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A Literature Review on Compensation Management Practices

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Abstract: One of the important questions to every employee is "does money matter to them"? The answer is definitely "yes". Money definitely provides a means for having a more affluent lifestyle. How much we earn often determines how we view our social status and ourselves. In this business world, money in terms of compensation motivates behavior and give satisfaction when employees get any financial rewards or extra benefits with relation to their performance or contributions towards the organizational objectives. Hence, at different stages in one's life and career, pay and compensation are perceived differently. Therefore, in this regard a small attempt has been made to look into the field of compensation management, which plays a vital role for an organization and for the employees.
Keywords: Compensation, compensation management system, compensation approach, employee, job satisfaction

INTRODUCTION

Compensation management is an integral part of the management of the organization. It contributes to the overall success of the organization in several ways [1]. Compensation management, also known as wage and salary administration, remuneration management or reward management, is concerned with designing and implementing total compensation package for the employees.

In the present era where high employee turnover and low retention rate turn into biggest nightmare for the entrepreneurs, a sound compensation policy for the organization plays a great role in case of providing relief to them. Concepts like performance-based pay system, knowledge-based pay system, market-based pay system are introduced by the employers to pay the employees in different format. Apart from this various offers like commission, profit sharing, health insurance schemes are also provided in order to attract employees. Some organizations also prepare separate set of executive compensation policy for their top level executives, so that they can attract and hire them in this time of cut throat competition. Various components of compensation such as wage/salary, incentives, benefits, perquisites are properly taken into consideration by the organization while designing the compensation policy for the employees. The sole objective behind this is to make the employees satisfied in terms of compensation, which is the major role player in influencing their professional and personal life. Because it is money, which motivates the employees more, to perform better and better in the organization and through this they get a status and recognition in the society. Owing to emphasis on literacy level, today most of the employees are educated, well informed, and they are very much aware of their rights. As a result, it is now very difficult for the organizations to exploit them in any ground. Similarly, due to the vast use of television and Internet, now it is not so difficult for them to access any job belong to any organization at any place. Therefore taking all these into consideration a sound compensation policy is a compulsory factor for every organization under compensation management system, so that they maintain a stable and satisfied workforce.

REVIEW OF LITERATURE

Conceptual approach:

The literal meaning of compensation is to counter balance[2]. In case of Human Resource Management, compensation refers to "money and other benefits received by an employee for providing services to its employer".

Cascio [3] opines that because of the importance that compensation holds for people's lifestyle and self esteem, individuals are very concerned about what they are paid – a fair and competitive wage, while organizations are also concerned about what they pay because it motivates important decisions of employees about taking a job, leaving a job and on the job performance.

Compensation as a concept according to Bernadine [4] refers to all forms of financial returns and tangible benefits that employee receives as part of employment relationship. Compensation as it were is divided into two parts and these are cash compensation which is the direct pay provided by employer for work performed by the employee and fringe compensation which refers to employee benefit programs. Cash compensation has two elements which include base pay and pay contingent. Base pay has to do with hourly or weekly wages plus overtime pay, shift differential and uniform allowance while pay contingent is concerned with performance allowances such as merit increases, incentive pay bonuses and gain sharing. Fringe compensation on the other hand refers to employee benefits programs. Fringe compensation also has two parts to it which are legally required benefit programs and discretional benefits. Legally required benefit programs include social security, workers compensation while discretional programs include health benefits, pension plans, paid time off, tuition reimbursement, recognition award, foreign service premiums, responsibility allowance, child care, on campus accommodation, promotion, annual increment and a host of others [3-4]. Benefits, in a nutshell are the indirect financial and non financial payments employees receive for continuing their employment with an organization.

The concept of employee compensation and benefits cannot be discussed in a vacuum. Various studies have established that salaries and benefits are closely related to job satisfaction [5]; and job satisfaction can bring about motivation which in turn affects employee job performance and organizational commitment.

From the above literature the following concept are established as follows

Employee

An employee is anyone who has agreed to be employed under a contract of service to work for some form of payment. This can include wages, salary, commission and piece rates [5]. It can be in a library and information centre where ethics of the profession are practiced or any other professionally inclined job or otherwise.

Employee Compensation

Compensation is a primary motivator for employees. People look for jobs that not only suit their creativity and talents, but compensate them—both in terms of salary and other benefits—accordingly. Compensation is also one of the fastest changing fields in Human Resources, as companies continue to investigate various ways of rewarding employees for performance. Employee Benefits: This focus on maintaining or improving the quality of life for employees and providing a level of protection and financial security for workers and their family members.

Job and Job Satisfaction

A regular activity performed in exchange for payment, especially as one's trade, occupation, or profession is referred to as job. It may also be assumed to be a position in which one is employed. Job satisfaction on the hand can be defined as a pleasurable emotional state resulting from the appraisal of one's job or an affective reaction to one's job. it is defined as an individual's reaction to the job experience[6].

Compensation approach

In the early 20th century, the America government took a significant role and began to introduce several changes in many aspects of workers pay and remuneration [5]. This brought about Acts such as the fair Labor Standards Acts of 1938, which dictated equal pay for equal work. However, recessions dotted the following twenty years but later on the economy boomed and government played an increasingly important role in America's workplace by ratifying the equal pay Act Executive order 11246, Title 7 of the Civil Rights Acts in 1963.

Compensation as it were is a complex topic that has significant impact on organizational success[7], and for any organization to succeed, it must not look up to capital investment but to its employees as the fundamental source of improvement with the understanding that the human element and the organization are synonymous.

In this phase to describe the meaning of compensation I adopt the definition provided by Milkovich & Newman's [8]. According to them compensation represents "*all forms of financial returns and tangible services and benefits employees receive as part of an employment relationship*". In this study "tangible services" are understood as synonyms with "tangible returns" from the organizations to the employee in exchange of a contribution. They refer to any return which is either visible symbolically and physically, or easily computable and comparable between them or with those of other employees.

According to W.F. Casio [3], "Compensation includes direct cash payments, indirect cash payments in the form of employee benefits, incentives, rewards, to motivate employees to strive for higher levels of productivity". Thus, compensation includes all expenditures of valued resources by organizations for the employees, including managers and professionals.

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According to Mondy and Noe 9th Edition) [9] "compensation is the total of all rewards provided to employees in return for their services. While according to P. Jyothi and D.N. Venkatesh [10]the compensation refers to all form of financial returns and tangible benefits that employees receive as part of the employment relationship.

We can also define compensation, as "it is the remuneration received by employees in return of their contribution to the organization. It is an organized practice that involves balancing the work employee relation by providing the monetary and non-monetary benefits to employees.

While according to V.P. Michel [11], "compensation is the recompense, rewards, wage or salary given by an organization to a person, persons or a group of persons in return to a work done, service rendered or a contribution made towards the accomplishment of organizational goals."

The definition of compensation would be "Compensation is payment in the form of hourly wages or annual salary combined with benefits such as insurance, vacation, stock options, etc. that can positively or negatively affect an employee's work performance."

After discussing the concept of compensation, it is now important to know about the concept of compensation management. So following are some definition regarding compensation management given by various authors:

In the word of D.S. Beach[12] Compensation Management refers "the establishment and implementation of sound policies and practices of employee compensation. It includes such areas job evaluation, development and maintenance of wage structure, wage surveys, wage incentives, wage changes and adjustments, supplementary payments, control of compensation costs and other related pay items."

Similarly according to Mamoria and Gankar [13],"wage and salary administration" refers to the establishment and implementation of sound policies and practices of employee compensation. It includes such areas as job evaluation, surveys of wage and salaries, analysis of relevant organizational problems, development and maintenance of wage structure, establishing rules for administering wages, wage payments incentives, benefits including health insurance, profit sharing, wage changes, and adjustments, supplementary payments, control of compensation costs and other items.

As per them compensation Management provides a step by step approach for designing a remuneration system that recognizes job requirement, employee related knowledge& skill and performance related incentives for individual, team, work unit and organization performance.

In the words of P. Subarao[14], Wage and Salary Administration or Compensation Administration is essentially the application of a systematic approach to the problem of ensuring that employees are paid in a logical, equitable and fair manner.

While S.S.Khanka[15] views that the Wage and Salary Administration aims at establishing and maintaining an equitable wage and salary system to obtain, retain and motivate people of required skill in an organization.

Similarly, P.G. Aquinas [16], services rendered by individuals to organizations have to be equitably paid for. This compensation generally comprises cash payments, which include wages, bonus, and shared profits. Good compensation plans have a salutary effect on the employees. They are happier in their work, cooperative with management and productivity is up.

According to Cascio [3], the objective of the design of compensation program is divided into two, which are, direct and indirect forms of compensation. Direct compensation has to do with wage and / or salary aspect while indirect compensation is the fringe benefits a worker enjoys as a result of working in an organization. Integrating the two into a package that will encourage the achievement of an organizations goal is what compensation is all about.

In the words of McNamara [17], compensation includes issues regarding wage and/ or salary programs and structures accruing from job descriptions, merit-based programs, bonus-based programs, commission based programs and so on, while benefits typically refers to retirement plans, health life insurance, disability insurance, vacation, employee stock ownership plan and so on.

However, skill based pay also pose some risks in the area of employee paying higher compensation that are not offset by organizations productivity. Also, employee may become "rusty" unless there is opportunity to use all the skills acquired; and thirdly, when employee hits the top of the pay structure, he may become frustrated and leave the firm just because there is no further opportunity to receive pay raise. Employee benefits, though a part of total compensation embraces non monetary form of compensation ranging from health care plans, to pension or retirement plans, social security, insurance, family and medical leave, severance pay, payments for time not worked (vacations, sabbatical, holidays), workers compensation, that is, those injured on the job[3], foreign service premiums, child care, tuition reimbursement and on campus accommodation .

Other emerging trends in employee benefits embrace flexibility or what is known as cafeteria approach to benefits. This allows an employee to choose from array of benefits in lieu of pay. An employee who is a bachelor may choose money in lieu of child care. This is a welcoming idea though it could be more expensive for employers. By and large, employee compensation and benefits is the ultimate in an organization whether monetary or non-monetary and it matters a lot to individual workers.

The literature review relating to compensation establishes the following concept

The compensation aspects of workers include pay and remuneration. The compensation should be based on parity of work i.e. equal pay for equal work. The compensation directly influencing the organizational success as it is the fundamental source of improvement of the organization. Components of compensation include direct compensation as monetary reward whereas indirect component include fringe benefits. Monetary compensation or direct compensation includes issues regarding wage and/ or salary programs and structures accruing from job descriptions, merit-based programs, bonus-based programs, commission based programs and so on, while indirect compensation typically refers to retirement plans, health life insurance, disability insurance, vacation, employee stock ownership plan and so on. Again the compensation may establish as basic pay and fringe benefits. Base pay or cash pay is the direct pay provided by employers for work performed and these include salary, overtime pay, shift allowance, uniform allowances and pay contingent on performance like merit awards, incentive pay, bonuses and gain sharing while fringe compensating include required programs such as social security, insurance, severance pay, payments for time not worked (vacations, sabbatical, holidays), workers compensation, that is, those injured on the job, foreign service premiums, child care, tuition reimbursement and on campus accommodation, health benefits, pension plans, paid time off, tuition reimbursement, foreign service premiums and so on. Over the period the compensation system is directly related to skill requirement for the job and risk associate or discharging such job. Thus, higher the skill requirement for the job and risk involved higher will be compensation and vice versa. This concept over the period frustrated the employees and they feel there is no further scope for compensation. To overcome the set back the employers introduce the new cafeteria approach allows employees to choose from array of benefits in lieu of pay. The benefit approach of compensation has developed over the period with the development of human resources, their potential and their core competency. The monetary compensation is an essential component in recruitment and retention process; but benefits are equally important and can often be the deciding factor in whether an individual accepts an offer or even stays.

Job satisfaction

The happier people are within their job, the more satisfied they are said to be. Job satisfaction is defined as an individual's reaction to the job experience [3]and it includes various components such as pay, promotion, benefits, supervisor, co-workers, work conditions, communication, safety, productivity, and the work itself. These components are important because they all influence the way a person feels about his job though each of them play differently for different individual's and for their job satisfaction. People consider compensation is most important tool for job satisfaction especially as it has been affirmed that money motivates people; and in job situations, money motivates behaviour when it rewards people in relation to their performance and when it is perceived to be fair, equitable, and providing rewards that employee truly value[4,7]. However it is not true always. Employees are more concerned with working in an environment they enjoy. This is a pointer to the fact that compensation and benefit issues are not to be taken for granted by employers because not only pay but also fringe benefits influences the kind of employees who are attracted to, and remain with an organization

Work environment approach

Regard less of the effects of legislation on salaries in general, compensation continue to be influenced by several factors that are producing some important trends in compensating workers. One of such trends is aligning wages to the organizations goals. Others include tailoring compensation to the needs of employees; better salary, and pay equity [18]. Various existing theories to support this argument have been identified and one of such is the Reinforcement theory which is propounded by B.F. Skinner. This theory holds that individuals can actually be motivated by their work environment when it is properly developed. Hence, rather than considering internal factors such as attitudes, feelings, impressions and other cognitive behavior, employers should keep on making positive changes in the external environment of the organization. It emphasizes the importance of a person's actual experience of a reward, and the implication of this for compensation management is that high employee performance followed by a monetary reward will make future high performance more likely. Another theory that is relevant to the study is the Expectancy theory propounded by Victor Vroom. This theory though focuses on the link between rewards and behavior too emphasizes expected rewards rather than experienced rewards. In other words, it is mainly concerned with effects of incentives. It stresses that behaviors' (job performance) can be described as a function of ability and motivation while motivation is a function of expectancy, instrumentality, and valence perceptions.

Expectancy perceptions often have more to do with job design and training than pay systems. Although this theory implies that linking an increasing amount of rewards to performance will increase motivation and performance, some authors have questioned this assumption, arguing that monetary rewards may increase intrinsic motivation. Extrinsic motivation depends on rewards – such as pay and benefits – which are controlled by an external source whereas intrinsic motivation depends on rewards that flow naturally from work itself. Therefore, while it is important to keep in mind that money is not the only effective way to motivate behavior, and that money rewards will not always be the answer to motivation problems, it does not appear that monetary rewards run much risk of compromising intrinsic motivation in most work settings.

Another theory relevant to the study is the Equity Theory and Fairness, propounded by John Stacey Adams as Equity Theory but was later on advanced by Elaine Hatfield and her colleagues, which is now known as Equity Theory and Fairness. This theory which probably came as a result of continuous agitation for fair and equitable wages for all workers is the bedrock on which this study hinges.

The theory, which is divided into two, suggests that people evaluate the fairness of their situations by comparing them with those of other people. According to this theory[19], the components are defined as follows:

Person =P
Perceived outcomes (pay benefits, working conditions) = O
Perceived inputs (effort, ability, experience) = I

P: person (P) compares his/her own ratio of perceived outcomes (O = pay benefits, working conditions) to perceived inputs (I = effort, ability, experience) to the ratio of a comparison other (O) – external inequity pay. If P's ratio is smaller than the comparison with other's ratio, it results unrewarded inequities. But if P's ratio is larger, the opposite happens (over reward inequity), though evidence suggests that this type of inequity is less likely to occur and less likely to be sustained because P may rationalize the situation by re-evaluating his/her outcomes less favorably or inputs (that is self worth) more favorably (equity theory and fairness). Meanwhile, the consequence of P's action depends largely on whether equity is perceived. If equity is perceived no change is expected in P's attitude but if inequity is perceived, it may cost P to restore equity through some of the following counterproductive ways:

1. Reducing one's own inputs (not working as hard);
2. Increasing one's outcomes (such as by theft)
3. Leaving the situation that generates perceived inequity (leaving the organization or refusing to work or cooperate with employees who are perceived as over rewarded). The main implication of this theory for managing employee compensation is that to a large extent, employees evaluate their pay by comparing it with what others are paid, thereby influencing their attitude to work by such comparisons.

Summery & Findings

The study revealed that compensation (both financial & non financial/ direct & indirect compensation) has been a topic of discussion for various authors for quite a long period, as it plays a vital role in the business world. It put intense effect on the most important factor of production i.e. labor (employee or manpower). Starting from increasing motivation to increasing productivity and increasing job satisfaction, everything depends on the compensation practice of an organization. Organizations are now very much concerned about the fact that happier the employee more will be the performance. So they put more interest on making compensation policy well suitable for their employees in order to increase their motivation, performance and job satisfaction.

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