



Strategic Compensation Management: An Essence of Organisation Development

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ABSTRACT

Every changing needs of the work force in the organisation, dynamic nature of organisation structure, volatile nature of environment and the increased pressure to enhance performance of the organisations have motivates human resources (HR) leaders to identify and implement effective compensation plans for work force. This article, therefore aimed to shed light on the role of compensation management on employee's performance as well as organization's productivity, further it has suggests the various premises to construct a compensation policy and highlighted the importance of compensation management to the organization in the world of Darwinian.

Keywords : Compensation Management, Strategic Compensation Model, Fringe benefits

Introduction

Employees are the most important resource for any organisation. They are responsible for each and every decision taken, each and every work done and each and every result. They should be managed properly and motivated by providing strategic compensation in order to maintain a sustainable talent for the organisation. Compensation refers to all the ways in which an organisation may reward employees for the services that they render. These rewards could include compensation payments and fringe benefits. As human resources (HR) managers strive to pursue excellence with their recruitment, selection, training, and compensation intervention, it is increasingly important to demonstrate that their comprehensive efforts add value to the organisation (Pankaj M. Madhani, 2011). HR managers are always in search of ways to motivate and reward employees of the organisation, which in turn will increase their motivation, performance, and productivity level. One primary HR tool that is used to influence motivation and performance level is compensation (Lawler, 1971). As pay is a strong communicator between an organisation and its employees, its success or failure can ultimately have great impact on the overall success of the organisation (Hill, 1993). Moreover, pay is a powerful communicator of organizational goals and priorities across all levels in the organisation; therefore, organisations that expect to be more successful must make employees partners in their success (Schuster and Zingheim, 1993)

Employee's Compensation, Motivation and Performance

Performance and Compensation are two sides of a same coin, the former one is so ingrained in our life that nothing moves without it, be it personal lives, social life, academics, professions, or business. It would be appropriate to say that performance is the foundation of our society and compensation is the pillar on which the whole body of

individual and corporate success is built upon. With the onset of globalization, organisations have to perform better and improve it each moment, each day, and each year. This is a Darwinian world, where only the fittest of the fit will thrive (Tapomoy Deb, 2009). One important aspect of talent is its mobility. As Bill Gates once observed, the key assets of Microsoft go up and down in the elevators and in and out of the doors of the company every day. Today, they are less and less likely to even come in and out of the doors (Peter Cheese, et al, 2008). Therefore, talents in the organisation should be retained in a sustainable manner by applying the strategic compensation management rather than cost based compensation management. In the cost based compensation management, the compensation both cash and fringe benefits payable to workforce is considered as CTC (Cost To Company) in which compensation payable to them is perceived as expenditure on workforce rather than investment on human capital/talent. Therefore, the key to strategic success is talent an organization's people, from its current and future leaders to its frontline employees. But today, talent is harder to find and nurture, and easier to waste and lose. Every organisation must cope with a world of change and contrast including:

- A global abundance of talent but local scarcity;
- Rising demand for new skills and innovations;
- New work arrangements and career expectations;
- More diverse and distributed workforce;
- Shifts in the nature of work

That is why it is perceived that talents are quickly moving to the top of every HR leader's strategic agenda, but few organisations are managing talent strategically. Too many rely on outmoded views of talent and fragmented talent management systems. Talents are most likely than other forms of competitive advantage to lead to a sustainable competitive advantage in rapidly changing environments. This is because economic changes and globalization weakens other traditional sources of competitive advantage including market, financial capital and economies of scale.

The reason what motivate employees to perform well has been a subject of great interest and deliberations amongst the practitioners as well as academicians. Managers in every kind of organisation have made generalized assumptions about what motivates their employees. Motivation is the single most important determinant of performance. Nelson, (1994) in his book "1001 ways to recognize employees" stating that "you get the best effort from employees not by lighting a fire under them, but building a fire within them". Job performance is the result of motivation and ability.

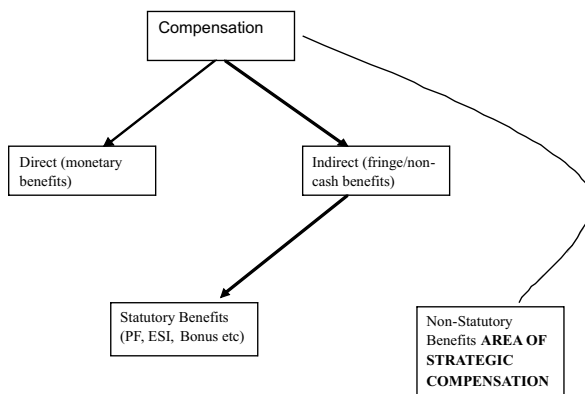
$$\text{Performance} = \text{Ability level of employee} \times \text{Motivation provided to them}$$

Ability includes training, education, equipment, simplicity of task, experience, and both inborn mental and physical capacity. Motivation makes an organisation more effective because motivated employees are always looking for better ways to do a job, generally are more quality-oriented and are more productive. There are three important premises of motivation viz happy, respect and money (Richard Denny, 1993) so it is important for management to understand how organisations influence the employees in respect of their happy, respect and money. This is the strategic mantra for best compensation system to be employed in order to accomplish the organization's goal successfully.

Strategic Implications of Compensation

Compensation or pay is used by organisation to acquire, motivate, engage, and retain talents necessary for growth and success in a knowledge economy. An organisation focusing on cost (CTC) as a strategy will follow a pay level which is lower, pay differentiation amongst jobs and employees will be high and pay structure which flexible. A differentiation strategy driven organisation will follow a different strategy. Similarly, an organisation intending to grow faster will have higher pay level to attract and retain talents and pay structure will be relatively smaller in structure. Compensation management will also have significant impact on the organization's HR systems such as career management, succession planning, training and development and employer branding practices. Depending on the compensation management process, the pay level, pay differentiation, pay structures and pay systems will vary. Organisations emphasizing innovation will tend to put more emphasis on these HR systems to enable employees to perform better and produce differentiating outcomes. In India, fringe benefits are the area in which organisations doing some innovations consistently in order to provide strategic compensation package to the workforce, such fringe benefit/welfare is of the statutory and the non-statutory kinds. Through statutory welfare ensures a bare minimum of facilities and reasonably good working conditions, employees are free to provide, or not to provide, non-statutory welfare. However, practically all organisations in India provide non-statutory measures in varying degrees; it includes transport, medical aid, crèches, and subsidized food required by the worker.

Figure 1 Strategic Compensation Model



Case Study on Indian Oxygen Limited

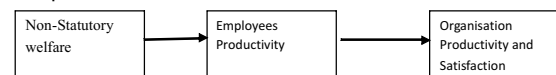
At Indian Oxygen Limited (IOL) the non-statutory welfare is seen as a fringe benefits to attract better personnel, create a sense of belongingness and commitment. It includes night shift allowance, full-sleeved sweaters, leave travel assistance, benefits for the families of the employees on long leave and leave because of sickness. Whereas the statutory welfare measures include PF, gratuity, ESI/medical and bonus, The non-statutory welfare expenses per employee, per month, amount to 18-26 per cent of the total wage bill; but as the skill level goes up from unskilled to supervisor the percentage share goes down from 26-18 percent. Statutory expenses is 18-20 per cent of the total wage bill and remainder consists of actual salary (basic + DA). The percentage share of non-statutory welfare being one-fourth of the total wage bill suggests the significance attached to this aspect by IOL. (Arun Monappa et al, 2011)

The management particularly HR leaders have to consider the motivations effect of such non-statutory welfare activities on work and other productive behavior, it leads the following questions

- What sorts of reactions do these benefits elicit?
- Are they desirable from the point of view of management?
- Are non-statutory benefits taken for granted by workers or do they mentally add it to their wage?

It is difficult to isolate the effects of such benefits however HR managers must keep in mind that non-statutory welfare will result in a sense of gratitude and loyalty among employees and motivate them to work hard. Generous benefits might, however, create a sense of over-dependence among workers; they may not leave the organisation, causing large workforce stagnation (Arun Monappa et al 2011). The compensation plan should be productivity-based and must be able to motivate workers and get the best out of them (Chopra R.K. 1989) Furthermore compliances of such manner of strategic compensation system ensure the employee productivity thereby accomplishment of organization's overall goal with satisfaction is possible sustainably. This is portrayed in the fig no.2

Figure 2 Organization productivity and Non-statutory compensation



However a sound and adequate compensation package should encompass factors like adequacy of wages, social balance, supply and demand, fair comparison, equal pay for equal work and work measurement (Pay Commission of India, 1973) the concept of adequacy has two components, the internal equity and external equity. The internal component has a link with the fair wages concept, i.e. for a given job, is the money compensation adequate for an employee to maintain a decent standard of living; is the basic need prescribed by Abraham Maslow, it includes a housing, food, transport, medical care, children's education and the possibility of some saving for a contingency. The external adequacy would be in relation to comparable job in other industries with similar background requirements. The compensation for a particular job should not be less than what it can command elsewhere. The table No 1 given hereunder has been portrayed the different components of compensation package available to the workforce at different levels

Table 1 Components of Compensations

BASE PAY	<ul style="list-style-type: none"> • Salary and wages for being at work
INCREASES FOR DEMONSTRATING NEW SKILLS	<ul style="list-style-type: none"> • Performance based pay • Skill and competency based pay • Job progression
INCREASE FOR RESULTS	<ul style="list-style-type: none"> • Incentive • Short-term incentive <ul style="list-style-type: none"> • Retention bonus • Signing bonus • Referral bonus • Guaranteed annual bonus • Gain sharing • Cash incentive programmes • Vacation awards • Long-term incentive <ul style="list-style-type: none"> • Stock options • Employee stock ownership • Restrictive stock • Manager bonus plan • Ownership stake • Retirement plan • Deferred compensation • Gain sharing • Profit sharing
PAY FOR WORKING MORE HOURS	<ul style="list-style-type: none"> • Over time pay • Premium pay
INCREASES NOT DEPENDENT ON ANYTHING ELSE	<ul style="list-style-type: none"> • Fringe benefits • General increase
INCREASES BASED ON THE ORGANISATION'S FINANCIAL SUCCESS	<ul style="list-style-type: none"> • Profit sharing • Market adjustment

Source: Tapomoy Deb, 2009, Performance and Reward Management

Techniques of Compensation Management

A sound compensation management helps organisations in managing consistent performance in a manner which holds employees and managers accountable for supporting its objectives and strategy, successfully fulfilling assigned job responsibilities, and accomplishing individual performance goals. This would require the following

- A sound compensation policy should identify and recognize the Goals of a Compensation system properly;
- It should communicate the workforce about compensation policy;
- It should be based on all the factors i.e., market condition, company position and workforce expectations;
- It should be based the desired mix between monetary and non-monetary benefits;
- It should promote and encourage the desired performance level of workforce;
- It should ensure and support the performance appraisal system easily;
- It should fit with the management philosophy of an organisation ;
- It should be based on statutory compliances according to the changing environment;
- It should be based on nature of job rather than person who employing the job ;
- It should be based unbiased internal as well as external equity for the job because internal and

external inequities have serious consequences for the organisation. However, the consequences of external inequity are the most severe by means of absenteeism, labour turnover etc for the organisation and are the ones that deserve primary attention. In practice, internal inequity often gets more than its fair share of attention because of its immediacy in the organisation

Competitive Advantage of Compensation Management

Compensation plays a pivotal role in effective management of human resources, which is crucial to the competitive advantage of organisations that include

- It is essential for integrating employee efforts with organizational goals and objectives;
- It is an integral part of HR management framework for defining, discovering, developing and deploying capable and motivated workforce;
- It has social implications as poorly paid employees are likely to indulge in social unrest and undesirable activities;
- It is a management tool for controlling and directing employee's productive energies for improving organizational competence and performance;
- It helps in generating a talent pool;
- It helps in creating better brand equity through increased employee communications with customers, professionals and society at large;
- It helps in maintaining compensation costs of an organizational efficiently;
- The shareholders, business analysts and stakeholder, are satisfied with compensation levels, and see the organisation as a good investment;
- It helps in making compliance of government regulations on compensation;
- It helps in improving work and organizational efficiency due to enhanced employee commitment; and
- It helps in providing job satisfaction to employees

Conclusion

Compensation management is an integral part of HR management system which is related to other important concept like workforce planning, career planning, performance management, learning management and succession planning. The successful compensation management is determined by these areas of HR practices. Therefore, HR leaders should have responsibility to compliance the strategic compensation management as an essential in order to avail sustainable organisation development as well as competitive advantage in the world of Darwinian.

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