

# Free critical thinking on compensation management

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**Question 1. What are the similarities and differences in procedures for person-based and job-based structures? Explain why they are important.**

Organizations use different procedures to determine how salaries and compensations are distributed among the employees in the organization. All procedures are aimed at distributing pay equitably at the same time gratifying employees who contribute a lot towards the organizations objectives. There are different methods used to determine how the employees are compensated. They include person based evaluation and job-based evaluation. It is very important for an organization to understand the difference between the two.

A compensation structure is very important in an organization. It helps the organization to get attention, motivate and maintain good staff. Job-based structure is the most conventional structure that majority of people know. In this structure the organization slots positions in different pay grades and this is evaluated on basis of the level of experience and education. Person-based compensation structures on the other hand determine the compensation of an individual through weighing their skills, capabilities and the knowledge one gets that is pertinent with the work structure. Individuals are compensated for the skill they have regardless of whether they utilize them all at work or not.

Person based compensation structure rewards the individual for his worth in terms of his skills set as opposed to job based compensation that rewards the individual based on the worth of the job. There is always a compensation

rate for the minimum skills, however, the compensation increases as more skills are acquired. Person-based compensation is usually linked to four different skill types: ability to deliver across several job descriptions, acquisition of higher level skill in a single job, specialized higher level skills in a particular job and skills in the basic area of a job. On the other hand, in job-based compensation structures individuals receive increases in relation to company budget, promotion to more senior job titles, performance reviews done periodically and trends in the market for the job title. Person based compensation promotes individual motivation and healthy competition among workers.

Person-based and job-based compensation procedures play an important role in an organization. An organization should choose compensation procedure that is ideal for their kind of business. This is because compensation procedures directly affect the employees efficiency and performance. These procedures are important because they play as a major motivating factor to employees in the organization. Compensation procedures also encourage job evaluation and this ensures that the company is paying the right amount for the job.

Compensation procedures are important because they help create transparency in an organization. They also help the organization in setting more realistic and achievable goals. Proper compensation procedures that are fair to employee help in bringing employee satisfaction to the organization. Employee satisfaction is very important for an organization as it directly affects the performance of the employees hence affecting the

performance of the company in general. It also reduces exploitation of workers and reduces employer-employee conflicts in the organization.

Compensation procedures act as motivation for employees who perform well in the organization as they compensated according to their performance.

This encourages employees to produce better results. Compensation procedures are also important because they allow the employers to create better opportunities for the employees who perform well in the organization hence acquiring and retaining the best employees

## **Question 2. Critically discuss the relationship between benefits and external competitiveness.**

External competitiveness can be referred to as an organization's compensation position in comparison to other organizations with the industry. Attaining external competitiveness in compensation means creating a balance between the necessity to maintain the cost of operation low with the necessity to attract and maintain high quality employees.

External competitiveness can be achieved by comparing the pay levels in the industry, carefully scrutinizing the organizations' objectives and resources and using this comparison to determine the organizations pay levels.

Benefits are compensation policies set by the organization in order to create satisfaction among employees. They are set in order to be ahead, be similar or pursue the pay practices of competitors in the industry. Benefits in an organization include higher financial compensation than competing organizations, education opportunities, employment security and guarantee

for academic challenges. These and other benefits are made available to people in different job groups with an organization.

When employees consider their pay levels and benefits fair in comparison to their counterparts in other companies there is achievement of external competitiveness. Setting benefits policies that are better than competing organizations helps an organization to attain and maintain good employees. Employees carry out proper research on organizations in their field of expertise and are more attracted to organizations that offer more and better benefits. It is very important for every organization to know what benefits their competitors are offering in order to be able to set policies and benefits that are highly competitive.

Benefits such as provision of medical insurance, house allowance, sick leave and study leave help in creating motivation among employees hence placing the organization ahead in relation to external competitiveness. Human beings are more attracted to things they perceive to be free. Most of the benefits given by the organization seem to be free because the organization can as well not provide these benefits.

Retaining good employees is very important for an organization as it directly affects the performance of the organization. Provision of better policies and benefits in an organization gives is an advantage over their competitors. Good benefits are also important when an organization wants to head hunt better performing employees from their competitors because, above getting

a better financial remuneration, most employees weigh and compare the benefits they are being offered by different organizations.

Employee satisfaction brought about by good benefit policies in an organization make the employees feel as part of the organization. This leads to the development of loyalty to the employer. It also helps the employees work harder towards achieving the organization's objectives. This gives the organization competitive advantage over other companies in the industry.

External competitiveness is directly affected by the quantity and quality of benefits offered by an organization to its employees. It helps attract good employees in the industry as employees weigh the benefits offered by different organizations in an industry before accepting the jobs offered. Good benefits also help an organization maintain their good employees hence giving them an advantage over their competitors.