

Chapter 4- Wages & Salary Administration

4.1 Formulation of Compensation Structure

The various components of a compensation policy are discussed below:

Basic Pay: This is a fixed amount to be paid at the end of the month to each employee. This amount is arrived at on mutual agreement at the time of recruitment and could be legally sanctioned. HR pays special attention to the structure of the basic pay in two

a) This becomes a permanent cost figure, which cannot be changed during business downturn and is a commitment made to employees in terms of payment. Therefore, HR team attempts to keep this component relatively less so that compensation paid could be changed in tune with the business cycle.

b) Most of the legal contributions (13 %of basic pay as provident fund,4.75 %as state insurance ,15 days basic pay as gratuity,8.33% -20% of basic as bonus etc.) are made on the basis of basic pay.

Variable Pay

Variable pay is that of the compensation policy which ensures payment as per the cost of living, performance of employees, san so on. This part of the compensation is not fixed and varies according to a number of criteria. Similarly, the amount of performance bonus paid by many hospitality organisations is pegged with last year's performance. This provides blanket coverage to contain the labour cost, especially in the years of recession or bad market conditions. It is important to note that this performance bonus is over and above the bonus granted under the Payment of Bonus Act 1965

Legal Benefits

Indian labour legislations envisage a number of benefits for the employees working in hospitality sectors, and no business institution can run is operation without adhering to the mandates given by various labour legislations viz.*Minimum AGES act, The Equal remuneration Act and The Payment of WAGES Act*

Employee Provident Fund and Miscellaneous Provisions Act

This act is a part of social security measures, which ensures that 12% of basic ay is deducted and deposited with the PF commissioner, and an equal amount is paid by the employer. On retirement or termination of service, this amount is given back to the employee with interest.

Employee State Insurance Act

Under this scheme, an employee gets a blanket coverage for 5 types of benefits (medical assistance, hospitalization, maternity against 1.5% of wages as subscription. The employer needs to pay 4.75% of ages against each employee (whose salary is less than Rs.13000per month)

The payment of Bonus ACT

Employees who have completed at least 30 days of work in a year are eligible for bonus ranging from 833% to 20% of basic wages. This should be paid latest by 30 November the next year

The payment of Gratuity Act

Employees are eligible for gratuity on completion of 5 years of services in an organisation. Employees who have served in hospitality for 5 years or more are eligible for 15 days of basic wages for each completed year of service.

4.2 Objectives of a Good Compensation System

Instrument for motivation

Compensation and benefits management is a key instrument to motivate employees in an organization. To reinforce good employee performance, organisations pay a good remuneration to excellent performers, whereas relatively less compensation is paid to average and below-average employees. Thus, compensation is the language and tool for effective management of employee motivation.

Equity in the organization

One of the basic objectives of compensation and benefit management is to maintain equitable salary and benefit structures, which is not only affordable for an organization to pay to its employees but also renders it attractive in the market so that they can attract good-quality manpower. Good compensation leads to happy employees who should be able to provide their best services to the customers. The world operates on the basis of these dynamics. Basic failure in adherence to equity principles could prove to be disastrous for any hospitality organization.

Discipline

Efficient compensation management also ensures industrial peace and harmony. Labour union participates with the management in negotiations over the wages and other benefits. The negotiated wage has been arrived at during a collective bargaining process between the management and the labour union, which ensured peaceful co-existence, especially during the last few decades of industrial history of India. Deployment of wrong, inadequate, and inappropriate compensation policy will destroy industrial peace between management and unions. Trade union members will not hesitate to undertake legal processes such as strike to redress the inequity in the compensation policy declared by the management. Therefore, a good compensation policy assures industrial peace and harmony and brings discipline in the system.

Language of desirability

Employees use remuneration as a yardstick for their performance. Receipt of good remuneration by the employees also indicates that the employee is important for the organisation. Continuous acknowledgement by paying good remuneration to employees indicates how much importance an organisation gives to the employee. Thus, remuneration becomes the language between employees and employers. In case employees perceive that the salary given in the present

company is relatively less than the market price, then it could lead to mass resignations. On the contrary, in case an employee perceives the salary given by the company is higher than competition, this will motivate them to continue for a longer tenure in the organisation.

Branded company

Good remuneration also helps build the brand in the labour market. Branded companies can easily access the labour market. They receive a lot of job applications from prospective employees. Therefore, good companies are always in a position to negotiate for lower wages. It also provides meaningful identity to the employees, which further enhances the chance of employability in the labour market.

4.3 Determinants of an effective Compensation Policy

There are various determinants of an effective compensation policy. These are discussed in the following subsections:

The labor markets

The condition of the labour market plays a significant role in determining an appropriate compensation and benefit policy. High economic growth provides wider alternative employment opportunities to employees, whereas low economic growth reduces employment opportunity, and the compensation policy should be nimble enough to adjust itself in either of the market situations. Keeping these points in mind, the Indian hospitality industry has given more emphasis on VARIABLE pay.

Cost of Living

Cost of living is one of the main determinants while deciding the salary structure. High cost of living could erode the real value of salary. Therefore, the hospitality organisations need to pay more to ensure that employees are able to maintain the same standard of living. Owing to the high cost of living in the US, CANADA, UK and so on, a lot of top brands closed their respective production infrastructure there and moved to India, China, Brazil and other emerging countries, the reason being that the lower cost of living in these countries works as an advantage as multinationals need to pay lower wages in emerging economies. Cost of living is not a fixed figure but a dynamic concept. The cost of items goes up because inflation in the economy erodes the value of wages and salaries earned. Goods, products, and services become costlier because of inflation. You may not get the same quality and quantity of goods and services for £10,000 next month as you do this, month, as the price for items may increase. There is no legal regulation to link cost of living with wage structure for executives operating at managerial levels; however, the Indian government has enacted the MINIMUM WAGES ACT, which attempts to link the wages of marginal works with the cost of living. Using various provisions of the minimum wages act, the labour department revises dearness allowance twice a year, which is incorporated in the wage structure of the employees.

Labour Unions

Labour unions exercised considerable amount of power to negotiate with the management for compensation and benefits. As discussed earlier, strong union leadership engages with the management under collective bargaining provisions. In terms of power dynamics, an individual employee is powerless while negotiating with the management to demand higher wages. Collective demands consist of a number of employees who garner strength to negotiate with the management for salary and wages. Over the last six decades, labour unions have significantly influenced the salary and wage growth of marginal employees, who otherwise do not get fair wages.

Economic condition of the country

Economic growth is deeply connected with the economic activities of the country. At the time of high economic growth, business institutions speed up the economic activities and profitability goes up. To support economic growth, additional manpower is required, and recruitment function gears up to full swing. As each organisation attempts to attract the best talent from the market, the salary range needs to be revised. On the contrary, during economic downturn, the speed of economic activities goes down, and most organisations make readjustments on a lower end of business operation and some reduce manpower count. Thus, the market has oversupply of manpower looking for job, and therefore, the remuneration package offered during business recession goes down substantially. In most cases, a depressed economy increases the labour supply, leading to lower average wage rate. Thus, economic growth is deeply connected with the remuneration package.

Legal Provisions

In India, there are a number of legal provisions to extend social security benefits to employees, which are non-negotiable and should be fulfilled in order to operate in India. For example, under the provision of the EMPLOYEE STATE INSURANCE(ESI) ACT, all eligible employees should be members of the scheme and the employer should deposit an amount of 4.75% of the wages of the employees to the ESI authorities for onward disbursement, in case of an emergency. Similarly, each employee is eligible for provident fund contribution from employers.

There are some legal provisions that do not influence the salary amount directly but dictate terms for smooth wage and salary administration. For example, the EQUAL REMUNERATION ACT clearly articulates that the management should not make wage discriminations between male and female employees. Similarly, the Payment of Wages Act has framed rules and regulations about the administration of payment of wages, and this includes date of payment and various types of deduction, permitted under the provisions.

Ability to Pay

The compensation policy of a hospitality organisation has a deeper linkage with what the organisation can afford, that is, its ability to pay. For example, some hospitality organisations that were greatly affected by the economic downturn achieved stunted growth for a longer period. During that time, the economic bit on their profitability did not permit them to pay a higher salary to their employees. However, it is important to remember that hospitality organisations do not have the liberty to pay lower than the competitive organisations. It is very rare that some hospitality organisations find good quality of manpower inspire of paying lesser wages than the competition. In hospitality organisations, employee cost, food cost, and energy cost are the 3 most important pillars, which require skillful handling.

Nature of Job

Different types of jobs, done by different employees, bring or facilitate to bring monetary or non-monetary gains for the organisations they are working for. Thus, each job has its market price attached to it. Some of the skill sets are rare in the market place, while some are abundant. Employees with rare skill sets attract high remuneration and vice versa. For example, even though receptionists and front office associates do very important work in hospitality business, for these positions, the market receives huge supply every year through students who are passing out from various hospitality institutes. As this is an entry-level job, the salary negotiated for this job is relatively less than what a trained chef in the kitchen would negotiate for. Thus, acquisition of rare marketable skills is important while getting educated in colleges.

Market information in Pay

Some hospitality organisation attempt to link the remuneration level with the market price attached to the specific job done by the individual employee. This reliance on market-based remuneration is outplayed by the brand value of different business organisations. For example, the HR executive is in a better position to negotiate lower wage/salary figures by arguing about the brand value of the company, which has a significant bearing on the career profile of employees; thus, it is not a bad thing to agree on salary figures a lit lower than the market rate. Some of the companies use market information in pay just as guidance; however, ultimately it has to be fine tuned for the specific candidates as per the experience, knowledge, and importance of the job. The HR department might experience difficulty in deciphering the market information regarding pay because most organisations put their employees under broadband of wages. Therefore, market data should be used only to have broader guidance about the department needs to use a higher degree of discretion while using market information for fixing pay packets for employees.

4.4 Fringe Benefits

Management is concerned with attracting and keeping the employees, whose performance meets or at least minimum levels of acceptability, & keeping 'absenteeism, and 'turnover' within tolerable limits. Hence the provision of 'benefits and services'.

It is important to note that 'financial' incentives may be paid to specific employees whose work is above a certain standard.

Employee benefits and services on the other hand are available to all employees based on their membership in the organization. The purpose of such benefits & services is to retain them. This fosters loyalty and gives a feeling of job security.

Fringe Benefits

Hasn't been defined accurately due to disagreements due to the legal provision and definition of wages/salaries. However, there is subtle differentiation:

- a) Fringe benefits are those which a worker enjoys in addition to wages.
- b) They are also not given for any specific jobs they have performed but are offered to stimulate their interest in their work and to make their job more attractive and productive. They boost the earnings of the employees.
- c) A fringe is never a direct reward geared to the output, effort or merit of an employee. It's offered on the basis of length of service, sickness, sex, hazardous working conditions e.g. maternity and/or paternity leave
- d) Should be intended by an employer as a benefit desired by all staff e.g. subsidizing non-veg meals is not a fringe benefit for vegetarians.
- e) Must constitute a positive cost to employer and should be incurred for employee benefit. If it increases workers' efficiency, it's not a fringe. But if given as a supplement to wages.

Objectives

- 1. To keep in line with prevailing practices offered by similar organizations
- 2. To recruit and retain the best personnel
- 3. To provide for the needs of employees and protect them against certain hazards of life, particularly those which an individual cannot provide himself for.
- 4. To increase and improve employee morale and positive attitude
- 5. To make organization a dominant influence in the lives of its employees with a view of gaining loyalty and greater productive efforts
- 6. To improve public image of the organization
- 7. To recognize official trade union for negotiating sound benefits