

Compensation in the Workplace

by Sophia



WHAT'S COVERED

What are the different ways employees are compensated? When you hear the word "compensation," do you think of money or something else? This tutorial will provide an overview of compensation and benefits in the workplace. Our discussion breaks down as follows:

1. Wages and Salary

Compensation takes on a variety of different forms. Two of those forms are wages and salary.

Wages is defined as compensation paid to an employee by an employer based on hours worked. This is also known as hourly pay.

An employer may use wages as a means of paying someone who is going to work a set number of hours every pay period, or every week. The employer knows exactly how many hours the employee is expected to work, and can, therefore, base that employee's compensation or pay on the number of hours that they work.

Salary is still money, but it is compensation paid to an employee by an employer based on a pay period. With a salary, an employee gets paid a set amount of money every pay period, such as every week, every two weeks, every month, etc.--however, the employer decides to break up the pay period.

Salary is typically seen with managers and people who work a weekly number of hours that may vary from week to week. There may be times, for instance, that an employee is asked to work a large number of hours above and beyond what would normally be considered a typical work week. Therefore, in order for an employer to budget for compensation for their employees, the employer may opt to pay them a salary instead of wages so that the company is better able to budget for the future regarding how much they're going to pay out in payroll.



TERMS TO KNOW

Wages

Compensation paid to an employee by an employer based on hours worked.

Salary

Compensation paid to an employee by an employer based on a pay period.

2. Incentive Programs

Incentive programs consist of a series of measures designed and used by an organization to encourage specific behaviors and outcomes by employees. An incentive program is a useful tool employers have to motivate employees.

➔ **EXAMPLE** Suppose your employer offers you an incentive, or bonus, of \$1,000, if you hit a specific target or sell a specific number of items over a pay period. You are more motivated at that point to sell those items or hit that target in order to qualify for the incentive that the employer is offering you.

There are several different types of incentive programs that can be used as compensation.

Types of Incentive Programs	Description
Bonuses	This can be given for a certain performance over a period of time, such as selling those thousand extra pieces of equipment in order to make a profit as a business, for example.
Merit salary system	In this type of incentive program, an employee is paid more for particular achievements, but not necessarily a sales job. For instance, suppose you reduced your costs by a certain amount over a pay period; this might earn you extra pay as part of a merit salary system.
Pay for performance	This refers to variable pay based on performance on the job, which is usually tied to measurable criteria. Again, it's an incentive, involving paying people to hit a certain target or goal. It's a type of motivational incentive for an employee to meet that particular target.
Pay for knowledge	In this case, an employee is being paid for additional knowledge or skill sets that they bring to the job. Employers may pay an employee extra to have a bachelor's or master's degree, for example, or a certification in a certain area.
Profit sharing	This is a different type of motivational tool when an employee gets a piece of the profits that the business makes. So, if the business does well, the share of that profit increases for each employee.



TERM TO KNOW

Incentive Program

A series of measures designed and used by an organization to encourage specific behaviors and outcomes by employees.

3. Benefits

Benefits refer to a different type of compensation that is not necessarily strictly cash. This is compensation other than money that is paid to an employee by an employer.

Human resources, or HR, is responsible for developing benefit plans, and they work with different departments throughout the organization in order to assess what the needs are for their employees, as well as other considerations to take into account in order to put together the best benefits package for their employees.

Now, some benefits are required by law. For instance, for full-time employees at larger companies, it is required to have benefits like workers' compensation insurance or medical insurance. Employers have to pay social security taxes and payroll taxes in order to secure their employees' future.

Other benefits simply exist to boost employee morale, such as on-site daycare, work-from-home or telecommuting options, or employee reimbursement for continuing education.

➞ **EXAMPLE** If you take a particular class or get a degree in a particular area, your employer may help to pay for those classes so that it is easier for you to get that degree and, in turn, bring those skills back into the organization.

IN CONTEXT

Some companies go above and beyond for their employees as far as benefits are concerned. For instance, Google has bowling alleys and free food in the cafeteria, and employees can basically sit wherever they like. The company makes an extra effort to take care of its employees and drive that innovative spirit.

There are also more traditional companies that you may not think of, like Campbell's Soup, that provide exceptional benefits to their employees. Campbell's Soup has a full kindergarten program on-site and offers after-school programs for their employees with kids.



TERM TO KNOW

Benefits

Compensation other than money that is paid to an employee by an employer.



SUMMARY

Today we learned about **compensation**, which refers to the money given by employers to employees for their work. This compensation can take the form of wages, salaries or incentive programs. We learned about the **types of incentive programs**, which can be used by an organization to encourage specific behaviors and outcomes by employees, as well as for the motivation of employees.

We also learned about **benefits**, which is compensation other than money that is given to employees, such as medical insurance, workers' compensation, or on-site daycare.

Good luck!

Source: adapted from sophia instructor james howard



TERMS TO KNOW

Benefits

Compensation other than money that is paid to an employee by an employer.

Incentive program

A series of measures designed and used by an organization to encourage specific behaviors and outcomes by employees.

Salary

Compensation paid to an employee by an employer based on a pay period.

Wages

Compensation paid to an employee by an employer based on hours worked.