

# Compensation and benefit systems

Business



## Compensation and Benefit systems

Compensation can be defined as any way of rewarding the employees and workers of an organization for their efforts. On the other hand, benefits are all other financial and non-financial rewards that accrue to the employee though they might not necessarily be paid directly to him or her. Therefore, compensation and benefits are the remuneration of employees in the form of money and fringe benefits. Compensation in the form of cash includes the basic salary, bonuses and commissions. Fringe benefits are usually in form of allowances, such as; housing allowance, medical allowances, motor vehicle allowances and education allowances. Compensation and benefits accrue to all employees though they may differ in amounts depending on the type of occupation. On the other hand, benefits such as bonuses will only accrue to employees who have been found by management to be hardworking (Brase & Brase, 20). The key purpose of compensation and benefit systems is that not all employees are driven by the goal of payment of salaries. While some employees are attracted by the high salaries paid by an organization, others look beyond the salaries and seek other benefits such as equity and insurance benefits (HRnetSource, 2).

Therefore, compensation and benefit systems can be classified into four different components which include; equity pay systems, variable pay systems, Employee benefits and the guaranteed pay.

Equity refers to fair treatment of all employees and workers in the workplace. Equity in an organization can exist in either of two different forms which include; internal equity or external equity. Internal equity exists when employees feel that they are being treated fairly among each other in the same organization, depending on the value of their jobs. On the other hand, <https://assignbuster.com/compensation-and-benefit-systems/>

external equity exists when employees in an organization feel that they are being treated and rewarded fairly when compared with employees working in similar jobs in other organizations. Internal equity is much more influential than external equity since; the employee is more likely to know the salaries of his or her work mates than the salaries of employees in other organizations (HRCouncil, 2). The organization can manage internal equity systems better by categorizing employees in terms of their jobs at work. The organization should also compare its pay to the pay in the labor market. Guaranteed Pay compensation refers to the monetary reward that the employee is assured of irrespective of whether he achieves the set goals or not. Therefore, the guaranteed pay mainly constitutes the base salary which is normally paid monthly, half yearly or annually.

Variable pay refers to that payment or reward of an employee that is usually determined by the performance of the employee. Therefore, variable pay will differ from employee to employee since employees will differ in the amounts of effort they put in their work and the level of commitment to their work too. The variable pay is mainly meant to motivate workers and especially the lazy workers. This is because; workers who are lazy will be motivated to work more once they find out that their fellow colleagues who put more effort in their work are able to earn more.

Benefits, also referred to as fringe benefits, can be classified in a wide gap, ranging from retirement plans, life insurance, company motor vehicle, vacation, training prospects, housing allowances, wellness programs, leave donation, sick leaves among others. While some benefits such as the medical insurance and the housing allowances will apply to all employees, others will only be used as compensation to only the hardworking employees or

employees who meet certain set targets. Such benefits include vacations, holidays and the company car benefit. Thus, benefits can also be a way of encouraging employees to work more and produce quality work (Kongstvedt, 157).

It is very important for an organization to maintain standardized and favorable compensation and benefit systems because; it will increase its competitiveness in the labor market. In addition, the company will attract qualified and experienced employees very easily. Consequently the organization will not be forced to spend high amount of money in training its employees. The output will also be of high quality with reduced losses. Favorable compensation schemes will also help the organization to build a good reputation to the outsiders. Thus, the impact will also be felt by customers in the society and thus; there will be an increase in the sales and customer loyalty.

In conclusion, compensation and benefits systems should be treated with caution by the organization, and the organization should ensure that it implements the right systems in its human resources department.

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