

10.7: Why It Matters- Compensation and Benefits

Why learn about various compensation and benefits plans and their effectiveness?



Personnel costs (including compensation, benefits, and taxes) represent a business' largest expense. According to Paycor, "labor costs account for as much as 70% of total business costs." However, despite this, Paycor found that HR professionals invest only 15% of their time managing these costs.^[1] Given the significance of personnel as a human capital and cost, it's critical for HR management to ensure that these resources are being allocated in a way that supports organizational strategies and values. That is, that the types of compensation and benefits offered are what employees value—and, therefore, are effective in motivating them—and that they are distributed intentionally and equitably.

The reality is, this generally doesn't happen. As we will discuss in Module 9: Performance Management and Appraisal, evaluations are often corrupted by bias and traditional appraisal methods aren't relevant in what is (and is expected to remain) a dynamic, disruptive operating environment. For perspective, a People IQ survey determined that 87% of both managers and employees considered annual reviews ineffective.^[2] Lack of buy-in or an inability to have difficult conversations can also undermine motivational and development goals. In some business cultures and, indeed, entire industries, expectations of self-sacrifice are endemic, and equity is a term that is interpreted in a manner that evokes George Orwell's *Animal Farm*; that is, "all animals are equal, but some animals are more equal than others." Although different roles clearly have different values to an organization, equity and ethics require that compensation be based on performance, not bias or politics.

Meeting Employee Needs



The challenge in evaluating compensation and benefits is understanding employees' needs and where they are in terms of their development—especially in a workforce populated by five generations that include a broad range of cultures. Although some small percent of working Americans don't need a paycheck, the majority do.

A 2017 study conducted by employment website CareerBuilder found that the majority of working Americans live paycheck to paycheck.^[3] Additionally, 25% of workers are unable to contribute to savings monthly, and 61% don't have a six-month emergency fund, as is recommended.

This vulnerability became obvious during the 2018–2019 government shutdown. The shutdown jeopardized the security of almost 5 million workers. After over 3 weeks of "financial limbo," the President signed a bill guaranteeing that the 800,000 furloughed

government employees would receive back pay.^[4] However, there was no provision made for the over 4 million contractors who were simply collateral damage.^[5]

This sense of vulnerability is something that organizations—and society—will need to address. And it's a vulnerability that makes Simon Sinek's quote "When people are financially invested, they want a return. When people are emotionally invested, they want to contribute" sound elitist. Yes, most of us aspire to the top of the pyramid—to self-actualization and contribution. But first, let's address worker's basic needs and perceptions of fairness. Consider how motivating (or not) it is when the CEO makes 200 or 20,000 times the median employee salary^[6] or when you have to work an additional three month's to match your peer's salary. Workers have a right to a fair financial return as well as safety and health (discussed in Module 14: Safety, Health, and Risk Management). HR management has an ethical and fiduciary obligation to ensure that that happens.

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 4. Zhou, Li. "[Federal Employees are Now Guaranteed Back Pay After the Shutdown is Over.](#)" Vox. January 16, 2019. Accessed August 22, 2019. ↵
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