

# Compensation management explain

[Design](#)



Explain the need for designing of Compensation Policy. What is the importance of compensation system in business organization? By Vandal Introduction organizations should establish and communicate clear principles by which employees are paid. At a minimum, organizations need to ensure that their compensation policy adheres to employment legislation. Policy guidelines should reflect the thinking, values, and basic strategies of the company, and they must be set consciously and thoughtfully by top management.

Before setting compensation policies, management should address some basic policy questions:; How will jobs be valued (by content, skills required, etc.)? ; How should pay compare to similar positions in relevant markets? ; What is the policy with respect to pay for performance? ; Is there a commitment to pay in relation to inflation, and if so, what is that commitment? ; Will all persons and jobs be treated in the same way regarding compensation policies, or will there be differentiation according to title, tenure, or some other criteria? What will be the policy regarding employee contributions to company sponsored health and retirement benefits? ; What will be the policy on communicating the compensation program? Will the company have an "open" system? ; What federal and state laws apply to delivery of compensation and benefit programs, and how will these be implemented? Additionally, best practice organizations adopt compensation principles that ensure fairness and equity in pay rates and salary administration, and transparency in compensation practices.

Texan effective compensation policy is based on objective and up-to-date job descriptions, effective job evaluation and performance management, and

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relevant administration. Salary administration encompasses establishing: salary ranges; decision-making criteria for salary increases; and time frames for salary review. ; Establishing Salary Reinvestigation's need to determine where they want to pay specific Jobs/Job categories in relation to the employment market (industry and regional compensation norms).

Based on availability of qualified employees, funds available for salaries, ability to offer non-monetary attractors (such as vacation, benefits or alternative work arrangements) organizations make a choice to pay at the low end of the market, in the middle, or at the high end. Organizations should conduct periodic reviews of their salary ranges to ensure that they are in-line with the current employment market and their targeted position within that market. While large organizations may conduct their own salary benchmarking on a yearly or on-going basis, smaller organizations can purchase salary surveys when needed.

Additionally, organizations need to determine the number of salary ranges that are appropriate for their organization. Organizations normally have a number of Jobs within one salary range - for example, an organization may establish one salary range for all administrative Jobs, one range for all specialist Jobs, and one range for all director Jobs. Consideration must also be given to the increase from one range to the next, and whether or not the ranges should overlap. Once again, market comparison is a useful tool in making these policy decisions. Placement on Salary Reimplementation policies will often establish criteria for employee placement on the salary range. Typical criteria include years of experience, years with the organization or in the position, and specific skill sets related to the position.

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Consideration should be given to how the organization wants to position new hires on the salary range relative to current employees. ; Criteria for Salary Increases order to ensure fair and equitable compensation practices, organizations need to clearly establish, communicate and apply decision-making criteria for salary increases.

Decisions on salary increases can be based on a number of factors, such as seniority, cost of living increases, or performance (merit) based. The trend in compensation is toward performance-based pay - organizations hosing to adopt performance based pay need to ensure that they have a clear performance management policy that is applied equitably throughout the organization. Organizations may also implement re-renewable bonuses instead of salary increases. This compensation strategy serves to keep salaries and wages constant over time, however, may result in compensation below industry standards.

A re-renewable bonus can be a useful tool to provide salary increases for employees who are at the top of the grid, without impacting the established salary range. Salary Review Denationalizations need to establish regular time frames for salary review. Typically salary reviews are conducted annually, often in conjunction with performance reviews. (Best practice organizations hold separate meetings with employees for performance appraisal and salary review. ); Bonus and Incentive Bonuses and incentive pay are not typical components of voluntary sector compensation policies.

However, bonus and incentive pay are considered best practice in other sectors and can be an effective tools in motivating and retaining top Allen,

particularly at the director and executive director levels. As with base salary and salary increases, decision-making criteria should be established and communicated for awarding bonuses and incentive pay. Typically this type of compensation is tied to specific performance results against pre-set goals and objectives at the individual and organizational level.

Results that are measured can be quantitative and qualitative, such as quality of service to clients, number of clients served, effectiveness of programs, etc. When establishing bonus schemes, organizations often apply a balanced scorecard approach: looking at financial, human resources and customer results. In the voluntary sector this balanced scorecard approach could translate into examining results of funding goals and objectives, budget management, employee and volunteer recruitment and retention targets, and program development and client service achievements.

Importance of Compensation Systems . A good compensation system can lead to cordial relationship between the employee and the employer as the former is satisfied with the compensation and the latter is happy because the staff is motivated and achieving their goals. 2. The system brings out the best in every employee as there are rewards for loyalty, commitment, experience, risk taking etc. This gives them a boost and encourages them to perform better.

The system helps in controlling costs and ensures that the workers are neither underpaid nor overpaid, as the pay is equal to the worth of the job. 4. A fair system helps in retaining the best employees as it is providing them with adequate compensation and give extra benefits to those who are

exceptionally good. A good system bring in stability in the organization by minimizing labor remover thus providing room for expansions. A sound compensation system plays a vital role in the company's success and stability.

Like the pay package of the company is directly linked with how the company is doing. 7. A good compensation system helps the organization to keep pace with the changing environment because it can cope with the fluctuation in the wage levels in the industry. A healthy system promotes quality of work life amongst the workers because they are satisfied in what they are getting. Congregationalism and refining the company's compensation policies are essential susceptibilities of top management and compensation professionals.