

THEORIES OF REMUNERATION

- To understand which components of remuneration are more effective, we need to understand theories-
- **1. Reinforcement theory**- states that a behaviour which has a rewarding experience is likely to be repeated.
- High employee performance followed by a monetary reward will make future employee performance more likely.
- High performance not followed by reward will make it unlikely in future.



EXPECTANCY THEORY

- Instrumentality theory
- Path-goal theory
- Valence- instrumentality theory.

- VICTOR H. VROOM.



- Expectancy theory - is based on the idea that work effort is directed towards behaviour that people believe will lead to desired outcomes.
- 4 variables need to be explained to understand-
- 1. First level & second level outcomes- performance achieved as a result of efforts-1st outcome.
- Rewards- 2nd outcome.



- 2. Expectancy- is the belief that an effort elicits performance.
- Effort – to – performance
- 3. Instrumentality- is the perception that 1st level outcomes are associated with 2nd level outcomes.
- Performance – to – outcome
- 4. Valence- Valence is an individual's preference for 2nd level outcome.



- According to this theory, motivation is the product of valence, instrumentality and expectancy.
- Remunerating systems differ according to their impact on these motivational components.
- Pay systems differ most in their impact on instrumentality- the perceived link between behaviour and pay.



EQUITY THEORY / INEQUITY THEORY

SOCIAL COMARISON THEORY

- Adams
- Based on assumption that individuals are motivated by their desire to be equitably treated in their work relationships.
- Employees work – organisation – exchange – services- pay and other benefits.



- Equity theory proposes- individuals who perceives inequity in his rewards attempt to reduce inequity or seeks to restore equity.
- Inputs- education, skills, experience etc.,
- Outcomes – pay, promotion, fringe benefits etc.,
- Inequity – perception- job inputs/outcomes ratio is not equal to the ratio of the comparison of other.



- Inequity – can result- lower productivity, higher absenteeism or increase in turnover.
- Impact – Motivation, Commitment, Performance



REMUNERATION SYSTEM NEEDS TO MEET 3 TYPES OF EQUITY

Internal Equity

External Equity

Individual Equity



- **Internal Equity-** Refers to a jobs pay rates compared to other jobs in the same company.
- **External Equity -** Refers to a jobs pay rate compared to the jobs pay rate in another company.
- **Individual Equity-** Refers to the fairness of an individual's pay as compared to what his/her coworkers are receiving for the same job.





Self

Others

Equity Perception = $\frac{\text{Outcome}}{\text{inputs}} = \frac{\text{Outcome}}{\text{inputs}}$

Inequity perception = $\frac{\text{Outcome}}{\text{inputs}} < \frac{\text{Outcome}}{\text{inputs}}$



AGENCY THEORY

- Stakeholders- Employers & Employees
- Principals and Agents
- Different interests and goals
- Agency cost.
- Behaviour oriented and outcome oriented
- Outcome oriented- increase when profits go up and falls when profits go down.



IMPORTANCE OF IDEAL REMUNERATION

- Retaining employees for long.
- Employees get motivated to perform better.
- Enables to attract competent people.



FACTORS INFLUENCING EMPLOYEE REMUNERATION

- (a) Labour market
- (b) Productivity of labour
- © Cost of living
- (d) Labour unions
- (e) Labour laws
- (f) Society
- (g) Business strategy
- (h) The employee.



DESIGNING COMPENSATION SYSTEM

- Job Description
- Job Evaluation
- Job Hieracrhy
- Pay Survey
- Pricing Jobs-
 - Grouping of similar jobs into pay grades.
 - Price each pay grade.



DEVELOP PAY GRADES

- Pay grades are convenient grouping of a wide variety of jobs based on similar compensable factors and value.

Grade A	Managerial
Grade B	Supervisory
Grade C	Clerical

‘BROAD BANDING’

A SECOND GENERATION APPROACH.

- Refers to consolidating existing pay grades and ranges into fewer and wider grades within one band.
- A major developer and user of Broad banding has been Watson Wyatt Data services (WWDS). They developed 25-grade pay structure that merged into 6 Broad band definition



Band - 6	Manual / Junior Clerical
Band - 5	Clerical/Technicians
Band - 4	Professional/Administrative/ Junior management
Band - 3	Middle management
Band - 2	Top management 2
Band - 1	Top Management 1

