



COMPENSATION AND BENEFIT –A TOOL FOR IMPROVING EMPLOYEE SATISFACTION AND RETENTION

Shailaja Kheni

Asst Professor, Dept. of Management Studies, VTU Post Graduate Centre, Kalaburagi, Karnataka.

Abstract

Employees are the organization's key resource and the success or failure of Organization centers on the ability of the employers to attract, retain, and reward appropriately talented and competent employees. Employees' willingness to stay on the job largely depends on compensation packages of the organization . In an attempt to ensure employees optimal Performance ,satisfaction and retention, organizations need to consider a variety of appropriate ways to reward the employees to get the desired results . It has been argued that the degree to which employees are satisfied with their job and their readiness to remain in an organization is a function of compensation packages and reward system of the organization. Organizations that have goals to achieve would require satisfied and happy staff in their workforce The rate at which employees' turnover is increasing in an organization, there has been constant mobility of these highly skilled persons from one organization to another and the evolving competition has become a thing of concern and it is obvious that the steps taken by the managements and stakeholders have not solved this problem.

Therefore good formulation, administration and implementation of good compensation policies would allow these employers to retain their best hands Employees' satisfaction and retention as independent variables can be influenced by other variables such as allowances, salary, incentives, fringe benefits, bonus etc. This paper attempts to know the impact of compensation packages on employees' satisfaction and retention, the changing paradigm of compensation management from past to present, Importance of Compensation in the Workplace, The Benefits of benefits plans etc.

INTRODUCTION

Money has only one color, but human perception of its value and mental satisfaction varies depending on how it's received. The 'amount' received may have different 'value' for different individuals and hence a different impact. Compensation is a systematic approach to providing monetary value to employees in exchange for work performed. Compensation may achieve several purposes assisting in recruitment, job performance, and job satisfaction. It is a tool used by management for a variety of purposes to further the existence of the company. Compensation may be adjusted according to the business needs, goals, and available resources.

When most people hear the term compensation they think about "what a person is paid". Although this is true, it is only one aspect of a complex topic. Compensation includes not only salary, but also the direct and indirect rewards and benefits the employee is provided with in return for their contribution to the organization. To determine compensation, organizations should develop a compensation and rewards program. This type of program outlines an equitable process for compensating employees. A well-structured program with a good balance of wages, benefits and rewards will support an organization to remain competitive in today's labour market and ensure sustainability in the future. Compensation may be used to recruit and retain qualified employees and increase or maintain morale/satisfaction or to reward and encourage peak performance Recruitment and retention of qualified employees is a common goal shared by many employers. To some extent, the availability and cost of qualified applicants for open positions is determined by market factors beyond the control of the employer. While an employer may set compensation levels for new hires and advertize those salary ranges, it does so in the context of other employers seeking to hire from the same applicant pool.

Morale and job satisfaction are affected by compensation. Often there is a balance (equity) that must be reached between the monetary value the employer is willing to pay and the sentiments of worth felt by the employee. In an attempt to save money, employers may opt to freeze salaries or salary levels at the expense of satisfaction and morale. Conversely, an employer wishing to reduce employee turnover may seek to increase salaries and salary levels.

Designing compensation program is significant in personnel management because of its direct influence on employees' satisfaction and performance in the company. Compensation impacts everyone in the organization to an extent and can prove to be a very valuable and powerful tool - either intentionally or unintentionally The Compensation and Reward discipline includes designing and administering compensation philosophy, strategy and systems, compensation benchmarking, executive compensation and other competency or function based compensation practices. In addition, it explores flexible



work arrangements, such as telecommuting and flextime that employees may perceive as benefits and covers the mechanism of rewards which encourage superior performance In today's highly competitive and talent crunched job market employers are making significant investments in employee satisfaction & engagement and retention strategies. They are moving from traditional compensation and benefit programs to more comprehensive reward policies. Total Rewards is one such strategy which ensures optimum returns on the organization investments besides motivating employees.



“A total rewards approach helps both employer and employee to look beyond monetary rewards and strategically evaluate the value of non-monetary rewards. All elements of the rewards program are then integrated into one system”, A well executed Total Rewards strategy helps in increasing employee productivity and enhancing business output Like any other benefits or rewards program, success of a Total Rewards Program depends on how well it is implemented in the organization. To ensure successful implementation of a Total Rewards Program, the communication regarding the program and the benefits that employees may derive out of it is extremely essential. Moreover, it is important that the program is essentially designed to remove anomalies that may be part of other person dependent or largely subjective rewards programs”, This compensation tool has the ability to achieve employee satisfaction and employee Retention, as it comprises of financial and non-financial rewards that attract, motivate, Satisfy valuable human capital, retaining effective performers as the compensation system Recognizes desired behavior towards aiding competitive advantage of the organization A person's paycheck is a way to communicate the value and importance of teamwork as the Instrumentality theory explains that remuneration is a source of power, and a means of employee acquiring necessities and luxuries, and ensures the employees willingness and commitment to excel on the job, thereby ensuring employees' retention. It is important to note that compensation is not all about money. It is a symbol of what an organization believes is valuable. It specifically communicates the extent to which an organization values its employees.

ROLE OF COMPENSATION IN ORGANIZATION

Organizations are fundamentally constituted by people who come together with a view to work towards a common objective. The formation of any organization begins with someone bringing in capital, which is basic to setting up business, machineries, equipments, land and technology. Such people are called „entrepreneurs“ or „promoters“. In order to start the business to produce goods or services, entrepreneurs or promoters by themselves cannot do everything, they need other people to carry out different tasks and activities in the form of jobs. Other people will be willing to work in exchange for



money to exert their efforts and skills in producing goods and services. This exchange of money (cash or kind) from entrepreneurs to people is called „compensation”. Compensation is fundamental to organization formation and its existence. People work to earn their living and organization compensates employees by providing monetary and non-monetary benefits and other amenities for producing goods and services.

The role of competition in organizations in terms of gaining and sustaining competitive advantage has undergone paradigm shift. Role of compensation in organization is strategic rather than merely restricted to economic compensation for providing labour. It is today a key tool for attracting, retaining and utilizing a motivated and produced workforce necessary to enable the organization to compete successfully.

Following diagram presents the changing paradigm of compensation management from past to present

Today’s Trends Shaping Tomorrow’s Compensation

From	To
Administrative focus	Competitive Advantage
Responding to patters	Competitive positioning
Wages and benefits	Total Labour Cost
National Focus	Global Competitiveness
Base and Annual Increase	Base and Performance / Quality Increase
Internal Equity Support	Support New Organisation Designs
Benefits Entitlement	Cost Shifting Value Added, Public Policy

A compensation philosophy is developed to guide the design and complexity of compensation programs; this is done by identifying the goals and objectives, considering the competitiveness in attracting and retaining employees, emphasis on internal and/or external equity, and whether performance is tied to pay increases. Understanding what balance we want to achieve between direct and indirect financial compensation is critical in developing the overall total compensation approach. A consistent philosophy provides a strong foundation for both the organization and the employee.

IMPORTANCE OF COMPENSATION IN THE WORKPLACE

Compensation can include monetary and non-monetary components. Compensation often includes an employee’s base salary and additional benefits, such as health insurance, retirement plans and performance bonuses. The compensation packages a business offers to employees affects the company’s recruitment rate, retention rate and employee satisfaction. Several federal laws affect the compensation that businesses offer. A business owner should understand the importance of compensation and the prevailing laws to remain competitive in the market. The compensation packages that businesses offer to employees play an important role in the company’s ability to attract top talent as job candidates. Top-performing employees greatly impact the competitiveness and productivity of a small business. The specific components of an attractive compensation package vary per employee. A high base salary may attract a top job candidate that is something and single, while a job candidate with a family may consider a flexible work schedule extremely important. Compensation often impacts an employee’s motivation and job satisfaction, although it is not the only factor. According to an article written by Mae Lon Ding of Personnel Systems Associates, compensation systems positively impact a large percentage of workers’ performances. Many employees feel motivated to help their companies succeed if the employer shares its profits with employees, such as with bonuses or profit-sharing plans. The greatest impact of money on productivity and performance is in jobs where performance is directly related to compensation. For example, the knowledge of receiving a bonus after achieving a certain sales quota will likely motivate a salesperson to increase productivity.

COMPENSATION LAWS

Certain laws regulate the compensation and wages small businesses must offer employees. The Fair Labor Standards Act regulates the federal minimum wage, child labour, overtime wages and equal pay. The Equal Pay Act prohibits employers from basing compensation on an employee’s gender. Under the Equal Pay Act, a company may still base compensation on seniority or merit. Managers of small businesses must keep their companies in compliance with all laws. Failing to comply with compensation laws can result in a company facing penalties.



Designing and implementing compensation systems involves compensation level compensation structure and compensation payment system decisions. Compensation level decision determines whether an organization will have a lead, lag or match policy. Compensation decisions made by organizations can significantly impact individual and group level consequences, including performance, skill development, work related attitudes and workforce composition. Creating a compensation structure that supports an employee development program is a distinct challenge for companies. Many organizations claim to base pay raises on performance, but that is not actually the case. Some companies try to emphasize a team environment, but continue to reward people for individual achievement (Feldman, 2000). These inconsistencies can cause frustration and cynicism by employees. It is especially difficult when employees are not seeing significant pay raises, yet company leaders are richly rewarded (Feldman, 2000). The entire organization must buy into the culture of employee development. Sears created a new compensation system when they got into the business of employee development. Whereas they used to only offer pay increases to employees who were promoted, they have moved to a system where people may see a pay increase for lateral moves that are appropriate for their own development (O'Herron and Simonsen, 1995).

EMPLOYEE RETENTION

Retaining productive employees is critical to running a successful business. Retaining employees saves companies money in training costs and helps maintain an efficient and knowledgeable workforce. Health insurance and retirement packages are benefits that many employees desire from their employers. Companies that offer these benefits have a much better chance of retaining workers than businesses that fail to offer benefit packages. Other ways to retain employees is through regular promotions, which not only provide an employee with a higher base salary, but also the ability to take on more responsibility in the workplace.

Employee retention issues are emerging as the most critical workforce management challenges of the immediate future. Researchers have shown that in the future, successful organizations will be those which adapt their organizational behavior to the realities of the current work environment where longevity and success depend upon innovation, creativity and flexibility. In fact, the dynamics of the work environment will have to reflect a diverse population comprised of individuals whose motivations, beliefs and value structures differ vastly from the past and from one another. This phenomenon is especially true in light of current economic uncertainty and following corporate downsizings when the impact of losing critical employees increases exponentially (Caplan and Teese, 1997). Critical analysis of workforce trends points to an impending shortage of highly-skilled employees who possess the requisite knowledge and ability to perform at high levels, meaning that organizations failing to retain high performers will be left with an understaffed, less qualified workforce that ultimately hinders their ability to remain competitive (Rappaport, Bancroft, & Okum, 2003) with managers facing a difficult challenge of motivating and retaining the employees in an environment of increased uncertainties (Mitchell, 2002). Retention rates generally falls as employees become distracted, confused and preoccupied with potential outcomes immediately following an organizational transition (Bridges, 1991).

COMPENSATION AND REWARDS

Pay levels and satisfaction are only modest predictors of an employee's decision to leave the organization; however organizations can lead the market with a strong compensation and reward package as most of employees often look elsewhere because of poor compensation and benefits. Organizations can explicitly link rewards to retention (i.e. vacation hours to seniority, offer retention Bonus payments or Employee stock options, or define benefit plan payouts to years of services).

Research has shown that defined compensation and rewards as associated with longer tenure. Additionally, organizations can also look to intrinsic rewards such as increased decision-making autonomy. If you reward an employee for exhibiting behaviours of producing results, that employee will be more likely to repeat those same actions. It is important to note that there is small fraction of individuals that do not buy into these principles. The faction argues that human behaviour is much too complex to be controlled and manipulated through reward programs. Their argument emphasizes the real need to fully understand the role of compensation as a tool for achieving employee satisfaction and retention. It is extremely critical for an organization to comprehend the impact of its compensation system. Compensation can substantially promote an organization's success and satisfy employee career objectives. It has been emphasized that compensation must also be designed properly as if not careful during design and implementation, compensation systems can unintentionally fail to motivate the desired behaviour (e.g. ineffective compensation plan) or worse, motivate undesired behaviour (e.g. individualistic behaviour in a team environment) results of compensation should include improved employee satisfaction, low employee turnover and better organizational performance.



EMPLOYEE ATTITUDE AND OPINION

Employee satisfaction and retention surveys have been around since the dawn of business in one form or another. However, up until recently they have been used primarily to gauge only employee satisfaction. Advancements in measurement and analysis now make it possible to link employee satisfaction to other aspects of the employee experience and, most importantly, to the impact on business outcomes. Employee satisfaction and retention surveys can give management the knowledge and tools that directly impact the bottom line as well as building positive employee relations and a positive work environment.

Organization health is a reflection of the attitudes of the employees. Employee attitudes and opinions revolve around the four pillars of strength in the organization with respect to Communication, Culture, Compensation, and Commitment A broad spectrum of compensation, benefit, and health care issues are considered important by employees, including satisfaction with health care, confidence in the health care system, the future of benefit programs, and their attitudes toward additional benefits and compensation. Employee surveys provide insight into perceptions of health care quality, benefits packages, the real cost of coverage, preferences, needs, and perception of retirement benefits.

Improving Employee Satisfaction and Retention

Satisfied and engaged employees are more effective and productive. These employees are also more likely to stick around. Retention of employees means saving resources that would otherwise be used to recruit, hire and train new staff. Organizations that don't support and nurture a diverse workplace may be able to recruit diverse talent but will face major challenges when trying to retain it.

Recent statistics indicate that diverse employees are three times more likely to leave an organization than non-diverse workers because:

- They don't feel part of the organization.
- They don't feel valued.
- They don't feel they have an opportunity for advancement.
- They feel that cultural barriers exist.
- They believe a competitor is more likely to develop career paths for a more diverse range of employees .

Managing diversity means minimizing the challenges or barriers to a productive and diverse workforce. The more effective an organization is at supporting diversity and inclusion, the more engagement that organization will experience among its employees.

When managers are at tuned to the specific skills and practices required for guiding a diverse team, and when all employees understand the workplace's culture and values and their role within it, a better 'fit' is achieved and employee engagement increases. Organizations that take diversity seriously and implement effective integration strategies have greater success in achieving optimal employee performance and retention of staff.

THE BENEFITS OF BENEFITS PLANS

Although expensive, there are many intrinsic benefits to providing employees with a comprehensive benefit plan. For most, it is the ability to find and keep highly qualified staff that is the key driver. With the sector being highly competitive and the number of new employees entering the workforce dwindling, employers are challenged to become even more creative and responsive in the design, timing and generosity of their benefit plans. The more progressive the organization, the more flexible the structure is in response to today's challenges: i.e. like having four different generations of employees working side by side. Employers who continue to provide the more traditional and limited program, may find it more difficult to find and keep different types of employees.

Here are just a few of the advantages of offering benefits to employees

For Employers

- By providing increased access and flexibility in employee benefits, employers can not only recruit but retain qualified employees.
- Providing benefits to employees is seen as managing high-risk coverage at low costs and easing the company's financial burden.



- Employee benefits have been proven to improve productivity because employees are more effective with they are assured of security for themselves and their families.
- Premiums are tax deductible as corporation expense, which means savings for the organization.

For Employees

- Employees can experience a peace of mind which leads to increased productivity and satisfaction by being assured that they are their families are protected in any mishap.
- Employees with personal life and disability insurance can enjoy additional protection including income replacement in the event of serious illness or disability .
- Employees can feel a sense of pride in their employer if they are satisfied with the coverage they receive.

CONCLUSION

As obtained in the literature, the underlying theory of compensation sees compensation as a predictor of behavior It is strategic to the organization's goals and thus should be able to ensure employee satisfaction, employee retention, employee development and better organizational performance Since compensation is a dynamic concept, therefore, it must be evaluated in terms of employee satisfaction, morale and productivity indices and suitable review should be made from time to time. there is a link between compensation/benefit packages employee satisfaction levels, and turnover and concludes that organizations that have better compensation systems cum policies in place put a very positive impact on their employees thereby committing them to the organization and such will be less likely to leave it.

There is strong relationship between the components of compensation packages. Performances are affected positively which is a strong predictor of employee retention. The task in compensation management is to develop policies and strategies that will attract, satisfy, retain and motivate employees thereby leading to employee satisfaction and retention. This encourages top performers to work harder and helps build a competitive atmosphere in the organization as it supports the achievement of business objectives.