

COMPENSATION MANAGEMENT

AND

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Employees' compensation is one of the major determinants of employee satisfaction in an organization. The compensation policy and the reward system of an organization are viewed by the employee as a indicators of the management's attitude and concern for them. Hence, it very important for the management to design and implement its compensation system with utmost care and tact. A good wage and salary administration should be able to attract and retain employees, give them fair deal, keep the organization competitive and motivate employees to perform their best.

Meaning of Compensation

In layman's language the word 'compensation' means something, such as money, given or received as payment for service. The word compensation may be defined as money received in the performance of work, plus the many kinds of benefits and services that organization provides their employee. It refers to wide range of financial and non-financial rewards to employee for their service rendered to the organization.

It is paid in the form of wages, salaries , special allowance and employee benefits such as paid vacation, insurance, maternity leaves, free travel facility , retirement benefits etc. According to Wendell French,” Compensation is a comprehensive term which includes wages, salaries and all other allowance and benefits.” Wages are the remuneration paid for skilled, semi-skilled and unskilled operative workforce. Salary is the remuneration of those employees who provides mental labour to the employer such as supervisor, office staff, executive etc wages are paid on daily or hourly basis where as salary is paid on monthly basis

Objectives of Compensation Planning

The basic purpose or objective of establishing sound compensation is to establish and maintain an equitable rewards system. The other aim is the establishment and maintenance of an equitable compensation structure i.e an optimal balancing of conflicting personnel interest so that the satisfaction of employees and employers is maximised and conflicts minimized, the compensation management is concerned with the financial aspect of employees need, motivation and rewards. A sound compensation structure tries to achieve these objectives:

To attract manpower in a competitive market.

To control wages and salaries and labour costs by determining rate change and frequency of increment.

To maintain satisfaction of employees by exhibiting that remuneration is fair adequate and equitable.

To induce and improved performance, money is an effective motivator.

a) To Employees:

- i. Employees are paid according to requirement of their jobs i.e highly skilled jobs are paid more compensation than low skilled jobs. This eliminates inequalities.
- ii. The chances of favouritism are minimised.
- iii. Jobs sequence and lines of promotion are established wherever they are applicable.
- iv. Employee's moral and motivation are increased because of the sound compensation structure.

b) To Employers:

- i. They can systematically plan for and control the turnover in the organization.
- ii. A sound compensation structure reduces the likelihood of friction and grievance over remunerations.
- iii. It enhance an employee morale and motivation because adequate and fairly administrative incentives are basis to his wants and need.
- iv. It attracts qualified employees by ensuring and adequate payment for all the jobs.
- v. In dealing with a trade union, they can explain the basis of their wages programme because it is based upon a systematic analysis of jobs and wages facts.

Principles of Wages and Salary Administration

Since the issue of wage and salary determination has always enjoying the major consideration for any organization, it should be develop and maintain based on sound principles , some of them are narrated below, attempt should be made to incorporate them as far as possible while designing the compensation system.

- 1) There should be a definite plan and system to ensure that differences in pay for jobs are based upon variations in job requirements, means maintaining equity in the distribution of wages and salaries in the organization.
- 2) Maintaining competitiveness in the wage market means the general level of wage and salary should be reasonably in line with that prevailing in the market.
- 3) Matching employees' expectations and it should avoid unjustified discrimination by providing equal pay for equal work.

- 4) Reinforcing positive employee behavior and contribution to the organization, differences in the compensation package should be based on contribution, productivity, job performance, achievement etc.
- 5) Devising a system that is the most efficient for the organization, as far as possible it must eliminate any discrepancies or exploitation of the employees.
- 6) The compensation system should formulate and define rules and regulations for determining, changing, adjusting wages in the organization.

- 7) The compensation package must ensure fairness, should maintain harmonious relationship between the employee and employer.
- 8) Compensation system should be flexible enough so that future changes can be incorporated.
- 9) The wage and salary administration should take care of and comply all the rules and regulations laid down by the legislator for protecting the employees' interest.
- 10) Optimization of management and employee interests.