

## 7.2: Goals of a Compensation Plan

## Learning Objectives

- Be able to explain the goals of a compensation plan.

So far, we have discussed the process for strategic plan development and the recruitment and selection process. The next aspect of HRM is to develop compensation plans that will help in the recruitment and retention of employees. This is the topic of this chapter.



Figure 7.2.1: The goal of a compensation plan is not only to attract people, but to retain them. johnhain – Pixabay – CC0 public domain.

Most of us, no matter how much we like our jobs, would not do them without a compensation package. When we think of compensation, often we think of only our paycheck, but compensation in terms of HRM is much broader. A compensation package can include pay, health-care benefits, and other benefits such as 401(k) plans, which will all be discussed in this chapter. Before we discuss specifics, you should be aware of courses and certifications that can be earned through the WorldatWork Society of Certified Professionals, specifically related to compensation (other certifications will be discussed in their respective chapters).

WorldatWork offers several certifications in the area of compensation:

- Certified Compensation Professional (CCP)
- Certified Benefits Professional (CBP)
- Certified Sales Compensation Professional (CSCP)
- Certified Executive Compensation Professional (CECP)

These certifications involve taking a multiple-choice exam online or at one of the WorlDatWork testing locations. The exams test for knowledge, experience, and skills in each of the compensation certification areas and can be a valuable asset to you when applying for HR positions.

The certifications are based on many of the aspects of this chapter, including understanding the goals of compensation packages for employees, which is our focus for this section.

First, the compensation package should be positive enough to attract the best people for the job. An organization that does not pay as well as others within the same industry will likely not be able to attract the best candidates, resulting in a poorer overall company performance.

Once the best employees and talent come to work for your organization, you want the compensation to be competitive enough to motivate people to stay with your organization. Although we know that compensation packages are not the only thing that motivates people, compensation is a key component. We discuss other motivations in [Chapter 7](#).

Third, compensation can be used to improve morale, motivation, and satisfaction among employees. If employees are not satisfied, this can result not only in higher turnover but also in poor quality of work for those employees who do stay. A proper compensation

plan can also increase loyalty in the organization.

Pay systems can also be used to reward individual or team performance and encourage employees to work at their own peak performance. In fact, in the 2011 list of the Best Companies to Work For by *Fortune* magazine, all the companies who topped the list (SAS and Boston Consulting Group, for example) had satisfied employees—not only with their pay, but their entire benefits package<sup>1</sup>.

With an appropriate pay system, companies find that customer service is better because employees are happier. In addition, having fairly compensated, motivated employees not only adds to the bottom line of the organization but also facilitates organizational growth and expansion. Motivated employees can also save the company money indirectly, by not taking sick days when the employee isn't really sick, and companies with good pay packages find fewer disability claims as well.

So far, our focus on HRM has been a strategic focus, and the same should be true for development of compensation packages. Before the package is developed for employees, it's key to understand the role compensation plays in the bottom line of the organization. For example, in 2010, the US military spent 22 percent of its budget on personnel salaries<sup>2</sup>. One-fifth of the total budget—or more—is not uncommon for most US organizations, depending on the industry. As a result, it is easy to see why the compensation plan should be an important aspect of the overall HRM strategic plan. The next few sections will detail the aspects of creating the right compensation packages: for your organization, including legal considerations.

### Human Resource Recall

If you have had or currently have a job, do you feel the compensation plan motivated you? Why or why not?

### Key Takeaways

- A compensation package is an important part of the overall strategic HRM plan, since much of the company budget is for employee compensation.
- A *compensation package* can include salary, bonuses, health-care plans, and a variety of other types of compensation.
- The goals of compensation are to attract people to work for your organization and to retain people who are already working in the organization.
- Compensation is also used to motivate employees to work at their peak performance and improve morale.
- Employees who are fairly compensated tend to provide better customer service, which can result in organizational growth and development.

### Exercise

1. Visit a website that gives salary information for a variety of jobs, such as <http://www.salary.com>. Using the search box, type in your ideal job and research salary information. What is the median salary for the job you searched? What is the lowest salary you would be willing to accept for this job? At which point would you be completely satisfied with the pay for this job?

### Footnotes

1. 100 Best Companies to Work For,” *CNN Money*, accessed February 11, 2011, [https://money.cnn.com/magazines/fortune/bestcompanies/2011/full\\_list/](https://money.cnn.com/magazines/fortune/bestcompanies/2011/full_list/)
2. US Department of Defense, *Financial Summary Tables*, May 2009, accessed February 11, 2011, [https://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2010/fy2010\\_summary\\_tables\\_whole.pdf](https://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2010/fy2010_summary_tables_whole.pdf).

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