# Compensation practice

## Introduction

Compensation is basically the payment, in direct monetary, indirect monetary and non-monetary to an employee for physical, or mental contribution to the company. This paper aims to analyze the compensation strategies of Chevron, the impact of the strategies on the company and the stakeholders, the ways in which laws and policies affect the compensation practices and the effectiveness of the traditional bases for pay at the corporation.

Chevron Corporation is a company engaged mainly in oil, natural gas and geothermal energy industries. The public company is also involved in exploration and production of hydrocarbon, refining, marketing and transport. The headquarters are based in San Ramon, California. The company was established on September 10, 1879 as the Pacific Coast Oil by a group of explorers and merchants. The United States based company operates worldwide in all continents.

According to Forbes (2014), Chevron Corporation is ranked 8th in America’s top companies for compensation and benefits. In Business Insider, Chevron was ranked 12th om the 2016 top 50 to work for in America. In any company, compensation is fundamental for the entire resource strategy. Compensation is important and visual to employees thus is a communication tool used to reward strategic goals for expected values and behavior. It motivates the current employees and attracts new clients. Compensation strategies define the employees’ payments and benefits. The strategies provide guidance and should be documented to clearly outline the approach of the organization to manage the compensation of employees.

An effective compensation strategy does not only focus on the salary which may include base pay, overtime, short-term incentives, and lump sum payments, cash profit sharing, long term incentives and equity plans. The strategies should also focus on benefits as well as developing the careers in terms of skill enhancement, employment stability, advancement of career and promotion. A successful company mixes a proper set of pay, benefits and career opportunities rather than competitive pay as the advantage.

Chevron Corporation has established salary ranges from $59,442 to $169, 2228 depending on the job description. Most of the employees earn about $105,228 per annum. The President makes the most salary of $446,852 per year. The pay should align with the values and the behavior the company intends to reward. High pay attracts skilled employees and reduces turnover. Most employees (26%) have worked at Chevron for about 1 to 4 years, and 25% of the workers have worked for about 10 to 19 years. Only 7% of the workers have worked for less than 1 year. This indicates that the corporation has a low turnover. High turnover has negative effects on a company. The company loses revenue in recruiting staff, reduces workplace morale, reduces product and service delivery and reduces marketing returns (Saidakis & Cooper, 2016). The appropriate incentive compensation for Chevron Corporation executives is determined by the Management Compensation Committee (Chevron, 2018). The executive’s primary duty is to manage the company.

Similarly to the pay package, a benefits package offers a competitive advantage if the benefits are aligned with the culture and values of the company. The company adds 8% of the annual salary to the 401K if the employee puts in 2%. Chevron also provides a health insurance and encourages the employees to engage in healthy lifestyle and fitness. The wellness program aids employees in exercising, losing weight and quitting unhealthy lifestyles such as smoking tobacco. The employees also enjoy travel reimbursing through the Chevron and Texaco Fuel Discount Application, relocating reimbursing and housing reimbursements using the Group Auto and Home Insurance. Benefits are indirect financial compensation that are incorporated in the contract.

The Corporation promotes career development through the employee development hub, the internal job postings, and employee referral program. Career development is vital in many employees because it gives them an opportunity to learn and grow. It is a form of non-financial compensation (Chevron, 2018). Through mentorship the talented workforce at Chevron share its knowledge in the various mentorship programs. Supervisors help employees to find mentors. The corporation provides onsite child care at some facilities, dual career couple support and tuition reimbursement. This helps to advance the careers of the employees at Chevron.

## Compensation strategy challenges

In Chevron, the top executives have increased expectations from the human resource. The human resource increase the performance, retain key employees and bring new skilled talents to the company while keeping costs under control. This is a major challenge because employees may leave organizations with reasons that may be unknown to the employers despite hefty compensations. The company partners with multiple non-profit organizations to ensure best practices and resources on recruiting, retaining and developing diverse talent. It is important to note that Chevron is committed to diversity and inclusion for gender, LGBT, people of color and people with disabilities.

A successful business requires finding, motivating, developing and keeping employees but poses as a big challenge to most corporations. Some employees have expressed dissatisfaction on the vacations set by the company. The Compensation components cannot be managed discretely and have to a part of the overall strategy. As a prerequisite, the organizational compensation should align with the organization’s strategy, objectives and values.

## Chevron’s application of compensation practice to determine the impact to the company and its stakeholders

Compensation practices significantly impact on the perceptions of employees’ on the company’s climate and culture. A positive work attitude is caused by satisfaction in compensation. The compensation offered to prospective Chevron employees recognize their skill, experience and expertise and is congruent with what other companies are offering. For instance, British Petroleum (BP) pays an average of $96,814 per year and adds 7% of the annual salary to the 401K. This is slightly lower than the offer by Chevron. The employees are paid above the market level and this contributes positively to the company’s climate. At Chevron, the employees are fairly compensated and rewarded thus creates the perception of equity and fairness, and transparency.

The compensation practice at Chevron has a positive impact on the company’s reputation. Chevron has a good reputation in salary payouts, benefits package and career growth. The company receives positive reviews and new employees look forward to work at the corporation. For Chevron to deliver quality products and services, they have to retain the best talent in the competitive market. As discussed before, the corporation has a good retention of employees which is essential in running a company. The employees also feel motivated to help the company succeed.

A good compensation practice can be used to align the interest and the goals of the employees to the organization’s stakeholders. In addition, achieving a sustainable balance between the stakeholders and the employees is important. The compensation framework at Chevron directs sustainable performance at all levels of the corporation. The Management Compensation Committee helps to curb excessive executive compensation and ensures that the compensation is equitable at all levels of the company. Governance in compensation encourages high performance and reduces unnecessary taking of risks.

## Impact of laws, labor unions and market factors on the Chevron’s compensation practices

### Laws

Compensation of employees is influenced by external factors such as laws, labor market and labor unions. There are federal and state laws as well as regulations set out in the United States to protect the rights of workers. Companies are required to conform to the available laws and regulations to protect it workers who are also citizens of the United States. The Workers Compensation Law covers for employees who are harmed while performing their job related duties. The Fair Labor Standards Act contains provisions that affect compensation.

Chevron adequately pays for medical expenses, disability and mental health illnesses. As a requirement, the human resource sends a legal document for its employees containing laws and regulations related to benefits. The employees and the human resource should also know the requirements of the federal law regarding compensation and benefits. The document includes Women’s Health and Cancer Rights Act, Medicaid and the Children’s Health Insurance Program, Family and Medical Leave Act and Notice of New Health Insurance Program. New employees can access the notices that are legally acquired to inform the employees on their rights and benefits at Chevron. <http://hr2.chevron.com/usbenefits/newhire.asp> Compensation should be effectively communicated to make the employees aware of the value they receive from their compensation plan. Employees get confident that they are being paid fairly resulting to greater retention and motivation.

The benefits provided by Chevron are stipulated in the Patient Protection and Affordable Care Act, the Family and Medical Leave Act, The Consolidated Omnibus Budget Reconciliation Act and the Health Insurance Portability and Accountability Act.

### Labor Unions

Labor Unions aim to control the managerial action that directly impacts the welfare of their members. Compensation costs, wages and benefits are directly related to wage costs and decisions. Unions attempt to influence the compensation decisions affecting their members such as reduce the wage differences among companies that are in the same industry. The standard rate established by the unions promotes equity among workers doing the same work. Workers employed by Chevron are able to join a credit union owned and dedicated to serving Chevron employees, retirees and their immediate families.

### Labor markets

Labor markets are comprised of supply and demand of human resource. Labor markets reasonably determines the relative rates of wages for different jobs. They also raise the living standards which in turn elevates the productivity of the workers. The higher the price in the labor market, the lower the demand of labor by employers while a lower salary leads to increase in demand for employees. Other factors that affect labor markets include the required level of education and the government policies.

### Effectiveness of traditional base pay at Chevron

A base pay is a fixed regular payment to an employee in exchange of performance of the duties and responsibilities of their role. Chevron is known for its approach on compensation in reference to the responsibilities and duties of the employees. There is a clear understanding of the roles each position has in a corporation not excluding the complexity of the tasks and responsibilities that are required. The market data and sector comparatives are also factored in the base pay. Chevron has set up job descriptions that define the requirements and responsibilities which determine the compensation for the employees.

Chevron conducts analysis each job group to determine the tasks. An employee’s skill and experience and experience is essential in building a compensation structure at Chevron. A job evaluation is fundamental in assessing the relative worth of jobs to promote equity.

An equity based pay creates a sense of ownership which is vital for a long term value of the organization. It is also important in attracting and retaining critical employees. Chevron uses this form of base payment to create a balance between short term and long term operational results and long term strategic value. An equity based pay gives a defined return of investment as well as a strong competitive advantage.

The equity based pay or the basic salary structure is helpful when standardizing the corporation’s compensation practices as they mirror the grouping of jobs founded on their worth. Salary surveys conducted with employers in the same labor market establish the pay levels of the specific jobs. Chevron has participated in several conducted by Glassdoor where most employees expressed satisfaction of the compensation. An employer can increase the base pay due to increasing the cost of living.

## Conclusion

In many oil and gas industries, the employees are rewarded for their effort through increment of base pay, awarding bonuses and stocking grant. Over the last ten years, oil production has fallen drastically and the prices of the oil has dropped. This has a negative impact on employment since most employers are cutting down workers. The companies are also lowering the annual rewarding of employees. However, in comparison to other companies, the corporation has retained most of its staff.

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