Compensation & Benefit Strategies

Author: M. Louise Walters
Editor: William Griffin
The Leadership Center
912-349-7989
E-mail address: louisewalters@theleadershipcenter.com
Web site: www.theleadershipcenter.com
Mailing address: 1 Diamond Causeway, Suite 21, PMB 335, Savannah, GA 31406

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ABOUT THE AUTHORS

inspiring organization and leadership excellence

M. Louise Walters

PhD Scholar, MMBA, BS, AAS, IOM

Louise is President and CEO of The Leadership Center, LLC. She is also majority owner of the woman-owned firm that is headquartered in Savannah, GA USA.

A career executive in the organization management field, Louise provides management of and training to professional societies, trade associations, and foundations as well as various sized Chambers of Commerce. She coaches and mentors organization executives and staffs as well as leaders in business, government and academia.

As a PhD scholar in Capella University's School of Public Service Leadership, Louise is working on her Doctorate in Organizational Leadership with an emphasis in nonprofit leadership. Her dissertation topic is:

> *To what extent do characteristics of the relationship between the CEO and the board chair impact the nonprofit organization?*

Louise has three decades of experience as an organization executive – as a staff professional and as the head of one of the west coast's top association management firms. For the past twenty years, she has led The Leadership Center and its predecessor, the MacWalters Company (a California-based corporation).

Louise is an experienced CEO and troubleshooter. On behalf of her clients, she provides management reviews, strategic visioning, board of directors training and staff training.

She is a national communications award winner, a successful advocate for nonprofit groups, and a change agent that has performed a number of high profile organization turn-arounds.

She has presented to, trained and advised some of the most prestigious non-profit, governmental, educational and business organizations.

Louise holds a Master's degree in Management, a Bachelor of Science degree in Legal Studies and an Associate of Applied Science degree in Legal Studies -- all from National American University.

William R. Griffin

JD, MMBA, MS, BS

Bill is Vice President and minority owner of The Leadership Center.For the past decade, Bill has worked in higher education as a manager and instructor -- he teaches courses in business, management, law, math and science. He has been executive director of a national trade association, and has served on boards of directors of nonprofit organizations. Currently he divides his time between The Leadership Center and teaching at four universities.

Bill's education includes a Juris Doctor, MS in Management, MS in Environmental Engineering, and BS in Civil Engineering. He has strong analytical and writing skills, and he has a reputation as a producer and a communicator. On behalf of small businesses, he has provided business plans, market analyses, valuation analyses, regulatory analyses, and other services. He conducted a survey to determine the economic impact of higher education in western South Dakota.

He has extensive experience in sales and marketing for professional services firms, especially proposal writing. He worked in industry and government for three decades. As an environmental engineer and regulatory lawyer with many years in the energy industry, he has strong skills in sustainability.

Bill's experience includes:

- Leader of the regulatory compliance effort on the nation's largest construction project
- Manager of engineering subcontractor teams as large as 350 people
- Manager role in over 100 technical services projects
- Worker on over 200 proposals for professional services contracts (win rate above 50%)
- Technical writer, editor, and book project manager
- Manager during the launch of new organizations (Sales Manager, Project Manager, VP)
- VP, General Counsel and Corporate Secretary of a successful startup firm
- Experience with governance and corporate boards
- Business consultant to small companies
- Leader of graduate and undergraduate programs in business and management
- Executive Director and organizer of a new, national trade association
- Founder of the Center for Business and Economics, a regional "think tank"

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Introduction

Attracting and keeping good workers is one of the biggest challenges that organizations face. The human capital element can be fragile and fickle. Are there ways employers can use salary and benefits to improve their chances of success in the recruitment and retention arena? And, if so, how? This paper provides responses to those questions.

Recruitment and Retention Concerns are Widespread

Private industry needs people to get its work done. It must be able to recruit the number and type of people that are necessary to satisfy customer demands. Industry must be able to retain those people in order to avoid the cost and inefficiency associated with recruiting and training replacement employees.

Private enterprise is not the only segment concerned about recruitment and retention. Government shares the same concerns as private enterprise. Federal law 5 USC 5301 requires that "…federal pay rates be comparable with private enterprise pay rates for the same levels of work." In order to determine those pay rates for federal employees, the US Bureau of Labor Statistics conducts annual surveys of the private economy. Gregory Lewis examined employee turnover in the US Civil Service. His report, published in the *Public Administration Review,* indicates that "…largely due to the declining relative pay and prestige of federal employment, the civil service is facing increasing difficulty in recruiting and retaining high quality people" (Lewis, 1997).

Compensation Takes Many Forms

Edward P. Lazear, PhD, former Chairman of the US Council of Economic Advisors and founder of the *Journal of Labor Economics,* says about salary and benefits that "Compensation can take many forms. Remuneration can come as pecuniary payments, as fringes such as health and pension benefits, or as a non-pecuniary reward such as plush office furniture that costs the firm less than it benefits the worker" (Lazear, 1986).

For most employees, compensation reality is not the plush, top floor corner office that is laden with mineral waters and a cappuccino machine. "For the last several decades, the growing integration of the world economy into a single huge marketplace has increased the intensity of competition in the world market to cut costs and increase profits in a wide range of manufacturing and service industries (Hill, 1994). Only the most efficient and best-managed organizations can survive" (Chiu, Wai-Mei Luk, and Li-Ping Tang, 2002).

In any age, but particularly in the age of layoffs, downsizing and cutbacks, are there other options that employers should consider when they develop, revisit or reconsider the issue of employee compensation? In her article in the *Ivey Business Journal,* Patrice Gelinas poses the question "what can employers offer that is valuable enough to increase their odds of attracting and retaining the best and brightest" (Gelinas, 2005)? The answer is: "plenty." Table 1 includes a list of salary and benefit types that was compiled during the research for this paper.

The American Dream

Exactly how important are employee benefits? In 2008, MetLife (the largest U.S. life insurer and a leading provider of employee benefits) undertook a wide-reaching study titled 'The American Dream.' In part, the report states "…an overwhelming 90% of consumers surveyed feel that it is very important for companies to continue to offer benefits, even if employees have to pay most or all of the cost" (Nugent, 2009).

Addressing the American Dream survey results, Anthony Nugent, executive vice president of employee benefit sales for MetLife, summarized which benefits were most important to employees and most viable for employers: "Voluntary benefits-such as dental, long-term care and life insurance can improve employer/ employee retention and cost-control objectives, while also addressing employees' growing concerns about a variety of financial issues" (Nugent, 2009).

Attracting Stars

Eric Berggren, president of a small consulting firm specializing in generating unique insights about customer value, advises his client organizations that "Creatively but consistently applying the right compensation levers will enable you to surround yourself with the maximum talent. There are five keys to managing cash compensation to attract, develop and retain stars:

1. Remain market-based
2. Document explicit criteria

3. Communicate
4. Be disciplined
5. Choose the right levers (Berggren, 1999)

Max Messmer, chair of Accountemps (the world's first and largest specialized staffing firm) and author of *Your Career for Dummies* and *Motivating Employees for Dummies*, echoes Nugent's advice. Messmer authored the article "Benefits: Gain a Competitive Edge with Offerings Employees Want" which was published in *Strategic Finance*. In the article he says, "**…**organizations are looking for ways to give themselves an edge. An attractive benefits package can often make the difference in recruiting and retaining employees" (Messmer, 2006).

Messmer notes that, to remain competitive in the employment marketplace, many organizations are reviewing and changing their benefits. He outlines options for employers to consider as they create or revise their benefits package:

1. Offer more flexible schedules
2. Support family needs
3. Fund education
4. Promote your program (Messmer, 2006).

Outrageous Employee Benefits

As a way of finding and keeping the right employees, Vitale Caturano and Company (VCC) developed a program of "…outrageous employee benefits …of generous work/life incentives… as a way to lure qualified staff..." In the May, 2005 issue of *the Journal of Accountancy*, Michael Hayes discusses how VCC provides benefits such as on-campus gourmet meals prepared from the company's on-site kitchen, chair massages during busy (and stressful) times, office flowers, and concierge services. Benefits like those "…not only boost morale, loyalty and productivity but also disarm issues a competitor might use to woo away top talent" (Hayes, 2005). He says some of VCC's benefits/work/life perks "…may seem extreme to some employers, but retention-minded VCC sees them as an intelligent adaptation to motivating employees to do their best" (Hayes, 2005).

Skill-Based Pay

James P. Guthrie, PhD, conducted a study in 2000 that examined employee turnover and the impact of alternative pay practices. His conclusion states that the "…use of skill-based pay systems improves employee retention." (Guthrie, 2000) "Skill-based pay is largely a function of the breadth or depth of knowledge and skills possessed by an employee. Pay adjustments are made when individuals are certified as having acquired additional skills or knowledge specific to the particular system" (Guthrie, 2000).

Global Perspective

When it comes to retention, Jody Heymann and Magda Barrera discovered that making an effort to keep workers is no longer only about the top levels of corporate employees. "…Investing in employees at the bottom [of the organizational chart] can be an advantage both in times of economic growth and during a recession" (Heymann & Barrera, 2010).

Over a six-year period, Heymann and Barrera conducted extensive research on compensation and benefits in nine countries. The companies they studied were diverse: technology hardware and equipment, construction materials, pharmaceuticals and automobiles to name just a few. The companies ranged in size from 27 employees to over 125,000 employees. Public as well as private companies were included. The study found that, by providing employee incentives and better compensation, and turnover was reduced. The study also reported that the employees were generally happier and more satisfied than those in other organizations that did not have similar retention programs.

Heymann and Barrera studied all sizes of companies – giant Costco at one end of the employment spectrum and the diminutive (at least compared to Costco) Great Little Box Company at the other end.

The researchers found that Costco attracts and retains a higher caliber of employees, in part because the company provides a more attractive compensation package and in part because Costco treats its employees well – whether they are on the top of the corporate ladder, the middle or at the bottom.

So, can a small company realistically compete with the giants of the business world to attract and keep top-notch employees? And, if so, how? An article in the *Journal of Accountancy* resoundingly says "yes." Without spending a fortune, small enterprises can provide an attractive array of benefits that are competitive with large companies. “Cost-sensitive benefits such as flextime, telecommuting and meals during busy season all show appreciation without adding too much to the bottom line” (Anonymous, 2005).

In terms of small organizations, the Great Little Box Company is a good example at the opposite end of the spectrum from worldwide giant Costco. Twenty years ago, the Great Little Box Company made major changes in how it transacted business. On the list of improvements the company implemented were an employee profit sharing plan, a quality control program (with associated rewards), and an idea recognition program (a type of corporate ‘suggestion box’ which rewarded employees for good ideas that boosted performance and saved the company money). The Great Little Box Company has reaped substantial gains from the policies that fueled employee input. To wit: since the program started, sales have doubled from $17 million to $35 million.

So, can a small company compete with a Costco-sized behemoth in providing attractive benefits that will help retain employees? The answer is “yes.” Regardless of size, companies can provide a number of employee benefits that are economical, yet send the message to employees that the company really does care about them.

Some important lessons can be learned from Heymann and Barerra’s research about what motivates employees:

- When the employee has a financial interest (such as pay, profit sharing, and rewards) in the company
- When employees feel as if their role in the company really does matter
- When employee suggestions are taken seriously by management
- When employees recognize there are opportunities for advancement
- When employees understand that promotions come from within
- When employees are treated well

In their report, Heymann and Barrera share the observations of Jim Sinegal, Chief Executive Officer of Costco. Sinegal sums up the results of the corporation’s employee outreach efforts this way: “…the quality of employees the company was able to attract and retain was the foundation of the company’s success because it was essential to ensuring high volume and returning customers” (Heymann & Barrera, 2010).

Further global perspectives were reported on in 2002. Two studies conducted by researchers Randy Chiu, Vivienne Wai-Mei Luk and Thomas Li-Ping Tang appeared in the *Personnel Review*. One of the studies was conducted in Hong Kong, and a parallel study was conducted in mainland China. The researchers were interested in finding out "…the most popular compensation components offered by organizations to employees" (Chiu, Wai-Mei Luk & Li-Ping Tang, 2002). The outcomes revealed that in Hong Kong, the most important employee retention and motivation components were base salary, merit pay, year-end bonus, annual leave, mortgage loans and profit sharing. In mainland China (as in Hong Kong), the results included base salary, merit pay, and year-end bonus. Additional results from the mainland China survey reported that housing provision, cash allowance, overtime allowance, and individual bonuses were also important.

Health insurance can be an important benefit. While health insurance was not a factor in the Hong Kong and China studies, overall, health insurance is important to construction employees and is, therefore, a retention mechanism for employers. Indeed, in their 2010 study, Jaewhan Kim and Peter Philips found health insurance to be a top priority. "Both portable union and nonportable nonunion employer-provided health insurance increase the probability of worker retention within the construction industry…" Kim and Philips' report continues, "Our research suggests that by encouraging retention, health insurance preserves and encourages the accumulation of human capital in a turbulent industry with high firm-and-industry-labor turnover" (Kim and Philips, 2010).

Responses from the Health Care Industry

According to Carol Bradley, who has made a career as a medical professional, another industry that has had its share of challenges over the last decade (or more) is health care -- and the nursing profession is right in the middle of many of those challenges. "With the hospital industry's restructuring… it's no surprise that hospitals have failed to endear themselves to employees" (Bradley, 2000). Bradley, the editor of *California NewsWeek*, explains that this result has caused hospital nurses to look to other health-related providers for employment. It has also prompted hospitals to develop new and creative ways to attract and retain employees. Among the changes championed by the nursing profession are deeper integration of nurses in the overall health care decision-making and health-care delivery processes, redirection of resource allocations enabling recruitment of quality personnel, improvement of continuing education offerings, and career development.

Jeffry Peters's 2006 article in the *Physician Executive* explains that private practice is attracting academic physicians away from medical groups "…academic medical groups are worried about financial viability and outmigration of physicians. As a result, they are searching for new ways to generate revenue and attract and retain quality physicians" (Peters, 2006). Pay-for-performance is one way medical groups can address compensation gaps. Another is to spin-off ventures like Harvard Medical School did when it developed a new biotechnology lab.

Cafeteria Plans

Let's look at another approach to benefits: the flexible, cafeteria-plan aspect that is provided to the employees of First Direct. First Direct is a telephone and internet based bank (comprised primarily of a call center) in the United Kingdom that sells mortgages, investments, and insurance. In spite of the pressure of fielding huge numbers of telephone calls every day, First Bank's employees are extremely loyal. Amanda Kirby wondered why. According to an article that Kirby researched and wrote for the *Human Resource Management International Digest*, the reason for such a high degree of employee loyalty is, in part, due to the array of benefits the company offers. Examples of First Direct's benefit shopping list include "…flexible working patterns, health schemes, on-site nursery, perks and employee incentives. The package of benefits has not only helped First Direct to attract good employees, but also makes them more productive at work" (Kirby, 2005).

Stock Options

Another retention tool used by some employers is to provide stock options to all employees (not just to top management). Stock options are not just a reward for performance, but a way for employers to encourage their employees to remain with the organization. Yu Peng Lin explains what employee stock options are and how the program works. "Employee stock options…give employees the right to buy a share of the firm's stock at a pre-specified 'exercise' price…. Most…expire in ten years" (Peng Lin, 2009). Peng Lin continues, "Typically, a grant… cannot be exercised immediately, but only over time. In the most common case, employees can exercise the stock options four years after granting. At that time, when a stock option can be exercised, the option is 'vested'" (Peng Lin, 2009). So, what if the employee quits or is lured away by a competitor? What happens to the stock? If the employee has exercised the options and bought the stock, they take the shares with them when they leave. However, "employee stock options …are typically forfeited if the employee leaves the firm before vesting." (Peng Lin, 2009) That makes a good argument for staying with the company.

Using employee stock options as a recruitment tool can be a wise move by an organization -- particularly in recruiting and retaining highly motivated and optimistic employees.

Job Security as a Benefit

When one stops to think of employee benefits, what immediately comes to mind are those benefits that seem to be 'standard' -- like insurance, personal time off, bonuses, paid professional memberships and paid attendance at industry conferences. However, Patrice Gelinas suggests an interesting and unusual employee retention benefit: job security. Further, Gelinas predicts that in the future "…the growing globalization of markets will increase the value of job security to make it one of the most important components of total compensation" (Gelinas, 2005). For example, at Berkshire Hathaway, Warren Buffet has adopted the following policy: "no one will be fired because of declining volume, however severe the contraction" (Gelinas, 2005).

Calculating Worth

"Exit price" describes the bottom line needed to entice a prospective employee away from his/her current employer. The calculation is based not just on tangibles (salary and benefits) but what David Kuhlmann and Laura Kellogg term "inertia and other job intrinsics." Writing in *The CPA Journal – New York*, Kuhlmann and Kellogg point out that issues such as work environment and career prospects are important to professionals, while priorities of support staff include excellent wages coupled with personnel selection and appraisal processes. The exit price ('the bottom line') can be calculated regardless of whether the employee is a professional or a support staff member and can be a useful tool in negotiations to retain employees as well as to recruit prospects.

Conclusion - A Plethora of Compensation and Benefits

During the course of conducting research for this paper, many types of employee compensation and benefits were mentioned throughout the source material, and these were compiled in Table 1. The breadth of benefits provided by employers is extensive. "As Lazear states: "Money is the instrument of commerce and the measure of value."

Table 1. Compilation of Employee Compensation and Benefits

Salary
Hourly wages
Performance bonuses
Year-end bonuses
Sales commissions
Merit pay
Cash allowances
Overtime pay
Signing bonus
Job security
Education-related scholarships
Professional memberships
Paid seminars, conferences, conventions
Insurance (health, long-term disability, life, long-term care, dental, accidental death)
Social events (employee picnic, employee brunch)
Group purchasing (computers, cars)
Leave of absence with return rights
Merchant discount card (percentage off certain purchases)
Free parking
Courtesy car and driver
On-site nursery
Gourmet meals from an on-site kitchen
Concierge services
Year-round adult education program (yoga, self-help, language lessons)
Health classes (nutrition)
Flowers
Chair massages during the busy season
Flextime
Meals during the busy season
Telecommuting
Corporate cars when staff members need to run errands
Day care
Elder care
Snacks every day (bagels, biscotti, gourmet coffee, seasonal fruit)
Personal time off (school activities, running errands)
Wellness program
Fitness club membership
Entertainment (tickets to ball games, concerts)
Housing provision
Mortgage loan
Stock options and vesting
Employee assistance programs
Tuition reduction
Deferred compensation
Personal recognition
Plum staffing assignments
Mentoring

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