

Case study

Business, Human Resources



Q Ans. The role and importance of an efficient and prudently developed compensation management system in an organization cannot be overemphasized. Compensation management enables balancing out the relationship between work and employees by providing the employees with monetary and non-monetary benefits. It is an organized practice which includes such payments as profit sharing, bonuses, reward recognition, overtime pay, and commission on sales. Some organizations also include such non-monetary perks in the compensation management like paid stock options, housing, car, and other allowances. A good compensation management system helps an organization provide the employees with proper return for their efforts and contributions. Employees feel driven to try harder to achieve the specific standards tied to particular levels of compensation by the organizational management. Compensation management system makes the organizational systems transparent and induces a constructive and productive competition among the employees to make the best out of their capabilities considering their specific roles and positions within the organization. When employees are aware of the prerequisites to be considered eligible for a certain level of compensation and/or benefits, their tendency to work in mutual collaboration and harmony is optimized because their irrational judgments and perceptions about favoritism from the top management for specific employees are sidelined. Moreover, every employee is respected for whatever he/she is getting because his/her level of compensation is a reflection of the employee's inherent skills, education, and competencies. An efficient compensation management system inculcates a motivation in the less skilled and

inexperienced employees to make the best use of their time and resources to acquire the skills needed for professional growth. In such a work culture, employees feel driven to interact with one another more and learn from each other.

Organizations need a competency based compensation system. To achieve this, it is imperative that the top management clearly establishes limits and boundaries for all positions in the organization so that there is no overlapping of responsibilities, and so that every employee clearly knows what he/she needs to deliver in order to be considered eligible for particular benefits. Employees are the most important resource of any organization. An efficient competency based compensation system is necessary in order to attract the most talented and competent workforce. People search for jobs which match their talents and creativity and at the same time, compensate them in terms of salary as well as benefits. The most reputable companies are known to provide a growth-oriented, progressive, and competence enhancing compensation system, which is why the best candidates are always willing to join them. Most importantly, a transparent competency based compensation system is required to retain workforce. Organizations spend a lot of time and resources to develop the skills and talents of their employees so that their inherent competencies are customized to the individualistic needs of the organization. Losing an employee after the expenditure of so many resources is a big loss for the company. A good competency based compensation system reduces employee turnover and helps in quick integration of the employees into the dynamic and changing work culture.