



Total Rewards Strategy

EMPLOYEE COMPENSATION PACKAGE



Compensation strategy is extremely important as the right compensation strategy helps to build an effective and competitive organization; however, the wrong strategy can destroy the organization within several years and the organization suffers from decreased performance and not utilizing the full potential of employees.

A compensation strategy communicates to employees the importance of their position and performance. It literally defines the organization's commitment to success and competitive potential to generate optimal performance. The strategy should support the organization's mission, goals and objectives, and align with its overall business strategy.

The main purpose of compensation strategy is to give the right rewards for the right employee behaviors. Compensation is an important motivator when you reward people for achieving desired organizational results. Effective management of compensation takes motivation into consideration.

A strategic plan for employee compensation determines how much you want to pay employees and what type of employees you want to attract. The compensation plan entails a variety of aspects including pay scales, reward programs, benefits packages, company perks, and organizational culture. A successful strategic compensation plan allows the organization to compete in the market for the best employees in the industry.

Competition to keep these valuable, high-performing employees is at an all-time high. A strategic performance and reward system is one of the most effective ways to retain your organization's top performers and increase capabilities. A balanced compensation plan that incentivizes performance can also improve recruitment and retention efforts, positioning the firm to achieve its business goals.

Total Rewards refers to the design and implementation of compensation systems and benefit packages, which employers use to attract and retain employees.

"Having general or across-the-board pay increases is the worst waste of money that I'm aware of. It's paying for aging in place ... People will respond to rewards. But don't reward 'A' if what you really want is 'B'." – Robert Greene, CEO of Reward Systems Inc.



Smart, successful organizations do regular planning and evaluations of their compensation and performance appraisal systems. Because compensation is visible and important to employees, it is critical to consistently communicate a clear message regarding how pay decisions are made. Transparency develops a culture of trust.

The strategy is to 'brand' the organization as a Great Place to Work ... such that, the effective pay-for-performance program requires that employee pay matches the organization's business staffing requirements and performance management goals.

Compensation and benefits programs establish the priorities and framework for the design and administration of the organization's total rewards strategy. Total rewards are comprised of both financial and non-financial remunerations that employees see as valuable and that are meant to enhance overall levels of employee satisfaction, productivity, and engagement. Rewards that resonate will generate commitment.

A **Total Rewards Strategy** with compensation and benefits, performance management and employee development, coaching and mentoring, are all essential in assisting organizations with recruiting, motivating, and retaining employees.

Compensation and benefits programs should align with the organization's mission, resources, workforce planning, organizational culture, and employment branding.

Additionally, compensation and benefits programs enable the organization to hire, develop, and retain employees with the necessary skill-set to meet the organization's strategic objectives.

1. Designing and implementing a broad range of compensation features, such as base and variable pay, short- and long-term incentives, recognition awards, etc.
2. Implementing benefits such as health care, retirement, work-life balance, educational and financial assistance, and paid or unpaid time off.
3. Monitoring and evaluation compensation and benefits programs to verify that they align with and support organizational performance.

The first thing employers should consider when developing compensation packages is **fairness**. It is absolutely vital that businesses maintain internal and external equity.

Successful compensation packages look more like a total rewards package, containing non-monetary, direct and indirect elements, not just salary levels. Employees want to feel confident that if they contribute excellence they will realize a career objective.

Compared to peers, companies with strategic talent management programs experience:



26%
more revenue
per employee



40%
lower voluntary turnover
among high-performers

The **Professional Human Resources** (PHR) manager will develop compensation strategies and then implement and evaluate various organizational compensation policies and programs. To increase the success of the implementation, human resource management needs to consider training and reporting needs for management.

Compensation policies and programs are used to attract and retain the talent that will position the organization for sustainable prosperity by using the tools available in a total rewards strategy. Performance Management Systems are key to success.

Compensation is the value exchange between the organization and the personnel ... such that a human resource is rewarded for adding value to the organization.

[A well-designed compensation program rewards behavior that align with the organization's values, strategy, business goals, and workforce budget allowance.](#)

During the compensation program development phase, the PHR will consider the balance between internal equity and market competitiveness. Salary surveys provide comparisons of local market, industry, or job type salaries being offered in the field to help the PHR develop a compensation philosophy that is optimal to the organizational function. Typically, members earn more vacation time with years of dedication.

Base pay is a fixed dollar amount given to an employee at regular intervals and is established at the time of hire. The PHR manager should regularly review base pay against factors such as merit, performance, seniority, market factors, and the organization's financial performance.

Variable pay is generally a percentage of base pay and may include bonuses or other incentive compensation. Pay for performance results and metrics are implemented.

The design and administration of a compensation program is guided by an organization's total rewards strategy. It is important for managers and employees to understand the compensation program and its relationship to organizational goals and objectives. Too often members are not aware of the cost of benefits provided to them.

Developing a communication plan for managers and employees is essential to the implementation process and helps promote internal compensation equity and consistency. Members often need to be reminded to exercise additional benefits.

A promotional banner for Salary.com. The background is dark blue with a subtle pattern of concentric circles. On the left, a light blue box contains the text "GOOD JOB BUT YOU'VE ONLY JUST BEGUN!". To the right, white text states "If you're a manager or you run a great business, Salary.com offers solutions for:". Below this, a bulleted list includes "Detailed Skills & Competencies Reports for specific positions", "Job and Employee Pricing Reports", and "Compensation Data Tools and Subscriptions". At the bottom, a blue banner with white text says "Don't stop now! GET INFO YOU NEED BY [CLICKING HERE](#)".

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Every HR professional knows that businesses will advertise that they offer a “Competitive Salary” but what does that really mean, and how do they know what the competition is offering. Salary tools such as Salary.com and performing a job search survey to reveal what other employers are paying or willing to pay for talent.

Advertising the right salary will attract the right kind of talent. A professional with the right knowledge, skills, and abilities may warrant a compensation package that includes an attractive salary range. Many advertisements depict a salary range.

Salary ranges assist employers in controlling their pay expenses and ensuring pay equity among employees. In the age of transparency, it has become increasingly important that employers have rational explanations for why they have chosen to pay their employees a certain rate, and salary ranges help an employer do this.

The purpose of a national salary analysis is to provide a basic guide for creating compensation grades. This guide is intended for general use and should be tailored to meet an organization's specific needs and goals. [Employers without experience and knowledge of compensation design principles should consult with an expert for guidance as compensation structure is critical element within an organization.](#)

The employer must first determine the organization's approach or philosophy to compensation before beginning to create salary ranges for the organizational positions. Determining the compensation philosophy requires an in-depth look at the company's beliefs and practices regarding setting pay. The key to a successful compensation strategy and to be consistent in its philosophical application to the pay decisions as this will contribute toward ‘organizational culture’ and morale.

An employer can choose to lead, lag or match the market when it comes to salary and compensation. Typically, an organization will lead to gain an advantage or to attract talent away from its competitors. If an employer decides to match the market, it is paying roughly the same as its competitors, and if an employer is lagging the market, it is paying less than its competitors for jobs. A small business may lag, but offer other incentives that resonate with the applicant, a benefit they perceive as valuable.

[The key consideration is a balance between salary and benefits to form a total compensation package that attracts and retains talent which in turn allows the organization to achieve goals and produces positive outcomes for the organization.](#)

Job descriptions are used by the human resources department to determine compensation and pay based on market standards and organizational compensation philosophy. A human resources recruiter uses job descriptions as a mechanism for recruitment and to benchmark the position against those described by similar descriptors in salary surveys.

The basis of a job analysis is a job description and job title. A job analysis is a process for gathering, documenting and analyzing information to accurately describe the jobs performed at an organization. A job description describes the essential functions of a job as well as the frequency and importance of all tasks and responsibilities associated with a particular job. Job descriptions are given a job title and both are used to set an industry standard salary range.

A job analysis determines whether the job descriptions are accurate. The process involves comparing each written job description to the job actually being performed. The advertised salary is set based on the definition of the functions and responsibilities of a job and current market wages that will attract desired talent.

Potential candidates find opportunities by searching job descriptions and more specifically, job titles. Job title, job description, and anticipated salary should be compared to salary data to ensure a degree of competitiveness. A job evaluation is the process of rank ordering the jobs, not the people, based on job content to demonstrate the relative worth and level of responsibility of all jobs to one another.

Using the 'Point Method' the content of a job can be described in terms of factors. Factors are qualities of a job that are common to many kinds of jobs, such as skill, effort or working conditions. Each factor is assigned a weight, or points, according to how much of that particular factor is present in the job.

Simply stated, the more points assigned to a job, the more worth the job has to the organization. Jobs with more worth are compensated more than jobs with lesser worth. There may be a group of factors to apply to all jobs or different factors for different functions or function- specific factors.

Using the 'Ranking Method' and ordering the value or worth of each job in comparison to the other jobs within the same job family or on an industry level is also a career path. This method is often used in smaller organizations that have fewer jobs to compare.

Conducting market research ensures that recruiters are in fact advertising a **'competitive salary'** or salary range for a compensation package that is comparable to similar positions in the marketplace. Employers should try to obtain information from more than one market survey resource for benchmark positions.

Job titles vary between organizations; therefore, employers should compare the descriptions of the jobs surveyed to make sure that the related tasks, functions and level of responsibility match the positions at their organizations. Employers should realize that it will be impossible to find exact matches.

2021 Salary Survey

The war for talent and proliferation of pay-related information are placing increased pressure on HR professionals to use accurate, up-to-date market pay information. They are expected to share it with managers and employees and, at times, to defend its use while refuting incorrect or inferior data obtained by employees.

One of the most basic functions of management is to establish a compensation system that is competitive, fair, and motivational. In addition, the system should help promote employee engagement, high performance and employee retention. Establishing such a strategy is an essential part of building a strong, productive and loyal culture—important elements of any organization's long-term success.

To obtain current, accurate salary information, employers will need to purchase salary data or conduct their own market research. A few resources, such as the U.S. Bureau of Labor Statistics, offer free data, but the data may be older and too broad in terms of industry or geography or other factors.

Many professional organizations conduct salary surveys for current members and will provide this information for a small fee. Organizations may need to consider jobs that closely fit the principal aspects of a particular job or to consider salary data for more than one type of job. Paying people fairly is good for business. Underpay, and employees will eventually look for a better offer. Overpay, and the payroll budget and profitability will suffer. That's why companies use market data to research the value of their jobs.

To determine the prevailing rate for a job, companies can "benchmark" jobs against compensation surveys that are detailed and specific to the companies' industries and regions. A good compensation survey uses standard, proven methods of data gathering and statistical analysis to determine how much companies pay for a specific job in a specific industry.

A number of types of organizations conduct salary surveys, including compensation information businesses, compensation consulting firms, industry associations, educational institutions, and state and federal governments. Companies pay for compensation data because the benefits exceed the costs.

HR professionals are key in the process of establishing a competitive pay system. They assist managers in determining the overall pay philosophy of the organization, the functions the organization needs to have performed, the best organizational structure to support those efforts and competitive market ranges for such job functions.

Increasingly, HR professionals must do these in an environment where federal, state and local laws increasingly affect policies and decisions related to compensation.

PAY FOR PERFORMANCE

Professional compensation programs are designed to attract, retain, and motivate knowledgeable leaders who will directly affect an organization's long-term performance and overall value proposition. Professional pay packages may be designed so that a portion is contingent upon organizational performance such as strategic goals and financial objectives.

In general, individual performance and company performance are measured in quantifiable terms such as increased revenue, decreased costs, or increases in the stock price. Some organizations also measure performance using operational efficiency or client satisfaction to evaluate how executives should be compensated.

Most PHR managers agree that pay-for-performance plans are an effective tool not only to align the employee's behavior with the company's goals, but also to attract and retain the best talent. Performance Management Systems improve this effectiveness.

The organization's mission, vision, goals & objectives, the HR strategy, and the compensation philosophy are the foundation of the organization's management framework that the incentive compensation plan will be designed to align with and reinforce. The member will execute roles and responsibilities to earn rewards.

Notify employees of expectations early in your goal-setting process to allow time for managers and employees to align business unit, team, and individual objectives with company objectives. It is imperative that members participate in goal setting.

Participants must have a clear line of sight to the goal. They must understand the actionable measures that they can impact that determine revenues, costs, productivity, or profits. Members that are disengaged or unproductive will compel intervention.

Use the pay-for-performance plan as one component of your ongoing communications with employees. Provide ongoing feedback to all participants. Use progress updates, recognition for both small and large wins, and other positive reinforcements for results achieved. The manager is much more of a coach, in lieu of a command and controller.

The more these programs and systems are synchronized and integrated, the greater the likelihood that the organization's overall vision and business goals will be achieved.

Consequently, the more closely aligned a pay-for-performance plan is with the management framework, the more successful it can be in providing strategic support for achieving your organization's synchronized business goals and objectives.

MOTIVATION AND PERFORMANCE



One of the primary objectives of a salary is to motivate the organizational member to perform their job responsibilities and contribute value to the enterprise. In order to ensure that performance is enhanced, organizations match measurable and controllable performance goals and evaluation mechanisms with the organization's objectives.

The business principle in action is that the employee will produce more value output than the cost of doing business ... in other words, a compensation pay level is intended to enhance performance through increasing work effectiveness and efficiency.

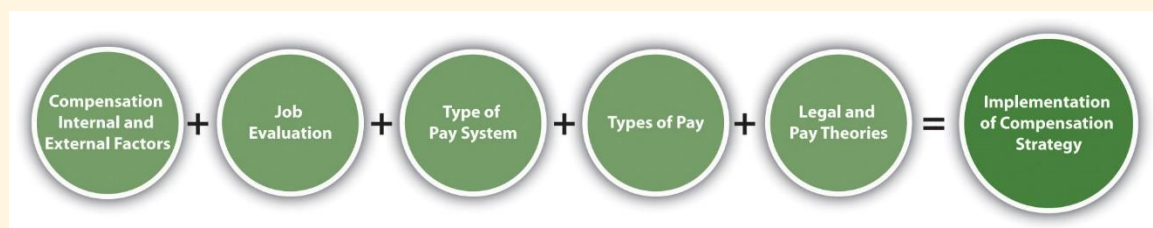
Different pay-for-performance system approaches may be appropriate according to the employee level within the organization, from executives to clerical labor. Nevertheless, it is critical that the implementation of pay-for-performance be part of an overall performance management system.

Key elements of a performance management system include the following: a formal compensation philosophy statement; salary administration program; job evaluation system; performance appraisal system; and rewards programs.

Compensation systems with a pay-for-performance component generally consist of two components: performance measurement and compensation methods. Each component should be defined to meet needs dependent on the organizational culture, strategic plan, and industry characteristics.

For the performance measurement component to be effective, a system must be developed that ties an organization's short and long-term strategic objectives to its performance measures.

These measures can be classified into distinct categories that focus employees on the most important activities, including financial and non-financial indicators such as product quality.





Performance measures should also be focused on individual and group performance.

Teamwork is imperative to successful organizational performance. Togetherness is a cultural value and high performance members should feel motivated to coach and assist others to improve their performance as a contribution to the overall organizational state of prosperity.

By creating compensation and benefits plans that attract and retain talent, HR professionals play a key role in maintaining the organization's most valuable resource—its employees.

HR professionals are responsible for developing, understanding and consistently applying the organization's compensation and benefits philosophy. The process by which they do so includes such actions as: determining appropriate total rewards levels to meet organizational needs through job evaluation; benchmarking against other organizations; conducting remuneration surveys; and analyzing labor market data.



The American Lifestyle ...

The 'American Lifestyle' requires productive work and dedication; it is a concept that is an integral part of the compensation package; the value of your contribution is tied to your level of compensation. For many of us, how well we are compensated for the job we do plays a major factor in how we define ourselves. It also determines our motivation to improve our performance – or not.

By definition, incentive compensation payouts are based on achievement of a predetermined set of objectives, milestones, or targets in order to motivate employees and align their actions and behaviors with the organization's goals. If the results are achieved, then there's a payout.

An examination of research on the effects of performance appraisal and merit pay plans on organizations and their employees suggests that the PHR manager must consider the entire work experience offered to employees in its efforts to attract and retain the best performers; it should probably not expect a merit pay program alone to have a substantial effect. Members will remain loyal even during economic downturns.

Additionally, the research suggests that organizations investing in measures to assure employees about the fairness of the procedures surrounding pay for performance plan design and implementation can positively influence pay satisfaction, perceptions of pay fairness, and employee trust and commitment.

A significant portion of the success or failure of this compensation system lies with who will be receiving the incentive pay. After all, the premise of pay-for-performance is that employees are motivated to help the company achieve success because they in turn are successful. If the market has diminished potential for success, the system is adjusted.

As you can imagine, it all depends on how much an employee stands to gain, and those who become high performers will naturally have the potential to make more as a bonus. For those who only have the potential to earn an insignificant amount, there is little motivation to go above and beyond. Members should be involved in goal setting.

It may take some research and experimentation to determine how to make it work for your business, but it is a system that can be successful when implemented the right way. Organizational culture is paramount to organizational performance; such that, an environment which is conducive to optimal performance must be achieved in order to realize the end-state vision of a successfully implemented pay-for-performance system.

The Institute for Corporate Productivity produced "Tying Pay to Performance," a report that revealed that top-performing companies said their main motivation for offering pay-for-performance is to recognize and reward high performers, while lower-performing companies reported that their main motivation was to increase the likelihood of achieving corporate goals. Essentially, for pay-for-performance to work, the measurements must represent a balance of both achievable and significant.

A total rewards strategy must be crafted such that it is determined to be valuable to the high-potential member which the organization is committed on retaining, engaging, motivating, and developing into the ideal leader. A valuable catalyst to business wins.



The Professional Human Resource (PHR) manager must work to ensure that compensation and benefits programs are compliant with applicable federal laws and regulations. Organizations must verify that compensation and benefits programs are compliant with all relevant local, state, and federal laws and regulations as a form of sound business practice and managing legal risk.

Federal and state laws require organizations to treat employees in a fair and equitable manner in all terms and conditions of employment. Most financial consequences for failing to comply with legal requirements are levied at the organizational level and may include fines, penalties, or legal settlement fees.

Noncompliance puts the organization at risk for audits, investigations, inquiries, and negative public relations ... all will command significant organizational resources to resolve. As regulations change frequently, it is critical to review compensation and benefits programs on a regular basis.

Many organizations outsource payroll and benefits administration as a viable means to reduce risk and increase efficiency and effectiveness of this HRD function; especially the reporting and customer service features of an HRIS offered by service providers.

A non-core function such as payroll management may be essential, but doesn't differentiate your organization strategically or from a mission standpoint; however, in most organizations, administrative and back-office activities such as payroll are non-core functions that are best outsourced. For example, a core competency of a non-profit organization may be to assist a segment of our population; but the internal payroll management is a necessity that is best outsourced to a payroll service provider.

Most service providers also offer myriad advantages such as security, accuracy, reporting, compliance, employee self-help, direct deposit, etc. that is, it only makes sense to utilize their services and optimize your organizational effectiveness and efficiency.

For organizational members, payroll accuracy and timeliness are very important factors of job satisfaction and organizational climate ... so get it right the first time!

"Talent management deserves as much focus as financial capital management in corporations." – Jack Welch

Outsourced Benefits Administration ...

Organizations may outsource certain compensation and benefits programs to reduce costs and to optimize efficiency and customer service.

1. Payroll Management

2. Consolidated Omnibus Budget Reconciliation Act (COBRA)

3. Healthcare Benefits Administration

4. Retirement Benefits Administration

5. Attendance & Leave Administration

6. Flexible Spending Account (FSA) Administration

Outsourced payroll systems may be integrated with an organization's financial management system (FMS) or human resource information system (HRIS), and may allow employees to access and update their personal information through a self-service portal.

Outsourcing COBRA and FSA administration may help to verify compliance with detailed and time sensitive legal and reporting requirements. The decision to outsource compensation and benefits to vendors may result from a cost/benefit analysis.

Even though services are outsourced, organizations still have an obligation to monitor the vendor controls that are in place, as the organization remains liable in the event of non-compliance.

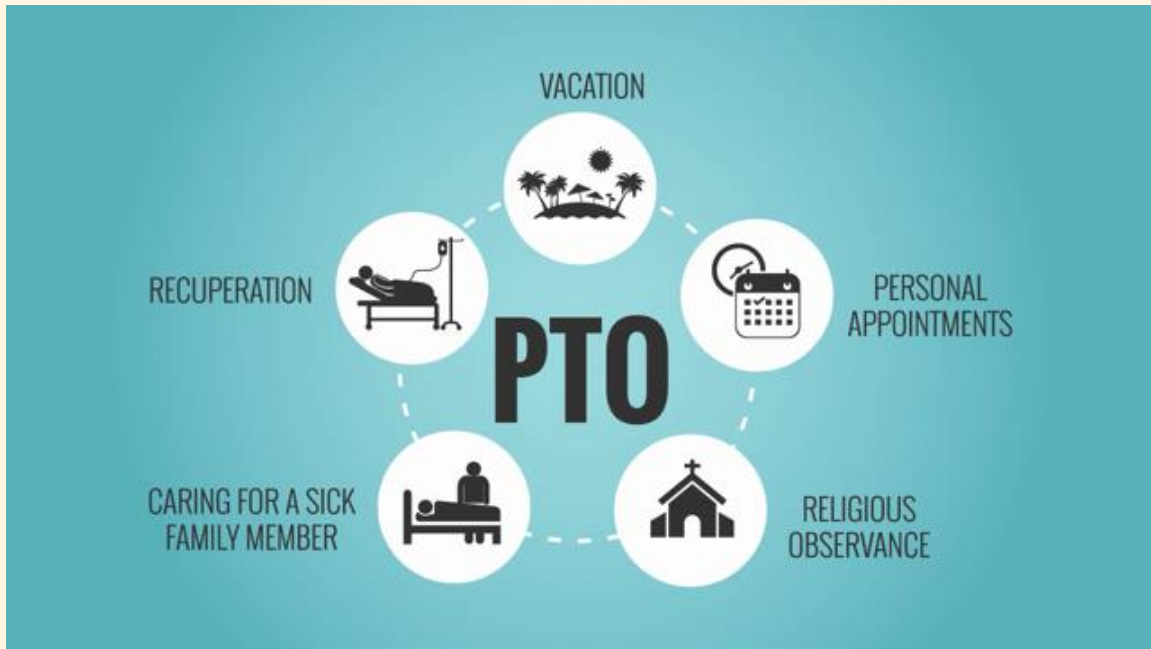
Often, the Professional Human Resource (PHR) manager will initiate internal audits to ensure internal controls are appropriate and in place over financial reporting and operations related to security, integrity, confidentiality, and privacy.

Employees appreciate the efforts taken by employers to educate them about their benefits choices. If the employer seeks the resources of an outside provider to tailor communications to specific employee groups with different needs, and to deliver communications through multiple media channels, all the better.

Employers should not forget that employees still need a personal touch—they often seek guidance from someone with their best interests in mind, someone within their own organization.

The employer should focus on the employee end-user's experience when structuring how the new vendor relationship is going to function; therefore, the strategy should be to make sure someone internally in HR is sufficiently knowledgeable and readily available to step in when an issue is escalated and unresolved by the vendor.

Also, the internal professional should be ready to handle issues that are particularly time-sensitive in nature.



Paid Time Off (PTO) ...

Many companies have done away with "sick leave" and "vacation" as employee benefits and have replaced them with "paid time off" (PTO).

Technically, under the Fair Labor Standards Act (FLSA), employers are only required to pay for time worked. Even if they give you time off for federal or religious holidays, they aren't legally required to provide any pay for those days.

That being said, many businesses do institute company policies that allow for a certain number of paid vacation days as an employee benefit. Paid time off is a bank of hours from which employees can draw. Employers credit additional hours to their employees "banks", usually every pay period.

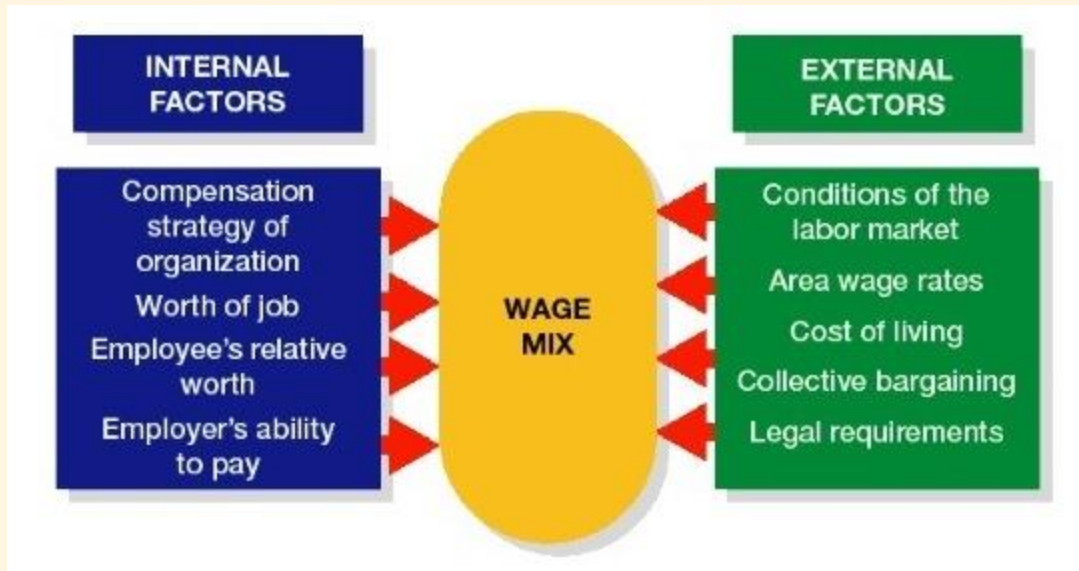
Most US employers offer their workers 10 paid holidays, 2 weeks' vacation, two personal days, and 8 sick leave days per year. Under a PTO plan, the employees would be credited with 30 days paid time off instead (10+10+2+8).

The concept is good. Make your company more attractive to prospective employees and make it easier to retain current employees by increasing the number of days they can take off from work and still get paid.

Since most employees are healthy and don't ever use all their sick leave, why not let them take the difference as extra vacation time. There is no cost to the company and the employees are happier.

"A company that can leverage resources and management talents across a broad array of opportunities may have an advantage over firms that cannot."

– Gary Hamel



Salary negotiations with top performers are a pivotal time in the hiring process. As an employer, it's easy to forget that the candidate is not yet one of your employees, and they don't know just how good it is going to be here. You can create or destroy trust, and set the tone for an entire employment relationship by how skillfully you negotiate salary.

In those conversations, it appears that many hiring managers struggle to find a framework to talk strategically about employee compensation. Fortunately, most experts agree on what factors you should consider in discussing compensation, and how salaries fit into your total reward strategy. Too low and the candidate feels 'jilted' and too high and the hiring manager's competency is in question.

If you follow sound compensation practices such as creating a strategic compensation plan that aligns with your business goals and objectives, sharing this with staff can be a powerful recruiting and retention tool. When pay decisions are based on market data and a fair assessment of skills and experience, people feel valued and rewarded.

While you want high performance and long-term retention, you also want to realize a profit and enjoy the co-working experience. At the end of a long search, you want to be confident that you hired a top performer, not left wondering if you could have found someone better. If you tie compensation to performance ... you will feel better every time you sign the paycheck.

I'm from where your hustle
determines your salary.

"Developing talent is business's most important task—the sine qua non of competition in a knowledge economy." – Peter Drucker

HR managers should continually evaluate and revise the organization's compensation philosophy to ensure that organizational needs will be met.

The economic downturn of 2020 has had a profound impact on compensation schemes. However, many employees today are aware that the new economic climate increases competitiveness of compensation plans. Employees will undoubtedly be looking for opportunities to seek better compensation and benefits plans after the economy has rebounded. And in any labor market, employees with sought-after skills command competitive pay rates and valued reward systems.

