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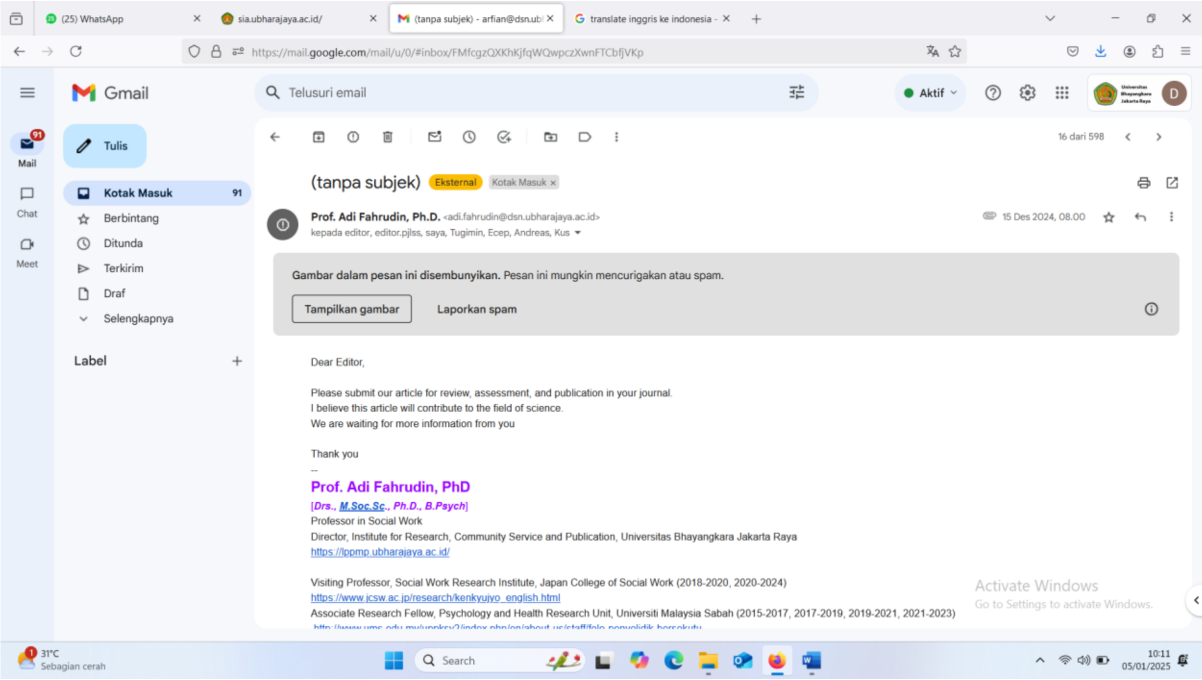

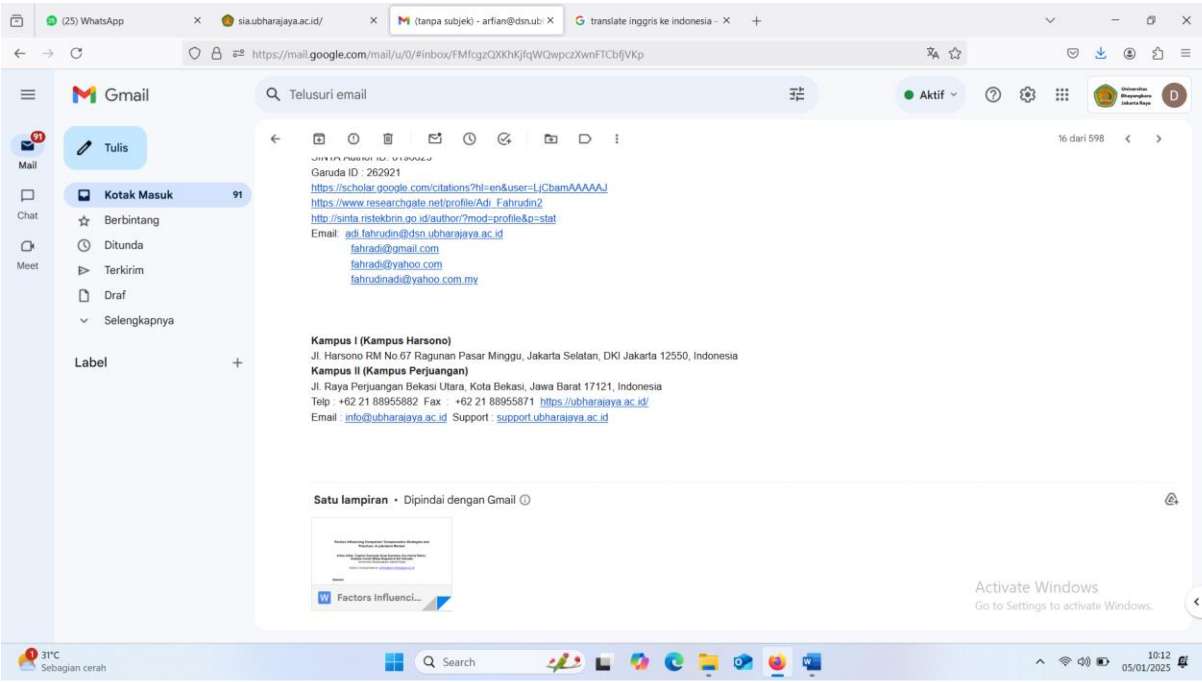

Factors Influencing Companies' Compensation Strategies and Practices: A Literature Review

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Abstract

This article presents a systematic literature review of factors influencing companies' compensation strategies and practices. Compensation is crucial in human resource management, significantly affecting employee motivation, job satisfaction, and overall organizational performance. The review follows PRISMA guidelines, synthesizing findings from international and regional studies, ensuring a comprehensive understanding of diverse factors that shape compensation systems. These factors include market forces, organizational culture, employee motivation, and government regulations. The analysis reveals that compensation strategies are not merely financial tools but are intertwined with organizational goals and cultural values. The review also highlights the importance of aligning compensation practices with employee expectations and societal norms to enhance competitiveness and retention. Gaps in the literature, such as the lack of empirical research linking compensation systems with long-term organizational outcomes, are also identified. The findings provide practical insights for organizations aiming to refine their compensation strategies to remain competitive in a dynamic labor market.

Keywords: *Compensation, employee motivation, market forces, organizational culture, government regulations.*

1. Introduction

Compensation is a significant part of human resource management. Thus, a company's strategies and level of compensation for employees can have a marked effect on their motivation to do their jobs, perform successfully, and remain with the company. Formulating sound compensation strategies and innovating recent compensation systems or improving existing ones are significant for all sorts of companies. It is also argued that the compensation approach can raise performance and improve organizational results altogether. This essay is designed to provide a comprehensive overview of compensation strategies and practices while at the same time spotlighting the factors that influence them.

Pay level influences employee reward satisfaction and turnover, while pay variability and performance-related pay can influence strategy. There is a two-stage process of compensation decision-making: first, how to pay at the market rate, and next, what technique to use within the organization. The essay looks at the internal and external influences within the context of the second stage. Compensation and strategies of reward may affect corporate results nowadays. The selected scope is described to include those elements regarded as 'critical.' The targets are to provide an understanding of some critical external and internal components in shaping compensation strategies and practices. It is proposed that companies may select more variable and results-associated strategies of compensation to contend with the hostile environment. It is necessary to evaluate and respond to the growing effect of global recruitment on pay in the apex labor market.

2. Methodology

2.1. Search Strategy Outline the search strategy conducted based on the PRISMA guidelines. The researcher used several databases, such as Scopus, Google Scholar, and local Indonesian journals, to reach international and contextual studies. Search keywords included “company compensation,” “compensation strategies,” “compensation practice,” and “factors influencing compensation.”

2.2. Inclusion and Exclusion Criteria Included studies were those that addressed factors influencing corporate compensation strategies in an industry and organizational context. Excluded studies are those that do not meet quality or relevance, for example, those that focus solely on theory without empirical evidence or those relating to the informal sector.

2.3. Data Extraction The data collection process involved recording the author, year, location, sample size, interventions used, and key findings of each study. This was done systematically to ensure consistent comparisons between studies.

2.4. Synthesis Approach A narrative synthesis approach was used to integrate findings from qualitative and quantitative research. Thematic analysis was conducted to identify common patterns and critical factors influencing the company's compensation strategy. The narrative synthesis provided a comprehensive overview of the current state of research in this area and identified gaps that future studies could address especially in industrial and organizational psychology.

3. Result and Discussion

3.1 Theoretical Framework

With the challenge brought by globalization, organizations have progressively utilized employees' abilities and knowledge as strategic resources to attain competitiveness. This development has resulted in an increasing number of studies on compensation that either re-investigate earlier issues considering global competition or present new trends and issues reflective of new organizational priorities. Therefore, it is not surprising that the most recent literature reviews of compensation outline the multi-level issues of incentives, monitoring, and control mechanisms that are being integrated into organizations' compensation practices. Although there has been little effort in the literature to link these two categories of compensation theories easily and simply, it is apparent that a proper explanation of any phenomenon needs both these elements.

The uniqueness of the economic perspective in the explanation of compensation suggests that a compensation design is based on market forces and individual productivity, whereas psychological explanations stress the impact of perceptions and behaviors of individuals on compensation outcomes. At the outset, organizations usually turn to economic theories for the design of management compensation because of market forces that call for organizations to pay high compensation to attract qualified executives. The pay-for-performance schemes became popular as the link between employee performance and organizational outcomes started to receive research attention. Building on the results of psychological theories highlighting the negative consequences of linking pay to performance, recent literature has documented the trend toward the use of compensation practices that ensure a high internal justice perception among employees. Personal economic consequences have been examined in terms of contract law and include issues like misclassification and the basis for the employee-employer contract. Milkovich (1992) presents a comprehensive analysis of the evolving landscape of employee compensation and its implications for organizational effectiveness and societal values. The article emphasizes that understanding the current trends in compensation is crucial for predicting future practices, which is particularly relevant in a market characterized by continuous change.

3.2 Important of Compensation

The landscape of compensation strategies and practices has been shaped by a myriad of factors, as illustrated by the progression of literature on this subject. Milkovich (1992) highlights the dynamic nature of compensation systems, emphasizing that today's choices will significantly influence future employment relations. He argues that compensation is not merely a financial consideration but a reflection of societal values regarding social justice, thus positioning it as a strategic tool for organizations to achieve competitive advantage. Building on this foundation, (M. Cable & A. Judge,

1993) delve into the implications of compensation systems on job search decisions, particularly through the lens of person-organization fit. They assert that individuals often self-select into organizations based on perceived alignment with compensation policies, which serve as a stable indicator of organizational culture. This relationship underscores the critical role that compensation plays in attracting the right talent and highlights the need for organizations to be mindful of how their pay structures are perceived by potential employees.

J. Pate (2008) further refines the discourse by investigating the intricate relationship between CEO compensation and firm performance. His findings suggest that prior research may have overlooked the influence of a select group of highly compensated executives, potentially distorting conclusions about the effectiveness of compensation models. This insight is crucial for stakeholders seeking to understand the broader implications of compensation structures on corporate governance and performance. Meanwhile, Chen & Fu (2011) introduce a systematic framework for performance appraisal linked to compensation strategies, identifying various dimensions such as pay level, pay mix, and the basis for incentives. Their work emphasizes the importance of aligning compensation strategies with both physiological and psychological employee needs, thereby enhancing job satisfaction and performance. This perspective reinforces the notion that compensation practices must be carefully crafted to meet diverse employee motivations. Logroño Anto (2013) focuses on the practical application of compensation management practices, revealing that organizations with formal compensation programs generally achieve better productivity outcomes. He advocates for the establishment of equitable compensation systems through job evaluations and wage surveys, underscoring the necessity for organizations to adopt structured approaches to compensation management. Ollero Oliveira (2015) brings attention to the effects of pay disparity on organizational performance, particularly in the context of Korean firms. His analysis indicates that vertical pay disparity can have detrimental effects, particularly in cultures sensitive to inequality. This research highlights the importance of understanding the implications of compensation structures on employee motivation and overall firm success. Lastly, Bussin (2018) examines the South African mining industry, scrutinizing the effects of executive compensation disparities on organizational performance. He identifies key determinants influencing executive pay, such as organizational size and performance, while also addressing the principal-agent theory and its relevance in aligning the interests of executives and shareholders. This exploration of executive compensation within a specific industry context adds depth to the understanding of compensation practices and their broader implications. Together, these articles contribute to a nuanced understanding of the factors influencing companies' compensation strategies and practices, illustrating the intricate interplay between compensation, organizational culture, employee motivation, and performance outcomes.

3.3 Economic Theories of Compensation

To understand the salary strategy of a firm, it is necessary to know compensation structures, practices, and the basic factors affecting the thinking of economists regarding compensation, generally called wage. First, two very important concepts related to market equilibrium and competition are considered. It begins with the proposition that the wage is settled at the mobile inflection of labor money and that the employee is fighting for the highest labor wage. Especially, these are applied in the aspect of strategy making if maintained firm profitability that depends on productivity and labor wage of employees. From an economic perspective, several studies have shown a clear relationship between company performance and the wage policies of that company. Therefore, various mechanisms ensure that wages are maintained at equilibrium from an economic perspective of "compensation based on contribution" and they have been studied to perform the function of incentive "Performance-dependent pay." Various theories about wages have been developed to understand wage policies. Wages are generally determined through a labor market, at the point at which the supply of labor equals demand, with compensation reflecting the value of the productive contribution of individual workers. Wages are determined by the market, and supply and demand factors are reflected in salary levels paid to various job incumbents in the external labor market. The former would include an increase in the supply of labor, often attributed to the entry of women into the workforce in greater numbers, especially in the 1970s and 1980s. Several labor market theories suggest methods for establishing pay levels that are determined by the interaction of labor supply and labor demand in the market.

3.4 External Factors

Milkovich (1992) also outlines several key forces influencing compensation strategies, highlighting that these strategies are not merely administrative tasks but are inherently strategic decisions that can significantly affect an organization's competitive positioning. The author argues that the way employees are compensated reflects broader societal values and notions of social justice, suggesting that compensation practices are intertwined with the socioeconomic fabric of a nation. This perspective underscores the importance of aligning compensation strategies with both organizational goals and societal expectations.

Furthermore, the article discusses the transformation of industrial relations systems in North America, noting that these changes are accompanied by shifts in compensation practices. (Milkovich, 1992) posits that as employment relations evolve, so too must the strategies employed by organizations to attract and retain talent. This evolution is described as a response to the dynamic nature of market economies, where organizations must continuously adapt their compensation structures to remain competitive. One of the most significant insights from the article is the transition from viewing compensation as a mere administrative function to recognizing it as a critical component of strategic management. (Milkovich, 1992) argues that organizations must make deliberate choices regarding compensation practices that not only address current employee needs but also anticipate future trends. This strategic approach to compensation is essential for sustaining competitive advantage in an increasingly complex business environment.

Cable & Judge (1993) delve into the intricate relationship between compensation strategies and the job search behaviors of potential employees. The authors argue that self-selection in the hiring process is a critical consideration for organizations, as the characteristics of individuals drawn to a company can significantly influence its overall composition. This insight is particularly relevant when analyzing how different compensation policies can attract specific types of employees, which in turn aligns with the principles of person-organization fit. The authors highlight that applicants often make job choices based on their personalities and how well these align with the organizational culture. Compensation policies serve as stable indicators of this culture, providing job seekers with observable information that can inform their decisions. The article emphasizes that pay systems are not only a reflection of an organization's values but also play a pivotal role in shaping applicant perceptions. As such, compensation strategies become vital in attracting talent that fits well within the organizational framework.

A key contribution of this study is the identification of five strategic decisions that influence compensation systems: external competitiveness, internal pay structure, individual differences/employee contributions, benefits, and alternatives to traditional systems. These elements are crucial for compensation and human resource managers, as they directly impact job seekers' impressions of the organization. The authors point out that while many pay system decisions are made with the intent of enhancing business success, only those that strategically align with the organization's overall goals are deemed significant. Despite the valuable insights provided, the article also acknowledges a notable gap in empirical research regarding the relationship between total compensation systems and job search decisions. This lack of systematic investigation limits the understanding of how various compensation attributes can influence potential employees' choices. The authors advocate for further research in this area to better inform compensation strategies that align with organizational objectives and employee expectations. Pate (2008) critically examines the dynamics between CEO compensation and firm performance, particularly emphasizing the influence of a select group of highly compensated CEOs. (J. Pate, 2008) argues that previous empirical research may have overlooked the significant impact that these elite CEOs have on the overall compensation landscape and firm performance metrics. This assertion challenges the conventional understanding of compensation structures and their direct correlation with firm performance. The article highlights two primary implications of this oversight. First, Pate (2008) suggests that the conclusions drawn from earlier studies may be skewed due to the failure to account for the disproportionate influence of a small number of high-earning CEOs. This calls into question the validity of existing compensation-performance models and indicates a need for a more nuanced approach to analyzing these relationships. By not addressing the unique characteristics and power dynamics associated with elite CEOs, researchers may inadvertently misinterpret the connections between compensation and firm outcomes, thus distorting the empirical landscape. Second, J. Pate (2008) emphasizes the importance of recognizing the relationship between CEO managerial power and firm performance. He posits that shareholders, boards, and policymakers must consider the implications of this power dynamic when structuring compensation packages. The classic agency problem, which arises from the separation of ownership and control within corporations, is a central theme in this discussion. (Pate, 2008) suggests that the potential conflicts between stockholders and management are exacerbated when the compensation of CEOs is not aligned with the interests of shareholders. Furthermore, the article delves into the structure of CEO compensation, examining how corporate governance practices influence these arrangements. (Pate, 2008) analysis implies that a robust governance framework is essential to mitigate the risks associated with excessive managerial power and to ensure that compensation strategies are aligned with long-term organizational performance. This perspective is crucial for understanding the broader implications of compensation practices in the context of corporate governance and performance evaluation.

3.5 Psychological Theories of Compensation

The main characteristic shared by all psychological theories of compensation is that they represent a guide to understanding the causal linkage between compensation and employee motivation. These theories typically identify motivational features that are important to employees and which do, in turn, influence behavior. It is not difficult to argue that motivational aspects are important factors that organizations will need to consider in establishing strategies relative to awarding compensation. As the above will have indicated, psychological theories that relate to compensation can be complex at times. They view an individual's motivations to be the product of many different variables that are intrinsic and extrinsic to the individual. This observation is significant to our understanding of how companies can craft compensation and reward strategies that may best suit the purposes of the company. To be specific, an organization must anticipate and reflect the psychological attitudes and motivations of their employees if they wish to design compensation packages that provide motivational value to their employees. As the above section has already shown, the psychological contract between employer and employee is significant. In terms of the hypotheses in this paper, the psychological contract provides a theoretical underpinning for the basic outcomes of a strategic compensation package. In other words, aligning the expectations of employees to conditions of employment – including compensation – is likely to develop employee loyalty and a willingness to commit. The more this obligation is met, the more employees will be willing to tenaciously commit to the organization, thus providing a potential source of competitive advantage for the company. Had there been a focused strategic compensation plan, then each of the above groups would also have different perceptions about the links between their pay and the above six variables. In conclusion, the different psychological approaches have shown that compensation is not just a financial issue or motivational mechanism. It is also likely to be influenced by psychological processes that are linked with perceptions, fairness, and intentions. Given the different roles of managers and rank-and-file employees, the same compensation formula may not be effective for a diverse workforce.

3.6 External Factors

External Factors. Several factors outside of the organization and the employee will also help to shape compensation strategies. Labor market conditions and governmental regulations both play important roles in determining compensation practices.

Labor Market Conditions. Compensation for any given job is influenced by labor market conditions, which establish wage levels for similar jobs as well as the compensable factors to which offered wages are tied. Labor market conditions are different for every job, industry, and geographical area, but one of the most significant influences is the unemployment rate. As unemployment rises, employers find that they have a larger number of job applicants from which to choose and thus do not have to offer as high a wage to attract workers. Competitive pressures and industry labor standards also play a major role in establishing compensation levels. Companies that are trying to lure workers into traditionally undesirable occupations or encourage turnover at once-prestigious jobs might have to pay their employees significantly more than similar jobs in other companies. Similarly, employers that do not match the wage levels of their direct competitors run the risk of either losing good candidates before they even apply or losing them to another employer offering a higher wage.

Regulatory Environment. The government is generally responsible for setting labor laws and ensuring employer compliance with those standards. These laws usually take the form of mandatory benefits, equal employment opportunity, and workplace safety regulations, with perhaps the most prominent being the minimum wage and Fair Labor Standards Act. In addition to being legally required, complying with the norm of compensation is a smart strategic move. If an organization does not offer pay levels that are competitive with other organizations, potential workers will not apply for the job, and the organization is less likely to attract and hold qualified workers. For this reason, many organizations target the middle of the salary pattern for their employees' pay. It is in these external market conditions and required labor standards that compensation practitioners operate, adjusting pay levels and wage structures to meet market conditions, legal requirements, and organizational strategic objectives.

3.6.1 Labor Market Conditions

One of the most influential factors affecting the development and maintenance of compensation strategies is the labor market in which the employing organization operates. The labor market directly influences companies' compensation strategies by the available workforce they can hire, the wage and qualification trade-offs they can make to retain employees, and the rates at which they hire, promote, and lay off employees. Labor supply and demand trends are instrumental in developing compensation programs that attract and retain labor at costs that are competitive for differences in job characteristics, training, or other qualifications where these differences are relevant. During periods of tight labor markets, firms must attract employees by offering higher compensation, which may not always be matched by higher levels of pay for future assignments or by large amounts of training. In addition, the actual wage rate may not be matched by the employee's perception of the long-term worth of that wage rate, particularly if they do not feel job security is good.

Following 2001, the economic trend to reduce employment—indicated by increasing jobless data from 2002 up to 2006 with a gradual decrease in employment of 34,000 jobs up to 2009—reduced the areas of shortage pressure on the wage levels of companies. Nevertheless, present, and future competition for resources very much depends on the job and industry. With an unemployment rate of 7.4% in March 2013, the labor market is strongly split with no available labor in specific segments of the market, particularly in the fields of engineering, information technology, sales, and logistics. Trade and technical professions such as construction machinery and automotive service workers are also acutely sought after. Concerns regarding demographic profiles and weak policy and influencing factors up to 2030 at least are of great concern to employers in their investment in the development and motivation of key employees in remuneration and skills. Activities of labor unions and collective bargaining between employers and representatives of employees have a major impact on wage rates in many industrial sectors of the economy. Wage pressure due to collective bargaining is possible in countries where collective agreements dominate the labor market. Wage pressure is also possible in countries where the coverage of collective agreements remained very significant. In the UK and Ireland, wage levels also grew in agreement with collective bargaining.

3.6.2 Regulatory Environment

Electric performance-based compensation strategies may need to be adjusted to consider ongoing regulatory requirements. Essential labor laws include minimum wage laws, overtime pay, and pay equity legislation. In some instances, the regulations call for exceptions for salespeople and workers paid on commissions as well as piece-rate, points, or other non-time-based approaches. Other laws that affect how workers are paid or the benefits they earn include unemployment insurance, social security, and workers' compensation. The proposed changes in the laws governing these matters could require companies to reallocate compensation, redirect wage garnishments, or otherwise adjust the status and structure of wages and benefits. Companies may need to remind employees of their rights and transparency in the workplace, including rights related to gaining access to their work history, personnel files, and other aspects that may impact their earnings. Employers should consult federal, state, and local employment or labor attorneys to determine their specific rights and obligations under wage and benefit laws. Employers often commit money to paying economic benefits on behalf of employees. These benefits can include time off, sick pay, health insurance, death and dismemberment insurance, business travel insurance, meal stipends, expense accounts, retirement or disability, tuition assistance, and other fringe benefits. These non-cash payments can impact compensation packages for both part-time, full-time, and temporary staff and workers in the context of tax economy systems. Offering benefits programs can be a method to motivate and cultivate potential employees to acquire a specified set of knowledge and competencies. In a large number of cases, these benefits are "portable" and allow employees to take their financial assets to a new employer. Some employers include these commitments to social programs as part of an overall corporate social responsibility to working communities and as a method to reduce turnover and retain employees.

3.7. Internal Factors

Another perspective on factors determining compensation is to look from an internal perspective. This perspective is best explained by an analysis of how an internal value system shapes employer compensation decision-making. Values and cultural beliefs shape and regulate the internal environment of an organization. The role of values is to guide all members of the organization, hence facilitating the roles of two variable beliefs: work ethic, which reflects the aspired state of employees' involvement at work, and reciprocity norm, which implies some form of equity in pay increases. Organizations must carefully assess the relative importance of those intrinsic motives when designing a particular compensation strategy to attract and retain employees. Organizations with pay strategies that reflect their founding commitments are more effective in terms of IT usage.

The development of a compensation strategy or philosophy is also influenced by financial considerations. An organization's financial position informs its ability to develop compensatory commitments. For example, wages vary with a firm's profits. The managerial component provides major inputs into the design of compensation structures, including whether to make the variable pay a significant part of the wage structure and its design. Management issues are very critical in the administration of performance-based pay and management's leadership style is the most important influence over referent standards. Therefore, the choice for an optimal compensation strategy is not entirely devoid of the internal situation within an organization. It combines both the internal and external situations to form a harmonious platform for the development of suitable compensation ideas.

3.7.1. Organizational Culture and Values

One of the most compelling precursors of a company's compensation strategy relates to organizational culture and values. It is widely acknowledged that successful organizations create, and continually aspire to recreate, a culture of values that inform the way they do business and, by extension, their compensation strategy and practice. Further, some organizations have values that are incorporated into corporate mission, vision, and business strategies and are driven home to employees in both words and actions. It is not surprising that organizations attempting to be innovative are more likely to make up to 40% of rewards at risk through performance-based compensation programs. Organizational culture and values appear to drive not only the extent to which firms offer incentive plans but also the very nature of these incentives.

When employees perceive that their employer values the same things as they do, including those laid out by their faith, it contributes to higher job satisfaction, greater relatedness, and greater motivation. Employers whose values are seen to be aligned with their employees may reduce turnover, recruit more easily, and avoid some of the internal conflicts associated with demographically skewed pay programs. One critical success factor for effectively using values is the organization's ability to ensure that all employees understand what exists at their particular organization. Clearly, some employees whose organizations are highly effective at communicating those values are going to find a tenure-based or unit-of-production-based compensation program spoken of as merit-based to be misaligned with their personal goals. As a result, it is wise for employers embarking upon these systems to already have put in place—and understand that the system needs to be complemented with—communication and support programs for employees. This includes satisfying needs identified under Maslow's hierarchy of needs, including esteem and self-actualization, as well as those identified in Herzberg's two-factor theory.

3.7.2. Financial Performance

A company's financial performance often shapes its compensation strategies and practices. For instance, a company with strong financial backing is usually in a better financial position to pay salaries, bonuses, and benefits. From multiple case companies, an interviewee noted, "*We understand that our industry is cyclical. During very good years, employees can make quite a bit of money. It helps us to have a variable play for salaries through bonuses*." This means that organizations' profitability can be directly linked to compensation. Compensation systems such as rank-order systems, pay for performance, or job status are now challenging organizations to develop systems for compensating employees in a partial meritocracy to pay for performance and treat employees as individuals.

The importance of the link between financial performance and pay has been emphasized as an incentive for employees to do their best and thus improve company performance by driving them to meet company objectives. As one interviewee noted, *"If you create a sales force that does what you want them to do, i.e., move your product, advance your sales, drive your company with excellence, then you deserve to make a lot of money*." Only in this case does it make sense to tie compensation to performance and to value-at-risk for managers. As a district manager for a logistics company explains, *"Our philosophy is designed to get people to be constantly aware of what they can control, what they can do to influence the quality they impart on the service, and the delivery they are making for the client daily*." Connecting pay to performance with key metrics focuses the employees on what they need to do to maintain continued operations and services. Given this idea, managers set compensation so that it follows corporate goals for growth versus profitability. Consequently, they design long-term compensation packages which are often more sensitive to financial results and are subject to a longer delay. In an economic downturn, "Earnings begin to erode before the downturn is known to the general public. Yet my best people sensibly know it. They historically do not want to leave until later on in the game and believe it will right itself. That is an appropriate use of long-term incentives. If they received the incentives upfront, they would have bailed because they wouldn't have the loyalty or the interest in staying."

Chen & Fu (2011) offers a comprehensive examination of the factors influencing compensation strategies within organizations. The authors present a systematic framework that encompasses various dimensions of compensation, emphasizing the interplay between different types of incentives and the overall performance of employees. One of the key insights from the article is the classification of compensation into cash incentives, non-cash incentives, benefits, and perks. This categorization is crucial as it highlights the multifaceted nature of compensation strategies and their potential impact on employee performance. The authors reference Jerez-Gomez's five dimensions of compensation strategy: analysis unit, pay level relative to the market, pay mix, the basis for incentives, and time criteria. These dimensions serve as a foundation for understanding how organizations can effectively structure their compensation practices to enhance employee satisfaction and performance (Chen & Fu, 2011). The article critically evaluates the significance of employee perceptions regarding their work environment, which can be categorized into hygiene factors and motivators. Hygiene factors, such as company policies, supervision, and work conditions, are essential for reducing job dissatisfaction and turnover intention. Conversely, motivators relate to psychological feedback, including achievement and recognition, which can lead to higher employee engagement and satisfaction. The authors argue that addressing both hygiene factors and motivators is vital for developing a holistic compensation strategy that meets employees' diverse needs (Chen & Fu, 2011)

Furthermore, the article discusses the distinction between extrinsic and intrinsic rewards. Extrinsic rewards, such as salary and bonuses, are externally mediated and can be directly linked to financial performance. In contrast, intrinsic rewards arise from internal motivations, such as the attitudes of superiors and the achievement of market goals. The authors reference findings from Cordero, Walsh, and Kirchhoff that suggest an over-reliance on financial incentives may undermine intrinsic motivation, particularly in jobs that are inherently motivating. This raises important questions about the balance organizations must strike between extrinsic and intrinsic rewards to foster a motivated workforce (Chen & Fu, 2011). The article also highlights the varying motivations of different employee groups. For instance, unskilled workers may prioritize extrinsic rewards, while professional employees often derive motivation from intrinsic factors. This distinction underscores the necessity for organizations to tailor their compensation strategies to meet the specific needs of diverse employee demographics (Chen & Fu, 2011).

Logroño Anto (2013) provides a comprehensive assessment of the compensation management practices employed by various organizations. The study highlights the critical role that effective compensation management plays in enhancing organizational productivity and employee motivation. (Logroño Anto, 2013) emphasizes that companies lacking a formal compensation program often determine job worth based on subjective opinions, which can lead to inconsistencies and dissatisfaction among employees. A significant insight from the article is the distinction between organizations with and without formal compensation programs. (Logroño Anto, 2013) argues that companies with structured compensation systems are more likely to utilize job evaluation processes to establish pay rates, thereby promoting fairness and equity within the organization. This structured approach not only aids in determining appropriate compensation levels but also aligns employee remuneration with the overall strategic goals of the organization. The article further elaborates on the importance of internal and external equity in compensation systems. (Logroño Anto, 2013) posits that a well-designed compensation structure should ensure that employees perceive their pay as fair relative to their peers within the organization (internal equity) and in comparison to similar roles in the external labor market (external equity). This dual focus is essential for attracting high-quality talent and maintaining employee satisfaction, which are pivotal for organizational success. Moreover, the author highlights the necessity for HR managers to develop and implement effective compensation management programs. Such programs should be informed by systematic job evaluations and wage surveys to create a robust base salary structure. This structured approach not only aids in establishing pay ranges for various jobs but also reinforces the organization's commitment to equitable compensation practices. Ollero Oliveira (2015) provides a nuanced examination of the implications of vertical pay disparity on corporate performance, particularly in the context of Korean firms. The central thesis posits that the negative effects of pay inequality on performance vary significantly across different cultural and economic contexts. This assertion is particularly compelling as it highlights the complex relationship between pay structures and employee motivation, suggesting that workers' responses to inequality are not universally applicable. Ollero Oliveira's (2015) analysis reveals that in countries characterized by high levels of inequality, such as the United States, workers may respond positively to disparities in pay. This contrasts sharply with the findings in South Korea, where vertical pay disparity correlates with adverse effects on organizational performance. This distinction is crucial for understanding how cultural contexts influence compensation strategies and the effectiveness of those strategies in achieving desired outcomes. The article thus contributes valuable insights into the factors that influence companies' compensation practices, particularly the need for firms to consider their unique cultural and economic environments when designing pay structures.

The review of existing literature on pay disparity, as articulated by Ollero Oliveira (2015), underscores the dual perspectives surrounding vertical compensation strategies. One perspective views pay disparity as a motivational tool, positing that it encourages lower-level employees to strive for promotions by creating a competitive environment. Conversely, the article also acknowledges the detrimental effects of excessive inequality, particularly in terms of employee morale and overall firm performance. This duality in perspectives presents a rich area for further investigation, particularly in how firms can balance the need for competitive pay structures with the potential negative consequences of perceived inequality. Moreover, Ollero Oliveira (2015) findings regarding the relationship between executive pay and worker compensation add another layer of complexity to the discussion. The dramatic rise in the disparity between these two groups, while well-documented, raises important questions about the sustainability of such practices and their long-term effects on firm performance. The article suggests that while higher pay for executives may be justified to attract top talent, it also risks alienating the broader workforce, particularly in cultures where egalitarian values are more pronounced. Bussin (2018) explores the multifaceted factors influencing executive compensation, particularly in the context of the mining sector in South Africa. The article critically examines the implications of salary disparity between executives and lower-tier employees, positing that such disparities may detrimentally affect organizational performance. This assertion prompts a deeper investigation into the determinants of executive compensation, which (Bussin, 2018) identifies as organization size, performance, executive-specific attributes, organizational structure, position-specific factors, and job complexity. The article begins by contextualizing executive compensation within the framework of principal-agent theory, which highlights the inherent conflicts arising from the separation of ownership and control in organizations. This theory suggests that the interests of shareholders (principals) and managers (agents) may not always align, leading to potential self-serving behaviors by executives. (Bussin, 2018) effectively underscores the necessity for organizations to develop compensation packages that not only attract and retain high-caliber CEOs but also mitigate the principal-agent conflict. To address this misalignment, the article introduces optimal contracting theory, which advocates for the design of compensation structures that align the interests of executives with those of shareholders. This theory emphasizes the use of financial incentives to motivate CEOs to prioritize organizational performance while also pursuing personal financial gain. (Bussin, 2018) analysis of optimal contracts provides valuable insights into how organizations can create compensation strategies that serve dual objectives, thereby enhancing both executive accountability and organizational effectiveness.

Furthermore, Bussin (2018) delves into managerial power theory, which emerged in response to the financial crises of the early 21st century. This theory posits that executives possess significant influence over their compensation arrangements, raising concerns about the potential for excessive pay packages that do not correlate with organizational performance. By examining this dynamic, the article highlights the need for transparency and governance mechanisms to ensure that executive compensation is justified and aligned with organizational outcomes.

5. Conclusion and Final Thoughts

In conclusion, multiple factors shape companies' compensation strategies and practices. We can differentiate between external, and environmental components such as the labor market, the pay structure, the cost of living, government regulations, and the social contract of the respective society, and internal factors that are derived from the employer-employee relationship. Managers must understand the internal factors that drive their compensation practices. *First,* there are employer-specific factors such as the employment contract, HR strategy, and the company's values, which stem from its ownership. *Further,* the personal characteristics of individuals in organizations influence compensation levels, as motivational theory would predict. Moreover, there are labor-relationship-specific factors associated with the reduction in employee opportunism; these refer to the existence of performance appraisal systems, labor unions, and wage councils, and also of grudges and commitments between employees. An interactive relationship likely exists between these factors and current pay strategies, such that pay strategies adjust and adapt somewhat to fit these financial, psychological, and normative aspects. However, it is unlikely that existing pay strategies were installed because of these factors, other than in the very general sense that all organizations are embedded in some specific labor market, regulatory environment, and cultural system. This suggests that the factors we have outlined above are less influential than other forces compelling companies to pay. Looking to the future, continuously rising costs of living mandate a similar, or even faster growth of pay. Ongoing government inquiries into remuneration systems, increasing attention to the 'fairness' of income distribution, in-work poverty inquiries, and corporate social responsibility concerns also ensure that firms will continue to focus considerable attention on the design of existing pay structures. New work organizations, characterized by the introduction of flexible, mobile working, collaborative practices, and decision-making at all levels of the organization associated with trust-based human resource practices, will require the development of new and more innovative pay structures. Consequently, understanding the nature of the pay setting for these groups of employees who are set to represent a large percentage of the working population will be critical to business success in the years to come. Strategic pay refers to the linking of remuneration policies and practices to the attainment of the organization's strategic business objectives. In our future work, we need to consider how to adapt strategic pay models to fit these environments better. Salary or wage has traditionally been the primary form of employee remuneration, however, in an environment that demands flexibility, it is unlikely that a one-size-fits-all salary approach will have validity. This implies that if an organization is to implement an overarching flexible approach, which it will almost certainly be forced to do by both employees and shareholders keen on reducing costs, some form of top-down remuneration system must be put in place to match the bottom-up flexible organization. Some obvious alternatives to salary might be considered, including time-based, production-based variable pay, combinations of the two, and for more senior executives, share and or option-based arrangements. All these compensation options will need to be reconsidered in the light of new work organizations and this will form part of our future agenda. Adapting pay systems to new work organizations may help to explain the dynamic between these different influencing factors to which the labor market perspectives can contribute. All relevant stakeholders in the company need to be part to all compensation discussions. Organizations these days need a more holistic view of the compensation package on offer. A wrong approach with any one stakeholder group, e.g. employees, may weaken the overall agreement and hence the resulting compensation package. Finally, compensation strategies are influenced by a multitude of factors, including societal values, organizational culture, employee motivations, and the specific industry context. Organizations must adopt a strategic approach to compensation that not only aligns with their goals but also resonates with the expectations of their employees. This multifaceted understanding is essential for developing effective compensation practices that enhance both employee satisfaction and organizational performance.

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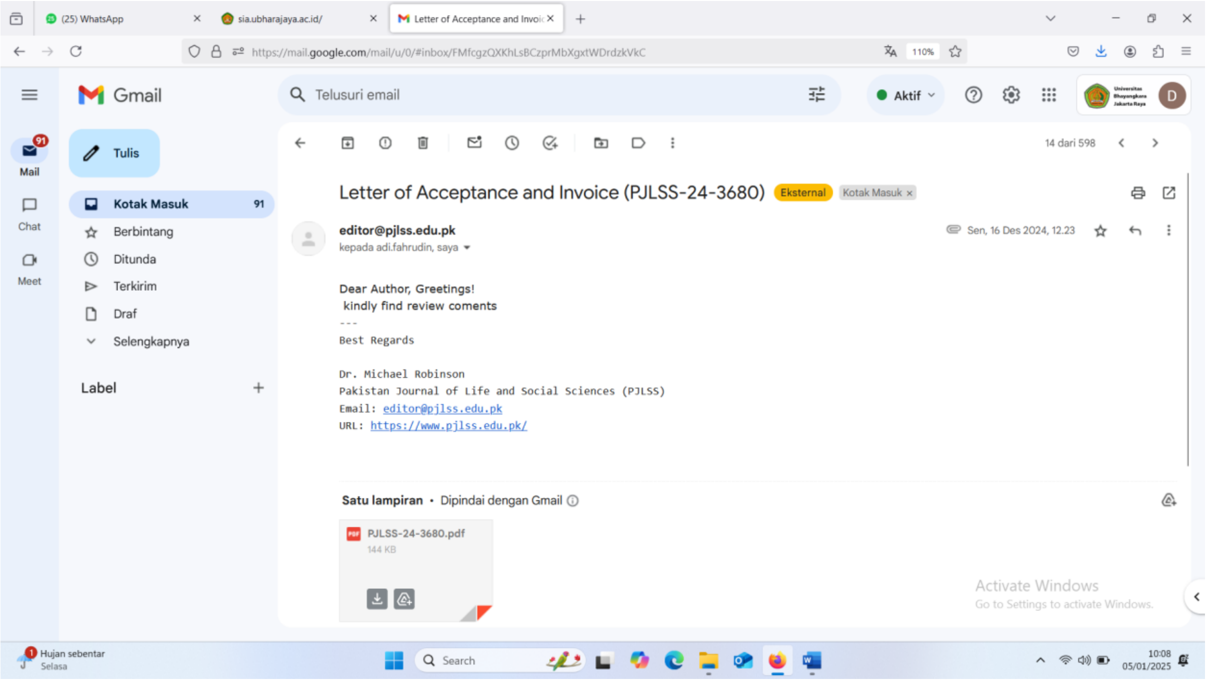

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Thank you for providing me the opportunity to review the manuscript titled "**Factors Influencing Companies' Compensation Strategies and Practices: A Literature Review**" I enjoyed reading this draft and would like to appreciate your work. Below, I provide my section-wise comments on this manuscript.

1. Abstract is comprehensive. The main objective of the study is clear. Research design of the study should be elaborated. It would add value to your study if you added a few lines explaining the results of study, implications, and some future directions.

2. The introduction and literature writing is good. Please, extend discussion on research gap and support it with the study references that highlighted it as potential area of future research. You should highlight here practical and theoretical significance of study.

3. Methodology is nicely presented. detailed explanation of research design is considerable.

4. Results of study are well described. Throughout the discussion, it would benefit your study to compare and contrast to other studies, showing similar results, measuring the same variables.

5. Conclusion of study is well described. You should state here what you infer from the results of study. There is need to add implications, limitations of research work and recommend some directions for future research.

6. APA style is recommended for research paper. Therefore, you should format the references as per APA guidelines.

7. The overall writing is good. However, you should proofread the draft and make changes as recommended to make the research more comprehensive. Incorporation of above-mentioned comments will make your study publishable.

8. I wish you the best of luck in your continued research endeavors

Factors Influencing Companies' Compensation Strategies and Practices: A Literature Review

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Abstract

This article presents a systematic literature review of factors influencing companies' compensation strategies and practices. Compensation is crucial in human resource management, significantly affecting employee motivation, job satisfaction, and overall organizational performance. The review follows PRISMA guidelines, synthesizing findings from international and regional studies, ensuring a comprehensive understanding of diverse factors that shape compensation systems. These factors include market forces, organizational culture, employee motivation, and government regulations. The analysis reveals that compensation strategies are not merely financial tools but are intertwined with organizational goals and cultural values. Key findings indicate that aligning compensation practices with employee expectations and societal norms enhances competitiveness and retention. However, gaps in empirical research on the link between compensation systems and long-term organizational outcomes remain. The study's insights provide actionable strategies for organizations seeking to refine their compensation approaches, with implications for improving employee satisfaction and retention. Future research should explore innovative compensation models adapted to the evolving workforce and organizational structures.

Keywords: *Compensation, employee motivation, market forces, organizational culture, government regulations.*

1. Introduction

Compensation is a significant part of human resource management. Thus, a company's strategies and level of compensation for employees can have a marked effect on their motivation to do their jobs, perform successfully, and remain with the company. Formulating sound compensation strategies and innovating recent compensation systems or improving existing ones are significant for all sorts of companies. It is also argued that the compensation approach can raise performance and improve organizational results altogether. This essay is designed to provide a comprehensive overview of compensation strategies and practices while at the same time spotlighting the factors that influence them.

Pay level influences employee reward satisfaction and turnover, while pay variability and performance-related pay can influence strategy. There is a two-stage process of compensation decision-making: first, how to pay at the market rate, and next, what technique to use within the organization. The essay looks at the internal and external influences within the context of the second stage. Compensation and strategies of reward may affect corporate results nowadays. The selected scope is described to include those elements regarded as 'critical.' The targets are to provide an understanding of some critical external and internal components in shaping compensation strategies and practices. It is proposed that companies may select more variable and results-associated strategies of compensation to contend with the hostile environment. It is necessary to evaluate and respond to the growing effect of global recruitment on pay in the apex labor market.

Despite the extensive body of literature examining compensation strategies and practices, notable research gaps persist. While many studies emphasize the role of compensation in enhancing employee motivation, job satisfaction, and organizational performance (Ali & Anwar, 2021; Nguyen, Yandi, & Mahaputra, 2020), limited empirical research has been conducted on the long-term impacts of compensation systems on organizational sustainability and competitive advantage. Additionally, studies exploring integrating compensation strategies with organizational culture and employee expectations remain fragmented (Chen & Fu, 2011; Logroño Anto, 2013). For instance, Milkovich (1992) highlights the lack of frameworks bridging economic and psychological compensation theories, suggesting a need for multidisciplinary approaches to understand how compensation influences organizational outcomes.

From a practical standpoint, this study holds significant implications for human resource practitioners and organizational leaders. Understanding the nuanced factors influencing compensation practices can aid organizations in designing systems that not only attract and retain talent but also foster employee loyalty and productivity. Furthermore, addressing gaps in compensation-related research could support policymakers in establishing fair labor practices and equitable wage systems, particularly in dynamic labor markets.

Theoretically, this study contributes to the literature by synthesizing diverse perspectives on compensation strategies, ranging from economic and psychological theories to organizational and cultural contexts. It also identifies underexplored areas, such as the relationship between vertical pay disparity and organizational performance (Ollero Oliveira, 2015) and the impact of compensation on employee perceptions of fairness and motivation (Chen & Fu, 2011). By addressing these gaps, the study provides a foundation for future research aimed at developing innovative, adaptable compensation frameworks that align with evolving workforce and societal expectations.

Although numerous studies have explored compensation strategies, several research gaps remain evident. For instance, Milkovich (1992) and Chen and Fu (2011) highlighted that the integration of economic and psychological perspectives in compensation systems has not been thoroughly investigated. Additionally, Ollero Oliveira (2015) found that vertical pay disparity could significantly impact organizational performance, but empirical crosscultural studies remain scarce. Boyd and Salamin (2001) suggested that contingency models for pay system design require further validation across diverse industrial contexts. Thus, this study aims to contribute by synthesizing findings from previous research, particularly on integrating compensation strategies with organizational culture and employee perceptions.

2. Methodology

The methodology of this study was structured to ensure a rigorous and comprehensive examination of the factors influencing companies' compensation strategies and practices. The research adhered to the PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) guidelines, which provided a transparent and replicable framework for conducting the literature review. The study employed a mixed-method approach, integrating qualitative and quantitative findings to identify key themes and patterns.

2.1 Research Design

This study adopts a systematic literature review as its core research design. This approach was chosen to synthesize existing knowledge, highlight trends, and identify gaps in the literature. The design allowed for an in-depth analysis of diverse sources, including journal articles, conference proceedings, and reports from international and regional contexts. By integrating theoretical and empirical studies, the research aimed to provide a holistic understanding of the topic. The narrative synthesis method was used to interpret findings, ensuring coherence and consistency across the analyzed studies.

2.2 Data Collection

This study followed the PRISMA guidelines to ensure transparency in the selection and analysis of the literature (Liberati et al., 2009). Major databases such as Scopus, Google Scholar, and local Indonesian journals were used, as suggested by Nguyen et al. (2020), with keywords like “compensation strategies,” “compensation practices,” and “factors influencing compensation.” A thematic analysis approach, as proposed by Braun and Clarke (2006), was employed to identify recurring patterns and themes. Furthermore, the study incorporated cultural differences, as emphasized by Ollero Oliveira (2015), to ensure the relevance of findings across diverse contexts.

2.3 Data Analysis

The data were analyzed using thematic analysis to identify recurring factors and emerging trends in compensation strategies. Key themes were categorized based on internal and external factors influencing compensation practices, such as labor market conditions, organizational culture, employee motivation, and regulatory frameworks. This comprehensive analysis provided actionable insights into both micro-level (organizational) and macro-level (societal) influences.

2.4 Validity and Reliability

To ensure the validity and reliability of the findings, all included studies were critically appraised for methodological rigor, relevance, and quality. Cross-referencing and peer debriefing were used to minimize bias and enhance the robustness of the analysis. The systematic approach ensures that the findings are credible and applicable across varied organizational settings.

3. Result

3.1 Theoretical Framework

With the challenge brought by globalization, organizations have progressively utilized employees' abilities and knowledge as strategic resources to attain competitiveness. This development has resulted in an increasing number of studies on compensation that either re-investigate earlier issues considering global competition or present new trends and issues reflective of new organizational priorities. Therefore, it is not surprising that the most recent literature reviews of compensation outline the multi-level issues of incentives, monitoring, and control mechanisms that are being integrated into organizations' compensation practices. Although there has been little effort in the literature to link these two categories of compensation theories easily and simply, it is apparent that a proper explanation of any phenomenon needs both these elements.

The uniqueness of the economic perspective in the explanation of compensation suggests that a compensation design is based on market forces and individual productivity, whereas psychological explanations stress the impact of perceptions and behaviors of individuals on compensation outcomes. At the outset, organizations usually turn to economic theories for the design of management compensation because of market forces that call for organizations to pay high compensation to attract qualified executives. The pay-for-performance schemes became popular as the link between employee performance and organizational outcomes started to receive research attention. Building on the results of psychological theories highlighting the negative consequences of linking pay to performance, recent literature has documented the trend toward the use of compensation practices that ensure a high internal justice perception among employees. Personal economic consequences have been examined in terms of contract law and include issues like misclassification and the basis for the employee-employer contract. Milkovich (1992) presents a comprehensive analysis of the evolving landscape of employee compensation and its implications for organizational effectiveness and societal values. The article emphasizes that understanding the current trends in compensation is crucial for predicting future practices, which is particularly relevant in a market characterized by continuous change.

3.2 Important of Compensation

The landscape of compensation strategies and practices has been shaped by a myriad of factors, as illustrated by the progression of literature on this subject. Milkovich (1992) highlights the dynamic nature of compensation systems, emphasizing that today's choices will significantly influence future employment relations. He argues that compensation is not merely a financial consideration but a reflection of societal values regarding social justice, thus positioning it as a strategic tool for organizations to achieve competitive advantage. Building on this foundation, (M. Cable & A. Judge, 1993) delve into the implications of compensation systems on job search decisions, particularly through the lens of person-organization fit. They assert that individuals often self-select into organizations based on perceived alignment with compensation policies, which serve as a stable indicator of organizational culture. This relationship underscores the critical role that compensation plays in attracting the right talent and highlights the need for organizations to be mindful of how their pay structures are perceived by potential employees.

J. Pate (2008) further refines the discourse by investigating the intricate relationship between CEO compensation and firm performance. His findings suggest that prior research may have overlooked the influence of a select group of highly compensated executives, potentially distorting conclusions about the effectiveness of compensation models. This insight is crucial for stakeholders seeking to understand the broader implications of compensation structures on corporate governance and performance. Meanwhile, Chen & Fu (2011) introduce a systematic framework for performance appraisal linked to compensation strategies, identifying various dimensions such as pay level, pay mix, and the basis for incentives. Their work emphasizes the importance of aligning compensation strategies with both physiological and psychological employee needs, thereby enhancing job satisfaction and performance. This perspective reinforces the notion that compensation practices must be carefully crafted to meet diverse employee motivations. Logroño Anto (2013) focuses on the practical application of compensation management practices, revealing that organizations with formal compensation programs generally achieve better productivity outcomes. He advocates for the establishment of equitable compensation systems through job evaluations and wage surveys, underscoring the necessity for organizations to adopt structured approaches to compensation management. Ollero Oliveira (2015) brings attention to the effects of pay disparity on organizational performance, particularly in the context of Korean firms. His analysis indicates that vertical pay disparity can have detrimental effects, particularly in cultures sensitive to inequality. This research highlights the importance of understanding the implications of compensation structures on employee motivation and overall firm success. Lastly, Bussin (2018) examines the South African mining industry, scrutinizing the effects of executive compensation disparities on organizational performance. He identifies key determinants influencing executive pay, such as organizational size and performance, while also addressing the principal-agent theory and its relevance in aligning the interests of executives and shareholders. This exploration of executive compensation within a specific industry context adds depth to the understanding of compensation practices and their broader implications. Together, these articles contribute to a nuanced understanding of the factors influencing companies' compensation strategies and practices, illustrating the intricate interplay between compensation, organizational culture, employee motivation, and performance outcomes.

3.3 Economic Theories of Compensation

To understand the salary strategy of a firm, it is necessary to know compensation structures, practices, and the basic factors affecting the thinking of economists regarding compensation, generally called wage. First, two very important concepts related to market equilibrium and competition are considered. It begins with the proposition that the wage is settled at the mobile inflection of labor money and that the employee is fighting for the highest labor wage. Especially, these are applied in the aspect of strategy making if maintained firm profitability that depends on productivity and labor wage of employees. From an economic perspective, several studies have shown a clear relationship between company performance and the wage policies of that company. Therefore, various mechanisms ensure that wages are maintained at equilibrium from an economic perspective of "compensation based on contribution" and they have been studied to perform the function of incentive "Performance-dependent pay." Various theories about wages have been developed to understand wage policies. Wages are generally determined through a labor market, at the point at which the supply of labor equals demand, with compensation reflecting the value of the productive contribution of individual workers. Wages are determined by the market, and supply and demand factors are reflected in salary levels paid to various job incumbents in the external labor market. The former would include an increase in the supply of labor, often attributed to the entry of women into the workforce in greater numbers, especially in the 1970s and 1980s. Several labor market theories suggest methods for establishing pay levels that are determined by the interaction of labor supply and labor demand in the market.

3.4 External Factors

Milkovich (1992) also outlines several key forces influencing compensation strategies, highlighting that these strategies are not merely administrative tasks but are inherently strategic decisions that can significantly affect an organization's competitive positioning. The author argues that the way employees are compensated reflects broader societal values and notions of social justice, suggesting that compensation practices are intertwined with the socioeconomic fabric of a nation. This perspective underscores the importance of aligning compensation strategies with both organizational goals and societal expectations.

Furthermore, the article discusses the transformation of industrial relations systems in North America, noting that these changes are accompanied by shifts in compensation practices. (Milkovich, 1992) posits that as employment relations evolve, so too must the strategies employed by organizations to attract and retain talent. This evolution is described as a response to the dynamic nature of market economies, where organizations must continuously adapt their compensation structures to remain competitive. One of the most significant insights from the article is the transition from viewing compensation as a mere administrative function to recognizing it as a critical component of strategic management. (Milkovich, 1992) argues that organizations must make deliberate choices regarding compensation practices that not only address current employee needs but also anticipate future trends. This strategic approach to compensation is essential for sustaining competitive advantage in an increasingly complex business environment.

Cable & Judge (1993) delve into the intricate relationship between compensation strategies and the job search behaviors of potential employees. The authors argue that self-selection in the hiring process is a critical consideration for organizations, as the characteristics of individuals drawn to a company can significantly influence its overall composition. This insight is particularly relevant when analyzing how different compensation policies can attract specific types of employees, which in turn aligns with the principles of person-organization fit. The authors highlight that applicants often make job choices based on their personalities and how well these align with the organizational culture. Compensation policies serve as stable indicators of this culture, providing job seekers with observable information that can inform their decisions. The article emphasizes that pay systems are not only a reflection of an organization’s values but also play a pivotal role in shaping applicant perceptions. As such, compensation strategies become vital in attracting talent that fits well within the organizational framework.

A key contribution of this study is the identification of five strategic decisions that influence compensation systems: external competitiveness, internal pay structure, individual differences/employee contributions, benefits, and alternatives to traditional systems. These elements are crucial for compensation and human resource managers, as they directly impact job seekers' impressions of the organization. The authors point out that while many pay system decisions are made with the intent of enhancing business success, only those that strategically align with the organization’s overall goals are deemed significant. Despite the valuable insights provided, the article also acknowledges a notable gap in empirical research regarding the relationship between total compensation systems and job search decisions. This lack of systematic investigation limits the understanding of how various compensation attributes can influence potential employees' choices. The authors advocate for further research in this area to better inform compensation strategies that align with organizational objectives and employee expectations. Pate (2008) critically examines the dynamics between CEO compensation and firm performance, particularly emphasizing the influence of a select group of highly compensated CEOs. (J. Pate, 2008) argues that previous empirical research may have overlooked the significant impact that these elite CEOs have on the overall compensation landscape and firm performance metrics. This assertion challenges the conventional understanding of compensation structures and their direct correlation with firm performance. The article highlights two primary implications of this oversight. First, Pate (2008) suggests that the conclusions drawn from earlier studies may be skewed due to the failure to account for the disproportionate influence of a small number of high-earning CEOs. This calls into question the validity of existing compensation-performance models and indicates a need for a more nuanced approach to analyzing these relationships. By not addressing the unique characteristics and power dynamics associated with elite CEOs, researchers may inadvertently misinterpret the connections between compensation and firm outcomes, thus distorting the empirical landscape. Second, J. Pate (2008) emphasizes the importance of recognizing the relationship between CEO managerial power and firm performance. He posits that shareholders, boards, and policymakers must consider the implications of this power dynamic when structuring compensation packages. The classic agency problem, which arises from the separation of ownership and control within corporations, is a central theme in this discussion. (Pate, 2008) suggests that the potential conflicts between stockholders and management are exacerbated when the compensation of CEOs is not aligned with the interests of shareholders. Furthermore, the article delves into the structure of CEO compensation, examining how corporate governance practices influence these arrangements. (Pate, 2008) analysis implies that a robust governance framework is essential to mitigate the risks associated with excessive managerial power and to ensure that compensation strategies are aligned with long-term organizational performance. This perspective is crucial for understanding the broader implications of compensation practices in the context of corporate governance and performance evaluation.

3.5 Psychological Theories of Compensation

The main characteristic shared by all psychological theories of compensation is that they represent a guide to understanding the causal linkage between compensation and employee motivation. These theories typically identify motivational features that are important to employees and which do, in turn, influence behavior. It is not difficult to argue that motivational aspects are important factors that organizations will need to consider in establishing strategies relative to awarding compensation. As the above will have indicated, psychological theories that relate to compensation can be complex at times. They view an individual’s motivations to be the product of many different variables that are intrinsic and extrinsic to the individual. This observation is significant to our understanding of how companies can craft compensation and reward strategies that may best suit the purposes of the company. To be specific, an organization must anticipate and reflect the psychological attitudes and motivations of their employees if they wish to design compensation packages that provide motivational value to their employees. As the above section has already shown, the psychological contract between employer and employee is significant. In terms of the hypotheses in this paper, the psychological contract provides a theoretical underpinning for the basic outcomes of a strategic compensation package. In other words, aligning the expectations of employees to conditions of employment – including compensation – is likely to develop employee loyalty and a willingness to commit. The more this obligation is met, the more employees will be willing to tenaciously commit to the organization, thus providing a potential source of competitive advantage for the company. Had there been a focused strategic compensation plan, then each of the above groups would also have different perceptions about the links between their pay and the above six variables. In conclusion, the different psychological approaches have shown that compensation is not just a financial issue or motivational mechanism. It is also likely to be influenced by psychological processes that are linked with perceptions, fairness, and intentions. Given the different roles of managers and rank-and-file employees, the same compensation formula may not be effective for a diverse workforce.

3.6 External Factors

External Factors. Several factors outside of the organization and the employee will also help to shape compensation strategies. Labor market conditions and governmental regulations both play important roles in determining compensation practices.

Labor Market Conditions. Compensation for any given job is influenced by labor market conditions, which establish wage levels for similar jobs as well as the compensable factors to which offered wages are tied. Labor market conditions are different for every job, industry, and geographical area, but one of the most significant influences is the unemployment rate. As unemployment rises, employers find that they have a larger number of job applicants from which to choose and thus do not have to offer as high a wage to attract workers. Competitive pressures and industry labor standards also play a major role in establishing compensation levels. Companies that are trying to lure workers into traditionally undesirable occupations or encourage turnover at once-prestigious jobs might have to pay their employees significantly more than similar jobs in other companies. Similarly, employers that do not match the wage levels of their direct competitors run the risk of either losing good candidates before they even apply or losing them to another employer offering a higher wage.

Regulatory Environment. The government is generally responsible for setting labor laws and ensuring employer compliance with those standards. These laws usually take the form of mandatory benefits, equal employment opportunity, and workplace safety regulations, with perhaps the most prominent being the minimum wage and Fair Labor Standards Act. In addition to being legally required, complying with the norm of compensation is a smart strategic move. If an organization does not offer pay levels that are competitive with other organizations, potential workers will not apply for the job, and the organization is less likely to attract and hold qualified workers. For this reason, many organizations target the middle of the salary pattern for their employees' pay. It is in these external market conditions and required labor standards that compensation practitioners operate, adjusting pay levels and wage structures to meet market conditions, legal requirements, and organizational strategic objectives.

3.6.1 Labor Market Conditions

One of the most influential factors affecting the development and maintenance of compensation strategies is the labor market in which the employing organization operates. The labor market directly influences companies' compensation strategies by the available workforce they can hire, the wage and qualification trade-offs they can make to retain employees, and the rates at which they hire, promote, and lay off employees. Labor supply and demand trends are instrumental in developing compensation programs that attract and retain labor at costs that are competitive for differences in job characteristics, training, or other qualifications where these differences are relevant. During periods of tight labor markets, firms must attract employees by offering higher compensation, which may not always be matched by higher levels of pay for future assignments or by large amounts of training. In addition, the actual wage rate may not be matched by the employee's perception of the long-term worth of that wage rate, particularly if they do not feel job security is good.

Following 2001, the economic trend to reduce employment—indicated by increasing jobless data from 2002 up to 2006 with a gradual decrease in employment of 34,000 jobs up to 2009—reduced the areas of shortage pressure on the wage levels of companies. Nevertheless, present, and future competition for resources very much depends on the job and industry. With an unemployment rate of 7.4% in March 2013, the labor market is strongly split with no available labor in specific segments of the market, particularly in the fields of engineering, information technology, sales, and logistics. Trade and technical professions such as construction machinery and automotive service workers are also acutely sought after. Concerns regarding demographic profiles and weak policy and influencing factors up to 2030 at least are of great concern to employers in their investment in the development and motivation of key employees in remuneration and skills. Activities of labor unions and collective bargaining between employers and representatives of employees have a major impact on wage rates in many industrial sectors of the economy. Wage pressure due to collective bargaining is possible in countries where collective agreements dominate the labor market. Wage pressure is also possible in countries where the coverage of collective agreements remained very significant. In the UK and Ireland, wage levels also grew in agreement with collective bargaining.

3.6.2 Regulatory Environment

Electric performance-based compensation strategies may need to be adjusted to consider ongoing regulatory requirements. Essential labor laws include minimum wage laws, overtime pay, and pay equity legislation. In some instances, the regulations call for exceptions for salespeople and workers paid on commissions as well as piece-rate, points, or other non-time-based approaches. Other laws that affect how workers are paid or the benefits they earn include unemployment insurance, social security, and workers' compensation. The proposed changes in the laws governing these matters could require companies to reallocate compensation, redirect wage garnishments, or otherwise adjust the status and structure of wages and benefits. Companies may need to remind employees of their rights and transparency in the workplace, including rights related to gaining access to their work history, personnel files, and other aspects that may impact their earnings. Employers should consult federal, state, and local employment or labor attorneys to determine their specific rights and obligations under wage and benefit laws. Employers often commit money to paying economic benefits on behalf of employees. These benefits can include time off, sick pay, health insurance, death and dismemberment insurance, business travel insurance, meal stipends, expense accounts, retirement or disability, tuition assistance, and other fringe benefits. These non-cash payments can impact compensation packages for both part-time, full-time, and temporary staff and workers in the context of tax economy systems. Offering benefits programs can be a method to motivate and cultivate potential employees to acquire a specified set of knowledge and competencies. In a large number of cases, these benefits are "portable" and allow employees to take their financial assets to a new employer. Some employers include these commitments to social programs as part of an overall corporate social responsibility to working communities and as a method to reduce turnover and retain employees.

3.7. Internal Factors

Another perspective on factors determining compensation is to look from an internal perspective. This perspective is best explained by an analysis of how an internal value system shapes employer compensation decision-making. Values and cultural beliefs shape and regulate the internal environment of an organization. The role of values is to guide all members of the organization, hence facilitating the roles of two variable beliefs: work ethic, which reflects the aspired state of employees' involvement at work, and reciprocity norm, which implies some form of equity in pay increases. Organizations must carefully assess the relative importance of those intrinsic motives when designing a particular compensation strategy to attract and retain employees. Organizations with pay strategies that reflect their founding commitments are more effective in terms of IT usage.

The development of a compensation strategy or philosophy is also influenced by financial considerations. An organization’s financial position informs its ability to develop compensatory commitments. For example, wages vary with a firm’s profits. The managerial component provides major inputs into the design of compensation structures, including whether to make the variable pay a significant part of the wage structure and its design. Management issues are very critical in the administration of performance-based pay and management’s leadership style is the most important influence over referent standards. Therefore, the choice for an optimal compensation strategy is not entirely devoid of the internal situation within an organization. It combines both the internal and external situations to form a harmonious platform for the development of suitable compensation ideas.

3.7.1. Organizational Culture and Values

One of the most compelling precursors of a company's compensation strategy relates to organizational culture and values. It is widely acknowledged that successful organizations create, and continually aspire to recreate, a culture of values that inform the way they do business and, by extension, their compensation strategy and practice. Further, some organizations have values that are incorporated into corporate mission, vision, and business strategies and are driven home to employees in both words and actions. It is not surprising that organizations attempting to be innovative are more likely to make up to 40% of rewards at risk through performance-based compensation programs. Organizational culture and values appear to drive not only the extent to which firms offer incentive plans but also the very nature of these incentives.

When employees perceive that their employer values the same things as they do, including those laid out by their faith, it contributes to higher job satisfaction, greater relatedness, and greater motivation. Employers whose values are seen to be aligned with their employees may reduce turnover, recruit more easily, and avoid some of the internal conflicts associated with demographically skewed pay programs. One critical success factor for effectively using values is the organization's ability to ensure that all employees understand what exists at their particular organization. Clearly, some employees whose organizations are highly effective at communicating those values are going to find a tenure-based or unit-of-production-based compensation program spoken of as merit-based to be misaligned with their personal goals. As a result, it is wise for employers embarking upon these systems to already have put in place—and understand that the system needs to be complemented with—communication and support programs for employees. This includes satisfying needs identified under Maslow's hierarchy of needs, including esteem and self-actualization, as well as those identified in Herzberg's two-factor theory.

3.7.2. Financial Performance

A company's financial performance often shapes its compensation strategies and practices. For instance, a company with strong financial backing is usually in a better financial position to pay salaries, bonuses, and benefits. From multiple case companies, an interviewee noted, "*We understand that our industry is cyclical. During very good years, employees can make quite a bit of money. It helps us to have a variable play for salaries through bonuses*." This means that organizations' profitability can be directly linked to compensation. Compensation systems such as rank-order systems, pay for performance, or job status are now challenging organizations to develop systems for compensating employees in a partial meritocracy to pay for performance and treat employees as individuals.

The importance of the link between financial performance and pay has been emphasized as an incentive for employees to do their best and thus improve company performance by driving them to meet company objectives. As one interviewee noted, *"If you create a sales force that does what you want them to do, i.e., move your product, advance your sales, drive your company with excellence, then you deserve to make a lot of money*." Only in this case does it make sense to tie compensation to performance and to value-at-risk for managers. As a district manager for a logistics company explains, *"Our philosophy is designed to get people to be constantly aware of what they can control, what they can do to influence the quality they impart on the service, and the delivery they are making for the client daily*." Connecting pay to performance with key metrics focuses the employees on what they need to do to maintain continued operations and services. Given this idea, managers set compensation so that it follows corporate goals for growth versus profitability. Consequently, they design long-term compensation packages which are often more sensitive to financial results and are subject to a longer delay. In an economic downturn, "Earnings begin to erode before the downturn is known to the general public. Yet my best people sensibly know it. They historically do not want to leave until later on in the game and believe it will right itself. That is an appropriate use of long-term incentives. If they received the incentives upfront, they would have bailed because they wouldn't have the loyalty or the interest in staying."

Chen & Fu (2011) offers a comprehensive examination of the factors influencing compensation strategies within organizations. The authors present a systematic framework that encompasses various dimensions of compensation, emphasizing the interplay between different types of incentives and the overall performance of employees. One of the key insights from the article is the classification of compensation into cash incentives, non-cash incentives, benefits, and perks. This categorization is crucial as it highlights the multifaceted nature of compensation strategies and their potential impact on employee performance. The authors reference Jerez-Gomez's five dimensions of compensation strategy: analysis unit, pay level relative to the market, pay mix, the basis for incentives, and time criteria. These dimensions serve as a foundation for understanding how organizations can effectively structure their compensation practices to enhance employee satisfaction and performance (Chen & Fu, 2011). The article critically evaluates the significance of employee perceptions regarding their work environment, which can be categorized into hygiene factors and motivators. Hygiene factors, such as company policies, supervision, and work conditions, are essential for reducing job dissatisfaction and turnover intention. Conversely, motivators relate to psychological feedback, including achievement and recognition, which can lead to higher employee engagement and satisfaction. The authors argue that addressing both hygiene factors and motivators is vital for developing a holistic compensation strategy that meets employees' diverse needs (Chen & Fu, 2011)

Furthermore, the article discusses the distinction between extrinsic and intrinsic rewards. Extrinsic rewards, such as salary and bonuses, are externally mediated and can be directly linked to financial performance. In contrast, intrinsic rewards arise from internal motivations, such as the attitudes of superiors and the achievement of market goals. The authors reference findings from Cordero, Walsh, and Kirchhoff that suggest an over-reliance on financial incentives may undermine intrinsic motivation, particularly in jobs that are inherently motivating. This raises important questions about the balance organizations must strike between extrinsic and intrinsic rewards to foster a motivated workforce (Chen & Fu, 2011). The article also highlights the varying motivations of different employee groups. For instance, unskilled workers may prioritize extrinsic rewards, while professional employees often derive motivation from intrinsic factors. This distinction underscores the necessity for organizations to tailor their compensation strategies to meet the specific needs of diverse employee demographics (Chen & Fu, 2011).

Logroño Anto (2013) provides a comprehensive assessment of the compensation management practices employed by various organizations. The study highlights the critical role that effective compensation management plays in enhancing organizational productivity and employee motivation. (Logroño Anto, 2013) emphasizes that companies lacking a formal compensation program often determine job worth based on subjective opinions, which can lead to inconsistencies and dissatisfaction among employees. A significant insight from the article is the distinction between organizations with and without formal compensation programs. (Logroño Anto, 2013) argues that companies with structured compensation systems are more likely to utilize job evaluation processes to establish pay rates, thereby promoting fairness and equity within the organization. This structured approach not only aids in determining appropriate compensation levels but also aligns employee remuneration with the overall strategic goals of the organization. The article further elaborates on the importance of internal and external equity in compensation systems. (Logroño Anto, 2013) posits that a well-designed compensation structure should ensure that employees perceive their pay as fair relative to their peers within the organization (internal equity) and in comparison, to similar roles in the external labor market (external equity). This dual focus is essential for attracting high-quality talent and maintaining employee satisfaction, which are pivotal for organizational success. Moreover, the author highlights the necessity for HR managers to develop and implement effective compensation management programs. Such programs should be informed by systematic job evaluations and wage surveys to create a robust base salary structure. This structured approach not only aids in establishing pay ranges for various jobs but also reinforces the organization's commitment to equitable compensation practices. Ollero Oliveira (2015) provides a nuanced examination of the implications of vertical pay disparity on corporate performance, particularly in the context of Korean firms. The central thesis posits that the negative effects of pay inequality on performance vary significantly across different cultural and economic contexts. This assertion is particularly compelling as it highlights the complex relationship between pay structures and employee motivation, suggesting that workers' responses to inequality are not universally applicable. Ollero Oliveira's (2015) analysis reveals that in countries characterized by high levels of inequality, such as the United States, workers may respond positively to disparities in pay. This contrasts sharply with the findings in South Korea, where vertical pay disparity correlates with adverse effects on organizational performance. This distinction is crucial for understanding how cultural contexts influence compensation strategies and the effectiveness of those strategies in achieving desired outcomes. The article thus contributes valuable insights into the factors that influence companies' compensation practices, particularly the need for firms to consider their unique cultural and economic environments when designing pay structures.

The review of existing literature on pay disparity, as articulated by Ollero Oliveira (2015), underscores the dual perspectives surrounding vertical compensation strategies. One perspective views pay disparity as a motivational tool, positing that it encourages lower-level employees to strive for promotions by creating a competitive environment. Conversely, the article also acknowledges the detrimental effects of excessive inequality, particularly in terms of employee morale and overall firm performance. This duality in perspectives presents a rich area for further investigation, particularly in how firms can balance the need for competitive pay structures with the potential negative consequences of perceived inequality. Moreover, Ollero Oliveira (2015) findings regarding the relationship between executive pay and worker compensation add another layer of complexity to the discussion. The dramatic rise in the disparity between these two groups, while well-documented, raises important questions about the sustainability of such practices and their long-term effects on firm performance. The article suggests that while higher pay for executives may be justified to attract top talent, it also risks alienating the broader workforce, particularly in cultures where egalitarian values are more pronounced. Bussin (2018) explores the multifaceted factors influencing executive compensation, particularly in the context of the mining sector in South Africa. The article critically examines the implications of salary disparity between executives and lower-tier employees, positing that such disparities may detrimentally affect organizational performance. This assertion prompts a deeper investigation into the determinants of executive compensation, which (Bussin, 2018) identifies as organization size, performance, executive-specific attributes, organizational structure, position-specific factors, and job complexity. The article begins by contextualizing executive compensation within the framework of principal-agent theory, which highlights the inherent conflicts arising from the separation of ownership and control in organizations. This theory suggests that the interests of shareholders (principals) and managers (agents) may not always align, leading to potential self-serving behaviors by executives. (Bussin, 2018) effectively underscores the necessity for organizations to develop compensation packages that not only attract and retain high-caliber CEOs but also mitigate the principal-agent conflict. To address this misalignment, the article introduces optimal contracting theory, which advocates for the design of compensation structures that align the interests of executives with those of shareholders. This theory emphasizes the use of financial incentives to motivate CEOs to prioritize organizational performance while also pursuing personal financial gain. (Bussin, 2018) analysis of optimal contracts provides valuable insights into how organizations can create compensation strategies that serve dual objectives, thereby enhancing both executive accountability and organizational effectiveness.

Furthermore, Bussin (2018) delves into managerial power theory, which emerged in response to the financial crises of the early 21st century. This theory posits that executives possess significant influence over their compensation arrangements, raising concerns about the potential for excessive pay packages that do not correlate with organizational performance. By examining this dynamic, the article highlights the need for transparency and governance mechanisms to ensure that executive compensation is justified and aligned with organizational outcomes.

4. Discussion

The findings reveal that labor market conditions play a crucial role in shaping compensation strategies, consistent with Nguyen et al. (2020). This supports Milkovich's (1992) argument that competitive pressures in labor markets push organizations to adjust their pay levels to remain attractive. However, this study also highlights how vertical pay disparity can have varying effects on organizational performance depending on cultural contexts (Ollero Oliveira, 2015).

Additionally, organizational culture significantly shapes perceptions of internal equity among employees (Chen & Fu, 2011). Logroño Anto (2013) emphasized that ensuring both internal and external fairness in compensation systems is vital for attracting and retaining talent. This study extends this argument by demonstrating how organizational culture can serve as a strategic tool to align employee expectations with organizational goals.

The findings of this study reveal that compensation strategies are influenced by a range of internal and external factors, including market forces, organizational culture, employee motivation, and government regulations. This aligns with previous studies emphasizing the interplay between economic, cultural, and psychological determinants of compensation (Milkovich, 1992; Chen & Fu, 2011).

For instance, the study highlights the critical role of labor market conditions in shaping compensation practices. This finding resonates with the work of Nguyen, Yandi, and Mahaputra (2020), who similarly identified labor market competitiveness as a determinant of pay structures. However, while Nguyen et al. emphasize the role of unemployment rates in reducing wage offers, this study also underscores the impact of demographic shifts and skills shortages in specific industries, particularly engineering and IT. This nuanced perspective highlights the dynamic nature of labor markets and their implications for strategic compensation design.

In terms of organizational culture, the study reaffirms that aligning compensation with corporate values enhances employee satisfaction and retention. Logroño Anto (2013) also emphasizes the significance of equity in compensation systems, particularly internal and external fairness. However, this study extends the discussion by linking cultural alignment with increased employee loyalty and productivity, underscoring the psychological underpinnings of effective compensation systems.

The study’s findings on pay disparity provide an opportunity for critical comparison. Ollero Oliveira (2015) reported that vertical pay disparity negatively affects organizational performance in cultures sensitive to inequality, such as South Korea. Similarly, this study identifies adverse effects of perceived inequity on employee motivation. However, it diverges by highlighting contexts where pay disparities may incentivize employees to strive for higher roles, particularly in competitive corporate environments. This contrast suggests that cultural and contextual factors play a pivotal role in mediating the effects of pay structures.

Lastly, the findings regarding government regulations and their influence on compensation practices align with Bussin's (2018) exploration of regulatory environments in the South African mining sector. Both studies note that compliance with labor laws, such as minimum wage requirements, not only ensures legal compliance but also serves as a strategic tool for attracting and retaining talent. However, this study adds a dimension by emphasizing the role of transparency and communication in aligning compensation with employee expectations, fostering trust and engagement.

By comparing these findings with existing literature, this study provides a richer understanding of the multifaceted nature of compensation strategies. The discussion highlights both the universal principles and context-specific nuances of effective compensation practices, offering valuable insights for researchers and practitioners alike.

5. Conclusion and Final Thoughts

This study systematically reviewed factors influencing companies' compensation strategies and practices, providing a nuanced understanding of the interplay between internal and external determinants such as labor market conditions, organizational culture, employee motivation, and government regulations. The results underscore that compensation strategies are not mere financial tools but integral to aligning organizational goals with employee expectations and societal norms. From these findings, it can be inferred that effective compensation practices enhance employee satisfaction, improve retention, and drive organizational performance, while misaligned systems risk reducing morale and productivity.

5.1 Implications

The study has several practical implications for human resource professionals and organizational leaders. First, designing compensation systems that balance internal equity, external competitiveness, and employee perceptions of fairness is critical for fostering loyalty and motivation. Second, aligning pay structures with organizational culture and strategic objectives can serve as a powerful tool for attracting top talent and achieving long-term sustainability. Policymakers can also use these insights to refine labor regulations and support equitable wage systems that promote social justice and economic growth.

5.2 Limitations

Despite its contributions, this study has certain limitations. It relies on a systematic review, which, while comprehensive, is inherently limited by the availability and quality of existing literature. Additionally, the study primarily synthesizes findings from varied contexts, which may reduce the generalizability of conclusions to specific industries or cultural settings. The lack of primary data further constrains the ability to test hypotheses or explore causal relationships.

5.3 Future Directions

Future research could address these limitations by conducting empirical studies that test the identified factors' impact on compensation practices across diverse industries and cultural contexts. Longitudinal research could explore the dynamic relationship between compensation systems and long-term organizational outcomes, such as employee retention and innovation. Additionally, investigating emerging trends like flexible pay structures, performance-based incentives, and the integration of technology in compensation management could provide valuable insights. Lastly, there is a need for interdisciplinary approaches combining economic, psychological, and sociocultural perspectives to develop holistic frameworks for compensation strategy design.

In conclusion, this study highlights the complexity and strategic importance of compensation practices in contemporary organizations. By addressing the gaps and building on the findings, future research and practice can contribute to the development of innovative and equitable compensation systems that meet the needs of both employees and organizations in an ever-evolving labor market.

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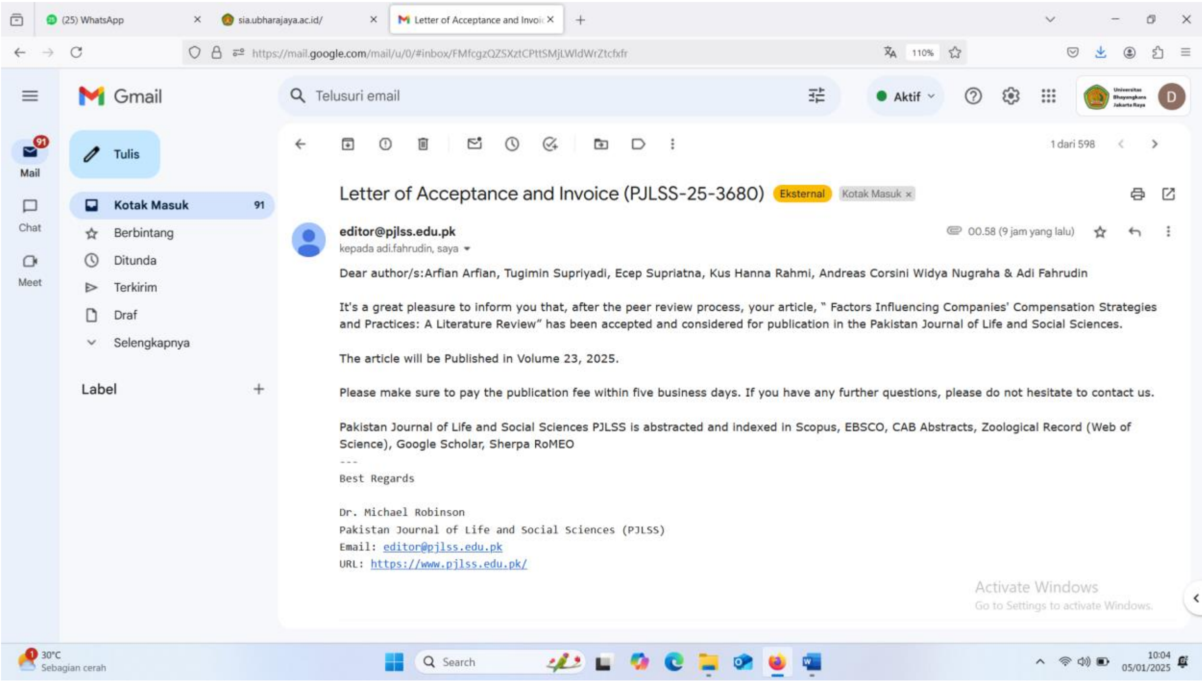

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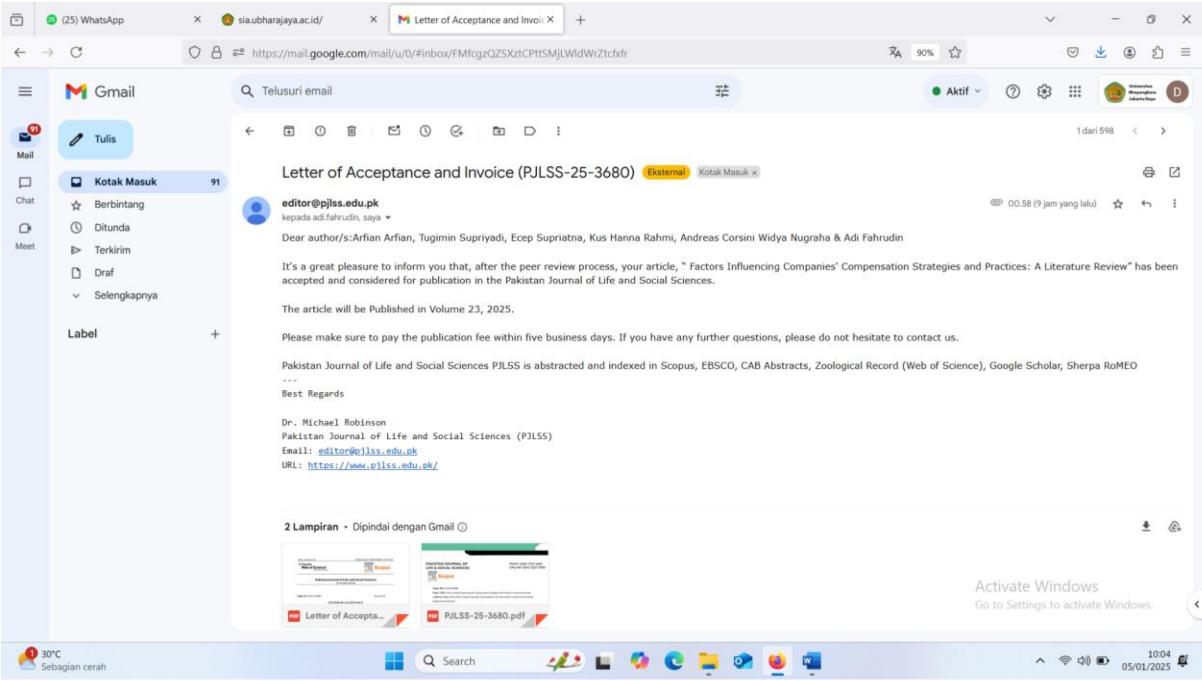

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