

# **Designing Compensation and Benefit Packages**

**Lesson 8**

# Learning objectives

After this lecture you should be able to:

- Describe basic elements of a compensation package.
- Explain different features of base pay and employee benefit plans.
- Explain various types of incentives: individual, group and organizational based ones.
- Create compensation packages that align the mix of individual, group, and organizational incentives with HR strategy.

# Compensation packages

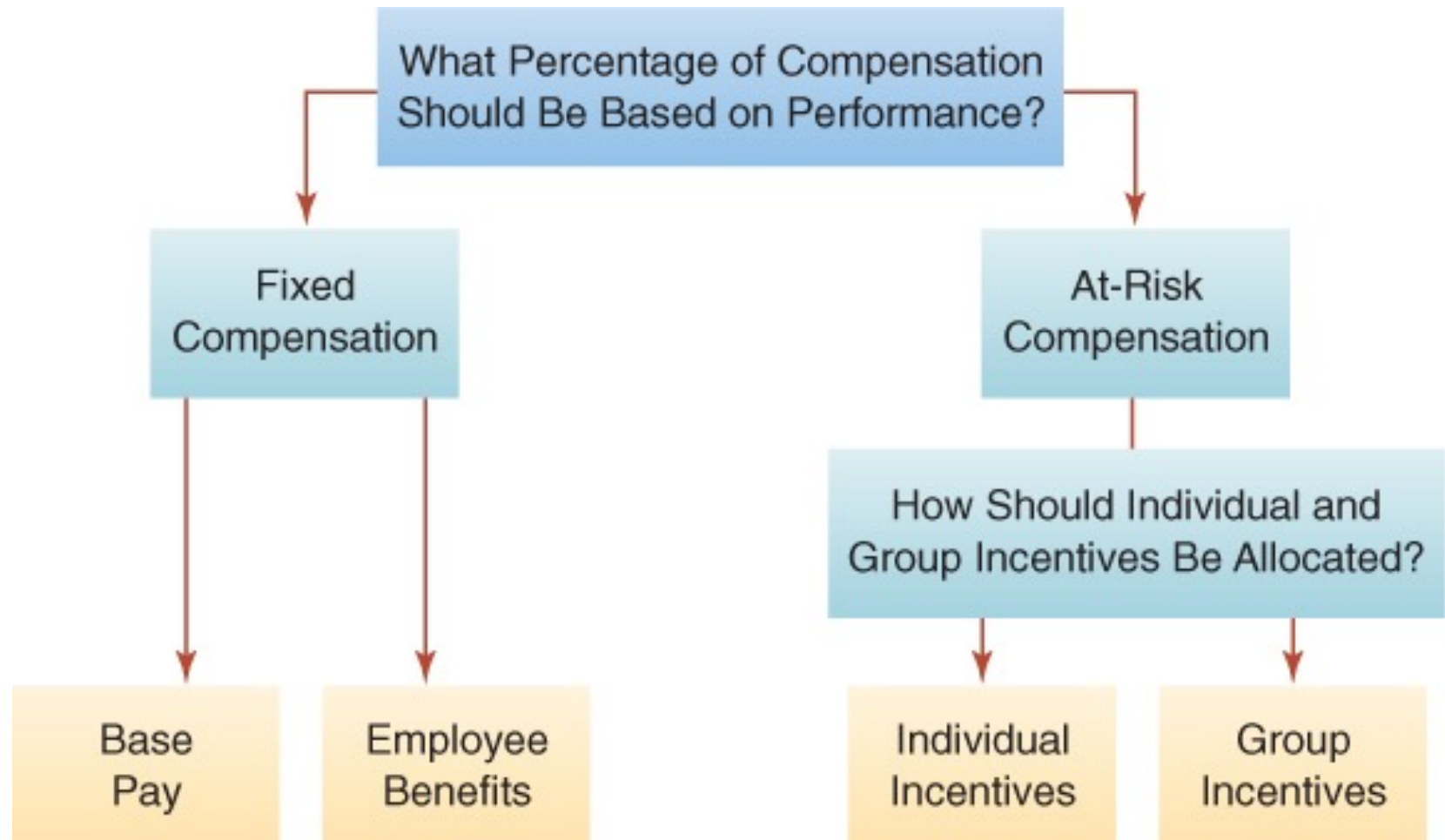
- **Compensation packages** are the blend of rewards.
  - Money paid as wages or salary is the largest component of most compensation packages.
  - Benefits and (short and long term) rewards make up the rest of the package.
- Two issues:
  - **At-risk Compensation** is a compensation that can vary from period to period. The money is at risk because the employee will not earn it unless performance objectives are met.
  - **The Line of Sight** is the extent to which employees can see that their actions influence the outcomes. It is used to determine whether they receive a particular reward.
- Main elements of Compensation Packages, **NOT AT RISK**:
  - **Base pay** is a form of compensation not at risk (hourly wage or an annual salary).
  - **Employee benefits**, are rewards other than monetary salary and wages. Organizations are required by laws and tax regulations to provide similar benefits to all employees.

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## At risk Specific Elements of a Compensation Package

- **Individual incentives** are rewards based on personal performances of employees. Individual incentives are linked to performance behaviors and outcomes.
  - **Group incentives** are rewards based on the collective performances of teams or of an organization.
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# Combining Compensation Package Elements



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# What are common approaches to base pay?

- Two basic methods:

1. **Point Systems**: each job is evaluated within a range of marks, and base pay is set at a higher level in jobs with more points.
  2. **Skill sets** are defined in terms of the number of tasks that an employee is capable of performing. Employees who are able to perform more tasks are paid a higher base wage.
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# Common individual incentives

- **Piece-rate incentive**, where employees are paid a fixed amount for each piece of output they produce.
- **Merit pay increase** represents an increase in base salary or hourly rate that is linked to performance
- **Merit bonus** is a sum of money given to an employee in addition to normal wages. It is given on a fixed schedule, usually the end of the year.
  - Sometimes bonuses are unplanned and given when high performance is observed.

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# Common group and organizational incentives

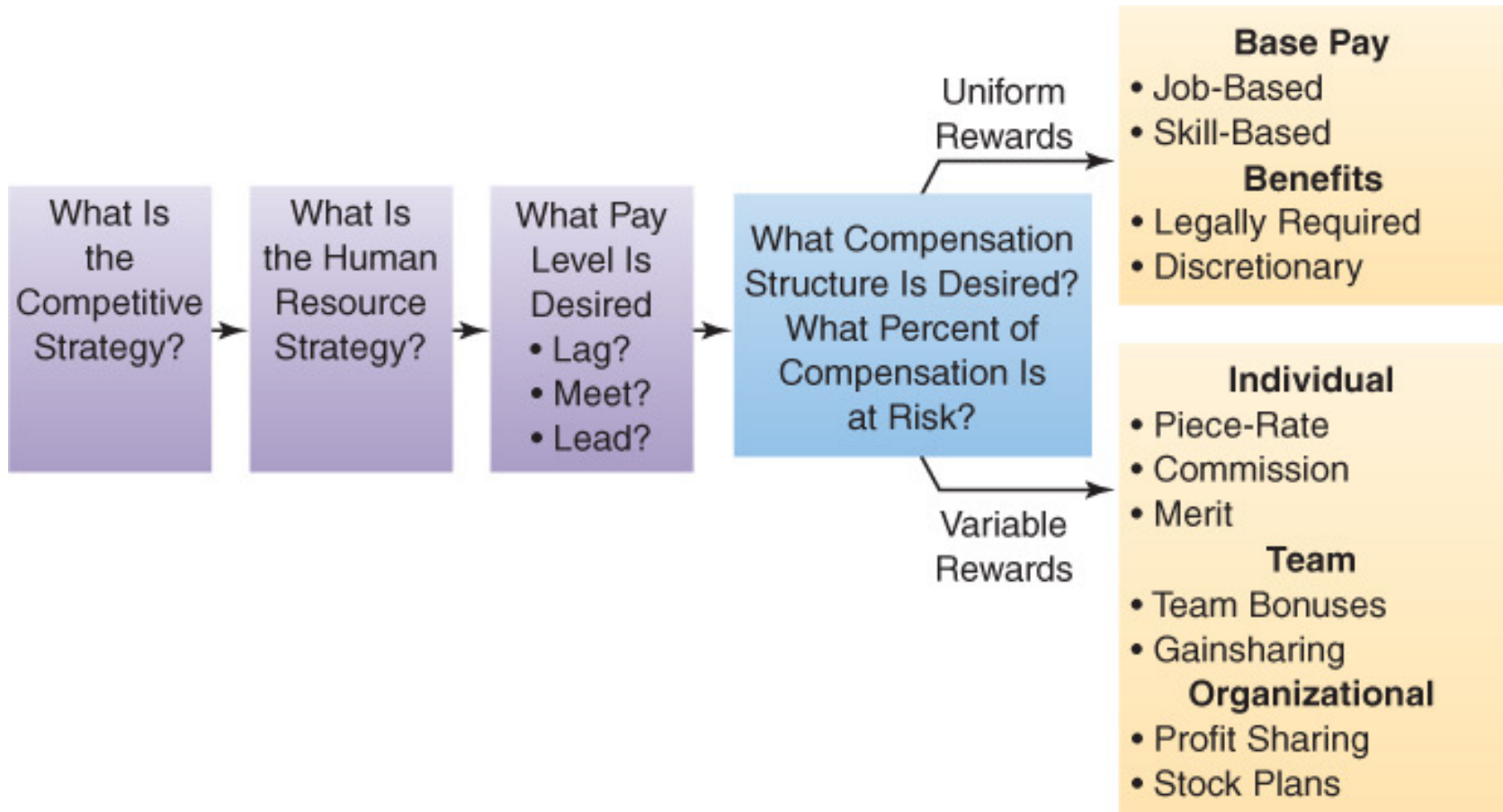
- **Goal-based team reward**, provides a payment when a team reaches a specific goal.
  - **Discretionary team bonus**, which provides payment when high performance is observed. With discretionary rewards, no goal is set to achieve a specific outcome.
  - Team Awards are usually:
    - Divided equally among the team or
    - Higher-performing members receive a greater reward.
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# Group and Organizational Incentives' techniques

- **Gainsharing** occurs when groups of workers receive a portion of the financial return from reducing costs and improving productivity.
- **Profit sharing** occurs when employees receive incentive payments based on overall organizational profits.
- **Stock plans** transfer corporate stock to individual employees. Two popular programs are:
  - **Stock options**, which represent the right to buy company stock at a given price on a future date and could be tied to performance or pay grade.
  - **Employee Stock Ownership Plans (ESOPs)**, in which the organization contributes stock shares to a tax-exempt trust that holds and manages the stock for employees

# Strategic Compensation Process



# Typical Compensation Elements

