

CHAPTER 1: INTRODUCTION

The term compensation represents the exchange between employees and organization, both gives something in return for something else. In the past, the compensation issues were often confidential and govern by individual employer's preferences and choices. However in today's competitive world the compensation policies are more transparent and the employees take their own choices based on the compensation package. Thus, balancing the cost of compensation and retaining the employees have become the most important priority for the organization (**Bhattacharyya 2009**).

1.1. Compensation

The compensation is a substitute word of wages and salaries and it has recently originated. The literature of wages and salaries' are enormous but it considers the issues from a legal viewpoint. However, wages have now become very significant as a cost factor (**Bhattacharyya 2009**).

Compensation is the remuneration received by an employee in returns of their contribution to the organization. The compensation management is an organized practice which is important for balancing the work and employee relationship by providing monetary and non-monetary compensation to employees. Compensation includes all form of pay given to the employees which arise from the employment. The one of the strapping feature of the organizations is compensation management and they used it to attract and retain the most important and worthy assets. The compensation management is considered to be a complex process which requires accuracy and precision and if not carried out properly may lead to employees' dissatisfaction. An ideal compensation policy motivates the employees to work harder and with more determination. It also helps the organizations to set the standards for job that it is related, realistic and measurable. Compensation policies should have a sound integration with practices of HRM. One of the key functions of compensation management of any company is to create a hearty competition among the employees in order to attain more efficiently and provide growth opportunities to its employees (**Khan, Aslam, Lodhi, 2011**).

1.1.1. Definition of Compensation

According to **Cascio (1995)** the “Compensation includes direct cash payments and indirect payments in form of employees benefits and incentives to motivate employees to strive for higher levels of productivity”.

According to **Milkovitch and Newman (2005)** the “Compensation is all forms of financial returns, tangible services and benefits employees receive as part of an employment relationship.” The phrase “financial returns” refers to an individual's base salary, as well as short- and long-term incentives. “Tangible services and benefits” are such things as insurance, paid vacation and sick days, pension plans, and employee discounts.

1.1.2. Objectives of Compensation

Bhattacharay (2009) had provided the following objectives of compensation or wages as given below:

◆ Equity

The first category is equity which may take several forms. It include income distribution through narrowing of inequalities, increasing the income of lowest paid employees, protecting real wages (purchasing power), and the concept of equal pay for work of equal values. Compensation management strives for internal and external equity. Internal equity requires pay related to the worth of similar job so that similar job gets similar pay. External equity means paying worker what other firms in the labor market pay comparable workers. Compensation differentials, based on differences in skills or contribution, are all to the concept of equity.

◆ Efficiency

The objective of efficiency are reflected in attempts to link a part of wages to productivity or profit, group or individual performance, acquisition and application of skills, and so

on. Arrangement to achieve efficiency may also be seen as being equitable (if they fairly reward performance) or inequitable (if the reward is viewed as unfair).

◆ **Macro-economic Satiability**

It can be achieved through high employments level and low inflation. For instance, an inordinately high minimum wages would have an adverse impact on levels employment, though at what level these consequences would occur is a matter of debate. Although compensation policies influence macro-economic stability and contribute to the balanced and sustainable economic development.

◆ **Efficient Allocation of Labor**

The efficiency allocation of labor in the labor market implies that employees will move to wherever they receive a net gain. Such movement may be from one geographical location to another or from one job to another (within or outside an enterprise). The provision or availability of financial incentive causes such movement.

◆ **Motivating the Employees**

Employees may have talent but they will not be motivated to use their talent unless they know that they will be rewarded duly for their contribution towards organizational objectives or be punished for not contributing as per the demands of the job.

◆ **Acquired Qualified Employees**

Compensation needs to be high enough to attract applicants. Pay levels must respond to supply and demand of workers in the labor market since employers compete for workers.

◆ **Retain Current Employees**

Employees may quit when compensation levels are not competitive resulting in higher turnover. Therefore, one of the important objective of Compensation Management is retaining the human capital or talent of the organization.

◆ **Reward Desired Behavior**

Pay should reinforce desired behavior and act as incentive for those behaviors to occur in future.

◆ **Control Cost**

A rational compensation system helps the organization obtain and retain workers at reasonable cost.

◆ **Comply with Legal Regulations**

A sound wage and salary system considers the legal challenges imposed by the government and ensures the employers compliance.

◆ **Facilitate Understanding**

The Human Resource specialists, operating managers and employees should easily understand the compensation management.

◆ **Further Administrative Efficiency**

Wages and salary programs should be designed to be managed efficiently, making optimal use of HRIS i.e. Human Resource Information System.

1.2.4. Principles of Compensation Formulation

There are following seven principles of Compensation Formulation (**Jain, 2014**):

- i.** The organization should have a unambiguous plan to determine differential pay levels in terms of different job requirements involving varied skills, exertion, responsibility and working conditions.
- ii.** An attempt should be made to keep the common level of wages and salaries of the organization in line with that obtained in the labor market.
- iii.** Adequate attention should be taken to distinguish people from the jobs. Although people are paid in terms of rate embodied in specific jobs, some exceptions should

be allowed in the cases of professional and executive personnel by paying them in terms of their abilities and contributions.

- iv. The care should be taken irrespective of individual considerations to ensure that equal pay for equal work.
- v. There should be a plan to adapt an unbiased measure for identifying individual differences in capacity and contribution in the form of rate ranges with in the grade increments, wages incentive schemes and a system of job promotion.
- vi. There should be proper procedure for handling the wage grievances in organization.
- vii. Adequate care should be taken to inform the employees and the union, if any, about the procedure followed in determining wage rates. There were no confidential wages and the employees should have a clear understanding of their wage or salary structure. This will enhance employee satisfaction with wages. There are certain guiding principles which provide the foundation for effective reward management.

1.2.5. Components of Compensation

The components of a compensation system include (**hr-guide, 2014**):

◆ Job Descriptions

The job description is the written responsibilities, functions, duties, requirements, conditions, environment, location and other facets of jobs.

◆ Job Analysis

The process of analyzing the job is job analysis and job descriptions are also developed from it. Job analysis techniques include the use of interviews, questionnaires, and observation.

◆ **Job Evaluation**

It is a process of comparing jobs for the determining adequate compensation for individual jobs or job elements.

◆ **Pay Structures**

The pay structure includes the several grades and each grade containing a minimum salary, increments and grade range.

◆ **Salary Surveys**

It is a collection of survey of salary and market data and also includes inflation indicators, average salaries, cost of living indicators, salary budget averages. Companies may purchase results of surveys conducted by survey vendors or may conduct their own salary surveys.

◆ **Policies and Regulations**

Compensation is supposed to be as fair if it is contained the system of components to develop and maintain internal and external equity in organization.

1.2.6. Job Evaluation

Job evaluation is the output provided by job analysis. Job evaluation uses the information of job analysis to evaluate job and valuing its components and ascertaining relative job worth to formulate proper wages or salary structure (**Elcher & David, 1974**). So it is a process through which jobs are evaluated in organization (**cited in Mamoria & Ganker, 2011**).

When job is evaluated then the relative worth of a given collection of duties and responsibilities to the organization is assessed. This process is adopted to help a management to maintain high level of employees' productivity and employees' satisfaction. If job valued is not properly studied, it is very likely that jobs would not be properly priced, i.e. high valued job received less pay then less valued job. When

employees' relies this then they will become dissatisfied and they may leave the organization, reduce their efforts or perhaps adopt other modes of behavior detrimental to the organization. Therefore, in modern society a great deal of attention is paid to the value of a job. In other words, a person is paid for what he brings to a job- his education, training and experience provided that these are related to the requirements of the job which he is assigned (**Mamoria & Ganker, 2011**).

1.2.6.1. Definition of Job Evaluation

International Labor Organization defines Job Evaluation as “An attempt to determine and compare the demands which the normal performance of particular jobs make on normal workers without taking into account of the individual abilities or performance of the workers concerned.” (**Mamoria & Ganker, 2011**).

The **Bureau of Labor Statistics, U.S.A. (1973)**, says that “Job evaluation is the evaluation or rating of jobs to determine their position in the job hierarchy. The evaluation may be achieved through the assignment of points or the use of some other systematic method for essential job requirements, such as skills experience and responsibility”.

According to the **French & Wendell (1977)**, “Job evaluation is a process of determining the relative worth of the various jobs within the organization, so that differential wages may be paid to the jobs of different worth”. The relative worth of the job means value produced by such factors as responsibilities and other requirements.

1.2.6.2. The Job Evaluation Process

The basic procedure of job evaluation is to compare the content of jobs in relation one another and also in terms of their skills or responsibility or some other requirement. In India, the National Institute of Personnel Management has laid down the following steps which should be taken to install a job evaluation program: (**Mamoria & Ganker, 2011**)

i. Analyze and Prepare Job Description

This requires the preparation of a job description and also an analysis of job requirements for successful performance.

ii. Select and Prepare a Job Evaluation Plan

This means that a job must be broken down into its component parts, i.e., it should involve the selection of factors, elements needed of factors, elements needed for the performance of all jobs for which money is paid, determining their value and preparing written instructions for evaluation.

iii. Classify Jobs

It required organizing the jobs in a correct order in terms of value to the firm and relating the job in terms of money to determine their relative worth.

iv. Install the Program

This involves explaining it to employees and putting it into operation.

v. Maintain the Program

Jobs cannot continue without updating new jobs and job changes in obedience to changing conditions and situation.

1.2.7. Wage Determination Process

The steps involve in determining wage rate are: **(Mamoria & Ganker, 2011)**

i. The process of Job Analysis

Results of job descriptions lead to job specification. A job analysis describes the duties, responsibilities, working conditions and inter-relationships between the jobs as it is and the other jobs with which it is associated. It attempts to record and analyze details concerning the training, skills, required efforts, qualifications, abilities, experience, and responsibilities expected of an employees. After determining the job specifications, the

actual process of grading, rating or evaluating the job occurs. A job is rated in order to determine its values relative to all the other jobs in the organization which are subject to evaluation.

ii. Wages Surveys

When the worth of job is resolute by job evaluation then the definite amount to be must paid and it is determined by wage or salary surveys in the concerned area. Such survey seek to answer questions like what are other firms paying? What are they doing by way of social insurance? What is the pay level which is offered by other firms of similar occupation? etc., by gathering information about 'benchmark jobs', which are usually known as good indicators. Such wage surveys provide many kinds of useful information about difference in wage level for particular kinds of occupations. This can have great influence on an organization's compensation policy.

iii. Relevant Organizational Problems

In addition to the results of job analysis and wage surveys, several other variable have to be given due to consideration in establishing wage structure. For example, whether there exists a well-established and well-accepted relationship among certain jobs which can upset job evaluation, whether the organization would recruit new employees after revised wage structure; are the prevailing rate in the industry or community inconsistent with the results of job evaluation? What will be the result of paying lower or higher compensation; and what should be the relationship between the wage structure and the fringe benefit structure? Belcher has listed 108 variables which can affect levels of compensation and the wage structure.

iv. Preparation of Wage Structure

The next step is to determine the wage structure. For this several decision need to be taken, such as: (a) whether the organization wishes, or is able, to pay amount above, below, or equal to the average in the community or industry: (b) whether wage ranges should provide for merit increases or whether there should be single rates; (c) the number and width of the 'pay grade' and the extent of overlap; (d) which jobs are to be placed in

each of the pay grade; (e) the actual money value to be assigned to various pay grade; (f) differentials between pay plans; and (g) what to do with salaries that are out of line once these decisions have been made.

There are though no hard and fast rules for making such decisions, and procedure commonly used is the two-dimensional graph on which job evaluation points for key jobs are plotted against actual paid against actual amounts paid or against desired levels. Plotting the remaining jobs then reveals which jobs seem to be improperly paid with respect to the key jobs and each other.

1.2.8. Factor Influencing Compensation management

According to the **Jain** the number of factors influences the remuneration payable to employees. They can be categorized into: **(i)** external and **(ii)** internal factors. **(managementstudyhq, 2014; managementparadise, 2014)**

A. External Factors

Followings are external factors which influence compensation:

i. Labor Market

Demand and supply of labor influences the fixation of wage and salary. A lower wage fixed when the labor demands were less than the labor supply. A higher wage will have to be paid when the labor demand more than labor supply it happened as in the case of skilled labor. A paradoxical situation is prevailing in our country—excessive unemployment is being juxtaposed with shortage of skilled labor.

ii. Cost of Living

Next in importance to labor market is the cost of living. This matters is criterion during periods of rising prices but it is forgotten when prices are stable or falling. When the cost of living is rise and it required to be remunerated by payment of dearness allowance, basic pay to continue uninterrupted.

iii. Labor Unions

The presence or absence of labor organizations often determine the substantial wages paid to the employees. Employers of non-unionized organization enjoy the liberty to fix wages and salaries as they want. Because of larger-scale unemployment, these employers hire workers at little or even less than legal minimum wages. An individual non-unionized company may be pay more to its employees if they want to discourage them from forming one. The employees of strongly unionized companies too have no freedom in fixation of wage and salary. They are forced to vintage the pressure of labor representatives in revision and determination of pay scales.

iv. Union Influences on Compensation Decisions

Unions and labor relations laws also influence compensation design. The various labor legislations and court decisions were legitimized the labor movement.

v. Labor Laws

We have a various labor laws at the central and as well as at the state levels. These legislations are for protection of employees interests.

vi. Society

Compensation paid to employees is imitated the prices fixed by an organization for their goods and services. The Supreme Court, from its very inception, has had to adjudicate industrial disputes—particularly disputes relating to wages and allied problems of financial concern to the worker- an ethical and social outlook liberally interpreting the spirit of the Constitution.

vii. The Economy

The economy has its impact on wage and salary fixation is the state of the economy. While it is possible for some organizations to thrive in a recession, there is no question that the economy does not affect remuneration decisions.

B. Internal Factors

Following are the internal factors which influence compensation:

i. Business Strategy

The overall strategy of a company which pursue the determination of employees compensation. The strategy is to sustain and protect current profit because of the declining fortunes of the company the compensation level were needs to be average or even below average.

ii. Performance Appraisal

The Performance appraisal helps to reward, compensation hike for the employees who show better performance.

iii. The Employee

Several employee-related factors interact to determine his or her remuneration. These include performance, seniority, experience, potential, and even sheer luck.

1.2.9. Criteria of Effective Compensation Program

There were seven criteria to judge the effectiveness of compensation: [**Jain, 2014; Bhattacharay, 2009**)

Adequate: Minimal governmental, union, and managerial levels should be met.

Equitable: Each person should be paid fairly, in line with his or her effort, abilities and training.

Balanced: Pay, benefits and other rewards should provide a reasonable in total reward package.

Cost Effective: Pay should not be excessive, considering what the organization can afford to pay.

Secure: Pay should be enough to help an employee feel secure and aid him or her in satisfying basic needs.

Acceptable to the Employee: The employee should understand the pay system and feel it is a reasonable system for the enterprise and himself or herself.

Incentive providing: Pay should motivate effective and productive work.

1.2.10. Types of Compensation

Compensation is of two types Direct Compensation and Indirect Compensation.

A. Direct Compensation

Direct compensation refers to monetary compensation provided to employees in returns of their services to the organization. It includes , TA, DA, HRA, LTA, special allowances, bonus, etc. They are given at a regular interval at a definite time (**naukrihub, 2014**).

i. House Rent Allowance (HRA)

Company either provides housings facility or they provide house rent allowances to its employees.

ii. Dearness allowance

The payment of dearness allowance facilitates employees and workers to face the price increase or inflation of prices of goods and services consumed by him.

iii. Leave Travel Allowance (LTA)

The employees are given allowances to visit any place they wish with their families.

iv. City Compensation Allowance

City compensation allowance is paid to the employees in certain cities to compensate the cost of living. It varies from city to city & it is highest in metropolitan cities.

v. Incentives

Incentives and variable compensation can be among the most important drivers of individual performance. An incentive is something that motivates an individual for good perform.

vi. Bonus

Bonus is paid to the employees during festive seasons to motivate them and provide them the social security.

vii. Special Allowance

Special allowance such as overtime, mobile allowances, meals, commissions, travel expenses, reduced interest loans; insurance, club memberships, etc are provided to employees to provide them social security and motivate them which improve the organizational productivity.

B. Indirect Compensation

Indirect compensation are refers to non-monetary compensation provided to employees in return of their services to the organization (**naukrihub, 2014**).

i. Leave Policy

It is the right of employee to get adequate number of leave while working with the organization. The organizations also provide for paid leaves such as, casual leaves, medical leaves (sick leave), maternity leaves and statutory pay, etc.

ii. Overtime Policy

Employees were provided with the adequate allowances and facilities during their overtime.

iii. Medical Benefits

The employees were provided allowances to get their regular check-ups and also provide medical-claim for their family.

iv. Insurance

Organizations also provide for accidental insurance and life insurance for employees. This gives them the emotional security and they feel themselves valued in the organization.

v. Leave Travel Allowances

The employees are provided with leaves and travel allowances to go for holiday with their families.

vi. Retirement Benefits

Organizations provide for pension plans and other benefits for their employees which benefits them after they retire from the organization at the prescribed age.

vii. Holiday Homes

Organizations provide for holiday homes and guest house for their employees at different locations. These holiday homes are usually located in hill station and other most wanted holiday spots.

viii. Flexible Timings

Organizations provide for flexible timings to the employees who cannot come to work during normal shifts due to their personal problems and valid reasons.

1.2.11. Theories related to Compensation Management

Wage determination, apart from the statutory aspect, is influenced by different theories. These theories are: **(Bhattacharyya, 2010; Jain, 2014)**

Traditional Theory of Wage Determination

This theory assumes the market forces demand and supply determines the wages. Computer programmers are in short supply, so they are able to demand higher salaries.

Theory of Negotiated Wages

Unionized employee can negotiate salaries. This is done by collective bargaining process normally in any organization; unions periodically submit their memorandum to the management, asking for wage raises to keep pace with market standards and organizational profitability. Then wages are negotiating in a collective bargaining meeting attended by the unions and management nominees.

Subsistence Theory

David Ricardo (1772-1832) advocated the Subsistence Theory. It was Thomas R. Malthus's theory of population that provided the raw material for the first economic wage theory. Population, according to the theory, is limited by the means of subsistence: it increases geometrically whereas the means of subsistence increases arithmetically. David Ricardo translated Malthus's theory into the subsistence theory of wages. According to this theory, wages in the long run tend to equal the cost of reproducing labor, the subsistence of the laborer. This theory, often called the iron law of wages, indicated that little could be done to improve the lot of the wage earner because increasing wages leads only to increasing the number of workers beyond the means of subsistence.

Wage Fund Theory

The short-term version of classical wage theory was the wages-fund theory. As described by John Stuart Mill, this theory explained the short-term variations in the general wage level in terms of (1) the number of available workers and (2) the size of the wages fund. The wages fund was thought to come from resources accumulated by employers from previous years and allocated by them to buy labor currently. Employers were thought to have a fixed stock of "circulating capital" for the payment of wages. Dividing the labor force (assumed to be the population) into the wages fund determined the wage.

Surplus Value Theory

The surplus value theory of wages owes its development to Karl Marx (1818-1883). According to this theory, labour was an article of commerce, which could be purchased on the payment of the 'subsistence price'. The price of any product was determined by labour and the time needed for producing it. The labourer was not paid in proportion to the time spend on work, but was paid much less, and the surplus was utilized for paying other expenses.

Residual Claimant Theory

The Residual Claimant Theory advocated by Francis Walker (1840-1897), assumes that there are four factors of production/business activity-land, labour, capital, and entrepreneurship. Wages represent the amount of value created in the production, which remain after payment has been made for all these factors of production. In other words, labour is the residual claimant.

Marginal Productivity Theory

This theory assumes that wages are based upon an entrepreneur's estimate of the value that will probably be produced by the last or marginal worker. In other words, it assumes that wages depend upon the demand for and supply of labour. Consequently, worker is paid what they are economically worth.

Bargaining Theory of wages

The bargaining theory of wages assumes that wages are determined by interaction of management and labour in a collective bargaining process. Although this theory does not provide adequate analysis of source of wages in the long-run, it forms an effective basis for determining wages in the short-run.

Behavioral Theory of Wages

This theory was pioneered by several psychologists, such as Marsh and Simon, Robert Dupin, and Eliot Jacques. Based on their various research studies, we can identify the following area of interest in behavioral theories on wages:

2. The employee's acceptance of a wage level; Individuals believe in employment stability and prefer to stay on with the same organization, pacing with their salary level. There are however, several other factors to be considered such as size and prestige of the company, trade unions power in the organization, their level of knowledge and competencies, etc.
3. The internal wages structure: Employees value internal pay equity. Moreover, some jobs also command social status (such as the job of a journalist). Organizations design wages for different cross-section of employees, while considering maximum and minimum wage differentials, norms of span or control, and demand for specializes skill-sets. Balancing wages with such internal equity also keeps employees more motivated.

3.2.5. Recognition and Rewards

In a competitive business climate, more business owners are looking at improvements in quality while reducing costs. Meanwhile, a strong economy has resulted in a tight job market. So while small businesses need to get more from their employees, their employees are looking for more out of them. Employee reward and recognition programs are one method of motivating employees to change work habits and key behaviors to benefit a small business (inc.com/encyclopedia, 2014).

Rewards are said to signal the organizational values to the employees as describes them “as a means of aligning a company's most strategic asset – their employees – to the strategic direction of the organization”. **Ghoshal and Bartlett (1998)** captured the essence of rewarding which is not only attaching value to the employees but also more importantly adding value to the people.

Types of Rewards

i. Extrinsic rewards

Extrinsic rewards are the non-job related rewards such as pay, salary and work conditions. **Gupta and Shaw (1998)** concluded in their research that financial incentives are indeed effective. They took the point of view that not all the jobs are interesting and challenging in nature, if we would live in an ideal world everyone would be intrinsically motivated and rewarded, but in many work places this is not the reality. They concluded that money matters to most of us and it motivates us because of the symbolic and instrumental value it bears. Symbolic value of money recaps what we ourselves and what others think about it, instrumental value of money means the ends we can get for exchanging it.

ii. Intrinsic rewards

Intrinsic rewards are the job inherent, intangible, non-financial rewards included in the job itself such as job tasks, challenging and interesting job and training possibilities offered to the employees. **Nelson (2004, 14)** noted that praise and recognition are the most efficient intrinsic rewards an employee wants to hear as employees want to feel that they are making a contribution at their workplaces. He quoted **Elisabeth Kanter** on his article who said that “Compensation is a right; recognition is a gift”. Nelson also said that recognition, especially if showed in public in front of the other employees sends favourable signals to the other employees of whom kind of behavior is favored and desirable by the management.

Designing a Reward Program

The keys to developing a reward program are as follows:

- ◆ Identification of company or group goals that the reward program will support
- ◆ Identification of the desired employee performance or behaviors that will reinforce the company's goals

- ◆ Determination of key measurements of the performance or behavior, based on the individual or group's previous achievements
- ◆ Determination of appropriate rewards
- ◆ Communication of program to employees

3.2.6. Wage Differential

Wage differential is a term used in labor economics to analyze the relation between the wage rate and the unpleasantness, risk, or other undesirable attributes of a particular job. Wage differential had been classified into three categories (**scribd, 2014**):

Firstly, the differential that can be attributed to imperfections in the employment markets. **Secondly**, the wage differentials were originated in social values and prejudices and which are deeper and more persistent than economic factors. **Third**, occupational wage differentials, which would exist even if employment markets were perfect and social prejudices, were absent.

Wage differentials arise due to following factors:

- a. Difference in the efficiency of labor, which may be due to inborn quality, education and conditions under which work may be done.
- b. The existence of non-competing group due to difficulties in the way of the mobility of labor from low paid to high paid employments.
- c. Differences in the agreeableness or social esteem of employment.
- d. Differences in the nature of employment and occupation.

3.2.7. Laws Relating to Wages

India has enacted several legislations and an ordinance to provide for social security for industrial workers:

Workmen's Compensation Act, 1923

The Workmen's Compensation Act, 1923 provides for payment of compensation to workmen and their dependents in case of injury and accident (including certain occupational disease) arising out of and in the course of employment and resulting in disablement or death. The amount of compensation to be paid depends on the nature of the injury and the average monthly wages and age of workmen. The minimum and maximum rates of compensation payable for death (in such cases it is paid to the dependents of workmen) and for disability have been fixed and is subject to revision from time.

Payment of Wages Act, 1936

The **Payment of Wages Act, 1936** is a central legislation which has been enacted to regulate the payment of wages to workers employed in certain specified industries and to ensure a speedy and effective remedy to them against illegal deductions and/or unjustified delay caused in paying wages to them. It applies to the persons employed in a factory, industrial or other establishment or in a railway, whether directly or indirectly, through a sub-contractor. Hence, the main object of the Act is to eliminate all malpractices by laying down the time and mode of payment of wages as well as securing that the workers are paid their wages at regular intervals, without any unauthorised deductions. The Act was amended by **the Payment of Wages (Amendment) Act, 2005** Rs. in order to enlarge its scope and provide for more effective enforcement. The main amended provision is the enhancement of wage ceiling from 1600/-per month to Rs. 6500/-per month for the applicability of the Act as well as empowering the Government to enhance the ceiling by notification in future.

Minimum Wages Act, 1948

The Minimum Wages Act, 1948 was enacted to safeguard the interests of workers, mostly in the unorganized sector by providing for the fixation of minimum wages in certain specified employments. It binds the employers to pay their workers the minimum wages fixed under the Act from time to time. The fixation of minimum wages depends on

a number of factors such as level of income and paying capacity, prices of essential commodities, productivity, local conditions, etc. The last revision had being Rs. 66/- per day with effect from 1.2.2004, on the recommendations of the Central Advisory Board. All the States/UTs Governments are required to ensure that fixation/revision of minimum rates of wages in all the scheduled employments is not below this national minimum wage.

Payment of Bonus Act, 1965

The Payment of Bonus Act, 1965 was enacted to provide for the payment of bonus to persons employed in certain establishments on the basis of profits or productivity and for the matters connected therewith. The Act applies to:- (i) every factory as defined under the Factories Act, 1948; and (ii) every other establishment in which twenty or more persons are employed on any day during an accounting year.

Payment of Gratuity Act, 1972

The Act was enacted to provide for a scheme for the payment of gratuity to employees engaged in factories, mines, oilfields, plantations, ports, railway companies, shops or other establishments employing ten or more persons and for matters connected therewith or incidental thereto. The appropriate Government may, by notification, and subject to such conditions as may be specified in the notification, exempt any establishment to which this Act applies or any employee or class of employees employed therein, from the operation of the provisions of this Act, if in the opinion of the appropriate Government, the employees in such establishment are in receipt of gratuity or pensionary benefits not less favourable than the benefits conferred under this Act.

Employees' Provident Funds & Miscellaneous Provisions Act, 1952

The Act was enacted with the main objective of making some provisions for the future of industrial workers after their retirement and for their dependents in case of death. It provides insurance to workers and their dependents against risks of old age, retirement, discharge retrenchment or death of the workers.

Employees' State Insurance Act, 1948

The Employees' State Insurance Act, 1948 (ESI Act) provides for health care and cash benefit payments in the case of sickness, maternity and employment injury. The Act applies to all non-seasonal factories run with power and employing 10 or more persons and to those factories which run without power and employing 20 or more persons. The appropriate Government may after notification in the Official Gazette, extend the provision of the Act to any other establishment or class of establishments, industrial, commercial, agriculture or otherwise. Under the Act, cash benefits are administered by the Central Government through the Employees State Insurance Corporation (ESIC), whereas the State Governments and Union Territory Administrations are administering medical care.

Maternity Benefit Act, 1961

The Maternity Benefit Act, 1961 regulates employment of women in certain establishments for a certain period before and after childbirth and provides for maternity and other benefits. Such benefits are aimed to protect the dignity of motherhood by providing for the full and healthy maintenance of women and her child when she is not working. The Act is applicable to mines, factories, circus industry, plantations, shops and establishments employing ten or more persons, except employees covered under the Employees' State Insurance Act, 1948. It can be extended to other establishments by the State Governments.

Equal Remuneration Act, 1976

The Equal Remuneration Act, 1976 aims to provide for the payment of equal remuneration to men and women workers and for the prevention of discrimination, on the ground of sex, against women in the matter of employment and for matters connected therewith or incidental thereto. According to the Act, the term 'remuneration' means "the basic wage or salary and any additional emoluments whatsoever payable, either in cash or in kind, to a person employed in respect of employment or work done in such

employment, if the terms of the contract of employment, express or implied, were fulfilled".

Industrial Disputes Act, 1947

Industrial disputes are the disputes which arise due to any disagreement in an industrial relation. The term 'industrial relation' involves various aspects of interactions between the employer and the employees; among the employees as well as between the employers. In such relations whenever there is a clash of interest, it may result in dissatisfaction for either of the parties involved and hence lead to industrial disputes or conflicts. These disputes may take various forms such as protests, strikes, demonstrations, lock-outs, retrenchment, dismissal of workers, etc.

3.2.8. Compensation Trends in India

The following are the compensation trend in India (**Bhattacharyya 2009**):

- There is substantial difference in gross compensation for managers and their immediate subordinate.
- Companies' designs personalize salaries out of box for individual senior levels.
- There has been a significant increase in basic salary, and hence in differed benefits.
- Companies have restricted non-tax perks on the form of reimbursement under various heads to certain top levels of management.
- Companies provide higher increments, average increment from 50-100 percent to different level of management.
- There has been a shift in incentives to group or team incentives from individual based incentives.
- Most companies have abolished component such as servants' wages and utility allowances as they are not non-taxable any longer.
- Medical benefits are common with tie-ups with insurance companies and hospitals in many cases.
- Loan provided to buy two and four wheelers are common practices.
- Housing loans or interest subsidy is also provided.

- Some companies assist employees in their education by sponsoring evening classes or providing sabbaticals at company cost.
- Companies reimburse travel expense for holidays including accomadation in guest house and transit flats.
- The trend had shifted to making components direct and taxable.
- Under profit-sharing schemes senior executives sometimes share accrued when company earn profits beyond a certain fixed level.
- Companies also provide employees stock options (ESOP) to employees (Bhattacharyya 2009).

3.2.9. Employees Rewards System in India

The components of the reward system are- process, practices, schemes and procedure (Bhattacharyya 2009):

Process

These are used to measure the value of job, the worth of individuals in those jobs, and the range and level of employees' benefits to be provided. These process consists of job evaluation, market rate analysis and performance management.

Practices

These are used to motivate people by the use of financial and non-financial rewards. The financial consist of base and variable pay, employees benefits and allowance. Non-financial rewards are provided generally by the culture and values of the organization and more specifically by the quality of management and leadership, the work itself, and opportunities given to employees to develop their skills and careers.

Structure

These are used linking pay and benefits levels to the value of positions in the organization and to provide scope for rewarding people according to their performance, competence, skills or experience.

Schemes

These provide financial rewards and incentives to people accordance to individual, group or organizational performance.

Procedures

These are used for maintaining the system and to ensure that it operates efficiently and flexibly and provides value money.

3.2.10. Elements of Employees Rewards in India

Base pay or basic pay is the level of pay (the fixed salary or wages) that constitutes the rate for the job. It is a platform for determining additional payment associated with performance, competence or skills. **(Bhattacharyya 2009).**

Addition to Base Pay

Additional financial rewards were related to performance, skill, competence or experience. Special allowances may also be paid. The main type of additional pay are- individual performance related pay, bonus, incentives, commission etc.

Individual Performance-related Pay: It is also known as merit pay, it increases the base pay or cash bonus are after determining the performance assessment and ratings.

Bonus: It refers to rewards for good performance which are paid as cash and is related to the organization.

Incentive: Payments linked with achievements of previously set targets, which are designed to motivate people to achieve higher levels of performance. The targets are usually quantified in such terms as output or sales.

Commissions: A special perform incentive in which sales representative are paid on basis of a percentage of sales value they generate.

Service-related Pay: It increases by fixed increments on a scale or pay spin depending on service in job. There is sometimes being scopes for varying the rate of progress up the scale according to performance.

Skill-base Pay: Also known as knowledge base pay, it varies according to the level of skill the individual achieves.

Competence-related Pay: It varies according to the level of competence achieved by individual.

Career Development Pay: When employees were taking the additional responsibilities as their career develops laterally within a broad grade they were rewarded.

Allowances: The pay in the form of money for overtime, shift work or call-outs.

Employees Benefits: These benefits are also known as indirect pay. These include pensions, sick pay, insurance cover and company car. Benefits comprises elements of remuneration in addition to the various forms of cash pay and also include provisions for employees that are not strictly remuneration such as annual pay.

Total Remuneration: It is value of all cash payments (total earning) and benefit receives by employees.

Non-financial Rewards: It includes any reward that focuses on the need people have in varying degrees for achievement, recognition, responsibility, and influence and personnel growth.

Employee Stock Options

Stock options are common in executive compensation. In the organization, it even represents over half of the total compensation particularly for senior managerial level employees. By offering stock option to employees companies may dilute their ownership but they can retain their talent and may move ahead of the competition.

3.2.11. Aims of Employees Rewards in India

Aims of employee rewards in India vary from organization to organization, depending on their business priorities. Keeping in view organization requirements the overall aims of employees' compensation are **(Bhattacharyya 2009)**:

- Contribution to added value
- Contribution to competitive advantage
- Management of compensation and reward
- Integration of individuals of employees' aim with the compensation and reward system in the organization
- Optimization of employees costs.

The primary aim of employees' rewards in India is to help in attaining organizational, strategic and short term objectives. This helps in ensuring the availability of skilled competent, committed and well-motivated people. In India, most organization considers employees rewards as the only way to reinforce performance improvement.

3.3. Employee Satisfaction

Studies in the area of job satisfaction as an important and popular research topic started decades ago. In 1935, the concept of job satisfaction gained importance through the publication of a monograph by Hoppock on "Job Satisfaction". Hoppock in his monograph defined job satisfaction as "any combination of psychological, physiological and environmental circumstances that cause a person truthfully to say I am satisfied with my job". **(Frukh. et al 2009)**

Employees' satisfaction is a topic which is concerned by both the people those who are working in organizations and for the people who study them. It is the variable which is studied most frequently in organizational behavior research, and it is also a fundamental variable in both research and theory of organizational experience range from job design to supervision including psychology, public administration, business and higher education **(Hong et al., 2005; Kh Methle, 2005; Akmal et al., 2012)**.

Many researchers and investigators identified that job satisfaction has direct relations to human psyche, emotion, behavior and attitude. These all parameters help the individual to understand what the level of job satisfaction showed by others (**Nazir et al., 2013**). In current era, most organizations set out their goals regarding employees and customers' satisfaction. One of the important goals of any organization is job satisfaction of employees (**Aronson et al., 2005; Mohammed & Eleswed, 2013**)

1.3.1 Definitions of Employees satisfaction

Most of the definitions emphasize the importance of employees' job-related perceptions that link the expectations of them and what they receive in return.

Spector (1997) refers to "Job Satisfaction in terms of how people feel about their jobs and different aspects of their jobs". **Ellickson and Logsdon (2002)** support this view by defining job satisfaction as the extent to which employees like their work.

Kreitner, et al (1999) described job satisfaction as "an affective / emotional response towards various facets of one's job". It is an individual's degree of positive attitudes towards their current job, as an individual could be satisfied with one aspect but dissatisfied with another. Job satisfaction is, therefore, not a unitary concept that can be explained by a single factor, but rather a multi-faceted concept that is defined by a number of factors.

Dawes (2004) describes "Job satisfaction basically as a psychological contract that has two components: an affective component (feelings along with cognition) and a cognitive competent (needs are being fulfilled according to one's perception)".

1.3.3. Factor Affecting Employee satisfaction

The factors affecting job satisfaction can be divided into two main areas, namely, personal determinants and organizational factors: (**Luddy, 2005; Sageer et al, 2012**)

1.3.3.1. Personal Factor

The personal determinants also help a lot in maintaining the motivation and personal factors of the employees to work effectively and efficiently. Employee satisfaction can be related to determining the numbers of personal variables and psychological factors of the employees (**Sageer et al, 2012**). Following these 9 variables comes in this category:-

i. Emotion

Mood and emotions form the affective element of job satisfaction. Moods tend to be longer lasting but often weaker states of uncertain origin, while emotions are often more intense, short-lived and have a clear object or cause (**dt.bh, 2014**). Some research suggests moods are related to overall job satisfaction. (**Kumar, 2012**).

ii. Race

Research evidence with regard to the relationship between race and job satisfaction have yielded inconsistent results (**Friday & Moss, 2004**). Research conducted on various occupational classes consisting of blue collar and white collar employees, reflected that African employees experienced higher levels of job satisfaction than the other racial groups. On the other hand, a number of studies have also found that White employees amongst different occupational classes experienced higher levels of job satisfaction in comparison to African employees (**Luddy, 2005**).

iii. Genetics

It has been well documented that genetics influence a variety of individual differences. The genetics also play a role in the intrinsic, direct experiences of job satisfaction like challenge or achievement was suggested by some research (as opposed to extrinsic, environmental factors like working conditions). In an experiment the sets of monozygotic twins are raised apart from each other to test for the existence of genetic influence on job satisfaction and results showed that the majority of the variance in job satisfaction was because of environmental factors (70%) and the genetic influence was small (**en.wikipedia, 2014; Kumar, 2012**).

iv. Personality

Some research suggests an association between personality and job satisfaction. The research describes the role of negative affectivity and positive affectivity. Negative affectivity is related strongly to the personality trait of neuroticism. Individuals high in negative affectivity were experience less job satisfaction. Positive affectivity is related strongly to the personality trait of extraversion. Those high in positive affectivity were satisfied with most of the dimensions of their life and including their job. Differences in affectivity likely its impact on employee with their perceive objective job circumstances like pay and working conditions and it was affecting their job satisfaction (**en.wikipedia, 2014**). The personality of an individual can be determined by observing his individual psychological condition. The factors that determine the satisfaction of individual and his psychological conditions is perception, attitude and learning (**Sageer, 2012**).

v. Age:

Age is one of the important determinants of employee satisfaction. The younger age employees having higher energy levels, so they were highly satisfied then the older age employees. But according to **Greenberg and Baron (1995)**, older employees are usually more satisfied with their jobs than younger employees, when the people become more experienced in their jobs are highly satisfied than those who are less experienced (**cited in Luddy, 2005**)

vi. Education:

Education plays a significant determinant of employee satisfaction as it provides an opportunity for developing one's personality. Education develops and creates individual understanding and evaluation process (**Kumari, 2013**). The highly educated employees can better understand the situation and evaluate it positively as they possess persistence, rationality and thinking power (**Sageer, 2012**).

vii. Gender Differences

The gender of the employees plays important role in determining of employee satisfaction. Women, the fairer gender are more likely to be satisfied than their counterpart even if they are employed in same job. Several studies conducted with regard

to the relationship between gender and job satisfaction which shows contradictory results (**Chiu, 1998**). **Murray and Atkinson (1981)** studied the gender differences in determinants of job satisfaction which reflected that females gave more importance to social factors, while males gave greater value to pay, advancement and other extrinsic aspects. Contrary to the above, **Robbins et al. (2003)** argue that no evidence exists suggesting that gender impacts on an employee's job satisfaction (**Luddy, 2005**).

viii. Tenure

Tenure refers to the number of years an employee has spent working in organization (**Oshagbemi, 2003**). The tenure and job satisfaction is positively correlated (cited in **Robbins et al. 2003**). **Oshagbemi, (2003)** found tenure to have a U-shaped relationship with job satisfaction (**Luddy, 2005**).

ix. Marital Status

The effect of marital status of employee on job satisfaction has produced inconclusive effects (**Robbins et al., 2003; Jamal and Baba (1992)**). The study carried out by **Kuo and Chen (2004)** found that marital status of employee is highly correlated to general, intrinsic and overall satisfaction and it indicated that married employees experienced higher levels of job satisfaction in comparison of unmarried employees (**Luddy, 2005**).

1.3.3.2. Organizational Factors

The organizational determinants play important role in employee satisfaction play. The employees spend lots of time in organization so there are number of organizational factor that affect satisfaction of the employees. The employee satisfaction in the organization can be increased by organizing and managing the organizational factors (**Sageer, 2012**). Following these 10 variables comes in this category:-

i. Working Environment

Work environment plays important role in influencing job satisfaction, as comfortable physical work environment that will ultimately renders more positive level of job satisfaction in employees (**Robbins 2001**). Lack of favorable working conditions,

amongst other things, can affect badly on the employees mental and physical health **(Baron and Greenberg, 2003)**.

ii. Workload and Stress Level

Dealing with a workload that was too heavy and deadlines that were impossible to touch it can cause job dissatisfaction in the most dedicated employee. Falling short of deadlines can cause conflict between employees and supervisors and it could raise the stress level in the workplace. Many times, this environment is caused by ineffective management and poor planning. The office operates in a crisis mode because supervisors did not gave enough time to perform the assigned tasks effectively or because staff levels are inadequate **(Hill, 2011; Swarnalatha & Vasantham, 2011)**.

iii. Respect from Co-Workers

Employees seek to be treated with respect by those they work with. A hostile work environment with rude or unpleasant coworkers is one that usually has lower job satisfaction. **(Hill, 2011)**

iv. Organization Development

Organizational development is an continuous and organized process to implement effective change in an organization. Its objective is to enable the organization in adopting-better to the fast-changing external environment of new markets, regulations, and technologies. It starts with a careful organization-wide analysis of the current situation and of the future requirements **(Sageer, 2012)**.

v. Policies of Compensation and Benefit

Pay is one of the fundamental components of job satisfaction since it has a powerful effect in determining job satisfaction. Employees should be satisfied with competitive salary packages and they should be satisfied with it when comparing their pay packets with those of the outsiders who are working in the same industry. Individual has infinite needs and money provides the means to satisfy these needs, **(Arnold and Feldman 1996)**.

vi. Promotion and Career Development

Promotion can be reciprocated as a significant achievement in the life. It promises and delivers more pay, responsibility, authority, independence and status. So, the opportunity for promotion determines the degree of satisfaction to the employee. There is a consensus among the researchers that job satisfaction is strongly associated with the opportunities for promotion (**Pergamit & Veum, 1999; Peterson et al., 2003; Sclafane, 1999**). The Kreitner & Kinicki, 2001 had stated that there were positive relationship between job satisfaction and promotion is dependent on perceived equity by employees (**Luddy, 2005; Qasim, 2012**).

vii. Job Security

Job security is an employee's assurance or confidence that they will keep their current job. Employees with a high level of job security have a low probability of losing their job in the near future. Certain professions or employment opportunities inherently have better job security than others; job security is also affected by a worker's performance, success of the business and the current economic environment (**Simon, 2011**).

viii. Relationship with Supervisor

Research demonstrates that a positive relationship exists between job satisfaction and supervision (**Koustelios, 2001; Peterson, Puia & Suess, 2003; Smucker, Whisenant, & Pederson, 2003**). According to **Ramsey (1997)**, supervisors contribute to high or low morale in the workplace. The supervisor's attitude and behavior toward employees may also be a contributing factor to job-related complaints (**Sherman & Bohlander, 1992**). Supervisors with high relationship behavior strongly impact on job satisfaction (**Graham & Messner, 1998; Luddy, 2005**).

ix. Leadership Styles

The satisfaction of employees was also affected by the leadership style. Employee satisfaction is high with democratic style of leadership. It is because democratic leaders encourage friendship, respect and warmth relationship among the employees. On the other hand employees working in authoritarian and dictatorial leaders show lower employee satisfaction (**Sageer, 2012**).

1.3.4. Importance of Employee satisfaction

i. Life Satisfaction

Rain, Lane & Steiner (1991) states that job satisfaction is correlated to life satisfaction which means that people who satisfied with life will tend to be satisfied with the job and people who satisfied with job will tend to satisfied with their life (**Kumari, 2013**)..

ii. Productivity

The satisfied workers will be more productive and stay with the organization longer, while dissatisfied workers will be less productive and will have more tendency to quit the work in between (**Saker, Crossman and Chinmeteepituck , 2003**).

iii. Organizational Commitment

The researchers showed relationship between organizational commitment and job satisfaction (**Yang, 2009; Namasivayama and Zhaob, 2007**). Both the organizational commitment and the job satisfaction are interrelated, but of discernible, attitudes (**Lane et al., 2010; Reed et al., 1994**).

iv. Reduced Turnover

Another benefit of job satisfaction is reduced turnover. The satisfied employees are more likely to stay in the organization than those who are dissatisfied (**Mobley, et al, 1979, Salazar, & Hubbard, 2000**). So, by focusing on what contributes to job satisfaction, an organization can reduce turnover (**Mbah & Ikemefuna, 2012; Kumari, 2013**).

Wong et al. (2001) described that there are three relationships among organizational commitment, job satisfaction and employee turnover intentions,

- 1). job satisfaction impact on organizational commitment and in the end this will affect employee turnover,
- 2). job satisfaction used as a mediator between organizational commitment and turnover intention,

3). Impact of job satisfaction and organizational commitment on each other and their effect on turnover intention.

1.3.5. Theories of Employee Satisfaction

“Theories of job satisfaction assume that relationship between a person’s needs and rewards that a job provides, determines the job satisfaction felt by the person. Although there is no single definition of job satisfaction, there are many theories regarding what contributes positively or negatively to the concept. As a concept, job satisfaction is extremely complex with no single conceptual model that completely and accurately describes the construct (Mullins, 2006). In order to gain insight into questions such as what makes some people more satisfied with their jobs than others and what underlying processes account for people’s feelings of job satisfaction, various theories were discussed (Kumari, 2013). The general orientations or theories towards understanding of job satisfaction are usually distinguished. These theories are:

i. Comparison Theory

The most widely accepted view of job satisfaction assumes that the degree of affect experienced, results from the objective outcomes from the job received by the individual. Rather, the magnitude of satisfaction is a function of the size of the discrepancy between the individual’s standard and what the individual believes he or she is receiving from job. The bigger the discrepancy the bigger the dissatisfaction (Porter, 1961). The standard is considered by some as the individual’s need (Porter, 1962; Morse, 1953), and by others as his values (Locke, 1976). This theory referred as the aspiration-achievement or expectation-achievement discrepancy theory of job satisfaction. However, the situation is complicated by the fact that aspiration and achievement are not independent of each other. Aspiration or expectations can be set by the minimum needs of the individual and/or current level of achievement of needs.

ii. Instrumentality Theory

A second view of job satisfaction is that individuals calculate the degree to which the extent to which the job is satisfying by considering the extent to which the job leads to valued outcomes. This theory postulates that individuals assess their satisfaction with jobs by considering the extent to which the jobs lead to valued outcomes. It is assumed here that each individual has a set of judgments' about how much he values certain outcomes such as pay, promotion, good working, condition etc. The person then estimates the extent to which holding the job leads to these valued outcomes. Job satisfaction then results from a summation of outcomes or instrumentalities obtained multiplied by the valences of these outcomes. Job satisfaction then results from a summation of outcomes or instrumentalities obtained multiplied by the valences of these outcomes.

iii. Social Influence Theory

Salancik & Pfeffer (1997) questioned comparison theories of job satisfaction and suggested that perhaps people decide how satisfied they are with their job not by processing all kinds of information about it but by observing others on similar jobs and making inferences about others satisfaction. The basic assumption of the social influence theory of job satisfaction is that individuals may come into new job not knowing how satisfied they will be with these. They look around, see others like themselves who are satisfied or dissatisfied with these and are then influenced by these observations. Thus people decided how satisfied how satisfied they are with their jobs not by processing all types of information about themselves but by observing others on similar jobs and making inferences about their satisfaction. Thus satisfaction more a product of self-perception and social perceptions, rather than determined by intrinsic characteristic of job. An individual simply infers a level of his or her personal satisfaction by their perception of other's satisfactions.

Social influence theory of job satisfaction is interesting because it recognizes the social nature of work and suggests a way of determining job satisfaction that has been ignored

for a long time. It seems obvious that social factor does influence satisfaction and that they deserve more attention they have received in the past.

iv. Equity Theory

Adams (1965) argued that satisfaction is determined by a person's perceived equity, which is determined by his / her input / outcome balance compared to some other's perceived input / output balance.

The Equity theory of motivation suggests that individuals have a strong want to maintain a balance between what they perceive their inputs or contributions to be in relation to expected rewards (**Dessler, 1988**). In terms of the Equity theory, **Robbins (1993)** states that satisfaction is determined by an individual's input-outcome balance (**Koneru & Chunduri, 2013**).

v. Fulfillment Theory

This theory proposes that employees will be satisfied in a direct proportion to the extent to which their needs are satisfied (**Schafer, 1953**). That people's satisfaction is a function of how much they receive and of how much they feel they should and / or want to receive (**Locke, 1969**).

vi. Dispositional Theory

Crow and Hartmann (1995) offered that job satisfaction "is a result of a multiplicity of factors, most of which cannot be influenced by the employer". They further explained that "enhancing job satisfaction for chronically dissatisfied employees may be impossible", suggesting that some employees will be dissatisfied wherever they will find themselves given their inborn disposition towards life and work, by extension. **Staw and Ross (1985)** suggested that job satisfaction is influenced by an employee's genetics, which might be a determinant of personality. (**Kumari, 2013**)

1.4. Role of Compensation Practices in Employees Satisfaction

The role compensation practices in employees satisfaction is explain in few theories, and they are:

i. Herzbergs motivation-hygiene theory

Herzberg et al. (1959) postulated a two-factor theory that categorizes the factors affecting job satisfaction and dissatisfaction. Herzberg and his associates isolated two sets of factors that determine job satisfaction and dissatisfaction. These two sets of factors are motivators (or satisfiers) and hygiene (or dissatisfiers). The motivator-hygiene theory also describes the concept of job satisfaction with two dimensions (intrinsic factors and extrinsic factors). Table presents the factors causing satisfaction and dissatisfaction.

Table 1.4: Factors Affecting Job Attitudes of Herzberg’s Motivation-Hygiene Theory	
<u>Hygiene Factors</u>	<u>Motivators Factors</u>
Extrinsic Factors - Factors that led to Job Dissatisfaction	Intrinsic Factors - Factors that led to Job Satisfaction
Company policies and administration	Achievement
Supervision	Recognition
Relations – supervisor	Work itself
Working conditions	Responsibility
Salary	Advancement
Relations – peers	Growth
Personal life	
Relations – subordinates	
Status	
Job security	

Source: Herzberg (1968: 23)

Robbins (2001) described that in Herzberg's motivation-hygiene theory the salary is one of those hygiene factors which eliminate job dissatisfaction. Salary is a factor which leads employees from dissatisfaction to no dissatisfaction.

ii. Equity theory

Cooper and McKenna (1987) found that the equity theory would predict that a major influence on pay level satisfaction is comparisons of one's pay relative to that of referent others. Since these comparisons probably most often involve the individual's level of pay relative to others, external comparisons should most strongly influence pay level satisfaction.

According to the equity theory, satisfaction with pay is a subjective function of both actual pay and several individual judgments, and thus individual performance pay has to be applied carefully by properly rewarding each member of the team.

iii. Reinforcement theory

Reinforcement theory and expectancy theory emerged as the earliest theories to shed some light on how pay influences employee behavior. Reinforcement theory (**Skinner, 1953**) suggests that pay acts as a general reinforce because of its repeated pairing with primary reinforcement. People learn from life experiences that a primary need, such as food or shelter, can be satisfied if money is obtained (**Sivarajah, et al, 2014**). Other theorists suggest that through similar experiences a drive for money itself develops (**Dollard & Miller, 1950**). Whether treating pay as a means to an end or as an end itself, reinforcement theory does not provide a clear explanation for how pay acts as an impetus for action. People engage in behaviors because of past experiences, but the process by which past experiences determine an individual's future behavior remained unclear (**Faulk, 2002**).

iv. Expectancy theory

Vroom is the father of Expectancy theory. According to this theory, individuals make choices based on their perceived expectancy that certain rewards will follow. Translated,

this means that they are only motivated to act in a specific way if they believe that a desired outcome will be attained (Nel et al., 2001). The theory postulates that people are mostly rational decision makers. They therefore think about their actions and act in ways that satisfy their needs and help them attain their goals. In essence, expectancy theory points to the fact that people are motivated by the promise of rewards, which is linked to a specific goal. The theory is based on the knowledge that there are huge differences among people in their needs and as a result in the importance they attach to rewards (Lawler, 2003). In organizations, this means that individuals will choose to perform at a level those results in the greatest benefit. They will therefore work hard if they expect this effort to lead to desirable rewards such as salary increase, promotion or recognition (Schultz, 1982). Given this, it is important to tie performance to rewards (Roberts, 2005).

Expectancy theory described that people do effort because they want some rewards in term of money, promotion etc. People expect that if they work well in the workplace then their performance will increase and automatically their pay will increase and they will be promoted. This will cause increase in their job satisfaction level.

1.5. Overview of BSNL

1.5.1. Overview of Telecom Sector

The telecom services have been recognized the world-over as an important tool for socio-economic development for a nation. It is one of the prime support services required for rapid growth and modernization of various sectors of the economy. Indian telecommunication sector had goes under major transformation in last few decades and it beginning with the announcement of NTP 1994 and was subsequently re-emphasized and carried forward under NTP 1999. The phenomenal growth was reported during the last few years and is poised to take a big leap in the future also (dot.gov, 2015).

History of Indian Telecommunications and Important Milestones

Year

1851 - First operational land lines were laid by the government near Calcutta

1881 - Telephone service introduced in India 1883 - Merger with the postal system 1923 - Formation of Indian Radio Telegraph Company (IRT) 1932 - Merger of ETC and IRT into the Indian Radio and Cable Communication Company

1947 - Nationalization of all foreign telecommunication companies to form the Posts, Telephone and Telegraph (PTT), a monopoly run by the government's Ministry of Communications.

1985-Department of Telecommunications (DOT) established an exclusive provider of domestic and long-distance service that would be its own regulator (separate from the postal system).

1986-Conversion of DOT into two wholly government-owned companies: the Videsh Sanchar Nigam Limited (VSNL) for international telecommunications and Mahanagar Telephone Nigam Limited (MTNL) for service in metropolitan areas.

1997- Telecom Regulatory Authority of India created.

1999- Cellular Services are launched in India. New National Telecom Policy is adopted.

2000- DoT becomes a corporation, BSNL. (**An ESI International Study, 2009**)

Major Players

The three types of players in telecom services are (**An ESI International Study, 2009**):

State owned companies (BSNL and MTNL)

Private Indian owned companies (Reliance Infocomm, Tata Teleservices,)

Foreign invested companies (Hutchison-Essar, Bharti Tele- Ventures, Escotel, Idea Cellular, BPL Mobile, and Spice Communications.

Importance of Telecom Sector

- i.** Contribution to GDP
- ii.** Employment
- iii.** Foreign Direct Investment (FDI)
- iv.** Growth of IT-ITeS and Financial Sector

1.5.2. Emergence of BSNL

October 1, 2000: The then existing Department of Telecom Operations, Govt. of India became a corporation and was named as Bharat Sanchar Nigam Limited (BSNL).

Today, BSNL is No.1 Telecommunications Company and the largest public sector undertaking of India with authorized share capital of \$3600 million and net worth of \$ 13.85 billion. It has a network of over 45 million lines covering 5000 towns with over 35 million telephone connections and over 4,00,00 route Kms of OFC network. 99.9% of its exchanges have been digitalized. The telephone infrastructure alone is worth about Rs.1,00,000 crore (US \$ 21.2 Trillion) and turnover is of Rs. 25,000 crore (US \$ 5.2 billion). During the 2010-11, turnover of BSNL is around Rs. 29,700 Crores.

Services of BSNL

BSNL provides almost every telecom service in India. Following are the main telecom services provided by BSNL:

Universal Telecom Services: Fixed wire line services and landline in local loop using CDMA Technology called **bfone** and **Tarang** respectively. As of 30 June 2010, BSNL had 75% market share of fixed lines.

Cellular Mobile Telephone Services: BSNL is major provider of Cellular Mobile Telephone services using GSM platform under the brand name Cellone & Excel (BSNL Mobile). As of 30 June 2010 BSNL has 13.50% share of mobile telephony in the country.

WLL-CDMA Telephone Services: BSNL's WLL (Wireless in Local Loop) service is a service giving both fixed line telephony & Mobile telephony.

Internet: BSNL provides Internet access services through dial-up connection (as Sancharnet through 2009) as Prepaid, NetOne as Postpaid and ADSL broadband as BSNL Broadband BSNL held 55.76% of the market share with reported subscriber base of 9.19 million Internet subscribers with 7.79% of growth at the end of March 2010. Top 12 Dial-up Service providers, based on the subscriber base, It Also Provides Online Games via its Games on Demand (GOD)

Intelligent Network (IN): BSNL offers value-added services, such as Free Phone Service (FPH), India Telephone Card (Prepaid card), Account Card Calling (ACC), Virtual Private Network (VPN), Tele-voting, Premium Rate Service (PRM), Universal Access Number (UAN).

3G:BSNL offers the '3G' or the'3rd Generation' services which includes facilities like video calling, mobile broadband, live TV, 3G Video portal, streaming services like online full length movies and video on demand etc.

IPTV: BSNL also offers the 'Internet Protocol Television' facility which enables customers to watch television through internet.

FTTH: Fiber to The Home facility that offers a higher bandwidth for data transfer. This idea was proposed on post-December 2009

Helpdesk: BSNL's Helpdesk (Helpdesk) provide help desk support to their customers for their services.

VVoIP: BSNL, along with Sai Infosystem - an Information and Communication Technologies (ICTs) provider - has launched Voice and Video Over Internet Protocol (VVoIP). This will allow making audio as well as video calls to any landline, mobile, or IP phone anywhere in the world, provided that the requisite video phone equipment is available at both ends.

WiMax: BSNL has introduced India's first 4th Generation High-Speed Wireless Broadband Access Technology with the minimum speed of 256kbit/s. The focus of this service is mainly rural customer where the wired broadband facility is not available.

Assets of BSNL

Bharat Sanchar Nigam Limited has got net fixed assets valuing more than Rs. 71,333 Crore , which are in the form of Tangible Assets (Land, Buildings Cables, Apparatus & Plants etc.), Intangible Assets and Capital Work in Progress as on 31.03.2012

SWOT Analysis of BSNL

Strengths:

- All India presence, solid infrastructure, huge customer base
- Most trusted telecom brand
- Easy deployment of new services
- Experienced telecom service provider
- Huge Resources (financial & technical pool)
- No partiality to customer in revenue perspective (Major social obligation)
- Great employment opportunity
- Career growth of individual
- Transparency in recruitment, promotion considering merits

Weakness:

- Poor marketing strategy
- Lack of strategic alliances
- Poor knowledge Management
- Poor IT penetration within organization
- Poor franchisee network

Opportunities

- Cellular, limited mobility, Internet, and voice over Internet services
- Diversification of business to turn-key projects
- Untouched international market
- Fuller utilization of slack resources
- Untapped broadband services
- Broaden market expected from convergence of broadcasting, telecom and entertainment

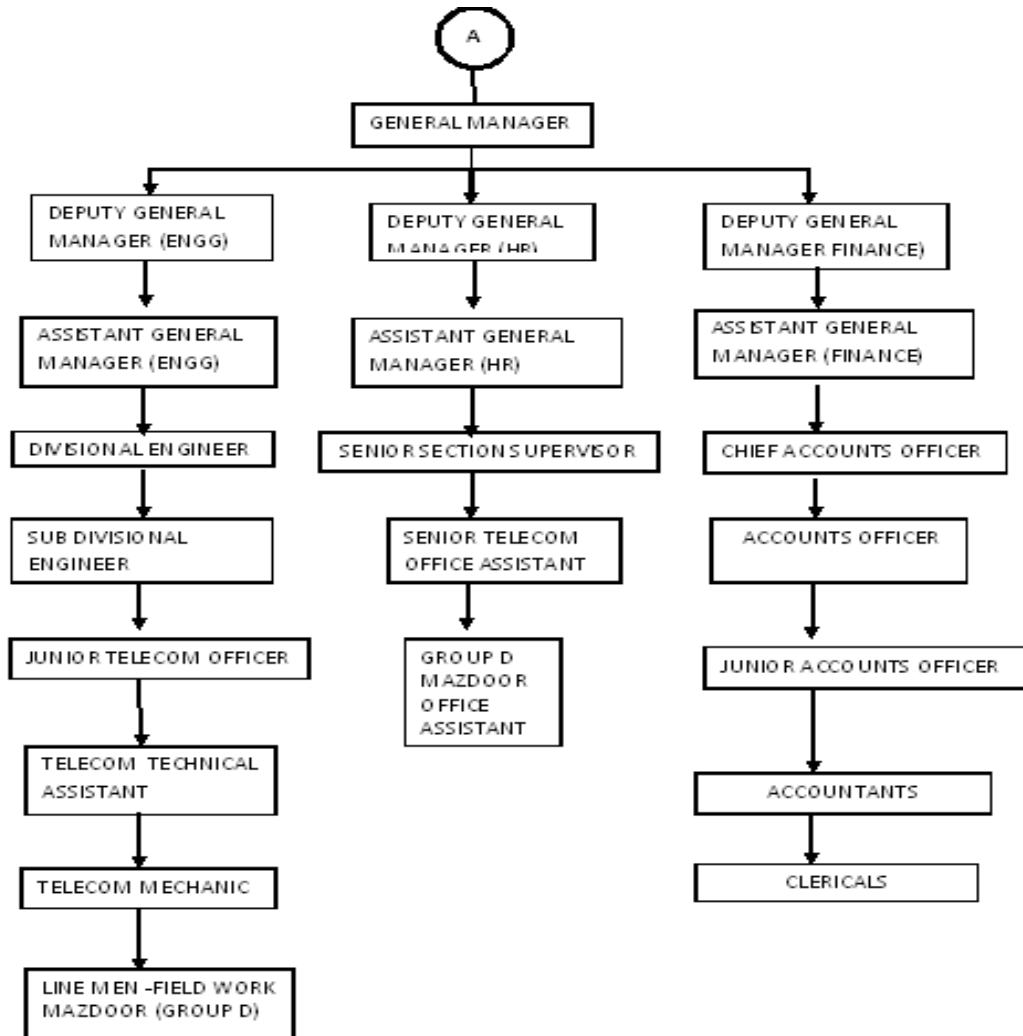
Threats

- Reliance, Airtel and other private basic operators
- Manpower churning
- Keeping pace with fast technological changes
- Competition from private operators
- Decreasing per line revenues due to competitive pricing
- Private operators demand for sharing last mile

1.5.3. Management of BSNL

BSNL is managed by a Board of Directors. The Board comprises of 12 Directors, of which 6 [including the CMD] are whole time Directors; 2 Government Nominee Directors and 4 Non-official Part Time Directors. The present composition is as under.

Organization Chart of BSNL



The employees of BSNL are divided in four strata: Group A, Group B, Group C and Group D. This distribution of employees is similar to Scale I, Scale II, Scale III, and Scale IV employees as seen in government organization.

Group A employees includes GM, DGM and AGM of every department, Divisional Engineer and Chief Account Officer.

Group B employees include Sub Divisional Engineer, Junior Telecom Officer (JTO), Senior Section supervisor and Account Officer.

Group C employee includes Telecom Technical Assistant, Accountants, Clericals and Senior Office Assistants.

Group D: Office Assistants, Line Men- Field Workers Mazdoors.

1.6. Need for the Study

Employee is one of the crucial factors of the organization success. There is no organization that can succeed without a certain level of commitment and effort of its employees. When the employees experience high satisfaction level it contributes to organizational commitment, job involvement, improved physical and mental health, and improved quality of life both on and off the job (**Amos, Ristow, and Pearse (2008)**). Job dissatisfaction on the other hand, culminates in higher absenteeism, turnover, labor problems, labor grievances and a negative organizational climate (**Cherrington, 1994; Khumalo, Mohase, 2014**). The greater the employee's satisfaction the higher the quality of the customer service which in turn leads to highly satisfied customers. To the extent that the satisfaction of employees can be maximized, a more positive environment is created that extends to future customer transaction. Similarly, it makes sense that when employees are dissatisfied, the resulting environment is not conducive to fostering satisfaction for customers (**Adeyemi, 2011**). Compensation has potential as one of the most important means of influencing satisfaction levels of employees. It is one of the important factors which help to reduce the staff turnover within the organization and motivate the employees.

1.7. Statement of the Research Problem

The increasing competitiveness in the labor market and turnover of employees had resulted in nightmare of compensation planning. Apart from this, the growing demands of the employees and competitive salaries offered by multinational companies had almost resulted in a compensation war in the industry. Therefore, the human resources managers have to evolve proper compensation planning for highly qualified employees. The components of compensation have to be devised in such a way that, it focuses on the

growing demands of employees while retaining the competitiveness, profitability of the company and also employees' satisfaction (**Krishnan, 2007**).

The Indian telecom industry has undergone significant structural transformation since its liberalization in the 1990's. Before the liberalization in the 1990's there is monopoly of BSNL and all public sector players in telecom industry. In current scenario BSNL is facing intense competition and losing their market shares. So, it becomes important to attract qualified, skilled and experienced professionals by offering very attractive compensation packages. Thus, compensation serves the purpose. The most competitive compensation will help the organization to attract and sustain the best talent.

1.8. Objective

- 1) To study the components of compensation in BSNL.
- 2) To analyze the employees satisfaction with monetary and nonmonetary compensation practices.
- 3) To analyze the employees satisfaction with retirement benefits.
- 4) To analyze the employees satisfaction with Recognition and rewards.
- 5) To analyze the employees satisfaction with appropriateness & fairness in compensation practices.

1.9. Hypothesis

- 1) **Alternative Hypothesis (H1):** Monetary Compensation has a direct significant effect on employee's satisfaction.

Null Hypothesis (H0): Monetary Compensation has no direct significant effect on employee's satisfaction.

- 2) **Alternative Hypothesis (H1):** Nonmonetary Compensation has a direct significant effect on employee's satisfaction.

Null Hypothesis (H0): Nonmonetary Compensation has no direct significant effect on employee's satisfaction.

3) Alternative Hypothesis (H1): Retirement Benefits has a direct significant effect on employee's satisfaction.

Null Hypothesis (H0): Retirement Benefits has no direct significant effect on employee's satisfaction.

4) Alternative Hypothesis (H1): Recognition and rewards has a direct significant effect on employee's satisfaction.

Null Hypothesis (H0): Recognition and rewards has no direct significant effect on employee's satisfaction.

5) Alternative Hypothesis (H1): Appropriate & Fair Compensation has a direct significant effect on employee's satisfaction.

Null Hypothesis (H0): Appropriate & Fair Compensation has no direct significant effect on employee's satisfaction.

1.10. Scope of the Study

The aim of study is to understand the compensation practices in BSNL. The study explores the various components of compensation of BSNL. The study also analyzes the satisfaction level of the employee due to compensation practices in the organization with the help of survey. The employee satisfaction and its relationship with compensation practices was established with statistical tools.

1.11. Significance of the Study

This study will help to identify the satisfaction of employees with different aspects of compensation practices in organizations. It will help to decide the future needs and changes in compensation practices. It will help to improve compensation practices by identify the needs of employees. This study will identify strategies for compensation

practices so that the employees will use their potential to the maximum extent possible and the organizations will grow more with satisfied customers.

1.12. Limitations of the Study

The limitation in the theoretical framework is that only one variable was studied in the current research which affects employees' satisfaction. Impact of other variables and interaction effects of those variables with satisfaction with compensation are not taken into account. It would be ideal to take up a larger sample in future research to avoid practical restrictions and ensure generalizability of the findings because the study is limited to BSNL employees. The other limitation is the swearing of an oath of secrecy and indifference on the part of interviewees and respondents were limitations to the study as some of the employees felt uncomfortable and others were simply not bothered. The absence or inaccessibility of reliable records of the past years also limited the research investigation. The unwillingness of Management to give strategic information in the name of confidentiality is a limitation to the study.