

# FACULTY OF JURIDICAL SCIENCES

# Lecture-34



## **Types of Compensations**

We have learnt about what compensation and its importance is. However, when it comes to an organization, be it private or public, compensations are further divided into the following –

### **Direct Compensation**

It is naturally made up of salary payments and health benefits. The creation of salary ranges and pay scales for different positions within an organization are the central responsibility of compensation management staff.

Direct compensation that is in line with the industry standards facilitates employees with the assurance that they are getting paid fairly. This helps the employer not to worry about the costly loss of trained staff to a competitor.

### **Indirect Compensation**

It focuses on the personal encouragements of each individual to work. Although salary is essential, people are most productive in jobs where they share the company's values and priorities.

These benefits can include things like free staff development courses, subsidized day care, the chances for promotion or transfer within the company, public recognition, the ability to effect change or bring some changes in the workplace, and service to others.

These are the two types of compensation that need to be managed and have its own contribution in the development of the organization. Moving forward, we will see the different components of compensation.

## **Components of Compensation**

Compensation as a whole is made up of different components that work as an aid for an employee after retirement or in case of some accident or injury. Now we shall see the key elements or components that make compensation.

### **Wages and Salary**

Wages mark hourly rates of pay, and salary marks the monthly rate of pay of an employee. It is irrelevant of the number of hours put in by an employee working in the firm. These are subject to annual increase.

### **Allowances**

Allowances can be defined as the amount of something that is allowed, especially within a set of rules and regulations or for a specified purpose. Various allowances are paid in addition to basic pay.

Some of these allowances are as follows –

- **Dearness Allowance** – This allowance is given to protect real income of an employee against price rise. Dearness allowance (DA) is paid as a percentage of basic pay.
- **House Rent Allowance** – Companies who do not provide living accommodation to their employees pay house rent allowance (HRA) to employees. This allowance is calculated as a percentage of salary.
- **City Compensatory Allowance** – This allowance is paid basically to employees in metros and other big cities where cost of living is comparatively more. City compensatory allowance (CCA) is normally a fixed amount per month, like 30 per cent of basic pay in case of government employees.
- **Transport Allowance/Conveyance Allowance** – Some companies pay transport allowance (TA) that accommodates travel from the employee's house to the office. A fixed amount is paid every month to cover a part of traveling expenses.

### **Incentives and Performance Based Pay**

Incentive compensation is performance-related remuneration paid with a view to encourage employees to work hard and do better.

Both individual incentives and group incentives are applicable in most cases. Bonus, gain-sharing, commissions on sales are some examples of incentive compensation.

#### Fringe Benefits/Perquisites

Fringe benefits include employee benefits like medical care, hospitalization, accident relief, health and group insurance, canteen, uniform, recreation and the likes.

In recent years, a great deal of attention has been directed to the development of compensation systems that go beyond just money. We can say that all the components of compensation management play a very important role in the life of an employee.

In particular, there has been a marked increase in the use of pay-for-performance for management and professional employees, especially for executive management and senior managers. Compensation is a primary motivation for most employees.