



## **Part 4:**

# ***Compensation and Benefits***

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# **Train for Employment**

## **Module 14: HR for Non-HR**

### **Part 4: Compensation and Benefits**

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#### **Importance**

Human Resource Management (HRM) has never been as significant as it is today. Companies want to attract, retain and motivate brains to meet objectives. Today Humans are regarded as one of every company's assets so they need to be efficiently and effectively managed. One of the tools companies use to attract, retain and motivate its people is Compensation Management. In this module, we will define compensation and benefits along with their advantages for a company and its workers.

#### **Learning Objectives**

Upon the completion of this part, you will be able to:

- Identify goals of a Compensation Plan
- Describe how to develop a compensation package

## Compensation and Benefits

Compensation: Would any employee work for free?

No. They would, like us all, expect something in return. You must have heard a common phrase: Give and Take. You always have to give things to people in return to what you take from them.

Compensation refers to this exchange, but in monetary terms.

Compensation is the employer's feedback for an employee's work.

It simply is the monetary value you would give to your employees in return of their services.



In the book Human Resource Management, Gary Dessler defines **compensation** in these words "Employee compensation refers to all forms of pay going to employees and arising from their employment." The phrase 'all forms of pay' in the definition does not include non-financial benefits, but all the direct and indirect financial compensations.

: Employees today are not willing to work only for the cash alone, they expect 'extra'. This extra is known as employee benefits. Also known as fringe benefits, Employee benefits are non-financial form of compensation offered in addition to cash salary to enrich workers' lives.

### Goals of a Compensation Plan

So far, we have discussed the process for strategic plan development and the recruitment and selection process. The next aspect of HRM is to develop compensation plans that will help in the recruitment and retention of employees.

Most of us, no matter how much we like our jobs, would not do them without a compensation package. When we think of compensation, often we think of only our paycheck, but compensation in terms of HRM is much broader.



A compensation package can include pay, health-care benefits, and other benefits such as retirement plans, which will all be discussed in this module.

First, the compensation package should be **positive enough** to attract the best people for the job. An organization that does not pay as well as others within the same industry will likely not be able to attract the best candidates, resulting in a poorer overall company performance.

Once the best employees and talent come to work for your organization, you want the compensation to be competitive enough **to motivate people** to stay with your organization. Although we know that compensation packages are not the only thing that motivates people, compensation is a key component.

Third, compensation can be used to **improve morale, motivation, and satisfaction among employees**. If employees are not satisfied, this can result not only in higher turnover but also in poor quality of work for those employees who do stay. A proper compensation plan can also increase loyalty in the organization.

Pay systems can also be used to **reward individual or team performance and encourage employees** to work at their own peak performance. In fact, in the 2011 list of the Best Companies to Work For by Fortune magazine, all the companies who topped the list (SAS and Boston Consulting Group, for example) had satisfied employees—not only with their pay, but their entire benefits package. “100 Best Companies to Work For,” CNN Money, accessed February 11, 2011.

With an appropriate pay system, companies find that customer service is better because employees are happier. In addition, having fairly compensated, motivated employees not only adds to the bottom line of the organization but also **facilitates organizational growth and expansion**. Motivated employees can also save the company money indirectly, by not taking sick days when the employee isn’t really sick, and companies with good pay packages find fewer disability claims as well.

So far, our focus on HRM has been a strategic focus, and the same should be true for the development of compensation packages. Before the package is developed for employees, it’s key to understand the role compensation plays in the bottom line of the organization.

## Developing a Compensation Package

There are a few basic aspects of compensation packages we should discuss before moving into the specific aspects of compensation. These foundations can assist in the development of a compensation strategy that meets the goals of your organization and is in line with your strategic plan.



Before beginning work on your compensation packages, some analysis should be done to determine your organization’s philosophy in regard to compensation. Before development of your compensation philosophies, there are some basic questions to address on your current compensation packages.

1. From the employee’s perspective, what is a fair wage?
2. Are wages too high to achieve financial health in your organization?
3. Do managers and employees know and buy-into your compensation philosophy?
4. Does the pay scale reflect the importance of various job titles within the organization?
5. Is your compensation good enough to retain employees?
6. Are laws being met with your compensation package?
7. Is your compensation philosophy keeping in line with labor market changes, industry changes, and organizational changes?

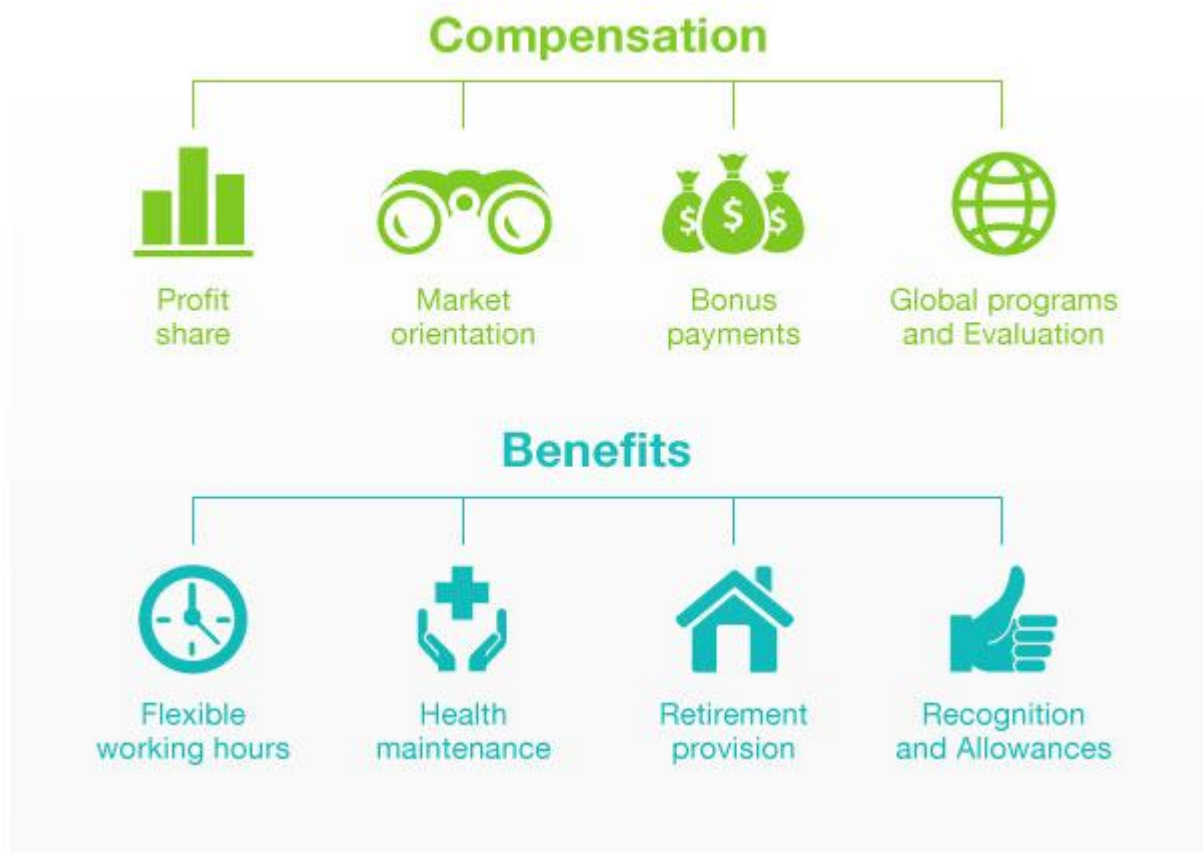
Once these basic questions are addressed, we can see where we might have “holes” in our compensation package and begin to develop new philosophies in line with our strategic plan, which benefits the organization.

The **pay philosophy** must be developed, based on internal and external factors. Some companies implement a market compensation philosophy, which pays the going market rate for a job. Other companies may decide to utilize a market plus philosophy, which pays higher than the average.

A company could decide its pay philosophy is a market minus philosophy, which pays less than the market rate.

For example, an organization may decide to pay lower salaries but offer more benefits.

Once these tasks are done, the HR Department can then build a **pay system** that works for the size and industry of the organization.



Source: [https://career.bayer.be/en/why-bayer\\_old/working-at-bayer/rewards-and-benefits/](https://career.bayer.be/en/why-bayer_old/working-at-bayer/rewards-and-benefits/)

## Summary

Throughout this part, you were able to:

- Identify goals of a Compensation Plan
- Describe how to develop a compensation package