

# Is human resource management the most indispensable part of an organization?

[Literature](#), [Russian Literature](#)



## Introduction

Human resource management is the indispensable part of an organization as it helps an organization run in a smoother path with a level of continuity.

Motivation is a part of human resource management. Employees should be motivated as it acts as a driving force which helps them in achieving their goals. Motivation can be either intrinsic or extrinsic. People are intrinsically motivated when they are self-motivated and are driven by any interest or enjoyment in the task. They won't have to depend upon others or any other external forces.

Extrinsic motivation is the rewards that are given to the people like benefits, money, grades, etc that comes from outside or external forces. Externally motivated people perform better in order to win and beat others. Frederick Herzberg's has proposed two factor theory of job satisfaction, employees are influenced by two sets of factors namely the motivator factor and the hygiene factor. According to his theory, these factors if present leads to job satisfaction as the employees are motivated.

The term "hygiene factor" is used to make sure that its presence will not make an employee healthier, but its absence might lead to demotivated employees. If the hygiene factor is missed it might cause dissatisfaction in employees, but if increased it do not necessarily motivate the employees.

Example 1: According to the doctoral study conducted at BI Norwegian Business School by Anders Dysvik, "staffs try to perform better only when they are motivated at work." His research was based on 2,900 employees

working at both public and private Norwegian organization. He has pointed out some main things about the motivated employees like:

They perform better and show an increased willingness to help their colleagues.

They are loyal towards the organization.

He has suggested four tips for the best performance of the employees in an organization which are as follows:

Give employees training and development.

Make the employees feel that they are important for the organization.

Before hiring staffs, the organization must search for the employees who has the potential to maintain commitment towards the work and has willingness to learn and develop new things.

Human resource activities should be viewed as a complementary because it helps in increasing the employees' competency, social relation, autonomy.

Compensation and benefits are the important part of employee motivation and is the main function of human resource management. Without this a company cannot run successfully because if a company doesn't have a motivated employee then there is a less chances of its prosperity or sustainability. Besides the payment, employees even want some more from their monotonous job, therefore, direct and indirect compensation both makes an employee get motivated. It is a part of human resource and management, which is focused on policy making and is also known as total reward in the UK.

Even though the benefits provided to the employees have a great value, there are a lot of issues regarding its devaluation made by the employees. As the benefits costs a heavy investment, the company should look forward its value made by the employees. It can be done through minimizing the communication gap in between the management and the employees.

Employee should feel that they are being cared and the company values their contribution. Eisenberger, Huntington, Huntington, & Sowa, 1986; Rhoades & Eisenberger, 2

[http://humanresources.about.com/od/glossaryh/f/hr\\_management.htm](http://humanresources.about.com/od/glossaryh/f/hr_management.htm)

[http://en.wikipedia.org/wiki/Compensation\\_%26\\_Benefits](http://en.wikipedia.org/wiki/Compensation_%26_Benefits)

## **1. Literature review:**

Different writer has different views on what exactly is compensation and benefits. In the words of Mathis and Jackson (2008, pg. 361), “ Direct compensation is the employer exchanges monetary rewards for work done and performance achieved. Base pay and variable pay are the most common forms of direct compensation.” Whereas Garry Dessler (2007 pg. 4), “ employee compensation refers to all forms of pay going to employees and arising from their employment.” Here, “ all forms of pay” include both the direct and indirect compensation excluding the non- financial benefits. The following part best describes the benefits and compensation:

### **1. 1 Employee Benefits:**

The term “ benefits” also known as “ fringe benefits” or “ perquisites”, “ perqs”, or “ perks”, is the employee benefit which is given as the

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remuneration to the employee and is not the part of wages. Benefit is a part of motivation and in the time of recession managers are not using non-financial tool to motivate their staffs because they know that this will need a lot of commitment and time.

Its scope deals with the various form of indirect compensation. Employee benefits are tangible and intangible. The tangible benefits can be indirect financial or non-financial payments that the employees get for continuing their employment with the company.

Example 2: Following are the benefits for the employees:

Pay for time not worked  
Insurance benefits  
Benefits after retirement  
Personal services  
family benefits  
Other job related benefits  
Executive perquisites

Unemployment insurance  
Worker's compensation  
Social security  
Subsidized child care  
Educational subsidies  
Management loans

Vacations and holidays  
Hospitalisation, insurance for disability  
Plans for pension and retirement plans and law  
Sick child benefits  
Salary guarantees  
Sick leave  
Trends in employer healthcare cost control  
Elder care  
Relocation benefits

Parental leave and the family and medical leave act  
Time off  
Other perks like- time off with pay, outplacement assistance, company cars, chauffeured limousines, dining rooms for the CEO, physical fitness programs, club memberships, tax support, children's educational subsidies, etc.

Severance pay  
part-time and contingent workers benefits  
Family friendly

benefits and the bottom line

Supplemental unemployment benefits

Some of the benefits listed out by national compensation survey, United States, 2010 are listed below:

Retirement benefits

Health care benefits

Holiday, vacation, sick, and other leave benefits,

Life disability benefits,

Others.

The following data shows the frequently provided employee benefits scheme which taken as a source from Stephen Miller who is a manager of the SHRM online compensation and benefits focus area.

The above listed benefits are all tangible benefits. The intangible benefits provided by the company can be less direct and can be only felt by the employees. For example: appreciation from the boss, good office environment, possibility of promotion, etc.

Historically, unions of the employees tried to negotiate these benefits through collective bargaining. Benefits are the motivating factor which is provided in order to increase the employee productivity so that they can perform well and achieve the common organization goals. With the use of benefits, employees get an economic security, whereas, the employers will be able to attract, retain and recognize their employees.

Employee benefit is an important part of an investment in human resource and it needs to be altered according to the needs of the old employees.

Example 3: Even during the time of recession, Barclays Bank was able to be a pioneer bank among all the other banks in the UK because of its tangible benefits provided both to the employees and its customers. The bank paid 2.25 billion pounds in dividend to its share holders in 2007, which include many of the pension funds, mutual funds, and insurance companies. The bank paid 7 billion pounds in employee salaries and incentives in 2007 and contributed, 301 million pounds to the employee pension plans and retirement benefits.

[http://www.barclays.com/sustainabilityreport07/economic\\_impact.html?AddToPrintBasket=true](http://www.barclays.com/sustainabilityreport07/economic_impact.html?AddToPrintBasket=true)

Example 4: SHRM 2008 Employee Benefits Survey reports that after job security, benefits are the most important job satisfaction factor for employees.

Even though employees don't appreciate and understand the value of the benefits scheme, their employers are giving the benefits more than ever.

### **1. 2. Compensation for employees:**

It is the payment made to the workers and arising in the form of employment. It has two main components namely:

Direct financial payments: These are the wages, salaries, incentives, commissions, and bonuses.

Time-based payment: Clerical workers or the blue color workers get the

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hourly payment or daily wages, and in contrast, the top level staffs get the salary weekly, monthly or yearly.

Payment for performance: Piece work which is the compensation to the total amount of production, and the sales commission are the good examples of payment for performance.

Indirect financial payments: These are the employer paid insurance and vacations. The following chart shows the parts of direct and indirect financial payments:

## **2. The main components of compensation and benefits:**

There are four main components of employee compensation and benefits namely:

Guaranteed payment: [http://en.wikipedia.org/wiki/Compensation\\_%26\\_Benefits](http://en.wikipedia.org/wiki/Compensation_%26_Benefits) It is the reward given in cash which is used by the employees for the instant consumption like basic salary, which can be paid hourly, weekly, monthly or annually. It can also be known as minimum wages.

Variable payment: It is even a cash reward but is provided only when the performance is achieved for example: bonus schemes, commissions, overtime payment, etc. For example: Avon cosmetics UK pays its sales representative 20% commission out of its every 78 pounds and over sales.

Benefits: Benefits are often not provided in cash which include all the employee benefits like part-time off, pension contribution and company car plans, paid sick leave, insurance benefits, etc.

Equity based compensation: It is the employer compensation plan in which



the shares of the employer's are used as the employee compensation. Stock option is a good example of equity based compensation.

## **2. 1. Advantages of compensation and benefits to the employers:**

### 2. 1. 1. Decreased turnover:

Employees will stay loyal with their company if the company in return provides them a good reward for their job, therefore, there will be a low turnover in the organization.

### 2. 1. 2. Easing of their cash flow:

In this case, the company induces the salary sacrifice system, where the employees give up a portion of their salary in return of their benefits.

### 2. 1. 3. Tax advantages:

With the cooperation with the employer, the employee should be able to negotiate the benefits which will provide tax advantage. Example 4: If a company pays the telephone bills then it is known as the non-taxable benefits. It is the sundry benefit that represents a significant tax saver within a year period.

### 2. 1. 4. Decreased absenteeism:

A properly designed compensation and benefits will create a less chances of employees getting absent. If they have a good working environment, with a good salary and benefits they'll be more encouraged to go to work.

### 2. 1. 5. Satisfied employees:

The organization will have a satisfied employee if they give them a fair enough compensation or benefits. This will result in the happy workers who will be effective and efficient towards achieving the common organization goals.

### 2. 1. 6. Motivated employees:

The employees are automatically motivated and can be directed towards the organizations targets, when the company provides them the benefits and the compensation.

## **2. 2. Advantages of compensation and benefits to the employees:**

### 2. 2. 1. Secured life:

Employees will be secured and happy when they are motivated. They'll feel a secured life more than ever before.

### 2. 2. 2. Employee efficiency:

Employees will be efficient in their work and perform better than before in order to get those benefits more and more.

### 2. 2. 3. Peaceful mind:

Employees will feel the peace of mind that will lead them towards doing their work more efficiently and effectively.

### 2. 2. 4. Self confidence:

When the employees are rewarded their self confidence will be automatically increased that will make them excel in their performance.

### **3. Benefits are undervalued by employees:**

In the UK rule of employee benefits, often the benefits are taxed at individual tax rates. Therefore, this can be expensive if there is no availability of the financial advantage to the individual from the benefits; therefore this is a disadvantage to the employees. Following are some examples that discusses on benefits undervalued by the employees.

Example 14: Billions of pounds wasted on Under-valued cost of benefits

Posted by HR Zone in managing people

According to Adrian Humphreys of employee benefits administrator, WPA Protocol, Five Billion pounds per year that could be better expensed to young employees has been wasted on under-valued cost of benefits. His survey was based in the current NOP World survey of 100 HR Director and Managers amongst the top 1500 UK organizations out of which 63% of the employers who provides the benefits think that the benefits doesn't affect their employees' career decision. In contrast, according to the survey, 96% of the employees found the benefits scheme to be either fairly or very important.

According to WPA Protocol, there should be a standard reward package particularly for the highly skilled knowledge workers, who will be responsible for the economic boost in the near future. Small and innovative firms are providing an increased salary by making their employees to choose their

own portable benefits on their own. If they had a choice to cut off the benefits, 75% said company car, 14% said to reduce the pension plan, and 11% vote out for the health benefit cost.

According to him, reducing the expenditure is the main point to decrease the yearly escalating cost of benefits and the employers are re-evaluating the best way to remunerate their employees. He has even further added up that, if we shift towards the knowledge based economy then we'll see that the employers have the perfect benefit package to motivate and retain better staffs.

Example 5: [http://en.wikipedia.org/wiki/Employee\\_benefit#United\\_Kingdom](http://en.wikipedia.org/wiki/Employee_benefit#United_Kingdom)

According to the UK law, UK system of state pension provision is dependent upon the National Insurance Contribution (NIC) payment. If there is no financial advantage then this kind of benefits will be too expensive to the employees.

Example 6: 2008 SHRM Employee Benefits Survey, there's a disconnection in between the total amount spend on the benefits by the employers and the employees' perception of the value of their benefit package. Even though the benefits are important element to the employees, they don't understand its value; therefore, the Human Resource professional should help their employees understand all the options and the value provided to them in the benefit package.

Example 7: According to colonial life survey report, at Columbia, S. C. on February, 28, 2011- research shows that less than 19% of the employers

think that their employees have an excellent know how of the provided benefits and about 5% of the employers think their employees have no knowledge about the benefits. Even though the employers spend a lot of money in their employees' benefits, maximum number of employers thinks that their employees don't understand their benefits package.

[http://www.coloniallife.com/en/BenefitsCommunication/~/\\_media/acrobat/product/Value%20of%20Benefits%20Topic%20Sheet%2070060.ashx](http://www.coloniallife.com/en/BenefitsCommunication/~/_media/acrobat/product/Value%20of%20Benefits%20Topic%20Sheet%2070060.ashx) IMPORTANT ONE

Example 10: <http://www.hrsguide.co.uk/recruitment/job-ads-benefits.htm> according to Gary Smith, a senior consultant at Watson Wyatt, " Employers won't highlight the benefits that their organization offers at the beginning because they know that employees traditionally try to undervalue their benefits mainly the pension benefits". Therefore most job advertisements don't focus on employee benefits program. According to Watson Wyatt's survey, the mostly mentioned benefit was pension for low paid jobs and only when the organisations could offer the final salary program advertisements for the high pay jobs they'll refer to pensions.

Example 11:

<http://www.shrm.org/Research/SurveyFindings/Articles/Pages/2009EmployeeBenefitsSurveyReport.aspx>

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According to 2007 Benefits Survey Report made by (SHRM) Society for human Resource Management, 40% of United States organization's payroll shows the cost of benefits to its workers.

Even though employees harmoniously rate benefits as a main factor in job satisfaction, there is a disconnection in-between the expenses the company makes on their employees' and the perceived value of the benefits made by the employees. Therefore, Human Resource managers should help their workers understand the total benefit scheme, its options and the actual value provided by the benefits. The survey exposes that the huge number of Human Resource managers check their benefits scheme at every year. Therefore, the organizations should also improve the competitiveness of their scheme. They can do this by the use of various survey reports and needs assessment, benchmarking tools, to meet the employee needs by staying inside the state and federal laws and regulations.

Example 12: According to the 2006/07 research from Origen, employer expends 20-30% of their employee benefit scheme. Out of them only 13% of the employees gives a high value on their worth.

Even though employees are equipped with various kinds of benefits package, they don't appreciate and value it.

### **3. 1. Reasons for employees to undervalue the benefits:**

In order to make the organization groom in a right direction, it should find out the reason why the employees are not satisfied.

Example 13: According to Brook C. Holtom, Ph. D. there is a chance that the employee benefits are not giving the employers the payback they deserve in increased employee satisfaction and appreciation. The employers, on the average, spend about approximately 29% of the total employee compensation scheme. The most current research indicates that the employers are spending about 43% of the total salary on the various types of employees' benefits. One of the researches posted in a journal, *Personnelpsychology*, states that the employees can understand and appreciate about the cost of benefits in between 31% to 68%. The employees try to undervalue their benefits due to the following sets of reasons:

Lack of proper communication by the employers towards the employees about their benefits.

Lack of choices or options in the employee benefit schemes.

Lack of proper understanding shown by the employees towards the market value of their provided benefits.

In order to maximize the value of employee benefits expenses, the employers should allow their employees to make the choices on their benefits. They should use lots of information as their tools to attract the employees. They will have to make the employees to think about the value of their benefits through the following ways:

Interactive computer quizzes,

Employee benefit fairs and exhibitions,

Landline hotlines,

Posters at the workplace,

Movies or documentaries related to employee benefits, etc.

Organizations that want to increase the value of their employee benefits expenses should make a research on their employees by asking them which benefits will they value the most and why with the specific reason, so that the employers will know the preferences of the employees towards the benefits provided.

Organizations that provide and offer various schemes of benefits will automatically experience optimistic employee morale and will retain employees better than the organizations which do not.

Conclusion and recommendation:

As benefit gives an employee the social and economic support, therefore it becomes an indispensable instrument to improve the good working quality of an employee. According to the question, I disagree with the view that even if the employees are undervaluing the benefits, company should rather add more direct compensation without cutting the cost. The main assets of an organization are the employees without which the organization can't run in a smoother path. If the organization finds that its employees are undervaluing the benefits provided then they should use a strategic tool in order to motivate and retain their current staffs. The tools can be an effective communication made by the top level management with the staffs.



Example 9: Colonial life WWW. coloniallife. com is an accidental insurance company which provides the benefits solution in a clean package. It's leader in the market for providing benefits to its staffs with best communications, enrollments, personal insurance goods and services that helps to make the benefits count for both the employers and the staffs.

Example 8: According to SHRM 2008 Employee benefits survey, Human resource experts should understand how to increase their employees' level of understanding through communicating the value of their benefit scheme. The experts can use some methods of communications like- the total compensation statements, employee meetings and workshops, etc.

Reference:

<http://web.ebscohost.com/ehost/pdfviewer/pdfviewer?sid=32b87bc8-d81c-411b-8ea3-90cce3a0401c%40sessionmgr13&vid=5&hid=17>