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Compensation Management

Relationship Between Compensation and Organizational Strategy, and Assess its Social Implications

Suppose two companies are hiring the same graduate.

Company A	Company B
Salary: Tk. 80,000	Salary: Tk. 70,000
No training	Performance bonus
No promotion policy	Career development
Long working hours	Flexible working hours
No performance bonus	Recognition program
	Health insurance

Which company would you join? Why?

Compensation is not just about paying employees-it is a strategic tool that influences employee behavior and organizational success.

Organizational Strategy

Organizational strategy is the long-term plan that helps an organization achieve its mission, vision, and competitive advantage.

Company	Strategy
Walmart	Cost leadership
Apple	Innovation and differentiation
Toyota	Quality improvement
Google	Talent and innovation
Southwest Airlines	Low-cost service

Can every company use the same compensation system?

Compensation should support the organization's strategy.

Strategic Compensation

Strategic compensation is the design of compensation systems that align employee behavior and performance with the organization's strategic objectives.

Strategy tells employees what to achieve; compensation motivates them to achieve it.

Relationship Between Compensation and Organizational Strategy

Organizational Strategy

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HR Strategy

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Compensation Strategy

↓

Employee Motivation

↓

Employee Performance

↓

Organizational Success

How Compensation Supports Organizational Strategy

1. Attracting Talented Employees

Organizations compete for skilled employees. Competitive compensation helps attract qualified candidates.

Example

Google offers; High salary ; Stock options ; Free meals ; Flexible work ; Learning opportunities

Result:

Google attracts highly talented professionals worldwide.

2. Retaining Employees

Replacing employees is expensive. Good compensation reduces employee turnover.

Example

An experienced software engineer leaves because another company offers; Better salary; Remote work; Career growth

The original company loses valuable knowledge.

3. Improving Employee Performance

Performance-based compensation motivates employees.

Examples include

- ✓ Bonus
- ✓ Commission
- ✓ Profit sharing
- ✓ Incentives

Example

A sales representative earns

Salary = Tk. 35,000

Commission = 5% of sales

Higher sales lead to higher income.

Result:

Employee performance increases.

4. Encouraging Innovation

Innovative organizations reward creativity.

Example

Apple rewards employees who develop innovative products.

Employees become more willing to generate new ideas.

5. Supporting Quality Strategy

Organizations focusing on quality reward

Low defect rates

Customer satisfaction

Team performance

Example

Toyota rewards production teams that reduce manufacturing defects.

6. Encouraging Teamwork

Some organizations reward team performance instead of individual performance.

Example

Hospital staff receive bonuses based on

- Patient satisfaction
- Team efficiency
- Service quality

This promotes collaboration.

Match the compensation strategy to the organizational strategy.

Organizational Strategy	Compensation Strategy
Innovation	Rewards for creativity
Cost leadership	Productivity incentives
Customer service	Customer satisfaction bonuses
Quality	Quality improvement rewards
Growth	Promotion and career development

Components of Strategic Compensation

Financial Rewards

- ✓ Salary
- ✓ Wages
- ✓ Bonus
- ✓ Commission

Benefits

- ✓ Insurance
- ✓ Pension
- ✓ Paid leave
- ✓ Housing allowance

Recognition

- ✓ Employee of the Month
- ✓ Awards
- ✓ Certificates

Career Development

- ✓ Training
- ✓ Promotion
- ✓ Mentoring
- ✓ Scholarships

Work-Life Balance

- ✓ Flexible working hours
- ✓ Remote work
- ✓ Wellness programs
- ✓ Childcare support

Modern Total Rewards Model

Total Rewards

Compensation

+

Benefits

+

Recognition

+

Career Development

+

Work-Life Balance

Compensation and Organizational Performance

Compensation influences

- ❑ Motivation
- ❑ Productivity
- ❑ Job satisfaction
- ❑ Employee commitment
- ❑ Innovation
- ❑ Customer satisfaction
- ❑ Organizational reputation

Social Implications of Compensation

Social implications refer to how compensation affects employees, families, communities, and society as a whole.

Compensation is not only an economic issue.

It is also a social issue.

1. Reducing Poverty

Fair wages improve

- **Living standards**
- **Nutrition**
- **Education**
- **Healthcare**

Example

A garment worker receives a fair wage.

The worker can

Educate children

Access healthcare

Improve family living conditions

2. Income Equality

- ✓ Fair compensation reduces income inequality.
- ✓ Unfair compensation widens the gap between rich and poor.

3. Employee Well-being

Good compensation improves

- **Physical health**
- **Mental health**
- **Job satisfaction**
- **Work-life balance**

4. Gender Equality

Equal pay for equal work promotes

- ❑ Fairness
- ❑ Diversity
- ❑ Inclusion

5. Social Justice

- ❑ Fair compensation supports
- ❑ Human dignity
- ❑ Employee rights
- ❑ Ethical employment

Positive vs Negative Social Impacts

Positive Compensation Practices	Negative Compensation Practices
Fair wages	Low wages
Equal pay	Wage discrimination
Health benefits	No healthcare
Paid leave	No work-life balance
Career development	No promotion opportunities
Recognition	Employee exploitation