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INTRODUCTION

- Compensation is a systematic approach to providing monetary & non monetary value to employees in exchange for work performed.
- Compensation may be defined as money received in performance of work and many kinds of benefits that an organization provides to their employees.

Compensation Management Process

1. Understand the Budget

First, management must understand the budget. Before a company can pay workers for their services, they need to know how much money they have available to spend. For Bill, he would need to determine how much money he suspects he will have available to pay his new employees.

2. Put Someone in Charge

Second, management needs to put someone in charge. Many big companies have a department responsible for paying employees with a management team overseeing the entire process. For a start-up business, like Bill's, often times it's the owner that will be in charge of payroll.This means that he will have to be in charge of the budget and will have to make sure each employee gets paid instead of relying of someone from HR.

3. Analyze the Jobs

Third, management needs to analyze the jobs. Before you can pay employees, you need to know what their job duties and/or position is worth. This can be determined through surveys and data collected from companies within the industry.

4. Decide Levels

Deciding levels is the next step. More specifically, in large companies, there are often different levels of employees. You might have new hires, executives, management, etc. A company with different levels may have a pay range.

5. Develop a Compensation Package

Once you have decided how much you want to pay, you need to create a compensation package. Will there be benefits? How often will the employee get paid? When Bill gets to this step, he might decide to pay each employee $15.00/hr with the option of health insurance as a benefit.

Direct Forms of Compensation

1. Salary
2. Hourly
3. Bonuses

Indirect Forms of Compensation

1. Benefits
2. Equity based programmes

SALARY STRUCTURE

1. Basic Salary

Basic salary is determined based on the designation of the employee and the industry in which he or she works in. Most of the other components, like allowances, are based on the basic salary. This amount is fully taxable.

2. Allowances

Allowance is an amount payable to employees during the course of their regular job duty. It can be partially or fully taxable, depending on what type it is.

. House Rent Allowance
. Conveyance Allowance
. Leave Travel Allowance
. Medical Allowance

Compensation can be classified into two categories:

1. Financial Compensation
2. Non-Financial Compensation

Type # 1. Financial Compensation:

Financial compensation is most popular and important compensation that is given in the form of money. It is the most important motivational factor that satisfies employees' basic needs like food, clothing, etc.

- ❖ DIRECT EXPENSES
- ❖ INDIRECT EXPENSES

Type # 2. Non-Financial Compensation:

Non-financial compensation refers to compensating employee not in form of money but in some other forms that stimulate employees' morale and also improve his performance .

It can be in the following forms:

I. Job security
II. Recognition
III. Participation
IV. Pride in job
V. Delegation of responsibility

COMPENSATION STRATEGY

The compensation strategy is derived from the HR strategy and it defines the position of the organization of the job market , the level of the total cash , the main bonus principles in the organization and rules for the base salary setting .

ASPECTS OF COMPENSATION STRATEGY

I. Following tasks are performed-

- Model the changes from a proposed salary or compensation reorganization, based on market values, to evaluate the cost of moving the workforce up to market levels.

- Create new types of variable compensation to help motivate the workforce, and evaluate the cost impact.

- Target special compensation plans for specific groups of employees, such as executives, salespeople, or workers with mission-critical job skills.

•Set proposed compensation budgets for departments or business units.

•Allocate compensation pools across organizations, special classifications, groups, and individuals.

➢ Compensation Strategy Importance

•Manage the personnel expenses of the organization

•Gives the certainty to the HR employees and HR managers

•Acts as the basic document

Factor affectting

External	Internal
Demand & supply of labour	Compensation policy
Cost of living	The org. ability to pay
Society	Job analysis & description
Labour unions	Employee
The economy	

CONCLUSION

We can say that good compensation can increase the productivity of an organization because its provides various rewards, bonus, schemes etc. and its compulsary for every organization.


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