Strategic Compensation

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# Strategic Compensation

1. **Defining Strategic Compensation**

Compensation is what someone gains in return for offering a service, and it can be intrinsic or extrinsic; both represent the entire reward system of a company. Intrinsic compensation gives a sense of accomplishment to the performer or employee that his or her work is a source of providing certain benefits to others. Extrinsic compensation refers to the rewards that employees get in recognition of their services. It can be monetary or non-monetary.

Compensation professionals prepare compensation policies to reward the employees as do they deserve. Experience level, performance, knowledge, or skills relevant to the job are considered while evaluating employees for compensation. However, monetary compensation remains the core compensation form of rewarding employees regardless of which sector of industry the company belongs to. Non-monetary rewards include other employment benefits such as healthcare facilities, paid vacation, and various allowances. Evidence shows that employers have not increased salaries sufficiently since the recession of 2008. Instead, non-monetary benefits have become an important part of the total compensation offered by companies. Compensation is considered among one of the direct costs incurred for a company (Larkin et al., 2019).

Strategic compensation is linked with the competitive business strategy that allows a business to hold a competitive advantage over the other firms in the industry. Compensation professionals make strategic use of the company resources, e.g., the capital (financial, equipment, or human) to achieve the goal. Firms are increasingly pursuing competitive advantage through process redesign, innovation, and enhanced operational efficiency. Human resource professionals collaborate with other professionals working in the company to improve the work performance of employees. They strive to provide the necessary facilities and environments that boost organizational efficiency. To conclude, strategic compensation combines human resource strategies and competitive business strategies of a firm through the collaboration of executives from different departments. For instance, Lilly is a firm that provides a balanced compensation system by merging both types of strategies, considering the need of its employees inside and outside the organization.

1. **Compensation as a Strategic Business Partner**

In the context of technological advances and global competition, personnel management has evolved from a simple administrative function into a strategic business partner for the firms. In today's business world, human resource personnel are not confined to managing personnel-related tasks. They are actively involved in the strategic decision making of the companies. They influence the selection of capable employees for job openings and have an impact on increasing the competitive advantage of the company. The HRLP (Human Resources Leadership Program) is an example. It offers programs and training to inculcate competencies and skills in the trainees so that they can perform their jobs as per the current needs of businesses. The HR function works in coordination with other functions in a company to find out the most suitable talent to fill the vacant positions. Dedicated, skilled, and motivated employees can do the jobs in a better way.

Compensation professionals add value to their organization by informing the higher management of recruitment requirements and implications (Stark & Poppler, 2017). They can better determine the job responsibilities for specific positions and align the goals of compensation with the goals of the organization. From the perspective of capital investment, personnel make up the most important type of capital, known as the human capital. Human capital denotes the set of capabilities, skills, and competencies that combine to perform the necessary activities of the business. A company gives compensation to hire human capital for performing the core operational work for achieving the desired output.

The value of human capital can be enhanced in various ways including merit pay programs such as the incentive pay practice carried out to leverage the performance of the US workers. Post-graduate students can be given opportunities for researching higher companies to expedite research and empower the students.

1. **Strategic Compensation Decision**

Strategic decisions are made in view of the possible environmental threats and opportunities. Threats can result in potential losses and situations out of control, and opportunities are the positive situations allowing maximum control yielding benefits. For instance, a threat to the US oil industry is that the supply of oil is increasing internationally as compared to its demand. The US oil companies also confront threats to their competitive advantage in extracting and refining oil. This is due to the increased costs of oil extraction and refinement in the US as compared to other countries. Certain government regulations protect the rights of patent companies to retain their competitive advantage, such as the government had granted exclusivity to Wyeth Pharmaceuticals, and its expiration posed threats to the profitability of the company. McDonald’s is under the threat of competitors’ provision of the same services, customers’ changing preferences, and its uneasily customizable menu.

Competitive business strategy choices aim at achieving a competitive advantage by low-cost production or product differentiation. Low-cost strategies are adopted by the companies that possess enhanced control over local resources, sufficient manpower, or other similar competitive edges. Ryanair is an airline based in Ireland, and provides low-cost services to customers. It manages to serve at low costs by reducing privileged services and employing relatively cheaper labor and other facilities. Differentiation strategy is employed by companies like Apple that can offer highly distinguished products to the customers.

Compensation professionals make decisions with an objective to support the business strategy of the company (Malik, 2018). The way they develop a pay system, design incentives, and evaluate performances reflects how this function supports the firm in achieving its objectives. From the employees' perspective, it is important to reduce costs associated per employee in implementing the low-cost strategy and allow a longer timeframe to increased opportunities in the differentiation strategy.

References

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