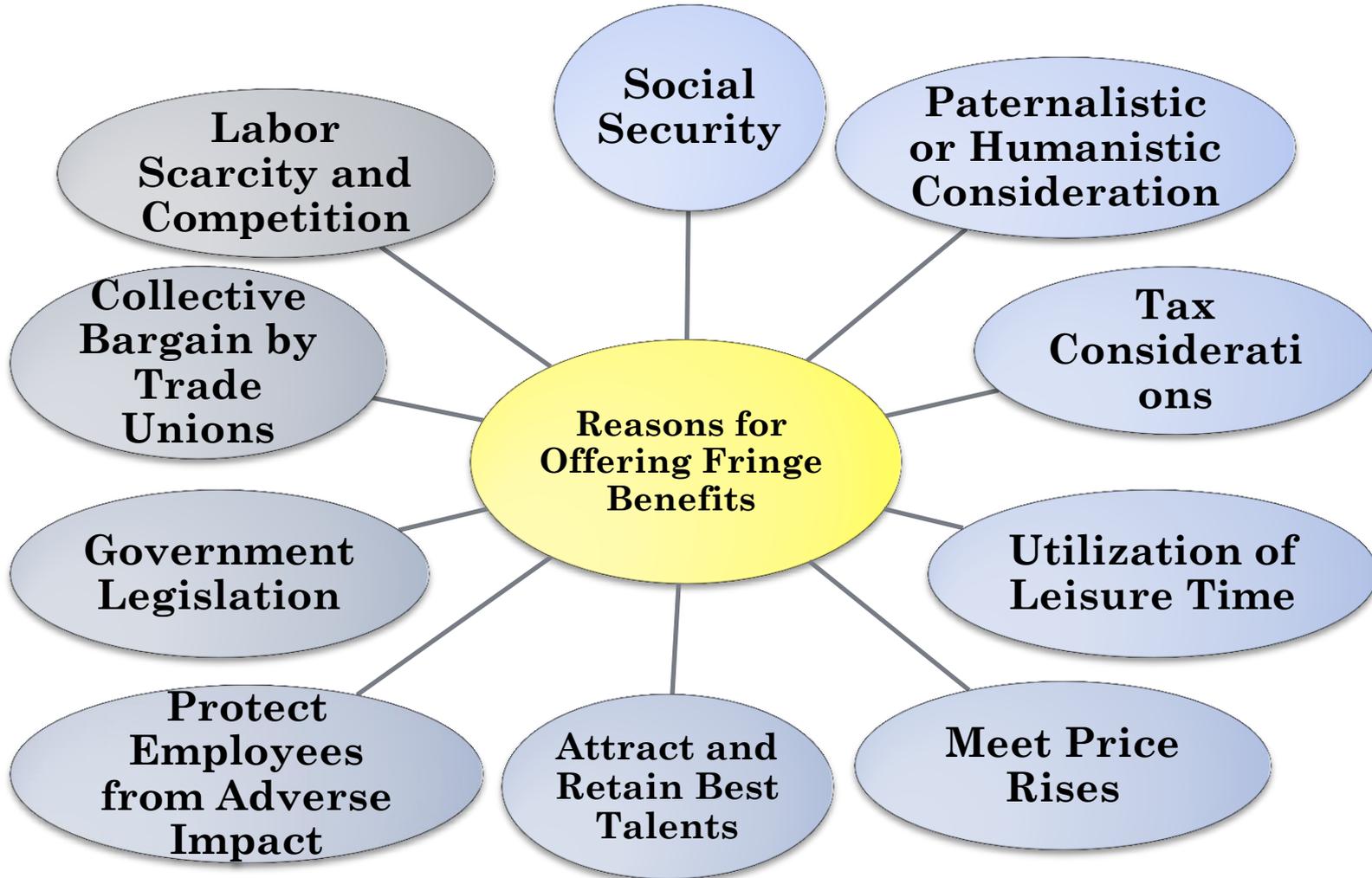


Fringe Benefits means

- Fringe benefits are indirect form of compensation given to employees in addition to the various forms of cash pay-base pay, dearness allowance and incentive pay.
- They provide a quantifiable value for individual employees.
- They are the indirect form of compensation as they are not related to the performance but are granted to the employees for just being a member of the organization.



Reasons for Offering Fringe Benefits



REASONS FOR OFFERING FRINGE BENEFITS

Social Security

- Social security refers to the protection which society provides for its members through a series of public measures against the economic and social distress that otherwise would be caused by the stoppage or substantial reduction of earnings resulting from sickness, maternity, employment injury, unemployment, invalidity, old age and health.

Paternalistic or Humanistic Consideration

- Historically, fringe benefits were introduced with humanistic considerations to support wage compensation with certain infrastructure or facilities to provide for health, education and housing as also social, cultural, religious and recreational activities.



REASONS FOR OFFERING FRINGE BENEFITS

Tax Considerations

- There are individual and organizations to develop ingenious methods of avoiding the obligations through restructuring the pay packet. The various fringe benefits like house rent, education expenses, travel charges and many more are shown as reimbursement of expenditures

Utilization of Leisure Time

- There is awareness about the effects of off-duty life style on working life and vice versa. The importance of leave and holidays for rest and recuperation is increasingly being understood.



REASONS FOR OFFERING FRINGE BENEFITS

Labor Scarcity and Competition

- Labor scarcity and competition for **qualified personnel** has led to the initiation, evolution and implementation of a number of compensation plans. For example, company housing, liberal loan facilities, construction of schools or re-imbursement of education expenditure, membership in clubs/professional associations, sponsorship for training and conference abroad etc

To Meet Price Rises

- Rising prices and cost of living has brought about **incessant demand for provision** of extra benefit to the employees



REASONS FOR OFFERING FRINGE BENEFITS

To Attract and Retain Best Talents

- As organizations have developed more elaborate fringe benefits programs for their employees, greater pressure has been placed upon competing organizations to match these benefits in order to attract and keep employees.

To Protect Employees from Adverse Impact

- Rapid industrialization, increasingly heavy urbanization and the growth of a capitalistic economy have made it difficult for most employees to protect themselves against the adverse impact of these developments. As a result, some benefits-and-services programs were adopted by employers.

REASONS FOR OFFERING FRINGE BENEFITS

Due to Government Legislation

- The growing volume of labor legislation, particularly social security legislation, made it imperative for employers to share equally with their employees the cost of old age, survivor and disability benefits.

Collective Bargain by Trade Unions

- The growth and strength of trade unions has substantially influenced the growth of company benefits and services.



CAFETERIA APPROACH

- In Cafeteria benefit plan the employees could spend their benefits, allowances on a choice of benefits options. The idea is to allow the employee to put together his/her own benefit package subject to two constraints-
- 1. The employer must carefully limit total cost for each total benefit package.
- 2. Each benefit plan must include certain non-optional items.



ADVANTAGES OF CAFETERIA APPROACH

- 1. Employees choose packages that best satisfy their unique needs.
- 2. Flexible benefits, help firms need the changing needs of a changing workforce.
- 3. Increased involvement of employees and families improves understanding of benefits.
- 4. Flexible plans make introduction of new benefits less costly.
- 5. Cost containment- the organization sets the amount maximum. Employee chooses within the constraint.



DISADVANTAGES OF CAFETERIA STYLE

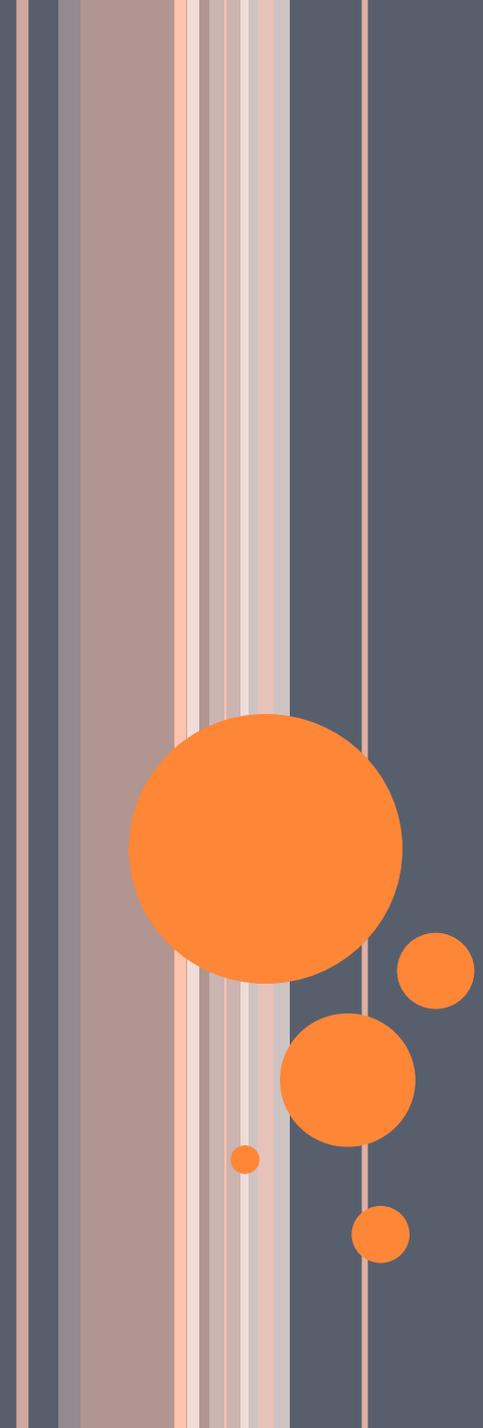
- 1. Employees made bad choices and find themselves not covered for predictable emergencies.
- 2. Administrative burdens and expenses increase.
- 3. Adverse selection- employees pick only benefits they will use. The subsequent high benefit utilization increases its cost.



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