Compensation & Benefits
What is Compensation?

“Compensation refers to all forms of financial returns and tangible services and benefits an employees receive as part of an employment relationship.”

(Milkovich, Newman, & Gerhart, 2014, p. 13)
A “Total Returns” Perspective

TOTAL RETURNS

Total Compensation

Cash Compensation
- Base
- Merit/Cost of Living
- Short-Term Incentives
- Long-Term Incentives

Benefits
- Income Protection
- Work/Life Balance
- Allowances

Relational Returns
- Recognition & Status
- Employment Challenging Work
- Security
- Learning Opportunities

(Milkovich, Newman, & Gerhart, 2014, p. 13)
Phases in a “Total Rewards” Program

Implementing a Total Rewards Program: Four Phases

Assessment → Design → Execution → Evaluation

(Heneman, 2007)
Milkovich et al., Version of the Same Ideas

1. Assess Total Compensation Implications
   - Business Strategy and Competitive Dynamics
   - HR Strategy
   - Culture/Values
   - Social and Political Context
   - Employee/Union Needs
   - Other HR Systems

2. Map a Total Compensation Strategy
   - Objectives
   - Alignment
   - Competitiveness
   - Contributions
   - Management

3. Implement Strategy
   - Design System to Translate Strategy into Action
   - Choose Techniques to Fit Strategy

4. Reassess
   - Realign as Conditions Change
   - Realign as Strategy Changes

(Milkovich, Newman, & Gerhart, 2014, p. 48)
Who Are the Stakeholders?

- Management
- Employees
- Shareholders (if publicly traded)
- Taxpayers (if publicly funded)
- Customers
- Government
- Society in General
# Hourly Compensation Costs for Manufacturing Workers (in U.S. Dollars)

**EXHIBIT 1.1** Hourly Compensation Costs for Manufacturing Workers (in U.S. Dollars)

<table>
<thead>
<tr>
<th>Country</th>
<th>Hourly Compensation</th>
</tr>
</thead>
<tbody>
<tr>
<td>China*</td>
<td>$0.57</td>
</tr>
<tr>
<td>Mexico</td>
<td>$2.50</td>
</tr>
<tr>
<td>Brazil</td>
<td>$3.03</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>$5.43</td>
</tr>
<tr>
<td>Taiwan</td>
<td>$5.97</td>
</tr>
<tr>
<td>Singapore</td>
<td>$7.45</td>
</tr>
<tr>
<td>Korea</td>
<td>$11.52</td>
</tr>
<tr>
<td>Spain</td>
<td>$17.10</td>
</tr>
<tr>
<td>Italy</td>
<td>$20.48</td>
</tr>
<tr>
<td>Canada</td>
<td>$21.42</td>
</tr>
<tr>
<td>Japan</td>
<td>$21.90</td>
</tr>
<tr>
<td>Ireland</td>
<td>$21.94</td>
</tr>
<tr>
<td>Australia</td>
<td>$23.09</td>
</tr>
<tr>
<td>U.S.</td>
<td>$23.17</td>
</tr>
<tr>
<td>France</td>
<td>$23.89</td>
</tr>
<tr>
<td>U.K.</td>
<td>$24.71</td>
</tr>
<tr>
<td>Sweden</td>
<td>$28.42</td>
</tr>
<tr>
<td>Netherlands</td>
<td>$30.76</td>
</tr>
<tr>
<td>Germany</td>
<td>$32.53</td>
</tr>
<tr>
<td>Norway</td>
<td>$34.64</td>
</tr>
</tbody>
</table>

*Data on China's labor cost is an estimate from 2002 information, released by the China Labour Agency.

(Milkovich & Newman, 2008)

See p. 6 for updated values.
What is a “Strategic Perspective”?

“A strategic perspective focuses on those competitive choices that help the organization gain and sustain competitive advantage.”

(Milkovich, Newman, & Gerhart, 2014, p. 42)
Strategic Choices

(Milkovich & Newman, 2014, p. 42)
Generic Business Strategies

• Innovator
• Cost Cutter
• Customer-focused

(Milkovich, Newman, & Gerhart, 2014)
### Tailor the Compensation System to the Strategy

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Business Response</th>
<th>HR Program Alignment</th>
<th>Compensation System</th>
</tr>
</thead>
</table>
| Innovator: Increase Product Complexity and Shorten Product Life Cycle | • Product Leadership  
• Shift to Mass Customization and Innovation  
• Cycle Time | • Committed to Agile, Risk Taking, Innovative People | • Reward Innovation in Products and Processes  
• Market-Based Pay  
• Flexible – Generic Job Descriptions |
| Cost Cutter: Focus on Efficiency | • Operational Excellence  
• Pursue Cost-effective Solutions | • Do More With Less | • Focus on Competitors’ Labor Costs  
• Increase Variable Pay  
• Emphasize Productivity  
• Focus on System Control and Work Specifications |
| Customer Focused: Increase Customer Expectations | • Deliver Solutions to Customers  
• Speed to Market | • Delight Customer, Exceed Expectations | • Customer Satisfaction Incentives  
• Value of Job and Skills Based on Customer Contact |

(Milkovich, Newman, & Gerhart, 2014, p. 43)
So strategy provides the overall context and framework to guide HR decisions, including compensation.

There are many alternatives to achieve the given objectives, even when using the same strategic approach, therefore...

We value processes and activities to create a rational, coherent, or “fair” system that can be communicated effectively, attracts and retains key talent, and increases or maintains participants’ motivation and performance.
• **Objectives** – How important total compensation is in achieving overall HR strategy

• **Internal alignment** - Consistency of comparisons among jobs/skill levels inside an organization (a.k.a. “internal equity”)

• **External competitiveness** - Consistency of comparisons of similar jobs between organizations (i.e., “the market”; a.k.a. “external equity”)

• **Employee contributions** - Comparisons regarding performance and compensation between individuals (a.k.a. “individual equity”)

• **Compensation Management** - Policies to ensure “the right people get the right pay for achieving the right objectives in the right way”

(Milkovich, Newman, & Gerhart, 2014)
The Three Tests

• Aligned - With business strategy? Externally with economic/political/social conditions? Internally with the overall HR system?

• Differentiate – Does it set the organization apart in a way that is hard to copy?

• Add value – But what “counts” in efforts to assess return on investment (ROI)?

(Milkovich, Newman, & Gerhart, 2014)
Research indicates the important role of context on all of these issues!

*Their preferred question:*

“What practices pay off best under what conditions”?

(Milkovich, Newman, & Gerhart, 2014)