Compensation Management System from a Business Ethics Perspective

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Abstract
Employee perception of fairness in compensation methods and systems is important to achieve the purposes of “compensation management,” which is a basic function of human resource management. As such, perception of organizational justice correlated with variables known to effectively impact job satisfaction, motivation, intention to leave, and burnout is determined on a large scale by the application of compensation and salaries. Here, it is crucial to establish and operate systems in which pay is fairly determined according to jobs performed, job performance, and market conditions. However, the literature and practice do not adequately focus on compensation. Consequently, there is uncertainty regarding how equitable compensation aligned to business ethics should be systematically conducted in Turkey. Therefore, in this study, employees’ perceptions of a “fair” and “ethical” compensation management system was systematically discussed according to types of pay equity and organizational justice perception. In addition, this study is a systematic review that can contribute to the development of a scale to determine employees’ perception of ethics regarding their organizations’ compensation management systems. Based on an analysis of the related literature, the results of this study indicated that organizations should establish fair purposes and policies in compliance with the law; take advantage of scientific and objective methods such as job evaluation, market research, and performance-based pay; manage communication with employees regarding their demands and objections; and ensure employees’ participation in decision making to ensure fair and ethical compensation.

Keywords

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From an etymological perspective, the word “moral” (“ahlak” in Turkish) is derived from the Arabic word “hulk,” which is defined as habits, views, temperament, customs, and characteristics and “hılk,” which means creation or creatures, people, or society (Seyyar & Öz, 2007, p. 16). According to the business code of conduct, the dictionary meaning for “moral” is a person’s good and acceptable behavior, attitude, and manner in society (Yeğin, Badıllı, İsmail, & Çalış, 1997, p. 31). The word “ethic” is the English and German equivalent of the Turkish word “ahlak.” In foreign literature, the word “ethic” expresses the moral system; thus, the word “ethics” is accepted as denoting moral science (Keyder, Tileylioğlu, & Oran, 2008, p. 99). Ethics deals with the principles of good and bad behavior and articulates moral values such as virtue, honesty, and truthfulness. It investigates, from an ethical standpoint, peoples’ individual and social relationships formed on the basis of values and rules such as right/wrong and good/bad. Further, it concentrates on the behavioral principles of individuals and groups (Adelman, 1991, p. 665; Duska, 2007, p. 3; Gökçegöz, 2002, p. 2; Kirel, 2000, p. 4; Zimmerli, Richter, & Holzinger, 2007, p. 13). Factors playing a role in the formation of moral conduct include family, the administrator, a boss, work environment, social environment, ideas to increase earnings, fear of losing customers, religious beliefs, educational institutions, laws, company rules and regulations, traditions, and media (Torlak, Özdemir, & Erdemir, 2008).

Business ethics can be defined as the rules and behavioral patterns that are considered useful when completing a job in a specific area. Business ethics also highlight honesty, trust, respect, and fair treatment in all business relations (Gök, 2008, p. 7). In business life, frequently encountered moral dilemmas include accepting an expensive holiday gift from a company that you purchase goods from, being unable to decide whether to sell to customers products that they really need or products that generate higher commission (Tierney, 1997, p. 20). Work ethic, especially in recent years, has become increasingly important in management literature and business life. This heightened interest can be understood in the context of socioeconomic changes and progress or changes in “dominant values, principles, norms, and rules” in business and management approaches. Business ethics in the historical process and economics, business, and management fields has always adhered to the required and recommended
rules in the forms of (a) economic, technological, and legal requirements, (b) environmental/societal demand for “social responsibility,” and (c) although there is no demand or obligation, “the optional application of moral principles” (Acar, 2009a, p. 373). Accordingly, in the field of work/business/management, morals or ethics constitute the final stage of the process (Svensson & Wood, 2008, p. 304).

For business ethics, broadly defined as morality in work life, different approaches to prioritize either business or ethics have emerged. As such, business can be viewed ethically, or ethical issues can be viewed in terms of business (Acar, 2009, p. 353). The “business in terms of ethics” approach describes ethical behavior as utilitarianism, morality justice, personal benefit, social benefit, benevolence, paternalism, doing no harm, integrity/honesty, legality, autonomy, and respecting rights. In workplaces, ethical behavior is instilled by developing and applying these principles, attitudes, roles, and policies (Acer, 2009, p. 356; Kurtuluş, 2007, p. 740; McNamara, 2003). “Ethics in terms of business” generally focus on benefits provided to businesses and stakeholders. For example, while creating and operating the human resource management system, codes of ethics and principles of business ethics may be considered (Aksit, 2008, p. 92). Furthermore, human resource management is responsible for the development and balanced implementation of moral principles; fair selection, recruitment, and placement of employees; training; performance evaluation; compensation; and employees’ safety (Weaver & Trevino, 2001, p. 130).

Business ethics not only deals with business-related applications but also with norms, values and meanings. Employee rights are a major issue addressed by business ethics. Pay is fundamental to employee rights; therefore, remuneration is a vital topic of study. However, there is a lack of systematic and scientific approaches toward employee remuneration in the literature and in practice in Turkey. The international and limited national literature analyzes the morality of remuneration from business and management perspectives; therefore, it seems that studies favor the “ethics in terms of business” approach. This approach more seriously considers businesses, organizations, and shareholders and investigates ways to encourage innovation and product development, gain competitive advantage, and protect shareholders through competitive remuneration systems.

Therefore, the primary objective of this study was to determine the considerations for business and management during the remuneration process to provide fair remuneration aligned to business ethics in a “business approach from an ethical perspective,” a sub-field of applied ethics, rather than from a “business as priority” approach. In this context, in addition to ethical principles such as justice, utilitarianism, morality, personal benefit, social benefit, benevolence, integrity/honesty, legality, autonomy, and respecting rights, this study addresses norms and activities for determining pay in compliance with business ethics and according to types of pay equality, which ensures employees’ perception of remuneration as “ethical” and organizational justice perception, which is analyzed according to distributive, procedural, and interactional justice (Özer & Urtekin, 2007, p. 109). The study employed Acar’s (2009b) “compensation management system” based on the assumption that a systematic examination of compensation management applications and activities in terms of business ethics would be appropriate. As such, the study aimed to systematically identify processes to determine pay. However, Turkish literature has yet to rigorously identify people’s perceptions of ethics regarding remuneration and develop a scale for quantitative research in the field. In this regard, this study systematically develops a scale that can determine people’s perceptions of organizational ethics during different phases of the compensation management system. The literature on pay equality and organizational justice perception was analyzed, and the obtained data were compiled according to a “job perspective from a moral viewpoint” to answer the question: “Which compensation management system should be employed to satisfy principles of business ethics?”
Pay and Compensation Management System

Pay can be defined as benefits provided to employees in return for their work or labor. Narrowly, the term refers to money and tangible interests measurable in terms of money. More broadly, it covers all forms of financial returns and tangible services and benefits that employees receive in return for performing work (Acar, 2007, p. 8; Milkovich, Newman, & Gerhart, 2011, pp. 10–11). “Pay” means a package or sum comprising base pay, a variable pay, and fringe benefits/social benefits (Ataay & Acar, 2008, p. 401). Base pay is specified based on the value of work, which is calculated through various work valuation methods (Milkovich, Newman, & Gerhart, 2010, p. 11). Variable pay mainly refers to the monetary sum paid to employees in return for their performance/contribution. Extra benefits comprise components granted because employees are members of the organization. Furthermore, some benefits are social context elements (Armstrong, 2009, p. 850; Beardwell & Claydon, 2010, p. 499; Mirze, 2002, p. 198).

Questions pertaining to how and on what basis compensation is established are discussed as “compensation management,” which is an essential human resource management function. Compensation management includes pay policies for establishing pay levels according to market dynamics (Milkovich & Newman, 1984, p. 264), base pay structure, and pay systems. In addition, it is a dynamic process and a multi-phased system. Acar (2009b, p. 356) developed a compensation management system (model). This paper analyzed in detail how the system was established, operated, and evaluated and controlled as well as the requirements for an ethical compensation management system.

The Compensation Management System from a Business Ethics Perspective

Pay is an important cost item for businesses and a base income source for employees. Pay also refers to the exchange relation between employee and employer. This exchange, wherein employees sell their time and skills in return for compensation, is shaped according to four alternative norms, namely (1) profit maximization, (2) equity, (3) fairness, and (4) need (Acar, 2007, p. 7). Appropriate norms for determining pay from a business ethics perspective vary
according to societies’ characteristics. Whereas religious values/sources (Araf Sura, 7/85; Karaman, 2003) often emphasize the norm “equity” as more important and effective, community-based cultures, which favor sharing based on absolute equality, contribution, and effort, may prefer the norm “fairness” (Çakır, 2006, p. 122). Previous studies found that demographic variables such as age, education, profession, and gender; organizational factors such as a systematic compensation management system and organization size; and organizations’ social and cultural values affect the norm employed in pay determination (Benligiray, 2007, pp. 9–10; Mamman, 1997, pp. 33–35; Oesch & Murnighan, 2003, p. 60).

From an ethical perspective, a key factor in compensation management is the payment of “equal compensation for equal work and differentiation of compensation based on value of work (internal equality).” In contrast, from an ethical management perspective, the fundamental issues concerning compensation management include external equality of pay, pay commensurate with promotion, timely payment, minimum pay application, individual equality/distribution equity, procedural equality/procedural equity, communication with those concerned (interactive equity), and legal compensation (Buckley et al., 2001, p. 20; McAffe & Anderson, 1995, p. 156). In addition, remuneration in compliance with business ethics is beyond compliance with legal requirements, because although some applications may be legal, others may not be legal despite being ethical (Dessler, 2005, p. 517).

**Phase 1: Establishing a Compensation Management System from a Business Ethics Perspective**

From a business ethics perspective, the first phase in establishing a compensation management system is developing remuneration objectives and policies and specifying a pay structure, pay system, and duties and responsibilities regarding remuneration. These factors are elaborated below.

The European Social Clause specified at the 1989 Strasbourg Summit is important when developing remuneration objectives and policies (McHugh, 1992, p. 64). In addition, principles proposed by the OECD in 1999—revised,
recognized, and adopted worldwide in 2004—concerning institutional management specify the ethical principles related to enterprises’ pay objectives and policies (Gomez-Mejia & Werner, 2008, p. 38). Employees primarily ask two questions regarding compensation, which is their fundamental right. The first is “Are the payments fair?” The second is “How does my pay compare to other employees in the enterprise, region, and industry?” (Fitz-enz & Davison, 2002, p. 132). Related questions may guide the organization in establishing remuneration/pay objectives and policies. Additional aspects to be considered include profitability, pay costs, competitiveness, and remuneration provided to employees so that they are able to maintain and improve their daily lives and secure their own and their dependents’ futures (Milkovich et al., 2011, p. 45). Ethically, ideal remuneration objectives and policies satisfy and motivate employees while complying with the principles of utilitarianism, reliability, integrity, legal compliance, equity, balance, timeliness, objectivity, and clarity (Sabuncuoğlu, 2005, p. 244; WorldatWork, 2007, pp. 22–23).

When implementing the pay structure, fair remuneration entails fair payment for work or to a person in comparison to another (Torrington, Hall, & Taylor, 2008, p. 641). First, fair pay structure provides fair payment when compared with a given job (Bloom, 2004, p. 149). Therefore, as an essential component of the total pay, employees’ base pay should be fair, and each employee should be paid an appropriate amount that meets the criteria of work, efforts, skills, capabilities, and training and does not merely cover basic needs (Ivancevich, 2010, p. 295). Two basic equalities are required for fair pay structure, namely (1) “internal equality” and (2) external equality: “Internal equality” for ensuring justice in the pay structure means that the pay paid to an employee equals the pay paid to employees performing similar work of similar quality and quantity in the same organization (Cascio, 2010, p. 421). In pay structures based on work value, pay differences in the organization can be substantiated based on the knowledge, skills, capability, mental or intellectual effort, and work conditions required by the work (Beardwell & Claydon, 2010, p. 494; Dessler, 2011, p. 423). In pay structures based on individuals, pay is established by considering employees’ skills or competencies. When implementing work-based pay structures, objective and scientific work valuation methods are needed to ensure that all work is fairly assessed and to fairly determine value differences.
between work in the enterprise (Armstrong, Cummin, Hastings, & Wood, 2003, p. 5). In individual-based pay structures, skills and competencies that are essential for effective work performance are determined through appropriate methods that adhere to business ethics rules. Pay is defined based on individuals’ skills or competencies; thus, employees with equivalent skills or competencies are paid the same base salary (Knouse, 1995). “External equality” for ensuring justice in the pay structure means that the pay paid to employees by employers equal the pay paid to employees performing similar work at different enterprises in the same sector locally, regionally, or nationally (Shi, 2007, p. 66). To ensure external equality, enterprises compare salaries paid for similar work at other organizations and analyze market pay research (Noe, Hollenbeck, Gerhart, & Wright, 2008, p. 488).

Basic issues pertaining to business ethics in establishing pay systems include calculation of pay according to the pay structure for payment periods, regulations concerning payment, and the relation between performance and pay. Pay systems enabling the calculation and payment of the total pay can be time-based or incentive systems. Time-based systems calculate pay based on when the employee actually works and is available for work (assumed as worked) (Işığıcı, 2007, p. 133). Incentive pay systems vary according to pay incomes, contributions, efforts, or employees’ quantitative/qualitative performance assessments (Ataay & Acar, 2008, p. 490; Geylan, 1992, p. 256). Considering related systems from a business ethics perspective, no dispute arises between the employee and employer, as “time” is the fundamental criterion for calculating and paying the pay in time-based systems. Furthermore, employees do not engage in comprehensive work that can be perceived subjectively, and employees’ pay is guaranteed. In addition, without considering employees’ efficiency and performance, employees working for the same period are paid the same pay. This does not constitute business ethics infringement. Therefore, time-based systems are considered weak with respect to justice in payments. Incentive systems are considered more convenient, as they try to establish a performance–pay relation. The third equality principle for ensuring justice in compensation management, “individual equality,” establishes a relation between performance and pay. “Individual equality” means that the pay that employees receive from their employers are equivalent to the quantitative and
qualitative outcomes of other employees. In cases likely to be examined for distributive justice, individuals ask the following question: “Am I paid the value commensurate with the contribution I make to the organization?” (Bingöl, 2006, p. 26). As such, they compare their own outcomes to the outcomes gained by others in return for contributions made (Koçel, 2007, p. 498); accordingly, they are satisfied/dissatisfied with their pay received (Schay, 1988, p. 239). In Leventhal’s Justice Model, pay based on “equity” should equal contribution, and those contributing more should receive more (Chan, 2000, p. 73). However, particularly in incentive systems based on product quantity, employees may become too ambitious with overproduction and thus disturb harmony in the organization. Competition among employees can dampen team spirit and decrease employees’ trust in the pay system (Armstrong, 2009, p. 818; Sabuncuoğlu, 2005, p. 267; Torrington et al., 2008, p. 684; Yıldız & Balaban, 2006, p. 181). Association of pay with teams/groups’ or organizations’ general performance may cause problems when team members exhibiting different performance receive the same pay (Merriman, 2009, p. 66) and when different pay and rewards based on team members’ performance seem more appropriate.

When specifying remuneration duties and obligations, business ethics establish procedural justice. Procedural justice is concerned with the perception of principles, rules, codes, and procedures established by organizations’ management. Whereas some of these rules are legally required in terms of rewarding employees, management determines other rules (Heery & Noon, 2008, pp. 364–365; Locke, 2011, p. 382; Farooq & Farooq, 2014, p. 57). According to Leventhal, ethical principles related to procedural justice are consistency, overcoming prejudice, certainty, integrity, representation, and ethics (Harris, 2002, p. 47; Lind & Tyler, 1988, pp. 131–132). Therefore, it must be ensured that all rules for the remuneration process are described with the participation of employees, are consistent, comply with laws, are appropriate, are objective and adjustable, do not cause prejudgment, and provide personal and social benefits. Furthermore, all professionals employed should specialize in their field and demonstrate technical knowledge, “merit” must be considered when selecting employees, and management must supervise this process. These elements are important for ensuring procedural justice and defining compensation-related
duties and responsibilities in compliance with business ethics. The decision-making process for compensation management involves a group of people in a participatory approach. Some studies determined that the impact of the perception of fairness in the pay system is greater than that of the perception of the pay amount (Bloom, 2004, p. 150; Zaim, 2008, p. 103). Therefore, it is important to pay attention to procedural justice.

Phase 2: Operating the Compensation Management System

The second phase involves operating the compensation management system from a business ethics perspective, which includes establishing a relationship with compensation management officials and implementing the pay structure and systems. The relevant issues to be considered are examined below.

Another aspect of organizational justice, namely interactional justice, should be established for matters pertaining to communication regarding remuneration. Interactional justice emphasizes the social aspect of organizational justice, highlighting investment in and outcomes of interpersonal relationships (Yeniçeri, Demirel, & Seçkin, 2009, p. 86). Previous studies indicate that interactional justice affects several individual and organizational variables (Atalay, 2007). Managers may establish effective interactional justice and business ethics by (1) treating individuals with politeness, dignity, and respect; (2) clarifying distribution decisions; (3) avoiding incorrect statements; and (4) speaking sincerely and truthfully (Yeniçeri et al., 2009, p. 87; Yürür, 2005, p. 105). On the other hand, as evident in attitudes towards the performance-based compensation system applied in the public health sector (Öztürk, 2011, p. 74), inadequate attention is focused on the perception of interactional justice in compensation management systems in the public sector. In this regard, those responsible for establishing a remuneration system should inform employees about regulations and amendments concerning remuneration, clarify reasons, and treat potential complaints and disputes politely and respectfully in a manner satisfactory to the addressee (Noe et al., 2008, p. 501). Business ethics require not only proper application but also a clear explanation of the reasons behind decisions.
Two important issues in terms of business ethics pertaining to pay structure are how to position the former pay in the newly established pay structure and how to execute pay rises and adjustments according to the adopted structure. These are based on business ethics principles such as morals, personal interest, psychological factors, and legal requirements (Evren, 2007). In addition, considering “protection of pay” as a basic requirement of business ethics, pay considered high in the new structure should not be decreased. Such pay should remain unchanged or a lower increase should be implemented to equalize such pay. Decisions relating to legal requirements, psychological factors, and trade unions’ views should be considered. In addition, pay lower than those required in the new pay system should be increased to the required level through more frequent pay increases. The second important matter in determining pay structure is implementing pay rises and adjustments according to the adopted structure. According to Leventhal’s model, pay increases can be implemented according to equity, equality, or need. Although several variables such as social culture, organizational culture, and pay philosophy are important in terms of the norm applied in pay increases from a business ethics perspective, it is likely that norms pertaining to equity and need are more convenient. As previously mentioned, higher pay increases to those making more contributions as a fundamental ethics principle will eliminate a sense of inequality and provide satisfaction and justice (Armstrong, 2007, p. 337; Cascio, 2010, p. 439; Dessler, 2011, p. 464; Sabuncuoğlu, 2005, p. 256). Furthermore, considering the “equity norm” and “need norm” together, performance increase + inflation increase or pay rise rates can be calculated by considering individual pay in the structure, and those receiving a lower base pay can be provided with a higher pay increase (Noe et al., 2008, p. 530). It is also essential that the systems providing data for seasonal pay rises and adjustments are accurate and reliable.

Implementation of a pay system entails work and procedures related to the calculation and payment of employees’ individual pay by observing a basic pay level, total pay package, absenteeism, and performance in line with pay systems, which are referred to as the “payroll” and established in advance. Application according to a predefined system is important with regard to business ethics. Particularly, it is crucial to ensure that systems enabling an
accurate and fair performance–pay relation are applied and that variable inputs such as absenteeism, overtime, performance data, and calculations (payrolling) procedures are “accurate.” Human resource management (unit/function) and performance appraisal as an essential function are responsible for establishing a performance evaluation system and training managers in the negotiation and assessment of employees' performances according to standards and criteria that are sound, objective, appropriate, and fair (Saylı & Kızıldağ, 2007, p. 246; Uyargil, 2008, p. 4). The computation of overtime rates is important in the operation of pay systems. Although stipulated clearly in the Labor Act, one study revealed that most businesses, except for those with trade unions and some large-scale companies, do not process additional payments for overtime above 45 hours or render additional payments based on a regular rate (Sosyal İş, 2013, p. 16). Although problematic in terms of business ethics principles such as justice, personal benefit, respect for rights, integrity/honesty, this is not an illegal practice.

**Final Phase: Assessing and Controlling the Compensation Management System from a Business Ethics Perspective**

The final phase comprises assessment and control, which requires evaluation and control activities to maintain the system (Armstrong, 2009, p. 828; Ataay & Acar, 2008, p. 419). For business ethics, it is important to manage requests and objections regarding pay; determine attitudes concerning the compensation process; review objectives and policies on the basis of feedback, market pay levels, pay costs, and inflation rate; objectively appraise new jobs and tasks using work appraisal methods and redefine pay fairly as necessary; and recalculate and pay per changes in the pay package and performance results (Cascio, 2010, p. 452). Generally, organizations adopt a code of ethics to execute appropriate business ethics activities and share them with the public (Milkovich et al., 2011, p. 631; Torrington et al., 2008, p. 746). In terms of business ethics, organizations are expected to not consider the principles as a means to achieve their objectives or a means of manipulation or advertisement but to develop them to protect employees rather than cater to the interests of company owners and shareholders. In this process, it is important that the management consider pay as an investment and right rather than an expense (Ataay & Acar, 2008, p. 477).
Conclusion

This study aimed to determine what businesses should consider and apply during the remuneration process to provide fair and ethical remuneration in the “business from an ethical perspective” framework, a sub-field of applied ethics. All norms and activities concerning compensation management from a business ethics perspective were analyzed according to types of pay equality, which can ensure employees’ perception of compensation as “ethical” and organizational justice perception in addition to business ethics principles. It was considered appropriate to systematically examine all remuneration applications and activities in terms of business ethics. Therefore, the study adopted Acar’s (2009b) “compensation management system” to systematically analyze the process. This study will potentially contribute to the literature and theoretical body of knowledge and provide insight when there is uncertainty regarding how to employ a systematic and ethical compensation management system in businesses.

This study analyzed the literature extensively and identified topics important for the establishment and operation of an ethical compensation management system. Businesses should develop pay objectives and policies in accordance with business ethics principles, specify equal pay for equal work by employing objective and scientific business evaluation methods (internal equality), utilize market pay research (external equality), establish a performance–pay relation (individual equality), and avoid activities and applications that may lead to prejudgment in all procedures (procedural equality). To ensure the compliance of the established compensation management system with business ethics, it is important to establish communication with the concerned people, communicate changes, manage requests and complaints, apply the system according to a predefined plan, ensure adaptation of the former compensation system to the new structure while complying with business ethics principles, and execute pay rises and adjustments fairly while observing laws and respecting rights.

This study is expected to contribute to the development of a scale that could measure the moral perceptions of employees regarding the compensation management system.
Kaynakça/References


