

# Business research report about compensation strategies

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Business Research Report Compensation Strategies Presented to:

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Executive Summary This report examines 3 different compensation systems that our company can develop and enforce within our company for our employees.

Compensation is the most important and rewarding factor for employees, so a thorough and thoughtful approach should be taken as we think about changing the way in which this company rewards it's employees for the work they do for us each and every day. Performance based pay is a widely popular approach to compensation where the employers pays the employee based on their job performance. This gives the employees control of how much they make and inspires them to do their best work on a daily basis to maximize their own income.

With high productivity and quality performance employers are able to become more competitive and increase profit. Salary is an easy and constant way of paying the employees of this company. This is a set wage that employees will earn based on their job description. This wage will not change based on their merit or seniority. The stability of this compensation system appeals to employees as they always are aware of how income they will receive. But it also has very little room for growth and opportunity for the employees. The last form of compensation we can consider for our employees as a company is longevity pay.

This is compensation based on the employee's seniority, length of service, or tenure. This can be in the form of annual bonuses on their employment anniversary date, or monthly amounts added to their checks. This provides the employees with motivation to continuing their career and employment with the company. My final recommendation for the company is to develop our own performance based pay system for our employees. This will create highly productive and motivated employees eager to perform their job duties to the best of their abilities to maximize their own personal income.

This in turn will create more profitability for our company. Also, creating goals for our employees will create awareness of our company's goal as a whole organization and will create a more united workforce as we all work together for the same goal. A company with driven employees producing quality work can only be successful. Introduction I, Jamie Yocom, a Human Resource Assistant have been given the task of researching different compensation strategies for our company. In this report I will be reporting to the Human Resource Director my research findings on 3 different compensation methods: Salary, Performance-Based Pay, and Longevity Pay. I will compare and contrast these methods in order for management to determine which method is most appropriate for us to adopt for our 120 employees. Since compensation is the biggest benefit we provide to our employees, this topic deserves thorough research and thought as we examine and promote a new way of rewarding our employees for their hard work and dedication to the quality and performance we expect from each and every one of them.

After reading this report, management will have a greater understanding of each of these 3 methods and will be able to begin the process of deciding which one will be implemented in the near future. I will introduce using the compensation strategy of salary, which is a set amount an employee receives annually for the work they do no matter the quality of their work, or the hours they put in. Performance Based Pay is another method we can use in which employees are paid based on the quality of their performance and production.

Longevity Pay is the final method I will propose of our use, it involves wage adjustments for each employee based on the length of service each year. Compensation policies can be very unique and vary from organization to organization. An understanding of the different methods is necessary in order to be profitable and to inspire quality production. Research Findings From extensive research, using a variety of relevant and credible resources, there are three compensation systems that should be considered: Performance Based Pay Salary Longevity Pay Performance Based Pay A Performance-Based Pay system is an increasingly popular compensation method used by organizations to increase productivity. A goal for all companies is to try and remain competitive and control costs, this is a reason for performance-based pay systems becoming more popular. This type of system attempts to link compensation to performance. (Gena Richter, 2002) These systems are directly tied to organization or individual performance and are most effective when based on objective measures of quantity or quality of performance.

If we wish to have a direct impact on work motivation, it must be linked directly to the performance of desired behaviors. In order for to put this type of system into place, performance evaluations must be conducted regularly , as well as training and development for those with performance that isn't quite up to par. These additional resources will be necessary for our organization if we implement a performance based pay system. (William B. Bernathy, Ph. D. , 2004) Pay for performance compensation plans are widely considered to be a “ win-win” for employees as well as their employers.

When pay for performance wages are properly put in place at a company, everyone shares a common goal of doing what is best for the organization. In a system where employees earn higher compensation if their team, department, or company reaches specified targets, it becomes a motivational tactic to get employees to work harder and benefit the company while at the same time providing an added benefit for them. Instilling a performance based pay system in a company will allow you to get the most out of all of your employees and their performance and production. (Martinovic, 2012) Reasonable, measurable goals and performance incentives should be the basis of compensation for all employees, at all levels, no matter what their job description or title is. Objections should be made clear and achievable based on their job description and quantifiable to provide each employee with incentives for good and productive performance. (Pinto, 2003) From a business perspective, in order to remain competitive in the current labor market, it would be smart to tie pay to performance so that employees' output is accelerated.

As a result, this type of system will streamline operations in an effort to control cost and remain competitive. “ A well-constructed performance-based pay system can be viewed as an interactive process that translates the overall strategic initiatives into daily actions, with quantitative and attainable rewards provided to employees who accomplish their goals. ” (Paul R. Dorf, 2001) Analysis: It is clear that there are many benefits to this type of compensation plan. The most evident is creating a more motivated and united workforce, as their one and only goal will be quality production.

If our employees can equate their performance on the job with their paycheck, they will become a more focused, hardworking, and determined asset to our company. They will take ownership of their daily duties and tasks and hopefully become more efficient at what they do, which in turn, will be more and more profitable for the company. Different reasons to utilize this type of performance based system include: a way to retain and recognize top performers, align labor costs with productivity, and reinforce company objectives.

Employees will also develop a more clear understanding of the overall business objectives. 1 Salary The general definition in federal law for salary is a regularly paid amount of money, constituting all or part of an employee's wages, paid on a weekly or less frequent basis that is not subject to reduction due to the quality or quantity of work performed. (“ Department of Workforce,”) Employers are responsible for paying their employees for the work that they perform; this can include using salary as a method to pay your employees.

Employees that are salaried will be paid differently than those that are paid hourly. Hourly employees are paid based on the amount of hours worked and salaried employees are paid a set wage. (Natalie Grace, 2012) Salary is a fixed amount of compensation or money that is paid to an employee by their employer in return for work performed. Unlike performance based, that set wage will be the same no matter what. Salary is usually paid in bi-weekly paychecks to each professional employee. Most frequently an employee's salary is paid in 26 even paychecks over the course of a calendar year.

A salaried employee has no need to track hours worked because they are not paid overtime. An employee who is paid salary is expected to complete a whole job in return for their compensation. This is what makes salary different from hourly compensation or performance based pay. Their pay will be the same no matter the hours worked or the quality of their performance. (Heathfield, 2009) Analysis: Salary is the most stable and constant compensation system introduced in this report. It involves no changes or updates throughout the year.

Employees will always be able to know what their pay will be. They will not be expected to meet quotas or goals in order to make their money. Employees who are salaried have a sense of stability when they think about their compensation from their employer, as stated above; their production and performance will not change their pay. This will frequently be the least complex form of compensation but it will not motivate or inspire the workforce to be more productive or efficient in their daily job responsibilities.

Since their pay will always be the same, they will develop a mindset that they do not have to strive to do better or be better, since their pay does not depend on job performance.

## 2 Longevity Pay

This type of compensation system is a contractual agreement where the employee will receive compensation based on their seniority. The manner in which this type of compensation is paid out can vary widely. Each organization will have a policy that will describe the details of the longevity pay plan. These policies include the amount to be paid, the percentage of increase, and on what schedule payments will be made.

This type of payment appears to the employees as a way of giving due compensation to workers who have made a significant contribution to the organization. ("wisegeek.com") Longevity-pay is a wage adjustment that the employers base on the length of service, seniority or employee's tenure with the company. The amount of annual longevity-pay is frequently a percentage of the employee's annual rate of pay on the employee's anniversary date. ("uslegal.com." 2002) This type of payment is typically given to employees to recognize and reward the length of their tenures.

These payments can also be given when employees reach significant employment anniversaries. These longevity payments differ from merit based pay in that a longevity-payment is based only on length of service, while a merit based payment is designed to recognize superior job performance and production. These are implemented by companies to help retain and attract top talent. Human Resource Managers think of this as a way to reward loyalty and to inspire potential employees to understand that the



company places value on employee experience and loyalty. (Willsey, 2002)

Analysis:

From an employee's point of view, longevity pay means that the company you work for values your time and effort you put into your job. The point of having these longevity-payments and rewards is to retain our top and loyal performers. Rewarding our employees for their time served would be a substantial reason for employees to continue their career with this company.

Recommendations Based on the above research and information on 3 different types of compensation, this is my recommendation for our company. Recommendation One: Develop and enforce a performance based pay system to motivate and inspire our employees to produce to the best of their abilities. Conclusion In conclusion, after thorough research and examination of compensation systems I recommend a performance based pay system for our company. This type of pay system will instill a clear understanding in the employees of our company's purpose. By connecting their compensation with their performance on the job will inspire them to be more thorough, efficient. And they will learn to be more productive employees, which in turn will be more profitable for our company.

With employees that are driven by quality production this company should only expect growth and success. We can increase productivity and remain competitive with other companies in our market by developing this type of compensation system. 1 References Abernathy, William B. , Ph. D. (2004). debwagner. info. Retrieved from [http://debwagner.info/hpttoolkit/pfp\\_hpt.htm](http://debwagner.info/hpttoolkit/pfp_hpt.htm) Department of workforce development. (n. d. ). Retrieved from

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