

The Effective Compensation System in Organizations

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Abstract: *Systems of compensation are a fundamental part of the relationships established by any organizations with their staff. For quite some time researchers have perceived systems of payments as an efficient way of bringing market like labor exchanges in any organization. This view suggests that only economic considerations matter for getting to know how systems of compensations effect organizations as well as their employees. Advances on researches in organizations, especially the ones concerned with issues of fairness and justice indicate that understanding fully the outcomes of compensation systems require someone to examine their psychological, social and moral effects.*

Keywords: *Compensation, Justice, Motivation*

I. Introduction

According to Milkovich and Newman (2005), the issue of compensation has once and again been seen as a vital element in typically any relationship of employment. Earlier efforts of studying normally got domination by views of economy of the systems of compensation. The insidious view, at the time was that most favorable system of compensation, had to meet the wage of a fair day for any work done in day. The relations of employment were seen in greater part like market transactions for labor which had been brought in the organization's central part. In regard to this view the aim of managers and other individuals designing systems of payments is to ensure that the payments reflect the value in terms of economy that the work contributed to the organization. Since then scholars of management have developed a greater understanding of the meaning of fairness to the workers and the perception, that fairness has an effect on their conduct as well as their attitudes (Cropanzano & Folger, 1998). It is generally understood that the fairness meaning for employees goes well past issues of economy. It also incorporates concerns of work relations, trust as well as ethics.

II. Compensation System for Organization Employees

It is commonly known that systems of compensation are much more than simple ways to bring market transactions for labor in a firm. Compensation systems for sure can assist in creating economic exchanges that are effective i.e. given by the worker for the remuneration of finances offered by the firm that employs. In addition, a systems of compensation also play essential roles both socially and symbolically in any firm and by these roles, the systems of payment affect several vital outcomes like the nature of relationships of work, commitment of employees as well as performance. Research, conducted on organizations that perform well, suggests strongly that good companies are the ones creating and nurturing relational exchanges based on mutuality, respect, care and trust (Rousseau, 1995). It is said that great people would like to work in areas where they can actually utilize their talents and being treated with trust, dignity in addition to been respected and they can be also engaged in the organization's culture and values. Given the essential role played by compensation in relationships of employment, it is as well likely that it plays an essential part to shape the fact that people have the feeling that individuals are treated with trust dignity respect and if they have the belief that the organization's culture and values are creditable of their whole commitment and highest hard work.

III. The Performance Appraisal Systems in the Organization

Research on justice in an organization has been specifically essential in getting to understand the non-economic effects of the systems of compensation (Folger & Cropanzano, 2001). The research has portrayed how issues of fairness is an essential part in the employment relationships' fabric. In addition it leads to creation of basis for comprehending how the way fairness may be an integral element of a compensation system that is designed well. At a level the system of compensation as seen to be fair on meeting the principle of paying fairly for work that is done fairly. Fairness here implies to allocating of the pay. These concerns of distributive justice are perceived to be essential components when workers are evaluating fairness of their system of compensation. For instance, if someone performs work that is twice that of another colleague principles of distributive justice argues that that individual ought to be given more compensation actually twice the payment. Distributive justice evaluations in turn have influence on attitudes like satisfaction of pay, job satisfaction and the intentions of employees in staying or leaving the organization (Milkovich & Newman, 2005).

There also exist other essential fairness standards influencing the attitudes of employees and their conduct. The employees also have the concern on the processes' fairness sued in setting and administering compensation. Research has shown that the procedural fairness concerns are of great concern to workers than the concerns of distributive justice (Brockner et al, 1997). The research shows that the way of compensation allocation may be of more essence to employees than the compensation they get. Procedures that are fair, consistent, accurate, free from bias, ethical, participative and correctable. Judgments of procedural fairness seem to have a great effect on if the staff perceive their managers as well as the organization to be trustworthy, if they feel that their organization values attach value to them as a person and if they have the belief that their exchange is just an economic transaction or a relationship that is based on trust and involving mutuality.

For example, it is common knowledge that individuals will accept and also get satisfaction if their pay decreases but only if the decrements are determined in a manner that is just (Turillo et al, 2002). Individuals utilize their perceptions of the procedural justice in determining if they have standing, value, and dignity in an organization. The staff would like to understand if as people they are valued but not just as means to an end. Compensation practices that are fair are likely to indicate that the organization cares for its employees and intends to treat them with care and concern. Compensation that is fair fosters mutual trust between the organization and the employees which is a vital element of work relationships of high performance (Pfeffer, 2000)

IV. Employee Compensation: Motivation, Equity and Benefits

Many employees have been comparing different companies not only on salary basis but also in terms of benefits. Some of the individual are mostly interested on the benefits they obtain instead of the income due to the needs of the family or their lifestyle aspects, like coverage on health care and financial planning. If a person owns a business, the compensation of his employees and the package of benefits may comprise of the reason an individual does or does not accept the offer of your job. In making your company to be more competitive and also attractive to candidates who are highly qualified, one ought to offer benefits which are more desirable and make this an essential component in the process of planning, for instance if one have to hire more they should retain the topmost employees. (Harris, 1996)

According to Eisenhower, motivation is the art of getting people to do what you want them to do because they want to it. Rewards whether they are in terms of money or non-monetary can be utilized as significant tools for increasing the employees' motivation. Rewards are a good step to help in improving the performance of an employee since they act as boosters to his morale; they act in increasing the frequency of an action the employee performs to an organization.

The moivation or desire for the performance of any activity is necessary for performing any activity. Motivation can also be defined as an internal response or condition that boosts the behavior of an individual in giving it a direction, it is also a force or a desire that offers invigorates the person's behavior who is oriented to a certain goal. (Harris, 1996)

The performance of any organization depends on the employees working for it, so as to get better or quality output; rewards contribute significantly in this part, therefore it is essential for the managers of organizations to make programs for rewards and compensation which are effective and attractive so as to motivate their employees.

In any organization the managers always look for ways that can lead to creation of motivation among the employees at their place of work so as to make them contribute to the organizational goals maximally. The levels of satisfaction or dissatisfaction are directly proportional to the good or bad performance of an employee. Dissatisfaction of an employee may result to performance that is poor. Therefore it is the responsibility of the human resource department in a firm to ensure that the employees are not dissatisfied with the work they do. Therefore the management in the human resource department ought to take measures of motivating employees otherwise the employees will not perform as they are expected to perform. For example the service providing companies face it a challenge in motivating their employees so as to satisfy their clients. The major task of the human resource department is creation of strategies that motivate the employees. (Cropanzano, & Greenberg, 2001). The performance of employees can be improved when employees believe that what they are paid reflects their contribution level to the organization. To attain this, an organization ought to establish a range of pay for the various grades first; it then should place the different employees within the ranges based on their contribution to the organization.

A range of pay specifies the minimum and maximum pay rates for the entire range of jobs in a grade. When establishing ranges of pay, many employees set the rates of market at the range midpoint. Then the spread from the mid-point usually changes and it becomes larger as one goes to a pay grade that is higher. Varied organizations establish a range of spread of 10-25 percent for the office and production work, 35-60% for professional and lower – level management position and 60-120% for professionals and management positions that are at lower levels.

The mechanism to recognize the contributions of employees vary for new and extant employee. The contributions new employees make are recognized by varying levels of starting pay they get. Fresh employees are usually paid at the minimum rate unless their qualifications go beyond the minimum qualifications of the job. The ones which exceed the minimum qualifications are paid more since they are able to make contribution that is greater initially. The contributions of extant employees are usually recognized in the form of raises in pay, which are essentially granted on the basis of performance and seniority.

Compensation acts as a motivator to employees; if the employees are well compensated, they will perform up to the expectation of a company but if they are poorly compensated their performance will be low. A well-compensated employee will value what they do, they have the feeling that they are treated well and do what is expected of them out of their wish. In the contrary poorly compensated employees have little motivation to perform their tasks; they don't value their job and work as if they are being forced to work. This leads to low output from the employees which at large results to low productivity of an organization. When has wrong/poor compensation there may be disagreement amongst the employees due to the feeling that there is unfair treatment from the management. This in return leads to conflicts and the employees are not at ease to work with one another. (Deeprase, 1994)

In a typical case when an organization pays different amount of salary to employees doing the same type of job and who joined the company at the same time and with equal qualifications the employees will feel undermined and his/her performance is usually low.

Employees get compensation from a company in return for work they do. Though many individuals think that pay and compensation is the same, the fact is that compensation means more than the rewards in terms of money an employee gets from the employer. Compensation can be said to be all of financial returns and tangible services and benefits employees get as part of an employee relationship. The term financial returns imply the base salary of an individual as well as incentives both short term and long term. The tangible services and benefits are things like insurance, vacation that is paid, sick off, plans of pension and discounts to employees. (Deeprase, 1994)

The practices of compensation for any practice can have far reaching effects on its competitive advantage. As a way of developing competitive advantage in a global economy, the program of compensation of the organization should totally support the of the organization's strategic plans and actions. Costs of labor have great effect on the competitive advantage since they are a representative of a large portion of the operating budget of a company. By controlling these costs effectively, a firm can attain leadership in cost. The labor cost impact in the competitive advantage is specifically strong in service and other organizations that are labor intensive, where employers spend about 50 to 90 cents for every revenue they get on these costs. This implies that for every dollar of revenue generated, as much as 90 cents go to the employee benefits and pay. (Cropanzano, & Greenberg, 2001)

Pay and benefits are very vital to both new entrants in the job as well as existing employees. The compensation one gets from work done is a chief reason that most people seek employment. Compensation not only offers a means of sustenance and allows individuals in satisfying their materialistic as well as recreational needs but also serves as their ego or self-esteem needs. As a result if a compensation system of a firm is seen to be inadequate, potential candidates may not accept the offer employment in the company and current employees may consider leaving the company. With the aging of the workforce of U.S. and the imminent retirements the employers ought to be more concerned than ever before in retaining of skills and workers who are productive. In addition, if employees who are disgruntled chose to remain the organization may start to be unproductive for instance it can become less motivated, cooperative, or helpful.

V. Compensation Plan to Develop an Organization and Employees Performance

Essential fairness judgment categories are the ones which are referred to as interpersonal treatment particularly the treatment which people get by the individuals setting and carrying out policies and procedures of an organization. Mostly many people overlook the way decisions of compensation are actually delivered to employees in the literature of compensation. The evaluations of interpersonal fairness have a significant impact of if the employees have belief that their employment exchange is just a simple economic transaction or a relationship that has its basis on mutuality and trust. It of concern that no attentions of research have been directed on such a topic, despite the fact that evidence from anecdotes show that individuals have great concern on the interpersonal treatment accompanying decisions on their compensation as well as the rewards. Considering that extant research show that interactional justice concerns, just like the procedural fairness, matter more to the employees than the concerns of distributive justice. (Carnegie, 1987)

Systems of fairness compensation can also be vital signals of the moral, virtues, and values on which the organization operates. Values imply the conceptions on the ways of behaving that are desirable as well as desirable objectives or end states. Whether by means of conscious purpose or via the way core values affect the

choices of makers of decision, the compensation design is probable to reveal the principal ideology concerning the people and the employment that is held by the senior decision makers of an organization.

Pay systems that are fair are likely to be perceived as a reflection of the organization's noble values. The fairness does not only ensure that things are being done rightly but also makes sure that the things are right and that the causal explanations regarding the way things work are ethical and morally acceptable. For instance, research on the differences in the levels of pay in an organization shows that paying top performers more than the average performers makes sense if the differences do not become very huge. Both the individual and team performance are likely to be affected when this is done. An explanation for this effect is that individuals find the differences nit just unfair but also immoral.

Complains that CEO's salaries have become too high, unethical or wrong have been on an increase currently; statements of these natures indicate that the compensation fairness systems may have implications of deontology. Since systems of compensation are features that are dominant in the modern business and firms, a wider audience is showing concerns on the pay fairness practices. Individuals are seemingly expecting organizations to do engage in what is accepted and not what is feasible, practical or profitable. (Carnegie, 1987).

VI. Conclusion

It is urged that we should not forget either in the research work or practice that the perception of those who are less powerful may eventually be the most essential view in building organizations that are just and in doing research on the ways of building them. the individuals lacking power of distributing burdens as well as benefits and probably have had to bear more of the former and have enjoyed less of the latter ought not to be far from our practice, empirical inquiry, or theorizing. They look to the organization to be of virtue and honor their individual uniqueness and contributions, not just comparing them to others or evaluating their how worth they are. Systems of compensation are to a great extent always set and administered by members who are most powerful members in a firm – its highest makers of decision and imposed on those who are lowest in power also constituting the bulk of the human resources and relied on by the organization for its success and survival. People expect to get more from their organizations than the rationality of economy or meeting the minimal standards for the right conduct. Individuals have the aspirations of being part of organization that they perceive to be just, of virtue and with morals. (Meara, 2001).

Systems of compensation can be both powerful determinants and essential reflections of the values and ethics of organizations. Research has strongly shown that individuals in or out of any organization are concerned on matters of fairness in compensation even in the event that they lack direct implication for their own rewards and pay. Researches on compensation should engage in addressing these essential concerns.

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