Human Resource Management

Unit – 5

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Introduction

Definition:

Compensation refers to a wide range of financial and nonfinancial rewards to employees for their services rendered to the organization.

It is paid in the form of wages, salaries and employee benefits such as paid vacations, insurance maternity leave, free travel facility, retirement benefits, etc., Monetary payments are a direct form of compensating the employees and have a great impact in motivating employees.

A Sound Compensation Structure Tries to Achie These Objectives

- To attract manpower in a competitive market.
- To control wages &salaries & labour costs by determining rate change & frequency of increment .
- To maintain satisfaction of employees by exhibiting that remuneration is fair adequate & equitable.

To induce & reward improved performance, money is an effective motivator.

a. For employees

1. Employees are paid according to requirements of their jobs, i.e., highly skilled jobs are paid more compensation than low skilled jobs. This eliminates inequalities.

2. The chances of favoritism (which creep in when wage rates are assigned) are greatly minimized.

3. Job sequences and lines of promotion are established wherever they are applicable.

4. Employees' morale and motivation are increased because of the sound compensation structure.

b. To Employers

1. They can systematically plan for and control the turnover in the organization.

2. A sound compensation structure reduces the likelihood of friction and grievances over remuneration

3. It enhances an employee's morale and motivation because adequate and fairly administered incentives are basic to his wants and needs.

4. It attracts qualified employees by ensuring and adequate payment for all the jobs.

The principles of Compensation

- Differences in pay should be based on differences in job requirements.
- Wage & salary level should be in line with those prevailing in the job market.
- Follow the principle of equal pay for equal work.
- Recognize individual differences in ability & contributions.
- The employees & trade unions should be involved in while establishing wage rates.
- The wages should be sufficient to ensure for the worker &his family reasonable standard of living.
- There should be a clearly established procedure for redressal of grievances concerning wages
- The wage & salary structure should be flexible .
- Wages due to employees should be paid correctly & promptly.
- A wage committee should review & revise wages from time to time.

The components of a compensation system include:

1. **Job Descriptions:** A critical component of both compensation and selection systems, job descriptions define in writing the responsibilities, requirements, functions, duties, location, environment, conditions, and other aspects of jobs. Descriptions may be developed for jobs individually or for entire job families. ·

2. Job Analysis: The process of analyzing jobs from which job descriptions are developed. Job analysis techniques include the use of interviews, questionnaires, and observation.

3. Job Evaluation: A system for comparing jobs for the purpose of determining appropriate compensation levels for individual jobs or job elements. There are four main techniques: Ranking, Classification, Factor Comparison, and Point Method.

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4. Pay Structures: Useful for standardizing compensation practices. Most pay structures include several grades with each grade containing a minimum salary/wage and either step increments or grade range. Step increments are common with union positions where the pay for each job is pre-determined through collective bargaining.

5.Surveys: Collections of salary and market data. May include average salaries, inflation indicators, cost of living indicators, salary budget averages. Companies may purchase results of surveys conducted by survey vendors or may conduct their own salary surveys. When purchasing the results of salary surveys conducted by other vendors, note that surveys may be conducted within a specific industry or across industries as well as within one geographical region or across different geographical regions. Know which industry or geographic location the salary results pertain to before comparing the results to your company

What are Different Types of Compensation?

- Base Pay
- Commissions
- Overtime Pay
- Bonuses, Profit Sharing, Merit Pay
- Stock Options
- Travel/Meal/Housing Allowance Benefits including: dental, insurance, medical, vacation, leaves, retirement, taxes...

In a layman's language the word Compensation means something, such as money, given or received as payment or reparation, as for a service or loss.

On the other hand, **the word Reward means** something given or received in recompense for worthy behavior or in retribution for evil acts.

Objectives of Compensation

1. The first is **equity,** which may take several forms. They include income distribution through narrowing of inequalities, increasing the wages of the lowest paid employees, protecting real wages (purchasing power), the concept of equal pay for work of equal value compensation management strives for internal and external equity.Internal equity requires that, pay be related to the relative worth of a job so that similar jobs get similar pay. External equity means paying workers what comparable workers are paid by other firms in the labor market. Even compensation differentials based on differences in skills or contribution are all related to the concept of equity.

1. **Efficiency,** which is often closely related to equity because the two concepts are not antithetical. Efficiency objectives are reflected in attempts to link to link a part of wages to productivity or profit, group or individual performance, acquisition and application of skills and so on. Arrangements to achieve efficiency may be seen also as being equitable (if they fairly reward performance) or inequitable (if the reward is viewed as unfair).

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3. **Macro economic stability** through high employment levels and low inflation, of instances, an inordinately high minimum wage would have an adverse impact on levels of employment, though at what level this consequence would occur is a matter of debate.

Though compensation and compensation policies are only one of the factors which impinge on macro-economic stability, they do contribute to (or impede) balanced and sustainable economic development.

4. **Efficient allocation of labor in the labor market**. This implies that employees would move to wherever they receive a net gain, such movement may be form one geographical location to another or form on job to another (within or outside an enterprise). The provision or availability of financial incentives causes such movement.

For example, workers may move form a labor surplus or low wage area to a high wage area. They may acquire new skills to benefit form the higher wages paid for skills. When an employer's wages are below market rates employee turnover increases. When it is above market rates the employer attracts job applicants. When employees move from declining to growing industries, an efficient allocation of labor due to structural changes takes place.

Other Objectives of Compensation

1. **Acquire qualified personnel:** compensation needs to be high enough to attract applicants. Pay levels must respond to the supply and demand of workers in the labor market since employers compete for workers. Premium wages are sometimes needed to attract applicants already working for others.

1. **Retain current employees:** Employees may quit when compensation levels are not competitive, resulting in higher turnover.

1. **Reward desired behavior:** pay should reinforce desired behaviors and act as an incentive for those behaviors to occur in the future. Effective compensation plans reward performance, loyalty, experience, responsibility, and other behaviors

Case study

Roshans Limited-Transport Facility

The personnel Manager of Roshans Limited have received an application for the introduction of company conveyance for employees staying in town. Although Roshans Limited has provided living facilities to its employees about 60 percent of its 1000 employees still have to commute an average of 10 km to come to work. The union and some of the employee s living on campus have supported the demand . Though the management might favour such a move some sections of the work force are concerned that the introduction of the company conveyance facility may cut down their wages .the company under disguise of compensation allowance pays Rs.20/- per month for traveling to employees staying more than 8 km away from the company premises.

1. What factors would you take into account in evaluation of this demand from the workers?
2. Provide the rationale for implementing or not implementing this demand.

What is an Grievance?

Definition:

Grievance may be any genuine or imaginary feeling of dissatisfaction or injustice which an employee experiences about his job and it's nature, about the management policies and procedures. It must be expressed by the employee and brought to the notice of the management and the organization.

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Grievances take the form of collective disputes when they are not resolved. Also they will then lower the morale and efficiency of the employees. Unattended grievances result in frustration, dissatisfaction, low productivity, lack of interest in work, absenteeism, etc. In short, grievance arises when employees' expectations are not fulfilled from the organization as a result of which a feeling of discontentment and dissatisfaction arises. This dissatisfaction must crop up from employment issues and not from personal issues.

Grievance may result from the following factors

- Improper working conditions such as strict production standards, unsafe workplace, bad relation with managers, etc.
- Irrational management policies such as overtime, transfers, demotions, inappropriate salary structure, etc.
- Violation of organizational rules and practices.

The managers should adopt the following approach to manage griev effectively-

1.Quick action- As soon as the grievance arises, it should be identified and resolved. Training must be given to the managers to effectively and timely manage a grievance. This will lower the detrimental effects of grievance on the employees and their performance.

2.Acknowledging grievance- The manager must acknowledge the grievance put forward by the employee as manifestation of true and real feelings of the employees. Acknowledgement by the manager implies that the manager is eager to look into the complaint impartially and without any bias. This will create a conducive work environment with instances of grievance reduced.

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3. Gathering facts- The managers should gather appropriate and sufficient facts explaining the grievance's nature. A record of such facts must be maintained so that these can be used in later stage of grievance redressal.

4. Examining the causes of grievance- The actual cause of grievance should be identified. Accordingly remedial actions should be taken to prevent repetition of the grievance.

5. Decisioning- After identifying the causes of grievance, alternative course of actions should be thought of to manage the grievance. The effect of each course of action on the existing and future management policies and procedure should be analyzed and accordingly decision should be taken by the manager

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6. Execution and review- The manager should execute the decision quickly, ignoring the fact, that it may or may not hurt the employees concerned. After implementing the decision, a follow-up must be there to ensure that the grievance has been resolved completely and adequately.

What is an Layoff?

Definition:

The term employee layoff is referred to as temporary separation of an employee from the employer.

According to section 2 of the Industrial Disputes Act, 1947, the employee layoff is the failure, inability or refusal of an employer to give employment to a worker who is present on the payrolls of the company but has not been retrenched.

It may be for a definite period of time or indefinite time period or forever depending upon the ability of the employer. Once employers comes out of the financial crisis or becomes able to offer employment to the laid off employees, they are recalled by him or her for duty.

Reasons for Employee Layoff

- **Employee layoff is usually undertaken to streamline organizational operations by reducing labor costs**. The term downsizing, having a meaning similar to layoff is often used to eliminate the jobs so that company expenditures can be restructured. However, there are many common reasons for temporary suspension or permanent termination of employees from their duty.
- These include shortage of raw material, power, accumulation of stocks, breakdown of machinery, ongoing construction, lack of resources, financial crisis, rightsizing, excess operating expenses, surplus overheads, mergers and acquisitions, job redesigning and streamlining organizational operations.

Effects of Employee Layoff

- Downsizing or employee layoffs can have devastating effects on both suspended or terminated employees as well as those who survived. Laid off employees may exhibit shock, anger, distrust, doubt, frustration and escapism. Employee layoff, if not handled properly and carefully, may result into protests and disputes. In addition to it, it may worsen the already existing situations if not handled tactfully.
- On the other hand, those who do not lose their jobs and survive during lay off, are in no better position. They lose the trust in their employer and start looking out for other opportunities. The whole process may leave serious psychological consequences on them. They will switch as soon as they get a chance if the organization is not able to maintain goodwill towards them. It, in turn, hampers the productivity of the organization as employees who survived during layoff process start having bitter feelings and dissatisfaction.

What is retrenchment?

Retrenchment is a form of dismissal due to no fault of the employee, it is a process whereby the employer reviews its business needs in order to increase profits or limit losses, which leads to reducing its employees. The employer must give fair reasons for making the decision to retrench and follow a fair procedure when making such a decision or the retrenchment may be considered unfair.

Retrenchment Compensation: Retrenchment is the termination of an employee by an employer for reasons other than a punishment meted out by disciplinary action. Employees terminated in such a manner are financially compensated by the employer. This kind of compensation is known as retrenchment compensation.

What is Resignation

The term *resignation* refers to the act of quitting a job, or stepping down from a public position, before the individual's contract or term is up. While resignation is normally voluntarily, there have been instances in which employees felt they had no choice but to resign, else they would face harsher consequences. This is fairly common following a scandal, or some other problematic situation.

Example of a resignation that was technically voluntary, but was really a result of having no viable options, was President Richard Nixon's resignation after the Watergate scandal. While his decision to resign was technically voluntary, had he remained president he would have almost certainly been impeached by Congress. Being faced with the same outcome in either case – losing the presidency – Nixon chose to leave on his own terms, in an effort to save face. When a monarch or pope resigns, it is referred to as "abdicating" the throne, rather than resigning.

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Termination is usually looked down upon as it normally entails any wrongdoing on the part of the employee. **Dismissal** is a sort of punishment for a delinquent employee. **Termination** is an end of contract, whereas, in **dismissal**, the employee can be acquitted of his charges by a court and reinstated back to his job.

What is the difference between Dismissal and Termination?

- Termination is usually looked down upon as it normally entails any wrongdoing on the part of the employee.
- Dismissal is a sort of punishment for a delinquent employee.
- Termination is an end of contract, whereas, in dismissal, the employee can be acquitted of his charges by a court and reinstated back to his job.
- In termination, there are no benefits for the employee while there may be some benefits allowed by the management in the case of dismissal.

Retirement

Retirement is the withdrawal from one's position or occupation or from one's active working life. A person may also semi-retire by reducing work hours. An increasing number of individuals are choosing to put off this point of total retirement, by selecting to exist in the emerging state of pre-tirement.

What is an Promotion?

Definition:

- **According to Pigours and Myers**, ‘Promotion is advancement of an employee to a better job – better in terms of greater responsibility, more prestige or status, greater skill and especially increased rate of pay or salary”.
- **Arun Monappa and Mirza S Saiyadain** defined promotion as “the upward reassignment of an individual in an organization’s hierarchy, accompanied by increased responsibilities, enhanced status and usually with increased income though not always so”.

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Conditions of promotions are:

1. Reassignment of higher level job to an employee than what he is presently performing
2. The employee will naturally be delegated with greater responsibility and authority than what he has had earlier. Promotion normally accompanied higher pay. It means in some cases, the employee perform higher level job and receive the salary related to the lower level job.
3. Promotion may be temporary or permanent depending upon the organizational needs and employee performance.

Types of Promotion:

- **Vertical Promotion**
- **Up gradation**
- **Dry Promotion**

Objectives of Transfer

- To utilize the employee's skill knowledge at the appropriate level in the organizational hierarchy
- To develop competitive spirit and inculcate the zeal in the employees to acquire the skill, knowledge etc. required by higher level jobs.
- To develop competent internal source of employees ready to take up jobs at higher levels in the changing environment.
- To promote employees' self development and make them await their turn of promotions. It reduces labour turnover.
- To promote a feeling of contentment with the existing conditions of the company and a sense of belongingness.

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- To promote interest in training, development programmes and in team development areas.
- To build loyalty and to boost morale.
- To reward committed and loyal employees
- To get rid of the problems created by the leaders of workers' unions by promoting them to the officers' levels where they are less effective in creating problems.
- Promotion places the employees in a position where an employee's skills and knowledge can be better utilized.
- It creates and increases the interest of other employees in the company as they believe that they will also get their turn.
- It creates among employees a feeling of content with the existing conditions of work and employment.
- It increases interest in acquiring h9gher qualifications, in training and in self development with a view to meet the requirements of promotion.
- It improves morale and job satisfaction
- Ultimately it improves organizational health.

What is an Transfer?

Definition:

According to Edwin Flippo, a transfer, “is a change in job where the new job is substantially equal to the old in terms of pay, status and responsibilities”.

Transfer is a process of placing employees in positions where they are likely to be more effective or where they are to get more job satisfaction.

- Transfer is a movement of the employee from one job to another job or some other place without change in status, responsibilities and salary.
- Transfer means a change in job assignment. It refers to a horizontal or lateral movement of an employee from one job to another in the same organization without much change in his status or pay package.

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- Transfer is a process of placing employees in positions where they are likely to be more effective or where they are to get more job satisfaction.
- In transfers, there is no change in the responsibility, designation, status or salary. It is a process of employee's adjustment with the work, time and place. Transfer may also be made as a disciplinary action.
- Transfer causes a shift of individual from one job to another without there being any marked change in his responsibilities, skills and other benefits.
- Transfers must be ordered based on certain company-specific principles or dogma. Transferring an employee without adhering to policies or norms may lead to deteriorated industrial relations. The management might think of issuing transfer orders, treating each case on its own merit.

Objectives of Transfer

1. To meet or fulfill organizational needs : To fulfill organizational needs arising out of change in technology, volume of production, production schedule, quality of product etc., an employee may have to be transferred.

2. To satisfy employee needs : Sometimes employees themselves demand transfer due to their personal problems like ill health, family problem native attractiveness or non-co-operation from boss or fellow workers. To satisfy their needs employees may have to be transferred.

3.To adjust the workforce :Employees for excess or surplus in one department may have to be transferred to other department or section where there is shortage of workforce.

4. To reduce monotony and to make the employees versatile: If the employees have stayed on a job continuously for a longer duration, to reduce their monotony and to widen their knowledge and skill, employees are transferred.

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5.For effective use of employees: If the management feels that the service of the able employee is to be used in different branches of the same organisation, then such employees will have to be transferred.

6. To punish Employees: If employees are found indulged in undesirable activities like fraud, bribery, duping etc., such employees are transferred to remote places as a disciplinary action.

7. To give the relief to the employees :Employees who are overburdened and doing complicated or risky work for long period are relieved from such work by transferring such employees to a place of their choice.

8.To improve employees background by placing them in different jobs of various departments and units.

Types of Transfer

1. Production Transfer:

Employees are posted in different departments, based on their interests and qualifications. This also depends on the work load that a department possesses. However, this load keeps fluctuating, and the demand for manpower keeps changing with time.

For departments with surplus manpower, lay-off is a solution. However, a better solution is the interdepartmental transfer to balance the manpower allocation. In simpler terms, production transfer refers to the transfers ordered to avoid such unavoidable lay-offs.

2. Replacement Transfer:

When an employee leaves a department for a particular reason, the department needs a replacement. In such scenarios, especially in demanding situations, a senior employee might have to function in place of the junior employee, till the time a replacement is found. Senior employees are required to work in place of junior employees even in situations of declining production. Thus, replacement transfer also helps in reducing the organizational need for lay-off; particularly for long-service employee.

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3. Versatility Transfer:

Some organizations believe that the workforce needs to have multiple skills capable to perform multiple tasks. People can achieve multiple skills only by working in different departments. In learning organizations such as ordnance factories, banks, and many private companies, people get the scope of working in different departments and can learn different systems, procedures, and rules and regulations.

They gain the necessary skills to attend to the activities in the departments, and ultimately become versatile. People who pick up their tasks quickly emerge to become the company's assets. During rush periods, they are able to contribute greatly to achieve business goals. Versatile transfer may comprise production transfer or replacement transfer.

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4. Shift Transfer:

In order to enhance capacity utilization, industrial organizations, operate in multiple shifts—generally morning, evening, and night shifts. Some organizations allot employees to staggered shifts as well. Employees are engaged in all the shifts on a rotational basis. Requests of employees for transfers on a particularly shift are also entertained, considering the importance of ground of requests. However, conformance to law and administrative procedures are essential requirements to avoid employee unrest.

5. Remedial Transfer:

After induction, employees are placed in a department and jobs are assigned to him/ her, and their performance and behavioral dispositions are recorded. Some employees may emerge as good performers, while many others may emerge as underperformers. In course of time, an employee's inclination to work is also observed. The objective of remedial transfer is therapeutic in nature, that is, to rectify the wrong placement.

In other words, remedial transfer is an act of transferring an employee to a more suitable job after they have failed to perform well in their present position. Poor performance could be attributed to reasons such as an employee being uncomfortable in his job as he may not possess good relations with his senior or suffer from ill health.

Principles of Transfer Policy

(i) It should clearly indicate the types and circumstances under which a transfer will be made.

(ii) It should state the frequency of transfers and minimum time period between the transfers.

(iii) It should tell who will be responsible for initiating and approving the transfers.

(iv) It should indicate the criteria or the basis of transfer and follow it strictly.

(v) It should point out the effect of transfer on the pay and seniority of the transferred employee.

(vi) It should indicate whether this transfer is temporary or permanent.

(vii) It should make a provision for timely communicating the transfer decision.

(viii) It should specify the area of the organization over which the transfers can be made.