



*Journal of Advances and
Scholarly Researches in
Allied Education*

*Vol. IV, Issue No. VIII,
October-2012, ISSN 2230-
7540*

SIGNIFICANCE OF FIXED AND VARIABLE PAY IN COMPENSATION MANAGEMENT

AN
INTERNATIONALLY
INDEXED PEER
REVIEWED &
REFEREED JOURNAL

Significance of Fixed and Variable Pay In Compensation Management

Dinesh Kumar

Research Scholar, Sai Nath University, Ranchi, Jharkhand

Abstract – This paper is based on significance of fixed and variable pay in compensation management. Variable pay is a significant element of the direct compensation package of a growing number of organizations. The trend is towards more organizations using variable pay and for these organizations to expand eligibility and to increase the prominence of variable pay in the total direct compensation package.

Keywords: Compensation Management, Variable Pay, Organizations

-----X-----

INTRODUCTION

Variable pay is defined as “direct compensation that does not become a permanent part of base pay/salary and which may vary in amount from period to period.” Other names for variable pay include: incentive compensation, incentives, bonuses, commissions, cash awards and lump sums.

Variable pay can be in the form of short-term (one year or less) or long-term (two years or more) incentives/bonuses and employee ownership programs. “Incentives” are plans that have predetermined criteria and standards, as well as understood policies for determining and allocating rewards. “Bonuses” are awards delivered at the end of the period, based on a subjective judgment as to the quality of performance and the rewards that are warranted.

REVIEW OF LITERATURE -

Significance of compensation management

As HR managers strive to follow fabulousness with their recruitment, determination, preparing, and compensation intercessions, it is progressively vital to show that their complete enterprises add quality to the conglomeration. HR chiefs are dependably in inquiry of routes to spur and compensate representatives of the conglomeration, which in turn will build their inspiration, exhibition, what's more gainfulness level. One essential HR device that is utilized to impact inspiration and exhibition level is compensation administration (Lawler, 1971). As pay is a solid communicator between a conglomeration and its workers, its victory or washout can by and by have

awesome effect on the on the whole victory of the conglomeration (Hill, 1993). Besides, pay is a effective communicator of organizational objectives and necessities opposite all levels in the conglomeration; in this manner, conglomerations that need to be increasingly efficacious must make representatives mates in their victory (Schuster & Zingheim, 1993). Deals group's exhibition is influenced not just by elements particular to them for example expertise and fitness of crew parts, and yet by other organizational components for example exhibition based reward structures.

The purpose of sales compensation is to -

1. Recognize and reward the role fulfilled by the sales force, maximize sales revenue from customers as well as profit margin and market share
2. Align the pay opportunities of the sales force with the long-term revenue objectives of the organization by creating an environment of mutual trust and confidence
3. Attract, retain and motivate the sales force in the organization

Sales compensation plans are one of the most effective tools to positively influence sales performance and ensure that sales performance is aligned with corporate goals. Designing a sales compensation plan is an art and not a pure science, as pay structure is a complex phenomenon driven by many internal and external factors. Designing sales people's compensation program is strategic in nature since it will affect motivation of the sales people and profitability of the organization. Compensation plans

of organizations are strategically designed when rewards are linked to activities, attributes and work outcomes that support the organization's strategic direction and strategic goals (Howard & Dougherty, 2004). Properly designed and deployed sales compensation plans drive superior performance of the sales people, thereby achieving and even surpassing sales targets of organization without crossing compensation budgets (Conlin, 2008). Consequently, it is not surprising that firms spend significant time and effort designing reward structures to boost performance of sales employees in the organization. The key to motivating sales people who help realize the organization's goals lies in how the sales organization's incentives and pay structure relate to the their goals. Accordingly, some marketing firms have strategy to recruit good sales employees, pay them well, and then expect good performance, using a fixed pay system. As firms increase salaries and wages, inevitably there is an escalation of payroll expense. Compound that by an adjustment each year for time scale increments, the overall impact on pay pool is significant. There is also the carry-over effect that this fixed base pay expense may have on the future cost of retirement and other fringe benefits. However, some firms have strategy to recruit good sales employees, expect them to perform well and pay them well if performance meets expectations or targets, using variable pay or performance-based pay. Variable pay ties individual revenue generation to the financial success of the firm.

Significance of variable pay in compensation management

Progressive organizations are seeking alternative pay methods to both maintain cost controls on overall compensation expenses and increase employee performance and productivity. One possible alternative is variable pay for performance, a method of paying employees for successful attainment of specific sales performance objectives. Variable pay design can include incentives for achievement based on individual performance, group performance and/ or company performance. Variable pay creates a belief among employees that good performance will lead to higher overall pay, minimize the perceived negative consequences of performing well or surpassing performance targets (fear that the performance bar will be raised). Variable pay is viewed as a mechanism of aligning and fine-tuning the interests of employees with those of the employer. Proponents of variable pay systems claim that such systems improve employee motivation, create a culture in which employees genuinely care about organizational effectiveness and integrate an organization's labor costs to its ability to pay. In recent times, more emphasis is laid on the use of variable compensation plans instead of fixed forms of pay mainly to enhance employee morale and productivity and thus overall firm performance (Marks, 2001). Variable pay schemes include individual, group and organizational forms of reward and remuneration such as bonus, incentive, profit share and various pay-

for-performance schemes. They essentially are based on a principle that an individual's pay should vary based on the performance of the individual, group, or organization, in order to encourage efforts of an individual to higher level.

ESTABLISHING A VARIABLE PAY SYSTEM

Proponents of variable pay programs contend that implementation of such a system is far more likely to be successful if the following conditions are met:

- Employees must have control over their performance. If employees are overly dependent on the actions and output of other employees or processes, they may have little control over their own performance. Variable pay programs that are not based on principles of employee empowerment are almost certainly doomed to fail.
- Differences in performance must mean something to the business. Employees must see that mediocre and high performances are not rewarded equally, and that results count.
- Business goals must be clearly defined and adequately disseminated to employees, and they should be arrived at with their assistance.
- Performance must be measured regularly and reliably. A clear system of performance appraisal and feedback must be put in place, with regularly scheduled meetings as one component.
- Employers should use variable pay as a tool in reaching ambitious business goals. "You need targets that require some effort," argued Stack. "I'm not talking about having stretch goals, which are almost always demotivators, but neither should the targets be so easy that people can take them for granted."
- Businesses should make sure that their variable pay plans reward employees for actions or skills that actually further the aims of the company.

CONCLUSION:

In this paper we found that compensation and reward system plays vital role in a business organization. One of the most significant advantages of variable pay over other forms of compensation is that the costs associated with a plan can be aligned with revenues/performance and thereby vary with revenues in a manner that is economically sound.

REFERENCES:

- Lawler, E. (1971). Pay and organizational effectiveness: A psychological perspective. New York: McGraw-Hill.
- Hill, R. B., A two-component approach to compensation. Personnel Journal, 72: 154-161, 1993
- Schuster, J. R., & Zingheim, P. K. (1993). New pay: Strategies that work. Journal of Compensation and Benefits, 8, 5-9
- Howard, L. W., & Dougherty, T. W., Alternative reward strategies and employee reactions. Compensation & Benefits Review, 36 (41): 41-51, 2004.
- Conlin, B., Best practices for designing new sales compensation plans. Compensation & Benefits Review, 40 (2): 50-55, 2008.
- Marks, S. J. (2001). Incentives that really reward and motivate. Workforce, 80, 108-114.
- <http://www.referenceforbusiness.com/small/S-m-Z/Variable-Pay.html#ixzz3NdPnJ34J>