

# Compensation strategies to attract and retain employees



\n[[toc title="Table of Contents"](#)]\n

\n \t

1. [Introduction](#) \n \t
2. [Research Findings](#) \n \t
3. [Recommendations](#) \n \t
4. [Conclusion](#) \n \t
5. [Annotated Bibliography](#) \n

\n[/toc]\n \n

The most important asset in any organization is the people. Human resources refer to the people working in an organization. It can also be used to imply the management of the staff working in a certain organization. This can be in form of employing, terminating and determining remuneration of employees. Further, there are additional roles a human resource manager will undertake including technical and statistical analyses having to do with operations, staffing, compensating, personnel relations and human capital handling. These functions are complex and require frequent use of new ideas and technology that have been on the rise in modern times. Human resources department must be composed of competent people who understand the important role employees have in organizations and how to manage them.

The purpose of this report is to look at various strategies in place today and which are used by organizations to attract and retain their employees.

Compensation becomes a necessary part in acquiring capable workforce since this is what determines their performance in the company. Since it is

inherent that man works in order to achieve rewards in this case monetary reward equivalent to services rendered. In order to achieve this balance, there are factors that need to be considered when determining the amount to pay an employee. The first policy should be to reflect on the relationship existing between pay and job being done. This is done internally in an organization. Another factor to consider is external and involves what other organizations are paying their employees in similar positions and offering similar skills. These two are core factors when setting salaries and wages.

A policy of rewarding employees based on their performance is also essential since it creates improvement in performance and maintains morale. All these however must be in line with current budgets set by organizations. Decisions will depend on top executives and their understanding of all these factors (Bohlander & Snell 2009).

## **Introduction**

Compensation is a means of providing monetary value for work performed by employees. It depends on an organization needs, resources and goals they want to achieve. Compensation therefore goes a long way in ensuring existence of an organization by helping employees to get recruited, and have job satisfaction. There are various uses of compensation which include; increasing employment morale, recruitment and retention of qualified employees, rewarding best performers, reduce employee turnover and encourage loyalty, formation of unions and achieve both internal and external equity.

One thing compensation seeks to acquire is employer retention in the face of competition from other organizations or companies. This is achieved by having in place award schemes and plans such as bonuses, commissions, profit sharing amongst others. However these benefits are based on other factors and may not be automatic to each employee. To achieve the best form of compensation, this also should be fair in all standards, a systematic approach need to be followed. This takes the form of having job descriptions, job analysis, job evaluation, payment structures and timely salary surveys in line with the company policy and regulation.

There are different compensation types as discussed and each too has merits and demerits. Their application also differs from one company to another as well as to different job descriptions. Some of these types are base pay, commissions, overtime, stock options, travel allowance, housing allowance, insurance, medical and retirement benefits.

Each company or organization must have well defined job descriptions stating the skills each employee has and the direct contribution he or she has on the company in general. Analyzing each individual instead of doing so collectively will also give a better picture as to what they are worthy in terms of remuneration (Armstrong & Murlis 2007).

## **Research Findings**

We are now going to look deeper at each of these strategies and where they are most applicable. Base pay includes wages and salaries awarded to employees as a basic compensation. This can be based on the number of hours worked with a definite amount per hour. The rate is then multiplied by

<https://assignbuster.com/compensation-strategies-to-attract-and-retain-employees/>

the total number of hours worked say in a day to arrive at the amount to be paid. Most often, eight hours are considered normal and any additional hour regarded as overtime. A differential can also be added due to various shifts an employee may be working (Hernandez, 2009). A legal framework called Fair Labor Standards Act (FLSA) oversees that this type of compensation is enforced fairly. Those receiving base pay are called salaried employees and comprise majority in the workforce today.

Apart from base pay as a direct compensation strategy, there exists variable pay which is incentive based pay. Such may be in form of bonuses and commissions (Mathis & Jackson, 2007). Variable pay, thus, as the name signifies takes different amounts according to reward and the position an employee holds. The pattern of setting of receiving variable pay is done over a fixed period of time; monthly, annually or a mixture. This is ranges from short term to long term based on the performance on those it is due.

Executive positions especially have a better laid pattern under which they receive their bonus unlike junior employees who may receive bonus on unequal periods (Davis & Edge 2004). Since it is the role of human resources managers to oversee implementation of such receipts, they should ensure fairness under all circumstances.

A benefit is an indirect reward to an employee. Benefits derived from compensation strategies are; dental, medical, vacation, leaves, insurance, retirement and tax incentives. Dental and medical insurances, also known as health benefits, are applied by employees in order to cater for their human resources health. In case an individual falls sick in the course of their duty, insurances cover the cost of treatment undergone without pressurizing the  
<https://assignbuster.com/compensation-strategies-to-attract-and-retain-employees/>

affected person or the company as long as the insurance terms are met. As an incentive therefore, employees are likely to feel motivated in work and also to seek organizations which offer the highest and best insurance cover (Mathis & Jackson 2007).

Retirement plans are also part of benefits which ensure that after the employer retires from the company they can enjoy their life having been enabled to save monies. By providing leaves and vacations at the expense of the company, an employee feels recognized and this increases productivity once they return to work after leave.

The whole package of compensation includes base pay, variable pay and benefits and this is very important for any organization to attract and retain its precious employees. Planning is of utmost importance so that the best combination can be achieved and one that is acceptable even under government regulations.

In order to have a definite working plan, a number of steps need to be in place (Singer & Francisco 2009). A compensation plan begins with having identified an objective of what the organization wishes to accomplish. Target dates under which such accomplishment is supposed to have been complete are essential as well as the budgeted figure. This program outline must be well formulated and followed to the letter.

In addition, for everything to be successful there must be an individual charged with the responsibility of overseeing the whole program come to fruition. The program head should be competent and well versed in human resources management, and also be fully committed to achieving this goal.  
<https://assignbuster.com/compensation-strategies-to-attract-and-retain-employees/>

Having a designated head in place, it is good to have a compensation philosophy in place, a sought of committee working under the laid down objective and aware of current facts leading to its formation. These facts include current remuneration rate in the market and how they are distributed across different positions in the company. Their mandate is to decide whether to set compensation at below, par or above the rest of similar organization and market.

A job analysis is the next step towards achieving the objective. A serious in-depth analysis of all job positions must be done especially in each department to get a picture of who actually deserves adjustment. A job description will help to group similar categories together so that they can be sorted together (Mathis & Jackson 2007).

Evaluating and analyzing job descriptions follows, whereby ranking is made from the topmost to the lowest and this can be well achieved by drawing organizational charts. As the flow becomes clear, flow charts are drafted which show which areas require adjustment according to prevailing market values. This should be done and redone to achieve the best agreeable outcome between all parties. Grading employees in terms of seniority may assist in determining different compensation schemes to follow. Salaries and wages can therefore be based on these grades; junior, middle and senior, for example, with emphasis on key jobs.

A salary structure which shows range and spread for each grade should be the next step. A minimum-maximum range determines the levels which apply without offending any other factor. This may also augur well with a

salary administration policy applying to every other employee in the organization. A policy could be general or specific to a certain group and its reviews should follow suit. Proper documentation of the policy is very vital since it is a binding document. These documentations constitute the compensation plan and if ready are taken to the top executives for approval. The final stage is to execute the plan if approved and keep monitoring to find flaws and adjust accordingly (Farley, 1964).

Communication is very important in achieving a compensation plan that is acceptable by every individual in a company. The committee working on it has the mandate to inform every employee including departmental heads and top executives on what they are working on. This creates trust and allows vital information which can be embedded on the final draft and be of benefit. To achieve the best form of communication, all the necessary means need to be integrated in the process.

The Human Resources Information System (HRIS) for example comprises the best procedures to undertake and thus should be used. Detail is important in order to cover every part of the process and hence use of flow charts, slide shows, movies and every form of literature is necessary. These forms though must be in understandable form and design so that any one interested can study them as well. An agreed upon format therefore comes in handy be it in print form or audio. (HR Guide to Internet -web)

## **Recommendations**

Compensation strategies are important ingredients in employee attraction and retention as already discussed. However, the methods for determining

<https://assignbuster.com/compensation-strategies-to-attract-and-retain-employees/>



this as already seen may be complex and therefore care should be taken in building the best working solutions. This is because of the nature of business an organization may be undertaking. For instance an entrepreneur company may find difficulties in maintaining the compensation to its staff in case the business fails to do well in one period. This may cause a downward review especially in bonuses in one year only to increase it the following year.

Such a system may seem awkward and make employee retention unstable. For big long-term companies though, they usually would stabilize base pay since their sales markets are growing continuously. Another dilemma that may face an organization in pursuit of better compensation plan is lack of comparable organization in the similar business. Some companies are unique enough that their job description and position may fail to be in similar companies in the neighborhood. The way out is to find the next closest comparisons and work from there.

Since pay rise must conform to equal increase in productivity, some organization may feel lost out in cases where they are bound to review salaries upwards, yet the employees have not achieved any goal as required. A work culture in place is the best approach to such companies so that rewards are done as per accomplishment. All in all a combination of these processes are recommendable to any organization rather than having one particular way of achieving a compensation plan. (Compensation Strategies and Structure - Web)

## **Conclusion**

In conclusion, compensation strategies are vital in the running and success of any particular organization. A bad decision in this key process can cause unparalleled damage to the organization either in form of losses or eventual closure. It is part of Human Resources Strategy and therefore vital in management.

The compensation and benefits strategy implementation team must be accorded power and means to realize goals hence. Studies have shown that variable pay is the most sought after unlike base pay when it comes to employee retention. This is because variable pay is based on individual performance and therefore those entitled to it tend to put extra effort so that they may achieve incentives. Amid vigorous competition, employees try to out do each other so as to achieve the highest incentives and this is a good practice in business since it increases productivity. On the contrary, emphasizing only on base pay appears monotonous since it is likely that a number of individuals have similar amounts at the end of the month regardless of whether they worked hard or not.

Market competitiveness ensures that different companies are trying to be the best in the industry by raising both base and variable pay of their employees. Such competition is healthy especially if the economy and political systems of a country are favorable. At the end of the day both the employee and the employer gets satisfied if compensation strategies work in harmony.

This report recognizes the important role a compensation strategy plays in any organization. It is now the work of any competent Human Resources member to have thorough understanding of how this works and endeavor to achieve an excellent system.

## **Annotated Bibliography**

Armstrong, M & Murlis, H. (2007) Reward management: a handbook of remuneration strategy and practice Kogan Page Publishers.

They expound on issues to do with rewarding employees in order to increase performance. The emphases are on looking at individual performance and make decisions on how to reward them.

Banker, R. D. et al. (2000). An empirical analysis of continuing improvements following the implementation of a performance-based compensation plan [PDF] from psu. edu ... - Journal of Accounting and ..., Elsevier.

The article researches on how to implement compensation plan and goes further to make a follow up to see whether the plan works. Otherwise continuous review is necessary.

Bohlander, G. & Snell, S. (2009) Managing Human Resource's Cengage Learning.

Compensation Strategies and Structure. Retrieved from

[http://humanresources. about.](http://humanresources.about.com/od/compensation-structure/compensation-structure.htm)

[com/od/compensation-structure/compensation-structure. htm](http://humanresources.about.com/od/compensation-structure/compensation-structure.htm)

<https://assignbuster.com/compensation-strategies-to-attract-and-retain-employees/>

A book about policy of rewarding employees based on their performance which is essential since it creates improvement in performance and maintains morale. All these processes however must be in line with current budgets set by organizations

Davis, M. L. & Edge, J. T. (2004). Executive Compensation: The Professional's Guide to Current Issues & Practices Windsor Professional Information.

A book about how executive positions especially have a better laid pattern under which they receive their bonus unlike junior employees who may receive bonus on unequal periods.

Farley, J. U. (1964). An optimal plan for salesmen's compensation. Journal of Marketing Research. JSTOR

An article dealing with compensation related to salesmen. Emphasis is on the best variable pay methods to apply such as commissions.

Hernandez, S. R (2009) Strategic Human Resources Management in Health Services Organizations Cengage Learning.

Excellent material on determination of base pay includes wages and salaries, awarded to employees as a basic compensation. This can be based on the number of hours worked with a definite amount per hour. The rate is then multiplied by the total number of hours worked say in a day to arrive at the amount to be paid.

HR Guide to the Internet: Compensation: Outline and Definitions. Retrieved from <http://www.hr-guide.com/data/G400.htm>

<https://assignbuster.com/compensation-strategies-to-attract-and-retain-employees/>

An article on human resource management on compensation and how to come up with compensation plan. It offers suitable readings for any serious Human Resource Manager.

Mathis, R. L. & Jackson, J. H. (2007). HUMAN RESOURCE MANAGEMENT. Cengage Learning.

This is a book offering excellent material on human resource management and its application. . A complete compensation platform and different strategies that are in use in many organizations are discussed in detail.

Singer, P. M. & Francisco, L. L. (2009). Developing a compensation plan for your library ALA Editions.

This broad book brings insight in to the process of making a workable compensation plan. All the steps that are necessary, with examples, to follow are covered in detail.