

Sample research paper on manner in which performance based pay is influenced by b...

[Business](#), [Strategy](#)



Business Strategy Affecting the Total Compensation System

Abstract

Since employee management has become a major challenge for business these days, it is equally important to attract and retain the key talent. To increase employee productivity and target achievement, organizations of today align their compensation packages to business strategies. This paper, in such regard, is written to identify manner in which business strategy influences the total compensation system. More emphasis is placed on pay-for-performance model. Such an analysis is performed considering some variables such as consideration to save fixed costs, life cycle stage, business diversification, focus on results and customer orientation etc. the analysis also considers the level of employment in an economy and its likely impact on the labor market as well as availability of the human capital.

Business Strategy Affecting the Total Compensation System

Introduction

Decades ago, businesses were in practice to reward compensation packages to employees on the basis of a fixed salary accompanied by annual increases in pay. Such a compensation model was usually based on the number of years an employee serves in an organization plus the number of hours worked every week/monthly . In contrast to this, now-a-days, organizations tend to formulate revised employment contracts with their employees where personnel are rewarded on the basis of their annual performance rather than years of service and number of hours worked .

Under this new system where employees receive pay-for-performance,

personnel compensation is linked directly to the achievement of certain management objectives and specific business strategies as well as corporate goals. This requires businesses to deliver competitive employment rewards to their employees to get exceptional performance in return. However, in case of poor performance, the pay structure was lowered in case of benefits because businesses of today pursue strategies to match controllable and measurable performance targets to corporate objectives.

When employees receive contributions based on the pay-for-performance model, their salary comprises of fixed base salary followed by a variable component that could either be a bonus (extra cash rewarded for extraordinary achievements), profit sharing (based on certain performance accomplishment) and company equity in the form of employee stock option plan (ESOP).

Business Strategy Affecting Pay-for-Performance Compensation System

Before developing any business strategy, executives begin the process by performing analysis of environmental conditions and industry in which their organization operates followed by assessment of existing players' strengths and weaknesses. All this is done to gain a competitive edge in the market by differentiating itself. It is this corporate goal based on which marketing, supply chain and other business strategies are based. To improve the business performance continuously, managers tend to align the compensation package of employees to the performance they post on a weekly, monthly as well as annual basis.

Whatever business strategy and organization pursues to gain competitive advantage in its marketplace, it surely has a direct influence on the compensation package being rewarded to its employees. For example, organizations that are looking forward to attain the competitive edge through cost efficiency reward their personnel with fixed base salary and increasing portion of variable pay. This way, these businesses are able to keep their fixed costs of human resources under control while aligning major portion of variable pay structure to performance for achievement of corporate objectives.

Diversification of Business Portfolio and Level of Employment

In a similar manner, compensation system of an organization undergoes a dramatic change when the business strategy changes as per the modifications to the market cycle. Firms wanting to highly diversify their business portfolio tend to link compensation packages to employee performance than those businesses whose primary strategy is to diversify their product and service portfolio a little.

In addition to these factors, when a business is pursuing a strategy to lower its labor costs in the market, this also has a significant impact on the total compensation system, particularly, the pay-for-performance structure. In times of increased unemployment in an economy, the labor supply also increases since many people are available to work and settle for lower salaries as well as wages. Organizations may follow a business strategy to offer a fixed salary package to their employees despite the pay level is low. In contrast to this, when employment in an economy increases dramatically,

few people are available to do the same work but at higher salaries and wages. In such an event, business may follow a strategy to lower their fixed labor costs by offering employees pay-for performance compensation packages. Here, employees receive fixed pay plus commission based on variable structure. In other words, in times of increased rate of employment, organizations link the compensation system to employees' performance for lowering their fixed costs of human resources to retain qualified personnel .

Stage in the Life Cycle

Since alignment of total compensation system to a business strategy is a difficult task, human resource managers employ numerous tactics to motivate employees to achieve the corporate objective. This is true in case of a young organization that wishes to grow in its specific market.

Companies that are young in their product life cycle or are new to the market, they may pursue a business strategy to attain more market share by attracting new customer and retaining more of them. In such a case, those businesses may reward their personnel by linking their pay structure to their overall performance for developing more customer base.

Comparatively, companies that are mature in their life cycle may look for a better balance between profit generation and business growth. They may pursue a business strategy to link contribution package of senior managers to their performance and may reward their middle level employees with a fixed payment. However, those companies that rely heavily on attracting world-class customer base, as their core business strategy, may pay their

employees on the basis of pay-for-performance model regardless of any stage in the life cycle .

Result Orientation and Pay Packages

There is another way business strategies influence total compensation systems. Companies of today pay their employees for higher work productivity and achievement of corporate results. Employees may work hard but fail to achieve their targets. In such an event, a business strategy to increase employee performance at work and achievement of corporate goals, organizations may pay their employees based on their performance by offering fixed salary plus commission. With a business strategy to distinguish employees' average and outstanding performance, businesses may pay their employees through performance based pay system.

Conclusion

After carefully analyzing the influence of business strategy over the total compensation system, like pay-for-performance model, it is observed that this system is highly dependent on the industry, stage in the life cycle, cost saving strategy, result orientation and attraction of more customer base for growth etc. pay-for-performance salary structure also depends upon the business diversification of an organization. Highly diversified, young and result as well as customer oriented businesses pay fixed plus variable rewards to their employees depending on their overall performance to increase productivity and save more on fixed labor costs.

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