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Compensation of Employee and Achievement of Organisational Goals

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Abstract

In today's competitive labour market, organizations need to fully leverage their human capital to sustain a competitive position. Among several factors, this requires an effective employee development process and implementing an effective compensation system. This paper is designed to discuss the impact of employee compensation on the achievement of organisational goals. The research design adopted for the study is expo facto. Literature is drawn largely from secondary sources. The Expectancy motivational theory proposed by Victor Vroom in 1964 forms the framework for discussion. The study concludes that high employee performance caused by an effective compensation system is needed for achieving organisational goals.

Keywords: *Compensation, Employee, Organisational Goals, and Expectancy Theory*

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Background to the study

In contemporary management style, compensation is said to be the "glue" that binds the employee and the employer together. Compensation is the employer's feedback for an employee's work. Gary (1984) adds that compensation of employees "refers to all forms of pay going to employees and arising from their employment" (cited in Miller, 2001). The phrase 'all forms of pay' in the definition does not include non-financial benefits, but all the direct and indirect financial compensations.

Compensation often includes an employee's basic salary and additional benefits, such as health insurance, retirement plans and performance bonuses. The compensation package a business offers to employees affects the organisational recruitment rate, retention rate and employee satisfaction. To be effective and well managed, the organisation must put in place compensation policies designed to help an organization maximize the returns on available talent. The ultimate goal is to reward the right people to the greatest extent for the most relevant reasons. To do this, Anam (2015) maintains that the organization requires a competent and sensitive human management team at least as much as it needs effective computer programme (Miller, 2001).

Schultz (2004) stated that, employees, in exchange of their work, generally expect some appreciation. Money is considered as the most important motivating factor for employees, though non-financial incentives work efficiently. The goals of compensation management are to design the lowest-cost pay structure that will attract, motivate and retain competent employees (Paauwe & Boon, 2009). Here the term compensation and salary of employee are one and same.

According to Barney (2005), employees compensated on an hourly basis are classified as *hourly employees,* or wage earners. Those whose compensation is computed on the basis of weekly, biweekly, or monthly pay periods are classified as *salaried employees.* Hourly employees are normally paid only for the time they work. Salaried employees, by contrast, are generally paid the same for each pay period, even though they occasionally may work more hours or fewer than the regular number of hours in a period. They also usually receive certain benefits not provided to hourly employees (Miller, 2001).

Bateman & Snell (2010) stated that compensation of employee is a system of rewards that can motivate the employees to perform. It used to foster values and culture. Well managed, it is an instrument that enables an organization to achieve its objectives and can significantly lead to employee retention. Retaining productive employees is critical to running a successful business. Retaining employees saves companies money in training costs and helps maintain an efficient and knowledgeable workforce.

For instance, health insurance and retirement packages are benefits that many employees desire from their employers. Bacal (2013) reiterated that organisations that offer these benefits have a much better chance of retaining workers than businesses that fail to offer benefit packages. Other ways to retain employees is through regular promotions, which not only provide employees with a higher base salary, but also the ability to take on more responsibilities in the workplace. This paper discusses the role of employee compensation on the achievement of organisational goals. Expo facto research design is used in the study; as such literature is drawn largely from secondary sources.

Statement of the problem

Achievement of objectives through employee satisfaction and retention, are an emerging challenge to most organizations. This is getting more difficult with emerging business competitions. Challenging work, interesting job assignments, equitable rewards, competent supervision, and rewarding careers are some of the factors required to address the challenges. The quality of work life and psychological rewards from employment are also very important (Oguonu, 2007). It is doubtful, however, whether most employees will continue working were it not for the money we earn. Employees desire compensation systems that they perceive as being fair and commensurate with their skills and expectations. Effective employee compensation therefore, is an important consideration in organizational performance because it provides employees with a tangible reward for their services, as well as a source of recognition and livelihood.

Literature and theoretical discourse

Employee Compensation

To be precise, compensation is what an employee gets in return to his contribution to the organization. The term compensation includes pay, incentives, and benefits offered by the employers for hiring the services of employees. Compensation is the total amount of the monetary and non-monetary pay provided to an employee by an employer in return for work performed as required (Seo, 2013). Essentially, it's a combination of employee's pay, vacation, bonuses, health insurance, and any other perk one may receive, as incentives.

Employee compensation includes all forms of pay and rewards received by employees for the performance of their jobs. Direct compensation encompasses employee wages and salaries, incentives, bonuses, and commissions. Indirect compensation comprises the many benefits supplied by employers, and nonfinancial compensation includes employee recognition programs, rewarding jobs, and flexible work hours to accommodate personal needs.

Economically, compensation of employees is a statistical term used in national accounts, balance of payments statistics and sometimes in corporate accounts as well. It refers to the total gross (pre-tax) wages paid by employers to employees for work done in an accounting period, such as a quarter or a year (Bacal, 2013). However, in reality, the aggregate includes more than just gross wages, at least in national accounts and balance of payments statistics. The reason is that in these accounts, Compensation of employees is also defined as "the total remuneration, in cash or in kind, payable by an enterprise to an employee in return for work done by the latter during the accounting period". It represents effectively a total labour cost to an employer, paid from the gross revenues or the capital of an enterprise.

Compensation of employees is accounted for on an accrual basis; i.e., it is measured by the value of the remuneration in cash or in kind which an employee becomes entitled to receive from an employer in respect of work done, during the relevant accounting period - whether paid in advance, simultaneously, or in arrears of the work itself. This contrasts with other inputs to production, which are to be valued at the point when they are actually used.

A compensation system has to be aligned to the mission, vision, business strategy and organizational structure of a company to design the compensation plan in an efficient way to achieve the goals. Businesses within the same organization will have different competitive conditions, acquire different business strategies, and design compensation strategies. A general compensation plan consists of three components: a base compensation, rewarding incentives, and indirect compensation in form of benefits. Again, the process must be well managed for it to achieve the intended outcome (Azelama & Ojeifo, 2007).

Anyadike (2013) disclosed that compensation management is one of the most challenging human resource areas because it contains many elements and has a far-reaching effect on the organisation's goals. The purpose of providing compensation is to attract, retain and motivate employees. There are two main types of financial compensation.

1. Direct financial compensation - the pay that a worker receives as wages, salaries, commissions and bonuses, and

2. Indirect financial compensation - all financial rewards that are not included in direct compensation (i.e. benefits).

An example of direct financial compensation is the money the worker receives as wages at the end of the week, or as a salary paid at the end of the month. Many organisations pay salaries straight into the employee's bank account. Indirect financial compensation is when the company contributes to an employee's housing subsidy or a pension plan (Azelama, 1995).

The objective of the compensation function is to create a system of rewards that is equitable to the employer and employee alike. The desired outcome is an employee who is attracted to the work and motivated to do a good job for the employer. Barney (1995) suggests that in compensation policy there are seven criteria for effectiveness. Compensation should be:

1. Adequate: Minimal governmental, union, and managerial levels should be met.

2. Equitable: Each person should be paid fairly, in line with his or her effort, abilities, and training.

3. Balanced: Pay, benefits, and other rewards should provide a reasonable total reward package.

4. Cost-effective: Pay should not be excessive, considering what the organization can afford to pay.

5. Secure: Pay should be enough to help an employee feel secure and aid him or her in satisfying basic needs.

6. Incentive-providing: Pay should motivate effective and productive work.

7. Acceptable to the employee: The employee should understand the pay system and feel it is a reasonable system for the enterprise and himself or herself.

Compensation objectives should facilitate the effective utilization and management of an organization's human resources, while also contributing to the overall objectives of the organization. A compensation programme, therefore, must be tailored to the needs of an organization and its employees. It is not uncommon for organizations to establish very specific goals for their compensation programme. Formalized compensation goals serve as guidelines for managers to ensure that wage and benefit policies achieve their intended purpose. The more common goals of compensation policy include:

1. To reward employees' past performance
2. To remain competitive in the labor market
3. To maintain salary equity among employees
4. To motivate employees' future performance
5. To maintain the budget
6. To attract new employees
7. To reduce unnecessary turnover

To achieve these goals, policies must be established to guide management in making decisions. Formal statements of compensation policies typically include the following:

1. The rate of pay within the organization and whether it is to be above, below, or at the prevailing community rate

2. The ability of the pay program to gain employee acceptance while motivating employees to perform to the best of their abilities

3. The pay level at which employees may be recruited and the pay differential between new and more senior employees

4. The intervals at which pay raises are to be granted and the extent to which merit and/or seniority will influence the raises

5. The pay levels needed to facilitate the achievement of a sound financial position in relation to the products or services offered

Policies must be established very early in the process of compensation management.

Development of compensation system

Compensation system involves the total rewards that are given to the employees for the labour and services they provide to the organization. Compensation includes direct monetary benefits as well as indirect monetary benefits. Wages and salaries form the direct financial benefits that an employee receives from his or her company. Besides wages and salaries, bonuses and commissions also form a part of the direct monetary benefits. The indirect monetary benefits include paid absences and other leave benefits, retirement plans, employee insurance schemes, health plans, education benefits and other such benefits.

A well-defined and balanced compensation system gives the organization an advantage of maintaining internal as well as external equity. It is a powerful tool for attracting employees, motivating them to work in achieving the strategic organizational goals, and retaining them in the long run. Human Resource Consulting Firms can provide an in depth analysis and detailed report on the setting up of a balanced compensation system for the organisation (Seo, 2013).

He added that, an organization needs to have a clear compensation philosophy which is in line with the strategic goals, objectives and culture of the organization (Seo, 2013). Based on the compensation philosophy of the company, the various components of compensation are designed and chalked down in detail.

The development of compensation philosophy includes the study of various aspects viz:

1. Impact of compensation strategy in promoting organizational success
2. Organization's stand in considering the compensation provided as a tool in attracting and/or retaining employees
3. Does the organization intend to lead/lag/match the compensation market for the given geographic area and in the concerned industrial sector?
4. How the organization aims at maintaining internal and/or external equity?
5. How the employee's performance is linked in relation to wage or salary increases?
6. Following the legal formalities, rules and regulations of the land

Compensation detailing comprises of identifying positions and setting up of wage or salary specifications against each position. Also, incentive packages and bonuses, if any, are clearly defined for each of the position while describing the compensation related details. Compensation detailing may involve execution of following activities depending upon the requirements of the organization:

1. Designing pay scale
2. Defining bonus and incentive plans
3. Performing salary surveys
4. Examining the requirement for wage/salary changes or increase

5. Defining guidelines for change/increase in wage/salary
6. Elaborate preparation of compensation policy and compensation strategy (Seo, 2013).

A compensation study carried out in an organization generally involves following important elements:

1. Analyzing the current situation and requirements of the organization
2. Conducting salary/wage surveys and interviews within the organization
3. Studying the various positions or jobs as existing in the organization
4. Restructuring and redefining the positions, according to needs
5. Defining the internal worth of the different positions in the organization
6. Ranking the various positions and jobs in the company
7. Evaluating the existing base compensation plan of the organization
8. Identifying and evaluating the market pay structures
9. Revising the base compensation plan in the organization
10. Matching the changed compensation package with the current fiscal resources of the organization
11. Comprehending the impact of pay revisions
12. Laying down the guidelines for revised pay administration
13. Preparing an elaborate report on the compensation studies to be submitted to the top management (Seo, 2013).

Compensation Planning and Pay System

Compensation planning plays an important role in any human resource (HR) department's efforts to obtain, maintain and retain an effective workforce. Compensation planning follows a set of objectives. The most important objective of any pay system is fairness and equity. The term equity has three dimensions:

1. Internal equity: This refers to the pay corresponding to difficulty level of the job assigned to an employee. More difficult jobs should be paid

2. External equity: External equity ensures that an employee is compensated equally in comparison to similar jobs in the labor market.

3. Individual equity: Individual equity highlights equal pay for equal jobs, i.e. each individual pay is fair in comparison to others doing the same/similar job (Izueke, 2009).

The ultimate goal of compensation planning is to reward and encourage employees to do well in their jobs. Klerck (2009) maintained that, some of the objectives of are sought to be achieved through effective compensation planning like:

1. Entice the employees: Compensation should be high enough to attract the best talent in an organization. If an organization wants the service of a competent employee, then the salaries must be high enough to motivate them to apply and join you.

2. Retain the best talent: An employee would leave an organization if compensation levels fall. So, it is essential to have a proper compensation panning to retain the best talents.

3. Ensure equity: Pay should always be equal the worth of the job of an employee. Employees doing similar jobs should be paid equally and likewise, more qualified employees should be paid better.

4. Reward new ideas and behaviors: Pay should reward an employee's loyalty, commitment towards work, his experience, the amount of risk the job holds and the initiatives taken. When companies fail to reward such contributions, employees will fall apart.

5. Cost control: Hiring cost should never be too high. The compensation planning should ensure that workers are neither overpaid nor underpaid.

6. Compliance: The compensation planning and management should invariably satisfy governmental compliance of minimum wages, bonus, allowances, benefits etc (Ivancevich, 2001).

Theoretical Discourse: The Expectancy Theory of Motivation

Expectancy theory is a motivation theory first proposed by Victor Vroom of the Yale School of Management in 1964. According to Vroom, a behaviour which has a rewarding experience is likely to be repeated. The implication for remuneration is that high employee performance followed by a monetary reward will make future employee performance more likely. By the same token, a high performance not followed by a reward will make its recurrence unlikely in future. The theory emphasizes the importance of a person actually experiencing the reward.

Buhler (2002) says, employees will work more if they have reason to expect that it will result in a reward that is valued. To motivate this effort, the value of any monetary reward should be attractive. Employees also must believe that good performance is valued by their employer and will result in their receiving the expected reward.

Cascio (1992) and Charlton (2010) and Charles (2011) explained that high efforts will lead to high performance (expectancy), and high performance in turn will lead to monetary rewards that are appreciated (valued). Since pay-for-performance leads to a feeling of pay satisfaction, this feeling should reinforce one's high level of effort. Thus, how employees view compensation can be an important factor in determining the motivational value of compensation. The perception employees develop concerning their pay is influenced by the accuracy of their knowledge and understanding of the compensation program.

Impact of employee compensation on the organisation

A well designed compensation and benefits plan helps to attract, motivate and retain talent in your firm. According to (Johnason, 2009), a well-designed employee compensation programme will impact the organisation in the following ways:

1. Employee compensation or reward system of the organisation is most influencing factor for employee motivation, must remember.

2. Historical facts show that dissatisfactions in employee compensation programme, especially in the public sector is the major of industrial disputes. Good compensation system of rewards system in the organisation will minimise industrial disputes and helps in maintaining peace and harmony within the organisation.

3. Employee compensation system mostly influences retention of employee in the organisation. It also reduces the level of absenteeism in the organisation.

4. Most of employee satisfaction depends upon compensation a reward system of organisation.

5. Effective employee compensation system builds employer brand, which plays a key role in attracting talent.

6. Effective employee compensation system makes employees to put in full efforts for achievement of organisation's goals and objectives.

7. Effective employee compensation system builds initiative towards work, which in turn enhances the productivity of organisation.

8. Effective employee compensation makes employees feel belongingness towards the organisation.

Conclusion

Jack (2005) rightly reiterated that "if the right compensation along with the right kind of opportunities are made available to people by the firms in which they work, then work becomes a pleasure and the manager's task made simpler leading to all round benefits for the employee as well as the employer" (cited in Klerck, 2009). Employee compensation management is more than just the means to attract and retain talented employees, it is important to achieve the goals of the organisation and sustain the workforce.

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