

Variable pay decision systems like pay-for-performance are designed to motivate employees and ensure intra-organizational cooperation. When designing this kind of system, the first thing to assess is the personnel goals of the organization (as this kind of system can be tailored significantly). Interacting with managers across departments can help payroll professionals understand what is most important to the various areas of the organization at any given time.

Merit and incentive pay programs are common forms of pay-for-performance systems. Promotions based on performance rather than set time periods are also critical to pay-for-performance schemes.

Best Practices vs. Best Fit Options

The best fit approach focuses on the importance of making sure that the HR strategies are suitable to the different circumstances of the entire organization, together with culture, operational processes as well as external environment. Thus, it focus on the idea that different human resource (HR) strategies have to focus on a given needs of both the organization and its people. Due to the said reason, most of critics and commentators believe that best fit approach is more important and vital than the best practice.

The terms ‘best fit’ and ‘best practice’ are used in strategic human resource management literature and are applied to the specific policy area of reward systems. Each approach attempts to explain the way that HR policies in general and reward policies in particular can lead to greater organisational effectiveness.

Module 2: **(6 Hours)**

Defining Internal Alignment: Definition of Internal Alignment, Internal Pay Structures, Strategic Choices In Internal Alignment Design, Which Internal Structure Fits Best?



Definition of Internal Alignment

Internal alignment, often called internal equity, refers to the pay relationships between the jobs / skills / competencies within a single organization. The relationships form a pay structure that can support the workflow support the workflow, is fair to fair to employees ,and directs their behavior directs their behavior toward organization objectives.

Internal Alignment: Engineering Job Structure

Engineer: Limited use of basic principles. Close supervision.

Senior Engineer: Full use of standard principles and concepts. Under general supervision.

Systems Engineer: Wide applications of principles and concepts, plus working knowledge of other related disciplines. Under very general direction.

Lead Engineer: Applies extensive knowledge as a generalist or specialist. Exercises wide latitude.

Advisor Engineer: Applies advanced principles, theories, and concepts. Assignments often self-initiated.

Consultant Engineer: Exhibits an exceptional degree of ingenuity, creativity, and resourcefulness. Acts independently to uncover and resolve operational problems

Internal Pay Structures:

Pay structure, refers to the array of pay rates for different work or skills within a single organization. The number of levels, differentials in pay between the levels, and the criteria used to determine those differences create the structure.

What Shapes Internal Structures

External Factors: Economic pressures, Govt policies, laws, Regulations, Stakeholders, customs & cultures.

Organisation Factors: Strategy, Hr Policy, Technology, HR capital, Employee acceptance, Cost implications

INTERNAL STRUCTURE: Levels, Differentials, Criteria

COMPENSATION AND BENEFITS

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Economic Pressures

Early theorists concentrated on the supply of labour to explain pay structures with the most famous being marginal productivity theory

Govt policies & regulations

" human rights legislation forbids pay systems that discriminate on the basis of gender, race, religion, sexual orientation, national origin and many other grounds. pay equity acts require equal pay for work of equal value,' based on skill, effort, responsibility, and working conditions. 'Much pay related legislation attempts to regulate economic forces to achieve social welfare objects. The most obvious place to affect an internal structure is at the minimums (minimum wage legislation) and maximums (special reporting requirements for executive pay)

Stakeholders:

Unions, stakeholders, and political groups all have a stake in formulating internal pay structures. Unions seek small pay differences among jobs and seniority based promotions as a way to promote solidarity among members.

Cultures "and Customs

Culture is the mental programming for processing information that people share in common. Such shared mindsets may form a judgement of what is "fair".

Organisation Strategy

The basic belief of a strategic perspective is that pay structures that are not aligned with the organization strategy may become obstacles to the organization's success.

Organisation Human Capital

A major influence on internal structures human capital-are education, experience, knowledge, abilities and skills. The stronger the link between skills, experience and an organization's strategic objective, the more pay those skills will command.

Organisation Design of Work

!echnology used to produce goods and services influences the organization design, work to be performed and skills required performing it.

Overall HR Policies

COMPENSATION AND BENEFITS

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The amount of pay tied to a promotion, the nature of promotions, i.e. the lateral, development, and greater responsibilities) pay differences must be consistent with what the organization is trying to accomplish.

Internal Labour Markets: Combining External & Internal Forces

The notion of internal labour markets, i.e., the policies and procedures that regulate internal hiring and promotions, form career paths, and pay is based on internal policy. This theory combines both economic and organizational factors.

Employee Expectations: A key Factors

Acceptance is based on two measures of fairness, distributive justice and procedural justice, along with ensuring employees that the structure is fair.

An internal pay structure is defined by:

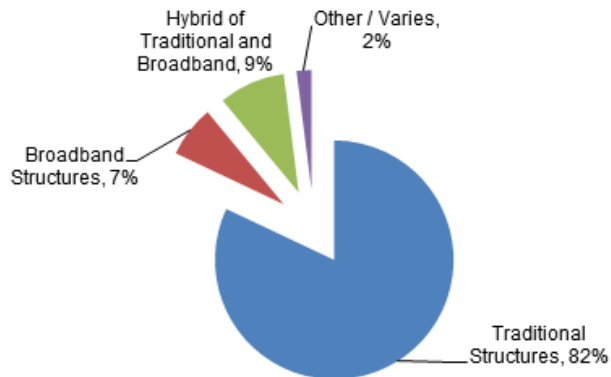
- the number of levels of work !
- the pay differentials between the levels!
- the criteria used to determine those levels and differentials!

These are the factors that a manager may vary to design a structure that supports the work flow, is fair, and directs employee behaviors toward objectives

Traditional vs. Broadband Salary Structures

Traditional salary structures are organized with numerous layers and range structures (or pay grades) with a relatively small distance between each range. This provides a hierarchal system enabling employees to be promoted from one pay grade to another. When designed correctly, traditional structures enable the recognition of differing rates of pay for performance and guarantee a reasonable level of control over internal compression and salary expenditures.

Broadband salary structures are more flexible and consolidate pay grades into fewer structures with wider salary ranges.

Figure 2: Traditional vs. Broadbanded Salary Structures

Single vs. Multiple Salary Structures

Fifty percent of companies with salary range structures have multiple structures varying by job and/or geographic location. There is a strong correlation between job level and number of salary structures. Single salary structures are more common for executives and multiple salary structures are more common for nonexecutive positions

Strategic Choices In Internal Alignment Design:

Tailored versus Loosely Coupled

Tailored structure- pay structure for well-defined jobs with relatively small differences in pay;
Loosely & coupled structure- pay structure for jobs that are flexible, adaptable, and changing.

Egalitarian versus Hierarchical:

Egalitarian structures operate on the belief that all employees should be treated equally in their pay. This means that there are few levels, less hierarchy and small pay differentials between levels. A hierarchical structure would form the other extreme, with large pay differentials between levels.

Career Path Differentials:

We need to understand how differentials within the career path support work flow. The next several chapters discuss how these internal structures (the levels, differentials, and criteria) are designed and managed.

WHICH INTERNAL STRUCTURE FITS BEST?

"In practice, the decision about which structures best fits a particular business strategy probably lies in our original definition of internal alignment: An internally aligned structure supports the work flow, is fair to employees, and directs their behaviour toward organization objectives.

It mainly depends on:

- How the work is organized
 - Fair to employees
 - Directs behavior toward organization objectives
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