

## Unit 5: Compensation Management And Employee Management

In Units three and four we reviewed the process of staffing the workplace, training and development and performance appraisals. Now we need to examine the next major HRM functions – compensation, benefits, and motivating employees.

### Compensation

HRM's duties in compensation start with developing wage and salary systems that accomplish specific organizational objectives, including employee retention, quality, satisfaction and motivation. Compensation that is in line with the industry makes the company competitive in the job market. A combination of salary and benefit systems remunerate the employees in exchange for their efforts/contributions, motivating them, rewarding them for positive efforts/outcomes and for improving employee retention.

Compensation can be summed up as all the rewards earned by employees in return for their work. They include wage/salary (for both exempt and non-exempt employees) based on the job descriptions along with merit or bonus related programs, as well as benefits which consist of vacation and sick time, medical and similar perks.

It is the payment for doing one's job. The most basic forms of direct compensation are wages, salaries, bonuses, tip and benefits.

### Exempt Compensation Requirements

Professional, management and other types of skilled jobs can be classified as exempt. This is based on the employees' duties, responsibilities and salary. Exempt employees are not covered by the overtime or minimum pay provisions of the Fair Labor Act (FLSA) of 1938. Job classifications eligible for exempt status are executive, administrative, professional, computer or outside sales employees provided certain criteria are met. In 2016 President Obama signed a law effective December 1, 2016, which increases the standard minimum salary level to

be considered EXEMPT from \$455 as a week to \$913 per week. This move brings protection “to over 4 million workers with the first year of implementation...” (Wage-Hour Division, WHD, 2016) and protected lower income exempt employees.

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### Non-Exempt Compensation Requirements

Unskilled or entry-level jobs are usually non-exempt. They are paid per hour. Non-exempt employees are paid for overtime, which means for hours worked over their set hours per week. If your set hours are 40 hours per week you are entitled to overtime for hours worked over the 40 hours.

The Wage and Hour, WHD (2008) clearly spells out the Non- Exempt Status as follows:

#### **Blue Collar Workers**

The exemptions provided by FLSA Section 13(a) (1) apply only to “white collar” employees who meet the salary and duties tests set forth in the Part 541 regulations. The exemptions do not apply to manual laborers or other “blue collar” workers who perform work involving repetitive operations with their hands, physical skill and energy.

FLSA-covered, non-management employees in production, maintenance, construction and similar occupations such as carpenters, electricians, mechanics, plumbers, iron workers, craftsmen, operating engineers, longshoremen, construction workers and laborers are entitled to minimum



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wage and ***overtime premium pay under the FLSA, and are not exempt under the Part 541 regulations no matter how highly paid they might be.*** (Wage and Hour Division, WHD, 2008)

Also, the Non-Exempt status as per the Department of Labor includes:

### **Police, Fire Fighters, Paramedics & Other First Responders**

The exemptions also do not apply to police officers, detectives, deputy sheriffs, state troopers, highway patrol officers, investigators, inspectors, correctional officers, parole or probation officers, park rangers, firefighters, paramedics, emergency medical technicians, ambulance personnel, rescue workers, hazardous materials workers and similar employees, regardless of rank or pay level, who perform work such as preventing, controlling or extinguishing fires of any type; rescuing fire, crime or accident victims; preventing or detecting crimes; conducting investigations or inspections for violations of law; performing surveillance; pursuing, restraining and apprehending suspects; detaining or supervising suspected and convicted criminals, including those on probation or parole; interviewing witnesses; interrogating and fingerprinting suspects; preparing investigative reports; or other similar work. (Wage and Hour Division, WHD, 2008)

Give employees the benefits they value, and they'll be more satisfied, miss fewer workdays, be less likely to quit, and have higher commitment to meeting the company's goals. The research shows that when employees feel their benefits needs are satisfied, they're more productive.

— **Joe Lineberry, a senior vice president at Aon Consulting, human resources consulting firm**



### **Employee Benefits**

Benefits are increasingly expensive for businesses to provide to employees, so the range and options of benefits are changing rapidly to include, for example, flexible benefit plans.

Prominent examples of benefits are insurance (medical, life, dental, disability, unemployment and worker's compensation), paid vacation, holiday and sick time, contribution to retirement (pension pay), profit sharing, stock options, and bonuses. However, some companies consider profit sharing, stock options, and bonuses as forms of a different form of compensation.

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Employers are required to pay in whole or in part per Federal law benefits and insurance such as Social Security, Unemployment Insurance, Workers Compensation, COBRA,

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and adhere to Family and Medical Leave Act (companies with 50 or more employees).

The Family and Medical Leave Act passed in 1993 covers the following:

The FMLA entitles eligible employees of covered employers to take unpaid, job-protected leave for specified family and medical reasons with continuation of group health insurance coverage under the same terms and conditions as if the employee had not taken leave. Eligible employees are entitled to:

Twelve work weeks of leave in a 12-month period for:

- The birth of a child and to care for the newborn child within one year of birth;
- The placement with the employee of a child for adoption or foster care and to care for the newly placed child within one year of placement;
- To care for the employee's spouse, child, or parent who has a serious health condition;
- A serious health condition that makes the employee unable to perform the essential functions of his or her job;
- Any qualifying exigency arising out of the fact that the employee's spouse, son, daughter, or parent is a covered military member on "covered active duty";

Twenty-six workweeks of leave during a single 12-month period to care for a covered service member with a serious injury or illness if the eligible employee is the service member's spouse, son, daughter, parent, or next of kin (military caregiver leave)." (Family and Medical Leave Act, n.d.)

While many companies pay for most types of benefits (holiday, vacation or sick time), some benefits, such as medical insurance, are often paid, at least in part, by employees because of the high costs of health insurance. Companies do not have to provide retirement plans, health plans, dental or vision plans, life insurance plans or paid vacations, holidays or sick leave. The

U.S. is the only advanced economic power that does not have a law in place that requires a company to provide paid vacation days, holidays or sick time. Some cities and states do require employers to provide health insurance plans and paid sick time. For example, the State of Connecticut requires companies to provide some paid sick leave.

### Employee Management and Motivation

The Society for Human Resource Management defines Motivation as:

Motivation is defined as the psychological forces that

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determine the direction of a person's level of effort, as well as a person's persistence in the face of obstacles.

The direction

of a person's behavior refers to the many possible actions that a person could engage in, while persistence refers to whether, when faced with roadblocks and obstacles, an individual keeps trying or gives up. (Motivation in Today's Workplace: The Link to Performance. 2010).

Part of employment management is recognizing employees do their best work. Employee recognition starts with employers providing a work environment that meets an employee's basic emotional drives to acquire, bond, comprehend and achieve. Reward systems that value good performance fulfill the employee's need to acquire. The drive to bond is reached with a work culture that promotes collaboration and openness.

Employees with jobs that are designed to be challenging as well as meaningful fulfill the need to comprehend. To achieve employees, need to design performance management systems that are fair, trustworthy, and transparent. (Nohria, N., Groysberg, B., & Lee, L. 2008)

There have been several motivational experts whose theories have been embraced by Human Resource practitioners. As per "Motivation in Today's Workplace: The Link to Performance" (2010) the following are:

The theories that have shaped the concept of motivation in the workplace are:

- **Expectancy Theory:** Victor H. Vroom's theory suggests that motivation is high when employees believe that high levels of effort lead to high performance and high performance leads to attainment of desired outcomes.
- **Maslow's Hierarchy of Needs:** People seek to satisfy five basic needs: physiological, safety, belongingness, self-esteem and self-actualization needs. Abraham Maslow placed these needs in a pyramid, with the most basic on the bottom and self-actualization at the top. When the lower-level needs are met, the next higher level begins to motivate behavior.
- **Herzberg's Motivator-Hygiene Theory:** This theory from Frederick Herzberg focuses on two factors applicable to the workplace:
  1. Meeting basic expectations (hygiene factors)
  2. Leading to increased performance (motivation factors)

Examples of basic needs are a comfortable working environment, adequate pay, good relationships with coworkers and effective supervision. Motivation factors for high job satisfaction include opportunities for recognition, advancement and professional growth.

- **McClelland's Needs for Achievement, Affiliation and Power:** In this theory from David McClelland, each person has three needs:

1. Achievement - strong desire to perform well;
2. Affiliation - being liked, having positive interpersonal relationships
3. Power - the extent to which an individual desires control or influence on others. People have these needs to varying degrees.

**Equity Theory:** Formulated by J. Stacy Adams, this theory is about people's perceptions of fairness of their work outcomes about their work inputs. Adam suggests that motivation is influenced by comparing one's own outcome/ input ratio with others'. If an individual feels that the ratio is unfair (e.g., underappreciated, paid less), that individual's performance may decrease. In contrast, where equity is perceived, employees are more motivated to continue contributing their current levels of input for their current levels of outcomes. Motivation is usually the highest when employees perceive that they are treated with equity.

- **Goal-Setting Theory:** Ed Locke and Gary Latham are the leading researchers of this theory. The focus is on motivating workers to contribute by meeting goals set to improve the overall performance of the organization. They suggest that goals that employees work to meet are prime determinants of their motivation and therefore performance. Goals need to be both specific (quantitative and measurable) and difficult (hard, yet not impossible)." (p.4)

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## Intrinsic and Extrinsic Motivation

The two types of motivation are intrinsic and extrinsic. We are not all the same, and each one of us respond to different motivational methods. Some prefer intrinsic, some extrinsic and some a combination of the two

Extrinsic motivation deals with motivations for known external reward - from outside influences rather than from one's own feelings. Examples are money, bonuses to acquire material items such as new cars and electronic gadgets. Other examples of motivation can come from rewards, grades or medals.

Extrinsic motivators are best in situations where employees have little initial interest in performing the activity or in cases where basic skills are lacking. These rewards should be kept small and should be tied directly to the performance of a specific task.

Intrinsic is the exact opposite. It comes from engaging in a behavior because it is rewarding to you personally. It brings inherent satisfaction or pleasure when there is no visible external or monetary incentive. Examples of

intrinsic motivation can range from changing a job title, more responsibility such as team lead, recognition for a job well done, an accomplishment in helping people on the job and can be as simple as acknowledging an employee's contribution

to the company and saying 'thank you.' By providing positive feedback, managers sustain an employee's intrinsic motivation.

Intrinsic and extrinsic motivations are primary to an employee. It is up to the individual employee's perspective as to which motivator works best for them. Astute managers need to be able to determine which type works best with their employees

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