

A View on Compensation Structure With Reference To Surya Roshini Limited

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Introduction of Compensation

Human Resource is the most vital resource for any organization. It is responsible for each and every decision taken, each and every work done and each and every result. Employees should be managed properly and motivated by providing best remuneration and compensation as per the industry standards. The lucrative compensation will also serve the need for attracting and retaining the best employees.

One of the most difficult functions of human resource management is that of determining the rates of monetary compensation. It is not only complex, but significant both to the organization and employees. Employee compensation decisions are crucial for the success of an organization. From a cost perspective alone, effective management of employee compensation is critical because of the total operating costs. Another reason for studying compensation from the organization's perspective is to assess its impact on a wide range of employee attitudes and behaviors and, ultimately the effectiveness of the organization and its units. Compensation may directly influence key outcomes like job satisfaction, attraction, retention, performance, skill acquisition, cooperation, and flexibility.

Meaning of Compensation: Compensation is the remuneration received by an employee in return for his/her contribution to the organization. It is an organized practice that involves balancing the work-employee relation by providing monetary and non-monetary benefits to employees. Compensation is an integral part of human resource management which helps in motivating the employees and improving organizational effectiveness.

Definition of compensation:

A set of compensable factors are identified as determining the worth of jobs. Typically the compensable factors include the major categories of:

- Skill
- Responsibilities
- Effort
- Working Conditions

Concept of Compensation

Compensation emphasizes on 'fair days pairs' for fair days work. Generally, time is the basis for the payment. It is hourly, weekly, monthly, or yearly. If an employee works for more than the stipulated time, he gets overtime and if he works less than the stipulated time, he is marked under time. In other words, the employer buys the time of the employee. It is simple and measurable.

Compensation is purely extrinsic – a 'quid-pro-quit' arrangement. It contains all forms of financial incomes and tangible services and benefits that an employee receives as part of the employment relationship.

Compensation refers to all form of financial returns and tangible service and benefits employees receive as part of an employment relationship.

Compensation may also be viewed as

- A. A system of rewards that motivates employees to perform.
- B. A tool used by organization to foster the value, culture, and the behavior they require.
- C. An instrument that enables organization to achieve their business objective.

Compensation, therefore, remains one of the most strategic and important functions of human management. Over the years, compensation has become a complicated issue. Not only are the problems of internal equity and external parity important, but also the larger issues of the wider economy and society impinge on the problem of compensation.

Strategic Compensation: Strategic compensation is determining and providing the compensation packages to the employees that are aligned with the business goals and objectives. In today's competitive scenario organizations have to take special measures regarding compensation of the employees so that the organizations retain the valuable employees. The compensation systems have changed from traditional ones to strategic compensation systems.

Compensation Issues

The main problem facing any organisation is the laying down a fair and equitable compensation system. While the objective is simple, the process is complex. For instance, the employer will be concerned primarily with productivity. The employee's emphasis may be on higher compensation to offset their increased cost of living and perhaps the price his skill will fetch in a competitive job market. The compensation issues commanding most interest today and likely to continue in future will centre on questions of compensation levels and compensation structures. Obviously, this will raise questions concerning the level of compensation rates in the plant or firm, industry, region, or nation.

Closely related to this is the broad question of the determinants of compensation relationships. This involves an understanding of various influences controlling compensation, the nature of decision-making bodies and the different traditions and customary attitudes that have developed in individual firms or industries. In some cases, the controlling influences may be standards and mores of a particular locality or region, sudden change in technology, source of labour supply, firm's competitive standing, and general sales-and-profits prospects of the industry. A decision about compensation rates in a given situation has to be reconciled with a variety of considerations such as when pay rates should be changed and by how much, how they should be distributed among the different employees, and what firms should be covered. Disputes between employers and unions over wages and salaries are often a part and parcel of conflicts over such diversified matters.

One of the considerations in formulating a pay package is the quantum of take-home pay, that is the net packet, after an employee has paid for his deductions. Some of these deductions are savings for old age, like the provident fund and pension schemes. The balance between what is received now and what he will get on retirement is something that is variable in each case. In an employee's earlier years, normally, children's education, medical treatment, recreation will necessitate a larger income. In his later years an employee will need to provide for his old age, in terms of a house and a steady income to maintain his habituated life style. Another related issue is salary and tax planning. In this context, organizations have taken recourse to fringe benefits, some of which are taxable. The incidence of tax, either on money incomes or on the total taxable income including perquisites, has to be worked out.

Compensation dimensions

(With surya roshni ltd. Perspective)

The total compensation package may be described in many ways, but the classification scheme used in the books is based on eight dimensions. Each dimension has a number of compensation components. Each component has a variety of features. Because of different features, one component may relate to more than one dimension. The structuring of features, components, and dimensions into a compensation system is a job for the compensation specialist.

The eight different compensation dimensions are:

- ✓ **Pay for work and performance:** pay for work and performance includes money that is provided in the short term (weekly, monthly, and annually bonuses/awards) and that permits employee to pay for and contract for the payment of desired goods and services.

Like in Surya Roshni Ltd., the company provides annual bonus to every employee which is 20% on basic of employee salary and it is fix for all employees and also give allowance for full attendance or the employees work all days or have full attendance. And also short term bonus is also provided on the basis of performance.

- ✓ **Pay for time not worked:** over the years, the number of hours worked per week and the number of days worked per year have decreased. During the past 40 yrs, workers have enjoyed more days off with pay for holidays, longer paid vacations, and paid time off for a wide variety of personal reasons. These components of pay for time not worked significantly increase labor costs and also enhance quality of work life opportunities for most employees.

Like in Surya Roshni ltd., LTA (leave travel allowance) is provided by company to facilitate employees for a reimbursement of all expenses of travel and also provide salary for those days also.

- ✓ **Disability income continuation:** the possibility always exists that a worker will incur health or accident disability. even so, individual and family expenses continue and medical, hospital and other bills create burdens. Social security, worker's compensation, sick leave, and short and long-term disability plans are examples of components that provide funds for employees who are unable to work for health-related reasons.

Like in Surya Roshni ltd., they provide 21 EL, 7 CL, 7 SL and also there is also accident policy in which the employer has to file or inform for any major incident within 12 hours under compensation act.

- ✓ **Differed income:** various kinds of programs, such as social security, employer-provided pension plans, and supplemental income plans provide income after retirement.
- ✓ **Family income continuation:** specific features within life insurance plans, pension plans, social security, worker's compensation, and other related plans provide income for the families of employees when sudden conditions arise.
- ✓ **Health, accident, and liability protection:** when a health problem occurs, employees must be concerned not only with continuation, but also with payment for the goods and services required in overcoming the illness or disability.

- ✓ **Income equivalent payments:** a final set of compensation components may be grouped under the title of income equivalent payments. Many of these components are frequently called perquisites or “perks”.
- ✓ **Organization develops compensation policy:** the compensation system hinges on sound principles of compensation administration. Some of them are as under:
 - i. The enterprise should have a clear-cut plan to determine differential pay level in terms of divergent job requirements involving varied skill, effort, and responsibility and working conditions.
 - ii. An attempt should be made to keep the general level of wages and salaries of the enterprise in line with that obtained in the labor market or industry.
 - iii. Adequate care should be taken to distinguish people from the jobs.
 - iv. Irrespective of individual considerations, care should be taken to ensure equal pay for equal work depending upon flexibility of jobs – of course, variations may be permitted within a pay range.

Types of compensation:

Compensation provided to employees can direct in the form of monetary benefits and/or indirect in the form of non-monetary benefits known as perks, time off, etc. Compensation does not include only salary but it is the sum total of all rewards and allowances provided to the employees in return for their services. If the compensation offered is effectively managed, it contributes to high organizational productivity.

- i. Direct compensation:** it is used to describe financial remuneration usually cash and includes such elements as basic pay, dearness allowance, overtime pay and commissions etc.
- ii. Indirect compensation:** it refers to such benefits as provident fund, pension scheme, medical and health insurance and sick leave and various other benefits and perks.

Compensation Structure

A sound compensation structure must be based on job evaluation programme in order to establish fair differentials in payments depending upon differences in job contents. Besides the basic factors provided by a job description and job evaluation, those that are usually taken into consideration for determining compensation structure are:

- I. The organisation’s ability to pay
- II. Supply and demand for labour
- III. The prevailing market rate
- IV. The cost of living
- V. Productivity
- VI. Trade union’s bargaining power
- VII. Job requirements
- VIII. Managerial attitudes

IX. Psychological and sociological factors.

The compensation structure must be linked to what the company is trying to achieve. It is not unusual to find a company with a wage structure in direct conflict with the company's overall objectives. For example, a company may plan to produce a high quality product while at the same time; it may have a direct incentive geared to quality.

An attitude survey should be made to ascertain what needs have to be satisfied through a compensation structure. What are the employees' attitudes towards the current pay structure and what are their deeper expectations? The pay structure, to a large extent, determines and reinforces attitudes. Two of the areas a survey ought to highlight are the reasons why employees work for a particular company, and what motivates them.

The company's compensation structure is showed in salary structure of employee. The salary structure of every employee decides that what kind of compensation he/she is getting. And also there are different methods to payment and also the companies have to follow some rules and regulation in respect to give compensation and while deciding the salary structure.

Salary Structure: (IN SURYA ROSHNI LTD.)

The salary structure consists of your company's salary grades or ranges and its salary levels for single jobs or groups of jobs. One of the major aims of a job evaluation exercise, as seen earlier, is to design a salary structure into which jobs can be correctly graded on the basis of an assessment of their relative value to the organization.

Compensation structure should also take into account the employees advancement opportunities and motivational aspects.

There are two types of salary structures:

- I. Graded salary structure
- II. Salary progression curves

Graded Salary Structure: A typical salary structure is one with a sequence of salary ranges or grades, each of which has a defined minimum and maximum. In this process, you are assuming that all the jobs allocated into grade broadly of the same value. However, you must ensure that actual salaries earned by the individuals are based on their performance or length of service. You may cover all the jobs in your organization by the same length of service.

The number of salary grades or ranges will depend on:

- I. The number of distinct levels of jobs in the hierarchy
- II. The width of each salary grade
- III. The extent of the overlap, if any, between grades
- IV. The salary levels appropriate for the most senior and most junior jobs

Make Up Of A Salary Grade: A basic principle of a salary structure is that individuals should advance through the structure either by progressing within the salary grade for the job as they improve their performance or by promotion. We can distinguish three stages into which this progression is divided. The three zones which correspond to these three stages:

- I. **The learning zone:** This covers the period when a person is on his learning curve, familiarizing himself with the knowledge and skills, required for becoming fully

component. Of course, the length of time to go through this zone will vary accordingly to the individual's experience, competence and ability to learn.

- II. **The qualified zone:** This covers the period when the person is a jobholder, his capacity to do the work and to improve his performance. The minimum salary in this zone should be the market rate for the job insofar as this can be determined.
- III. **The premium zone:** this is reserved for those employees who achieve exceptional results but suitable promotion opportunities do not exist for them. This enables you to reward and encourage outstanding employees.

Salary Progression Curves: Salary progression curves are also known as maturity curves or career curves. They aim to link increase in salary over a fairly long period to increased maturity or experience. They are best used for professional/scientific or highly qualified staff.

Their contribution is almost entirely related to their professional capacity rather than to a more or less fixed set of duties that enable their job to be firmly placed in a rigid hierarchy.

- **Salary Progression:** Salary progression procedures relate increase in salary to merit. It should be aimed at relating salary compensation to performance consistently and equitably while retaining an adequate degree of control over salary costs. The essential features of a systematic procedure for salary progression should be:
 - i. The salary ranges are divided into defined areas or zones. The individuals will pass through these zones as he progresses.
 - ii. There should be incremental systems, which will indicate the rates at which individuals can progress according to merit or experience.

Incremental system:

There are different kinds of incremental systems, which vary in their rigidity and flexibility. The choice of approach will naturally depend on the organization climate and managerial style of the organization. It is extremely important to ensure that individuals are correctly placed in their range; in relation to their performance and also that they move through and between salary grades at a rate appropriate to their progress and potential. Most salary planning decisions are short term ones, which are concerned with deciding on the next increment to be paid because of merit or promotion. Long term salary plans are closely linked with career planning procedures.

Short term salary planning can be carried out by means of a variable incremental system with guidelines, which will indicate the various rates at which people can progress through a zoned salary range.

Pay-structure in practice:

As noted earlier, job evaluation provides a systematic basis for determining pay levels. Jobs are usually classified into different groups to reflect broadly the occupational groupings such as the following:

- Managerial and professional: top, middle and junior
- Technical/supervisory
- Administrative and clerical (staff)
- Manual (workers): highly skilled, skilled, semi-skilled and unskilled

Currently most industrial organizations have 3-9 grades each in workers, staff, supervisory and managerial cards below board level.

The differentials in monetary terms between different grades are significant where the number of grades in a particular occupational grouping is smaller and negligible where the number of grades is large. Overlap occurs between the grades when the number of grades or the length of pay range is large.

While designing pay structure, it is useful to conduct job evaluation and ascertain market rate for different jobs through a survey. The pay structure providing number of grades, span/length and upper and lower limits in each grade, differentials, and the overlap between grades depend on company policies, competitor's practices and pressures from unions, etc.

The Pay Structure or Salary Structure in Surya Roshni Ltd.

FOR STAFF: CTC APPLIED

BASIC

+ VDA

+ HRA

+ CONVEYANCE

+ SPECIAL ALLOWANCE

+ EDUCATION ALLOWANCE

= GROSS

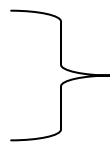
- P.F

- ESIC

- LTA

- MEDICAL

- BONUS



REIMBURSED AMOUNT

= IN HAND

FOR WORKER: CTC APPLIED

BASIC

+ VDA

+ HRA

+ CONVINCENCE

+ WASHING ALLOWANCE

+ CATEEN FACILITY

+ SPECIAL ALLOWANCE

= GROSS

- P.F
- ESIC
- BONUS
- LTA
- MEDICAL

= IN HAND

Components of Salary: (Percentage Used In Surya Roshni Ltd.)

I. Basic wage: The basic wage provides a stable base to the wage structure. The basic wage is fixed as price for labor/services rendered. Differentials in basic wages are normally based on a set of criteria which the fair wages committee suggested may take into account. The following is a set of such criteria:

- a) The degree of skill
- b) The strain of work
- c) The experience involved
- d) The training required
- e) The responsibilities undertaken
- f) The mental and physical requirement
- g) The disagreeableness of the task
- h) The hazard attendant on the work
- i) The fatigue involved

Minimum wages per month or per day as per M.P government:

Labor category	per day (rs.)	Per month (26 days)(rs.)
Unskilled	263.46	6850.00
Semi-skilled	296.42	7707.00
Skilled	349.42	9085.00

II. Dearness Allowance: It refer to allowance paid to employees in order to enable them to face the increasing dearness of essential commodities. There three parameters to sanction and determine the VDA/DA :

- a) The index usually the 'All India Consumer Price Index' number for industrial workers. This is compiled and published by the Labor Bureau, Shimla.
- b) It is the manner in which the variation in the index selected is used. The scheme of DA should be related directly to the rise in the index selected.

- c) It is related to the point's factor. A dose of DA is related to certain prescribed increase in the number of the index points.

The DA is revised two times in a year 1st April and 1st October.

III. Allowances: Successive wage settlement/awards have brought up a number of allowances which form an integrated part of the pay-packet.

The allowance provided in SURYA ROSHNI LTD.:

- a) Leave travel: There are some leaves provided by the company to employees. there are three types of leaves provided :
 - i. Earning leaves/paid leaves: the company is providing 21 leaves for which company paid full salary to employee.
 - ii. Casual leaves: these leaves are decided by company which is 7.
 - iii. Sick leave/medical leave: these leaves are also 7 in the year.
- b) Lunch or canteen facility: The company is providing food coupons to every employee. In which Rs.30 is given by company and Rs.10 is given by employee.
- c) Medical: The amount of medical policy or medical bills the company reimburse amount so that the employee don't get whole burden. Like some insurance policy, accident policy etc.
- d) Education Allowance: The Company is providing Rs.200 to employee.
- e) HRA: The Company is providing 20%-40% HRA on basis of grade of position of employee.
- f) Convince: Company is giving Rs.800 to employees for convince and also providing buses for travelling.
- g) P.F (provident fund): Company deducts P.F on basic pay of employee. The interest on P.F is 8.25% in company and in May it can be 8.36%. The employee who have minimum basic pay of Rs.6500, the employee have to deduct P.F. under P.F deduction there are two categories:

- i. Employer's share contribution {
 - EPF = 3.67%
 - FPF = 8.33%
- ii. Employee's share contribution {
 - EPF = 12% or 10%
 - FPF

- a) ESIC (Employee State Insurance Corporation): It is the insurance corporation for which both company and employee paid some percentage. If the amount of salary is exceeding Rs.15000 then there is no need to pay ESIC, on the behalf of it the employee can have two accidents group policy or medical policy.

Employer part = 4.75%

Employee part = 1.75%

- b) Uniform and safety: The Company provides uniform to employees. There are also safety measures provided by company like safety shoes, jackets, helmet, gloves, and pants. On 125 above employees there should be one safety in charge or inspector.
- c) There are also some special allowances given by company and bonus is provided 20% on basic which is fix.

Conclusion

An organization needs talented and skilled individuals to build a successful business. Because these talented people are highly sought after, an attractive pay structure is often the key to bringing the best candidates on board. Studies have shown that a fair compensation system is among one of the most effective ways in retaining and motivating employees. When an organization is made up of people who are skilled and motivated, businesses thrives. Furthermore, salary structures provide a framework for fair and consistent pay policies; they help monitor and control the implemented pay practices and demonstrate possible pay opportunities to the employees. Implementing good salary structures is critical for any company.

Salary structures are a necessary part of effective management. They help make sure that the pay levels are externally competitive and internally fair. Salary structures also allow companies to reward performance and development while controlling cost. Well-designed salary structures will attract highly skilled people to your company and keep them motivated within the organization.

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