Compensation

What is Compensation?

Compensation is a systematic approach to providing monetary and non-monetary value to employees in exchange for work performed. It includes wages, salaries, incentives, bonuses, benefits, and perks that organizations offer to attract, retain, and motivate employees.

Internal Factors Affecting Compensation (With Detailed Explanation & Examples)

Compensation is influenced by many factors within an organization. Below are key **internal factors** that impact how employees are paid, along with examples and extra insights.

1. Capacity to Pay

💰 **Definition:**
A company's financial health determines how much it can afford to pay its employees. If a company is making high profits, it can offer better salaries, bonuses, and benefits. However, if a company is struggling, it may not be able to match industry pay standards.

🔹 **Example:**

- **Apple & Microsoft** can afford to pay high salaries because of their strong market positions and high revenue.
- A **small retail business** might struggle to offer competitive wages due to lower profits.

📝 **Additional Insights:**
✅ High-profit companies can offer **performance-based incentives, stock options, and yearly bonuses.**
✅ A company with financial difficulties may **freeze salary hikes or reduce benefits** to control costs.

2. Top Management Philosophy

🎯 **Definition:**
The leadership team and their philosophy on employee pay play a key role in determining compensation. Some companies focus on **employee well-being** and offer high wages, while others prioritize **cost-cutting** and pay minimal salaries.

🔹 **Example:**

- **Tesla & Netflix** believe in paying top salaries to attract the best talent.
- Some traditional businesses focus on **low labor costs** to increase company profits, leading to lower wages.

📝 **Additional Insights:**
✅ If top management values **employee satisfaction**, they will offer **competitive pay and good benefits**.
✅ If management focuses on **minimizing expenses**, they may pay lower wages, causing **high employee turnover**.
✅ Companies that invest in **employee training and development** often provide **higher salaries** to retain skilled workers.

3. Job Requirements

⚙️ **Definition:**
Jobs that require higher **education, skills, experience, responsibility, and effort** generally receive **higher compensation** than simpler tasks.

🔹 **Example:**

- A **brain surgeon** earns significantly more than a **hospital receptionist** due to years of education, training, and the critical nature of the job.
- A **senior data scientist** at Google earns more than a **customer service representative** because of the technical skills required.

📝 **Additional Insights:**
✅ Jobs that require **specialized skills (e.g., AI engineers, pilots, surgeons)** have **higher salaries** due to limited talent availability.
✅ Risky jobs (e.g., **firefighters, oil rig workers, miners**) often offer **hazard pay** in addition to basic salaries.
✅ Jobs requiring **leadership skills** (e.g., managers, directors) typically receive higher salaries than **entry-level employees**.

4. Organizational Politics

🏛️ **Definition:**
Internal politics and favoritism in a company can sometimes affect salary decisions. Employees who have good relationships with management may get **better pay raises** than those who don't.

🔹 **Example:**

- In some companies, promotions and salary hikes are based on **personal connections** rather than **employee performance**.
- A manager might **favor a certain employee** and give them a raise, while a more deserving employee is overlooked.

📝 **Additional Insights:**
✅ **Fair companies** use **performance-based evaluations** to determine pay increases, ensuring that **all employees get fair rewards**.
✅ **Office politics** can lead to **low employee morale, increased turnover, and dissatisfaction**.
✅ To avoid unfair pay structures, companies should have **clear salary policies** based on **merit, skills, and contributions**.

5. Employee-Related Factors

🧑‍💼 **Definition:**
An employee's **experience, performance, seniority, and potential** impact their compensation. Companies reward employees based on their **contribution to business growth**.

🔹 **Example:**

- A **senior software engineer** earns more than a **junior developer** because of experience and skills.
- A **high-performing salesperson** receives **higher commissions** compared to an average salesperson.

📝 **Additional Insights:**
✅ **Performance-based pay** motivates employees to work harder and be more productive.
✅ Some companies offer **experience-based pay raises** to employees who stay longer in the company.
✅ **Potential-based pay** is given to promising employees who show **leadership skills and growth ability**.

6. Productivity of Workers

⚡ **Definition:**
Employees who produce **high-quality work efficiently** are often rewarded with **bonuses, promotions, and salary increases**. Companies want to pay more to workers who help increase profits.

🔹 **Example:**

- A **factory worker** who produces **100 units per day** may earn a **higher performance bonus** than a worker who produces only **50 units per day**.
- A **software developer** who completes more projects efficiently may get a **salary raise or additional incentives**.

📝 **Additional Insights:**
✅ Companies use **performance-based incentives** to encourage employees to be more

productive.
✅ **Highly productive workers** have better chances of getting **promotions and career growth**.
✅ Some companies **reduce salaries or lay off workers** if employee productivity is too low.

Internal factors play a significant role in shaping employee compensation. A company's **financial strength, leadership mindset, job complexity, office politics, employee contributions, and productivity levels** all determine how much an employee is paid.

💡 **Key Takeaways:**
✔️ **Financially strong companies** offer better salaries.
✔️ **Fair and growth-oriented management** rewards employees based on skills and performance.
✔️ **Challenging and high-responsibility jobs** get higher pay.
✔️ **Politics and favoritism** can lead to unfair pay structures.
✔️ **Skilled and experienced employees** earn more.
✔️ **Higher productivity** leads to better pay and promotions.

External Factors Affecting Compensation (With Detailed Explanation & Examples)

Compensation is not only affected by internal company factors but also by **external forces** beyond an organization's control. These external factors influence salary levels and benefits to ensure fairness, competitiveness, and legal compliance.

1. Demand & Supply of Labor

📉📈 **Definition:**
The labor market functions like any other market—when **demand for workers is high** and **supply is low**, salaries increase. Conversely, if there are **too many workers** for fewer job openings, salaries may decrease.

🔹 **Example:**

- **AI engineers** and **cybersecurity experts** are in high demand, but few people have the required skills. As a result, their salaries are very high.
- In contrast, **data entry jobs** have many applicants but few job openings, leading to lower wages.

📝 **Additional Insights:**
✅ **Highly specialized skills** lead to higher pay due to **labor shortages**.
✅ When **unemployment is high**, companies can offer lower wages because there are **many candidates** competing for fewer jobs.
✅ If a company needs workers urgently, they may **increase salaries** to attract talent.

2. Cost of Living

🏠💵 **Definition:** The cost of housing, food, transportation, healthcare, and other necessities affects wages. Higher living costs in certain cities or countries lead to **higher salaries** to maintain a decent standard of living.

🔹 **Example:**

- A **software engineer** in **San Francisco (USA)** earns more than one in **Bangalore (India)** because the cost of living in the U.S. is much higher.
- A **teacher in New York City** will receive a higher salary than one in a small town due to higher expenses in the city.

📝 **Additional Insights:**
✅ Companies often **adjust salaries based on location** to match living costs.
✅ Some companies provide **housing allowances** or **cost-of-living adjustments (COLA)** in expensive areas.
✅ Inflation affects salaries—when prices rise, companies must **increase wages** to maintain employees' purchasing power.

3. Government Regulations

⚖️ **Definition:** Governments create laws and policies that affect wages, such as **minimum wage laws, overtime pay regulations, equal pay policies, and tax rules**. Companies must comply with these legal requirements when deciding salaries.

🔹 **Example:**

- The **U.S. government** sets a **federal minimum wage**, which employers must follow. Some states (like California) have even higher minimum wage laws.
- The **Equal Pay Act** in many countries ensures that men and women receive **equal pay for the same work**.

📝 **Additional Insights:**
✅ **Minimum wage laws** prevent worker exploitation and ensure fair pay.
✅ **Overtime regulations** require companies to pay **extra wages** for additional work hours.
✅ Companies that **violate wage laws** can face **legal action and penalties**.

4. Prevailing Wage Rates (Industry Standards)

💼 **Definition:** Salaries in an industry are often determined by **market standards**—what other companies in the same field are paying for similar roles. To attract and retain employees, companies must offer **competitive salaries**.

🔹 **Example:**

- A **bank in the U.K.** must offer salaries similar to other banks, or else employees might leave for better-paying jobs at competitors.
- In the **construction industry**, government-funded projects often have **prevailing wage rates** that employers must follow to ensure fair pay for workers.

📝 **Additional Insights:**
✅ Companies conduct **salary benchmarking** to stay competitive with industry pay rates.
✅ Paying **below market standards** leads to **high employee turnover**, as workers leave for better-paying jobs.
✅ Offering **higher-than-average pay** helps attract **top talent and skilled professionals**.

5. Labor Unions & Collective Bargaining

👷 **Definition:** Labor unions negotiate wages and benefits for employees. Through **collective bargaining**, unions ensure workers receive fair salaries, better working conditions, and additional benefits.

🔹 **Example:**

- **Airline pilot unions** negotiate higher salaries and better working conditions for pilots.
- **Automobile factory workers** (e.g., Ford, Toyota) go on strike when companies fail to meet their salary demands.

📝 **Additional Insights:**
✅ Strong unions **protect workers from unfair wages** and push for **salary increments**.
✅ If unions demand **higher wages**, companies may **increase prices** of their products to maintain profits.
✅ In some cases, excessive union demands can lead to **job cuts or factory relocations** to lower-cost regions.

6. Economic Conditions

📊 **Definition:** A country's economy plays a major role in wage determination. During economic **booms**, businesses grow, and wages increase. During **recessions**, companies cut costs, freeze hiring, and may even reduce salaries.

🔹 **Example:**

- In **strong economies**, companies increase salaries and bonuses because they have high profits.
- During **recessions** (like the 2008 financial crisis), many companies **froze salary hikes, cut bonuses, or laid off workers** to survive.

📝 **Additional Insights:**
✅ **Growing economies** lead to **higher wages and better job opportunities**.

✅ **Recession periods** force companies to **reduce expenses**, including salary reductions.
✅ Countries with **high inflation** must increase wages regularly to maintain employees' standard of living.

7. Technological Advancements

🤖 **Definition:**
As industries adopt new technologies, salaries change. Employees with **high-tech skills** are paid more, while **manual labor jobs may disappear** due to automation.

🔹 **Example:**

- **AI specialists and blockchain developers** earn high salaries because of **high demand** and limited talent supply.
- Many **factory jobs** have been replaced by **robots**, reducing wage opportunities for low-skilled workers.

📝 **Additional Insights:**
✅ Companies offer **higher salaries** to employees skilled in **emerging technologies**.
✅ Traditional **low-skill jobs** are at risk due to automation, leading to **lower wages** in some sectors.
✅ Employees who **upgrade their skills** can secure **higher-paying jobs** in technology-driven industries.

External factors have a **big impact** on how companies set wages. From labor supply to government rules, economic conditions, and technological changes, businesses must adapt to these external influences to offer fair and competitive compensation.

💡 **Key Takeaways:**
✔️ **More demand & less supply** = **Higher wages**.
✔️ **High cost of living** leads to **location-based salary adjustments**.
✔️ **Government laws ensure fair pay** but may also **increase company costs**.
✔️ **Competitive industries** must match **market pay rates** to attract employees.
✔️ **Strong unions** can negotiate **higher wages** for workers.
✔️ **Economic growth** boosts salaries, while recessions **lead to job losses & pay cuts**.

Sample Question : Question: ABC bank wants to give 15,000 tk as starting salary. But as per the govt standard it is 28,000 as starting salary.

Answer : In the scenario you described, several factors related to compensation are in play:

- **Government Regulations:** Government regulations, such as minimum wage laws, are a key consideration in determining pay rates. In this case, the government standard of 28,000 tk as a starting salary acts as a regulatory floor.

- **Prevailing Wage Rates:** This refers to the standard or commonly paid wages for a particular job in a specific labor market. Here, the government-mandated minimum wage influences the prevailing wage rate for entry-level positions.
- **Demand and Supply of Labor:** Demand and supply impact compensation. If there is an abundance of workers willing to accept lower wages, ABC bank might be tempted to offer less. However, the minimum wage law sets a lower limit.
- **Legal considerations:** Legal considerations, most importantly, the Fair Labor Standards Act, which governs matters such as minimum wages and overtime pay, is a factor.

selection

The selection process is a series of steps used by organizations to identify and hire the most suitable candidate for a job. It involves evaluating applicants based on their skills, qualifications, experience, and potential to ensure they meet the job requirements. The goal is to select the best-fit candidate while ensuring fairness and efficiency in hiring.

Selection Test: Impact and Examples

A **selection test** is a systematic tool used in the hiring process to assess an applicant's skills, abilities, personality, or knowledge to determine their suitability for a specific job. These tests help employers make objective decisions and ensure that only the most qualified candidates proceed to the next stage of recruitment.

Impact of Selection Tests

1. **Improves Hiring Accuracy** – Reduces bias by objectively evaluating candidates.
2. **Saves Time & Resources** – Filters out unqualified applicants early in the process.
3. **Enhances Job Performance** – Ensures that selected candidates have the required competencies.
4. **Reduces Employee Turnover** – Matches candidates with jobs that align with their skills and personality.
5. **Standardizes Evaluation** – Ensures fairness and consistency in recruitment.

Examples of Selection Tests

1. Cognitive Ability Test

- **Purpose**: Measures intelligence, problem-solving skills, and reasoning ability.
- **Example**: A numerical reasoning test for an accountant role.

2. Aptitude Test

- **Purpose**: Evaluates a candidate’s ability to learn and adapt to new tasks.
- **Example**: Logical reasoning tests for software developers.

3. Personality Test

- **Purpose**: Assesses a candidate’s behavior, attitude, and work style.
- **Example**: Myers-Briggs Type Indicator (MBTI) for managerial positions.

4. Technical or Skill Test

- **Purpose**: Measures job-specific knowledge and technical skills.
- **Example**: A coding test for a software engineer.

5. Situational Judgment Test (SJT)

- **Purpose**: Evaluates decision-making and problem-solving in workplace scenarios.
- **Example**: A customer service role-playing test.

6. Physical Ability Test

- **Purpose**: Assesses physical strength and endurance for physically demanding jobs.
- **Example**: A firefighter's endurance and agility test.

7. Integrity Test

- **Purpose**: Measures honesty, ethics, and reliability.
- **Example**: A questionnaire on handling workplace ethical dilemmas.

By integrating selection tests into the hiring process, companies can enhance their recruitment strategies and ensure they hire the best candidates for the job.

Selection Process: Definition and Steps

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Steps in the Selection Process

1. Job Analysis & Requirement Identification

- Understanding the job role, responsibilities, and required qualifications.
- Creating a job description and candidate criteria.

2. Application Screening

- Reviewing resumes and application forms.
- Shortlisting candidates based on qualifications and experience.

3. Selection Tests *(If applicable)*

- Conducting written, technical, cognitive, or personality tests.
- Evaluating candidates' skills, knowledge, and abilities.

4. Initial Interview

- A preliminary interview to assess basic suitability.
- Conducted via phone, video call, or in person.

5. In-depth Interview(s)

- A structured interview to evaluate technical skills, problem-solving ability, and cultural fit.
- Can include behavioral interviews or panel interviews.

6. Background & Reference Checks

- Verifying employment history, education, and references.
- Conducting criminal and credit checks (if required).

7. Final Selection & Job Offer

- Choosing the most suitable candidate based on overall performance.
- Extending a formal job offer with salary details, benefits, and joining date.

8. Onboarding & Orientation

- Introducing the new employee to the company, team, and policies.
- Providing necessary training for a smooth transition into the role.

Importance of the Selection Process

✅ Ensures hiring the right candidate for the job.
✅ Reduces employee turnover and improves retention.
✅ Enhances productivity and workplace efficiency.
✅ Helps maintain fairness, transparency, and compliance in recruitment.

A well-structured selection process increases the chances of hiring skilled professionals who contribute to the company's success! 🚀

Recruitment Process

Recruitment is the process of finding and hiring the best and most qualified candidate for a job opening in a timely and cost-effective manner.

1. **Decision on Recruitment Necessity**: Determine if a new hire is needed.
2. **Job Description Preparation**: Clearly outline the role and responsibilities.
3. **Specification Preparation**: Define the qualifications and skills required for the role.
4. **Advertising Plan**: Decide on the methods and timing for job advertisements.
5. **Shortlisting Applicants**: Review applications and select the most suitable candidates.
6. **Reference Check**: Verify the candidate's background and qualifications by requesting references.
7. **Interviews and Selection Tests**: Invite shortlisted candidates for interviews and/or skill assessments.
8. **Job Offer**: Extend the offer to the successful candidate and finalize the contract of employment.

Internal sources & External sources recruitment with advantage and disadvantage:

Internal Recruiting Sources:

1. Re-recruiting Former Employees & Applicants

- This involves rehiring past employees or considering previous applicants who showed potential but were not hired.
- **Example:** A company may rehire a former employee who left for a short-term opportunity elsewhere but now wants to return.

2. Organizational Database

- Companies maintain records of employee skills, performance, and experience, which can be used to identify suitable candidates for a job opening.
- **Example:** A business uses an internal database to find employees with leadership experience for a managerial position.

3. Employee Referrals

- Current employees recommend potential candidates for open positions within the organization.
- **Example:** An employee refers to a friend who has the required skills for a job opening, leading to a successful hire.

4. Job Posting

- Open positions are advertised internally, allowing existing employees to apply.
- **Example:** A company posts job vacancies on the internal portal, encouraging employees to apply for promotions.

5. Employee Focused

- The company invests in developing and promoting existing employees rather than hiring externally.
- **Example:** Employees are given skill development training, ensuring they are prepared for future roles within the company.

6. Promotions and Transfers

- Employees are moved to higher positions (promotions) or shifted to different departments/locations (transfers) based on their skills and experience.
- **Example:** A senior accountant is promoted to the role of Finance Manager, and another accountant is transferred to a different branch.

Advantages

1. Employee & Employer relation :
   - Explanation : Hiring from within strengthens the relationship between employees and the employer. Employees feel valued and recognized, which can lead to increased loyalty and commitment.
   - Benefit : It fosters a positive work environment and enhances job satisfaction.
2. Build moral :
   - Explanation : Promoting from within boosts employee morale as it shows that the organization values its current staff and is willing to invest in their growth.
   - Benefit : Higher morale can lead to increased productivity and reduced turnover rates.
3. Cheaper :
   - Explanation : Internal recruitment is generally less expensive than external recruitment. There are no costs associated with advertising, screening, and interviewing external candidates.
   - Benefit : It helps in reducing overall recruitment costs and saving time.
4. Know your candidate better :

- Explanation : The organization already has a good understanding of the internal candidates' skills, performance, and potential. This makes it easier to assess their suitability for new roles.
- Benefit : It reduces the risk of hiring someone who may not fit well with the team or the company culture.

5. Already Socialization :
    - Explanation : Internal candidates are already familiar with the company's culture, processes, and people. They do not need to go through the socialization process that new hires typically require.
    - Benefit : It leads to a smoother transition into new roles and quicker productivity.

Disadvantages

1. **Miss Good outside Talent** : By focusing solely on internal candidates, organizations may miss out on talented individuals from outside the company. External candidates can bring fresh perspectives and new skills that might not be present within the current workforce.
2. **No New Ideas** : Promoting only from within can lead to a lack of new ideas and innovation. External candidates often bring diverse experiences and viewpoints that can help the organization adapt and grow.
3. **Need for more training for enhancing Skills & Technology** : While internal candidates may be familiar with the company, they may require additional training to keep up with new skills and technologies. This can be especially true if the role requires advanced technical knowledge or if the industry is rapidly evolving.

External Sources:

1. Recruiting via the Internet

- Companies use online job portals, company websites, and social media platforms to attract potential candidates.
- **Example:** A company posts a job opening on LinkedIn and receives applications from various qualified professionals.

2. Advertising

- Job openings are advertised in newspapers, magazines, television, and online platforms to reach a larger audience.
- **Example:** A company publishes a job ad in a national newspaper to hire sales executives.

3. Employment Agencies

- These agencies help companies find suitable candidates by screening and shortlisting job seekers.
- **Example:** A business partners with a recruitment agency to fill technical roles quickly.

4. Temp Agencies and Alternative Staffing

- Temporary staffing agencies provide workers for short-term or project-based work.
- **Example:** A retail store hires temporary staff during the holiday season.

5. Offshoring/Outsourcing

- Companies hire employees from other countries or outsource tasks to external firms.
- **Example:** A U.S.-based company outsources its customer service to a call center in India.

6. Executive Recruiters

- Specialized recruiters (headhunters) find top-level executives for senior positions.
- **Example:** A company hires an executive recruiter to find a new CEO.

7. On-Demand Recruiting Services (ODRS)

- Companies hire external recruiters on a project basis when needed.
- **Example:** A startup uses ODRS to recruit software engineers for a short-term project.

8. College Recruiting

- Companies visit universities to hire fresh graduates through job fairs and campus interviews.
- **Example:** A tech company recruits software developers directly from a university job fair.

9. Referrals and Walk-ins

- Employees refer candidates for job openings, and individuals apply directly to the company.
- **Example:** An employee refers a friend for a sales position, and another job seeker walks into the office to apply for an available role.

Advantages

1. **Cost-effective way to publicize job openings**

- Posting job ads online is cheaper than traditional recruitment methods like newspaper ads or recruitment agencies.

2. **More applicants attracted over a longer period**
   - Online job postings remain available for extended periods, increasing the chances of attracting qualified candidates.
3. **Immediate applicant responses**
   - Online applications allow candidates to apply instantly, reducing hiring time.
4. **Online prescreening of applicants**
   - Employers can use AI and filters to screen resumes and shortlist candidates efficiently.
5. **Links to other job search sites**
   - Job postings can be shared across multiple platforms, reaching a broader audience.
6. **Automation of applicant tracking and evaluation**
   - Applicant tracking systems (ATS) help manage applications, track progress, and streamline hiring.

Disadvantages

1. **Exclusion of older and minority workers**
   - Older candidates or those with limited internet access may struggle with online applications, creating an unfair disadvantage.
2. **Excessive number of unqualified applicants**
   - Online job postings attract a high volume of applications, many of which may not meet the job requirements. This can make screening time-consuming.
3. **Personal information privacy concerns of applicants**
   - Candidates may hesitate to share personal details online due to cybersecurity risks and data breaches.

Job Analysis

Job Analysis : Job analysis is a systematic process used to gather, document, and analyze information about a job in order to identify its responsibilities, requirements, and necessary skills

Objectives of Job Analysis

1. **To Identify the Tasks and Responsibilities of a Role**
   - Job analysis helps in understanding what tasks an employee needs to perform and what responsibilities they hold.
   - **Example:** A job analysis for a marketing executive may reveal that their main tasks include market research, campaign management, and customer engagement.
2. **To Establish the Qualifications and Skills Required**
   - It defines the education, experience, and skills needed for the job.
   - **Example:** A software developer might need a degree in computer science and proficiency in programming languages like Python or Java.
3. **To Align Job Roles with Organizational Goals**
   - Ensures that each role contributes to the company's mission and objectives.
   - **Example:** A sales manager's role is designed to increase revenue, which directly supports the company's growth strategy.
4. **To Ensure Compliance with Labor Laws and Regulations**
   - Helps businesses follow legal requirements regarding working hours, wages, and employee rights.
   - **Example:** A factory job analysis ensures compliance with workplace safety laws to protect workers.
5. **To Provide a Basis for Performance Evaluation and Training Programs**
   - Establishes criteria for measuring employee performance and identifying training needs.
   - **Example:** If a customer service representative struggles with communication skills, training can be arranged based on job analysis findings.
6. **To Support Equitable and Competitive Compensation Structures**
   - Ensures fair wages based on job responsibilities, industry standards, and employee qualifications.
   - **Example:** A job analysis may show that a senior accountant should be paid more than a junior accountant due to their additional responsibilities.

Methods of Job Analysis

1. **Observation Method** – The analyst observes employees while they work, noting tasks, tools used, and working conditions. Best for manual or repetitive tasks, as it provides firsthand insights.
   - **Example:** A factory worker's job is analyzed by watching their assembly line tasks to assess physical demands.
2. **Interview Method** – Employees and supervisors are interviewed about job duties and requirements. Best for complex roles, as it provides detailed explanations.

    - **Example:** A manager is interviewed to understand leadership responsibilities and decision-making processes.
3. **Questionnaire Method** – Employees complete forms about their duties and responsibilities, including open-ended and structured questions. It helps in gathering standardized data.
    - **Example:** A software developer fills out a questionnaire detailing their coding tasks and required technical skills.
4. **Diary/Logs Method** – Employees record their daily tasks and time spent on each. Best for jobs with variable tasks but can be time-consuming.
    - **Example:** A marketing executive logs time spent on content creation, client meetings, and campaign management.
5. **Critical Incident Technique (CIT)** – Employees or supervisors describe key incidents that led to success or failure in a job. Useful for training and performance evaluation.
    - **Example:** A customer service agent recalls a situation where their quick response resolved a customer complaint effectively.
6. **Functional Job Analysis (FJA)** – Jobs are analyzed based on interactions with people, data, and things. Best for roles involving technology or communication but needs expert analysts.
    - **Example:** A bank teller's job is analyzed based on customer interaction (people), transaction processing (data), and handling cash (things).

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🧑‍💼 **Definition:**
An employee's **experience, performance, seniority, and potential** impact their compensation. Companies reward employees based on their **contribution to business growth**.

🔹 **Example:**

- A **senior software engineer** earns more than a **junior developer** because of experience and skills.
- A **high-performing salesperson** receives **higher commissions** compared to an average salesperson.

📝 **Additional Insights:**
✅ **Performance-based pay** motivates employees to work harder and be more productive.
✅ Some companies offer **experience-based pay raises** to employees who stay longer in the company.
✅ **Potential-based pay** is given to promising employees who show **leadership skills and growth ability**.

6. Productivity of Workers

⚡ **Definition:**
Employees who produce **high-quality work efficiently** are often rewarded with **bonuses, promotions, and salary increases**. Companies want to pay more to workers who help increase profits.

🔹 **Example:**

- A **factory worker** who produces **100 units per day** may earn a **higher performance bonus** than a worker who produces only **50 units per day**.
- A **software developer** who completes more projects efficiently may get a **salary raise or additional incentives**.

📝 **Additional Insights:**
✅ Companies use **performance-based incentives** to encourage employees to be more productive.
✅ **Highly productive workers** have better chances of getting **promotions and career**

growth.
✅ Some companies **reduce salaries or lay off workers** if employee productivity is too low.

Internal factors play a significant role in shaping employee compensation. A company's **financial strength, leadership mindset, job complexity, office politics, employee contributions, and productivity levels** all determine how much an employee is paid.

💡 **Key Takeaways:**
✔️ **Financially strong companies** offer better salaries.
✔️ **Fair and growth-oriented management** rewards employees based on skills and performance.
✔️ **Challenging and high-responsibility jobs** get higher pay.
✔️ **Politics and favoritism** can lead to unfair pay structures.
✔️ **Skilled and experienced employees** earn more.
✔️ **Higher productivity** leads to better pay and promotions.

External Factors Affecting Compensation (With Detailed Explanation & Examples)

Compensation is not only affected by internal company factors but also by **external forces** beyond an organization's control. These external factors influence salary levels and benefits to ensure fairness, competitiveness, and legal compliance.

1. Demand & Supply of Labor

📉📈 **Definition:**
The labor market functions like any other market—when **demand for workers is high** and **supply is low**, salaries increase. Conversely, if there are **too many workers** for fewer job openings, salaries may decrease.

🔹 **Example:**

- **AI engineers** and **cybersecurity experts** are in high demand, but few people have the required skills. As a result, their salaries are very high.
- In contrast, **data entry jobs** have many applicants but few job openings, leading to lower wages.

📝 **Additional Insights:**
✅ **Highly specialized skills** lead to higher pay due to **labor shortages**.
✅ When **unemployment is high**, companies can offer lower wages because there are **many candidates** competing for fewer jobs.
✅ If a company needs workers urgently, they may **increase salaries** to attract talent.

2. Cost of Living

🏠💵 **Definition:** The cost of housing, food, transportation, healthcare, and other necessities affects wages. Higher living costs in certain cities or countries lead to **higher salaries** to maintain a decent standard of living.

🔹 **Example:**

- A **software engineer** in **San Francisco (USA)** earns more than one in **Bangalore (India)** because the cost of living in the U.S. is much higher.
- A **teacher in New York City** will receive a higher salary than one in a small town due to higher expenses in the city.

📝 **Additional Insights:**
✅ Companies often **adjust salaries based on location** to match living costs.
✅ Some companies provide **housing allowances** or **cost-of-living adjustments (COLA)** in expensive areas.
✅ Inflation affects salaries—when prices rise, companies must **increase wages** to maintain employees' purchasing power.

3. Government Regulations

⚖️ **Definition:** Governments create laws and policies that affect wages, such as **minimum wage laws, overtime pay regulations, equal pay policies, and tax rules**. Companies must comply with these legal requirements when deciding salaries.

🔹 **Example:**

- The **U.S. government** sets a **federal minimum wage**, which employers must follow. Some states (like California) have even higher minimum wage laws.
- The **Equal Pay Act** in many countries ensures that men and women receive **equal pay for the same work**.

📝 **Additional Insights:**
✅ **Minimum wage laws** prevent worker exploitation and ensure fair pay.
✅ **Overtime regulations** require companies to pay **extra wages** for additional work hours.
✅ Companies that **violate wage laws** can face **legal action and penalties**.

4. Prevailing Wage Rates (Industry Standards)

💼 **Definition:** Salaries in an industry are often determined by **market standards**—what other companies in the same field are paying for similar roles. To attract and retain employees, companies must offer **competitive salaries**.

🔹 **Example:**

- A **bank in the U.K.** must offer salaries similar to other banks, or else employees might leave for better-paying jobs at competitors.

- In the **construction industry**, government-funded projects often have **prevailing wage rates** that employers must follow to ensure fair pay for workers.

📝 **Additional Insights:**
✅ Companies conduct **salary benchmarking** to stay competitive with industry pay rates.
✅ Paying **below market standards** leads to **high employee turnover**, as workers leave for better-paying jobs.
✅ Offering **higher-than-average pay** helps attract **top talent and skilled professionals**.

5. Labor Unions & Collective Bargaining

👷 **Definition:** Labor unions negotiate wages and benefits for employees. Through **collective bargaining**, unions ensure workers receive fair salaries, better working conditions, and additional benefits.

🔹 **Example:**

- **Airline pilot unions** negotiate higher salaries and better working conditions for pilots.
- **Automobile factory workers** (e.g., Ford, Toyota) go on strike when companies fail to meet their salary demands.

📝 **Additional Insights:**
✅ Strong unions **protect workers from unfair wages** and push for **salary increments**.
✅ If unions demand **higher wages**, companies may **increase prices** of their products to maintain profits.
✅ In some cases, excessive union demands can lead to **job cuts or factory relocations** to lower-cost regions.

6. Economic Conditions

📊 **Definition:** A country's economy plays a major role in wage determination. During economic **booms**, businesses grow, and wages increase. During **recessions**, companies cut costs, freeze hiring, and may even reduce salaries.

🔹 **Example:**

- In **strong economies**, companies increase salaries and bonuses because they have high profits.
- During **recessions** (like the 2008 financial crisis), many companies **froze salary hikes, cut bonuses, or laid off workers** to survive.

📝 **Additional Insights:**
✅ **Growing economies** lead to **higher wages and better job opportunities**.
✅ **Recession periods** force companies to **reduce expenses**, including salary reductions.
✅ Countries with **high inflation** must increase wages regularly to maintain employees' standard of living.

7. Technological Advancements

🤖 **Definition:**
As industries adopt new technologies, salaries change. Employees with **high-tech skills** are paid more, while **manual labor jobs may disappear** due to automation.

🔹 **Example:**

- **AI specialists and blockchain developers** earn high salaries because of **high demand** and limited talent supply.
- Many **factory jobs** have been replaced by **robots**, reducing wage opportunities for low-skilled workers.

📝 **Additional Insights:**
✅ Companies offer **higher salaries** to employees skilled in **emerging technologies**.
✅ Traditional **low-skill jobs** are at risk due to automation, leading to **lower wages** in some sectors.
✅ Employees who **upgrade their skills** can secure **higher-paying jobs** in technology-driven industries.

External factors have a **big impact** on how companies set wages. From labor supply to government rules, economic conditions, and technological changes, businesses must adapt to these external influences to offer fair and competitive compensation.

💡 **Key Takeaways:**
✔️ **More demand & less supply** = **Higher wages**.
✔️ **High cost of living** leads to **location-based salary adjustments**.
✔️ **Government laws ensure fair pay** but may also **increase company costs**.
✔️ **Competitive industries** must match **market pay rates** to attract employees.
✔️ **Strong unions** can negotiate **higher wages** for workers.
✔️ **Economic growth** boosts salaries, while recessions **lead to job losses & pay cuts**.

Sample Question : Question: ABC bank wants to give 15,000 tk as starting salary. But as per the govt standard it is 28,000 as starting salary.

Answer : In the scenario you described, several factors related to compensation are in play:

- **Government Regulations:** Government regulations, such as minimum wage laws, are a key consideration in determining pay rates. In this case, the government standard of 28,000 tk as a starting salary acts as a regulatory floor.
- **Prevailing Wage Rates:** This refers to the standard or commonly paid wages for a particular job in a specific labor market. Here, the government-mandated minimum wage influences the prevailing wage rate for entry-level positions.
- **Demand and Supply of Labor:** Demand and supply impact compensation. If there is an abundance of workers willing to accept lower wages, ABC bank might be tempted to offer less. However, the minimum wage law sets a lower limit.

- **Legal considerations:** Legal considerations, most importantly, the Fair Labor Standards Act, which governs matters such as minimum wages and overtime pay, is a factor.

Chapter Recruitment Process:

Question: Recruitment process Definition?

Answer : Recruitment is the process of finding and hiring the best and most qualified candidate for a job opening in a timely and cost-effective manner.

1. **Decision on Recruitment Necessity**: Determine if a new hire is needed.
2. **Job Description Preparation**: Clearly outline the role and responsibilities.
3. **Specification Preparation**: Define the qualifications and skills required for the role.
4. **Advertising Plan**: Decide on the methods and timing for job advertisements.
5. **Shortlisting Applicants**: Review applications and select the most suitable candidates.
6. **Reference Check**: Verify the candidate's background and qualifications by requesting references.
7. **Interviews and Selection Tests**: Invite shortlisted candidates for interviews and/or skill assessments.
8. **Job Offer**: Extend the offer to the successful candidate and finalize the contract of employment.

Question : Internal sources & External sources recruitment with advantages and disadvantages?

Answer :
Internal Recruiting Sources:

1. Re-recruiting Former Employees & Applicants

- This involves rehiring past employees or considering previous applicants who showed potential but were not hired.
- **Example:** A company may rehire a former employee who left for a short-term opportunity elsewhere but now wants to return.

2. Organizational Database

- Companies maintain records of employee skills, performance, and experience, which can be used to identify suitable candidates for a job opening.
- **Example:** A business uses an internal database to find employees with leadership experience for a managerial position.

3. Employee Referrals

- Current employees recommend potential candidates for open positions within the organization.
- **Example:** An employee refers to a friend who has the required skills for a job opening, leading to a successful hire.

4. Job Posting

- Open positions are advertised internally, allowing existing employees to apply.
- **Example:** A company posts job vacancies on the internal portal, encouraging employees to apply for promotions.

5. Employee Focused

- The company invests in developing and promoting existing employees rather than hiring externally.
- **Example:** Employees are given skill development training, ensuring they are prepared for future roles within the company.

6. Promotions and Transfers

- Employees are moved to higher positions (promotions) or shifted to different departments/locations (transfers) based on their skills and experience.
- **Example:** A senior accountant is promoted to the role of Finance Manager, and another accountant is transferred to a different branch.

Advantages

1. Employee & Employer relation :
    - Explanation : Hiring from within strengthens the relationship between employees and the employer. Employees feel valued and recognized, which can lead to increased loyalty and commitment.
    - Benefit : It fosters a positive work environment and enhances job satisfaction.
2. Build moral :
    - Explanation : Promoting from within boosts employee morale as it shows that the organization values its current staff and is willing to invest in their growth.
    - Benefit : Higher morale can lead to increased productivity and reduced turnover rates.
3. Cheaper :
    - Explanation : Internal recruitment is generally less expensive than external recruitment. There are no costs associated with advertising, screening, and interviewing external candidates.
    - Benefit : It helps in reducing overall recruitment costs and saving time.
4. Know your candidate better :
    - Explanation : The organization already has a good understanding of the internal candidates' skills, performance, and potential. This makes it easier to assess their suitability for new roles.

- Benefit : It reduces the risk of hiring someone who may not fit well with the team or the company culture.

5. Already Socialization :
   - Explanation : Internal candidates are already familiar with the company's culture, processes, and people. They do not need to go through the socialization process that new hires typically require.
   - Benefit : It leads to a smoother transition into new roles and quicker productivity.

Disadvantages

1. **Miss Good outside Talent** : By focusing solely on internal candidates, organizations may miss out on talented individuals from outside the company. External candidates can bring fresh perspectives and new skills that might not be present within the current workforce.
2. **No New Ideas** : Promoting only from within can lead to a lack of new ideas and innovation. External candidates often bring diverse experiences and viewpoints that can help the organization adapt and grow.
3. **Need for more training for enhancing Skills & Technology** : While internal candidates may be familiar with the company, they may require additional training to keep up with new skills and technologies. This can be especially true if the role requires advanced technical knowledge or if the industry is rapidly evolving.

External Sources:

1. Recruiting via the Internet

- Companies use online job portals, company websites, and social media platforms to attract potential candidates.
- **Example:** A company posts a job opening on LinkedIn and receives applications from various qualified professionals.

2. Advertising

- Job openings are advertised in newspapers, magazines, television, and online platforms to reach a larger audience.
- **Example:** A company publishes a job ad in a national newspaper to hire sales executives.

3. Employment Agencies

- These agencies help companies find suitable candidates by screening and shortlisting job seekers.
- **Example:** A business partners with a recruitment agency to fill technical roles quickly.

4. Temp Agencies and Alternative Staffing

- Temporary staffing agencies provide workers for short-term or project-based work.
- **Example:** A retail store hires temporary staff during the holiday season.

5. Offshoring/Outsourcing

- Companies hire employees from other countries or outsource tasks to external firms.
- **Example:** A U.S.-based company outsources its customer service to a call center in India.

6. Executive Recruiters

- Specialized recruiters (headhunters) find top-level executives for senior positions.
- **Example:** A company hires an executive recruiter to find a new CEO.

7. On-Demand Recruiting Services (ODRS)

- Companies hire external recruiters on a project basis when needed.
- **Example:** A startup uses ODRS to recruit software engineers for a short-term project.

8. College Recruiting

- Companies visit universities to hire fresh graduates through job fairs and campus interviews.
- **Example:** A tech company recruits software developers directly from a university job fair.

9. Referrals and Walk-ins

- Employees refer candidates for job openings, and individuals apply directly to the company.
- **Example:** An employee refers a friend for a sales position, and another job seeker walks into the office to apply for an available role.

Advantages

1. **Cost-effective way to publicize job openings**
   - Posting job ads online is cheaper than traditional recruitment methods like newspaper ads or recruitment agencies.
2. **More applicants attracted over a longer period**
   - Online job postings remain available for extended periods, increasing the chances of attracting qualified candidates.
3. **Immediate applicant responses**
   - Online applications allow candidates to apply instantly, reducing hiring time.
4. **Online pre screening of applicants**
   - Employers can use AI and filters to screen resumes and shortlist candidates efficiently.

5. **Links to other job search sites**
    - Job postings can be shared across multiple platforms, reaching a broader audience.
6. **Automation of applicant tracking and evaluation**
    - Applicant tracking systems (ATS) help manage applications, track progress, and streamline hiring.

Disadvantages

1. **Exclusion of older and minority workers**
    - Older candidates or those with limited internet access may struggle with online applications, creating an unfair disadvantage.
2. **Excessive number of unqualified applicants**
    - Online job postings attract a high volume of applications, many of which may not meet the job requirements. This can make screening time-consuming.
3. **Personal information privacy concerns of applicants**
    - Candidates may hesitate to share personal details online due to cybersecurity risks and data breaches.

Job Analysis

Question : What is Job Analysis?
Answer : Job analysis is a systematic process used to gather, document, and analyze information about a job in order to identify its responsibilities, requirements, and necessary skills

Question : Objectives of Job Analysis

1. **To Identify the Tasks and Responsibilities of a Role**
    - Job analysis helps in understanding what tasks an employee needs to perform and what responsibilities they hold.
    - **Example:** A job analysis for a marketing executive may reveal that their main tasks include market research, campaign management, and customer engagement.
2. **To Establish the Qualifications and Skills Required**
    - It defines the education, experience, and skills needed for the job.
    - **Example:** A software developer might need a degree in computer science and proficiency in programming languages like Python or Java.
3. **To Align Job Roles with Organizational Goals**
    - Ensures that each role contributes to the company's mission and objectives.
    - **Example:** A sales manager's role is designed to increase revenue, which directly supports the company's growth strategy.
4. **To Ensure Compliance with Labor Laws and Regulations**
    - Helps businesses follow legal requirements regarding working hours, wages, and employee rights.

    - **Example:** A factory job analysis ensures compliance with workplace safety laws to protect workers.
5. **To Provide a Basis for Performance Evaluation and Training Programs**
    - Establishes criteria for measuring employee performance and identifying training needs.
    - **Example:** If a customer service representative struggles with communication skills, training can be arranged based on job analysis findings.
6. **To Support Equitable and Competitive Compensation Structures**
    - Ensures fair wages based on job responsibilities, industry standards, and employee qualifications.
    - **Example:** A job analysis may show that a senior accountant should be paid more than a junior accountant due to their additional responsibilities.

Question : Methods of Job Analysis?

1. **Observation Method** – The analyst observes employees while they work, noting tasks, tools used, and working conditions. Best for manual or repetitive tasks, as it provides firsthand insights.
    - **Example:** A factory worker's job is analyzed by watching their assembly line tasks to assess physical demands.
2. **Interview Method** – Employees and supervisors are interviewed about job duties and requirements. Best for complex roles, as it provides detailed explanations.
    - **Example:** A manager is interviewed to understand leadership responsibilities and decision-making processes.
3. **Questionnaire Method** – Employees complete forms about their duties and responsibilities, including open-ended and structured questions. It helps in gathering standardized data.
    - **Example:** A software developer fills out a questionnaire detailing their coding tasks and required technical skills.
4. **Diary/Logs Method** – Employees record their daily tasks and time spent on each. Best for jobs with variable tasks but can be time-consuming.
    - **Example:** A marketing executive logs time spent on content creation, client meetings, and campaign management.
5. **Critical Incident Technique (CIT)** – Employees or supervisors describe key incidents that led to success or failure in a job. Useful for training and performance evaluation.
    - **Example:** A customer service agent recalls a situation where their quick response resolved a customer complaint effectively.
6. **Functional Job Analysis (FJA)** – Jobs are analyzed based on interactions with people, data, and things. Best for roles involving technology or communication but needs expert analysts.
    - **Example:** A bank teller's job is analyzed based on customer interaction (people), transaction processing (data), and handling cash (things).

The selection process is a series of steps used by organizations to identify and hire the most suitable candidate for a job. It involves evaluating applicants based on their skills, qualifications, experience, and potential to ensure they meet the job requirements. The goal is to select the best-fit candidate while ensuring fairness and efficiency in hiring.

Question : What do you mean by Selection test? Impact and examples

Ans: Selection Test Impact and Examples

A **selection test** is a systematic tool used in the hiring process to assess an applicant's skills, abilities, personality, or knowledge to determine their suitability for a specific job. These tests help employers make objective decisions and ensure that only the most qualified candidates proceed to the next stage of recruitment.

Impact of Selection Tests

1. **Improves Hiring Accuracy** – Reduces bias by objectively evaluating candidates.
2. **Saves Time & Resources** – Filters out unqualified applicants early in the process.
3. **Enhances Job Performance** – Ensures that selected candidates have the required competencies.
4. **Reduces Employee Turnover** – Matches candidates with jobs that align with their skills and personality.
5. **Standardizes Evaluation** – Ensures fairness and consistency in recruitment.

Examples of Selection Tests

1. Cognitive Ability Test

- **Purpose**: Measures intelligence, problem-solving skills, and reasoning ability.
- **Example**: A numerical reasoning test for an accountant role.

2. Aptitude Test

- **Purpose**: Evaluates a candidate’s ability to learn and adapt to new tasks.
- **Example**: Logical reasoning tests for software developers.

3. Personality Test

- **Purpose**: Assesses a candidate’s behavior, attitude, and work style.
- **Example**: Myers-Briggs Type Indicator (MBTI) for managerial positions.

4. Technical or Skill Test

- **Purpose**: Measures job-specific knowledge and technical skills.
- **Example**: A coding test for a software engineer.

5. Situational Judgment Test (SJT)

- **Purpose**: Evaluates decision-making and problem-solving in workplace scenarios.
- **Example**: A customer service role-playing test.

6. Physical Ability Test

- **Purpose**: Assesses physical strength and endurance for physically demanding jobs.
- **Example**: A firefighter's endurance and agility test.

7. Integrity Test

- **Purpose**: Measures honesty, ethics, and reliability.
- **Example**: A questionnaire on handling workplace ethical dilemmas.

By integrating selection tests into the hiring process, companies can enhance their recruitment strategies and ensure they hire the best candidates for the job.

Question : Types of HR Plans

1. Workforce Planning

- Ensures the organization has the right number of employees to meet business needs.
- Involves forecasting future hiring requirements based on company growth, turnover, and market trends.

2. Recruitment & Selection Planning

- Focuses on attracting, selecting, and onboarding top talent.
- Includes job postings, selection tests, interviews, and background checks.

3. Training & Development Planning

- Identifies skill gaps and organizes training programs.
- Ensures employees are equipped with the necessary knowledge to perform effectively.

4. Succession Planning

- Prepares for leadership changes by identifying and developing future leaders.
- Ensures business continuity when key employees retire or leave.

5. Compensation & Benefits Planning

- Develops competitive salary structures, incentives, and benefits packages.
- Helps attract and retain top talent by offering fair and motivating rewards.

6. Performance Management Planning

- Establishes performance evaluation systems and feedback mechanisms.
- Helps improve and align with company goals.

7. Employee Engagement & Retention Planning

- Focuses on creating a positive work environment to boost morale and job satisfaction.
- Implements strategies like employee recognition programs, wellness initiatives, and career growth opportunities.

8. Compliance & Risk Management Planning

- Ensures the organization follows labor laws, safety regulations, and workplace policies.
- Reduces legal risks and maintains ethical HR practices.

Tab 6