Internal and external equity comparison essay sample

Business, Company

Times change and as a result businesses have to change. Today's businesses face a very competitive globalized economy. For any organization to be successful in that market they have to take a substantial stand toward equity. Equity can affect an organization's ability to attract new employees, motivate current employees, and retain the best employees. All companies regardless of size have a compensation package, whether formal or informal all have some compensation plan for their employees. A compensation plan is one of, if not the most important aspects of a successful organizational environment. Both external and internal equity play an important role in an organization's design and implementation of its compensation structure. This paper will examine the total compensation plans for the Lowe's Companies Inc. and Yum Brands Quick Service Restaurants with a focus on internal as well as external equity. Internal and External equity

It is important first to understand what internal and external equity is. According to WageWatch. com " external equity is a measure of market competitiveness forming its basis on job functions and duties, internal equity is a measure of internal worth with a basis in job autonomy and responsibility" (Best Practices…2012). External equity, going from the definition given, is when employers reward their employees with fair compensation to those who perform similar jobs in other organizations. Internal equity is when the employees are being provided with fair wages relative to the value of their jobs within the organization. In short, internal is within and external is outside of the organization. One company that places a large emphasis on its internal equity is Lowe's Companies Inc. An American owned company, Lowe's offers its employee a very well rounded benefit program which includes, but is not limited to; “ health and dental plans, flexible spending accounts, a vision plan, sick pay, vacation, paid holidays, disability, life insurance, prescription drug plan, accident plan, and a part-time employee medical plan, 401 (k) and a stock purchase plan” (Employee Benefits…n. d.).

Lowe’s feels that they have an industry-leading employee benefits program that helps them with retention by providing employees the best they have to offer. Building that a compensation plan is what attracts quality applicants and keeps the best employees. A company focusing on external equity for its compensation plan is Yum Brands. Yum Brands is in the Quick Service Restaurant, or referred to as Fast Food business and has over 35, 000 restaurants in over 110 countries. Those restaurants include Kentucky Fried Chicken, Pizza Hut, Taco Bell, Long John Silvers, A&W, Pasta Bravo, Wing Street, and East Dawning. In order for Yum Brands to stay competitive in this market their focus is on identifying the job requirements of the organization along with the job description of the entire workforce and then properly analyze the wages paid to employees ensuring that they match other organizations in the same industry. When preparing a compensation plan based on internal equity, it is important to take into consideration a few of the basic factors.

For starters understanding what types of jobs are being performed by the employees within the organization. Next factor being the skill level required, any education required for any single position, and a thorough understanding of how to perform each job within the organization.

Understanding these basic factors will aid in the formulation of internal pay. Conducting an analysis and interpretation of the external job market will help in determining where the organization stands as far as their pay policies are in comparison to other organizations within the same industry. Advantages and Disadvantages of Internal and External Equity There are several advantages and disadvantages to both the internal and external equity for organizations. Internal equity will aid the organization by helping them in being transparent. When employees feel treated respectfully it only increases their morale. Increasing an employee’s morale increases their performance, which increases profits for the organization.

Internal equity will help the organization in keeping the best employees on board as well as bringing in the best applicants. There is always a downside and with internal equity there come disadvantages. Equal pay for equal work can sometimes lead employees to take their job for granted since they understand that they will get paid according to the equity policy in place, regardless of their performance. External equity has an advantage in that employees know the pay they are receiving is equal to that of employees in similar jobs in different organizations. Here again, the employee remains with the organization because they know changing jobs will not necessarily bring with it more money. One notable disadvantage of external equity is that when the organization is not performing up-to-par and profits are falling they still have to pay equal to their competitor. Conclusion

In summarizing there are commonalities between internal and external equities in that both serve to align proper compensation of employees by their respective employers. However, on the same coin both can lead to poor performance that only creates a hostile working environment that in turn hampers the employee/employer relationship that in turn hampers the organization itself.

References

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