Compensation: methods and policies

Sociology, Empowerment

CHAPTER 11- COMPENSATION: Methods and Policies Determination of Individual Pay: Manage must address to two questions in order to determine how employees are paid. First, how one employee is paid relative to another employee within the same company and performing the same job junction. Second, if the pay is different, then on what basis was this distinction determined-experience, skills, performance, seniority, higher performance, merit or some other basis.

Organizations apply pay differentials to recognize employees' different contribution to the organization, to communicate a changed emphasis on important job roles, skills, and knowledge, to emphasize the norms of the organization without having employees change jobs, that is promotion, to avoid violating the internal equity norms and to recognize market changes between jobs (page 328).

Methods of Payments: 1)Flat Pay: Unionized firms normally implement the single flat rate of pay method by collective bargaining rather than differential rates of pay. These firms still recognize the differences between employees' seniority and experience but choose not to recognize these variations when setting wage rates. 2) Payment for Time Worked: This is the most common way employees are paid in the form of wages (nonexempt and hourly paid) or salary (exempt and annually or monthly paid).

Pays can be adjusted upward in 4 ways namely; general increase across the board, individual merit increase based on performance, cost of living adjustment (COLA) and seniority. 3) Variable Pay: Incentive Compensation. Based on international and global competitive, American businesses have now increasingly turned to variable pay plans as an attempt to link pay to performance and productivity to be competitive internationally.

Pay methods can be flexible and can be built into the variable compensation plan by taking a total compensation approach which include the following three elements namely; base pay (serves as platform for variable pay), variable pay (gainsharing, winsharing, lumpsum bonuses, individual flexible pay, etc) (page 330). Incentive compensation is a method of paying employees on the basis of their output either individually, to the work group or on an enterprisewide basis. 1) Merit Incentive is pay related to the individual performance.

Traditional merit is pay from a higher base salary after the annual performance evaluation. 2) Individual Incentive: This is the oldest form of incentive plan where individuals are paid for units produced. The following forms are included under this method; piecework, production bonus and commission. Piece work can be straight piece work (sawing mill) or standard-hour plan (mechanic shop). Production bonus refers to employee hourly rate plus a bonus when the employee exceeds the standards (page332).

Commission is based on the percentage of sales in units or dollars. 3) Team Incentive: This includes the entire groups' incentive used to build the teamculture. 4) Organizational Incentive: Reward based from shared profits generated by the employees' efforts ormoneysaved from the employees efforts to reduce cost (page 346). 5) Garnishing Incentive: These are " companywide group incentive plans that unite employees to improve organizational effectiveness through a financial formula for distributing organizationwide gains" (page 356.)