Research paper on effective compensation system

Business, Company

Introduction

Employers use a variety of tools in a view to motivate their employees. They also apply the methods which are convenient to them in terms of applicability and cost. The various methods used are as follows.

Section 1: Forms of compensation

Wages and salaries

This method is applied to a large extent by many organizations. The wages are usually paid on an hourly or daily basis (Pell, 2012). On the other hand, salaries are usually paid on a monthly basis. In the UAE, this method has been used to attract highly talented labor. This has been majorly observed in the technical industries such as engineering firms.

Bonuses and commission

These are payments which are made, in addition to the normal salaries, to employees. The employees are provided with very clear metrics on the targets, which they are, to achieve. If they surpass the targets, bonuses are applied depending on the agreement. E. g. Payment of an extra $ 100 to an employee for each $ 1200 additional sales beyond $7000. Commission is also applied in the UAE specifically for sales companies. This has been applied in Pepsi Co. Asia, Middle East & Africa.

Stock ownership and profit sharing

Some companies allow for employee share ownership scheme. In this case, the employees are rewarded by a portion of stock holding in a company. This method is applied in order to motivate employees. CEOs tend to benefit from this manner of compensation due to the high compensation rate.

Section 2: Concept of equity in financial compensation

Equity in financial compensation means that all employees have to be treated fairly. To begin with, there has to be external equity. This implies that the employees have to be paid a salary that is commensurate with other salaries in the same industry. In addition, there has to be internal equity. This calls for compensation that is in line with the organizational ranks. Employees in high ranks should be paid more than those in other ranks. To add onto this, there is employee equity. This means that employees in similar jobs and in the same firm should be paid according to factors that are unique to each employee (Cladwell, 2009). They include performance level and seniority. Finally, there is the team equity. This implies that teams of employees, which are more productive, should be paid higher than those teams which are less productive.

Section 3: Organizational determinants of financial compensation

Organizations apply policies in the determination of compensation policies. One of the factors considered is the ‘ pay leaders’ factor. In this case, the organization pays higher wages and salaries than the competitors. Secondly, there is market rate. It is also called going rate. Employees are paid according to the average pay in the area or industry. Finally, there is the pay followers’ factor. Organizations pay less competitive wages as compared to the market. This is due to financial constraints or common belief that they should pay low wages. Beyond these factors, organizations have other considerations. First is the organizational politics. These are the political factors within the organization that may be detrimental to the compensation system of the organization. In second is the ability of an organization to pay. If the organization is financially strong, it will pay high salaries.

Section 4: Determination of executive compensation

In order to determine the executive compensation, firms tie the compensation for senior employees to the overall performance of the firm. For high rank employees, there is a high flexibility as far as job designing is concerned. There are various types of executive compensation. There is the base salary which determines the values for the other compensation types. In addition, there are bonuses which are for incentive purposes. Thirdly, there are long term incentives and capital appreciation. This takes the form of stock ownership which encourages the executives to add value to the firm. Finally, there are perks or perquisites which are meant to boost the performance of senior executives. An example is the golden parachute. It provides a chance for a handsome reward in case the organization is acquired.

Section 5: Uses of performance appraisal

Organizations carry out performance appraisal for various purposes. To begin with, it is applied for performance improvement. The results of performance appraisal are applied by various stakeholders to take policies which improve performance. Stakeholders such as employees, managers and personnel specialists, apply it in improving the performance of all the arms of an organization.

Secondly, a performance appraisal is used for training and development needs. After a performance appraisal is done, managers may establish that there is a need for training. This is done when employees are not performing well. It is also applied where the organization establishes a room for improvement.

Finally, a performance appraisal is applied in compensation adjustments. The appraisal determines the employees who should receive pay hikes and bonuses. It is applied to make the system go hand in hand with the productivity of the employees.

Section 6: Performance appraisal process

There are various steps applied in the performance appraisal process. To begin with, there is the setting up of the standards. The standards involve determination of whether the employees are successful in line with the organizational goals. Secondly, there is communication of the standards. In this step, the standards of the appraisal are communicated to the employees in a very clear manner. The employees are made to understand their roles and the expectations of the organization. In third is the measurement of the actual performance. Appropriate techniques of measurement are applied. The employees are also monitored in this step. Due care is required to ensure that personal biases do not affect the results.

The fourth step is the comparison of the actual with the desired performance. Actual results are compared to the ones set earlier. The actual performance may be below or above the required standards. The other step is a discussion of results. The results of the appraisal are discussed with employees in order to reach a consensus. The final step is decision making.

At this point, the organization implements actions from the appraisal process. This step involves taking corrective actions, promotions or demotions.

Section 7: Problems with appraisal

There are several problems that are associated with the performance appraisal process. First is the halo effect. This involves a high rating to an employee out of personal sympathy. Second is constant error. This is introduced by the personal traits of the rater. I. e. being either too strict or too liberal. Finally, there is bias based on recent events. Some evaluators base judgment on recent events only based on the belief that they will shape future events.

Section 8: How to conduct an appraisal interview

The appraisal interview should be prepared for by both supervisor and employee. The environment must be conducive without distractions. In conducting the interview, the supervisor should be professional, calm and courteous. In the discussion of the appraisal, the supervisor should apply constructive criticism (Adams, 2010). The employee should also be sure of expectations. The interview should also be closed in a positive and constructive note. If necessary, a follow up interview should be conducted.

References

Adams, J. (2010). Journal of Human Resource. Performance Appraisal Interview Guide , 7.

Cladwell, T. (2009). Best Companies in the UAE. The Finance Magazine , 15.

Pell, N. (2012, December 4). Different Types of Employee Compensation.

Retrieved May 8, 2013, from http://premium. docstoc.

com/article/86210789/Different-Types-of-Employee-Compensation:

http://premium. docstoc. com