Compensation and Benefits

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Compensation

Compensating is the practice of providing monetary value to workers or employees of an organization in recognition and exchange for duties done. The duties must be agreed on for compensation to become legal. A formal agreement stipulates the limits and extents of the duties upon which the employee receives a monetary reward for his work (Bolton, 2015). Compensation, however, can also be as a reward to workers for the injuries of the damages they incur on the line of duty. The compensation is the reward the employee receive for their work commonly known as salary or wage. In both instances, the employee receives sums as agreed upon prior to commencement of the task. Compensation plays some major roles in the firm such as job satisfaction and promotion. As employees prove more worthwhile to the organization, they enjoy better compensation as a reward for their loyalty and hard work.

Compensation philosophy

A compensation philosophy is a statement from the organization stating the organization's positions on matters compensation to their employees. The philosophy outlines the reason for the organization's compensation structure that creates consistency for the organization. Using the compensation philosophy, employees can get to know how to get their pay and any changes in the compensation structure of the firm. The philosophy combines different factors such as the organization's financial position, the industry the business is operating in, the size of the firm, and business objectives (Kitagawa, 2014). These factors and other environmental factors combine to bring effectively out a compensation policy that reflects the real picture of the organization. It aims to achieve the operative objectives and competitive outlook of the firm. A compensation policy also aims to attract prospective workers by remaining as attractive as possible to potential employees. A compensation policy elaborates how the organization is planning to pay and reward loyalty thus helps retain talented employees and create motivation. A

Critical components of a compensation strategy

A compensation strategy is at the heart of the human resource docket. The Human Resource department determines the wages of the employees and in such determine the compensation policy. In such the compensation policy should have the following key components

1. Statement of the objectives

The statement should be very clear to every employee and potential employee. The statement elaborates how the reward program aims at achieving the objectives of the firm.

1. Compensation reference points

The policy should describe the comparative group or background from which policy borrows. A good reference would be the industry's policy, the trade union's agreement or the general company's rules (Carroll, 2014).

1. Equity and consistency

The policy should exhibit fairness in the distribution of compensation among the employees at different levels. Any planned promotion and diversion should be clear to create consistency and trust among the workers.

1. Performance measures

A compensation plan should explain the performance evaluation criteria to determine the compensation as suggested in the policy. The rewards should be clearly defined, and the level of the reward stated. The reward should also outline the level to which it’s expected to impact on the employees work (CHENG, 2015).

An example of an effective compensation practice, or policy.

Organizations use different approaches to compensation. Some of the approaches include

1. Employee incentives

Employee incentive is a policy practiced by firms aimed at rewarding exception service and work delivery. Incentives come in as tips to employees who go the extra mile on top of normal pay. A good example is an incentive for exceptional sales performance (Chen, 2014).

1. Merit Increases

Most companies rely on the information provided by the supervisors and managers to conduct performance appraisals. Employees with good reports from the supervisors receive merit based on the recommendation provided. The merit may translate to an increase in the salary of the employee by a given percentage as provided for by the organization.

References

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