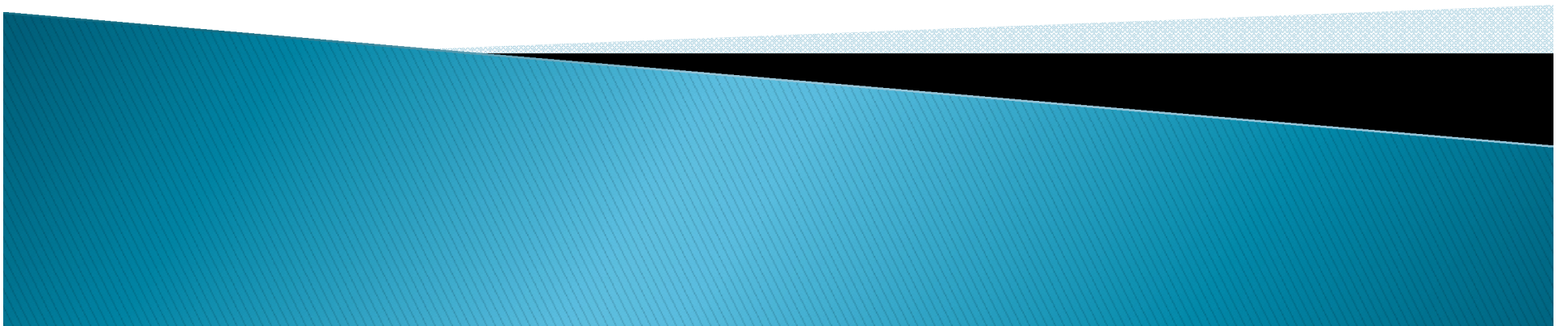


Wages

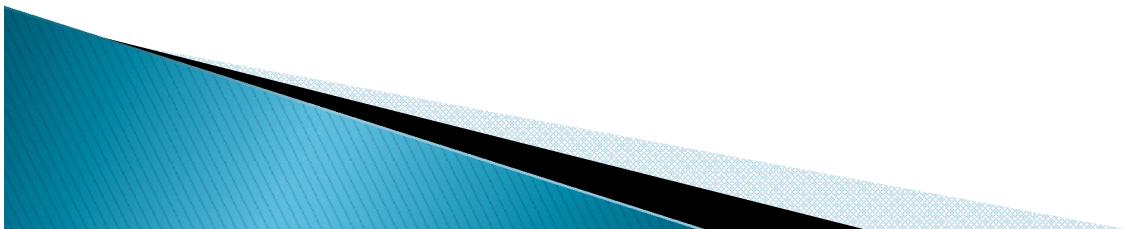


Compensation

- ▶ Compensation is the total amount of the monetary and non-monetary pay provided to an employee by an employer in return for work performed as required.

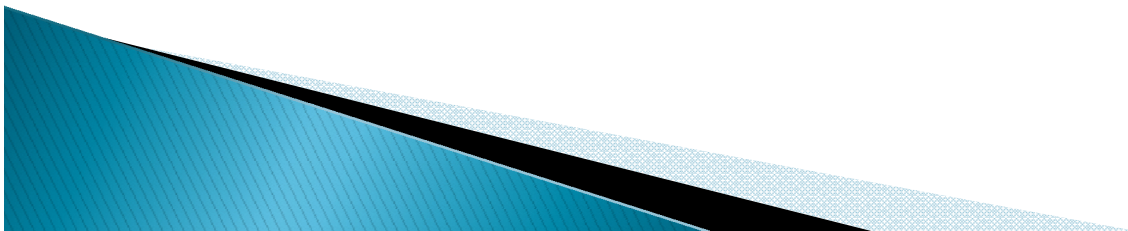
Compensation is based on:

- ▶ market research about the worth of similar jobs in the marketplace,
- ▶ employee contributions and accomplishments,
- ▶ the availability of employees with like skills in the marketplace,
- ▶ the desire of the employer to attract and retain a particular employee for the value they are perceived to add to the employment relationship, and
- ▶ the profitability of the company or the funds available in a non-profit or public sector setting, and thus, the ability of an employer to pay market-rate compensation.



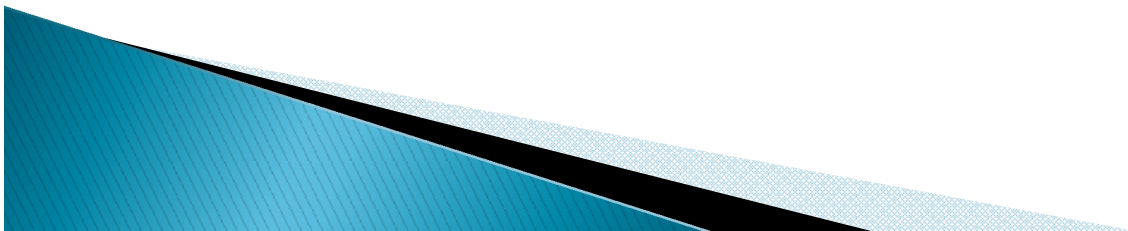
Factors affecting compensation:

- ▶ **1) Productivity of workers:** to get the best results from the employees and to increase the productivity compensation has to be productivity based.



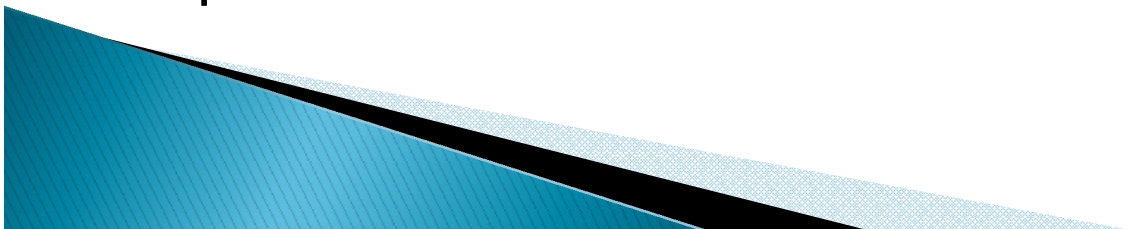
Factors affecting compensation:

- ▶ **2) Ability to pay:** it depends upon the employer's ability to pay wages to the workers. This depends upon the profitability of the firm. If the firm is marginal and can't afford to pay higher than the competitors then the employees will go to other firms while if the company is successful then they can easily pay their employees as they wish.



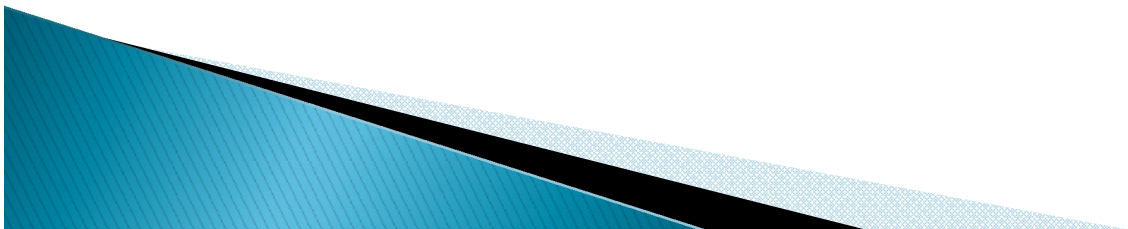
Factors affecting compensation:

- ▶ **3) Government:** government has also fixed the rules for protecting the interest of the employees. The organizations are liable to pay as per the government instructions. Wages can not be fixed below the level prescribed by the government.
- ▶ **4) Labor union:** labor union also helps in paying better wages to the workers. Higher wages have to be paid by the firm to its workers under the pressure of the trade unions.



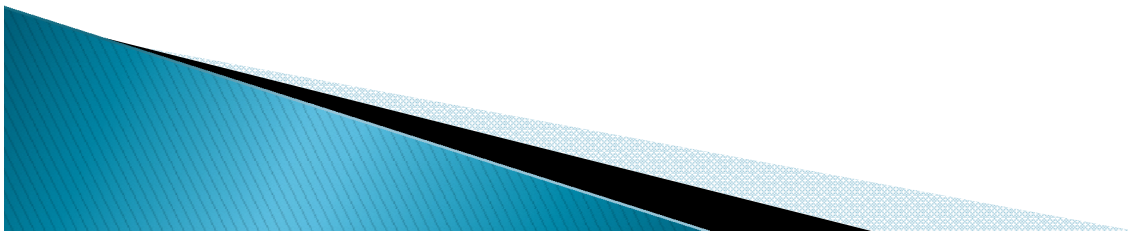
Factors affecting compensation:

- ▶ **5) Cost of living:** wages depends upon the cost of living if it is high wages will also hike.
- ▶ **6) Demand and supply of labor:** it is one of the important factors affecting wages. If the demand of labor is more they will be paid high wages otherwise vice versa. If the supply of the employees is more than they will be paid less and vice versa.



Factors affecting compensation:

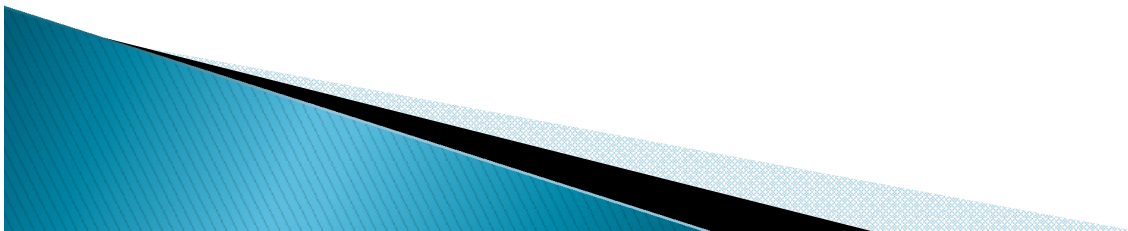
- ▶ **7) Prevailing wage rate:** wages also depends upon the prevailing wage rate as the organizations have to pay accordingly to keep the employees with them.



Methods of Wage Payment

Basically there are two methods of paying labor remuneration and other methods are combinations or modifications of these two.

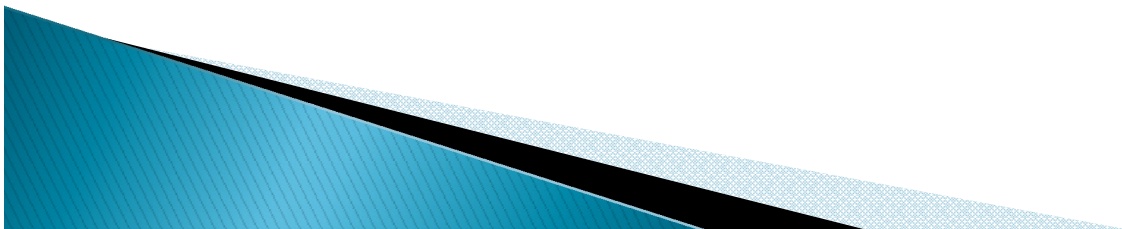
- 1) Time wage system
- 2) Piece wage system
- 3) Balance or Debt Method



Time Wage System

Time Wage System

- ▶ Under this system, wages are paid on the basis of time spent on the job irrespective of the amount of work done. The unit of time may be a day, a week, a fortnight or a month. In the past, daily wages have been the most common basis and, therefore, it came to be known as the 'Day Wage System'.



Time Wage System

Time wage system has the following advantages:

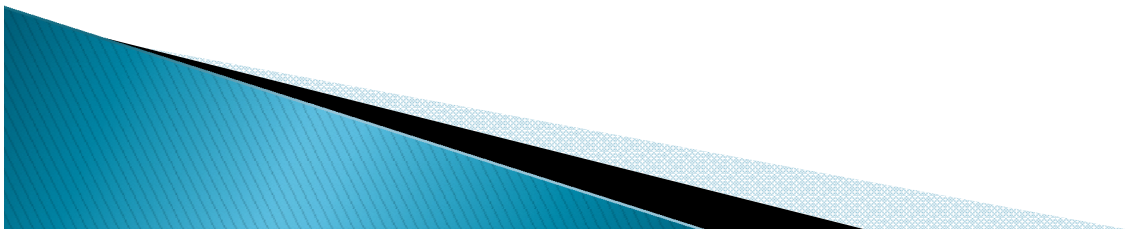
- ▶ It is the simplest and the oldest method. It is easy to understand and workers can easily compute their own remuneration.
- ▶ Earnings of workers are regular and fixed and they do not suffer from temporary loss of efficiency.
- ▶ As there is no pressure to speed up production, the quality of work can be kept high. A worker can show his skill.
- ▶ Learners can concentrate on learning the best methods of work as their earnings are not dependent on the amount of work.
- ▶ It is an objective method.



Time Wage System

The time wage system suffers from the following disadvantages:

- ▶ The method provides no incentive for better performance as reward is not proportionate to effort.
- ▶ Guaranteed remuneration makes workers indifferent and complacent.
- ▶ Calculation of labor cost per unit is difficult as the total wage bill does not change with the volume of production.
- ▶ In the absence of an incentive to hard work, productivity of labor becomes low unless close supervision is used. Thus, costs of supervision are high.
- ▶ Control over labor cost becomes difficult and more payment may be made for the lesser amount of work.



Time Wage System

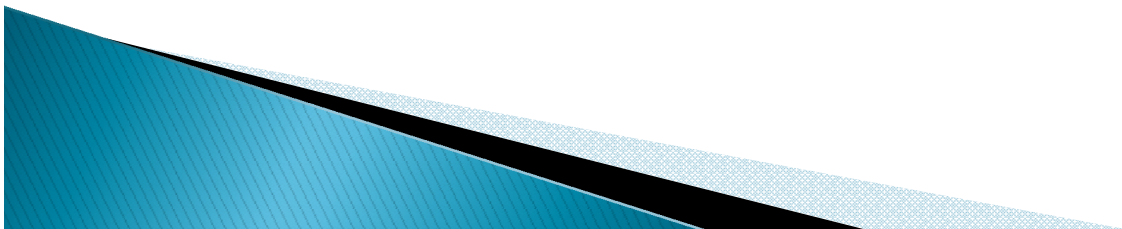
Time wage system is suitable under following conditions:

- ▶ Where units of output are non-measurable and in case of office work and mental work is involved as in policy working.
- ▶ When quality of work is especially important, e.g., artistic furniture, fine jewelry, etc.
- ▶ When supervision is good and supervisors know what constitutes a "fair day's work".
- ▶ When workers are new and learning the job.
- ▶ When collective efforts of a group of persons are essential for completing the job.



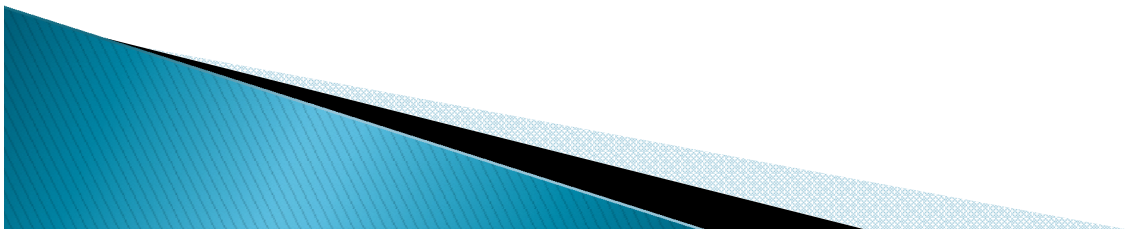
Piece Wage System

- ▶ **Piece Wage System**
- ▶ Under this system, remuneration is based on the amount of work done or output of a worker. One unit of output is considered as one piece and a specific rate of wage is paid per piece. Greater is the number of pieces produced by a worker, higher is his remuneration. Thus, a workman is paid in direct proportion to his output. It is called payment by results.



Piece Wage System

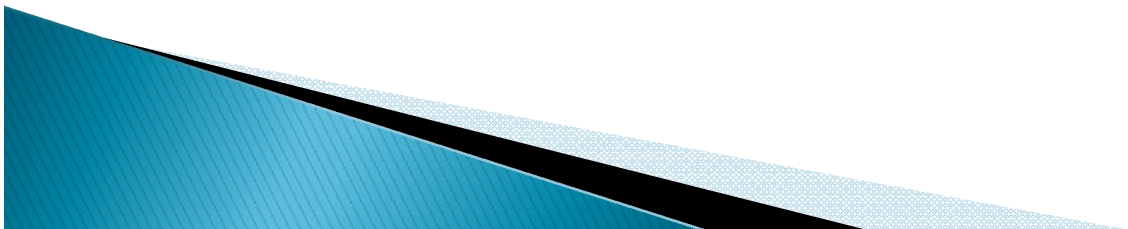
- ▶ **Piece wage system has the following advantages:**
- ▶ There is a direct relation between effort and reward; workers who work hard and produce more get more wages. This provides an incentive to increase productivity.
- ▶ Ambitious and efficient workers are provided ample opportunity to utilize their talent and increase their earnings and thereby improve their standard of living and morale.
- ▶ The method is just and fair to all. Efficient workers get ample reward, while shirkers are penalized. It prevents soldiering on the job.
- ▶ Management can distinguish between efficient and inefficient workers for the purpose of promotion, etc.
- ▶ Increase in productivity results in higher output and lower costs of production per unit.
- ▶ The cost of labor per unit of output can be easily calculated as the wage bill varies in direct proportion to the output.
- ▶ As workers themselves have a stake in maximization of efficiency, cost of supervision is low.



Piece Wage System

Piece wage system is, however, subject to the following drawbacks:

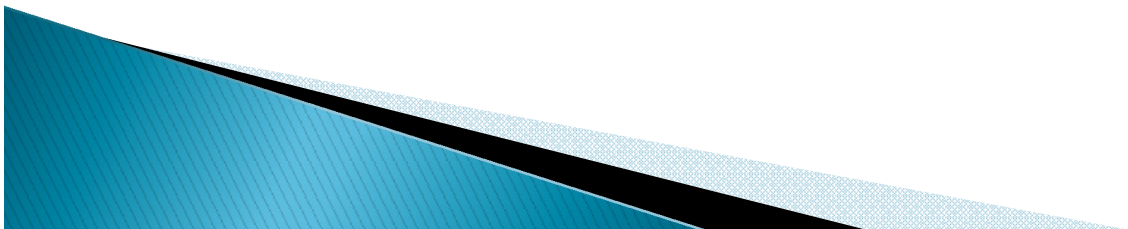
- ▶ It is very difficult to fix piece wage rates. Employers often cut the piece rate when they find workers are producing large quantities.
- ▶ The earnings of workers are not stable and they may suffer due to temporary delays or difficulties. They feel insecure and dissatisfied.
- ▶ Employees may not stress quality so that rigid quality control becomes necessary.
- ▶ This system may create jealousy between efficient and inefficient workers. Trade unions do not like it as it affects their solidarity.
- ▶ Detailed records of production have to be kept so that the clerical work is increased. The method is not practicable when contribution of individual workers cannot be calculated, i.e., construction work.



Piece Wage System

Piece wage system is suitable under the following conditions:

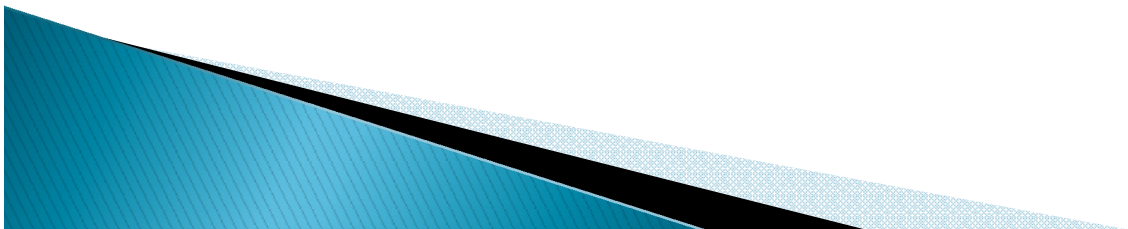
- ▶ When work done by an individual worker can be measured accurately, e.g., production of standardized goods in the factory.
- ▶ When the quantity of output depends directly upon the skill and efforts of the worker.
- ▶ Where the flow of work is regular and interruptions are minimum i.e., repetitive jobs.
- ▶ Where quality and workmanship are not very important.
- ▶ In large scale production involving heavy overheads and heads and broad supervision.
- ▶ When competitive conditions and cost control require that labor cost per unit fixed in order.
- ▶ When methods of production are standardized and the job is of a repetitive nature.



Methods of Wage Payment

Balance or Debt Method

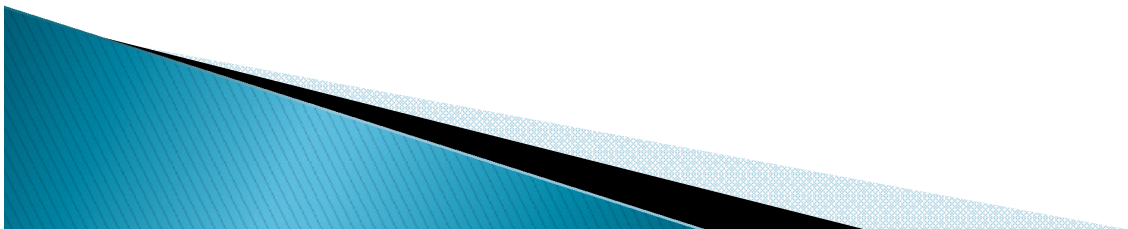
- ▶ This method is a combination of time and piece wage systems. The worker is guaranteed a time rate with an alternative piece rate. If the wage calculated at piece rate exceeds the time rate, the worker gets credit. On the other hand, if those wages exceed piece wages, the worker is paid time wage and the deficit is carried forward as debt to be recon served in future.



Factors affecting Wages

1) Difference in efficiency:

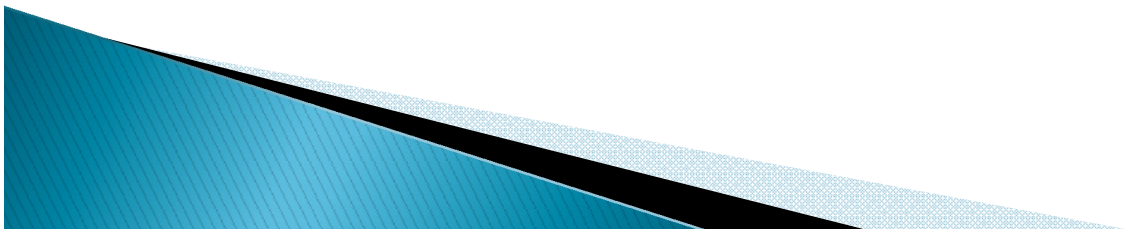
- ▶ All persons are not equally efficient. They differ in abilities. Some are more efficient and some are less efficient. Some others are not efficient at all.
- ▶ An efficient worker gives better output. Hence, he is paid higher wages than others are.
- ▶ Moreover, the efficiency requirement in different jobs varies. A doctor requires more skill than a nurse does.
- ▶ A district collector is entrusted with heavy responsibilities and the job necessitates ability and intelligence.
- ▶ On the contrary, the job of a sweeper does not require them. Hence, wages differ between occupations.



Factors affecting Wages

2) Presence of noncompeting groups:

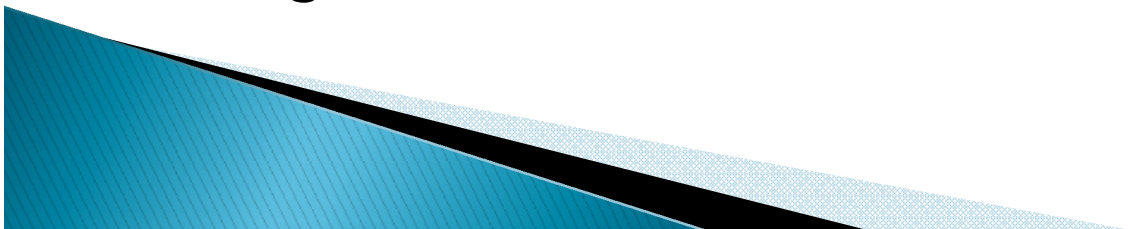
- ▶ Society is divided into a number of working groups, which are noncompeting. Caste system creates such groups in India.
- ▶ As a result, a child born to a sweeper will most likely be a sweeper just as a black smith's son will be a black smith.
- ▶ Besides, the chances of receiving training for better-paid occupations depend on the resources of the family.
- ▶ Thus, in heritance, environment, training and sex are some factors, which create noncompeting groups in the society. Hence, workers belonging to different groups are paid at different wage rates.



Factors affecting Wages

3) Immobility of labor:

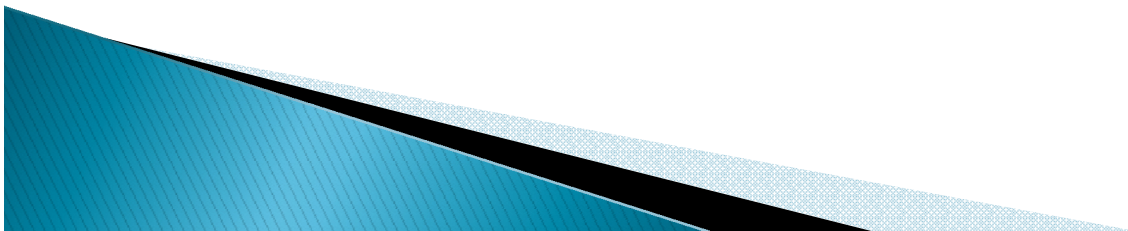
- ▶ Labor is not perfectly mobile. It is normally shy to move. It has an inertia to stick to one job.
- ▶ Sometimes, people are not prepared to accept higher wages if it necessitates a change of place. This accounts for difference in wage in different places.
- ▶ The presence of noncompeting groups in society makes labor more immobile. Political barriers against the free movement of labour from one country to another result in the difference in wages in different countries.



Factors affecting Wages

4) Nature of employment:

- ▶ The nature of work also influences wage rates. Dangerous and disagreeable work brings higher money wages to attract larger supply of labour. For example, a coal miner gets higher wages than a clerk in the office.
- ▶ High money wages act as compensation. Contrarily, safe, pleasant, comfortable and socially prestigious jobs carry lower money wages.



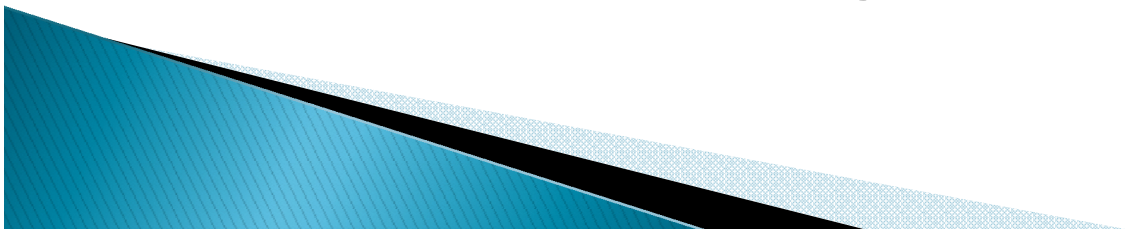
Factors affecting Wages

5) Training and Qualification:

Jobs requiring special qualification and apprenticeship generally command higher wages than jobs learnt easily and for which no special training is required.

6) Productivity:

This differs in different occupations. The Cobbler's job is not as productive as that of a skilled motor mechanic or of clerk as that of a principal of a college.



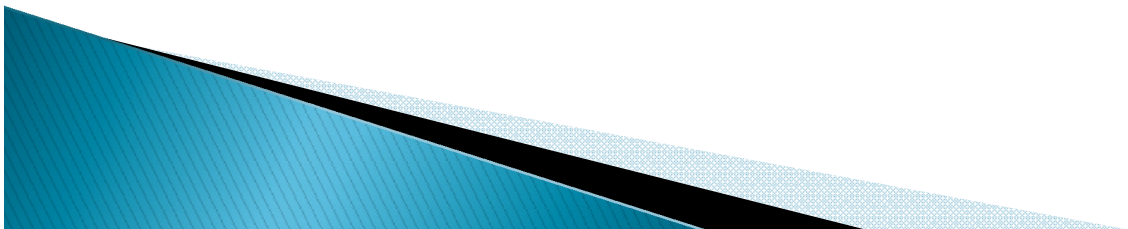
Factors affecting Wages

7) Regularity of employment:

- ▶ If there is regular employment in a job, one may demand lower wages. If the job is irregular or seasonal, wage has to be higher. In case of India, young men prefer low paid jobs under government due to security and regularity of employment to irregular and insecure private jobs with more remuneration.

8) Future Prospects:

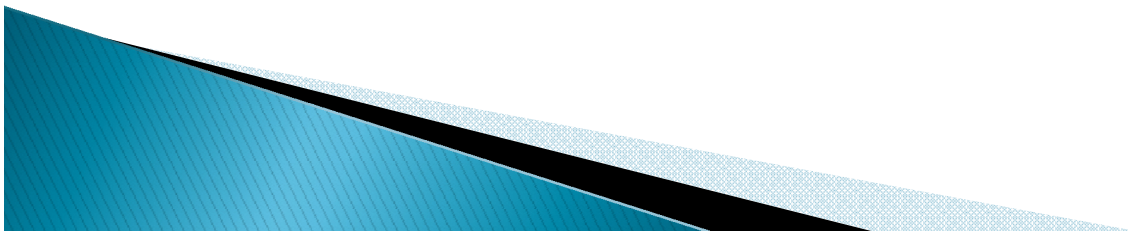
- ▶ There are some jobs where promotion prospects are better than other jobs. Even if initial salary is low, if promotion prospects are there people prefer these jobs to others jobs.



Factors affecting Wages

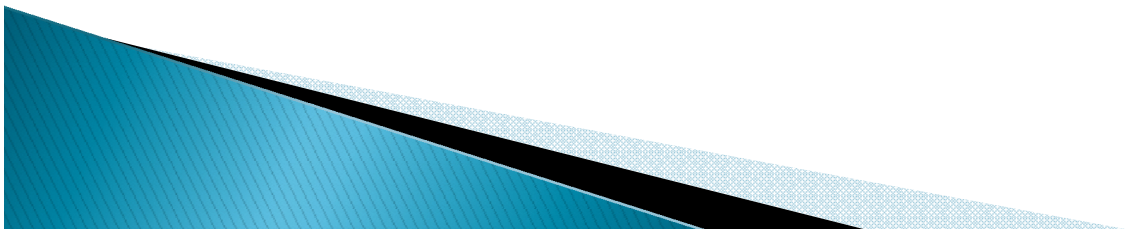
9) Scope for extra earning:

If a job has scope for extra earnings, the regular wage may be lower. A doctor may start with a lower salary than a lecturer but the former can make up the deficiency by private practice.



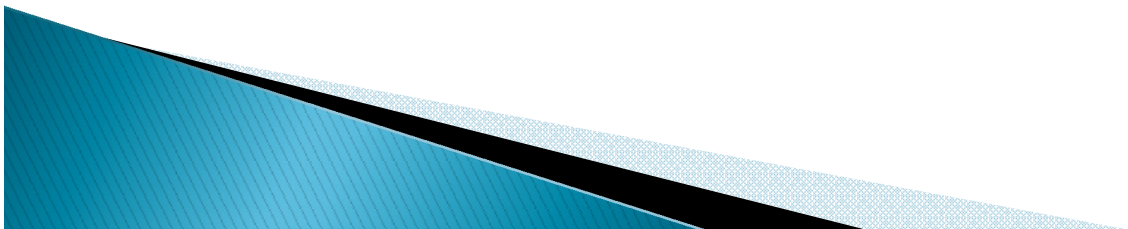
Wage Incentives

- ▶ To succeed, an organization must attract and retain productive employees.
- ▶ Therefore, a business establishes competitive incentive plans to accomplish these objectives. Incentive plans, which are known as performance incentive plans (PIPs), motivate employees to exceed expectations and grow the business.
- ▶ Such plans promote exceptional behavior during a specific period. In addition, they attract potential employees to an organization and encourage company loyalty.
- ▶ However, an incentive plan must contain obtainable goals. Otherwise, employee morale will fade, and the plan becomes ineffective.



Objectives

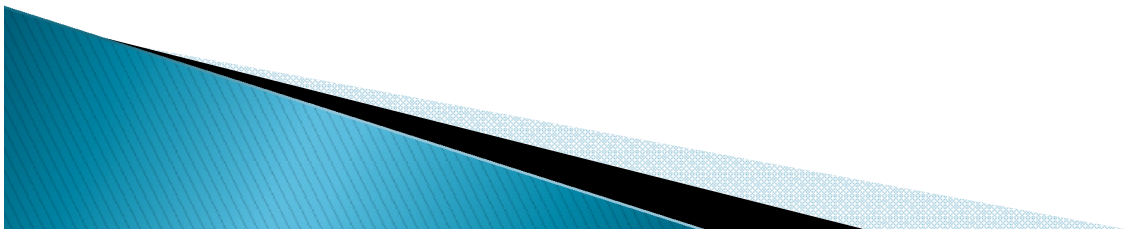
- ▶ The main purpose of incentive plan is to increase the production by giving an extra payment to the workers.
- ▶ It is also called payment by result and a managerial device for increasing production.
- ▶ It is the method of sharing gains in productivity with the workers by rewarding them financially for their increased productivity.



Purpose of Incentives Plans


Retain Customers

- ▶ Not all incentive programs are for employees. Consumer incentive programs target the most valuable customers to participate in targeted programs designed to earn their repeat business. The Performance Improvement Council states that existing customers cost less to reach and buy more in the long run than new customers. Furthermore, just boosting retention rates 5 percent has a lasting impact on lifetime profits per customer.



Purpose of Incentives Plans

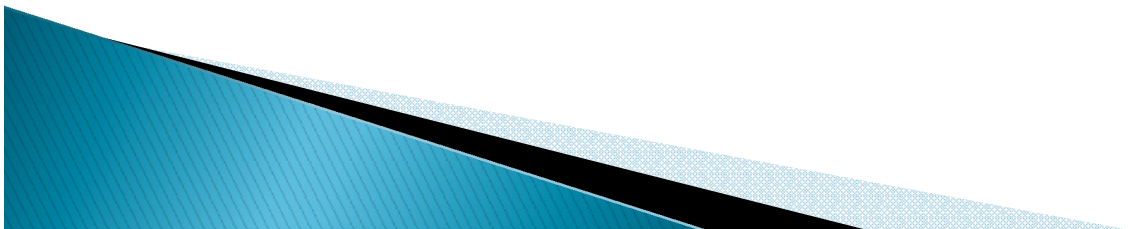
Boost Productivity

- ▶ The end goal of every business is to boost productivity to boost profits. Remember, happy employees are productive employees.
 - ▶ One strategy to keep employees satisfied and motivated is to create a bonus program targeted at generating new business.
 - ▶ Paul Gavejian, managing director of Total Compensation Solutions, says he sees more companies using incentives to motivate staff who pay their own bonuses through their increased productivity.
 - ▶ A 2005 Incentive Federation study reports that incentive plans improve employee morale, teamwork, productivity and work quality.
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Purpose of Incentives Plans

- ▶ **Retain Top Talent**

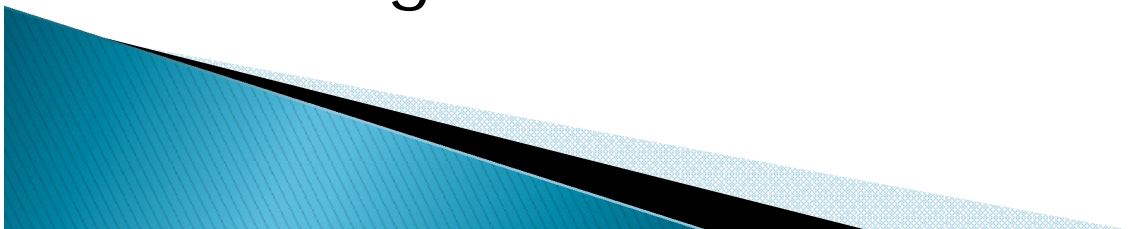
- ▶ To remain competitive, you need comparable incentive plans and bonuses. The Distance Learning Center says, "The rationale for additional benefits is that retention of this group of employees is very important to the organization, so enhancing the membership decision is an important compensation goal. These additional benefits are often termed golden handcuffs." Managers are only a small percentage of your overall organization, but they are the heart and soul of your company. They make the day-to-day decisions affecting employee turnover, motivation and the company's well-being. They are also under considerable stress and feel they should be well compensated for their efforts. If you want to keep them, you must pay for performance.



Importance of incentive wage plan:

Importance of incentive wage plan:

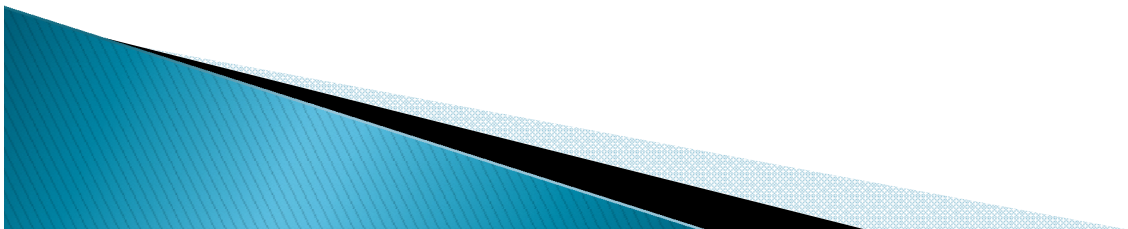
- ▶ 1) Employees are encouraged to find out the new methods to increase productivity.
- ▶ 2) Employees need less supervision.
- ▶ 3) This method helps in maintaining good human relation between the workers and the management.
- ▶ 4) This method develops a feeling of cooperation between the workers and the management.



Types of incentive plans

Stock Options

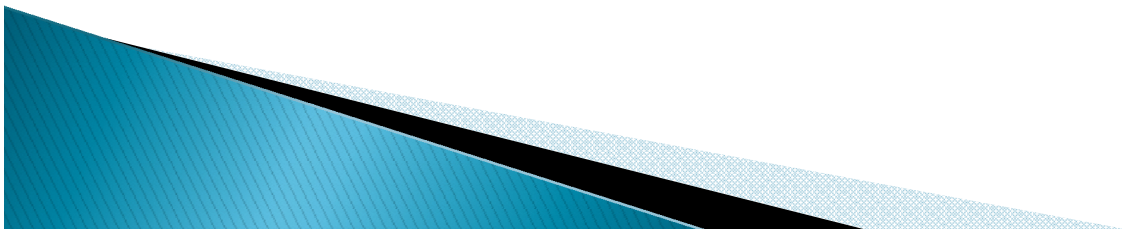
- ▶ A stock option is an incentive offered to employees that want to invest their money into the company stock by purchasing stock with pre-tax money.
- ▶ According to HR Guide, employees that participate in a stock option incentive plan are able to defer paying income tax on the gains realized by their stock purchases until the stock is sold.
- ▶ The company itself does not get any kind of tax break by offering a stock option incentive, but it does reap the benefits of selling more stock.



Factors affecting Wages

Profit Sharing

- ▶ According to Business Town, profit sharing is another incentive plan done with pre-tax dollars. The company sets aside a portion of their pre-tax profits and distributes that money to the employees.
- ▶ In most cases, an employee must qualify to receive profit sharing by meeting company performance metrics, and by having a predetermined amount of service in with the company.
- ▶ Some companies offer to place the pre-tax dollars into the employees' company retirement plans, so it can add to future fund growth. Companies may also develop a profit sharing percentage based on the amount of time worked for the company, the position held within the company or a combination of both conditions



Factors affecting Wages

Performance Units

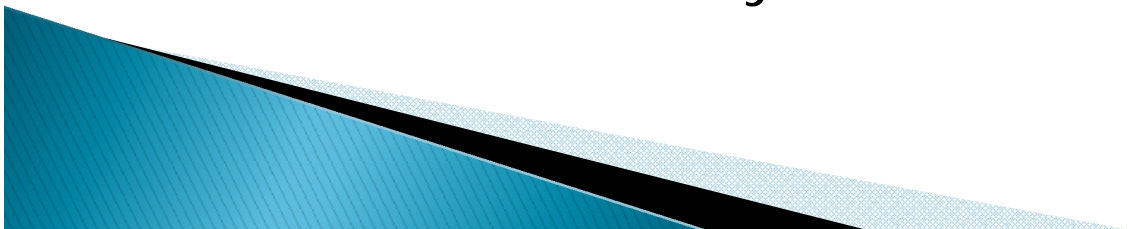
- ▶ According to the Society for Human Resource Management, one type of incentive plan for executives is known as the performance unit.
- ▶ In the executive's agreement there is a schedule of financial milestones that the company must achieve for the executive to get awarded a pre-determined amount of units.
- ▶ The amount of a performance unit varies by company. Performance units are paid out based on a schedule agreed to by the executive and the company



Factors affecting Wages

Bonus Pay

- ▶ The bonus pay structure is common in professions such as sales, marketing and production.
- ▶ When the employees reach a predetermined goal, the company may create an incentive plan that pays a bonus for going beyond that goal. For example, if a manufacturing plant has a goal of 100 units in a month, the company may offer to pay each employee a bonus for each unit manufactured beyond 100 in that month.



How Do Incentive Plans Help Organizations Achieve Goals?


Recognition

- ▶ Many companies use recognition programs as part of an employee incentive plan. When an employee feels valued and appreciated for contributions that advance your business's goals, he is much more likely to be engaged and feel a sense of satisfaction.
- ▶ Positive feedback and open lines of communication between managers and staff inspire employee motivation.
- ▶ Research firm Gallup did an employee engagement survey that showed companies that scored high on employee engagement reported greater business performance than those that did not. Recognition is listed as a key component in determining employee engagement on Gallup's survey instrument.



How Do Incentive Plans Help Organizations Achieve Goals?

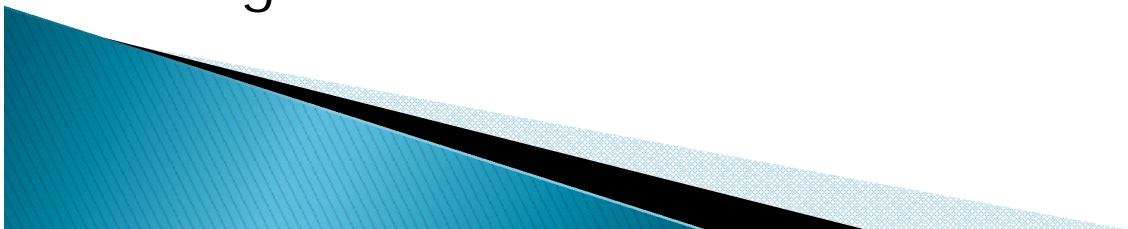
Variable Pay

- ▶ Variable pay can be tied to individual employee performance, a team's contribution to specific revenue targets or both.
 - ▶ The pay structure is usually an addition to a base rate of pay and paid out as a bonus or commission for performance that meets or exceeds expectations.
 - ▶ When companies establish the requirements for awarding variable pay, they are conscious of the revenue targets or customer acquisition numbers that need to be met for the calendar or fiscal year. The purpose behind awarding variable pay as part of an incentive plan is to give employees an extra motivator to work harder towards helping the company meet its revenue or strategic goals.
- 

How Do Incentive Plans Help Organizations Achieve Goals?


Cost Reduction Strategy

- ▶ Many businesses seek ways to reduce operational and employee benefits costs by implementing incentive plans.
- ▶ Wellness programs offered by health insurance providers promote healthier employee lifestyles and decreased employer premiums -- a win-win from any business owner's perspective.
- ▶ Incentive plans can also extend into the realm of green initiatives that cut costs by promoting environmentally conscious behaviors and services. When incentive plans are tied to attendance, values, collaborative efforts and revenue goals, they can create a work environment that is vibrant and positive.
- ▶ A harmonious work environment can reduce absenteeism and attrition -- two factors that can cost your company a significant loss in revenue.



How Do Incentive Plans Help Organizations Achieve Goals?

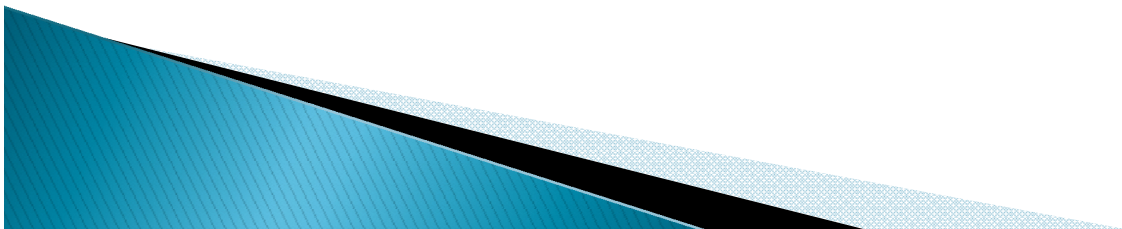
Considerations

- ▶ Keep your incentive plans simple. The more confusing an incentive plan, the more likely employees will not participate.
 - ▶ Talk with your employees about what types of incentives might be enticing. Too often, what the plan's creator thinks is attractive may not be in sync with what most employees perceive as such.
 - ▶ Align your incentive plans with the strategic goals and objectives of the business. When employees are rewarded or recognized for individual or group performance, these should be advancing the company's interests.
 - ▶ The purpose of an incentive plan should be a win-win outcome for both you and your employees.
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Incentive Plans & Employee Wants & Needs

Contest-Based Incentive Plans

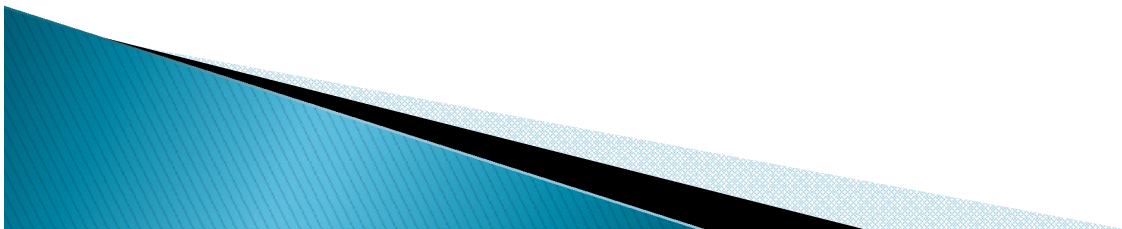
- ▶ Contest-type incentives are commonly used when a small business can afford to award only one standout employee. Employees are told that if they accomplish "X" first, they will receive the reward. This can foster healthy competition in the workforce and help improve productivity. However, over time employees may become disheartened if they never win or if the same person wins over and over again. Thus, you should weigh the risks of this type of reward system very carefully.



Incentive Plans & Employee Wants & Needs

Points-Based Incentives

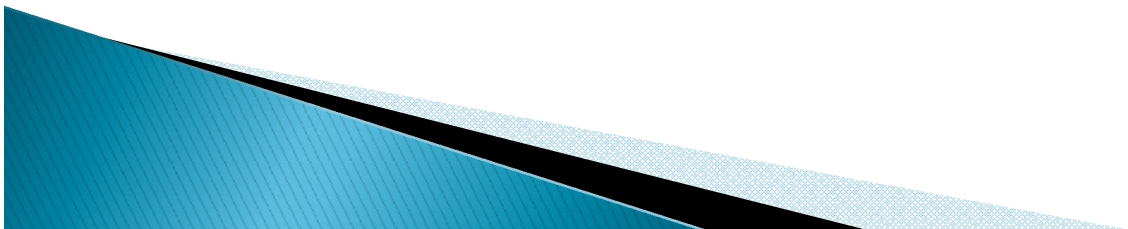
- ▶ In an effort to maintain an air of fairness with performance-based incentives, many companies are switching to a points-based scheme. In this type of incentive plan, employees earn points for various actions or for completing certain tasks. They can then use their points toward items they really want or need. This is a very fair and democratic way of offering incentives and has the added benefit of catering to what an employee wants rather than awarding them with something they cannot use.



Incentive Plans & Employee Wants & Needs

Types of Incentives

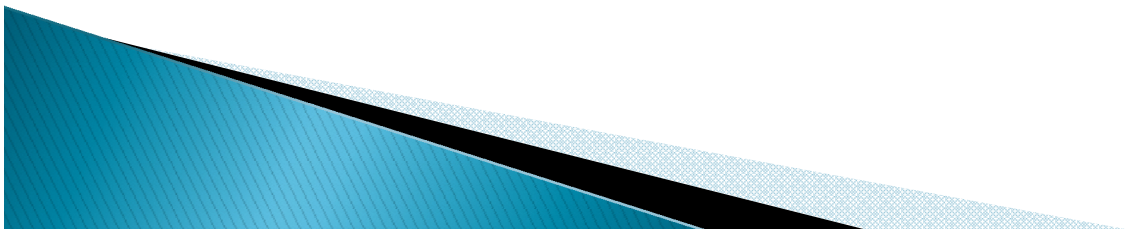
- ▶ You should base the types of incentives on the tasks that need to be completed to earn them. If you have a nearly impossible goal that needs to be attained, the reward for attaining it should be commensurate with the effort required to earn it. For example, in a car dealership, the first person to sell 1,000 cars for that calendar year could receive a free vehicle. Likewise, a reward for selling 10 cars should be much smaller, such as a free travel mug.



Incentive Plans & Employee Wants & Needs

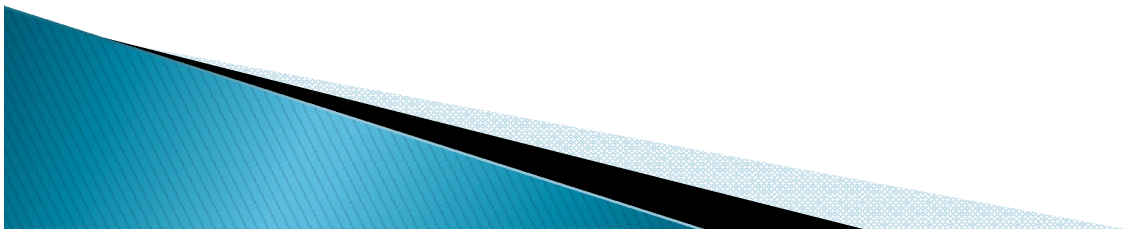
Personalized Incentives

- ▶ Personalized incentives are gaining in popularity as employers recognize that the incentives they have to offer may not be what the employee truly wants or needs. In this instance, several different incentives are offered, such as paid time off, a cash bonus, a gift card or even specific products. The employee can choose which one he would rather have after meeting his goals. This allows him the freedom of choice and can serve as a powerful motivator, since the employee knows he will get what he really wants if he completes his goals.



Importance of incentive wage plan:

- ▶ 1) Employees are encouraged to find out the new methods to increase productivity.
- ▶ 2) Employees need less supervision.
- ▶ 3) This method helps in maintaining good human relation between the workers and the management.
- ▶ 4) This method develops a feeling of cooperation between the workers and the management.



Thanks

