

Unit 2. Human Resources Management (HRM)

Topic 2.4 Compensation

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Content

1. Managing Compensation
2. Rewarding Performance
3. Designing and Administering Benefits
4. Legal Environment
5. Designing a Compensation System
6. Motivation

1. Managing Compensation

1. Managing Compensation

What is compensation?

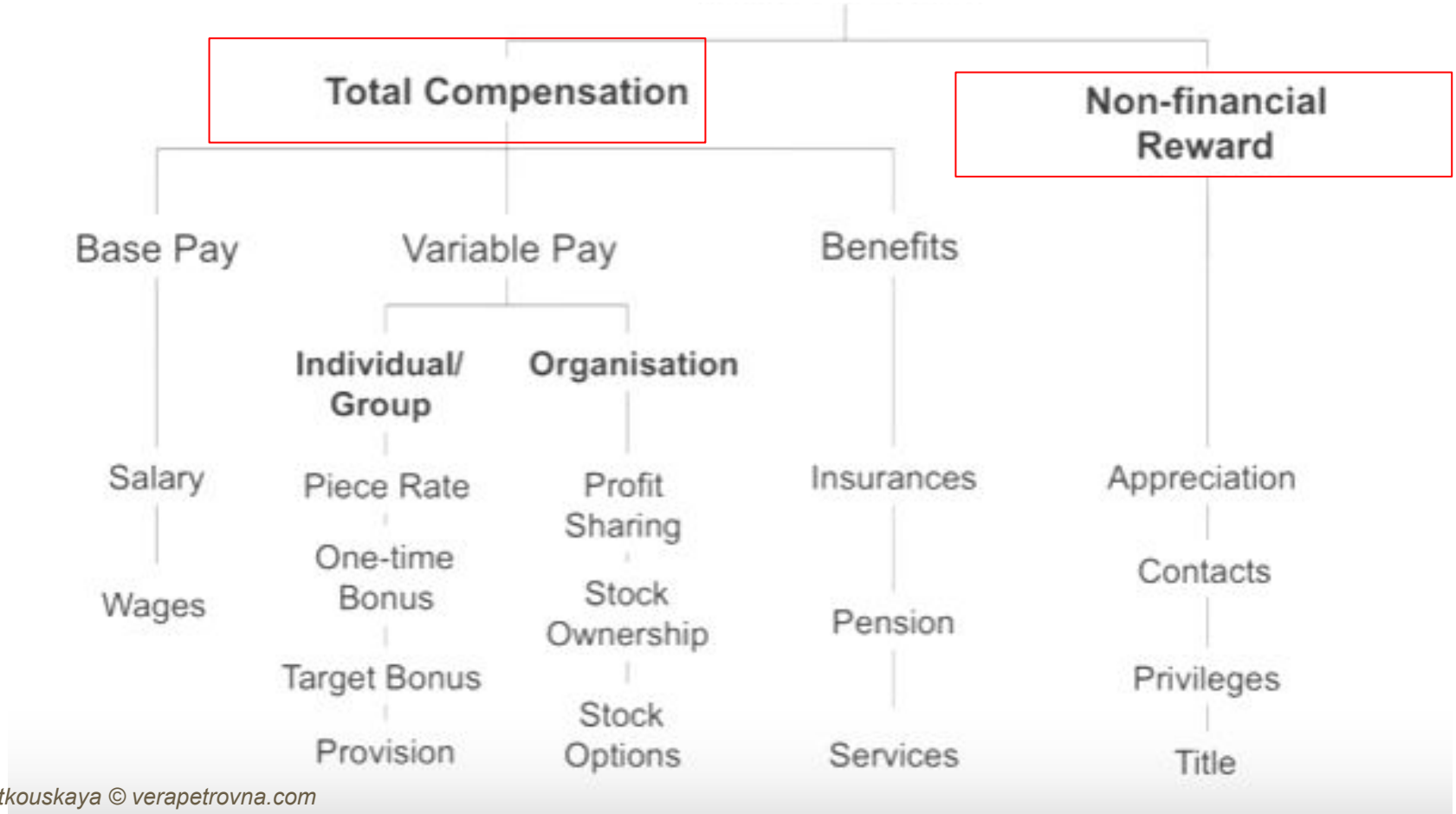
Total compensation is the package of quantifiable rewards an employee receives for his or her labors.

The Elements of Total Compensation (Monetary):

- Base Compensation,
- Pay Incentives,
- Indirect Compensation/Benefits



Compensation System



2. Rewarding Performance



Pay-per-performance (Incentive system)

A system that rewards employees on the assumptions that

1. Individual employees and work teams differ
2. Overall performance depend on the performance of the individuals
3. To attract, retain and motivate high performers employees should be rewarded based on their relative performance

2. Rewarding Performance

Unit of Analysis			
Micro Level		Macro Level	
Individual	Team	Business Unit/Plant	Organization
Merit pay	Bonuses	Gainsharing	Profit sharing
Bonuses	Awards	Bonuses	Stock plans
Awards		Awards	
Piece rate			

Pay-for-performance plans can be designed to reward the performance of the individual, team, business unit or plant, entire organization, or any combination of these.

3. Benefits



3. Benefits

1. Legally required benefits
(1) Social Security, (2) workers' compensation, (3) unemployment insurance, and (4) family and medical leave.
2. Other benefits types:
 - a. Health insurance
 - b. Retirement
 - c. Insurance
 - d. Paid time off
 - e. Employee services

Employee benefits or indirect compensation.

Types of Benefits

▶ **Security**

- Unemployment compensation
- Life insurance
- Disability insurance
- Early retirement options
- Disability retirement benefits
- Pension Plans

▶ **Health**

- Health-Care Insurance
- Sabbatical
- Free tennis courts, fitness centre usage
- Medical care
- Psychiatric counselling

▶ **Financial**

- Interest-free building loan
- Company credits
- Financial counselling

▶ **Offerings**

- Company car
- Private cell phone, laptop usage
- Free lunch
- Cafeteria and food services
- Child-Care; Company Kindergarten
- Cost advantages for company products
- Company accommodations

3. Benefits



BENEFITS

Challenges:

- (1) give employees meaningful benefit choices that match their
- (2) keep the costs of these benefits under control,
- (3) ensure that employees are fully informed of their benefit options.

Solutions:

- (1) benefits mix,
- (2) benefits amount, and
- (3) flexibility of benefits.

ROLEs

- **HR staff:**

- Administrate **flexible benefits mix*
- Control **the communication of benefits to employees*

- **Manager:**

- Motivate **Help employee to understand/make the best from benefits*
- Requirute **use as advantage to recruit high-quality applicants*
- Retain talented employees **reduce turnover*
- Manage **effectively manage work schedules*

4. Legal Environment

Comparable worth legislation:

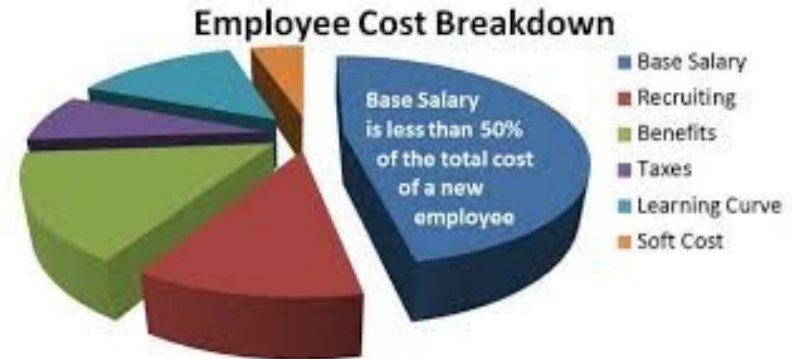
- comparable pay for jobs that require
- comparable skills, effort, and responsibility
- have comparable working conditions,
- even if the job content is different.

Company's costs

4. Legal Environment

Labor Standards and Legal Issues

- MINIMUM WAGES: minimum and average wages
- OVERTIME
- CONTRACT
- SALARY TAXES: pay both company and employee
- and others specified in Labour Law



4. Legal Environment

- SALARY TAXES employee: social insurance, pension and income tax*

* (in Spain it is IRPF - official source Agencia Tributaria) and social security tax rates fall between 6.35% (2019).



Source: <https://cincodias.elpais.com/herramientas/calculadora-irpf/>



TRAMOS DE IRPF 2020

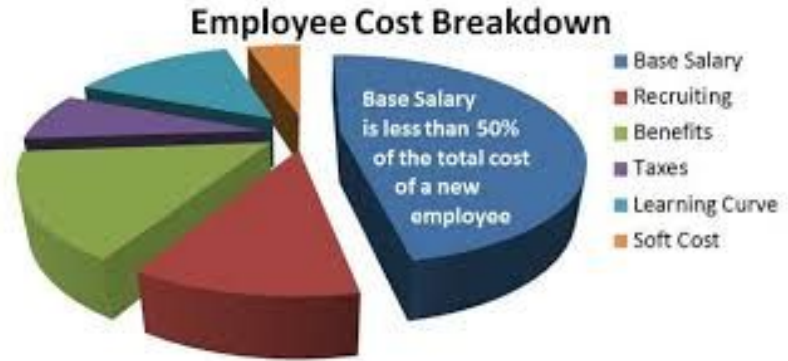
Base Imponible		Tipo a aplicar
Desde	Hasta	
0,00 €	12.450,00 €	19%
12.450,01 €	20.200,00 €	24%
20.200,01 €	35.200,00 €	30%
35.200,01 €	60.000,00 €	37%
60.000,01 €	130.000,00 €	45%
130.000,01 €	300.000,00 €	47%
Más de 300000,01 €		49%

4. Legal Environment

SALARY TAXES company: social insurance

*NOTE! The employer is required to pay a social insurance tax from the employee Gross salary **29.9%**.*

Also, some other costs can be mentioned, such as benefits, holidays, 13th salary, maternity leave, etc.

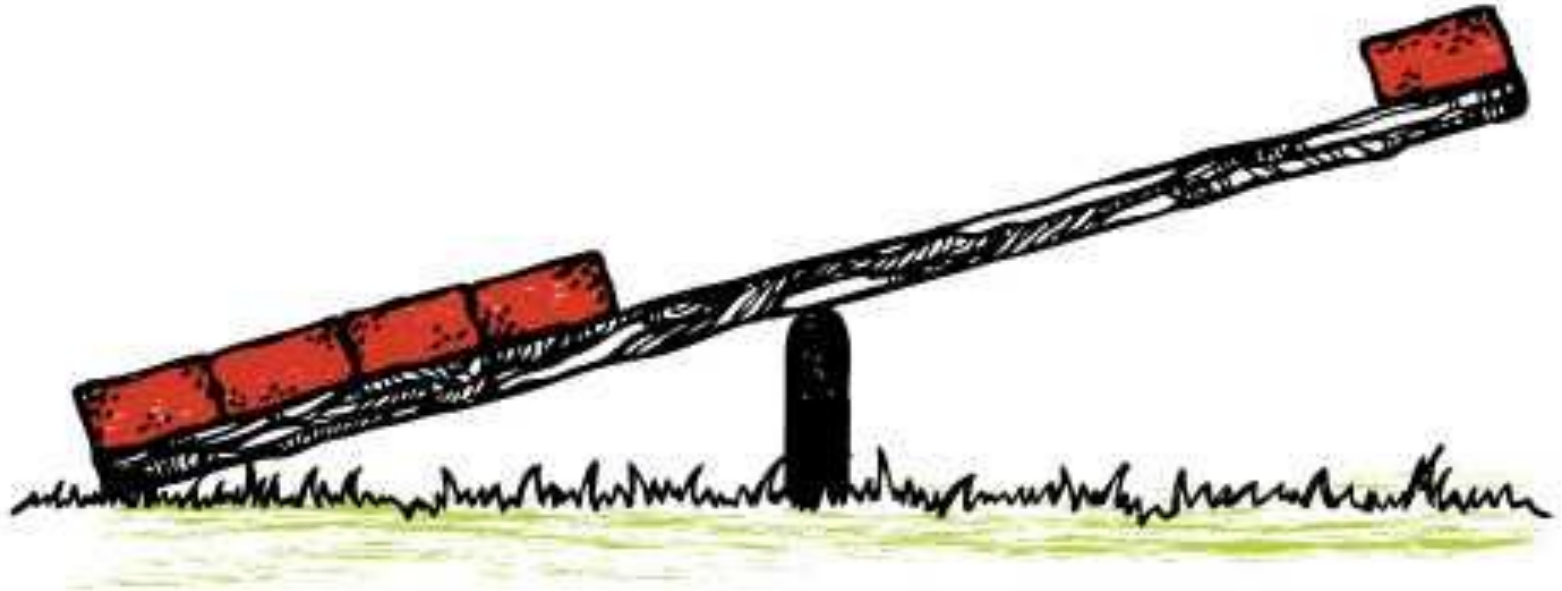


Example

Gross salary 1000 euro - what you promise to employee

Tax 29.9% = 299 euro

*Total Company cost **1299** euro*



5. Designing a Compensation System

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The 9 Criteria for Developing a Compensation Plan

1. Internal Vs. External Equity
2. Fixed Vs. Variable Pay
3. Performance Vs. Membership
4. Job Vs. Individual Pay
5. Egalitarianism Vs. Elitism
6. Below-Market Vs. Above-Market Compensation
7. Monetary Vs. Non Monetary Awards
8. Open Vs. Secret Pay
9. Centralization Vs. Decentralization of Pay Decisions

5. Designing a Compensation System

Factors determining Compensation

Responsibility	Strategic Relevance	Performance
Qualification	Market	Company Success
Cost of Living	Civil Status	Tenure

CQ 2.5

Some people argue that it is wrong for CEOs to earn “multimilliondollar” salaries while some of their employees are earning the minimum wage or being laid off. Some suggest that a firm’s top earner should earn no more than 20 times what the lowest-ranked employee earns.

Is it ethical question? Which consequences of wrong decisions while developing compensation plan may have for the company and for employees?

What are

+/- for company

+/- for employee?

Suggest solution

6. Motivation

Motivation, Example

how the company motivates
employees to work towards reaching
strategic plans?

*Emilie Couton, Vice President, Digital
Marketing, Asia Pacific at AccorHotels*

https://www.youtube.com/watch?v=y-b-4Qy_zc8&t=1s



Conclusions

GPTW

Great Place to Work

1. When your business is a great place to work, employees give 100% in everything they do.
2. ... you become an employer of choice.
3. ... employees think like owners.
4. ... customers notice and come back again and again.
5. ... absenteeism nearly disappears
6. ... turnover costs plummet
7. ... collaboration and creativity thrive
8. ... you're impacting the lives of people.



Questions

Definitions

Total Compensation includes

- **Base compensation**

The fixed pay an employee receives on a regular basis, either in the form of a salary or as an hourly wage.

(for example, a weekly or monthly paycheck)

- **Pay Incentives**

A program designed to reward employees for good performance.

(including bonuses and profit sharing)

- **Indirect Compensation/Benefits**

(for example, health insurance, vacations, and unemployment compensation).

Definitions

egalitarian pay system. A pay plan in which most employees are part of the same compensation system.

elitist pay system. A pay plan in which different compensation systems are established for employees or groups at different organizational levels.

Definitions

Types of incentives:

- **piece-rate system** - A compensation system in which employees are paid per unit produced.
- **merit pay** - An increase in base pay, normally given once a year.
- **bonus program** - A financial incentive that is given on a one-time basis and does not raise the employee's base pay permanently.
- **Award** - A one-time reward usually given in the form of a tangible prize.
- **Gainsharing** - As their performance improves, employees share financially in the gain (improvement).
- **Profit sharing** - awards employees a percentage of the company's profits.

5. Designing a Compensation System



(1/9) Internal vs. External Equity

Will the compensation plan be perceived as fair within the company,

OR will it be perceived as fair relative to what other employers are paying for the same type of labor?

Fair pay is pay that employees generally view as equitable:

- **internal equity** - The perceived fairness of the pay structure within a firm.
- **external equity** - The perceived fairness in pay relative to what other employers are paying for the same type of labor.

fairly paid is

employee's input/outcome ratio = other employees input/outcome ratio

5. Designing a Compensation System

(2/9) Fixed vs. Variable Pay

Will compensation be paid monthly on a fixed basis

OR

*will it fluctuate depending on pre-established criteria
(for ex. performance)?*

a fixed basis—through base salaries

a variable pay - payment depending on performance or company profits

Note. Applying variable pay the company indirectly offers employees to share risks.



5. Designing a Compensation System

(3/9) Performance vs. Membership

Will compensation emphasize performance and tie pay to individual or group contributions?



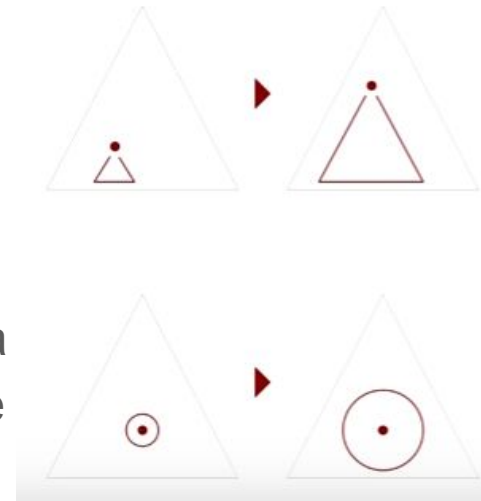
Progress by doing job better

OR

Will it emphasize membership in the organization—logging in a prescribed number of hours each week and progressing up the organizational ladder?



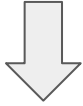
Progress by moving up in the organization



5. Designing a Compensation System

4/9 Job Versus Individual Pay

Will compensation be based on how the company values a particular job?



Or, will it be based on how much skill and knowledge an employee brings to that job?

*the more hats an individual can wear, the more pay he or she will receive -
knowledge-based pay or skills based-pay*

(+) Greater motivation
(+) Reduces turnover



(-) higher labor costs
(-) loss of labor specialization
(-) difficulties in selection
(-) chaotic workplace

5. Designing a Compensation System

5/9 Egalitarianism vs. Elitism

Will the compensation plan place most employees under the same compensation system (egalitarianism),
(common for older, well-established firms)

- *more flexibility to deploy employees in different areas without having to change pay levels.*
- *reduce barriers between people who need to work closely together.*
- *more stable workforce - reduce turnover*



OR will it establish different plans by organizational level and/or employee group (elitism)?

(common and risky and high competition environment, high-tech products)

- *Creates a competition environment*
- *Motivates for innovation*

Prospector / Defender?

5. Designing a Compensation System

6/9 Below-Market vs. Above-Market Compensation

Will employees be compensated at below-market levels,
OR at market levels,
OR at above-market levels?

to hire the “cream of the crop” - above-market

Aggressive incentives - market median

Different policy for different Job positions

Above

Below

5. Designing a Compensation System

(7/9) Monetary vs. Non Monetary Awards

Will the compensation plan emphasize motivating employees through monetary rewards like pay and stock options,

OR

will it stress nonmonetary rewards such as interesting work and job security?

“family friendly policies” or “work–life balance programs”

Note. Organization should be realistic and search for the balance between monetary and nonmonetary rewards.

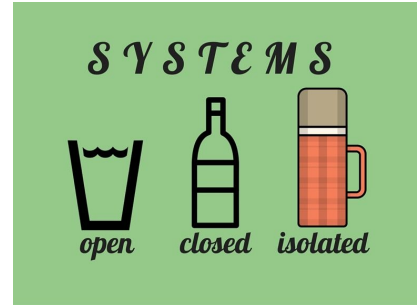


5. Designing a Compensation System

(8/9) Open Versus Secret Pay

Will employees have access to information about other workers compensation levels
OR

compensation system will be announced individually?



open pay



(+) *force managers to be more fair and effective in managing compensation*
(+) *reduce dissatisfaction as employees tend to overestimate the pay of coworkers and superior*

secret pay



(+) *help managers to avoid arguments with employees*

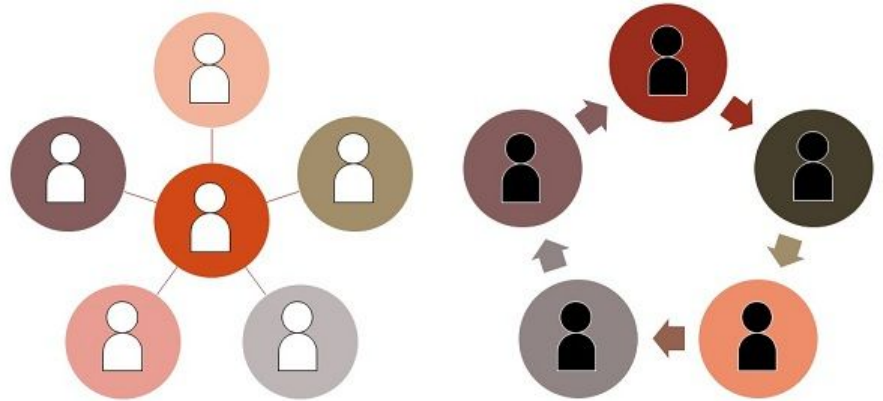
5. Designing a Compensation System

(9/9) Centralization vs. Decentralization of Pay Decisions

Will compensation decisions be made in a tightly controlled central location?

OR

Will they be delegated to managers of the firm's units?



CENTRALIZATION VS DECENTRALIZATION