

## **Key fundamentals for compelling Compensation and Benefits programmes**

### **Introduction**

A lot has been written on the subject of employee compensation and benefits (C&B) detailing to varying degrees the strategies organisations should pursue to design and manage C&B programmes effectively. This article focuses on the key fundamentals for compelling C&B programmes. The idea for this article is borne out of the author's experience that organisations can overlook the importance of getting these fundamentals right in terms of how they design and manage their C&B programmes.

The key fundamentals are as follows;

#### **1. Clear principles or philosophy with respect to C&B**

In my experience, there is no such thing as the "Perfect" C&B strategy. Any approach taken by an organisation with respect to managing its C&B programmes will have advantages and disadvantages. The key is to be clear on the key principles or philosophy that influence or drive the approach to C&B, to stick with these principles and to design programmes that fit with these principles or philosophy. Some examples of principles or philosophies that impact on C&B are listed below

- The degree to which an organisation wants to share the business risk with employees e.g. profit sharing programmes, stock option programmes.
- The degree to which an organisation wishes to underpin a culture of high performance e.g. bonus programmes, performance related pay.
- The degree of paternalism an organisation wants to display to their employees e.g. Pension Plans, Healthcare programmes.
- The degree to which an organisation is prepared to fund C&B programmes i.e. target being market average or upper quartile payers

Once these principles are clear they should be communicated to all stakeholders including employees. This is important because it helps to calibrate expectations and also prevents the C&B approach being blown off course by internal and external pressures.

#### **2. Align Employees C&B with organisations requirements**

The C&B strategy should be clearly aligned to the business strategy. If e.g. the business is in a period where it is closely managing its fixed cost structure then one would expect to see this reflected in the design of the C&B programmes e.g. competitive base pay but perhaps above market opportunity on variable pay.

The C&B strategy should be integrated in a seamless manner with the organisations HR strategy. Typically one would expect to see that the C&B strategy underpin the HR strategy versus leading it as C&B is just one component of the employment offering ( e.g. Career Development, Training & Development, relationship with Manager etc) that organisations provide to their employees.

The C&B strategy an organisation pursues should be anchored by its operating cost structure. Key metrics that need to be considered include;

- Current Total C&B costs. Every organisation should be clear on how much they spend per annum on each element of C&B including Base Pay, Bonuses, Pensions, Healthcare, Social Security etc
- The trajectory at which C&B costs are increasing on an annual basis. This is not limited to base pay but includes all the elements of C&B programmes. Base pay may well be increasing at 4% per annum but total C&B costs may be increasing at a higher rate e.g. due to pension costs or an increase in the variable pay elements within the cost structure.
- C&B costs as a % of the organisations budget or operating cost structure. Typically the higher the C&B costs are as a % of operating costs the more important it is to manage the cost structure
- Total C&B costs per employee
- Revenue/Profit per employee

### **3. Know what employees value with respect to C&B**

This sounds obvious but can be easily overlooked. Thanks to the growing practice of organisation conducting employee opinion surveys and the availability of on line tools it has become easier to get good/reliable data on what employee's value with respect to C&B programmes. It is important that this data shows the relative importance employees place on each component of their C&B programmes. Organisations should use this data to design their C&B programmes e.g. if the profile of employees is such that healthcare benefits are relatively more important to them than other programmes, then organisations will get proportionally more value for money by designing health care plans that meet these needs versus e.g. adding variable pay programmes or putting additional funds into base pay. This analysis should be repeated periodically and the C&B offering revised to reflect the most current requirements.

### **4. Know the labour market**

There is no shortage of market data in present day business but organisations can find that there is a shortage of good quality relevant data on pay practices for their particular requirements. Organisations can address this by being very clear on the how they define their market place i.e. who there key competitors are. This can be determined by looking at who the organisations competes with for labour but also need to take into account the business model of the organisation. The market place should be defined as narrowly as possible to ensure better quality and more relevant data.

A key point with respect to knowing the labour market is that it is not an end in itself. Yes, it is important to have a good knowledge of what is happening in the market place but organisations will only make real breakthroughs when they use the market data to differentiate themselves from their competitive market.

### **5. Keep the design of C&B programmes as simple as possible**

At the design phase of C&B programmes, it is easy to underestimate the work that is required to communicate and administer the programmes during their long lifecycle. Every complexity that is added at the design phase typically multiplies the complexity that is required to administer and communicate these programmes to employees in an effective manner. Another handicap in this area is that the design of the program

starts out as “X”, but by the time it completes the review and approval cycle in many organisations it has turned into “Y”. Organisations should consider that there are more than enough environmental factors (Regulatory Requirements, Market pressures, National Wage Agreements, Labour protection legislation) outside of the organisations direct control that they really need to tightly manage the design parameters that they have control on.

## **6. Communicate, Communicate, Communicate.**

The introductions of many C&B programmes fail or flounder due to lack of an effective communication process. At the launch stage it is vital that line managers clearly understand how the programmes work and specifically how they benefit both the organisation and the employee. Communication to employees is best handled via line managers who can explain clearly to them how the programmes work from the employee’s point of view. Employee communication is not a one time event and for it to be truly effective it must be a continuous process that focuses employees on the totality of C&B programmes, how they work and specifically how they benefit the employee. Many organisations use on line tools to personalise C&B communication for employees and to provide them with the information they require when they need it. Particularly helpful are “Total Reward Statements” that itemise what employees C&B is worth to them on an annual basis. These statements can be made available on line for employees. They tend to have a strong impact with employees as the information (base pay, bonus payments, pension, healthcare etc) are described in personalised terms to employees. These statements also provide a good opportunity to reinforce how the C&B strategy fits with the HR and Business Strategy.

## **Conclusion**

While none of what is written above is “rocket science” considerable work and thought is required to balance these fundamentals in order to design and manage compensation and benefit programmes effectively. In order to master these fundamentals, professionals with responsibility for C&B within their organisation require strong skills in the following areas; business acumen, influencing, negotiating, communication and analytical ability. Organisations should periodically review the effectiveness of their current C&B practices against the above fundamentals. It is the author’s experience that organisations who master the above fundamentals and undertake regular reviews, gain significant advantages in terms of enabling the organisation achieve its HR and business goals.

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