Ethics on compensation and incentive issues in hrm business essay

To an organization ethics means, the set of rules or principles with which it will conduct its operations. The compensation and incentive issues are vital for an organization because employees do not like to be treated unfairly and unfairness causes design necessary ethics, justice and fair treatment practices. This chapter tries to explain all the measures which an HR manager takes to ensure ethics in relation to compensation of employees.

Overview of Ethics

One can draw inspications of Ethics from various ways:

Codes of Ethics

Spiritual books like bible

Conscience

Type I Ethics:

This shows the inter relation between what an individual or organization consider to be morally correct and does it refer to the available sources of guidance (maybe some religious books). For e. g. although it is inadvisable to discriminate minorities on the basis of compensation but many HR managers practice the same.

Type II Ethics:

It is the co relation between the belief of an individual and his actions. For example, although some practices like discrimination should be discouraged but many managers does not follow the suit.

A firm does not afford to insure ethics by the use of law, because something which is legal may not be right, while something which is right may not be legal. For example, one can fire a 38 year old employee with 20 years tenure without notice, this is unethical but legal. So, fairness has an important role in the management of human resources of an organization. The organizational justice has been defined in three ways with respect to employee relations-

Distributive justice

Procedural justice

Interactive justice

Distributive Justice: It shows fairness and justice as a result of some decision (for example, after the performance appraisal an employee may think, did I get a suitable incriment?)

Procedural Justice: It indicates for the fairness of the company's processes like is the performance appraisal process of my company is fair?

Interactive Justice: It indicates for the inter personal skills of HR manager. For example, the extent to which they treat employees with respect against to abuse against to disrespect, for example: does my supervisor gives me respect?

The research shows that the organizations which treat their employees fairly have lesser complains about unethical behaviors. There can be various ethical issues in terms of hiring, performance, evaliuation, discipline and termination as they all involve fairness and dignity of an individual. The next part of this chapter explains the various HR ethics activities.

Fig: HR Ethics activities

HR manager ensure ethical behaviors among their employees by enforcing following activities:

1. Staffing and selection: The easiest way to have an ethical work force is to hire only ethical people in an organization.

2. Training: Ethical organizational culture can be ensured by training people.

3. Performance appraisal: The HR managers can ensure ethics and fairness by conducting the firm's performance appraisal process in a proper way. First, the appraisal can signal that company aim to follow high ethical standards and also rewards the employees who follow those standards. Second, the way a supervisor conducts the appraisal is also important. Some research shows that in practice, some managers appraise their sub ordinates on the basis of political process (like appreciating employees with whom they do not get along to leave the firm) ignoring accuracy and honesty. So, it is necessary for an HR manager to set up clear standards that signal fairness among all employees.

4. Rewards and disciplinary systems: An HR manager is responsible to reward the employees with ethical behavior and penalize unethical behavior. The research also suggests that there is the tendency among employees that, those who conduct unethical practices must be handed over harsh punishment.

The next section focuses on the steps which HR takes to maintain ethics by providing suitable compensation and incentives for employees.

Determining Pay rates

The compensation of an employee consists of payments and rewards going to him from the employment. It consists of two components, direct financial payments (wages, salaries, incentives, commissions and bonuses), and indirect payments (financial benefits like employer paid insurance and vacations). The employees are paid accordingly to their performance or with time and this is what is called direct financial payments. Generally, the managers are paid on the basis of week, month or year while the payment of blue collar workers is settled daily. The major part of the pay plan consists of time based pay. Another direct payment option is to pay the employees as per their performance. For example, in automobile industry, workers are compensated according to the number of pieces produced by a worker. Another example of performance based compensation can be of the sales commission. Generally, employers like to have a combination of time based pay plus incentives. This section of the chapter tries to explain how to formulate plans for paying employees a time based wage or salary, financial incentives and bonuses, and employee benefits in order to maintain ethics in the organization.

Equity and its impact on pay rates

There have been various researches on the re action of workers or a group of animals to inequitable pay. According to the research of Emory University of Capuchin Monkeys on their behavior for inequitable pay, there were following results: First, the monkeys were trained to exchange pebbles for food. Some monkeys received grapes in return of pebbles while others got cucumber slices. The monkeys who received sweeter grapes traded their pebbles while monkeys receiving cucumber slices didn't exchange an in turn ate their cucumber. So, one can conclude that even lower primates maybe genetically willing to be treated fairly when it comes to the matter of compensation.

According to the motivation theory of equity, people want value fairness at work. They like to be motivated and keep balance between their efforts and their rewards. Equity theory further explains that when a person considers equity, a drive governs him and he becomes motivated to eliminate the drive and perceived equity. The research also support equity theory and says that it applies generally to the people who are under paid. The HR managers need to balance four forms or equity: external, internal, individual and procedural.

External equity defines the equivalence of a company's job pay rate in relation to other companies.

Internal equity defines the equivalence of the job pay rate in relation to other jobs of the same company (For example, is the sales manager pay ethical in comparison to what the production manager is earning?)

Individual equity defines the equivalence of an individual pay in relation to the earnings of his co workers for the same kind of job in a company, also in relation to respective job performance.

Procedural equity defines the expected fairness of the processes and the procedures needed to make decisions related to compensations.

The HR managers can answer all these equity issues in a number of ways. For example, in order to maintain external equity of an organization, the HR managers monitor salary structure of the other organizations in the market. The job evaluation and the job analysis techniques are the best way to maintain internal equity. The performance appraisal method is the solution for individual equity. The HR managers can ensure ethics in the pay plan by other processes like grievance mechanism, communication and deciding the company's pay plan by the suitable participation of employees. There are frequent surveys in the market which reflect the attitude of an employer regarding the pay plan. So, the question is, " how satisfied are the employees with their pay plan?" " What criteria have been used for the performance appraisal of the employees?" and " Which are the factors considered by the management to decide the pay increments of the employees?"

In practice, many big corporate houses face the problem of pay inequities. For example, after a wide spread problem of law suits and reported racial discrimination, inequities in payment, the Coca Cola Co. did a salary review of other companies like Pepsi Co., Proctor & Gamble, Yahoo to find some solution. After the salary analysis, the management did a pay increase from around $1, 000 to $15, 000 for most of its employees. Some companies maintain secrecy for their compensation issues in order to control the conflicts arising from pay inequalities. The web sites like www. vault. com, www. salary. com help the employers to maintain external equity as well as the employees can have a brief idea if their earning in a company or what they should expect at some other company. Thus, an HR manager should ensure external, internal and procedural equity in order to improve ethics on compensation and incentive issues.