

# Questions on compensation management



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Managers of compensation and benefits play vital role in determining key aspects of decisions taken during strategy creation on compensation. The key premise is that the way employees are compensated can be a source of sustainable competitive advantage. Two alternative approaches namely “best-fit”/contingent business strategy/environmental context approach and “best practices” approach are common and applied by compensation and benefits managers in their decision-making on strategy creation on compensation

i) Based on the above scenario, analyse the approach your company uses to pay staff. Infer its compensation strategy using five issues (objectives, alignment, competitiveness, employee considerations and management).

ii) How does your company compare the compensation strategy using five issues?

(Objectives, alignment, competitiveness, employee considerations and management) with the TWO (2) selected benchmark companies of your choice?

iii) What business strategy does it seem to “fit” (i. e., cost cutter, customer centered, innovator, or something else)? Why?

## **QUESTION 2**

You own a non-union company with 100 non-exempt employees. All of these employees pack books into boxes for shipment to customers throughout the Southeast Asia and Europe. Because of the wide differences in performance, you have decided to try performance appraisal that has never been done

before. Until now, you have given every worker the same size increase. Now you want to measure performance and reward the best performers with bigger increases. Based on this:

- i) Propose and develop performance appraisal format that you think would be most appropriate. Why do you choose this format? Justify your answer.
- ii) Do you anticipate any complaints, or other comments, from employees after you have implemented your new system? Build argument to support your answer.

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## QUESTION 1

**Managers of compensation and benefits play vital role in determining key aspects of decisions taken during strategy creation on compensation. The key premise is that the way employees are compensated can be a source of sustainable competitive advantage. Two alternative approaches namely “ best-fit”/contingent business strategy/environmental context approach and “ best practices” approach are common and applied by compensation and benefits managers in their decision-making on strategy creation on compensation**

**Based on the above scenario, analyse the approach your company uses to pay staff. Infer its compensation strategy using five issues (objectives, alignment, competitiveness, employee considerations and management).**

### **Compensation**

Compensation is defined as pay provided to an employee by an employer in return for work performed as required by a relevant task in the form of monetary and non- monetary. [http://humanresources. about. com/od/glossary/g/compensation. htm](http://humanresources.about.com/od/glossary/g/compensation.htm)

Compensation is based on:

Economic outlook in the market research about the merit of comparable jobs in the marketplace;

Contributions and accomplishments of an employee;

Employee’s skills which is available in the marketplace;

the need of a employer to retain and attract employees; and

the success of the company or the availability of funds and capability of an employer to pay employee the market-rate compensation.

## **Best Practice**

Best Practice is defined as methods and techniques that have consistently shown results superior than those achieved with other means, and which are used as benchmarks to strive for. [http://www. businessdictionary. com/definition/best-practice. html](http://www.businessdictionary.com/definition/best-practice.html)

## **Best Fit**

The McGraw-Hill text book quoted that the best-fit approach presumes that one size does not fit all. The art of managing compensation strategically involves fitting the compensation system to the different business and environment condition.

It is important that each organisation develop a compensation system in the perspective of its organisation mission (what it is and what it does). Scholars have agreed that it is important that leaders of an organisation embrace compensation/fair pay practices. An effective system of compensation is highly significant because several problems relating to employee remuneration such as absenteeism occurs because employee feels they are under paid. Remuneration must fulfill the expectations and aspiration of employees and exploit their energies for the benefit of organisation.

Retaining competent individuals for long is more difficult than attracting new fresh ones. Loyalty of employee towards an organisation depends on his/her

perceptions about compensation. The organisation's pay structure must, therefore be equitable and consistent. Employees get motivated to perform better when their past performance is rewarded adequately. Employees set expectations about rewards and compensation to be received, if certain levels of performance are achieved.

## **Compensation Strategy in ABC Managed Services Malaysia Sdn Bhd**

### **Background of Organisation**

ABC Managed Services Malaysia Sdn Bhd is a subsidiary of ABC Consultants India Pte. Ltd. It was established here in Malaysia on July 2004 and has about 15 members as at today. Main focus of the business is Human Resource Outsourcing (HRO) and Information Technology Outsourcing (ITO). The HRO division takes care of the payroll processes and statutory compliance of organisations within the Asia region. Where the ITO division works on the information technology which assist a HR department to manage and maintain HR records. The organisation has mixed of local and expatriates member working for them. The Malaysia office is headed by a country manager who reports to Head of Asia Pacific who is based in Singapore.

## **Current Practice at ABC Managed Services Malaysia Sdn Bhd**

### **Compensation in ABC Managed Services**

ABC Managed Service's compensation program is managed by their corporate office based in Chennai, India and there is a compensation policy which is used as a guideline as their compensation program for all ABC Consultant employees worldwide.

These policies are designed to assist in the consistent, equitable, and effective administration of the program, in all ABC Consultant operations and its locations. Application of these policies is contingent upon specific review of local legal, regulatory, tax, and prevailing business practice considerations. The policies applies to all employees and administered without regard to an employee's race, color, nationality, religion, age, sex, sexual orientation or disability as it relates to relevant local regulations.

## **Responsibility of Compensation Administration**

The administration of ABC Managed Service's compensation program is a shared responsibility. The manner in which responsibility is shared is as follows:

### **The Board**

The Board will have responsibility for approving the ABC Managed Services pay strategy and philosophy, and for establishing annual compensation program priorities and budgets. Guidance will be provided to the Board by the Global Head of Human Resources.

### **Global Head of Human Resources**

The Global Head of Human Resources, working with the Global Compensation Team and Regional HR Heads, is the final management authority on all compensation administration issues based on the Boards' directives. Specific responsibilities include:

Formulating and finalizing the overall compensation administration program objectives and general policies

Recommending any promotions, equity adjustments and/or merit budget

Approving any significant changes or exceptions to the compensation administration program

Reviewing and approving career band and pay zone assignment for all new or revised jobs

Reviewing and approving salary adjustments for all employees

Ensuring the overall compensation administration program is administered in accordance with the policies and procedures documented in the compensation manual

Reviewing, approving, and maintaining job descriptions for all jobs

Producing regular monitoring report of salary increases and budget.

## **Global Compensation Team/HR Regional Heads**

The Global Compensation Team and HR Regional Heads are responsible for maintaining the effectiveness of the compensation administration program for employees in their respective regions/countries. Specifically, the group will be collectively responsible for:

Reviewing salary adjustments and making recommendations, declining or gaining approval from executive management

Administering the compensation administration program in accordance with the policies and procedures documented in the compensation manual



Developing, in conjunction with the Global Compensation Team, recruiter and hiring manager, an appropriate starting salary for new hire

## **Department Management**

Each management employee is responsible for maintaining the effectiveness of the compensation administration program for employees in his/her area(s) of responsibility. Specifically, these department management employees are responsible for:

Coaching and mentoring staff to deliver on corporate goals and values

Conducting performance appraisals for subordinates

Recommending salary adjustments and promotions when warranted

Developing job descriptions for new/revised jobs within his/her area(s) of responsibility

Developing, in conjunction with the Regional HR staff, an appropriate starting salary for a new hire

## **Compensation objectives:**

Studies have shown that Pay systems are designed to communicate strong messages of strategy and directions are necessary to generate organisational performance. (Lawler, 1995)

ABC Managed Services's pay objectives are as follows:-

to increase performance by reducing costs

creating new process, enhancing quality and productivity

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increasing speed to market service

Recognizing employee and team effort and treat everyone fairly

To ensure that the organisation meets the above, it needs to focus on the capabilities of their employees. With the above objectives, ABC Managed Services and Global HR department uses it as a guide and as standard to design its pay system.

### **Internal Alignment**

Since ABC Managed Services are into the HRO and ITO industry, the job and skills required by employee are compared to the company's organisation business objectives. For examples, in the HRO division, executive with knowledge/skills of preparing payroll for other part of Asia region are welcomed, it is found to be difficult to get talent with knowledge of other Asia countries payroll skills. Therefore, ABC Managed Services manages the differences with an addition of allowance if one knows and has Asia country pay rolling skills. The allowance can be in the range of RM300 to RM500 depending on experience and skills obtained.

Since it is a niche market obtaining talent of such skills, the organisation also invest into additional training to be competitive within the standard and market. The organisation also encourages its team members to have multitasking skills and encourages harmonious working environment. The ABC Managed Services current pay structure is based on Pay- for performance. Pay for performance includes the management of both salary increments and bonuses, based on individual, group or company performance or a combination of these.

## **External Competitiveness**

The ABC Managed Services has high risk losing its employee to its competitors. Based on the recent salary outlook survey conducted by Kelly Services recruitment agency for year 2010/2011, it is found that ABC Managed services is underpaying its employee 2% less compared to the market. Although ABC Managed Services is underpaying its members based salary, but it was providing good benefits such as traveling allowance, gym membership, and meal allowance. It also provides good annual leave structure for its employee which we can't find their competitors providing the same. Since the organisation is paying its employee based on performance, there are opportunities for its employees to perform better and get a higher pay.

## **Employee Contributions**

In ABC Managed Services it emphasis pay for performance and it can be individual or team performances. At times, the organisation receives one time project which requires members to work in a team, so in this scenario, the management fix a onetime bonus payout for team achievement and paid to individual based on their contribution to the success of the project and if it is a team effort, the team will be paid double upon completion of the said project. This encourages the team members to work as a team since if it is a team effort the bonus will be higher if compared to an individual payout. If the customers give good feedback, the team will be given a holiday package as a treat.

## Management

The decision of pay and incentives of ABC Managed Services is decided by Global Head of Human Resource who is based in India. She usually makes use of the information of labor market in local countries and base on the country's economic status before establishing the compensation level for its employee. The text book mentioned that how open and transparent should the pay decisions be to all employees? In this case, employee here in Malaysia isn't aware how the pay is decided, or how the pay for performance is based on. All they know is that, their pay increases on yearly basis if their performance falls into exceed expectation category of their individual performance appraisal and what their immediate bosses has recommended on their performance.

To answer the question, if the organisation is using Best Fit or Best Practice, I would say the organisation uses best fit which matches for the organisation to stay competitive in Malaysia and retain its employee so the scope for local judgment is built in, allowing for some adjustment by local management to local business needs, thus resulting in compensation system that are aligned to both corporate and local performance targets.

### **ii) How does your company compare the compensation strategy using five issues (objectives, alignment, competitiveness, employee considerations and management) with the TWO (2) selected benchmark companies of your choice?**

I am using 2 other organisation which is in the same industry with ABC Managed Services which focuses on HR outsourcing business here in Malaysia. The only differences between ABC Managed Services and the other  
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2 organisation (ZX Services and MY Agency are both locally owned and not foreign owned like ABC Managed Services and been in the industry for more than 2 decades. All of this 3 organisation have a pay strategy to support their business strategy.

## **ABC Managed Services**

### **ZX Services**

### **MY Agency**

### **Objectives**

To increase performance by reducing costs

Creating new process, enhancing quality and productivity

Increasing speed to market service

Recognizing employee and team effort and treat everyone fairly

Hard work towards meeting difficult goals and achieving objectives

Innovation in a highly technical environment

Team work motivated

Perseverance against tough competition

High ethical standards in a constantly changing world

Support business mission and goals

### **Internal Alignment**

Support Multitasking skills

Performance based

Encourage team culture

Ensure compensation is internally equitable through annual pay analysis

Ensure cost is justified allowing company to meet financial goals

link pay to performance through the performance appraisal system

ensure compensation is externally competitive through annual salary review;  
while salary increases are not guaranteed, we will review salaries annually

## **Externally Competitive**

Market competition in base and benefits

Leader in benefits

Compares favorably with higher-performance competitors

Their leaders are committed to review their programs, policies and practices  
on a regular, and as-needed, basis to maintain in the competitive position

Career band system is based upon the 50th percentile of the competitive  
market in each country relative to the outsourcing industry

Career bands and pay zones are broad, allowing company to reward high  
performing employees without undue pressure to promote people outside of  
their interests,

## **Employee Contributions**

Bonuses and commission paid based on organisation's success and on individual performance

Annual salary increments rate is for respective countries based on market survey

Annual increment based on individual performance

Bonus based on the overall performance of the company

Annual increment based on individual and team performance

## **Management**

Annual Salary Increment controlled by top management of the organisation.

Technology support

Open communication

Ensure compensation is internally equitable through annual pay analysis

Ensure employees understand how they are compensated and the value of their total compensation packages

Salary matters controlled by local company

Salary matters controlled by local company

Open and transparent

Company ABC Managed seems to have aligned compensation strategy compared with the other 2 organisation. Their strategy is fitting into the organisation's mission and also staying competitive within the industry. They have happy employees working for them and who have loyalty to serve the organisation. The organisation that fosters a friendly and family culture helps the organisation to meet its objective and goal to be a leader in the Outsourcing industry. Since ABC Managed Services is a new organisation compared with the other 2 organisation, there are always rooms for growth in the industry if they stay competitive.

**iii) What business strategy does it seem to “ fit” (i. e., cost cutter, customer centered, innovator, or something else)? Why?**

In my opinion, I don't think there is one business strategy which seems to fit for any organisation. Most organisations will likely have the mixture or combination of cost cutter, customer centered or innovator as their strategy. In ABC Managed Services, their business strategy are based on being innovative, customer oriented since its in the services industry and always looking towards cost cutting measures and increase productivity. With these business strategies, it becomes the main drive for them to achieve their vision to become a leader in the HRO/ITO industry worldwide and remain excellent in customer satisfaction. Compensation decisions should be fully integrated into the organization's business and operations strategy, through company own compensation philosophy.



## QUESTION 2

You own a non-union company with 100 non-exempt employees. All of these employees pack books into boxes for shipment to customers throughout the Southeast Asia and Europe. Because of the wide differences in performance, you have decided to try performance appraisal that has never been done before. Until now, you have given every worker the same size increase. Now you want to measure performance and reward the best performers with bigger increases. Based on this:

**Propose and develop performance appraisal format that you think would be most appropriate. ( Enclosed)**

**Why do you choose this format? Justify your answer.**

The reason why I choose the following format is because the performance appraisal form should be simple and easy to understand by employee and the supervisors. This method used to describe a performance rating that focused on specific behaviors or sets as indicators of effective or ineffective performance. This method is very useful and exact. This will also allow supervisor just focus on the questions based on competencies which had been stated on the form and provide rating according to employee's performance.

The appraisal form will also won't take much time for the employee to prepare and we used simple English as mode of communication.

Performance appraisal encourages employee to discuss their performance with their supervisor and strengthen their working relationships.

By doing a performance appraisal, it allows healthy competition among employees to be more productive and motivate since increment henceforth will be based on employee's performance.

Initial training will be provided to supervisor on how to use the performance appraisal and this will also allow us to inform all employees what is our organisation's objective and what is expected from them to ensure the organisation's goal are met.

Having a performance appraisal will also help supervisor to ensure career path for all employees. The annual performance appraisal review becomes one of the most effective methods of insuring an efficient and effective operation.

## **Question 2(i)**

### **Performance Appraisal Form – Non Exempt employee**

**Name of Appraisee:**

**Appraisal Period:**

**Department:**

**Job Title:**

**Name of Appraiser:**

**Appraisal Date:**

### **Instructions**

Review the current position description with employee and discuss how the tasks relate to the performance standards.

Use the following rating scale for each performance standard. High and low ratings must be supported by specific examples of critical incidents occurring during the appraisal period.

## **Rating Scales**

### **Rating**

#### **( Scales of 1 – 5 )**

#### **Definition**

##### **5. Outstanding**

Exceptional performance in all areas of responsibility.

Planned objectives were achieved well above the established standards and accomplishments

were made in unexpected areas

##### **4. Exceeds Expectations**

Performance consistently exceeds expectations of the position. Reserve this rating for a highly-motivated employee who demonstrates superior quality work and maintains a high level of effectiveness with little or no supervision.

Document specific critical incidents of behavior that illustrate this rating on the back of the performance management form.

##### **3. Meets Expectations**

Performance consistently meets expectations of the position. Use this rating for a fully-trained employee who performs all expectations of the position.

## 2. Needs Improvement

Needs on-the-job or outside training to gain new skills and/or knowledge. Use this rating for an employee who is newly hired, recently promoted or has assumed new responsibilities.

### 1. Does Not Meet Minimum Standards

Performance does not meet expectations of the position. Corrective action has been identified and discussed with the employee. Reserve this rating for an employee who has not benefited from development and training, and continues to have difficulty with job responsibilities. Document specific critical incidents of behavior that illustrate this rating on the back of the performance management form.

Standards are divided into three categories: basic performance standards, optional performance standards and supervisor's performance standards. Basic standards are designed to be used for all jobs. Supervisors can use optional standards in addition to the basic standards. They may also write standards that are specific to the job on additional paper and attach them to the form. The supervisor's performance standards are for jobs with clearly defined supervisory responsibilities and are used in addition to the basic and optional standards for all supervisory jobs.

The appraisal period is identified at the top of the form. To determine ratings, only use critical incidents that took place during this appraisal period.

The section for goal setting is provided to promote discussion during the appraisal interview. Supervisors can identify goals for the next appraisal period, indicate training needs, or specify corrective action when appropriate. Once an employee and supervisor have set goals on a previous performance management form, supervisors will request the employee to conduct a self-assessment of progress towards these goals prior to the next performance appraisal interview.

When an employee receives a 5 (Outstanding) rating, identify the critical incidents that support the rating. This rating cannot be used unless critical incidents are identified.

When an employee receives a 2 (Need Improvement) or 1 ( Does not meet Minimum standard) rating, define corrective action required, identify an appropriate time frame for desired results, and discuss any appropriate training needs. If verbal or written counseling has occurred on the same topic during the appraisal period, indicate dates of the counseling and identify any evidence of progress.

Have the employee sign the form when the appraisal interview is completed. The signature indicates all the information on the form has been discussed with the supervisor.

Make copies of the completed form and give one copy to the employee, keep one copy for department files, and forward original to human resources.

Complete the basic standards in Section I and select any optional standards from Section 2 that are appropriate for the job. Use ratings 5 – Outstanding,

4 – Exceeds expectations, 3 – Meets expectations, 2 – Needs performance development, or 1 – Does not meet minimum standard. If you use 5, 2 or 1, you must document with specific examples of critical incidents to support the ratings on the back page.

## **Section One: Basic Performance Standards**

### **Competency**

### **Description**

### **Ratings**

### **Job Knowledge**

Possesses knowledge of basic functions of the job. Does not require supervisor to explain routine tasks.

### **Quality**

Completes tasks accurately, neatly and thoroughly. Checks work; limited rework required.

### **Productivity**

Uses time effectively to complete work within prescribed deadlines with limited supervision.

### **Safety**

Applies safe work habits for safety of self and coworkers. Uses tools and protective equipment carefully and correctly. Follows department safety rules.

### **Service**

Responds to people in a helpful, polite, cooperative and friendly way.

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**Judgment**

Analyzes situation before making decisions. Obtains feedback from appropriate individuals before making decisions. Follows policies and procedures. Maintains confidentiality.

**Relationships**

Works effectively with others to accomplish tasks. Shares information, accepts and incorporates suggestions from others. Keeps supervisor informed.

**Section Two: Optional Performance Standards**

Select any optional standards that are job related. You can also write standards that are specific to a job on a separate piece of paper.

**Competency****Description****Ratings****Initiative**

Recognizes need for intervention and independently takes effective action.

**Attendance**

Arrives on time, schedules time off in advance. Sick leave accumulates regularly.

**Creativity**

Generates and applies creative ideas that improve operating procedures. Makes suggestions to simplify and improve procedures or tasks.

**Versatility**

Accepts changes in job or work area. Remains flexible and tries new approaches.

**Oral Communication**

Expresses thoughts clearly to others. Listens to questions and comments of others.

**Written Communication**

Expresses information clearly and concisely in writing.

**Job Enhancement**

Identifies job-related goals and ways to achieve them. Acquires new skills, increases education level when appropriate for job.

**Professional Appearance**

Dresses neatly and appropriately. Portrays image appropriate for job

Rating Summary – Count the total number of ratings in each category.

5 – Outstanding 4 – Exceeds Expectations 3 – Meets Expectations

2 – Needs performance development 1- Does Not Meet Minimum Standard

Goals – Use this area to set goals and identify training needs.

**Goals****Training Needs**

High/Low Ratings – Identify specific critical incidents of behavior that support rating 6, 2 or 1 ratings.



**Standard ( High/Low)**

**Date**

**Details of Critical Incident**

**Supervisor's Signature:**

**Unit Head's signature:**

**For HRD Use:**

**Employee's Comments:**

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Signing this form means your supervisor has discussed all the information on the form with you. You do not have to agree with the appraisal summary when you sign the form. You may choose to make comments. Use additional paper if necessary.

**Employee's Signature Date**

**ii) Do you anticipate any complaints, or other comments, from employees after you have implemented your new system? Build argument to support your answer.**

Yes, I do anticipate complaints after implementation since most of the employees didn't experience appraisal process for a long time in this organisation. Since it's something new to them and they need to understand that the appraisal tool will help them to grow and be motivated. They shouldn't see the performance appraisal tool is used to judge their capability and a tool which make them loose their income.

I foreseen several resistance from employees especially those fear of getting poor rating. To avoid such scenario, I will ensure the employees understand the purpose as well the process of appraisal. Every employee should be aware of the standard and what exactly is expected from them.

The employees may fear that there also may be rater error which likely to occur, to avoid such incident the supervisor should exercise objectivity and fairness in evaluating and rating the performance of their employees. Training will be provided to supervisor and advising them on how to ensure accurate evaluation.

Common errors like positive leniency, where supervisor gives all employee high scores or negative leniency, where supervisor gives all employee low scores. This will create unhappiness among employee especially for those who are really making good contribution and being productive. In reality, many supervisors conduct performance appraisal poorly. The appraisal procedure is to have 2 way communications between employee and supervisor to find out how to improve the current performance standard and move to the next level, but this seldom