Compensation Management: A theoretical preview-

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2 AUTHORS, INCLUDING:

B .Chandra Mohan Patnaik
KIIT University

COMPENSATION MANAGEMENT: A THEORETICAL PREVIEW

DR. B. C. M. PATNAIK*; PRABIR CHANDRA PADHI**

*Associate Professor,
School of Management,
KIIT University, Bhubaneswar.
**Research Scholar,
CMJ University.

ABSTRACT

Compensation is a systematic approach to providing monetary value to employees in exchange for work performed. Compensation may achieve several purposes assisting in recruitment, job performance, and job satisfaction. An ideal compensation management system will help you significantly boost the performance of your employees and create a more engaged workforce that's willing to go the extra mile for your organization. Such a system should be well-defined and uniform and should apply to all levels of the organization as a general system.. Plus you'll enjoy clearer visibility into individual employee performance when it comes time to make critical compensation planning decisions. With effective compensation management you'll also enjoy clearer visibility into individual employee performance when it comes time to make critical compensation planning decisions. These performance appraisals assist in determining compensation and benefits, but they are also instrumental in identifying ways to help individuals improve their current positions and prepare for future opportunities. Human Resource is the most vital resource for any organization. It is responsible for each and every decision taken, each and every work done and each and every result. Employees should be managed properly and motivated by providing best remuneration and compensation as per the industry standards. The lucrative compensation will also serve the need for attracting and retaining the best employees.

KEYWORDS: *Human resource, Compensation, Organization, Management, Compensation Policies.*

INTRODUCTION

The turbulent management-labour crisis over continuous agitation for increased pay in the public services all over the world is challenging public sector organizations to utilize their employees more effectively to improve organizational performance. In Nigerian Civil Services, pay has become the driving force for seeking employment in the industry. It therefore becomes imperative that organizations establish and adopt a compensation system that can motivate employees to work while at the same time not eating too deep into the organization's resources. Remuneration does not simply compensate employees procedures that will attain maximum return on Naira spent in Compensation is payment in the form of hourly wages or annual salary combined with benefits such as insurance, vacation, stock options, etc. that can positively or negatively affect an employee's work performance.

Compensation is the remuneration received by an employee in return for his/her contribution to the organization. It is an organized practice that involves balancing the work-employee relation by providing monetary and non-monetary benefits to employees. Compensation is an integral part of human resource management which helps in motivating the employees and improving organizational effectiveness.

REVIEW OF LITERATURE

Bob (2011) Compensation processes are based on Compensation Philosophies and strategies and contain arrangement in the shape of Policies and strategies, guiding principles, structures and procedures which are devised and managed to provide and maintain appropriate types and levels of pay, benefits and other forms of compensation.[1]

Bob (2011) This constitutes measuring job values, designing and maintaining pay structures, paying for performance, competence and skill, and providing employee benefits. However, compensation management is not just about money. It is also concerned with that non-financial compensation which provides intrinsic or extrinsic motivation.[2]

Anyebe (2003) This work however is limited to financial compensation in Anambra State Civil Service as a recent study has shown that pay is the driving force for seeking employment in the Civil Service.[3]

Armstrong (2005) stated that compensation management is an integral part of human resources management approach to productivity improvement in the organization. It deals with the design, implementation and maintenance of compensation system that are geared to the improvement of organizational, team and individual performance.[4]

Pearce (2010) Compensation implies having a compensation structure in which the employees who perform better are paid more than the average performing employees.[5]

Armstrong (2005) Compensation Management is concerned with the formulation and implementation of strategies and Policies that aim to compensate people fairly, equitably and consistently in accordance with their value to the organization.[6]

Anyebe (2003) The task in compensation administration is to develop policies and the terms of attracting, satisfying, retaining and perhaps motivating employees.[7]

Anambra State Civil Service (1991) which the researchers examined originated from the Eastern Nigeria Government and the old Anambra State. The creation of this state led to the set up of the Anambra State Civil Service. Employing the tenets of traditional public administration, the state civil service was an instrument of the government authorities as well as an impartial interpreter and implementer of the policies and programmes of the State Government.[8]

Robert and Angelo (2001) opined that the success or failure of organizations hinges on the ability to attract, develop, retain, empower and reward a diverse array of appropriately skilled people and is the key to improved performance hence the enthronement of democratic governance in 1999 brought some civil service reforms and Anambra State Civil Service Commission got vested with horizontal powers by law to manage the workforce of the civil service for greater efficiency. [9]

Nweke (2010) Successive constitutional reviews and Civil Service reforms have catalysed the evolution of the civil service as an institution for spearheading the rapid transformation of the state and ensuring continuity of administration.[10]

Armstrong (2005). Compensation management is one of the central pillars of human resources management (HRM). It is concerned with the formulation and implementation of strategies and policies that aim to compensate people fairly, equitably and consistently in accordance with their value to the organization.[11]

Hewitt (2009). Compensation Management as the name suggests, implies having a compensation structure in which the employees who perform better are paid more than the average performing employees. This encourages top-performers to work harder and helps to build a competitive atmosphere in the organization. [12]

Armstrong and Brown (2005) postulate that compensation management is an integral part of HRM approach to managing people and as such it supports the achievement of business objectives and it is strategic in the sense that it addresses longer term issues relating to how people should be valued for what they want to achieve; It is therefore integrated with other HRM functions, especially those concerned with human resources development. [13]

Armstrong (2005) in his own analysis says compensation management is all about developing a positive employment relationship and psychological contract that adopts a total compensation approach which recognizes that there are a number of ways in which people can be compensated.[14]

Bob 2001; Brown 2003; Anyebe 2003 states compensation management as being based on a well articulated philosophy- a set of beliefs and guiding principles that are consistent with the values of the organization which recognizes the fact that if HRM is about investing in human capital from which a reasonable return is required, then it is proper to the skills and competencies of employees in order to increase the resource-based capability of the organization. [15,16,17]

Harrison and Liska (2008) in their study posit that reward is the centre piece of the employment contract-after all it is the main reason why people work. This includes all types of rewards, both intrinsic and extrinsic, that are received as a result of employment by the organization. [18]

Brown (2003) sees compensation as a return in exchange between their employees and themselves as an entitlement for being an employee of the organization, or as a reward for a job well done. Employees' pay does not depend solely on the jobs they hold. [19]

Gehart and Milkovich (1992).Instead organizations vary the amount paid according to differences in performance of the individual, group, or whole organization as well as differences in employee qualities such as seniority, educational levels and skills.[20]

Dyer (1985) The notion that compensation policies are strategic, thereby affecting the missions of the organization, has considerable currency. This is part of the current popularity of all things strategic. While some may write it off as another fad, a less cynical view is that a strategic perspective on compensation is part of a growing recognition that macro-organizational issues are an important part of the study of human resource management.[21]

The Conference Board (1984) American Productivity Center (1987) The importance of a strategic perspective on compensation rests on three fundamental tenets. The first is that compensation policies and practices differ widely across organizations and across employee groups within organizations. To some students of organizations this may be self evident. But to others, such as economists using human capital models to examine compensation differentials, differences in organizations' compensation policies and practices are treated as random noise with little relevance. Anecdotal evidence and sporadic surveys of specific policies or practices report that differences do exist. [22, 23]

Dyer (1985) The term strategy is often used to refer to everything considered important. The danger is that if it refers to everything, it may mean nothing. Generally, strategy refers to the overarching, long-term directions of an organization that are critical to its survival and success. Strategies take advantage of the opportunities and manage the threats in the external environment by marshalling internal resources in some coherent, consistent direction. [24]

Mintzberg (1987) A strategy may be intended and formally articulated in some plan or document, or it may emerge through the patterns of decisions shown by the organization's behaviors. Thus, strategies are both plans for the future and patterns from the past. Strategy applied to compensation management is particularly ill defined. Analogous to the more general definition just discussed, the term connotes compensation decisions responsive to environmental opportunities and threats, and linked to or supportive of the overall long term directions and purposes of the organization.[25]

Schwab (1980) Being strategic about compensation implies support of the business strategy and sensitivity to anticipated environmental pressures. But such a general characterization does not provide much leverage for research or theory building. Nor does it offer much guidance for managing compensation. And the folly of undertaking research based on poorly defined constructs is well recognized. [26]

Cooke (1976), Ellig (1981) & Salter (1973) The notion of compensation strategy originally surfaced in the literature on executive compensation. From a strategic perspective, compensation for executives was defined in terms of several basic elements: base pay, short- and long term incentives, benefits, and perquisites. The major strategic decisions focused on the deployment of total compensation among the basic elements to best achieve the missions of the organization. Long term incentive as a percent of total compensation is an example. Attention was directed at choices among various short-term versus long-term incentive schemes, the relative emphasis on corporate versus subunit performance, and the riskiness of the total compensation package.[27, 28, 29]

Lawler (1981), while not the longest, is perhaps the most inclusive. It includes the market position (level of pay relative to competitors), internal versus external orientation, hierarchy (the steepness of the pay structure and the basis--job versus skills--for the pay structure reward mix, and the basis of rewards (performance versus seniority, groups versus individual, criteria used, etc.). [30]

Carroll (1987) (performance measures, size of bonus, timing, etc.) seem consistent with Lawler's more broadly defined issues (e.g. basis for increases). The original issues proposed for executive compensation have also become more broadly defined and applied to all employees.[31]

Salter (1973) and Lawler (1981) also considered a series of process decisions to be strategic. These included congruency (consistency with other organization systems), standardization of pay systems across subunits, communications (the type of data to disclose, the channels to use, etc.), participation in decision making (levels of employees involved and nature of involvement), and organization change strategy (the role of compensation in organization change).[32,33]

Kerr (1985), focusing on the compensation of general managers, offered a somewhat different list (35 items in all), including the subjectivity versus objectivity of performance criteria, the time orientation (short versus long-term), the values orientation (performance versus membership), clarity of the performance-reward relationship, and the proportion of total compensation devoted to incentives.[34]

Heneman (1985) The expanding list of decisions claimed to be strategically relevant raises doubts about the efficacy of a strategic perspective. It brings to mind the multiple facets of job satisfaction and pay satisfaction that made the constructs more complex than originally conceived.[35]

Belcher (1987) Milkovich & Newman, (1987) and Carroll (1987) The first policy, the degree of competitiveness, can vary among organizations and among occupations within organizations. From a strategic perspective, competitiveness refers to positioning a firm's compensation relative to its competitors.[36, 37, 38]

Rabin (1987) The mix of pay forms, the risk-return tradeoffs in the pay forms, and the average pay level relative to competitors are all relevant aspects of a firm's policy regarding the competitiveness of its compensation. The risk-return tradeoff can be illustrated by considering two managerial pay schemes. Whether these two competitive positions are equivalent depends on the risk-return tradeoffs of prospect employees. A risk-return tradeoff incorporates both the proportion of bonus to total compensation and the likelihood of receiving the bonus.[39]

Balkin & Gomez-Mejia, (1984) Lawler, (1981); Salter (1973) The nature of an organization's strategy has been postulated to be the primary determinant of its compensation strategy. A convention in the organization literature is to distinguish among three levels of strategies: corporate, business unit, functional.[40, 41, 42]

Hofer & Schendel, (1978); Galbraith & Schendel, (1983) and Leontiades (1982) have seen as interrelated but distinct concepts). These three levels have been carried into the strategic human resource management literature. Since such a variety of definitions, typologies, and measures of strategies exists at each level, only those used in research directly related to compensation are discussed here. The two proxies for corporate strategy employed in the research on compensation strategy are diversification and life cycles. [43, 44, 45]

Rumelt, (1974) The lack of clarity in the meaning of these proxies is but one of the limitation inherent in this research. Diversification is the most widely used. With it, organizations are classified as to whether they exhibit a single, dominant, related, or unrelated product diversification strategy. [46]

Lawrence & Lorsch (1967) According to organization theory, greater diversification gives rise to the need for mechanisms to integrate and control the corporation's separate business units consistent with corporate objectives.[47]

Kerr (1985) The compensation system serves as a key integration and control mechanism available to management. Several studies of corporate diversification also examined compensation issues.[48]

Lorsch and Allen (1973) studied two conglomerates and one vertically integrated firm. The conglomerates used more formalized procedures with predetermined indices based on division results; managers' pay increases were tied to objective formulas and the conglomerates used financial end results criteria. The integrated firm used a less formal system based on corporate results, incorporating some intermediate measures as well as end results measures, which were not linked to pay increases by a formula. [49]

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