Compensation Management Practices of Selected Companies: Basis for Compensation Management Program

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Abstract
The purpose of this study was to assess the existing compensation management practices of selected companies as basis for development of compensation management program. This paper tests a hypothesis that there is no significant difference in the extent of use of compensation management tools when the selected companies were classified as large, medium, and small. In conclusion, companies recognized that effective compensation management improves organizational productivity. They are reluctant however in the conduct of salary survey. While conducting salary survey posed some disadvantages, it has even more advantages, being an important function of providing external wage equity, which justifies the wholeness of a company's compensation management program.
Key words: salary survey, job evaluation, job classification, salary structure

1. Introduction

Organizations without a formal compensation program generally base the worth of the jobs on the subjective opinions of people familiar with the jobs. In such instances, pay rates may be influenced heavily by the labor market or, in the case of unionized employers, by collective bargaining. Organizations with formal compensation programs, however, are more likely to rely on a system of job evaluation to aid in rate determination. Even when rates are subject to collective bargaining, job evaluation can assist the organization in maintaining some degree of control over its wage structure (Bohlander and Snell, 2004).

Compensation is an integral part of human resource management. It is a primary motivation for most employees. It helps in motivating the employees and improving organizational effectiveness. Good compensation helps in attracting a quality workforce, maintaining the satisfaction of existing employees, keeping quality employees from leaving and motivating them for higher productivity. This is one critical aspect to the success of the organization. HR managers then should need to develop and implement an effective compensation management program.

2. Literature Review

Ideally, an organization's compensation system should produce a base salary structure that is both internally and externally equitable. The job evaluation process should ensure internal equity, while wage surveys should ensure external equity. The primary objective of any base wage and salary system is to establish a structure for the equitable compensation of employees, depending on their jobs and their level of performance in their jobs. Most base wage and salary systems establish pay ranges for certain jobs based on the relative worth of the job to the organization. An employee's performance on the job should then determine where that employee's pay falls within the job's range. The key to sound base wage and salary system is the establishment of different pay ranges for the various jobs within a minimum and a maximum. Wage surveys represent one of the most commonly used methods for pricing jobs (Byars, 2004).

Salary surveys can be formal or informal. Informal telephone or internet surveys are good for checking on a relatively small number of easily identified and quickly recognized jobs. Some large companies use their own formal questionnaire surveys to collect information from other employers. Most of these ask about things like number of employees, overtime policies, starting salaries, and paid vacations (Dessler, 2000).

Salary surveys play a big role in pricing jobs. Establishing pay ranges involves two basic phases: (1) determining the relative worth of the different jobs to the organization (ensuring internal equity) and (2) pricing the different jobs (ensuring external equity). Job evaluation is the primary method for determining the relative worth of jobs to the organization (Byars, 2004).

Job evaluation is aimed at determining a job's relative worth. It is a formal and systematic comparison of jobs to determine the worth of one job relative to another and eventually results in a wage or salary hierarchy. The basic principle is that jobs which require greater qualifications, more responsibilities, and more complex job duties should be paid more highly than jobs with lesser requirements. The basic procedure is to compare the jobs in relation to one another; in terms of required effort, responsibility, and skills. Job evaluation has four methods: ranking, job classification, point method, or factor comparison. Ranking method is the simplest method that involves ranking each job relative to all other jobs, usually based on overall difficulty. The point method is a job

evaluation method in which a number of compensable factors are identified and then the degree to which each of these factors is present on the job is determined. The factor comparison method is actually a refinement of the ranking method. It is a widely used method of ranking jobs according to a variety of skill and difficulty factors, then adding up these rankings to arrive at an overall numerical rating for each given job (Dessler, 2000).

Job classification or job grading is a simple, widely used method in which raters categorize jobs into groups; all the other jobs in each group are of roughly the same value for pay purposes. The groups are called classes if they contain similar jobs, or grades if they contain jobs that are similar in difficulty but otherwise different. There are several ways to actually categorize jobs. One is to write class or grade descriptions (similar to job descriptions) and place jobs into classes or grades based on how well they fit these descriptions. Another is to draw up a set of compensable factor-based rules for each class. Then categorize the jobs according to these rules (Dessler, 2000).

. The next step is to assign pay rates to pay grades. A wage curve is used to help assign pay rates to each pay grade. The wage curve shows the pay rates currently paid for jobs in each pay grade, relative to the points or rankings assigned to each job or grade by the job evaluation. The purpose of the wage curve is to show the relationship between (1) the value of the job as determined by one of the job evaluation methods and (2) the current average pay rates for the grades. Then, fine-tune pay rates. Fine-tuning involves developing pay ranges and correcting out-of-line rates (Dessler, 2000).

3.   Methodology

This is a descriptive study utilizing self-made survey questionnaire in which validity and reliability measures were established. To test the hypothesis, a survey on fifteen selected companies in the Philippines was conducted in 2005 in which the subjects were classified as large, medium, and small. The subjects were determined by employing stratified random sampling method, while the respondents were the HR managers, supervisors, and rank-and-file who were randomly picked out to represent each category.

Frequency and percentage were used to determine the existing compensation management practices of selected companies, and mean for the extent of use of compensation management tools. One-way ANOVA was used to compare the extent of use of compensation management tools when the subjects were classified as large, medium, and small as perceived by the respondents.

4.   The Findings

In the analysis and interpretation of data, Table 1 with its graphical presentation revealed that the extent of use of compensation management tools was to a very great extent. Companies believed that effective compensation management attracts and retains quality employees. It motivates employees, and improves organizational effectiveness. In the article of Darlington Hank in 2005 on "The Basics of a Good Compensation Program Part 2", it highlights the importance of creating a well-thought-out compensation philosophy, and the establishment of a good compensation program. It also emphasizes the need to determine the performance and productivity expectations through an equitable and effective wage compensation system.

Respondents however in this study are indisposed in the conduct of salary survey. While companies recognized the purposes on wage surveys to answer questions of external competitiveness, and in the internal questions of equity that arise in wage decisions, still some companies believed that they cannot gather the information necessary for their compensation survey. They realized that other businesses that are contacted directly may be unwilling to release this information, especially to a competitor. Information refusals and having a small or incorrect sample size may result in inaccurate decisions when comparing it to the company's compensation levels.

Table 1. Extent of Use of Compensation Management Tools as Perceived by HR Managers, Supervisors, and Rank-and-File

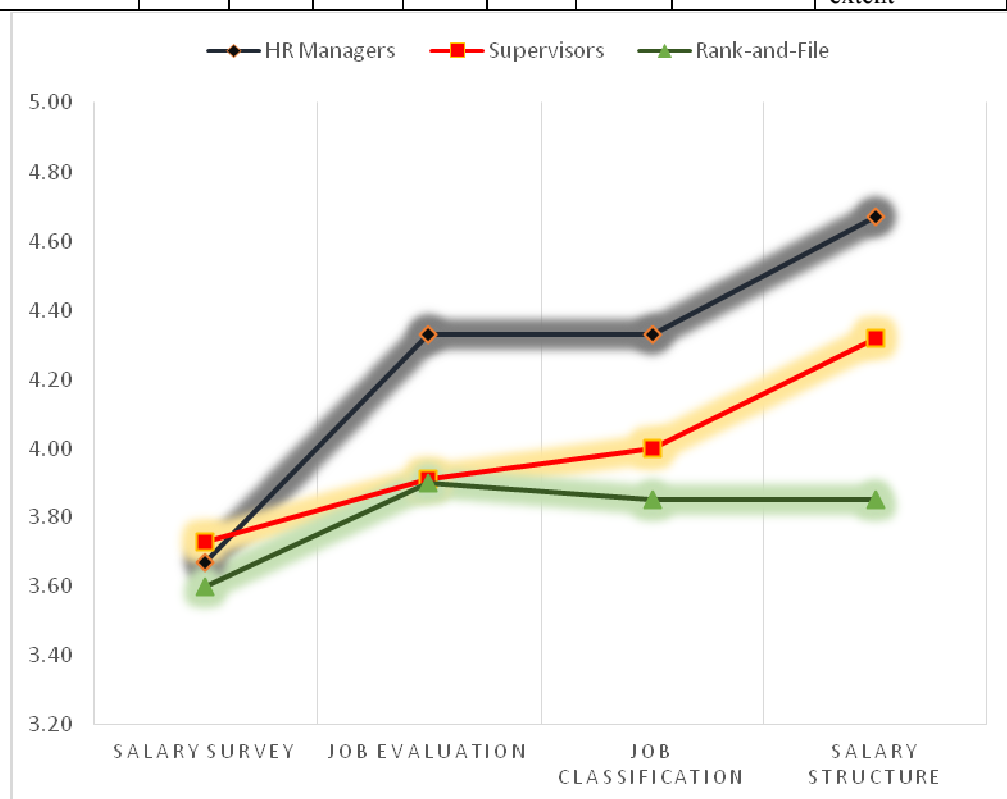| COMPENSATION MANAGEMENT TOOLS	HR Managers		Supervisors		Rank-and-File		Mean of the Means	Interpretation
	Mean	Sd	Mean	Sd	Mean	Sd		
Salary survey	3.67	0.58	3.73	0.63	3.60	0.60	3.67	Great extent
Job evaluation	4.33	0.58	3.91	0.29	3.90	0.55	4.05	Very great extent
Job classification	4.33	0.58	4.00	0.31	3.85	0.49	4.06	Very great extent
Salary structure	4.67	0.58	4.32	0.65	3.85	0.59	4.28	Very great extent
Over-all Extent	4.25	0.58	3.99	0.47	3.80	0.56	4.01	Very great extent

Table 2. Differences in the Extent of Use of Compensation Management Tools of Selected Companies

Sources of Variation	Sum of squares	Degrees of Freedom	Mean Squares	F – Value		Interpretation
				Computed	Computed	
Between groups	6.20	2	3.10	2.35	3.89	Not significant
Within groups	15.80	12	1.32			
Total	41.63	14				

There were no significant differences observed in the extent of use of compensation management tools among the selected companies as indicated by the F-ratio of 2.35 in Table 2. This implies that the extent of use of compensation management tools is almost the same in all of the selected companies regardless of their classification.

Table 3. Differences in the Perceptions of HR Managers, Supervisors, and Rank-and-File in the Extent of Use of Compensation Management Tools of Selected Companies

Sources of Variation	Sum of squares	Degrees of Freedom	Mean Squares	F – Value		Interpretation
				Computed	Tabular	
Between groups	6.17	2	3.09			
Within groups	288.27	42	6.86	0.45	3.23	Not significant
Total	294.44	44				

Table 3 shows that there is no significant difference in the extent of use of compensation management tools among selected companies as perceived by the HR managers, supervisors, and rank-and-file as indicated by the F-ratio of 0.45. This finding can be interpreted to mean that the three groups of respondents have almost the same perception in the use of compensation management tools.

5. Summary and Conclusions

Companies recognized that effective compensation management attracts and retains quality employees. It motivates employees, and improves organizational effectiveness. However, they are indisposed in the conduct of salary survey. They claimed that other businesses that are contacted directly may be unwilling to release this information, especially to a competitor. Information refusals and having a small or incorrect sample size may result in inaccurate decisions when comparing it to the company's compensation levels. While conducting salary survey posed some disadvantages, it has even more advantages, being an important function of providing external wage equity, which justifies the wholeness of a company's compensation management program.

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