Code: 0413-4102

Compensation Management

Why do people work?

- To earn money
- To support family
- To gain recognition
- To build a career
- To learn new skills
- To achieve satisfaction
- To serve society

All these reasons are connected with compensation.

Compensation is much broader than salary alone.

Compensation = Financial Rewards + Non-financial Rewards

Definition

Compensation refers to all financial and non-financial rewards that employees receive in exchange for their work and contribution to an organization.

According to HRM literature,
Compensation includes every reward employees receive because of their employment.
It consists of

- Direct financial rewards
- Indirect financial rewards
- Psychological rewards

Objectives of Compensation

Organizations provide compensation to:

- ✓ Attract talented employees
- ✓ Retain skilled workers
- ✓ Motivate higher performance
- ✓ Improve productivity
- ✓ Ensure fairness
- ✓ Reward employee contributions
- ✓ Maintain industrial peace
- ✓ Comply with labor laws

Imagine two organizations

Organization A	Organization B
High salary	Moderate salary
Poor work environment	Friendly environment
No promotion	Promotion opportunities
No appreciation	Research grants
	Recognition awards

Which organization would you choose? Why?

Types of Compensation

Extrinsic Compensation	Intrinsic Compensation

Extrinsic Compensation

Extrinsic compensation refers to tangible rewards provided by the organization.

These rewards come from outside the employee.

Extrinsic Compensation

Direct Financial Compensation	Indirect Financial Compensation
Basic salary Wages Overtime Bonus Commission Incentives Profit sharing	Medical insurance Provident fund Pension Paid leave Housing allowance Transport allowance Festival bonus Education allowance

Extrinsic Compensation

Intrinsic compensation refers to psychological rewards employees experience while performing their work.

These rewards come from within the employee.

Job satisfaction, Recognition, Achievement, Responsibility, Autonomy, Learning opportunities, Career growth, Respect, Challenging work, Pride

Intrinsic Compensation

A university teacher receives appreciation from students after delivering an excellent lecture. No extra money is paid. But the teacher feels:

- ❑ Happy
- ❑ Proud
- ❑ Motivated

This is intrinsic compensation.

A software engineer successfully develops an innovative application. He receives

- Recognition
- Personal achievement
- Professional satisfaction

These are intrinsic rewards.

Extrinsic Compensation	Intrinsic Compensation
Financial	Psychological
Tangible	Intangible
Given by organization	Felt by employee
Salary	Job satisfaction
Bonus	Recognition
Allowances	Achievement
Insurance	Responsibility
Promotion benefits	Personal growth

Total Compensation

Financial Rewards

+

Non-financial Rewards

+

Career Development

+

Positive Work Environment

Historical Development of Compensation

Stage 1: Primitive Era

Characteristics:

- Hunting
- Food sharing
- Barter system
- No formal wages

Compensation

- Food
- Shelter
- Protection

Stage 2: Agricultural Society

Workers were compensated through

- Crops
- Food
- Land
- Livestock

Example: A farmer harvests rice.

Workers receive part of the harvest instead of cash.

Stage 3: Industrial Revolution (1760–1840)

Major changes

- Factories emerged
- Wage employment increased
- Time-based payment introduced
- Long working hours
- Child labor
- Piece-rate systems

Compensation mainly consisted of wages.

Example: A textile worker is paid for every piece of cloth produced.

Stage 4: Scientific Management (1900s)

F.W. Taylor introduced:

- Efficiency measurement
- Piece-rate incentives
- Performance-based pay

Employees producing more received higher wages.

Stage 5: Human Relations Era (1930–1950)

Elton Mayo's Hawthorne Studies showed

Money alone cannot motivate employees. Employees also need

- Recognition
- Respect
- Participation
- Teamwork

Intrinsic compensation became important.

Stage 6: Modern HRM

Organizations now emphasize

- Salary
- Incentives
- Employee wellbeing
- Career development
- Work-life balance
- Flexible work
- Recognition
- Learning opportunities

Stage 7: Digital Era

Today's compensation includes: Remote work ; Flexible hours; Stock options ; Skill-based pay ; Wellness programs ; Mental health support; AI-based performance rewards

Example: An IT company allows employees to

Work from home

Choose flexible working hours

Receive online learning budgets

These benefits increase employee satisfaction.

Period	Main Compensation
Primitive Society	Food, shelter
Agricultural Era	Crops, land
Industrial Revolution	Wages
Scientific Management	Piece-rate incentives
Human Relations	Recognition, participation
Modern HRM	Total compensation
Digital Era	Flexible and personalized rewards

Why Compensation Matters

For Employees	For Organizations
Financial security	Higher productivity
Motivation	Lower turnover
Job satisfaction	Better employee engagement
Career growth	Strong organizational commitment
Better quality of life	Competitive advantage

Competitive Advantage