MAST
Human Resource Management

Part 4: Compensation

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Why is compensation important?

- It's an issue that all employers have to eventually address
- It can be linked to most aspects of HR management: recruitment, evaluation, communication.
- For employees, compensation is not just a function of what they are paid, but, ultimately, how they are valued.

Determining Cash Wage

- Cash Wages are the economic “cost” of Labor—where supply meets demand
  – a economic purist would say that there is never a labor shortage—only a wrong wage

- Wages should align with business objectives
  – Recruit new employees (ex. signing bonuses)
  – Retain existing employees (ex. raises)

- Cash Wages should always be designed with an emphasis on Equity

Equity

•Internal Equity--fairness between employees in the same business

•External Equity--relative wage fairness between many farms or businesses.

If either internal or external equity is violated employees will adjust their performance

Knowledge for Life

Total Rewards System

- Compensation is the total of the benefit an employee receives from his or her work
  - non-monetary
  - monetary
- So, employer's need to be concerned about the <u>total</u> value that an employee gets from his/her employment

Compensation Success:

It's not about money.

It's about meeting your employee's needs

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Downside of Non-Cash Incentives

- Employees should have an idea of the value of their compensation packages
- Different benefits have different values to different employees

Types of Employee Incentives

- Verbal praise and recognition
- Informal gifts and rewards
- Formal/organized gifts
- Cash bonuses

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The benefit of non-cash incentives

- Wirthlin Worldwide surveyed 1010 people—most didn't remember how they spent their cash bonuses

- WorldatWork found non cash reward programs achieved three times the return on investment compared to cash programs

Successful incentive programs are…

- **Specific**
  - Quantifiable and Measurable
- Able to hold employees **Accountable**
- **Clear** and easily understood

Accountability insinuates consequences

- Something has to be on the line
  - Parties and celebrations
  - Better scheduling
  - Employee of the month parking
  - Bonuses
  - Advancement
- Remember, people will follow where the carrots lead them.

Profit-Sharing vs Bonuses

- Profit sharing is based on a percentage of yield, profits, etc
- Bonuses are based on performance (ideally) but don't necessarily have to be tied to profits or production

Bonuses and Incentive Plans: what not to do

- Don't give a "because I'm a nice guy" bonus
- Don't create an incentive program that "uses the wrong carrots"
- Don't outline a plan without input from employees
- Don't establish the plan and then neglect to revisit it
- Don't set "hoops" that are too easy or too difficult to clear
- Don't expect employees to "live" on their bonuses

Compensation Conclusions

- Be more concerned about local wage rates than national or regional ag averages
- Different benefits will have different values to different employees
- Bonuses should always be EARNED; they should never be GIVEN

Questions?

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