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**Unit-I**

**Basic Concepts**

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# Basic Concepts

Compensation management is a critical aspect of human resource management that involves designing, implementing, and administering a company's employee pay and benefits programs. It encompasses the strategies, policies, and processes used to attract, retain, and motivate a skilled and productive workforce. This holistic approach ensures fair and equitable compensation that aligns with the organization's goals, market conditions, and legal requirements.



# The Purpose and Structure of Compensation Management

## Purpose

The primary purpose of compensation management is to create a system that supports the organization's strategic objectives and maintains a competitive advantage in the talent market. It aims to attract, retain, and motivate employees by providing fair and equitable pay, benefits, and incentives that are aligned with their skills, experience, and performance.

## Structure

Compensation management typically involves the following key components: base salary, bonuses, commissions, incentives, stock options, retirement plans, health and welfare benefits, and other perks. The structure of a compensation package is designed to balance the needs of the organization and the individual employee, while adhering to relevant laws and regulations.

## Alignment

Effective compensation management aligns employee rewards with the organization's strategic goals, such as increased productivity, improved customer satisfaction, or innovation. By linking compensation to performance, companies can motivate employees to contribute to the overall success of the business.

# Understanding Wages and Salaries

## 1 Wages

Wages refer to the hourly or daily rate of pay that an employee receives for their work. Wages are typically calculated based on the number of hours worked and are often subject to overtime pay and other legal requirements.

## 2 Salaries

Salaries, on the other hand, are a fixed amount of compensation paid to an employee on a regular basis, typically monthly or annually. Salaried employees are often exempt from overtime pay and may receive additional benefits such as health insurance and retirement plans.

## 3 Determining Factors

The level of wages or salaries is determined by various factors, including the employee's role, responsibilities, skills, experience, and the company's budget, industry standards, and market competitiveness.





# Types of Wages and Salaries

## Time-Based Wages

Time-based wages are the most common form of compensation, where employees are paid based on the number of hours they work, such as hourly, daily, or weekly rates.

## Piece-Rate Wages

Piece-rate wages are based on the quantity of work produced, such as the number of units assembled or the number of items sold, rather than the time spent working.

## Commission-Based Wages

Commission-based wages are a form of variable pay, where employees receive a percentage of the sales or revenue they generate, encouraging them to be more productive and focused on achieving their sales targets.

## Salaried Compensation

Salaried compensation is a fixed amount of pay that an employee receives on a regular basis, typically monthly or annually, regardless of the number of hours worked.

## Basic Concepts in Wage and Salary Administration



# Understanding Wages and Salaries

## Definition

Wages refer to the remuneration paid to employees for their labor or services. They are typically calculated on an hourly or daily basis.

## Purpose

Wages serve as compensation for the time and effort employees contribute to an organization. They also ensure a fair distribution of wealth and incentivize productivity.

## Structure

The wage structure defines the different wage levels based on factors like experience, job roles, and performance. It also considers factors like allowances and bonuses.

# Types of Wages

1

## Minimum Wage

The lowest legal wage that employers can pay their employees.

2

## Fair Wage

A wage that is considered to be sufficient to meet basic needs and provide a decent standard of living.

3

## Living Wage

A wage that allows a worker to meet the cost of living in a particular region or city.

4

## Statutory Minimum Wage

The minimum wage mandated by law, which varies based on factors like the type of work and location.

5

## Need-Based Minimum Wage

A minimum wage that is calculated based on the cost of living and other essential needs of workers.



# Challenges in Wage and Salary Administration



## Inflation

Rising prices can erode the value of wages, making it harder for employees to maintain their standard of living.

## Skill Gaps

The mismatch between employee skills and the needs of the labor market can lead to wage disparities and difficulties in attracting qualified candidates.

## Economic Fluctuations

Recessions and other economic downturns can negatively impact wages and employment opportunities for employees.

**Labor Laws and Regulations**  
Compliance with complex labor laws and regulations can be challenging for employers and may create legal issues.

# Principles for Wage Fixation



## Fairness

Wages should be equitable and based on factors like job roles, experience, and performance.



## Affordability

Wages should be set at a level that is sustainable for the company and allows it to remain competitive.



## Productivity

Wages should be linked to employee productivity and performance to incentivize efficiency and quality of work.



## Growth

Wages should consider factors like cost of living and economic growth to ensure that employees can maintain their living standards.



# Authorized Deductions and Fines

1

## Authorized Deductions

These include contributions to social security, insurance, and taxes. These deductions are typically authorized by employees and are mandated by law.

2

## Imposition of Fines

Fines can be imposed on employees for disciplinary reasons like tardiness, absenteeism, or misconduct. There should be clear guidelines and procedures for imposing fines.

3

## Conditions for Fines

Fines must be proportional to the offense, and the employee must be informed of the reason for the fine. The company should have a fair and transparent process for handling fines.





# Wage Survey: Objectives and Importance

1

## Objectives

Wage surveys help companies gather data on prevailing wage rates in their industry, region, or specific job roles.

2

## Importance

They help employers make informed decisions about their wage and salary structure, ensuring competitiveness and attracting talent.

3

## Market Insights

Wage surveys provide valuable insights into the labor market, helping companies understand the demand for specific skills and the prevailing compensation levels.

# Factors Influencing Wage and Salary Structure





# Role of Government in Wage and Salary Administration

1

## Minimum Wage Laws

Governments set minimum wages to ensure a basic standard of living for employees.

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2

## Labor Laws and Regulations

Government regulations govern working conditions, hours of work, and other aspects of employment.

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3

## Social Security Programs

Government programs like social security provide financial assistance and healthcare to employees.

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4

## Wage and Salary Administration Policies

Governments often issue guidelines and policies to ensure fair and equitable wage and salary practices.



# Key Takeaways and Next Steps

## 1

### Understanding

Wages are essential for employee compensation, economic well-being, and business success.

## 2

### Key Factors

Factors like job role, experience, performance, and cost of living influence wage levels.

## 3

### Government's Role

Governments play a critical role in setting minimum wages, ensuring fair labor practices, and providing social security.

## 4

### Moving Forward

Companies need to implement effective wage and salary administration practices to attract and retain talent.

