Compensation Management (UNIT 4)

Compensation management is the process of ensuring that an organization's salaries and bonuses remain competitive, appropriate, and equitable. It also involves **managing** company benefit programs to make sure they meet the needs of the current workforce

Compensation Management refers to the establishment and implementation of sound policies, programmes and practices of employee compensation.

It is essentially the application of a systematic and scientific approach for compensating the employees for their work in a fair, equitable and logical manner.

Compensation Management is concerned with the compensation to employees for their work and contribution for attaining organisational goals.

Obviously, it is concerned with designing and implementing total compensation package. It is also known as wage and salary administration or remuneration management.

Compensation is the combination of salaries, wages and benefits that employees receive in exchange for them doing a particular job. It can include an annual salary or hourly wages combined with bonus payments, benefits, and incentives. These could include group health care coverage, retirement contributions, and short-term disability insurance. A total compensation package usually includes several of these components.

Components of Employee Compensation

Salary and Wages

In a compensation package, these typically make up the single largest component. This comes as no surprise since they are what potential and current employees use as a common point of comparison. The person's experience and skills should determine the salary, with subsequent increases in the future depending on the employee's value, performance level, and contribution to the company.

Bonuses

Employee bonuses are one common way employers provide performance incentives and are usually paid out annually, often at the end of the year, in a single lump sum. A formal way of doing this is through profit-sharing plans. However, these are often tied to the company's success versus for rewarding and compensating employees for their individual performances and meeting goals.

Federal/State Pay Requirements

State and federal laws are in place for protecting employees from bad employment practices that could negatively affect the employee's paycheck. There are minimum standards set via federal labor laws that employers are required to follow; state laws expand this protection in some cases. Employers are required by many states to pay the state minimum wage, which when compared to the federal wage, is a little more per hour.

The Fair Labor Standards Act (FLSA) requires employers to pay overtime (one-and-one-half times the hourly rate) to certain employees. Overtime is often due to employees who work over 40 hours in a week since it is measured not by the day, but rather by the week.

Providing a Competitive Package

Many employers offer a competitive package of employee benefits to attract and retain employees. Along with a competitive wage or salary, additional benefits are usually provided. Smaller companies might offer fewer components in the package; however, the majority of larger corporations, as well as most all public sector government employers, offer a competitive and extensive employee benefits package.

Long-Term Incentives

Part of a competitive package could include stock grants or stock options to serve as a long-term incentive.

Health Insurance

Health insurance is fairly standard with medium to large-size companies and some small businesses. Health insurance offers great value to the employees and saves them money since it is employer-sponsored. This offers employees with peace of mind since they know they have coverage; even with existing health issues.

Life and/or Disability Insurance

This type of insurance will usually cost the employee less if purchased through the employer and is an option.

Retirement Plan

A common practice for employers is to offer a 401(k) plan since it is less expensive than regular pension plans and fairly easy to administer. Employees have more control over how much they contribute and invest which is why they like these plans. Many employers match the amount invested or at least contribute in some way. Smaller companies will still try to have a plan in place for their employees but might not contribute any money to them.

Time Off

Time off includes vacations, holidays, personal days, bereavement, and sick days. For employers who are unable to offer competitive wages and salaries, they usually seal the deal by offering more time off. Some employers might not make any distinction between vacation, personal, or sick days which allows the employee schedule time off when needed through the year at their discretion.

Miscellaneous Compensation

This type of compensation can include things like employee assistance programs that may offer anything from legal assistance to psychological counseling or company cars to company discounts.

Overall, a competitive salary, 401(k), and health insurance are standard practice for attracting and keeping talent in a company. Companies can offer a more competitive employee package to bring in and retain the higher caliber staff that can add extra profit to their bottom line.