

What shapes external competitiveness (compensation strategy)



What shapes external competitiveness? Introduction: First of all, it is necessary to define and describe external competitiveness in the context of employee wage scales. In real terms, it means the relative paying capacity of employers vis-à-vis the wages disbursed in other organizations. Thus, it could be also viewed as “ an org. s pay relative to that of other orgs.”

(Define competitiveness, n. d, para. 2).

What shapes external competitiveness?

That being said, it is now necessary to consider what underpins external competitiveness.

In simple terms, external competitiveness is a combination of the following factors:

1. Interplay of competition in its labor markets
2. Forces of internecine rivalry in its product markets and
3. Finally, organizational issues and elements concerning with the work force.

It is now necessary to consider each of these factors separately and in detail:

There are certain presumptions regarding labor markets and they are as follows:

1. Employees would try to maximize their profits
2. The business is operating in a competitive and vying market with market share
3. The pay rates, to a very large extent, determine the cost of human resourcing
4. Human resourcing could be alternated and is not rigidly bound.

Next, coming to aspects in the product market, it could be believed as <https://assignbuster.com/what-shapes-external-competitiveness-compensation-strategy/>

follows:

1. In perfectly competitive markets, wherein firms could come and go at will, characterized by homogeneous goods, services and utilities, the impact of market forces combine would, to a very large extent, determine its wage paying capacity.

Under these conditions, each firm or producer tries to gain market honours, and

such interactions determine the ideal wage structure.

2. The degree of competitiveness being intense, increases in product prices would correspond to lowering of revenues, if undertaken. Thus most judicious producers would adopt a wait-and -watch attitude rather than take up indiscreet steps of hiking prices to serve short-term monetary interests

3. However, producers would hike their labor inputs as long as the Marginal Revenues (MR) exceed Marginal costs (MC).

Finally, coming to organizational structure, it is believed that whether the business is labour or capital intensive, technology driven or market driven- all contribute towards the kind of wage or compensation strategy that would be enforced. As a usual practice, firms that are reputed, technology driven and well entrenched pay higher than start ups and growing business houses.

Compensation strategy:

In the sphere of external competitiveness, that is wage bargaining, there are several factors which make their mark. The “ comparing of compensation rates of one organization with that of its competitors” is what determines compensation strategy.

Besides, it could reasonably be seen that the interplay of several factors could determine

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The relevant compensation strategy that needs to be pursued. It is believed that “ the organization’s plan for how compensation decisions on the types and amount of pay are made, based on the interests of the employees and keeping with the organization’s mission and competitive position in the market.” (Compensation and internal & external equity, 2008, para. 3).

Conclusion:

Besides this, the level at which compensation is payable to staff, executive or top management level is also important as is the kind of individual contributions made by employees at these levels. Quality and quantity of performance, work commitment, loyalty for the cause of the organization and the ability to work harmoniously in a

Multi-ethnic and cosmopolitan work environment are also major determinants of compensation strategy which, obviously, is decided at the higher management levels.

Reference List

Compensation and internal & external equity. (2008). One step Compensation Framework. Retrieved June 17, 2010, from [http://www.compensationframework.org/index.](http://www.compensationframework.org/index.php/guide/compensation_and_internal_external_equity/)

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