Compensation and Benefits

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Abstract

Employee compensation refers to salary, annual incentives and long-term monetary incentives to the employees. In general, it is a term used to denote the payment made by an employer to the employees against their services and contributions to the organization. Benefits are non-monetary parts that are paid to an employee in order to motivate him on the performance of tasks. Common types of compensation are Basic compensation, Performance-related compensation, Compensation schedule, and Piece-rate compensation plan. Money or compensation is the most significant of all factors one considers while selecting a job offer. Effective compensation is generally regarded as the first thing an employer can use to attract the right talent from the pool. A number of theories support the idea that money is the ultimate motivator for the employees, thus increasing employee compensation can make them contribute positively to the organizational goals and aims. Compensation planning is impacted by a number of external factors as well such as laws and regulations, labor market conditions, and labor unions.

Compensation and Benefits

Employee recruitment and training are some of the biggest challenges faced by businesses these days. In the contemporary period, employees are not only interested in getting employed, rather seek satisfaction from their jobs. Most of the employees also come from a chaotic and disrupting environment. Such kind of employees wants their workplace to be a happy place for them. Thus, these employees seeking satisfaction and a happy environment move from one place to another. In order to retain these employees, one way is to keep them motivated. Here comes the subject of compensation, complex, broad and expensive at the same time. This paper seeks to carry out research on compensation and benefits, how they are motivational factors for employees and the role of effective compensation planning in the success of the organization. Besides, it will also explore the factors that impact compensation planning in an organization followed by a conclusion.

# What is Employee Compensation?

Employee compensation is a vast topic; it includes elements pertaining to wage and salary program and structures. In general, it is a term used to denote the payment made by an employer to the employees against their services and contributions to the organization (Gupta & Shaw, 2014). Salaries, commission, tips, and wages are the most common forms of compensation. It is generally provided to employees as basic or variable pay; basic pay is sometimes determined by the market offering for a certain job while the variable pay results from the performance of the employee in a certain role. Examples of variable pay are incentive plans and bonus plans. A bonus generally considered a form of benefits is actually a form of compensation.

Compensation is the total dollar value of one’s salary and it must not be confused with the benefits, for example paid time off (PTO) is a form of compensation. In other work-related contexts, it is also generally referred to as a payment one gets for being hurt or inconvenienced caused by the employer. The best-known example is worker’s compensation, which is when they pay the medical bills (and sometimes more, like to offset the income one lose while recuperating) related to a job-related injury. In addition, financial compensation paid to the employee against any loss they have to bear owing to the employer can also be regarded as compensation.

# Difference between Compensation and Benefits

While “employee compensation” and “employee benefits” are general terms that can intersect in meaning, they are generally understood to identify two different buckets of compensation. Employee compensation refers to salary, annual incentives and long term incentives like stock options and other equity compensation. Employee benefits as it is defined in Employee Retirement Income Security Act (ERISA) (US law), means health and welfare plans and pension plans, such as 401(k) savings benefits and paid time off. Other incentives, such as car allowance and country club dues could fall into either bucket. Even though “employee compensation” and “employee benefits” overlap in meaning, there is enough difference in the area of legal practice pertaining to compensation and benefits.

To state simply, compensation is the pay or the salary paid to an employee in monetary terms in exchange for the work done by a person necessarily, e.g., salary, cash bonus, and company shares. Benefits are non-monetary parts that are paid to an employee in order to motivate him on the performance of tasks. Employee benefits are optional, non-wage payment given to workers apart from their typical wages or pay rates. These types of advantages may incorporate gathering protection (wellbeing, dental, vision, life and so forth.), educational cost repayment, financing of instruction, inability salary insurance, childcare, debilitated leave, retirement advantages, get-away (paid and non-paid), and additionally adaptable and optional work plans.

Offering benefits to the employees is important because it shows them that employers are investing not only in their overall health but their future also. A solid employee benefits package can help to attract and retain talent. Benefits also help an organization differentiate itself from competitors. Employee benefits providing staff with the right worker advantages bundle supports inspiration, enhances staff maintenance and upgrades your enrollment bundles. The examples of employee benefits include life insurance, health insurance, dental insurance, work from home option, wellness programs, relocation assistance, gym memberships or discounts, tuition reimbursements, telecommuting options, paid time off such as PTO, sick days, and vacation days, commuting/travel assistance, childcare benefits, and having paid leaves. Workplace perks such as recreation activities, food and coffee, and flexible work schedules are also examples of employee benefits. Both compensation and benefits are important motivators when it comes to taking work form people. The key difference between the two terms is the monetary and non-monetary aspects.

# Types of Compensation

There are different types of compensation plans and packages and it is based on the nature of the job done by employees. These include the following:

## Basic Compensation

Some employers take a basic salary as the basic compensation of employees. For instance, people belonging to the same level and skills will have the same salary or compensation. The salary increases based on high experience, high qualification, and radical skills. The people with less experience and lower level of skill set have lower compensation.

## Performance-Based Compensation

A range of compensation plans exist; a common plan is a performance-based type in which the salary is dependent upon a certain performance metric. These metrics can either be associated with departmental productivity, workgroup, organizational profit performance, and individual or unit productivity. Many organizations make use of annual performance bonus plans that are linked to corporate profitability. The same metrics are used to determine compensation strategies for the organization's top executives.

## Piece-Rate Pay Plans

As an alternative, many companies employ the piece-rate model for calculating employee compensation. In such cases, employees are paid according to the production levels they have achieved instead of a base salary. The piece-rate plan is also termed as a commission-based compensation in many cases. This model is particularly suitable in cases where vendors are paid a specific percentage of the revenue, they are able to generate; thus the more revenue generated, the higher the percentage. Conversely, if there is no production or sales for a particular day, then compensation is not given accordingly.

## Schedule of Compensation

Organizations also differ in their preferred schedule of paying employees; some prefer to make fortnight or weekly payments, while a majority prefer to pay on a monthly basis. A number of organizations follow the hourly wage model as well, based on their business requirements. These hourly rates are usually based on the employee's experience and qualification levels and are often adjusted to reflect their experience and productivity levels.

# Factors Impacting the Individual’s Choice of Applying, Accepting or Rejecting a Job Offer

Many factors influence an individual's decision of applying and accepting a job offer. Even in the times of recession, candidates evaluate the job offer and select on that matches their interests well. Money or compensation is the most significant of all. The money factor is pivotal since the offering is evaluated in terms of money. For instance, if it is appealing in comparison to other offerings if it is enough to meet the necessary expenses etc. Factors other than money taken into account include working conditions, the job itself, the organization's culture and environment, and future prospects as well.

Determining the compensation also depends on how well one performed in the interview and how far can a company go to hire them. If an employee is the only one that fits the job role and if there is a pressure from their superiors, then they will be ready to offer the employee more. If the candidate is an intern, for instance, then compensation will (if a full-time role is offered) depends on how well one performed as an intern, how eager they are to learn and of course the opinion of the manager and direct boss. Apart from this, there will be some financial constraints, the maximum limit for each designation, etc. The compensation is also highly determined by the job description and what one is expected to do. In addition, the company's position in the market, its location and size, and career growth opportunities can influence total compensation in a job and the individual’s decision to accept or reject a job offer.

# Impact of Compensation Plans on Success of an Organization

Money and compensation remain one of the top factors in job selection and retention afterward. Thus, it also plays a critical role in aligning employee goals with that of organizational goals and objectives. Effective compensation is generally regarded as the first thing an employer can use to attract the right talent from the pool (Gupta & Shaw, 2014). It is a common fact that every organization is looking for talented and innovative people who could contribute towards the organizational goals positively. Owing to this fact, competent people want to put themselves in the best financial position. To pick talented people, competitors can also offer them attractive compensation packages, this results in the competition in the employee market.

Organizations are familiar with the fact that their success is dependent on the right people and for many people money is the biggest motivator. Compensation indicates that the employer values its workforce and offer them good compensation and benefits to attain their goals through them. In addition, compensation and benefit is a great way to keep employees happy and ensures they stay in the organization for a longer period of time (Osibanjo, Adeniji, Falola, & Heirsmac, 2014). The most productive employees are those happy and satisfied with their jobs and workplace; they result in high profitability of the company. Moreover, effective compensation planning can help an organization deal with many undesirable situations.

Employee churn is one of the major issues faced by the HR of an organization. Dysfunctional turnover, leaving of best people, results in the high cost to the organization. Along with the cost of losing productive employees, it also includes the monetary cost of recruitment and training. High performing employees are a valuable asset for the organization and losing such people results in the loss to the company in the long-run. Employees’ decision to leave and stay stems from many underlying factors and these reasons are extremely important for an organization to know. A number of studies link employee turnover with job dissatisfaction. Employees contented with their jobs due to their financial benefits hardly find any reason to leave (Self and Dewald, 2011). This does not infer that employee satisfaction is only linked with money factor, but with employee empowerment, non-monetary benefits, work-life balance, career growth, etc. Correspondingly, an employee may decide to quit the job owing to a poor working environment, unhealthy competition, a boring job, and poor work-life balance.

Retention of employees is a major goal of the HR of an organization. Thus, several different strategies are used in an attempt to retain talented employees such as perks and benefits, career development opportunities, etc. The last one is most effective in retaining the high talent, it enhances employees' confidence in the organization alongside boosts employee engagement and productivity. Furthermore, it supports the succession pipeline; though these programs are very expensive to carry out. The easiest way to retain employees is by offering them good compensation, benefits and perks, and job security; this will not only increase their morale but also citizenship behavior (Bryant and Allen, 2013). Designing an effective compensation and benefits plan pertains to some legal concerns as well, and they are highly impacted by some external factors.

A number of theories support the idea that money is the ultimate motivator for the employees, thus increasing employee compensation can make them contribute positively to the organizational goals and aims. According to Maslow's Hierarchy of Needs theory, money can be considered as a factor in the category of safety needs, for the reason that it makes an employee feel secure. As long as safety needs are a motivator and primary needs are not fulfilled that money, money can enhance employee motivation and vice versa. According to McGregor 's Theory X and Theory Y, people who are not intrinsically motivated depend on an authoritarian style of management (Gannon & Boguszak, 2013). While the people who take pride in their work can be motivated by empowering them. In the case of theory X, money can be a factor that can drive employees towards good performance, while according to theory Y, money is not a motivator.

Herzberg’s Motivation-Hygiene Theory is based on factors causing job satisfaction and the absence of some causing dissatisfaction. In this case, the opposite of satisfaction is not dissatisfaction but no satisfaction. Motivation factors lead to high satisfaction but in the absence of hygiene factors, one feels dissatisfied. Here money or salary is a hygiene factor, getting a raise in salary may not motivate one to perform better but the absence of this factor will result in dissatisfaction. Thus money becomes a drive for good performance, it will definitely give a short-term performance and will help remove dissatisfaction of employees. Thus all these theories conclude that money can be a motivator but it is not the only factor that can help them take the best form their employees. Money coupled with other factors, denoted as benefits are compulsory to keep employees motivated.

# Extrinsic Factors that Impact Compensation Plan

Laws, regulations and the legal environment is a major extrinsic force that influences employee remunerations, and benefits plan. The condition of the labor market is also a determinant of employee wages and compensations. For instance, during the recession in the market, the wages go down; if there is the demand for a certain skill in the market the wages will go up. The demand and supply factor highly determines the compensation of a certain skill or a job. Besides, there is a market rate for certain job positions in the industry, employers have to make their job offers while taking market rates into account. Labor unions exist to protect the rights of employees in terms of compensation, wages, salaries, and pay raise. They can also influence an employer to make changes in their compensation plan. However, the role of laws and regulations cannot be negated since employers can be sued and face penalties if they fail to comply.

The US government protects employees against any form of segregation and exploitation through certain labor laws. To name some of them, The Minimum wages act 1948, the Civil Rights Act of 1964, the Equal Employment Opportunity Act of 1972, the Civil Rights Act of 1964, etc. The Civil Rights Act of 1964 is the most important law when it comes to compensation and wages planning. This law stemmed from the idea to eliminate discrimination in employment based on gender, race, color and ethnic background. The VII of this law relates to employment practices and prohibits employers for discriminating their employees in terms of recruitment practices, training and development, wages, salaries, promotion, and other HR-related functions (“Title VII of the Civil Rights Act of 1964”, n.d.). The amendment in the Civil Rights Act, referred to as the Bennett Amendment particularly eliminates sex-based discrimination. Furthermore, title VII guarantees equal employment for all and this law is applied in all the local, government and federal organizations and in all the labor, public, and private organizations. After the Civil Rights Act of 1964, Executive Order 11246 emerged and it particularly targets the contractors and imposes different penalties if they fail to make written affirmative action plans. All these laws were made to protect employees from the evil of discrimination at the workplace and to make this world a happy place to work.

With regard to compensation and pay, a range of laws regulates the wage and compensation and guides employers. Fair Pay Legislation laws are based on the Equal Pay Act of 1963, Title VII of the Civil Rights Act of 1964, and the Civil Rights Act of 1991. These laws aim at eradicating wage disparity due to sex, religion, the color of skin and ethnic background. These laws emphasize that the workers must be given equal pay according to the work they are performing without any discrimination. Compensatory Time law is governed by the Fair Labor Standards Act and these laws control paid time off instead of extra pay for extra time worked.

The minimum wage law determines minimum wage per hour for an employee in the US; the federal lowest wage is $7.25 per hour, however, states can have their own minimum wages. Overtime pay law demands that employees are entitled to receive an additional payment if they work for more than 40 hrs. a week. Several state and federal laws also determine the pay for employees who work on the snow day. In case employees are facing wage violations, they can file their lawsuit and are able to recover unpaid wages. Federal law of the US requires employers to compensate terminated employees against their unused vacation time. The wage garnishment provisions protect employees from discharge by their bosses for the reason their wages have been garnished due to any of the debt.

# Conclusion

This research paper has explored the topic of compensation and benefits, the primary factors that guide an individual decision of selecting or rejecting a job offer. Compensation is generally a monetary reward offered to the employee against the services they render to an organization. If they perform extra, they are rewarded in the form of performance bonuses and extra work compensation. On the contrary, employee benefits are the non-monetary benefits that aid employee motivation and satisfaction at the workplace. Both compensation and benefits are imperative in any job, and an effective compensation plan can result in the success of an organization. As discussed in the paper, money acts as a motivator and encourages employees to work harder. It also differs from job to job and organization to organization. For instance, in a target-oriented job, money is a motivator for achieving above target. Though, the compensation plan of an organization is also influenced by some external factors and the company ought to be considerate about that. Laws, regulations and labor unions act as a guide ineffective compensation planning; besides they ensure employer's compliance with the rules and thwart corrosive outcomes.

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