

Compensation and benefits system at microsoft research paper

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Microsoft is among the United States' largest companies. Established in the year 1975, Microsoft is the leading provider of software, solutions, and services globally. Microsoft offers a wide variety of services while employing a large number of highly skilled employees. According to the company's former Chief Executive Steve Ballmer, Microsoft is a company with big goals, dreams, and aspirations (Microsoft n. p). The company is very competitive in terms of both its products and the attraction and retention of staff. The company recognizes that to compete effectively with its rivals, it is imperative that they take care of their talent. This essay examines the system of compensation and benefits offered in the United States by Microsoft.

In the 2012 edition of the Fortune Magazine's ranking of the best 100 companies to work for, Microsoft was placed at number 76. According to this survey, the annual pay for a salaried employee of Microsoft averaged at \$132, 023 while that of the hourly employees averaged \$61, 245 per annum (Fortune n. p). The salaried job that appeared most frequently was that of a Software Development Engineer, whereas Business Support was the most frequent hourly job. Whereas Microsoft has a workforce spread out all over the world, the bulk of its workforce operates in the United States.

Compensation describes any form of financial return as well as tangible service or benefit that an employee gets from the employment relationship. Hence, compensation encompasses both the monetary compensation and other benefits of a non-financial nature. Compensation programs are often assessed according to their general effectiveness and their contribution to the organizational objectives. The compensation programs function as both a

recruitment tool and a motivation and employee retention tool. As a firm involved in the high technology industry, human resources costs are a great expenditure for Microsoft. Hence, how its compensation program is designed is critical to the firm's bottom line.

Like all other companies, Microsoft strives to have a compensation and benefits system that will enhance attraction and retention of the best quality of employees (Microsoft n. p). The company also aims to have incentives that will differentiate it from its competitors in the industry who include firms like Oracle, Apple, Facebook, and Google. Microsoft prides itself on being a market leader in as far as the strength and comprehensiveness of compensation and benefits programs are concerned.

Microsoft's compensation or remuneration package comprises of a very competitive pay package coupled with stock awards and bonuses, which fall under benefits. With regard to health coverage, the company's health benefits plan is quite comprehensive. This medical plan offers several aspects of coverage, which include medical, vision, dental, disability, and prescription drugs cover. A unique feature of Microsoft's health benefits program is its Smoking Cessation program offered to its employees. This program serves a dual role of promoting a healthier working environment as well as healthier employees (Microsoft n. p). Another benefit includes a paid up membership to a health club for all its employees. Under this program, buses run routes to transport employees between the gym and the campus. The company offers all its employees the option of a 401(k) Plan, and an Employee Stock Purchase Plan (ESPP) for which employees have immediate eligibility. Microsoft matches the contributions made by the employees to the

401 (k) from the \$0. 5 up to the \$1. 00 to 6% with each plan being fully vested. Another benefit offered by Microsoft relates to Adoption Assistance, where the firm reimburses any expenses relating to adoption to a tune of up to \$5, 000 for each child (Microsoft n. p). Another benefit offered is a discount for childcare plus family backup care during closure of schools or childcare centers for illness or another reason. Tuition assistance is another benefit offered, and this applies to business-related expenses incurred on tuition.

In addition to these common benefits, Microsoft has some additional rewards too. One of these unique perquisites is soft drinks offered in the break rooms. Another of the benefits is well-stocked cafeterias plus other on-site convenience services like post offices, delivery of meals and dry-cleaning services.

One of these changes came about in 2003, with the introduction of Stock Awards. As part of employee compensation under this scheme, employees are awarded actual shares in the company as opposed to the option to buy them. Stock awards serve as an incentive not only financially, but also by creating a sense of loyalty and ownership in employees. Hence, the company was able to attract and retain the best of the best. Microsoft was one of the first big companies to adopt this model.

In the year 2004, Microsoft suffered substantial reductions in revenue. Hence, the company had to cut down on costs to boost its profit margin. To ensure the company's success in the long term and align its benefits with those offered by its competitors, Microsoft had to trim the benefits package offered to employees (Taub n. p). Whereas the health-plan was altered only

slightly, any employee that chose a brand-name prescription drug in place of an FDA-approved generic one would incur a \$40 charge for co-payment.

Where no approved generic drug existed, the company covered the full cost.

Another change the company made was to cut the discount offered to employees for stock purchases from 15 to 10 percent (Taub n. p). However, the employees were now allowed to purchase stock four times in a year up from two times.

Microsoft was aware that many employees considered its earlier system of commitment and contribution ranking unpredictable and very complex and hence, a change was necessary. In 2005, the then CEO, Steve Ballmer, decided to announce a new system, which would show employees the link between their performance and the compensation they got. The new system would emphasize more on cash rewards while reducing stock awards. A 1-5 scoring system was introduced with a review of one considered desirable and a five considered undesirable. The compensation earned was now dependent on this rating.

Satya Nadella took over as the company's CEO in 2014 after being promoted from his previous position as division head of the company's cloud computing section. Nadella, the company's third CEO after the founder Bill Gates and Ballmer receives a compensation package 80% more than his previous pay (Strauss n. p). Nadella's compensation package offers a perfect illustration of Microsoft's compensation policy. The package features all the elements of the company's compensation package.

First, it includes a cash reward in the form of an annual salary of \$1.2 million. In addition to this cash payment, Nadella has a stock award valued

at \$13. 2 million. Nadella also qualifies for a bonus offered yearly, which is as much as \$3. 6 billion (Strauss n. p). Hence, Nadella's compensation package is among the most lucrative on offer for any CEO in the United States. This package is indicative of Microsoft's competitive remuneration offers and the generosity of its pay packages.

In conclusion, it is evident that Microsoft's compensation and benefits package is among the most competitive in the industry. Microsoft offers such an attractive package to its employees to ensure that it attracts and retains only the best. The company is aware that it operates in an industry characterized by stiff competition from equally large competitors. Hence, to retain its position as the market leader, it must always offer a package that is more competitive than that offered by its rivals. Microsoft has managed to achieve this, especially with its healthcare package. This package is regarded as one of the best, and it attracts praise from a majority of the company's employees.

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