

Compensation and benefits

Author: Nolwazi Mlala . June 2021

Compensation and benefits refer to a company's compensation/salary and other monetary and non-monetary advantages provided to its employees. Compensation and perks are an essential part of Human Resource Management since they keep employees motivated. It assists in providing advantages to employees depending on their performance and activities and bringing out the best in individuals at work.

What are compensation and benefits?

Human resource management includes two essential components: compensation and benefits. They're both parts of the payment package that employees receive in exchange for their contributions to the company. They are the primary motivators for completing the task. A corporation must provide an appealing remuneration package that includes both monetary and non-monetary components so that a company can recruit top talent.

Compensation refers to the monetary reward in exchange for their services or specific contributions to your company. Their time, knowledge, talents, abilities, and commitment to your organization or project can all be considered contributions. The salary is usually the first thing that comes to mind when employees think of remuneration. However, compensation for many employees is significantly more than just a regular paycheck.

Benefits are any portion of pay that is not paid in cash to individual employees but is paid on their behalf by employers. Some of these advantages are mandated by law. Others are supplied by employers on their initiative or as a consequence of collective bargaining. 57% of U.S. job candidates report benefits, and perks are among their top considerations before accepting a job.

Organizations often offer a variety of benefits, including insurance plans (life insurance, health insurance), social security benefits (such as educational allowances, retirement plans, corporate housing, and vehicle allowances), and paid absences (such as sick leaves, holidays, vacations). One's position inside the company frequently determines the benefits one get.

Employers occasionally use benefits to influence their employees' purchasing habits. Subsidized cafeterias, for example, may be motivated in part by the belief that a nice lunch boosts staff productivity.

Why are compensation and benefits important?

Compensation and benefits are important because they demonstrate to employees that you care about their entire health and future.

1. Attracting top talent

People are constantly trying to put themselves in the greatest financial situation possible. Those worth a certain amount of money are frequently aware of their worth and will seek employment that compensates them appropriately. Investigate the wage and benefits packages offered by your competitors. Ensure that you give a comparable package to potential employees to attract the top prospects.

2. Employee Motivation

Compensating employees fairly demonstrates that you regard them as employees and as people. People are more motivated to come to work when they feel valued. In addition, people are more motivated to go to work and do a good job due to improved company morale.

3. Increase productivity

Happy employees are more productive. Employees that feel valued are more motivated and loyal, which leads to increased productivity. Employees are more driven to do a good job, but they also learn more and become more efficient the longer they work for the organization.

4. Job Satisfaction

Job satisfaction improves when the correct compensation strategy is in place. Employees sometimes brag about their holiday bonuses or keep a close eye on the company stock because they have stock options. The correct compensation program interests employees in their work, giving them a better sense of ownership—84% of employees with high benefit satisfaction report high job satisfaction.

5. Employee Loyalty

Employees are more inclined to stay with a company if they are well paid. One of the reasons why employees stay with their companies is because they are well compensated. Loyalty eliminates the need for business owners to spend time, money, and energy on recruiting new employees. Employers who create a workforce that knows what to do benefit from employee retention and low turnover rates.

How do HR Departments calculate compensation and benefits?

Companies frequently design compensation packages that reflect both their ideals and those of the labour market. This consistency eliminates ambiguity and can help to reduce emotional response to pay decisions. Usually, companies take into consideration:

1. Market Factor

They consider firm size, stage of growth, location, industry, and employer competition to determine how these aspects affect their desirability as an employer.

2. Employee Value Proposition

Many firms view their compensation package as an essential tool for bringing their employee value proposition to life, driving a differentiated employee experience and fostering a specific type of workplace culture.

3. Growth opportunities

Because of brand recognition and long-term importance to an individual's career path, certain organizations may be able to justify paying at the lower end of a salary range. Smaller businesses may provide prospects for rapid advancement.

Salary is decided by various elements, including title, skill set, level, location, and more. Individual remuneration plans based on the applicant are also frequently used by companies. Paying various people the exact amount doesn't always make sense because candidates vary so much. Someone with greater experience and talents than another may be entitled to a greater wage.

Conclusion

Compensation and benefits are critical factors in a company's profitability, employee retention, and turnover. To meet both employee expectations and remain competitive in the marketplace, you should regularly examine your plans and programs.

References

1. <https://www.eri.com/dlc/onlinetextbook/economics-of-compensation>
2. Atchison, Thomas, "Salary Trends in the United States and Europe," Compensation & Benefits Review, Vol. 39, #1, January/February 2007, pp.29-39
3. <https://www.ukessays.com/essays/management/the-direct-compensation-and-benefits-in-an-organization-management-essay.php?vref=1>
4. Bryant, P.C. and Allen, D.G., 2013. Compensation, benefits and employee turnover: HR strategies for retaining top talent. Compensation & Benefits Review, 45(3), pp.171-175.

Nolwazi Mlala is a Business Analytics Graduate Trainee at Industrial Psychology Consultants (Pvt) Ltd a management and human resources consulting firm.

Phone +263 4 481946-48/481950/2900276/2900966

Cell number +263 779538172

Email: nolwazi@ipcconsultants.com or visit our website at www.ipcconsultants.com

<https://thehumancapitalhub.com/articles/compensation-and-benefits>