

Correlation between the development of managers' salary of the dax enterprises an...

[Business](#), [Work](#)



Introduction

In today's volatile labor market, a critical area of concern is the fair and equitable compensation of chief executives. The various forms of direct and indirect compensation comprise a total compensation concept. The total compensation concept is broader than what is normally contained in a compensation program or plan and a wage and salary administration program is only part of a general compensation plan. The second component of a total compensation program is indirect compensation or employee benefits. The benefits are integral to the total compensation approach. Benefits should reflect an organization's philosophy of 'making the person whole'. Effective benefits packages have the following objectives:

1. Balanced protection for the employee in a current and a futuristic sense.
2. Affordability
3. Maximized employee- employer relations, resulting in maximized return on investment to the organization.

The components of a benefits package must be carefully evaluated and coordinate with the direct pays to maximize employee satisfaction and assure a cost-effective, balanced overall compensation program.

1.0 INCENTIVE SYSTEM

Company wide incentives schemes - are mainly two commonly used in the United States and Britain.

The SCANLON PLAN-US 1940's, a share of production and plan.

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The RUCKER PLAN- US 1950's, labor costs and added value compared both use the extra or additional output ration of productivity is viewed as the relationship between inputs and outputs, and the difference extra is the ' added value' / productivity whose agreed proportion is put aside for the bonus fund to pay out.

Disadvantages of Scanlon & Rucker plans: - It is not always clear how much a particular productivity measure reflects the contribution of the labor force rather than other factors. There is remoteness of the incentive for the individual worker.

Advantages of Scanlon & Rucker plans as company wide:-

1. Encourage employee and management cooperation.
2. Encourage inter employee cooperation
3. Produce significant cost savings
4. They can be applied to both indirect and direct workers
5. They avoid arguing about rates by use of productivity measures.

SALARY SYSTEMS AND EMPLOYEE BENEFITS

As already stated on the wage payment policy, a salary system is best viewed as a mechanism by which a firm plans its means to attract, retain, reward and motivate its salaried employees (the ones paid monthly under the terms of an annual rate of pay)

A salary system therefore, includes a lot of merit and incremental systems and considerations of (Employee benefits) which was originally more closely

associated with the salaried staff (but are presently being applied to all grades of employees)

PROCESS OF ESTABLISHING SALARY SYSTEMS

Agree on a policy for salaries (and benefits as well.) usually targeted at recruiting, retaining and rewarding staff employees.

Either (a) to evaluate jobs and arrange them into job levels (i. e. grades or scales analysis and evaluation) or (b) to seek salary comparisons with other employers/salary surveys.

Assess the performance of staff employees e. g. staff appraisal.

Establish salary grades and progression rules e. g. defined relation between an hierarchy of pay levels and an hierarchy of jobs; what qualities are necessary for movements from one level to another; who makes choice or by what process they are made, when there is competition for promotion unlike manual jobs where the wage is fixed, salaried posts are allocated a range of possible pay points; and therefore movement from the bottom of a pay scale to the top depends either on merit or on length of service, or sometimes on both e. g. the private sector prefers merit salary scales; the public sector likes incremental scale, cost of living increases are often applied to both scales, either on a flat rate basis or more frequently on a percentage basis. The overall salary structure can be kept relative to external prices.

MERIT SCALES AND MERIT RATING

Merit salary scales are based on a range from \$X to E\$+\$Y without any fixed points in between. For instance, for a middle manager post the range called

is from the basic \$8, 000 to a ceiling of \$10, 000. An individual's progress through such a grade will largely depend on his/her job and his/her future potential for promotion; of course not relevant factors to actual operation such as age, long service, time keeping, e. t. c.

Merit rating is thus an attempt to reward an employee for the individual contribution he/she makes over and above the minimum job performance that can reasonably be expected from the person for the basic rate he/she results (PBR) already discussed; in that merit rating does not only concern with output but it also takes into account all the other qualities and abilities which are considered desirable in the person holding a particular job.

In other respects, the actual application of a merit rating scheme is not different from that of a job evaluation, e. g. decisions have to be made on the qualities which are to be taken into account, on the weight which should be given to each one and on the method of rating or ranking the individual in relation either to his/her total performance or to individual qualities. Next to work out is the method of converting the rating into a monetary award as the basis for giving the awards.

Supporters of merit rating advocate that it encourages and rewards good acceptable all round work and therefore acts as incentive both through extra payment and through providing a basis for promoting or transfer. Critics of it however claim that a rating must be based on opinion; any scheme will encounter some difficulties and frictions in operation. At the very worst, there are occasional allegations of favoritism and injustice.

INCREMENTAL SCALES

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Incremental salary scales are salary ranges with several pay points or steps that every employee has to alight on as the job holder progresses or advances through the range to the maximum after appointment.

Where efficiency bar is introduced somewhere up the range, it is aimed at holding the individuals progresses until assessed as suitable to continue through the bar and once more be able to rise smoothly to the top of the scale without any further assessment of his/her performance, unless there is another efficiency bar. The increments are meant to reward experience and stability (as is with overlapping scales).

There are two forms of incentive systems

- i. Extrinsic incentive systems and
- ii. Intrinsic incentive systems

Extrinsic incentive systems

Extrinsic incentive systems are in the form of tangible rewards. They include fringe benefits, promotions, security, salaries, and wages, contract of service, conditions of work and the work environment. When employees are given one of these forms of extrinsic incentive systems, they become motivated and encouraged in performing their daily duties. For example, when an employee gets a promotion, it is clear that his salary will increase, hence he is encouraged to work willingly and effectively in all his tasks. Most employees, when given intrinsic incentive systems, feel that their organizations are concerned with their welfare. Though giving rewards like security and high salaries, employees dedicate most of their time and energies to the job.

Material incentives are tangible benefits which are often monetary. The relationship between the organization and employees is governed by the motivation they get and the fulfillment they receive from it. Managers should be well motivated in achieving the main goals and objectives of the organization. The managers should also in turn know how to elicit cooperation among employees for them and know how to direct employees in the vision and mission of the organization. The managers should also understand the behavior of employees and how to motivate them, so that they can work willingly and effectively in performing their tasks.

Material incentives are tangible benefits which are often monetary. They include the following.

- i. Fringe benefits
- ii. Wages
- iii. Patronage
- iv. Security
- v. Contract of service
- vi. Promotion
- vii. Condition of work
- viii. The work environment
- ix. Pension rights
- x. Material goods

Material incentives usually concerns tangible rewards that are explained below:

i. Fringe benefits: Fringe benefits are the extra benefits that workers in organizations receive apart from the main benefits of employment. For example an employee in an organization can receive a tip. Most employees get greatly motivated and encouraged

ii. Wages: workers in organizations get motivated when they earn good salaries and wages. Employees get motivated by obtaining the highest possible wages through working in the most efficient and productive way. What most works need from their employers to the motivated is high wages than anything else.

iii. Patronage: This is the kind of support or sponsorship that an organization gives its employees so as to encourage good performance. Employees can work in efficient and productive way if they receive some kinds of sponsorship or support that is aimed in theircareerenhancement. For example some workers get motivated by being sponsored to further theireducation.

iv. Security: Good security means freedom from pain or threat of physical attack and the protection from danger. Some employed can get motivated to work hard in achieving the objectives and goals of organization by being given a good security by the organization.

v. Contract of service: some employees will feel motivated to work hard in performing their duties, if they work on contract basis. When

employees work on contract terms they will tend to work extra miles even overtime to see that they accomplish their assignments within the shortest time.

Also by working on contract basis employees know the really benefits they will get after completing the contract.

vi. Promotion: employees get motivated through getting promotions, because individuals only increase their pay by being promoted. Employees like promotions because it's through a promotion that an employee's salary will increase.

vii. Condition of work: Good working conditions motivate employees to work hard in ensuring that the company objectives are realized.

viii. Working environment: employees will feel motivated if they work in a good environment, that is free of pollution, and one that is well structured and constructed through good ventilations and proper air circulation.

ix. Pension rights: employees would be motivated if they receive pension after their retirements. Most employees will work effectively and efficiently if they are sure that they will get pension after they have retired.

x. Material goods: some employees can also feel motivated to working hard in their duties through receiving material goods like a car.

2 Intrinsic incentive systems

Intrinsic incentive systems are in the form of psychological rewards that employees receive so as to be motivated to work more effectively. Such a

reward includes positive recognition of an employee, receiving of appreciations and the sense of achievements of an employee at work. Therefore intrinsic satisfaction is derived from the type of work an employee gets. Intrinsic incentives systems are geared towards making an employee feel that the organization is concerned with their affairs for example through giving employees appreciations.

These are intangible rewards that employees are given that motivate them to work hard in performing their duties.

Intangible incentives is also related to psychological rewards such as the opportunities to use one's ability, a sense of challenge and achievement, positive recognition, receiving appreciation, and being treated in a caring and considerate manner.

Intangible incentives can also be derived from the personal growth and development.

The intangible incentives include: Status, Identification, Sociability, Positive recognition, Sense of challenge and achievement and opportunity to use one's ability.

Status: status as an incentive motivates employees to work effectively and efficiently in their duties. Some employees may feel motivated with a job having good status than a job with high economic benefits. Many employees when ranked highly especially when they get promotions to top management they feel motivated and they can work very well in their jobs.

Identification;-Some employees will feel highly motivated when they are recognized by the management. When an employee is identified he feel that the management is aware of his presence hence he is likely to be motivated and more encouraged in working effectively and efficiently to accomplish his tasks.

Sociability: cordiality or friendliness is one of the best incentives for employees. An employee's motivation, job satisfaction and performance of his duties will depend on sociability available at work place. Some employee can feel more rewarded if they are allowed to enjoy good social relationships that highly paid jobs. Intangible benefits choice depend from one individual to another, and from job to job.

Social relationships can appear to be a good feature, especially to people working in places with many people, like in the hospitality industry where teamwork can be a motivating factor.

Positive recognition: - Workers would be motivated through positive recognition. Some employees will feel happy and motivated when the management gives positive recognition to good attempts. When the efforts of employees are recognized they feel appreciated, accepted hence they will work hard in achieving the objectives and goals of the organization.

Receiving appreciation: - Some employees may prefer receiving appreciations than receiving high economic benefits. When such employees are appreciated they feel more motivated.

Sense of challenge and achievement: - Some employees like facing new challenges in their day to day performance of work; they do not like performing routine jobs. These kind of employed will feel motivated in performing their tasks by facing challenging situations. Achievements are also another motivating factor. When an employee achieves all his goals through performing his job he will feel more motivated in performing his daily tasks.

Opportunity to use ones ability; some employees will feel motivated in performing their daily duties when they are given an opportunity to use their ability. This applies especially to technical jobs where specialization, technical skills and competence is required. Therefore once an employee exploits his talents and competence he will feel more motivated and encouraged in performing his task.

2. 1 Development of gains of DAX enterprises

These organizations have had steady growth in profitability. This growth has seen the enterprises meet the needs of stakeholders. The future integrity of the firms is pride as the company is in a constant growth in implementing corporate governance policies that have made the successive in profitability growth. Figure 1 below shows how profitability is has grown in the past 6 years. Between the year 2002 and 2004, the is hi growth then there a little fluctuation which picks on the way towards the year 2008.

Gains

2002 2003 2004 2005 2006 2007 2008

2. 2 chive executive renumaration in German and US.

Compensation for achieve executive officers instances the united state and in the USA diver greatly. The United States compensation program for achieve executives is different from the chief executive of German. Looking at corporate governance issues in the United kingdoms you will find that the compensation for the united governance is different from that of the USA. This is because of the difference s in currency and performance of companies. The comparison between the two countries options find that stock market determines major the payment practices. In the USA we find that the CE chief executive officer payment is passed on improvement and the performance of the company the payment also depends on other factors such as company size industry growth opportunities and the human capital available.

Compensation payment for United States.

The United States requires the disclosure as part of cooperate governance

Summary statistics for 2007 CEO total compensation, by company size and industry.

Total; pay average composition of total pay (%)

Group

Sample

Firms

Average

(\$0000s)

Median

\$000s)

Base

Salary

Annual

Bonus

Option

Grant

LTIP shares

Other pay

German

All companies by firm sales (million

510

589

414

59

18

10

9

5

Les than \$200

152

452

289

64

17

10

4

5

\$200 to \$500

119

403

335

61

19

8

6

6

\$500 to \$1, 5000

116

601

507

54

20

10

12

4

Above \$1, 5000

123

927

811

55

16

10

15

4

Industry

Mining/manufacturing

217

564

436

59

17

9

9

5

Financial services

84

559

411

60

22

6

7

4

Utilities

19

448

382

58

15

6

14

8

other

190

645

397

58

17

11

8

5

United states

All companies by firm sales

1, 666

3, 565

1, 508

29

17

42

4

8

Less than \$200

339

1166

686

38

14

43

1

8

\$200 to \$500

379

1833

926

36

18

36

3

7

\$500 to \$1, 500

458

3038

1604

28

18

40

5

9

Above \$1, 500

490

7056

3552

20

17

48

5

10

By industry

Mining/manufacturing

842

3388

1540

28

17

43

3

8

Financial services

198

6277

2787

19

20

47

5

8

Utilities

120

1333

707

43

15

23

6

13

Other.

506

3326

1638

32

16

43

3

6

from the table above which provide a summary for compensation for CEO in terms of size of the company and the industry they operate in shows the benefits in total from salaries stock options bus and other benefits.

It shows that the average compensation for achieve executives in the US and German. If the data above is shown in the graph over a period of 8 years from the year 2002 to 2008.

From the chart we can see that the benefits and the salary are increasing at a rate not equivalent in the looking at the German case there is great difference in the growth of benefits as shown below.

From the German case the differences are great in terms of salaries and cash benefits although they are growing they are not growing at a higher rate in both countries. There is a difference in terms of mean medium average and deviations from what is paid by the medium size company to a large multinational cooperation's. The main reason why the USA companies have high salaries is because they are operating in many countries. Take an example, a company like Coca-Cola that operates all over the world it is

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expected to have huge salary as compared to a small company that is operating in one or two companies. The potential source of high managerial incentives is performance companies, the companies that perform poorly achieves executives find them in the streets.

3. 0 Compliance as an incentive system

Most of the established and well managed companies use the resources of power to attain compliance to its members. Compliance is the relationship between the kinds of power applied by the organization to control its members and the kinds of involvements developed by members of the organization.

Usually power varies from one organization to another. Power is the way an organization directs the behavior of people with or without their approval.

Compliance acts as an incentive system when either remunerative power or normative power is applied to an organization. Remunerative power censors the use of rewards and material resources to encourage good performance. This is usually through the use of wages and salaries.

Compliance also acts as an incentive when normative power it applied to an organization. Normative powers is a kind of motivation an organization can employ when it wants to motivate its employees by giving them figurative rewards like prestige or esteem. Figurative rewards like esteem encourage employees to be productive and hardworking in their duties; because it shows that the organization values or regards highly those employees.

Compliance also acts as an incentive when moral involvement is developed by employees of an organization. Moral involvement concerns the various beliefs of employees, and how the employees view objectives of the organization. Through moral involvement it's clear that employees have good feelings towards their company.

Compliance acts as an incentive in organizations with well matched power and involvement. For example in business firms where remunerative power and calculative involvement are involved.

Most organizations that are dominant and market leaders in their lines of business use compliance to motivate their employees to work hard in achieving the objectives and goals of the organization.

3. 1 The case societal generals

From the case of societal generate the top management is supposed to be efficient and effective in all its operations by:-

Top management should be committed. The top management must cultivate a culture of compliance and responsible risk taking; from the achievement of the objectives of the organization. Also the management should be take risks that are measureable and the culture of compliance should be encouraged in organizations.

Compliance issues should be investigated within the firm depending on who was concerned by the top management, and then the issues should be solved. The policy of compliance and integrity should be well explained to all employees. If the top management ignores involvement being involved in

working doings other ways of solving cases should be looked at by so doing losses that on organization is likely to get, can be controlled.

The top management should encourage compliance and control by seeing that calculated risks are taken.

The top management must clearly know the complexities of the products that their firms trade. From the societies generate case the loss that a firm is likely to encounter in a given transaction might be higher than market returns. Given these risks, the society generate have realized that the top management should understand the strategies involved in a particular trade and themathematicsthat will be involved of the product to be traded on especially before committing any amount of capital to those traders. The management should discuss trading strategies with competent traders. The top management should be well conversant with risk management so as to avoid the risks which might lead to any losses.

The societal general lack well informed top managers; to property inform them on how to avoid taking uncalculated risks.

Importance of competent business line supervisory controls; the top management should lead on denouncing any fraudulent or engagement in risky trading undertakings. To avoid risky undertakings some measures should be carried out. Those measures include;

- i. Constant review of trades by competent professionals. Daily records should be kept for future reference also this records should be well prepared and stored in a computer.

ii. Review of specific cases especially where high profits or losses have been reported.

iii. Well laid down procedures to be used in creation and monitoring of trading limits.

Competent and committed firms may require more but not less security. From this case we can learn a lesson that the top management should not turn a blind eye on any case or information that can lead to success of a company. When a problem is noted among the top management, it should be solved; they should all work together in achieving the objectives of the company.

Manages should ensure that incentive systems are not encouraging excessive risks.

From this case we learn that managers should not give the employees incentive systems that expose them to risks.

Employees should be given holiday breaks; from this case we learn that employs should go for vacations. An employee who does not want to go for a leave his book for somebody else. An employee is supposed to go for a 2 week holiday, which will give other people enough time to inspect his books.

The risk managers should challenge trader's valuations. After trade valuations have been carried out the risk managers are encouraged to challenge their decisions. For a firm to succeed or progress it has to undergo a vigorous valuation process in all its undertakings.

Compliance reporting risk management and operations line should be separated from the business line. From the case we learn that for a business or firm to have well reporting structure employees should perform their specific duties.

Matrix reporting lines should be confirmed: - From the case its clear that the interrelationships between parent companies and oversees units should be well confirmed. Accountability should be in place in firms with matrix reporting lines.

The top management should come up with a good organizational structure. It should be clear who is accountable to who, their should be a clear line of authority in any organization.

3. 2 Is compliance an alternative to previous incentive system?

Compliance is not an alternative to the previous incentive systems. Compliance is the kind of relationship between power and level of involvement that members develop.

Some forms of power employ threats or force in ensuring that its employees accomplish their duties. Such employees are not motivated to performing their duties willingly. Therefore in such a cases compliance is not an incentive.

Incentives make employees in various companies to committee most of their time and energy in ensuring that they work willingly towards achieving the goals and objectives of the organization. But some forms of involvements do not really motivate employees to perform their tasks. For example through

alimentary involvement employees of an organization usually have a negative attitude and feelings to the organization. These employees do not work in improving the reputation of the company. They do not work hard in improving the quality of goods that the company produces.

Further still compliance can not be an alternative to incentives in organizations with calculative involvement. In organizations with calculative involvement its employees have negative feelings or low positive feeling about their organizations. Therefore these employees are not motivated and encouraged to be hard working in being motivated and encouraged to be hard working in being efficient in the operation of their daily tasks.

Compliance is not an alternative to incentives because a manager might employ his power to employees in a manner that is likely to disempower employees. Authoritarian managers may use excessive powers towards employees. This can be seen as dictatorship. The manager might be forcing its employees to perform their duties, instead of motivating the employees by encouraging them to be efficient and effective in their daily duties.

The effectiveness of an employee is reduced when force is used to make him work. The manager who uses organizational power is abusing work. Thus the employees get demotivated and lack of energy of accomplishing their duties.

Compliance is not an incentive especially where their personal or organization power is applied to employees when personal power is applied by managers the employees do not feel free with their management, hence

they work under tension. Therefore in such a situations lack the willingness to performing their duties.

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