
Editorial

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Biographical notes: Parbudyal Singh obtained his PhD from McMaster University, Canada. He is an Assistant Professor of Human Resource Management at York University, Toronto. His research covers emerging issues in human resources management and labour relations. He has more than 50 publications, including papers in top refereed journals such as *Industrial Relations*, *Journal of Labor Research*, *Comparative Labor Law Journal*, *Labor Law Journal*, *Labor Studies Journal*, *Journal of Vocational Behavior*, *Human Resource Management*, *Group and Organization Management*, *Sociology of Sports Journal*, *Compensation and Benefits Review*, *Canadian Journal of Administrative Sciences*, *Canadian Public Administration*, *Canadian Labor and Employment Law Journal*, and the *International Journal of Technology Management*.

Compensation systems are arguably the last holdout in a sea of organisational change. In a large number of organisations, employees are paid in a manner not dissimilar to that of our ancestors: they turn up to work and get paid for time spent on the job. There is little or no link between the compensation system, organisational strategy and performance. However, it seems inevitable that pressures induced by a changing environment will force traditional systems to adapt, become more strategic, and conform to the new realities.

Traditional compensation systems are characterised by a high proportion of base pay, some benefits, and little or no performance-based pay. That is, most of the compensation costs are fixed. This inhibits flexibility that management needs, especially in times of financial stress. It is also difficult to utilise traditional systems to motivate strategic employee behaviours. Given that an organisation's compensation function is usually the largest budget item, and can be as much as 80% of expenses in some service sector firms, it is imperative that organisations manage their reward systems in a way that fosters and enhances strategic goals and financial performance. And it is important that is done in a manner that is more rewarding for employees than traditional pay systems.

So, how do we do this? There are two key related ways. First, we need to link reward systems with organisational strategy. That is, an organisation's reward systems must be aligned with its strategy for optimal outcomes (Singh and Agarwal, 2002). Second, there is a need to link employee pay with performance at the individual, team, and organisational levels. This should, however, not be translated into lower absolute base pay levels which may lead to greater employee insecurities, uncertainties and resistance. Variable pay would be appealing and acceptable to employees only if they are first guaranteed liveable compensation.

Many organisations, cognizant of the foregoing, are beginning to utilise new pay practices that emphasise alignment between organisational and functional strategies, as well as variable pay practices (Lawler, 1990). It is not a coincidence that many of these organisations, such as Southwest Airlines, Johnsonville Sausage, and SAS Institute, are also among the world's most admired and most profitable (Singh, 2002).

Strategic compensation systems take many forms and may even emphasise aspects of traditional pay systems, such as seniority pay, if these fit with the environmental context and goals of the organisation. Many of the strategic pay practices, however, focus on new and innovative ways of rewarding their employees. These include skill-based pay, increased use of variable pay, and team-based pay (Lawler, 2000). In this special issue, the authors discuss their research on several aspects of strategic pay systems, including their impact on organisational outcomes.

Skill-based pay systems hold considerable promise for organisations that want to transform themselves into high-involvement work systems. However, scholars and practitioners have often pondered how to make these systems more effective (Zingheim and Schuster, 2002; Jenkins et al., 1993). In their article on the "determinants of role orientation and organisational commitment under skill-based pay", Professors Al-Waqfi and Agarwal use data from a relatively large sample of employees in a manufacturing company to assess how skill-based pay systems can be more effective and how it alters the nature of the employment relationship, including organisational commitment and the perceptions of work roles. Using path analysis, they found that employees who are involved in the design and administration of the skill-based pay plan tend to have better perceptions of the fairness and effectiveness of the plan, stronger organisational commitment, and broader role orientation.

In the second paper, Professors Lam and Ho examine the role of "executive stock options as a strategic compensation practice". As they argue, employee (and executive) financial participation in firms

"Stimulates employees to identify with the goals and objectives of the firm so as to result in better goal congruence and ... encourages employees to work efficiently and effectively for the firm since they share in the results."
(pp.22-47)

Using data from a large sample of US firms over a 9-year period, they found that superior firm performance is associated with employee ownership.

The study on compensation practices in the Caribbean by Professor Ramlall compares current practices with what human resource professionals think those practices 'should be' if they are to drive firm performance. This study, perhaps the first that explicitly examines compensation systems and practices in the Caribbean, found that the gap between 'reality' and 'need' is quite significant. It can be inferred that human resource professionals recognise the need for change. However, such change seems to be restricted by local cultures and institutions.

In a very timely paper, Professors Ducharme and Podolsky argue that there is little empirical evidence that clearly demonstrates that variable pay motivates employees "to perform better or in greater harmony with organisational goals" (pp.68-76). This paper is more a challenge to scholars in the field than a condemnation of variable pay. They contend that variable pay *should* motivate performance; however, this would depend on the design of the pay systems so that there is a clear line-of-sight between rewards and performance.

Teams are on the rise in the workplace and there is a demand for pay systems that reward team effort. In academia, however, there is a need for relevant theoretical perspectives on this issue. In their paper, Professors Akdere and Yilmaz focus on team-based compensation plans and how agency theory may be used to analyse the dynamics of team pay.

Overall, the papers in this special issue are timely reminders of the need for strategic orientation and innovation in the way we manage organisations in a changing environment. Given the importance of an organisation's compensation systems, there is perhaps no better place for increased and appropriate managerial interventions.

References

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