Assignment 1: Compensation Practice

**Introduction**

Google’s remarkable rise into one of the leading information technology companies as well as one of the most recognizable brands in the world has not been a matter of chance. While Larry Page and Sergey Brin, the founders of Google, brilliance at organizing the world information so that it is universally accessible and useful, and it played a crucial role in setting the company ahead of its competitors, and also the part of employees cannot be ignored. Right from 1998 when the company was incorporated, Google has remained truthful and focused on improving the lives of the human population across the globe by making information necessary for day-to-day the decision-making process easily accessible. To succeed in this mission, Google has, over the years, invested heavily in its employees, providing them with arguably the best workplace experience (Tran, 5). Besides delivering one of the best compensation packages to its employees, Google has put in place the unique organizational and workplace cultures that get the best from its employees. With close to 100,000 employees on its payroll, not only Google is a top choice for many job applicants; it is the only choice for many that desire the best workplace experience. For many potential Google employees outside there, it includes: Google Perks which include comprehensive health coverage, onsite fitness center, discounted gym memberships, onsite medical facility, onsite childcare and paid time off are irresistible.

To understand why Google is a top choice for many job applicants and why Googlers are consistently ranked one of the happiest, it is important to dig deeper into Google’s employment practices including the compensation strategy, best practices and how it tackles the various challenges that encounter in the managing its human capital. Besides this, knowing what the shareholders say about the compensation strategy, examining company by-laws, including regulations on labor union as well as benchmarks the company applies in worker’s management is essential.

**Description of the Company, Practices and Compensation Strategy**

Until October 2015 when Google reorganized its organizational structure to come up with a holding company, “Alphabet” the Google was a public company listed on the New York stock exchange and known as Google Inc. (Alphabet, 1). The reorganization of Google Inc. into Alphabet brought a new organizational structure that separated Google core operations such as the Google Search, Android, Google Maps, Google Dox, YouTube, Hardware, Ads and Apps from moonshot operations such as Self-Driving Cars, Google Capital, Sidewalk Labs, Calico, among others. The reorganization ushered a new management structure where Larry Page left his post as Chief Executive Officer of Google to Sundar Pichai to become the CEO of Alphabet. On the other hand, Sergey Brin, Google co-founder, became the President of Alphabet while Eric Schmidt, Google CEO before Page, took over in 2011, became the executive chairman of the enlarged entity.

To remain competitive in the highly disruptive information technology industry, Google places much emphasis on innovation. Whether working as individuals or in teams, Google engineers are encouraged to come up with life-changing innovations with the capability of having an impact on a significant number of the world population (Tran, 5). Two decades later, after Google was formed, the company continues to invest aggressively on projects described as Other Bets for the future (Alphabet, 1). Because of the innovative culture where a high number of projects turned out to be a great success, Google had to reorganize itself so that it remained within the key mandate of organizing the world's information so that it is universally accessible and useful.

Like many public companies, Google’s compensation structure is divided into executive packages and standard salaried pay for employees. Executive packages are more complex and often tied to the overall performance of the various units under the company. Google compensation is one of the best, and the company employees are always satisfied with their earnings. With a median annual salary of about $247,000 for experienced workers and the average salary of $93,000 for entry-level employees with less than a year of experience, Google's salaries are indeed competitive (Alphabet, 1).

**Compensation Related Challenges**

Being an industry leader with the best compensation rates of any tech company, Google spends a substantial amount on catering for its compensation budget. Figures from Google financial statements indicate that the company spends about $20 billion to compensate employees each year in salaries, bonuses as well as other benefits provided by the company. Recognizing the challenge of sustaining the above market competitive rates, Google has been trying to scale down some of the benefits, including reducing the number of promotions by 2%. Such efforts, however, have been met by the employee resistance.

While there is no doubt that Google pays one of the best salaries with the median annual compensation rate of $247,000, the company has come under scrutiny concerning the lack of transparency on how it compensates its employees. Google policies require employees not to disclose their compensation to their peers, raising the possibility of employees working at the same level earning different salaries. Though this is explainable considering that employees’ productivity and contribution to the bottom line might be different, the company has been unable efforts of Google employees sharing what they earn.

**Analysis of How Google Applies Compensation Practice to Determine the Positive Impact on the Company and Its Stakeholders**

Google employees are recognized and treated as the company’s greatest asset. For this reason, the company is continuously on the lookout for the best talents. To attract and retain top talents in the highly competitive tech industry, Google has aligned its compensation strategy to reward the top performers. For this reason, it is not uncommon to get a lower-level employee paid higher bonus compared to another at a higher level but whose productivity and contribution to the bottom line is far much less. Combined with the various incentives that the company provides to its workers such as medical cover, free food, and onsite gyms, and onsite childcare, Google’s employees are one of the happiest in the Silicon Valley where there is the possibility of losing top talents to a rival company is quite high. The ability to attract and retain top-performing workers has seen the company grow tremendously over the last 20 years of its existence.

The generous compensation package that Google pays to top-level employees, especially the head of products which are often accompanied by stock bonuses, has seen it achieves the unmatched growth in the tech industry. Besides the search engine product, other products which have been developed and acquired along the way including Android, and YouTube dominate the market due to Google's ability to retain their founders and top-level talents from rivals. Looking across Silicon Valley, very few companies can match Google’s success. By all standards, Google seems to have surpassed its initial mission of organizing the world's information so that it's not only accessible but useful as well. With the reorganization of the company in 2015 to Alphabet where search-related services, ads, and infrastructure were left with Google while Other bets such as Google Fiber, Calico were organized as independent companies, it's evident that Google's compensation strategy that saw it attracts and retains talents has matched its aspirations (Alphabet, 1).

Google's performance-based compensation that sees the company pay one of the highest salaries has also benefited its shareholders handsomely. They must be counting themselves lucky for having invested in Google’s stock, which had appreciated by more a hundred times when the company became public in 2004. For those that invested in the company before Google went public in 2004 and those that have held stock at the company for the entire period, they must be smiling for having made the best investment decision ever in their lives. While Google does not pay cash dividends to holders of Class A common stock and Class C capital stock, the company still rewards all shareholders in stock dividends. For the financial year ending 2015, Class A common stock and Class B stockholders received diluted earnings of $22.84 per share while Class C capital stockholders received $24.34. It is important to point that Class C holders are compensated much higher since it's a non-voting stock and the company retains the right for repurchase.

**Ways in Which Laws, Labor Unions, and Market Factors Impact Google’s Compensation Practices**

Many laws govern the interest of workers in the United States that Google has to adhere to designing its recruitment and compensation strategy. Some of the most important laws that all companies operating in the country must adhere to include equal employment opportunity laws, health and safety laws, laws against discrimination practices, and many more. For a multinational company like Google and its competitors such as Facebook, Apple, Amazon, it's even more complicated as not only they have to navigate domestic laws but many more in each of the countries that they have offices. Therefore, dealing with these many laws may be at times complicated, and as such, the company has to have the various employment practices are in balance with the regulations.

While unions play a significant role in protecting and advocating workers' rights, these organizations are not fun for tech companies. Market standard compensation rates in technology companies where workers are paid one of the highest salaries that are accompanied by other benefits are not available in other industries due to the stiff competition for top talent renders unions irrelevant. However, this does not mean that tech employees cannot enjoy the freedom of association and expression. On the backdrop of sexism accusations and discriminatory tendencies last year, a record number of Google employees and contractors totaling 20,000 protested the company's offices across the world. As part of the protest demands, employees demanded that the company ends mandatory arbitration where employees and contractors are forced to take legal disputes to the private arbitration. According to protesting employees, they unlikely to win cases under these scenarios, and even if they win, compensation is quite less compared to court based ruling. In response to the protests, Sundar Pichai, Google’s CEO, effectively terminated the use of the forced arbitration to address complains this year.

The information technology industry which dominated by Google and other giants such as Facebook, Twitter, Apple, Microsoft, and Amazon is one of the most competitive industry. Tech companies are always on the lookout for top talents and are relentlessly looking for ways to make their employees happy so that they can not only achieve high productivity but be able to retain them. For this reason, an employee's productivity and ambition must be matched with a competitive compensation package. Concerning the stiff competition, it is not a secret; therefore, why Google's employees are one of the best paid (Pendleton, 4). When Microsoft wanted to porch Sundar Pichai to become its CEO, for instance, Google had to respond by promoting him to CEO status, controlling assets worth more than Microsoft itself. Besides paying huge bonuses to top-performing employees, and offering unbeatable incentives to workers, the stiff competition has forced the company to pay close attention to worker's issues.

**Evaluation of Effectiveness of Traditional Bases for Pay at Google**

Traditionally, the compensation structure in many companies was based on seniority; several years of working in a company more than job experience and performance. Basing employee compensation on longevity and seniority means that those who are high in the company hierarchy and have stayed for a more extended period get to earn the highest salaries and enjoy the best benefits. This system often does not consider the level of education and employee productivity to a company’s bottom line. While the system may be advantageous in maintaining stability as workers know their time to earn higher pay and enjoy better benefits will come with time, it has several cons that make it undesirable to be used in a competitive business environment (Noe, 3). One of the most significant drawbacks is the lack of incentive for employees to achieve high productivity.

Since basing pay on seniority and longevity has a negative impact on productivity, and ability of a company to attract top-performing talents, it's no longer popular with many companies. Google, for instance, has total disregard for this type of compensation strategy. In its place, Google has designed a comprehensive compensation strategy that entails paying competitive wages as well as bonuses that are tied to performance rather than a position in the company. This means that a highly productive employee but junior in rank has the potential of earning more than a senior employee at a management position due to their contribution to the bottom line of the company.

From the success that the company has achieved over the years, the decision by Google to adopt a performance-based compensation program that is not tied to the traditional pay metrics of seniority and longevity was noble. Not only does the system encourage high performance among employees, but it also ensures that the company can get the best value of the money that it invests in its workers. Combined with the many incentives and benefits available to all workers irrespective of their ranks, Google has managed to create a conducive work environment for any employee outside there would wish to have. In a world where companies are competing for top talents the non-monetary incentives that are not associated with work performance help to set Google aside from other companies (Pendleton, 4). This explains why Google includes other benefits such as excellent workplace environment, free foods, paid parenthood, onsite childcare to make employees comfortable and productive.

**Conclusion**

By all standards, Google is one of the best companies any person would wish to work. Established in 1998 with the main purpose of organizing the world’s information so that it is easily accessible and useful, Google has not disappointed. The company has grown from a search engine to one of the most recognizable brands, attracting thousands of job applicants who want to be part of the great journey being pursued by the company. Besides having one of the best competitive salaries, Google has unbeatable employee benefits that make its workers the happiest in the world.

Sources

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