

Employee compensation and what you need to know about it

Author: Taurai Masunda . September 2020

What is employee compensation?

Employee compensation describes the benefits (base salary, incentives, vacation, etc.) that an employee receives in exchange for the service they provide to their employer.

Employee compensation is generally one of the largest costs or expenses for any organization. According to ZIMSTAT 2019 labour force and child labour survey, 60% of the employed population were paid employees with the remainder being employers. Approximately 92% of the working population in the United States is made of employees earning compensation from their employer. There are many different types of compensation paid to employees.

Why is employee compensation important?

Employers should know that keeping quality employees requires providing the right compensation and benefits package.

- **Job Satisfaction:** Mabaso and Calvin (2018) found out that there is a positive and significant relationship between compensation and job satisfaction ($r = 0.263$, $p > 0.01$). This means that compensation has a positive effect on job satisfaction. Having the right compensation plan leads to stronger job satisfaction. The right compensation program invests employees into the work being done, which gives them a stronger sense of satisfaction when the company succeeds. They know they will be rewarded for their efforts.
- **Attracting and Retaining Top Talent:** People are always looking to put themselves in the best possible position financially. Hiring the right candidate the first time reduces recruiting costs and helps free up business owners for other tasks. Employees' higher levels of satisfaction with pay procedures are associated with higher perceptions of organizational support, which in turn reduces their likelihood to voluntarily leave. (Williams, M. L., Brower, H. H., Ford, L. R., Williams, L. J., & Carraher, S. M. (2008). A comprehensive model and measure of compensation satisfaction. *Journal of Occupational and Organizational Psychology*, 81, 639-668). Heshizer (1994) found out that perceptions of pay fairness and equity are significant in managing employee commitment and turnover. Later research supported his findings in that reductions in turnover were shown to be a result of compensation and benefits systems that employees perceived as fair in terms of equity theory (Fay, C. H., & Thompson, M. A. (2001). Contextual determinants of reward systems' success: An exploratory study. *Human Resource Management*, 40, 213-226.).
- **Increased Productivity:** Happy employees are productive. Productivity in relation to compensation starts with employees feeling valued which increases motivation and loyalty. 53%

of the respondents agreed that compensation packages increased their efficiency in their jobs, 12% undecided with 35% in disagreement. (Yamoah, Emmanuel. (2013). Relationship between Compensation and Employee Productivity. Singaporean Journal of Business, Economics and Management Studies. 2. 110-114. 10.12816/0003845.). 87% of the respondents agreed that compensation packages for employees affected their productivity levels positively, thereby bringing about an increased productivity in the organization. (Yamoah, Emmanuel. (2013). Relationship between Compensation and Employee Productivity. Singaporean Journal of Business, Economics and Management Studies. 2. 110-114. 10.12816/0003845.)

- **Boost Employee Loyalty:** When employees are being paid well and are happy, they're likely to stay with the company. Proper compensation is one factor why employees remain with employers. Loyalty means that business owners don't need to continue to spend time, money and energy on recruiting new candidates. 76% agreed that compensation for employee reduced employee turnover. (Yamoah, Emmanuel. (2013). Relationship between Compensation and Employee Productivity. Singaporean Journal of Business, Economics and Management Studies. 2. 110-114. 10.12816/0003845.)
- **Increased Employee Motivation:** When people feel valued, they feel better about coming in to work. Overall company morale increases and people are motivated to come to work and do a good job. Additionally, when employees know there are bonuses or incentives, they are increasingly motivated to deliver good results. 80% of the respondents agreed that they were willing to take on extra duties as a result of their compensation packages. (Yamoah, Emmanuel. (2013). Relationship between Compensation and Employee Productivity. Singaporean Journal of Business, Economics and Management Studies. 2. 110-114. 10.12816/0003845.)

What forms employee compensation?

There are two different forms of compensation provided to employees. Direct and indirect compensation.

Direct compensation

Direct compensation refers to the compensation that an employee receives directly from his or her employer. This includes the base salary and any incentive pay. Direct compensation can be in the form of wages, salaries, commissions and bonuses that an employer provides directly to the employee.

Indirect compensation

Indirect compensation includes non-monetary benefits provided to workers, such as pension funds, mobile phones, company cars, health and life insurance, overtime pay, and annual leave. Indirect compensation differs from direct compensation, which is monetary compensation paid directly to employees for their services, starting with their salary. Instead of being paid directly to an employee, indirect compensation is calculated as an extra component of the base salary. These benefits are all forms of compensation, but they are nonmonetary. The company is not paying the employee in actual dollars

Examples of employee compensation

The following are a few examples of the compensation paid to employees:

- Cash compensation consisting of wages or salaries
- Cell phone allowance
- School fees benefit
- Transport allowance
- Retirement plans (employer contributions)
- Employer-paid health insurance
- Life insurance
- Paid leave for vacation and sick days

Taurai Masunda is a Business Analytics Consultant at Industrial Psychology Consultants (Pvt) Ltd a management and human resources consulting firm. <https://www.linkedin.com/in/taurai-masunda-b3726110b/> Phone +263 4 481946-48/481950/2900276/2900966 or email: taurai@ipcconsultants.com or visit our website at www.ipcconsultants.com

<https://thehumancapitalhub.com/articles/Employee-Compensation-And-What-You-Need-To-Know-About-It->