

## 7.4: Employee Compensation, Incentive, and Benefits Strategies

### Learning Outcomes

- Describe common employee compensation and incentive strategies.
- Describe common benefits strategies.

Most companies want to hire the most qualified employees and keep those employees loyal and productive. To attract and keep their best employees, companies provide a “package” that includes compensation (money), incentives (special perks or rewards for good work), and benefits (valuable options such as health insurance and paid vacation).

Because each employee is unique, larger corporations offer a wide range of mix-and-match options to suit individual needs and preferences. As a manager, you may have the option of offering your team members specific incentives based on their type of work and particular areas of interest and need.

### Compensation



Compensation is just another word for wages. Managers work with human resources to set and raise wages based on a number of factors:

- Competitive analysis (what are people in similar jobs making per hour, week, or year?).
- Cost of living (it's more expensive to live in New York City than, for example, in most rural areas).
- Labor negotiations (if the person is a member of a labor union, collective bargaining may apply).
- Personal qualifications (Audrey may command a higher salary than Joe because she has more years of experience or a higher level of education).
- Supply and demand (if your company must find a person with specific qualifications and there are very few people with those qualifications, your company may need to spend more to attract qualified candidates).

As a manager, you may need to negotiate compensation both within your corporation and with your new hire. For example, you may need to make the case for paying Audrey more than Joe would have demanded by explaining why Audrey's skills will make a positive difference to the bottom line. The reasons behind compensation are complex; as a manager, you will need to keep your eyes on the competition and changing trends to be sure your employees receive fair and equitable pay.

### Payroll Management

Compensation is usually provided through a payroll system that manages and records payment of wages to each employee. Payroll systems are set up and managed by HR or by a contracted payroll company. Payroll involves:

- Collecting employee information such as W-4 and I-9 tax forms and proof of legal work status.
- Tracking work hours for employees eligible for overtime pay or comp time (extra time off to pay back overtime hours).
- Record keeping related to payment for benefits and bonuses.
- Management of state and federal taxes.

### Incentives

If you want to encourage people to work hard, you should offer them both a reward for good work and a consequence for poor performance. The consequence is often that if you do poor work, you will get fired and lose your income and benefits. But how do you encourage (or incentivize) a person to do their best work? The answer depends on the culture of the business, the needs or preferences of the individual, and the options available.

One industry that offers an incredible range of perks and incentives to its employees is software development. Silicon Valley is loaded with companies that provide everything from free food to massages to its employees. Google, in particular, is well-known for making its employees happy and providing resources to lower stress. Free haircuts and dry cleaning, gyms and swimming pools with personal trainers, nap pods, subsidized massages, and on-site doctors are just a few of the perks it offers.

Watch the following news clip to find out more about perks at Google.

A link to an interactive elements can be found at the bottom of this page.

You can [view the transcript for “Life at Google. Inside Google’s lair – How google employees work” here \(opens in new window\)](#).

Other companies offer completely different kinds of perks. Home Depot, for example, has a terrific on-site childcare program called Little Apron that is good enough to be highlighted by the magazine *Working Mother*:

*Little Apron Academy has a learning-based curriculum and offers programs such as Language Works, Math Counts, Science Rocks and ArtSmart, as well as kindergarten prep and school-age programs, and programs geared toward infants, toddlers and preschoolers. It has a capacity for 326 children—including 278 enrolled full-time and 48 school age kids who attend for summer camp and school breaks. The center also provides back-up care services for families of The Home Depot.*<sup>[1]</sup>

It’s easy to guess which types of employees would be attracted by foosball (young single men) and which by a childcare program (working mothers and fathers). But there are also incentives that can motivate people with completely different needs and goals. For example:

- Many companies offer low-cost, fun perks such as catered lunches, free snacks and coffee, and Employee of the Month awards.
- It’s common for companies to include employees’ families in special events such as picnics, ballgames, and outings.
- To encourage employees who make direct sales, some companies offer significant incentives for meeting or exceeding goals. For example, Huntington National Bank offered sales teams a program that allowed them to earn points toward an all-expenses-paid trip to the World Series.
- Some employees are more motivated by opportunities than by “prizes.” For these individuals, it may be more motivating to offer trips to trade conferences and conventions, plum assignments, or inclusion in upper-level meetings.

### ? Practice Question

<https://assessments.lumenlearning.co...essments/12225>

## Benefits

Benefits are a part of the compensation package, and they are often worth a great deal to employees. Health insurance and retirement, in particular, are valuable and coveted benefits. So too are paid vacations, sick days, life insurance, and retirement packages. Because these benefits are so valuable, it’s important for managers to make their employees aware of what’s available to them—and to work with HR to provide training in how to access and use benefits.

In most companies, employees can choose among different benefits. There is a cost associated with many benefits, so some employees will opt out (so they can have more in their paycheck) whereas others will opt in (for better health benefits or a greater sense of security in case of disaster).

- **Healthcare:** Health benefits are usually offered in the form of health insurance, but many companies also offer on-site exercise facilities and programs for reducing stress. Health insurance comes in many “flavors”; often employees can choose among several levels of HMOs, PPOs, health savings accounts, and even on-site clinics.
- **Paid vacations:** The [Fair Labor Standards Act \(FLSA\)](#) does not require payment for time not worked, such as vacations or holidays (federal or otherwise). Some offer very minimal vacation—and hourly or part time workers may get no vacation at all. To compete for highly qualified workers, however, the majority of companies do offer at least some paid vacation. Usually the number of vacation days increases over time—one reason for employees to stay loyal to their employer.
- **Retirement:** Retirement programs give employees regular income after they leave the company. For many people, a good retirement plan is enough reason to stick with a job, even if the job is less than thrilling. There are two major types of retirement plans: pensions and contribution plans (usually 401(k) plans). Pensions offer regular, guaranteed income to retired employees for the rest of their lives; retirement benefits may also be offered to surviving spouses. Although pensions were popular for many years, most employers no longer offer them. Contribution plans invest funds provided by both the employee and the

employer. Funds are invested, and they may grow or shrink depending upon the market. These days, contribution plans are much more common than pensions.

- **Stock and Stock Options:** If a corporation is large enough, it may offer stock (shares in the company) as one benefit of employment. If the corporation is doing well, stocks can become increasingly valuable. For some employees, stock options are a good way to share in their employer's success.

### ? Practice Question

<https://assessments.lumenlearning.co...essments/12226>

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1. Santos, M. (2016, December 16). 5 Fabulous and Inspiring Onsite Daycares. Retrieved August 16, 2017, from <http://www.workingmother.com/5-fabulous-onsite-daycares#page-5>

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