BBA III YEAR

SYLLABUS

UNIT I	Introduction to Employee Relation- Meaning, definition of employee relation. Nature of work and importance of employee relationship, challenges and barriers of employee relation.
UNIT II	Employee Relations and Role of Employment-Determining shape of the Employee Relationship, Significance, Strategies 18 and Policies of employee relations, Individualism and Collectivism, Joint and Unilateral regulation of employment, Centralized and Decentralized approaches to employment 3. relation, role of Government in Employment relations
UNIT III	Introduction to Compensation Management- Definition, Objectives, Principles, Importance of Compensation 18 Management, Types of Compensation, Compensation Approaches
UNIT IV	Compensation Planning- Level, Structure and System, 18 Decision of Compensation level and planning, Factors influencing Compensation Planning. Employee Benefit Programs, Nature and Types of Benefits
UNIT V	Designing Organization System- Building internally 18 consistent Compensation System-Creating internal equity through job analysis and job evaluation, building market competitive compensation System, Compensation Surveys.

BBA III YEAR

EMPLOYEE RELATIONS AND COMPENSATION MANAGEMENT

UNIT -1 & UNIT -2

INTRODUCTION TO EMPLOYEE RELATIONS

EMPLOYEE RELATIONS AND ROLE OF EMPLOYMENT

Employee relations are concerned with generally managing the employment relationship and developing a positive psychological contract. In particular they deal with terms and conditions of employment, issues arising from employment, providing employees with a voice and communicating with employees. Employees are dealt with either directly or through collective agreements where trade unions are recognized.

Employee relations cover a wider spectrum of the employment relationship than industrial relations, which are essentially about what goes on between management and trade union representatives and officials. The wider definition of employee relations recognizes the move away from collectivism towards individualism in the ways in which employees relate to their employers. The concepts of joint control and rule-making belong to a historical era. To a large extent, especially in the private sector, employers are in charge. Union membership has gone down in the United Kingdom from a peak of some 12 million to around 7 million today, largely for structural reasons – the decline of large manufacturing firms and the rise in the service industries, and the growing numbers of part-time workers. Between 1980 and 2000 the coverage of collective agreements contracted from over three-quarters to under a third of the workforce. There has been a dramatic reduction in industrial action.

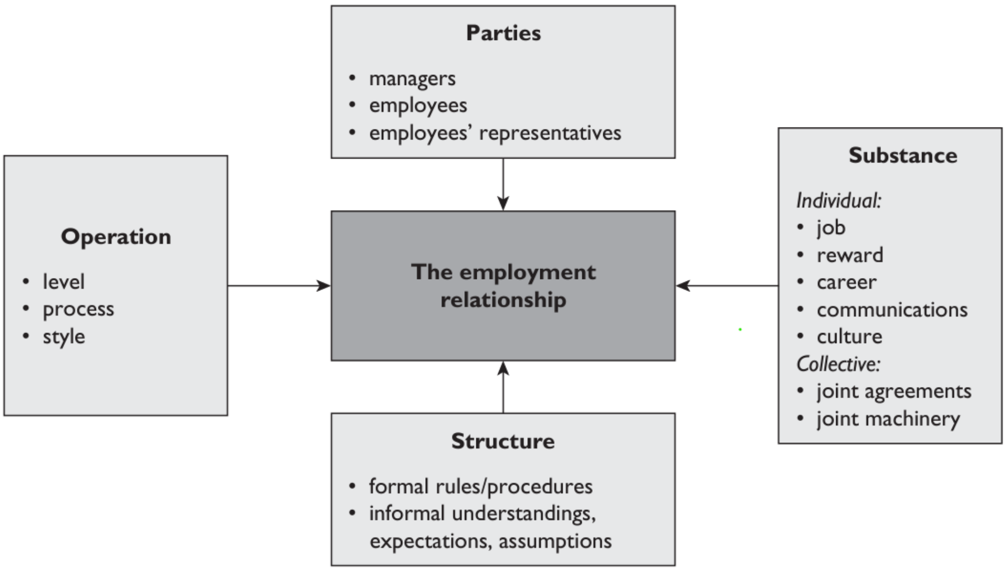
This chapter is organized as follows. It starts with an analysis of the fundamental concepts that explain the nature of employee relations – the employment relationship and the psychological contract. Against the background of these concepts, employee relations philosophies and the employee relations policies that evolve from them are then considered. Employee relations policies, although they may not be articulated, provide the basis for managing employee relations with or without trade unions, and for informal employee relationships. If trade unions are recognized and have negotiating rights, industrial relations will involve collective bargaining and reaching collective agreements. Whatever policies and agreements exist, workplace conflict can still take place, and the next section of the chapter therefore deals with methods of resolving disputes. Finally, there are two sections on dealing with employees generally by giving them a voice (involvement and participation) and through communications policies and practices.

The employment relationship

Organizations consist of employers and employees who work together. This is the employment relationship, which may be expressed formally in what Rubery et al (2002) regarded as its cornerstone, namely the contract of employment. In law an employee is someone working for an employer who has the ultimate right to tell the worker what to do. In the United Kingdom, the Employment Rights Act (1996) defines an 'employee' as a person who works under a contract of employment, the tacit assumption being that 'the employer' is the other party to the contract. The employment relationship can be defined formally by procedure agreements and work rules. But the employment relationship is also an informal process which happens whenever an employer has dealings with an employee and vice versa. Underpinning the employment relationship is the psychological contract, which expresses certain assumptions and expectations about what managers and employees have to offer and are willing to deliver.

The dimensions of the employment relationship

The dimensions of the employment relationship as described by Kessler and Undy (1996) are shown in Figure 16.1.



The basis of the employment relationship

The starting point of the employment relationship is an undertaking by an employee to provide skill and effort to the employer, in return for which the employer provides the employee with a salary or a wage (the pay–work bargain). Initially the relationship is founded on a legal contract. This may be a written contract but the absence of such a contract does not mean that there is no contractual relationship. Employers and employees still have certain implied legal rights and obligations. The employer's obligations include the duty to pay salary or wages, provide a safe workplace, to act in good faith towards the employee and not to act in such a way as to undermine the trust and confidence of the employment relationship. The employee has corresponding obligations, which include obedience, competence, honesty and loyalty.

As Marsden (2007) points out, 'At the heart of the employment relationship lies a "zone of acceptance" within which employees agree to let management direct their labour. This may relate to the range of tasks that employees are willing to undertake at management's direction, but it may also include the priority to be accorded to different types of work, and the willingness to vary working time according to management's requirements.'

The employment relationship exists at different levels in the organization (management to employees generally, and managers to individual employees and their representatives or groups of people). The operation of the relationship will also be affected by processes such as communications and consultation, and by the management style prevailing throughout the organization or adopted by individual managers.

An important point to remember about the employment relationship is that generally it is the employer who has the power to dictate the contractual terms unless they have been fixed by collective bargaining. Except when they are in demand and can strike a bargain with their employer, individuals have little scope to vary the terms of the contract imposed upon them by employers. Inevitably there are conflicts of interest between employers, who want to control compliant and high-performing employees, and employees, who want to maintain their rights to self-determination and 'a fair day's pay for a fair day's work'.

It was claimed by Edwards (1990), in line with labour process theory, that relationships between employers representing capital and employees representing labour are usually ones of 'structured antagonism'. However, as the revisionist labour process theorists Thompson and Harley (2007) commented, 'In the employment relationship there will always be (actual and potential) conflict, but simultaneously there will be shared interests.'

The employment relationship and the psychological contract

The concept of the employment relationship is linked to that of the psychological contract. As described by Guest et al (1996), the psychological contract may provide some indication of the answers to the two fundamental employment relationship questions that individuals pose: 'What can I reasonably expect from the organization?' and 'What should I reasonably be expected to contribute in return?' But it is unlikely that the psychological contract and therefore the employment relationship will ever be fully understood by either party.

The aspects of the employment relationship covered by the psychological contact will include from the employee's point of view:

1. how they are treated in terms of fairness, equity and consistency;
2. security of employment;
3. scope to demonstrate competence;
4. career expectations and the opportunity to develop skills;
5. involvement and influence;
6. trust in the management of the organization to keep their promises.

From the employer's point of view, the psychological contract covers such aspects of the employment relationship as competence, effort, compliance, commitment and loyalty.

Underpinning employment relations philosophies

Relationships between employers and employees are founded on underpinning but seldom articulated philosophies. These are the unitary and pluralist views, the concept of social partnership and, on the part of employers, belief in a collective or individual approach.

The unitary view

The unitary view is one typically held by management, who sees its function as that of directing and controlling the workforce to achieve economic and growth objectives. To this end, management believes that it is the rule-making authority. Management tends to view the enterprise as a unitary system with one source of authority – itself – and one focus of loyalty – the organization. It extols the virtue of teamwork, where everyone strives jointly to a common objective, everyone pulls their weight to the best of their ability, and everyone accepts their place and function gladly, following the leadership of the appointed manager or supervisor. These are admirable sentiments, but they sometimes lead to what McClelland (1963) referred to as an orgy of 'avuncular pontification' on the part of the leaders of industry.

The unitary view, which is essentially autocratic and authoritarian, has sometimes been expressed in agreements as 'management's right to manage'. The philosophy of HRM with its emphasis on commitment and mutuality owes much to the unitary perspective.

The pluralist view

The pluralist view, as described by Fox (1966), is that an industrial organization is a plural society, containing many related but separate interests and objectives which must be maintained in some kind of equilibrium. In place of a corporate unity reflected in a single focus of authority and loyalty, management has to accept the existence of rival sources of leadership and attachment. It has to face the fact that, in Drucker's (1951) phrase, a business enterprise has a triple personality: it is at once an economic, a political and a social institution. In the first sense, it produces and distributes incomes. In the second, it embodies a system of government in which managers collectively exercise authority over the managed, but are also themselves involved in an intricate pattern of political relationships. Its third personality is revealed in the organization's community which evolves from below out of face-to-face relations based on shared interests, sentiments, beliefs and values among various groups of employees.

Pluralism conventionally regards the workforce as being represented by 'an opposition that does not seek to govern' (Clegg, 1976).

The concept of social partnership

Social partnership is the concept that the parties involved in employee relations should aim to work together to the greater good of all. It is based on the mutual gains theory of Kochan and Osterman (1994), which states that employers, employees and trade unions gain from cooperative forms of employment relationships.

Social partnership has been defined by Ackers and Payne (1998) as 'a stable, collaborative relationship between capital and labour, as represented by an independent trade union, providing for low social conflict and significant worker influence on business decision making through strong collective bargaining'.

The concept of social partnership is rooted in stakeholder theory, originally formulated by Freeman (1984). Donaldson and Preston (1995) defined the theory as representing the corporation as a 'constellation of cooperative and competitive interests'. They explained that 'stakeholders are identified by their interest in the corporation, whether or not the corporation has any interests in them. Each group of stakeholder merits consideration because of its own sake and not merely because of its ability to further the interests of some other group, such as the shareholders.' As Hampden-Turner (1996) commented, 'Stakeholders include at least five parties: employees, shareholders, customers, community and government. Wealth is created when all work together.'

Collectivism and individualism

Employers will have views about the extent to which they want to relate to their employees collectively through trade unions or individually. This will determine the use of collective agreements on the one hand, or a focus on individual contracts on the other.

Employee relations policies

Employee relations policies express the philosophy of the organization on what sort of relationships between management and employees are wanted, and how the pay–work bargain should be managed. The overall objectives of employee relations policies should be to create and maintain a positive, productive, cooperative and trusting climate of employee relations. The areas that can be covered are:

1. The employment relationship: the extent to which terms and conditions of employment should be governed by collective agreements or based on individual contracts of employment (in other words, collectivism versus individualism).
2. Trade union recognition: whether trade unions should be recognized or derecognized, which union or unions the organization would prefer to deal with, and whether or not it is desirable to recognize only one union for collective bargaining and /or employee representational purposes.
3. Collective bargaining: if unions are recognized with negotiating rights, the scope of areas to be covered by collective bargaining.
4. Managing workplace conflict: how grievances should be settled and disputes resolved.
5. Participation and involvement: the extent to which the organization is prepared to give employees a voice on matters that concern them. Partnership: the extent to which a partnership approach is thought to be desirable.
6. Harmonization of terms and conditions of employment for staff and manual workers.

7. Working arrangements: the degree to which management has the prerogative to determine working arrangements without reference to employees or, if they are recognized, trade unions.

Employee relations policies provide the basis for managing employee relations with or without trade unions, and can affect informal employee relationships.

Managing employee relations

The ways in which employee relations are managed will depend on whether or not trade unions are recognized. To a large extent day-to-day management is carried out informally.

Managing with trade unions

Trade unions can be recognized with full negotiating and representational rights, or they can only have representational rights, in other words the right to represent employees over grievances, disciplinary matters and redundancy. Trade union members may also take part in joint consultation, and act as health and safety or learning and development representatives.

Ideally, managements and trade unions learn to live together, often on a give and take basis, the presumption being that neither would benefit from a climate of hostility or by generating constant confrontation. It would be assumed in this ideal situation that mutual advantage comes from first, acting in accordance with the spirit as well as the letter of agreed joint regulatory procedures reached in collective agreements, and second, believing that with goodwill on both sides, disagreements can be settled without resource to industrial action. In practice, both parties are likely to adopt a more realistic pluralist viewpoint, recognizing the inevitability of differences of opinion, even disputes, arising because the interests and viewpoints of employers and employees can never be identical.

In the 1960s and 1970s things were different. In certain businesses, for example the motor and shipbuilding industries, hostility and confrontation were rife. And newspaper proprietors tended to let their unions walk all over them in the interests of peace and profit.

Times have changed. Trade union power has diminished in the private sector, if not in the public sector. Managements in the private sector have tended to seize the initiative. They may be content to live with trade unions but they give industrial relations lower priority. They may feel that it is easier to continue to operate with a union because it provides a useful, well-established channel for communication and for the handling of grievance, discipline and safety issues. In the absence of a union, management need to develop alternatives, which can be costly and difficult to operate effectively.

Managing without trade unions

Managements can manage perfectly well without trade unions. It may make no obvious difference to many employees, but some will not do so well. Millward et al (1992) established the characteristics of union-free employee relations from the third Workshop Industrial Relations Survey:

1. Employee relations were generally seen by managers as better in the non-union sector than in the union sector.
2. Strikes were almost unheard of
3. Labour turnover was high but absenteeism was no worse.
4. Pay levels were generally set unilaterally by management.
5. The dispersion of pay was higher, it was more market related and there was more performance-related pay. There was also a greater incidence of low pay.
6. In general, no alternative methods of employee representation existed as a substitute for trade union representation. Employee relations were generally conducted with a much higher degree of informality than in the union sector. In a quarter of non-union workplaces there were no grievance procedures, and about a fifth had no formal disciplinary procedures.
7. Managers generally felt unconstrained in the way in which they organized work.

Informal employee relations processes

Where there are formal processes of collective bargaining and dispute resolution, as described later in this chapter, a framework for industrial relations is provided in so far as this is concerned with agreeing terms and conditions of employment and working arrangements and handling workplace conflict. But within or outside that framework, informal employee relations processes are taking place continuously.

These happen whenever a line manager or team leader is handling an issue in contact with an individual employee, a group of employees, an employee representative or a shop steward. The issue might concern methods of work, allocation of work and overtime, working conditions, health and safety, achieving output and quality targets and standards, discipline or pay (especially if a payment-by-results scheme is in operation).

Line managers and supervisors handle day-to-day grievances arising from any of these issues, and are expected to resolve them to the satisfaction of all parties without invoking a formal disputes or grievance procedure. The thrust for devolving responsibility for HR matters to line managers has increased the onus on the latter to handle employee relations well. Effective team leaders establish good working relationships with their staff, or where they exist staff representatives, which enable issues to be settled amicably before they become a problem.

Creating and maintaining a good employee relations climate – one of cooperation, trust and mutuality – in an organization may be the ultimate responsibility of top management, advised by HR specialists. But the climate will be strongly influenced by the behaviour of line managers and team leaders.

Collective bargaining

Managing with unions, as described earlier, involves collective bargaining – the establishment by negotiation and discussion of agreements on matters of mutual concern to employers and unions, covering the employment relationship and terms and conditions of employment. Collective bargaining is a joint regulating process, dealing with the regulation of management in its relationships with work people as well as the regulation of conditions of employment. It was described by Flanders (1970) as a social process which 'continually turns disagreements into agreements in an orderly fashion'.

Collective bargaining can also be seen as a political relationship in which trade unions, as Chamberlain and Kuhn (1965) noted, share industrial sovereignty or power over those who are governed, the employees. The sovereignty is held jointly by management and union in the collective bargaining process.

Above all, collective bargaining is a power relationship which takes the form of a measure of power sharing between management and trade unions (although recently the balance of power has shifted markedly in the direction of management, at least in the private sector). Bargaining power is the ability to induce the other side to make a decision or take a course of action that it would otherwise be unwilling to make. Each side is involved in assessing the bargaining preferences and bargaining power of the other side. As Fox and Flanders (1969) commented, 'Power is the crucial variable which determines the outcome of collective bargaining.' It has been suggested by Hawkins (1979) that the main test of bargaining power is 'whether the cost to one side in accepting a proposal from the other is higher than the cost of not accepting it'.

Forms of collective bargaining

Collective bargaining takes two basic forms, identified by Chamberlain and Kuhn (1965): first, conjunctive bargaining, in which both parties are seeking to reach agreement, and second, cooperative bargaining, in which it is recognized that each party is dependent on the other and can achieve its objectives more effectively if it wins the support of the other.

Walton and McKersie (1965) made the distinction between distributive bargaining, defined as the 'complex system of activities instrumental to the attainment of one party's goals when they are in basic conflict with those of the other party', and integrative bargaining, defined as the 'system of activities which are not in fundamental conflict with those of the other party and which therefore can be integrated to some degree'. These activities aim to define 'an area of common concern, a purpose'.

Collective agreements

The formal outcomes of collective bargaining are substantive agreements, procedural agreements, new style agreements, partnership agreements and employee relations procedures.

Substantive agreements- Substantive agreements set out agreed terms and conditions of employment, covering pay, allowances and overtime regulations, working hours, holidays and flexibility arrangements, and the achievement of single status or harmonization. Single status means that there are no differences in basic conditions of employment. Harmonization is the adoption of a common approach to pay and conditions for all employees, for example, placing all employees in the same grade and pay structure.

Procedural agreements -Procedural agreements set out the methods to be used and the procedures or rules to be followed in the processes of collective bargaining and the settlement of industrial disputes. Their purpose is to regulate the behaviour of the parties to the agreement, but they are not legally enforceable, and the degree to which they are followed depends on the goodwill of both parties or the balance of power between them. Like substantive agreements, procedural agreements are seldom broken, and if so, never lightly – the basic presumption of collective bargaining is that both parties will honour agreements that have been made freely between them.

The scope and content of such agreements can vary widely. Some organizations have given limited recognition to the provision of representational rights only, while others have taken an entirely different line in concluding single-union deals which, when they first emerged in the 1980s, were sometimes referred to as the 'new realism'.

Single-union deals - Single-union deals typically agree that there should be a single union representing all employees, and cover flexible working practices, the harmonization of terms and conditions between manual and non-manual employees, the commitment of the organization to involvement and the disclosure of information, the resolution of disputes by such means as arbitration a commitment to continuity of production and a 'no-strike' provision.

New-style agreements- The so-called 'new-style agreements' emerged in the 1990s. These stipulate that negotiating and disputes procedures should be based on the mutually accepted 'rights' of the parties expressed in the recognition agreement. They typically included provision for single-union recognition, single status, labour flexibility, a company council and a no-strike clause to the effect that issues should be resolved without resource to industrial action.

Dispute resolution

The aim of collective bargaining is of course to reach agreement, preferably to the satisfaction of both parties. Grievance or negotiating procedures provide for various stages of 'failure to agree', and often include a clause providing for some form of dispute resolution in the event of the procedure being exhausted. The types of dispute resolution are conciliation, arbitration and mediation.

1. **Conciliation**

   Conciliation is the process of reconciling disagreeing parties. It is carried out by a third party, in the United Kingdom often an ACAS conciliation officer, who acts in effect as a go-between, attempting to get the employer and trade union representatives to agree on terms. Conciliators can only help the parties to come to an agreement. They do not make recommendations on what that agreement should be. That is the role of an arbitrator.

   The incentives to seek conciliation are the hope that the conciliator can rebuild bridges and the belief that a determined, if last-minute, search for agreement is better than confrontation, even if both parties have to compromise.

2. **Arbitration**

   Arbitration is the process of settling disputes by getting a third party, the arbitrator, to review and discuss the negotiating stances of the disagreeing parties and make a recommendation on the terms of settlement which is binding on both parties, who therefore lose control over the settlement of their differences. The arbitrator is impartial, and the role is often undertaken in the United Kingdom by ACAS officials, although industrial relations academics are sometimes asked to act in this capacity. Arbitration is the means of last resort for reaching a settlement, where disputes cannot be resolved in any other way. Procedure agreements may provide for either side unilaterally to invoke arbitration, in which case the decision of the arbitrator is not binding on both parties. The process of arbitration in its fullest sense, however, only takes place at the request of both parties, who agree in advance to accept the arbitrator's findings. ACAS will not act as an arbitrator unless the consent of both parties is obtained, conciliation has been considered, any agreed procedures have been used to the full and a failure to agree has been recorded.

The notion of pendulum or final offer arbitration emerged in the 1980s and 1990s. It increases the rigidity of the arbitration process by allowing an arbitrator no choice but to recommend either the union's or the employer's final offer – there is no middle ground. The aim is to get the parties to avoid adopting extreme positions. But the evidence from the Workshop Employee Relations Survey (2004) was that the full version of pendulum arbitration, as defined above, was rare.

3. **Mediation**

   Mediation is a form of arbitration which is stronger than conciliation. It takes place when a third party (often ACAS) helps the employer and the union by making recommendations which, however, they are not bound to accept. It is a cheap and informal alternative to an employment tribunal and offers a quick resolution to problems, with privacy and confidentiality.

Employee voice

Employee voice is the say employees have in matters of concern to them in their organization. Boxall and Purcell (2003) defined it: 'Employee voice is the term increasingly used to cover a whole variety of processes and structures which enable, and sometimes empower employees, directly and indirectly, to contribute to decision making in the firm.' Employee voice can be seen as 'the ability of employees to influence the actions of the employer' (Millward et al, 1992). The concept covers the provision of opportunities for employees to register discontent, express complaints or grievances, and modify the power of management. It sometimes brings collective and individual techniques into one framework. Direct employee voice involves contacts between management and employees without the involvement of trade unions. Union voice is expressed through representatives and can be power-based.

The forms of employee voice Employee voice takes the following forms:

- **Participation,** which is about employees playing a greater part in the decision-making process by being given the opportunity to influence management decisions and to contribute to the improvement of organizational performance. As Williams and Adam-Smith (2006) explain, the term 'participation' refers to arrangements that give workers some influence over organizational and workplace decisions.
- **Involvement,** which is the process through which managers allow employees to discuss with them issues that affect them. Williams and Adam-Smith (2006) suggest that this term is most usefully applied to management initiatives that are designed to further the flow of communication at work as a means of enhancing the organizational commitment of employees.

Marchington et al (2001) categorized these elements of employee voice as representative participation and upward problem solving.

Representative participation

Representative participation can take the following forms:

- Joint consultation: a formal mechanism which provides the means for management to consult employee representatives on matters of mutual interest.
- Partnership schemes: these emphasize mutual gains and tackling issues in a spirit of cooperation rather than through traditional, adversarial relationships.
- Collective representation: the role of trade unions or other forms of staff association in collective bargaining and representing the interests of individual employees and groups of employees. This includes the operation of grievance procedures.

Upward problem solving

Upward problem solving takes the following forms:

- Upward communication – which is any means through which employees can make representations to management about their concerns through their representatives, through established channels (consultative committees, grievance procedures, 'speak-up' programmes and so on) or informally.
- Attitude surveys – seeking the opinions of staff through questionnaires.
- Suggestion schemes – the encouragement of employees to make suggestions, often accompanied by rewards for accepted ideas.
- Project teams – getting groups of employees together with line managers to develop new ideas, processes, services or products, or to solve problems. (Quality circles and improvement groups come into this category, although the former have often failed to survive as a specific method of involvement.)

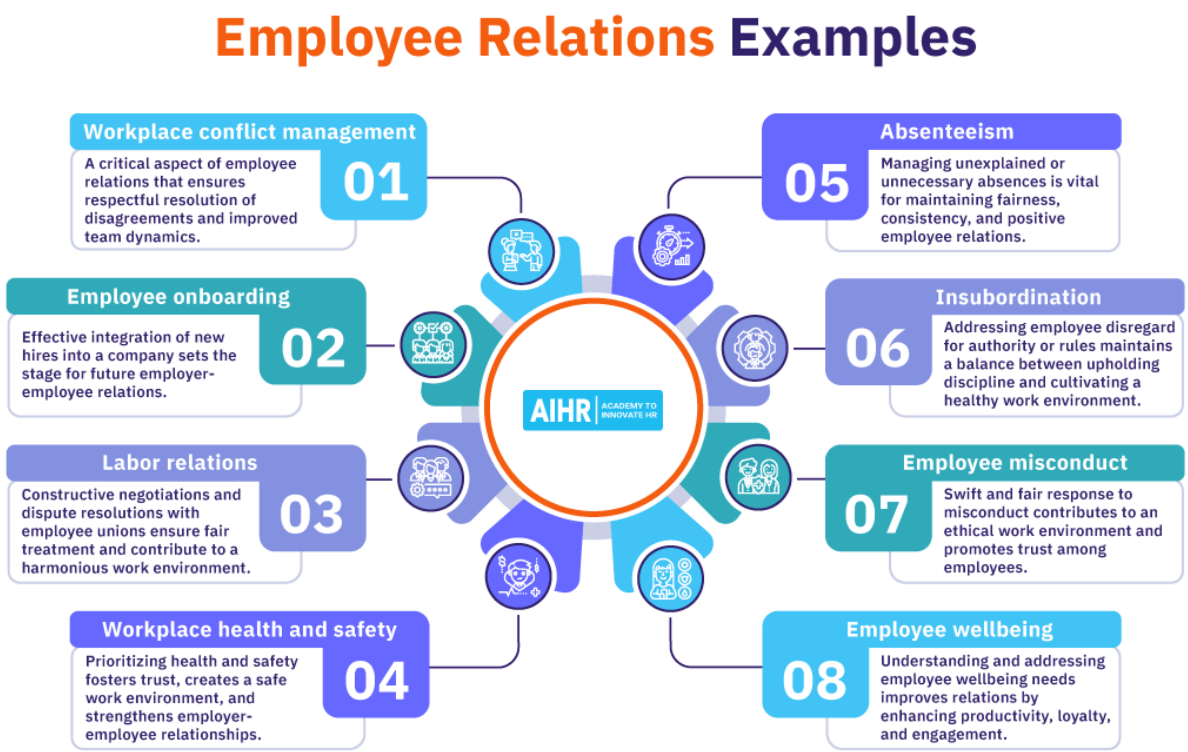
Communications

Employee communication processes and systems provide for 'two-way communication'. In one direction they enable organizations to inform employees about matters that will interest them. In the other, they provide for upward communication by giving employees a voice, as described above.

Communications should be distinguished from consultation. As the ACAS (2005) guide states, communication is concerned with the exchange of information and ideas within an organization, while consultation goes beyond this, and involves managers actively seeking and then taking account of the views of employees before making a decision.

The importance of employee communications

Good communications are important for three reasons. First, they are a vital part of any change management programme. If any change is proposed in terms and conditions of employment, HR processes such as contingent pay, working methods, technologies, products and services, or the organization structure (including mergers and acquisitions), employees need to know what is proposed and how it will affect them. Resistance to change often arises simply because people do not know what the change is or what it implies. Second, organizational engagement or commitment will be enhanced if employees know what the organization has achieved, or is trying to achieve, and how this benefits them. Third, effective communications generate trust, as organizations take trouble to explain what they are doing and why. However, it should be emphasized that these three benefits of good communications will only be realized in full if employees are given a voice – the opportunity to comment and respond to the information they obtain from management.



Importance of employee relations

Since employees are the engine of any organization, you want to make sure that both employee-employer and cross-employee relations are well maintained.

Effective employee relationship management translates into the following advantages:

- **More effective workplace communication** – Fostering the relationship between employers and employees encourages open communication throughout the organization on a wide scale basis and at a personal level. This allows employees to better understand expectations, goals, and objectives and how their contributions make a difference.
- **Less workplace conflict** – Stronger relations between management and teams creates an atmosphere that encourages dialogue and honest conversations that can resolve issues before they turn into a controversy. When disputes do occur, having a platform for addressing them ensures that employees are heard and makes conflict resolution swift and effective.
- **Higher employee morale and loyalty** – Viewing employees as partners in a relationship shows them respect and appreciation. When employees feel a positive connection to their employer, they are empowered to be more satisfied and productive in their jobs. A work environment with high morale keeps people more content and dedicated to their employer.
- **Better reputation as an employer** – Employees who feel valued at work will speak highly of their employer to others. Companies with strong employee relations often have a better reputation among potential employees, customers, investors, and other stakeholders. That can lead to increased business opportunities for the organization.
- **Lower employee turnover** – Employees who have a good relationship with their employer will tend to focus more on the positive aspects of their job, making them less restless and prone to searching out other opportunities. This allows the organization to retain valuable, productive employees longer and reduce turnover.
- **Improved organizational performance** – Keeping employees content and motivated is a crucial factor in overall organizational performance. When workers feel connected to their employer and are thriving in their roles, they become more productive and inspired to contribute toward the long-term success of the business.

EMPLOYEE RETENTION

'Employee relations' describes the relationship between employers and employees. Today's interpretation of employee relations reflects the increasing individualisation of the employment relationship following the rise of individual workplace rights.

Individual voice channels are very important. But collective channels, that use union and/or non-union representatives, give employees a collective voice that can complement and reinforce individual channels.

Informing and consulting the workforce is a core people management principle. If done well, it provides an effective mechanism for dialogue between management and workers, typically via their elected representatives. This provides senior management with the opportunity to impart important information or plans to the workforce and gain buy-in. For their part, employees can exercise their collective voice, an indirect channel via their representatives, to make suggestions, ask questions or raise concerns. . It emphasises the importance of making sure the relationship between an organisation and its people is managed through transparent practices and relevant law.

Employee retention is crucial for the success and stability of any organization. High turnover can be costly in terms of recruitment, training, and lost productivity. Here are some techniques and strategies to improve employee retention:

Competitive Compensation and Benefits:

Ensure that your employees are compensated fairly based on industry standards.

Offer competitive benefits packages, including health insurance, retirement plans, and other perks.

Career Development Opportunities:

Provide opportunities for professional growth and development.

Offer training programs, workshops, and mentorship to help employees enhance their skills and advance in their careers.

Recognition and Rewards:

Recognize and appreciate employees for their hard work and achievements.

Implement reward programs, such as bonuses, incentives, or employee of the month awards.

Flexible Work Arrangements:

Offer flexibility in work schedules, remote work options, or compressed workweeks.

Provide a healthy work-life balance to help employees manage their personal and professional lives.

Positive Work Environment:

Foster a positive and inclusive workplace culture.

Encourage open communication, collaboration, and a sense of belonging among employees.

Effective Leadership:

Train managers to be effective leaders who can inspire and support their teams.

Ensure that leaders are approachable, provide constructive feedback, and address concerns promptly.

Employee Engagement Surveys:

Conduct regular surveys to gauge employee satisfaction and identify areas for improvement.

Act on feedback and involve employees in decision-making processes when possible.

Wellness Programs:

Implement wellness initiatives to support employees' physical and mental health.

Offer resources such as fitness programs, mental health support, and stress management workshops.

Clear Communication:

Communicate organizational goals, expectations, and changes transparently.

Keep employees informed about company news and updates.

Employee Assistance Programs (EAPs):

Provide access to counseling services, financial advice, and other support services through EAPs.

Promote Work-Life Balance:

Encourage employees to take breaks and vacations to prevent burnout.

Set realistic expectations for workload and deadlines.

Exit Interviews:

Conduct exit interviews to understand the reasons behind employee departures.

Use the feedback to make improvements and address potential issues.

By combining these strategies, organizations can create a positive work environment that fosters employee satisfaction and loyalty, ultimately contributing to higher retention rates.

Why employee retention matters

Hiring top talent to help you meet your organizational goals is important, but losing an employee is expensive, and not just financially. This is why investing in a proven set of practices, policies and strategies to retain your top performers and reduce turnover is critical.

Let's explore why employee retention matters in more detail.

- **Cost savings** – replacing an employee can cost between one-third to double their annual salary when you account for recruitment, hiring and training, which can quickly become expensive.

- **Better team morale** – when an employee leaves, it usually leaves an open vacancy for a few months, and the rest of the team often has to pick up the workload left behind. This can lead to increased work pressure and stress, which can have a negative impact on performance and morale and lead to even more resignations.
- **Knowledge retention** – the longer an employee stays at an organization, the more they build up and apply institutional knowledge that is crucial for success, and they are also able to transfer this knowledge to new hires.
- **Increased competitiveness** – providing employees with opportunities for development and growth is an effective employee retention strategy, which often leads to greater competencies, and can give the company a competitive advantage.
- **Sustainable business growth** – high employee retention rates mean that you are relying less on hiring new employees to fill vacancies, which can lead to a more sustainable business and long-term growth.
- **Better collaboration** – the longer an employee stays with an organization, the more familiar they become with its policies and their colleagues' working styles, which improves collaboration and helps everyone achieve shared goals.

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<u>Individualism and collectivism</u>

Individualism and collectivism are cultural dimensions that describe the ways in which individuals relate to each other and to their societies. These concepts are part of Hofstede's cultural dimensions theory, which explores variations in cultural values across different societies.

Individualism:

Definition: Individualism refers to a cultural orientation where individuals prioritize their own goals, needs, and interests over those of the group. It emphasizes personal achievement, independence, and self-expression.

Similarities in Indian Context: While India is often considered a collectivist society, there are individualistic tendencies, especially in urban and modern settings. In professional environments, for example, there is a growing emphasis on individual accomplishments and career development.

Differences in Indian Context: Traditional Indian culture places a significant emphasis on family, community, and social harmony. However, with globalization and urbanization, there has been an increasing acceptance of individualistic values, particularly among the younger generation.

Collectivism:

Definition: Collectivism involves a cultural orientation where individuals prioritize the goals and needs of the group or community over personal aspirations. It values cooperation, interdependence, and harmony within the social unit.

Similarities in Indian Context: India is often characterized as a collectivist society due to the importance placed on family, extended family, and community relationships. Decision-making is often influenced by the impact on the group.

Differences in Indian Context: In contemporary India, especially in urban areas, there is a noticeable shift towards individualism, particularly in professional and educational settings. However, the underlying collectivist values remain strong in societal and familial contexts.

Differences and Similarities in Indian Context:

Family Structure: India traditionally has strong family ties, reflecting collectivist values. However, urbanization has led to smaller family units and increased emphasis on individual autonomy.

Workplace Dynamics: Traditional Indian workplaces often reflect collectivist values with hierarchical structures and a focus on group goals. In modern, globalized industries, there is a growing acceptance of individual contributions and recognition.

Social Expectations: Social expectations in India are often collective, emphasizing conformity to societal norms and roles. However, individualistic expressions are becoming more acceptable, especially in urban areas.

Decision-Making: Traditional Indian decision-making involves consultation with family or elders, aligning with collectivist tendencies. In contrast, individual decision-making is gaining prominence, particularly in personal and career choices.

It's important to note that India is diverse, and cultural orientations can vary across regions, communities, and generations. The coexistence of both individualistic and collectivistic values adds richness and complexity to the cultural landscape in the Indian context.

ROLE OG GOVERNMENT IN EMPLOYEE RELATIONS

In the context of India, the government plays a significant role in shaping and regulating employee relations. The government's involvement is aimed at ensuring fair labor practices, protecting the rights of workers, and promoting industrial harmony. Here are some key aspects of the government's role in employee relations in India:

1. **Legislation and Regulation:**
    - The government enacts and amends labor laws to regulate various aspects of employment, such as working hours, wages, benefits, and working conditions.
    - The Industrial Disputes Act, Minimum Wages Act, Factories Act, and other relevant statutes govern employer-employee relationships.
2. **Social Security and Welfare Measures:**
    - The government is responsible for implementing social security measures, such as provident funds, employee state insurance, and gratuity, to ensure financial protection for workers.
    - Various welfare schemes, including housing facilities and healthcare programs, are also implemented to improve the overall well-being of employees.
3. **Collective Bargaining and Trade Unions:**
    - The government facilitates the process of collective bargaining between employers and trade unions to negotiate terms and conditions of employment.
    - The Trade Unions Act, 1926, regulates the formation and functioning of trade unions, ensuring that they operate within legal frameworks.

4. **Resolution of Industrial Disputes:**
   - In cases of conflicts or disputes between employers and employees, the government provides mechanisms for dispute resolution. This may involve labor courts, industrial tribunals, and conciliation officers.
   - The Industrial Disputes Act, 1947, outlines procedures for resolving disputes through negotiations, conciliation, and adjudication.
5. **Employment Generation and Skill Development:**
   - The government formulates policies to promote employment generation and skill development programs to enhance the employability of the workforce.
   - Initiatives like the National Skill Development Mission aim to equip workers with the necessary skills for various industries.
6. **Monitoring and Enforcement:**
   - Government agencies, such as the Ministry of Labor and Employment, are responsible for monitoring and enforcing compliance with labor laws and regulations.
   - Inspection and audit processes are carried out to ensure that employers adhere to statutory provisions related to employment.
7. **Equal Opportunities and Anti-Discrimination:**
   - The government works towards creating an inclusive and diverse workforce by implementing policies that promote equal opportunities and prevent discrimination based on gender, caste, religion, or other factors.
8. **Occupational Health and Safety:**
   - The government establishes and enforces regulations related to occupational health and safety to ensure a safe working environment for employees.
   - The Factories Act, 1948, and other relevant laws address issues related to workplace safety.

In summary, the role of the government in employee relations in India encompasses the formulation and enforcement of labor laws, promotion of social security and welfare measures, facilitation of collective bargaining, resolution of industrial disputes, and the overall promotion of fair and harmonious employer-employee relationships.

UNIT 3

INTRODUCTION TO COMPENSATION MANAGEMENT

Process of compensation management is to establish & maintain an equitable wage & salary structure & an equitable cost structure .it involves job evaluation, wage & salary survey, profit sharing &control of pay costs. Two important functions of compensation

• Equity function

• Motivation function

Equity is based on past & current performance& motivation with which the work has been performed in the past & current performance.

Compensation is a tool used by management for a variety of purposes to further the existence of the company. Compensation may be adjusted according the business needs, goals, and available resources.

Compensation may be used to

• Recruit and retain qualified employees.

• Increase or maintain morale/satisfaction.

• Reward and encourage peak performance.

• Achieve internal and external equity.

• Reduce turnover and encourage company loyalty.

• Modify (through negotiations) practices of unions.

Recruitment and retention of qualified employees is a common goal shared by many employers. To some extent, the availability and cost of qualified applicants for open positions is determined by market factors beyond the control of the employer. While an employer may set compensation levels for new hires and advertise those salary ranges, it does so in the context of other employers seeking to hire from the same applicant pool. Morale and job satisfaction are affected by compensation. Often there is a balance (equity) that must be reached between the monetary value the employer is willing to pay and the sentiments of worth felt be the employee. In an attempt to save money, employers may opt to freeze salaries or salary levels at the expense of satisfaction and morale. Conversely, an employer wishing to reduce employee turnover may seek to increase salaries and salary levels. Compensation may also be used as a reward for exceptional job performance. Examples of such plans include: bonuses, commissions, stock, profit sharing, gain sharing. Employee compensation refers to all forms of pay or rewards going to employees and arising from their employment, and it has two main components. There are direct financial payments in the form of wages, salaries, incentives, commissions and bonuses and there are indirect payments in the form of financial benefits like employee paid insurance and vacations. So in nutshell we can say that employee compensation refers to all the forms of pay or rewards going to employees and arising from their employment Compensation includes direct cash payments, indirect payments in the form of employee benefits & incentives to motivate employees to strive for higher leveis of productivity is a critical component of employment relationship. Compensation is affected by many factors like labour market factors, collective bargaining, government legislation & top management philosophy regarding pay benefits.

Nature and Purpose of compensation management

The basic purpose of compensation management is to establish and maintain an equitable reward system. The other aim is the establishment and maintenance of an equitable compensation structure, i. e, an optimal balancing of conflicting personnel interests so that the satisfaction of employees and employers is maximized and conflicts minimized. The compensation management is concerned with the financial aspects of needs, motivation and rewards. Managers, therefore, analyze and interpret the needs of their employees so that reward can be individually designed to satisfy these needs. For it has been rightly said that people do what they do to satisfy some need. Before they do anything, they look for a reward or pay-off. The reward may be money or promotion, but more likely it will be some pay-off-a smile, acceptance by a peer, receipt of information, a kind word of recognition etc.

A Sound Compensation Structure Tries to Achieve These Objectives

• To attract manpower in a competitive market.

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

• To maintain satisfaction of employees by exhibiting that remuneration is fair adequate & equitable. To induce & reward improved performance, money is an effective motivator.

A. For employees

1. Employees are paid according to requirements of their jobs, i.e., highly skilled jobs are paid more compensation than low skilled jobs. This eliminates inequalities.

2. The chances of favoritism (which creep in when wage rates are assigned) are greatly minimized.

3. Job sequences and lines of promotion are established wherever they are applicable.

4. Employees' morale and motivation are increased because of the sound compensation structure.

B. To Employers

1. They can systematically plan for and control the turnover in the organization.

2. A sound compensation structure reduces the likelihood of friction and grievances over remuneration

3. It enhances an employee's morale and motivation because adequate and fairly administered incentives are basic to his wants and needs.

4. It attracts qualified employees by ensuring and adequate payment for all the jobs.

What are the components of a compensation system?

Employees as fair if based on systematic components will perceive compensation. Various compensation systems have developed to determine the value of positions. These systems utilize many similar components including job descriptions, salary ranges/structures, and written procedures. The components of a compensation system include:

· Job Descriptions: A critical component of both compensation and selection systems, job descriptions define in writing the responsibilities, requirements, functions, duties, location, environment, conditions, and other aspects of jobs. Descriptions may be developed for jobs individually or for entire job families.

· Job Analysis: The process of analyzing jobs from which job descriptions are developed. Job analysis techniques include the use of interviews, questionnaires, and observation.

· Job Evaluation: A system for comparing jobs for the purpose of determining appropriate compensation levels for individual jobs or job elements. There are four main techniques: Ranking, Classification, Factor Comparison, and Point Method.

· Pay Structures: Useful for standardizing compensation practices. Most pay structures include several grades with each grade containing a minimum salary/wage and either step increments or grade range. Step increments are common with union positions where the pay for each job is pre-determined through collective bargaining.

· Salary Surveys: Collections of salary and market data. May include average salaries, inflation indicators, cost of living indicators, salary budget averages. Companies may purchase results of surveys conducted by survey vendors or may conduct their own salary surveys. When purchasing the results of salary surveys conducted by other vendors, note that surveys may be conducted within a specific industry or across industries as well as within one geographical region or across different geographical regions. Know which industry or geographic location the salary results pertain to before comparing the results to your company.

· Policies and Regulations

Principles of Compensation Management

• Differences in pay should be based on differences in job requirements.

• Wage & salary level should be in line with those prevailing in the job market.

• Follow the principle of equal pay for equal work.

• Recognize individual differences in ability & contributions. The employees & trade unions should be involved in while establishing wage rates.

• The wages should be sufficient to ensure for the worker &his family reasonable standard of living.

• There should be a clearly established procedure for redressal of grievances concerning wages

• The wage & salary structure should be flexible.

• Wages due to employees should be paid correctly & promptly.

• A wage committee should review & revise wages from time to time.

Different types of Compensation

Different types of compensation include:

• Base Pay

• Commissions

• Overtime Pay

• Bonuses, Profit Sharing, Merit Pay

• Stock Options

• Travel/Meal/Housing Allowance Benefits including: dental, insurance, medical, vacation, leaves, retirement, taxes...

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In a layman's language the word Compensation means something, such as money, given or received as payment or reparation, as for a service or loss. On the other hand, the word Reward means something given or received in recompense for worthy behavior or in retribution for evil acts. The word Compensation may be defined as money received in the performance of work, plus the many kinds of benefits and services that organizations provide their employees. On the other hand, the word Reward or Incentive means anything that attracts an employees' attention and stimulates him to work. An incentive scheme is a plan or a programme to motivate individual or group performance. An incentive programme is most frequently built on monetary rewards (incentive pay or monetary bonus), but may also include a variety of non-monetary rewards or prizes.

Compensation or rewards (incentives) can be classified into

1. Direct compensation and
2. Indirect compensation.

Money is included under direct compensation (popularly known as basic salary or wage, i.e. gross pay) where the individual is entitled to for his job, overtime-work and holiday premium, bonuses based on performance, profit sharing and opportunities to purchase stock options. While benefits come under indirect compensation, and may consist of life, accident, and health insurance, the employer's contribution to retirement (pensions), pay for vacation or illness, and employer's required payments for employee welfare as social security. While French says, the term "Incentive system" has a limited meaning that excludes many kinds of inducements offered to people to perform work, or to work up to or beyond acceptable standards. It does not include:

1.Wage and salary payments and merit pay;

2. Over-time payments, pay for holiday work or differential according to shift, i.e. all payments which could be considered incentives to perform work at undesirable times; and

3. Premium pay for performing danger tasks. It is related with wage payment plans which tie wages directly or indirectly to standards of productivity or to the profitability of the organization or to both criteria. Compensation represents by far the most important and contentious element in the employment relationship, and is of equal interest to the employer, employee and government.

1. To the employer because it represents a significant part of his costs, is increasingly important to his employee's performance and to competitiveness, and affects his ability to recruit and retain a labor force of quality.

2. To the employee because it is fundamental to his standard of living and is a measure of the value of his services or performance.

3. To the government because it affects aspects of macroeconomic stability such as employment, inflation, purchasing power and socio – economic development in general. While the basic wage or pay is the main component of compensation, fringe benefits and cash and non-cash benefits influence the level of wages or pay because the employer is concerned more about labor costs than wage rates per se. The tendency now is towards an increasing mix of pay element of executive compensation has substantially increased in recent years.

UNIT 4 , 5

COMPENSATION PLANNING

Compensation planning means developing a compensation *strategy* that supports your business strategy, operating objectives, and employee needs. Your compensation plan should include salaries, benefits, and incentives, as well as pay-band details, development levels, and when and how employees are eligible for raises and bonuses.

Compensation isn't just the amount in your offer letter or paycheck. Instead, it consists of a variety of elements, including:

- Health insurance
- Equity
- Retirement plans
- Time off
- Bonuses
- Flexible work hours
- Growth opportunities
- Personalized coaching
- On-site services
- Subsidized transportation benefits
- Fitness stipends

- Catered meals

The process of developing and implementing a comprehensive strategy for compensating employees in an organization is called Compensation Planning.

Based on various factors such as job responsibilities, market trends, and organizational goals, an appropriate and particular kind of compensation package for each position will be determined for different industries.

The goal of compensation planning is to ensure that employees are fairly compensated for their work to derive work satisfaction and that the organization remains competitive in the market. Under paid workforce will be deprived of work satisfaction.

- A well-designed compensation plan can help attract and retain top talent, improve employee morale, engagement and productivity, and reduce turnover rates.

Why is Compensation Planning Important?

- Compensation planning is crucial for any organization as it ensures that employees are fairly compensated for their work, which in turn improves their motivation, engagement, productivity, and job satisfaction while at the same time reducing turnover rates, absenteeism and job abandonment.

By creating a comprehensive strategy for compensation, organizations can attract and retain top talent, reduce turnover rates, and become a competitive benchmark in the market. It is also an opportunity for organizations to show their commitment to their employees and their well-being, which can positively impact overall organizational culture.

A compensation-wise satisfied workforce displays traits like brand loyalty, improved morale, engagement and retention, i.e., a sense of belongingness to the workplace.

Regular evaluation and adjustment of the compensation plan are essential to ensure that it remains relevant and effective in meeting the needs of both the organization and its employees.

Objectives of Compensation Planning

The objectives of a compensation plan are multifaceted, but they all serve the ultimate goal of aligning employee compensation with organizational objectives.

One objective is employee retention, which involves attracting and retaining qualified employees through a competitive and fair compensation package.

Another objective is employee motivation, which involves using compensation to motivate desired employee behavior, such as meeting performance targets or achieving specific goals.

Workplace equality is also an important objective, which ensures fair pay and a similar pay package according to years of service, skills and qualifications are given to workgroups to avoid discrimination or resentment.

Providing a competitive pay structure to improve recruitment and retention and lower turnover rates and incidences of job abandonment is also a critical objective.

Finally, it is essential to follow legal requirements to ensure the compensation plan meets all legal obligations and complies with all government and company rules and regulations.

Organizations should ensure that their pay packages and compensation plan is effective in attracting, motivating, and retaining employees, which in turn can be achieved by meeting the objectives mentioned earlier.

Factors influencing compensation planning

Several factors can influence compensation planning, including:

1. Industry and Market Trends:

The compensation packages offered by an organization should be in line with industry and market trends or a benchmark in the concerned sector to remain competitive and attract top talent. If an organization falls behind in terms of compensation, it risks losing skilled employees to competitors.

2**. Organizational Objectives:**

The compensation plan should align with the organization's objectives, such as increasing sales and profits, reducing costs, and improving employee retention. The compensation plan should be like an incentive for employees to work towards achieving these objectives.

3. **Job Analysis:**

The compensation plan should be based on job analysis, which involves evaluating the job responsibilities, skills, and qualifications required for each position.
This analysis ensures that the compensation package to individual employees reflects the value of each role and how much each benefits the company's bottom line in the long and short run.

4. **Employee Performance:**

The compensation plan should be based on employee performance and productivity, with high performers being rewarded more than low performers.

This approach helps to motivate employees to perform at their best and fosters a culture of meritocracy rather than mediocrity.

5. **Budget Constraints:**

Budget constraints can also influence compensation planning, as an organization may need help to afford high salaries or costly benefits packages due to the company's current financial position. Therefore, the compensation plan must balance the need to attract and retain talent with the organization's financial resources.

6. **Legal Requirements:**

Legal requirements, such as minimum wage laws and anti-discriminatory regulations governing overtime pay, must be complied with when designing a compensationplan.

Non-compliance with legal requirements can result in legal action against the organization, and the negativity associated with law encroachment is a definite put-off for attracting and retaining top talent in the industry. Consulting with legal professionals and conducting regular audits can help to ensure compliance.

In conclusion, several factors can influence compensation planning, including industry, market trends, organizational objectives, job analysis, employee performance, budget constraints, and legal requirements. By considering these factors, organizations can design a competitive compensation plan that is aligned with organizational objectives and compliant with legal requirements at the same time sufficient to provide employees work satisfaction, engagement and motivation.

A Compensation Plan

A compensation plan (also known as a comp plan) is a set of guidelines for employees' salaries, bonuses, and equity. It gives current and prospective employees a clear view of their employment package—which gives your company an advantage as you're hiring.

A great compensation plan not only sets the value of what you're paying (compensation bands), but also defines roles and levels and outlines how performance will be evaluated. Ideally, it's part of a total rewards plan, which documents your comp plan plus the benefits you offer.

A compensation plan is built on four pillars: compensation philosophy, job architecture, performance management, and incentives.

1. **Compensation Philosophy:** your company's overall position about employee compensation. Your compensation philosophy should align with your business strategy to hire, retain, and reward top talent.
2. **Job architecture:** how you define roles and leveling. Also called leveling or job structure, this refers to the hierarchy of jobs within your company.
3. **Performance management:** guidelines for performance evaluations. This helps managers track employees' work so they can receive ongoing feedback and advance their careers.
4. **Incentives:** how you pay employees for their performance. Incentives like bonuses, and equity compensation, encourage employee performance and stimulate productivity.

Creating or updating any compensation program starts with a clear philosophy. Knowing what your company values makes it easier to make decisions that match those values. Knowing *why*you're making those decisions will make sure the entire planning process goes smoothly. Once you have that down, we'll explore items two through four below.

Creating a Compensation Plan

The steps to creating a compensation plan vary from company to company. These are some of the steps you can start with when creating yours:

1. Determine your compensation philosophy
2. Outline job architecture by defining roles and levels
3. Create guidelines for performance evaluations
4. Define direct compensation (salary, bonus, and equity)
5. Add in benefits
6. Implement a pay equity process
7. Conduct post-hoc reviews