**Compensation Strategy for a Competitive Advantage in the Market**

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Compensation is each employee’s pay, that evokes sense in terms of their contribution and return, what other employees earn. This requires meticulous planning and a pay plan mandates the basic factors in determining pay rates, with respect to market competition, through job evaluation, pricing, and rewards for employee engagement. When new organizations enter into the market. The basic tenets in deciding the employee compensation are *direct* financial payments which includes wages, salaries, incentives, commissions, bonuses and indirect financial payments that includes financial benefits like employer paid insurance and vacations and the like. The direct financial payments can be based on increments or performance, but the focus has to be not on one but several factors, that influence any pay plan and its’ design.

**Role of Strategy in aligning total reward system**

Organizations must look into an aligned reward strategy with the organizational objectives crafting a compensation to produce employee behaviours towards achieving its’ competitive strategy1 so that the pathway is clear and concise between the objectives and each reward. Most often a total rewards strategy is formulated for strategic objectives. The total rewards pay package usually covers the basic pay, incentives, benefits, and rewards like challenging job roles, career development, and recognition.

**Impact of Equity on Pay**

The research investigation on capuchin monkeys in studies at Emory University, found that some of the monkeys were offered sweet grapes in return to pebbles while few other monkeys got cucumber slices. Interestingly, a monkey getting a cucumber slice slammed down the pebble and refused to eat after seeing a neighbor receive grapes instead of cucumber2. This is in sync with the equity theory of motivation among humans, that motivation emerges from the perception that the contribution and rewards are balanced, and if at all an inequality is sensed, tension, anxiety and disengagement, and as per the equity theory, a person in this tension or anxiety, will develop a drive that motivates to reduce the perceived inequity and tension. Research supports equity theory since it covers the underpaid employees, perceived inequity3 and motivation levels,

**Equity Classification**

Compensation can address the internal, external, individual and procedural inequity4. Internal equity is the fair job pay rate in comparison to other jobs within the same organization. External equity is the job pay rate in one organization compared to the job pay rate in other company. Procedural equity is the perceived fairness of the processes and procedures in the decision in allocating pay5 and individual equity is the fairness of the equity in comparison with the coworkers.

Inequity issues are addressed through salary surveys for external equity, while internal equity, is addressed through job evaluation (job analysis and comparison). Procedural fairness is conducted through grievance redressal, communication, attitude surveys and employee participation. Some organizations address internal equity and open discussions through opting strict secrecy for payrates while some publicize it6. Open pay policies bring in transparency and also it can backfire.

**Policies for Pay Package**

Organizations can frame policies, as to how much above the market rate they are willing to pay the employees. This is figured out through the base salary below, at, or above market rates, stock options employees can get, the process of salary increase, leaves and holidays, annual raises, geographic differences, cost-of-living differences, house rent allowance and other common allowances

**Job Evaluation methods**

Job evaluation systematically formulates the comparison of jobs and determine the worth of each job in relation to another. This helps to determine the job’s relative worth and to find the wage or salary structure of pay rates for various jobs or job groups. Invariably, jobs that require complex skills, responsibilities, and qualifications, require more pay package than the rest7. If the relative job worth is known, a salary survey is conducted to see the market pay structure. Thus by combining the salary survey and the job evaluation, a market competitive salary pay plan can be formulated.

**Compensable factors**

Certain basic factors of the job that is in common can be compared to evince the worth of several jobs and these are called compensable factors to establish the pay for each job. These compensable factors can be generated in-house or job evaluation systems available or through legislation.

Job evaluation methods encompass Ranking, Job Classification, Point Method, and Job points.

Job Ranking method basically ranks the job by gathering all the information of the jobs in hand, then grouping the jobs, selecting the compensable factors, ranking the jobs, then rating and comparing current pay with the market salary surveys and finally to assign a new pay scale. Job classification is the method of categorizing the jobs into groups with approximately the same pay for value types. These groups are called classes if they are similar kind of jobs and grades if they are similar in challenges but otherwise different. Then based on the compensable factors, each class or grade is determined. This type of classifications has many advantages as to grouping jobs, and disadvantages are that it isn’t easy to classify or grade job descriptions and judgement is challenging. The Point method, finds the degree to which selected compensable factors are contained by identifying several compensable factors and the likelihood of such each factor present in each job. Hay Group developed several standardized point plants called packaged point plans containing readymade factors and definition for how much each compensable factors can be accommodated.

**Market Competitive pay plan**

The method of pricing the jobs based on other organizations’ pay in the market is simply using a market based approach. The best practice is to combine market based approach with job evaluation. This will eventually take care of the internal, external, procedural and individual equity in pay plan. This approach starts with the benchmarking of jobs, then deciding the compensable factors, assigning weights to the compensable factors, converting percentages to points for each factor, defining each factor’s degrees and its subsequent degrees’ points, reviewing job descriptions and job specifications, then evaluating jobs plotting the wage curve through internal wage curve and market salary survey analysis drawing the external wage curve, comparing and adjusting current and market wage rates, developing pay grades, establishing rate ranges, addressing the jobs remaining and correcting the rates that fall out of line.

**Compensation best practices**

The contemporary compensation best practices are competency based pay, broadbanding, comparable worth and gender, diversity and inclusion. While competency based pay focus on the skills, knowledge and capability rather than responsibilities, broadbanding slots jobs into grades or classes and create a vertical pay rate range. Comparable worth looks into gender equality while diversity and inclusion takes care of equity and the pay gap.

**Total Rewards and Employee Engagement**

Compensation management overarches the total rewards. Beyond the pay, employees seek respect, appreciation, empathy, compassion, equality, equity, and ultimately employee experience. Personal and professional development with a motivating work environment provides the employee delight or employee experience. Organizational justice, trust, the feeling of being valued, great organizational work climate, and opportunities for promotion are intangible and non- financial rewards. Such total reward system, wellness programs, encourages employee engagement. Research has established that base pay and benefits alone weakly correlated with engagement.10

**Discussion Questions**

Explain the relationship between compensable factors and job evaluation.

Define and give examples for equality in pay plan.

How to conduct a job evaluation? Explain with example

How to arrive at Total reward system?

What is the relationship between total rewards and employee engagement?

**Individual and Group assignments**

Conduct a salary survey for market comparison of pay plan

Develop Compensation Policies

Develop a point system and map with a job description

**Endnotes**

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5. Ibid, p, 68
6. The impact of pay secrecy on individual test performance, Personal Psychology, 60 (3), 2010, pp.965-996
7. Martocchio, Strategic Compensation, 2006, p.138
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