

# Compensation and Benefits: Theory to Practice

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## ABSTRACT

This is a brief overview of the primary content areas of Compensation and Benefits courses which come under the Human Resources Management (HRM) umbrella. To accomplish organizational goals it is important to attract and retain people through the use of monetary and non-monetary reward systems. Students of these total reward systems need to be able to design and implement reward programs in the context of internal and external factors. How effectively the students transfer their classroom learning to real-world implementation, to a large extent, is determined by the classroom activities, techniques and methods used in teaching compensation and benefits. These are also discussed in this paper.

## Keywords

Human Resources Management, Compensation, benefits, teaching methods, Theory to practice

## 1 INTRODUCTION

Since compensation and benefits are part of HRM in most organizations, teaching of compensation and benefits mirror many practices and concepts pertaining to HRM. Human Resources practices do not operate in isolation. They need to be strategic and tactical in the context of the larger organization, of which they are a part.

The first concept emphasized in this article is that anyone in HRM is first a business partner of the organization and then an HR professional in their individual disciplines such as compensation and benefits. A business partner is one who is loyal to the company first and then to his or her respective discipline or area of work. This article will also identify the major elements of compensation and benefits in addition to teaching strategies of these functions. It is important to implement compensation and benefits in a mutually beneficial way, for the individual and the organization.

## 2 BACKGROUND CONSIDERATIONS

Students of compensation and benefits need to recognize certain basic considerations which would prepare them to better understand the topics.

Compensation and benefits strategy must cascade from the organizational mission and the HR strategy. This is true of all the HR functions. However, it is particularly critical in compensation and benefits because a very large portion of the cost of doing business is due to compensation and benefits. This criticality is even more pronounced when companies are struggling to stay afloat.

Current student populations can be grouped in a variety of ways. Some of these groupings are, undergraduate, graduate, professionals, full-time, part-time, public-sector, private-sector and so on. It is critical to take these segmentations into considerations because the level of sophistication and the purpose of being in school varies by the segment to which one belongs. These differences should determine the teaching methods used. An additional consideration is the learning styles and the way information is absorbed by people belonging to different demographics such as age, gender, culture, geography etc.

While every HRM function is significant to the organization and eventually to the employee, compensation and benefits play a unique role. Rightly or wrongly, many people equate their net-worth to their self-worth. This being the case, we are dealing with a subject matter that can be quite emotional. This requires a delicate balance between practicality and sensitivity in dealing with compensation and benefits.

## 3 FACTORS INFLUENCING THE DESIGN AND IMPLEMENTATION OF COMPENSATION AND BENEFITS

Compensation and benefits programs are not designed in a vacuum. One size does not fit all. There are external and

internal factors which must be considered before deciding on the appropriate programs for each organization. Students need to understand the criticality of these factors. Among the external factors are: 1. the current economy including the inflation rate and the labor market, 2. the regulatory environment, such as the FLSA, Equal Pay Act, Title VII of the Civil Rights Act, Sarbanes-Oxley Act, ADEA etc. 3. national and global competition for market share and labor 4. national and global cultural factors 5. other stakeholders including society at-large. Among the factors internal to the organization are: 1. leadership 2. culture 3. employee demographics 4. affordability 5. business cycle. The study and analysis of these factors must precede any design or implementation of compensation and benefits program. Strategic planning is therefore, a critical part of the curriculum.

#### **4 BASIC TERMINOLOGY**

Prior to any discussion about compensation and benefits, it is important for the students to understand the distinction between direct and indirect compensation. Direct compensation refers to any reward, usually in cash and stock, given in direct proportion to performance. Indirect compensation is not related to performance and is given in the form of various benefits.

#### **5 TEACHING COMPENSATION**

The term compensation has evolved through many explanations and definitions. Usually it refers to the cash (and surrogates to cash, such as stock) portion of one's income.

Compensation needs to be taught from two broad perspectives - fixed (base pay and differentials) and variable pay (incentives, bonus, profit-sharing etc.) Among the topics to be discussed even before the design of fixed and variable pay are:

- Compensation strategy
- External competitiveness (including market data)
- Internal consistency
- Intrinsic and extrinsic rewards
- Job analysis/Job descriptions
- Job evaluations (Job worth hierarchy)
- Building pay structures
- Performance management

#### **6 TEACHING BENEFITS**

The two major points about benefits students need to grasp

are: 1. benefits have evolved from a "fringe" status to a major component of total pay 2. the cost of benefits has been increasing steadily

The reasons for the above two points are to be clearly explained. This is important for the students to understand not only when they become compensation and benefits professionals, but also when they become the recipients of these programs.

The topic of benefits needs to be taught from two broad perspectives: mandatory and voluntary benefits. It should be emphasized to students that voluntary (employee-sponsored) benefits are critical to stay competitive in the labor market.

Benefits can be complex with many variations. The typical topics to be typically discussed include:

- Income protection programs
- Retirement plans
- Health insurance plans
- Work-life balance initiatives
- Perquisites

There are many sub-sections to these topics mentioned above.

#### **7 TWO SPECIAL TOPICS**

In teaching compensation and benefits executive rewards and global rewards are topics which need to be taught separately. Both these topics have become increasingly important

#### **8 LINKING TEACHING TO PRACTICE**

The teaching techniques and methods used to teach the material mentioned above are many. The main point to remember is "relevance" of the material to the individual student. This relevance depends on which group of students (identified earlier) one is teaching

In addition to the usual practices of lectures, guest lectures, case studies, term papers, team and individual projects, it is necessary to use other methods relevant to the individual group. While teaching professionals, relating the course material to what is currently happening in the work world is very important. This can be achieved by having students bring in articles from current journals and reputable newspapers and discuss them in class. An example is the current controversy with respect to executive compensation.

The face-to-face channel of communication is still the most rich form of communication according to communication experts. While using of charts and graphs help condense

material, students typically recall only a small percentage of the main ideas in a presentation of graphs and charts. The power of personal touch in relating an experience to the material discussed in class is always well received and remembered. One's experience in the corporate environment related as stories works quite well in holding the attention of students. While merely stating fact and figures often put listeners to sleep (and there are many facts and figures in compensation and benefits), an illustration from real life motivates them to action and also to understand the concepts better.

## 9 CONCLUSION

It is expected that eventually all the students will enter the work world, if they are not there already. When that happens there are some competencies they would need to be successful. One such competency is teamwork. This can be learned and practiced in some of the class activities. This is especially important in the United States where individualism is encouraged from childhood on. another competency is communication (written and oral). A successful compensation and benefits program requires

knowledgeable managers who can communicate effectively. These managers must be able to link rewards with performance. They should have a basic understanding of compensation and benefits as tools for attraction, development and retention.

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